

SUMMARY

INTERNATIONAL ECONOMIC REVIEW 2021 AND OUTLOOK 2022

April 2022



1. ECONOMIC GROWTH

1.1. Global Economy

1.1.1. Economic Situation and Developments in 2021

With a 6.1% growth rate, the global economy in 2021 recovered significantly compared to 2020. Global output returned to pre-pandemic levels in mid-2021, but recovery momentum is unsustainable due to a significant slowdown in growth during the second half of the year and a sharp divergence between countries and economic sectors. Stronger-than-expected growth in consumption and trade were the main drivers of economic growth in 2021. However, consumption growth declined gradually by the end of 2021, thus reducing economic growth momentum.

Global industrial production expanded continuously in 2021, despite being negatively affected by supply chain disruptions and tensions, shortages in material input and labor, and disruptions to logistics networks. However, the expansion rate slowed remarkably in the later part of the year.

The labor market recovered, but unevenly. Labor in emerging and developing markets was hit harder than in developed economies. In 2021, the number of temporary jobs increased significantly, providing a buffer during times of economic uncertainty. But, in the long run, temporary employment has had negative impact on firms' long-term productivity.

The global economy in 2021 also has many dark areas, negatively affecting its resilience, namely: (1) Record displayed high macroeconomic imbalances; (2) The global supply chain was broken and logistics costs skyrocketed; (3) Global prices hit a record high for energy, food and foodstuff; (4) Severe energy price crisis and energy shortages appeared globally; (5) Inflation reached record highs in many countries and became a global threat; (6) The stock market and real estate market boomed around the world, causing bubble risk and a big crash in the Chinese real estate market occurred consequently.

1.1.2. Risks and prospects

In 2022, the global economy will continue to face unresolved *challenges* from 2021. Additionally, macro risks tend to increase in 2022, including high inflation, increasing interest rates and tightening monetary policy, and stimulus policies are suspended suddenly; Chinese declining growth and increasing geopolitical risks.

Global growth is projected at 3.6% in 2022, lower than initial expectations. The Russia-Ukraine war is expected to set back global growth by another 0.8-1.08% in 2022.

Global geo-political environment in 2022 is forecasted to be more unstable, tensions and arms races are expected to intensify, more open and fierce confrontational competition are anticipated,

the rise of great power politics and unilateralism will promote a multi-polar and multi-centre game while leadership is lacking.

1.2. US economy

The US economy, in 2021, strongly recovered, surpassing expectations to return to pre-pandemic levels in the first half of 2021. It recorded the fastest growth in nearly 40 years, surpassing China for the first time since 2005 and becoming the biggest engine for global growth. However, emergence and rapid spread of the Omicron variant created negative impacts on service spending, supply chain disruption, and tightening fiscal and monetary policies in the near future. US GDP in 2022 is projected to decrease to about 3.7%.

1.3. EU and UK

The EU economy experienced a recovery as of the second quarter of 2021 and returned to pre-pandemic levels. But, recovery was uneven among members, recovery momentum was slower than that of the US and China, and showed signs of slowing down due to increased energy prices, bottlenecks in supply chain and restrictions imposed in response to a new wave of the disease. Unemployment rates were at record lows. The UK economy in 2021 strongly recovered at 7.8%, a record high since 1948 thanks to large-scale economic stimulus measures.

1.4. Asia Pacific

Economic growth in Asia and the Pacific is projected to be slower than previous estimations as a consequence of the risks posed by Ukraine war, pandemic outbreak and tightened financial conditions.

1.5. Japan

Japan's economy in 2021 recovered strongly at 1.7%, achieving positive growth for the first time in the past 3 years, but real GDP remained lower than the pre-pandemic peak. Its economic outlook remains volatile, depending very much on how the government's responds to future variants and waves of infections, as well as the war in Ukraine.

1.6. China

China's economy in 2021 continued to recover and grow impressively at 8.1%, exceeding expectations. It was a key economy with the highest growth rate in the world with many outstanding achievements. However, its economic recovery was not stable, bearing many potential risks. China's economic outlook for 2022 is weaker than previously forecast as China continues to pursue "conservative and effective macro policies" along with "flexible and accommodative" monetary policy while at the same time facing many risks.

2. INTERNATIONAL TRADE, TOURISM AND AVIATION

2.1. International trade

Global trade in 2021 recovered faster than anticipated, strongly grew and surpassed pre-pandemic levels. Trade in goods witnessed spectacular growth, surpassing projections to record a growth rate of more than 26%. Global trade in services recovered and strongly rebounded (16%) although it has yet to reach pre-pandemic levels. Trade in minerals, agricultural products and energy increased relatively. Transport and tourism saw impressive recovery against the decline in 2021. Somewhat even trade growth was recorded in all areas.

WTO forecasts global trade growth in 2022 at 4.7%, and expects it to continue to face many uncertainties and risks in the coming time: the pandemic's unpredictable developments will affect consumer demand, slowing down global trade momentum; economic recovery for many key economies is on declining trend; soaring commodity and energy prices, inflationary pressures, supply chain disruptions, high logistics and transportation costs will occur; China's zero-Covid policy poses numerous risks; as do the geopolitical tensions, especially the Ukrainewar.

2.2. Tourism and Aviation

• *Tourism*

Travel, tourism, entertainment and hospitality showed numerous positive signs of recovery from mid-2021 resulting from strong increases in tourism attributed to high vaccination rates worldwide, compressed tourism demand and high savings. Europe and the US recovered the fastest while in Asia, the recovery remained modest, especially for the countries that pursue "zero-Covid" policy. The outlook for 2022 is relatively positive as UNWTO expects international tourist arrivals to increase from 30% to 78% against 2021.

• *Aviation*

The aviation industry continues to be heavily affected by Covid-19 pandemic with a slow and uneven recovery although it has passed the worst phase. Airline service recovery in Asia is slower than in Europe and North America. According to IATA's forecast, the aviation industry will grow in 2022 as a result of a clearer recovery path and the removal or relax of social distancing orders. Although, recovery and growth prospects remain fragile as new virus variants may arise.

3. CAPITAL FLOW, FINANCIAL MARKET, CURRENCY, REAL ESTATE

3.1. Liquidity, interest rates and financial markets

Global financial conditions reversed in 2021. Early 2021, financial conditions were particularly relaxed, liquidity flooded market, interest rates were at record lows, and savings rates increased

sharply along with improved individual income. However, during the second half of 2021, many countries began to tighten monetary policy through raising interest rates and scaling down asset repurchase programs.

Global stock market continued to recover, continuously conquering new heights, even overheated, but developments were uneven and volatile in early 2022 due to Russian – Ukraine war. Many experts warned about risks of overheating for many global stock markets and technology bubbles.

Bond market has been highly volatile since its worst start in 2015 due to widespread sell-offs. But, there were several successful bond issues with record low interest rates, even negative interest rates in Korea, Germany.

The banking system benefited greatly from the government's major bailout packages, but were under great profit pressures when support measures gradually reduced in 2021. The actual asset quality of the banking system will be gradually revealed even when the economy recovers.

3.2. Weak, uneven FDI inflows with poor outlook

FDI inflows remained weak, uneven with a poor outlook. Despite strong recovery in 2021, recovery in global FDI flows was uneven across groups of countries, focusing mainly in developed economies. Global FDI outlook in 2022 is positive, but it will be difficult to replicate the recovery rate of 2021 due to negative impact of new disease outbreaks, slow vaccination rate, especially in developing countries, slow implementation of infrastructure investment stimulus packages, supply chain disruptions, increased energy prices and inflation.

3.3. The USD appreciates and the outlook is positive

Major currency exchange rates will depend on global economic recovery and pandemic control. In 2021, the USD appreciated sharply while the EUR and JPY depreciated heavily. The Chinese Yuan was relatively stable compared to other major currencies.

3.4. The global real estate market boomed, there was a big crash in China

With continued growth momentum from 2020, the world real estate markets surged, global house prices experienced fastest but uneven growth. Some markets began to show signs of unprecedented bubbles since the financial crisis. Malaysia, Malta and Morocco were the only 3 markets that experienced a decline in house prices in 2021.

4. COMMODITY MARKETS AND INFLATION

Global commodity prices in 2021 continued to increase from mid-2020, stronger than forecast. Many items hit multi-decade records, the prices increased across the entire supply chain and in all areas, ranging from input materials, wages, logistics costs, energy, oil, metals, food, fertilizers... Several small energy crises were recorded in Europe, the US, and China.

Inflation became a global phenomenon. In many places, inflation skyrocketed to high records, exceeding the forecast as “temporary” and surpassing the targeted level set by most of central banks and major international organizations, turning into a major concern in 2022. High inflation will diminish policy options, making it difficult for the countries to balance between economic recovery and inflation control. This affects recovery growth, causes stagnant inflation and undermines purchasing power and demandforce.

5. INCREASED PRESSURE AND RISKS FROM DEBT BURDEN AND BUDGET DEFICIT; STRONG GROWTH IN SUSTAINABLE DEBT MARKET

Global debt growth in 2021 slowed, but continued to bring total debt to a record high of US\$303 trillion. More than 80% of the new debt in 2021 came from emerging markets (led by China), with total debt reaching US\$100 trillion (248% of total emerging market GDP).

The pandemic also led to the issuance of environmentally, socially and governance-related debt to boom as investors turn to sustainable debt markets.

6. OUTSTANDING ECONOMIC SUPPORT POLICY

Regarding outstanding economic support policies, countries continue to advocate Covid-19 pandemic adaptation, while prioritizing long-term growth drivers and strenghtening forces through international links. Additionally, there is a divergence in central banks’s policy measures in the face of strong global inflation pressure. This trend is expected to continue in 2022 with key meassures being tightening monetary policy.

POLICY RECOMMENDATIONS



7. POLICY RECOMMENDATIONS FOR VIETNAM

Vietnam needs to continue to attain its goals, including: economic recovery, macroeconomic stability; healthy and transparent financial market, while co-existing with Covid-19; implementing fiscal and monetary policies which focus heavily on boosting demands; and prioritizing resources for the business recovery and development. Specifically:



First, determine that the primary tasks in the future is to "stabilize macroeconomy" for economic recovery.



Second, in the short term, policies should be flexible for the economy to respond quickly to the rapid fluctuations of the world economy. Fiscal policies play a key role in supporting economic recovery. Monetary policies should be "adaptive" to the current economic state. Efforts should continue to balance between inflation and financial risks with economic recovery support, thus unleashing the circulation of capital flows.



Third, in the medium term, social welfare, energy security should be strengthened, flexible monetary policies should be promoted and banking system resilience should be intensified.



Fourth, in the long term, economic restructuring should continue, productivity should be enhanced as it is the core of competitiveness, and participation in global value chains should be strengthened.

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Fifth, trade should continue to be an important driving force for Vietnam's growth in the coming time. Therefore, FTAs should be exploited to tap partner markets.

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Sixth, new context can shift the investment of multinational enterprises towards infrastructure and information technology. Therefore, opportunities and challenges, as well as trends of global FDI flows in the new context should be examined thoroughly to adjust the strategy accordingly.

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Seventh, solutions to a specific sectors heavily affected by the Covid-19 pandemic should be developed to help them quickly recover, especially tourism, aviation and logistics.