

@2022 The World Bank
1818 H Street NW, Washington DC 20422
Telephone: 202-473-1000; Internet: www.worldbank.org

This work is a product of the staff of the World Bank with external contributions. The findings, interpretations and conclusions expressed in this work do not necessarily reflect the views of the World Bank and its Board of Executive Directors. The World Bank do not guarantee the accuracy of the data included in this work. The boundaries, colors, denominations and other information shown on any map in this work do not imply any judgement on the part of the World Bank concerning the legal status of any territory or the endorsement or acceptance of such boundaries.

Nothing herein shall constitute or be considered to be a limitation upon or waiver of the privileges and immunities of the World Bank, all of which are specifically reserved.

All queries on rights and licenses should be addressed to the Publishing and Knowledge Division, the World Bank, 1818 H Street NW, Washington DC, 20433, USA, Fax: 202-522-2625; email: pubrights@worldbank.org.

TAKING STOCK AUGUST 2022

EDUCATE TO GROW

CONTENTS

Abbreviations	viii
Acknowledgements	ix
Overview	x
Chapter 1. Economic Developments and Prospects	xviii
Introduction	1
I. Recent Economic Developments	3
II. Economic Outlook and Risks	24
Chapter 2. Educate to Grow	28
Context	29
I. Assessing Performance in Tertiary Education Access and Outcomes	30
II. Reasons why Vietnam's Higher Education System is Underperforming	34
2.1. Demand-side factors	34
2.2. Supply-side factors	36
III. Ways Forward	42
Annex 2.1. South Korea: An education-based development agenda	44
References	45

Tables

Table 1.1. Fiscal Measures in 2020-23	23
Table 1.2. Selected Economic Indicators, Vietnam 2019–24	24
Table 2.1. Evolution of Annual Household Contribution to Higher Education, 2010-20	36
Table 2.2. Spending on Tertiary Education as % of GDP	38
Table 2.3. Global University Rankings for Vietnam and Comparators, 2022	38
Table 2.4. Research and Innovation Capacity and Output of Vietnam and Benchmarking Countries	39

Figures

Figure 1.1. Economic Growth in 2021 and 2022.....	2
Figure 1.2. Daily New Cases and New Deaths	2
Figure 1.3. Mobility Trends	2
Figure 1.4. GDP Growth	3
Figure 1.5. Industrial Production.....	4
Figure 1.6. GDP Growth by Service Subsector	4
Figure 1.7. Domestic Demand.....	4
Figure 1.8. Retail Sales	4
Figure 1.9. Operational Status of Firms	5
Figure 1.10. Changes in Sales Relative to 2019.....	5
Figure 1.11. Firms' Employment Adjustments.....	6
Figure 1.12. Firms' Financial Indicators	6
Figure 1.13. Average Change in Sales Relative to 2019	6
Figure 1.14. Labor shortages appear broad based, especially post Tet Holidays.....	6
Figure 1.15. Labor Market	8
Figure 1.16. Employment Composition by Informality.....	8
Figure 1.17. Perception Survey on Levels of Income Compared to Last Year	9
Figure 1.18. Current Account Balance.....	10
Figure 1.19. Financial Account Balance.....	10
Figure 1.20. Exchange Rate Evolution	10
Figure 1.21. Terms of Trade	10
Figure 1.22. Merchandise Trade Balance	11
Figure 1.23. Trade Growth	11
Figure 1.24. Contribution to Export Growth by Product	12
Figure 1.25. Contribution to Import Growth by Product	12
Figure 1.26. Trade in Services	13
Figure 1.27. Number of International Visitors.....	13
Figure 1.28. FDI Disbursement and Commitment by Sector.....	14

Figure 1.29. FDI Commitment by Type	14
Figure 1.30. Credit-to-Deposit Ratio.....	15
Figure 1.31. Interest Rates	15
Figure 1.32. Contribution to CPI Inflation	17
Figure 1.32B. Inflation Across Countries.....	17
Figure 1.33. Producer Price Indexes.....	17
Figure 1.34. Average Prices of Selected Imports	17
Figure B1.1. Consumption Shares by Household Consumption Decile	19
Figure B1.2. Inflation Impact on Household Real Purchasing Power by Consumption Decile	19
Figure 1.35. Budget Execution	20
Figure 1.36. Major Revenue Sources	21
Figure 1.37. Major Non-Oil Taxes.....	21
Figure 1.38. Expenditure.....	22
Figure 1.39. Expenditure Disbursement	22
Figure 2.1. Distribution of the Vietnam Labor Force by Level of Education (Projected Until 2050)	30
Figure 2.2. Tertiary Education GER in Vietnam and Selected Countries, 2000–19	31
Figure 2.3. Human Capital Index and Tertiary Education Outcomes, 2019-20	32
Figure 2.4. Tertiary Education Access Rates by Income Quintiles, 2006-20.....	33
Figure 2.5. Tertiary Access Rates Between Kinh/Hoa and non-Kinh Groups, 2006-20.....	33
Figure 2.6. Share of Enrolments in Tertiary Education by Expenditure Quintiles, 2006-20	33
Figure 2.7. Decomposition of Access Gaps in Tertiary Education, 2020	33
Figure 2.8. Income by Education Level (nominal term), 2020	35
Figure 2.9. Returns to Education and Skills over time in Vietnam 2010-20, Compared to less than Primary Education Group.....	35
Figure 2.10. Returns to Education and Skills over time in Vietnam 2010-20, Compared to Unskilled Manual Labor Group.....	35
Figure 2.11. Mexico: Trade, Comparative Advantage, and Incentives to Acquire Skills.....	35
Figure 2.12. Skill Composition of Jobs in Vietnam (Number of Workers by Skill Level of Jobs), 2020.....	37
Figure 2.13. Proportion of Firms Reporting Difficulties Finding Employees with Required Skills, 2019.....	37

Boxes

Box 1.1. Food and fuel price increases in Vietnam are affecting the living standards of richer households more than poorer households	18
Box 1.2. The 2022-23 Economic Recovery Support Program	23
Box 2.1. Delivery of higher education requires fundamental reform in institutional structure and governance.....	41

ABBREVIATIONS

ASEAN	Association of Southeast Asian Nations
CIT	Corporate Income Tax
CPI	Consumer Price Index
EMDE	Emerging Market and Developing Economies
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GER	Gross Enrollment Ratio
GNFS	Goods and Non-Factor Services
GSO	General Statistics Office
NPL	Non-Performing Loans
NSA	Not Seasonally Adjusted
PIT	Personal Income Tax
REER	Real Effective Exchange Rate
SBV	State Bank of Vietnam
SME	Small-to-Medium Sized Enterprise
TOT	Terms of Trade
VAMC	Vietnam Asset Management Company
VAT	Value-Added Tax
VND	Vietnamese Dong

ACKNOWLEDGEMENTS

This report was written by Dorsati Madani and Hoang The Nguyen. It benefited from contributions from Judy Yang, England Rhys Can, Matthew Wai-Poi, Anh Thi Bao Tran, Viet Quoc Trieu, Ketut Kusuma, Trang Thu Tran, and Sarah Waltraut Hebous. The Second chapter benefitted from contributions by Dung Kieu Vo, Nguyet Thi Anh Tran, Hai Doan Ma, and Judy Yang. We are grateful to Michael Drabble and Christophe Lemiere for their comments. We are grateful to Ngan Hong Nguyen and Anh Thi Quynh Le.

Khanh Linh Thi Le provided excellent support during the preparation of the report.

The team is grateful for the overall guidance of Sebastian Eckardt (Practice Manager) and Carolyn Turk (Country Director for Vietnam).



OVERVIEW

Photo credit: Hue Festival Jun 2022@VNExpress

Chapter 1: Recent economic developments and prospects

The global environment has become more challenging

Following the two-year-long COVID-19 crisis, new economic shocks have heightened uncertainty and cast shadows on the global recovery. The supply shock associated with the war in Ukraine is expected to blunt the economic recovery across many countries and has raised the specter of stagflation in advanced countries, leading to tighter conditions in global financial markets. Measures undertaken by China to control the spread of the Omicron variant of COVID-19 have weakened growth prospects there and disrupted global value chains. As a result, global growth rates are now projected to be 2.9 percent in 2022.¹ Vietnam's major trade partners are all affected by these various shocks, with the United States and euro area both projected to grow by 2.5 percent in 2022 while China is expected to grow 4.3 percent. Meanwhile, inflation has risen sharply in both Advanced and Emerging Markets and Developing Economies (EMDEs), with over 75 percent of both groups above inflation targets.

Despite these recent shocks and heightened uncertainties, Vietnam's economy is rebounding

Vietnam's economy is on the path to recovery after two bruising years. After COVID-related lockdowns led to a sharp economic GDP contraction in Q3-2021, the economy started to rebound in the fall of 2021 as high vaccination rates enabled the country's re-opening. About 80 percent of the population were fully vaccinated by end-December 2021 and mobility restrictions were gradually removed. As a result, the economy rebounded swiftly, expanding by 5.2 percent² in Q4-2021, 5.1 percent in Q1-2022, and 7.7 percent in Q2-2022. While swift, the recovery remains both incomplete and uneven, with aggregate output still 3.8 percent below pre-covid trends and the services sector activity still recovering at an even slower rate (5.7 percent below pre-covid trends).

Firms' recovery is underway but remains fragile

With economic re-opening through Q4-2021 and Q1-2022, businesses reported a rebound in activity, but full recovery will take time. The fifth round of the World Bank Business Pulse Survey conducted from January to March 2022 found that 92.6 percent of formal firms were back in business, and 20 percent reported hiring new workers in Q1-2022. But some firms continue to face challenges: While 44 percent of firms reported similar or better sales in the January-March 2022 period than before the pandemic, another 56 percent reported lower sales in the same period. In addition, firms reported some easing of supply chain problems. However, broad-based labor shortages remain as of March 2022, which were felt more acutely in services and manufacturing and in the Ho Chi Minh City area.

The labor market is also recovering, and incomes are rising, but the impact of the COVID shock is lasting

Labor market conditions and household incomes improved in the first half of 2022. Employment reached pre-pandemic levels. The labor market participation rate ticked up to 68.5 percent, though remained below pre-pandemic levels (Q4-2019 of 71.3 percent). While average household incomes rebounded by 5.8 percent in Q2-2022, the effects of the COVID-19 shock were still felt by some households. For instance, as of April 2022, about a quarter of urban households (24.7 percent) still earned less than they did in April 2021.

The external sector continues to show resilience

Despite a deteriorating current account, the external position remained solid thanks to resilient foreign direct investments (FDI) disbursements. Driven largely by rising prices for energy and intermediate goods imports, the current account registered a deficit of US\$1.5 billion in Q1-2022, equivalent to 1.7 percent of quarterly GDP. Meanwhile, disbursement of foreign direct investment rose to US\$10 billion in the first half of 2022, the highest in the last five years. The nominal VND/US\$ exchange

1 World Bank, June 2022, Global Economic Prospect Report.

2 All growth rates are year-over-year unless otherwise indicated

rate was relatively stable but tracking a stronger USD the VND strengthened against the currencies of other trading partners, including the euro and the renminbi.

Monetary policy has remained accommodative while banking and financial sectors face heightened risks

The State Bank of Vietnam (SBV) has continued its accommodative monetary policy to support the recovery. This policy ensured ample liquidity in the market and helped maintain strong credit growth. Consequently, the growth of monetary aggregates has outpaced nominal GDP growth with the M2/GDP ratio rising from 139 percent in 2019 to an estimated 160 percent in 2021. Despite a pick-up in headline inflation, the SBV has kept policy rates unchanged since March 2020, with real interest rates remaining close to zero.

The authorities maintained overall financial stability, but banks' asset quality remains a concern. While official NPL figures remain low in Q1-2022 at 1.53 percent, forbearance measures that ended only in June 2022 may mask some of the asset quality problems. A wider definition of problems loans, which includes loans that have been restructured, suggests that at least 5.76 percent of total loans may be at risk.³ Loan quality of consumer credits – about 12.5 percent of total credit in 2021- deteriorated more significantly, with NPLs in this subcategory jumping to 9.4 percent in 2021 from 5.5 percent in 2020. While the system-wide capital adequacy ratio of 11.5 percent in Q1-2022 remains above regulatory requirements (9 percent), varied provisioning coverage ratios and thin capital buffers in some banks remain a concern as banks may have to absorb higher NPLs.

...and high commodity prices, especially energy prices, have pushed up inflation

The Consumer Price Index (CPI) inflation increased from 1.8 percent in December 2021 to 3.4 percent in June 2022 but remains below the SBV's 4

percent target. Rising inflation appears to be driven by supply shocks. Higher gasoline and diesel prices (61.2 percent in June 2022) pushed up transport prices (21.4 percent) which together contributed about 1.9 percentage points to the CPI inflation in June. In contrast, food prices and core CPI remained subdued, registering 2.3 percent and 2.0 percent increases in June, respectively. However, reflecting rising input costs, the manufacturing producer price index rose by an average of 4.1 percent in the first six months of 2022.

The fiscal stance was contractionary in the first six months of 2022

The government reported an estimated budget surplus of US\$9.6 billion in the first six months of 2022, largely driven by under-execution of spending. While 66.1 percent of planned total revenue was collected, spending stood at only 40 percent of planned total expenditure. Due to the resulting budget surplus, government borrowings were limited and public and publicly guaranteed debt as a share of GDP fell to 43.1 percent in 2021, well below the 60 percent debt-to-GDP threshold set by the 2021-30 public debt strategy.

The outlook for the economy remains positive, but heightened risks warrant a proactive policy response by the authorities.

Despite the challenging global environment, the baseline outlook for Vietnam's economy remains favorable. Reflecting low base effects, GDP is expected to grow by about 7.5 percent in 2022 and 6.7 percent in 2023, as economic activity continues to normalize. Despite strong growth, the economy will not return to full potential in 2022. Growth drivers are expected to pivot from external to domestic demand, and from manufacturing to services. The recovery of services -so far, a laggard- is expected to pick up as consumers satisfy pent-up demand and foreign tourist arrivals rebound. In contrast, industrial production is expected to moderate as external demand weakens. Inflation is projected to accelerate to 3.8 percent in 2022, as higher energy

3 World Bank Staff Estimations.

and input prices pass through to prices of final products. Given continued second round effects, inflation is expected to rise further to 4 percent in 2023, before subsiding to 3.3 percent in 2024, as the supply shock dissipates. On the external side, the current account is expected to return to small surpluses (0.2-0.6 percent of GDP) in the medium term thanks to resilient goods exports, a recovery of foreign tourism, and strong remittances.

This baseline forecast is subject to significant uncertainty with downside risks to growth.

Externally, the emergence and spread of new COVID-19 variants and associated disruptions to economic activity continue to be a key risk, despite the ongoing normalization and roll back of COVID-19 related restrictions in most countries. Meanwhile, persistent inflationary pressures and the prospects of more aggressive monetary tightening, especially in the US and other advanced economies could induce volatility in global financial markets and hamper economic growth even further at a time when a slowdown is already underway. Additionally, heightened geopolitical tensions and conflicts have raised short-term uncertainty and may lead to long-term structural changes in the global economy, as major economies reassess the costs and benefits of global integration, posing risks to near and medium-term prospects of the global economy. Domestically, COVID-19 related risks could impair recovery especially in the services sectors.⁴ Labor shortages could also hamper full economic recovery. In addition, financial risks may be amplified given balance sheet weaknesses in the corporate, banking and household sectors which would in turn weigh on the recovery of domestic investment and consumption.

Inflation risks are also pronounced. While inflation so far seems to be driven by external supply factors, persistent price increases could cause inflation expectations to rise and feed into destabilizing pressures on nominal wages and production costs. From the demand side, stronger domestic demand and especially the continued

recovery of consumption could further compound price pressures. Higher than expected and more persistent inflation could in turn impair the recovery, especially of private consumption and investment.

In this context Vietnam's policymakers confront the difficult task of balancing the need to provide continued policy support to solidify the recovery with the need to contain emerging inflation and financial risks. High uncertainty means that policies will have to remain responsive to the pace of the recovery both in Vietnam and the rest of the world and vigilant to inflation and financial risks.

Given the incomplete domestic recovery and a weakening global demand outlook, a more supportive fiscal policy stance could hedge against downside risks to growth. While Vietnam has fiscal space to act, the challenge is weak implementation. Addressing institutional bottlenecks that have led to the chronic under-execution of the public investment program would make fiscal policies more effective. In the short run, the focus should be on full utilization of the Economic Recovery Support Program with a strong push on project implementation. The program envisages increased investment in digital and physical infrastructure which would help bolster domestic demand recovery in the near-term while also boosting Vietnam's long-term potential growth. In addition, expanding targeted social safety nets would not only help buffer the effects of the fuel price shock and rising inflation on poor and vulnerable households but cushion impacts on private consumption more effectively than the current untargeted cuts in the environmental protection tax and proposed cuts of value added tax (VAT) and import taxes.

Heightened inflation risks call for agile monetary policies. Since core inflation remains in check and the economy is still below potential, current accommodative monetary policies appear appropriate for the time being. However, if upside risks to inflation materialize -with core inflation accelerating and headline inflation moving above

⁴ For instance, World Bank Business Pulse Survey, conducted from January to March 2022, found that 30 percent of export firms continued to be affected GVC disruptions, reporting cancel orders in the period December 2021 to February 2022 owing to the absence of inputs.

the 4 percent target set by the government – the SBV should be ready to pivot to monetary tightening to quell inflationary pressures through interest rate hikes and tighter liquidity provision. Accompanying these steps with clear and forward-looking communication of monetary policy decisions would help guide market participants and ensure inflation expectations remain well anchored. Over the medium term, more fundamental reforms to enhance SBV's monetary policy framework and move towards inflation targeting would enhance monetary policy transmission and effectiveness. This could include steps to expand the tools available to manage liquidity as well as enhanced macroprudential measures.

Emerging financial risks also need to be managed proactively to strengthen the resilience of the banking system. NPLs and bank asset quality have been affected by the COVID-19 crisis and should be monitored closely. The roll back of forbearance at the end of June 2022 was an important step to enable the better recognition of impaired loans. Building on this, SBV should intensify prudential supervision and ensure banks fully comply with NPL reporting and provisioning requirements to enhance their loss-absorbing capacity and resilience. This could be supported by the ongoing implementation of Basel II which would align NPL reporting and loan loss provisioning with international standards. If capital shortfalls arise, banks should be required to develop specific and time bound recapitalization plans. An effective corporate insolvency regime and a functioning banking sector resolution framework are also important to deal with potential insolvencies.

In addition, deeper structural reforms are critical to supporting potential growth in the medium term and making the economy more resilient and inclusive. Fiscal reforms should focus on stabilizing revenue generation through tax policy reforms and enhancing spending efficiency to expand the fiscal space for spending on Vietnam's social, climate, and other development objectives. Promoting more public and private investment in climate change adaptation, including in key regions like the Mekong

delta would help make Vietnam's economy more resilient. This could be accompanied by policies to move towards Vietnam's carbon neutrality target– including expansion of renewable energy and carbon pricing- which could also enhance Vietnam's competitiveness in growing markets for green products and technologies. While efforts to enhance the business environment are crucial to enabling job creation, policymakers should also take steps to reduce skill-mismatches and improve the quality of Vietnam's labor force (the focus of the second chapter of this report).

Chapter 2: Educate to grow

Vietnam will need a skilled workforce to transform itself into an upper-middle-income economy by 2035.

Vietnam needs a workforce with 21st century skills to grow. As the economy moves from being driven by low skill and low wage jobs in manufacturing and services towards a more innovation driven growth model built on higher value-added industries and services, Vietnam's workforce will need to attain higher level and more relevant skills. The Government's own strategy (the SEDS 2021-2030) says as much, aiming to use scientific, technological, innovative, and digitally transformative knowledge and build quality human resources as key drivers of higher productivity and future economic growth. To achieve these goals, Vietnam needs to reform its education system to improve quality and access, and thus provide the necessary skills to the population.

Vietnam's tertiary education system performance has room for improvement

Vietnam has performed exceptionally well in providing quality general education to its population but has seen less success in the performance of its tertiary education system. Adjusted for learning, Vietnam's average years of schooling is 10.2 years, second only to Singapore among the Association of Southeast Asian Nations (ASEAN) countries and its human capital index is 0.69 out of a maximum

of 1, the highest among lower middle-income economies. However, as of 2019, Vietnam's tertiary gross school enrollment rate was 28.6 percent, below regional comparators, and the enrollment average of 55.1 percent for upper-middle income countries. This indicates that of an estimated 6.9 million persons of tertiary school age, slightly more than two million were enrolled at tertiary education institutions. In the long run, to meet upper-middle income enrolment levels, Vietnam would have to facilitate the enrolment of an estimated 3.8 million students, almost double the numbers in 2019.

Some of this discrepancy with other countries and with Vietnam's own ambitions is due to an access gap at the higher education level. As of 2020, 7.3 percent of students from families in the lowest income quintile had access to higher education compared to 49.8 percent of the students from the top income quintile. Youth from ethnic minority groups had a 6 percent higher education access rate compared to 35.4 percent of youth from ethnic majorities. Differentiated high school graduation rates and unequal admissions also affect the access rate to higher education.

Demand-side and supply-side factors affect the performance of Vietnam's higher education system

On the demand side, the opportunity cost of studying, falling returns to education, and the increasing burden of financial costs on households' may act as deterrents to seeking higher education. Engaging in university study entails deferring several years of income-generating activity, which is a cost to the student. Also, while in 2020 the income of university graduates aged 25 to 35 years old was 3 times higher than the income of non-degree workers, the relative wage-related returns to educated and skilled professionals have been in decline over the 2010-2020 period. Returns to education and skills – as measured by the change in hourly wages of workers with tertiary education relative to groups with less than primary education - fell from 70 percent in 2010 to 50 percent in 2020. This is partly driven by the low skills relevance of

university graduates in the job market, with Vietnam ranking at the bottom third of the 140 countries listed in the 2018 Competitiveness Index on skills relevance of university graduates. It can also be due to the economy not creating sufficient high skills jobs, with some high skill graduates taking jobs below their skills set and with lower remuneration. Additionally, tuition fees and average total costs of higher education have more than doubled during that time, and household contribution to higher education enrolment is now the primary source of student fees. Tuition fees paid by households, on average, account for more than 65 percent of revenue of higher education institutions and comprised between 43 and 60 percent of total costs of per student spending.

On the supply side, skill misalignments, insufficient funding, and institutional fragmentation affect the performance of the education sector. There is a lack of alignment between the skills of graduates and the skills that the market is demanding. Most jobs in Vietnam are for unskilled or skilled manual workers, while firms report difficulty in securing employees with skills. As of 2019, 10.2 percent of the population aged 25 or older had completed a bachelor's degree or equivalent. At the same time, firms report difficulty in securing employees with managerial and leadership skills (73 percent) or with technical skills (other than IT - 68 percent). Insufficient public funding and a weak and fragmented tertiary education governance institutions have affected the quality of higher education and the pace of development of innovation capacity and technology transfer. Vietnam spends less than regional counterparts on higher education; in 2019 Vietnam allocated 0.6 percent of GDP to higher and vocational training, compared to 0.86 percent in Malaysia and 0.9 percent in South Korea. Additionally, there is no centralized, unified body responsible for the entire higher education and research system; the regulatory framework is complex, fragmented, and inconsistent; there is a lack of integration between universities and research entities; and quality assurance needs to improve.

Overall, Vietnam's higher education system would benefit from systemic reforms to improve quality on several fronts.

Reforms should include content, teaching practices, program development, and teacher qualification as well as improvements to teacher-student ratios. On content considerations, the curriculum, relevance of training, traditional teaching practices (teacher-led models), and fragmented, inconsistent, and ad hoc internationalization activities have impacted quality. Separately, on program development, international cooperation is limited principally to 'curriculum borrowing'. Also, the higher education system does not yet have a robust talent management system in place to produce and nurture a high-quality academic staffing workforce.

There are four critical points of inflection where reform can usher significant results for higher education. These include: (a) improving access and equity; (b) increasing relevance (aligning better with demand); (c) better financing; and (d) better governance.

➤ **Increasing access and equity.** Assuming a 45 percent gross enrolment ratio target for 2030, it is estimated that there will be 1.3 million additional seats are required to reach a total of 3.8 million students. Such an expansion would need to ensure an increased role of non-university and private providers; varied training modalities including online and digital learning; strengthening the pipeline of student enrolments from secondary education; and the availability of student financial aid.

➤ **Improve quality and relevance.** To improve quality, the focus should be on innovations in teaching and learning practices, academic staff talent management, investments in education and ICT infrastructure. Closers link with industry would also improve the relevance of higher education programs.

➤ **Finance the sector better.** This sector needs to move to sustainable financing with better allocation of public funds and smarter use of private sector funds. The immediate priority should on ensuring existing resources are used efficiently. Over time, public funding for tertiary education by the government could be increased, especially if demand for higher education rises further. However, with the public sector offering about 80 percent of tertiary education programs, expanding the role of private tertiary educational institutions also remains highly relevant.

➤ **Govern the sector better.** The government could consider recasting the governance structure of the education sub-sector to enable growth and quality improvement. There is a need for a vision and strategy for the higher education sector, a revision of the structure and regulatory framework, and quality assurance measures to enable universities to operate as autonomous and accountable institutions within a more efficient governance structure. A single ministry should be responsible for university, TVET, and research and technology. The authorities would need to actively monitor the progress of this reform agenda and its outcomes through a modern information management system.



CHAPTER 1.

Photo credit: Vietnam News Agency

Economic Developments and Prospects

INTRODUCTION

As the two-year COVID-19 crisis appears to wane, new economic shocks have cast shadows over the global economy heightening uncertainty about the short-to-medium path to recovery. The supply shock associated with the war in Ukraine is expected to blunt the promising economic recovery around the world and has raised the specter of stagflation in advanced countries, leading to tightening conditions in global financial markets. Measures undertaken by China to control the spread of the Omicron variant of COVID-19 are also impacting its growth and the performance of global value chains. As a result, global growth rates are now projected to be 2.9 percent in 2022, a 1.2 percentage-point reduction from projections made in January 2022.⁵ Growth is expected to slow to 2.5 percent for both the United States and the euro area in 2022, a more conservative forecast compared to the January 2022 growth projections of 3.7 percent and 4.2 percent, respectively. China's economy is expected to grow 4.3 percent in 2022, compared to 5.1 percent projected in January 2022 (Figure 1.1). The growth of Emerging Markets and Developing Economies (EMDEs) is projected to halve this year, slowing from 6.6 percent in 2021 to 3.4 percent in 2022. Additionally, inflation has risen sharply in both advanced and EMDEs, with over 75 percent of both groups above inflation targets.

Additional risks threaten the recovery prospects of the global economy. New COVID-19 variants continue to be a severe risk, and as people around the world grow weary of pandemic-measures, this 'fatigue' could hamper attempts at controlling the spread. COVID-19-related supply disruptions have continued internationally, driving price increases and changing global value chains (GVCs) trends, which could affect the production and competitiveness of participating countries. Additionally, geopolitical tensions have raised questions about the benefits and future of globalization, with regions—at least in the short term and in strategic areas—decoupling economic ties as a result.

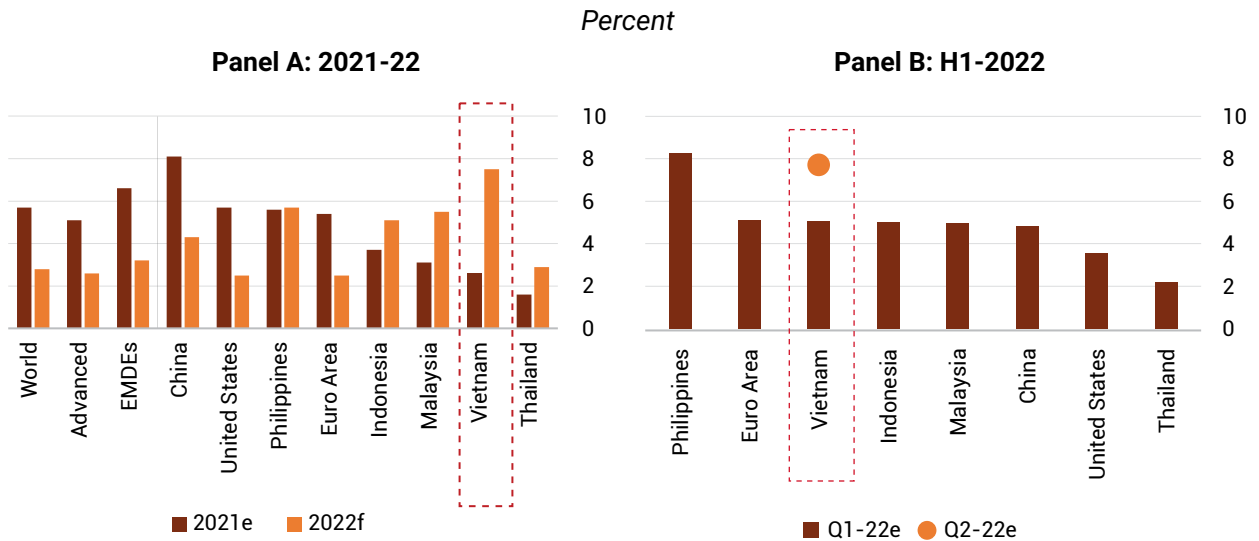
Vietnam's economy is rebounding after two bruising years but faces domestic challenges and an unfavorable external environment in the short-to-medium-term. Vietnam's GDP grew by 2.9 percent in 2020 and 2.6 percent in 2021. While these growth rates were well below average rates of 6.5-7 percent in 2016-2019, Vietnam was one of the few countries that managed to grow during the pandemic. The economy bounced back in Q4-2021, growing by 5.2 percent followed by 5.1 percent in Q1-2022, which was comparable with most of its peers in East Asia. Growth then accelerated to 7.7 percent in Q2—the highest in a decade—thanks to a resilient manufacturing sector and a robust rebound in the service sector. Nonetheless, the impact on workers and households during the crisis was serious and lasting, with about 45 percent claiming lower incomes in December 2021 than the previous year. Even in May 2022, about 24 percent of surveyed urban households report a lower income than the previous year, suggesting that the socio-economic costs and impacts will take longer to recover.⁶ Businesses were still reporting broad-based labor shortages as of March 2022, and these appear more acute in the service and manufacturing industries. At the same time, global headwinds such as those currently affecting Vietnam's major partners (the United States, China, and the euro area) will add to the challenges already faced by the export industry.

High vaccination rates facilitated the re-opening of the Vietnamese economy after the lockdowns of Q3-2021. By early July 2022, 82.4 percent of the population had been fully vaccinated, 43 percent had received a booster dose, and many restrictions were lifted (Figure 1.3). Mobility continued to increase despite a spike in infections in March and April 2022 that appears to have faded by early May as the number of officially infected cases dropped. By the end of June 2022, less than 1000 new COVID-19 cases per day were being officially confirmed (Figure 1.2). In addition, the number of visits to restaurants, coffee shops, shopping malls, and other retail and recreation places reverted to their pre-pandemic levels.

5 World Bank. 2022. *Global Economic Prospects, June 2022*. <https://doi.org/10.1596/978-1-4648-1843-1>

6 World Bank. 2022. *Monitoring Households and Firms in Vietnam during COVID-19*, May.

Figure 1.1. Economic Growth in 2021 and 2022

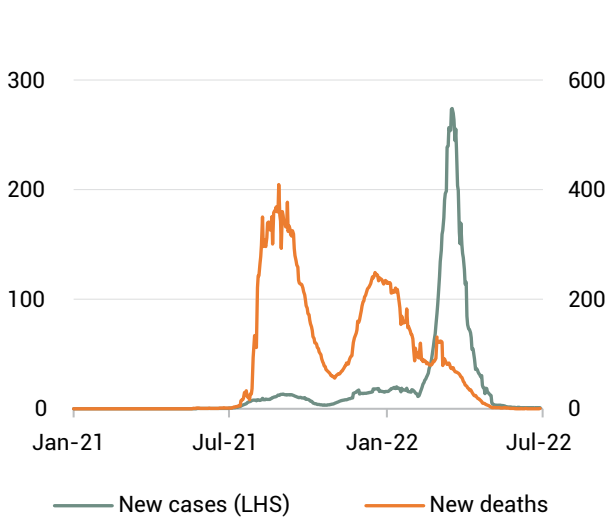


Source: GSO, GEP June 2022, Haver Analytics, and World Bank staff calculations

Note: e = estimate; f = forecast

Figure 1.2. Daily New Cases and New Deaths

New cases in thousands (7-day moving average)

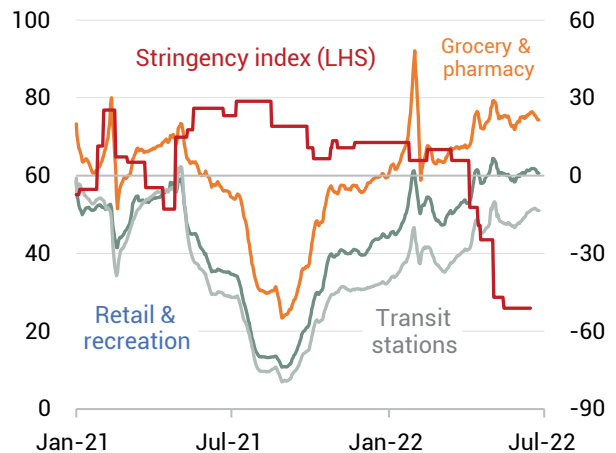


Source: Our World in Data

Note: LHS = left-hand scale

Figure 1.3. Mobility Trends

Percentage change compared to baseline, January 3 to February 6, 2020 (7-day moving average)



Source: Google COVID-19 Community Mobility Report and Our World in Data

Note: LHS = left-hand scale

Chapter 1 of this Taking Stock report reviews the recent developments in Vietnam’s economy and assesses its short-to-medium term prospects. It examines the country’s growth performance, its external balance, and monetary and fiscal policy responses during the first half of 2022. The chapter also discusses the outlook for the Vietnamese economy in the next two to three years, highlighting domestic and external risks.

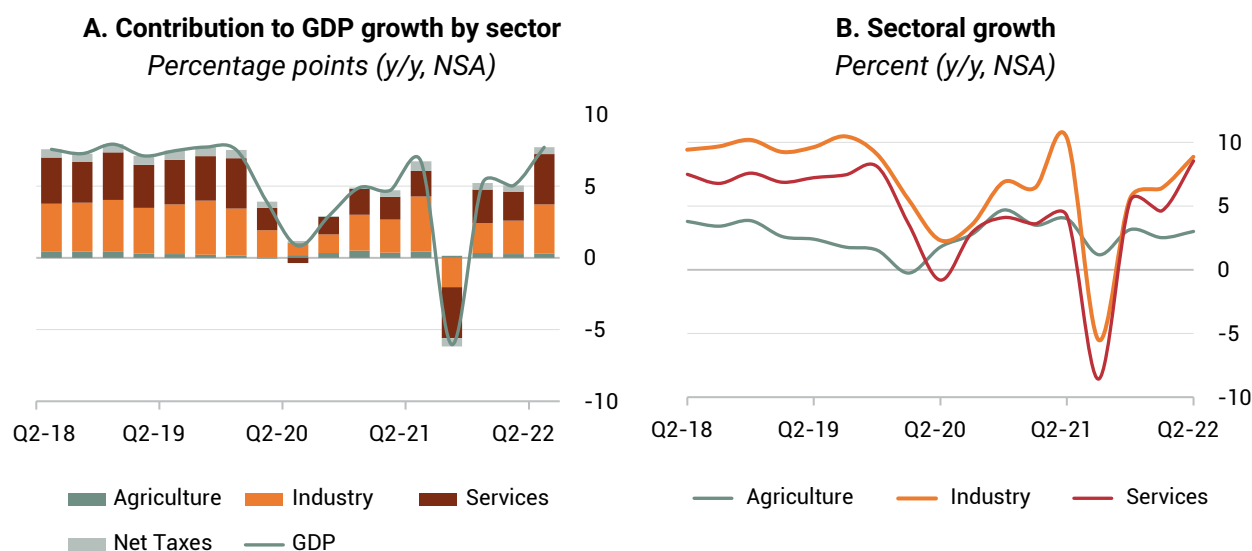
I. Recent Economic Developments

Vietnam’s economy rebounded in the first half of 2022, despite the impact of supply shocks related to the war in Ukraine and public health measures in China.

The economy grew by 6.4 percent in the first half of 2022—the highest growth in three years—but it remains slightly lower than pre-pandemic levels. Building on the strong rebound in Q4-2021, GDP grew by 5.1 percent in Q1-2022 (comparable to most of the major economies in East Asia) and accelerated to 7.7 percent in Q2, matching pre-pandemic quarterly growth rates (Figure 1.4). The contribution of the agricultural sector remained steady but small – about 0.3 percentage points of the quarterly growth. Industrial production (excluding construction) grew by 7.0 percent in Q1-2022 and 9.9 percent in Q2, reverting to its pre-pandemic trend by May 2022 (Figure 1.5). Some of the most dynamic subsectors in the first six months have been the manufacturers of apparel (up 23.3 percent), footwear (up 13.1 percent), electronics, computers, optical products (up 11.2 percent), and machinery (up 9.1 percent). These were also the main drivers of merchandise export growth. The services sector rebounded sharply, growing by 4.6 percent in Q1 and by a record high of 8.6 percent in Q2 as the easing of domestic social distancing and border closure released pent-up demand for consumer services.

The services sector recovery masked significant variations across subsectors (Figure 1.6). ‘Finance, banking, and insurance’ and ‘information and telecommunications’ have been exceptionally resilient over the past two years and maintained solid growth of 9.5 percent and 6.1 percent in the first two quarters of 2022, respectively. Transport and storage, and wholesale and retail services—which contracted more sharply during lockdowns than most other services—showed strong recovery, growing by 8.1 percent and 5.8 percent, respectively, in the same period. Conversely, accommodation and catering services—most adversely affected by the pandemic—remained 1.8 percent lower in Q1 than the year before. With mobility restored, and the country re-opened to foreign tourism in late March 2022, these services have registered a strong rebound in Q2, up 25.9 percent. This suggests that recovery is underway in these sectors, although their output remains about 16 percent lower than pre-pandemic levels.

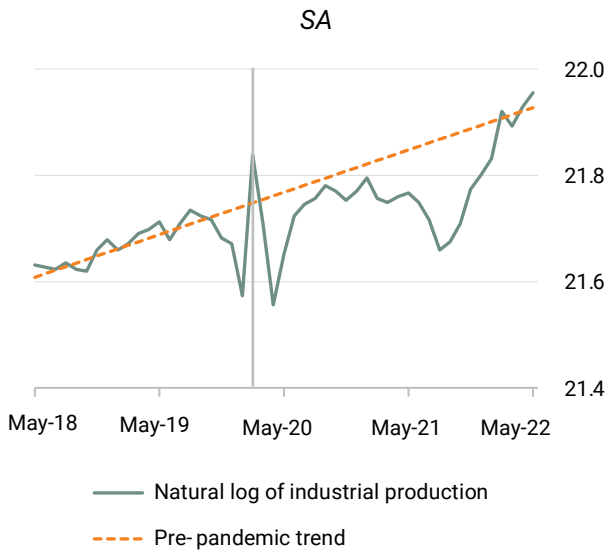
Figure 1.4. GDP Growth



Source: GSO and World Bank staff calculations

Note: Industry includes construction. NSA = not seasonally adjusted; y/y = year-over-year

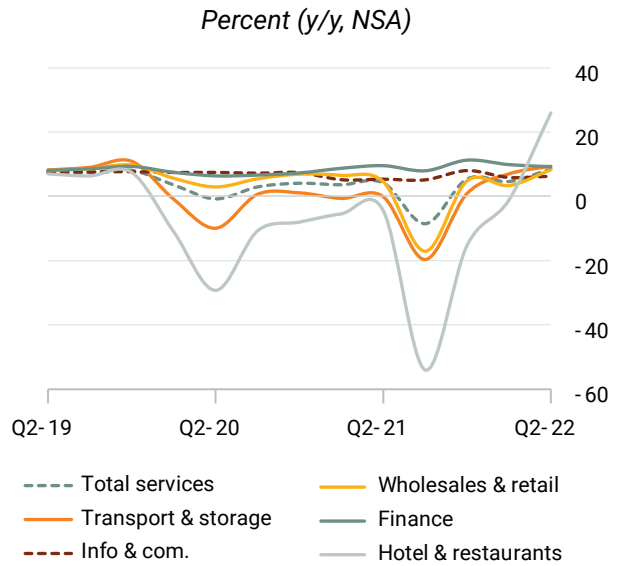
Figure 1.5. Industrial Production



Source: Global Economic Monitor Database and World Bank staff calculations

Note: The Hedrick-Prescott (HP) filter is applied to monthly data between Jan-2017 and Dec-2019 to generate the pre-pandemic trend; SA = seasonally adjusted.

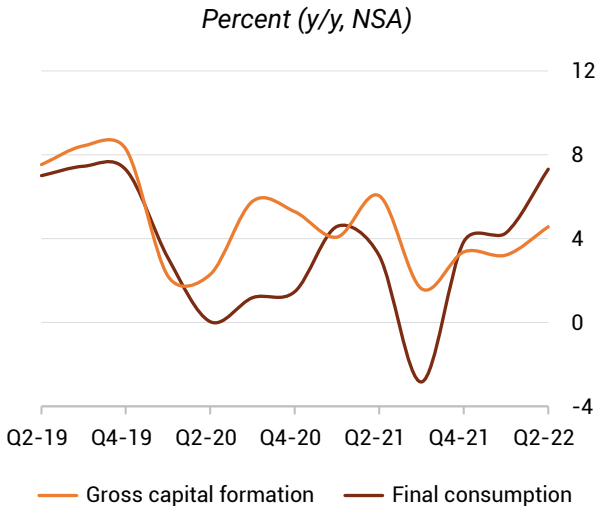
Figure 1.6. GDP Growth by Service Subsector



Source: GSO and World Bank staff calculations

Note: NSA = not seasonally adjusted; y/y = year-over-year

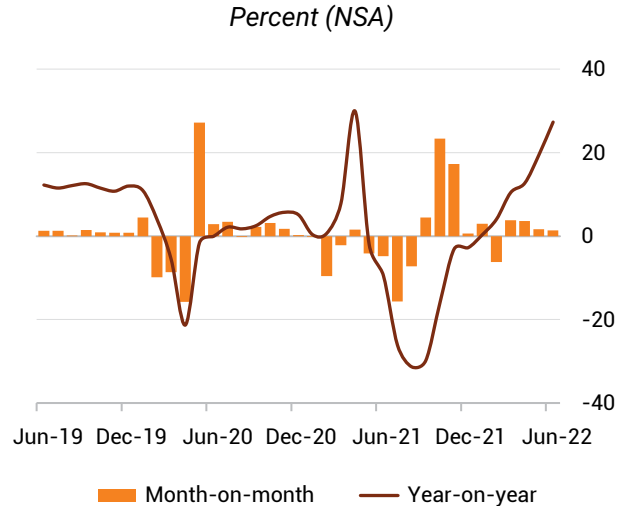
Figure 1.7. Domestic Demand



Source: GSO

Note: NSA = not seasonally adjusted; y/y = year-over-year

Figure 1.8. Retail Sales



Source: GSO and World Bank staff calculations

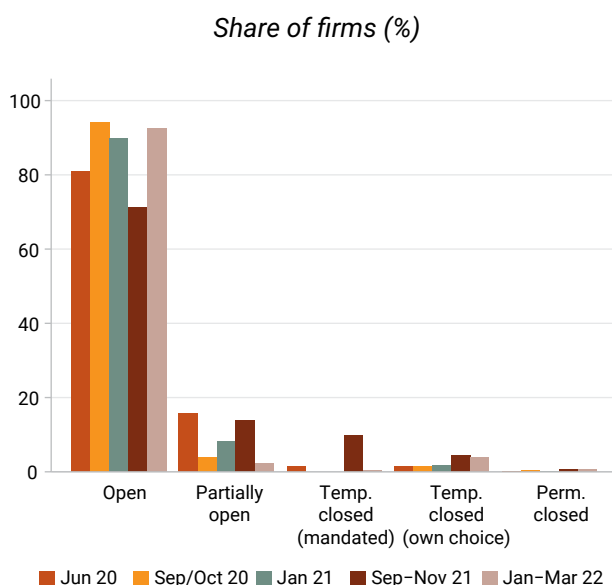
Note: NSA = not seasonally adjusted

On the demand side, final consumption—more affected by social distancing measures during the crisis than investment—also showed a stronger recovery. Final consumption grew by 4.3 percent in Q1-2022, which is comparable to the rate seen in Q1-2021 (Figure 1.7). The pace of recovery in consumption accelerated to 7.3 percent in Q2-2022, comparable to its pre-pandemic rates. Higher frequency data showed retail sales growth accelerated from only 0.4 percent in January to a record high of 27.3 percent in June (Figure 1.8). By contrast, gross capital formation grew by 3.2 percent in Q1-2022 and 4.6 percent in Q2, both of which were lower than a year prior, reflecting subdued public investment and weaker private investment activity amid rising prices and heightened global uncertainties.

The recovery of businesses is underway but remains fragile.

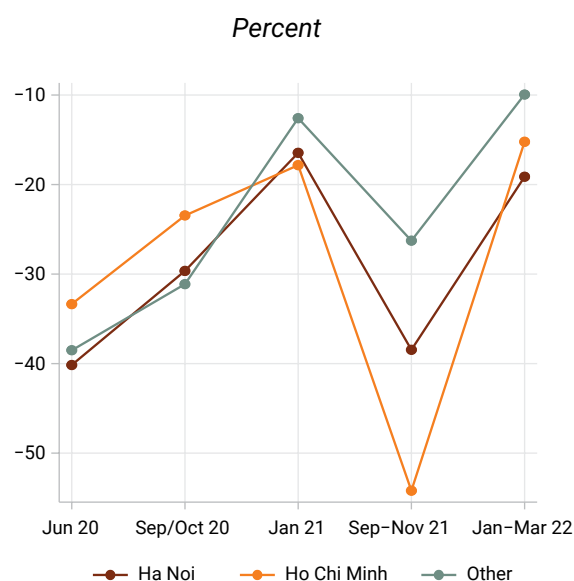
In conjunction with economic reopening over Q1-2022, businesses have reported a rebound in activity. The fifth round of the World Bank Business Pulse Survey, conducted from January to March 2022, found that the share of formal firms back in business reached 92.6 percent, the highest level since September-October 2020 (Figure 1.9). Net business entry increased, with the number of business dissolutions from January to March 2022 being significantly lower than during the same period in 2021, and the number of new registrations being the highest since 2019. The share of firms reporting supply-chain problems also fell. As demand resumed, sales recovered throughout the country. Monthly sales growth improved by 24 percentage points compared to the -39 percent registered in the fall of 2021. Regions and cities which had been more severely impacted by the lockdowns (such as Ho Chi Minh City) recovered faster (Figure 1.10). One in five interviewed businesses hire new workers in Q1-2022 (Figure 1.11) and fewer firms reported being in arrears or expecting to fall behind debt payments in the near future (Figure 1.12).

Figure 1.9. Operational Status of Firms



Source: World Bank Business Pulse Survey

Figure 1.10. Changes in Sales Relative to 2019

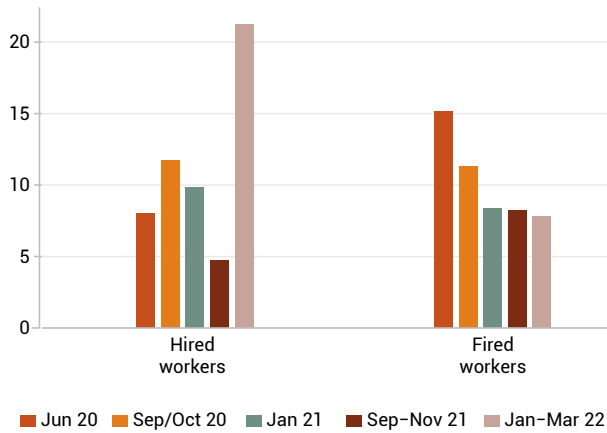


Source: World Bank Business Pulse Survey

Note: Change in sales refer to the last 30 days. Trends are robust to controlling for survey dates

Figure 1.11. Firms' Employment Adjustments

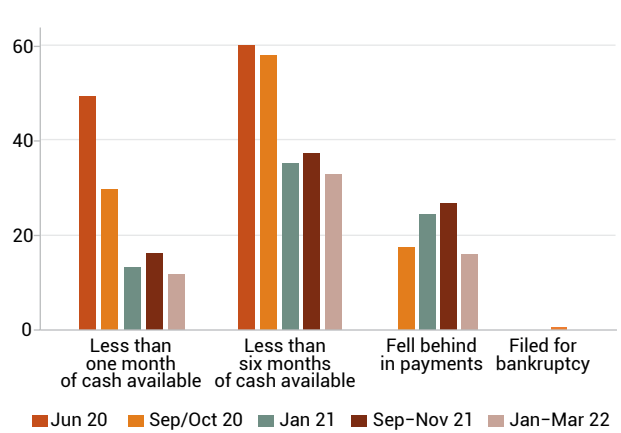
Share of firms (%)



Source: World Bank Business Pulse Survey

Figure 1.12. Firms' Financial Indicators

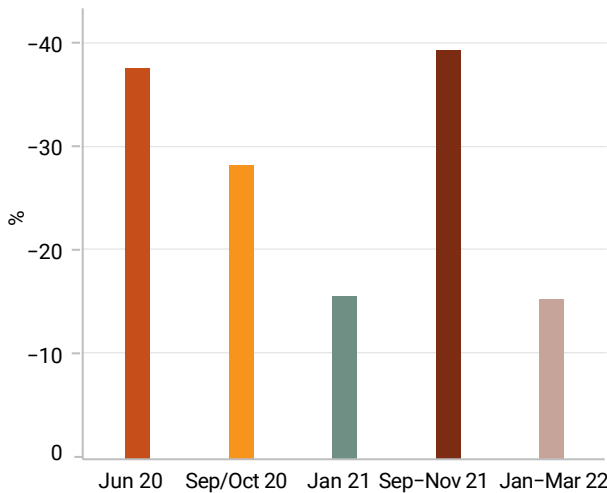
Share of firms (%)



Source: World Bank Business Pulse Survey

Figure 1.13. Average Change in Sales Relative to 2019

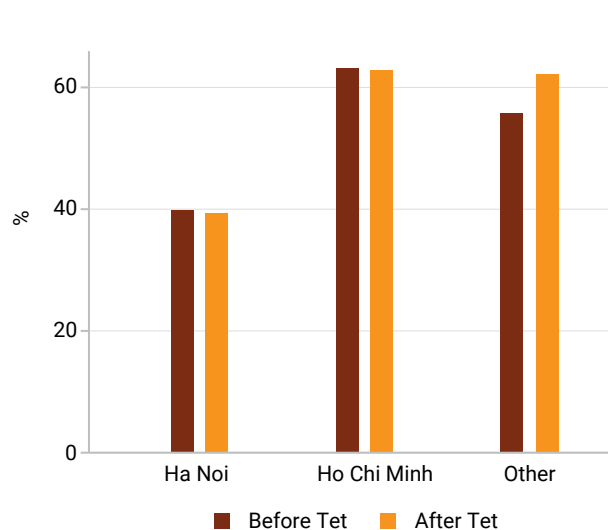
Percent



Source: World Bank Business Pulse Survey

Figure 1.14. Labor shortages appear broad based, especially post Tet Holidays

Share of firms (%)



Source: World Bank Business Pulse Survey

However, many firms still face challenges and expect a long road to full recovery. While 44 percent of firms reported similar or higher sales in the January-March 2022 period than before the pandemic, another 56 percent reported lower sales in the same period. Average sales improved compared to the September-November 2021 period but was still 15 percent lower than in 2019 (Figure 1.13). Because of this, cash flows have not yet recovered for some firms compared to 2021 survey rounds; without access to external finance, the average expected time to facing a cash flow shortage was reported to be 36 weeks. Additionally, while a majority of firms reported normal operations, some producers were still experiencing supply-chain disruptions in the January-March 2022 period. For example, 30 percent of export-oriented firms reported

they had to cancel orders in previous months (from December 2021 to February 2022) owing to the absence of inputs. In contrast only 11 percent of non-exporting businesses reported cancelling orders. Firms that lost orders also reported a loss of sales of about 35 percent, a marked difference to the 23 percent sales loss among those that did not have to cancel orders. The pandemic has disrupted the efforts of domestic firms to integrate into global value chains; among the 12.2 percent of those that supplied multinational firms before the pandemic, eight percent have reported scaling back such engagements.

Labor supply constraints appear to have persisted beyond Tet 2022 and could become a medium-term challenge. In the aftermath of the great departure (when migrant workers returned to their hometowns after quarantine measures were lifted in the fall of 2021), it was expected that workers would return after the 2022 Tet holidays. However, the fifth round of the World Bank Business Pulse Survey found that this was not the case. Companies in Ho Chi Minh City have found it more difficult than other regions to satisfy labor demands (Figure 1.14). By sector, 63 percent of firms in ‘services other than commerce’ sub-sector reported they found it difficult to recruit workers. After the Tet holidays, firms in the agriculture and manufacturing sectors also found it more difficult to recruit workers.

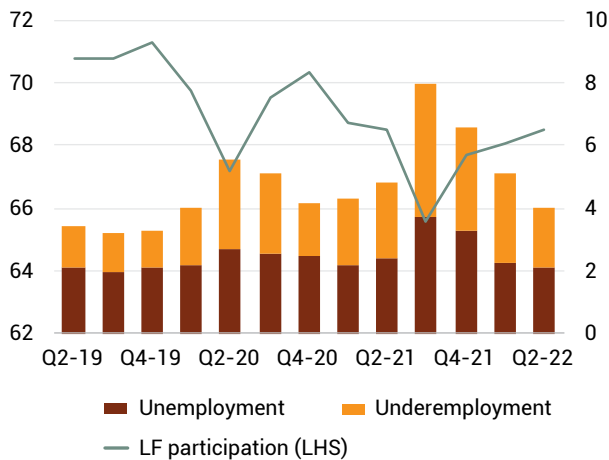
Low business-confidence and lack of appetite for investment in the short-term means that the government tax relief program continues to be successful and in demand. Over the last two years, the number of formal firms seeking and receiving government assistance has increased due to both the growth in awareness about available facilities and the easing of administrative impediments. As of March, an estimated 68 percent of formal businesses have benefited from government help, with corporate income tax (CIT) reductions and tax deferrals continuing to be the two most popular means of support. This financial relief has been a significant support to small businesses, with 20 percent considering it critical to help them bolster their cash flow. This is compared to 9 percent of medium-sized companies and just 3 percent of large firms. Demand for continued support is strong as businesses continue to report low confidence in economic outcomes. While sales are expected to gradually recover, there is concern about the potential impact of further extreme events. Consequently, many companies are reluctant to increase investments in the short term. Around 75 percent of firms reported plans to invest the same amount in 2022 as they did in 2020.

The labor market is recovering, but lingering effects from the shock continue to impact some households.

Labor-market conditions improved as the economy recovered from the Q3-2021 lockdown. As of Q2-2022, employment has increased by 1.4 percent, reaching its pre-pandemic level. In Q3-2021, unemployment rates peaked at 3.7 percent before decreasing to 2.1 percent, comparable to pre-pandemic rates (Figure 1.15). Labor market participation has gradually increased but has yet to reach the rate recorded a year earlier. The underemployment rate fell to 1.9 percent—its third consecutive fall since Q3-2021—but has remained slightly higher than pre-pandemic periods.

As the economy recovered, workers moved from temporary, informal jobs in the agricultural sector back to non-agricultural jobs (both formal and informal). Formal workers were less affected during the crisis and recovered faster in the aftermath. During the Q3-2021 shock, many non-agricultural, informal-sector jobs were lost – particularly in services and construction, industries which are sensitive to social distancing. Many workers turned to lower-paying, informal agricultural jobs as an alternative, positions that do not offer a *de facto* safety net. As the economy recovered and mobility restrictions eased, workers moved from informal agricultural jobs back to non-agricultural informal jobs, and to a certain extent, to formal jobs (Figure 1.16).

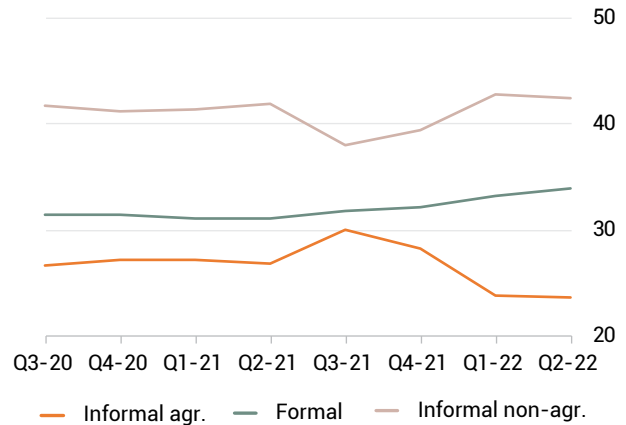
Figure 1.15. Labor Market
Percent (NSA)



Source: GSO and World Bank staff calculations

Note: LF = labor force; LHS = left-hand scale; NSA = not seasonally adjusted

Figure 1.16. Employment Composition by Informality
Percent of total employment (NSA)



Source: GSO and World Bank staff calculations

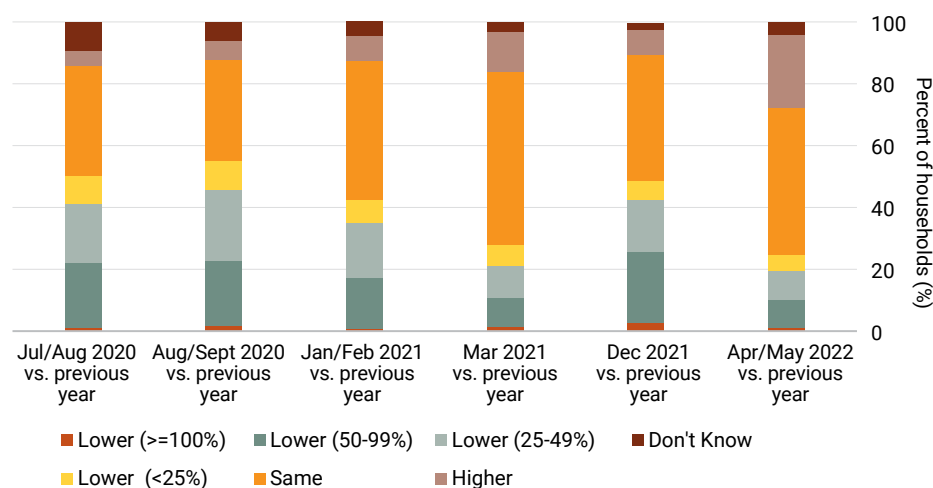
Note: NSA = not seasonally adjusted

The improvements in the labor market were mirrored by a rebound in average income in the first semester of 2022, particularly in the industry and service sectors. After dropping by 12.4 percent (quarter-over-quarter [q/q]) in Q3-2021, average real income recovered just 2.7 percent (q/q) in Q4-2021 but accelerated by 18.8 percent (q/q) in Q1-2022. By Q2-2022, it was 5.8 percent higher than a year earlier. Real income in industry and services was more-affected last year, but also recovered more rapidly (up 8.3 percent and 5.6 percent in Q2, respectively) than in agriculture (up 0.6 percent). Nearly 48 percent of urban households participating in the 2022 April-May World Bank Household COVID-19 Monitoring Survey reported improved incomes compared to May 2021 (Figure 1.17).

However, some COVID-19-induced labor-market impacts persisted into Q2-2022. As of April 2022, some households still felt pandemic-induced fragility while other households appeared to be recovering. Of the survey participants who were employed, 40 percent found new jobs that they considered to be better than their previous one, while another 40 percent found jobs that they considered to be worse. As of April 2022, 23.4 percent of the urban households earned more than in April 2021 while another 24.7 percent earned less than they did in April 2021. Around 9 percent of urban households experienced a reduction of income of over 50 percent, indicating potential financial distress. There are some variations across regions, with a larger share of households (31 percent) in the Northern Midland and Mountainous region reporting a reduced income relative to the same period last year, compared to other regions.

Some urban households remain vulnerable to shocks. A third of urban households surveyed in April-May 2022 reported that they would not be able to survive financially beyond one month if their income stopped today. In the Northern Central and Coastal region, this share reaches nearly 40 percent, and it is also relatively high for urban households in the Central Highlands and Southeast regions. To cope with income loss, households often are compelled to reduce their expenditure; of the urban households interviewed, 15 percent reported having had to reduce or cease the purchase of food because of its unaffordability at least once. This trend was exceptionally high in the Northern Midland and Mountainous region, with 27 percent of households reducing or stopping food purchases, likely resorting to own-produced food.

Figure 1.17. Perception Survey on Levels of Income Compared to Last Year
Share of households (%)



Source: This Figure is based on the compilation of six rounds of household COVID-19 monitoring surveys undertaken by the World Bank in Vietnam.

Note: Results from April/May 2022 are preliminary. Sample in April/May 2022 excluded rural areas, which had been included in all previous rounds. Nevertheless, the difference between rural and urban areas were marginal

The external sector continues to show resilience.

The external position remained solid despite a deteriorating current account. The current account registered a deficit of US\$1.5 billion in Q1-2022, which is expected to have persisted. This deficit is mostly driven by a deterioration of the balance of trade in goods and non-factor services from a surplus of US\$1.8 billion in Q1-2021 to a surplus of US\$0.9 billion in Q1-2022, and a deficit of US\$1.8 billion in Q2-2022, affected by a persistently weakened terms of trade (Figure 1.18).⁷ The terms of trade fell by 3.1 percent in Q1-2022 and 2.6 percent in Q2-2022, exacerbating the deteriorations in the last two quarters of 2021 (Figure 1.21).⁸ It reflects the combination of Vietnam's heavy reliance on raw material imports and rising commodity prices in the world market. This price increase was initially caused by a stronger-than-expected recovery of the global economy from the pandemic in 2021 when supply constraints persisted, and then exacerbated by the war in Ukraine since February 2022. The current account deficit was partly offset by strong direct investment inflows, a major component of the financial account (Figure 1.19), which helped soften its impact on the balance of payment. Nevertheless, official reserves still registered a US\$1.1 billion fall in Q1, reaching US\$108.9 billion as of the end of March.

The nominal exchange rate was relatively stable in the first six months of 2022, with the SBV's central rate almost unchanged. With the rising interest rate in the United States, however, there appeared to be increasing depreciation pressure on the Vietnamese dong. The official market exchange rate depreciated by 2.3 percent between January and June, although it remained well within the three percent band around the central rate. The State Bank of Vietnam sold US\$2.7 billion of official reserves in March to stabilize the

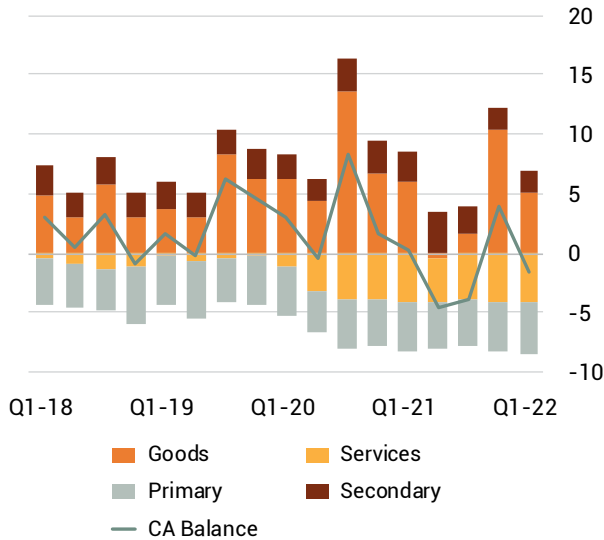
⁷ 'Terms of trade' is the ratio between the merchandise exports price (free on board [FOB]) index and the merchandise import price (cost, insurance, freight [CIF]) index.

⁸ Although transportation accounted for about 2.5 percent of total merchandise imports (CIF), coastal and ocean freight charges increased by 18 percent in Q1-2022 (the largest increase since Q1-2017), likely another contributor to the terms of trade shock. Data is from GSO.

exchange rate. The real effective exchange rate appreciated 3.3 percent between December 2021 and June 2022, mirroring the strengthening of U.S. dollar (Figure 1.20).

Figure 1.18. Current Account Balance

US\$ billion (NSA)

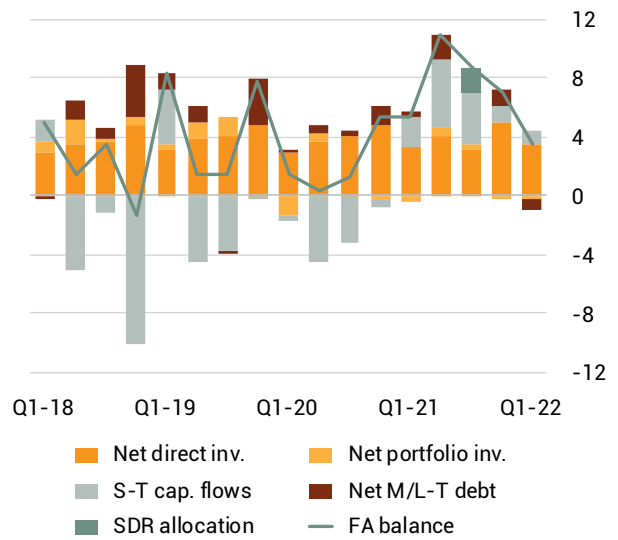


Source: SBV and World Bank staff calculations

Note: CA = current account; NSA = not seasonally adjusted

Figure 1.19. Financial Account Balance

US\$ billion (NSA)

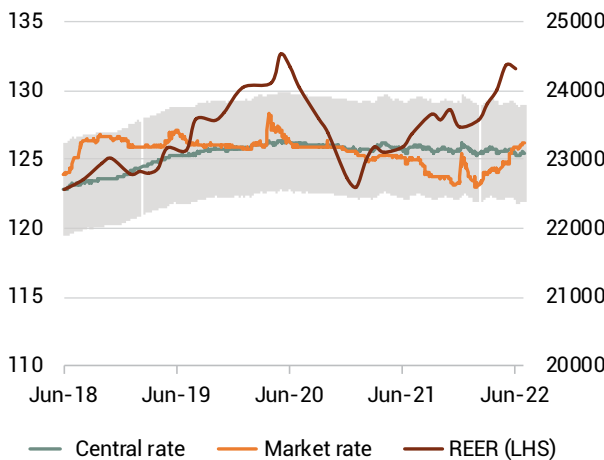


Source: SBV and World Bank staff calculations

Note: S-T cap. = short-term capital; M/L-T = medium- and long-term; FA = financial account; SDR = Special Drawing Rights; NSA = not seasonally adjusted

Figure 1.20. Exchange Rate Evolution

VND per US\$



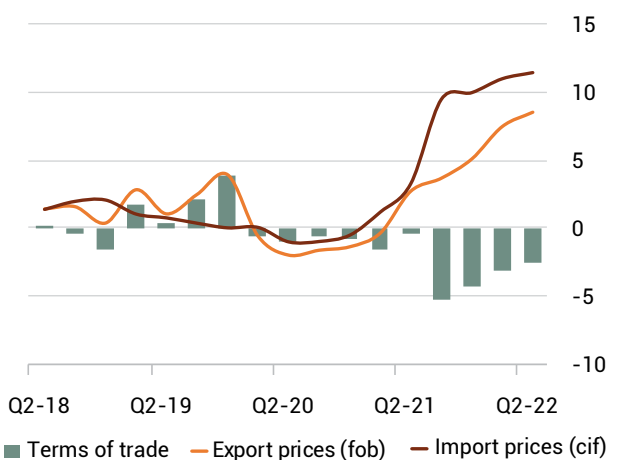
Source: SBV, Haver Analytics, Global Economic Monitor Database, and World Bank staff calculations

Note: Shaded area represents the three percent band around the SBV's VND/US\$ central rate; market rate is the average of buying and selling spot VND/US\$ exchange rate posted by the Vietcombank. A lower real effective exchange rate (REER) and a higher nominal exchange rate mean depreciation of Vietnamese dong.

LHS = left-hand scale.

Figure 1.21. Terms of Trade

Percent (y/y, NSA)



Source: GSO, Haver Analytics, and World Bank staff calculations

Note: Export prices are free on-board prices; import prices are cost, insurance, and freight prices; NSA = not seasonally adjusted; y/y = year-over-year.

After a sharp adjustment in 2021, the growth of merchandise trade leveled off during the first semester of 2022. Merchandise exports and imports grew by 17.4 percent and 15.7 percent in nominal terms, respectively; much lower than a year prior but higher than their pre-pandemic rates (Figure 1.23). A large part of these growth rates can be attributed to rising export and import prices caused by surging commodity prices and supply-chain disruptions (as discussed below). In real terms, merchandise imports grew by 4.5 percent, which is lower than their pre-pandemic rate while merchandise exports grew by 9.3 percent, which is higher than their pre-pandemic growth rate.

Figure 1.22. Merchandise Trade Balance

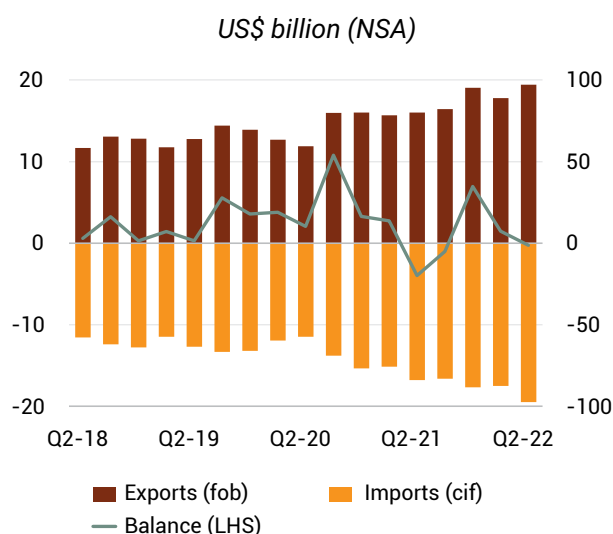
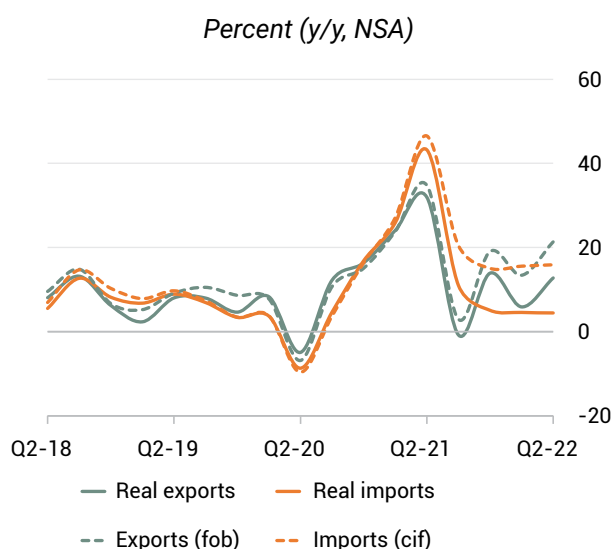


Figure 1.23. Trade Growth



Source: Vietnam Customs, GSO, Haver Analytics and World Bank staff calculations

Note: fob = free on board; cif = cost, insurance, and freight; LHS = left-hand scale; NSA = not seasonally adjusted.

Source: Vietnam Customs, GSO, Haver Analytics and World Bank staff calculations

Note: fob = free on board; cif = cost, insurance, and freight; NSA = not seasonally adjusted; y/y = year-over-year.

The slowdown in growth of total exports in H1-2022 echoed the slowdown in exports of high-tech products, as demand from the United States softened (Figure 1.24). Exports of phones, machinery, computers, and electronics grew by 19.2 percent in the first six months of 2022, down from 28.4 percent recorded a year prior. In contrast, export of textiles and garments (T&G) accelerated from 15.8 percent in H1-2021 to 21.6 percent in H1-2022. Changing demand in the United States drove this shift in product composition as it accounted for nearly 30 percent of Vietnam’s high-tech export products, and almost half of T&G. Exports of high-tech products to the United States slowed from 47.2 percent in H1-2021 to 32.4 percent in H1-2022, while those of T&G remained strong, from 22.9 percent to 23.5 percent. Exports of agricultural products benefited from rising commodity prices, growing by 16.7 percent in H1-2022, compared to only 11.7 percent growth a year prior.

Imports were affected by supply and demand factors. On the demand side, the slowdown in exports—highly dependent on foreign inputs—is one contributing factor (Figure 1.23). Slower growth in domestic investment may also have lowered demand for imports of capital goods. On the supply side, imports were affected by the global supply chain disruptions caused by the pandemic and exacerbated by the health-related measures in China that started in February 2022. Vietnam’s overall machinery imports (accounting for 14 percent of total imports) dropped by 3.1 percent in Q1 and then by 1.6 percent in Q2. Growth of imports of fabrics and related inputs to textiles, apparel, and footwear manufacturing (which made up another 8

percent of total imports) also slowed from 17.4 percent in Q1 to 2.0 percent in Q2 (Figure 1.25). These falls were likely linked to the lockdown in China either directly, because more than half of those imports came from the Chinese market; or indirectly from their impact on other nodes of global supply chains.

Figure 1.24. Contribution to Export Growth by Product

Percentage point (y/y)

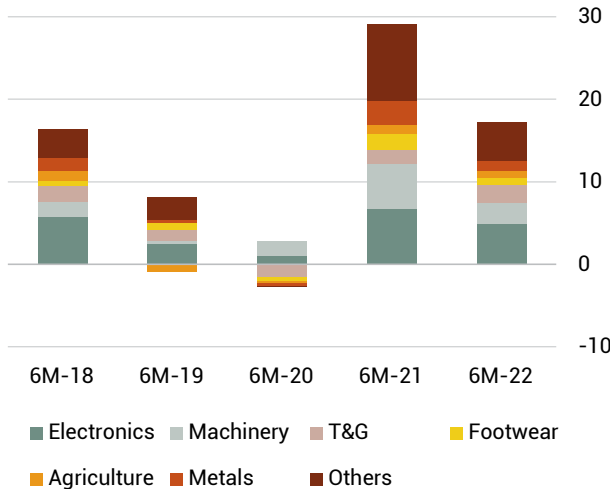
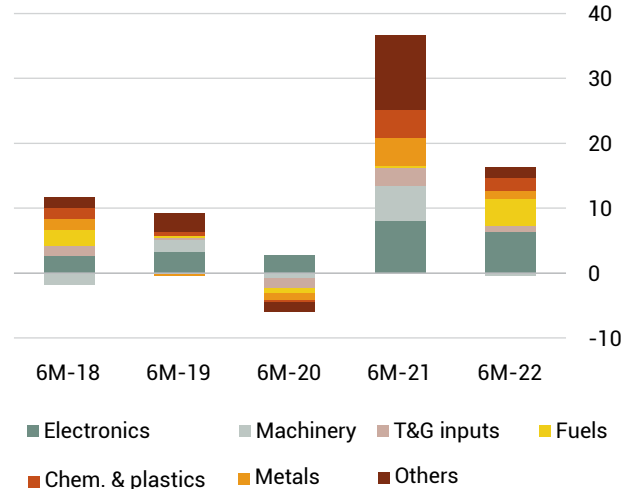


Figure 1.25. Contribution to Import Growth by Product

Percentage point (y/y)



Source: Vietnam Customs, GSO, Haver Analytics and World Bank staff calculations

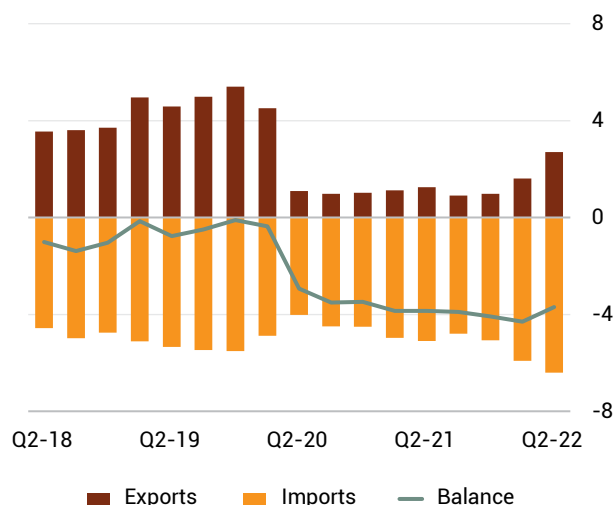
Source: Vietnam Customs, GSO, Haver Analytics and World Bank staff calculations

Note: T&G = textiles and garment; y/y = year-over-year.

Note: T&G = textiles and garment; y/y = year-over-year.

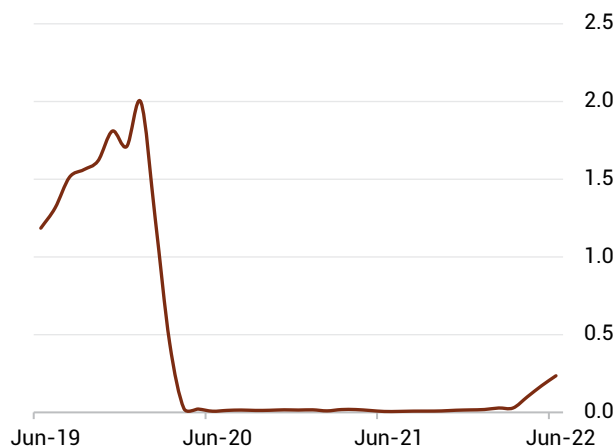
The services sector recorded a US\$8.0 billion trade deficit in the first half of 2022 as borders remained closed until mid-March. Services exports were only about 45 percent of their pre-pandemic levels and cross-border restrictions continued to depress travel and transportation. These sectors together accounted for over 80 percent of service exports in 2019 (Figure 1.26). As of Q2-2022, travel and transportation exports amounted to half of their pre-pandemic levels, a substantial improvement compared to the 5 percent share in Q1. Thanks to the opening of the country in March 2022, tourism has begun its revival, with about 237,000 international visitors arriving in June (Figure 1.27). Although this is only 20 percent of pre-pandemic levels, it heralds the recovery of the tourism sector and improvement of the services trade balance. On the other hand, service imports have already reached pre-pandemic levels, partly due to increasing imports bills for transportation and insurance services associated with a combination of booming merchandise imports and rising freight rates. Furthermore, imports of travel services, which made up about 30 percent of total pre-pandemic services imports, were less impacted than their exports in the wake of the pandemic perhaps because Vietnam imposed more stringent cross-border restrictions than its major partners.

Figure 1.26. Trade in Services
US\$ billion (NSA)



Source: GSO and World Bank staff calculations
Note: NSA = not seasonally adjusted

Figure 1.27. Number of International Visitors
Millions of people (NSA)

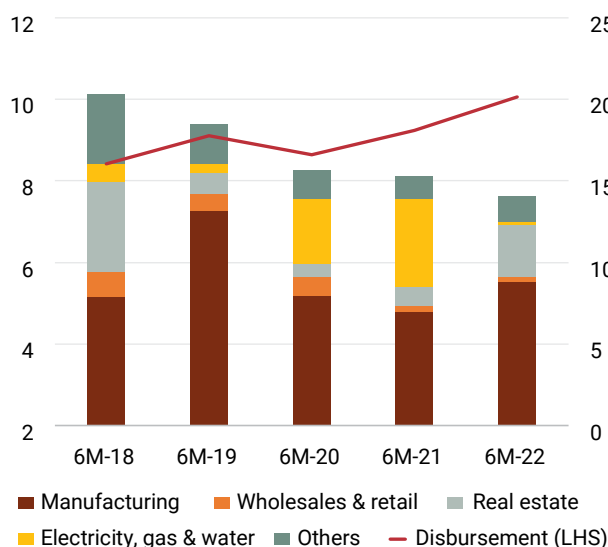


Source: GSO and World Bank staff calculations
Note: NSA = not seasonally adjusted

While foreign direct-investment-disbursement held up, new commitments declined in H1-2022 as investors became more risk-averse in response to heightened global uncertainties. Total FDI commitments reached US\$14.0 billion in the first six months of 2022, which is 8.1 percent lower than a year prior. With heightened global risks and the rebound of domestic consumption, the first semester of 2022 saw M&A FDI rebound 41.4 percent while greenfield investments (new investments to set up new businesses by new firms) contracted by 48.2 percent (Figure 1.29).⁹ Furthermore, nearly half of the investments in this period were made by existing firms to expand their businesses, compared to 22.1 percent on average in the same periods of 2018-21. The decline in greenfield investments could be attributed to a couple of factors. Investments can be chunky in nature, as was the case of FDI commitments with mega greenfield investment projects in electricity generation plants in 2020 and 2021 (Figure 1.28). The decline could also reflect increasing risk-aversion by foreign investors in response to heightened global uncertainties and tightening global financial conditions. By sector, while manufacturing remained the most attractive industry, there was also renewed interest in real estate; a US\$941 million infrastructure project approved in January 2022 partly compensated for a decline in investments in the electricity sector.

⁹ Over the past two years, mergers and acquisitions (M&A) FDI – usually intended for domestic market positioning - slowed as foreign investors appear concerned about the sluggish recovery of domestic consumption. On the other hand though, greenfield investments (new investments to set up new businesses by new firms) - usually intended for setting up export production - appeared resilient, and registered significant growth. This changed in the first six months of 2022.

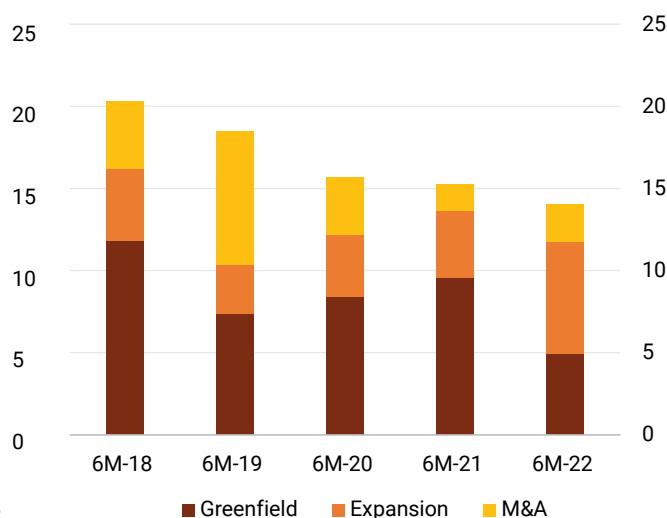
Figure 1.28. FDI Disbursement and Commitment by Sector
US\$ billion (YTD)



Source: MPI, Haver Analytics, and World Bank staff calculations

Note: YTD = year-to-date; LHS = left-hand scale

Figure 1.29. FDI Commitment by Type
US\$ billion (YTD)



Source: MPI, Haver Analytics, and World Bank staff calculations

Note: YTD = year-to-date; M&A = mergers and acquisitions

Monetary policy remained accommodative while banking and financial sectors face heightened risks.

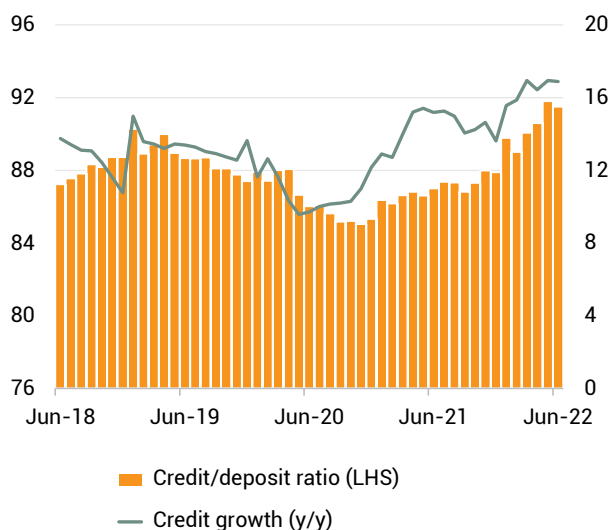
In the first six months of 2022, the SBV continued the accommodative monetary policy it adopted in March 2020 to support businesses while monitoring new inflation trends. It maintained the refinancing interest rate at four percent, continued its guidance on loan forbearance, and encouraged commercial banks to waive or reduce interest rates and fees to assist businesses affected by the COVID-19 pandemic. The guidance on loan forbearance expired end of June 2022. These policies have helped maintain strong credit growth and ensure ample liquidity in the market. The SBV is also monitoring the rise in inflation driven by the global commodity price shock, focusing on its management through closer coordination between monetary and fiscal policy, especially in the 2022-23 socio-economic support package.¹⁰

Over the first few months of 2022, banks started to attract depositors back to the banking system while credit growth picked up. As of June 2022, bank deposits increased by 11.2 percent, recovering from a dip in December 2021 when they were at 10.3 percent. However, credit growth also increased, from 13.6 percent in December 2021, to 16.9 percent June 2022 (Figure 1.30). This acceleration added slight pressure on banking sector liquidity and raised the interbank market rates to above 2 percent for a two-week tenor, compared to below 1 percent a year prior. Government bond yields also rose over 3 percent for the 10-year tenor, compared to 2.4 percent a year prior (Figure 1.31). Nonetheless, liquidity in the financial system – as measured by the money supply M2 - remained high at about US \$600 billion in May 2022 (or 10.3 percent growth compared to May 2021).¹¹

¹⁰ The State Bank of Vietnam. "Closely coordinating policies to control inflation".

¹¹ Havers Analytics. M2 money supply includes cash, checkable (demand) deposits, traveler's checks, savings and time deposits, certificates of deposits, and money market funds.

Figure 1.30. Credit-to-Deposit Ratio
Percent (NSA)



Source: SBV, Haver Analytics, and World Bank staff calculations

Note: LHS = left-hand scale; NSA = not seasonally adjusted; y/y = year-over-year

Figure 1.31. Interest Rates
Percent



Source: Haver Analytics

While broad financial stability has been maintained, banks' asset quality remains a concern and requires continuous monitoring. Official NPL figures remain low in Q1-2022: 1.53 percent for on-balance sheet and 3.41 percent including those at the Vietnam Asset Management Company (VAMC). If potential NPLs from restructured loans were included, the adjusted NPL ratio is estimated to be 5.76 percent. Consumer credit appeared to deteriorate significantly, with the NPL position in non-bank consumer finance companies jumping to 9.6 percent in 2021 from 5.5 percent in 2020. Banks' thin capital buffers and varied provisioning coverage ratios remain a concern (average 142 percent of NPLs in December 2021 but potentially as low as 35 percent for individual banks). Banks will have to sustain significantly higher NPLs, especially given the end of forbearance measures in June 2022. The average capital adequacy ratio (CAR) improved to 11.47 percent in Q1-2022 (from 11.3 percent in Q1-2021), as several banks actively raised equity and debt capital during the year, taking advantage of positive sentiments in the capital markets. However, while the system-wide capital adequacy ratio remains above regulatory requirements, it is still relatively low. In some banks, the regulatory capital is only slightly above the minimum.

Credit risk from real estate may rise amidst dubious funding practices and inflated pricing, partly caused by speculation. Residential real estate prices in major cities, such as Ho Chi Minh City and Hanoi, have reportedly increased by 30 to 60 percent in the past two years, while absorption rates (sales over inventory) remain relatively low except in a few segments. Meanwhile, with the tightening measures adopted by the SBV on real estate lending over the last several years, real estate businesses started to tap funding from the bond market to access a broad investor base, including retail investors. But there have been a number of arrests for alleged misrepresentation and improper use of private issuance. Some banks have high exposure to the real estate sector via shared ownerships or group holdings, raising concerns over contagion and potential problems within the real estate market and banking sector.

Capital markets sentiment turned negative in the first half of 2022. After experiencing increases in 2020 and 2021 – by 14.9 percent and 35.6 percent, respectively – prices in the stock market dropped by 20 percent in the first half of 2022, triggered not only by negative sentiments globally in view of the Russia-Ukraine conflict, global inflation, and interest rate hikes, but also by domestic factors including revelations of misconduct and market manipulation in the stock and bond markets. All these incidences led to a deterioration of investor confidence. In the corporate bond market, the amount of issuance in Q1-2022 was only one-tenth of the size in the whole year of 2021, indicating a slowdown in issuance activities.

High commodity prices, especially energy prices, have led to inflation.

Inflation edged up but remained below the 4 percent target. The Consumer Price Index (CPI) inflation increased from 1.8 percent in December 2021 to 3.4 percent in June 2022 (Figure 1.32). Rising energy prices were the main cause of inflation, with gasoline and diesel prices 61.2 percent higher in June 2022 compared to a year earlier. As a result, transport costs rose by 21.4 percent and contributed about 1.9 percentage points to the CPI inflation in June. Food prices, which had remained relatively muted during 2021, thanks to a well-maintained food supply, were increasing in Q2-2022 and registered a 2.3 percent increase in June, the fastest rate since December 2020. Core CPI inflation, which excludes food, energy, and items whose prices are administered by the government, also rose from 0.7 percent in December 2021 to 2.0 percent in June 2022, a rate last seen in September 2020. These price increases indicate both supply and demand side factors at play. On the supply side, there was some passthrough from global commodity prices and higher transport costs to domestic prices of products. Demand-pull inflation also kicked in as domestic demand rebounded in Q2-2022, particularly for consumer services as COVID-19 restrictions were eased. Inflation in Vietnam was much lower than in advanced economies, but comparable to some East Asian peers (Figure 1.32B).

The manufacturing producer price index continued to rise, largely due to rising input costs. The manufacturing producer price index rose by an average 4.1 percent (y/y) in the first six months of 2022 (Figure 1.33), driven by a 5.8 percent increase in input prices in the same period. While the 2021 rise in input prices was related to the disruptions caused by the COVID-19 shocks, the increases seen so far in 2022 are more related to the impact of the war in Ukraine. Although inputs to agriculture production also rose by 10 percent, the agriculture producer price index remained subdued, increasing by only 1.4 percent. This disconnect could be due to the longer agricultural production cycle compared to manufacturing production cycle, leading to a lag in observed inputs versus output prices. It could also be attributable to lower price of pigs which dropped by 26 percent, partly because of ample supplies and partly because some producers sold off their herds as increased input costs made pig farming unprofitable. As many agriculture and manufacturing inputs were imported, their higher prices reflected rising commodity and input prices in the world market. In the first six months of 2022, imported products experiencing the highest price hikes included steel (up 38.4 percent), fertilizers (up 43.9 percent), fuels (up 44.6 percent), and cattle feed and materials (up 27.6 percent).

Figure 1.32. Contribution to CPI Inflation
Percentage point (y/y, NSA)

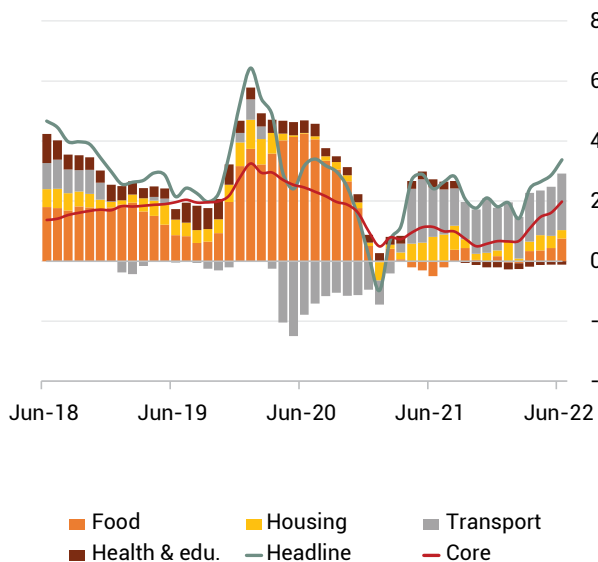
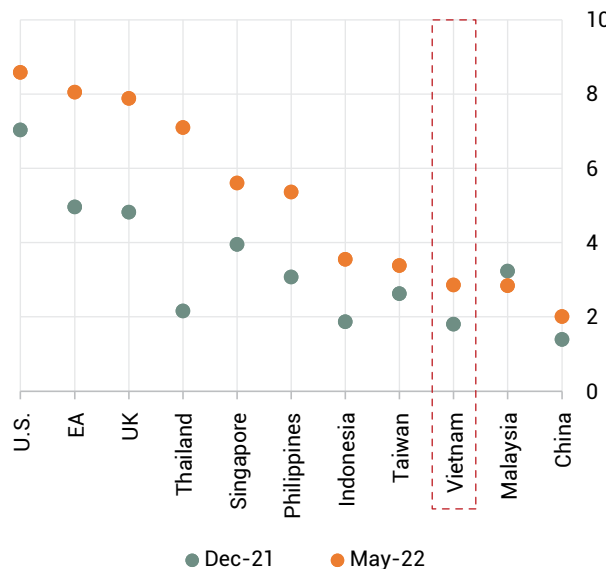


Figure 1.32B. Inflation Across Countries
Percent (y/y, NSA)



Source: GSO, Haver Analytics, and World Bank staff calculations

Note: Food includes grain, foodstuffs, and food consumption outside the home; housing includes rent, utilities (electricity, water, fuel), and construction materials; NSA = not seasonally adjusted; y/y = year-over-year

Source: GSO, Haver Analytics, and World Bank staff calculations

Note: NSA = not seasonally adjusted; y/y = year-over-year

Figure 1.33. Producer Price Indexes
Percent (y/y, NSA)

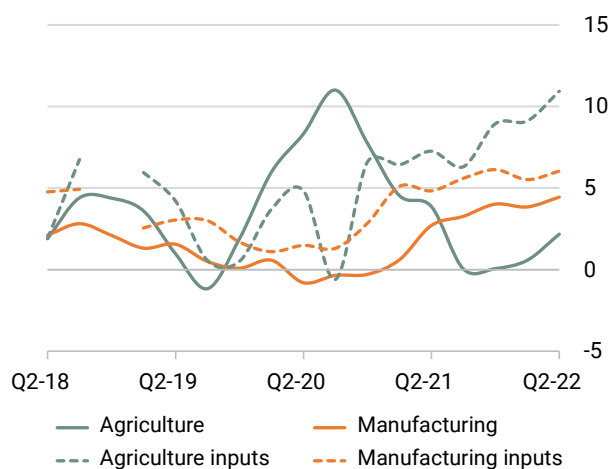
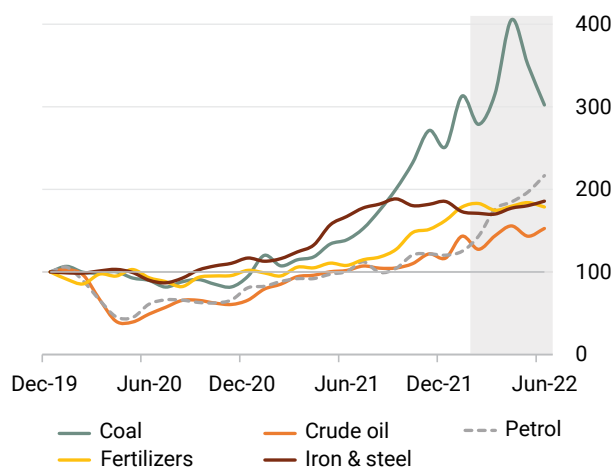


Figure 1.34. Average Prices of Selected Imports
December 2019 = 100 (NSA)



Source: GSO, Haver Analytics, and World Bank staff calculations

Note: NSA = not seasonally adjusted; y/y = year-over-year

Source: Haver Analytics and World Bank staff calculations

Note: Shaded area marks the Russian invasion of Ukraine starting from February 2022; NSA = not seasonally adjusted

Box 1.1. Food and fuel price increases in Vietnam are affecting the living standards of richer households more than poorer households

The invasion of Ukraine has led to significant increases in food and fuel prices globally and has translated into higher prices in Vietnam. Higher prices reduce the real purchasing power of households and have the potential to increase poverty. The impact on households depends upon which prices increase and what proportion of various goods and services make up the consumption basket for richer and poorer households.

Food makes up the largest share of consumption for all households in Vietnam but is even more important for poorer households (Figure B1.1). However, poorer households are also more likely to produce their own food, which can then be sold or consumed by the household. The impact of higher food prices will depend on the nature of the price shock. For example, if higher global wheat prices cause higher global rice prices as households and countries substitute away from more-expensive wheat, those households in Vietnam that produce their own rice for consumption will not be affected, while those that sell their own production may even benefit from higher prices. However, if higher rice prices are driven by higher fuel prices, which make fertilizers more expensive as well as increasing the price of transportation for both inputs and outputs, then their own production may not be shielded from higher prices.

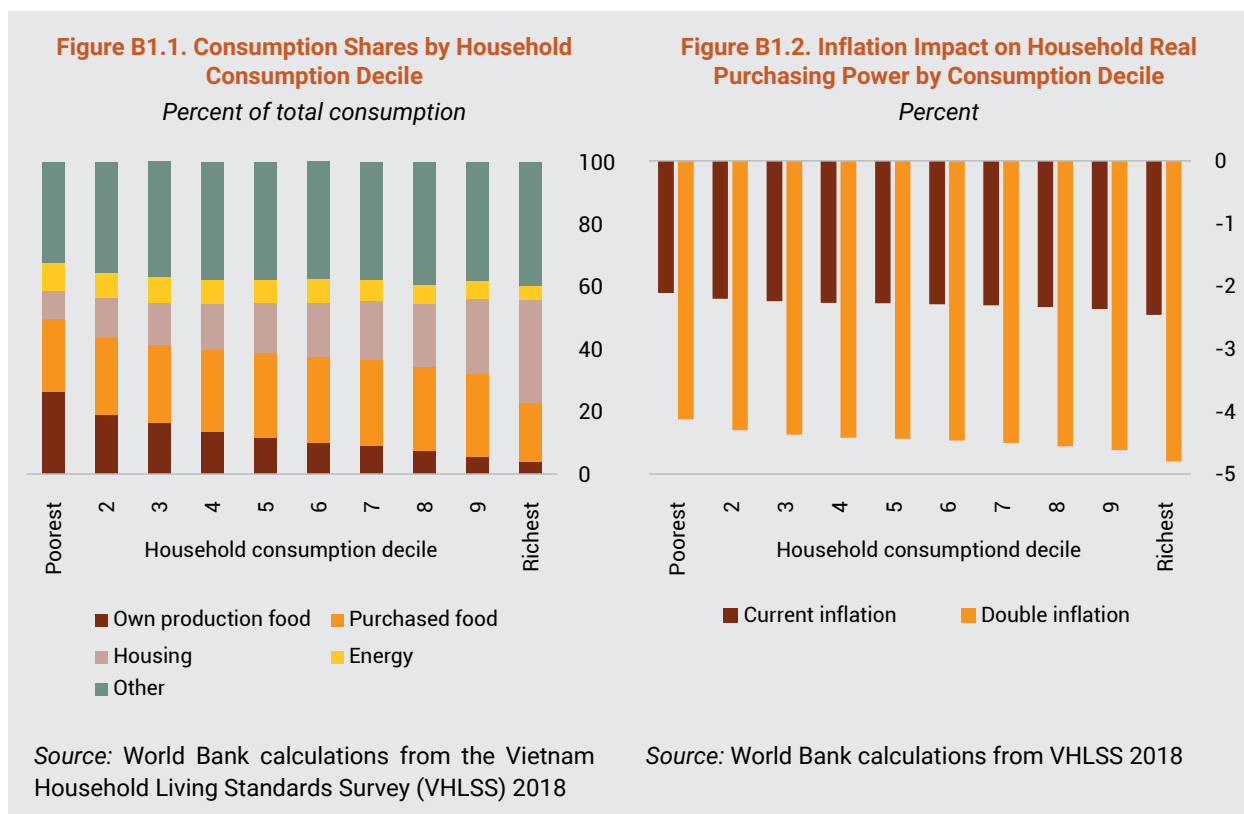
Similarly, while direct consumption of energy is a relatively small share of the total consumption for all households (Figure B1.1), higher fuel prices will increase the cost of most goods and services that rely upon energy in their production and distribution. In fact, the indirect impact of higher fuel prices on household purchasing power through the higher cost of other goods and services in Vietnam is around twice as large as the direct impact of higher fuel purchases themselves (Munoz and Wai-Poi, 2022).^{12 a}

The impact of inflation since February 2022 on households (Figure B1.2) is equivalent to around a 2 percent loss in real purchasing power. This analysis matches the price increases for different goods and services to each household's consumption-share of those prices. As the prices for non-food items have increased more than food items, and richer households can afford to spend more on non-food items, the impact of inflation has been slightly higher for wealthier households (although all have been affected) and the impact on the national poverty rate is estimated to be around 0.3 percentage points. If the increase in prices over the last four months were to be matched in the coming months, the impact on households would equate to a loss in living standards of 4.1 percent (poorest 10 percent of households) to 4.8 percent (richest 10 percent of households), while the poverty rate would increase by 0.7 points.¹³

Actual declines in households' purchasing power are less than headline inflation may suggest, because households' consumption baskets vary across income deciles. Also, in the case of Vietnam, households' expenditure on products that have experienced sharp price increases – such as petroleum or grains – are low. By extension, the impact of inflation on purchasing power is muted. For instance, if headline CPI increased by 10 percent, preliminary calculations suggest that the loss in purchasing power for households (based on actual consumption patterns) range from -5.4 percent for the poorest decile to -6.7 percent for the richest decile. This also explains why impact on poverty has been small. Of course, if inflation were to reach 10 percent, the welfare of households may be affected by contractionary measures that the authorities would adopt to control to reduce high inflation and ensure macroeconomic stability.

12 World Bank. 2022. Munoz, and Wai-Poi. *Background paper on the CCDR*.

13 This analysis assumes no substitution to cheaper goods by households and does not account for any increases in incomes over the same period.



The fiscal stance was contractionary in the first six months of 2022, despite the January announcement of a new economic recovery support program for 2022-23.

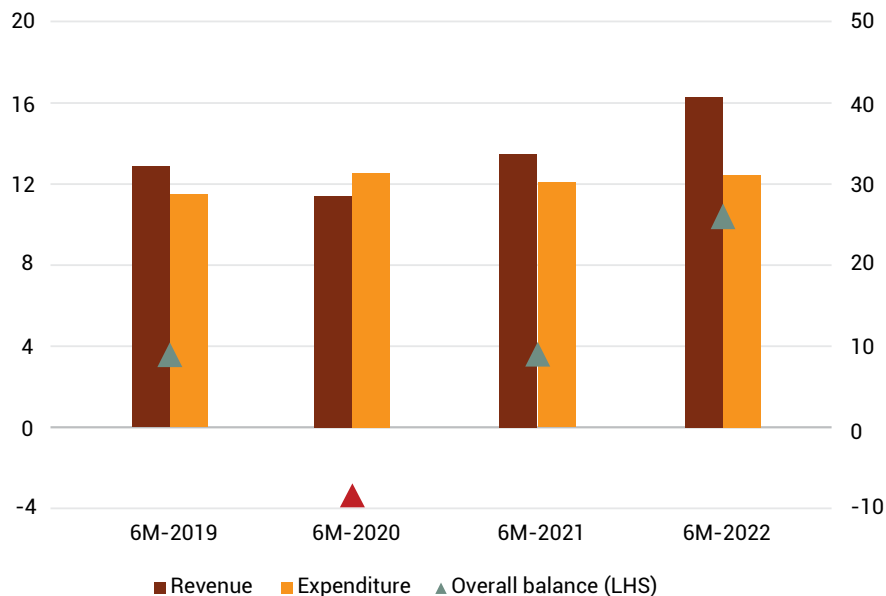
The government reported an estimated US\$9.6 billion budget surplus, primarily due to the under-execution of spending (Figure 1.35). During this period, the government collected 66.1 percent of planned total revenue but spent only 40 percent of planned total expenditure. Thanks to the substantial fiscal surplus accumulated in the first half of 2022, the government did not borrow much, as total bond issuance over the first six months of the year (including those guaranteed by the government) reached US\$3.2 billion (or 18.5 percent of annual plan), much less than in the same period in 2021 (40.4 percent of planned). This weak capital demand from the government appears to have caused the widening yield discrepancy between the primary and secondary markets. The yield of 10-year Treasury bonds grew slightly from 2.1 percent at the end of December 2021 to 2.5 percent at the end of June in the primary market, although it rose to 3.4 percent in the secondary market.

The government continues to enjoy ample fiscal space, and debt is expected to remain sustainable. The existing fiscal space is partly due to several years of underspending of the investment budget, which helped reduce debt from a high of 50.9 percent of GDP in 2016 to an estimated 44.2 percent of GDP in 2020 (following the MOF's reporting standards). This is well within the 60 percent debt-to-GDP threshold set by the 2021-30 public debt strategy adopted in April 2022. Despite a comparable fiscal deficit (3.4 percent of GDP) and slower economic growth in 2021 (2.6 percent) compared to 2020, public and publicly guaranteed

debt as a share of GDP fell to 43.1 percent in 2021.¹⁴ Taking advantage of favorable financing conditions, the authorities have also lengthened the maturity of government issued bonds (ten years or longer) and increased the domestic ownership of the debt stock in line with the medium-term debt strategy.

Figure 1.35. Budget Execution

US\$ billion (YTD)



Source: MOF and World Bank staff calculations

Note: LHS = left-hand scale; YTD = year-to-date.

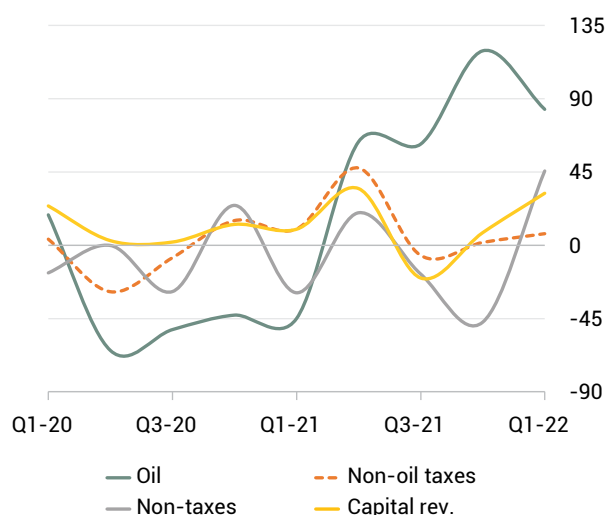
The revenue increase was relatively broad-based across major revenue sources in Q1-2022, reflecting the strong recovery of the domestic demand as well as price effects. Revenues from oil have continued to increase sharply, up by 83.6 percent because of rising global and domestic oil prices. In April 2022, government temporarily cut the environment production tax rate (VND 2,000/liter for gasoline and VND 1,000/liter for diesel) until December to soften the effects of the oil-price increases in the domestic market. As the tax is a specific tax, the cut is small, and oil prices have continued to rise since then, its impact on revenue will be modest. Indeed, retail gasoline and diesel prices increased by 17 percent between April and June 2022. Building on the recovery of domestic demand, non-oil taxes increased by 7.1 percent in Q1-2022. All major taxes except CIT showed improvement. Value-added tax (VAT) increased by 11.2 percent in Q1-2022, despite the temporary two percentage point cut in the VAT rate introduced by the authorities under the Economic Recovery Support Program 2022-23. Non-tax revenues also rose by 38.3 percent, mostly reflecting long-term land rental revenues (Figure 1.36).

¹⁴ This is partly related to budget planning, management, and reporting. In the second budget estimate published in May 2022, MOF revised the estimated fiscal deficit down to 3.4 percent of GDP in 2021, which was comparable to the one recorded in 2020 but larger than in 2016-2019. Both total revenue and total expenditure increased but at slower paces than GDP. Although the total expenditure increased by 3.7 percent in 2021, current expenditures, including interest payments and capital expenditures, fell by 4.1 percent and 6.2 percent, respectively. The unallocated expenditure (the difference between the total expenditure and the sum of current and capital expenditures) amounted to 1.8 percent of GDP. The same issue occurred in 2016-19 and could be attributed to the fact that the actual total revenue collected was 16.8 percent higher than the planned revenue collection (equivalent to 2.7 percent of GDP). This might have created so-called expenditures from higher-than-budgeted revenues, which would be counted in the second budget estimate of the year. For instance, this category amounted to 2.0 percent of GDP in 2019, and was eventually carried over so that the total expenditure was revised downwards substantially by 2.9 percent of GDP in the final account. This downward adjustment of the total expenditure led to a revision of the fiscal balance, from a deficit of 2.6 percent of GDP to a surplus of 0.4 percent of GDP.

Revenue from non-oil corporate income tax increased during the lockdown in Q3-2021 but dropped in Q1-2022 when the economy showed a strong recovery. This pattern is in stark contrast to revenues from other major taxes, which moved in tandem with the economy’s performance (Figure 1.37). The administration of the CIT may be one explanation. CIT revenues reported in 2021 were provisional payments made quarterly by businesses on their estimated performances. The Decree 126/2020/ND-CP on the implementation of the Law on Tax Administration, which came into effect on December 5, 2020, stipulates that those total provisional payments in the first three quarters (due by the end of October) must not be less than 75 percent of firms’ total annual liabilities and that late payment interests will be imposed in case of violation. This regulation creates incentives for businesses to overpay their CIT upfront to avoid any unintended non-compliance ruling and subsequent late-payment fines, even if these formal assessments do not take place until the first quarter of the following year, current tax year, or later. Therefore, the somewhat paradoxical CIT revenue pattern implies that many firms might have overestimated their CIT liabilities. In other words, firms overpaid their CIT liabilities in 2021 and then received tax refund during tax finalization, causing CIT revenues to fall in Q1-2022.

Most importantly, the above analysis suggests that the CIT provisional payment regulation might have exacerbated the negative impacts of Q3-2021 lockdown on businesses by reducing the amount of cash available for firms to weather the crisis. This is particularly relevant to small- and medium-sized enterprises (SMEs) which were supposed to benefit from the 30 percent CIT reduction in 2021, as the tax relief was approved and became effective only on October 19, 2021, when many firms may have already made their provisional CIT payment. In recognition of this issue, the Ministry of Finance proposed an amendment that would revise the timeline and amount of provisional tax payments. The new proposal requires that at least 80 percent of final liabilities be paid as provisional tax payment by the end of January of the following year. This amendment gives firms more time to come up with more accurate estimates of their business performances and their CIT liabilities.

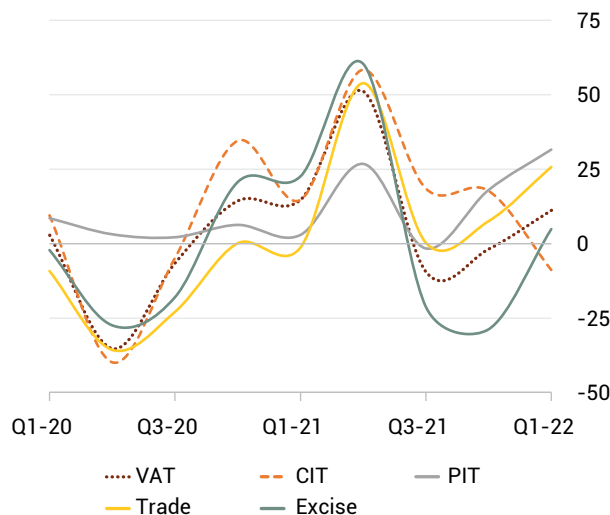
Figure 1.36. Major Revenue Sources
Percent (y/y)



Source: MOF, and World Bank staff calculations

Note: y/y = year-over-year

Figure 1.37. Major Non-Oil Taxes
Percent (y/y)

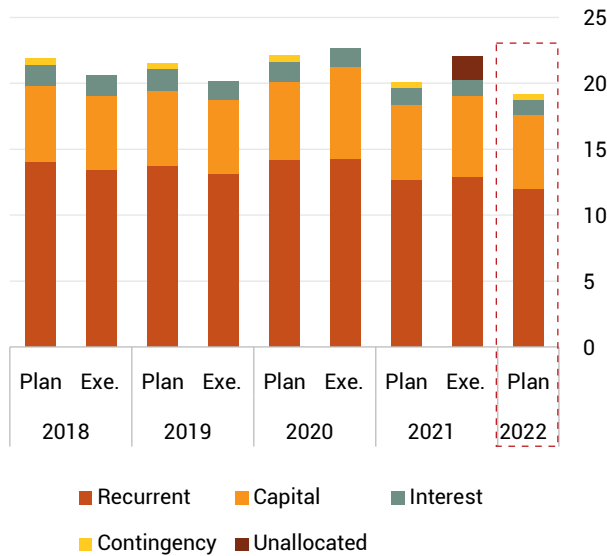


Source: MOF, and World Bank staff calculations

Note: VAT = value-added tax; CIT = corporate income tax; PIT = personal income tax; y/y = year-over-year

Public spending stagnated in the first six months of 2022, matching similar patterns of disbursement in the recent past. The planned expenditure was estimated at 19.1 percent of GDP in 2022, which was lower than the average planned and implemented expenditures during 2018-21. This was partly because of lower planned revenues (Figure 1.38). Over the first six months of 2022, total expenditure amounted to 40 percent of National Assembly (NA) budgetary plan, the lowest rate over the last four years, driven by slower execution of current expenditures, which reached 45.8 percent of the budget plan compared to 48.3 percent in 2021. Public investment disbursement improved slightly from 28.1 percent of the target approved by the NA in 2021 to 28.6 percent in 2022 (Figure 1.39). Disbursement rates of investment funded by external sources was meager, at 8.6 percent of the budgetary plan. Although the authorities launched a new economic support program in January 2022 with sizable new investments to stimulate the economy, most of these investments (1.4 percent of GDP out of the total envelope of 1.6 percent of GDP) are scheduled for implementation in 2023, and the overall execution of the new package appears to face similar challenges seen in previous support packages (Box 1.2).

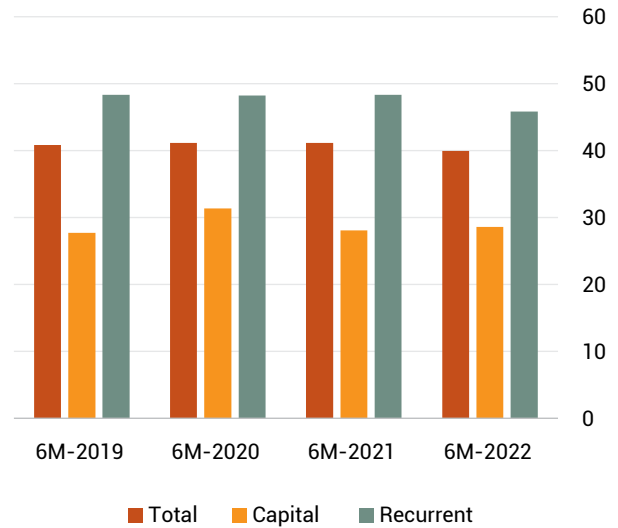
Figure 1.38. Expenditure
Percent of GDP



Source: MOF, GSO, and World Bank staff calculations

Note: Estimates are denominated in revised GDP; Exe. = executed

Figure 1.39. Expenditure Disbursement
Percent of targets set by the National Assembly



Source: MOF, GSO, and World Bank staff calculations

Box 1.2. The 2022-23 Economic Recovery Support Program

In January 2022, the government launched a new two-year Economic Recovery Support Program worth an estimated 4.5 percent of GDP. The revenue component is estimated at 2.4 percent of GDP and includes tax and land rental deferrals that had relative success in the fiscal support packages rolled out in 2020 and 2021. Additionally, the VAT rate was cut from 10 percent to 8 percent for many subsectors, costing an estimated VND 49.4 trillion (13.2 percent of total VAT collected in 2021 or 0.6 percent of GDP). All revenue measures are to be implemented in 2022.

The expenditure component (2.2 percent of GDP) is mostly composed of public investment and interest rate subsidy. Public investment (1.6 percent of GDP) includes accelerating the projects in transport already listed in the 2021-25 Medium-term Public Investment Plan, as well as new projects in health, education, social protection, employment, digital transformation, tourism, and climate change adaptation. Most of these new investments will be implemented in 2023, and so may not impact growth substantively in 2022. The interest subsidy is targeted to specific sectors, including those that have been severely affected by the pandemic such as transportation and storage, accommodation and food services, and travel-supporting services. This support measure has an envelope of VND 40 trillion or US\$1.7 billion (or 0.5 percent of GDP) and will be effective until the end of 2023. Like earlier packages, cash transfer to workers remains negligible (about 0.1 percent of GDP) and is designed as a small incentive for workers to return to or remain living in industrial parks, export-processing zones, and key economic regions: it offers three-month rental assistance at a total of 4.0 million to those who are potentially eligible.

The implementation of the Program has been slow as observed in the instances of previous COVID-19 support packages in 2020-21. The VAT, CIT, personal income tax (PIT), and land rent deferral, the largest components in new revenue measures, were enacted only on May 28, 2022, four months after the Program was approved. Total reduction of taxes, land rents, fees, and charges under the Program was estimated at VND 16.1 trillion or 25 percent of the plan at the end of May 2022^a. This included VND 6.6 billion in VAT reduction, about 13 percent of the plan. On the expenditure side, the government has added VND 18.3 trillion to the public investment plan for 2022, about 14 percent of the Program's total planned public investment, although data on the execution of the allocated capital are not available. Guidelines on the interest subsidy were officially launched only on May 20, 2022. The disbursement of direct transfers to provide rent support for workers was marginal (VND 2 billion out of VND 6,600 billion as of the end of May), thereby failing to provide support when most needed.

Note: a This excluded VND 6.5 trillion of CIT, VAT, and PIT tax reduction granted to eligible SMEs under the Resolution 406/NQ-UBTVQH15 approved on October 19, 2021, by the NA Standing Committee, which was not a part of the Program.

Table 1.1. Fiscal Measures in 2020-23

Measure	2020e	2021e	2022-23 Planned
Revenue Measures	1.6	1.6	2.4
Tax and land rent deferral	1.2	1.2	1.6
Exemption and reduction of taxes, fees and charges, and land rents	0.4	0.3	0.8
VAT rate cut from 10% to 8%			0.6
Continuation of policies issued in 2020		0.2	
Expenditure Measures	0.2	0.3	2.2
Direct income support for households	0.2	0.3	0.1
Subsidizing interest rates			0.5
Public investment			1.6
SUB-TOTAL:	1.8	2.0	4.5
COVID-19 containment and vaccine procurement	0.1	0.5	
TOTAL	1.8	2.5	4.5
Cash transfer from the Vietnam Social Security Fund to support formal workers who participated in Unemployment Fund		0.3	

Source: MOF; MOLISA; IMF; and World Bank staff calculations.

Note: Implementation in 2020 and 2021, and plan in 2022. All are denominated in the revised GDP

II. Economic Outlook and Risks

A positive outlook for the economy, with heightened risks warrant a proactive policy response by the authorities

Despite the challenging global environment, the baseline outlook for Vietnam's economy remains favorable. Reflecting low base effects, GDP is expected to grow by about 7.5 percent in 2022 and 6.7 percent in 2023, as growth converges toward its pre-pandemic growth rate of 6.5-7.0 percent. Despite strong growth, the economy will not return to full potential in 2022. With the removal of mobility restrictions and the gradual return of foreign tourists, the services sector is experiencing a robust recovery. Growth in manufacturing exports is expected to moderate in the short run as global demand weakens. However, stronger domestic consumption is expected to offset softer external demand, matching growth patterns of 2016-19.

Inflation is projected to average about 3.8 percent in 2022, as domestic demand continues to firm up and the rise in transport costs and imported intermediate inputs pass through to the cost of final products. The 2022 CPI projection assumes further increases in inflation in the second half of 2022. While the fuel price shock is expected to dissipate in 2023, continued second round effects and a projected 6.7 percent GDP growth for the year would translate to CPI rising to 4 percent in 2023 before subsiding to 3.3 in 2024.

Table 1.2. Selected Economic Indicators, Vietnam 2019–24

Indicator	2019	2020e	2021e	2022f	2023f	2024f
GDP growth (%)	7.2	2.9	2.6	7.5	6.7	6.5
Consumer Price Index (average, %)	2.8	3.2	1.8	3.8	4.0	3.3
Current account balance (% of GDP)	3.7	3.7	-1.1	0.2	0.6	0.5
Fiscal balance (% of GDP)	-0.4	-3.9	-3.5	-2.8	-3.2	-1.9
Public debt (% of GDP)	41.3	41.7	40.2	39.8	40.4	39.4

Source: GSO; MOF; SBV; IMF; and World Bank staff calculations.

Note: The revised GDP is used in all calculations unless otherwise stated. e = estimate; f = forecast

The rebound of the economy in 2022 will continue to benefit from an accommodative monetary policy and – to a lesser extent - the 2022-2023 Economic Support Program. In the baseline, accommodative monetary policies will remain in place. On the fiscal side, the investment component of the support program—amounting to about 1.6 percent of GDP—is expected to be rolled out mostly from 2023 onwards but is subject to significant implementation risks given the chronic under-execution of capital spending.

The current account is expected to register surpluses of 0.2-0.6 percent of GDP in the medium term thanks to a resilient goods export performance, the recovery of foreign tourism, and strong remittances. Currently, 2023 global prospects are expected to be subdued, with growth projected around 3 percent given that high commodity prices and continued monetary tightening are expected to persist into early 2023. But as the commodity price shock dissipates and global inflation and stagflation risks subside, and as China reopens its economy, exports from Vietnam are expected to regain momentum. In the meantime, remittances are expected to remain a substantive contribution to the current account.

Vietnam's medium-term prospects are subject to significant risks, with downside risks to growth.

Externally, the emergence and spread of new COVID-19 variants and associated disruptions to economic activity continue to be a key risk, despite the ongoing normalization and roll back of COVID-19 related restrictions in most countries. Meanwhile, persistent inflationary pressures and the prospects of more aggressive monetary tightening, especially in the US and other advanced economies could induce volatility in global financial markets and hamper economic growth even further at a time when a slowdown is already underway. Continued health related lockdowns in China could further affect its growth and affect GVCs, in which Vietnam is an active member. Additionally, heightened geopolitical tensions and conflicts have raised short term uncertainty and may lead to long term structural changes in the global economy, as major economies reassess the costs and benefits of global integration, posing risks to near and medium-term prospects of the global economy. Domestically, COVID-19 related risks could impair the recovery especially in the services sectors. Labor shortages could also hamper full economic recovery.¹⁵ In addition, financial risks may amplify given balance sheet weaknesses in the corporate, banking and household sectors which would in turn weigh on the recovery of domestic investment and consumption.

Inflation risks are also pronounced. While inflation so far seems to be driven by external supply factors, persistent price increases could cause inflation expectations to rise and feed into destabilizing pressures on nominal wages and production costs. From the demand side, stronger domestic demand and especially the continued recovery of consumption could further compound price pressures. Higher than expected and more persistent inflation could in turn impair the recovery, especially of private consumption and investment.

In this context Vietnam's policymakers confront the difficult task of balancing the need to provide continued policy support to solidify the recovery with the need to contain emerging inflation and financial risks. High uncertainty means that policies will have to remain responsive to the pace of the recovery both in Vietnam and the rest of the world and vigilant to inflation and financial risks.

Given the incomplete domestic recovery and a weakening global demand outlook, a more supportive fiscal policy stance could hedge against downside risks to growth. While Vietnam has fiscal space to act, the challenge is weak implementation. Addressing institutional bottlenecks that have led to the chronic under-execution of the public investment program would make fiscal policies more effective. In the short run, the focus should be on full utilization of the Recovery and Development policy package with a strong push on project implementation. The program envisages increased investment in digital and physical infrastructure which would help bolster the domestic demand recovery in the near-term while also boosting Vietnam's long-term potential growth. In addition, expanding targeted social safety nets would not only help buffer the effects of the fuel price shock and rising inflation on poor and vulnerable households but cushion impacts on private consumption more effectively than the current untargeted cuts in the environmental protection tax and proposed cuts of VAT and import taxes.

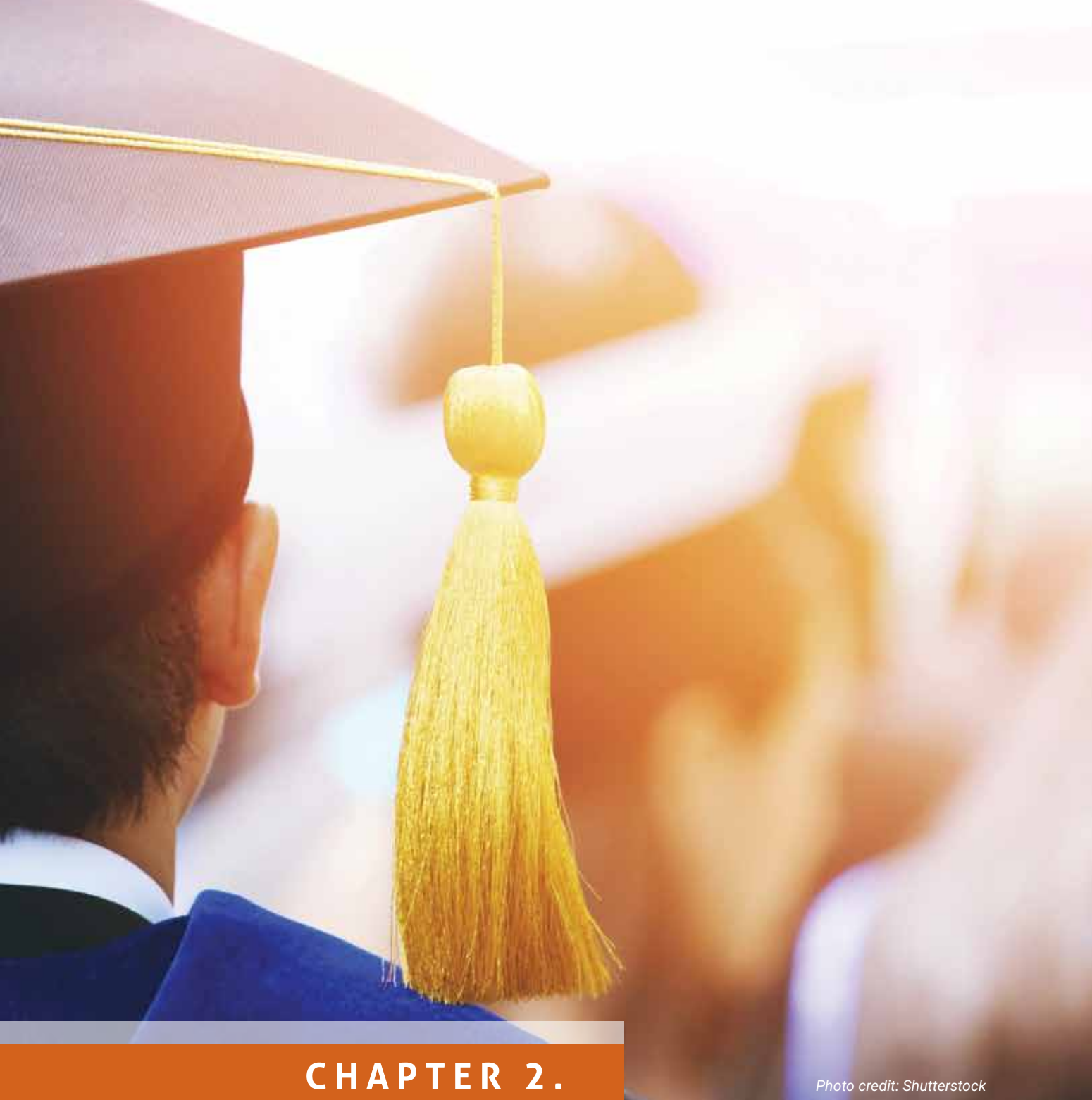
Heightened inflation risks call for agile monetary policies. Since core inflation remains in check and the economy is still below potential, current accommodative monetary policies appear appropriate for the time being. However, if upside risks to inflation materialize -with core inflation accelerating and headline inflation moving above the 4 percent target set by the government – the SBV should be ready to pivot to monetary tightening to quell inflationary pressures through interest rate hikes and tighter liquidity provision. Accompanying these steps with clear and forward-looking communication of monetary policy

¹⁵ For instance, World Bank Business Pulse Survey, conducted from January to March 2022, found that 30 percent of export firms continued to be affected GVC disruptions, reporting cancel orders in the period December 2021 to February 2022 owing to the absence of inputs.

decisions would help guide market participants and ensure inflation expectations remain well anchored. Over the medium term, more fundamental reforms to enhance the SBV's monetary policy framework and move towards inflation targeting would enhance monetary policy transmission and effectiveness. This could include steps to expand the tools available to manage liquidity as well as enhanced macroprudential measures.

Emerging financial risks also need to be managed proactively to strengthen the resilience of the banking system. NPLs and bank asset quality have been affected by the COVID-19 crisis and should be monitored closely. The roll back of forbearance at end of June 2022 was an important step to enable the better recognition of impaired loans. Building on this, the SBV should intensify prudential supervision and ensure banks fully comply with NPL reporting and provisioning requirements to enhance their loss-absorbing capacity and resilience. This could be supported by the ongoing implementation of Basel II which would align NPL reporting and loan loss provisioning with international standards. If capital shortfalls arise, Banks should be required to develop specific and time bound recapitalization plans. An effective corporate insolvency regime and a functioning banking sector resolution framework are also important to deal with potential insolvencies.

In addition, deeper structural reforms are critical to supporting potential growth in the medium run and making the economy more resilient and inclusive. Fiscal reforms should focus on stabilizing revenue generation through tax policy reforms and enhancing spending efficiency to expand the fiscal space for spending on Vietnam's social, climate, and other development objectives. Regulatory reforms would spur business formalization and competition which would lift productivity growth, especially in the domestic private sector. Promoting more public and private investment in climate change adaptation, including in key regions like the Mekong delta would help make Vietnam's economy more resilient. This could be accompanied by policies to move towards Vietnam's carbon neutrality target- including expansion of renewable energy and carbon pricing- which would not only generate local environmental benefits such as air quality improvements but could also enhance Vietnam's competitiveness in growing markets for green products and technologies. While efforts to enhance the business environment are crucial to enabling job creation, policymakers should also take steps to reduce skill-mismatches and improve the quality of Vietnam's labor force (the focus of the second chapter of this report).



CHAPTER 2.

Photo credit: Shutterstock

Educate to Grow

CONTEXT

Vietnam's socio-economic development strategy (SEDS) for 2021-30 aims to transform the country into an upper-middle income economy. Vietnam intends to achieve this rapid development using scientific, technological, innovative, and digital knowledge as the drivers of higher productivity and economic growth. To meet its aspirations, Vietnam will need to support strong human capital development, while its population is expected to age rapidly over the next two decades.

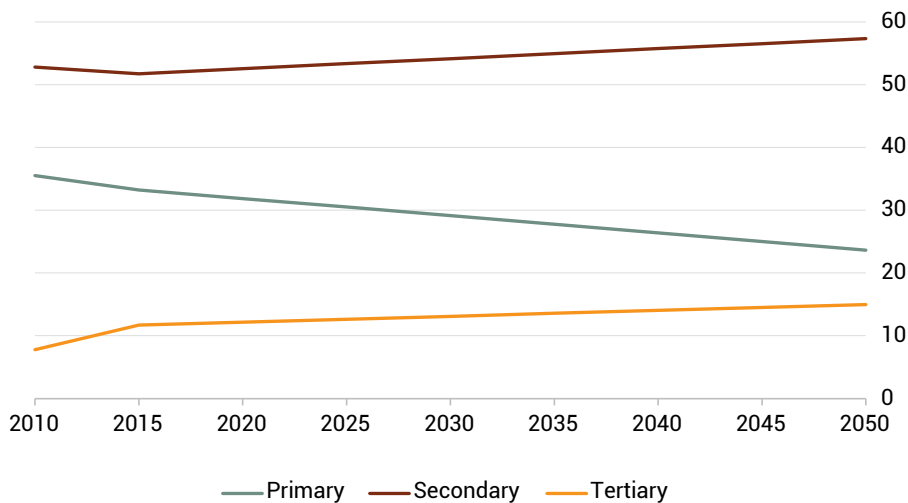
Vietnam acknowledges that higher education¹⁶ is key to achieving its development objectives. To upgrade its economic model, Vietnam needs to increase productivity and strengthen human resources, which necessitates a larger number of highly educated, skilled workers. In the past, improved access to and performance of the education and training systems have been crucial to promote strong growth and make progress towards inclusion.¹⁷ South Korea's development is an example of how building on human capital facilitated achievements across the knowledge and innovation base, and improved productivity dynamics necessary for the country to reach high-income status (Annex 2.1).

To become a knowledge economy Vietnam will need to substantially boost investment in its tertiary education sector. Only 11 percent of the current labor force in Vietnam has a tertiary education degree. The Vietnam Future Jobs Report (World Bank, 2018b) estimates that if the country were to follow the current trend, the overall share of the labor force aged 15 years and above with a tertiary education degree, i.e., including both university and TVET college graduates, will only marginally increase by 2050 (Figure 2.1). This reflects the low level of current enrolment and the lack of growth in overall enrolments in the past five years.

This chapter reviews the performance in tertiary education access and outcomes. It identifies the causes for under-performance of the higher education sector and four major areas where authorities need to act to achieve needed higher education outcomes, and ensure the subsector contributes to the country's future growth trajectory.

¹⁶ Tertiary education usually refers to any level of education pursued beyond high school, including higher education and technical and vocational training (VTET). Higher education refers only to university and colleges degrees not including TVET. This section focuses mostly on higher education, with references to on tertiary education.

¹⁷ OECD (2015) - *The G20 Skills Strategy for Developing and Using skills for the 21st Century*.

Figure 2.1. Distribution of the Vietnam Labor Force by Level of Education (Projected Until 2050)

Source: World Bank (2018b); Vietnam Future Jobs Report (2018)

I. Assessing Performance in Tertiary Education Access and Outcomes

Vietnam has performed well in providing quality general education to its population. Over the past 25 years, Vietnam has expanded education access, achieved universal primary education, and increased enrollments in lower secondary, upper secondary, and tertiary education. A Vietnamese child today is highly likely to graduate from primary education with high proficiency in reading and mathematics. Vietnam's success has been attributed to the government's relatively high expenditure on education, a focus on equity, attracting and supporting qualified teachers, investment in preschool education, strategic use of assessments, and implementing reforms based on evidence-based decision making.¹⁸ Adjusted for learning, Vietnam's population has an average 10.2 years of schooling, second only to Singapore among the Association of Southeast Asian Nations (ASEAN) countries. Vietnam also has a high Human Capital Index, which measures the extent of human capital that a child born today can expect to attain by the age of 18. It represents the productivity of the next generation of workers compared to a comprehensive benchmark of general education and complete health.¹⁹ This has helped support economic development over the past two decades.

The tertiary education sector has experienced two relatively distinct phases of development. Between 2000 and 2016 Vietnam made noteworthy progress in expanding access to tertiary education as enrolments grew from 0.9 million to 2.3 million students. However, expansion took place mostly during 2000 and 2010, and from 2010 onward, enrollment growth was negligible. Decision 37 - issued in 2013 and still effective - significantly revised the total enrollment targets set for 2020 downward from 4.5 million to 2.2 million, noting that "the system grew too fast and compromised quality". On the one hand, this roll back of enrolment targets was introduced to control enrolment in low performing universities, leading to overall numbers of

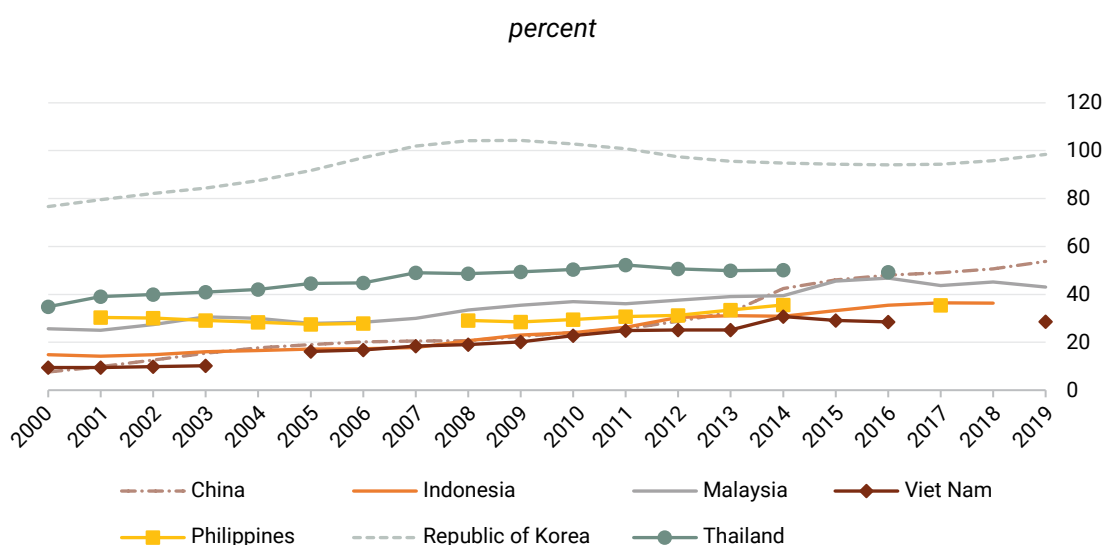
¹⁸ Kataoka, Vinh, Kitchlu, and Inoue, 2020. Vietnam's Human Capital: Education Success and Future Challenges.

¹⁹ Vietnam's HCI score of 0.69 in 2020 indicates that a child born in Vietnam today will be 69 percent as productive when reaching productive age, as the child could have been had it enjoyed comprehensive education and complete health. Vietnam's score is well above the average for upper-middle income countries (0.56) and South-East Asia (0.48). It ranks 38th among the 174 surveyed economies, above Malaysia (62nd), Thailand (63rd), Indonesia (96th) and the Philippines (103rd).

enrolments stagnating. On the other hand, high quality and well-performing universities are mandated by the government to be financially independent, with a large portion of their funding financed by tuition fees.

Looking ahead, Vietnam will have to improve access to tertiary education and tertiary education outcomes to match aspirational peers in the East Asia region. As of 2019, Vietnam had about 1.7 percent of its population enrolled in universities (or 1.67 million students). By contrast, four percent of Malaysia’s population (about 1.3 million students) and 3.8 percent of South Korea’s population (about two million students) were enrolled in universities in the same year.²⁰ In the longer run, and to match upper-middle income enrolment levels, Vietnam would have to facilitate the enrolment of an estimated 3.8 million students, more than double the number of students enrolled in 2019. Similarly, Vietnam’s gross enrolment rate²¹ (GER) in tertiary education was 28.6 percent in 2019, well below South Korea (over 98%), China (over 53%) and Malaysia (43%) and well below the average GER of 55.1 percent for upper-middle income countries (Figure 2.2). Likewise, Vietnam’s higher education output, as measured by the gross graduation ratio²² is only 19 percent (263,000 university graduates during 2016-2019).²³ Finally, research output for Vietnam is all below the East Asian countries average (Figure 2.3). In 2019 Vietnam’s research output was on par with that of Philippines and Indonesia, but it was well below the aspirational comparators such as Malaysia and China.

Figure 2.2. Tertiary Education GER in Vietnam and Selected Countries, 2000–19



Source: World Bank data and staff calculations.

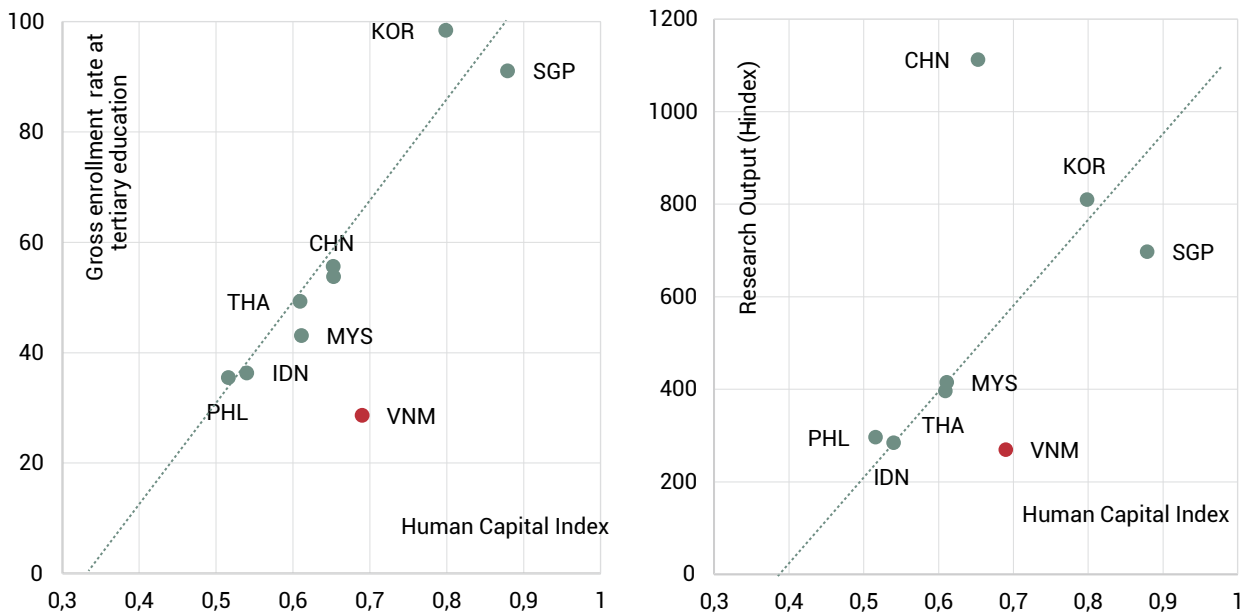
20 Worlddata. 2022. "Country Comparison: South Korea and Vietnam." in 2019 Malaysia’s GDP per capita was US\$10,400, South Korea’s GPD per capita was US\$31,600 , and Vietnam’s GDP per capita was US\$3425. <https://www.worlddata.info/country-comparison.php?country1=KOR&country2=VNM>

21 UNESCO Institute for Statistics. Gross enrolment rate (GER) the total enrolment in tertiary education regardless of age expressed as a percentage of the population in the 5-year age group immediately following upper secondary education.

22 GGR at the tertiary level is defined as the number of graduates from first-degree programs (at International Standard Classification of Education [ISCED] levels 6 and 7) for a given year, expressed as a percentage of the population of the theoretical graduation-age of the most common first-degree programs.

23 Statista. 2021. "Number of university graduates in Vietnam from 2016 to 2019." <https://www.statista.com/statistics/815123/number-of-university-graduates-in-vietnam/>

Figure 2.3. Human Capital Index and Tertiary Education Outcomes, 2019-20



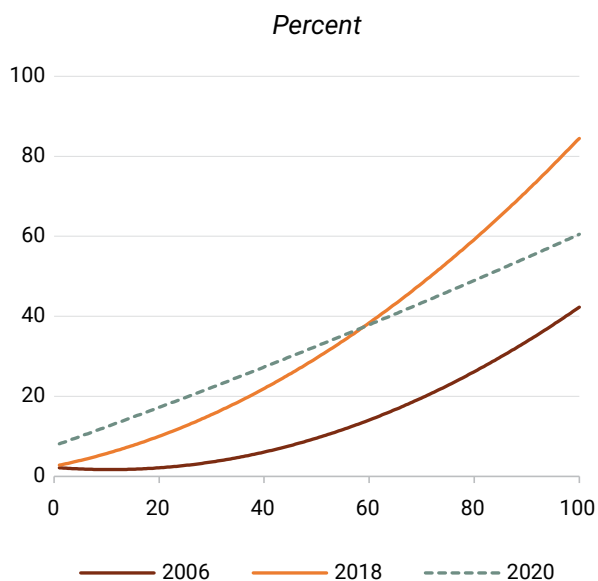
Source: HCI data in 2020 from World Bank, tertiary GER data in 2019 or latest from UNESCO Institute for Statistics (UIS), research output (H-index) data from SCImago (2021); UIS Education Statistics.

Note: The data used for the linear trend line for each of the above figures are derived from a full set of countries with non-missing data. The labels are shown for benchmarking countries from East Asia only. The H-index is a bibliometric index calculated as the maximum number of publications for which each publication is cited at least that many times and thus captures both productivity and impact of research.

The access gap to tertiary education is driven by multi-dimensional factors, such as income groups, minority status, and quality and quantity of the pipeline of high school graduates.²⁴ First, there is a substantial access gap for students from families of lower-income quintiles compared to those from better-off families over the years (Figure 2.4). However, recent data suggests that this access gap appears to be slightly narrowing in 2020 with an increased access for students from the bottom three quintiles compared to 2006 and 2018, and less access for students in the two top quintiles than in 2018. Figure 2.6, nonetheless, highlights the long-standing inequity in access. Second, youth from ethnic minority groups have significantly lower tertiary education access rates compared to those from ethnic majorities. While the access rates for ethnic minorities improved slightly between 2006 and 2020, improvements are small compared to the increased access experienced by the Kinh and Hoa groups over the same period (Figure 2.5), widening the access gap between the two groups from about 13.5 percentage points in 2006 to more than 30 percentage points in 2020. Third, a comparison of the access gap to tertiary education based on household income shows that this gap is the result of the quality of high school graduates pipeline, represented by differentiated high school graduation rates, and unequal entry rates into tertiary education institutions. Of the 46-percentage point access gap between top and bottom quintiles, 53 percent is attributable to lower entry rates at the tertiary level, with 47 percent due to lower high school graduation among the bottom quintile (Figure 2.7). On the other hand, 54.8 percent of the access gap between Kinh and Hoa and other ethnic groups is explained by high school completion rates, while 45.2 percent is due to lower entry rates at the tertiary level.

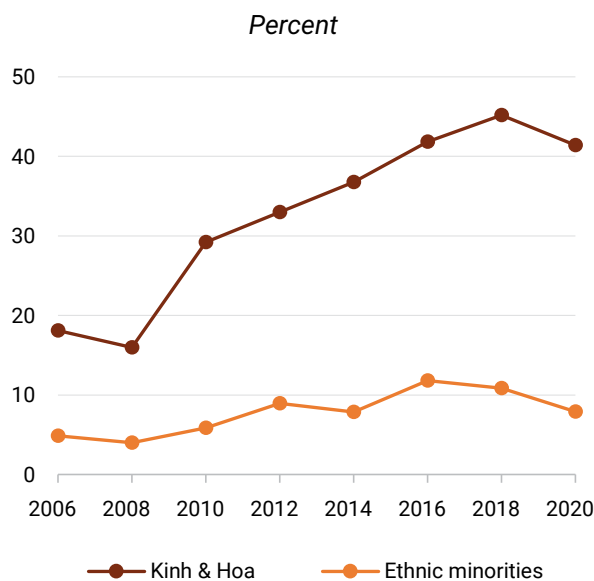
²⁴ The access rate has been adopted to analyze educational opportunities by socio-economic groups and factors associated with differential access.

Figure 2.4. Tertiary Education Access Rates by Income Quintiles, 2006-20



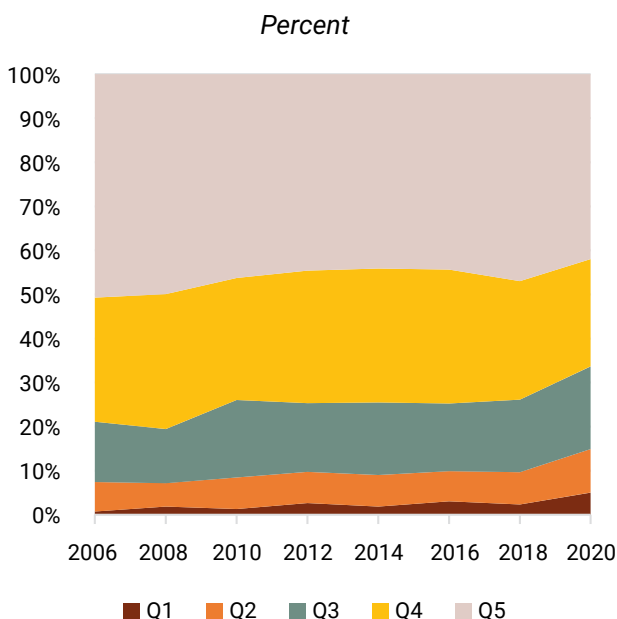
Source: World Bank staff calculations from VHLSS 2006-20

Figure 2.5. Tertiary Access Rates Between Kinh/Hoa and non-Kinh Groups, 2006-20



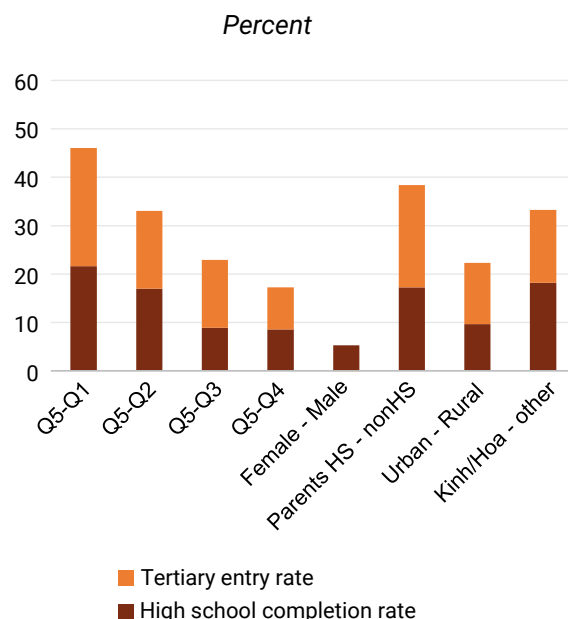
Source: World Bank staff calculations from VHLSS 2006-20

Figure 2.6. Share of Enrolments in Tertiary Education by Expenditure Quintiles, 2006-20



Source: World Bank staff calculations from VHLSS 2006-20

Figure 2.7. Decomposition of Access Gaps in Tertiary Education, 2020



Source: World Bank staff calculations from VHLSS 2006-20

II. Reasons why Vietnam's Higher Education System is Underperforming

The underperformance of Vietnam's higher education system can be attributed to demand- and supply-side factors. Demand-side factors relate to high opportunity costs and increasing financial costs of pursuing higher education as well as decreasing economic returns to education. Supply-side factors relate to skill misalignments between tertiary graduates and the demand of the labor market. Furthermore, low public investment, and a weak and fragmented institutional structure in higher education, altogether has resulted into low-quantity and quality outcomes.

2.1. Demand-side factors

Many families and prospective students face an opportunity cost of pursuing a tertiary education degree. Vietnam is a fast-growing economy, where official unemployment is about 2 percent, and individuals and household businesses engage in multiple income-earning activities. Engaging in university study suppresses several years of income-generating activity given demands on the student's time. This opportunity cost is exacerbated by the fact that while the income of university graduates is higher than those who are not university-educated (Figure 2.8), the economic or income-related returns to educated and skilled professionals declined over the 2010-20 period (Figures 2.9 and 2.10).

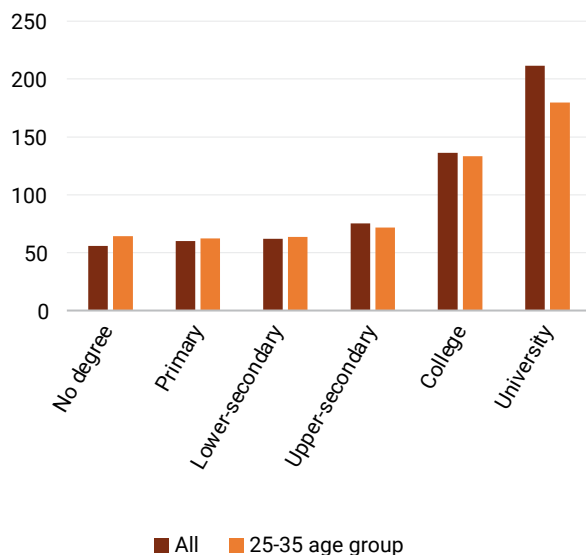
The fall in returns to tertiary education could be driven by demand or supply factors. On the one hand, if the tertiary education obtained by an individual is considered deficient in quantity or quality, it would not command a salary premium. Improving the supply and the quality of education would address this short-coming. On the other hand, it is possible that a country is not attracting or fostering enough high-skill industries and therefore it is not creating sufficient number of high-skilled jobs to absorb the individuals graduating from the tertiary education system. In this case, some of the high-skilled workers take jobs that require lower skills levels and are paid salaries commensurate to the jobs. Other high-skilled individuals may migrate to countries that offer them such jobs and salary premia. This lack of demand for high skilled workers can be addressed by enabling the environment to increase a country's competitiveness in high-skill sectors, which entails interventions in areas such as public investment in research and development and science parks. This highlights the need to closely coordinate policy and investment choices that facilitate the supply of skills and those that foster a competitive environment for high-skill sectors to create jobs.

Also, this fall in returns to education may partially be related to Vietnam's FDI-driven export success story. Vietnam has successfully attracted FDI in low-value-adding manufacturing for exports over the past 20 years, which has led to the creation of millions of low-skilled jobs. This might have acted as a disincentive for young workers from seeking higher education or professional skills, or may also encourage early drop out from school, as happened in Mexico (Figure 2.11).²⁵ The Mexican example highlights the importance for Vietnam to attract the right type of FDI going forward – one that brings with it more knowledge content and value addition, hires more skilled labor and offers higher paying jobs. In fact, a 2021 study on Vietnam reiterates that government policies should focus on increasing investment in public education, improving human capital, and developing skills, as this would help reduce FDI-induced income inequality, and also attract FDI inflows that bring with them higher valued added for Vietnam.²⁶

²⁵ Atkins, 2016. American Economic Review. Atkins finds that export manufacturing job opportunities in Mexico also reduce schooling, by raising the opportunity cost of schooling for working-age youths attracted to manufacturing work. The possible additional cost to the youth is that they may be poorly informed about the long-term wage consequences of foregoing school or are simply more myopic when young.

²⁶ Le, Q.H., Do, Q.A., Pham, H.C., and Nguyen T. D. 2021. "The Impact of Foreign Direct Investment on Income Inequality in Vietnam." *Economies* 2021, 9, 27. <https://doi.org/10.3390/economies9010027>.

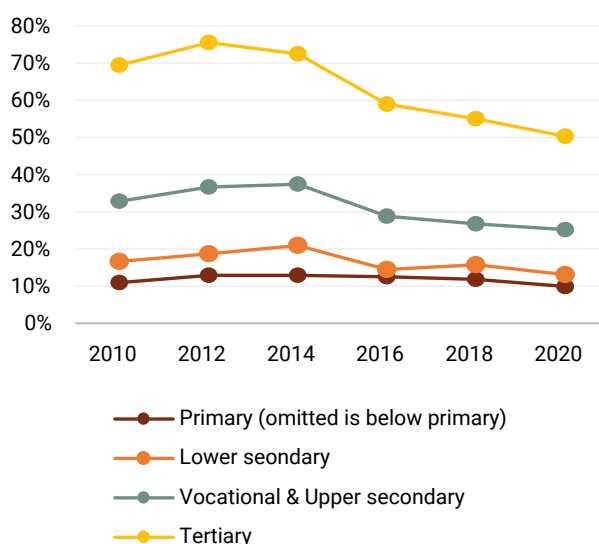
Figure 2.8. Income by Education Level (nominal term), 2020
VND million



Source: World Bank (2022)²⁷

Figure 2.9. Returns to Education and Skills over time in Vietnam 2010-20, Compared to less than Primary Education Group

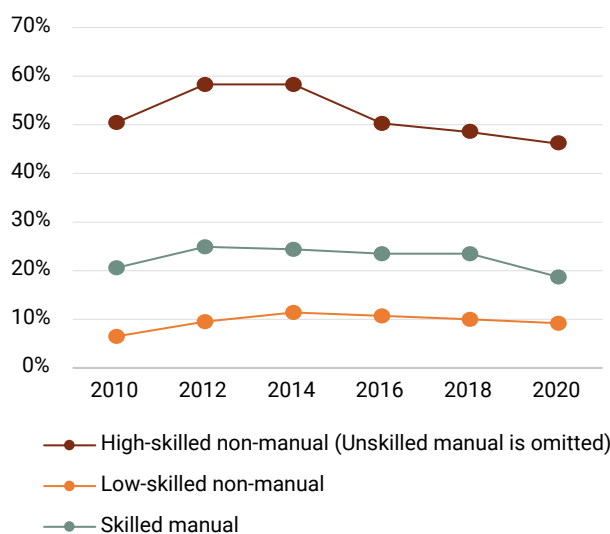
Percentage change in hourly wages relative to less than primary education group



Source: World Bank (2022)

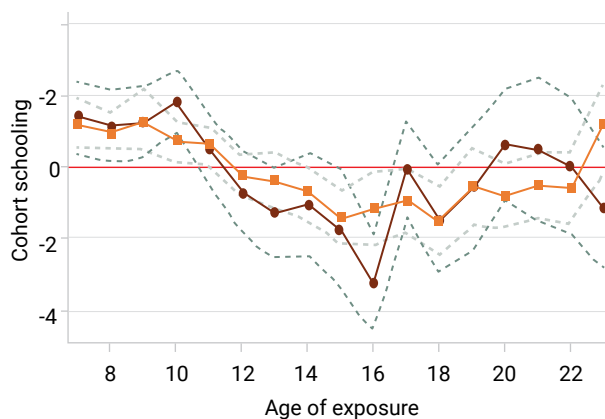
Figure 2.10. Returns to Education and Skills over time in Vietnam 2010-20, Compared to Unskilled Manual Labor Group

Percentage change in hourly wages relative to unskilled-manual occupation group



Source: World Bank (2022)

Figure 2.11. Mexico: Trade, Comparative Advantage, and Incentives to Acquire Skills



Source: Atkin, David. 2016. "Endogenous skill acquisition and export manufacturing in Mexico." American Economic Review 106 (8): 2046-85

27 World Bank. 2022. From the Last Mile to the Next Mile – 2022 Vietnam Poverty & Equity Assessment. Washington, DC: World Bank.

Students may also be deterred from pursuing higher education because financial costs are increasing and are increasingly borne by households. Tuition fees and average total costs of higher education have more than doubled between 2010 and 2020 (Table 2.1). Tuition fees paid by households, on average, account for more than 65 percent of revenue of higher education institutions and comprised between 43 and 60 percent of total costs of per student spending. The total costs of higher education studies rose by 44 percent, from 8 percent to 11.5 percent of household expenditures between 2010 and 2020. Furthermore, as over 60 percent of the population still live in rural areas, attending university entails both transport and lodging costs. Transport and lodging costs per year have quadrupled from US\$143 on average in 2010 to US\$559 on average in 2018.

At the same time, there are few scholarships and need-based loans available.²⁸ Vietnam does not have a nationwide scholarship program for higher education studies. Universities receive recurrent funding to cover for tuition exemptions and deductions for specific categories of students (for instance ethnic minorities, veterans, or demobilized soldiers) but the coverage of these exemptions are too limited to make any significant impact. The Student Loan Program (SLP), currently managed by Vietnam Social Policy Bank, is the only form of student aid currently available at the system level. However, cumbersome application processes mean that the scheme does not always serve the neediest of students and borrowing limits result in having only the basic tuition costs covered. The Government allocation to subsidize the SLP is equivalent to only about 1.6 percent of government spending on higher education.

Table 2.1. Evolution of Annual Household Contribution to Higher Education, 2010-20

Costs	2010	2014	2018	2020
Tuition fees (US\$)	251	305	545	682
Average total cost, per student in higher education (US\$)	470	636	1,256	1133
Tuition as % of the total cost of per student spending by households	53	48	43	60
Total cost as % of household expenditure	8	10.5	11.5	-

Source: World Bank Staff estimates using VHLSS 2010, 2016, 2018 and 2020.

2.2. Supply-side factors

As noted above, supply-side factors relate to the misalignment of skills between graduates and the market, low public investment, and a weak and fragmented institutional structure in higher education, leading to low-quantity and -quality outcomes.

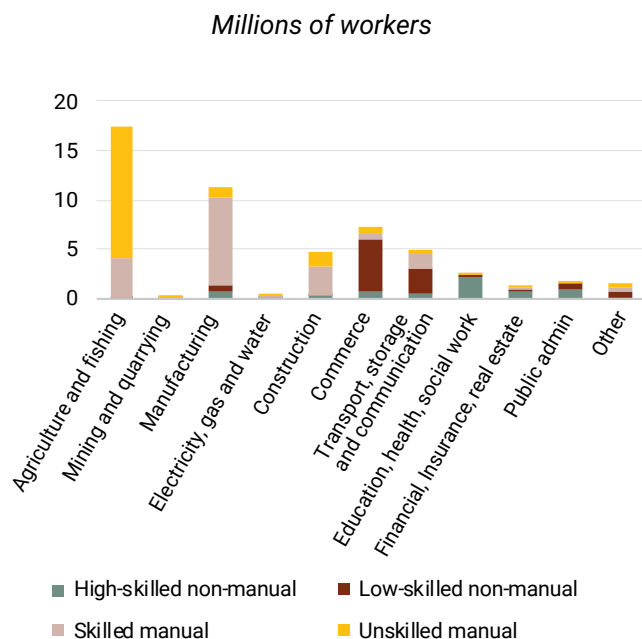
The tertiary education system has not been able to respond to the skills needs of the labor market. Firms complain of a lack of skills, and Vietnam ranks low in skills relevance scores of university graduates. The skill composition of jobs in Vietnam indicates a dominance of unskilled and skilled manual workers in the workforce (Figure 2.12). As of 2019, 10.2 percent of the population aged 25 or older completed a bachelor's degree or equivalent.²⁹ At the same time, firms report difficulty in securing employees with managerial and leadership skills (73%), finding employees with technical skills (other than IT – 68%), and securing staff with foreign language skills (58%) (Figure 2.13). Unsurprisingly, Vietnam was ranked at the bottom third of

²⁸ Loans have unappealing repayment terms (including interest rates, maturity, and liability).

²⁹ World Bank. 2022. *Educational attainment, at least a Bachelor or equivalent, population 25+ total (%) – Vietnam, Thailand, Indonesia, Malaysia, Korea, Rep.* <https://data.worldbank.org/indicator/SE.TER.CUAT.BA.ZS?locations=VN-TH-ID-MY-KR>

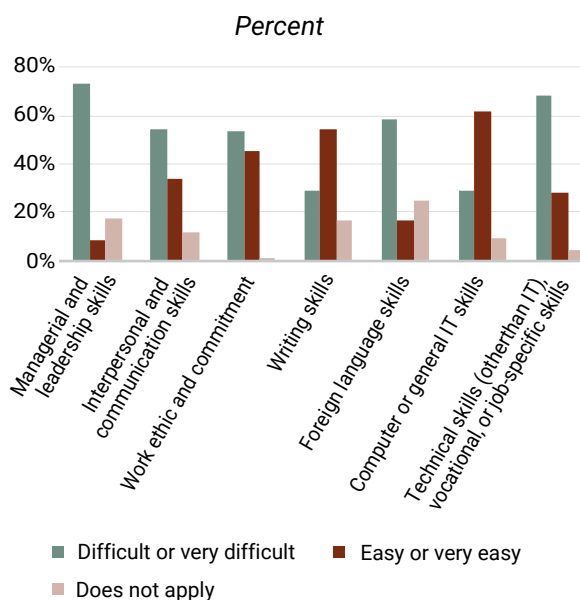
the 140 countries listed in the 2018 Competitiveness Index on skills relevance of university graduates as reported by employers in respective countries (World Economic Forum 2018).

Figure 2.12. Skill Composition of Jobs in Vietnam (Number of Workers by Skill Level of Jobs), 2020



Source: World Bank (2022)

Figure 2.13. Proportion of Firms Reporting Difficulties Finding Employees with Required Skills, 2019



Source: World Bank staff estimates using the World Bank Skills and Enterprise Survey on Innovation and Skills in Vietnam (2019).

While the public sector delivers about 80 percent of all tertiary education programs, Vietnam’s higher education lacks public funding. Between 2004 and 2019, the Government’s resource allocation to the education sector was an average of 5 percent of GDP and 15-18 percent of total government spending. However, among the education subsectors, tertiary education (higher education comprising universities and pedagogical colleges and post-secondary non-university subsector which largely comprises TVET and professional colleges) has received the lowest level of public funding allocation (Table 2.2). In 2019, the share of expenditure on tertiary education was 0.6 percent of GDP. By comparison, in 2018 South Korea spent 0.9 percent of its much higher GDP on public financing of tertiary education; while Malaysia spent 0.82 percent of its GDP for the same purpose in 2020.³⁰

30 Source: UNESCO Institute of Statistics; Vietnam values were estimated using MOF and MOET data.

Table 2.2. Spending on Tertiary Education as % of GDP

	2004	2011	2015	2019
% Total govt expenditure on educ / GDP	4.90	4.95	5.48	4.1
% Total govt expenditure on educ / Total govt expenditures	17.10	17.46	18.14	15.0
Tertiary education expenditures				
% Tertiary / GDP	0.45	0.34	0.33	0.6
% Tertiary / Total govt expenditure	1.57	1.21	1.10	2.2
% Tertiary / Total govt expenditure on education	9.18	6.91	6.07	14.6

Source: World Bank staff estimates using MOF data for 2011 and 2015; Education and Skills for Growth (2008) for 2004.

Note: % Tertiary / Total govt expenditure on education = 100* (% Tertiary / GDP) / (% Total govt expenditure on educ / GDP). % Tertiary / Total govt expenditure = (% Tertiary / Total govt expenditure on education) * (% Total govt expenditure on educ / Total govt expenditure) / 100

The lack of funding hampers the expansion and quality improvement of tertiary education and the development of Vietnam's capacity for innovation. According to major global university rankings – a rough proxy for the quality of higher education institutions (HEIs)– Vietnam is now represented in the top 1000 universities but is still at the bottom of the benchmarking list, slightly behind the Philippines and Indonesia and trailing far below other countries in the region (Table 2.3). The 2021 Quacquarelli Symonds World University Rankings have both Vietnam National University in Ho Chi Minh City (VNU-HCMC) and Hanoi University of Science and Technology (VNU-HN) in the 801-1000 group, and the 2020 Academic Ranking of World Universities (also known as the Shanghai Ranking) places Ton Duc Thang University in Ho Chi Minh City in the 701-800 group.

Table 2.3. Global University Rankings for Vietnam and Comparators, 2022

	No. of Universities in Top 1,000 Webometrics	No. of Universities in the Top 1,000 QS
France	35	23
Germany	57	45
United Kingdom	78	79
Australia	35	36
China	105	53
Indonesia	3	7
Japan	26	39
Korea, Rep.	18	29
Malaysia	5	18
Philippines	0	4
Singapore	4	3
Thailand	6	8
Vietnam	1	2

Source : <https://www.topuniversities.com/university-rankings>; <https://webometrics.info/en>

Despite some improvements in innovation capacity and technology-transfer, the lack of government funds for research and development at universities hampers progress. Measures of technology transfer capture the contribution of Vietnam’s universities to the national innovation system. Table 2.4 shows the patents per million inhabitants in Vietnam and comparator countries. This indicator is particularly low in Vietnam, at 2.0 patents per million of population in 2020, below Thailand (8) and China (344). On innovation capacity, Vietnam ranked 44 among 126 countries in 2021, lower than most benchmarking countries but faring better than the Philippines (51) and Indonesia (87). This represents an improvement of Vietnam from the rank of 64 in 2008. The rating of the Philippines has also improved from 63 in 2008 to 51 in 2021, but Indonesia’s rating has declined (from 49 in 2008, to 87 in 2021). Inadequate funding for R&D in universities slows down the development of research capacity and suppresses research output.

Table 2.4. Research and Innovation Capacity and Output of Vietnam and Benchmarking Countries

	Citable documents per population million		H-index	No. of patents per population million	Global Innovation Index rankings	
	2010	2021	2021	2020	2008	2021
Australia	2,741	4,427	1193	234	22	25
China	249	596	1112	344	37	12
France	1,510	1,732	1352	759	19	11
Germany	1,664	2,274	1498	1220	2	10
Indonesia	10	177	284	2	49	87
Japan	949	1,074	1171	2217	9	13
Malaysia	547	1,240	415	53	25	36
Netherlands	2,644	3,878	1206	1335	10	6
Philippines	13	56	296	1	63	51
Korea, Rep.	1,192	1,890	810	2917	6	5
Singapore	2,831	4,271	697	719	5	8
Thailand	140	346	396	8	44	43
United Kingdom	2,223	3,175	1707	434	4	4
Vietnam	23	181	269	2.0	64	44

Sources: SCImago for research output; World Intellectual Property Indicators 2020 for patents; Global Innovation Index at <https://www.globalinnovationindex.org/Home> for innovation rankings.

Overall, improvements to the quality and relevance of teaching and learning in higher education institutions have been slow. Issues around content, curriculum, relevance of training, traditional teaching models (such as teacher-led pedagogy) have all impacted quality of Vietnam’s tertiary education. In program development, international cooperation has been largely limited to ‘curriculum borrowing’. Furthermore, despite impressive progress in the levels of qualifications of academic staff, the tertiary education system overall does not yet have a robust talent management system in place to produce and nurture a high-quality academic staffing workforce. Teachers are one of the most important determinants of higher education quality and relevance. The student-to-teacher ratio (STR) provides an indirect estimate of the quantity of contact time between students and educators, where lower numbers equate to better results for students. Compared to benchmarking comparators, Vietnam’s STR is much higher, implying strain in terms of quality of teaching and learning. For example, in 2016, Vietnam’s tertiary education STR was 25, comparable to

Thailand (25) and Indonesia (27), but much higher than Malaysia (12 in 2018) and Korea (14 in 2017). Finally, to achieve its aspirations to become a knowledge economy in the next decade, Vietnam needs to urgently reform its tertiary education system to help quality improvements, broaden access to a greater number of potential students and increase relevance. These reforms would entail additional funds and fundamental reform in institutions and the governance framework of tertiary education as described in Box 2.1 next page.

Box 2.1. Delivery of higher education requires fundamental reform in institutional structure and governance¹

There is a lack of a centralized, unified body responsible for the entire higher education and research system. While there are two separate ministries (MOET and MOLISA) responsible for managing the higher education subsector (universities) and TVET subsector (colleges) respectively, there is little ministerial coordination and limited institutional connectivity. In addition, several line ministries and provincial governments oversee more than 200 specialized universities and colleges while the Prime Minister's Office directly manages the two national universities, which include several specialized universities.

The regulatory framework is complex, fragmented, and inconsistent. Several ministries and national bodies have authority over higher education, including the MOET, the Ministry of Planning and Investment (MPI), the Ministry of Finance (MOF), the Ministry of Science and Technology (MOST), the Ministry of Home Affairs, Social Policy Bank of Vietnam, State Council for Professor Title. This results in excessive bureaucratic control of HEIs and sometimes contradicting decrees/circulars issued by different.

There is a lack of integration between universities and research entities. Several hundred public research institutes operate independently from the universities. This separation has resulted in ineffectiveness and inefficiency in both types of institutions. Such separation results in the dispersion of human and financial resources and the inability to build excellence in research and teaching (Salmi, 2009).

The MOET has weak capacity in setting long-term visions for the sector and executing its implementation. The lack of a well-formulated logical framework and well-resourced implementation plans have hampered the development of the subsector. This is exacerbated by the lack of capacity and education among staff and the absence of a unified higher education management information system (HEMIS), which hinders evidence-based decision-making by all stakeholders. As a result, and due to concerns about the quality of higher education provided by various universities, higher education targets for student enrolment were reduced in 2013 to reach 2.2 million by 2020 instead of the original 4.5 million.

Private investments in tertiary education remains to be fostered. The new Law on Higher Education, which came into effect in July 2019, governs the higher education sector. However, the new law does not state how a private educational institution should be established. In addition, there are gaps in the Investment Law and the Enterprise Law relating to investor protection. And the process for obtaining licenses to establish and operate a private educational institution is cumbersome.

Quality assurance needs to be fundamentally improved. The higher education sector lacks a holistic National Quality Assurance Framework to provide guidelines for internal quality assurance (IQA) conducted by and within universities and guidelines to be used in accreditation and external quality assurance activities undertaken by accreditation centers. First, existing quality assurance (QA) mechanisms lack several key evaluation tools and necessary guidelines for the development of an IQA. Second, existing QA instruments are regulated by different and sometimes conflicting legislative documents, resulting in multiple evaluation standards and criteria (licensure, accreditation, inspection, and certification) and in confusion. Third, there is no consistency in the accreditation methodologies. Only about 28 percent of HEIs have been accredited by national accreditation centers; a further 14 percent have been subject to external review but have not been granted any accreditation status. The remaining 58 percent will be evaluated against a new set of standards. Thus, after 14 years of operation, the accreditation system is yet to be fully functional. Fourth, while the MOET has delegated EQA functions to several independent agencies, these accreditation agencies hire part-time HEI staff as assessors, posing inherent conflicts of interest, thereby resulting in a lack of trust and credibility.

¹ World Bank. 2020. Improving the Performance of Higher Education in Vietnam: Strategic Priorities and Policy Options. <http://hdl.handle.net/10986/33681>

III. Ways Forward

There are four critical points of inflection where reform can usher significant results for higher education. These include: (a) improving access and equity; (b) increasing the relevance and alignment of training programs with demand for skills; (c) boosting sustainable financing; and (d) improving governance of the sector.

- i. **Improve access and equity.** Given Vietnam's development ambitions, there is a clear need for expanding access. The first step would consist in setting quantitative enrolment targets for 2025, 2030, and beyond through a well-coordinated and articulated system accompanied by an adequately financed implementation plan. Assuming a 45 percent GER target for 2030, it is estimated that there will be 1.3 million additional seats required, for a total of 3.6 million students. Of those additional students, public universities are forecasted to absorb 6 percent, private universities 25 percent, colleges (TVET and professional under MOLISA) some 43 percent, and alternative modes of education (open university, remote/distance learning platforms in most public institutions) will absorb the remaining 25 percent. Such an expansion would therefore need to ensure the following criteria were met:
 - **Institutional differentiation:** Increasing the role of good-quality non-university providers and private providers and strengthening the non-university sub-sector.
 - **Training modality differentiation:** Facilitating the Government's role in the promotion of the expansion of online and digital education by leveraging the benefits of digital and disruptive educational technologies. To address the lack of regulations on online education, the Government should prioritize the development of a road map for recognition and QA for e-learning degrees and courses.
 - **Strengthening the pipeline of student enrolments from secondary education:** Enhancing Vietnam's policy efforts to improve the quantity and quality of secondary education graduates. These measures should also include enhancing access to quality teachers and school infrastructures for children from disadvantaged backgrounds and ensuring a smooth transition between upper secondary vocational school and upper secondary general school.
 - **Ensuring the availability of student financial aid:** Establishing and implementing a comprehensive and well-targeted financial aid scheme that benefits poor students and other disadvantaged groups.
- ii. **Improve quality and relevance of training programs.** To improve quality, focus should be placed on innovations in teaching and learning practices, academic staff talent management, and investments in education and information and communications technology (ICT) infrastructure. To improve the relevance of higher education programs, the most effective way is to develop close links with industry. This will reinforce demand for higher quality curricula, influence ancillary programs, and encourage innovation and ICT use as well as talent management. For that purpose, Vietnamese universities could adopt a variety of mechanisms, including internships for undergraduate students, in-company placements of research students and academics, and practitioners from industry as visiting lecturers. Frequent consultation between firms and universities is needed so that the latter can react quickly to changing skills needs. Incorporating training for entrepreneurship into regular university programs can also help bring them closer to the productive sectors, thereby boosting their ability to nurture young entrepreneurs.

- iii. Finance the sector more effectively.** This would mean promoting sustainable financing but also a better allocation and smarter use of private sector funds. Increasing the share given to tertiary education in the public budget would help increase access for students, but this increase will need to be closely associated with improved quality of the tertiary education outcomes. Also, while increased public investment in tertiary education is critical, expansion of the tertiary education does not rely solely on public funds. The role of private tertiary educational institutions remains highly relevant. Strategic development of private tertiary educational institutions and the increased role of good-quality non-university providers would help alleviate some of the cost burdens of the public purse.
- iv. Improve the governance of the sector.** The government will need to recast the governance structure of the education sub-sector to enable growth and quality improvement. Ultimately, it will need to revise the structure, regulatory framework, and system-wide quality assurance to enable universities to operate as autonomous and fully accountable institutions within a more efficient and integrated governance structure. This would entail:
- **Setting a vision for the future:** Elaborating a strategy to transform the vision into reality and formulating the legal and regulatory framework which clarifies the powers of the agency responsible (for higher education policy) and defines the terms of institutional autonomy.
 - **Consolidating coordination:** Assigning a single ministry to be responsible for university, TVET, and research and technology – to help unify and integrate.
 - **Earmarking funds:** Securing adequate budgetary allocations and implementing financial instruments and incentives to encourage HEIs to innovate and improve their performance.
 - **Active monitoring:** Designing and implementing an information system to monitor the performance of the tertiary education system and provide timely evidence for course adjustments. This could include a higher education management Information system, a graduate tracking system, and a labor market Information system.

ANNEX 2.1. SOUTH KOREA: AN EDUCATION-BASED DEVELOPMENT AGENDA

In South Korea 70 percent of people aged 24 to 35 have completed some higher education training (either an undergraduate university degree or higher, or a qualification from a shorter program in a polytechnic or equivalent), one of the highest in the world. South Korea developed a four-stage approach to education and development from which Vietnam could learn, especially as Vietnam appears poised to launch into Phase-3 of development, driven by knowledge and technological upgrading and breakthroughs. These four phases include:

- Phase 1 (1948-60): The expansion of primary education and literacy education to build the base for economic development.
- Phase 2 (1961-80): Redirected investment into middle-school education and parallel vocational education. South Korea prepared a new economic leap forward by investing in science and technology human resources over 1967-71, including an export-oriented economic structure.
- Phase 3 (1981-97): The reinforcement of vocational education and expanded opportunities for higher education. During this period, South Korea bolstered education in technology research necessary for cutting-edge industries and redirected human resources for enhancing its capabilities in research, and science and technology, through the development of specialized two-year college programs and science and engineering departments in universities. Finally, the country focused on continuously expanding opportunities for higher education. By introducing the university graduation quota system in 1981 which accepted more students but graduated only the qualified, the government expanded opportunities for enrollment in universities, and helped them to accommodate more students. After the mid-1990s – as the service industry developed and South Korean society became a knowledge-based informatization society – demand for higher education and lifelong learning grew significantly.
- Phase 4 (1997-present): The development of higher education capabilities for knowledge creation necessary for a knowledge-based society. This included focusing on developing human resources through specialized and professional industrial education; social integration and enhanced university competitiveness; focusing on improving the quality and research scope of universities; and higher education policies being pursued to reach balanced regional development for social integration. The government is further supporting universities outside of Seoul to pursue strategic projects to enhance cooperation with industries.

Source: Ministry of Education, South Korea. *Education, the driving force for the development of Korea*. http://www.koreaneducentreinuk.org/wp-content/uploads/downloads/Education_the-driving-force-for-the-development-of-Korea.pdf

REFERENCES

Atkin, David. 2016. "Endogenous skill acquisition and export manufacturing in Mexico." *American Economic Review*, 106 (8): 2046-85.

CEIC company. <https://www.ceicdata.com/en/indicator/vietnam/money-supply-m2>.

Le, Q.H., Do, Q.A., Pham, H.C., and Nguyen T. D. 2021. "The Impact of Foreign Direct Investment on Income Inequality in Vietnam." *Economies* 2021, 9, 27. <https://doi.org/10.3390/economies9010027>

Salmi, J. 2017. *The Tertiary Education Imperative. Knowledge, Skills, and Values for Development*. Sense Publishers. Rotterdam, The Netherlands. 2017.

Statista. 2021. "Number of university graduates in Vietnam from 2016 to 2019." <https://www.statista.com/statistics/815123/number-of-university-graduates-in-vietnam/>

T Di Gropello, Emanuela. 2011. *Putting higher education to work: Skills and research for growth in East Asia*. World Bank Publications.

The State Bank of Vietnam. 2022. "Closely coordinating policies to control inflation." June 9, 2022. https://sbv.gov.vn/webcenter/portal/en/home/sbv/news/news_chitiet?leftWidth=20%25&showFooter=false&showHeader=false&dDocName=SBV503074&rightWidth=0%25¢erWidth=80%25&_afLoop=56863193964672224#%40%3F_afLoop%3D56863193964672224%26centerWidth%3D80%2525%26dDocName%3DSBV503074%26leftWidth%3D20%2525%26rightWidth%3D0%2525%26showFooter%3Dfalse%26showHeader%3Dfalse%26_adf.ctrl-state%3Dgpd7djfr_199

The State Bank of Vietnam. "Closely coordinating policies".

The World Bank. 2012. "Putting Higher Education to Work: Skills and Research for Productivity and Growth in East Asia." Worldbank.org. October 13, 2011. <https://www.worldbank.org/en/news/feature/2011/10/13/putting-higher-education-work>

The World Bank. 2022. "Monitoring Households and Firms in Vietnam during COVID-19." Worldbank.org. May 27, 2022. <https://www.worldbank.org/en/country/vietnam/brief/monitoring-households-and-firms-in-vietnam-during-covid-19>

World Bank. 2022. *Educational attainment, at least a Bachelor or equivalent, population 25+ total (%) – Vietnam, Thailand, Indonesia, Malaysia, Korea, Rep.* <https://data.worldbank.org/indicator/SE.TER.CUAT.BA.ZS?locations=VN-TH-ID-MY-KR>

World Bank. 2022. *Global Economic Prospects, June 2022*. <https://doi.org/10.1596/978-1-4648-1843-1>

World Bank. 2022. Munoz, and Wai-Poi. *Background paper on the CCDR*.

Worlddata. 2022. "Country Comparison: South Korea and Vietnam." <https://www.worlddata.info/country-comparison.php?country1=KOR&country2=VNM>

World Bank. 2022. *From the Last Mile to the Next Mile – 2022 Vietnam Poverty & Equity Assessment*. Washington, DC: World Bank.



63 Ly Thai To Street, Hanoi

Tel.: (84-24) 3934 6600

Fax: (84-24) 3935 0752

Website: www.worldbank.org.vn