VIETNAM

Table 1	2019
Population, million	97.4
GDP, current US$ billion	265.8
GDP per capita, current US$	2728.5
International poverty rate ($1.9)[a]	1.9
Lower middle-income poverty rate ($3.2)[a]	6.8
Upper middle-income poverty rate ($5.5)[a]	23.1
Gini index[a]	35.7
School enrollment, primary (% gross)[b]	110.6
Life expectancy at birth, years[b]	75.3

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2018), 2011 PPPs.
(b) Most recent WDI value (2018).

Vietnam's economy has shown remarkable resilience to external shocks in the first eight months of 2020. While medium-term outlook is broadly favorable, the economy faces significant downside risks due to adverse impacts of further coronavirus outbreaks, further weakening of external demand, and incomplete structural reforms. Upcoming political transition may affect the pace of reforms. On the positive side, Vietnam is well positioned to benefit from recent free trade agreements over the forecast period.

Recent developments

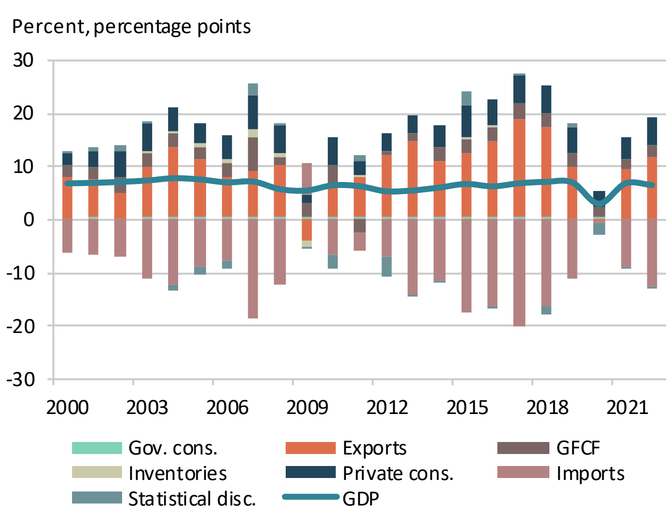
Vietnam's economy continues to show resilience in dealing with the effects of the Covid-19 pandemic. The growth rate is estimated to be 1.8 percent in the first six months of the year. The crisis has had significant negative impact on service activities (mostly during the 3-week lockdown in April and by the ban on foreign visitors since early March) and manufacturing exports (due to lower demand). In contrast, the agricultural sector has continued to perform at its pre-crisis level, boosted by high rice prices—the country's main crop—on both the domestic and international markets.

Vietnam's resilience is grounded in its strong economic fundamentals. It is partly explained by the country's dual engine of growth: domestic demand and exports, which have performed relatively well in the past few months. It has also been supported by the government's early and swift health responses to the virus. External demand sustained exports growth in the first eight months of 2020 (up by 1.6 percent y/y). Because goods imports declined by 2.2 percent over the first 8 months of the year, Vietnam's trade surplus reached an estimated US$11.9 billion. FDI commitments have continued, reaching almost US$20 billion between January and July 2020, slightly lower than the same period in 2019. On the domestic front, industrial production and retail sales rebounded after the end of the nationwide lockdown, and remained in positive territory despite the July outbreak in Danang. Inflation has remained subdued at about 3.2 percent y/y in August 2020 due to low food prices and weak demand. The exchange rate has been relatively stable over the period.

The economy's resilience has been bolstered by the accommodative fiscal and monetary stance to help mitigate the impact of the crisis. Monetary policy authorities lowered the reference rate and encouraged commercial credit. The Government launched a fiscal package in early April, estimated at about 1 percent of GDP, that includes an expansion of social protection and tax deferments for businesses and individuals, targeting about 26 million people. The government has also accelerated the execution of the investment program (up by 30.4 percent during the first eight months compared to the same period in 2019) to stimulate the recovery though an expansion of domestic demand. Because the fiscal response is relatively modest and has been unevenly implemented, a second support package is being considered by the authorities.

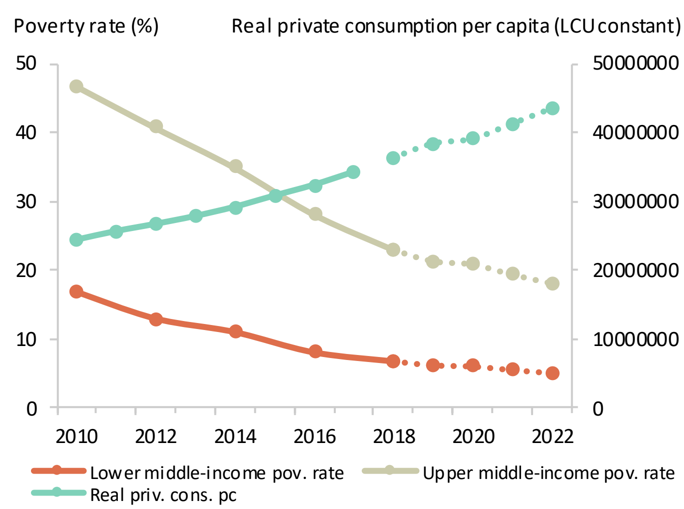
So far, the impact of COVID-19 on most households has been notable but temporary. Many people faced disruptions to daily routines and income reduction during the April lockdown, with women and urban dwellers more likely to report such reduction in a recent nationwide household survey. By June, most workers were able to return to normal activities: 95 percent of family businesses were open, and 90 percent of

FIGURE 1 Vietnam / Real GDP growth and contributions to real GDP growth



Sources: World Bank.

FIGURE 2 Vietnam / Actual and projected poverty rates and real private consumption per capita



Sources: World Bank. Notes: see Table 2.

family farms were operating normally. While overall poverty is not expected to increase significantly in Vietnam as the result of the COVID-19 crisis, the impacts are being unevenly felt. Workers in industries such as tourism, transport, and export manufacturing are particularly impacted. Because of differences in the sectors and locations where Ethnic minorities work, they are less likely to report an income reduction compared to the Kinh majority.

Outlook

Short to medium-term growth prospects remain positive. The GDP is estimated to grow by 2.8 percent in 2020 and projected to grow at 6.7 percent in 2021 in the baseline scenario, which assumes a gradual control of the pandemic both domestically and internationally. We project the GDP to expand by 3.5 percent in the second semester of 2020 on the back of renewed domestic demand propped up by counter cyclical fiscal and monetary policies. Both capital and current accounts will deteriorate in 2020 but are expected to return to pre-COVID paths in the medium term, though the pace of recovery of the tourism sector and remittances will affect the external balance. Inflation will remain subdued at around 4 percent per annum in the medium term, given the slack in the economy and absent new external or natural shocks.

The fiscal deficit will worsen in 2020 given the countercyclical fiscal policy and the expected decline in revenue due to slower economic growth and international transactions. The authorities are expected to resume fiscal consolidation in 2021-22 as the economy returns to its pre-crisis level. Debt to GDP ratio will increase by about two percentage points in the short term, as the result of higher borrowing on the domestic and international markets; and will mirror the path of the fiscal deficit in the medium term.

Poverty is not projected to increase significantly in the current baseline scenario, as rural areas and agriculture sector have been less impacted by the pandemic. Yet, the increase in urban unemployment and under-employment could become a concern. Furthermore, household coping strategies of relying on savings, assistance from friends and family, or reducing costs (consumption) may not be adequate if the pandemic lingers.

Risks and challenges

Continued uncertainty about Covid-19 constitutes the most immediate risk to economic recovery, as external demand weaknesses and potential need for further lockdowns could lead to a GDP growth rate of only 1.5 percent in 2020 and 4.5 percent in 2021 (low case scenario).

While accommodative monetary and fiscal policies have been justified to absorb the COVID-19 shock in the short term, prolonged measures could increase the risk of fiscal and financial distress as the level of public debt will increase and commercial banks may be affected by higher delinquent loans and lower profits. Increasing global and bilateral political and/or trade tensions may create uncertainty in the global and regional trade and investment systems. Agility of Vietnamese producers in adjusting to market demands, including by diversifying products and markets and integrating into GVCs, would tip the balance to success. The upcoming Party Congress in January 2021 and a government change in May-June 2021, may contribute to policy uncertainty and slowdown the pace of reforms.

TABLE 2 Vietnam / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	6.8	7.1	7.0	2.8	6.8	6.5
Private Consumption	7.4	7.3	7.4	4.4	5.8	7.3
Government Consumption	7.3	6.3	4.2	9.8	4.3	4.8
Gross Fixed Capital Investment	10.2	8.2	7.9	5.5	6.3	7.0
Exports, Goods and Services	16.7	14.3	7.6	-0.2	7.3	9.0
Imports, Goods and Services	17.5	12.8	8.3	0.2	6.5	9.4
Real GDP growth, at constant factor prices	6.9	7.2	7.0	2.8	6.8	6.5
Agriculture	2.9	3.8	2.0	0.6	2.0	1.9
Industry	8.0	8.9	8.9	4.5	8.4	8.1
Services	7.4	7.0	7.2	2.0	6.9	6.3
Inflation (Consumer Price Index)	3.5	3.5	2.8	3.7	3.6	3.6
Current Account Balance (% of GDP)	-0.7	2.3	5.0	0.0	1.0	1.2
Fiscal Balance (% of GDP)	-4.7	-4.4	-4.0	-6.0	-4.8	-4.0
Debt (% of GDP)	58.3	55.7	54.1	56.1	55.4	54.1
Primary Balance (% of GDP)	-2.7	-2.4	-1.9	-4.0	-2.9	-2.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]		6.8	6.2	6.1	5.6	5.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]		23.1	21.4	20.9	19.4	18.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on EAPPOV harmonization, using 2014-VHLSS and 2018-VHLSS.Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.

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