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East Asia & Pacific

Recent Economic Developments and Prospects

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A sharp global slowdown is underway

Vietnam's main trade partners - US, Euro Area, and China- are affected

Real GDP Growth

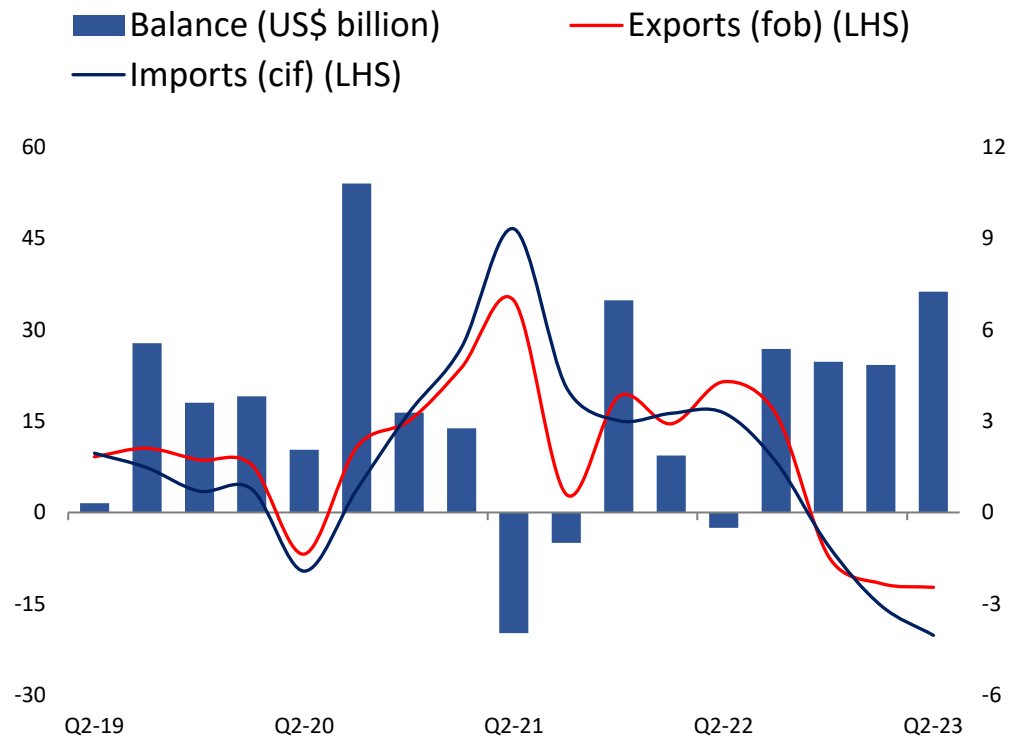
Percent

	2022	2023f	2024f
World	3.1	2.1	2.4
Advanced	2.6	0.7	1.2
United States	2.5	1.1	0.8
Euro Area	2.5	0.4	1.3
EMDEs	3.7	4.0	3.9
China	4.3	5.6	4.6
Philippines	5.7	6.0	5.9
Indonesia	5.1	4.9	4.9
Malaysia	5.5	4.3	4.2
Thailand	2.9	3.9	3.6

GEP, June 2023

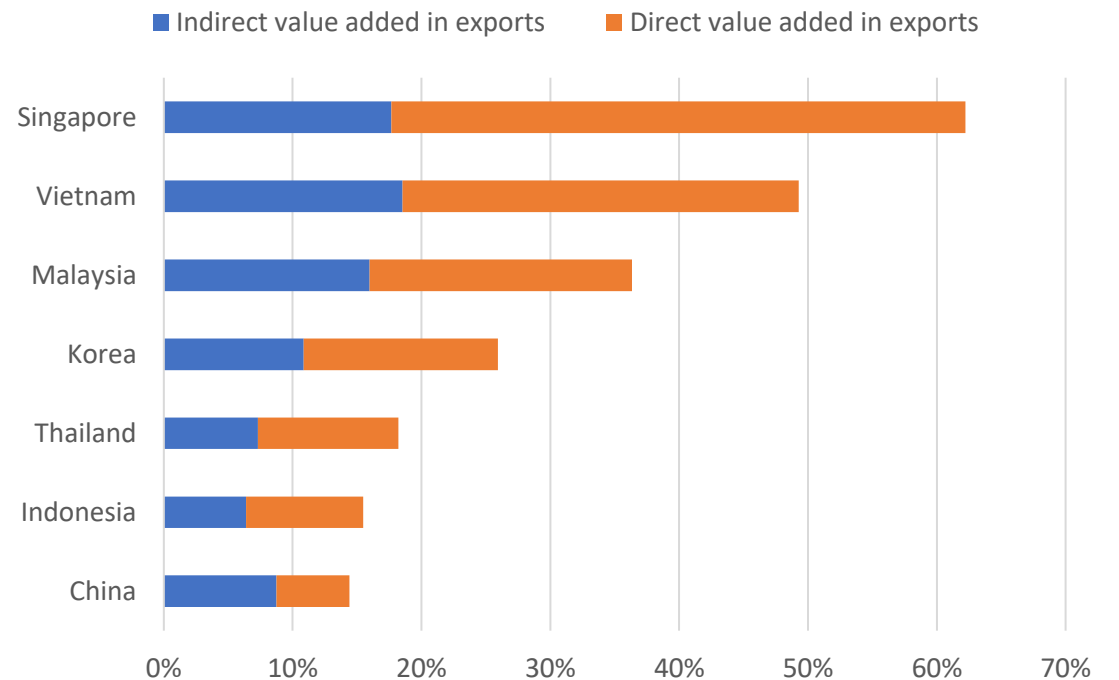
Lower external demand is weighing on Vietnam's economy

Headwinds are affecting manufacturing exports to US, EU and China



Source: GSO, Haver Analytics and World Bank staff calculations

Export-related activity accounts for close to half of the value added in Vietnam, exposing the economy to the global slowdown

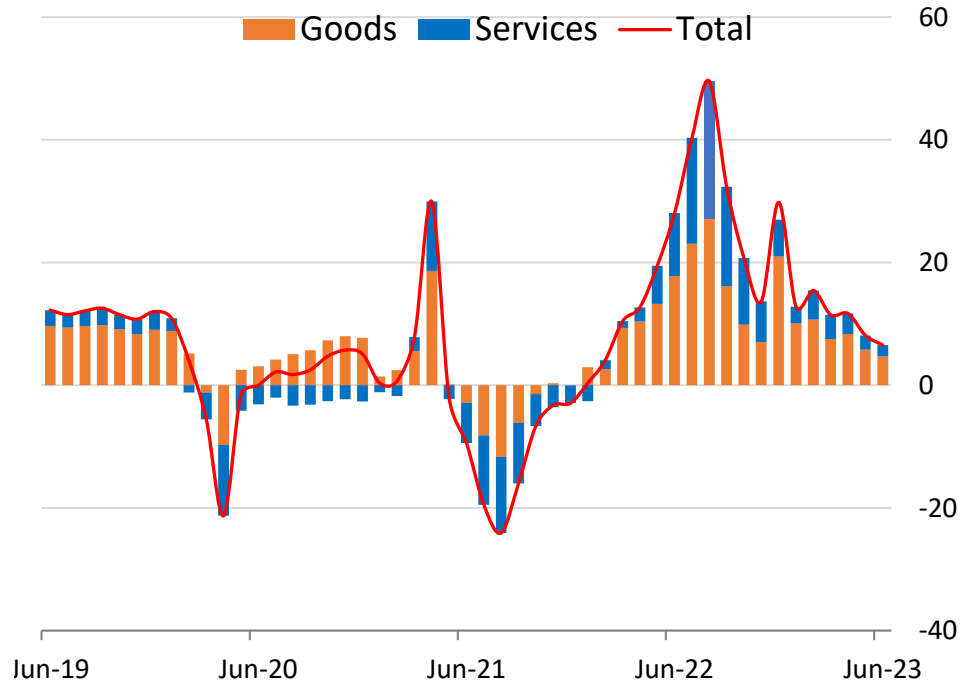


Source: Trade in Value added (TiVA) database and World Bank staff calculations

Fading post-COVID base effects and rising uncertainty are also weighing on domestic demand

Growth in retail sales has recently fallen below pre-covid period

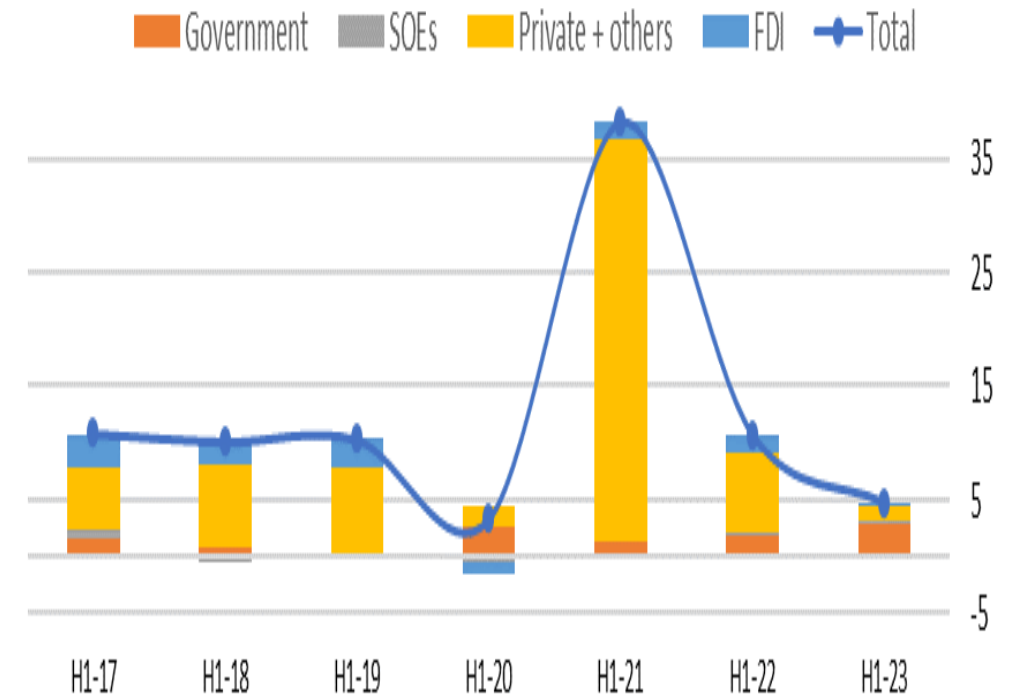
Contribution to Retail Sales Growth by Sector, Percentage (y/y, NSA)



Source: GSO, Haver Analytics, and World Bank staff calculations

Private sector investment has fallen sharply

Contributions of different components to growth of total nominal investment, percentage points (y/y, NSA)



Source: GSO and World Bank staff calculations

The slump in external demand and weaker domestic demand led to a sharp slowdown in growth in H1-2023

Drivers of slowdown on the demand side:

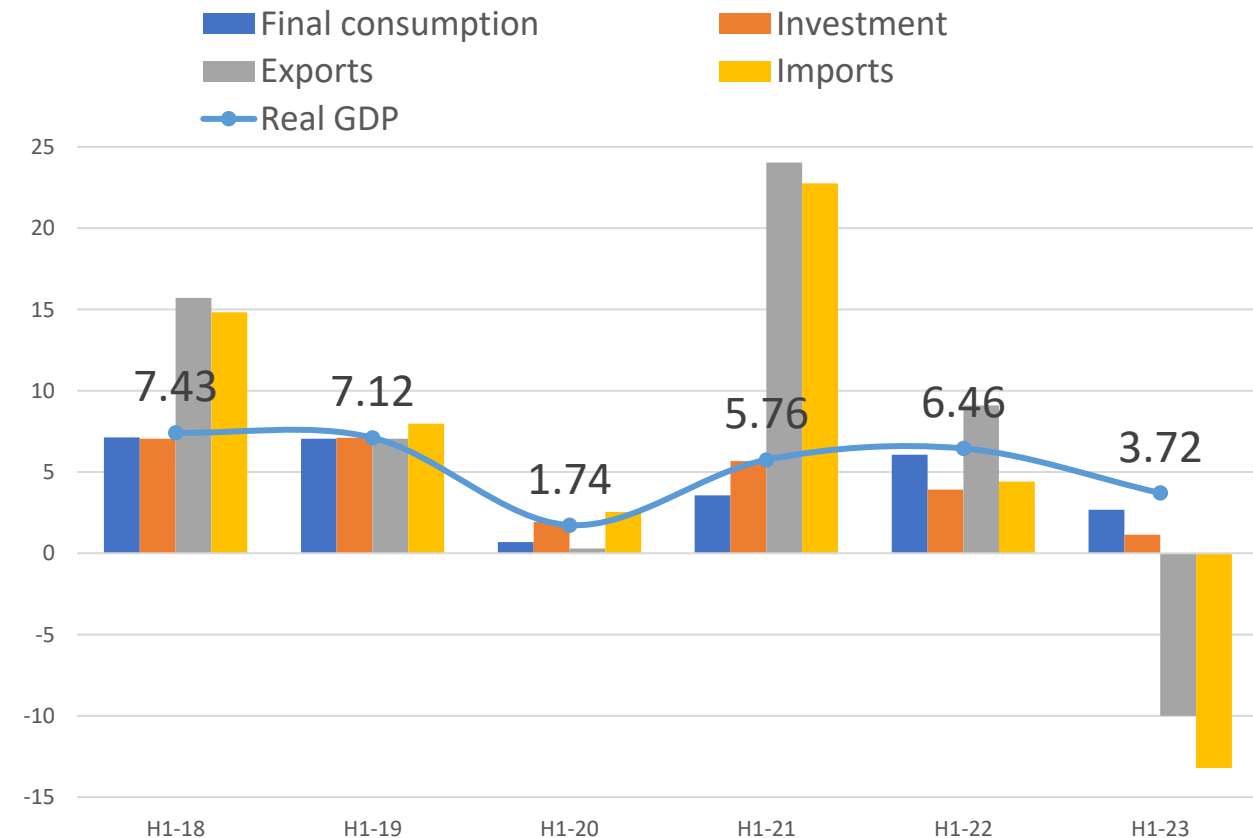
- **Trade:** contracted due to weak external demand
 - Exports contracted by 12% (y/y) in -2023
 - Imports have fallen more sharply - by 17.9% (y/y) in H1-2023
- **Domestic demand:** moderated after last's year strong post-COVID rebound
 - **Private domestic consumption moderated**
 - Fading base effects
 - Weakening consumer confidence / uncertainty
 - **Investment weighed down by uncertainty**
 - Steady FDI disbursement
 - Weaker private investment –reflected in low credit demand
 - Improved public investment compared to H1-2022

CPI inflation: declined quickly, while Core remained relatively high

- CPI 2 % in June 2023, due to falling global energy prices, weaker domestic demand
- Core inflation still at 4.3 % in June 2023

Real GDP growth by expenditure components

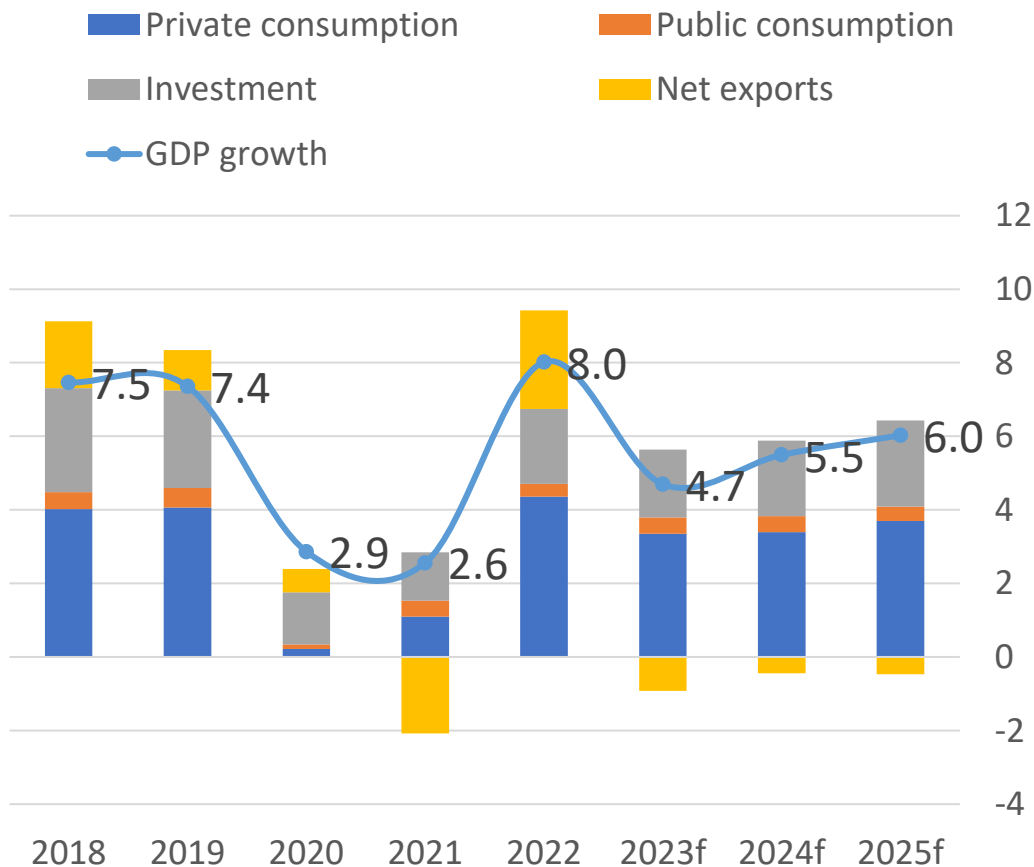
Percent (y/y, NSA)



Growth to remain subdued for 2023 and to recover gradually in 2024 and 2025 , subject to downside risks

Contributions to growth on the demand side

Percentage points



Drivers of growth on the demand side:

External demand:

- In H2-2023 weaker than previously expected
- Global growth expected to pick up moderately from Q1-2024 (GEP – June 2023)

Domestic demand:

- While lower, domestic consumption will remain the driver of growth
 - VAT cut (by 2%) in H2-2023 –could help marginally
 - Public sector salary and pension increase (H2-2023) will help
- A weak private investment
- Steady FDI disbursement
- Higher public investment

CPI inflation: average 3.5 %

- Lower global energy prices, weakening domestic demand
- Marginal effects of electricity price increase (+3%), public sector salary increase

Debt is sustainable and Vietnam has ample fiscal space to use fiscal policy to support aggregate demand

	2022e	2023f	2024f	2025f
GDP growth (%)	8.0	4.7	5.5	6.0
Consumer Price Index (average, %)	3.1	3.5	3.0	3.0
Current account balance (% of GDP)	-0.3	0.2	0.5	1.0
Fiscal balance (% of GDP)	-0.3	-0.7	-0.3	-0.2
Public debt (% of GDP)	35.7	36.0	35.2	34.4

Risks:

- Weaker than expected global demand
- Further tightening of global financial conditions / Increased divergence between Vietnam's and developed countries' monetary policy stance
- Global climate change
- Further deterioration of financial sector's asset quality resulting from weak performance of the economy
- Power shortage ?

The economic slowdown necessitates effective policy actions in the short-run

Risks	Policies
<p>Weaker than expected recovery of main trade partners</p> <ul style="list-style-type: none"> ➤ Slow recovery of export 	<p>Fiscal policy: Act now - fiscal space is available but the challenge is implementation</p> <ul style="list-style-type: none"> ➤ Improve implementation of capital investments to support economic growth and provide liquidity to the economy. <ul style="list-style-type: none"> ➤ Set targets and focus on national investment programs (national expressways, power transmission, NTPs) ➤ Allow flexibility in budget allocation, including for the Economic Recovery Program ➤ Allow some flexibility on certain advance procurement activities before budget allocation ➤ Enforce accountability at different levels of government ➤ Consider extension of the Economic Recovery Program – with improved targeting of the social assistance program to reach workers and families affected by slowing economy
<p>Further tightening of global financial conditions or Increased divergence between Vietnam’s and developed countries’ monetary policy stance</p> <ul style="list-style-type: none"> ➤ could create capital outflows and exchange rate pressures 	<p>Monetary policy: Coordination with fiscal policy Monetary space is constrained, transmission channel is weak</p> <ul style="list-style-type: none"> ➤ Further interest rate cuts may not be effective in the short run (due to ineffective transmission mechanism, and lack of demand) ➤ More exchange rate flexibility within the existing band to better address potential volatility in the FX market /avoid depleting FX reserves

The slowdown in growth necessitates structural reforms for strong recovery in the medium-long run

Risks	Policies
<p>Further deterioration of financial sector's asset quality</p> <p>Rising non-performing loans</p>	<p>Financial sector policy:</p> <ul style="list-style-type: none"> ➤ Build bank capital adequacy ratios ➤ Strengthen institutional frameworks for prudential supervision, early intervention, bank resolution, and crisis management ➤ Strengthen bank resolution framework ➤ Amendments to the LAW ON CREDIT INSTITUTIONS and LAW ON STATE BANK would be important to address structural weaknesses
<p>Repeated power shortage</p> <p>Effects of global climate change</p>	<p>Structural reforms for a sustainable recovery :</p> <ul style="list-style-type: none"> ➤ Investment in energy transmission ➤ Building resilience to global climate change: <ul style="list-style-type: none"> ➤ Taking adaptation and mitigation into account in investment ➤ Greening production through carbon taxation and other fiscal instruments

TAKING STOCK
AUGUST 2023



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Thank you!

