INTERNATIONAL MONETARY FUND

IMF Country Report No. 24/306

VIETNAM

September 2024

2024 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR VIETNAM

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2024 Article IV consultation with Vietnam, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its 2024 consideration of the staff report that concluded the Article IV consultation with Vietnam.
- **The Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on August 30, 2024, following discussions that ended on June 26, 2024, with the officials of Vietnam on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 31, 2024.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Vietnam.
- The documents listed below have been or will be separately released.
  - Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR24/347

IMF Executive Board Concludes 2024 Article IV Consultation with Vietnam

FOR IMMEDIATE RELEASE

Washington, DC – September 27, 2024: The Executive Board of the International Monetary Fund (IMF) concluded on August 30 the 2024 Article IV Consultation[1] with Vietnam.

In the challenging year of 2023, the Vietnamese economy grew by 5 percent thanks to determined actions by the government. The economy was hit by turbulence in the real estate sector, financial distress, and a significant drop in exports. A recovery began in late 2023, fueled by a rebound in exports, tourism, and appropriately expansionary fiscal and monetary policy support. Inflation picked up in 2024, driven mainly by rising food prices, though core inflation remained relatively low and stable. The external current account posted a large surplus in 2023, at 5.8 percent of GDP, mainly reflecting a significant contraction in imports.

Economic growth is projected to recover to 6.1 percent in 2024, supported by continued strong external demand, resilient foreign direct investment, and accommodative policies. Domestic demand growth is expected to recover gradually as corporates navigate through high debt levels while the real estate sector will only fully recover over the medium term. Inflation is expected to hover around the State Bank of Vietnam's target of 4-4.5 percent this year.

Downside risks are high. Exports, a key driver for Vietnam's economy, could weaken if global growth disappoints, global geopolitical tensions persist, or trade disputes intensify. Given easy monetary conditions, if exchange rate pressures were to persist for longer, it could lead to a larger pass-through to domestic inflation. Persistent weakness in the real estate sector and corporate bond market could weigh more than expected on banks' ability to expand credit, hurting economic growth and undermining financial stability.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Executive Board Assessment22F[2]

Executive Directors commended the authorities' swift actions to maintain macro-financial stability as the economic recovery from the pandemic faced domestic and external headwinds. They noted that risks remain elevated, and that further efforts are required to safeguard macro-financial stability and deepen reforms to address vulnerabilities and ensure robust, green, and inclusive growth over the medium term. Continued capacity development will be important to support reforms.

Directors noted that, given ample fiscal space and limited room for monetary policy loosening, fiscal policy should take the lead in supporting economic activity if needed. In this context, Directors welcomed the authorities' plans to speed up the implementation of public investment, which will require tackling bottlenecks, and stressed the importance of expanding social safety nets to support the most vulnerable. Directors recommended strengthening the fiscal framework and budget process and increasing revenue mobilization over the medium term to support the ambitious development agenda.

Directors commended the authorities for effectively containing inflation risks but stressed that monetary policy should continue to be cautious under a complex environment and limited policy space. They welcomed steps toward greater exchange rate flexibility and encouraged continued progress in this area, along with modernizing the monetary policy framework.

Directors underscored the importance of strengthening the resilience of the financial system by bolstering capital buffers, phasing out regulatory forbearance, and addressing rising non-performing loans. They also stressed the need to enhance the authorities' toolkit to prevent and manage banking crises by strengthening the resolution and emergency liquidity frameworks, and welcomed the ongoing revision of the law on credit institutions. Efforts to strengthen bank regulation and supervision should continue.

Directors acknowledged the authorities' swift actions to contain risks in the real estate and corporate bond market. They urged decisive steps to address remaining risks, including by strengthening the insolvency framework, bolstering institutions, and increasing transparency in the corporate bond market.

Directors stressed the importance of structural and climate reforms to achieve sustainable, green, and inclusive growth. Accelerating the transition to upper-middle income status will require further efforts to improve the business environment, step-up critical infrastructure, and invest in human capital. Directors

[2] At the conclusion of the discussion, the Managing Director, as Chair of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summing up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

welcomed the latest Power Development Plan and the planned Emissions Trading System to help achieve Vietnam’s climate goals and promote energy security. They emphasized the importance of moving ahead with implementation of the strategy and developing the appropriate regulatory framework to promote investment in renewable energy and secure funding for the green transition. Conducting a Climate-Public Investment Management Assessment would be useful.

Directors welcomed the authorities’ anti-corruption efforts and emphasized the need to continue strengthening governance, improving the AML/CFT framework, and simplifying regulatory frameworks. Greater efforts in closing data gaps will be important.

Vietnam: Selected Economic Indicators, 2020–2025

	2020	2021	2022	2023	Projections 2024	2025
Output						
Real GDP (percent change)	2.9	2.6	8.1	5.0	6.1	6.1
Output Gap (percent of potential GDP)	-0.4	-1.9	0.0	-0.6	-0.3	-0.2
Prices (percent change)						
CPI (period average)	3.2	1.8	3.2	3.3	4.1	3.5
Core inflation (period average)	2.3	0.9	2.7	4.2	3.6	3.4
Saving and investment (in percent of GDP)						
Gross national saving	36.3	30.7	32.9	37.7	35.2	35.2
Gross investment	31.9	32.9	32.6	32.0	32.2	32.5
Private	24.9	26.7	26.3	25.0	25.5	25.7
Public	7.0	6.2	6.3	6.9	6.7	6.9
State budget finances (in percent of GDP) 1/						
Revenue and grants	18.4	18.7	19.0	17.1	17.6	18.4
Expenditure	21.3	20.1	18.3	19.5	20.2	20.7
Expense	14.3	13.9	12.0	12.6	13.5	13.8
Net acquisition of nonfinancial assets	7.0	6.2	6.3	6.9	6.7	6.9
Net lending (+)/borrowing(-) 2/	-2.9	-1.4	0.7	-2.5	-2.6	-2.2
Public and publicly guaranteed debt (end of period)	41.3	39.2	34.7	34.4	33.8	33.2
Money and credit (percent change, end of period)						
Broad money (M2)	14.5	10.7	6.2	12.5	11.4	8.0
Credit to the economy	11.6	13.5	14.0	13.7	12.9	9.5
Balance of payments (in percent of GDP, unless otherwise indicated)						
Current account balance (including official transfers)	4.3	-2.2	0.3	5.8	3.0	2.7
Exports f.o.b.	81.6	90.8	91.1	81.8	81.0	79.6
Imports f.o.b.	72.7	86.6	83.9	71.6	73.0	73.0
Capital and financial account 3/	2.4	8.3	2.3	-0.7	-4.8	0.0
Gross international reserves (in billions of U.S. dollars) 4/	95.2	109.4	86.7	92.3	84.0	97.9
In months of prospective GNFS imports	3.3	3.6	3.1	2.9	2.5	2.7
Total external debt (end of period)	37.6	37.9	35.5	32.7	32.6	32.8
Nominal exchange rate (dong/U.S. dollar, end of period)	23,098	22,826	23,633	23,929	...	...
Memorandum items (current prices):						
GDP (in billions of U.S. dollars)	346.3	370.1	408.0	433.7	468.5	506.4
Per capita GDP (in U.S. dollars)	3,549	3,757	4,102	4,324	4,649	4,986

Sources: Vietnamese authorities; and IMF staff estimates and projections.

1/ Follows the format of the Government Finance Statistics Manual 2001. Large EBFs are outside the state budget but inside the general government (revenue amounting to 6-7 percent of GDP).

2/ Excludes net lending of Vietnam Development Bank and revenue and expenditure of Vietnam Social Security.

3/ Incorporates a projection for negative errors and omissions going forward (i.e. unrecorded imports and short-term capital outfows).

4/ Excludes government deposits.

VIETNAM

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION

July 31, 2024

KEY ISSUES

Context. Adverse external and domestic shocks led to a sharp slowdown in early 2023, but economic growth is gaining momentum thanks to a strong rebound in exports and expansionary fiscal and monetary policies. However, risks remain elevated, including because of a weak real estate sector and leveraged corporates. Headline inflation accelerated mostly owing to food prices. Despite a large current account surplus, the currency has been depreciating amidst record low domestic interest rates.

Recommendations. Policies will need to balance support to the recovery while managing inflation risks and strengthening the resilience of the financial system. The complex global and domestic environment highlights the importance of upgrading policy frameworks. Sustaining high medium-term growth will require further progress on structural reforms to raise productivity growth and accelerate the climate agenda.

- **Monetary policy.** As the recovery strengthens, monetary policy should stand ready to tighten if inflation pressures intensify. Accelerating the modernization of the monetary policy framework would strengthen policy transmission, reduce credit distortions, and safeguard FX reserve buffers for large shocks. Key steps include providing operational autonomy to SBV, allowing greater exchange rate flexibility, and enhancing macroprudential policies.
- **Fiscal policy.** The fiscal stimulus is helping sustain domestic demand, including investment, which facilitates private sector deleveraging. However, fiscal support may need to be scaled down if there was a large inflation surprise. An upgraded fiscal framework would help improve public policies and manage challenges ahead.
- **Financial sector.** The implementation of the revised law on credit institutions will help strengthen financial stability. However, further actions are needed to tackle the still high vulnerabilities and improve the balance sheet of banks and corporates, while phasing out NPL forbearance. Reforms on bank supervision, bank resolution, insolvency framework, and AML/CFT remain a priority.
- **Structural and climate policies.** Sustaining high medium-term economic growth, amidst demographic and climate headwinds, requires broader structural reforms to boost productivity, address climate challenges, and strengthen governance.

Approved By
Rupa Duttagupta and Jay Peiris

Discussions took place in Hanoi and Ho Chi Minh City during June 12-26, 2024. The mission comprised Paulo Medas (Head), Ryoichi Okuma, Tatjana Schulze, and Weining Xin (all APD), Minke Gort (MCM), Rita Mesias (STA), Jochen Schmittmann (Resident Representative) and Nga Ha and Van Anh Nguyen (both IMF Office in Hanoi). Anastassiya Maria (MCM) participated in some meetings and Federico Díez (APD) and Fei Han (ICD) joined virtually. Ke Chen (LEG) provided inputs. Chao Wang, Mariam Souleyman (both APD), Hai Hoang and Le Nguyen (both IMF Office in Hanoi) provided superb research, editorial, and logistical assistance, respectively, for the discussions and the preparation of this report.

CONTENTS

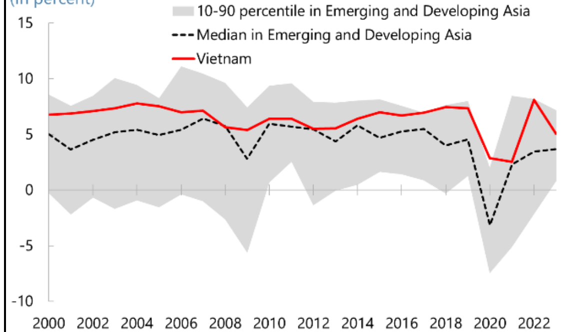
ANNEXES

CONTEXT AND RECENT ECONOMIC DEVELOPMENTS

1. **Economic growth in Vietnam outpaced most peers over the last two decades but has become more volatile since the pandemic**. The economy was hit by large external and domestic shocks in recent years. A post-pandemic boom was quickly reversed amid global interest rates hikes, weakened external demand, financial sector disruptions, following the failure of the fifth largest bank in late 2022, and turbulence in the real estate and corporate bond markets—leading to a sharp slowdown in early 2023.

Economic Growth in Emerging and Developing Asia

(In percent)

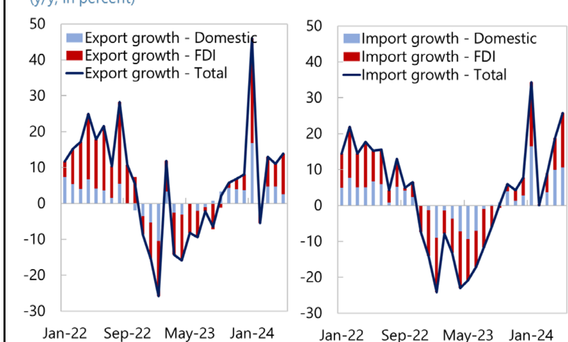


Sources: IMF.

2. **External conditions, crucial to the export-led growth strategy, have been a key source of recent bouts of volatility**. After surging in 2022, trade collapsed in 2023—exports and imports as a share of GDP fell by more than 9 and 12 percentage points, respectively—and the current account reached a historical surplus of 5.8 percent of GDP. Nevertheless, as other currencies in the region, the Vietnamese dong has been depreciating against the US dollar since mid-2023. Falling domestic interest rates opened a large gap with US rates and exacerbated the depreciation pressures.

Contribution to Export and Import Growth by Sector

(y/y, in percent)

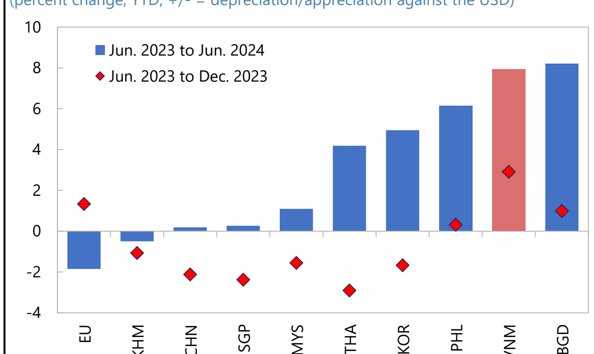


Sources: Vietnam authorities and IMF staff calculations.

3. **The economic recovery is gaining momentum, but some fragilities remain**. Growth rebounded in the second half of 2023 thanks to large policy support, including measures to stabilize the banking sector, and higher external demand. Domestic activity has been recovering at a slower pace given the still-weak real estate sector, as sales of new homes remain depressed, and leveraged corporates. In the first half of 2024, economic growth rose to 6.4 percent, supported by robust exports, increased tourism, and resilient FDI.

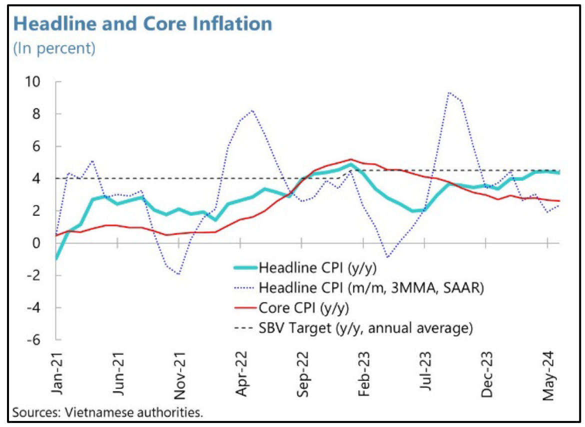
Currency Movements against the US Dollar

(percent change, YTD, +/- = depreciation/appreciation against the USD)

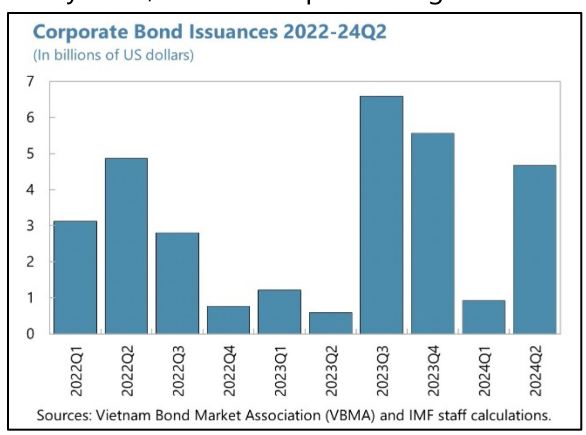


Sources: Bloomberg and IMF staff calculations.

4. Both expansionary monetary and fiscal policies are boosting economic activity. State Bank of Vietnam (SBV) loosened monetary policy from early 2023 and injected significant liquidity, as it took over the failed Sai Gon Commercial Bank (SCB), leading interbank rates close to zero. As FX depreciation pressures increased in early 2024, SBV reduced liquidity in the interbank market and conducted FX interventions (FXI) to stabilize the exchange rate (ER) and contain the pass-through to domestic prices. Headline inflation accelerated to 4.3 percent y/y in June 2024 driven by food prices, but core inflation remains low. The fiscal balance went from a surplus (0.7 percent of GDP) in 2022 to a 2.5 percent of GDP deficit in 2023 reflecting both a large fall in revenues—due to the real estate downturn, the imports' contraction, and cuts in taxes—and rising expenditures in the second half of 2023. Public wages increased by 21 percent in July 2023 and public investment jumped, reflecting disbursements under the COVID-related Program of Recovery and Development (PRD). Public debt remained stable, at 34½ percent of GDP in 2023, benefiting from low interest rates.



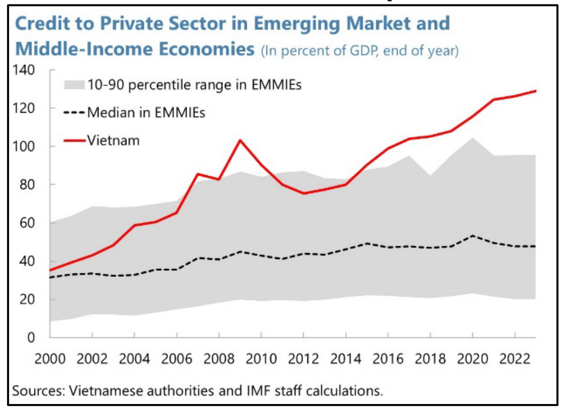
5. The actions of the government helped quickly stabilize the financial system and boost credit in late 2023, but vulnerabilities remain (Box 1). Credit growth surged in late 2023 (13.7 percent in 2023), decelerating slightly in early 2024,[1] while non-performing loans (NPLs) reached the highest level in a decade, partly due to SCB, and firms continue to struggle with high debt. After freezing in late 2022, the corporate bond market is gradually recovering following policies to facilitate payment deferrals and bond restructuring—involving to a large degree real estate developers. The slow restructuring of leveraged firms remains a source of risk for financial markets.



[1] The surge in credit at the end of 2023 in part reflects efforts by banks to reach their credit ceilings set by SBV to preserve market share in 2024. Some of these loans have very short maturities and low or no profit margins.

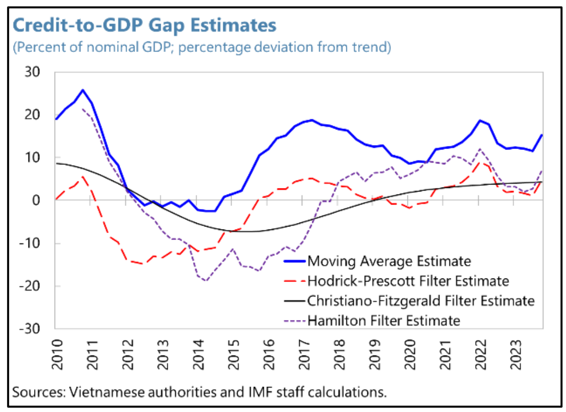
Box 1. Credit, Economic Growth, and Financial Risks

Availability of affordable credit has been one of the pillars of Vietnam's economic development strategy, but at times involved significant turbulence. Credit in Vietnam grew at a fast pace over the last decade and is well above peer average, reaching almost 130 percent of GDP in 2023. As noted in the 2023 Article IV Staff Report, the GDP loss from financial distress can be large, as was the case with the banking crisis in the early 2010s and the financial distress in 2022.



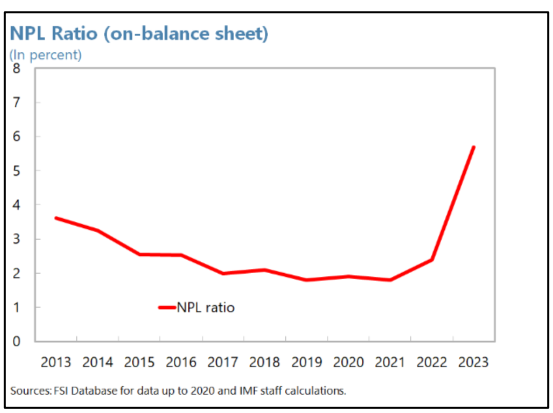
The authorities' actions helped contain the risks from the SCB failure, but the still-high vulnerabilities require attention. In particular:

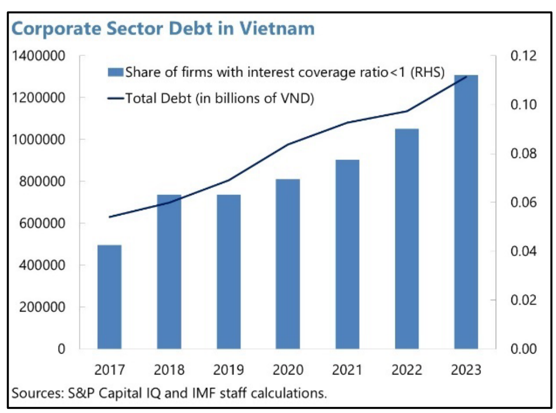
- Estimates of the credit gap—deviation of the credit-to-GDP ratio from its long-term trend—show a growing positive gap. Such an uptick in the credit gap resembles the increase seen in 2022H1 although below the distress period of 2010-12.



- NPLs have been rising, with some banks especially vulnerable due to real estate sector exposures. Total NPLs, including restructured loans and those held by Vietnam Asset Management Company (VAMC), reached 7.9 percent of total loans in March 2024. On-balance sheet NPLs, rose from 2.4 percent at end-2022 to 5.7 percent, but excluding banks under SBV control (especially SCB), NPLs reached around 3 percent.

- Corporates, especially in the real estate sector, remain vulnerable given their high leverage and interconnectedness. Among listed firms, the share of corporate debt accounted by firms with interest coverage ratios below 1 increased significantly in recent years—the largest increase among peer countries (April 2024 Asia-Pacific Regional Economic Outlook). Risks are amplified by weaknesses in debt restructuring processes and shortcomings in insolvency procedures.



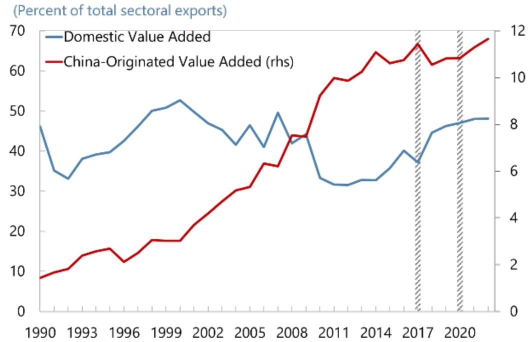


OUTLOOK AND RISKS

6. **Economic growth is expected to accelerate in 2024 and inflation to remain close to the target; however, medium-term growth prospects face headwinds.** Growth is projected to reach 6.1 percent in 2024-25, as the output gap closes, thanks to continued robust external demand and accommodative monetary and fiscal policies. The real estate and construction sectors should rebound over time benefiting from measures to overcome supply bottlenecks, incentives for affordable housing, and public investment. Inflation is expected to hover around the 4-4.5 percent target, and the current account surplus to decline as import compression subsides. Over the medium term, the economy will face less favorable demographics and historical lessons from peers suggest that potential growth will decline without reforms to boost productivity (Annex V).

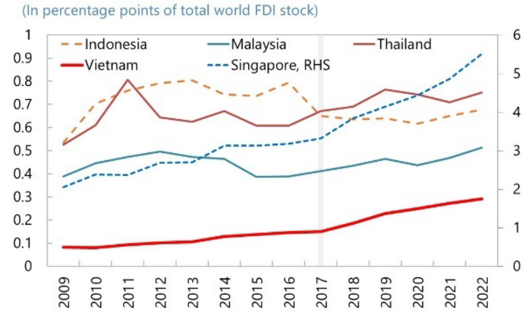
7. **Vietnam's prospects also rely on remaining an attractive FDI destination amidst global trade tensions.** The FDI-based exports have been, and are expected to remain, a key pillar of the growth strategy. In recent years, Vietnam's share in global FDI has risen along with countries in the region despite a decline in global FDI since 2020. In part, this reflects interest by foreign investors (including Chinese firms) in the growing domestic market. Vietnam, due to rising geoeconomic fragmentation, has seen some trade and FDI reallocation with foreign investors moving production to Vietnam—e.g., the share of domestic value added in its exports to the US surged in 2018. However, given trade tensions, Vietnam has enhanced monitoring to avoid serving as a connector country to reroute Chinese goods to the US to circumvent trade barriers (Annex VI). Additional trade tensions, however, could have a negative impact on trade and FDI, including through protectionist measures directly targeted at Vietnam.

Valued Added in Exports to US, Electrical and Machinery
(Percent of total sectoral exports)



Sources: EORA and staff calculations.

Inward FDI from World[1/]
(In percentage points of total world FDI stock)



Sources: IMF Coordinated Direct Investment Survey (CDIS) and IMF staff calculations.
1/ Data refers to inward FDI reported by each country from World. Data for Vietnam is derived from World outward FDI.

8. **The outlook remains uncertain, with elevated downside risks (Annex III).** Households and domestic firms may be reluctant to scale up consumption or investment amid continued uncertainty and vulnerabilities:

- Weaker than expected external demand (US, China), intensification of existing regional conflicts (e.g., Ukraine, Middle East), and volatility in commodity prices could disrupt the recovery. Other risks include natural disasters and other negative effects from climate change.

- Higher-for-longer global interest rates along with accommodative monetary policy could accelerate depreciation, leading to inflation pressures and weaker consumption.
- Financial distress could reemerge. Rising NPLs and decreasing credit quality, combined with liquidity pressures and relatively low capital ratios, could reduce banks' capacity to provide credit to the economy. Corporate indebtedness and interconnected lending involving business groups remain a risk for banks and investors.

Authorities' Views

9. The authorities broadly agreed with staff's overall assessment and are confident economic growth can reach 6-6.5 percent for 2024, while keeping inflation in line with the target. They concurred that in addition to the rebound in external demand and resilient FDI, significant policy efforts boosted domestic activity in late 2023 through low interest rates and fiscal expansion, including accelerating implementation of public investment and increasing public wages. Supportive policies continue in 2024, including to boost credit growth and through increases in public wages and pensions. Nevertheless, the authorities agreed there are risks, especially amid a more volatile and uncertain global environment. In the context of difficult international developments (high US interest rates; USD appreciation) causing great pressure on the ER and foreign exchange market, SBV has both flexibly managed the ER, supporting the absorption of external shocks; and regulated VND liquidity to narrow the VND-USD interest rate gap, thereby limiting increased pressure on the ER.

POLICY DISCUSSION

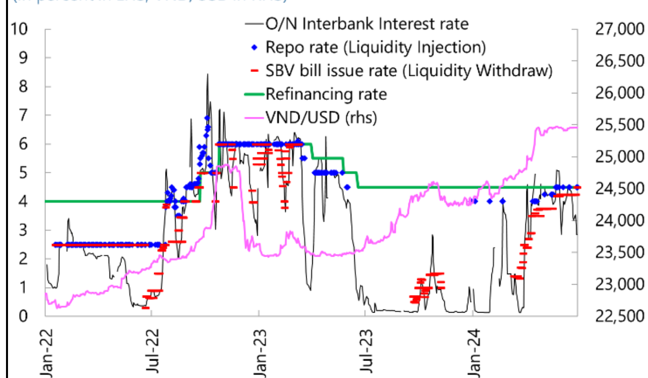
10. While the economy is recovering, there was a broad agreement that further policy actions are needed to sustain economic growth and reduce vulnerabilities. Discussions centered around balancing support for the recovery, amidst a still-weak real estate sector and leveraged corporates, while managing inflation risks and continuing to restore banking system health. Upgrading monetary and fiscal policy frameworks would help manage a complex environment and promote macro-financial stability. Sustaining high medium-term growth, amidst significant challenges (aging, climate), will require further structural reforms. Governance reforms that complement the anti-corruption drive would help reduce short-term uncertainties and cement long-term gains.

A. Monetary and Exchange Rate Policy

11. Monetary policy will need to carefully balance supporting the economic recovery, while managing inflation risks and strengthening financial stability. The accommodative monetary policy stance has helped the economy rebound as policy rates have remained near record lows since the second half of 2023, the real policy rate is close to zero, and NPL forbearance was extended to end-2024 to boost credit growth. As the recovery is gaining momentum, the focus should turn to closely monitoring inflation risks. Policies that incentivize credit should be avoided as they can lead to excessive, unproductive, credit expansion and fuel inflation and rising NPLs. Given the accommodative policy stance, ER depreciation pressures have increased the risk of increasing pass-through to domestic inflation. Moreover, rising public and minimum wages and pensions, as well as expected further increases in administrative prices, could put additional pressure on inflation in the remainder of the year and 2025.[2] If inflation pressures intensify, policy rates would need to be raised swiftly.

Interbank Interest Rate and Open Market Operations

(In percent in LHS, VND/USD in RHS)

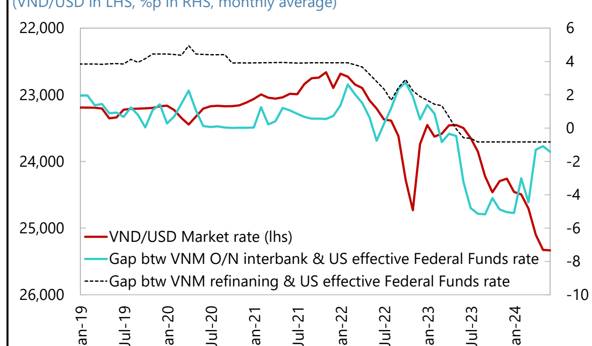


Sources: Vietnamese authorities, Bloomberg, and IMF staff calculations.

12. The recent intensification of FX pressures further highlights the complex policy tradeoffs faced by the authorities. ER flexibility has generally increased, especially since the widening of the ER band to ±5% in 2022. But depreciation pressures since late 2023 prompted intervention by SBV in 2024. Open market operations to raise interbank rates close to the policy rates in 2024 helped contain FX pressures. Nevertheless, SBV intervened in the FX spot market to smooth volatility and when the currency hit the upper bound of the band (Figure 3), amid limited FX market depth, while maintaining low interest rates to support domestic demand and help indebted firms. As the recovery firms up, allowing further ER flexibility and gradually tightening policies would help keep inflation expectations anchored while reducing the need to sell FX reserves.

Exchange Rate and Interest Rate Differential

(VND/USD in LHS, %p in RHS, monthly average)



Sources: Vietnamese authorities, Haver and IMF staff calculations.

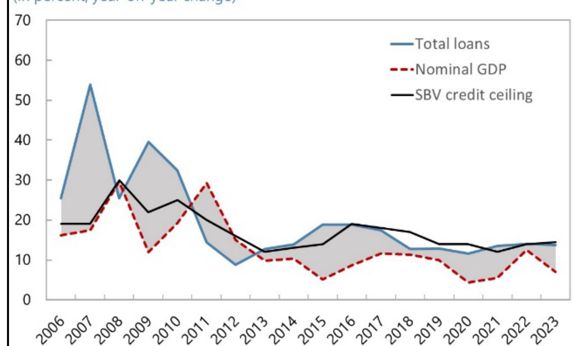
13. Accelerating the modernization of the monetary policy framework would strengthen the policy transmission, reduce credit distortions, and limit the need for FXI. In

[2] The authorities plan to avoid bunching increases in administrative prices to help contain inflation expectations.

addition to policy rates, SBV uses a variety of instruments, including FXI and credit ceilings for the banking sector to steer monetary policy that have costs and can lead to inefficiencies. Moreover, the multiplicity of objectives limits clarity in communications and the effectiveness of monetary policy. The forthcoming revision of the SBV law is an opportunity to accelerate the move towards an inflation targeting regime and allowing for greater ER flexibility, while safeguarding FX reserve buffers to help manage large external shocks (SIP chapter and Box 2). Measures to support the reforms include:

- Enhancing SBV's operational independence to achieve its policy goals while retaining the government and National Assembly's responsibilities in setting the policy goals.
- Streamlining the monetary policy toolkit, improving its consistency, and incorporating forward-looking elements into the framework. This includes establishing an interest rate corridor with a floor rate by introducing a deposit facility, further increasing ER flexibility, and developing a communication strategy to better anchor inflation expectations.
- Phasing out deposit and lending (short-term) rate caps and credit growth ceilings—which, instead of limiting credit growth, in recent years have incentivized banks to extend credit to not lose their quota. Banks' efforts to meet the ceiling could create distortions such as supporting unproductive sectors and weakening balance sheets.
- Strengthening SBV's legal and institutional framework to manage risks, including macroprudential policies, would facilitate the removal of credit ceilings. This includes introducing an enhanced macroprudential toolkit to mitigate systemic risks (e.g., countercyclical capital buffers, loan-to-value or debt-to-income limits on borrowers) and strengthening bank supervision.

Total Loans and Nominal GDP Growth
(In percent, year-on-year change)



Sources: SBV, Haver Analytics, and IMF staff calculations.

Authorities' Views

14. SBV noted the difficult tradeoffs it is facing as it pursues key policy goals. Recent policies are intended to achieve SBV's priority objective of ensuring price stability while supporting domestic demand and helping firms manage high debt levels in the aftermath of Covid-19. The authorities noted they are working towards developing a modern monetary policy framework with the help of the Fund. SBV stressed they allowed greater ER flexibility in recent years, but need to avoid excessive volatility that could destabilize markets and inflation expectations. Further, they noted that removing the credit ceilings, while desirable, needs to be done with caution and conditional on alternative safeguards to prevent excessive credit growth. The authorities welcomed the discussion of the IPF but emphasized that FX market shallowness, history of dollarization, and weak interest rate transmission channel made it necessary to use FXI during the transition to a new monetary policy framework.

Box 2. Tackling External Shocks and FX Pressures

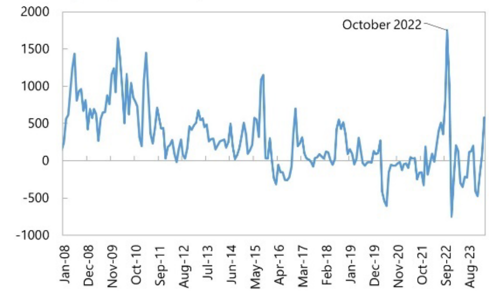
The IMF's integrated policy framework (IPF) offers a lens to weigh the benefits of FXI in the presence of specific country characteristics, frictions, and large external shocks against the costs of frequent FXI. The ER served for years as a nominal anchor. As the transition to a more flexible ER and inflation targeting regime is ongoing, FXI is expected to be more limited, to increase the credibility of the new monetary policy framework and help deepen FX markets. FXI could be considered following large temporary non-fundamental shocks that exacerbate key IPF frictions (SIP chapter).

Vietnam suffers from structurally shallow FX markets. Market shallowness shows up in persistently positive Uncovered Interest Rate Parity (UIP) premia and large bid-ask spreads. Large changes in these premia can hamper market liquidity as in 2022. Costly currency financing and hedging premia to firms can then spill over to real activity. Monetary policy alone may not restore FX market liquidity or may need to tighten too much with adverse economic effects. Instead, FXI can step in to address FX shortages and close premia. Proxy FXI data suggest SBV has been leaning against large premia but also intervened in other episodes during 2009-2023 (partly reflecting the role of the ER as anchor in the past).

Private sector currency mismatches are low and inflation expectations appear anchored, but risks persist. Lack of granular data masks potential unhedged debt stocks or cash flows. For example, Vietnamese firms could become more financially constrained if they cannot offset foreign currency payments on imports with equivalent receipts on exports. In addition, ER pass-through to consumer prices is assessed to be low in normal times but more sizable following large depreciations (2023 Article IV). In the case of a large shock, inflation expectations may become unanchored and monetary policy alone may not be able to bring expectations under control without creating severe trade-offs across SBV's objectives (especially during the transition to the new monetary policy framework).

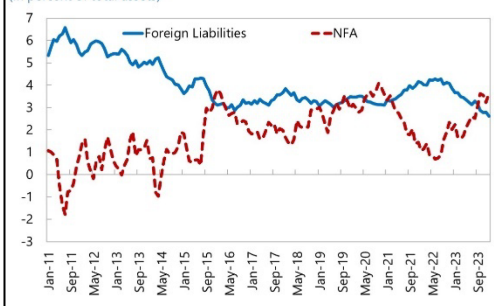
Lessons can be drawn from the financial distress and FXI in 2022. Vietnam started facing FX pressures in February 2022, intensified by US monetary tightening. Reserves steadily declined during Q1-Q3, while monetary policy was loose during the first half of 2023. When the distress in the financial and real estate sectors became more pronounced, around 20 percent of FX reserves had been used. The episode illustrates the intertemporal trade-off of using FXI when the duration and size of shocks are uncertain and there are concerns about financial vulnerabilities.

Uncovered Interest Rate Parity (UIP) Premium
(In basis points, 3-month rates)



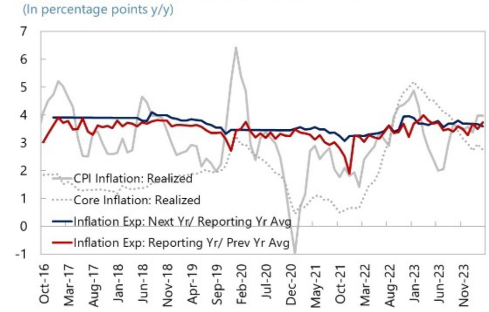
Sources: Refinitiv, Consensus Forecast, and IMF staff calculations.

Credit Institutions' Balance Sheet
(In percent of total assets)



Sources: Vietnamese authorities and IMF staff calculations.

Inflation Expectations of Credit Institutions
(In percentage points y/y)



Sources: State Bank of Vietnam via Haver, and IMF staff calculations.

UIP Premia and FX Intervention
(+/- FX intervention = FX purchases/sales)

Sources: Refinitiv, Consensus Forecast, FXI data from Adler et al. (2019), and IMF staff calculations.

B. Fiscal Policy

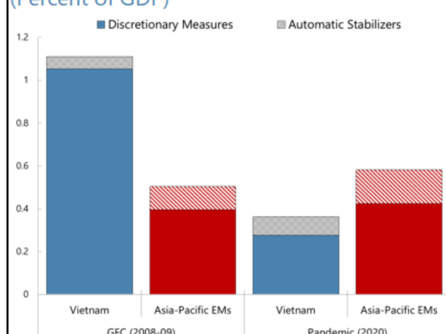
15. After a large countercyclical stimulus in 2023, fiscal policy is expected to remain supportive in 2024. The fiscal deficit is projected to rise slightly to 2.6 percent of GDP, reflecting wage and pension increases which, in turn, are largely offset by a rebound in revenues—as the economy and imports recover. In 2025, the deficit is expected to fall as tax revenues continue to recover to past levels with a healthier economy, including the real estate sector, and expiring tax cuts.[3] With public debt well below the 60 percent of GDP ceiling and low debt risks (Annex IX), the fiscal expansion is helping sustain the domestic demand and facilitating private sector deleveraging. The 30 percent increase in public wages in 2024 (on the back of a large increase in 2023), with an annual cost estimated at 1.6 percent of GDP over 2024-25, will help reduce the gap between private and public sector wages. However, it highlights the need for a medium-term remuneration and hiring strategy with gradual wage increases, that would avoid fueling inflation and crowding out other priority spending, while attracting a qualified and professional workforce.

16. Fiscal policy will need to remain agile to manage different risks. If inflation surprises significantly on the upside, limiting or reversing the fiscal accommodation would help support monetary policy and avoid amplifying further inflation risks. The government could delay implementation of projects or expansion of programs and develop contingency measures for 2025. If downside risks to growth materialize, there is ample fiscal space to accelerate investment and support the most vulnerable. In addition, to safeguard financial stability, targeted (limited) support could be considered—with appropriate governance arrangements—to help facilitate restructuring real estate developers.

17. Strengthening the fiscal framework and enhancing revenue mobilization would help address medium-term challenges, improve the quality of policies, and manage risks. Over the medium term, Vietnam will have to tackle various challenges, including optimizing the composition of spending (e.g., size of the wage bill, public investment) to promote better and more efficient public services, managing the medium- to long-term implications of aging and climate change, and enhancing the ability to respond to shocks (automatic

Fiscal Countercyclicality during Large Crises

(Percent of GDP)



Sources: IMF staff estimates.
Notes: Solid and patterned bars denote the estimated fiscal countercyclicality coefficients for the discretionary measures and the automatic stabilizers based on 5-year windows that include the GFC (2008-09) or the pandemic (2020). The estimated coefficient measures the deterioration (improvement) in fiscal balance, in percent of GDP, in response to a one percentage point reduction (increase) in growth.

[3] The temporary cuts in the VAT rate (2 percentage points) and environmental protection tax rates on fuel (50 percent) introduced in February and April 2022 respectively have been extended to end-2024.

stabilizers have played a limited role reflecting weak social safety nets).[4] Moving forward with reforms can help achieve those goals:

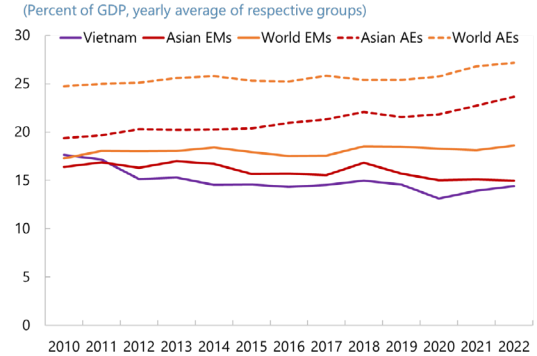
- Upgrade the medium-term fiscal framework and the budget process. The 2024 World Bank Public Expenditure and Financial Accountability report flags weaknesses in public finances transparency, fiscal risk reporting, and public investment management. Improvements in these areas, including projections and the coverage in the budget, would help increase fiscal transparency and support Vietnam's efforts to improve the government bond market and attract more investors.

- Continue efforts to improve social safety nets by increasing their adequacy and coverage and ensuring well-targeted, timely, and cost-effective support measures, while also building institutional capacity to respond to large shocks. It will also be important to strengthen the long-term sustainability of the pension system (see below) as the population starts aging.

- Adopt revenue-enhancing reforms to address the challenges ahead. Tax revenues remain below emerging market and advanced economies. Pressing ahead with the Tax System Reform Strategy 2021-2030 would be important, including reducing exemptions and rationalizing preferential regimes, broadening the VAT base, raising environmental tax and excise duties, introducing a unified property tax and a land registry, and revisiting personal income tax thresholds.

Tax Revenue, 2010-2022

(Percent of GDP, yearly average of respective groups)



Sources: World Economic Outlook database.

Authorities' Views

18. The authorities noted that fiscal policy, as monetary policy is constrained, is supporting economic growth after a weak 2023. They agreed there is fiscal space to provide further support if needed, especially through public investment. At the same time, they noted revenue collection in 2023 was weak due to the real estate downturn and cautioned the revenue recovery will be gradual amid still weak domestic demand and the uncertain external environment. The authorities noted that reforms to several tax laws are being discussed in the National Assembly, and the new land and real estate related laws will help resolve some of the bottlenecks in implementing public infrastructure. They argued that the rises in wages and pensions are needed given the low levels and that potential inflation impact from the public wage increases is expected to be contained. Nevertheless, the government will phase in increases in administrative prices to reduce potential inflationary pressures. They acknowledged more

[4] Vietnam spends around 0.7 percent of GDP on social assistance, excluding health insurance subsidies (Dutta and Sen, 2018). Social assistance coverage is below 20 percent of the workforce, and its benefits represent around 5 percent of the household average monthly consumption for the poorest quintile (World Bank, 2019).

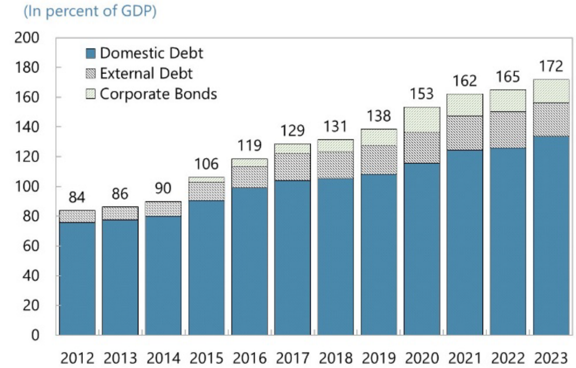
efforts are needed to improve fiscal statistics, in line with international standards, and will continue to address them with the Fund support.

C. Financial Sector

19. The resilience of the financial system has been shaken in recent years due to several shocks and risks remain elevated. Banks are vulnerable to highly leveraged firms that are still reeling from Covid, the sharp fall in exports in 2022, and the turbulence in real estate. SBV took several measures to contain the damage from the shocks, including taking control of SCB in October 2022. The authorities also took several ad-hoc measures to support corporates under financial distress including extending forbearance for NPL restructuring and allowing (unlisted) bond buybacks by underwriting banks (2023 Article IV). These actions have provided some respite, but more reforms are needed to address the still high vulnerabilities. In particular:

- Addressing bottlenecks in the real estate sector that are constraining new projects and limiting supply. The recent changes to the land, housing, and real estate business laws should reduce legal uncertainty (including inconsistences between laws) and improve transparency in real estate transactions (e.g., land valuation will be based on market prices and updated more regularly). Effective and swift implementation of the new laws, the planned development of a national land registration database, and further reforms on governance will be critical to support the rebound of the real estate sector.

Private Debt
(In percent of GDP)



Sources: Vietnamese authorities, VBMA, and IMF staff calculations.

- Enhancing the effectiveness of the debt enforcement and insolvency framework remains crucial to deal with highly leveraged corporates and help banks address NPLs. The reform will need to include the strengthening of: collateral enforcement for all actors, mechanisms for out-of-court settlement and hybrid restructuring, corporate reorganization proceedings, the effectiveness of the liquidation framework, and institutions handling insolvency cases.

20. Strengthening the financial system will require efforts to bolster banks' balance sheets and ensure greater credit quality, which would also help promote higher and sustainable economic growth. Amid a credit surge in late 2023 and rising NPLs, provisioning levels fell, but still average above 50 percent, and liquidity tightened.[5] Efforts to strengthen financial sector resilience and better manage risks require a more proactive approach, especially by supervisors. Increasing bank capital ratios remains a challenge especially given fast credit

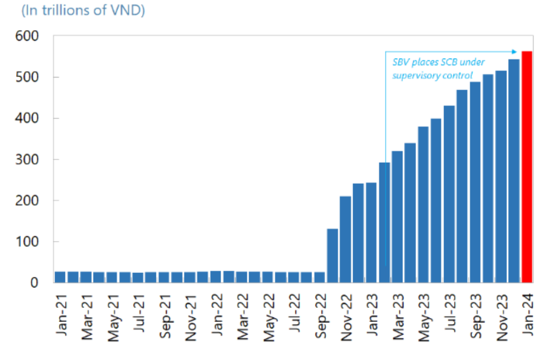
[5] The aggregate loan-to-deposit ratio increased to 94 percent while high quality liquid assets decreased in 2024:Q1 and now cover around 16 percent of deposits.

growth. SBV has incentivized capital increases through dividend distribution in the form of shares, allowing state-owned commercial banks to retain profits and supporting the issuance of Tier-2 capital instruments. Banks will need to improve asset quality through timely loss recognition, faster write-offs, improvement of NPL workouts and capitalization, while phasing-out forbearance. Such efforts, combined with a strong macroprudential toolkit, would help promote greater quality and sustainable credit growth.

21. The new Law on Credit Institutions (LCI) aims to improve bank supervision and crisis preparedness frameworks, but further reforms are needed. Following the failure of SCB, the LCI was revised on several fronts: it tightens restrictions and increases transparency on bank ownership and related party lending; introduces a new recovery planning framework and provisions dealing with bank runs; adjusts the triggers for early intervention; and strengthens the role of SBV as the resolution authority. However, the reform fell short in some areas by not introducing: legal protection of SBV staff that act in good faith; a framework for consolidated supervision; and remedies to gaps in the resolution regime. In addition, supervisory practices and capacity need to be updated incorporating the lessons learnt from recent bank failures. SBV and other agencies are working towards addressing the recommendations from the 2023 IMF Financial Sector Stability Review, including on the stress testing framework, the introduction of risk-based SBV internal audit, and strengthening of securities supervision and regulation. There has been limited progress in addressing AML/CFT weaknesses (Box 3).

22. A prompter resolution of banks under special control would help contain costs and avoid constraining SBV's ability to achieve its mandates. The planned transfer by SBV of the four banks that failed in 2015 to acquiring banks by the end of this year is welcome. The resolution of SCB will present a greater challenge given the uncertainty on the quality and valuation of its loan book. SBV, up to the first quarter of 2024, provided significant liquidity to SCB, estimated at 5.6 percent of GDP, while having to control the overall degree of liquidity in the banking system. The plan to gradually wind down SCB will likely take time, be costly, and could hamper SBV's ability to address future shocks. Further reforms to the bank resolution framework, including allowing to sell parts of failed banks, would facilitate timely restructuring.

SBV Credit to Banks
(In trillions of VND)



Sources: Vietnamese authorities and IMF staff calculations.

Authorities' Views

23. The authorities agreed that continued vigilance is required as the banking sector is recovering after large shocks in recent years. Although bank performance has been improving and banks are making efforts to improve their capitalization, the environment remains challenging. As the economy is forecasted to face many difficulties and challenges in 2024, businesses and households continue to encounter difficulty on repaying bank loans, SBV has issued a Circular allowing the extension of loan forbearance with the aim to reduce loan repayment pressure and create conditions for businesses and households to access capital to help the economic recovery. SBV has instructed banks to manage credit risk carefully. SBV is preparing for the implementation of the 2024 LCI and efforts are being made to incorporate lessons learnt from recent bank failures in bank supervisory practice. The authorities agreed with the need to resolve the banks under special control expeditiously but noted that in some cases it will take time, including due to ongoing legal procedures.

Box 3. Improving Vietnam's Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Framework

Vietnam is exposed to a range of money laundering risks and less pronounced terrorist financing risks. The main sources of illegal proceeds include corruption, organized crimes, fraud, drug trafficking, tax evasion, and human trafficking. The banking sector is particularly vulnerable to these threats due to its dominance in the economy.[1]

Vietnam's AML/CFT framework needs significant improvements. The framework was evaluated in 2019 by the Asia Pacific Group on Money Laundering and Terrorist Financing (APG). As a result of the strategic deficiencies identified, Vietnam was placed under the Financial Action Task Force (FATF)'s enhanced monitoring ("grey list") in 2023. The government has made a high-level political commitment to work with the FATF and APG to strengthen its AML/CFT regime by implementing an action plan agreed with the two bodies.

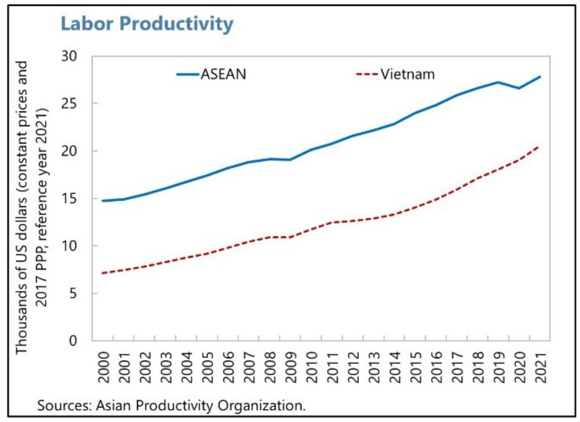
Prolonged delays in addressing a deficient and ineffective AML/CFT framework may undermine financial integrity and negatively impact the country's financial sector and the economy. Some of the other countries subject to the FATF's enhanced monitoring experienced not only losses of correspondent banking relationships but also reduction of FDI and other capital inflows. Weak AML/CFT measures also prevent a country from leveraging the AML/CFT tools to help tackle crimes such as corruption and tax evasion.

Efforts to implement the action plan need to be prioritized, starting with aligning the legal framework with the FATF standards. A new AML/CFT law was enacted in 2023, which does not address the shortcomings sufficiently. Amending this law in line with the FATF standards would improve the framework, including with respect to AML/CFT measures implemented by the private sector, AML/CFT supervision, identifying ultimate beneficial owners, investigation and conviction of money launderers, and international cooperation on AML/CFT. Despite efforts made in areas such as strengthening domestic coordination and cooperation, and the improvement the financial intelligence unit, APG recently found none of the recommendations have been fully addressed. Swift steps towards the legal reforms are needed, demonstrating the political will to improve the framework in cooperation with the FATF and APG.

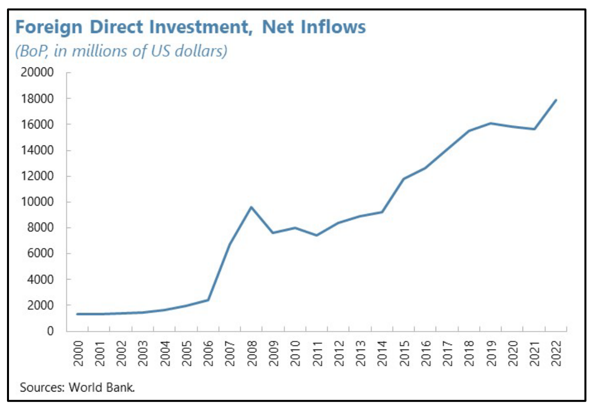
[1] See APG Mutual Evaluation Report.

D. Structural and Climate Policies

24. Sustaining high economic growth will require significant efforts to improve productivity amidst demographic and climate-related headwinds. Vietnam's stellar performance over the last decades was the result of sound policies but there are important headwinds ahead. Vietnam benefited from having a young population, but these trends are projected to reverse as the population ages and the share of workers in the total population shrinks. The growth potential is also at risk as Vietnam is highly vulnerable to climate change (2023 Article IV Staff Report). Based on growth patterns of similar countries, Vietnam's medium-term growth could decline to 4.5-5.5 percent over the decade (Annex V). To counter this trend, it will be essential to significantly increase productivity. Despite augmenting its human capital stock, productivity has not followed suit and Vietnam still lags regional peers. This is mainly due to the pervasive labor skill mismatches and, more broadly, resource misallocation (2020 Article IV Staff Report).



25. Making the most of FDI, while adopting reforms to enhance productivity and competitiveness in the domestic sector, is key to ensure sustained growth. Vietnam's export-led growth strategy relies heavily on FDI. However, FDI firms are not well integrated into the domestic economy, resulting in a dual economy with few high productivity (mostly FDI) firms. This disconnect prevents technological diffusion and productivity spillovers to local firms and acts as a drag on aggregate productivity. Broader structural reforms are needed to improve the business environment, including the functioning of the labor market, reducing red tape and legal uncertainty, and continuing to invest in human and physical capital.

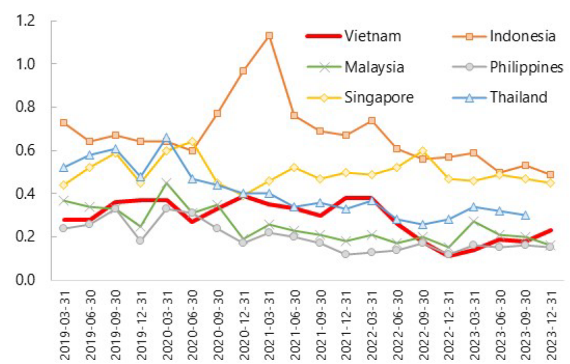


26. Strengthening the functioning and governance of capital markets could help boost productivity and economic growth over the medium term. Well-functioning equity and bond markets could help better allocate capital and develop a more productive domestic private sector. It will require pressing ahead with reforming the insolvency framework as well as:

- Developing a mature sovereign bond market (SIP chapter). While the government has enjoyed relatively low interest rates due to captive demand from Vietnam Social Security (VSS), it risks the long-term sustainability of the pension system (or constraining social benefits), weakens monetary policy transmission, and creates distortions that raise the cost of capital for firms. Reforming the government bond market would help diversify the investor base, increase liquidity, and establish a reliable yield curve that could serve as a benchmark for deepening capital markets. It would also help improve ratings for Vietnam's public debt. The development of the bond market would require a gradual broadening of VSS's investment mandate, allowing a more market-based determination of yields across different maturities, and better functioning foreign exchange and interest rate hedging markets.

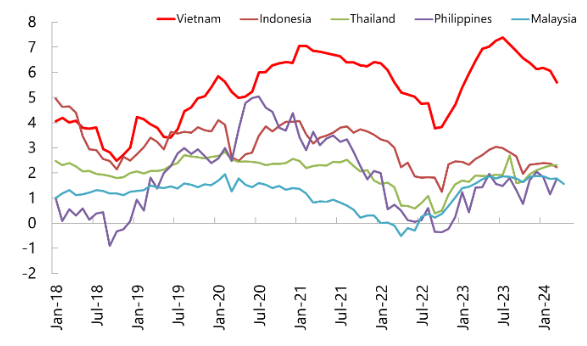
- Enhancing transparency, regulation, capacity of the regulators, and consumer protection. This will be critical to recover retail investors' trust in the corporate bond market and promote public offerings.

Turnover Ratio in Government Bond Markets



Sources: AsianBondOnline.

Spread of Lending Rates over Government Bond Yields
(In percent)



Sources: Vietnamese authorities, Haver, IFS, and IMF staff calculations.

27. Achieving Vietnam's climate goals will require accelerating the implementation of the government's green agenda. Progress on plans to adopt a pilot for a carbon market for key sectors (thermal power, steel and cement) in 2025, and to have the carbon market fully operational in 2028, has been slow. It will require developing a green taxonomy to define carbon credits and compliance mechanisms. It will also be useful to ensure the overall tax system discourages fossil fuels, as well as build infrastructure to scale up renewable energy production and alleviate transmission bottlenecks. Tackling climate adaptation will also require enhancing comprehensive risk assessments and prioritizing investments in resilient infrastructure. With most of the investment envisaged to be funded by international partners and private sector, including through the Just Energy Transition Partnership and green bond issuances, improving the business environment and strengthening financial market regulations will be key.

28. Vietnam is undergoing an anti-corruption campaign, whose benefits could be strengthened and sustained by improving economic governance. Public servants, senior government officials, and business leaders have been caught in the anti-corruption drive. The efforts to reduce corruption can yield important benefits. However, there are concerns of increased near-term uncertainty, with delays in investment decisions potentially affecting the investment climate in the short term (as typically seen in other countries). Putting a greater focus on improving preventive anti-corruption institutions and economic governance could help address the concerns and ensure gains are realized and sustained.[6] Creating a high-level inter-agency group to oversee and facilitate the implementation of the key reforms, that could be led by the Prime-Minister's office, could help speed up key reforms, including on: (i) making laws and regulations clearer (as is being done for the real estate and land related laws), and strengthening the judiciary, anti-corruption institutions and regulatory bodies; (ii) improving transparency, including on the reporting of economic statistics; and (iii) addressing the weaknesses in the AML/CFT framework.

29. Greater quality and timely reporting of economic statistics could help improve policies, manage risks, and allow households and firms to make better decisions. While there have been improvements, there are still significant data gaps including on external and monetary sectors, as well as on public finances (Annex VIII). Putting greater efforts to address the gaps would have important benefits. For example, more sharing of information across government agencies would help better design policies and manage risks. Improved dissemination of information to the public would help firms, investors, and households make better decisions. It would also help address some shortcomings with the data provided to the Fund that hamper surveillance (Annex X). Progress will require accelerating ongoing efforts to build capacity and high-level efforts to overcome regulatory barriers to the sharing of information across government agencies and with the public. It will be key to make further improvements on:

- Public finances. For example, efforts by the Ministry of Finance to shorten the publication lag of final fiscal account and adopt more comprehensive finance statistics closer to international standards could be accelerated.
- External statistics. SBV has initiated efforts to improve external statistics together with support by the Fund, including producing an estimate for international investment position, addressing the large errors and omissions in the balance of payments, and preparing a new FDI survey.
- Pressing ahead with efforts to improve monetary statistics and tackle weaknesses on national accounts (e.g., fully include e-commerce and the informal economy) would allow for a better assessment of the financial sector and the real economy. Other areas include developing real estate price indices and the inclusion of crypto assets transactions.

Authorities' Views

30. The authorities concurred further efforts are needed to sustain high medium-term growth and implement the climate agenda. Aging and climate posed important challenges to maintain high growth and will require efforts to boost productivity. They noted that achieving the nation's ambitious development and climate goals will take time, but reforms are ongoing. The authorities also stressed the importance of international support to help developing nations

[6] For example, the authorities are in the process of setting a national database on asset and income by 2025:Q4.

like Vietnam to finance the green agenda. The authorities noted they are taking measures to strengthen capital markets, including the corporate bond market. The Ministry of Finance has been proactive to develop the government bond market in line with international practices, while recognizing more efforts are needed especially to increase liquidity and diversify the investors' base in the secondary market.

31. The authorities agreed with the importance of improving governance and preventing measures to combat corruption, as well as improve the quality and dissemination of economic data. SBV is committed to significantly upgrade the production and dissemination of external and monetary statistics in line with international standards. The MOF is working towards improving its system to better use data available in the Treasury. They welcomed the ongoing Fund support on capacity building for improving macro-economic statistics but cautioned that it would take time and resources. They also agreed to the importance of stepping up inter-agency collaboration to produce and disseminate better and more timely data. They concurred with the importance of taking preventive measures in combating corruption and strengthening governance, while noting that any identified corrupt practices would face consequences. The authorities indicated that they are making progress in implementing the APG recommendations on AML/CFT reform and acknowledged the need to speed up reforms.

STAFF APPRAISAL

32. After large shocks, Vietnam's economic recovery is gaining impetus thanks to expansionary policies and a rebound in external demand. However, a challenging global environment, vulnerable corporate balance sheets, and medium-term challenges (aging, climate) pose headwinds. Sustaining the impressive pre-Covid growth track record will require efforts to improve the monetary and fiscal policy frameworks and reforms to promote a more resilient financial sector and boost productivity growth. Governance reforms that complement the anti-corruption drive would help reduce short-term uncertainties and cement long-term gains.

33. Monetary policy will need to navigate supporting the recovery, while remaining vigilant against inflation risks. The current accommodative monetary stance has appropriately supported the recovery in the aftermath of large adverse shocks. As the recovery accelerates, the authorities should stand ready to tighten monetary policy if inflation pressures intensify and avoid policies to incentivize excessive credit growth. Accelerating steps to modernize the monetary policy framework should be a priority, including allowing greater exchange rate flexibility while safeguarding FX reserve buffers to help manage large shocks. Other key steps include greater operational autonomy to SBV and replacing credit growth ceilings and forbearance measures with a sound macroprudential framework.

34. Fiscal policy, together with monetary policy, has been sustaining the gradual recovery in domestic activity and facilitating private sector deleveraging. Fiscal policy also needs to remain nimble given the uncertain outlook. If inflation pressures were to significantly intensify, a tighter fiscal stance would help SBV anchor inflation expectations. The government should also devise a medium-term strategy for gradual wage and pension increases, to attract a professional and qualified civil service, while avoiding large annual increases that can fuel price pressures. Upgrading the medium-term fiscal framework, including strengthening budget processes, increasing fiscal transparency, improving social safety nets, and enhancing revenue mobilization would help address challenges ahead and improve the effectiveness of public policies.

35. The external sector position in 2023 is assessed to be substantially stronger than warranted by fundamentals and desirable policies. Caution is needed as the assessment is constrained by the effects of large temporary shocks and data gaps in the BOP (errors and omissions of 4 percent of GDP in 2023; Annex IV). The current account surplus reflected, to a large degree, the large import contraction in 2023, even as exports fell, and is expected to unwind over the next years. Nevertheless, external imbalances should be addressed through structural policies geared at mitigating precautionary savings, e.g., by improving social safety nets, and enhancing non-FDI related investment. FX reserves are assessed to be moderately below adequacy at end-2023 against the backdrop of efforts by SBV to gradually rebuild its buffers after a large external adverse shock.

36. Continuing to build the resilience of the financial sector remains a priority, including bolstering banks and corporates' balance sheets. Bank asset quality and capital ratios need to be improved, while phasing out loan forbearance. The revision of the law on credit institutions is a significant step forward, but implementation will be critical. It should be followed by reforms to strengthen bank supervision policies and practices, including ensuring appropriate legal protection to SBV staff, introducing a framework for risk-based and consolidated supervision, and monitoring connected counterparties.

37. Strengthening the ability to resolve failed banks and reform the insolvency framework would improve the functioning of the financial system and capital markets. The planned compulsory transfer of four banks by the end of this year is welcome. An expedited resolution of SCB would help contain resolution costs and avoid hampering SBV's ability to conduct monetary policy. Further reforms to the bank resolution framework would facilitate the timely restructuring of failed banks. The introduction of an effective debt enforcement and insolvency framework remains a key priority to deal with overleveraged corporates.

38. Wide-ranging structural and climate reforms are critical to ensure high growth over the medium term. Less favorable demographic trends will reduce the growth rate and climate change will bring new challenges. To offset these, it will be essential to increase productivity, including by adopting structural reforms to improve the business environment and invest in human and physical capital. Supporting the development and climate agendas will require a regulatory framework to attract private investment to scale up renewable energy. Improving the functioning and governance of capital markets would also help boost productivity. It will require upgrading the government bond market, based on market prices, which would help reduce distortions and strengthen monetary policy transmission.

39. Improving economic governance along with strengthening anti-corruption frameworks will pave the road to achieving Vietnam's developmental goals. Having clearer laws and rules, reducing red tape, and promoting greater transparency would help reduce legal uncertainty and allow a swifter decision-making process by public officials. The government could consider creating a high-level inter-agency group to oversee and facilitate the implementation of key reforms, including urgently addressing the weaknesses in the AML/CFT framework given that Vietnam is behind schedule in implementing the agreed action plan.

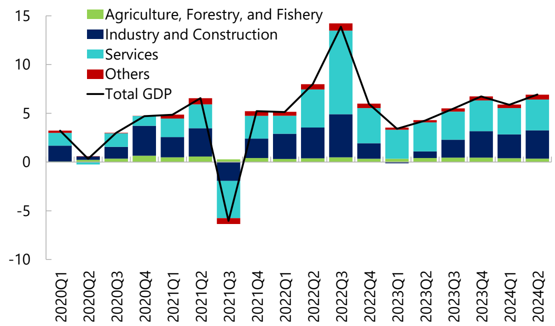
40. Moving ahead with efforts to improve the production and dissemination of economic statistics would help develop better policies and increase transparency. It requires removing institutional barriers to the dissemination of economic data and a medium-term strategy to improve the quality of statistics. These efforts will require greater cooperation by all key public agencies. Enhanced transparency will help deepen financial markets and help government agencies, businesses, and households take more informed decisions.

41. It is recommended that the next Article IV consultation be held on the standard 12-month cycle.

Figure 1. Vietnam: Recent Economic Developments

Growth recovered in late 2023…

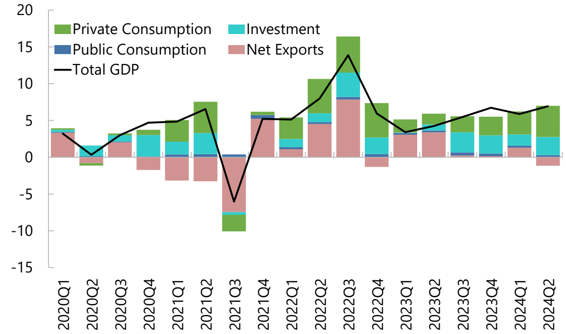
Contributions to Growth, by Economic Activity
(In percent, y/y)



Sources: Vietnamese authorities, IMF staff calculations.

…driven by a pickup in exports accompanied by imports' recovery which collapsed early in the year.

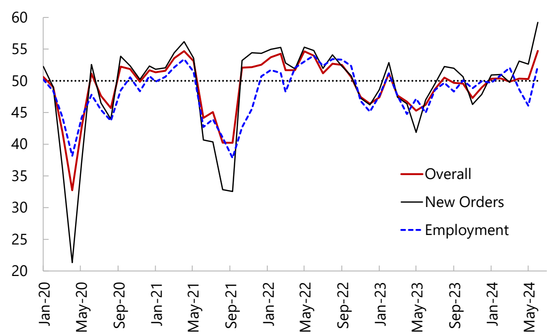
Contributions to Growth, by Expenditure
(In percent, y/y)



Sources: Vietnamese authorities, IMF staff calculations.

Confidence in manufacturing recovered in late 2023. New orders were robust in early 2024.

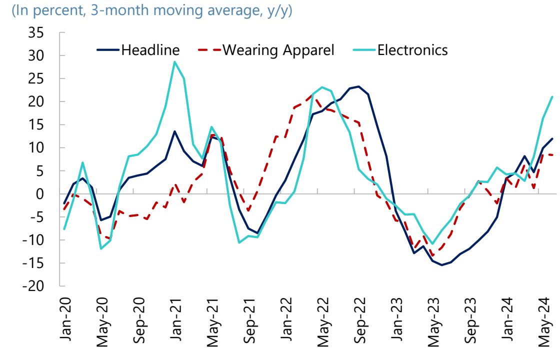
Purchasing Manufacturing Index
(0-100, index)



Sources: Haver.

Electronics, which exports largely to the US, has recently been the driving sector in industrial production.

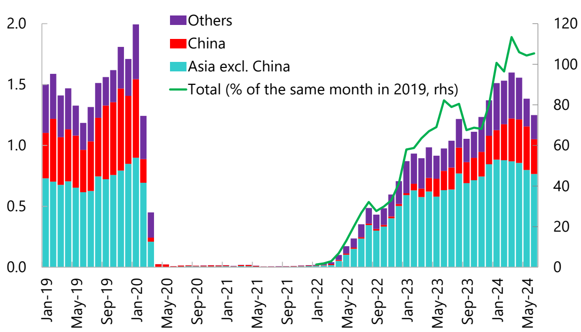
Index of Industrial Production
(In percent, 3-month moving average, y/y)



Sources: Vietnamese authorities.

International tourists' arrivals recovered in 2023 and were back to the pre-pandemic levels in early 2024.

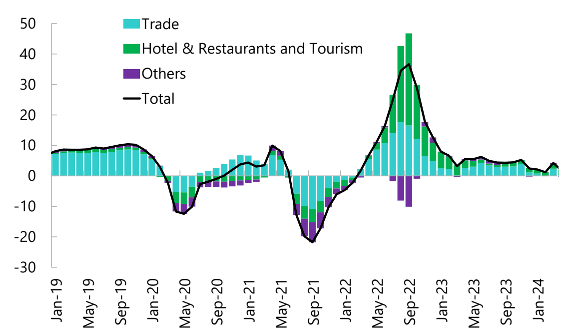
International Visitors to Vietnam
(In million people, % of Pre-Pandemic)



Sources: Vietnamese authorities, IMF staff calculations.

Excluding tourism, retail sales remain subdued.

Real Retail Sales of Trade Goods and Services
(In percent, real, 3-month moving average, y/y)



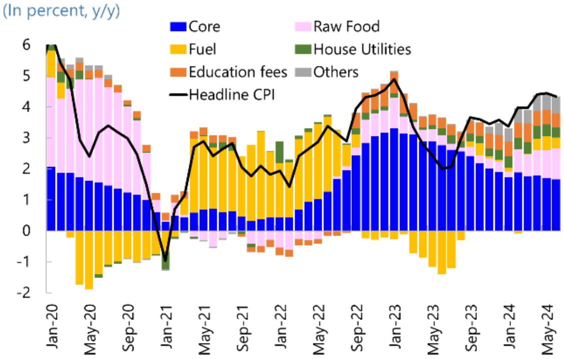
Sources: Vietnamese authorities, IMF staff calculations.

Figure 2. Vietnam: Prices and Wages

Headline inflation increased recently due to administrative prices (electricity and education) and food prices…

Headline Inflation Decomposition

(In percent, y/y)

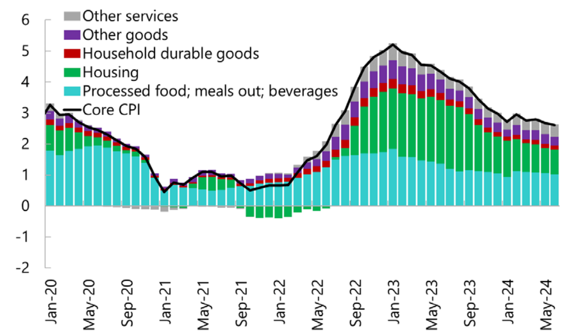


Sources: Vietnamese authorities, IMF staff calculations.

…but core inflation has declined and been stable.

Core Inflation Decomposition

(In percent, y/y)

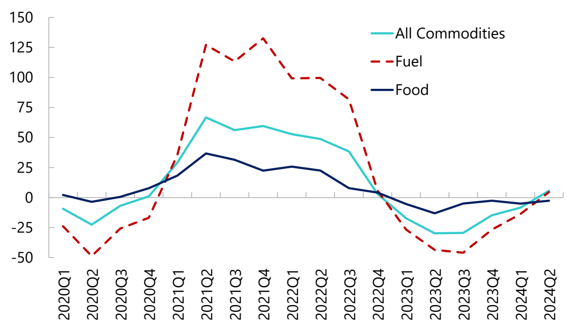


Sources: Vietnamese authorities, IMF staff calculations.

Commodity prices' large decline in 2023 is gradually dissipating…

Global Commodity Price Inflation

(In percent, y/y)

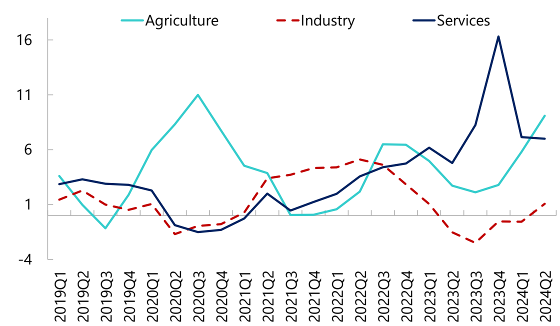


Sources: IMF World Economic Outlook Database.

…and producer prices, especially services, have been rising and volatile…

Input Producer Price Inflation

(In percent, y/y)

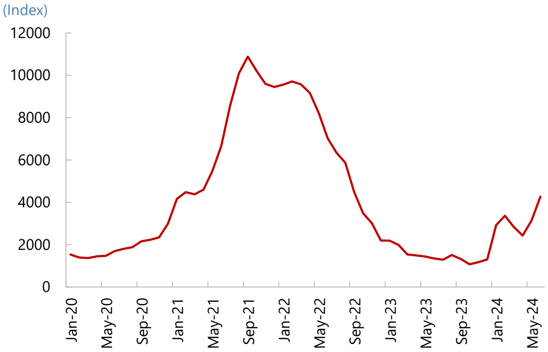


Sources: Haver.

…despite declining shipment costs from the 2021-22 peak.

Baltic Exchange Freightos Container Index

(Index)

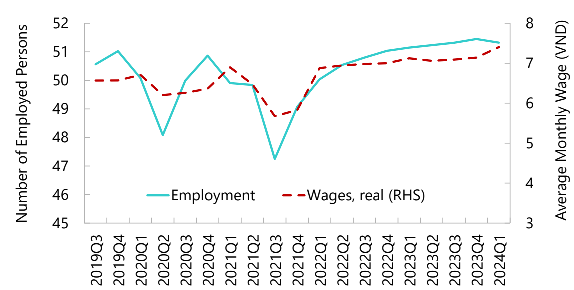


Sources: Haver.

Average wages are keeping up with inflation as the labor market remains resilient.

Average Wages and Employment

(In millions)

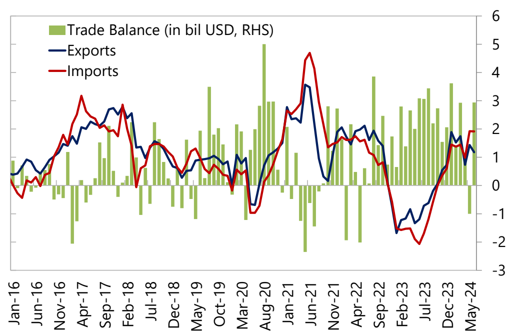


Sources: Vietnamese authorities and IMF staff calculations.
Notes: Real wages are nominal wages deflated by the CPI, in constant 2019 prices.

Figure 3. Vietnam: External Sector

The trade balance strongly rebounded in 2024:H1…

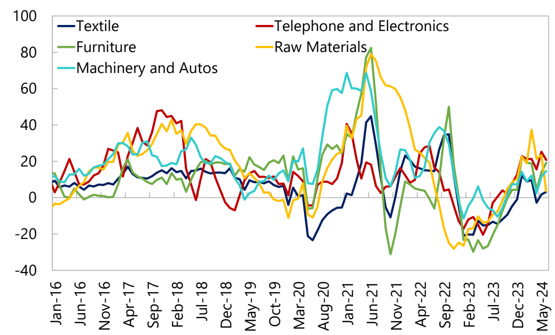
Trade Performance
(3mma, y/y, percent)



Sources: Vietnamese authorities and IMF staff calculations.

…supported by a broad-based uptick in external demand, including in the tech cycle that boosted electronics exports.

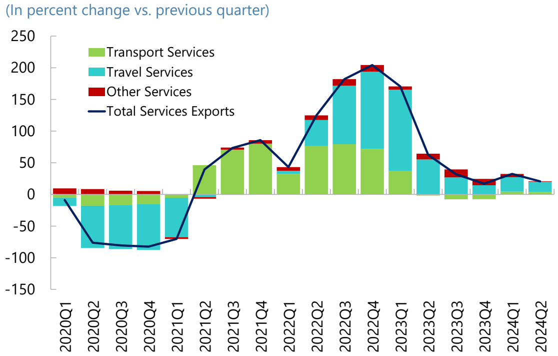
Export Performance by Commodities
(3mma, y/y, in percent)



Sources: Vietnamese authorities and IMF staff calculations.

Services exports continued to recover as tourist arrivals reached pre-pandemic levels.

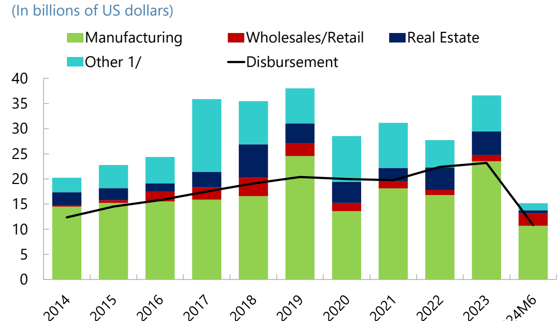
Main Drivers of Services Exports Growth
(In percent change vs. previous quarter)



Sources: Vietnamese authorities and IMF staff calculations.

FDI commitments and disbursements rose in 2023, bolstered by FDI inflows in the manufacturing sector.

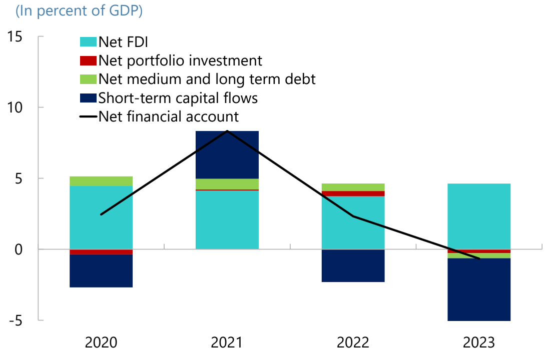
FDI Commitments and Disbursements
(In billions of US dollars)



Sources: Vietnamese authorities and IMF staff calculations.
1/ Construction, Hotel and Restaurants, Mining, Agricultural, Forestry and Fishery, Electricity, Gas and AC production, and other.

Portfolio and short-term capital registered large outflows…

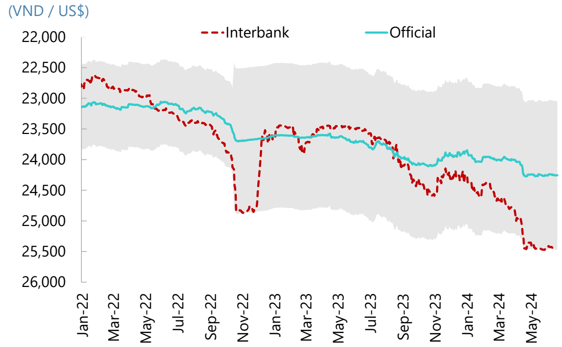
Financial Account
(In percent of GDP)



Sources: Vietnamese authorities and IMF staff calculations.

…as the exchange rate reached SBV's five percent target band due to the large interest rate differential and strong US dollar.

Exchange Rates
(VND / US$)



Sources: IMF staff calculations.
Notes: Shaded area indicates the State Bank of Vietnam's exchange rate trading band.

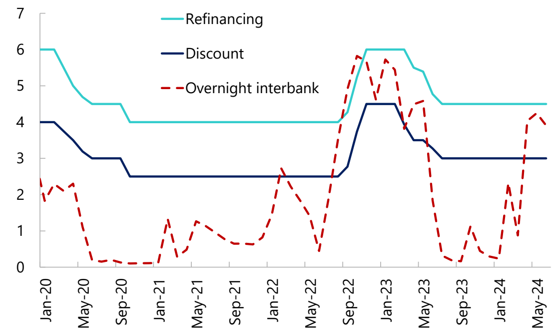
Figure 4. Vietnam: Monetary Sector

Policy rates were cut in early 2023 to near the bottom during the pandemic.

Under unchanged low policy rates since 2023, the SBV has issued bills to withdraw VND liquidity against ER pressure.

Policy Interest Rates

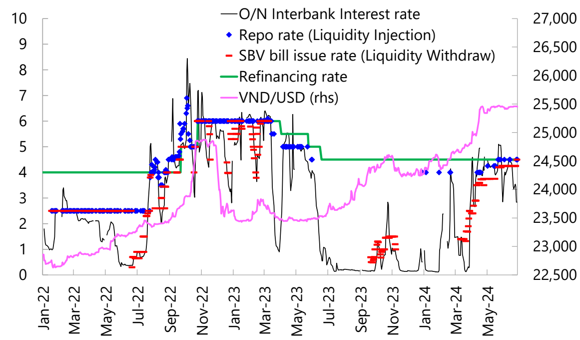
(Monthly averages, in percent)



Sources: Vietnamese authorities and IMF staff calculations.

Interbank Interest Rate and Open Market Operations

(In percent in LHS, VND/USD in RHS)



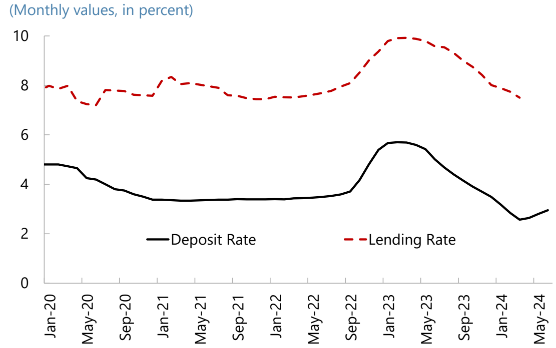
Sources: Vietnamese authorities, Bloomberg, and IMF staff calculations.

Both lending and deposit rates have declined since early 2023 due to the policy rate cuts.

Since mid-2023, credit and M2 growth has been gradually recovering.

Lending and Deposit Rates

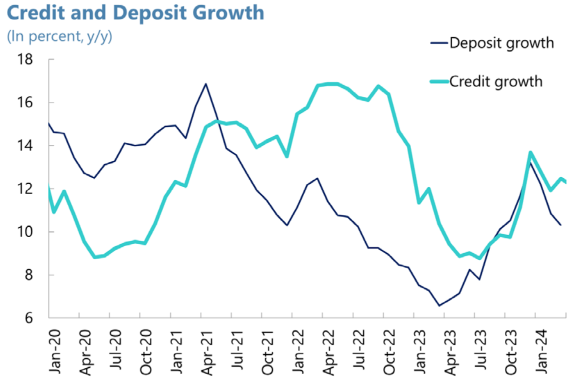
(Monthly values, in percent)



Sources: International Financial Statistics.

Credit and Deposit Growth

(In percent, y/y)



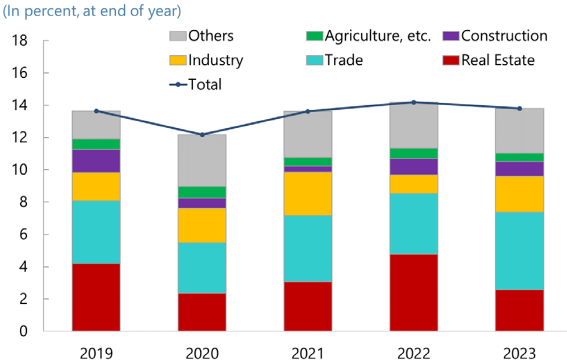
Sources: Vietnamese authorities and IMF staff calculations.

Credit growth increased in trade and industry sectors but decreased in real estate sector in 2023.

Domestic gold premium against global prices has declined after the SBV started to supply gold in the market in April 2024 through the first auction in 11 years.

Credit Growth by Sector

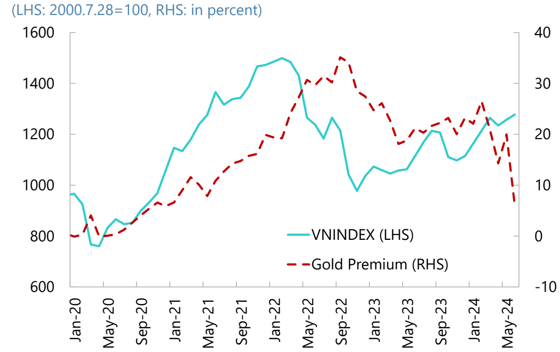
(In percent, at end of year)



Sources: Vietnamese authorities and IMF staff calculations.

Stock Market Indices

(LHS: 2000.7.28=100, RHS: in percent)

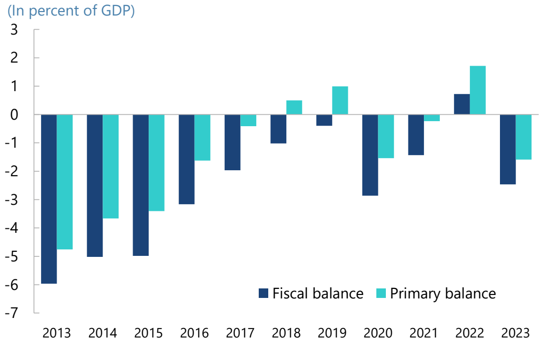


Sources: Vietnamese authorities and IMF staff calculations.

Figure 5. Vietnam: Fiscal Sector

After a surplus in 2022, fiscal policy has expanded in 2023…

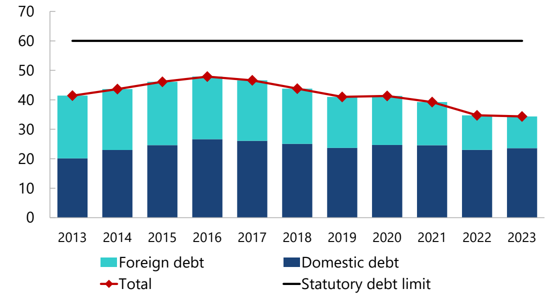
Fiscal Balance
(In percent of GDP)



Sources: Vietnamese authorities; and IMF staff calculations.

…while debt declined thanks to relatively low deficits and positive growth-interest differential.

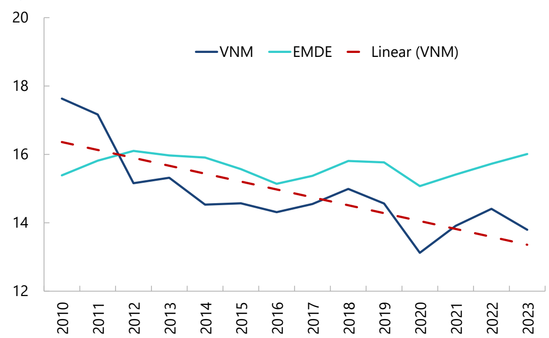
Public and Publicly Guaranteed Debt
(In percent of GDP)



Sources: Vietnamese authorities; and IMF staff calculations.
Note: The formal PPG debt ceiling was revised from 65 to 60 percent of GDP in 2021.

Tax revenue has been on a declining trend and lower than EMDE benchmark.

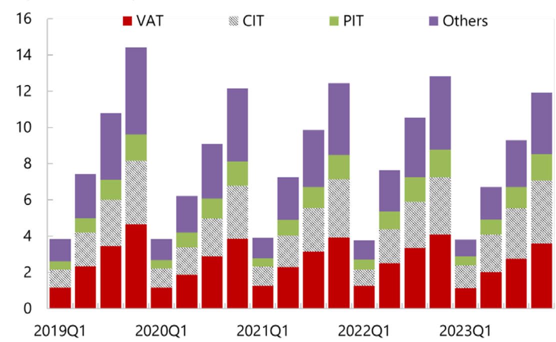
General Government Tax Revenue
(In percent of GDP)



Sources: IMF staff calculations.

Real estate downturn, the imports' contraction, and supportive tax measures (e.g., tax cuts and exemptions) resulted in lower tax revenue in 2023.

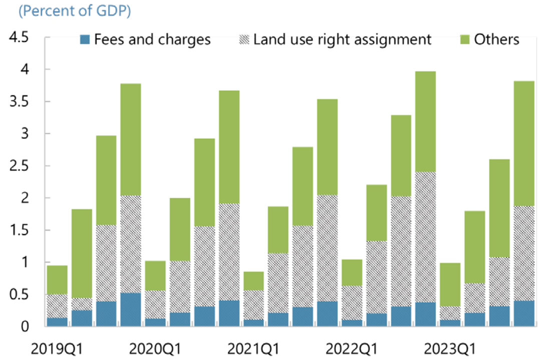
Tax Revenue, Year-to-Date
(Percent of GDP)



Sources: Vietnamese authorities.

Non-tax revenue also underperformed in 2023, mainly due to lower land use right assignment resulted from weak real estate activities.

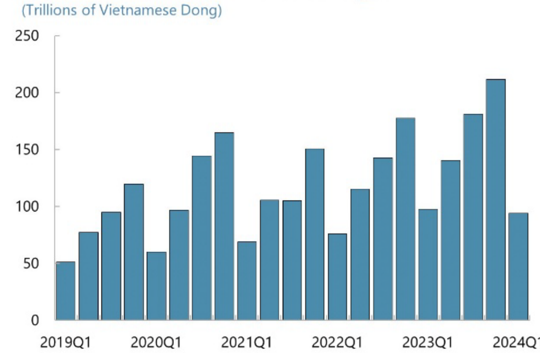
Non-Tax Revenue, Year-to-Date
(Percent of GDP)



Sources: Vietnamese authorities.

Public investment accelerated in 2023.

Capital Investment under State Budget
(Trillions of Vietnamese Dong)

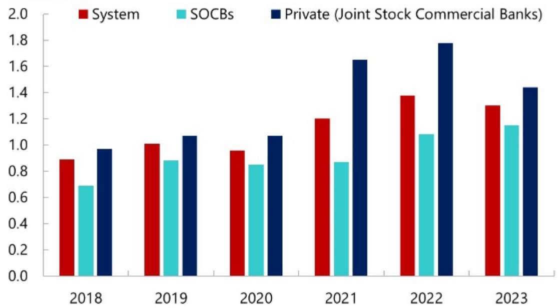


Sources: Vietnamese authorities.

Figure 6. Vietnam: Financial Sector Developments

Bank profitability, in general, remained high in 2023, driven by strong credit growth and net interest margins.

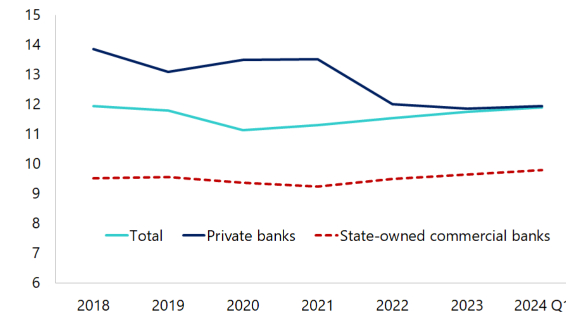
Bank Profitability
(ROA in Q4)



Sources: Haver Analytics and IMF staff calculations.
Notes: Does not include banks with negative equity.

However, capital adequacy remained weak, especially in SOCBs.

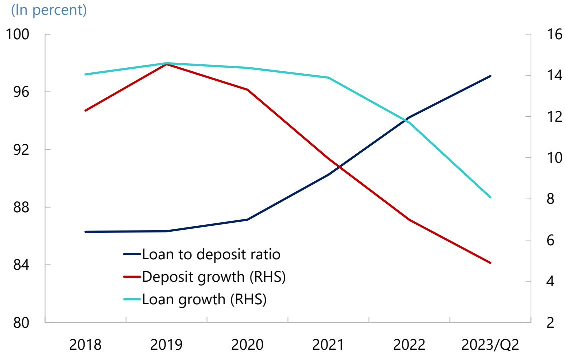
Capital Adequacy Ratios
(In Percent)



Sources: Financial Soundness Indicators, authority's data and IMF staff calculations.

...and liquidity tightened sharply as lending grew faster than deposits.

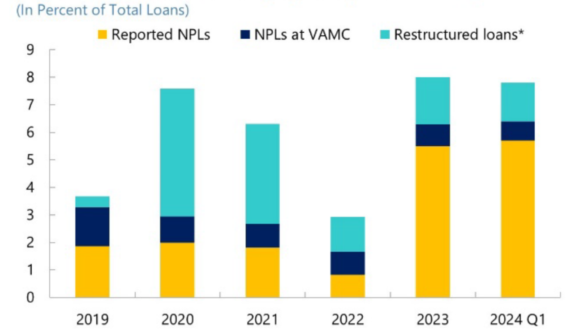
Loan to Deposit Ratio
(In percent)



Sources: Financial Soundness Indicator Database and IMF staff calculations.

NPLs are picking up again since June 2022.

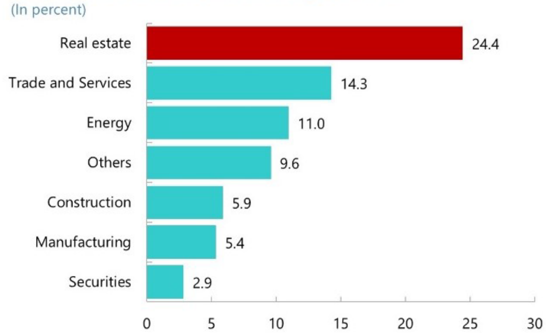
Impaired Assets of Banking System, 2019-2024Q1
(In Percent of Total Loans)



Sources: Vietnam authorities; Financial Soundness Indicators (FSI).
Note: *restructured loans including the legacy restructured loans and covid 19 loan forbearance

Bond defaults in real estate exceeded those in other sectors…

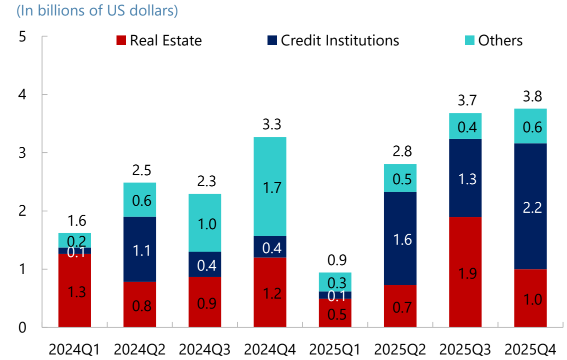
Corporate Bond Default Ratio by Sector 1/
(In percent)



Sources: FiinRatings
1/ As of May 4, 2023.

… and could rise further as real estate developer-issued bonds form the bulk of upcoming maturities.

Corporate Bond Market: Scheduled Maturities
(In billions of US dollars)



Sources: VBMA and IMF staff calculations.

Table 1. Vietnam: Selected Economic Indicators, 2020-2025

	2020	2021	2022	2023	Projections 2024	2025
Output						
Real GDP (percent change)	2.9	2.6	8.1	5.0	6.1	6.1
Output Gap (percent of potential GDP)	-0.4	-1.9	0.0	-0.6	-0.3	-0.2
Prices (percent change)						
CPI (period average)	3.2	1.8	3.2	3.3	4.1	3.5
Core inflation (period average)	2.3	0.9	2.7	4.2	3.6	3.4
Saving and investment (in percent of GDP)						
Gross national saving	36.3	30.7	32.9	37.7	35.2	35.2
Gross investment	31.9	32.9	32.6	32.0	32.2	32.5
Private	24.9	26.7	26.3	25.0	25.5	25.7
Public	7.0	6.2	6.3	6.9	6.7	6.9
State budget finances (in percent of GDP) 1/						
Revenue and grants	18.4	18.7	19.0	17.1	17.6	18.4
Expenditure	21.3	20.1	18.3	19.5	20.2	20.7
Expense	14.3	13.9	12.0	12.6	13.5	13.8
Net acquisition of nonfinancial assets	7.0	6.2	6.3	6.9	6.7	6.9
Net lending (+)/borrowing(-) 2/	-2.9	-1.4	0.7	-2.5	-2.6	-2.2
Public and publicly guaranteed debt (end of period)	41.3	39.2	34.7	34.4	33.8	33.2
Money and credit (percent change, end of period)						
Broad money (M2)	14.5	10.7	6.2	12.5	11.4	8.0
Credit to the economy	11.6	13.5	14.0	13.7	12.9	9.5
Balance of payments (in percent of GDP, unless otherwise indicated)						
Current account balance (including official transfers)	4.3	-2.2	0.3	5.8	3.0	2.7
Exports f.o.b.	81.6	90.8	91.1	81.8	81.0	79.6
Imports f.o.b.	72.7	86.6	83.9	71.6	73.0	73.0
Capital and financial account 3/	2.4	8.3	2.3	-0.7	-4.8	0.0
Gross international reserves (in billions of U.S. dollars) 4/	95.2	109.4	86.7	92.3	84.0	97.9
In months of prospective GNFS imports	3.3	3.6	3.1	2.9	2.5	2.7
Total external debt (end of period)	37.6	37.9	35.5	32.7	32.6	32.8
Nominal exchange rate (dong/U.S. dollar, end of period)	23,098	22,826	23,633	23,929	...	...
Memorandum items (current prices):						
GDP (in billions of U.S. dollars)	346.3	370.1	408.0	433.7	468.5	506.4
Per capita GDP (in U.S. dollars)	3,549	3,757	4,102	4,324	4,649	4,986

Sources: Vietnamese authorities; and IMF staff estimates and projections.
1/ Follows the format of the Government Finance Statistics Manual 2001. Large EBFs are outside the state budget but inside the general government (revenue amounting to 6-7 percent of GDP).
2/ Excludes net lending of Vietnam Development Bank and revenue and expenditure of Vietnam Social Security.
3/ Incorporates a projection for negative errors and omissions going forward (i.e. unrecorded imports and short-term capital outfows).
4/ Excludes government deposits.

Table 2. Vietnam: Medium-Term Projections, 2020-2029

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
					Projections					
Output										
Real GDP (percent change)	2.9	2.6	8.1	5.0	6.1	6.1	6.0	5.9	5.8	5.6
Output Gap (percent of potential GDP)	-0.4	-1.9	0.0	-0.6	-0.3	-0.2	0.0	0.0	0.0	0.0
Prices (percent change)										
CPI (period average)	3.2	1.8	3.2	3.3	4.1	3.5	3.4	3.4	3.4	3.4
CPI (end of period)	0.2	1.8	4.5	3.6	3.8	3.5	3.4	3.4	3.4	3.4
Core inflation (period average)	2.3	0.9	2.7	4.2	3.6	3.4	2.5	2.5	2.5	2.5
Core inflation (end of period)	1.0	0.7	5.0	3.0	3.9	3.3	2.5	2.5	2.5	2.5
Saving and investment (in percent of GDP)										
Gross national saving	36.3	30.7	32.9	37.7	35.2	35.2	34.9	34.5	34.2	33.9
Gross investment	31.9	32.9	32.6	32.0	32.2	32.5	32.6	32.6	32.7	32.6
Private	24.9	26.7	26.3	25.0	25.5	25.7	25.3	25.1	25.2	25.1
Public	7.0	6.2	6.3	6.9	6.7	6.9	7.3	7.5	7.5	7.5
State budget finances (in percent of GDP) 1/										
Revenue and grants	18.4	18.7	19.0	17.1	17.6	18.4	18.9	19.1	19.2	19.2
Of which: Oil revenue	0.4	0.5	0.8	0.6	0.6	0.5	0.5	0.5	0.6	0.6
Expenditure	21.3	20.1	18.3	19.5	20.2	20.7	21.0	21.1	21.0	21.0
Expense	14.3	13.9	12.0	12.6	13.5	13.8	13.7	13.6	13.5	13.5
Net acquisition of nonfinancial assets	7.0	6.2	6.3	6.9	6.7	6.9	7.3	7.5	7.5	7.5
Net lending (+)/borrowing(-) 2/	-2.9	-1.4	0.7	-2.5	-2.6	-2.2	-2.1	-2.0	-1.9	-1.8
Net lending /borrowing including EBFs	-1.8	-0.5	1.5	-1.7	-1.9	-1.7	-1.7	-1.7	-1.7	-1.7
Public and publicly guaranteed debt (end of period)	41.3	39.2	34.7	34.4	33.8	33.2	32.6	32.0	31.5	31.0
Money and credit (percent change, end of period)										
Broad money (M2)	14.5	10.7	6.2	12.5	11.4	8.0	8.0	7.8	7.5	7.3
Credit to the economy	11.6	13.5	14.0	13.7	12.9	9.5	9.4	9.0	8.7	8.5
Balance of payments (in percent of GDP, unless otherwise indicated)										
Current account balance (including official transfers)	4.3	-2.2	0.3	5.8	3.0	2.7	2.3	1.8	1.5	1.3
Exports f.o.b.	81.6	90.8	91.1	81.8	81.0	79.6	79.6	79.7	80.1	80.7
Imports f.o.b.	72.7	86.6	83.9	71.6	73.0	73.0	73.6	74.1	74.7	75.6
Capital and financial account 3/	2.4	8.3	2.3	-0.7	-4.8	0.0	0.8	0.8	0.8	0.8
Gross international reserves (in billions of U.S. dollars) 4/	95.2	109.4	86.7	92.3	84.0	97.9	114.7	129.9	144.3	158.7
In months of prospective GNFS imports	3.3	3.6	3.1	2.9	2.5	2.7	2.9	3.1	3.2	3.2
Total external debt (end of period)	37.6	37.9	35.5	32.7	32.6	32.8	32.8	32.8	32.8	32.9
Nominal exchange rate (dong/U.S. dollar, end of period)	23,098	22,826	23,633	23,929	...	...	...	...	...	...
Memorandum items (current prices):										
GDP (in billions of U.S. dollars)	346.3	370.1	408.0	433.7	468.5	506.4	545.1	586.0	628.6	671.7
Per capita GDP (in U.S. dollars)	3,549	3,757	4,102	4,324	4,649	4,986	5,326	5,685	6,056	6,425

Sources: Vietnamese authorities; and IMF staff estimates and projections.
1/ Follows the format of the Government Finance Statistics Manual 2001. Large EBFs are outside the state budget but inside the general government (revenue amounting to 6-7 percent of GDP).
2/ Excludes net lending of Vietnam Development Bank and revenue and expenditure of Vietnam Social Security.
3/ Incorporates a projection for negative errors and omissions going forward (i.e. unrecorded imports and short-term capital outfows).
4/ Excludes government deposits.

Table 3. Vietnam: Balance of Payments, 2020–2025

(In billions of U.S. dollars, unless otherwise indicated)

				Prelim.	Projections	
	2020	2021	2022	2023	2024	2025
Current account balance	15.1	-8.1	1.4	25.1	14.1	13.5
Trade balance	30.7	15.7	29.4	44.0	37.4	33.2
Of which: Oil balance	-1.5	-2.1	-6.0	-5.9	-6.2	-6.0
Exports, f.o.b.	282.6	336.2	371.7	354.7	379.6	402.7
Imports, f.o.b.	251.9	320.5	342.3	310.7	342.2	369.5
Nonfactor services	-10.3	-15.4	-13.9	-9.5	-10.9	-8.9
Receipts	7.6	5.3	13.5	19.6	22.8	24.2
Payments	17.9	20.7	27.4	29.1	33.7	33.1
Investment income	-14.8	-18.7	-19.7	-22.5	-26.8	-25.2
Receipts	1.4	1.0	2.3	4.6	2.3	1.4
Payments	16.2	19.7	22.0	27.0	29.1	26.6
Transfers	9.5	10.3	5.6	13.1	14.4	14.3
Private (net)	8.9	9.6	5.0	12.2	13.7	14.0
Official (net)	0.6	0.7	0.6	0.8	0.6	0.3
Capital and financial account balance	8.5	30.8	9.5	-2.8	-22.4	0.2
Direct investment (net)	15.4	15.3	15.2	20.1	19.2	20.7
Of which: Foreign direct investment in Vietnam	15.8	15.7	17.9	18.5	20.0	21.6
Portfolio investment	-1.3	0.3	1.5	-1.2	-0.7	0.8
Medium- and long-term loans	2.4	2.8	2.2	-1.6	-1.2	4.3
Disbursements	11.5	15.2	15.6	14.2	17.0	18.5
Amortization	9.1	12.4	13.5	15.8	18.1	14.2
Short-term capital 1/	-8.0	12.5	-9.4	-20.1	-39.7	-25.6
Errors and omissions	-6.9	-8.4	-33.6	-16.6	0.0	0.0
Overall balance	16.6	14.3	-22.7	5.6	-8.3	13.7
Memorandum items:						
Gross international reserves 2/	95.2	109.4	86.7	92.3	84.0	97.7
Current account balance (in percent of GDP)	4.3	-2.2	0.3	5.8	3.0	2.7
Export value (percent change)	7.0	18.9	10.6	-4.6	7.0	6.1
Export value (in percent of GDP)	81.6	90.8	91.1	81.8	81.1	79.6
Import value (percent change)	3.7	27.2	6.8	-9.2	10.1	8.0
Import value (in percent of GDP)	72.7	86.6	83.9	71.6	73.1	73.1
External debt	130.3	140.2	145.0	141.7	152.8	165.9
In percent of GDP 3/	37.6	37.9	35.5	32.7	32.7	32.8
GDP	346.3	370.1	408.0	433.7	467.9	505.6

Sources: Vietnamese authorities; and IMF staff estimates and projections.

1/ Incorporates a projection for negative errors and omissions going forward (i.e. unrecorded imports and US dollar currency holdings by residents outside the formal financial sector).

2/ Excludes government deposits.

3/ Uses interbank exchange rate.

Table 4a. Vietnam: Consolidated State Budgetary Operations, 2020-2025 1/

(In trillions of dong, unless otherwise indicated)

	2020	2021	2022	Est. 2023	Proj. 2024	Proj. 2025
Total revenue and grants	1479	1587	1815	1744	1988	2279
Tax revenue	1056	1181	1374	1304	1485	1716
Oil revenues	32	44	78	62	63	65
CIT	26	32	60	47	47	49
Natural resource tax	6	12	18	15	15	16
Non-oil tax revenues	1024	1137	1296	1242	1422	1651
PIT	115	128	163	157	182	205
CIT	231	286	278	315	331	362
VAT	340	376	445	420	487	573
Trade	79	90	114	87	119	126
Others	259	257	296	262	303	384
Grants	5	17	8	3	3	3
Other revenue	419	389	433	437	501	560
Expenditure	1710	1708	1751	1995	2280	2557
Expense	1146	1180	1149	1287	1524	1710
Interest	106	102	96	89	111	124
Other expense	1040	1079	1053	1198	1412	1585
Net acquisition of non-financial assets	563	528	601	708	756	847
Net lending (+)/borrowing (-)	-230	-122	65	-252	-291	-277
Net incurrence of liabilities	214	9	-246	252	291	277
Net incurrence of financial liabilities	199	54	9	242	288	274
Domestic	167	114	110	126	248	235
Foreign	31	-60	-101	116	39	39
Disbursement	112	-8	9	116	135	135
Amortization	81	53	110	0	96	96
Net acquisition of financial assets	-15	44	255	-10	-4	-4
of which: Privatization receipts	-30	-4	-4	-10	-4	-4
Statistical discrepancies 2/	16	112	181	...	...	...
Memorandum items:						
Net lending/borrowing including VSS	-136	-30	158	-162	-204	-194
Net lending/borrowing including EBFs	-145	-42	144	-177	-220	-212
Public and publicly guaranteed debt	41.3	39.2	34.7	34.4	33.8	33.2
Primary balance (% GDP)	-1.5	-0.2	1.7	-1.6	-1.6	-1.2
Cyclically Adjusted Primary Balance (% potential GDP)	-1.5	0.1	1.7	-1.5	-1.5	-1.2
Cyclically Adjusted Non-Oil Primary Balance (% potential GDP)	-1.8	-0.4	0.9	-2.1	-2.1	-1.7
Nominal GDP (in trillions of dong)	8044	8487	9549	10222	11277	12366

Sources: Vietnamese authorities; and IMF staff estimates and projections.

1/ Government Finance Statistics 2001 presentation. The baseline projections include assumptions of lower trade-related tax revenue due to international trade agreements, gradual improvements in tax collection, and current plans for SOE equitization/divestment. Figures consolidate central and provincial government accounts, but exclude net lending of Vietnam Development Bank and revenue and expenditure of Vietnam Social Security and other extra-budgetary funds.

2/ Difference between net lending/borrowing and identified below-the-line financing.

Table 4b. Vietnam: Consolidated State Budgetary Operations, 2020-2025 1/

(In percent of GDP, unless otherwise indicated)

				Est.	Proj.	Proj.
	2020	2021	2022	2023	2024	2025
Total revenue and grants	18.4	18.7	19.0	17.1	17.6	18.4
Tax revenue	13.1	13.9	14.4	12.8	13.2	13.9
Oil revenues	0.4	0.5	0.8	0.6	0.6	0.5
CIT	0.3	0.4	0.6	0.5	0.4	0.4
Natural resource tax	0.1	0.1	0.2	0.1	0.1	0.1
Non-oil tax revenues	12.7	13.4	13.6	12.1	12.6	13.4
PIT	1.4	1.5	1.7	1.5	1.6	1.7
CIT	2.9	3.4	2.9	3.1	2.9	2.9
VAT	4.2	4.4	4.7	4.1	4.3	4.6
Trade	1.0	1.1	1.2	0.9	1.1	1.0
Others	3.2	3.0	3.1	2.6	2.7	3.1
Grants	0.1	0.2	0.1	0.0	0.0	0.0
Other revenue	5.2	4.6	4.5	4.3	4.4	4.5
Expenditure	21.3	20.1	18.3	19.5	20.2	20.7
Expense	14.3	13.9	12.0	12.6	13.5	13.8
Interest	1.3	1.2	1.0	0.9	1.0	1.0
Other expense	12.9	12.7	11.0	11.7	12.5	12.8
Net acquisition of non-financial assets	7.0	6.2	6.3	6.9	6.7	6.9
Net lending (+)/borrowing (-)	-2.9	-1.4	0.7	-2.5	-2.6	-2.2
Net incurrence of liabilities	2.7	0.1	-2.6	2.5	2.6	2.2
Net incurrence of financial liabilities	2.5	0.6	0.1	2.4	2.5	2.2
Domestic	2.1	1.3	1.2	1.2	2.2	1.9
Foreign	0.4	-0.7	-1.1	1.1	0.3	0.3
Disbursement	1.4	-0.1	0.1	1.1	1.2	1.1
Amortization	1.0	0.6	1.2	0.0	0.8	0.8
Net acquisition of financial assets	-0.2	0.5	2.7	-0.1	0.0	0.0
of which: Privatization receipts	-0.4	0.0	0.0	-0.1	0.0	0.0
Statistical discrepancies 2/	0.2	1.3	1.9	…	…	…
Memorandum items:						
Net lending/borrowing including VSS	-1.7	-0.4	1.7	-1.6	-1.8	-1.6
Net lending/borrowing including EBFs	-1.8	-0.5	1.5	-1.7	-1.9	-1.7
Public and publicly guaranteed debt	41.3	39.2	34.7	34.4	33.8	33.2
Primary balance	-1.5	-0.2	1.7	-1.6	-1.6	-1.2
Cyclically Adjusted Primary Balance (% potential GDP)	-1.5	0.1	1.7	-1.5	-1.5	-1.2
Cyclically Adjusted Non-Oil Primary Balance (% potential GDP)	-1.8	-0.4	0.9	-2.1	-2.1	-1.7
Nominal GDP (in trillions of dong)	8,044	8,487	9,549	10,222	11,277	12,366

Sources: Vietnamese authorities; and IMF staff estimates and projections.

1/ Government Finance Statistics 2001 presentation. The baseline projections include assumptions of lower trade-related tax revenue due to international trade agreements, gradual improvements in tax collection, and current plans for SOE equitization/divestment. Figures consolidate central and provincial government accounts, but exclude net lending of Vietnam Development Bank and revenue and expenditure of Vietnam Social Security and other extra-budgetary funds.

2/ Difference between net lending/borrowing and identified below-the-line financing.

Table 5. Vietnam: Monetary Survey, 2020-2025 1/

(In trillions of dong, unless otherwise indicated)

					Proj.	
	2020	2021	2022	2023	2024	2025
Net foreign assets	2,642	2,737	2,361	2,783	3,240	4,005
State Bank of Vietnam (SBV)	2,199	2,536	2,049	2,209	2,073	2,441
Commercial banks	443	200	312	574	1,166	1,563
Net domestic assets	9,469	10,665	11,866	13,216	14,590	15,257
Domestic credit	9,647	10,860	12,104	13,750	15,706	17,360
Net claims on government	354	312	80	80	279	467
SBV	-485	-551	-450	-784	…	…
Credit institutions	839	863	530	865	…	…
Credit to the economy	9,293	10,548	12,024	13,669	15,427	16,893
Claims on state-owned enterprises (SOEs)	465	443	425	457	…	…
Claims on other sectors	8,829	10,105	11,599	13,212	…	…
In dong	8,794	9,966	11,510	13,132	…	…
In foreign currency	499	583	514	537	…	…
By state-owned banks (SOCBs)	4,251	4,731	5,348	6,022	…	…
By non-SOCBs	5,042	5,817	6,676	7,647	…	…
Other items net	-178	-195	-238	-534	…	…
Total liquidity (M2)	12,111	13,402	14,227	15,999	17,829	19,262
Dong liquidity	11,141	12,467	13,193	15,020	…	…
Deposits	9,803	10,947	11,840	13,594	…	…
Currency outside banks	1,338	1,520	1,353	1,426	…	…
Foreign currency deposits	969	936	1,034	979	…	…
Memorandum items:						
Reserve money (year-on-year percent change)	10.0	12.5	-13.1	11.0	11.4	8.0
Liquidity (M2; year-on-year percent change)	14.5	10.7	6.1	12.5	11.4	8.0
Currency/deposits (in percent)	12.4	12.8	10.5	9.8	…	…
Credit/deposits (total, in percent)	86.3	88.8	93.4	93.8	…	…
Credit/deposits (dong, in percent)	90	91	97	97	…	…
Credit/deposits (foreign currency, in percent)	51	62	50	55	…	…
Credit to the economy						
Total (in percent of GDP)	115.5	124.3	125.9	133.7	136.8	136.6
Total (year-on-year percent change)	11.6	13.5	14.0	13.7	12.9	9.5
In dong (year-on-year percent change)	12.1	13.3	15.5	14.1	…	…
In FC (year-on-year percent change)	4.0	16.8	-11.7	4.5	…	…
In FC at constant exchange rate (year on year percent change)	4.6	18.2	-13.9	6.3	…	…
To SOEs (year-on-year percent change)	3.3	-4.6	-4.0	7.4	…	…
To other sectors (year-on-year percent change)	12.1	14.5	14.8	13.9	…	…
To SOEs (percent of total)	5.0	4.2	3.5	3.3	…	…
Nominal GDP (in trillions of dong)	8,044	8,487	9,549	10,222	11,277	12,366

Sources: SBV; and IMF staff estimates and projections.

1/ Includes the SBV and deposit-taking credit institutions.

Table 6. Vietnam: Financial Soundness Indicators (2019-2023)

(In percent)

	2019	2020	2021	2022	2023Q2
Regulatory Capital to Risk-Weighted Assets	11.8	11.1	11.3	11.5	11.4
Regulatory Tier 1 Capital to Risk-Weighted Assets	9.4	9.5	9.6	10.1	10.2
Non-performing Loans Net of Provisions to Capital	7.5	8.0	4.3	9.1	20.6
Non-performing Loans to Total Gross Loans 1/	1.8	1.9	1.6	1.9	3.9
Return on Assets	1.2	1.2	1.5	1.1	1.2
Return on Equity	12.4	11.9	14.9	13.9	10.7
Interest Margin to Gross Income	68.6	68.7	67.0	70.8	68.8
Non-interest Expenses to Gross Income	47.1	47.4	40.2	42.0	46.1
Liquid Assets to Total Assets (Liquid Asset Ratio)	11.7	11.3	10.3	9.2	8.3

Sources: Financial Soundness Indicators (FSI).

1/ Excluding restructured and VAMC loans.

Annex I. Progress Against IMF Recommendations

Policies	2023 Article IV Consultation Recommendations	Actions Since 2023 Article IV Consultation
Fiscal Policy	Further fiscal support could be considered, especially if the economic recovery disappoints. Policies could focus on spending to address infrastructure and social needs. Reducing exemptions and rationalizing preferential regimes for FDI firms, broadening the VAT base, and raising environmental tax and excise duties. Revenue mobilization efforts over the medium term are needed to reverse the trend of tax erosion and create space to bolster social spending and address infrastructure gaps.	Fiscal policy has become more expansionary to support the recovery. The authorities continued tax and land rent deferrals, and tax/fee reductions 2023H2. In 2024, tax reductions have been continued, including a VAT cut (by 2 percent until end-2024) and an environmental tax reduction (by 50 percent). MOF has proposed to amend the laws on VAT, CIT and excise tax. The proposals have been disclosed for public consultation and would be included in the National Assembly's legislative agenda in 2024. Possible amendments include broadening the VAT tax base, narrowing exemptions from VAT, lowering CIT rates for SMEs, revising some articles of the CIT law in the context of GMT adoption, and raising excise tax on alcohol and beer. Vietnam passed a resolution on adoption of top-up CIT of 15 per cent under the Global Anti-Base Erosion (GloBE) model rules, effective on January 1, 2024. More efforts have been put in place to strengthen tax administration through digital transformation. Tax authorities have enhanced risk-based tax management processes. E-commerce and digital-based tax administration have also improved.
Monetary Policy	Monetary policy should be cautious and data dependent given significant underlying risks. Greater exchange rate flexibility to absorb external shocks. Accelerating modernization of the monetary framework.	Monetary policy was accommodative in most 2023 to support economic growth. FXI since mid-2023 has been limited until Q2 2024, when the SBV resumed its spot interventions following FX pressures, while also allowing depreciation. The modernization of the monetary policy framework is ongoing, with the SBV enhancing its analytical and forecasting capacity through IMF-supported Forecasting and Policy Analysis System (FPAS) technical assistance (TA).

Policies	2023 Article IV Consultation Recommendations	Actions Since 2023 Article IV Consultation
Financial Sector Policies	Close monitoring of risks in the banking sector; loan classification and provisioning rules should be normalized.	SBV has been closely monitoring risks in the banking sector. Loan classification and provisioning rules have been normalized for loans restructured after January 1, 2023, but new loan forbearance was introduced in April 2023.
	Enhance banking sector resilience.	Adoption of Basel II is continuing. The new Law on Credit Institutions was ratified in early 2024 and came into effect on July 1, 2024. This new law is expected to help enhance system stability through increasing ownership transparency, diversifying shareholder bases and empowering minority shareholders, limiting single exposure credit risks, allowing banks to recover NPLs extended to troubled developers via project sales, and continuing policies to enable NPL resolution.
	Improving crisis preparedness.	The new Credit Institution Law introduces a new recovery planning framework and provisions dealing with bank runs; adjusts the triggers for early intervention; and strengthens the role of SBV as the resolution authority.
	Strengthen AML/CFT system.	A new AML-CFT law was passed and came into effect in March 2023, but it addresses the shortcomings identified only to a limited extent. The SBV also issued the AML Circular to provide specific AML requirements for the banking sector.
	Strengthen domestic capital market.	Credit rating requirement and limits on retail investors came into effect on January 1, 2024. The rule that banks are not allowed to buy back unlisted corporate bonds was resumed on January 1, 2024. All corporate bonds must now be listed on a trading platform which was introduced in the last quarter of 2023.
	Improving fintech regulation.	Vietnam has made progress toward digital transformation in both public service and business, especially in the banking and finance sectors. More public services can be provided through the e-government Portal, including tax and customs services.

Policies	2023 Article IV Consultation Recommendations	Actions Since 2023 Article IV Consultation
Structural Policies	Making laws and administrative processes clearer, simpler and more transparent to provide greater legal certainty and reduce corruption.	Several important economic laws, including the revised land law, real estate business law, housing law, and law on credit institutions were ratified late last year. These laws will come into effect either mid-this year or early next year to help address difficulties in the real estate sector and improve banking sector resilience.
	Labor market reform and efforts to increase human capital levels and reduce skill mismatches to further improve growth prospects.	The authorities have developed a plan to have 50,000 engineers serving the semiconductor industry by 2030.
	Addressing data gaps to help enhance transparency and better inform policy making and risk management.	MOF has been working on a plan to reduce the lag of final account reporting from 18 months to 12 months. The conversion of state budget data aligned with GFSM 2014 has been slowly continued and Vietnam has published GFS data for 2003-22 on the IMF website. The authorities are working on improving BOP data, especially reducing E&Os. The SBV is working on IIP statistics. IMF TA supports the efforts on BoP and IIP data.
	Reforms to accelerate climate change mitigation.	Vietnam has committed to reaching net-zero emissions by 2050. The authorities are developing a carbon market framework. 10.3 million forest carbon credits (10.3 million tones of CO_2) were sold for the first time through the World Bank.

Annex II. Integration of Capacity Development Assistance in Surveillance

Overview

1. **To achieve its ambitious development objectives, Vietnam needs to continue to modernize its economic institutions and policy frameworks.** The IMF and other development partners are actively engaged in their respective areas of expertise and are coordinating regularly.

2. **CD has been well integrated with IMF surveillance.** High-quality CD remains central in strengthening the effective implementation of IMF policy advice and engagement with the authorities. The main surveillance priorities include modernizing policy frameworks, enhancing financial stability, and improving data quality and transparency to help Vietnam transit to the next phase of its development.

3. **Fund CD assistance focuses on Vietnam's ambitious reform agenda**. IMF CD assistance is playing a key role in SBV's plan to modernize its monetary policy framework via the FPAS and enhancements in central bank operations. An internal audit TA to the SBV aims at improving central bank governance. A FSSR was undertaken, and a broad reform roadmap has been designed to help enhance financial stability. The IMF stands ready to continue helping the SBV to strengthen financial stability and enhance its monetary policy operations and tools. On fiscal, the IMF continues to support the authorities' efforts to strengthen treasury management, domestic revenue mobilization, tax administration, and public debt management. The IMF has also provided TA to strengthen capacity in macroeconomic analysis and forecasting in the Ministry of Planning and Investment. IMF TA will also continue to support the authorities' initiatives to improve the coverage, quality, and timeliness of fiscal and external sector statistics. Vietnam has also benefitted from IMF TA and capacity building on AML/CFT, central bank digital currency, pension fund reform, customs modernization, and climate policies.

Integrating Fund Surveillance and Capacity Development

Area	Surveillance Recommendations	Capacity Development – Recent Actions/Plans
Monetary Policy	Continue to modernize the monetary policy framework.	Phase 1 of the FPAS to enhance analytical and forecasting capacity was successfully completed in early 2022. Phase II on FPAS integration into policy discussions is expected to be completed in the third quarter of 2024.
Financial Policy	Strengthen the resilience of the banking sector and modernize the macroprudential framework.	An FSSR was undertaken during 2021-23 and has identified gaps in the financial sector infrastructure, policies, including the macroprudential framework, and statistics. A broad reform roadmap has been designed. The authorities requested follow up TA.

Integrating Fund Surveillance and Capacity Development		
Central Bank Governance	Strengthen the central bank capacity on internal audit toward more transparency and risk-based management.	TA on strengthening SBV's internal audit started in August 2022 and aims at developing capacity in the application of risk-based internal auditing in compliance with the Institute of Internal Auditor's (IIA) standard.
Tax Policy	The planned introduction of a unified property tax and a land registry would also be important.	The Fund continues to provide TA on property-related tax reform and potential revenue enhancement. Another potential area for TA engagement currently under discussion relates to a potential emission trading scheme.
Tax Administration	The Tax System Reform Strategy 2021-2030 should help broaden the tax base and enhance tax compliance.	The multi-year CD program is on-going. The Fund has provided strategic advice on strengthening the compliance risk management function and leadership capacity. The General Taxation Department (GTD) also seeks the Fund's support to prepare the mid-term evaluation of implementation of the Tax System Reform Strategy, including a tax-gap study, TADAT and potential revenue yield assessment.
Treasury Management	Improve public finance management and fiscal data, accounting and reporting.	The Vietnam State Treasury (VST) has received intensive support in cash management, risk-based expenditure control, internal audit, government cash flow projection, mid-term evaluation of the Treasury Modernization Strategy for 2021-2030, revision of the Charts of Accounts, and upgrading Treasury's Financial Management Information System (FMIS).
Debt Management	Improve public debt accounting and reporting.	Although public debt data are published by MOF semi-annually, they are not currently disseminated through the World Bank/IMF Quarterly Public Sector Debt (QPSD) database. IMF/CDOT experts have helped strengthen the authorities' capacity to compile and disseminate debt statistics to the QPSD database.
Social Security Fund Management	Expand social security coverage.	The Fund has engaged with VSS in a multi-year CD program to develop a scalable model for projecting VSS' long-term financial position and distributional features of the public pension system. The authorities were trained in operating the model. It is expected that the model will support pension policy making, policy analyses and reporting.

Integrating Fund Surveillance and Capacity Development		
Customs Modernization	Compliance improvement and enforcement enhancement.	GDVC and the Fund have engaged in a CD program to develop an action plan for compliance improvement and enforcement enhancement. Further TA was delivered on implementing elements of the Compliance Improvement Plan and Enforcement Enhancement Plan, notably improved risk-based controls by establishing a centralized customs targeting function, use of AI features in Compliance Risk Management, and extension of the Authorized Economic Operator (AEO) program.
Data and Statistics	Improve data quality including coverage, classifications, timeliness and transparency of statistics.	CDOT experts have continued to help MOF to make progress on GFS and PSDS compilation and dissemination. Vietnam's GFS data for 2003-21 were disseminated on the Fund website. The Fund has also engaged in CD on the compilation of a residential property price index, improvement of statistics of national accounts, monetary, and external sector. The Fund continued to provide external sector statistics TA to help enhance BOP data quality and compilation of IIP.
AML/CFT	AML/CFT framework and execution should be strengthened in line with the FATF standards to address key country risks.	A multi-year TA program to help resolve gaps identified in the APG mutual assessment was agreed. The TA program has started with a scoping mission in November 2022. Several follow up missions have focused on the legal framework and the risk-based supervision of AML/CFT.

Annex III. Risk Assessment Matrix

Risk	Likelihood of Risk	Time Horizon	Impact if realized	Policy Response
External Risks				
Intensification of regional conflicts	***High*** **Downside**: Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows.	***ST, MT***	***High*** Higher and volatile commodity prices, extended supply chain disruptions, tighter financial conditions, lower global demand, and less trade.	• Provide targeted policy support. • Allow greater exchange rate flexibility. • Accelerate structural reforms and improve business environment. • Diversify sourcing of intermediate goods.
Commodity price volatility	***High*** **Downside**: A succession of supply disruptions (e.g., due to conflicts, export restrictions, and OPEC+ decisions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, cross-border spillovers, and social and economic instability.	***ST***	***High*** Lower exports and domestic demand, tighter financial conditions, capital outflows.	• Provide targeted policy support. • Allow greater exchange rate flexibility. • Accelerate structural reforms and improve business environment.
Abrupt global slowdown	***Medium/Low*** **Downside**: Global and idiosyncratic risk factors cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation triggering sudden stops in EMDEs.	***ST***	***High*** Lower exports, tourism, and FDI. Potential capital outflows.	• Provide targeted policy support using fiscal space. • Allow greater exchange rate flexibility. • Facilitate reallocation of resources through structural reforms.
Deepening geo-economic fragmentation	***High*** **Downside/upside:** Broader conflicts, inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of international monetary system, and lower growth.	***ST/MT***	***Medium*** Supply disruptions and weaker confidence adversely affect economic activity globally. However, Vietnam may continue benefiting from trade diversion.	• Allow greater exchange rate flexibility. • Accelerate structural reforms and improve business environment. • Continue to diversify trade and FDI.
Monetary policy miscalibration	***Medium*** **Downside:** Amid high economic uncertainty, major central banks loosen policy stance prematurely, hindering disinflation, or keep it tight for longer than warranted, causing abrupt adjustments in financial markets and weakening the credibility of central banks.	***ST, MT***	***Medium*** Tighter global financial conditions, lower capital inflows, increased inflationary pressure.	• Allow greater exchange rate flexibility. • Tighten monetary policy if inflation pressures rise. • However, if tighter global conditions lead to a sharp economic slowdown, fiscal policy could be used to support the economy as long as inflation remains well anchored.

Risk	Likelihood of Risk	Time Horizon	Impact if realized	Policy Response
		Domestic Risks		
Reemergence of turmoil in real estate and corporate bond market and distress in weak banks.	***High*** **Downside:** Underlying risks among real estate developers re-intensify affecting banks. Concerns over asset quality at weak banks could lead to liquidity squeezes.	***ST, MT***	***High*** Reduced economic activity accompanied by tighter financial conditions as credit risks increase.	• Establish a crisis monitoring function to address risks to financial stability. • Well designed, targeted, support to real estate developers and banks could help accelerate debt restructuring. • Contagion from troubled real estate developers should be prevented to avoid risks to financial stability. • Over time, strengthen bank regulation, and supervision. Accelerate introduction of new insolvency framework.
Debt overhang and liquidity constraints.	***Medium*** **Downside:** Businesses and households deplete buffers, propagating balance sheet stress.	***ST, MT***	***Medium*** Slower growth and increase financial stability risks.	• Target support to viable firms and vulnerable households. • Closely monitor asset quality, enhance provisioning, and rebuild capital buffers.
Climate change.	***High*** **Downside:** Vietnam is amongst the most vulnerable yet least ready/able to adapt.	***ST, MT***	***High*** By 2100, climate change could severely impact more than 12 percent of the population and reduce growth by 10 percent.	• Lower the intensity of fossil fuels and provide stronger incentives through taxation of fossil fuels. • Invest in climate resilient infrastructure. • Improve capacity to adapt to technological change.

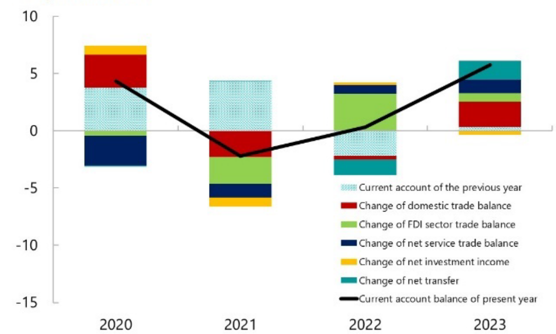
"L" =Low; "M" =Medium; "H" =High. The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Annex IV. External Sector Assessment

Vietnam's external position in 2023 was assessed to be substantially stronger than the level implied by medium-term fundamentals and desirable policies. The current account registered a large surplus of 5.8 percent of GDP in 2023. The widening of the current account gap reflects, to a large degree, the sizable contraction in merchandise imports as the economy was hit by large adverse external and domestic shocks. Other contributing factors included improved services trade due to the pick-up in tourism and a rebound in remittance inflows. Policies targeted at stimulating internal demand would aid, along with structural reforms, with the external adjustment and bring the current account back to its norm.

1. **The current account surplus increased in 2023 to 5.8 percent of GDP from 0.3 percent in 2022, following a contraction in merchandise imports in 2023H1 and a rebound in services exports.** Emerging from the financial sector distress of 2022Q4 amidst weak external demand, Vietnam's merchandise exports and to a larger degree imports contracted sharply in the first half of 2023. Weak domestic demand contributed to the drop in imports by 9.2 percent in 2023. Imports, notably those for re-exports, recovered only in 2023Q4 as external demand picked up. At the same time, tourist arrivals rose to 90 percent of pre-pandemic levels bolstering services exports. The import contraction and narrowing of the services deficit, combined with a surge in net transfers by 130 percent due to higher remittance inflows bolstered the current account surplus.

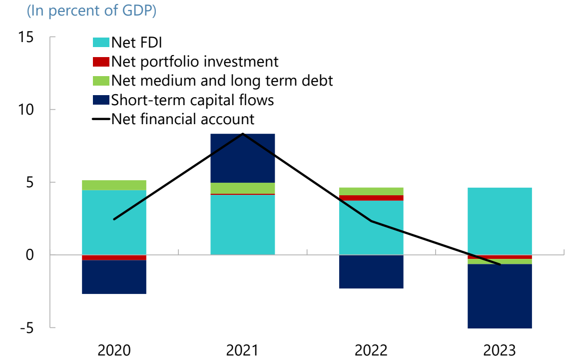
Current Account Decomposition
(In percent of GDP)



Sources: Vietnamese authorities and IMF staff calculations.

2. **The financial account declined notably in 2023 driven by large short-term capital outflows.** Placement of bank deposits and portfolio investment abroad increased sizably compared to previous years owing to the historically large interest rate differential vis-à-vis US rates. Repayment of medium- and long-term loans outweighed new external borrowing. Net FDI inflows increased as FDI inflows kept steady relative to previous years and residents liquidated some FDI abroad.

Financial Account
(In percent of GDP)

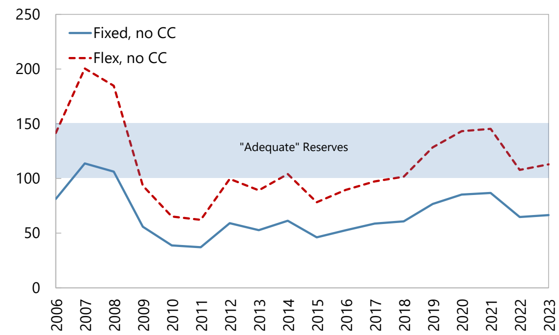


Sources: Vietnamese authorities and IMF staff calculations.

3. FX reserves increased by 6 percent (USD 5.6 billion) in 2023. Relative to the large drawdown of reserves (about 20 percent) in 2022, FX intervention in 2023 was limited. Gradual accumulation of reserves brought the GIR balance to USD 92.3 billion by 2023 year-end (2.8 times the level of short-term external debt and 3 months of prospective imports). This level corresponds to 67 percent of the Assessing Reserve Adequacy (ARA) metric—providing an assessment of the adequacy of reserve buffers to respond to shocks—under a fixed exchange rate regime or 113 percent under a floating exchange rate regime. Staff assesses the end-2023 reserve levels to be moderately below adequacy, as the exchange rate regime moved from stabilized to crawl-like in mid-2023, i.e. in between fixed and floating. Despite the large current account surplus, reserve accumulation remained slow amid large short-term outflows.

Reserve Adequacy Metric, 2006–2023

(In percent of reserve metric)



Sources: Vietnamese authorities and IMF staff estimates.

4. Vietnam's external position in 2023 is assessed to be substantially stronger than warranted by fundamentals and desirable policies; but caution is needed given large shocks and data shortcomings. Based on the current account model, the CA gap is estimated at 8.1 percent of GDP. The gap captures policy gaps from relatively tight fiscal policy (less expansionary compared to the rest of the world). At the same time, a sizeable unexplained factor remains (even larger than the policy gap), which suggests that, to a large degree, the gap increase reflects the weakened conditions that resulted from the financial shock and capital outflows. Further, the CA gap also partly reflects data gaps in the BOP (large errors and omissions of 4 percent of GDP in 2023) and structural factors not accounted for by the model (like informality and weak social safety nets that lead to precautionary saving).

EBA Model Estimates for 2023 (in percent of GDP) 1/

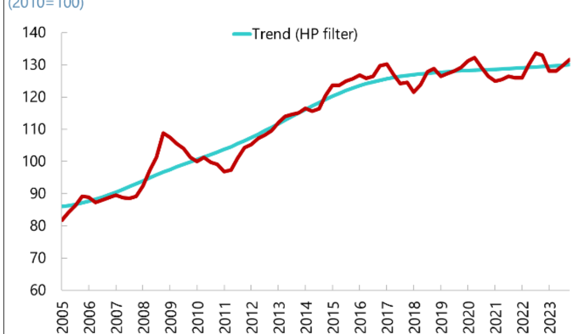
CA model	
CA-Actual	**5.8**
Cyclical contributions (from model) (-)	-0.2
Adjusted CA	**6.0**
CA Norm (from model) 2/	**-2.1**
Standard Error	0.6
CA Gap	**8.1**
o/w Relative policy gap	1.1
o/w fiscal policy gap	1.4
REER Gap	
CA-implied	**-12.3**
Elasticity	0.7
REER-Index Model	**19.5**
REER-Level Model	**12.9**

1/ Vietnam transitioned from EBA-lite to EBA in 2022.
2/ Cyclically adjusted, including multilateral consistency adjustments.

5. The real effective exchange rate (REER) depreciated during 2023H1 before appreciating in the second half of the year. The REER depreciated (q/q) during 2022Q4-2023Q2 but started appreciating in the second half of 2023 mostly due to inflation differentials with respect to

Real Effective Exchange Rate, 2005-2023

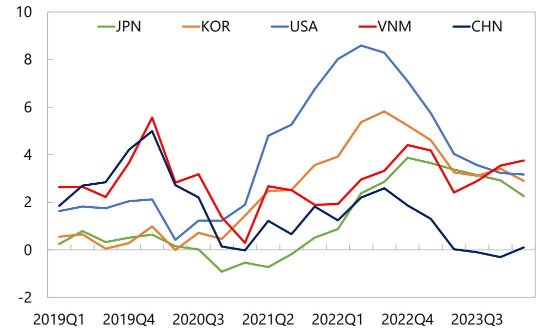
(2010=100)



Sources: INS; and IMF staff calculations.

key trading partners. REER movements slightly lagged behind changes in the nominal effective exchange rate (NEER), which had depreciated until 2023Q1 and started appreciating from 2023Q1 as the dong stabilized vis-à-vis the US dollar. Although the REER continued appreciating on a quarterly basis in 2023H2, it ended 1 percent weaker relative to the end-2022 level. The EBA CA model implies a REER gap, i.e. the REER adjustment required to close the CA gap, with an undervaluation of -12.3 percent (applying an elasticity of 0.7). Conversely, the EBA REER models indicates an overvaluation of 12.9-19.5 percent. Staff notes the significant uncertainty surrounding the exchange rate assessment.

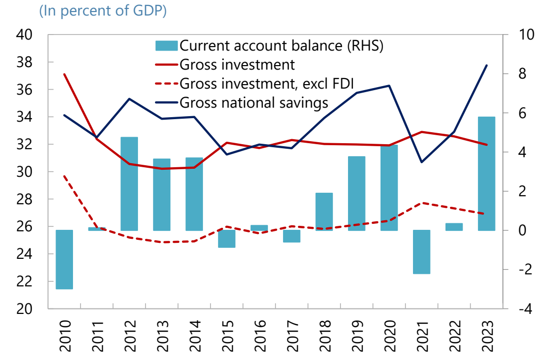
CPI Inflation of Key Trading Partners
(In percent y/y)



Sources: WEO.

6. The larger external imbalances reflect mainly a rise in savings, while investment declined slightly. The large current account gap reflects to a large degree high savings, which structurally result from weak social safety nets but have surged in 2023 due to precautionary motives. At the same time, private investment growth remained subdued in 2023, in particular non-FDI related investment. Continued efforts to remove institutional barriers to private investment such as enhancing regulatory and legal frameworks, addressing weaknesses in financial intermediation, and removing administrative burden would help close the current account gap.

Savings, Investment and Current Account
(In percent of GDP)

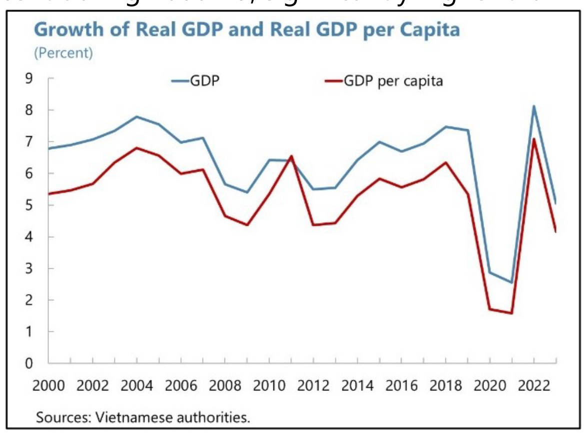


Sources: Vietnamese authorities and IMF staff calculations.

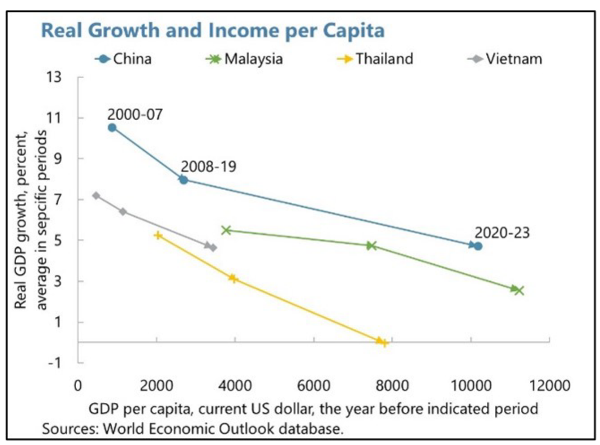
Annex V. Medium-Term Growth Prospects for Vietnam[1]

Vietnam has experienced high growth rates over the last two decades thanks to its sound policies, stable macro and sociopolitical environments, and demographic tailwinds. However, it is not certain such growth rates can be sustained in the future. We study the historical growth dynamics comparing with other Asian countries, using different empirical approaches and analyze likely medium-term growth paths based on experience of similar countries. The analysis shows that growth drivers have been changing over time. In particular, the demographic dividend is nearing its end and demographic factors will become headwinds. New emerging growth drivers include increasing trade openness and FDI and human capital accumulation. Finally, medium-term growth is expected to decline if it follows the patterns of similar experiences of other countries, highlighting the need for further reforms to sustain the ambitious development agenda.

1. **Vietnam has experienced high growth rates over the last two decades.** Real GDP and real GDP per capital growth averaged 6.7 and 5.6 percent during 2000-19, significantly higher than the averages of EMs globally (4 and 2.8 percent). This was a period of market-oriented reforms geared towards an export-oriented strategy and integration into the global economy (joined the WTO in 2007), while maintaining a stable sociopolitical environment, and (then) still young population.



2. **Going forward, the question is whether such high growth rates could be sustained.** The past decade has seen growth in global and Asian EMs trending down, amid demographics headwinds. Moreover, historical lessons from other Asian EMs suggest it is difficult to maintain high growth when income reaches a certain level. Against this backdrop, the analysis aims to examine Vietnam's medium-term growth drivers and prospects from different perspectives, including a growth accounting exercise and a machine learning approach to identify historical growth drivers, and a machine learning-based forecasting model to inform on the likely growth path based on the historical trajectories of similar experiences by other countries. The analysis offers a comprehensive view of historical and emerging growth drivers of Vietnam and potential areas of reforms to sustain high growth going forward.



[1] Prepared by Natasha Che, Federico Diez, and Weining Xin.

A. Growth Accounting Decomposition

3. A growth accounting exercise is used to analyze the contribution of each production factor to Vietnam's growth. A workhorse semi-endogenous growth (SEG) model is used to decompose Vietnam's growth. Specifically, aggregate output (*Y*) depends on physical capital (*K*), labor (*L*), human capital (*h*) and total factor productivity (*A*) equals $Y = K^{\alpha}(AhL)^{1-\alpha}$, where α equals the labor share in total income. After some simple algebraic manipulation, this setup can be simply extended to include population (*P*) and labor force (*LF*):

$$Y/P = (K/Y)^{\alpha/(1-\alpha)}\, Ah \times L/LF \times LF/P$$

Note that *L/LF* represents the employment while *LF/*P is inversely related to the dependency ratio (i.e., how many working people are in relation to the young and the elderly). The analysis uses data spanning from 2000 to 2019, for 26 Asia-Pacific countries from the Penn World Tables (*Y, K, L, h, A*) combined with data from the United Nations (*P, LF*) and the International Labour Organisation (*α*). After rewriting the equation above in growth terms, the data are imputed into the framework, resulting in the overall growth and factor contributions. The results are shown in the text table that presents the average annual growth rates for Vietnam and for country income groups (advanced economies, emerging markets, and low-income countries).

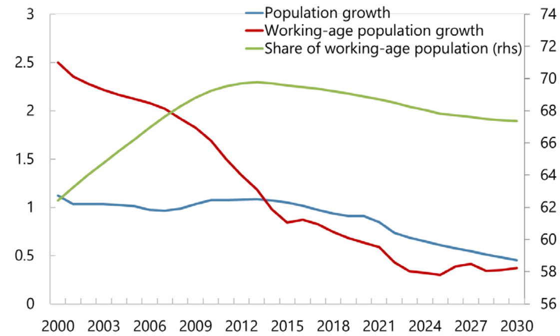
4. Vietnam had a stellar growth performance and fueled partly by remarkable increase in human capital; however, aggregate productivity did not follow suit due to frictions. Over the last 2 decades Vietnam's growth far exceeded the growth of the average emerging market. Most of this growth is accounted by (physical) capital deepening but it is also notable the solid contribution from human capital accumulation. In contrast, aggregate productivity acted as a drag on growth. This somewhat surprising finding masks another relevant factor: resource misallocation. Further staff analysis using firm-level data from Orbis suggests that misallocation has increased in recent years. Once this is accounted for, the residual productivity term (within-firm change in productivity) points to small average annual growth.

Table 1. Vietnam: Growth Decomposition (2000-19)

	Average Growth						*LF/P (e)*	*Δ LF/P*
	GDP/P	*K/Y*	*TFP*	*h*	*L/LF*	*LF/P*	2023-32	*(e)*
Vietnam	5.4	2.9	-0.2	2.0	0.1	0.5	-0.2	-0.7
AE	2.6	-0.5	1.4	0.9	0.8	0.0	-0.3	-0.2
EM	3.8	0.6	1.7	1.0	0.1	0.4	-0.3	-0.7
LIC	5.5	3.5	-0.1	1.2	0.2	0.7	0.1	-0.5

5. Demographic factors have contributed positively to Vietnam's growth over past decades but will become increasingly a larger drag in the future. The last four columns of the table show the role played by demographic factors. Looking to the past, both *L/LF* and especially *LF/P* contributed positively to growth. However, as the population ages, these contributing factors will instead detract from growth (as shown in the next to last column), resulting in a combined change of 0.7 percentage points per year (last column). This suggests that, since demographic factors are hard to reverse,[2] Vietnam needs to focus on finding alternative growth drivers.

Demographic Dynamics
(Percent (lhs); percent of total population (rhs))



Sources: World Population Prospects 2022.

B. Identification of Medium-Term Growth Drivers Using Machine Learning

6. A machine learning approach is employed to provide a broader view of the evolving drivers of medium-term growth. Random forest is a machine learning algorithm that consists of multiple regression trees which are built by recursively partitioning the sample into subsamples based on the values of predictors. Such nonparametric model structure lends itself well to prediction task where the target is affected by many predictors in a complex way, including nonlinearities and interactions. The sample consists of 37 Asia-Pacific countries over the period of 1970-2019. The target is the average growth in the next five years. There are in total 75 predictors, which are grouped into six broader categories, including development level and economic structure, demographics, human capital, macro stability, sociopolitical stability, and global factors and openness. To identify drivers and quantify their contributions to medium-term growth, Shapley values, a concept borrowed from cooperative game theory, are used to quantify the marginal contribution of each predictor to the medium-term growth in excess of the sample average, for each observation (i.e., country-year pair).

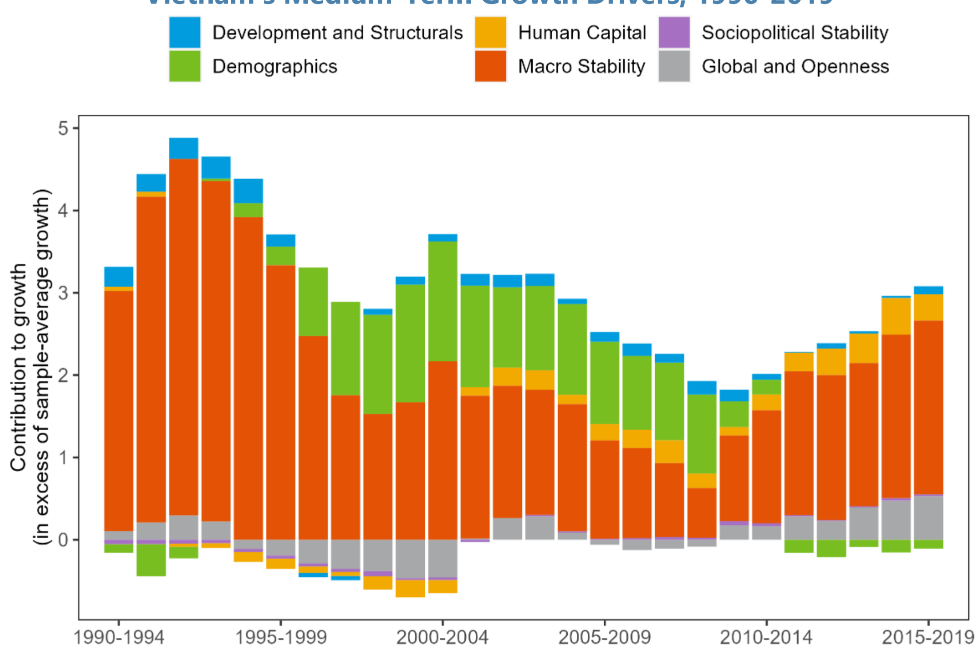
7. Vietnam has seen diminishing demographic dividend, with human capital and economic openness increasingly contributing to medium-term growth. Demographic dividend was one of the key drivers of medium-term growth since late-1990s and contributed more than half of its medium-term growth during late-2000s. However, as the population ages, demographic factors no longer contributed positively to the medium-term growth since early-2010s, and even became a small drag on medium-term growth. At the same time, human capital and economic openness have contributed increasingly to growth, thanks to progress in enhancing human capital

[2] The Ministry of Health is currently drafting the Law on Population addressing the population issues of Vietnam for the next 20 years—a critical period of demographic transition, including proposals to terminate the "Two Childs Policy" to boost fertility rates.

and increasing economic openness. Vietnam has a Human Capital Index of 0.67 out of 1 in 2018, ranked 48 out of 157 countries and higher than the average of upper middle-income countries. Following its accession to the WTO in 2007, Vietnam's trade has expanded significantly, with exports increasing from about 60 percent of GDP in 2007 to 80 percent in 2019.

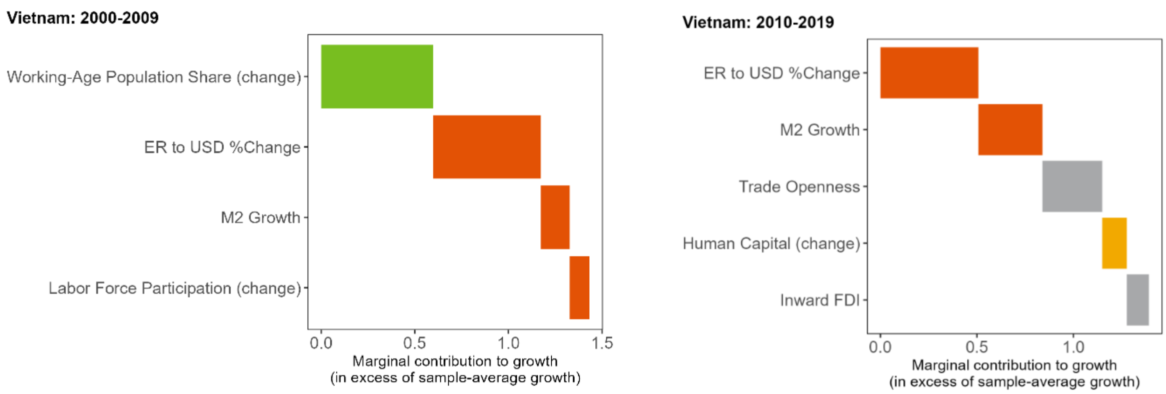
8. During 2000s, growth in working-age population, was the top medium-term growth driver, contributing to more than 0.5 percentage point of growth by itself. However, during 2010s, trade openness emerged as a key driver, along with Vietnam's accession to the WTO and integration in the global trade. At the same time, accumulation of human capital and FDI were also contributing more to growth. In both decades, medium-term exchange rate adjustment and broad money growth (reflecting financial deepening) have been important growth drivers. The relationship between medium-term exchange rate (percentage change) and growth is nonlinear (Figure 1). When the 5-year average depreciation is moderate, i.e., less than 5 percent, more depreciation (or adjustment) is associated with higher growth in the next five years, potentially due to increased competitiveness that boosts growth. However, when the 5-year average depreciation is larger (more than 5 percent), more depreciation is no longer associated with higher growth, potentially because macroeconomic instability as resulted from disrupted depreciation offset the boost to growth.

Vietnam's Medium-Term Growth Drivers, 1990-2019



Sources: IMF staff calculations.
Notes: The chart shows the contribution of various categories to Vietnam's average growth in the five-year windows relative to the average growth of the entire 1970–2019 sample. Variables are grouped into six broader categories including development and structures, demographics, human capital, macro stability, sociopolitical stability, and global and openness.

Vietnam's Medium-Term Growth Drivers, 2000s and 2010s



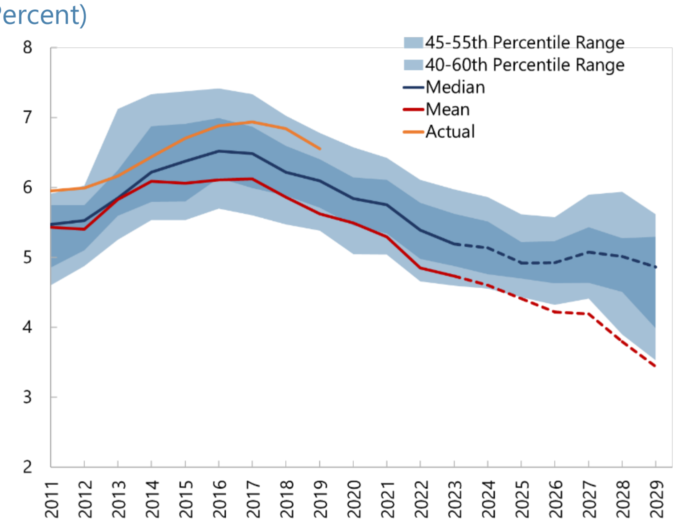
Sources: IMF staff calculations.
Notes: The charts show the marginal contribution to Vietnam's growth (in excess of the sample average) of the top drivers in specific periods of time, averaged across years. "Level" includes both the one-year level and five-year average level, and "change" includes both the one-year change (or percentage change) and five-year average change (or percentage change).

C. Vietnam's Medium-Term Growth Path: Lessons from its Peers

9. The dynamic time warping (DTW) algorithm provides a framework for forecasting Vietnam's medium-term growth path based on the similar experience of other countries. This machine learning technique compares multidimensional sequences of economic data between Vietnam and other countries to identify historical periods in other countries that closely mirror Vietnam's current economic conditions. Subsequent observed growth of these historical episodes is then used as a basis for forecasting Vietnam's future growth. Variables used in identifying similar countries and periods include real GDP growth, GDP per capita, capital-output ratio, consumption-output ratio, labor productivity, and population growth, and are sourced from the Penn World Table (PWT) dataset. The sample consists of more than 180 countries around the world, allowing for identifying similar historical episodes globally. To forecast medium-term growth for Vietnam, the DTW uses data from its latest five-year period with available data in the PWT dataset, i.e., 2015-19, to identify similar historical five-year episodes. The cutoff year of 2019 also abstracts from the effects of the pandemic.

Vietnam's Medium-Term Growth Forecast

(Percent)



Sources: IMF staff calculations.
Notes: The chart shows the median, average, 45th-55th, and 40th-60th percentile range of the realized growth of top-1 percent similar historical episodes to Vietnam based on rolling five-year windows, as well as the trend growth of Vietnam during 2011-2019.

10. The implementation of the methodology starts with identifying historical country-periods most similar to Vietnam. Similar country-periods are chosen based on the DTW distance (see Sakoe and Chiba (1978) and Bagnall et al. (2017) for more technical details). The country-period with the shortest DTW distance is ranked as the top one, indicating the strongest similarity with Vietnam during 2015-19. For each of these similar country-period, its economic growth trajectory over the subsequent 6-10 years would serve as one of the reference growth trajectories for Vietnam during 2024-29. These historical growth trajectories are aggregated using median, average, weighted average (where the weights are proportional to the inverse of the DTW distances), and various percentile calculations, with each aggregation providing a possible medium-term growth path for Vietnam during 2024-29. Most of the identified top-10 similar episodes come from countries with higher level of development, including Thailand, China, and Japan, in line with the theory of economic convergence. To obtain the best forecasted growth trajectories, the share of most similar historical episodes (e.g., whether it is the top 1 percent or less) and the aggregation method (e.g., median, mean, or other percentiles of the distribution) are selected based on the root mean squared errors (RMSE) in the most recent base period, i.e., 2015-19.

Table 2. Vietnam: Similar Countries and Periods to Vietnam 2015-19

Rank	Country	Period
1	Thailand	1989-1993
2	China	2004-2008
3	Bulgaria	1973-1977
4	Thailand	1990-1994
5	Japan	1960-1964
6	Bulgaria	1972-1976
7	China	2003-2007
8	Bulgaria	1974-1978
9	Japan	1959-1963
10	Lao P.D.R.	2012-2016

Sources: Staff calculations.
Notes: The table shows the top-10 identified similar episodes to Vietnam during 2015-19.

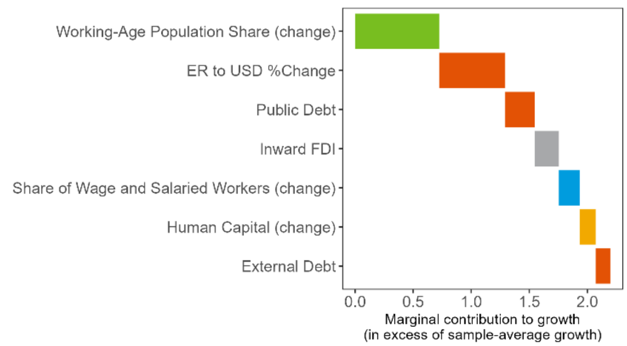
Table 3. Vietnam: Root Mean Squared Error of Different Shares of Most Similar Countries Chosen and Aggregation Settings for Vietnam during 2015-2019

Percent / Aggregation	0.2	0.5	1	2	Forecasted growth in 2029	Average growth during 2024-29
Median	1.47	0.18	0.43	1.05	4.4	4.6
55th Percentile	1.70	0.41	0.16	0.70	5.3	5.2

11. If Vietnam were to follow the growth pattern of its peers, a likely scenario is that growth would slow to around 4½-5½ percent. The median forecast using the top 0.5 percent most similar country-periods and the 55th percentile forecast using the top 1 percent most similar country-periods yield the smallest RMSE, when compared with the realized growth for the most recent base period of 2015-19. These two versions forecast the growth in 2029 to be in the range of 4.4 to 5.3 percent, and the average growth during 2024-29 to be between 4.6 and 5.2 percent. However, there is large variation: the range between 45th and 55th percentile of the growth distribution suggests that growth in five years would be between 4 and 5.3 percent, which widens further to 3.5-5.6 percent when looking at 40th and 60th percentile. The different growth paths and relatively large dispersion indicate that there is large degree of heterogeneity even among identified similar countries, likely due to remaining differences in their macroeconomic structures and policies as well as idiosyncratic shocks. Nevertheless, the international experience suggests economic growth is likely to decline even if Vietnam were to perform above the average of its peers—a likely scenario suggests growth will converge to somewhere between 4½-5½ percent with Vietnam.

12. **The experience of high performers shed some light on areas Vietnam could focus to sustain high growth.** From looking at historical episodes that are identified as similar to Vietnam during 2015-19 and have experience high growth afterwards—the high performers-- we can identify the key growth drivers. Some of the factors that are common to those countries are: attract FDI, accumulate human capital, maintain debt sustainability, reduced informality, and opened the capital account. Moreover, the top driver of these historical high-growth similar episodes is the share of working-age population, which is no longer the case for Vietnam, highlighting the importance of identifying new growth drivers.

Top Growth Drivers of DTW-Identified Similar Asian Country-Periods with High Growth



Sources: IMF staff calculations.
Notes: The chart show the marginal contribution to growth (in excess of the sample average) of the top drivers in those country-periods that are identified as similar to Vietnam during 2015-19 and have seen high growth. "Level" includes both the one-year level and five-year average level, and "change" includes both the one-year change (or percentage change) and five-year average change (or percentage change).

13. **The DTW methodology provides a spectrum of potential growth trajectories based on historical analogs, but some caveats apply.** Supported by the underlying theory of economic convergence, the forecasted growth trajectories are derived from empirically observed growth patterns of similarly situated economies. Even though future variances are inevitable, the DTW-based forecasts could offer some historical lessons within a data-informed framework. However, several important caveats should be noted. Firstly, the methodology relies on long series of high-quality historical data as it aims to capture the long-term effect of economic convergence. With the data quality possibly deteriorating as the search for similar episodes, there could be measurement errors that affect both the search for similar episodes and their subsequent growth. Furthermore, the DTW algorithm assumes that similar economic circumstances measured by the six variables considered will lead to similar growth outcomes, which may not always hold true in a rapidly changing global economic environment. Additionally, the variables used—which are mainly constrained by the availability of a global sample with long time series—may not capture the full picture of the economy, and the approach may not fully account for idiosyncratic events and/or shocks that could significantly impact subsequent growth trajectories, such as major reforms.

D. Conclusions

14. Vietnam will need to adopt further structural reforms to sustain high growth in the future. Factors like demographics and those related to economic convergence point to a deceleration of medium-term growth in Vietnam. Despite these headwinds, there are emerging growth drivers that have been supporting growth in recent years, including human capital accumulation and increasing trade openness and FDI inflows—which should continue. Compared to its peers, there is significant potential to improve productivity in Vietnam, which requires reducing misallocation by removing frictions that prevent labor and capital from flowing to their most productive use. Relatedly, increasing the positive spillovers from FDI firms and reducing the dual economy would serve a way to boost productivity. The analysis also offers historical lessons from similar peers that have enjoyed high growth, which include maintaining debt sustainability, reducing informality, and ensuring financing conditions. In addition, Vietnam will need to manage the legacies from Covid, including a more complex global environment.

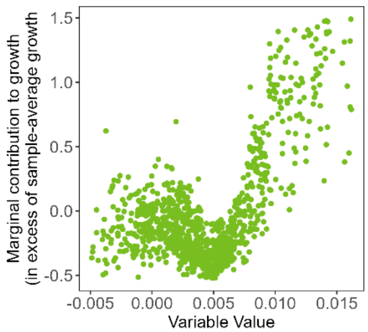
Table 4. Vietnam: List of Variables Used in the Machine Learning Exercise to Identify Growth Drivers

Category	Variable	Tranformations	Data Source
Demographics	Population Growth	5avg	World Development Indicators database
Demographics	Share of Population Aging 15-64	pch, 5pch	World Development Indicators database
Development and Structurals	Nominal GDP (per capita)	Level	World Development Indicators database
Development and Structurals	Composite Governance Indicator	pch, 5pch	Worldwide Governance Indicators database
Development and Structurals	Share of Wage and Salaried Workers	pch, 5pch	World Development Indicators database
Global and Openness	Export Partners' Growth	Level	World Economic Outlook database
Global and Openness	Fed Funds Shadow Rate	Level, 5avg, fd, 5fd	Wu and Xia (2016)
Global and Openness	Import Partners' Growth	Level	World Economic Outlook database
Global and Openness	Inward FDI (% of GDP)	Level, 5avg	IMF Balance of Payments (BoP) database
Global and Openness	Terms of Trade Percentage Change	5avg	World Economic Outlook database
Global and Openness	Trade Openness	5avg, fd, 5fd	World Economic Outlook database
Global and Openness	US Growth	5avg	World Economic Outlook database
Global and Openness	World Uncertainty Index	Level, 5avg, pch, 5pch	World Uncertainty Index database
Human Capital	Human Capital Index	pch, 5pch	Penn World Table database
Macro Stability	Country Uncertainty Index	Level, 5avg, pch, 5pch	World Uncertainty Index database
Macro Stability	Exchange Rate to USD %Change	Level, 5avg	Penn World Table database
Macro Stability	External Debt (% of GDP)	Level, 5avg, fd, 5fd	World Economic Outlook database
Macro Stability	Fiscal Balance (% of GDP)	Level, 5avg, fd, 5fd	World Economic Outlook database
Macro Stability	Inflation	Level, 5avg, fd, 5fd	World Economic Outlook database
Macro Stability	Labor Force Participation Rate	pch, 5pch	International Labour Organization database
Macro Stability	M2 Growth	Level, 5avg	World Economic Outlook database
Macro Stability	NEER Percentage Change	Level, 5avg	Darvas (2021)
Macro Stability	Private Credit by Banks (% of GDP)	Level, 5avg, fd, 5fd	World Economic Outlook database
Macro Stability	Public Debt (% of GDP)	Level, 5avg, fd, 5fd	World Economic Outlook database
Macro Stability	Real Interest Rate	Level, 5avg, fd, 5fd	World Economic Outlook database
Macro Stability	REER Percentage Change	Level, 5avg	Darvas (2021)
Macro Stability	Foreign Reserve Assets (Months of Imports)	Level, 5avg, fd, 5fd	World Economic Outlook database
Macro Stability	Unemployment Rate	Level, 5avg, fd, 5fd	World Economic Outlook database
Sociopolitical Stability	Political Stability and Absence of Violence/Terrorism	pch, 5pch	Worldwide Governance Indicators database

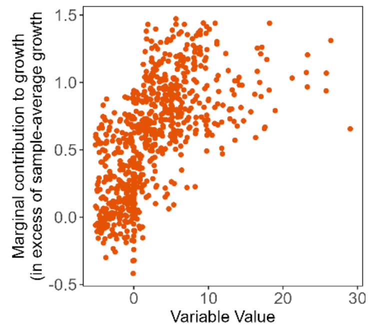
Notes: Level, 5avg, fd, 5fd, pch, and 5pch indicates the variable is included by itself, its five-year average, 1-year change, 5-year average change, 1-year percentage change, and 5-year average percentage change.

Figure 1. Vietnam: Relationships between Growth Drivers and Their Contributions to Growth

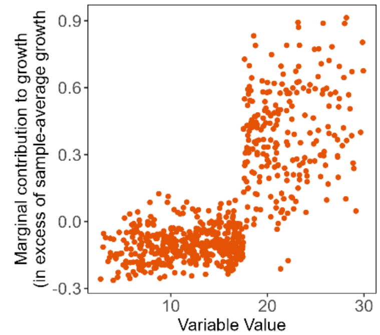
Working-Age Population
(percentage change)



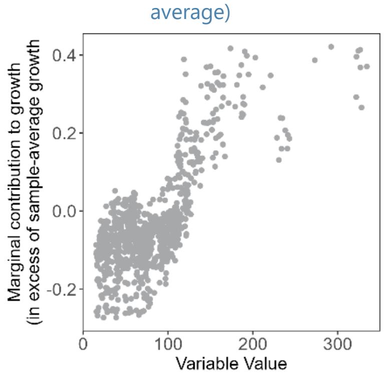
Percentage Change in Exchange Rate to US Dollar
(5-year average)



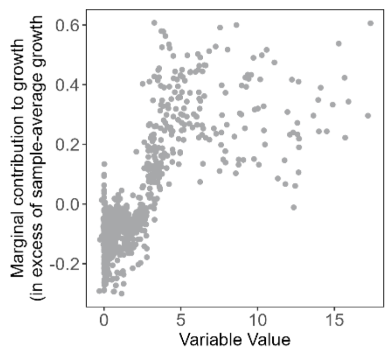
Broad Money Growth
(5-year average)



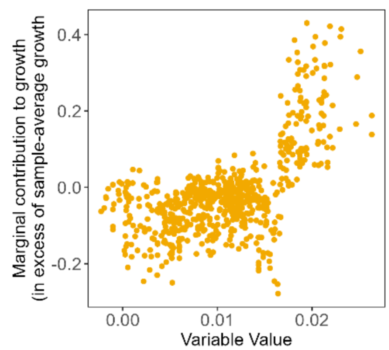
Trade Openness
(Meaured by sum of exports and imports in percent of GDP; 5-year average)



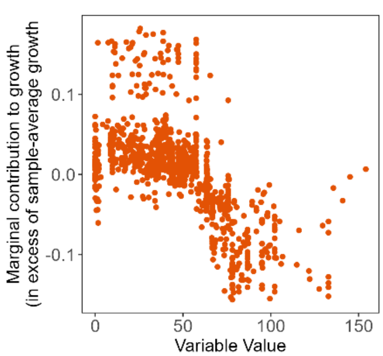
FDI Inflows
(In percent of GDP; 5-year average)



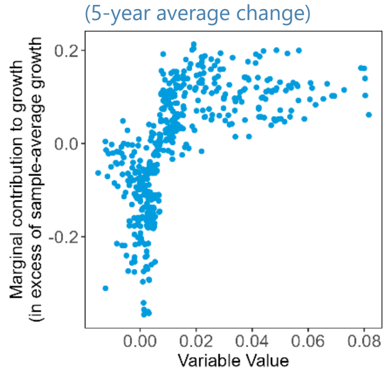
Human Capital
(5-year percentage change)



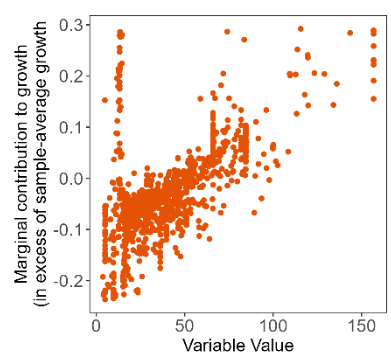
Public Debt
(In percent of GDP)



Share of Wage and Salaried Workers in Total Employment
(5-year average change)



External Debt
(In percent of GDP)



Sources: IMF staff calculations.
Notes: The y-axis shows the marginal contribution to growth (in excess of the sample average) as measured by the Shapley value, and the x-axis shows the value of the variable. To better illustrate the trend, outliers (observations with variable value or Shapley value below the 2.5th percentile or above the 97.5th percentile of the sample) are not shown.

References

Bagnall, A., Lines, J., Bostrom, A., Large, J., & Keogh, E. (2017). The great time series classification bake off: a review and experimental evaluation of recent algorithmic advances. Data mining and knowledge discovery, 31, 606-660.

Darvas, Z. M. (2021). Timely measurement of real effective exchange rates (No. 15/2021). Bruegel working paper.

Sakoe, H., & Chiba, S. (1978). Dynamic programming algorithm optimization for spoken word recognition. IEEE transactions on acoustics, speech, and signal processing, 26(1), 43-49.

Wu, J. C., & Xia, F. D. (2016). Measuring the macroeconomic impact of monetary policy at the zero lower bound. Journal of Money, Credit and Banking, 48(2-3), 253-291.

Annex VI. Geoeconomic Fragmentation and the Impact on Trade and FDI[1]

Increased geoeconomic fragmentation (GEF) poses risks to all countries, especially those that rely on an export-oriented growth model like Vietnam. At the same time, Vietnam is seen as benefiting from trade diversion due to trade tensions between geopolitically distant countries. This annex makes a dive into the composition of Vietnamese trade and FDI flows and finds evidence of trade reallocation—the US shifts away from China and imports more from Vietnam—which has potentially led to an increasing share of Vietnamese domestic value added in exports to the US and attracted more FDI from both the US and China. These findings offer a nuanced understanding of the implications of GEF on the Vietnamese economy and cast light on GEF-related risks to its outlook.

1. Vietnam has been in the spotlight as a potential beneficiary of GEF. Trade tensions between China and the US since 2017 have sparked the idea of Vietnam benefiting from:

- *Trade rerouting:* serving as a one-stop "connector country", allowing China to reroute its exports to circumvent trade barriers imposed by the US on strategic sectors of geoeconomic interest, e.g. electronics and chemicals.
- *Trade reallocation:* producing more exports domestically to the US, as the US shifts away from China, both in strategic sectors and more broadly.
- *FDI inflows either to* facilitate trade rerouting and/or trade reallocation.

2. Assessing these effects requires an in-depth analysis of the composition of trade and FDI. Some academic studies find evidence that US sourcing was partly reallocated away from China towards countries like Vietnam and Mexico during 2017-2022 (Alfaro and Chor, 2023; Freund and others, 2023; Fajgelbaum et al., 2024) and more recently during 2022-2023 following the war in Ukraine (Gopinath et al., 2024), while others find some evidence of trade rerouting by China through Vietnam during 2018-2021 (Iyoha et al., 2024). A nuanced assessment is needed to distinguish shifts in the composition of trade and FDI due to rerouting from those reflecting a reallocation of trade, either broad-based across all sectors or only in strategic sectors affected by trade barriers, as well as the benefits for Vietnam.[2]

A. Trade Developments

3. Vietnam increasingly gained market share in US imports during 2018-2022. As widely documented, trade between the US and China as a share of their total imports has been on decline since 2017. At the same time, Vietnam's share of Chinese exports and US imports increased, a trend

[1] Prepared by Tatjana Schulze and Weining Xin, with valuable inputs from Andrea Filippo Presbitero, Ashique Habib and Joanne Tan.

[2] The definition of strategic sectors for the trade analysis in this Annex follows IMF WEO (April 2023) based on a list of strategic sectors from the Atlantic Council and mentions of reshoring-related terms in company earnings calls. The definition therefore encompasses a wider range of industries than only those targeted by US tariffs, factoring in the impact of tariffs through input-output linkages. Sectors are defined at the 4-digit HS industry level.

that accelerated during 2018-2022 and has stabilized since. These aggregate trends have been used to support the claim of trade rerouting of Chinese goods to the US. However, correlations of aggregate trade flows mask important nuances and require a more in-depth analysis.

4. Zooming into sectoral trade flows, Vietnam has gained market share in both US and Chinese demand for goods in strategic sectors. If Vietnam served as a vehicle country for Chinese exporters to circumvent US tariffs, one would expect similar rising trends in Chinese exports to Vietnam and US imports from Vietnam specifically in strategic sectors affected by tariffs. But sectoral trade flows do not reveal clear evidence of a one-way street. US sourcing of strategic inputs from Vietnam accelerated during 2018-2022 and has stabilized since. The pace of this increase matched the rise in its overall market share in US imports. But Vietnam's market share in these strategic sectors has not yet climbed above its overall market share in US imports despite US tariffs on China's strategic sectors. Looking at China, the share of Chinese exports to Vietnam in strategic sectors has stabilized since 2020. At the same time, China has increasingly imported strategic goods from Vietnam; its sourcing from Vietnam rose almost threefold from 2 percent in 2017 to 6 percent in 2023. Combining these trends suggests that strategic exports from China to Vietnam cannot merely be attributed to rerouting trade to the US. Instead, China may have been increasingly exporting to Vietnam in strategic sectors as part of Vietnam's increasing integration into the Chinese supply chain (e.g., China moves production to Vietnam, possibly due to lower labor costs, and imports back for further processing or final demand).

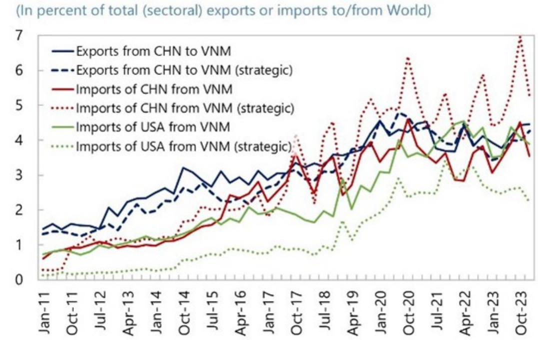
Export and Import Shares

(In percent of total exports or imports to/from World)

Sources: Trade Data Monitor, IMF staff calculations.

Export and Import Shares in Strategic Sectors[1/]

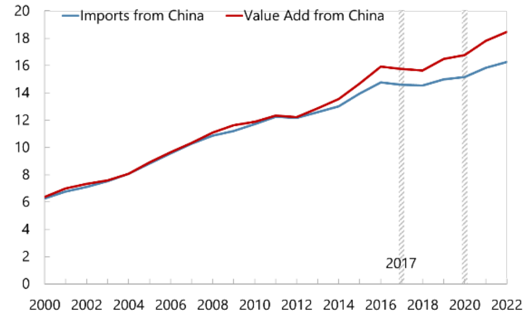
(In percent of total (sectoral) exports or imports to/from World)



Sources: Trade Data Monitor, IMF staff calculations.
1/ Strategic sectors defined at the HS 4-digit level follow IMF WEO (2023 Apr).

5. China-originated value added has been increasingly exported to the US through other countries. As a share of US imports, value added from China has been roughly equal to imports from China historically. Since 2016, a gap between the two has become evident, with more value added from China than imports from China (more than 1 percent of US total imports), suggesting some Chinese value added exported to the US through other countries. While stable during 2017-18, the gap has widened since 2019, which further accelerated after the pandemic, reaching about 2.2 percent of US total imports, almost doubled from 2016. This may suggest some Chinese exports have been channeled through other countries to the US to circumvent trade tariffs, but could also reflect supply chain reconfiguration—China increases its forward linkages with other countries (i.e., China supplies intermediate goods for final production abroad)—and/or moving up the value chain—China increases its value addition in the value chain.

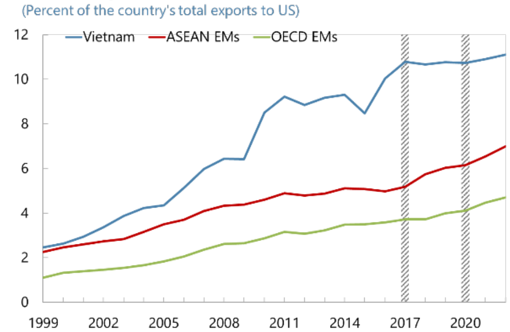
US Imports and Value Added from China
(Percent of US total imports)



Sources: EORA and staff calculations.

6. There is no clear evidence of Vietnam's role as a one-stop trade vehicle in facilitating Chinese exports to the US. To test whether Vietnam has been used as a one-stop trade vehicle, i.e., imports from China are repackaged and exported to the US without additional domestic value added, one can look at the backward trade linkage with China in Vietnam's exports to the US, i.e., how much China-originated value added is embedded in Vietnam's exports to the US. If there was a faster-growing share of China-originated value added in Vietnam's exports to the US compared to its peers, it would indicate some evidence of a trade vehicle role. Vietnam's backward trade integration with China preceded 2018. The share of China-originated value added in Vietnam's total exports to the US has increased at a faster pace than its ASEAN and OECD emerging market peers since 2000.[3] However, this backward linkage decelerated during 2018-2022, growing slower than its peers, suggesting no clear evidence of Vietnam serving as a trade vehicle. Vietnam has also taken measures to avoid being used to reroute Chinese goods to the US to circumvent trade barriers. Notably, ASEAN emerging markets except Vietnam saw their backward linkage with China growing faster since 2021. At the sectoral level, there is limited evidence of trade rerouting through Vietnam in certain strategic sectors, albeit not broad-based. For example, Vietnam saw an accelerated growth of backward linkages with China in petroleum, chemical, and non-metallic mineral products since 2021 while, instead, a slower growth than ASEAN peers in electrical and machinery products.

China-Originated Value Added
(Percent of the country's total exports to US)



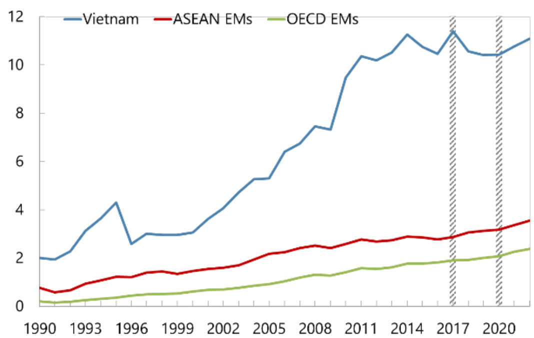
Sources: EORA and staff calculations.

[3] ASEAN emerging markets include Indonesia, Malaysia, Philippines, and Thailand, and OECD emerging markets include Chile, Hungry, Mexico, and Turkey.

China-Originated Value Added

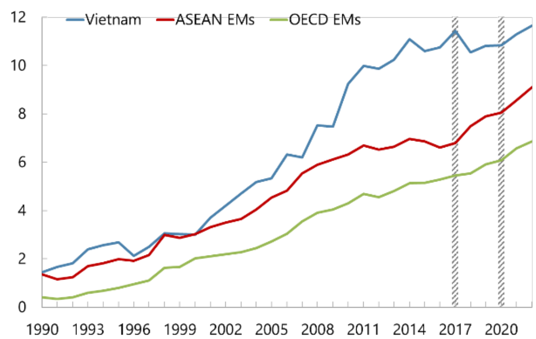
(Percent of sectoral exports to the US)

Petroleum, Chemical & Non-Metallic Mineral Products



Sources: EORA and staff calculations.

Electrical and Machinery

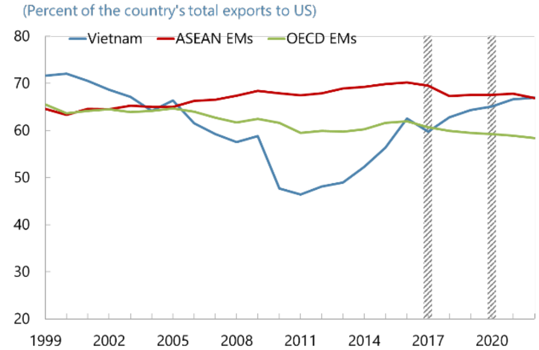


Sources: EORA and staff calculations.

7. Vietnam appears to benefit from trade reallocation—although the rising value added associated with exports to the US also reflects a pre-2017 trend. The share of domestic value added in Vietnam's total exports to the US, has grown at a fast pace in the aftermath of the Global Financial Crisis—and not just after 2017—in contrast to its ASEAN peers (relatively flat) and OECD peers (declining). Looking at strategic sectors, the jump in the share of domestic value added in 2018 was more pronounced, including for petroleum, chemical and non-metallic mineral, and electrical and machinery products. Moreover, unlike the aggregate, these products exhibit a parallel trend with peers in the years leading to 2017, which reinforced the potential consequential effect of the US-China trade tensions on increasing Vietnamese domestic value added. This evidence could suggest that Vietnam has benefitted from trade reallocation—the US shifted its sourcing from China to Vietnam—which has led to increasing share of domestic value added, especially in strategic sectors. Despite the likely positive impact on real economic activity, this finding raises the question of whether the rise in the domestic value added originates from FDI sectors—for example, Gopinath et al. (2024) find that Vietnam has seen large increases in both its share of Chinese outward FDI and its share of US imports—or from domestic sectors.

Domestic Value Added

(Percent of the country's total exports to US)

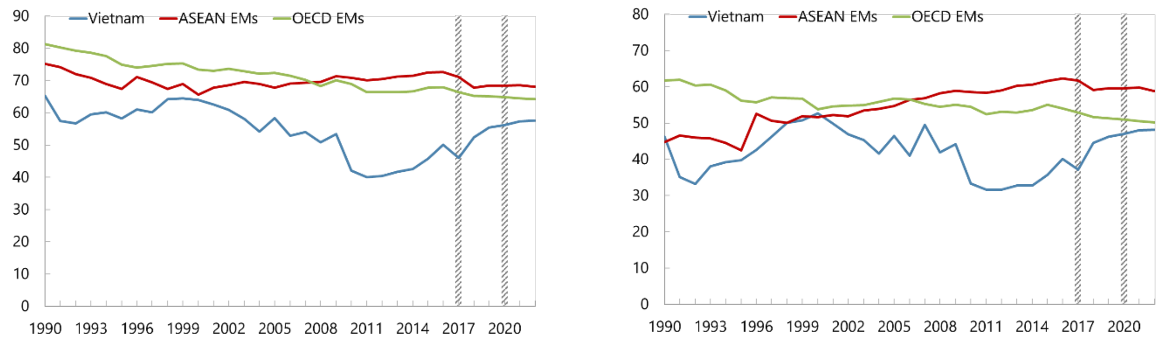


Sources: EORA and staff calculations.

Domestic Value Added

(Percent of sectoral exports to the US)

Petroleum, Chemical & Non-Metallic Mineral Products | Electrical and Machinery



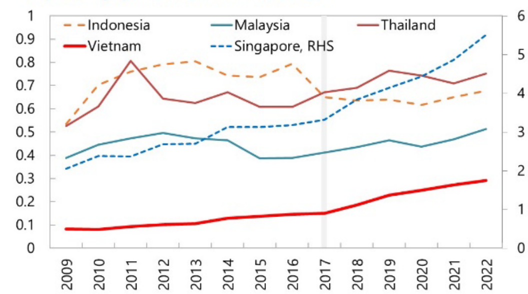
Sources: EORA and staff calculations.

B. FDI Dynamics

8. FDI inflows, likely linked to both US and Chinese capital, have risen, reflecting general trends in the region. Although FDI from the US has been historically low, part of US-originated FDI may be channeled through Singapore. Conversely, FDI inflows from US-aligned countries (Japan and South Korea) have given way to relatively larger FDI commitments from Mainland China and regions that could front for Chinese capital (Hong Kong Special Administrative Region, Taiwan Province of China). At the same time, granular data shows a flat trend in the value of new greenfield FDI going into strategic sectors during 2017-2022 and an uptick only very recently. Notably, trends observed in Vietnam largely mimic its regional peers, both in strategic sectors as in the aggregate allocation of World FDI, weakening the case for Vietnam as a connector country.

Inward FDI from World[1/]

(In percentage points of total world FDI stock)

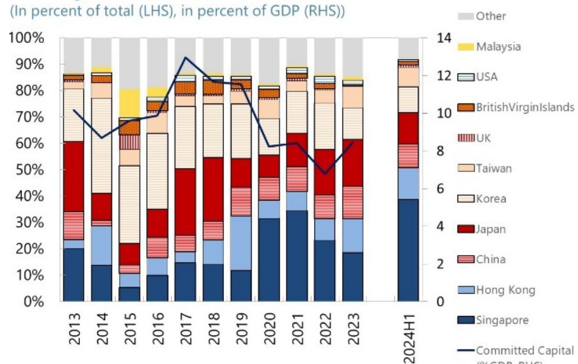


Sources: IMF Coordinated Direct Investment Survey (CDIS) and IMF staff calculations.

1/ Data refers to inward FDI reported by each country from World. Data for Vietnam is derived from World outward FDI.

Country Shares in Total FDI Commitments to Vietnam

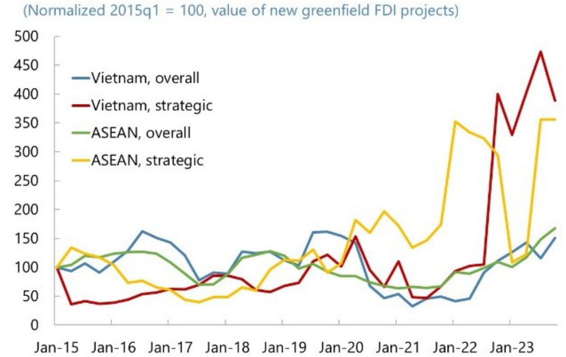
(In percent of total (LHS), in percent of GDP (RHS))



Sources: Source: Vietnamese authorities. IMF Staff calculations.

FDI in Strategic Sectors

(Normalized 2015q1 = 100, value of new greenfield FDI projects)



Sources: fDi Markets, IMF April 2023 WEO, and staff calculations.

C. Conclusions

9. Combining insights from granular bilateral trade and FDI flows as well as input-output linkages, the analysis finds:

- *Aggregate and sectoral trade flows:* China's export share to Vietnam and the US import share from Vietnam have increased in lockstep, and so has China's import share from Vietnam. These trends span also strategic sectors, but only accelerated during 2018-2022, and have ebbed since.
- *Content of Vietnamese exports:* Domestic value added in Vietnam's exports to the US has increased—especially in strategic sectors—while China-originated value added has remained flat in all but some strategic sectors since 2017.
- *Aggregate and granular FDI flows:* Chinese capital (from mainland and potentially from third party countries) and possibly US capital (via third party countries) have gained share in Vietnam's inward FDI, but FDI inflows have not systematically increased in strategic sectors since 2017, and trends have merely followed FDI inflows to peer countries.[4]

10. Taken together, the evidence suggests that Vietnam appears to benefit from a reallocation of trade as geopolitically distant countries reconfigure their supply chains rather than from trade rerouting to circumvent tariffs, especially in certain strategic sectors. Trade reallocation has likely led to the increasing share of domestic value added in Vietnam's exports to the US and attracted both US- and Chinese-originated FDI. More granular data is needed to understand how ownership structures linked to FDI inflows affect changes in the trade behavior of firms located in Vietnam.[5] Notwithstanding, the findings inform the implications of GEF on the Vietnamese economy as well as GEF-related risks to its outlook.

11. The benefits of rising trade and FDI flows to the domestic sector remain elusive. Benefits of GEF-related inflows may come from boosting trade activity in the FDI sector and from translating into value added to the domestic sector, including through higher employment and wages, technological spillovers, and deepening of domestic firms' GVC integration. For example, research on the US-China trade tensions in 2018-2019 finds positive labor market effects in districts more exposed to trade diversion (Mayr-Dorn and others, 2023). At the same time, Vietnam's "dual economy", or disconnect between activity in the domestic and FDI sectors, weighs negatively on technological diffusion and productivity spillovers that could boost domestic firm potential (see 2021 Article IV Annex V).

12. Fragmentation risks clouding Vietnam's prospects. In relative terms, non-aligned countries like Vietnam that maintain open trade relationships to all countries may stand to suffer the least from GEF (IMF, 2023; Bolhuis et al., 2023; Cerdeiro et al., 2021; Goes and Bekkers, 2022). But

[4] FDI from China and other countries in the region may include capital of subsidiaries of the US and/or European companies that reside in Asia, which needs granular ownership data to disentangle.

[5] Granular data would allow testing, for example, if Chinese-originated FDI has primarily targeted strategic sectors to circumvent tariffs or if the influx of FDI has also contributed to the value-added in Vietnam's exports to China.

Vietnam's position within global supply chains renders it vulnerable to adverse shocks such as: disruptive movements from commodities fragmentation, raising import prices and affecting export demand for commodities; unexpected shifts in prohibitive trade policies; increased business uncertainty when non-alignment bodes policy uncertainty; a sudden reversal of FDI inflows; overall reduction in external demand from a shrinking global economy.

References

Alfaro, L. and Chor, D. (2023). “Global Supply Chains: The Looming “Great Reallocation””. Harvard Business School Working Paper, No. 24-012. https://www.hbs.edu/ris/Publication%20Files/24-012_b2f8ef5c-dc1b-4897-b66e-0edea5a20942.pdf

Bolhuis, M., Chen, J. & Kett, B. (2023). “Fragmentation in Global Trade: Accounting for Commodities”. IMF Working Paper No. 2023/073. Washington, D.C.: International Monetary Fund.

Cerdeiro, Diego A, Johannes Eugster, Dirk Muir, and Shanaka Peiris. 2021. "Sizing Up the Effects of Technological Decoupling.” IMF Working Paper 2021/069. Washington, D.C.: International Monetary Fund.

Fajgelbaum, P., Goldberg, P., Kennedy, P., Khandelwal, A. & Taglioni, D. (2024). “The US-China Trade War and Global Reallocations”. American Economic Review: Insights, Vol. 6, No. 2, pp. 295-312.

Freund, C., Mattoo, A., Mulabdic, A. and Ruta, M. (2023). “Is US Trade Policy Reshaping Global Supply Chains?” Policy Research working paper No. WPS 10593. Washington, D.C. : World Bank Group. http://documents.worldbank.org/curated/en/099812010312311610/IDU0938e50fe0608704ef70b7d005cda58b5af0d

Goes, C. & Bekkers, E. (2022). “The Impact of Geopolitical Conflicts on Trade, Growth, and Innovation”. WTO Working Paper No. 2022-09. Geneva: World Trade Organization. https://www.wto.org/english/res_e/reser_e/ersd202209_e.htm

Gopinath, G., Gourinchas, P.O., Presbitero, A. & Topalova, P. (2024). “Changing Global Linkages: A New Cold War?” IMF Working Paper No. 2024/76. Washington, D.C.: International Monetary Fund.

Iyoha, E., Malesky, E., Wen, J., Wu, S. & Feng, B. (2024). ”Exports in Disguise: Trade Re-Routing During the U.S.-China Trade War." Harvard Business School Working Paper, No. 24-072.

IMF (2023). “Geoeconomic Fragmentation and the Future of Multilateralism. IMF Staff Discussion Note No. 2023/001. Washington, DC: International Monetary Fund.

Mayr-Dorn, K. Narciso, G., Dang, D.A., and Phan, H. (2023). “Trade diversion and labor market adjustment: Vietnam and the U.S.-China trade war”. Trinity Economics Papers No. 0923. Trinity College Dublin. Retrieved from: https://www.tcd.ie/Economics/TEP/2023/TEP0923.pdf

Annex VII. Revised Law on Credit Institutions Reforms

On July 1, 2024 the revised Law on Credit Institutions (LCI) entered into force in Vietnam. The revision was undertaken following the financial sector distress in late 2022 and aims to improve regulation in the areas of bank supervision, early intervention and crisis preparedness. The 2023 Financial Sector Stability Review (FSSR) conducted by the Fund recommended reforms in the legal framework pertaining to these areas. The table below sets out the relevant FSSR recommendation and identifies relevant reforms in the LCI without providing an assessment of the adequacy of these reforms. In addition to these reforms, authorities also made changes in areas such as the definition of related party lending and NPLs and regulations on tightened cross-ownership between banks and large exposure limits.

IMF FSSR Recommendation	**Reforms in Law on Credit Institutions 2024**
Enhance legal protection of banking regulators[1]	Not covered by the reform.
Provide guidance on classifying group exposures (connected counterparties)	Not covered by the reform.
Introduce legal framework for consolidated supervision that includes: data collection and access, issuance of prudential standards by SBV, enforcement powers and requirement that banks manage risk on a consolidated basis	Not covered by the reform.
Require that banks adopt and publish their own definitions of related parties that encompass all requirements of the LCI and develop risk management processes to identify individual exposures to related parties	Not covered by the reform, although the authorities did expand definition of related parties.
Improve governance for non-bank credit institutions including qualification requirements for directors and introduction of fit and proper requirements	Not covered by the reform.
The SBV should be clearly designated as the resolution authority and operational independence should be ensured	• SBV takes decisions on the restructuring of the institutions under special control. • Prime Minister needs to approve special loans against 0% interest rate as this implies public support.

[1] The recommendation also includes legal reform on SBV accountability for discharge of its mandate, establishing procedures to ensure operational independence and improving SBV's budget and staff compensation which are covered by the Central Bank Act and not considered here.

IMF FSSR Recommendation	Reforms in Law on Credit Institutions 2024
Triggers for special early intervention and special control should be redefined to allow SBV to take immediate action if a bank is no longer viable	• New early intervention regime created with some capital and liquidity triggers that allows for faster SBV intervention (Art. 156-161). • Special control triggers changed and expressly linked to deterioration of the situation of the bank during early intervention. In addition, a bank run has been added as a trigger. The capital trigger has not been changed (Art. 162).
Authorities should adopt a special bank resolution regime consistent with international standards	Not covered by the reform.
The requirement for recovery planning should be included in the LCI	• New recovery planning regime introduced which requires the drafting of a 'remedial plan' that can be activated in case of early intervention (Art. 143). Content includes financial and operational analysis of bank, potential failure scenarios, triggers, and remedial actions.
Resolution 42 – establish the main component of the Resolution into law and extend the scope to non-bank financial institutions (NBFIs)	• Change in the definition of credit institution to clarify that the LCI includes NBFIs (Art. 4). As Resolution 42 has been incorporated in the LCI (Art. 195-205), the application of Resolution 42 now extends to NBFIs.
Creation of regulatory sandbox	• A controlled pilot mechanism has been introduced which provides a legal base for SBV to create the regulatory sandbox with powers for SBV to further regulate its design (Art. 106).

Annex VIII. Improving the Production and Dissemination of Economic Statistics—Challenges and Benefits[1]

Vietnam has made progress in improving data quality and transparency, but significant gaps remain. As Vietnam works towards achieving its ambitious development goals, it will be critical to strengthen the quality of economic data. This is essential to the many aspects of monitoring economic developments and risks, designing informed policies, and assessing the quality of public policies. Improving transparency on economic data will also allow households, firms, and investors to make better decisions. Improving economic statistics will require a significant legal and institutional effort, including improving coordination and data sharing among government agencies.

1. Vietnam has made progress in addressing data gaps and improving data quality, but important weaknesses remain. Quarterly GDP expenditure components have been published since 2015 and have been compiled following the international standard since 2017. Employment data has been compiled in line with the international standard since 2021. However, there is still much room to improve data quality and availability in all the economic sectors. Based on the World Bank's *Statistical Performance Indicators* on data infrastructure that assess data hard infrastructure (legislation, governance, standards) and soft infrastructure (skills, partnerships) as well as the financial resource,[2] Vietnam (a score of 40 out of 100 for 2022) ranked below the scores of lower middle income and East Asia Pacific countries (51.4 and 53.1 out of 100, respectively).

2. Improving economic statistics yields a multitude of benefits, ranging from facilitating evidence-based policymaking to enhancing transparency and governance. Granular and comprehensive data available in a timely manner can enhance monitoring of economic developments accurately in real time and enables policymakers to formulate informed policies. For example, the large errors and omissions in the balance of payments could be driven by a few different factors—including underreported imports, underestimated outward transfers, or unrecorded capital outflows—which have very different implications for managing risks and designing policies. Another example is the large revisions in the government final accounts, which come with lengthy delays and makes it hard to determine the appropriate fiscal stance in real time and plan policies ahead (Box 1).[3] Moreover, better data collection, compilation, and dissemination would empower households, businesses, and investors to make informed decisions through reducing uncertainty and improving transparency. For example, timely publication of accurate government final accounts that are in line with international standards would provide international investors with a better understanding of the fiscal situation and lead to more informed pricing of the government bonds.[4] Developing property price indexes would not only help policymakers monitor

[1] Prepared by Rita Mesias and Weining Xin.

[2] See *Statistical Performance Indicators (worldbank.org)*.

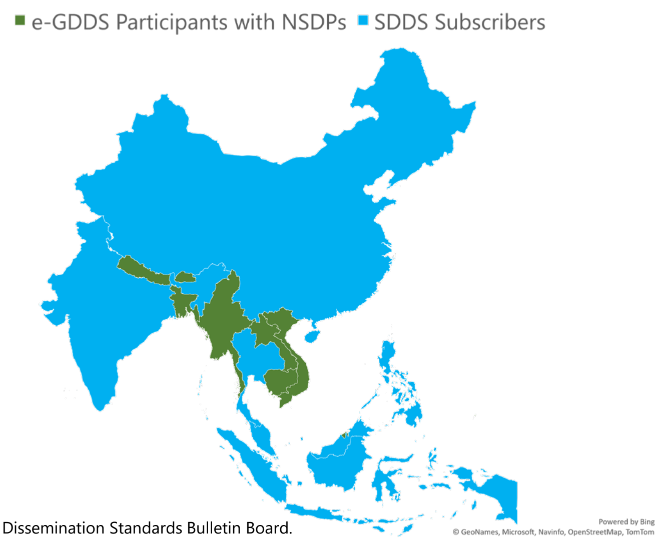
[3] For example, it undermines the ability of the inter-agency macro-fiscal group to develop macroeconomic projections and determine baseline policies.

[4] Gonzalez-Garcia (2022) finds a significant decrease in spreads following the adoption of the IMF data standards.

activities in the real estate sector, but also enable households and businesses to understand the sectoral developments and make better decisions. Enhancing transparency of judiciary by publishing court statistics and statistics on anti-corruption enforcement and prevention would also help to effect long-term change and identify bottlenecks. Last but not the least, improved data reporting and public dissemination would enhance accountability and governance by offering data-driven evidence to assess the quality of public policies.

3. Main regional commercial partners of Vietnam produce and disseminate macroeconomic statistics with broader coverage, detailed granularity, adequate periodicity, and appropriate timeliness for policy analysis and decision making. For example, Korea, Japan, Thailand, and China are Special Data Dissemination Standard (SDDS) subscribers, while Vietnam is an Enhance-General Data Dissemination System (e-GDDS) participant.[5] [6] SDDS subscribers disseminate a rich set of statistics that are expected to enhance the availability of comprehensive statistics and, therefore, contribute to sound macroeconomic policies and facilitate access to capital markets.[7]

IMF Data Standards Subscribers: Southeast Asia



Sources: IMF Dissemination Standards Bulletin Board.

[5] IMF--Dissemination Standards Bulletin Board--Home Page.

[6] E-GDDS participants disseminate fewer comprehensive macroeconomic datasets compared to SDDS subscribers.

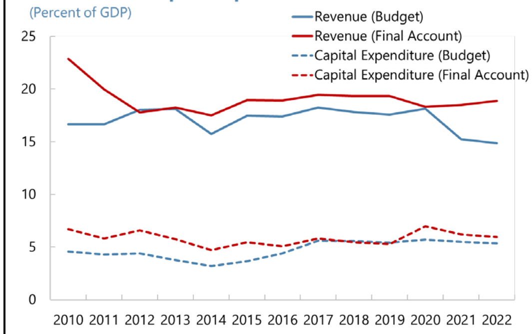
[7] The SDDS include, among others, the following data dissemination good practices: production of international investment position (IIP), reserve template, general government, including all extra-budgetary and social security units, producer or whole prices, public and external debt, and monetary statistics with relevant disaggregates for central bank and deposit taking corporations. All of them aligned to international standards.

Box 1. Vietnam: Fiscal Accounts: Budgeting, Reporting, and Accounting Issues

Annual budget has seen overly conservative revenue projections while not integrating carryover spending. Revenue projections in the budget have been consistently lower than the revenue recorded in the final fiscal accounts, with an annual average upside deviation of 1.8 percent of GDP during 2010-21. Permitted carryover spending, mostly on capital expenditure, is not integrated in the annual budget, resulting in an annual average of upside deviation of 1.1 percent of GDP during the same period. Although conservative revenue projections could help contain pressures to spend and maintain fiscal prudence, it can also undermine the ability to plan well as spending may be adjusted on an ad-hoc approach, instead of consistent with a more realistic medium-term plan. The unbudgeted carryover spending makes it difficult to track actual spending and assess the fiscal stance, reducing transparency.

Revenue and Capital Expenditure

(Percent of GDP)



Sources: Vietnamese authorities and staff calculations.

Final fiscal accounts come with a significant lag and major revisions from earlier-released estimates. Final fiscal accounts are published after 18 months of the end of the reporting fiscal year. Earlier-released estimates (one at the year-end and another after six months) are subject to major revisions. For example, revenue in the final fiscal accounts was 2.5 percent of GDP higher than in the first estimate while capital expenditure was 0.6 percent of GDP higher in 2021, resulting a large upward revision in the fiscal balance from -3.8 to -1.4 percent of GDP. Such length delay and sizable revisions hamper timely monitoring and assessment of the fiscal position. Moreover, the fiscal accounting is not in line with the *Government Finance Statistics Manual 2014* (*GFSM 2014*).

General Government Operations, 2021

(Percent of GDP)

	Budget	1st Est. Year-end	2nd Est. After 6 mo.	Final After 18 mo.
Revenue and grants	15.3	16.1	18.4	18.7
Revenue	15.2	16.0	18.4	18.5
Tax	12.1	12.4	13.9	13.9
VAT	3.9	3.9	4.4	4.4
CIT	2.9	3.2	3.8	3.8
Others	5.3	5.3	5.7	5.7
Non-tax	3.1	3.5	4.5	4.6
Land use right assignment	1.3	1.7	2.2	2.2
Others	1.8	1.9	2.3	2.4
Grants	0.1	0.1	0.0	0.2
Expenditure	19.9	19.9	20.1	20.1
Current	14.4	14.2	14.1	13.9
Primary expenditure	13.1	13.0	12.9	12.7
Interest payment	1.3	1.2	1.2	1.2
Capital Expenditure	5.5	5.6	5.9	6.2
Overall Balance	-4.5	-3.8	-1.6	-1.4

There are large discrepancies between above- and below-the-line data. The discrepancy became sizable during 2021-22, with an estimated 1.2 and 2.3 percent of GDP, respectively, indicating a much tighter fiscal position based on financing data. The large discrepancies may reflect mainly coverage gaps in recording government assets and liabilities and deficiencies in public finance management of revenues and expenses.

Fiscal Balances from Above- and Below-the-Line, 2018-2022

(Percent of GDP)

	2018	2019	2020	2021	2022
Net incurrence of liabilities (+ means increase)	2.1	1.6	2.5	0.6	0.1
Net acquisition of financial assets (+ means increase)	1.3	1.0	-0.3	0.4	2.7
Total financing	0.9	0.7	2.8	0.2	-2.6
Implied fiscal balance (below the line)	-0.9	-0.7	-2.8	-0.2	2.6
Net lending (+)/borrowing (–) (fiscal balance above the line)	-1.0	-0.4	-2.9	-1.4	0.7
Discrepancy (+ means overfinancing)	*-0.2*	*0.3*	*0.0*	*-1.2*	*-1.9*

4. Countries with robust legal and institutional frameworks for statistical production, compilation, and dissemination performed generally better in terms of overall data quality. In Vietnam, the 2010 Law on the State Bank assigns responsibilities for the production and dissemination of monetary and BOP statistics to SBV but does not for international investment position (IIP). Also, the SBV is entitled to limit the amount of granular data disseminated in the BOP and monetary financial statistics and is allowed to share only BOP and monetary statistics with a limited number of public institutions (including MOF, MPI, National Assembly). The MOF reports budget information to the Executive branch and National Assembly in the context of budget preparation. The State Budget Law (2015) defines functions of MOF and describes all the budget process without explicit references to international accounting and statistical standards. The Statistics Law (2015) and related decrees guarantee data sharing and coordination between the GSO and ministries and regulate the state statistical information that should be kept confidential.

5. Vietnam's statistical legal framework and institutional data sharing arrangements are not adequate to support the production and dissemination of macroeconomic and financial data of good quality. Relevant changes in the current statistical legislation and improvements in the institutional data sharing arrangements would be beneficial for: (1) a clear delineation of responsibility for each area of macroeconomic statistics; (2) an adequate access to current data sources produced by public and private units, (3) the development of new data sources (for instance, the preparation of new surveys) and use of alternative data sources (for instance, the use of big data), and (4) a better coordinated intra and inter-institutional data sharing. Improved institutional arrangements also include training in the use of appropriate statistical techniques and methodologies.

6. Although Vietnam has adhered broadly to internationally accepted methodologies, there are significant weaknesses in the coverage, classification, and sectorization of several data sets. Fiscal statistics for policy analysis and intervention are hampered by weaknesses, often owing to classification and sectorization that do not follow international standards. For external sector statistics, an incomplete coverage of operations in the BOP (in the current account, mainly in goods and services and in the financial accounts, mainly in direct investment, trade credits, and currency and deposits) has generated significant errors and omissions. Also, policy analysis of the external sector has been restricted since data of external assets and liabilities have not been produced. For monetary statistics, the lack of granular data makes difficult the checking of consistency with other macroeconomic datasets, and for national accounts, a slow improvement in the methodologies used to prepare supporting information for the rebasing national account and in the coverage of informal sector, has affected the quality of these data. Finally, for prices, sources for the preparation (for instance, buyers and sellers of properties identified on a register of real estate transactions) of the real estate price index are no longer collected after its legislative basis expires.

7. Alignment to the international statistical standards will improve transparency and governance. The primary purpose of this alignment is to provide a sound and comprehensive conceptual and reporting framework suitable for developing, analyzing, and evaluating macroeconomic policies. Several actions can be developed, or are already being implemented, to improve the quality of the Vietnam statistics:

- the implementation of a comprehensive migration plan to adopt *GFSM 2014* methodology and intensification of efforts to reduce the carry-on accounts and clear them at the end of the fiscal year will assist in the reduction of discrepancies between above- and below-the line in GFS;
- the preparation of standard reporting forms (SRF) of monetary statistics will provide users and compilers with adequate granular data for monetary policy;
- errors and omission in BOP will be reduced with the relaunching of direct investment survey, the improvement in the coverage of goods and services, and the preparation of the IIP and reserve template;
- the 2020 supply and use tables (SUTs) and input-output tables (IOTs) should be finalized to support the rebasing of the national account.

8. To keep attuned to new demands for data for policy analysis and decision-making, including by markets, Vietnam is encouraged to collect, compile, and publish new data categories. The proposals cover macro-financial indicators and data on foreign exchange intervention, digital trade, climate change related policy, and the gender disaggregation of the labor force. This data production should take careful account of Vietnam's capacity in term of technical, financial, and human resources.

Annex IX. Debt Sustainability Analysis

Figure 1. Vietnam: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	…	Low	The overall risk of sovereign stress is low, reflecting relatively low levels of vulnerability in the medium-term horizon and a low to moderate level of vulnerability in the long term.
Near term 1/			
Medium term	Low	Low	Medium-term risks are assessed as low, reflecting a stable fiscal outlook and low gross financing needs. The fanchart analysis suggests that baseline projections are reasonable and the public debt will remain low and stable. GFN analysis indicates that financing needs remain low and stable. Deepening geo-economic fragmentation is a risk that could affect economic activities through intensified trade disputes and/or supply disruptions while also bringing some upside from trade and FDI diversion.
Fanchart	Low	…	
GFN	Low	…	
Stress test	…	…	
Long term	…	Moderate	Long-term risks are low to moderate as aging-related expenditures on health and social security as well on climate spending feed into debt dynamics, which will increase debt and GFN without policy actions. The government is aware of these risks and policy measures are envisaged, such as revenue mobilization, pension reforms, and galvanizing private sector support.
Sustainability assessment 2/	Not required for surveillance countries	Not required for surveillance countries	
Debt stabilization in the baseline			Yes

DSA Summary Assessment

Commentary: Vietnam is at a low overall risk of sovereign stress. The public debt continued to fall since 2020 and is projected to further decline; medium-term risks are assessed as low reflecting a stable fiscal outlook and low gross financing needs. Over the longer run, Vietnam should strengthen risk-based fiscal frameworks, implement revenue-enhancing reforms, develop a sovereign debt market, and continue with reforms to strengthen the authorities' debt management institutions to tackle any long-term risks arising from population aging and climate change.

Sources: Fund staff.

Notes: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Figure 2. Vietnam: Debt Coverage and Disclosures

1. Debt coverage in the DSA: 1/

CG	GG	NFPS	CPS	Other

1a. If central government, are non-central government entities insignificant? n.a.

2. Subsectors included in the chosen coverage in (1) above:

		Subsectors captured in the baseline	Inclusion	Comments
CPS / NFPS / GG: expected / CG	1	Budgetary central government	Yes	
CPS / NFPS / GG: expected / CG	2	Extra budgetary funds (EBFs)	No	Not applicable
CPS / NFPS / GG: expected	3	Social security funds (SSFs)	No	(see commentary below)
CPS / NFPS / GG: expected	4	State governments	Yes	
CPS / NFPS / GG: expected	5	Local governments	Yes	
CPS / NFPS	6	Public nonfinancial corporations	No	
CPS	7	Central bank	No	
CPS	8	Other public financial corporations	No	

3. Instrument coverage:

Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/

4. Accounting principles:

Basis of recording		Valuation of debt stock		
Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/

5. Debt consolidation across sectors:

Consolidated	Non-consolidated

Color code: chosen coverage; Missing from recommended coverage; Not applicable

Reporting on Intra-Government Debt Holdings

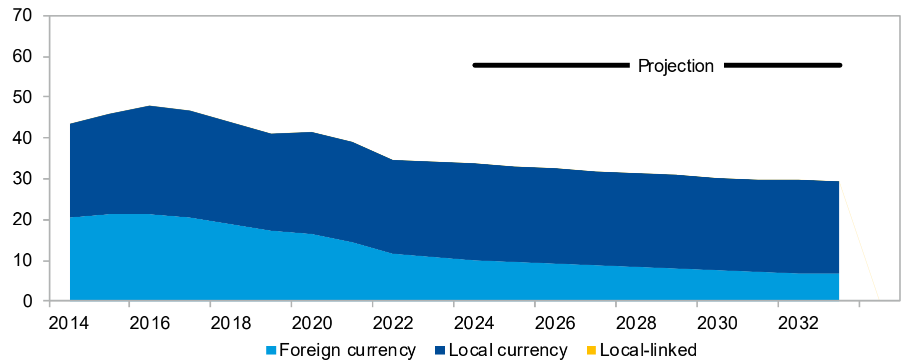
	Issuer \ Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
1	Budget. central govt									0
2	Extra-budget. funds									0
3	Social security funds									0
4	State govt.									0
5	Local govt.									0
6	Nonfin pub. corp.									0
7	Central bank									0
8	Oth. pub. fin. corp									0
	Total	0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor ow es to the creditor. It reflects the value of the instrument at creation and subsequent economic flow s (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they w ere acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: Public debt held by the Vietnam Social Security (VSS) is included in Vietnam's definition of public debt. With cross-debt holdings of about 10 percent of GDP, netting it out w ould currently reduce public debt by the same amount.

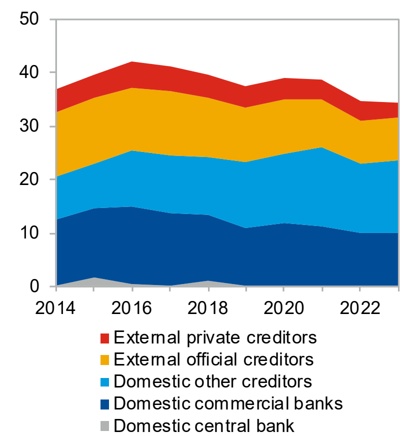
Figure 3. Vietnam: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



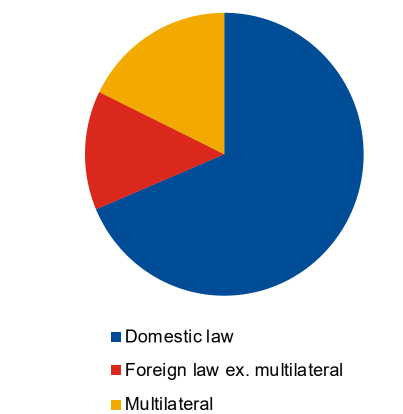
Notes: The perimeter show n is general government.

Public Debt by Holder (Percent of GDP)



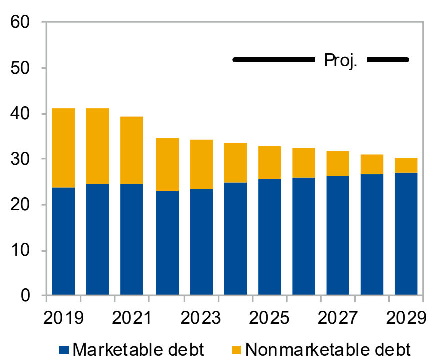
Notes: The perimeter show n is general government.

Public Debt by Governing Law, 2023 (Percent)



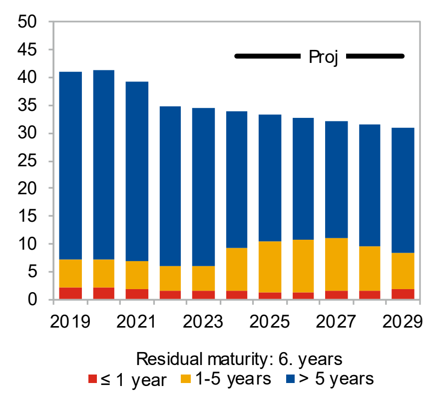
Notes: The perimeter show n is general government.

Debt by Instruments (Percent of GDP)



Notes: The perimeter show n is general government.

Public Debt by Maturity (Percent of GDP)



Notes: The perimeter show n is general government.

Commentary: Debt has been increasingly held by domestic commercial banks and nonbank financial institutions. The share of foreign currency debt is projected to decline as the government favors domestic financing for the budget, w ith gradual decline of nonmarketable debt.

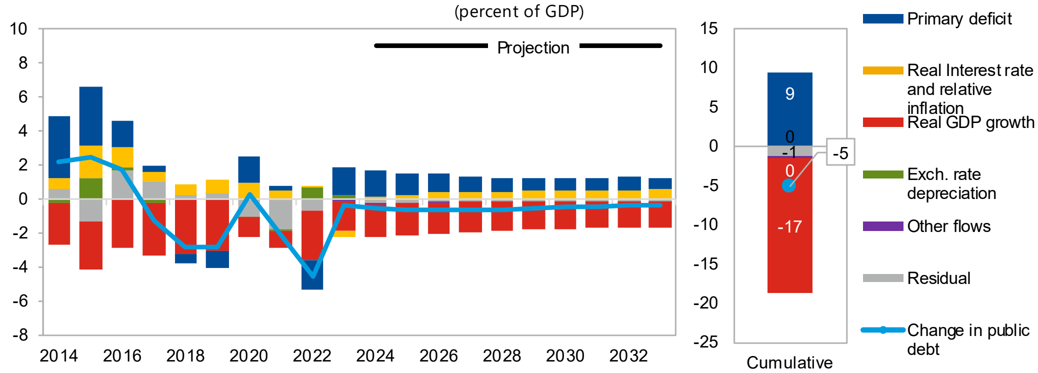
Figure 4. Vietnam: Baseline Scenario

(percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public debt	34.4	33.8	33.2	32.6	32.0	31.4	30.9	30.4	30.0	29.6	29.3
Change in public debt	-0.4	-0.5	-0.6	-0.6	-0.6	-0.6	-0.5	-0.5	-0.4	-0.4	-0.4
Contribution of identified flows	-0.3	-0.3	-0.5	-0.4	-0.5	-0.5	-0.4	-0.4	-0.3	-0.3	-0.3
Primary deficit	1.6	1.6	1.2	1.1	0.9	0.8	0.7	0.7	0.7	0.7	0.7
Noninterest revenues	17.1	17.6	18.4	18.9	19.1	19.2	19.2	19.2	19.2	19.2	19.2
Noninterest expenditures	18.6	19.2	19.7	20.0	20.1	20.0	19.9	19.9	19.9	19.9	19.9
Automatic debt dynamics	-1.8	-1.8	-1.7	-1.5	-1.4	-1.3	-1.2	-1.1	-1.0	-1.0	-1.0
Real interest rate and relative inflat	-0.4	0.1	0.3	0.4	0.4	0.4	0.5	0.5	0.5	0.6	0.6
Real interest rate	-0.6	-0.3	0.0	0.1	0.2	0.2	0.3	0.3	0.4	0.4	0.4
Relative inflation	0.2	0.4	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Real growth rate	-1.7	-2.0	-1.9	-1.9	-1.8	-1.7	-1.7	-1.6	-1.6	-1.6	-1.5
Real exchange rate	0.3	…	…	…	…	…	…	…	…	…	…
Other identified flows	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contribution of residual	0.0	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Gross financing needs	4.0	5.6	3.8	3.7	3.4	3.5	3.6	3.9	3.8	3.7	2.8
of which: debt service	2.4	4.0	2.6	2.6	2.5	2.7	2.9	3.2	3.0	3.0	2.1
Local currency	1.8	3.0	1.7	1.9	1.9	2.1	2.4	2.7	2.5	2.5	1.7
Foreign currency	0.6	1.0	0.9	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.4
Memo:											
Real GDP growth (percent)	5.0	6.1	6.1	6.0	5.8	5.8	5.6	5.5	5.5	5.5	5.5
Inflation (GDP deflator; percent)	1.9	4.0	3.4	3.0	2.8	2.7	2.6	2.6	2.6	2.6	2.6
Nominal GDP growth (percent)	7.0	10.3	9.7	9.2	8.8	8.6	8.3	8.2	8.2	8.2	8.2
Effective interest rate (percent)	0.0	3.2	3.3	3.4	3.3	3.4	3.6	3.7	3.8	4.0	4.1

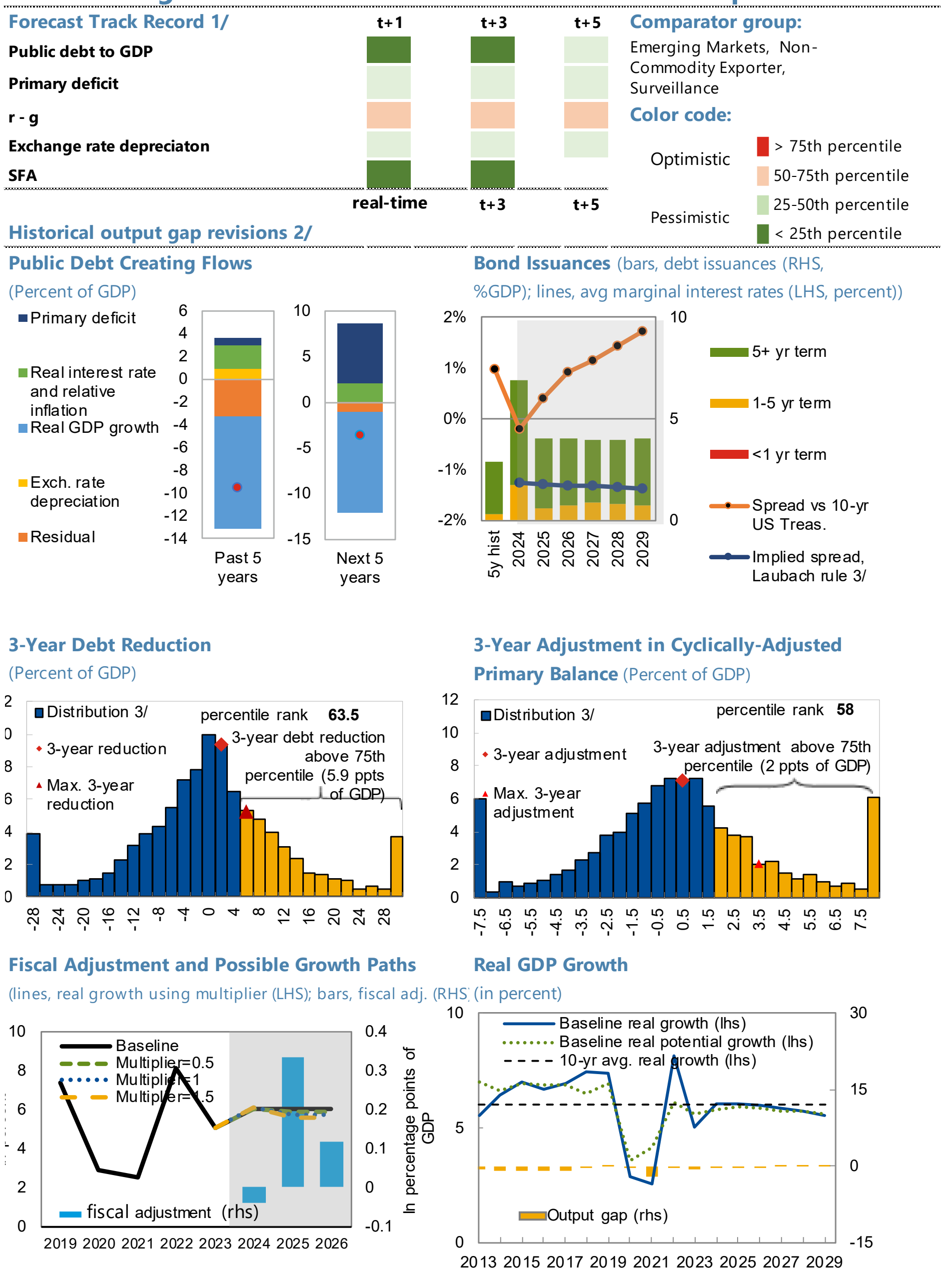
Contribution to Change in Public Debt

(percent of GDP)



Commentary: Public debt is projected to decline over the medium term, reflecting a stable fiscal outlook, strong GDP growth, and stable macroeconomic conditions. Primary deficit is expected to remain relatively high in 2024 due to the public wages increases and a partial recovery of revenues but is projected to decline and remain stable over the medium term . Growth picks up in the near term but is projected to gradually decline due to demographic headwinds in the medium term. Despite the declining medium-term growth, positive growth-interest differential and stable inflation keep the debt-to-GDP ratio in check. GFNs are projected to slightly increase over the medium term because of the scheduled amortization of debt from larger primary deficits in 2023 and 2024, but are still at low levels and will decline afterwards.

Figure 5. Vietnam: Realism of Baseline Assumptions



Commentary: Realism analysis does not point to major concerns as past forecasts appear to be conservative and the projections are well within norms. The primary deficit is projected to become the main driver of debt creation as the generally tight fiscal policy in the past few years loosens.

Sources : IMF Staff.

1/ Projections made in the October and April WEO vintage.

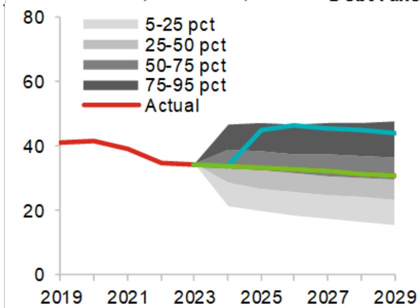
2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates and final estimates in the latest October WEO) in the total distribution of revisions across the data sample.

3/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Figure 6. Vietnam: Medium-Term Risk Assessment

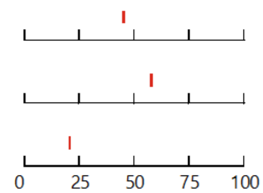
	Value	Contrib 1/	Percentile in peer group 2/

Final Fanchart (Pct of GDP)

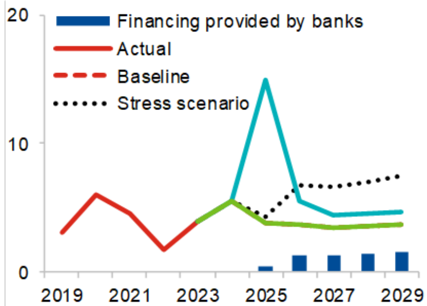


Debt Fanchart Module

	Value	Contrib 1/
Fanchart width *(percent of GDP)*	32.1	0.5
Probability of debt non-stabilizaiton *(percent)*	32.1	0.3
Terminal debt-to-GDP x institutions index	18.0	0.4
Debt fanchart index (DFI)		1.1
Risk signal: 3/		Low

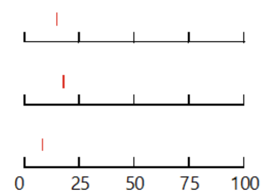


Gross Financing Needs (Pct of GDP)



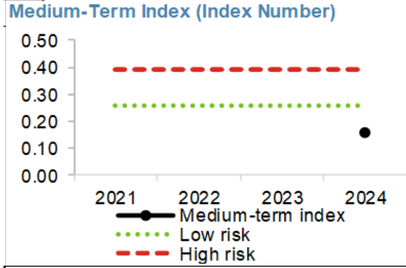
Gross Financing Needs (GFN) Module

	Value	Contrib 1/
Average baseline GFN *(percent of GDP)*	3.9	1.3
Banks' claims on the gen. govt *(pct bank assets)*	5.2	1.7
Chg. In banks' claims in stress *(pct banks' assets)*	2.1	0.7
GFN financeability index (GFI)		3.7
Risk signal: 4/		Low



Banking crisis Commodity prices Exchange rate Contingent liab. Natural disaster

Medium-Term Index (Index Number)



Medium-term risk analysis

	Value	Weight	Contribution
Debt fanchart index (normalized)	0.3	0.5	0.1
GFN finaceability index (normalized)	0.1	0.5	0.0
Medium-term index	0.2		
Risk signal: 5/	Low		
Final assessment:	Low		

Prob. of missed crisis, 2024-2029, if stress not predicted: 0.0 pct.

Prob. of false alarms, 2024-2029, if stress predicted: 64.8 pct.

Commentary: According to the debt fanchart and GFN modules, debt remains stable in the medium term and the gross financing needs remain low. The medium-term index points to low risk. The stress scenario for FX depreciation does not change these results as FX debt is relatively small. Under the standardized banking crisis stress scenario with first-round fiscal cost of bank crisis resolution calibrated as 10 percent of GDP and second-round effect on reducing economic growth and inflation and increasing interest rates, GFNs would increase by more than 10 percent of GDP in 2024, and stay at a higher level than the baseline over the medium term (by about 1 percent of GDP).

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.
2/ The comparison group is emerging markets, non-commodity exporter, surveillance.
3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.
4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.
5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Figure 7. Vietnam: Long-Term Risk Analysis

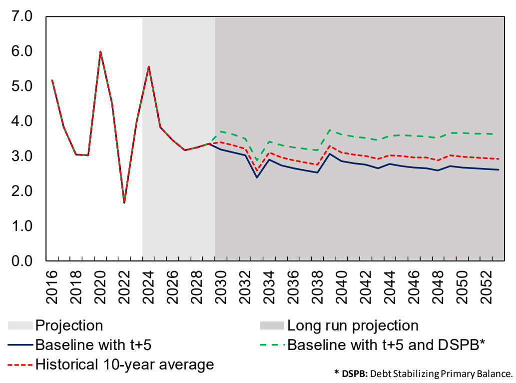
Large Amortization Trigger

Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Historical average assumptions	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	

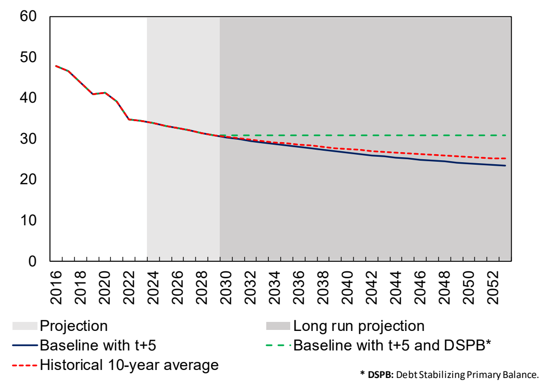
Overall Risk Indication	

Alternative Baseline Long-term Projections

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



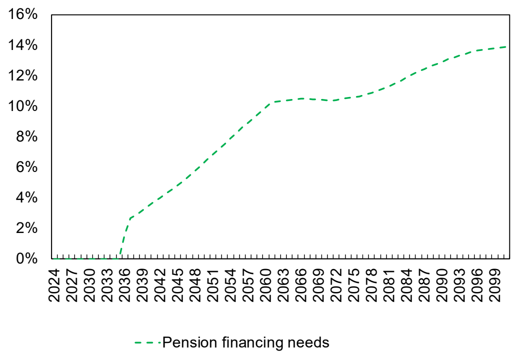
Commentary: Long-term debt is broadly stable and remain relatively low under alternative assumptions. The "Historical 10-year average" and "t+5 and DSPB" scenarios show somewhat higher financing needs.

Figure 7. Vietnam: Long-Term Risk Analysis (Continued)

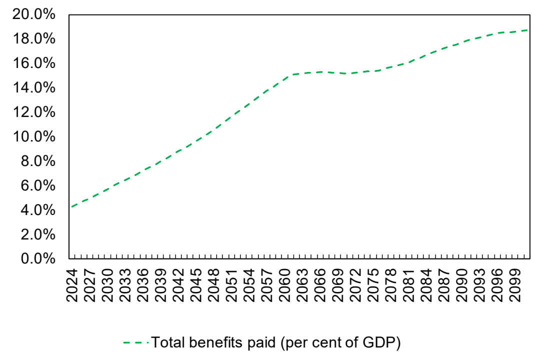
Demographics: Pension

Permanent adjustment needed in the pension system (pp of GDP per year)	To keep pension assets positive for:		
	30 years	50 years	Until 2100
	3.45%	7.12%	10.10%

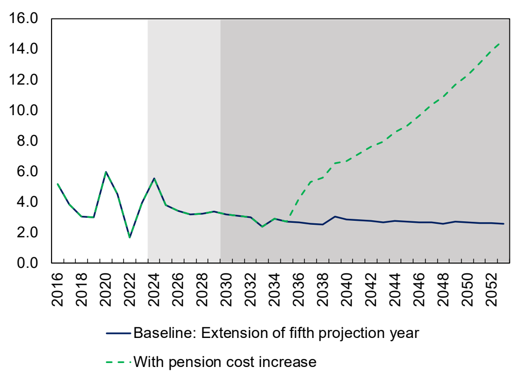
Pension Financing Needs



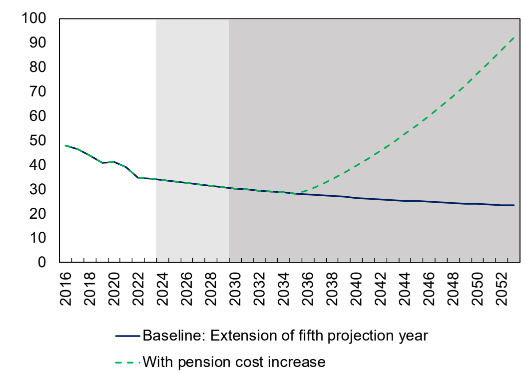
Total Benefits Paid



GFN-to-GDP Ratio



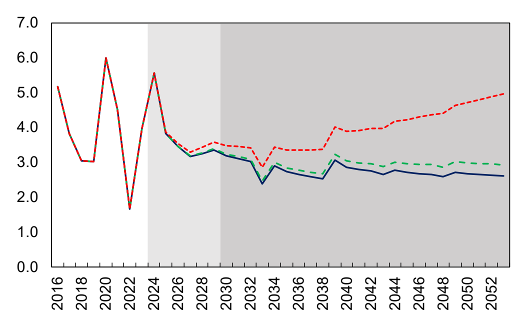
Total Public Debt-to-GDP Ratio



Commentary: Population aging is expected to increase pension cost significantly after 2035 in the absence of reforms. The government is aware of the pressure from population aging and is expected to implement pension reforms and revenue mobilization to meet the challenge.

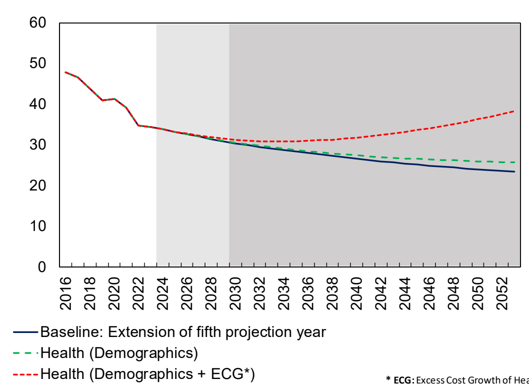
Demographics: Health

GFN-to-GDP Ratio



* **ECG:** Excess Cost Growth of Health.

Total Public Debt-to-GDP Ratio



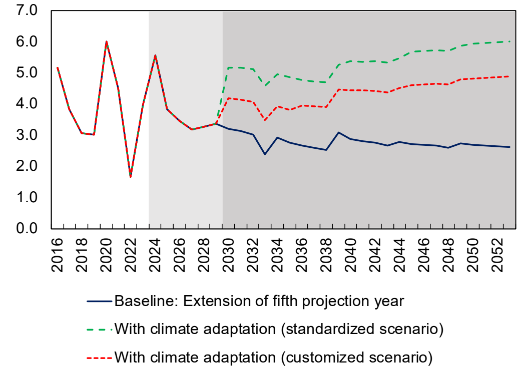
* **ECG:** Excess Cost Growth of Health.

Commentary: In the long term, the health spending need is rising. It could be managed if the government devotes enough gains from its efforts to mobilize tax revenues to health spending and implement structural reforms to improve spending efficiency.

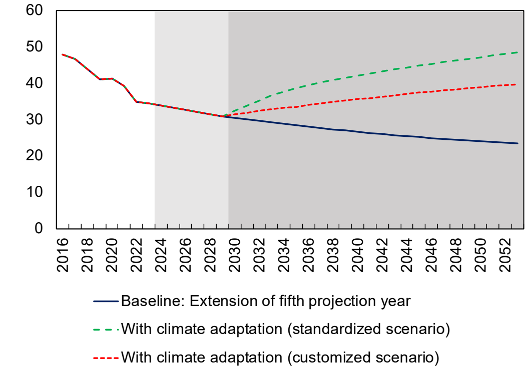
Figure 7. Vietnam: Long-Term Risk Analysis (Continued)

Climate Change: Adaptation

GFN-to-GDP Ratio



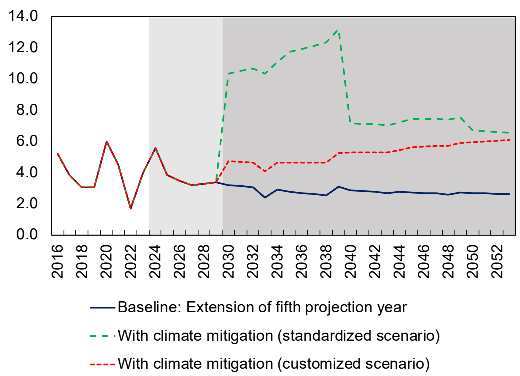
Total Public Debt-to-GDP Ratio



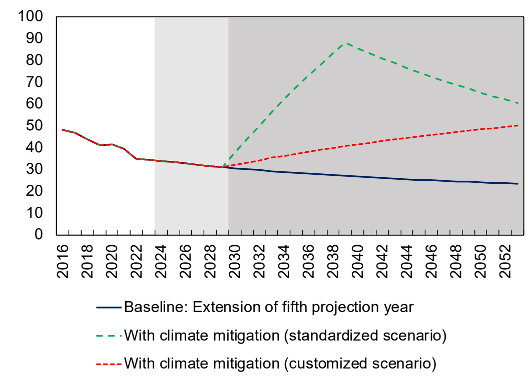
Commentary: Investments to address climate adaptation will increase the long-term financing need. However, the government's planned ETS is expected to generate significant revenues - ranging from 1.4 to 6.9 percent of GDP as estimated in the 2023 Article IV Staff Report - which could be used to finance climate adaptation. The government is also committed to prioritizing investment toward climate adaptation.

Climate Change: Mitigation

GFN-to-GDP Ratio



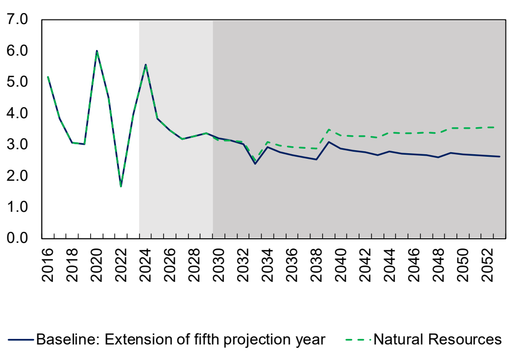
Total Public Debt-to-GDP Ratio



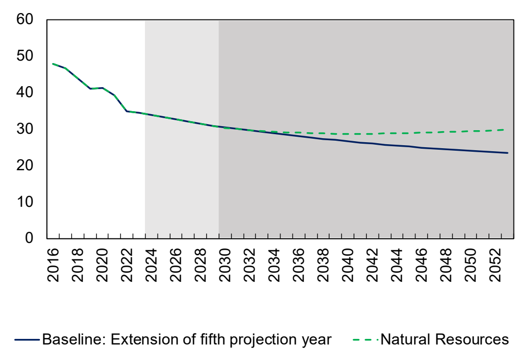
Commentary: In the absence of measures, the mitigation spending need is high in the standardized scenario. However, the government's planned ETS will operate starting 2028. It will help reduce the spending need and generate significant revenues - ranging from 1.4 to 6.9 percent of GDP as estimated in the 2023 Article IV Staff Report - which could be used on shifting toward renewable energy.

Natural Resources

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



Commentary: Vietnam is an oil producer. In the absence of new discoveries, the exhaustion of the oil reserves in the long run would have negative impacts on the GFN and public debt. However, given the small contribution of the natural resource sector to GDP , the sector's influence on public debt is small.

Annex X. Data Issues

Table 1. Vietnam: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/

C

Questionnaire Results 2/

Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	A	A	C	D	C	B	C

Detailed Questionnaire Results

Data Quality Characteristics						
Coverage	A	A	B	D	C	
Granularity 3/	B		C	C	C	
			C		C	
Consistency			C	D		B
Frequency and Timeliness	A	A	D	A	D	

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.

1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.

2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance* , January 2024, Appendix I).

3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund is adequate for surveillance.
B	The data provided to the Fund has some shortcomings but is broadly adequate for surveillance.
C	The data provided to the Fund has some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund has serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. Overall, there are some shortcomings in the data that somewhat hamper surveillance, including on government finance statistics and monetary and financial statistics. But there are serious shortcomings in external sector statistics that significantly hamper surveillance. On the external sector statistics, the large errors and omissions in the balance of payments and lack of international investment position significantly hamper the ability to assess the external position. On the government finance statistics, the lengthy delay in publication of final accounts, significant revisions, and lack of spending and financing details, make it difficult to assess the fiscal position in a timely manner. On monetary and financial statistics, there are issues regarding the frequency, availability and granularity of financial sector data, forcing the team to resort to other public sources to assess financial stability dynamics. The FSIs are reported with almost a one-year time lag, reducing their usefulness for analysis. Other weaknesses include the lack of granular expenditure components of national accounts, a property price index and related real estate indicators, and data on job vacancies.

Changes since the last Article IV consultation. The authorities have requested technical assistance on the external sector statistics and monetary and financial statistics. The Treasury and Budget Management Information System (TABMIS) is in operation currently, which is an important first step towards compiling cash budget execution data that will be useful for compiling government finance statistics in a timely and comprehensive manner. MOF is working to shorten the publication lag of final fiscal account to 12 months (from 18 months), with the ongoing TA in government finance statistics. SBV has initiated efforts to improve external statistics: they started working on developing an estimate for international investment position, identifying the main sources of error and omissions in the balance of payments, and preparing a new FDI survey for a sample of relevant corporations. SBV also produced some international liquidity indicators for the international financial statistics with relevant information for the preparation of the reserve template. GSO has prepared a preliminary survey template to collect e-commerce data and is planning to rebase national accounts in late 2025. TA has also been provided to develop residential property price index.

Corrective actions and capacity development priorities. Corrective actions in the external sector include compiling the Reserves Template data, which is a major hurdle in progressing to SDDS and also would provide important data for surveillance. Changes in the institutional and legal frameworks are also essential. Key capacity development priorities are to improve the external sector and government finance statistics, with exisiting TA on government finance statistics, external sector statistics, monetary and financial statistics, and national accounts continuing to provide support.

Use of data and/or estimates different from official statistics in the Article IV consultation. Staff do not use data and/or estimates different from official statistics.

Other data gaps. There is a large informal economy, and its activities are not tracked properly. E-commerce has been growing fast, and the authorities have requested technical assistance on improving compliance in the e-commerce sector.

Table 2. Vietnam: Data Standards Initiatives

Vietnam participates in the Enhanced General Data Dissemination System (e-GDDS) and publishes the data on its National Summary Data Page since July 2019.

Table 3. Vietnam: Table of Common Indicators Required for Surveillance

As of 07/09/2024

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	Vietnam[8]	Expected Timeliness[6,7]	Vietnam[8]
Exchange Rates	7/5/2024	7/8/2024	D	D	D	M	...	1W
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Apr-2024	7/2/2024	M	M	M	...	1M	...
Reserve/Base Money	Mar-2024	6/25/2024	M	I	M	...	2M	...
Broad Money	Mar-2024	6/25/2024	M	I	M	...	1Q	...
Central Bank Balance Sheet	Mar-2024	6/25/2024	M	I	M	...	2M	...
Consolidated Balance Sheet of the Banking System	Mar-2024	6/25/2024	M	I	M	...	1Q	...
Interest Rates[2]	7/5/2024	7/8/2024	D	D	M	M	...	1W
Consumer Price Index	Jun-2024	7/1/2024	M	M	M	M	2M	29D
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	2024Q1	4/10/2024	Q	Q	A	Q	3Q	1M
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	2024Q1	4/10/2024	Q	Q	Q	...	1Q	...
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2023	6/2/2024	A	A	Q	SA	2Q	2Q
External Current Account Balance	2024Q1	7/3/2024	Q	Q	Q	Q	1Q	3M
Exports and Imports of Goods and Services	Jun-2024	7/3/2024	M	M	M	M	12W	1M
GDP/GNP	2024Q2	7/1/2024	Q	Q	Q	Q	1Q	1Q
Gross External Debt	2023	6/2/2024	Q	Q	Q	SA	2Q	2Q
International Investment Position	NA	NA	NA	NA	A	...	3Q	...

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

INTERNATIONAL MONETARY FUND

VIETNAM

July 31, 2024

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By | Asia and Pacific Department (In consultation with other departments)

CONTENTS

FUND RELATIONS

(As of June 30, 2024)

Membership Status

Joined: September 21, 1956.

General Resources Account

	SDR Million	Percent of Quota
Quota	1,153.10	100.00
Fund holdings of currency	1,153.10	100.00
Reserve position in Fund	0.01	0.00

SDR Department

	SDR Million	Percent Allocation
Net cumulative allocation	1,419.99	100.00
Holdings	1,402.92	98.80

Outstanding Purchases and Loans: None

Latest Financial Arrangements

In millions of SDRs

Type	Date of Arrangement	Expiration Date	Amount Approved	Amount Drawn
ECF[1]	04/13/2001	04/12/2004	290.00	124.20
ECF[1]	11/11/1994	11/10/1997	362.40	241.60
Stand-By	10/06/1993	11/11/1994	145.00	108.80

[1] Formally PRGF.

Projected Payments to Fund

In millions of SDRs (based on existing use of resources and present holdings of SDRs)

	Forthcoming				
	2024	2025	2026	2027	2028
Principal					
Charges/interest	0.35	0.70	0. 70	0.70	0.70
Total	**0.35**	**0.70**	**0.70**	**0.70**	**0.70**

Exchange Rate Arrangements

The de facto exchange rate arrangement is classified as crawl-like while the de jure exchange rate arrangement is managed floating. The State Bank of Vietnam (SBV) is gradually increasing exchange-rate flexibility. In August 2015 it widened the VND/USD trading band to +/-3 percent from +/-1 percent while devaluing the central parity by one percent. SBV further widened its trading band to +/-5 percent from +/-3 percent in October 2022. In January 2016 it announced the VND/USD rate would be adjusted daily based on (i) the previous day’s weighted average dong/USD exchange rate; (ii) a weighted average of movements in dong exchange rates vis-à-vis seven other important trading partners’ currencies; and (iii) domestic macroeconomic conditions.

Vietnam has accepted the obligations under Article VIII, Section 2(a), 3, and 4 of the IMF's Articles of Agreement and maintains an exchange system free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions, except for those exchange restrictions imposed for security reasons, which have been notified to the IMF pursuant to Executive Board Decision No. 144-(52/51), 8/14/52.

Article IV Consultations

Vietnam is on a 12-month consultation cycle. The previous Article IV consultation was held in-person during June 14-29, 2023, and was concluded by the Executive Board on August 30, 2023.

Technical Assistance

In recent years, Vietnam has received technical assistance (TA) in the areas of statistics (government finance, external sector, price, and national accounts), reserve management, debt management, tax administration, fiscal risks, liberalization of capital controls on external debt, foreign exchange management, macroeconomic frameworks, and forecasting and policy analysis system (FPAS). The last IMF-World Bank Financial Sector Assessment Program was undertaken during 2012–13, and the Financial Sector Stability Review (FSSR) took place during 2021–23.

In 2019, the IMF's Institute for Capacity Development (ICD) started a multi-year TA on FPAS. In early 2022, Phase I of FPAS TA on modelling capacity was successfully completed and Phase II on developing organizational FPAS processes started in April 2022.

In 2022 and 2023, the IMF's Fiscal Affairs Department and the Capacity Development Center of Thailand (CDOT) have provided TA on tax administration and compliance risk management, strengthening Vietnam Treasury's cash management, internal audit, and chart of accounts. TA and training were also provided for the formulation of medium-term debt strategy, debt management institutional arrangement, custom modernization, and pension fund modeling. The IMF's Monetary and Capital Markets Department (MCM) started a multi-year project on strengthening the SBV Internal Audit in August 2022. The IMF's Legal Department (LEG) started a multi-year project to help SBV and relevant government agencies strengthen AML/CFT legal frameworks and risk-based AML supervision in November 2022. The IMF's Statistics Department (STA) provided TA on Government Finance Statistics and External Sector Statistics (with CDOT), Prices Statistics and National Accounts. In April 2023, STA provided a TA to help the SBV transition to the new FSIs compiling format and in November 2023, STA/CDOT provided a TA to assist the MOF in the preparation of GFS aligned to international standards. In April 2024, STA/CDOT provided TAs to help SBV in improving FDI and identifying sources of errors and omissions. Also, in April 2024, STA TAs have been provided for the rebasing of national accounts and the development of Residential Property Price Indices. A scoping mission for an FSSR took place in 2021, with a full FSSR finalized in June 2023. The FSSR report was approved by the SBV management. An FSSR follow-up mission was undertaken during June 2024 alongside this Article IV mission to discuss a medium-term CD program with the SBV, State Securities Commission, and MOF following key recommendations from the FSSR. In 2023, ICD/CDOT started a new multi-year TA on macroeconomic frameworks to strengthen the capacity of macroeconomic analysis and forecasting of the Ministry of Planning and Investment.

Resident Representative

Mr. Jochen Schmittmann is the Resident Representative for Vietnam, Cambodia, and Lao P.D.R., based in Hanoi, since August 2023.

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

World Bank: http://www.worldbank.org/en/country/vietnam

Asian Development Bank: https://www.adb.org/where-we-work/viet-nam

Statement by Ms. Yati Kurniati and Ms. Vi Thi Tra Nguyen on Vietnam Executive Board Meeting

August 30, 2024

The authorities of Viet Nam express their gratitude to the Mission Chief, Mr. Paulo Medas, and his team for their open and constructive discussion during the AIV mission. They also appreciate the candidness and thoughtful consideration underpinned the staff's advice. The authorities broadly agree with the staff's assessment of the outlook and the thrust of recommendations.

Recent Economic Development and Outlook

Viet Nam Economy continues to have a robust outlook. By June 2024, GDP growth reached 6.93% y.o.y, the second highest level during 2020-2024, surpassed only by the same period in June 2022. CPI increased by 1.40% y.t.d and by 4.34% y.o.y. Average CPI level was at 4.08% y.o.y, while core inflation was 2.75% with a subsiding trend since the year began. Building on updated economic developments and positive signs of recovery, the authorities are confident that 2024 GDP growth will be within the targeted range of 6-6.5% and inflation at 4-4.5%. This optimism is driven by the recovery of industrial and agricultural production, strong service performance as well as prudent macro-economic policy response.

Growth in 2024 and 2025 is expected to gear to the medium-term potential when global economic recovery continues, and central banks are anticipated to lower policy rates to support economic recovery in later half of 2024. These will boost external demand and result in increased orders to Vietnamese exporters. Additionally, the economy is expected to benefit from lagged effects of various incentives and supportive policy measures which were introduced in 2023, including lower interest rates, higher public investment, tax cuts, reduced fees and levies. FDI is also projected to remain robust.

Fiscal policy

Total fiscal revenue for the first six month of 2024 reached 1,020.6 trillion dong, accounting for 60% of 2024 the projected revenue for the year and marking a 15.7% (y.o.y) increase. Total budget expenditure by June 2024 was 803.6 trillion dong, accounting for 37.9% of the planned budget. The Government remains committed to fiscal consolidation, strong adherence to budget disciplines and to improve budget efficiency and transparency.

The authorities focused on accelerating public investment and disbursement, especially for nationally prioritized projects which were planned to channel social resources to important areas of the national development programs. In the first 6 months, total public investment disbursement amounted to 244,4 trillion dong, equivalent to 33.8% of the annual plan and an increase of 3.5% y.o.y. The Government has requested ministries and subordinate agencies to review the implementation of the 2021-2025 Public Investment Strategy and to provide inputs for the next five-year public investment plan towards 2030.

To support economic recovery in the post pandemic period, several taxes, fees and levies have been cut in 2023 and are expected to remain in effect until the end of 2024. In 2022, the Government issued the Taxation Reform Strategy towards 2030, which aims to uniformly improve the taxation system in line with international best practices, while securing necessary funding for socio-economic development programs. Provincial authorities have been introducing the use of information technology to facilitate online tax registration and collection for individuals and businesses.

The authorities are currently reviewing the implementation of 2021-2025 Budget Plan as the initial step in preparing the next five-year fiscal plan. For the 2026-2030 period, the national budget is expected to focus on nationally important projects, programs, inter-provincial and international initiatives that will drive growth momentum in the related provinces and areas, ultimately improving lives of the people.

Monetary policy

Monetary policies were conducted in close collaboration with other policies to maintain macroeconomic stability and support economic recovery. In 2023, in line with other Government supportive policies, the State Bank of Vietnam (SBV) cut policy interest rates 4 times to pre-Covid levels in efforts to help businesses revive activities that were hampered by the pandemic slowdown.

Global market fluctuation and the appreciation of major currencies had a pass-through effect on VND exchange rates. In response, the SBV flexibly regulated its policy tools to absorb external shocks, adjusted VND supply and used foreign exchange intervention to ease pressure on exchange rate. As a results, VND/USD exchange rates moved flexibly in both directions, aligning with regional market trends. Hence, FX markets was stabilized, legitimate demands for foreign currencies were met and inflation kept within target levels. The SBV will continue to allow necessary space for exchange rate flexibility to align with market developments, helping to absorb external shocks. It will stand ready to intervene to stabilize the FX market and contain excessive exchange rate fluctuations.

The SBV has undertaken various reforms to improve its monetary policy framework and enhance transmission efficiency. The Banking Development Strategy which was issued in 2018 emphasized strengthening the SBV's functions and mandates in line with a modern central bank model, improving its analytical and forecasting capability, accountability and transparency, gradually moving from quantity-based to price-based monetary policy. With assistance from the Fund under a technical assistance program since 2019, the SBV has developed a Forecasting and Policy Analysis System (FPAS), which is expected to provide critical inputs for policy decision and public communication. The final phase of public communication is scheduled to begin in late 2024.

Financial sector

Market liquidity remained stable throughout 2023 and the first six months of 2024, with all banks adhering to the SBV's regulatory prudential limits, safety ratios and governance requirements. The SBV continued its plan to introduce additional macroprudential tools and requirements to promote sound performance of the banking system and sustain financial stability.

Following various policy measures by the authorities, the corporate bond market stabilized, and bond issuance resumed in the latter half of 2023. In December 2023, the Prime Minister issued the Securities Market Development Strategy towards 2030 aiming at sustaining a sound and effective capital market. For the corporate bond market, the strategy includes plans to implement higher requirement for issuance, disclosure, credit rating to improve quality of bond products. The authorities are committed to stronger supervision of capital markets to protect investor and maintain financial stability.

On August 1st, 2024, the Law on Land, the Law on Housing and the Law on Real Estate Trading came into effect, five months earlier than initially planned. The authorities believe that these three new laws governing housing and real estate market will promote a more transparent and sustainable property market.

The newly revised Law on Credit Institutions took effect on July 1st, 2024, and is expected to promote sound operation of the banking system by introducing stricter requirements for provisioning, governance, management qualification, thereby promoting transparency and compelling banks to innovate themselves to improve their competitiveness and meet evolving market demands. The 2024 Law on Credit Institution also empowers SBV with early intervention capabilities, guidelines and authority to resolve bank failures, including bank-run and special control cases. On the other hand, domestic and foreign banks are required to develop their own continuity and resolution plans, which will facilitate SBV's timely and efficient intervention when needed.

The Vietnamese banking system continues to implement the 2021-2025 Restructuring Plan to consolidate its financial capacity, improve assets quality, and promote sound performance and transparency. Under this plan, banks are required to enhance their capital base, capital adequacy, risk management and governance in line with international best practices. Except for banks under the SBV's special control, all other banks have been meeting the requirements of the Restructuring Plans and in compliance with SBV regulations. The SBV has planned the merger and acquisition of three banks currently under its special control after a period of consolidation. For SCB, the SBV is preparing a compulsory merger plan to submit to the Prime Minister for approval.

Structural reforms

The authorities stay committed to strengthening the statistical system in compliance with international standards. Since 2015, the SBV received technical assistance from the Fund to build its capacity in compiling the International Investment Position (IIP) and carried out several pilot IIP projects, with reports shared with staff. The authorities have been working closely on revising related laws and regulations to enable publication of Viet Nam's IIP. The Law on Statistics, issued in 2021, provides the necessary legal framework for collection and composition of key statistical indicators as required by advanced statistical standards. In 2020, the Prime Minister approved Statistics Development Strategy for the 2021-2030 period, aiming to upgrade statistical systems across all economic sectors and areas, including progressing toward SDDS adherence. The SBV and other authorities have been working closely with STA on various CD projects to enhance their capability in modern statistical methodologies and compilation.

Following the release of Viet Nam's Mutual Evaluation Report on AML/CFT by the Asia/Pacific Group on Money Laundering (APG) in February 2022, the authorities undertook decisive measures to address identified gaps and weaknesses. The newly revised Law on AML and its implementation guidelines were issued in late 2022 and early 2023. National Risk Assessment Report for 2018-2022 was completed, covering new areas such as risks from virtual assets, pollution, criminal legal entities, legal arrangements, and underlined beneficiaries. The Government also issued a Post-Evaluation National Action Plan to address the constraints highlighted in the mutual evaluation. Additionally, Guidelines on Inter- ministerial Cooperation were issued to promote collaboration between relevant authorities and law enforcement agencies (LEAs) on AML/CFT efforts. Viet Nam's Financial Intelligent Unit (FIU) has signed several memoranda of agreement with other government ministries, agencies and foreign FIUs on the provision and sharing of AML/CFT information and analytical works. The FIU has also been working to upgrade its technological infrastructure and system to improve data collection and analysis in support of LEAs' works in accordance with AML/CFT laws and regulations.

As a country with highly risky exposure to climate change, Viet Nam has been actively participating in international initiatives and forums including COP and Just Energy Transition Partnership (JETP) as one of its first members. The Climate Change Strategy towards 2050 plans to reach net zero emission by 2050 and outlines measures to channel resources to climate adaptation plans. These include building financial infrastructure, establishing carbon markets and promoting investment shifts toward low-emission economic development. The authorities aim to leverage state resources to encourage participation of social organizations, private businesses, individuals, and international organizations, fostering public-private partnerships based on principles of cooperation and mutual benefits. In December 2023, the Prime Minister announced Viet Nam Resource Mobilization Plan to implement JETP (RMP) in COP 28 meeting. The authorities have been focusing on reviewing related projects, programs and working with domestic and international partners to seek funding for the RMP. The authorities are working to develop necessary legal framework for financial infrastructure including carbon market and collaborating with credit institutions to develop green financial products.

Over 10 years of implementing the National Anti-Corruption Strategy and United Nations Convention against Corruption (UNCAC) Action Plan, significant improvement and important outcomes have been made in curbing and preventing corruption. In 2023, Viet Nam Corruption Perception Index was 41/100, ranking 80 out of 180 countries on the global list, a substantial improvement from its 120th place ranking in 2009. The 2018 Anti- Corruption Law was enacted to prevent, detect and address corruption and other violations of anti-corruption law. With political determination and decisive actions, anti-corruption efforts will help strengthen and discipline within the administrative governance system, creating a fair and civilized social environment that supports socio-economic development.