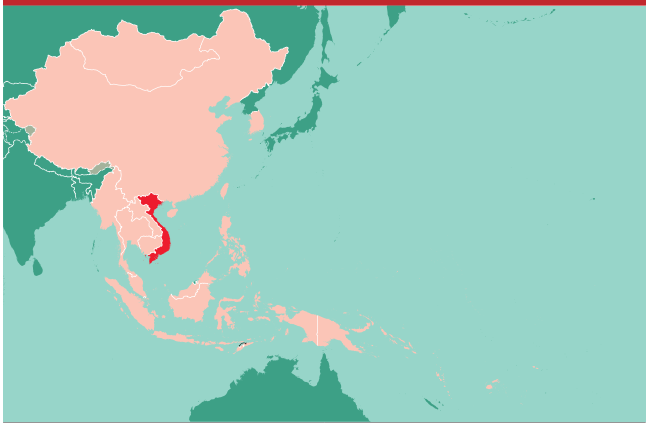
VIETNAM



Population	88.8 million
Population growth	1.1 percent
GDP (PPP, int'l US$)	322.7 billion
GDP per capita (PPP, int'l US$)	3,635
Surface area	330,957 sq. km.
Capital	Hanoi

Source: World Development Indicators.

Summary

While macroeconomic performance improved in the last two years, growth slowed in the face of structural problems in the state-owned enterprise (SOE) and banking sectors. Headline inflation declined from more than 23 percent (year-on-year) in August 2011 to 7.3 in July 2013. The current account was in surplus with strong export growth. The exchange rate was stable and the level of international reserves increased. Growth is estimated at 5.2 percent in 2012—the lowest level since 1999. Growth is likely to remain moderate in the medium term in the absence of visible progress in addressing the problems confronting the financial and SOE sectors.

Recent Economic Developments

Vietnam's macroeconomic conditions continue to improve as its economy enters the third year of relative stability. Stabilization measures implemented in 2011 and 2012 helped Vietnam reduce inflation, strengthen fiscal and external accounts, and stabilize the exchange rate. Exports continue to grow rapidly, enabling Vietnam to post a surplus on its trade account in 2012 for the first time since 1992. The improved trade and current account balances have helped the State Bank of Vietnam to shore up foreign exchange reserves—from 1.6 months of import cover at end 2011 to about 2.8 months in the first quarter of 2013. Headline inflation has been falling in the last 24 months. In July 2013, headline inflation had fallen to 7.3 percent—largely attributed to the easing of food price and stabilization measures. Greater macroeconomic stability has helped Vietnam to regain confidence among investors.

Vietnam's stock market rose nearly 18 percent in 2012 and about 19 percent in the first seven months of 2013 after declining two consecutive years in 2010 and 2011. Vietnam's sovereign spreads and country default swaps are hovering at their lowest levels since the onset of the global economic crisis.

At the same time, sluggish global growth and the slow pace of structural reforms has led to an economic slowdown. Vietnam's economy is experiencing its longest spell of modest growth since the onset of economic reforms in the late 1980s. GDP growth slowed to 5.2 percent in 2012 from 6.2 percent in 2011 and 6.4 percent in 2010. Nearly 29,000 businesses are reported to have closed, liquidated, or temporarily suspended their operations during the first half of 2013—a 10.5 percent increase compared to the same period of 2012, while newly registered enterprises amounted to around 39,000.

Recognizing the current economic difficulties, the government introduced a number of measures to support GDP growth. The State Bank of Vietnam has aggressively cut interest rates in response to the slowdown in growth and falling inflation. Key policy rates were cut by 600 basis points between March and December 2012, and by a further 200 basis points in March–April 2013. The Ministry of Finance also introduced several fiscal measures including reductions in tax rates and tax payment delays to assist struggling enterprises.

Despite the efforts of the government, the economy extended its slow growth into the first half of 2013, registering a growth rate of 4.9 percent in the first quarter and 5 percent in the second quarter. Despite the lower borrowing cost, total credit to the economy from the banking system is estimated to have grown by only 5 percent (year-to-date) as of July 2013 compared to the annual target of 12 percent. Credit activity remains subdued as banks have become more reluctant to lend on account of impaired balance sheets, poor financial health of the SOEs, weak monitoring and reporting systems, and general lack of transparency in the policy-making process. At the same time, demand for credit has waned in light of weaker business prospects. Efforts to stimulate the economy through accommodative monetary policy and tax breaks appear to have reached their limits, while raising fiscal deficits and creating new contingent liabilities. Under such circumstances, further monetary easing is likely to have only limited impact on growth, but could add to concerns surrounding credit quality and negative consequences on macroeconomic instability. Authorities would do well by extending the measured approach of macroeconomic stabilization and deepening structural reforms, with a special focus on the SOE and banking sectors.

Vietnam's growth pessimism stands in sharp contrast with its strong export performance in recent years. Total export value (in nominal U.S. dollars) is estimated to have grown by 14 percent during the first seven months of 2013 after achieving a growth rate of 18 percent in 2012 and 34 percent in 2011. While earnings from commodity exports are declining due to falling global prices, Vietnam's traditional labor-intensive manufacturing exports such as garments, footwear, and furniture continue to sustain rapid growth. A noteworthy addition to the export composition has been the exports of hi-tech and high-value products (for example, cell phones and parts, computers, electronics and accessories, automobile parts), that have emerged as the largest and fastest-growing export items in 2013. The solid export performance is largely attributed to the foreign-invested sector, which now accounts for two third of Vietnam's total exports.

Booming exports, a sustained flow of external capital and remittances, and lackluster import performance have all helped Vietnam to turn around its external balances. In 2012, Vietnam posted its largest ever trade and current account surpluses. The trade balance (based on the balance-of-payments definition) was estimated to yield a record surplus of 6.5 percent of GDP in 2012. Similarly, the current account balance turned from a huge deficit of 11 percent of GDP in 2008 to a minor surplus of 0.2 percent of GDP in 2011 and a record surplus of about 5.9 percent in 2012. However, this performance may not last forever, because imports are expected to pick up once the economy regains strength.

Vietnam's public finances have come under stress during the last few years on account of slower growth, lower revenue buoyancy, and increased stimulus spending. During 2012, the fiscal deficit increased to 4.8 percent of GDP (under the Government Financial Statistics [GFS] definition) as the ratio of revenue collection to GDP fell to a record low of 22.8 percent and despite the government's effort to consolidate capital spending. As a result of higher deficits, government debt increased from 48 percent of GDP in 2011 to 52 percent in 2012. Despite the fact that Vietnam's public and external debt sustainability indicators are projected to remain below their applicable debt thresholds, the government will need to maintain its ongoing control over spending growth to ensure medium-term fiscal sustainability.

Outlook and Emerging Challenges

Vietnam's economy is projected to grow at a moderate pace of around 5.3 percent during 2013. The trade and current accounts are expected to remain in surplus in 2013, though by a smaller amount than in 2012. Some consolidation of the fiscal balance, and inflation remaining in the high single digits, could be expected during 2013.

Vietnam's gains on the macroeconomic front are, however, still fragile and face several downside risks. First, slower growth may intensify demand for further loosening of monetary and fiscal policies, with the risk of stoking inflationary pressures and reversing the recent gains in macroeconomic stability. Second, if the implementation of structural reforms is delayed further, investor confidence would be undermined, further worsening growth prospects.

Vietnam: Key Indicators

	2011 Year	2012e Year	2013f Year	2014f Year	2015f Year
Output, Employment, and Prices					
Real GDP (% change yoy)	6.2	5.2	5.3	5.4	5.4
Domestic demand (% change yoy)	0.7	4.3	4.5	5.2	5.5
Industrial Production Index 1/					
(% change yoy)	7.3	4.7	4.8	5.5	5.8
Unemployment (%) 2/	3.6	3.3	3.5	3.5	3.5
Consumer Price Index (% change yoy, period average)	18.6	9.1	8.8	7.4	7.7
Public Sector					
Government revenues (% GDP)	25.2	22.9	22.2	21.7	21.7
Government expenditures (% GDP)	28.1	27.7	26.2	25.7	25.1
Government balance, official (% GDP) 3/	-1.3	-3.2	-2.6	-2.6	-2.2
Government balance, general (% GDP) 4/	-2.9	-4.8	-4.0	-4.0	-3.4
Public sector debt (% GDP) 5/	47.9	51.3	50.4	50.5	49.8
Foreign Trade, BOP, and External Debt					
Trade balance (billions US$, BOP definition)	-0.5	9.9	11.8	7.9	4.8
Exports of goods (billions US$, fob)	97	115	132	146	160
(% change yoy)	34.2	18.2	15.6	9.9	10.2
Key export (% change yoy) 6/	45.9	13.6	-5.0	2.0	2.0
Imports of goods (billions US$, cif)	107	114	131	150	169
(% change yoy)	25.9	6.6	15.3	14.0	13.1
Current account balance (billions US$)	0.2	9.1	9.6	6.2	2.0
(% GDP)	0.2	5.9	5.6	3.3	1.0
Foreign direct investment (billions US$, net)	6.5	7.2	7.4	7.6	7.7
External debt (billions US$)/5	36.6	43.6	48.5	51.7	55.2
(% GDP)	27.2	28.5	28.5	27.6	27.0
Debt service ratio (% exports of g&s)	3.7	3.3	3.3	3.4	3.5
Foreign exchange reserves, gross (billions US$)	13.5	25.4			
(months of imports of g&s)	1.5	2.3			
Financial Markets					
Domestic credit (% change yoy)	14.3	8.9	10.0	15.0	15.0
Short-term interest rate (% p.a.) 7/	14.9	8.0	7.5		
Exchange rate (D/US$, eop) 8/	20,828	20,828	21,036		
Real effective exchange rate (2000=100)	122.7	122.0			
(% change yoy)	4.5	-0.6			
Stock market index (July 2000=100) /9	351.6	413.7	491.3		
Memo: Nominal GDP (billions US$)	134.6	152.8	170.0	187.0	204.6

Sources: General Statistics Office; State Bank of Vietnam; IMF; and World Bank staff estimates.
e = estimate.
f = forecast.
1/ The Industrial Production Index (IPI) is a new series replacing previous "industrial production value in constant 1994 prices."
2/ Urban areas.
3/ Excludes off-budgetary items.
4/ Includes off-budgetary items.
5/ Public and publicly guaranteed debt. Forecast by Debt Sustainability Analysis 2013.
6/ Crude oil (value).
7/ Three-month deposit, end-of-period.
8/ Central Bank's interbank exchange rate as of August 27, 2013.
9/ Ho Chi Minh Stock Index as of August 27, 2013.