INTERNATIONAL MONETARY FUND

IMF Country Report No. 17/190

VIETNAM

July 2017

2017 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 2017 Article IV consultation with Vietnam, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its June 7, 2017, 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 June 7, 2017, following discussions that ended on March 31, 2017, with the officials of Vietnam on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 23, 2017.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Vietnam.

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

Selected Issues

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

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FOR IMMEDIATE RELEASE
July 5, 2017

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Washington, D. C. 20431 USA

IMF Executive Board Completes the 2017 Article IV Consultation with Vietnam

On June 7, 2017, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV Consultation with Vietnam.[1]

Vietnam's dynamic economy continues to perform well, aided by sound economic fundamentals. Growth moderated to 6.2 percent in 2016, reflecting the impact of a drought and land salinization on agriculture and lower oil production. Weakness in the oil sector continued in the first quarter of 2017, but the underlying growth momentum remains robust underpinned by strong manufacturing activity and foreign direct investment (FDI), robust domestic demand, and a rebound in agricultural production. Inflation rose to around 5 percent in early 2017 due to increases in administered prices for health care and education. The current account surplus rebounded in 2016 to 4.1 percent of GDP, and gross international reserves rose substantially.

The authorities are developing a broad reform agenda, keenly aware of the limited fiscal space, the need to upgrade the growth model at home, and rising risks of economic fragmentation abroad. After years of high fiscal deficits and rising public debt, the authorities are planning an appropriate amount of fiscal consolidation starting this year, although concrete measures have not yet been fully identified. Monetary policy was accommodative over most of last year against the backdrop of low core inflation, and the exchange rate has depreciated slightly since the fall of 2016. Macroprudential policies were tightened, while credit growth was robust. Bank reforms have progressed, but nonperforming loan (NPL) resolution, bank recapitalization, and legal reforms to strengthen market discipline have been sluggish. Good progress has been made on the legal framework for SOE reforms, but implementation has been slow. The authorities are planning to limit the role of the state in the economy, reduce state ownership in enterprises and encourage private sector-led sustainable growth.

For 2017, growth is projected at 6.3 percent and headline inflation is projected to stabilize at around 5 percent as administered prices continue to be adjusted. The current account surplus

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

is expected to decline somewhat, reflecting stronger imports. While the near-term outlook is positive, there are downside risks including from high public debt, slow NPL resolution, tighter global financial conditions, shocks to external demand, and rising protectionism and the failure of the Trans Pacific Partnership. On the upside, successful implementation of the authorities' ambitious reform agenda could raise growth potential and increase resilience to shocks. Fast implementation of the Vietnam-EU and other bilateral trade agreements would fuel exports and FDI.

Executive Board Assessment[2]

Executive Directors commended the Vietnamese authorities for achieving robust growth with low inflation, pushing ahead with important reforms to promote private sector-led growth, strengthening the public finances and tackling legacy issues in the financial sector while making progress on poverty alleviation. Directors noted that risks remain from the slow pace of banking sector reform, continued rapid credit growth and limited fiscal and external buffers. Looking ahead, they encouraged the authorities to expand the scope of reforms to safeguard hard-won macroeconomic stability, raise growth potential and upgrade the growth model to enhance sustainability and productivity.

Directors considered the tightening of the fiscal stance as appropriate and welcomed the authorities' intention to ensure that consolidation is growth-friendly. They also concurred with the intention to reduce the deficit to 3½ percent of GDP by 2020 and to maintain public debt below the legal limit of 65 percent of GDP. Directors stressed the importance of revenue-enhancing measures, including unifying VAT rates, higher excise and environmental protection taxes, and a property tax. They also stressed the need to reduce exemptions and incentives and improve tax administration. Reforms to raise cost recovery in public services are welcome but need to ensure equity, protect the poor, and raise service quality. Directors encouraged civil service reforms to reduce the public sector wage bill and improvements in public spending efficiency to create room for priority infrastructure and social spending.

Directors noted that monetary policy should remain on hold but be alert for signs of rising core inflation. They stressed that vigilance would be needed to contain rapid credit growth and credit allocation made more market-based, which would improve its efficiency in supporting growth. Directors underscored that a modernization of monetary policy management, including greater exchange rate flexibility and a gradual shift to using inflation as the nominal anchor, will enhance resilience to external shocks. They noted Vietnam's strong external position and called for policies over the medium term to gradually reduce the imbalance through stronger domestic demand and investment, a lower saving rate and greater exchange rate flexibility.

Directors welcomed progress made in banking sector reforms to address impaired assets and increase provisioning. They stressed that the pace of reforms should be accelerated and their

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

scope broadened to include development of a legal framework for bank resolution, strengthening of the Vietnam Asset Management Company, and implementation of further reforms to strengthen debt enforcement and market discipline. Enhancing the AML/CFT framework and its effective implementation will also support financial stability.

Directors welcomed ongoing structural reforms and underscored that Vietnam will need to build a sustainable, modern economy before the demographic tailwinds fade. For this, more extensive policy action is needed to reform institutions and raise potential growth. Reforms of the state-owned enterprise sector and improved outcomes from vocational and tertiary education will also be critical. Directors commended the authorities for ratifying the Paris Agreement and for putting climate change and implementation of the Sustainable Development Goals at the core of their policy agenda. They stressed that higher environmental taxes and better pricing of externalities in the energy sector can help promote a green, more resilient economy.

Vietnam: Selected Economic and Financial Indicators, 2012–2018

				Est.	Projections		
	2012	2013	2014	2015	2016	2017	2018
Output							
Real GDP (percent change)	5.2	5.4	6.0	6.7	6.2	6.3	6.3
Prices (percent change)							
CPI (period average)	9.1	6.6	4.1	0.6	2.7	4.9	4.8
CPI (end of period)	6.8	6.0	1.8	0.6	4.7	5.0	4.5
Core inflation (end of period)	5.8	4.6	2.7	1.7	1.9	...	...
General government finances (in percent of GDP) 2/							
Revenue and grants	22.6	23.1	22.2	23.7	23.2	23.2	23.1
Of which: Oil revenue	3.8	3.4	2.5	1.6	0.9	0.8	0.8
Expenditure	29.5	30.5	28.5	30.0	29.8	29.0	28.9
Expense	20.4	21.6	20.4	21.7	22.1	20.8	21.0
Net acquisition of nonfinancial assets	9.1	9.0	8.1	8.2	7.7	8.2	7.9
Net lending (+)/borrowing(-) 3/	-6.9	-7.4	-6.3	-6.2	-6.6	-5.8	-5.8
Public and publicly guaranteed debt (end of period)	47.9	51.8	55.1	58.3	62.4	63.3	64.3
Money and credit (percent change, end of period)							
Broad money (M2)	18.5	18.8	17.7	16.2	18.4	18.1	17.4
Credit to the economy	8.7	12.7	13.8	18.8	18.8	17.1	16.9
Interest rates (in percent, end of period)							
Nominal three-month deposit rate (households)	8.3	6.9	5.0	4.8	4.9	...	...
Nominal short-term lending rate (less than one year)	12.4	9.7	8.5	7.2	7.2	...	...
Balance of payments (in percent of GDP, unless otherwise indicated)							
Current account balance (including official transfers)	6.0	4.5	4.9	-0.1	4.1	2.7	2.0
Exports f.o.b.	73.6	77.4	80.8	84.6	87.7	90.0	91.8
Imports f.o.b.	68.0	72.3	74.3	80.8	80.8	83.5	85.6
Capital and financial account	5.6	0.2	2.9	0.5	5.0	-0.2	0.8
Gross international reserves (in billions of U.S. dollars) 4/	25.4	26.0	34.3	28.4	36.7	42.2	48.6
In months of prospective GNFS imports	2.2	2.0	2.4	1.9	2.2	2.3	2.4
Total external debt (end of period)	37.4	37.3	38.3	43.1	47.8	49.5	51.0
Nominal exchange rate (dong/U.S. dollar, end of period)	20,825	21,105	21,385	22,485	22,770	...	...
Nominal effective exchange rate (end of period)	86.4	88.3	94.0	97.6	98.2	...	...
Real effective exchange rate (end of period)	108.9	116.1	123.6	128.7	132.8	...	...
Memorandum items:							
GDP (in trillions of dong at current market prices)	3,245	3,584	3,938	4,193	4,503	4,965	5,486
GDP (in billions of U.S. dollars)	155.6	170.6	185.9	191.5	201.3	215.4	232.7
Per capita GDP (in U.S. dollars)	1,753	1,902	2,049	2,088	2,173	2,301	2,460

Sources: Vietnamese authorities; and IMF staff estimates and projections.
1/ The national accounts has been re-based to 2010 from 1994 by the authorities.
2/ Follows the format of the Government Finance Statistics Manual 2001
3/ Excludes net lending of the Vietnam Development Bank.
4/ Excludes government deposits.

INTERNATIONAL MONETARY FUND

VIETNAM

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION

May 23, 2017

KEY ISSUES

Outlook and risks. Vietnam's dynamic economy continues on a solid growth path, driven by robust domestic demand and export-oriented manufacturing. The new government is pushing ahead with reforms along a broad front, keenly aware of the limited fiscal space, the need to upgrade the growth model at home, and rising risks of economic fragmentation abroad.

Fiscal policy. Vietnam's relatively high government debt calls for sustained reduction of the budget deficit to raise resilience, boost potential growth and create more fiscal space for current and prospective fiscal needs, including infrastructure, natural disasters and aging. The authorities are planning an appropriate amount of fiscal consolidation, but concrete measures have not yet been fully identified. For consolidation to be sustained, it must be of high quality, with modern fiscal systems and institutions, broader revenue bases and more effective spending.

Monetary and financial policies. Core inflation is low, making this an excellent time to begin modernizing the monetary framework. A gradual shift from the current rigid currency regime to adopting inflation as the nominal anchor will preserve price stability and allow the exchange rate to become a more effective shock absorber. Despite recent progress, it is imperative to accelerate bank recapitalization, resolve legacy NPLs and implement legal reforms to strengthen market discipline and create a level playing field in the allocation of credit, which is needed to raise investment in the smaller enterprises of the non-FDI sector.

External assessment. The external position in 2016 was substantially stronger than warranted by fundamentals and appropriate policies. Aided by a large trade surplus and strong FDI, the authorities kept the exchange rate within a narrow band and accumulated reserves**.** The current account surplus should be gradually reduced by implementing structural reforms to invigorate investment, strengthen social safety nets and reduce precautionary saving. Anchoring monetary policy on inflation stability while allowing greater two-way exchange rate flexibility should be given priority. With reserves at 70 percent of the ARA metric, more reserve accumulation is needed, but its pace could be gradually slowed down with increasing exchange rate flexibility.

Building a modern sustainable economy. Vietnam will be challenged to build a sustainable modern economy before aging sets in. Structural reforms to raise potential growth must be implemented to narrow the perimeter of the state, separate government ownership from SOE management and from regulatory functions, reduce credit misallocation and make it easier for smaller private firms to compete and to emerge from informality.

Environmental issues are macro-critical. Vietnam has ratified the Paris Agreement and put climate change and SDG implementation at the core of the policy agenda. While these plans are promising, the shift to sustainability will require more, including energy pricing that, over time, fully accounts for health and environmental externalities.

Approved By
Markus Rodlauer and Vitaliy Kramarenko

Discussions took place March 16–31, 2017. The staff team comprised Alexandros Mourmouras (Head), Jochen Schmittmann, David Corvino (all APD), Mitsuru Katagiri (MCM), and Jonathan Dunn (Resident Representative). Mr. Marzunisham Omar and Mr. Hung Vinh Nguyen (OED) joined the concluding meeting. Ms. Hai Hoang, Ms. Nga Ha, and Ms. Van Anh Nguyen (all APD) of the IMF Office in Hanoi provided excellent support to the team. Ms. Lusha Zhuang and Mr. Ross Rattanasena (both APD) provided superb research and editorial assistance in this report's preparation.

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APPENDICES

CONTEXT

1. **Robust growth continues.** Vietnam's highly open economy is driven by domestic demand and a modern, export-oriented Foreign Direct Investment (FDI) sector. Growth continues to be strong, core inflation remains low, and excellent progress has been made in reducing poverty (Figure 1). But the economy needs to be made more resilient to shocks and have its growth drivers upgraded. The fiscal deficit is high, albeit declining; the public and publicly guaranteed (PPG) debt is relatively large; and reserve buffers are thin. Legacy issues in the financial sector and in the State-Owned Enterprises (SOEs) require attention. And while the FDI sector is highly productive, large shares of the labor force still work in small informal firms and agriculture. The role of the state in the economy looms large and the playing field is not level, with SOEs and other connected firms continuing to benefit from preferential access to credit and other advantages. Macro-critical environmental and resource sustainability issues must be addressed, and while the population is still young, Vietnam must start preparing for rapid aging.

2. **Reforms are under way.** The government that took office in April 2016 recognizes that macro-financial policies must be strengthened to cement macroeconomic stability and enhance resilience. To this end, the authorities are strengthening the public finances, are drawing plans to upgrade the monetary framework, and are tackling legacy issues in the financial sector. The government also realizes that Vietnam's economy has reached a level of development that calls for a shift away from growth driven by natural resources and abundant labor, which will require the state to evolve from producer to enabler. They are privatizing numerous large healthy SOEs and are prohibiting SOE investment in non-core areas. They are also improving SOE governance, which should help reduce the scope for asset stripping. Reforms are gradual, reflecting the need to maintain consensus and build capacity.

3. **The challenge is to expand the scope of reforms.** While the authorities are making progress, strengthening resilience and upgrading the growth model will require deeper and broader change. A priority is to reduce resource misallocation by creating a level playing field for access to credit, land and other factors (Selected Issues: Credit Misallocation). Second, fiscal adjustment needs to be accompanied by deeper tax and expenditure reforms and the monetary system modernized to enhance exchange rate flexibility. Third, legacy issues in the financial sector must be addressed more quickly. Fourth, more must also be done to enhance the sustainability of the growth model, consistent with commitments made under the Sustainable Development Goals (SDGs) and the Paris Agreement (Selected Issues: Environment and Climate Change). Finally, the demographic tailwinds during the next two decades must be used wisely to raise living standards and prepare for population aging (Selected Issues: Demographics).

4. **Consistency with past staff advice.** Vietnam's macro-structural policies have been broadly aligned with staff advice. Recent reforms to circumscribe the role of the state are consistent with long-standing staff advice. Work to modernize the monetary framework is underway with close Fund analytical and technical support, although credit growth remains higher than recommended by staff. The fiscal consolidation envisaged in the 2017 budget and over the medium term is also appropriate, although more structural fiscal reforms are required.

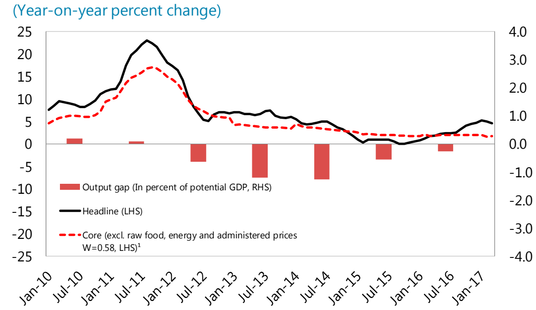
The government has become more transparent in its treatment of equitization receipts, and higher equitization revenues and the prospect of medium term fiscal consolidation should help crowd in private investment. Banking sector reforms have been undertaken, and more are under way, but resolution of legacy NPLs has proven challenging and banks' capital position needs to be strengthened.

MACROECONOMIC DEVELOPMENTS, OUTLOOK, AND RISKS

5. **The economy's underlying momentum remains strong, aided by sound economic fundamentals.** Real GDP rose by 6.2 percent in 2016, 0.5 percentage point lower than in 2015, reflecting the impact of drought and salinization on agriculture and lower oil production. Weakness in the oil sector continued in the first quarter of 2017, leading to a slowdown in real GDP growth to 5.1 percent (y/y). Nevertheless, the underlying growth momentum appears intact underpinned by strong manufacturing activity and FDI, robust domestic demand, and a rebound in agricultural production.

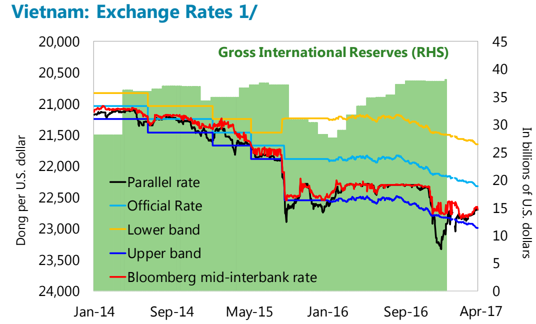
6. **Inflation has risen following adjustments made to administered prices for education and health care.** Headline inflation increased throughout 2016, reaching 5.2 percent (y/y) in January 2017. It moderated to 4.7 percent (y/y) in March 2017 on falling food prices and base effects in health care prices. Core inflation excluding administered prices has remained stable below 2 percent (y/y). Real estate prices are increasing at a moderate pace, partly owing to strong supply growth, but land prices have risen rapidly in some areas.

Vietnam: Inflation and Output Gap
(Year-on-year percent change)



[1] W=2014 Weight
Sources: Vietnamese authorities; and IMF staff estimates.

Vietnam: Exchange Rates 1/



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

7. **Credit growth remained high at 18.8 percent in 2016, in line with the State Bank of Vietnam's (SBV) credit growth target (18–20 percent (y/y) for 2016).** Private banks expanded credit at a slightly faster pace than state-owned banks. Credit to consumers (including mortgages) rose strongly from a low base and accounts for about 12 percent of total loans. For

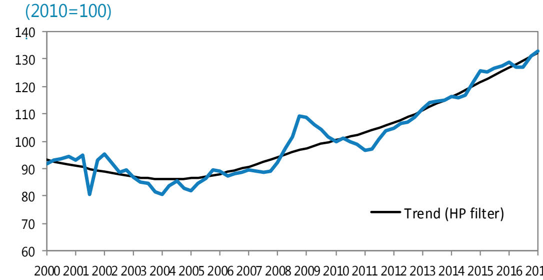
2017, the SBV indicates credit growth between 15 and 17 percent (y/y). A tightening of risk weights for lending to real estate became effective in January 2017, aimed at moderating the pace of credit expansion in this sector.

8. Equity and bond markets rallied. The Ho Chi Minh stock exchange index has gained close to 30 percent over the last year, creating a favorable environment for equitization (privatization). Local-currency government bond yields are about 100 basis points lower across the curve compared to a year ago and Emerging Markets Bond Index Global (EMBIG) spreads have tightened 110 basis points. Against this favorable backdrop, the government issued 30-year bonds for the first time in 2016. Domestic investors have been driving the increase in equity and bond markets, with limited net portfolio inflows over the last year.

9. Large trade surplus and booming FDI inflows in 2016. The current account (CA) surplus rebounded to 4.1 percent of GDP, close to the level during 2012–14. Trade growth accelerated and the trade surplus grew to 7 percent of GDP. FDI, predominantly in manufacturing, boomed (6.3 percent of GDP). Strong trade and FDI and a policy of keeping the currency within a tight band facilitated reserve accumulation (US$ 10 billion, 5 percent of GDP) until November, more than making up the reserve losses of 2015. After the dong came under pressure in November, the SBV tightened liquidity, allowed limited depreciation, and intervened (US$ 1.1 billion). The exchange rate remains at the lower edge of the corridor and the SBV has rebuilt the reserves spent in December. Reserves now stand at about US $38 billion (70 percent of the ARA metric).

10. Vietnam's external position in 2016 was substantially stronger than warranted by fundamentals and appropriate policy settings (Appendix III). Staff judges the CA gap to be 6.2 percent of GDP. Closing the gap requires structural reforms (in banking, SOEs, services, competition) to remove distortions that inhibit investment and a strengthening of the coverage of pensions and other social safety nets to lower precautionary saving. Weak investment in the domestic non-FDI sector reflects informality, liquidity constraints, licensing requirements and other distortions that inhibit imports and slow down capital upgrades. Saving is also high owing to low coverage of pensions and weak safety nets. On the other hand, fiscal consolidation, which is needed to maintain debt sustainability, will slow down external rebalancing. Greater two-way exchange rate flexibility will also help reduce the external imbalance, including by acting as a key shock absorber and thereby reducing the need to accumulate reserves. The real effective exchange rate (REER) has appreciated by 30 percent since 2010 and the dong is likely to appreciate further as the exchange rate becomes more flexible. The CA gap translates into an REER undervaluation of about 10 percent (Appendix III).

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



Source: IMF staff estimates.

11. Vietnam's outlook is positive. The economy is projected to expand by 6.3 percent this year. Activity should be underpinned by healthy domestic demand, rebounding agricultural production and strong FDI and manufacturing growth, although falling oil production will be a drag on growth. Headline inflation is projected to stabilize at around 5 percent as administered prices continue to be adjusted. The current account surplus should decline somewhat, reflecting a pick-up in imports. Over the medium-term, growth is projected to settle around its potential rate of 6.2 percent, assuming a continued gradual pace of structural reforms. Higher long-term growth would require more forceful reforms to level the playing field, deepen competition and recapitalize the banks at a faster pace.

Box 1. Vietnam's Demographic Transition[1]

Vietnam is still a young country, but projected to age fast and at a relatively low per capita income level. Vietnam has a young population (median age of 26), however, the working-age population share already peaked in 2013, the population growth rate is projected to fall close to zero by 2050, and the share of the population age 65 and older will increase much faster in Vietnam than in most advanced economies, although from low levels. The rapid speed of aging leaves Vietnam at risk of facing the challenges of high fiscal costs of aging and demographic headwinds to growth at relatively low per capita income levels.

Demographic trends will turn into headwinds for economic growth. Vietnam has enjoyed a substantial demographic dividend in recent decades, with a growing labor force adding about 1.7 percentage points to annual average growth. For the period 2020 to 2050, the growth contribution of labor is estimated to decline to about 0.3 percentage points per year and turn negative toward the end of the period. This estimate reflects projected changes in the size of the working age population and the impact of an older workforce on productivity. Increases in labor force participation rates, particularly for women and older workers, and tackling under- and low-productivity employment could partly offset the estimated drag on growth. The potential for this is large in Vietnam with its large informal sector, low productivity in the non-FDI sectors, and close to 40 percent of the workforce still employed in agriculture.

Demographic challenges underscore the need for policies to raise potential growth and reform the social security system. Under current policies, age related public expenditures (primarily pensions) are projected to increase by 8 percentage points of GDP by 2050, more than double the current level. The existing pensions system is a defined benefit pay as you go system that covers public sector workers and workers in formal private sector jobs. It is unsustainable because of its generous benefits and low retirement ages. Reforms are needed to achieve high and sustained growth in the next decades before demographic developments become a significant drag on growth. Public finances need to be strengthened and pension reform should address system sustainability.

1/ See *Selected Issues: Demographics*

12. Downside risks dominate (Appendix I). The room for policy maneuver is limited by Vietnam's still thin buffers, limited exchange rate flexibility, and the relatively high level of PPG debt. Meanwhile, external risks have risen, including from tighter global financial conditions, shocks to external demand, and growing protectionism. The realization of external risks could compound domestic vulnerabilities through corporates' foreign exchange exposure, weakening reform incentives, and undermining the credibility of macroeconomic policies. While this risk is low in view of the authorities' strong commitment, it will be important to improve domestic capacity to deliver on complex reforms.

- **External risks.** Heightened risk aversion toward emerging markets or further U.S. dollar strength could lead to capital outflows and exchange rate pressure. Rising protectionism and the failure of TPP could affect FDI and reduce SOE reform momentum. Slower global growth or a sharp slowdown in China could undermine exports. Persistently low energy prices would reduce revenues but are positive for the external balance.

- **Domestic risks.** Banking sector risks are due to slow progress in recapitalization and resolving legacy NPLs and continued high credit growth. High PPG debt limits the authorities' scope to address banking sector vulnerabilities and SOE reform costs, and to meet the economy's large investment needs. With monetary policy still relying on exchange rate stability, rising inflation could interact with pressures on the exchange rate and capital outflows. Stalling SOE reforms would undermine the development of the private sector and could affect investor sentiment.

- **Upside risks.** Successful implementation of the authorities' ambitious reform agenda of faster SOE and banking reforms, fiscal consolidation, and modernization of the monetary framework could raise growth potential and increase resilience to shocks. Consumption goods exports to China have grown rapidly and would benefit from faster rebalancing in China. Rapid implementation of the Vietnam–EU free trade agreement and other bilateral trade agreements offers upside to exports and FDI.

13. The authorities broadly shared staff's assessment. They viewed 2017 growth of around 6.3 percent as realistic, while inflation could be maintained below 4 percent with careful phasing of further administered price increases. They emphasized the need for faster SOE and bank reform implementation to boost the economy's growth potential and shift toward a less resource-intensive growth model. The authorities recognized risks from external headwinds and agreed on the need to build resilience through high-quality, growth-friendly fiscal consolidation and reform, and modernization of the monetary framework, and greater exchange rate flexibility. They noted the external assessment and agreed with the need to strengthen investment through structural reforms

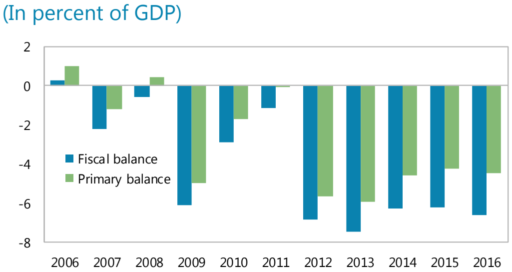
STRENGTHENING RESILIENCE AND UPGRADING THE GROWTH MODEL

Cognizant of the need to increase resilience to shocks and raise the quality of growth, the authorities have embarked on plans to modernize their macroeconomic frameworks. In view of Vietnam's limited fiscal space and sizable fiscal risks, the government is taking steps to rein in the deficit and public debt. The modernization of the monetary framework will also enhance the ability of the exchange rate to act as a shock absorber. While progress is being made in NPL resolution, more decisive action in tackling credit misallocation would help raise growth. Stronger productivity-led growth will require faster SOE reforms and the creation of a more conducive business environment.

A. Growth-Friendly Fiscal Consolidation is Under Way

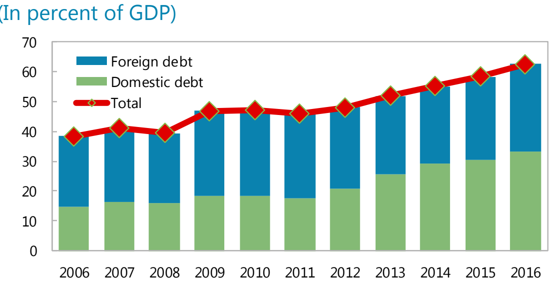
14. Gradual fiscal adjustment is under way. Fiscal consolidation is needed to rein in the budget deficit, which has remained above 6 percent of GDP since 2012, and stabilize public debt, which has risen by 10 percent of GDP since 2013 and is approaching the statutory limit of 65 percent of GDP. The authorities aim to lower the deficit to below 3.5 percent of GDP (GFS 2001 basis) by 2020, from 6.6 percent in 2016 and a budgeted 4.7 percent in 2017. Revenue measures include strengthening of tax administration and new domestic taxes (under consideration) to offset lower trade and oil-related revenues. Private sector entry into education and health care is being liberalized and administered prices are gradually rising. Public social and capital expenditures are being cut, central control over provincial spending is being tightened, and measures are being taken to better coordinate infrastructure spending, which has been fragmented. On the financing side, the budget will benefit from substantial proceeds from the equitization (privatization) of SOEs.

Vietnam: Fiscal Balance
(In percent of GDP)



Sources: Vietnamese authorities; and IMF staff calculations.

Vietnam: Public and Publicly Guaranteed Debt
(In percent of GDP)



Sources: Vietnamese authorities; and IMF staff calculations.

15. The new fiscal strategy was evident in 2016. Even though fiscal policy remained highly expansionary, domestic revenue was buoyant, helping partially to offset weaker oil- and trade-related revenues, and progress was made in tax and customs administration. In addition, some 0.7 percent of GDP in equitization proceeds was transferred to the budget, and the government took advantage of favorable financing conditions to lengthen the maturity of the domestic debt stock.

16. The tighter 2017 deficit target is appropriate. Revenues are budgeted to increase relative to the 2016 budget as further improvements are made to tax and customs administration (collection, audits, anti-smuggling, new transfer pricing decree). No new taxes or tax increases are planned, although a recurrent property tax is being studied. On the expenditure side, the budget includes close to 2 percentage points of GDP in cuts to social and capital expenditure.[1] Education spending is being refocused on primary and secondary schools, with loan guarantees meant to ensure broad access to tertiary education; education and health care prices are being gradually liberalized; and the authorities are improving the coordination of fragmented infrastructure spending. Higher equitization receipts (1.2 percent of GDP) are budgeted and new budget guarantees further limited.

17. The pace of fiscal consolidation is appropriate, but more emphasis is needed on high quality fiscal reforms and concrete measures need to be identified. Staff's baseline projections do not fully reflect the authorities' consolidation targets because of the need for specific fiscal measures. Contingent liabilities from SOE and bank reforms, as well as underfunded social security programs pose fiscal risks. Staff suggested a more comprehensive strategy:

- **On the revenue side,** structural measures are needed to broaden and diversify revenue bases, including higher environmental protection taxes, a property tax, unifying VAT rates, and higher excise taxes (Text Table 1). Consideration should also be given to taxing land transactions and better capturing revenues from state land sales to fund infrastructure investment. A review of tax expenditures (especially incentives) should be conducted. The tax incentive regime appears generous and primarily benefits large corporations but not SMEs (domestic and foreign).

- **On the expenditure side,** reforms under way to raise cost recovery and allow entry into education and health are welcome but need to be carefully designed to ensure equality of opportunity, protect the poor, and raise service quality. In particular, loan guarantees for tertiary education should ensure access for qualified students from poor families and health insurance should be further expanded with the goal of universal coverage. It would be useful to review the adequacy and funding of social security, also with a view to prospective aging. Civil service reform should be undertaken to rationalize the large public sector headcount. Capital expenditure should be protected and its efficiency should be raised through improved project selection, tendering, and management. It would be useful to undertake a Public Investment Management Assessment (PIMA). Greater private participation in infrastructure projects should be carefully designed and contingent liabilities limited. Public funds (1 percent of GDP) should be authorized for bank recapitalization.

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[1] This is relative to staff's baseline, which is based on the authorities' first estimate for 2016 and also includes dong 66 trillion in 2015 revenue over-performance spending, equally split between current and capital expenditure.

- **Regarding deficit financing,** the transparent use of equitization proceeds is welcome. But while these receipts will help public debt dynamics, they are a one-time financing source and should not be a substitute for high quality durable tax and expenditure reforms.

18. If implemented, this strategy would have substantial payoffs (Text Table 2). Adoption of high quality fiscal reforms would put PPG debt firmly on a sustained downward trajectory, while important social and capital expenditure could be protected. Faster bank and SOE reforms, along with a more conducive business environment for private firms, could boost GDP growth to 7 percent in the long run. Recapitalization of state-owned commercial banks would be manageable, strengthen financial sector resilience, and improve capital allocation (Selected Issues: Credit Misallocation).

19. Authorities' views. The authorities emphasized their commitment to the 2016–20 fiscal strategy and agreed that the tax and expenditure policy content needs to be reviewed. They stressed that the PPG debt-to-GDP ratio will remain below 65 percent in the baseline. Tax policy measures under consideration include higher environmental taxes, a property tax, and unifying VAT rates. The authorities agreed with the need to review tax incentives, noting that the new transfer pricing decree applies minimum liabilities to counter profit shifting, which should help to improve taxation of the large FDI sector. They also plan further to strengthen tax administration, tax collection and customs. On the expenditure side, their plan is to reduce expenditures to about 27.5 percent of GDP over the medium term. Measures would be reductions in capital expenditure, while increasing private participation in infrastructure projects in a carefully designed manner and raising expenditure efficiency. In social services, the authorities will continue moving to full cost recovery and allowing entry into service delivery, while protecting the poor though targeted transfers. They also noted ongoing efforts to reduce the head count in public administration.

Text Table 1. Vietnam: Medium-Term Fiscal Consolidation Scenario, 2017–20

Fiscal measures	Estimated Impact (percent of GDP)
Already in the baseline	**1.5-2.5**
Current expenditure growth restaint	1.0-2.0
(cuts in social expenditure, civil service attrition)	
Rationalizing capital spending	0.5
Potential revenue measures	**0.8-2.5**
Environmental tax rate (+30 percent)	0.3
Eliminating the lower VAT rate of 5 percent	0.3-0.5
Excise tax (+10 percent)	0.2
Property tax	up to 1.5

Source: IMF staff estimates.

Text Table 2. Vietnam: Fiscal Consolidation and Structural Reform Scenario 1/

(In percent of GDP)

	2015 Est.	2016 Staff Baseline	2017	2018	2019	2020	2021	2022
			Baseline					
Total revenue and grants	23.7	23.2	23.2	23.1	23.1	23.1	23.0	23.2
Capital expenditure	8.2	7.7	8.2	7.9	7.5	7.4	7.3	7.4
Current expenditure	21.7	22.1	20.8	21.0	20.9	20.7	20.6	20.5
Net lending (+)/borrowing (-)	-6.2	-6.6	-5.8	-5.8	-5.3	-5.1	-5.0	-4.7
Equitization fund transfers to bugdet	0.0	0.7	1.2	0.5	0.4	0.3	0.1	0.0
Public and public-guaranteed debt	58.3	62.4	63.3	64.3	64.7	65.0	65.3	65.4
Real growth	6.7	6.2	6.3	6.3	6.2	6.2	6.2	6.2
			Consolidation Scenario 2/					
Total revenue and grants	23.7	23.2	23.4	23.8	24.1	24.4	24.4	24.4
Capital expenditure	8.2	7.7	8.2	7.9	7.7	7.7	7.7	7.8
Current expenditure	21.7	22.1	20.8	20.7	20.5	20.1	19.7	19.6
Net lending (+)/borrowing (-)	-6.2	-6.6	-5.6	-4.8	-4.1	-3.4	-3.0	-3.0
Equitization fund transfers to bugdet	0.0	0.7	1.2	0.9	0.7	0.4	0.3	0.3
Public and public-guaranteed debt 3/	58.3	62.4	64.0	63.4	62.3	60.6	58.5	56.5
Real growth	6.7	6.2	6.4	6.3	6.6	6.8	6.9	7.3

Source: IMF staff estimates.

1/ Public guaranteed debt, interest rates, ODA onlending and valuation changes are assumed to be the same as in the baseline.

2/ The consolidation scenario incorporates the negative GDP growth impact of fiscal consolidation with a multiplier of 0.3. Bank recapitalization and structural reforms are assumed to raise GDP growth by 0.6 percent on average between 2018 and 2022. Of this, 0.3-0.5 percent could be achieved through an improved allocation of capital (reduced evergreening and lending to SOEs) that would bring the credit intensity of growth from the current 3 to its long-run average of 2.7. An additional growth gain of 0.1-0.3 percent could be achieved by closing one percent of the productivity gap between the domestic and FDI sector (the former contributes roughly twice as much as the latter to GDP).

3/ 2017 PPG debt includes banking restructuring cost, 1 percent of GDP. Further progress on NPL resolution and retaining earnings would reduce this number.

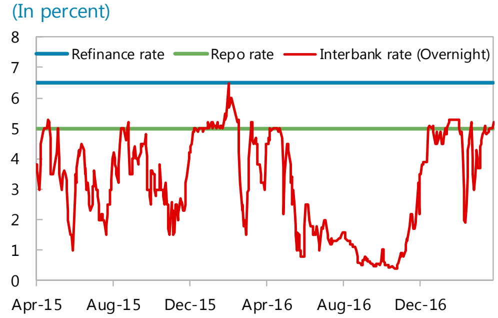
B. Modernizing Monetary Policy

20. The SBV pursues multiple objectives. The tightly managed exchange rate of the dong to the U.S. dollar provides the nominal anchor, but the SBV is also handed numerical targets for inflation (2017: about 4 percent)[2] and growth (2017: 6.7 percent). Conditions of fiscal dominance prevail, leading the SBV to keep interest rates low. Policy instruments include open market operations (OMOs), foreign exchange intervention and credit growth targets.

21. Monetary conditions remain accommodative. Headline inflation has risen on the back of administered price increases, but core inflation remains low and inflation expectations appear well-anchored. Interbank interest rates are close to the repo rate which is about zero in real terms. The dong has been allowed to depreciate by 1.9 percent since November 2016. Credit growth remains high,

Vietnam: Interest Rates

(In percent)



Sources: Vietnamese authorities; Bloomberg LP; and IMF staff estimates.

[2] An indicative inflation target of about 4 percent for 2017 was set as part of the broader annual macroeconomic plan that is developed by multiple ministries including the SBV. The target of 4 percent is an appropriate medium-term objective, but on-going and planned significant adjustments to administered prices justify temporary deviations from this target.

reflecting ample liquidity and high credit growth targets.

22. Monetary policy should be alert to risks to price stability. These risks are associated with rapid credit expansion, low real interest rates, a closing output gap, and global reflation. Higher U.S. interest rates could put pressure on the currency and drive inflation higher, given the relatively strong exchange rate pass-through. Considering these risks, staff recommended keeping interbank interest rates above the repo rate; reducing credit growth targets to below 15 percent; careful phasing of administered price increases and close monitoring of their diffusion; and a preemptive hike of the policy rate and tightening of liquidity if the inflation outlook deteriorates or administered price increases diffuse more broadly.[3]

23. The intended modernization of the monetary framework is a priority. Anchoring monetary policy on price stability will, over time, increase the effectiveness of monetary policy and allow greater exchange rate flexibility, which should help strengthen resilience. In the meantime, the response to external shocks should be more evenly distributed between adjustments to the exchange rate and reserves. Administrative measures, including credit growth targets and the remaining deposit rate ceilings, should be phased out as monetary operations are strengthened. Reserves stand at only 70 percent of the IMF's metric and should be accumulated opportunistically over the medium term.

24. Modernization would proceed in three phases, supported by multi-year Fund TA engagement. Phase one would focus on building human capital and institutional capacity at the SBV. This would entail training in forward-looking monetary models, changes to monetary and FX operations, and measures to improve market infrastructure, strengthen banking regulation, and develop a communications strategy. In phase two, the SBV would increase exchange rate flexibility, start using a short-term interest rate as an operational target and move to a regime that gradually resembles inflation targeting. Regulations for foreign exchange intervention would be introduced to support a smooth transition. In phase three, the foreign exchange corridor would be abandoned and the SBV would only intervene to counter excessive volatility.

25. Authorities' views. The authorities emphasized that the SBV's primary objective is price stability. They indicated that they will maintain current policy settings given stable core inflation. Further administered price increases will be carefully phased to keep inflation around 4 percent. They view credit targets as appropriate to support growth and consistent with price and financial stability. They noted that increased exchange rate flexibility since last year had been successful in realigning one-sided expectations. They intend to modernize the monetary system with inflation as the anchor and greater exchange rate flexibility, and appreciate Fund TA in support of this transition.

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[3] Rising headline inflation has been primarily due to increases in administered prices in health care and education. The authorities are raising administered prices over a multi-year horizon with a flexible phasing that takes inflation developments into account. Core inflation has remained low. It declined to 1.6 percent y/y in March 2017 from 1.9 percent y/y in December 2016. An increase of core inflation above 2 percent y/y and 12-month inflation expectations above 5 percent y/y would justify a tightening of the monetary policy stance.

C. Addressing Banking System Risks and Reducing Credit Misallocation

26. Progress has been made in addressing legacy NPLs. State-owned commercial banks (SOCBs) have reduced their impaired loan ratio (NPLs, NPLs sold to Vietnam Asset Management Company (VAMC), and previously restructured loans) from 13.7 percent in June 2015 to 5.7 percent in December 2016 (Text Table 3). This reflects SOCBs' repurchases of loans sold to VAMC as provisioning progressed (most banks must provision annually 20 percent of the book value of loans sold to VAMC); a decline in loans restructured under previous forbearance legislation (decision 780); and rapid credit and economic growth. However, progress in addressing NPLs has been uneven among SOCBs. Private banks' impaired loans have decreased slightly to 10.9 percent of total loans. A few private banks account for a significant share of impaired loans and there is significant heterogeneity among them in addressing NPLs: while some have made good progress, others remain in need of restructuring, including three weak banks taken over by the SBV.

Text Table 3. Vietnam: Impaired Loans

(In trillions of Vietnamese dong; unless otherwise indicated)

	Total loans	Impaired loans	Impaired loans, of which: Classified as NPL	Sold to VAMC	Decision 780 loans	Impaired Loan Ratio (Dec. 2016)	Impaired Loan Ratio (Jun. 2015)
Total banking sector	5,575	470	139	195	136	8.4	12.7
State-owned banks	2,638	150	43	78	29	5.7	13.7
Private sector banks 1/	2,937	321	97	117	107	10.9	11.7

Sources: Data from Vietnam authorities and IMF staff calculations.

1/ Joint stock banks, joint venture banks, fully foreign-owned banks and branches.

27. Piecemeal provisioning and gradual bank recapitalization are a second-best policy response. This approach reflects resistance to using public funds for recapitalization, reflecting, first, a tight government budget constraint, with infrastructure and other public investment considered a higher priority; and second, a concern about moral hazard—the fear that recapitalized banks not subject to market discipline could, in the future, generate fresh rounds of NPLs. The relevant tradeoffs are assessed in staff's political economy model (Selected Issues: Credit Misallocation). The first-best consists of fast NPL resolution and bank recapitalization, combined with hard budget constraints on banks, which helps improve the quality of credit allocation and raises growth relative to the second-best. The first-best requires a government budget that is not too tight (marginal cost of funds below a certain threshold), highlighting the importance of fiscal space for financial stability. Commitment of public funds to strengthen the banking system is also needed for successful modernization of the monetary framework.

28. Low profitability and foreign ownership limits complicate efforts to strengthen bank capital. System-wide profitability is low compared to other emerging markets, reflecting high provisioning needs. The system-wide return on assets is estimated at 0.6 percent and return on equity is estimated at 7.5 percent. Low profitability means that the scope to build capital through retained earnings is limited in the near term. Foreign-ownership limits for banks and the lack of international accounting standards make it difficult to attract foreign strategic investors. The reported capital adequacy ratio (CAR) is 9.9 percent for SOCBs and 11.8 percent for private domestic banks. Although above the regulatory minimum of 9 percent, reported CARs reflect the reported NPL ratio of 2.46 percent, not the more broadly defined impaired assets ratio estimated by staff at 8.4 percent. The full adoption of Basel II scheduled for 2020 will reduce CARs by 200 to 400 bps.

29. Key reforms to strengthen banks include: faster NPL recognition; recapitalization by existing shareholders, including from the budget for state-owned banks; and resolution of non-viable banks. In the absence of budget funds for SOCB recapitalization, SOCBs should reduce dividend payments, and staff welcomed SBV proposals in this direction; furthermore, proceeds from further SOCB divestments by the state should be injected into the banks to facilitate recapitalization.[4] These reforms should be flanked by a phase out of credit targets and strengthening of market-based credit allocation. The three weak banks taken over by the SBV remain a risk to financial stability. Merging them with SOCBs would weaken SOCBs' capital and distract management. Planned legal reforms to facilitate debt enforcement and collection are welcome and essential for faster NPL resolution. International accounting standards should be introduced to improve transparency. Enhancing the AML/CFT framework in line with international standards and its effective implementation, commensurate with Vietnam's risks, will support financial stability.

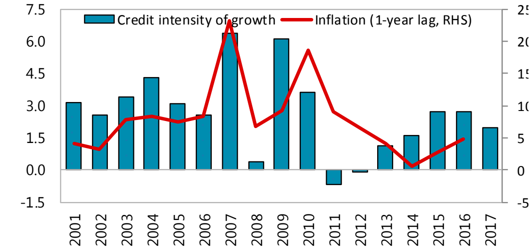
30. Staff welcomed proposals to strengthen the VAMC through higher capital and giving it the right to receive ownership of land user rights and assets attached to land. The latter is a critical measure to allow the VAMC to seize collateral. To achieve greater NPL resolution, the VAMC will need to be permitted to recognize losses and pass them along to participating banks. Stronger staffing, development of valuation and securitization methodologies, and legal protection for VAMC employees is also needed. To develop a market for NPLs, more licenses to trade NPLs and collateral should be awarded.

31. The legal framework for bank resolution should be developed and deposit insurance strengthened. Maintaining confidence in the banking system during a bank resolution requires reliable safety nets, including a strong deposit insurance scheme and an effective lender of last resort. Considerations to use deposit insurance funds to support small banks could undermine the already limited funds available for deposit insurance.

[4] This would reduce the residual recapitalization needs in Text Table 2.

32. Rapid credit growth could create new risks for the banking sector. Credit has expanded fast in the last two years, resulting in an increase of the credit-to-GDP ratio by 23.5 percent. If achieved, the 2017 credit target (15–17 percent) will cause the credit gap to widen and leave the credit-to-GDP ratio at levels signaling growing financial stability risk. The credit intensity of growth is high, raising concerns over the productivity of new credit. A substantial amount of credit appears to be directed at real estate-related sectors through direct lending to developers, loans for construction of infrastructure, and mortgages. SOEs are absorbing a disproportionate amount of credit, weighing on economic growth and increasing the risk of future NPLs, if credit is not allocated on a purely commercial basis (Selected Issues: Credit Misallocation). The financial system remains bank-centered and dominated by the SOCBs. Deeper financial markets and institutions are also critically needed to finance investment, including in infrastructure and improve financial inclusion (Selected Issues: Financial Deepening).

Vietnam: Credit Intensity of Growth and Inflation
(in percent)



Sources: Vietnamese authorities; and IMF staff estimates.

33. The tightening of risk weights for real estate loans and prudential ratios for asset-liability mismatches are welcome. The risk weight for loans related to real estate (excluding mortgages and construction loans) was raised from 150 percent to 250 percent in January 2017, reversing an earlier relaxation of risk weights. Preliminary evidence suggests some deceleration in credit growth to the sector. Consideration could be given to introducing additional measures, such as loan-to-value (LTV) ceilings, to curb excessive or speculative real estate loans. The new comprehensive debt registry facilitates the introduction of such measures. SOE leverage should be closely monitored and budget constraints hardened. Staff recommended a reduction of administrative credit growth targets to below 15 percent. Administered credit growth targets should be phased out to achieve a more market-based allocation of capital, improve banks' risk management incentives, and as a precondition for a more market-based monetary policy. Staff welcomed the ongoing work to produce Financial Stability Reports.

34. The authorities agreed on the need for faster NPL resolution and stronger bank capital buffers. As budget resources to recapitalize SOCBs are not available, they are considering restricting SOCB dividends to facilitate recapitalization through retained earnings and are also reaching out to foreign strategic investors. The authorities are readying comprehensive legal measures to accelerate NPL resolution. For the three banks taken over by the SBV, restructuring options include sales to strategic investors or mergers with domestic banks. The authorities have also drawn up plans to strengthen the VAMC through a significant increase in capital and legislation to facilitate NPL resolution. They carefully monitor risks in the banking system and the tightening of risk weights on lending to real estate has already reduced risky lending to the sector. Further macro-prudential measures will be taken if needed.

35. Data provision. The mission discussed shortcomings with data provision for surveillance purposes and proposed remedial actions. Priorities include the provision of detailed sectoral credit data; the development of real estate price indices; improving quarterly national accounts statistics and balance of payments statistics.

D. Structural Reforms for a Modern Sustainable Economy

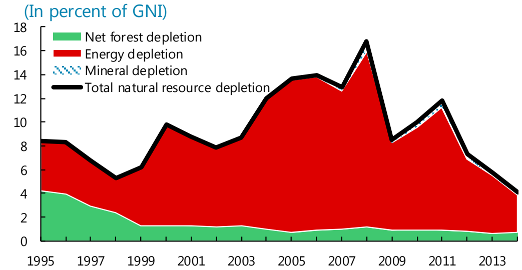
36. Narrowing the perimeter of the state. The new legal framework for SOE reform sets out to reduce state involvement in the economy. It identified a list of SOEs in strategic sectors that will remain in state ownership and prohibits SOE investment in non-core areas. It also strengthens SOE governance which should reduce the scope for asset stripping, and slates 10 large healthy SOEs for accelerated privatization. But a disproportionate share of credit is still channeled to SOEs or real estate, and SOEs enjoy implicit regulatory advantages. Staff's empirical analysis shows that SOEs borrow at lower interest rates than private firms and weak SOEs access bank funding to avoid shrinking their balance sheets (Selected Issues: Credit Misallocation). This crowds out non-connected private firms (especially SMEs), to the detriment of economic growth.

37. This is an opportune time to step up the pace of SOE reform, upgrade governance and management and increase transparency. The legal changes to circumscribe the role of the state in the economy and forbid SOE investment in non-core areas, particularly real estate and financial services, are important reforms that should be implemented firmly. They should be extended to majority state-owned companies to avoid circumvention of the law as minority-share equitizations proceed. The identification of 10 well-performing SOEs for accelerated privatization is welcome and attention should also be paid to selling, restructuring, or resolving the weakest SOEs. It should generate fiscal resources for high priority productive spending and help boost productivity in the firms being equitized. It will be important for the equitization process to maintain due process and transparency. Plans to separate government ownership from SOE management are critical to improve governance and incentivize productivity gains. Attention should also be paid to separating government ownership and management from the state's regulatory functions. This would help to avoid conflicts of interest and create a level playing field between SOEs, partially equitized companies, and the private sector. This could be achieved through the transfer of state ownership in SOEs from provinces and ministries to a centralized holding company or state agency. Active labor market policies should be strengthened to support redundant workers as SOE reforms progress.

38. Reforms are needed to raise productivity in the domestic non-FDI sector, including in agriculture. Total factor productivity (TFP) growth has declined by about 1.5 percentage points since the mid-2000s. and growth has remained factor intensive. The potential productivity gain from reallocation of labor is still large, with almost half the workforce in agriculture and three quarters employed at the household level, often informally, and both with very low productivity.[5] Staff commended the authorities on the improvement in the latest World Bank Doing Business indicators, but more is needed. Development of the domestic private manufacturing sector and integration with the booming FDI sector has been slow. Product market reforms aimed at reducing regulatory barriers to entry should be undertaken to enhance competition and raise sectoral productivity, for example in the electricity sector.[6] SMEs face challenges to reach scale, including a weak regulatory and legal environment, higher risk from corrupt practices, and competition from SOEs and connected firms with preferential access to resources. Improvements in business registration, tax payment processes, and customs procedures are welcome, but they are still often burdensome, partially due to weak capacity at the provincial level. Staff also met with the Government Inspectorate on the review of anti-corruption policies and encouraged efforts to strengthen significant measures including enhancing detection and prevention controls, including for AML purposes, sanctions, asset recovery and asset declaration systems. To raise productivity in agriculture, firms must move into higher quality production and retain more value added by developing processing activities.

39. Environmental and resource sustainability issues pose significant challenges for Vietnam (Selected Issues: Environment and climate change). About 44 percent of the labor force continues to be employed in agriculture and fisheries, where environmental risks are elevated and productivity remains low despite ongoing reforms. The sustainability of growth is threatened by water, air and ground pollution; high vulnerability of the low-lying Mekong Delta to climate change and extreme weather; and unsustainable agriculture that results, inter alia, in soil salinization.

Vietnam: Natural Resource Depletion, 1995–2014
(In percent of GNI)



Sources: WDI.

40. Climate change is at the core of the government's medium-term strategy. The authorities ratified the Paris Agreement on Climate and detailed a *Support Program to Respond to Climate Change* that commits Vietnam to reducing greenhouse gas emissions by 8 to 25 percent by 2030 relative to baseline. To achieve many SDGs, Vietnam must adopt a more sustainable and environmental friendly growth model. Developments in renewable energy production, energy efficiency regulation, public transportation and forest recovery are welcome.

[5] See McCaig, 2014, "Export markets and labor allocation in a low-income country", *National Bureau of Economic Research*.

[6] Studies suggest potentially large productivity gains from lowering entry barriers to network industries, for example: Bouis, Duval, and Eugster, 2016, "Product market deregulation and growth: new country-industry-level evidence"; and Duval and Furceri, 2016, "The effects of labor and product market reforms: the role of macroeconomic conditions and policies", available at https://www.imf.org/external/np/res/seminars/2016/arc/pdf/Duval_Furceri_Session2.pdf

41. Staff welcomes the emphasis on the environment and sustainability. It recommends an expansion of the government's environmentally friendly tax reform strategy, by increasing the environmental tax and gradually raising energy prices to fully price externalities associated with fossil fuels. Additional revenue should finance climate change mitigation and adaptation plans and be used as general revenue.

42. The authorities reiterated their commitment to ambitious structural reforms. They are committed to transforming Vietnam into a modern sustainable economy, being aware of the need to raise productivity, move up the quality ladder and adopt a resource-lean growth model before aging sets in after 2030. They noted the progress made on the legal framework for SOEs and plans to accelerate equitization, governance and other reforms. They emphasized that expected redundancies from SOE reforms are limited and employment insurance and retraining programs are in place. They are working to make the private sector the main engine of growth and improve the business environment by addressing credit access, land, tax and other legacy issues. They intend to strengthen environmental due diligence in industrial project approval and are considering raising environmental taxes.

STAFF APPRAISAL

43. Growth remains solid but external risks have risen and, in response, reform momentum is gathering steam. Growth is driven by robust domestic demand and exports, and core inflation is low. The external position is strong and fiscal consolidation is under way. But fiscal space is limited, banks need more capital and reserve buffers are thin. This points to the urgency of reforms to create more policy space. The new government steering Vietnam’s economy since early 2016 is committed to reducing the economic role of the state and modernizing its institutions, and upgrading the growth model away from natural resources, abundant labor and directed credit. Reform implementation will be aided by robust growth and the authorities’ commitment, but could be challenged by capacity constraints.

44. The fiscal consolidation under way represents an important policy recalibration. It is appropriate in size, and will help strengthen the public finances, increase the economy’s resilience to shocks and better cope with fiscal risks. Consolidation will, over time, also create room for more spending on infrastructure and other priority areas. For consolidation to be of high quality and durable, it must be accompanied by ambitious and wide-ranging fiscal reforms to broaden and diversify revenue bases, reduce exemptions and incentives, and improve revenue administration. It will also be crucial to raise spending effectiveness, protect important infrastructure and social spending and reform the civil service. The transparent use of equitization revenues is welcome and assists in debt reduction.

45. Monetary policy should remain alert. Monetary conditions remain accommodative and supportive of growth. With core inflation low but headline inflation rising because of administered price hikes, monetary policy should remain on hold but be alert for early signs of pass-through to higher core inflation. A rate hike would be appropriate if the inflation outlook deteriorates.

46. Modernization of the monetary framework will be key to enhancing resilience. Over time, the SBV should shift its focus away from exchange rate stability to price stability as the nominal anchor. An inflation targeting-like regime will help enhance the contribution of monetary policy to resilience by allowing greater exchange rate flexibility. International reserve coverage should be strengthened through opportunistic, gradual, two-sided intervention.

47. The external position is substantially stronger than warranted by economic fundamentals and appropriate policy settings. Policies should aim gradually to reduce the external imbalance via strengthened domestic demand, reforms that will raise domestic investment and foster a lower saving rate, and increased exchange rate flexibility – ensuring that rebalancing and the needed real appreciation proceeds gradually and in a growth-friendly way.

48. Bank reforms are under way to address legacy risks but their pace could be accelerated and scope broadened. Good progress has been made in addressing impaired assets, via NPL sales to the VAMC and gradual provisioning, and this is helping to strengthen bank capital buffers. System-wide impaired assets are, however, still elevated and greater speed and ambition is needed in recognizing and resolving NPLs and recapitalizing banks. Priorities include developing the legal framework for supervisory early intervention and for bank resolution; strengthening the VAMC; and implementing recent legal reforms that strengthen debt enforcement and market discipline. Banks should be recapitalized by shareholders and by restricting dividend payments if needed. Deposit insurance should also be strengthened. Credit growth targets should be lowered to reduce financial stability risks and phased out. Sectoral credit allocation needs to be monitored closely and additional macroprudential measures should be considered if previous tightening is not effective.

49. Structural reforms for a modern economy. Structural reforms under way to strengthen the public finances, reform monetary policy and reduce the economic role of the state are promising. But Vietnam will be challenged to build a sustainable modern economy before aging sets in. More extensive policy action is needed along a broad front to reform macroeconomic and state institutions and raise potential growth and productivity. Government must shift from being a producer to being an enabler, social insurer and redistributor. SOE ownership should be separated from management and from the state's regulatory functions. Business regulations and administrative procedures should be streamlined to level the playing field and foster an enabling environment for businesses and home-grown innovation. Enhanced anti-corruption reform efforts (including use of AML tools) will also contribute to improving the business climate. Credit misallocation should be reduced to make it easier for SMEs to grow and small firms to emerge from informality. Better outcomes are needed in vocational and tertiary education to meet the economy's increasing demand for skilled labor. The legal system needs to be made simpler, less time consuming and more reliable.

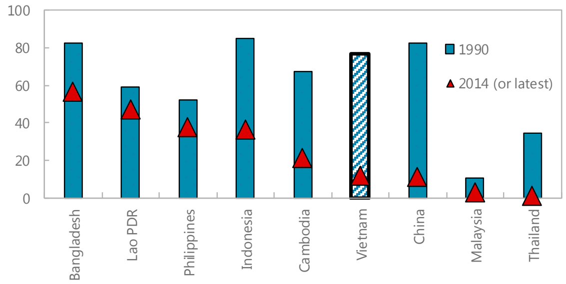
50. Creating a sustainable economy. Environmental and resource sustainability issues are macro-critical: Vietnam is vulnerable to natural disasters and climate change and emissions are on the rise. The authorities are to be commended for ratifying the Paris Agreement and for putting climate change and SDG implementation at the core of their policy agenda. The enactment of environmentally friendly tax reform and energy pricing is promising. Higher environmental taxes and better pricing of externalities in the energy sector would be useful to promote a greener, more resilient economy.

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

Figure 1. Vietnam: Poverty Reduction and Inequality

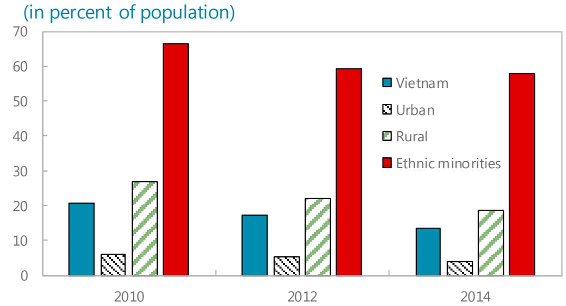
Extreme poverty in Vietnam fell dramatically….

Poverty Headcount Ratio at $3.10 a day
(2011 PPP, percent of population)



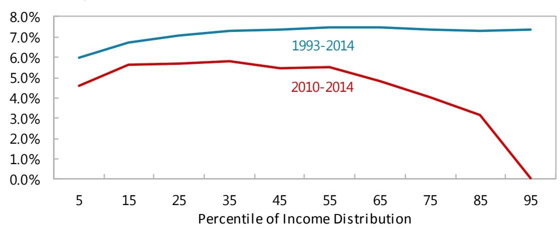
…. but remains high among ethnic minorities.

Headcount Poverty Rate at National Poverty Line
(in percent of population)



The country has achieved widely shared rapid income growth…

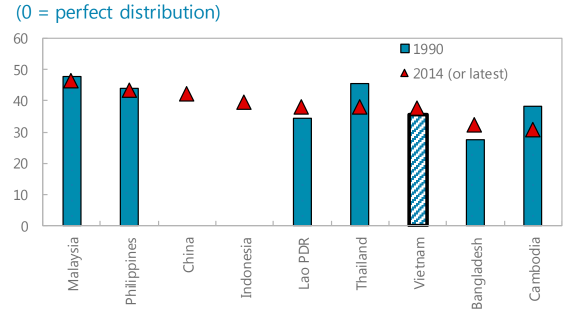
Growth Incidence Curves: 1993–2014 and 2010–14 1/
(in percent)



1/ Annualized growth rate of per capita income for every percentile of income distribution.

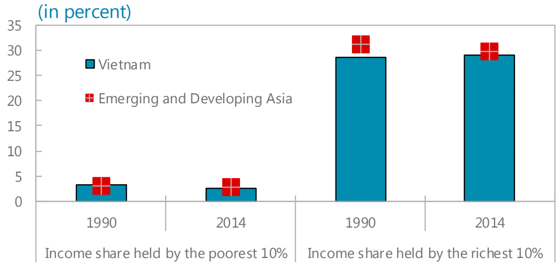
…keeping overall inequality lower than regional standards.

Net GINI Index
(0 = perfect distribution)



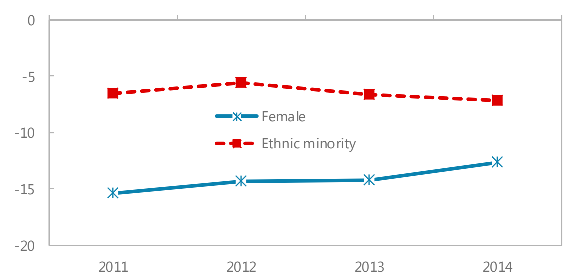
The income distribution has remained stable and comparable to that of peer countries…

Income Share Held by the Poorest and Richest 10 Percent
(in percent)



…. and the female wage gap is slowly decreasing.

Wage Premia for Female and Ethnic Minority
(in percent)

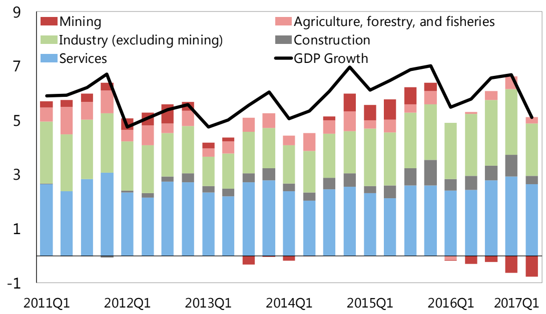


Sources: Vietnamese authorities; World Bank; and IMF staff estimates.

Figure 2. Vietnam: Robust Growth, Rising Inflation, and Accommodative Policies

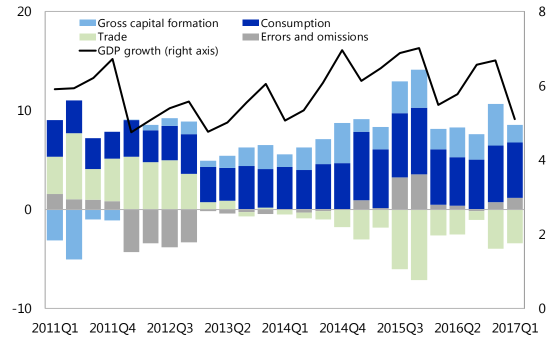
Falling oil production weighed on growth in Q1, but the underlying growth momentum remains intact.

Contribution to GDP Growth by Economic Activities (2010 prices)
(In percent)



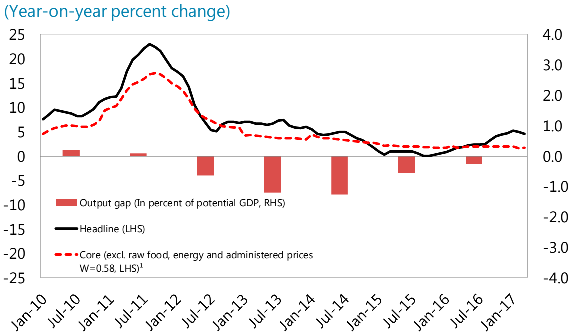
Domestic demand and investment continue to expand robustly. Trade contributed negatively to real GDP growth.

Contribution to GDP Growth by expenditure (2010 prices)
(In percentage points)



The output gap is closing and headline inflation has accelerated, while core inflation has remained low.

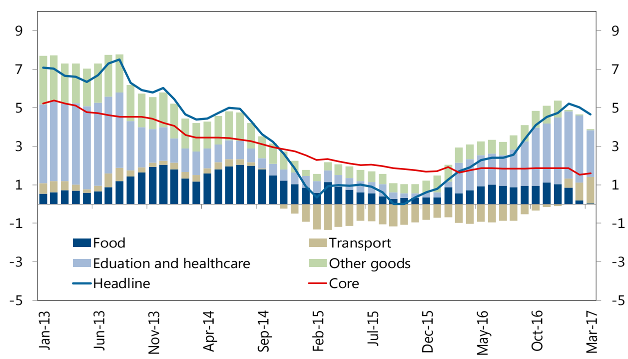
Vietnam: Inflation and Output Gap
(Year-on-year percent change)



[1] W=2014 Weight
Sources: Vietnamese authorities; and IMF staff estimates.

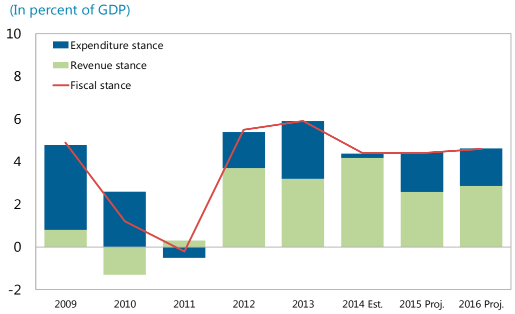
Administered price increases for health services are the main driver of higher headline inflation.

Contribution to Headline Inflation
(In percentage points)



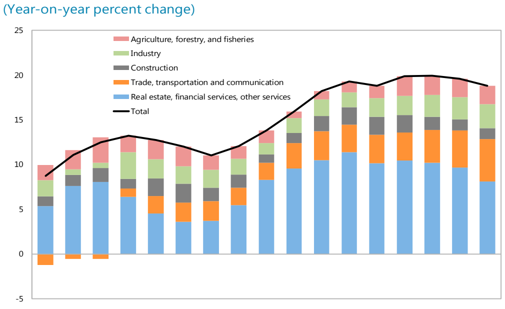
Fiscal policy has been expansionary since 2012.

Revenue and Expenditure Stance
(In percent of GDP)



High credit targets and ample liquidity have enabled rapid credit growth particularly real estate related activities.

Contribution to Credit Growth
(Year-on-year percent change)



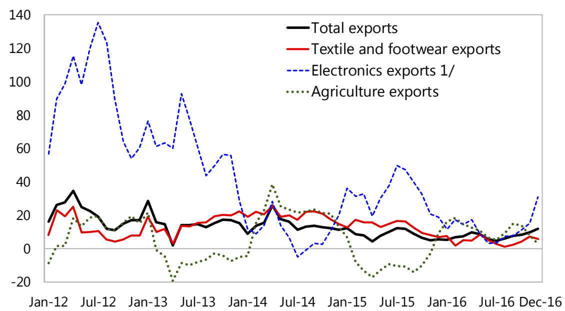
Sources: Vietnamese authorities; Bloomberg LP; and IMF staff estimates.

Figure 3. Vietnam: Strong Trade and FDI, but Still Low Reserve Coverage

Exports picked up in the second half of 2016, especially electronics.

Exports

(3mma, year-on-year percent change)

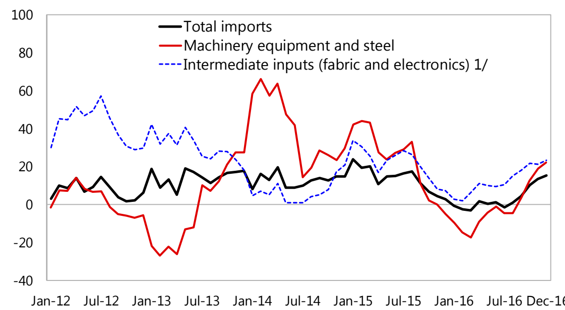


1/ Includes electronic goods and PC, electronic wire and cable, and telephone (all kinds and parts).

Import growth also accelerated toward the end of 2016, particularly investment goods and intermediate inputs…

Imports

(3mma, year-on-year percent change)

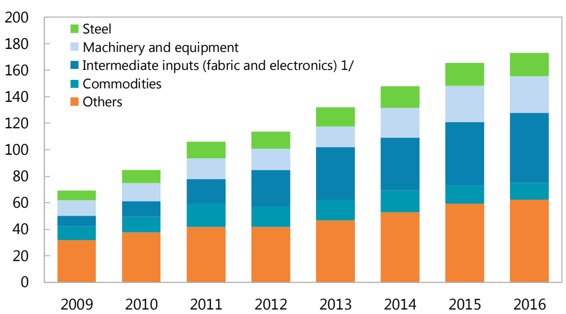


1/ Electronics also include final goods.

…which account for more than half of imports.

Imports by category

(In billions of USD)

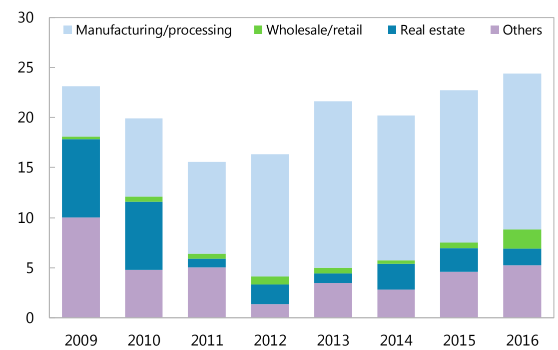


1/ Electronics also include final goods.

FDI remains strong and concentrated in manufacturing.

FDI Commitments

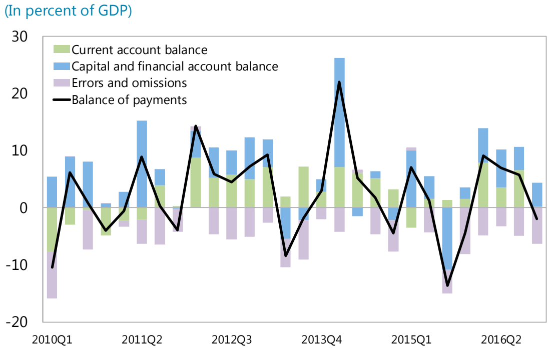
(In billions of USD)



The balance of payments strengthened in 2016…

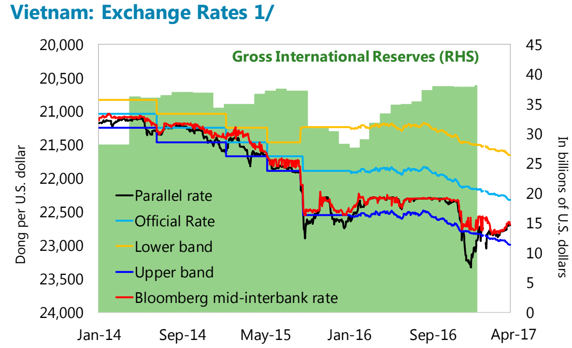
Balance of Payments

(In percent of GDP)



…but pressures on the exchange rate emerged toward the end of the year.

Vietnam: Exchange Rates 1/



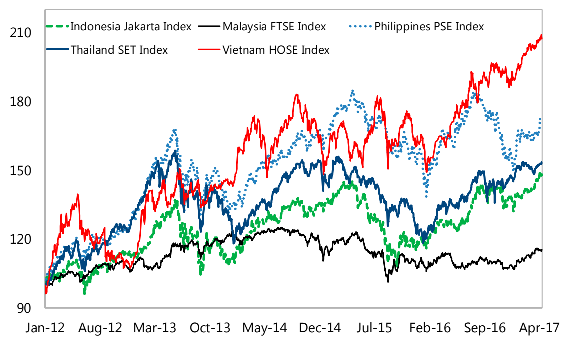
Sources: Vietnamese authorities; Bloomberg LP; and IMF staff estimates.
1/ An upward movement indicates an appreciation of the dong.

Sources: Vietnamese authorities; Bloomberg LP; IMF, DOTS; IMF, WEO; and IMF staff estimates.

Figure 4. Vietnam: Accommodative Financial Conditions for Most of 2016

The stock market has outperformed regional bourses…

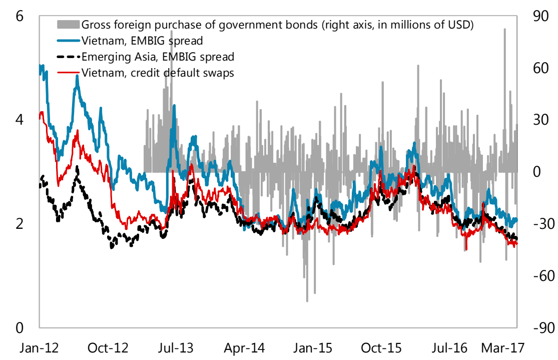
Stock Market Performance 1/
(Index, January 2012=100)



1/ Data as of Apr 12th, 2017.

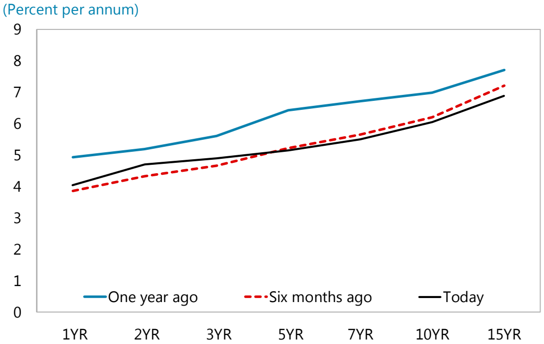
…and sovereign spreads have declined in line with regional EMs.

Sovereign Bond Spreads
(In percentage points)



Government financing costs decreased in 2016.

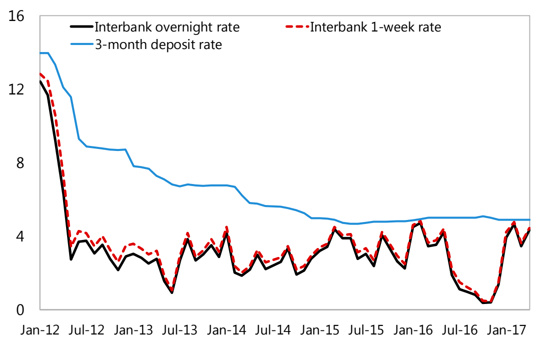
Domestic Bond Yield Curve 1/
(Percent per annum)



1/ Data as of Apr 12th, 2017.

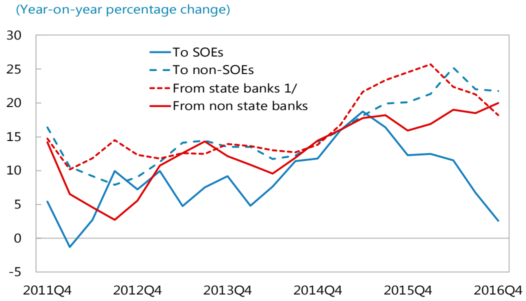
Bank funding costs were low for most of 2016, but increased recently as the State Bank of Vietnam tightened liquidity to support the currency.

Interest Rates
(In percent per annum)



Credit growth has remained high…

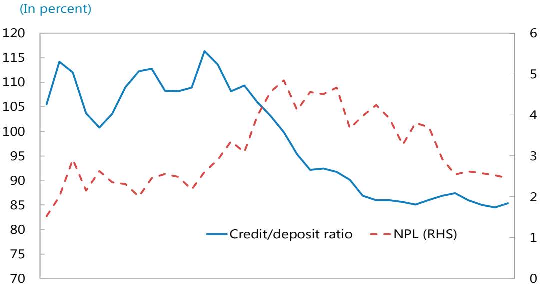
Credit Growth
(Year-on-year percentage change)



1/ Includes the four main state banks: Vietcombank, Incombank, BARD and BIDV.

…supported by strong deposit growth. While the official NPL ratio has declined, impaired assets measured more broadly remain elevated.

Credit to Deposit and NPL Ratios
(In percent)

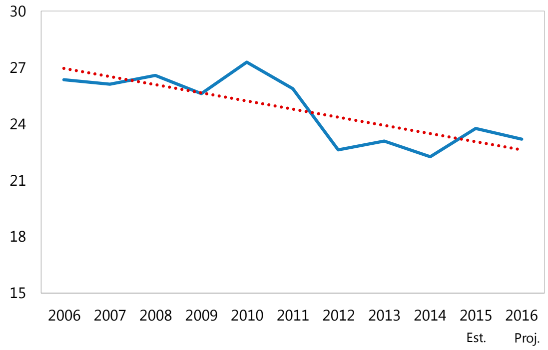


Sources: Vietnamese authorities; Bloomberg LP; and IMF staff estimates.

Figure 5. Vietnam: Sustained Fiscal Deficits Have Led to Rising Public Debt

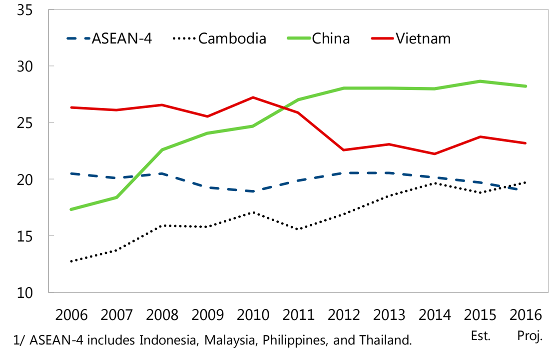
Fiscal revenue has been in long-term decline…

Revenue
(In percent of GDP)



…in contrast to regional trends.

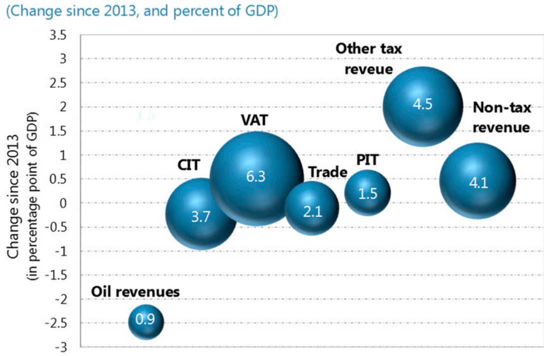
Revenue 1/
(In percent of GDP)



1/ ASEAN-4 includes Indonesia, Malaysia, Philippines, and Thailand.

Since 2013 weakness in oil, CIT, and trade revenues was offset by higher VAT, environmental tax, and non-tax revenues.

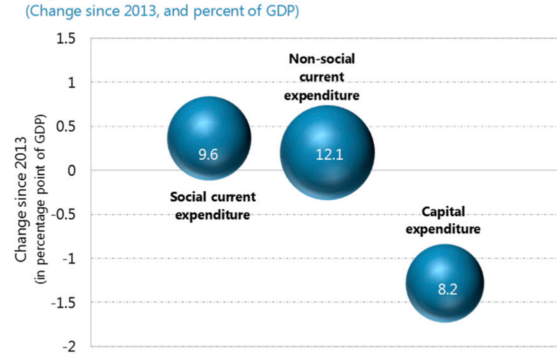
Revenue, 2016 1/
(Change since 2013, and percent of GDP)



1/ Size of the bubble represents the share of GDP.

Capital spending has been restrained.

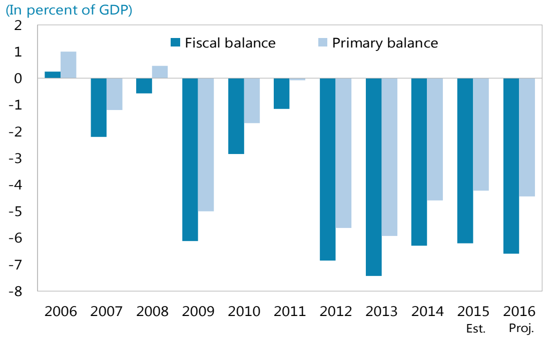
Expenditure, 2016 1/
(Change since 2013, and percent of GDP)



1/ Size of the bubble represents the share of GDP.

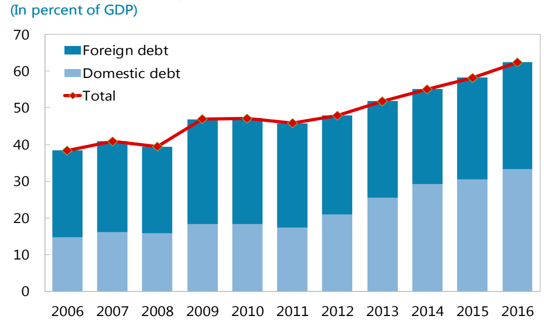
Fiscal deficits have remained high…

Fiscal Balance
(In percent of GDP)



…leading to rising public debt.

Public and Publicly Guaranteed Debt
(In percent of GDP)



Sources: Vietnamese authorities; and IMF staff estimates.

Table 1. Vietnam: Selected Economic Indicators, 2012–18 1/

	2012	2013	2014	Est. 2015	Projections 2016	2017	2018
Output							
Real GDP (percent change)	5.2	5.4	6.0	6.7	6.2	6.3	6.3
Prices (percent change)							
CPI (period average)	9.1	6.6	4.1	0.6	2.7	4.9	4.8
CPI (end of period)	6.8	6.0	1.8	0.6	4.7	5.0	4.5
Core inflation (end of period)	5.8	4.6	2.7	1.7	1.9	...	...
General government finances (in percent of GDP) 2/							
Revenue and grants	22.6	23.1	22.2	23.7	23.2	23.2	23.1
Of which: Oil revenue	3.8	3.4	2.5	1.6	0.9	0.8	0.8
Expenditure	29.5	30.5	28.5	30.0	29.8	29.0	28.9
Expense	20.4	21.6	20.4	21.7	22.1	20.8	21.0
Net acquisition of nonfinancial assets	9.1	9.0	8.1	8.2	7.7	8.2	7.9
Net lending (+)/borrowing(-) 3/	-6.9	-7.4	-6.3	-6.2	-6.6	-5.8	-5.8
Public and publicly guaranteed debt (end of period)	47.9	51.8	55.1	58.3	62.4	63.3	64.3
Money and credit (percent change, end of period)							
Broad money (M2)	18.5	18.8	17.7	16.2	18.4	18.1	17.4
Credit to the economy	8.7	12.7	13.8	18.8	18.8	17.1	16.9
Interest rates (in percent, end of period)							
Nominal three-month deposit rate (households)	8.3	6.9	5.0	4.8	4.9	…	…
Nominal short-term lending rate (less than one year)	12.4	9.7	8.5	7.2	7.2	…	…
Balance of payments (in percent of GDP, unless otherwise indicated)							
Current account balance (including official transfers)	6.0	4.5	4.9	-0.1	4.1	2.7	2.0
Exports f.o.b.	73.6	77.4	80.8	84.6	87.7	90.0	91.8
Imports f.o.b.	68.0	72.3	74.3	80.8	80.8	83.5	85.6
Capital and financial account	5.6	0.2	2.9	0.5	5.0	-0.2	0.8
Gross international reserves (in billions of U.S. dollars) 4/	25.4	26.0	34.3	28.4	36.7	42.2	48.6
In months of prospective GNFS imports	2.2	2.0	2.4	1.9	2.2	2.3	2.4
Total external debt (end of period)	37.4	37.3	38.3	43.1	47.8	49.5	51.0
Nominal exchange rate (dong/U.S. dollar, end of period)	20,825	21,105	21,385	22,485	22,770	...	...
Nominal effective exchange rate (end of period)	86.4	88.3	94.0	97.6	98.2	...	...
Real effective exchange rate (end of period)	108.9	116.1	123.6	128.7	132.8	...	...
Memorandum items:							
GDP (in trillions of dong at current market prices)	3,245	3,584	3,938	4,193	4,503	4,965	5,486
GDP (in billions of U.S. dollars)	155.6	170.6	185.9	191.5	201.3	215.4	232.7
Per capita GDP (in U.S. dollars)	1,753	1,902	2,049	2,088	2,173	2,301	2,460

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

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

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

3/ Excludes net lending of the Vietnam Development Bank.

4/ Excludes government deposits.

Table 2. Vietnam: Balance of Payments, 2012–18

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

					Est.	Projections	
	2012	2013	2014	2015	2016	2017	2018
Current account balance	9.3	7.7	9.1	-0.1	8.2	5.9	4.7
Trade balance	8.7	8.7	12.1	7.4	14.0	14.0	14.5
Exports, f.o.b.	114.5	132.0	150.2	162.0	176.6	193.9	213.6
Imports, f.o.b.	105.8	123.3	138.1	154.6	162.6	179.9	199.1
Nonfactor services	-1.4	-3.1	-3.5	-5.3	-5.4	-6.1	-7.3
Receipts	9.6	10.7	11.0	11.3	12.3	13.6	14.8
Payments	11.1	13.8	14.5	16.5	17.7	19.7	22.2
Investment income	-6.2	-7.3	-8.8	-10.0	-8.4	-10.2	-11.0
Receipts	0.3	0.3	0.3	0.4	0.6	0.1	0.2
Payments	6.5	7.6	9.2	10.4	8.9	10.3	11.2
Transfers	8.2	9.5	9.3	7.7	8.0	8.3	8.6
Private (net)	7.9	8.9	8.8	7.4	7.7	8.0	8.3
Official (net)	0.3	0.6	0.5	0.3	0.3	0.3	0.2
Capital and financial account balance	8.7	0.3	5.5	1.0	10.1	-0.4	1.8
Direct investment (net)	7.2	6.9	8.1	10.7	11.6	11.9	12.3
Of which: Foreign direct investment in Vietnam	8.4	8.9	9.2	11.8	12.6	13.0	13.4
Portfolio investment	2.0	1.5	0.1	-0.1	0.2	0.5	0.5
Medium- and long-term loans	4.3	3.5	5.4	4.6	3.4	3.4	3.2
Disbursements	7.8	8.2	9.8	9.8	8.4	8.9	9.3
Amortization	3.5	4.7	4.4	5.2	5.0	5.5	6.1
Short-term capital 1/	-4.7	-11.6	-8.0	-14.2	-5.2	-16.2	-14.3
Change in net foreign assets	-6.0	-11.7	-9.1	-15.0	-4.6	-4.2	-3.8
Of which: Commercial banks	0.1	-2.3	-1.5	-5.3	2.7	-2.4	-2.2
Trade credit (net)	1.3	0.1	1.0	0.8	-0.6	0.6	0.8
Other short-term capital	…	…	…	…	…	-10.2	-9.1
Errors and omissions	-6.1	-6.9	-6.3	-6.9	-10.0	0.0	0.0
Overall balance	11.9	1.1	8.3	-6.0	8.3	5.5	6.4
Memorandum items:							
Gross international reserves 2/	25.4	26.0	34.3	28.4	36.7	42.2	48.6
In months of prospective GNFS imports	2.2	2.0	2.4	1.9	2.2	2.3	2.4
Current account balance (in percent of GDP)	6.0	4.5	4.9	-0.1	4.1	2.7	2.0
Export value (percent change)	18.2	15.3	13.8	7.9	9.0	9.8	10.1
Export volume (annual percentage change)	19.4	14.2	15.9	15.4	14.3	5.7	8.8
Import value (percent change)	8.7	16.5	12.0	12.0	5.2	10.6	10.7
Import value (in percent of GDP)	68.0	72.3	74.3	80.8	80.8	83.5	85.6
Import volume (annual percentage change)	5.8	19.2	14.5	25.7	11.9	5.9	9.5
External debt	58.3	63.3	70.6	80.4	94.5	105.4	117.4
In percent of GDP 3/	37.4	37.3	38.3	43.1	47.8	49.5	51.0
GDP	155.6	170.6	185.9	191.5	201.3	215.4	232.7

Sources: Vietnamese authorities; and IMF staff estimates and projections.
1/ Incorporates a projection for negative errors and ommissions going forward.
2/ Excludes government deposits.
3/ Uses interbank exchange rate.

Table 3. Vietnam: General Government Budgetary Operations, 2012–18 1/

	2012	2013	2014	Estimate 2015	Plan 2016	Staff Baseline 2/ 2016	Plan 2017	Staff Baseline 3/ 2017	Proj. 2018
				(In trillions of dong)					
Total revenue and grants	733	827	876	996	985	1045	1152	1152	1269
Tax revenue	617	685	717	764	816	856	957	957	1064
Oil revenues	125	120	100	68	55	40	38	38	42
Non-oil tax revenues	493	565	617	697	761	816	918	918	1022
Grants	10	11	11	12	3	4	4	4	4
Other revenue	106	131	147	219	166	185	192	192	202
Expenditure	956	1094	1123	1256	1277	1342	1390	1440	1585
Expense	662	773	804	910	964	996	1033	1033	1150
Interest	40	54	67	83	95	97	99	99	126
Other expense	622	719	737	827	869	899	934	934	1024
Net acquisition of non-financial assets	294	321	319	346	313	346	357	407	435
Net lending (+)/borrowing (-)	-223	-267	-248	-261	-293	-297	-238	-288	-316
Net incurrence of financial liabilities	222	263	272	183	279	293	199	249	302
Domestic	176	185	231	128	189	202	100	150	188
Securities	115	131	137	102	...	...	...	...	...
Loans	61	55	96	25	...	...	...	...	...
Foreign	46	78	42	55	90	91	99	99	115
Disbursement	75	105	81	92	120	119	132	132	153
Amortization	28	27	39	39	30	30	35	35	40
Net acquisition of financial assets	0	4	-25	78	14	4	39	39	13
				(In percent of GDP, unless otherwise indicated)					
Revenue	22.6	23.1	22.2	23.7	21.9	23.2	23.2	23.2	23.1
Tax revenue	19.0	19.1	18.2	18.2	18.1	19.0	19.3	19.3	19.4
Oil revenues	3.8	3.4	2.5	1.6	1.2	0.9	0.8	0.8	0.8
Non-oil revenues	15.2	15.8	15.7	16.6	16.9	18.1	18.5	18.5	18.6
Grants	0.3	0.3	0.3	0.3	0.1	0.1	0.1	0.1	0.1
Other revenue	3.3	3.7	3.7	5.2	3.7	4.1	3.9	3.9	3.7
Expenditure	29.5	30.5	28.5	30.0	28.4	29.8	28.0	29.0	28.9
Expense	20.4	21.6	20.4	21.7	21.4	22.1	20.8	20.8	21.0
Interest	1.2	1.5	1.7	2.0	2.1	2.2	2.0	2.0	2.3
Other expense	19.2	20.1	18.7	19.7	19.3	20.0	18.8	18.8	18.7
Net acquisition of non-financial assets	9.1	9.0	8.1	8.2	6.9	7.7	7.2	8.2	7.9
Net lending (+)/borrowing (-)	-6.9	-7.4	-6.3	-6.2	-6.5	-6.6	-4.8	-5.8	-5.8
Net incurrence of financial liabilities	6.8	7.3	6.9	4.4	6.2	6.5	4.0	5.0	5.5
Domestic	5.4	5.2	5.9	3.0	4.2	4.5	2.0	3.0	3.4
Securities	3.5	3.6	3.5	2.4	...	...	...	...	...
Loans	1.9	1.5	2.4	0.6	...	...	...	...	...
Foreign	1.4	2.2	1.1	1.3	2.0	2.0	2.0	2.0	2.1
Disbursement	2.3	2.9	2.1	2.2	2.7	2.6	2.7	2.7	2.8
Amortization	0.9	0.8	1.0	0.9	0.7	0.7	0.7	0.7	0.7
Net acquisition of financial assets	0.0	0.1	-0.6	1.9	0.3	0.1	0.8	0.8	0.2
Memorandum items:									
Public and publicly guaranteed debt	47.9	51.8	55.1	58.3	62.3	62.4	62.3	63.3	64.3
Primary balance	-5.6	-5.9	-4.6	-4.2	-4.4	-4.4	-2.8	-3.8	-3.5
Non-oil primary balance	-9.5	-9.3	-7.1	-5.8	-5.6	-5.3	-3.6	-4.6	-4.2
Fiscal stance	5.5	5.9	4.5	4.4	...	4.6	...	3.9	3.8
Fiscal impulse	5.7	0.4	-1.3	0.0	...	0.2	...	-0.8	0.0
Nominal GDP (in trillions of dong)	3,245	3,584	3,938	4,193	4,503	4,503	4,965	4,965	5,486

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

1/ Government Finance Statistics 2001 presentation.

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

3/ Includes 50 trn more capital expenditure than budget.

Table 4. Vietnam: Monetary Survey, 2012–18 1/

(In trillions of dong at end-period, unless otherwise indicated)

	2012	2013	2014	2015	2016	Projections 2017	Projections 2018
Net foreign assets	548	613	826	836	960	1,188	1,417
State Bank of Vietnam (SBV)	522	540	722	614	818	983	1,155
Commercial banks	26	73	104	222	143	206	262
Net domestic assets	3,155	3,788	4,353	5,184	6,165	7,228	8,467
Domestic credit	3,404	3,876	4,480	5,381	6,288	7,363	8,617
Net claims on government	326	407	530	689	713	833	983
SBV	43	27	7	83	13	…	…
Credit institutions	283	379	523	606	701	…	…
Credit to the economy	3,078	3,470	3,950	4,693	5,575	6,530	7,634
Claims on state-owned enterprises (SOEs)	524	573	644	723	741	…	…
Claims on other sectors	2,553	2,897	3,306	3,970	4,834	…	…
In dong	2,540	3,010	3,458	4,267	5,127	…	…
In foreign currency	538	460	491	425	448	…	…
By state-owned banks (SOCBs)	1,427	1,625	1,850	2,304	2,723	…	…
By non-SOCBs	1,511	1,694	1,939	2,247	2,695	…	…
Other items net	-249	-88	-127	-198	-123	-136	-150
Total liquidity (M2)	3,703	4,401	5,179	6,020	7,126	8,416	9,884
Dong liquidity	3,228	3,852	4,613	5,370	6,505	…	…
Deposits	2,773	3,345	3,988	4,643	5,654	…	…
Currency outside banks	456	507	625	727	851	…	…
Foreign currency deposits	475	549	566	650	621	…	…
Memorandum items:							
Money multiplier 2/	5.6	6.3	6.3	6.1	6.4	6.2	6.2
Velocity	0.9	0.8	0.8	0.7	0.6	0.6	0.6
Reserve money (year-on-year percent change)	25.4	6.1	18.7	19.3	12.8	21.7	16.9
Liquidity (M2; year-on-year percent change)	18.5	18.8	17.7	16.2	18.4	18.1	17.4
Currency/deposits (in percent)	14.0	13.0	13.7	13.7	13.6	…	…
Credit/deposits (total, in percent)	94.8	89.1	86.7	88.7	88.9	88.1	87.7
Credit/deposits (dong, in percent)	91.6	90.0	86.7	91.9	90.7	…	…
Credit/deposits (foreign currency, in percent)	113.3	83.7	86.8	65.5	72.2	…	…
Credit to the economy							
Total (in percent of GDP)	94.8	96.8	100.3	111.9	123.8	131.5	139.2
Total (year-on-year percent change)	8.7	12.7	13.8	18.8	18.8	17.1	16.9
In dong (year-on-year percent change)	12.2	18.5	14.9	23.4	20.2	…	…
In FC (year-on-year percent change)	-5.1	-14.5	6.9	-13.4	5.2	…	…
In FC at constant exchange rate (year on year percent change)	-5.0	-15.3	6.0	-16.2	3.0	…	…
To SOEs (year-on-year percent change)	7.2	9.2	12.5	12.3	2.6	…	…
To other sectors (year-on-year percent change)	9.1	13.5	14.1	20.1	21.7	…	…
To SOEs (percent of total)	17.0	16.5	16.3	15.4	13.3	…	…
Dollarization							
Foreign currency deposits/total deposits (in percent)	14.6	14.1	12.4	12.3	9.9	…	…
Foreign currency loans/total loans (in percent)	17.5	13.3	12.4	9.1	8.0	…	…
Banks' net foreign exchange position (millions of U.S. dollars) 3/	4,277	-796	1,373	-106	-1,347	…	…
Government deposits (in percent of GDP)	2.3	3.0	2.3	1.6	2.9	…	…
Nominal GDP (in trillions of dong)	3,245	3,584	3,938	4,193	4,503	4,965	5,486

Sources: SBV; and IMF staff estimates and projections.

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

2/ M2 over reserve money.

3/ At interbank exchange rate; excludes SBV credit to credit institutions.

Table 5. Vietnam: Medium-Term Projections, 2012–22

	2012	2013	2014	Est. 2015	Projections 2016	2017	2018	2019	2020	2021	2022
Output					(Percent change)						
Real GDP	5.2	5.4	6.0	6.7	6.2	6.3	6.3	6.2	6.2	6.2	6.2
Prices											
CPI (period average)	9.1	6.6	4.1	0.6	2.7	4.9	4.8	4.3	4.0	4.0	4.0
CPI (end of period)	6.8	6.0	1.8	0.6	4.7	5.0	4.5	4.0	4.0	4.0	4.0
GDP deflator	10.9	4.8	3.7	-0.2	1.1	3.7	3.9	4.0	4.0	4.0	4.0
General government finances 1/					(In percent of GDP, unless otherwise indicated)						
Revenue and grants	22.6	23.1	22.2	23.7	23.2	23.2	23.1	23.1	23.1	23.0	23.2
Expenditure	29.5	30.5	28.5	30.0	29.8	29.0	28.9	28.4	28.1	28.0	27.9
Expense	20.4	21.6	20.4	21.7	22.1	20.8	21.0	20.9	20.7	20.6	20.5
Net acquisition of nonfinancial assets	9.1	9.0	8.1	8.2	7.7	8.2	7.9	7.5	7.4	7.3	7.4
Net lending (+)/borrowing(-)	-6.9	-7.4	-6.3	-6.2	-6.6	-5.8	-5.8	-5.3	-5.1	-5.0	-4.7
Non-oil primary balance	-9.5	-9.3	-7.1	-5.8	-5.3	-4.6	-4.2	-3.6	-3.3	-3.0	-2.6
Public and publicly guaranteed debt (end of period)	47.9	51.8	55.1	58.3	62.4	63.3	64.3	64.7	65.0	65.3	65.4
Balance of payments											
Current account balance	6.0	4.5	4.9	-0.1	4.1	2.7	2.0	1.4	1.2	0.8	0.5
Exports f.o.b.	73.6	77.4	80.8	84.6	87.7	90.0	91.8	93.5	95.0	96.7	98.9
Imports f.o.b.	68.0	72.3	74.3	80.8	80.8	83.5	85.6	87.4	89.3	91.4	94.0
Capital and financial account (net)	5.6	0.2	2.9	0.5	5.0	-0.2	0.8	1.0	1.7	1.9	1.4
Gross international official reserves (in billions of U.S. dollars)	25.4	26.0	34.3	28.4	36.7	42.2	48.6	54.7	62.6	70.7	76.8
In months of prospective GNFS imports	2.2	2.0	2.4	1.9	2.2	2.3	2.4	2.4	2.5	2.5	2.7
Total external debt (in billions U.S. dollars)	58.3	63.3	70.6	80.4	94.5	105.4	117.4	130.3	144.2	159.0	173.2
In percent of GDP	37.4	37.3	38.3	43.1	47.8	49.5	51.0	52.0	53.1	54.0	54.3
Memorandum items:											
Nominal GDP (in trillions of dong)	3,245	3,584	3,938	4,193	4,503	4,965	5,486	6,058	6,689	7,387	8,156
Nominal GDP (in billions of U.S. dollars)	155.6	170.6	185.9	191.5	201.3	215.4	232.7	252.5	274.1	297.3	322.0
Per capita GDP (in U.S. dollars)	1,753	1,902	2,049	2,088	2,173	2,301	2,460	2,641	2,838	3,056	3,288

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

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

Table 6. Vietnam: Millennium Development Goals

Goal/Target		Progress	Status
Goal 1: Eradicate extreme poverty and hunger			
Target 1	Reduce extreme poverty by half between 1990 and 2015	Poverty reduced by three-quarters between 1990 and 2008	Achieved
Target 2	Reduce hunger by half between 1990 and 2015	Proportion of population below minimum consumption reduced by more than three-quarters between 1993 and 2012	Achieved
Goal 2: Achieve universal primary education			
Target 3	Universal primary schooling by 2015	Net enrollment ratio in primary education at 98.1 enrollees per 100 children	Achieved
Goal 3: Promote gender equality			
Target 4	Eliminate gender gaps in primary education no later than 2015	Ratio of girls to boys in primary education of 0.99 in 2014	Achieved
Goal 4: Reduce child mortality			
Target 5	Reduce by two-thirds between 1990 and 2015, the under-five mortality rate	Reduced by 60 percent between 1990 and 2015 (down from 51 to 22 deaths per 1,000)	Nearly achieved
Goal 5: Improve maternal health			
Target 6	Reduce maternal mortality by three-quarters, between 1990 and 2015	Fell from 233 per 100,000 births in 1999 to 54 in 2015	Achieved
Goal 6: Combat HIV/AIDS and other diseases			
Target 7	By 2015, halt and begin to reverse the spread of HIV/AIDS	Infection rate is on upward trend; 0.5 per year per 100 people aged 15-49 in 2015	Partially achieved
Target 8	By 2015, halt and reverse the incidence of tuberculosis (TB)	Cases reduced by 45 percent in 2015	Achieved
Goal 7: Ensure environmental sustainability			
Target 9	Embrace sustainability and reverse the loss of forests	Forest cover up but loss in closed-canopy forest and biodiversity	Partially achieved
Target 10	Halve by 2015, share of people without safe drinking water and basic sanitation	98 percent with access to improved water source in 2015; sanitation access was greatly enhanced	Achieved

Sources: United Nations Development Program, General Statistics Office of Vietnam, and the World Bank.

Table 7. Vietnam: Financial Soundness Indicators 1/

(In percent)

	2010	2011	2012	2013	2014	2015	2016
Regulatory Capital to Risk-Weighted Assets	11.3	12.9	11.8	13.4	11.8	12.8	12.8
Regulatory Tier 1 Capital to Risk-Weighted Assets	10.4	11.9	12.9	12.1	10.6	10.1	n.a.
Non-performing Loans Net of Provisions to Capital	7.3	10.2	14.8	12.8	14.2	11.0	n.a.
Non-performing Loans to Total Gross Loans 2/	2.1	2.8	3.4	3.1	2.9	2.3	2.5
Return on Assets 3/	1.6	1.5	0.8	0.5	0.3	0.4	0.6
Return on Equity 3/	17.7	16.4	8.2	5.8	3.2	5.4	7.5
Interest Margin to Gross Income	72.0	79.3	79.6	73.4	69.4	74.4	n.a.
Non-interest Expenses to Gross Income	47.0	48.1	55.6	55.1	56.7	55.8	n.a.
Liquid Assets to Total Assets (Liquid Asset Ratio)	29.0	13.3	13.4	13.0	15.5	13.2	n.a.

Source: Financial Soundness Indicators (FSI)

1/ Depository corporations only

2/ The staff estimated more broadly defined NPL ratios, which include NPLs sold to VAMC and loans previously restructured under Decision 780, as about 8.4 percent of total loans as of December 2016.

3/ The values for 2016 are the annualized year-to-date values until 2016/Q3.

Appendix I. Risk Assessment Matrix

Nature/Source of Threat	Likelihood	Impact	Policies to Minimize Impact
		External Risks	
Significant further strengthening of the US dollar and/or higher rates	***H***	***M:*** Capital outflows pressure exchange rate and reserves, confidence declines	Tighten monetary policy and allow exchange rate flexibility, with judicious currency intervention to avoid excessive volatility. Modernize monetary framework using inflation as a nominal anchor. Accelerate fiscal consolidation, and structural reforms to support confidence and FDI.
Significant China slowdown and its spillovers/ **Structurally weak growth in key advanced and emerging economies**	***L/M*** ***H/M***	***M***: Weaker export growth, FDI, and remittances	Allow greater exchange rate flexibility, move toward using inflation as a nominal anchor. Accelerate financial sector, SOE, and structural reforms to improve productivity, FDI, and domestic activity.
Lower energy prices	***L***	***L:*** Improved current account balance; lower fiscal revenues	Allow exchange rate flexibility. Strengthen revenue: broaden base, reduce exemptions, strengthen administration, introduce a property tax.
Retreat from cross border integration	***H***	***H:*** Weaker export growth, FDI, and remittances; supply chains could be interrupted; failure of TPP may also reduce the SOE reform momentum	Rapid implementation of FTAs with the EU, Eurasian Economic Union, and Korea. Deepen regional trade integration. Strengthen competitiveness through accelerated SOE, structural, and banking reforms.
		Domestic Risks	
Inadequate fiscal consolidation	***H***	***M:*** Higher interest rates, exchange rate pressures, weaker confidence, crowding out	Broaden revenue base, reduce exemptions, strengthen administration, introduce a property tax, curtail non-essential spending, civil service reform. Use SOE equitization receipts to help finance the budget, but this should not substitute for structural consolidation.
Banking-sector NPLs are exacerbated, high credit growth creates new risks	***M***	***H***: Adverse macro-financial feedback loop	Accelerate NPL resolution and recapitalization of systemically important banks, resolve small unviable banks, strengthen safety nets. Reduce credit growth targets and phase out over the medium-term.
Accelerating, persistent inflation	***L***	***H:*** Interaction with pressures on the exchange rate and capital outflows	Tighten monetary policy and allow exchange rate appreciation. Carefully phase in further increases in administered prices. Prioritize modernization of the monetary framework to anchor on inflation stability.

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

Appendix II. Public and External Debt Sustainability Analysis

Vietnam's public and publicly guaranteed (PPG) debt has risen by 16 percentage points of GDP in the last five years, to 62.4 percent of GDP in 2016. The authorities are planning an ambitious fiscal consolidation, but concrete measures are not yet fully identified. Under staff's baseline projections which incorporate less consolidation than the authorities' plan, PPG debt would stabilize at 65.4 percent of GDP by 2022. Compared to the 2016 analysis, the projected debt trajectory is more benign, primarily due to the greater planned use of non-debt creating equitization revenues for budget financing. Notwithstanding, staff continues to assess the debt sustainability risk as moderate, reflecting uncertainty about fiscal consolidation measures and equitization revenues and risks from potential contingent liabilities related to banks, SOEs, and the social security system. External debt is expected to increase in the short run and stabilize at moderate levels.

Background. The debt sustainability analysis (DSA) framework for market access countries is used to assess Vietnam's debt sustainability and other risks related to its funding and debt structure. The framework uses a risk-based approach and expands upon the basic DSA to include (i) an assessment of the realism of baseline assumptions and the projected fiscal adjustment; (ii) an analysis of risks associated with the debt profile; (iii) macro-fiscal risks; (iv) a stochastic debt projection taking into account past macro-fiscal volatility; and (v) a standardized summary of risks in a heat map. This DSA also examines the implications of implementation risks by considering a no-adjustment scenario.

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

Macro-fiscal assumptions. Using the baseline scenario, growth increases from 6.2 percent in 2016 to a projected 6.3 percent in 2017, and stabilizes at potential—6.2 percent—in the medium term. In the baseline, staff projects a primary fiscal deficit of 3.6 percent in 2017 and is assumed to decline over the medium-term, to 2 percent of GDP in 2022.

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

Realism of baseline assumptions. The median forecast errors for real GDP growth, primary balance and inflation during 2007–15 are fairly small, around -0.4 percent, showing no evidence of systematic projection bias that could undermine the assessment.

Cross-country experience suggests that the baseline fiscal adjustment is feasible. The maximum three-year adjustment in the cyclically adjusted primary balance (CAPB) over the projected period is 1.6 percent and the fiscal consolidation is assumed to be achieved mainly through expenditure reduction, absent of structural revenue enhancing measures.

Public debt sustainability. Under the baseline scenario, PPG debt-to-GDP ratio is projected to increase by 0.8 percentage point in 2017, with privatization receipts partially compensating for the primary deficit. PPG debt should stabilize at around 65.4 percent of GDP by 2022 breaching the government ceiling of 65 percent of GDP in 2020. Most of Vietnam's debt has medium to long-term maturity and the share of foreign currency-dominated debt is projected to decrease from 47 percent of total debt in 2015 to 45.4 percent in 2022.

The constant primary balance scenario shows that, if the deficit were to remain at the 2017 level, PPG debt would not stabilize in the medium term and reach about 70.1 percent of GDP by 2022. The historical scenario—in which real GDP growth, the primary balance and real interest rates are set at their historical average—leads to a level of PPG debt similar to the baseline. Macro-fiscal stress tests suggest that Vietnam is more vulnerable to real interest rate and primary balance shocks but these shocks would not carry the debt-to GDP ratio over the 70 percent threshold. A real interest rate shock, in which the effective interest rate is increased by 55 basis points in 2019 to 185 basis points in 2022, would raise PPG debt to 68.1 percent of GDP. A combined macro-fiscal shock in 2018 would increase PPG debt to over 74 percent of GDP by 2022.

Probability distributions from a dynamic simulation of debt sustainability under an array of macroeconomic shocks show a 25 percent chance that PPG debt could reach about 80 percent of GDP under a worst-case scenario, while a combination of positive shocks would help reduce the debt-to-GDP ratio under 50 percent with a 25 percent probability.

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

External debt sustainability. Vietnam's external debt-to-GDP ratio is expected to increase to 48.9 percent of GDP in 2017 on the back of growing private external borrowing. Gross external financing is projected at 5.7 percent of GDP.

Under the baseline, external debt would increase to 53.8 percent of GDP by 2022 as gross external financing needs rises, in line with the projected erosion of the current account surplus. Vietnam's external debt is vulnerable to real depreciation and current-account shocks while growth and interest rate shocks have only limited impact on the external debt dynamics.

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

(In percent of GDP unless otherwise indicated)

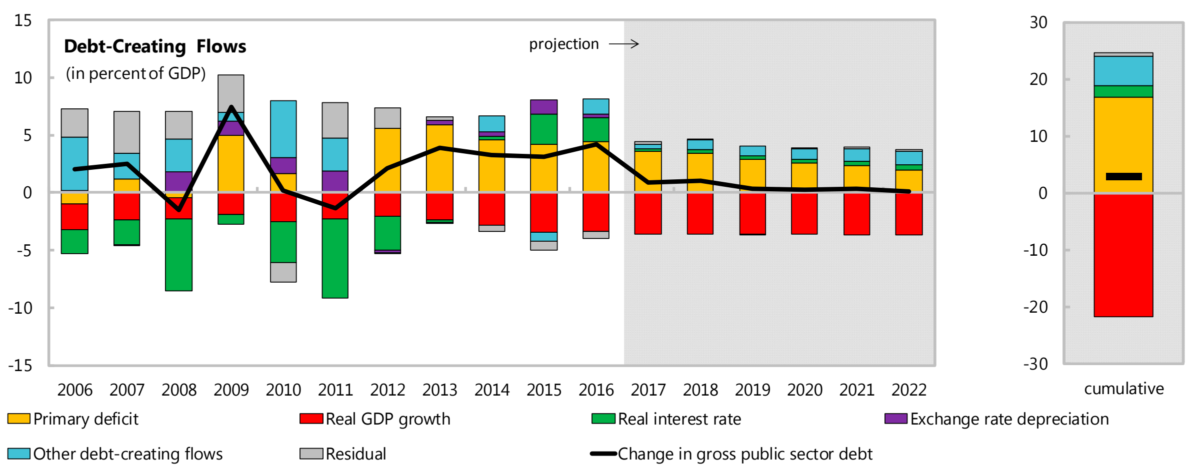
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2006-2014 [2/]	2015	2016	2017	2018	2019	2020	2021	2022
Nominal gross public debt	45.9	58.3	62.4	63.3	64.3	64.7	65.0	65.3	65.4
Of which: guarantees	9.8	11.5	12.1	12.1	11.0	9.9	9.0	8.2	7.4
Public gross financing needs	9.1	8.7	9.8	8.7	8.9	8.5	8.4	8.6	8.6
Public debt (in percent of potential GDP)	45.9	57.9	62.3	63.3	64.4	64.8	65.1	65.4	65.5
Real GDP growth (in percent)	6.1	6.7	6.2	6.3	6.3	6.2	6.2	6.2	6.2
Inflation (GDP deflator, in percent)	11.1	-0.2	1.1	3.7	3.9	4.0	4.0	4.0	4.0
Nominal GDP growth (in percent)	17.8	6.5	7.4	10.3	10.5	10.4	10.4	10.4	10.4
Effective interest rate (in percent) [4/]	3.9	4.8	5.0	4.4	4.6	4.8	4.8	4.9	5.0

As of April 13, 2017		
Sovereign Spreads		
EMBIG (bp) 3/		216
5Y CDS (bp)		169
Ratings	Foreign	Local
Moody's	B1	Ba2
S&Ps	BB-	BB
Fitch	BB-	BB-

Contribution to Changes in Public Debt

	Actual			Projections							
	2006-2014	2015	2016	2017	2018	2019	2020	2021	2022	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	2.1	3.1	4.2	0.8	1.1	0.4	0.3	0.3	0.1	3.0	
Identified debt-creating flows	0.5	3.9	4.8	0.6	1.0	0.4	0.2	0.2	-0.1	2.3	
Primary deficit	2.5	4.2	4.4	3.6	3.5	2.9	2.6	2.4	2.0	16.8	-2.0
Primary (noninterest) revenue and grants	25.1	23.7	23.2	23.2	23.1	23.1	23.1	23.0	23.2	138.7	
Primary (noninterest) expenditure	27.6	28.0	27.6	26.8	26.6	26.0	25.6	25.4	25.2	155.5	
Automatic debt dynamics [5/]	-4.2	0.4	-1.0	-3.3	-3.3	-3.3	-3.3	-3.3	-3.2	-19.8	
Interest rate/growth differential [6/]	-5.0	-0.9	-1.3	-3.3	-3.3	-3.3	-3.3	-3.3	-3.2	-19.8	
Of which: real interest rate	-2.7	2.6	2.1	0.2	0.3	0.3	0.3	0.4	0.5	2.0	
Of which: real GDP growth	-2.2	-3.5	-3.4	-3.6	-3.6	-3.6	-3.6	-3.6	-3.7	-21.7	
Exchange rate depreciation [7/]	0.7	1.3	0.3	…	…	…	…	…	…	…	
Other identified debt-creating flows	2.2	-0.7	1.3	0.4	0.9	0.9	0.9	1.1	1.2	5.3	
Fiscal- Net privatization proceeds (negative)	0.0	0.0	-0.7	-1.2	-0.5	-0.4	-0.3	-0.1	0.0	-2.6	
Contingent liabilities	0.1	1.1	1.4	1.1	1.1	1.0	1.0	1.0	1.0	6.4	
Fiscal- Net acquisition of financial assets	2.1	-1.9	0.6	0.4	0.3	0.2	0.2	0.2	0.1	1.4	
Residual, including asset changes [8/]	1.6	-0.8	-0.6	0.2	0.1	0.0	0.1	0.1	0.2	0.6	



Source: IMF staff.

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

2/ Based on available data.

3/ EMBIG.

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

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

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

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

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

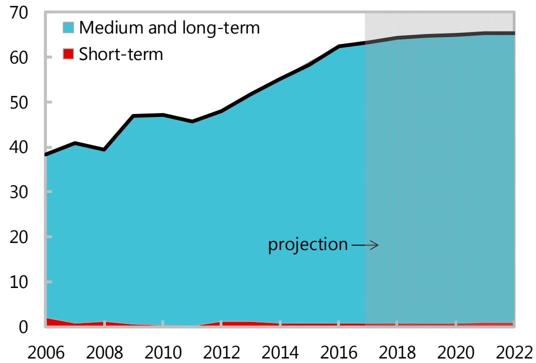
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

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

Composition of Public Debt

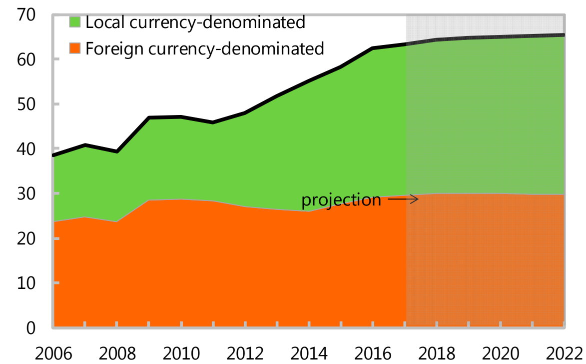
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

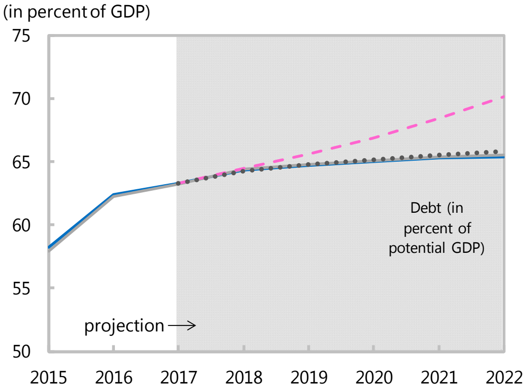


Alternative Scenarios

Baseline Historical Constant Primary Balance

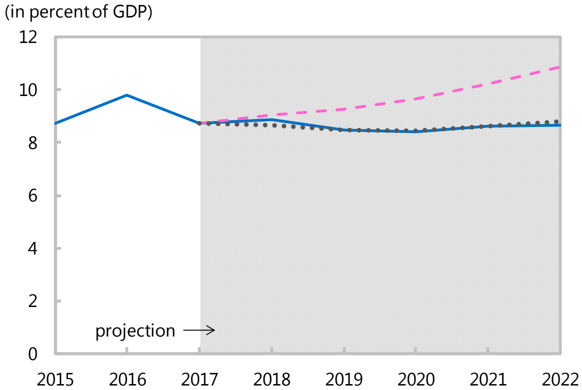
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

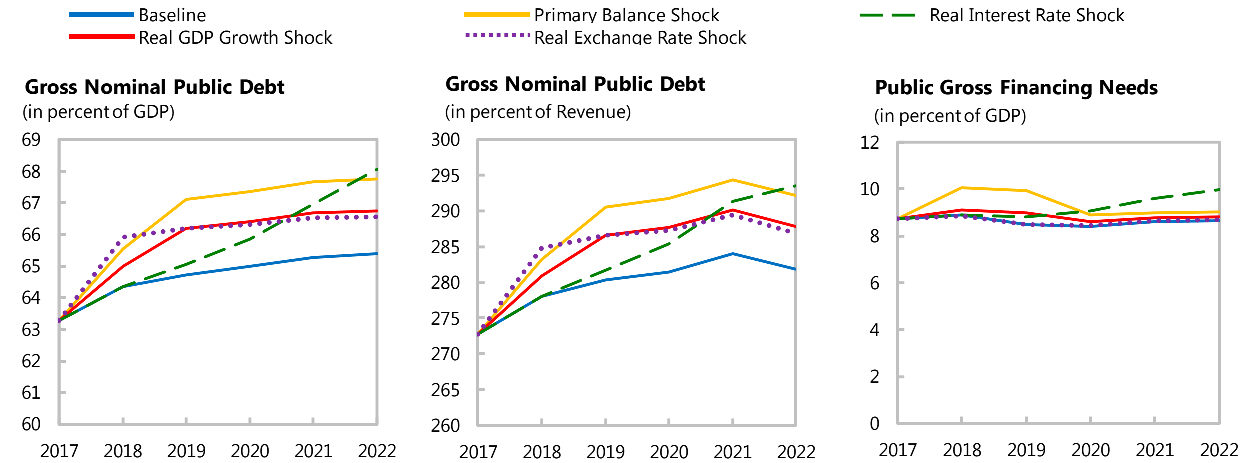
Baseline Scenario	2017	2018	2019	2020	2021	2022
Real GDP growth	6.3	6.3	6.2	6.2	6.2	6.2
Inflation	3.7	3.9	4.0	4.0	4.0	4.0
Primary Balance	-3.6	-3.5	-2.9	-2.6	-2.4	-2.0
Effective interest rate	4.4	4.6	4.8	4.8	4.9	5.0
Constant Primary Balance Scenario						
Real GDP growth	6.3	6.3	6.2	6.2	6.2	6.2
Inflation	3.7	3.9	4.0	4.0	4.0	4.0
Primary Balance	-3.6	-3.6	-3.6	-3.6	-3.6	-3.6
Effective interest rate	4.4	4.6	4.8	4.8	5.0	5.2

Historical Scenario	2017	2018	2019	2020	2021	2022
Real GDP growth	6.3	6.0	6.0	6.0	6.0	6.0
Inflation	3.7	3.9	4.0	4.0	4.0	4.0
Primary Balance	-3.6	-3.2	-3.2	-3.2	-3.2	-3.2
Effective interest rate	4.4	4.6	4.0	3.5	3.1	2.9

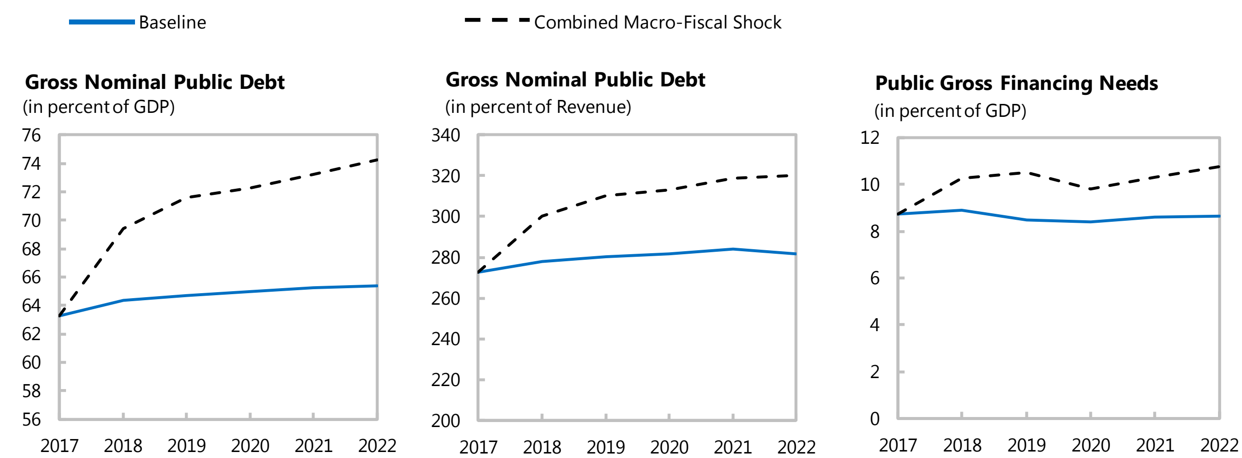
Source: IMF staff.

Figure 3. Vietnam: Public DSA—Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

Primary Balance Shock	2017	2018	2019	2020	2021	2022
Real GDP growth	6.3	6.3	6.2	6.2	6.2	6.2
Inflation	3.7	3.9	4.0	4.0	4.0	4.0
Primary balance	-3.6	-4.6	-4.0	-2.6	-2.4	-2.0
Effective interest rate	4.4	4.6	4.9	5.0	5.1	5.2
Real Interest Rate Shock						
Real GDP growth	6.3	6.3	6.2	6.2	6.2	6.2
Inflation	3.7	3.9	4.0	4.0	4.0	4.0
Primary balance	-3.6	-3.5	-2.9	-2.6	-2.4	-2.0
Effective interest rate	4.4	4.6	5.4	5.9	6.5	7.0
Combined Shock						
Real GDP growth	6.3	5.7	5.6	6.2	6.2	6.2
Inflation	3.7	3.8	3.8	4.0	4.0	4.0
Primary balance	-3.6	-4.6	-4.0	-2.6	-2.4	-2.0
Effective interest rate	4.4	4.8	5.4	6.0	6.6	7.1

Real GDP Growth Shock	2017	2018	2019	2020	2021	2022
Real GDP growth	6.3	5.7	5.6	6.2	6.2	6.2
Inflation	3.7	3.8	3.8	4.0	4.0	4.0
Primary balance	-3.6	-3.7	-3.2	-2.6	-2.4	-2.0
Effective interest rate	4.4	4.6	4.8	4.8	4.9	5.0
Real Exchange Rate Shock						
Real GDP growth	6.3	6.3	6.2	6.2	6.2	6.2
Inflation	3.7	7.0	4.0	4.0	4.0	4.0
Primary balance	-3.6	-3.5	-2.9	-2.6	-2.4	-2.0
Effective interest rate	4.4	4.8	4.7	4.7	4.9	5.0

Source: IMF staff.

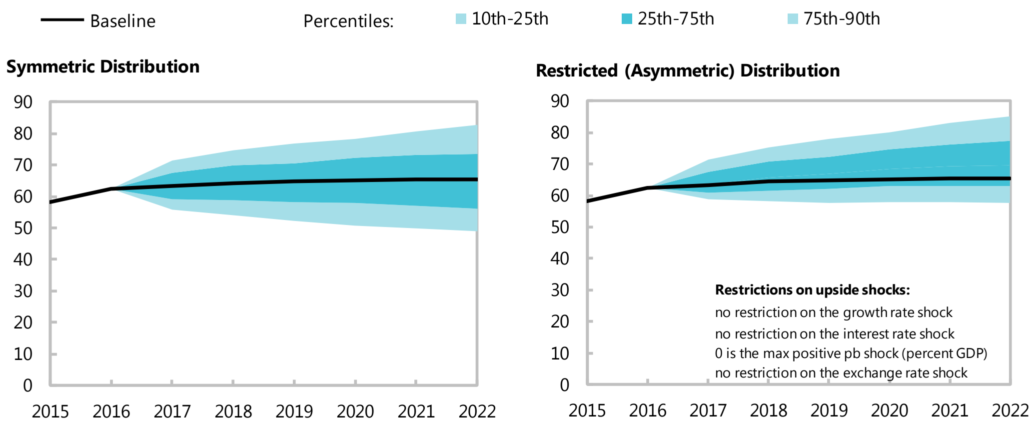
Figure 4. Vietnam: Public DSA—Risk Assessment

Heat Map

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

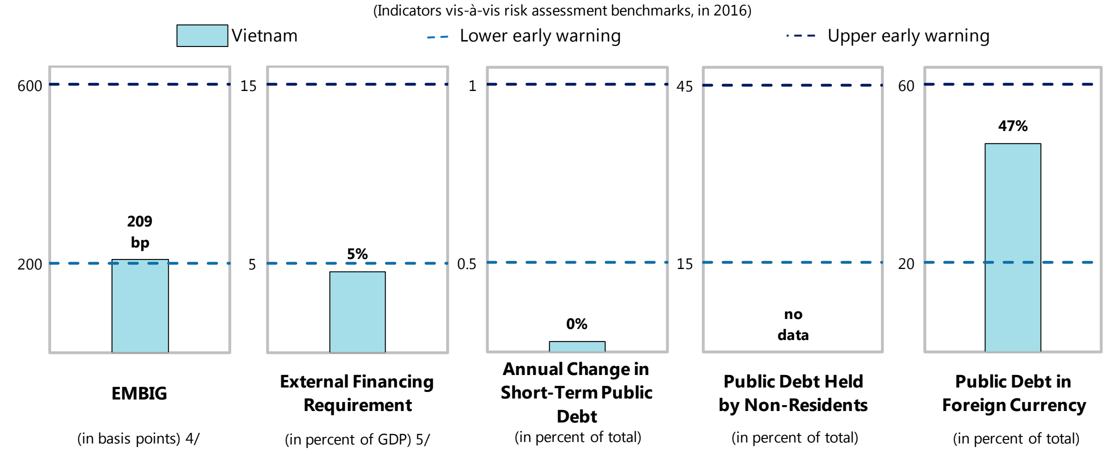
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2016)



Source: IMF staff.

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

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

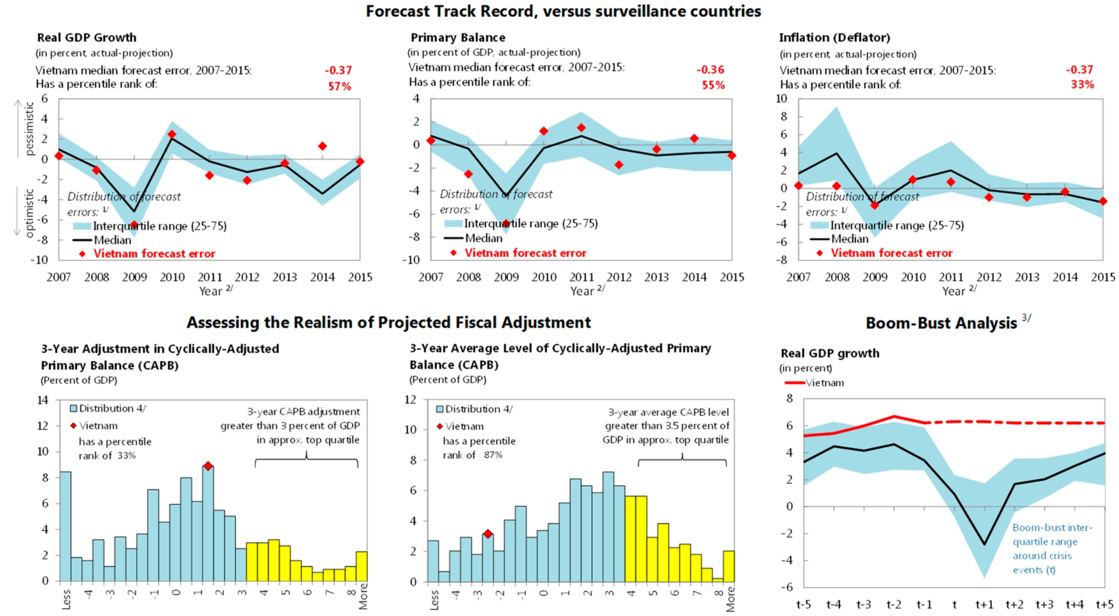
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant,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

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

4/ EMBIG, an average over the last 3 months, 13-Jan-17 through 13-Apr-17.

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

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



Source : IMF Staff.

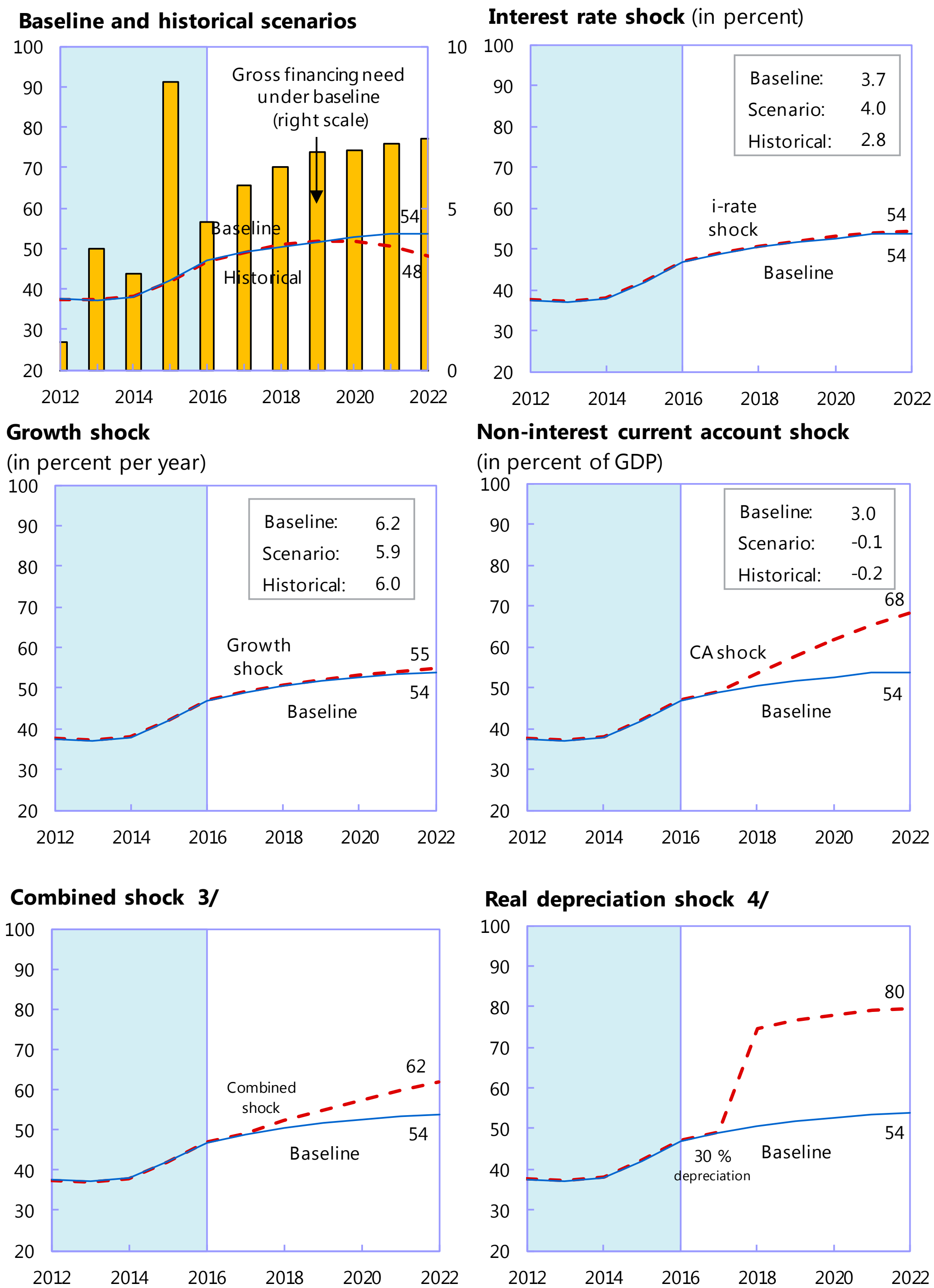
1/ Plotted distribution includes surveillance countries, percentile rank refers to all countries.

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

3/ Vietnam has had a cumulative increase in private sector credit of 27 percent of GDP, 2013-2016. For Vietnam, t corresponds to 2017; for the distribution, t corresponds to the first year of the crisis.

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

Figure 6. Vietnam: External Debt Sustainability—Bound Tests 1/ 2/
(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2015.

Table 1. Vietnam: External Debt Sustainability Framework, 2012–2022

(In percent of GDP, unless otherwise indicated)

			Actual							Projections					
	2012	2013	2014	2015	2016			2017	2018	2019	2020	2021	2022		Debt-stabilizing non-interest current account 6/
Baseline: External debt	37.5	37.1	38.0	42.0	46.9			48.9	50.5	51.6	52.6	53.5	53.8		-6.3
Change in external debt	0.3	-0.3	0.8	4.1	4.9			2.0	1.5	1.2	1.0	0.9	0.3	0.0	
Identified external debt-creating flows (4+8+9)	-15.6	-11.9	-12.3	-6.6	-11.9			-11.0	-10.1	-9.3	-8.8	-8.2	-7.7	0.0	
Current account deficit, excluding interest payments	-7.0	-5.3	-5.6	-0.9	-5.0			-4.2	-3.6	-3.1	-3.0	-2.7	-2.4	6.3	
Deficit in balance of goods and services	-4.7	-3.3	-4.6	-1.1	-4.3			-3.7	-3.1	-2.6	-2.5	-2.2	-2.0		
Exports	79.8	83.7	86.7	90.5	93.8			96.4	98.2	99.9	101.4	103.2	105.5		
Imports	75.1	80.4	82.1	89.4	89.5			92.7	95.1	97.3	99.0	101.0	103.5		
Net non-debt creating capital inflows (negative)	-4.6	-4.1	-4.3	-5.6	-5.8			-5.5	-5.3	-4.9	-4.6	-4.3	-4.1	-4.1	
Automatic debt dynamics 1/	-4.0	-2.5	-2.3	-0.1	-1.2			-1.3	-1.3	-1.2	-1.2	-1.1	-1.1	-2.2	
Contribution from nominal interest rate	1.0	0.7	0.7	1.0	0.9			1.5	1.6	1.7	1.8	1.9	1.9	1.9	
Contribution from real GDP growth	-1.7	-1.9	-2.0	-2.5	-2.5			-2.8	-2.9	-2.9	-2.9	-3.0	-3.1	-3.1	
Contribution from price and exchange rate changes 2/	-3.3	-1.4	-1.0	1.4	0.4			...	...	...	...	...	...	-1.1	
Residual, incl. change in gross foreign assets (2-3) 3/	15.9	11.6	13.1	10.7	16.8			13.0	11.7	10.4	9.8	9.0	8.0	0.0	
External debt-to-exports ratio (in percent)	46.9	44.4	43.8	46.4	50.0			50.8	51.4	51.7	51.9	51.8	51.0		
Gross external financing need (in billions of US dollars) 4/	1.3	6.4	5.5	17.1	9.1			12.3	14.6	17.0	18.6	20.7	23.0		
in percent of GDP	0.9	3.7	3.0	8.9	4.5	10-Year	10-Year	5.7	6.3	6.7	6.8	7.0	7.1		
Scenario with key variables at their historical averages 5/								48.9	51.1	51.9	51.7	50.5	48.2		-10.0
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							For debt stabilization	
Nominal GDP (US dollars)	155.6	170.6	185.9	191.5	201.3			215.4	232.7	252.5	274.1	297.3	322.0	348.8	
Real GDP growth (in percent)	5.2	5.4	6.0	6.7	6.2	6.0	0.6	6.3	6.3	6.2	6.2	6.2	6.2	6.2	
Exchange rate appreciation (US dollar value of local currenc	-1.0	-0.7	-0.8	-3.3	-2.1	-3.3	2.9	-3.0	-2.2	-1.8	-1.6	-1.8	-1.9	-1.9	
GDP deflator (change in domestic currency)	10.9	4.8	3.7	-0.2	1.1	9.2	7.8	3.7	3.9	4.0	4.0	4.0	4.0	4.0	
GDP deflator in US dollars (change in percent)	9.8	4.0	2.8	-3.5	-1.0	5.6	7.3	0.6	1.6	2.2	2.2	2.1	2.0	2.0	
Nominal external interest rate (in percent)	3.1	2.2	2.1	2.6	2.2	2.8	0.5	3.3	3.5	3.6	3.7	3.9	3.9	3.9	
Growth of exports G&S (US dollar terms, in percent)	17.6	15.0	12.9	7.5	9.0	16.1	12.3	9.9	10.1	10.4	10.3	10.3	10.7		
Growth of imports G&S (US dollar terms, in percent)	7.0	17.3	11.3	12.2	5.3	15.0	13.9	10.7	10.8	10.9	10.5	10.6	11.0		
Current account balance, excluding interest payments	7.0	5.3	5.6	0.9	5.0	-0.2	6.2	4.2	3.6	3.1	3.0	2.7	2.4		
Net non-debt creating capital inflows	4.6	4.1	4.3	5.6	5.8	6.0	1.8	5.5	5.3	4.9	4.6	4.3	4.1		

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

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

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

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

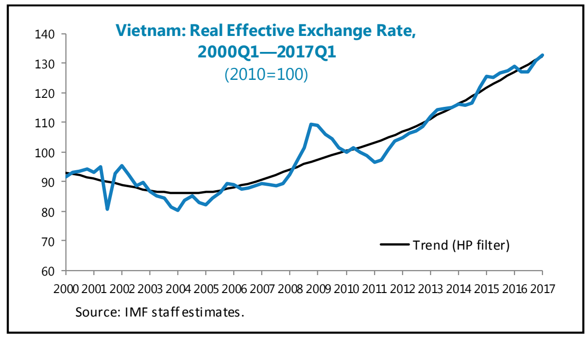
5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

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

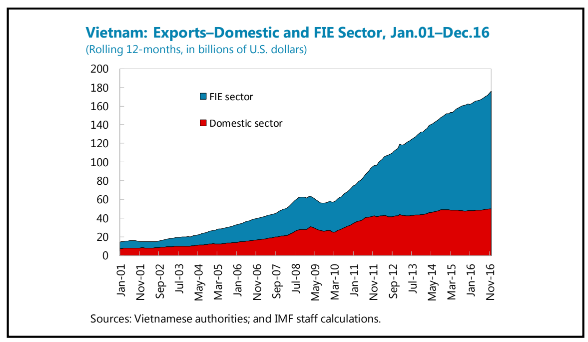
Appendix III. External Assessment

The external position is substantially stronger than warranted by fundamentals and desirable policies. The current account (CA) gap is 6.2 percent of GDP and the exchange rate is undervalued by 10.3 percent, reflecting distortions still prevalent in Vietnam's dual economy which discourage investment in the domestic private sector and underdeveloped social insurance arrangements that encourage precautionary saving. The CA gap should be addressed through structural reforms to strengthen private investment and to enhance social insurance and safety nets, fiscal consolidation that protects capital spending, and modernization of the monetary framework with greater two-way exchange rate flexibility.

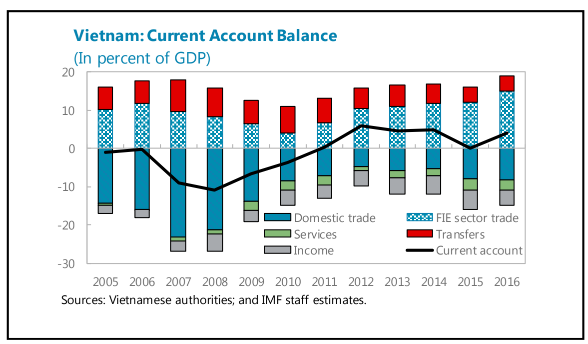
A dual, segmented external current account position exists. A competitive FDI manufacturing sector generates a large trade surplus (15 percent of GDP). It is dominated by electronics multinationals and apparel producers, integrated into the broader Asian supply chains, and engaged in final assembly and processing, although higher value added activities are also increasingly located in Vietnam.[1] Meanwhile, the domestic non-FDI sector (SMEs, agriculture, tradable goods producers, including SOEs and domestic private firms) runs a CA deficit of 8 percent of GDP. Productivity in this sector is low (20 percent that of the FDI sector), and exports are dominated by agricultural commodities and oil. Slow SOE reform progress, barriers faced by SMEs to reach economies of scale and credit misallocation impede the development of a productive and vibrant economy outside the FDI sector despite rapid growth.



Vietnam: Real Effective Exchange Rate, 2000Q1—2017Q1
(2010=100)
Source: IMF staff estimates.



Vietnam: Exports–Domestic and FIE Sector, Jan.01–Dec.16
(Rolling 12-months, in billions of U.S. dollars)
Sources: Vietnamese authorities; and IMF staff calculations.



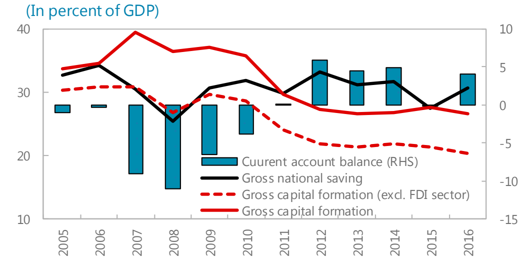
Vietnam: Current Account Balance
(In percent of GDP)
Sources: Vietnamese authorities; and IMF staff estimates.

Investment has declined during the last decade while saving has remained stable. Gross capital formation has been below most countries in the region. Excluding the FDI sector, investment has fallen by 10 percentage points, to 20 percent of GDP, in the last decade. This partly reflects cutbacks in SOE capital formation in heavy industries and barriers to the development of private manufacturing firms and SMEs, as well as declining public investment despite high fiscal deficits.

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

Saving has remained at about 30 percent of GDP, which is high relative to peers: underdeveloped pensions and other social insurance and safety nets contribute to precautionary saving.

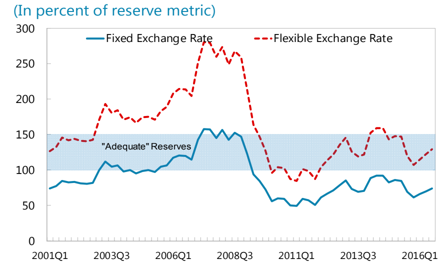
Vietnam: Savings, Investment and Current Account
(In percent of GDP)



Sources: Vietnamese authorities; and IMF staff estimates.

The real effective exchange rate has appreciated steadily from low levels since 2005, by 4 percent on average every year. Unit labor costs in the manufacturing sector have also increased from low Lewis levels, by an average of 4 percent per year since 2010, partly reflecting the expansion of the productive FDI sector and wage spillovers to the rest of the economy.

Vietnam: Reserve Adequacy Metric, 2000Q1–2016Q3
(In percent of reserve metric)



Sources: Vietnamese authorities; and IMF staff estimates

Reserve coverage stands at 70 percent of the adequacy metric, despite an increase in GIR by US$ 8.3 billion in 2016.[2] At around 2.2 months of imports of goods and services at end-2016, reserves remain well under the regional emerging market countries' average of nine months.

Vietnam: EBA-Lite Results

Approach	Current Account[1]	Staff estimate	REER[1]
2016 Current Account	4.1%	4.1%	
Current Account Norm	-3.4%	-2.1%	
Current Account Gap	7.5%	6.2%	
o/w Policy Gap	-2.9%	-2.9%	
ln(REER) Actual			4.85
ln(REER) Norm			4.53
o/w Policy Gap			0.02
REER gap	**-12.4%**	**-10.3%**	**32.2%**

Source: IMF staff estimates.

[1] EBA-Lite standard models.

Staff judges Vietnam's external position to be substantially stronger than warranted by fundamentals and desirable policies. The current account approach of the external balance assessment (EBA)[3] suggests a CA norm of -3.4 percent, indicating an undervaluation of 12.4 percent. However, the EBA-lite model does not account for the fact that the FDI sector has relatively few links to the domestic economy; neither does it account for rapid aging. A cross-country panel regression linking investment and saving was used to estimate the CA norm, implicitly taking into account the activities of the FDI sector and aging.[4] This approach suggests a CA norm of -2.1 percent of GDP. The EBA-lite semi-elasticity of the CA of -0.6 was then used to arrive at an undervaluation of 10.3 percent. The equilibrium real exchange rate (REER) approach points to a substantial overvaluation, but the fit is poor and staff's judgment relies on the adjusted results of the CA regression.

In conclusion, there is evidence of substantial CA strength of some 6.2 percent of GDP. This reflects the dual structure of the economy and insufficient social safety nets. It should be addressed

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

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

[4] This regression links the 2011–16 average Investment and Saving in 164 countries and includes a dummy variable for the 26 Asian developing and emerging economies (WEO classification). It modifies the approach taken last year, which was estimated for a sample of 11 countries, including Vietnam and its ten most important trading partners.

through structural reforms to raise private investment and protecting public investment while raising its efficiency and lowering the budget deficit. Social insurance and safety nets should be strengthened to reduce the incentives for precautionary savings. The modernization of the monetary framework with greater two-way exchange rate flexibility would also help external adjustment by facilitating nominal appreciation and reducing the need to accumulate reserves.

INTERNATIONAL MONETARY FUND

VIETNAM

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

May 23, 2017

Prepared By

Asia and Pacific Department
(In consultation with other departments)

CONTENTS

FUND RELATIONS

(As of March 31, 2017)

Membership Status

Joined: September 21, 1956; Article VIII

General Resources Account

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

SDR Department

	SDR Million	Percent Allocation
Net cumulative allocation	314.79	100.00
Holdings	267.95	85.12

Outstanding Purchases and Loans: None

Latest Financial Arrangements

In millions of SDRs (mm/dd/yyyy)

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

[1] Formally PRGF.

Projected Payments to Fund

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

			Forthcoming		
	2017	2018	2019	2020	2021
Principal					
Charges/interest	0.15	0.2	0.2	0.2	0.2
Total	**0.15**	**0.2**	**0.2**	**0.2**	**0.2**

Exchange Arrangement

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

Vietnam maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions, except for those exchange restrictions imposed for security reasons of which Vietnam has notified the IMF pursuant to Executive Board Decision No. 144- (52/51), 8/14/52.

Article IV Consultations

Vietnam is on a 12-month consultation cycle. The last Article IV consultation was held in Hanoi during April 6–22, 2016, and was concluded by the Executive Board on July 17, 2016.

Technical Assistance

In early 2017, Vietnam received technical assistance (TA) from FAD on upgrading the tax administration organization and from MCM on modernizing the monetary policy framework. STA provided TA in December 2016 to improve quarterly National Accounts statistics. TAOLAM and STI provide training and TA.

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

Resident Representative

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

RELATIONS AND COLLABORATION WITH THE WORLD BANK GROUP[1]

(As of April 30, 2017)

World Bank Group Partnership Framework

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

World Bank Group Program

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

Scale of the World Bank Group program: The WB Program is large, with a significant new IDA Allocation amounting to US$3.74 billion under regular IDA17; and additionally, new commitments of US$586 million IDA SUF and US 222 million in IBRD during the same period. The program has grown and diversified over the past several years. As of March 31, 2017, the portfolio consisted of 47 IDA/IBRD operations and two stand-alone Global Environment Facility (GEF), one Montreal Protocol (MT), with the total net commitments of US$9.46 billion. During the FY14–16 cycle, IFC's cumulative committed investments in Vietnam totaled US$2.2 billion, of which US$143 million is in long-term financing.

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

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

Knowledge Program: The World Bank supports the government's efforts to strengthen institutional capacity through its extensive program of analytical and advisory services. With Vietnam's development as a dynamic middle income economy the partnership with the World Bank Group is evolving, and knowledge generation and the sharing of global experiences are becoming increasingly important. In 2016, the Government of Vietnam and the World Bank finalized the joint Vietnam 2035 report, which identifies policy reforms to achieve Vietnam's long term development aspiration of sustaining rapid growth and social inclusion. While reflecting Vietnam's remarkable development trajectory, the report identifies emerging structural constraints to the existing mostly factor driven growth model, including stagnating labor productivity growth and rising investment inefficiency. The report lays out an ambitious reform agenda structured around three pillars (i) balancing economic prosperity with environmental sustainability, (ii) promoting equity and social inclusion and (iii) bolstering the state's capacity and accountability. Other recent analytical work includes a study of low carbon development prospects and a public expenditure review, which examines major fiscal trends of the last decade, a Vietnam Development Report on Transforming Vietnamese Agriculture and the 2016 Vietnam Systematic Country Diagnostic. Such analytical work has served as the analytical foundation for identifying the WBG's priorities for engagement during the coming CPF period (2017–22). In addition, the World Bank continues to provide technical assistance in areas such as social protection, renewable energy, climate change adaptation, financial sector reform, public financial management and debt management.

IMF-World Bank Group Collaboration in Vietnam

Specific Areas: Since the expiration of the PRGF in April 2004, the two institutions have closely collaborated on monitoring the macroeconomic situation and routinely exchanging views on macroeconomic and fiscal management as well as key structural reforms, such as SOE and banking sector reforms. The two institutions consult during Article IV consultations in order to share information and help coordinate on key policy messages. The IMF has provided macroeconomic assessment letters in support of the Bank's development policy operations. Building on joint IMF and World Bank Financial Sector Assessment Program (FSAP), which was completed during 2012–13, joint work has continued in supporting central bank operations, with the IMF providing TA on monetary policy and operations, and both the World Bank and IMF providing support on banking supervision. In the areas of fiscal management, the World Bank and the IMF are coordinating the policy dialogue on fiscal consolidation and debt sustainability, including on policy options to enhance resource mobilization and improve the efficiency of public spending. Finally, the IMF and the World Bank also collaborate in the development and timely dissemination of reliable economic and financial statistics. The IMF focuses on improving balance of payments, national accounts, price, and government finance statistics, while the World Bank provides assistance on issues related to the production of high-quality household and enterprise surveys and facilitate the implementation of National Gender Indicators System.

World Bank Lending Program FY16–17

FY	Project Name	IBRD US$ million	IDA* US$ million
2016	Scaling-up Sanitation Program		200
2016	Dam Safety Program		415
2016	Can Tho Urban Resilience Project	125	125
2016	Local Road/Bridges Assess Management PforR		385
2016	Economic Management and Competitiveness Development Policy Operation	150	
2016	Vinh Phuc Flood Risk and Water Management	150	
2016	Urban Water Supply and Wastewater AF	69	50
2016	Mekong Delta CC Res. & Sust Livelihood		310
2016	Program for Improved Land Governance		150
2016	Climate Change and Green Growth DPO		90
2016	Vietnam Enhancing Teacher Effectiveness		75
	Total	494	1800
2017	Land Governance and Resources Information Project		150
2017	Energy Efficiency for Industrial Enterprises Project	100	2
2017	Coastal Cities Sustainable Environment Project	46	190
2017	Northern Delta Transport Additional Financing		79
2017	Additional Financing for Danang Sustainable City Development Project		72
2017	Support for Autonomous Higher Education Project		155
2017	Scaling up Urban Upgrading Project		240
2017	Medium Cities Additional Financing for Lao Cai and Phu Ly		53
2017	Forest Modernization and Coastal Resilience Project		150
2017	Central Region Flood Emergency Project		113
2017	Social Insurance (SI) Modernization Project		100
2017	First Fiscal Management Development Polixy Operation	100	200
2017	Central Highland Connectivity Project		150
2017	National Targeted Programs Support Program		200
	Total	246	1854

RELATIONS WITH THE ASIAN DEVELOPMENT BANK

(As of April 30, 2017)

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

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

Vietnam is one of the largest concessional Asian Development Fund (ADF) recipients, with projected ADF allocation of US$950.65 million for 2017–2018. Ordinary capital resources (OCR) are also actively being used for projects with higher rates of return, such as infrastructure, which approved lending of US$368.7 million in 2016 (Table 1).

From October 1993 until December 31, 2016, ADB has provided 173 sovereign loans totaling US$15.18 billion, 315 technical assistance grant projects amounting to US$291.3 million and 37 grant projects totaling US$323.1 million to Vietnam (Tables 2–4). As a catalyst for private investments, ADB provides direct financial assistance to nonsovereign public sector and private sector transactions in the form of direct loans, equity investments, guarantees, B loans, and trade finance. Since its inception, ADB has approved US$280 million in nonsovereign financing for seven private sector transactions in Vietnam. Total outstanding balances and commitments of ADB's private sector transactions in the country, as of December 31, 2015, amount to US$233.01 million, representing 2.8 percent of ADB's total nonsovereign portfolio. ADB's Trade Finance Program (TFP) fills market gaps by providing guarantees and loans through partner banks in support of trade. The TFP has completed over 12,000 transactions supporting over US$23 billion in trade and over 7,700 small and medium sized enterprises since 2004. In 2015, the TFP supported US$2.5 billion in trade through over 1,900 transactions. In Vietnam, the TFP works with 12 banks and has supported over US$6.5 billion in trade across 4,303 transactions since 2009. In addition to filling market gaps, the TFP's objective is to mobilize private sector capital and involvement in developing Asia. In Vietnam, 67.6 percent of the trade supported through the TFP was cofinanced by the private sector. Vietnam also receives substantial support under the Greater Mekong Sub-region initiatives, involving Cambodia, China, Lao P.D.R., Myanmar, Thailand, and Vietnam. As part of its regular operations, ADB coordinates closely with Vietnam's development partners to improve the effectiveness, efficiency, and impact of its lending and non lending programs. ADB also works closely with civil society organizations and the private sector in Vietnam to mobilize financial resources and expertise from other partners. ADB is an active member of the Six Banks Initiative—comprising ADB, Agence Française de Développement (AFD), KfW, Japan International Cooperation Agency, Export Import Bank of Korea, and the World Bank. Co-financing operations enable ADB's financing partners, governments or their agencies, multilateral financing institutions, and commercial organizations, to participate in the financing of ADB projects. The additional funds are provided in the form of official loans and grants, and commercial financing, such as B loans, risk transfer arrangements, parallel loans, and co-financing for transactions under ADB's TFP. As of December 31, 2015, cumulative direct value-added (DVA) official cofinancing for Vietnam amounted to US$4.3 billion for 54 investment projects and US$106.5 million for 87 technical assistance projects. Cumulative DVA commercial cofinancing for Vietnam amounted to US$4.4 billion for two investment projects. The ADB and IMF staffs coordinate through ad hoc information exchange information on policy matters.

Table 1. Lending (Approved Amount)* and Disbursement by Year, 1993–2016

(In millions of U.S.dollars)

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

Source: Asian Development Bank

1/ Includes loan components of regional projects in Viet Nam

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

Table 2. Technical Assistance by Sector, December 2016

Sector	Number of Projects	In millions of U.S. Dollars	In percentage of Total
Agriculture and Natural Resources	57.0	50.2	17.23
Education	22.0	14.5	5.00
Energy	41.0	34.3	11.79
Finance	37.0	22.0	7.56
Health and Social Protection	16.0	8.9	3.06
Industry and Trade	8.0	12.6	4.32
Multi-sector	2.0	3.2	1.10
Public Sector Management	67.0	44.6	15.28
Transport and ICT	36.0	67.1	23.01
Water and Other Municipal Infrastructure and Services	29.0	33.9	11.63
Total	**315.0**	**291.3**	**100.00**

Source: Asian Development Bank

Table 3. Loan by Sector, December 2016

Sector	Number of Loans	In Million of U.S. Dollars	In Percentage of Total
Agriculture and Natural Resources	33.0	1,765.7	11.63
Education	17.0	913.0	6.01
Energy	14	2,578.7	16.98
Finance	14	762	5.02
Health and Social Protection	9	423.2	2.79
Industry and Trade	6	159.5	1.05
Multisector	7	280.0	1.84
Public Sector Management	19	1,779.1	11.71
Transport and ICT	36	4,854.1	31.96
Water and Other Municipal Infrastructure and Services	18	1,671.3	11.01
Total	**173**	**15,186.6**	**100**

Source: Asian Development Bank

Table 4. Grants by Sector, December 2016

Sector	Number of Grants	In Million of U.S. Dollars	In Percentage of Total
Agriculture and Natural Resources	13	62.2	19.24
Education	2.0	2.8	0.87
Energy	1.0	3.0	0.93
Finance	1.0	1.5	0.46
Health and Social Protection	9.0	58.6	18.14
Multi-sector	3.0	15.0	4.64
Transport and ICT	4.0	172.0	53.24
Water and Other Municipal Infrastructure and Services	4.0	8.0	2.48
Total	**37.0**	**323.1**	**100.0**

Source: Asian Development Bank

STATISTICAL ISSUES

(As of May 1, 2017)

Assessment of Data Adequacy for Surveillance

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

National accounts: The General Statistics Office (GSO) provides quarterly (cumulative) and annual data on GDP by type of economic activity and by expenditure (both in current and constant prices), and monthly and annual data on external trade, industrial output, retail sales, and prices. A December 2016 STA technical assistance mission recommended that the GSO prioritize improving the Quarterly National Accounts (QNA) statistics. The GSO produces cumulative QNA estimates for the first three quarters of the year and the fourth quarter estimate is a residual. Instead, the GSO should compile discrete and independent quarterly GDP, using consistent data sources and methods. The data collection practices and coordination between data collection agencies could be strengthened and the compilation of national and provincial estimates should be centralized at GSO. The GSO recently updated the base year from 1994 to 2010.

Prices statistics: The CPI methodology is broadly in line with international standards. However, there is only a notional inclusion of owner-occupied and rental housing. Also, there is a need to adopt a geometric mean of price relatives at the lower level of aggregation, instead of the upward biased arithmetic mean. Trade price indices are also compiled, but not used in the national accounts. The GSO has developed a work program with assistance of Fund TA to improve the accuracy of the consumer, producer and trade price indices, and is working toward the development of construction and services price indices. The GSO has also signaled interest in compiling residential property prices.

Government finance statistics: Government operations data reflect the consolidated operations of the state budget, which cover all four levels of government (central, provincial, district, and commune). However, data exclude quasi fiscal activities of the central bank (and state-owned enterprises (SOEs)), and extra-budgetary funds, among which are the Social Security Fund, Enterprise Restructuring Fund, Development Assistance Fund, Export Support Fund, local development funds, and the Sinking Fund (for repayment of on-lent funds), for which data are not compiled/disseminated on a regular basis. Compilation is on a cash basis for final annual data, but varies for provisional data depending on their source. As a result, government financing data, in particular domestic bank financing, cannot be reconciled as reported in the fiscal and monetary accounts. The World Bank and the IMF have recommended improving the coverage of fiscal data and aligning definitions with the *GFSM 2001*. The authorities expect to provide GFSM 2001 consistent data from 2018.

Monetary statistics: The State Bank of Vietnam (SBV) reports monetary data for the central bank and other depository corporations to the IMF's Statistics Department (STA) with monthly periodicity, using old report forms with very limited information. STA has encouraged the SBV to develop a reporting scheme providing a comprehensive breakdown of data by counterparties and by currency of transaction.

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

Financial sector statistics: The availability of data on the financial sector is very limited, and the quality of data requires substantial improvement, even on key financial soundness indicators (FSIs). FSIs should be published on a quarterly basis (instead of semi-annual).

Data Standards and Quality

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

Reporting to STA

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

Table of Common Indicators Required for Surveillance

(As of May 1, 2017)

	Date of Latest Observation	Date Received	Frequency of Data[1]	Frequency of Reporting[1]	Frequency of Publication[1]
Exchange Rates	May 2017	5/1/17	D	D	W
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[2]	Jan. 2017	3/28/17	M	I	N/A
Reserve/Base Money	Dec. 2016	3/22/17	M	I	N/A
Broad Money	Dec. 2016	3/22/17	M	I	N/A
Central Bank Balance Sheet	Dec. 2016	3/22/17	M	I	N/A
Consolidated Balance Sheet of the Banking System	Dec. 2016	3/22/17	M	I	N/A
Interest Rates[3]	Jan 2017	3/28/17	D	D	N/A
Consumer Price Index	Mar. 2017	3/29/17	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[4]—General Government[5]	Dec. 2016	Mar. 2017	Q	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt[6]	Dec. 2016	Apr. 2017	A	A	A
External Current Account Balance	Q4 2016	3/7/17	Q	Q	Q
Exports and Imports of Goods and Services[7]	Dec. 2016	1/20/17	M	M	M
GDP/GNP	Q1 2017	3/29/17	Q	Q	Q
Gross External Debt	2016	Apr. 2017	A	A	A
International Investment Position[8]	...	...	N/A	N/A	N/A

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

Statement by Juda Agung, Executive Director for Vietnam and Phong Tien Pham, Advisor to the Executive Director
June 7, 2017

1. The Vietnamese authorities would like to thank the IMF mission team for candid and constructive policy discussions. The policy discussions centered on economic development since the 2016 Article IV Consultation, the near-term outlook, and policies to sustain high long-term growth and resilience. The authorities are encouraged by staff's assessment that the authorities have made significant progress in maintaining growth momentum supported by political stability and sound economic fundamentals. In this connection, the authorities are committed to preserving macroeconomic stability, and further improving business environment in line with the socio-economic development agenda for 2017.

2. Along with the encouraging developments, the authorities are mindful of the need to address both structural weaknesses and emerging challenges. The authorities will therefore continue to be fully committed to fiscal prudence, prudent monetary management and financial stability, further reform of SOEs while maintaining confidence in banking system.

Recent Economic Development and Outlook

3. Vietnam's economic performance continues to be robust and healthy. Economic growth remained strong with real GDP growth of 6.2 percent in 2016 supported by strong external position, robust domestic demand and a rebound in agricultural and fishery production. While growth in the first quarter of 2017 moderated to 5.1 percent due primarily to lower mining production and a slowdown in electronic manufacturing activity, the authorities are committed to take further bold and swift actions for achieving the 2017 growth target of 6.7 percent. The authorities believe that this strong policy efforts, together with determination in implementing targeted reforms, would help achieve the 2017 growth target.

4. Headline inflation moderated to 4.7 percent (yoy) in the first four months of 2017 after rising throughout 2016 following hikes in some administered prices including health cares. Core inflation for the first four months of 2017 remained stable at 1.6 percent (yoy). On the external balance, the current account has been declining sharply to deficit due to the rising imports in the first quarter of 2017, after reaching surplus of 4.1 percent of GDP in 2016.

5. Although the near-term outlook is broadly positive, downside risks from both domestic and external fronts remain in 2017. On the domestic front, inflation is now on the rise due to the planned hikes in health care and educational prices. GDP growth rate in the first four months of 2017 was weaker than expected, putting pressure on the efforts of the authorities to achieve its growth target. Some key economic sectors continue to show downward trends, including industrial, mining and construction sectors. These risks could be amplified by external shocks, including growing threats of protectionism and international economic fragmentation, slower external demand and global financial volatility.

6. Fully aware of these risks, the authorities are undertaking a bolder package of reforms to reduce the role of the state in the economy and are accelerating equitization and legal reform in the state-owned enterprise and financial sectors. The authorities are also strengthening the

public finances and considering modernizing their monetary framework. Successful implementation of reforms would raise productivity, mitigate risks, facilitate sustained and higher long run growth and increase the economy's resilience to shocks.

Fiscal Policy

7. The authorities remain committed to fiscal consolidation and view it as a crucial element to ensure sustainability in long run. The authorities note staff's recommendation that fiscal consolidation should be growth-friendly to contain the rise of public debt, and avoid disorderly adjustment and large cut in capital expenditures. Despite the current target budget deficit of 3.5 percent of GDP, the authorities emphasize the intention to lower the deficit to 3 percent of GDP by 2020. The measures under consideration would include improvement in tax administration and prioritization in social and capital expenditures. With this, the target for public debt is around 64.8% of GDP at end 2017.

8. The authorities deem that the current gradual pace of fiscal consolidation is appropriate and would put public debt and publicly guaranteed debt firmly on a sustainable downward trajectory. The authorities positively note the staff's recommendation on policies to enhance revenue and improve efficiency of expenditure. On the revenue side, measures under consideration include rationalizing exemptions and incentives, broadening the tax base, and further strengthening revenue administration. In this regard, the authorities appreciate the staff's technical assistance proposal of supporting the authorities' efforts in strengthening tax administration. On the expenditure side, the authorities plan to raise cost recovery and increase private participation in education and health sectors. The authorities emphasize the need to make capital expenditure more efficient while avoiding introduction of new policies that would lead to the increase in public expenditure in 2017. The authorities also share staff's concern on the risk of slippage in fiscal consolidation due to the prolonged implementation of SOE equitization and delayed improvement of tax administration.

Monetary and exchange rate policy

9. The authorities believe that current monetary stance remains appropriate in supporting economic activity and steering inflation. In the near term, the authorities indicated they would maintain the current policy stance, given that higher headline inflation reflects non-monetary factors. In 2016 and early 2017, global financial uncertainties and a stronger US dollar, coupled with higher trade deficit, have led to currency speculation and volatility. These developments have created some challenges on the policy management to the State Bank of Vietnam (SBV), especially on its exchange rate management. To address these challenges, the authorities have gradually shifted toward anchoring monetary policy on inflation stability with the Dong average depreciation of 1.1 1.2% while allowing greater exchange rate flexibility. Going forward, the authorities take positive note of the staff's recommendation to further modernize the monetary policy framework to strengthen policy effectiveness and boost resilience.

10. By the end of 2016, credit growth reached 18.2 percent (y/y) with the GDP growth of 6.2 percent. Given the fact that Vietnam's financial system remains bank centric, the SBV continues to monitor credit growth closely. The 2017 credit growth target of 16-18 percent

is supportive of GDP growth. Credit is also being channeled to productive sectors based on individual banks' health, and is consistent with the continued low inflation and macroeconomic stability environment. The authorities also took note and tightened prudential ratios and risk weights for real estate loans. With that, the authorities view the 2017 credit growth target as appropriate and is growth friendly.

11. On the external balance, the recent decline in the current account indicates the imbalance in 2016 was a temporary in nature. The recent trade deficit also makes further reserves accumulation to be more challenging. In addition, the authorities have been undertaking a transition to a new growth model in which exports, currently at 90% of GDP, will be more in line with the long run equilibrium.

Banking sector

12. The authorities fully agree with the staff's recommendations on the need for faster NPL resolution and bank restructuring. The total NPL stock of the banking system, including loans sold to the Vietnam Asset Management Company (VAMC) reached 5.8 percent as of December 31, 2016 and will be provisioned for overtime. The authorities are aware of the need for operational and legal reforms to address bottlenecks in NPL resolution. These include strengthening the role of the VAMC in NPL resolution, facilitating the participation in NPL resolution of both domestic and foreign investors, and reinforcing collateral disposal to recover NPLs. To create a unified legal framework for NPL resolution, the authorities have proposed setting-up a Resolution of the National Assembly for recognition and resolution of both current and potential NPLs. The main elements of the proposed Resolution include formulating procedures for NPL resolution and collaterals disposal, and the rights and duties of the related parties.

13. Our authorities reaffirm their commitments in restructuring the banking system. A number of measures have been considered and implemented by the authorities. The measures include strengthening the legal framework for banking sector operations and restructuring, recapitalization of the banks through retained earnings and reaching out to foreign strategic investor, addressing asset quality issues in the banking sector, improving governance through strengthening bank management capacity, and increased transparency in the banking sector operations. With this, the authorities anticipate that they will be able to strengthen banking sector and improve the effectiveness of the regulatory and supervisory framework.

Structural reforms

14. Building on steady progress, the authorities continue to deepen and accelerate structural reforms to support a productivity-led growth model. However, the authorities face challenges, including over-reliance on capital, natural resources and low-skilled labor and macroeconomic stimulus. Recognizing these challenges and to reaffirmed the priority of the Government to conduct structural reform, the authorities have adopted the economic restructuring plan for period of 2016 – 2020. These include further reforms to enhance banking system stability and to build deeper capital markets, improve efficiency of the SOE sector, strengthen public investment and enable a more productive and dynamic private sector. The authorities view that these plans are important steps in the direction of structural

reforms and would help address the emerging structural constraints in the economy.

15. For the SOE sector reform, the authorities have issued a restructuring plan for 2016– 2020. The plan sets out specific solutions for SOE sector restructuring, including mandatory divestment from five sensitive business sectors (banking, security, insurance, investment funds and real estate), development of financial markets and application of market discipline and international norms. The plan assigns concrete roles and tasks to each of the stakeholders for implementation. The authorities are confident that the plan will help achieve its "dual" targets by improving efficiency and competitiveness of the SOEs and resolving legacy weaknesses of these enterprises.

16. The authorities consider the private sector as a main driver of growth and have implemented a number of actions to support the private sector. The authorities have consulted widely with stakeholders to find solutions to boost productivity. Each government agency was assigned with specific time-bound tasks to support private enterprises, especially the small and medium size enterprises to the level of playing field, improve credit access at reasonable interest rates, and reduce the frequency of examination. On public investment, a new improved legal framework has been put in place and is now being implemented. The current Public Investment Law strengthened the institutional and procedural framework for the management of capital spending, including enhanced medium term investment planning and strengthened systems for project appraisal and selection. In line with the provisions of the Law, the first Medium Term Investment Plan (MTIP), has been prepared and deliberated by the National Assembly. This will set out the investment program for the coming five years.

17. The authorities take positive note of the staff's commendation of the progress made in addressing environmental and resource sustainability issues. As Vietnam is particularly susceptible to climate change and natural disasters, the authorities have adopted a more sustainable and environment friendly growth model reflected by the ratification of the Paris Agreement on Climate Change, setting up the necessary institutional arrangements, and initiating action plans.

Conclusion

18. The authorities will continue to implement their reform agenda to take full advantage of the country's growth prospects. However, the authorities also mindful of the considerable challenges that lie ahead and realize that sustainable results would take time to materialize. The authorities are fully committed and determined towards steadfast implementing necessary structural reform measures and policies that will continue to improve the investment climate and sustain economic growth, while providing buffers against external and domestic shocks. Growth will be made more inclusive with continued focus on fiscal prudence, well-grounded monetary management and financial stability, improved competitiveness of SOEs, and confidence in banking system. The degree of these reforms and their implementation would be appropriately paced to achieve the desired outcomes while minimizing unintended consequences.

19. Finally, the authorities are cognizant that these efforts need to be supplemented by support from multilateral institutions and other countries. In this light, our Vietnamese authorities

would like to express their appreciation to the Fund in providing policy advice and invaluable technical support, and the authorities look forward to continued cooperation in the years to come.