Vietnam: 2023 IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Vietnam
VIETNAM

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

Under Article IV of the IMF’s Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2023 IV consultation with Vietnam, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its 2023 consideration of the staff report that concluded the Article IV consultation with Vietnam.

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board’s consideration on August 30, 2023, following discussions that ended on June 29, 2023, with the officials of Vietnam on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 25, 2023.

- An **Informational Annex** prepared by the IMF staff.

- A **Statement by the Executive Director** for Vietnam.

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

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Washington, D.C.
PR23/325

IMF Executive Board Concludes 2023 Article IV Consultation with Vietnam

FOR IMMEDIATE RELEASE

Washington, DC – September 27, 2023: On August 30, 2023, the Executive Board of the International Monetary Fund (IMF) concluded the 2023 Article IV Consultation1 with Vietnam.

Vietnam experienced a robust post-pandemic economic recovery in 2022 thanks to strong economic fundamentals and prudent public health management during the pandemic. GDP rose by a historically high 8 percent—the highest since the 1990s—driven by strong domestic and external demand. Average inflation was kept at 3.2 percent, well below the (4 percent) inflation target, although price pressures picked up during the year.

The recovery was cut short, however, as strong headwinds hit the economy in late 2022 and during the first half of 2023. Financial stress among real estate developers emerged due to tighter funding conditions, a slowdown in sales, and legal hurdles, while the corporate bond market froze amidst a loss of investor confidence. Exchange rate pressures mounted throughout 2022 as global interest rates rose sharply, and a major domestic bank suffered a deposit run in October 2022 and was placed under the State Bank of Vietnam’s control. The economy was further hit by a sharp deterioration in external demand since late 2022, with exports declining by 12 percent in the first half of 2023. Liquidity, foreign exchange, and inflationary pressures have eased, but growth decelerated significantly and is expected to slow to 4.7 percent in 2023—supported by a rebound in exports and expansionary (especially fiscal) policies. Inflation is expected to remain contained below the 4.5 percent ceiling. Vietnam can return to high growth rates over the medium term supported by structural reforms.

Executive Board Assessment2

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities’ swift actions to maintain macro-financial stability as the economic recovery from the pandemic faced domestic and external headwinds. They noted that risks remain elevated, and that further efforts are required to safeguard macro-financial stability and deepen reforms to address

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

2 At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country’s authorities. An explanation of any qualifiers used in summing up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.
vulnerabilities and ensure robust, green, and inclusive growth over the medium term. Continued capacity development will be important to support reforms.

Directors noted that, given ample fiscal space and limited room for monetary policy loosening, fiscal policy should take the lead in supporting economic activity if needed. In this context, Directors welcomed the authorities’ plans to speed up the implementation of public investment, which will require tackling bottlenecks, and stressed the importance of expanding social safety nets to support the most vulnerable. Directors recommended strengthening the fiscal framework and budget process and increasing revenue mobilization over the medium term to support the ambitious development agenda.

Directors commended the authorities for effectively containing inflation risks but stressed that monetary policy should continue to be cautious under a complex environment and limited policy space. They welcomed steps toward greater exchange rate flexibility and encouraged continued progress in this area, along with modernizing the monetary policy framework.

Directors underscored the importance of strengthening the resilience of the financial system by bolstering capital buffers, phasing out regulatory forbearance, and addressing rising non-performing loans. They also stressed the need to enhance the authorities’ toolkit to prevent and manage banking crises by strengthening the resolution and emergency liquidity frameworks, and welcomed the ongoing revision of the law on credit institutions. Efforts to strengthen bank regulation and supervision should continue.

Directors acknowledged the authorities’ swift actions to contain risks in the real estate and corporate bond market. They urged decisive steps to address remaining risks, including by strengthening the insolvency framework, bolstering institutions, and increasing transparency in the corporate bond market.

Directors stressed the importance of structural and climate reforms to achieve sustainable, green, and inclusive growth. Accelerating the transition to upper-middle income status will require further efforts to improve the business environment, step-up critical infrastructure, and invest in human capital. Directors welcomed the latest Power Development Plan and the planned Emissions Trading System to help achieve Vietnam’s climate goals and promote energy security. They emphasized the importance of moving ahead with implementation of the strategy and developing the appropriate regulatory framework to promote investment in renewable energy and secure funding for the green transition. Conducting a Climate-Public Investment Management Assessment would be useful.

Directors welcomed the authorities’ anti-corruption efforts and emphasized the need to continue strengthening governance, improving the AML/CFT framework, and simplifying regulatory frameworks. Greater efforts in closing data gaps will be important.

The next Article IV Consultation with Vietnam is expected to be held on the standard 12-month cycle.
## Vietnam: Selected Economic Indicators, 2019–2024

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

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

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION

July 25, 2023

KEY ISSUES

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

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

- Monetary policy. Monetary policy took the lead in responding to the economic deterioration, but there is very limited space for further monetary easing at present. The exchange rate regime should allow for greater flexibility and accompany a modernization of the monetary policy framework to equip it with more market-based tools.

- Fiscal policy. Given ample fiscal space, the budget is better placed to take the lead to provide additional support if economic activity proves weaker than expected. The government could scale up social safety nets that would boost growth and protect the most vulnerable households. Over the medium term, further revenue mobilization efforts would bolster social spending and infrastructure investment.

- Financial sector. The resilience of the banking system and domestic capital markets should be strengthened, including enhancing the authorities’ ability to prevent and manage crises. Upgrading the effectiveness of the debt enforcement and insolvency framework would help deal with corporate debt overhang and reduce risks to the economy and the financial sector.

- Climate and structural policies. Achieving the ambitious medium-term growth and climate goals will require accelerating reforms to improve the business environment, critical infrastructure, and human capital.
Discussions took place in Hanoi and Ho Chi Minh City during June 14-29, 2023. The mission comprised Paulo Medas (Head), Federico Díez, Faizaan Kisat, Giacomo Magistretti, Francois Painchaud (all APD), Minke Gort (MCM), Antung A. Liu, Yuan Xiao (both FAD), Nga Ha, and Van Anh Nguyen (both IMF Office in Hanoi). Ryoichi Okuma (APD), Ender Emre and José Garrido (both LEG), and Emanuele Massetti (FAD) joined virtually. Hibah Khan, Mariam Souleyman (both APD), and Hai Hoang (IMF Office in Hanoi) provided superb research, editorial, and logistical assistance, respectively, for the discussions and the preparation of this report.

CONTENTS

CONTEXT AND RECENT ECONOMIC DEVELOPMENTS ................................................................. 4

OUTLOOK AND RISKS .................................................................................................................. 8

POLICY DISCUSSION ...................................................................................................................... 9
A. Monetary and Exchange Rate Policy ...................................................................................... 10
B. Fiscal Policy .............................................................................................................................. 11
C. Tackling the Distress in the Real Estate and Corporate Bond Markets .................................. 13
D. Protecting Financial Stability ................................................................................................ 15
E. Climate and Structural Policies ............................................................................................... 17

STAFF APPRAISAL ....................................................................................................................... 19

BOXES
1. Real Estate Sector and Corporate Bond Market Turbulence .................................................. 6
2. Growth Risks from Financial Turbulence ............................................................................... 9
3. Improving Vietnam's Crisis Preparedness ............................................................................. 14

FIGURES
1. Recent Economic Developments ........................................................................................... 22
2. Prices and Wages .................................................................................................................... 23
3. External Sector ......................................................................................................................... 24
4. Monetary Sector ...................................................................................................................... 25
5. Fiscal Sector ............................................................................................................................ 26
6. Financial Sector Developments ............................................................................................. 27

TABLES
1. Selected Economic Indicators, 2019–2024 ........................................................................... 28
2. Medium-Term Projections, 2019–2028 ............................................................................... 29
4a. Consolidated State Budgetary Operations, 2019-2024 (In trillion of Dong) _________________ 31
4b. Consolidated State Budgetary Operations, 2019-2024 (In percent of GDP) _______________ 32
5. Monetary Survey, 2019-2024 ________________________________________________________ 33
6. Financial Soundness Indicators, 2018-2022 _____________________________________________ 34

ANNEXES
I. Progress Against IMF Recommendations _______________________________________________ 35
II. Integration of Capacity Development Assistance in Surveillance _________________________ 37
III. Impact of an Interest Rate Shock on the Corporate Sector in Vietnam ____________________ 40
IV. Exchange Rate Pass-Through to Inflation in Vietnam _________________________________ 43
V. Estimating Worker Flows and Labor Market Dynamism _________________________________ 47
VI. Climate Mitigation: Introducing an Emission Trading System in Vietnam ________________ 52
VII. Climate Change Risks and Efficient Adaptation ______________________________________ 60
VIII. External Sector Assessment ______________________________________________________ 66
IX. Debt Sustainability Analysis _______________________________________________________ 68
X. Risk Assessment Matrix ___________________________________________________________ 77