

VIETNAM

Table 1	2022
Population, million	99.0
GDP, current US\$ billion	408.7
GDP per capita, current US\$	4130.5
International poverty rate (\$2.15) ^a	0.7
Lower middle-income poverty rate (\$3.65) ^a	3.8
Upper middle-income poverty rate (\$6.85) ^a	18.7
Gini index ^a	36.8
School enrollment, primary (% gross) ^b	118.4
Life expectancy at birth, years ^b	75.4
Total GHG emissions (mtCO2e)	496.1

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2020), 2017 PPPs.
b/ Most recent WDI value (2020).

Vietnam's economy grew by 8.0 percent in 2022, mainly due to low base effects. In 2023, the economy is expected to grow by 6.3 percent, as domestic demand normalizes after the 2022 post-COVID recovery and exports face headwinds. Poverty is expected to decline from 3.3 in 2022 to 3.1 percent in 2023. The economy faces risks associated with higher inflation, heightened financial risks, and sharper than expected slowdown in exports.

Key conditions and challenges

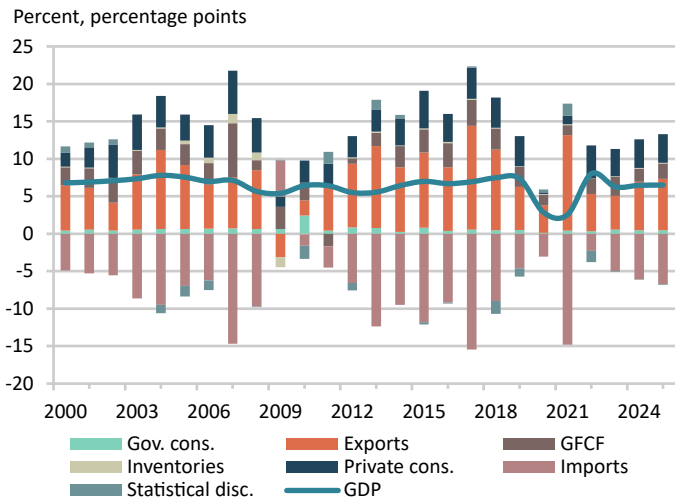
Vietnam's economy faces domestic and external headwinds in 2023. Domestic inflation has continued to rise and further monetary tightening could dampen demand and increase pressure on the financial sector. The ongoing slowdown in some of Vietnam's main trade partners may affect exports. Achieving Vietnam's goal of becoming a high-income economy by 2045 will depend on reviving productivity growth while ensuring environmental sustainability and social equity. This would entail modernizing economic governance and market institutions to facilitate a more efficient use of physical, human, and natural capital.

Recent developments

Real GDP expanded by 8.0 percent in 2022, mainly due to low base effects. The rebound was driven by the recovery of private demand after COVID-related restrictions caused a significant decline in 2021. Retail sales expanded by 17.1 percent and the service sector recorded 10 percent growth in 2022. A strong rebound in manufacturing exports (+10.3 percent) also supported the recovery in 2022, with the industrial sector growing by 8.1 percent, although exports slowed

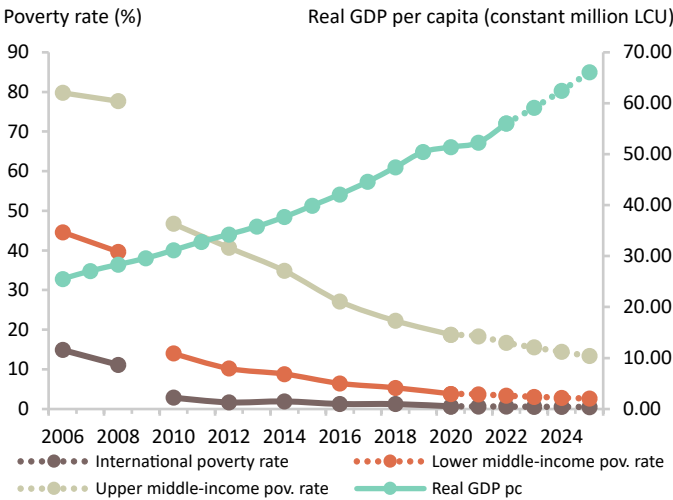
in the fourth quarter along with weaker external demand. Agriculture continued to perform on trend, growing by 3.4 percent in 2022. CPI inflation rose throughout 2022, from 1.95 y/y in January to 4.54 y/y in December, as the second-round effects of the March 2022 commodity supply shock contributed to an increase in the cost of food (+14.7 percent), education (15.2 percent), health (8 percent) and housing (10.9 percent). Core inflation also rose from a low of 0.66 y/y in January to 5.0 y/y in December. Nominal labor incomes in 2022 recovered to pre-pandemic levels. However, with high inflation, real monthly labor incomes in 2022 are only 3.8 percent higher than in 2019. Labor participation reached 68.5 percent, still below pre-covid rate of 71.3 percent. The poverty rate (as measured by the World Bank's lower middle-income country poverty line US\$3.65/day 2017 PPP) declined from an estimated 3.6 percent in 2021 to a projected 3.3 percent in 2022. A survey of consumers in January 2023 finds that 60 percent identified inflation as their primary concern compared to 36 percent in January 2022. As a result, consumers have become more cautious, reporting increased saving rates (from 25 percent in the Q3-2022 to 30 percent in the Q1-2023). The external balance of payment (BOP) weakened in 2022. The current account registered a deficit of US\$4.9 billion in the first nine months of 2022 and is estimated to have remained in deficit for the year. Meanwhile, the financial account surplus

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



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

narrowed to US\$7.5 billion in Q3-2022 compared to a US\$26.4 billion surplus in Q3-2021, mostly connected to short-term capital outflows induced by monetary tightening in the United States. Monetary policy responded to exchange rate pressures while fiscal policy continued to be hampered by implementation challenges. As global financial conditions started to tighten and Vietnam's BOP started to show signs of weakening, the Dong came under pressure. The SBV used FX sales, increased exchange rate flexibility, and increased policy interest rates by 200 basis points. By end-December, the Dong/US\$ exchange rate had only depreciated about 3.4 percent, the lowest among regional comparators. On the other hand, the budget registered a US\$9.7 billion surplus by end of 2022 due to higher-than-expected revenue collection and budget under-execution. Public and publicly guaranteed debt (PPG-GFS) fell from an estimated 39.3 percent of GDP in 2021 to an estimated 35.7 percent of GDP in 2022, of which about 64 percent were domestically held bonds.

Outlook

As low-base effects dissipate, real GDP growth is expected to slow to 6.3 percent in 2023, returning to trend in 2024 (6.5 percent). Domestic demand is expected to remain the main driver of growth, with contributions from net exports expected to weaken this year before recovering in 2024-25. While slower growth in the US and the EU will weigh on exports, the reopening of the Chinese economy may further help. The current account deficit is expected to decrease to -0.3 percent of GDP in 2023 and to turn positive in the medium term as goods and services exports recover. Inflation is projected to average 4.5 percent in 2023 partly due to planned electricity prices and civil service salaries increases and the return of the standard VAT rate back to 10 percent. Inflation is expected to fall to 3.5 percent in 2024 and 3.0 percent in 2025, as these effects dissipate. The poverty rate in 2023 is expected to decline to a projected 3.1 percent, compared to a projected 3.3 percent in 2022. The government plans to implement

the investment component of the 2022-23 Economic Support Program (1.6 percent of GDP). However, the PPG debt is estimated to continue to fall in 2023-2025.

The risks are broadly balanced. In the near term, Vietnam faces external headwinds and domestic vulnerabilities. External risks include further tightening of global financing conditions and weaker-than-expected global growth. Domestically, higher inflation and heightened financial risks could affect growth. On the upside, improved growth prospects in China, the US, or the EU and stronger than expected global demand could lift exports and hence growth above the baseline projection.

In the short term, given available fiscal space, a more supportive fiscal policy stance with a focus on improving the implementation of the capital budget could hedge against downside risks to growth. Monetary and exchange rate policies will need to remain agile, including by allowing greater exchange rate flexibility to accommodate potential external shocks. Financial risks highlight the need to strengthen monetary policy and supervisory frameworks for the financial sector.

TABLE 2 Vietnam / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	2.9	2.6	8.0	6.3	6.5	6.5
Private Consumption	0.4	2.0	7.8	6.5	6.8	6.8
Government Consumption	1.2	4.7	3.6	6.3	5.2	5.1
Gross Fixed Capital Investment	4.1	3.7	6.0	7.2	4.9	5.9
Exports, Goods and Services	4.1	13.9	4.9	4.5	6.6	7.0
Imports, Goods and Services	3.3	15.8	2.2	5.0	6.2	6.9
Real GDP growth, at constant factor prices	3.1	2.6	8.4	6.3	6.4	6.5
Agriculture	3.0	3.3	3.4	2.2	2.2	2.1
Industry	4.4	3.6	7.8	6.6	7.4	7.3
Services	2.0	1.6	10.3	7.1	6.7	6.8
Inflation (Consumer Price Index)	3.2	1.8	3.1	4.5	3.5	3.0
Current Account Balance (% of GDP)	4.3	-1.0	-1.7	-0.3	0.1	0.1
Net Foreign Direct Investment Inflow (% of GDP)	4.4	4.2	3.7	3.4	3.4	3.4
Fiscal Balance (% of GDP)	-2.9	-3.4	1.4	-0.3	0.8	1.4
Revenues (% of GDP)	18.4	18.4	18.9	18.4	18.2	18.2
Debt (% of GDP)	41.3	39.3	35.7	35.0	33.2	31.0
Primary Balance (% of GDP)	-1.5	-2.2	2.5	0.7	1.8	2.4
International poverty rate (\$2.15 in 2017 PPP)^{a,b}	0.7	0.6	0.6	0.5	0.5	0.5
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{a,b}	3.8	3.7	3.3	3.1	2.8	2.6
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b}	18.7	18.3	16.7	15.5	14.4	13.4
GHG emissions growth (mtCO₂e)	2.9	2.9	6.9	5.5	5.6	5.8
Energy related GHG emissions (% of total)	64.9	64.4	64.9	64.8	64.7	64.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast.

a/ Calculations based on EAPPOV harmonization, using 2014-VHLSS, 2018-VHLSS, and 2020-VHLSS. Actual data: 2020. Nowcast: 2021-2022. Forecasts are from 2023 to 2025.

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