

# VIETNAM

## Key conditions and challenges

Table 1	2020
Population, million	97.3
GDP, current US\$ billion	271.2
GDP per capita, current US\$	2787.3
International poverty rate (\$ 19) <sup>a</sup>	1.8
Lower middle-income poverty rate (\$3.2) <sup>a</sup>	6.6
Upper middle-income poverty rate (\$5.5) <sup>a</sup>	22.4
Gini index <sup>a</sup>	35.7
School enrollment, primary (% gross) <sup>b</sup>	115.4
Life expectancy at birth, years <sup>b</sup>	75.4
Total GHG Emissions (mtCO2e)	414.1

Source: WDI, Macro Poverty Outlook, and official data.  
 (a) Most recent value (2018), 2011 PPPs.  
 (b) Most recent WDI value (2019).

While resilient, the Vietnamese economy is confronting a serious domestic outbreak since late April 2021. The restrictive measures taken to quell it have derailed a strong economic recovery that was underway in the first half of 2021. Poverty outcomes in 2021 will depend on the ultimate duration and severity of lockdowns. If the outbreak is brought under control in Q3 2021 and lockdowns ease in Q4, GDP is expected to reach 4.8 percent, but the economy faces heightened risks.

While the authorities have accelerated and expanded the vaccination efforts, the rise of new variants could further disrupt the economy. Vaccination rates are uneven across the country, as supply is prioritized to currently high-risk regions. If the April 2021 outbreak is not brought under control soon, continued mobility restrictions will lead to lower than expected GDP growth and further affect poverty and inequality.

The economy faces heightened domestic risks. Supporting the day-to-day needs of households in dense urban areas will be a growing challenge if lockdowns extend or widen. In the Southeast region (including Ho Chi Minh City), 16.3 percent of households live in cramped quarters less than 8m2 per capita. Educational continuity will also vary, as primarily schools in the largest urban areas have the capabilities to offer online learning. Migrants, women who bear larger care responsibilities, informal sector workers, and the poor are vulnerable groups least able to cope. The first social support package launched in July 2020 had limited reach. Inequality is expected to rise. Also, the financial sector is expected to face rising risks from nonperforming loans, and the monetary authorities will need to remain vigilant, especially in banks that were already undercapitalized before the pandemic. While fiscal risks

are subdued for now and debt is sustainable, continued vigilance is needed, including about potential contingent liabilities of state-owned enterprises.

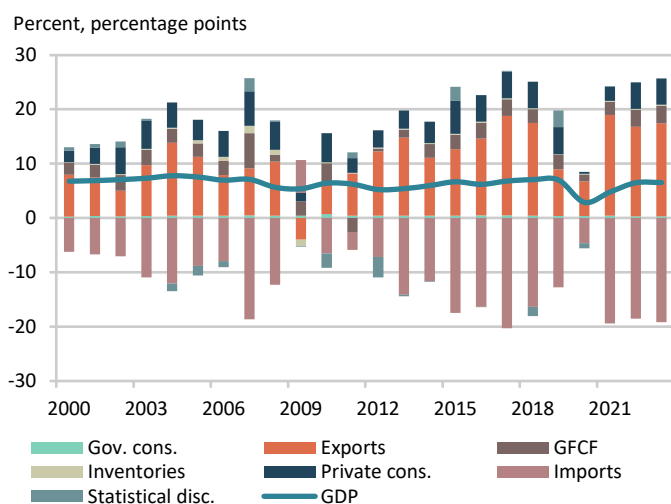
The economy also faces potential external risks. While Vietnam's main export markets – US, China, EU – appear to be on the recovery track, this recovery is subject to the uncertainties associated with emergence of new COVID-19 variants and the uneven global pace of vaccination. Additionally, Vietnamese exports are increasingly facing competition from other countries that are experiencing a stronger rebound in their production activities.

## Recent developments

Vietnam faces its most serious domestic COVID-19 outbreak since the beginning of the pandemic. An April 2021 outbreak has spread to most of the provinces and is yet to be controlled. As of mid-September, over 600,000 infections and over 15,000 deaths were recorded, while about 5 percent of the population was fully vaccinated.

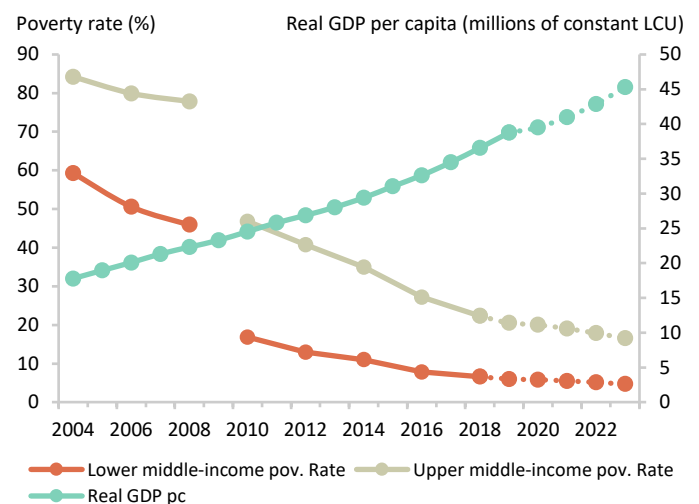
After relatively robust growth in the first semester, progressively more restrictive measures derailed the recovery. The Vietnamese economy expanded by 5.6 percent during the first semester of 2021, with the industrial sector reaching pre-pandemic levels (8 percent (year-over-year [y/y])), and services growth reaching about half of pre-pandemic levels. Vietnam maintained a positive external position, with international

**FIGURE 1 Vietnam / Real GDP growth and contributions to real GDP growth**



Source: World Bank.

**FIGURE 2 Vietnam / Actual and projected poverty rates and real GDP per capita**



Source: World Bank. Notes: The 2004-09 and 2010+ poverty series are not compatible. Poverty measurement methodology changes significantly in 2010.

reserves topping US\$100 billion, but both merchandise trade and current account balances deteriorated during the first semester. More restrictive social distancing measures and low vaccination have affected economic activities. In August, retail sales fell by 33.7 percent (y/y), while the Industrial production index fell by 7.4% (y/y).

The April outbreak will deeply affect the daily life of workers, businesses, and households, despite policy measures to mitigate impacts. Even before this outbreak and under relatively normal conditions, 30 percent of households reported less income in March 2021 than in March 2020. The extended lockdowns and closures of businesses will worsen household conditions, especially for informal workers. 81 percent of all households (21 million households in 2018) had at least one household member working informally. Only 27 percent of the workforce had social insurance coverage in 2019. The government announced a modest second national level relief package of 26 trillion VND (\$1.1 billion) in July 2021 to provide cash support to affected workers, however its impact will rely on local implementation.

## Outlook

The GDP could expand by around 4.8 percent in 2021 and converge toward the pre-pandemic GDP growth rate of 6.5 to 7 percent from 2022 onward. This estimation assumes that restrictive mobility measures will succeed in controlling infections by end Q3, allowing the economy to rebound in Q4 2021. A sustained global recovery will ensure strong demand for Vietnamese products in its main export markets (US, EU, and China). The rebound will also be supported by the vaccination of at least 70 percent of the adult population by mid-2022, preventing severe new outbreaks. This projection is subject to downside risks, including a more protracted outbreak, causing prolonged disruptions to economic activity. Monetary, fiscal and social policies: During the remainder of 2021, monetary policy is expected to remain accommodative through the implementation of various monetary policy instruments and forbearance on business loans. Fiscal policy will become more supportive with faster execution of public investment, especially

once mobility restrictions are rolled back. Aside from the second social protection support package, the government is considering a tax relief package to support businesses. Given available fiscal space, the government should deploy further resources to mitigate adverse social impacts and to hedge against downside risks to growth, especially if these risks intensify. Going forward the authorities should pursue their green and digital growth agenda to enhance the resilience and sustainability of the economy.

With the number of new cases remaining high and triggering lockdowns, labor income will continue to remain depressed. The government should increase the envelope and improve the implementation of its cash relief programs to reach more households, informal workers, and those unregistered in existing social assistance registries who have been affected. The 2nd national support package to households accepts more categories of affected workers, and the amount of cash support to individuals is also higher. However, the frequency of cash support is currently limited to a one-time transfer rather than for multiple months as in the first support package in April 2020.

**TABLE 2 Vietnam / Macro poverty outlook indicators**

(annual percent change unless indicated otherwise)

	2018	2019	2020	2021 e	2022 f	2023 f
<b>Real GDP growth, at constant market prices</b>	7.1	7.0	2.9	4.8	6.5	6.5
Private Consumption	7.3	7.4	0.5	4.0	7.4	7.3
Government Consumption	6.3	5.8	6.2	6.9	5.0	4.9
Gross Fixed Capital Investment	8.2	8.7	4.1	7.6	9.6	9.5
Exports, Goods and Services	14.3	6.7	5.0	14.3	11.6	11.5
Imports, Goods and Services	12.8	9.5	3.4	14.1	12.3	12.1
<b>Real GDP growth, at constant factor prices</b>	7.2	7.1	3.1	4.8	6.5	6.5
Agriculture	3.8	2.0	2.7	3.4	2.0	2.0
Industry	8.9	8.9	4.0	7.6	8.5	8.4
Services	7.0	7.3	2.3	2.7	6.0	6.2
<b>Inflation (Consumer Price Index)</b>	3.5	2.8	3.2	3.2	3.6	4.0
<b>Current Account Balance (% of GDP)</b>	2.4	5.0	4.6	1.5	1.0	1.0
<b>Net Foreign Direct Investment (% of GDP)</b>	6.1	6.0	5.7	5.7	5.8	5.7
<b>Fiscal Balance (% of GDP)</b>	-1.3	-0.5	-4.9	-6.0	-5.9	-5.4
<b>Debt (% of GDP)</b>	55.0	55.0	55.3	58.3	59.0	58.8
<b>Primary Balance (% of GDP)</b>	0.6	1.3	-3.2	-4.3	-4.2	-3.7
<b>Lower middle-income poverty rate (\$3.2 in 2011 PPP)<sup>a,b</sup></b>	6.6	6.0	5.9	5.5	5.1	4.7
<b>Upper middle-income poverty rate (\$5.5 in 2011 PPP)<sup>a,b</sup></b>	22.4	20.6	20.1	19.1	17.9	16.6
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	11.0	7.9	5.3	6.8	7.9	7.9
<b>Energy related GHG emissions (% of total)</b>	62.9	64.1	65.3	66.6	68.1	69.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.  
Notes: e = estimate. f = forecast.

(a) Calculations based on EAPPOV harmonization, using 2014-VHLSS and 2018-VHLSS. Actual data: 2018. Nowcast: 2019-2020. Forecast are from 2021 to 2023.

(b) Projection using annualized elasticity (2014-2018) with pass-through = 0.7 based on GDP per capita in constant LCU.