



VIETNAM: RETAINING STABILITY, ENHANCING THE COMPETITIVE EDGE, AND REAPING THE GROWTH POTENTIAL

SBV-IMF Conference, Hanoi, April 18, 2013

THE GLOBAL AND REGIONAL CONTEXT

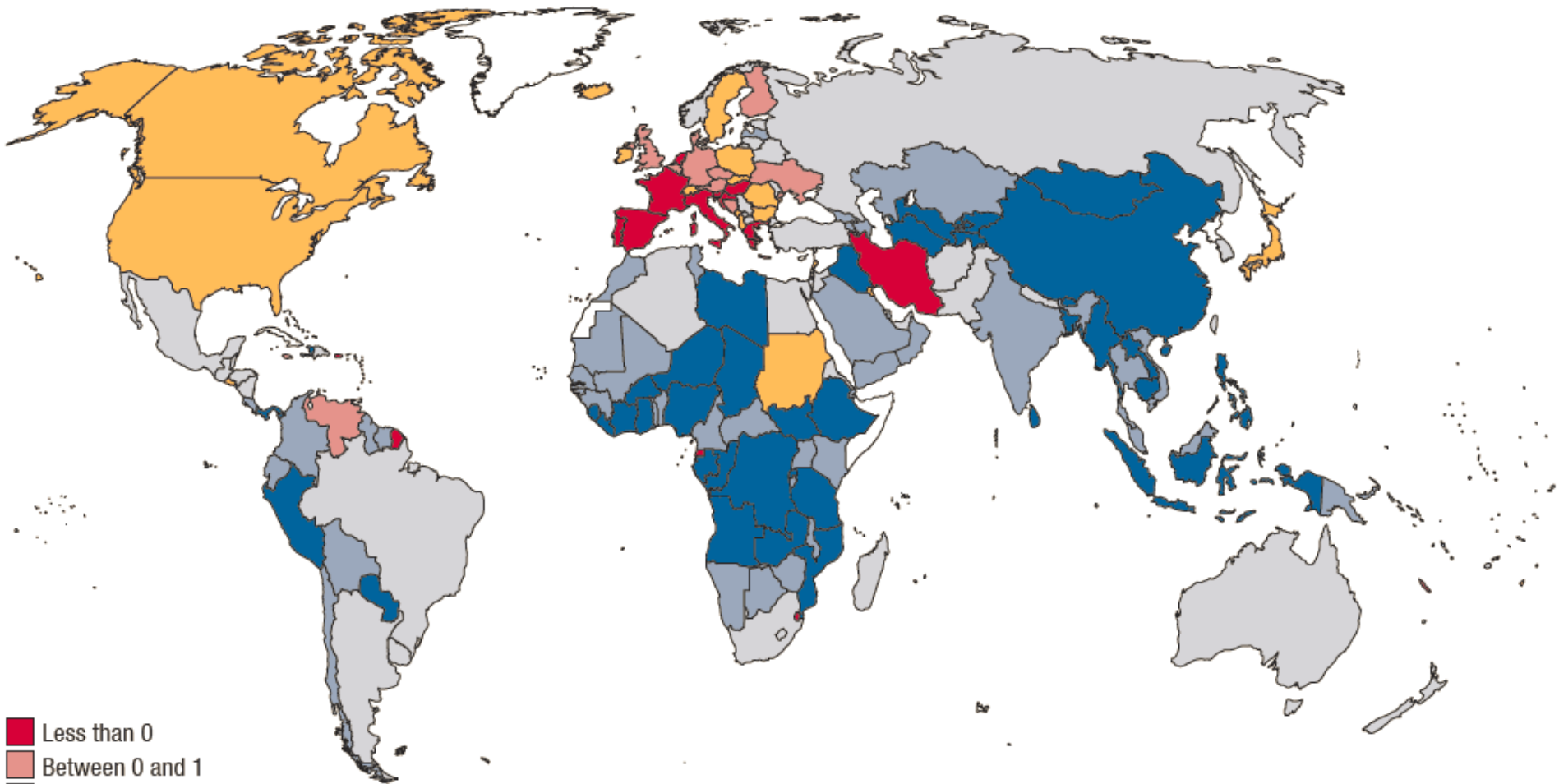
Alfred Schipke

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INCREASING GLOBAL INTERDEPENDENCE

- Vietnam has benefitted from global economic integration
 - Strong FDI flows following WTO accession
 - Strong export growth
 - Remittances
- The Trans-Pacific Strategic Economic Partnership Agreement (TPP) will lead to even greater global integration

WORLD GROWTH FORECAST IN 2013 (APR. 2013 WEO)



- Less than 0
- Between 0 and 1
- Between 1 and 2
- Between 2 and 4
- Between 4 and 6
- Greater than or equal to 6
- Insufficient data

GLOBAL CONDITIONS: UNITED STATES

- Fiscal cliff in the USA avoided
- U.S. private demand has been gaining strength, credit conditions, and housing is improving
- But fiscal adjustment will keep real GDP growth constrained
- Risks in the short term:
 - Inability to address the short-term spending cuts (sequester)
 - Inability to raise the debt ceiling
 - Balancing act between fiscal consolidation in the medium term and measured fiscal tightening in the short term

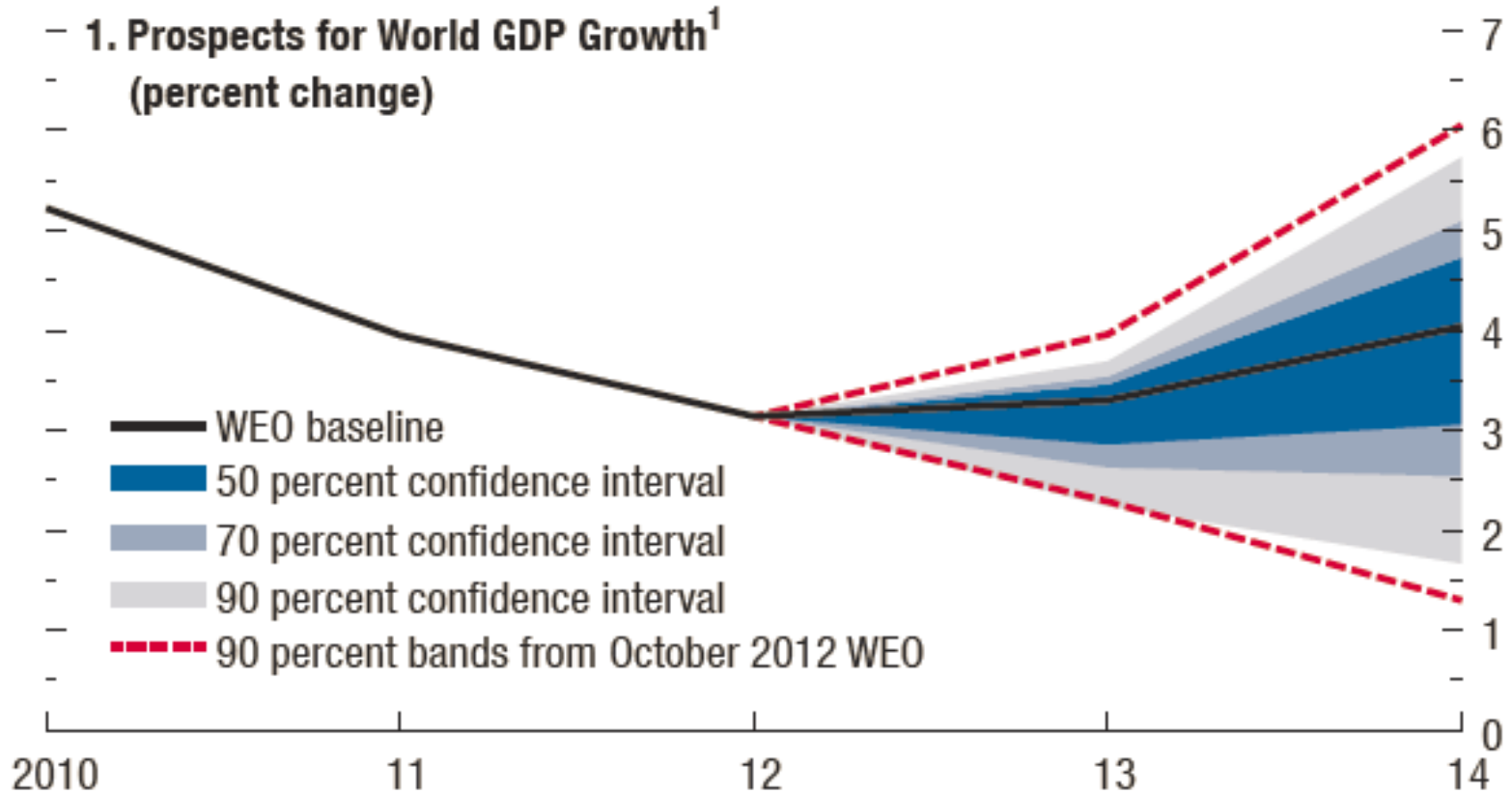
GLOBAL CONDITIONS: EUROPE

- Break up of Euro area avoided
- Better financing conditions for peripheral countries
- But banks low profitability and capital imply no pass through to households and firms
- Compounded by further fiscal adjustments going forward
- Major risks:
 - Adjustment fatigue; weak balance sheets, broken credit channels
Insufficient progress in strengthening the monetary union
- Monetary policy needs to remain accommodative
- Need for greater fiscal integration
- Pan-European-wide resolution authority and deposit insurance

WORLD AND ADVANCED ECONOMIES GROWTH PROJECTIONS 2013/14

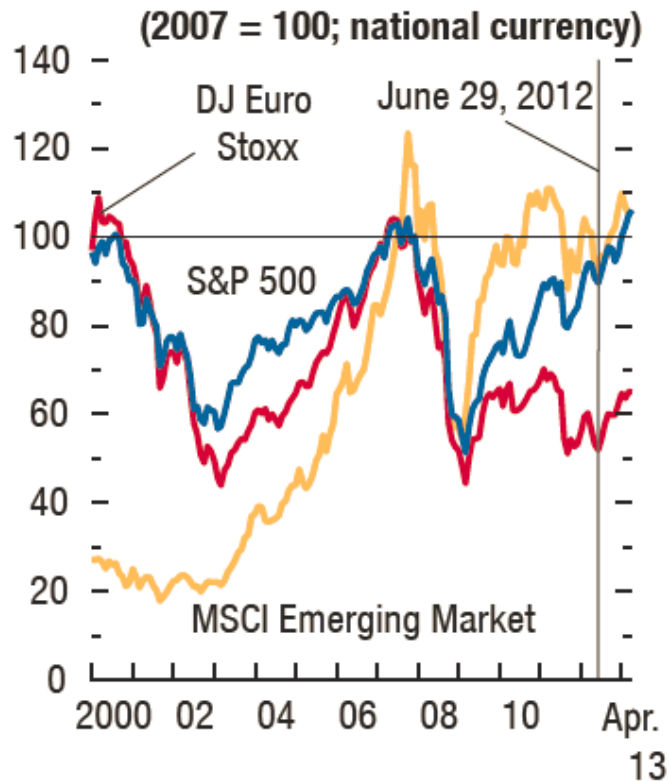
	2011	2012	Projections		Difference from January 2013 WEO Update	
			2013	2014	2013	2014
World Output¹	4.0	3.2	3.3	4.0	-0.2	0.0
Advanced Economies	1.6	1.2	1.2	2.2	-0.1	0.1
United States	1.8	2.2	1.9	3.0	-0.2	-0.1
Euro Area	1.4	-0.6	-0.3	1.1	-0.2	0.0
Germany	3.1	0.9	0.6	1.5	0.1	0.0
France	1.7	0.0	-0.1	0.9	-0.4	0.0
Italy	0.4	-2.4	-1.5	0.5	-0.4	0.0
Spain	0.4	-1.4	-1.6	0.7	-0.1	-0.1
Japan	-0.6	2.0	1.6	1.4	0.4	0.7

DECLINE IN SHORT TERM RISKS

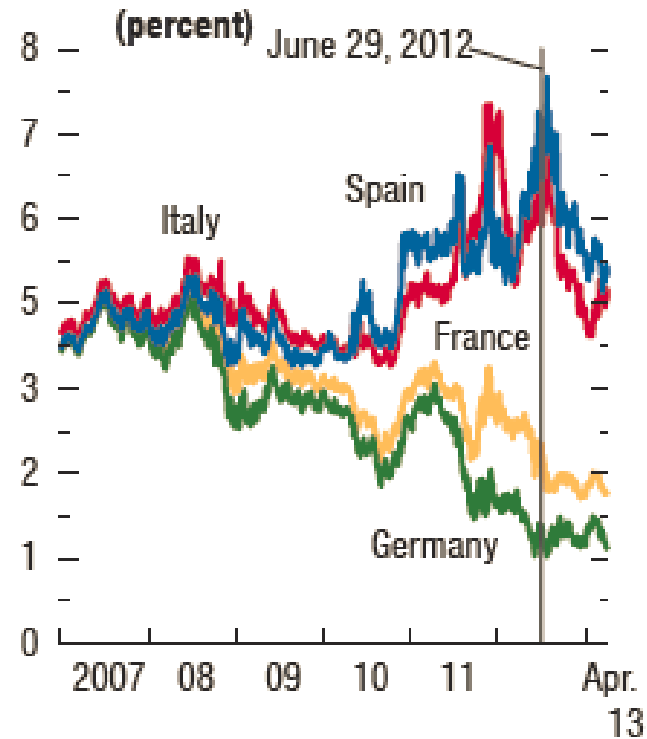


FINANCIAL MARKET CONDITIONS HAVE IMPROVED

Equity markets



Government bond yields

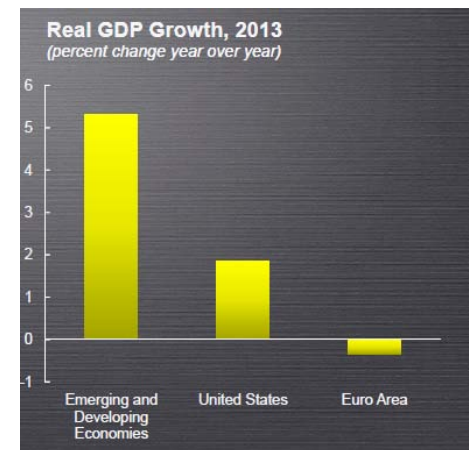


IMPLICATIONS OF UNCONVENTIONAL MONETARY POLICIES

- Risks from very low interest rates
 - Unduly risky lending
 - Balance sheet mismatches
 - High leverage
 - Financial engineering (re-purchasing equity by issuing debt)
 - No signs of asset price bubbles in advanced economies
- Corporations in emerging markets have been leveraging up, including in foreign currency-denominated debt
- Risks from unwinding of central bank balance sheets
 - Tradeoff between price stability and financial sector stability

GLOBAL CONDITIONS: EMERGING MARKETS AND ASIA

	2011	2012	Projections		Difference from January 2013 WEO Update	
			2013	2014	2013	2014
Emerging Market and Developing Economies³	6.4	5.1	5.3	5.7	-0.2	-0.1
Developing Asia	8.1	6.6	7.1	7.3	0.0	-0.1
China	9.3	7.8	8.0	8.2	-0.1	-0.3
India	7.7	4.0	5.7	6.2	-0.2	-0.1
ASEAN-5 ⁴	4.5	6.1	5.9	5.5	0.3	-0.2
Latin America and the Caribbean	4.6	3.0	3.4	3.9	-0.3	0.0
Brazil	2.7	0.9	3.0	4.0	-0.5	0.1
Mexico	3.9	3.9	3.4	3.4	-0.1	-0.1

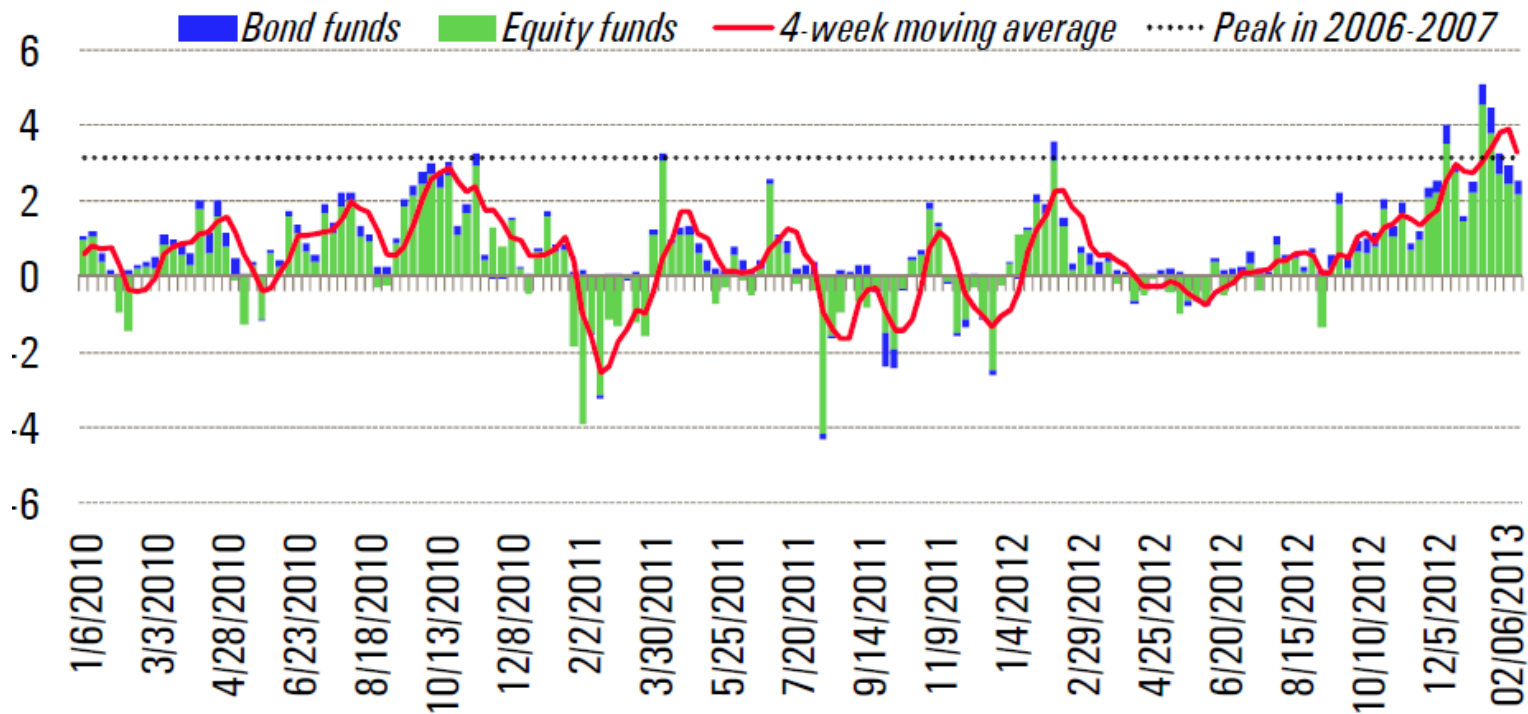


ASIA: POTENTIAL RISKS TO THE OUTLOOK

- Despite an improved outlook, China remains vulnerable to a renewed growth slowdown
- Given highly integrated supply-chain networks, there could be significant spillovers
- As 10 percent fall in investment in China, could be associated with ½ to 2 percent decline in output compared to baseline
- Trade disruptions caused by natural disasters or geopolitical risks
- A rise in sovereign risk in Japan

EMERGING ASIA: STRONG INFLOW INTO BOND AND EQUITY FUND FLOWS (NET)

(In billions of U.S. dollars)

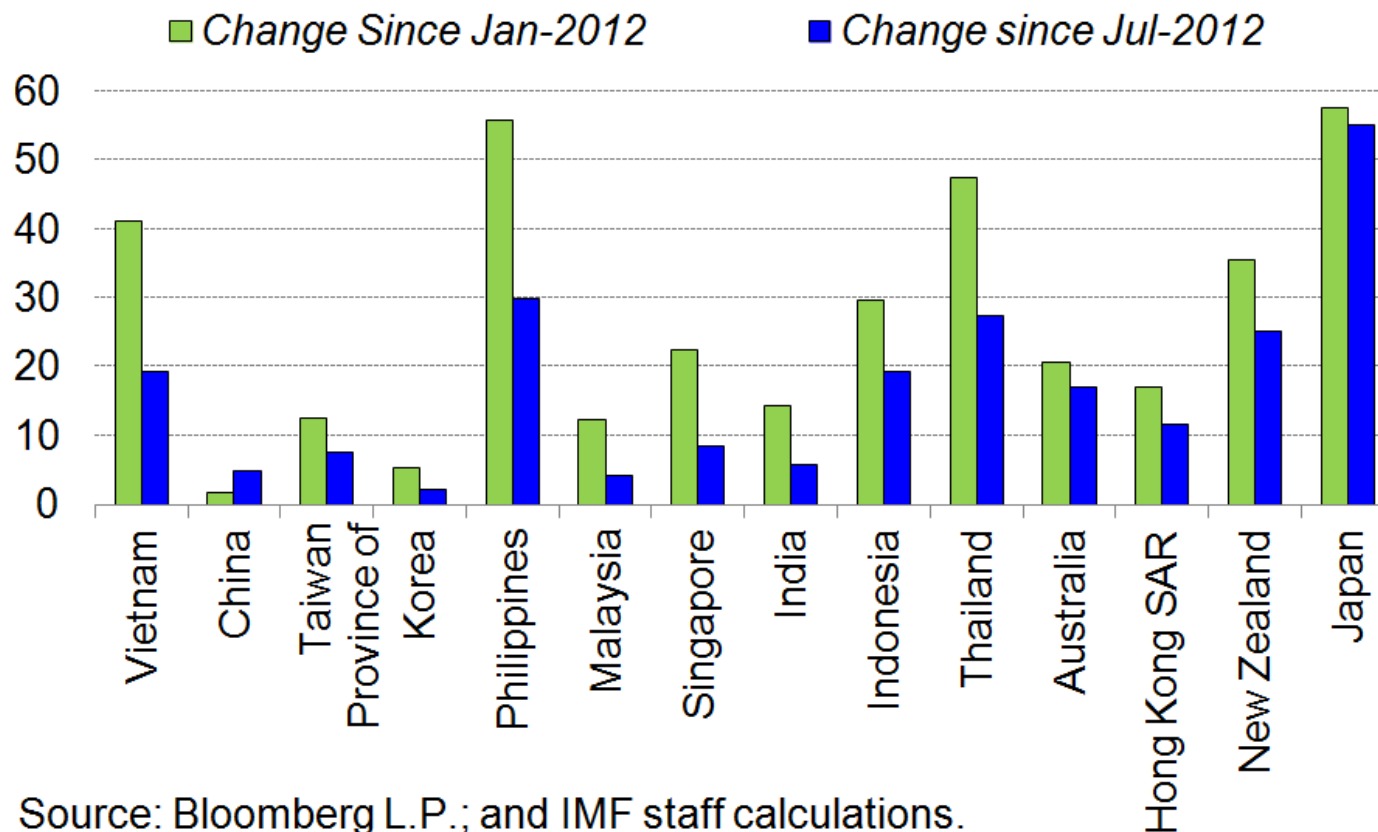


Source: Haver Analytics.

¹ Includes exchange traded fund flows and mutual fund flows.

BUOYANT ASIAN STOCK MARKETS

(Percent change of stock index)

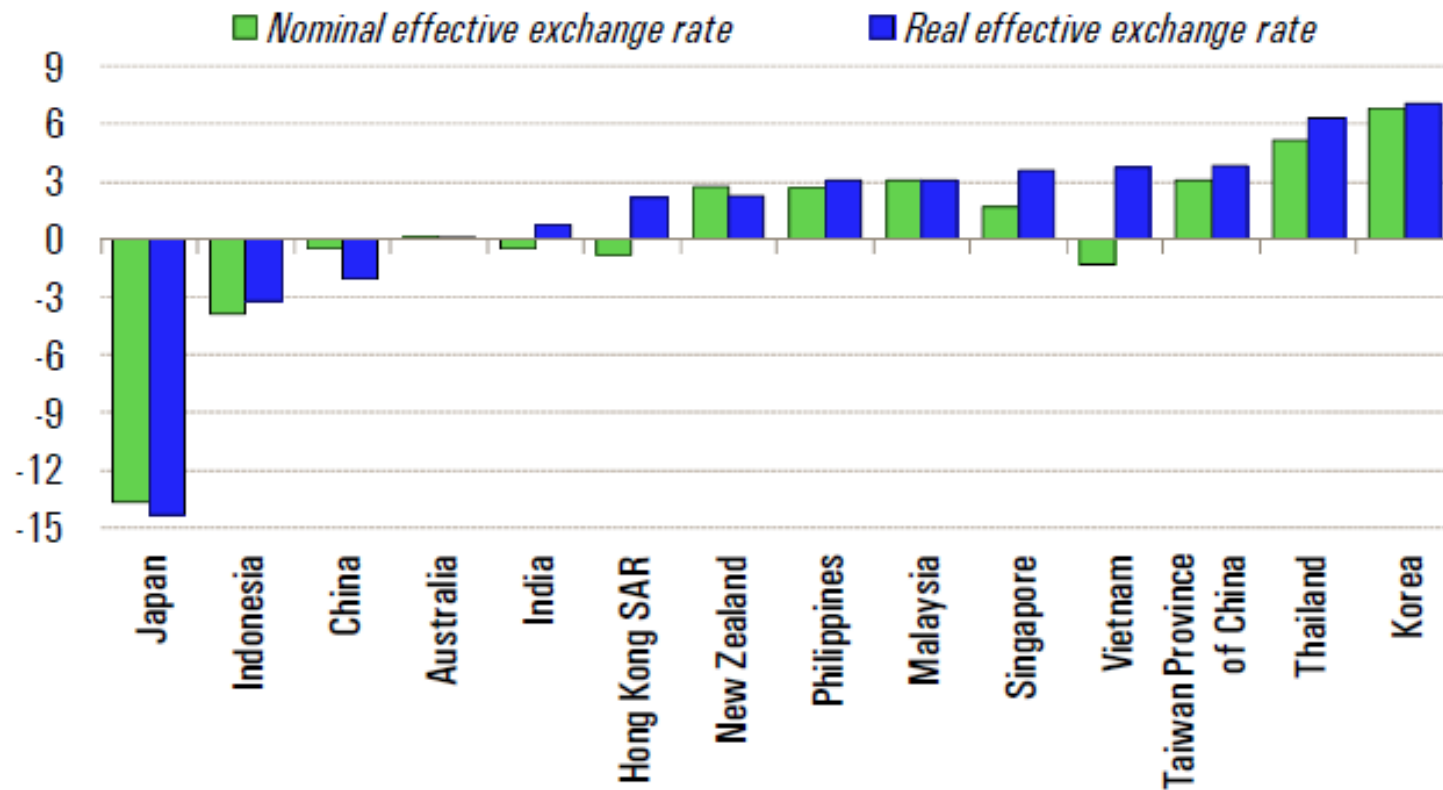


Source: Bloomberg L.P.; and IMF staff calculations.

¹Latest data as of April 12, 2013.

ASIA: EXCHANGE RATES HAVE APPRECIATED

(Change since July 2012; in percent; positive change = appreciation)



Source: IMF, *Information Notice System*; and IMF staff calculations.

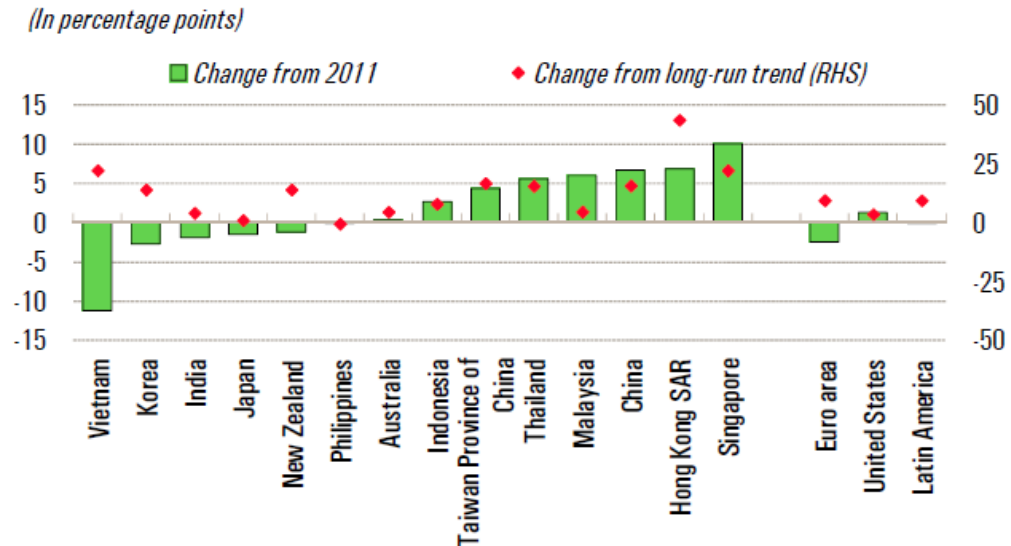
¹ Data as of January 2013.

CAPITAL FLOWS VOLATILITY AND THE NEED TO SAFEGUARD FINANCIAL MARKETS STABILITY

Challenges

- Some countries might be faced with strong capital inflows
- Strong credit growth could lead to a build up of asset bubbles
- In some countries more greater exchange rate flexibility might be warranted
- Macroprudential measures could play a useful role

Change in credit to GDP

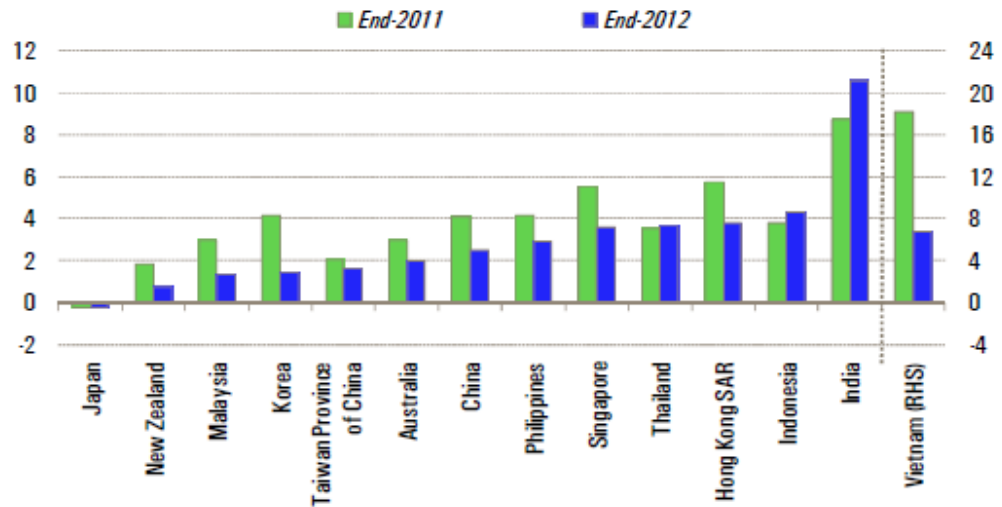


Sources: IMF, *International Financial Statistics* database, *World Economic Outlook*; and IMF staff calculations.

¹ Data latest available in 2012. Trend calculated using HP filter over the period 2001–11.

ASIA: IMPROVED INFLATION PERFORMANCE DRIVEN BY FOOD PRICES

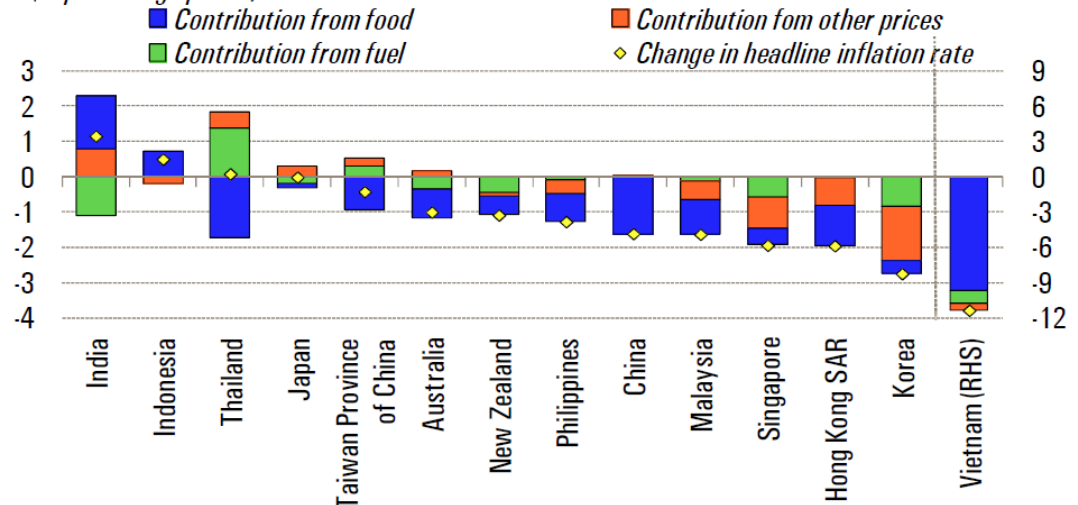
(Year-on-year percent change)



Sources: CEIC Data Company Ltd.; Haver Analytics; and IMF staff calculations.

¹ Latest data as of Dec, Nov (Malaysia, Singapore, Hong Kong SAR, Japan), 2012:Q3 (Australia, New Zealand).

(In percentage points)

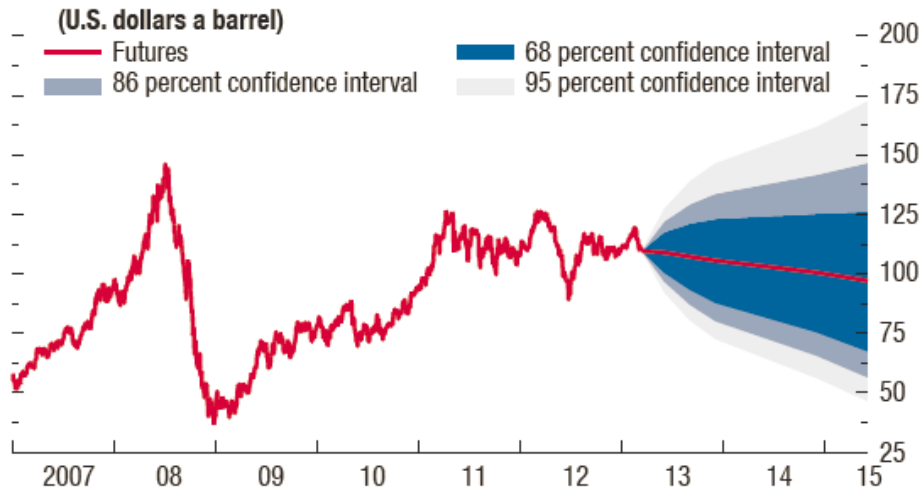


Sources: CEIC Data Company Ltd.; Haver Analytics; and IMF staff calculations.

¹ Data as of Dec, Nov (Malaysia, Singapore, Hong Kong SAR, Japan, India), 2012:Q3 (Australia, New Zealand)

GLOBAL ENERGY PRICES ARE EXPECTED TO DECLINE AND FOOD PRICES TO MODERATE

U.K. Brent oil price futures

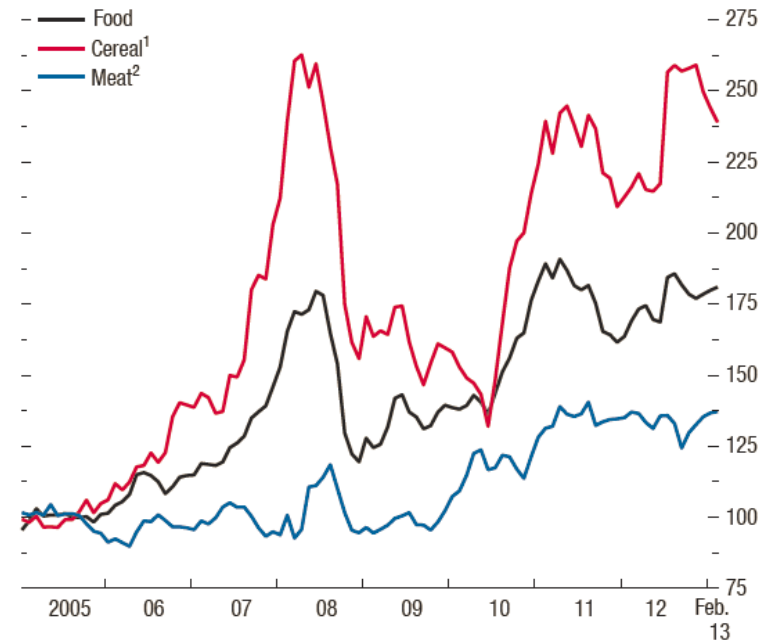


Sources: Bloomberg, L.P.; IMF, Primary Commodity Price System; and IMF staff estimates.

¹APSP = average petroleum spot price; BTU = British thermal unit.

²Derived from prices of futures options on March 12, 2013.

IMF food price index 2005=100



Source: IMF, Primary Commodity Price System.

¹A weighted average of wheat, corn, rice, and barley.

²A weighted average of beef, lamb, pork, and poultry.

PROSPECTS FOR FRONTIER AND DEVELOPING ASIA

Dynamic region

- Favorable demographics
- Located in the fastest growing region in the world
- Potential to benefit from further liberalization and trade opening

Policies

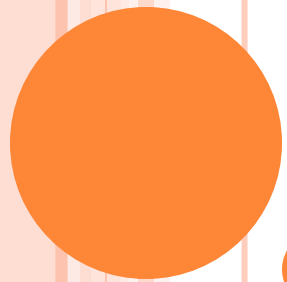
- To reap benefits, acceleration of reforms, especially institutions and business and investment
- Need to continue rebuilding fiscal and external policy buffers
- Continue strengthening social safety nets, while better targeting subsidies (e.g. reform of energy subsidies)

TAKEAWAYS

- Global prospects have improved, but the road to recovery remains bumpy
- In major advanced economies, activity is expected to gradually accelerate (following a weak start in 2013)
 - In the short term, main risks stemming from the Euro area
 - In the medium term, adjustment fatigue, insufficient institutional reform, and prolonged stagnation in the Euro area, as well as high fiscal deficits in the U.S. and Japan are key risks

TAKEAWAYS

- In Asia: strengthened external demand combined with robust domestic demand implies better growth prospects throughout the region
- Given stable outlook for global food and commodity prices, inflation in the region broadly unchanged compared to 2012
- Opportunity to rebuild fiscal and external policy buffers
- In some countries, risk of rising financial imbalances and asset prices driven by strong credit growth and easy financing conditions—potential of a reversal
- Macroprudential measures might be needed to address excesses in the financial sector
- Increased dependence on regional demand and highly integrated supply-chain networks could lead to spillovers (e.g. natural disasters, geopolitical, slower recovery in China, and loss of confidence in Japan)



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