

# TAKING STOCK

AN UPDATE ON VIETNAM'S  
RECENT ECONOMIC  
DEVELOPMENTS

*Hanoi, December, 2013*



THE WORLD BANK

# Taking Stock: Coverage

External Economic Environment

Recent Economic Developments in Vietnam

Special Topic 1: Trade Facilitation, Competitiveness, and Growth in Vietnam

Special Topic 2: Corruption and Economic Growth in Vietnam

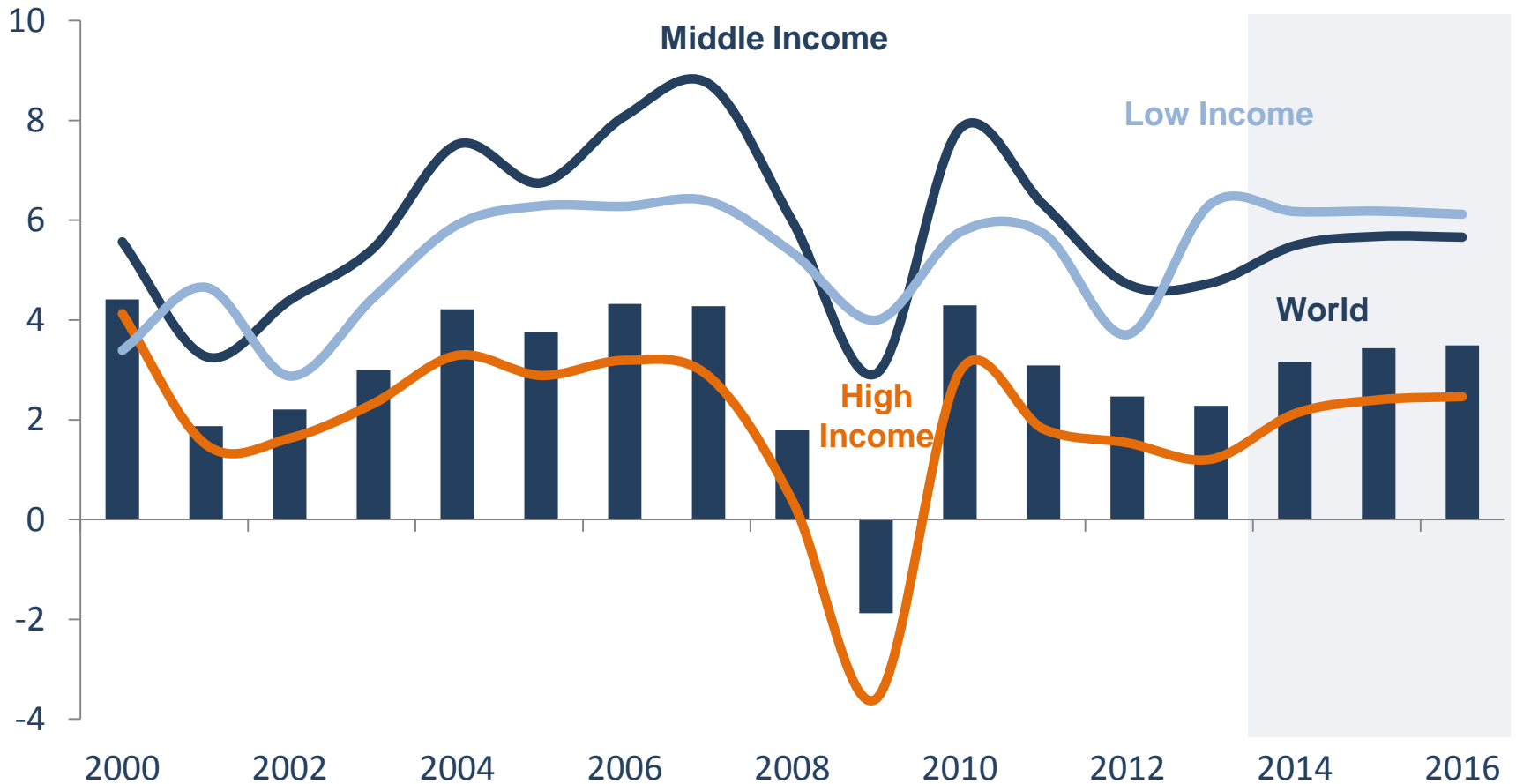
Special Topic 3: Poverty and Inequality in Vietnam

# External Economic Environment



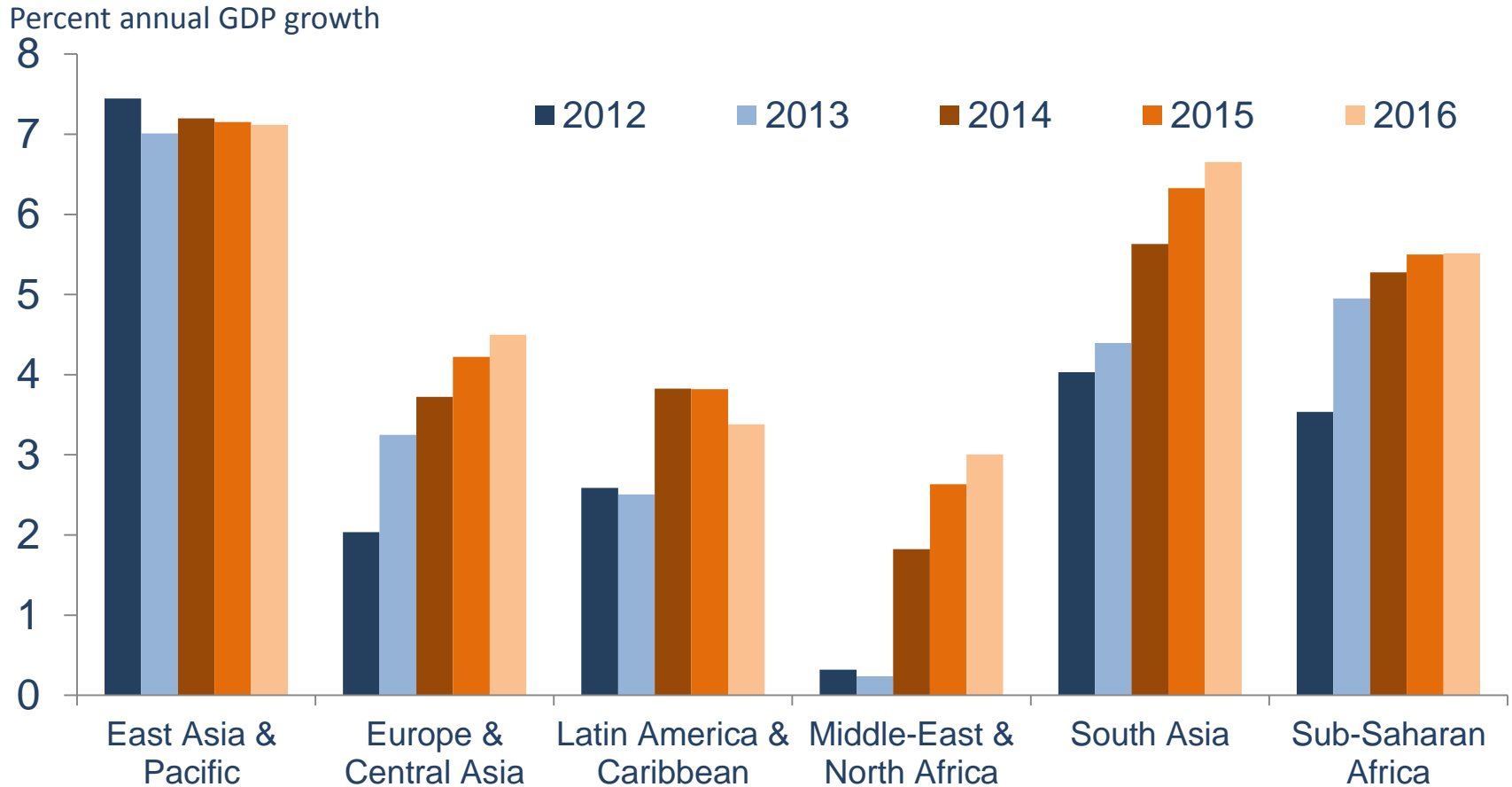
# A gradual pick up in growth, led by high-income countries

Percent annual GDP growth



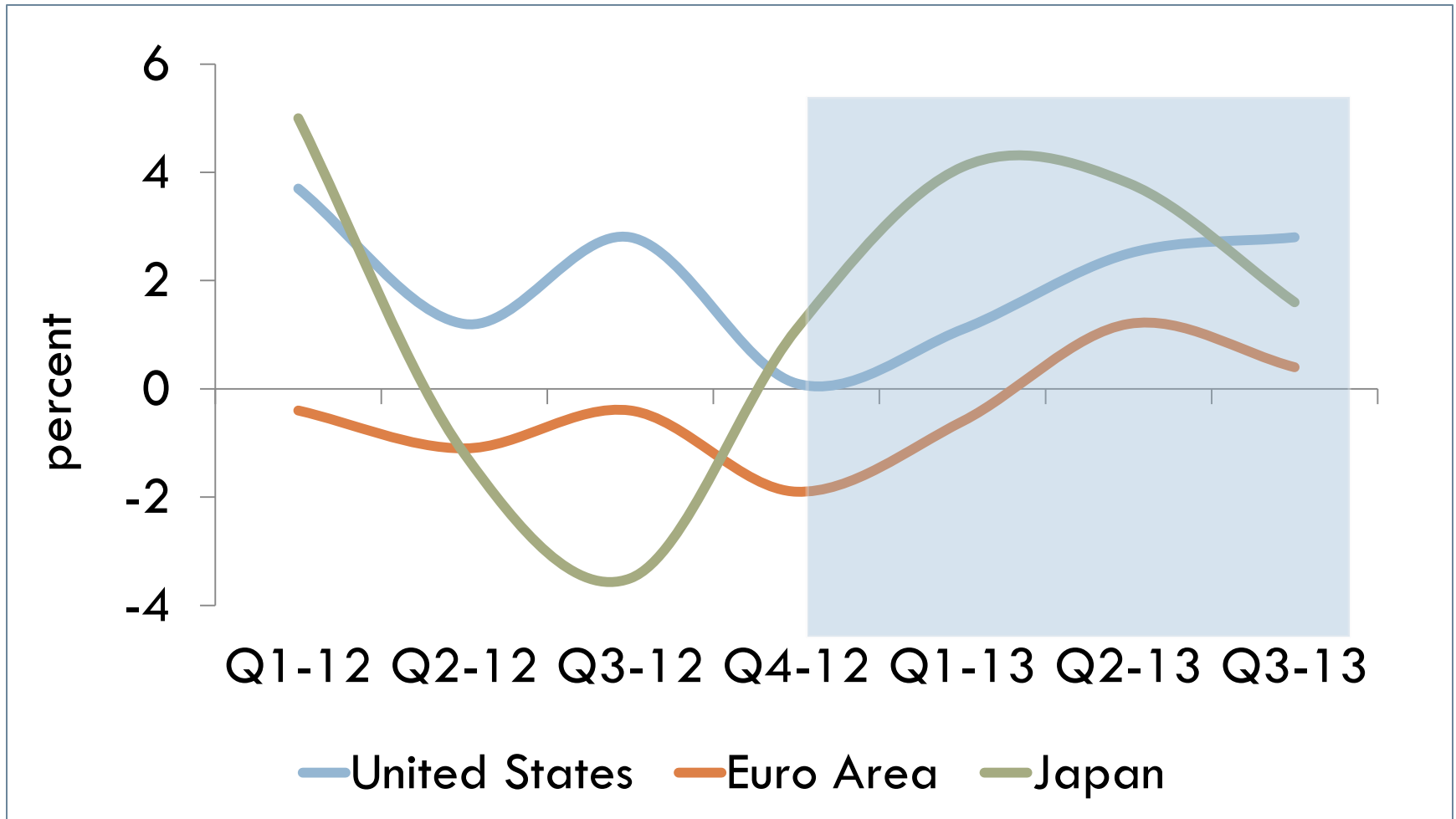
Source: World Bank.

# Regional growth strengthening or stable almost everywhere

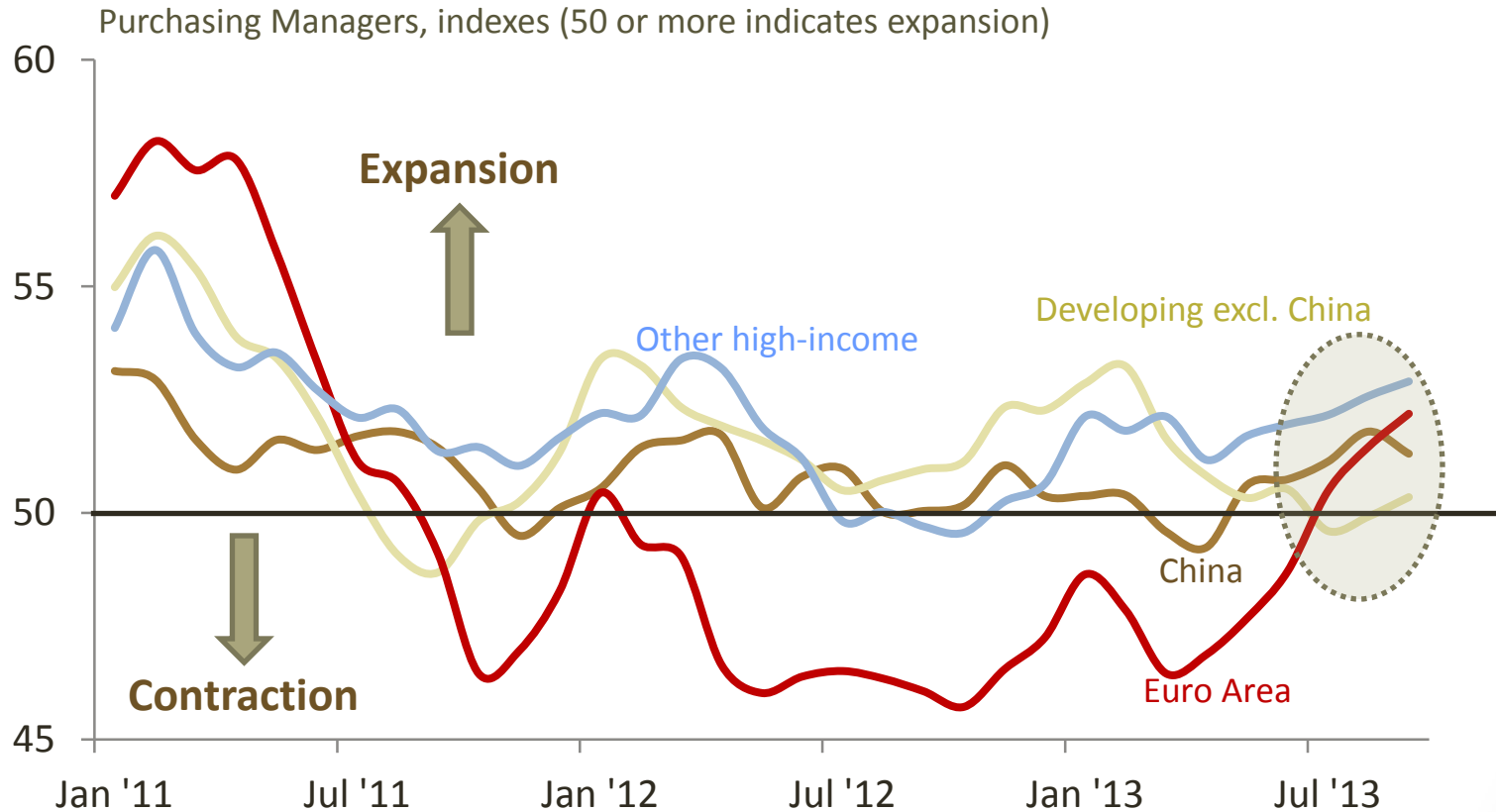


Source: World Bank.

# Growth has picked up in high-income countries in more recent months



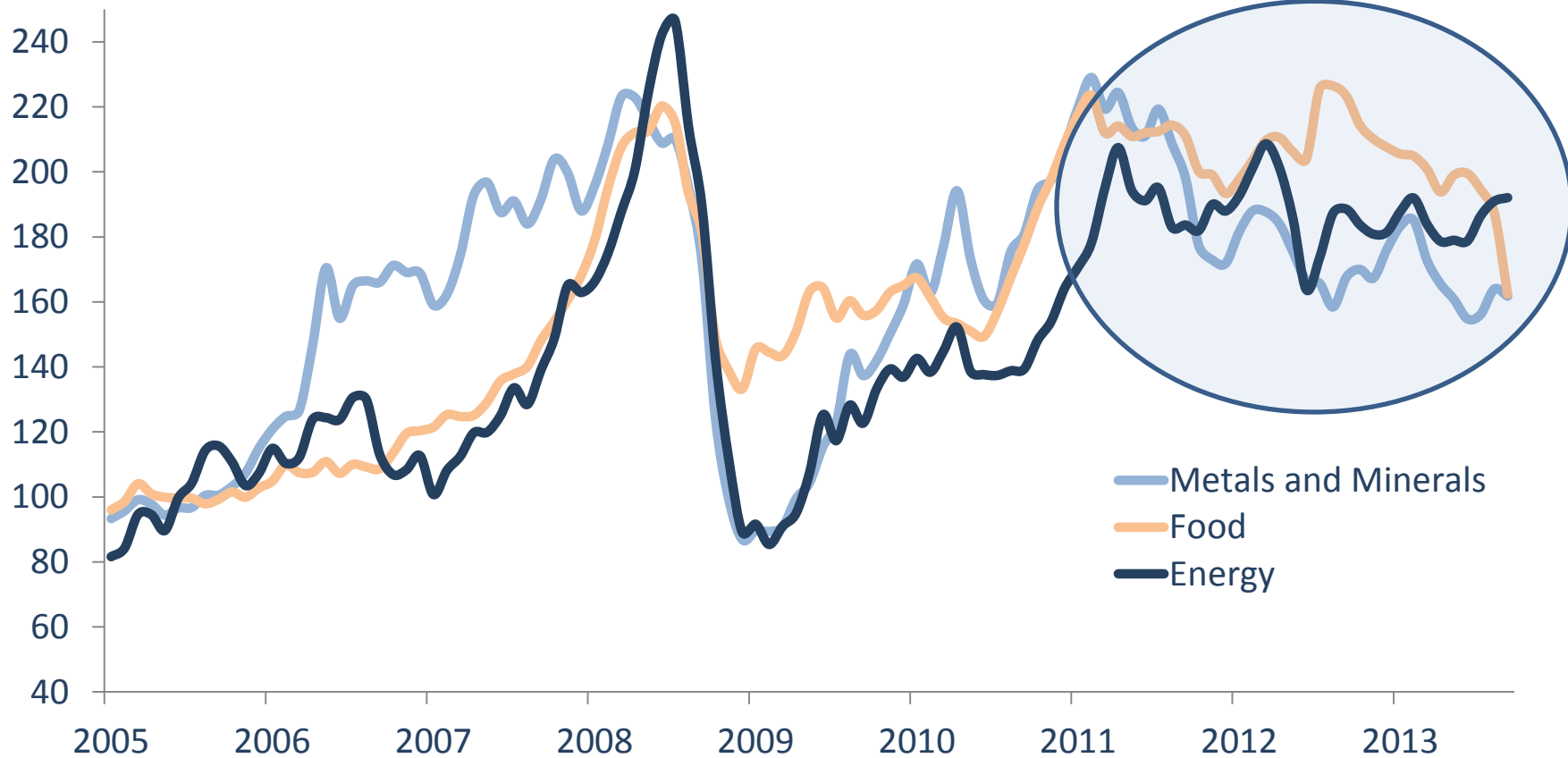
# Business confidence in high-income countries has also picked up



Source: World Bank, Markit, Haver Analytics

# Commodity prices have eased or are stabilizing

USD price, 2005=100

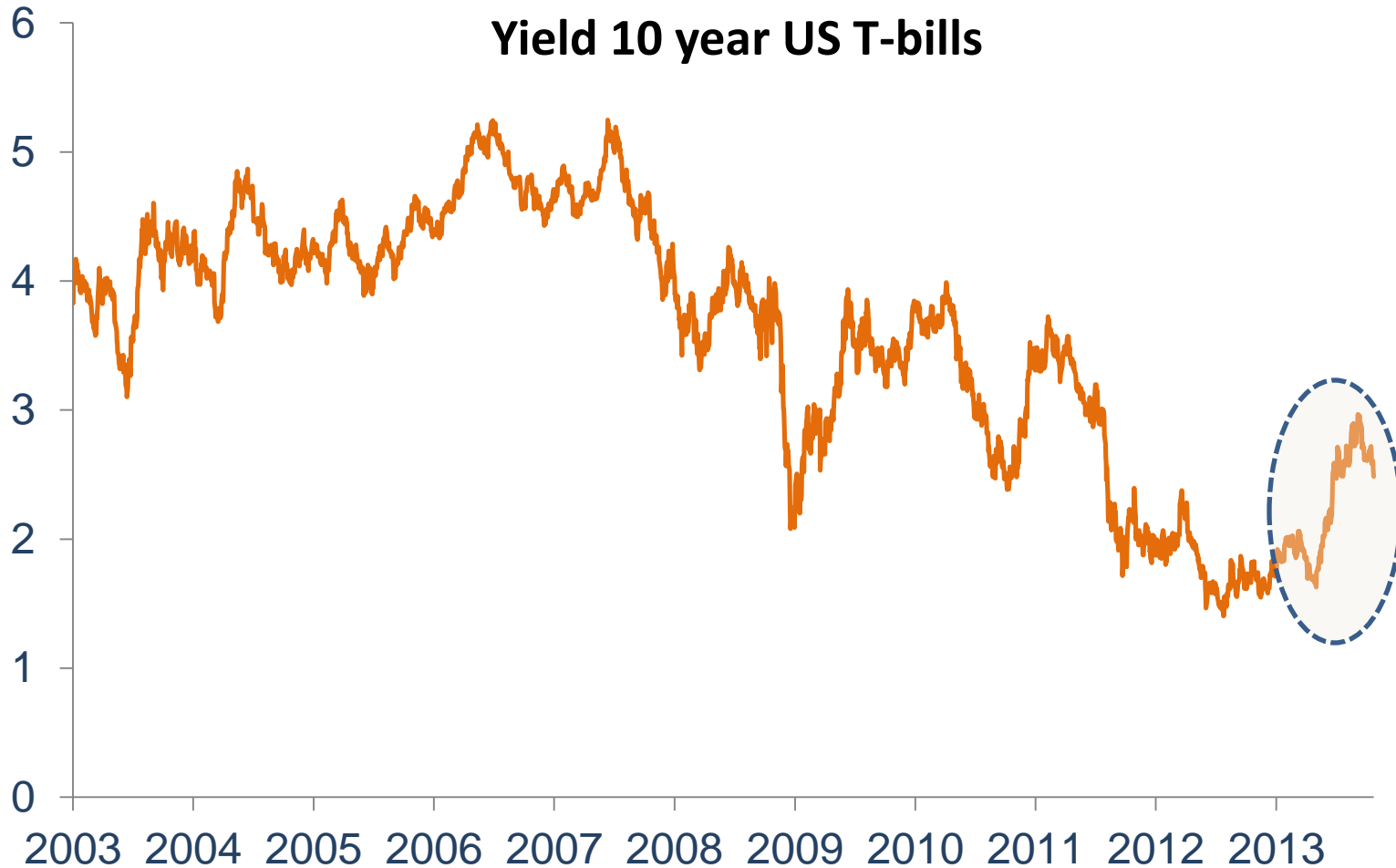




# Key Risks to the Global Economy

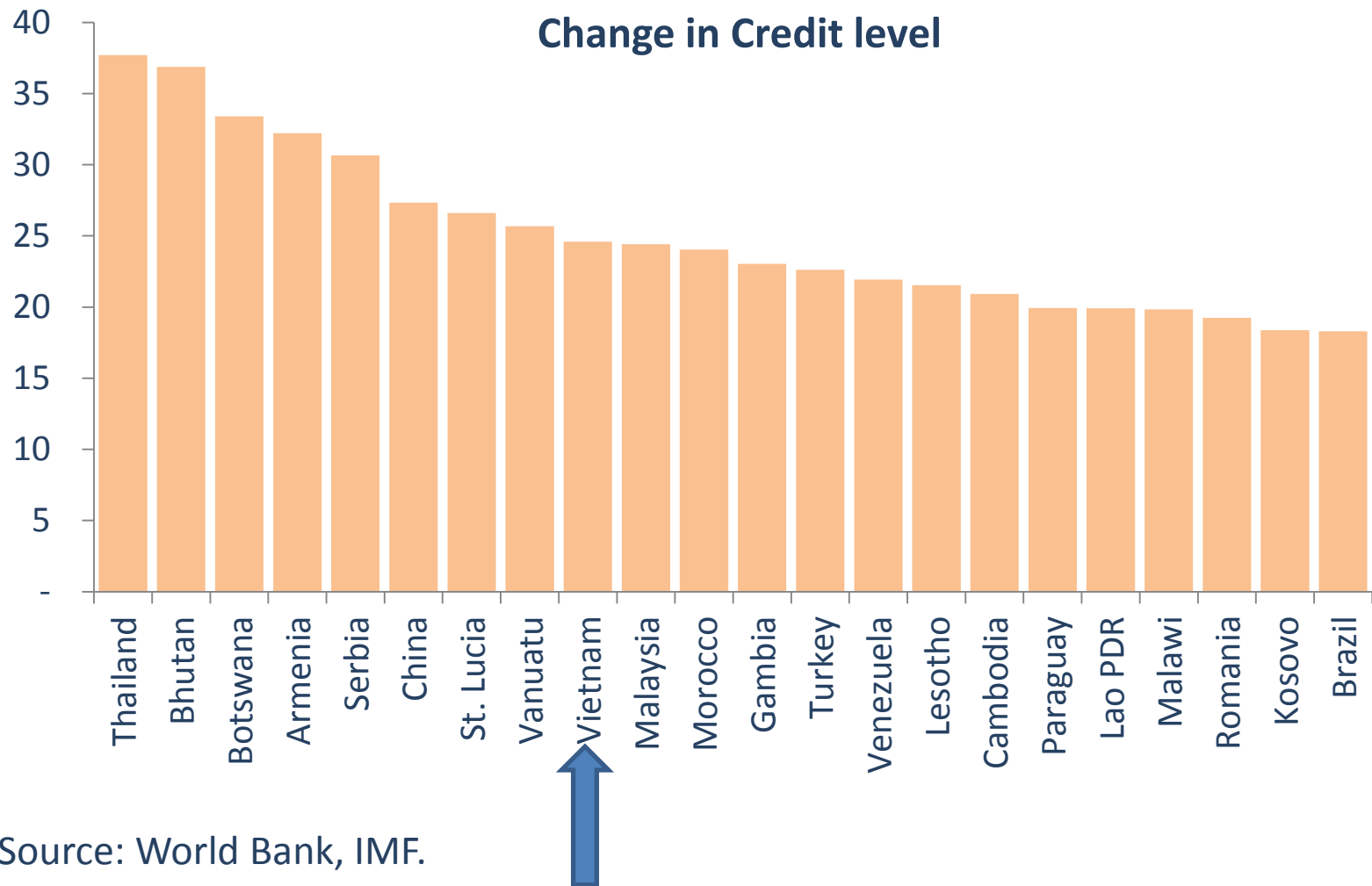


# #1: The End of Quantitative Easing



Source: US FED

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



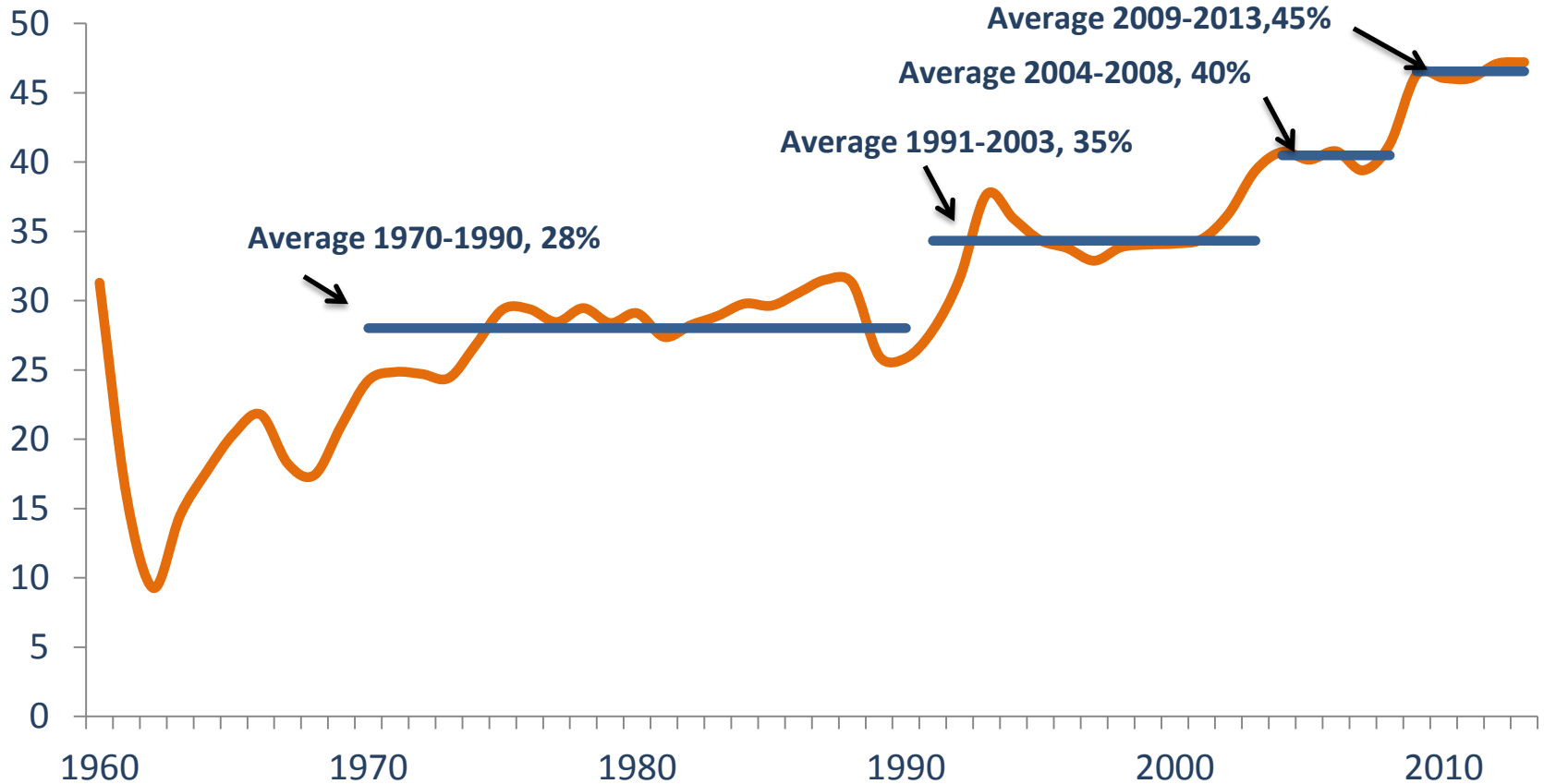
Source: World Bank, IMF.

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



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

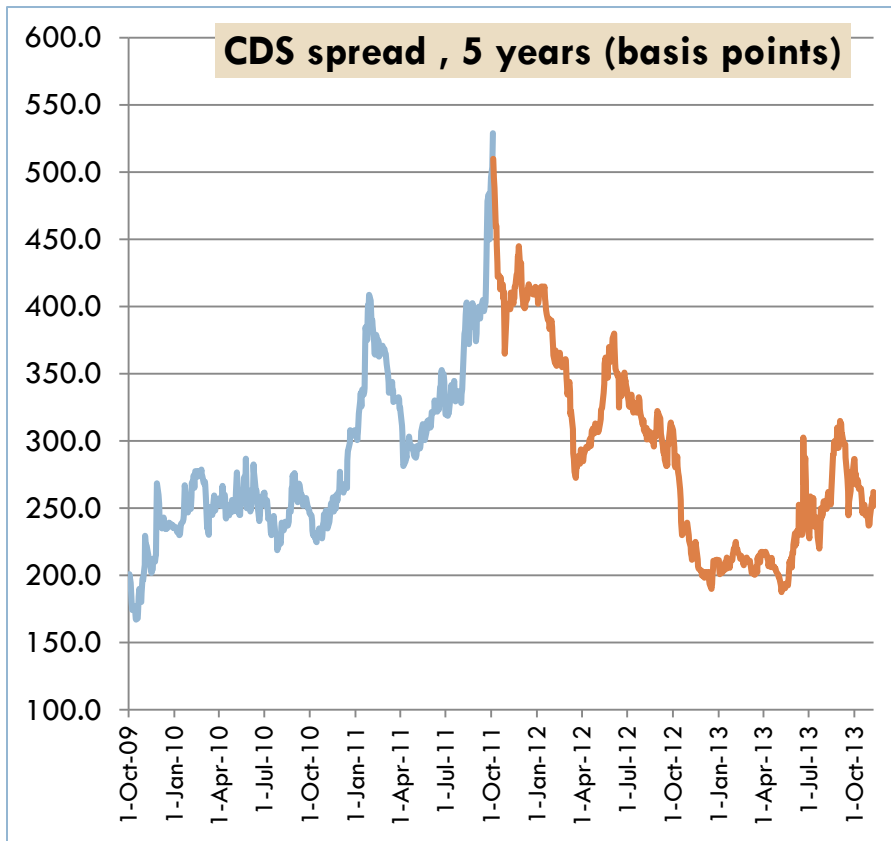
Chinese Investment as a share of GDP, %



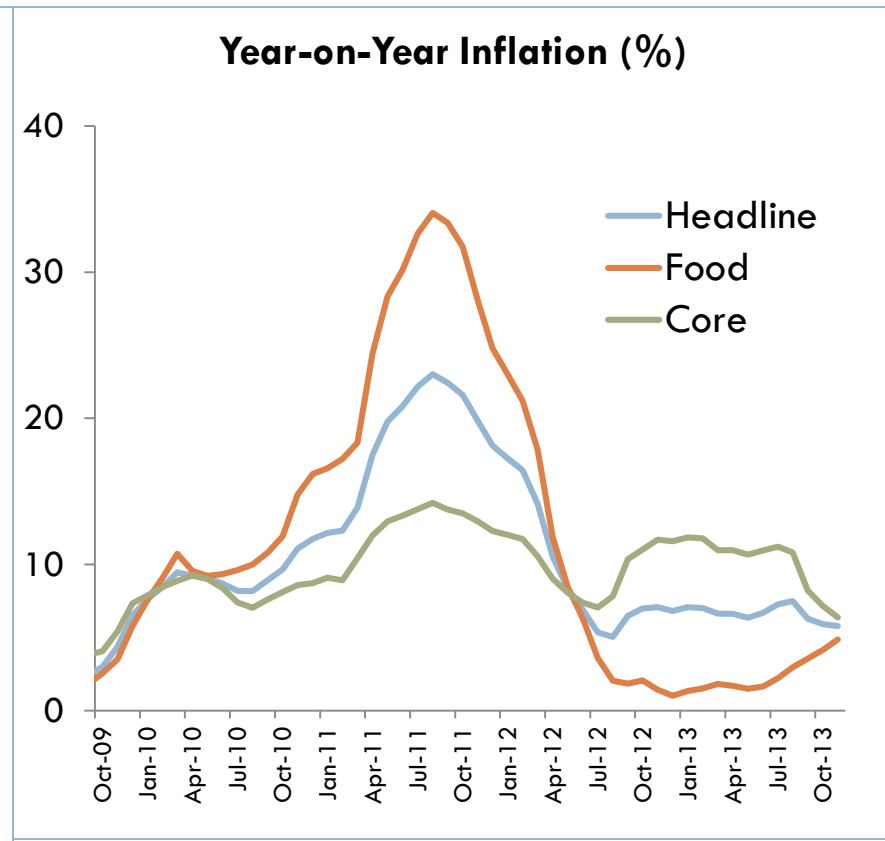
# Recent Economic Developments in Vietnam



# Macro stability in Vietnam has improved...

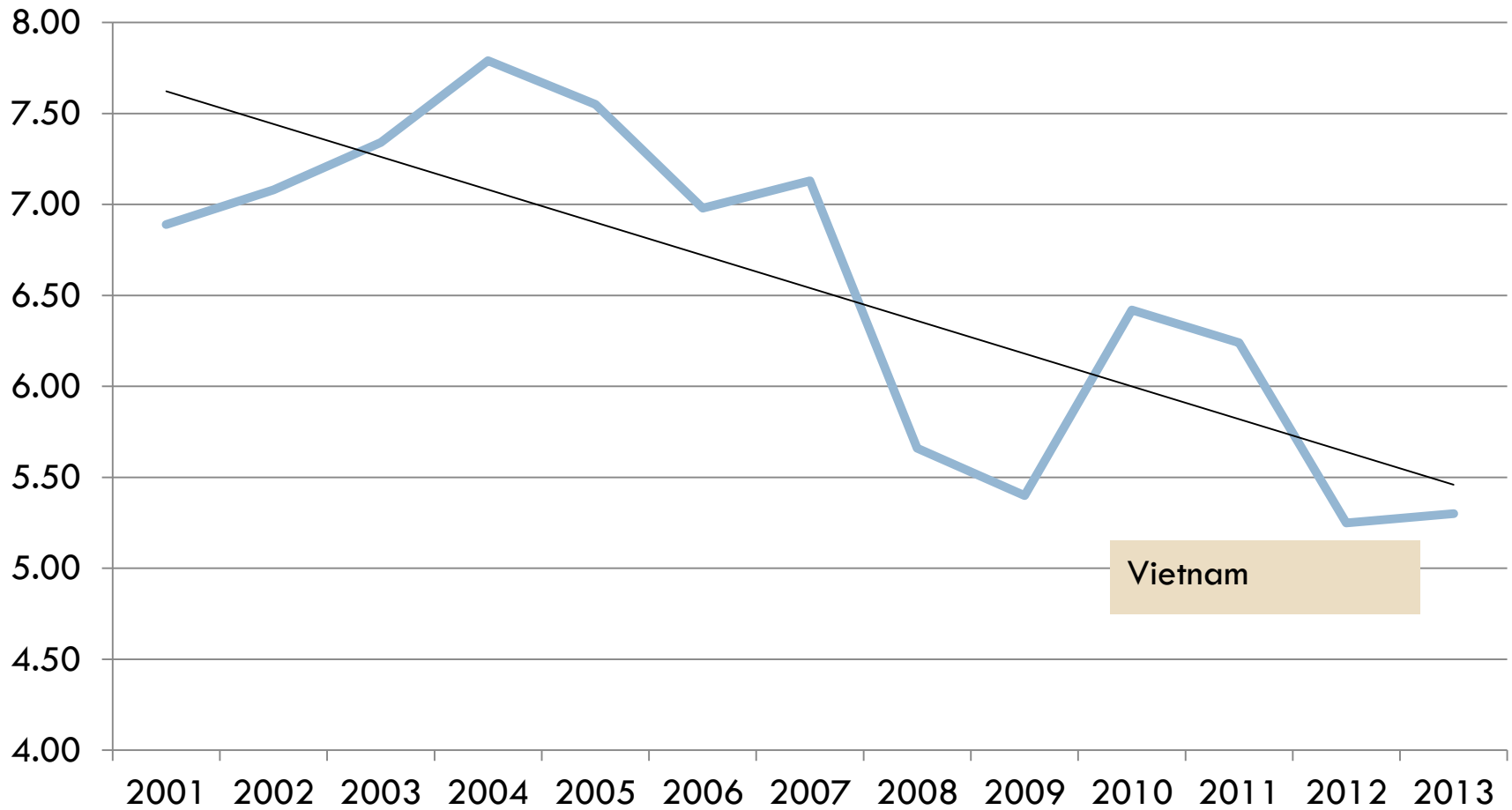


Source: Bloomberg



GSO

# ...growth however stagnant at modest levels





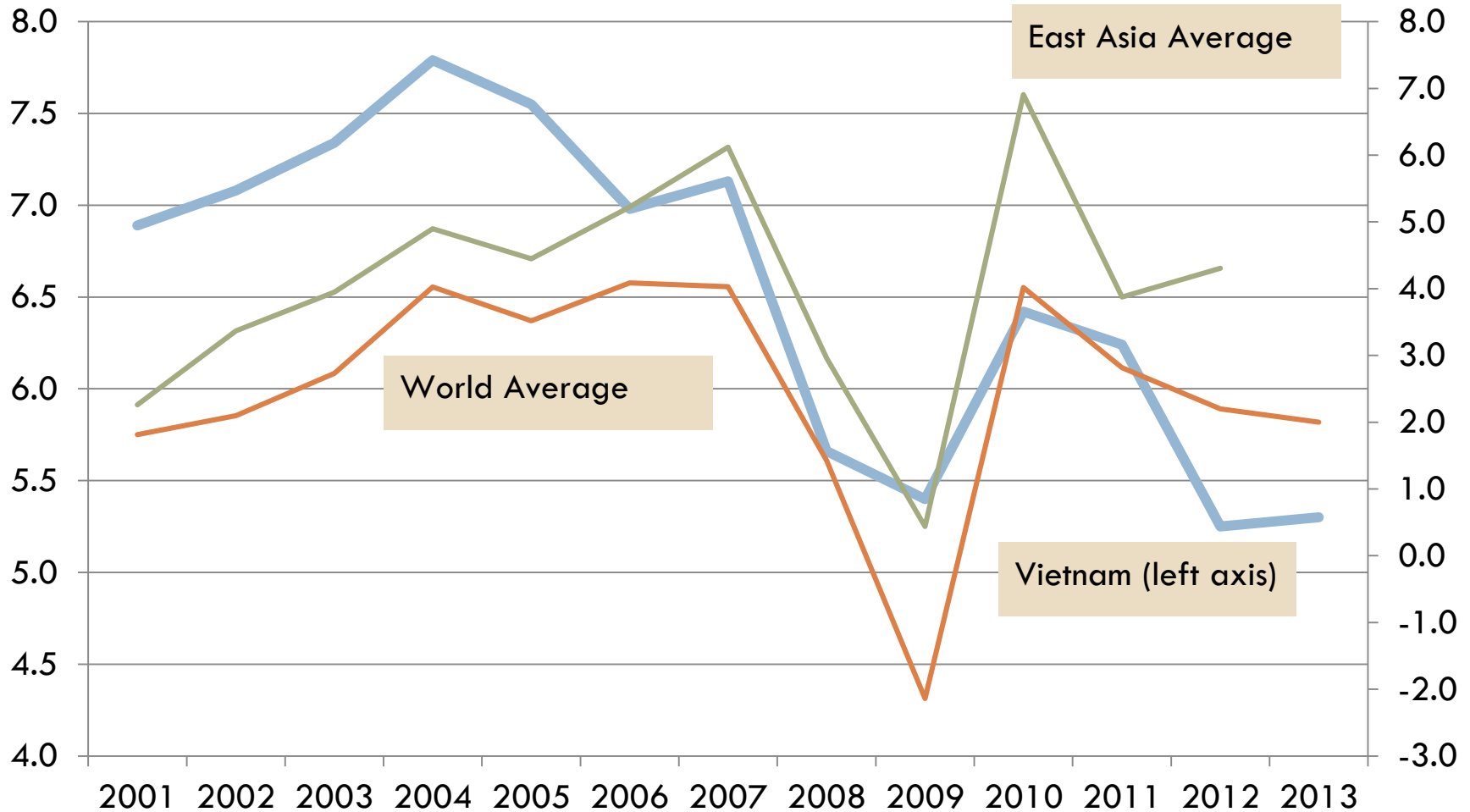
# Constraints to growth

- 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

# Short-term constraints to growth

- 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

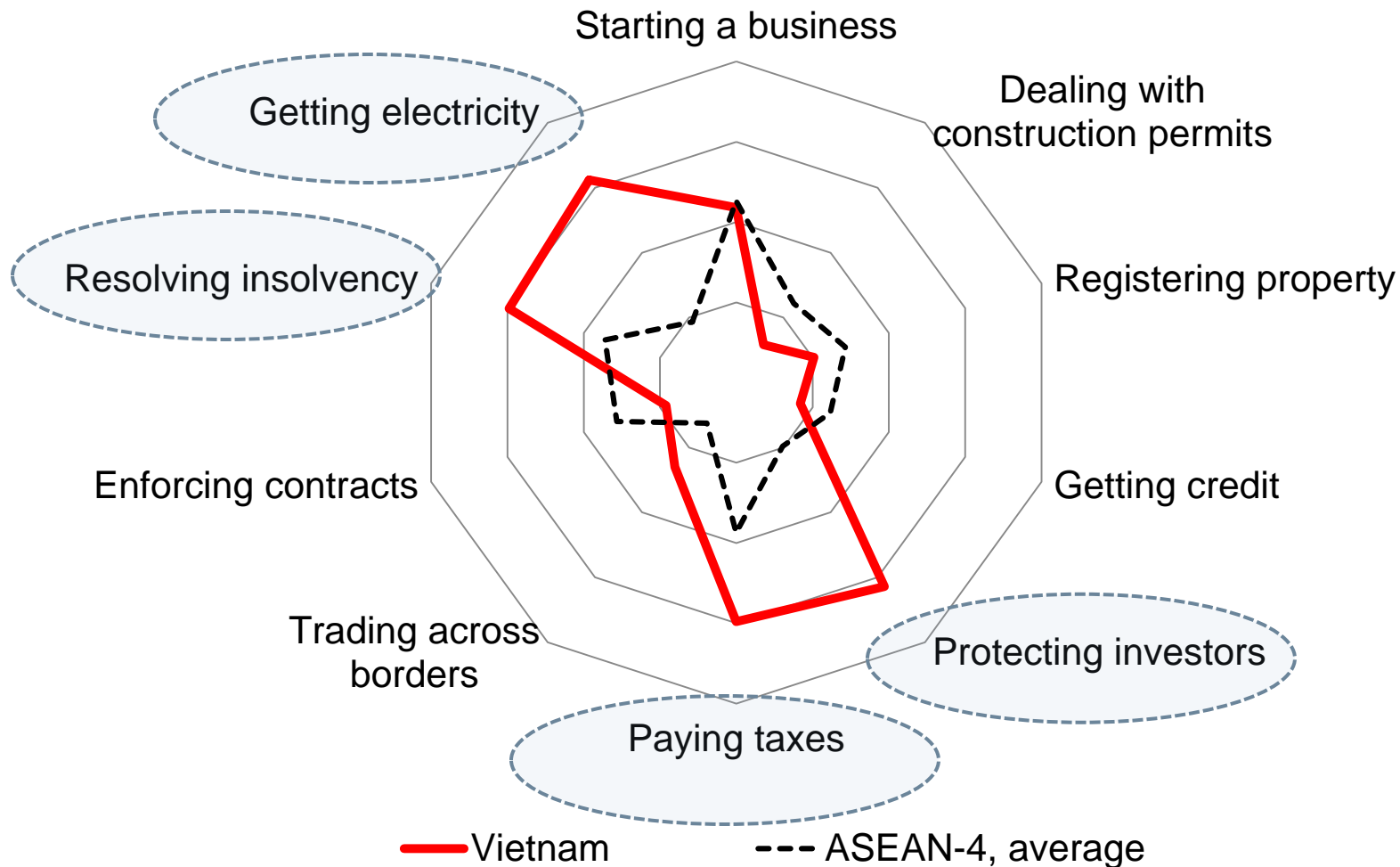
# Short-term growth: Global situation has important implications



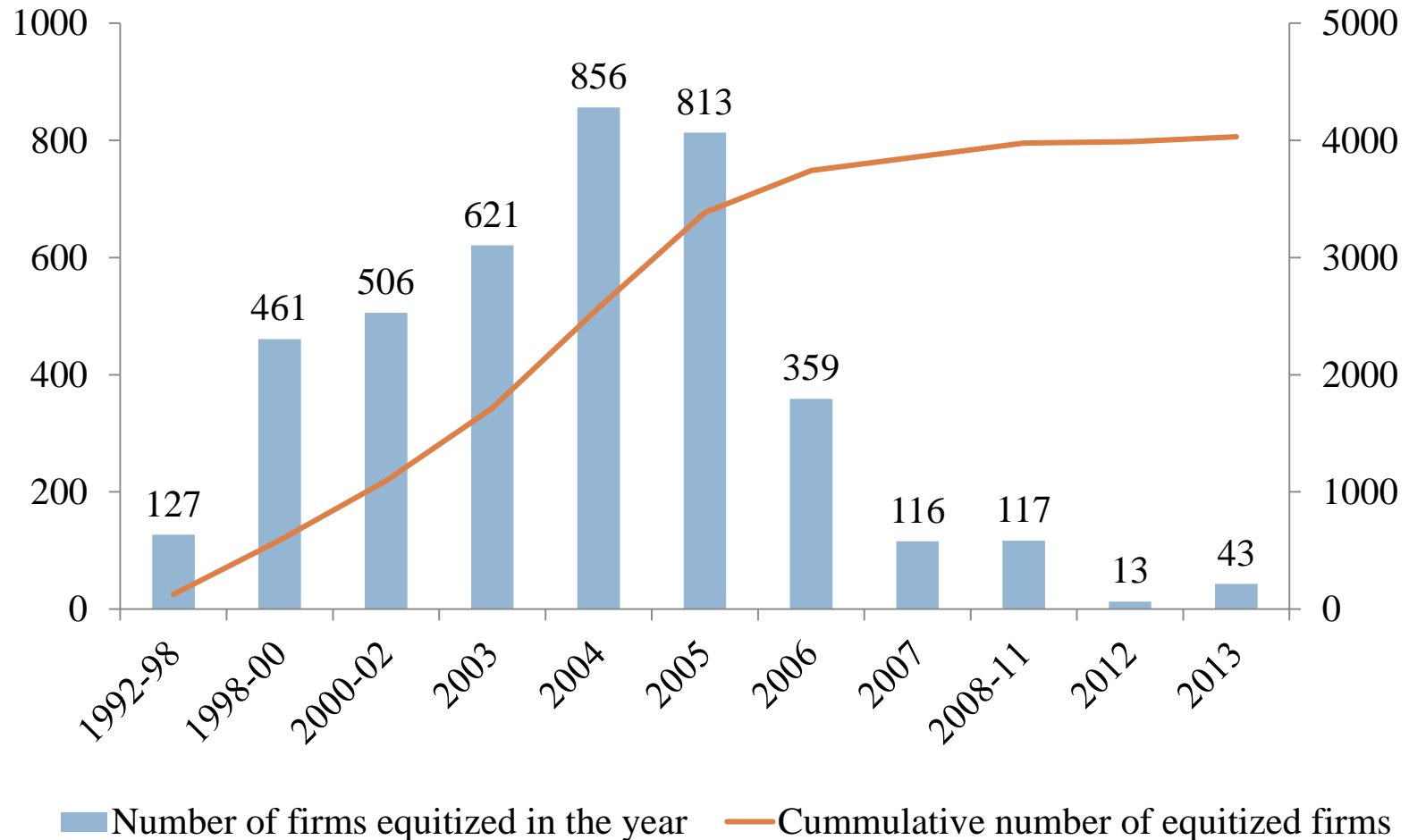
# ST growth constraints: Shrinking fiscal space

- **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



# LT growth: getting SOE reforms right



# 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 divestiture
  - Weak market conditions lately

# LT Growth: Getting banking reforms right

- 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

	2012	2013 (p)	2014 (p)	2015 (p)
GDP Growth (%)	5.2	5.3	5.4	5.5

- 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

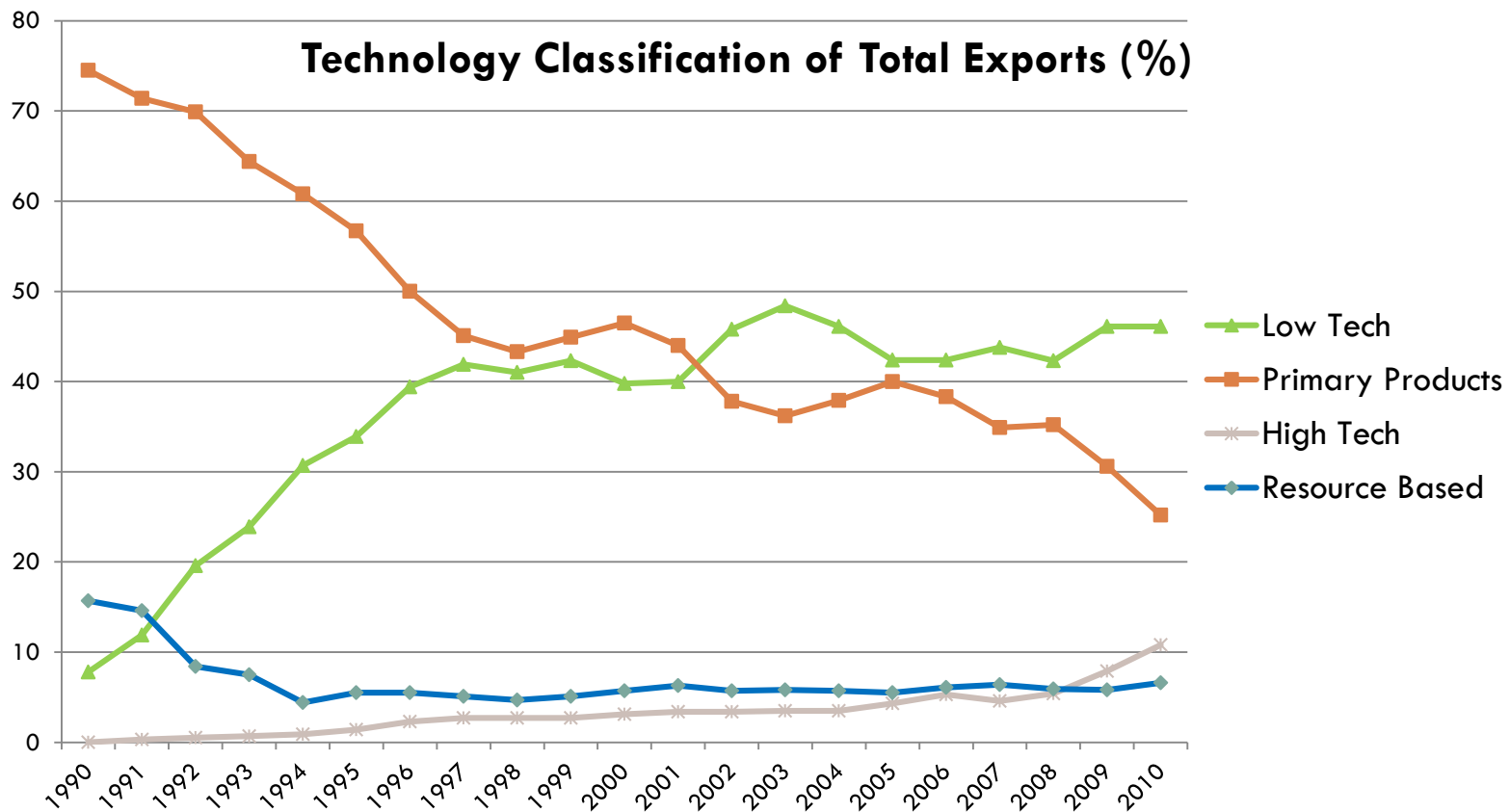
# **Special Topics in Taking Stock**

## **December 2013**



# Special topic 1: Trade facilitation, competitiveness and growth in VN

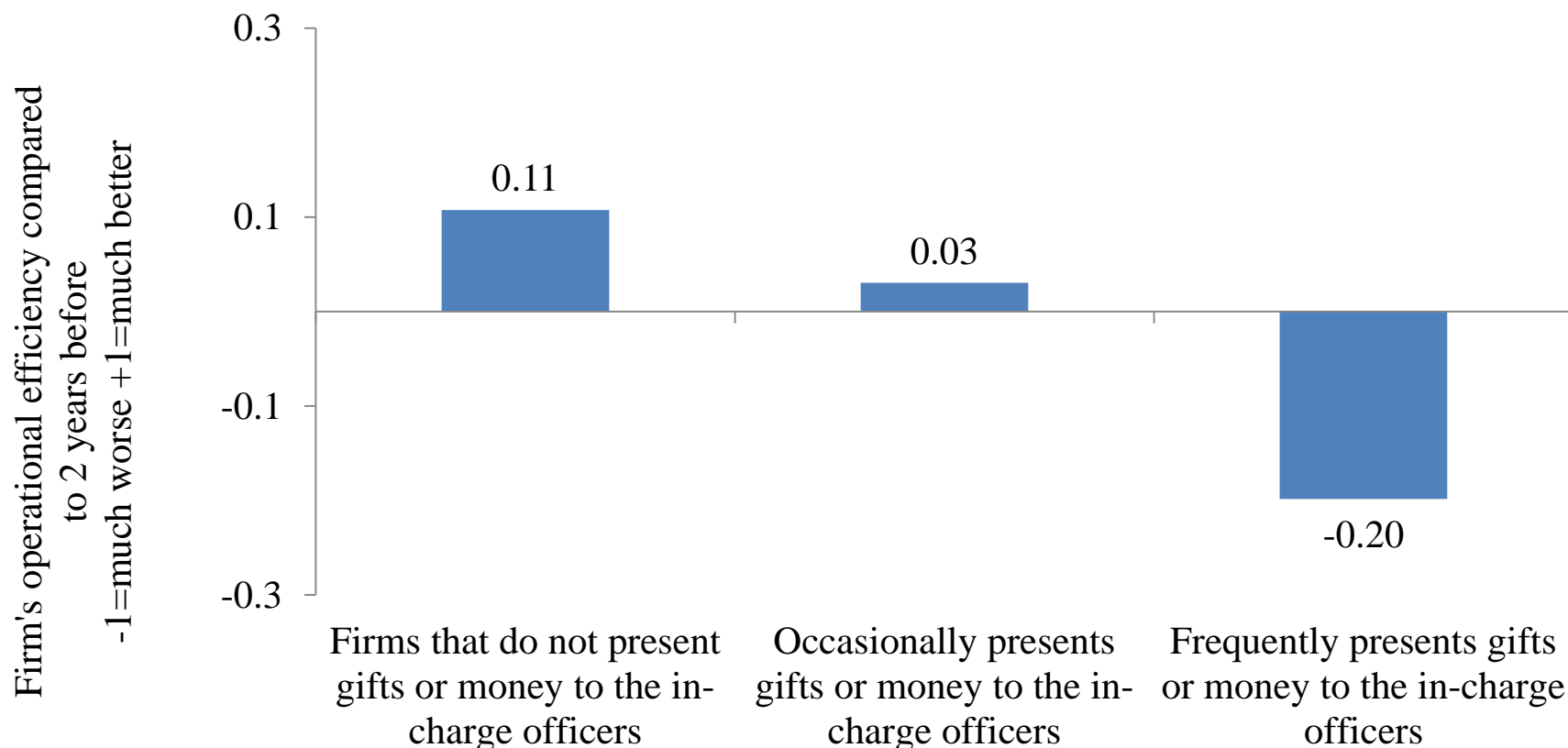
- Impressive gains in leveraging benefits of global integration
- However, export growth mostly low tech



# Special topic 2: Corruption and Growth

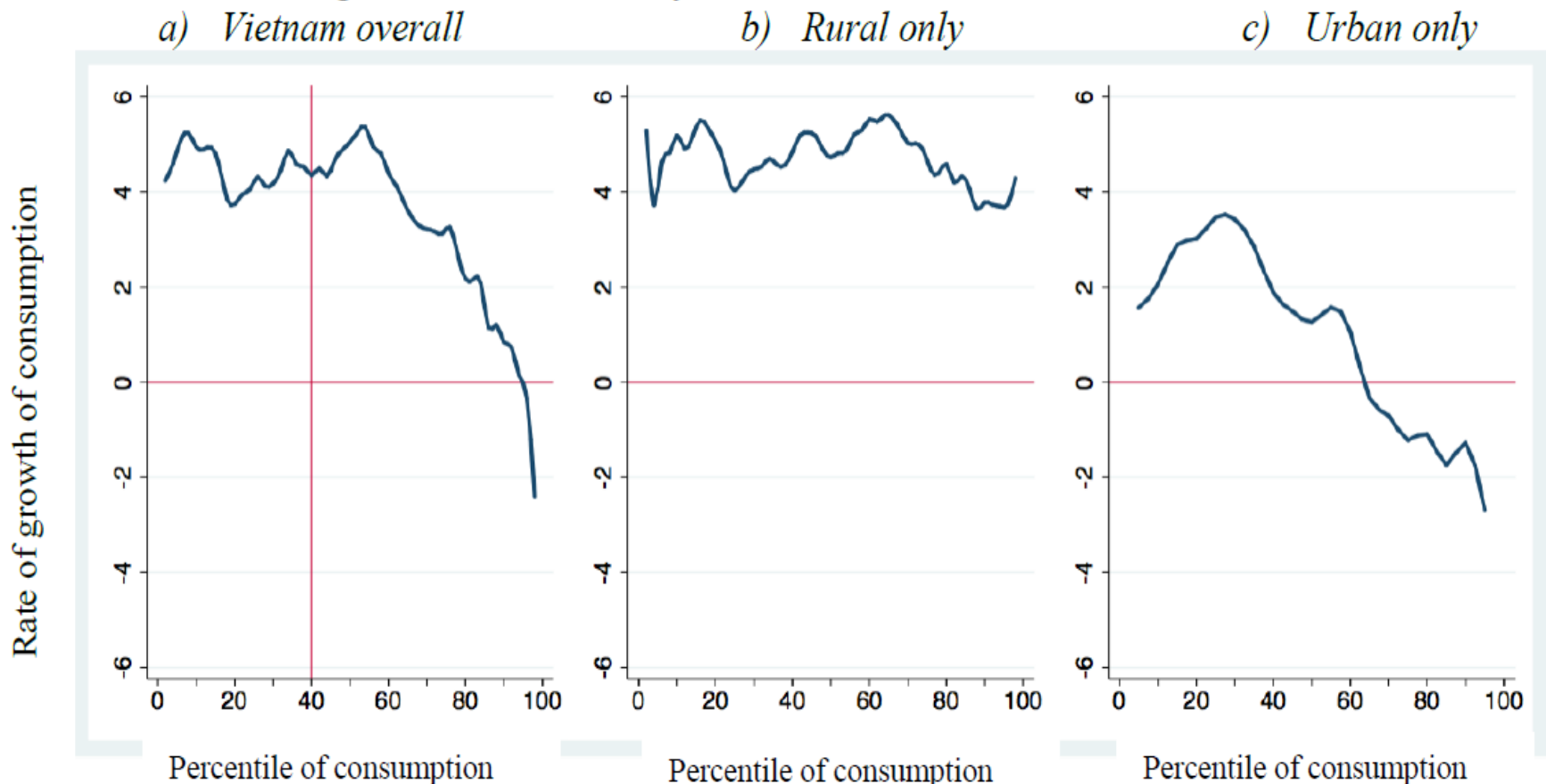
**Vietnamese firms that paid bribes have done worse!**

**Need for: administrative reforms and greater transparency**



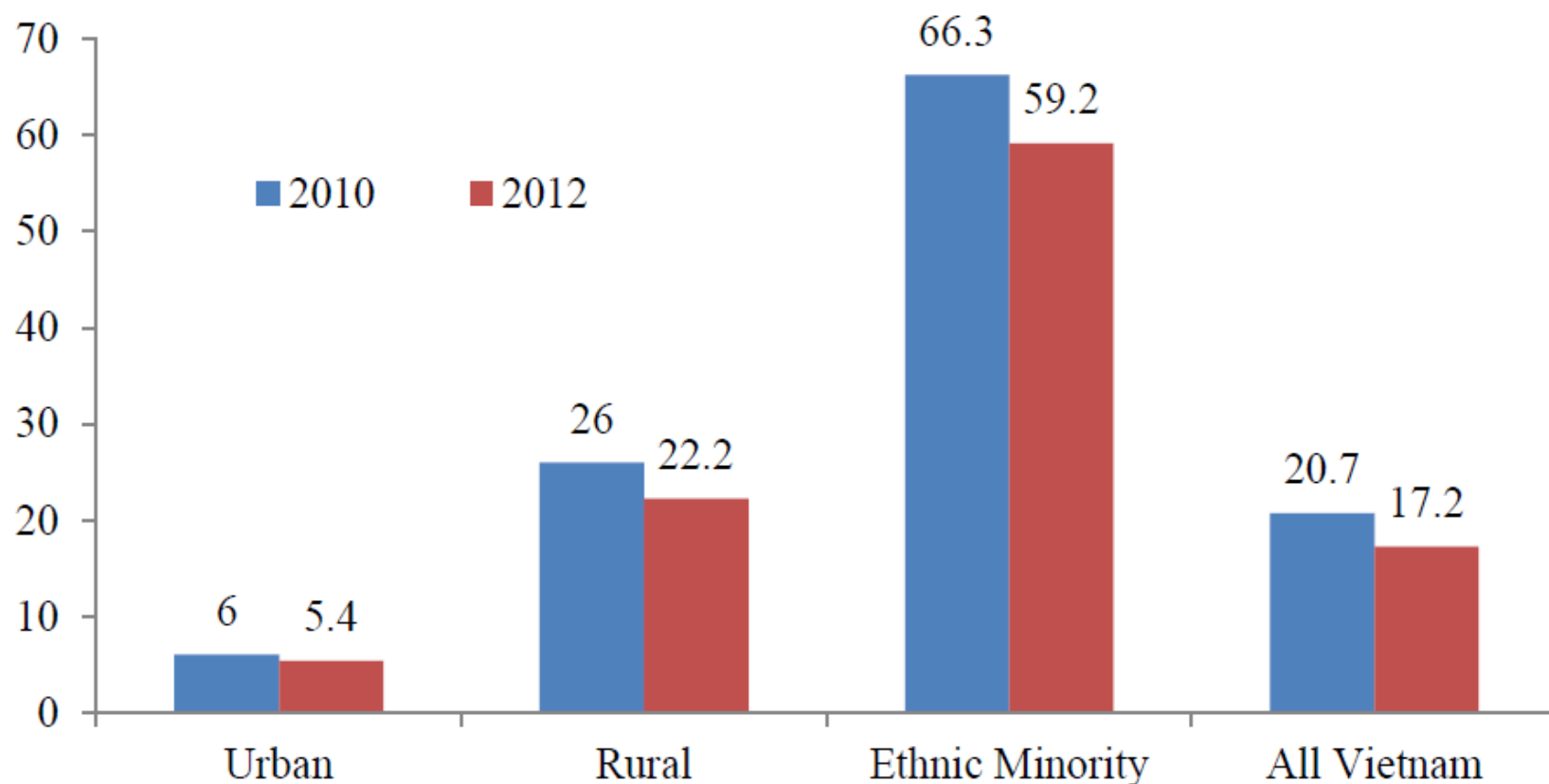
# Special topic 3: Poverty and Inequality

Figure 3.C.1: Preliminary Growth Incidence Curves, 2010-2012



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)



*Source: World Bank analysis of Vietnam Household Living Standards Survey data.  
Estimates for 2012 are preliminary*



**Thank you!**