

## Viet Nam's Economic Recovery Plan: Some Perspectives

Nguyen Anh Duong

Director, Department for General Economic Issues and Integration Studies  
Central Institute for Economic Management (CIEM)

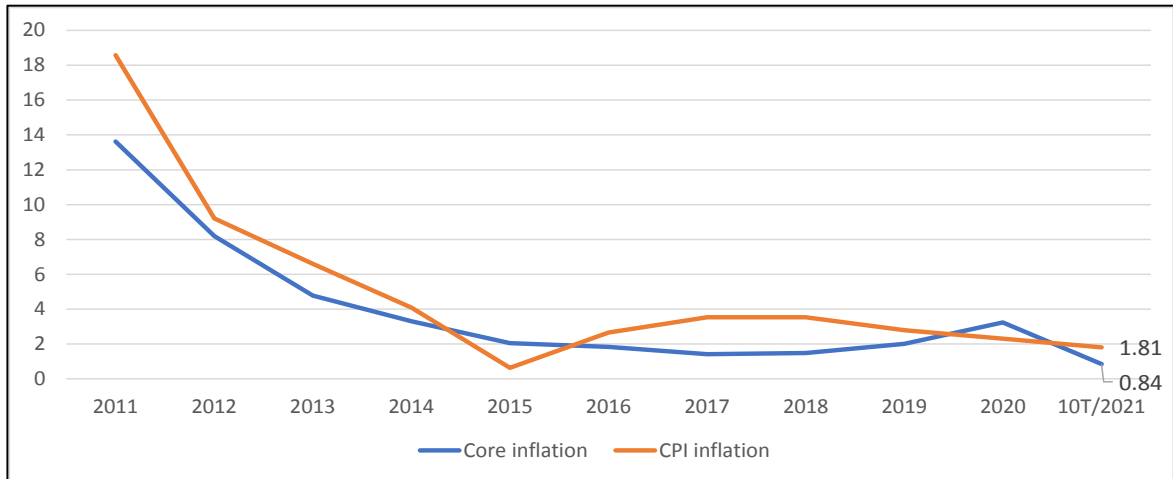
### Synopsis

- The COVID-19 pandemic since 2020 led to severe economic consequences of Viet Nam, which compels the country to devise an economic recovery plan.
- Viet Nam could learn from its own experience after the global financial crisis 2008-2009, including: (i) macroeconomic stabilization; (ii) sustaining business environment reforms; (iii) improving trade openness; (iv) FDI mobilization; and (v) improving adaptive capacity of firms and workers.
- Macroeconomic forecasts show that economic reforms, if properly implemented to enhance economic efficiency, could magnify the impacts of fiscal-monetary stimulus on GDP growth and export growth.

The COVID-19 pandemic since 2020 and unprecedented preventive measures (border closures, social distancing, etc.) have resulted in the stagnation of economic activities and disruptions of supply chain. In that context, an array of economies, including major ones, undertook massive fiscal-monetary stimulus to boost economic recovery. At the same time, economies also sought new ideas to broaden economic space, including free trade agreements (FTAs), digital economy, green recovery, etc.

Viet Nam's economy was hit severely by the COVID-19 pandemic. The GDP growth rate dropped from the pre-pandemic level of over 7% per annum to just 2.9% in 2020, and 1.4% in the first three quarters of 2021 (YoY). A major economic achievement during the pandemic was the positive export growth, which was up to 16.6% in the first 10 months of 2021 (YoY). Such a figure was largely contributed by foreign-invested firms, which achieved a YoY export growth rate of 20.1%. Besides, Viet Nam could maintain macroeconomic stability, with average-CPI-based inflation being around 2% in 2020-2021. Meanwhile, the results from Vietnam Household Living Standard Survey in 2020 indicate the erosion of income due to COVID-19. Specifically, the average monthly income in 2020 was VND 4.2 million per person, decreasing by 1% compared to 2019. The income gap remains sizeable, with the urban-rural income gap being 1.6 times, and the top quintile has income around 8 times higher than the bottom one.

**Figure 1: Inflation of Viet Nam, 2020-2021**



Source: General Statistics Office.

Upon devising an economic recovery plan, Viet Nam could learn from its own lessons in mitigating impact of the global financial crisis in 2008-2009 and economic reforms after 2010. First, macroeconomic stabilization is important to avoid distortions to price, interest rate and wages. Accordingly, economic recovery solutions must pay attention to the impact on macroeconomic stability, including on inflation, balance of payment, state budget deficit, etc. Moreover, a right-scaled stimulus package should also help preserve the macroeconomic policy space to mitigate future shocks.

Second, sustaining the momentum for business environment reforms plays an essential role during economic recovery. Renewing the role of the State is very necessary, but should be considered more thoroughly as part of key orientations and solutions to promote the economic performance of the State economic sector and/or State-owned enterprises (SOEs) while minimizing “crowding-out” impact on the private sector. Finally, the timing of the reform is also important: implementing reforms as soon as possible, especially building further on the reforms up to 2021, will improve the quality of economic growth recovery after the COVID-19 pandemic.

Third, improving trade openness is crucial to ensure connectivity along the supply chain, whilst ensuring Viet Nam has sufficient access to foreign markets for its producers. In line with this, the FTAs have been instrumental, so as to expand the economic opportunities for firms in Viet Nam.

Fourth, FDI mobilization plays an important role. On the one hand, FDI inflows were accompanied by transfers of know-how, technology and network of suppliers that could help build Viet Nam’s productive capacity. On the other hands, foreign investors could help Viet Nam in accessing essential products (such as vaccines against COVID-19, and medical equipment).

Finally, to effectively mitigate economic shocks requires improved capacity of firms and workers to adapt to changes, including new employment opportunities.

The idea for economic recovery plan for Viet Nam after COVID-19 is no new. Indeed, the proposal for such a plan was first raised in mid-2020, just after the first wave of COVID-19 cases. Only in mid-2021 did such proposal become more concrete. Central Institute for Economic Management (CIEM 2021) provides the first rigorous proposal. As the key aspects of CIEM proposal, the economic recovery plan should span at least until

2023, to be divided into three stages, namely: (i) control of COVID-19 cases until Q1/2022; (ii) macroeconomic stimulus packages until end of 2023; and (iii) normalization of macroeconomic policies after 2023. Besides, the plan should include measures to effectively implement FTAs (Comprehensive and Progressive Agreement for Trans-Pacific Partnership, EU-Viet Nam FTA, Regional Comprehensive Economic Partnership). The economic recovery plan must also ensure continuity of business environment reforms, because such reforms are effectively cost-free measures to help firms ease business activities and sustain business confidence. Finally, the economic recovery plan must make ways for building capacity for adaptive economic models, such as digital economy, circular economy, etc.

CIEM (2021) produces the macroeconomic forecasts using its in-house macroeconometric model. Three scenarios are specified. The baseline scenario assumes business-as-usual conditions of the economy, in which the COVID-19 pandemic is basically contained in 2021, which facilitates the resumption of travel and associated economic activities among countries from 2022. Modest fiscal-monetary stimulus is also assumed. Scenario 2 retains most of the assumptions in Scenario 1, plus with a larger degree of loosening the fiscal policy and the monetary policy. Scenario 3 is similar to Scenario 2, together with a breakthrough in economic reforms.

**Table 1: Details of inputs and assumptions for growth forecast scenarios**

Unit: % (change over the previous year)

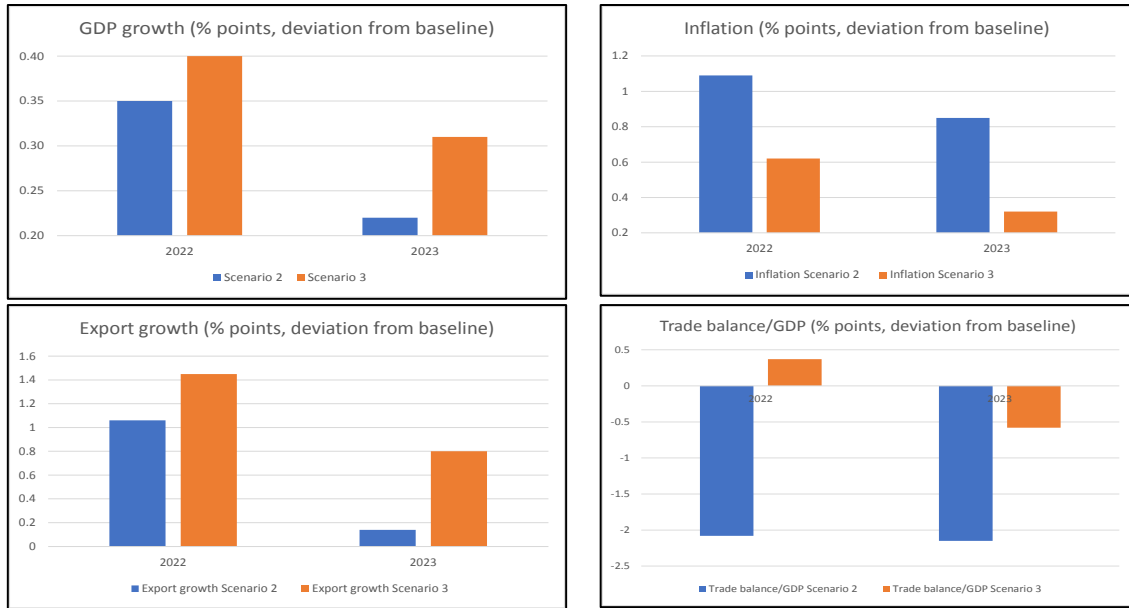
|   | Scenario 1 |      |      | Scenario 2 |      |      | Scenario 3 |      |      |
|---|------------|------|------|------------|------|------|------------|------|------|
|   | 2021       | 2022 | 2023 | 2021       | 2022 | 2023 | 2021       | 2022 | 2023 |
| World GDP   | 5.5        | 4.2  | 4.0  | 5.5        | 4.2  | 4.0  | 5.5        | 4.2  | 4.0  |
| U.S. Prices   | 2.3        | 2.4  | 2.5  | 2.3        | 2.4  | 2.5  | 2.3        | 2.4  | 2.5  |
| Exported agricultural commodity prices              | 24.1       | -0.6 | -0.3 | 24.1       | -0.6 | -0.3 | 24.1       | -0.6 | -0.3 |
| World crude oil prices                              | 56.0       | 7.6  | 7.7  | 56.0       | 7.6  | 7.7  | 56.0       | 7.6  | 7.7  |
| VND/USD exchange rate                               | -0.3       | -0.3 | 0.2  | -0.3       | -0.3 | 0.2  | -0.3       | -0.3 | 0.2  |
| Money supply (M2) growth                            | 13.0       | 12.0 | 11.5 | 13.8       | 12.7 | 12.3 | 13.2       | 12.5 | 12.1 |
| Outstanding credit                                  | 12.0       | 11.5 | 11.0 | 13.0       | 12.2 | 12.0 | 12.5       | 11.9 | 11.7 |
| Import price index                                  | -0.5       | 0.2  | 0.3  | -0.3       | 0.5  | 0.4  | -0.4       | 0.3  | 0.3  |
| Population  | 1.05       | 1.05 | 1.05 | 1.05       | 1.05 | 1.05 | 1.05       | 1.05 | 1.05 |
| Employment  | 0.86       | 0.86 | 0.86 | 0.90       | 0.90 | 0.90 | 0.92       | 0.92 | 0.92 |
| Exported crude oil volume                           | 0          | 0    | 0    | 0          | 0    | 0    | 0          | 0    | 0    |
| Real Effective Exchange Rate                        | -1.0       | -0.5 | 0    | -0.8       | -0.4 | -0.3 | -0.9       | -0.4 | -0.1 |
| Government transfers (net), Balance of Payment      | -5.0       | -5.0 | 0    | -5.0       | -5.0 | 0    | -5.0       | -5.0 | 0    |
| Private current transfers (net), Balance of Payment | -5.0       | 5.0  | 5.0  | -2.0       | 6.0  | 5.5  | 0.5        | 7.0  | 6.8  |
| State budget-induced investment                     | -4.5       | -2.5 | 3.2  | -2.5       | 8.5  | 3.3  | -2.5       | 8.5  | 3.3  |
| Disbursed FDI                                       | 2.0        | 5.0  | 5.0  | 2.5        | 5.5  | 5.2  | 4.0        | 6.2  | 5.8  |

Source: CIEM (2021).

Several results are noticeable from forecasts by CIEM (2021, Figure 2). First, the fiscal-monetary stimulus on its own could help boost aggregate demand and aggregate supply in Viet Nam, thereby leading to higher GDP growth, export growth. However, given larger short-term impacts on aggregate demand, the stimulus also leads to higher pressure on inflation and trade deficit. Second, economic reforms, if properly implemented to enhance economic efficiency, could magnify the impacts of fiscal-monetary stimulus on GDP growth and export growth. Besides, as the reforms boost aggregate supply, the

pressures on inflation and trade deficits could be reduced. The implication is that while promoting the timeliness and right scale of fiscal-monetary stimulus, Viet Nam must do more to deepen its economic reforms.

**Figure 2: Projections of macroeconomic variables, Viet Nam, 2022-2023**



Source: CIEM (2021).

### References

CIEM (2021), Making Economic Recovery and Institutional Reforms Intertwined After COVID-19: Way Forward for Vietnam. Hanoi: Dan Tri Publishing House.  
 General Statistics Office (2021). Available at [www.gso.gov.vn](http://www.gso.gov.vn) [various dates]