



# Vietnam economic situation

**LECTURER:** PROF. MICHEL HENRY BOUCHET

**GROUP 2:**

NGUYEN QUOC CUONG  
NGUYEN THI HONG THUY  
PHAM MINH TAM

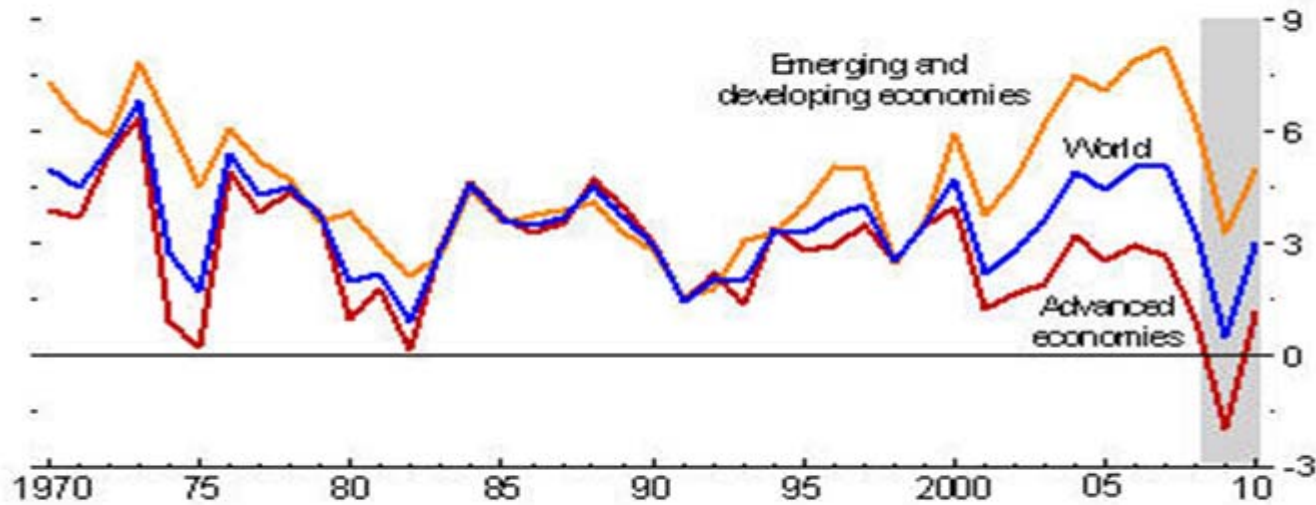
# **AGENDA**

- 1. GLOBAL ECONOMIC CONTEXT**
- 2. VIETNAM'S ECONOMIC SITUATION**
- 3. CURRENT GOVERNMENT POLICIES**
- 4. RECOMMENDATION AND CONCLUSION**

# 1. Global economic context

- The global economy is in a **severe recession**.
- Inflicted by a **massive financial crisis** and an **acute loss of confidence**.

**Figure 1. GDP Growth**  
(Percent change)



Source: IMF staff estimates.

# 1. Global economics context

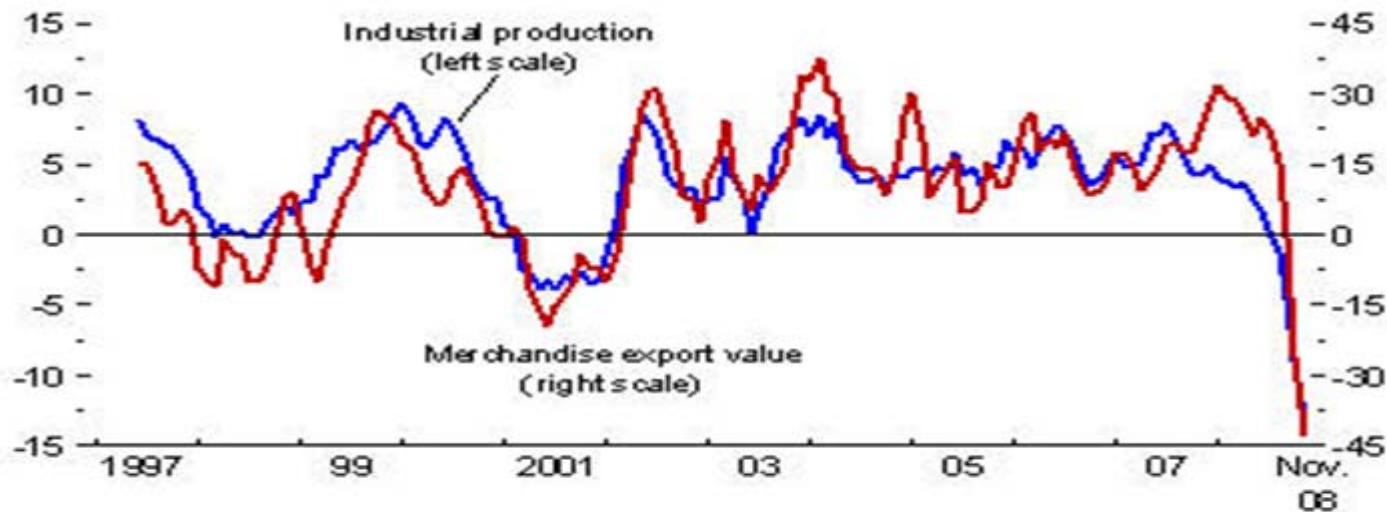
Units	Scale	2005	2006	2007	2008	2009	2010
GDP, constant prices	Annual % change	4.45	5.10	5.15	3.20	<b>-1.32</b>	1.89
GDP, constant prices	Annual % change (market exchange rates)	3.37	3.92	3.82	2.06	<b>-2.51</b>	1.05
Inflation, average consumer prices	Annual % change	3.71	3.64	3.97	5.97	<b>2.50</b>	2.39
Inflation, end of period consumer prices	Annual % change	3.73	3.38	4.99	4.55	<b>2.30</b>	2.32
Current account balance	U.S. dollars (Billions)	53.75	176.11	243.80	249.48	<b>-108.88</b>	12.55

# 1. Global economics context

Financial Markets remain under Stress:  
Goods and Financial Markets are intertwined in  
the fallout

**Figure 2. Growth in Global Industrial Production and Merchandise Trade**

*(Annualized three-month percent change)*

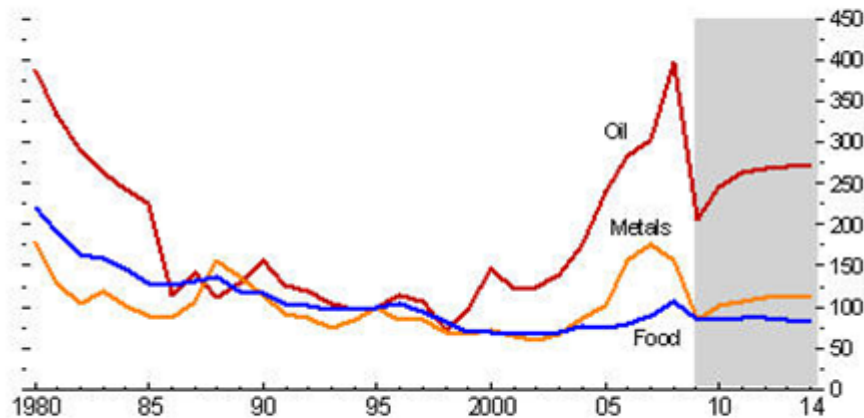


Sources: Haver Analytics; and IMF staff estimates.

# 1. Global economics context

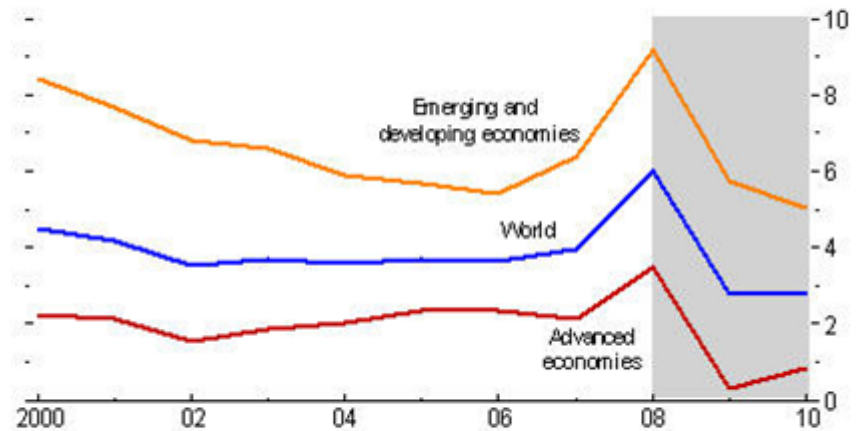
- Slack global growth has reversed the commodity price boom.
- The **Good News**: Inflation pressures are subsiding!

Figure 4. Real Commodity Prices  
(1995 = 100)



Source: IMF staff estimates.

Figure 5. CPI Inflation  
(Percent)



Source: IMF staff estimates.

# 1. Global economics context

Global monetary and fiscal policies are providing substantial support

**BUT ...**

**CONFIDENCE** in global market has NOT been restored nor **negative feedback** between weakening activity and intense financial strains **not arrested** .

## 2. Vietnam's economic situation

INDICATOR	2005	2006	2007	2008e	2009	2010	2011
GDP, constant prices (% growth)	8.4	8.2	8.4	6.2	<b>5.5</b>	6.2	7
Inflation, average CPI (% change)	8.3	7.5	8.3	23.1	<b>15</b>	9	6.5
Inflation, end-period CPI (% change)	8.8	6.6	12.6	25	<b>11</b>	7	6
Budget balance (% of GDP)	-2.5	-3.8	-6.9	-5.1	<b>-7.3</b>	-7.1	-5.5
Current account balance (% of GDP)	-0.9	-0.3	-9.9	-11.7	<b>-9.0</b>	-9.6	-8.4

Sources: Composite of IMF, World Bank, ADB and GSO Estimates and Forecasts.

## 2. Vietnam's economic situation

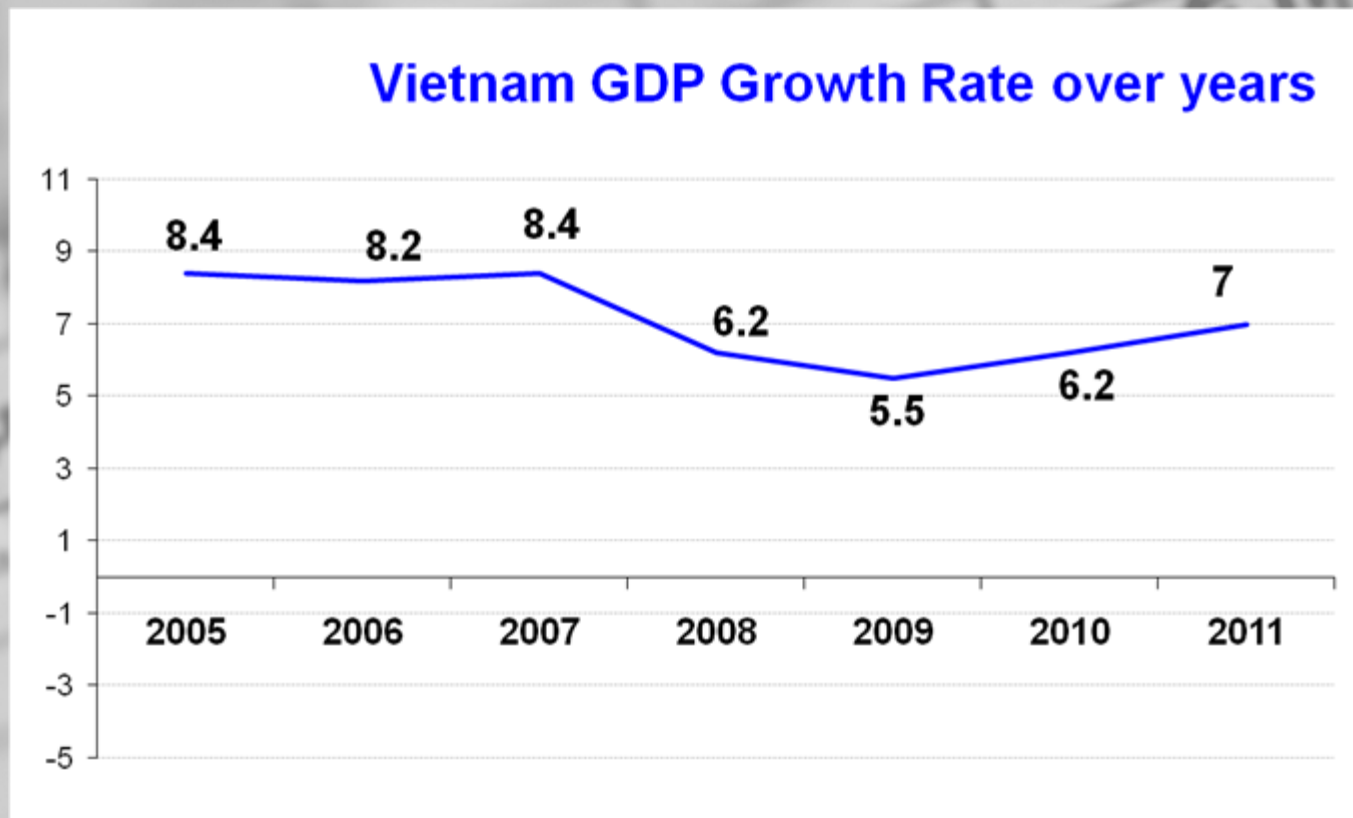
Vietnam GDP over years



Source: IMF Staff's estimation

## 2. Vietnam's economic situation

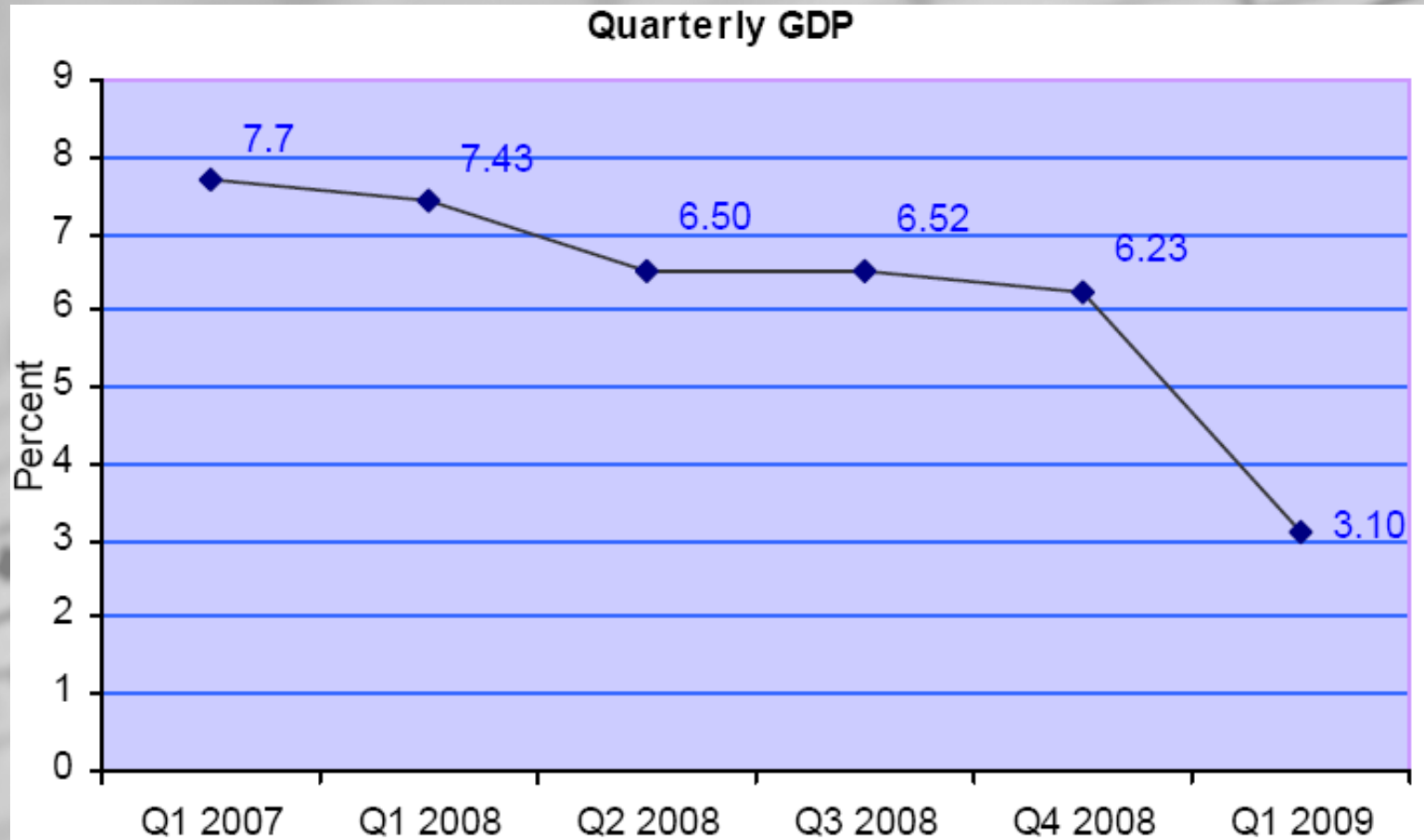
Vietnam was **growing faster** than the rest of the world but now will see about **2-2.5 percentage points less** of GDP growth in the next two years.



Source: IMF Staff's estimation

## 2. Vietnam's economic situation

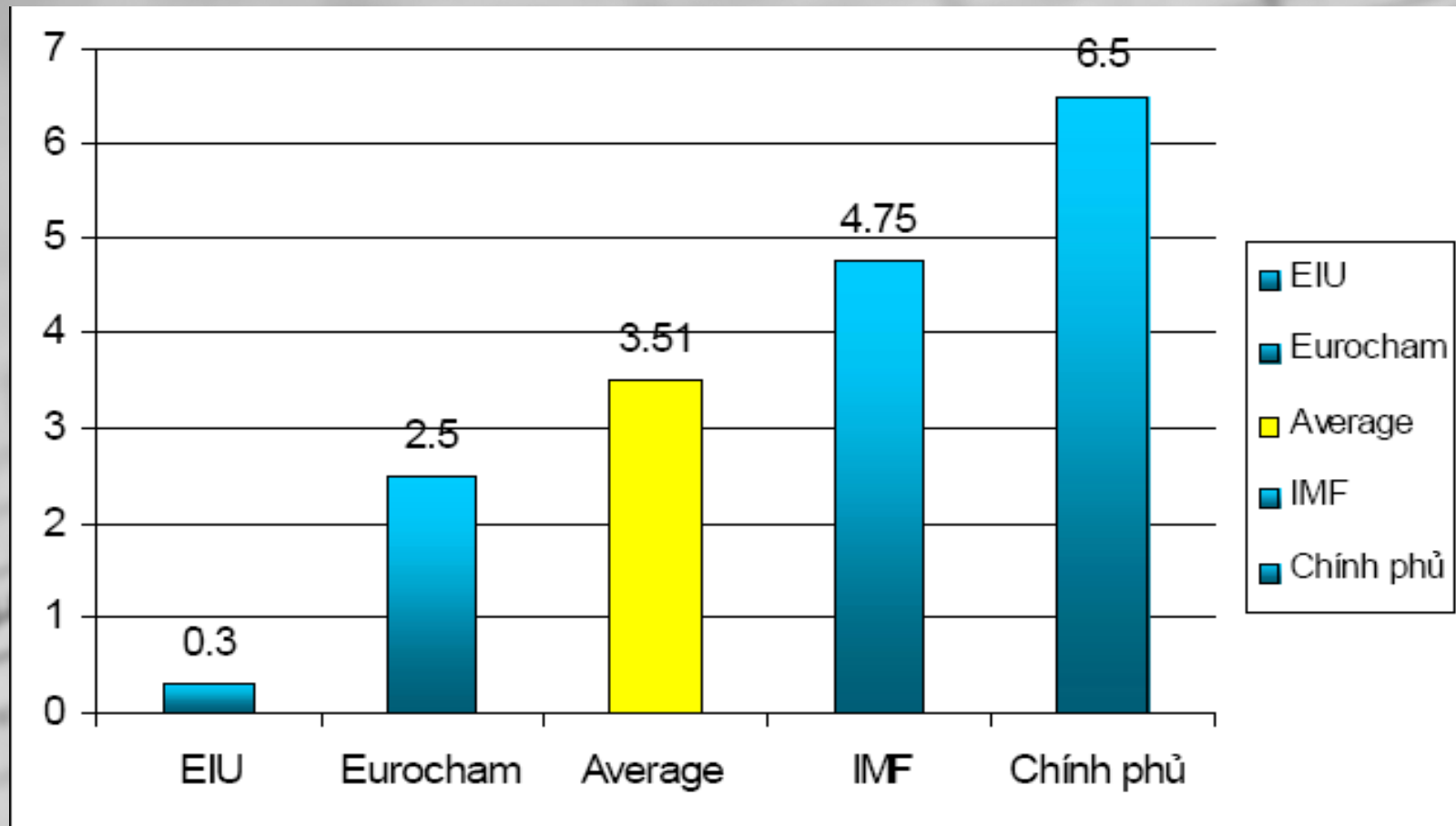
Vietnam is now 1 of 12 countries whose the economy is growing.



Source: IMF Staff's estimation

## 2. Vietnam's economic situation

Estimate economic growth rate of Vietnam - 2009.

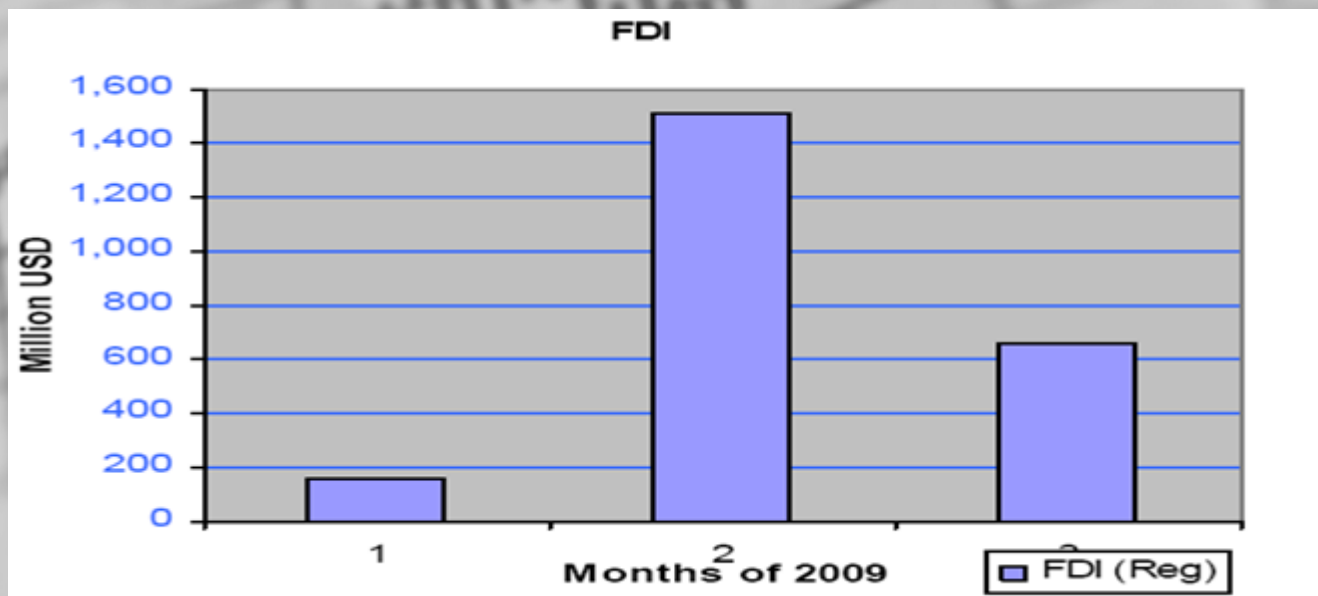


Source: IMF Staff's estimation

## 2. Vietnam's economic situation

### ODA and FDI flows will slacken

FDI	Q1 2008	2008	Q1 2009	2009	Δ%2009
No of Projects	330	2022 = 1711(New) + 311 (Supplement)	93	600	-72%
Value (Bil USD)	11.5	64	2.1	20	-70%



## **2. Vietnam's economic situation**

### **ODA - First quarter of 2009:**

**– 3 new ODA projects signed**

**Total value : 26,23 millions USD**

- Loan : 21 millions USD
- Grant : 5.23 millions USD.

**– Disbursement: 198 millions USD**

- Loan: 153 millions USD
- Grant: 45 millions USD.

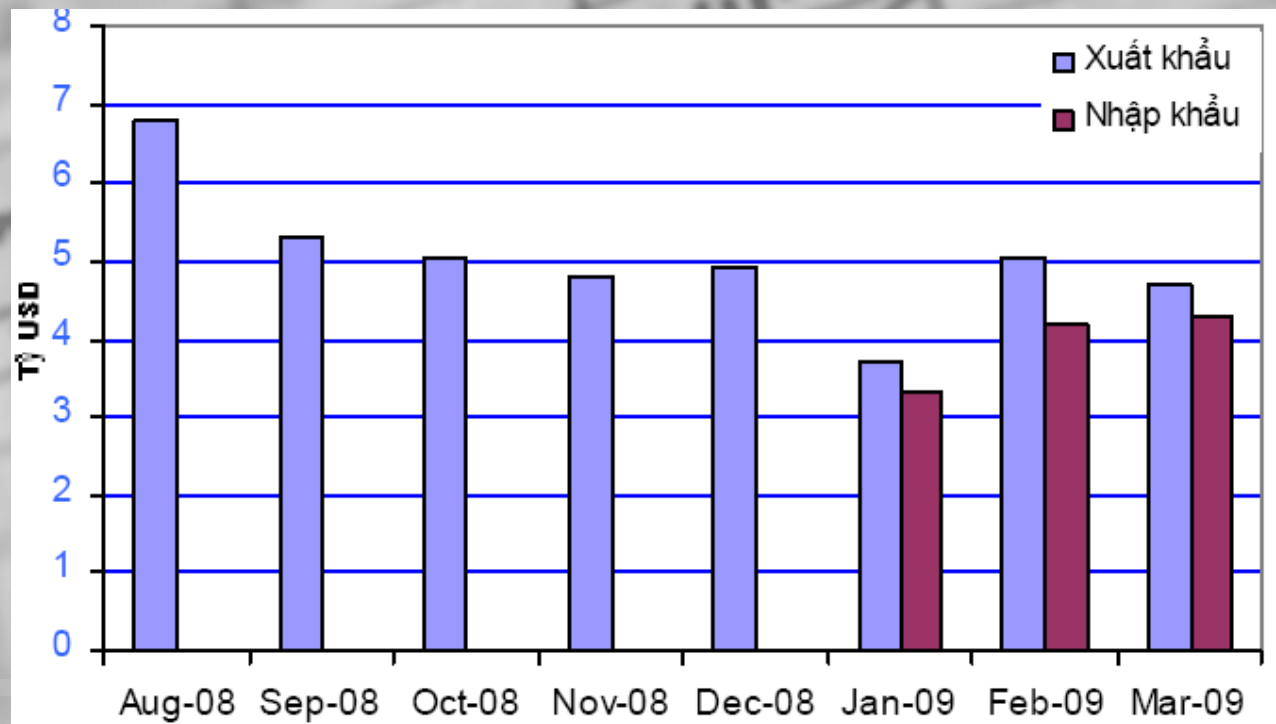
## 2. Vietnam's economic situation

### Balance of trade

Vietnam becomes overbalance of export for the first time due to:

1. Import has strongly reduced.
2. Re-export Gold because the world gold price increase rapidly.

→ Not good for Vietnam economy.



## 2. Vietnam's economic situation

### The stock market overview

#### VN-Index

Closing at 366.2  
in 08/05/09



**HASTC-Index**  
Closing at 135.4  
in 08/05/09



# 3. Current government policies

## Government Stabilization, Early-mid 2008

- Continuing to implement **a tight but flexible monetary policy**.
- Continue to constrain fiscal spending, particularly:
  - To control public capital/construction spending and review investment portfolios of SOEs.
  - To reduce public spending of state entities.
- Require commercial banks and non-bank financial institutions to **restructure their financial portfolios** to minimize risk.
- Review **export duty rates to improve the value of exported goods**, seek new markets for exports, and to enhance the attractiveness of exports to improve the trade balance.

# 3. Current government policies

## Next stage: Stimulus Late 2008

The Government's announcement in late 2008 for a **five-point economic stimulus** package of **VND 17 trillion (about US\$972 million)** is aimed at :

- promoting production and exports
- stimulating investment and consumption
- maintaining a highly flexible financial and monetary policy
- improving social protection
- creating dynamic and flexible guidance and management.

### 3. Current government policies

The Stimulus Package requires a reversal in Fiscal Tightening...

- The additional funds will be used to subsidize **4% of the interest rate** enterprises pay for their loans and provide small businesses with credit and guarantees.
- Financed through issuing government bonds, and indeed on 13/02/09 the Prime Minister assigned the Ministry of Finance to commence a program of **issuing foreign currency Government bonds** in the local capital market.

# 3. Current government policies

## ...as well as Monetary/Credit Loosening

- 20/02/09 - The SBV launched an action plan including monetary, credit and banking solutions to stabilize the economy and prevent a recession.
- The measures include policies used in the past to expand economic activity at the expense of asset market sustainability.
- Banks are to expand credit, adopt reasonable interest rates, tackle problems in loan repayment and improve lending mechanisms to help organizations and individuals gain easier access to credit.

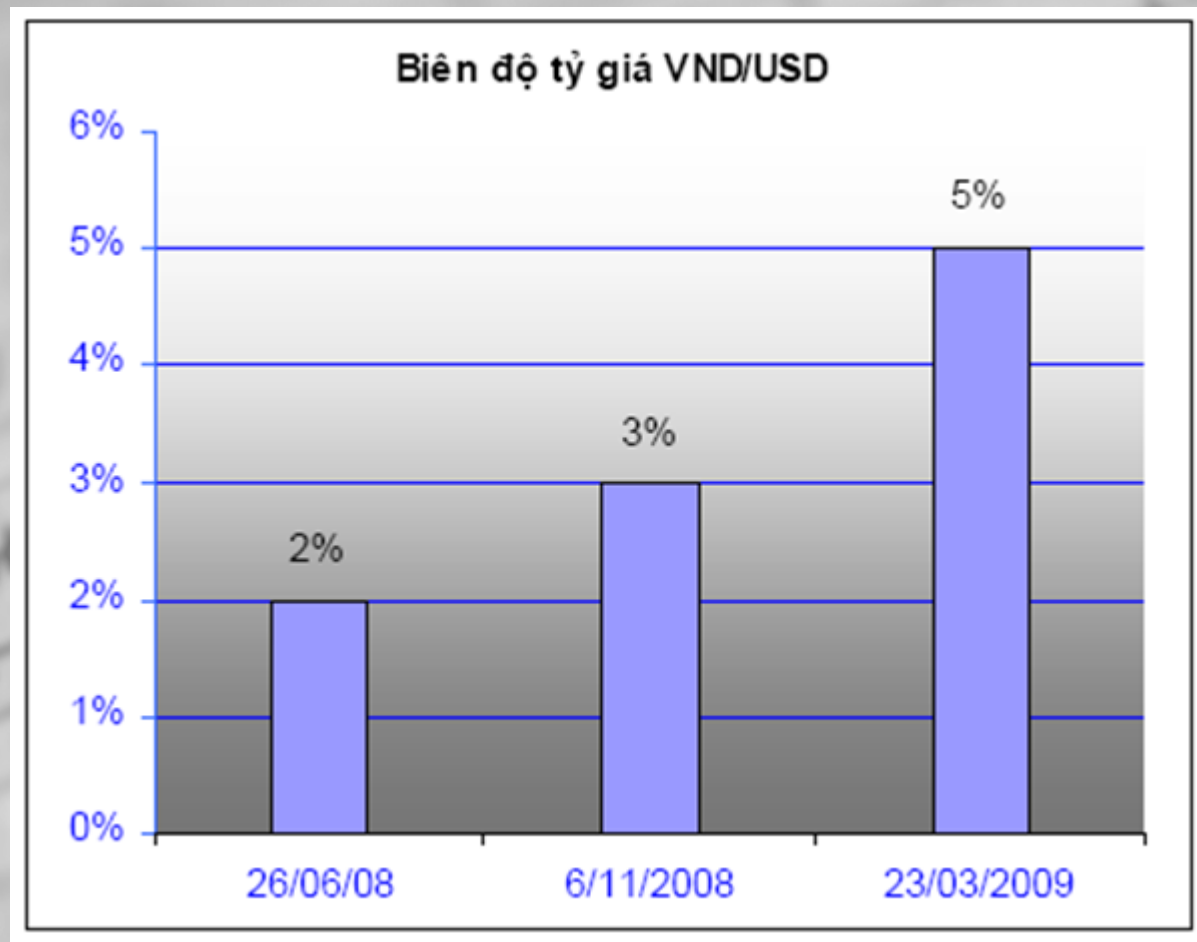
### 3. Current government policies

#### Tax, interest rate & exchange rate:

- Adjust the steel import tax: Increase from 5% to 8% since 01/04/09.
- Increase the range of USD/VND exchange rate from **+/-3% to +/-5%** since 24/03/09 → Devalue of VND in order to help increasing export value but it lead to the difficulties for importers in distributors.

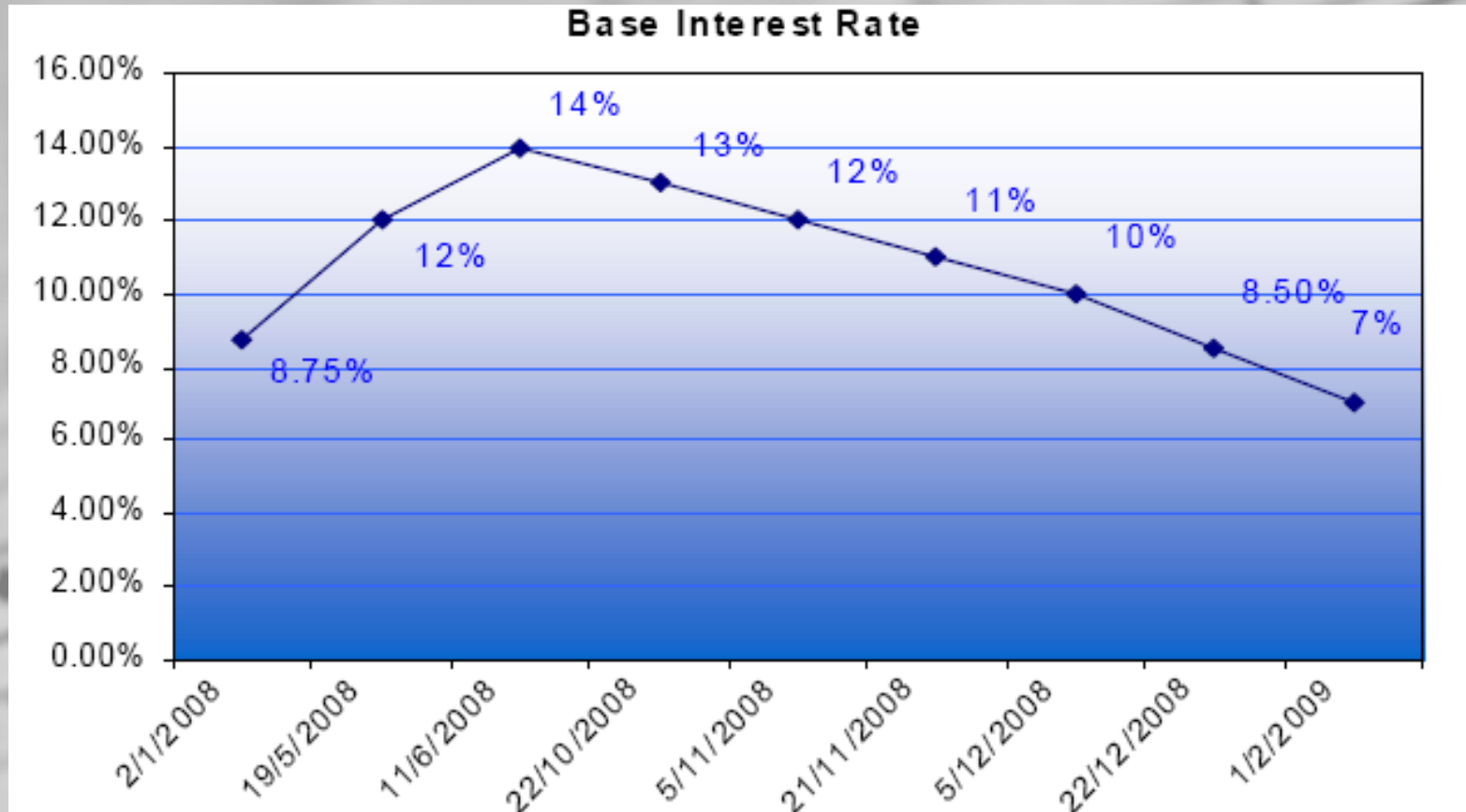
# 3. Current government policies

## Currency band



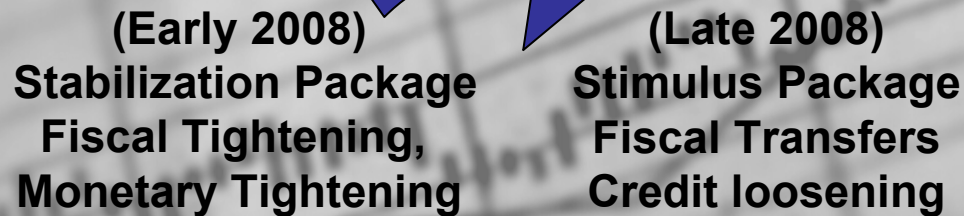
### 3. Current government policies

Continue maintain the base interest rate at 7%



### 3. Current government policies

## MOVING FROM STABILIZATION TO STIMULUS: A Vicious Cycle?



Inflation pressures  
Weak Bank Loan Portfolios  
Large Growth but  
Not High Quality Growth?

### **3. Current government policies**

#### **Stimulus is Necessary, but the Way Vietnam Grows can Make A Difference**

- Vietnam will remain one of the fastest growing economies in the world, but will fall short of its initial medium-term plans to grow 7-8 percent per year to achieve the Millennium Development Goals by 2015.
- Expanding credit to sectors that will deepen human capital investment (e.g., health, education) may be better uses of the stimulus than broad guarantees to SMEs.

## 4. Recommendations and conclusion

### Vietnam is at a crossroad!!

- Vietnam needs to **create more economic activities** to prevent a recession or very slow growth.
- In the case of Vietnam, **fiscal stimulus** seems to **work quickly** through the economy.
- The **monetary transmission** of looser policy may be more problematic, given the array of policy instruments available to the State Bank of Vietnam.

## 4. Recommendations and conclusion

- **Financing options** (using either domestic or foreign financing) will create long-term consequences for Vietnam.
- If Vietnam pursues, as planned, domestic bond floats in US\$, foreign exchange risks are incurred that may put pressure on the SBV to manage the exchange rate.
- Interest rate subsidies may work, but the skill of banks to determine good from bad loan prospects will make the difference in the long-term health of asset portfolios in Vietnam.



**THANK YOU FOR LISTENING!**