

Vietnam: From Conflict to Prosperity

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Vietnam: dynamic long-term growth and poverty reduction

- **Impressive record in reducing poverty**
 - In response to the Doi Moi reform process started in 1986, Vietnam experienced one of the most remarkable periods of poverty reduction in modern history.
 - Dramatic reduction of poverty from 58% in 1992 to below 20% now based on rural productivity, urban SME growth, and export orientation
 - In last decade annual GDP growth averaged more than 7%, and GDP per capital almost tripled to close to \$1000 this year
- **Economic dynamism internally and externally**
 - Economically diverse, including large agricultural, tourism, services, and manufacturing sectors
 - Growing middle class, rapid population growth
 - WTO accession cemented economic opening
 - Has retained its attractiveness to foreign investors
 - Relatively low cost structure
- **Medium-term challenges**
 - Improve economic management
 - Strengthen market infrastructure
 - Deepen reforms in SOE sector and financial sector

Following two decades of growth, Vietnam is now facing macroeconomic challenges

- **Slowing Economic growth**
 - Vietnam's 2007 GDP, around \$ 70 billion, grew at 8.5% in 2007
 - 2008 growth expected at 6-6.5% and 2009 growth expected to be 6.2-6.5% (WB)
- **Inflation**
 - Inflation reached 27.9% in September, although trending lower
 - Vietnam overheating, mainly driven by credit growth in Joint Stock Banks (JSBs). Credit grew by 54% in 2007, over 100% among joint stock banks
 - Strong FDI has also contributed to excess Dong liquidity
 - Spending by SOEs was higher than expected, and a relatively fixed exchange rate increased liquidity.
- **Trade Deficit**
 - Current account deficit 12.6% of GDP
 - Trade deficit \$15.9 billion for first nine months, although also trending lower
- **Currency**
 - Current account deficit financed by strong inflow of remittances and FDI
 - International reserves provide some liquidity and currency support, but reserves to GDP are about 30% - some but not much cushion.
- **Equity markets declined over 60% this year**
 - Some of recent decline consistent with global trends

Government response

- **Initially reluctant to slow growth, the authorities shifted their policy stance toward stability in March**
 - Sharply curtailed credit growth by hiking the benchmark lending rate and putting caps on deposits and lending to 150% of the benchmark [current benchmark 12%]
 - State Bank of Vietnam increased reserve requirements several times
 - Allowed some depreciation of the Dong and widened the trading band [currently +/- 3%]
 - Some reforms to address directed credit and SOE-bank relationships
 - Limit credit growth to 30%, issued compulsory bonds to absorb liquidity
 - Directed SOEs and Ministries to reduce spending, cancel marginal projects and tightly supervise projects
 - Fuel subsidies were reduced.
- **Signs of measures working**
 - Slowing growth of trade deficit
 - Monthly increase in inflation in September only 0.18%, slowest increase YTD
 - Dong trading within the government managed band [some recent volatility though because of global financial crisis]
- **Declining fuel and food prices also helped reduce inflation**

Summary of key remaining risks

- **Possible continuation of inflation (wages, producer prices)**
- **Remittances and FDI vulnerable to pullback due global financial crisis**
- **Declining demand for exports (US, EU, Japan are key markets)**
- **Emerging concern on slowdown and falling commodity prices**
 - SBV recently reduced base rate twice (now 12%), lowered reserves requirement, increased interest on bank reserves, and refunded compulsory bonds
- **Underdeveloped banking sector, possible hidden risks**
 - Banks not exposed to US subprime but exposed to deflating domestic assets (equity and real estate markets)
 - Credit risk practices and transparency generally weak
 - NPL recognition and loan classification inadequate
 - Squeeze in profit margins because of lending caps, loan growth has stopped in some banks
- **Weak market infrastructure**
 - Weak shareholder protections (World Bank/IFC Doing Business 09: 170/181 countries)
 - Weak bankruptcy process (Doing Business 09: 124/181)
 - Limited credit bureau coverage (13% of adults)

Remarks by panel members

Dr. Le Dang Doanh (Snr. Economist, Inst. of Development Studies, Hanoi)

- **Vietnam has come a long way since the end of the war in 1975**
 - Country unified, economy being transformed from centrally planned to market orientation, integration into regional and global markets
 - Poverty has been reduced dramatically and Vietnam poised to graduate from low income status in 2008 (per capital GDP more than \$1000)
 - Vietnam should develop into 15 largest economies after the BRICS with relatively large and young population, high economic growth and political stability if reforms continue
- **Past successes no guarantee of future sustainable development**
 - Recent macro economic challenges – double digit inflation, high trade deficit, lower growth
 - Inflation has slowed but global financial turmoil will impact Vietnam through lower exports, reduced FDI and lower output from SMEs many of whom are facing difficulties
 - In 2009, targets for Vietnam are 6.5% GDP growth, inflation 15%, and export growth 13%
 - Growth driven by agriculture sector, high investments to GDP (40%), strongly emerging private sector and growing domestic market especially retail.
- **Vietnam still faces serious economic challenges**
 - Liquidity risk for small domestic joint stock banks, unclear debt level in large SOEs, security and real estate markets have to be stabilized
 - Infrastructure eg seaports, highways and power supply have to overcome constraints
 - Needs public sector reform, corruption fighting, upgrade of human capital
 - Also income disparity, rural employment environmental protection
 - Democratization and stronger participation of citizens also on agenda

Investments and assistance welcomed!

Remarks by panel members

Mr. Michael Mann (President, RMIT Int'l University, HCMC)

- **Fundamentals still the same despite latest macroeconomic disruptions**
 - Young demographics
 - Good leadership
 - Dynamic population
 - Well placed geographically
 - Still low percentage of economy in services
- **Better long term economic management needed**
 - No different from other emerging (and advanced!) economies
- **Great personal experience in dealing with the government/authorities**

Remarks by panel members

Mr. Wolf Rieck (Founding President, Vietnamese German Univ, HCMC)

- **Vietnam's current university policy integrated into national development strategy**
 - Social Economic Development Plan which aims for middle income country status by 2010
 - Objective of 'International Quality and Global Integration by 2020'
 - Doi Moi policy of opening up and modernization have now encompassed university sector
 - Government reforms cover structural policy measures, quality development and assurance, modernization of management and governance, and internationalization.
- **Vietnamese German University conforms to reform initiatives**
 - Established by government as first foreign model university (pioneering research university)
 - Unity in teaching and research
 - Academic freedom, freedom in learning and research
 - Comprehensive university autonomy, modern admin/governance – German model
- **Partnership-Cooperative Cross Linking**
 - Institutionalized cooperation with Hessen and other German universities
 - Cooperation with German industrial sector
 - Cooperation with local Vietnamese partners (Natl University of HCMC)
 - Formalized collaboration with other German educational institutions e.g. German Academic Exchange Service and World University Service
 - Cooperation at the political levels (Ministries and Institutions)
 - Student and scientific staff access to European and international network of German partners