INTERNATIONAL MONETARY FUND

IMF Country Report No. 18/215

VIETNAM

July 2018

2018 ARTICLE IV CONSULTATION—PRESS RELEASE AND STAFF REPORT

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 2018 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 June 8, 2018, 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 a lapse of time basis, following discussions that ended on March 30, 2018, 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 May 24, 2018.
- An **Informational Annex** prepared by the IMF staff.

The documents listed below have been or will be separately released.

Selected Issues

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

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Press Release No. 18/284
FOR IMMEDIATE RELEASE
July 10, 2018

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes the 2018 Article IV Consultation with Vietnam

On June 8, 2018, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV Consultation with Vietnam[1], and considered and endorsed the staff appraisal without meeting.[2]

Vietnam's dynamic, highly open economy had a bumper year in 2017. Growth was broad-based and accelerated to 6.8 percent while inflation remained below the 4 percent target reflecting low food prices and a stable exchange rate. Private consumption continued to be driven by rural-to-urban migration, rising incomes, and a growing middle class. It was also facilitated by accommodative financial conditions, stronger bank balance sheets, and an improving business climate as reforms continued in the banking sector, privatizations and cuts in red tape. The current account surplus increased as the global recovery and real effective depreciation due to a weaker dollar helped strong inflows from exports, tourism, and remittances. Vietnam also received record FDI and other capital inflows, aided by solid growth, accelerating domestic business formation, and the low global interest rates. The central bank maintained the Dong within a tight range to the dollar and accumulated US$12½ billion of international reserves in 2017, bolstering low reserve buffers.

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[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] The Executive Board takes decisions under its lapse of time procedure when it is agreed by the Board that a proposal can be considered without convening formal discussions.

The strong economic momentum is expected to continue in 2018, aided by the reform drive, higher potential output, the global recovery, and commitment to macroeconomic and financial stability. Growth is projected at 6.6 percent in 2018, despite a mild tightening in credit growth targets and a neutral fiscal stance. Inflation is forecast to rise to just under the 4 percent target, led by higher oil prices and gradual increases in administered prices. On current trends and if reforms continue at their current pace, 6½ percent annual growth remains feasible beyond 2018. The current account surplus is expected to decline over the medium term as structural reforms boost investment and real effective appreciation of the Dong resumes its trend, leaving reserves at 2½–3 months of imports.

Despite recent economic strength, economic distortions and capacity constraints remain, and external and domestic risks and longer-term challenges loom on the horizon. Financial buffers are still thin, macroeconomic policy frameworks remain inflexible to manage possible shocks, and the external position is substantially stronger than warranted by fundamentals. The strong economy provides an opportunity for more ambitious reforms to level the playing field by tackling remaining distortions and capacity constraints, increasing investment and reducing the external surplus.

Executive Board Assessment[3]

Vietnam's dynamic, highly open economy continues to perform well. The solid performance is aided by macroeconomic and financial stability, stepped up economic reforms, and inflows of foreign direct investment which are enabling structural transformation and are raising potential growth. The strong economic momentum is expected to continue. But financial buffers are still thin, macroeconomic policy frameworks remain inflexible, complicating the management of shocks, and the external position is substantially stronger than warranted by fundamentals. The strong economy provides an opportunity for more ambitious reforms to level the playing field by tackling remaining distortions and capacity constraints, increasing investment and reducing the external surplus.

Fiscal policy should emphasize high-quality consolidation to meet large development needs and ensure that Vietnam has fiscal space to meet longer-term challenges. A slightly more ambitious consolidation than currently planned, and a lower debt ceiling than the current statutory limit,

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[3] 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.

will be needed to create additional fiscal room before aging sets in the mid-2030s and provision for contingencies. Stronger consolidation could boost medium-term growth if it relied on high-quality structural fiscal measures and measures to boost private investment. Reforms should focus on broadening tax bases; reducing administrative and wage-related spending; protecting social spending through well designed social security and civil service reforms; and, protecting and improving the quality of public investment. Comprehensive and timely fiscal accounts based on GFSM 2014 and improved budget planning and execution should help facilitate consolidation.

To sustain macroeconomic stability, monetary policy should be tightened by further lowering credit growth to bring it in line with ongoing improvements in financial deepening. Greater two-way exchange rate flexibility within the current band should be allowed to reduce speculative inflows, absorb shocks and help bring down the external surplus. Reserve accumulation should continue but more gradually, with fully sterilized interventions. The modernization of the monetary framework should start, gradually easing away from credit targets to begin a phased shift to inflation targeting and greater exchange rate flexibility.

Financial sector balance sheets, supervision and risk management need to be further strengthened. A stronger financial sector can help improve the efficiency of financial intermediation to service the domestic economy and investment. Strong credit and asset price growth may be contributing to the build-up of risks in the financial system. SOCBs should be capitalized swiftly with government funds, and by raising private sector and foreign ownership limits. It is critical to develop a macroprudential framework and improve data quality on credit aggregates and balance sheet exposures to monitor and proactively manage risks, and ensure that sufficiently robust liquidity and crisis management frameworks are in place to provide legal and operational clarity regarding early intervention and communication to mitigate emerging financial sector risks.

The reform drive needs to be broadened and accelerated to tackle the remaining barriers to investment and to raise labor productivity. Priority areas include: high-quality infrastructure investments; further reductions in regulatory barriers and transitioning to international standards for regulatory excellence, transparency and data quality to aid investment; reforms to tertiary education; efforts to reduce the concentration of land ownership in state hands; and continued reforms in state-owned enterprises. Vietnam must continue to enhance anti-corruption measures and address the threat of climate change.

Table 1. Vietnam: Selected Economic and Financial Indicators, 2013–19 1/

				Est.	Projections		
	2013	2014	2015	2016	2017	2018	2019
Output							
Real GDP (percent change)	5.4	6.0	6.7	6.2	6.8	6.6	6.5
Prices (percent change)							
CPI (period average)	6.6	4.1	0.6	2.7	3.5	3.8	4.0
CPI (end of period)	6.0	1.8	0.6	4.7	2.6	4.0	4.0
Core inflation (end of period)	4.2	2.7	1.7	1.9	1.3	2.0	3.1
Saving and investment (in percent of GDP)							
Gross national saving	31.2	31.7	27.5	29.5	29.0	29.8	30.2
Private	29.8	29.6	25.4	27.3	26.2	26.9	27.4
Public	1.5	2.1	2.1	2.2	2.8	2.9	2.8
Gross investment	26.7	26.8	27.6	26.6	26.6	27.7	28.4
Private	17.7	18.7	20.0	19.0	19.2	20.3	21.1
Public	9.0	8.1	7.6	7.6	7.4	7.4	7.4
General government finances (in percent of GDP) 2/							
Revenue and grants	23.1	22.2	23.8	23.7	23.6	23.3	23.0
Of which: Oil revenue	3.4	2.5	1.6	0.9	0.9	0.7	0.6
Expenditure	30.5	28.5	29.2	28.5	28.1	27.9	27.8
Expense	21.6	20.4	21.7	21.0	20.7	20.6	20.4
Net acquisition of nonfinancial assets	9.0	8.1	7.5	7.5	7.4	7.3	7.3
Net lending (+)/borrowing(-) 3/	-7.4	-6.3	-5.5	-4.8	-4.5	-4.6	-4.7
Public and publicly guaranteed debt (end of period)	52.0	55.0	57.4	59.9	58.5	57.9	57.5
Money and credit (percent change, end of period)							
Broad money (M2)	18.8	17.7	16.2	18.4	15.0	16.8	18.9
Credit to the economy	12.7	13.8	18.8	18.8	17.4	16.9	15.3
Interest rates (in percent, end of period)							
Nominal three-month deposit rate (households)	6.9	5.0	4.8	4.9	...	...	
Nominal short-term lending rate (less than one year)	9.7	8.5	7.2	7.2	...	...	
Balance of payments (in percent of GDP, unless otherwise indicated)							
Current account balance (including official transfers)	4.5	4.9	-0.1	2.9	2.5	2.1	1.8
Exports f.o.b.	77.4	80.8	84.6	87.7	97.1	103.7	109.4
Imports f.o.b.	72.3	74.3	80.8	82.2	91.9	99.0	105.2
Capital and financial account	0.2	2.9	0.5	5.3	9.0	2.2	2.9
Gross international reserves (in billions of U.S. dollars) 4/	26.1	34.5	28.5	36.8	49.4	59.6	72.0
In months of prospective GNFS imports	2.1	2.4	1.9	2.0	2.3	2.4	2.5
Total external debt (end of period)	37.3	38.3	42.0	45.2	49.1	50.6	51.4
Nominal exchange rate (dong/U.S. dollar, end of period)	21,105	21,385	22,485	22,761	22,698	...	...
Nominal effective exchange rate (end of period)	88.3	93.9	97.6	97.7	91.2	...	...
Real effective exchange rate (end of period)	116.2	123.7	128.8	133.1	124.6	...	...
Memorandum items:							
GDP (in trillions of dong at current market prices)	3,584	3,938	4,193	4,503	5,008	5,509	6,142
GDP (in billions of U.S. dollars)	170.6	185.9	191.5	201.3	220.4	241.0	264.5
Per capita GDP (in U.S. dollars)	1,900	2,049	2,088	2,172	2,354	2,548	2,769

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

1/ The national accounts has been re-based to 2010 from 1994 by the authorities.

2/ Follows the format of the *Government Finance Statistics Manual 2001*.

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

4/ Excludes government deposits.

INTERNATIONAL MONETARY FUND

VIETNAM

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION

May 24, 2018

KEY ISSUES

Strong performance and positive outlook. 2017 was a bumper year of broad-based and non-inflationary growth. Reforms continued, including in the banking sector, privatizations and cuts in red tape. The momentum is expected to continue, aided by reforms, higher potential output, and the global recovery. However, economic distortions and capacity constraints remain, as do external and domestic risks and longer-term challenges. The strong economy provides an opportunity for additional reforms to boost investment, ensure durable growth and resilient balance sheets, and reduce the external surplus.

Fiscal policy. Much-needed fiscal consolidation began in 2016–17. The public finances remain sustainable over the medium term, aided by privatization. But aging and other fiscal risks require more ambitious deficit reduction and a lower debt threshold than the statutory ceiling. Priority should be given to broadening tax bases and cutting current spending to make more room for public investment to meet large development needs.

Monetary policy. Real money demand is rising due to ongoing de-dollarization and financial deepening. But monetary conditions remain accommodative and credit growth should be lowered more quickly to sustain macroeconomic stability. Greater two-way exchange rate flexibility within the current band should be allowed to help absorb external shocks including from volatile capital flows, facilitate real appreciation and lower the external surplus. Reserve accumulation should be more gradual, with fully sterilized interventions. Conditions are right for a phased shift to inflation targeting.

Financial sector. Performance improved in 2017. But bank balance sheets, supervision, and risk management need to be further strengthened to improve the efficiency of financial intermediation. The government should recapitalize state-owned commercial banks (SOCBs) swiftly and relax private-sector investment and foreign-ownership limits. Strong credit and asset price growth may be building up new risks in the financial system. It is critical to improve data quality and develop a macroprudential framework to proactively manage risks.

Structural reform drive. Ongoing reforms to reduce the economic footprint of the state, level the playing field and promote private-sector-led growth are on the right track and should be accelerated if Vietnam is to meet the challenges of digitalization, climate change and aging. Priorities include: high-quality infrastructure and tertiary education; less land ownership in state hands; continued reform and equitization of state-owned enterprises; further reductions in regulatory barriers and transitioning to international standards for data quality and regulatory excellence.

Approved By
Markus Rodlauer and Rupa Duttagupta

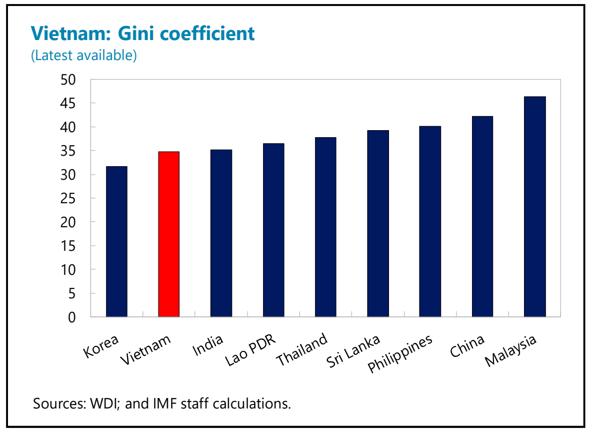
Discussions took place during March 15–30, 2018. The IMF team comprised Alexandros Mourmouras (Head), Angana Banerji (Co-Head), and, David Corvino (all APD), Anja Baum (FAD), Mitsuru Katagiri (MCM), and Jonathan Dunn (Resident Representative). Nga Ha and Van Anh Nguyen (from the IMF Office in Hanoi) supported the team's discussions and policy work excellently. Albe Gjonbalaj and Ross Rattanasena (both APD) and Hai Hoang (IMF Office in Hanoi) provided superb research, editorial, and logistical assistance respectively for the discussions and the preparation of this report.

CONTENTS

APPENDICES

CONTEXT

1. **A long track record of strong inclusive growth.** Vietnam's economy is one of the most dynamic in East Asia, with growth averaging 6½ percent a year during 2000–16. This reflects the cumulative benefits of outward and market-oriented reforms launched since 1986, resulting in a boom in the scale and sophistication of exports, and generally stable and accommodative macroeconomic conditions. Vietnam's twin transition—from plan to market and from farms to modern manufacturing and services—is a multi-decade transformation that has been boosting productivity and living standards across all income levels (text Figure).



2. **A commitment to macroeconomic stability and private sector-led growth.** The government views macroeconomic stability as a foundation for sustained private sector-led growth (Appendix I). Its economic agenda focuses on public debt sustainability and building buffers while addressing widespread investment needs and strengthening the banking sector. It is cognizant of the need to make macroeconomic frameworks more flexible to manage near-term risks and longer-term challenges from climate change, demographics and automation. And it is stepping up market-oriented reforms to reduce the economic role of the state, boost business conditions and improve the quality of growth and innovation.

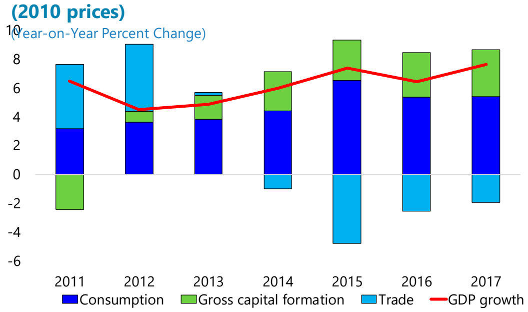
3. **A large and multi-faceted reform agenda remains.** While these achievements are substantial, sustaining and accelerating the pace of real convergence requires tackling a range of remaining distortions and capacity constraints. An important priority is to tackle barriers that constrain domestic investment and productivity in non-FDI firms and raise the external surplus. This requires, among other things, addressing remaining legacy issues in the banking system and state-owned enterprises (SOEs) and leveling the playing field for access to land and credit. Faster convergence will also require quickening the pace of reforms, but without sacrificing the consensus-building approach to policy reforms garnering broad national ownership.

2017: A BUMPER YEAR

4. 2017 was an exceptionally good year. Growth was broad-based and accelerated to 6.8 percent while inflation remained below the 4 percent target (Figure 1 and text Figures). Private consumption continued to be driven by rural-to-urban migration, rising incomes, and a growing middle class. It was also facilitated by accommodative financial conditions, stronger bank balance sheets, and the improving business climate. The current account surplus increased as the global recovery and a REER depreciation due to a weaker dollar aided strong inflows from exports, tourism, and remittances. Vietnam also received record FDI and other capital inflows, aided by solid growth, the improving business environment, accelerating domestic business formation, and the low global interest rates (Figure 2). The State Bank of Vietnam (SBV) maintained the Dong within a tight range to the dollar and accumulated US$12½ billion of international reserves in 2017 (equivalent to 5.7 percent of GDP), bolstering low reserve buffers. Despite administered price increases, inflation was subdued, reflecting low food prices and a stable exchange rate.

Vietnam: Contribution to GDP Growth by Expenditure (2010 prices)

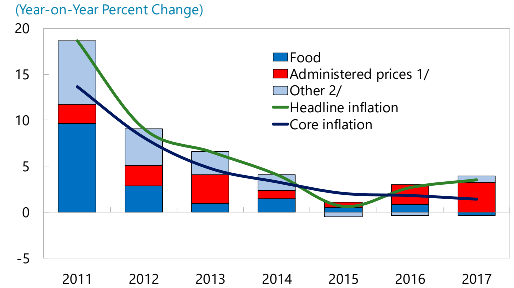
(Year-on-Year Percent Change)



Sources: National authorities; and IMF staff calculations.
Note: 2018 only includes Q1 data. 2018 is based on q-o-q growth.

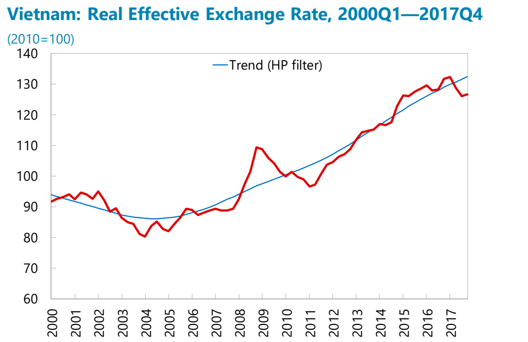
Vietnam: Contribution to Headline Inflation

(Year-on-Year Percent Change)

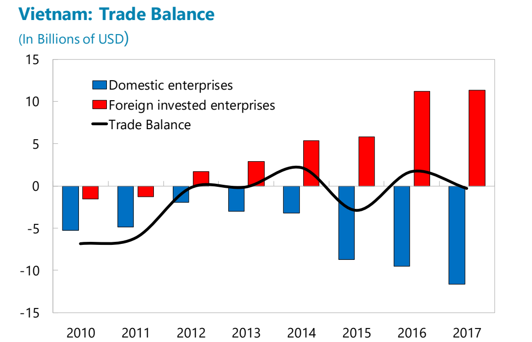


Sources: National authorities; and IMF staff calculations.
1/Includes education and health care services.
2/ Includes beverage, housing, garment, medicine, transport, post and telecom, education, culture and other goods.

5. The external position was substantially stronger than warranted by fundamentals. The current account (CA) surplus reached 2½ percent of GDP in 2017 (Figure 2, Tables 1–2), resulting in a CA gap of 5.2 percent of GDP (Appendix II). The external position is thus substantially stronger than warranted by fundamentals and appropriate policy settings. The CA gap translates into an REER undervaluation of 7 percent (text Figure). The external surplus reflects the economy's dualism: the surpluses were mainly generated in the booming FDI sector whereas the non-FDI sector continued to run a large deficit (text Figure). Investment and capital upgrades in the non-FDI sector are slowed by lack of a level playing field between the state and the private sector, significant regulatory barriers including private sector and foreign ownership limits, and weaknesses in financial intermediation of the external surpluses to the domestic economy.



Sources: INS; and IMF staff calculations.



Sources: CEIC; and IMF staff calculations.

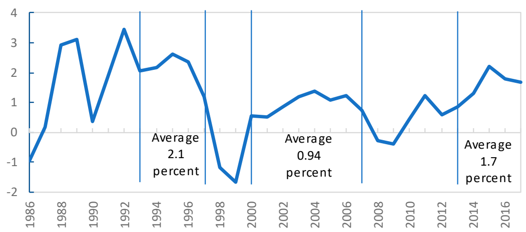
POSITIVE OUTLOOK, THOUGH WITH SIGNIFICANT RISKS

6. **Rising potential growth and a positive outlook.** Vietnam's economic momentum is expected to continue in 2018 despite a mild tightening in credit growth targets and a neutral fiscal stance (Table 1−3). Growth is projected at 6.6 percent in 2018, in line with official and consensus forecasts, reflecting the synchronized global recovery and rising growth potential growth at home. Inflation is forecast to rise to just under the 4 percent target, led by higher oil prices and gradual increases in administered prices. Developments Q1 2018—broad-based GDP growth of 7½ percent, headline inflation of 2.7 percent, and robust high frequency indicators—are consistent with these projections.

- Rising growth potential, to 6½ percent per annum, is attributable to: (a) improvements in the quality of the capital stock associated with strong FDI inflows; (b) higher aggregate productivity associated with the ongoing shift of labor out of agriculture (text Figures; (Selected Issues Paper: *Potential Output Estimates*); and (c) a better business climate. Higher incomes, urbanization and financial deepening will help drive private consumption and investment, including in housing. On current trends and assuming reforms continue at their current pace, 6½ percent annual growth remains feasible beyond 2018. Implementation of the Comprehensive and Progressive Trans Pacific Partnership (CPTPP) and the free trade agreement (FTA) with the European Union (EU) would further boost medium-term growth.

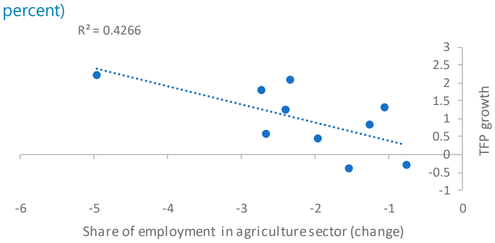
- The CA surplus is expected to decline over the medium term as structural reforms boost investment and REER appreciation resumes its trend (Tables 2−3). This would leave the reserve cover constant at 2½–3 months of imports and 77 percent of the ARA metric. The policies discussed below—greater exchange rate flexibility to reduce the need for large buffers, more ambitious structural and financial sector reforms to remove distortions that inhibit investment, and raising high-quality public investment while pursuing fiscal consolidation—should help close the CA gap at a faster pace.

Vietnam: Total Factor Productivity Growth, 1986–2017
(In percent)



Sources: Penn world table 9.0, World Bank; and IMF Staff estimates.

Vietnam: TFP growth and Employment in Agriculture, 2008–2017
(In percent)



Sources: Penn world table 9.0, World Bank; and IMF Staff estimates.

7. Significant risks and capacity constraints. Vietnam's highly open economy remains vulnerable to external and domestic shocks. These risks are compounded by low buffers in the private and public sectors, thin foreign exchange markets, and inflexible macroeconomic policy frameworks. Vietnam's institutions and information systems are not fully ready to proactively detect and manage risks (Appendix III).

- Domestically, the relatively high elevated public debt limits the scope for raising infrastructure investments and counter-cyclical fiscal policies. Moreover, sustained high credit growth, high leverage, low bank capital buffers and the inflexible exchange rate could lead to balance sheet vulnerabilities. Vietnam must also prepare for cyber security risks, and longer-term challenges of climate change, aging and technological disruption.

- External shocks could arise from rising trade protectionism, tighter global financial conditions, slower partner country growth, and geopolitical tensions. These shocks could affect Vietnam through trade and financial channels given large capital inflows recently. External shocks could compound domestic fiscal and financial sector vulnerabilities which, in turn, could be aggravated by uncertainty stemming from institutional and informational weaknesses.

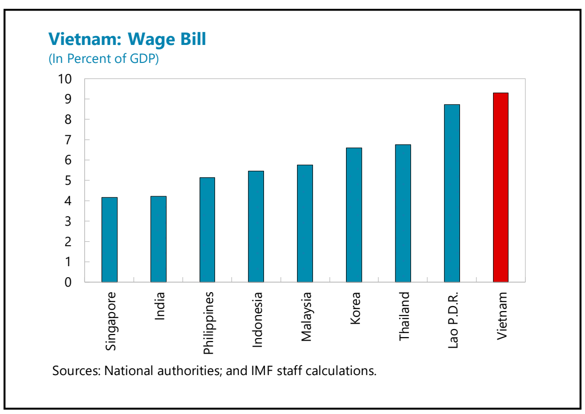
8. Authorities' views. The authorities broadly shared staff's assessment about the outlook and the need to boost non-FDI investment to lower the external surplus. They credited the turnaround from relatively modest growth and strong inflationary expectations in early 2017 to the government's efforts to slash administrative procedures starting mid-2017, the depreciation of the US dollar since the second quarter of 2017, and the robust recovery in electronic and semiconductors manufacturing. The 2018 growth target of 6¾ percent is likely to be achieved, but inflation could be higher due to rising international commodity prices and administered price increases. The authorities are conscious of Vietnam's exposure to external shocks and domestic vulnerabilities. They reaffirmed their commitment to macroeconomic and financial stability and the need to upgrade the growth model.

MAKING GOOD USE OF THE STRONG ECONOMY

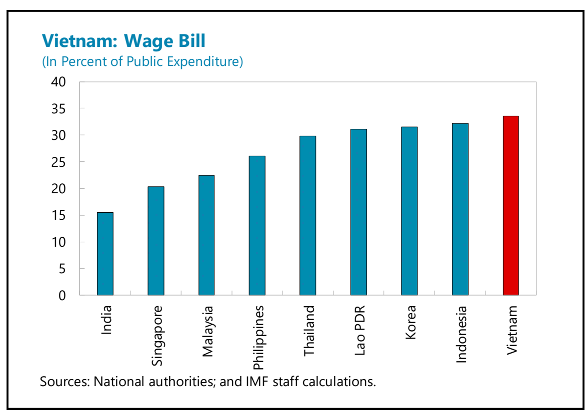
The strong growth momentum provides an opportunity to put policies in place to increase resilience, upgrade the growth model, and reduce the external surplus. High-quality fiscal consolidation is needed to build room for countercyclical policies and longer-term fiscal costs, while protecting and improving infrastructure investment. Monetary policy should be tightened by aligning credit growth with fundamentals, the exchange rate should become more flexible and the monetary framework should gradually transition to inflation targeting. Banks must be strengthened further to improve financial intermediation to support the domestic sector; supervision, risk management, and regulation should be beefed up with macroprudential measures. Reforms to improve the business climate and foster a sustainable growth model must continue in order to boost private investment.

A. Improving the Quality of Fiscal Consolidation

9. **A much-needed fiscal consolidation started in 2017.** This was largely revenue-based, resulting mainly from higher non-tax revenues, including land-related items which benefitted from rising prices and volumes of land transactions (Table 4, Figure 3). While revenue exceeded budget targets, VAT collections fell short as anticipated reforms were delayed. Lower administrative expenditures and higher fees in health and education kept current spending in check. Nevertheless, the wage bill—approximately 9½ percent of GDP—remains high (text Figures). Public investment exceeded budget targets due to spending carried over from previous years (about ½ percent of GDP) and accelerated disbursement of project funding. Fiscal consolidation and equitization proceeds (1.2 percent of GDP) helped contain public and publicly guaranteed debt (PPG) to 58½ percent of GDP at end-2017, below the statutory limit of 65 percent.



Vietnam: Wage Bill
(In Percent of GDP)
Sources: National authorities; and IMF staff calculations.



Vietnam: Wage Bill
(In Percent of Public Expenditure)
Sources: National authorities; and IMF staff calculations.

10. **Public debt remains sustainable over the medium-term; nevertheless, fiscal policy must create space for longer-term challenges.** The 2018 budget envisages a neutral fiscal

stance (Table 4). Under current tax and expenditure plans,[1] staff projects a consolidated state budget deficit of around 4.7 percent of GDP during 2018–23 (GFS classification, but excluding the cash surplus of extra budgetary funds). Significant available equitization proceeds will facilitate budget financing via non-debt-generating flows, containing PPG debt below statutory limits in the medium-term. Financing from equitization proceeds will, however, last for only another 3–5 years, with interest rates potentially rising thereafter. Debt dynamics will also worsen once aging sets in around 2035 (Appendix IV). Additional buffers maybe needed to accommodate fiscal risks from a cyclical downturn or contingent liabilities from potentially sizable SOE non-guaranteed debt. Fiscal consolidation is needed to put debt on a sustainable path over the long term and create space to deal with contingencies.

11. More ambitious, high-quality consolidation is warranted. The authorities are committed to adhering to the statutory debt limit and to lowering the deficit to 3½ percent of GDP by 2020 (3.9 percent by GFS classification). The statutory debt limit is in line with cross-country thresholds for emerging market economies. It has been effective in triggering fiscal adjustment and should be maintained as an upper bound. However, the government should consider bringing PPG debt to around 55 percent of GDP by 2022 to ensure debt sustainability over the longer term.

- A lower debt level will require more fiscal consolidation than currently planned—lowering the deficit by ⅓ percent of GDP per year on average over 2018–23 (text Table). Stronger consolidation could succeed in boosting medium-term growth and reducing the external surplus if it were achieved through high-quality structural fiscal measures (see below) and other measures to boost private investment (Section D).

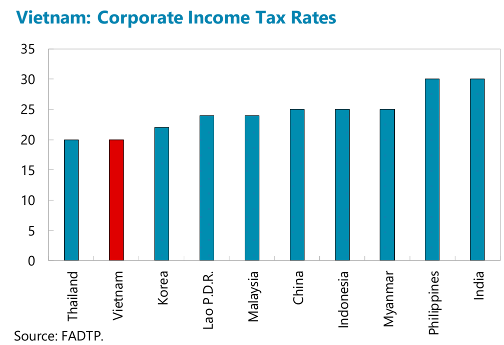
- These more ambitious targets could be achieved by capping annual growth in nominal government spending to 10 percent (Selected Issues Paper: *Fiscal Rules in Vietnam*).

- Producing comprehensive fiscal accounts based on GFSM 2014 (planned for mid-2018) and improved budgetary and reporting processes would help improve budget planning and execution and support consolidation.

12. Policies should be geared toward meeting development and investment needs, improving resilience, and preparing for aging. The budget must meet large infrastructure needs, protect social spending, support recapitalizing SOCBs and adequately fund the deposit insurance system. The strong economy provides an opportunity to improve the quality of fiscal consolidation by implementing more ambitious reforms in tax policy, administration, and expenditure management which will yield results over time.

[1] This includes: unchanged tax policy; lower trade-related taxes due to FTAs; higher environmental taxes starting mid-2018; higher-than-budgeted non-tax revenue similar to 2017 outcomes; gradually improving tax collection; public investment that includes spending from undisbursed funds in previous years; and, current plans for SOE equitization. The quantitative impact of reform plans in other areas (such as social security reform) has not been incorporated.

- ***Tax policy:*** Vietnam's tax rates are in line with regional competitors (text Figure). While some increases in rates (for example gradually raising the VAT rate to 12 percent) would be welcome, efforts should focus on reviewing and narrowing tax exemptions, broadening the base of the land tax to create a full property tax, increasing environmental excises further, and unifying the VAT rate of final and intermediate goods. The stalled 2017 tax reforms envisaging a higher VAT rate, fewer tax rate brackets and lower PIT rates should be reworked and reconsidered.



Source: FADTP.
Note: 2017 or latest available.

- ***Tax administration:*** The large taxpayer unit should be made fully operational and the many subnational collection offices should continue to be consolidated to streamline operations. In addition, administrative procedures should be simplified, and the use of information technology (IT) and risk-based auditing intensified. Simplification of the omnibus tax reform law would improve collection.

- ***Infrastructure:*** Public investment should be anchored in a medium-term framework. To avoid delays, cost overruns and spreading capital too thinly, the allocation, coordination, and efficiency of capital spending should be improved along with project appraisal, prioritization and selection. Priority projects should be protected and implemented. The public investment management assessment (PIMA) planned for 2018 should be an important boost to reforms in this area.

- ***Current spending:*** Priority social spending should be protected and non-priority spending further tightened.[2] The large wage bill should be rationalized by trimming headcount at a faster rate and by linking wages to performance. SOE reform and divestment should continue and tariffs should gradually cover full costs (including capital costs). Ongoing reforms to raise cost recovery and introduce private education and healthcare must be carefully designed to ensure access to all and protect the poor while raising service quality. Social security reforms to raise retirement ages, increase contributions and rationalize benefits are needed for pension sustainability.

[2] Staff will prepare a report on the cost of closing gaps in Sustainable Development Goals (SDGs) in health, education and infrastructure in Vietnam and other selected countries, in the coming months.

Text Table. Fiscal Consolidation Scenario 1/
(In percent of GDP)

	2016	2017 Staff Estimate	2018 Staff Baseline	2019	2020	2021	2022	2023
			Baseline					
Total revenue and grants	23.7	23.6	23.3	23.0	22.9	22.9	22.9	22.8
Capital expenditure	7.5	7.4	7.3	7.3	7.3	7.3	7.3	7.3
Current expenditure	21.0	20.7	20.7	20.7	20.6	20.5	20.4	20.3
Net lending (+)/borrowing (-)	-4.8	-4.5	-4.6	-4.7	-4.7	-4.7	-4.7	-4.7
Primary surplus (+)/deficit (-)	-2.9	-2.5	-2.6	-2.8	-2.7	-2.7	-2.6	-2.7
Equitization fund transfers to bugdet	0.7	1.2	1.2	0.6	0.4	0.3	0.1	0.1
Public and public-guaranteed debt	59.9	58.5	57.9	57.5	57.3	57.5	57.8	58.3
Real growth	6.2	6.8	6.6	6.5	6.5	6.5	6.5	6.5
			Consolidation Scenario 2/					
Total revenue and grants	23.7	23.6	23.3	23.4	23.7	23.8	23.9	23.9
Capital expenditure	7.5	7.4	7.3	7.3	7.6	7.7	7.8	7.9
Current expenditure	21.0	20.7	20.6	20.4	20.1	19.8	19.5	19.2
Net lending (+)/borrowing (-)	-4.8	-4.5	-4.6	-4.3	-4.0	-3.7	-3.4	-3.1
Primary surplus (+)/deficit (-)	-2.9	-2.5	-2.6	-2.5	-2.1	-1.9	-1.7	-1.3
Equitization fund transfers to bugdet	0.7	1.2	1.2	0.7	0.5	0.4	0.2	0.2
Public and public-guaranteed debt	59.9	58.5	57.9	57.1	56.0	55.1	54.2	52.8
Real growth	6.2	6.8	6.6	6.4	6.5	6.6	6.7	6.8

Source: IMF staff estimates.

1/ 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 exclude net lending of Vietnam Development Bank and revenue and exenditure of Vietnam Social Security and other extrabudgetary funds.

2/ Public guaranteed debt, interest rates, ODA onlending and valuation changes are assumed to be the same as in the baseline. The consolidation scenario incorporates the negative GDP growth impact of fiscal consolidation with a multiplier of 0.3. The scenario also assumes the implementation of a tax policy reform in 2019, and a positive impact of public investment efficiency gains following PIM improvements to begin in 2020. The scenario further assumes structural reforms aimed at improving public spending efficiency and addressing bank recapitalization needs, which together with higher public investment is expected to increase real GDP growth by 0.4 percent over the baseline by 2023.

13. Authorities' views. Fiscal policy recommendations are broadly consistent with the National Assembly's commitment to the statutory debt limit and a 3½ percent of GDP deficit by 2020.

- The goal is raise total revenue by broadening tax bases, further reforming tax administration, and better utilizing natural resource and property tax revenues. The proposals remain under discussion. A draft property tax bill, raising non-agricultural land tax rates and introducing property taxes, will be considered by the National Assembly in late 2018.

- Current spending will be checked by stronger expenditure controls, new limits on carry-forward spending, eliminating recurrent spending on autonomous public-sector delivery units (PSDUs), and continuing the two-out one-in policy for civil servants. Comprehensive civil service and social insurance reforms will continue, following recent increases in early retirement penalties and years of service for calculating benefits. The civil service is being reorganized to improve capacity and lower headcount but wage increases are needed to attract and retain talent.

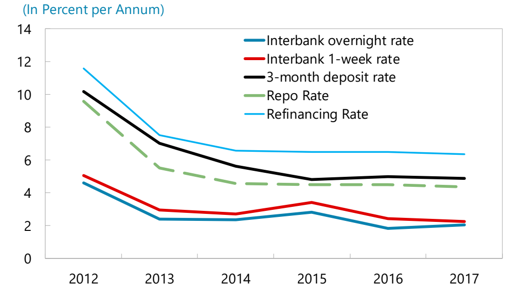
- PIMA is a strategic priority, but Vietnam's large investment needs cannot be met solely with public funding. Private funding will be considered in the form of public private partnership (PPP) agreements.

- Improving the quality (especially comprehensiveness and timeliness) of fiscal accounts and centralized management of the seventy extra budgetary funds are important goals and require collaboration across government agencies.

B. Improving Monetary and Exchange Rate Policies

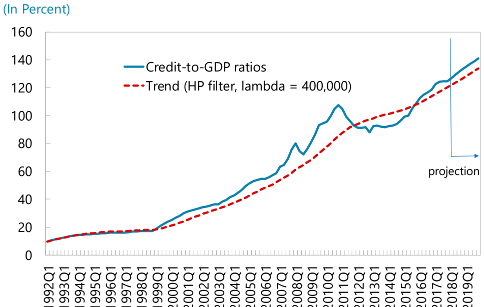
14. Monetary conditions have been accommodative in an environment of rising real money demand. The SBV set lower credit growth ceilings in 2017 but cut its policy rate by 25 bps in mid-2017 to support growth. While credit growth has been declining over time, it is outstripping the rise in financial deepening. Credit outstanding reached 130 percent of GDP in 2017, resulting in a sizeable credit gap (text Figure) which maybe contributing to asset market valuations which are higher than fundamentals (Selected Issues Paper: *Credit Growth and Asset Market Valuations*). External inflows were strong during the year, including from equitization, with the SBV building reserves without full sterilization. This led to overnight interbank rates sliding well below the policy (repo) rate. Nevertheless, inflation remained low due to rising monetary-cum-financial deepening associated with a growing urban middle-class and de-dollarization, lower food prices and a stable exchange rate. Inflation is set to gradually increase to the 4 percent target over the medium-term as import prices strengthen.

Vietnam: Interest Rates
(In Percent per Annum)



Sources: National authorities; Bloomberg; CEIC; and IMF staff calculations.

Vietnam: Credit-to-GDP
(In Percent)



Sources: National authorities; and IMF staff calculations.

15. A tighter monetary policy is warranted. The policy stance should be tightened to drain excess liquidity, reduce credit gaps, and continue to keep inflation contained. Credit growth targets should be lowered further and the interbank and overnight rates should be brought closer to the policy rate. The lower credit target of 17 percent set for 2018 should help tighten monetary conditions but a more ambitious reduction to no more than 14 percent (Selected Issues Paper: *Credit Growth and Asset Market Valuations*) is needed compared to the baseline (Table 5). Greater two-way exchange rate flexibility within the current ± 3 percent band should be allowed. Reserve accumulation should continue but at a more gradual pace and interventions should be accompanied by active liquidity management.

16. The monetary policy framework needs to be modernized. Vietnam would benefit from adopting a modern monetary framework using inflation as the nominal anchor, accompanied by greater exchange rate flexibility and improved monetary transmission. Credit targets should begin to be phased out to achieve more market-based capital allocation and improve banks' risk management. Macroprudential tools should be developed to deal with financial stability risks (see next Section). Cross-country evidence suggests that a gradual, opportunistic but planned transition initiated in times of economic strength can be orderly and effective. The tools, institutions, and expertise can be developed over time, with greater exchange rate and interest rate flexibility catalyzing institutional and financial market development by sharpening incentives to manage risk. For such a framework to succeed, the central bank must be operationally independent, technically capable, and effective in communicating its monetary policy. Financial literacy of policymakers, the public and investors is crucial. Such transitions are best initiated in times of economic strength and financial stability to maximize buy-in and minimize reversals.

17. Authorities' views. Monetary policy maintained macroeconomic stability in the face of large capital inflows, including equitization receipts, which posed challenges for liquidity management. The SBV succeeded in maintaining credit growth below target although growth was strong. Rising money demand, financial deepening and de-dollarization helped control inflation. The SBV intends to adhere to the 2018 credit growth target, while reassessing the target over the course of the year. They shared staff's views about the need to transition gradually to a modernized framework using inflation as the nominal anchor and greater exchange rate flexibility. The SBV will continue to strengthen its capacity, and will sequence measures depending on economic conditions and capacity development across a range of institutions. Market determination of interbank rates will need to await the improvement of financial sector risk management and transition to Basel II standards.

C. Strengthening Financial Sector Policies

18. Reforms have strengthened bank balance sheets. Bank profits and asset quality are improving in most large banks (Figure 4, Table 6), helped by the strong economy and faster disposal of non-performing loans (NPLs). Legal changes in 2017 (Resolution 42) and higher real estate prices are facilitating the disposal of collateral and the restructuring of bad assets. Amendments to the Law on Credit Institutions are enhancing bank corporate governance by clarifying bankruptcy and other restructuring options. Several banks have used this opportunity to address legacy bad assets, raise profits and boost capital, and large private banks are already close to the 8 percent capital adequacy ratio (CAR) Basel II requirement. Overall, the banking system has become more competitive.

19. However, important weaknesses remain in the form of low profits, thin capital buffers and high NPLs in some banks, and emerging financial risks (Figure 4).

- Profitability remains low relative to other ASEAN countries, particularly for some large private banks, including three weak banks taken over by the SBV in 2015. While SOCBs are profitable, their ability to use profits to boost capital is hampered by required dividend payments.

- Capital buffers remain thin in some SOCBs and a few private banks. This may imply potential risks to financial stability given the sizable credit gap, still thin capital buffers, and regulatory limits to private sector ownership.

- Reported NPL ratios are still high for some banks and could be higher still if ever-greening and connected lending were fully accounted for. Moreover, the recent shift to consumer lending, including mortgages and durable goods, and margin lending, could sour in a cyclical downturn.

- Strong growth in asset prices, driven by improved fundamentals, capital inflows, and accommodative credit conditions maybe leading to a buildup in financial sector risks (Box 1 and Selected Issues Paper: *Credit Growth and Asset Market Valuations*). Elevated equity prices are complicating the ability of banks to raise Tier 1 capital (Tier 2 capital limits have been reached by most banks). A market correction could affect household, corporate and financial sector balance sheets.

20. The banking system and supervision need to be further strengthened. Vietnam's financial system must become more resilient and efficient in intermediating savings, both to ensure sustainable growth and stability, and to support a modern monetary framework with greater exchange rate flexibility.

- SOCBs should be recapitalized quickly and managed at arms-length. Required dividend payments to the budget should be reduced and fresh capital injected using government funds: recapitalization costs are an estimated 1-1½ percent of GDP to raise CAR up to current regulatory requirements and to meet Basel II requirements by 2020. To help SOCBs recapitalize with new equity issues, state ownership should be reduced below 65 percent and foreign ownership limits raised. The banks taken over by the SBV should be restructured and sold to strategic investors or liquidated.

- Asset recovery should be accelerated by speeding up NPL resolution to less than the current 5–10-year timeframe, finalizing the implementing regulations for Resolution 42 to clarify enforcement, increasing the Vietnam Asset Management Corporation's (VAMC) capital, and expanding fast-track court procedures to cover a broader category of NPLs. The VAMC should stop warehousing bad assets; evolve into an asset management company by buying more NPLs at market prices in the near-term; and be gradually phased out over the medium-term.

- To better monitor vulnerabilities, data quality on loan classification, disaggregated credit and banking sector and corporate exposures, and real estate markets should improve.

Data gaps constrain supervision and risk assessment. Closing these gaps requires a comprehensive strategy spanning multiple agencies with fragmented responsibilities for data collection and supervision. Broadening the required application of international accounting standards would improve transparency and help attract foreign capital for recapitalization needs.

21. The capacity to proactively manage financial sector risks should be improved. The SBV should strengthen the macroprudential framework by introducing leverage ratios, and countercyclical buffers (CCBs), complemented by policy tools to temper potential risks from consumer and mortgage loans (including loan-to-value (LTV) and debt service-to-income (DSTI) requirements. It should ensure that sufficiently robust liquidity and crisis management frameworks—including legal and operational clarity on early intervention, information sharing, and communication—are in place to weather shocks. A strong and adequately funded deposit insurance scheme and an effective lender of last resort would be helpful in this regard. The AML/CFT framework (including customer due diligence requirements for political exposed persons) should be strengthened in line with the FATF standards to address key country risks.

22. Authorities' views. Banking sector reforms have contributed to macro-financial stability and growth but vigilance is needed about emerging risks.

- The capitalization and consolidation of SOCBs is a priority. Strong bank profits in 2017 makes it a good time for bank restructuring to improve governance, transparency and efficiency. Since the budget now has some room, SOCBs should be allowed to retain profits until legacy NPLs are fully resolved; this proposal is awaiting a high-level decision. Agribank, the last fully state-owned bank, is targeted for equitization by 2019, after accounting for land holdings and land use plans.

- Resolving legacy NPLs and preventing NPLs from rising are also major priorities. Banks have improved risk management. Information technology improvements (such as the Credit Information Bureau) have boosted financial deepening and credit demand, while also improving credit risk assessment.

- New concerns are associated with rising stock prices, margin lending for equity investment (which has prompted tighter regulatory limits), and growing consumer lending. Speculative real estate investments have, however, declined. The SBV is encouraging banks to reduce high-risk credit concentration, and to improve internal risk management by strengthening prudential regulations. It will conduct offsite supervision in institutions with concentration of these types of lending, and keep strengthening prudential regulations.

- There is widespread recognition of the need to improve the quality of data. The SBV plans to harmonize definitions across regulations to improve data timeliness and accuracy. Macroprudential policies such as LTV ratios and CCBs are under consideration but implementation would need to await the availability of better data and the transition to Basel II in 2020.

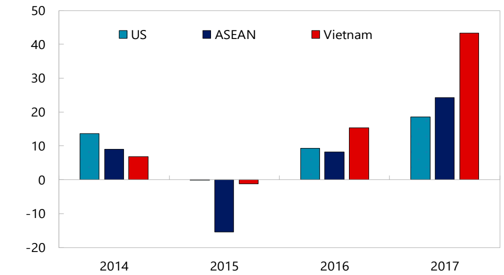
Box 1. Asset Market Developments

Ample liquidity has elevated asset valuations. Strong credit growth and external inflows have helped push up asset prices. While the strong growth in asset prices is partly driven by improving fundamentals, they could be storing up risks to the financial system.

Vietnamese stock markets have boomed, outperforming US and ASEAN markets. Market capitalization in the Ho Chi Minh City and Hanoi stock indices tripled in 2016–17, reflecting growing numbers of listed firms and higher valuations (text Figures). The sharp increase in stock prices is largely driven by the expectation for economic growth and SOE reforms and by global financial conditions. Slower growth, delays in reforms or a loss of investor confidence due to other factors could result in a market correction.

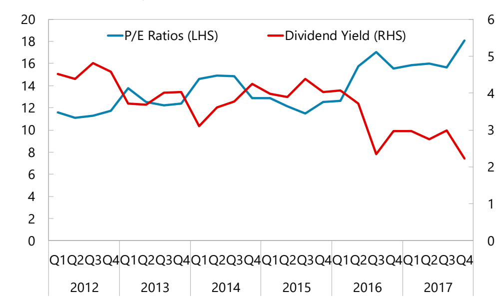
Real estate prices have rebounded from the lows seen in the GFC but remain well below the highs of 2008. Price-to-rent ratios suggest that the increase in property prices is in line with growing demand for housing from a rapidly growing urban middle class with rising incomes (text Figure). The availability of affordable housing is also increasing, supported in part by low-interest mortgage lending by SOCBs.

Vietnam: Stock Price Index
(Year-on-Year Percent Change)



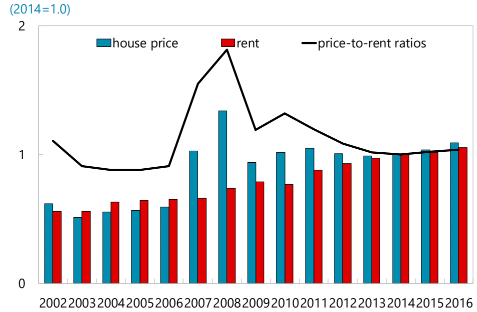
Sources: Bloomberg; and IMF staff calculations.

Vietnam: Valuation Measures in Vietnam Stock Exchange Markets
(Year-on-Year Percent Change)



Sources: Bloomberg; and IMF staff calculations.

Vietnam: Real Estate Prices
(2014=1.0)



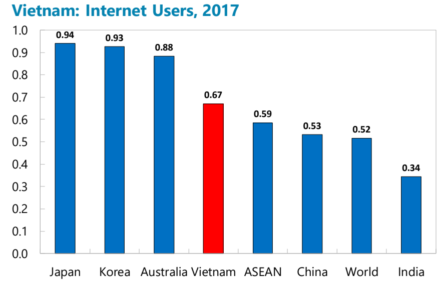
Sources: Savills; National authorities; and IMF staff calculations.

Source: Selected Issues Paper: *Credit Growth and Asset Market Valuations.*

D. Enabling Private-Sector-Led Growth and Innovation

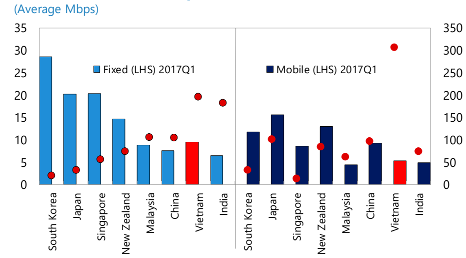
23. Economic reforms, modernization, a shrinking state footprint, and better access to credit are improving productivity and the business environment. Numerous administrative measures were scrapped in 2017 to level the playing field; and, business formation has risen to record levels. The CPTPP, EU-FTA, and commitments under other FTAs, should further boost modernization and reforms. The legal framework for equitization, divestment and reform of SOEs is being revamped with the creation of an independent State Capital Management Committee (SCMC) overseeing all large SOEs to improve accountability and efficiency, while leaving management and regulation with line ministries and regulatory bodies. Several large and profitable SOEs in non-strategic sectors are slated for divestment in 2016–20, with substantial momentum evident in 2017 and 2018. Bolstered by the authorities' public commitments, efforts to address high-level corruption have been stepped up and have started to reduce perceptions of corruption. Finally, in addition to possessing a high-quality labor force in which female labor force participation is high (Figure 5; Box 2 and Figure 6), Vietnam is ahead of its ASEAN peers in mobile penetration and digital-economy readiness (text Figure). Reflecting these strengths and ongoing reforms, Vietnam's rankings in international competitiveness ratings are rising (Figure 5).

Vietnam: Internet Users, 2017



Sources: Internet Live Stats; and IMF staff calculations.
Note: Internet Users per Capita; Growth since 2014.

Vietnam: Connection Speed
(Average Mbps)



Source: Akamai's state of the internet report.
Note: Dots show the change in speed from 2015Q1 (RHS).
1 Mbps = 1000 Kbps.

24. Despite important progress, the reform agenda to achieve higher middle-income status remains large. As an enabler of private sector-led growth and as part of its Industry 4.0 initiative, the government can take advantage of the strong economy to implement far-reaching and complementary reforms to raise labor productivity, tackle remaining barriers to domestic investment, and reduce informality and dualism. It should formulate a strategy for the digital age which is already reshaping jobs and business models globally. According to the ILO (2016), 56 percent of jobs in the ASEAN-5 are at risk of automation by 2025, in retail and wholesale trade, construction and manufacturing, with women being at a disproportionate risk. Policies should focus on:

- **Investment with an eye toward the digital future.** Continued investments in human capital and high-quality infrastructure are needed to further improve productivity, the business climate and innovation. Further boosting connectivity, and enhancing incubators for startups would aid financial deepening and inclusion, and facilitate participation of Vietnamese entrepreneurs in global and regional digital platforms and production. Action is also needed to fundamentally reform tertiary education, especially

Box 2. Gender Gaps

Vietnam is a success story in women's contributions to the economy and politics (Figure 6). Female labor force participation is over 73 percent, close to that for men, surpassing levels in comparator ASEAN countries, and the 2016 OECD average. Overall, female educational attainment is high, though still lagging that for men. Current net enrollment rates for women are now equal to, or higher, than those for men from primary through tertiary education. The gender wage gap is, on average, just under 20 percent, and is the smallest in the FDI sector, where women comprise some 65 percent of the workforce and where average wages are the highest in the economy. Women are well-represented in Vietnam's parliament compared to other Asian countries, with women chairing the National Assembly and comprising nearly 27 percent of MPs.

Significant challenges remain to the further empowerment of women. The share of women in the employed labor force with strong technical training is low (as it is for men) and over 63 percent of working women are self-employed and family laborers. In the formal sector, women dominate certain types of industrial work, such as garments and automobile parts, which is remunerated at piece rates and where the risk of automation is high. Women face various legal barriers for work, including an earlier mandatory retirement age and disqualification for certain jobs. Surveys indicate that Vietnamese women, regardless of education or income level, face a much larger burden of unpaid family and societal care than men. Women's access to the formal financial sector is low (as for men) relative to other lower middle-income countries, which likely restricts their ability to form businesses.

Sources: ActionAid, *Make a House Become a Home*, 2016; GSO, *Gender Statistics 2016* (released 2018); UN Women, *Viet Nam Gender Briefing Kit 2016;* UN Women, *Towards Gender Equality in Viet Nam: Making Inclusive Growth Work for Women*, 2016

in science, technology, engineering and mathematics (STEM), to reduce skills mismatches and ensure that graduates have the necessary skills suitable for the digital age. Modernizing and improving the quality of vocational training, boosting private-sector led in-house training, and providing lifelong learning opportunities can facilitate continued rural-urban migration and raise labor productivity.

- **Developing non-bank, long-term financing to support investment and businesses.** The limited availability of long-term financing deters strategic and long-term investors. Developing capital markets, including secondary government and corporate bond markets, would help shift Vietnam away from bank-based financing, and enable private sector financing for infrastructure and business needs. It is important to increase the transparency and governance of equity markets and bring them toward international standards, by requiring public companies above a certain size to be listed and modernizing the legal framework to support Vietnam's move to emerging market status.

- **Further transforming the role of the state.** Regulatory barriers to foreign and domestic private sector ownership should be reduced to strengthen links between the domestic economy and FDI sectors, improve competition, and raise productivity through the transfer of technology and expertise. While the regulatory burden has lightened, implementation challenges, especially at the local and provincial levels, need to be alleviated. Land ownership and leasing should be reformed to reduce concentration in state hands; competitive and transparent land auctions should become the norm. The separation of state ownership of SOEs from regulation is welcome, but regulatory entities must operate at arms-length from the government, enterprises and interest groups and be independent but accountable. To facilitate divestment, the State Capital Investment Corporation (SCIC) should have adequate capital and greater legal clarity regarding the transfer of SOEs to the SCIC is needed.

- **Raising the bar on soft infrastructure.** Vietnam must accelerate its march toward international standards for regulatory excellence, transparency and disclosure, including by improving data quality. A collaborative and comprehensive approach is needed across all agencies to address data and analytical gaps, with greater public access to information to better communicate, educate and improve accountability. The effectiveness of anti-corruption measures should be enhanced (e.g., the use of AML tools, recovery of stolen assets and asset declaration systems). Judiciary reform is needed to improve the enforcement of contracts, strengthen legal interpretation, and facilitate resolution, restructuring and bankruptcy proceedings.

25. Sustainable development and economic welfare. Vietnam is highly vulnerable to climate change. Under the Paris Climate Agreement, the government committed to meeting the SDGs and drew up a National Action Plan. To address the threat of climate change and degradation and ensure sustainable development, Vietnam should lower the intensity of dirty fossil fuels by raising the contribution of renewables and gas; provide stronger incentives for green growth, including full carbon pricing of fossil fuels; invest in infrastructure more resilient to natural disasters; and introduce an arms-length regulatory framework to prevent and manage environmental risk.

26. Authorities' views. Staff recommendations are consistent with the government's broad policies and commitment to private-sector-led growth. Improving the business climate, leveling the playing field for domestic small and medium-sized enterprises (SMEs), tackling corruption and improving transparency are important priorities.

- Several legislative initiatives are under way to address these objectives. They include a new legal framework for SMEs; special administrative and economic zones; improved legal and institutional framework for capital and securities markets; and a revised public investment law to introduce a medium-term five-year investment strategy, simplify procedures, improve prioritization, and reduce arrears. The Central Institute for Economic Management has been tasked to recommend land use measures to improve business conditions.

- SOE governance will be improved to boost profitability. SOE equitization and divestment will continue in 2018–20, along with PSDU restructuring. To enhance accountability of state agencies, an improved anti-corruption law seeks to address conflicts of interest and illicit wealth by recording and making publicly available the income and wealth of all public servants.

- The government is cognizant of pervasive data weaknesses which needs to be addressed with technical assistance programs as part of the Industry 4.0 initiative. The government is also setting up databases to improve transparency.

- The government has ambitious plans to increase green energy production by 2020 from the current levels of 2 percent of energy supply. It will increase environmental taxes in July 2018.

STAFF APPRAISAL

27. Vietnam's dynamic, highly open economy continues to perform well. The solid performance is aided by macroeconomic and financial stability, stepped up economic reforms, and inflows of foreign direct investment which are enabling structural transformation and are raising potential growth. The strong economic momentum is expected to continue. But financial buffers are still thin, macroeconomic policy frameworks remain inflexible, complicating the management of shocks, and the external position is substantially stronger than warranted by fundamentals. The strong economy provides an opportunity for more ambitious reforms to level the playing field by tackling remaining distortions and capacity constraints, increasing investment and reducing the external surplus.

28. Fiscal policy should emphasize high-quality consolidation to meet large development needs and ensure that Vietnam has fiscal space to meet longer-term challenges. A slightly more ambitious consolidation than currently planned, and a lower debt ceiling than the current statutory limit, will be needed to create additional fiscal room before aging sets in the mid-2030s and provision for contingencies. Stronger consolidation could boost medium-term growth if it relied on high-quality structural fiscal measures and measures to boost private investment. Reforms should focus on broadening tax bases; reducing administrative and wage-related spending; protecting social spending through well designed social security and civil service reforms; and, protecting and improving the quality of public investment. Comprehensive and timely fiscal accounts based on GFSM 2014 and improved budget planning and execution should help facilitate consolidation.

29. To sustain macroeconomic stability, monetary policy should be tightened by further lowering credit growth to bring it in line with ongoing improvements in financial deepening. Greater two-way exchange rate flexibility within the current band should be allowed to reduce speculative inflows, absorb shocks and help bring down the external surplus. Reserve accumulation should continue but more gradually, with fully sterilized interventions. The modernization of the monetary framework should start, gradually easing away from credit targets to begin a phased shift to inflation targeting and greater exchange rate flexibility.

30. Financial sector balance sheets, supervision and risk management need to be further strengthened. A stronger financial sector can help improve the efficiency of financial intermediation to service the domestic economy and investment. Strong credit and asset price growth may be contributing to the build-up of risks in the financial system. SOCBs should be capitalized swiftly with government funds, and by raising private sector and foreign ownership limits. It is critical to develop a macroprudential framework and improve data quality on credit aggregates and balance sheet exposures to monitor and proactively manage risks, and ensure that sufficiently robust liquidity and crisis management frameworks are in place to provide legal and operational clarity regarding early intervention and communication to mitigate emerging financial sector risks.

31. The reform drive needs to be broadened and accelerated to tackle the remaining barriers to investment and to raise labor productivity. Priority areas include: high-quality infrastructure investments; further reductions in regulatory barriers and transitioning to international standards for regulatory excellence, transparency and data quality to aid investment; reforms to tertiary education; efforts to reduce the concentration of land ownership in state hands; and continued reforms in state-owned enterprises. Vietnam must continue to enhance anti-corruption measures and address the threat of climate change.

32. It is recommended that the next Article IV Consultation take place on the standard 12-month cycle.

Proposed Decision

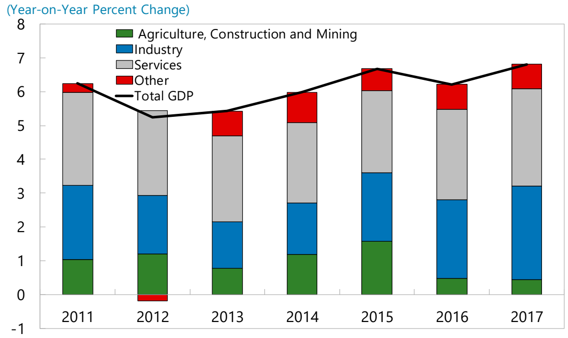
The Executive Board endorses the thrust of the staff appraisal in the report for the 2018 Article IV consultation with Vietnam (SM/18/125, 5/29/2018).

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

Figure 1. Vietnam: Robust Growth, Low Inflation

Economic growth has been strong, led by the service sector and industrial activity …

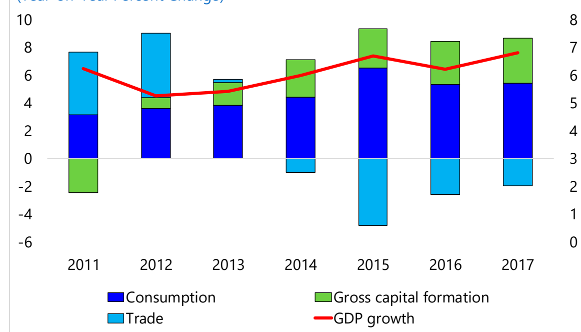
Contribution to GDP Growth by Economic Activities (2010 prices)
(Year-on-Year Percent Change)



Sources: National authorities; and IMF staff calculations.

…reflected in strong domestic demand.

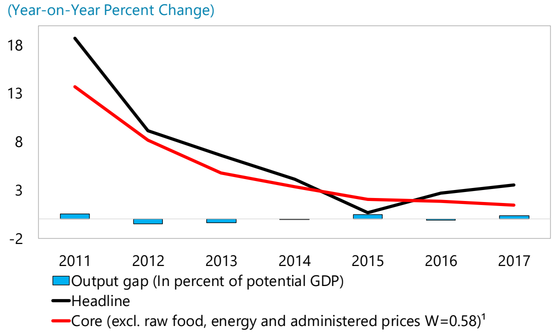
Contribution to GDP Growth by Expenditure (2010 prices)
(Year-on-Year Percent Change)



Sources: National authorities; and IMF staff calculations.

Headline and core inflation remain at low levels, due to lower food prices…

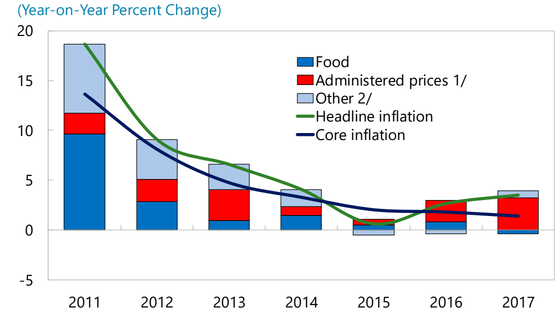
Inflation and Output Gap
(Year-on-Year Percent Change)



[1] W=2014 Weight
Sources: National authorities; and IMF staff calculations.

…with administered price increases being main driver of higher headline inflation rates.

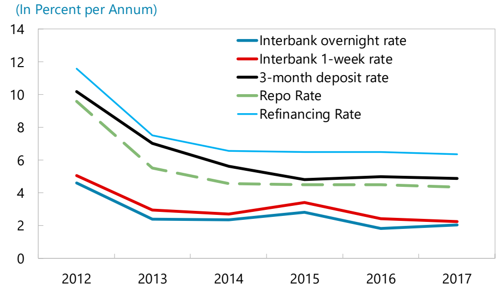
Contribution to Headline Inflation
(Year-on-Year Percent Change)



Sources: National authorities; and IMF staff calculations.
1/Includes education and health care services.
2/ Includes beverage, housing, garment, medicine, transport, post and telecom, education, culture and other goods.

Monetary policy has been accommodative…

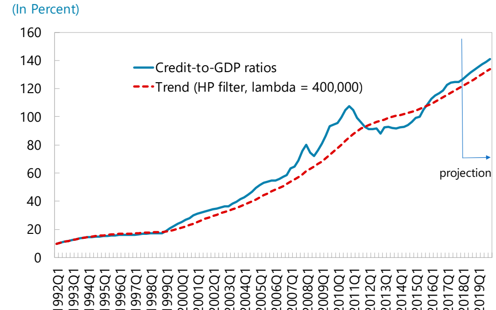
Interest Rates
(In Percent per Annum)



Sources: National authorities; Bloomberg; CEIC; and IMF staff calculations.

…with credit targets well above trend growth.

Credit-to-GDP
(In Percent)

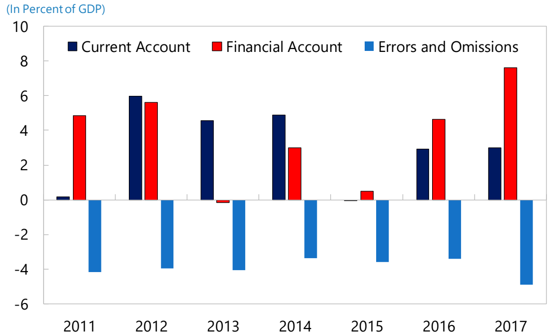


Sources: National authorities; and IMF staff calculations.

Figure 2. Vietnam: Strong Trade and FDI, but Still Low Reserve Coverage

The current and capital accounts remained in surplus…

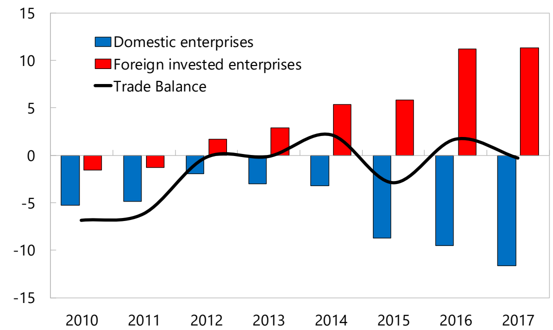
External Accounts
(In Percent of GDP)



Sources: National authorities; and IMF staff calculations.

…with strong net exports from the FDI sector offsetting the rise in the domestic trade deficit …

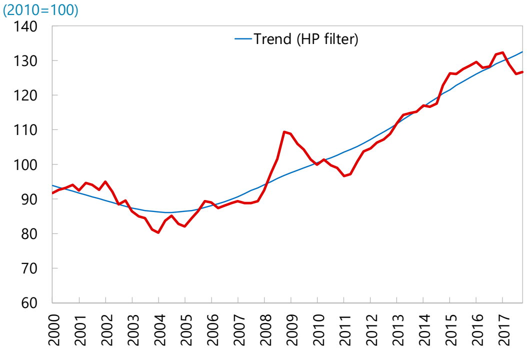
Trade Balance
(In Billions of USD)



Sources: CEIC; and IMF staff calculations.

…helped by a depreciation in the real effective exchange rate due to a weak dollar

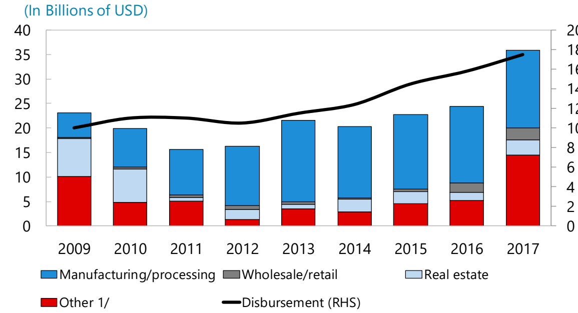
Vietnam: Real Effective Exchange Rate, 2000Q1—2017Q4
(2010=100)



Sources: INS; and IMF staff calculations.

FDI inflows remained strong, still focused on manufacturing, but becoming more diversified.

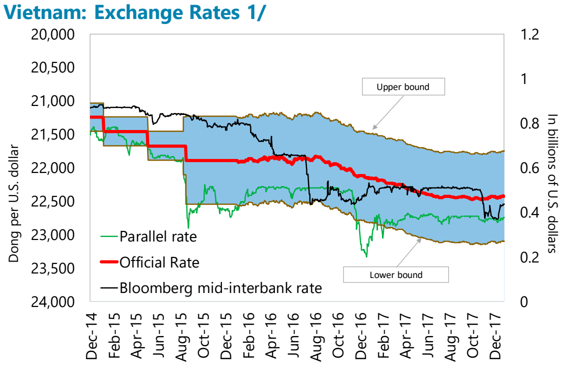
FDI Commitments and Disbursements
(In Billions of USD)



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

A fixed official reference exchange rate in the face of strong external inflows…

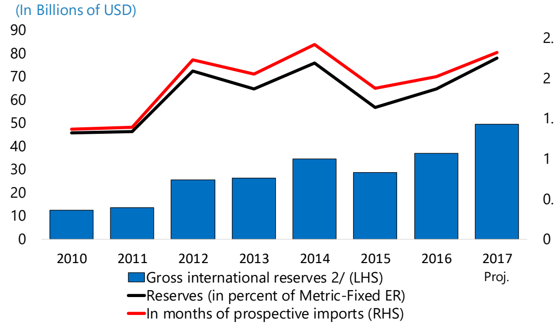
Vietnam: Exchange Rates 1/



Sources: Vietnamese authorities; Bloomberg LP; and IMF staff estimates.
1/ An upward movement indicates an appreciation of the dong.

…has been accompanied by interventions to build international reserves, which remain low relative to imports.

Reserves
(In Billions of USD)

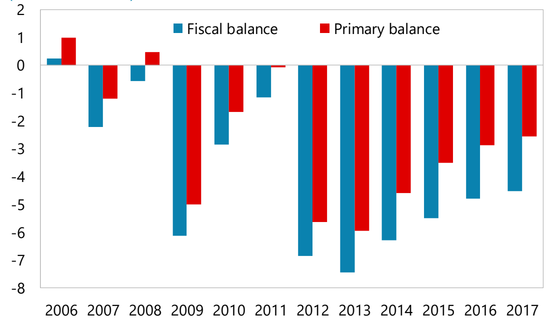


Sources: National authorities; and IMF staff calculations.
2/Excludes government deposits.

Figure 3. A Small Fiscal Consolidation, High Public Debt

Fiscal balances improved in 2017…

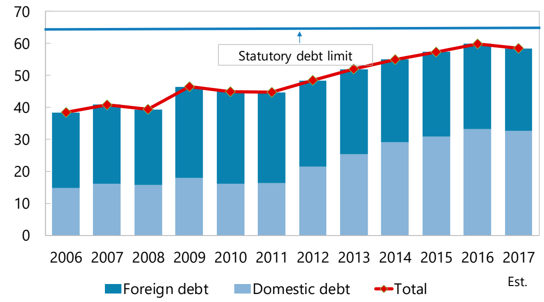
Fiscal Balance
(In Percent of GDP)



Sources: National authorities; and IMF staff calculations.

…stalling the continued rise in public debt levels.

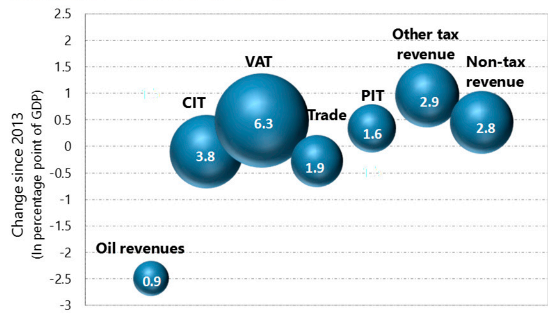
Public and Publicly Guaranteed Debt
(In Percent of GDP)



Sources: National authorities; and IMF staff calculations.

While tax revenue collections have improved over time…

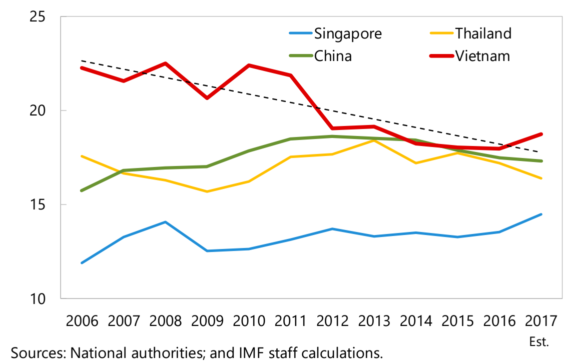
Revenue, 2017 1/
(Change since 2013, and percent of GDP)



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

…they remain on a downward trend…

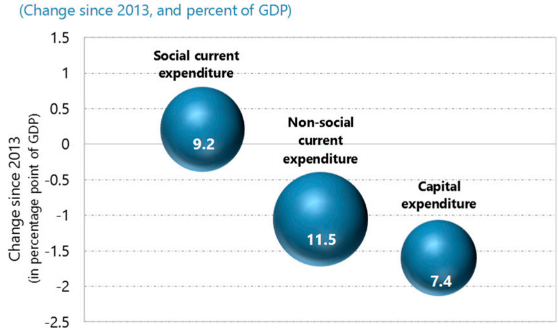
Tax Revenue 1/
(In Percent of Fiscal Year GDP)



Sources: National authorities; and IMF staff calculations.

Public expenditure has been driven mainly by non-social current spending…

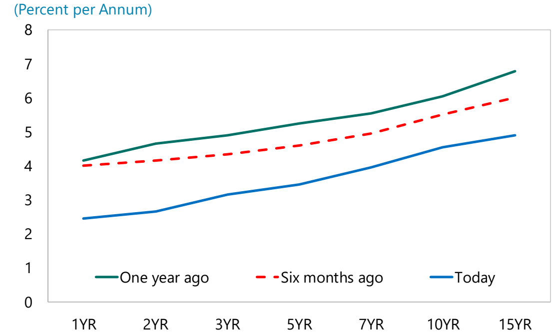
Expenditure, 2017 1/
(Change since 2013, and percent of GDP)



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

…although falling yields have moderated debt service costs.

Domestic Bond Yield Curve 1/
(Percent per Annum)



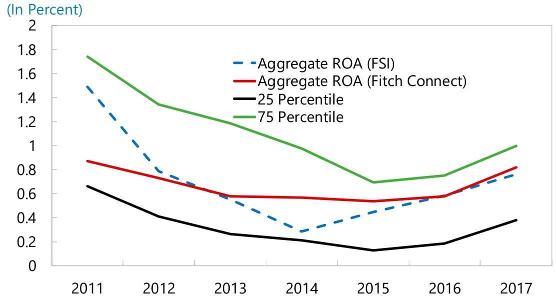
1/ Data as of April 30th, 2018.
Sources: National authorities; and IMF staff calculations.

Figure 4. Vietnam: Strengthening Financial Sector, with Underlying Weaknesses

Profits have started improving, but not equally across all banks

Vietnam Banks: Return on Assets

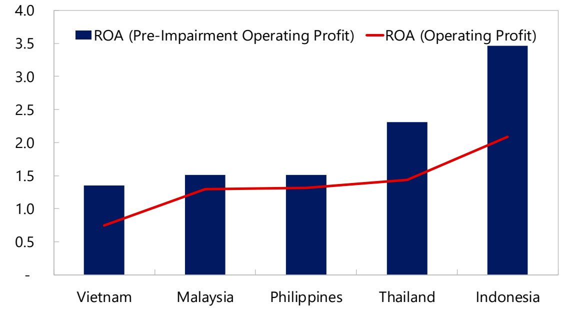
(In Percent)



Sources: Fitch Connect; and IMF staff calculations.
Note: Aggregate ROAs in FSI cover all banks while aggregate ROAs by Fitch Connect cover only large banks in Vietnam. As of 2016, the coverage of Fitch Connect in term of total assets is about 74 percent. The 75- and 25-percentile point are calculated on the basis of data available from Fitch Connect in each year.

Profitability remains low by regional comparison…

Regional Comparison: Return on Assets

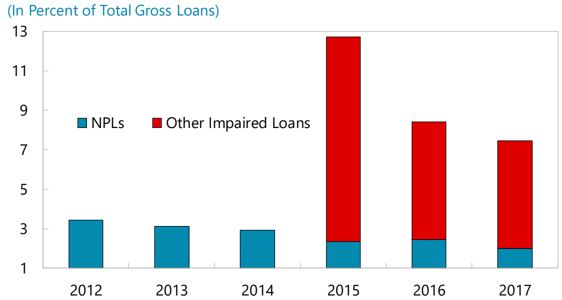


Sources: Fitch Connect; and IMF staff calculations.
Note: The figure shows the aggregate ROAs in 2016 for commercial banks, which are calculated on the basis of data available from Fitch Connect in each country.

… in part because of high legacy NPLs in a few private banks.

NPL Ratio and Impaired Loans

(In Percent of Total Gross Loans)

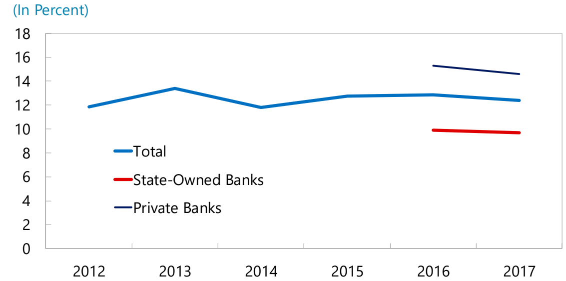


Sources: FSI; and IMF staff calculations.
Note: Other impaired loans include a broader definition of NPLs such as those sold to the VAMC and loans previously restructured under Decision 780. The amount of loans restructured under Decision 780 is assumed to be unchanged from 2016 to 2017 due to lack of end-2017 data.

While some banks have raised capital, capital adequacy ratios remain low in state-owned commercial banks due to dividend payments to budget

Regulatory Capital to Risk-Weighted Assets

(In Percent)

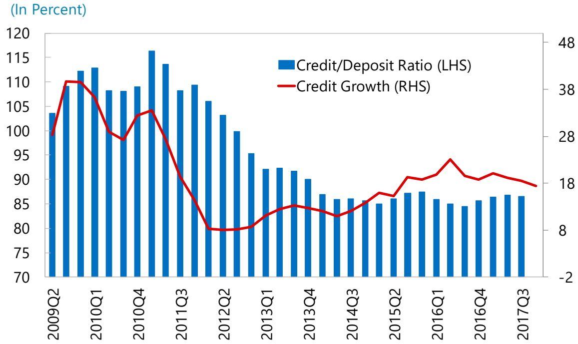


Sources: FSI; and IMF staff calculations.
Note: The capital adequacy ratio (CAR) covers the total banking system, and all the SOCBs respectively. The CAR for private sector banks is calculated from CARs for total banking system and SOCBs by assuming that the amount of risk-weighted assets are proportional to total assets.

Strong credit growth is being funded by stable credit-deposit ratios in recent years…

Credit to Deposit Ratio

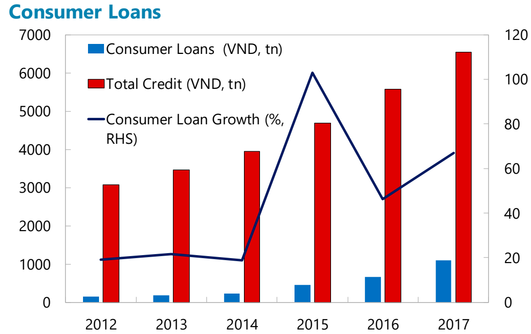
(In Percent)



Source: National authorities; and IMF staff calculations.

… but the rise in higher-risk consumer lending may worsen asset quality in a downturn.

Consumer Loans

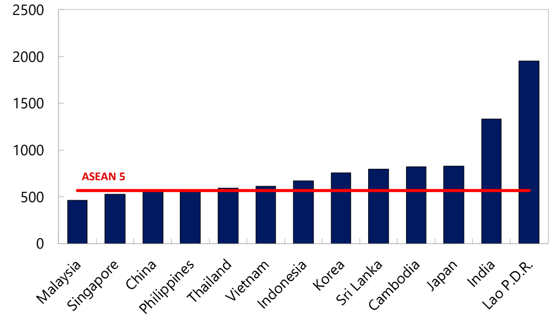


Sources: Saigon Securities Incorporation; and IMF staff calculations.
Note: Consumer loan data for the banking system is based on the report by Saigon Securities Corporation.

Figure 5. Vietnam: Competitiveness and Business Climate

Strong export performance has been supported by low trade costs and trade agreements.

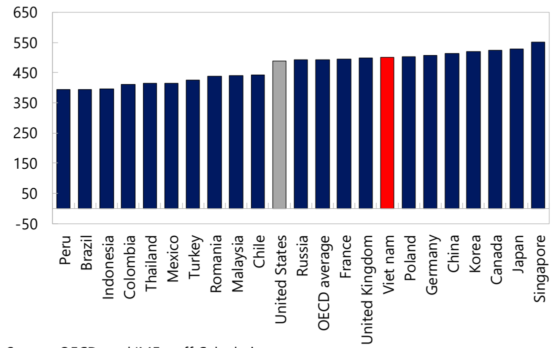
Cost to Export, 2014
(In US$ per container)



Sources: WDI; and IMF staff calculations.

A well-educated labor force has helped attract FDI.

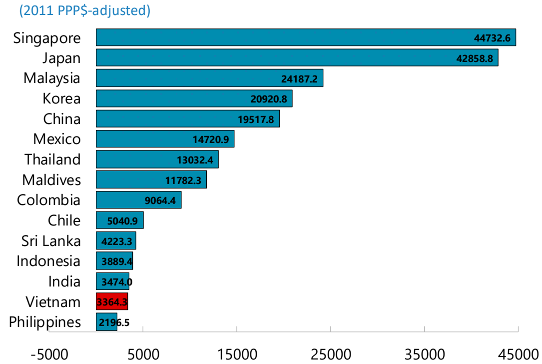
Pisa 2015 Score 1/



Source: OECD; and IMF staff Calculations.
1/ Average of pisa score in mathematics, reading and science.

But low levels of public capital stock…

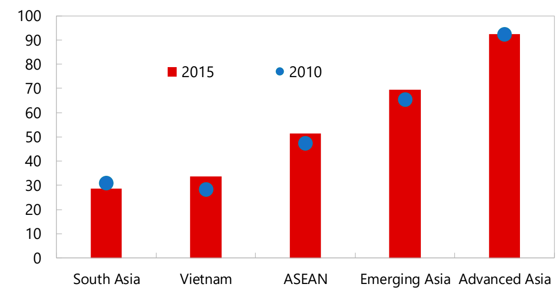
2015 General Government Capital Stock per Capita
(2011 PPP$-adjusted)



Source: FAD.

…weak, though improving, regulatory quality…

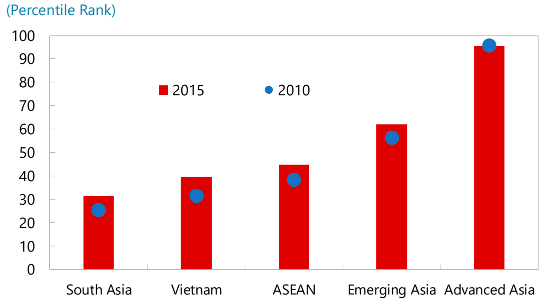
Regulatory Quality
(Percentile Rank)



Sources: WGI; and IMF staff calculations.
Note: Regulatory quality is a perception based measure (0-lowest regulatory quality; 100-highest regulatory quality).
South Asia excludes Sri Lanka.

…and still weak institutions …

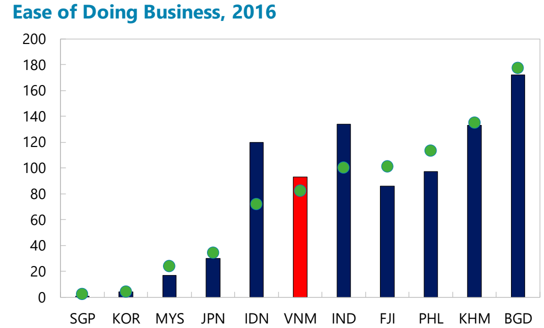
Control of Corruption
(Percentile Rank)



Sources: WGI; and IMF staff calculations.
Note: Control of Corruption is a perception based measure (0-lowest control of corruption; 100-highest control of corruption).
South Asia excludes Sri Lanka.

…leave scope for further improving the business environment.

Ease of Doing Business, 2016



Note: Rankings from 1 (highest) - 190 (lowest).
Dots represent ranking in 2014.
Source: World Bank.

Figure 6. Vietnam: Gender Gaps

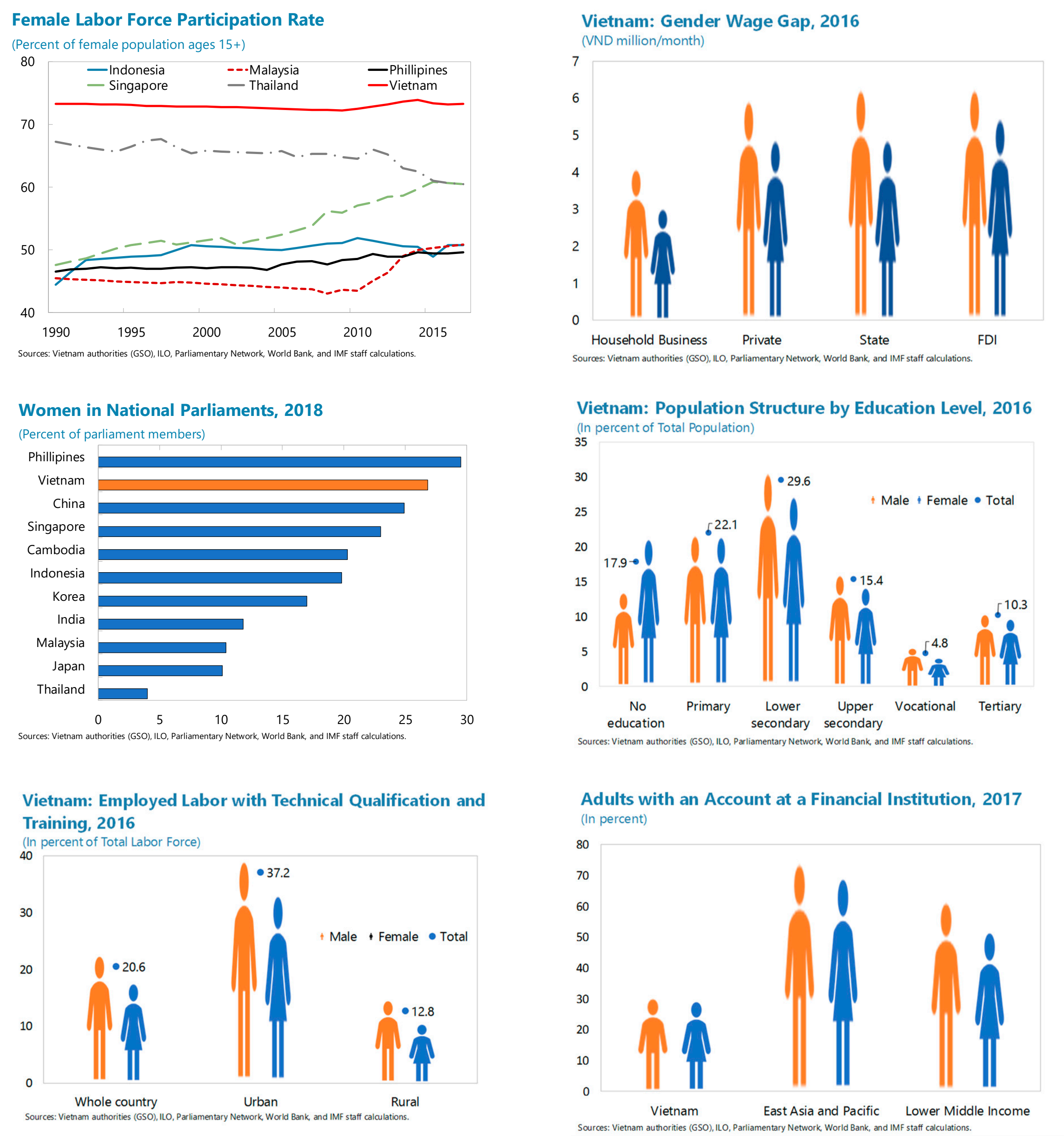


Table 1. Vietnam: Selected Economic Indicators, 2013–2019 1/

	2013	2014	2015	Est. 2016	Projections 2017	2018	2019
Output							
Real GDP (percent change)	5.4	6.0	6.7	6.2	6.8	6.6	6.5
Prices (percent change)							
CPI (period average)	6.6	4.1	0.6	2.7	3.5	3.8	4.0
CPI (end of period)	6.0	1.8	0.6	4.7	2.6	4.0	4.0
Core inflation (end of period)	4.2	2.7	1.7	1.9	1.3	2.0	3.1
Saving and investment (in percent of GDP)							
Gross national saving	31.2	31.7	27.5	29.5	29.0	29.8	30.2
Private	29.8	29.6	25.4	27.3	26.2	26.9	27.4
Public	1.5	2.1	2.1	2.2	2.8	2.9	2.8
Gross investment	26.7	26.8	27.6	26.6	26.6	27.7	28.4
Private	17.7	18.7	20.0	19.0	19.2	20.3	21.1
Public	9.0	8.1	7.6	7.6	7.4	7.4	7.4
General government finances (in percent of GDP) 2/							
Revenue and grants	23.1	22.2	23.8	23.7	23.6	23.3	23.0
Of which: Oil revenue	3.4	2.5	1.6	0.9	0.9	0.7	0.6
Expenditure	30.5	28.5	29.2	28.5	28.1	27.9	27.8
Expense	21.6	20.4	21.7	21.0	20.7	20.6	20.4
Net acquisition of nonfinancial assets	9.0	8.1	7.5	7.5	7.4	7.3	7.3
Net lending (+)/borrowing(-) 3/	-7.4	-6.3	-5.5	-4.8	-4.5	-4.6	-4.7
Public and publicly guaranteed debt (end of period)	52.0	55.0	57.4	59.9	58.5	57.9	57.5
Money and credit (percent change, end of period)							
Broad money (M2)	18.8	17.7	16.2	18.4	15.0	16.8	18.9
Credit to the economy	12.7	13.8	18.8	18.8	17.4	16.9	15.3
Interest rates (in percent, end of period)							
Nominal three-month deposit rate (households)	6.9	5.0	4.8	4.9	…	…	
Nominal short-term lending rate (less than one year)	9.7	8.5	7.2	7.2	…	…	
Balance of payments (in percent of GDP, unless otherwise indicated)							
Current account balance (including official transfers)	4.5	4.9	-0.1	2.9	2.5	2.1	1.8
Exports f.o.b.	77.4	80.8	84.6	87.7	97.1	103.7	109.4
Imports f.o.b.	72.3	74.3	80.8	82.2	91.9	99.0	105.2
Capital and financial account	0.2	2.9	0.5	5.3	9.0	2.2	2.9
Gross international reserves (in billions of U.S. dollars) 4/	26.1	34.5	28.5	36.8	49.4	59.6	72.0
In months of prospective GNFS imports	2.1	2.4	1.9	2.0	2.3	2.4	2.5
Total external debt (end of period)	37.3	38.3	42.0	45.2	49.1	50.6	51.4
Nominal exchange rate (dong/U.S. dollar, end of period)	21,105	21,385	22,485	22,761	22,698	...	...
Nominal effective exchange rate (end of period)	88.3	93.9	97.6	97.7	91.2	...	...
Real effective exchange rate (end of period)	116.2	123.7	128.8	133.1	124.6	...	...
Memorandum items:							
GDP (in trillions of dong at current market prices)	3,584	3,938	4,193	4,503	5,008	5,509	6,142
GDP (in billions of U.S. dollars)	170.6	185.9	191.5	201.3	220.4	241.0	264.5
Per capita GDP (in U.S. dollars)	1,900	2,049	2,088	2,172	2,354	2,548	2,769

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

1/ The national accounts has been re-based to 2010 from 1994 by the authorities.

2/ Follows the format of the *Government Finance Statistics Manual 2001* .

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

4/ Excludes government deposits.

Table 2. Vietnam: Balance of Payments, 2013–2019
(In billions of U.S. dollars, unless otherwise indicated)

					Est.	Projections	
	2013	2014	2015	2016	2017	2018	2019
Current account balance	7.7	9.1	-0.1	5.9	5.4	5.0	4.8
Trade balance	8.7	12.1	7.4	11.0	11.6	11.3	11.1
Exports, f.o.b.	132.0	150.2	162.0	176.6	214.0	249.9	289.3
Imports, f.o.b.	123.3	138.1	154.6	165.5	202.4	238.5	278.2
Nonfactor services	-3.1	-3.5	-5.3	-4.5	-3.9	-3.3	-3.0
Receipts	10.7	11.0	11.3	12.3	13.1	14.8	16.3
Payments	13.8	14.5	16.5	16.8	17.0	18.1	19.4
Investment income	-7.3	-8.8	-10.0	-8.6	-10.8	-12.3	-13.1
Receipts	0.3	0.3	0.4	0.7	0.7	0.2	0.3
Payments	7.6	9.2	10.4	9.2	11.5	12.6	13.4
Transfers	9.5	9.3	7.7	8.0	8.5	9.2	9.8
Private (net)	8.9	8.8	7.4	7.7	8.3	9.1	9.6
Official (net)	0.6	0.5	0.3	0.3	0.2	0.2	0.2
Capital and financial account balance	0.3	5.5	1.0	10.6	19.9	5.2	7.7
Direct investment (net)	6.9	8.1	10.7	11.6	13.6	14.3	14.6
Of which: Foreign direct investment in Vietnam	8.9	9.2	11.8	12.6	14.1	14.8	15.1
Portfolio investment	1.5	0.1	-0.1	0.2	1.9	2.3	2.6
Medium- and long-term loans	3.5	5.4	4.6	3.2	4.4	4.1	3.8
Disbursements	8.2	9.8	9.8	8.7	13.7	14.4	15.1
Amortization	4.7	4.4	5.2	5.5	9.3	10.3	11.3
Short-term capital 1/	-11.6	-8.0	-14.2	-4.4	0.0	-15.5	-13.3
Change in net foreign assets	-11.7	-9.1	-15.0	-3.8	-6.4	-6.4	-6.4
Of which: Commercial banks	-2.3	-1.5	-5.3	3.5	-1.0	-1.0	-1.0
Trade credit (net)	0.1	1.0	0.8	-0.6	6.4	1.0	1.1
Other short-term capital 1/	…	…	…	…	…	-10.0	-8.0
Errors and omissions	-7.5	-6.2	-6.9	-8.2	-12.8	0.0	0.0
Overall balance	0.6	8.4	-6.0	8.4	12.5	10.2	12.4
Memorandum items:							
Gross international reserves 2/	26.1	34.5	28.5	36.8	49.4	59.6	72.0
In months of prospective GNFS imports	2.1	2.4	1.9	2.0	2.3	2.4	2.5
Current account balance (in percent of GDP)	4.5	4.9	-0.1	2.9	2.5	2.1	1.8
Trade balance, FDI sector (in percent of GDP)	10.3	11.5	12.2	14.6	14.3	…	…
Trade balance, domestic sector (in percent of GDP)	-5.2	-4.9	-8.3	-9.1	-9.1	…	…
Export value (percent change)	15.3	13.8	7.9	9.0	21.2	16.8	15.8
Import value (percent change)	16.5	12.0	12.0	7.0	22.3	17.8	16.6
External debt	63.3	70.6	78.2	89.4	108.4	121.0	134.9
In percent of GDP 3/	37.3	38.3	42.0	45.2	49.1	50.6	51.4
GDP	170.6	185.9	191.5	201.3	220.4	241.0	264.5

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 increase in US dollar currency holdings by residents outside the formal financial sector).

2/ Excludes government deposits.

3/ Uses interbank exchange rate.

Table 3. Vietnam: Medium-Term Projections, 2013–2023

				Est.	Projections						
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Output	(Percent change)										
Real GDP	5.4	6.0	6.7	6.2	6.8	6.6	6.5	6.5	6.5	6.5	6.5
Prices											
CPI (period average)	6.6	4.1	0.6	2.7	3.5	3.8	4.0	4.0	4.0	4.0	4.0
CPI (end of period)	6.0	1.8	0.6	4.7	2.6	4.0	4.0	4.0	4.0	4.0	4.0
GDP deflator	4.8	3.7	-0.2	1.1	4.1	3.2	4.7	4.7	4.2	4.0	3.8
Saving and investment	(In percent of GDP, unless otherwise indicated)										
Gross national saving	31.2	31.7	27.5	29.5	29.0	29.8	30.2	31.0	32.0	33.1	34.4
Private saving	29.8	29.6	25.4	27.3	26.2	26.9	27.4	28.1	29.1	30.0	31.4
Public saving	1.5	2.1	2.1	2.2	2.8	2.9	2.8	2.9	3.0	3.1	3.0
Gross investment	26.7	26.8	27.6	26.6	26.6	27.7	28.4	29.5	30.8	32.2	33.6
Private investment	17.7	18.7	20.0	19.0	19.2	20.3	21.1	22.1	23.5	24.8	26.3
Public investment	9.0	8.1	7.6	7.6	7.4	7.4	7.4	7.3	7.3	7.4	7.3
General government finances 1/											
Revenue and grants	23.1	22.2	23.8	23.7	23.6	23.3	23.0	22.9	22.9	22.9	22.8
Expenditure	30.5	28.5	29.2	28.5	28.1	27.9	27.8	27.7	27.6	27.6	27.6
Expense	21.6	20.4	21.7	21.0	20.7	20.6	20.4	20.3	20.3	20.2	20.3
Net acquisition of nonfinancial assets	9.0	8.1	7.5	7.5	7.4	7.3	7.3	7.3	7.3	7.3	7.3
Net lending (+)/borrowing(-)	-7.4	-6.3	-5.5	-4.8	-4.5	-4.6	-4.7	-4.7	-4.7	-4.7	-4.7
Non-oil primary balance	-9.3	-7.1	-5.1	-3.8	-3.4	-3.3	-3.3	-3.2	-3.1	-3.0	-3.0
Public and publicly guaranteed debt (end of period)	52.0	55.0	57.4	59.9	58.5	57.9	57.5	57.3	57.5	57.8	58.3
Balance of payments											
Current account balance	4.5	4.9	-0.1	2.9	2.5	2.1	1.8	1.5	1.2	0.9	0.8
Exports f.o.b.	77.4	80.8	84.6	87.7	97.1	103.7	109.4	115.1	121.6	128.5	136.1
Imports f.o.b.	72.3	74.3	80.8	82.2	91.9	99.0	105.2	111.4	118.3	125.4	133.3
Capital and financial account (net)	0.2	2.9	0.5	5.3	9.0	2.2	2.9	2.8	2.7	3.4	3.4
Gross international official reserves (in billions of U.S. dollars)	26.1	34.5	28.5	36.8	49.4	59.6	72.0	84.5	96.7	111.4	127.1
In months of prospective GNFS imports	2.1	2.4	1.9	2.0	2.3	2.4	2.5	2.6	2.6	2.6	2.6
Total external debt (in billions U.S. dollars)	63.3	70.6	78.2	89.4	108.4	121.0	134.9	149.6	165.4	182.5	200.7
In percent of GDP	37.3	38.3	42.0	45.2	49.1	50.6	51.4	52.2	53.0	53.8	54.7
Memorandum items:											
Nominal GDP (in trillions of dong)	3,584	3,938	4,193	4,503	5,008	5,509	6,142	6,846	7,600	8,418	9,303
Nominal GDP (in billions of U.S. dollars)	170.6	185.9	191.5	201.3	220.4	241.0	264.5	289.5	315.2	342.5	371.0
Per capita GDP (in U.S. dollars)	1,900	2,049	2,088	2,172	2,354	2,548	2,769	3,002	3,239	3,487	3,745

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

1/ Follows the format of the *Government Finance Statistics Manual 2001* .

Table 4a. Vietnam: General Government Budgetary Operations, 2013–2018 1/
(In trillions of dong)

	2013	2014	2015	2016 2/	Plan 2017	Est. 2017	Plan 2018	Staff Baseline 2018
				(In trillions of dong)				
Total revenue and grants	827	876	996	1069	1152	1179	1254	1282
Tax revenue	685	717	756	808	957	938	1027	1037
Oil revenues	120	100	68	40	38	44	36	36
CIT	91	73	50	38	26	30	25	25
Natural resource tax	30	27	18	16	12	14	11	11
Non-oil tax revenues	565	617	689	768	918	895	992	1001
PIT	47	48	57	65	81	82	97	97
CIT	141	135	150	162	195	191	218	218
VAT	209	241	252	270	337	316	355	356
Trade	78	96	99	96	102	95	91	91
Others	91	98	131	175	204	210	231	240
Grants	11	11	12	9	4	5	5	5
Other revenue	131	147	228	253	192	236	222	240
Expenditure	1094	1123	1226	1285	1390	1406	1520	1538
Expense	773	804	910	948	1038	1037	1130	1133
Interest	54	67	83	87	99	99	113	110
Other expense	719	737	827	861	939	938	1018	1022
Of which: Wages 3/	…	…	…	…	…	469	509	511
Net acquisition of non-financial assets	321	319	316	338	352	369	390	405
Net lending (+)/borrowing (-)	-267	-248	-230	-216	-238	-227	-266	-256
Net incurrence of liabilities	267	248	230	216	238	227	266	256
Net incurrence of financial liabilities	264	322	218	258	245	234	221	211
Domestic	186	225	152	206	196	184	129	119
Securities	132	137	105	…	…	…	…	…
Loans	55	92	47	…	…	…	…	…
Foreign	78	97	67	52	50	50	92	92
Disbursement	105	136	89	86	79	79	108	108
Amortization	27	39	22	33	29	29	31	31
Net acquisition of financial assets	3	-74	12	-42	-7	-7	45	45
Memorandum items:								
Public and publicly guaranteed debt	52.0	55.0	57.4	59.9	58.7	58.5	57.9	57.9
Primary balance	-5.9	-4.6	-3.5	-2.9	-2.8	-2.5	-2.8	-2.6
Non-oil primary balance	-9.3	-7.0	-5.1	-3.8	-3.5	-3.4	-3.4	-3.3
Cyclically Adjusted Primary Balance	-5.9	-4.6	-4.6	-2.8	…	-2.6	…	-2.7
Nominal GDP (in trillions of dong)	3584.3	3937.9	4192.9	4502.7	5007.9	5007.9	5499.4	5509.0

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/ Expenditure includes 66 trn of 2015 revenue overperformance by local governments equally split between capital and current expenditure.

3/ Wages are staff estimates.

Table 4b. Vietnam: General Government Budgetary Operations, 2013–2018 1/
(In percent of GDP, unless otherwise indicated)

	2013	2014	2015	2016 2/	Plan 2017	Est. 2017	Plan 2018	Staff Baseline 2018
			(In percent of GDP, unless otherwise indicated)					
Total revenue and grants	23.1	22.2	23.8	23.7	23.0	23.6	22.8	23.3
Tax revenue	19.1	18.2	18.0	17.9	19.1	18.7	18.7	18.8
Oil revenues	3.4	2.5	1.6	0.9	0.8	0.9	0.7	0.7
CIT	2.5	1.8	1.2	0.9	0.5	0.6	0.4	0.4
Natural resource tax	0.8	0.7	0.4	0.4	0.2	0.3	0.2	0.2
Non-oil tax revenues	15.8	15.7	16.4	17.1	18.3	17.9	18.0	18.2
PIT	1.3	1.2	1.4	1.4	1.6	1.6	1.8	1.8
CIT	3.9	3.4	3.6	3.6	3.9	3.8	4.0	4.0
VAT	5.8	6.1	6.0	6.0	6.7	6.3	6.5	6.5
Trade	2.2	2.4	2.4	2.1	2.0	1.9	1.7	1.7
Others	2.5	2.5	3.1	3.9	4.1	4.2	4.2	4.3
Grants	0.3	0.3	0.3	0.2	0.1	0.1	0.1	0.1
Other revenue	3.7	3.7	5.4	5.6	3.8	4.7	4.0	4.4
Expenditure	30.5	28.5	29.2	28.5	27.8	28.1	27.6	27.9
Expense	21.6	20.4	21.7	21.0	20.7	20.7	20.6	20.6
Interest	1.5	1.7	2.0	1.9	2.0	2.0	2.0	2.0
Other expense	20.1	18.7	19.7	19.1	18.8	18.7	18.5	18.6
Of which: Wages 3/	…	…	…	…	…	9.4	9.3	9.3
Net acquisition of non-financial assets	9.0	8.1	7.5	7.5	7.0	7.4	7.1	7.3
Net lending (+)/borrowing (-)	-7.4	-6.3	-5.5	-4.8	-4.8	-4.5	-4.8	-4.6
Net incurrence of liabilities	7.4	6.3	5.5	4.8	4.8	4.5	4.8	4.6
Net incurrence of financial liabilities	7.4	8.2	5.2	5.7	4.9	4.7	4.0	3.8
Domestic	5.2	5.7	3.6	4.6	3.9	3.7	2.3	2.2
Securities	3.7	3.5	2.5	…	…	…	…	…
Loans	1.5	2.3	1.1	…	…	…	…	…
Foreign	2.2	2.5	1.6	1.2	1.0	1.0	1.7	1.7
Disbursement	2.9	3.5	2.1	1.9	1.6	1.6	2.0	2.0
Amortization	0.8	1.0	0.5	0.7	0.6	0.6	0.6	0.6
Net acquisition of financial assets	0.1	-1.9	0.3	-0.9	-0.1	-0.1	0.8	0.8
Memorandum items:								
Public and publicly guaranteed debt	52.0	55.0	57.4	59.9	58.7	58.5	57.9	57.9
Primary balance	-5.9	-4.6	-3.5	-2.9	-2.8	-2.5	-2.8	-2.6
Non-oil primary balance	-9.3	-7.0	-5.1	-3.8	-3.5	-3.4	-3.4	-3.3
Cyclically Adjusted Primary Balance	-5.9	-4.6	-4.6	-2.8	…	-2.6	…	-2.7
Nominal GDP (in trillions of dong)	3,584	3,938	4,193	4,503	5,008	5,008	5,499	5,509

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/ Expenditure includes 66 trn of 2015 revenue overperformance by local governments equally split between capital and current expenditure.

3/ Wages are staff estimates.

Table 5. Vietnam: Monetary Survey, 2013–2019 1/
(In trillions of dong, unless otherwise indicated)

						Projections	
	2013	2014	2015	2016	2017	2018	2019
Net foreign assets	613	826	836	949	1,264	1,550	1,902
State Bank of Vietnam (SBV)	540	722	614	806	1,097	1,358	1,685
Commercial banks	73	104	222	143	167	191	217
Net domestic assets	3,788	4,353	5,184	6,177	6,928	8,019	9,476
Domestic credit	3,876	4,480	5,381	6,307	7,100	8,298	9,601
Net claims on government	407	530	689	732	556	649	782
SBV	27	7	83	31	-10	...	...
Credit institutions	379	523	606	701	566	...	...
Credit to the economy	3,470	3,950	4,693	5,575	6,544	7,650	8,818
Claims on state-owned enterprises (SOEs)	573	644	723	741	...	...	...
Claims on other sectors	2,897	3,306	3,970	4,834	...	...	...
In dong	3,010	3,458	4,267	5,127	6,051	...	...
In foreign currency	460	491	425	448	492	...	...
By state-owned banks (SOCBs)	1,625	1,850	2,304	2,723	3,174	...	...
By non-SOCBs	1,694	1,939	2,247	2,695	3,198	...	...
Other items net	-88	-127	-198	-129	-172	-280	-125
Total liquidity (M2)	4,401	5,179	6,020	7,126	8,193	9,568	11,378
Dong liquidity	3,852	4,613	5,370	6,505	7,536	...	...
Deposits	3,345	3,988	4,643	5,654	6,558	...	...
Currency outside banks	507	625	727	851	978	...	...
Foreign currency deposits	549	566	650	621	656	...	...
Memorandum items:							
Money multiplier 2/	6.3	6.3	6.1	6.4	6.1	6.1	6.3
Velocity	0.8	0.8	0.7	0.6	0.6	0.6	0.5
Reserve money (year-on-year percent change)	6.1	18.7	19.3	12.8	20.4	17.2	16.1
Liquidity (M2; year-on-year percent change)	18.8	17.7	16.2	18.4	15.0	16.8	18.9
Currency/deposits (in percent)	13.0	13.7	13.7	13.6	13.6	...	...
Credit/deposits (total, in percent)	89.1	86.7	88.7	88.9	90.7	90.8	88.0
Credit/deposits (dong, in percent)	90.0	86.7	91.9	90.7	92.3	...	...
Credit/deposits (foreign currency, in percent)	83.7	86.8	65.5	72.2	75.1	...	...
Credit to the economy							
Total (in percent of GDP)	96.8	100.3	111.9	123.8	130.7	136.8	141.4
Total (year-on-year percent change)	12.7	13.8	18.8	18.8	17.4	16.9	15.3
In dong (year-on-year percent change)	18.5	14.9	23.4	20.2	18.0	...	...
In FC (year-on-year percent change)	-14.5	6.9	-13.4	5.2	10.0	...	...
In FC at constant exchange rate (year on year percent change)	-15.4	6.0	-16.4	3.2	8.4	...	...
To SOEs (year-on-year percent change)	9.2	12.5	12.3	2.6	...	...	...
To other sectors (year-on-year percent change)	13.5	14.1	20.1	21.7	...	...	...
To SOEs (percent of total)	16.5	16.3	15.4	13.3	...	...	...
Dollarization							
Foreign currency deposits/total deposits (in percent)	14.1	12.4	12.3	9.9	9.1	...	...
Foreign currency loans/total loans (in percent)	13.3	12.4	9.1	8.0	7.5	...	...
Banks' net foreign exchange position (millions of U.S. dollars) 3/	-795	1,372	-106	-1,346	151	...	...
Government deposits (in percent of GDP)	3.0	2.3	1.6	2.5	6.1	...	...
Nominal GDP (in trillions of dong)	3,584	3,938	4,193	4,503	5,008	5,593	6,235

Sources: SBV; and IMF staff estimates and projections.
1/ Includes the SBV and deposit-taking credit institutions.
2/ M2 over reserve money.
3/ At interbank exchange rate; excludes SBV credit to credit institutions.

Table 6. Vietnam: Financial Soundness Indicators 1/

(In Percent)

	2012	2013	2014	2015	2016	2017
Regulatory Capital to Risk-Weighted Assets	11.8	13.4	11.8	12.8	12.6	12.2
Regulatory Tier 1 Capital to Risk-Weighted Assets 2/	12.9	12.1	10.6	10.1	9.4	9.2
Non-performing Loans Net of Provisions to Capital 2/	14.8	12.8	14.2	11.0	11.4	11.5
Non-performing Loans to Total Gross Loans 3/	3.4	3.1	2.9	2.3	2.3	2.0
Return on Assets 4/	0.8	0.5	0.3	0.4	0.5	0.8
Return on Equity 4/	8.2	5.8	3.2	5.4	6.6	10.2
Interest Margin to Gross Income 2/	79.6	73.4	69.4	74.4	72.3	72.2
Non-interest Expenses to Gross Income 2/	55.6	55.1	56.7	55.8	55.3	51.7
Liquid Assets to Total Assets (Liquid Asset Ratio) 2/	13.4	13.0	15.5	13.2	13.2	12.7

Source: Financial Soundness Indicators (FSI)

1/ Depository corporations only

2/ The values for 2017 are based on those in 2017Q2

3/ The staff estimated more broadly defined NPL ratios, which include NPLs sold to VAMC and loans previously restructured under Decision 780, as about 7.5 percent of total loans as of December 2017.

4/ The values for 2017 are based on those in 2017Q3.

Appendix I. Progress Against IMF Recommendations

Policies	2017 Article IV Consultations Recommendations	Actions since 2017 Article IV Consultations
Fiscal Policies	Implement tax reform to broaden and diversify revenue base and undertake civil service reform.	Draft tax reforms tabled for discussions in late 2017. Revisions are underway. The tax administration improvements continued through the updating of electronic infrastructure, increasing rates of electronic e-filing and electronic tax refunds (particularly for VAT), and improved coordination between the large taxpayer office and the local authorities. Reductions in the frequency of tax filing requirement and streamlining of procedures from 535 to 289 is supporting the business climate.
	Capital expenditure should be protected and its efficiency should be raised. Undertake a Public Investment Management Assessment (PIMA).	High-level efforts to accelerate disbursement of project funding through streamlined administrative measures, technical support, and economic incentives in 2017. A PIMA is planned for 2018.
Monetary Policy	Modernize the monetary framework by anchoring monetary policy on price stability, allowing greater exchange rate flexibility and phasing out credit growth targets. Set interbank interest rates at the repo rate level and reduce credit growth targets to below 15 percent.	The main objective of monetary policy remains price and exchange rate stability. The SBV will continue to strengthen its capacity for inflation targeting, but the sequencing of measures will depend on economic conditions and capacity development across a range of institutions. Credit grew by 17½ percent in 2017, but credit growth targets were set at a lower level (17 percent) in 2018. Interbank rate remained below the repo rate level in 2017 due to the rise in equitization related capital inflows into the banking system.
Financial Sector Policies	Accelerate NPL resolution and banks recapitalization.	Legal changes in 2017 (Resolution 42) and higher real estate prices are facilitating the disposal of collateral, the restructuring of bad assets, and the disposal of NPLs. Amendments to the Law on Credit Institutions are enhancing bank corporate governance by clarifying bankruptcy and other restructuring options. Several banks have addressed legacy bad assets, raise profits and boost capital, and large private banks are already close to the 8 percent capital adequacy ratio (CAR) Basel II requirement. But capital buffers remain thin in some SOCBs and a few private banks. Reported NPL ratios are still high for some banks and could be higher still if evergreening and connected lending were properly accounted for.

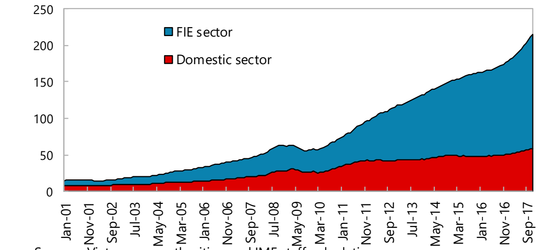
Policies	2017 Article IV Consultations Recommendations	Actions since 2017 Article IV Consultations
Structural Policies	Accelerate SOE reform, upgrade governance and management and increase transparency.	The legal framework for equitization, divestment and reform of SOEs is being revamped with the creation of an independent State Capital Management Committee (SCMC) overseeing all large SOEs to improve accountability and efficiency, while leaving management and regulation with line ministries and regulatory bodies. Several large and profitable SOEs in non-strategic sectors are slated for divestment in 2016−20, with substantial momentum evident in 2017 and 2018.
	Undertake product market reforms aimed at reducing regulatory barriers to entry to enhance competition and raise sectoral productivity	Significant reduction in red tape and administrative procedures starting in mid-2017 and ongoing. Further reforms are likely in the context of the implementation of free trade agreements.
	Increase the environmental tax and gradually raise energy prices to fully price externalities associated with fossil fuels.	Environmental tax increases are likely to come into effect in July 2018.

Appendix II. External Assessment

The external position is substantially stronger than warranted by fundamentals and desirable policies. The current account (CA) gap is 5.2 percent of GDP and the exchange rate is undervalued by 7 percent, reflecting distortions still prevalent in Vietnam's dual economy which discourage investment in the domestic private sector. The CA gap should be addressed through more ambitious structural and financial sector reforms that strengthen private investment; protecting and improving the efficiency of public investment while pursuing fiscal consolidation, and allowing greater two-way exchange rate flexibility to reduce the need to build buffers.

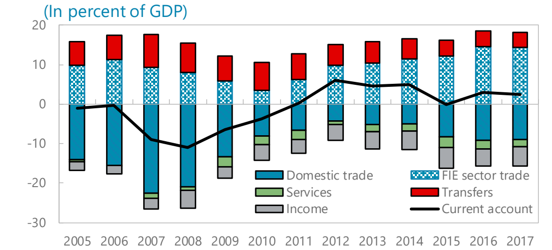
The current account position reflects a dual and segmented economy. A competitive FDI manufacturing sector generates a large trade surplus (15.5 percent of GDP). It is dominated by electronics multinationals and apparel producers, integrated into the broader Asian supply chains, and engaged in final assembly and processing, although higher value-added activities are also increasingly located in Vietnam.[1] Meanwhile, the domestic non-FDI sector (many SMEs, agriculture, tradable goods producers, including SOEs and domestic private firms) runs a trade deficit of 8.7 percent of GDP. Productivity in this sector is low (20 percent of that of the FDI sector), and exports are dominated by agricultural commodities and oil. Slow SOE reform progress, barriers faced by SMEs to reach economies of scale and credit misallocation and weaknesses in financial intermediation impede the development of a productive and vibrant economy outside the FDI sector despite rapid growth.

Vietnam: Exports–Domestic and FIE Sector, Jan.01–Dec.17
(Rolling 12-months, in billions of U.S. dollars)



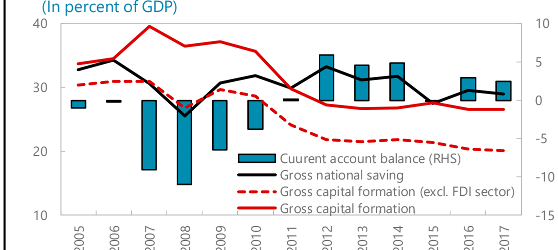
Sources: Vietnamese authorities; and IMF staff calculations.

Vietnam: Current Account Balance
(In percent of GDP)



Sources: Vietnamese authorities; and IMF staff estimates.

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



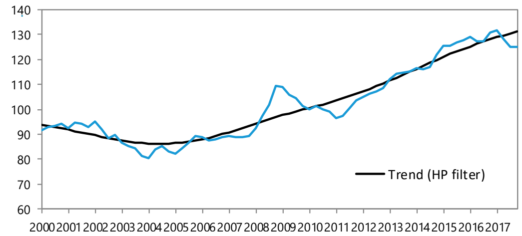
Sources: Vietnamese authorities; and IMF staff estimates.

Investment has declined during the last decade while saving has remained high. Gross capital formation has been below most countries in the region. Excluding the FDI sector, investment has fallen by 10 percentage points, to 20 percent of GDP, in the last decade. This partly reflects cutbacks in SOE capital formation in heavy industries and barriers to the development of private manufacturing firms and SMEs, as well as declining public investment despite high fiscal deficits. Saving has remained at about 30 percent of GDP, which is high relative to peers, reflecting ineffective financial intermediation of high profits in the FDI sector into productive investment opportunities in the domestic economy because of foreign ownership limits and weaknesses in the banking system.

[1] International Monetary Fund, 2016, *China's Changing Trade and the Implications for the CLMV*.

The real effective exchange rate (REER) depreciated in 2017. The real effective exchange rate has appreciated from the low levels of 2005 until 2016 by 4 percent on average every year. In 2017 however, the REER depreciated by 4.4 percent, as the Dong remained pegged to a weakening U.S. dollar.

Vietnam: Real Effective Exchange Rate, 2000Q1—2017Q4
(2010=100)

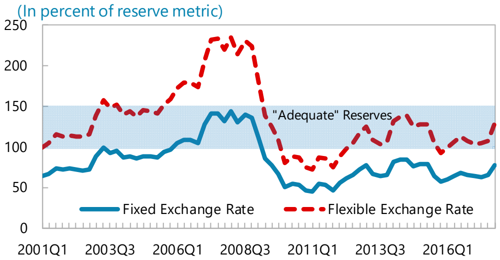


Source: IMF staff estimates.

Vietnam experienced large foreign exchange inflows in 2017. FDI inflows amounted US$14.1 billion, up 12 percent from 2016, mainly in the manufacturing sector. FII inflows surged from 0.2 to US$1.9 billion, supported by the booming stock market and SOE equitization. Private external disbursements were also on the rise, mainly due to FDI enterprises borrowing from parent companies and national banks. Estimated errors and omission remain high, due to unreported imports and increase in US dollar currency holdings by residents outside the formal financial sector.

Reserve coverage now stands at 77 percent of the adequacy metric, owing to an increase in GIR by US$12.5 billion in 2017.[2] At around 2.3 months of imports of goods and services at end−2017, reserves remain under the regional emerging market countries' average of nine months.

Vietnam: Reserve Adequacy Metric, 2000Q1–2017Q4
(In percent of reserve metric)



Sources: Vietnamese authorities; and IMF staff estimates

Vietnam's external position is assessed to be substantially stronger than warranted by fundamentals and desirable policies. The current account approach of the external balance assessment (EBA)[3] suggests a CA norm of -3.8 percent, indicating an undervaluation of 8.4 percent. However, the EBA-lite model does not account for the fact that the FDI sector has relatively few, though growing, links to the domestic economy. Cross-country panel regressions that link investment and savings were used to estimate an average CA norm, and factor in the activities of the FDI sector and aging.[4] This approach suggests a CA norm of -2.8 percent of GDP. The EBA-lite semi-elasticity of the CA of -0.7 was then used to arrive at an REER undervaluation of 7 percent. The equilibrium real exchange rate approach points to a substantial overvaluation, but the fit is poor and staff's judgment relies on the adjusted REER results of the CA regression.

Vietnam: EBA-Lite Results

Approach	Current Account[1]	Staff estimate	REER[1]
2017 Current Account	2.5%	2.5%	
Current Account Norm	-3.8%	-2.8%	
Current Account Gap	6.3%	5.2%	
o/w Policy Gap	-1.6%	-1.6%	
ln(REER) Actual			4.85
ln(REER) Norm			4.53
o/w Policy Gap			0.04
REER gap	**-8.4%**	**-7.0%**	**31.5%**

Source: IMF staff estimates.

[1] EBA-Lite standard models.

[2] While exchange rate flexibility has been increased *de jure*, the regime is *de facto* stabilized. The fixed exchange rate ARA metric is therefore appropriate.

[3] Vietnam is not included in the EBA sample. The analysis is based on the EBA lite tool.

[4] These 3 regressions link the 2012–17 average Investment and Saving in 164 countries, controlling respectively for level of development, FDI inflows and a dummy variable for the 26 Asian developing and emerging economies (WEO classification). It builds on the approach taken last year by adding new control variables.

In conclusion, there is evidence of substantial CA strength of some 5.2 percent of GDP. This reflects the dual structure of the economy. CA strength should be addressed through structural and financial sector reforms to raise private investment and protect public investment while raising its efficiency and lowering the budget deficit. The modernization of the monetary framework with greater two-way exchange rate flexibility would also help external adjustment by facilitating nominal appreciation and reducing the need to accumulate reserves.

Appendix III. Risk Assessment Matrix

<table>
<tr><th>Risk</th><th>Likelihood of Risk</th><th>Impact</th><th>Policies to Minimize Impact</th></tr>
<tr><td colspan="4">External Risks</td></tr>
<tr><td>Tighter global financial conditions</td><td>H</td><td rowspan="2">M: Decline in financial market confidence, capital outflows with pressure on the exchange rate and reserves, stock market correction and tightening of liquidity conditions, increase in sovereign yields, pressure on banks with weak balance sheets</td><td rowspan="2">Tighten monetary policy and allow exchange rate flexibility, with judicious currency intervention to avoid excessive volatility. Strengthen bank balance sheets to improve resilience. Initiate the modernization of the monetary framework using inflation as a nominal anchor. Accelerate growth friendly fiscal rebalancing and consolidation, and structural reforms to support confidence and FDI and build adequate buffers.</td></tr>
<tr><td>Intensification of the risk of fragmentation/security dislocation</td><td>H</td></tr>
<tr><td>Significant China slowdown and its spillovers</td><td>L/M</td><td rowspan="3">M: Decline in growth due to weaker export growth, FDI, and remittances. Pressures on the exchange rate and international reserves. Deterioration in public sector and bank balance sheets.</td><td rowspan="3">Allow greater exchange rate flexibility, move toward using inflation as a nominal anchor. Accelerate financial sector, SOE, and structural reforms to improve productivity, preserve investor confidence, and increase competitiveness in the domestic economy. Undertake fiscal rebalancing to support growth and public investment while ensuring debt sustainability.</td></tr>
<tr><td>Structurally weak growth in key advanced</td><td>H</td></tr>
<tr><td>Significant U.S. slowdown and its spillovers</td><td>M</td></tr>
<tr><td>Retreat from cross border integration</td><td>M</td><td>H: Weaker export growth, FDI, and remittances; supply chains could be interrupted.</td><td>Rapid implementation of CPTPP and FTAs with the EU, Eurasian Economic Union, and Korea. Deepen regional trade integration. Strengthen competitiveness through accelerated SOE, structural, and banking sector reforms.</td></tr>
<tr><td colspan="4">Domestic Risks</td></tr>
<tr><td>Poor quality and insufficient fiscal consolidation</td><td>H</td><td>H: Weaker medium-term productivity and output growth, higher sovereign yields, crowding out generate unsustainable debt dynamics and impact bank balance sheets. Lower investor confidence and capital flight create exchange rate pressures.</td><td>Strengthen revenues by reducing tax exemptions, improving tax administration, introducing a property tax. Curtail non-essential spending, reduce wage bill by implementing civil service reform, improve quality of investment spending. Use SOE equitization receipts to help finance the budget and buyback debt, but this should not substitute for structural consolidation.</td></tr>
<tr><td>Continued high credit targets</td><td>H</td><td>H: Excessive risk taking exacerbates weaknesses in bank balance sheets. Credit misallocation gives rise to economic inefficiencies, reduces productivity and growth and creates an adverse sovereign-macroeconomic-financial feedback loop.</td><td>Reduce credit growth targets and phase out over the medium-term. Accelerate NPL resolution and recapitalization of systemically important banks, resolve small unviable banks, strengthen safety nets. Monitor vulnerabilities and proactively manage risks to prevent excessive risk taking by banks. Make progress on developing a macroprudential framework.</td></tr>
<tr><td>Climate change</td><td>H</td><td>H: Vietnam is among the top ten countries affected by air pollution. Greenhouse gas emissions are expected to double between 2010 and 2020 and triple by 2030. By 2100, climate change could impact more than 12 percent of the population and reduce growth by 10 percent.</td><td>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 price 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 and green growth.</td></tr>
<tr><td colspan="4">"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.</td></tr>
</table>

Appendix IV. Public and External Debt Sustainability Analysis

Vietnam's public and publicly guaranteed (PPG) debt has risen by 10 percentage points of GDP in the last five years, to 58.5 percent of GDP in 2017. The authorities are planning fiscal consolidation, but concrete measures are not yet fully identified. Under staff's baseline projections, which incorporate less consolidation than the authorities' plan, PPG debt would remain about constant until 2023. Compared to the 2017 analysis, the projected debt trajectory is more benign, primarily due to the greater planned use of non-debt creating equitization revenues for budget financing, a lower 2017 deficit, lower interest payments due to lower financing needs in 2016 and 2017, and lower interest rates. Notwithstanding, staff continues to assess the debt sustainability risk as low to moderate, reflecting uncertainty about fiscal consolidation measures and equitization revenues and risks from potential contingent liabilities related to banks and SOEs.

Background. The debt sustainability analysis (DSA) framework for market access countries 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 and expands upon the basic DSA to include (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. This DSA also examines the implications of implementation risks by considering a no-adjustment scenario.

Coverage. The DSA is performed on the public and publicly guaranteed debt and external debt. In addition to the central government, the analysis covers state owned enterprises (SOEs) and specialized financial institutions (SFIs), limited to the debt guaranteed by the government. Local government debt is included in the public debt.

Macro-fiscal assumptions. Using the baseline scenario, growth slightly declines from 6.8 percent in 2017 to a projected 6.6 percent in 2018, and stabilizes at potential—6.5 percent—in the medium term. In the baseline, staff projects a primary fiscal deficit of 2.6 percent in 2018, which is assumed to remain constant over the medium-term.

Choice of framework. Vietnam's recent surge of public debt and its relatively high debt level call for using the more detailed version (higher scrutiny) of the new DSA framework. This analysis gives a more in-depth assessment of specific risks to debt sustainability.

Realism of baseline assumptions. The median forecast errors for real GDP growth, primary balance and inflation during 2008–16 are small, around -0.4 percent, showing no evidence of systematic projection bias that could undermine the assessment.

Cross-country experience suggests that the baseline fiscal adjustment is feasible. The maximum three-year adjustment in the cyclically adjusted primary balance (CAPB) over the projected period is 1 percent, with fiscal consolidation assumed to be achieved mainly through expenditure reduction, absent of structural revenue enhancing measures.

Public debt sustainability. Under the baseline scenario, PPG debt-to-GDP ratio is projected to decline by 0.6 percentage points in 2018, with privatization receipts partially compensating for the primary deficit. PPG debt should remain below 60 percent of GDP by 2023. However, as of the mid-

20s, the debt ratio is expected to increase fast, given rising age and climate change related spending, a sharp drop in privatization receipts, and increases in domestic interest rates. Most of Vietnam's debt has medium to long-term maturity and the share of foreign currency-denominated debt is projected to decrease from 43 percent of total debt in 2016 to 39 percent in 2023.

The constant primary balance scenario tracks the baseline scenario closely, given little change in the projected deficits. The historical scenario—in which real GDP growth, the primary balance and real interest rates are set at their historical average—leads to a level of PPG debt similar to the constant primary balance scenario, but foresees temporarily higher financing needs. Macro-fiscal stress tests suggest that Vietnam is more vulnerable to real interest rate and primary balance shocks but these shocks would not carry the debt-to GDP ratio over the 70 percent threshold. A real interest rate shock, in which the effective interest rate is increased by 55 basis points in 2020 to 185 basis points in 2023, would raise PPG debt to 60 percent of GDP. A combined macro-fiscal shock in 2018 would increase PPG debt to 66 percent of GDP by 2023.

Probability distributions from a dynamic simulation of debt sustainability under an array of macroeconomic shocks show that in a negative-case scenario, PPG debt could reach about 73 percent of GDP with 10 percent likelihood by 2023, while a combination of positive shocks would help reduce the debt-to-GDP ratio to 50 percent with a 25 percent probability. While the medium-term outlook is relatively positive, the current DSA does not include potentially large contingent liabilities from potentially high levels of non-guaranteed SOE debt and the costs of recapitalizing SOCBs and the SCIC. It only takes into account the already-determined remaining amounts for recapitalizing Agribank (0.2 percent of GDP), assumed to be finalized by end-2019. Lack of more specific information makes the assessment of the underlying risks difficult at this time.

Heat map. The heat map shows a low risk of debt distress, and the gross-financing-needs-to-GDP ratio remains below the 15 percent threshold under all shocks. Finally, the assessment highlights possible risks in the Vietnam debt profile, notably in terms of external financing requirements and foreign currency debt.

External debt sustainability. Vietnam's external debt-to-GDP ratio rose to 49.2 percent in 2017. While PPG external debt remained constant compared to 2016—at 26 percent of GDP—private external debt increased strongly, mainly from FDI companies and banks. In particular, short-term external private debt grew by 70 percent to reach US$22 billion. About half of the increase went towards the purchase of SABECO's shares, a SOE equitized in December 2017.

Under the baseline, external debt would increase to 50.2 percent of GDP in 2018 and would reach 54 percent of GDP by 2023 as gross external financing needs rises, in line with the projected erosion of the current account surplus. 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.

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

(In percent of GDP unless otherwise indicated)

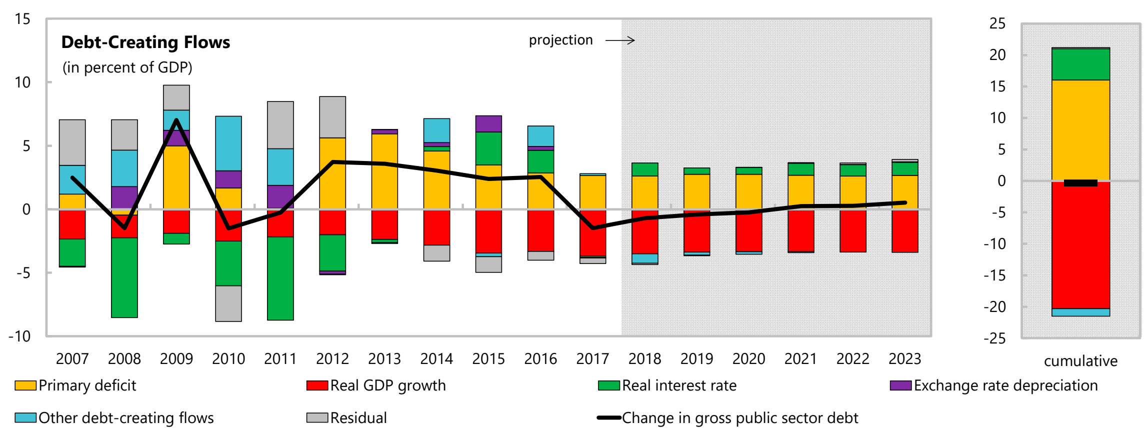
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2007-2015 [2/]	2016	2017	2018	2019	2020	2021	2022	2023
Nominal gross public debt	47.7	59.9	58.5	57.8	57.4	57.1	57.4	57.6	58.2
Of which: guarantees	9.9	10.5	9.3	9.1	8.1	7.3	6.6	5.9	5.4
Public gross financing needs	8.8	7.3	6.9	6.9	7.4	7.6	8.0	8.0	8.2
Public debt (in percent of potential GDP)	47.6	59.6	58.3	57.7	57.4	57.2	57.5	57.8	58.3
Real GDP growth (in percent)	6.0	6.2	6.8	6.6	6.5	6.5	6.5	6.5	6.5
Inflation (GDP deflator, in percent)	10.1	1.1	4.1	3.2	4.7	4.7	4.2	4.0	3.8
Nominal GDP growth (in percent)	16.7	7.4	11.2	10.0	11.5	11.5	11.0	10.8	10.5
Effective interest rate (in percent) [4/]	4.2	4.5	4.2	5.3	6.0	6.0	6.3	6.0	6.0

As of April 23, 2018		
Sovereign Spreads		
EMBIG (bp) 3/		140
5Y CDS (bp)		135
Ratings	Foreign	Local
Moody's	B1	B2
S&Ps	BB-	BB
Fitch	BB-	BB-

Contribution to Changes in Public Debt

	Actual			Projections							
	2007-2015	2016	2017	2018	2019	2020	2021	2022	2023	cumulative	debt-stabilizing primary balance [10/]
Change in gross public sector debt	2.1	2.5	-1.5	-0.7	-0.4	-0.2	0.2	0.3	0.5	-0.3	
Identified debt-creating flows	1.0	3.2	-1.0	-0.6	-0.3	-0.3	0.2	0.2	0.3	-0.5	
Primary deficit	3.0	2.9	2.7	2.6	2.8	2.7	2.7	2.6	2.7	16.1	-2.3
Primary (noninterest) revenue and grants	24.8	23.7	23.6	23.3	23.0	22.9	22.9	22.9	22.8	137.8	
Primary (noninterest) expenditure	27.8	26.6	26.2	25.9	25.8	25.7	25.6	25.5	25.5	153.9	
Automatic debt dynamics [5/]	-3.7	-1.2	-3.8	-2.5	-2.9	-2.8	-2.4	-2.5	-2.3	-15.4	
Interest rate/growth differential [6/]	-4.5	-1.6	-3.8	-2.5	-2.9	-2.8	-2.4	-2.5	-2.3	-15.4	
Of which: real interest rate	-2.2	1.8	-0.1	1.0	0.5	0.5	0.9	0.9	1.0	4.9	
Of which: real GDP growth	-2.4	-3.3	-3.7	-3.5	-3.4	-3.3	-3.3	-3.4	-3.4	-20.3	
Exchange rate depreciation [7/]	0.9	0.3	-0.1	…	…	…	…	…	…	…	
Other identified debt-creating flows	1.7	1.6	0.1	-0.7	-0.2	-0.2	-0.1	0.0	0.0	-1.2	
Fiscal- Net privatization proceeds (negative)	0.0	0.7	-1.2	-1.2	-0.6	-0.4	-0.3	-0.1	-0.1	-2.7	
Contingent liabilities [8/]	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.2	
Fiscal- Net acquisition of financial assets	1.7	0.9	1.3	0.4	0.3	0.2	0.2	0.2	0.1	1.3	
Residual, including asset changes [9/]	1.1	-0.7	-0.4	-0.1	-0.1	0.0	0.1	0.1	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.

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.

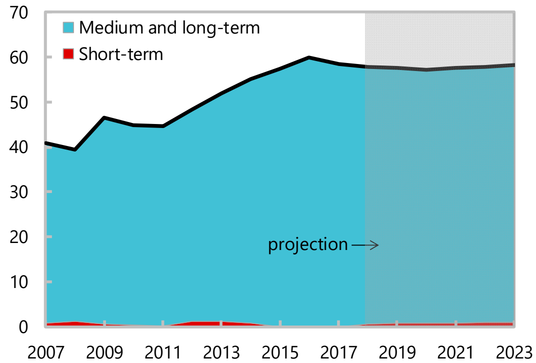
9/ Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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.

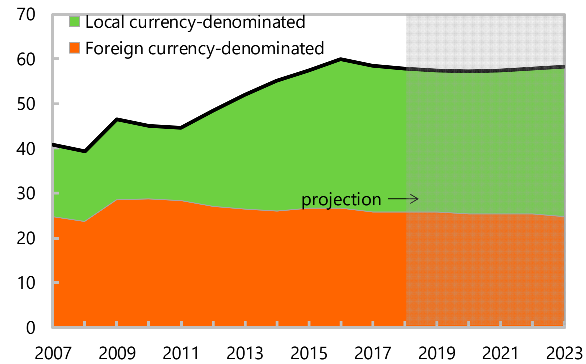
Figure 2. Vietnam: Public DSA—Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



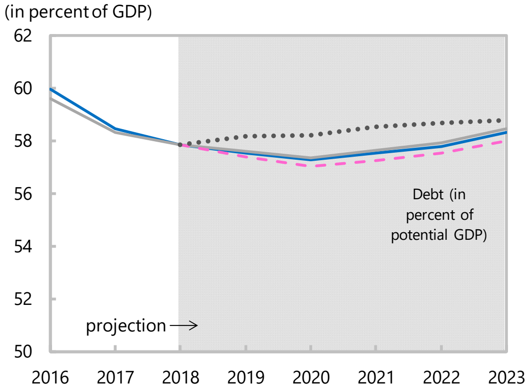
By Currency
(in percent of GDP)



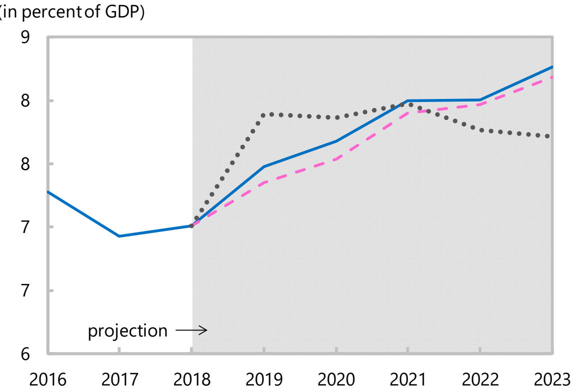
Alternative Scenarios

Baseline   Historical   Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

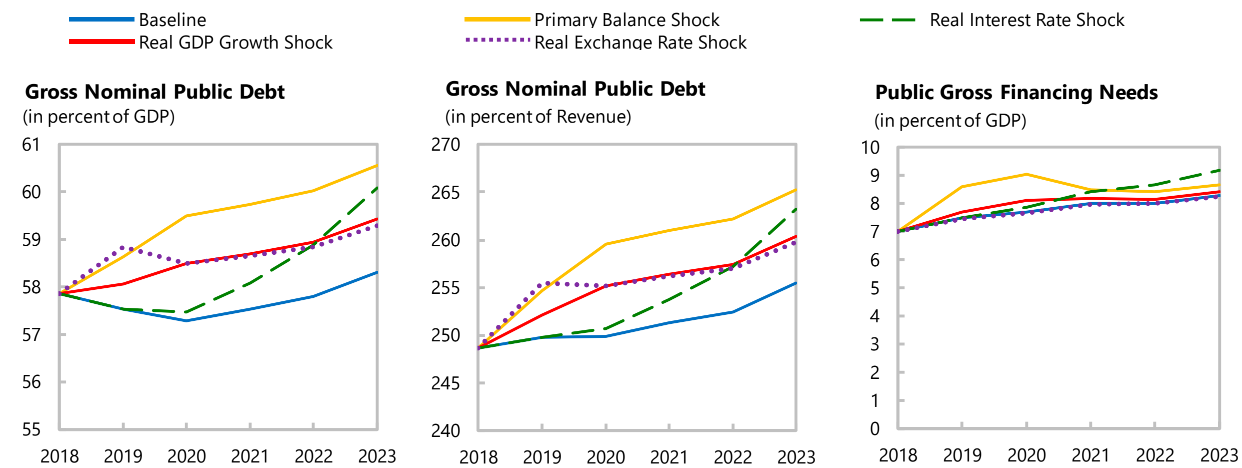
Baseline Scenario	2018	2019	2020	2021	2022	2023
Real GDP growth	6.6	6.5	6.5	6.5	6.5	6.5
Inflation	3.2	4.7	4.7	4.2	4.0	3.8
Primary Balance	-2.6	-2.8	-2.7	-2.7	-2.6	-2.7
Effective interest rate	5.3	6.0	6.0	6.3	6.0	6.0
Constant Primary Balance Scenario						
Real GDP growth	6.6	6.5	6.5	6.5	6.5	6.5
Inflation	3.2	4.7	4.7	4.2	4.0	3.8
Primary Balance	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6
Effective interest rate	5.3	6.0	6.0	6.3	6.0	6.0

Historical Scenario	2018	2019	2020	2021	2022	2023
Real GDP growth	6.6	6.0	6.0	6.0	6.0	6.0
Inflation	3.2	4.7	4.7	4.2	4.0	3.8
Primary Balance	-2.6	-3.1	-3.1	-3.1	-3.1	-3.1
Effective interest rate	5.3	6.0	5.3	5.0	4.1	3.7

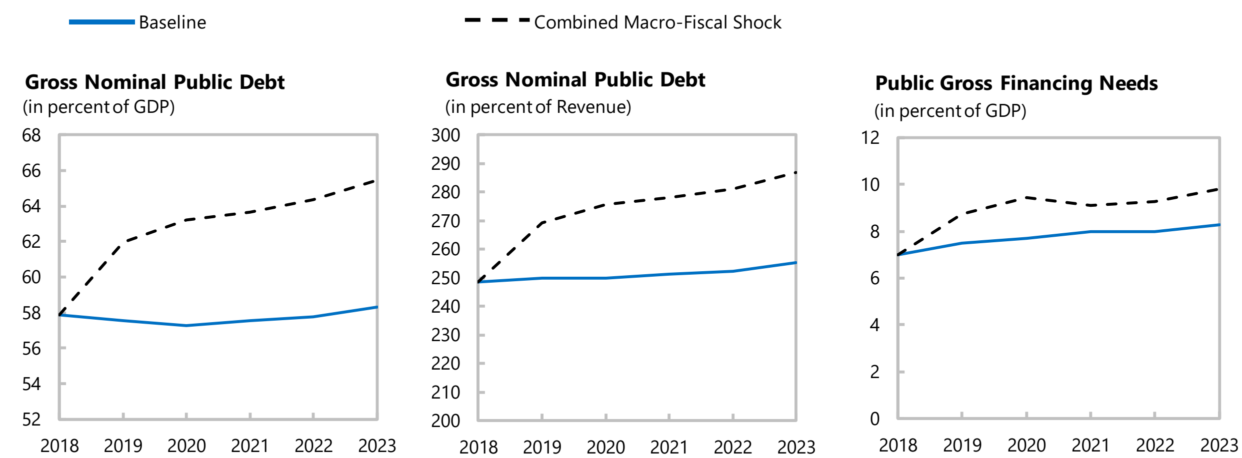
Source: IMF staff.

Figure 3. Vietnam: Public DSA—Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

Primary Balance Shock	2018	2019	2020	2021	2022	2023
Real GDP growth	6.6	6.5	6.5	6.5	6.5	6.5
Inflation	3.2	4.7	4.7	4.2	4.0	3.8
Primary balance	-2.6	-3.9	-3.9	-2.7	-2.6	-2.7
Effective interest rate	5.3	6.0	6.1	6.5	6.2	6.2
Real Interest Rate Shock						
Real GDP growth	6.6	6.5	6.5	6.5	6.5	6.5
Inflation	3.2	4.7	4.7	4.2	4.0	3.8
Primary balance	-2.6	-2.8	-2.7	-2.7	-2.6	-2.7
Effective interest rate	5.3	6.0	6.5	7.2	7.2	7.5
Combined Shock						
Real GDP growth	6.6	5.9	5.9	6.5	6.5	6.5
Inflation	3.2	4.5	4.5	4.2	4.0	3.8
Primary balance	-2.6	-3.9	-3.9	-2.7	-2.6	-2.7
Effective interest rate	5.3	6.1	6.4	7.1	7.1	7.5

Real GDP Growth Shock	2018	2019	2020	2021	2022	2023
Real GDP growth	6.6	5.9	5.9	6.5	6.5	6.5
Inflation	3.2	4.5	4.5	4.2	4.0	3.8
Primary balance	-2.6	-2.9	-3.1	-2.7	-2.6	-2.7
Effective interest rate	5.3	6.0	6.0	6.4	6.0	6.1
Real Exchange Rate Shock						
Real GDP growth	6.6	6.5	6.5	6.5	6.5	6.5
Inflation	3.2	7.7	4.7	4.2	4.0	3.8
Primary balance	-2.6	-2.8	-2.7	-2.7	-2.6	-2.7
Effective interest rate	5.3	6.1	5.9	6.2	5.9	5.9

Source: IMF staff.

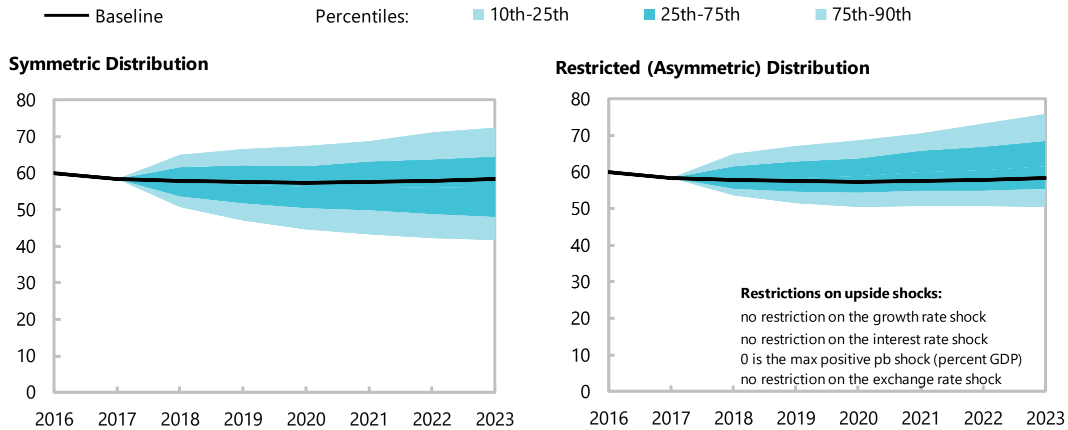
Figure 4. Vietnam: Public DSA—Risk Assessment

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

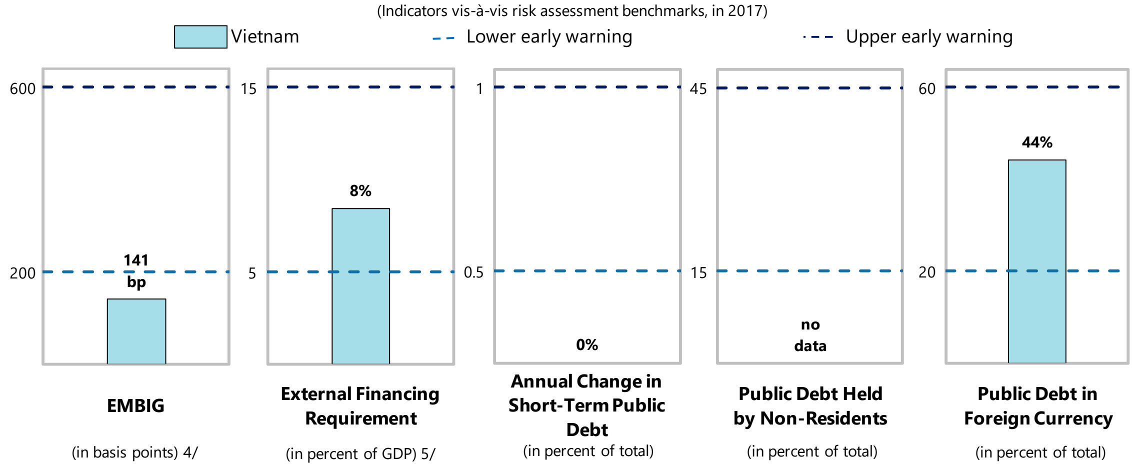
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2017)



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.

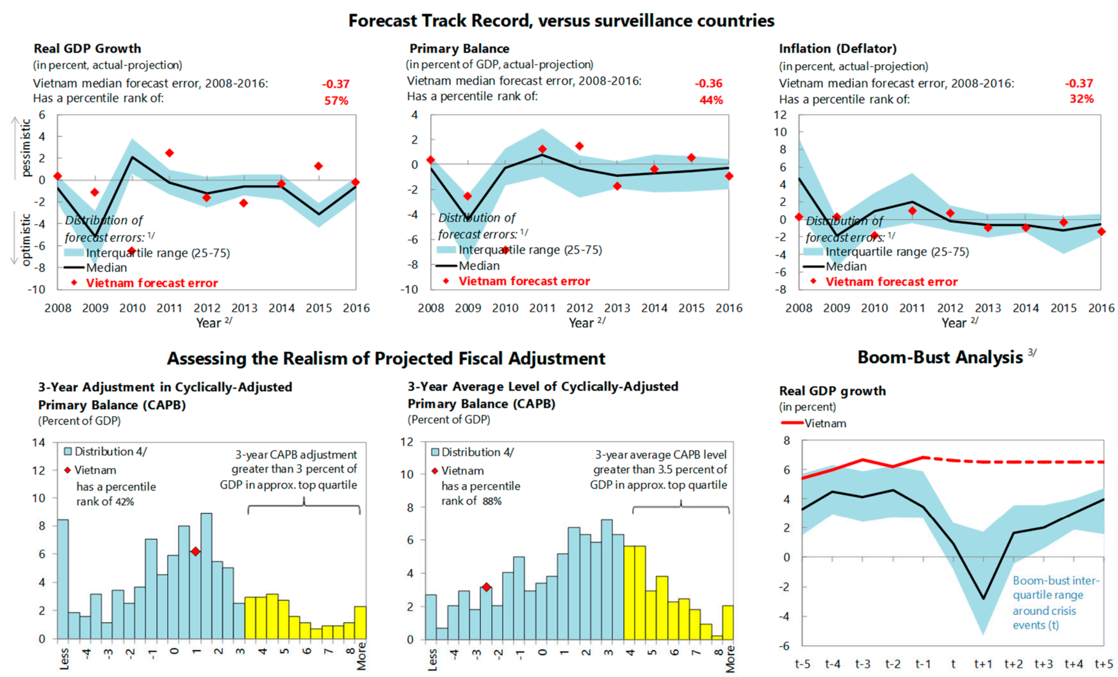
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, 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, 23-Jan-18 through 23-Apr-18.

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.

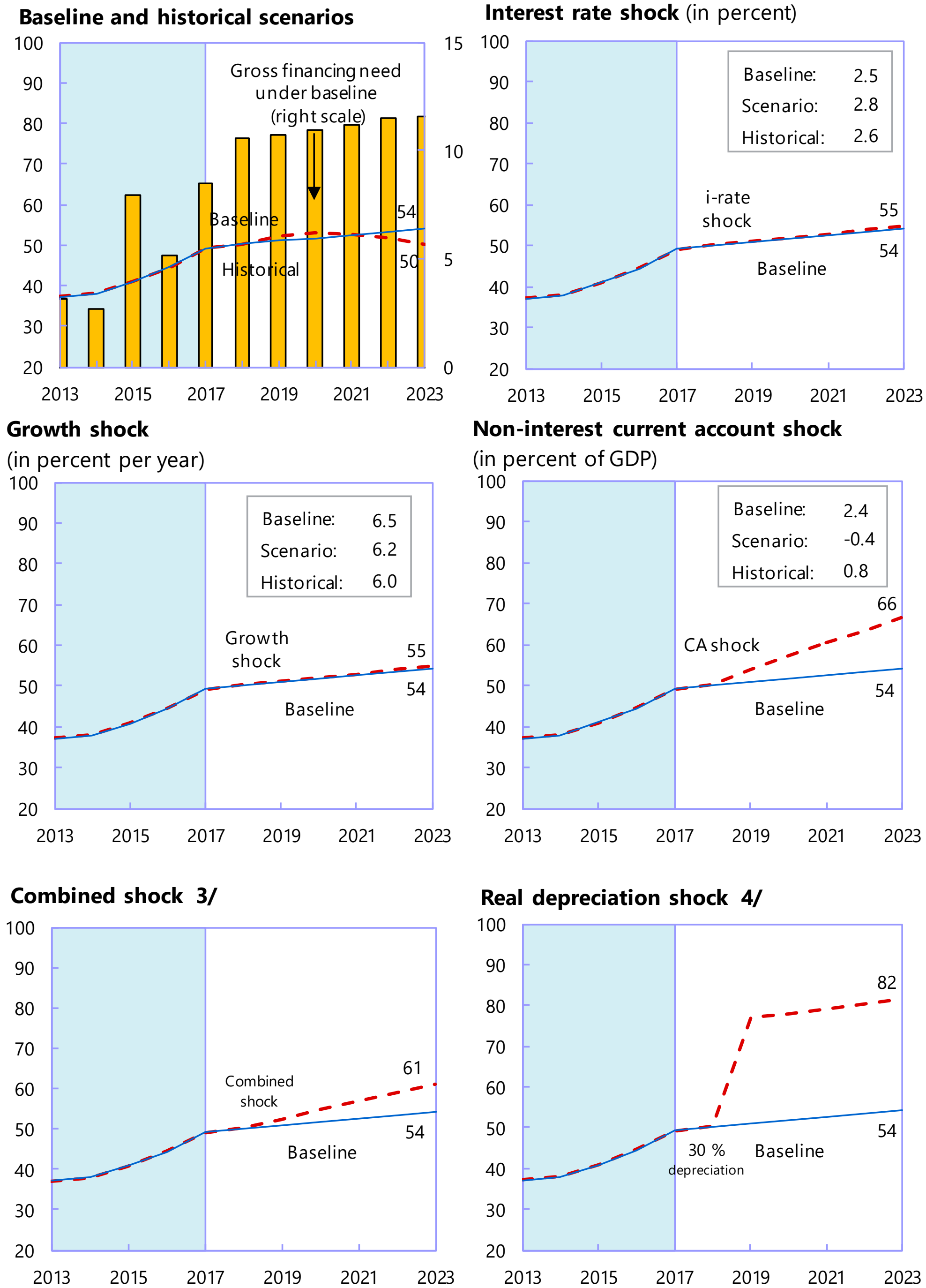
Figure 5. Vietnam: Public DSA—Realism of Baseline Assumptions



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/ Vietnam has had a cumulative increase in private sector credit of 30 percent of GDP, 2014-2017. For Vietnam, t corresponds to 2018; for the distribution, t corresponds to the first year of the crisis.
4/ Data cover annual observations 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 2015.

Table 1. Vietnam: External Debt Sustainability Framework, 2013–2023

(In percent of GDP, unless otherwise indicated)

	Actual							Projections							
	2013	2014	2015	2016	2017			2018	2019	2020	2021	2022	2023		Debt-stabilizing non-interest current account 6/
Baseline: External debt	37.1	38.0	40.9	44.4	49.2			50.2	51.0	51.7	52.5	53.3	54.1		-7.2
Change in external debt	-0.3	0.8	2.9	3.6	4.7			1.0	0.8	0.7	0.8	0.8	0.8	0.0	
Identified external debt-creating flows (4+8+9)	-11.9	-12.3	-6.6	-10.7	-12.5			-11.0	-10.3	-9.7	-9.1	-8.5	-8.2	0.0	
Current account deficit, excluding interest payments	-5.3	-5.6	-0.8	-3.7	-3.4			-3.2	-2.9	-2.7	-2.4	-2.1	-1.9	7.2	
Deficit in balance of goods and services	-3.3	-4.6	-1.1	-3.2	-3.5			-3.3	-3.1	-2.9	-2.7	-2.5	-2.4		
Exports	83.7	86.7	90.5	93.8	103.0			109.8	115.6	121.3	127.9	134.8	142.5		
Imports	80.4	82.1	89.4	90.6	99.6			106.5	112.5	118.5	125.2	132.3	140.1		
Net non-debt creating capital inflows (negative)	-4.1	-4.3	-5.6	-5.8	-6.2			-5.9	-5.5	-5.1	-4.8	-4.5	-4.2	-4.2	
Automatic debt dynamics 1/	-2.5	-2.3	-0.2	-1.2	-2.9			-1.9	-1.8	-1.9	-1.9	-1.9	-2.0	-3.0	
Contribution from nominal interest rate	0.7	0.7	0.9	0.8	0.9			1.1	1.1	1.2	1.2	1.2	1.2	1.2	
Contribution from real GDP growth	-1.9	-2.0	-2.5	-2.4	-2.8			-3.0	-3.0	-3.0	-3.1	-3.1	-3.2	-3.2	
Contribution from price and exchange rate changes 2/	-1.4	-1.0	1.4	0.4	-1.1			...	...	...	...	...	...	-0.9	
Residual, incl. change in gross foreign assets (2-3) 3/	11.6	13.1	9.5	14.3	17.2			12.0	11.1	10.3	9.9	9.4	9.0	0.0	
External debt-to-exports ratio (in percent)	44.4	43.8	45.2	47.4	47.7			45.7	44.1	42.6	41.0	39.5	38.0		
Gross external financing need (in billions of US dollars) 4/	5.3	5.0	15.1	10.3	18.6			25.3	28.3	31.6	35.2	39.2	42.9		
in percent of GDP	3.1	2.7	7.9	5.1	8.4	10-Year	10-Year	10.5	10.7	10.9	11.2	11.5	11.6		
Scenario with key variables at their historical averages 5/								50.2	52.1	52.8	52.6	51.6	49.9		-9.7
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							For debt stabilization	
Nominal GDP (US dollars)	170.6	185.9	191.5	201.3	220.4			241.0	264.5	289.5	315.2	342.5	371.0	401.9	
Real GDP growth (in percent)	5.4	6.0	6.7	6.2	6.8	6.0	0.6	6.6	6.5	6.5	6.5	6.5	6.5	6.5	
Exchange rate appreciation (US dollar value of local currency,	-0.7	-0.8	-3.3	-2.1	-1.6	-3.4	2.8	-0.6	-1.6	-1.8	-1.9	-1.9	-2.0	-2.0	
GDP deflator (change in domestic currency)	4.8	3.7	-0.2	1.1	4.1	8.7	8.0	3.2	4.7	4.7	4.2	4.0	3.8	3.8	
GDP deflator in US dollars (change in percent)	4.0	2.8	-3.5	-1.0	2.5	4.9	7.2	2.6	3.0	2.8	2.2	2.0	1.7	1.7	
Nominal external interest rate (in percent)	2.2	2.1	2.4	2.0	2.3	2.6	0.5	2.5	2.5	2.5	2.5	2.6	2.4	2.4	
Growth of exports G&S (US dollar terms, in percent)	15.0	12.9	7.5	9.0	20.3	15.9	12.2	16.5	15.5	14.9	14.8	14.5	14.5		
Growth of imports G&S (US dollar terms, in percent)	17.3	11.3	12.2	6.5	20.4	13.4	11.5	16.9	15.9	15.2	15.1	14.9	14.7		
Current account balance, excluding interest payments	5.3	5.6	0.8	3.7	3.4	0.8	5.5	3.2	2.9	2.7	2.4	2.1	1.9		
Net non-debt creating capital inflows	4.1	4.3	5.6	5.8	6.2	5.8	1.6	5.9	5.5	5.1	4.8	4.5	4.2		

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 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 (ba

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 year.

INTERNATIONAL MONETARY FUND

COMMUNICATIONS DEPARTMENT

Appendix V. Vietnam—Draft Press Release

Press Release No. 18/x
FOR IMMEDIATE RELEASE
[June 13, 2018]

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes the 2018 Article IV Consultation with Vietnam

On [June 13, 2018], the Executive Board of the International Monetary Fund (IMF) concluded the Article IV Consultation with Vietnam[1], and considered and endorsed the staff appraisal without meeting.[2]

Vietnam's dynamic, highly open economy had a bumper year in 2017. Growth was broad-based and accelerated to 6.8 percent while inflation remained below the 4 percent target reflecting low food prices and a stable exchange rate. Private consumption continued to be driven by rural-to-urban migration, rising incomes, and a growing middle class. It was also facilitated by accommodative financial conditions, stronger bank balance sheets, and an improving business climate as reforms continued in the banking sector, privatizations and cuts in red tape. The current account surplus increased as the global recovery and real effective depreciation due to a weaker dollar helped strong inflows from exports, tourism, and remittances. Vietnam also received record FDI and other capital inflows, aided by solid growth, accelerating domestic business formation, and the low global interest rates. The central bank maintained the Dong within a tight range to the dollar and accumulated US$12½ billion of international reserves in 2017, bolstering low reserve buffers.

The strong economic momentum is expected to continue in 2018, aided by the reform drive,

[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] The Executive Board takes decisions under its lapse of time procedure when it is agreed by the Board that a proposal can be considered without convening formal discussions.

higher potential output, the global recovery, and commitment to macroeconomic and financial stability. Growth is projected at 6.6 percent in 2018, despite a mild tightening in credit growth targets and a neutral fiscal stance. Inflation is forecast to rise to just under the 4 percent target, led by higher oil prices and gradual increases in administered prices. On current trends and if reforms continue at their current pace, 6½ percent annual growth remains feasible beyond 2018. The current account surplus is expected to decline over the medium term as structural reforms boost investment and real effective appreciation of the Dong resumes its trend, leaving reserves at 2½–3 months of imports.

Despite recent economic strength, economic distortions and capacity constraints remain, and external and domestic risks and longer-term challenges loom on the horizon. Financial buffers are still thin, macroeconomic policy frameworks remain inflexible to manage possible shocks, and the external position is substantially stronger than warranted by fundamentals. The strong economy provides an opportunity for more ambitious reforms to level the playing field by tackling remaining distortions and capacity constraints, increasing investment and reducing the external surplus.

Executive Board Assessment[3]

Vietnam's dynamic, highly open economy continues to perform well. The solid performance is aided by macroeconomic and financial stability, stepped up economic reforms, and inflows of foreign direct investment which are enabling structural transformation and are raising potential growth. The strong economic momentum is expected to continue. But financial buffers are still thin, macroeconomic policy frameworks remain inflexible, complicating the management of shocks, and the external position is substantially stronger than warranted by fundamentals. The strong economy provides an opportunity for more ambitious reforms to level the playing field by tackling remaining distortions and capacity constraints, increasing investment and reducing the external surplus.

Fiscal policy should emphasize high-quality consolidation to meet large development needs and ensure that Vietnam has fiscal space to meet longer-term challenges. A slightly more ambitious consolidation than currently planned, and a lower debt ceiling than the current statutory limit, will be needed to create additional fiscal room before aging sets in the mid-2030s and provision for contingencies. Stronger consolidation could boost medium-term growth if it relied on high-

[3] 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.

quality structural fiscal measures and measures to boost private investment. Reforms should focus on broadening tax bases; reducing administrative and wage-related spending; protecting social spending through well designed social security and civil service reforms; and, protecting and improving the quality of public investment. Comprehensive and timely fiscal accounts based on GFSM 2014 and improved budget planning and execution should help facilitate consolidation.

To sustain macroeconomic stability, monetary policy should be tightened by further lowering credit growth to bring it in line with ongoing improvements in financial deepening. Greater two-way exchange rate flexibility within the current band should be allowed to reduce speculative inflows, absorb shocks and help bring down the external surplus. Reserve accumulation should continue but more gradually, with fully sterilized interventions. The modernization of the monetary framework should start, gradually easing away from credit targets to begin a phased shift to inflation targeting and greater exchange rate flexibility.

Financial sector balance sheets, supervision and risk management need to be further strengthened. A stronger financial sector can help improve the efficiency of financial intermediation to service the domestic economy and investment. Strong credit and asset price growth may be contributing to the build-up of risks in the financial system. SOCBs should be capitalized swiftly with government funds, and by raising private sector and foreign ownership limits. It is critical to develop a macroprudential framework and improve data quality on credit aggregates and balance sheet exposures to monitor and proactively manage risks, and ensure that sufficiently robust liquidity and crisis management frameworks are in place to provide legal and operational clarity regarding early intervention and communication to mitigate emerging financial sector risks.

The reform drive needs to be broadened and accelerated to tackle the remaining barriers to investment and to raise labor productivity. Priority areas include: high-quality infrastructure investments; further reductions in regulatory barriers and transitioning to international standards for regulatory excellence, transparency and data quality to aid investment; reforms to tertiary education; efforts to reduce the concentration of land ownership in state hands; and continued reforms in state-owned enterprises. Vietnam must continue to enhance anti-corruption measures and address the threat of climate change.

It is recommended that the next Article IV Consultation take place on the standard 12-month cycle.

Table 1. Vietnam: Selected Economic and Financial Indicators, 2013–19 1/

				Est.	Projections		
	2013	2014	2015	2016	2017	2018	2019
Output							
Real GDP (percent change)	5.4	6.0	6.7	6.2	6.8	6.6	6.5
Prices (percent change)							
CPI (period average)	6.6	4.1	0.6	2.7	3.5	3.8	4.0
CPI (end of period)	6.0	1.8	0.6	4.7	2.6	4.0	4.0
Core inflation (end of period)	4.2	2.7	1.7	1.9	1.3	2.0	3.1
Saving and investment (in percent of GDP)							
Gross national saving	31.2	31.7	27.5	29.5	29.0	29.8	30.2
Private	29.8	29.6	25.4	27.3	26.2	26.9	27.4
Public	1.5	2.1	2.1	2.2	2.8	2.9	2.8
Gross investment	26.7	26.8	27.6	26.6	26.6	27.7	28.4
Private	17.7	18.7	20.0	19.0	19.2	20.3	21.1
Public	9.0	8.1	7.6	7.6	7.4	7.4	7.4
General government finances (in percent of GDP) 2/							
Revenue and grants	23.1	22.2	23.8	23.7	23.6	23.3	23.0
Of which: Oil revenue	3.4	2.5	1.6	0.9	0.9	0.7	0.6
Expenditure	30.5	28.5	29.2	28.5	28.1	27.9	27.8
Expense	21.6	20.4	21.7	21.0	20.7	20.6	20.4
Net acquisition of nonfinancial assets	9.0	8.1	7.5	7.5	7.4	7.3	7.3
Net lending (+)/borrowing(-) 3/	-7.4	-6.3	-5.5	-4.8	-4.5	-4.6	-4.7
Public and publicly guaranteed debt (end of period)	52.0	55.0	57.4	59.9	58.5	57.9	57.5
Money and credit (percent change, end of period)							
Broad money (M2)	18.8	17.7	16.2	18.4	15.0	16.8	18.9
Credit to the economy	12.7	13.8	18.8	18.8	17.4	16.9	15.3
Interest rates (in percent, end of period)							
Nominal three-month deposit rate (households)	6.9	5.0	4.8	4.9	...	...	
Nominal short-term lending rate (less than one year)	9.7	8.5	7.2	7.2	...	...	
Balance of payments (in percent of GDP, unless otherwise indicated)							
Current account balance (including official transfers)	4.5	4.9	-0.1	2.9	2.5	2.1	1.8
Exports f.o.b.	77.4	80.8	84.6	87.7	97.1	103.7	109.4
Imports f.o.b.	72.3	74.3	80.8	82.2	91.9	99.0	105.2
Capital and financial account	0.2	2.9	0.5	5.3	9.0	2.2	2.9
Gross international reserves (in billions of U.S. dollars) 4/	26.1	34.5	28.5	36.8	49.4	59.6	72.0
In months of prospective GNFS imports	2.1	2.4	1.9	2.0	2.3	2.4	2.5
Total external debt (end of period)	37.3	38.3	42.0	45.2	49.1	50.6	51.4
Nominal exchange rate (dong/U.S. dollar, end of period)	21,105	21,385	22,485	22,761	22,698	...	...
Nominal effective exchange rate (end of period)	88.3	93.9	97.6	97.7	91.2	...	...
Real effective exchange rate (end of period)	116.2	123.7	128.8	133.1	124.6	...	...
Memorandum items:							
GDP (in trillions of dong at current market prices)	3,584	3,938	4,193	4,503	5,008	5,509	6,142
GDP (in billions of U.S. dollars)	170.6	185.9	191.5	201.3	220.4	241.0	264.5
Per capita GDP (in U.S. dollars)	1,900	2,049	2,088	2,172	2,354	2,548	2,769

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

1/ The national accounts has been re-based to 2010 from 1994 by the authorities.

2/ Follows the format of the *Government Finance Statistics Manual 2001*.

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

4/ Excludes government deposits.

INTERNATIONAL MONETARY FUND

VIETNAM

May 24, 2018

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

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

CONTENTS

FUND RELATIONS

(As of March 31, 2018)

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	269.77	85.70

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		
	2018	2019	2020	2021	2022
Principal					
Charges/interest	0.29	0. 39	0. 39	0. 39	0.39
Total	**0.29**	**0.39**	**0.39**	**0.39**	**0.39**

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 16–31, 2017, and was concluded by the Executive Board on July 7, 2017.

Technical Assistance

In early 2017, Vietnam received technical assistance (TA) from FAD on upgrading the tax administration organization and from MCM on modernizing the monetary policy framework. In 2018, a high level MCM-APD workshop was held to share cross-country experiences regarding modernization of monetary policy framework with Vietnamese policymakers. During the last year, STA provided TA on Government Finance Statistics, National Accounts and Consumer Price Index. In addition, TAOLAM provides TA on external sector statistics and STI organizes trainings.

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.

Resident Representative

Mr. Jonathan Dunn is the Resident Representative for Vietnam and Lao P.D.R., based in Hanoi.

RELATIONS AND COLLABORATION WITH THE WORLD BANK GROUP

(As of April 30th, 2018)

World Bank Group Partnership Framework

The current World Bank Country Partnership Framework FY2018–22 (CPF) was discussed by the World Bank Board of Directors on May 30th, 2017. Aligned with the government's Socioeconomic Development Plan (SEDP 2016–20), the proposed CPF highlights the importance of sustaining the country's strong track record of development and poverty reduction through an inclusive growth strategy that balances economic prosperity with environmental sustainability, promotes equity and social inclusion, and strengthens state capacity and accountability - all within a constantly evolving global and domestic context. The CPF outlines key priorities for World Bank Group support across three focus areas: (i) enable inclusive growth and private sector participation; (ii) invest in people and knowledge; and (iii) ensure environmental sustainability and resilience, with governance as a cross-cutting engagement area. The CPF introduces a number of strategic shifts that aim to focus WBG engagements around transformative development priorities that are key for Vietnam to achieve identified development goals. Having achieved Middle Income Status, Vietnam has graduated from the International Development Association (IDA) in June 2017 to full International Bank for Reconstruction and Development (IBRD) status.

World Bank Group Program

The World Bank Group uses a broad range of instruments including development policy financing, program for results (PforR), investment project financing, and advisory services and analytics; the IFC's equity, loan, and advisory services and the Mekong Private Sector Development Facility (MPDF); and Multilateral Investment Guarantee Agency (MIGA) activities. The World Bank Group cooperates with various development partners and takes an active role in ODA coordination.

Scale of the World Bank Group program: The existing WB portfolio is large, with 47 active IDA/IBRD operations, with the total net commitments of US$10.52 billion (including US$63 million grant co-financing). During the FY14-16 cycle, IFC's cumulative committed investments in Vietnam totaled US$2.2 billion, of which US$143 million is in long-term financing. For FY18 three IBRD/IDA Transition Support operations are currently scheduled for board approval.

IDA and IRBD Lending program: The World Bank has a diversified lending program in Vietnam, supporting infrastructure, human development, and improvement in economic management and governance. Support to infrastructure includes renewable energy generation, transmission and distribution; rural and national road development and inland waterways; water supply and wastewater treatment, irrigation systems rehabilitation, and natural resources management. The program also supports development of health systems to ensure increased access to quality health services and education quality and access improvements. The World Bank makes use of all available lending instruments, with the bulk provided through investment finance and selected development policy finance operations and programs for results. The Bank is preparing the first subnational Development Operation with Ho Chi Minh City which reinforces reforms to enhance urban governance and transparency in urban planning, land management, fiscal management and service delivery.

IFC Program: While IFC's earlier investments were often in the form of traditional project-finance to the FDI sector, IFC has been increasingly engaged with the domestic private sector to support corporatization of domestic private sector enterprises in their next phase of development to become professionally-run/public listed corporations. Under the joint-WBG strategic approach in agribusiness, IFC has engaged with rising local entrepreneurs with focus on investments in downstream processing and warehousing. The strategic focus on the renewable energy sector (hydropower, solar and wind) has resulted in IFC's first equity investment in GEC, a privatized power company which owns and operates small and medium-sized hydro-power plants as well as wind and solar farms under development. IFC continues its support to the consolidation of the banking sector through engagements with local private banks with both liquidity support (the Global Trade Finance Program) and long term funding (senior debts, tier II capital and equity).

Knowledge program: The World Bank supports the government's efforts to strengthen institutional capacity through its extensive program of analytical and advisory services. With Vietnam's development as a dynamic middle income economy the partnership with the World Bank Group is evolving, and knowledge generation and the sharing of global experiences are becoming increasingly important. In 2016, the Government of Vietnam and the World Bank finalized the joint Vietnam 2035 report, which identifies policy reforms to achieve Vietnam's long term development aspiration of sustaining rapid growth and social inclusion. While reflecting Vietnam's remarkable development trajectory, the report identifies emerging structural constraints to the existing mostly factor driven growth model, including stagnating labor productivity growth and rising investment inefficiency. The report lays out an ambitious reform agenda structured around three pillars: (i) balancing economic prosperity with environmental sustainability, (ii) promoting equity and social inclusion and (iii) bolstering the state's capacity and accountability. Other recent analytical work includes a Vietnam Development Report on Transforming Vietnamese Agriculture, the 2016 Vietnam Systematic Country Diagnostic and the 2017 Public Expenditure Review. In addition, the World Bank continues to provide technical assistance in areas such as trade policy and trade facilitation, social protection, renewable energy, innovation, trade and logisctics, gender and ethnic minorities, climate change adaptation, financial sector reform, public financial management and debt management.

IMF-World Bank Group Collaboration in Vietnam

Specific Areas: Since the expiration of the PRGF in April 2004, the two institutions have closely collaborated on monitoring the macroeconomic situation and routinely exchanging views on macroeconomic and fiscal management as well as key structural reforms, such as SOE and banking sector reforms. The two institutions consult during Article IV consultations in order to share information and help coordinate on key policy messages. The IMF has provided macroeconomic assessment letters in support of the Bank's development policy operations. Building on joint IMF and

World Bank Financial Sector Assessment Program (FSAP), which was completed during 2012–13, joint work has continued in supporting central bank operations, with the IMF providing TA on monetary policy and operations, and both the World Bank and IMF providing support on banking supervision. In the areas of fiscal management, the World Bank and the IMF are coordinating the policy dialogue on fiscal consolidation and debt sustainability, including on policy options to enhance resource mobilization and improve the efficiency of public spending. Finally, the IMF and the World Bank also collaborate in the development and timely dissemination of reliable economic and financial statistics. The IMF focuses on improving balance of payments, national accounts, price, and government finance statistics, while the World Bank provides assistance on issues related to the production of high-quality household and enterprise surveys and facilitate the implementation of National Gender Indicators System.

World Bank Lending Program FY17–18

FY	Project Name	IBRD* US$ million	IDA US$ million
2017	Land Governance and Resources Information Project		150
2017	Energy Efficiency for Industrial Enterprises Project	100	2
2017	Coastal Cities Sustainable Environment Project	46	190
2017	Northern Delta Transport Additional Financing		79
2017	Additional Financing for Danang Sustainable City Development Project		72
2017	Support for Autonomous Higher Education Project		155
2017	Scaling up Urban Upgrading Project		240
2017	Medium Cities Additional Financing for Lao Cai and Phu Ly		53
2017	Forest Modernization and Coastal Resilience Project		150
2017	Central Region Flood Emergency Project		113
2017	Central Highland Connectivity Project		1530
2017	National Targeted Programs Support Program		153
	Total	146	1507
2018	Ho Chi Minh City Development Policy Loan	100	
2018	Dynamic Cities	80	
2018	Investing and Innovating for Grassroots Health Service Delivery		
	Total	326	

*including IDA Transition Support

RELATIONS WITH THE ASIAN DEVELOPMENT BANK

(As of April 18, 2018)

The Asian Development Bank (ADB) has been working in partnership with the Government of Vietnam—a 1966 founding member of ADB—since the resumption of operations in 1993. The country partnership strategy (CPS), 2016–2020 of the Asian Development Bank (ADB) for Vietnam will support investments and policy reforms that promote more inclusive and environmentally sustainable economic growth. To achieve this, ADB's strategic framework will be based on three pillars: (i) promoting job creation and competitiveness, (ii) increasing the inclusiveness of infrastructure and service delivery, and (iii) improving environmental sustainability and climate change response. ADB also works to enhance policy reform and institutional capacity in the financial sector and public financial management.

ADB is supporting the implementation of structural reforms that increase competitiveness and assist Vietnam in transitioning to become an upper middle-income country. This includes lending assistance and policy dialogue on financial sector and state-owned enterprise (SOE) reform issues. To increase the efficiency of public expenditure and improve the quality of infrastructure and public services ADB is also working with government to strengthen fiscal and budgetary management.

Vietnam is one of the largest concessional ordinary capital lending (COL) recipients, with projected COL allocation of US$950.65 million for 2017–2018. Ordinary capital resources (OCR) are also actively being used for projects with higher rates of return, such as infrastructure, which approved lending of US$102.0 million in 2017(Table 1).

From October 1993 until December 31, 2017, ADB has provided 178 sovereign loans totaling US$15.45 billion, 320 technical assistance grant projects amounting to US$310.6 million and 39 grant projects totaling US$329.5 million to Vietnam (Tables 2–4). As a catalyst for private investments, ADB provides direct financial assistance to nonsovereign public sector and private sector transactions in the form of direct loans, equity investments, guarantees, B loans, and trade finance. Since its inception, ADB has approved $480 million in nonsovereign financing for seven private sector transactions in Vietnam. Total outstanding balances and commitments of ADB's private sector transactions in the country, as of December 31, 2017, amount to $755 million, representing 6.8% of ADB's total nonsovereign portfolio. ADB's Trade Finance Program (TFP) fills market gaps by providing guarantees and loans through partner banks in support of trade. The TFP has completed over 12,000 transactions supporting over $23 billion in trade and over 7,700 small and medium sized enterprises since 2004. In 2015, the TFP supported $2.5 billion in trade through over 1,900 transactions. In Vietnam, the TFP works with 12 banks and has supported over $6.5 billion in trade across 4,303 transactions since 2009. In addition to filling market gaps, the TFP's objective is to mobilize private sector capital and involvement in developing Asia. In Vietnam, 67.6% of the trade supported through the TFP was co-financed by the private sector. Vietnam also receives substantial support under the Greater Mekong Sub-region initiatives, involving Cambodia, China, Lao P.D.R., Myanmar, Thailand, and Vietnam. As part of its regular operations, ADB coordinates closely with Vietnam's development partners to improve the effectiveness, efficiency, and impact of its lending and non-lending programs. ADB also works closely with civil society organizations and the private sector in Vietnam to mobilize financial resources and expertise from other partners. ADB is an active member of the Six Banks Initiative—comprising ADB, Agence Française de Développement (AFD), KfW, Japan International Cooperation Agency, Export Import Bank of Korea, and the World Bank. Co-financing operations enable ADB's financing partners, governments or their agencies, multilateral financing institutions, and commercial organizations, to participate in the financing of ADB projects. The additional funds are provided in the form of official loans and grants, and commercial financing, such as B loans, risk transfer arrangements, parallel loans, and co-financing for transactions under ADB's TFP. As of December 31, 2015, cumulative direct value-added (DVA) official co-financing for Vietnam amounted to $4.3 billion for 54 investment projects and $106.5 million for 87 technical assistance projects. Cumulative DVA commercial co-financing for Vietnam amounted to $4.4 billion for two investment projects. The ADB and IMF staffs coordinate through ad hoc information exchange information on policy matters.

Table 1. Lending (Approved Amount) and Disbursement by Year, 1993–2017

(In millions of U.S.dollars)

	Approved amount[1/]			Disbursement
Year	Ordinary Capital Resources	Asian Development Fund	Total	Total
1993	-	262	262	0
1994	-	140	140	3
1995	-	233	233	48
1996	-	303	303	29
1997	-	360	360	149
1998	-	284	284	128
1999	40	180	220	191
2000	-	189	189	219
2001	-	243	243	176
2002	-	234	234	232
2003	-	179	179	233
2004	120	176	296	182
2005	360	218	578	224
2006	-	308	308	184
2007	924	515	1,439	230
2008	606	159	765	265
2009[2/]	1,403	523	1,926	1,093
2010	510	580	1,090	407
2011	722	365	1,086	792
2012	822	463	1,285	623
2013	410	365	775	1,226
2014	740	409	1,149	1,228
2015	738	290	1,027	899
2016	368.7	403.8	772.5	838
2017	102	367	469	516

Source: Asian Development Bank

1/ Includes loan components of regional projects in Vietnam

2/ Excludes a guarantee of $325 million for EVN (Loan No. 2604, approved on 12/11/09)

Table 2. Technical Assistance by Sector, December 2017

Sector	Number of Projects	In millions of U.S. Dollars	In percentage of Total
Agriculture and Natural Resources	58	52.0	17%
Education	22	14.6	5%
Energy	43	35.6	11%
Finance	37	22.0	7%
Health and Social Protection	16	9.4	3%
Industry and Trade	8	12.6	4%
Multi-sector	2	3.2	1%
Public Sector Management	68	47.4	15%
Transport and ICT	36	67.1	22%
Water and Other Municipal Infrastructure and Services	30	46.7	15%
Total	320	310.6	100%

Source: Asian Development Bank

Table 3. Loan by Sector, December 2017

Sector	Number of Loans	In Million of U.S. Dollars	In Percentage of Total
Agriculture and Natural Resources	37	2,064.7	13%
Education	17	913.0	6%
Energy	13	2,578.7	17%
Finance	14	762.0	5%
Health and Social Protection	9	423.2	3%
Industry and Trade	6	159.5	1%
Multisector	7	280.0	2%
Public Sector Management	19	1,779.1	12%
Transport and ICT	36	4,854.1	31%
Water and Other Municipal Infrastructure and Services	20	1,636.3	11%
Total	178	15,450.6	100%

Source: Asian Development Bank

Table 4. Grants by Sector, December 2017

Sector	Number of Grants	In Million of U.S. Dollars	In Percentage of Total
Agriculture and Natural Resources	13	62.2	19%
Education	2	2.8	1%
Energy	1	3.0	1%
Finance	1	1.5	0%
Health and Social Protection	9	58.6	18%
multi-sector	3	15.0	5%
Transport and ICT	4	172.4	52%
Water and Other Municipal Infrastructure and Services	6	14.0	4%
Total	39	329.5	100%

Source: Asian Development Bank

STATISTICAL ISSUES

(As of May 1, 2018)

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. Successive STA technical assistance missions in December 2016 and August 2017 recommended that the GSO prioritize improving the Quarterly National Accounts (QNA) statistics. The GSO produces cumulative QNA estimates for the first three quarters of the year and the fourth quarter estimate is a residual. Instead, the GSO should compile discrete and independent quarterly GDP, using consistent data sources and methods. The data collection practices and coordination between data collection agencies could be strengthened and the compilation of national and provincial estimates should be centralized at GSO. The National Accounts base year is 2010 and, under the 2011–2020 Statistics Department Strategy, Vietnam plans to implement the *2008 SNA* by 2020.

Prices statistics: The CPI methodology is broadly in line with international standards. The GSO recently implemented the rental equivalence approach for the treatment of owner occupied housing although the sample of rentals could be rotated on an annual basis and there is a need to improve the weights for owner occupied housing during the next CPI update in 2019. Price collection for the CPI could also be expanded to include more days throughout the month to better reflect price changes for the reference period. Monthly producer and trade price indices are published quarterly. The GSO has begun work towards compiling residential property price indexes and will receive STA technical assistance under the new D4D (Data for Decisions) project.

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 expect to provide GFSM 2014 consistent data starting in 2018.

Monetary 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.

External sector statistics: Balance of payments statistics rely on limited source data, resulting in gaps in several areas of the external accounts (current, capital, and financial). Starting from 2013 data, the authorities are reporting balance of payments in BPM6 format, however timeliness of the data remains an issue. Recent STA TA work via TAOLAM was focusing on improving data quality on foreign direct investment, development of international investment position (IIP) and external debt. The following observations and recommendations from previous STA TA missions remain: (i) the available resources are not sufficient to ensure effective implementation of an International Transaction Reporting System; (ii) FDI survey should be conducted annually and incorporated into compilation; (iii) further improvements are still needed in the treatment of goods for processing in line with BPM6, improvement of remittances estimates, and further study on unrecorded trade in gold; (iv) there is a need to address significant errors and omissions in the balance of payments, which could be related to changes in household holdings of foreign exchange in cash; (v) international reserves transactions need to be distinguished from valuation changes; (vi) improve timeliness and dissemination format of external sector statistics, including IIP.

Financial Soundness Indicators: Vietnam reports 10 of the 12 core financial soundness indicators (FSIs), 7 of the 13 encouraged FSIs for deposit takers, and one FSI for real estate markets with semi-annual frequency for posting on the IMF's FSI website. Data are reported with lag of more than two quarters.

Data Standards and Quality

Vietnam became a participant in the General Data Dissemination System (GDDS) in September 2003, which was superseded by the enhanced GDDS (e-GDDS) in 2015. An STA mission visited Vietnam in April 2016 and assisted the authorities to develop a National Summary Data Page (NSDP) in preparation for the e-GDDS implementation. The mission recommended that Vietnam adopt a strategy to make progress through the e-GDDS thresholds toward the Special Data Dissemination Standard (SDDS). No data ROSC are available.

Reporting to STA

Currently, no government finance statistics (GFS) are reported for publication in the IMF's *Government Finance Statistics Yearbook (GSY)* or *International Financial Statistics (IFS)*. Annual GFS data through 2004, excluding extra-budgetary funds and social security funds, based on the 1986 GFS format, have been reported for publication in the *GFSY*. No sub-annual fiscal data have been reported for publication in *IFS* since 2001.

Table of Common Indicators Required for Surveillance
(As of May 7, 2018)

	Date of Latest Observation	Date Received	Frequency of Data[1]	Frequency of Reporting[1]	Frequency of Publication[1]
Exchange Rates	April 2018	5/1/18	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[2]	Feb. 2018	4/11/18	M	M	N/A
Reserve/Base Money	Feb. 2018	5/4/2018	M	M	N/A
Broad Money	Feb. 2018	5/4/2018	M	M	N/A
Central Bank Balance Sheet	Feb. 2018	5/4/2018	M	M	N/A
Consolidated Balance Sheet of the Banking System	Feb. 2018	5/4/2018	M	M	N/A
Interest Rates[3]	April. 2018	5/1/18	D	D	N/A
Consumer Price Index	Feb. 2018	3/9/18	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[4]—General Government[5]	Dec. 2017	Mar. 2018	Q	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt[6]	Dec. 2017	Apr. 2018	A	A	A
External Current Account Balance	Q4 2017	3/6/18	Q	Q	Q
Exports and Imports of Goods and Services[7]	Feb. 2018	3/14/18	M	M	M
GDP/GNP	Q1 2018	4/10/17	Q	Q	Q
Gross External Debt	2017	Apr. 2018	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.