Slowing global demand and high international interest rates hampered Viet Nam’s growth in 2023. A timely switch to an accommodative monetary policy to support growth was among the key measures taken for the economy to move back on the path to recovery. Sizeable public investment this year should further restore growth. Inflation is expected to edge up in tandem with the economic revival. A key policy challenge is enhancing public investment effectiveness for short-term stimulus and as a foundation for longer-term development.

**Economic Performance**

**Growth decelerated sharply to 5.0% in 2023 from 8.0% in 2022.** The slow global recovery, prolonged Russian invasion of Ukraine, and recent conflicts in the Middle East reduced global demand, significantly dampening Viet Nam’s export-led manufacturing—its primary growth driver—slashing its growth by almost half to 3.6%. The sharp decline in manufacturing reduced industry’s growth to 3.7%, just half the 7.5% a year earlier. The troubled real-estate sector led construction down to 7.1% from 7.9% in 2022 (Figure 2.32.1).

**Other sectors remained healthy.** Agriculture sustained its 3.8% growth as a pickup in commodity prices encouraged farming. A steady increase in international visitor arrivals—estimated at 12.6 million or 3.4 times more than in 2022—remained nonetheless below pre-pandemic levels. It still helped services grow by 6.8% in 2023.

**Domestic demand recovered, but slower than expected.** Fiscal measures to support growth such as a 2% reduction in value-added tax and public investment aided consumption. Retail sales grew by 9.6% compared with 2022, though far less than the 20% increase in 2022. Despite stable disbursement of foreign direct investment (FDI), rising by 3.5%, turbulence in the corporate bond market and a real-estate downturn lowered private investor confidence, driving private investment down to 2.7% in 2023, its lowest level in 10 years. The downturn led total investment to contract by 6.2%, a reversal from the 11.3% increase in 2022. Weak external demand lowered trade.

**Average inflation reached 3.3% in 2023, slightly higher than 3.2% in 2022 (Figure 2.32.2).** A broad-based global economic slowdown tamed global oil prices and helped ease inflationary pressure. Price controls for electricity, healthcare, and education also restrained inflation.

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Credit growth slowed but total liquidity improved in two years. Bank credit growth reached an estimated 13.5% while total liquidity growth shot up to 10.3% by the end of 2023 from 6.2% a year earlier (Figure 2.32.3).

Financial fraud rattled capital markets in 2022 and 2023. Timely regulatory changes including bond restructuring, among other measures, helped stabilize market sentiment in early 2023. New issuance value rose by 19.6% year on year, largely due to low base effects. However, delayed payments of principal and/or interest on restructured corporate bonds outstanding—estimated an equivalent of $40 billion—will continue to fuel market pressure in 2024.

The trade surplus was a record $28 billion in 2023 as imports declined faster than exports. Exports receipts totaled $355.5 billion (83% of GDP), down 4.4% from 2022, while imports fell to $327.5 billion (76% of GDP), an 8.9% drop. Shipments of mobile phones, computers, and electronic products, accounting for 30% of total exports, decreased by 3.6%. Meanwhile, machinery and equipment, accounting for 12% of total exports, fell by 5%.

The sizable trade balance supported the current account surplus estimated at 5.9% of GDP from a modest surplus of 0.3% a year ago. Higher remittances also supported the current account balance. The wide differentials with global interest rates led to a capital and financial account deficit estimated at 0.7% of GDP in 2023. However, the substantial current account surplus turned the overall balance of payments to an estimated surplus of 1.3% of GDP in 2023 from a deficit of 5.6% of GDP in 2022 (Figure 2.32.4). By the end of 2023, foreign reserves had improved to 3.3 months of imports from 2.8 months at the end of 2022.
Fiscal policy in 2023 remained expansionary. A 22.4% reduction in export and import earnings in 2023 reduced revenue by 5.4%, while increased capital expenditure pushed up total spending by 10.9%. However, well-controlled public debt repayments and contained current expenditures helped maintain a relatively balanced budget with a mild estimated deficit of 0.14% of GDP.

Economic Prospects

The economy is expected to grow 6.0% in 2024 and 6.2% in 2025 (Table 2.32.1). A relatively broad-based growth restoration in export-led manufacturing, services, and stable agriculture would make the gradual recovery possible. Positive inflows of FDI and remittances, a sustained trade surplus, continued fiscal support, and a substantial public investment program would also stimulate growth. For the first quarter of 2024, the economic growth accelerated to 5.7% from 3.4% a year ago. However, downside risks from global geopolitical uncertainties and exposed domestic structural fragilities could impede growth.

Table 2.32.1 Selected Economic Indicators, %

<table>
<thead>
<tr>
<th></th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
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</thead>
<tbody>
<tr>
<td>GDP growth</td>
<td>8.0</td>
<td>5.0</td>
<td>6.0</td>
<td>6.2</td>
</tr>
<tr>
<td>Inflation</td>
<td>3.2</td>
<td>3.3</td>
<td>4.0</td>
<td>4.0</td>
</tr>
</tbody>
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GDP = gross domestic product.
Sources: General Statistics Office; Asian Development Bank estimates.

The gradual return of new orders and consumption revived manufacturing growth at the end of 2023, with the trend gaining further momentum in 2024. Manufacturing expanded at 6.8% in the first quarter of 2024, compared with the contraction of 0.5% a year ago, contributing to industrial growth of 6.3% (Figure 2.32.5). Lower interest rates, fiscal measures supporting growth, and the recently improved land-related legal framework should support construction. However, slow global growth and still high global policy rates could weigh down export-led manufacturing growth.

Figure 2.32.5 Industry and Manufacturing Growth

Manufacturing and industrial production improved in the first quarter of 2024.

Low domestic interest rates, fiscal policy measures, and wage increases will spur consumption-led services in 2024. Retail sales in the first quarter of 2024 were 8.2% higher than the same period in 2022 (Figure 2.32.6). Revived economic activity, though slow, will elevate logistic services, while liberalized visa policy will likely boost tourism. Overall, services are forecast to expand by 7.7% in 2024. Global demand for agricultural commodities and free trade agreements will continue supporting agricultural exports.

Figure 2.32.6 Retail Sales

Retail sales in the first months of 2024 increased over last year.

Monetary policy will pursue the dual objectives of price stability and growth, even as policy space is limited. The expected slowdown in the global economy in 2024 could tame global oil prices and consequently ease inflationary pressure. Average inflation for the first quarter of 2024 slowed to 3.8%
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from the high level of 4.2% in the same period last year. Inflation is forecast to rise slightly to 4.0% in 2024 and 2025. Though the inflation forecast remains below the 4%–4.5% target, near-term pressure may persist from geopolitical tensions and disruptions of global supply chains.

The Fed expects to cut interest rates in 2024 and external inflation will continue to cool, though more gradually than expected. The Fed rate cuts in 2024 would help relieve the pressure on the dong. However, the heightened risk of nonperforming loans—which peaked at an estimated 4.6% of loans outstanding at the end of 2023 compared with 2.0% in 2022—would reduce the prospect for additional monetary easing. The newly amended Law on Credit institutions effective 1 July 2024 will also better monitor lending activities.

Given limited monetary policy space, fiscal and investment spending will be key for growth in 2024. A comfortable fiscal position with a mild budget deficit and a low public debt-to-GDP ratio provides sufficient fiscal space to support growth. The ongoing value-added tax reduction program was extended until June 2024 and could be extended further to the end of 2024. A sizable amount of public investment, equivalent to $27.3 billion, has been programmed for disbursement this year. Together with disbursements from 2023, this additional public investment would significantly stimulate growth. A gradual revival of export-led manufacturing would support FDI. Registered FDI increased by 13.4%, and disbursed FDI went up 7.1% in the first quarter of 2024 compared with the same period last year (Figure 2.32.7). Accelerated public investment and improved business conditions can spur private investment in 2024.

Softening global demand will limit the trade recovery in 2024. Global growth is expected to bounce back slower than expected, which could also slow Viet Nam’s export recovery. Exports in the first quarter of 2024 grew by 17%, while imports increased by 13.9% (Figure 2.32.8). Imports and exports will grow modestly by 4%–4.5% this year and next as external demand gradually recovers. Renewed manufacturing activity would push up imports of production inputs. As a result, the current account surplus is projected to be 1.5% of GDP in 2024.

The economy will likely grow slightly faster in 2024 than in 2023, although risks are tilted toward the downside. Softened global demand caused by slow economic recovery and continued geopolitical tensions would slow the full recovery of Viet Nam’s export-led growth. Delayed normalization of interest rates in the US and other advanced economies would also impede the monetary policy shift to one supporting growth. As a result, fiscal measures for supporting growth and public investment would ultimately become the key policy options to reignite growth. More importantly, the growth slowdown has heightened the risks of structural fragilities, especially excessive reliance on FDI-led export manufacturing, weak linkages between manufacturing and the rest of the economy, the
Policy Challenge—Accelerating Disbursement of Public Investment

Public investment is a critical engine of economic growth, but plans must be implemented for this engine to provide power. According to the Ministry of Planning and Investment, an increase of 1% in public investment disbursement corresponds to a 0.058% increase in GDP growth. In addition, every 1 dong of disbursed public investment capital stimulates 1.61 dong of investment capital from the non-state sector. However, the execution rate compared to planned investment has been consistently low, hovering around 80% for the year (Figure 2.32.9). While the government has tried to address this problem, progress has been insufficient.

First, projects approved with allocated budgets sometimes are not ready to move forward, causing extensive delays. A systematic approach to improve project readiness can significantly enhance effective implementation. Many projects require preparatory groundwork, such as feasibility studies, land clearance arrangements, and preparatory procurement in parallel with project approval procedures. Better readiness to expedite project implementation will help minimize cost overruns.

Second, projects sometimes require design or budget changes even after approval and budget allocation. This can cause long interruptions before project work can start. One major obstacle to timely and quality project preparation is the complexity of regulations, particularly land use planning, land acquisition, and site clearance. This rigidity is a crucial challenge in situations of market fluctuations. Soaring prices due to shortages of materials and inputs for production, driven by regulatory constraints, lead to higher costs, forcing contract renegotiations or the need for additional funding and approvals. As part of improving project cycle procedures, regulations should be revised to allow for principle-based flexibility and fit-for-purpose adjustments. This will help facilitate efficient project approval and management that can be adapted to various circumstances without repeating the approval process. It is also important to strengthen the capacity of provincial and local public investment staff to improve the quality of project preparation.

Third, weak coordination between public investment and budget processes has resulted in slow and insufficient budget allocation. In recent years, it has been reported that central agencies received higher allocations than what they can initiate, while provinces received too little to meet their needs. The pressing challenge of the mismatch between allocated budgets and investment mandates often leads to inefficiencies and delays in project implementation—funds may not be optimally directed toward identified priority areas, resulting in suboptimal resource utilization. This limits project progress and capital utilization efficiency.

The government has adopted measures to enhance transparency, efficiency, and accountability in budget allocation and disbursement. This promotes better coordination between central and local authorities, prioritizing projects based on impact and readiness, and implementing rigorous monitoring mechanisms to ensure funds are utilized effectively and efficiently. However, their effectiveness seems to be limited. Disparities among the execution capabilities at different government levels highlight the need to strengthen the allocation process and build the capacity...
of local governments. The ongoing decentralization of public investment mandates and fiscal responsibilities has exposed weaknesses in addressing inter-provincial or regional challenges. The budget processes could be adjusted to allow for flexibility, which would be more efficient at any level (central or provincial) to contribute resources to a regionally coordinated project.

In 2024, public investment will continue to play a vital role in supporting the economy. Following budget approval by the National Assembly, the Prime Minister approved the capital allocation plan of D688.5 trillion to continue building infrastructure and driving economic development. The government has implemented various policy measures to expedite disbursement of public investment and enhance effective execution. These measures include a series of resolutions and directives focusing on different aspects of public investment disbursement. However, to sustain progress, more systematic measures are required to improve the legal and regulatory processes for successful implementation. By proactively addressing these obstacles in an integrated manner throughout the project cycle, Viet Nam can unlock the full potential of its public investment initiatives, driving sustainable economic growth and development.