Towards Global Recovery: Implications for Vietnam

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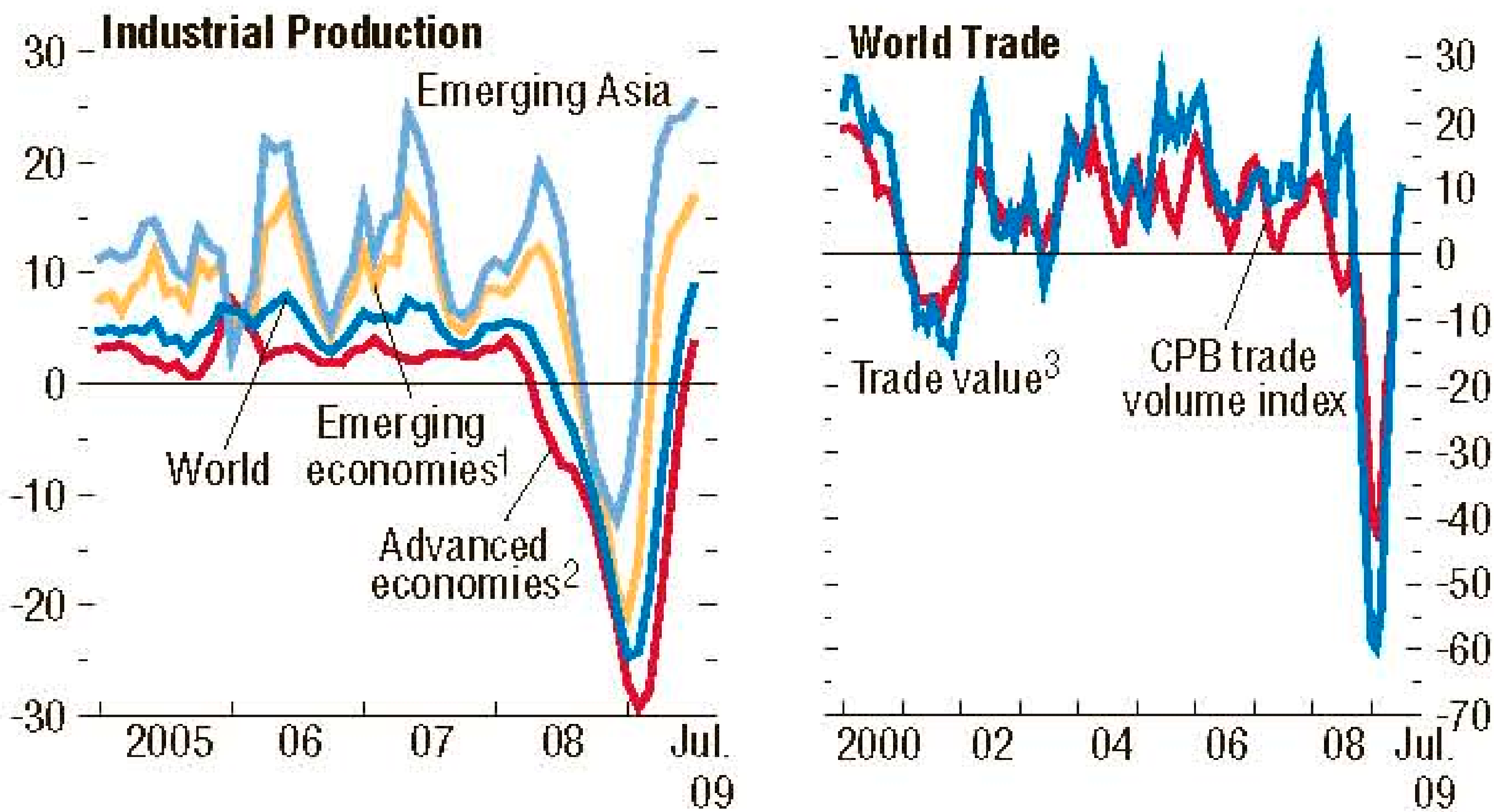
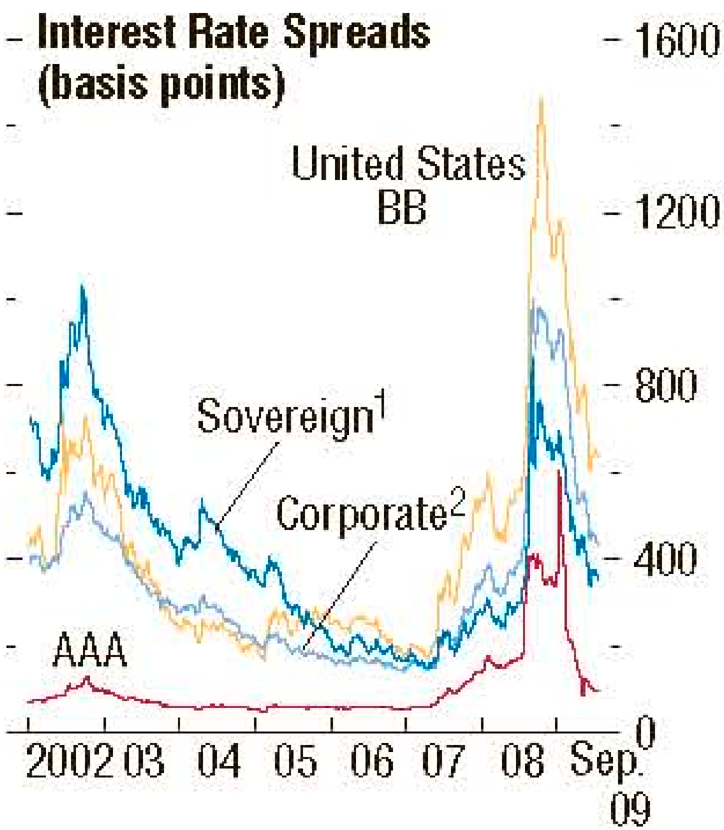
Outline

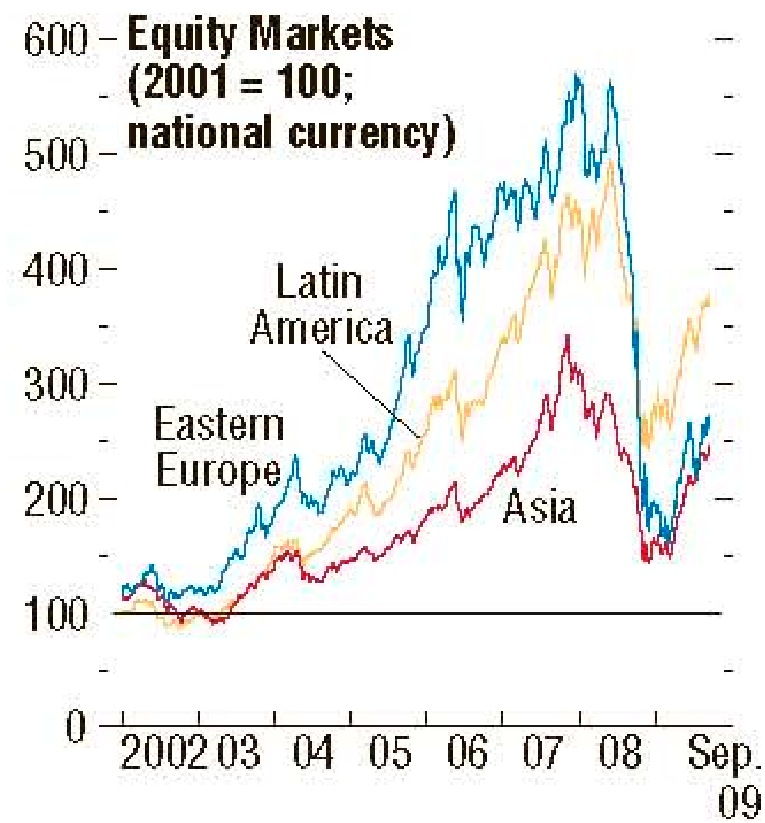
- ✓ IMF's latest World Economic Outlook
- ✓ Implications for Vietnam
- ✓ Medium-term reforms

Global recession is ending



Recovery most evident in financial markets….





A strong rebound in Asia

Figure 1.2. Assessing Global Growth Momentum[1]

Sources: Haver Analytics; Bloomberg LP; and IMF, Global Data Source database and staff calculations.

[1] The above chart is based on the four economic indicators, including industrial production, real retail sales, merchandise exports, and purchasing managers index (PMI). Some of the ratings—particularly for recent months—are based on both actual data as well as projections of the underlying variables.

What's driving the recovery?

Two main factors at global level:

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

Why has rebound been so sharp in Asia?

- ✓ Flip side of outsized contraction
- ✓ Unprecedented policy stimulus
- ✓ Easing of financial market tensions

How far will rebound go?

- ✓ Is it harbinger of strong recovery?

  Or

- ✓ Is another recession in offing?

Global outlook

- ✓ IMF forecasts assume intermediate path
- ✓ Global growth of 0.8 percent in 2009 (Q4/Q4), rising to 3.2 percent in 2010
- ✓ Medium-term outlook is for growth to average just above 4 percent (below pre-crisis levels)

Balance of considerations…

✓ Natural stabilizing forces will gain traction….

But

✓ Recovery is likely to be sluggish…

Growth dynamics stronger in Asia…

- ✓ Restocking will continue to propel growth in near term.
- ✓ As will macroeconomic policy support
- ✓ Potential for positive feedback loop

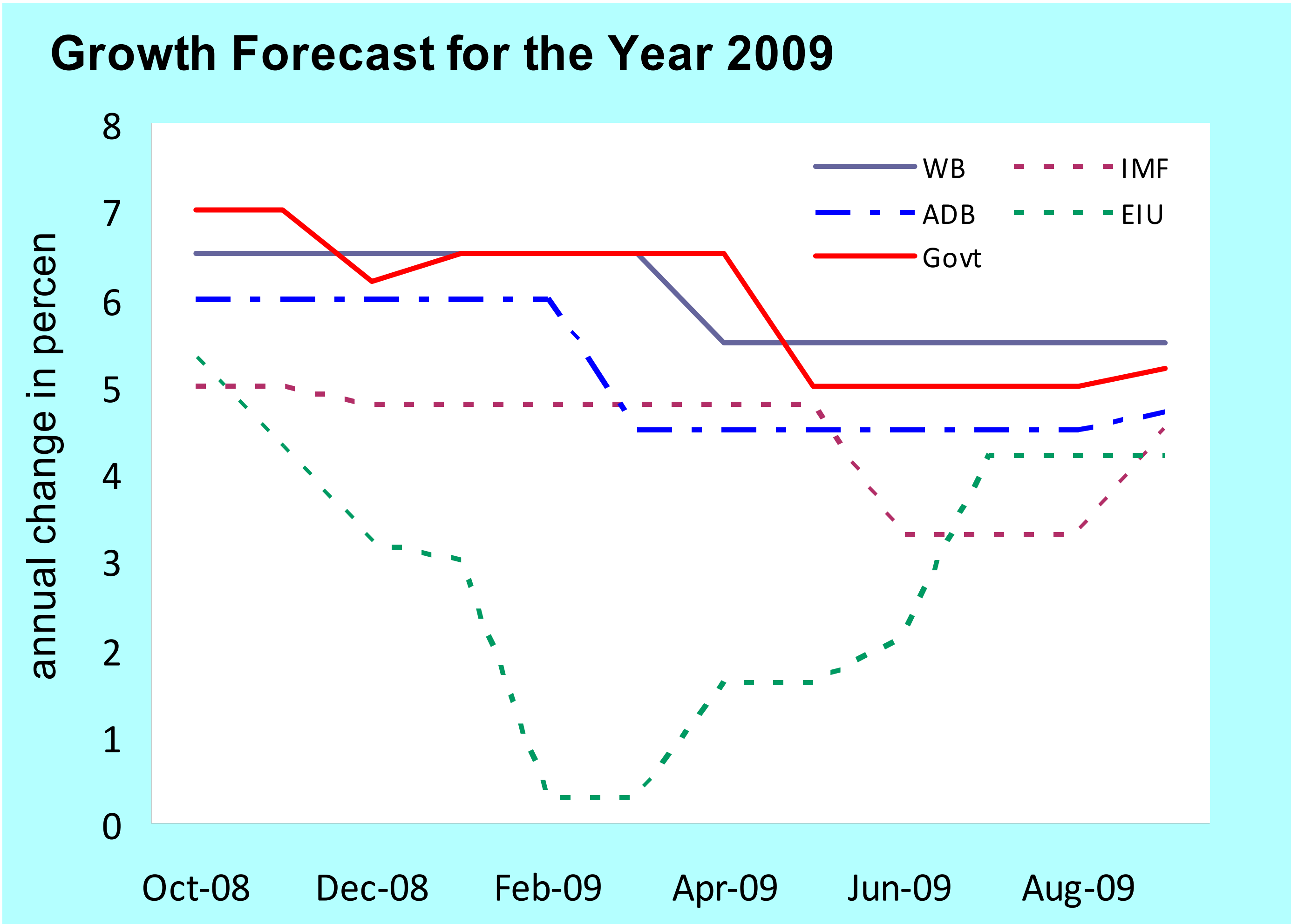
Main Risks to Outlook…

- ✓ Recovery in advanced economy stalls
- ✓ Strains in global financial system intensify again
- ✓ Positive feedback loop could go into reverse.

What are the implications for Vietnam?

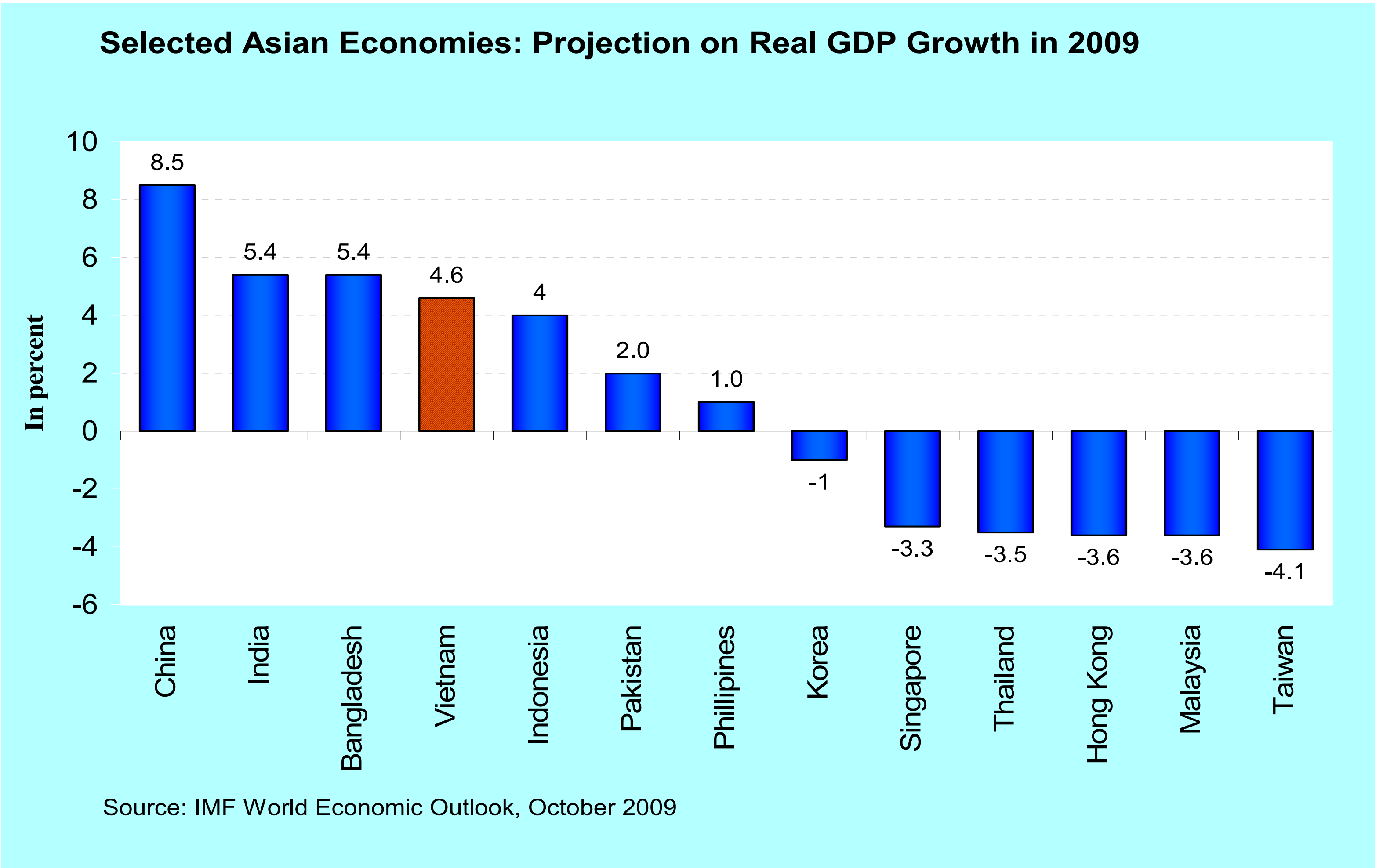
- ✓ IMF global advice: policy makers should continue to provide support to recovery.
- ✓ Is this appropriate for Vietnam?

Vietnam has had a "good war"



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

Vietnam likely to outperform most of its neighbors….



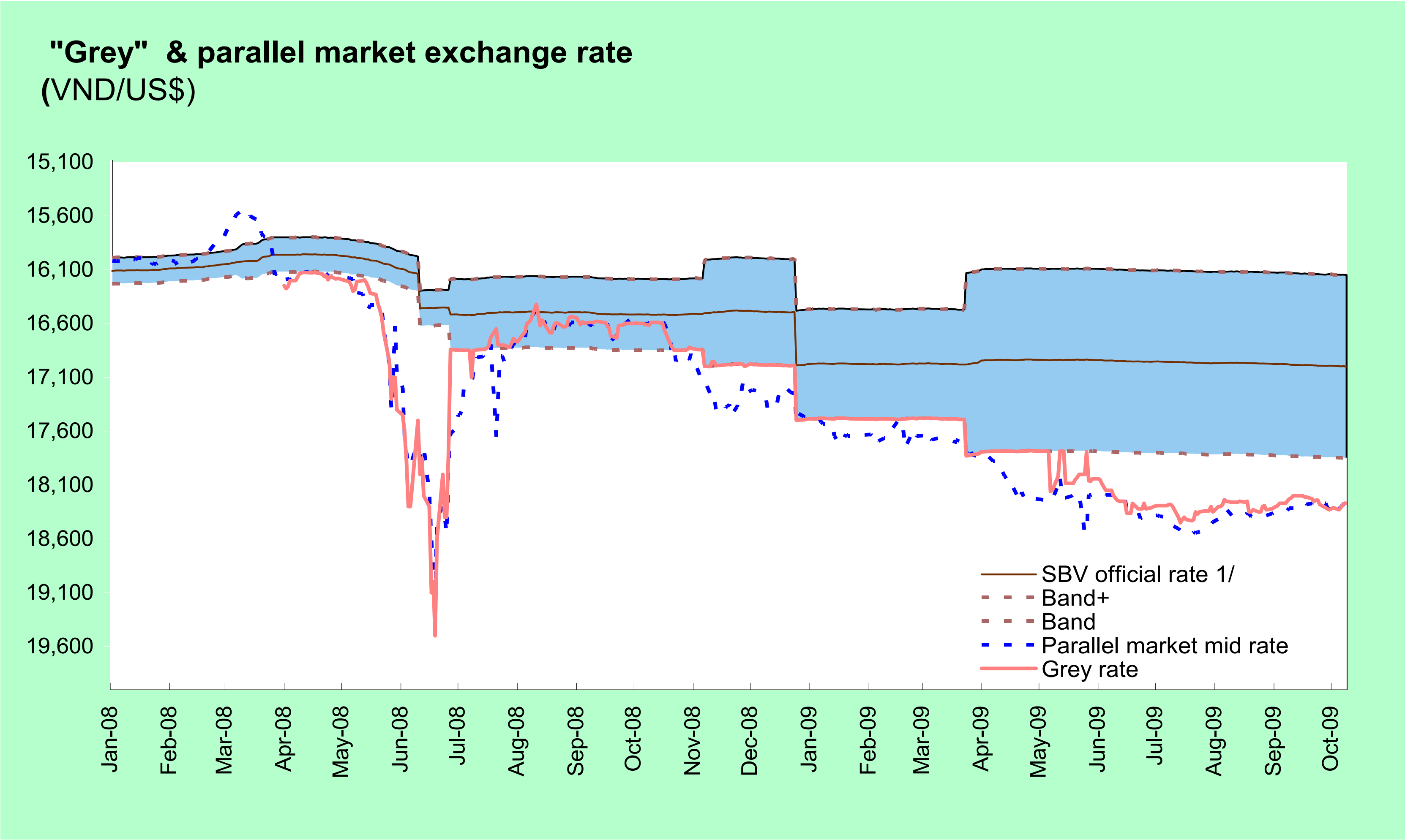
Collateral damage……

- ✓ Macroeconomic stability has again become an issue…..

- ✓ Rising inflation, a commonly expressed concern.

- ✓ Pressures in the foreign exchange market, the more immediate issue…

Recent exchange rate developments



Sources: SBV, and local banks

The balance of payments in 2009

Vietnam: Balance of Payments, 2007-2009
(US$ million)

	2007	2008	2009 H1
Current account balance 1/	-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
Financial account balance 2/	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
Of which : Gold and errors and o	-1,649	-3,687	-3,283
Overall balance	10,199	473	-3,591
Memorandum items			
International liquidity	23,748	24,176	20,566

1/ excludes gold exports/imports.
2/ Includes gold transactions and errors and omissions.

Sources: SBV, and IMF staff estimate

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: Global Competitiveness Report

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