

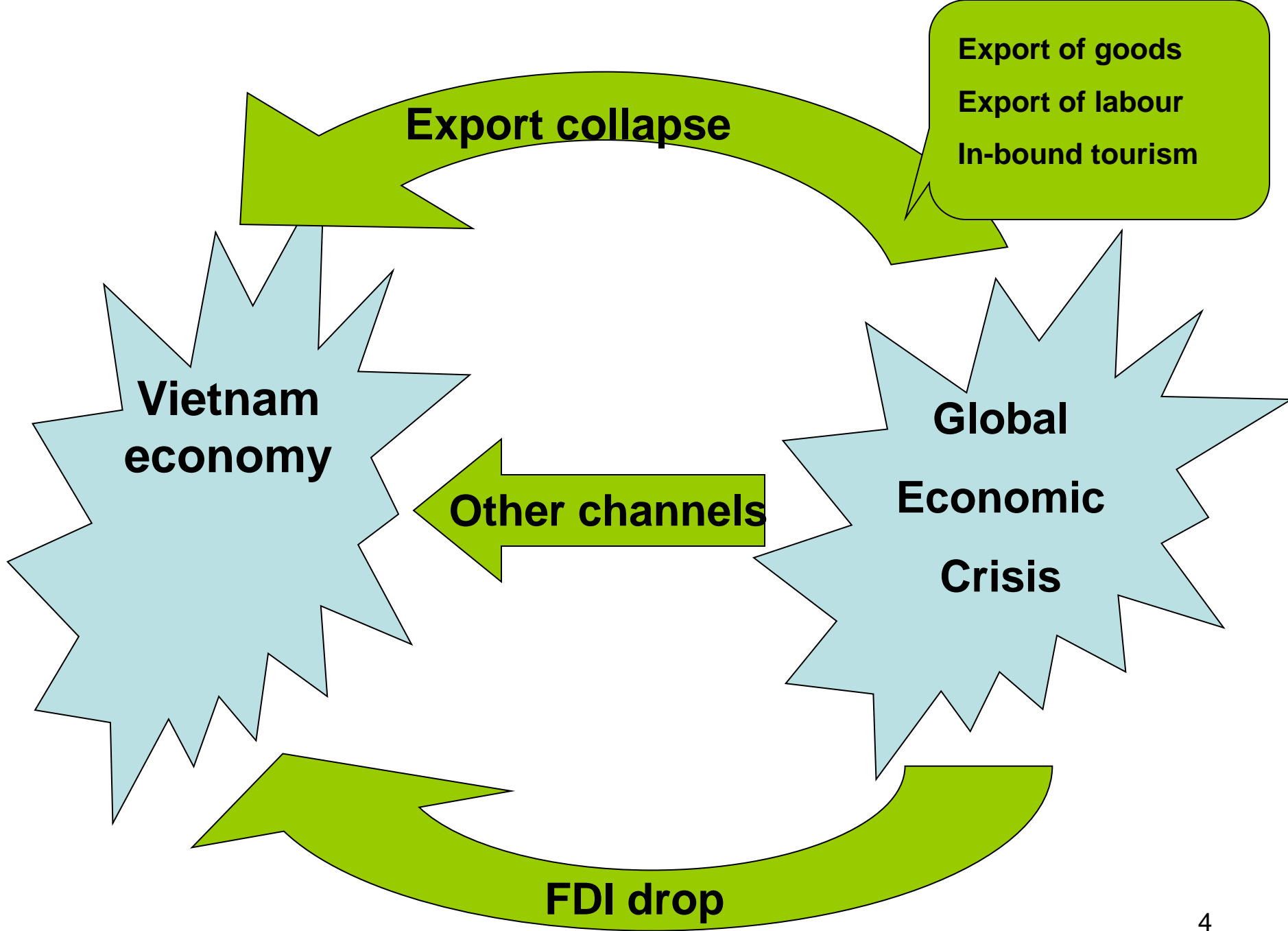
IMPACTS OF GLOBAL ECONOMIC CRISIS ON THE VIETNAMESE ECONOMY AND HER RESPONSES

VASS Presentation to Meeting at ODI,
London, 14 July 2009

Outline

- Impacts of global economic crisis on Vietnamese economy
- Impacts on key export-oriented labour intensive sectors
- Impacts on employment and incomes
- Vietnam's responses

1. Impacts of global economic crisis on Vietnamese economy



Fist 6 months of 2009 as compared to the same period in 2008

Export down 10.1% (18% if gold export excluded)

Labour export down 21%

Inbound tourists down 18.8%

New FDI comittments down 77.4%

FDI disbursements down 18.4%

FII, overseas remittances down

**GDP
2009
projected
5%

(2008:
6.23%)**

2. Impacts of global economic crisis on export-oriented and labour-intensive sectors

- Key economic indicators for first 6 months 2009, year-on-year index:
 - Wood processing: down 30%
 - Footwear: down 8.7%
 - Electronics: down 8%
 - Seafood: down 10.7%
 - Textile and garment: down 4.7%
- However. green shoots are detected somewhere: As compared to April 2009, in May 2009 export of
 - Textile and garment: up 5.8%.
 - Seafood: up 3.2%
 - Electronics: up 2.4%.

Rapid Assessments of Social Impacts of Global Economic Crisis

- Coordinated by Viet Nam Academy of Social Sciences with support from the World Bank in Viet Nam. Oxfam GB and Action Aid (AAV)
- Implemented from Mar 2009 to May 2009
- Location: Ha Noi. Hai Phong. Thanh Hoa. Nghe An. Hochiminh City. Binh Duong. Dong Nai
- Interviewed 39 firms in industrial parks. 29 enterprises in craft villages. and over 500 workers
- Analysis of GSO's Enterprise Census and other secondary sources of information

**High
inflation**

**Monetary
tightening**

**Lending
rate surged
to 21%**

**Double
shock to
export-
oriented
firms**

**Credit crunch in
the West**

**Global Economic
Crisis**

**Weakened demand due
to lowered incomes in
the West**

Key findings

- Numerous textile and garment, footwear and some electronics firms have new orders and start to recruit workers again
- However, new orders are:
 - (i) smaller in size;
 - (ii) shorter lead time;
 - (iii) shifted towards cheaper items
- ⇒ Revenues and profits of Vietnamese firms are heavily affected and although firms are recruiting workers, they tend to offer lower wages

Impacts on key export sectors: Summary

		% workers formal sector	% female workers	Debt over asstes (%) 2007	Prospect Of Recovery In 2009	Remarks
		(1)	(2)	(3)	(4)	(5)
1	Wood process	1.85	52	58.2	Low	Demand highly income elastic
2	Electronics	0.64	58	54.8	Low – Moderate	Demand highly income elastic; strong competition from China and ASEAN
3	Craft products	23.40 ^{*/}	42	50.2	Low	Income elastic
4	Textile and garment	12.60	80	63.7	Moderate	Less income elastic Competition from China seems to be declining
5	Footwear	9.67	83	61.9	Moderate	
6	Seafood	0.51	56	28.9	Moderate	

3. Impacts on workers

	Groups/Segments of the labour market	Impact on employment	Impact on income	Remarks
1	Workers in export-oriented and labour intensive formal firms			
1	Seasonal workers (no contract): Majority are migrant workers 1	Very heavy	Very heavy	Very heavy impact
1	Unskilled registered workers · - Female 2 - Male	Quite heavy Heavy	Quite heavy Heavy	Quite heavy Heavy
1	Skilled labour · 3	Moderate	Moderate	Moderate
2	Mobile labour	Quite heavy	Quite heavy	Facing stronger competition by laid-off workers from the formal sector

Shock absorbing mechanisms

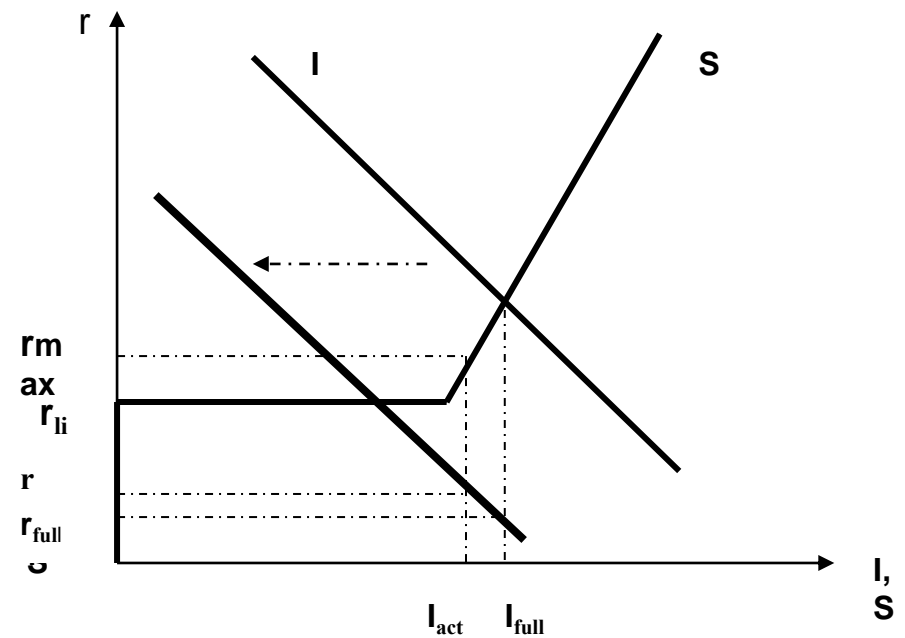
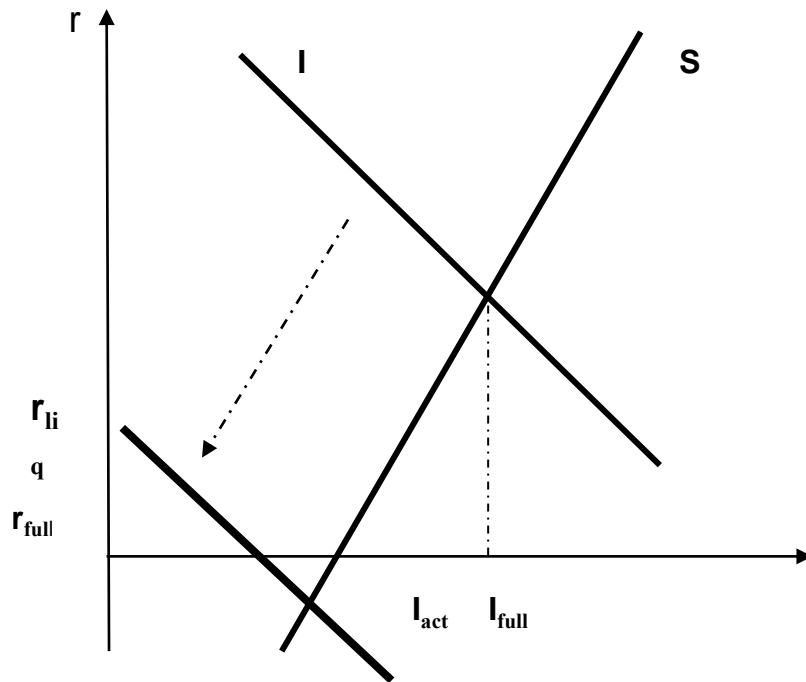
- Firm labour hoarding: with only 70% of basic salary, workers had to “voluntarily” resign
- Unemployment insurance: payment can start only in 2010 at the soonest
- Health insurance: firms often take back health card from laid-off workers
- Agricultural land and agriculture: cannot absorb many people
- Informal rural credit: will come under stress if downturn lasts long

4. Policy implications

- Unemployment is the key challenge in 2009
- Maintaining employment should be a top policy priority in 2009, as it is the best way to stimulate demand. This should be done with an eye on inflation and macro imbalances

5. Vietnam responses

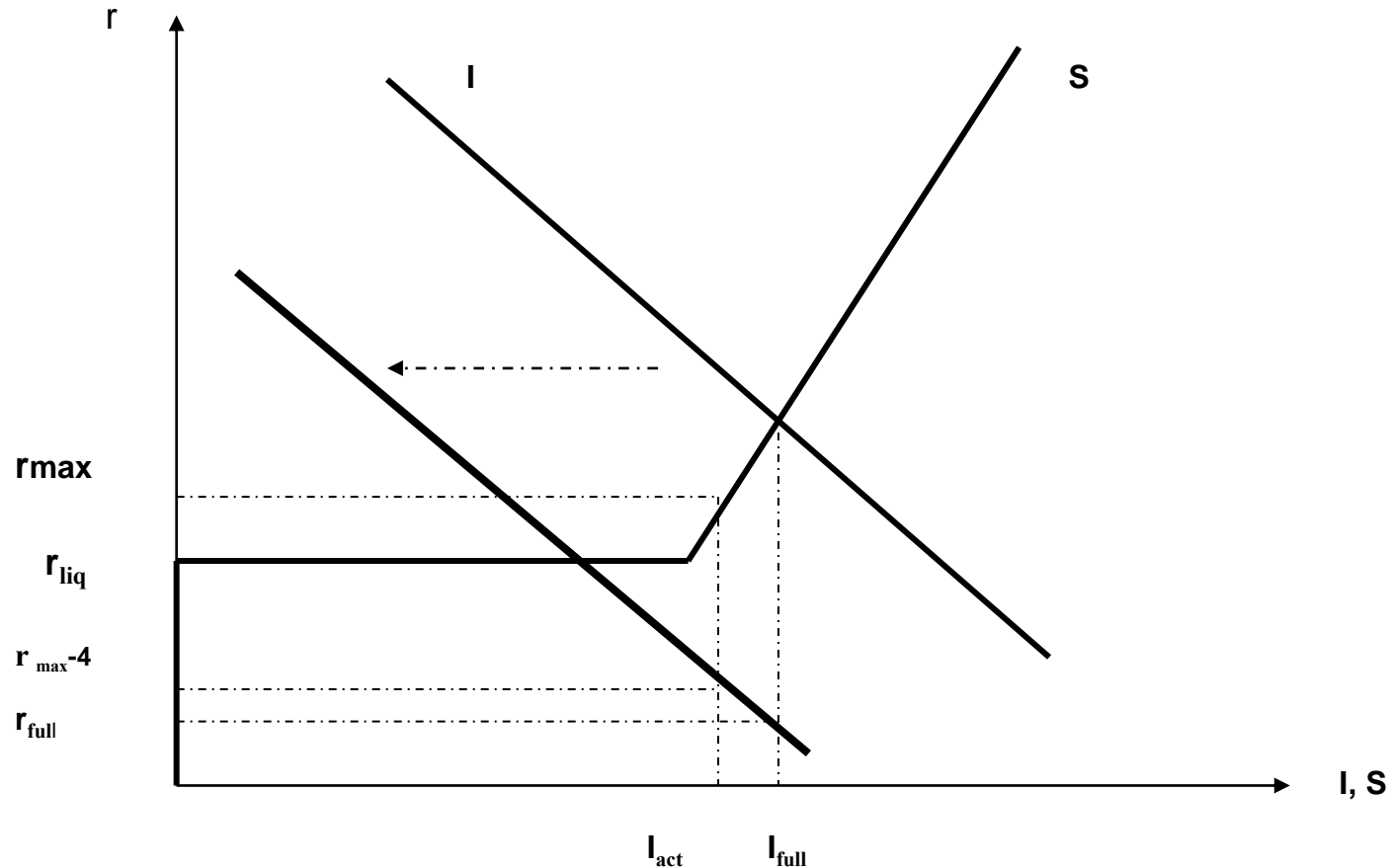
- Liquidity trap (i) the US (left panel); (ii) Viet Nam (right panel)



Vietnam responses (continued)

- Aggressive loosening of monetary policy:
 - Base rate was cut half, from 14% per year to 7% per year within a few months
 - Ceiling lending interest rate (1.5 times base rate) was lowered accordingly, from 21% to 10.5% for productive activities
 - Lending interest rates for credit card, consumption are negotiable, but between 12% and 15%

4% interest subsidy for short-term loan for enterprises in total amount of USD 1 billion



Vietnam responses

- The one-off support of VND 200,000 per person for the poor on the last occasion of New Year Holiday
- Corporate tax exemption
- VAT reduction
- Personal income tax exemption for the first 6 months of 2009
- Interest subsidy being extended to longer-term loans of up to 2 years for investment in agriculture and other productive activities