

Economic reform and development in Vietnam: Outcomes in 2008 and prospects for 2009

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Outlines

- Vietnam's economic developments in 2008
 - Growth, trade, and investment
 - Macroeconomic stability
 - Labor and social issues
 - Improvement of business environment
- Vietnam's economic prospects for 2009



Vietnam's economic developments in 2008

- ***Growth, trade, and investment***
- Economic growth slowed down significantly, to just about 6.2%, notwithstanding the pace of 6.5% in the first 9 months
- Supply side: growth relied mainly on industry – construction (albeit with declining share). The share of agriculture - forestry – fishery in GDP went up. That of services sector remained stable.

	Unit	2006	2007	2008
GDP growth	%	8.2	8.5	6.2
Share in GDP (Current prices)	%	100.0	100.0	100.0
<i>Agriculture - Forestry - Fishery</i>	%	<i>20.4</i>	<i>20.3</i>	<i>22.0</i>
<i>Industry - Construction</i>	%	<i>41.6</i>	<i>41.6</i>	<i>39.9</i>
<i>- Manufacturing</i>	%	<i>21.3</i>	<i>21.4</i>	<i>21.2</i>
<i>Services</i>	%	<i>38.0</i>	<i>38.1</i>	<i>38.1</i>



Vietnam's economic developments in 2008

- ***Growth, trade, and investment (cont.)***
- Export grows faster, by 29.5% in 2008 (2007: 21.9%), due to increases in international prices; export products are diversified, with positive changes in export structure (more manufactured/processed products, less raw products)
- But export worsens since 4th quarter of 2008
- Import continues to rise, albeit at a slower pace (2008: 28.3%; 2007: 35.5%). Imports of materials, intermediate products and machinery: mainly from China, South Korea, Taiwan, Singapore, Thailand. Largest suppliers of VN's imports: ASEAN and China (2007: 48%; 2005: 30%)



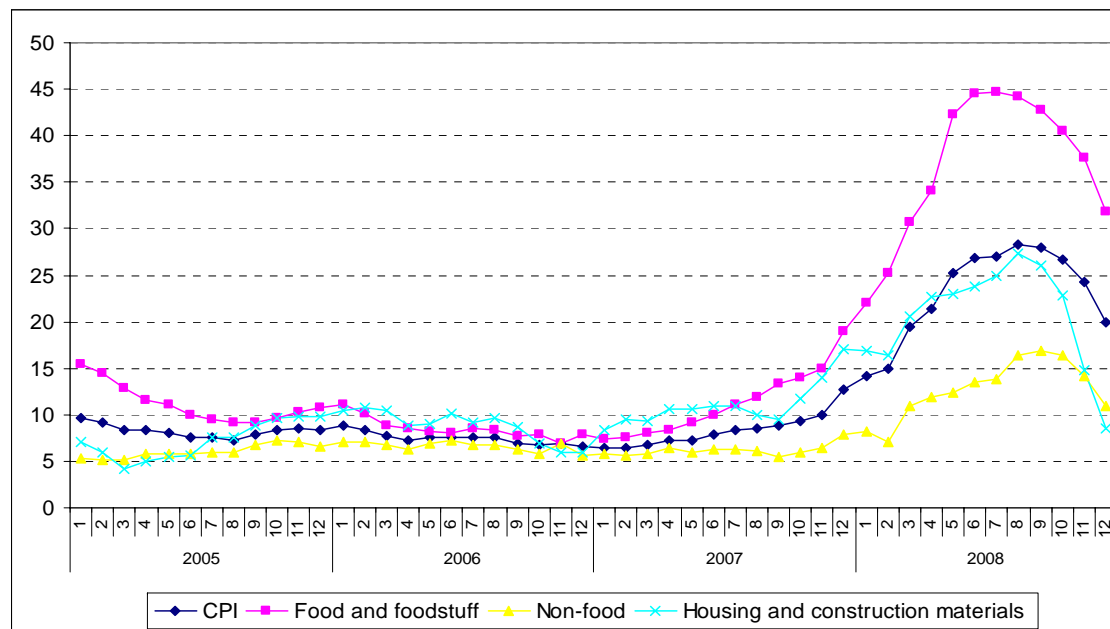
Vietnam's economic developments in 2008

- ***Growth, trade, and investment (cont.)***
- Investment/GDP falls to 41.7%.
- Public investment: large (and declining) share of investment (2008: 41.3%; 2005: 46.8%)
- Huge surge in FDI inflows (USD 64 billion of registered capital; USD 11.5 billion of implemented capital; USD 8 billion of disbursed capital (via BOP)) → rapid increase in FDI share in investment



Vietnam's economic developments in 2008

- **Macroeconomic stability**
- CPI inflation: very high in first 8 months (in 8/2008, yoy inflation: 28.3%, or 16.5% after eliminating prices of food-foodstuffs).
- Since 9/2008, month-to-month CPI inflation dropped to negative levels → CPI inflation of 2008: 19.9%.





Vietnam's economic developments in 2008

- ***Macroeconomic stability (cont.)***
- Reasons for CPI movements:
 - Expansionary macroeconomic policy in many years (credit expansion)
 - Rising international prices
 - Wealth effect of rising asset prices
 - Perplexion in dealing with huge surge in foreign capital inflows
 - Slower CPI inflation in late 2008 due to tightening macro policy and “good luck” (lower international prices of rice and energy)



Vietnam's economic developments in 2008

- ***Macroeconomic stability (cont.)***
- Current acc. in massive deficit (2008: USD 12.3 billion, 13.6% GDP), largely due to merchandise trade deficit (USD 14.4 billion, 15.9%).
- Capital acc. rose rapidly, due to high disbursement of FDI, ODA, indirect investment → BOP in surplus, but not sustainable
- Budget revenue increased, despite tariff cuts (due to higher tax base). Yet uncertainty remains, due to high reliance on revenues from trade and crude oil
- Budget deficit decreased to 4.95% in 2008, but will be under lots of pressures (due to possible fall in revenues, and demand-stimulus policy package).



Vietnam's economic developments in 2008

- ***Labor and social issues***

- Total labor force: 48.3 million in 2008 (rise by 2.3%). By gender: 50.7% male. By area: 26.3% in urban areas. By economic activity: agriculture-forestry-fishery: 52.5%, industry-construction: 20.8%, services: 26.7%.
- Unemployment in urban areas: not improved (4.65%), and tends to worsen among young people (9.3%).
- Real income of wage earners was undermined in 2008, due to high inflation
- Poverty rate falls (2008: 13.1%; 2007: 14.7% 2006: 15.5%); yet issues to consider include: impacts of increasing food prices, use of poverty line in 2005.



Vietnam's economic developments in 2008

- ***Major changes in business environment in 2007-08***
- Enterprise Law and Investment Law in 2005
- Business environment improved: number of firms and registered capital rose rapidly; FDI and domestic private investment kept rising; greater role of FDI and domestic private sector (in investment structure, industrial output, GDP, budget revenues)
- Issues:
 - Small scale of firms
 - Concentration of firms in Red River Delta and South East
 - Lack of good programming and/or their effective implementation
 - Weak absorptive capacity of capital/weak competitiveness



Vietnam's economic developments in 2008

- ***Major changes in business environment in 2007-08 (cont.)***
- Remaining issues with Enterprise Law and Investment Law:
 - overlaps, differences and incompatibilities in some contents of related laws
 - administrative procedures for construction investment still complicated, burdensome, and costly
 - some international commitments fail to achieve universal understandings and can not be implemented due to lack of instructing documents.
- Hope for continuing improvement of business environment, following Resolution on Further improvement of socialist-oriented market institutions in January 2008.



Vietnam's economic prospects in 2009

- Global economic context in 2009
 - Economic recession continues
 - Rising unemployment
 - Risks in financial system
 - Uncertainty in macroeconomic environment
 - In East Asia: cooperation is weak, whilst many countries face domestic issues
- Vietnam's economic growth projected to fall sharply, to between 5-5.5% → associated problems: loss of jobs in industrial zones; safety nets for vulnerable groups
- Inflation projected to decrease; yet forecasts of different agencies are highly differential



Vietnam's economic prospects in 2009

- Current account deficit projected to narrow, as imports contracting faster than exports
- Budget deficit tends to widen
- Movements of USD/VND exchange rate will be complicated
- Focal points of policies in 2009:
 - promoting growth, especially one that is attached with job creation
 - policies should be implemented and coordinated effectively, so as to strengthen macroeconomic stability
 - support vulnerable social groups, or minority groups which are disadvantaged in macroeconomic stabilization process
 - pursue further reforms



THANK YOU