

Launch of Asian Development Outlook 2008
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Viet Nam: Staying the Course in Storms

Presentation by Staff
of Asian Development Bank's
Viet Nam Resident Mission

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The logo of the Asian Development Bank (ADB), consisting of the letters 'ADB' in a white serif font on a dark blue square background.

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Outline of Presentation

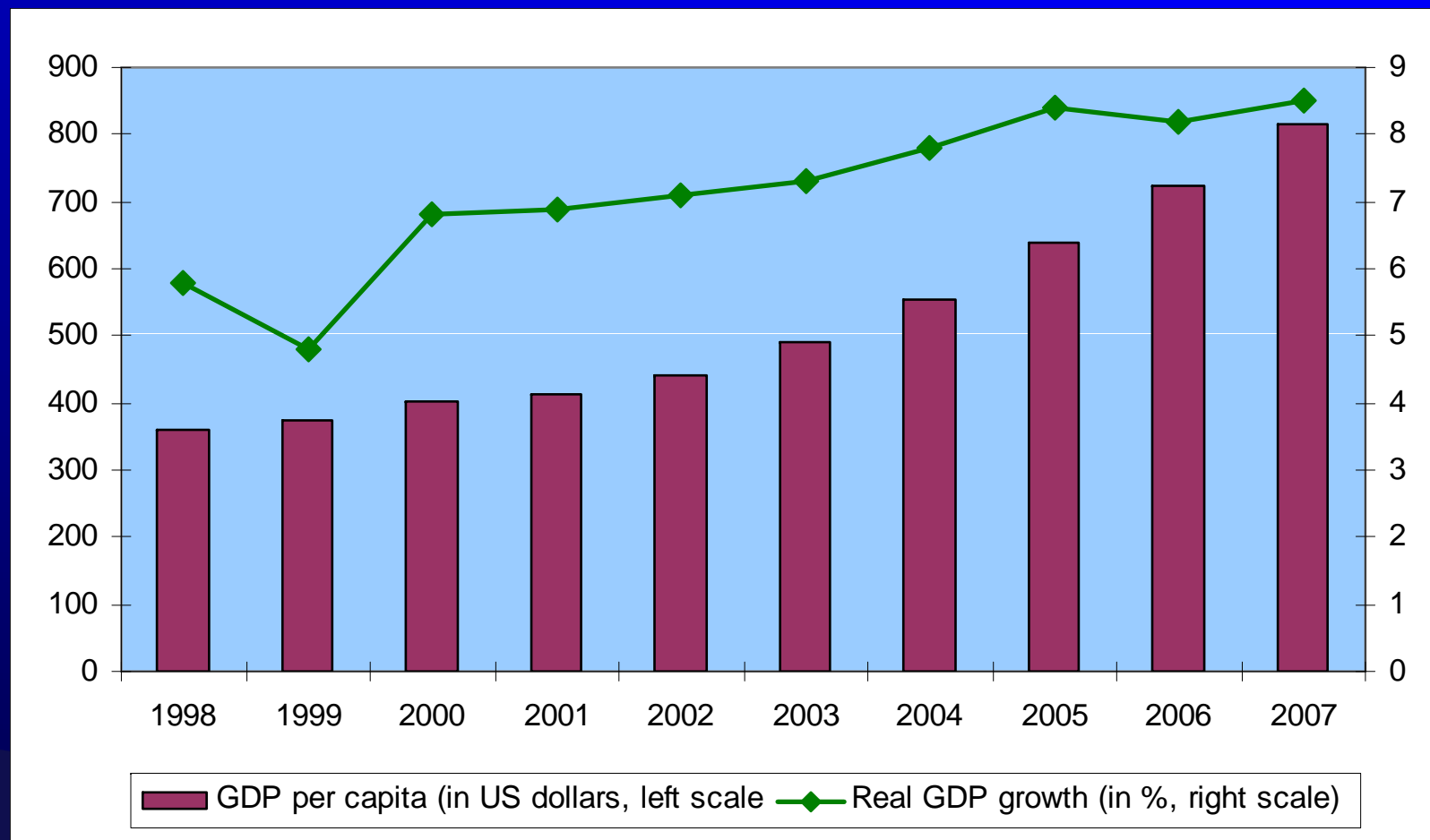
1. Recent economic developments in Viet Nam
 - Real GDP growth and GDP per capita
 - Inflation
 - Nominal and real exchange rates
2. Recent developments in the global economy
 - Turmoil in international financial markets
 - Global economic slowdown
 - Implications for Viet Nam
3. Medium-term economic outlook for Viet Nam
 - Domestic economy assumptions
 - Projections for 2008-2009
 - Development challenges and priorities

Part 1

Recent Economic Developments in Viet Nam

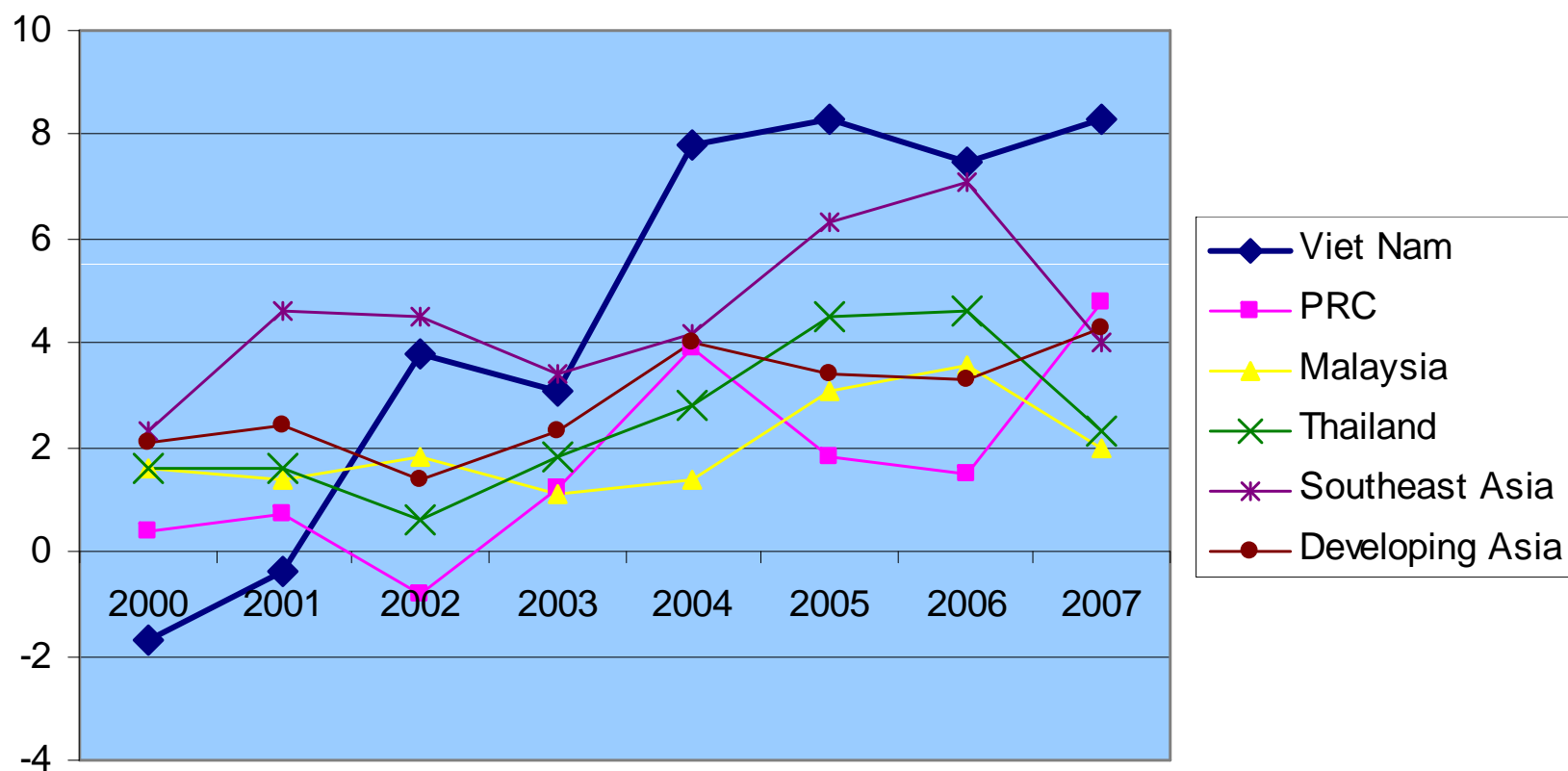
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Viet Nam: Real GDP Growth and GDP Per Capita, 1998-2007



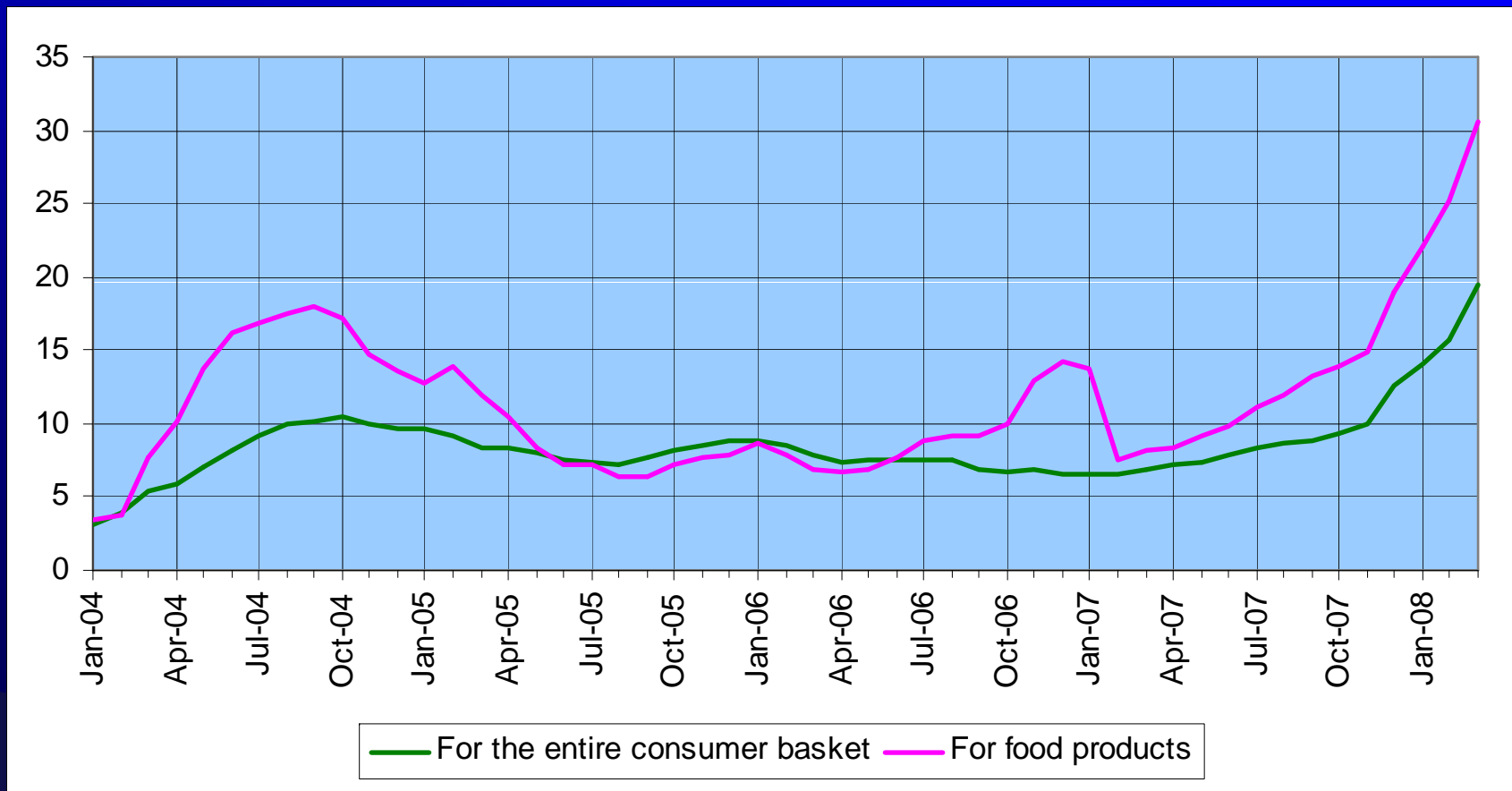
Source: General Statistics Office and ADB staff computations

Consumer Price Inflation in Viet Nam and Selected Comparator Countries and Regions, 2000-2007 (Period-average, in percent)



Source: Asian Development Outlook, various years

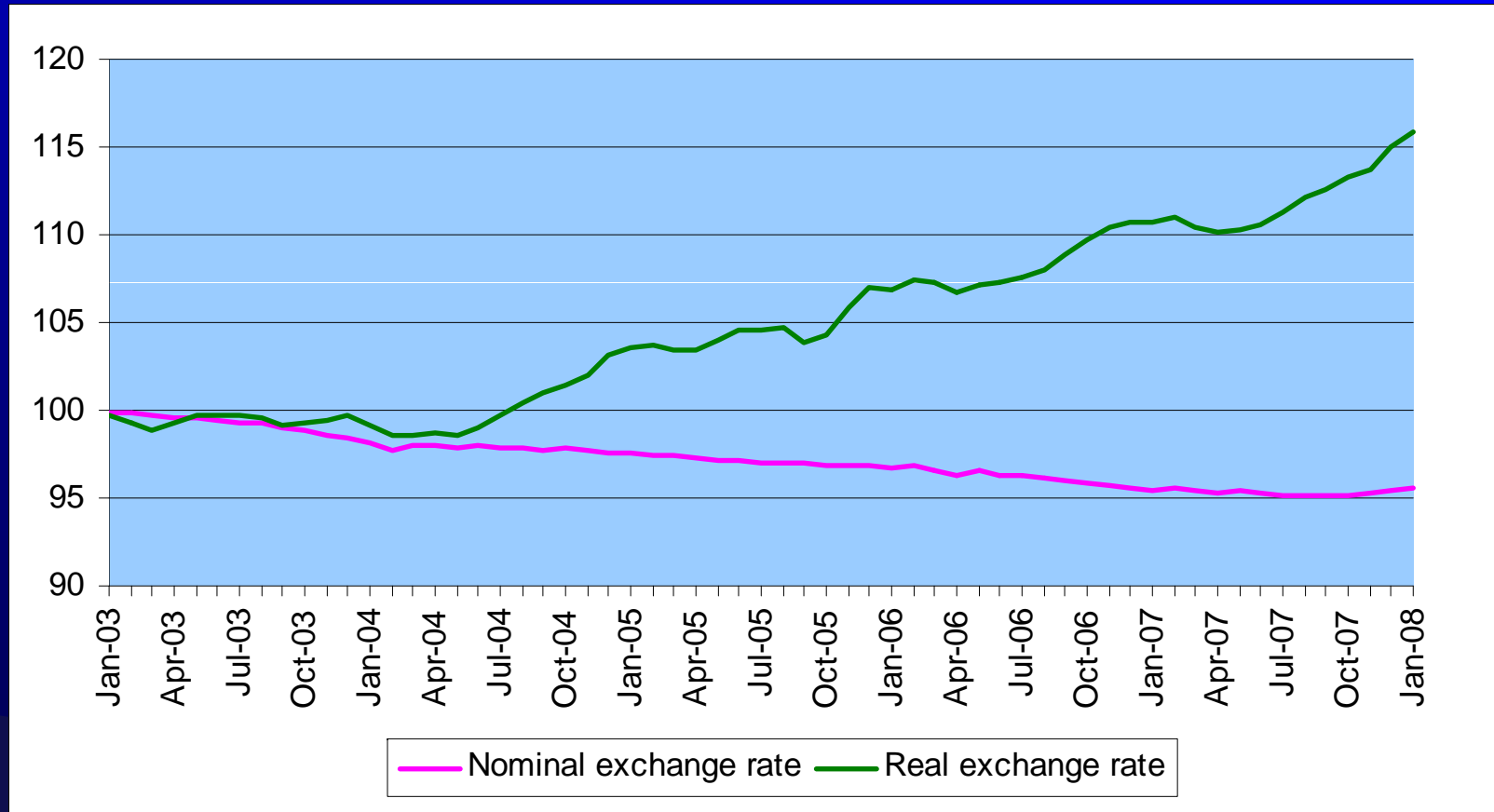
Viet Nam: Changes in Consumer Prices, 2004-2008 (Relative to the same month a year earlier, in %)



Source: General Statistics Office and ADB staff computations

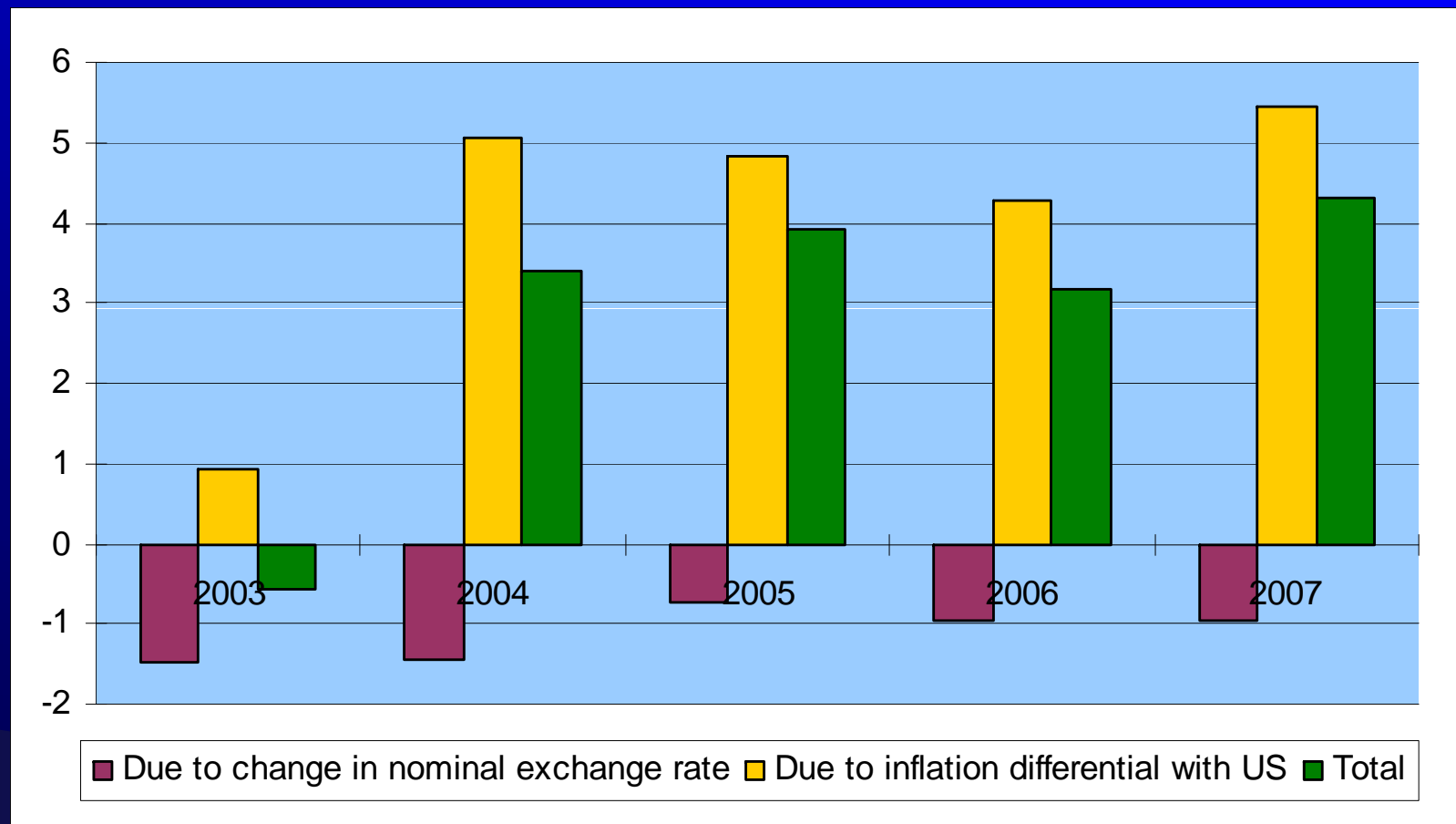
Indices of Exchange Rates of Vietnamese Dong Against US Dollar, 2003-2008

(Dec-2002=100, an increase indicates appreciation)



Source: IMF's International Financial Statistics database and ADB staff computations

Changes in Index of Real Exchange Rate of Vietnamese Dong Against US Dollar, 2003-2007



Source: IMF's International Financial Statistics database and ADB staff computations

Causes of Inflation

- Rapid expansion of the banking system's credit to the economy
- Limited exchange rate flexibility combined with large inflows of foreign capital
- Expansionary fiscal policy
- Relatively low efficiency of public investment
- Rise in world prices of many commodities ("imported inflation")
- Domestic supply-side rigidities and shocks

Part 2

Recent Developments in the Global Economy

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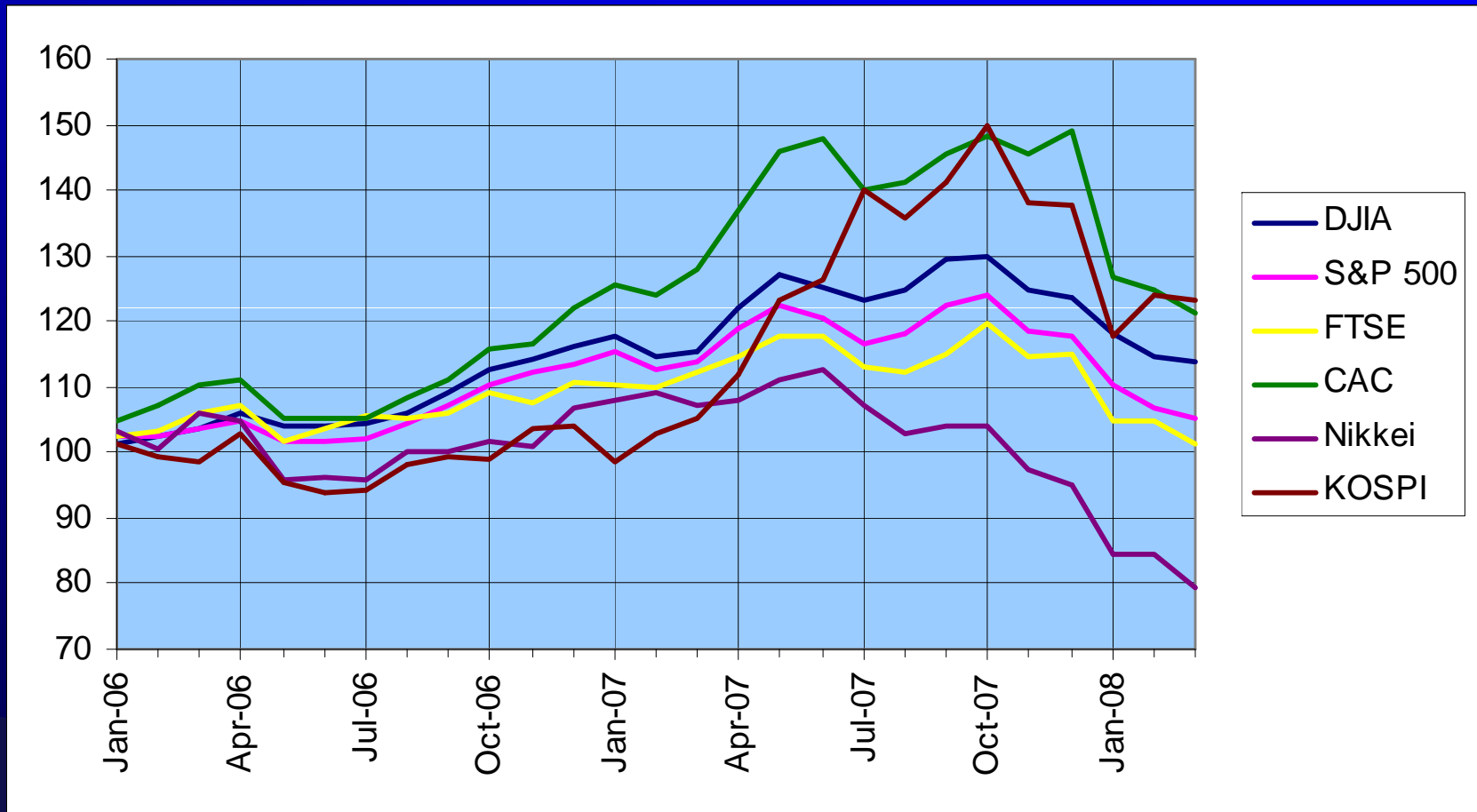
Turmoil in International Financial Markets

- Q1 2007 • Home prices in the US started falling
- H1 2007 • US sub-prime mortgage industry collapsed
- H2 2007 • Financial institutions around the world suffered large losses and became increasingly unwilling to lend
 - Northern Rock, a UK commercial bank, had to be bailed out
 - Stock markets around the world started falling
 - Fed lowered the discount and Federal funds rates and injected large amounts of liquidity into the US banking system

Turmoil in International Financial Markets (Continued)

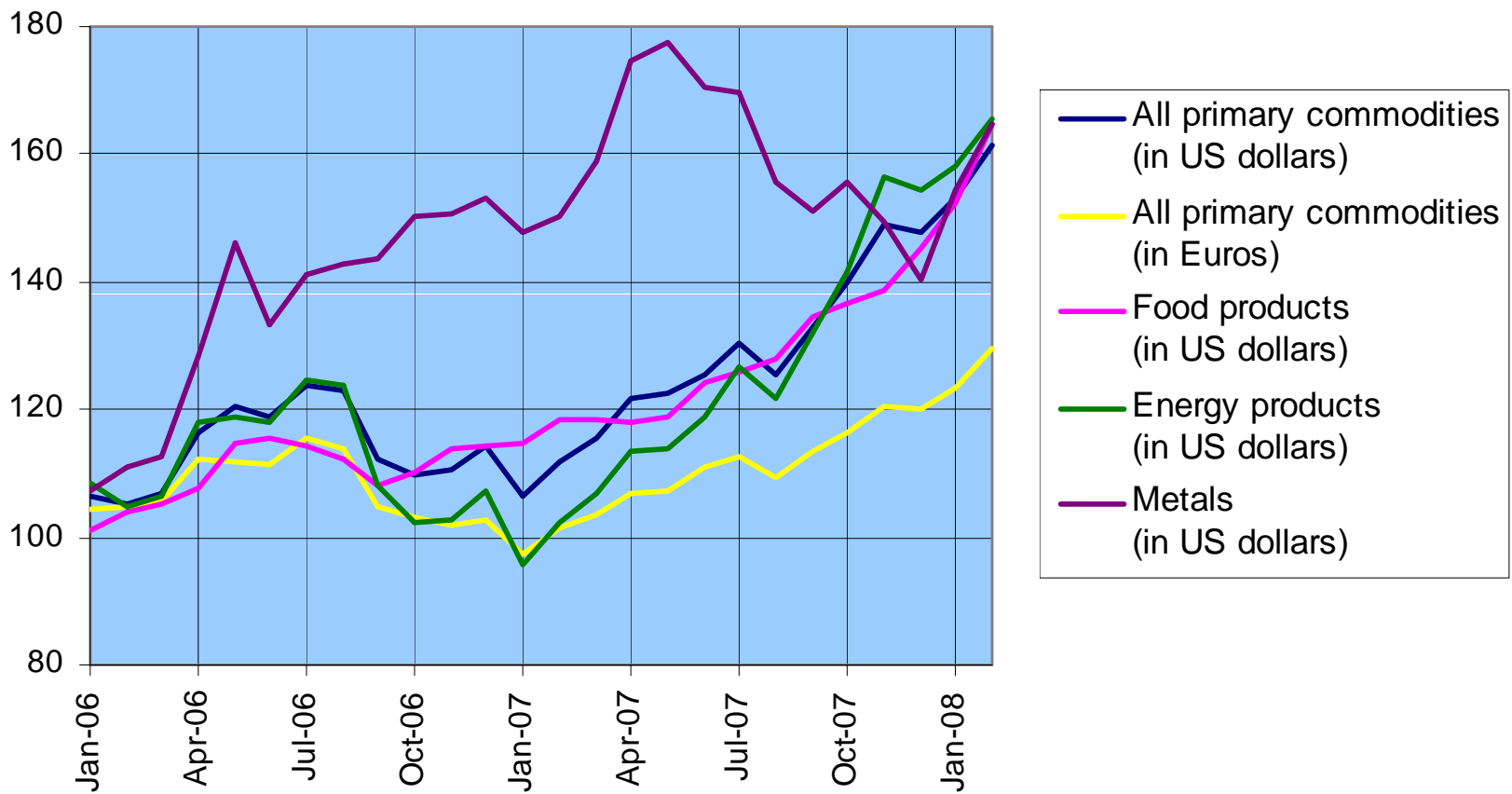
- H2 2007
- US dollar depreciated significantly against many other currencies
- Q1 2008
- Bear Sterns, the fifth largest investment bank in the US, had to be bailed out
 - Fed further lowered the interest rates, introduced a discount window for investment banks, and injected more liquidity into the US banking system
 - Other central banks also injected liquidity into their banking systems
 - Capital fled from financial markets to commodity markets

Selected Stock Market Indices, 2006-2008 (Dec-2005=100)



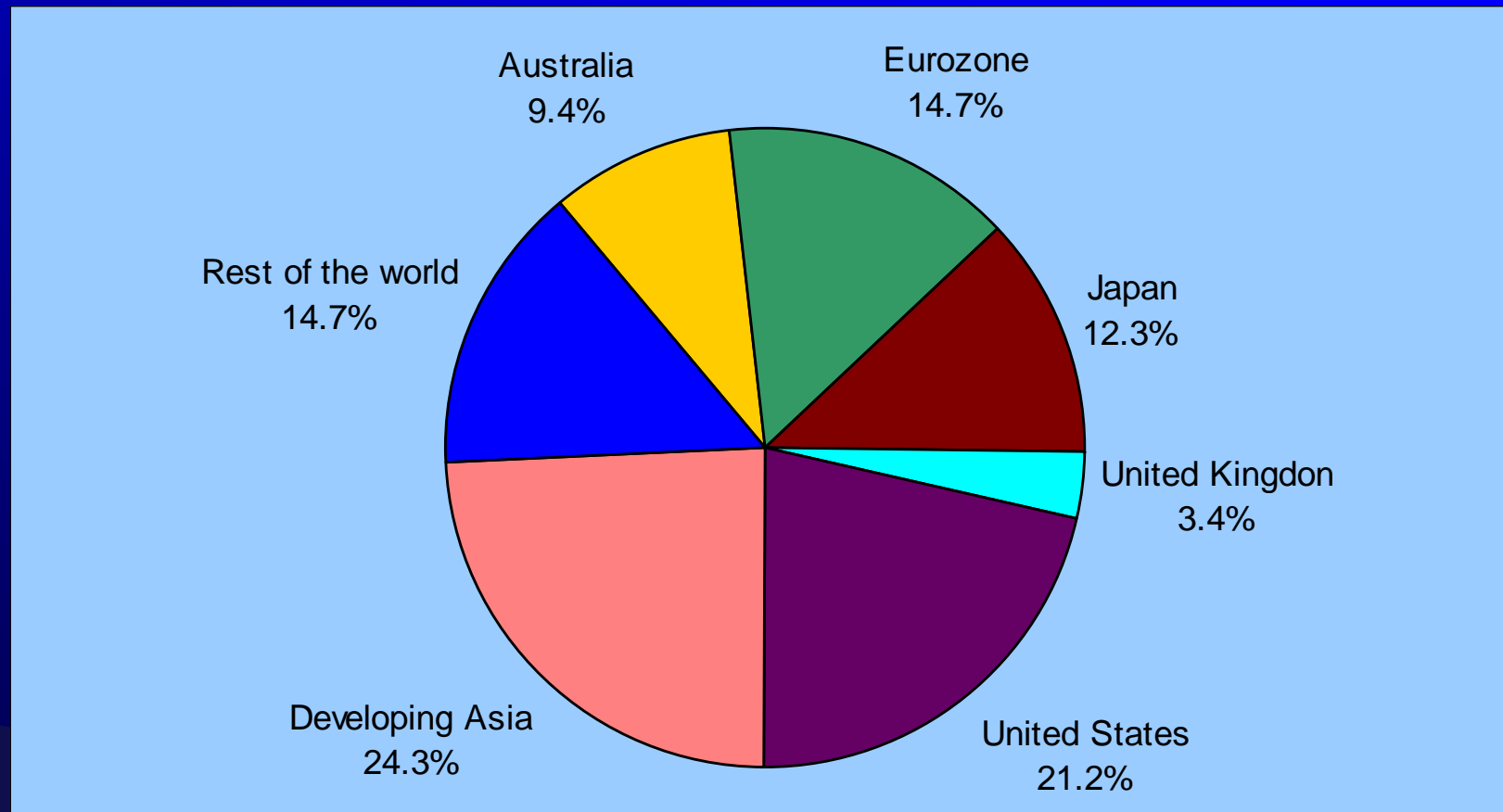
Source: Yahoo! Finance

Selected Commodity Price Indices, 2006-2008 (Dec-2005=100)



Source: IMF's International Financial Statistics database

Viet Nam: Geographical Distribution of Merchandise Exports, 2006 (In % of total merchandise exports)



Source: IMF's Direction of Trade Statistics database and ADB staff computations

Real GDP Growth in Key Destination Countries/Regions for Viet Nam's Merchandise Exports, 2005-2009 (In %)

	2005 ^a	2006 ^a	2007 ^a	2008 ^b	2009 ^b
Australia	2.8	2.7	4.4	3.2	4.3
Eurozone	1.5	2.8	2.7	2.6	1.6
Japan	1.9	2.2	2.4	2.1	1.5
United Kingdom	1.8	2.8	3.1	2.0	2.3
United States	3.1	2.9	2.2	1.5	2.0
Developing Asia	8.1	8.6	8.7	7.6	7.8

^a Actual

^b Projections

Source: Governments of the countries concerned, UN ESCAP, and ADB staff computations and projections



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Implications for Viet Nam

- Increased volatility the stock markets
- Upward pressure on inflation (at least in the near term)
- Slowdown in growth of exports and GDP
- Decline in remittance and capital inflows
- Widening of the current account deficit
- Decrease in the capital account surplus and in the overall balance of payments surplus

Part 3

Medium-Term Economic Outlook for Viet Nam

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Viet Nam: End-of-Period Inflation Versus Period-Average Inflation in 2008 on the Hypothetical Case of No Inflation in Apr-08—Dec-08

Consumer price index (Dec-2006=100)

	M1	M2	M3	M4	M5	M6	M7	M8	M9	M10	M11	M12	Average
2007	101	103	103	103	104	105	106	107	107	108	109	113	106
2008	115	119	123	123	123	123	123	123	123	123	123	123	122

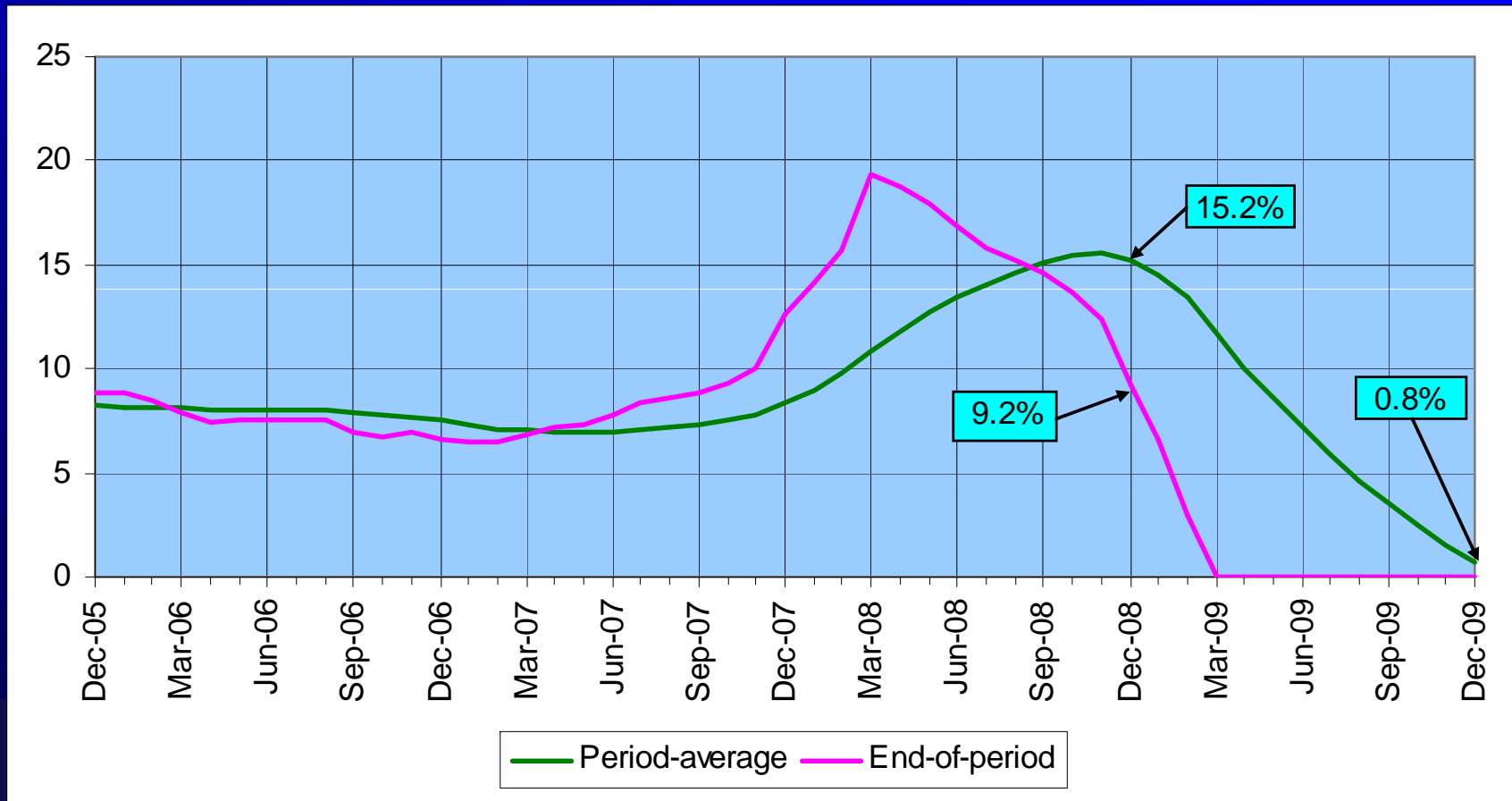
Consumer price inflation (in %)

	M1	M2	M3	M4	M5	M6	M7	M8	M9	M10	M11	M12	Average
2007	1.0	2.2	-0.2	0.5	0.8	0.8	1.0	0.5	0.5	0.7	1.2	2.9	1.0
2008	2.4	3.6	3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.7
Y-on-Y	14.1	15.7	19.4	18.8	17.9	16.9	15.8	15.2	14.6	13.7	12.4	9.2	15.2

End-of-period inflation in 2008 = $123/113 * 100\% - 100\% = 9.2\%$

Period-average inflation in 2008 = $122/106 * 100\% - 100\% = 15.2\%$

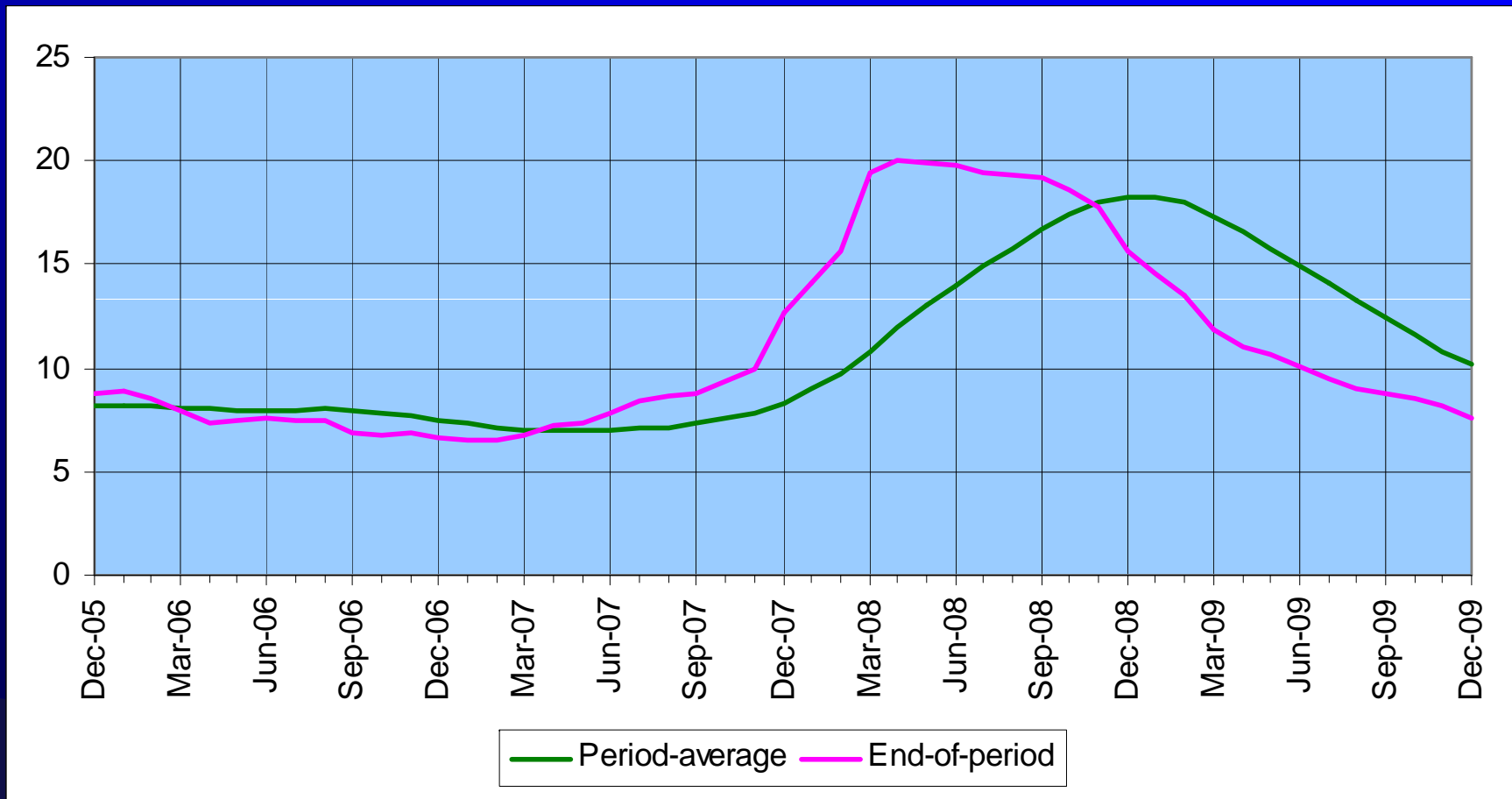
Viet Nam: 12-Month Consumer Price Inflation in 2006-2009 on the Hypothetical Case of No Inflation in Apr-08—Dec-09 (For the 12-month period ending in the month concerned, in %)



Domestic Economy Assumptions

- Government will maintain an anti-inflationary policy stance
- Coordination and coherence of macroeconomic policies will improve
- Monetary tightening will be supported by fiscal tightening and greater exchange rate flexibility
- Monetary tightening will not cause serious problems in the financial sector
- There will be no major supply-side shocks

Viet Nam: 12-Month Consumer Price Inflation, 2006-2009 (For the 12-month period ending in the month concerned, in %)



Source: General Statistics Office and ADB staff computations and projections

Viet Nam: Selected Macroeconomic Indicators, 2005-2009

	2005 ^a	2006 ^a	2007 ^a	2008 ^b	2009 ^b
Consumer price inflation (in %)					
Period-average	8.3	7.5	8.3	18.3	10.2
End-of-period	8.8	6.6	12.6	15.6	7.6
Real GDP growth (in %)	8.4	8.2	8.5	7.0	8.1
Growth of merchandise exports (in %)	22.5	23.0	21.3	18.7	23.5
Current account balance (in % of GDP)	-0.9	-0.3	-8.0 ^c	-10.3	-9.4

^a Actual

^b ADB staff projections

^c ADB staff estimate

Source: General Statistics Office and ADB staff estimates and projections

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Development Challenges and Priorities

- Curb inflation before high inflation becomes persistent
- Bring inflation down without damaging the economy's medium-term growth prospects
- Ratchet up growth in the medium term, while keeping inflation under control
- Increase the supply of skilled labor
- Remove infrastructure bottlenecks

Development Challenges and Priorities (Continued)

- Improve efficiency of public investment
- Manage strong inflows of foreign capital
- Strengthen institutional capacity of government agencies for macroeconomic policy management
- Strengthen prudential regulation and supervision of banks
- Continue market-oriented reforms

Medium- to Long-Term Economic Prospects

- Viet Nam's medium- to long-term economic prospects are bright
- Government is committed to macroeconomic stability and market-oriented reforms
- Economic fundamentals are strong
- FDI inflows are likely to remain strong
- Economic growth is likely to rebound after a moderate slowdown

Thank you

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