IMF Country Report No. 21/42

VIETNAM

2020 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR VIETNAM

March 2021

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 2020 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 February 5, 2021 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 February 5, 2021, following discussions that ended on November 6, 2020, 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 January 13, 2021.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Vietnam.

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.

PR21/55

IMF Executive Board Concludes 2020 Article IV Consultation with Vietnam

FOR IMMEDIATE RELEASE

Washington, DC – March 1, 2021: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Vietnam.

Vietnam began 2020 following a prolonged period of high growth. The last three decades of market-oriented reform supported a structural transformation from agriculture to a modern economy based on FDI-led manufacturing, lifting Vietnam from one of the poorest countries in the world to lower middle-income status. In recent years, growth averaged 7 percent, and the emphasis on "leaving no one behind" boosted living standards, contributing to notable progress towards the Sustainable Development Goals.

Economic activity remained strong with stable inflation in 2019, as the rate of new business creation reached a six-year high. Fiscal consolidation efforts helped contain public and publicly guaranteed debt to 43 percent of GDP, well below the 65 percent statutory limit. Despite moderating trade flows on account of U.S.-China trade tensions, the current account surplus rose to 3.8 percent of GDP as a result of sharply slowing imports of raw materials and intermediate goods, record tourist arrivals, and large remittance flows. Vietnam's external position in 2019 was assessed to be substantially stronger than warranted by fundamentals due to structural features.

Following the onset of the COVID-19 crisis, decisive measures were taken to limit the health and economic fallout. Early and concerted efforts helped ease lockdown restrictions and contain the associated policy support package relative to other countries. Fiscal policy focused on temporary support to firms and vulnerable households, while monetary policy was eased to maintain abundant liquidity in the banking system. Real GDP growth in 2020 was 2.9 percent, among the highest in the world. The current account surplus is projected to narrow to 2.2 percent in 2020, as collapsing tourism receipts and weaker remittances are only partially offset by subdued imports and lower income payments. Despite some economic scarring, a strong recovery is expected in 2021 as normalization of domestic and foreign activity continues. Fiscal and monetary policies are expected to remain supportive, although to a lesser extent than in 2020, and inflation is projected to remain close to the authorities' target at 4 percent.

Executive Board Assessment[2]

Executive Directors noted that the COVID-19 pandemic disrupted a prolonged period of high growth and improvements in living standards. They commended the authorities for their decisive and comprehensive response to the pandemic, which, supported by strong

[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.

[2] At the conclusion of the discussion, the Managing Director, as Chairman 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 summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

fundamentals and policy buffers, has been instrumental in ensuring the economy's resilience. Directors noted that risks to the outlook are tilted to the downside and stressed the need for measures to limit permanent scarring and promote sustained, inclusive, and greener growth.

Directors underscored the need for fiscal measures geared towards protecting workers and vulnerable households, including through improved budgetary execution and enhanced targeting. They stressed that once the recovery is firmly underway, gradual fiscal adjustment should center on revenue mobilization to help create space for priority social and infrastructure spending and support greener and more inclusive growth. Directors noted the need for continued efforts to upgrade fiscal policy frameworks to safeguard fiscal sustainability.

Directors recommended maintaining an accommodative monetary policy stance, while remaining mindful of underlying banking sector vulnerabilities. They emphasized that corporate support for viable firms should be gradually phased out and regulatory forbearance normalized. Directors underscored that financial risks should be closely monitored and problem loans addressed in a timely manner. Medium term objectives include enhancing private debt restructuring frameworks and further strengthening banks' capital position in the context of adopting Basel II requirements.

Noting the staff's assessment that Vietnam's external position was substantially stronger than warranted by fundamentals and desirable policies, Directors called for steadfast reform efforts to remove the remaining barriers to private investment and enhance social safety nets. At the same time, some Directors urged caution in interpreting EBA model results, which may not adequately capture Vietnam-specific structural factors and measurement issues. In the context of reserve adequacy, Directors welcomed efforts to allow greater two-way exchange rate flexibility and modernize the monetary policy framework, which would help the economy to adjust to the changing external environment.

Directors stressed the importance of structural reforms to improve the business environment, enhance productivity, and boost post-pandemic potential growth. They concurred that priority should be given to reducing labor skill-mismatches, promoting digital transformation, and ensuring a level playing field, particularly for SMEs. Directors welcomed continued efforts to improve economic institutions and strengthen governance.

Table 1. Vietnam: Selected Economic and Financial Indicators, 2016–21

					Projections	
	2016	2017	2018	2019	2020	2021
Output						
Real GDP (percent change)	6.7	6.9	7.1	7.0	2.9	6.5
Prices (percent change)						
CPI (period average)	2.7	3.5	3.5	2.8	3.2	4.0
CPI (end of period)	4.7	2.6	3.0	5.2	0.2	3.7
Core inflation (end of period)	1.9	1.3	1.7	2.8	1.0	2.3
Saving and investment (in percent of GDP)						
Gross national saving	26.6	25.7	28.2	30.4	28.6	29.3
Gross investment	26.3	26.3	26.3	26.6	26.4	27.0
Private	20.4	20.5	20.8	21.0	20.2	21.4
Public	5.9	5.8	5.5	5.6	6.2	5.6
State budget finances (in percent of GDP) 2/						
Revenue and grants	19.1	19.6	19.5	19.5	16.2	15.8
Of which: Oil revenue	0.7	0.8	0.9	0.6	0.4	0.4
Expenditure	22.2	21.5	20.5	22.8	21.6	20.5
Expense	16.3	15.7	15.0	17.2	15.4	14.9
Net acquisition of nonfinancial assets	5.9	5.8	5.5	5.6	6.2	5.6
Net lending (+)/borrowing(-) 3/	-3.2	-2.0	-1.0	-3.3	-5.4	-4.7
Net lending /borrowing including EBFs	…	-0.5	0.4	-2.6	-4.3	-3.8
Public and publicly guaranteed debt (end of period)	47.6	46.3	43.6	43.4	46.6	47.1
Money and credit (percent change, end of period)						
Broad money (M2)	18.4	15.0	12.4	14.8	13.8	14.8
Credit to the economy	18.8	17.4	12.7	12.8	12.1	12.3
Balance of payments (in percent of GDP, unless otherwise indicated)						
Current account balance (including official transfers)	0.2	-0.6	1.9	3.8	2.2	2.3
Exports f.o.b.	70.0	77.6	80.2	80.2	82.5	85.9
Imports f.o.b.	65.7	73.7	74.7	73.7	73.9	78.1
Capital and financial account 4/	4.3	7.2	2.8	5.8	2.6	2.9
Gross international reserves (in billions of U.S. dollars) 5/	36.7	49.2	55.3	78.5	94.8	113.7
In months of prospective GNFS imports	2.0	2.4	2.5	3.5	3.7	4.1
Total external debt (end of period)	35.8	38.9	36.4	37.1	38.5	38.6
Nominal exchange rate (dong/U.S. dollar, end of period)	22,761	22,698	23,175	23,173	23,223	…
Memorandum items:						
GDP (in trillions of dong at current market prices)	5,639	6,294	6,998	7,654	7,912	8,630
GDP (in billions of U.S. dollars)	252.1	277.1	304.0	329.5	340.8	364.1
Per capita GDP (in U.S. dollars)	2,693	2,929	3,182	3,416	3,500	3,704

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

1/ GDP was revised upwards by 25.4 percent on average over 2010–17 owing to better measurement and coverage of formal businesses.

2/ 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).

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

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

5/ Excludes government deposits.

INTERNATIONAL MONETARY FUND

VIETNAM

STAFF REPORT FOR THE 2020 ARTICLE IV CONSULTATION

January 13, 2021

KEY ISSUES

Context. Successful containment of COVID-19 and strong policy support have helped contain the health and economic fallout, and a strong recovery is underway. Growth in 2020 reached 2.9 percent, among the highest in the world. However, labor market conditions remain weak. Corporate balance sheets have worsened, potentially hampering private investment and job prospects. Banks entered the crisis in a stronger position than in previous years, but weaknesses remain. Vietnam's economy remains heavily reliant on external trade and is vulnerable to trade tensions.

Recommendations. Given Vietnam's successful containment of COVID-19, the near-term policy imperative is to limit permanent scarring and support a robust recovery. Over time, policies should center on achieving sustained, inclusive, and greener growth.

- *Provide fiscal support and improve execution*. Available fiscal space should be flexibly deployed to support vulnerable households and distressed, but viable firms, with improvement of execution as a priority. Fiscal support should remain in place until the recovery is cemented, with the emphasis thereafter pivoting to revenue mobilization for financing productive and green infrastructure investment and strengthening social protection systems.
- *Maintain monetary support and modernize the policy framework*. Monetary policy should remain supportive, while allowing for greater two-way exchange rate flexibility. Reforms to modernize the monetary policy framework and improve policy transmission should continue.
- *Safeguard financial stability*. Corporate sector support should be targeted and time-bound, and debt restructuring mechanisms strengthened. Exceptional policy support should be gradually phased out and financial stability risks closely monitored. Fragilities in the banking system should be addressed, including rebuilding capital buffers and facilitating Basel II adoption once the crisis abates.
- *Boost productivity and lift growth potential*. Decisive structural reforms are needed to make the most of Vietnam's considerable potential, with priority given to ensuring a level playing field for SMEs, lowering the regulatory burden and reducing corruption, alleviating labor skill mismatches, and tackling informality.

Approved By
Anne-Marie Gulde-Wolf and Delia Velculescu

Discussions took place October 19–November 6. The IMF team comprised Era Dabla-Norris (Head), Yuanyan Sophia Zhang, Si Guo, Alexandre Balduino Sollaci, Ragnar Gudmundsson (all APD), Amr Hosny (FAD), Tomoaki Hayashi (MCM), Federico Diez (RES), and Anh Thi Ngoc Nguyen (OAP). Francois Painchaud (Resident Representative), Nga Ha and Van Anh Nguyen (from the IMF Office in Hanoi) supported the team's discussions and policy work excellently. Hibah Khan and Ross Rattanasena (both APD) and Hai Hoang (IMF Office in Hanoi) provided excellent research, editorial, and logistical assistance, respectively for the discussions and the preparation of this report.

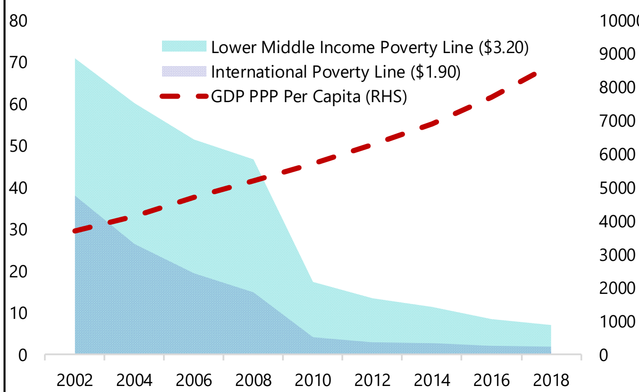
CONTENTS

ANNEXES

THE PRE-COVID LANDSCAPE

1. **Vietnam began 2020 following a prolonged period of high growth and ongoing structural transformation**. The last three decades of market-oriented reform lifted Vietnam from one of the poorest countries in the world to lower middle-income status. Structural transformation from agriculture to a modern economy based on FDI-led manufacturing and the emphasis on "leaving no one behind" boosted living standards. In recent years, growth averaged 7 percent, buoyed by manufacturing activity and solid domestic demand. The rate of new business creation reached a six-year high in 2019. Inflation has remained close to the authorities' 4 percent target.

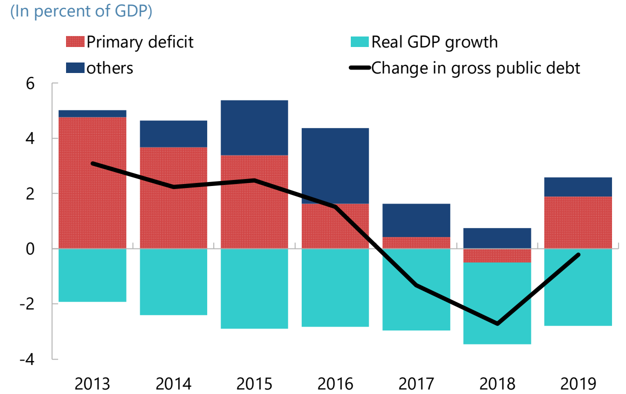
Rising Living Standards: GDP per capita and Poverty
(In percent of population and PPP in international currency)



Sources: World Bank, Vietnamese authorities and IMF staff calculations.

2. **Considerable progress was made in putting public finances on a sounder footing, although the quality of fiscal consolidation could have been better.** Ongoing rationalization of current spending, robust growth, and curtailment of new sovereign guarantees contained public and publicly guaranteed debt (PPG) to 43 percent of GDP in 2019, well below the 65 percent statutory limit.[1] Government bond yields and borrowing costs have been on a declining trend—reflecting low inflation, high demand for lower-risk assets by banks, and limited supply of government bonds. However, public investment slowed in recent years partly due to capacity constraints. Tax revenues remain below peers, reflecting compliance issues and pervasive tax exemptions. Vietnam has broadly followed past IMF advice (Annex I).

Change in Gross Public Debt
(In percent of GDP)



Sources: VNM DSA.

3. **Strong FDI inflows and a current account surplus strengthened external buffers**. Despite moderating trade flows on account of U.S.-China trade tensions, the current account surplus rose to 3.8 percent of GDP in 2019 as a result of sharply slowing imports of raw materials and intermediate goods, record tourist arrivals, and large remittance flows. The State Bank of Vietnam (SBV) took advantage of the strong external position to accumulate reserves while keeping the

[1] GDP was revised upwards by 25.4 percent on average over 2010–17 owing to better measurement and coverage of formal businesses following technical support by the IMF and UN. This report used revised numbers to report ratios in percent of GDP.

exchange rate mostly stable against the USD. International reserves rose to US $78.5 billion, a record high, and 96 percent of the ARA metric at end-2019.

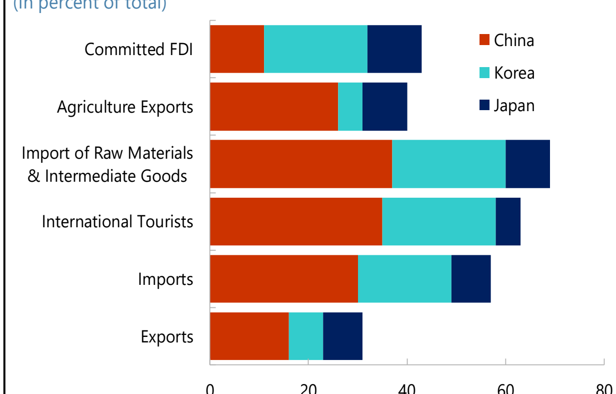
4. **The banking system was strengthened, but weaknesses persist**. The banking system entered 2020 with higher profitability and liquidity than in the past, boosted by the strong economy and a shift to retail lending. Write-offs and loan recoveries, declining credit growth and improved quality of new credit, contributed to lower non-performing loans (NPLs). Capital buffers were above regulatory requirements but remained low compared to peers, especially in some of the systemically important state-owned commercial banks (SOCBs). As of December 2019, only 18 out of 43 banks (accounting for 60 percent of total banking system's assets) met the capital standards required for Basel II adoption. While signs of a generalized asset boom were limited, leverage by listed corporates increased, and household debt was above the emerging market (EM) average.[2]

5. **Despite these favorable outcomes and ongoing market-oriented reforms, there is still significant room to boost productivity and improve economic resilience.** Pervasive economic dualism—manifest in a sizeable share of small and mid-size enterprises (SMEs) with limited financial resources and relatively low productivity, substantial, albeit declining, footprint of state-owned enterprises (SOEs), an export-led FDI sector that is highly integrated with global value chains (GVCs) with limited domestic linkages, and widespread labor informality—dampens productivity. Notwithstanding progress in recent years, structural distortions and onerous regulatory burdens hold back domestic private investment, fueling external imbalances. Reliance on administrative policy measures rather than holistic market-based policy frameworks constrains policy flexibility.

COVID-19 IMPACT AND POLICY RESPONSE

6. **The economic outlook has shifted markedly since the onset of the COVID-19 crisis.** As the outbreak intensified in China and elsewhere in Asia, activity slowed, reflecting Vietnam's significant trade and tourism exposures and extensive linkages in regional supply chains. As in many other EMs, portfolio outflows increased in February-March, and the stock market plunged amid the global spike in risk aversion, but both have since partially recovered, and pressures on the exchange rate were relatively contained.

Vietnam's Exposure to China, Japan and Korea
(In percent of total)



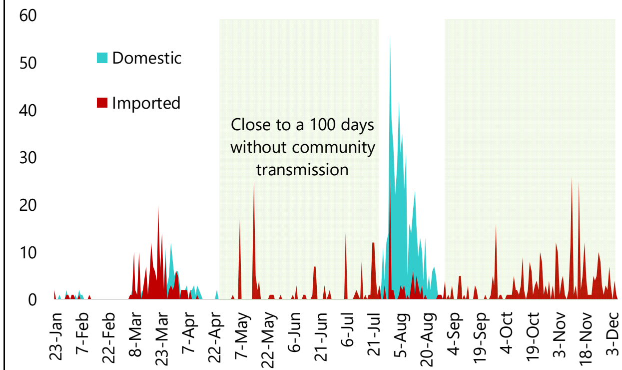
Sources: Haver, OECD Tiva and Vietnamese authorities.

7. **Vietnam has taken decisive steps to contain COVID-19, which helped limit the health and economic fallout (Annex II).** Swift introduction of containment measures, combined with aggressive contact tracing, targeted testing, and isolation of suspected cases helped contain new

[2] Household debt stood at nearly 50 percent of GDP at end-2019. Of this amount, over half was in the form of borrowing by small household businesses with a further 25 percent in housing-related loans (mostly mortgages).

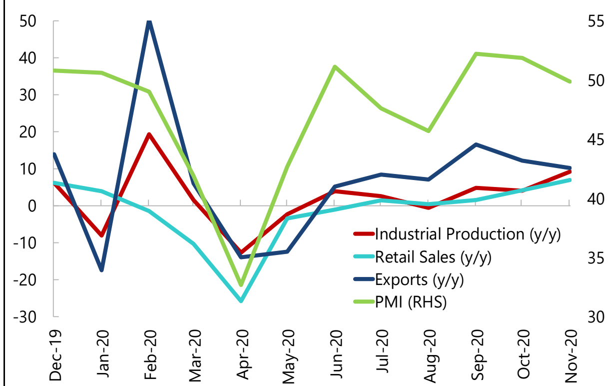
infections. Recorded infections and case fatality rates have been notably low on a per capita basis, with 1367 cases and 35 deaths reported as of December 7, 2020. Early and concerted efforts helped ease lockdown restrictions and contain the economic fallout and the associated policy support package relative to other countries.

COVID-19 Confirmed Cases
(New infected)



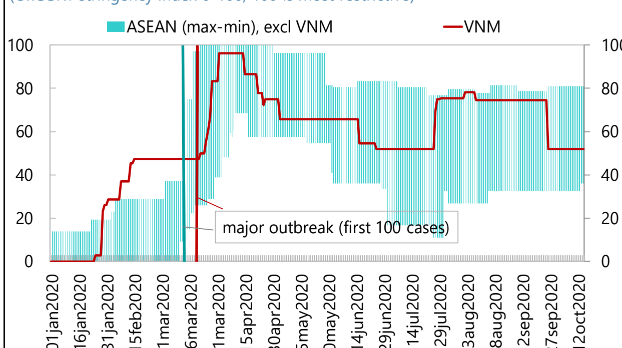
Sources: Vietnamese authorities.

Domestic Activity Rebounds



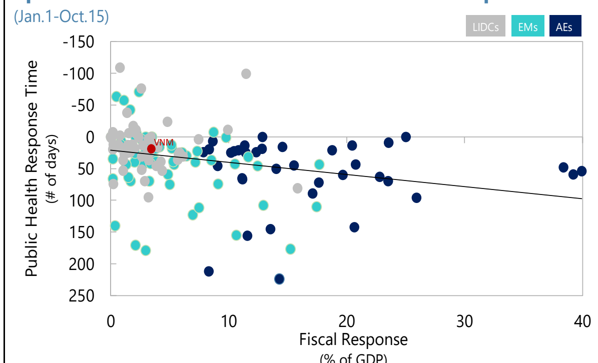
Sources: Vietnamese Authorities, IMF Staff Calculations.

Stringency of Containment Measures
(OxCGRT stringency index 0-100, 100 is most restrictive)



Sources: Calculations based on Oxford COVID-19 Government Response Tracker (OxCGRT).
Notes: ASEAN stringency index represents the max-min range of (ASEAN-VNM). Vertical lines point to the date of a major outbreak (100 cases). ASEAN vertical line is the simple average for (ASEAN-VNM).

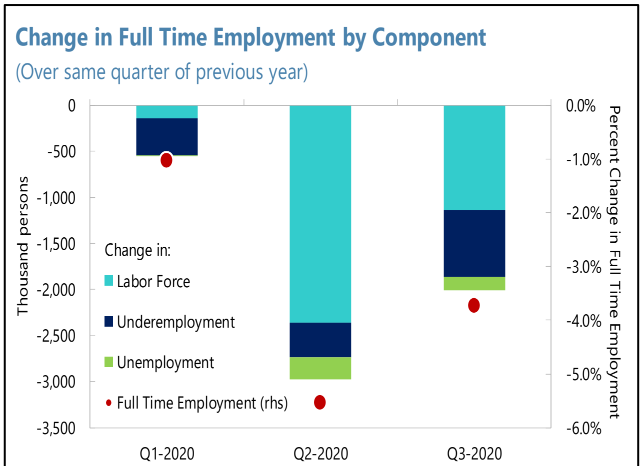
Speed of Containment Measures and Fiscal Response
(Jan.1-Oct.15)



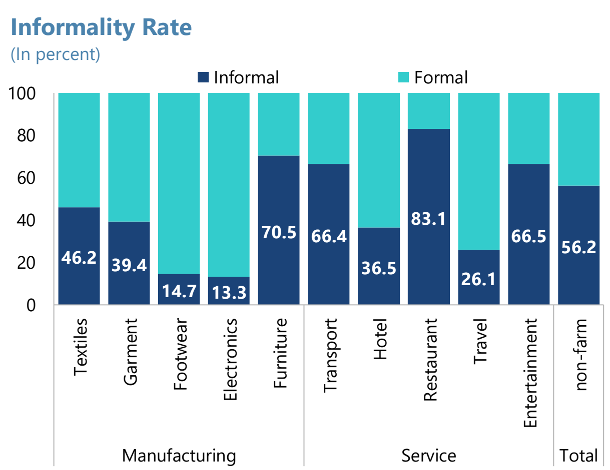
Sources: Calculations based on OxCGRT and Fiscal Monitor (October 2020).
Notes: (i) Public health response time (PHRT) is the numbers of days to reach the country's maximum restrictiveness (OxCGRT containment and health index) after a major outbreak (100 cases); and (ii) Fiscal response, in percent of GDP, are announced fiscal measures in response to Covid-19 since begining of the year, from the Fiscal Monitor.

8. **GDP grew by 2.9 percent in 2020, the slowest pace in a decade.** Economic activity plummeted in April as mobility restrictions were implemented (Figures 1–3). The slowdown was particularly acute in contact-intensive sectors such as restaurants, hotels, retail, transportation, and low-tech manufacturing (e.g., garments, footwear). Domestic activity resumed in May as businesses re-opened and retail sales picked up, but services demand remained weak. Exports contracted sharply in the second quarter, reflecting weak external demand and supply-chain disruptions, but rebounded subsequently in line with the improving external outlook. Medical and protective equipment and work-from-home-related electronics exports outperformed. Merchandise imports remained weak, reflecting low commodity prices and subdued private demand. Credit growth picked up to 12 percent (y/y) in December, from a trough of 8.8 percent (y/y) in May.

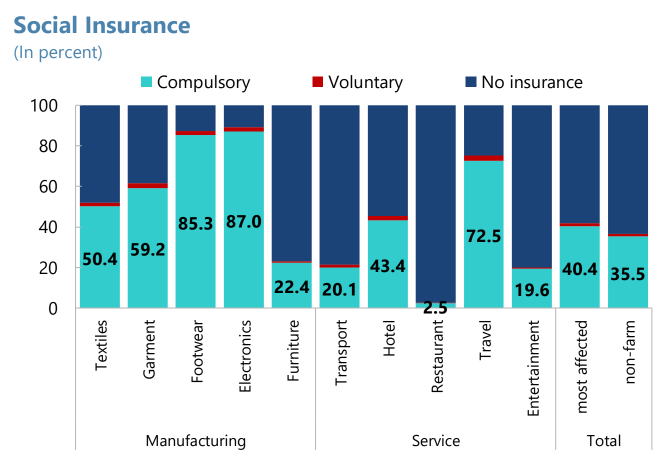
9. The growth slowdown comes with a significant hit to the labor market. A large share of the labor force has been affected by the crisis, either by the destruction of full-time jobs or cuts in wages and/or working hours. The initial employment adjustment transpired largely through rising underemployment, but the labor force also fell by 4.2 percent (y/y) in the second quarter, the first decline in 5 years, before rebounding somewhat (Figure 2, Annex III). Low-skilled workers and those working in Vietnam's sizeable informal economy with limited social insurance buffers were initially hit hardest, but informal employment rebounded quickly as mobility restrictions were eased, serving as cushion for formal jobs.[3] The number of businesses temporarily suspending operations rose by 81 percent (Q3 y/y), partly offset by a 25 percent increase in firms resuming operations, suggesting continued business dynamism (Annex IV).[4]



Sources: GSO and IMF staff calculations.



Sources: Vietnam Labor Force Survey 2018; IMF staff calculations.



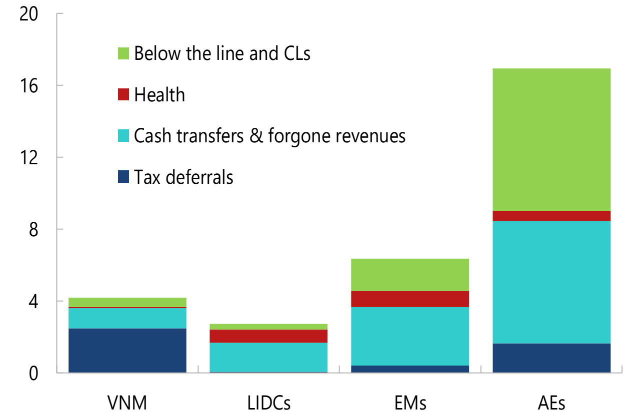
Sources: Vietnam Labor Force Survey 2018; IMF staff calculations.

[3] Informality typically provides employment alternatives during downturns for workers that would otherwise be formally employed; see Dabla-Norris et al. (2020) for an analysis of the flows between formal and informal employment in Vietnam.

[4] Under the current legal framework, enterprises are allowed to temporarily suspend operations for up to one year before resuming production or completing the dissolution process.

10. Fiscal policy focused on temporary support to firms and vulnerable households (Annex V). The bulk of the initial fiscal package of 4.1 percent of GDP comprised tax, land fees, and social insurance contribution deferrals for eligible firms, including SMEs and self-employed businesses. Existing cash transfers were temporarily expanded to cover part-time workers, self-employed and informal workers, and the poor and near-poor, although the speed of implementation, take-up, and coverage was low, reflecting capacity constraints and overly strict and cumbersome eligibility criteria. The use of below-the-line and quasi-fiscal measures was limited compared to peers.

Fiscal Packages
(In percent of GDP, as of October 2020)



Sources: Vietnamese authorities; and 2020 October Fiscal Monitor.
Note: Country groups are simple averages.

Fiscal Measures in Response to COVID-19

	Amount as prescribed by regulation		Implementation 1/	
	VND trillion	% of GDP 2/	VND trillion	% of the plan
Measures with budget impacts	**291.7**	**3.7**	**117**	**40.1**
Support for firms				
VAT, CIT and land rental deferrals	174.0	2.2	65.9	37.9
Deferrals of excise tax on domestically produced cars	18.0	0.2	9.8	54.4
Exemption and reduction of other taxes, fees and charges	40.2	0.5	22.8	56.7
o/w CIT reduction for SMEs	23.0	0.3	N/A	N/A
Support for households				
Tax deferrals (VAT and PIT) for household businesses	6.0	0.1	0.8	13.3
Cash transfers	36.0	0.5	12.7	35.3
Raising PIT deduction for taxpayers and dependents	10.8	0.1	N/A	N/A
Additional health spending	6.7	0.1	5.08	75.8
Measures with off-budget impacts	**38**	**0.5**	**9.6**	**25.4**
Deferrals of contribution to Social Security funds	9.5	0.2	0.4	3.8
Concessional VBSP lending to affected firms	16.2	0.2	0.01	0.1
Cutting electricity prices	12	0.2	9.2	76.7

1/ Implementation as of end-November, 2020
2/ Revised GDP, 2020, in VND trn

11. Monetary policy was eased and temporary measures were introduced by regulators. The SBV took measures to maintain abundant liquidity in the banking system. The repo and refinancing rates, the main policy rates set by the SBV, were cut by 150 and 200 bps in total between March and October. Other measures were also deployed, including a reduction in central bank bills outstanding and cuts to deposit and lending rates caps (Annex V). The SBV swiftly introduced a legal framework to flexibly restructure existing bank loans, temporarily waive or lower interest payments, and provide temporary forbearance on the loan classification for restructured loans. A credit package of new loans by commercial banks, amounting to 3.9 percent of GDP, complemented the fiscal effort to prevent widespread corporate bankruptcies.[5] These measures have been accompanied by a request to banks to refrain from paying dividends and to reduce bonuses, salaries, and electronic payment fees.

OUTLOOK AND RISKS TO THE RECOVERY

12. The economy is estimated to grow by 2.9 percent in 2020, among the highest in the world. This reflects early success in containing COVID-19 and a tentative recovery in trading partners, but voluntary social distancing weighed on demand for contact-intensive services. Private investment remained subdued as firms deferred spending amid high uncertainty. Policy support only partially offset COVID-19's adverse impact on household income, resulting in a modest recovery in private consumption. Headline inflation was at 3.2 percent (core inflation at 2.3 percent) as the inflation spike seen in early 2020 from higher food prices abated amid economic slack.

13. A robust recovery is expected in 2021 despite some economic scarring. Growth is projected to strengthen to 6.5 percent as normalization of economic activity continues, businesses recover, and private consumption and business investment rebound. Manufacturing and retail sales are expected to lead the recovery, while the travel and hospitality services will remain subdued. Net exports will continue to contribute positively to growth as external demand picks up. Economic scarring due to disruptions to domestic activity and the labor market will temporarily weigh on potential growth as labor re-allocation gradually takes place, and capital stays idle in the hardest-hit sectors. The negative output gap (1 percent) in 2020 is more than halved in 2022, and gradually closed by 2024.

14. The current account surplus is projected to narrow to 2.2 percent in 2020. Vietnam's external position in 2019 was assessed to be substantially stronger than warranted by fundamentals and desirable policy setting (Figure 3, Annex VI).[6] The declining current account surplus in 2020 (from 3.8 percent in 2019) is driven largely by collapsing tourism receipts and weaker remittances, partially offset by subdued imports and lower income payments due to reduced profits and dividend repatriation. Financial inflows are expected to decline, reflecting slowing FDI and portfolio inflows. Overall, international reserves are expected to increase to US$94.8 billion as the current and financial accounts remain in surplus (108 percent of the ARA metric at end-2020). The current account surplus is expected to increase modestly in 2021, and financial inflows strengthen as the domestic and global recovery takes hold.

[5] The SBV estimates that over 25 percent of the banking system's total loan balances are affected by the shock.

[6] It is important to note that historical revisions to balance of payments data, notably upward changes in investment income of FDI firms, show that current account surpluses in recent years were significantly lower than initially reported—the annual average surplus over 2015–18 was revised from 1.9 to 0.2 percent of GDP—suggesting significant challenges with determining the precise magnitude of misalignment (see Annex VI).

15. The fiscal deficit is expected to widen. The deficit is expected to reach 5.4 percent of GDP in 2020, compared to 3.5 percent envisaged in the budget (Figure 4). This is due to declining revenues and the operation of automatic stabilizers; higher cash transfers and capital spending will boost spending. In 2021, the headline deficit is expected to narrow as priority expenditures remain in place to support the recovery, while revenues recover with improved economic activity, albeit only gradually owing to loss carry-forward provisions. The fiscal stance would thus be moderately contractionary—the cyclically adjusted primary deficit is projected to decline by 0.4 percentage points of GDP—even though other spending, including health and public investment, would increase, both relative to the 2020 budget and 2019 outcomes. Staff estimates the higher deficits to be financed mostly through domestic debt issuance. Public debt is expected to remain at around 46 percent of GDP in 2020, and to decline over the medium-term, suggesting available fiscal space (Annex VII).

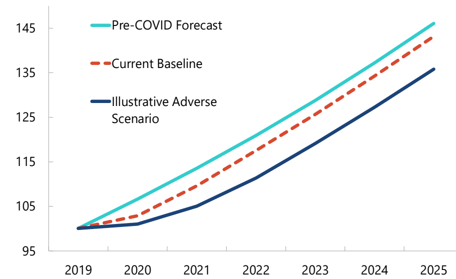
Consolidated State Budgetary Operations
(In percent of GDP, unless otherwise indicated)

	2019	2020		2021	
	Est.	Budget	Proj.	Budget	Proj.
Total revenue and grants	19.5	18.5	16.2	15.1	15.8
Tax revenue	14.7	15.0	12.5	11.9	12.3
of which: VAT	4.7	4.7	3.8	3.8	3.9
Grants and other revenues	4.9	3.5	3.6	3.2	3.5
Expenditure	22.8	22.0	21.6	19.5	20.5
Expense	17.2	16.2	15.4	14.1	14.9
Net acquisition of non-financial assets	5.6	5.8	6.2	5.4	5.6
Net lending (+)/borrowing (-)	**-3.3**	**-3.5**	**-5.4**	**-4.4**	**-4.7**
Net incurrence of financial liabilities	4.2		4.4		4.4
Net acquisition of financial assets	-0.9		1.0		0.4
of which: Government deposits	-1.6		0.5		0.2
Memo items:					
Primary Balance	-1.9		-4.0		-3.5
Cyclically Adjusted PB (% potential GDP)	-2.3		-3.6		-3.2

Sources: Vietnamese authorities and IMF staff projections.
Note: Estimates in 2019 include overperfomance revenues from 2018 in current expenditures.

16. The outlook is subject to uncertainties (Annex VIII). The principal risk to the outlook is a protracted recovery and economic scarring linked to weaker labor market conditions, worsening corporate balance sheets, persistent banking system weaknesses, and trade tensions. On the upside, deployment of an effective vaccine or therapy could boost confidence and growth prospects.

Scenarios: Real GDP Level
(Index, 2019=100)



Sources: IMF Staff Calculation.

- *Trade policy uncertainty.* In November 2020, the U.S. Department of Commerce imposed preliminary currency-based countervailing duties on imports of vehicle tires from Vietnam, while Section 301 investigations into Vietnam's currency practices could potentially lead to broad-based trade measures or other actions. In December 2020, the U.S. Treasury designated Vietnam as a currency manipulator in its report to Congress. Treasury stated it would be commencing a process of enhanced engagement which could lead to remedial action if the underlying issue is not resolved after one-year. Together, these steps could adversely impact the bilateral trade relationship, fuel foreign investor uncertainty, and potentially impinge on monetary policy decisions by limiting exchange rate flexibility.[7] On the

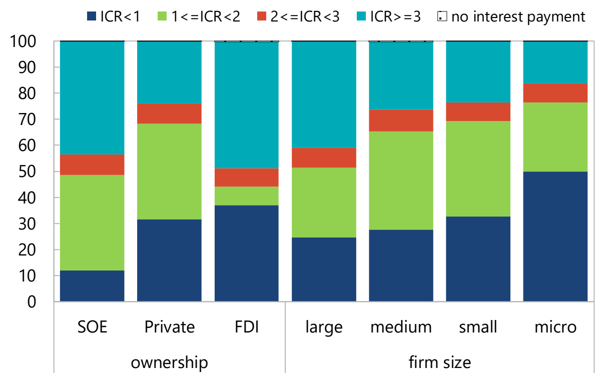
[7] The U.S. Department of Commerce's subsidy investigation, initiated on June 22, has preliminarily determined that foreign exchange intervention, capital controls, or other "government actions" contributed to an undervaluation of

(continued)

upside, Vietnam could benefit from recently ratified free trade agreements (FTAs) and reconfiguration of global supply chains.[8]

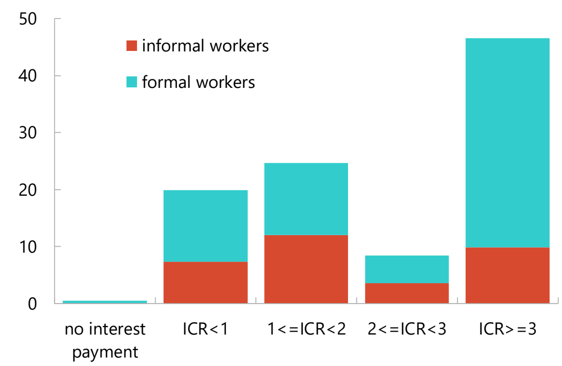
- *Corporate solvency risks.* A prolonged period of low growth runs the risk of fueling larger-scale corporate distress, particularly in the hardest hit services sectors that are dominated by SMEs. Even prior to the crisis, SMEs suffered from low profitability, weak liquidity buffers, and thin equity cushions (Annex IX). Larger firms were more profitable, but were also more leveraged, although their FX exposure was limited. Staff simulations suggest that 45 percent of businesses' debt could be at risk of default, compared to 28 percent before COVID-19. Corporate distress could propagate more broadly through upstream and downstream linkages, potentially translating into wider firm closures and bankruptcies and increasing jobs losses.

Debt Profile by Ownership and Size
(ICR=interest coverage ratio, percent)



Sources: 2017 Vietnam Enterprise Survey; IMF staff calculations.

Share of Employment by Financial Condition
(ICR=interest coverage ratio, percent)



Note: total of share of employment in all ICR ranges is equal 100.
Sources: 2017 Vietnam Enterprise Survey; IMF staff calculations.

- *Banking system strains.* Bank profitability and capital buffers are set to worsen, due to loan restructuring, higher provisioning, and defaults (Figure 5). Staff estimates that system wide NPLs could reach over 7 percent under the baseline scenario if loans are properly classified (i.e., without forbearance), jumping from 4.6. percent in 2019.[9] Asset quality concerns are particularly pronounced for lending to household businesses and corporates affected by COVID-19. Funding strains in the highly leveraged real-estate sector or a sharp correction in real-estate prices could amplify balance-sheet vulnerabilities. The impact on capital and funding positions of some large

the Dong that acts as a subsidy to tire exports from Vietnam. U.S. producers of other products that compete with imports from Vietnam could now seek countervailing duties in their sectors.

[8] World Bank (2020) estimates suggest that full implementation of the recently ratified European Union-Vietnam Free Trade Agreement (EVFTA) could increase Vietnam's GDP by 2.4 percent, boost exports by 12 percent, and lift an additional 0.1 million to 0.8 million people out of poverty by 2030. On November 15, Vietnam signed the Regional Comprehensive Economic Partnership (RCEP). RCEP is expected to help regional trade integration and regional supply chains by consolidating a number of bilateral trade agreements and harmonizing the treatment of rules of origin.

[9] System-wide NPLs include NPLs on bank balance sheets, remaining NPLs sold to the Vietnam Asset Management Corporation (VAMC), and the loans previously restructured under decision 780.

SOCBs and smaller commercial banks with already-thin buffers and large maturity mismatches could be significant.

Authorities' Views

17. The authorities concurred with the outlook for growth and were mostly concerned with external risks. They emphasized that strong policy actions, including effective control of local outbreaks, helped mitigate the impact of the health crisis and support the recovery. They expected the economy to grow by over 6 percent in 2021, as consumer confidence and formal employment strengthen further and private investment rebounds. Risks to the outlook were seen as mostly external, stemming from a prolonged global recession and trade tensions with the U.S. The authorities reiterated their commitment to further open up the economy and emphasized the upsides of diversifying their export markets following recently signed FTAs. They shared staff's assessment of pockets of vulnerability in the corporate sector but saw financial risks as manageable.

18. The authorities broadly agreed with staff's assessment of Vietnam's external position, but cautioned against inappropriate interpretation of the results. They emphasized the high-level of uncertainty in the gap estimates and saw Vietnam's external imbalances as driven largely by structural distortions which need to be addressed over the medium term through well-paced reforms. They stressed that Vietnam's exchange rate policy was not intended to manipulate the currency to benefit exports, but rather to ensure price stability, while building needed reserve buffers, which remain low by regional standards.

POLICY ISSUES

19. The policy imperative is to set the stage for a robust recovery. Corporate and labor market stresses will have to be addressed to avoid derailing the recovery. Fiscal policy should play a bigger role in the policy mix, especially given available fiscal space. Monetary policy should continue to be supportive, but the room for further effective monetary easing is likely to be limited and any potential extension of loan restructurings should be mindful of underlying banking system vulnerabilities. The policy mix will be most effective if fiscal policy focuses on supporting vulnerable households, additional liquidity flows to viable firms, liquidation of nonviable firms is expeditious, and financial stability is safeguarded.

20. Given considerable uncertainty and significant downside risks, the authorities should remain agile and proactively adjust the size and composition of policy support. Additional fiscal stimulus may be warranted if downside risks materialize, along with modest additional monetary easing. Greater two-way exchange rate flexibility should also be allowed to facilitate adjustment to a potentially challenging external environment.

21. As the recovery gets firmly underway, the emphasis should be on achieving sustained, inclusive growth and fostering resilience. The focus should pivot from broad-based liquidity support toward high quality public investment projects, from protecting jobs towards protecting workers, improving revenue mobilization, and creating conditions for resource reallocation. The recovery also presents an opportunity to build a better and greener future. This, in turn, requires modernizing policy frameworks, containing financial stability risks, and steadfastly implementing reforms to boost investment and productivity.

A. Fiscal Policy: Calibrating the Near and Medium-Term Response

Containing the Health and Economic Fallout

22. Fiscal policy can do more and better. Given continued slack in the economy and available fiscal space, the fiscal stance should remain neutral or moderately expansionary in 2021, with improvement of government spending execution as priority. This would imply somewhat greater fiscal support than currently factored into staff's baseline projection to facilitate the recovery. Fiscal policy could switch to a gradual consolidation once the recovery is complete (see next section) and downside risks have eased.

- **Health expenditure should be topped-up as needed.** Future outbreaks could test the resilience of the country's health infrastructure (Figure 4). In this respect, higher allocation for health expenditure envisaged in the 2021 budget is welcome, but further spending may be needed to secure resources for a vaccine rollout.

- **Expand and improve the adequacy and efficiency of social protection.** The coverage of existing social safety nets should be scaled-up by relaxing burdensome eligibility criteria for existing programs and extending the safety net (e.g., to families with children and the elderly). Staff's calculations suggest that doubling the replacement income rate of some existing programs to around 60 percent (the level under formal unemployment insurance) would cost an additional 0.1 percent of GDP if introduced for a temporary 3-month period.[10] Better identification of beneficiaries at the local government level should also help speed up disbursements. This is especially important given the sizeable informal sector and a pre-requisite for the success of future support if large-scale outbreaks reoccur. Recent relaxation of eligibility criteria slightly increased the uptake of concessional loans from the development bank (VPSB), but there is scope to further increase loan duration and amounts.

- **Re-consider tax deferrals and support firms.** Weak uptake and profitability, especially in the hardest-hit sectors, argues against an expansion or extension of tax deferrals. Instead, temporary corporate income tax (CIT) loss-carry backwards could be introduced to improve firms' cash flows. Temporary provisions for accelerated depreciation or investment tax credits could lower the user cost of capital and encourage firm investment. Temporary CIT reductions could be better targeted to benefit distressed but viable SMEs in priority sectors (in place of the current approach that only uses 2020 income as the basis for eligibility).

23. Policy support should also facilitate the reallocation of resources. Consideration could be given to hiring subsidies, but liquidity support should remain temporary to enable reallocation of

[10] This is based on the announced cash transfer of VND 1.8 mn/person/month for temporarily laid-off and part-time workers.

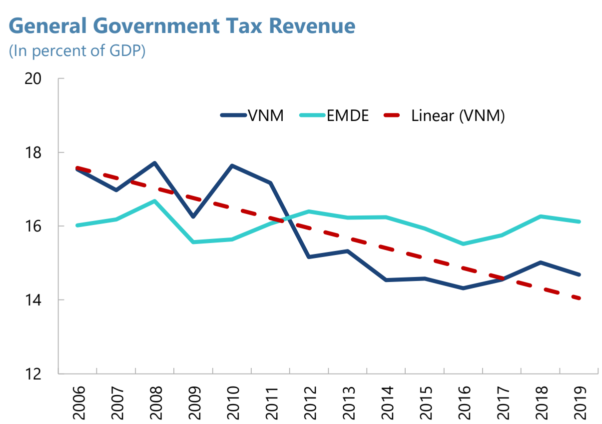
resources towards growing sectors. Tax credits for firms and households and other active labor market policies to incentivize job training should be encouraged. Support targeted to viable sectors and affected regions would be most effective.

Supporting Longer-term Growth Prospects and Resilience

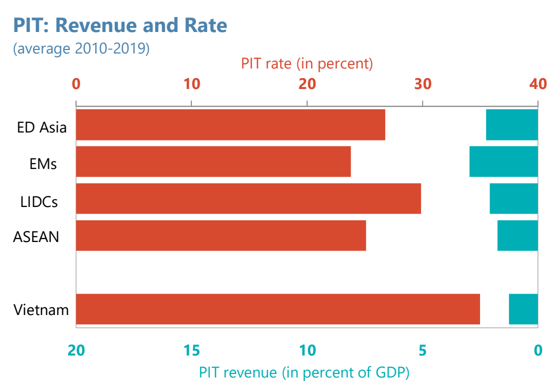
24. Mobilizing domestic revenue will be critical to rebuild fiscal buffers and meet investment needs in the post-COVID world. Vietnam's tax-to-GDP ratio is relatively low compared with emerging market peers, calling for a credible, well-coordinated medium-term revenue strategy. This would also lessen the trade-offs between increased spending needs to support inclusive and sustainable growth and deficit reduction. The authorities' plans to reduce the budget deficit to 3 percent of GDP over the medium-term will help replenish fiscal buffers.

- **Tax policy:** A comprehensive reform of direct and indirect taxes is long overdue. Efforts should focus on rationalizing tax expenditures, broadening the value-added tax (VAT) base, raising excise duties, and adopting a unified property tax. Despite a relatively higher personal income tax (PIT) rate, tax collections lag peers owing to high informality and a limited tax base.

- **Tax administration:** Envisaged improvements in tax administration, in line with IMF TA recommendations (Annex X), encompass fully operationalizing the large tax-payer unit and adopting comprehensive compliance improvement strategies for high-risk taxpayer segments (e.g., high wealth individuals) and issues (e.g., digital economy). Consideration should also be given to improving the tax agency's organizational structure and expanding implementation of e-tax services and simplified procedures in tax registration, filing, payment and refunds.



Sources: Calculations based on 2020 October WEO.



Sources: Staff calculations based on Vietnamese authorities; IMF Internal World Revenue Longitudinal and Tax Rates Databases.

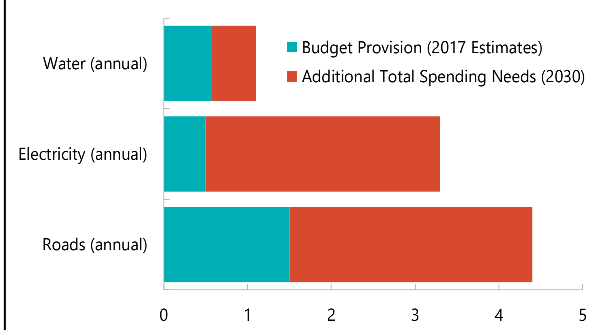
25. Spending measures are also needed to make fiscal policy more growth friendly and inclusive.

- **Increase public investment**. There is room to further increase public investment spending as a share of GDP. Higher public investment spending can be achieved by utilizing savings from rationalizing current outlays (Figure 4), while improving efficiency and prioritization. Efforts should focus on closing SDG gaps in roads, electricity and water sectors that have positive externalities and can crowd-in private sector investments (IMF WP/20/31). Investing in adaptive and digital infrastructure as currently being considered could boost growth and aid with the targeting of social assistance programs and financial inclusion.

- **Strengthen social-protection systems on a permanent basis**. Coverage of social protection remains lower than peers. Efforts to improve targeting and widen coverage by introducing a unique citizen identification number and cross-linking databases, are welcome. E-payments could be encouraged, leveraging the high penetration of mobile phones to better reach those without bank accounts. Enrolling workers into programs that can be activated and scaled up to provide unemployment support in emergencies would enhance automatic stabilizers and reduce implementation lags. The recently approved gradual increase in retirement age for both men and women is welcome, but further parametric reforms are needed to improve coverage and adequacy and to ensure pension system sustainability in the face of rapid aging.

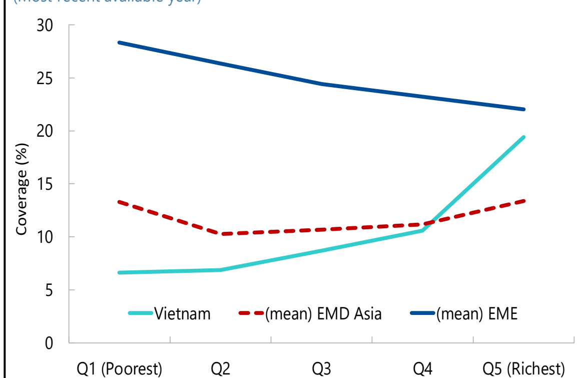
26. There is scope to green the recovery. Raising the contribution of renewables and full carbon pricing of fossil fuels could facilitate a shift toward a more environmentally sustainable growth model. Recent reductions in environmental protection taxes on aviation fuels should be reversed as soon as possible. The recently revised and ambitious national targets for greenhouse gas

Spending Needs to Achieve Selected SDGs
(additional total spending, in percent of GDP)



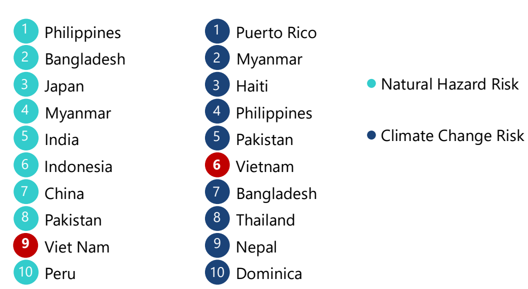
Sources: Baum (IMF WP 2020/31).
Notes: Additional spending needs are based on current budget provisions above which spending would need to increase.

Coverage by quintile, Contributory Pensions
(Most recent available year)



Sources: IMF FAD Social Protection & Labor - Assessment Tool (SPL-AT).

Top 10 Vulnerable Countries from Climate Risk 1/
(Ranking 1 to 10; 1 is most vulnerable)



Sources: INFORM Global Risk Index 2020; GERMANWATCH Global Climate Risk Index 2020.
1/ Natural Hazard Risk Index, by INFORM, is based on physical exposure to natural hazards (actual and relative); Global Climate Risk Index, by GERMANWATCH, is based on fatalities and economic losses from weather-related events.

(GHG) emissions by 2030 are welcome, but mobilizing the necessary financing remains a challenge. Recent flooding and increasing frequency of extreme weather-related events underscore the need for adaptation investments to protect livelihoods in rural areas. Investing in climate-resilient infrastructure could also generate significant growth and debt reduction benefits (Annex XI).

27. More robust fiscal policy frameworks are needed to scale up productivity-enhancing investments and safeguard fiscal sustainability.

- *Upgrade the external debt framework*. Vietnam's long-standing framework of external debt ceilings, encompassing both the public and private sector, lumps different risk profiles and potentially constrains viable infrastructure investment. Numerical ceilings should only apply to public sector FX debt and hard limits for the private sector avoided (see next section).
- *Strengthen the public financial management (PFM) frameworks.* Fiscal reporting should be strengthened, including further limiting spending and revenue carryforwards (Annex X). The recent merger of some extrabudgetary funds (EBFs) into the budget is welcome and should continue.
- *Strengthen the public investment framework*. Public investment management should be improved in all phases of the public investment cycle along the lines of 2018 Public Investment Management Assessment (PIMA) recommendations, to maximize the growth impacts and ensure an efficient use of public monies.
- *Adopt a prudent debt anchor*. Adopting a prudent debt anchor, at 55 percent of GDP as previously proposed by staff (IMF CR 18/216), in medium-term frameworks while keeping the current statutory ceiling (which should be considered an upper bound) would help account for potential shocks, rising age-related spending costs, and other fiscal risks.

Authorities' Views

28. The authorities stressed the importance of prudent fiscal policies, balancing fiscal sustainability considerations with the need to support growth. They agreed with the need to improve execution and coverage of policy support, pointing to the recent acceleration of public investment disbursement rates and expanded coverage of social-safety programs. They concurred that fiscal policy should be adjusted to the pace of the recovery but argued for a more cautious stance to avoid depleting policy space given the uncertain outlook. The 2021 budget envisages growth-friendly fiscal consolidation measures, including delaying adoption of the new civil-service salary scale while prioritizing public investment and health spending. They noted that the 2021–30 tax-administration strategy will help mobilize revenues over the medium term, and options for upgrading tax policy are under study. They also noted that a revised public-debt ceiling below 65 percent of GDP for 2021–25 is currently under consideration and is seen as more prudent in light of the recent GDP re-basing.

Summary of Recommended Fiscal Response

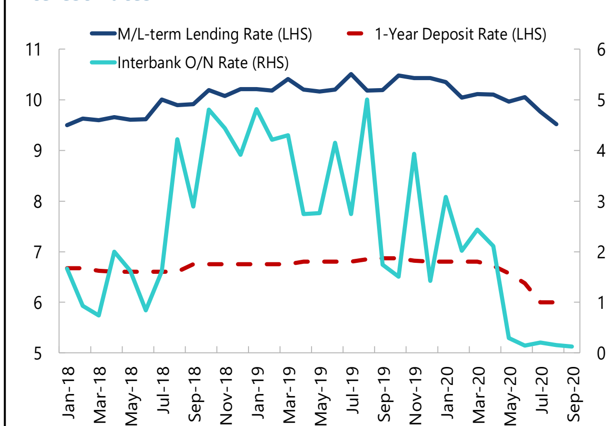
		Short-term *Provide lifelines where needed*	**Medium-term** *Support the recovery*
Fiscal policy	Objective	Use fiscal space as needed; support should be timely, temporary, and targeted	Gradually rebalance from liquidity support toward growth enhancing measures
	Households	Support jobs and expand social protection benefits	Support workers, training and encourage resource reallocation
	Firms	Support firms through liquidity and temporary tax measures	Support viable firms and encourage structural transformation
Revenues	Tax admin	Reconsider tax deferrals; provide tax incentives to support firms	Adopt compliance improvement strategies; improve organizational structure
	Tax policy		Conduct a broad tax policy review; increase excises; consider unified property tax
Expenditure	Current spending	Expand and improve targeting of cash transfers; increase health spending	Prioritize; rationalize public wage bill; allow automatic stabilizers to work
	Social protection	Relax eligibility criteria for existing programs	Expand coverage and improve adequacy; pension parametric reforms
	Investments	Fully disburse budgeted investments; use carry forwards	Increase to meet SDGs; improve efficiency; green infrastructure
Fiscal frameworks		Quasi-fiscal measures should be transparently costed, reported, and monitored with clear exit strategies	Upgrade external debt framework; strengthen PFM and investment frameworks; adopt prudent debt anchor

Source: IMF staff.

B. Monetary and Exchange Rate Policy: Supporting the Economy While Ensuring Stability

29. The SBV has sought to balance support for the economy with its policy objective of maintaining exchange-rate stability and anchoring inflation. Since late May 2020, the short-term interbank rate has hovered around zero driven by unsterilized foreign exchange purchases amid continued inflows, more robust deposit than credit growth, and softening inflation, with the policy rates somewhat de-linked from movements in the overnight interbank rate. The transmission to long-term interest rates has been more moderate and entails a notable lag. Weak policy transmission stems from historically volatile interbank rates, reflecting the lack of an interest rate corridor, emphasis on exchange-rate stability in the policy framework, and volatile movements of government deposits that complicate liquidity management.

Interest Rates



Sources: Vietnamese authorities.

30. Monetary policy should remain supportive given subdued inflation and a negative output gap. Given the already low interbank rates, additional measures could be considered to lower long-term borrowing costs, if needed. These include further lowering policy rates, which would help limit an increase in future interbank rates if liquidity conditions were to suddenly change and signal a commitment to maintaining accommodative conditions.[11] Consideration could also be given to providing longer-term lending to commercial banks, either through a central bank relending program or a special discount window. Relaxing the lending-rate caps to priority sectors could incentivize banks to lend to riskier borrowers with promising business plans.

31. Enhancing exchange rate flexibility would facilitate external adjustment and management of domestic liquidity conditions. Foreign-exchange reserves are broadly adequate at the current juncture and FX interventions should be limited to smoothing excess volatility and helping resolve market dysfunction. Greater two-way flexibility within the current ± 3 percent band should be allowed by setting the SBV buying rate near the upper end of the FX trading band. The recent appreciation of the SBV's buying rate is a step in the right direction. If faced with persistent large shocks, the SBV should re-center the band.

32. Over the medium term, further modernization of the monetary policy framework would strengthen the effectiveness of interest-rate policies. Deposit and lending-rate caps should be relaxed to strengthen market-based deposit and loan pricing and improve credit allocation. In tandem, aggregate and bank-by-bank credit growth ceilings on credit institutions should be gradually lifted. Ongoing IMF FPAS TA will help improve the SBV's forecasting ability and policy analysis (Annex X). These steps, together with greater two-way exchange rate flexibility, would improve credit allocation and strengthen the transmission of monetary policy.

33. Capital account liberalization should proceed cautiously and be carefully sequenced, as recommended by recent IMF TA. The first step would be to exclude the private sector from the ceiling on external debt and improve monitoring of short and medium-term borrowing. The subsequent phase of capital-account liberalization should be tied to monetary policy modernization and a gradual increase in exchange-rate flexibility. A comprehensive macroprudential strategy supported by improved data reporting would also be essential for managing credit risks.

Authorities' Views

34. The authorities agreed that liquidity conditions should remain accommodative in the near term. However, they remained committed to prudent monetary policy which balances support for the recovery with concerns for financial stability risks. They considered a central bank relending program necessary only in exceptional situations, and to support viable firms. They noted that monetary policy transmission to bank lending rates has strengthened in recent years but still operates with a long lag. They indicated that the market-based monetary policy system needed time to develop and that removal of credit ceilings should be done in a gradual and orderly manner. They

[11] Sudden changes in liquidity conditions can stem, for example, from a withdrawal of government deposits from commercial banks or slow disbursement of government spending that tightens liquidity conditions, even though such tightening is not desirable or intended from the perspective of monetary policy.

noted that greater two-way exchange rate flexibility is desirable over time as the monetary policy framework is gradually modernized and the capital account is liberalized. However, they argued that currency stability and higher external buffers are warranted at this juncture in light of the crisis and the uncertain global economy.

C. Macro-Financial Policies: Remaining Vigilant and Managing Vulnerabilities

35. Corporate support for viable, but still vulnerable, firms should be maintained to support the recovery and gradually replaced with policies that facilitate restructuring. Any extension of existing loan-restructuring schemes should be timebound and targeted to minimize banking system strains. Mechanisms for corporate restructuring and resolution should be strengthened and simplified (see also Annex IV).[12]

- *Solvency support for viable firms*. A case can be made for the government to intervene selectively to help viable, strategic firms facing pandemic-related difficulties, as is being considered for the national airlines. Support could take the form of equity injections, and transparently reported and monitored, with clear exit strategies. Nonviable firms should be encouraged to liquidate, so that capital can be reallocated to more efficient sectors and firms.

- *Support for SMEs*. In addition to a central bank lending facility for SMEs (¶28), the Vietnam Development Bank and SME Guarantee Funds could provide complementary guarantees to support an increase in lending volumes and extending maturities, with clear backstops from the government.

- *Efficient insolvency frameworks*. To enhance the survival prospects of viable businesses and streamline the liquidation process, consideration should be given to: (i) introducing a specialized SME bankruptcy regime to fast-track reorganization and liquidation; (ii) improving out-of-court restructuring frameworks, especially for SMEs; and (iii) allowing firms to initiate bankruptcy proceedings before becoming insolvent. Consideration could also be given to establishing a personal insolvency regime to address over-indebtedness of small entrepreneurs and households.

36. Close monitoring of risks in the banking sector remains crucial. Supervisors should closely review loan restructuring processes and banks' loss estimates and assess the impact of COVID-19 on loan quality and profitability. Loan classification and provisioning rules should be gradually normalized as they run the risk of increasing moral hazard and undoing recent progress in strengthening bank transparency and governance. Supervisors should ensure that banks properly recognize both legacy and emerging NPLs after the expiration of the loan-restructuring schemes. Systemic risk monitoring should be enhanced, including deepening analysis on exposures to pandemic-affected sectors and real estate, and conducting thematic stress tests.

[12] The current insolvency regime is seldom used as it entails significant time and resource costs and is an impediment for parties seeking formal bankruptcy procedures.

37. Once the crisis abates, further efforts are needed to enhance banking system resilience. The SBV should closely monitor banks' plan and timeline for Basel II adoption as this is key to improving risk management and loss-absorbing capacity. To facilitate capital raising plans, consideration should be given to equity issuances, including raising foreign ownership limits beyond current rules (currently set at 30 percent) and reducing state-ownership of the SOCBs from the current threshold of 65 percent to 51 percent. Staff welcomes the authorities' intent to help recapitalize SOCBs by allowing them to keep retained earnings.

38. Over the medium-term, closing key regulatory and supervisory gaps would enhance financial resilience and foster financial deepening. Consideration should be given to broadening macroprudential tools, such as introducing a countercyclical-capital buffer or capital-conservation buffer to weather adverse shocks and setting limits on the loan-to-value (LTV) and debt-service-to-income (DSTI) ratios. Capital market deepening will require ensuring market transparency, integrity and consumer protection through timely disclosure and infrastructure (e.g., establishing a credit rating agency). Fintech can enhance financial inclusion, and regulatory sandboxes could help promote innovation, but the authorities will need to remain mindful of risks accumulating outside the traditional financial sector.[13]

Authorities' Views

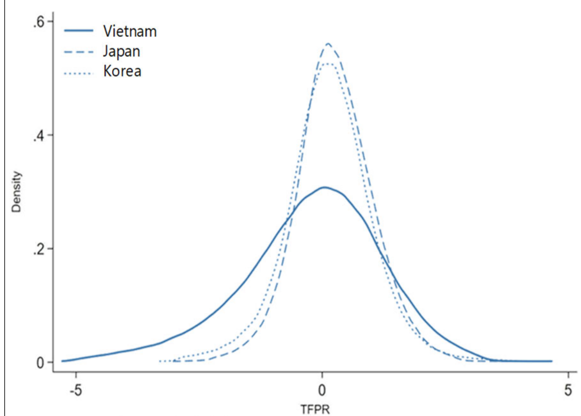
39. The authorities agreed that support measures should be time-bound and targeted and financial stability safeguarded. They noted that loan restructuring and regulatory forbearance will be gradually phased out and carefully calibrated based on a thorough assessment of corporate sector needs. The authorities also agreed on the importance of monitoring the financial system and viewed that more provisioning supported by reduced dividend payouts and improved bank business models would help banks dispose of expected higher NPLs. They acknowledged the importance of improving monitoring and supervision of the rapidly expanding corporate bond and real estate sectors, and emphasized efforts to strengthen regulation on consumer lending, concentration risks, and bank exposures prior to the pandemic. They noted that Basel II adoption remains a key priority, with the timeline for adoption extended to early 2023. The authorities also highlighted the importance of Fintech as a trend that has been accelerated by the pandemic and saw the need to balance between regulation to prevent risk and promotion of innovation.

[13] A regulatory sandbox is a regulatory framework for social experiments set up by a regulator that allows FinTech startups and other innovative companies to conduct experiments in a controlled environment, often with relaxed regulation.

D. Macro-Structural Policies: Reducing Dualism and Lifting Productivity

40. More decisive reforms are needed to make the most of Vietnam's considerable potential in the post-pandemic "new normal". This will require tackling the sources of pervasive economic dualism that hold back investment and productivity growth and fuel external imbalances (Annex V). A range of distortions also give rise to misallocation of resources. Staff analysis suggests that removing all distortions to the level found in Korea, for instance, could increase total factor productivity (TFP) by more than 40 percent.[14]

Firm Productivity Dispersion, by Country
(More dispersion = more misallocation)



Source: ORBIS and IMF staff calculations.

41. Priority should be given to improving the business environment and ensuring a level playing field (Figure 6). Reforms geared towards simplifying and reducing the regulatory burden faced by domestic private firms, improving access to land and financial resources (see IMF 19/235), particularly for SMEs, and reducing corruption could spur firm profitability, investment, and growth. Easing entry and exit costs for formal firms would allow for higher formalization of new and young firms, reduce informality, and allow for a faster reallocation of resources from exiting companies, increasing productivity (Annex IV). Continued SOE reforms, including improving governance, would help increase competition and facilitate a more efficient allocation of resources.

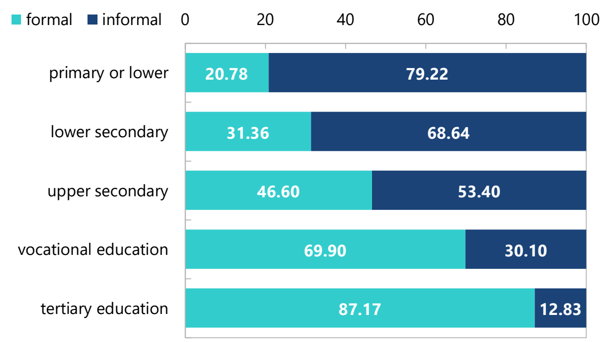
42. Reducing labor skill-mismatches and increasing human capital and technology access would also boost labor productivity. A sizable fraction of Vietnam's labor force reports a skill mismatch in their jobs, reflecting existing frictions in the labor market and gaps in educational and vocational training. Labor market duality has also hindered human capital accumulation, as informal workers receive inadequate training, which impedes reallocation of workers toward productive jobs.[15] The new Labor Code, which now covers workers previously employed informally by registered firms, will also help reduce labor market frictions and lower informality.[16] Closing information gaps, reducing market fragmentation, and strengthening labor-market governance (e.g., increased coordination and data sharing between agencies) would help reduce skill mismatches. Efforts to strengthen the link between education, training, and skill demand, and improving access to digital infrastructure will also allow workers to reap the benefits of the structural and digital transformation wrought by the pandemic (see Annex III and IV).

[14] Forthcoming staff analysis analyzes the extent and drivers of misallocation in Vietnam (Kroeger and Zhang, 2020).

[15] Staff analysis shows that labor training has a particularly significant impact on tackling informal employment among the youth (Dabla-Norris et al., 2020).

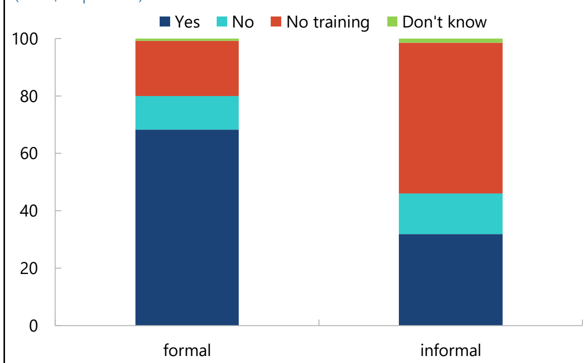
[16] Under the new Labor Code that will go into effect in 2021, there are only two types of labor contracts: indefinite-term or fixed-term (up to 36 months, renewable only once). Importantly, workers with fixed-term contracts of at least 1 month are included under the compulsory social insurance scheme. The other main reform introduced by the new code is the gradual increase of retirement ages, as a preparation for population aging.

Informality by Education Level
(2018, In percent)



Sources: Vietnam Labor Force Survey 2018; IMF staff calculations.

Skill Mismatch
(2018, In percent)



Note: Anwers to a question of "Does the curenty job match with your learning/training".
Sources: Vietnam Labor Force Survey; IMF staff calculations.

43. **Reforms in these areas would also help Vietnam reap greater economic benefits from global-value-chain (GVC) participation.** The pandemic has revealed the risks of supply chain disruptions and potential changes in the GVC landscape, underscoring the importance of upgrading the country's participation in GVCs and developing a dense network of domestic suppliers. Vietnam would be better placed to benefit from post-pandemic shifts through wide-ranging structural reforms.[17]

Authorities' Views

44. **The authorities agreed that further structural reforms could boost productivity and stressed advances in streamlining and simplifying administrative procedures.** They noted that higher public investment will catalyze private investment and play an important role in supporting employment. They saw the new Labor Code as an important first step in tackling labor informality in registered firms. The authorities noted that the eventual rollout of a unique-ID system will improve the efficiency of support programs, including for informal workers. They underscored their commitment to reforming Vietnam's economic institutions, strengthening the business environment, and skills development in their 2021–2025 national development strategy. They view digitalization as an opportunity to modernize Vietnam's economic system. Priority will also be given to high-tech and green projects in their FDI strategy and to improve domestic spillovers from GVC participation, particularly for SMEs.

OTHER ISSUES

45. **Data frameworks**. Data provision is broadly adequate for surveillance, but further improvement is necessary to upgrade to standards consistent with other emerging markets. Priority

[17] Zhang, "Global Value Chain and Domestic Spillovers – Lessons for Vietnam," IMF Working Paper (forthcoming).

areas include improving the quality, coverage, and timeliness of fiscal, monetary, and credit reporting and external statistics. Expanding coverage of real estate markets statistics, corporate bond issuances and other credit exposures would help monitor vulnerabilities and proactively manage financial sector risks. Strengthening inter-agency coordination and data sharing is critical to address data coverage and reporting gaps.

46. Governance and anti-corruption. Efforts to improve governance and strengthen the anti-corruption framework are underway, but significant room for improvement remains. As noted in a forthcoming report by the Government Inspectorate of Vietnam, corruption remains a serious and complex challenge.[18] At the same time, significant steps have been taken to improve governance by investigating and prosecuting serious corruption cases in both the public and private sectors, strengthening implementation of the 2018 Law on Anti-Corruption, and introducing a National Public Sector Service Portal (e-government). Vietnam published its first National Risk Assessment on Money Laundering and Terrorist Financing in 2019. The ongoing Mutual Evaluation of Vietnam on AML/CFT, once concluded, will further inform the prioritization of policies and measures to strengthen the AML/CFT framework.

STAFF APPRAISAL

47. The authorities' response to COVID-19 has been commendable. The pandemic disrupted a prolonged period of high growth and impressive improvements in living standards. However, early and decisive efforts on the health and economic policy fronts have contained the fallout from the crisis, and a strong recovery is in train. The build-up of fiscal, external, and financial buffers prior to the pandemic has underpinned Vietnam's resilience to the shock.

48. Uncertainty remains large. Widespread availability of effective vaccines and therapies could boost confidence and accelerate the recovery relative to the baseline forecast. However, uncertainty around the outlook remains high: labor market conditions are still weak; corporate balance sheets have worsened since the onset of the crisis; banking system weaknesses persist; and the economy is heavily reliant on external trade and vulnerable to trade tensions and a protracted global recession. The imposition of countervailing duties and the ongoing investigation into Vietnam's currency practices could constrain otherwise desirable monetary policy decisions and depress confidence and investment. A prolonged period of low growth runs the risk of stoking larger-scale corporate distress, labor market disruption, and banking system strains.

49. Macro policies should remain supportive in 2021 and adjusted flexibly to the pace of the recovery. A neutral or moderately expansionary fiscal stance would help avoid derailing the recovery, prevent job losses from becoming permanent, and support vulnerable households, with improved execution and better targeting as priority. Given muted inflation, monetary policy should

[18] "Reviewing the legal provisions on anti–corruption for non–state sector and proposal for a guideline for non–state enterprises and social organizations in Vietnam." by the Government Inspectorate of Vietnam, the Vietnam Chamber of Commerce and Industry, the UNDP, Fair Biz and the UK Government, July 2020.

remain accommodative. Greater exchange rate flexibility within the current band would facilitate external adjustment and better management of domestic liquidity conditions.

50. Mobilizing revenues is critical to rebuild fiscal buffers and support durable, inclusive, and green growth. A gradual fiscal adjustment should start once the recovery is cemented, with policy efforts centered on revenue mobilization. This will also create space to scale up priority social and infrastructure spending to support growth and boost climate resilience. Continued efforts to enhance revenue collections and upgrade fiscal policy frameworks will help safeguard fiscal sustainability.

51. Financial system resilience should be bolstered. Corporate support for viable firms should be gradually phased out and loan classification rules normalized. Private debt restructuring frameworks should be enhanced to reduce economic costs associated with any capital reallocation. Continued strong supervision together with timely efforts to address problem loans and strengthen regulatory and supervisory frameworks will help address financial system risks. Banks' capital positions need to be further strengthened over the medium term and Basel II requirements adopted by early 2023 to buttress the sector's resilience.

52. Achieving a lasting balance in the external position will require steadfast reform efforts. The external position in 2019 was substantially stronger than warranted by fundamentals and desirable policies, reflecting underlying distortions. Removing structural impediments for investment and enhancing the social safety net to discourage excessive household savings should help reduce external imbalances. Modernization of the monetary policy framework to strengthen the transmission of conventional interest rate policies and continued efforts to allow greater two-way exchange rate flexibility will also attenuate the need for reserve accumulation. Imposition of countervailing duties on Vietnam would be counterproductive for reducing external imbalances as this could potentially impinge on desirable monetary policy decisions and discourage beneficial exchange rate flexibility.[19]

53. There is significant scope to boost productivity and enhance resilience of the economy. Continued efforts to improve the business climate, such as streamlining administrative and tax procedures and reducing the footprint of the state, are welcome. Priority should be given to ensuring a level playing field, particularly for SMEs, strengthening anti-corruption efforts, alleviating labor skill mismatches, and tackling informality. Renewed efforts are needed to address data gaps and improve data quality.

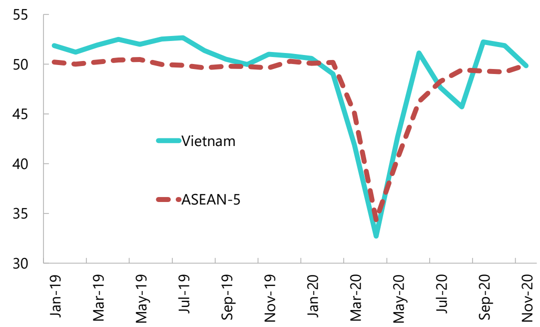
54. It is proposed that the next Article IV consultation with Vietnam take place on the standard 12-month cycle.

[19] "United States: 2020 Article IV Consultation – Press Release; Staff Report and Statement by the Executive Director for United States", August 2020, IMF Country Report No. 20/241.

Figure 1. Vietnam: High Frequency Indicators in Wake of COVID-19

PMI rebounded strongly following the second wave of a localized outbreak.

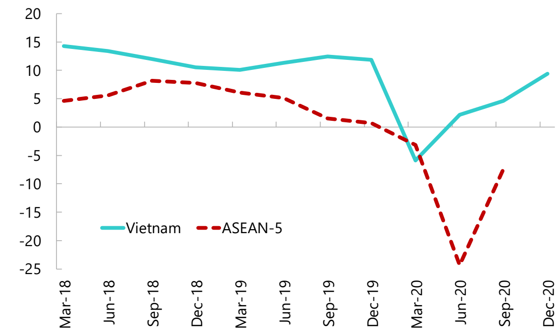
Purchasing Manufacturing Index
(0-100, index)



Sources: Haver, IMF staff calculation.

Retail sales is also gradually recovering.

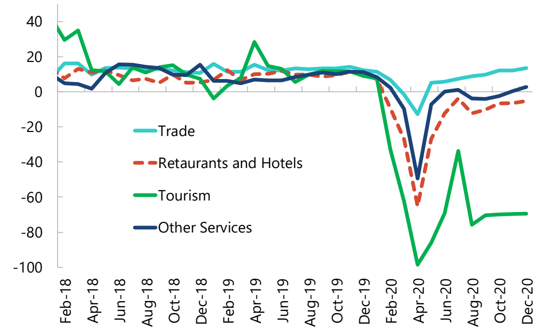
Retail Sales
(In percent, y/y)



Sources: Haver, Vietnamese authorities, IMF staff calculations.

However, services demand remains weak.

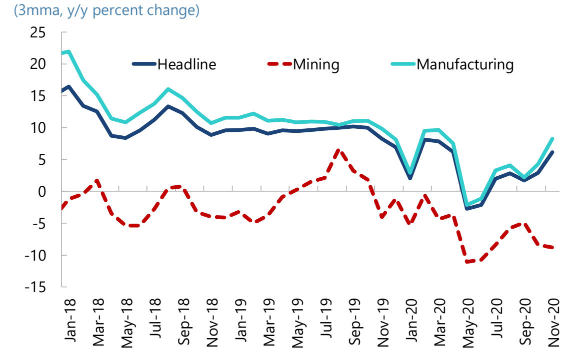
Retail Sales of Trade Goods and Services
(In percent, nominal, y/y)



Sources: Vietnamese authorities, IMF staff calculations.

Industrial production has picked up…

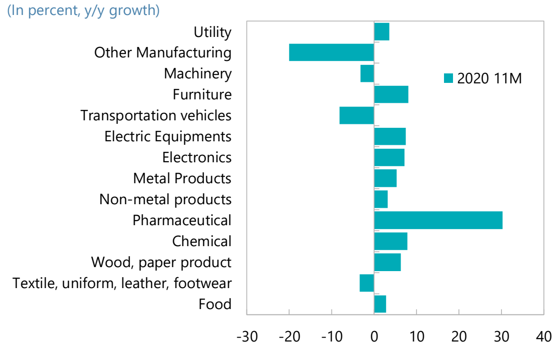
Index of Industrial Production (IIP)
(3mma, y/y percent change)



Sources: Vietnamese authorities.

… driven by pharmaceutical and robust electronics production.

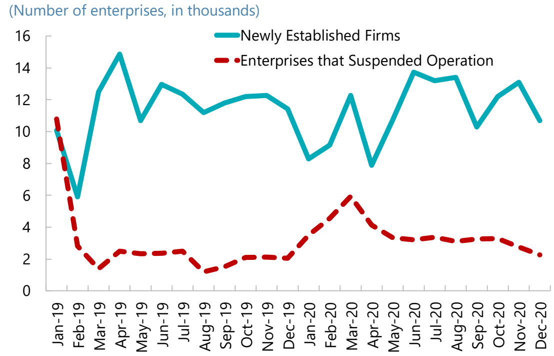
Industrial Production Index
(In percent, y/y growth)



Sources: Vietnamese authorities, IMF staff calculations.

Despite the sharp slowdown, firm dynamics remained healthy.

Entry and Exit of Firms
(Number of enterprises, in thousands)

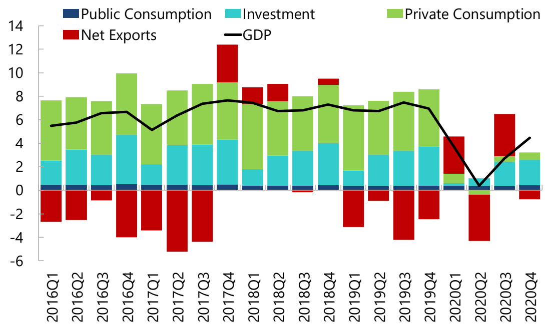


Sources: Vietnamese authorities.

Figure 2. Vietnam: Slowing Growth, Labor Market Stress, Moderate Inflationary Pressure

Following a sharp slowdown in Q2, growth picked up, supported by public investment and stronger trade.

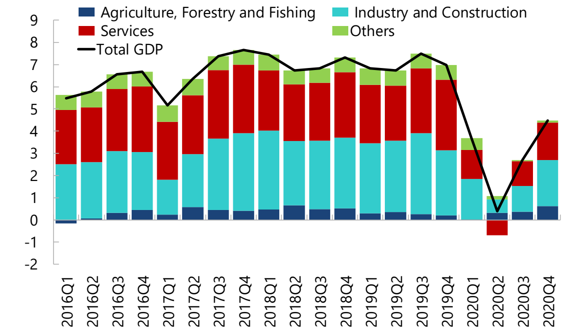
Main Drivers to Growth, by Expenditure
(In percent, y/y)



Sources: Vietnamese authorities, IMF staff calculations.

The recovery has been broad-based.

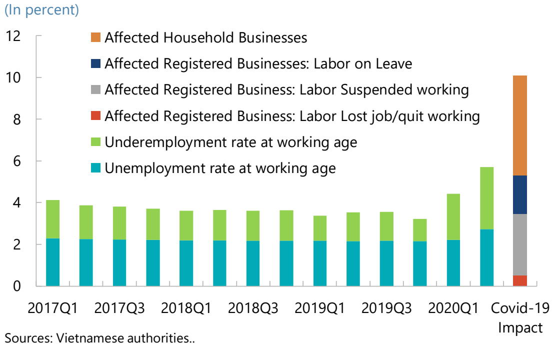
Main Drivers to Growth, by Industries
(In percent, y/y)



Sources: Vietnamese authorities, IMF staff calculations.

Labor market has been broadly impacted.

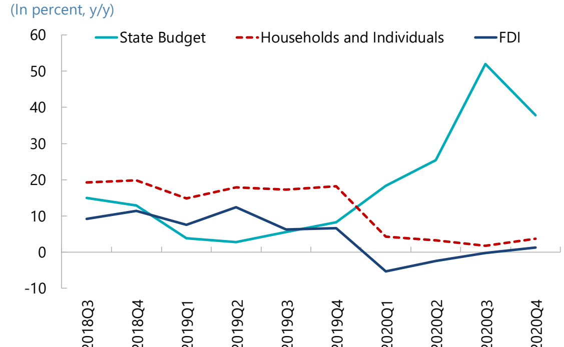
Affected Labor, Unemployment and Underemployment Rate
(In percent)



Sources: Vietnamese authorities..

The decline in private investment was partially offset by higher public investments.

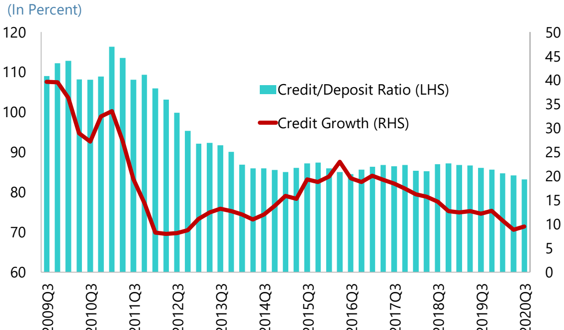
Investment Capital by Sources
(In percent, y/y)



Sources: Vietnamese authorities, IMF staff calculations.

Credit growth slowed in the first three quarters of 2020.

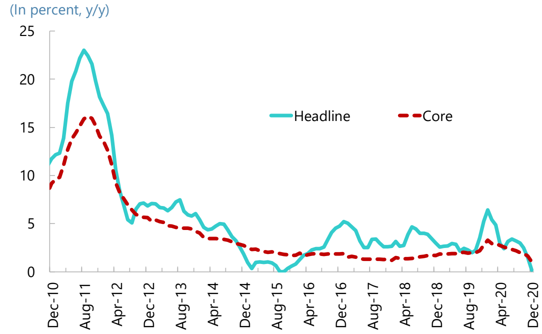
Credit to Deposit Ratio
(In Percent)



Source: Vietnamese authorities; and IMF staff calculations.

Inflation remains subdued, reflecting weak private consumption.

Inflation
(In percent, y/y)

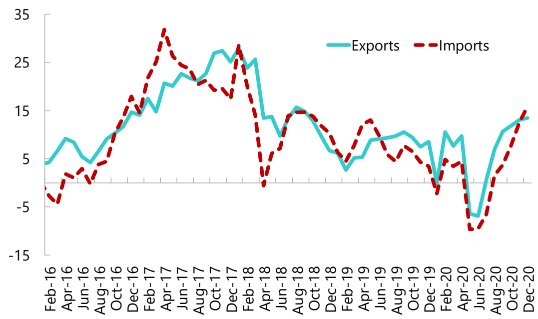


Sources: Vietnamese authorities.
Note: Excluding raw food, energy, and administered prices, health-care and education.

Figure 3. Vietnam: Strong External Buffers Despite Lower Trade and Financial Flows

Goods trade rebounded from its June trough.

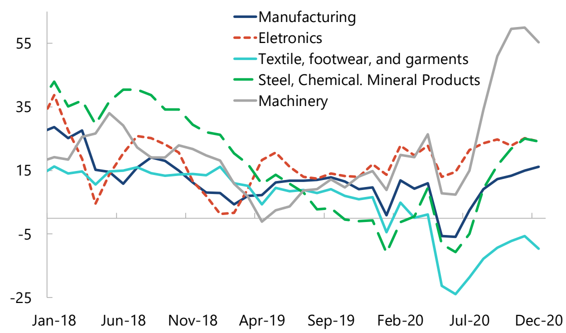
Trade performance
(3mma, y/y percent change)



Sources: Vietnamese authorities.

Electronics and machineries exports experienced the strongest rebound; while textile and garments exports remained weak.

Exports by Industries
(3mma, y/y percent change)



Sources: Vietnamese authorities.

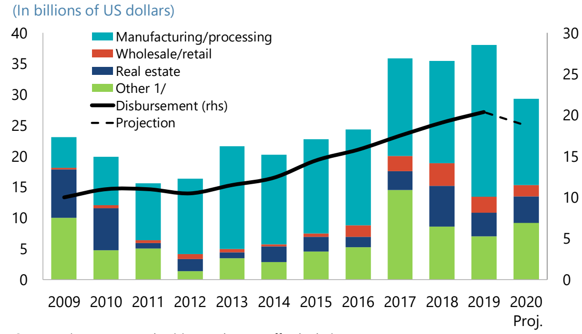
Services trade plummeted after a surge in late 2019, as tourism arrivals dropped to near-zero.

Service Trade
(In percent, y/y)

Sources: Vietnamese authorities, IMF staff calculations.

After buoyant FDI in 2019, inflows slowed, particularly in manufacturing.

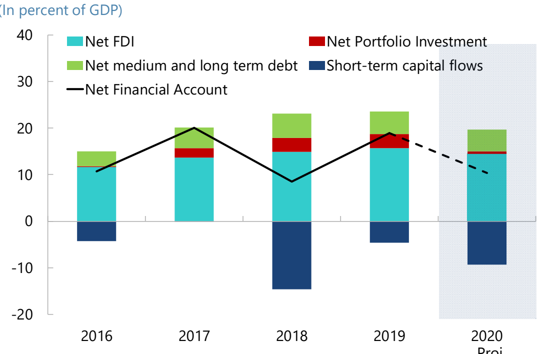
FDI Commitments and Disbursements
(In billions of US dollars)



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

Other financial inflows also slowed.

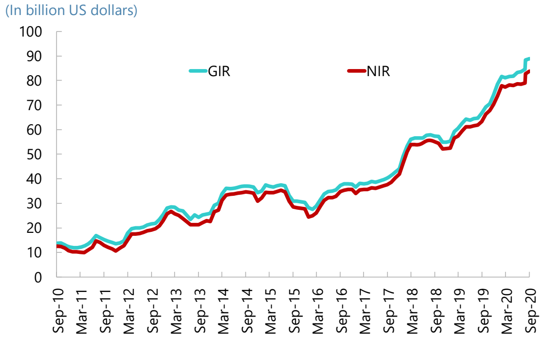
Financial Account
(In percent of GDP)



Sources: Vietnamese Authorities, IMF staff calculations.

Reserves continued to accumulate as the current and financial accounts remained in surplus.

International Reserves
(In billion US dollars)

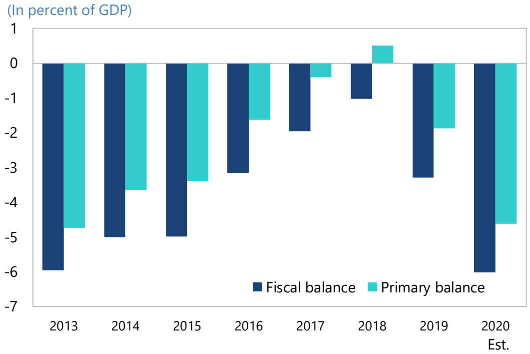


Sources: Vietnamese authorities.

Figure 4. Vietnam: Fiscal Developments and Fiscal Reforms

Fiscal position worsened in 2019 ...

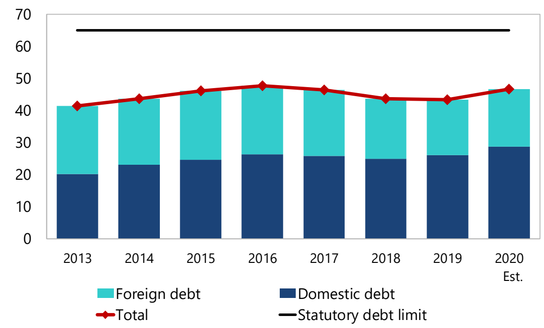
Fiscal Balance
(In percent of GDP)



Sources: Vietnamese authorities; and IMF staff calculations.

... contributing to an uptick in PPG debt.

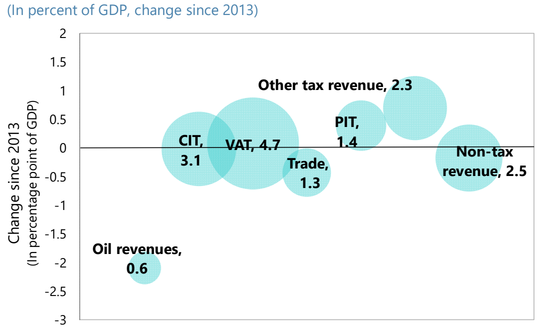
Public and Publicly Guaranteed Debt
(In percent of GDP)



Sources: Vietnamese authorities; and IMF staff calculations.

Tax revenues can be improved ...

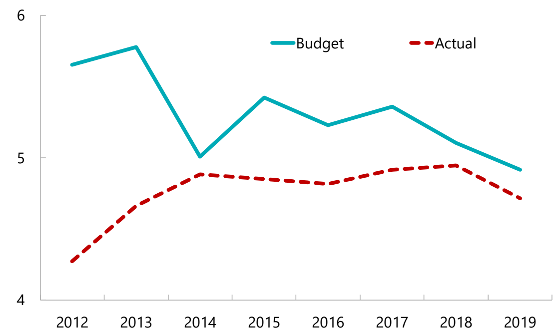
Revenues, 2019 1/
(In percent of GDP, change since 2013)



1/ Size of the bubble represents the share of GDP in 2019.
Sources: Vietnamese authorities; and IMF staff calculations.

... especially VAT collection.

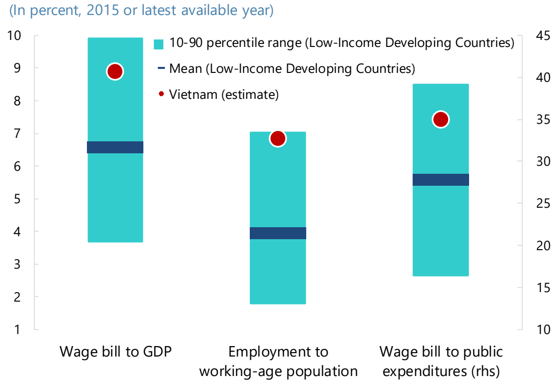
VAT
(In percent of GDP)



Sources: Vietnamese Authorities.

Reforms are needed to rationalize the wage bill ...

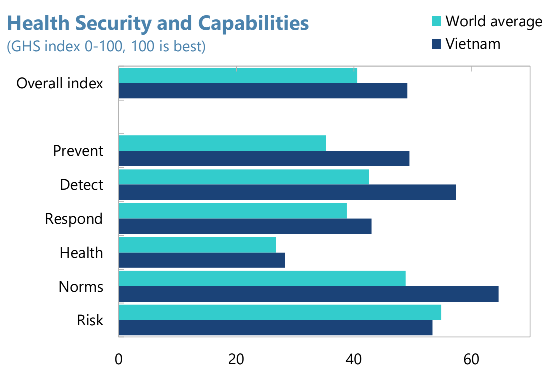
Benchmarking for Wage Bill and Employment
(In percent, 2015 or latest available year)



Sources: IMF Expenditure Assessment Tool.

... and improve health infrastructure.

Health Security and Capabilities
(GHS index 0-100, 100 is best)

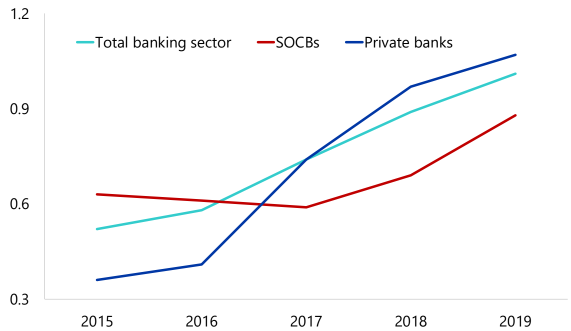


Sources: Calculations based on the Global Health Security Index (October 2019), by the Johns Hopkins Center for Health Security.

Figure 5. Vietnam: Banking Sector Vulnerability

Banking system profitability improved before the pandemic,

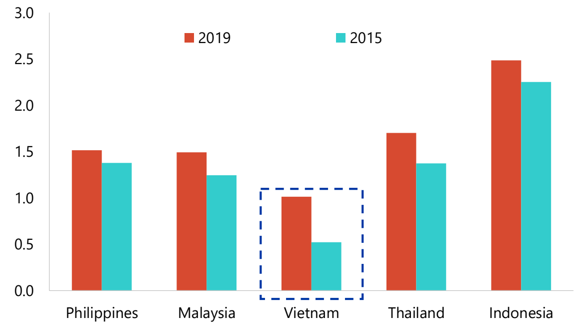
Vietnam: Return on Assets
(In percent)



Sources: Haver Analytics.

...but remains low by ASEAN standards.

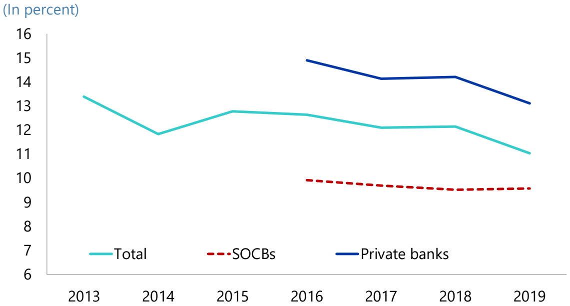
Regional Comparison: Return on Assets
(In percent)



Source: FSI, Haver Analytics.

The level of capital adequacy ratio is low, particularly in some state-owned commercial banks

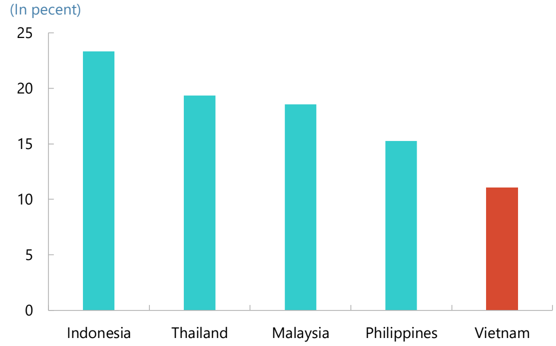
Vietnam: Capital Adequacy Ratios
(In percent)



Sources: Financial Soundness Indicators (FSI), for 2019, Vietnamese authorities and IMF staff estimates.

...and is lower than in ASEAN peers.

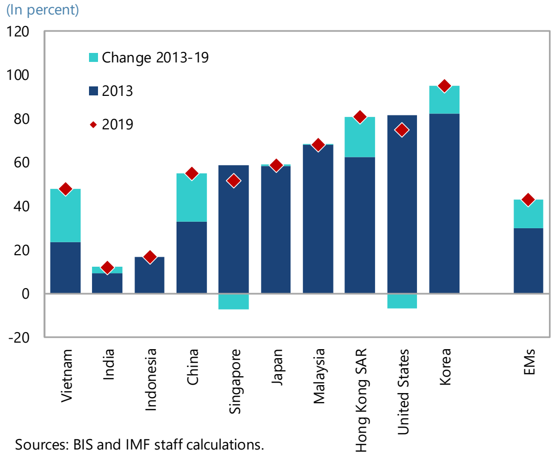
Regional Comparison: Capital Adequacy Ratio in 2019
(In pecent)



Sources: Financial Soundness Indicators (FSI), for 2019, Vietnamese authorities and IMF staff estimates.

Household leverage has increased rapidly in recent years.

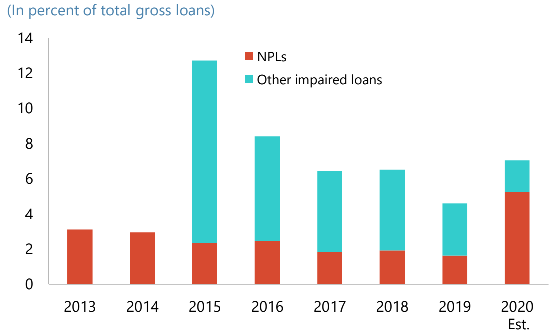
Selected Countries: Household Debt-to-GDP Ratio
(In percent)



Sources: BIS and IMF staff calculations.
Note: For Vietnam, June 2019 data is used.

Household and corporate balance sheet strains will push up NPLs.

Bad Loan Ratios
(In percent of total gross loans)



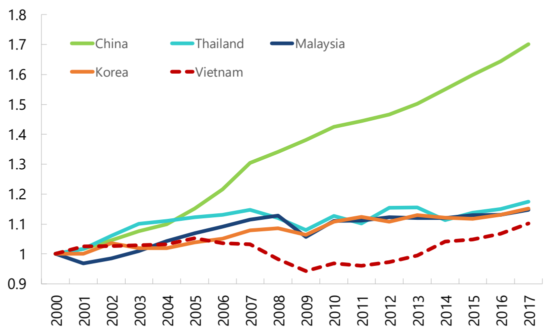
Sources: Financial Soundness Indicators (FSI). 2020 data is IMF staff estimates.
Note: Other impaired loans include a broader definition of NPLs such as those sold to the VAMC and loans previously restructured under Decision 780.

Figure 6. Vietnam: Productivity Gap and Resource Misallocation

Despite recent progress, Vietnam still lags peers in terms of productivity…

Productivity Growth

(Index, 2000=1)

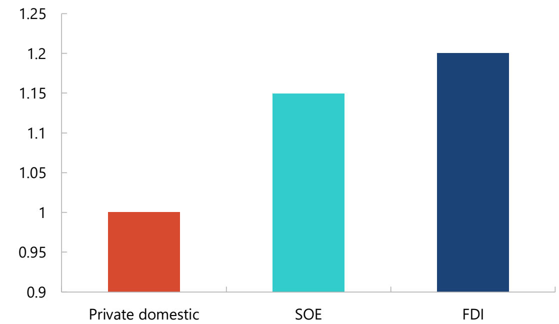


Sources: Asian Productivity Organisation, APO Productivity database.

…which is mainly dragged down by the domestic private sector.

TFP by Firm Ownership, 2018

(Private domestic = 1)



Source: Orbis and IMF staff calculations.

Aggregate productivity can be increased by reducing resource misallocation through a flexible labor market

Employment protection legislation index

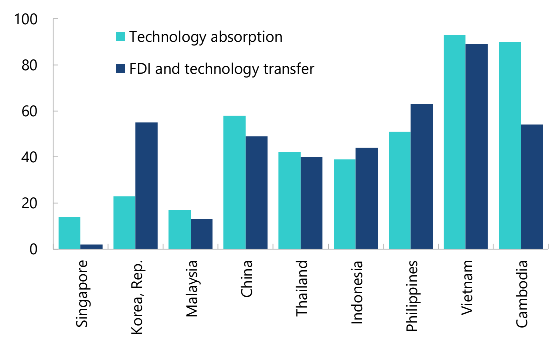
(Latest data point, higher value = more stringent legislation)

Sources: ILO, 2020. Employment Protection Legislation: Summary Indicators in the Area of Terminating Regular Contracts (Individual Dismissals).
Note: Australia - the value is an average of firms more/less than 15 employees.

… via technological catch-up…

Ranking on Technology Absoprtion and Transfer

(Rank/137 countries; lower = better)

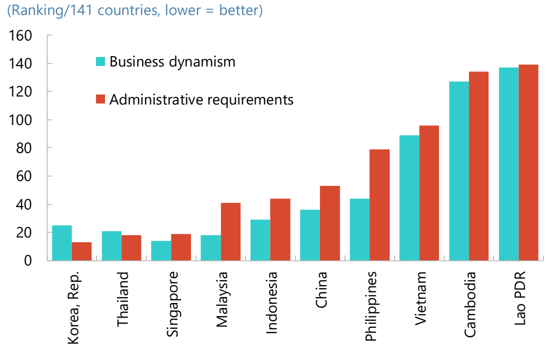


Sources: The Global Competitiveness Index 2017-2018, World Economic Forum.

…cutting red tape…

Business Dynamism and Administrative Burdens

(Ranking/141 countries, lower = better)

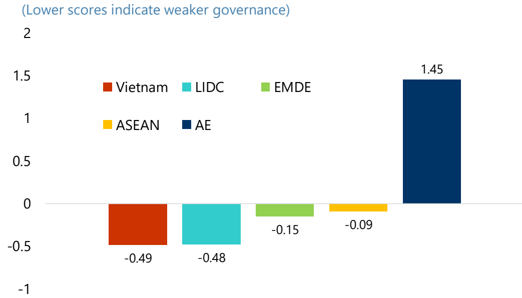


Sources: The Global Competitiveness Index 2019, World Economic Forum.

…and fighting corruption.

Control of Corruption, 2018 1/

(Lower scores indicate weaker governance)



Sources: Worldwide Governance Indicators.
1/ Score ranges from -2.5 (lowest) to 2.5 (highest). Use of these indicators should be considered carefully, as they are derived from perceptions-based data.

Table 1. Vietnam: Selected Economic Indicators, 2016–21 1/

	2016	2017	2018	2019	Projections 2020	2021
Output						
Real GDP (percent change)	6.7	6.9	7.1	7.0	2.9	6.5
Prices (percent change)						
CPI (period average)	2.7	3.5	3.5	2.8	3.2	4.0
CPI (end of period)	4.7	2.6	3.0	5.2	0.2	3.7
Core inflation (end of period)	1.9	1.3	1.7	2.8	1.0	2.3
Saving and investment (in percent of GDP)						
Gross national saving	26.6	25.7	28.2	30.4	28.6	29.3
Gross investment	26.3	26.3	26.3	26.6	26.4	27.0
Private	20.4	20.5	20.8	21.0	20.2	21.4
Public	5.9	5.8	5.5	5.6	6.2	5.6
State budget finances (in percent of GDP) 2/						
Revenue and grants	19.1	19.6	19.5	19.5	16.2	15.8
Of which: Oil revenue	0.7	0.8	0.9	0.6	0.4	0.4
Expenditure	22.2	21.5	20.5	22.8	21.6	20.5
Expense	16.3	15.7	15.0	17.2	15.4	14.9
Net acquisition of nonfinancial assets	5.9	5.8	5.5	5.6	6.2	5.6
Net lending (+)/borrowing(-) 3/	-3.2	-2.0	-1.0	-3.3	-5.4	-4.7
Net lending /borrowing including EBFs	…	-0.5	0.4	-2.6	-4.3	-3.8
Public and publicly guaranteed debt (end of period)	47.6	46.3	43.6	43.4	46.6	47.1
Money and credit (percent change, end of period)						
Broad money (M2)	18.4	15.0	12.4	14.8	13.8	14.8
Credit to the economy	18.8	17.4	12.7	12.8	12.1	12.3
Balance of payments (in percent of GDP, unless otherwise indicated)						
Current account balance (including official transfers)	0.2	-0.6	1.9	3.8	2.2	2.3
Exports f.o.b.	70.0	77.6	80.2	80.2	82.5	85.9
Imports f.o.b.	65.7	73.7	74.7	73.7	73.9	78.1
Capital and financial account 4/	4.3	7.2	2.8	5.8	2.6	2.9
Gross international reserves (in billions of U.S. dollars) 5/	36.7	49.2	55.3	78.5	94.8	113.7
In months of prospective GNFS imports	2.0	2.4	2.5	3.5	3.7	4.1
Total external debt (end of period)	35.8	38.9	36.4	37.1	38.5	38.6
Nominal exchange rate (dong/U.S. dollar, end of period)	22,761	22,698	23,175	23,173	23,223	...
Memorandum items:						
GDP (in trillions of dong at current market prices)	5,639	6,294	6,998	7,654	7,912	8,630
GDP (in billions of U.S. dollars)	252.1	277.1	304.0	329.5	340.8	364.1
Per capita GDP (in U.S. dollars)	2,693	2,929	3,182	3,416	3,500	3,704

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

1/ GDP was revised upwards by 25.4 percent on average over 2010–17 owing to better measurement and coverage of formal businesses.

2/ 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).

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

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

5/ Excludes government deposits.

Table 2. Vietnam: Balance of Payments, 2016–2021

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

						Projections	
	2015	2016	2017	2018	2019	2020	2021
Current account balance	-2.0	0.6	-1.7	5.8	12.5	7.5	8.4
Trade balance	7.4	11.0	10.8	16.5	21.2	29.3	28.5
Exports, f.o.b.	162.0	176.6	215.1	243.7	264.2	281.1	312.6
Imports, f.o.b.	154.6	165.5	204.3	227.2	243.0	251.9	284.2
Nonfactor services	-4.8	-4.3	-4.0	-3.8	-1.2	-11.2	-9.6
Receipts	11.3	12.5	13.1	14.8	19.9	7.0	10.6
Payments	16.0	16.8	17.1	18.6	21.1	18.3	20.2
Investment income	-12.2	-14.1	-17.0	-15.8	-16.8	-15.8	-18.2
Receipts	0.4	0.7	0.7	1.6	2.2	1.8	2.4
Payments	12.5	14.8	17.7	17.4	19.0	17.6	20.6
Transfers	7.5	8.0	8.5	8.9	9.2	5.2	7.8
Private (net)	7.1	7.5	8.0	8.3	8.7	4.7	7.4
Official (net)	0.4	0.5	0.5	0.5	0.6	0.5	0.4
Capital and financial account balance	1.0	10.7	20.0	8.5	19.0	8.8	10.5
Direct investment (net)	10.7	11.6	13.6	14.9	15.7	14.4	15.9
Of which: Foreign direct investment in Vietnam	11.8	12.6	14.1	15.5	16.1	14.8	16.3
Portfolio investment	-0.1	0.2	2.1	3.0	3.0	0.6	2.1
Medium- and long-term loans	4.6	3.2	4.4	5.2	4.9	4.6	4.4
Disbursements	9.8	8.7	13.7	13.0	13.0	13.6	14.2
Amortization	5.2	5.5	9.3	7.8	8.1	8.9	9.8
Short-term capital 1/	-14.3	-4.3	-0.1	-14.7	-4.6	-10.9	-11.9
Change in net foreign assets	-15.0	-3.8	-6.4	-11.0	-5.2	-4.7	-7.5
Of which: Commercial banks	-5.3	3.5	-1.0	-4.7	-1.6	-1.4	-2.3
Trade credit (net)	0.8	-0.6	6.4	-3.3	0.3	0.3	0.6
Other short-term capital 1/	…	…	…	…	0.3	-6.5	-5.0
Errors and omissions	-5.0	-3.0	-5.8	-8.2	-8.2	0.0	0.0
Memorandum items:							
Gross international reserves 2/	28.3	36.7	49.2	55.3	78.5	94.8	113.7
In months of prospective GNFS imports	1.9	2.0	2.4	2.5	3.5	3.7	4.1
Ratio to short term external debt (in %) on remaining maturity basis 2/	513	393	635	682	881	968	1,055
Current account balance (in percent of GDP)	-0.9	0.2	-0.6	1.9	3.8	2.2	2.3
Export value (percent change)	7.9	9.0	21.8	13.3	8.4	6.4	11.2
Import value (percent change)	12.0	7.0	23.4	11.2	7.0	3.7	12.8
External debt	78.2	88.7	108.0	110.0	122.5	129.3	139.6
In percent of GDP 3/	33.9	35.8	38.9	36.4	37.1	38.5	38.6
GDP	236.8	252.1	277.1	304.0	329.5	340.8	364.1

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. 3

Table 3. Vietnam: Medium-Term Projections, 2016–2025

	2016	2017	2018	2019	Projections 2020	2021	2022	2023	2024	2025
Output					(percent change)					
Real GDP	6.7	6.9	7.1	7.0	2.9	6.5	7.2	7.0	6.8	6.6
Prices										
CPI (period average)	2.7	3.5	3.5	2.8	3.2	4.0	4.0	4.0	4.0	4.0
CPI (end of period)	4.7	2.6	3.0	5.2	0.2	3.7	4.0	4.0	4.0	4.0
GDP deflator	1.8	4.4	3.3	1.9	1.3	2.4	4.1	4.3	4.7	4.5
Saving and investment					(in percent of GDP, unless otherwise indicated)					
Gross national saving	26.6	25.7	28.2	30.4	28.6	29.3	28.7	27.7	27.5	27.5
Gross investment	26.3	26.3	26.3	26.6	26.4	27.0	27.1	27.3	27.4	27.5
Private investment	20.4	20.5	20.8	21.0	20.2	21.4	21.4	21.4	21.4	21.4
Public investment	5.9	5.8	5.5	5.6	6.2	5.6	5.7	5.9	6.0	6.1
State budget finances 1/										
Revenue and grants	19.1	19.6	19.5	19.5	16.2	15.8	16.1	16.5	16.7	17.0
Expenditure	22.2	21.5	20.5	22.8	21.6	20.5	20.5	20.5	20.5	20.4
Expense	16.3	15.7	15.0	17.2	15.4	14.9	14.9	14.6	14.5	14.3
Net acquisition of nonfinancial assets	5.9	5.8	5.5	5.6	6.2	5.6	5.7	5.9	6.0	6.1
Net lending (+)/borrowing(-1) 2/	-3.2	-2.0	-1.0	-3.3	-5.4	-4.7	-4.4	-4.1	-3.8	-3.3
Net lending /borrowing including EBFs	…	-0.5	0.4	-2.6	-4.3	-3.8	-3.6	-2.3	-2.4	-1.4
Non-oil primary balance	-2.3	-1.2	-0.4	-2.5	-4.4	-3.8	-3.4	-3.0	-2.6	-2.0
Public and publicly guaranteed debt (end of period)	47.6	46.3	43.6	43.4	46.6	47.1	46.9	46.6	45.9	45.1
Balance of payments										
Current account balance	0.2	-0.6	1.9	3.8	2.2	2.3	1.6	0.4	0.1	0.0
Exports f.o.b.	70.0	77.6	80.2	80.2	82.5	85.9	84.9	83.9	82.6	81.2
Imports f.o.b.	65.7	73.7	74.7	73.7	73.9	78.1	78.7	79.3	78.4	77.1
Capital and financial account (net)	4.3	7.2	2.8	5.8	2.6	2.9	2.9	3.0	3.2	3.2
Gross international reserves (in billions of U.S. dollars)	36.7	49.2	55.3	78.5	94.8	113.7	131.9	146.9	162.7	179.3
In months of prospective GNFS imports	2.0	2.4	2.5	3.5	3.7	4.1	4.3	4.4	4.5	4.6
Total external debt (in billions of U.S. dollars)	88.7	108.0	110.0	122.5	129.3	139.6	150.8	163.3	178.1	194.1
In percent of GDP	35.8	38.9	36.4	37.1	38.5	38.6	38.0	37.5	37.2	37.0
Memorandum items:										
Nominal GDP (in trillions of dong)	5,639	6,294	6,998	7,654	7,912	8,630	9,630	10,744	12,016	13,394
Nominal GDP (in billions of U.S. dollars)	252.1	277.1	304.0	329.5	340.8	364.1	400.2	438.9	482.5	528.7
Per capita GDP (in U.S. dollars)	2,693	2,929	3,182	3,416	3,500	3,704	4,034	4,386	4,780	5,196

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.

Table 4a. Vietnam: Consolidated State Budgetary Operations, 2016–2021 1/

(In trillions of dong)

				Budget	Proj.	Budget	Staff Estimate	Budget	Staff Estimate
	2016	2017	2018	2019	2019	2020	2020	2021	2021
Total revenue and grants	1075	1231	1364	1360	1496	1467	1279	1303	1361
Tax revenue	807	916	1051	1114	1124	1193	991	1028	1059
Oil revenues	40	50	62	45	46	35	28	23	32
CIT	28	36	46	32	32	25	20	16	22
Natural resource tax	12	14	17	13	14	10	8	7	10
Non-oil tax revenues	767	865	988	1069	1078	1158	963	1005	1027
PIT	65	79	94	113	109	129	108	108	119
CIT	161	176	211	246	239	265	215	231	228
VAT	272	309	352	373	363	376	304	331	339
Trade	96	96	64	81	99	108	83	85	82
Others	173	205	265	256	269	281	253	251	259
Grants	8	8	8	4	7	5	5	8	8
Other revenue	260	308	306	242	365	269	283	267	293
Expenditure	1254	1355	1435	1633	1748	1747	1708	1687	1770
Expense	920	987	1051	1213	1319	1287	1220	1221	1286
Interest	87	98	107	125	108	118	110	110	110
Other expense	833	889	945	1088	1211	1169	1111	1111	1176
Of which: Wages 2/	…	407	494	681	681	704	704	768	768
Net acquisition of non-financial assets	334	368	384	421	429	460	487	466	483
Net lending (+)/borrowing (-)	-178	-124	-72	-274	-252	-280	-428	-384	-409
Net incurrence of liabilities	178	124	72	…	252	…	428	…	409
Net incurrence of financial liabilities	258	191	15	…	323	…	346	…	376
Domestic	206	141	-18	…	266	…	297	…	312
Securities	…	…	…	…	…	…	…	…	…
Loans	…	…	…	…	…	…	…	…	…
Foreign	52	50	33	…	57	…	49	…	64
Disbursement	86	80	69	…	85	…	130	…	142
Amortization	33	30	36	…	29	…	81	…	78
Net acquisition of financial assets	-80	-68	56	…	-71	…	82	…	33
of which: Privatization receipts	30	60	65	…	54	…	45	…	20
Memorandum items:									
Net lending/borrowing including VSS		-41	-9		-155		-334		-319
EBF revenue (net government transfers)	…	348	340	…	403	…	469	…	615
EBF expenditure (net government transfers)	…	251	282	…	352	…	386	…	534
Net lending/borrowing including EBFs	…	-33	27	…	-200	…	-343	…	-329
Public and publicly guaranteed debt	47.6	46.3	43.6	…	43.4	…	46.6	…	47.1
Primary balance	-1.6	-0.4	0.5	-1.9	-1.9	-2.0	-4.0	-3.2	-3.5
Cyclically Adjusted Primary Balance	-1.8	-1.1	0.2	…	-2.3	…	-3.6	…	-3.2
Nominal GDP (in trillions of dong)	5639.4	6293.9	6998.3	7654.3	7654.3	7912.1	7912.1	8630.0	8630.0

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 exenditure of Vietnam Social Security and other extra-budgetary funds.

2/ Wages are staff estimates.

Table 4b. Vietnam: Consolidated State Budgetary Operations, 2016–2021 1/

(In percent of GDP, unless otherwise indicated)

	2016	2017	2018	Budget 2019	Proj. 2019	Budget 2020	Staff Estimate 2020	Budget 2021	Staff Estimate 2021
Total revenue and grants	19.1	19.6	19.5	17.8	19.5	18.5	16.2	15.1	15.8
Tax revenue	14.3	14.5	15.0	14.6	14.7	15.1	12.5	11.9	12.3
Oil revenues	0.7	0.8	0.9	0.6	0.6	0.4	0.4	0.3	0.4
CIT	0.5	0.6	0.7	0.4	0.4	0.3	0.3	0.2	0.3
Natural resource tax	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Non-oil tax revenues	13.6	13.8	14.1	14.0	14.1	14.6	12.2	11.6	11.9
PIT	1.2	1.3	1.3	1.5	1.4	1.6	1.4	1.2	1.4
CIT	2.8	2.8	3.0	3.2	3.1	3.3	2.7	2.7	2.6
VAT	4.8	4.9	5.0	4.9	4.7	4.7	3.8	3.8	3.9
Trade	1.7	1.5	0.9	1.1	1.3	1.4	1.1	1.0	1.0
Others	3.1	3.3	3.8	3.3	3.5	3.5	3.2	2.9	3.0
Grants	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other revenue	4.6	4.9	4.4	3.2	4.8	3.4	3.6	3.1	3.4
Expenditure	22.2	21.5	20.5	21.3	22.8	22.1	21.6	19.5	20.5
Expense	16.3	15.7	15.0	15.8	17.2	16.3	15.4	14.1	14.9
Interest	1.5	1.6	1.5	1.6	1.4	1.5	1.4	1.3	1.3
Other expense	14.8	14.1	13.5	14.2	15.8	14.8	14.0	12.9	13.6
Of which: Wages 2/	...	6.5	7.1	8.9	8.9	8.9	8.9	8.9	8.9
Net acquisition of non-financial assets	5.9	5.8	5.5	5.5	5.6	5.8	6.2	5.4	5.6
Net lending (+)/borrowing (-)	-3.2	-2.0	-1.0	-3.6	-3.3	-3.5	-5.4	-4.4	-4.7
Net incurrence of liabilities	3.2	2.0	1.0	...	3.3	...	5.4	...	4.7
Net incurrence of financial liabilities	4.6	3.0	0.2	...	4.2	...	4.4	...	4.4
Domestic	3.7	2.2	-0.3	...	3.5	...	3.8	...	3.6
Securities	...	...	...	...	...	...	...	...	...
Loans	...	...	...	...	...	...	...	...	...
Foreign	0.9	0.8	0.5	...	0.7	...	0.6	...	0.7
Disbursement	1.5	1.3	1.0	...	1.1	...	1.6	...	1.6
Amortization	0.6	0.5	0.5	...	0.4	...	1.0	...	0.9
Net acquisition of financial assets	-1.4	-1.1	0.8	...	-0.9	...	1.0	...	0.4
of which: Privatization receipts	0.5	1.0	0.9	...	0.7	...	0.6	...	0.2
Memorandum items:									
Net lending/borrowing including VSS		-0.7	-0.1		-2.0		-4.2		-3.7
EBF revenue (net government transfers)	...	5.5	4.9	...	5.3	...	5.9	...	7.1
EBF expenditure (net government transfers)	...	4.0	4.0	...	4.6	...	4.9	...	6.2
Net lending/borrowing including EBFs	...	-0.5	0.4	...	-2.6	...	-4.3	...	-3.8
Public and publicly guaranteed debt	47.6	46.3	43.6	...	43.4	...	46.6	...	47.1
Primary balance	-1.6	-0.4	0.5	-1.9	-1.9	-2.0	-4.0	-3.2	-3.5
Cyclically Adjusted Primary Balance (% potential GDP)	-1.8	-1.1	0.2	...	-2.3	...	-3.6	...	-3.2
Nominal GDP (in trillions of dong)	5,639	6,294	6,998	7,654	7,654	7,912	7,912	8,630	8,630

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 exenditure of Vietnam Social Security and other extra-budgetary funds.

2/ Wages are staff estimates.

Table 5. Vietnam: Monetary Survey, 2015–2021 1/

(In trillions of Dong, unless otherwise indicated)

	2015	2016	2017	2018	2019	Projections 2020	2021
Net foreign assets	836	949	1,264	1,540	2,131	2,579	3,119
State Bank of Vietnam (SBV)	614	806	1,097	1,263	1,813	2,222	2,702
Commercial banks	222	143	167	277	319	357	417
Net domestic assets	5,184	6,177	6,930	7,672	8,443	9,458	10,704
Domestic credit	5,381	6,307	7,102	7,852	8,563	9,845	11,265
Net claims on government	689	732	556	473	237	514	784
SBV	83	31	-10	-97	-276	...	...
Credit institutions	606	701	566	570	513	...	...
Credit to the economy	4,693	5,575	6,546	7,379	8,326	9,331	10,481
Claims on state-owned enterprises (SOEs)	723	741	533	473	450	...	...
Claims on other sectors	3,970	4,834	6,014	6,906	7,877	...	...
In dong	4,267	5,127	6,054	6,911	7,847	...	...
In foreign currency	425	448	492	468	480	...	...
By state-owned banks (SOCBs)	2,304	2,723	3,174	3,523	3,911	...	...
By non-SOCBs	2,389	2,852	3,372	3,856	4,415	...	...
Other items net	-198	-129	-172	-180	-121	...	...
Total liquidity (M2)	6,020	7,126	8,195	9,212	10,574	12,037	13,823
Dong liquidity	5,370	6,505	7,539	8,460	9,718	...	...
Deposits	4,643	5,654	6,561	7,375	8,520	...	...
Currency outside banks	727	851	978	1,085	1,198	...	...
Foreign currency deposits	650	621	656	752	856	...	...
Memorandum items:							
Reserve money (year-on-year percent change)	19.3	12.8	20.4	6.9	24.0	19.5	13.0
Liquidity (M2; year-on-year percent change)	16.2	18.4	15.0	12.4	14.8	13.8	14.8
Currency/deposits (in percent)	13.7	13.6	13.6	13.4	12.8	...	...
Credit/deposits (total, in percent)	88.7	88.9	90.7	90.8	88.8	...	...
Credit/deposits (dong, in percent)	91.9	90.7	92.3	93.7	92	...	...
Credit/deposits (foreign currency, in percent)	65.5	72.2	75.1	62.3	56	...	...
Credit to the economy							
Total (in percent of GDP)	90.4	98.9	104.0	105.4	108.8	117.9	121.4
Total (year-on-year percent change)	18.8	18.8	17.4	12.7	12.8	12.1	12.3
In dong (year-on-year percent change)	23.4	20.2	18.1	14.2	13.5	...	...
In FC (year-on-year percent change)	-13.4	5.2	10.0	-5.0	2.5	...	...
In FC at constant exchange rate (year on year percent change)	-16.3	3.1	8.3	-6.2	1.6	...	...
To SOEs (year-on-year percent change)	12.3	2.6	-28.1	-11.3	-5.0	...	...
To other sectors (year-on-year percent change)	20.1	21.7	24.4	14.8	14.1	...	...
To SOEs (percent of total)	15.4	13.3	8.1	6.4	5.4	...	...
Nominal GDP (in trillions of dong)	5,191	5,639	6,294	6,998	7,654	7,912	8,630

Sources: SBV; and IMF staff estimates and projections.

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

Table 6. Vietnam: Financial Soundness Indicators, 2013–19 1/

(In Percent)

	2013	2014	2015	2016	2017	2018	2019
Regulatory Capital to Risk-Weighted Assets 2/	13.4	11.8	12.8	12.6	12.1	12.0	12.0
Regulatory Tier 1 Capital to Risk-Weighted Assets 3/	12.1	10.6	10.1	9.4	8.8	9.4	9.4
Non-performing Loans Net of Provisions to Capital 3/	12.8	14.2	11.0	11.4	10.7	8.8	9.9
Non-performing Loans to Total Gross Loans 4/	3.1	2.9	2.3	2.3	1.8	1.8	1.6
Return on Assets	0.5	0.3	0.4	0.5	0.6	0.9	1.0
Return on Equity	5.8	3.2	5.4	6.6	8.3	11.7	13.0
Interest Margin to Gross Income 3/	73.4	69.4	74.4	72.3	70.2	70.0	71.5
Non-interest Expenses to Gross Income 3/	55.1	56.7	55.8	55.3	51.0	48.9	46.2
Liquid Assets to Total Assets (Liquid Asset Ratio) 3/	13.0	15.5	13.2	13.2	12.7	11.3	10.6

Source: Financial Soundness Indicators (FSI) and authority's data

1/ Depository corporations only

2/ For 2019, authority's data is used. As of Oct 2020, staff estimate is 11.4%.

3/ For 2019, Q2 2019 data are used

4/ As of Q3 2020, 2.14% according to authority's data. A more broadly defined NPL ratio, which includes remaining NPLs sold to VAMC and loans previously restructured under Decision 780, is 4.6% of total loans as of December 2019.

Annex I. Progress Against IMF Recommendations

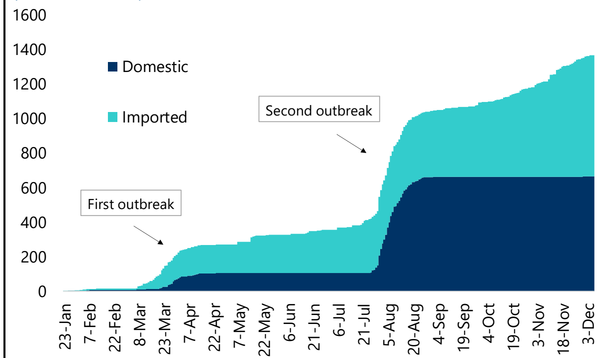
Policies	2019 Article IV Consultations Recommendations	Actions since 2019 Article IV Consultations
Fiscal Policies	Continue gradual fiscal consolidation and tackle PPG debt.	The 2020 budget envisaged continued lowering of the budget deficit. New government guarantees continue to be strictly limited.
	More active cash management is needed to minimize cost of borrowings.	Cash held at commercial banks is swept into the SBV daily, effective early November 2019. Examination of appropriate level of cash buffers' has been completed.
	Improve the quality of fiscal adjustment by undertaking reforms in tax policy and administration.	The law on revenue administration has been strengthened through implementation of the 2019 Tax Administration Law, with an emphasis on better control of enterprises engaging in related party transactions, and of e-commerce, while promoting greater use of e-documents and e-invoices
	Conduct a broad tax policy review.	While delayed, the authorities intend to conduct a broad tax policy review to develop the Tax System Reform Strategy for 2021–30.
	Continue to rationalize the public sector wage bill and undertake civil service reforms.	Vietnam continues to gradually lower the public sector headcounts and is streamlining administrative units in localities.
	Address unfunded pension liabilities.	Retirement ages will be gradually raised (from 60 to 62 for men, and 55 to 60 for women), in line with provisions of the new Labor Code, which will speed up pension fund reform.
	Improve public financial management and fiscal data, accounting and reporting.	Fiscal accounting and reporting have continued to improve. MOF is scheduled to launch its first Vietnam GFS manual before end-2020 and will submit GFS data (for 2003–2017) to the IMF. A comprehensive Treasury modernization program is underway focusing on 6 key areas: budget execution, treasury single account, active cash management, internal audit, financial reporting and information systems. Vietnam amended and supplemented provisions for implementation of the Auction Law to enhance e-procurement, competitiveness, transparency and efficiency in procurement, including in land allocation procedure.

Policies	2019 Article IV Consultations Recommendations	Actions since 2019 Article IV Consultations
Monetary Policy	Credit growth should gradually come down. Continue to modernize the monetary framework. Allow some nominal exchange rate appreciation	Credit growth slowed in the first three quarters of 2020. The modernization of the monetary policy framework is ongoing, with the SBV enhancing its analytical and forecasting capacity through IMF-supported FPAS training. Market exchange rate slightly appreciated in 2019.
Financial Sector Policies	Recapitalize state-owned commercial banks (SOCBs). Strengthen the macroprudential framework, including measure to deal with potential risks from the rise in consumer and mortgage loans. Strengthen AML system	The authorities have taken steps to help recapitalize SOCBs, including by revising the legal procedures under which the budget can recapitalize SOCBs Macro-prudential measures to limit risks stemming from real estate and consumer loans and further reduce maturity mismatches were introduced Assessment of highly suspect cases has been strengthened and detailed guidelines provided on international electronic transaction reporting requirements.
Structural policies	Reform drive needs to be broadened and accelerated to tackle remaining barriers for investments, including to high quality infrastructure. Improve income and asset declarations, strengthen judiciary and legal framework.	A new PPP law has been approved to help accelerate investment in high-quality infrastructure. A new Public Investment Law was passed to improve public investment management and efficiency. The government is further promoting e-government, reducing regulations and licensing requirements, including business licenses, to simplify and improve the business environment. In 2020, improvements were introduced to strengthen the implementation of the revised Law on Judicial Assessment, the 2020 Law on Enterprise, the 2020 Law on Investment, and the revised Law on Construction. The Anti-Corruption Law has been accompanied by an extensive communication strategy. A decree on asset and income control is expected in 2020, while more time will be needed to operationalize the National Database on asset and income control.

Annex II. Vietnam's Containment of COVID-19[1]

1. Vietnam has successfully contained COVID-19 so far, despite a setback in late July-August. With a population of almost 100 million, Vietnam registered only 1,367 cases and 35 deaths as of December 7. There were two main episodes of domestic outbreaks. The first outbreak occurred between early-March and mid-April. This was followed by almost 100 days without community transmission (i.e., all cases were individuals returning to Vietnam who were tested and quarantined upon arrival). In late-July, there was a second outbreak, mostly in Danang (a popular tourist destination) which spread somewhat to surrounding provinces, which was also followed by a long period of no community transmission.

Total Cases of COVID-19
(Cumulative cases)



Sources: Vietnamese authorities.

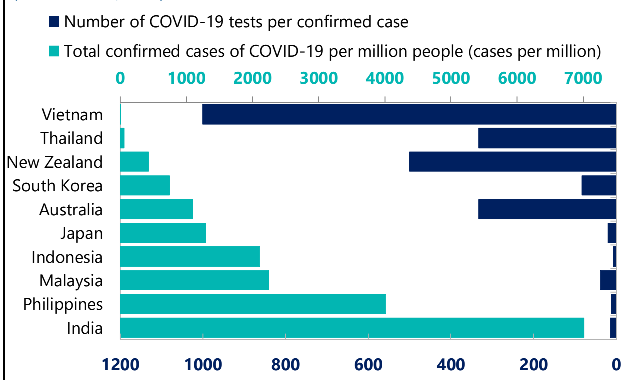
2. Early and effective interventions on a national scale were initially introduced. Acting promptly has been found to be paramount in flattening the pandemic curve, which is precisely what Vietnam did—a policy response informed by the country's experience in combatting the SARS outbreak of 2003.[2] The government of Vietnam actively started preparations for what would become the COVID-19 global pandemic in early January, issuing guidance to relevant stakeholders on disease prevention and detection, and adopting a transparent and consistent communication strategy from the top to the grassroot levels. Stringent containment measures were gradually adopted, including wearing masks in public venues ahead of the WHO's official advice, health screening checks introduced at airports, along with school closures, public event cancelations, travel bans on foreign visitors, and a 14-day quarantine period for international arrivals. This culminated with a nationwide 3-week curtailment of non-essential activities starting April 1.

3. Aggressive contact tracing, targeted testing and quarantines supplemented early interventions. Vietnam has conducted slightly more than 1.4 million tests, which is a small share of its population of 97 million. However, nearly 1,000 people have been tested per confirmed case, one of the highest ratios in the world. Cities, neighborhoods, and groups of people who lived near confirmed cases were swiftly tested and isolated, a tactic successfully deployed during the 2003 SARS outbreak, aimed at limiting community transmission. Vietnam's success in containing COVID-19 allowed for a gradual loosening of strict containment measures by mid-April, and a resumption in economic activity, until the second wave started in late-July.

[1] Prepared by Francois Painchaud, Nga Ha, and Van Anh Nguyen.

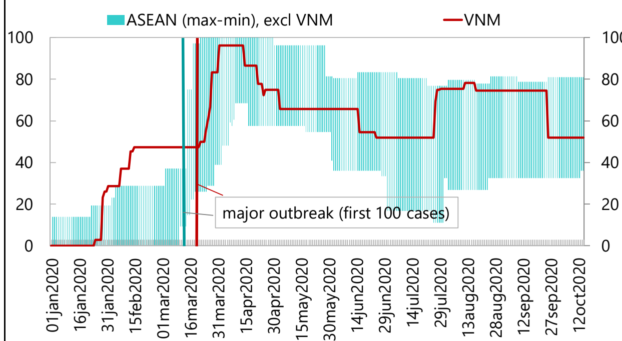
[2] See International Monetary Fund (IMF), "Regional Economic Outlook: Asia and Pacific", (October 2020, Washington, D.C.).

COVID-19 Confirmed Cases and Tests
(December 12, 2020)



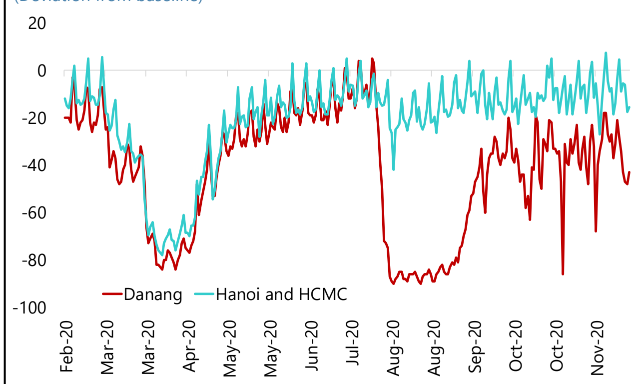
Sources: Calculations based on Our World Data.

Stringency of Containment Measures
(OxCGRT stringency index 0-100, 100 is most restrictive)



Sources: Calculations based on Oxford COVID-19 Government Response Tracker (OxCGRT).
Notes: ASEAN stringency index represents the max-min range of (ASEAN-VNM). Vertical lines point to the date of a major outbreak (100 cases). ASEAN vertical line is the simple average for (ASEAN-VNM).

Mobility: Retail and Recreation
(Deviation from baseline)



Sources: Google COVID-19 Community Mobility Reports.

4. **Vietnam used a more localized response to contain the second outbreak to limit the economic costs of containment.** Similar interventions and strict contact tracing, targeted testing and quarantines as in the first wave were implemented, but at a more localized level. For example, strict social distancing measures, including a ban on public gatherings of more than 2 individuals, was re-introduced in Danang, and travel to/from Danang curtailed for 5 weeks. Accordingly, the containment measures had a much greater impact in Danang than at the national level (and in Hanoi and Ho Chi Minh City), as evidenced by mobility indicators.

5. **The government launched a large-scale public awareness campaign, leveraging digital infrastructure.** Details on symptoms, protective measures, and testing sites were communicated through mass media, a government website, public grass-root organizations, posters at hospitals, offices, residential buildings and markets, via text messages on mobile phones, and as voice messages before a phone call could be made. The government also launched a contact tracing app in big cities.

Annex III. Labor Market: Effects of COVID-19 and Long-Term Perspectives[1]

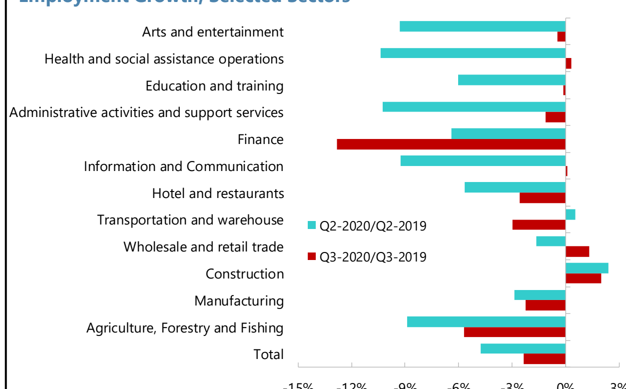
This annex analyzes Vietnam's labor market challenges posed by the COVID crisis and long-term structural constraints. While Vietnam's performance in response to the pandemic has been exemplary, the combination of the lockdown measures (affecting mostly the domestic sector) and the fall in external demand (affecting mostly the FDI sector) have led to sizable declines in the labor force and employment. Labor market disruption has been amplified by pervasive informality, which, in turn, holds back productivity and hampers Vietnam's long-term growth prospects.

A. Labor Market Implications of the COVID-19 Shock

1. **Vietnam's labor market was severely affected by COVID-19.** The authorities estimate that over 30 million workers were impacted though job and income reductions and/or losses. The labor force declined for the first time in over a decade in the second quarter, decreasing by over 4 percent (y/y), while the labor participation rate fell by 4 percentage points over the same period.[2] In tandem, employment shrunk, with almost 2.5 million jobs destroyed relative to the previous quarter (a 4.8 percent decline y/y) and average monthly wages fell by 2.8 percent y/y. Further, unemployment increased (22 percent), especially, underemployment (over 50 percent). These losses were partially recovered in Q3, as the size of the labor force and employment bounced back. However, labor market conditions remain weak as underemployment accounts for about 25 percent of the job gains and, average monthly wages, while improving relative to the previous quarter, have declined on a y/y basis.

2. **More granular analysis reveals significant heterogeneity along several margins (industries, gender, firm ownership).** Given mobility restrictions, the drop in employment was stronger in sectors such as hotels and restaurants and education and training. In contrast, the declines were more modest in manufacturing, wholesale and retail trade, while others experienced a modest expansion (transportation and warehouse). These differences reflect the fact the hardest-hit sectors were most reliant on face-to-face interactions. During Q2, the bulk of the adjustment in labor force participation was for female workers, who saw a decline of almost 6 percent in Q2-2020 (y/y), in contrast to a

Employment Growth, Selected Sectors



Sources: GSO and IMF staff calculations.

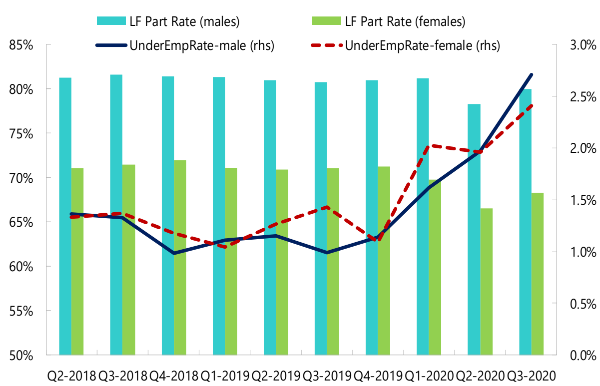
---

[1] This annex was prepared by Federico Diez and Anh Nguyen.

[2] A decline in the labor force participation rate typically is a cause of concern. However, Vietnam's labor force participation rate is over 10 percentage points higher than in Indonesia, Malaysia, and the Philippines. This relatively high rate partly reflects insufficient years of schooling, with part of the population joining the labor force without developing appropriate skills. As such, a lower participation rate could potentially have positive long-term effects if a fraction of the workers who left the labor force receive appropriate training during the hiatus.

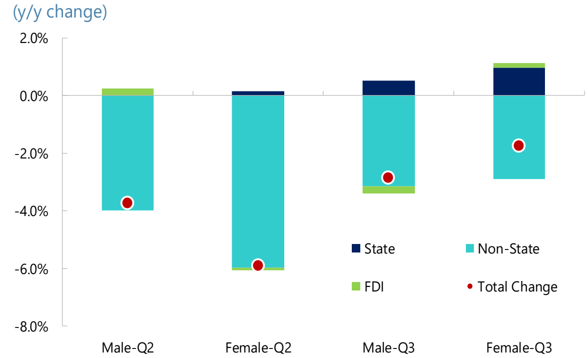
decline of 3.7 percent for male workers. This pattern can be largely explained by the gender breakdown of sectoral employment. Female employment predominates in the hardest-hit sectors, such as hotels and restaurants, and education and training. In contrast, sectors which saw small increases in employment (such as construction or transportation) employ mostly male workers. Further, the hardest-hit workers were employed by the domestic private sector (especially females), in contrast to SOEs and FDI firms, where employment actually rose slightly.[3] A partial recovery of the labor force and a sizable increase in underemployment for both genders was seen in Q3. The recovery in employment growth was broad-based across all economic sectors and was particularly notable for those sectors hit hardest during the lockdown.

Labor Force Participation and Underemployment Rates, by Gender



Sources: GSO and IMF staff calculations.

Contributions to Employment, by Gender and Employer
(y/y change)



Sources: GSO and IMF staff calculations.

3. **Near-term policies should center on sustaining firms and employment, while fostering market reallocation as the recovery gets underway.** Policy support has rightly focused on providing support to firms, workers, and households most affected by the crisis. However, once containment measures are lifted and the recovery is underway, policies should pivot to facilitating a reallocation of workers towards firms generating new jobs ("protect the worker, not the job"). These policies should be coordinated with support for (viable) firms to promote new hires—for instance, through hiring subsidies (effectively reducing the cost of filling the vacancy) and increased training targeted to developing the skills needed for these new openings.

B. Informality, Skill Mismatches, and Long-Term Transformation

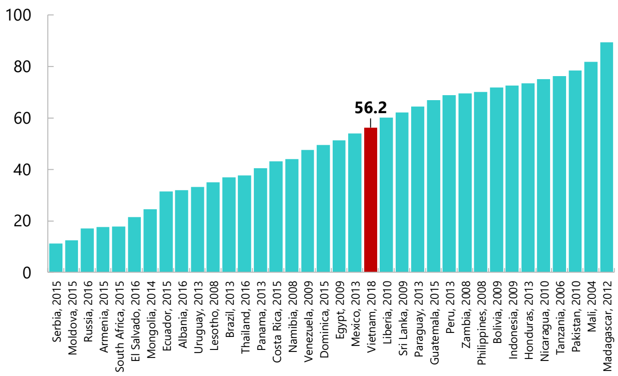
4. **Labor informality is pervasive in Vietnam, with considerable differences across sectors and firms.** Staff analysis shows that the share of informal employment in total employment is above

[3] SOEs and FDI firms employ more female than male workers (there is a 6-percentage point differential in the breakdown of employment by ownership and gender). Therefore, the larger decline in overall female employment results from a steeper-than-average decline in female employment in the domestic private sector.

56 percent (as of 2018), and has been relatively persistent.[4] Relatedly, the share of vulnerable employment (contributing family workers and self-employed workers as a percentage of total employment) also stands at over 50 percent. From a cross-country perspective, Vietnam has considerable room for improvement. Informality is generally more prevalent in the construction and services sectors (especially in restaurants, transport, entertainment) than in manufacturing. FDI-dominated industries, such as electronics or textiles, have the lowest informality rates. Further, around a third of the overall informal employment actually takes place within formal firms, suggesting that these firms choose to keep informal workers on their payroll.

International Comparison of Informality

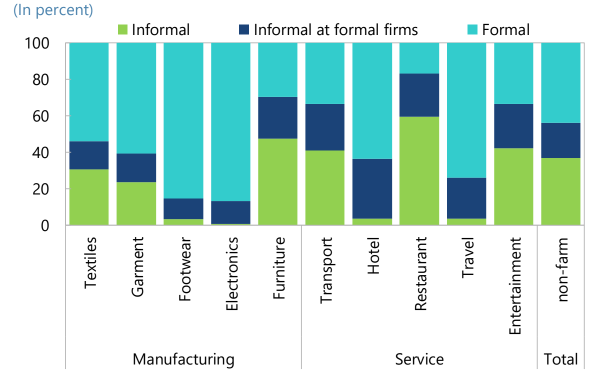
(In percent, share of non-farm informal employment in total employment)



Sources: Labor International Organization 2016 and Vietnam Labor Force Survey 2018.

Informality Rate

(In percent)



Sources: Vietnam Labor Force Survey 2018; IMF staff calculations.

5. Informality is linked to insufficient human capital development and to skill mismatches. Informality tends to decline with educational attainment: while almost 80 percent of workers with a primary or lower education are informally employed, this share declines monotonically with education. However, informality still accounts for over 10 percent of employment for workers with a tertiary education, especially among the young. Informal workers are also more likely to suffer from skill mismatches, that is, they have not received the appropriate education and/or training for their jobs. Indeed, less than a third of informal workers were trained for their jobs. In contrast, over two-thirds of formal workers were in jobs that matched with their training.

6. Policies should aim at increasing market flexibility, reducing information gaps, and matching education and technical training with labor demand. Ultimately, informality results from individual and institutional factors such that firms find it unprofitable to fill an opening using formal workers. Therefore, policies should be oriented toward increasing the payoff from hiring formal workers (increasing labor efficiency via higher human capital and appropriate firm-worker matching) and decreasing administrative costs. Promoting close collaboration between firms and institutions would foster the development of worker skills and human capital in line with labor demand, thereby reducing skill mismatches.

[4] See Dabla-Norris et al., "Role of Individual Characteristics and Policies in Driving Labor Informality in Vietnam," IMF WP (forthcoming). Labor informality is largely defined in terms of workers' participation in the social security system.

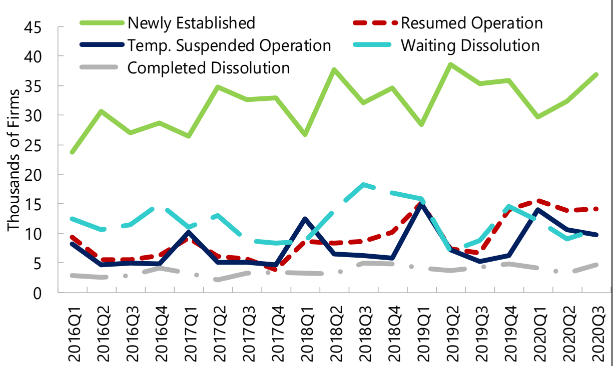
Annex IV. Business Dynamism and Firm Entry and Exit[1]

This annex analyzes business dynamism in Vietnam by examining firm entry and exit rates. Vietnam's business environment is very dynamic and has remained so during the pandemic. All else equal, this dynamism should favor a (re)allocation of resources towards their most productive use. However, this will require further efforts to reduce formal entry costs and streamline the exit process.

1. Firm net entry rate is strongly positive in Vietnam. Data on firm entry and exit shows that the net entry of firms has been strongly positive, even during the COVID-19 crisis. In recent years, the number of newly registered (formal) firms has been significantly higher than the number of exiting companies, reflecting progress with pro-market reforms and high growth rates. Firm exit numbers reflect the different paths available for dissolution under the current legal framework, in which firms can choose to temporarily suspend operations for up to one year during hardship or to file for immediate liquidation.[2] Once the temporary suspension period is over, firms can either resume their normal operations or proceed with the dissolution process. The number of firms temporarily suspending operations has been relatively close to the number of firms resuming operations, resulting in a low permanent exit rate in recent years.[3]

Entry and Exit of Firms

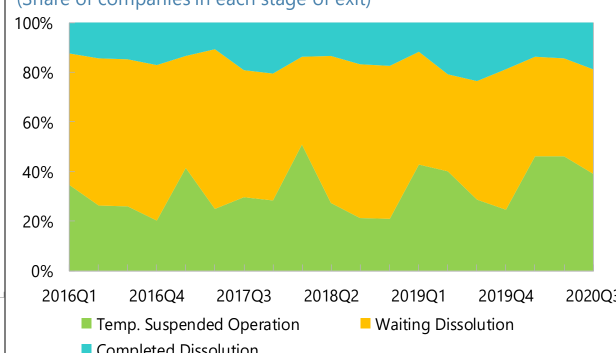
(Number of firms entering and exiting)



Sources: Vietnamese authorities, IMF staff calculations.

Exiting Firms

(Share of companies in each stage of exit)



Sources: Vietnames authories, IMF Staff Calculations

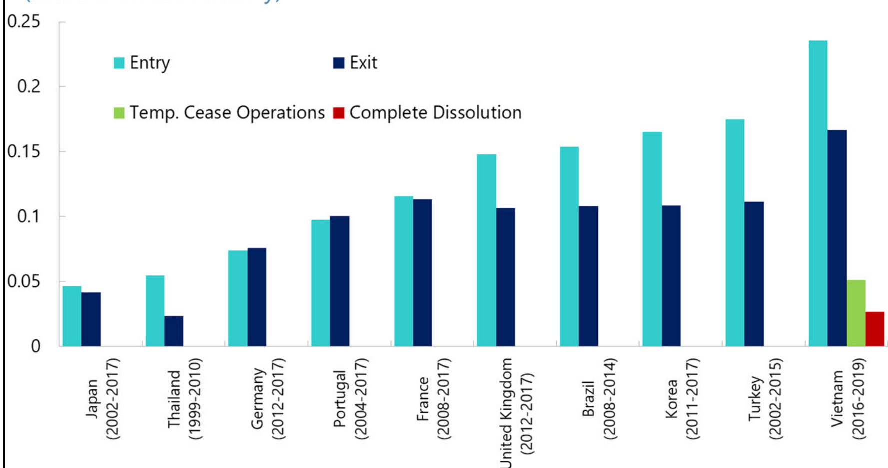
[1] Prepared by Federico Díez, Alexandre Sollaci, and Anh Thi Ngoc Nguyen.

[2] Firms that file for a temporary suspension of operations are exempt from the license tax (a tax based on the firm's equity), as long as the suspension lasts for the full fiscal year. However, they might still be liable for other taxes and any debt incurred.

[3] The fact that the number of companies waiting for dissolution greatly exceeds those completing the process suggests that liquidation procedures are time consuming. Moreover, costly bankruptcy procedures mean that mechanisms that dissolve/change ownership of firms tend to be informal.

2. **Firm entry rates are also high from a cross-country perspective.** Newly registered firms in Vietnam on average accounted for almost 25 percent of the total number of firms in activity between 2016 and 2019, considerably higher than the rates seen in both OECD and emerging economies. In 2019, new firms in Vietnam accounted for 18 percent of the total firms in operation, which is comparable to the rates seen in Korea (15), the UK (14), and Turkey (13). Exit rates are also quite high when accounting for all inactive firms in any given year (i.e., those temporarily suspending operations and those completing or waiting to complete the dissolution process). However, when limited to firms that have completed dissolution, the exit rate is much smaller and comparable to regional peers such as Thailand.

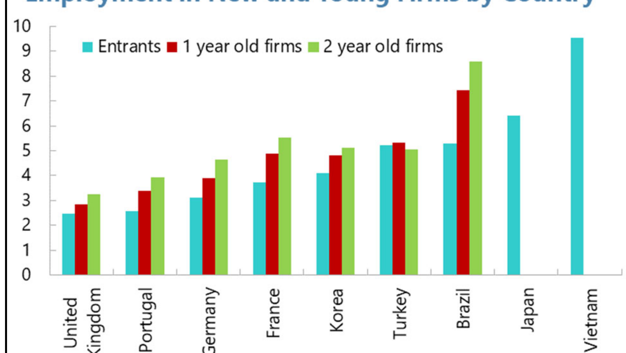
Average Firm Entry and Exit Rates by Country
(share of firms in activity)



Note: Years in parenthesis indicate the time during which data is available. Exit in Vietnam is defined as the sum of firms that temporarily cease operations, firms wiating for dissolution and firms that completed the dissolution process. Entry referes to new firms only (does not include firms returning to operation).
Sources: Data for Vietnam is provided by Vietnamese authorities and the 2017 Economic Census. Firm entry and exit numbers in Thailand are taken from "Thailand's Quest for Economic Growth: From Factor Accumulation to Creative Destruction", by Nakarin Amarase, Tosapol Apaitan and Kiatipong Ariyapruchya (Bank of Thailand Symposium 2013). Data for the remaining countries is found on OECD's Business Demography Indicators (ISIC Rev. 4).

3. **Newly registered firms in Vietnam tend to be larger than in OECD countries.** On average, new firms in Vietnam hire 9.5 employees, which makes them 2–4 times larger than entrant firms in OECD countries. Furthermore, this size difference cannot be fully explained by relative differences in the cost of labor, as entrant firms in Vietnam are also considerably larger than those in other emerging market economies, such as Brazil or Turkey.

Employment in New and Young Firms by Country

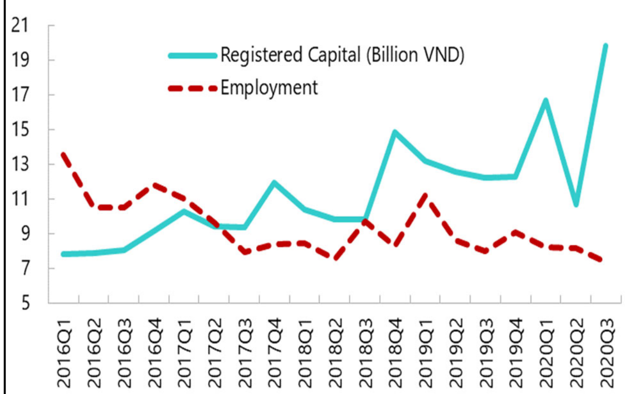


Sources: Vietnamese authorites and OCDE Business Demography Indicators; IMF staff calculations.

4. **Entry includes preexisting firms that have chosen to formalize.** One potential explanation for the large size of entrants in Vietnam is that entrants include both newly created firms and older firms that have chosen to formalize. Given pervasive informality in Vietnam, it is likely that many firms start informally but eventually decide to register with authorities. For instance, Malesky and Taussig (2009) find that Vietnamese firms, on

average, wait over 13 months since their establishment to formalize. Thus, a more appropriate benchmark is to compare entrant firms with young (not nascent) firms. Accounting for this, employment by "entrants" in Vietnam is in line with employment by 2-year old firms in other emerging market economies like Brazil. Furthermore, informality could also explain Vietnam's high entry rate, if a sizable number of informal firms were to decide to become formal (for instance, following a policy that reduces formalization costs).[4]

Employment and Registered Capital in New Firms



Sources: Vietnamese authorities, IMF staff calculations.

5. Entering firms have become smaller, (as measured by employment), and have witnessed a marked increase in registered capital in the wake of the pandemic. This trend could reflect a reduction in formalization costs that lower the minimum size at which potential entrants find it profitable to register their business prior. Another possibility is that entrant firms are becoming more capital-intensive, as suggested by a concomitant increase in their registered capital (equity). This pattern follows the global trend of declining labor share of value added (Karabarbounis and Neiman 2014) related to shifts in the technology available for firms. For instance, the 2019 PCI Report (Malesky, Tuan, et al. 2020) finds that the extent of automation in Vietnam has increased at a higher-than-expected pace, partly due to reductions in training costs and efforts to globally integrate. The COVID-19 pandemic has likely accelerated this trend, increasing the use of digital technologies, and favoring the production of electronics and other goods with higher technology content.

6. Facilitating entry/formalization and streamlining firm exit would help facilitate resource reallocation, thereby boosting productivity. Reducing entry costs for formal firms (formalization costs), which includes efforts to improve the business environment, would dissuade young firms from remaining informal and potentially foster economic growth as they expand. Streamlining the exit process, including bankruptcy procedures, would allow for a faster reallocation of productive factors and a more efficient economy overall.

[4] However, this would imply that the overall number of informal firms would fall over time (and, consequently, the observed entry rate of formal firms) unless there is an equivalent entry of informal firms.

References

Karabarbounis, Loukas, and Brent Neiman. 2014. "The Global Decline of the Labor Share." *The Quarterly Journal of Economics* 129 (1): 61-103.

Malesky, Edmund, and Markus Taussig. 2009. "Out of the Gray: the Impact of Provincial Institutions on Business Formalization in Vietnam." *Journal of East Asian Studies* 9 (2): 249-90.

Malesky, Edmund, Dau Anh Tuan, Pham Ngoc Thach, Le Thanh Ha, Tran Minh Thu, Nguyen Thi Le Nghia, Nguyen Le Ha, and Truong Duc Trong. 2020. *The Vietnam Provincial Competitiveness Index: Measuring Economic Governance for Private Sector Development, 2019 Final Report.* Hanoi, Vietnam: Vietnam Chamber of Commerce and Industry and United States Agency for International Development.

Annex V. Major Policy Responses to COVID-19

Fiscal Measures

- **Additional health spending** (0.2 percent of GDP). Of this amount, 60 percent was used to purchase health care equipment and materials, and the rest to support containment activities (allowances to medical and other staff and amenities for quarantined individuals).

- **Tax measures** (i) temporary deferrals of VAT, CIT and land rental payments for a broad set of companies (2.2 percent of GDP); (ii) a temporary 30 percent cut in CIT for eligible firms (0.3 percent of GDP); (iii) deferrals of excise tax on domestically produced cars (0.2 percent of GDP); (iv) higher PIT thresholds for deductions; iv) temporary reduction in the environment protection tax on aviation fuel; and (v) reductions of other taxes and fees (0.2 percent of GDP).

- **Cash transfers** (0.5 percent of GDP) include payments (from April to December) for temporarily laid-off and part-time workers (VND 1.8 mn/person/month for 1 mn people), informal workers without unemployment insurance (VND 1 mn/person/moth for 5 mn people), merit people with recognized contribution to the revolution (VND 0.5 mn/person/month for 1.1 mn people), poor and near-poor households (VND 0.5 mn/person/month for 2.2 mn people), and tax-registered household businesses with annual income below VND 100 mn (VND 1mn/household/month for 0.75 mn households).

- **Other measures** (i) deferrals of contributions to the social security fund for affected employers and employees, and funding from the Unemployment Insurance Fund tied to training employees; (ii) electricity prices cuts for low income households and firms in certain sectors; and (iii) improving telecommunication services to enable work from home, and free of charge telecommunication services for hospitals and central quarantine facilities.

Monetary and Financial Measures

- **Interest rate cuts.** The SBV cut its repo and refinancing rates by 150 and 200 bps in total between March and October. It also cut the cap on short-term lending and deposit rates.

- **Credit package.** With the coordination of SBV, credit institutions (CIs) rolled out a VND 300 trillion (3.9 percent of 2019 GDP) credit support package in March on a voluntary basis. The credit package aims to provide new loans to borrowers at lower interest rates (by 0.5–2.5 percent) compared to pre-COVID-19 interest rates.

- **Loan restructuring (between March-early November)**

  - CIs have restructured/rescheduled loans for 272,183clients with outstanding loans of VND 342 trillion (3.9percent of total system outstanding loans).

  - CIs have either reduced or exempted interest payments for 552,725 clients with outstanding loans of VND 931 trillion (10.8 percent of the banking system outstanding loans).

- **Freezing loan classification** CIs are permitted to retain loan classification for eligible loans restructured on account of COVID-19.

- **CIs reduced transaction fees** for payment transactions in small amounts (estimated the total reduction of VND 1 trillion).

- **Vietnam Social Policy Bank (VPSB) loans with SBV refinancing** (VND 16 trillion) to provide zero-interest-rate loans for affected firms that maintain employees on payroll.

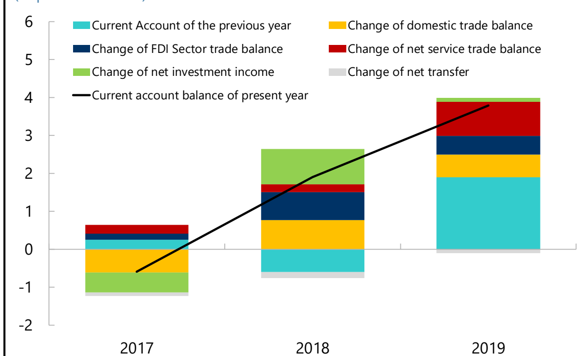
- **Short-term funding ratio requirement.** The planned increase in banks' short-term funding ratio requirement was delayed by one year to allow banks to better channel short-term liquidity to long-term

Annex VI. 2019 External Sector Assessment

Vietnam's external position in 2019 remains substantially stronger than warranted by fundamentals and desirable policies. The current account gap is estimated at around 6 percent of GDP, corresponding to an exchange rate undervaluation of 7.8 percent in 2019. These estimates should be interpreted with caution in view of measurement issues. External imbalances reflect declining, but still prevalent, economy-wide structural distortions and policy gaps. More ambitious structural, administrative and financial sector reforms and modern policy frameworks continue to remain critical for promoting domestic private investment and allowing for greater two-way exchange rate flexibility to reduce the need to build buffers.

1. **The current account surplus increased significantly in 2019, largely driven by a decline in imports of raw materials and intermediate goods amid U.S.-China trade tensions.** The current account-to-GDP ratio increased from 1.9 percent in 2018 to 3.8 percent of GDP, buoyed by a higher trade surplus, tourism receipts, and remittances.[1] Although merchandise exports growth moderated in 2019, imports growth slowed even more, particularly in Q4. This reflected a sharp slowdown in raw material and intermediate goods imports associated with global value chains (GVCs) amid uncertainties surrounding the Phase I China-US trade talks. Investment payments in percent of GDP remained broadly unchanged in contrast to a sharp decline in 2018. The COVID-19 crisis has impacted trade and services flows, particularly in the first half of 2020. The trade balance increased due to subdued imports, reflecting significantly weaker domestic demand and low oil prices, and relatively resilient domestic exports of goods.

Current Account Decomposition
(In percent of GDP)



Sources: Vietnamese authorities, IMF staff calculations.

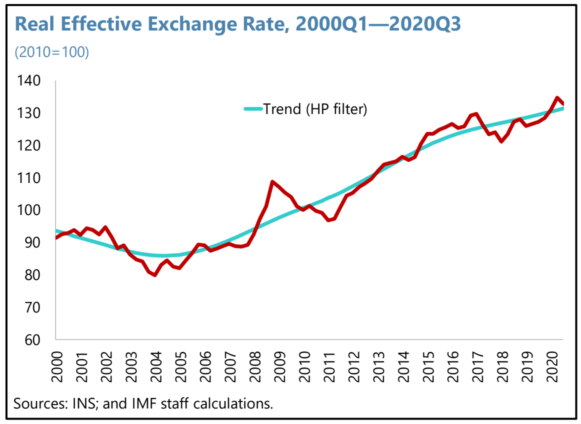
Growth Rates of Individual Current Account Components (y/y)

	2019Q1	2019Q2	2019Q3	2019Q4	2020Q1	2020Q2
Goods: Exports	5.2	9.1	10.5	8.5	7.5	-6.6
FDI sector	3.2	7.7	4.5	1.5	3.6	-16.4
Domestic sector	10.4	12.4	27.0	25.6	17.5	6.2
Goods: Imports	7.8	9.7	7.3	**3.5**	3.6	-8.8
Imports of raw material and intermediate goods	7.0	2.8	**-3.8**	**0.2**	-2.9	-18.0
FDI sector	4.6	10.0	**-2.5**	**-5.8**	4.1	-15.0
Domestic sector	12.5	29.1	11.3	17.1	2.5	-3.2
Services: Exports	6.1	6.0	12.5	**26.0**	-8.9	-74.7
Services: Imports	4.8	5.1	-0.8	2.1	10.0	-16.7
Investment Income: Receipt	57.6	43.2	35.9	24.6	-5.0	-30.7
Investment Income: Payments	13.2	32.2	10.7	**-11.7**	-9.2	-27.9
Transfers: Receipt	-0.4	6.1	1.4	21.5	-7.3	-14.6
Transfers: Payments	23.6	12.2	10.5	28.5	28.6	-31.9

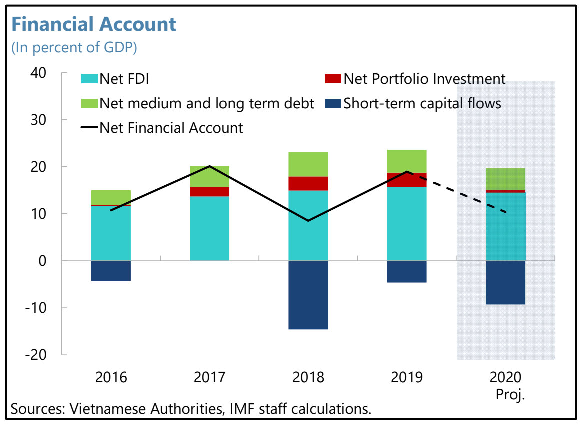
Source: IMF staff calculations.

[1] Both years are based on revised GDP figures. GDP was revised upwards by 25.4 percent on average over 2010–17 owing to better measurement and coverage of formal businesses.

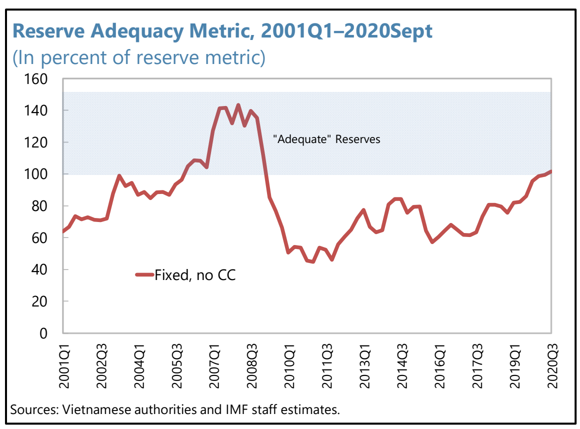
2. The real effective exchange rate (REER) continued its appreciation trend. The REER appreciated by another 1.7 percent in 2019, following a 3 percent appreciation in 2018. The nominal effective exchange rate (NEER) appreciated by 0.8 percent in 2019, which in conjunction with rising inflation differentials with trading partners, contributed to the appreciation trend. In the first half of 2020, the REER appreciated by 5 percent due to the rising inflation differential, followed by a mild depreciation (1.4 percent) in Q3.



3. The financial account balance increased significantly in 2019. FDI remained buoyant, with the increase largely coming from China in the manufacturing sector.[2] Other short-term capital outflows also declined significantly, contributing to a higher financial account balance. Net portfolio inflows remain broadly stable. Since the onset of the pandemic, FDI, portfolio investment and other capital inflows have slowed, but the financial account has remained in surplus.



4. Reserve cover rose in 2019 but was below the suggested adequacy range. GIR increased by US$ 23 billion, reaching US$ 78.5 billion (equivalent to 96 percent of the ARA metric) compared to 76 percent at the end of 2018. The increase was the highest since the global financial crisis, reflecting a strong trade surplus, record tourism receipts, buoyant FDI inflows, and much smaller short-term capital outflows. Reserves in terms of traditional rules—3.7 months of prospective imports of goods and services, 18 percent of broad money, over 200 percent of short-term debt—are more comfortable than in the recent past.[3] Reserve accumulation continued in 2020, albeit at a more gradual pace, as both the current and financial accounts remained in surplus. As of September, reserves amounted to US$ 88.9 billion, just above the ARA threshold of 100 percent.



---

[2] By end-2019, total committed Chinese FDI was estimated at around US$16.3 billion, accounting for around 5 percent of total accumulated FDI to Vietnam (20 percent if Hong Kong SAR, China, and Taiwan Province of China are added).

[3] Benchmarks on the traditional rules are 3 months of imports, 5-20 percent of broad money, and 100 percent of short-term debt.

5. Vietnam's external position in 2019 is assessed to be substantially stronger than warranted by fundamentals and desirable policies. Based on the current account (CA) approach, the overall CA gap was 6 percent in 2019, equivalent to a 7.8 percent REER undervaluation.[4] The gap incorporates the standard EBA-lite adjustment for precautionary savings associated with typhoons.

- The current account norm reflects updated data on demographic variables and productivity (accounting for revised GDP) to capture Vietnam's population and economic structure. The NFA position is re-estimated to address the under-estimation of foreign assets reflected in large accumulated negative errors and omissions (-21.7 percent of GDP from 1995 to 2019).

- The adjustment to the norm captures that fact that the model-based old age dependency ratio overstates the impact on the current account gap.[5]

The external sector misalignment reflects structural impediments (see ¶6 and 7) and policy gaps. These include relatively higher savings given weak social safety nets; inadequate private investments given resource misallocation; a less expansionary fiscal stance relative to other countries; and the pace of reserve accumulation, which if maintained throughout the medium-term, would be stronger than that associated with desirable medium-term policies. These are partially offset by a positive credit gap. The REER approach points to a modest overvaluation, but the fit is poor, and the norm fluctuates significantly over time; hence staff's assessment relies on the CA.

Vietnam: Results from EBA-lite models

(in percent of GDP, unless otherwise indicated)

	CA model	REER model
CA-Actual	**3.8**	
Cyclical contributions (from model)	0.5	
Natural disasters and conflicts	-0.4	
Adjusted CA	**3.9**	
CA Norm (from model)	**-2.4**	
Adjustments to the norm	0.3	
Adjusted CA Norm 1/	**-2.1**	
CA Gap	**6.0**	**-1.5**
o/w Policy gap	3.5	
Elasticity	-0.8	-0.8
REER Gap (in percent)	**-7.8**	**2.0**

1/ Cyclically adjusted, including multilateral consistency adjustments.

6. The estimated current account gap is subject to large uncertainty owing to measurement issues associated with investment income. Vietnam's current account balances have fluctuated widely, with downward revisions seen in the range of 0.3–3.1 percent of (revised) GDP between 2015–18. The revisions reflect a recalculation of FDI investment income using income tax data (in line with 2019 IMF Technical Assistance) and the 2015 FDI survey, and a commensurate reduction in errors and omissions. Although the TA helped reduce measurement errors in investment income, recording of profits of FDI enterprises remains challenging. In 2018–19, the number of new FDI enterprises has increased significantly, owing in part to trade diversion. However, these may not

[4] CA gap based on the old GDP number was 6.5 percent, equivalent to 8.5 percent REER undervaluation.

[5] Vietnam has one of the highest labor force participation rates (including for women) in the region as people tend to join the labor force without getting a tertiary education or vocational training (see also footnote 2, Annex 3), which has an impact on savings behavior.

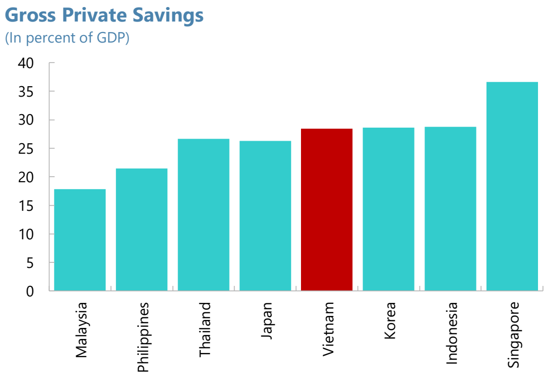
be fully captured in the balance of payments, and errors and omissions remain large, leaving room for further downward revision of the current account in 2019.

7. Cross-country comparisons highlight the scope to narrow external imbalances further by lowering structural bottlenecks. Historically, the private saving rate is broadly in line with other East Asian countries, although it is somewhat higher than in countries at a similar level of economic development reflecting pervasive informality and weak social safety nets. Gross private fixed capital formation has been lower than in most countries in the region (text figure). The FDI sector, which is strongly integrated with global value chains, accounts for close to 30 percent of total capital formation, suggesting that domestic investments excluding the FDI-sector are even lower. Low investment rates in the domestic sector, which is dominated by SMEs and informal household businesses, reflect onerous regulatory and administrative burdens, concentration of landownership in state hands, and weaknesses in financial intermediation of the external surpluses through the banking system. Although the level of government investment (above 6 percent of GDP) is comparable to regional peers, investment needs, particularly in the transportation and power generation sectors, remain large (see IMF, 2019 for details).

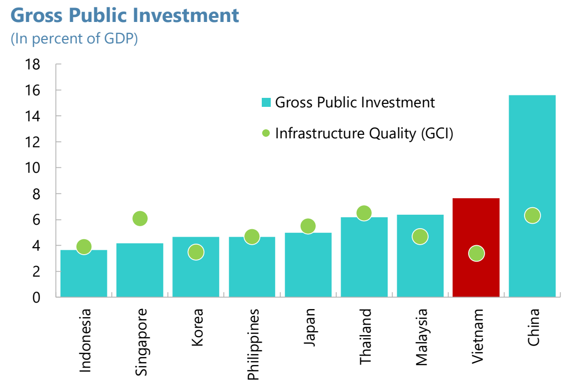
Figure 1. Cross-country Comparison: Savings and Investments, 2019

Private savings are somewhat higher than some Asian countries at a similar level of economic development…

…and public investment is higher than most countries in the region.



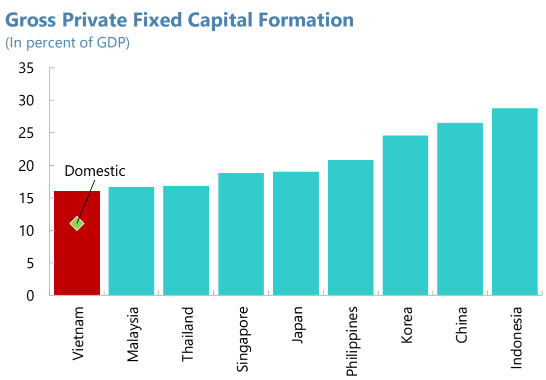
Sources: IMF World Economic Outlook database.



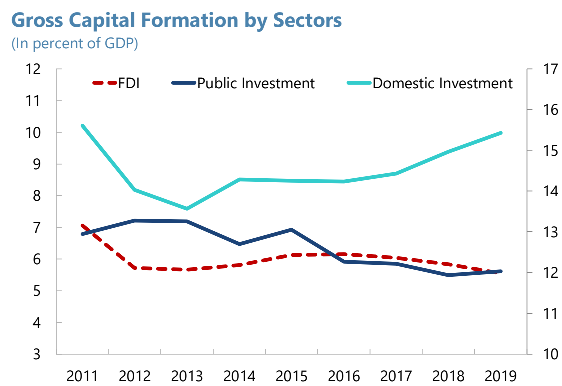
Sources: IMF World Economic Outlook database.

However, private investment is lower than in peers, particularly in the domestic (non-FDI) sector.

Domestic sector investment has increased in recent years, but public investment has declined.



Sources: IMF World Economic Outlook database.



Sources: Vietnamese authorities, IMF staff calculations.

Annex VII. Public and External Debt Sustainability Analysis

Vietnam's public and publicly guaranteed (PPG) debt is estimated at 43.4 percent of GDP in 2019. Under staff's baseline projections, PPG debt would increase in 2020, reversing three years of continued consolidation, to 46.6 percent of GDP owing to COVID-19, before declining modestly to around 45 percent of GDP in 2025. Staff continues to assess the debt sustainability risk as low to moderate, reflecting an environment of high global uncertainty. Vietnam has some fiscal space.

1. Background. The debt sustainability analysis framework for market access countries (MAC DSA) is used to assess Vietnam's debt sustainability and other risks related to its funding and debt structure. The framework uses a risk-based approach that includes (i) an assessment of the realism of baseline assumptions and the projected fiscal adjustment; (ii) an analysis of risks associated with the debt profile; (iii) macro-fiscal risks; (iv) a stochastic debt projection taking into account past macro-fiscal volatility; and (v) a standardized summary of risks in a heat map.

2. Coverage. The DSA is performed on public domestic and external debt. In addition to the central and local government, the analysis covers debt guaranteed by the government for state owned enterprises (SOEs) and specialized financial institutions (SFIs). Debt guarantees are substantial in Vietnam, standing at above 5 percent of GDP in 2019. Their inclusion, not common among lower emerging market economies, improves the assessment of the public debt risk profile significantly. The framework assumes almost constant debt guarantees as a ratio to GDP over the medium-term. At the same time, public debt of Vietnam's social security (VSS), currently not included in the macro-framework, is not included in the DSA. With cross-debt of about 10 percent of GDP, the inclusion would markedly improve Vietnam's debt profile in the medium-to long-term, but rapid aging would deplete VSS assets and quickly add to public debt in the early 2030s.

3. Macro-fiscal assumptions (Figure 1). Using staff's baseline scenario, growth declines from 7.0 percent in 2019 to a projected 2.9 percent in 2020 and stabilizes at potential (6.6 percent) in the medium term. A primary fiscal deficit of 4.0 percent is projected in 2020 and assumed to decline to below 2 percent of GDP in 2025 (compared to a debt-stabilizing primary balance of 2.8 percent of GDP).

4. Realism of baseline assumptions (Figure 5). The median forecast errors for real GDP growth, primary balance and inflation during 2011–19 are small (around -0.4 percent), suggesting no evidence of systematic projection bias. The maximum projected 3-year adjustment in CAPB as a percent of GDP over the projection period is realistic given experiences of other MACs.

5. Public debt sustainability. Under the baseline scenario (Figure 1), the PPG debt-to-GDP ratio is projected to increase by around 3 percentage points to 46.6 percent of GDP in 2020, with privatization receipts and a drawdown of government deposits partially compensating for the primary deficit (1.0 percent of GDP). With Vietnam's shortest maturities of bonds at 5 years, rollover risks are limited. PPG debt is projected at about 45.0 percent of GDP by 2025, comfortably below the government ceiling of 65 percent of GDP. The share of foreign currency-denominated debt is projected to decrease from 40 percent of total debt in 2019 to about 30 percent in 2025.

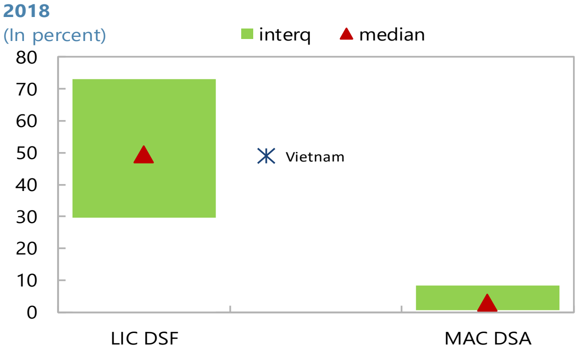
6. Alternative scenarios (Figure 2). The constant primary balance alternative scenario shows that, if the deficit were to remain at its 2020 level, due to a protracted COVID-19 shock or otherwise, PPG debt could increase to around 51 percent of GDP over the medium-term. The historical scenario—in which real GDP growth, the primary balance and real interest rates are set at their historical average—shows a gradual decrease of PPG debt to about 43 percent in 2025, reflecting past consolidations against this year's one-off nature of the COVID-19 pandemic. A standard contingent liability shock of around 12 percent of GDP, representing 10 percent of banking sector assets, puts PPG debt at about 56 percent of GDP by 2025.

7. Macro-fiscal stress tests. These suggest that Vietnam is more vulnerable to real interest rate and combo shocks, but these shocks do not pose an immediate risk to debt sustainability (Figure 3). A real interest rate shock, in which the effective interest rate is increased by more than 600 basis points in 2021–2025 compared to baseline, would raise PPG debt to around 48 percent of GDP in 2025. A combined macro-fiscal shock in 2021 (incorporating the largest effect of individual shocks on all relevant variables) would increase PPG debt to about 52 percent of GDP by 2025, which remains below Vietnam's public debt ceiling of 65 percent of GDP (although close to the authorities' envisaged revised debt ceiling of 55 percent of GDP).

8. Dynamic simulations. Probability distributions under an array of macroeconomic shocks show that in a negative-case scenario, PPG debt could reach about 56 percent of GDP with 10 percent likelihood by 2025. On the other spectrum a combination of positive shocks would help reduce the debt-to-GDP ratio to 30 percent with a 10 percent probability in 2025 (Figure 4).

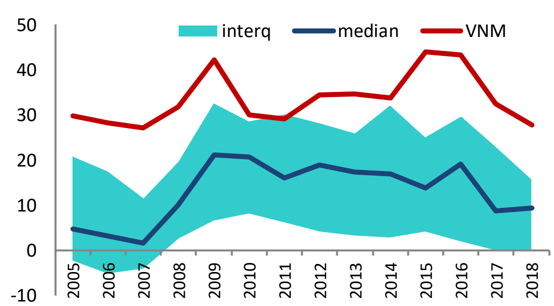
9. Heat map. The heat map shows a low risk of debt distress, where debt-to-GDP and the GFN-to-GDP ratios remain below the 70 and 15 percent thresholds, respectively, under both the baseline and all stress scenarios (Figure 4). Finally, the assessment highlights possible risks in Vietnam's debt profile, notably in terms of external financing requirements, although this largely reflects COVID-19 related pressures.

Concessional Debt as a Share of External PPG Debt Stock, 2018
(In percent)



Sources: Calculations based on WB International Debt Statistics.

GE New External Debt: MAC DSA



Sources: Calculations based on WB International Debt Statistics.

10. External debt sustainability (Figure 6 and Table 1). Vietnam's total external debt-to-GDP ratio was 37.2 percent in 2019. Under the baseline, external debt would increase to about 38 percent of GDP in 2021 before stabilizing around 36 percent of GDP over the medium-term. The external debt to exports ratio and gross external financing needs remain manageable at below 50 and 12 percent, respectively. Vietnam's external debt is vulnerable to real depreciation and current account shocks while growth and interest rate shocks have only limited impact on the external debt dynamics. The currency's observed long-term real appreciation trend is an upside risk.

Figure 1. Vietnam: Public Sector Debt Sustainability Analysis (DSA)—Baseline Scenario

(In percent of GDP unless otherwise indicated)

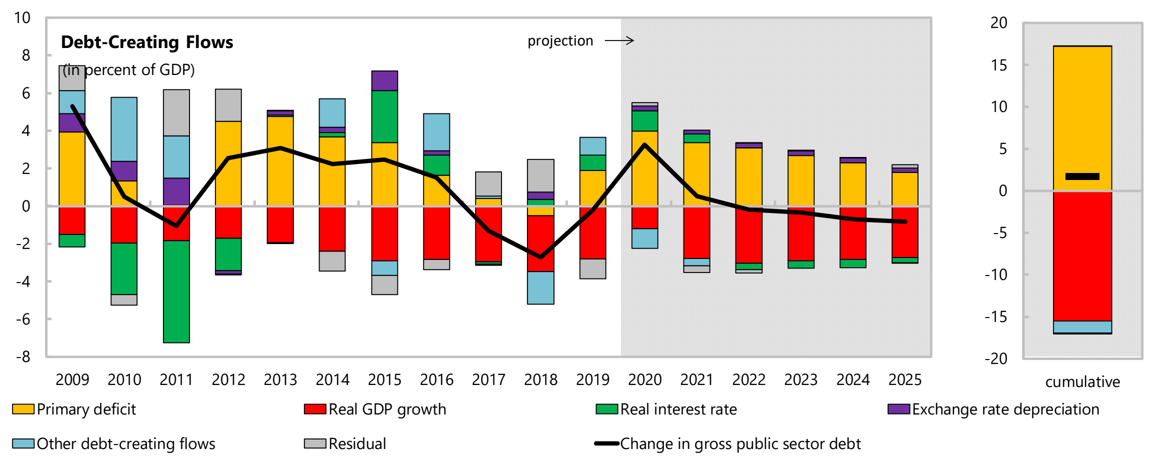
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2009-2017 [2/]	2018	2019	2020	2021	2022	2023	2024	2025
Nominal gross state debt	41.4	43.6	43.4	46.6	47.1	46.9	46.6	45.9	45.1
Of which: guarantees	8.2	6.2	5.3	5.4	5.0	4.6	4.5	4.4	4.4
State gross financing needs	6.4	3.1	5.9	8.5	8.1	6.5	5.9	6.3	5.2
Real GDP growth (in percent)	6.3	7.1	7.0	2.9	6.5	7.2	6.9	6.8	6.6
Inflation (GDP deflator, in percent)	6.8	3.3	1.9	1.3	2.4	4.1	4.3	4.7	4.5
Nominal GDP growth (in percent)	13.5	11.2	9.4	3.4	9.1	11.6	11.6	11.8	11.5
Effective interest rate (in percent) [4/]	4.3	4.3	4.1	3.9	3.6	3.6	3.7	4.0	4.2

As of October 23, 2020		
Sovereign Spreads		
EMBIG (bp) 3/		125
5Y CDS (bp)		122
Ratings	Foreign	Local
Moody's	Ba3	Ba3
S&Ps	BB-	BB
Fitch	BB-	BB-

Contribution to Changes in Public Debt

	Actual			Projections							
	2009-2017	2018	2019	2020	2021	2022	2023	2024	2025	cumulative	debt-stabilizing primary balance [10/]
Change in gross state sector debt	1.7	-2.7	-0.2	3.2	0.5	-0.2	-0.4	-0.7	-0.8	1.7	
Identified debt-creating flows	1.3	-4.5	0.8	3.1	0.9	0.0	-0.4	-0.7	-1.0	1.8	
Primary deficit	2.6	-0.5	1.9	4.0	3.4	3.1	2.7	2.3	1.8	17.2	-2.8
Primary (noninterest) revenue and grants	19.3	19.5	19.5	16.2	15.8	16.1	16.5	16.7	17.0	98.2	
Primary (noninterest) expenditure	22.0	19.0	21.4	20.2	19.1	19.2	19.1	19.0	18.8	115.4	
Automatic debt dynamics [5/]	-2.4	-2.2	-2.0	0.1	-2.1	-3.1	-3.0	-3.0	-2.8	-13.9	
Interest rate/growth differential [6/]	-3.0	-2.6	-2.0	-0.1	-2.3	-3.4	-3.3	-3.3	-3.0	-15.4	
Of which: real interest rate	-0.7	0.4	0.8	1.1	0.4	-0.3	-0.4	-0.4	-0.3	0.1	
Of which: real GDP growth	-2.2	-3.0	-2.8	-1.2	-2.8	-3.0	-2.9	-2.8	-2.7	-15.5	
Exchange rate depreciation [7/]	0.6	0.4	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	1.1	-1.7	0.9	-1.0	-0.4	0.0	0.0	0.0	0.0	-1.4	
Fiscal- Net privatization proceeds (negative)	0.0	-0.9	-0.7	-0.6	-0.2	-0.1	-0.1	-0.1	-0.1	-1.2	
Contingent liabilities [8/]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Fiscal- Net acquisition of financial assets	1.1	-0.8	1.6	-0.5	-0.2	0.1	0.1	0.1	0.1	-0.2	
Residual, including asset changes [9/]	0.4	1.7	-1.0	0.2	-0.4	-0.2	0.0	0.0	0.2	-0.2	



Source: IMF staff.

1/ Public sector is defined as general government and includes public guarantees, defined as SOEs.

2/ Based on available data.

3/ EMBIG, latest available.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

8/ Includes 0.2 percent of GDP remaining cost of recapitalizing Agribank (8.8 trillion dong), assumed to be finalized by end-2019.

9/ Includes changes in the stock of guarantees, asset changes, and interest revenues (if any).

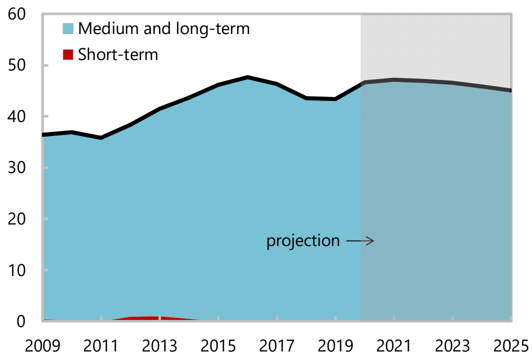
10/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 2. Vietnam: Public DSA—Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

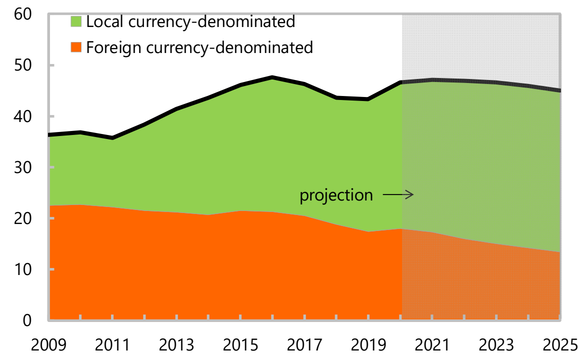
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

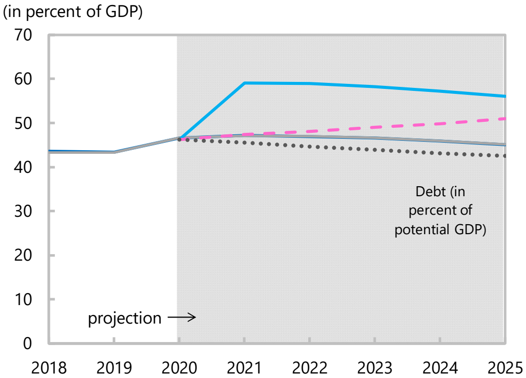


Alternative Scenarios

Baseline
Contingent Liability Shock
Historical
Constant Primary Balance

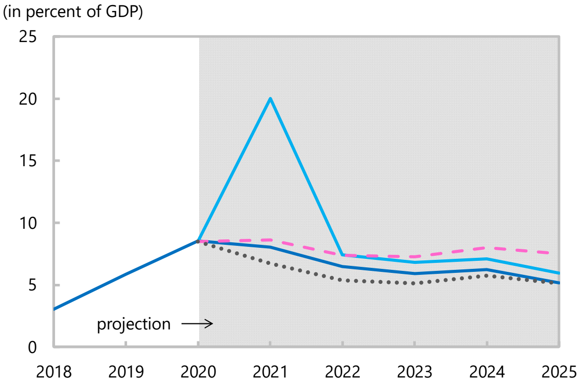
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

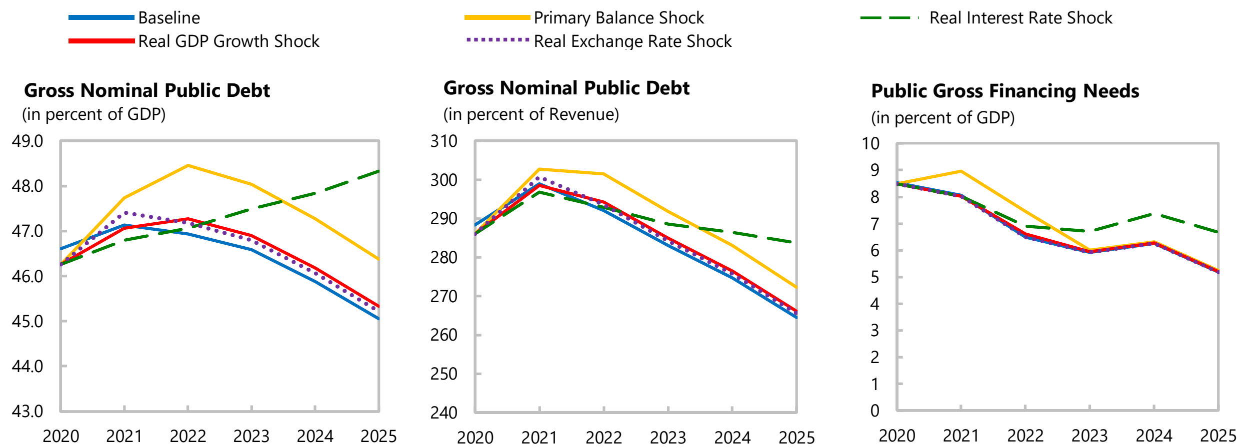
Baseline Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	2.9	6.5	7.2	6.9	6.8	6.6
Inflation	1.3	2.4	4.1	4.3	4.7	4.5
Primary Balance	-4.0	-3.4	-3.1	-2.7	-2.3	-1.8
Effective interest rate	3.9	3.6	3.6	3.7	4.0	4.2
Constant Primary Balance Scenario						
Real GDP growth	2.9	6.5	7.2	6.9	6.8	6.6
Inflation	1.3	2.4	4.1	4.3	4.7	4.5
Primary Balance	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0
Effective interest rate	3.9	3.6	3.6	3.8	4.0	4.2

Historical Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	2.9	6.5	6.5	6.5	6.5	6.5
Inflation	1.3	2.4	4.1	4.3	4.7	4.5
Primary Balance	-4.0	-2.1	-2.1	-2.1	-2.1	-2.1
Effective interest rate	3.9	3.6	3.3	3.3	3.3	3.4
Contingent Liability Shock						
Real GDP growth	2.9	5.9	6.6	6.9	6.8	6.6
Inflation	1.3	2.3	3.9	4.3	4.7	4.5
Primary Balance	-4.0	-15.2	-3.1	-2.7	-2.3	-1.8
Effective interest rate	3.9	4.1	4.7	4.7	4.8	4.9

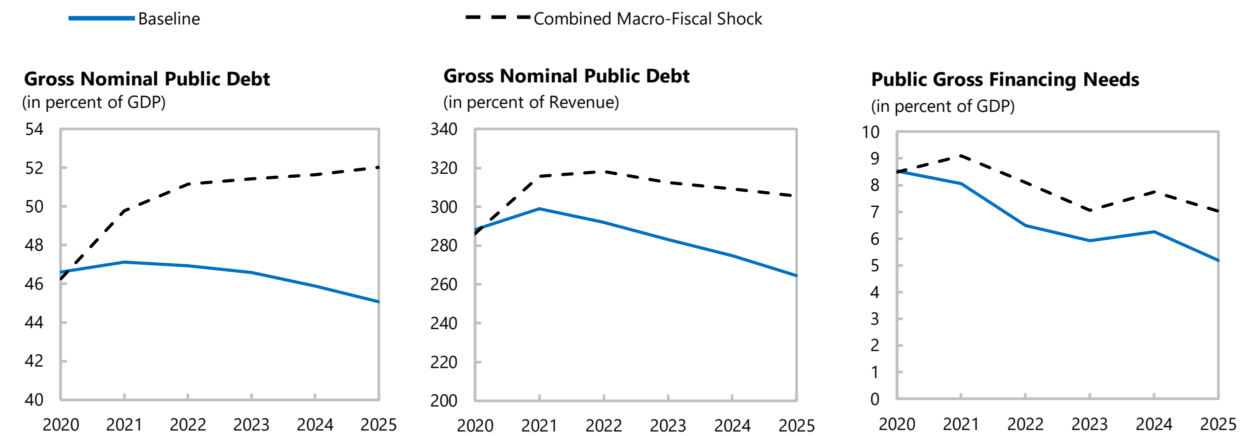
Source: IMF staff.

Figure 3. Vietnam: Public DSA—Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

Primary Balance Shock	2020	2021	2022	2023	2024	2025
Real GDP growth	2.9	6.5	7.2	6.9	6.8	6.6
Inflation	1.3	2.4	4.1	4.3	4.7	4.5
Primary balance	-4.0	-4.3	-4.0	-2.7	-2.3	-1.8
Effective interest rate	3.9	3.6	3.6	3.8	4.0	4.2
Real Interest Rate Shock						
Real GDP growth	2.9	6.5	7.2	6.9	6.8	6.6
Inflation	1.3	2.4	4.1	4.3	4.7	4.5
Primary balance	-4.0	-3.4	-3.1	-2.7	-2.3	-1.8
Effective interest rate	3.9	3.6	4.7	5.8	6.8	7.8
Combined Shock						
Real GDP growth	2.9	5.9	6.6	6.9	6.8	6.6
Inflation	1.3	2.3	3.9	4.3	4.7	4.5
Primary balance	-4.0	-4.3	-4.0	-2.7	-2.3	-1.8
Effective interest rate	3.9	3.7	4.7	5.9	6.9	7.8

Real GDP Growth Shock	2020	2021	2022	2023	2024	2025
Real GDP growth	2.9	5.9	6.6	6.9	6.8	6.6
Inflation	1.3	2.3	3.9	4.3	4.7	4.5
Primary balance	-4.0	-3.3	-3.2	-2.7	-2.3	-1.8
Effective interest rate	3.9	3.6	3.6	3.7	4.0	4.2
Real Exchange Rate Shock						
Real GDP growth	2.9	6.5	7.2	6.9	6.8	6.6
Inflation	1.3	5.0	4.1	4.3	4.7	4.5
Primary balance	-4.0	-3.4	-3.1	-2.7	-2.3	-1.8
Effective interest rate	3.9	3.7	3.5	3.7	3.9	4.1

Source: IMF staff.

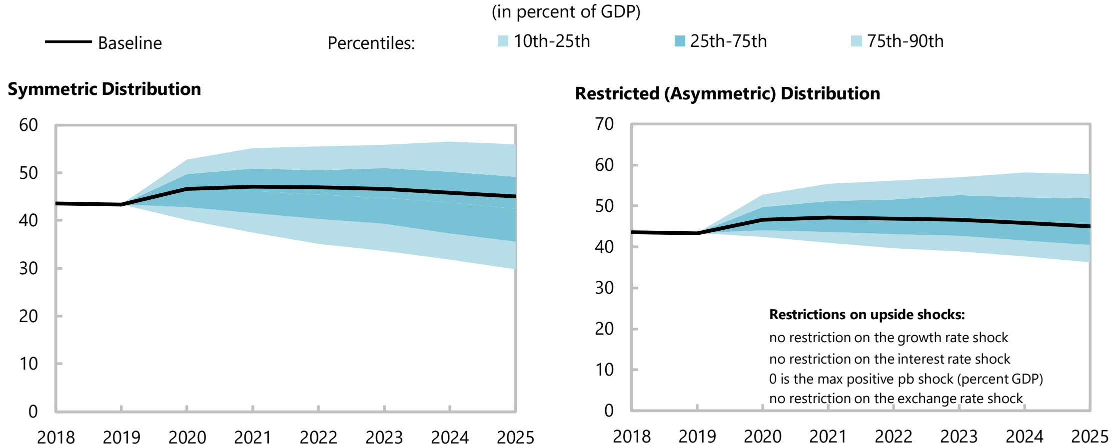
Figure 4. Vietnam: Public DSA—Risk Assessment

Heat Map

Debt level 1/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs 2/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile 3/	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

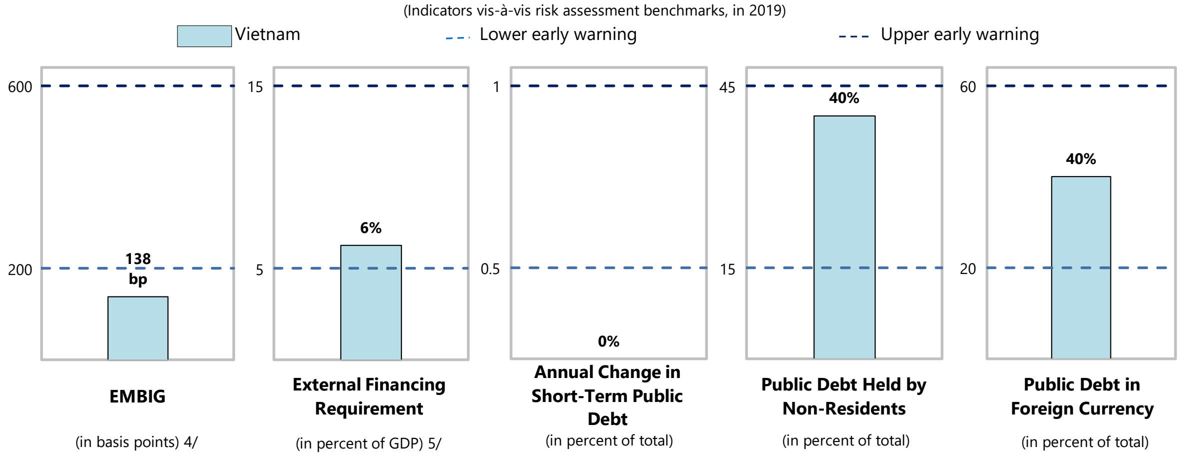
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2019)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

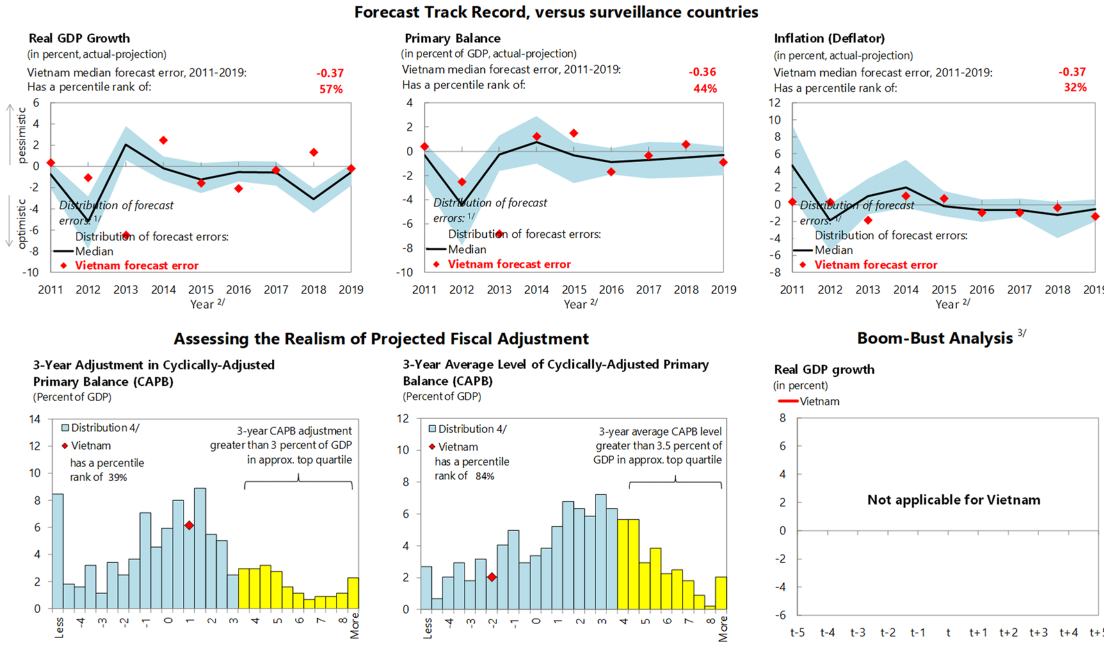
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.
Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ EMBIG, an average over the last 3 months, 25-Jul-20 through 23-Oct-20.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Figure 5. Vietnam: Public DSA—Realism of Baseline Assumptions 1/



Source : IMF Staff.

1/ Plotted distribution includes surveillance countries, percentile rank refers to all countries.

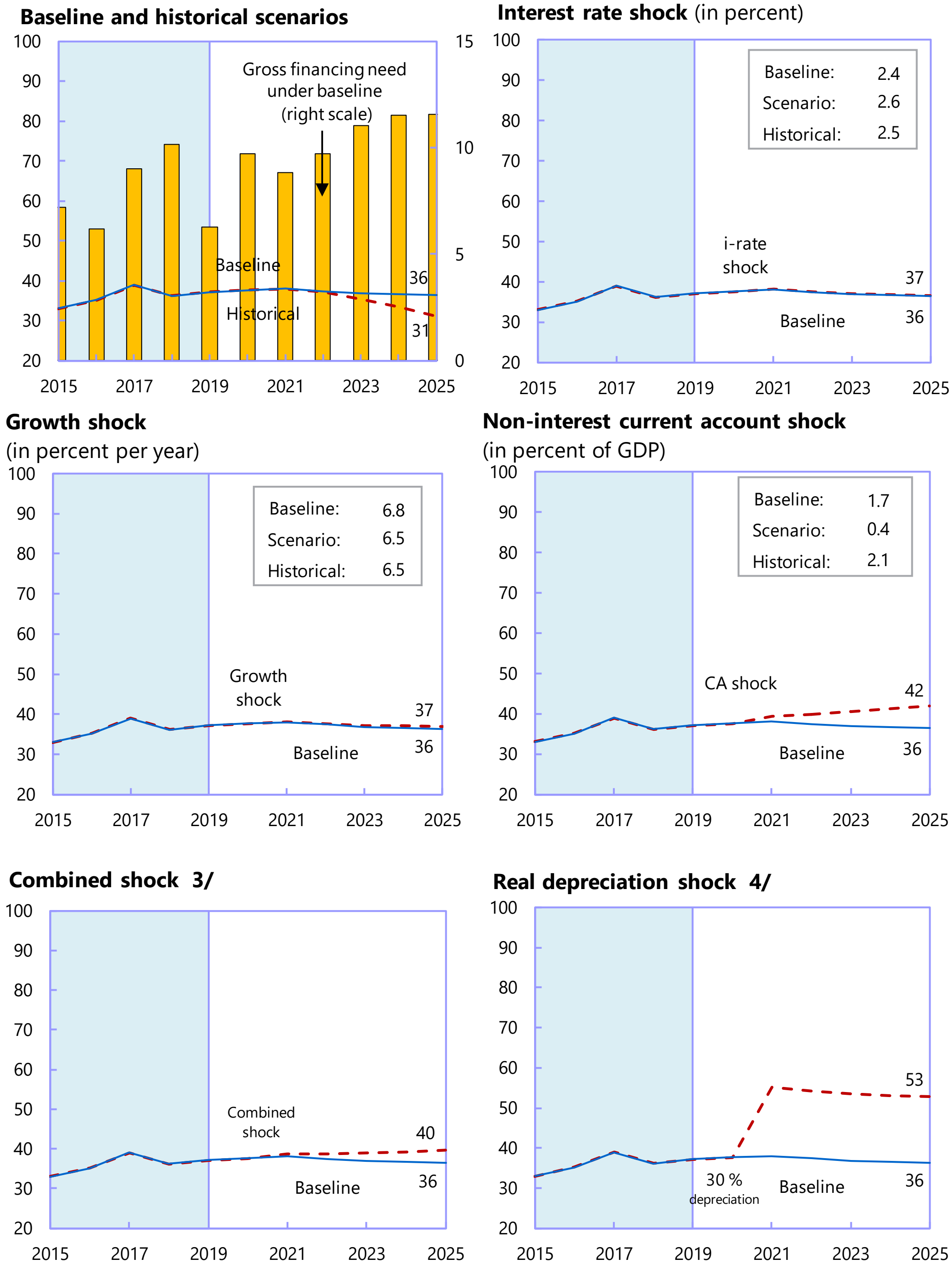
2/ Projections made in the spring WEO vintage of the preceding year.

3/ Not applicable for Vietnam, as it meets neither the positive output gap criterion nor the private credit growth criterion.

4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 6. Vietnam: External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2021.

Table 1. Vietnam: External Debt Sustainability Framework, 2015–2025

(In percent of GDP, unless otherwise indicated)

	Actual							Projections							
	2015	2016	2017	2018	2019			2020	2021	2022	2023	2024	2025		Debt-stabilizing non-interest current account 6/
Baseline: External debt	33.0	35.2	39.0	36.2	37.2			37.6	38.0	37.4	36.9	36.6	36.4		-6.0
Change in external debt	2.7	2.1	3.8	-2.8	1.0			0.5	0.4	-0.7	-0.5	-0.3	-0.2	0.0	
Identified external debt-creating flows (4+8+9)	-4.2	-6.9	-7.5	-10.0	-11.2			-7.4	-8.9	-8.3	-6.7	-6.2	-5.8	0.0	
Current account deficit, excluding interest payments	0.2	-0.9	-0.2	-2.9	-4.6			-3.0	-3.1	-2.4	-1.2	-0.9	-0.8	6.0	
Deficit in balance of goods and services	-1.1	-2.7	-2.5	-4.2	-6.1			-5.2	-5.1	-4.5	-2.8	-2.4	-2.3		
Exports	73.2	75.0	82.4	85.0	86.2			83.9	88.0	87.8	86.8	85.4	83.9		
Imports	72.1	72.3	79.9	80.8	80.1			78.6	82.9	83.3	84.0	83.0	81.6		
Net non-debt creating capital inflows (negative)	-4.5	-4.6	-4.9	-4.9	-4.8			-4.2	-4.3	-4.2	-4.0	-3.8	-3.6	-3.6	
Automatic debt dynamics 1/	0.2	-1.4	-2.4	-2.2	-1.9			-0.2	-1.5	-1.7	-1.6	-1.5	-1.4	-2.4	
Contribution from nominal interest rate	0.7	0.6	0.8	1.0	0.8			0.8	0.8	0.8	0.8	0.8	0.8	0.8	
Contribution from real GDP growth	-2.1	-2.1	-2.2	-2.5	-2.3			-1.0	-2.3	-2.5	-2.4	-2.3	-2.2	-2.2	
Contribution from price and exchange rate changes 2/	1.6	0.1	-0.9	-0.7	-0.4			...	...	...	...	...	...	-1.0	
Residual, incl. change in gross foreign assets (2-3) 3/	6.9	9.0	11.3	7.2	12.2			7.9	9.3	7.6	6.3	5.9	5.6	0.0	
External debt-to-exports ratio (in percent)	45.2	46.9	47.3	42.5	43.1			44.9	43.2	42.6	42.5	42.9	43.4		
Gross external financing need (in billions of US dollars) 4/	17.0	15.6	25.0	30.9	20.6			33.3	32.4	39.3	48.9	56.1	61.6		
in percent of GDP	7.2	6.2	9.0	10.2	6.3	10-Year	10-Year	9.7	8.8	9.7	11.0	11.5	11.6		
Scenario with key variables at their historical averages 5/								37.6	37.9	37.3	35.4	33.4	31.2		-6.4
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							For debt stabilization	
Real GDP growth (in percent)	7.0	6.7	6.9	7.1	7.0	6.5	0.6	2.9	6.5	7.2	6.9	6.8	6.6	6.6	
GDP deflator in US dollars (change in percent)	-4.9	-0.2	2.8	1.9	1.0	3.1	4.6	1.3	0.3	2.5	2.6	2.9	2.8	2.8	
Nominal external interest rate (in percent)	2.4	2.0	2.4	2.9	2.4	2.5	0.4	2.3	2.3	2.3	2.4	2.4	2.4	2.4	
Growth of exports G&S (US dollar terms, in percent)	7.4	9.1	20.7	13.3	9.9	16.5	8.1	1.4	12.2	9.6	8.4	8.2	7.7		
Growth of imports G&S (US dollar terms, in percent)	11.5	6.8	21.4	11.0	7.5	13.9	6.6	2.3	12.7	10.5	10.5	8.7	7.8		
Current account balance, excluding interest payments	-0.2	0.9	0.2	2.9	4.6	2.1	2.6	3.0	3.1	2.4	1.2	0.9	0.8		
Net non-debt creating capital inflows	4.5	4.6	4.9	4.9	4.8	4.3	0.7	4.2	4.3	4.2	4.0	3.8	3.6		

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflat

3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection y

Annex VIII. Risk Assessment Matrix

Risk	Likelihood of Risk	Time Horizon	Impact if realized	Policy Response
External Risks				
Unexpected shift in the COVID-19 pandemic	***High*** **Downside:** COVID-19 proves harder to eradicate with sporadic outbreaks locally and globally (e.g., due to difficulties in distributing the vaccine) requiring more containment measures.	***ST***	***High*** Long-run scarring of the economy via widespread corporate distress, adverse impact on household businesses, and protracted joblessness, raising poverty levels.	• Secure healthcare financing and expand fiscal support for social protection and public investment. • Maintain abundant liquidity; support viable businesses. • Facilitate reallocation of resources through structural reforms and enhanced private debt resolution system. • Facilitate banks' capital restoration plans by raising foreign ownership limits for SOCBs.
	Low **Upside:** Recovery from the pandemic is faster than expected due to the discovery of an effective and widely available vaccine and/or a faster-than-expected behavioral adjustment to the virus.	***ST***	***High/Medium*** Domestic and external demand pick up, boosting economic activity, employment, and reducing uncertainty.	• Gradually unwind policy support to ensure that recovery is well entrenched.
Accelerating de-globalization and trade tensions	***High*** **Downside:** Geopolitical competition and fraying consensus about the benefits of globalization lead to lower trade and increased uncertainty. The US imposes or threatens to impose countervailing duties on Vietnamese exports in specific sectors.	***ST, MT***	***High/Medium*** This could effectively reduce external demand, increase the cost of trade, and raise uncertainty, reduce FDI and productivity in Vietnam. Supply chains could be interrupted.	• Allow greater exchange rate flexibility. • Accelerate structural reforms and improve business environment.; adopt policy measures to encourage development of linkages to domestic suppliers.
	Medium **Upside:** Trade tensions could lead to further trade diversion and relocation, benefiting Vietnam.	***ST, MT***	***Medium*** Stronger FDI inflows and exports, larger productivity gains and integration in global value chains.	• Allow more exchange rate flexibility. • Accelerate structural reforms and improve business environment; adopt policy measures to encourage development of linkages to domestic suppliers.
Domestic Risks				
Slow public infrastructure investment execution	***High*** **Downside:** coordination issues within the central government and with provinces and municipalities, slow ODA disbursement, project preparation and land clearance constrain needed public infrastructure investment.	***ST, MT***	***High/Medium*** Low public investment impedes the economic recovery in the short term and threatens to slow medium-term growth.	• Tackling regulatory and other barriers (e.g., land clearance, coordination between ministries, regions and cities, procurement) would help avoid excessive investment delays in both public and private investment.
Higher frequency and severity of natural disasters	***High*** **Downside:** Vietnam is amongst the countries that	***ST, MT***	***High*** By 2100, climate change could impact more than.	• Efforts are needed to address both climate mitigation and adaptation given Vietnam's long coastline.

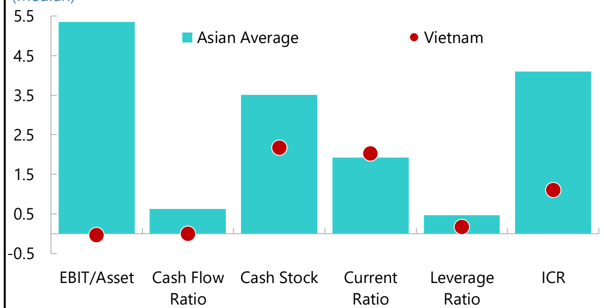
Risk	Likelihood of Risk	Time Horizon	Impact if realized	Policy Response
related to climate change	are most vulnerable to climate change, and the least ready/able to adapt. Vietnam is among the top ten countries affected by air pollution.		12 percent of the population and reduce growth by 10 percent.	• Lower the intensity of fossil fuels by raising the contribution of renewable energy. • Provide stronger incentives for green growth through taxation of fossil fuels that fully prices environmental externalities. • Invest in climate resilient infrastructure. Shift to autonomous, electric, shared vehicles to reduce congestion and pollution in cities. • Improve government capacity to coordinate technological change and promote green growth.
"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 IX. Corporate Vulnerabilities and Implications of COVID-19[1]

1. **Vietnamese enterprises entered the crisis with relatively weak balance sheet positions.** Staff analysis using Bureau van Dijk's ORBIS data shows that the corporate sector is dominated by SMEs and was less profitable than regional peers prior to the crisis (text chart). Cash flow and debt servicing capacity were particularly weak for SMEs, which dominate the hardest-hit sectors (travel, hospitality, textile and garments). The median interest coverage ratio (ICR) in the entertainment, hotel and travel sectors was lower than 1, suggesting that over half the firms in the affected sectors already faced problems servicing debt. For over half the firms, cash stock in the hardest-hit sectors covered less than 2 months of operating expenses. Larger firms were more profitable and generated stronger cash flows, but were more leveraged, accounting for the bulk of domestic banks' corporate exposure.

Vietnam: Corporate Balance Sheet Condition

(Median)

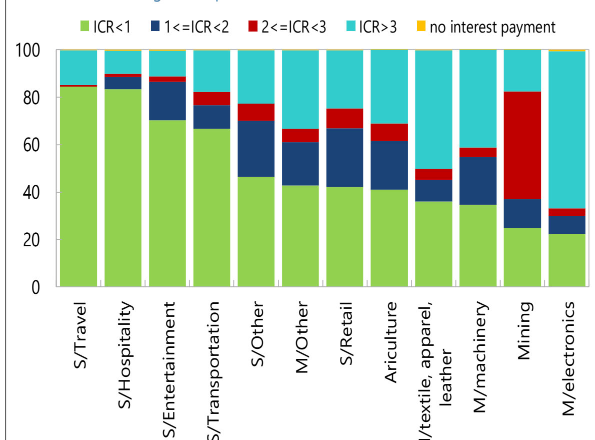


Sources: Cash flow ratio = operating cash flow/current liability; cash stock= month of cash available to cover current liability; current ratio=current asset/current liability; leverage ratio = total liability/total asset; ICR=interest payment/EBIT Asian countries include China, Korea, Indonesia, Philippines, Malaysia, Singapore, Thailand.

2. **Stress tests suggest that COVID-19 will have a substantial impact on firms' liquidity and and solvency (see text chart).** Using data from the Vietnamese Enterprise Survey, which contains more granular information on ownership structure and sectors, Staff's baseline forecasts were mapped into sectoral revenue losses across 22 manufacturing and service sectors. Based on the terms of the firms' outstanding debts and assumptions on the evolution of costs, the corporates' liquidity (net cash) and solvency (debt servicing capacity) positions were projected. Assuming limited flexibility to reduce operational expenses in the short run, cash shortfalls could endanger firms' ability to cover short-term liabilities. The simulation suggests that around half the small and micro firms could face negative cash flows, mostly in the hardest-hit sectors. Firms' solvency condition could also deteriorate, markedly raising the risk of default. On average, about 45 percent of the debt would be

Debt Profile by Sector with Covid-19 Shock

(ICR=interest coverage ratio, percent)



Sources: 2017 Vietnam Enterprise Survey; IMF staff calculations.

[1] Prepared by Sophia Zhang and Anh Nguyen. This annex is based on T. Kroeger, A. Nguyen, Y. Zhang N. Minh, P. Thuy, and D. Tuan, "Corporate Vulnerabilities and Implications COVID-19 Pandemic in Vietnam", IMF Working Paper WP/20/260.

in distress, compared to 28 percent before the COVID-19 shock. Sectors such as hospitality, travel, and entertainment hit hardest by COVID-19 could see debt-at-risk increase from 50 to 80 percent, indicating a sharp increase in new defaults. The crisis could also put many SOEs, particularly airlines, in debt distress. Other industries with a high presence of SOEs (e.g., construction, agriculture, and utility), however, are less affected.

3. The impact could propagate more broadly through upstream and downstream linkages across industries, with significant labor market implications. Using data on input-output linkges across firms, Staff analysis suggests that domestic suppliers are exposed to final producers (e.g. textiles, auto) that, in turn, are vulnerable to the external demand shock and global supply chain disruptions. Similarly, most manufacturing industries rely heavily on transportation services, while retail, hospitality, tourism and entertainment sectors provide services to each other. Firms with relatively weak initial balance sheet conditions also accounted for a sizeable share of employment prior to the pandemic, with nearly half the workers employed under informal working arrangements (e.g. temporary or part-time contracts). As a result, workers in affected industries are likely to face a higher risk of wage cuts or layoffs under a protracted shock scenario.

4. The simulation also suggests that the range of fiscal and credit measures implemented in response to the COVID-19 shock will help alleviate liquidity pressures. Recently introduced policies also help mitigate the immediate risk of corporate default and layoffs, helping bring down the share of debt-at-risk of default back to the pre-crisis level. Vulnerable debt (ICR<2) would also decline significantly. A more protracted crisis will call for further targeted policy support to address solvency risks.

Appendix X. Integration of Capacity Development Assistance in Surveillance

Overview

1. **Vietnam has taken decisive actions to contain the socio-economic impact of COVID-19**. To help further enhance the economy's resilience to shocks and support inclusive growth, Vietnam should continue to modernize and strengthen its economic institutions. Capacity development (CD) from a wide range of partners is being deployed to achieve this goal, including through virtual missions due to COVID-19.

2. **The IMF has stepped up its CD assistance to Vietnam in recent years, with the authorities showing strong ownership.** CD has also been integrated well with Fund surveillance. High-quality CD remains central in strengthening the effective implementation of Fund policy advice and bolstering our engagement with the authorities. Reflecting key economic challenges, the main surveillance priorities identified in the surveillance process include modernizing policy frameworks; safeguarding fiscal sustainability; and improving data quality to help Vietnam transition to the next phase of its development. CD is then focused on strengthening institutions, policy frameworks, and technical skills to address these issues.

3. **The IMF CD assistance should continue to focus on the authorities' ambitious reform agenda and extend to emerging priorities**. Specifically, CD provided by the Fund is expected to continue to play a key role in Vietnam's gradual approach to modernizing its monetary policy framework. An important focus of the IMF's work will be to continue supporting the authorities' efforts to strengthen treasury management, tax administration, and public debt management, accounting and reporting. Capacity building in these areas will also help inform the authorities' views as they develop their next multi-year reform strategy for 2021–30. IMF technical assistance will also continue to support the authorities' initiatives to improve the coverage, quality, transparency and timeliness of statistics. Other priority areas are likely to include Vietnam's AML/CFT, cybersecurity, and improving monetary and financial data quality. In these efforts, IMF teams will closely cooperate with the World Bank and other partners, as needed, to ensure coherence in recommendations and to avoid duplication of efforts.

Integrating Fund Surveillance and Capacity Development

Area	Surveillance Recommendations	Capacity Development Recent Actions/Plans
Monetary policy	Continue to modernize the monetary policy framework.	On-going TA on the development of a Forecasting and Policy Analysis System (FPAS) as part of a phased approach to modernizing SBV's monetary policy framework and operations.

Area	Surveillance Recommendations	Capacity Development Recent Actions/Plans
Financial Policy	Strengthen and increase the resilience of the banking sector and modernize the macroprudential framework.	Recent TA on liberalization of capital controls on external debt, and forthcoming TA on modernizing the macroprudential framework will help foster resilience and allow for the eventual safe liberalization of cross-border borrowing. A Financial Sector Stability Review (FSSR) would help identify gaps in the financial sector infrastructure, policies and statistics.
Tax Administration	Strengthen revenue mobilization by improving tax administration.	On-going IMF TA, in collaboration with the World Bank, is working closely with General Taxation Department to identify challenges and opportunities for tax administration, and to assist with the formulation of the tax administration reform strategy for 2021-2030.
Treasury management	Improve public financial management and fiscal data, accounting and reporting.	The Vietnam State Treasury (VST) is receiving IMF TA advices on its 2021-2030 strategy for modernizing treasury management, internal audit and the re-design of the Chart of Accounts.
Debt management	Continue to improve public debt management, accounting and reporting.	IMF TA will help improve public debt management, accounting and reporting, including through a medium-term debt strategy, in cooperation with the World Bank. IMF TA will also help Vietnam improve its contingent liability risk management framework and on-lending practices. IMF TA will also help Vietnam modernize the management of

Area	Surveillance Recommendations	Capacity Development Recent Actions/Plans
		external debt, including through the design of prudential policies (financial institutions and non-financial institutions) to address systemic risks arising from private external debt.
Data and statistics	Improve the coverage, quality, transparency and timeliness of statistics.	IMF TA continues in the following areas: transitioning to GFSM 2014; improving price statistics (services produced price index and real estate price index), national accounts (rebasing and measuring the non-observed economic sectors), monetary and financial data reporting, and external sector statistics. Vietnam launched its National Summary Data Page (NSDP) in July 2019, with the Fund support, an important milestone towards the transition to SDDS.
AML/CFT	AML/CFT framework and execution should be strengthened in line with the FATF standards to address key country risks.	IMF TA would help resolve legal gaps to be identified in the APG assessment.

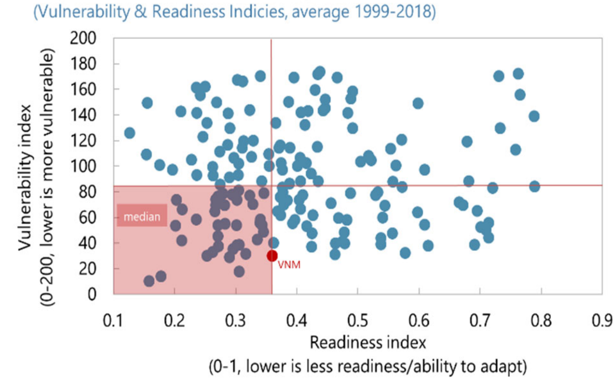
Annex XI. Adapting to Climate Change in Vietnam: Insights from a Structural Model[1]

Vietnam is increasingly exposed to climate change. The DIGNAD structural model is used to simulate the trade-offs of investing in resilient infrastructure. Compared to scenarios of a baseline no policy change and additional standard infrastructure spending, the findings illustrate the benefits of adaptation infrastructure investments on growth and public debt dynamics.

1. **Vietnam is increasingly exposed to climate change.** The country's geography, rising sea levels and temperatures make it one of the most vulnerable in the Asia-Pacific region. A high proportion of the country's population and economic assets are located in coastal lowlands and deltas. Global indices of vulnerability (measured by number of fatalities and economic losses) and readiness (measured by country's ability to leverage investments into adaptation actions) put Vietnam among the group of countries most exposed to climate change. Natural disasters, one manifestation of climate change, are increasing in frequency and impact threatening physical and human capital and growth. Climate change impacts all sectors of the economy and threatens to stall or reverse progress on growth and poverty reduction.[2]

Exposure to Climate Change

(Vulnerability & Readiness Indicies, average 1999-2018)

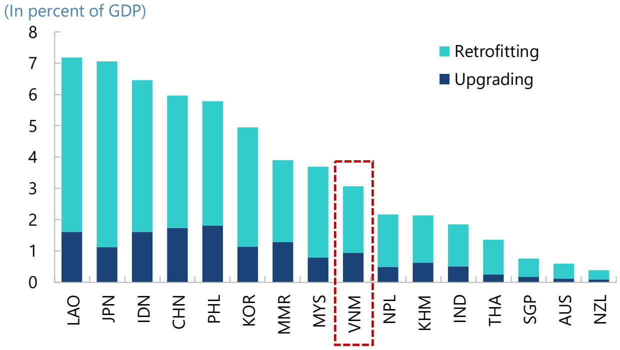


Sources: Gloabl Climate Risk Index (vulnerability) and Global Adaptation Index (readiness).
Notes: (i) Gloabl climate risk index, by GERMANWATCH, is based on fatalities and economic losses from weather-related events; (ii) Global adaptation index, by ND-GAIN, is based on the country's ability to leverage investments and convert them to adaptation actions.

2. **The COVID-19 crisis offers an opportunity to push for green investment and climate-resilient adaptation.** Vietnam has addressed climate challenges through a range of national policies and concrete adaptation measures, but there is scope to do more to both build economic and environmental resilience and foster the economic recovery.[3] The government's own strategy for the 2021–2030 period recognizes that climate change adaptation must be linked to sustainable

Annual Cost of Upgrading Investments and Retrofitting Existing Assets

(In percent of GDP)



Source: Fiscal Policies to Address Climate Change in Asia and the Pacific: Opportunities And Challenges (Forthcoming), APD-FAD Working Group.

[1] Prepared by Amr Hosny.

[2] Arndt et al. (2015) estimate that climate change could reduce national income by up to 3.5 percent by 2050.

[3] The National Climate Change Strategy was issued in 2011, outlining the objectives for 2016–2050. In 2012, the National Green Growth Strategy was approved, which includes mitigation targets and measures. In 2013, the Law on Natural Disaster Prevention and Control was enacted, aiming to address diverse natural hazards that affect the country. Vietnam pledges within the Paris Agreement on Climate in 2016 commit to reducing GHG emissions by 8 percent compared to business as usual by 2030 (see IMF, 2017 for details).

development and the transition towards a low-carbon economy. Understanding how greater adaption investment could impact growth and the tradeoffs involved with respect to other investments is important.

3. Structural models can simulate the trade-offs of investing in resilient infrastructure. The Debt-Investment-Growth (DIG) model, introduced by Buffie et al (2012), is a dynamic stochastic general equilibrium (DSGE) framework that simulates the macroeconomic effects of public investment scaling-ups via investment-growth linkages, financing options and public debt dynamics in a small open economy. Marto et al (2018) extended the framework to model the impact and channels of Natural Disasters (DIGNAD) including by allowing investments in both standard (e.g. roads) and adaptative/resilient (e.g. seawalls) infrastructure.[4] All models of the DIG family incorporate household and firm heterogeneity with a rich government fiscal block that allows for various financing instruments.

Simulations and Findings

4. We use the DIGNAD model for Vietnam under three different scenarios in the event of a natural disaster shock. The scenarios for illustrative purposes are: (i) a "baseline" no change scenario where public infrastructure is not increased beyond its initial starting point; (ii) a "standard" scenario with gradual[5] scaling up of additional standard infrastructure of 0.2 percent of GDP a year for five years; and (iii) an "adaptation" scenario with similar gradual spending profile over five years, but 30 percent more expensive (an average of additional costs of upgrading and retrofitting adaptation projects which can be 15 and 50 percent more costly, respectively, as in IMF 2020).[6] The impact of additional investments on growth critically depends on both the marginal product of effective public capital and public investment efficiency. Box 1 presents details of model calibration and assumptions.

5. The analysis suggests that investment in adaptation could yield significant growth and debt reduction benefits (Figure 1). Adaptation infrastructure is initially slightly costlier during the scale-up period, but its higher return, lower depreciation rate and ability to cushion the impact of natural disasters almost halves the jump in the fiscal deficit at the time of the shock. This leads to lower public debt over time compared to standard investments, albeit still higher than the baseline of no (additional) investments.[7] Private investments under the adaptation scenario with better efficiencies and return on capital also contribute to a smaller drop in real GDP growth relative to other scenarios, both during and following the natural disaster shock.

[4] In an application to Vanuatu and cyclone Pam, Marto et al (2018) use DIGNAD to show that adaptative infrastructure can better withstand the impact of natural disasters, crowd in private investments and improve debt dynamics.

[5] Ghazanchyan et al (2017), using an extension of the Buffie et al (2012) DIG model, present evidence that investing gradually is better for growth and debt dynamics in a sample of emerging and developing Asian countries.

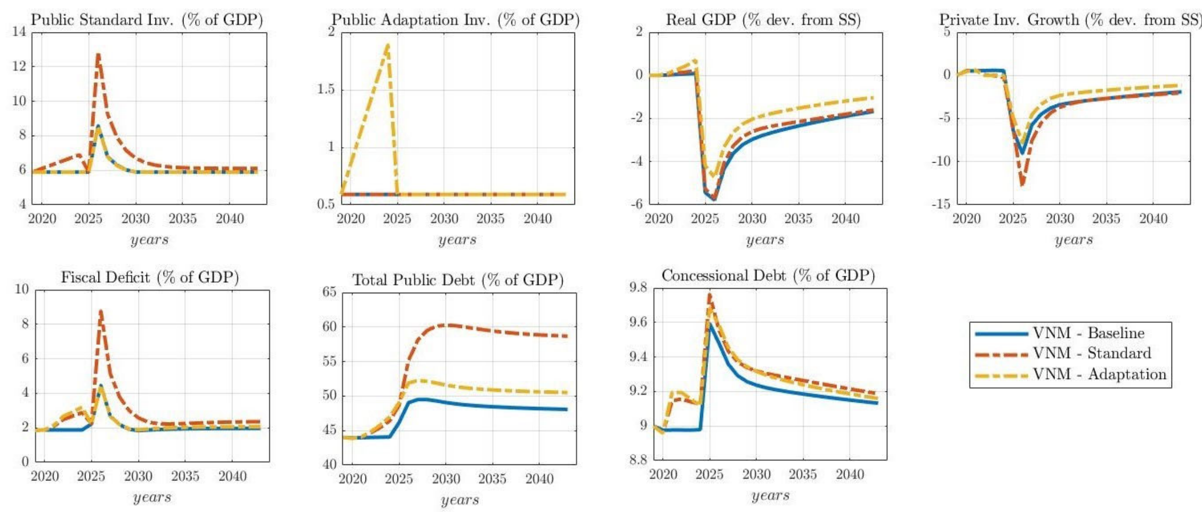
[6] This amount of scaling-up is in line with Vietnam-specific adaptation cost estimates presented in IMF (forthcoming).

[7] Even in the absence natural disasters, the long-run average maintenance/repair costs of adaptative infrastructure are lower than conventional infrastructure.

6. Other scenarios were also considered to highlight the role of PFM reforms and funding sources (not shown here). PFM reforms are modeled as a higher return and efficiency of public investment. The results suggest that gains to growth and debt dynamics increase gradually and are fully realized over time. A heavier reliance on domestic borrowing crowds-out the private sector, especially in the aftermath of the natural disaster shock. This results in lower real GDP growth over time, also given the more expensive debt service. Utilizing more grants to finance infrastructure, whether standard or adaptation, improves the growth and debt path, although Vietnam has historically low reliance on grants.

7. Conclusion. Adaptation investment, albeit initially more costly, can cushion the impact of shocks, and improve growth and debt dynamics over the medium and long-term.

Figure 1. Simulated Results Under Three Scenarios



Box 1. Model Calibration and Assumptions

The model is calibrated to features of the Vietnamese economy. The initial country specific parameters on public investments to GDP (5.9 percent), grants (0.1 percent), domestic debt (26 percent), external concessional (9 percent) and external commercial debt to GDP (9 percent), share of public debt adjustment between commercial external and domestic financing (75 percent domestic), imports to GDP (74 percent), trend per capita growth (5.5 percent), and real interest rate on domestic and external commercial debt (1.5 and 1.0 percent respectively) are all taken from the latest Vietnam DSA. We assume public investment efficiency of 77 percent following findings of the 2018 PIMA report, for both the steady state and for additional investment during the initial investment surge, and that scaling up does not strain absorptive capacity.

Key assumptions. External concessional debt and grants are exogenous; other sources of financing are allowed to be endogenous. Adaptation infrastructure spending is assumed at 10 percent of total government infrastructure expenditure (0.59 percent). Government revenues come from VAT (assumed at a flat 10 percent) and user fees for infrastructure services (5 percent of recurrent costs following Buffie et al 2012), and spending goes to transfers, debt service and (standard and adaptation) infrastructure investment. Fiscal adjustment by raising VAT is constrained. Capital's share in value added in tradable and non-tradable sectors are 40 and 55 percent respectively following Buffie et al (2012). Financing in scenarios (ii) and (iii) are assumed to be covered fully by grants in year one, then by grants and concessional external debt in year two, then by domestic and external commercial debt as described by model parameters. Initial return on standard/adaptation investments is assumed at 15/40 percent respectively, while the depreciation rate of public standard/adaptation capital is assumed at 15/3 percent respectively, following IMF (2018).

Natural disaster shock. In all three scenarios, we assume the country is hit by a natural disaster (in year six) after five years of scaling-up infrastructure spending (as in IMF 2018; forthcoming), and the shock lasts for three years. The shock increases the external debt risk premium by 15 percent (as in Marto et al 2018) and destroys 20 percent of both the tradable and non-tradable outputs. Adaptation capital is assumed to cushion the impact of natural disasters by a scaling parameter of 0.1 in both tradable and non-tradable sectors.

References

Arndt, C., F. Tarp, and J. Thurlow (2015) "The Economic Costs of Climate Change: A Multi-sector Impact Assessment for Vietnam", *Sustainability* 7: pp. 4131–4145.

Buffie, Edward E., Andrew Berg, Catherine Pattillo, Rafael Portillo, and Luis-Felipe Zanna (2012) "Public Investment Growth, and Debt Sustainability: Putting Together the Pieces", *IMF Working Paper* WP/12/144. Washington, DC: International Monetary Fund.

Ghazanchyan, Manuk, Ricardo Marto, Jiri Jonas, and Kaitlyn Douglass (2017) "Collect More, Spend Better: Public Investment in Asian Frontier Markets", IMF Working Paper WP/17/10. Washington, DC: International Monetary Fund.

IMF (forthcoming) "Fiscal Policies to Address Climate Change in Asia and the Pacific: Opportunities and Challenges", Joint APD-FAD Paper. Washington, DC: International Monetary Fund.

IMF (2020) "Investing in a Sustainable, Inclusive, and Green Recovery", Chapter 2 in Fiscal Monitor, October 2020. Washington, DC: International Monetary Fund.

IMF (2018) "Public Investment in the Face of Natural Disasters: A Model Application to Solomon Islands", Solomon Islands Selected Issues Paper, IMF CR 18/73. Washington, DC: International Monetary Fund.

IMF (2017) "Environment and Climate Change", Vietnam Selected Issues Paper, IMF CR 17/191. Washington, DC: International Monetary Fund.

Marto, Ricardo, Chris Papageorgiou, and Vladimir Klyuev (2018) "Building Resilience to Natural Disasters: An Application to Small Developing States", Journal of Development Economics 135: pp. 574-586.

INTERNATIONAL MONETARY FUND

VIETNAM

STAFF REPORT FOR THE 2020 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

January 13, 2021

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

CONTENTS

FUND RELATIONS

(As of November 30, 2020)

Membership Status

Joined: September 21, 1956; Article VIII

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	314.79	100.00
Holdings	276.14	87.72

Outstanding Purchases and Loans: None

Latest Financial Arrangements

In millions of SDRs (mm/dd/yyyy)

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
	2020	2021	2022	2023	2024
Principal					
Charges/interest		0. 05	0. 05	0. 05	0. 05
Total		**0.05**	**0.05**	**0.05**	**0.05**

Exchange Arrangement

The exchange rate arrangement is classified as defacto stabilized. The de jure 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. In January 2016 it announced the VND/USD rate would be adjusted daily rate 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 maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions, except for those exchange restrictions imposed for security reasons of which Vietnam has notified 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 Hanoi during April 3–19, 2018, and was concluded by the Executive Board on June 19, 2019.

Technical Assistance

In recent years, Vietnam has received TA in the areas of statistics (government finance, external sector, price, and national accounts), reserve management, debt management, bank resolution, stress testing the banking sector, and monetary operations and liquidity management. From December 2008 to January 2012, a resident advisor assisted the authorities in improving banking supervision. The IMF-World Bank Financial Sector Assessment Program was undertaken during 2012–13.

In 2018, a high level MCM-APD workshop was held to share cross-country experiences regarding modernization of monetary policy framework with Vietnamese policymakers. At the authorities' request, FAD conducted a Public Investment Management Assessment (PIMA).

In 2019, ICD organized a scoping mission aiming at preparing comprehensive, multi-year training on Forecasting and Policy Analysis System (FPAS). The first FPAS TA took place in September and in December, a reserve management seminar was organized in coordination with CDOT. FAD provided TA on strengthening Vietnam's Treasury cash management. STA provided TA on Government Finance Statistics, National Accounts, Property Price Index, high frequency indicators and e-GDDS. CDOT provided TA on external sector statistics in coordination with STA, and STI organized training.

In 2020, FAD provided TA on implementation of the 2021–30 Treasury Modernization Strategy, focusing on improvement of cash management, re-design of the Chart of Accounts, and internal audit. FAD also provided TA on the 2021–30 Tax System Reform Strategy, focusing on tax administration reform. FAD and MCM organized seminars on strengthening debt management, including fiscal risk management linked to on-lending and government guarantees, and enhancing the investor relations strategy. MCM provided TA on private sector external debt management. ICD provided FPAS TA.

Resident Representative

Mr. François Painchaud is the Resident Representative for Vietnam and Lao P.D.R., based in Hanoi, since June 2019.

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

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

Asian Development Bank: https://www.adb.org/countries/vietnam/main

MAIN WEBSITES OF DATA

State Bank of Vietnam (www.sbv.gov.vn)

Exchange rates

Interest rates

Balance of payments

Credit to the economy

Money Market Operation

Ministry of Finance (www.mof.gov.vn)

Government budget

Customs data

Public Debt Bulletin

General Statistics Office of Vietnam (www.gso.gov.vn)

Consumer Price Index

National accounts

Population and Employment

Investment and Construction

Socioeconomic information

STATISTICAL ISSUES

(As of December 14, 2020)

Assessment of Data Adequacy for Surveillance

General: Data provision has some shortcomings but is broadly adequate for surveillance. Most affected areas are financial sector, national accounts, government finance, and external sector statistics.

National accounts: The General Statistics Office (GSO) provides quarterly (cumulative) and annual data on GDP by type of economic activity and by expenditure (both in current and constant prices), and monthly and annual data on external trade, industrial output, retail sales, and prices. These data support the ongoing development of a monthly indicator for economic activity with STA's technical assistance. Improving the quality of Quarterly National Accounts (QNA) estimates should be accorded priority, in particular to compile discrete and independent quarterly GDP, using consistent data sources and methods. Currently, the GSO produces cumulative QNA estimates for the first three quarters of the year and the fourth quarter estimate is a residual. The compilation of national and provincial estimates is centralized at GSO in line with staff recommendations. The National Accounts base year is 2010. Vietnam plans to use 2020 (a year impacted by COVID 19) as the new benchmark year and employ chain-linking volume measures which will help to preserve the structure of national accounts components for each year of the new GDP series. STA is providing technical assistance (TA) for the benchmarking exercise, which also aims to implement the *2008 SNA* and improve the coverage of informal and emerging activities.

Prices statistics: The CPI methodology is broadly in line with international standards. Monthly CPIs are released on a very timely basis by the end of the reference month. The current weight reference period of 2014 is scheduled to be updated to 2019 in 2021. The CPI basket is also scheduled to be updated at that time. New residential property price indexes are currently being developed, though limited availability of administrative source data has delayed progress. Indexes based on data obtained through surveys of property buyers and web scraping are targeted for compilation by 2021. Monthly producer and trade price indices are published quarterly. STA technical assistance to support sampling and data collection improvements for services producer price indexes is ongoing.

Government finance statistics: Government operations data reflect the consolidated operations of the state budget, which cover all four levels of government (central, provincial, district, and commune). However, data exclude quasi fiscal activities of the central bank (and state-owned enterprises (SOEs)), and extra-budgetary funds, among which are the Social Security Fund, Enterprise Restructuring Fund, Development Assistance Fund, Export Support Fund, local development funds, and the Sinking Fund (for repayment of on-lent funds), for which data are not compiled/disseminated on a regular basis. Compilation is on a cash basis for final annual data but varies for provisional data depending on their source. As a result, government financing data, in particular domestic bank financing, cannot be reconciled as reported in the fiscal and monetary accounts. The World Bank and the IMF have recommended improving the coverage of fiscal data and aligning definitions with the *GFSM 2014*. The authorities will provide GFSM 2014 consistent data starting in 2022 supported by the Capacity Development Center of Thailand (CDOT).

Monetary and financial statistics: The State Bank of Vietnam (SBV) reports monetary data for the central bank and other depository corporations to the IMF's Statistics Department (STA) with monthly periodicity, using old report forms with very limited information. STA has encouraged the SBV to develop a reporting scheme providing a comprehensive breakdown of data by counterparties and by currency of transaction, which will facilitate the migration to the standardized report forms (SRFs). In October 2018, the SBV informed STA of its action plan to complete the migration to the SRFs by end-May 2019 which is still in progress. The SBV reports data on some key series and indicators of the Financial Access Survey (FAS), including the two indicators of the U.N. Sustainable Development Goals. Vietnam reports 10 of the 12 core financial soundness indicators (FSIs), 7 of the 13 additional FSIs for deposit takers, and one FSI for real estate markets—on a semi-annual basis—for posting on the IMF's FSI website with a 12-month lag.

External sector statistics: Starting from 2013 data, the authorities are reporting balance of payments in BPM6 format. Weaknesses persist in the compilation of external sector position statistics—international investment position (IIP) statistics, external debt statistics, and Coordinated Direct Investment Survey (CDIS). While more comprehensive data on external debt flows and positions have become available with recent improvements, capacity constraints prevent the compilation of an overall measure of Vietnam's gross external debt position. The annual foreign direct investment survey was last undertaken for 2015 reference year and has been discontinued thereafter. New administrative data sources are being explored to compile direct investment positions. The regional external sector statistics advisor in CDOT delivers regional training and is planning to work with Vietnam authorities on improving the compilation and dissemination of the IIP as well as the compilation of comprehensive external debt statistics, the Coordinated Direct Investment Survey (CDIS), and the reserves data template.

Data Standards and Quality

Vietnam participates in the enhanced General Data Dissemination System (e-GDDS) and launched a National Summary Data Page (NSDP) in July 2019. No data ROSC are available.

Table 1. Common Indicators Required for Surveillance
(As of May 20, 2019)

	Date of Latest Observation	Date Received	Frequency of Data[1]	Frequency of Reporting[1]	Frequency of Publication[1]
Exchange Rates	Nov 2020	12/3/2020	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[2]	Sep 2020	11/4/2020	M	M	N/A
Reserve/Base Money	Sep 2020	11/23/2020	M	M	N/A
Broad Money	Sep 2020	11/23/2020	M	M	N/A
Central Bank Balance Sheet	Sep 2020	11/27/2020	M	M	N/A
Consolidated Balance Sheet of the Banking System	Sep 2020	11/27/2020	M	M	N/A
Interest Rates[3]	Dec 2020	12/11/2020	D	D	D
Consumer Price Index	Nov 2020	11/29/2020	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[4]—General Government[5]	Oct 2020	Oct 2020	Q	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt[6]	Oct 2020	Oct 2020	A	A	Semi-Annual
External Current Account Balance	Q3 2020	12/1/2020	Q	Q	Q
Exports and Imports of Goods and Services[7]	Nov 2020	12/3/2020	M	M	M
GDP/GNP	Q3 2020	9/30/20	Q	Q	Q
Gross External Debt	2020	Oct 2020	A	A	A
International Investment Position[8]	...	...	N/A	N/A	N/A

[1]Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); and Not Available (N/A).
[2]Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency, but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[3]Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[4]Foreign, domestic bank, and domestic nonbank financing.
[5]The general government consists of the central government (budgetary funds, extra-budgetary funds, and social security funds) and state and local governments.
[6]Including currency and maturity composition.
[7]Services data available on an annual basis.
[8]Includes external gross financial asset and liability positions vis-à-vis nonresidents.

Statement by Alisara Mahasandana, Executive Director for Vietnam, Firman Mochtar, Alternate Executive Director for Vietnam, and Son Thanh Nghiem, Senior Advisor to the Executive Director
February 5, 2021

Introduction

On behalf of the Vietnamese authorities, we would like to thank Ms. Dabla-Norris and her team for the candid and constructive discussions and their insightful report. We appreciate their high-quality analysis and objective assessments on the authorities' policy responses to the Covid-19 pandemic.

The proactive and swift measures by the authorities helped successfully contain the coronavirus outbreaks in 2020. With population of nearly 100 million, Vietnam confirmed only 1,551 Covid-19 cases with 83 patients in treatment and 35 fatalities as of January 26, 2021. Although the authorities have been effectively containing the pandemic, vigilance and precautionary measures, including wearing masks and strict quarantine at the borders, continue to be recommended to the population.

The authorities broadly concur with staff's analysis and recommendations, especially on the need for continued supports to the economy until the recovery has firmly taken hold. They also underscore their strong commitments towards prudent macroeconomic policy, resumption of fiscal consolidation and steadfast structural reforms to foster a green and sustainable growth in the long-term.

Recent Economic Developments and Outlook

The Vietnamese authorities' swift and effective policy responses helped contain the pandemic and economic fallout and allowed economic activities to rebound faster than many countries in the world. GDP growth reached 2.91 percent in 2020, while significantly lower than the ten-year average of 7 percent, it is still one of the highest growth in the world. Inflation continued to be well contained at 3.23 percent, below the authorities' target of 4 percent in 2020. The continued multi-year strong growth helped improve other fundamentals such as the reduction of poverty rate from nearly 10% in 2015 to less than 3% in 2020, as well as improvement in income and gender equality. Economic activities are expected to recover strongly in 2021, driven by resilient domestic consumption, high public and private investment and strong exports. Authorities have set the targets for GDP growth of 6.5percent, and inflation at around 4 percent in 2021 in line with the goals set in the national 10-year Socio-Economic Development Strategy (2021–2030).

Despite robust economic recovery, our authorities concur with staff on potential risks and vulnerabilities in the economy. The key risks to economic recovery stem mainly from external fronts, given the heightened uncertainties surrounding the global Covid-19 pandemic, and natural disaster risk. The authorities also recognize the vulnerabilities in the financial sector as loan restructuring, higher provisioning and defaults from the pandemic could pose pressure on the stability of the banking system. The authorities, therefore, commit to pursue prudent macroeconomic policies and continue with the structural reforms to reduce economic scarring, and enhance productivity to ensure macroeconomic stability and sustainable recoveries.

Fiscal policy

The authorities had implemented a fiscal package that focuses on managing the health crisis and providing support to the vulnerable sectors and households. The bulk of the fiscal measures are targeted to support businesses and households that were affected by the Covid-19 pandemic. As of December 31, 2020, a subsidy package worth VND123.6 trillion ($5.3 billion) or 1.5 percent of GDP, consists of reduction and exemption in taxes, rents, and fees had benefited the firms and households has been allocated. In addition, over VND18 trillion ($770 million) have been allocated for the pandemic prevention and households directsupport. Apart from the pandemic, Vietnam has also experienced several tropical storms in 2020, which have caused severe floods and significant loss of assets and human lives in the central provinces. The Vietnamese government has spent around VND12.400 trillion ($550 million) to manage the adverse impact of these storms, and restore the production activities after natural disasters and epidemics during 2020.

In implementing the countercyclical fiscal policy, the latest 2020 fiscal deficit is expected to increase from 3.36 percent of GDP in 2019 to 3.95 percent of GDP. While the projected fiscal deficit remains lower than staff's estimates, the authorities view that the latest fiscal deficit projection that is achieved through the better revenue collection and prudent fiscal spending, is adequate to support the economy during the pandemic. The authorities' effective fiscal management has also helped to contain the public debt at around 55.8 percent of GDP as at end-2020.

Moving into 2021, the authorities reiterated their commitment to ensure that fiscal policy will be managed flexibly, depending on the economic recovery and the need to support affected sector and households from the pandemic and natural disasters. As they continue with the ongoing efforts to increase spending efficacy and enhance revenue mobilization, the fiscal deficit is projected to remain below 4 percent of GDP in 2021. The authorities concurred with staff on the need to strengthen the public investment framework, in line with the 2018 PIMA recommendations for efficient use of state budget. The authorities' effective measures to boost investment spending had resulted in 82.8 percent of public investment disbursement rate, the highest level in 5 years. The higher composition of investment expenditure is also favorable for sustaining long term growth.

The authorities are committed to prudent and effective public debt management strategy. These have been done through issuance of longer maturities of Government bonds to finance fiscal deficits and debt repayment, leading to the lengthened average maturity of Government bonds from 3.9 years in 2011 to 13.9 years in 2020. The longer maturity profile of Government bonds reflects the successful strategy of the authorities in diversifying bond maturities in the past 10 years, which has also been supported by the recent development of ample liquidity in the banking system, low interbank interest rate and investors' confidencein the economic recovery.

Monetary and exchange rate policy

The authorities' policy priorities are to balance between maintaining an accommodative monetary policy to support economic recovery and preserving price and financial stabilities. In 2020, the State Bank of Vietnam (SBV) has cut policy rates three times [1]and injected liquidity into the banking system to support the economy that was affected by the adverse effects of the Covid-19 pandemic. The liquidity injection has helped alleviate the tighter financial condition and facilitate credit expansion in the banking system. Bank credits, while remains below the growth target of 14 percent, have gradually increased from its trough to record a growth of 12.13 percent at the end 2020. On the foreign exchangeoperations, SBV continues to allow for a two-way exchange rate movement according to market forces within the current 3 percent band to absorb shocks, while ensuring inflation is well anchored.

The authorities concur with staff recommendations on further modernization of monetary policy framework when the situation allows. The modernization effort has been gradually implemented in line with the Decision No. 986/QĐ-TTg dated on August 08, 2018 by the Prime Minister which requires, as conditions allow, the monetary policy to be conducted mainly through the SBV's operations in the financial markets, and for the administrative measures to be removed. The SBV appreciates the support offered by the IMFthrough the FPAS program, which aimed at enhancing the liquidity forecasting and policy analysis capacity of the SBV. The initiative is part of the overall efforts to modernize the monetary policy framework, taking into consideration the international best practices and the country specificities.

The SBV operates the exchange rate policy within the monetary policy framework to achieve long-term objective of prices and macroeconomic stability. The authorities emphasize the importance of implementing exchange rate management mechanism thatsuites the current level of financial market development as well as the monetary policy framework. For Vietnam, stability of the exchange rate has played a crucial role in anchoringinflation and market expectation. The monetary policy framework with current exchange rate management mechanism has effectively helped the SBV achieve the ultimate goals of macroeconomic stability and anchoring inflation expectation during the volatile and highly uncertain period. The authorities reiterated that higher flexibility in exchange rate movement need to be managed with due care and should be accompanied by strong market confidence, synchronizing with the process of modernizing the monetary policy framework, strengthening capacity for policy communication and gradual capital account liberalization, as well as in accordance with capital market development and banking system modernization, thereby promoting monetary policy transmission effectiveness.

The authorities reiterate that the large current account surplus is attributed to Vietnam's structural factors which could not be fully explained by the EBA-lite model. While they embarked on the structural reform to address Vietnam's specific structural distortion to boost domestic demand and foster external imbalance adjustment, they reiterate that these processes take time to bear fruit and the external rebalancing should not be borne solely by an exchange rate adjustment. They urged staff to continue to refine the EBA methodology to better address

[1] The SBV's policy rates cut during 2020 including Refinancing rate cut by 2 percent, Discount rate cut by 1.5 percent, Overnight interbank rate cut by 2% and OMO rate cut by 1.5 percent.

countries specific circumstances to avoid misinterpretation of the assessment and policy recommendations.

The authorities view that, given the heightened uncertainties and volatile capital flows, building foreign exchange buffers are warranted. In this regard, the SBV had continued to accumulate the foreign exchange reserves in 2020. By the end of September 2020, gross foreign exchange reserves (GIR) reached $88.9 billion, equivalent to about 3.6 months of imports. The authorities note that Vietnam's ARA is estimated at 108% for 2020, indicating that the current level of foreign exchange reserves only meet the minimum level of the IMF's recommended “adequate” threshold of 100–150%, amidst the uncertain environments.

The authorities strongly reaffirm that their exchange rate policy was never intended to resist trend appreciation to benefit exports, but rather to ensure price stability, while building the needed reserves buffer. Our authorities would like to underscore the importance of clear communication by the Fund on the external balance assessment, and the Fund should continue to advocate for multilateral cooperation and trade openness, and advise countries torefrain from undertaking any policies that could impede free trade, including imposition of tariff barrier.

Financial Sector

The authorities recognize the potential vulnerabilities in the banking sector and commit to strengthen the financial sector stability. They have been monitoring closely the banking system’s asset quality and loan restructuring processes, and they continue to assess the impact of Covid-19 on the financial health and profitability of banks. On-balance-sheet NPL ratio of the banking system had remained below 2 percent prior to the Covid-19 pandemic. However, this ratio has increased from 1.63 percent[2] in 2019 to 2.09 percent at the end of October 2020. The on-balance-sheet NPL ratio is estimated to remain around 2% by the end of December 2020, while the bad debts managed by the Vietnam Asset Management Corporation (VAMC) is at about 4.28%. The SBV continues to closely monitor the credit quality, and implement measures to contain bad debts to a manageable level.

The authorities, therefore, concur with staff’s recommendation to closely monitor the risks in the banking sector. They have recently implemented various risk mitigating measures, including measures to collect information from credit institutions for evaluation to amend the Circular 01 on debt payment rescheduling, exemption and reduction of interestand fees, and maintaining of debt classification by banks to support customers affected by Covid-19. They will closely monitor and supervise loans extended to high risk businesses, especially those in construction and real estate sectors.

The authorities are also committed to the banking system restructuring.[3]In 2020, the National Assembly approved the recapitalization of state own commercial banks (SOCBs), and the Prime Minister signed the Decree 121 in October 2020, which creates a legal basisfor

[2] On-balance-sheet NPLs consists of the NPLs in the banking system only. System-wide NPLs *include* NPLs on bank balance sheets, remaining NPLs sold to the Vietnam Asset Management Corporation (VAMC), and the loans previouslyrestructured under decision 780 is 4.6 percent in 2019 as in the Report.

[3] Implementing restructuring measures set in the Project "Restructuring the system of credit institutions and bad debt handling in the 2016-2020 period" (Project 1058) and the National Assembly's Resolution No. 42/2017/QH14 on piloting bad debt handling of credit institutions (Resolution 42).

SOCBs' recapitalization to meet the Basel II capital requirement. The SBV continues to closely monitor the implementation of the joint - stock[4] commercial banks' restructuring plans. [5]In particular, joint - stock commercial banks were mandated to recapitalize andconsolidate in order to strengthen their financial health, improve risk management, business efficiency and profitability as well as enhance quality of asset and loan portfolio.

The SBV has been developing the macroprudential analysis framework, improving the quality of reporting system as well as enhancing the systemic risk monitoring and warning tools. The SBV continues to develop their legal and regulatory framework on financial stability and macroprudential policies and tools to prevent systemic risks in order tominimize negative impacts to the economy. The SBV has also strengthened their coordination mechanisms with relevant agencies in collecting and sharing data for monitoring of systemic risks to monetary and financial stability. As part of the monitoring system, the authorities have developed the Macroprudential Indicators (MPIs) and database for the Quarterly Early Warning System. They gradually apply quantitative methods and analytical techniques that are in line with the international practice of systemic risk assessment.

The authorities planned to amend the Law on Money Laundering Prevention to further strengthen money laundering prevention activities. Along with preparatory activities for multilateral reviews, the SBV also focused on collecting, processing and transferring suspicious transaction information to competent authorities, while strengthening internationalcooperation and building IT systems for money laundering prevention. SBV is currently working on the 5-year action plan (2021–2026) to fully implement the recommendations outlined in the Multilateral Assessment Report. The Anti-Money Laundering Agency is also implementing reforms to meet international standards for analyzing suspicious transactions, exchanging and accessing information on a risk basis.

The authorities are strongly committed to improving labor skills to boost productivity and support long-term growth. Various measures[6] have been implemented to promote the development of skilled human resources, aiming at improving labor productivity and enhancing national competitiveness. They have restructured the network of vocational education institution to improve its efficiency. Currently, there are 1,909 vocational education institutions nationwide. In 2020, vocational education enrollment reached the set target of about 2.26 million persons. Number of graduates at various training level also reached the set target of 2.19 million persons. Ratio of trained labor is expected to reach 64.5% of labor force. [7]The authorities declared October 4th of each year as Vietnam's Labor Skills Day, starting from 2020, reflecting the strong commitment to boost labor productivity.

The authorities are actively promoting digital transformation. In 2020, the Prime Minister

---

[4] 4The Vietnam's banking system consists of: (i) SOCBs (4), (ii) Joint Stock Commercial Banks (31), (iii) 100% foreignowned banks (9), (iv) Foreign banks branches, (v) Policy banks (2), (vi) Joint Venture Banks, and (vii) Cooperative Bank(1).

[5] Plans to follow the goals and orientations stated in the Project 1058 and Resolution 42.

[6] In the PM's Directive No. 24 dated May 28, 2020 on promoting the development of skilled human resources to improvelabor productivity and enhance national competitiveness.

[7] Vietnam's total labor force is 54.6 million people aged 15 and above in 2020.

approved the National Digital Transformation strategy[8] to improve the country's adaptation to the 4th Industrial Revolution. In particular, the authorities will strengthen the online public services, accelerate non-cash payments and e-commerce, improve the shared databases for state management, and implement a digital transformation program for businesses during the period of 2021–2025.

The authorities are strongly committed to implementing measures and solutions set in the National Climate Adaptation Plan (2021-2030) with a vision to mitigate natural disaster risk and create climate resilience in the long term. The authorities also launched the Action Plan implementing Paris Agreement and already started a project supported by theGerman government to implement this agreement. Under these plans, modern technology such as remote sensing has been deployed for the assessment and management of natural resources, environmental pollution, disaster prevention and national security. They are also establishing the national remote sensing database with a plan to integrate it to the natural resources and environment database to create a foundation for the publication of the metadataand facilitate the exploitation and the use of remote sensing data for research and socio- economic development.

Conclusion

Our authorities reaffirm their commitment to maintain prudent macroeconomic policy and strengthen structural reform to ensure economic resilience. Macroeconomic policies will focus on supporting economic recovery while preserving the stability. Steadfast implementation of structural reform to improve productivity and bolster economic resilience in the medium term will remain as key priority. Lastly, authorities would like to express theirappreciation to the Fund for the invaluable technical assistance and look forward to continued cooperation in the coming years.

[8] PM's Decision No. 749/QD-TTg dated June 3, 2020 on "National Digital Transformation Program to 2025, with an orientation to 2030".