

Vietnam and the World in 2007

Potentials for Development and Risks

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I. PREDICTED GROWTH RATES

The year 2006 marked a five-five period of development for leading economies that have been reportedly reaching full employment and trying to cool down their economic growth. The WB, however, predicts that in the years 2006-2030 the world economy will grow faster as compared with the period 1980-2005 because of growth gained by emerging economies. The growth rate of Vietnam is estimated at 7.6% in 2007 because of bursts of spending and investment, and well-controlled inflation.

1. The U.S. economy

After a period of high growth rate, some 3.2% in 2006, the U.S. economy is expected to slow down in 2007 but its inflation is kept low although no sign shows that its huge trade gap will be reduced. After its recovery in the first quarter, the growth of this economy declined because of poor performance in markets for real estate and automobile. The recovery in the customer trust index and labor market, and increases in profit from the stock exchange have helped reduce negative effects on the public mentality. Experts predicted that the American consumer price index would keep rising, but at a lower rate in 2007. This is associated with bright prospects for investment and public expenditure, which will lead to a growth rate of some 2.7% in 2007. It's the worry about a limited growth rate that made the FED decided on Dec. 12, 2006 to keep the basic rate at 5.25%, and this was the fourth time the FED decided to keep the interest rate unchanged after its session.

This showed that policy makers didn't to push the economy when they decided to increase the interest rate in order to lower the inflation caused by hot growth.

The inflation rate of the world's biggest economy fell from 4.3% in late June to 1.3% in October. If this trend is maintained in 2007 the inflation rate will be very low. On the other hand, deficit in the current account was a headache to policy makers when the American export rose faster than the import in late September while the trade gap was on the increase because of higher prices of imports.

2. The euro area

This area gained a high growth rate last year, 2.6%. In 2007, however, it is estimated that the growth rate will be lower, at 2.0%, the inflation rate also low, and the balance of payments on current account almost favorable. The GDP of countries in this area will rise because of strong increases in export and domestic demand.

Although all sectors were busy, the inflation rate still stayed at 2.3% in September equaling the previous one. In 2007, it is predicted that this rate will remain unchanged, that is, slightly higher than the 2% level suggested by the ECB. Strong increases in export in the first half of 2006 help keep the current account balanced. Strong rise in the domestic demand, however, will lead to a slight deficit in 2007.

3. East Asia

The growth of East Asian economies, according to the WB prediction, will slow down in 2007 because of effects from the

most developed economies. Besides falls in external demand, the domestic ones also slow down because the gross investment is hindered by decreases in export. The spending, however, is expected to recover quickly. The average growth rate of East Asian economies in 2007 may be lower, at 4.4%, down from 4.9% in 2006, the highest one after the 1997 financial crisis. If Japan is not included, the average growth rate of this region may reach 7.0%, down from 7.7% in 2006.

Japanese and Chinese economies are expected to rise at moderate rates in 2007. In spite of its reduced dynamic of the economic growth, the Japanese growth rate also reached 2.8% in 2006. If it obtains full employment, the growth rate may fall slightly to 2.4% in 2007. The recovery of domestic spending expressed in remarkable rises in the consumer trust index can offset falls in export, which may help increase the import and affect favorably regional economies because Japan usually buys 9.8% of exports from the region.

In China, there will be a smooth change in its growth rate from 10.4% last year to some 9.5% in 2007. Although the gross investment fell a little, the spending and export still rose high, which will ensure a high growth rate.

II. POTENTIAL RISKS

A series of hidden risks is predicted to affect prospects for the sustainable growth of the world economy. Firstly, the U.S. economy will suffer some stagnation that is more serious than the predicted degree because of prolonged inflation and falls in the

real estate market. Some analysts also speak of possibility of a crisis with greater dangers in comparison with the 2006 one. Secondly, the world economy becomes more vulnerable to the increasing deficit in the balance of payments on the global level. Thirdly, risks caused by instability of the finance market are menacing the stability of the global economic environment. Meanwhile, the global finance market may be affected easily by American recession, fall of the dollar and unstable monetary policy adopted by the U.S. government. Fourthly, a new oil shock may take place making inflation possible in many countries. Although the reduced market demand makes rises in prices of energy less likely, the supply of fuel is still limited, which makes oil suppliers more ready to raise the selling price. According to the IMF, a prolonged increase of US\$10 in the oil price will reduce the global GDP growth by 0.1% - 0.15%. Finally, risks may come from the bird flu and escalating tension over the nuclear matters in the Korea Peninsula.

In Vietnam, the 2006 growth rate reached 7.8% and it estimated at 7.6% for 2007. Strong increases in investment and private spending will help offset falls in export to some major markets. Although the SBV is trying its best to control the inflation, prospects for economic growth will improve because of results of the administrative reform and Vietnam's accession to the WTO.

The growth rate of 7.8% in 2006 was supported mainly by strong increases in export. Although the export is predicted to fall slightly in 2007, rises in the private spending and investment may help ensure a growth rate of 7.6% in 2007. The inflation rate was reduced remarkably in 2006

but it was still at a high level, 6.7% at the end of October.

The export was stimulated by rises in the fuel prices and recovery of the clothing industry. The economic drive has reflected the recent boom in the stock market when the VN Index increased by 66.4% and the market was capitalized at some US\$3 billion. In spite of the fall of the dollar against some Asian currencies, the exchange rate of the VND to the dollar has been stable in recent years when Vietnam was trying to control the inflation and improve competitive advantages for its exports.

Besides the above-mentioned encouraging signs, Vietnam also faces potential risks. Firstly, economic recession in the U.S. and some export markets for Vietnam will contract its export in 2007. Secondly, the fixed exchange rate will make it difficult to deal with problems with the balance of payments. Moreover, cuts in tariffs within the WTO framework will reduce the national budget income and increase the trade gap. And finally, the bird flu is still a danger to the economic growth.

The monetary policy still aims at stabilizing the nominate exchange rate and making the VND

fall slightly against the dollar. The SVB has decided to limit the growth of credit to 25% because the inflation rate is still high. Moreover, the tight money policy is considered as necessary to control the inflation and reduce pressure caused by the economic growth.

Regarding the fiscal policy, the budget deficit was estimated at 2% of the GDP in 2006. Direct loans from state-owned commercial banks to projects not included in the budgetary plan may affect unfavorably the stability of the fiscal policy. Meanwhile, regulations of the banking sector and stock market are to be loosened in order to comply with WTO rules and help develop the finance market. The privatization program is still on track when the Vietcombank issued its bonds in preparation for its first public issue of shares. Other programs are also carried out to repair damage caused by natural disasters and the bird flu and foot-and-mouth disease. ■

Reference

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Photo by Huỳnh Tho

