## Taking Stock: Coverage

<table>
<thead>
<tr>
<th>External Economic Environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recent Economic Developments in Vietnam</td>
</tr>
<tr>
<td>Special Topic 1: Trade Facilitation, Competitiveness, and Growth in Vietnam</td>
</tr>
<tr>
<td>Special Topic 2: Corruption and Economic Growth in Vietnam</td>
</tr>
<tr>
<td>Special Topic 3: Poverty and Inequality in Vietnam</td>
</tr>
</tbody>
</table>
External Economic Environment
A gradual pick up in growth, led by high-income countries

Percent annual GDP growth

Regional growth strengthening or stable almost everywhere

Percent annual GDP growth

Growth has picked up in high-income countries in more recent months.
Business confidence in high-income countries has also picked up

Source: World Bank, Markit, Haver Analytics
Commodity prices have eased or are stabilizing.

USD price, 2005=100

Key Risks to the Global Economy
#1: The End of Quantitative Easing

Yield 10 year US T-bills

Source: US FED
#2: Risk from High Level and Rapid Growth in Domestic

Change in Credit level

Source: World Bank, IMF.
#2: Risk from High Level and Rapid Growth in Domestic

#3: Excessive Chinese investment poses risks to activity and banking-sector

Chinese Investment as a share of GDP, %

- Average 1970-1990, 28%
- Average 1991-2003, 35%
- Average 2004-2008, 40%
- Average 2009-2013, 45%

Recent Economic Developments in Vietnam
Macro stability in Vietnam has improved...

Source: Bloomberg

GSO
...growth however stagnant at modest levels
Constraints to growth

- Growth remains stagnant at modest levels

  **Short run:**
  - Subdued private sector confidence
  - Shrinking fiscal space

  **Long-term:**
  - Structural constraints – SOE and banking sector issues
  - Declining competitiveness and productivity growth
  - Market economy institutions and level playing field
  - Tight supply of market-oriented technical skills
Subdued private sector confidence

- Sharp drop in private investment rate, from 15% from 2007-10 to 11.5% in 2013
- The Provincial Competitiveness Index indicates firms less likely to invest or expand production
- PMI has mostly been in –ve territory
- Subdued HH consumption growth: 5.1% in 2009-12, compared to 8.9% in previous 4 years
Short-term growth: Global situation has important implications
ST growth constraints: Shrinking fiscal space

- **Crucial fiscal policy choices:** balance between supporting growth and sustainability
  - Low debt distress, but fiscal expansion is stretching limits of this assessment
    - Even a small increase in pace of spending will lead to a rapid deterioration in debt dynamics.
  - Consolidation of capital spending welcome move
  - Greater fiscal transparency needed
Longer-term growth: getting the business climate right

- Starting a business
- Dealing with construction permits
- Registering property
- Getting credit
- Protecting investors
- Paying taxes
- Trading across borders
- Enforcing contracts
- Resolving insolvency
- Getting electricity

Vietnam

--- ASEAN-4, average
LT growth: getting SOE reforms right

Number of firms equitized in the year

Cumulative number of equitized firms
LT growth: getting SOE reforms right

- Relatively slow SOE reforms on account of:
  - Lack of clarity of state ownership plans
    - Top-down approach, lacking policy and implementation coordination
    - Restructuring targets not kept realistic
  - Unclear, and fragmented regulatory framework
  - Limited underlying financial and operational analysis for divesture
  - Weak market conditions lately
Banking sector fragilities remain

- High NPL ratios (financial disclosure & transparency big concerns)
- Loan classification not per international stds
- State retains a big share in banks
- Regulations on bankruptcy, insolvency, creditor rights need attention
- VAMC an important step: its organizational and financial capacity needs bolstering
Medium-term outlook and risks

- Medium-term outlook is favorable on balance, albeit with considerable downside risks

<table>
<thead>
<tr>
<th>GDP Growth (%)</th>
<th>2012</th>
<th>2013 (p)</th>
<th>2014 (p)</th>
<th>2015 (p)</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.2</td>
<td>5.3</td>
<td>5.4</td>
<td>5.5</td>
<td></td>
</tr>
</tbody>
</table>

- Downside risks
  - Weak private sector demand vulnerable to further bad news
  - Possibility, though diminished, of departure from prudent macro policies
  - Structural reforms could further slow down
  - Banking sector still fragile
Special topic 1: Trade facilitation, competitiveness and growth in VN

- Impressive gains in leveraging benefits of global integration
- However, export growth mostly low tech
Vietnamese firms that paid bribes have done worse!
Need for: administrative reforms and greater transparency

Firm's operational efficiency compared to 2 years before
-1=much worse +1=much better

-0.3

-0.20

0.03

0.11

Firms that do not present gifts or money to the in-charge officers
Occasionally presents gifts or money to the in-charge officers
Frequently presents gifts or money to the in-charge officers
Figure 3.C.1: Preliminary Growth Incidence Curves, 2010-2012

- a) Vietnam overall
- b) Rural only
- c) Urban only

Source: Preliminary World Bank Analysis of Vietnam Household Living Standards Survey data
Figure 3.C.2: Poverty Rates in 2010 and 2012 for Vietnam
(Using GSO–WB Expenditure-Based Poverty Line)

Thank you!