

Asian Development Outlook 2012

Viet Nam

Economic Outlook

May 2012

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ADB

Outline

1. Impact of Resolution 11
2. Economic Prospects and Risks
3. Key messages

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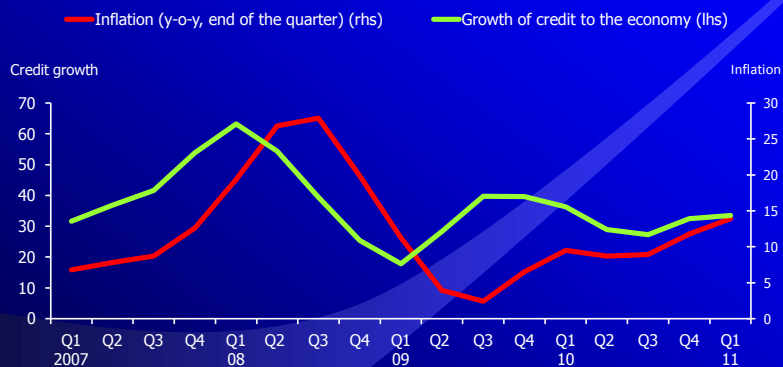
Part 1

Impact of Resolution 11

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Confronted at start of 2011 with macroeconomic instability ...

Inflation and Credit Growth
(Year-on-year, %, Q1' 2007- Q1' 2011)



Source: General Statistics Office and State Bank of Viet Nam

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... Government introduced Resolution 11

Main monetary and fiscal targets

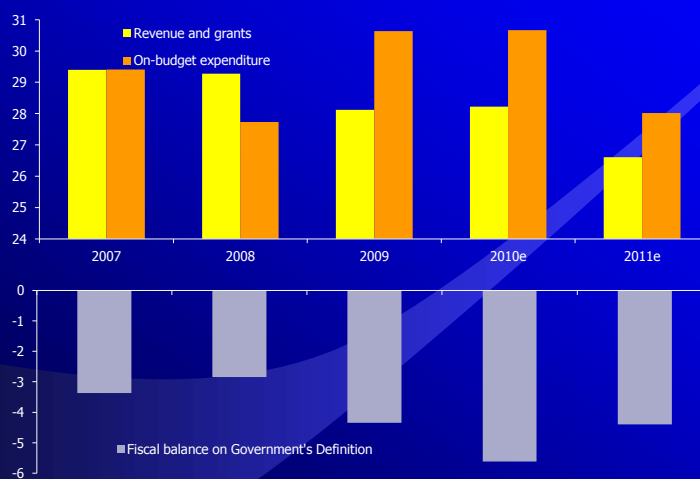
Indicators	2010 Actual	2011 Target
Fiscal Deficit (% of GDP)	5.6%	5%
Credit Growth (y-o-y %)	32.4%	20%
M2 Growth (y-o-y, %)	33.3%	15-16%
Discourage lending as % of total	N.A	16%

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Source: Ministry of Finance and State Bank of Viet Nam

Fiscal deficit has been reduced ...

Revenue, Expenditure and Fiscal Balance (Annual, % of GDP, 2007-2011)

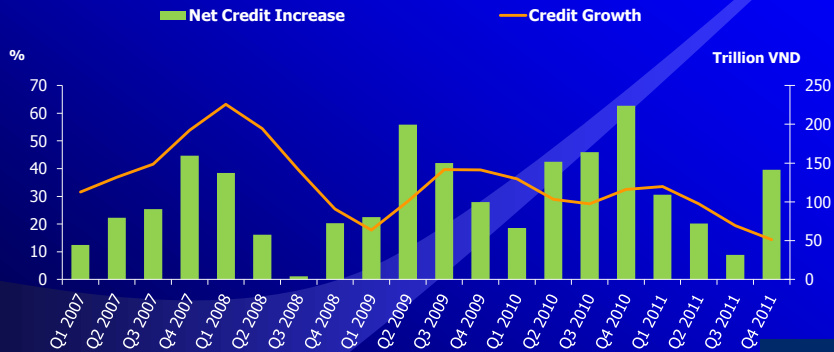


Source: Ministry of Finance

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... and credit growth has slowed ...

Credit growth (year-on-year) and lending rate, Q1, 2007 – Q4, 2011

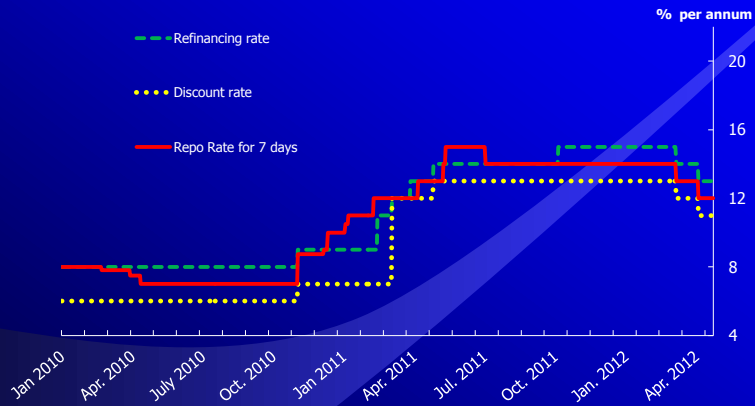


Source: State Bank of Viet Nam

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... as SBV tightened monetary policy...

Interest rate, (per annum, %), Jan. 2010 – April 2012

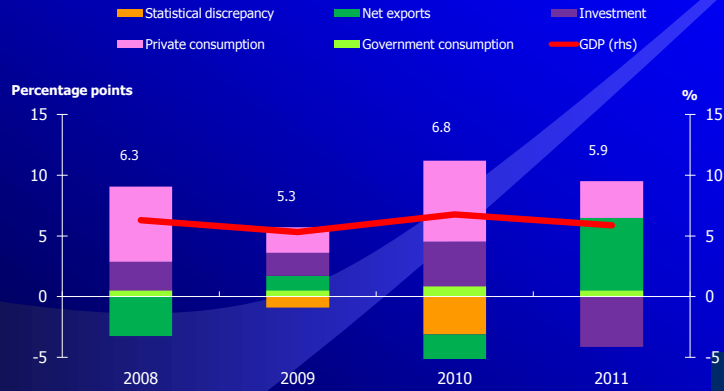


Sources: State Bank of Viet Nam

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Growth decelerated as investment declined ...

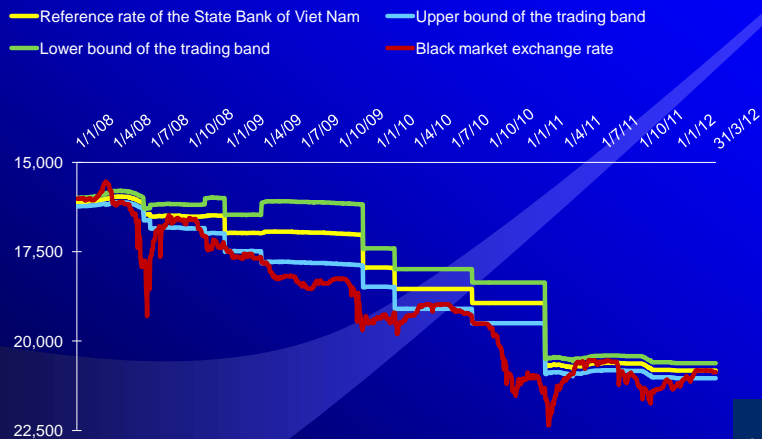
Contributions to GDP – demand (year-on-year, %) 2008-2011



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Exchange rate has broadly stabilized

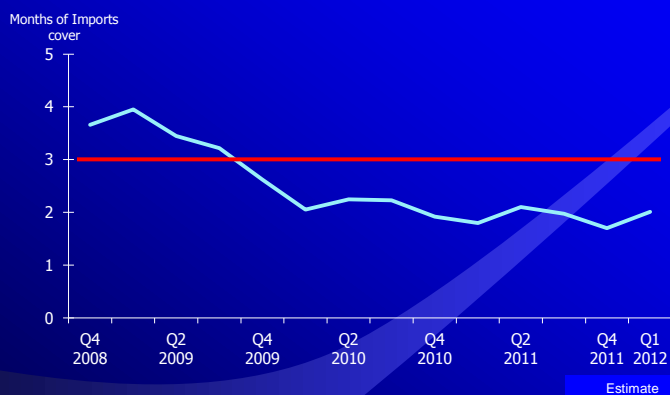
Exchange Rate (VND/USD), Jan 2008 – Mar 2012



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... and reserves partially replenished ...

Foreign Exchange Reserve (months of imports), Q4 2008 – Q1 2012



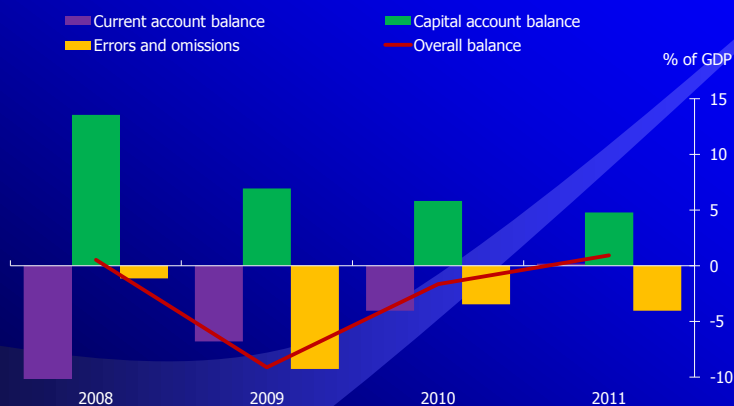
Notes: Data exclude government foreign exchange deposits at the State Bank of Viet Nam and the foreign exchange counterpart of swap operations. Import data are on free-on-board basis.

Source: International Monetary Fund (IMF) and ADB estimates

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... supported by improving BOP

Balance of Payment (% of GDP), 2008-2011



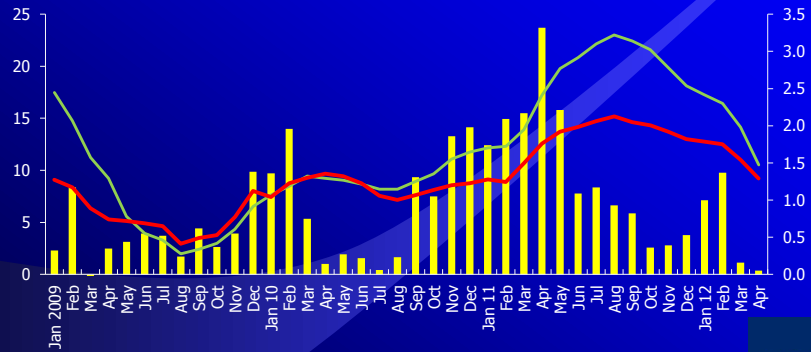
Sources: International Monetary Fund (IMF) and ADB estimates

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Inflation down but remains double digit

Consumer Price Inflation (%), Jan 2008- April 2012

■ Overall (Monthly) — Overall (Year-on-Year) — CPI exc. Food (Year-on-Year)



Source: General Statistics Office

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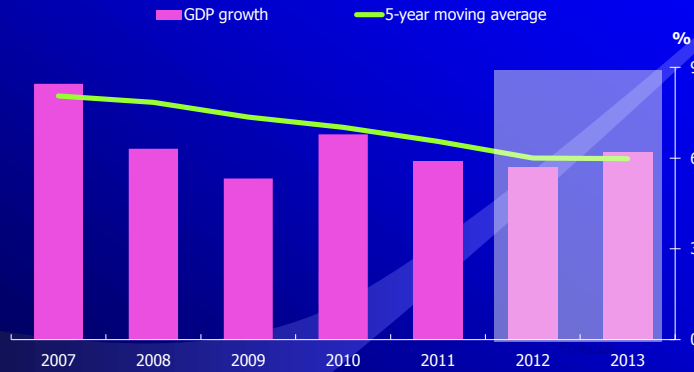
Part 2

Economic prospects and risks

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Growth will remain subdued

GDP Growth Forecast (%)

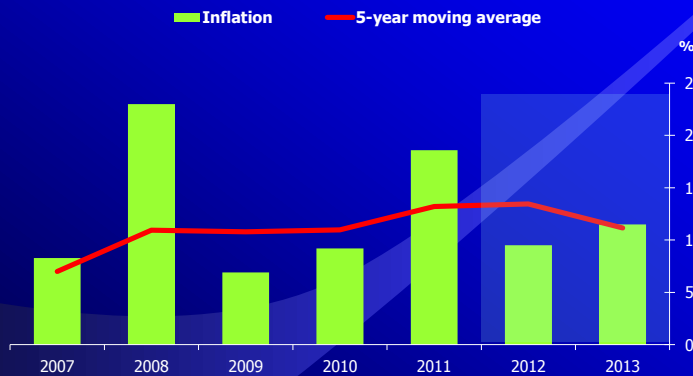


Sources: General Statistics Office and ADB estimates

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Inflation could reach single digit

Year Average Inflation Forecast (%) 2007-2013



Source: General Statistic Office and ADB estimates

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Key Risks

- Lowering interest rates too quickly
- Vulnerabilities to external shock
- Fiscal and PFM risks
- Food market rigidities
- Vulnerabilities in banking sector

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Erosion of real value of savings ...

Real interest rates, March 2008 - March 2012



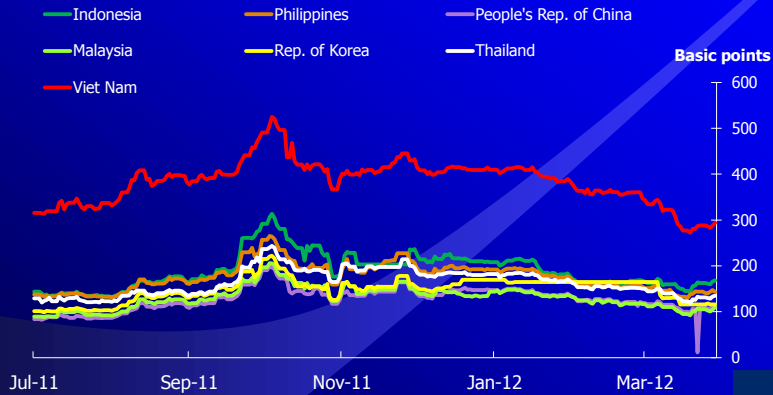
Note: Real interest rate calculated as deposit rate less y-o-y inflation rate

Sources: General Statistics Office, State Bank of Viet Nam and ADB staff estimates

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... perceptions of risk still high ...

Credit Default Swap Spread, selected countries

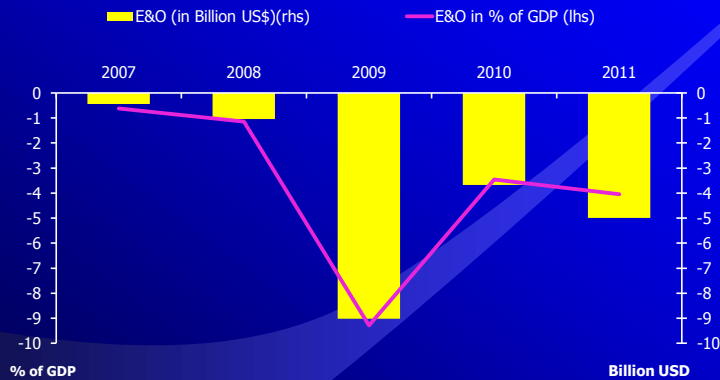


Source: Bloomberg.

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... still vulnerable to internal capital flight

Errors and emissions, 2007 - 2011

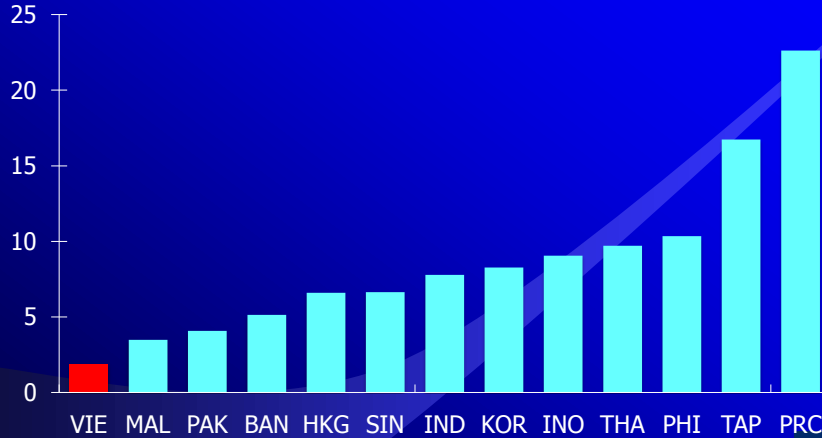


Sources: International Monetary Fund and ADB staff estimates

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Still low foreign reserves ...

Foreign exchange reserves (months of imports), end-2011

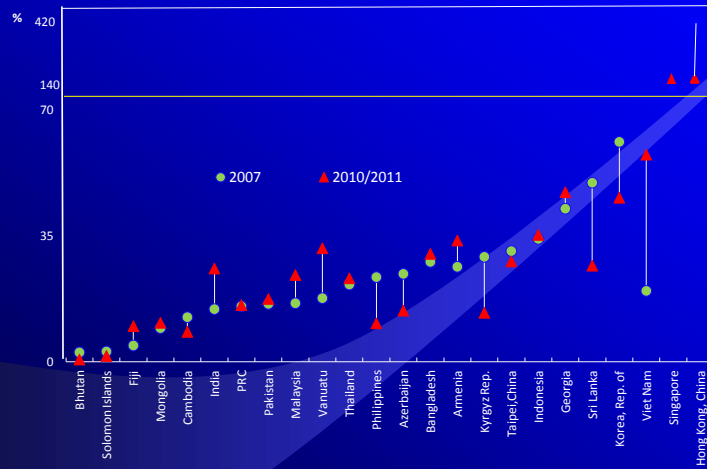


Sources: ADB ADO database

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... higher short-term debt to reserve ratio ...

Short-term debt to foreign reserve ratio



Sources: ADB ADO Database

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...vulnerable to external shocks

...GDP Growth of some developed economies

	2010 Actual	2011 Actual	2012 ADO 2012 projection	2013 ADO 2012 projection
Major industrial economies	2.8	1.2	1.1	1.7
United States	3.0	1.7	2.0	2.3
Eurozone	1.9	1.4	-0.5	1.0
Japan	4.4	-0.7	1.9	1.5

Sources: ADB ADO database and ADB estimates

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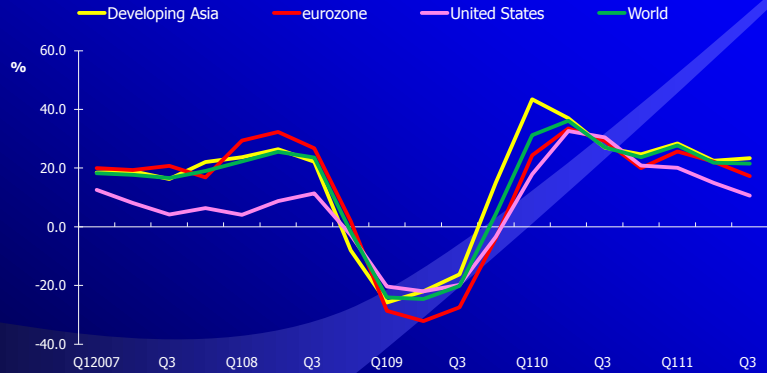
If situation worsens, spillovers include...

- Weaker export demand
- Constraints on trade finance
- Volatile capital flows

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Weakening export demand

Export growth by destination

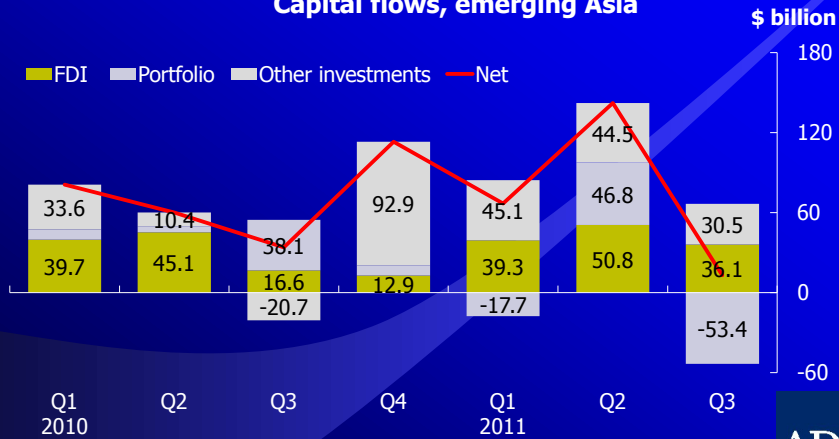


Sources: ADB ADO Database

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Capital remain volatile

Capital flows, emerging Asia



Sources: ADO Database

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Fiscal data vary from international standards ...

2009 Budget Items (Trillion VND)	Official 1/	International
Onbudget revenue and grants	466.3	466.3
Revenues carried forward	162.9	0.0
Total Revenue	629.2	466.3
Onbudget expenditures	508.0	508.0
Expenditures carried forward	153.9	0.0
Public Debt Amortization	53.2	0.0
Offbudget expenditures 2/	0.0	88.3
Onlending 2/	0.0	23.7
Total Expenditure	715.2	620.0
Fiscal Balance	-86.0	-153.7
Fiscal Balance % GDP	-5.2	-9.3

1/ Finalized budget accounts also include an item for local government surplus

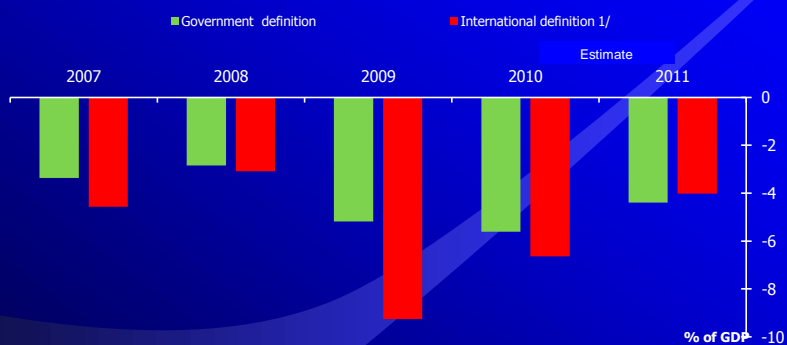
2/ Gross offbudget expenditure and onlending. Should be net items to calculate fiscal balance by GFS standards

Source: Calculated by ADB based on budget data provisioned by the Ministry of Finance

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... lack of fiscal transparency ...

Fiscal Balance on Government's and International Definition, (Annual, % of GDP, 2007-2011)



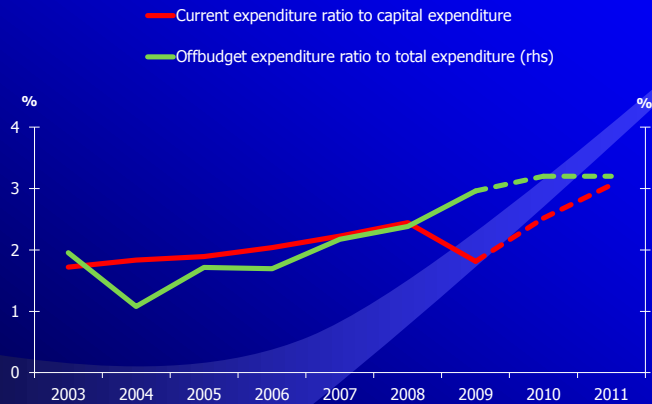
1/ The international definition includes off-budget spending and on-lending, but excludes principal debt repayments and revenues and expenditures carried forward. Fiscal accounts for 2010 and 2011 have yet to be finalized so the international definition also attempts to estimate yet to be recorded revenues and expenditures

Source: Ministry of Finance and ADB estimation

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... public investment and PFM risks

Expenditure Indicators, 2003 - 2011



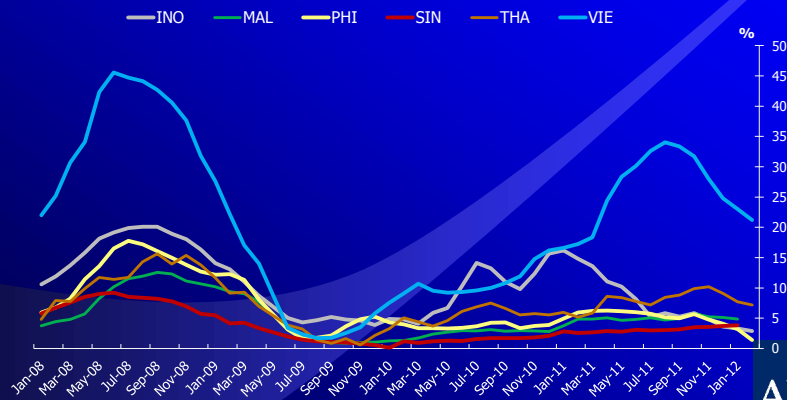
Sources: Ministry of Finance (MOF); ADB staff estimates

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H

Vulnerable to food price inflation ...

Food Inflation in Southeast Asia Jan. 2008 – Jan. 2012

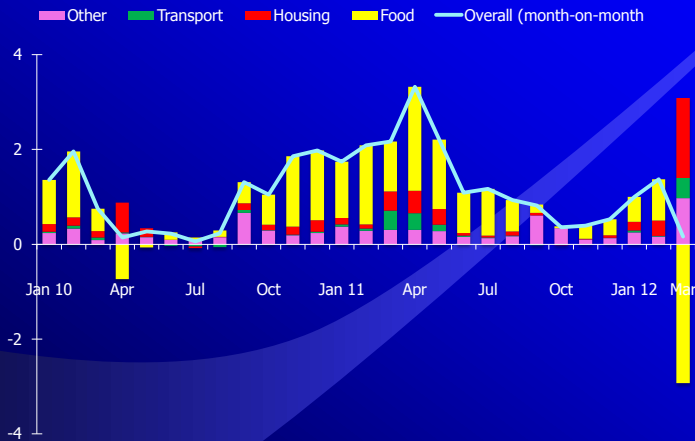


Source: ADB Database

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... that contributes strongly to CPI inflation

Contribution to Month-on-Month inflation (%)
Jan. 2010 – Mar. 2012



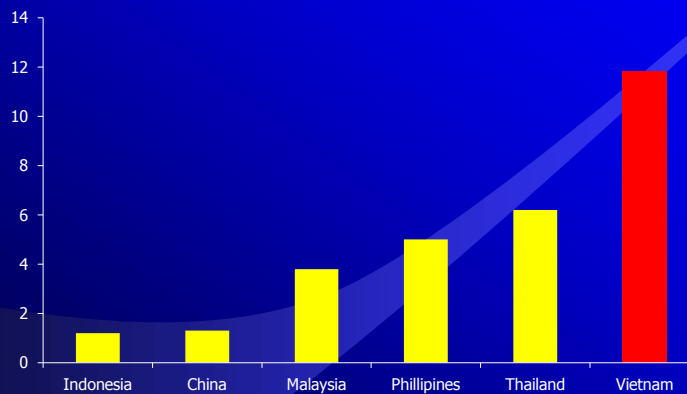
Sources: General Statistics Office (GSO)

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Viet Nam experienced highest credit growth among comparators at similar stage of development ...

Average annual change in percentage points of GDP
Viet Nam: 2004-2011, Others; 1990-1996

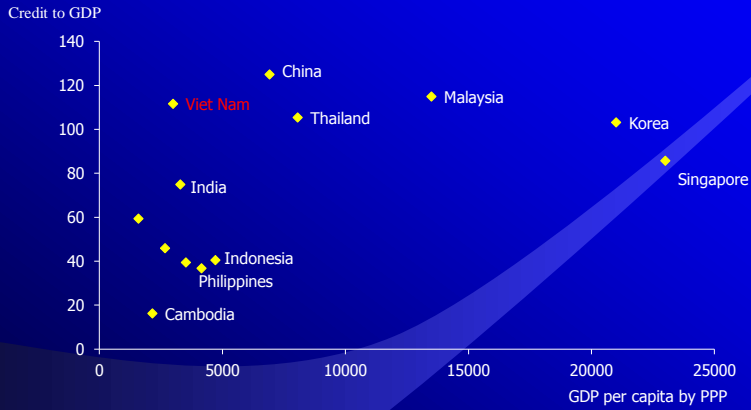


Sources: State Bank of Viet Nam; ADO Database

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... with very high levels of credit relative to economy

Size of Credit Stock by Level of Income



Sources: State Bank of Viet Nam; ADB Estimates



Rising npl and downturn in property prices...

Non-performing loans and real estate indicators (2008 – 2011)



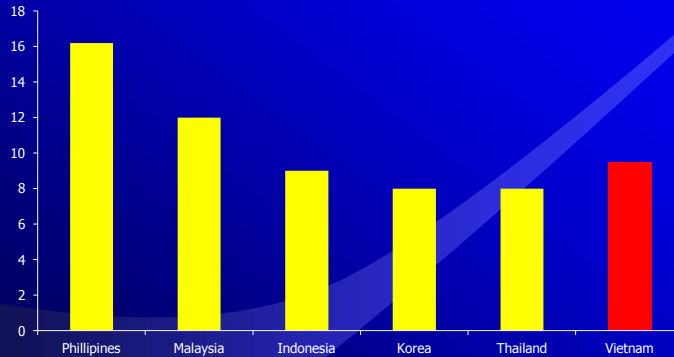
1/ Average sale price of high and medium price residential condominiums

Sources: StoxPlus, CB Richard Ellis, ADB estimates



... raises question about capital adequacy

Bank capital as % of total assets
For Viet Nam, period 2011; and other countries period 1996



Sources: State Bank of Viet Nam, ADO database

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Part 3

Key Messages

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1. Near-term outlook at risk if the government lowers interest rates too quickly at a pace that unsettles the foreign exchange market
2. Safeguarding the banking sector is the immediate priority. Longer-term requirement is to develop a diversified and efficient financial system that can mobilize the funding to meet the 7–8% economic growth target
3. Reform process would benefit from more information on progress of structural reforms to date relative to government targets

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Xin cảm ơn!

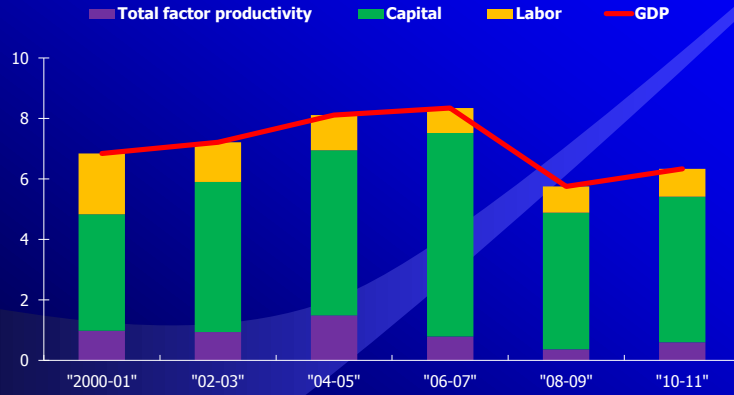
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Total Factor Productivity

Total Factor Productivity, (%) 2000-2011



Sources: ADB Estimate

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