AMRO Country Report
ACR/22-08

AMRO Annual Consultation Report

Vietnam - 2022

ASEAN+3 Macroeconomic Research Office (AMRO)

October 2022

Acknowledgments

1. This Annual Consultation Report on Vietnam has been prepared in accordance with the functions of AMRO to monitor, assess and report its members' macroeconomic status and financial soundness, to identify relevant risks and vulnerabilities, and to assist them in the timely formulation of policy to mitigate such risks (Article 3 (a) and (b) of the AMRO Agreement).
2. This Report was drafted on the basis of the Annual Consultation Visit of AMRO to Vietnam from May 3-18, 2022 (Article 5 (b) of AMRO Agreement). The AMRO mission team was headed by Sanjay Kalra, Group Head and Lead Economist. Mission members included Wanwisa (May) Vorranikulkij, Jade Vichyanond, Siang Leng Wong, Trung Thanh Vu and Hoai Viet Le. AMRO Director Toshinori Doi and Chief Economist Hoe Ee Khor participated in key policy meetings. The Report was peer reviewed by Seung Hyun (Luke) Hong (Group Head and Lead Economist) and Thi Kim Cuc Nguyen (Deputy Group Head and Senior Economist). It was approved by Hoe Ee Khor.
3. The analysis in this Report is based on information available up to June 30, 2022.
4. By making any designation of or reference to a particular territory or geographical area, or by using the term “member” or “country” in this Report, AMRO does not intend to make any judgments as to the legal or other status of any territory or area.
5. On behalf of AMRO, the mission team wishes to thank the Vietnamese authorities for their comments on this Report, as well as their excellent meeting arrangements and hospitality during our visit.

Table of Contents

Executive Summary

1. Vietnam is recovering strongly from the pandemic. The domestic outbreak of the Omicron variant receded sharply in April 2022 and border restrictions and domestic containment measures were eased. The economy has rebounded on the back of robust external demand and resumption of manufacturing production. Real GDP growth is projected at 7% in 2022, and 6.5% in 2023, based on a strong recovery in private consumption, continued foreign direct investment (FDI) flows, a supportive fiscal stance, and a recovery in the services sector.

2. Headline inflation is low and inflationary pressures are contained so far. The oil price stabilization fund, the environmental tax cut and price administration help moderate the pass-through effects of global oil price increase and curb Vietnam's headline inflation to remain under 3% in the first half of 2022. Going forward, inflation is projected to remain contained around 3.5% in 2022.

3. The authorities have employed fiscal policy judiciously since the onset of the pandemic to support growth. The budget shifted to moderate deficits in in 2020 and 2021, from near balance in the pre-pandemic period. In January 2022, the National Assembly approved an economic stimulus package, to promote economic recovery and raise the growth potential.

4. The State Bank of Vietnam (SBV) has maintained easy monetary conditions. Policy rates have been kept unchanged since the rate cuts in mid-2020, and the credit growth target was maintained at 14% in 2022. Under the economic stimulus package, the SBV also provides a 2% interest rate subsidy, financed by the budget, on commercial loans to businesses, cooperatives, and households hard hit by the pandemic.

5. The financial sector has weathered the downturn relatively well for the most part. The NPL ratio stood at 1.5% at end-2021 (average 1.7% over 2018-2020) but could be impacted by the scheduled end of credit relief in June 2022. Average capital adequacy ratio of the banking sector was 11.5% at end-2021, above the statutory minimum of 8%.

6. The external position improved with further international reserves accumulation. Balance of payments (BOP) surpluses have contributed to a significant increase in international reserves in recent years. Export growth remained robust in in 2021, while the financial account was supported by strong FDI inflows. With an overall BOP surplus, international reserves rose to USD110 billion, equivalent to 3.4 months of goods and services imports, at end-2021.

7. The risks to the growth forecast are broadly balanced. The main downside risks stem from geopolitical risks, supply chain disruptions, flare-ups of more vaccine-resistant COVID-19 variants, tightening of financial conditions in advanced economies, and a persistent increase in global oil prices. Upside risks to the forecast spring from a faster-than-projected growth in private consumption and a supportive macroeconomic policy stance.

8. The deterioration in bank balance sheets owing to the effects of the pandemic would likely take some time to mend. The relatively low NPL ratio to a large extent reflects forbearance policy. Consequently, potential risks stemming from the real estate boom and the increased interconnectedness between real estate developers and commercial banks warrant close monitoring in the near-to-medium term.

9. From a longer-term perspective, the pandemic may have widened inequalities with deeper, lasting scars on the more vulnerable segments of society. The economic fallout has been manifested in its uneven impact across high- and low-income earners, between exported-oriented and domestically oriented firms, and between large corporations and SMEs. Lasting scars from the pandemic, such as corporate sector financial distress and the impact on the labor market may undermine growth potential.

10. AMRO recommends a mildly supportive fiscal policy stance in 2022. Given the availability of fiscal space and the uneven recovery across sectors, policy support should target those dislocated by the pandemic. Meanwhile, the VAT rate cut, and delayed tax and rental payments should be reviewed regularly and terminated once the recovery is solid. There is space in the fiscal envelope to raise capital spending. Meanwhile, revenue mobilization should be enhanced by improving tax administration and by expanding the tax base.

11. The SBV should aim to normalize monetary conditions. Upward price pressures stemming from elevated commodity prices in the global market will continue to generate inflationary pressures. A tapering of the easy monetary policy stance is also appropriate to contain the build-up of financial imbalances that emerged in an environment of low interest rates. Additional efforts should also be made to increase the flexibility of the exchange rate to enhance its role as a shock absorber.

12. The regulatory framework and bank capitalization should be strengthened to bolster and sustain financial sector soundness. In light of the real estate boom, reduction in lending to high-risk segments and greater reliance on secured loans will be beneficial alongside greater efforts to improve the valuation of properties and develop an effective resolution framework. A stronger macroprudential policy framework is also needed. Efforts are also needed to increase provisioning beyond current guidance to prepare for an increase in impaired assets.

13. Structural reforms should be accelerated to attain sustainable and inclusive growth. As Vietnam progresses to beyond the lower middle income country status, the grant element of concessional financing will decline with the expectation that the private and public sectors will increasingly be accessing international capital markets. This will require a concerted effort to implement a range of reforms, including to deepen financial markets and enhance the country's sovereign rating.

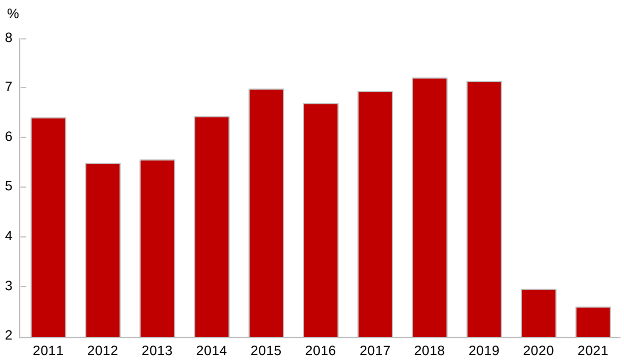
14. AMRO commends the authorities' efforts to address climate change and promote financial digitalization. AMRO welcomes the strong commitments made by Vietnam at the COP26 Glasgow Summit to achieve carbon neutrality by 2050. AMRO also encourages the development of a stronger, clearer and more transparent regulatory framework to foster financial digitalization and innovation which received a boost during the pandemic.

A. Recent Developments and Outlook

A.1 Real Sector

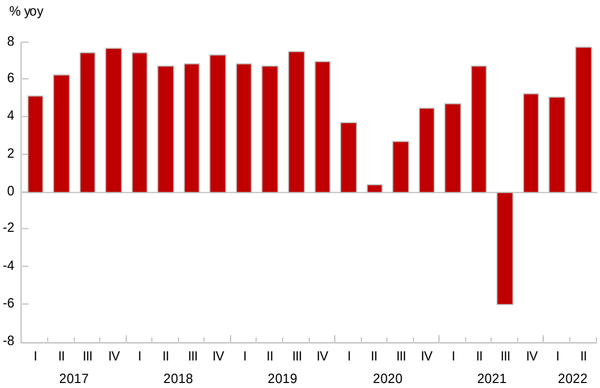
1. **Vietnam is recovering strongly from the pandemic following a sharp slowdown in 2020-21.** Real GDP growth remained positive in 2020 and 2021 (Figure 1) but was significantly lower than the pre-pandemic period (annual average of 6.5% over 2011-19). The economy has rebounded in Q4 2021 through Q2 2022, after experiencing a sharp contraction in Q3 2021 due to national lockdowns to contain the surge in infections from the delta variant. The economy grew at 5% yoy in Q1 2022 and 7.7% in Q2 2022 (5¼% in Q4 2021) (Figure 2). The economic recovery was broad-based on the back of robust external demand for manufacturing products and services reflecting the resumption of international travel. Close-contact services also recovered gradually following the relaxation of mobility restrictions. Business prospects improved with a pickup in enterprise registrations and firming up of labor market conditions. Domestic private demand also gained momentum, as reflected in strong retail sales which rebounded from sharp contractions during the lockdowns (Figure 3). FDI inflows remained strong.

Figure 1. Annual Real GDP Growth



Source: General Statistics Office (GSO).

Figure 2. Quarterly Real GDP Growth



Source: GSO.

Figure 3. Indicators of Economic Activity
(% change, 3-month moving average)

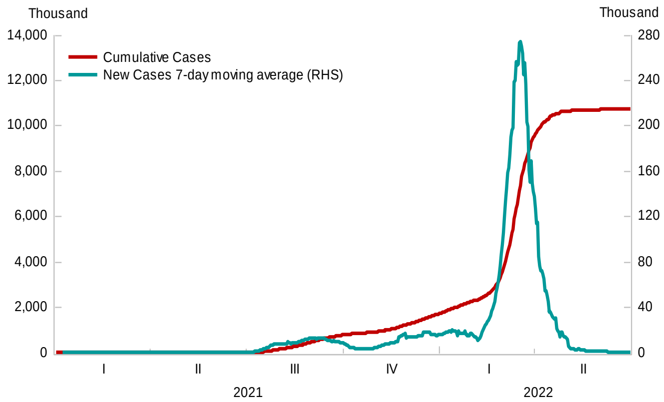
Indicator	Measure	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22
Consumption indicators										
Retail sales	% y/y	-30.2	-27.0	-18.1	-9.6	-4.7	-2.3	2.8	8.0	15.1
Passenger car sales	% y/y	-55.9	-50.3	-30.8	-10.1	7.1	34.3	45.4	59.6	67.0
Tourist arrivals	% y/y	-40.1	-34.2	-25.0	-12.8	0.5	62.1	98.6	235.1	573.2
FDI Investment Indicators										
Fresh implemented capital	% y/y	-18.6	-16.7	-14.2	3.6	5.7	10.0	4.9	7.9	8.1
New manufacturing registered capital	% y/y	269.7	282.2	89.9	-14.6	-5.0	-2.8	131.7	105.9	137.1
FDI new projects	% y/y	-37.5	-36.4	-34.7	-32.5	18.7	44.4	67.3	27.8	10.9
Production indicators										
Industrial production index (IP)	% y/y	-7.4	-8.5	-4.6	-0.3	2.9	8.3	12.3	17.3	17.9
PMI manufacturing	Index	41.8	44.2	48.2	52.3	52.8	53.5	53.2	52.6	52.7
External Trade Indicators										
Exports	% y/y	3.2	1.3	10.6	19.2	19.8	16.2	13.5	19.3	20.1
Imports	% y/y	20.8	12.8	14.0	15.1	16.2	15.6	16.1	17.8	15.3
Fiscal indicators (quarterly)										
Capital expenditure	% y/y	*-16.5*			*-12.5*			*-2.5*		*0.0*
Current expenditure	% y/y	*-3.1*			*-4.0*			*-0.5*		*0.0*
Revenues	% y/y	*13.2*			*7.2*			*9.1*		*0.0*
Corporate and income tax	% y/y	*22.2*			*22.7*			*10.6*		*0.0*
VAT	% y/y	*22.1*			*12.6*			*10.5*		*0.0*
Credit & financial market Indicators										
Total credit	% y/y	14.8	14.4	14.3	14.2	14.6	15.0	16.1	16.6	17.0
3m interbank rate	%	1.9	1.9	2.0	2.2	2.5	2.8	3.0	3.1	3.0
10y yield spot rate (% pa)	%	1.9	1.9	1.9	1.9	1.9	1.9	2.0	2.3	2.7

Deteriorating ⟶ Improving

Source: GSO; Vietnam Ministry of Finance (VMOF); State Bank of Vietnam (SBV); and AMRO staff estimates.

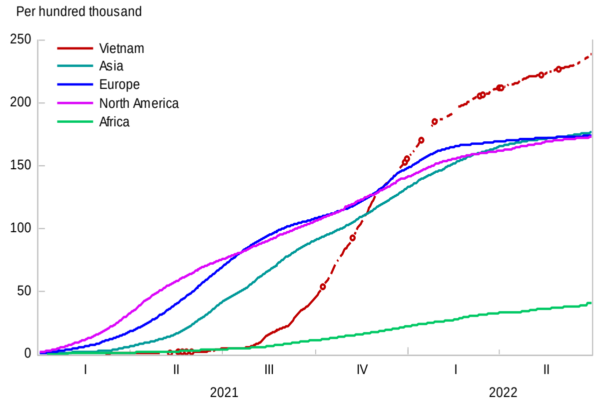
2. **The massive outbreak of the Omicron variant receded sharply in April 2022 and border restrictions and domestic containment measures were eased.** In mid-March, 7-day moving daily cases rose to a peak of 280 thousand (Figure 4). New daily and severe cases have now fallen sharply. After a somewhat hesitant and delayed start, the strong vaccination drive starting H2 2021—with the rate of vaccination in the population now among the highest in the world—helped to effectively contain the fatality rate to low levels and paved the way for the normalization of activity (Figure 5). Vietnam reopened its border and resumed international flights in mid-March. Curfew on restaurants was lifted in mid-March and normal operations for other contact intensive establishments were allowed starting early April. By end-April, new cases had dropped to a small amount and the total number of cumulative cases plateaued at 10.7 million at end-May.

Figure 4. COVID Infections



Source: CEIC; AMRO staff estimates.

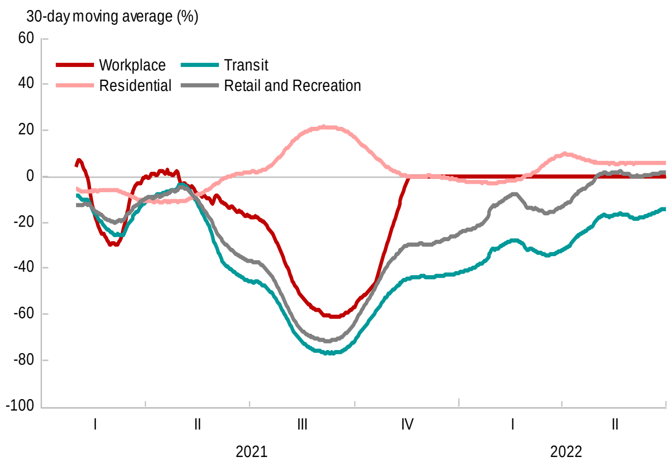
Figure 5. Vaccination Rate



Source: CEIC; AMRO staff estimates.

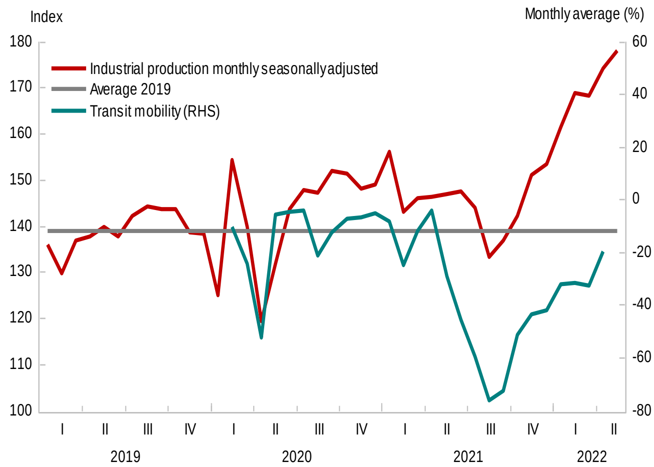
3. **Mobility had a significant, measurable impact on activity.** With lockdown at its peak in 2021Q3, industrial production plummeted. Of the two mobility indicators most tied to industrial production—workplace and transit—restrictions on the former were completely eliminated in 2021Q4 (Figure 6). As mobility restriction eased, industrial production staged a V-shaped recovery and, as early as mid-2021, industrial production had already surpassed the pre-pandemic average level of 2019 (Figure 7). By the middle of 2022, industrial production was more than 25% higher than the pre-pandemic (average 2019) level.

Figure 6. Mobility Indicators



Source: CEIC; AMRO staff estimates.

Figure 7. Mobility and Industrial Production

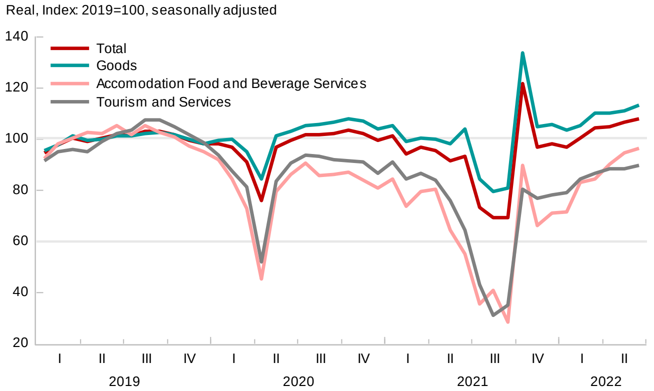


Source: GSO; CEIC; and AMRO staff estimates.

4. **The recovery is, nevertheless, uneven across sectors.** While the manufacturing and services sector outputs have both surpassed their 2019 levels, the service sector still has pockets of distress. On the domestic front, real retail sales for goods and services appear to have recovered fully to pre-COVID levels (Figure 8) but tourism and other services are still

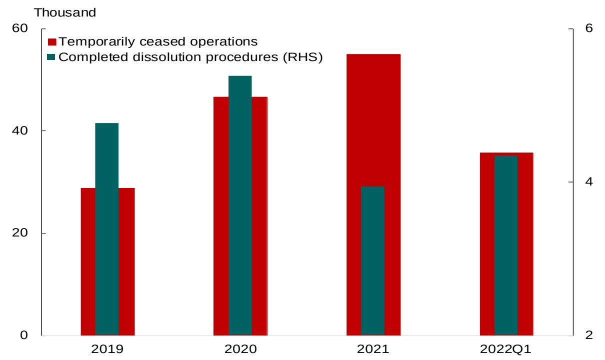
lagging in their recovery. The effects of border opening may take some time to fully take effect in some of these sectors. The number of enterprises that temporarily ceased operations in 2020 and 2021 rose significantly compared to 2019; those that completed dissolution procedures was higher in 2020 than in 2019, and although the number fell sharply in 2021, it spiked up again in Q1 2022 to a level which is even higher than the whole of 2021 (Figure 9).[1]

Figure 8. Retail Sales



Source: GSO; and AMRO staff estimates.

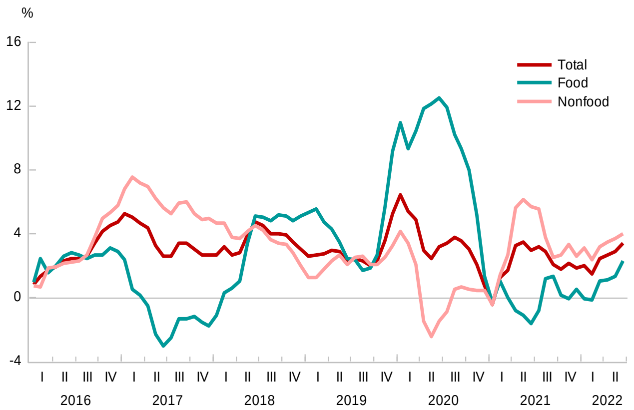
Figure 9. Enterprises



Source: MOLISA; and AMRO staff estimates.

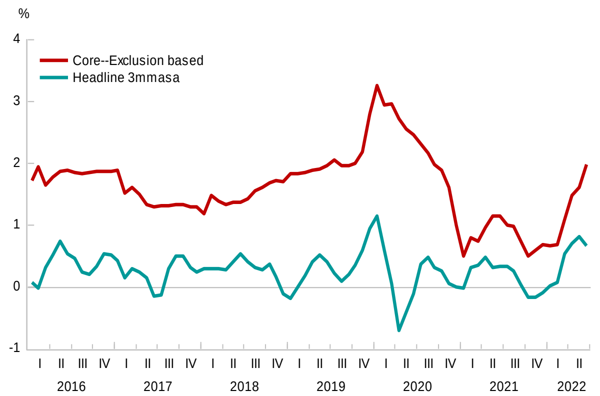
5. **Headline inflation is low and inflationary pressures are muted so far.** CPI inflation (12-month) was around 3.4% in June 2022, the bulk of which was non-food price inflation, reflecting the global oil price increase in recent months (Figure 10). The food price inflation component was muted in 2021, compared to its large contribution to inflation in 2020. Food supplies are well-managed, and the authorities used the oil price stabilization fund and the environmental tax cut to moderate the pass-through and second round effects of global oil price increases. Core inflation (exclusion-based) was near 2% in June 2022. In addition, inflation momentum—measured by the 3-month moving average seasonally adjusted (3mmasa) headline inflation—was under 1%. Both of these measures, however, have shown an uptick in recent months, suggesting that inflation pressures may be on the rise in tandem with global developments (Figure 11).

Figure 10. Headline Inflation



Source: GSO; and AMRO staff estimates.

Figure 11. Inflation: Momentum



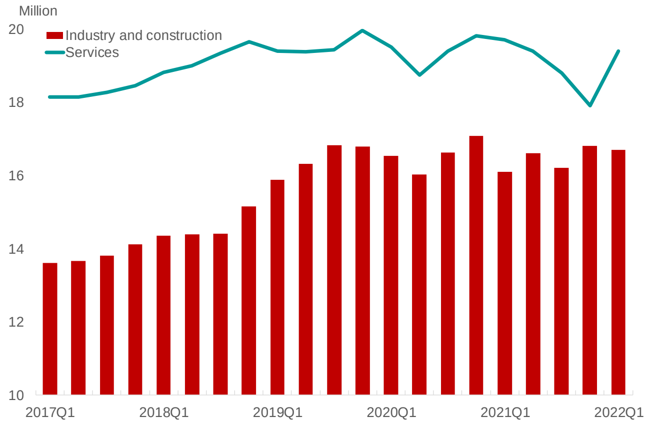
Source: GSO; and AMRO staff estimates.

6. **The pandemic had a distinct, noticeable impact on the labor market**. Employment growth in the industrial and services sectors, which had been on an upward trend, came to an abrupt halt in 2020 (Figure 12). In particular, service sector employment fell from a high of 20 million in Q4 2019 to 19 million in Q1 2021. A short-lived recovery in H2 2020 gave way to another decline in sectoral employment, this time by 2 million in 2021. A recovery in 2022 coincided with the easing of domestic mobility restrictions and the reopening of international

[1] Enterprise formation and dissolution are inherently non-linear processes. The Q1 2022 figures should not be linearly extrapolated to the full year.

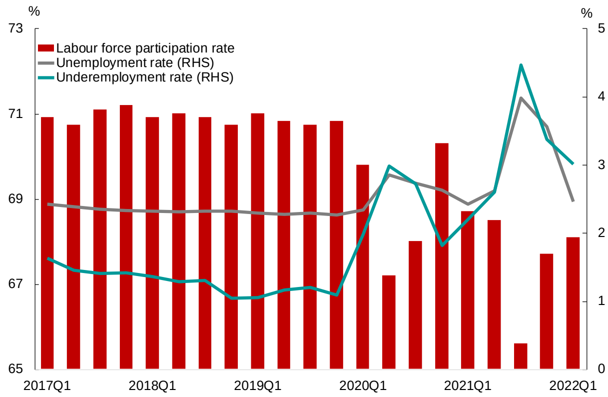
borders, albeit to a level below the peak. The industry and construction sectors also witnessed fluctuations; and employment in these two sectors are still below their peak levels. These developments have taken place against the backdrop of a rising labor force. The labor force participation rate fell in 2020 and is still below its pre-pandemic level. Both unemployment and underemployment rates rose significantly from stable pre-pandemic levels (Figure 13). At 3% in Q1 2022, the underemployment rate was three time above the pre-pandemic level, as previously industrial and service sector workers were likely temporarily employed in the agricultural sector or in jobs that do not fully utilize their skill levels. Overall, employment and labor force participation rates have not reverted to pre-pandemic levels, and underemployment persists. The disjoint between output growth, industrial activity and labor market developments can be attributed to higher capacity utilization in the manufacturing sector, for which there is anecdotal evidence but no data series.

Figure 12. Employment



Source: MOLISA; and AMRO staff estimates.

Figure 13. Labor Market Developments



Source: MOLISA; and AMRO staff estimates.

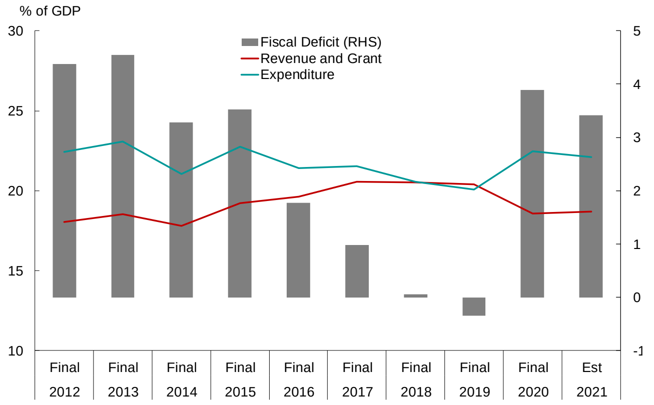
A.2 Fiscal Sector

7. **Vietnam employed fiscal policy judiciously during 2020-21 to support the economy and limit the decline in growth.** The budget deficit is estimated to have been 3.9% and 3.4% of GDP in 2020 and 2021, respectively, substantially higher than the roughly balanced budgets of 2018 and 2019, reflecting the pandemic related fiscal support for the economy, especially in 2020 (Figure 14). Compared to the 2020 outturn, in 2021 (2nd estimate), revenue collection remained strong (18.7% of GDP) with lower capital expenditure (Appendix 3). Relative to the budget, revenue was higher by a substantial margin across a range of categories. All told, the fiscal stance turned significantly expansionary in 2020, and then mildly contractionary in 2021 compared to 2020. The public and publicly guaranteed debt-to-GDP ratio fell to 43.1% at end-2021 (Figure 15). A large part of the fiscal deficit was domestically financed, principally from domestic bond issuance to commercial banks. In this context, a significant development in recent years has been the reduction in external financing of the budget, as Vietnam has graduated from low-income country status by the IFIs and also on account of a decision by the authorities to focus on the quality of external financing and projects rather than the volume of the financing. As a result, disbursements from IFIs have shrung significantly and the pipeline of projects has also dwindled.[2] This shift in focus has important implications for development financing going forward, including on-going efforts by the authorities to tap international capital markets at more favorable terms. This is reflected in the decision to raise Vietnam's sovereign rating through a concerted reform effort (Box A: *Financing for Development)*.

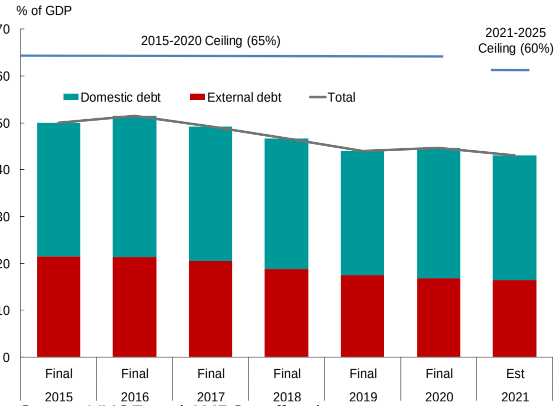
Figure 14. Fiscal Developments

Figure 15. Public Debt

[2] The share of outstanding domestic currency government debt rose from 60.1% at end-2016 to 67.2% at end-2021.



Source: VMOF; and AMRO staff estimates.



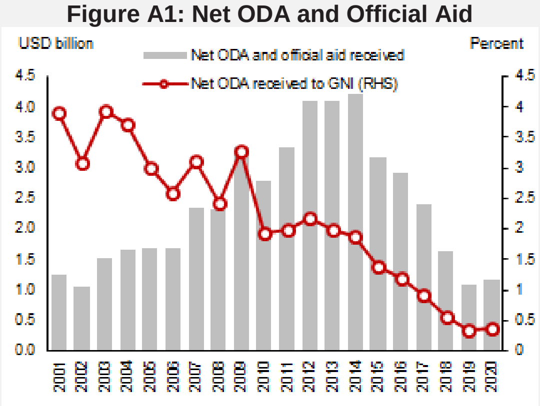
Source: VMOF; and AMRO staff estimates.

Box A. Financing for Development[3]

Bond market development and integration with international capital markets are hallmarks of economic growth. Vietnam graduated from the International Development Association (IDA) status in 2017. Going forward, as Vietnam firmly establishes itself in the group of middle-income countries, access to concessional financing from international financial institutions (IFIs) and bilaterals will progressively decline (Figure A1). To replace these sources of financing, it will be essential for Vietnam to develop and access other sources to meet its still significant infrastructure and development needs.

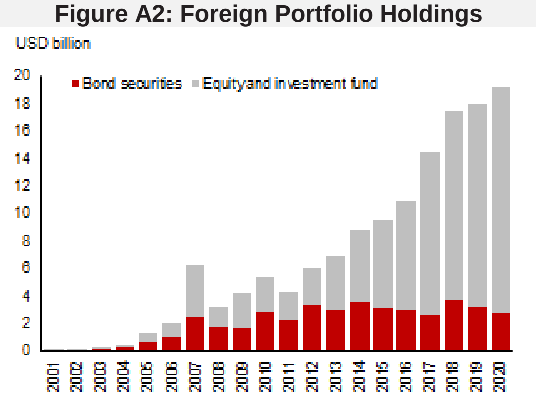
Compared to its regional peers, Vietnam needs to further develop its bond market. The volume of outstanding bonds in Vietnam was around 31.3% of GDP at end-2021 (Table A1), with treasury bonds accounting for more than 50%. Investors are primarily local; foreign investors held less than 1% of the total local currency (LCY) government bonds outstanding (Figure A3-5). Corporate bond issuers are less diversified and dominated by real estate developers and commercial banks. Reflecting the nascent market, the sovereign credit rating of the LCY bonds is also lower than regional peers. Vietnam's sovereign credit rating has been upgraded gradually since 2013 but remains below investment grade.

Figure A1: Net ODA and Official Aid



Source: The World Bank.
Note: ODA stands for Official Development Assistance.

Figure A2: Foreign Portfolio Holdings



Source: International Monetary Fund.

Several factors account for Vietnam's current rating. Favorable factors include macroeconomic resilience, strong growth prospects, a sound external position, relatively low public debt, and its attractiveness as an FDI destination. However, some lingering issues appear to have constrained a further upgrade of the sovereign credit rating. The issues include contingent liabilities from state-owned banks and enterprises and a banking sector with a relatively low capitalization rate. Governance and legacy issues in the financial system are also cited by rating agencies.

[3] Prepared by Wanwisa Vorranikulkij.

Raising the sovereign rating is essential to enhance access to global financial markets and reduce the cost of capital. Vietnam's reliance on international financial markets has expanded overtime (Figure AS2). Looking ahead, it is expected that both the private and public sectors will increasingly access international capital markets to supplement domestic sources to meet growth and development financing needs. In this regard, in May 2022, the Prime Minister approved Decision No. 412/QD-TTg which aims to achieve an upgrade of the sovereign rating to investment grade by 2030. To achieve this goal, a reform agenda is to be put in place and implemented. Among the key elements of this agenda are:

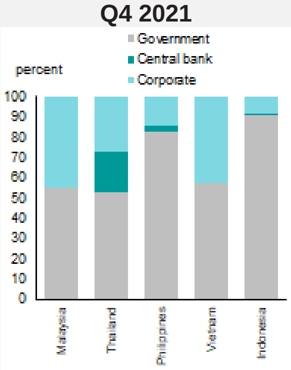
- **Growth:** Achieving 7% average annual real GDP growth during 2022-2030, GDP per capita of USD7,500 by 2030, and investment of 33-35% of GDP.
- **Fiscal sustainability:** Budget deficit of 3% of GDP; public debt-to-GDP ratio of 60%, and government debt-to-GDP ratio of 50% by 2030.
- **International reserves and banking sector:** foreign exchange reserves worth at least 16 weeks (roughly 4 months) of goods and services imports; capital adequacy ratio (CAR) of local commercial banks of 11-12% during 2021-2025 and at least 12% thereafter; maintaining banking system equity to asset ratio of at least 9%.
- **Social and environmental targets**: achieve 0.7 or above of the UNDP Human Development Index, a 42-percent forest cover rate; and 70% or higher rate of treatment and reuse of wastewater into the river basin.

Table A1. Bond Market Indicators of ASEAN-4 and Vietnam

Indicator		MY	TH	PH	ID	VN
Size of LCY bond market in% of GDP as at end-2021		125.2	91.0	50.4	42.5	39.3
Foreign holdings in LCY government bond as at end-Q3 2021		25.9	13.4	1.6	21.6	0.8
Credit rating (Long term LCY)	Moody's	A3	Baa1	Baa2	Baa2	Ba3
	S&P	A	A-	BBB	BBB+	BB+
	Fitch	BBB+	BBB+u	BBB	BBB	BB

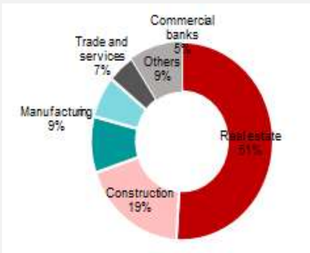
Source: Asian Bonds Online, Moody's, S&P, and Fitch.
Note: Minimum investment grade ratings for long term LCY bonds are Baa3 for Moody's, BBB- for S&P and Fitch.

Figure A3: LCY Bond Issuers Q4 2021



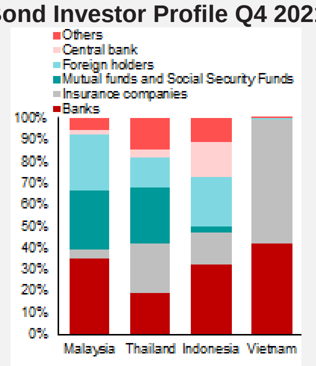
Source: Asian Bonds Online.

Figure A4: Corporate Bond Issuance in Q1 2022



Source: Techcom Securities.

Figure A5: LCY Government Bond Investor Profile Q4 2021



Source: Asian Bonds Online.

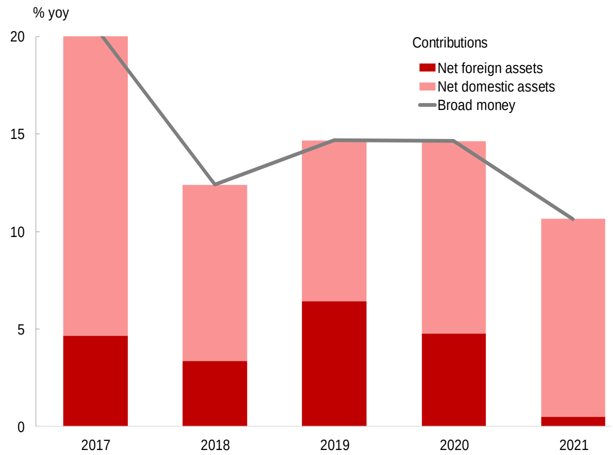
References

Viet Nam News. 2022. "Vietnam Promotes Solution to Improve National Credit Rating". 12 May.
Ministry of Finance. 2022. "Dissemination of the Plan for Improvement of Sovereign Credit Ratings to 2030". Department of Debt Management and External Finance, 12-13 May.

A.3 Monetary Sector

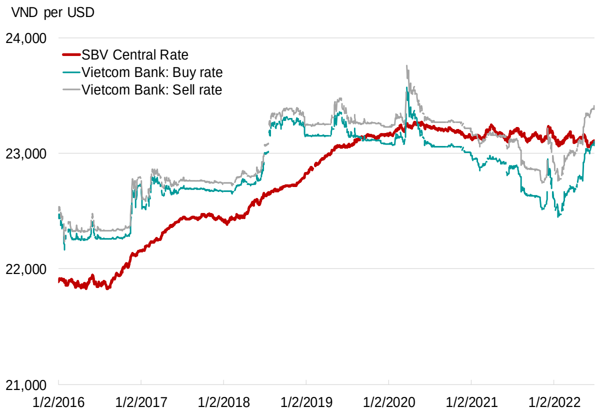
8. **The SBV has maintained accommodative monetary and credit conditions.** Policy rates have been kept unchanged since three rate cuts by 150-200 basis points in mid-2020. The caps on deposit rates and short-term lending rates (less than 6 months) were reduced by 60-100 basis points and the lending rate for priority sectors was also cut by 150 basis points. In addition, under the January 2022 package, the SBV will provide a 2% interest rate subsidy from May 2022 to December 2023 (Decree No. 31/2022/ND-CP), financed by the budget, on commercial loans to businesses, cooperatives, and households hard hit by the pandemic. Liquidity in the banking system is ample and the interbank rate was below the SBV's refinancing rate for all of 2021. Broad money grew by 10.7% (yoy) in 2021 (14.6% in 2020), with almost all the contribution coming from increases in net domestic assets (NDA). Real private sector credit growth (nominal growth minus end-period inflation) rose marginally to 11.5% (10.9% in 2020), driven mainly by loan growth to industry, trade, mortgages, and personal consumption to support economic recovery (Appendix 4).[4] The exchange rate was broadly stable against the USD (2.1% yoy depreciation as of June 30 using the interbank rate).

Figure 16. Monetary Aggregates



Source: SBV; and AMRO staff estimates.

Figure 17. Exchange Rate



Source: SBV; and Vietcom Bank via Haver Analytics.

A.4 Financial Sector

9. **The financial sector appears to have weathered the downturn for the most part.**

- Banking sector total capital adequacy ratio (CAR)—11.5% at end-2021—remains above Basel II requirements (11.4% at end-2020).[5] While many banks raised or are planning to raise capital in 2022, the average Tier 1 CAR at 10.1% at end-2021, remains lower than in other jurisdictions (average 17.2%).[6]
- The non-performing loan (NPL) ratio (on banks' books) was 1.5% at end-2021, lower than the average of 1.7 over 2018-2020, but could be impacted by the end of credit relief offering in June 2022.[7] Looking forward, the lower NPL ratio could be due to the NPLs masked by the credit relief provided during the pandemic. Allowances for credit risk vary across banks.[8]

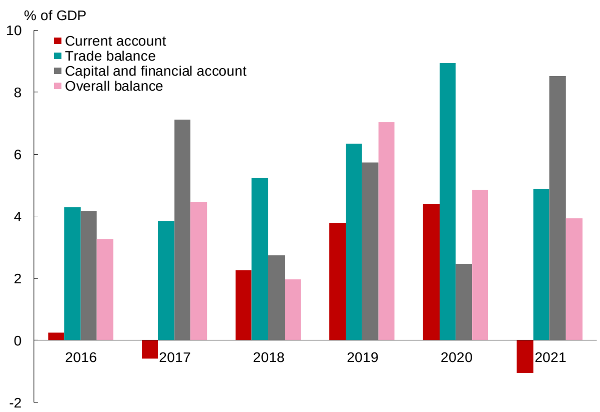
[4] Nominal credit growth in 2021 was 13.6% (SBV's target rate was 14%); credit growth in May 2022 was 17.1% (yoy).
[5] At end-2021, state-owned banks' CAR stood at 9.0 percent, lower than the joint-stock commercial banks (11.9%) and foreign banks (18.9%).
[6] At end-Q4 2021, Tier 1 CARs for emerging market economies were higher. For the Philippines, Malaysia, Thailand and Indonesia, the ratios were 15.5%, 15.7%, 16.4% and 22.4%, respectively.
[7] Credit relief included interest rate exemptions and reduction, debt re-classification and rescheduling of repayments. Estimates of the outstanding loans covered by the measures vary between 2.4 and 6.0%.
[8] At end-Q3 2021, loan loss reserve over NPL ratio ranged between 14% and 243%.

- The liquid asset ratio of the banking system in 2021 was also lower than in 2020 and compared to other jurisdictions, suggesting smaller buffers to meet current liabilities under stress. The loan-to-deposit ratio increased marginally to 72.1% at end-2021 (71.9% at end-2020).[9]
- An estimated 20% of the banking sector loans are mortgage and construction loans; and most other loans are also indirectly related to the property market, with property pledged as a collateral. The SBV has classified loans to the real estate sector as risky and asked banks to control credit growth for such loans in 2022 under Directive No. 01/CT-NHNN. Property prices have been frothy and a correction can spill over to the banking sector, and to the financial sector more generally, including by undermining confidence.

A.5 External Sector

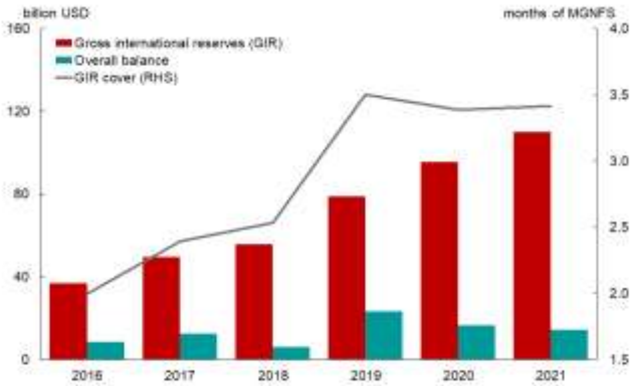
10. **BOP surpluses have contributed to a significant increase in international reserves in recent years.** The loosening of mobility restrictions helped achieve robust export growth in 2021 (19%), in part due to the strong external demand for computers, mobile phones and electronics, which have been boosted by the pandemic. Imports grew at 26.5%, reflecting the growth of intermediate inputs as well as investment and consumption goods. The trade surplus shrank to 4.9% of GDP in 2021 (8.9% of GDP in 2020), with a small current account deficit of 1.1% of GDP (Appendix 5). The financial account was in surplus in 2021, supported by strong FDI inflows, underpinned by Vietnam's attractive status as a manufacturing hub for multinationals. With an overall BOP surplus, international reserves rose by USD14½ billion to USD110 billion at end-2021 (3.4 months of prospective imports of goods and nonfactor services).[10]

Figure 18. Balance of Payments



Source: GSO; and AMRO staff estimates.

Figure 19. International Reserves



Source: GSO; and AMRO staff estimates.

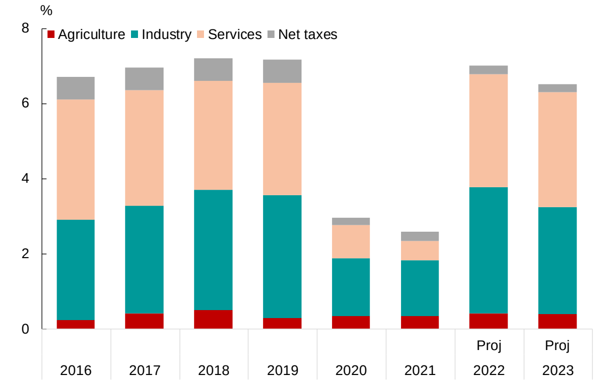
A.6 Outlook

11. **Looking ahead, strong growth can be expected in Vietnam in 2022 and 2023, although the external environment is expected to generate headwinds.** Global growth has been marked down significantly while inflation has been marked up by IFIs. In addition, a substantial tightening of global financing conditions is being priced in by markets. The Ukraine-Russia conflict and China's dynamic zero-COVID approach are also expected to continue in the foreseeable future. However, AMRO currently projects relatively robust regional growth at 4.3% and 4.9% in 2022 and 2023, respectively (AREO, July 2022). For Vietnam, real GDP

[9] At end-2021, state-owned banks' liquidity ratio was 81.1%, higher than the joint-stock commercial banks (70.2%) and foreign banks (41.5%).
[10] 107% of the IMF's ARA metric.

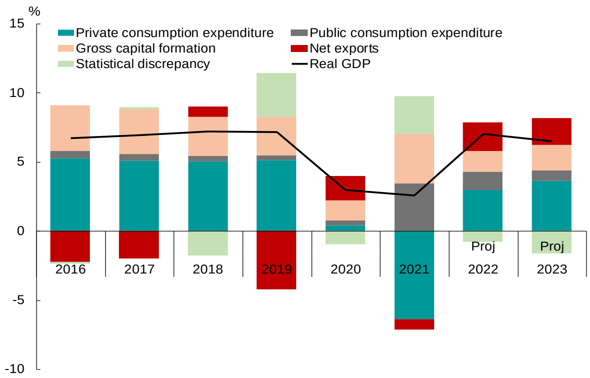
growth is projected at 7% in 2022, and 6.5% in 2023. The economy would benefit greatly from the easing of domestic containment measures. On the demand side, growth can be expected to receive a boost from a strong recovery in private consumption, continued FDI inflows and a supportive fiscal stance. On the supply side, growth is expected to be broad-based, including a recovery in the services sector reflecting the lifting of mobility restrictions (Figure 8).

Figure 20. Sources of Growth (Supply)



Source: GSO; and AMRO staff estimates.

Figure 21. Sources of Growth (Demand)

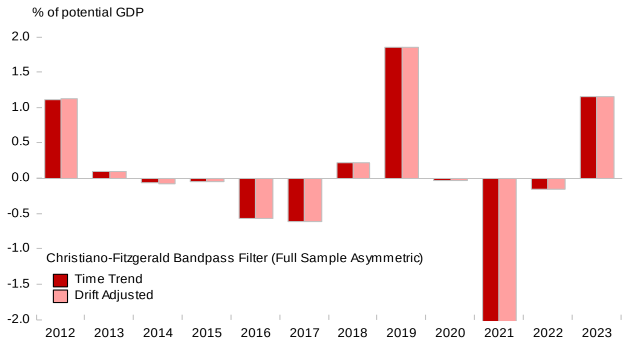


Source: GSO; and AMRO staff estimates.

12. **The aggregate output gap is expected to narrow significantly by year-end.** Unambiguous estimates of the output gap are difficult to come by, especially for an economy undergoing a major shock. Nevertheless, discussions with the authorities; an examination of summary estimates of the output gap, using various high frequency indicators; and accounts by the private sector and other stakeholders suggest that the current recovery is strong enough to close or nearly close the negative output gap at the aggregate level by end-2022.[11] The aggregate output gap is projected to turn positive in 2023. This aggregative trend is mirrored in the sectoral output gaps. The largest negative output gap opened up in the services sector in 2021.

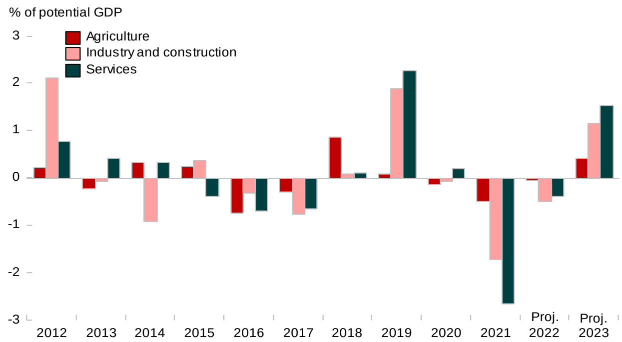
13. **Inflation is projected to remain contained in 2022, with upside risks.** AMRO expects the pass-through from global oil prices to continue for another few months, with 2022 expected to register headline inflation in the 3.5% range (12-month basis). The authorities intend to utilize the oil price stabilization fund, fuel tax cuts and administered prices to offset pressures emanating from global developments.[12]

Figure 22. Output Gap (Aggregate)



Source: GSO; and AMRO staff estimates.

Figure 23. Output Gap (Sectoral)



Source: GSO; and AMRO staff estimates.

---

[11] The Christian-Fitzgerald Bandpass Filter is used to estimate the output gap, under alternative assumptions about the trend. The commonly used HP Filter is avoided following Hamilton (2018) "Why You Should Never Use the Hodrick-Prescott Filter".
[12] The transport component in CPI basket has a weight of 9.7% and the correlation of global crude oil price to domestic transport costs is over 85%. However, the domestic tax structure on fuel ensures that the pass-through between the two is not one-for-one. A 10% rise in the cost of a barrel of crude oil leads to a 3 percentage points increase in the transport index with a lag of about 1-2 months.

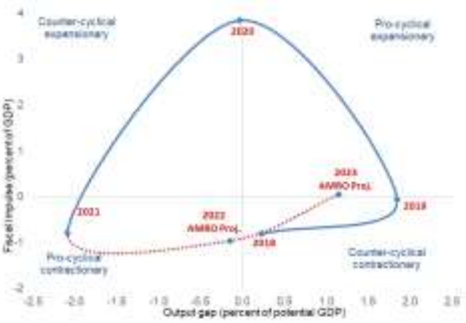
14. **Further fiscal support to the economy is in train.**

- The 2022 initial budget—put together in September 2021 while the pandemic concerns and uncertainty were still high—targeted a deficit of 4% of GDP. Revenue was conservatively projected to rise—relative to the 2021 initial budget—by 5% on the back of a modest rebound in growth. Expenditure was projected to rise by 5.8%, with an increase in current expenditure (5%) to continue providing support for the recovery from the pandemic and a more substantial (10.2%) increase in capital expenditure.
- In January 2022, the authorities announced an economic stimulus package (VND350 trillion, equivalent to 4.1% of estimated 2021 GDP at the time of adoption), to be implemented over 2022-23 with the aim of supporting socioeconomic development. Around 83% of this was billed as fiscal measures (VND291 trillion), the remainder consisting of monetary and other support measures. Around half of the package was directed to infrastructure development (VND176 trillion). Other budgetary measures included a temporary 2 percentage point VAT rate cut for the 10% bracket to 8% during 2022; and deferred income taxes and land rental payments. The stimulus package allowed for additional budgetary spending of VND103 trillion in 2022 implying a revised deficit target of 5.1% of GDP.

15. **The fiscal stance of the budget and the stimulus package is expansionary.** With a firming up of activity and the stimulus package, full implementation of the revised 2022 budget with the targeted revenue projections would generate an increase in the deficit by 1.7 percentage point of GDP. AMRO estimates suggest that this would impart an expansionary fiscal impulse of nearly 2.6% of GDP.

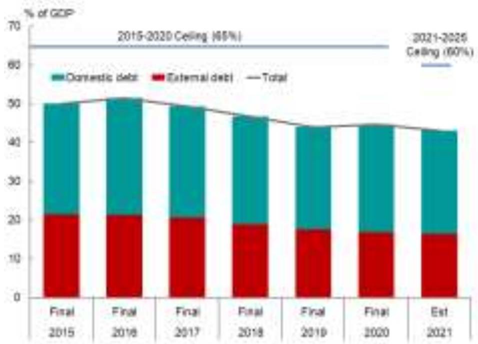
16. **The projected outcome for the budget requires consideration of several factors.** With real GDP growth of 7%, higher inflation and a substantially higher oil price compared to Q3 2021 when the initial budget was formulated, revenue collections can be expected to be stronger. Prior experience and delays in the implementation of the capital budget so far in 2022, suggests that expending the full budgetary allocation may be challenging. With this, the revenue-to-GDP ratio is projected to remain the same as the outcome in 2021, with the tax relief measures to support the economy expected to be offset by higher VAT and customs duty collections from higher imports and oil prices. Current and capital spending is expected to remain broadly unchanged. All said, given that the recovery is stronger than anticipated in September 2021 when the budget was formulated and given the implementation lags, AMRO projects the deficit to be around 1.9% of GDP. The public debt-to-GDP ratio is projected to decline, reflecting the strong growth (Figure 25).

Figure 24. Fiscal Stance



Source: VMOF; and AMRO staff estimates.
Note: Fiscal impulse is based on the structural primary balance.

Figure 25. Public Debt



Source: VMOF; and AMRO staff estimates.

17. **Monetary and exchange rate policy is projected to remain supportive.** The refinance rate is expected to rise on the back of global monetary tightening but may not be fully reflected in the term structure given the incomplete monetary transmission passthrough. The principal channel of transmission of global interest rate hikes would be the exchange rate through the strength of the USD in the global economy. The SBV intends to continue following its managed float regime against a basket of (undisclosed) currencies and engage in FX market intervention to smooth excessive fluctuations.[13] AMRO projections assume the exchange rate depreciation to generate a broadly unchanged real exchange rate. The SBV set a nominal credit growth target of 14% in 2022. AMRO projections suggest that this credit growth should be adequate to support the projected real GDP growth.

18. **The BOP is projected to be in surplus with further international reserve accumulation.** For 2022 and 2023, AMRO projects current account surpluses of 0.5% and 0.8% of GDP, respectively. Together with the surplus in the financial account, the overall BOP surplus is projected to raise gross international reserves to USD125 billion at end-2022 (equivalent to 3.4 months of imports of goods and non-factor services) from USD110 billion at end-2021. Export growth is projected to remain robust (14.5%) after a strong showing in 2021 (19%). Import values are also projected to be in a similar range and would reflect, in part, the elevated global energy prices. FDI inflows are expected to remain high (4% of GDP), a level comparable to recent years (annual average of 4.5% during 2019-2021) and may even surprise on the upside given recent announcements of locational shifts to Vietnam by several multinationals in a bid to mitigate supply chain dislocations. The global financial tightening may generate a modest level of net portfolio outflows. Some pickup in medium- and long-term loans can be expected as public and private investment activity returns to more normal pre-pandemic levels.

B. Risks, Vulnerabilities and Challenges

19. **The risks to the growth forecast are broadly balanced.**

- The main downside risks stem from global commodity and supply chain disruptions related to geopolitical developments, flare-ups in more vaccine-resistant COVID-19 variants, tightening of financial conditions in advanced economies, and a persistent increase in global oil prices. China's dynamic zero-COVID approach is likely to continue to strain exports of agricultural products, in addition to creating supply bottlenecks for a range of intermediate goods imports.
- Upside risks to the forecast spring from a faster-than-projected growth in private consumption, as pent-up demand may be released. In addition, the authorities may choose to maintain a supportive macroeconomic policy stance for longer than is needed as a precautionary measure.

20. **In the financial sector, the deterioration in bank balance sheets owing to the effects of the pandemic-related growth slowdown will likely take some time to mend.** The relatively low NPL ratio to a large extent reflects the SBV's forbearance policy, masking weaker credit quality. Relatedly, potential risks in the real estate sector, such as downside pressures from the disposal of properties stemming from an expiry of credit relief and upside stress from the limited supply, warrant close monitoring in the near-to-medium term. House-

[13] The SBV mainly uses forward contracts in FX intervention, but spot market intervention is also undertaken if necessary.

price-to-rent ratios and mortgage debt-to-income ratios were broadly aligned with those of other regional economies in 2021, but risks remain going forward.[14]

21. **From a longer-term perspective, the pandemic may have widened inequalities with longer lasting scars on the more vulnerable segments of society.** The economic fallout has been manifested in its uneven impact across high- and low-income earners, between export-oriented and domestically oriented firms, and between large corporations and small and medium enterprises (SMEs). In addition, lasting scars from the pandemic, such as the corporate sector financial distress and the impact on labor and employment, may undermine growth potential over the medium to long term. Meanwhile, the pandemic slowed the progress of rapid poverty reduction in Vietnam but did not reverse it. Simulation results show that poverty estimates in 2020 were higher by 0.3 percentage point compared to a no-COVID scenario (6.1 vs. 5.8%, under a $3.20/day 2011 PPP poverty line). The share of new poor was small, supported by a resilient agriculture sector where most of the poor are economically engaged.[15]

C. Policy Discussions and Recommendations

22. **The policy discussions focused on steps to sustain the recovery while maintaining macroeconomic and financial stability, and laying the foundations for sustained, inclusive growth.** The authorities and AMRO staff broadly agreed on the policy directions in these areas. However, there were some differences of views related to the pace at which fiscal stimulus could be calibrated relative to the cyclical position of the economy.

Authorities' Views

23. **The authorities agreed with the proposed outlook**. In particular, the authorities agreed that the recovery in the manufacturing sector has been strong enough to suggest that the aggregate output gap may well close in 2022. The PMI index has now implied an expansion for several months. As regards inflation, global energy prices have remained at elevated levels and there are additional pressures on global food prices reflecting the disruption in supply chains as a result of the Russia-Ukraine conflict.

C.1. Fiscal Policy to Support the Recovery

24. **Given the economy's cyclical position, AMRO recommended a mildly supportive fiscal policy stance in 2022.** Given availability of fiscal space and the uneven recovery across economic and social sectors, policy should continue to provide support to those that continue to be dislocated by the pandemic. In this context, support measures in the stimulus package should be more targeted at micro, small and medium enterprises (MSMEs) and low-income households. The VAT rate cut should be allowed to expire as scheduled. Similarly, delay in tax and rental payments should be reviewed regularly for their relevance and effectiveness and allowed to terminate, once the recovery is solid. The authorities could use their discretion to implement the stimulus package in line with the recovery. Infrastructure development would play a vital role in revitalizing the economy going forward, and there is space in the fiscal envelope to raise capital spending, subject to implementation capacity

[14] House-price-to-rent ratio for Vietnam is 25.5, similar to regional peers: Cambodia (20.6), Indonesia (24.1), the Philippines (32.4) and Thailand (31.2). Mortgage debt-to-income ratio for Vietnam is 229.0; for regional peers, the ratios are: Cambodia (388.4), Indonesia (251.7), the Philippines (289.0) and Thailand (176.2). Source: NUMBEO.
[15] World Bank, *A Year Deferred—Early Experiences and Lessons from COVID-19 in Vietnam.* Under a higher Upper- Middle Income class poverty line ($5.5/day 2011PPP), the size of the new poor was larger, at 1% of the population. At the higher poverty lines, households were more diverse and extended into those engaged in the relatively more impacted services and manufacturing sectors compared to agriculture.

constraints. Meanwhile, revenue mobilization should be enhanced by improving tax administration, and an expansion of the tax base should also be pursued by eliminating exemptions, especially in the corporate income tax, to bring it broadly in line with regional peers. A concerted effort also needs to be made to introduce a property tax regime to support development projects at the provincial level and in urban areas.

Authorities' Views

25. **VMOF broadly agreed with the analysis, with some reservations about the implementation pace of budgetary spending allocations.** Specifically, there was agreement that the budget is likely to overperform on the revenue front, especially in light of the conservative assumption when the budget was formulated with regard to the strength of the recovery. As regards expenditure, reviews by the National Assembly are expected to generate pressures for accelerated and timely implementation of the budget and stimulus package.

26. **There was agreement that fiscal space would remain adequate over the medium term.** AMRO projections suggest that with the large GDP revaluation, fiscal space has expanded and deficits in the 2-3% of GDP range are affordable and will deliver a broadly neutral stance, with enough room for capital spending (Box B: *National Income Accounts Revaluation*). Further efforts to enhance the efficiency and timeliness of spending are warranted, including through improvements in public financial management. The public debt-to-GDP ratio falls in a baseline scenario and remains well under 50% of GDP across a range of reasonable shock scenarios. This is well within Vietnam's own debt-to-GDP ceiling of 60% of GDP and international threshold of 70% for emerging markets. In addition, the long average tenor of government bonds and the low effective interest rate should keep debt service payments at manageable levels.

C.2. Normalizing Monetary Policy

27. **AMRO recommended a normalization of monetary conditions by the SBV.** Although inflation will likely remain below the SBV's ceiling, upward price pressures stemming from elevated commodity prices in the global market, in particularly energy prices, continue to generate inflationary pressures. A tapering of the easy monetary policy stance is also appropriate to contain the build-up of financial imbalances that emerged in an environment of low interest rates, especially in the stock market and in the real estate sector where prices have risen sharply.[16] This would require open market operations by the SBV to mop up excess liquidity; raising reserve requirements could also be considered. Notwithstanding the monetary tapering, it is essential to ensure that financing needs of vulnerable MSMEs and households be met, and that sufficient funding is available to productive sectors. The operation of the interest rate subsidy program should be closely monitored to ensure that financing needs of vulnerable MSMEs and households are met, sufficient funding is available to productive sectors, and only viable, deserving enterprises have access to the program. In addition, the process of commercial banks obtaining reimbursements for the subsidy funds at the VMOF should be streamlined. Over the longer term, a strengthening the monetary policy framework would be welcome, including by improving the transmission mechanism and a strong macroprudential framework, to allow a phasing out of credit growth targets.

[16] The stock market experienced a technical correction in April 2022 after substantial gains during 2020-2021. The benchmark index had advanced to more than 1,500 in early 2022 (1,000 in January 2020) and outperformed regional peers (Appendix Figure 1.4). In April 2022, the authorities investigated allegations of stock manipulation and other equity market violations. The index declined to around 1,300 in May 2022.

Box B. National Income Accounts Revaluation[17]

The United Nations 2008 Systems of National Account (SNA) has led to large upward GDP revision for many countries. In 2019, Vietnam's General Statistics Office (GSO) revised up nominal and real GDP for 2010-2017 by about 25%. As a result, annual real GDP growth in this period was marginally higher by 0.13-0.48%. The revaluation also led to changes in the share of GDP components (Table B1). The service sector saw the largest increase, followed by industry and construction, while the share of the agricultural, forestry and fishery sector declined. The revision in GDP was attributed to a change in economic structure, a change in the GDP calculation based on the 2008 SNA, a change in administrative records, and an update of Vietnam's industrial classification standards.

Figure B1. GDP revisions (Average annual % change)

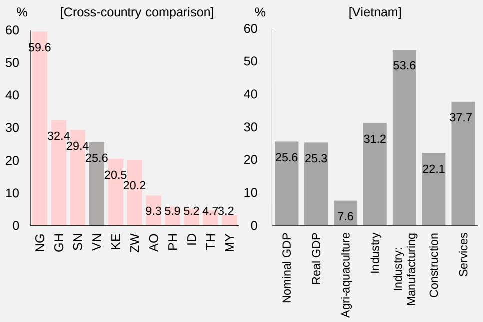


Table B1. Vietnam: Sectoral shares (2010-2017)

Share (%)	Real GDP			Nominal GDP		
	Old series	Reevaluated series	diff.	Old series	Reevaluated series	diff.
Agriculture, Forestry and Fishery	16.8	14.4	-2.4	17.7	14.9	-2.8
Industry and Construction	33.5	34.6	1.1	33.0	34.8	1.8
Services	38.1	41.8	3.8	38.8	41.0	2.1
Product Tax Excluding Product Subsidy	11.7	10.0	-1.6	10.5	9.4	-1.1

Source: World Bank; GSO; National Statistics Offices; AMRO staff calculations.
Note: NG = Nigeria, GH = Ghana, SN = Senegal, VN = Vietnam, KE = Kenya, ZW = Zimbabwe, AO = Angola, PH = Philippines, ID = Indonesia, TH = Thailand, MY = Malaysia

Vietnam's upward GDP revaluation has implications for an assessment of its key indicators. GNI per capita rose by USD713 to USD3,355, implying a substantial gain for Vietnam in the World Bank's middle-income country bracket (Figure B2), comparable to the Philippines. This income level, to some extent, has potential implications for the financing terms at which Vietnam can access concessional resources from IFIs. The lower tax revenue-to-GDP ratio (from 17% to 15%) indicates there is more room to expand budget revenue collection. Public debt-to-GDP declined substantially from 56% to 45% at end-2018 implying that Vietnam may have more fiscal space than previously estimated. (Figure B3) With this, the public debt ceiling was reduced in the 2021-2025 budget plan to 60% of GDP (65% of GDP in the 2016-2020 budget plan). In the monetary sector, the credit-to-GDP ratio fell by over 30 percentage points to 115% of GDP suggesting that growth may not have been as credit intensive as previously estimated.

Figure B2. GNI per Capita

Source: World Bank; GSO; National Statistics Offices; AMRO staff calculations.

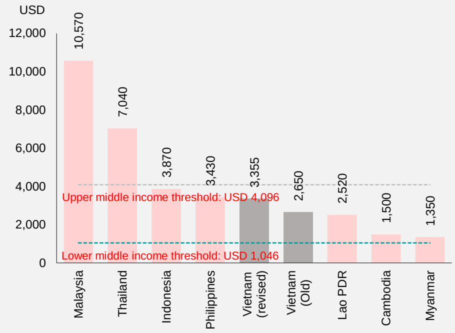
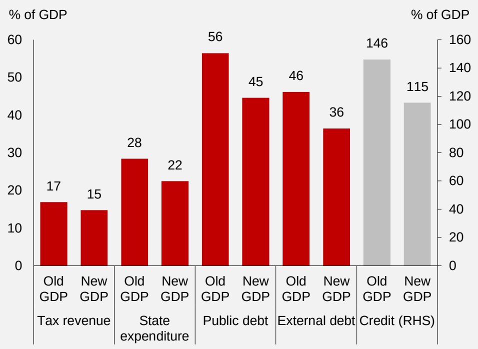


Figure B3. Macroeconomic Indicators



References

GSO. 2019. "General Statistics Office to Officially Announce The Results of The Revision of GDP Size for the 2010-2017 Period". 13 December.

28. **Efforts could also be made to increase the flexibility of the exchange rate and enhance its role as a shock absorber.** Along these lines, AMRO suggests that the SBV

[17] Prepared by Wanwisa Vorranikulkij.

continue to increase exchange rate flexibility, as it balances growth, inflation and financial stability objectives.

C.3. Strengthening Financial Regulation to Curb Financial Imbalances

29. **Bolstering and sustaining financial sector soundness should be a primary objective.** With the rebound in credit growth, banks should ensure prudent lending to ensure loan quality. Reduction in lending to high-risk segments and greater reliance on secured loans will also be beneficial alongside greater efforts to improve the valuation of properties[18] and an effective resolution framework.[19] Banks should also increase provisioning beyond current guidance to prepare for a potential increase in impaired assets. Larger provisioning and capital buffers—which can be achieved thanks to recent improvements in profitability—will help strengthen bank balance sheets, particularly for small private banks with higher-than-average NPL ratios, in view of the expiry of forbearance policy in Jun 2022. To bolster buffers, a stricter policy on banks' dividend payment or capital-raising from the equity market may be considered.[20] As a rule-of-thumb, banks should aim to work toward a Tier 1 CAR that is comparable to other regional emerging market peers.

30. **A macroprudential policy framework needs to be put in place, especially for the real estate sector.** A good framework can address imbalances in the sector. First, upside price movements could stem from historically low levels of the supply of residential units, as well as the gradual reopening of the economy, which is expected to keep real estate prices buoyant. Second, the market could be weighed down as some banks have begun disposing real estate collateral and auctioning off land use rights for restructured loans. Moreover, there is an increased interconnectedness between real estate developers and commercial banks, through bond holdings and bank ownership. Macroprudential regulations/guidance on thresholds of credit-related measures such as loan-to-value and debt-to-income ratios could help curb excessive leverage of households. This would complement concentration limits to restrict lending to by property-related firms.

Authorities' Views

31. **There was broad agreement on the proposed monetary, exchange rate and financial sector policies.** The SBV is committed to a credit growth target of 14% for 2022 and intends to maintain exchange rate flexibility in the context of its managed float against a basket of currencies, with foreign exchange market (spot and forward) intervention to smooth out excessive volatility. The authorities are also committed to support the recovery by facilitating budget support for enterprises affected by the pandemic as contained in the stimulus package. On addressing financial sector risks from the pandemic induced increase in NPLs, the Bank Supervision Agency has instructed the commercial banks to construct alternative scenarios to gauge the extent of the problem and intends to ask them to take remedial action.

[18] Compilation of accurate and consistent property transaction data across regions would be an essential first step.
[19] A resolution framework could be in place without an extension from the National Assembly.
[20] While the SBV has prohibited distribution of cash dividends by banks in 2022, banks may choose to channel profits to expand businesses in new markets rather than build capital buffers.

C.4. Structural Reforms to Enhance Growth Potential and Sustainability

32. **Structural reforms need to be accelerated to ensure sustainable and inclusive growth.**

- As Vietnam progresses to beyond the lower middle income country status, the grant element of concessional financing will decline with the expectation that both the private and public sectors will increasingly be able to access international capital markets to supplement domestic sources to meet growth and development financing needs. This will require a concerted effort to implement reforms across a broad range of issues and sectors to boost investor confidence. In this context, the Prime Minister's directive to improve Vietnam's sovereign rating in international capital market to investment grade by 2030 is a step in the right direction.
- The financial system is becoming diverse but the capital market needs further development. The bond market has expanded rapidly in recent years, especially for government bonds. Notwithstanding efforts to contain risks, the corporate bond market continues to rely mostly on private placements. A clear, transparent regulatory framework with adequate oversight can help foster market development while containing risk and ensuring investor protection (Box C: *Enhancing the Corporate Bond Market*). Greater effort is also needed to establish credible credit rating agencies, including through partnerships with global or regional rating agencies; to foster financial literacy; and to add more structure in the identification of accredited investors.
- With equitization and divestment slowing in recent years, improving governance and enhancing financial transparency of SOEs would help expedite the equitization drive, which is key to sustaining growth through greater participation by the private sector.
- Booming asset prices have further increased inequality. Policies to support vulnerable groups are needed, including targeted fiscal and credit support, and higher spending on education, health, and social assistance.
- Provisions need to be made for the ongoing demographic shifts, including expansion of the pension system, and extension of insurance coverage to the informal sector.

33. **Climate change and digitalization have become critical issues.**

- AMRO welcomed the strong commitments made by Vietnam at the Conference of Parties (COP26) Glasgow Summit to achieve carbon neutrality by 2050, and its on-going efforts at adaptation and mitigation, including through environmental and carbon taxes. In March 2022, following a meeting of Prime Minister Pham with the National Steering Committee, line ministries were urged to develop programs and plans to implement COP26 commitments.[21] Eight areas were highlighted in particular: (i) transitioning from fossil fuel to green/clean renewable energy sources; (ii) reduction of greenhouse gas emissions; (iii) reduction of methane, particularly in agriculture and waste management; (iv) use of electric vehicles; (v) sustainable management including using forests and increasing trees to offset carbon emissions; (vi) R&D for construction material usage and urban development for sustainable development; (vii) campaigns for public and businesses to increase awareness and support for the government's commitments; and (viii) step up adoption of digital economy to address climate change.
- There is evidence that faster progress in digitalization during the pandemic has inadvertently conferred benefits, including in the financial sector, fostering a large

[21] Notice No 30/TB-VPCP.

volume of non-cash payments and settlement and greater financial inclusion (Box D: *The Pandemic and Digitalization*). Already, there have been innovations in the financial sector in Vietnam in response to the dislocation caused by the pandemic, as in other ASEAN economies and globally. Going forward, a clearer and more transparent regulatory framework is needed to support greater digitalization of the economy.

Box C. Enhancing the Corporate Bond Market[22]

Vietnam's bond market has become an important financing source for corporates and needs to be nurtured further. The market expanded rapidly between 2019 and 2021. Corporate bond issuances more than doubled from around VND295.4 trillion (4.9% of GDP) in 2019 to VND637 trillion (7.6% of GDP) in 2021.[23] The average deal size in 2021 was VND7.6 trillion, about 2.8 times larger than in 2020. New issuances in Q1 2022 were 3.6% higher than Q1 2021. Balancing financial stability and market development objectives is critical for the bond market. These include expanding the investor base, diversifying the issuer pool, and better disclosure practices.

Corporate bond issuances have mainly been in the form of private placements by real estate developers and banks. In 2021, most bond issuances (95.1%) were conducted via private placement. Such placements are subject to less stringent disclosure requirements than public offerings. Bonds issued via public offerings are required to disclose their repayment status every six months under Circular 96/2020 while those issued through private placements are not subject to the requirement. A significant share of the bond issuances originated from corporates in the real estate (33.2%) and banking sectors (36.2%). The remaining issuers are mainly from the financial services and the energy sector. As per the Vietnam Bond Market Association (VBMA), developers are leveraging on the bond market to expand their businesses in a growing real estate market; and bond issuances by banks are mainly to raise capital buffers (mostly Tier 2 capital) and strengthen compliance with Basel II regulations. However, the high interest rates and investor interest in shorter tenors have deterred other issuers (such as manufacturers) from entering the market (Nguyen 2022).[24]

Domestic financial institutions are the main investors. The largest group of primary investors in 2021 were credit institutions and securities firms (37.9% and 34.5%, respectively). ASEAN peers have greater diversity of investor profile and market access (Figure C1). The typical sizes of corporate bonds issued in 2021 in Indonesia, Thailand, the Philippines and Malaysia were USD34 million, USD63 million, USD120 million, and USD544 million, respectively (Vietnam: USD29 million). Larger issuances reflect more market liquidity and a better capacity to execute transactions.

The government has made efforts to regulate the bond market and lower investor risk, which will help market development. The Law on Securities and Decree No. 153/2020/ND ("Decree 153") limit the group of investors to professional investors,[25] and increase the responsibility of bondholder representatives to include supervision of the issuing companies' adherence to bond terms and conditions. However, there appear to be compliance issues as bond brokers have been issuing professional investor certificates to retail investors who do not meet the criteria stipulated in the Law to enable the latter to purchase those bonds (Son 2022).[26]

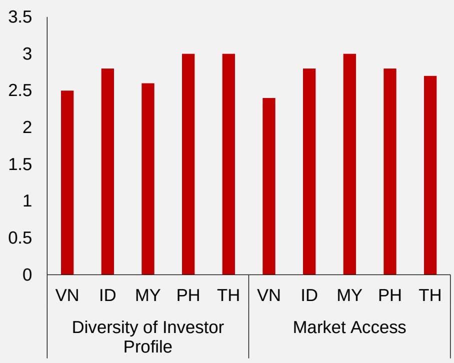
Rating agencies can play an important role in market development. Currently, only two domestic credit rating agencies (FiinRatings and Sài Gòn Phát Thịnh Credit Rating Group) are accredited. These domestic rating agencies have developed different rating scales from the more established global rating agencies. For example, global rating agencies cap the borrowers' credit worthiness by the sovereign credit rating. There is no such restriction for the domestic rating agencies. FiinRatings has tried to align

[22] Prepared by Siang Leng Wong.
[23] Vietnam Bond Market Association (VBMA).
[24] In early-2022, the interest rate within the bond market went up to 12–14%, significantly higher than 7.5% for loans that depository corporations charge the private sector. The higher corporate bond interest rates partly reflect higher default risks of borrowing companies. In 2021, most corporate bonds (67%) had tenors of one to three years, and a few had maturities of five or more years that are more in line with the contractual period in manufacturing or production terms and agreements.
[25] The National Assembly passed the Law on Securities on 26 November 2019, where professional individual investors included but were not limited to those with total securities holdings of more than VND2 billion or taxable income of more VND1 billion. The government issued Decree 153 on 31 December 2020 requiring professional investor status for purchase of bonds. Both the law and decree came into effect on 1 January 2021.
[26] The VMOF has made proposals to the Government to amend Decree 153. Some of the recommendations include further regulation of private corporate bond issuance activities, increased protection for investors, and increased responsibilities of organizations involved in bond brokerage.

with international practices through its agreement with S&P Global Ratings to receive technical training under an Asian Development Bank technical assistance project (Lambert 2022).

Recent disorderly market conduct has affected market confidence. On 9 April, 2022, nine private bond placements between July 2021 and March 2022 associated with a real estate developer—amounting to a total of VND10 trillion—were cancelled by the State Securities Commission on grounds of concealed and untrue disclosure of information. As developers' funding from banks has also been cut back with several banks reducing loans to the real estate sector —following SBV instructions in directive No.01/CT-NHNN (Trang 2022)—the situation affects debt rollover, which can lead to financial instability and affect market confidence if repayment abilities are undermined. An estimated VND98 trillion worth of real estate bonds are expected to come due in 2022 (Kieu 2022).

Figure C1. Survey Responses



Source: AsianBondsOnline.
Note: VN=Vietnam; ID=Indonesia; MY=Malaysia; PH=The Philippines; TH=Thailand. Average ratings. The highest rating is 4, which indicates significantly advanced or developed with regard to a particular issue.

References

Kieu, Linh. 2022. "98,000 Billion Dong of Bonds Payable in 2022 is Burdening Real Estate Businesses?" VNEconomy, 16 June.
Lambert, Donald. 2022. "Mandating Public Credit Ratings for All Publicly and Privately Traded Bonds Will Improve the Transparency and Sustainability of Viet Nam's Corporate Bond Market." Asian Development Blog, 3 May.
Nguyen, Van. 2022. "Real Estate Market Heads Corporate Bond Issuance as Enterprises Lean on Loans." Vietnam Investment Review, 18 April.
State Securities Commission of Viet Nam. 2022. "Regarding the Cancellation of 09 Bond Offerings from July 2021 to March 2022 of Viet Star Company, Winter Palace Company, Soleil Company." Disclosure-News, 6 April.
Son, Minh. 2022. "Tan Hoang Minh: The Anatomy of a Bond Issuance Fraud." VNExpress International, 9 April.
Trang, Quynh. 2022. "Central Bank Turns Off Tap, Limits Loans for Buying Property." VNExpress International, 14 April.
Vietnam Bond Market Association. 2022a. "Vietnam Bond Market 2021." Report of the Year.
Vietnam Bond Market Association. 2022b. "Monthly Bond Market Report". April 2022.

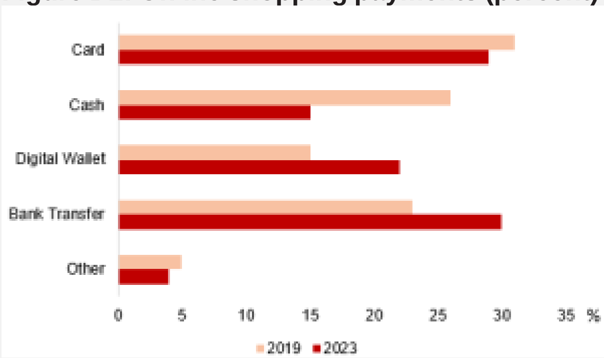
Box D. The Pandemic and Digitalization[27]

The pandemic has spurred an accelerated adoption of digital transactions. Lockdowns and restrictions on personal contact provided a boost to online services and transactions (Figure D1). For example, in 2020, 68% of surveyed consumers used more cards than before the pandemic, and 56% of surveyed consumers carried less cash in their wallets (Visa 2020). Looking forward, the use of bank transfers for online shopping is projected to increase to 30% in 2023 (23% in 2019), while the use of cash is expected to decline to 15% (26% in 2019) (Figure D2).

Figure D1: Digital payments

Source: Visa Consumer Payment Attitudes 2020.

Figure D2: Online shopping payments (percent)



Source: J.P. Morgan 2020 E-commerce Payments Trends Report.

Banks and fintech firms have expanded their digital services rapidly to match the shift in customer behavior. By end-June 2022, 82 (out of 100) banks offered internet banking, mobile banking services were available at 51 banks, and 48 licensed fintech firms offered payment intermediary services (Oanh Nguyen, 2022). Cooperation between lenders and fintech firms to develop a shared ecosystem bodes well for the future, helping both to take advantage of each other's strengths to improve customer experience. 72% of fintech firms in Vietnam have opted to cooperate with banks rather than engaging in direct competition (NDO, 2018). Fintech firms, despite their modest scale, are expanding quickly in areas such as digital payments and peer-to-peer lending; the number of firms quadrupled to over 150 in 2021 from 40 in 2016 (Pham and Nguyen, 2022).

Vietnam is rising quickly in the regional digital race. With a high coverage of smartphones and the internet, Vietnam has an advantage to accelerate digital sector development. The mobile phone penetration rate—80% of the adult population—is the highest in the region (Suzuki and Hoang, 2021). The internet economy is projected to reach $43 billion in 2025, surpassing that of Malaysia, the Philippines, and Singapore (Figure D4). Similar to other ASEAN countries, Vietnam introduced real-time payment systems, QR code standardizations, and the electronic Know-Your-Customer (eKYC) by granting a license to the National Payment Corporation of Vietnam (NAPAS).[28]

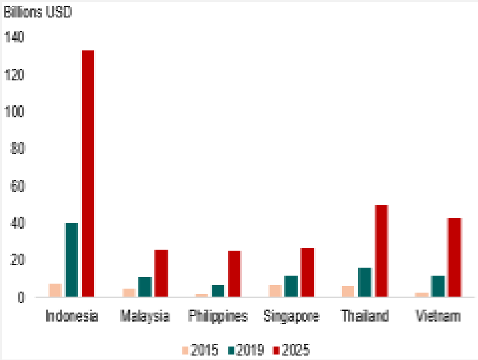
Several policy actions are contemplated by the authorities to foster digital transformation. The SBV issued Decision No. 810/QD-NHNN on Banking Industry Digital Transformation Plan by 2025. Specifically, the SBV will play a leading role in promoting digital transformation. By 2025, 90% of the SBV's unclassified work records will be digitally processed and stored. At least 50% of the supervision activities of the SBV will be carried out through the digital environment and the information systems. For credit institutions and foreign bank branches, customers would be able to execute at least 50% of banking operations digitally, at least 70% of customer transactions will be conducted on digital channels, and at least 60% of credit institutions will gain over 30% of their revenue from digital channels. Additionally, the government issued Decision 1813/QD-TTg for developing cashless payments for the period 2021-2025.[29] The Decision aims to help boost the value of non-cash payments to 25 times GDP by 2025.

The future landscape of digital transformation in the banking system is promising. According to a survey conducted by the SBV in 2020, 95% of commercial banks have been developing or are planning to develop a digital transformation strategy, of which 39% have adopted a digital

[27] Prepared by Trung Thanh Vu and Viet Hoai Le.
[28] Napas247 is on par with BI-FAST (Indonesia); DuitNow (Malaysia); InstaPay (The Philippines); PayNow (Singapore); PromptPay (Thailand).
[29] Decision 1813/QD-TTg, October 28, 2021.

transformation strategy; 42% of banks are formulating a digital transformation strategy. Nearly 58% of banks expect that the proportion of customers using digital channels could reach over 60% in the next 3 to 5 years. Additionally, the Vietnamese authorities are conducting research on the feasibility of issuing a central bank digital currency (CBDC) (Sekiguchi, 2022).

Figure D4: ASEAN: Internet economy



Sources: Google and Temasek.

The authorities are drafting new regulations to facilitate digital transformation and control emerging risks. While the regulatory sandbox for fintech in the banking industry is still not in place, there are some legal barriers to the digital transformation of the banking system. To overcome some of these constraints, the current electronic Know-Your-Customer (eKYC) legal framework is under review to further facilitate the use of digital signature. Furthermore, according to SBV Directive No. 01/CT-NHNN issued on January 13, 2022, the SBV is developing the legal framework to ensure the security and safety of electronic payments and card payments, while requesting credit institutions to strictly comply with the Circular 09/2020/TT-NHNN on information safety in banking operations.

References

Visa. 2020. “Visa’s Consumer Payment Attitudes Study.” August 2020.
Google and Temasek. 2019. “E-Conomy SEA 2019.”
JP Morgan. 2020. 2020 E-commerce Payments Trends Report: Vietnam.
Sekiguchi, Keita. 2022, “Philippines, Vietnam study digital currencies as Alipay, WeChat Pay spread”, Nikkei Asia, June 17, 2022.
Nhan Dan Online. 2018, “72% of fintech firms expect partnership with banks”, June 12, 2018.
Oanh Nguyen. 2022, “Vietnam witnessing speedy growth in digital payments”, Vietnam Investment Review, June 6, 2022.
Pham, Anh Duc and Minh Nhat Nguyen. 2022. “Impacts of Fintech on banking system: Policy implications for Vietnam.”, Banking Review, March 2022.
Suzuki, Wataru and Lien Hoang. 2021, “Vietnam emerges as Southeast Asia’s next fintech battleground”, Nikkei Asia, August 6, 2021.

Appendices

Appendix 1. Figures

Figure 1.1. Real Sector

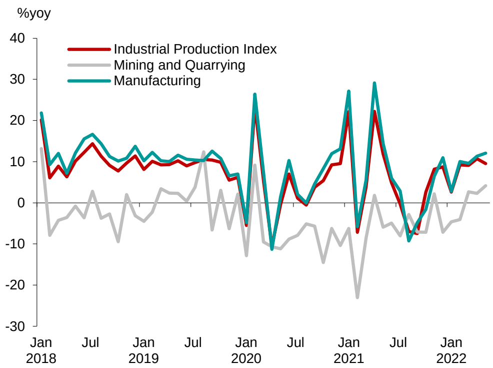
Growth is projected to rebound in 2022 ...

Source: GSO; AMRO staff calculation.
Note: New GDP series.

…albeit unevenly across sectors.

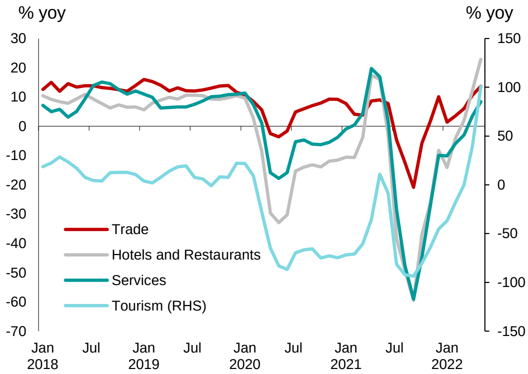
Source: GSO; AMRO staff calculations.
Note: New GDP series.

Industrial production has recovered.



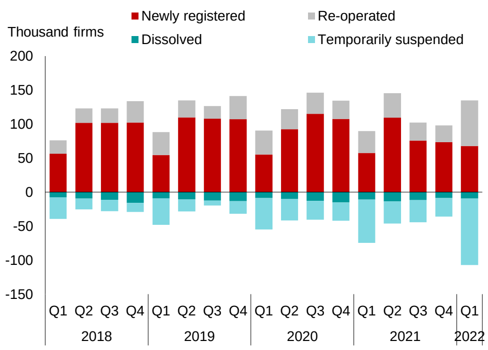
Source: GSO; AMRO staff calculations.

The end of mobility restrictions helped sales.



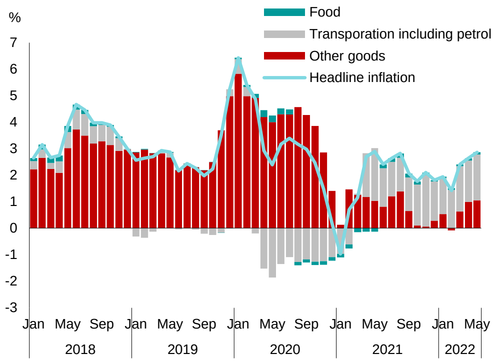
Source: GSO; AMRO staff calculations.

The number of newly registered and re-opened enterprises in Q1 2022 hit a record high.



Source: GSO; AMRO staff calculations.

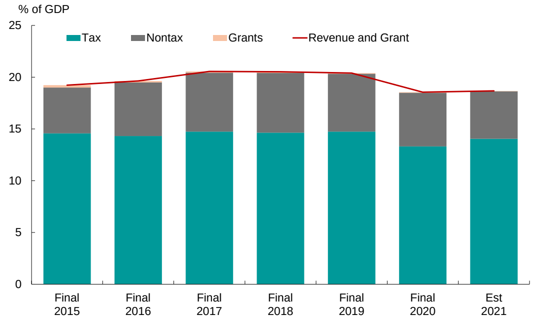
Inflation has upticked reflecting global oil prices.



Source: GSO; AMRO staff calculations.

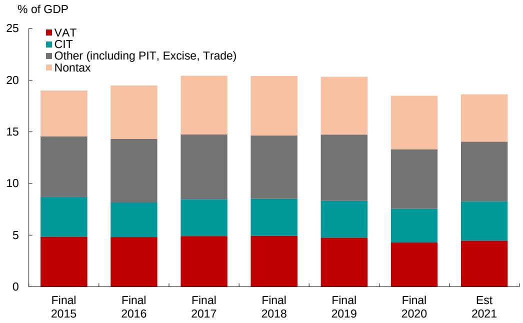
Figure 1.2. Fiscal Sector

Revenue and grants stayed buoyant …



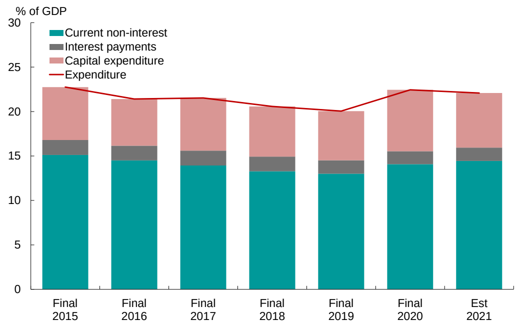
Source: VMOF, AMRO staff calculations.

…across the board.



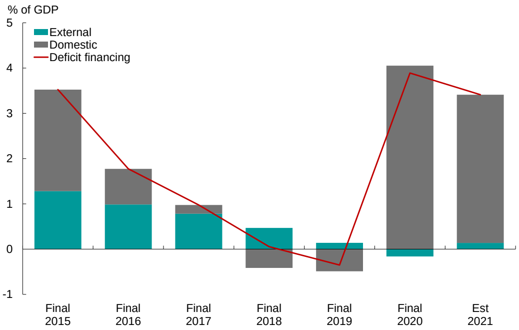
Source: VMOF, AMRO staff calculations.

National lockdowns constrained expenditure.



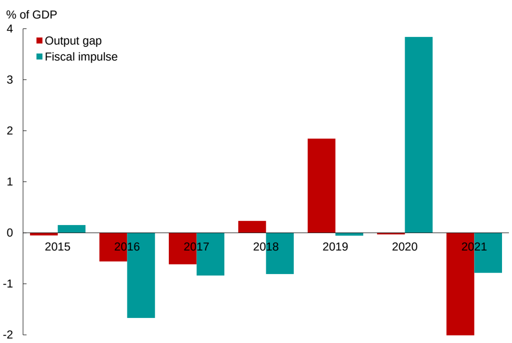
Source: VMOF, AMRO staff calculations.

The deficit was mostly domestically financed.



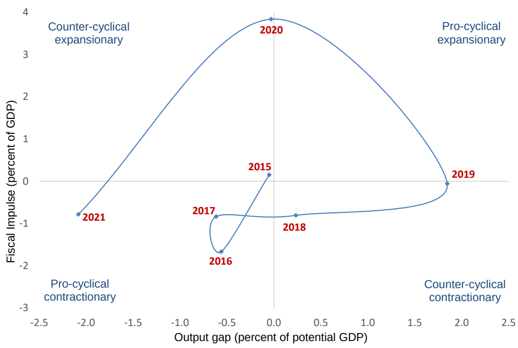
Source: VMOF, AMRO staff calculations.

The fiscal impulse was mildly contractionary in 2021 …



Source: VMOF; AMRO staff calculations.

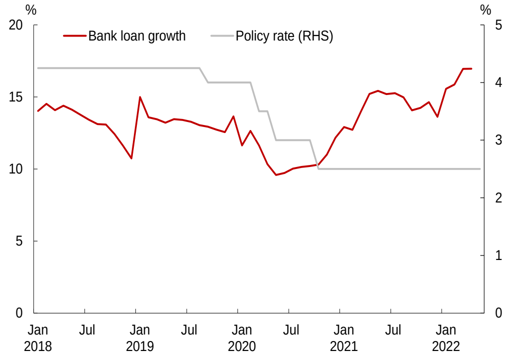
... compared to the 2020 expansionary stance.



Source: VMOF; AMRO staff calculations.

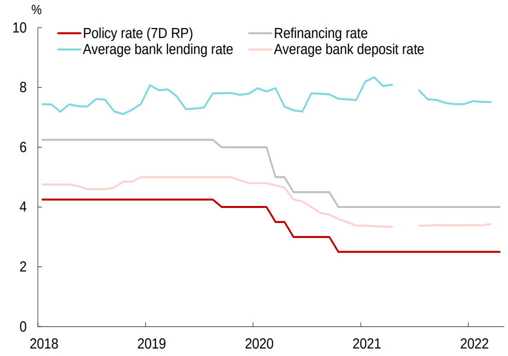
Figure 1.3. Monetary and Financial Sectors

SBV's policy stance remains accommodative.



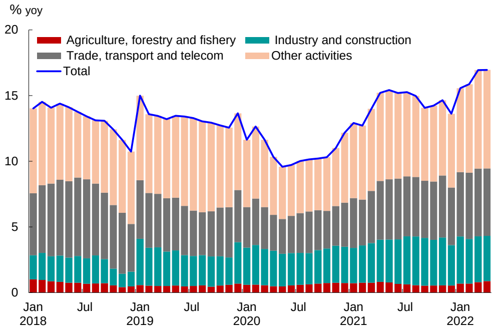
Source: SBV; AMRO staff calculations.

Interest rate spreads remain high.



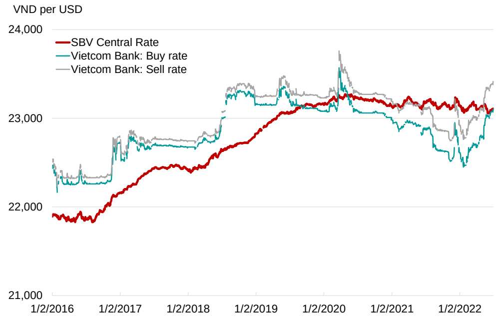
Source: SBV; International Monetary Fund.

Loan growth remained brisk.



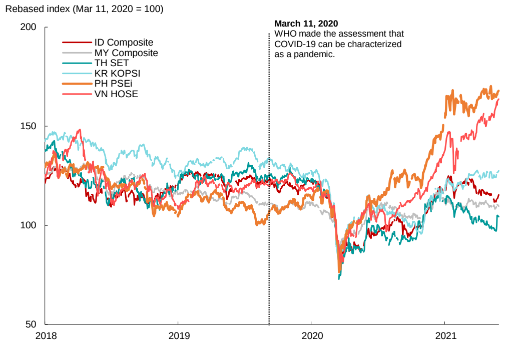
Source: SBV; AMRO staff calculations

The VND/USD rate was broadly stable.



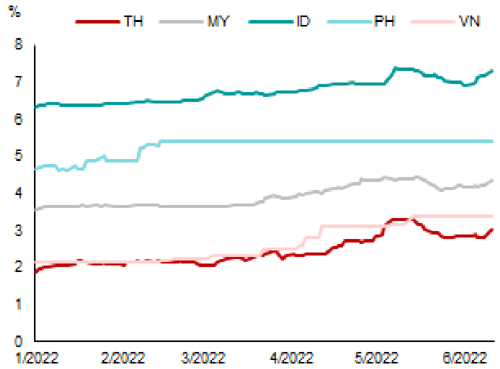
Source: SBV; Vietcombank; JP Morgan

The stock exchange outperformed peers.



Source: National Stock Exchanges; AMRO staff calculations.

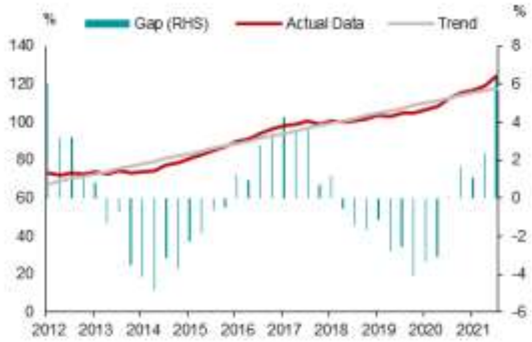
Bond yield inched up in line with regional peers.



Source: National Authorities; Bloomberg.

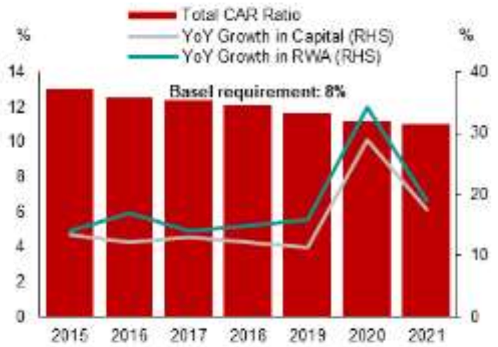
Figure 1.4. Banking Sector

Credit-to-GDP gap in Q3 2021 was higher than a year ago.



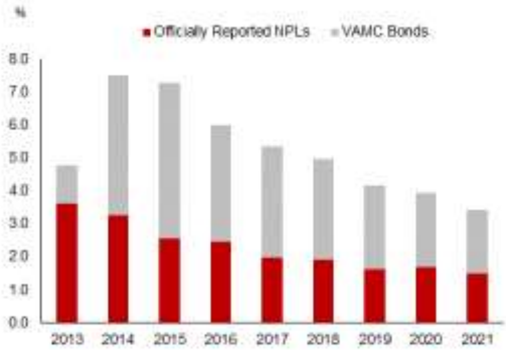
Source: SBV; Haver Analytics; AMRO staff calculations.

CAR fell in 2021 as risk-weighted assets increased.



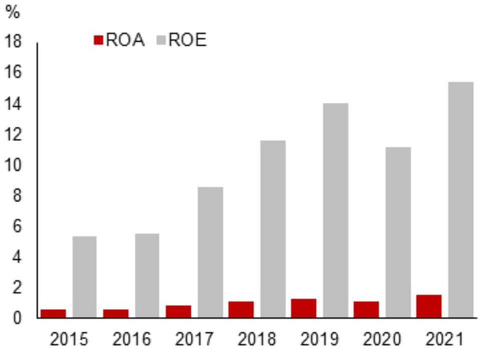
Source: IMF; Haver Analytics; AMRO staff calculations.

The NPL ratio declined slightly in 2021.



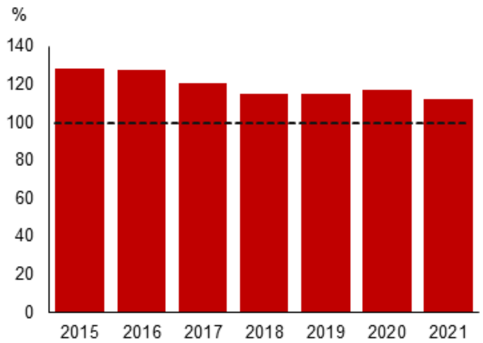
Source: SBV, IMF; Haver Analytics; AMRO staff calculations.
Note: Vietnam Asset Management Company (VAMC) bonds.

The higher ROE and ROA in 2021 should help banks build up capital buffers.



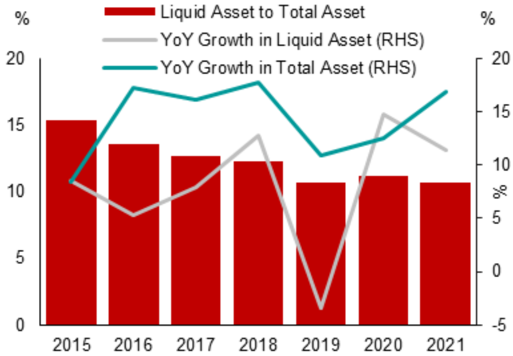
Source: IMF; Haver Analytic.

The deposit-to-loan ratio dipped in 2021.



Source: IMF; Haver Analytics.

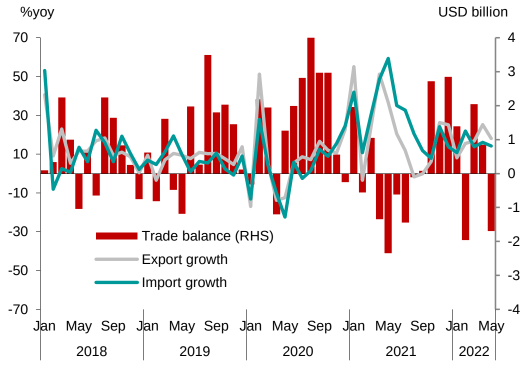
Accelerating loan growth led to tighter liquidity.



Source: IMF; Haver Analytics.

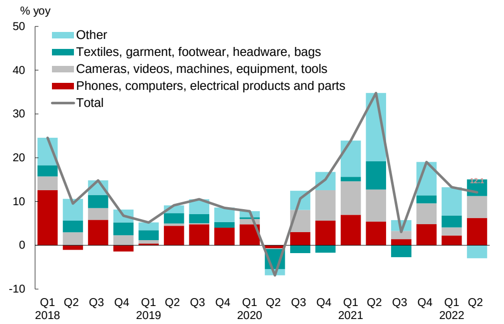
Figure 1.5. External Sector

The resumption of manufacturing led to a recovery in export growth ...



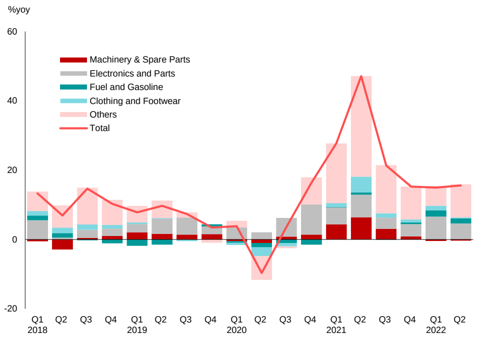
Source: GSO; AMRO staff calculations.

… driven increasingly by electronics and ICT products.



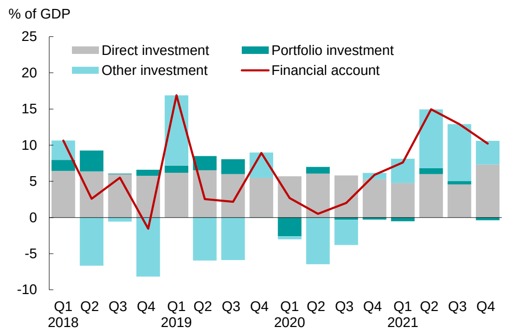
Source: GSO; AMRO staff calculations.

Import growth has remained robust.



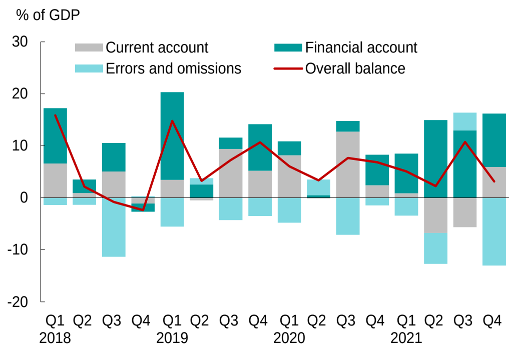
Source: GSO; AMRO staff calculations.

FDI inflows supported the financial account …



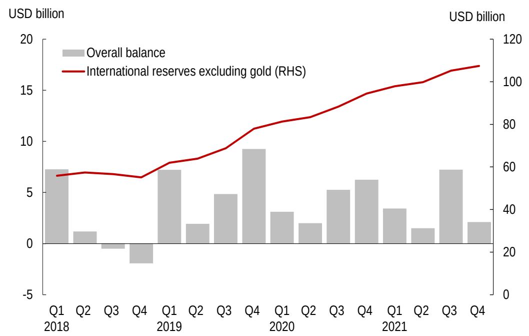
Source: SBV; AMRO staff calculations.

…helping Vietnam maintain a BOP surplus…



Source: SBV; AMRO staff calculations.

… and accumulate foreign reserves.



Source: SBV; AMRO staff calculations.

Appendix 2. Selected Economic Indicators 1/

	2018	2019	2020	2021	Projections 2022	Projections 2023
National income and prices	(In annual percentage change, unless otherwise specified)					
Real GDP	7.2	7.2	2.9	2.6	7.0	6.5
Consumer price inflation (period average)	3.5	2.8	3.5	2.1	3.5	3.3
Consumer price inflation (end of period)	3.0	5.2	0.7	1.8	3.5	3.3
Balance of payments	(In billions of U.S. dollars, unless otherwise specified)					
Current account balance	6.9	12.5	15.1	-7.2	1.8	3.4
In percent of GDP	*2.2*	*3.8*	*4.4*	*-2.0*	*0.5*	*0.8*
Trade balance	16.2	21.0	30.7	17.0	17.9	18.7
Service balance	-2.3	-0.9	-10.3	-15.7	-9.0	-8.4
Primary income	-15.8	-16.8	-14.8	-18.7	-16.8	-16.8
Secondary income	8.9	9.2	9.5	10.3	9.7	9.8
Financial and capital account balance	8.5	19.0	8.5	30.8	13.2	13.2
In percent of GDP	*2.7*	*5.7*	*2.5*	*8.5*	*3.4*	*3.1*
Direct investment, net	14.9	15.7	15.4	15.3	15.4	15.4
Portfolio investment, net	3.0	3.0	-1.3	0.3	-1.0	-1.0
Other investment, net	-9.5	0.3	-5.7	15.3	-1.1	-1.1
Net errors and omissions	-9.4	-8.2	-6.9	-9.4	0.0	0.0
Overall balance	6.0	23.3	16.6	14.3	15.0	16.6
Gross international reserves	-6.0	-23.3	-16.6	-14.3	-15.0	-16.6
In months of imports of goods & services	2.5	3.5	3.4	3.4	3.4	3.4
Coverage of short-term debt by remaining maturity	2.9	3.2	3.6	3.8	4.1	4.5
Total external debt/GDP	36.3	37.2	37.9	36.7	35.5	34.4
Short-term/total external debt	17.5	19.9	20.4	22.0	21.8	21.6
General government	(In percent of GDP)					
Revenue and grants	20.5	20.4	18.6	18.7	18.6	18.8
Expenditure	20.6	20.0	22.4	22.1	20.5	20.4
Net lending/borrowing balance	-0.1	0.4	-3.9	-3.4	-1.9	-1.6
Public debt	46.6	43.9	44.6	43.1	41.1	39.3
Monetary sector	(In annual percentage change unless otherwise specified)					
Domestic private credit	12.8	12.8	11.6	13.5	14.0	12.0
Broad money	12.4	14.7	14.6	10.7	14.9	12.0
Reserve money	6.9	24.0	10.0	12.5	16.0	11.9
Memorandum items:						
Exchange rate (USD/VND), period average	22,602	23,051	23,208	23,160	…	…
Exchange rate (USD/VND), end of period	22,825	23,155	23,131	23,145	…	…
Nominal GDP in billions of USD	308.7	330.4	343.2	362.6	391.8	421.3
Nominal GDP in trillions of VND 1/	6,977	7,616	7,966	8,399	9,346	10,352

Note: 1/ Revised GDP series published by GSO.

Source: Data provided by the Vietnamese authorities; AMRO staff estimates.

Appendix 3. Statement of General Government Operations 1/

	2018	2019	2020	2021	Projections 2022	Projections 2023
	(In trillions of Vietnamese dong, unless otherwise specified)					
Revenue and Grants	1,432	1,554	1,478	1,568	1,736	1,946
Tax revenue	1,022	1,122	1,061	1,180	1,304	1,462
Value added tax	344	363	342	376	402	456
Corporate income tax	251	271	259	319	355	393
Personal income tax	94	109	115	128	142	157
Excise tax	96	107	101	102	114	126
Trade taxe	87	97	79	90	106	126
Other taxes	149	176	164	166	185	204
Non-tax revenue	402	426	412	385	428	480
Grants	8	5	5	3	4	4
Expenditures	1,435	1,527	1,788	1,855	1,912	2,114
Current expenditure	927	991	1,122	1,213	1,168	1,294
Interest payments	115	114	116	126	136	147
External	16	17	17	17	17	18
Domestic	99	97	100	109	118	130
Capital expenditure	393	422	550	516	607	673
Fiscal balance	-4	27	-310	-286	-176	-168
Primary balance	112	141	-194	-161	-40	-21
Financing	4	-27	310	286	176	168
External	33	11	-13	12	18	25
Domestic	-29	-37	323	275	158	143
	(In percent of GDP)					
Revenue and Grants	20.5	20.4	18.6	18.7	18.6	18.8
Tax revenue	14.6	14.7	13.3	14.1	13.9	14.1
Non-tax revenue	5.8	5.6	5.2	4.6	4.6	4.6
Expenditures	20.6	20.0	22.4	22.1	20.5	20.4
Current expenditure	13.3	13.0	14.1	14.4	12.5	12.5
Capital expenditure	5.6	5.5	6.9	6.1	6.5	6.5
Fiscal balance	-0.1	0.4	-3.9	-3.4	-1.9	-1.6
Primary balance	1.6	1.8	-2.4	-1.9	-0.4	-0.2
Public debt	46.6	43.9	44.6	43.1	41.1	39.3
External	18.8	17.5	16.8	16.4	15.7	15.0
Domestic	27.8	26.4	27.8	26.7	25.4	24.3

Note: 1/ Using revised GDP series published by GSO.

Source: Data provided by the Vietnamese authorities; AMRO staff estimates.

Appendix 4. Monetary Survey

	2018	2019	2020	2021	Projections 2022	2023
Monetary Survey	(In trillions of Vietnamese dong, unless otherwise specified)					
Net Foreign Assets	1,540	2,131	2,642	2,736	3,129	3,581
State Bank of Vietnam	1,263	1,812	2,199	2,536	2,970	3,467
Financial assets	1,275	1,825	2,208	2,545	2,979	3,476
Financial liabilities	13	13	9	9	9	9
Other depository corporations	277	319	443	200	158	114
Net Domestic Assets	7,672	8,433	9,469	10,665	12,269	13,664
Domestic Credit (net)	7,852	8,583	9,647	10,860	12,464	13,859
Claims on General Government (Net)	473	257	354	312	439	392
Claims on the private sector	7,379	8,326	9,293	10,548	12,025	13,468
Other items (net)	-180	-150	-178	-195	-195	-195
State Bank of Vietnam						
Net Foreign Assets	1,263	1,812	2,199	2,536	2,970	3,467
Net Domestic Assets	168	-39	-248	-341	-424	-617
Domestic Credit (net)	-55	-239	-458	-524	-651	-698
Claims on government (net)	-97	-276	-485	-551	-551	-551
Claims on other depository corporations (net)	42	37	27	27	-100	-147
Other items (net)	222	200	210	184	184	81
Reserve money	1,430	1,773	1,951	2,195	2,547	2,850
Memorandum items:	(In percent change, unless otherwise specified)					
Broad money	12.4	14.7	14.6	10.7	14.9	12.0
Reserve money	6.9	24.0	10.0	12.5	16.0	11.9
Private sector credit	12.8	12.8	11.6	13.5	14.0	12.0
Velocity (times)	0.8	0.7	0.7	0.6	0.6	0.6
Foreign assets of State Bank of Vietnam (USD billion)	55.9	78.8	95.5	110.0	125.0	141.6

Source: Data provided by the Vietnamese authorities; AMRO staff estimates.

Appendix 5. Balance of Payments 1/

	2018	2019	2020	2021	Projections	
					2022	2023
	(In billions of U.S. dollars, unless otherwise specified)					
Current account balance	6.9	12.5	15.1	-7.2	1.8	3.4
Trade balance	16.2	21.0	30.7	17.0	17.9	18.7
Exports of goods	243.7	264.3	282.6	336.2	385.0	440.9
Imports of goods	227.5	243.3	251.9	319.2	367.1	422.1
Services account balance	-2.3	-0.9	-10.3	-15.7	-9.0	-8.4
Exports of services	18.1	20.4	7.6	3.7	10.6	10.6
Imports of services	20.3	21.4	17.9	19.4	19.6	18.9
Primary income balance	-15.8	-16.8	-14.8	-18.7	-16.8	-16.8
Primary Income: Investment: Receipts	1.6	2.2	1.4	1.0	1.5	1.3
Primary Income: Investment: Payments	17.4	19.0	16.2	19.7	18.3	18.1
Secondary income balance	8.9	9.2	9.5	10.3	9.7	9.8
Transfers: Receipts	10.9	11.6	11.4	13.6	12.2	12.4
Transfers: Payments	2.0	2.4	2.0	3.2	2.5	2.6
Financial and capital account balance	8.5	19.0	8.5	30.8	13.2	13.2
Direct Investment: Net	14.9	15.7	15.4	15.3	15.4	15.4
Portfolio Investment: Net	3.0	3.0	-1.3	0.3	-1.0	-1.0
Other Investment: Net	-9.5	0.3	-5.7	15.3	-1.1	-1.1
Net Errors & Omissions	-9.4	-8.2	-6.9	-9.4	0.0	0.0
Overall Balance	6.0	23.3	16.6	14.3	15.0	16.6
Gross international reserves	55.9	78.8	95.5	110.0	125.0	141.6
	(In percent of GDP)					
Current account	2.2	3.8	4.4	-2.0	0.5	0.8
Trade balance	5.2	6.3	8.9	4.7	4.6	4.4
Financial and capital account	2.7	5.7	2.5	8.5	3.4	3.1
Direct investment	5.1	4.7	4.5	4.2	3.9	3.6
Overall balance	2.0	7.0	4.8	3.9	3.8	3.9
External debt	36.3	37.2	37.9	36.7	35.5	34.4
Short term debt	6.3	7.4	7.8	8.1	7.7	7.4
Medium-to-long term debt	30.0	29.8	30.2	28.6	27.7	27.0

Note: 1/ Using revised GDP series published by GSO.

Source: Data provided by the Vietnamese authorities; AMRO staff estimates.

Appendix 6. Data Adequacy for Surveillance Purposes: A Preliminary Assessment

Surveillance Areas	Data Availability(i)	Reporting Frequency/ Timeliness(ii)	Data Quality(iii)	Consistency(iv)	Others, if Any(v)
National Accounts and Inflation	Yearly GDP data are available for both the expenditure and production approaches. Quarterly GDP data by expenditure, however, have not been made available. Headline CPI and core inflation data have been released since 2015 using the geometric mean method. Current CPI data have been rebased to 2019 (previous base year: 2014) with a new CPI basket weight system based on 2019 consumption. Basket weights and base year are adjusted every 5 years by the GSO.	Estimated GDP data is released within the final week of each quarter; while revised data are usually released by the end of the following quarter.	High-frequency data, such as industrial production and retail sales indices, are not seasonally adjusted and are sometimes in nominal terms only. Underlying index of core inflation have not been made available.	Historical GDP data using the new base of 2010 have not been made available for 2017-2019, making the comparison across time difficult. Reevaluated GDP by expenditure is not publicly available.	-
Balance of Payments and External Position	-	Quarterly balance of payments data has been released on the SBV website with a time lag ranging from one to two quarters.	Persistent net errors and omissions make the analysis and interpretation of the data difficult.	-	-
State Budget and Government/ External Debt	Quarterly state budget data are available. Data on state-owned-enterprises (SOE) debt are published on the VMOF website.	The latest Debt Bulletin, which was released in April 2022, reported debt data up to June 2021. Its English-translated version, which was released in June 2020, reported debt data up to June 2019.	Certain government borrowings are excluded from the budget data. Public debt covers central government debt, local government debt, and central government guaranteed debt only. SOE debt is excluded from the public debt statistics.	-	The newly-revised State Budget Law has made the reporting of budget data more in line with international standards, effective January 2017.
Money Supply and Credit Growth	Domestic credit data by currency denomination, i.e. LCY and FCY, have yet to be made available.	Monthly data have been released on the SBV website with a time lag of two to four months.	-	-	-
Financial Sector Soundness Indicators	-	Monthly data have been released on the SBV website with a time lag of two to six months.	-	The implementation of a new loan classification (in accordance with SBV Circular 02 dated 2013) has enhanced the consistency of NPL data since mid-2016.	Officially reported NPL data may not capture the full picture of NPLs in the banking sector. Data on NPL acquisition and disposition by the Vietnam Asset Management Corporation should be included in an assessment on credit quality.
SOE Statistics	SOE statistics, including financial performance, divestment and equitization progress, have yet to be made available on a frequent basis.	-	-	-	-

Notes:
(i) Data availability refers to whether official data are available for public access by any means.
(ii) Reporting frequency refers to the time interval with which available data are published. Timeliness refers to how up-to-date the published data are relative to the publication date.
(iii) Data quality refers to the accuracy and reliability of the available data given the data methodologies.
(iv) Consistency refers to both internal consistency within the data series itself and its horizontal consistency with other data series of either the same or different categories.
(v) Other criteria might also apply, if relevant. Examples include but are not limited to potential areas of improvement for data adequacy.

Source: AMRO staff compilation. This preliminary assessment will form the “Supplementary Data Adequacy Assessment" in the EPRD Matrix.

Appendix 7. Debt Dynamics

Baseline

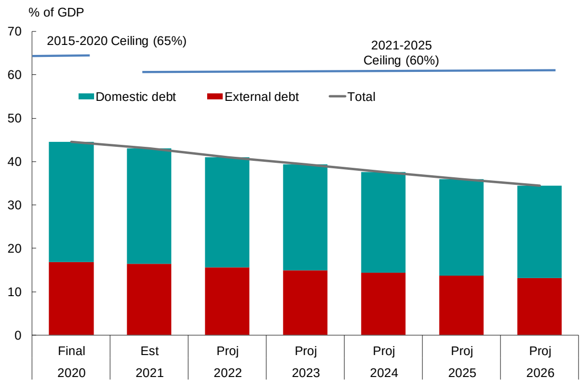
1. **Fiscal support in response to the pandemic led to an increase in the public debt-to-GDP ratio in 2021**. Vietnam had succeeded in bringing down its public debt level from 49.2% of GDP in 2015 to 44% of GDP in 2019. With the pandemic-related spending, a primary deficit emerged, and the gross financing need (GFN) rose from 2.3% of GDP in 2019 to 7.2% in 2020. The public debt-to-GDP ratio increased to 44.6% at end-2020 but declined to 43.1% at end-2021. Notwithstanding the January 2022 stimulus package of VND350 trillion—which will be implemented over 2022-2023—in the AMRO baseline scenario, the fiscal deficit is projected to fall to 1.9% of GDP in 2022. The public debt-to-GDP ratio is projected to decline by end-2022 to 41.8% of GDP. Over the remainder of the projection period to end-2026, the ratio is projected to decline further to 34.5% of GDP (Figure A3.1).

2. **The baseline projections are based on the growth rebound in 2022 and sustained strong macroeconomic performance in the medium term** (Table 7.1). The economy is projected to grow at around its potential growth rate of around 6.5%. The effective interest rate is projected to rise in line with global developments and the exchange rate is projected to depreciate at a modest rate. The budget is assumed to run small primary deficits of 1 to 2.5% of GDP. The gross financing needs are projected to decline from 7.2% of GDP in 2021 to 1.7% in 2026 (Figure 7.2).

Macro-fiscal Risks Stress Tests

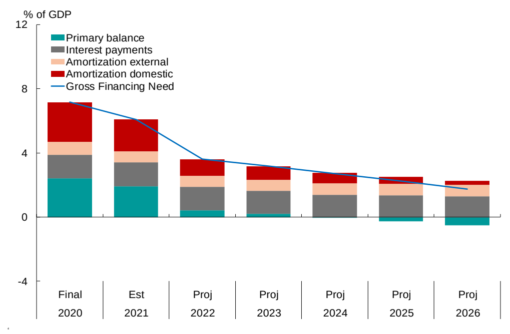
3. **Stress test results suggest that public debt and GFN are susceptible to primary balance and growth shocks** (Figure 7.3). Vietnam's economic growth may slow down due to a slowdown in the global economy, amid rising inflation and geopolitical conflict. In addition, the resurgence of new, more virulent variants of COVID-19 may lead to tightening of containment measures and disruptions in economic activities. Rising global interest rates could lead to a depreciation of the Vietnamese dong and spillover to local interest rates. The primary balance could deteriorate due to revenue shortfalls and higher infrastructure investment. In all scenarios, the debt-to-GDP ratio stays below the ceiling of 60%. Meanwhile, the GFNs are more sensitive to a primary balance shock, while other shocks indirectly affect financing needs through the primary balance, interest payments, and amortization (Figure 7.4).

Figure 7.1. Public Debt



Source: GSO; VMOF; and AMRO staff estimates.

Figure 7.2. Gross Financing Needs



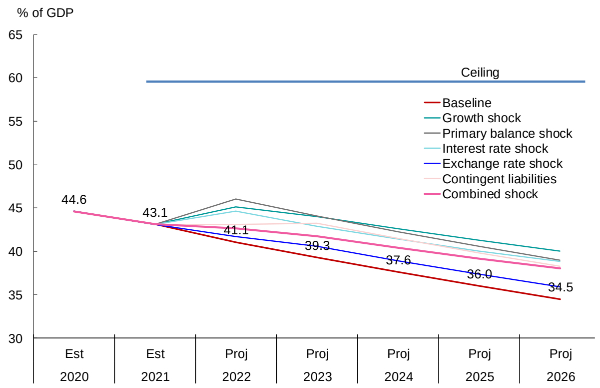
Source: GSO; VMOF; and AMRO staff estimates.

Table 7.1. Macroeconomic and Fiscal Indicators

	Actual					Projections [1/]				
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Macroeconomic and market indicators (percent)										
Real GD growth [2/]	6.9	7.2	7.1	2.9	2.6	7.0	6.5	6.5	6.5	6.5
Nominal GDP growth [2/]	11.6	10.9	9.1	4.6	5.4	11.3	10.8	10.8	10.8	10.8
GDP deflator	4.1	3.4	1.8	1.3	0.4	4.0	4.0	4.0	4.0	4.0
Effective interest rate	4.3	4.4	4.1	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Exchange rate (VND/USD, period average)	2.0	1.0	2.0	0.7	-0.2	3.0	3.0	3.0	3.0	3.0
Fiscal indicators (percent of GDP)										
Revenue and grants	20.6	20.5	20.4	18.6	18.7	18.6	18.8	19.0	19.3	19.5
Expenditure	21.5	20.6	20.0	22.4	22.1	20.5	20.4	20.4	20.3	20.3
Fiscal balace	-1.0	-0.1	0.4	-3.9	-3.4	-1.9	-1.6	-1.4	-1.1	-0.8
Primary balance	-0.7	-1.6	-1.8	2.4	1.9	0.4	0.2	0.0	-0.3	-0.5

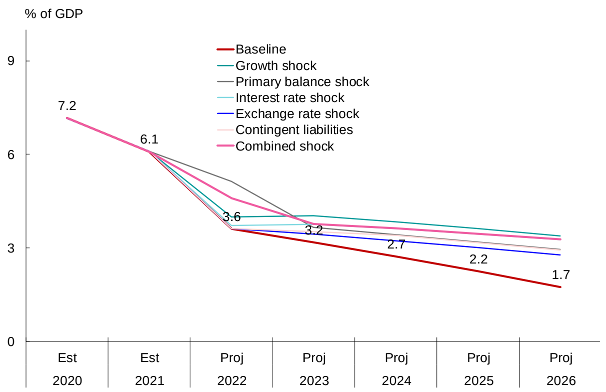
Source: GSO; VMOF; and AMRO staff estimates.
Note: 1/ AMRO projections.
2/ Revised GDP series.

Figure 7.3. Public Debt



Sources: GSO; VMOF; AMRO staff estimates.

Figure 7.4. Gross Financing Needs



Sources: GSO; VMOF; AMRO staff estimates.

Annex. Selected Issues

1. Banking Sector Stress Test—An Exploration[30]

A top-down solvency stress test was conducted on major banks to assess their ability to withstand adverse shocks. This group of 17 banks accounts for more than half of total assets (53%) and loans (55%) in Vietnam's banking sector. Assessments are based on the performance of the banks' NPL ratios and CARs under stress scenarios. The analysis finds that while any increase in the NPL ratio should be moderate under a baseline scenario, the NPL ratio could reach elevated levels under an adverse scenario. Spillover effects in the baking system are also examined.

For stress testing, two scenarios are considered over a three-year risk horizon (2022–24).

- The **baseline scenario** assumes robust GDP growth. The favorable macroeconomic conditions offset some of the downside risks associated with higher oil prices and repayment difficulties of some borrowers with the expiry of credit relief.
- The **adverse scenario** assumes "double-dip" slow growth. It assumes a continuation and worsening of the pandemic. Domestic demand is dampened by lackluster global economic growth, faster monetary policy normalization, and strong inflationary pressures in advanced economies. Inflation is higher, driven by factors such as elevated global energy prices and supply chain bottlenecks, necessitating rate hikes by the SBV. The scenario is based on a cumulative three standard deviation shock from the baseline.

Table 1. Vietnam: Bank Solvency Stress Test Scenario Parameters

(%, unless indicated otherwise)

Variables	2021	Baseline Scenario[1/]			Adverse Scenario		
		2022	2023	2024	2022	2023	2024
Real GDP growth	2.6	7.0	6.5	6.6	6.0	3.0	6.1
Inflation	1.8	3.5	3.3	3.2	4.3	5.5	4.0
Unemployment rate	3.6	2.2	2.2	2.2	2.6	4.0	3.5
Lending rate	4.0	5.0	5.5	6.0	6.0	8.5	7.0
Oil price (USD/bbl) 2/	69.1	106.8	92.6	84.2	135	150	150

Notes:
1/ The baseline scenario is consistent with the ACR macroframework. Supplementary parameters are derived from Tang (2022).
2/ Oil price refers to a simple average of Dated Brent, West Texas Intermediate, and the Dubai Fateh. The baseline parameters are aligned with figures published in IMF (2022), while the ones under the adverse scenario are benchmarked against historical highs.

The stress test adapts the framework of Jobst, Ong, and Schmieder (2013):

- A fixed-effects panel (unbalanced) regression covering annual data for 36 banks from 2012–20[31] is used to estimate the stressed NPL ratio. In the regression, lower GDP growth, higher unemployment rates, higher interest rates, and higher oil prices could lead to higher NPL ratios. The parameter estimates were applied to the sample of 17 banks.[32]
- It is assumed that 10 and 50% of restructured loans end up defaulting in the baseline and adverse scenarios, respectively.[33]

[30] Prepared by Siang Leng Wong.
[31] Bank-level balance sheet information is from Moody's Analytics BankFocus. In the estimation of drivers of the NPL ratio, 251 observations are used.
[32] As Vietnam is an oil importing country, higher oil prices represent higher cost of production, negatively impacting businesses' balance sheets.
[33] Restructured loans form an estimated 2.4 to 6.0% of the outstanding loans.

- Bad debts passed over to the Vietnam Asset Management Company (VAMC) are added to the NPL estimates, for comparison with historical figures.[34]

The main results from the stress tests are as follows:

- Overall, in the baseline scenario, the NPL ratio increases slightly to 6.3% in 2024 (5.5% as of end-2021).[35] In the adverse scenario, the NPL ratio reaches about 10% at end-2024.
- The rate of increase in NPLs is assumed to differ across banks, where the ones with higher initial NPLs see a larger increase in NPLs.
- Estimates of capital adequacy ratios include assumptions on management controls and forecasts of net interest income.[36] In the baseline scenario, two banks' CARs fall below the SBV regulatory threshold (Table 2).[37] In the adverse scenario, four banks come under pressure.

Spillovers are an important consideration in banking sector stress testing.[38] In particular, systemically important banks can cause spillovers to the rest of the banking sector. Vietnamese banks are interconnected, directly and indirectly, through interbank loans, loans to common non-bank borrowers, and confidence effects. Shocks to individual banks amongst the six banks identified in Table 2[39], are estimated to result in direct credit losses of USD6.5 billion to USD41.4 billion for all their banking counterparties.[40] Contagion credit losses beyond the direct damage to individual banks' asset quality in the banking sector, range between USD4.6 million for small, less connected banks to USD102.9 billion for large, connected banks. This implies that one of the banks could result in substantial credit losses equivalent to 17% of banking sector assets whereas losses by most other banks are below 2.5%.

Table 2. Vietnam: Stress Test Results

Scenario	CAR	Number of Banks[1/]	Capital Required – SBV/ Basel II Thresholds		Capital Required – Regional Emerging Market and Developing Economy Peers' Average	
			Amount (Millions USD)	% of Banking Sector Assets	Amount (Millions USD)	% of Banking Sector Assets
Baseline	Total	1	24	<0.01		
	Tier 1	2	120	0.02	23,867	4.05
Adverse	Total	6	765	0.13		
	Tier 1	4	1,493	0.25	30,797	5.22

1/ Number of banks that end up with Tier 1 or total CAR below 6% and 8%, respectively.

References

[34] Total bad debts passed over to VAMC (including both exchanged using bond and cash) are estimated at about 4.0% of loans. The estimate also encompasses NPLs disposed off by the VAMC.
[35] The NPL ratio in 2021 is based on the sum of bad debts retained on banks' loan books (covered by the IMF's Financial Soundness Indicators) and those passed over to the VAMC.
[36] There are two main assumptions on management control. First, static balance sheets are assumed. Second, banks are assumed to only distribute dividends under the baseline scenario but restrict distributions in the adverse scenario in anticipation of a future capital needs. Net interest income is projected to fall alongside lower real GDP growth and higher interest rate (with interest cost rising at a faster pace than interest income). The net interest income trajectory differs from other countries, given that Vietnamese banks are unable to keep interest cost constant; deposit rates are raised to compete for funding and higher interest costs are not passed on to the borrowers.
[37] The thresholds used follow Basel II, where the minimum Tier 1 CAR and total CAR are set as 6 and 8%, respectively.
[38] Sun (2020).
[39] Exposures are based on end-April 2022 data. Estimates are conducted for all the banks falling below SBV regulation, except for one bank without probabilities of default data.
[40] Direct credit losses of banking counterparties inside and outside Vietnam are included.

Duong, Trung. 2022. “Banks Prohibited from Paying Dividends in Cash in 2022.” Vietnam Investment Review, January 20.

Jobst, Andreas A., Li Lian Ong, and Christian Schmieder. 2013. “A Framework for Macroprudential Bank Solvency Stress Testing.” IMF Working Paper No. 13/68.

Sun, Wei. 2020. “Covid, Credit, and Contagion Risks to ASEAN+3 Financial Systems.” AMRO Analytical Note, ASEAN+3 Macroeconomic Research Office, Singapore, June 9.

Tang, Alex Liyang. (2022) “Introduction to the Large-Scale AMRO Global Macro-Financial (DSGE) Model.” AMRO Working Paper, Singapore. Forthcoming.

Address: 10 Shenton Way, #15-08
MAS Building, Singapore 079117
Website: www.amro-asia.org
Tel: +65 6323 9844
Email: enquiry@amro-asia.org

LinkedIn | Twitter | Facebook