HIGH-LEVEL SUMMARY TECHNICAL ASSISTANCE REPORT

VIETNAM

Technical Assistance (TA) on Developing the Forecasting and Policy Analysis System (FPAS) at the State Bank of Vietnam (SBV)

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Institute for Capacity Development (ICD)

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The *High-Level Summary Technical Assistance Report* series provides high-level summaries of the assistance provided to IMF capacity development recipients, describing the high-level objectives, findings, and recommendations.

ABSTRACT: The SBV, with IMF support, developed a functioning FPAS to support monetary policy making and communications. During 2019-24, the multi-phase TA project built SBV's analytical capacity, customized a Quarterly Projection Model, and worked towards integrating forecasts into policy processes. The FPAS is currently operational. Further steps to formally and fully integrate it into decision-making are recommended, including continued staff engagement and implementation of regular quarterly projection cycles.

Background

The SBV has made impressive progress in supporting monetary policy deliberations with a sound FPAS that provides quantitative medium-term economic forecasts as inputs for the management of the medium-term monetary policy trade-offs. Following the SBV request, the IMF conducted a multi-year TA project to help with the development and implementation of a FPAS—a set of tools and related processes designed to support forward-looking monetary policy formulation, decision, and communication based on macroeconomic data and analysis. The FPAS TA was launched in 2019 and continued virtually during the Covid-19 pandemic. In-person consultations resumed in 2022 and the final IMF expert visit to the SBV took place in September 2024, when the SBV Management and mission team agreed to conclude this Macroeconomic Frameworks TA project.

Summary of Findings

The multiyear FPAS TA project was structured around three phases. Phase 1 was focused on building forecasting and analytical capacity among the SBV's Core Forecasting Group (CFG) staff, including through training on and development of modeling tools. Once a benchmark Quarterly Projection Model (QPM) was developed and customized to the country's economic characteristics and SBV's policy framework, and as CFG staff acquired essential skills to operate it, the project transitioned to Phase 2.[1] This phase shifted the focus towards practicing forecasting and policy analysis in real time and within a broader institutional setup. The process of integrating the forecast and policy analysis within the monetary policy decision-making included the design of a structured approach to regular interactions between the CFG and the SBV Management Board via an internal forecast calendar, while also stressing the need for better interaction across relevant SBV Departments. Phase 3 was planned to strengthen SBV's external communications strategy anchored on FPAS processes and outcomes. Throughout the TA project, the continued buy-in from senior management to its development and implementation was critical to the success and durability of the SBV's FPAS.

Initial TA efforts were directed at building technical capacity among SBV staff and developing analytical tools. Throughout the TA project, the analytical toolkit supporting the establishment of SBV's FPAS was gradually enhanced and expanded, with the CFG receiving training to effectively use it in support of the policy process. In addition to the QPM, which is the primary tool within the SBV's FPAS, the comprehensive suite of analytical instruments includes empirical models for generating nowcasts and near-term forecasts for key macroeconomic variables, leveraging valuable information from high-frequency data not explicitly included in the QPM and oftentimes complemented with expert judgement.

In the latter missions, the main tasks were focused on training the CFG in integrating analytical and model-based results into actual monetary policy processes and improving key organizational

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[1] See Epstein, N., Gornicka, L., Ha, N., Musil, K. & Nalban V. (2022). Quarterly Projection Model for Vietnam: A Hybrid Approach for Monetary Policy Implementation. IMF Working Papers 22/125.

features within the FPAS. Critical elements and deliverables aimed to: (i) consolidate the roles and responsibilities among CFG staff located in the Monetary Policy Department (MPD), including defining primary and backup positions for each role to ensure continuity; (ii) design a template of a regular internal forecast calendar for quarterly forecasting cycles, with routine scheduled events; (iii) develop the structure and content of internally shared materials and documents (draft reports and presentations, streamlined by the sequential steps outlined in the calendar); and (iv) introduce shadow forecast sessions, geared to ensure that policymakers are familiar with the structure of the analytical framework, concepts, monetary transmission channels, and the way SBV policies are captured in the models.

Summary of Recommendations

The SBV now has a functioning FPAS in place. The CFG is relatively small but produces baseline forecasts using the QPM, complemented by satellite tools and expert judgment, with impressive speed. In addition to baseline projections, alternative scenarios that the CFG generates with the QPM present a useful guide to short- and medium-run policy trade-offs between output, inflation, and exchange rate stability objectives that the SBV often highlights in monetary policy deliberations. However, the FPAS is not yet fully and formally integrated into the monetary policy decision-making process.

Appropriate staffing of the CFG and frequent engagement between SBV Management, the CFG, and other relevant Departments remain critical to sustain an effective FPAS at the SBV. Continuous participation in relevant IMF online and regional training courses could help sustain a core group dedicated to FPAS implementation at the SBV. Moreover, regular forecast meetings with SBV Management participation would create a strong incentive to solidify the FPAS practice in the MPD and engage more often with senior staff from other Departments to agree on assumptions about exogenous variables, nowcasts and near-term forecasts. The IMF TA team emphasized that frequent internal communication remains critical to fully establish and sustain the FPAS, recommending the formal approval and implementation of a regular forecast calendar. Comprehensive IMF technical assistance on strengthening external communications of monetary policy issues (Phase 3) could be conducted in the future in the context of further modernization of the monetary policy framework.

The IMF, including through the CDOT office, stands ready to provide continuous support to the SBV on the maintenance of its FPAS. In case of further significant modernization of the SBV's monetary policy framework and decision-making process that could call for model upgrades and expanding external communications, a new successor TA project could be discussed to refine the SBV's FPAS accordingly.