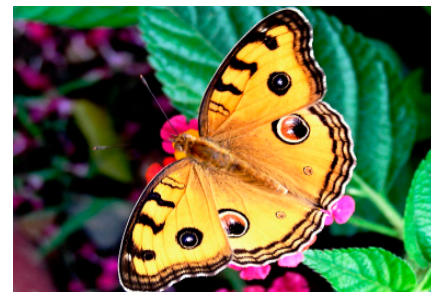


# Vietnam's Economy in 2014: The Global Economy and Macroeconomic Outlook



Eurocham Luncheon  
Sofitel Plaza Hotel, Hanoi  
January 21, 2014



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International Monetary Fund  
Hanoi, Vietnam

# Road map









- The Global Economy—WEO, Oct 2013 and January 2014 update
- Vietnam
  - Macroeconomic stabilization: Developments in 2012/2013
  - 2014 and the Long Haul
    - Macroeconomic stability and growth
    - Policies
      - Macroeconomic policies
      - Structural reforms



# IMF's World Economic Outlook

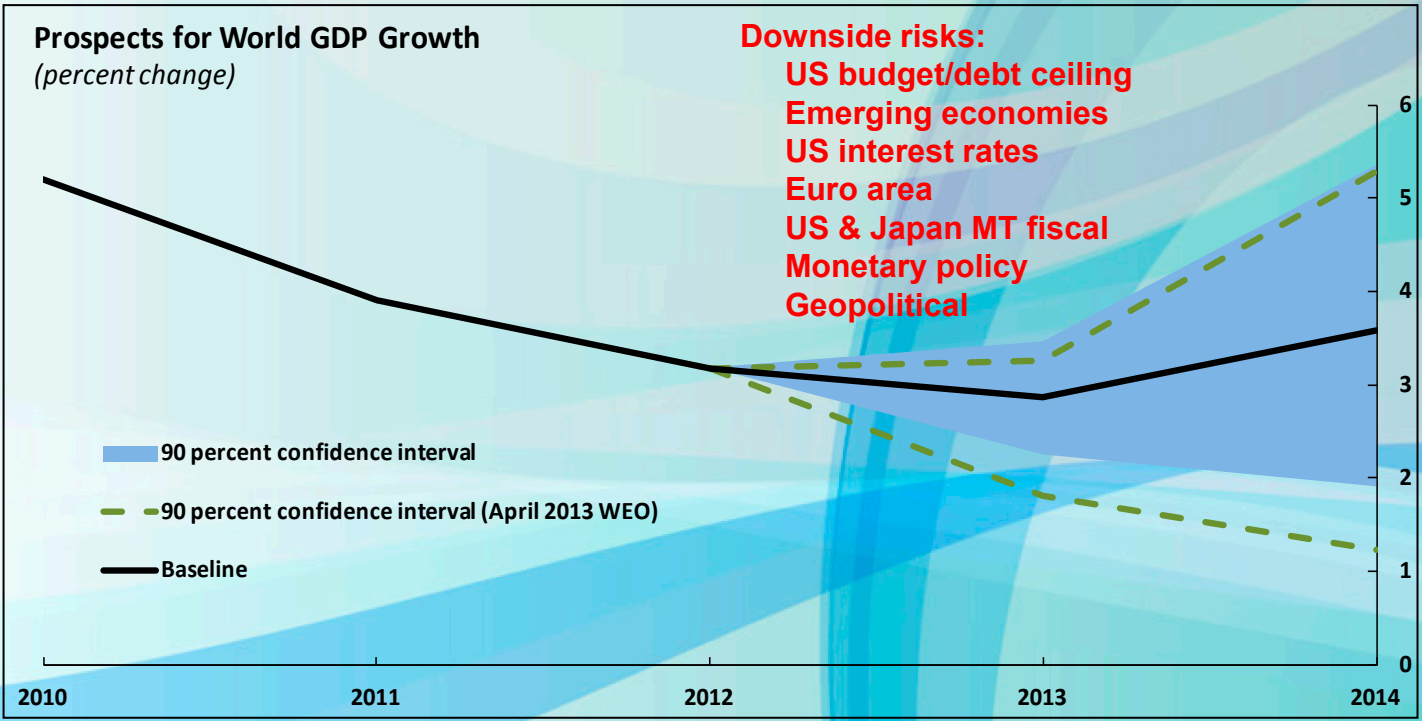
## October 2013 and January 2014 Update

# WEO Forecast

								
	World	U.S.	Euro Area	Japan	Brazil	Russia	India	China
<b>2013</b> (Oct. 2013)	2.9	1.6	-0.4	2.0	2.5	1.5	3.8	7.6
<b>2013</b> (Jul. 2013)	3.1	1.7	-0.6	2.0	2.5	2.5	5.6	7.8
<b>2014</b> (Oct. 2013)	3.6	2.6	1.0	1.2	2.5	3.0	5.1	7.3
<b>2014</b> (Jul. 2013)	3.8	2.7	0.9	1.2	3.2	3.3	6.3	7.7

Source: World Economic Outlook, IMF, October 2013.

# Risks



Source: World Economic Outlook, IMF, October 2013.

# Global Growth Dynamics Are Changing

Two new developments:

- Markets anticipated a change in U.S. monetary policy
- Lower growth in emerging economies, notably China

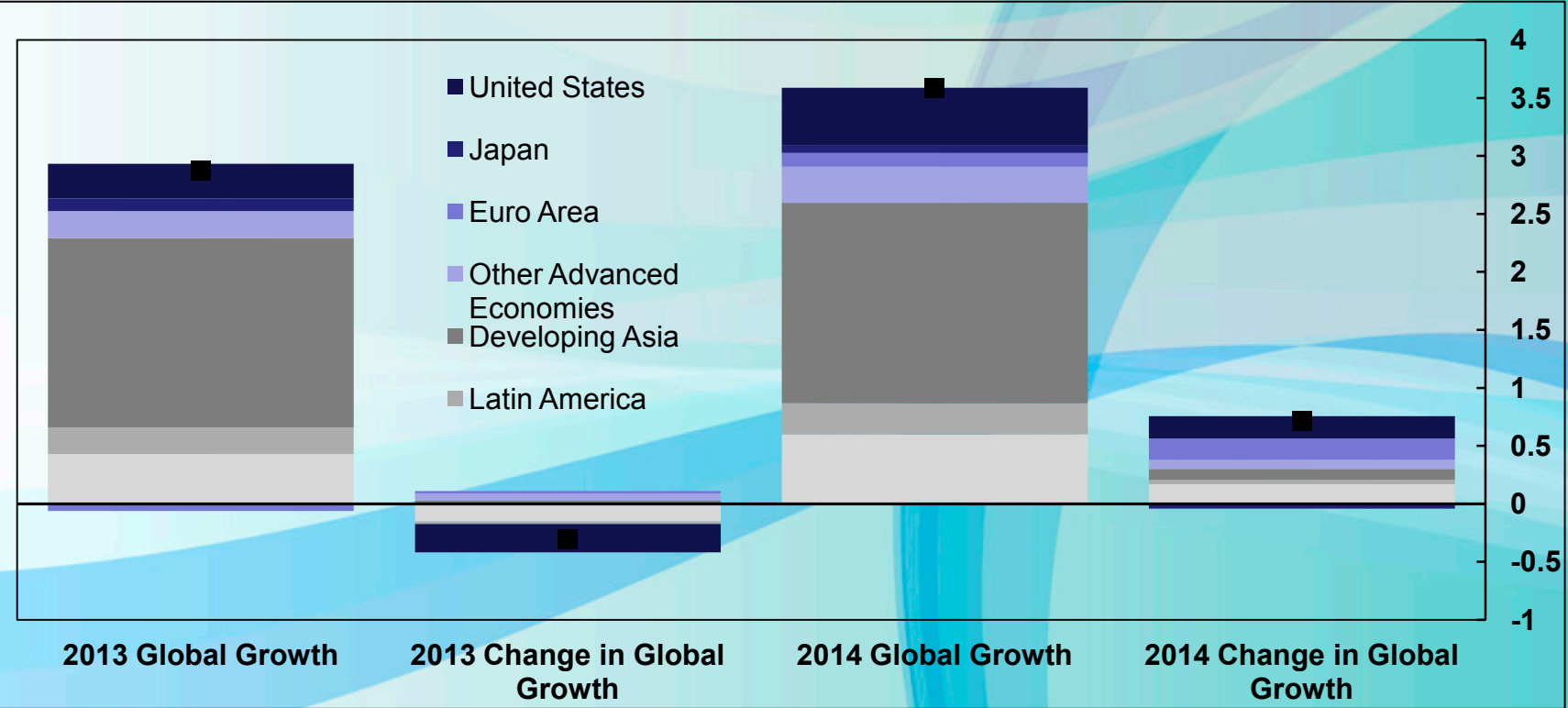
# Risks from higher interest rates in advanced economies for emerging economies

Role of reason for policy change:

- Higher-than-expected growth – good for the world
- Tighter policy stance – not good for the world
- Higher-than-expected inflation – bad for the world
- Worse fiscal positions – ugly for the world
- Other – depends

# Global growth impulses to be increasingly driven by advanced economies

Contributors to Global Growth and Changes in Global Growth  
(Percent)

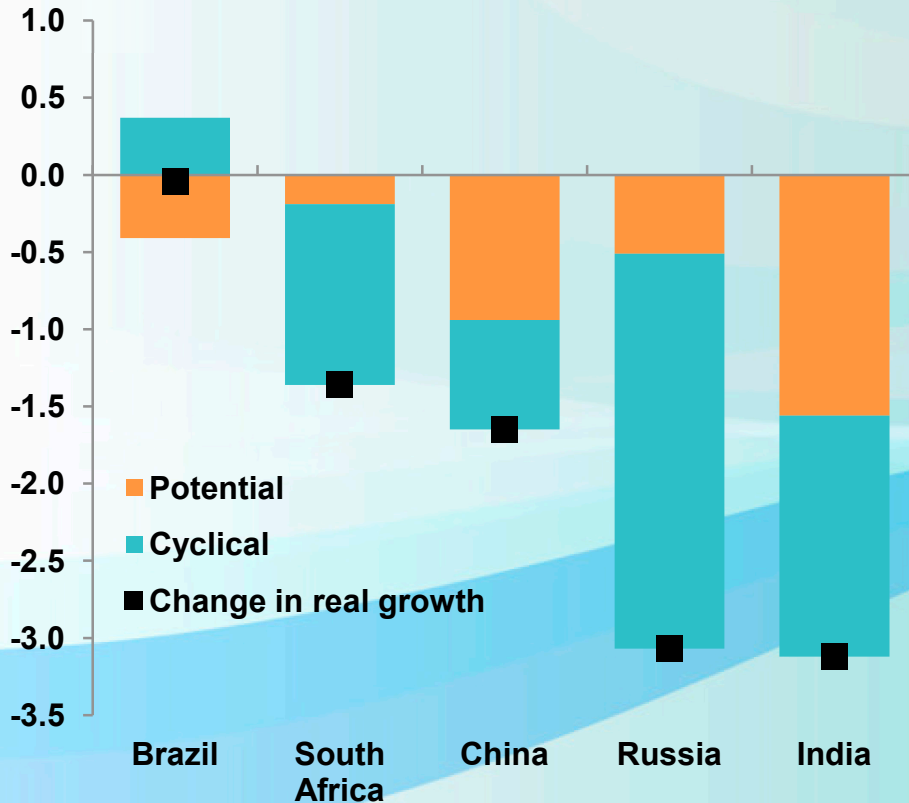


Source: IMF staff estimates.  
Note: EMDEs = Emerging Market and Developing Economies.

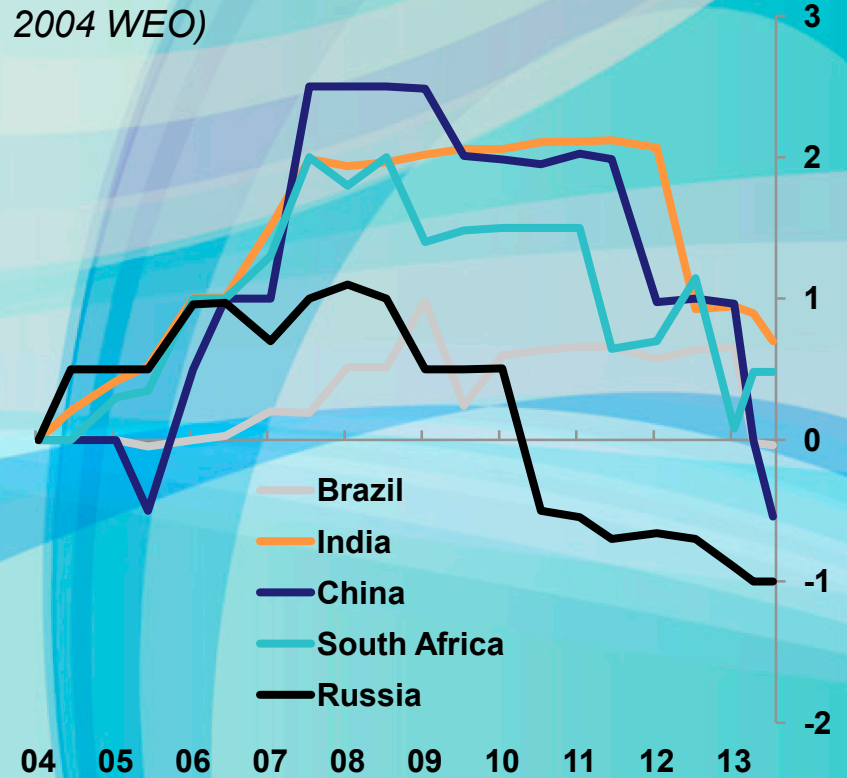


# EM growth has declined for cyclical and structural reasons.

**Decomposing the 2011-13 Slowdown 1/**  
(percentage points)



**Long-term Expectations: Up and Down 2/**  
(medium-term growth forecast; change from April 2004 WEO)



Source: IMF, *World Economic Outlook*.

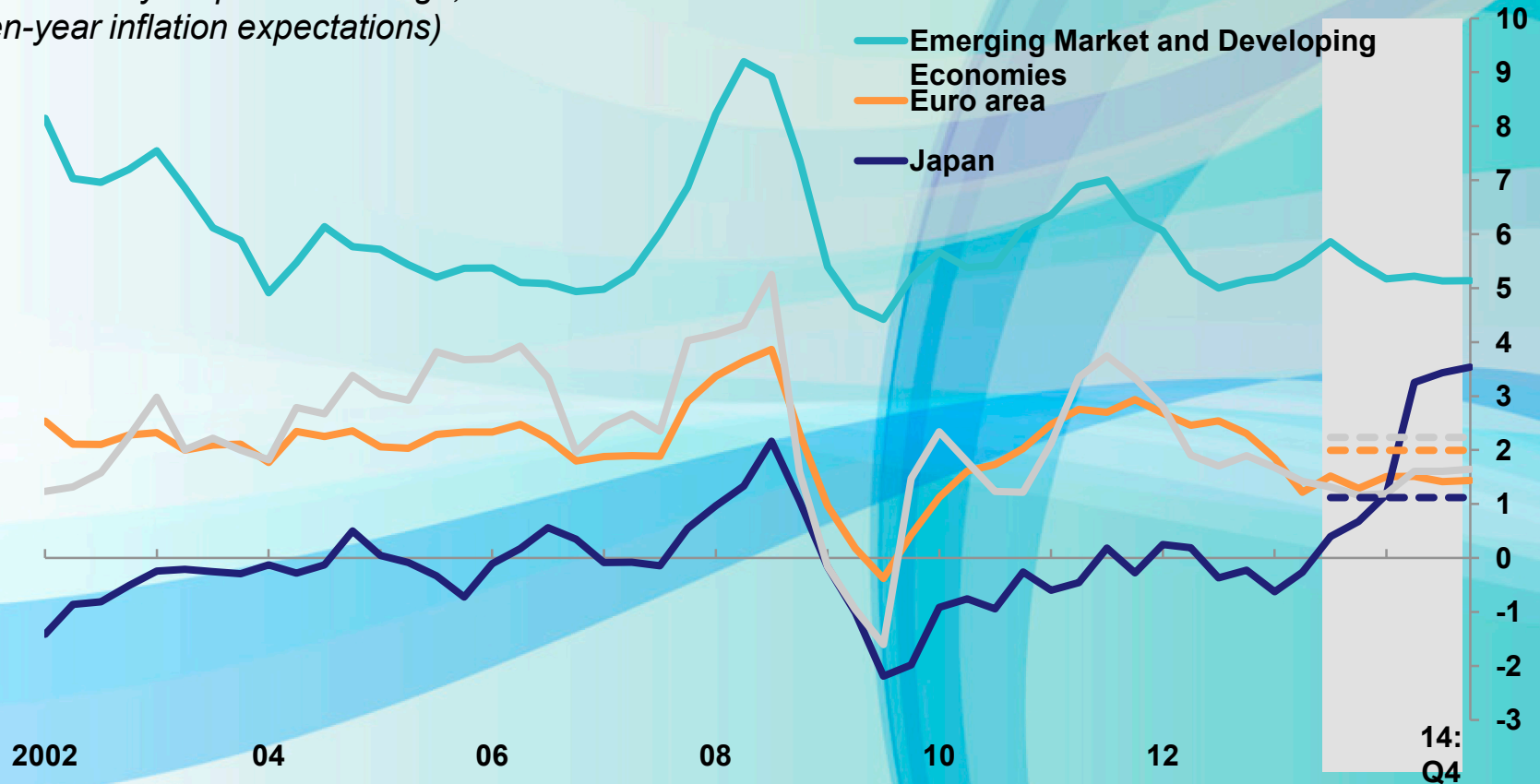
1/ Cyclical component of growth calculated as the difference between real and potential growth. Potential growth estimated using multivariate filter (see Box 1.2 of the October 2013 WEO for details).

2/ 5-year ahead growth forecasts used as a proxy for longer term growth expectations. India's figures for the July 2013 update are in fiscal year terms.

But inflation pressures are very low. Thus, monetary policy can be expected to stay accommodative in advanced economies.

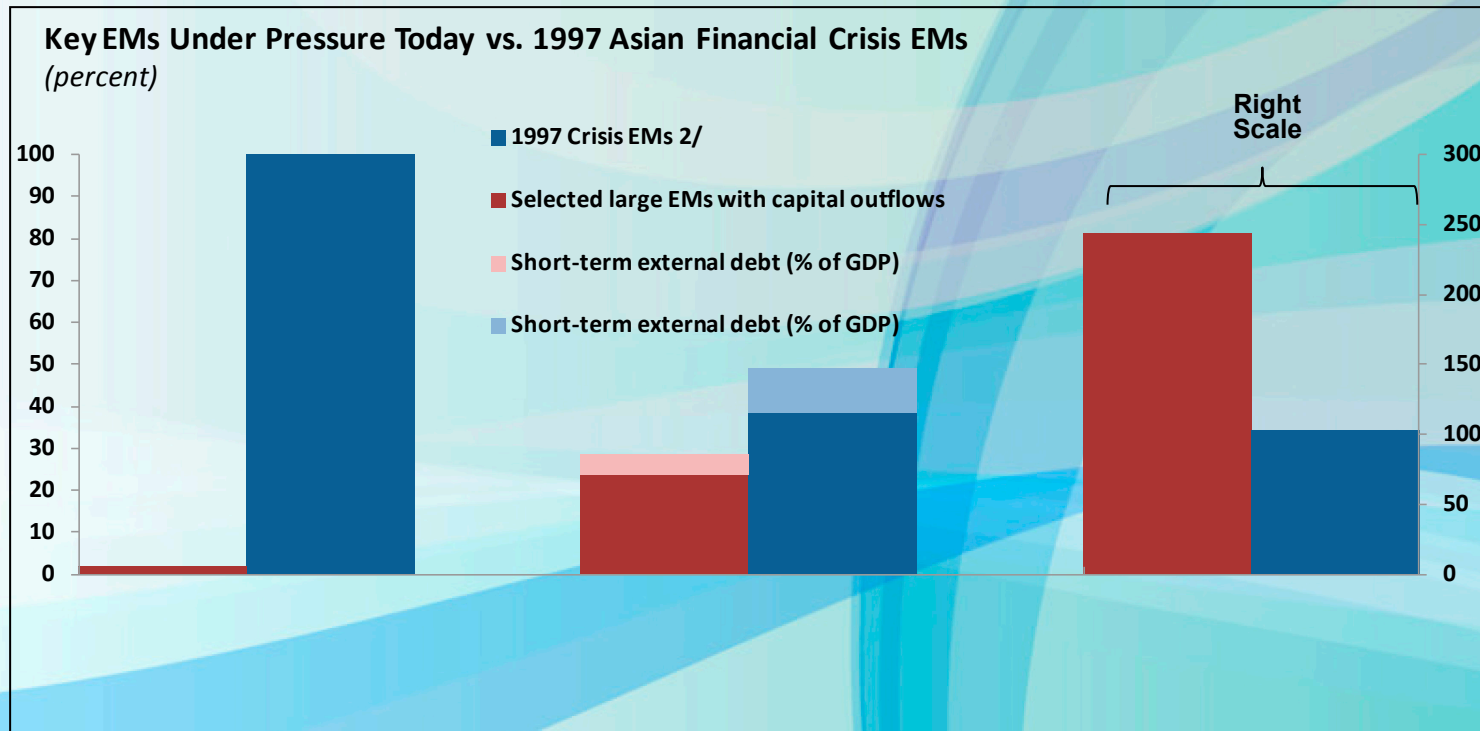
### Global aggregates: Headline Inflation

(year-over-year percent change; dashed lines are the six-to-ten-year inflation expectations)



Sources: Consensus Forecast; and IMF staff estimates.

# EMs are now more resilient than in 1997. However, vulnerabilities have built up in some. *(initial conditions)*



Source: World Economic Outlook, IMF, October 2013.

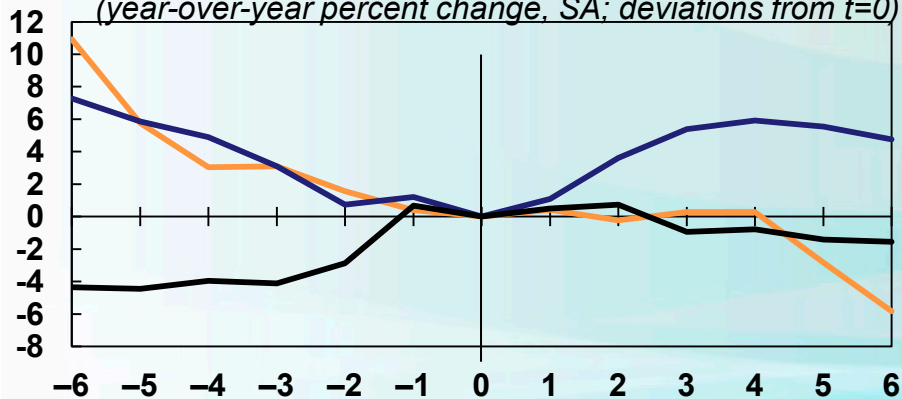
1/ Brazil, Indonesia, India, Turkey, and South Africa. Data shown for 2012.

2/ Indonesia, Korea, Thailand, Malaysia, and Philippines. Data shown for 1996.

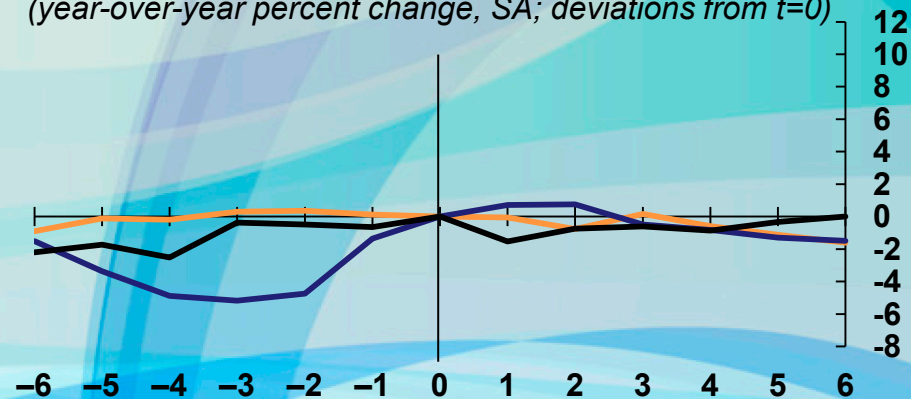
# EM growth and capital flows do not necessarily fall much when U.S. policy rates rise because of stronger U.S. growth.

— February 1994    — June 1999    — June 2004

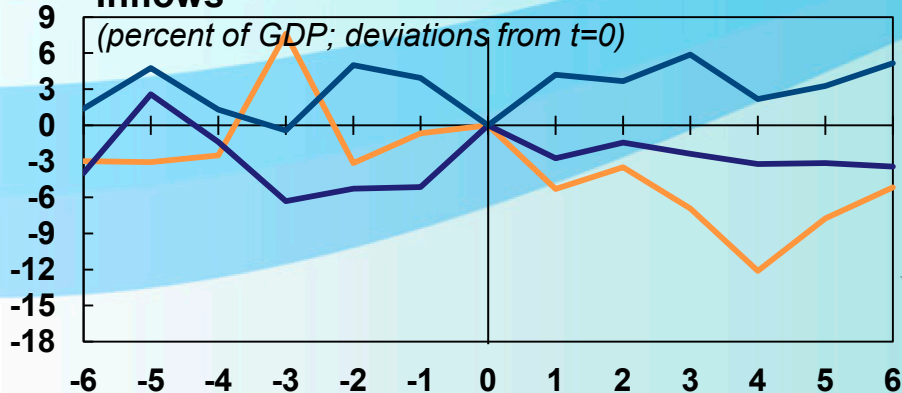
**Latin America and the Caribbean: GDP Growth**  
(year-over-year percent change, SA; deviations from t=0)



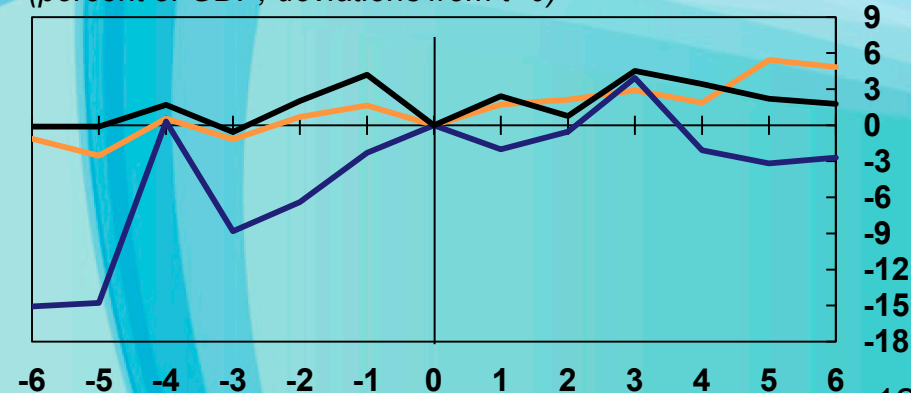
**Emerging Asia: GDP Growth**  
(year-over-year percent change, SA; deviations from t=0)



**Latin America and the Caribbean: Gross Capital Inflows**  
(percent of GDP; deviations from t=0)



**Emerging Asia: Gross Capital Inflows**  
(percent of GDP; deviations from t=0)



# Asia: Growth

**Table 1. Asia: Real GDP**  
(Year-on-year percent change)

	Actual Data and Latest Projections				Difference from April 2013 WEO	
	2011	2012	2013	2014	2013	2014
Australia	2.4	3.7	2.5	2.8	-0.5	-0.5
Japan	-0.6	2.0	2.0	1.2	0.4	-0.2
New Zealand	1.4	2.7	2.5	2.9	-0.2	0.4
<b>East Asia</b>	<b>8.2</b>	<b>6.6</b>	<b>6.7</b>	<b>6.6</b>	<b>-0.4</b>	<b>-0.8</b>
China	9.3	7.7	7.6	7.3	-0.4	-1.0
Hong Kong SAR	4.9	1.5	3.0	4.4	0.0	0.0
Korea	3.7	2.0	2.8	3.7	0.0	-0.2
Taiwan Province of China	4.1	1.3	2.2	3.8	-0.8	-0.1
<b>South Asia</b>	<b>6.4</b>	<b>3.5</b>	<b>4.0</b>	<b>5.2</b>	<b>-1.9</b>	<b>-1.1</b>
Bangladesh	6.5	6.1	5.8	6.0	-0.2	-0.3
India	6.3	3.2	3.8	5.1	-2.0	-1.2
Sri Lanka	8.2	6.4	6.3	6.7	0.0	0.0
<b>ASEAN</b>	<b>4.7</b>	<b>5.7</b>	<b>4.9</b>	<b>5.3</b>	<b>-0.6</b>	<b>-0.2</b>
Brunei Darussalam	3.4	0.9	1.4	6.2	0.3	0.2
Cambodia	7.1	7.3	7.0	7.2	0.3	0.0
Indonesia	6.5	6.2	5.3	5.5	-1.0	-0.9
Lao P.D.R.	8.0	7.9	8.3	7.8	0.3	0.1
Malaysia	5.1	5.6	4.7	4.9	-0.4	-0.3
Myanmar	5.9	6.4	6.8	6.9	0.3	0.3
Philippines	3.6	6.8	6.8	6.0	0.8	0.6
Singapore	5.2	1.3	3.5	3.4	1.5	-1.7
Thailand	0.1	6.5	3.1	5.2	-2.8	1.0
Vietnam	6.2	5.2	5.3	5.4	0.1	0.2
<b>Small States<sup>1</sup></b>	<b>5.0</b>	<b>3.3</b>	<b>2.8</b>	<b>3.3</b>	<b>-0.5</b>	<b>-0.3</b>
<b>Pacific Island Countries<sup>2</sup></b>	<b>3.7</b>	<b>2.5</b>	<b>1.9</b>	<b>2.3</b>	<b>-0.3</b>	<b>-0.1</b>
<b>Emerging Asia<sup>3</sup></b>	<b>7.8</b>	<b>6.4</b>	<b>6.3</b>	<b>6.5</b>	<b>-0.9</b>	<b>-0.9</b>
<b>Asia</b>	<b>5.8</b>	<b>5.1</b>	<b>5.1</b>	<b>5.3</b>	<b>-0.6</b>	<b>-0.7</b>

Source: IMF staff projections.

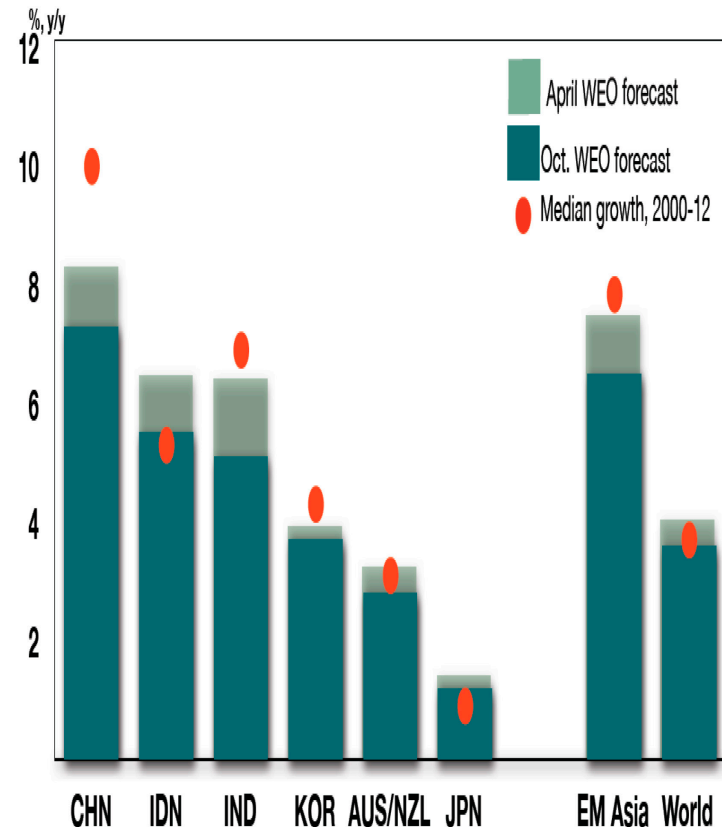
<sup>1</sup> Small States include Bhutan, Fiji, Kiribati, Maldives, Marshall Islands, Micronesia, Palau, Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu, and Vanuatu.

<sup>2</sup> Pacific Island Countries include Fiji, Kiribati, Marshall Islands, Micronesia, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu.

<sup>3</sup> Emerging Asia includes China, India, Indonesia, Malaysia, the Philippines, Thailand, and Vietnam.

Note: India's data are reported on a fiscal year basis.

## Growth Forecast, 2014



# Key Questions and Takeaways

**How is the region placed to handle the withdrawal of global liquidity?**

**Where are areas of concern/vulnerabilities?**

**Will the region continue to drive global growth?**

**Will China manage the transition away from credit and investment based growth?**

**Where are we with Japan's efforts to exit low growth and deflation?**

Region generally well placed to handle withdrawal of global liquidity

But some weaker spots that require further policy action:

India, Indonesia in EMs

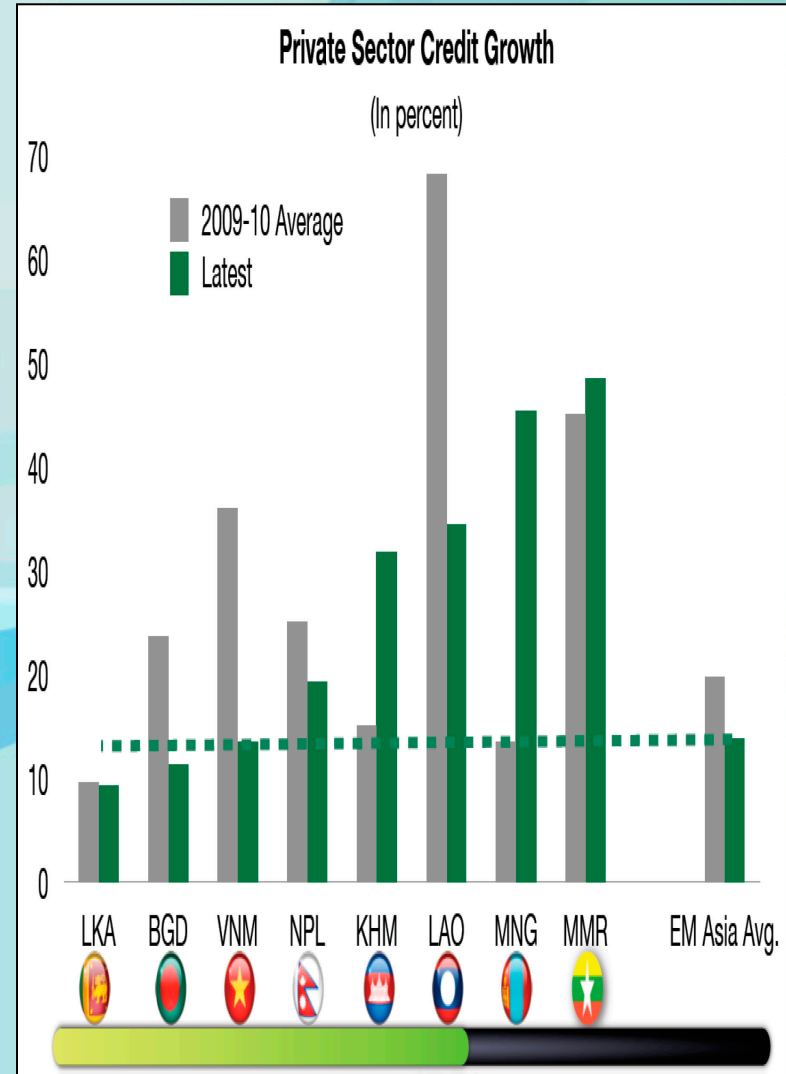
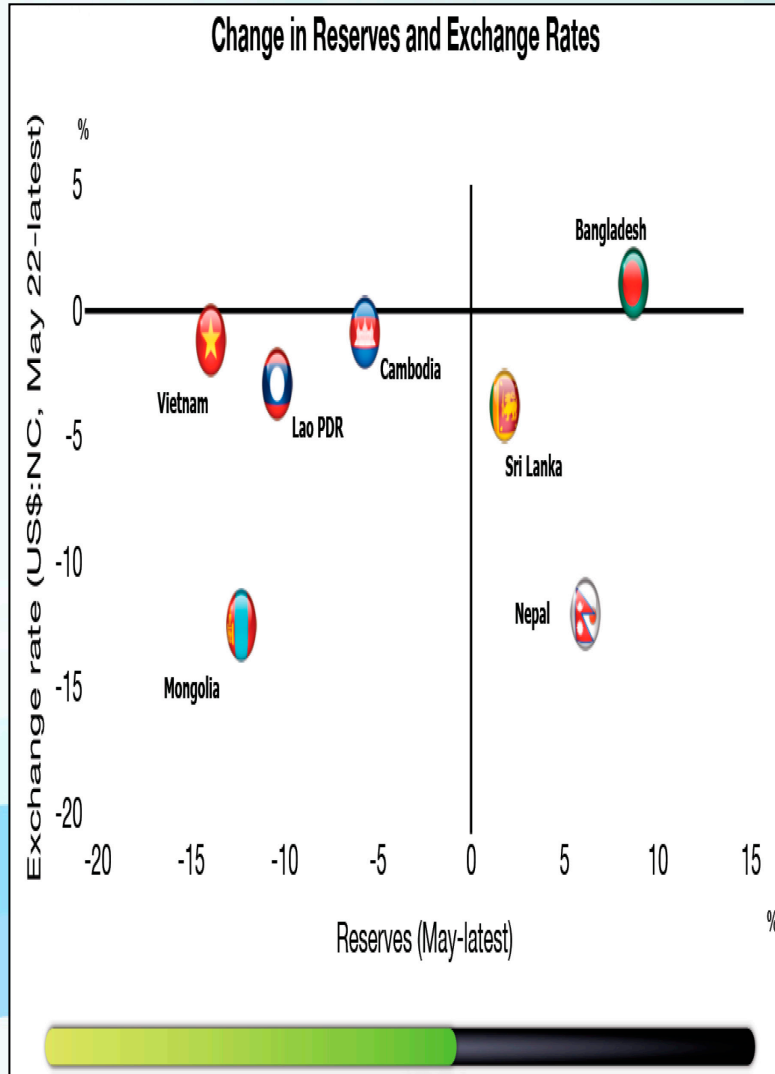
Some low-income countries

Despite some slowdown, EM Asia remains the global growth leader

China: Activity has stabilized but risks of credit and investment based growth are mounting

Japan: so far, so good with Abenomics but need to articulate medium-term fiscal and structural plans

# LICs: Generally Insulated



# Policies

**Euro area: banking union; structural & entitlement reforms; fiscal adjustment**  
**Japan: work on all 3 arrows of Abenomics**  
**US: address ST fiscal challenges; easy monetary policy; MT fiscal adjustment & entitlement reforms**

**China: advance rebalancing and reform shadow banking**  
**India: improve fiscal policy and remove structural bottlenecks**  
**Brazil: raise domestic saving and foster private investment**  
**Russia: rebuild fiscal buffers and improve the investment climate**

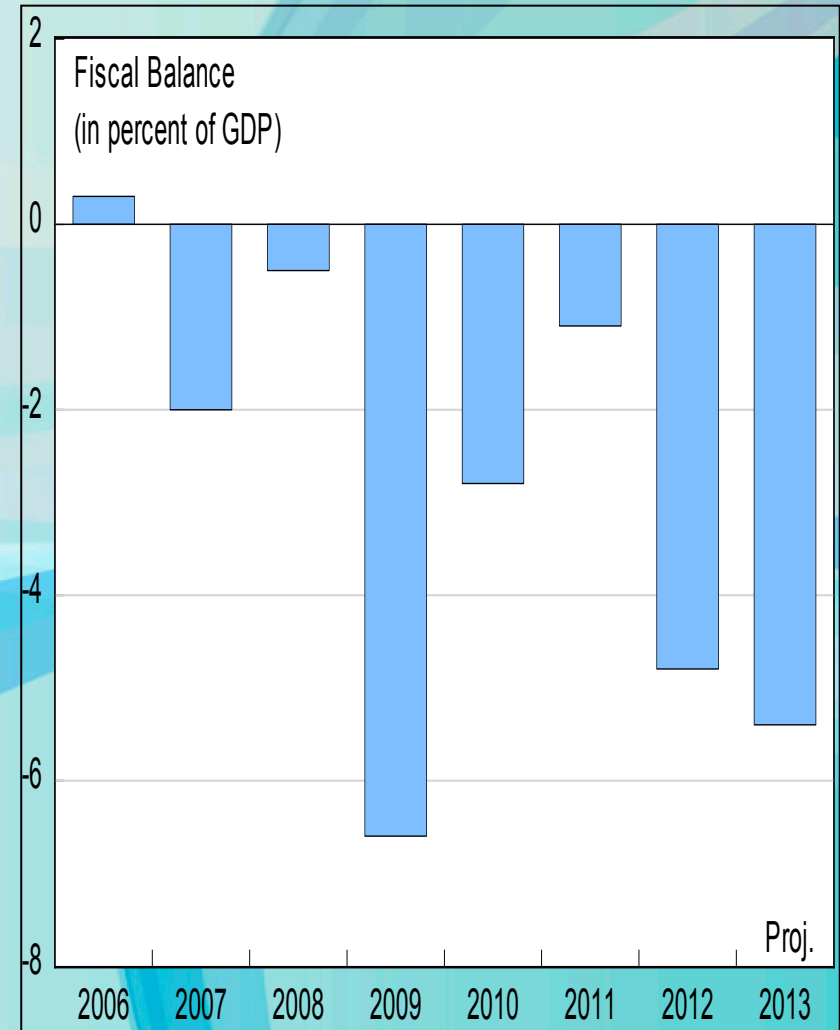
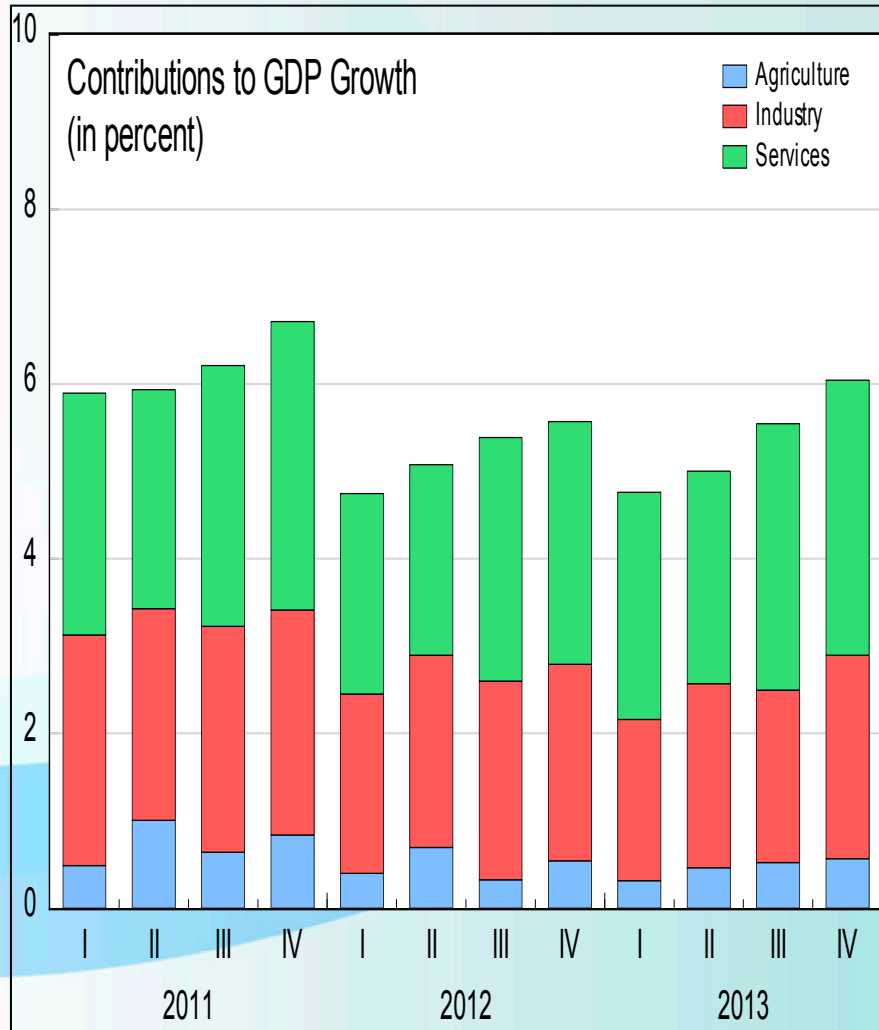
**EMDC: (i) exchange rate buffer; (ii) monetary policy to keep inflation well anchored; cut rates if room exists; (iii) fiscal policy to be geared to MT objectives; stimulate only if major slowdown threatens; (iv) preserve financial stability; (v) structural reforms**



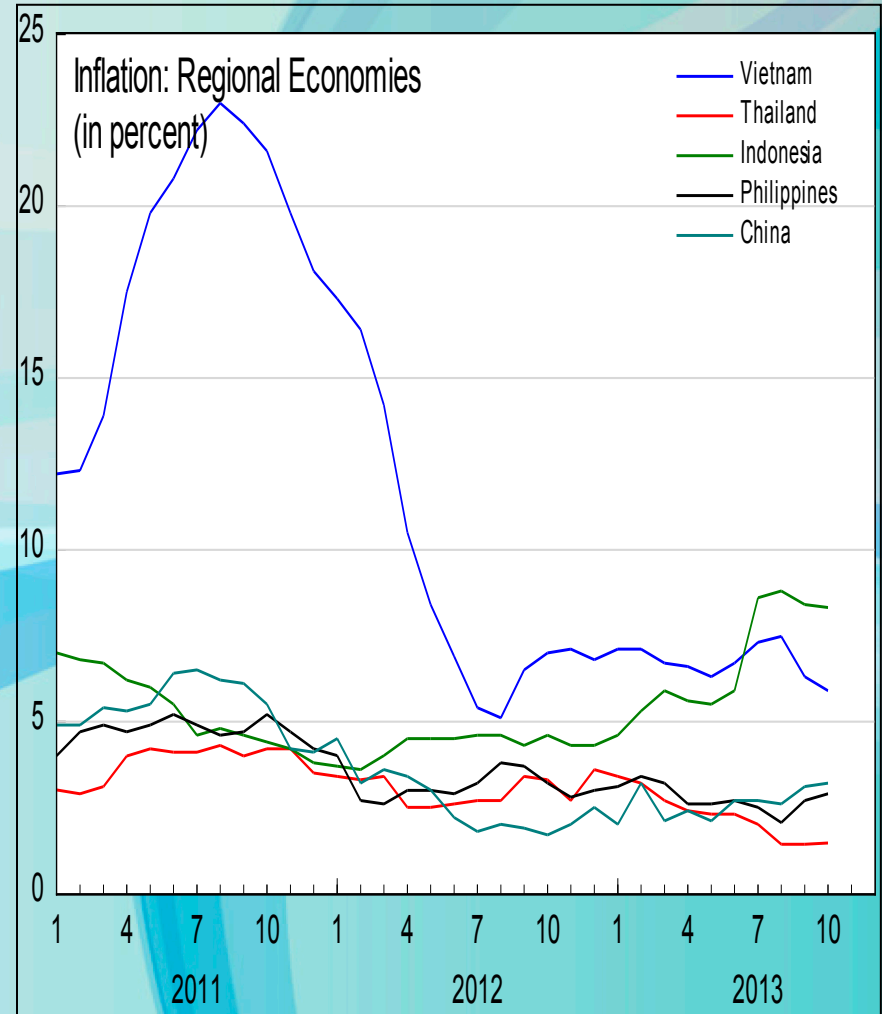
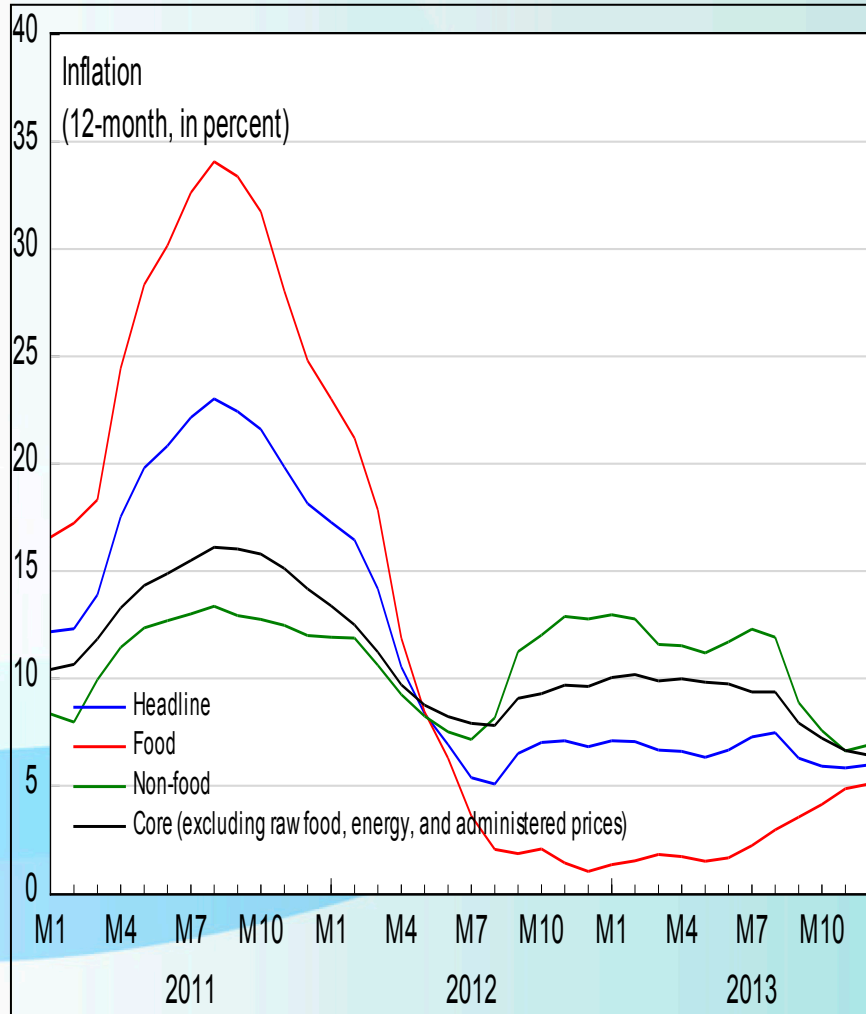


Vietnam

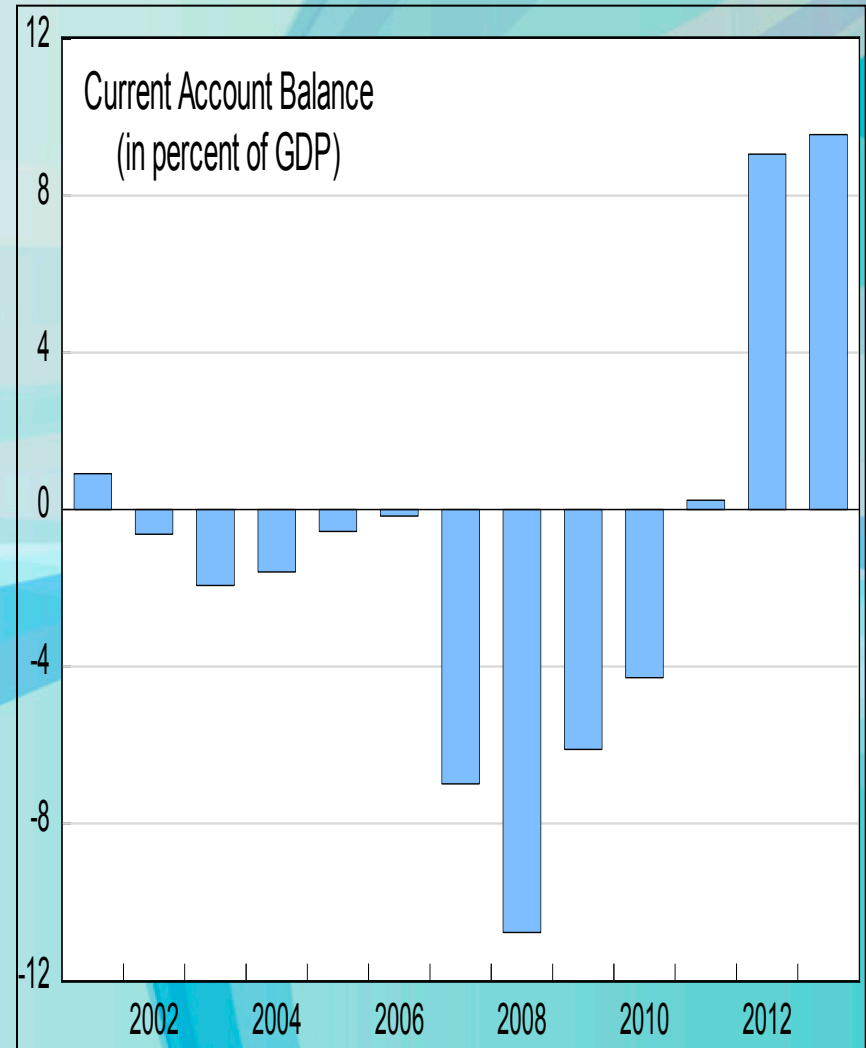
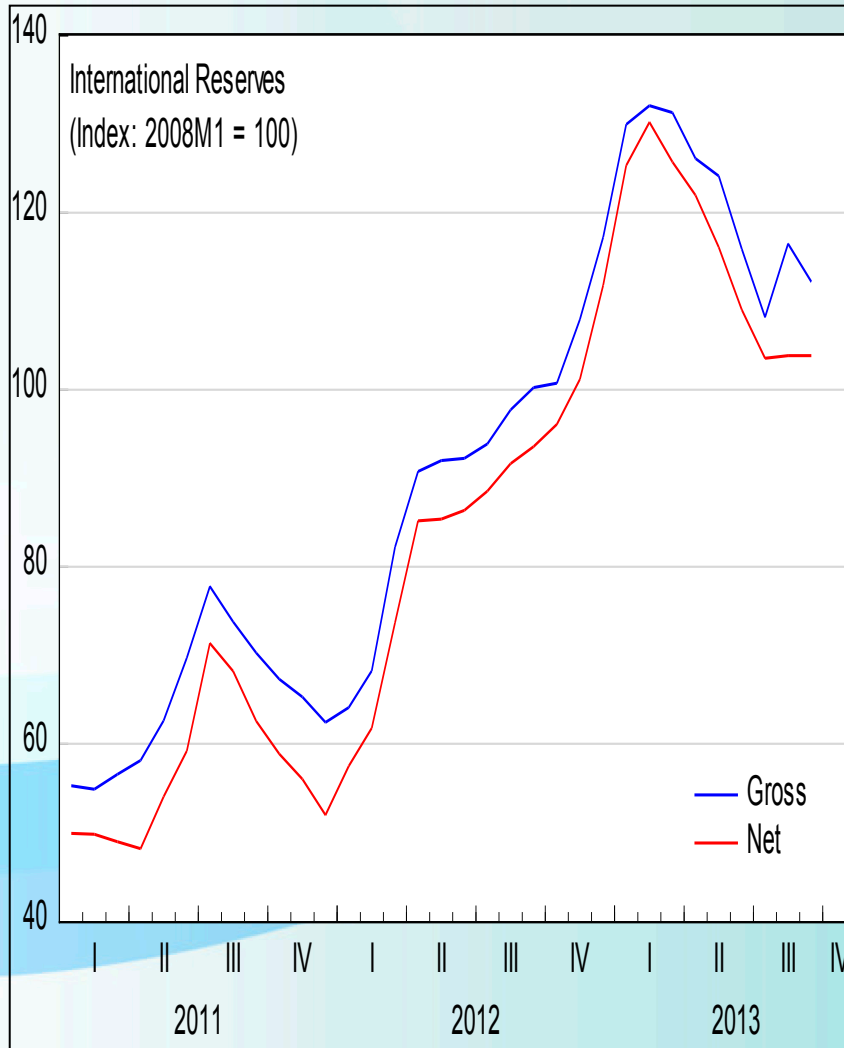
# Macroeconomic stabilization



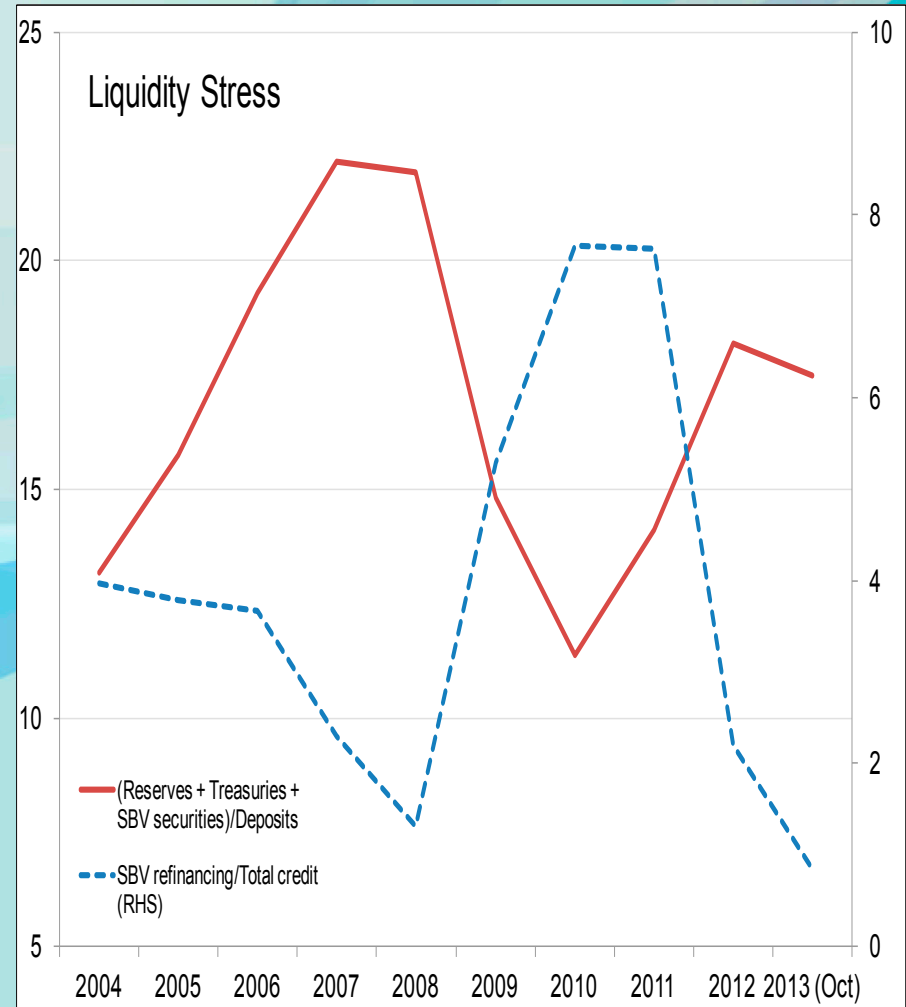
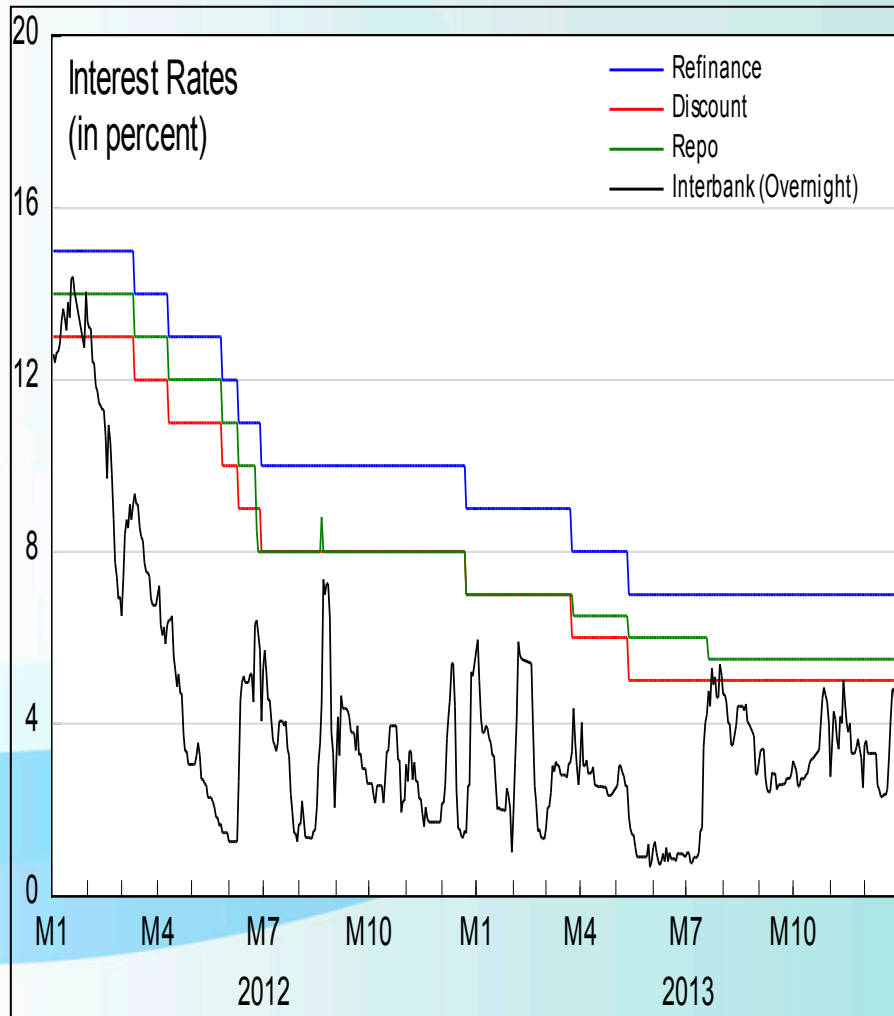
# Macroeconomic stabilization



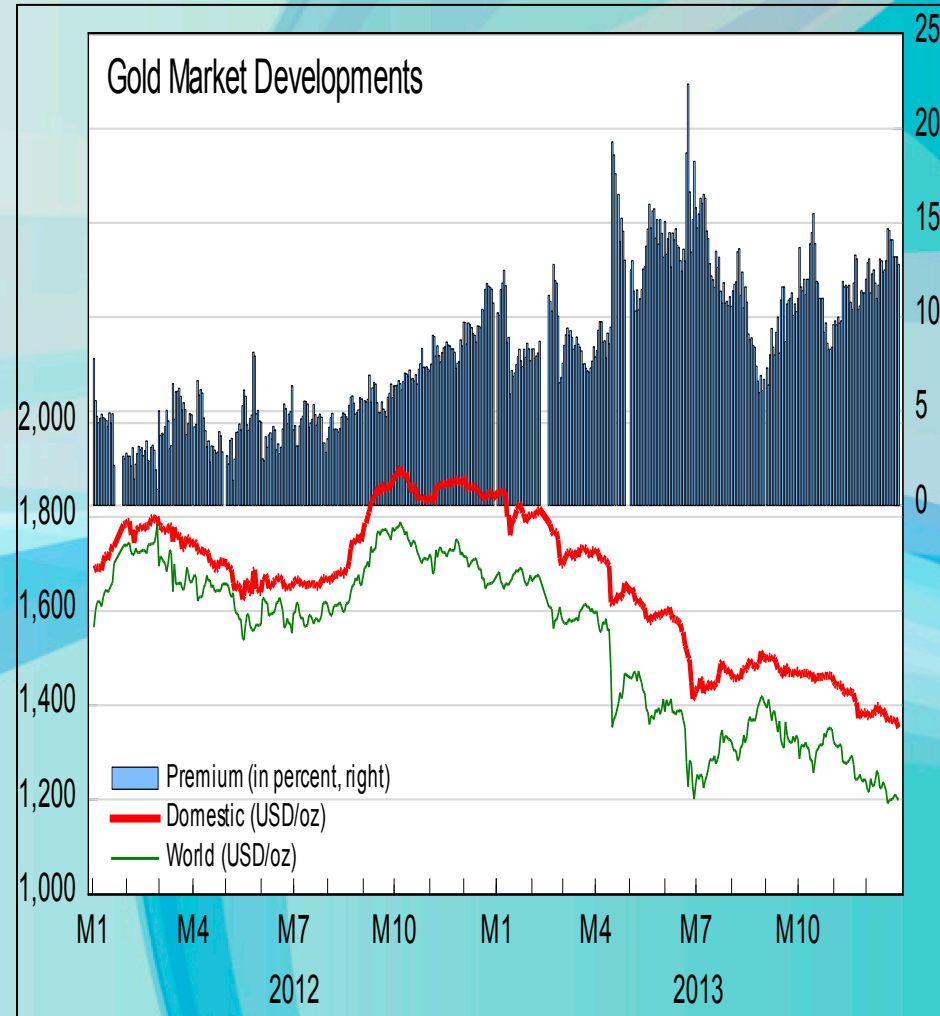
# Macroeconomic stabilization



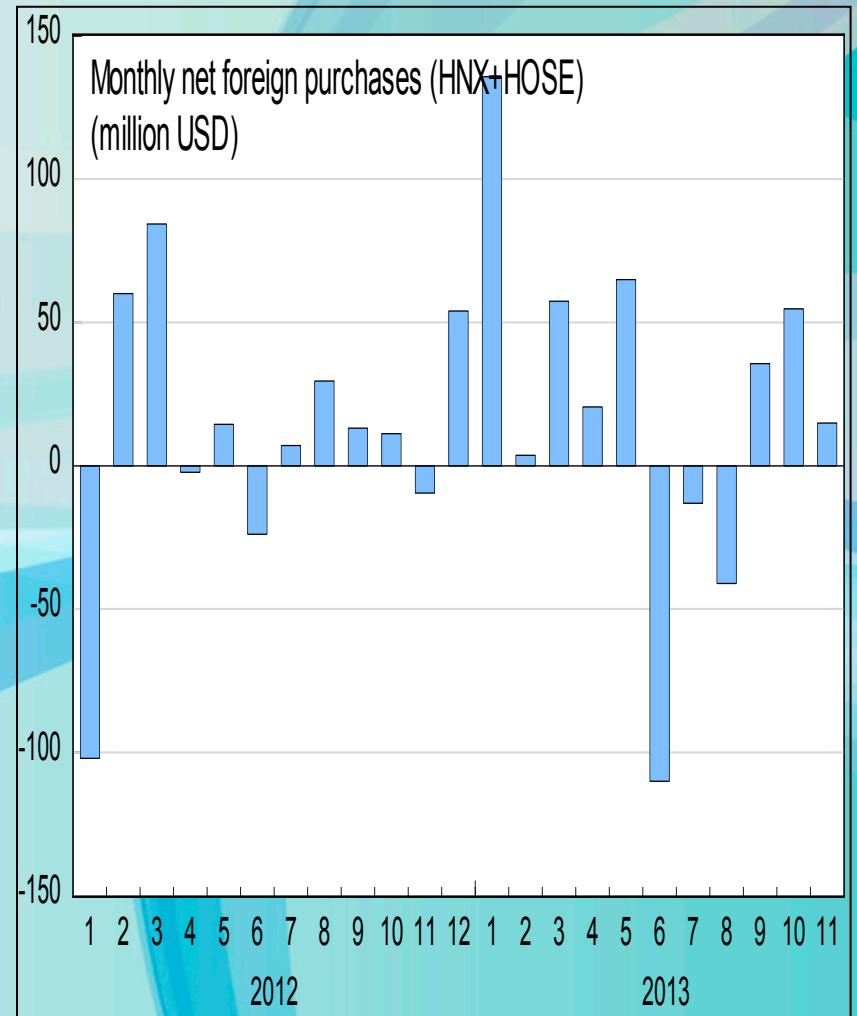
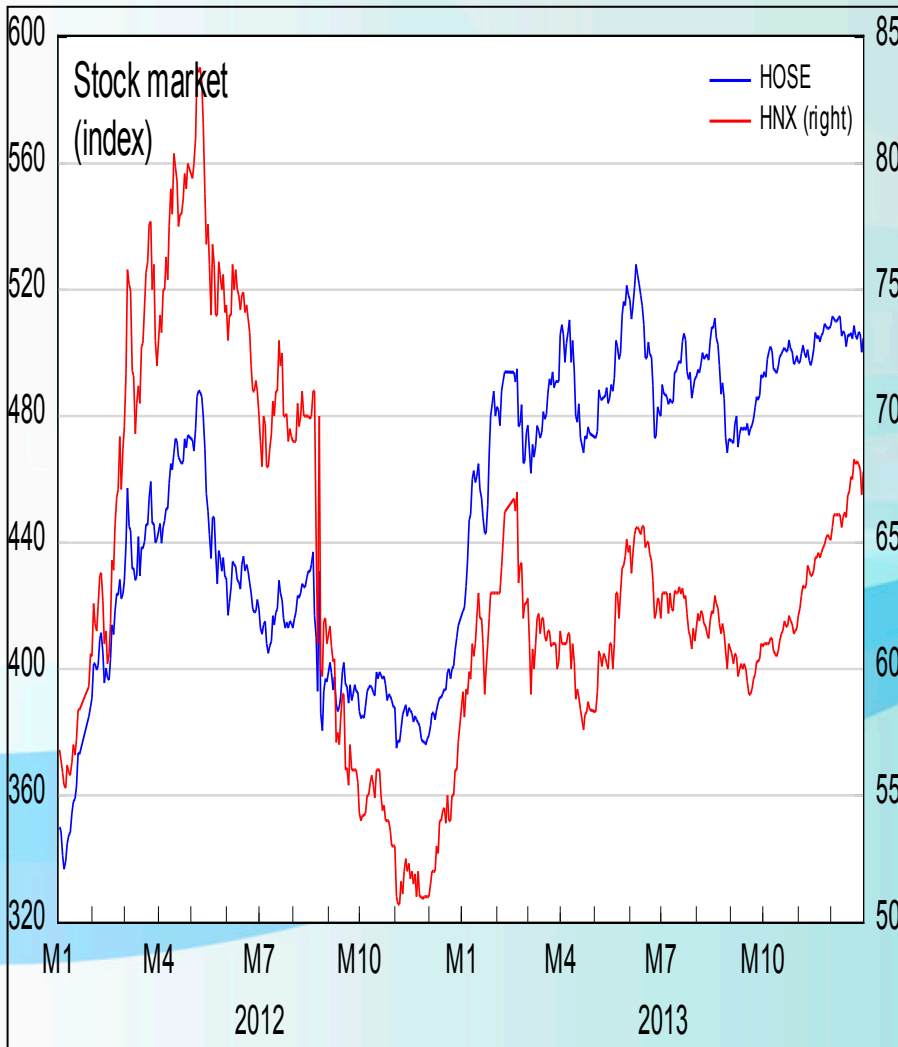
# Macroeconomic stabilization



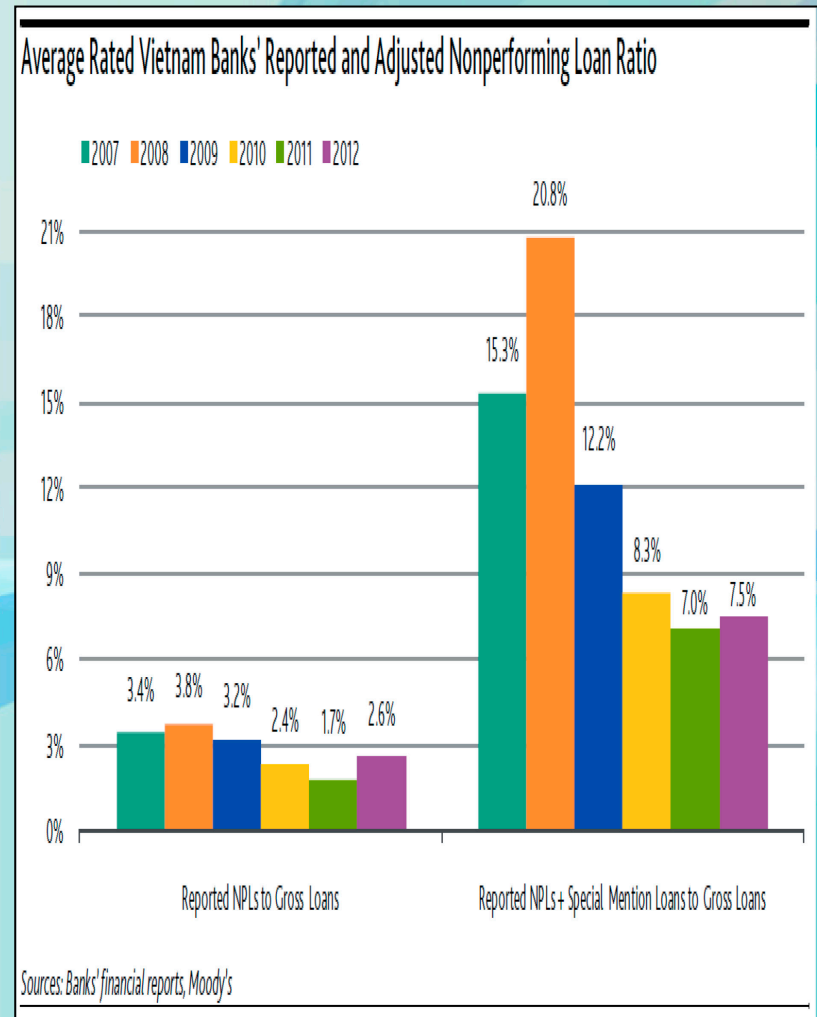
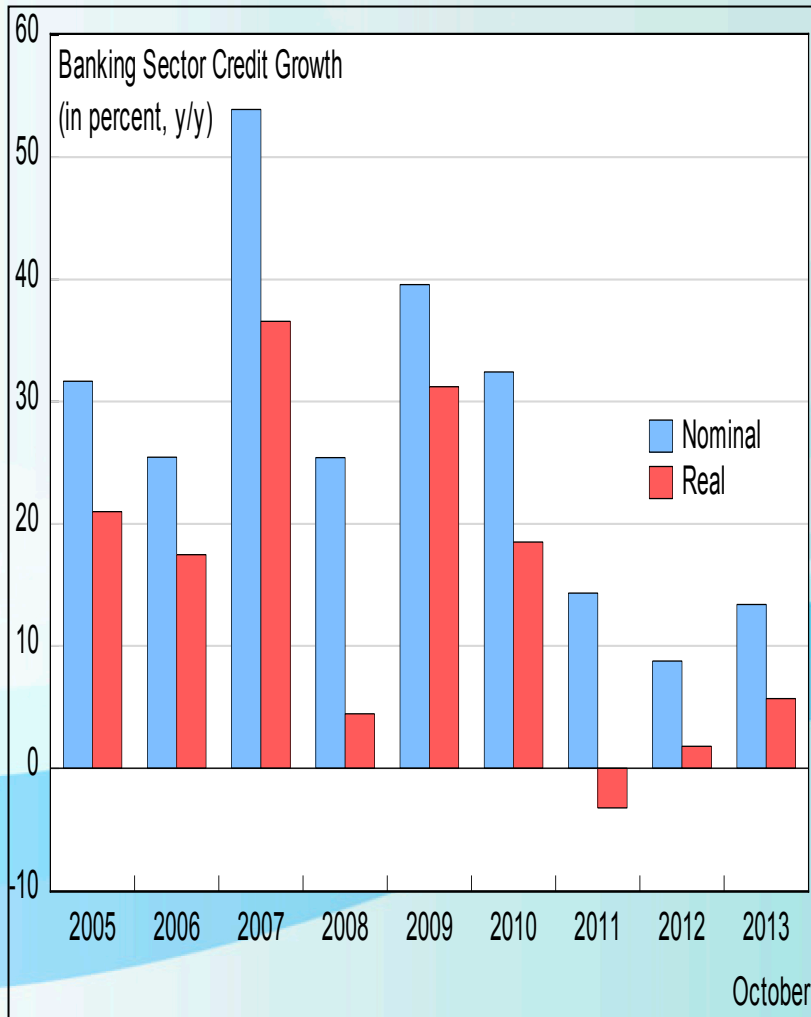
# Macroeconomic stabilization



# Macroeconomic stabilization



# Macroeconomic stabilization

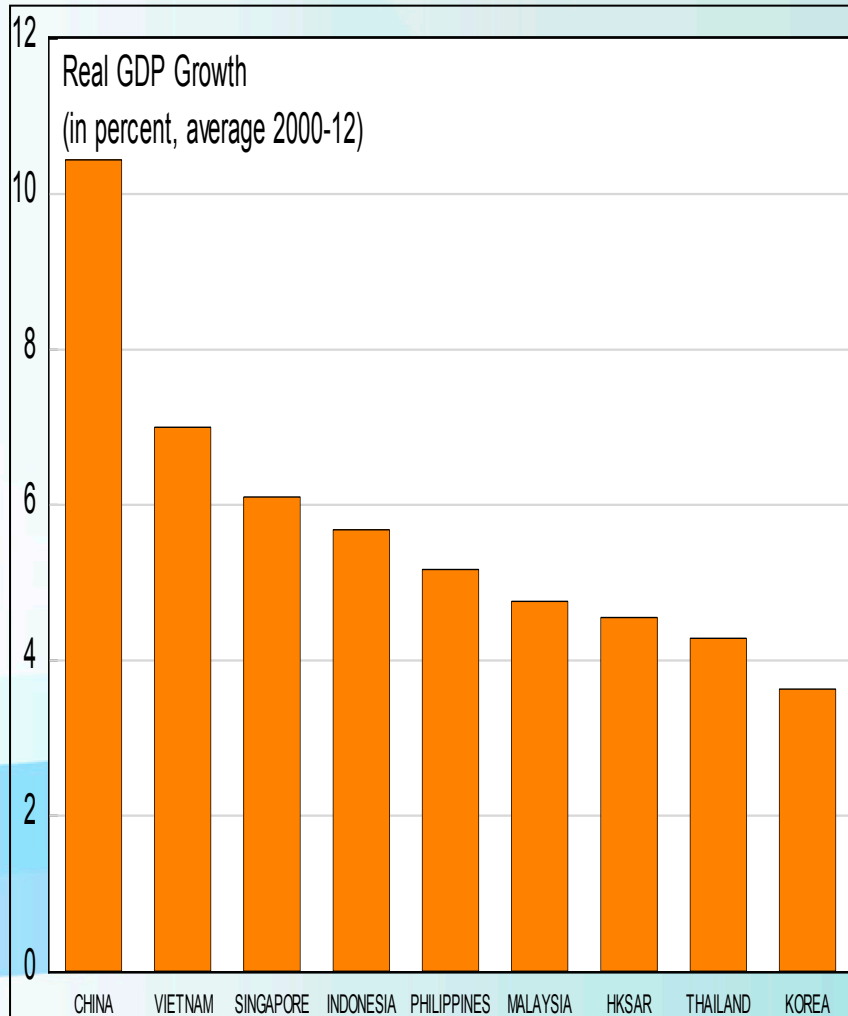




# 2014 and The Long Haul

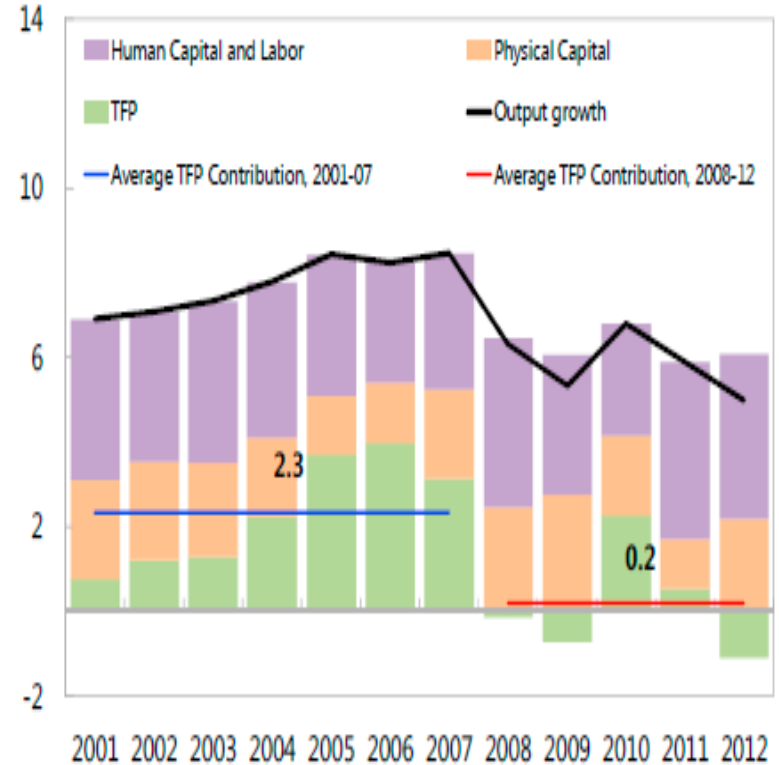
- Sources of growth
- Macroeconomic stability
- Structural reforms
  - Banking sector
  - SOEs
  - Public investment

# Sources of growth



## Contribution to Output Growth

(In percent)



Sources: World Bank, *World Development Indicators* database; United Nations, *Population* database; and IMF, WEO database and staff estimates.

# Sources of growth

Export Shares in Manufacturing  
(in percent)

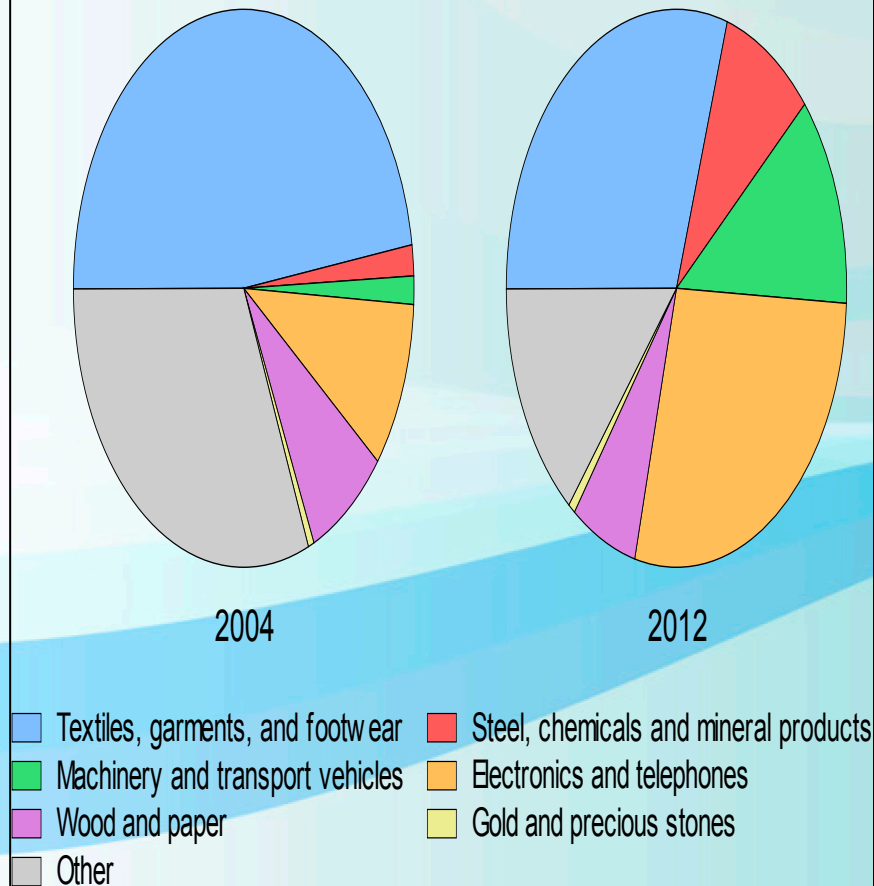


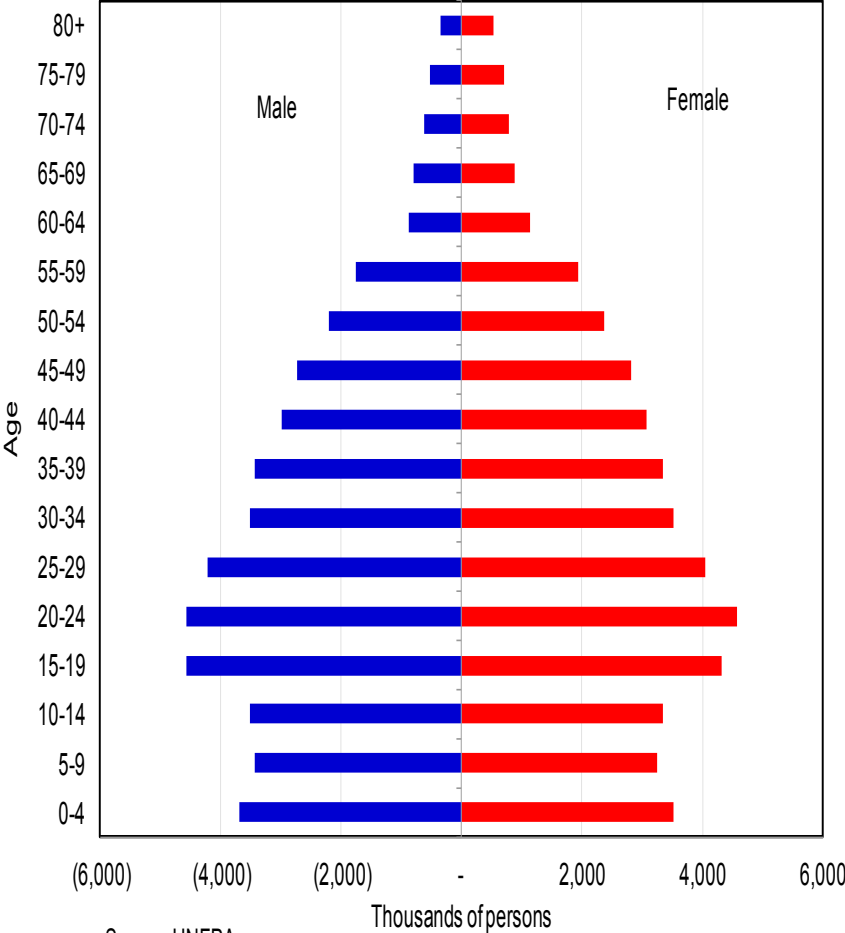
Table 6 Welfare gains relative to the baseline (2015)

	AFTA	AFTA+	AEC	AEC+	AEC++
B. EV as percentage of baseline GDP					
ASEAN	0.8	2.9	5.3	8.9	11.6
Cambodia	2.7	5.4	6.3	7.2	12.3
Indonesia	0.2	1.4	6.2	8.2	9.7
Laos	0.6	2.5	3.6	3.8	4.6
Myanmar	0.3	1.2	4.4	4.8	9.3
Malaysia	1.4	1.5	3.0	11.2	14.7
Philippines	0.6	1.6	3.2	3.2	4.3
Singapore	1.6	9.0	9.7	11.6	12.2
Thailand	0.6	3.9	4.9	7.8	10.4
Vietnam	1.1	1.8	2.8	16.0	29.8
Brunei	2.6	5.4	7.0	9.3	10.6
Partners					
China	0.0	-0.1	-0.2	-0.1	-0.3
Japan	0.0	0.0	0.0	0.2	0.1
Korea	0.0	-0.1	-0.3	1.1	0.9
India	0.1	0.0	-0.1	1.7	1.6
Australia	0.0	0.0	0.0	0.0	0.0
New Zealand	0.0	-0.1	-0.1	0.0	-0.1
USA	0.0	0.0	0.0	0.0	0.0
Europe	0.0	0.0	0.0	0.0	0.0
World	0.0	0.0	0.1	0.3	0.3

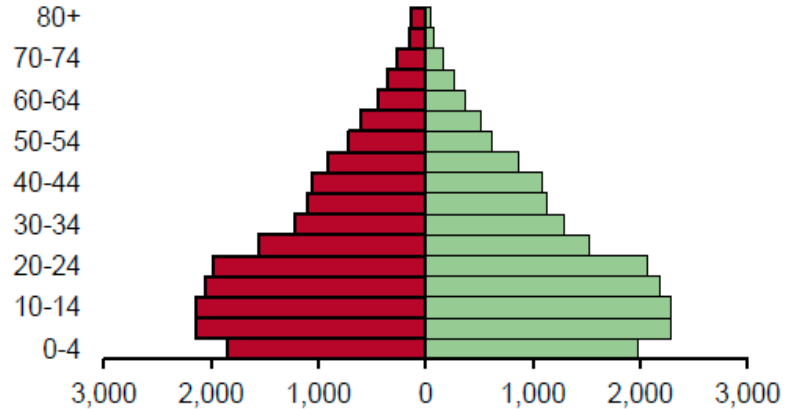
Source: Petri, et. al., 2012.

# Demographics

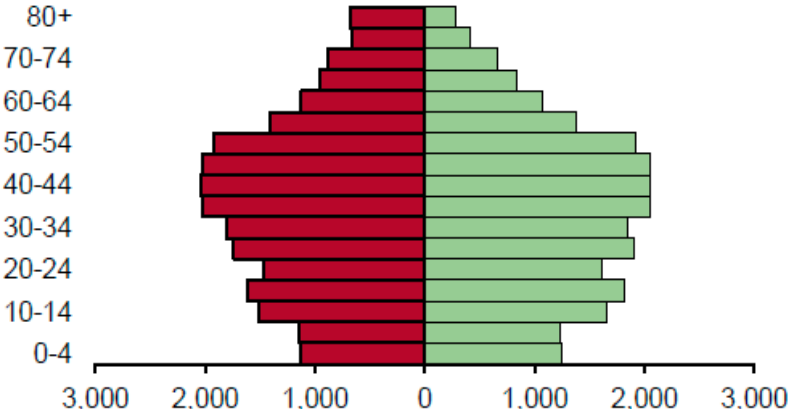
Vietnam: Structure of Population, 2010



South Korea 1980



South Korea 2010



Source: Credit Suisse

# Macroeconomic stability

- Inflation and growth—tradeoffs
- Inclusive growth and inequality

# Structural reforms

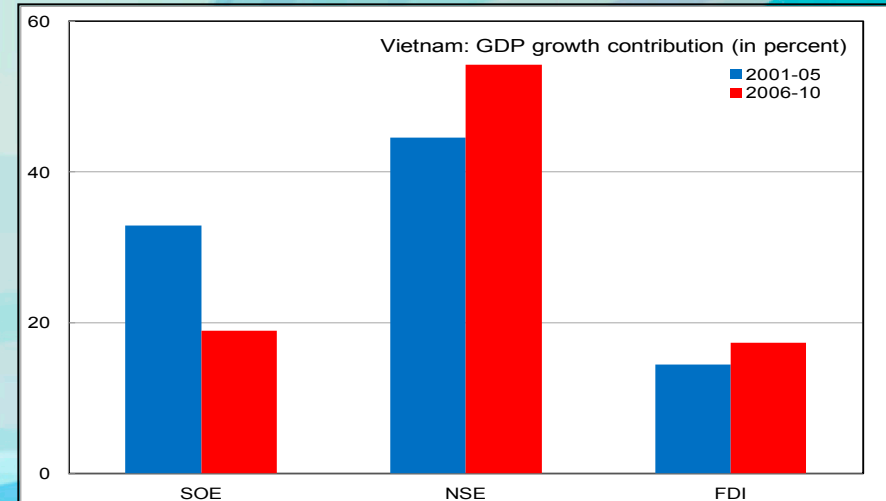
## Banking sector

- Address NPLs and insolvency
  - VAMC
  - Recapitalization
    - JSCBs—Small and large
    - SOCBs
- Bank supervision
- Fiscal cost of restructuring

# STRUCTURAL REFORMS

## SOEs

- Estimated to account for roughly 70% of total NPLs; more than 20% of SOEs that are solely owned by the state are loss-making or at a break-even point
- SOE reform strategy appears to focus on:
  - (i) keeping large, profitable SOEs with significant monopoly power/in strategic sectors in state hands; (ii) equitizing roughly half of the wholly SOEs; and (iii) consolidating/liquidating further 10%
- True financial state of SOEs remains publicly unknown
- Oversight of enterprises continues to be fragmented, with need for consolidated charge of overall reform plan



- Disclose audited financial statements of large SOEs
- Detail restructuring plans
- Eliminate coordination failure
- Estimate/recognize contingent liabilities
- Ensure transparency of fiscal costs to state budget

# Structural reforms

## Public investment

- Improve efficiency
- Reduce overextension and leakages





Thank you