DIGITAL VIETNAM: THE PATH TO TOMORROW

TAKING STOCK REPORT
August 2021
The World Bank in Vietnam
Recent Economic Developments and Prospects

Part 1
A resilient Vietnamese economy with strong performance in H1-2021

• Vietnam’s GDP was closing in on pre-pandemic growth rates in H1-2021, with the industrial sector as major contributor to growth.
• Major drivers were private consumption and investment.

Sources: GSO and World Bank staff calculations.
But the economy now faces a COVID-19 outbreak that started in April 2021 and is still not under control.

To control the community COVID-19 spread, authorities took swift action, mobility fell as much as in April 2020, when the country was in a two-week national lockdown.

Sources: Our World in Data and Google Community Mobility data.
Note: Mobility indicators are the percentage change compared to the baseline during January 3–February 6, 2020, expressed in a seven-day moving average.
Economic activity has been affected...

Purchasing Manager’s Index has dipped below 50 again...

Retail sales fell by 19.8% (y/y) in July 2021

Sources: IHS Markit/Haver Analytics.
Note: 50+ = Expansion

Sources: GSO and WB staff estimates
Note: Unemployment and underemployment rates are relative to the same quarter in 2019 (pps)
And in turn, this slowdown is affecting employment and most likely households and the informal sector.

Unemployment and underemployment rose.

Sources: GSO and WB staff estimates

Note: Unemployment and underemployment rates are relative to the same quarter in 2019 (pps)
The external trade position also deteriorated in Q2-2021

The merchandise trade balance turned into deficit.

During H1-2021: Imports growth (33.3% y/y) outpaced exports growth (29.0% y/y)

Exports levels stagnated in H1-2021 after a boom in H2-2020.

Export growth decelerated from 20.4% (y/y) in June to only 12.5%(y/y) in July.

Computers and electronics dropped by 13.9% (y/y) in July.

Sources: GSO, Haver Analytics, and World Bank staff estimates. 
Unit: US$ billion (three-month moving average, NSA)
Prospects for 2021-23
2.0 percentage point lower than our prediction in the December 2020 Taking Stock report.

Risks remain on the downside.

Because of COVID-19 effects on domestic economic activity and the deteriorating external position.

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Prospects for 2021

**GDP growth at around 4.8%***

2.0 percentage point lower than our prediction in the December 2020 Taking Stock report.

Risks remain on the downside.

Because of COVID-19 effects on domestic economic activity and the deteriorating external position.

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**Current account surplus declines from 4.6% to 0.5% of GDP***

as the result of slower exports – both merchandise and services.

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**Fiscal deficit increases from 4.9% to 6.0% of GDP***

Given possible fall in tax revenues and as the government is expected to ramp up its financial support to COVID-19 affected businesses and households.

Fiscal deficit will trend down afterward. Debt remains sustainable.

*estimated
## Mid-term Prospects

<table>
<thead>
<tr>
<th>INDICATOR</th>
<th>2019</th>
<th>2020E</th>
<th>2021F</th>
<th>2022F</th>
<th>2023F</th>
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</thead>
<tbody>
<tr>
<td>GDP growth (%)</td>
<td>7.0</td>
<td>2.9</td>
<td>4.8</td>
<td>6.5</td>
<td>6.5</td>
</tr>
<tr>
<td>Consumer Price Index (average, %)</td>
<td>2.8</td>
<td>3.2</td>
<td>3.2</td>
<td>3.6</td>
<td>4.0</td>
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<tr>
<td>Current account balance (% of GDP)</td>
<td>5.0</td>
<td>4.6</td>
<td>0.5</td>
<td>1.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Fiscal balance (% of GDP)</td>
<td>-0.5</td>
<td>-4.9</td>
<td>-6.0</td>
<td>-5.9</td>
<td>-5.4</td>
</tr>
<tr>
<td>Public debt (% GDP)</td>
<td>55.0</td>
<td>55.3</td>
<td>58.3</td>
<td>59.0</td>
<td>58.8</td>
</tr>
</tbody>
</table>

Sources: GSO, IMF, MOF, SBV, and World Bank.
Note: a. Excluding cross-debt among government entities. f = forecast. 2020 est. from MOF.
But the economy faces serious downside risks, which government policies can mitigate.

Address the social consequences of the crisis

- Consider strengthening the coverage, targeting, and benefit levels of the country’s social protection programs.

Watch for financial sector risks raised by the crisis

- Vigilance about the rising risks associated with nonperforming loans, especially in the banks that were undercapitalized before the pandemic.

Watch for fiscal risks

- At this stage, the fiscal risk appears under control and debt is sustainable into the medium term. But risks exist.

- Continue to closely monitor fiscal risks, especially as it relates to the financial health of state-owned enterprises and possible contingent liabilities.

Differential impact on groups, increased inequality.

Rise of NPLs, transfer of risks from real economy to financial sector.
Part 2

Digital Vietnam – The Path to Tomorrow

Photo: THINK A/Shutterstock
Toward a contact-free economy

- To become a high-economy, Vietnam needs to be more efficient in the use of its resources.
- The SEDS has emphasized that increased efficiency will require more innovation as demonstrated by the successful experience of Korea, Japan and Singapore.
- Digital transformation has been identified as one of the priorities to achieve this efficiency gain.
- One silver-lining of the COVID-19 crisis is that it has accelerated the digital transformation in Vietnam:
  - 60% of businesses are now using online tools and platforms.
  - E-government has made available over 2000 procedures online.
Is Vietnam ready to become a digital powerhouse?

**Connect**
- Fixed broadband monthly subscription cost
- Handset 500MB; prepaid; price of the plan
- Fixed broadband subscriptions
- Mobile-cellular subscriptions
- Coverage of at least LTE/WiMAX
- USB 1GB; postpaid; Speed
- Fixed-broadband speed; in Mbit/s
- Digital Adoption Index

**Harness**
- Government capacity to regulate online content
- Legal framework’s adaptability to digital business models
- School enrollment, tertiary
- Digital skills among active population
- Skillset of graduates

**Innovate**
- Companies embracing disruptive ideas
- Buyer sophistication
- Growth of innovative companies
- IP 5 patent applications per capita
- Online Service Index

**Protect**
- Online media fractionalization
- Global Cybersecurity Index Score
- Government social media monitoring
- Competition in network services
- Government social media censorship in practice
- Government internet filtering in practice

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- Good connection, affordable but low speed
- Poor digital skills with uneven legal framework
- Weak innovative capacity and users’ sophistication
- Good security with little privacy
Three priorities to make the most of the digital transformation

- Beyond quality infrastructure and affordable connection, the magnitude of the digital dividends is to a large extent determined by skills, ability to adopt new technologies, and data/information.

- **Think.** A digital tool is of little use if you don’t know how to use it, if you don’t have an up-to-date technology, and you don’t have easy access to reliable and secure information.
Upgrading digital skills

Vietnam is lagging in term of digital skills among active population

**Why it does matter:** Digital transformation can destroy up to 1/3 of existing jobs in Vietnam, while it can create new jobs but with a different set of skills.

**What to do:** Acquiring new skills will require massive collective and individual investments by workers and firms.

**Government’s actions:**

i. removing legal obstacles to labor mobility;
ii. providing information to inform decision making;
iii. improving the quality of education programs;
iv. supporting financially firms and workers.
Encouraging dynamic and innovative businesses

Not enough companies embrace disruptive ideas

Why it does matter: Because the innovation cycle is very short in the digital economy, a firm can become obsolete very quickly (e.g. Blackberry or Nokia).

What to do: The Vietnamese private sector should be kept on its edge, challenged through competition.

Government’s actions:

i. reducing barriers to entry;
ii. strengthening regulations to avoid abuses by dominant operators;
iii. support financially the development of startups and small as well as talented local investors.
Promoting information quality and access
Government social media censorship in practice

**Why it does matter:** Access to data and information is a public good by definition as the benefits of sharing information exceed by a wide margin the cost of collecting it.

**What to do:** Improve the collection and the access to information for all, while balancing privacy and security.

**Government’s actions:**

i. Sharing online public data;
ii. developing inter-operability across databases;
iii. encouraging the private sector to collect and share data as new digital tools and platforms have eroded the monopoly of the State.
Thank you.