Vietnam’s economy is expected to grow by 5.3 percent in 2022, given the policy of living with COVID, strong performance by export-oriented manufacturing and domestic demand recovery. Poverty is expected to decline in 2022, but at a slower pace than pre-COVID. Over 78 percent of the population is fully vaccinated, but the economy still faces serious downside risks from possible new variants, the global ripple effects of the Russian invasion of Ukraine, rising commodity prices and economic slowdown in its major export markets.

Key conditions and challenges

The economy is recovering from extensive Q3-2021 lockdowns associated with the April 2021 COVID-19 outbreak. The vaccination of over 78 percent of population facilitated adoption of a “Living with COVID-19” strategy and the opening of the economy in Q4-2021. However, Vietnam is experiencing a surge in infections related to the OMICRON variant in Q1-2022 and will be affected by global effects of the war in Ukraine.

In the medium term, Vietnam’s vision to become an upper-middle income economy will depend on its ability to evolve from its current growth model to a productivity and innovation led growth model. The government’s institutional capacity to shepherd major structural reforms will be a key lever in this transition, which will need to focus on building a digitally transformed, greener and more resilient economy.

In 2021, inequality in both monetary and non-monetary dimensions is expected to increase, compounding the increase in inequality that occurred because of the COVID-19 crisis in 2020. Households in the bottom 20% of the population experienced the slowest income recovery into Q1-2021 even before the Q3-2021 lockdowns. Poor households were less able to cope with the impact from income shocks and were more reliant on external sources such as borrowing. The labor market outcomes for women and informal workers were more adversely impacted than men’s.

Recent developments

Vietnam’s economy grew by 2.6 percent in 2021, well below its pre-pandemic trend of 7.0 percent. After a strong expansion in the first semester, the April 2021 COVID outbreak led to extensive lockdowns in major economic centers and a 6.2 percent (y/y) contraction of GDP in Q3. As restrictions were being lifted, the economy bounced back strongly, growing by 5.2 percent (y/y) in Q4. Industrial production rebounded quickly once Q3-2021 restrictions were removed, growing by 4.0 percent thanks to strong external demand. Because of their sensitivity to social distancing measures, services were hit hardest, growing by only 1.2 percent, much lower than its pre-pandemic growth rates.

The April 2021 COVID-19 outbreak and ensuing measures to contain it had significant negative impacts on the labor market in Q3-2021. About 60 percent of the labor force reported experiencing negative labor market impacts, which ranged from loss of jobs to reduced hours, temporary business closures, and reduced pay. By Q4-2021, major indicators showed signs of recovery as economic activities resumed in major hub, but not yet to their pre-outbreak levels. Poverty reduction is estimated to have stagnated in 2021 under assumptions that the population experienced these impacts uniformly across the distribution, or there...
was no increase in inequality (Figure 2). However, it is likely crisis impacted more those at the bottom of the distribution. Widening inequality of even two percent would lead to a rise in poverty.

While monetary policy was relatively accommodative, the impact of the COVID shock in 2020 and 2021 was compounded by lack of an effective countercyclical fiscal policy. The State Bank of Vietnam kept refinancing rate at 4.0 percent (below pre-pandemic rate), encouraged banks to waive or reduce interest payment, and provided guidance on forbearance, ensuring ample liquidity in the market. On the other hand, the government’s fiscal response was modest and piecemeal, despite availability of ample fiscal space. The support packages, which totaled about 2.0 percent of GDP in 2021, were largely composed of tax and land rent deferrals but included limited social assistance. Public investment, which was successfully ramped up to support economy recovery in 2020 also experienced slower execution in 2021.

**Outlook**

Vietnam’s GDP is expected to grow by 5.3 percent growth in 2022 and thereafter to stabilize at around 6.5 percent in a scenario with eased mobility restrictions domestically and internationally. The services sector is expected to gradually recover during the year as consumer confidence is restored and foreign tourism is expected to gradually resume from mid-2022 onward. Manufacturing exports is expected to grow at a slower pace mirroring moderating growth in Vietnam’s main export markets (the United States, European Union, and China). However, the outlook is subject to heightened risks to the downside. Slowing growth in major trading partners and terms-of-trade shock due to the Russian invasion of Ukraine and associated sanctions may affect recovery. This could be compounded by new COVID-19 variants. Economic recovery will also hinge on the recovery of the domestic private demand, which has been slow, highlighting consumers and investors uncertainty. The current surge in infections may lead to temporary labor supply and production disruptions. Since a strong economic rebound was underway at the start of the year, if the government deploys a strong fiscal policy support, the impact on economic growth could be mitigated. Monetary policy will need to remain accommodative, with continued vigilance to contain financial sector risks. Additional shocks could lead to a low case scenario where GDP grows 4 percent in 2022, recovering to 6 percent and 6.5 percent in 2023 and 2024, respectively.

Poverty reduction is expected to resume in 2022 assuming GDP growth recovery to pre-COVID rates, but the impact of the crisis may have longer term effects on rising inequality. Higher inequality can have economic and human capital consequences for the country. Sold assets cannot produce future income while the uneven quality and continuity of education during COVID-19 crisis has consequences for human capital formation and lifetime earning potentials.

<table>
<thead>
<tr>
<th>TABLE 2 Vietnam / Macro poverty outlook indicators</th>
<th>(annual percent change unless indicated otherwise)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Real GDP growth, at constant market prices</strong></td>
<td>2019</td>
</tr>
<tr>
<td>Private Consumption</td>
<td>7.2</td>
</tr>
<tr>
<td>Government Consumption</td>
<td>7.4</td>
</tr>
<tr>
<td>Gross Fixed Capital Investment</td>
<td>5.8</td>
</tr>
<tr>
<td>Exports, Goods and Services</td>
<td>8.3</td>
</tr>
<tr>
<td>Imports, Goods and Services</td>
<td>6.7</td>
</tr>
<tr>
<td>Real GDP growth, at constant factor prices</td>
<td>9.5</td>
</tr>
<tr>
<td>Agriculture</td>
<td>2.0</td>
</tr>
<tr>
<td>Industry</td>
<td>9.6</td>
</tr>
<tr>
<td>Services</td>
<td>7.5</td>
</tr>
<tr>
<td>Inflation (Consumer Price Index)</td>
<td>2.8</td>
</tr>
<tr>
<td>Current Account Balance (% of GDP)</td>
<td>3.7</td>
</tr>
<tr>
<td>Net Foreign Direct Investment (% of GDP)</td>
<td>4.7</td>
</tr>
<tr>
<td>Fiscal Balance (% of GDP)</td>
<td>-0.4</td>
</tr>
<tr>
<td>Debt (% of GDP)</td>
<td>43.6</td>
</tr>
<tr>
<td>Primary Balance (% of GDP)</td>
<td>1.0</td>
</tr>
<tr>
<td>International poverty rate ($1.9 in 2011 PPP)(^a)</td>
<td>1.7</td>
</tr>
<tr>
<td>Lower middle-income poverty rate ($3.2 in 2011 PPP)(^a)</td>
<td>6.0</td>
</tr>
<tr>
<td>Upper middle-income poverty rate ($5.5 in 2011 PPP)(^a)</td>
<td>20.6</td>
</tr>
<tr>
<td>GHG emissions growth (mtCO2e)</td>
<td>9.6</td>
</tr>
<tr>
<td>Energy related GHG emissions (% of total)</td>
<td>64.9</td>
</tr>
</tbody>
</table>

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

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