http://thediplomat.com/2014/12/how-will-falling-oil-prices-affect-vietnam-in-2015/ December 23, 2014
Forwarded by Nguyễn Thế Anh JJR 56

How Will Falling Oil Prices Affect Vietnam in 2015?

Lower oil prices could be a double-edged sword for Vietnam next year

By **Prashanth Parameswaran** for *The Diplomat*

Oil prices – which have plummeted more than 40 percent since June – could deal a blow to the Vietnamese economy in 2015, an official said Sunday.

Given the fact that crude oil exports account for about a tenth of Vietnam's state budget, Bui Quang Vinh, the minister of investment and planning, told *Saigon Times Online* that each U.S. dollar drop in the price per barrel would mean a concurrent drop of between roughly $46 to $56 million in the budget. Thus far, Vinh says he predicts that falling world prices would slash the budget by around $3 billion. The reductions would heighten fears among observers about Vietnam's weak public finances.

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Despite these concerns, officials and experts say the impact on the state budget may also be offset in 2015 by other positive effects on economic growth for Vietnam, which exports around 16 million tons of crude oil but also imports 10 million tons of petroleum products annually. Reduced spending on imported petroleum products may mean lower inflation in 2015. Falling oil prices could also potentially boost consumer spending and help businesses trim costs, which may in turn stimulate local consumption and production. More generally, Vietnamese officials have emphasized that the country is now much less reliant on oil exports for revenues than it was before, with the current 10 percent a far cry from the previous 20-25 percent rate.

All in all, Glen B. Maguire, ANZ bank's chief economist for the Asia-Pacific, said the oil price would have negligible impact on GDP growth in Vietnam in 2015 relative to other economic factors. Maguire said he expects that even if the oil price declines by 10 percent for four successive quarters, Vietnam's GDP will only lose 0.1 percent while inflation would be cut by 2.6 to 2.7 percent.

Others have gone further still. The Asian Development Bank recently raised Vietnam's projected GDP for 2015 from 5.7 percent to 5.8 percent, citing loosened credit conditions and improved domestic investment. Frontier Strategy Group predicts that Vietnam's GDP growth in 2015 could rise from the current forecast of 5.9 percent to 8.5 percent, and that oil prices stabilizing at $50 in 2015 could in fact propel this rate to over 10 percent. FSG attributes this to significant improvements in consumer spending power and business margins.

The Vietnamese government could also take steps to help mitigate potentially negative economic effects. Already, earlier this month the Ministry of Finance raised tariff caps on petroleum products to help offset a state budget deficit. Other measures could be mulled, including selectively reducing drilling activities if prices fall further as it would reduce the profitability of some oil exploitation for companies like the national oil and gas giant PetroVietnam. This could prove trickier, however, as Vinh, the minister, said that a reduction of oil output by 30 percent would cause GDP to fall by between 0.8 to 1.2 percent in 2015.
The Vietnamese government has also already set up a special interagency team to both explore how fluctuating commodity prices would impact the economy going forward and devise solutions for managing the issue into 2015.

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