

Saving - Investment and Economic Growth in Vietnam

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Abstract

Many researches have indicated that saving and investment is a core motivation of economic growth in all countries. Saving reflects the potential growth of production. Generally, evidences shows that developing countries experienced a higher saving ratio than those of developed countries. The relationship between saving - investment (S-I) and economic growth play a key role in the new-classic growth model by Solow, Cass, Koopmans and Ramsey. Moreover, S-I is the essential element in AK model, first initiated by Harrod (1939) and Domar (1946), then developed by Frank (1962) and Romer (1986). Most of these models argued that asset accumulation was the source of economic growth, and agreed that higher saving ratio would lead to a higher economic growth, because high saving ratio accompanied with high investment. Although in an opening economy context, external investment is an important force of developing countries, domestic saving is a motive power for economic development. A high domestic saving and investment ratio is one of specific characteristics of miraculous East Asia economies. Vietnam is in the process of industrialization then saving is encouraged to meet requirement of huge fund for development investments.

Saving and investment ratios have been increased year by year, from 1990 up to now, especially, investment ratio reached to 41.5% GDP in 2006. This ratio is higher than those of ASEAN countries. This ratio leads to ICOR 5 which is rather higher than regional countries in the same period of development. State investment from State budget and SOEs accounts for 50% in total investment. However, investment efficiency in this sector is lower than that in private one, showed by ICOR of these sectors. According to sectorial classification, in the period from 1995 to 2007, in average, household saving and investment account for 10.3% and 4.2% GDP equivalent, their surplus is 6.1% GDP. Firm savings reach to 16.3%, investment is 20.4% and then 4.1% GDP is in deficit. State saving is about 2.4 %, while investment ups to 11.6 % and of course 9.2% GDP is in deficit. Foreign sector is in net borrowing of 7.2% GDP. Causing by high investment ratio, S-I gap is rather high, accounts for nearly 7- 9% GDP in Vietnam. Remittance is increasing sharply in the period of 1990 – 2007, partly compensates for domestic deficit. Currently, foreign loan is still in safety limit, despite that Vietnam is the largest ODA recipient.

A gap between S and I is at a high level, then current account is still in a deficit of nearly 4-5% GDP. Deepened trade account deficit and exchange rate fluctuation are signs of inherent risk. Besides, a huge cash flow falling in stock market and land market causes an asset bubble. VNIndex dropping promptly in March 2008 is a strong evidence of asset bubble in Vietnam. Financial deepening in Vietnam is rather lower than those of regional and global countries. Ratio M2/ GDP increased sharply from 1990, but only over 90% in 2005.

In conclusion, after a slowing down period of 1998 to 2002, Vietnam economy have been moving toward a new economic growth period. GDP growth increases to 8.04% in average of the period 2003 – 2007. WTO accession is a premise for a new economic growth period. Private and foreign investment speed up in the last few years is a positive sign for economic growth in the next period. However, Vietnam should focus more in improvement of investment efficiency and ODA usages. Once these have been done, Vietnam economy should reach to a sustainable development.

