ANALYSIS OF FACTORS OF VIETNAM'S ECONOMY FROM THE PERSPECTIVE OF SOFT LANDING AND HARD LANDING

● PHAM ANH DUNG

ABSTRACT:

This study analyzed Vietnam's economic factors from the perspective of a soft landing in 2023 and predicted a hard landing in the future. In this study, qualitative, quantitative, and press sources from 2022 to 2024 and a comparison method were used to analyze Vietnam's economy. The State Bank of Vietnam (SBV) could see the current and future problems of increasing moderate interest, which led to soft landings to avoid economic recession. The study's findings could be a suggestion for building suitable solutions for Vietnam's economic development and further research.

Keywords: soft landing, hard landing, interest rate, bad debts, exchange rate, inflation, VN-index, the State Bank of Vietnam (SBV).

1. Introduction

This study examines how the use of mixed and comparison methods to analyze and helps the policy makers to know how soft landing and hard landing in Vietnam's economy. From the pieces of the financial picture, the government and state bank of Vietnam (SBV) can see the current and future problems of increasing high interest when economic depression may be hard landing instead of soft landing. This study aims to analyze Vietnam's economic factors from the period of 2022- 2024 when facing economic recession such as energy crisis, inflation, real estate bubble, COVID-19, and Russia-Ukraine conflict caused scale down businesses. However, there had a soft landing in Vietnam's economy in 2023 when Vietnam commercial banks reduced high interest rate from 7%-8% to moderate rate at 4%-5% for Q3,Q4 after several years of pursuing a high interest rate, it was seem to hard landing but miraculous growth rate (GDP) at highly 5.05% in 2023. In the long term, the possibility of high inflation, increased bad debts, and exchange rate depreciate. Therefore, hard landing would appear in the period of 2025-2026.

2. Methodology

The authors will use mixed methods like analytical research methods, using qualitative, quantitative, and press sources from 2022 to 2024, we will use a comparison method to analyze the Vietnam economy. Also using observations, accumulate, synthesize and actual situations with case studies of soft landing in the U.S, Vietnam, and other countries.

3. Results and discussion

3.1. Analysis of Vietnam's economic factors

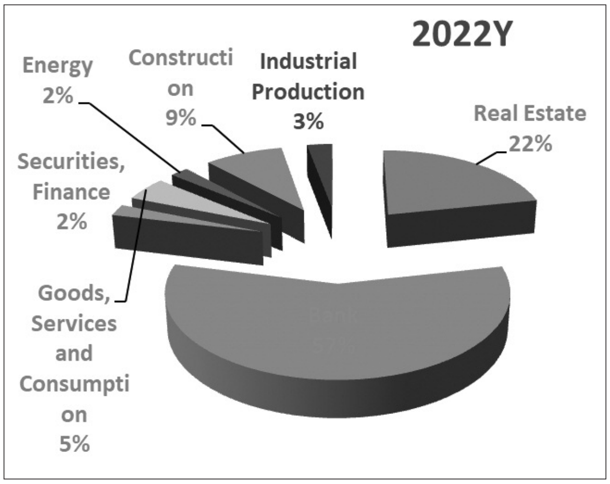
During the COVID-19 in the period from 2020 to 2021 there was a big volume of bonds issued at 1.2 million billion dong (equivalent to 50 billion US dollars), was equal to the previous 10 years of accumulated bonds issuance that why during pandemic caused increase of prices of real estate, securities, goods, and services. In addition, whole pictures showed that bank systems issued bonds from 31% to 34% in the period from 2020 to 2021 and increased 57% bonds issuance in total corporate bonds in 2022. Plus the real estate sector issued 20% of bonds in 2022, there are bank systems and real estate enterprises account for 77.3% of the total corporate bond issuance in economic structure. Therefore, bank systems and real estate sectors are key players in the long-term with the largest volume of bonds issuance [2,4,5,11,12]. See below Chart 1.

Last several years, interest rates continued to increase to mobilize people's deposits which invest into banks, real estate, securities, etc. Those prices continued to increase but suddenly COVID-19 pandemic broke out several years later, then the Russia-Ukraine conflict broke out in February 2022. The global economy was seem to recession with high inflation, governments of many countries tried to save the economy, but many big banks like Silicon Valley Bank, First Republic Bank, Signature Bank, and Credit Suisse Bank across America and Europe were collapsing with amount of thousand billion dollars, deposits were not insured, people rushed to withdraw money and the government was forced to call on banks in the system to rescue defaulted banks. The FED and central banks of EU countries had to launch money into the economy to promote business activities, leading to high inflation worldwide. Later, FED had to increase interest rate many times to threshold 5% to anti-inflation and prevent a wave of withdrawals nationwide [4,5].

As of March 29, 2024, VND has decreased by 2.11% since the beginning of the year compared to USD. VN-Index mostly had downward fluctuations with a decrease of 10/17 times when the exchange rate increased by 1%. The average decrease of the VN-Index is -1.81%, corresponding to an increase in the USD/VND exchange rate of 2.08% [7]. See below Chart 2.

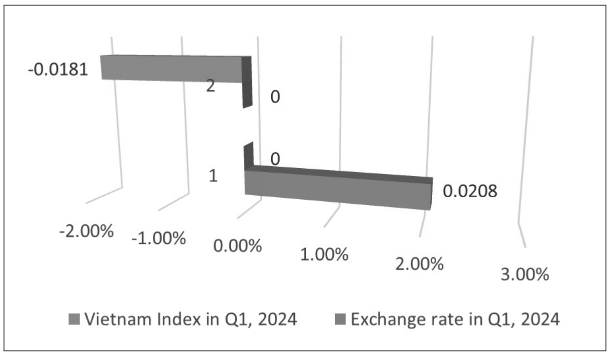
The market went through a year of ups and downs and many fluctuations. For the whole year 2022, the VN-Index decreased by 34%, from the peak of 1,525.58 points recorded in the first session of the year to 1,007.09 points at the end of the year. It recovered slightly to 1200 points in Q1, 2024 [17]. The VN index is hard to recover before 2022 because of economic recession in global and other locally economic matters in Vietnam such as

Chart 1. Corporate bond issuance structure in 2022



Source: VBMA 2021-2022 and prepared by author (2023)

Chart 2. The relationship between Ex.rate and VN Index in Q1, 2024

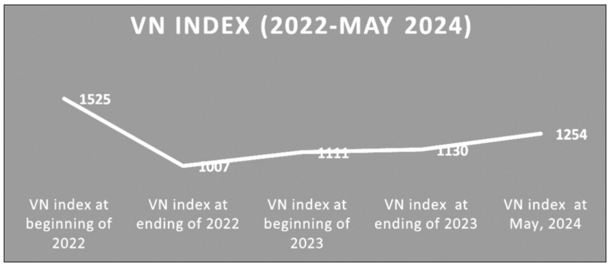


Source: Vneconomy in 2024 and prepared by author (2024).

devalued exchange rate, inflation, high bad debts rate, frozen real estate sector and property lost 20%-30% value. Assets can not be liquidated. Devaluation of VND/USD is approximately at 8% from 2023 to Q1, 2024.

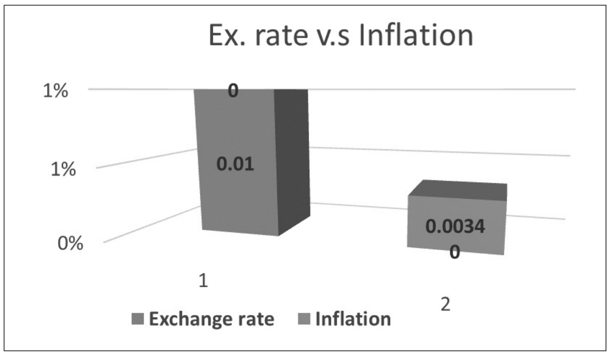
Actual studies in Vietnam have shown the relatively large influence of exchange rates on inflation. A relatively conservative result shows that for every 1% depreciation of the VND, inflation will increase by 0.34%. So, according to this study, with a depreciation of 4.5% from the beginning of 2024, inflation will increase by 1.5%. This does not take into account natural price increases such as domestic gasoline prices increasing according to world oil prices [13]. See below Chart 4.

Chart 3. VN-index dropped from the period of 2022 to May 2024



Source: Vietnamnet in 2022-2024 and prepared by author (2024)

Chart 4. The relationship between exchange rate and inflation



Source: SGGP-ĐTTC in 2024 and prepared by author (2024)

Chart 5. Inflation rates of economies including the Eurozone, the US, Vietnam, Thailand and China

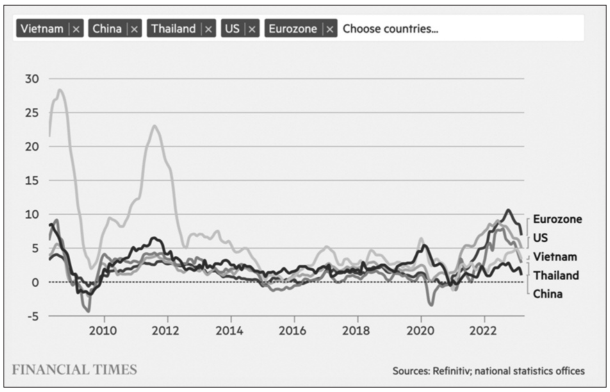
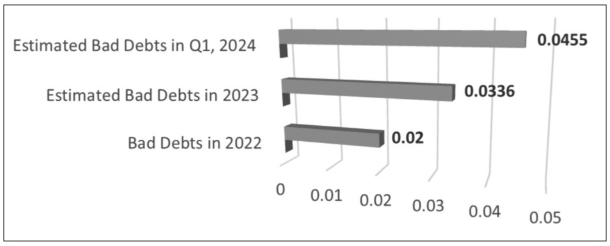


Chart 6. Estimated bad debts status in Vietnam banking system in 2022 to 2024



Source: Vneconomy in 2024 and prepared by author (2024)

Until Q2, 2023 inflation in Vietnam (below 4%) was higher than that of two neighboring countries, China (1%) and Thailand (2.8%), but much lower than that of two developed economies, the US (6%) and Eurozone (6.9%) [16]. See Chart 5 as below.

Bad debts arose because of the frozen real estate market after covid-19 and conflict between Russia and Ukraine, businesses could not pay back the loans and property value might drop 20%-30%. The SCB-Van Thinh Phat case is also one of the reasons for increasing bad debts in the banking systems. In Q1, 2024, bad debts might increase 4.55%[14] and continue to increase in next quarters. See below Chart 6.

Regarding the information some international newspapers reported about the Van Thinh Phat case and the amount of money that the State Bank of Vietnam (SBV) lent to support SCB, the Deputy Governor said that when SCB fell into difficulty, it was even considered in case of a crisis, like many countries in the world, the function of the central bank is to have a timely solution to intervene, ensuring that the bank does not fail and does not affect the national financial system. security and safety of the commercial banking system. Therefore, the SBV immediately took timely action solutions.

3.2. Soft landing in the US and Vietnam in 2023 and prediction of hard landing in Vietnam in the long-term

According to Bloomberg, Treasury Secretary Janet Yellen declared on Friday on January 5, 2025 that the US economy had achieved a long-sought soft landing, a historically unusual event in which high inflation is tamed without significantly damaging the labor market. Government figures out earlier Friday showed job gains and wage increases in December both exceeded expectations, with payrolls climbing 216,000. The report, which suggested continued upside risk for inflation, prompted investors to trim bets that the Federal Reserve would begin cutting rates in March. Yellen zeroed in on the latest wage data, which showed average hourly earnings rose 4.1% in the year through December. Given consumer inflation for the year is projected by economists to come in at 3.2%, that would mean wages exceeded price growth in 2023. “Wage increases are running over price increases now,” Yellen said. “American workers are getting ahead and the progress for the middle-income families is very noticeable.” [1]

For two years the Treasury chief consistently rejected the gloomiest predictions for the US economy even as the central bank pursued an aggressive rate-hiking campaign through much of 2022 and 2023. While never ruling out a recession altogether, she repeatedly said she saw a “path” to a so-called soft landing.“There has been a lot of pessimism about the economy that’s really proven unwarranted,” Yellen said. “A year ago, most forecasters believed we would fall into a recession. Obviously, that hasn’t happened.”[1]. To combat the inflation, the FED implemented an interest rate increase to threshold 5% over the year, which resulted in a decrease in inflation combined with economic growth in Q3 although prior quarters were recessionary in some countries [3].

A cyclical slowdown in economic growth that avoids recession is the goal of a central bank when it seeks to raise interest rates just enough to stop an economy from overheating and high inflation, without causing a severe downturn, it may also refer to a gradual, relatively painless slowdown in the economic sector. Contrary to policy in the US, Vietnam Commercial banks have reduced to moderate interest rates from 7%-8% to 4%-5% gradually within a year of 2023 after several years of pursuing a high interest rate, it was seem as a hard landing but miraculous growth rate (GDP) highly at 5.05% in 2023. However, don't be happy too soon when the economy of the period of 2024-2006 will face bad debt status because some banks and real estate enterprise's defaults and won't repay overdue loans, bonds, and inflation will rise when interest rate slows down and devaluation of VND. Bubble assets and liabilities in the balance sheet in the long-term history so far would be time to crash, it may lead to loss after revaluation. Thus, assets and equity will evaporate but debts are impossible to reevaluate and become bad debts rapidly [4,5,9,10].

Exchange rate depreciated is one of reasons for higher inflation, VND lost 8% value since 2023. Average inflation is estimated at 4%-5% but from now on it may be higher in the long-term for the period of 2024 to 2026. In one of the reasons for higher inflation such as exchange rate like VND continues devaluation, gold price estimated increase to $US 2,200/ounce which is higher 8% compared with 2023, oil prices keep high at $US 80-90/barrel, conflict at red sea led to higher transport fees, inflation in the U.S. has trend not reduce and FED shall keep interest rate above 5% in 2024. Thus, USD is stronger than other currencies, and VND is no exception. The U.S may export the inflation to other countries.

Conflict between Russia-Ukraine led to supply chain disruption, energy crisis, higher inflation and higher transport fees in global.

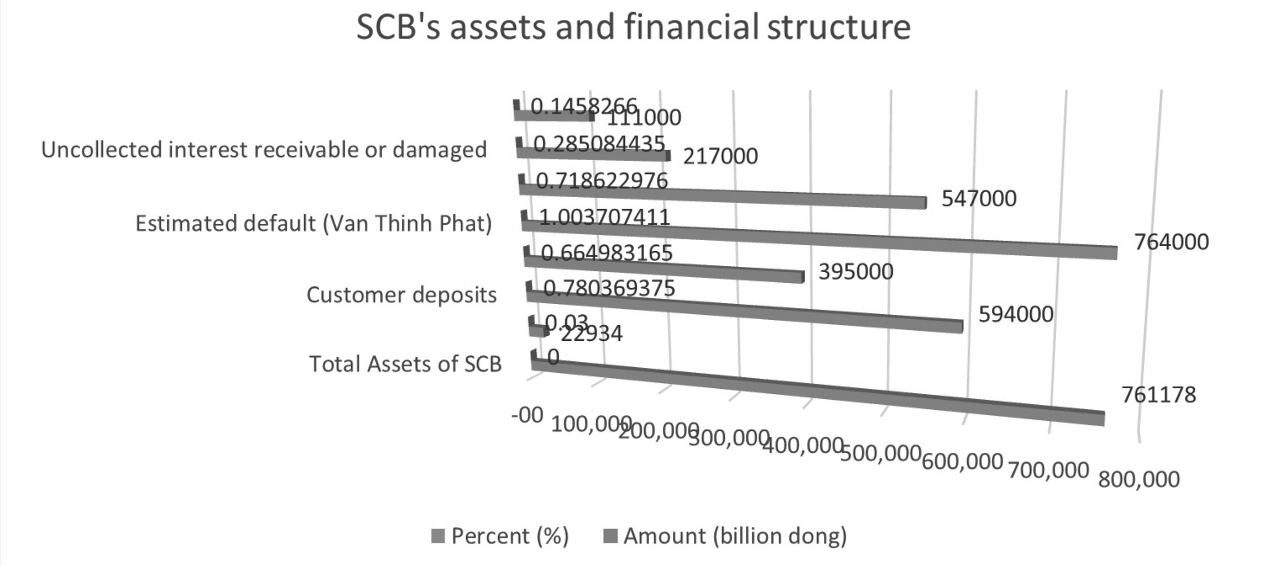
Other reason, local economy is weaken, the bad debts from the banking systems increased quickly more than double from 2% to 4.55% for the period of 2022 to 2024 in which bank default happened but not declare impacted on the banking systems. According to the SCB-Van Thinh Phat case, total damage was up to 764,000 billion VND (of which the amount appropriated was 547,000 billion VND and 217,000 billion VND interest incurred) [15].

People may think real estate is to recover shortly, but experts are worried when the market freezes longer but property prices would not decrease because land, taxes, materials, and many other factors like inflation would increase. Have you ever thought about a hard landing in the period of 2024 to 2026? and why? A hard landing would occur when the economy contracts sharply due to the central bank’s efforts to control inflation. A no-landing occurs when the economy continues to grow despite a series of contractionary monetary policies.

4. Conclusion

Whole pictures showed that bank systems issued bonds from 31% to 34% in the period from 2020 to 2021 and increased 57% bonds issuance in total corporate bonds in 2022. The real estate sector issued 20 % of bonds in 2022, bank systems and real estate enterprises account for 77.3% of the total corporate bond issuance in economic structure. Therefore, bank systems and real estate

Chart 7. Deposit interest rate decreasd in Q4, 2023



Source: Commercial banks in 2024 and prepared by author (2024)

sectors are key players in the long-term with the largest volume of bonds issuance [11,12,13]. With largest bonds issuance in economic structures, it may lead to the largest risks in the future when global economic recession, high inflation, high bad debts with high interest and hard landing would appear back then.

The market went through a year of ups and downs and many fluctuations. For the whole year 2022, the VN-Index decreased by 34%, from the peak of 1,525.58 points recorded in the first session of the year to 1,007.09 points at the end of the year. It is recovered slightly to 1200 points in Q1, 2024 [17]. The VN index is hard to recover before 2022 because of economic recession in global and other locally economic matters in Vietnam such as devalued exchange rate, inflation, high bad debts rate, frozen real estate sector and property lost 20%-30% value. Assets can not be liquidated. Devaluation of VND/USD is approximately at 8% from 2023 to Q1, 2024.

Vietnam Commercial banks reduced the high interest rate from 7%-8% to 4%-5% for Q3,Q4 after several years of pursuing a high interest rate, it was seen to be a hard landing but miraculous growth rate (GDP) at highly 5.05% in 2023 [3]. Policy makers adjusted moderate interest on time for soft landing so that avoided hard landing for the Vietnam economy in 2023.

The reasons for higher inflation are that the exchange rate depreciated, and VND/USD lost 8% value in 2023. Average inflation is estimated at 4%-5% but from now on it may be higher in 2024 to 2026. In the long-term, one of the reasons for higher inflation such as exchange rate like VND continues devaluation, gold price estimated increase to $US 2,200/ounce which is higher 8% compared with 2023, oil prices keep high at $US 80-90/barrel, conflict at red sea and conflict between Russia-Ukraine led to supply chain disruption, higher inflation and higher transport fees in global. Inflation in the U.S. has not reduced and the FED shall keep the interest rate above 5% in 2024.

Other reason, local economy is weaken, the bad debts from the banking systems increased quickly more than double from 2% to 4.55% for the period of 2022 to 2024 in which bank default happened but not declare impacted on the banking systems. According to the SCB-Van Thinh Phat case, total damage was up to 764,000 billion VND (of which the amount appropriated was 547,000 billion VND and 217,000 billion VND interest incurred) [15].

To avoid the hard landing, according to research from Dr. Dung Pham for bonds convertibles 2024-2025. There are many convertible financial models recommended and suggested by economists in

2024-2025 and in the long-term for economic recovery. However, in the long-term, the government needs to build better policies for enterprises to invest into industry sectors instead of investing too much into real estate and the banking system, of which are low profitability and high-risk sectors to become a developed industrial country as target and expectation [6].

No recent studies have delved deeply into soft landing and hard landing in Vietnam, leaving the researcher without any reference points for comparison. Consequently, this study aims to fill this gap and establish a foundation for subsequent research on the subject.

The limitation of the study is not compared with previous research. Therefore, researchers can not estimate the increase or decrease in interest rate, bad debts rate, businesses default rate, exchange rate, and inflation rate for soft landing in the short-term or transit to hard landing in the long-term. The findings of the analysis, as stated previously, have significant implications for policy makers and the Vietnam economy.

In the long-term, the government needs to build better policies for enterprises to invest into industry sectors instead of real estate and bank systems, of which are low profitability and high risk sectors to become a developed industrial country as target and expectation. Therefore, economic restructuring as above analysis ■

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Received date: April 4, 2024
Reviewed date: April 20, 2024
Accepted date: May 5, 2024

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TÓM TẮT:

Nghiên cứu này phân tích các yếu tố kinh tế Việt Nam dưới góc độ hạ cánh mềm vào năm 2023 và dự đoán hạ cánh cứng trong tương lai. Trong nghiên cứu này, các nguồn định tính, định lượng và báo chí từ năm 2022 đến năm 2024 và phương pháp so sánh được sử dụng để phân tích nền kinh tế Việt Nam. Ngân hàng Nhà nước Việt Nam có thể nhìn thấy các vấn đề hiện tại và tương lai về lãi suất liên quan đến việc hạ cánh mềm để tránh suy thoái kinh tế. Kết quả nghiên cứu có thể là gợi ý để xây dựng các giải pháp phù hợp cho phát triển kinh tế Việt Nam và nghiên cứu sâu hơn.

Từ khóa: hạ cánh mềm, hạ cánh cứng, lãi suất, nợ xấu, tỷ giá, lạm phát, VN index, Ngân hàng Nhà nước Việt Nam.