

**OUTLOOK OF VIETNAM ECONOMY 2021-2022**

**Adaptation, recovery and risks**

**Hanoi, Oct 2021**

Contents

[List of tables and charts 3](#_Toc86906075)

[SUMMARY 5](#_Toc86906076)

[INTRODUCTION 8](#_Toc86906077)

[Part I. Economic growth in 2021 11](#_Toc86906078)

[I. Actual and potential growth 11](#_Toc86906079)

[II. Factors affect to growth picture of 2021 19](#_Toc86906080)

[2.1. World economic recovery 19](#_Toc86906081)

[2.2. Trade contributes significantly to growth recover 20](#_Toc86906082)

[2.3. Difficulties in public investment 23](#_Toc86906083)

[2.4. Attracting and disbursing FDI also affected 24](#_Toc86906084)

[2.5. Macro-economic stability 25](#_Toc86906085)

[2.6. Labor market and labor shifting 27](#_Toc86906086)

[2.7. The business sectors unevenly affect 30](#_Toc86906087)

[2.8. Labor productivity changed 33](#_Toc86906088)

[Part II. Risks and opportunities in growth recovery 39](#_Toc86906089)

[I. Opportunities 39](#_Toc86906090)

[1.1. World economy continues to recover 39](#_Toc86906091)

[1.2. International FDI inflows recover although still many uncertain factors 39](#_Toc86906092)

[1.3. Changes in approach to COVID-19 control, continued support packages 41](#_Toc86906093)

[1.4. Implementation of free trade agreements maintain exports 44](#_Toc86906094)

[II. Risks 45](#_Toc86906095)

[2.1. Price volatility continues to be unpredictable and highly influential 45](#_Toc86906096)

[2.2. Impact from the increase of logistics costs and the disruption of the supply chain 49](#_Toc86906097)

[2.3. Impact of global economic stimulus and support packages 51](#_Toc86906098)

[2.4. Exchange rates, interest rates, and current account and tightening global financial conditions 54](#_Toc86906099)

[2.5. The shifting trend of domestic capital flows towards riskier 56](#_Toc86906100)

[2.6. The risk of restructuring NPLs high 58](#_Toc86906101)

[2.7. The budget revenue is affected and many difficulties appear 60](#_Toc86906102)

[2.8 Shortage of labor in large industrial centers leads to slow recovery 62](#_Toc86906103)

[Part III. Growth in 2021-2022 and some policy recommendations 65](#_Toc86906104)

[I. Growth in 2021 65](#_Toc86906105)

[II. Growth in 2022 66](#_Toc86906106)

[III. Some policy recommendations in the coming time 67](#_Toc86906107)

[3.1. In the short term: 67](#_Toc86906108)

[3.2. In the medium and long term 70](#_Toc86906109)

# INTRODUCTION

1. This report was prepared for the Vietnam Economic Pulse Forum co-organized by United Nations Development Programme (UNDP), National Center for Socio-economic Information and Forecast (NCIF), and Fulbright University Vietnam (FUV) twice a year. This report aims to analyze and evaluate emerging issues that affect Vietnam’s economic growth and development in the short term and medium term[[1]](#footnote-2). At the time this report was completed (October 2021), Vietnam is handling the fourth outbreak of the COVID-19 (since Q2/2021), especially in dynamic zones in the North and South, affecting severely all aspects of the socio-economic life of the whole country.
2. Vietnam’s economic growth has fluctuated since the outbreak of the COVID-19 from the beginning of 2020. The first half of 2020 witnessed a sharp decline, especially in Q2 when the growth was at the rate of 0.39%. There was a strong recovery in the second half of the year but the annual growth reached only 2.91%, much lower than levels before COVID-19 (over 6.5%). In 2020, the Government’s effort in promoting public investment disbursement, export, FDI attraction, and supporting measures partly helps to recover the economy quickly. However, the economy still shows a series of issues: The asset markets have initially shown signs of price bubbles; The financial sector benefits more from fiscal and monetary expansion than the manufacturing sector; Interest rates on loans from manufacturing enterprises are still high, banks have large profits, support packages are implemented slowly due to problems with support procedures and methods.
3. In 2021, while the socio-economic data of the second quarter and the first half of 2021 published by GSO showed promising recovery (GDP growth was 6.61%, compared to the 0.39% in 2020, YoY), the result in Q3 showed a reversed picture with many dark spots, largely due to the congestion in the circulation of goods and services when provinces in both economic locomotives have applied lockdown measures. It is said that it is difficult for the economy to recover quickly because of the severe effects in Q2 and Q3. Urgent measures are needed in Q4 and early 2022, especially the measures to control the pandemic and clear the bottlenecks in the economy. The fourth wave of the pandemic has also revealed many problems in decentralization, management, as well as the resilience of businesses and people:

* *Firstly*, pandemic prevention and control measures, especially the measures of social distancing and lockdown on a large scale that are inconsistent among provinces, are no longer appropriate and create serious consequences, causing total congestion of production and circulation activities. Fragmentation, localization among provinces, ministries, and agencies in pandemic control measures, and ensuring the safe circulation of goods and services all increase risks and reduce the expectation of a quick recovery;
* *Secondly,* over the past two years with many waves of the pandemic, the production of businesses and people's lives have been affected severely and lingeringly. COVID-19 is no longer considered as a mere disruption but has been changing the economic structure as well as production, saving, and consumption investment behaviors;
* *Thirdly*, the short-term and medium-term growth drivers, the resilience of firms and people have been affected. The rate of closed businesses or affected ones directly or indirectly is very high (more than 90%). The risk of short-term shortage of labor supply caused by about 1.3 million workers left the southern regions threatens the recovery of production of many enterprises in industrial zones. Capital mobilization may face congestion due to the risk of non-performing loans in the meanwhile, the long-term interest rate is not decreased. Productivity is affected as the result of disturbances in production arrangement and stagnation in circulation leading to decrease efficiency;
* *Fourthly,*aperspective from the outside, high risk of the pandemic outbreak caused by new strains and low rate of vaccine coverage in many regions, especially in Africa, show a not-so-bright outlook for external markets. Risks of uncertainties due to COVID-19 combined with geopolitical fluctuations have undermined the incentive for long-term outward investments such as FDI.

1. However, recent assessments show that from 2021 to 2025, there are still many positive factors, especially capital. From outside: (1) the huge fiscal stimulus packages from developed countries (e.g. the US, EU, Japan) has helped those economies recover faster than expected, potentially generate a large demand for export and opportunity for attracting FDI; (2) fiscal injection along with lowering the interest rate is expected to stimulate economic growth and also creating cheap and short-term capital from outside; (3) the continuous trend of shifting supply chains may help Vietnam attract more outside capital.
2. In the context that external capital sources are more volatile and riskier, in the domestic market, many factors have been affecting the mobilization and use of capital flows: (1) restructuring banks and lower interest rate policy for production continued to be implemented. However, pressure on capital adequacy and high long-term lending interest rates are reducing the investment incentive into the manufacturing industry; (2) short-term cheap capital and not many production and business opportunities in the context of the COVID-19 pandemic are leading to capital flows into discouraged sectors such as real estate and the stock market, heating these two markets quickly since the beginning of 2021.
3. Following the outlook papers of previous forums, the main objective of this report is to assess emerging issues of Vietnam’s economy from the beginning of 2021, especially the economic growth and its engines. More importantly, it focuses on analyzing challenges, risks, and opportunities of the economic recovery in the rest of 2021, on that basis, it proposes short-term and medium-term solutions for economic administration, especially the Economic Recovery Program launched by the Government in the unpredicted Covid-19 context.
4. This report goes further the conventional statistics description approach by using quantitative methods (such as potential growth analysis, productivity shift-share, global econometric model (NIGEM) to identify impacts, etc.). This report includes the in-depth analysis of remarkable growth drivers in the medium term (namely productivity, investment, impacts of the stimulus package, price fluctuation, etc.) from both outside and inside the economy.

This report consists of three parts. Part I focuses on analyzing the economic growth picture in 2021 and factors affecting to growth foundation up to the end of Q3 2021. There are two main contents, the first one is about growth and potential growth, in which the conclusion is drawn on the change of the potential growth due to COVID-19. The second is to review the main features of Vietnam's economy from the perspective of factors for growth, consider and analyze not only in the first 9 months of 2021 but also in the period before the COVID-19 pandemic to show how COVID-19 has changed major trends. Part II analyzes risks and opportunities for economic recovery in near future, focusing on both the short and medium term. Based on analysis of Part I and II, Part III gives economic growth forecast in 2021, 2022, and some policy recommendations for economic recovery. Notably, these forecast results for 2021-2022 could be changed quickly depending on the disease control situation and businesses recovery in the coming months.

# SUMMARY

1. In 2021, Vietnam has been copping with COVID-19 on a much serious than in 2020. The economy, therefore, has been hit harder and also revealed a lot of problems both in the short and the medium term. This report, within the framework of the Vietnam Economic Pulse Forum, is designed to overview the main features of Vietnam's economy, identify opportunities and risks in the future growth recovery, especially in the year 2022.
2. Vietnam's economy in 2021 can be divided into two distinct periods. In the first and second quarter, the economic growth recovered quickly from a moderately affected background in the second quarter of 2020 and the recovery of consumer demand from exports and domestic consumption as well as measures to promote public investment, welfare packages, and support for business recovery. GDP grew by 6.62% compared to the same period of 0.36% in 2020. Macro-economic indicators were relatively stable, inflation was low, and exports and investment attraction were quite good.
3. Since the third quarter of 2021, the economy has reversed with many dark spots, largely due to congestion in the circulation of goods and services in the country when the economic locomotives were seriously affected. Industrial production stagnated, domestic supply chain congested, residential consumption declined, exports increased slowly (2.51%). Labor utilization rates fell in most export-driven industries. Over 90% of enterprises declared to be affected, the rate of businesses that closed or temporarily stopped operating increased sharply (14.1%), the rate of medium and large-sized enterprises that had to close also increased showing that COVID-19 has had a pretty deep impact and the resistance of businesses is very weak.
4. Not only short-term effects, COVID-19 in the period 2020-2021 shows the ability to affect some long-term factors of growth. Under-potential labor force participation rate increased, labor structure changed due to shifting between industries, investment capital decreased because public investment could not be disbursed on schedule, private investment and FDI both grew slowly. The potential growth line tends to go down from an average of 7.3 to 2.5.
5. Labor productivity has also changed. Although in the long term, the role of labor productivity is increasing, in 2020, COVID-19 has affected both labor productivity and the number of employees, thereby reducing growth. The growth rate of labor productivity decreased to 5.5% compared to 6.4% in 2019. The contribution ratio of sectors in labor productivity growth has also changed in the direction that the role of industry and services is reduced (4 and 7 percentage points). The breakdown of labor productivity also shows that the static effect decreased sharply from 43.7% to 9%. The impact of dynamic restructuring has a negative sign, that is, there is a shift from industries with high labor productivity to lower ones. Most of the increase in Vietnam's labor productivity is still the result of intra-industry labor productivity.
6. In the fourth quarter of 2021 and the coming time, the economy will face some opportunities and challenges, and risks threaten the ability to recover quickly. Opportunities are concentrated in some points: (1) The world economy continues to recover quickly, due to the relatively high rate of vaccination in global economic drivers, especially in the EU, US, China, and Japan. Increased income will lead to an increase in export demand for goods from Vietnam; (2) FDI flows are recovering quite quickly and are expected to return to pre-COVID-19 levels ($1.4 trillion) by the end of 2022; (3) FTAs, especially three major agreements including CPTPP, EVFTA and RCEP come into effect in the very first years with a large degree of tariff reduction to help restore exports and production; (4) Countries, and even the Government of Vietnam, have changed their ways and views on fighting the pandemic, whereby social distancing and lockdown measures are minimized, facilitating the circulation of goods and people, thereby recovering consumer demand as well as business activities.
7. However, a series of risks are also posed in the short and medium term, both from outside and inside the economy. About internal risks include:

(1) Risks from shifting domestic capital flows, of which the most ominous one is that capital flows may leak into risky fields such as real estate and securities while capital for production and business of enterprises is still lacking;

(2) The risk of NPLs is increasing, affecting the safety of the banking and financial system. On-balance sheet bad debt by the end of June 2021 increased to 1.73% (compared to 1.18% in mid-2020). If we add together the ratio of bad debt on the balance sheet, unresolved debt sold to VAMC, and potential bad debts..., it increases to 3.66%, and if we include debts that have not been transferred to NPLs due to restructuring, interest exemption, or reduction, this rate is up to 7.21% (excluding the increase in bad debt in the third quarter of 2021);

(3) State budget revenues and expenditures are facing difficulties due to the decrease in sustainable revenues from taxes, while expenditure needs to increase rapidly due to pandemic prevention activities and support for businesses and people.

(4) Labor recovery in dynamic production regions may be slow, directly affecting growth in the short and medium term.

1. From the outside, a series of risks may threaten the recovery ability in 2022, including:

(1) Fluctuations in the prices of raw materials, oil, foodstuffs have been very large since the beginning of 2020, threatening to increase import prices, directly affecting production costs because Vietnam depends heavily on outside raw materials. The risk of imported inflation is real, especially inflation pressure from outside will increase sharply in the fourth quarter of 2021 and the first two quarters of 2022. It is forecasted that the increase in oil price until the end of 2021 may affect 1 percentage point of domestic inflation. This is also a very important period for Vietnam's economy, determining the recovery in the medium term.

(2) Logistics costs are high and it is unlikely to return to the pre-COVID-19 levels by the end of 2022. In the short term, logistics costs negatively affect both import and export (decreasing the growth rate of import and export by about 0.2 -0.4 percentage points also puts pressure on inflation). In the long term, if logistics costs continue to increase or stay high, it could reshape global supply chains in the context of low competitiveness and underdeveloped logistics infrastructure in Vietnam, so it may have a long-term impact on investment.

(3) The "unprecedented" support packages of countries such as the EU, the US, and Japan are considered to have a positive impact on global economic growth as well as on Vietnam. However, depending on trade relations, market and financial openness, as well as the form of support, the impact of these packages is different, but the positive impact will only last until the end of 2024.

1. Facing both internal and external opportunities and risks, the economy in the fourth quarter of 2021 is unlikely to recover quickly, and so Vietnam's growth in the best condition will be around 2%, more likely between 1.5-2%. In case of slow recovery and many bad situations due to disease control, the economy in 2021 could grow at about 0.8%. By 2022, depending on favorable domestic and foreign contexts, GDP growth is forecast between 5.8% and 6.7% in the high scenario.
2. Based on the assessment of the opportunities and risks of the economy, as well as the reality of growth during COVID-19, to ensure rapid and sustainable growth and recovery, a series of policy solutions are needed, both in the short and long term.

(1) In the short term: reasonable measures to control COVID-19 combined with increased vaccine coverage. Measures to support businesses and people to overcome difficulties in the short term still need to be urgently implemented; however, attention needs to be paid to policy implementation spending, as well as the relatively low effectiveness of policy implementation at present.

(2) In the long term, attention should be paid to improving labor productivity and business environment, especially considering the Economic recovery support program as an opportunity to restructure the economy and reform policy institutions, strictly enforce civil service discipline and make appropriate adjustments to the decentralization of state management. Measures to promote public investment, especially investment in improving digital infrastructure and promoting businesses to apply digital transformation are necessary. At the same time, take advantage of the support package to develop some key industries, improve supply chains and develop supporting industries in Vietnam.

1. The report was chaired by the National Center for Socio-Economic Information and Forecast (NCIF)-Ministry of Planning and Investment and was completed with the help of local consultants including: Assoc.Prof.Dr.Nguyen Van Phuc (Institute of Socio-Economics and Technology), Dr. Nguyen Thi Thanh Tan (Banking Academy). The report team would like to express their sincere thanks to the comments of experts, especially Mr. Nguyen Tien Phong (UNDP), Dr. Jonathan Pincus (UNDP), Dr. Luong Van Khoi (Deputy Director, NCIF) and other experts inside and outside the NCIF. All comments should be sent to: Dr. Tran Toan Thang, NCIF, toanthangciem@gmail.com, phone number: 0898981172. [↑](#footnote-ref-2)