

Vietnam's Economy in 2020 and Its Prospect for 2021

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Abstract: *The article provides an assessment of the economic situation of Vietnam in 2020 reflected in economic developments due to the COVID-19 epidemic shock, which has reduced production and business activities of most sectors through a comparison with the two shocks including the 1997 Asian financial crisis and the 2008 global financial crisis. Against this background, it further offers some prospects for 2021 as well as policy suggestions to accelerate economic recovery on a stable and solid basis.*

Keywords: Vietnam Economy, Economic Growth, Covid-19 Pandemic, Financial Crisis

1. Introduction

The year 2020 is considered as a difficult year for the global economy, including Viet Nam. In the early months, the outbreak of the Covid-19 pandemic had a great influence on Viet Nam's economy; followed by natural disasters, epidemics in many areas caused large amount of casualties and property damage. Although there are more optimistic signals in 2021, the Covid-19 pandemics still have more or less impact on the national socio-economic development. In response to the pandemic and natural disasters, the Government offered support packages to help businesses, workers, and

citizens overcome difficulties. The growth rate of Vietnam's economy was 2.91% in 2020, lowest since Doi Moi (Reform) but higher than many other countries in the world.

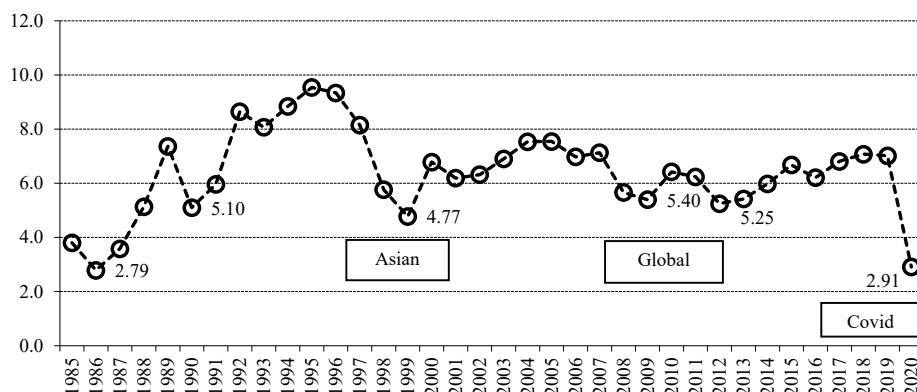
2. The economy in 2020 under the Covid-19 pandemic

a) The impact of the Covid-19 on economic growth¹

In 2020, the outbreak of the Covid-19 pandemic following social distancing

¹ The data in this section are taken from the website of the General Statistics Office of Vietnam and from the reports of the General Statistics Office of Vietnam (see GSO, 2020; 2021a; 2021b).

Figure 1. Economic growth 1985-2020 (unit: %)

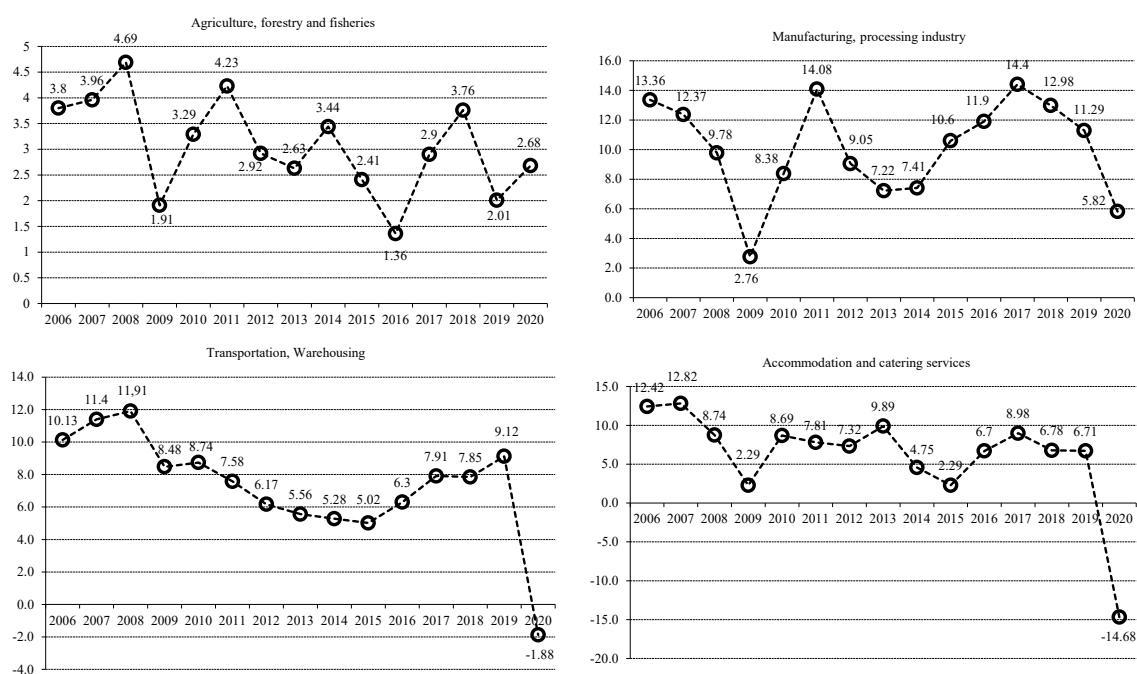


Source: General Statistics Office of Vietnam.

policies has strongly impacted on socio-economic development of Vietnam, the economic growth rate fell to the lowest level in the past 35 years. In the period 1986-2020, Vietnam's economy experienced three negative shocks including the 1997 Asian financial crisis, the 2018 global financial crisis and the

2011 macro-economic instability (high inflation and bad debt) that made the economic growth rate decline to 4.77%, 5.40%, and 5.25% respectively (Figure 1). However, the 2020 economic growth rate only reached 2.91% - the lowest level over the past three decades, which indicates that the Covid-19 pandemic, an unprecedented

Figure 2. Output growth (%) in some selected industries, 2006-2020



Source: General Statistics Office of Vietnam.

non-economic shock, has the most severe impact on the economy.

Although impacts of Covid-19 pandemic on different industries, economic sectors, and areas are not the same, they all contribute to the bottom-hitting of the economic growth rate for 30 years as follows:

First, most industries had lower output growth and contributed less significantly to overall growth compared to 2019.

In 2020, the output growth rate in the agriculture, forestry and fisheries was at 2.68%, higher than in 2019 (2.01%), showing that the agricultural sector is not strongly affected by the impact of the Covid-19 pandemic. In the meanwhile, industrial and construction output growth was only 3.36%, much lower than in 2019 (11.29%), even lower than the decline in 2009 (5.52%) when the economy was under the influence of the global financial crisis in 2008 (GSO, 2021).

Output growth of industries that are directly affected by natural disasters and epidemics including transportation, warehousing and accommodation and catering services in 2020 reached the lowest level, at 2.34% compared to 7.3% in 2019. In particular, transportation and

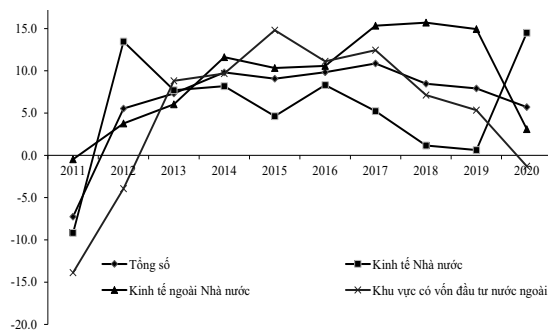
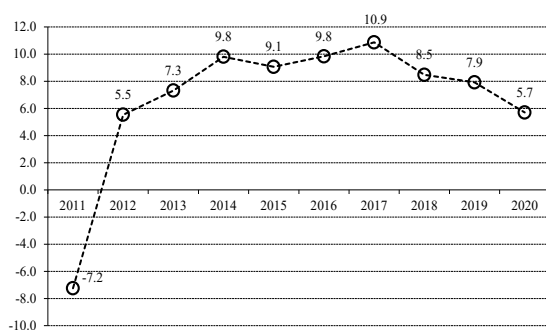
warehousing; accommodation and catering services are most affected by the Covid-19 pandemic. Accordingly, the transportation and warehousing industry decreased by 1.88%, the accommodation and food service industry decreased by 14.68%.

This is the sharpest decline, which can be considered unprecedented for a longer period. Regardless of the severity of the Asian currency crisis in 1997 as well as from the global financial crisis in 2008 to these industries, it's not comparable to the shock from the Covid-19 pandemic in 2020. In other words, the service sector was hit the hardest by the Covid-19 shock and the implementation of social distancing policies. The low growth of the service sector and the decline of some sectors make the economic growth in 2020 at the lowest level since Doi Moi.

Second, the growth of total social investment in 2020 has decreased compared to 2019 (5.7% compared to 7.9%), but the decline is still not as large as 2011's due to the impact of the global financial crisis in 2008 (Figure 3).

Although investment growth of the domestic private sector (3.1%) and the FDI sector (1.3%) declined, the state sector's

Figure 3. Growth of total investment by types of ownership in the period 2011-2020 (unit: %)



Source: General Statistics Office of Vietnam.

investment growth (14.5%) increased sharply, partly blocking the decline of total investment. In other words, the Government has implemented a “countercyclical” fiscal policy in the context of the Covid-19 pandemic. The role of the State in preventing the decline of aggregate demand is relatively clear in 2020.

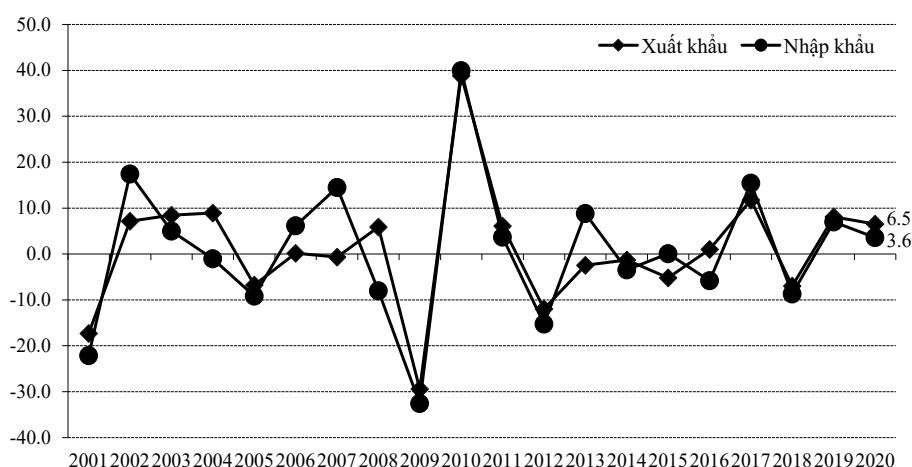
Third, the growth of export and import volume in 2020 decreased but not as sharply as it did due to the impact of the Asian currency crisis in 1997 and the global financial crisis in 2008 (Figure 4). Export and import volume of Vietnam in 1997 decreased by 5% and 23.9% respectively; in 1998 decreased by 19.5% and 4.6% respectively. The financial crisis in 2008 affected trade activities, causing export volume in 2008 to increase by 5.9% and import volume by 8%; In 2009, export turnover decreased by 29.4% and imports decreased by 32.6%. However, it seems that the Covid-19 pandemic has not significantly affected international trade activities, export and import volume

in 2020 will still increase, by 6.5% and 3.6% respectively. Thus, the impact of the Covid-19 shock on trade in 2020 is even lower than that of the two previous shocks (the 1997 Asian currency crisis and the 2008 global financial crisis). A more detailed analysis of the picture of the economy in 2020 shows that the service industry's output declines due to the impact of social distancing measures and closing national borders to prevent the spread of the Covid-19 epidemic had the greatest negative impact on the decline in economic growth. Meanwhile, the agricultural sector was barely affected negatively by the Covid-19 pandemic. The supply chain in the industry in some products (for example, automobiles), although negatively affected by the first wave of Covid-19, has recovered and industrial development has gradually back to normal.

b) The effect of the Covid-19 pandemic on macro-economic stabilization

At any time of the economic cycle, stabilizing the macro-economy is

Figure 4. Growth of export and import in the period 2001-2020 (unit: %)



Source: General Statistics Office of Vietnam.

always the State's top priority. However, completing this task in 2020 is a challenge. The Covid-19 pandemic has reduced aggregate demand growth (investment, consumption, and trade); therefore, although the 2020 target of inflation below 4% is retained, this epidemiological shock is causing increased macro-economic instability due to the increase of public debt, foreign debt, and debt repayment obligations of the Government, which are:

Firstly, the Covid-19 epidemic affects activities of production, investment and consumption, thus affecting state budget revenue.

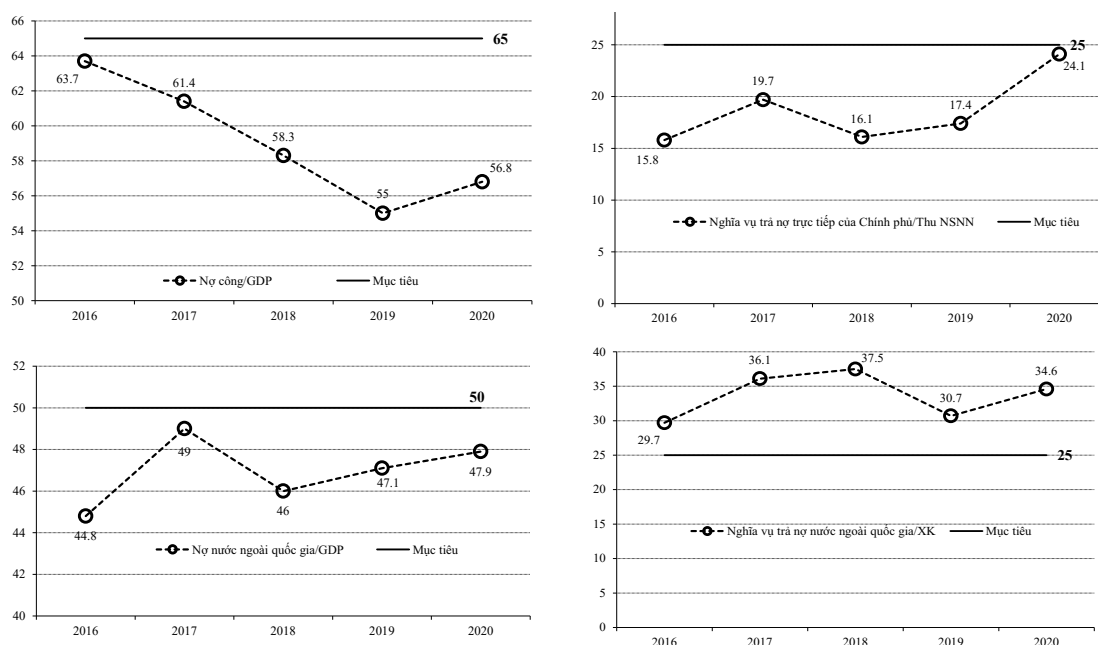
Responding to the impact of the Covid-19 pandemic on the economy, the government quickly implemented support packages for businesses and people, and relaxed, reduced, and waived taxes and fees

for businesses, which caused a sudden increase in state budget expenditure and a significant decrease in revenue. These developments could have sharply increased the fiscal deficit, however, such efforts of the Ministry of Finance as combating tax loss, accelerating debt collection, and reducing tax evasion to increase budget revenue has enabled the fiscal deficit to stay within the target range.

Secondly, bad debt in the financial system could increase due to the impact of the Covid-19 pandemic.

Social distancing and border controls has made businesses, especially those in the service and transportation sectors, forced to downsize, close or suspend operations, which leads to direct financial and liquidity consequences. This increases the risk of bad debt in the banking system and contributes to macro-economic instability.

Figure 5. Public debt, foreign debt and Vietnam's debt repayment obligation in the period 2016-2020



Source: Luong Bang (2020).

Thirdly, although public debt and foreign debt in 2020 are still far from the ceiling limit (65% of GDP and 50% of GDP respectively), there is an increase compared to 2019.

Notably, the ratio of direct debt repayment obligations of the Government to state budget revenues is increasing and is estimated at 24% in 2020, close to the 25% limit. The ratio of foreign debt repayment obligations/exports is higher than the ceiling limit (25%) and will be higher in 2020 than in 2019 (See: Figure 5).

Movements of macro-economic indicators such as public debt, foreign debt, etc. show that the economy is in area of greater instability due to the impact of the Covid-19 pandemic. The already narrow (fiscal) policy space is now narrower; therefore, the upcoming adverse shocks (if any) will put the economy facing bigger challenges.

3. Prospects and policy implications

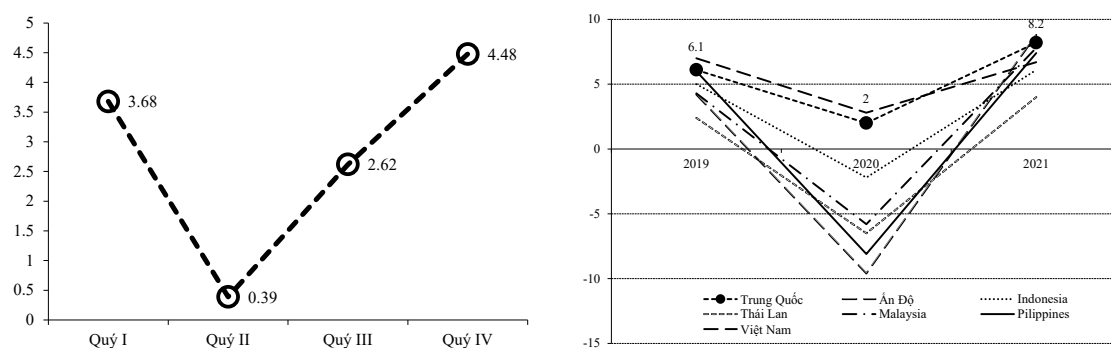
Although Vietnam's economic growth is Despite the low economic growth compared to the history of economic development of Vietnam over more than three decades, it's still higher in 2020 than that of most Asian countries thanks to the good control of the epidemic along with the drastic direction of

the Government (for example, promoting public investment disbursement).

In 2020, Vietnam's quarterly economic growth has recovered. GDP growth in the first quarter reached 3.68% when the economy was not greatly affected by the Covid-19 epidemic, but it dropped to 0.39% in the second quarter due to the outbreak of the disease at the end of March 2020 following by social distancing measures in early April 2020. Thanks to the good control of the epidemic, economic activities returned to the "new normal" state, which made the third quarter economic growth reach 2.62%. The growth rate in the fourth quarter of 2020 reached a high level (4.48%) compared to the same period in 2019. Although there are still cases of infection in the community in Ho Chi Minh City during this time, the epidemic has not flared up again and activities of production, business and consumption are not greatly affected. Thus, it can be seen that Vietnam's economic growth recovers in a V-shaped pattern (See: Figure 6).

In 2021, the Covid-19 epidemic is likely to be well controlled when some countries are speeding up the research and production of vaccines; vaccination is deployed on a large

Figure 6. Recovery in Vietnam's economy by quarter and year (unit %)



Source: General Statistics Office of Vietnam (2021) and IMF (2020).

scale; government support packages of the United States, China and EU countries are injected more into their economies to stimulate the domestic economy, contributing to the recovery of the world economy; and new-generation free trade agreements signed in the past two years in Vietnam (CPTPP, EVFTA, RCEP) will make the world and Vietnamese investors more optimistic about prospects, thereby strongly boost investment and spending, contribute to output increase, jobs creation and unemployment reduction.

The economic growth of Vietnam and other countries/regions in the world has a high probability of recovering in a V-shaped pattern. Under the 2021 motto “Solidarity, discipline, innovation, creativity, aspiration for development” in Resolution No. 01/NQ-CP dated January 1, 2021 of the Government on key tasks and solutions to implement the 2021 Socio-Economic Development Plan, the Government of Vietnam has set an economic growth target of 6.5% - higher than that previously approved by the National Assembly.

However, for the prospect to become a reality, domestic macro-economic policies need to first ensure economic stability, support businesses and people to overcome difficult times and quickly recover production, business, consumption and investment. Accordingly, financial support packages need to be deployed to the most vulnerable in service industry (tourism, transportation, restaurant, hotel, and service workers), cutting budget revenue by tax relief, extension and reduction for the business sector, while increasing revenue from revenue loss and tax evasion.

Implement a roadmap to reduce the budget deficit and reduce public debt according to medium-term goals. For monetary policy, it is necessary to maintain low-interest rates as at present, and monitor bad debt in the banking system to ensure liquidity.

Conclusion

Vietnam’s economy has experienced many negative shocks, of which the strongest, most extensive and long-lasting one was the Covid-19 pandemic from the beginning of 2020 and continued to have unpredictable developments until the first quarter of 2021. The Covid-19 shock has impacted almost every aspect of socio-economic development. Economic growth in 2020 - a composite indicator - is at a multi-year low. Reasons for such a deep decline in growth are the impact of the Covid-19 epidemic and social distancing measures on the tourism and transportation sectors. Meanwhile, trade, investment, industrial production, and agriculture were also negatively impacted by the Covid-19 pandemic, but not as severely as the 1997 Asian currency crisis and the 2008 global financial crisis. Promptly government policies partly prevented the decline of economic growth as well as the loss suffered by people, workers, and businesses.

In 2021, Vietnam’s economy has seen positive signals thanks to a milder Covid-19 shock due to the gradual implementation of vaccination; effectiveness of support packages deployed from 2020; the development of new generation FTAs and signs of recovery in the world economy. However, other unpredictable challenges at home (inflation, public debt, bad debt, etc.) and abroad (trade war, geopolitical

instability, etc.) require the Government of Vietnam to have sound policies to achieve the set targets of macro-economic stability and growth □

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