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BRIEF ANALYSIS

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*Péter Klemensits*

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# Eurasia Center

## Brief Analysis

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Dr. Levente Horváth

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1117 Budapest, Infopark sétány 1. I. épület  
eurasiacenter@uni-neumann.hu  
<https://eurasiacenter.hu/>

Person responsible for publishing: Dr. Levente Horváth, Director

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# VIETNAM'S ECONOMY IN 2022: STRONG RECOVERY AFTER COVID-19, WITH RISKS ON THE HORIZON

*Péter Klemensits*

## Abstract

As the third most populous country in the Southeast Asian region, the Vietnamese economy deserves attention for its international supply chains. Although the country successfully survived 2020 despite the emergence of COVID-19, the epidemic led to a similar crisis in 2021 like in neighbouring countries, but a recovery occurred in the second half of the year and continued in the first half of 2022. The analysis aims to provide a brief overview of Vietnam's economic situation based on recent macroeconomic indicators, while also taking into account the impact of external factors such as the Russia-Ukraine war.

**Keywords:** *Southeast Asia, Vietnam, COVID-19, crisis, economic recovery*

## Introduction

As the third most populous country in the Southeast Asian region, Vietnam deserves great attention for its economic development as it plays a key role in international supply chains. After a successful fight against COVID-19 in 2020, Vietnam was hit hard by the coronavirus epidemic in 2021, as were its neighbouring countries, but the economy began to recover at the end of the year and continued to do so in 2022. However, external risks such as the war between Russia and Ukraine or the COVID-19 stall in China indicate that despite the positive results, the Vietnamese economy remains vulnerable, which could easily lead to another recession. The analysis aims to provide an overview of Vietnam's economic situation based on recent macroeconomic indicators, from which lessons for European countries can also be drawn.

## The Economy of Vietnam

Standing at over 98 million currently, Vietnam's population is expected to exceed 104 million by 2030, according to UN projections. The Vietnamese economy – a socialist-oriented market economy modelled on China – ranks 23rd in the world in terms of purchasing power parity. As an indication of future development, [GDP could increase from USD 279 billion in 2020 to USD 484 billion by 2030](#), while GDP growth could stabilise at an average of 6% per year.

After joining ASEAN in 1995, the country has undergone remarkable development over the past 30 years. The economic and political reforms (*Doi Moi* – renovation in Vietnamese) initiated in 1986 have triggered rapid economic growth and transformed one of the poorest countries in the world into a middle-income country. Within a short period of time, Vietnam could approach the upper middle income group. The growth is mainly due to a shift of labour from agriculture to manufacturing and services, private investment, a strong tourism sector, higher

wages, and accelerated urbanisation. [Exports are an increasing contributor to Vietnam's GDP](#), and the fastest growing sectors are industrial production, textiles, electronics and food. [Between 2002 and 2018, GDP per capita grew 2.7 times](#), surpassing USD 2,700 in 2019, while lifting more than 45 million people out of poverty. In 2018-19, the GDP grew by 7% in both years, with the economy showing considerable resilience thanks to export-oriented manufacturing and domestic consumption, which helped it record [positive growth of 2.9% in 2020](#), at the onset of the coronavirus epidemic, making it the best performing economy in Asia. [Under the Socio-Economic Development Strategy 2021-2030](#), the main goals for the coming years are to improve productivity, efficiency and competitiveness, promote scientific and technological development, support the investment and business environment and combat social inequality. [A 2017 report by PricewaterhouseCoopers](#) estimated that Vietnam could be the world's 10th largest economy by 2050. Vietnam is also [committed to sustainable development](#). The National Action Plan aims to achieve sustainable consumption and production by 2030, which essentially means using environmentally friendly technologies. The political system in Vietnam is stable, the Communist Party is not threatened, and the one-party system has allowed the leadership to play an important stabilising role in the economy. In terms of foreign policy, the country is trying to strike a balance between China and the United States, while closer cooperation with Beijing is hampered by the conflict in the South China Sea [and Hanoi's role in the Belt and Road Initiative is limited](#) and likely to remain so. Vietnam's goal is to strengthen bilateral relations with its neighbours and establish a balanced relationship with major powers, as well as develop a unified national strategy for 2030.

## The Effects of the Coronavirus Epidemic

Although COVID-19 emerged in Vietnam as early as January 2020, the outbreak was contained in time for the country to survive 2020 without a major health crisis. However, in the spring of 2021, despite national closures, a new wave of the pandemic triggered a crisis similar to those in neighbouring countries, and a gradual opening did not occur until the second half of the year. By June 20, 2022, [the number of infected people had risen to 10,737,640](#), while 43,083 had died and 9,601,630 had successfully recovered.

In the first nine months of 2021 the recession was felt. Statistics show that Vietnam's tourism and air passenger sectors suffered the biggest losses, while manufacturing, trade and infrastructure investment experienced smaller declines. [The GDP grew by only 1.42% in the nine months to 2021](#) – up 2.58% for the full year thanks to the performance of the second half of the year – with agriculture, forestry and fishing growing by 2.74%, industry and construction by 3.57%, while the service sector suffered a loss of 0.69% in the growth rate of the overall economy. Inflation was 3.22% in 2020, [and increased by 1.87% in 2021](#). Despite the pandemic, foreign exchange reserves did not decline but continued their upward trend and were estimated at [over USD 109.9 billion at the end of the year](#). In July 2021, the current account showed a deficit of USD 4.571 billion, which would be corrected to a surplus of USD 3.998 billion by the end of the fourth year. The trade balance also showed a dichotomy, with a deficit [of USD 2.55 billion in the third quarter of 2021](#), but a surplus of USD 4.08 billion by the end of the year.

In terms of investment, foreign investment projects disbursed USD 19.74 billion by December 20, 2021, [a slight decrease of 1.2% from the same period in 2020](#). However, the total amount of foreign investment reached USD 31.15 billion, 9.2% higher than the same period last year.

As COVID-19 has led to an increase in unemployment – more than half a million people have lost their jobs as a result of the epidemic – ([the unemployment rate was 2.62%](#) in July 2021) and a drop in income in several sectors, the government has focused on helping those in need. In 2020 and the first six months of 2021 the budget spent VND 168.8 trillion (USD 7.34 billion) to support businesses and people affected by the COVID-19 epidemic for disease prevention and control. Despite this, the [budget deficit has not increased significantly](#) and has been kept stable below 4%. The Vietnamese government has launched a series of incentive programmes in the form of tax rebates, tax deferrals, and the waiving of property fees for businesses. [Beneficiaries of the subsidies included workers](#) who were forced to postpone their labour contracts, part-time workers who are currently unemployed but have not received unemployment benefits, enterprises with no income or no funds to pay wages, individuals and households engaged in entrepreneurial activities, and individuals who have rendered services to the nation. [According to the United Nations](#), in 2020 the Vietnamese government spent USD 7.8 billion on business support, USD 10.2 million – 43.1 million on interest-free loans, USD 475 million on electricity price cuts, USD 2.7 billion on social benefits, and USD 12.3 billion on bank loans. Most recently, in January 2022, [the National Assembly approved a USD 15.3 million stimulus package](#) that includes major infrastructure investments in addition to support for businesses and workers.

## Prospects for 2022

Year-on-year, [Vietnam's GDP grew by 5.03% in the first quarter of 2022](#), after growing by 5.22% in the last quarter of 2021. In March 2022, the Vietnam Bureau of Statistics [forecast growth of 6-6.5%](#), but the World Bank's April report instead projected 5.3%, roughly in line with neighbouring countries.

| Year            | 2018 | 2019 | 2020 | 2021 | 2022<br>(forecast) |
|-----------------|------|------|------|------|--------------------|
| Growth Rate (%) | 7.08 | 7.02 | 2.9  | 2.58 | 5.3                |

Table 1: GDP growth in Vietnam 2018-2022

Manufacturing is expected to be the main driver of recovery from the coronavirus outbreak, while tourism, construction and other sectors of the economy are expected to have longer recovery periods. The value of Vietnam's GDP, in addition to progress on the COVID-19 vaccine, will be affected by the Russia-Ukraine war, the prolongation of which will also have a negative impact on growth.

Export, along with manufacturing, is a key driver of economic consolidation. As for the trade balance, according to preliminary data, the country's trade deficit fell to [USD 1.73 billion in May 2022](#), from USD 2.07 billion a year earlier. Exports increased by 16.4% year-on-year to USD 30.48 billion, while imports grew at a more moderate pace of 12.9% to USD 32.21 billion. The US remains the largest export market, and it is no coincidence that the world's leading power has a significant trade deficit with Vietnam. In the first five months of the year, trade in goods showed a surplus of USD 0.52 billion, with exports increasing by 16.3% and imports by 14.9% year-on-year.



On the positive side for Vietnam, the trade war between the U.S. and China has prompted many international companies to shift their production from China to the Southeast Asian country.

The rise of commodity prices, such as oil, due to the Russia-Ukraine war could slow growth by fueling inflation. [Annual inflation rose to a 12-month high of 2.86%](#) in May 2022 from 2.64% in the previous month, mainly due to faster increases in food and hospitality, transport, and clothing prices.

Vietnam's current account to GDP ratio will be around 1% in 2022 and 0.5% in 2023, [according to Trading Economics. BNP Paribas, on the other hand](#), forecasts a current account deficit of 2.9% and a budget deficit of 5% in 2022. In January, the government [was still expecting a budget deficit of 4%](#), equivalent to a deficit of USD 61.7 billion.

A look at the unemployment rate is also warranted in light of the expected increase in consumption. The unemployment rate fell to 2.46% in the first quarter of 2022, down from 3.56% in the fourth quarter of 2021, but at the same time the [unemployment rate for the age group 15-24](#) is 7.6%, a level not seen since 2011.

As for investment, official data show [that Vietnam received USD 5.92 billion in foreign direct investment in the first four months of the year](#), up by 7.6% year-on-year. Most of the capital is invested in manufacturing, followed by real estate, retail and wholesale trade. The Vietnamese government has high hopes for a revival of foreign investment, as this could also accelerate the recovery from the pandemic. Most of the investment comes from Singapore, South Korea, Denmark, China and Japan.

## Summary

In 2020, Vietnam's economy was only tangentially affected by the outbreak of the coronavirus, and a major recession was avoided. A year later, however, the situation was still extremely severe, despite the strict quarantine measures, similarly to other nations in the region. The second half of 2021, however, was a period of gradual recovery, and the recovery began then and continued unabated into the spring of 2022. In addition to internal government measures, external developments were essentially favourable for Vietnam until the outbreak of the Russia-Ukraine war. However, rising commodity prices due to the conflict in Eastern Europe and disruptions to supply chains in China due to quarantine measures in the wake of COVID-19 have had a dampening effect on growth and, while there is no reason to fear a major recession for the time being, external risks mean that only economic reforms can boost the resilience of the Vietnamese economy in the long term.