

Vietnam: Improving Safety Net System for Sustainable Recovery

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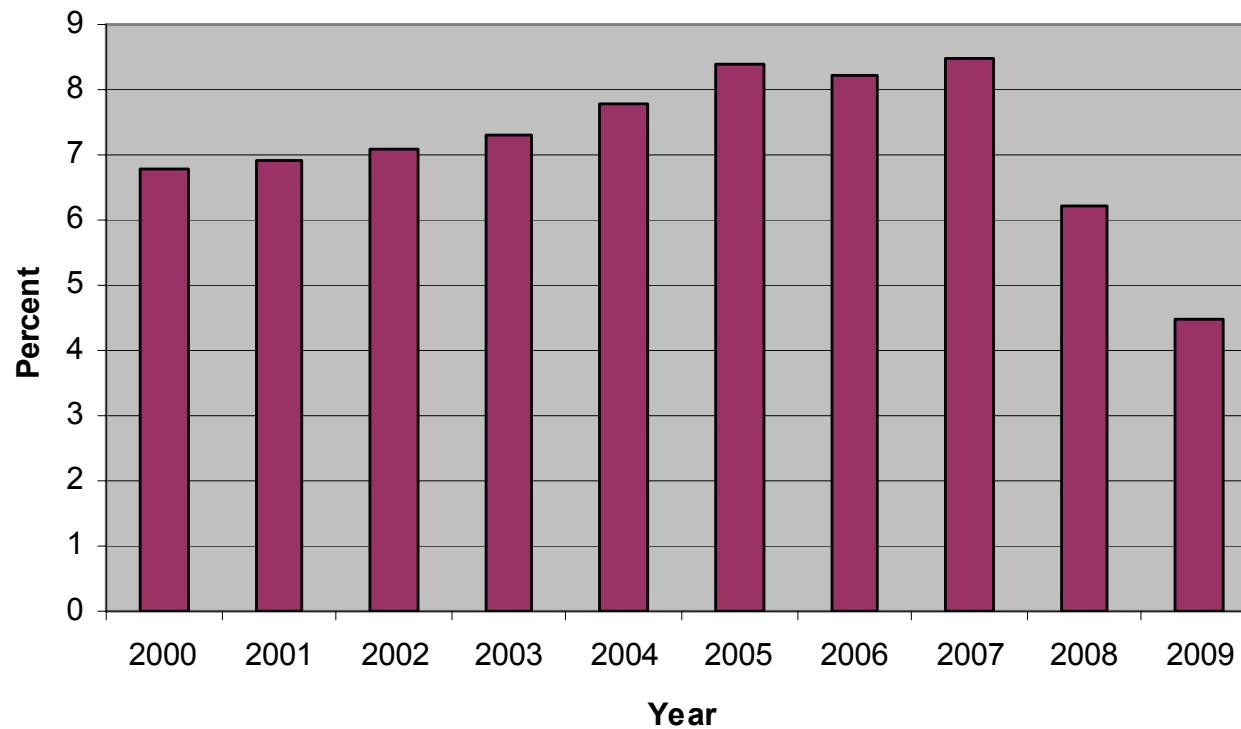
Outline of the Presentation

- Vietnam macroeconomy in brief
- Poverty reduction: records and issues
- Some major development problems
- Selected issues in Vietnam's safety net system
- Improving safety net toward sustainable recovery



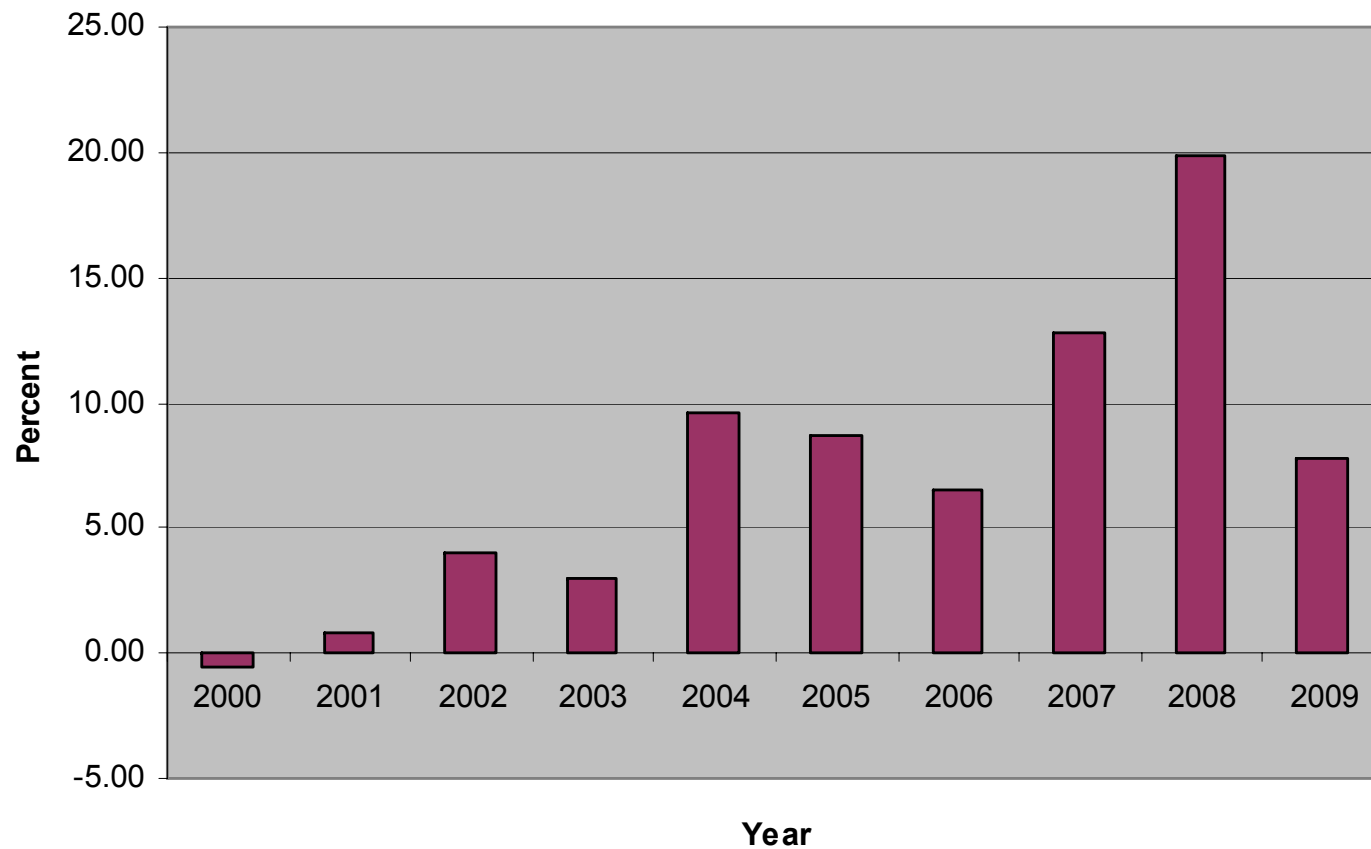
Macroeconomic Performance, 2000-09

Annual Economic Growth Rate, 2000-09



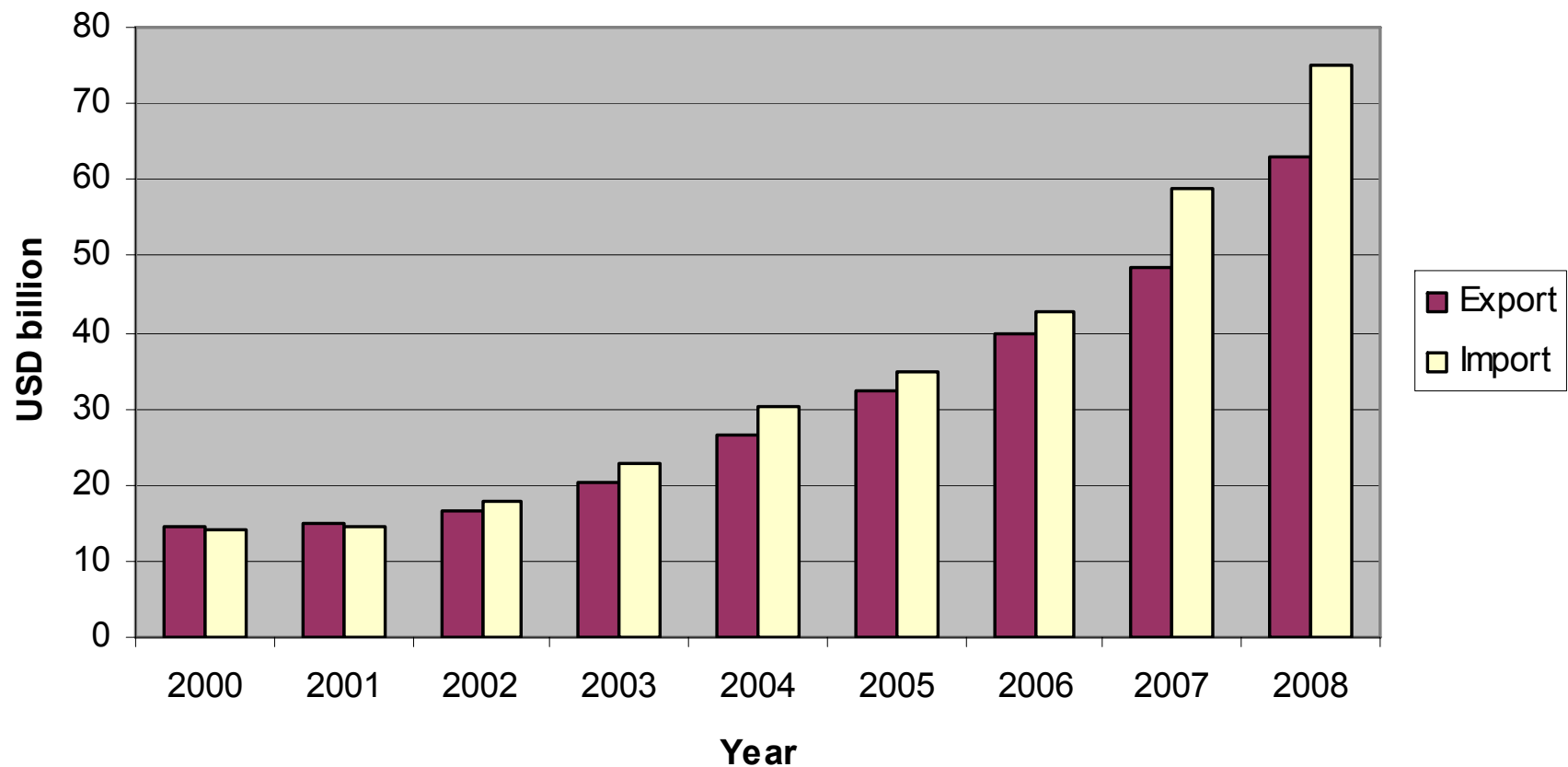


Annual Inflation Rate, 2000-09



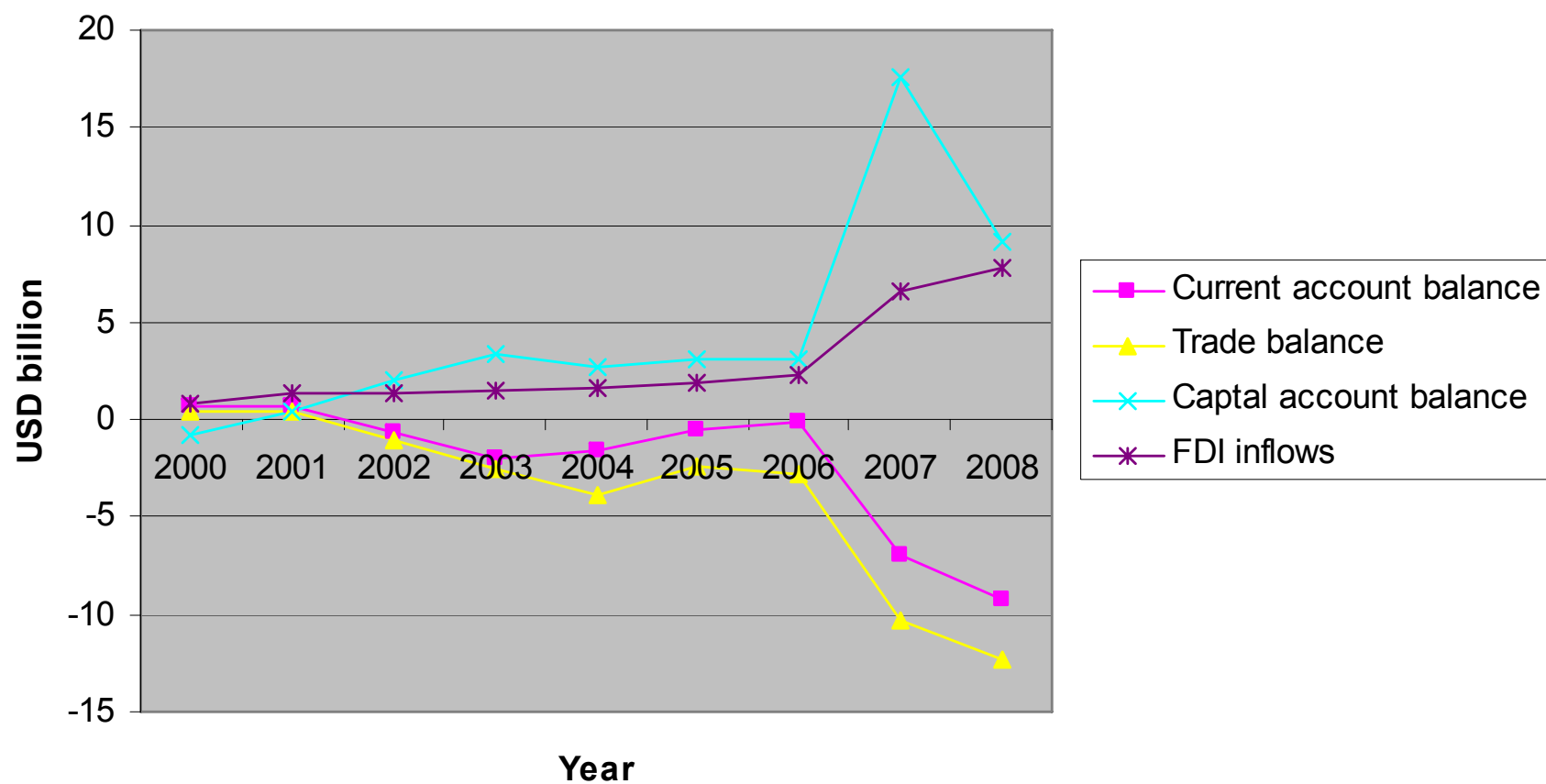


Import-Export Growth, 2000-08





External balances, 2000-08



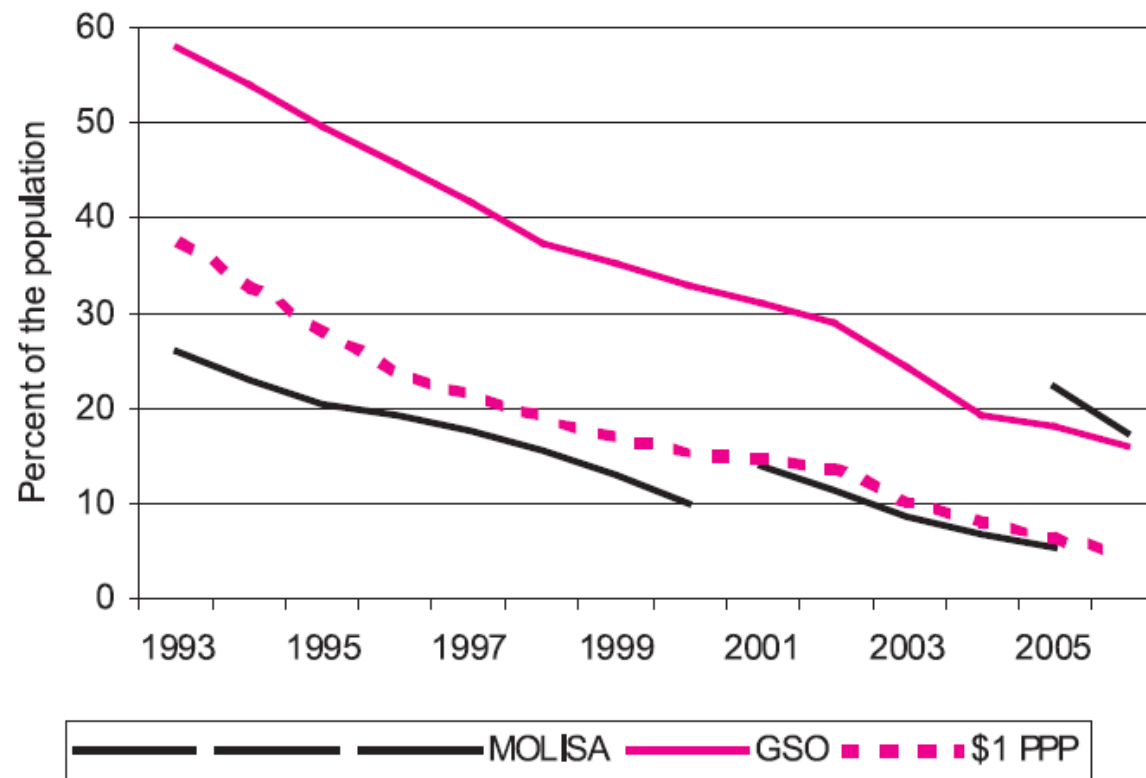


Current Macroeconomic Policy Issues

- Stimulus package from the beginning of 2009;
- Interest rate subsidy of 4% to selected sectors → accessibility issues, and distortions accumulated in the capital market;
- Increasing interest rate pressures;
- Factors supporting low inflation are fading away;
- Trade deficit accelerating;
- Confusion in further stimulus packages;
- Rising (again) issues in asset markets.



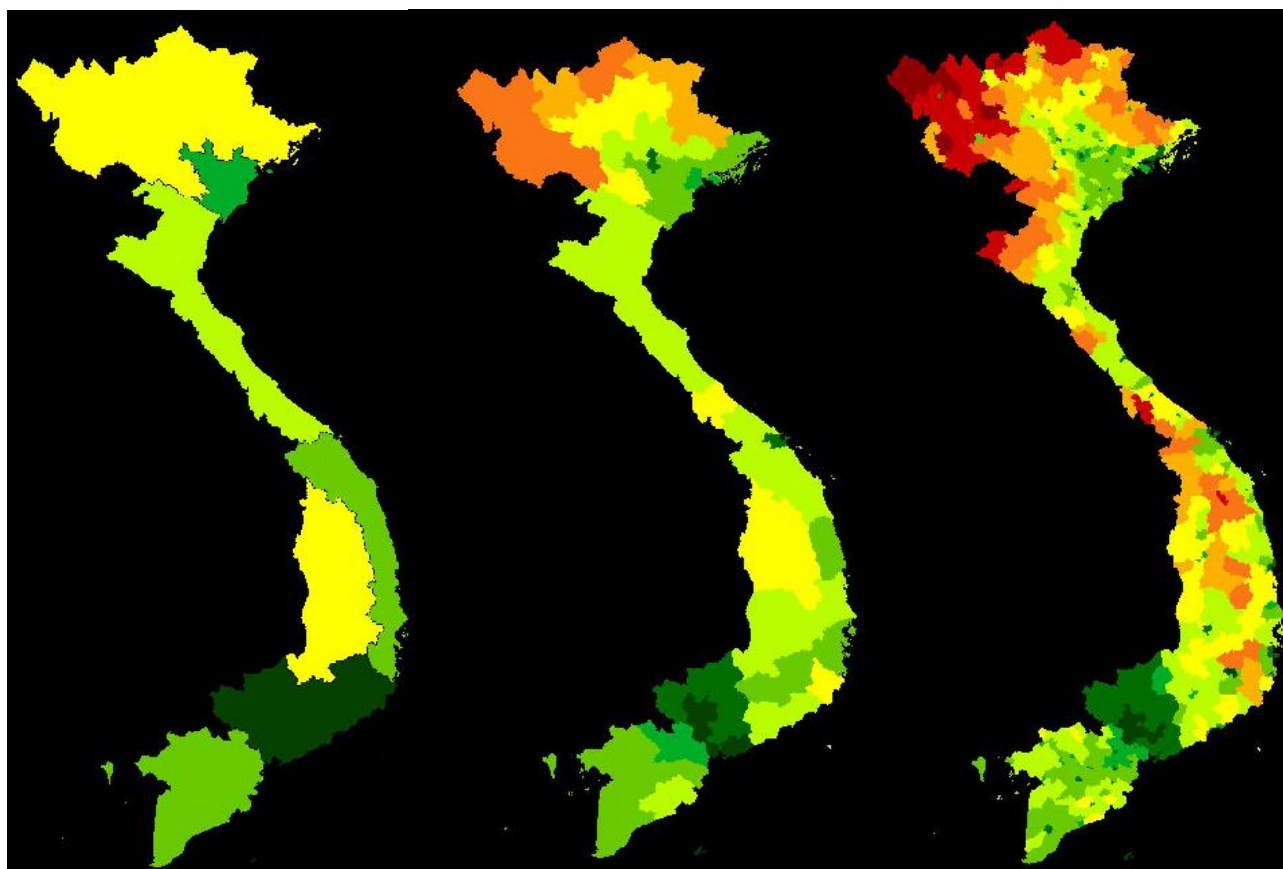
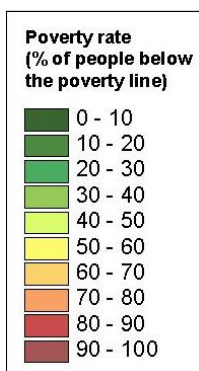
Poverty Reduction: Records



Source: WB (2008)

Poverty Maps, 2002

At regional, provincial and commune levels by Minot, Baulch & Epprecht (2003)



Poverty Reduction: Issues

- Mostly come from the economic growth, not by policy (Walle 2003)
- Risks/Vulnerability tend to increase as more inequality, more openness
- Return of poverty with economic downturn

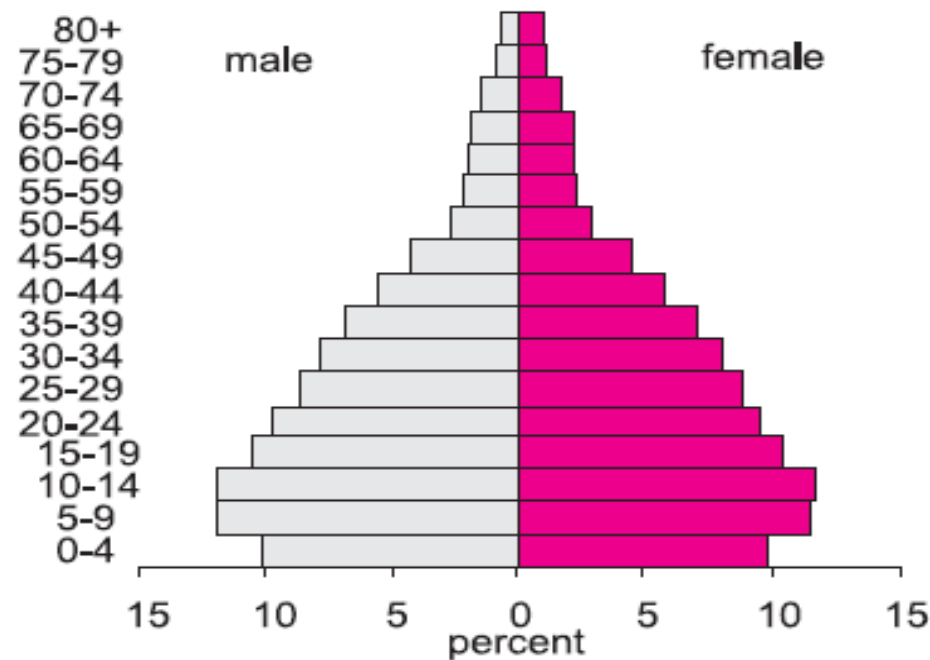
Some Major Problems

- Labor Market
- Housing Market
- Climate Change



Labor Supply: Young and ...

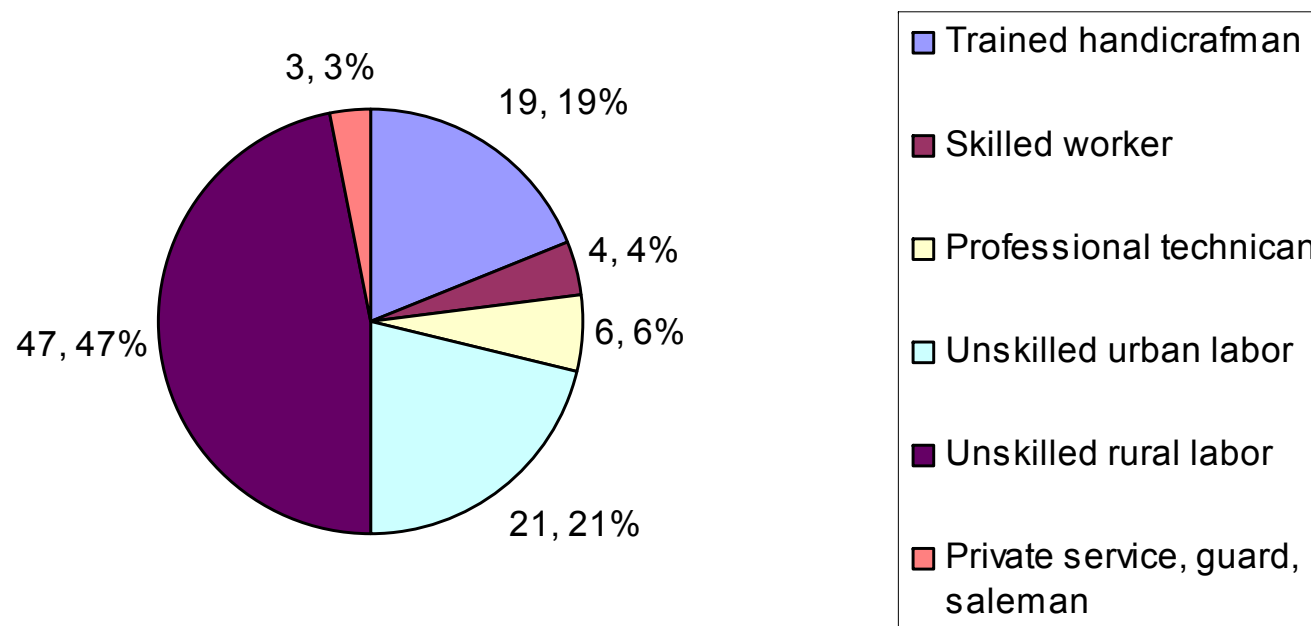
Vietnam Age Distribution 2000



Source: UN (2007), recited by WB (2008)



... Unskilled



Source: Dang Nguyen Anh (2007)



Mismatch in the labor market

- ❖ Mostly from the supply side: education system not meet the demand;
- ❖ Vietnam Competitiveness Initiative (2006): for 2 years continuously, skilled labor and high quality human resource is one the three most difficulties that enterprises faced;
- ❖ Global Competitiveness Index (GCI) 2008-2009: lack of skilled labors is one of the weakest points of Vietnam. Problems in basic education and higher education.

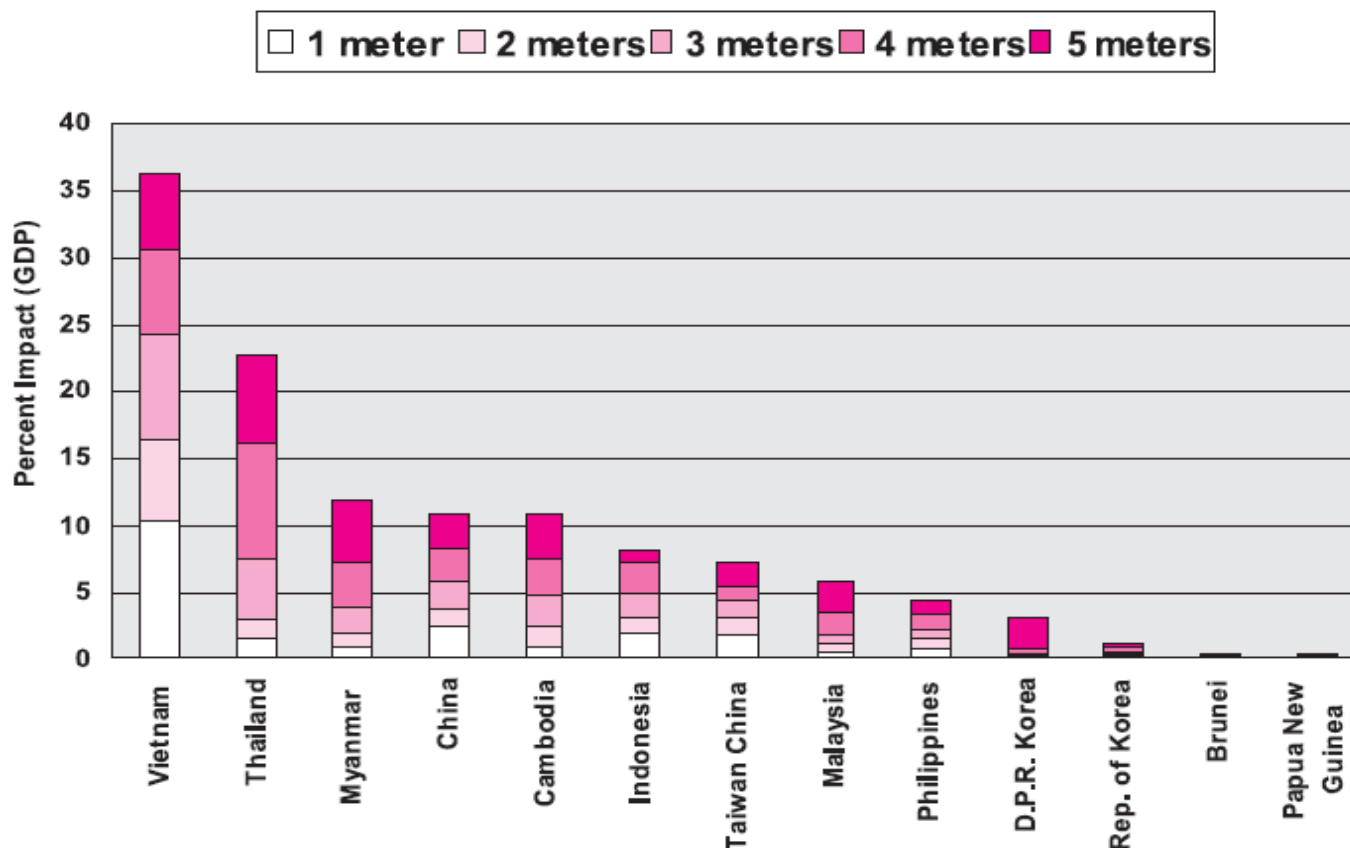
Inflation and Asset Bubbles: Direct Effects on Housing Conditions

- Inflation erodes income of wage earners;
- State-supported growth since 2000 made real-estate prices keep increasing as funds flowing into SOEs and many infrastructure projects;
- Surge in inflows of funds in 2006-07 inflated the asset prices, including the real estates;
- Economic stimulus by interest subsidy since beginning of 2009 once again keeps the property prices at least unchanged (mostly increased), while income decreases.
- Switching from agricultural lands to industrial lands also affected the supply and demand for housing (migration, urbanization, etc...)



Climate Change: More Vulnerability

Going under Water?



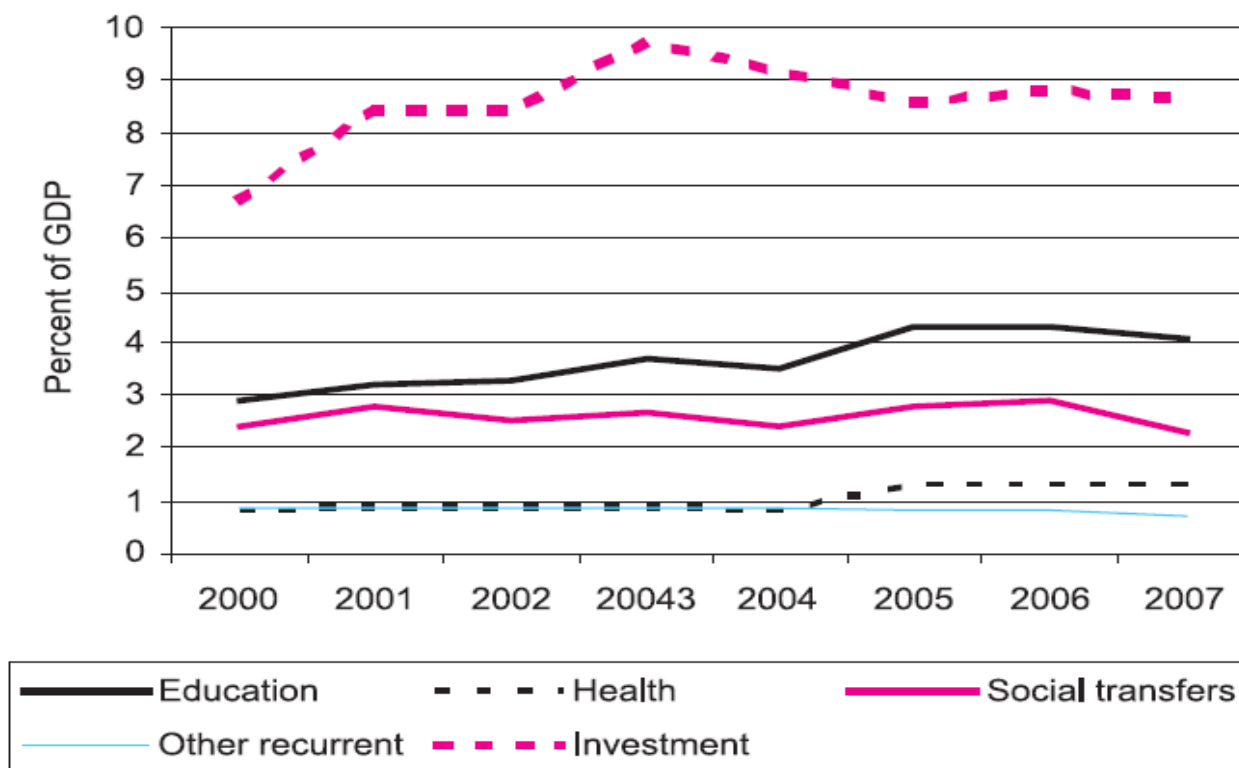
Source: WB (2008), recited from Dasgupta et al. (2007)



Selected Issues in Safety Net System



Budget Allocation, 2000-07 (WB 2008)



Source: WB (2008)

Health care

- Good but unequal (WB 2008);
- Accessibility is largely different among regions and income groups;
- Mostly from Out-of-Pocket payments (75%);
- Lacking of credible quality control mechanism;
- Drug market structure seems highly monopolistic or heavily distorted.

Health insurance

- Different contribution levels among enterprise sectors in terms of ownership (SOE, FDI, private domestic)
- Rapid expansion in coverage (up to 50% of population currently), but effectiveness and efficiency is a question.
- Health insurance as a source of hospital income increasing, from 10% in late 1990s, to less than 30% currently.

Old-age pensions

- Percentage of elderly in population: 8.51% in 1992/93, and 9.9% in 2004 (VHLSS, Long and Pfau 2007)
- Limited coverage: expansion from a low base of SOE employment at the beginning of *Doi-Moi*.
- Shifting from non-contributory to contributory basis (since 1993).
- Social Insurance Law (2006) → compulsory pension program
- Problems of incentives threatening financial sustainability
- Inflation and macro instability may erode the pension income.

Employment Insurance

- Effective from beginning of 2009: 1% from the employer, 1% from the employee, and 1% from the government budget.
- However, only those having contributed for at least 12 months can receive insurance → effective supports only from 2010 as earliest.
- Identification problem: who is in unemployed (especially in informal sector – 36 million employment)?

Other schemes of social supports

- Voluntary insurance schemes → distorted by inflation
- Government's special programs to support the poor, especially under the current crisis.
- Current examples:
 - Direct supports (in kind and cash) to poor families in New Year holiday of 2009.
 - Big SOEs assigned to support the poor, selected remote, poor communes → question of efficiency and responsibility.
 - Housing for the poor: Cheap housing for the poor to afford → question of quality and speculations/reason for taking land sites.
- --> Basic questions on the role of the State in the economy.



Policy Implications: Short-run

- Pro-poor spending as automatic stabilizer, combined with more fiscal transparency.
- Macro stabilization: external balances and internal balances.
- Methods of intervention.



Policy Implications: Longer-run

- Aggregating information and programs in the safety net system.
- Educational development
- Infrastructure development
- Civil society development and further institutional supports
- Policy visions toward an effective Master Plan?



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Thank you for your attention!

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