Economic recovery was impressive in 2022, supported by exports, robust foreign direct investment, and rebounding domestic consumption. The pandemic nevertheless exposed structural issues that are among the main downside risks to the economy. Growth is forecast to moderate in the coming 2 years, and inflation is expected to edge up. A particular challenge is managing problems that have built up in the financial sector, including a proliferation in nonperforming loans.

Economic Performance

The removal of COVID-19 restrictions and the achievement of nationwide vaccine coverage boosted growth, particularly in services. In 2022, real GDP increased by 8.0%, the fastest pace in the past 25 years. Normalized mobility spurred domestic tourism, lifting service sector growth from 1.6% a year earlier to 10% and contributing 4.2 percentage points to growth (Figure 2.32.1).

Other sectors grew robustly as well. Industry and construction growth accelerated from 3.6% in 2021 to 7.8%, boosted by 8.1% expansion in manufacturing and a rebound by mining from 7.8% contraction in 2021 to 5.2% growth. Construction similarly rebounded, from 0.3% contraction a year earlier to 8.2% growth, as mobility restrictions were lifted. Agriculture sustained strong growth at 3.4%.

On the demand side, consumption and investment grew faster. Domestic demand was buoyed by recovery in private consumption growth, which jumped from 2.0% in 2021 to 7.8%. Retail sales of consumer goods and services in 2022 soared by 19.8% over the previous year. Gross investment growth picked up from 4.0% a year earlier to 5.8%, driven by a 13.5% increase in foreign direct investment (FDI) disbursement estimated at $22.4 billion. This was the highest FDI disbursement ever in Viet Nam, testifying to foreign investors’ confidence in economic recovery. Newly registered FDI, on the other hand, dropped by 11%, an effect of geopolitical tensions and tightened global financial conditions.
Inflation rose in 2022, notwithstanding factors limiting the uptick. Self-sufficiency in food supply and effective price controls on essential commodities kept inflation in check at 3.2% in 2022, albeit up from 1.8% in 2021 (Figure 2.32.2). Core inflation inched up to 2.6%.

The increase in inflation was further checked by monetary policy. Viet Nam raised key interest rates twice by a total of 200 basis points in the second half of 2022, widening the exchange rate trading band for the Viet Nam dong against the US dollar from ±3% to ±5%, with effect from 17 October 2022, and expanding credit growth from 13.6% in 2021 to an estimated 14.2%. A flexible monetary policy in Viet Nam that combines policy interest rate changes, foreign exchange intervention, and control of credit growth cushioned impacts from external shocks, including a sharp US dollar appreciation and global price inflation. Money supply growth moderated from 10.7% in 2021 to an estimated 6.2% (Figure 2.32.3).

Domestic financial markets came under pressure. Irregularities in corporate bond and equity markets prompted further regulatory tightening of the capital markets, which created a liquidity crunch in the third quarter that eroded investors’ confidence. Average interbank interest rates were 3.5–5.0 percentage points higher in the first 2 months of 2023 than a year earlier (Figure 2.32.4).

Resilient neighboring economies bolstered Viet Nam’s exports and partly compensated for lower exports to the advanced economies. Economies in the Association of Southeast Asian Nations (ASEAN) were in aggregate the fourth largest export market for Viet Nam’s products in 2022. Higher global demand and a depreciating dong spurred merchandise export growth to 10.5%. Exports of mobile phones, computers, and electronics, accounting for 30% of all exports, rose by 5%, and exports of machinery by 20%. The US remained Viet Nam’s biggest export market with turnover of $109.4 billion, a 13% increase over the previous year and accounting for 29.4% of exports by value. Higher high-tech exports stimulated imports of parts and components for computers, phones, and other electronics, expanding merchandise imports by 8.3%. However, an appreciating US dollar and the zero-COVID closure of the People’s Republic of China (PRC), Viet Nam’s main import market, hindered imports.
The current account deficit narrowed from the equivalent of 2.0% of GDP in 2021 to an estimated 0.3%, but the overall balance of payments still worsened. The merchandise trade surplus was an estimated 6.4% of GDP, and this partly offset a sharp decline in net receipts from services and lower remittances as global economic conditions deteriorated. Reduced inflows shrunk the surplus in the financial and capital account from 8.4% of GDP in 2021 to 2.4%. A drop this big in the financial and capital account surplus overwhelmed the narrower current account deficit to flip the overall balance of payments from a surplus equal to 3.9% of GDP in 2021 into a deficit estimated at 5.6% in 2022 (Figure 2.32.5). At the end of December 2022, foreign reserves were estimated to cover 2.8 months of imports, down from 3.9 months a year earlier.

Figure 2.32.5 Balance of Payments Indicators

The overall balance of payments fell into deficit last year.

Economic Prospects

Growth will be constrained in 2023 by the global slowdown, continued monetary tightening, and spillover from the Russian invasion of Ukraine.

However, the reopening of the PRC will counter these headwinds, and the economy is forecast to grow by 6.5% in 2023 and 6.8% in 2024 (Table 2.32.1 and Figure 2.32.6).

Table 2.32.1 Selected Economic Indicators, %

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP growth</th>
<th>Inflation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2021</td>
<td>2.6</td>
<td>1.8</td>
</tr>
<tr>
<td>2022</td>
<td>8.0</td>
<td>3.2</td>
</tr>
<tr>
<td>2023</td>
<td>6.5</td>
<td>4.5</td>
</tr>
<tr>
<td>2024</td>
<td>6.8</td>
<td>4.2</td>
</tr>
</tbody>
</table>

Declining global demand has hit manufacturing.

The global economic slowdown deepened in the fourth quarter of 2022 and will likely continue in 2023. Falling global demand drove the industrial production index down by 6.3% in the first 2 months of 2023 relative to the same period in 2022. The manufacturing purchasing managers’ index sank below 50 for 4 consecutive months as export-driven manufacturing contracted while consumption-led manufacturing was unable to take up the slack, then the index revived from 46.4 in January 2023 to 51.2 in February 2023 (Figure 2.32.7). Industry growth is forecast to slow to 7.5%
in 2023, contributing 2.7 percentage points to GDP growth. Construction could pick up, however, if major infrastructure projects can be implemented in 2023 as planned.

**Services are expected to expand by 8.0% in 2023 on revived tourism and associated services.** The PRC initially left Viet Nam off the list of the countries that could receive its outbound tourists. On 12 March 2023, though, a revised list added Viet Nam, allowing group tours from the PRC to Viet Nam to resume on 15 March. As the PRC is Viet Nam’s largest tourist market, the country will benefit considerably from this development.

**The PRC’s reopening will also benefit agriculture.** The PRC could generate significant demand for Viet Nam agricultural exports, as the country receives 45% of Viet Nam’s exports of fruit and vegetables. Agriculture is therefore expected to expand by 3.2% in 2023.

**Public investment will be the key driver for economic recovery and growth in 2023.** A considerable amount of public investment is scheduled to be disbursed in 2023. The government is committed to disbursing $30.0 billion in the year, of which 90% had been allocated to disbursing ministries and provinces as of January 2023. Foreign investment, however, will still be hampered by the global economic slowdown. Newly registered and disbursed FDI fell by 38% and then 4.9% year on year in the first 2 months of 2023 (Figure 2.32.8). The fiscal deficit in 2023 could exceed the deficit target, which is 4.4% of GDP. In the future, Viet Nam should continue reform to make its finances more sustainable, significantly reducing dependence on unsustainable revenue sources such as land and oil.

**On the demand side, domestic consumption will continue to rebound in 2023.** Revived tourism, new public investment and stimulus programs initiated in January 2022, and a salary increase effective in July 2023 are expected to keep domestic consumption on the rise, though higher inflation may hamper its recovery. Retail revenue in the first 2 months of 2023 was, however, 24.9% higher than in the same period of pre-pandemic 2019, albeit partly reflecting the Lunar New Year holiday.

**Weakening global demand will continue to dampen trade in 2023.** Exports in the first 2 months of 2023 decreased by 10.4% year on year, while imports dropped by 16.0% (Figure 2.32.9). Both imports and exports are forecast to shrink by 7.0% this year and next. Slowing trade could create a current account deficit that equals 1.0% of GDP this year before moving back into surplus in 2024.

**Surprise policy rate cuts make Viet Nam the first economy in Southeast Asia to ease monetary policy.** The State Bank of Vietnam, the central bank, acted because stressed capital markets had caused a credit crunch for real estate and hit investor confidence. Meanwhile, slightly lower inflation and recent banking turmoil in the US were seen to motivate the Federal Reserve there to temper its hawkish...
monetary tightening, potentially easing cost-push inflation abroad. At the same time, pressure was mounting for action to maintain economic growth in Viet Nam as the global economy stalled. These factors prompted the government to instruct the central bank on 7 March to act to support liquidity and economic recovery. The central bank cut the discount rate from 4.5% to 3.5%, the overnight rate for interbank electronic payments and clearing through the central bank from 7.0% to 6.0%, and the interest rate cap on short-term dong loans to priority sectors from 5.5% to 5.0%—all cuts effective on 15 March. The central bank kept the refinancing rate unchanged at 6.0%.

External risks to the forecast skew to the downside. The principal external downside risks are a deeper global economic slowdown, continued monetary tightening in major trade partners, and escalation in the Russian invasion of Ukraine.

Policy Challenge—Managing Financial and Capital Market Stress

Financial markets were turbulent last year, raising risk. Financial fraud hit the corporate bond market in 2022, causing bond issuance in the fourth quarter to plunge by 98.8% from a year earlier. Bond repayment due in 2023 is estimated at $10 billion, of which 42.8% will be from real estate and 30.8% from banks. As banks are resilient, market turbulence has not yet caused serious systemic risks. The capital adequacy ratio against risk-weighted assets is still above 8%, as Basel II requires (Figure 2.32.10). Banks’ financial statements were still positive in the fourth quarter of 2022. Yet risks are becoming evident. Bank credit to real estate in 2022 grew by 24%, its highest growth rate in the past 5 years. Gross nonperforming loans reached 4.5% in 2022 from 3.8% in 2021 and may continue to increase. Further risk of contagion may come from banks’ exposure to real estate and construction and a high ratio of property in the collateral held by banks. Many banks’ ratio of loans to deposits breached the 85% threshold.

The government responded quickly to worsening market conditions. Decree 65 was passed swiftly in the third quarter of 2022 to strengthen governance in the corporate bond market. However, it did not improve market sentiment, and investors abruptly paused their corporate bond purchases because of doubts about bond repayment. The government then deferred for 1 year compliance with regulatory requirements for corporate bond issuance, including the mandatory credit rating for private bond placement. The government issued another decree on 5 March
2023 to allow bond interest and principal to be paid not just in cash but also using physical and other assets. This raised doubts about enforcement as many of the troubled physical assets have no legal status for valuation. Further, the central bank included time deposits of the State Treasury into banks’ deposits to improve the ratio of loans to deposits and expand bank credit space. On 17 February 2023, the State Bank of Viet Nam proposed a credit program worth $5 billion for social housing to be implemented by four state-owned commercial banks.

**Monetary and fiscal measures should continue to be coordinated to support the economy.**

The issuance of Decree 65 was timely, and its implementation should be resumed as delays may worsen future bad debts. The implementation of a social housing program should balance the need for prudent lending to avoid future nonperforming loans with the need to speed up disbursement. A more accommodative monetary stance notwithstanding, Viet Nam should continue to prioritize price stability because escalating geopolitical tensions and accelerating disbursement of public investment may still stoke inflation in 2023. Average inflation in the first 2 months of 2023 rose from 1.7% a year earlier to 4.6%. Inflation is therefore forecast to increase slightly to 4.5% in 2023. Finally, it is critical to accelerate the disbursement of $30 billion in public investment. Along with the continued implementation of the stimulus program endorsed in January 2022, this spending will generate substantial multiplier effects, creating strong motivation for the whole economy. In the long term, financial reform should continue, to reduce dependence on bank finance and enhance transparency in bond markets.