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The Impact of COVID-19 on Vietnam's Economy

Outbreak since December 2019, the epidemic caused by deadly SARS-CoV-2 virus (COVID-19) has imposed its detrimental effects on various aspects. Thousands have died globally. Many economies have been disrupted. In Vietnam, although all 16 infected cases are successfully cured (according to the Ministry of Health on 26 February 2020), the impact of COVID-19 on the economy is undeniable. The Ministry of Planning and Investment (the **MPI**) has analysed the situation, predicted the scenarios and reported to the Government.

1. Overview

According to the MPI, COVID-19 will affect the GDP of Vietnam. In details:

- **Scenario 1:** if the epidemic is under control in Q1 2020, GDP will be 6.25%, reducing by 0.55-point percent in comparison with that under Resolution No. 01/NQ-CP dated 01 January 2020 of the Government on missions and essential solutions to conduct socio-economic development plan and State's budget estimation for 2020 (**Resolution 01**).
- **Scenario 2:** if the epidemic is under control in Q2 2020, GDP will be 5.96%, reducing by 0.84-point percent in comparison with that under Resolution No. 01, and 0.29-point percent in comparison with Scenario 1.

2. Detailed analysis and prediction

The MPI predicts that COVID-19 will have an impact on numerous sectors of the economy. The list below demonstrates the influence of the epidemic over some industries of Vietnam.

No.	Sectors	Detailed analysis and prediction
1	Import and Export	<ul style="list-style-type: none"> • Scenario 1: <ul style="list-style-type: none"> a) Q1 export turnover is predicted at USD 53.9 billion, decreasing by 8.3% in comparison with that in Q1 2019. Export turnover to Chinese market will reduce by 9.5%, compared to Q1 2019, to USD 6.8 billion. b) Q1 import turnover is estimated at USD 55.5 billion, reducing by 3.2% compared to Q1 2019. Import turnover to Chinese market will decrease by 13.6% in comparison with Q1 2019. • Scenario 2: <ul style="list-style-type: none"> a) Q2 export turnover is predicted at USD 58.5 billion, decreasing by 8.1% in comparison with that in Q2 2019. Export turnover to Chinese market will reduce by 17.3%, compared to Q2 2019, to USD 7.5 billion. b) Q2 import turnover is estimated at USD 61 billion, reducing by 3.1% compared to Q2 2019. Import turnover to Chinese market will decrease by 17.6% in comparison with Q2 2019.
2	Tourism and hospitality	<ul style="list-style-type: none"> • Scenario 1: The number of Chinese tourists will reduce by 800,000, while other international tourists will decrease by 50%. Estimated damage for the sector: USD 2.3 billion. • Scenario 2: The number of Chinese tourists will reduce by 2.3 million, while other international tourists will decrease by 60%. Estimated damage for the sector: USD 5 billion.
3	Air transportation	<p>The Civil Aviation Administration of Vietnam predicts:</p> <ul style="list-style-type: none"> • If the epidemic is under control in April 2020, the number of tourists will be 119 million, reducing by 2.1% in comparison with the same period in 2019; • If the epidemic is under control in June 2020, the number of tourists will be 111.6 million, reducing by 4.2% in comparison with the same period in 2019; • If the epidemic is under control in August 2020, the number of tourists will be 98.5 million, reducing by 15.5% in comparison with the same period in 2019.

No.	Sectors	Detailed analysis and prediction
4	Manufacturing	<ul style="list-style-type: none"> • Scenario 1: The added value of the sector in Q1 will only increase by 5.18% in comparison with the same period of 2019 (in Q1 2019 and Q1 2018, this rate was 9% and 10.45% respectively). • Scenario 2: The added value of the sector in Q2 will only increase by 5.33% in comparison with the same period of 2019 (in Q2 2019 and Q2 2018, this rate was 9.24% and 8.34% respectively).

3. Suggestions from the Government

- a) The MPI proposes that the Government assign the State Bank of Vietnam to study and implement credit support packages for SMEs, cooperatives and farmers who are severely hit by the epidemic.
- b) The Prime Minister requests the ministries to reorganise production and take advantage of trade deals to diversify and expand international markets, as well as develop the domestic market and improving domestic purchasing power.

4. Conclusion

The short-term economic impact of COVID-19 on Vietnam is significant. However, for the long-term period, we are of the view that the economy may benefit as EVFTA (and other free trade agreements) will create a chance for Vietnam to diversify markets. In addition, the wave of production shift from China to other countries (e.g., Google and Microsoft) is an evident opportunity for Vietnam.

Key contact

If you have any questions or would like to know how this might affect your business, please contact the key contact.

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