INTERNATIONAL MONETARY FUND

IMF Country Report No. 23/338

VIETNAM

September 2023

2023 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR VIETNAM

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2023 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 2023 consideration of the staff report that concluded the Article IV consultation with Vietnam.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on August 30, 2023, following discussions that ended on June 29, 2023, with the officials of Vietnam on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 25, 2023.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Vietnam.

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

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Vietnam: Selected Economic Indicators, 2019–2024

	2019	2020	2021	2022	Projections 2023	Projections 2024
Output						
Real GDP (percent change)	7.4	2.9	2.6	8.0	4.7	5.8
Output Gap (percent of GDP)	0.4	-0.4	-1.9	-0.1	-1.1	-1.1
Prices (percent change)						
CPI (period average)	2.8	3.2	1.8	3.2	3.7	3.5
Core inflation (period average)	2.0	2.3	0.9	2.7	4.2	3.4
Saving and investment (in percent of GDP)						
Gross national saving	35.6	36.3	31.3	33.1	32.4	32.4
Gross investment	32.0	31.9	33.5	33.4	32.1	31.8
Private	26.6	24.9	27.2	27.4	25.5	24.8
Public	5.3	7.0	6.2	6.0	6.6	7.0
State budget finances (in percent of GDP) 1/						
Revenue and grants	19.4	18.4	18.7	19.0	18.4	18.5
Expenditure	19.8	21.3	20.1	18.8	19.6	20.2
Expense	14.5	14.3	13.9	12.8	13.0	13.2
Net acquisition of nonfinancial assets	5.3	7.0	6.2	6.0	6.6	7.0
Net lending (+)/borrowing(-) 2/	-0.4	-2.9	-1.4	0.3	-1.3	-1.7
Public and publicly guaranteed debt (end of period)	40.8	41.1	39.1	35.3	33.6	32.3
Money and credit (percent change, end of period)						
Broad money (M2)	14.8	14.5	10.7	6.2	6.1	6.9
Credit to the economy	12.8	11.6	13.5	14.0	9.0	9.7
Balance of payments (in percent of GDP, unless otherwise indicated)						
Current account balance (including official transfers)	3.7	4.3	-2.2	-0.3	0.2	0.7
Exports f.o.b.	79.6	81.6	90.9	91.4	81.6	80.9
Imports f.o.b.	73.2	72.7	86.7	85.0	75.8	75.1
Capital and financial account 3/	5.7	2.4	8.3	2.3	2.5	1.8
Gross international reserves (in billions of U.S. dollars) 4/	78.5	95.2	109.4	86.7	98.7	110.5
In months of prospective GNFS imports	3.5	3.3	3.5	2.9	3.1	3.1
Total external debt (end of period)	37.0	37.6	37.9	36.2	36.6	36.5
Nominal exchange rate (dong/U.S. dollar, end of period)	23,173	23,098	22,826	23,633	...	...
Memorandum items (current prices):						
GDP (in billions of U.S. dollars)	331.8	346.3	369.7	406.5	438.2	476.9
Per capita GDP (in U.S. dollars)	3,439	3,549	3,753	4,087	4,365	4,707

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

INTERNATIONAL MONETARY FUND

VIETNAM

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION

July 25, 2023

KEY ISSUES

Context. After a strong post-pandemic recovery, the economy faces strong headwinds. A weaker external environment led to a sizable decline in exports. In addition, amidst high private debt and rising global interest rates, a liquidity crunch distressed highly leveraged sectors (in particular, real estate), the corporate bond came to a halt, and non-performing loans rose. As a result, economic activity decelerated sharply in the first half of 2023. While the government managed to stabilize the markets, risks remain elevated.

Recommendations. Addressing the multiple headwinds affecting the economy calls for a comprehensive, multi-pronged response by the government. In addition, Vietnam should implement far-reaching reforms to meet its ambitious medium- and long-term objectives of sustained high and green economic growth.

- **Monetary policy.** Monetary policy took the lead in responding to the economic deterioration, but there is very limited space for further monetary easing at present. The exchange rate regime should allow for greater flexibility and accompany a modernization of the monetary policy framework to equip it with more market-based tools.
- **Fiscal policy.** Given ample fiscal space, the budget is better placed to take the lead to provide additional support if economic activity proves weaker than expected. The government could scale up social safety nets that would boost growth and protect the most vulnerable households. Over the medium term, further revenue mobilization efforts would bolster social spending and infrastructure investment.
- **Financial sector.** The resilience of the banking system and domestic capital markets should be strengthened, including enhancing the authorities' ability to prevent and manage crises. Upgrading the effectiveness of the debt enforcement and insolvency framework would help deal with corporate debt overhang and reduce risks to the economy and the financial sector.
- **Climate and structural policies.** Achieving the ambitious medium-term growth and climate goals will require accelerating reforms to improve the business environment, critical infrastructure, and human capital.

Approved By
Sanjaya Panth (APD) and Rishi Goyal (SPR)

Discussions took place in Hanoi and Ho Chi Minh City during June 14-29, 2023.The mission comprised Paulo Medas (Head), Federico Díez, Faizaan Kisat, Giacomo Magistretti, Francois Painchaud (all APD), Minke Gort (MCM), Antung A. Liu, Yuan Xiao (both FAD), Nga Ha, and Van Anh Nguyen (both IMF Office in Hanoi). Ryoichi Okuma (APD), Ender Emre and José Garrido (both LEG), and Emanuele Massetti (FAD) joined virtually. Hibah Khan, Mariam Souleyman (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.

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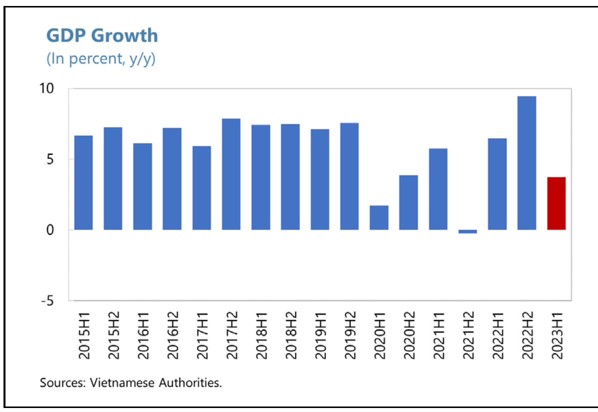
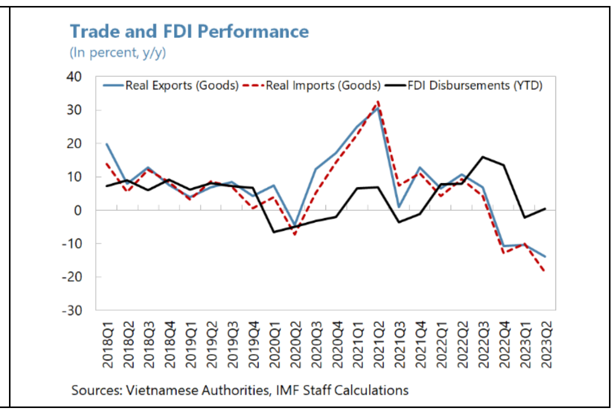
ANNEXES

CONTEXT AND RECENT ECONOMIC DEVELOPMENTS

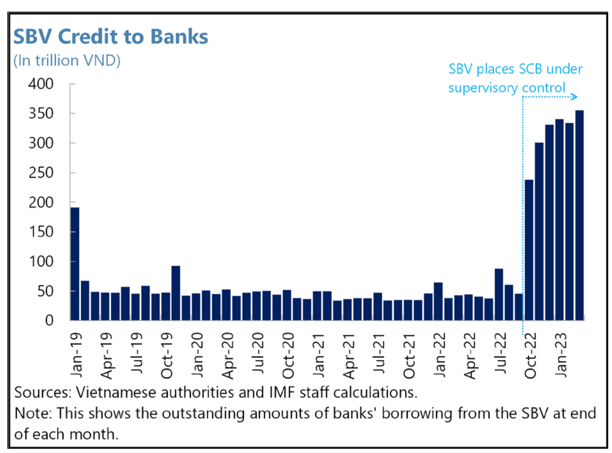
1. **Vietnam experienced a strong recovery in 2022**. The shift to "living with COVID," along with an impressive vaccination campaign, and strong domestic and foreign demand spurred activity in 2022. GDP grew at the historically high rate of 8 percent. Average annual inflation registered at 3.2 percent; however, price pressures, especially in core items, picked up steadily during the year. Strong external demand early in the year helped reduce the current account deficit to 0.3 percent of GDP.

2. **Economic activity deteriorated sharply, however, starting in late 2022 due to domestic and external headwinds**. Economic growth slowed to 3.7 percent y-o-y in the first half of 2023, with investment recording one of the worst performances in more than a decade. The unexpected and abrupt deterioration in the outlook was driven by domestic financial distress, turmoil in the real estate sector, and a sharp contraction in exports (12 percent y-o-y in the first 6 months of 2023) due to a decline in foreign demand that has hit the region. On the upside, the labor market displayed some resilience—the unemployment rate remained low, at 2.3 percent in June. However, some manufacturing firms have started to reduce working hours and lay off workers, most of whom are moving to the service sector, often with informal status.



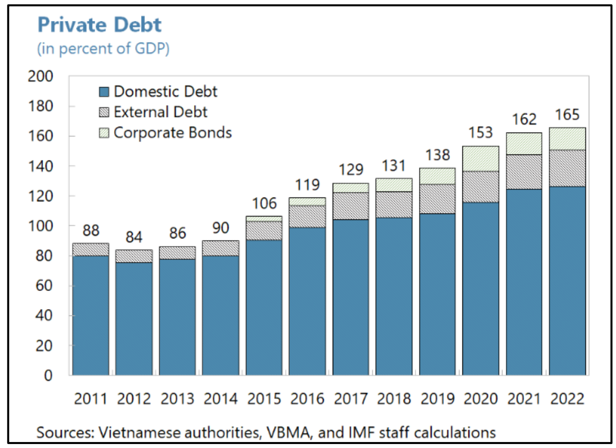


3. **Liquidity distress in the FX and financial markets surfaced in late 2022**. Pressures on the dong mounted throughout 2022 as global interest rates rose sharply, opening a large gap with domestic rates. Capital outflows, including the sale of FX reserves by the State Bank of Vietnam (SBV) to contain rising FX pressures, contributed to a decline in liquidity in the financial system. In October 2022, Sai Gon Joint Stock Commercial Bank (SCB), the fifth largest bank by assets, suffered a deposit run and was placed under SBV's control. Liquidity in the interbank market deteriorated sharply. However, after

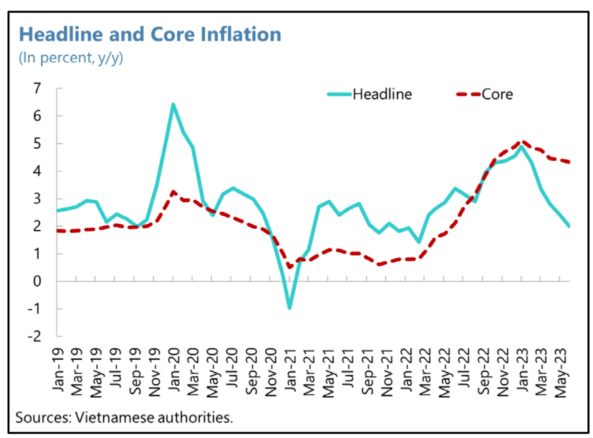


taking control of SCB, the SBV has provided ample liquidity and, by early 2023, liquidity pressures in the banking sector had eased.[1]

4. The turbulence in the real estate and corporate bond markets remains a source of pressure to the economy and the financial sector (Box 1). The liquidity crunch emerged in the context of rising private debt, especially during the low-growth pandemic years. Many real estate developers became highly leveraged in recent years and faced financial distress as interest rates rose and sales declined in late 2022. In addition, the corporate bond market, where real estate represents the largest market share, came to a halt amidst a decline in investor confidence and a crackdown on illegal activities (which also involved real estate issuers). In turn, this aggravated the liquidity squeeze, with a growing number of developers defaulting on bond payments. Furthermore, some banks highly exposed to the real estate market are facing a deterioration in asset quality. The authorities promptly issued a series of regulations aimed at facilitating access to funding and reducing bankruptcy risks in the near term (Text Table 1). While these measures can provide temporary relief, they could create their own risks down the road without further reforms.



5. Monetary policy has been nimble, adjusting to contain risks in a fast-changing environment. Like other peer countries facing inflation and exchange rate pressures, the SBV increased its main policy rates in the fall of 2022—the cumulative hike reached 200 basis points. It also raised the 2023 inflation target from 4 to 4.5 percent. After peaking at 4.9 percent in January 2023, headline inflation declined sharply in recent months (down to 2 percent y-o-y in June 2023), while the drop in core inflation was more modest (from 5.2 to 4.3 percent). As the SBV reduced its FX interventions in late 2022, the dong temporarily depreciated but pressures abated following the policy rate hikes. Since March 2023, the SBV has lowered its main policy rates by a cumulative 150-200 basis points to support the faltering economic activity, while the exchange rate has remained stable and modest reserve accumulation has resumed in 2023.

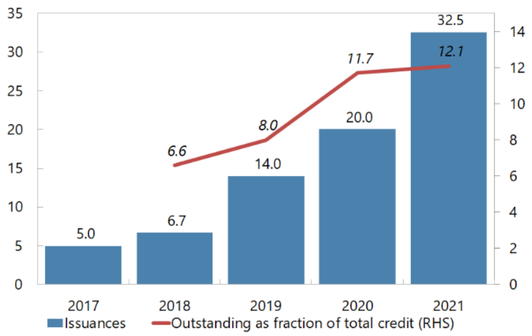


[1] In addition, in June 2023, Vietnam was placed by the Financial Action Task Force (FATF) on its list of jurisdictions under increased monitoring as it works to address strategic deficiencies in its AML-CFT regime.

Box 1. Real Estate Sector and Corporate Bond Market Turbulence

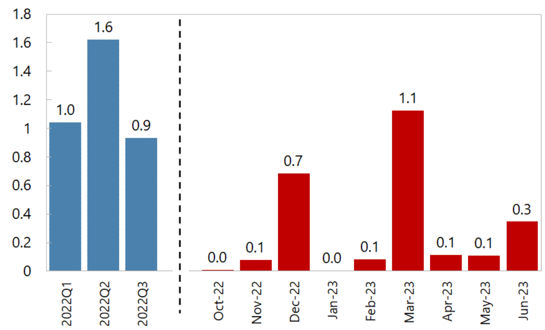
Vietnam's corporate bond market, after expanding at a fast pace over the last 6 years, experienced a sudden stop in issuances starting in late 2022. Outstanding bonds rose from 6.6 to 12 percent of total credit (8.6 to 15 percent of GDP) between 2018 and 2021. However, the market froze in the last quarter of 2022, and market activity remains limited while defaults continue. Bondholders, especially retail investors, are pressuring underwriting banks to buy back bonds.

Corporate Bond Market
(In billions of US dollars, LHS; in percent, RHS)



Sources: VBMA and IMF staff calculations.

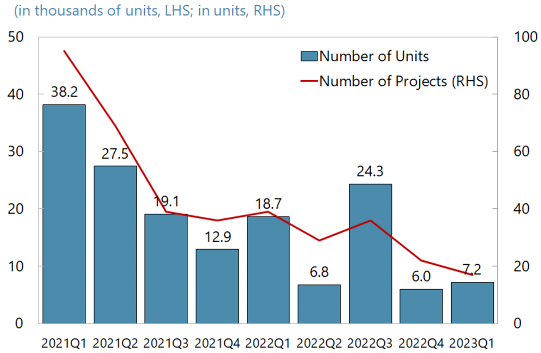
Corporate Bond Issuances 2022-23 1/
(In billions of US dollars)



Sources: VBMA and IMF staff calculations.
1/ 2022Q1-Q3 issuance values are monthly averages

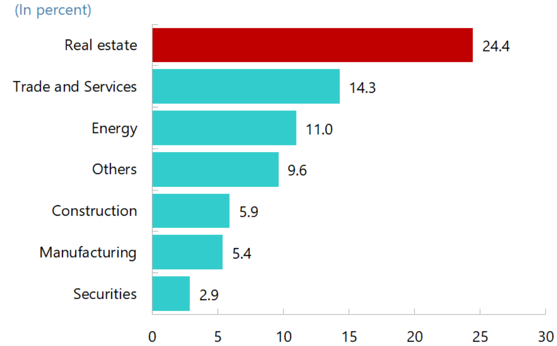
Distress among real estate developers increased as funding sources dried up and legal bottlenecks intensified. Real estate transaction activity slowed since late 2022 (after booming in previous quarters), as demand weakened and new projects coming to the market fell due to delays in securing authorizations and land use titles. The delays arose amid heightened uncertainty around how land and construction regulations were being applied, especially given overlapping, unclear, and sometimes inconsistent real estate related laws and regulations. In addition, developers' profitability declined further due to higher financing and other costs, and funding pressures were exacerbated due to the freeze of the bond market. Consequently, 56 developers, including the second largest, defaulted on bond payments in the first 5 months of 2023 (over 70 percent of total defaulted value). Risks remain elevated as a majority of upcoming maturities are for developer issued bonds. In addition, some homebuyers received bridge loans to finance pre-sales and other financial incentives from developers. Rollover risks for these loans have risen due to market uncertainty. On the upside, the market appears to distinguish between developers, with stock prices falling significantly more for those most leveraged. Medium-term prospects for real estate demand also remain promising, given low levels of urbanization and limited supply of affordable housing.

Residential Housing Projects Licensed
(in thousands of units, LHS; in units, RHS)



Sources: Ministry of Construction

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



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

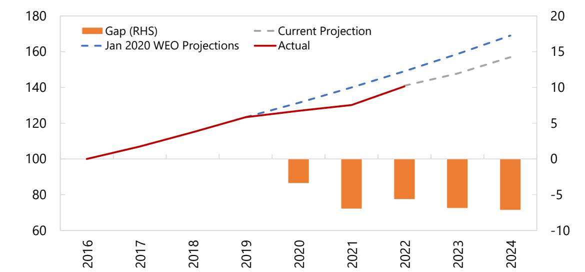
6. Fiscal policy was countercyclical in 2022, as spending was kept under control despite rising inflation. The fiscal position improved to an estimated small surplus in 2022 from a deficit of 1.4 percent of GDP in 2021. While the economic recovery and high oil prices drove revenues higher, with public wages frozen, current spending fell sharply as a share of GDP. Capital spending reached 6 percent of GDP despite a slow start to the investment programs in the 2022-23 Program for Socio-economic Recovery and Development (PRD). Public debt fell to an estimated 35 percent of GDP due to strong nominal GDP growth and an improved primary fiscal balance.

Text Table 1. Vietnam: Measures Addressing the Real Estate and Corporate Bond Market Turbulence

Policy	Date	Main provisions and policy objectives	Potential unintended effects
Circular No. 26/2022/TT-NHNN	December 2022	Enlarging banks' regulatory capacity to lend by including State deposits in the denominator of the regulatory loan to deposit ratio.	Could increase bank liquidity risks if deposits are rapidly withdrawn.
Resolution 33/NQ-CP	March 2023	Easing access to funding to the real estate sector and treating real estate risk in a more differentiated way.	May lead to banks increasing exposure to (non-viable) real estate developers and associated higher risk.
Decree No. 08/2023/ND-CP	March 2023	Deferring some recent regulations (issuer rating obligation and the limitation to professional investors under Decree No. 65/2022) by one year. Allowing deferral of corporate bond maturities by up to two years and the payment of maturing corporate bonds with non-cash assets, subject to bondholders' approval.	Could delay the resolution of problems and the return of confidence, thus undermining medium-term development of the corporate bond market.
Circular No. 02/2023/TT-NHNN	April 2023	Allowing one-year regulatory forbearance on loan classification for loans restructured with financially viable businesses and individuals; banks are required to gradually set aside the required additional provisioning.	Could increase risks to the banking sector by masking actual deterioration in asset quality, while delaying provisioning and NPL workouts.
Circular No. 03/2023/TT-NHNN	April 2023	Allowing banks to purchase corporate bonds they sold within the previous 12 months until end-2023 (previously prohibited).	May pressure banks to repurchase corporate bonds sold to their clients, which could involve taking on larger risks and reduces liquidity.

OUTLOOK AND RISKS

GDP Dynamics Pre and Post COVID



Sources: Vietnamese Authorities, IMF Staff Calcualtions.
Notes: GDP is normalized to 100 in 2016. The Jan 2020 WEO line corresponds to GDP projections for 2020-2024 based on the annual growth rates estimated in the January 2020 WEO Update, applied to the 2019 GDP level consistent with the latest GDP revision by the GSO. Gap is the percentage point difference between the Jan 2020 WEO and Current GDP trajectories.

7. **Economic growth is projected to bounce back in the second half of the year**. After a weak first half, growth in 2023 is expected to accelerate and reach 4.7 percent for the whole year, assuming that the real estate turbulence is contained, and exports and credit growth pick up gradually in the second semester and in 2024. Given the opening up of the output gap, inflation is expected to remain below the 4.5 percent target. The current account balance will improve to a small surplus in 2023, driven partly by a rebound in tourism. Merchandise export and import volumes are expected to decline relative to 2022 due to depressed demand. The exit from the pandemic has been challenging and has left some scarring, but the economy is expected to revert to the pre-COVID growth trajectory over the medium term as reforms are implemented.

8. **Downside risks to growth loom large**. Uncertainty surrounding the forecast is high. The main external risk is a deeper and more persistent weakness in external demand. While recently benefitting from some business diversion from China, Vietnam stands to lose from a slowdown in global trade due to geoeconomic fragmentation. Domestic downside risks mostly emanate from a further deterioration of financial conditions, which could damage growth prospects over the medium term (Box 2). Further energy shortages after the episodes in May-June 2023 could harm economic activity and business sentiment. On the upside, a faster than anticipated deployment of public investment may boost growth.

Authorities' Views

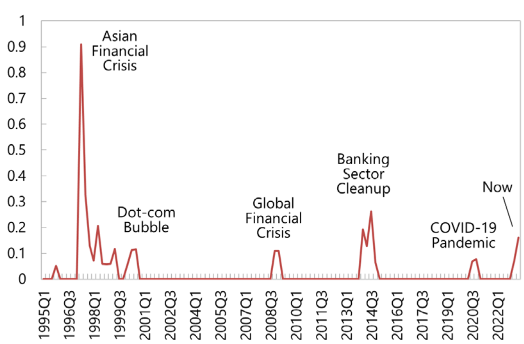
9. **The authorities agreed with staff's overall assessment, although they are more optimistic about the rebound in the second half of the year**. The authorities are maintaining their 2023 economic growth target of 6-6.5 percent while recognizing that external and domestic risks make achieving that target a harder task. They expect that their economic policy mix and a recovery in external demand will allow for strong growth in the second half of the year. They agreed with staff that inflation pressures have subsided and the SBV is confident the inflation target will be met.

Box 2. Growth Risks from Financial Turbulence

A Financial Stress Index (FSI) shows that turbulence in the markets is increasing but, at present, remains lower than in past distress events. The FSI captures episodes of high credit intermediation costs or disruptions to credit supply, based on text analysis of the Economist Intelligence Unit country reports (Ahir, Dell'Ariccia, Furceri, Papageorgiou, and Qi, forthcoming).[1] The FSI shows the presence of financial distress at the moment. The index is far from the peak reached during the Asian financial crisis, but it is close to the values of 2014, when an attempt to clean up the rising levels of bad debts from banks' balance sheets slowed down credit provision to the economy.

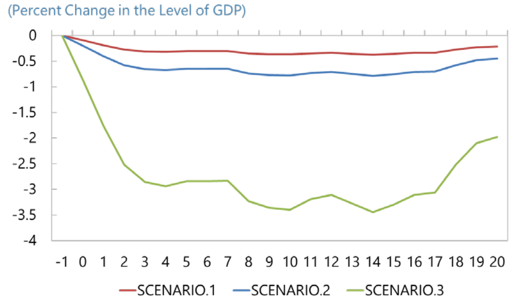
Empirical analysis shows that the impact on economic activity from heightened financial distress could be severe. Using estimates derived in Ahir et al. (forthcoming), an episode of financial turmoil of the intensity (measured by the FSI) experienced in Vietnam in the second quarter of 2023 is estimated to lead to a GDP loss in the order of 0.15 percent in 2023 and around 0.35 percent in every year between 2024 through 2027. If Vietnam's FSI reached the peak value recorded in 2014, the loss of GDP could be around 0.3 percent in 2023 and around 0.7 percent in 2024-2027. Were the FSI to reach the maximum level measured during the Asian financial crisis, GDP would decline by up to 1.4 percent in 2023, and around 3 percent in 2024-2027—losses consistent with an average annual growth in 2023-27 of 5.6 percent, instead of the 6.2 percent projected in this report.

Financial Stress Index – Vietnam



Sources: Ahir et al. (forthcoming), Economist Intelligence Unit, and IMF staff calculations.

Impact of Financial Stress on GDP
(Percent Change in the Level of GDP)



Sources: Ahir et al. (forthcoming) and IMF staff calculations.
Note: In Scenario.1, the FSI increases to the level of 2023Q2; in Scenario.2, to the level observed in 2014Q3; and in Secenario.3, to the level observed in 1997Q3.

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[1] The FSI counts the number of instances in which two keywords jointly appear in a sentence/paragraph of a EIU report, and scales that by the number of words in the report. The keywords are: (i) credit, financial, bank, lending, and fund, and; (ii) crisis, crunch, squeeze, bailout, rescue, tight, contract, and reluctant. Ahir and coauthors build the index for the period 1967Q1-2018Q4, and the Vietnam team extended it to 2023Q2.

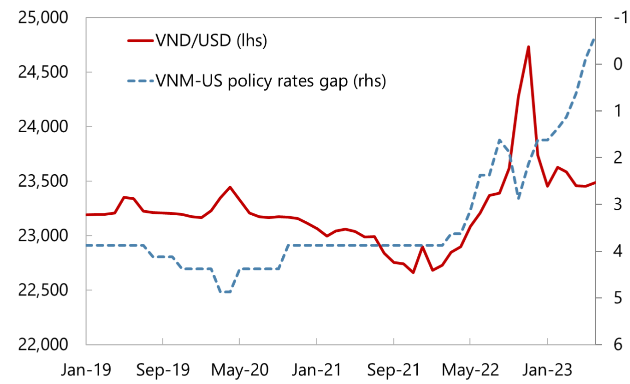
POLICY DISCUSSION

10. **Amid heightened uncertainty, there was broad agreement that the policy priorities should be to restore strong growth and protect financial stability.** Discussions centered around the policy mix, achieving greater balance between monetary and fiscal policies, and the need for a coordinated and comprehensive approach to tackle with greater urgency immediate challenges regarding: (i) the real estate and corporate bond market distress, and (ii) the financial system, given the turmoil stemming from the real estate sector and the rise in non-performing loans due to weak economic activity. Finally, achieving Vietnam's medium-term goals will require executing the ambitious agenda of climate and structural reforms.

A. Monetary and Exchange Rate Policy

11. Monetary policy actions should be cautious given significant underlying risks, while fiscal policy has more flexibility in supporting activity. During the first half of 2023, policy rate cuts were the first line of response to the slowdown—as headline inflation fell well below target, the negative output gap widened, and the dong remained stable, partially thanks to a large trade surplus in the first half of the year. However, further cuts would bring policy rates to historically (pre-COVID) low levels and could reignite disruptive FX dynamics—as global rates are likely to stay high for longer and the large trade surplus of the first half of the year is likely to unwind as the economy strengthens—heightening the risk of exchange rate depreciation passing through to inflation (Annex IV). In addition, with banks facing increasing non-performing loans and high loan-to-deposit ratios, incentivizing credit growth would be risky and likely ineffective. Instead, fiscal policy could take the lead in sustaining demand given the highly leveraged corporates and weak external demand. If inflationary pressures re-emerge, policy rates may need to be increased once again. Conversely, if more generalized financial distress materializes or the economic slowdown proves deeper, further support measures could be needed, which reinforces the need for keeping monetary policy's powder dry for now.

Exchange Rate Movements and Policy Rate Gap
(VND/USD, LHS; policy rate gap in percentage points (reversed), RHS)



Sources: Haver and IMF staff calculations.

12. Greater exchange rate flexibility would help absorb external shocks. The widening of the exchange rate trading band in October 2022 was a positive step. After drawing down reserves to fend off disruptive FX dynamics in 2022, the SBV has been gradually rebuilding its FX reserve buffers given favorable market conditions. Interventions in FX markets should be limited to smooth volatility and not to counter persistent trends. Greater exchange rate flexibility would require lower FX reserve buffers and strengthen the policy rate transmission mechanism.

13. Accelerating modernization of the monetary policy framework would help better manage the different challenges. In recent years, the SBV has worked to improve its forecasting capacity and its monetary policy decision-making process. Further progress could entail introducing an interest rate corridor and improving liquidity forecasting. Monetary policy should gradually move away from tools such as credit growth ceilings and deposit interest rate caps and adopt market-based mechanisms along with appropriate macroprudential measures—for example, by introducing a systemic risk surcharge for domestically important banks, countercyclical buffers, and loan-to-value or debt-to-income limits on borrowers.

Authorities' Views

14. The SBV remains committed to keeping inflation in check and agrees that there is limited space for further monetary loosening. While lower inflation allowed policy rate cuts to support growth, the authorities are aware of the risks of further monetary loosening. Policies are aimed at maintaining macroeconomic stability in the current challenging external environment. The SBV acknowledged that favorable market conditions in the first half of the year have allowed it to start rebuilding foreign exchange reserve buffers. The authorities reiterated that they do not target any level of the VND/USD exchange rate.

B. Fiscal Policy

15. Fiscal policy is expected to become expansionary in 2023-24 to boost domestic demand. The fiscal deficit is projected to reach 1⅓ percent of GDP in 2023. Public wages, frozen since 2019, were set to rise by 20.8 percent in July, with an estimated annual budgetary impact of 1.2 percent of GDP, helping reduce the gap between public and private compensation. Public investment is expected to accelerate. Revenues are expected to fall mainly due to weaker economic activity and lower revenues from oil revenues and land use rights. Temporary tax deferrals, cuts in environmental taxes, and cuts to VAT rates and car registration fees in the second half of 2023 will also provide some relief to firms and households. However, frequent changes to tax rates and excessive use of deferrals add uncertainty to the tax system and can undermine tax collection. Some of the tax cuts are regressive and have negative effects on climate and congestion. Instead, policies could focus on spending to address infrastructure and social needs. Vietnam's medium-term strategy, including fiscal rules, provides a medium-term anchor to ensure sustainable debt.[2]

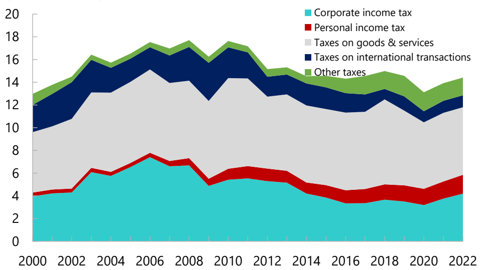
16. Further fiscal support could be considered, especially if the economic recovery disappoints. Given the slowdown and the constraints faced by monetary policy, going forward, fiscal policy can take a leading role in supporting aggregate demand. For instance, the government could scale up social safety nets—and consider cash transfers to provide swift relief to poorer households. Building on successful fiscal consolidation in recent years, there is fiscal space to provide further support. If the current turmoil proves more damaging to the economy and the financial sector, targeted support could be considered, including to help real estate developers restructure. To contain costs, it is recommended that any support goes through the budget, is temporary, and there are mechanisms in place to control and monitor risk exposure from guarantees or other contingent liabilities.

17. Revenue mobilization efforts over the medium term are needed to reverse the trend of tax erosion and create space to bolster social spending and address infrastructure gaps. Tax revenues have been eroded since their peak in the late 2000s, in contrast to trends in regional peers (and despite Vietnam's tax rates being close to peers' average). Implementing the

[2] The strategy for 2021-26 sets a debt ceiling of 60 percent of GDP. In addition, budget deficits (which are based on very conservative revenue projections) need to converge to below 3 percent of GDP.

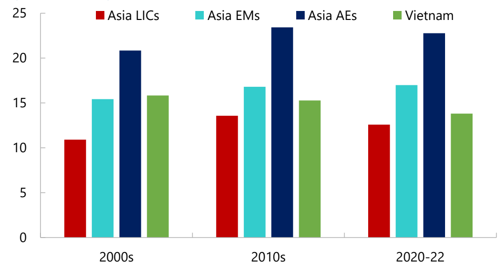
Tax System Reform Strategy 2021-2030 would help widen the tax base and enhance tax compliance. Reforms could include reducing exemptions and rationalizing preferential regimes for FDI firms, broadening the VAT base, and raising environmental tax and excise duties. The planned introduction of a unified property tax and a land registry would also be important.

Composition of Tax Revenues, 2000-22
(Percent of GDP)



Sources: Vietnamese authorities.
Values for 2000s are based on staff's adjustment of historical GDP to produce a consistent GDP time series and they would be much higher without the adjustment.

Tax Revenues in Asia, 2000-22
(Percent of GDP)



Sources: World Economic Outlook database.
Vietnam's value for 2000s is based on staff's adjustment of historical GDP to produce a consistent GDP time series and it would be much higher without the adjustment.

18. The adoption of the global minimum corporate tax (GMT) in 2024 will increase tax revenues but will require improvements to the investment climate. Vietnam could be among those most affected by the GMT—as it has often granted tax incentives to multinational enterprises to attract FDI, including lower income taxes, that will be eroded. The effects of the higher tax can be compensated by improving the business environment, upgrading infrastructure, and enhancing human capital.

19. Strengthening the fiscal framework and budget processes would increase transparency and enhance the quality and effectiveness of fiscal policy. The budget process is weakened by overly conservative revenue projections in recent years. A budget based on realistic projections and assessment of risks would allow to better decide on the appropriate fiscal space and level of spending and debt, while increasing transparency. The scope and duration of permitted carryover spending could be more limited and ensure that all spending is integrated in the budget process. It would be important to accelerate efforts to strengthen macro-fiscal capacity (projections, risk assessment, impact of fiscal measures). Conducting expenditure reviews would help identify priorities and improve the quality of expenditures.

Authorities' Views

20. The authorities reiterated their objective of maintaining macroeconomic stability and confirmed their fiscal structural reform agenda. They noted that fiscal policy has already played a role in supporting output and are confident that the combined revenue and expenditure measures in 2023 will help boost demand. They agreed there is fiscal space to provide further support if needed given the past successful consolidation efforts that reduced public debt. To reform the tax base and support businesses, they have proposed a revision of several tax laws. The authorities are considering measures that limit the possible negative economic impacts of adopting the GMT that are consistent with international agreements. They cautioned that revenue collection is volatile and prefer to be conservative in the budget.

C. Tackling the Distress in the Real Estate and Corporate Bond Markets

21. Addressing excessive corporate leverage swiftly would help limit the impact of the real estate turmoil and promote a sound corporate bond market. An intergovernmental taskforce is working with local governments to identify and address legal obstacles and administrative delays preventing completion of real estate projects. However, solving the financial distress stemming from the real estate-corporate bond nexus will likely require a more comprehensive response. Unaddressed corporate balance sheet problems, especially among real estate developers, could percolate throughout the economy and the banking system. International experience shows that the lack of an efficient framework to deal with debt overhang cases results in higher costs that take longer to mend.[3] Moreover, ensuring the corporate bond market is a sustainable source of funding for the private sector requires reforms to enhance governance and boost investors' confidence.

22. The necessary deleveraging of high private debt could be made more efficient, and with appropriate burden sharing to not compromise financial stability, by:

- *In the short term*, promoting swift restructuring of viable firms through out-of-court workouts and hybrid solutions for debt restructuring, while liquidating non-viable firms. In addition, if there are concerns regarding completion of ongoing projects deemed critical, the authorities could consider targeted fiscal support subject to adequate safeguards and with appropriate burden sharing between public and private stakeholders. If the real estate turmoil intensifies, the authorities could provide subsidized financing or guarantees to banks for onward lending to viable developers.
- *Over the medium term,* strengthening the effectiveness of the debt enforcement and insolvency framework to deal with debt overhang in real estate and other sectors of the economy (Box 3). A more effective insolvency regime would contribute to a better allocation of resources in the economy and the development of the corporate bond market. Banks have been granted extraordinary powers until end-2023 to seize collateral (Resolution 42), which has helped process their nonperforming loans. However, including such temporary regulation into the Law on Credit Institutions would enshrine unequal treatment of secured creditors and could hinder the establishment of an effective debt enforcement and insolvency framework.

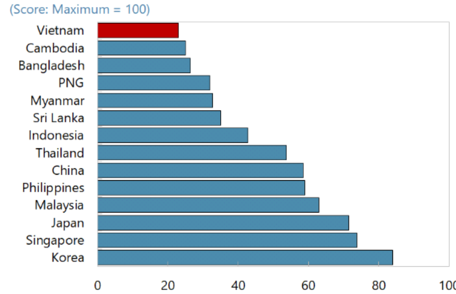
23. Further institutional reforms would help strengthen governance of domestic capital markets and restore investors' confidence. Such reforms include ensuring that investor protection and transparency principles are respected to restore confidence in the corporate bond market and that all investors are treated equally when issuers make use of recently adopted temporary measures. Improving the capacity of rating agencies and making the process for the public listing of bonds less cumbersome would also boost confidence in the bond market and make it a more durable and stable source of funding.

[3] See "Systemic Banking Crises Revisited," IMF WP/18/206.

Box 3. Improving Vietnam's Crisis Preparedness

Vietnam has ample room to improve its preparedness to tackle widespread corporate debt distress. Staff developed a crisis preparedness indicator based on the existence and availability of a set of insolvency and restructuring tools known to be most useful in a debt crisis. The analysis shows several important shortcomings in Vietnam's overall crisis preparedness:

Crisis Preparedness Indicator: Select Asia Pacific Economies
(Score: Maximum = 100)



Sources: Araujo, Juliana, et al. 2022. "Policy Options for Supporting and Restructuring Firms Hit by the COVID-19 Crisis." IMF DP/2022/002, International Monetary Fund.

- Vietnam lacks enhanced mechanisms for ***out-of-court restructuring*** and a legal framework conducive to restructuring. Effective multi-creditor workouts for distressed but viable firms rely on enhanced mechanisms (e.g., a set of principles, master restructuring agreements, and the use of alternative dispute resolution mechanisms) to aid coordinated solutions. An effective debt enforcement regime creates incentives for negotiation, and an enabling framework avoids obstacles in other laws (e.g., tax, banking) to restructurings.
- ***Hybrid restructurings*** are yet to be introduced in Vietnam's framework. They involve limited formal intervention by courts to confirm or facilitate informal restructuring agreements, allowing for quick restructuring, without over-burdening the courts.
- The Vietnamese corporate ***reorganization proceeding*** is largely untested and needs improvements. A debtor in possession reorganization could create appropriate incentives for debtors to seek reorganization. Technical aspects of the stay of creditor actions, the treatment of executory contracts, and post-petition finance could be addressed. Safeguards for dissenting creditors would increase confidence in the process.
- The ***liquidation*** framework does not provide rapid and significant recoveries for creditors. For effectiveness and simplicity, it should allow the possibility of selling the business as a going concern and allow secured creditors to enforce on their collateral. The use of e-auctions and other modern technologies would improve the efficiency of liquidations.
- *S*ome ***institutional*** aspects may be particularly useful in the event of a corporate debt crisis. In Vietnam, the specialization of courts on insolvency matters and the use of modern technology for case management are limited. The regulation of insolvency representatives needs reforms, including on proper qualifications and relevant training.

Specific challenges of the real estate sector accentuate the gaps in crisis-preparedness. Real estate developers can be highly leveraged and exposed to liquidity risk as they invest in land and inventory or face legal obstacles. Uncompleted real estate projects adversely affect banks, investors, and consumers. Some key issues affecting insolvency and creditor rights include the following:

- Prompt enforcement mechanisms minimize the losses of creditors and increase their confidence in real estate collateral. In Vietnam, ***collateral enforcement*** needs strengthening for all economic actors and in all situations under the broader debt enforcement framework.
- Pre-sales can involve fraud and mismanagement risks and buyers may find themselves in the position of unsecured creditors. This may justify the adoption of **protection measures for pre-sales**, either preventive (e.g., mechanisms to allocate sale proceeds for the project) or reactive (e.g., dealing with conflicts between homebuyers and lenders).
- Typically, liquidators can **complete work-in-progress or inventory if that maximizes value**, even if a developer is in liquidation. Additional financing can be provided by existing creditors or a new lender. The challenge is facilitating such financing with adequate priority given existing secured creditors.

Authorities' Views

24. The authorities stressed they are making significant efforts to resolve legal and regulatory bottlenecks in the real estate sector and address social housing needs. A new land law (among other real estate related laws) will be presented to the National Assembly for approval later this year. Affordable housing remains a priority, and the government recently approved a USD 5 billion credit package for social housing projects. On the corporate bond market, the authorities noted there are signs the situation is improving and investors' sentiment has gradually stabilized thanks to the implementation of measures to stabilize the market. In addition, the authorities are working to increase the capacity of rating agencies and researching ways to incentivize institutional investor participation.

D. Protecting Financial Stability

25. SBV acted decisively in 2022 to protect financial stability within the limitations of the existing legal framework; but the real estate turmoil and economic downturn pose increasing risks. SBV took control of SCB in October 2022 using the special control regime and provided it with (secured and unsecured) funding. The authorities also took several ad-hoc measures to support corporates under financial distress due to the problems in the real estate market and deteriorating economic conditions. These included temporary forbearance on bank loans and allowing (unlisted) bond buybacks by banks. These measures imply that more risks will be shifted to the banks amidst an unfavorable environment. Asset quality has been worsening; the combined non-performing loan (NPL) ratio[4] reached 5.5 percent by end-March, and the aggregate loan-to-deposit ratio approached 100 percent (excluding government deposits) as loans have been outgrowing deposits for several years. Some banks are also highly exposed to the ailing real estate sector. Bank capitalization was 11.5 percent at end-2022 and some banks have been actively raising capital, but further efforts may be needed.

26. The stress in 2022 highlights the importance of strengthening cooperation on prevention and management of crises. Establishing a crisis and financial stability monitoring function at the SBV, in consultation with the Ministry of Finance (MOF) in the short term, is critical to improve coordination and information sharing, and should involve all relevant actors. Such a function could include: (i) coordinating the consistent identification and monitoring of weaker banks and defining remedial actions; (ii) estimating losses and resolution costs (including fiscal) and discussing contingency plans; (iii) monitoring forbearance measures and improving bank balance sheet transparency; and (iv) conducting bank solvency and liquidity stress tests to inform on financial stability risks. Data sharing, confidentiality, and developing communication strategies will be critical for the function.

27. The ongoing revision of the Law on Credit Institutions (LCI) is a very timely opportunity to modernize the bank resolution and emergency liquidity frameworks.

[4] This ratio is composed of the NPLs at the banks, restructured loans and impaired loans at VAMC.

Resolving banks has proven to be a complex and overly lengthy process due to constraints in the legal framework. For instance, the SBV is still working on the resolution of banks placed under special control in 2015. As recent experience in Vietnam and other countries shows, bank distress can emerge suddenly. As such, having an effective bank resolution framework that ensures swift action can be taken and contingency plans to enhance crisis preparedness are in place is vital. Similarly, an emergency liquidity framework that makes liquidity available to illiquid but solvent banks against adequate collateral and appropriate pricing is needed.

28. Amendments to the LCI could provide adequate tools and powers to SBV.[5] The LCI could be strengthened by adopting international standards, in particular by: reinforcing the role and responsibilities of SBV (including in the early intervention regime), clarifying decision-making procedures, offering legal protection to SBV staff, and including the option to transfer parts of a bank under special control to a viable bank. It will be important to clearly specify the objectives and the elements of recovery planning, early intervention, and resolution regimes. Caution and adequate safeguards are necessary when requiring other parties (Deposit Insurance of Vietnam, banks) to support the restructuring of a bank put in early intervention, in terms of providing liquidity and loss absorption.

29. The recent setbacks in the banking system also call for additional reforms to strengthen financial sector resilience over the medium term. Priorities include:

- Strengthening bank regulation and supervision. For example, by increasing the operational independence of SBV, improving coordination between relevant institutions, enhancing risk-based supervision, and introducing a framework for consolidated supervision of banking groups.
- Fully disclosing ownerships and related party lending.
- Enhancing securities markets oversight and implementing risk-based supervision of securities markets participants.

30. Non-cash payments in Vietnam are rising rapidly, necessitating an improvement in fintech regulation. Transactions through most non-cash payment channels doubled in 2022 compared to 2021. More than 2.8 million mobile money accounts were opened in 2022, of which 70 percent were in rural, remote, and isolated areas. This development has boosted financial inclusion but has come with an increase in identity theft and fraud, calling for oversight by the SBV. Some of the priority areas include operationalizing the regulatory sandbox, improving the regulatory framework and supervision of payment service providers, and increasing data collection and analysis on all fintech service providers.

[5] Changes to the LCI include: (i) expanding SBV's powers in early intervention measures (EIM) including the ability to provide special loans; (ii) involving other actors (e.g., DIV) during EIM to support the bank in distress; (iii) introduction of a mechanism to deal with bank runs; (iv) elaboration of the special control regime, dissolution, mergers, DIV payouts and bankruptcy and (v) adding a chapter on bad debts.

Authorities' Views

31. **The authorities recognized the risks and are taking measures to address them, while agreeing that reforms to strengthen resilience of the financial sector remain a priority**. To this end, SBV has intensified its monitoring of the banks and taken measures to allow banks to deal with rising NPLs. The authorities have established a steering committee to identify further policy options. They are revising the LCI in order to enhance the ability of SBV to intervene in troubled banks and expressed interest in CD to support the process. The authorities intend to make progress on the implementation of the Basel II framework and the development of regulation for the fintech sector.

E. Climate and Structural Policies

32. **Achieving the ambitious medium-term growth and climate goals will require accelerating reforms to improve the business environment, critical infrastructure, and human capital**. Following a period of high economic growth, building on decades of market-oriented structural reforms, the COVID-19 pandemic posed a severe test to the resilience of the economy. To resume the transition to upper-middle income and, eventually, advanced economy status requires further reforms to sustain growth and manage risks. The economy has faced several challenges. For example, legal uncertainty (e.g., due to complex and sometimes inconsistent laws) is undermining investment. Weaknesses and delays in the implementation of public infrastructure, including to ensure reliable energy supply, also pose a risk. Efforts to promote economic development will also need to align with climate objectives. Further investment in education would help spur productivity and reduce the dual economy.

33. **The newly approved Power Development Plan 8 (PDP8) and the planned Emissions Trading System (ETS) have the potential to transform Vietnam's energy sector**. The authorities are committed to achieve net-zero emissions by 2050, but Vietnam's power sector is currently highly reliant on coal. The PDP8 and ETS will shift electricity generation to a lower carbon, more sustainable mix, while improving energy security and accessibility. The goal of doubling electricity generation will require large expansions of renewable energy and alleviating current transmission bottlenecks. Renewable energy generation targets under PDP8 are estimated to require investments averaging USD 12 billion per year between 2021 and 2030. Most of this investment is envisaged to be private, which requires a clear legal and regulatory framework that promotes appropriate incentives (including on pricing mechanisms).

34. **The planned ETS could be a cost-effective method of achieving emissions reductions targets but will require careful design of accompanying policies (Annex VI)**. The ETS creates market incentives to promote energy efficiency and shift supply towards more sustainable sources of energy by making carbon-intensive fuels like coal more expensive. The ETS can increase firms' costs, with larger increases in more energy-intensive sectors, and raise energy prices for households. Part of the substantial revenues generated by the ETS can be used to fund measures (such as cash transfers to households) to limit these impacts. The success of

the transition will also depend on the ability to scale up renewable energy to replace coal and other carbon-intensive fuels to sustain the economic development goals.

35. The National Strategy for Climate Change until 2050, issued in 2022, is a step in the right direction, but calls for translating principles and strategies into concrete actions and plans. Climate trends and projections indicate macro-critical risks for Vietnam that warrant swift and effective adaptation actions (annex VII). In its 2022 Nationally Determined Contribution, Vietnam made an unconditional commitment to reduce emissions by 15.8 percent below business-as-usual levels by 2030. It also made the commitment to reach Net Zero emissions by 2050. Such measures require investing in capacity to integrate climate change considerations at all levels of governments, including budgeting and fiscal planning. This process can be facilitated by updating Public Financial Management practices to include climate considerations. Mobilizing external funding and private sector involvement, including through the Just Energy Transition Partnership (estimated at USD 15.5 billion), will be key given large needs. Ensuring appropriate financial market regulation would facilitate the issuance of green bonds.

36. Improving the quality of infrastructure investment and social spending is crucial to support the country's development goals and climate agenda. In this context, the Public Investment Law was revised in 2019 and the new Public-Private Partnership Law was issued in 2020, however, progress in implementation of the latter has been slow. Competitive bidding in procurement is planned, but the effectiveness of project selection and appraisal remains to be improved. It would be useful to conduct a Public Investment Management Assessment (PIMA) update together with a Climate-PIMA to identify further reform priorities. Improvements to the social protection system to address incomplete coverage and fragmented delivery are warranted, especially given the high share of informal workers.

37. Product and labor market reforms are crucial to unlock Vietnam's medium-term potential. Reforms aimed at fostering technological diffusion and reducing economic dualism by fostering greater interactions between FDI and domestic firms (e.g., through dense local supplier networks) would boost productivity. Efforts to increase human capital levels and reduce skill mismatches would further improve growth prospects. There is evidence of potentially excessive labor market churning (Annex V), partly underpinned by pervasive informality, which acts as a deterrent for firms to invest in upskilling their workforce.

38. Sustaining the gains in reducing corruption will involve continued efforts to strengthen governance. Indicators of perceived corruption improved significantly following a scaled-up anti-corruption campaign in recent years. However, further efforts could be taken to strengthen governance in several areas, including through the ongoing development of the national database on asset and income. Other reforms include making laws and administrative processes clearer, simpler, and more transparent to provide greater legal certainty, reduce scope for excessive discretion by public officials, and limit red tape. Addressing shortcomings on AML/CFT, including those identified by FAFT, will require, among other actions, increasing risk understanding and risk-based supervision, improving domestic coordination and international cooperation, identifying ultimate beneficial owners, and enacting other amendments to bring the current framework closer to best international practices.

39. Addressing data gaps would increase transparency and help better inform policy making and risk management. On the fiscal front, the lengthy delay in compiling final accounts, sizeable discrepancies, and lack of spending details in the budget reports hamper the timely monitoring and best use of fiscal policy.[6] The magnitude of errors and omissions in the balance of payments in 2022 (over 7 percent of GDP) reduces the ability to assess the external position. Other key weaknesses include the lack of publication of a property price index and related real-estate indicators (reflecting the lack of a land registry), and the absence of data on job vacancies, informal sector-related trackers, and on the international investment position. A unified and collaborative data sharing system between the central and local governments as well as among government agencies is crucial to support comprehensive economic surveillance.

Authorities' Views

40. The authorities reiterated their commitment to climate goals and that structural reforms are key to long-term growth. They agreed that achieving climate goals will be challenging and stressed the need for joint international efforts, including financial and capacity building support. The authorities agreed with the need to improve institutions to support the economic transition towards a developed economy. They noted there are ongoing efforts to address legal uncertainties and ease excessive administrative burdens to improve the business environment and promote economic growth. They welcomed the ongoing Fund support on improving the fiscal statistics but cautioned that it could take time to make the required upgrades to the legislative and IT frameworks. The authorities are committed to improve AML/CFT framework and have developed a government action plan to guide the work.

STAFF APPRAISAL

41. As Vietnam emerges from the effects of COVID-19, it is encouraged to embark on a set of reforms to sustain the high, green, and inclusive economic growth that it aspires to achieve. Economic growth averaged 7 percent between 2014-2019, before slowing to 2.7 percent during the pandemic. The robust rebound in 2022 was disrupted by further external and internal shocks. As the economy develops, Vietnam will need to strengthen institutions further and adopt reforms to make the economy more resilient to shocks and promote its appropriately ambitious development agenda over the medium term.

42. At the current juncture, the policy mix should prioritize consolidating macro-financial stability in the face of the large external and domestic shocks. Further monetary easing and policies to boost credit growth carry risks, reinforcing the need for fiscal

[6] A first step solution is compiling cash budget execution data from the Treasury and Budget Management Information System (TABMIS).

policy to take the lead in supporting economic activity. The SBV was able to both contain inflation pressures and stabilize liquidity in financial markets in a very challenging environment in 2022, and appropriately shifted policies in early 2023 as the economy weakened abruptly and inflation pressures subsided. Going forward, the SBV will have to continue to operate with caution under a complex outlook and limited policy space, especially given the high global interest rates, while risks in the financial system have risen. The exchange rate regime should move towards greater flexibility, along with a modernization of the monetary policy framework.

43. Fiscal policy has ample space available to support growth and the most vulnerable, thanks to prudent policies. In the current environment, fiscal policy can be more effective in promoting domestic demand moving forward, given highly leveraged corporates and weak external demand. However, policy implementation should be stepped up, including by addressing bottlenecks in the public investment cycle. Ramping up social safety nets and cash transfers to the most vulnerable would help sustain more inclusive growth. Strengthening the budget processes would ensure the effectiveness and transparency of fiscal policy. Over the medium term, further efforts are warranted to mobilize revenues to bolster social spending and infrastructure investment.

44. The external sector position is assessed to be stronger than warranted by fundamentals and desirable policies. Structural policies aimed at promoting investment and expanding safety nets would help external rebalancing. However, this assessment is subject to significant uncertainty given the large errors and omissions that emerged in 2022 due to unrecorded capital outflows affecting the balance of payments. FX reserves were assessed at below what standard metrics would suggest as appropriate at end 2022 but the SBV is already rebuilding its buffers.

45. Bold reforms would strengthen the resilience of the financial system and enhance the authorities' ability to prevent and manage crises. As international and domestic events illustrate, financial distress can emerge suddenly. As such, Vietnam should accelerate reforms to protect financial stability. In the short term, these include establishing a crisis and financial stability monitoring function to identify and address risks to financial stability, with the SBV coordinating with the Ministry of Finance. Resolution and emergency liquidity frameworks should be promptly strengthened in line with international standards. To bolster banks' capital buffers, the SBV could consider restricting dividend payments at weaker institutions. In the medium term, the supervisory framework could be further enhanced.

46. Solving the problems in the real estate and corporate bond markets will require further efforts in fostering corporate restructuring and developing efficient insolvency frameworks. There is room for Vietnam to improve in all areas of crisis preparedness and build public trust in its insolvency system. In the short term, the focus should be on deploying out-of-court and hybrid solutions for debt restructuring. Reforms in other areas should be pursued over time. Bolstering institutions, including by strengthening supervision, ensuring investor protection, and increasing transparency would help restore confidence in the corporate bond market.

47. The next step for the ambitious climate agenda would be to swiftly translate goals into specific actions. The implementation of the PDP8 and the ETS will transform Vietnam's energy sector and help achieve both economic development and climate goals. However, it will require enhancing the legal and regulatory framework to promote private investment and develop a compensation scheme for those most impacted during the transition. Funding, including international support, is critical to pursue mitigation and adaptation policies.

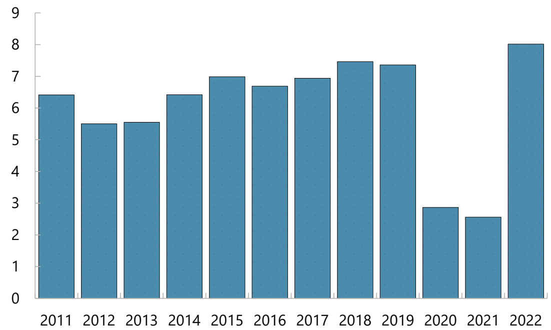
48. Further efforts to enhance anti-corruption frameworks and close gaps in governance and data reliability would be welcome. Despite improvements, strengthening governance is warranted in several areas, including the development of an income and assets national database. Anti-corruption efforts would benefit from greater legal certainty, including through stronger institutions and simplified laws and regulations, and less burdensome administrative procedures. In addition, overcoming data deficiencies, most notably, in fiscal and balance of payments accounts, would improve policy making and the monitoring of risks. It will be important to press ahead with the plans to strengthen the AML/CFT framework.

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

Figure 1. Recent Economic Developments

After two years of subdued activity during the pandemic, the economy rebounded strongly in 2022…

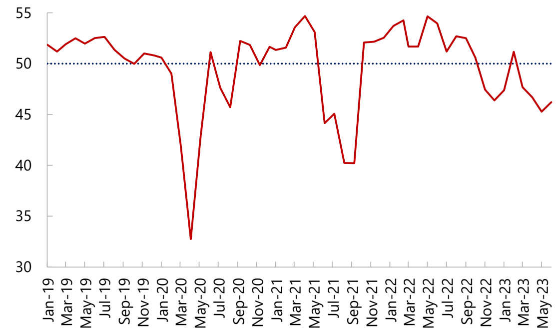
Real GDP Growth
(In percent, y/y)



Sources: Vietnamese authorities.

…but it is currently facing headwinds that started blowing late last year.

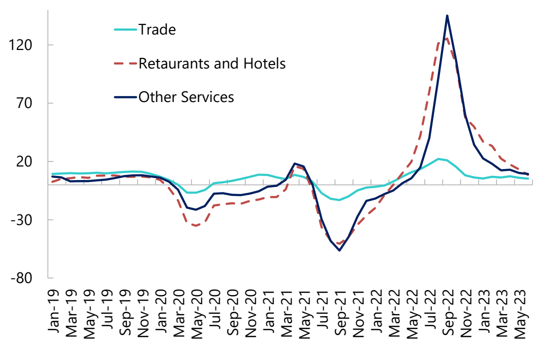
Purchasing Manufacturing Index
(0-100, index)



Sources: Haver.

Domestic demand is still holding up…

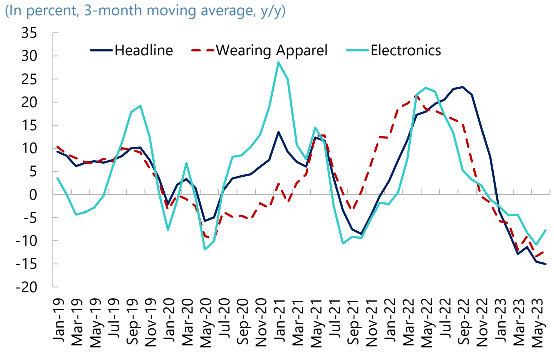
Retail Sales of Trade Goods and Services
(In percent, real, 3-month moving average, y/y)



Sources: Vietnamese authorities.

…but exports are plunging, leading firms to cut back production.

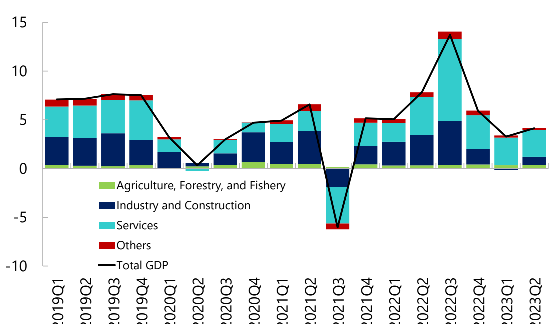
Index of Industrial Production
(In percent, 3-month moving average, y/y)



Sources: Vietnamese authorities.

GDP growth was historically low in 2023H1, with industry having one of the worst performances in over a decade.

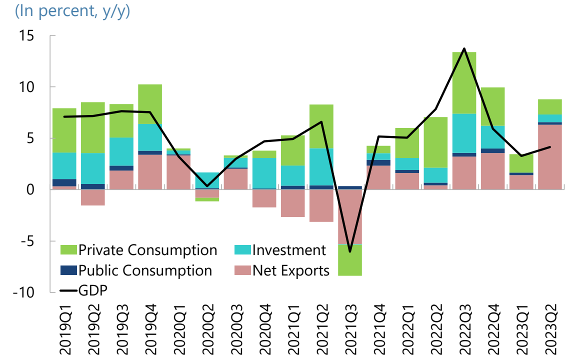
Contributions to Growth, by Economic Activity
(In percent, y/y)



Sources: Vietnamese authorities, IMF staff calculations.

Consumption and investment slowed down while the trade surplus was due to imports declining more than exports.

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



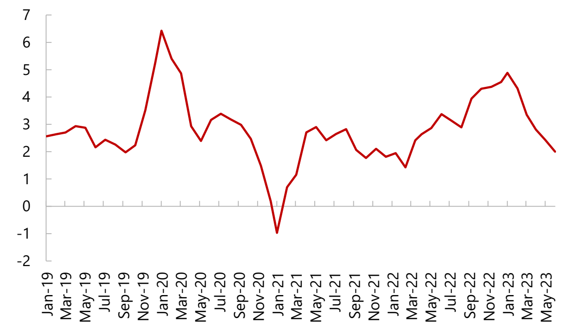
Sources: Vietnamese authorities, IMF staff calculations.

Figure 2. Prices and Wages

Headline inflation is declining fast…

Headline CPI Inflation

(In percent, y/y)

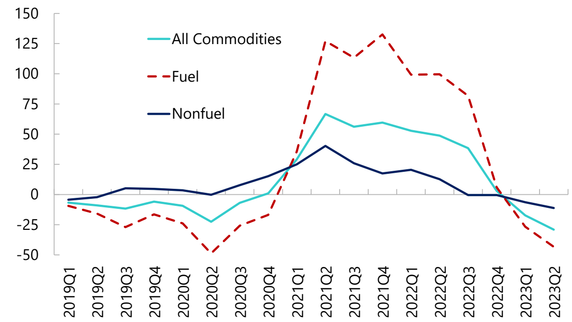


Sources: Vietnamese authorities.

…largely due to a fall in commodity prices, especially fuel.

Global Commodity Price Inflation

(In percent, y/y)

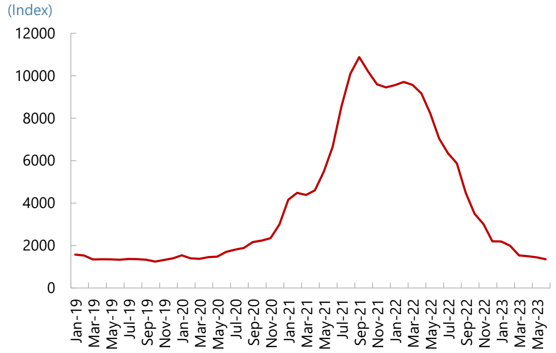


Sources: IMF World Economic Outlook Database.

Lower shipping costs …

Baltic Exchange Freightos Container Index

(Index)

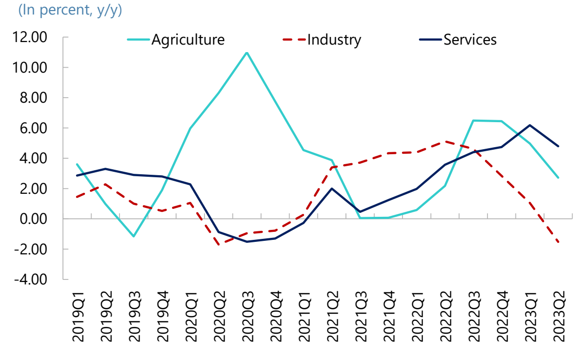


Sources: Haver.

… are also contributing to cool producer prices, especially in manufacturing.

Input Producer Price Inflation

(In percent, y/y)

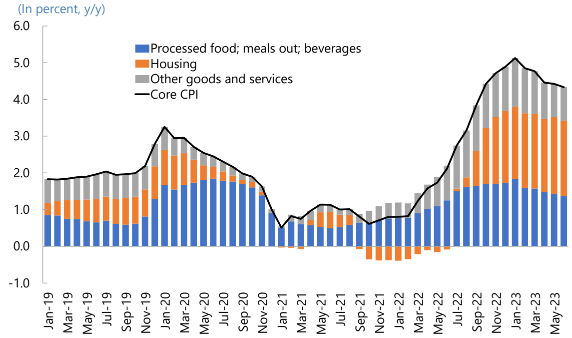


Sources: Haver.

Core inflation is also declining, but more gradually than headline as the price of housing remains elevated.

Core CPI Decomposition

(In percent, y/y)



Sources: Vietnamese authorities and IMF staff calculations.

The labor market remains resilient, but real wages have started to decline as some firms cut down on working hours.

Average Wages and Employment

(In millions)

Sources: Vietnamese authorities and IMF staff calculations.

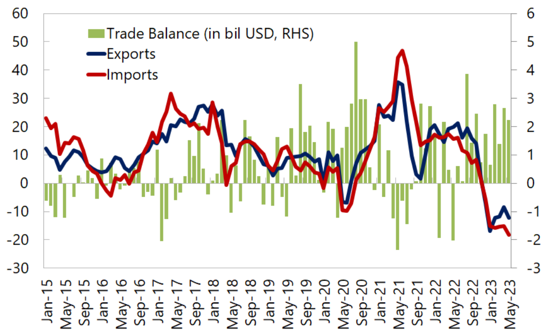
Notes: Real wages are nominal wages deflated by the CPI, in constant 2019 prices.

Figure 3. External Sector

Merchandise trade slowed in the first half of 2023…

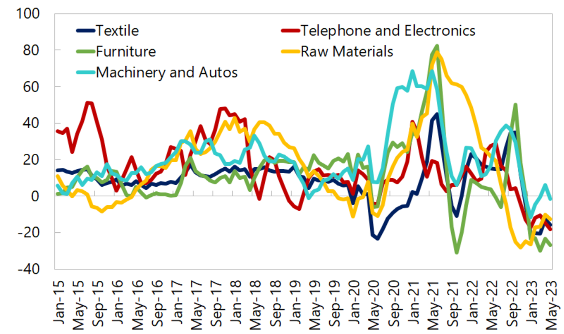
… as weak external demand depressed exports, especially of textiles, electronics, and furniture.

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



Sources: Vietnamese Authorities, IMF Staff Calculations

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

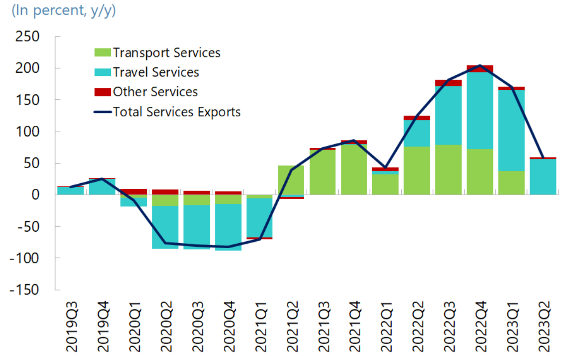


Sources: Vietnamese Authorities, IMF Staff Calculations

Services exports rebounded strongly in 2022 and the first half of 2023…

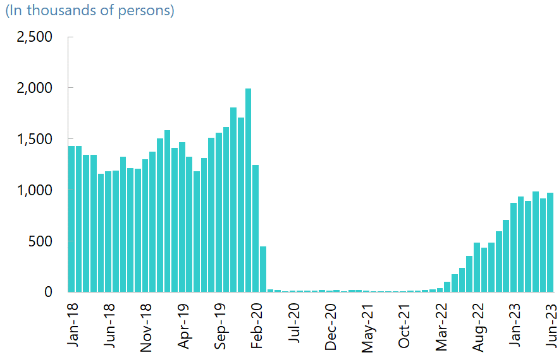
… due to higher tourism, though arrivals still lag pre-pandemic levels.

Main Drivers of Services Exports Growth
(In percent, y/y)



Sources: Vietnamese authorities, IMF staff calculations.

International Visitors
(In thousands of persons)

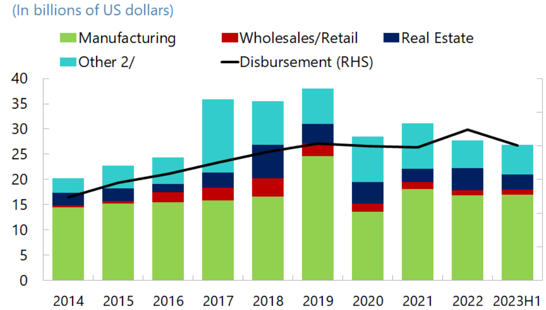


Sources: Haver

FDI commitment and disbursement levels in 2023 fell below recent trends.

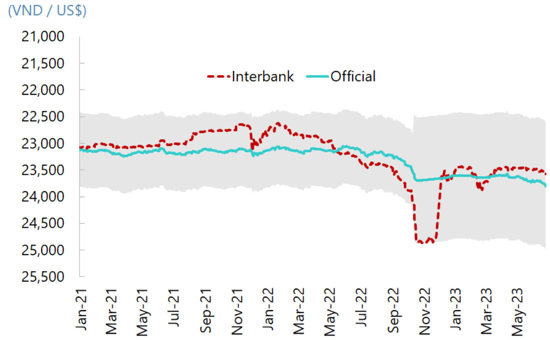
The SBV widened the exchange rate trading band in 2022.

FDI Commitments and Disbursements 1/
(In billions of US dollars)



Source: Vietnamese authorities; and IMF staff calculations.
1/ 2023H1 data annualized.
2/ Construction, Hotel and Restaurants, Mining, Agricultural, Forestry and Fishery, Electricity, Gas and AC production, and other.

Exchange Rates
(VND / US$)

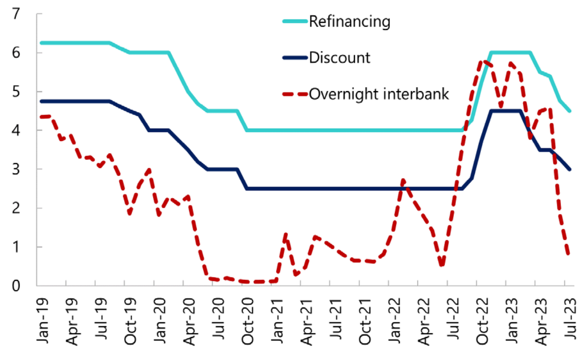


Sources: IMF Staff Calculations
Note: Shaded area indicates the State Bank of Vietnam's exchange rate trading band.

Figure 4. Monetary Sector

Policy rates were tightened in the fall of 2022, but reversed partially since March 2023…

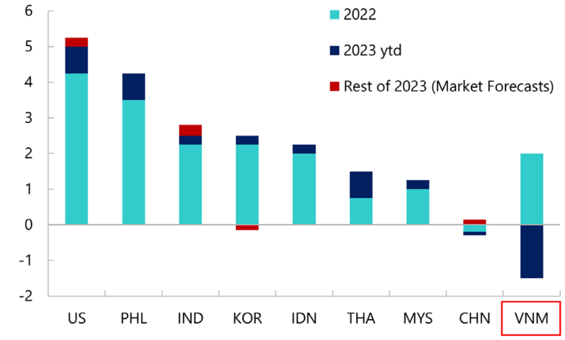
Policy Interest Rates
(Monthly averages, in percent)



Sources: Vietnamese authorities and IMF staff calculations.

While other countries mostly increased or kept policy rates constant.

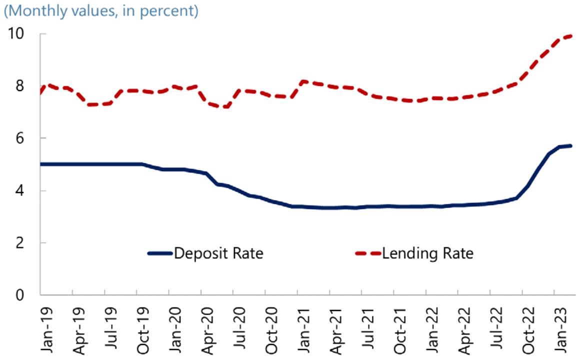
Policy Rates Changes in 2022-23: US and Asia
(In percent points change)



Sources: Haver, Bloomberg, and IMF staff calculations.

Both lending and deposit rates have risen in late 2022 as policy rates were raised.

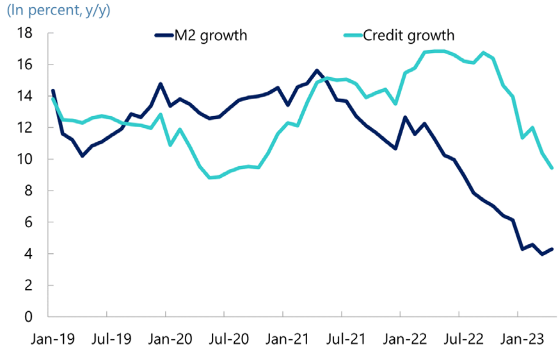
Lending and Deposit Rates
(Monthly values, in percent)



Sources: International Financial Statistics, Vietnamese authorities and IMF staff calculations.

After a strong 2022, credit growth weakened in 2023 while M2 growth has continued declining.

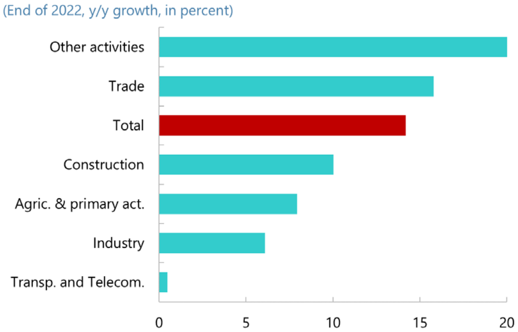
Credit and M2 Growth
(In percent, y/y)



Sources: Vietnamese authorities and IMF staff calculations.

Credit growth in 2022 was concentrated in other activities (including real estate) and trade, due to their strong growth early in the year.

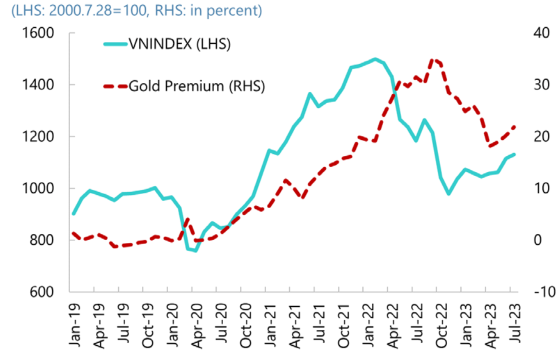
Credit Growth by Sector
(End of 2022, y/y growth, in percent)



Sources: Vietnamese authorities and IMF staff calculations.

Stock prices peaked out and declined in later 2022 due to uncertainty in global/domestic financial market and real sector.

Stock Market Indices
(LHS: 2000.7.28=100, RHS: in percent)

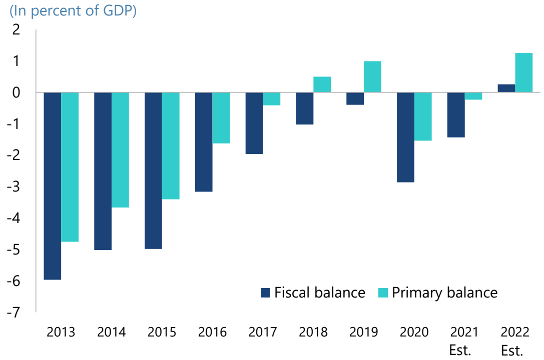


Sources: Vietnamese authorities and IMF staff calculations.

Figure 5. Fiscal Sector

The fiscal position improved in 2022…

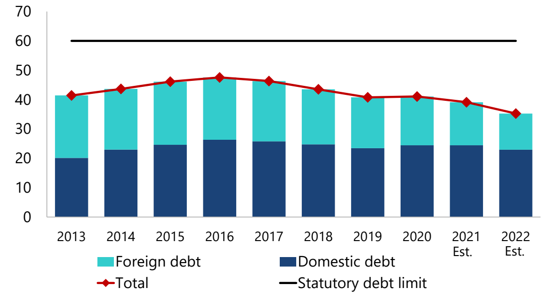
Fiscal Balance
(In percent of GDP)



Sources: Vietnamese authorities; and IMF staff calculations.

…along with strong GDP growth, contributing to a fall in PPG debt ratio.

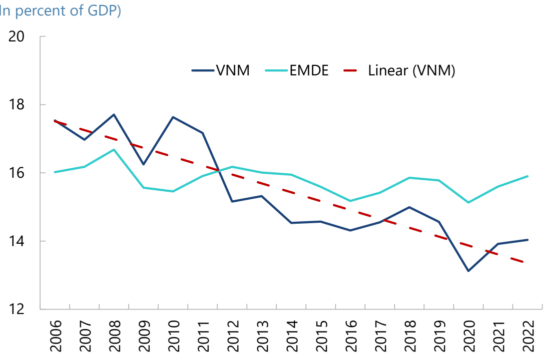
Public and Publicly Guaranteed Debt
(In percent of GDP)



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

The declining trend in tax revenues needs to be reversed …

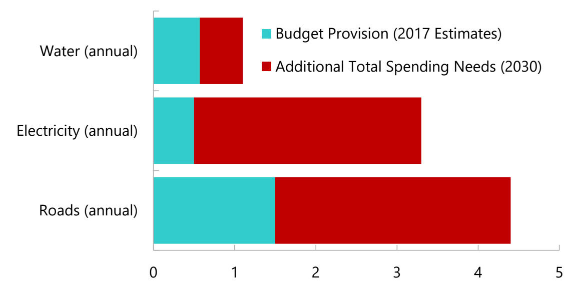
General Government Tax Revenue
(In percent of GDP)



Sources: IMF staff calculations.

…to finance increasing infrastructure and development needs.

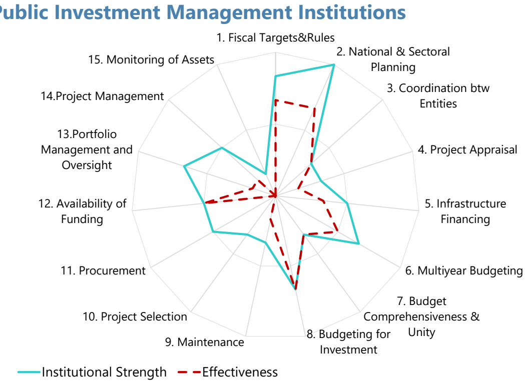
Spending Needs to Achieve Selected SDGs
(additional total spending, in percent of GDP)



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

Reforms are needed to strengthen public investment management …

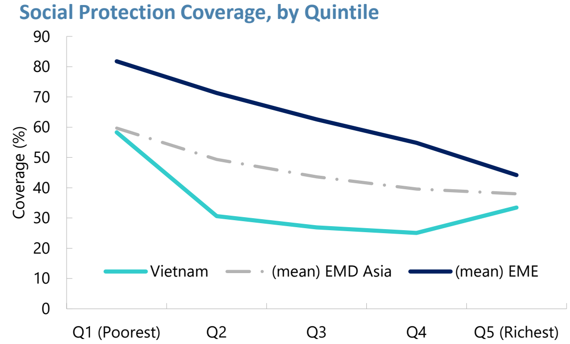
Public Investment Management Institutions



Source: IMF (2018). Vietnam: Public Investment Management Assessment – PIMA.

… and expand coverage of social protection systems.

Social Protection Coverage, by Quintile

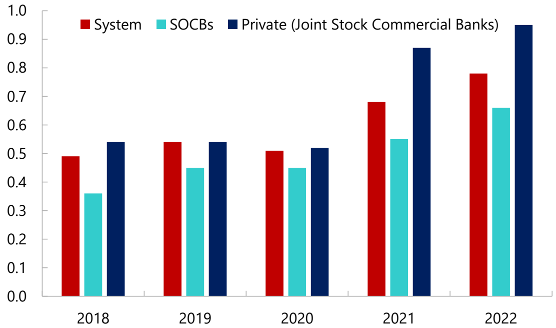


Sources: IMF FAD Social Protection & Labor - Assessment Tool (SPL-AT)

Figure 6. Financial Sector Developments

Bank profitability remained high in 2022, driven by strong credit growth and NIMs.

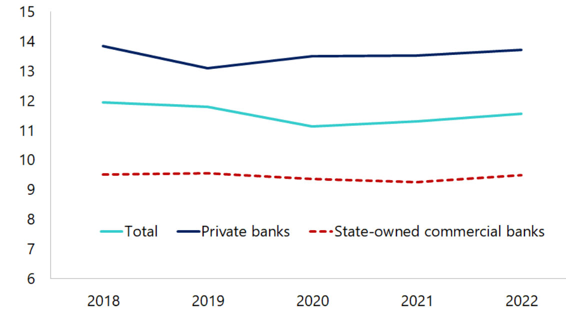
Bank Profitability
(ROA in Q2)



Sources: Haver Analytics and IMF staff calculations.

However, capital adequacy remained weak, especially in SOCBs.

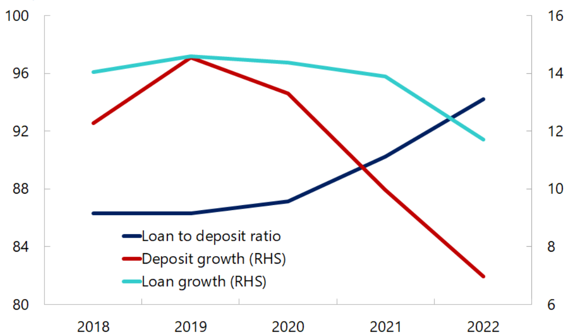
Capital Adequacy Ratios
(In Percent)



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

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

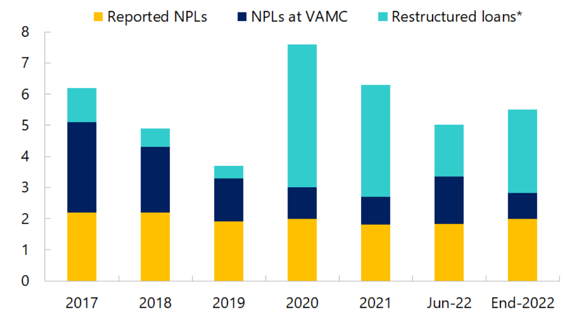
Loan to Deposit Ratio
(In percent)



Sources: Financial Soundness Indicator Database and IMF staff calculations.

NPLs are picking up again since June 2022.

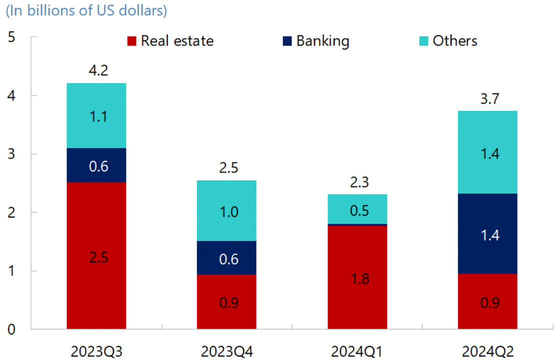
Impaired Assets of Banking System, 2017-2022
(In Percent of Total Loans)



Sources: Financial Soundness Indicators (FSI). 2022 data is from the authorities.
Note: * restructured loans including the legacy restructured loans and covid 19 loan forbearance

Bond defaults could rise further as real estate developer issued bonds form the bulk of upcoming maturities.

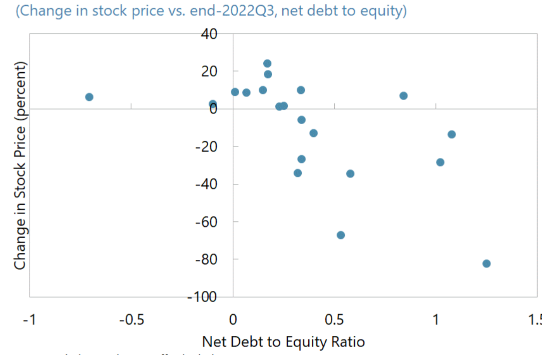
Corporate Bond Market: Scheduled Maturities
(In billions of US dollars)



Sources: VBMA and IMF staff calculations.

Share prices have fallen steeply for the most leveraged developers.

Real Estate Developers: Share Price and Leverage
(Change in stock price vs. end-2022Q3, net debt to equity)



Sources: Capital IQ and IMF staff calculations
Note: Analysis includes top 20 listed real estate developers with reported leverage values.

Table 1. Vietnam: Selected Economic Indicators, 2019–2024

	2019	2020	2021	2022	Projections 2023	2024
Output						
Real GDP (percent change)	7.4	2.9	2.6	8.0	4.7	5.8
Output Gap (percent of GDP)	0.4	-0.4	-1.9	-0.1	-1.1	-1.1
Prices (percent change)						
CPI (period average)	2.8	3.2	1.8	3.2	3.7	3.5
Core inflation (period average)	2.0	2.3	0.9	2.7	4.2	3.4
Saving and investment (in percent of GDP)						
Gross national saving	35.6	36.3	31.3	33.1	32.4	32.4
Gross investment	32.0	31.9	33.5	33.4	32.1	31.8
Private	26.6	24.9	27.2	27.4	25.5	24.8
Public	5.3	7.0	6.2	6.0	6.6	7.0
State budget finances (in percent of GDP) 1/						
Revenue and grants	19.4	18.4	18.7	19.0	18.4	18.5
Expenditure	19.8	21.3	20.1	18.8	19.6	20.2
Expense	14.5	14.3	13.9	12.8	13.0	13.2
Net acquisition of nonfinancial assets	5.3	7.0	6.2	6.0	6.6	7.0
Net lending (+)/borrowing(-) 2/	-0.4	-2.9	-1.4	0.3	-1.3	-1.7
Public and publicly guaranteed debt (end of period)	40.8	41.1	39.1	35.3	33.6	32.3
Money and credit (percent change, end of period)						
Broad money (M2)	14.8	14.5	10.7	6.2	6.1	6.9
Credit to the economy	12.8	11.6	13.5	14.0	9.0	9.7
Balance of payments (in percent of GDP, unless otherwise indicated)						
Current account balance (including official transfers)	3.7	4.3	-2.2	-0.3	0.2	0.7
Exports f.o.b.	79.6	81.6	90.9	91.4	81.6	80.9
Imports f.o.b.	73.2	72.7	86.7	85.0	75.8	75.1
Capital and financial account 3/	5.7	2.4	8.3	2.3	2.5	1.8
Gross international reserves (in billions of U.S. dollars) 4/	78.5	95.2	109.4	86.7	98.7	110.5
In months of prospective GNFS imports	3.5	3.3	3.5	2.9	3.1	3.1
Total external debt (end of period)	37.0	37.6	37.9	36.2	36.6	36.5
Nominal exchange rate (dong/U.S. dollar, end of period)	23,173	23,098	22,826	23,633	...	...
Memorandum items (current prices):						
GDP (in billions of U.S. dollars)	331.8	346.3	369.7	406.5	438.2	476.9
Per capita GDP (in U.S. dollars)	3,439	3,549	3,753	4,087	4,365	4,707

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

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

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

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

4/ Excludes government deposits.

Table 2. Vietnam: Medium-Term Projections, 2019–2028

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
					Projections					
Output										
Real GDP (percent change)	7.4	2.9	2.6	8.0	4.7	5.8	6.9	6.8	6.8	6.8
Output Gap (percent of GDP)	0.4	-0.4	-1.9	-0.1	-1.1	-1.1	-0.6	-0.4	-0.2	0.0
Prices (percent change)										
CPI (period average)	2.8	3.2	1.8	3.2	3.7	3.5	3.5	3.4	3.4	3.4
CPI (end of period)	5.2	0.2	1.8	4.6	4.1	3.4	3.4	3.4	3.4	3.4
Core inflation (period average)	2.0	2.3	0.9	2.7	4.2	3.4	3.0	2.6	2.5	2.5
Core inflation (end of period)	2.8	1.0	0.8	4.9	3.8	3.2	2.8	2.5	2.5	2.5
Saving and investment (in percent of GDP)										
Gross national saving	35.6	36.3	31.3	33.1	32.4	32.4	32.8	33.2	33.4	33.5
Gross investment	32.0	31.9	33.5	33.4	32.1	31.8	32.0	32.2	32.3	32.4
Private	26.6	24.9	27.2	27.4	25.5	24.8	24.7	24.9	25.0	25.0
Public	5.3	7.0	6.2	6.0	6.6	7.0	7.3	7.3	7.3	7.4
State budget finances (in percent of GDP) 1/										
Revenue and grants	19.4	18.4	18.7	19.0	18.4	18.5	18.8	19.0	19.2	19.4
Of which: Oil revenue	0.7	0.4	0.5	0.8	0.6	0.6	0.5	0.5	0.5	0.6
Expenditure	19.8	21.3	20.1	18.8	19.6	20.2	20.8	21.0	21.3	21.4
Expense	14.5	14.3	13.9	12.8	13.0	13.2	13.5	13.7	14.0	14.0
Net acquisition of nonfinancial assets	5.3	7.0	6.2	6.0	6.6	7.0	7.3	7.3	7.3	7.4
Net lending (+)/borrowing(-) 2/	-0.4	-2.9	-1.4	0.3	-1.3	-1.7	-2.1	-2.1	-2.1	-2.0
Net lending /borrowing including EBFs	0.3	-1.8	-0.5	1.1	-0.5	-1.0	-1.5	-1.7	-1.7	-1.8
Public and publicly guaranteed debt (end of period)	40.8	41.1	39.1	35.3	33.6	32.3	31.3	30.7	30.1	29.5
Money and credit (percent change, end of period)										
Broad money (M2)	14.8	14.5	10.7	6.2	6.1	6.9	7.9	8.5	9.0	9.0
Credit to the economy	12.8	11.6	13.5	14.0	9.0	9.7	10.5	10.5	10.5	10.5
Balance of payments (in percent of GDP, unless otherwise indicated)										
Current account balance (including official transfers)	3.7	4.3	-2.2	-0.3	0.2	0.7	0.8	1.0	1.1	1.1
Exports f.o.b.	79.6	81.6	90.9	91.4	81.6	80.9	82.2	84.4	86.7	89.0
Imports f.o.b.	73.2	72.7	86.7	85.0	75.8	75.1	76.5	78.6	80.9	83.3
Capital and financial account 3/	5.7	2.4	8.3	2.3	2.5	1.8	1.5	1.4	1.4	1.5
Gross international reserves (in billions of U.S. dollars) 4/	78.5	95.2	109.4	86.7	98.7	110.5	122.7	136.3	151.5	168.6
In months of prospective GNFS imports	3.5	3.3	3.5	2.9	3.1	3.1	3.1	3.1	3.1	3.1
Total external debt (end of period)	37.0	37.6	37.9	36.2	36.6	36.5	36.2	35.8	35.4	35.0
Nominal exchange rate (dong/U.S. dollar, end of period)	23,173	23,098	22,826	23,633	...	...	...	...	...	...
Memorandum items (current prices):										
GDP (in billions of U.S. dollars)	331.8	346.3	369.7	406.5	438.2	476.9	520.8	564.8	611.6	662.8
Per capita GDP (in U.S. dollars)	3,439	3,549	3,753	4,087	4,365	4,707	5,097	5,483	5,890	6,334

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

Table 3. Vietnam: Balance of Payments, 2019–2028

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

				Prelim.	Projections					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Current account balance	12.5	15.1	-8.1	-1.1	1.0	3.2	4.2	5.7	6.6	7.4
Trade balance	21.0	30.7	15.7	25.7	25.4	27.9	29.8	32.2	35.1	38.1
Of which: Oil balance	-3.6	-1.5	-2.1	-6.0	-4.9	-4.7	-4.8	-4.8	-4.9	-5.0
Exports, f.o.b.	264.3	282.6	336.2	371.3	357.5	386.0	428.0	476.4	530.2	590.1
Of which: Oil	2.0	1.6	1.7	2.4	1.9	1.8	1.6	1.5	1.5	1.4
Imports, f.o.b.	243.3	251.9	320.5	345.6	332.1	358.0	398.3	444.2	495.0	551.9
Of which: Oil	5.6	3.1	3.8	8.4	6.8	6.5	6.4	6.4	6.4	6.4
Nonfactor services	-0.9	-10.3	-15.4	-12.6	-10.4	-9.9	-11.1	-12.5	-14.0	-15.8
Receipts	20.4	7.6	5.3	12.9	15.4	17.6	19.1	20.8	22.6	24.5
Payments	21.4	17.9	20.7	25.5	25.8	27.5	30.2	33.3	36.6	40.3
Investment income	-16.8	-14.8	-18.7	-19.7	-20.2	-21.3	-21.8	-22.4	-24.1	-25.9
Receipts	2.2	1.4	1.0	2.3	2.1	2.2	2.3	2.4	2.4	2.3
Payments	19.0	16.2	19.7	22.0	22.2	23.6	24.1	24.8	26.5	28.2
Transfers	9.2	9.5	10.3	5.6	6.2	6.5	7.3	8.4	9.6	11.0
Private (net)	8.7	8.9	9.6	5.0	5.7	6.3	7.2	8.3	9.5	11.0
Official (net)	0.6	0.6	0.7	0.6	0.5	0.2	0.1	0.1	0.0	0.0
Capital and financial account balance	19.0	8.5	30.8	9.5	11.0	8.5	8.0	7.8	8.6	9.7
Direct investment (net)	15.7	15.4	15.3	15.2	14.7	15.5	17.0	18.4	20.0	21.7
Of which: Foreign direct investment in Vietnam	16.1	15.8	15.7	17.9	17.5	18.4	20.1	21.7	23.4	25.3
Portfolio investment	3.0	-1.3	0.3	1.5	0.3	0.4	0.4	0.5	0.5	0.6
Medium- and long-term loans	4.9	2.4	2.8	2.2	2.9	3.4	4.0	3.2	3.2	3.4
Disbursements	13.0	11.5	15.2	15.6	18.7	20.8	22.6	23.7	25.6	27.7
Amortization	8.1	9.1	12.4	13.5	15.8	17.4	18.6	20.5	22.4	24.3
Short-term capital 1/	-4.6	-8.0	12.5	-9.4	-6.9	-10.8	-13.4	-14.2	-15.1	-15.9
Errors and omissions	-8.2	-6.9	-8.4	-31.1	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	23.3	16.6	14.3	-22.7	12.0	11.7	12.2	13.6	15.2	17.1
Memorandum items:										
Gross international reserves 2/	78.5	95.2	109.4	86.7	98.7	110.5	122.7	136.3	151.5	168.6
In months of prospective GNFS imports	3.5	3.3	3.5	2.9	3.1	3.1	3.1	3.1	3.1	3.1
Current account balance (in percent of GDP)	3.8	4.3	-2.2	-0.3	0.2	0.7	0.8	1.0	1.1	1.1
Export value (percent change)	8.4	6.9	18.9	10.5	-3.7	8.0	10.9	11.3	11.3	11.3
Export value (in percent of GDP)	79.6	81.6	90.9	91.4	81.6	80.9	82.2	84.4	86.7	89.0
Import value (percent change)	7.1	3.5	27.2	7.8	-3.9	7.8	11.2	11.5	11.4	11.5
Import value (in percent of GDP)	73.3	72.7	86.7	85.0	75.8	75.1	76.5	78.6	80.9	83.3
External debt	122.7	130.3	140.2	147.2	160.2	174.0	188.5	202.1	216.5	232.0
In percent of GDP 3/	37.0	37.6	37.9	36.2	36.6	36.5	36.2	35.8	35.4	35.0
GDP	331.8	346.3	369.7	406.5	438.2	476.9	520.8	564.8	611.6	662.8

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

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

2/ Excludes government deposits.

3/ Uses interbank exchange rate.

Table 4a. Vietnam: Consolidated State Budgetary Operations, 2019-2024 1/

(In trillions of dong)

	2019	2020	2021	Est. 2022	Proj. 2023	Proj. 2024
Total revenue and grants	1496	1479	1587	1810	1914	2124
Tax revenue	1122	1056	1181	1376	1450	1612
Oil revenues	56	32	44	78	63	63
CIT	42	26	32	60	49	49
Natural resource tax	14	6	12	18	15	15
Non-oil tax revenues	1066	1024	1137	1298	1387	1549
PIT	109	115	128	163	178	198
CIT	229	231	286	279	305	340
VAT	363	340	376	445	468	530
Trade	97	79	90	114	112	120
Others	269	259	257	296	324	362
Grants	5	5	17	8	8	8
Other revenue	369	419	389	427	455	504
Expenditure	1527	1710	1708	1786	2044	2316
Expense	1115	1146	1180	1216	1357	1514
Interest	107	106	102	95	97	103
Other expense	1008	1040	1079	1121	1260	1410
Net acquisition of non-financial assets	412	563	528	570	687	803
Net lending (+)/borrowing (-)	-31	-230	-122	24	-131	-192
Net incurrence of liabilities	65	9	-24	60	131	192
Net incurrence of financial liabilities	127	196	53	67	128	189
Domestic	90	165	113	116	127	164
Foreign	37	31	-60	-49	1	25
Disbursement	79	112	-8	61	116	136
Amortization	42	81	53	110	115	111
Net acquisition of financial assets	-62	-187	-77	-7	3	3
of which: Privatization receipts	54	30	4	4	3	3
Statistical discrepancies 2/	-35	221	146	-84	…	…
Memorandum items:						
Net lending/borrowing including VSS	153	-136	-30	117	-39	-103
Net lending/borrowing including EBFs	22	-145	-42	104	-54	-120
Public and publicly guaranteed debt	40.8	41.1	39.1	35.3	33.6	32.3
Primary balance (% GDP)	1.0	-1.5	-0.2	1.3	-0.3	-0.8
Cyclically Adjusted Primary Balance (% potential GDP)	0.9	-1.5	0.1	1.3	-0.1	-0.6
Cyclically Adjusted Non-Oil Primary Balance (% potential GDP)	0.2	-1.8	-0.4	0.4	-0.7	-1.1
Nominal GDP (in trillions of dong)	7707	8044	8480	9513	10412	11466

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

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

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

Table 4b. Vietnam: Consolidated State Budgetary Operations, 2019-2024 1/

(In percent of GDP, unless otherwise indicated)

	2019	2020	2021	Est. 2022	Proj. 2023	Proj. 2024
Total revenue and grants	19.4	18.4	18.7	19.0	18.4	18.5
Tax revenue	14.6	13.1	13.9	14.5	13.9	14.1
Oil revenues	0.7	0.4	0.5	0.8	0.6	0.6
CIT	0.5	0.3	0.4	0.6	0.5	0.4
Natural resource tax	0.2	0.1	0.1	0.2	0.1	0.1
Non-oil tax revenues	13.8	12.7	13.4	13.6	13.3	13.5
PIT	1.4	1.4	1.5	1.7	1.7	1.7
CIT	3.0	2.9	3.4	2.9	2.9	3.0
VAT	4.7	4.2	4.4	4.7	4.5	4.6
Trade	1.3	1.0	1.1	1.2	1.1	1.0
Others	3.5	3.2	3.0	3.1	3.1	3.2
Grants	0.1	0.1	0.2	0.1	0.1	0.1
Other revenue	4.8	5.2	4.6	4.5	4.4	4.4
Expenditure	19.8	21.3	20.1	18.8	19.6	20.2
Expense	14.5	14.3	13.9	12.8	13.0	13.2
Interest	1.4	1.3	1.2	1.0	0.9	0.9
Other expense	13.1	12.9	12.7	11.8	12.1	12.3
Net acquisition of non-financial assets	5.3	7.0	6.2	6.0	6.6	7.0
Net lending (+)/borrowing (-)	-0.4	-2.9	-1.4	0.3	-1.3	-1.7
Net incurrence of liabilities	0.8	0.1	-0.3	0.6	1.3	1.7
Net incurrence of financial liabilities	1.7	2.4	0.6	0.7	1.2	1.7
Domestic	1.2	2.1	1.3	1.2	1.2	1.4
Foreign	0.5	0.4	-0.7	-0.5	0.0	0.2
Disbursement	1.0	1.4	-0.1	0.6	1.1	1.2
Amortization	0.5	1.0	0.6	1.2	1.1	1.0
Net acquisition of financial assets	-0.8	-2.3	-0.9	-0.1	0.0	0.0
of which: Privatization receipts	0.7	0.4	0.0	0.0	0.0	0.0
Statistical discrepancies 2/	-0.5	2.7	1.7	-0.9	…	…
Memorandum items:						
Net lending/borrowing including VSS	2.0	-1.7	-0.4	1.2	-0.4	-0.9
Net lending/borrowing including EBFs	0.3	-1.8	-0.5	1.1	-0.5	-1.0
Public and publicly guaranteed debt	40.8	41.1	39.1	35.3	33.6	32.3
Primary balance	1.0	-1.5	-0.2	1.3	-0.3	-0.8
Cyclically Adjusted Primary Balance (% potential GDP)	0.9	-1.5	0.1	1.3	-0.1	-0.6
Cyclically Adjusted Non-Oil Primary Balance (% potential GDP)	0.2	-1.8	-0.4	0.4	-0.7	-1.1
Nominal GDP (in trillions of dong)	7,707	8,044	8,480	9,513	10,412	11,466

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

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

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

Table 5. Vietnam: Monetary Survey, 2019-2024 1/

(In trillions of dong, unless otherwise indicated)

					Proj.	
	2019	2020	2021	2022	2023	2024
Net foreign assets	2,131	2,642	2,737	2,361	2,750	3,164
State Bank of Vietnam (SBV)	1,813	2,199	2,536	2,049	2,379	2,694
Commercial banks	319	443	200	312	371	470
Net domestic assets	8,443	9,469	10,665	11,866	12,351	12,985
Domestic credit	8,583	9,647	10,860	12,103	13,289	14,693
Net claims on government	257	354	312	80	181	313
SBV	-276	-485	-551	-450	…	…
Credit institutions	533	839	863	530	…	…
Credit to the economy	8,326	9,293	10,548	12,023	13,107	14,380
Claims on state-owned enterprises (SOEs)	450	465	443	425	…	…
Claims on other sectors	7,877	8,829	10,105	11,598	…	…
In dong	7,847	8,794	9,966	11,509	…	…
In foreign currency	480	499	583	514	…	…
By state-owned banks (SOCBs)	3,911	4,251	4,731	5,348	…	…
By non-SOCBs	4,415	5,042	5,817	6,675	…	…
Other items net	-140	-178	-195	-237	…	…
Total liquidity (M2)	10,574	12,111	13,402	14,227	15,101	16,149
Dong liquidity	9,718	11,141	12,467	13,193	…	…
Deposits	8,520	9,803	10,947	11,840	…	…
Currency outside banks	1,198	1,338	1,520	1,353	…	…
Foreign currency deposits	856	969	936	1,034	…	…
Memorandum items:						
Reserve money (year-on-year percent change)	24.0	10.0	12.5	-13.1	6.1	6.9
Liquidity (M2; year-on-year percent change)	14.8	14.5	10.7	6.2	6.1	6.9
Currency/deposits (in percent)	12.8	12.4	12.8	10.5	…	…
Credit/deposits (total, in percent)	88.8	86.3	88.8	93.4	…	…
Credit/deposits (dong, in percent)	92	90	91	97	…	…
Credit/deposits (foreign currency, in percent)	56	51	62	50	…	…
Credit to the economy						
Total (in percent of GDP)	108.0	115.5	124.4	126.4	125.9	125.4
Total (year-on-year percent change)	12.8	11.6	13.5	14.0	9.0	9.7
In dong (year-on-year percent change)	13.5	12.1	13.3	15.5	…	…
In FC (year-on-year percent change)	2.5	4.0	16.8	-11.7	…	…
In FC at constant exchange rate (year on year percent change)	1.6	4.6	18.2	-13.9	…	…
To SOEs (year-on-year percent change)	-5.0	3.3	-4.6	-4.0	…	…
To other sectors (year-on-year percent change)	14.1	12.1	14.5	14.8	…	…
To SOEs (percent of total)	5.4	5.0	4.2	3.5	…	…
Nominal GDP (in trillions of dong)	7,707	8,044	8,480	9,513	10,412	11,466

Sources: SBV; and IMF staff estimates and projections.

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

Table 6. Vietnam: Financial Soundness Indicators, 2018-2022

(In percent)

	2018	2019	2020	2021	2022
Regulatory Capital to Risk-Weighted Assets	11.9	11.8	11.1	11.3	11.5
Regulatory Tier 1 Capital to Risk-Weighted Assets	9.4	9.4	9.5	9.6	10.1
Non-performing Loans Net of Provisions to Capital	9.3	7.5	8.0	4.3	9.1
Non-performing Loans to Total Gross Loans 1/	2.1	1.8	1.9	1.6	1.9
Return on Assets	1.2	1.2	1.2	1.5	1.1
Return on Equity	12.3	12.4	11.9	14.9	13.9
Interest Margin to Gross Income	70.0	68.6	68.7	67.0	70.8
Non-interest Expenses to Gross Income	48.9	47.1	47.4	40.2	42.0
Liquid Assets to Total Assets (Liquid Asset Ratio)	11.3	11.7	11.3	10.3	9.2

Source: Financial Soundness Indicators (FSI)

1/ Excluding restructured and VAMC loans.