



# Understanding Vietnam: Macroeconomic Conjuncture and Growth Prospects

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# Road map

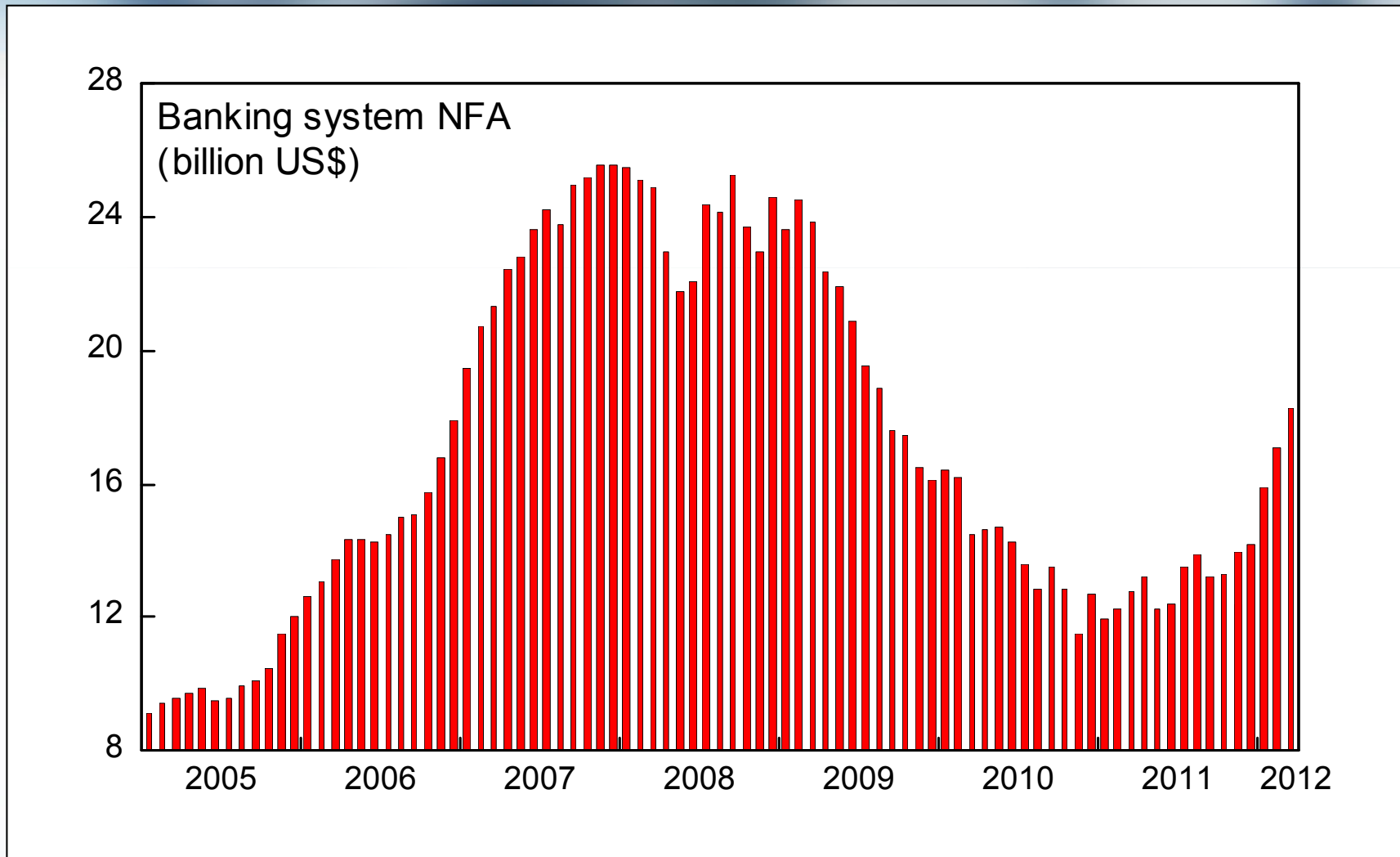
- Macroeconomic Conjunction
  - Where from?
  - Where to?
- The Long View Forward
  - Growth potential
  - Policies and prospects

# Macroeconomic conjuncture

- External factors and shocks
  - WTO accession (Jan 2007) and capital inflows
  - Commodity prices (2008Q1/Q2)
  - Global financial crisis (2008Q3)
- Policies
  - Stop-and-go?
  - Growth biased

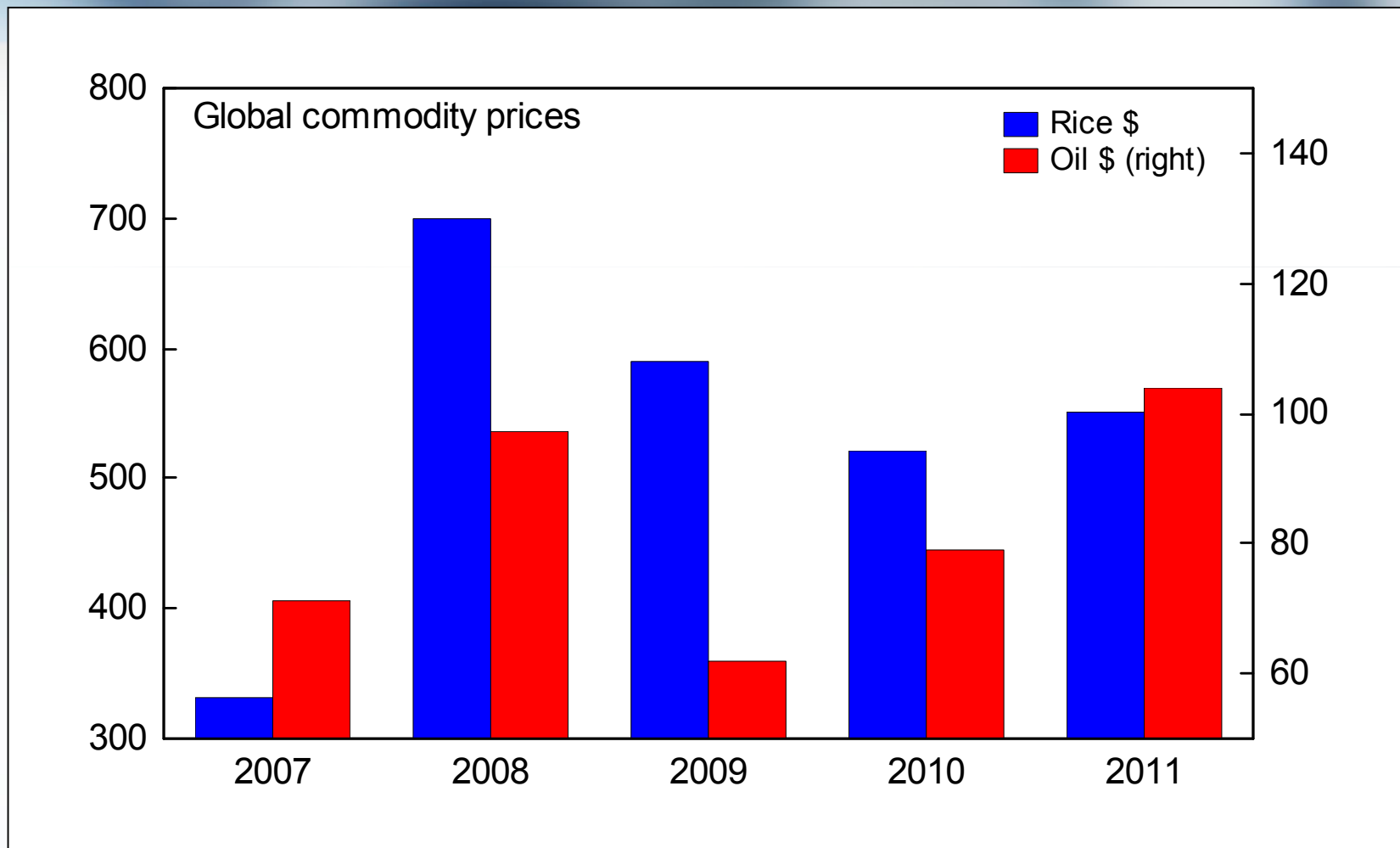
# External factors and shocks

## Capital flows



# External factors and shocks

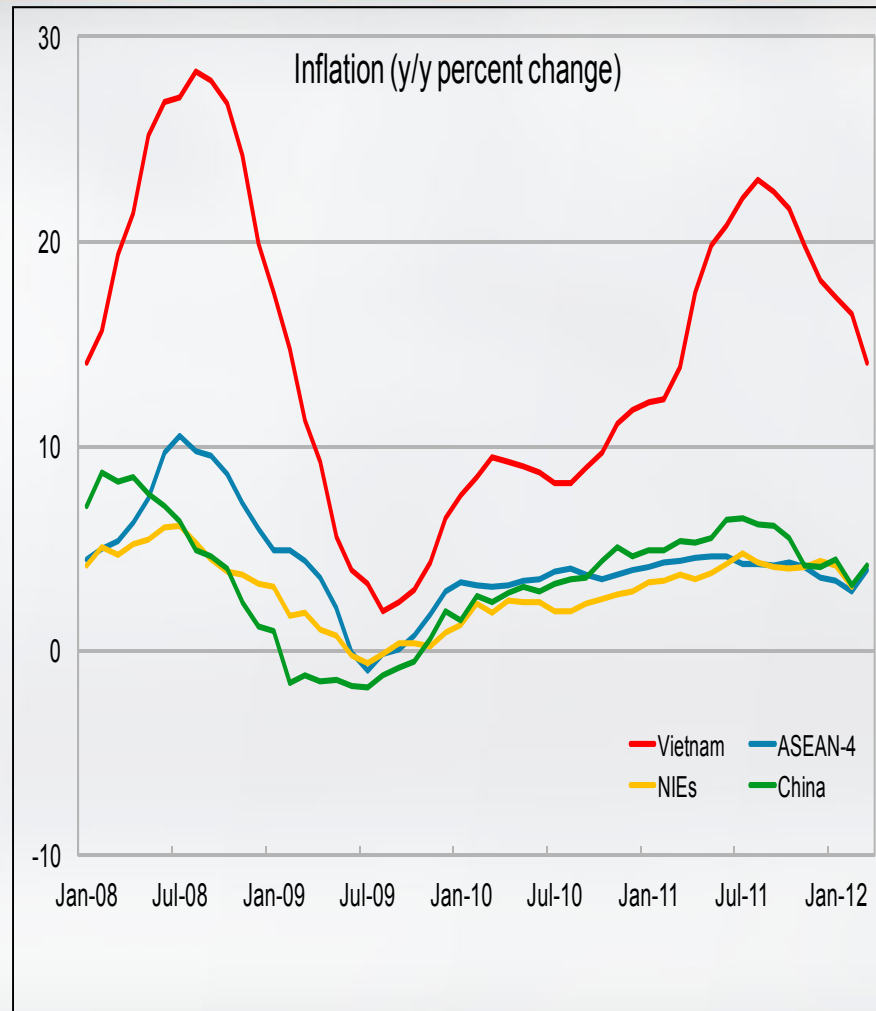
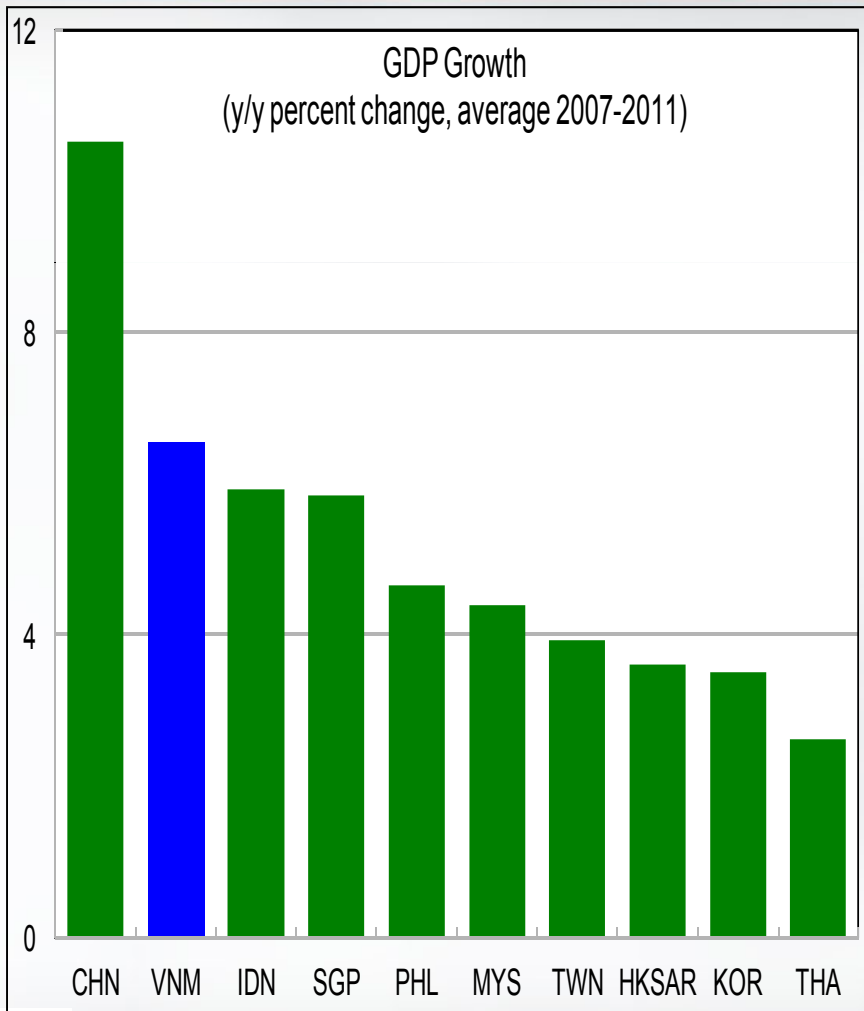
## Global commodity prices



# Growth and inflation

- Is there a trade-off?
- Determinants of inflation
- Core inflation and momentum

# Growth and inflation



# Inflation

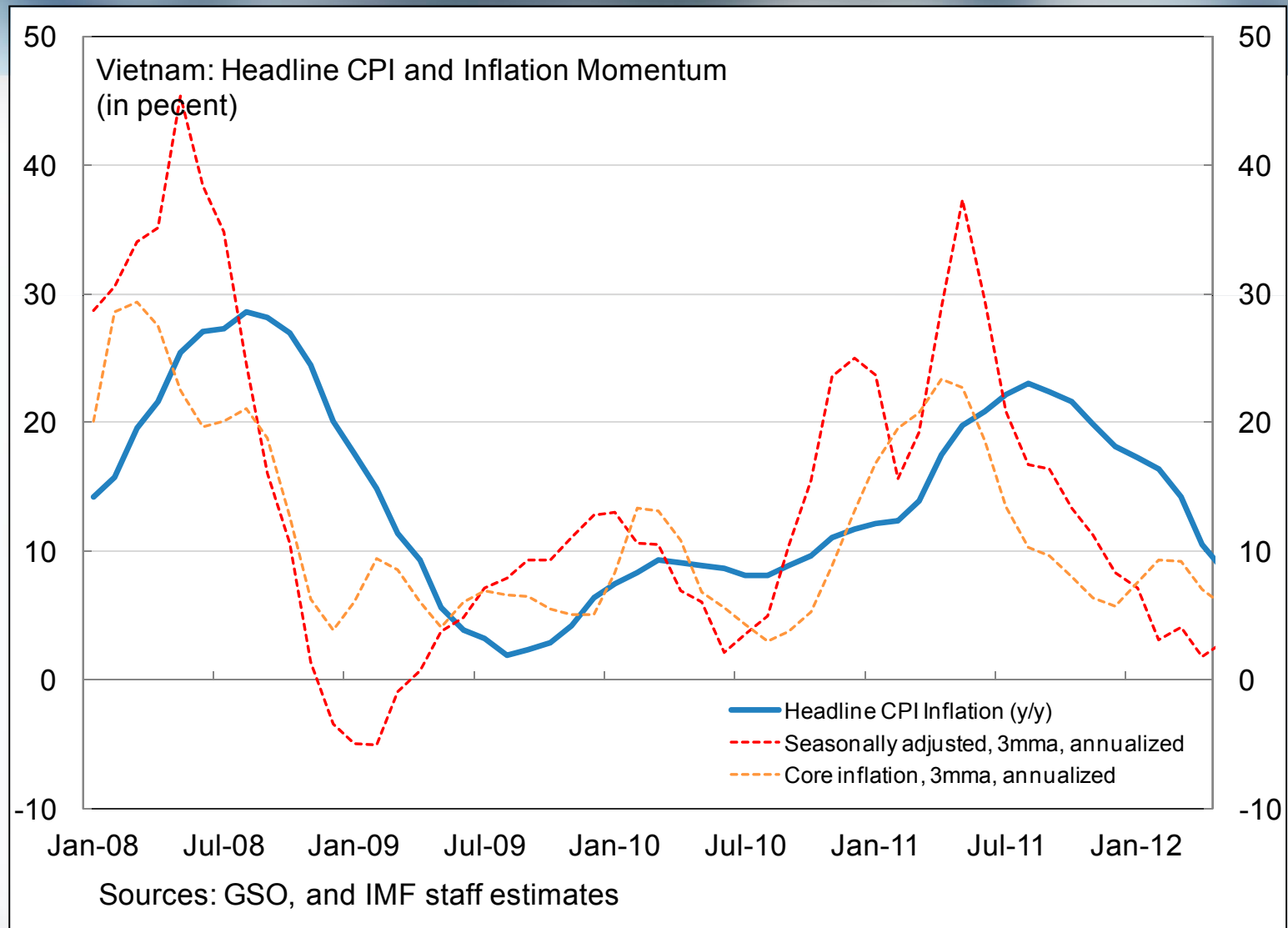
## Determinants

- Determinants of inflation
  - Food and fuel prices
  - Second-round and income effects
  - Macroeconomic policies and the exchange rate
  - Expectations
- Monetary policy transmission complicated by
  - Transition: rapid changes in the economy and financial system
  - Partial dollarization and asset substitution—dong, dollar, and gold



# Inflation

## Core inflation and momentum



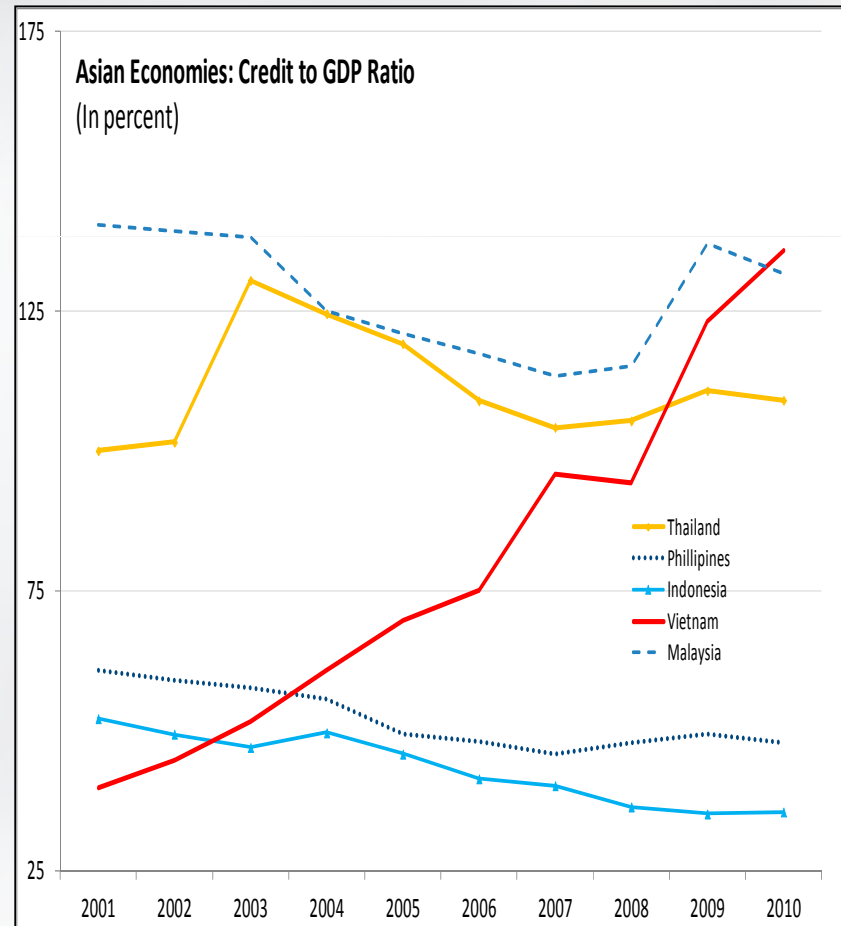
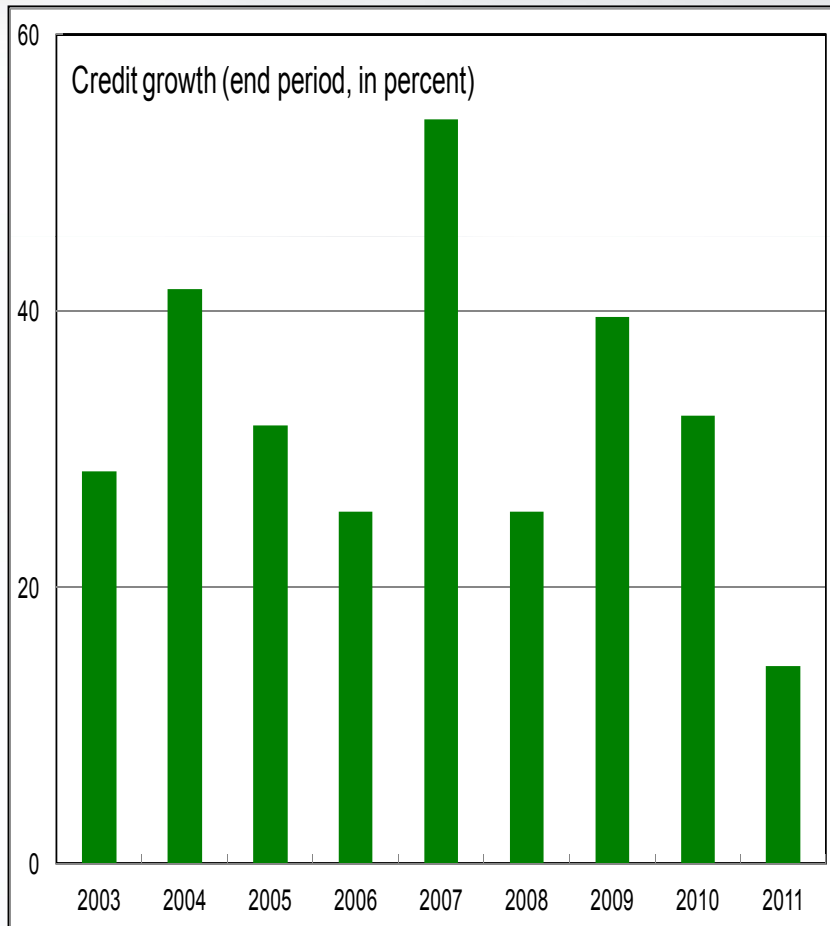
# Macroeconomic policies

## Monetary and exchange rate policy

- Credit growth
- Policy rates
- Exchange rate
- Administrative controls
  - Credit growth ceilings
  - Deposit and lending interest rate caps
  - Asset markets: FX market; Gold market
  - “Macroprudential” measures
    - Sectoral credit allocation and lending rates for “priority” sectors
    - Limits on real estate lending
  - SBV loan restructuring guidelines

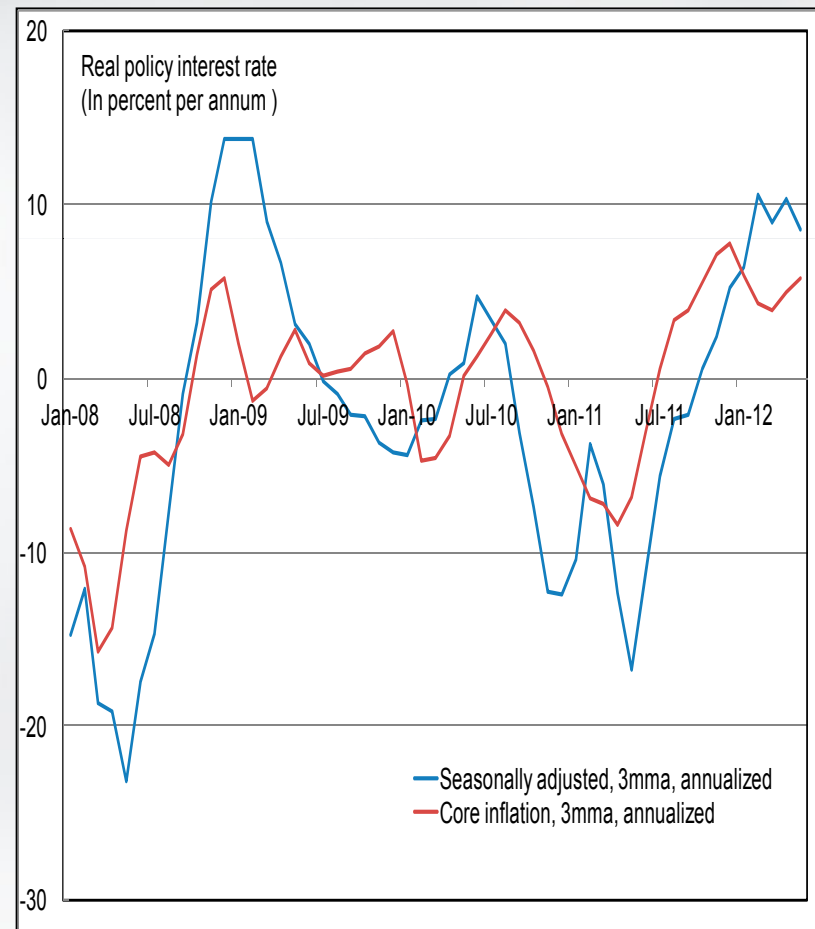
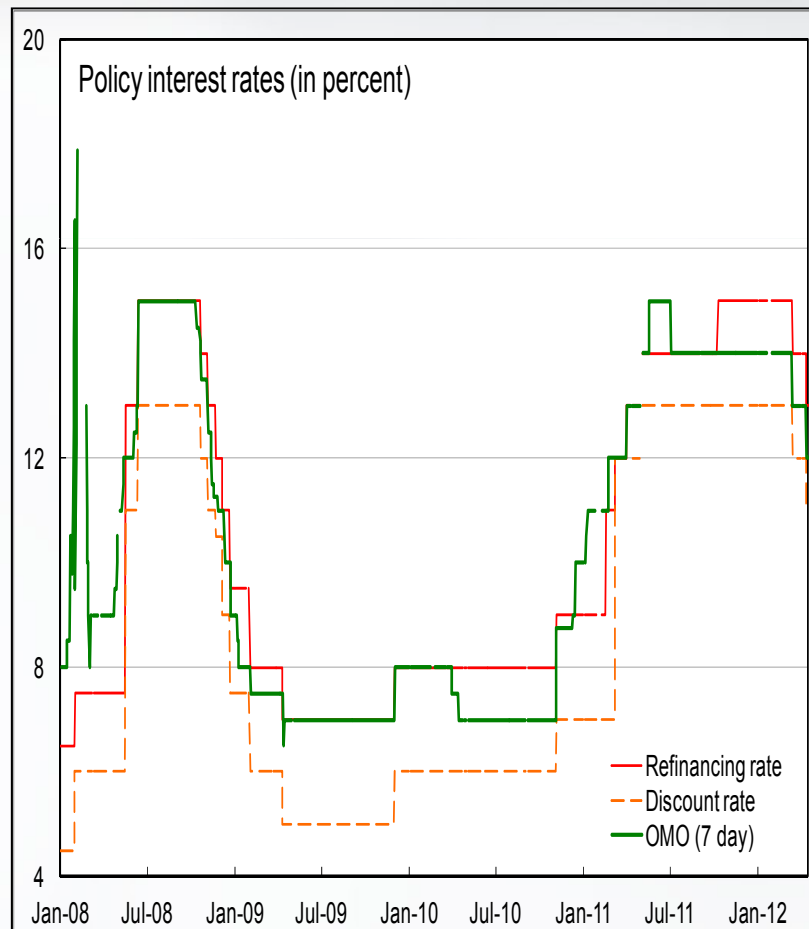
# Monetary and exchange rate policy

## Credit growth



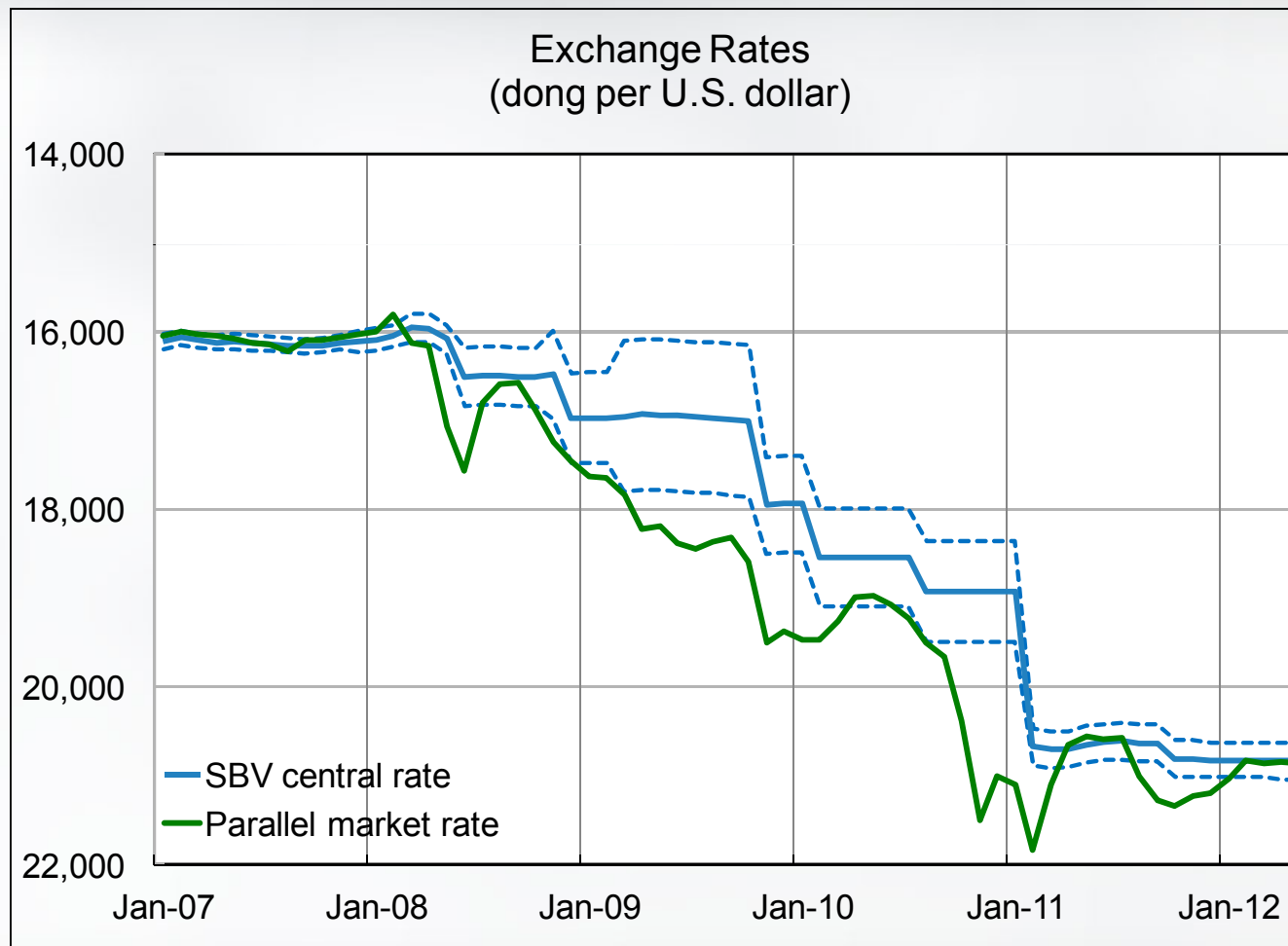
# Monetary and exchange rate policy

## Policy rates



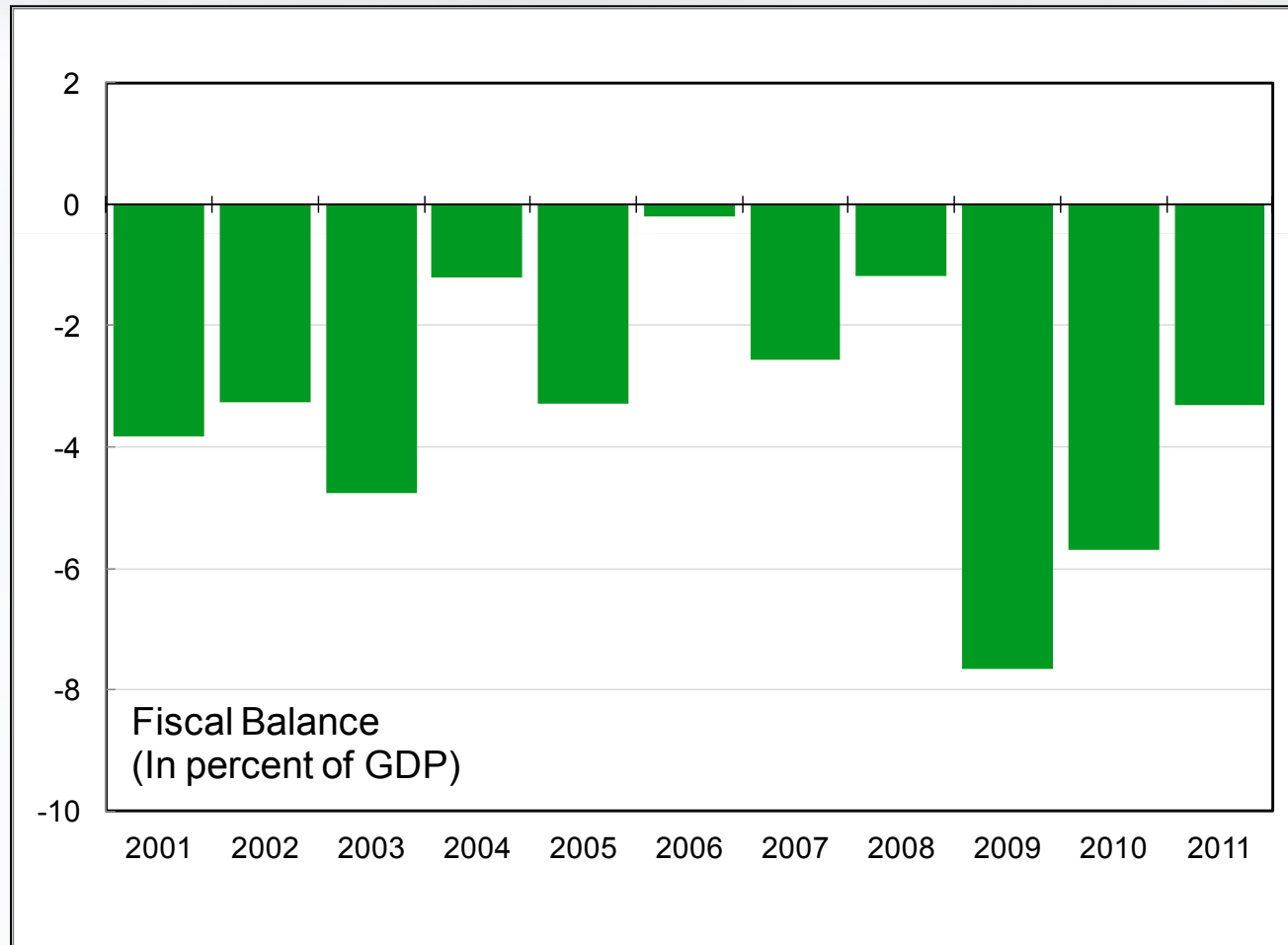
# Monetary and exchange rate policy

## Exchange rates



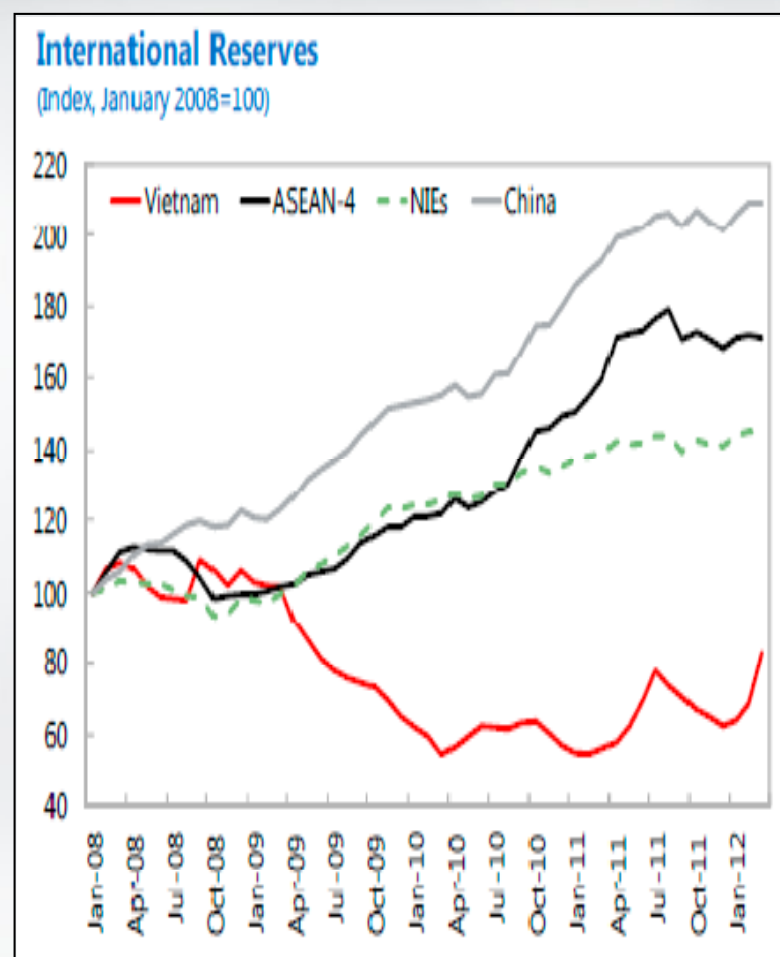
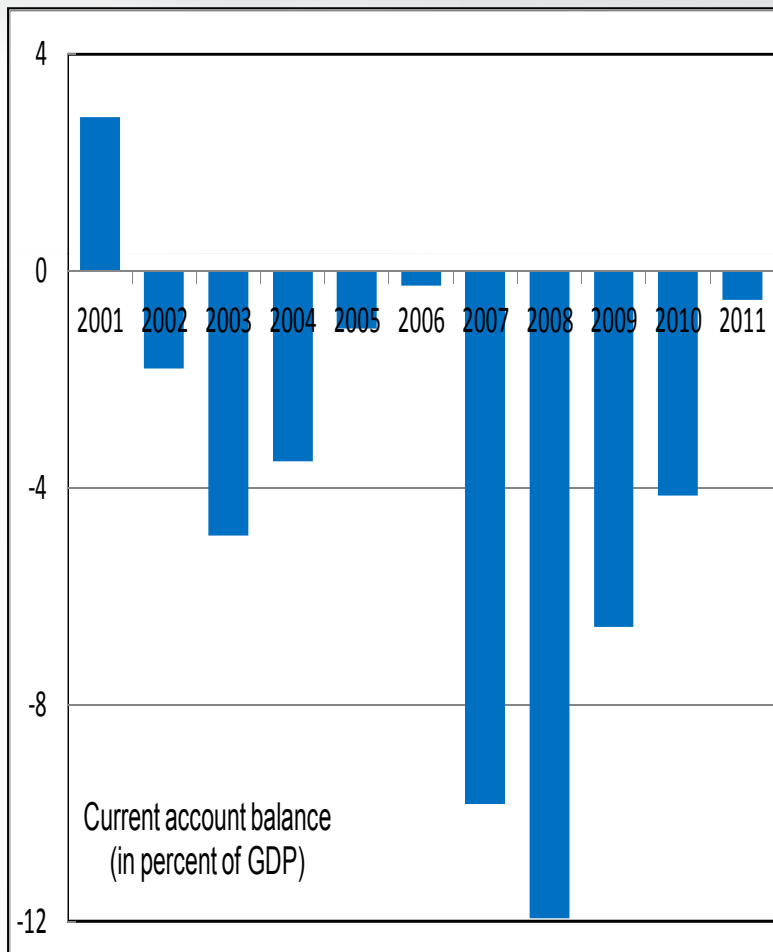
# Fiscal policy

## Budget deficits



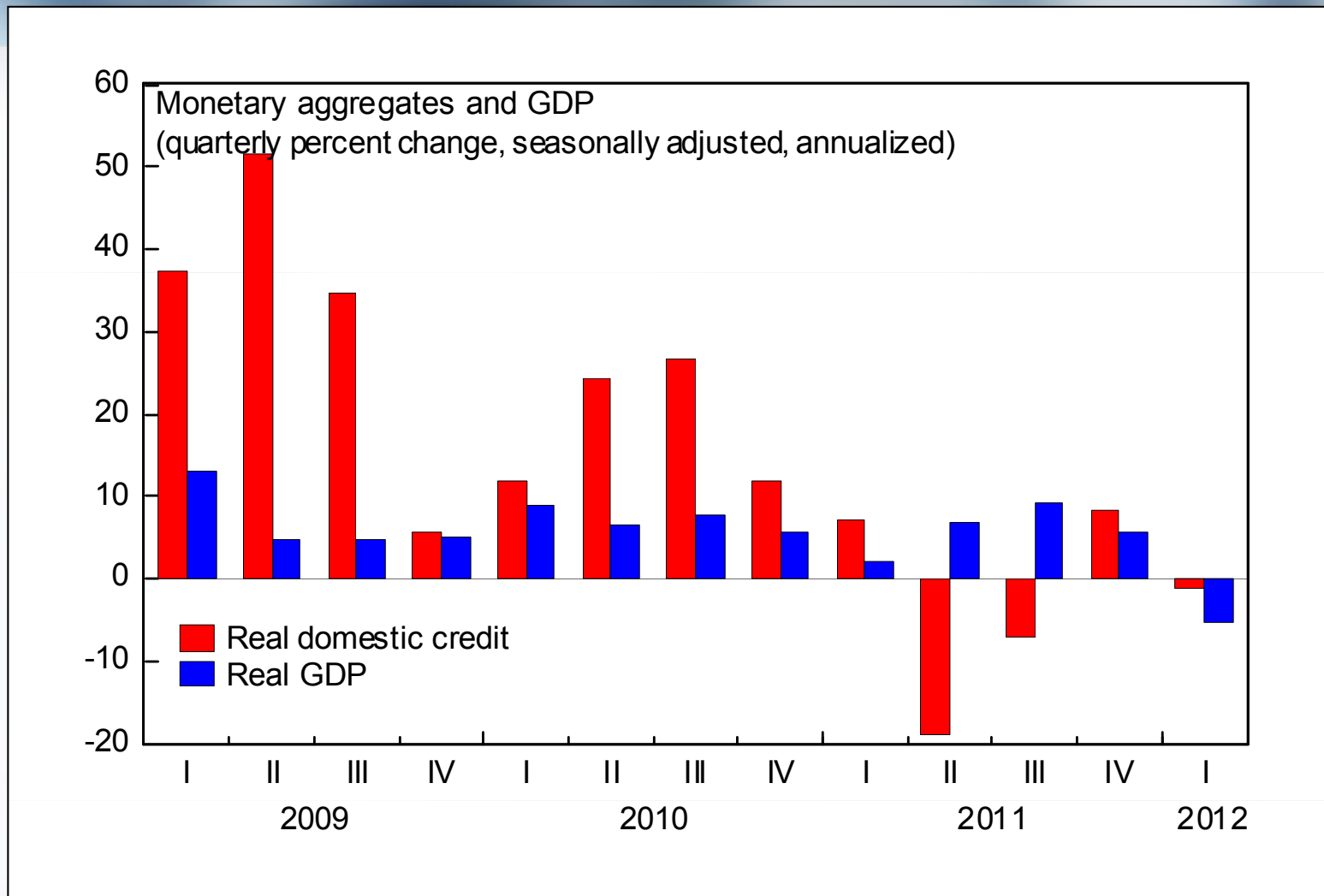
# External sector

## Balance of payments and international reserves



# Macro-financial linkages

## Real GDP and credit growth

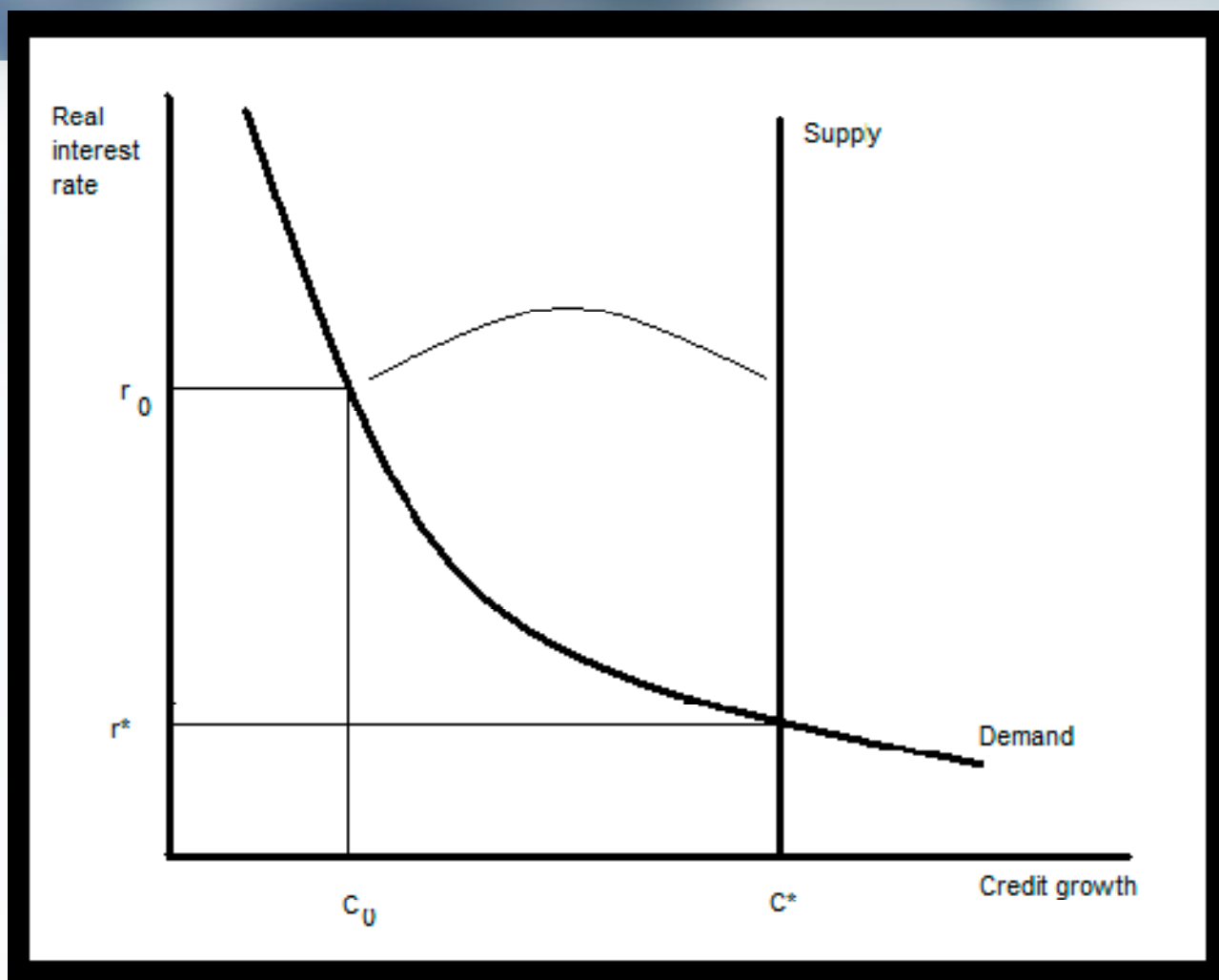




# Macro-financial linkages

- Credit risk, NPLs and credit supply
- Leverage and credit demand
- Asset prices and balance sheets

# Macro-financial linkages



# The Long View Forward

- Sources of growth
- Demographics
- Structural reforms
  - Banking sector
  - Public investment
  - SOEs

# Sources of growth

## Percent

	Vietnam			China			Indonesia		
	1990-2010	1990-2000	2000-2010	1990-2010	1990-2000	2000-2010	1990-2010	1990-2000	2000-2010
<b>GDP Growth</b>	<b>7.16</b>	<b>7.30</b>	<b>7.01</b>	<b>8.97</b>	<b>7.10</b>	<b>10.85</b>	<b>4.61</b>	<b>4.13</b>	<b>5.08</b>
Capital Input	4.47	3.54	5.40	5.76	5.22	6.30	3.19	3.52	2.87
ICT	0.66	0.37	0.94	0.99	0.81	1.16	0.41	0.21	0.61
Non-ICT	3.81	3.16	4.46	4.77	4.41	5.14	2.79	3.31	2.26
Labor Input	1.37	1.31	1.44	0.55	0.69	0.40	1.05	1.01	1.10
Quality	0.09	0.08	0.11	0.15	0.15	0.15	0.17	0.17	0.17
Hours	1.28	1.23	1.33	0.40	0.54	0.25	0.89	0.85	0.93
TFP	1.31	2.46	0.16	2.67	1.18	4.16	0.36	-0.4	1.12

Source: Vu (2000)

# Sources of growth

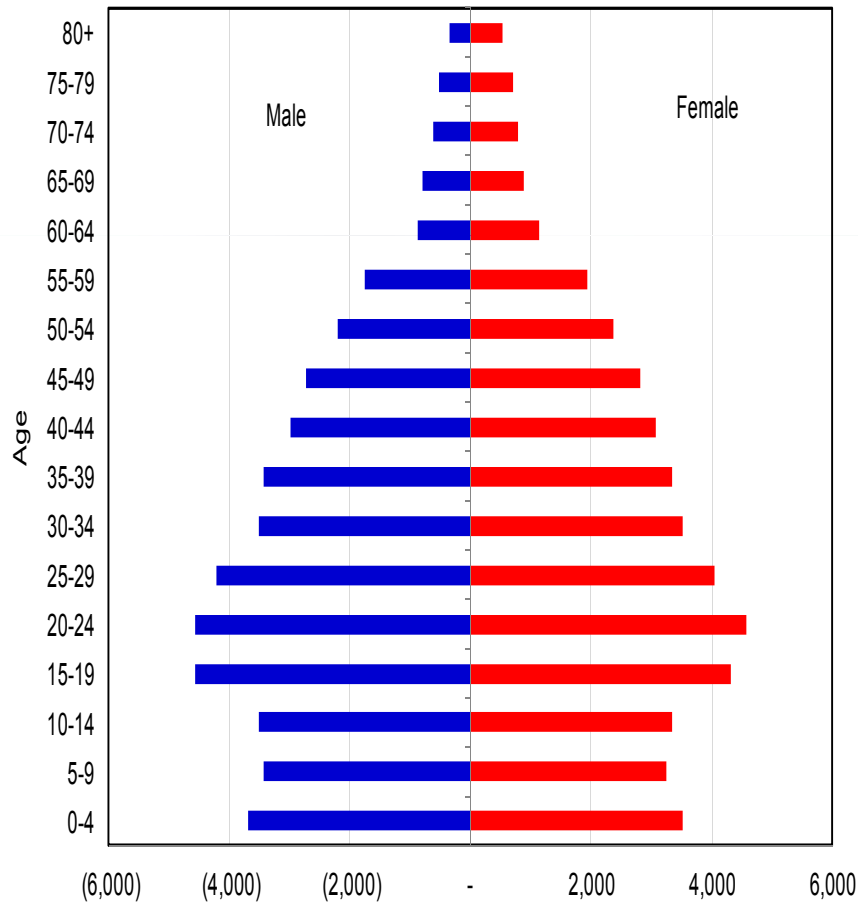
## Shares

	Vietnam			China			Indonesia		
	1990-2010	1990-2000	2000-2010	1990-2010	1990-2000	2000-2010	1990-2010	1990-2000	2000-2010
<b>GDP Growth</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
Capital Input	63	48	77	64	74	58	69	85	56
ICT	9	5	13	11	12	11	9	5	12
Non-ICT	53	43	64	53	62	47	61	80	45
Labor Input	19	18	21	6	10	4	23	25	22
Quality	1	1	2	2	2	1	4	4	3
Hours	18	17	19	4	8	2	19	21	18
TFP	18	34	2	30	17	38	8	-10	22

Source: Vu (2000)

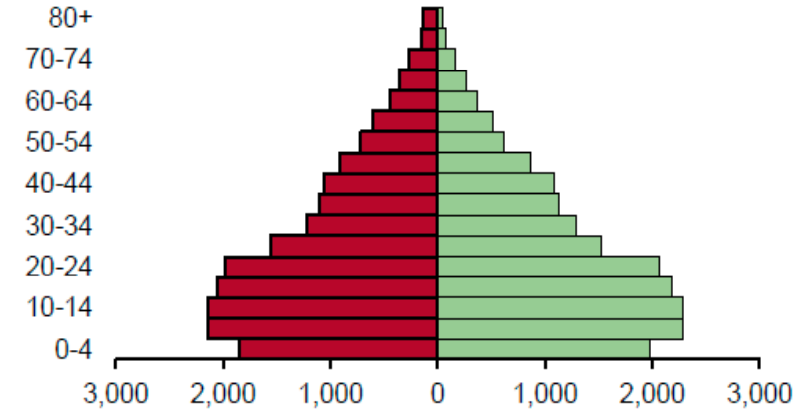
# Demographics

Vietnam: Structure of Population, 2010

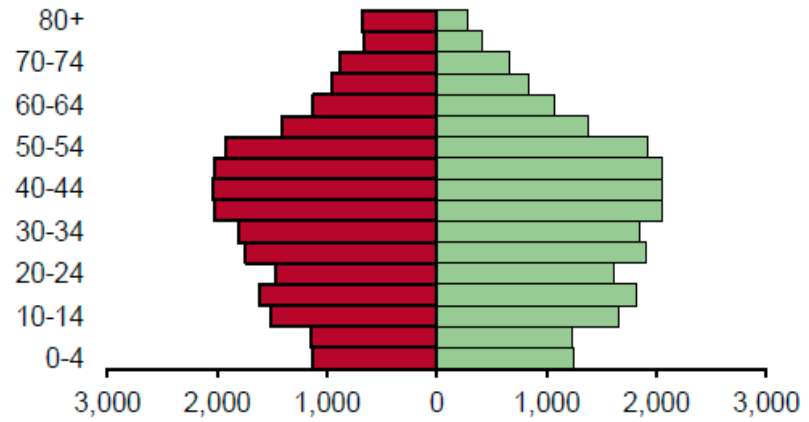


Source: UNFPA.

South Korea 1980



South Korea 2010



Source: Credit Suisse

# Structural reforms

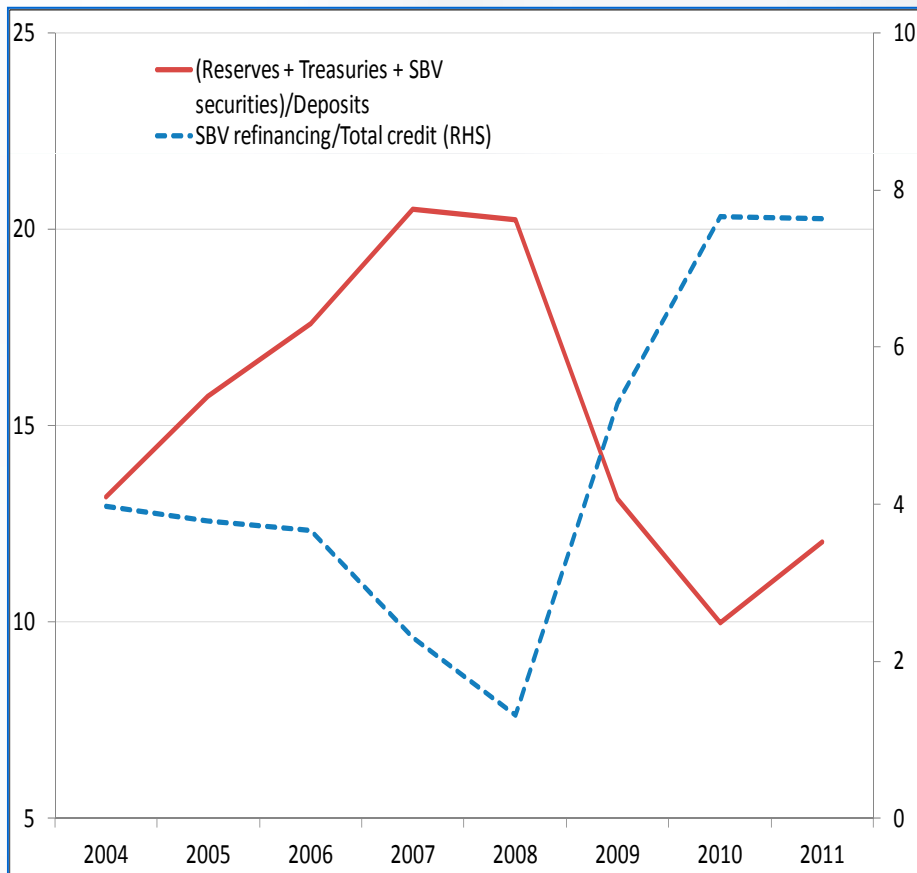
## Banking sector

- Liquidity and solvency
- NPLs
- Fiscal cost of bank restructuring

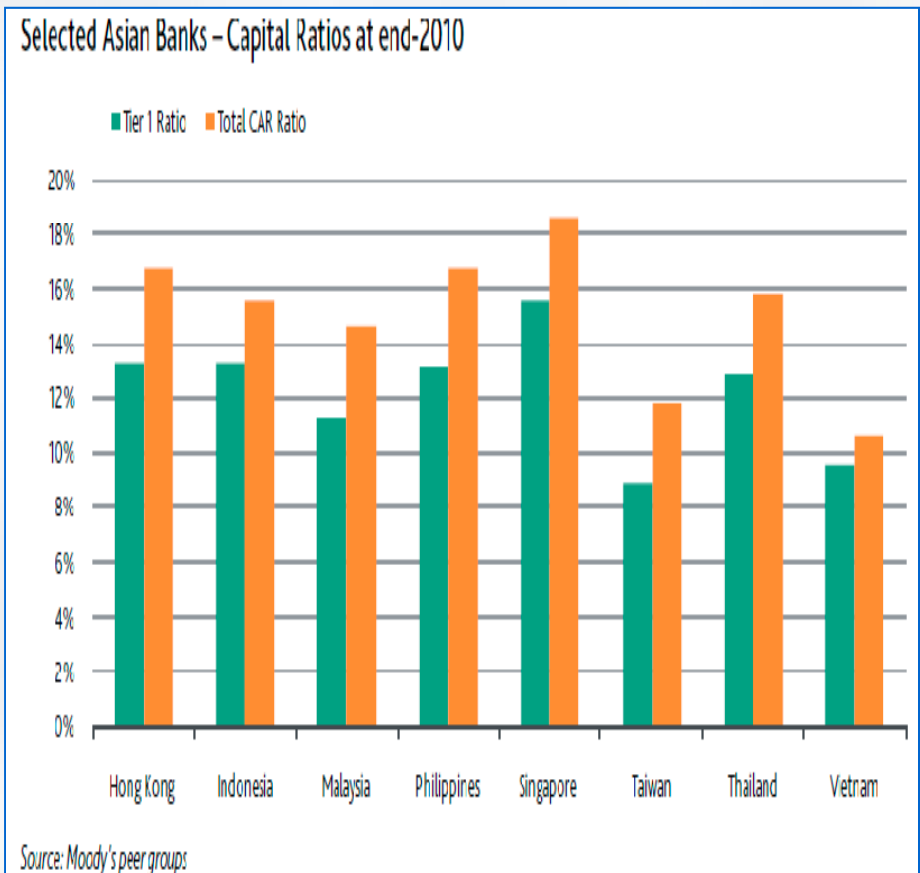
# Banking sector

## Liquidity and solvency

### Liquidity stress



### Capital adequacy



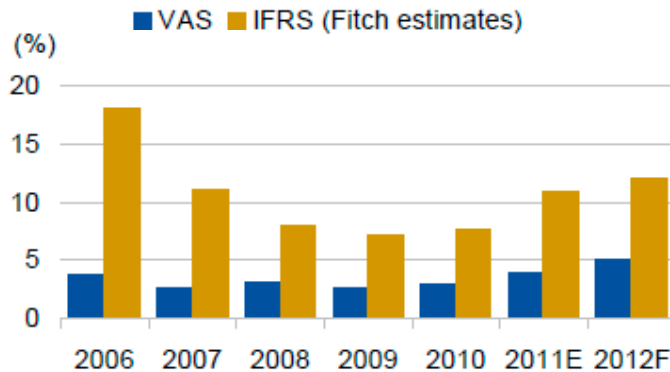


# Banking sector

## NPLs

### Vietnam: Key Performance Trends

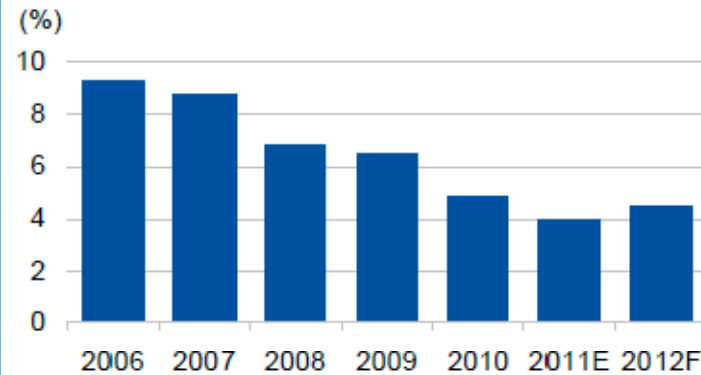
Asset Quality - NPL ratio



Source: Fitch, banks

### Thailand: Key Performance Trends

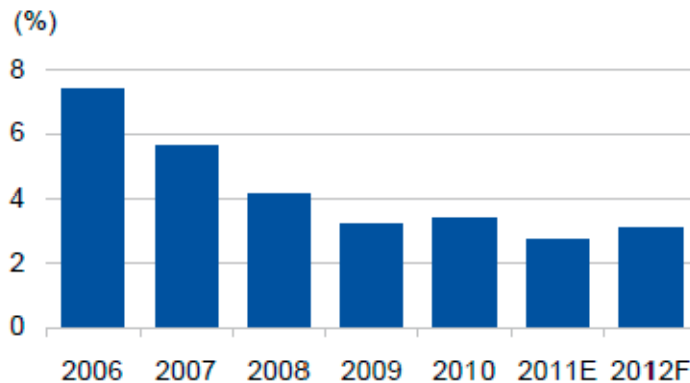
Asset quality - NPL ratio



Source: Fitch, banks

### Malaysia: Key Performance Trends

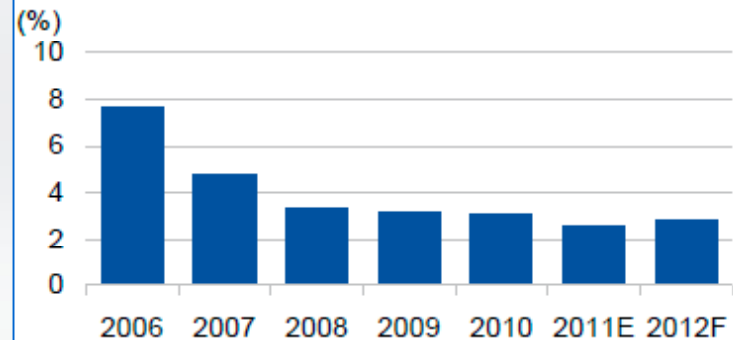
Asset quality - NPL ratio



Source: Fitch, BNM

### Indonesia: Key Performance Trends

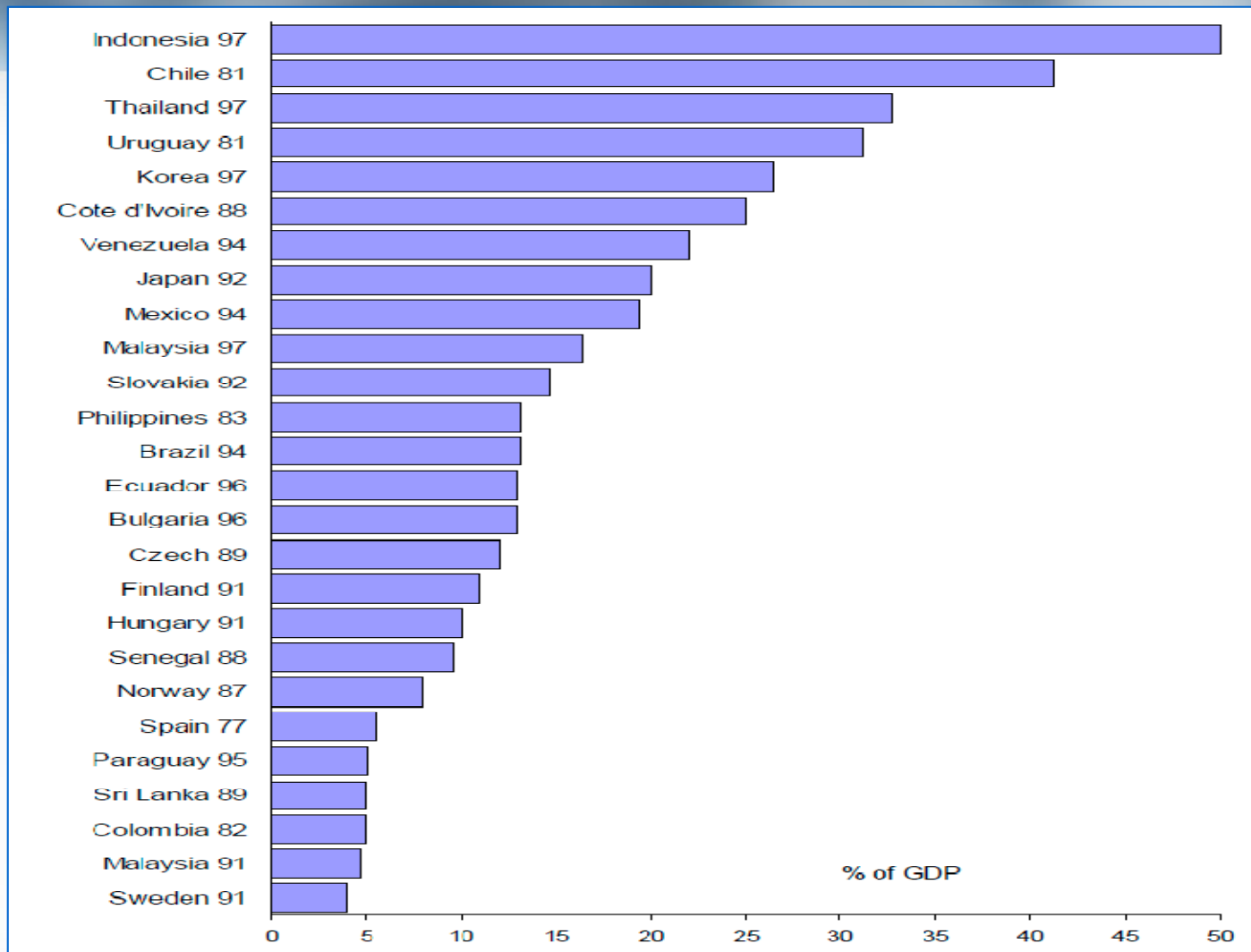
Asset quality - NPL ratio



Source: Fitch, 9 major banks

# Banking sector

## Fiscal cost of bank restructuring



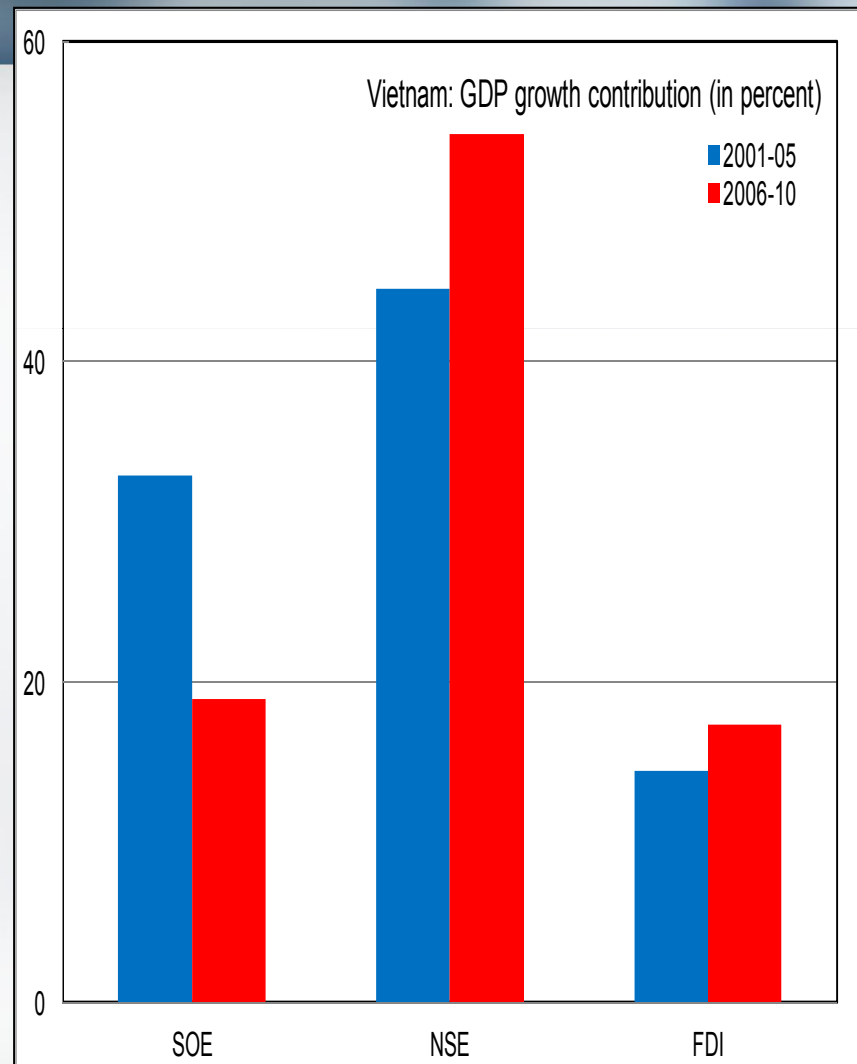
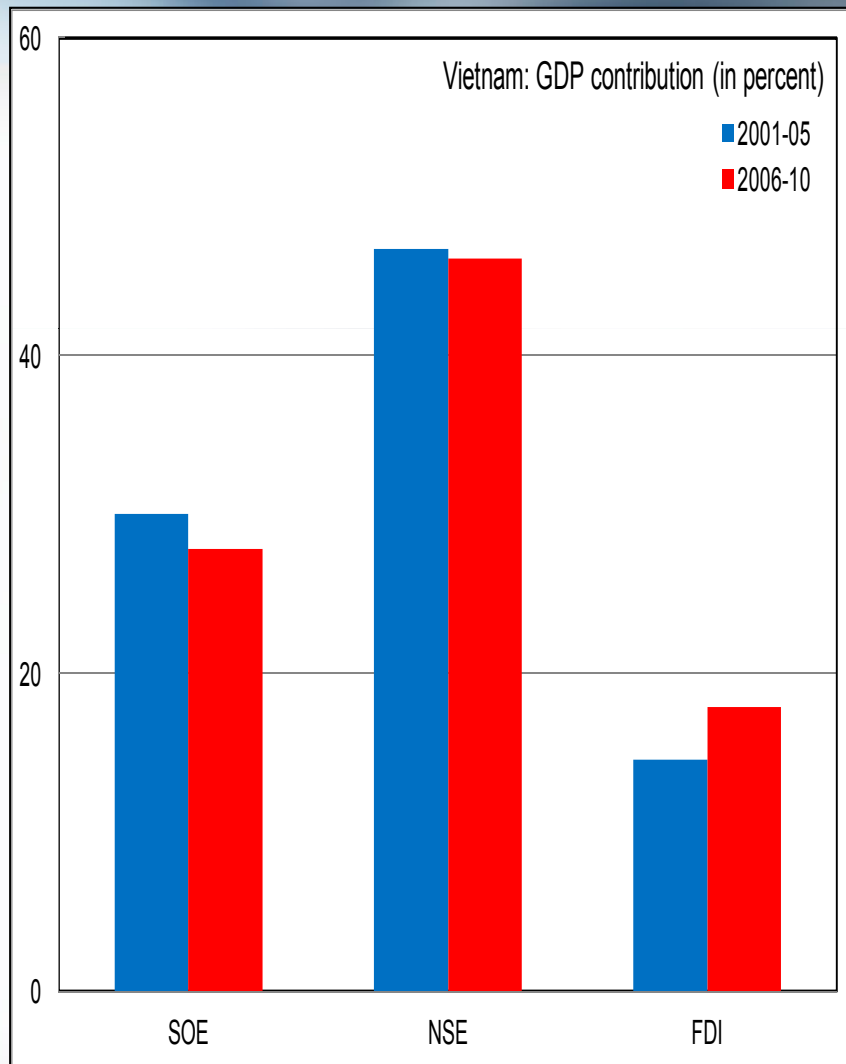
# Structural reforms

## Public investment

- Inefficiency
- Overextension
- Leakages

# Structural reforms

## State-owned enterprises



# Structural reforms

## State-owned enterprises

