

Impact of the Global Financial and Economic Crisis on Viet Nam

A RAPID ASSESSMENT

Prepared for the ILO

by

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Workers at Quang Sung Vina were suddenly thrust out street when the firm went to bankruptcy (Diu et al., 2009)

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Ngoc Q. Pham^{*}
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Brief economic outlook – impact of the crisis

International factors

The global financial and economic crisis is indeed having impacts on enterprises, workers and families in Viet Nam, contributing to Viet Nam's worsening economic situation. Among the various global factors, the most important ones are:

- The global fuel and food price crisis had a negative impact on consumer price inflation. Inflation in 2008 was 23 per cent (GSO, 2009) – the highest level in the last 17 years. Industrial raw material prices increased by 5.1 per cent in 2008 (EIU, 2008) and contributed to the growing current account deficit. In 2008, the current account deficit sharply widened, especially in the first half of 2008. It robustly grew at USD 2.7 billion per month as compared to USD 1.0 billion per month in 2007 (CIEM, 2008).
- In addition to the above factors, the global financial crisis, which started in the United States in the middle of September 2008, is having a deep impact on exports and hence the deficit on the merchandise trade account of Viet Nam.

The next parts of this Economic Outlook section explore in more detail the weakness of Viet Nam's macroeconomic environment in 2008.

Impact on economic growth

Table 1: Key economic indicators, Viet Nam, 2007 & 2008

	2007	2008
Real GDP growth (%)	8.5 ^a	6.2 ^a
Private consumption growth (%)	9.6 ^a	3.9 ^a
Public consumption growth (%)	8.9 ^a	8.0 ^a
Gross fixed investment growth (%)	23.0 ^a	14.0 ^a
Exports growth (%)	15.2 ^a	10.6 ^a
Imports growth (%)	21.3 ^a	15.1 ^a
Consumer price inflation (avg, %)	12.6 ^b	23.0 ^b
Exchange rate, VND:USD (avg)	16,096 ^a	16,989 ^b

Source: a) EIU (2008b); b) GSO (2009).

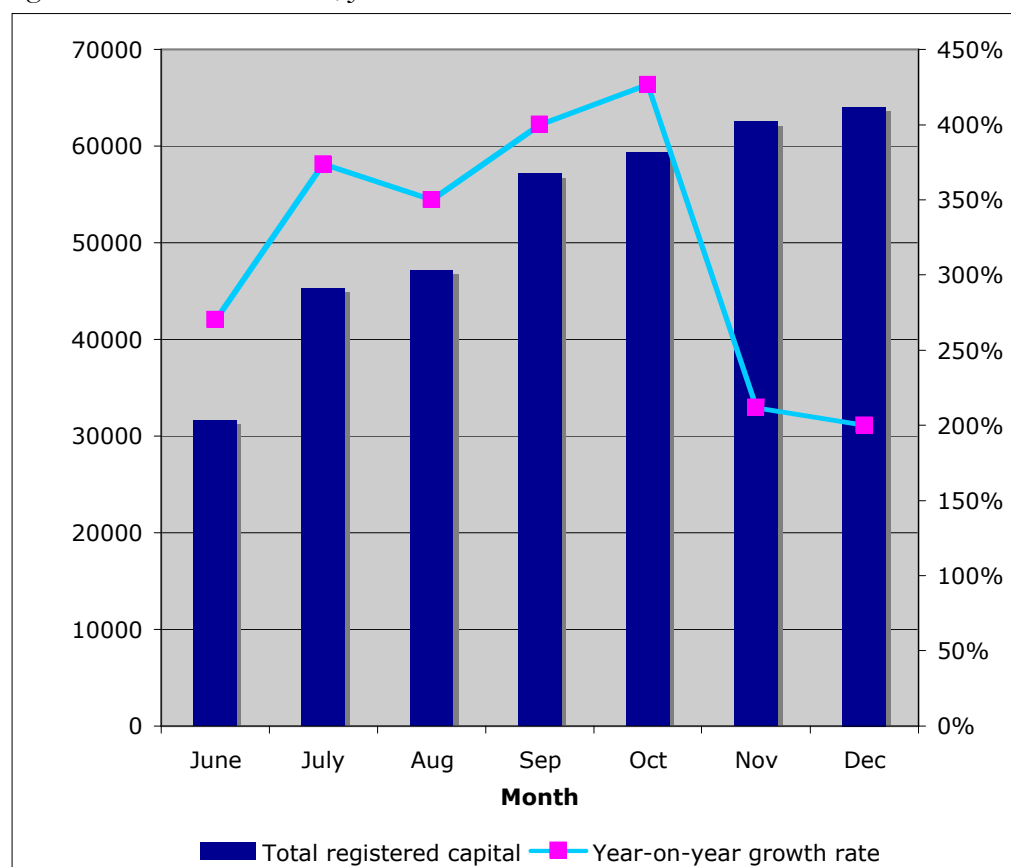
Viet Nam's performance in 2008 reflected both fiscal tightening and the slowdown of the global economy. After three years of real GDP growth above 8 per cent, the pace of GDP growth slowed to 6.2 per cent in 2008 (GSO, 2009), of which agriculture, aquaculture and forestry grew at 3.8 per cent; industry and construction grew at 6.3 per cent and services at 7.2 per cent (CIEM, 2008). According to the World Bank (2008), the slowdown of GDP growth largely reflects the impact of the government's stabilization package announced in March 2008.¹

¹ Please see the sections "Impact on Inflation" and "Economic Policy Responses" for further discussion and details of the response package.

Private consumption: The rate of annual private consumption growth in 2008 was 3.9 per cent, a significant decline from 9.6 per cent in 2007 (EIU, 2008b). Due to high inflation, household disposable incomes have eroded. Moreover, difficult access to credit resulting from tight monetary policy is an additional reason for the falling of private consumption growth.

Government spending: Growth in government spending was around 8 per cent in 2008, roughly 1 percentage point below the growth rate in 2007 (EIU, 2008b). This decline of government spending resulted from significant fiscal tightening in order to rein in inflation and high oil prices during most of 2008. However, a significant part of this savings was offset by raising salaries for the state sector, costs of reforms of the state-owned enterprise and banking sectors and spending heavily on health and education. As a result, the overall fiscal deficit for 2008 is estimated to be nearly 5 per cent of GDP, a fall from 5.6 per cent of GDP in 2007.

Figure 1: FDI in Viet Nam, June - December 2008



Source: General Statistics Office of Viet Nam (GSO, 2009).

Gross fixed investment: Fix investment expanded quickly in 2008 at 11.2 per cent (CIEM, 2008). Despite some concerns over the worsening of Viet Nam's economic environment, foreign direct investment (FDI) have remained robust so far.² FDI approval reached a record level of USD 64 billion, equivalent to more than triple the FDI approval amount in 2007. Disbursements in 2008, due to the fact that foreign investors remain confident about Viet Nam's long-term prospects, was USD 10.5 billion, up from USD 8.1 billion in 2007. However, following recent trends, the gap between registered FDI and implemented FDI is increasing (Ngoc, 2008).

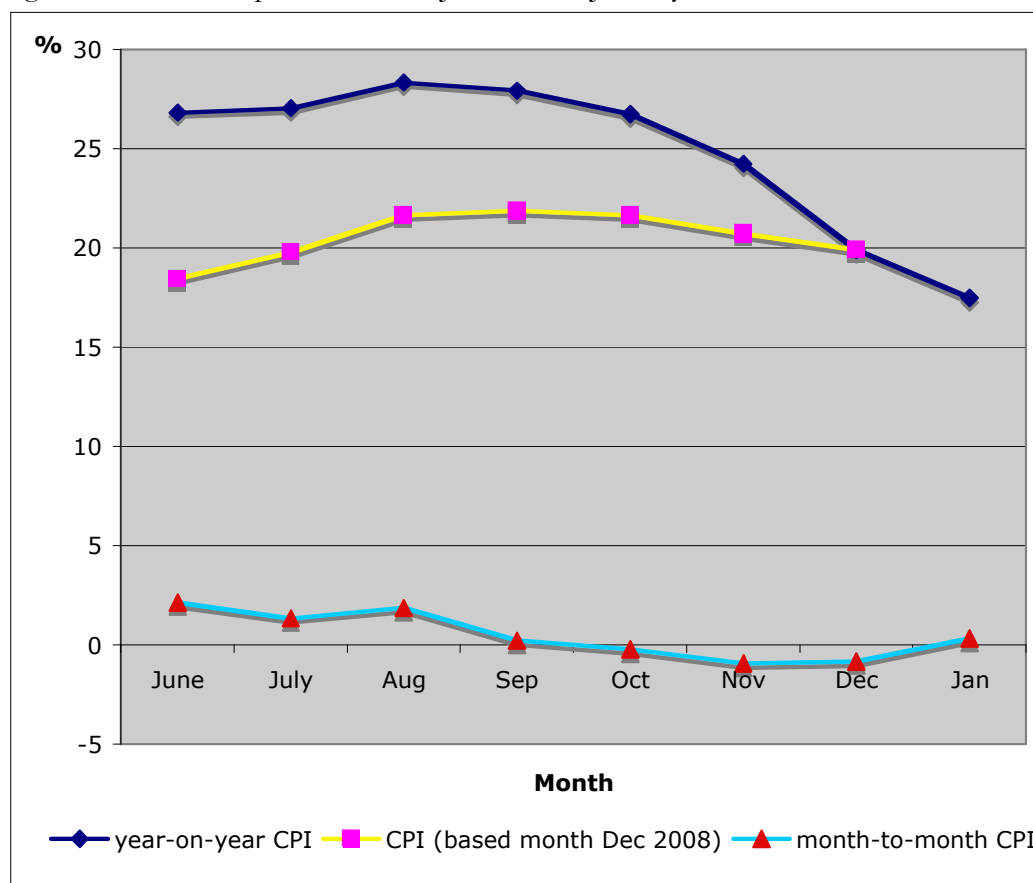
² The foreign-invested sector plays an increasing role as an inevitable component of the Vietnamese economy. The share of FDI contribution to GDP went up from 13.3 per cent in 2000 to nearly 17.7 per cent in 2007. Since 2003, the FDI sector has contributed more than 50 per cent of the total export value (Ngoc, 2008).

Public investment was subdued in 2008 as the government cut back its expenditure to control inflation.

Impact on inflation

Consumer price inflation (CPI) reached 23 per cent in 2008, which is the highest level in the last 17 years. In the first three quarters of 2008, CPI grew quickly (see Figure 2) and peaked in August at 28.3 per cent compared to August 2007.

Figure 2: Consumer price inflation, June 2008 - January 2009



Source: General Statistics Office of Viet Nam (GSO, 2009).

High inflation resulted from a combination of the impact of high fuel and food prices and strong domestic demand for both intermediate and final goods. High fuel prices in Viet Nam vividly reflect global fuel prices and the country's need to import to satisfy most of its domestic demand for fuel. Moreover, the government removed retail fuel subsidies in July, which further impacted inflation.

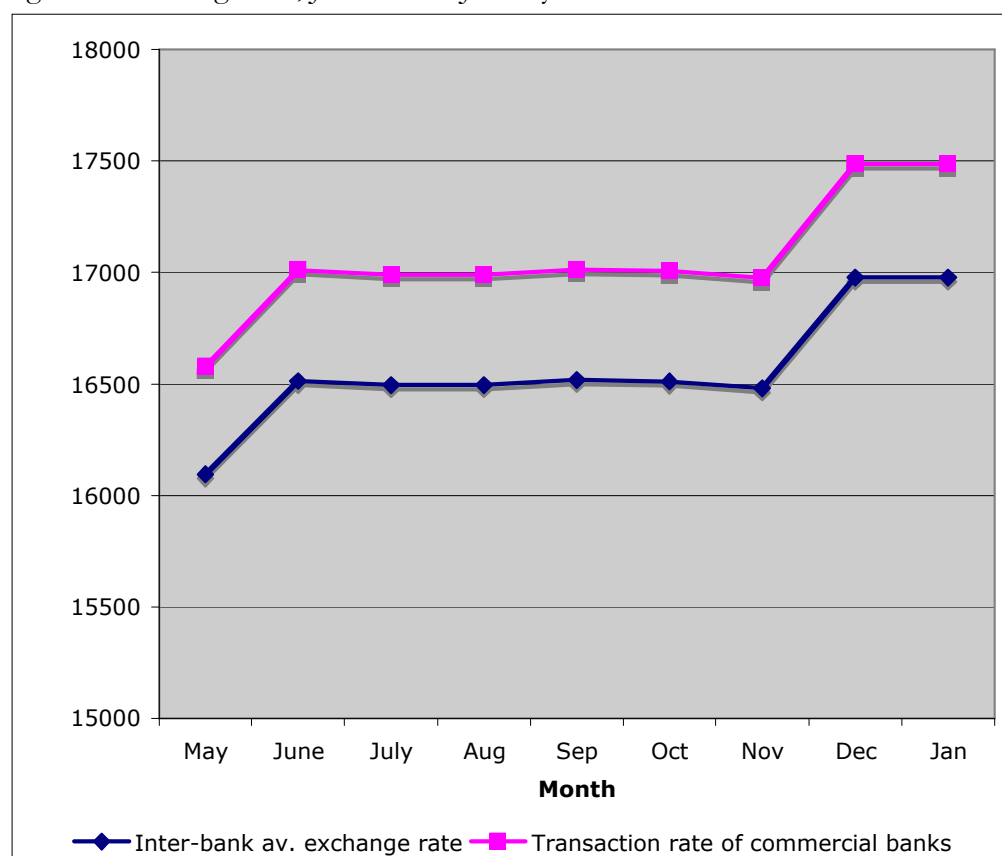
The global food price boom is an additional shock contributing to the high inflation in Viet Nam. According to Nghieu (2009), food price inflation peaked in June 2008 at around 32 per cent compared to January 2008, and year-on-year food price inflation peaked at 74.3 per cent. This hike was largely caused by the sharp increase in rice prices which were forecast to rise by 108 per cent in 2008 (EIU, 2008b). In addition, transportation costs also escalated rapidly.

Thanks to the implementation of the stabilization package starting in March 2008 (see section on “Economic Policy Responses”),³ month-to-month inflation began falling in the end of the third quarter.⁴

Impact on exchange rate

In recent years, the dong has been depreciating against the US dollar at a slow pace due to the general weakness of the US dollar in the world. However, in the second half of 2008, there was downward pressure on the dong against the US dollar which was caused by the widening current account deficit and rapid inflation plus the stock market slump.

Figure 3: Exchange rate, June 2008 - January 2009



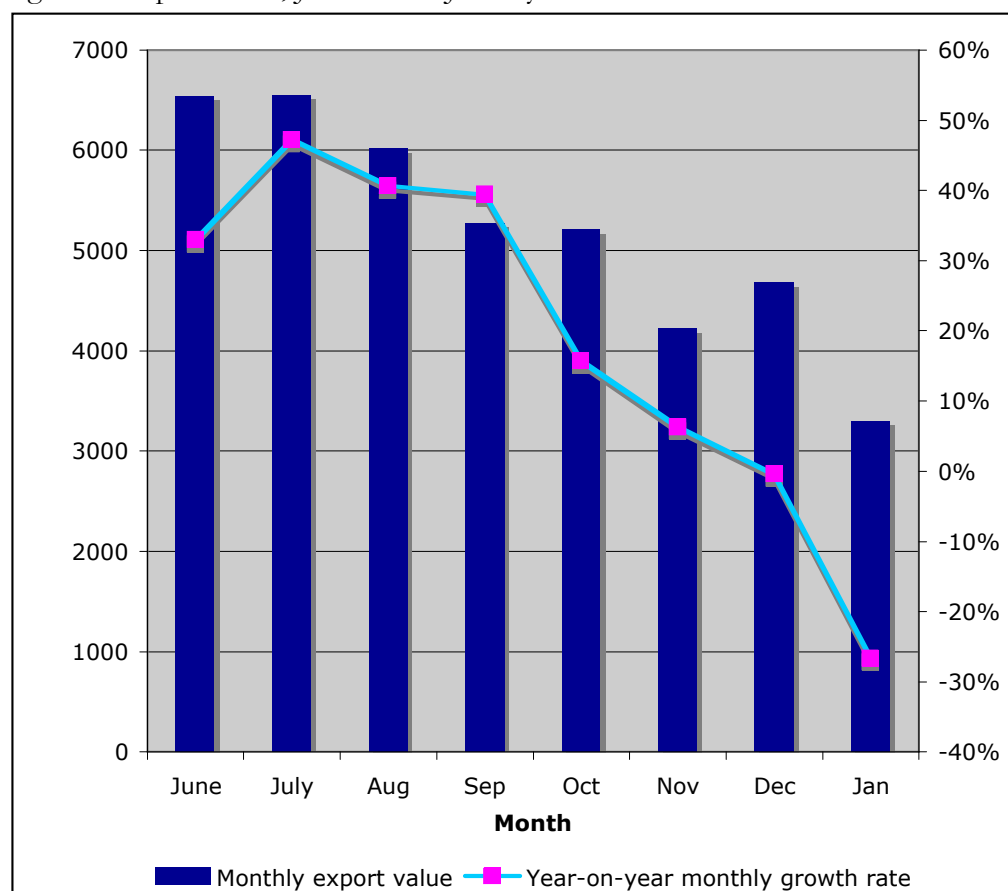
Source: General Statistics Office of Viet Nam (GSO, 2009).

The first move of the State Bank of Viet Nam (SBV) was made in June 2008 by widening the daily trading band to 2 per cent, up from 1 per cent previously. However, the exchange rate was kept the same as before (VND 16,494:USD 1). On December 25, the SBV announced a new exchange rate (VND 16,989:USD 1), with the dong depreciating by 3 per cent against the US dollar (*VnExpress*, 2008). According to EIU (2008a), the SBV will keep the dong relatively weak to boost exports and ensure imports remain relatively expensive in order to narrow the current account deficit.

³ Government’s Resolution No. 10/2008/NQ-CP on the eight-solution package to curb inflation, stabilize the macro-economy and ensure social security and sustainable growth.

⁴ In addition, the current account deficit stopped widening and depreciation pressure on the exchange rate eased (WB, 2008).

Figure 4: Export value, June 2008 - January 2009



Source: General Statistics Office of Viet Nam (GSO, 2009).

The opening of the US market since 2001,⁵ together with the benefits of having joined the WTO for two years, has increased Vietnamese exports rapidly in recent years. The Vietnamese economy has become more and more dependent on global trade, with exports accounting for nearly 70 per cent of GDP. However, the current recession in industrialized economies, particularly the US, EU and Japan, has adversely affected Viet Nam's exports as these countries have become leading markets for Vietnamese exporters (see Box 1).⁶ Growth in exports fell in every month since August and decreased nearly 25 per cent in January 2009 (see Figure 4).

Box 1. Export of garment manufacturing products is contracting

According to Mr. Le Quoc An, Chairman of the Garment and Textile Association, it is estimated that exports of garment products will contract 30-50 per cent in 2009 as Vietnamese exporters lose their traditional customers from their leading markets in the US and EU. Even if garment exporters can remain competitive, they will face difficulties when restrictions on China's garment exports to the EU and US are lowered within the next few years (EIU, 2008a).

The decline in the world price of various goods in the last 4 months of 2008, along with the timing of some key policy decisions on rice exports (see Box 2), is another factor contributing to the continuous contraction of Vietnamese exports. With the depreciation of the dong against the

⁵ The US-Vietnam trade agreement came into effect in late 2001.

⁶ In 2008, the US market accounted for 21.5 per cent of total Vietnamese exports, following by Japan and Australia for 10.8 per cent and 7.0 per cent respectively (CIEM, 2009).

US dollar in late 2008, it is expected that exporters will be given a competitive boost when global demand picks up.

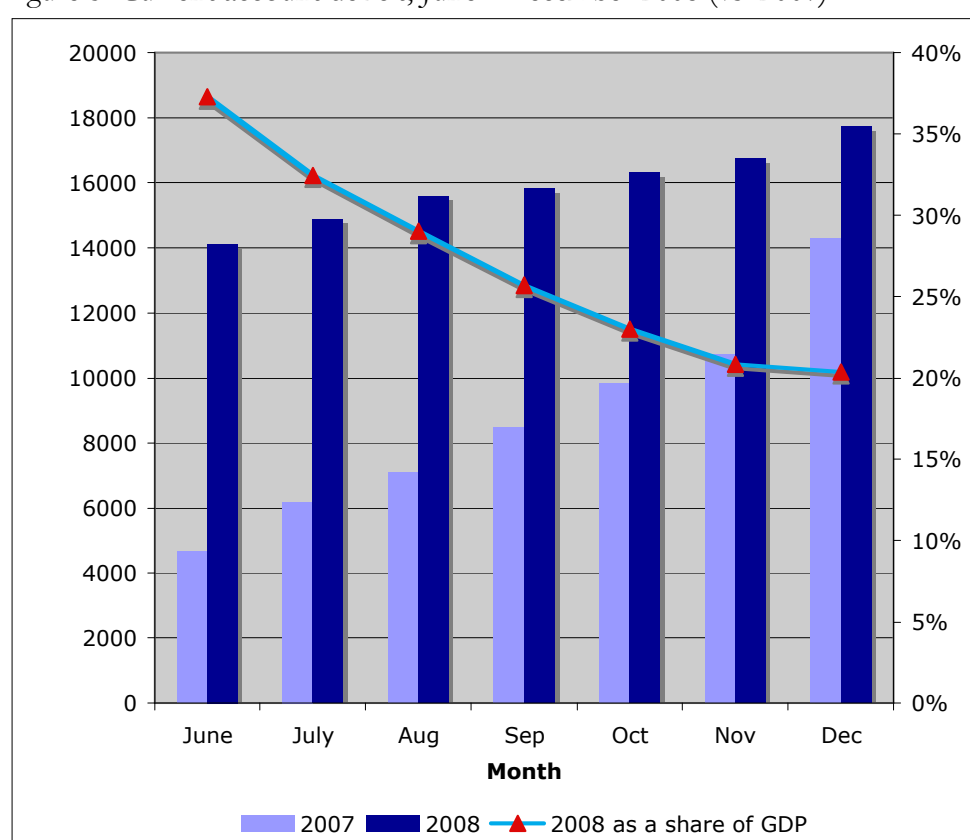
Box 2. Halting rice exports

The Government decided to halt signing rice export contracts from the end of March to the end of May, when the global rice price was very high at over USD 1,000 per ton, after considering inaccurate forecasts by the Ministry of Industry and Trade and the Ministry of Agriculture and Rural Development.

As a result, millions of tons of paddies from summer-autumn and autumn-winter crops in Cuu Long River Delta could not find outlets. The Government then lifted the ban on rice exports in July. However, at that time, the rice price dropped dramatically in the world market. Viet Nam's 25 per cent broken rice could be sold only at approximately USD 300 per ton.

Source: CIEM (2009).

Figure 5: Current account deficit, June - December 2008 (vs. 2007)



Source: General Statistics Office of Viet Nam (GSO, 2009)

Imports meanwhile contracted every month since May reflecting the impact of the government stabilization package to counter inflation and the slowdown in demand. Declining import volumes, of which many are important industrial inputs, also indicate that firms are expecting to reduce their output.

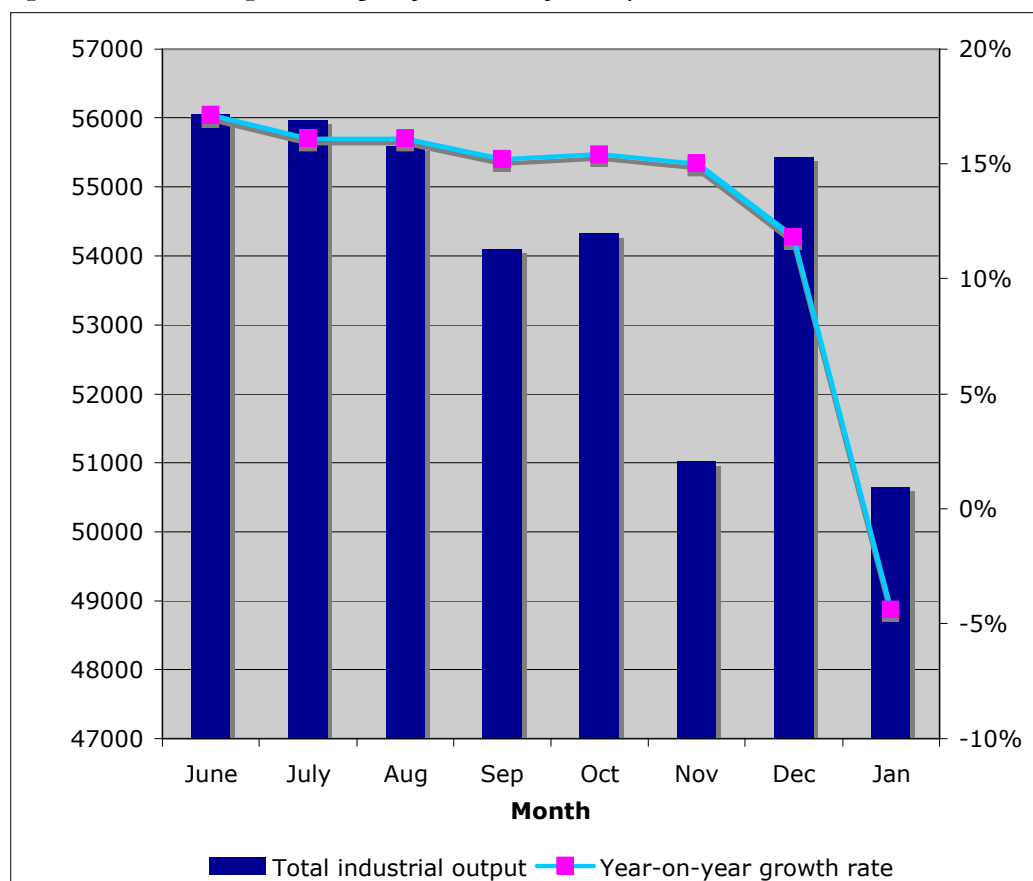
Impact on some industrial sectors

According to EIU (2008b), there is a slowdown in the volume of imports of key manufacturing inputs: imports of steel (in year-on-year terms) have contracted in every month since June; imports of primary plastics and textile yarn have also fallen. This indicates the interdependent causal effects that: (i) high prices of many intermediate inputs indeed impact the rising cost of

manufacturing production (GSO, 2009) and (ii) the large increase in interest rates in the first half of 2008 have led to many firms in manufacturing sectors to reduce their output.

The global economic crisis has had an impact on both export- and import-dependent industries (see export data in January 2009 in the Annex). According to CIEM (2009a) these sectors include textile and garments, leather shoes, wood processing, seafood processing, electronic components and tourism.

Figure 6: Industrial gross output, June 2008-January 2009



Source: General Statistics Office of Viet Nam (GSO, 2009).

In 2008, due to falling market share and pressure from traditional customers to reduce prices, many foreign investors in garment and textile manufacturing have withdrawn their investment capital from Viet Nam altogether. Moreover, the danger that exports of garment and textile products will contract has led firms to reduce their output. Falling domestic consumption together with less competitiveness in comparison with Chinese-made products (which often have soft prices and diversified designs) are the main reasons for a number of garment companies to shut down in the beginning of 2009. Being a labour-intensive sector with more than two million contract workers, there is a danger that many workers in this sector will lose their job.

In addition to the manufacturing sectors, aquaculture is also suffering declining demand from traditional markets and falling world prices for Tra and basa catfish. In June 2008, there were more than 1,200 tons of Tra and basa fish ready for export (GSO, 2009). In August 2008, the Government provided assistance on access to capital to catfish processing firms to encourage them to buy Mekong catfish to help farmers. Despite this effort, there was inadequate demand for the large supply of catfish grown in the Mekong River, including 28,000 tons in An Giang, 14,000 tons in Can Tho, 12,000 tons in Vinh Long and 6,300 tons in Tien Giang (GSO, 2009).

This has created difficulties for thousands of catfish farmers and workers, as well as the catfish industry as a whole. In particular, it has pushed down prices in An Giang province – the biggest producer of catfish in the delta – and has threatened the livelihoods of thousands of farmers.

Impact of global financial and economic crisis on the labour market

Viet Nam is relatively well-suited to labour-intensive manufacturing, given its abundance of low-skilled workers (EIU, 2008b). The global financial crisis has had a negative impact on reducing output of many manufacturing sectors. This in turn resulted in job loss for many workers and declining real wages.

Workers are losing jobs

According to the Ministry of Labour, Invalids and Social Affairs (MOLISA) (Thanh and Quynh, 2009), as of January 23, 2009, about 67 thousand labourers working in enterprises have lost their job due to the global economic downturn. Workers are losing their jobs in three manners: employers decamp; firms go bankrupt; or firms have to reduce their output. Rising unemployment is recorded all over the nation, but mostly in the three main economic zones: Danang, Hanoi and Ho Chi Minh City.

In Danang, the total number of workers who have lost their job was recorded at 899 at the end of 2008 in three particular foreign-invested firms: Kim Quoc Bao Ltd. Co., Wei Xern Sin Danang and Transcend Viet Nam Co., a mining firm.

In Hanoi, the Department of Labour, Invalids and Social Affairs reported that 9,600 workers have lost their job and more than one thousand labourers have been idle for more than 3 months (Khanh, 2009b). Also, many firms have had to reduce their employment size due to cutting back their output (BBC, 2008):

- In Canon Co., 2 thousand workers have lost their job with 50 per cent of contractual salary as severance payment.
- In Nissei Electric, the number of workers who have had their contract terminated was 300.
- In Hanoimilk, there were 250 workers who have lost their job.
- The Van Loi Steel Ltd. Co. terminated the employment contract with more than one thousand workers. These workers have received only 50 per cent of contractual monthly salary as severance payment.
- Orion-Hanel, a television manufacturing company, will be bankrupt soon, leading to more than one thousand worker who have had their employment contracts terminated and whose families have been impacted due to the company's inability to pay their severance payment.

In Ho Chi Minh City, 35 thousand workers have lost their jobs in 2008 (Huong, 2009). Most of these retrenched workers had been working for firms producing export goods such as shoes, textiles, garments and electronics. In 2008, there were 10 foreign-invested companies that closed their operations, among them 6 were textile and garment firms and the remaining were shoe manufacturers (Cuong, 2008).

In addition to the three main economic zones, record job losses were taking place in many provinces at the end of 2008: in Quang Ngai province, one thousand workers have lost their job

(Khang, 2009); in Binh Duong province, there were 2,582 recently retrenched workers (Nguyen and Quy, 2009).

Furthermore, it is estimated that the number of workers who will lose their job in 2009 as a result of the crisis could exceed 150 thousand (CIEM, 2009).

Less job creation

Apart from job losses, the number of jobs created fell sharply in 2008. According to Mr. Vu Trung Chinh, Director of the Hanoi Job Promotion Centre (HJPC), at the end of 2008, at his centre there were only 3-4 thousand vacancies compared to 6-8 thousand at the beginning of the year.

Falling demand for labour was largely observed at many foreign-invested firms located in industrial and processing zones (IPZs). Ms. Nguyen Ngoc Trinh, Vice Director of Hanoi Job Promotion for Young People, reported that at the beginning of 2008 there were 10 big requests for recruitment from foreign-invested firms. However at the beginning of 2009, her centre received a request from one firm only. According to Ms. Vu Thi Thanh from HJPC, among the 22 firms registered to recruit new workers in February, none are located in IPZs. In contrast, at the same time during the previous year there were 10 foreign-invested firms registered with hundreds of jobs to offer. The similar situation is also observed at the Job Promotion Centre of the Hanoi Women's Union. Since January, the Centre has not received any recruitment request from firms located in IPZs (Cong Thuong, 2009b).

Less job creation in the FDI sector could be a result of the fact that many firms in manufacturing are planning to reduce their output (see section "Impact on some industrial sector"). Data on registered foreign-invested capital for January 2009 suggests that there is a danger of a decreasing inflow of FDI in the first half of 2009 (see Annex). Owing to the fact that foreign investors will face difficulties acquiring financing (EIU, 2008a), FDI inflow will contract in 2009. This in turn will adversely impact job creation and contribute to the number of unemployed people in Viet Nam.

Firms reduced working time to avoid job losses

As described above, the global financial and economic crisis is having an impact on aquaculture exporters and manufacturers. There are 90 seafood manufacturers located in the Mekong Delta with more than 50 thousand workers. However, under pressure of reduced world prices and falling demand from traditional markets, many firms have decided to reduce their output by 50-60 per cent. As a result, thousands of workers are standing idle or facing reduced working time.

Mr. Ho Quoc Luc, Chairman of FIMEX VN⁷, reported that his factory is running at 30-40 per cent its full capacity, leaving many workers underutilized. Ms. Nguyen Thi Lan, working at Camimex Camau⁸, reported that during the last two months their working time has been only 2 hours per day. According to the Department of Agriculture and Rural Development of Ca Mau province, many of the total 20 thousand workers in the seafood manufacturing industry in the province have been idle as firms reduce working time. Some firms have compensated idling workers with a temporary severance payment of less than 20 USD per month per person; some

⁷ Saota Foods Joint-Stock Company is a manufacturer of shrimp, fish and vegetables. Its main markets include Japan and the US.

⁸ Camau Frozen Seafood Processing Import-Export Corporation processes and exports aquatic products, especially shrimp, fish, squid and cuttlefish. Its main markets include the US, Japan, the EU, Canada and Australia.

have tried to meet only half of contractual salary/allowances. More and more evidence has been recorded at firms in Soc Trang and Can Tho Provinces (Cong Thuong, 2009c).

Negative real wage growth and falling income

With 23 per cent inflation in 2008, real wage growth was negative, reflecting the fact that nominal wage growth did not grow in line with double-digit inflation.

Apart from real wages eroding due to inflation, many workers in Hanoi's industrial parks have had to stop working temporarily or have been given long stretches of work at 70 per cent of their regular payment (CIEM, 2009). At Toto Company, 100 redundant workers have been transferred to other jobs including machinery maintenance and industrial hygiene for lower pay of VND 1.6-1.7 million (USD 94-100) per month. They are expected to move back to their original jobs in February.

Mismatch between demand and supply for labour

Data recorded at Job Promotion Centres show that there is a paradox of retrenchments along with some new recruitments. Despite more and more workers are losing their job and fewer jobs are being offered in general, some firms are still not able to find enough regular workers to meet their needs (Cong Thuong, 2009d). There are a number of reasons for this paradox, namely:

- (i) *Reverse migration to the countryside of retrenched workers:* According to Mr. Phan Ke Trung from Hanoi Plastic Company, many unemployed workers have returned to their home in the countryside, leading to a fall in supply of labour in cities.
- (ii) *Mismatch between expected income of workers and salary/allowances being offered by firms:* With double-digit inflation throughout 2008, real income of workers has eroded. Increasing price of consumption goods and decreasing real household disposable income are the main reasons that the wage level of less than 70 USD per month being offered by many firms is not enough for workers to maintain their basic living standards.

Response by government and other organizations

At a meeting of permanent members of the Government at the beginning of February 2009, the Primer Minister emphasized the need to assist dismissed workers, considering it an urgent task. Later, on February 25, Government decision no. 30/2009/QĐ-TTg was enacted to regulate policies to assist retrenched workers during the economic downturn. According to the policies, all enterprises which face difficulties can take interest-free loans for a maximum of 12 months from the Viet Nam Development Bank (VDB) to pay salaries, social insurance and unemployment benefits to their workers. The eligibility criteria for a bank loan from VDB are as follows: firms have experienced at least a 30 per cent decrease in total employment or more than 100 retrenched workers (not including short-term contract workers) and are incapable to finance severance payments.

The funds for these loans for employment, established under the National Target Programme on Employment for Jobless Families, will be supplemented with additional financing. This will provide more loans with preferential interest rates for job generation. Dismissed employees can access these preferred loans from the Social Policy Bank to finance the vocational training for new employment or to work abroad under contract.

Many efforts have been made by Job Promotion Centres to assist dismissed workers looking for new employment. In Hanoi, there are a number of telephone operators who are always on-line to provide information on labour market and employment policy measures (Cong Thuong, 2009a).

Economic and labour market policy responses

The global financial and economic crisis has generated new policy challenges for the Government of Viet Nam. In April 2008, in order to deal with the high inflation, the Government put forward eight groups of solutions: 1) tightening the monetary and fiscal policies; 2) cutting down unnecessary investments and expenses; 3) increasing production; 4) increasing exports and limiting the trade deficit; 5) practicing thrift in production and consumption; 6) stabilizing market prices and fighting against speculation; 7) stabilizing the living conditions and production, and expanding the scope of social welfare policies⁹; and 8) adjusting the credit structure, controlling the loan system, and ensuring the liquidity of banks and the national economy.¹⁰

After tight monetary policy was implemented earlier in 2008 to curb inflation to stabilize the economy and ensure social security and sustainable growth, the government now faces a situation of a slowdown in growth. This requires a change in policy to increase liquidity in the banking sector, and fiscal loosening to counter the negative impact of the slowing external economy. The SBV has continued to cut its base interest rate, although it is unlikely that lower interest rates will boost growth significantly given the dire outlook for the world economy, including Viet Nam's major trading partners. A summary of the most important policy responses since June 2008 follows.

Monetary policy

As a result of implementation of the stabilization package starting in March 2008, particularly the tightening of monetary and fiscal policies, month-to-month inflation began falling since October. This has allowed the SBV subsequently to implement expansionary monetary policy.

On October 21 the SBV lowered the base interest rate to 12 per cent. Since then and until the end of 2008, there have been three additional cuts, reducing the base rate to 11 per cent (November 20), 10 per cent (December 5) and 8.5 per cent (December 22). On January 23, 2009, the last day before the Vietnamese Tet Lunar New Year holiday, the SBV lowered the base interest rate to 7.5 per cent, effective on February 1, 2009. This means that banks may not lend at interest rates higher than 10.5 per cent. The SBV has also reduced the cash reserve requirement for banks to 3.6 per cent from 8.5 per cent previously. Commercial banks have responded by reducing their lending rate. Just right after the new base rate was announced, the Bank for Foreign Trade of Viet Nam (Vietcombank) now charges 8.5 per cent on dong-denominated loans to its best customers.

Despite increased liquidity in the credit market, according to EIU (2008a), cutting the interest rate might not help domestic credit to grow further as firms are hit by slowing domestic demand and contracting exports.

⁹ Stabilize the living conditions and production, and expand the scope of social welfare policies: not to increase prices of electricity, coal, oil and gas, cement, fertilizers, clean water, medicines, air, train and bus tickets, tuition fees and hospital charges until June 2009.

¹⁰ Government's Resolution No. 10/2008/NQ-CP.

Stimulate investment and tax promotion measures

The government is currently preparing a stimulus package to face the global downturn. The package is organized around five groups of measures: 1) promoting production and exports, 2) supporting consumption and investment, 3) further loosening the financial and monetary stance, 4) reducing poverty and providing social welfare, and 5) strengthening public sector management at all levels.

According to Government Office (2008), at the government meeting on December 1-2, 2008, Prime Minister Mr. Nguyen Tan Dung announced that there would be a USD 1 billion stimulus package for supporting consumption and investment and would be financed from the Government budget, Government bonds and official development assistance. The Prime Minister urged the Ministry of Planning and Investment (MPI) to lead the drafting and submission of the action plan to the Government.

At the meeting with young entrepreneurs on December 14, 2008, Vice Prime Minister Mr. Nguyen Sinh Hung announced that the total stimulus package could be up to USD 6 billion and would not only support consumption and investment but also reduce poverty and providing social welfare (Duyen, 2009).

However, on January 5, 2009, the Government's decision on the stimulus package was officially announced. According to the decision, the government has agreed to use a USD 1 billion economic stimulus package for supporting investment only. The focus will be assisting small- and medium-sized enterprises (SMEs) to access capital for the next 12 months and to help them to complete their projects in 2009. This was carried out immediately in February 2009.

The package will be used to cover 4 per cent of the interest rates on bank loans to SMEs to give a boost to their production levels and safeguard employment. However, importers of non-essential goods and real estate and securities businesses are not covered by the package. The government also agreed to provide credit guarantees for businesses with capital of VND 20 billion or less and who employ a maximum of 500 workers, and to establish a VND 200 billion guarantee fund in the near future. The stimulus package is beginning to attract SME borrowers after months of subdued domestic credit growth.

This package includes expected foregone tax revenue. Regarding tax issues, the government agreed that it is necessary to allow deferments, reductions and exemptions of taxes for businesses in order to remove obstacles hindering production levels and exports. To this end, the Government decided to reduce the VAT by 50 per cent for some particular goods and services and 30 per cent of corporate income taxes for businesses in the last quarter of 2008 and 2009. Tax payment deterrents will be applied for 9 months. The decision of the Government on tax issues, according to Mr. Pham Van Huyen, Deputy Director of the General Tax Office, would reduce public tax revenue by about VND 10,000 billion (USD 0.57 billion).

Prime Minister Nguyen Tan Dung asked MPI to present a list of SMEs that would benefit from the package in order to implement it before the end of January 2009. According to MPI, the preference would be given to SMEs working in agriculture, which is among the most vulnerable sectors.

Implementation of Law on Unemployment Insurance (UI) and Wage Regulation

As described in the previous section, the two main negative impacts of the global financial and economic crisis on the labour market are the increasing level of unemployment and contracting real wage growth. This requires a change in policies on unemployment insurance (UI) and minimum wage regulation.

According to Government Decree 127/2008/ND-CP, the Law on Unemployment Insurance came into effect on January 1, 2009. The UI scheme is regulated as follows:

- Both employers and employees contribute the same rate of 1 per cent based on whichever is lower – the contractual salary/allowances or the statutory cap which is set at 20 times the minimum salary.
- Benefit payment is 60 per cent of the average salary/allowances of the six consecutive months prior to the employment termination.
- For those employees, who have their employment contract terminated, they are entitled to benefits from the UI scheme for their UI contribution period: 3 months of benefits if their UI contribution period is from 12-36 months; 6 months of benefits for 36-72 months of UI contributions; 9 months of benefits for 72-144 months of UI contributions; and 12 months of benefits for UI contributions for more than 144 months.

In order to support firms which have already been hit by the economic downturn, the Government has agreed that firms could postpone its UI contribution of 1 per cent to the last 6 months of 2009. This means employees can only benefit from the UI scheme from the beginning of 2010 at the earliest (Khanh, 2009a).

Regarding minimum wage regulations, the minimum wage will be raised subsequently each January until 2012 in order to level the minimum wages for local and foreign-invested enterprises. In 2008, Government Resolution 110/2008/NQ-CP was made to regulate a new minimum wage for labourers working in businesses and non-business organizations, effective January 1, 2009. The purpose of the wage increase was to support labourers while the consumer price index climbed in the first eight months of 2008. This policy will protect workers earning low income and ensure their social welfare. According to this policy, the monthly minimum wage for local firms is VND 800,000 (USD 46), an increase from the previous level of VND 620,000, and VND 1,200,000 (USD 69) for foreign-invested firms, an increase from VND 1,000,000.¹¹

Role of the ILO and Donor Agencies

Viet Nam's macroeconomic environment worsened in 2008 and still is affected by the global economic downturn. Policymakers will face serious challenges during 2009 in terms of ensuring that any measures taken will accelerate growth but not cause high inflation. The stimulus package is comprehensive but less attention has been paid to the rising unemployment and negative real wage growth. The USD 1 billion economic stimulus package focuses primarily on stimulating demand and investment and raising domestic credit growth.

In order to help policymakers to deal with the increasing unemployment, the ILO can play a role in some research and analysis on (i) the impacts of global crisis on employment and forecasting; (ii) research on various scenarios of job losses (as mentioned: due to employers decamp; firms go

¹¹ According to EIU (2008a), the purpose of a single minimum wage for all forms of business by 2012 will face strong opposition from private firms and state-owned enterprises.

bankrupt; or firms have to reduce their production); and (iii) comparing policy responses of different countries and sharing good practices. Based on the research output, some pilot programmes to deal with specific cases could be implemented. For example, the ILO could join with the Viet Nam Chamber of Commerce and Industry, Viet Nam General Confederation of Labour and MOLISA to design a pilot programme to minimize job losses while ensuring enterprise sustainability.

There is also a need for some assistance programmes to help workers who have lost their job to find new employment. This requires substantial effort from Job Promotion Centres in urban areas and the Women's Union in rural areas. The ILO and some donor agencies could consider providing capital in support of these programmes.

As labourers are losing their jobs, the UI scheme is a very important measure. However, the implications of this policy are still unclear. Is it compulsory for employers to make their UI contributions immediately when the worker is willing to do so? Some tripartite discussions between MOLISA, employers, labour unions and the ILO could help clarify these issues.

Consumer price inflation is now falling. However, implementation of loosening monetary policy could add to pressures on the depreciation of the dong against the US dollar, which in turn could make imports more expensive (EIU, 2008b). The flexibility and timing of monetary policy is very important. Another issue is international and inter-regional trade. The World Bank, Asian Development Bank and some other multilateral institutions can encourage and support research in this area of the crisis impact on trade, growth and employment.

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Annex: Monthly data (June 2008 to January 2009)

	June	July	Aug	Sep	Oct	Nov	Dec	Jan
GDP*								
GDP (VND billion, constant 1994 prices)	222,158	263,223	304,288	345,353	393,629	441,905	490,181	n/a
GDP (VND billion, current prices)	625,738	755,993	886,248	1,016,503	1,170,567	1,324,631	1,478,695	n/a
GDP (USD million, current prices)	37,891	45,832	53,728	61,543	70,896	80,373	87,100	n/a
GDP growth (% , y-o-y)	6.5	n/a	n/a	6.5	n/a	n/a	6.2	n/a
Exchange rate (VND:USD)**								
1st of month (a)	16,094	16,517	16,496	16,495	16,515	16,510	16,481	16,975
End-of-month	16,514	16,495	16,495	16,517	16,511	16,481	16,977	16,978
Celling rate at +3% (b)	17,009	16,990	16,990	17,013	17,006	16,975	17,486	17,487
CPI								
Avg; % change, base month Dec 2007	18.4	19.8	21.7	21.9	21.6	20.7	19.9	0.3
Avg; % change, y-o-y	26.8	27.0	28.3	27.9	26.7	24.2	19.9	17.5
Avg; end-period; % change, y-o-y	20.3	21.3	22.1	22.8	23.2	23.3	23.0	n/a
Goods exports fob (USD million)								
Month	6,541	6,547	6,018	5,274	5,212	4,219	4,680	3,720
Total (c)	30,736	37,283	43,301	48,575	53,787	58,006	62,685	n/a
Goods imports cif (USD million)								
Month	6,800	7,300	6,726	5,511	5,706	4,651	5,663	3,300
Total (c)	44,859	52,159	58,885	64,396	70,102	74,753	80,416	n/a
Trade balance fob-cif (USD million)								
Month	-259	-753	-708	-237	-494	-432	-983	420
Total (c)	-14,123	-14,876	-15,584	-15,821	-16,315	-16,747	-17,731	n/a
Current account deficit as a share of GDP (%)	37.3	32.5	29.0	25.7	23.0	20.8	20.4	n/a
FDI								
Newly registered capital (USD million)								
Month	16,200	13,500	1,800	9,900	2,020	726	1,254	160
Total (c)	30,900	44,500	46,300	56,300	58,300	59,046	60,300	n/a
Total registered capital (including additional capital from existing projects, USD million)	31,600	45,300	47,200	57,100	59,310	62,500	64,011	185
Y-o-y monthly growth (%)	270.0	373.5	349.7	400.0	426.6	211.8	200.0	-89.0
Implementation capital (USD million)								
Month	852	1,198	1,000	1,100	1,000	950	1,450	300
Total (c)	4,802	6,000	7,000	8,100	9,100	10,050	11,500	n/a
Y-o-y monthly growth (%)	37.7	42.9	32.1	37.3	38.3	44.2	43.2	-21.1
Exports by FDI (USD million)								
Month	3,230	3,335	3,454	3,001	2,800	2,626	2,274	n/a
Total (c)	17,039	20,374	23,828	26,829	29,629	32,255	34,529	n/a
Share in total exports	55.4	54.6	55.0	55.2	55.1	55.6	55.1	n/a
Industrial gross output (VND billion, 1994 prices)								
Month	56,049	55,967	55,590	54,106	54,327	51,014	55,437	50,644
Y-o-y monthly growth (%)	17.1	16.1	16.1	15.2	15.4	15.0	11.8	-4.4

	June	July	Aug	Sep	Oct	Nov	Dec	Jan
Total (c)	325,919	381,886	437,476	491,582	545,909	596,923	652,766	n/a
Y-o-y total industrial growth (%)	16.5	16.4	16.3	16.0	15.8	15.6	14.6	n/a
of which:								
State sector	0.069	0.067	0.065	0.064	0.055	0.069	0.04	-0.085
Non-state sector	0.223	0.222	0.217	0.207	0.211	0.204	0.188	-0.028
Foreign-invested sector	17.4	17.3	17.7	17.9	17.8	18.1	18.6	-3.2

Source: General Statistics Office of Viet Nam (www.gso.gov.vn).

Note:

*: Data on GDP (July, August, October and November) are author's estimation.

**: Source: State Bank of Vietnam (www.sbv.gov.vn).

a) Inter-bank average exchange rate

b) Equivalent to transaction rate of commercial banks

c) End-period accumulation since beginning of the year