Economic Expansion through Social Investment in Viet Nam

Policy Brief

This policy brief sheds light on the pivotal role that social policies play in Viet Nam's economic performance.

▶ **It shows that increasing investment in social policies and social insurance in Viet Nam can be a source of sustainable, inclusive and shock-responsive economic growth.**

In addition to the direct effect of boosting aggregate demand through increases in household consumption (which is crucial in recessions), investment in social policies is an effective instrument for reducing poverty and inequality as well[1].

Given that income inequality is not only an issue of fairness, but also one that keeps the economy from functioning at its full capacity, this policy brief argues that an increase in the Government investment in social policies can significantly promote economic expansion in Viet Nam. By increasing income security, such investment promotes a significant boost in entrepreneurship and economic activities associated with higher risks and, therefore, higher returns. Social policies can generate access to full and productive employment and decent work for all, including women and young people.

Looking at the international picture, Viet Nam's investment on social protection excluding health amounts to 4.3% of GDP (Gross Domestic Product), compared to the average of 7.5% in the Asia and the Pacific Region.[2]

▶ **This shows that Viet Nam's investment in social protection remains low, when compared to the average in the region.**

Increasing such investment will be on of the keys to keep Viet Nam in a path that allows it to achieve the targets and goals set forth by Party Resolution No.: 28-NQ/TW.

This policy brief focuses on providing evidence-based answers to the following fundamental question:

▶ **Can government investment in social policies stimulate the Vietnamese economy?**

The report on which this brief is based has estimated empirically the impact on GDP of an increase in different types of investment in Viet Nam using quarterly data over the period 2005-2020 from two sources: the General Statistics Office of Vietnam and The Ministry of Finance of the Socialist Republic of Vietnam. The investment types studied are investment in Social Policies and investment in Social Insurance. The latter refers to pensions and social insurance benefits, premiums to the voluntary social insurance and supports for the unemployment insurance fund.

The data shows a substantial increase in government investment in social policies over the period analyzed. Investment in social policies in Viet Nam in 2018 reached almost four times the spending level of 2005.

[1] Investment is understood as all the funds spent from the State Budget on each category.
[2] See the ILO World Social Protection Data Dashboards for Vietnam and for Asia and the Pacific Region (https://www.social-protection.org/gimi/WSPDB.action?id=45), accessed on May 25, 2022.

Turning to the main tool of analysis, the effectiveness of fiscal policy is usually measured in the economics literature by the fiscal multiplier.

▶ **The fiscal multiplier measures how much an increase in government spending (for instance of 1Million VND) translates into an increase in GDP.**

If the value of the multiplier is higher than one, then GDP increases by more than the expansion in government spending.

The analysis offers a rich set of findings and policy conclusions, which can be summarized as follows. The estimated multipliers reveal that a 1 Million VND increase in (a) Investment in Social Policies and (b) Investment in Social Insurance leads, at peak (that is after slightly more than a year), to a GDP expansion of 3.2 and 3.5 Million VND, respectively.

▶ **Therefore, we can conclude that the investment in social policies in Viet Nam over the past 15 years has had a positive impact on the level of economic activity.**

Moreover, social policy fiscal multipliers are found to be generally higher than one, which indicates that an additional unit of government investment generates more than one unit of increase in GDP in a relatively short period of time.

An interesting and timely application of the multipliers' estimates to the COVID-19 Fiscal Assistance in Viet Nam can yield insights into the possible economic effects – in terms of GDP – of the crisis support packages. The analysis focuses on two specific packages: an initial one to which we refer as "Package 1" (with a planned budget of 61 Billion VND, Resolution 42/2020) and a subsequent one to which we refer as "Package 2" (close to 14 Billion VND, Resolution 68/2021[3]).

Both packages included fiscal support in the form of cash transfers, loans, and suspension in social insurance contribution. Even though we recognize that multipliers for each of these types of fiscal assistance may considerably differ and would ideally be estimated separately subject to data availability, we attempt to roughly approximate their economic impact through the available estimates for social policy multipliers to give an idea of the possible impacts[4]. For "Package 1" (61 Billion VND), the implied expansion in GDP after 5 quarters ranges from 196 to 294 Billion VND, depending on which multiplier is applied, while for "Package 2" (13.8 Billion VND), the implied expansion in GDP after 5 quarters ranges from 44.2 to 66.3 Billion VND.


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[3] *For simplification purposes, the report and this brief assume the full execution and disbursement of the two packages.*
[4] *See, for example, the empirical estimates of the economic effects of various types of COVID-19 fiscal assistance in European countries provided in Pappa, E. and Vella, E.(2022), "Phase out of the crisis support measures: How successful are Member States in moving from broad support measures towards more targeted support?", European Parliament, Economic Governance Support Unit (EGOV), Directorate-General for Internal Policies, PE 689.448.*

This provides evidence that the COVID-19 packages enacted through Resolutions 42/2020 and 68/2021 contributed significantly to the stabilization of the Vietnamese economy during and after the pandemic.

The combined effect of the two packages, in case of 100% execution, represented a contribution of almost 4% of Total GDP, once again underlining the economic potential of investing in social policies.

In conclusion, the policy brief contributes to establishing the case for the importance of public investment in social policies. The research findings complement previous ILO research, which found that increases in social security coverage lead to increase in both profit and revenues for firms.

Therefore, the empirical evidence available for Viet Nam paves the way for policymakers and analysts to focus on the role that a greater investment in social policies can play in helping to achieve sustainable and inclusive economic growth.

This will be of paramount importance for Viet Nam to be realize the goals and ambitions set forth by Party Resolutions No. 15-NQ/TW and No.: 28-NQ/TW, and more broadly to enable Viet Nam to become a upper middle income country by 2030, and a high income country by 2045.

GLOSSARY

Fiscal Multiplier

The fiscal multiplier measures the effect that increases in fiscal spending will have on a nation's Gross Domestic Product (GDP). In general, fiscal multipliers are defined as the ratio of a change in GDP to a change in government spending.

Investment in Social Policies

This is the total state budget spent on Social Policies.

Social Insurance Investment

A subcategory of Social Security Investment, including pensions and social insurance benefits, premiums to the voluntary social insurance and supports for the unemployment insurance fund.