



# Beyond The Financial Crisis: Vietnam Economic Prospects in 2010

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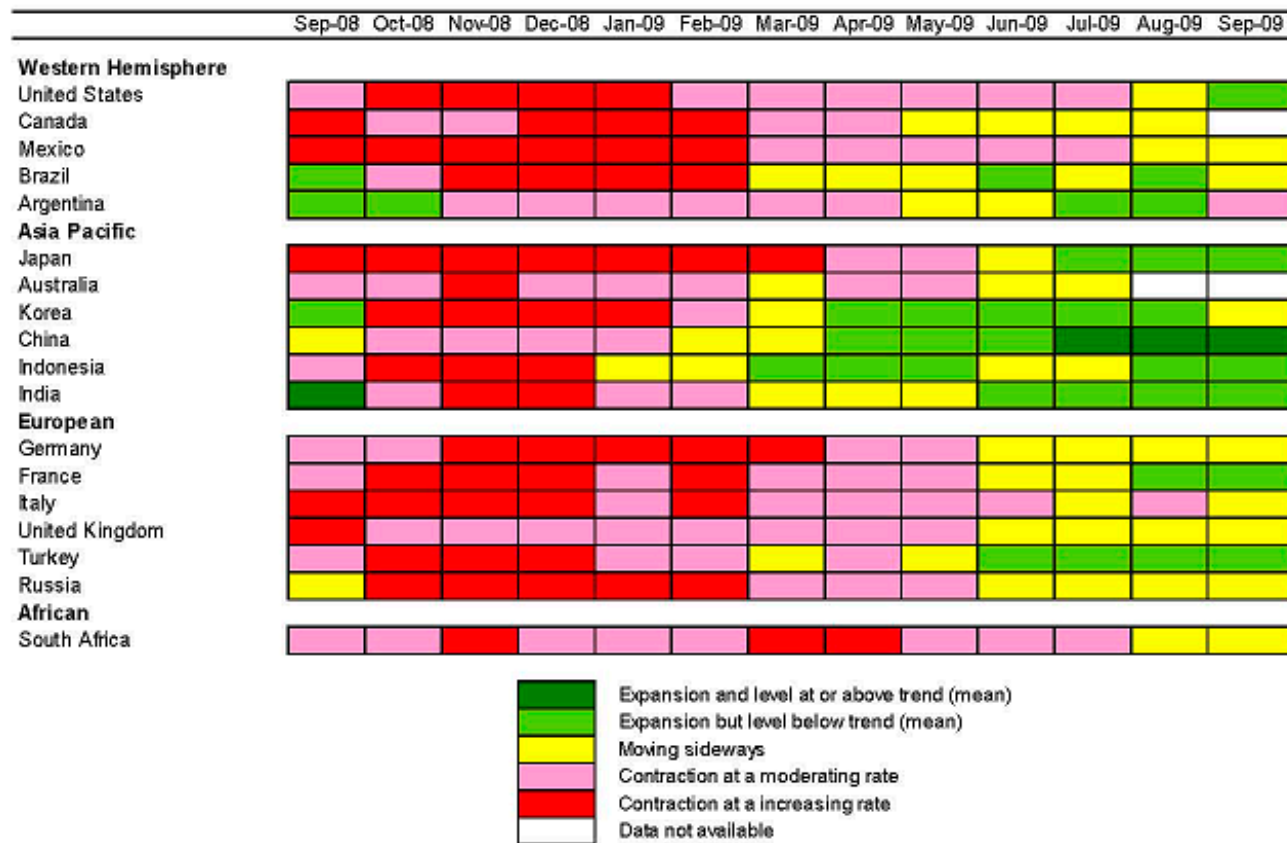
# Outline

- ✓ IMF's World Economic Outlook
- ✓ Implications for Vietnam
- ✓ Stimulus Strategy



# Global recovery has started....

Figure 1. Assessing Growth Momentum 1/ 2/ 3/ 4/



Sources: Global Data Source; Haver Analytics; Bloomberg L.P.; and staff calculations.

1/ The above chart is based on the four economic indicators, including industrial production (IP), real retail sales (RS), merchandise exports (EX), and purchasing managers index (PMI).

2/ Some of the ratings—particularly for recent months—are based on both actual data as well as projections of the underlying variables.

3/ Saudi Arabia is not included because there is no available data.

4/ Retail sales and IP are based on real data, whereas, exports are based on nominal data and PMI on survey data.



# What's driving the recovery?

Two main factors:

- ✓ Turn in the inventory cycle
- ✓ Aggressive public policy response



## Why has rebound been so sharp in Asia?

- ✓ Flip side of outsized contraction
- ✓ Large policy stimulus



# How far will rebound go?

✓ Is it harbinger of strong recovery?

Or

✓ Will recovery be “W” shaped?



# Global Outlook

- ✓ IMF forecasts assume intermediate path
- ✓ G7 forecast to grow at 1¼ percent in 2010  
(–3.4 percent in 2009)
- ✓ Global growth projected at 3.1 percent in 2010  
(–1.1 percent in 2009)



## Growth dynamics stronger in Emerging Asia...

- ✓ Growth in 2010 projected at 7 percent, up from 5 percent in 2009.
- ✓ Key short-term drivers: restocking and macroeconomic policy support
- ✓ Potential for positive feedback loop





## Main Risks to Outlook...

- ✓ Recovery in advanced economy stalls
- ✓ Strains in global financial system intensify again
- ✓ Upside: faster improvement in financial conditions and confidence.



## Global Rebalancing Remains Challenge.....

- ✓ More stable distribution of global demand required.
- ✓ Deficit countries need to spend less, surplus countries need to spend more...



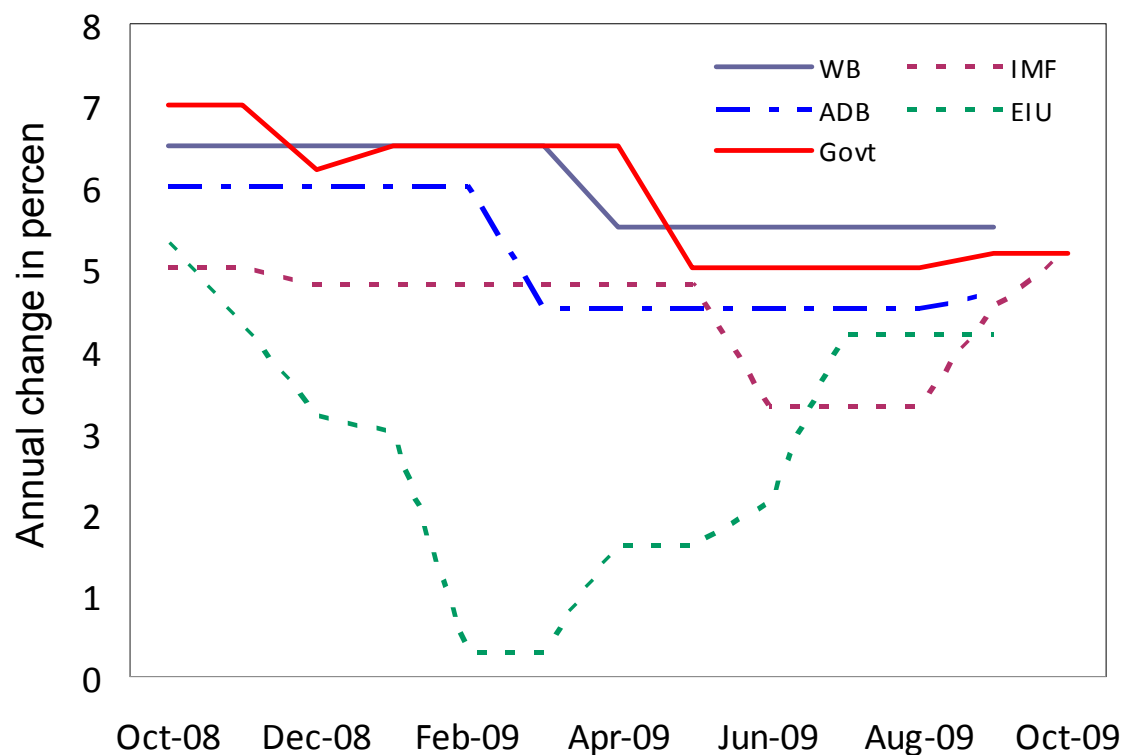
## What are the implications for Vietnam?

- ✓ IMF global advice: Don't exit from policy support too early.
- ✓ Is this appropriate for Vietnam?



# Vietnam has had a “good war”

## Growth Forecast for the Year 2009

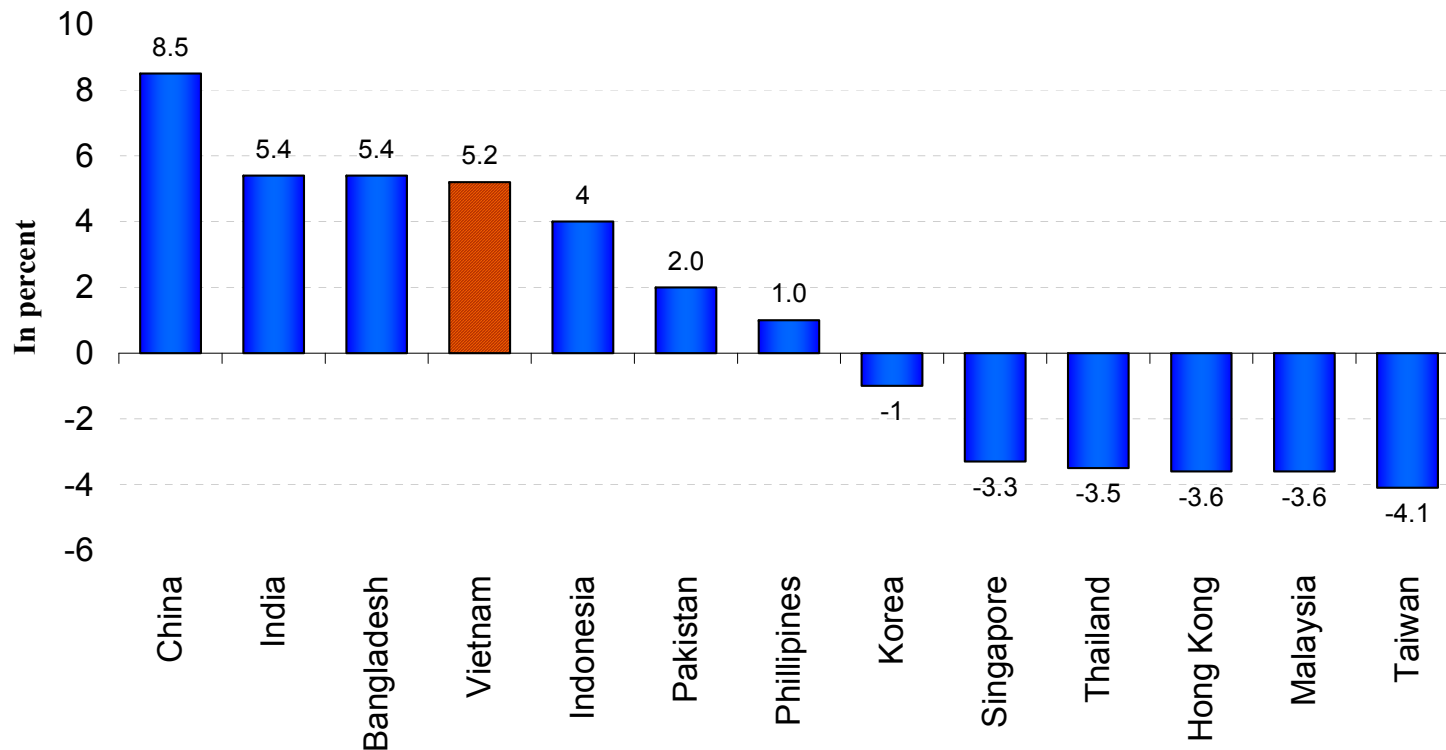


Source: GSO, ADB, EIU, IMF and the World Bank



# Vietnam likely outperform most of its neighbors....

Selected Asian Economies: Projection on Real GDP Growth in 2009



Source: IMF World Economic Outlook, October 2009



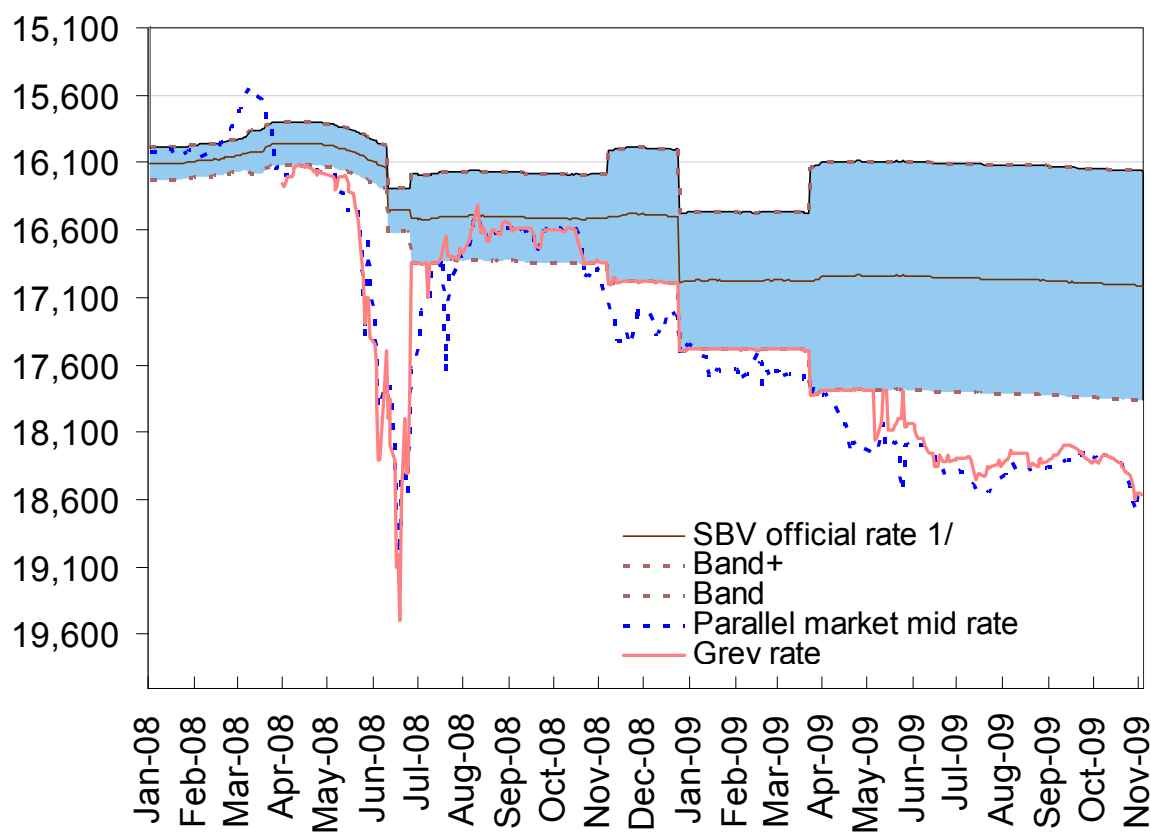
# Collateral damage.....

- ✓ Macroeconomic stability has again become an issue.....
- ✓ Rising inflation a potential problem.
- ✓ Pressures in the foreign exchange market more immediate issue...



# Recent exchange rate developments

"Grey" & parallel market exchange rate  
(VND/US\$)



Sources: SBV, and local banks



# The balance of payments in 2009

## Vietnam: Balance of Payments, 2007-2009

(US\$ million)

|  | 2007   | 2008    | 2009<br>H1 |
|--|--------|---------|------------|
| <b>Current account balance 1/</b>        | -5,692 | -7,966  | -2,285     |
| Trade                                    | -9,060 | -10,042 | -2,652     |
| Remittances                              | 6,180  | 6,804   | 2,730      |
| Other                                    | -2,812 | -4,728  | -2,363     |
| <b>Financial account balance 2/</b>      | 15,891 | 8,439   | -1,306     |
| Official                                 | 2,045  | 993     | 670        |
| Private                                  | 13,846 | 7,446   | -1,976     |
| FDI                                      | 6,550  | 9,063   | 3,000      |
| Other                                    | 7,296  | -1,617  | -4,976     |
| <i>Of which</i> : Gold and errors and or | -1,649 | -3,687  | -3,283     |
| <b>Overall balance</b>                   | 10,199 | 473     | -3,591     |
| <u>Memorandum items</u>                  |        |         |            |
| Gross International Reserves             | 20,964 | 23,022  | 17,561     |

Sources: SBV, and the Fund staff estimate

Note:

1/ excludes gold exports/imports.

2/ Includes gold transactions and errors and omissions.





# Need to Repair Collateral Damage...

Two reasons:

- ✓ Early action to avoid repeat of 2008
- ✓ Important for investment climate.



# Vietnam's competitiveness ranking is declining...

## Vietnam: Global Competitiveness Index (GCI), 2007-2009

|                                       | 2007 | 2008 | 2009 |
|---------------------------------------|------|------|------|
| Global Competitiveness Index (GCI)    | 68   | 70   | 75   |
| Basic requirements                    | 77   | 79   | 92   |
| o/w: Macroeconomic stability          | 51   | 70   | 112  |
| Efficiency enhancers                  | 71   | 73   | 61   |
| Innovation and sophistication factors | 76   | 71   | 55   |

Source: World Economic Forum



Not all publicity is good....

“Vietnam’s Chronic Currency Weakness  
Takes Toll on Firms”

The New York Times, October 12, 2009



## Short-term policy recommendations...

- ✓ An orderly exit from the stimulus program needed:
  - an early tightening of monetary policy
  - reassurance on fiscal policy



## Medium-term reforms remain important.....

- ✓ Preparation of next 10 year strategy underway.
- ✓ Focus on modernizing economy to reach middle income status



Thank you