Vietnamese Economy and the Global Financial Crisis

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1. Effects of the global financial crisis on Vietnam

a. Growth rate:

Vietnam's growth rate is certainly lower due to the crisis. The growth rate was set at 8.5% - 9% in early 2008. In May, it was reduced to 7% by the NA but in October calculations showed that it was only 6.25%. The 2008 growth rate is certainly in somewhere between 6.5% and 6.7%.

b. Banking and financial sector:

Although the effects of the crisis on this sector were not serious because it was still at its first stage of integration into the world market, certain difficulties are to make their appearance:

- The Vietnam's banking system will be less connected with the world finance market and the American baking system.

- In the short run, the financial crisis reduces profitability ratios of some banks. Some others may suffer losses and big bad debts. The Vietnam's financial and banking system will be affected unfavorably in some years to come.

- International banking transactions and supply of short-term loans from banks will fall.

c. Export:

At present, the American market accounts for 20% – 21% of Vietnam's export earnings. The financial crisis made the spending power in this market fall and it, in turn, reduces export volume from Vietnam, which affects greatly the growth of Vietnam's export in 2008, and 2009 as well (if the American economy doesn't show signs of recovery). However, the effect differs over industries.

The American financial crisis produces negative effects on other economies, especially the EU and Japanese ones – two important export markets for Vietnam. The crisis forces consumers in the two economies to tighten their belts and makes importers insolvent because of difficulties in securing bank loans, and as a result, their imports from Vietnam will be cut to the bone. In recent months, bad effects of the financial crisis have made the Vietnam's export volume fall considerably: its export value fell and in November it was below US$5 billion a month. This was the third month in a row where Vietnam's export value experienced drastic falls. The export value fell from US$5.044 in October to US$4.8 billion in November 2008. of Vietnam's staple exports, garments brought in US$780 million; and footwear 400 million (compared with US$396 million in October), while crude oil suffered a 60% cut compared with July 2008. Signs of recession started making their appearance. The financial crisis will lead to economic recession, and prices of many staple exports from Vietnam will fall and affect directly the Vietnam's export value.

d. Foreign investment:

In the crisis, all costs get higher and export markets contracted, which makes the inflow of capital to Vietnam tend to reduce. In addition, loan capital usually accounts for the best part of capital put in investment projects. When financial institutions and banks meet difficulties, they couldn't extend loans as planned or approve requests for loans. However, some predictions in November say that Vietnam could get some US$10 billion reimbursed, which equaled 16.2% of registered capital and 44% of the sum reimbursed in November 2007. Regarding the FDI in the 11 months of 2008, most of it comes from Asia (13% from Japan and 67% from other Asian countries), while investors from America and Europe account for only 5% of the registered capital, or some US$60 billion. Thus, implementation of projects registered in 2008 might be easy and the FDI flow might stay at the same level as the 2008 in 2009 or rise slightly.

In general, the financial crisis makes the unemployment rate higher, and personal income; spending power and immigrant remittance lower. Up to the end of 2008, however, the immigrant remittance still stay stable and may reach US$8 billion increasing by 60% compared with 2007. If the crisis prolong, however, falls in the immigrant remittance are inevitable.

e. Stock exchange:

The financial crisis produces a far-reaching effect on the world finance market, which make investors find it difficult to mobilize idle money and get more careful when making decisions on investment, and restructuring

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their portfolios in Vietnam is probable.

Foreign investors may withdraw their capital from Vietnam to support their holding companies in major markets. This possibility, however, is unlikely because investment from each investor in Vietnam is not big and Vietnam is still a safe destination. The Vietnamese stock exchanges are more profitable when its macroeconomic conditions are improved.

The financial crisis also affects listed companies, especially exporting companies, when prices of their shares fall. The crisis affects greatly mentality of local investors and their worries produce bad impacts on the stock exchanges. Necessary measures, especially supplying of information and analyses, should be taken to restore their confidence and save them from excessive worries.

f. Realty market:

At present, most local realty companies lack financial strength and rely on loan capital. Their situation is much difficult during the financial crisis.

In late 2007, speculation in real estate made the market price become higher than their real value. Virtual demand rose. In 2008, due to effects of the crisis and high inflation rate, the realty market was frozen; the average price reduced by some 40%; developers couldn't sell their products when most people had to tighten their belt and the developers suffered huge losses when the bank interest rate skyrocketed. Up till now, the realty has shown no sign of recovery. Falls in the market price made the assets held by banks lose their value and bad debt rise, which led to an unfavorable structure of capital in banks.

At present, although the bad debt in the U.S. originating from the crisis in the realty market produces no direct effects on the Vietnamese realty market, its indirect effects could be felt through the finance and stock markets, and mentality of consumers. According to SBV reports, however, loans supplied to investors in the realty market and developers equaled only 9.5% of the total loan from the banking system. But effects of the financial crisis are very likely.

g. Markets for goods and services:

The market demand in both production and consumption falls. Although the macroeconomic situation in Vietnam has been improved, difficulties are still menacing. Many companies had to reduce their production and scale because of high costs, especially the bank interest. Many services also suffered decreases. Particularly, number of foreign tourists to Vietnam will be much smaller than the 2007 one.

2. Solutions adopted by Vietnam

Facing the financial crisis, the Vietnamese Government, in the first quarter of 2008 introduced a series of solutions to possible effects of the crisis. This early action allowed Vietnam to deal with the crisis effectively. The solutions produced intended results: the inflation decreased, bank liquidity was improved, the trade gap reduced, public expenditure was well controlled, and the budget income and reserve in foreign exchange increased. Fluctuations in the world market prices that led to falls in prices of raw materials allowed the Government to cut a lot of subsidies and price support. Commercial banks also received valuable support from the SBV. Up to November 2008, the CPI rose by 20.71% and it was estimated by experts at 24% at most for 2008 and 10% - 12% for 2009. Potential dangers caused by the financial crisis, however, are great, and implementation of measures to stabilize the macro economy and promote the export should be carried out actively. Eight groups of measures to curb the inflation, stabilize the macroeconomic situation, and ensure social welfare and sustainable development are still useful, but they need adjustments because the situation changed very much after they were introduced in April 2008. In my opinion, full attention must be paid to the following aspects.

a. Monetary and fiscal policies:

+ In 2009, a controlled cheap-money policy can be adopted in order to stimulate investment. To help companies, especially small and medium ones, to overcome difficulties, banks had better offer some support such as lower interest rates and longer lending terms. The fiscal policy can allow some tax reduction for producers of exports.

+ Bands around the exchange rate could be expanded from 3% to 5% when appropriate.

+ Control over free market for foreign exchange must be beefed up to prevent speculations that can affect unfavorably the exchange rate and reserve of foreign exchange.

+ Short-term foreign debts owed by the Government, banks and companies, including payment-deferred LCs and portfolios of foreign investors must be reviewed regularly.

+ Financial strength of banks must be beefed up to retain flows of foreign capital.

+ Quotas of bonds sold to foreign investors must be set with a view to preventing sudden withdrawal of capital.

+ Public expenditures must be tightened, especially ones in ineffective or less-necessary projects.

b. Encouragement to investment and export:

All possible measures should be taken to promote the export (supply of capital, interest rate, and simple procedures, etc.), and encourage investments, especially in the infrastructure (public investment, government bonds, private investment, foreign investment, etc.). In addition, consumption can be stimulated by lowering the interest rate, offering tax reduction and exemption, etc. These measures can help reduce the surplus of capital in banks and develop the domestic market.

c. Social welfare:

This matter could be solved by carrying out programs to give unemplovment pension, support agricultural production, give guarantee to small and medium enterprises making exports, and give financial support to sectors vulnerable to the financial crisis.

- Gathering timely information about financial strength and production of state-owned companies, small and medium enterprises, joint stock companies, listed companies, and private businesses to work out measures to deal with obstacles to their development.

- Taking all opportunities to attract investment: One of the greatest advantages of Vietnam is a stable business and political climate, which could be turned into an opportunity to attract foreign investment.

- Diversifying exports and export markets: Exports must be based on Vietnam's comparative advantages and full attention must be paid to markets where Vietnam's exports enjoy high comparative advantages (African and Latin America for example).

- Selecting imports: The financial crisis can be seen as a chance for Vietnam to import modern technologies offered by developed countries during their crisis.

- Economic prediction must be beefed up. Information about the crisis in the U.S. and other countries must be gathered and analyzed timely to work out appropriate solutions.

- Inspections and supervision must be carried out regularly, especially of commercial banks and other banking institutions.

- Dealing with the recession by stimulating the market demand and consumption, and giving financial support to small and medium enterprises.

The financial crisis, in spite of its negative effects, could be turned into an opportunity to adjust economic policies, especially the ones on export, exchange rate and public finance.

The crisis is in its worst stage, and all leading economies are in the doldrums, which makes estimation of its impacts is difficult. The Government and analysts must be careful and calm when working out measures to deal with it. ■

Photo by Huỳnh Thơ

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