OECD Economic Surveys
VIET NAM

APRIL 2023

OECD

OECD Economic Surveys: Viet Nam 2023

BETTER POLICIES FOR BETTER LIVES

Please cite this publication as:
OECD (2023), *OECD Economic Surveys: Viet Nam 2023*, OECD Publishing, Paris, https://doi.org/10.1787/8f2a6ecb-en.

ISBN 978-92-64-71823-4 (print)
ISBN 978-92-64-96015-2 (pdf)
ISBN 978-92-64-78907-4 (HTML)
ISBN 978-92-64-54247-1 (epub)

OECD Economic Surveys
ISSN 0376-6438 (print)
ISSN 1609-7513 (online)

Photo credits: Cover © Hien Phung Thu/Shutterstock.com.

Corrigenda to publications may be found on line at: www.oecd.org/about/publishing/corrigenda.htm.

Foreword

This Survey is published under the responsibility of the Secretary-General of the OECD.

The economic situation and policies of Viet Nam were reviewed by the Economic and Development Review Committee of the OECD on 5 September 2022 with participation of representatives of the Vietnamese authorities. The draft report was then revised in light of the discussions. The cut-off date for updates to this report is January 2023.

The Secretariat's draft report was prepared for the Committee by Kosuke Suzuki, Nguyen Minh Cuong*, Vu Quoc Huy, Patrick Lenain and Isabelle Luong under the supervision of Ben Westmore. Editorial assistance was provided by Karimatou Diallo and Stephanie Henry and communication assistance by Nathalie Bienvenu and Laura Fortin. The Survey also benefitted from contributions at various stages by Alvaro Pereira, Andrew Jeffries*, Isabell Koske, Vincent Koen, Keiju Mitsuhashi*, Jens Arnold, Cristiana Vitale, Paul Yu, Nguyen Thi Thanh Phuong* and Kyongjun Kwak (*: the Asian Development Bank).

The Survey was prepared as a joint project with the Asian Development Bank Viet Nam Resident Mission. Comments and feedback from the government of Viet Nam are gratefully acknowledged. Support from the World Bank and the government of Japan is also gratefully acknowledged.

This is the first OECD Economic Survey of Viet Nam. Information about the Survey and more information about how Surveys are prepared is available at http://www.oecd.org/eco/surveys.

Table of contents

FIGURES

TABLES

BOXES

Basic statistics of Viet Nam, 2021

Numbers in parentheses refer to the OECD average[1]

PEOPLE AND ELECTORAL CYCLE					
Population (million)	98.5		Life expectancy at birth (years, 2020)	75.5	(79.7)
Under 15 (%, 2020)	23.2	(17.8)	Men (2020)	71.4	(77.0)
Over 65 (%, 2020)	7.9	(17.4)	Women (2020)	79.6	(82.5)
International migrant stock (% of population, 2019)	0.1	(13.2)	Latest general election		May-2021
Latest 5-year average growth (%)	1.1	(0.6)			
ECONOMY					
Gross domestic product (GDP)			Value added shares (%)		
In current prices (billion USD)	366.1		Agriculture, forestry and fishing	13.8	(2.6)
In current prices (trillion VND)	8 479.7		Industry including construction	41.1	(27.7)
Latest 5-year average real growth (%)	5.4	(1.5)	Services	45.1	(69.7)
Per capita (000 USD PPP)	11.6	(50.6)			
GENERAL GOVERNMENT Per cent of GDP					
Expenditure (OECD: 2020)	21.9	(48.5)	Gross financial debt (OECD: 2020)	38.7	(133.6)
Revenue (OECD: 2020)	18.5	(38.1)			
EXTERNAL ACCOUNTS					
Exchange rate (VND per USD)	23 160		Main exports (% of total merchandise exports)		
PPP exchange rate (USA = 1)	7 405		Machinery and transport equipment	48.1	
In per cent of GDP			Miscellaneous manufactured articles	23.9	
Exports of goods and services	93.0	(29.8)	Manufactured goods	13.0	
Imports of goods and services	92.8	(29.8)	Main imports (% of total merchandise imports)		
Current account balance	-2.1	(0.1)	Machinery and transport equipment	45.7	
			Manufactured goods	17.7	
			Chemicals and related products, n.e.s.	11.4	
LABOUR MARKET, SKILLS AND INNOVATION					
Employment rate (aged 15 and over, %)	71.2	(56.2)	Unemployment rate, Labour Force Survey (aged 15 and over, %)	2.4	(6.1)
Men	75.9	(64.1)	Youth (aged 15-24, %)	7.0	(12.8)
Women	66.6	(48.7)	Long-term unemployed (1 year and over, %)	0.3	(2.0)
Participation rate (aged 15 and over, %)	72.9	(60.3)	Tertiary educational attainment (aged 25-64, %, 2019, OECD: 2020)[3]	13.5	(39.0)
Mean weekly hours worked	39.2	(37.1)	Gross domestic expenditure on R&D (% of GDP, 2019, OECD: 2020)	0.5	(3.0)
ENVIRONMENT					
Total primary energy supply per capita (toe, 2020, OECD: 2021)	1.0	(3.8)	CO_2 emissions from fuel combustion per capita (tonnes, 2018, OECD: 2019)	2.4	(8.3)
Renewables (%, 2020, OECD: 2021)	15.1	(11.6)	Renewable internal freshwater resources per capita (1 000 m³, 2018)	3.8	
Exposure to air pollution (more than 10 μg/m³ of PM 2.5, % of population, 2019)	92.4	(61.7)			
SOCIETY					
Income inequality (Gini coefficient, 2019, OECD: latest available)	0.365	(0.316)	Education outcomes (PISA score, 2015, OECD: 2018)		
Poverty gap at USD3.65 a day (2017 PPP, %, 2018)	1.4		Reading	487	(485)
Public and private spending (% of GDP)			Mathematics	495	(487)
Health care (2019, OECD: 2020)	5.2	(9.7)	Science	525	(487)
Education (% of GNI, 2020)	4.6	(4.4)	Share of women in parliament (%)	30.3	(32.4)

Note. The year is indicated in parenthesis if it deviates from the year in the main title of this table.
1. Where the OECD aggregate is not provided in the source database, a simple OECD average of latest available data is calculated where data exist for at least 80% of member countries.
2. For Viet Nam, data refers to aged 25 and over.
Source: Calculations based on data extracted from databases of the following organisations: OECD, International Energy Agency, International Labour Organisation, International Monetary Fund, United Nations, World Bank.

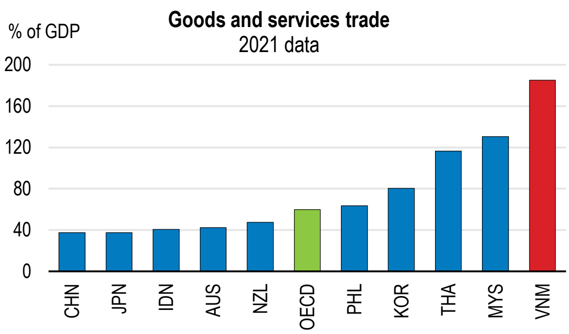
Executive summary

Challenges remain despite the well-managed COVID crisis

Viet Nam has been quick to recover from the downturns caused by the pandemic, owing to an agile policy response. The COVID-19 pandemic interrupted three decades of sustained high economic growth. Nevertheless, swift and tailored sanitary measures meant Viet Nam did not experience large-scale outbreaks until mid-2021. Thereafter, the vaccination campaign was fast. Economic growth outperformed most other Southeast Asian economies through the pandemic, providing a solid basis for further economic progress. Viet Nam is a socialist-oriented market economy. The Socio-Economic Development Strategy 2021-2030 pledges to continue bold economic reforms to attain upper middle-income country status.

Nevertheless, external conditions threaten the recovery. Active participation in global trade has been a source of Viet Nam's prosperity (Figure 1), but it means that it is exposed to abrupt changes in external conditions. Geopolitical uncertainties are weighing on Viet Nam's short-term economic prospects.

Figure 1. Trade integration is strong



Source: OECD, Economic Outlook database; CEIC.

StatLink https://stat.link/g5cqyw

Growth is projected to be solid, but there are substantial downside risks (Table 1). Domestic demand is projected to further recover as sanitary restrictions are removed. Real GDP is anticipated to grow by 6.5% in 2023 and maintain the speed at 6.6% in 2024. Supply chain disruptions may continue to weigh on global trade. Downside risks include unexpectedly high inflation and a rapid tightening of monetary policy in Viet Nam in response to inflationary pressures or downward pressure on the exchange rate. On the upside, foreign investors could increasingly appreciate the stable investment climate of Viet Nam amid heightened global uncertainty.

Table 1. The recovery is expected to continue

	2021	2022	2023	2024
Real GDP	2.6	8.0	6.5	6.6
Private consumption	1.9	7.8	6.3	6.4
Exports	7.4	8.4	5.4	6.9
Imports	15.8	2.2	4.3	5.9
Inflation (CPI)	1.8	3.2	4.3	3.7
Government fiscal balance*	-3.4	-4.3	-3.6	-2.9
Government gross debt*	38.7	38.8	38.7	38.2
Current account balance*	-2.1	-0.9	0.4	1.2

Note: * denotes a percentage of GDP. Actual fiscal data are calculated by the OECD and different from the figures published by the government.
Source: MoF; GSO; SBV; and OECD calculations.

The policy priority is to tame inflation, while being supportive of the recovery

Inflation has picked up due to rising energy and commodity prices. Monetary policy normalisation in advanced economies has widened the gap in interest rates, further stoking inflation in Viet Nam by adding downward pressure to the exchange rate. This is eroding the purchasing power of households, providing a headwind to the nascent recovery of private consumption and increasing poverty risks for vulnerable households.

Monetary policy will need to be tightened earlier if inflation accelerates more rapidly than anticipated. Notwithstanding the highly uncertain inflation outlook, maintaining price stability should be the primary focus. Delaying unwinding highly accommodative policy would risk cementing higher inflation expectations.

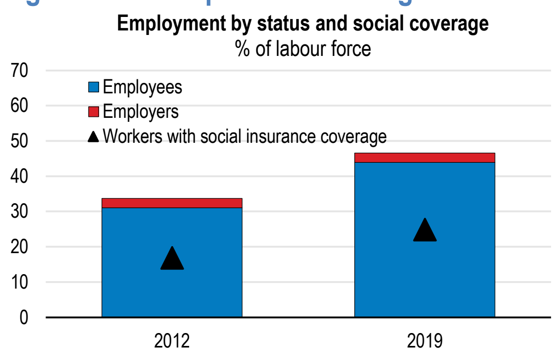
Fiscal space could be used to provide additional support to mitigate the impact of rising costs of living on vulnerable groups. The value-added tax and the tax on fossil fuels have already been cut temporarily. Additional but more targeted support may be needed if downside risks materialise. Public investment included in the latest stimulus package of early 2022 should be implemented as planned.

Simplifying public investment procedures and regulations would accelerate disbursement.

Enhancing social protection is urgent to prepare for population ageing

As Viet Nam's society is rapidly ageing, strengthening social protection is increasingly crucial. By 2050, the old-age dependency rate will increase from the current 11% to 33%, to be one of the highest in Southeast Asia. Public support to the elderly should thus be further strengthened.

Figure 2. Public pension coverage is low



Note: Excluding the government sector.
Source: GSO, Economic Census, Enterprise Survey, Labour Force Survey and Statistical Yearbook, various years; and ILO, ILOStat database.

StatLink https://stat.link/q57m68

Social security should play a more important role. A comprehensive social security system has been evolving. Health insurance now covers almost 90% of the population. During the pandemic, unemployment insurance acted as an automatic stabiliser. Nevertheless, the public pension covers only one third of the labour force (Figure 2), with patterns of under-coverage strongly associated with employment status. Tackling informality is crucial to address weak compliance among small businesses in making social insurance contributions. In addition, the sustainability of the public pension needs to be strengthened. Hence, restricting early withdrawal is of the utmost importance. Old-age social safety nets for self-employed workers, who account for half of total employment but are not covered by the compulsory public pension, should also be enhanced by expanding the current tax-funded social pension.

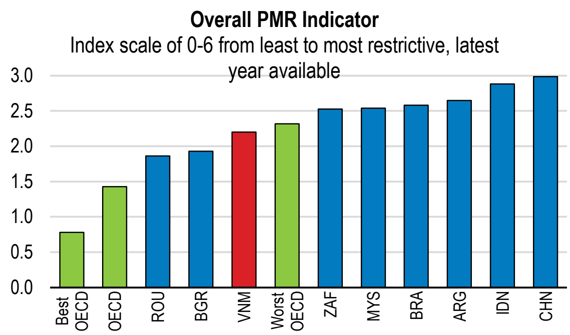
Fiscal revenues need to be increased to fund growing spending. Besides population ageing, government expenditure will also continue to increase due to other spending needs, notably, investment in transport, digital and green infrastructure. This requires a concrete medium-term fiscal plan. Deductions and exemptions in the corporate and personal income tax should be reduced and the reduced VAT rate should be applied more narrowly. In addition, the tax on non-agricultural land should be replaced with a recurrent tax levied on both buildings and land.

The business climate needs to be further improved

Boosting labour productivity is crucial to achieve sustained high economic growth. Between 1990 and 2019, the economy maintained remarkably high average annual growth of 7%, supported by rapid capital accumulation and ample labour supply from rural areas. This growth pattern will become more difficult to sustain as the transition from an agrarian to an industrial economy is fully realised and as the labour force grows more slowly. Growth should thus be driven by advanced technologies and improved economic efficiency. To achieve this, it is crucial to restore market dynamism through further simplifying administrative procedures.

Ensuring a level playing field is key to creating a better business climate. Owing to extensive reform efforts over past decades, Viet Nam is one of the most open markets in Southeast Asia and has attracted a large amount of foreign investment. Restrictions on competition are lower than in other emerging market economies, but there is scope for improvement (Figure 3). In particular, state involvement is still strong in some sectors, where state-owned enterprises (SOEs) are dominant, notably in energy, transport and telecommunications. In addition to reducing entry barriers, renewed efforts to improve SOE governance is urgently needed. Moreover, the competition authority should be given more power to level the playing field for all market participants, including SOEs. Continued efforts to tackle corruption are also crucial to improve the overall business climate further.

Figure 3. Barriers to competition could be lowered



Note: Best/worst represents the OECD best/worst performing country.
Source: OECD, Product Market Regulation database and OECD-WBG, Product Market Regulation database.
StatLink https://stat.link/y7uvtk

The digital transformation needs to be accelerated on all fronts

Viet Nam is among the leaders of digitalisation in Southeast Asia. Uptake of digital tools has grown fast, and adoption of digital technologies, such as e-commerce, telemedicine and telework accelerated during the pandemic. Viet Nam is a hotbed of digital start-ups, home to three digital unicorn companies (private start-ups with value over USD 1 billion). Nonetheless, there is room for further improvement.

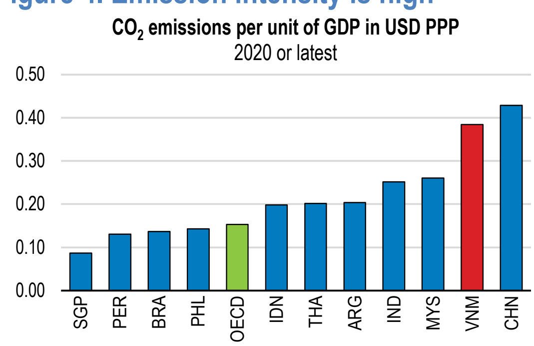
Digital infrastructure is more developed than in other Southeast Asian countries, but is still not sufficient. Investment in high quality infrastructure, such as fibre optics, will help boost uptake and the dissemination of advanced digital technologies. In particular, greater liberalisation in the telecommunications market is crucial to stimulate investment.

Viet Nam needs to enhance the enabling environment to accelerate digitalisation. Like in many other countries, the digital transformation has been changing all facets of the economy. The government was quick to deliver digital services, such as customs, and digital and cashless payments have become more common. To further promote digitalisation, more resources should be allocated to the technical and vocational education and training and on-the-job training to nurture digital skills and talents. Various regulations, including those for cross-border data flows should also be eased, while strengthening privacy protection and cybersecurity. These reforms are also crucial to deepen production sophistication which can enhance Viet Nam's integration to the global economy.

Achieving net zero emissions calls for bolder policy action

The authorities have committed to net zero emissions by 2050. However, past high economic growth was underpinned by increasing energy consumption, mostly coming from fossil fuels. The share of hydroelectric power is now declining, making coal the major source of electricity. As a result, carbon emissions are increasing fast. Reducing the high emission intensity of production is crucial to simultaneously achieve both net zero emissions and high economic growth (Figure 4).

Figure 4. Emission intensity is high



Source: OECD, Green Growth Indicators database.
StatLink https://stat.link/oa0ns5

A comprehensive programme is required to transition to a low carbon economy. To guide all economic sectors to a low carbon path, a clear and predictable long-term climate strategy should be prepared. This strategy should include an energy sector reform which is crucial to upscale investment in renewable energy. All fossil fuels are now subject to the environmental protection tax, but it is difficult to reflect the social costs of carbon fully. This should be improved to influence consumption patterns of households and businesses more explicitly. A planned set up of a carbon market should be accelerated to encourage investment into renewable energy in the power sector. Adopting a green taxonomy could also help financial resources shift to low-carbon investment.

Main findings and key recommendations

Main findings	Key recommendations
Improving macroeconomic policy and fiscal sustainability	
Despite rapid reopening of the economy, external uncertainties are weighing on growth prospects. Furthermore, the risk of COVID-19 outbreaks, potentially stemming from the emergence of a new variant, remains.	Consider providing targeted financial support to households strongly affected by high energy and food prices. Accelerate disbursement of public investment, including by simplifying public investment procedures and regulations.
Inflation has picked up and is expected to remain high due to rising energy and commodity prices and supply chain disruptions. At the same time, policy rate hikes in advanced economies are putting downward pressure on the exchange rate which could also push up domestic inflation.	Raise policy rates earlier if there are signs that inflation is rising more rapidly and persistently than expected.
Government spending is expected to increase, especially for investments to facilitate the digital transformation and the green transition. A rapidly ageing population will also require more public spending on social benefits, including healthcare.	Prepare a concrete medium-term fiscal consolidation plan to further enhance revenue, improve spending efficiency and increase the transparency of debt management based on plausible economic projections.
The tax system has great complexity due to a number of exemptions, deductions, reduced rates and other special treatments, weakening the tax base, inducing low compliance and increasing collection costs.	Expand the tax base by reducing exemptions and deductions in the corporate income tax and the personal income tax and narrowing the application of the reduced VAT rate.
Fiscal revenues from property taxes are small compared with other Southeast Asian countries, while revenues from sales of land use rights have increased from the recent buoyant property market.	Replace the land tax on non-agricultural land with a recurrent tax on immovable property levied on both buildings and land. Value immovable property more frequently based on the market value of the property.
Strengthening the functioning of social security	
Social insurance can be withdrawn as a lump sum even before reaching pensionable age. A significant number of young individuals apply for early withdrawals, which threatens the sustainability of the public pension system.	Restrict the lump sum withdrawal scheme for those who have not reached pensionable age, eventually phasing it out.
A number of household businesses are staying small as administrative and financial costs for them to grow are high, resulting in high rates of informality.	Simplify and reduce various administrative and financial burdens for household businesses to encourage them to formalise and grow.
Enhancing product market competition and boosting productivity	
Viet Nam has made remarkable progress in improving the business climate with the aim of boosting productivity. Total factor productivity has rebounded during the 2010s. Nonetheless, large differences still prevail between provinces, and some procedures remain cumbersome.	Continue to simplify business regulations, including through stronger use of digital technologies in areas such as tax payments and insolvency procedures.
Despite the transfer of SOE ownership to the Commission for the Management of State Capital at Enterprises, reductions in government holdings of SOE equities have been slower than planned and ministries and government agencies are still perceived as having an active influence on the management of these firms.	Clarify the functions of the state as owner of companies and regulator of the same companies in order to ensure effective separation.
The establishment of a single National Competition Commission (NCC) envisaged by the 2018 Law on Competition has not yet been realised and the incumbent Competition and Consumer Agency (CCA) lacks independence and a sufficient budget.	Give the competition authority the power to take action against state-owned enterprises at central and local levels that abuse their market power, to advocate for competition and to perform market studies.
Considerable progress has been made in combating corruption in the public sector, setting up comprehensive legal frameworks and enhancing international commitment. However, despite declines in measures of perceived corruption, many stakeholders, including the international business community, consider that fighting corruption remains a priority.	Continue to make strong commitments to enhancing anti-corruption efforts, allocating more government resources and increasing awareness among people and businesses, including public sector workers of local governments
Boosting the digital economy	
In the telecommunications sector, foreign investors still face some restrictions. Consequently, key telecommunication markets are dominated by three state-owned enterprises, holding back potential economy-wide productivity gains.	Open telecommunications markets to foreign investors, especially by accelerating the adoption and implementation of a new Law on Telecommunications to reduce barriers to foreign entry and easing the foreign ownership restrictions.
Both basic and advanced digital skills are lacking, and few students opt for academic courses in science and computing areas.	Enhance digital skills by providing more training opportunities for basic skills and allocating more resources to the technical and vocational education and training system and on-the-job IT training of advanced skills.

Achieving net zero emissions by 2050	
Viet Nam's greenhouse gas emissions have increased faster than GDP, and the country is one of the largest emitters relative to GDP. The current emissions targets of the authorities include reaching net zero emissions by 2050.	Adopt a clear and predictable climate strategy, with consistent long-term goals, especially in relation to greenhouse gas emissions and energy sector reform.
Coal-fired power plants have become the main source of electricity but the government plans to shift away from coal gradually with no new investment after 2030.	Halt investment in new coal-fired power plants as planned, and strengthen investment incentives for renewable energy sources, especially onshore and offshore wind energy.
An environmental tax partially reflects the social cost of carbon for gasoline prices, but other fossil fuels face a lower tax burden than gasoline, relative to their respective carbon content. A market for trading emission allowances and carbon credits is planned but the implementation horizon is long.	Accelerate the implementation of the carbon market, starting with an emission trading system in high emission sectors, including the power sector, and eventually expand its coverage, in order to ensure that energy prices can duly reflect cost and increasingly include the negative externalities from greenhouse gas emissions.

1 Key policy insights

For more than three decades, Viet Nam has made remarkable economic progress. Active participation in global value chains has brought economic prosperity, but it also makes Viet Nam susceptible to external conditions, which have recently become more uncertain than before. While foreign investment has taken the lead of export-oriented manufacturing, a large number of small businesses play an important role in domestic economic activities. Economic hardship often hits small businesses and poorer households most severely. Moreover, a vast number of people are not yet covered by social security despite the acceleration of population ageing. This chapter discusses the macroeconomic and social impacts of the recent crises, notably the COVID-19 pandemic and Russia's invasion of Ukraine, and their policy implications for achieving robust and inclusive progress in the medium term, including the importance of further trade integration for Viet Nam.

Viet Nam should aim at not only high but also sustained post-pandemic growth

Viet Nam has performed impressively over recent decades. A bold policy package of market-oriented reforms, known as *Doi Moi*, started in 1986 and unleashed Viet Nam's economic potential. Between 1990 and 2019, real GDP growth was strong, averaging 6.8%. Moreover, the economy proved resilient to a series of shocks. While many other Southeast Asian countries experienced severe recessions during the Asian Financial Crisis in 1997-1998 and the Global Financial Crisis in 2008-2009, the Vietnamese economy continued to grow. Robust growth has been underpinned by a sustained transition from an agrarian to an industrial economy: the share of agriculture in GDP declined from around 40% in the late 1980s to nearly 10% in 2020, although Viet Nam remains one of the largest rice exporters in the world. Together with abundant labour supply, greater trade openness attracted foreign investors, accelerating this economic transformation. The trade to GDP ratio, which was just 23% in 1986, is now almost 200%, one of the highest in the world. In addition to becoming a member of ASEAN (1995) and APEC (1998), accession to the WTO in 2007 further strengthened Viet Nam's integration into the global economy. The share of ICT goods in total merchandise exports rose from 5% in 2007 to nearly 40% in 2020. As a result, Viet Nam attained middle-income country status in 2010. Per capita GDP reached 20% of the OECD average by end-2020, up from around 8% in 2000 (Figure 1.1, Panel A). The Vietnamese people benefitted considerably from this sustained period of high economic growth, as is shown by the dramatic decline in the poverty rate (Figure 1.1, Panel B).

In recent years, while navigating the health and economic impacts of the pandemic, Viet Nam has kept its long-term aspiration to attain high economic prosperity for the people. In particular, trade integration has gained stronger momentum (OECD, 2020[1]). Following the enactment of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership in 2019, a large-scale free trade agreement across the Asia-Pacific, Viet Nam ratified the European Union-Viet Nam Free Trade Agreement and the Regional Comprehensive Economic Partnership during the pandemic. A number of necessary domestic reforms have already kicked off, such as the revised Enterprise Law to re-classify state-owned enterprises and the new Labour Code that will enhance workers' rights. Moreover, building on the past experience of crisis management, tackling the pandemic has been highly successful so far, with Viet Nam achieving both lower COVID-19 mortality per capita than most other OECD countries and positive economic growth in 2020 (2.9%) and 2021 (2.6%). Similar to many other countries, the government mobilised a range of available monetary and fiscal policy tools, notably tax deferrals, tax cuts, loan restructuring and soft loans, to mitigate impacts on vulnerable households and businesses.

The government's plans are detailed in the 10-year Socio-Economic Development Strategy 2021-2030 and the 5-year Socio-Economic Development Plan 2021-2025 and have a strong focus on achieving a more productive, inclusive and greener economy (Box 1.1). While the income gap compared with the OECD average is still large, Viet Nam also needs to prepare for significant population ageing. Despite rapid economic development, economic informality is high, and social protection is underdeveloped. Even before the pandemic, the expansion of Viet Nam's international trade through opening markets faced a risk of weakening amid growing trade tensions. Moreover, the highly uncertain global environment that has arisen with the outbreak of Russia's invasion of Ukraine has added additional headwinds to the Vietnamese economy. High energy prices are pushing up inflation, eroding the purchasing power of vulnerable households. Global trade may be undermined for a long period as a consequence of the war. Nevertheless, the government aims for an ambitious average GDP growth rate of 7% by 2030 to attain upper middle-income country status.

To achieve this, the ongoing recovery will need to be followed by robust growth that is underpinned by higher labour productivity growth. In particular, the rapidly changing external as well as domestic environment has caused the government to reframe the Vietnamese model of growth. In particular, the Prime Minister has underscored the importance of "building a resilient and strategically autonomic economy while pursuing proactive international integration" (Harvard Kennedy School, Ash Center for

Democratic Governance and Innovation, 2022[2]). In particular, strengthening trade integration is key to economic stability. Further trade integration will continue to benefit Viet Nam as before, but the integration will be deepened if trading partners are more diversified and exported products, including services, have a higher share of value added. A dynamic business sector will be the main driver of this economic transformation. Therefore, improvements to the business climate for both domestic and foreign investors will become increasingly crucial. Among other things, this will require the further diffusion of digital technologies. In order to improve resilience to economic shocks and to realise the smooth implementation of bold reforms, a sounder macroeconomic policy framework and a more comprehensive social protection system will be needed. At the same time, structural reforms, such as financial market reform, can also help stabilise macroeconomic conditions and enhance economic resilience.

Bold structural reforms are also crucial to ensure a robust recovery in the wake of the COVID pandemic and to avoid the "middle-income trap". Latin American countries experienced a long period of economic stagnation during the 1980s (i.e. the "lost decade"). These countries accumulated large amounts of external borrowing during the 1970s period of high oil prices. When the global economy subsequently entered a recession amid rising policy rates in advanced economies, this triggered a debt crisis. In response, governments in the region cut public spending such as on infrastructure and social benefits. However, less attention was paid to supply-side reforms to stimulate business dynamism. Despite strong fiscal consolidation, government subsidies to state-owned enterprises (SOEs) in these countries were not reduced. It was not until the early 1990s when privatisation of SOEs accelerated across the region. While Viet Nam's economic growth has been strong, a number of emerging-market economies have been faced with slowing growth when they have reached middle-income status (Felipe, 2012[3]). Rising income levels make labour-intensive manufacturing exports less competitive, while nurturing high value-added sectors requires extensive structural reforms, notably deepening trade integration, reducing regulatory burdens on businesses, investing in human capital and combatting corruption (Tran, 2013[4]). These broad reforms require huge policy efforts, underpinned by high institutional capacity of governments. Viet Nam has successfully implemented bold reforms in the past, such as *Doi Moi*, but step-by-step reform, which allows the government to concentrate its limited resources on difficult reform areas, will ensure sustained economic convergence.

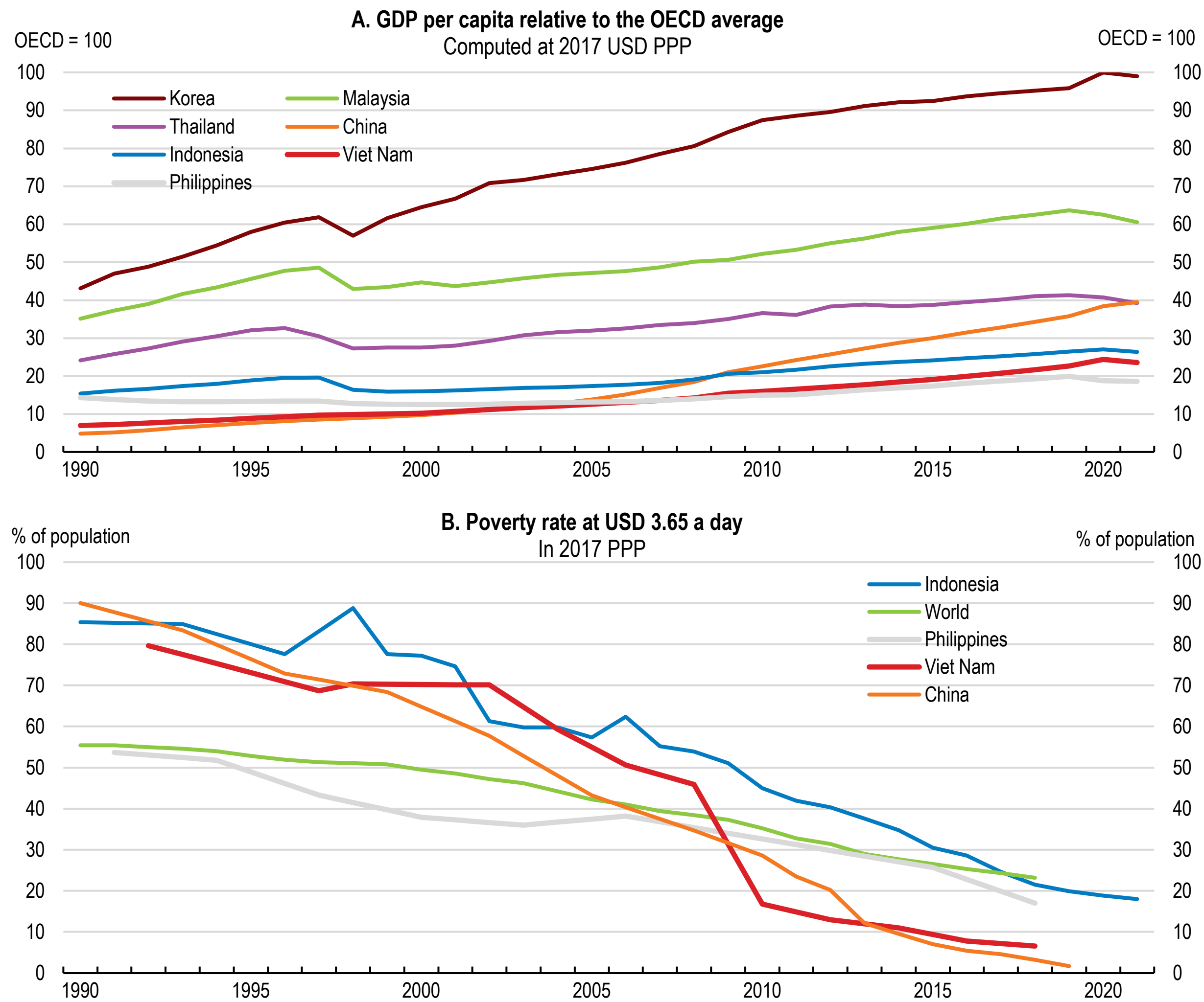
The Socio-Economic Development Strategy 2021-2030 set out a new policy orientation of a "circular economy", where all policies should be consistent with greener growth. In addition to this, a commitment to achieving net zero greenhouse gas emissions by 2050 is bringing the climate transition into new focus. A Decision issued in July 2022 (896/QD-TTg) aims at mapping out a comprehensive climate change strategy, including more concrete policy directions to realise net zero emissions. The increase in energy prices as a result of the war in Ukraine has compounded the need for reducing the country's reliance on fossil fuels, through accelerating the adoption of renewables, improving energy efficiency and raising the utilisation of other low carbon energy sources. The large investments needed to achieve the green transition require additional financial resources. Strong carbon reduction commitments, accompanied by the policy settings needed to achieve them, can help attract more funding for these projects, including from international sources. The further successful adoption of renewable energy sources can also attract more sophisticated FDI which is sensitive to total carbon footprints and thus promotes energy efficiency, producing a virtuous cycle to help decarbonise the domestic economy.

Against this backdrop, the main messages of this *Economic Survey* are:

- Macroeconomic policies need to help enhance economic resilience. In the short run, the priority is to minimise the impact of high energy prices through targeted support for vulnerable households, rather than deploying further expansionary fiscal measures. In the medium term, it is crucial to strengthen the macroeconomic policy framework by improving fiscal sustainability through expanding the tax base. Social protection also needs to be strengthened and economic informality reduced.

- To maintain high economic growth from the recovery, Viet Nam needs to further improve the business climate and facilitate the digital transformation. Reinvigorating business dynamism requires further streamlining regulations, increasing the transparency of regulatory processes and levelling the playing field among all market participants, including between state-owned enterprises and private entities.
- To achieve the objective of reaching net zero emissions by 2050, sustaining high levels of investment in renewable energy and pursuing greater energy efficiency will be needed. This can be achieved through a comprehensive policy approach that prioritises effective public and private investment, conducive regulatory settings and market prices that better reflect carbon content.

Figure 1.1. Viet Nam's people benefitted from its uninterrupted economic progress



Source: World Bank, World Development Indicators database.

StatLink https://stat.link/6gy935

Box 1.1. Viet Nam's political and economic system – a socialist-oriented market economy

Viet Nam's political system consists of the Communist Party of Viet Nam, the State of the Socialist Republic of Viet Nam, socio-political organisations, socio-professional organisations and mass associations.

As a socialist country, the Communist Party of Viet Nam is the ruling and only legal political party in Viet Nam, which is stipulated in the Constitution as the "vanguard of the working class" and "the leading force for the State and society".

The National Assembly is considered the highest level representative body of the people, the highest state power body of the Socialist Republic of Viet Nam and the sole organ that has the constitutional and legislative rights and exercises the supreme power of supervision over all activities of the State. It has only one chamber.

The Government is the supreme administrative agency of the State and an executive body of the National Assembly. It consists of the Prime Minister, Deputy Prime Ministers, Ministers and Heads of ministerial-level agencies. The Prime Minister is the head of the Government and is elected by the National Assembly. Ministers are proposed by the Prime Minister and approved by the National Assembly. The Supreme People's Court is also responsible to the National Assembly. The Chief of Justice is appointed by the National Assembly and judges are appointed by a selection committee headed by the Chief of Justice.

The Party Secretary, the President, the Prime Minister and the Chairperson of the National Assembly are considered the top leaders of Viet Nam. The President and the Chairperson of the National Assembly are elected by the National Assembly from its members. The President is the Head of State representing the nation.

Local governments consist of a People's Council and a People's Committee that are organised for each administrative unit. The members of People's Councils are elected by the people. Delegation of powers to each level of local governments must be stipulated by laws. Each province and district also has its own Court.

Viet Nam is a socialist-oriented market economy. Although the State manages the economy through legislation, planning and policies, individual persons and organisations can conduct commercial activities unless laws forbid these activities. Land is possessed by the State but individuals can acquire the land use right from the State. Non-land properties owned by individuals are not nationalised. The State can purchase them at a market price in case it is necessary for specific reasons, such as national defence and development.

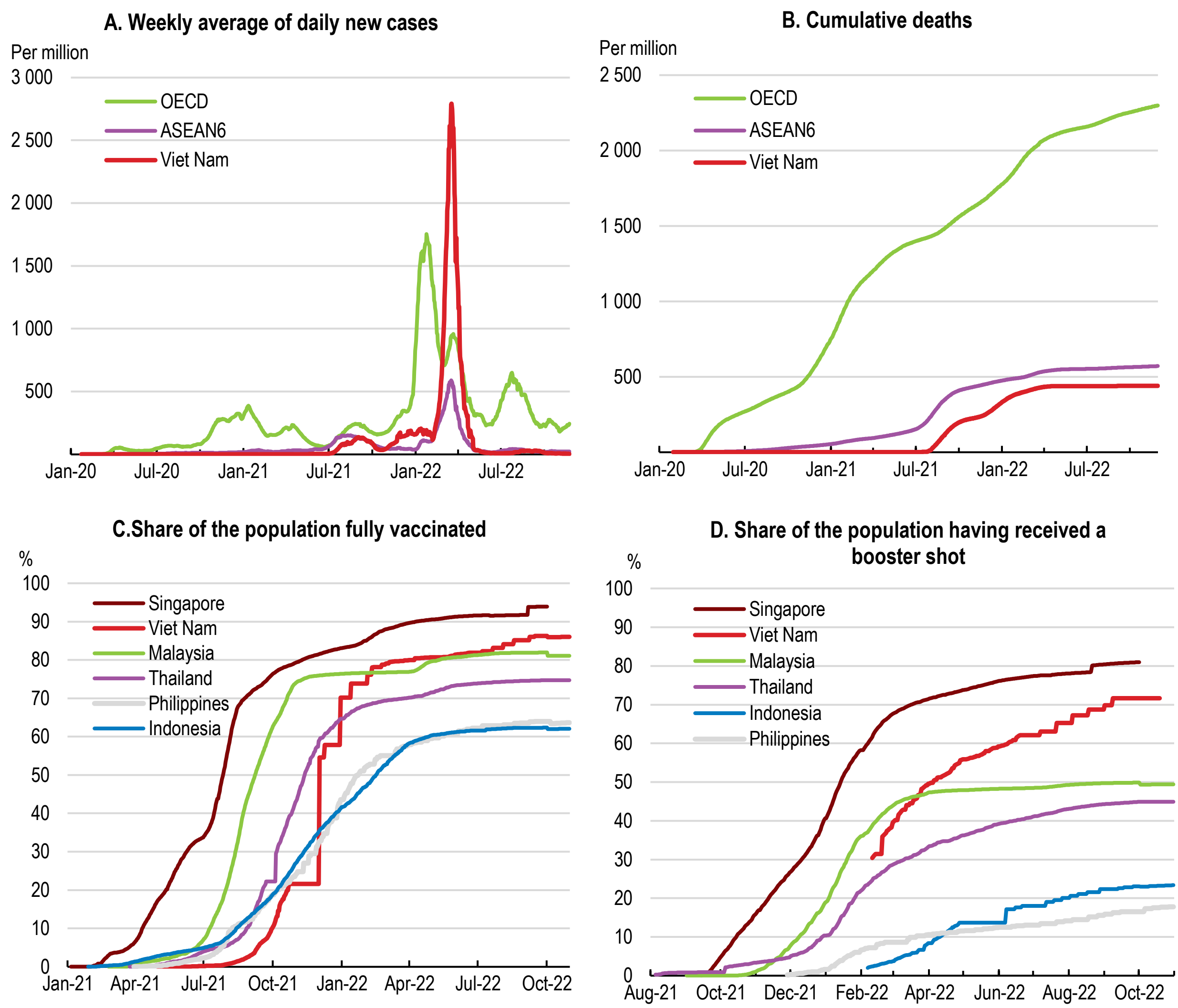
Source: (Ministry of Foreign Affairs, 2019[5])

Macroeconomic policy should be gradually normalised

The economy showed resilience during the pandemic, but new challenges have arisen

Overall, Viet Nam has withstood the economic shocks entailed by the pandemic well. This has owed a lot to the flexible but bold handling of the health crisis. Viet Nam succeeded in avoiding large infections until mid-2021 thanks to swift border closures and tight but short-lived confinement measures that were targeted at infected areas early in 2020 (Figure 1.2, Panels A and B). More stringent restrictions in response to the abrupt propagation of the Delta variant caused real GDP to decline in the third quarter of 2021. Nevertheless, the restrictions were quickly eased, in consideration of the serious economic and social ramifications of these measures. Vaccination started more slowly than in other Southeast Asian countries in 2021, but progressed rapidly (Figure 1.2, Panel C). The government set a target of fully vaccinating at least half of the population aged 18 and older by end-2021. By early January 2022, 70% of the population had been administered two doses of a COVID-19 vaccine, marking a much faster rollout than initially planned. From early 2022, the government further stepped up its living-with-COVID amidst the circulation of the Omicron variant, which was considered to be more contagious but typically less harmful. This has been accompanied by a rapid increase in the share of the population that has received a booster shot (Figure 1.2, Panel D). These measures helped contain the pandemic and revive the economy.

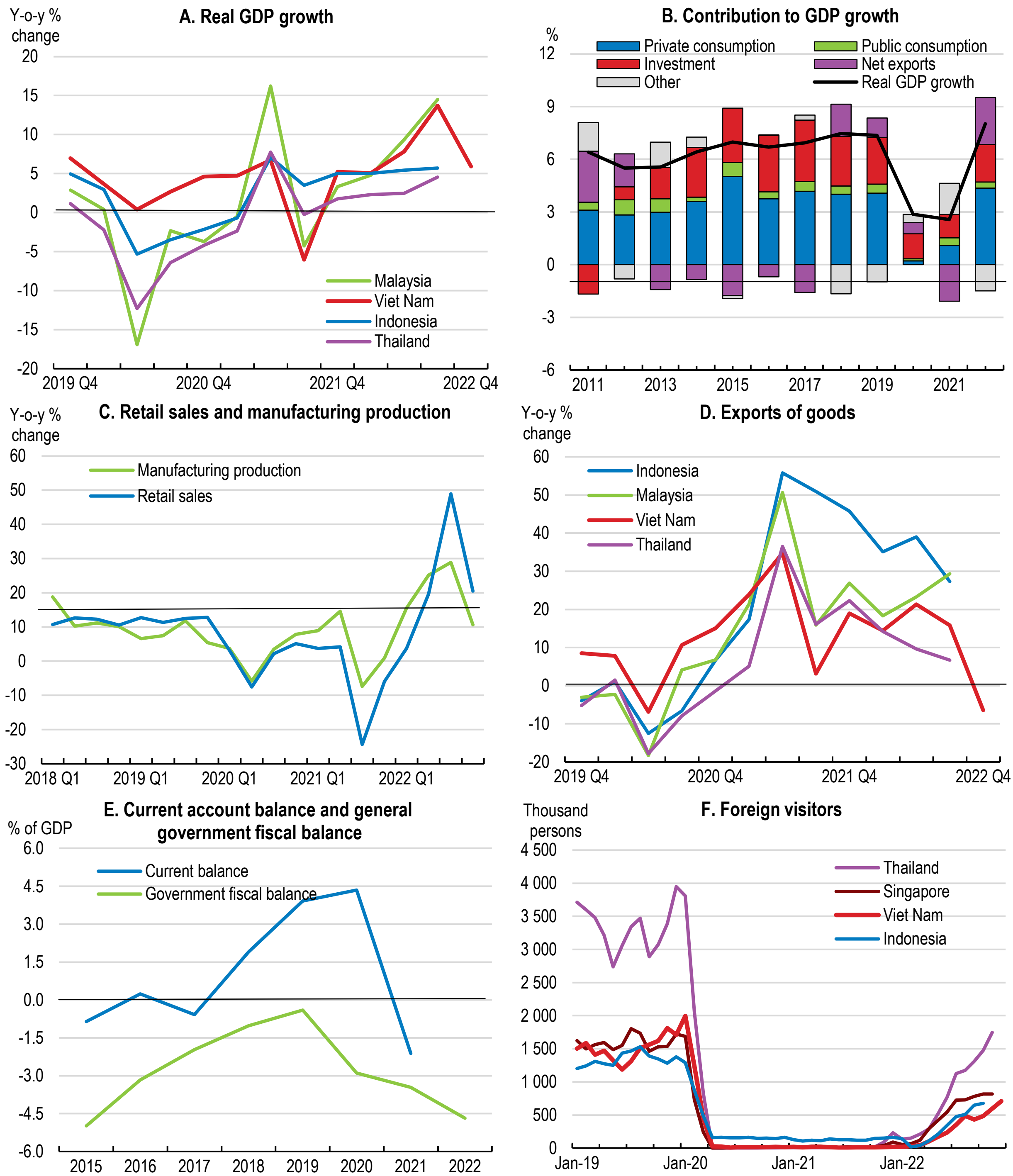
Figure 1.2. Viet Nam has managed the public health crisis well



Note: ASEAN6 is the population-weighted average of Indonesia, Malaysia, the Philippines, Singapore, Thailand and Viet Nam. OECD is also population-weighted.
Source: Our World in Data, available at https://ourworldindata.org/covid-vaccinations.

StatLink https://stat.link/vixsme

Figure 1.3. Recent macroeconomic developments



Note: In panel B, "Other" covers the change in stocks and the statistical discrepancy.
Source: CEIC and GSO.

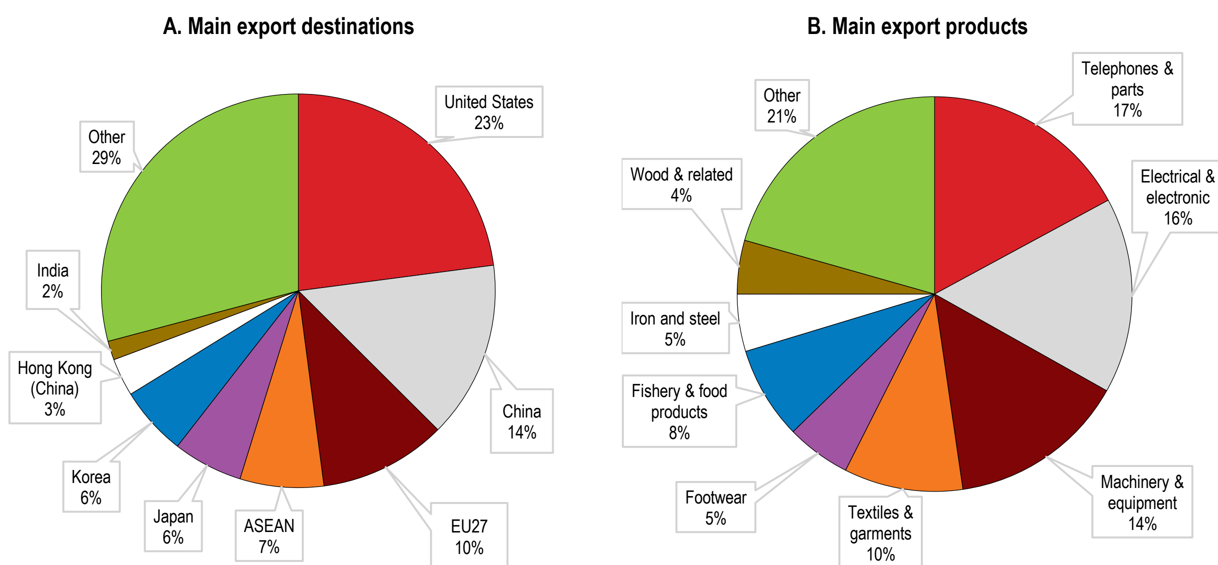
StatLink https://stat.link/6csykv

Recent economic developments in Viet Nam are taking place against a backdrop of slowing global economic growth. Global industrial production and retail sales have been declining and survey evidence suggests notably weaker business and consumer confidence in most OECD countries. Inflation has risen steeply, reflecting a combination of factors. These include the impact of the war on energy and food prices, ongoing supply constraints and a solid global demand recovery following the onset of the pandemic. Higher prices are eroding household purchasing power and have prompted central banks around the world to raise official interest rates, weighing on investment activity. Looking forward, the OECD projects global GDP growth to slow sharply this year to 3.1%, around 1½ percentage points weaker than projected as at December 2021, and to remain weak at 2.2% in 2023.

Growth in Viet Nam has been robust since early 2020, apart from the contraction in the third quarter of 2021 (Figure 1.3, Panel A). Domestic demand has been particularly solid overall. Private consumption flattened in 2020, but did not plunge like in many other countries, and then picked up quickly in 2021 (Figure 1.3, Panel B). Retail sales data indicate that consumption continued rebounding strongly in the first half of 2022 after the huge contraction in the third quarter of 2021 (Figure 1.3, Panel C). Investment has buttressed growth. Viet Nam's low infection rates have contributed to better business prospects for foreign investors. As a result, foreign investment (realised capital) already started increasing in the first half of 2022 (10% in January-July, year-on-year basis, in US dollar (USD) terms) following a small decline in 2020 and 2021 (-2% and -1%). Business activity has also been resilient, with industrial production recovering steadily from late 2021 (Figure 1.3, Panel C).

Figure 1.4. Exports by destination and product

Share of total exports, 2021



Source: CEIC.

StatLink https://stat.link/ptjlig

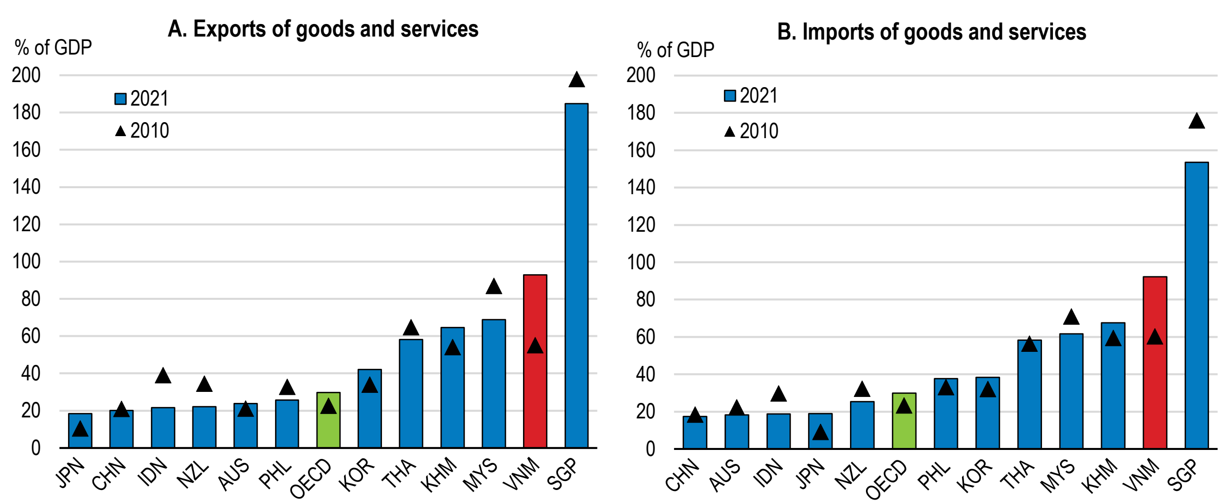
On the other hand, the contribution of external demand to growth was mixed. Overall, Viet Nam's goods exports have been buoyant like in other Southeast Asian countries during the pandemic (Figure 1.3, Panel D). Exports to the United States and People's Republic of China (hereafter China), which account for the largest share in Viet Nam's exports (Figure 1.4), have been solid. Viet Nam imports a large amount of machinery and equipment, meaning that real imports tend to grow faster than real exports when the economy is expanding because of stronger investment demand, and *vice versa* (Figure 1.3, Panel B). As such, net exports contributed positively to GDP growth in 2020 amid softening investment. Volume of trade expanded strongly in the first half of 2021, but was affected in the second half of the year by the tougher sanitary restrictions and global supply chain disruptions, with exports slowing more than imports. Accordingly, the current account balance recorded deficits in 2021 (Figure 1.3, Panel E). Although it accounts for a smaller share than in other Southeast Asian countries, inbound tourism to Viet Nam grew fast before the pandemic. As the government reopened borders to most countries from April 2022, after almost two years of shutdown, the number of overseas visitors has gradually increased but still remains at very low levels (Figure 1.3, Panel F).

The external environment has become more uncertain since the beginning of 2022. Viet Nam has significantly expanded its participation in global trade over recent decades (Figure 1.5), which has contributed to its rapid economic development. Involvement in global supply chains promotes efficient use of economic resources and the adoption of new technologies through foreign investment. While over-stretched supply chains could be susceptible to shocks, Viet Nam's expansion of trade has diversified both the composition of trading partners as well as the goods and services in trades. Viet Nam's highly trade-dependent economy is thus not necessarily more vulnerable to external shocks. Nevertheless, recent unprecedented developments, notably the ongoing global pandemic and war in Ukraine, do pose additional challenges for the Vietnamese economy.

The war in Ukraine may affect Viet Nam's economy through various channels, although the direct impact is limited. Trade with Russia and Ukraine is small (respectively, 0.9% and 0.1% of total goods trade in 2019), but bilateral imports of certain products are relatively important, such as coal and coal products (12% of total imports of coal and coal products were from Russia in 2021) and fertilisers (10% of total imports of fertilisers were from Russia in 2021). Exports to Russia declined sharply from March 2022 due to supply chain disruptions (Figure 1.6, Panel A). For a few agricultural products, Russia accounts for a material share of exports (for example, 5% of total exports of "coffee, tea, mate and spices" in 2021). Nevertheless, Russia's share in Viet Nam's total exports is small (1% of total goods exports in 2021). On the other hand, Viet Nam is one of the most popular ASEAN destinations for Russian tourists, second to Thailand (Russians accounted for 3.6% of total foreign visitors to Viet Nam in 2019).

A slowdown in the European economies would have a more significant impact on the Vietnamese economy (Figure 1.6, Panel A). Despite their declining share, European countries are important counterparts for Viet Nam's trade (The EU's share in goods trade was 17% in 2021). Nonetheless, the European Union–Viet Nam Free Trade Agreement, a preferential trade agreement effective from 2020, should help re-boost bilateral trade once the situation improves. Indirect impacts from the war are also being felt through rising price pressures. Already, high energy and commodity prices are putting upward pressure on inflation (Box 1.2).

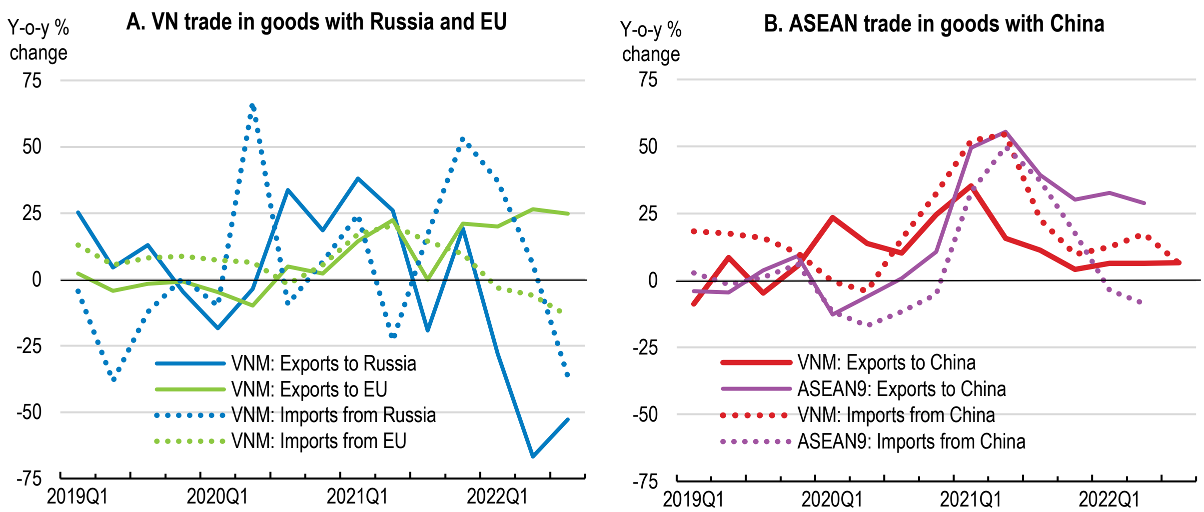
Figure 1.5. Viet Nam has benefitted from active participation in global trade



Source: OECD, Economic Outlook database; World Bank, World Development Indicators database; CEIC.

StatLink https://stat.link/p9nbkv

Figure 1.6. Viet Nam has diverse and dynamic trade markets



Source: CEIC.

StatLink https://stat.link/kxl4my

China's stringent pandemic controls have affected regional trade, but the impact on the Vietnamese economy was relatively limited. Amid the rapid propagation of the Omicron variant, China intensified its sanitary restrictions since end-2021. This included a severe lockdown from late March 2022 to end-May 2022 in Shanghai, which has the world's largest container port. Direct impacts on trade differ between ASEAN countries depending on the composition and pattern of trade (Figure 1.6, Panel B). Some countries, in particular commodity exporting countries, maintained strong export growth in the first quarter of 2022 partly due to high prices (63% (year-on-year) for Indonesia and 28% for Malaysia). Other countries experienced softening export growth (4% in May for Thailand, following -7% in April and 4% in the first quarter of 2022). Exports rose 8% in Viet Nam both in the first and second quarter of 2022, after 4% in the fourth quarter of 2021. While some goods imports from China, which are crucial for Viet Nam's manufacturing, such as machinery, equipment and parts, temporarily dropped (a 15% dip in March 2022 followed by a 7% decline in April and a 1% increase in May), industrial production has been less affected (Figure 1.3, Panel C). Overall, businesses managed their production using existing stocks of materials and alternative trade routes. In December 2021, due to the persistent propagation of the Delta variant in Southeast Asian countries, China tightened border controls, including the land borders with Viet Nam. The restrictions have been eased since then. Land trade accounts for around one quarter of trade between Viet Nam and China.

Nonetheless, further supply chain disruptions stemming from China's changing public health situation may have a larger impact on Viet Nam than on other Southeast Asian countries. Viet Nam has significantly strengthened trade linkages with China over the past decade. China's share in Viet Nam's goods exports increased from 11% to 17% between 2012 and 2021, and from 25% to 33% for goods imports. Viet Nam has the highest share of imports from China among ASEAN-6 countries (the second highest, Indonesia was 29% in 2021). Most goods imports from China consist of machinery, equipment and parts (nearly 20% of total goods imports in 2021), which are important in the production of exported goods. Compared with other Southeast Asian countries, Viet Nam stands out for having deepened value chain linkages with China (Figure 1.8). On the other hand, some sectors would be able to benefit from supply chain disruptions in China if they managed to overcome supply constraints, as they could substitute Chinese exporters. China's exports of textile and apparel temporarily dropped by 3% (year-on-year) in April-May 2022, while exports from Viet Nam continued growing by 19% in the first five months of 2022. The recently enforced Regional Comprehensive Economic Partnership, a large preferential trade agreement, of which China is a member, should help prop up Viet Nam's trade once the situation is improved.

Box 1.2. High energy prices may hinder economic growth

Real GDP represents the volume of goods and services produced or purchased during a certain period, but it does not express a nation's purchasing power in real terms, when import and export prices change. For example, if export prices rise twofold while other conditions are the same, real GDP does not change, but the purchasing power of that country should improve as the revenue from trade increases. Therefore, in addition to GDP, Gross Domestic Income (GDI) is used to capture the changes in national income (United Nations et al., 2009[6]). Real GDI can be calculated by adding "trading gains/losses" to real GDP[1].

Trading gains/losses for Viet Nam increased, particularly from 2015, similar to the experience in Thailand (Figure 1.7, Panel A). The terms of trade, which is the ratio of export and import deflators, improved significantly in both countries after 2014 thanks to declining fossil fuel prices (Figure 1.7, Panel B). Nevertheless, a closer look reveals some differences between these countries.

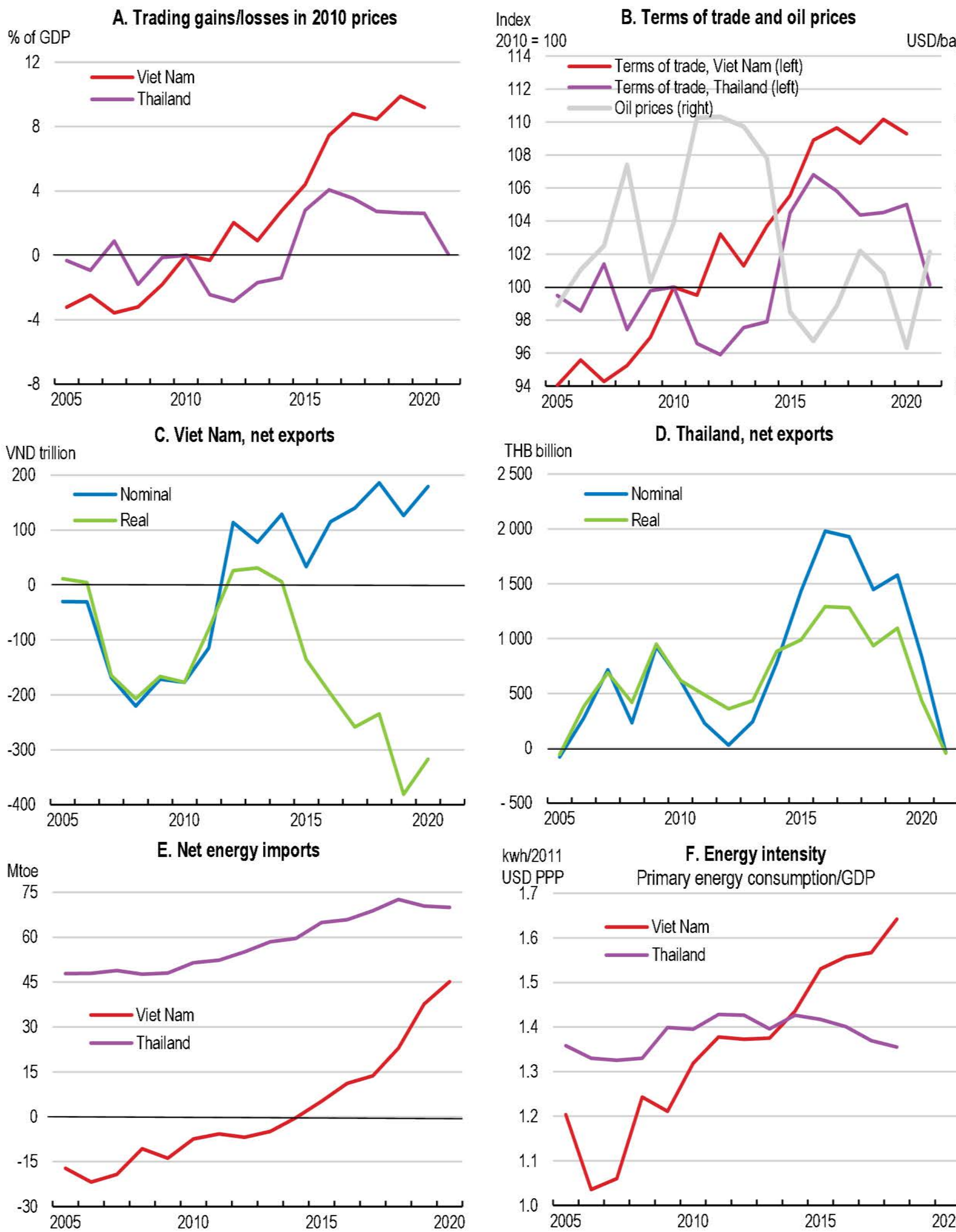
From the mid-2010s, Viet Nam maintained nominal net exports, but reduced real net exports (Figure 1.7, Panel C)[2]. On the other hand, Thailand increased nominal net exports, while maintaining real net exports (Figure 1.7, Panel D). This suggests that Viet Nam increased imports of products that became cheaper than in the reference year, while Thailand did not increase the purchase of these products, or Viet Nam reduced exports of products that experienced price increases and Thailand maintained exports of products that became more expensive[3].

Indeed, Viet Nam became a net energy importer in 2014 (Figure 1.7, Panel E), and rapidly increased imports of crude oils and coal, while reducing exports of fossil fuels due to declining domestic production. Thailand has been a net energy importer, but the increase was more moderate over the same period (Figure 1.7, Panel E). Both countries improved their national income thanks to low fossil fuel prices, and Viet Nam benefitted from it by increasing its purchases of oil and coal.

Importing fossil fuels was economically appealing when prices were low, but the situation has changed. Rising prices now mean that the cost of fossil fuels in producing one unit of GDP growth has risen. Thus, energy intensity matters. Over the past years, Thailand improved or maintained energy intensity, while Viet Nam did not (Figure 1.7, Panel F). This helped Thailand contain fossil fuel consumption, resulting in only a moderate increase in energy imports in nominal terms. In the same way, improving Viet Nam's energy efficiency can help reduce costs and achieve the carbon reduction goal of producing net zero emissions by 2050 (see Chapter 2).

1. Trading gain/loss = nominal net exports/numeraire deflator – real net exports. Some different prices could be used as a numeraire deflator. This report uses an average of exports and imports deflators, namely (nominal exports + nominal imports) / (real exports + real imports).
2. Levels of real net exports have no economic meaning, as they are changeable with the level of nominal net exports of the reference year.
3. Viet Nam's national account uses fixed price index, so that deflators would have upward bias. Nevertheless, this does not affect the main thrust of the discussion in this Box.

Figure 1.7. Improving energy efficiency would help strengthen the resilience against price hikes

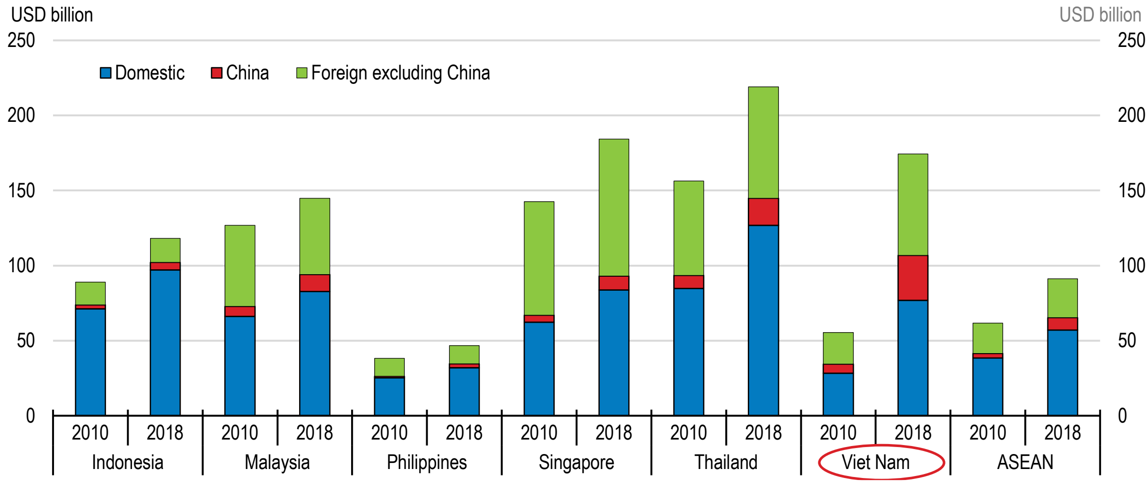


Source: CEIC; IEA; and Our World in data (https://ourworldindata.org/grapher/energy-intensity?tab=chart&country=VNM~THA).

StatLink https://stat.link/64zn8f

Figure 1.8. Viet Nam has deepened value chains with China

Origin of value added in gross manufacturing exports



Note: ASEAN is calculated as a simple average.
Source: OECD, Trade in Value Added database.

StatLink https://stat.link/1r3p6x

Since the onset of the pandemic, the government has adopted a series of stimulus packages to mitigate the anticipated economic impacts (Table 1.1). With its flexible and bold prevention measures for the pandemic, Viet Nam was able to avoid serious outbreaks in 2020. In 2021, following the strict lockdowns and the associated large economic contraction, the government promptly adopted several relief measures for affected households and businesses from July. Although there were some initial implementation issues for some measures, such as cash transfers to poor households, overall additional spending to affected sectors was implemented in an effective and timely manner. The government also employed revenue-side measures, such as reductions and exemptions of taxes and fees, and extensions of tax and land rent payments (tax deferrals). According to IMF estimates, above-the-line measures including additional spending and foregone revenues amounted to 1.8% of GDP by October 2021, as compared to an average of 4.6% across 142 emerging-market and low-income developing economies (IMF Fiscal Affairs Department, 2021[7]). Against this background, in early 2022, the government adopted an additional monetary and fiscal stimulus package, the Socio-Economic Recovery and Development Programme, amounting to 4.1% of GDP, allocating half of it to investment, which was appropriate. Nevertheless, the implementation of large infrastructure projects in the Programme has not yet started. By early September 2022, only 14% of the whole package had been disbursed. Off-budget measures, such as, exemption of utility bills and tuition fees for affected households, a suspension of social contribution payments, and soft loans provided by state-owned banks, also made a large contribution (0.7% of GDP for 2020-2021, excluding soft loans) compared with spending measures.

Table 1.1. Additional fiscal spending was small during the pandemic

Size of stimulus packages, % of GDP

	2020	2021	2022 and onward
	Implemented	Implemented	Planned
Revenue measures	1.8	1.5	0.8
of which extensions of tax and land rent payment	1.5	1.2	0.8
of which reductions and exemptions of taxes, fees and charges	0.3	0.3	0.1
Spending measures	0.3	1.2	2.6
of which investment	..	..	2.1
Off-budget measures	..	..	0.7
Total	2.2	2.7	4.1

Source: Ministry of Finance.

Table 1.2. Macroeconomic indicators and projections

Percent changes from previous year unless specified

	2021	2022	2023	2024
Output and demand				
Real GDP	2.6	8.0	6.5	6.6
Consumption	2.3	7.2	5.8	5.8
Private	1.9	7.8	6.3	6.4
Government	4.7	3.6	2.5	2.3
Gross fixed investment	3.7	6.0	5.0	5.3
Private	7.8	7.3	6.0	6.3
Government	-6.1	2.4	2.1	2.2
Net changes in inventory (contribution to GDP growth, % point)	1.8	-1.5	-	-
Exports of goods and services	7.4	8.4	5.4	6.9
Imports of goods and services	15.8	2.2	4.3	5.9
Net exports (contribution to GDP growth, % point)	-2.1	2.7	1.1	1.0
Inflation and capacity utilisation				
Consumer price inflation	1.8	3.2	4.3	3.7
Unemployment (% of labour force)	3.2	2.3	2.2	2.1
Output gap (% of potential GDP)	-3.6	-1.6	-1.0	-0.6
Public finances (% of GDP)				
Government fiscal balance	-3.4	-4.3	-3.6	-2.9
Expenditures	21.9	21.2	20.5	20.0
Revenues	18.5	17.0	17.0	17.2
Government gross debt	38.7	38.8	38.7	38.2
External sector and memorandum items				
Trade balance (% of GDP)	4.3	6.3	2.8	2.9
Current account balance (% of GDP)	-2.1	-0.9	0.4	1.2
Nominal GDP (USD billion, at the market exchange rate)	366.1	410.6	451.7	494.4

Note: Data for 2023 and 2024, as well as fiscal data for 2022, are OECD projections. The breakdown of private and government investment are based on OECD calculations. Net changes in inventory include statistical discrepancy. Updated GDP is used to calculate fiscal indicators.
Source: General Statistics Office (GSO); Ministry of Finance; State Bank of Viet Nam; CEIC; OECD Economic Outlook database and OECD projections.

Despite the growing concerns over global trade and supply chain disruptions, the Vietnamese economy is projected to manage to keep its growth momentum from 2022 onward. Real GDP is forecast to grow by 6.5% in 2023 and maintain the speed at 6.6% in 2024 (Table 1.2). Domestic demand will keep gathering pace as sanitary restrictions are being removed. Business investment will be solid as foreign investment is resuming. Government investment, included in the latest stimulus package, is also anticipated to prop up growth. Nevertheless, high energy and food prices are weighing on economic prospects. In particular, although the poverty rate is anticipated to further decline (World Bank, 2022[8]), purchasing power of households is being affected and private consumption growth will be moderate after the strong rebound from the bottom of the third quarter in 2021. The prolonged war in Ukraine is weighing on global trade, and supply chains are being disrupted. Nevertheless, the direct impact of the war on Viet Nam is limited and external demand is expected to be stable. China’s changing COVID policy is adding further uncertainty to regional trade, but this would also help push up Viet Nam’s relative attractiveness as an investment destination. In this context, implementing structural reforms, particularly reforms to improve the business climate, is crucial to realise a robust recovery and to boost growth in the medium term (Table 1.3). However, this requires significant and ongoing efforts. For example, it took almost five years for South Africa to halve the gap with the OECD average in terms of state control, which is captured by the sub indicator of “scope of state-owned enterprises” in the OECD Product Market Regulation indicator (the 2008 and 2013 vintage). Hungary succeeded in closing the gap with the OECD average in the same index but it took almost ten years from the late 1990s.

Table 1.3. Illustrative GDP impact of recommended reforms

Difference in GDP per capita level, %

Measure	Description	1 year after the reform	10 years after the reform
Lower regulatory barriers measured by the overall Product Market Regulation indicator	Fully closing the gap to the OECD average	0.2	1.1
Reduce scope of state control measured by the corresponding Product Market Regulation indicator ("scope of state-owned enterprises")	Closing 1/4 of the gap to the OECD average	3.2	9.2
Lower barriers to trade and investment measured by the corresponding Product Market Regulation indicator ("barriers to trade and investment")	Fully closing the gap to the OECD average	1.0	7.3

Note: Simulations are based on the framework of (Égert and Gal, 2016[9]). The framework assumes that structural reforms affect GDP per capita through changes in multi-factor productivity, capital intensity and the employment rate. The OECD Product Market Regulation (PMR) indicators are used to measure the progress of structural reforms. Coefficients of reform impacts are calculated for each policy measure by using cross-country data covering OECD countries and some emerging-market economies. Results show the effect on the level of GDP per capita 1 year and 10 years after the reform is completed compared to a baseline scenario with no policy changes.
Source: OECD calculations.

Risks are largely tilted to the downside. The global pandemic is not yet over, and the emergence of more contagious virus variants would require re-imposition of strict sanitary restrictions, intensifying supply chain disruptions. If the global economy went into a recession due to rising inflation and the related tightening of monetary policy, as well as the prolonged war in Ukraine, this could severely affect highly trade-dependent Viet Nam. If China's growth decelerates, external demand could become more volatile and experience periods of persistent weakness. Inflation that remains unexpectedly higher than currently anticipated could erode households' purchasing power and stall the recovery, increasing the incidence of poverty. A more rapid monetary policy tightening in advanced economies would put downward pressure on exchange rates and would require an abrupt tightening of monetary policy in Viet Nam, harming the nascent recovery. This would also require fiscal tightening which could further weaken domestic demand. On the upside, stronger than expected growth of the US economy, owing to healthy household and corporate balance sheets, could further boost exports. Amid an increasingly uncertain external environment, foreign investors could also increasingly appreciate the stable investment climate of Viet Nam. These risk factors, both to the downside and upside, add uncertainties to the short-term economic projections. The potential impacts of some low-probability risks that are not assumed in the projection profile are summarised in Table 1.4.

Table 1.4. Events that could lead to major changes to the outlook

External shocks	Potential impacts
Energy crisis	A sudden stoppage of energy imports and extremely high energy prices could harm broader economic activities with hyperinflation.
Pandemics	The emergence of new deadly zoonotic diseases would dent the overall economy and cause large-scale social distress.
Natural disasters	Extreme weather, such as floods and droughts, could overwhelm the existing coping capacity and bring about wide-ranging dislocation of economic activity, including cuts in electricity supply and shortage of food.
Geopolitical crises	The escalation of tensions or other serious social unrest in the region would entail long-lasting supply chain disruptions and deteriorate sentiment of foreign investors.

Substantial policy space could be used if downside risks eventuate

In the short run, the policy priority is to prevent domestic demand from contracting, particularly household consumption which accounts for nearly 70% of GDP. As the recovery is under way and inflationary pressures are rising, further expansionary fiscal support is not required. In addition to cutting the value-added tax rate (from 10% to 8% between February and December 2022), the government cut the environmental protection tax, which is a tax on fossil fuels, by 50% from April 2022 and an additional 25% from July (effective until December 2022). The tax rate of the preferential import duty was also reduced for unleaded motor gasoline from August 2022 (from 20% to 10%). Nevertheless, as a gradual fiscal consolidation is required (see below), including through increasing the collection of government revenue, such measures are not desirable in the medium-term. If high inflation remains more persistent than currently expected, a targeted approach to fiscal support that does not encourage demand for fossil fuels would be preferable. An example would be cash transfers that are limited to vulnerable households. Viet Nam has an annually updated poverty list, "Poor List". Previous studies suggest that, although better than in other emerging market economies, the list has some leakages (Kidd et al., 2016[10]), and this should be improved by cross-referencing different administrative information using digital technologies. A large number of people do not pay taxes (mostly due to low incomes) and this limits the use of the tax database for tightly targeting fiscal transfers, although it has already been digitised. Since the onset of the pandemic, the government has been accelerating the digitalisation of a citizenship database (i.e. personal identification). This could be linked to other databases, such as those for social security and health insurance, in order to improve targeting. Supporting the capacity building of local governments is also crucial as they are the entities of actual implementation. At present, there are considerable differences between regions in the capacity of local governments. Moreover, public investment projects should be executed as planned in order to avoid any unanticipated demand fluctuations. In particular, transportation infrastructure that supports logistics and inter-regional connectivity should be accelerated given the potential for further supply disruptions. The 2019 Law on Public Investment simplified procedures and strengthened the decentralisation of investment management, which is conducive to facilitating budget disbursement (Madani, Nguyen and Nguyen, 2021[11]). Further simplification of procedures and regulation should be considered. Nevertheless, acceleration of public investment should not come at the expense of the quality of investment projects. Budget allocation could better take into account local governments' implementation capacity, which considerably varies between jurisdictions (Madani, Nguyen and Nguyen, 2021[11]). In this regard, a framework for *ex post* evaluation introduced in the previous 2014 Law on Public Investment should be applied more actively to domestically funded projects of local governments in the medium term, as it is rarely conducted (World Bank, 2018[12]).

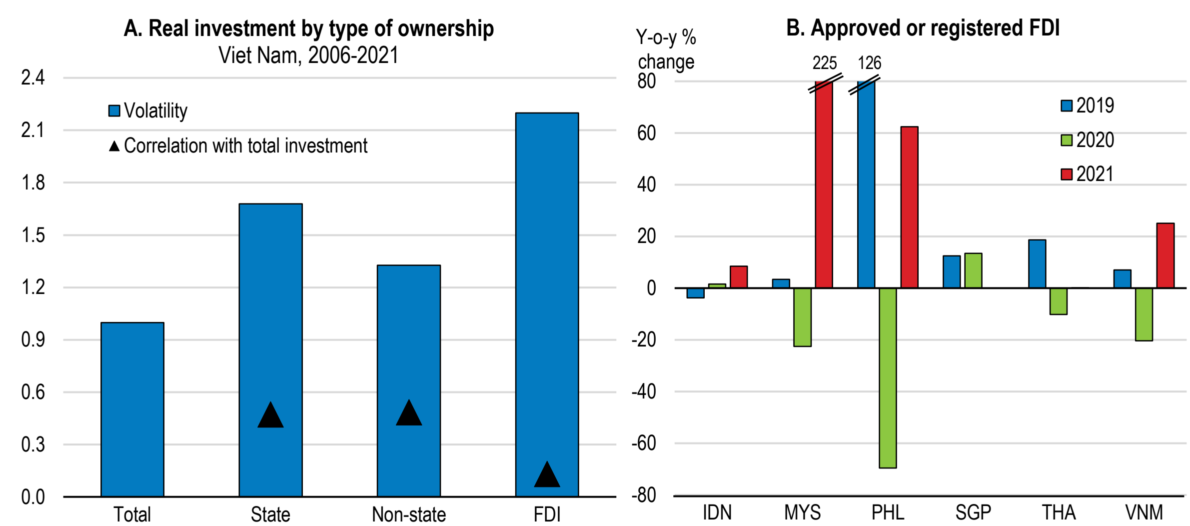
Public healthcare capacity should also be enhanced to prepare for possible large-scale COVID-19 outbreaks. Sufficient public healthcare capacity is also crucial to avoid severe restrictions, which have implications for sentiment of households and businesses. During the pandemic, healthcare facilities were under significant strain in some areas, especially in the third quarter of 2021, and this made it inevitable for the government to adopt strict sanitary measures. As soon as the restrictions were eased in October 2021, a number of people living in urban areas ("urban migrants") returned to their hometowns because of lockdown fatigue. Indeed, one previous study suggests that some urban migrants put more emphasis on quality of life than monetary earnings (Luong, 2018[13]). Ineffective coordination between the central and local governments in some cases caused disruptions in domestic food supply chains, and complicated procedures slowed the disbursement of cash handouts. As of mid-December 2021, approximately 2.2 million urban migrants left their living places, resulting in a shortage of labour during the initial stage of economic re-opening in the urban areas, where most industrial capacity exists.

Improving the management of budget disbursement has become increasingly important to strengthen the effectiveness of fiscal policy, notably its counter-cyclicality. In 2020, while additional fiscal spending in the stimulus packages was small, the government accelerated the disbursement of the planned budget. As a consequence, while the actual current expenditure increased less than the initial plan (the actual nominal growth was 2.5% and the planned was 12.1%; planned growth is the changes from the final budget of the previous year), government investment ("development investment") rose much higher than planned (36.6%, while planned was 11.6%). This appropriately supported the economy. In contrast, according to the latest budget estimates, the actual spending considerably slowed in 2021, despite the adoption of additional stimulus packages. While current expenditure increased by 4.8%, government investment plummeted by 10.5%. This was partly due to a lack of labour, increasing costs of construction materials and physical constraints associated with the severe lockdowns, and the rebound from the high spending levels in the previous year. In general, budget disbursements should not be interpreted as real progress in public work and government consumption as there are always execution lags. Nevertheless, the significantly volatile fiscal spending implies inefficient management of budget disbursement. Indeed, in

Viet Nam, differences between planned budget and actual spending are large (see below). The gap has been caused by various factors. Coordination not only between ministries but also between different levels of governments should be improved. In particular, budget carryovers from the previous year are still large despite government efforts to reduce them, including the introduction of the Law on State Budget 2015, which aims to narrow the scope of carryover expenditure. The quality of budget planning, including the accuracy of revenue and spending estimation, and implementation could be improved (IMF, 2022[14]).

Stimulating foreign investment is also a priority. Although its fluctuations have a small impact on overall investment trends due to its small share in total investment (approximately 20%), foreign investment is more sensitive to general economic conditions (Figure 1.9, Panel A). Some Southeast Asian countries saw a strong upsurge of foreign investment (registered capital) in 2021, more than offsetting the contraction in 2020 (Figure 1.9, Panel B). On the other hand, Viet Nam's rebound in 2021 was rather moderate, partly due to the severe lockdown in the third quarter of 2021. Southeast Asian countries have implemented policies to improve their business climate even during the pandemic. The Philippines, where a large rebound was recorded in 2021, pledged to reduce corporate tax rates from 2021, and recently decided to open up services markets further. Viet Nam has already reduced multiple *de jure* barriers to foreign entry. Nevertheless, more could be done, particularly for implementation. In Viet Nam, FDI management, such as licensing, is under the remit of provincial governments. However, the administrative capacity varies between provinces, potentially creating additional costs for businesses. Coordination between central and provincial governments could also be enhanced. In addition to capacity building, more involvement of local governments in national policy-making process would be helpful (Tran, 2019[15]). Moreover, foreign investment often necessitates the cross-border flow of skilled foreign workers. While pandemic-induced border closures have been lifted, Viet Nam has scope for reducing restrictions on cross-border mobility of skilled workers as suggested by the OECD Services Trade Restrictiveness Index (see Chapter 2). Promoting foreign investment in sectors which can support decarbonisation efforts, such as the renewable energy and transport sector, can have positive effects on the green transition through various channels, including via technology spillovers (OECD, 2022[16]). This requires not only strengthening policies that provide favourable conditions for climate-friendly investment, such as investment incentives or promotion, but also setting up domestic environmental standards (e.g. fuel efficiency regulations) that are well aligned with national climate objectives.

Figure 1.9. The pandemic affected FDI inflows differently between Southeast Asian countries



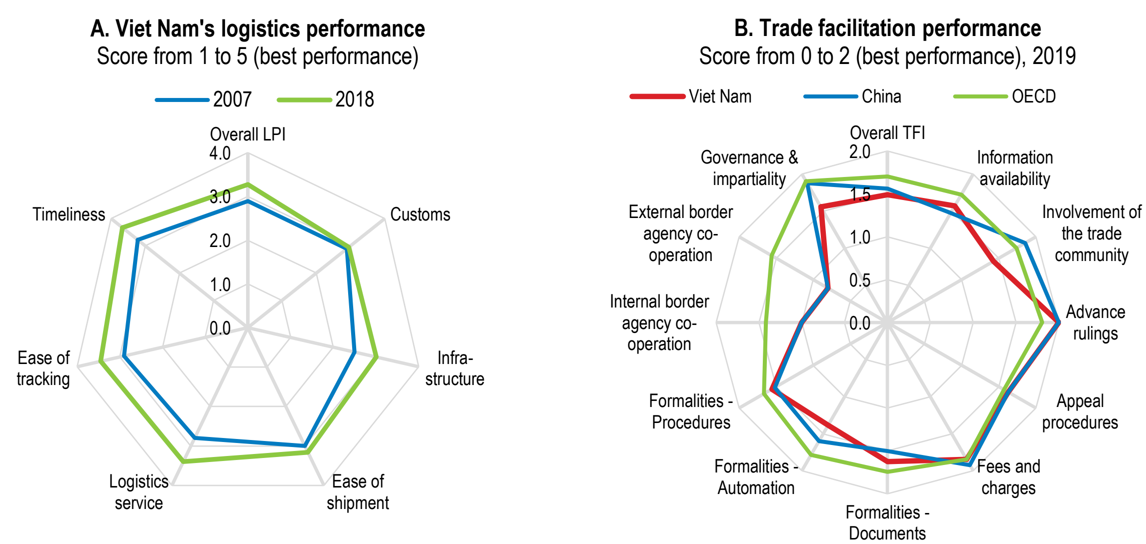
Note: For panel A, the annual growth rates of investment are used for calculation. Volatility is defined as the coefficient of variance. For panel B, 2021 data is not yet available for Singapore.
Source: CEIC.

StatLink https://stat.link/k79pg5

Recent supply chain disruptions underscored the importance of trade facilitation. Trade facilitation can also help remove obstacles to economic re-opening towards full capacity. Viet Nam has made substantial progress since 2015 when the country ratified the Trade Facilitation Agreement of the World Trade Organisation (Figure 1.10, Panel A). Integrated information systems, the National Single Window and the ASEAN Single Window, were successfully introduced by the strong National Trade Facilitation Committee (UNCTAD, 2020[17]). Nevertheless, there is scope for improvement. Specialised inspection, which is a border clearance procedure conducted by line ministries for 30-35% of traded goods, is time-consuming (USAID, 2021[18]). The government is planning to issue a Decree to harmonise procedures for imported goods. To realise effective implementation, strengthening coordination and monitoring functions of the National Trade Facilitation Committee is crucial, both at the national and regional levels. Currently, the Committee is focused on the operation of Single Windows (USAID, 2021[18]). Expanding stakeholder engagement especially with SMEs, which would benefit most from trade facilitation, can make the Committee's policy coordination and monitoring more effective, as it will give more up-to-date demand-side information to the Committee.

Moreover, compared with other trade facilitation measures, progress in cross-border coordination is slow (Figure 1.10, Panel B) (Ha and Lan, 2021[19]). Even during the pandemic, the implementation of trade facilitation advanced in a number of countries, including in the Southeast Asian region (Asian Development Bank, 2021[20]), but this did not necessarily entail greater cross-border cooperation. Regional cooperation could bring about more benefits than unilateral efforts, in particular for highly trade-dependent countries, such as Viet Nam. While infrastructure connecting countries in the region has been developed, trade facilitation measures specific to land transport between countries are still weak. In response, the Great Mekong Subregion Cross-Border Transport Facilitation Agreement (GMS-CBTA), a legal framework to facilitate cross-border land transport in the region, has been ratified by Cambodia, China, the Lao PDR, Myanmar, Thailand, and Viet Nam (Asian Development Bank, 2021[21]). The GMS-CBTA is expected to remove barriers through information exchange and policy harmonisation, and Viet Nam should be more active in implementing this programme.

Figure 1.10. Viet Nam's trade facilitation performance could be further improved



Note: The overall LPI is a summary indicator of logistics sector performance, combining data on six core performance components. The 2019 trade facilitation performance series introduces new measures across all dimensions and particularly in the area of external and internal border agency co-operation, procedures, automation, documents, information availability and involvement of the trade community.
Source: World Bank, Logistics Performance Index, https://lpi.worldbank.org/; OECD, Trade Facilitation Indicators, http://www.oecd.org/trade/indicators.htm.

StatLink https://stat.link/ewlmc7

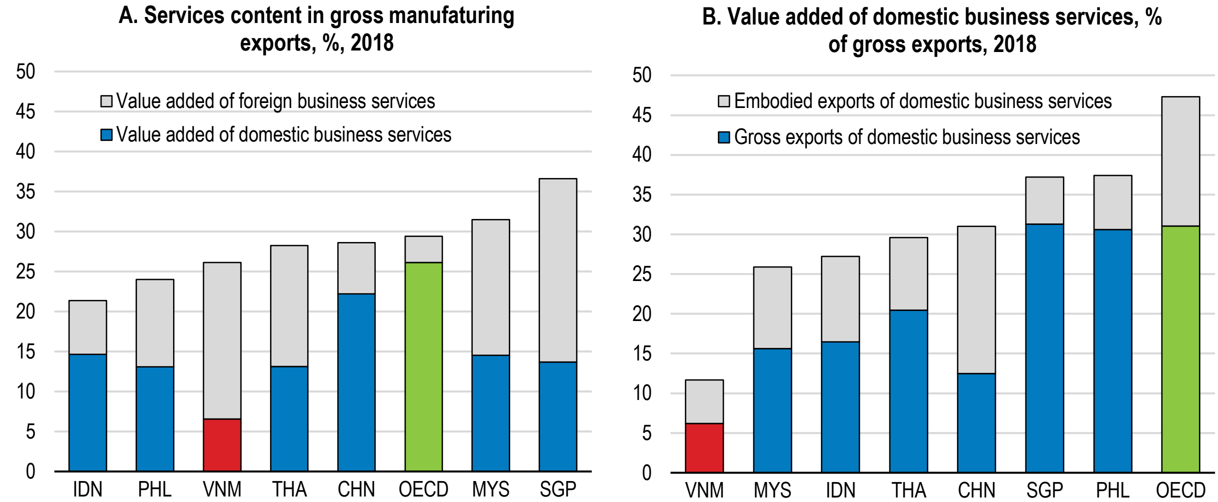
Trade integration should be deepened further. Similar to other ASEAN countries, Viet Nam has actively been participating in a number of preferential trade agreements. At present, 15 agreements are in force (seven made by ASEAN) and two others are being negotiated. Viet Nam benefits greatly from pursuing free and open trade with wider regions. Vietnamese businesses now have access to markets more extensively and intensively than before. Consumers and businesses are also better off from Viet Nam's open markets with a variety of imported goods and services now available at lower prices. Indeed, previous studies suggest that the recently enforced Comprehensive and Progressive Agreement for Trans-Pacific Partnership and the Regional Comprehensive Economic Partnership, large preferential trade agreements in Asia Pacific region, will push up Viet Nam's aggregated real income by 3.4% and 1.0% respectively compared with the baseline in the next ten years – one of the largest impacts among ASEAN countries (Park, Petri and Plummer, 2021[22]).

An open, diversified and transparent trade system can also provide a basis for economic resilience. At the beginning of the pandemic, a strong surge in demand caused global shortages of personal protective equipment. However, overall global value chains (GVCs) acted to cushion the impact, as in previous catastrophic events, such as the Great East Japan Earthquake and severe floods in Thailand in 2011 (OECD, 2020[23]). For example, global production and trade of essential goods, such as face masks increased rapidly to meet demand. Indeed, previous studies suggest that localisation and re-shoring would be likely to lower the levels of real GDP and stability in the face of shocks (OECD, 2021[24]). The business sector is in an essential position to enhance its own supply chains. Stable, transparent and predictable trade and investment policy can facilitate diversification of GVCs and reduce uncertainty for businesses (see Chapter 2). Governments can also invest in critical infrastructure to secure essential flows of products, people and information.

The services sector can play a more important role in Viet Nam's international trade, not least through indirectly exporting their products through manufacturing goods. Services inputs, such as marketing and design, are important determinants of manufacturing competitiveness. Moreover, information and communication technologies have blurred the boundary of manufacturing and services. Different from traditional manufacturing goods (e.g. fabrics and steel), modern manufacturing goods contain considerable services elements (e.g. operating systems in computers). Indeed, the value-added of business services embodied in manufacturing goods accounts for nearly 30% of total value-added of manufacturing exports from OECD countries (Figure 1.11, Panel A). However, manufacturing exports from Viet Nam embody smaller amounts of services and the share of domestically produced services is much smaller. Looking forward, there is scope for Viet Nam to increase the value-added of its manufacturing exports by increasing product sophistication with domestically supplied services inputs, such as quality design and software. The digital transformation is one of the key determinants to deepen the sophistication of domestic production. In this regard, foreign direct investment in digital sectors can help promote the digital transformation of the domestic economy. To attract digital FDI, Viet Nam needs to further improve the business climate, including for the digital economy, such as privacy protection, and digital skills of workers (Matthew, 2020[25]) (see Chapter 2).

There is also the potential to increase direct exports of Vietnamese services. A number of countries have expanded their direct exports of business services, such as financial and ICT servicers, whereas Viet Nam somewhat lags behind (Figure 1.11, Panel B). Expanding direct service exports will diversify and strengthen Viet Nam’s integration to international trade. To nurture the services sector, improving the business climate is particularly crucial (see Chapter 2). In this regard, preferential trade agreements that encapsulate services can be a strong driving force for domestic services market reforms (OECD, 2020[26]). In addition, as services are more labour intensive than manufacturing, developing skills should be a priority. Some business services, such as financial and consultant services, are digitally deliverable and trade in such items has been expanding (Asian Development Bank, 2022[27]). Therefore, improving digital skills from the currently low levels will be conducive to developing business services sectors (see Chapter 2).

Figure 1.11. Business services account for a small share in Viet Nam's exports



Source: OECD, Trade in Value Added database.

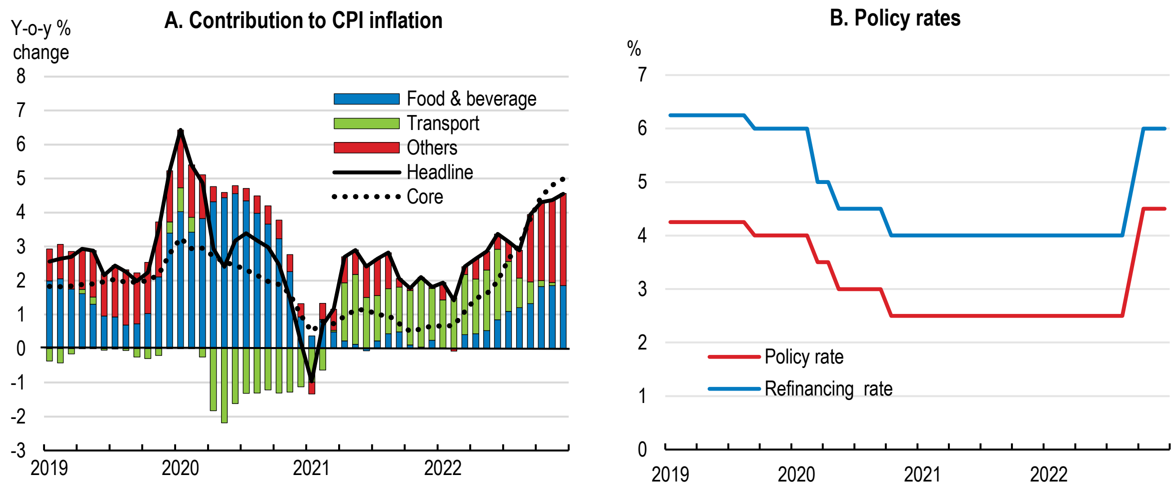
StatLink https://stat.link/9obfqc

Monetary policy needs to keep inflation expectations well anchored

Viet Nam has a unique monetary policy framework together with a managed float system of currency exchange. Its central bank, the State Bank of Viet Nam, is a ministerial organisation of the central government, and its independence is not explicitly defined. The governor is a member of Cabinet appointed by the National Assembly based on the Prime Minister's proposal. The policy objective of monetary policy is the stability of the currency denoted by the inflation rate, and the National Assembly is responsible for monetary policy, including determining policy targets based on the government's projections. In addition to inflation, credit growth targets are also set and annually reviewed. As the policy implementation body, the central bank sets policy rates, the refinancing rate and discount rate. It also imposes credit growth ceilings to banks individually (see below). The central bank manages the exchange rate with regard to a basket of some major foreign currencies and guides its daily fluctuation within the pre-announced bands for the US dollar (USD) (currently ±5%).

From the onset of the pandemic to mid-2022, monetary policy was largely supportive of growth. The real interest rate on 10 year government bonds was 0.4% in the first seven months of 2022 compared with 1.5% in 2019. This accommodative stance of monetary policy was appropriate in the low inflation environment, with headline inflation remaining stable over the past two years. Low energy prices during 2020 offset a food price hike stemming from outbreaks of African swine fever (Figure 1.12, Panel A). While energy prices rebounded in 2021, core inflation was subdued amid weak demand constrained by sanitary restrictions, particularly through the middle of the year. Responding to the economic slowdown caused by the lockdown measures within and outside of the country in early 2020, the central bank had reduced the refinancing rate from 6% to 4% between March and October 2020 (the discount rate from 4% to 2.5%), and maintained its accommodative policy stance (Figure 1.12, Panel B). In the same period, the central bank also reduced interest payments offered to buy security instruments through open market operations (OMO) from 4% per annum to 2.5%. The stable exchange rate has also helped tame inflation. While the currencies of other Southeast Asian countries experienced a large swing between depreciation and appreciation in the foreign exchange market, the Viet Nam dong (VND) has been less volatile.

Figure 1.12. Monetary policy has been supportive of growth, while inflation has been stable



Source: CEIC.

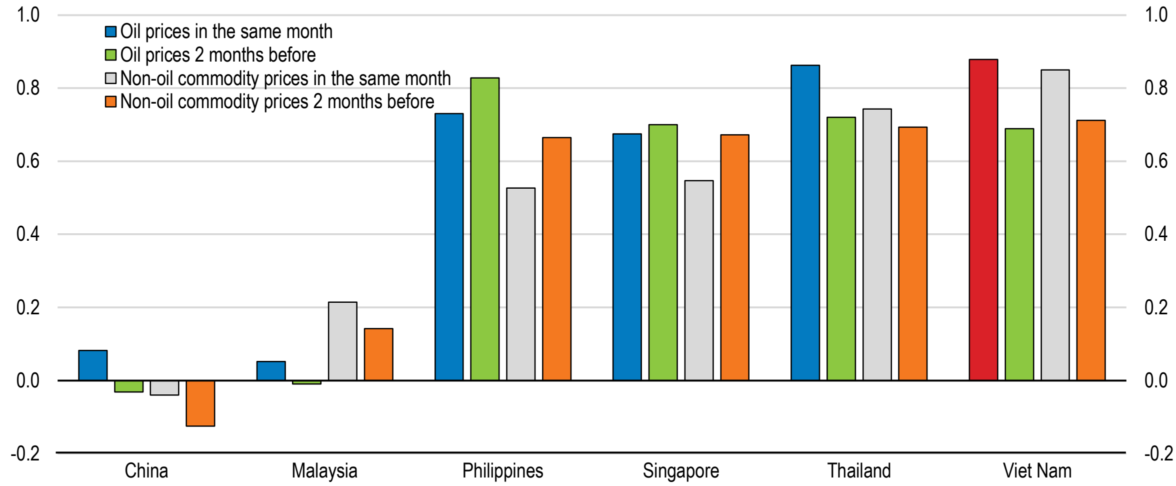
StatLink https://stat.link/gsc0l3

Both headline and core inflation have picked up since early 2022. In addition to economic reopening, the war in Ukraine has been pushing further up energy and commodity prices, which already started rising in 2021. Like other net importers of energy or commodities, Viet Nam's headline inflation is susceptible to the swings of such commodities on international markets (Figure 1.13). Although less than in countries with fully floating currency regimes (i.e. where currencies weaken), rapid increases of import prices would raise input prices, affecting broader inflation. Moreover, although economic slack still remains, demand has picked up rapidly following the removal of most sanitary restrictions by early-2022. Some upstream prices have already risen. The producer price index for manufacturing increased by nearly 4% (year-on-year basis) from the fourth quarter of 2021, the highest increase since 2013. As discussed earlier, the government temporarily reduced the environmental protection tax on fossil fuels from April 2022, in addition to the already-determined cut in the value-added tax rate. In addition, the government is considering reducing the value-added tax and special consumption tax on fossil fuels. However, a more targeted approach, notably cash transfers to vulnerable households would help ensure that further support does not excessively stimulate demand. In addition, such an intervention would not encourage demand for fossil fuels to the same extent as the reductions in taxes on fossil fuels.

Food prices will be an important determinant of future overall inflation. Similar to other Southeast Asian countries, food accounts for a large share of the household consumption basket (CPI weight: Viet Nam 33.6%, Malaysia 28.4% and Thailand 40%). The current increase of inflation has mostly been led by the increase of "transportation" prices, reflecting higher energy prices, although its pace has become moderate since August 2022. Prices of other items, including "housing and construction materials" that contains energy inputs and "foods and foodstuffs" have also begun edging up, but the increase of food prices has been moderate compared with other Southeast Asian countries (Figure 1.14). In particular, while the prices of "eating outside" have been increasing (7% y-o-y in September), the increase of "foodstuff" prices (i.e. food such as perishables, that has a CPI weight 21.3%) has been moderate (3% y-o-y in September). Viet Nam's high self-sufficiency of staples, such as rice, could contribute to more moderate price increases of foodstuff compared with some other countries. However, Thailand, whose food-sufficiency is similarly high, has already seen the price of "raw food" rising significantly (11% y-o-y in September). Prices of perishable foods are affected by local weather conditions but also costs of various inputs, such as fertilisers as well as energy which are largely determined in global markets. The war in Ukraine has been pushing up international prices of fertilisers. Prices in urban areas, which often lead price developments in the country as a whole, are picking up (foodstuff in Hanoi increased 5% y-o-y in July followed by 3% both in August and in September).

Figure 1.13. The increase in global energy and commodity prices has pushed up inflation

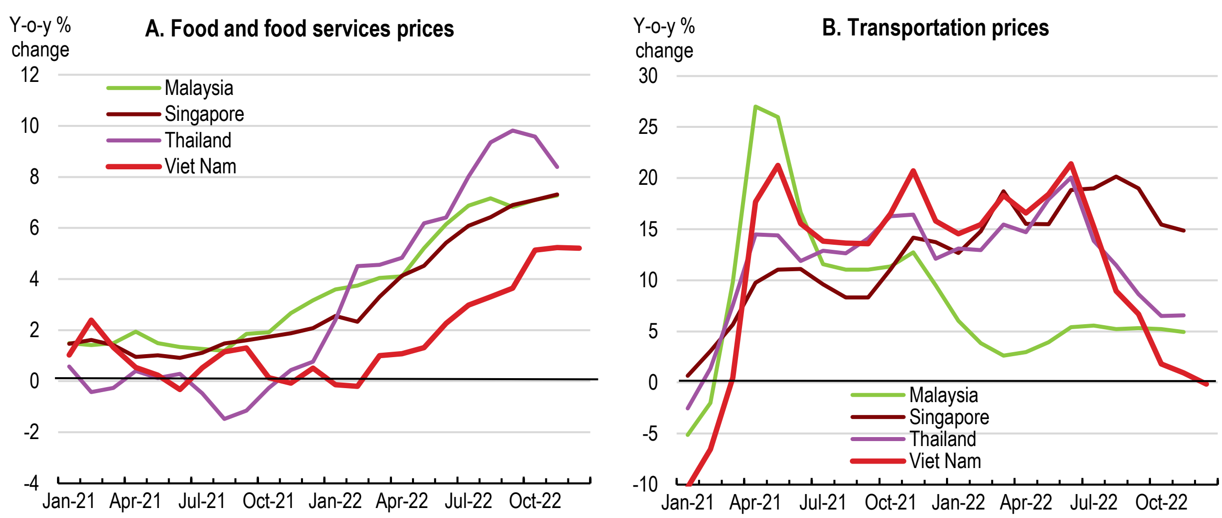
Correlation between the consumer price index and the oil and non-oil commodity prices, January 2015 - December 2019



Note: Correlation coefficients are calculated for the year-on-year changes of consumer price index and the global oil (Brent) or non-oil commodity prices. The coefficients vary between 1 and -1, with a value closer to 1 (respectively -1) means positive (respectively negative) correlation. 0 means no correlation.
Source: CEIC; OECD, Economic Outlook database.

StatLink https://stat.link/9jsocr

Figure 1.14. Both food and energy prices are increasing in Southeast Asian countries



Note: Panel A: Viet Nam does not include non-alcoholic beverages.
Source: CEIC.

StatLink https://stat.link/kbmuph

Going forward, monetary policy needs to be vigilant against upward risks to inflation, while seeking for gradual normalisation of its policy stance over the projection period. Under the assumption of continued economic recovery, the policy rates would surpass the pre-pandemic levels towards end-2023, while inflation is forecast to be 4.3% in 2023, before slightly slowing to 3.7% in 2024. The central bank already started to change its policy stance amid increasing inflationary pressures and currency depreciation. The policy rates were raised both in September and in October 2022 (the refinancing rate was raised from 4% to 6% and the discount rate from 2.5% to 4.5%). In addition, in October 2022, the central bank widened the range of daily exchange rate fluctuation from ±3% to ±5%. The uncertain external environment poses a difficult dilemma for the path of normalisation and necessitates a clearer division of labour between monetary and fiscal policies. Monetary policy should focus on price stability, while fiscal policy should support vulnerable groups in light of higher energy costs. Delaying unwinding of the highly accommodative stance of monetary policy would increase the risk of higher inflation expectations becoming embedded. As formal employees are not the majority of workers, official wage indicators are not necessarily a good indicator of impending inflation pressures in Viet Nam. Nevertheless, wages have increased rapidly partly due to the slow recovery of labour supply (the minimum wage was raised in July 2022 by 6% on average). Moreover, differences in interest rates between major trading partners may put downward pressure on the currency, further pushing up domestic inflation. However, the continued and intensified war in Ukraine will weaken external demand and high energy and food prices will erode purchasing power of households and profit margins of businesses. Although economists that participate in the Consensus Economics Survey (the sole measure of inflation expectations) expect inflation to moderate to 2.8% on average in 2024 (as of October 2022), it ranges from 2.5% to 5.5%. This suggests that the inflation outlook is highly uncertain, but monetary policy may need to tighten earlier than currently anticipated if there are signs that the upside risks materialise.

In the medium- to long-term, Viet Nam could consider reviewing the monetary policy framework and exchange rate regime to further enhance economic resilience along with its economic development. Similar to Viet Nam, a number of emerging market economies adopt integrated monetary policy frameworks that use foreign exchange intervention and/or capital flow management tools as key monetary policy instruments in addition to interest rates. Emerging market economies tend to be vulnerable to external shocks, such as swings in cross-border capital flows and this poses policy dilemmas. For example, lower policy rates to deter large capital inflows may overstimulate domestic demand and raise asset prices, increasing financial market instability. Integrated policy frameworks could mitigate these policy trade-offs under certain conditions, such as vulnerability to external shocks (Adrian et al., 2020[28]). Indeed, previous studies suggest that, under Viet Nam's current policy framework that combines foreign exchange intervention and credit growth guidance, fluctuations of economic indicators, such as inflation, to external shocks is likely to be smaller compared with a policy framework solely relying on interest rates (Epstein et al., 2022[29]). Nevertheless, long-term potential costs of this policy framework would also need to be considered. For example, exchange rate intervention and capital controls could delay further developments in financial markets which have become important for Viet Nam (see below). Past international experience suggests that foreign exchange intervention could also affect investors' assessment of currency risks and heighten potential vulnerabilities in the financial market. If movements in the foreign exchange market are structural, intervention would not be effective in stabilising the exchange rates.

Against this background, Viet Nam could consider modernising its monetary policy framework, narrowing policy targets, and moving to a more flexible exchange rate regime once the financial markets are liberalised and developed further. A number of eastern European countries have successfully made such a transformation in their monetary and foreign exchange frameworks. As Viet Nam's linkages to global trade further expand, it will be particularly crucial to adopt a more flexible foreign exchange regime. A flexible exchange rate regime allows the currency to depreciate when the terms of trade worsen, which makes exports more competitive and thus can cushion the external shock, while a fixed exchange rate system cannot (Broda and Tille, 2003[30]). Moreover, under rigid exchange regimes, domestic financial conditions are more likely to be affected by global financial shocks than under flexible regimes (Obstfeld, Ostry and Qureshi, 2017[31]), and tighter fiscal discipline is required to avoid current account imbalances (Khatat, Buessing-Loercks and Fleuriet, 2020[32]). Transition to a more flexible exchange rate regime will allow the State Bank of Viet Nam to focus on narrower policy targets, notably the inflation target, which can contribute to more stable macroeconomic conditions. This policy transition should be made in tandem with enhancing central bank independence (IMF, 2019[33]). Currently, operational independence is loosely defined, as both the Prime Minister and the Governor can determine administrative tools and measures of monetary policy. To this end, establishing a collective decision-making body (i.e. monetary policy committee) which is appointed by the National Assembly and given operational autonomy independently from the Cabinet will be necessary (National Assembly Economic Committee, 2012[34]). Inflation is lower and more stable in countries where central banks conduct monetary policy independently. According to the Prime Minister's Decision No.986/QD-TTg on the "Development Strategy of Vietnam Banking Sector to 2025, with Orientations to 2030" issued in 2018, the government considers gradually increasing the independence of the State Bank of Viet Nam in its conduct of monetary policy. Moreover, enhancing the banking sector is essential for a better functioning of transmission mechanism for monetary policy (see below). The interbank market also needs to be developed further. Currently, due to the thin trade volume, interbank rates are volatile.

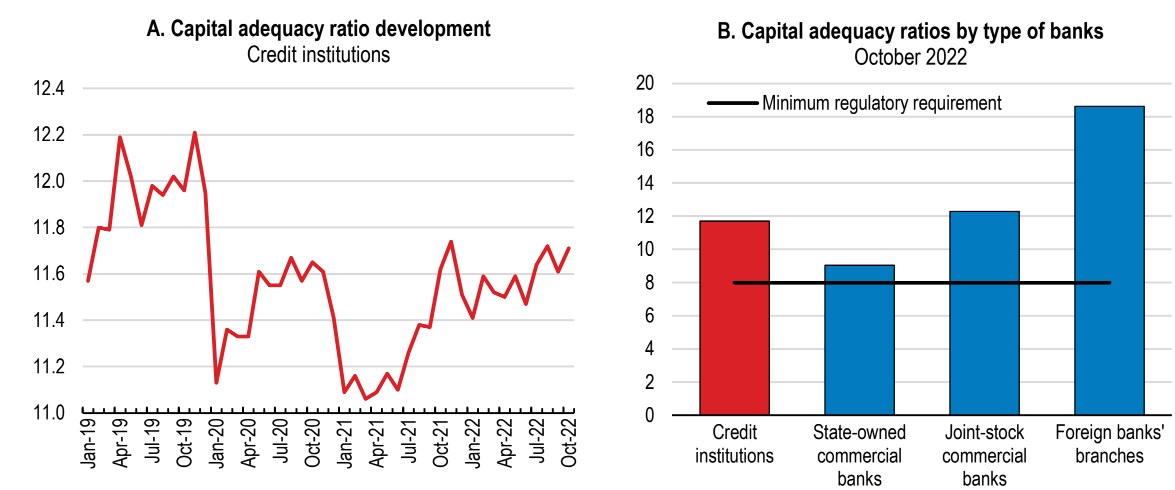
Financial markets need to be strengthened for smooth resource reallocation

Banks are resilient, but need to closely monitor the rise of non-performing loans

Viet Nam's banking sector was well-prepared when the pandemic hit, thanks to past efforts to improve the sector's resilience (World Bank, 2021[35]). In the wake of the Global Financial Crisis, while the economy kept growing overall, banks suffered from a rise in bad debts following a boom and burst in the housing market. In 2012, the government adopted a roadmap to reform the banking sector, reducing the number of institutions. Although not a signatory, the government announced in 2016 that major banks would need to meet regulations similar to Basel II by January 2020 (extended to 2023 due to the pandemic). At the same time, Viet Nam stepped up its non-performing loan (NPL) resolution framework. The Viet Nam Asset Management Corporation (VAMC) was set up in July 2013, and a new bankruptcy law adopted in 2014. Resolution 42, which gives more autonomy to debt buyers, was adopted in 2017 as a pilot policy framework.

During the pandemic, the central bank introduced temporary measures to support affected households and businesses. A debt restructuring programme was adopted in 2020 (Circular 01 issued in 2020) and then extended twice (Circular 03 and 14 issued in 2021). While debt restructuring is implemented, banks do not need to change (i.e. downgrade) the classification of restructured loans. Sufficient capital buffers allowed banks to effectively implement debt restructuring without experiencing financial stress. Capital adequacy ratios have slightly declined but not deteriorated (as of March 2022, the capital adequacy rate requirement of 8%, which is compatible to Basel II, was applied to 85 institutions out of 96 commercial banks) (Figure 1.15). Nevertheless, to avoid worsening the profitability and capital buffers of the banking sector, banks have been requested to pay dividends to shareholders in shares rather than in cash. In addition, preferential loans were provided to affected sectors by state-owned banks.

Figure 1.15. Most commercial banks seem to have sufficient capital buffers

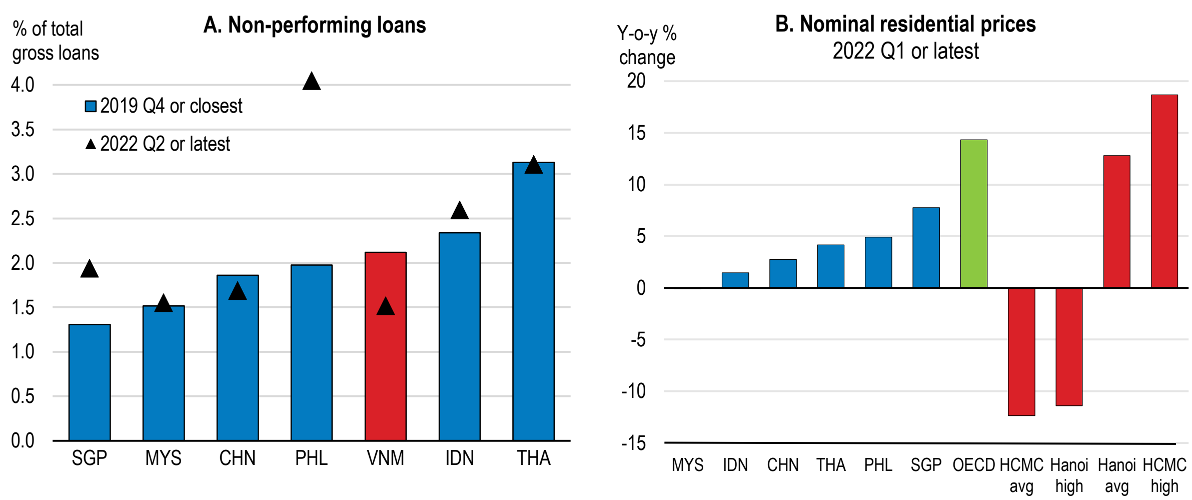


Source: CEIC and State Bank of Viet Nam.

StatLink https://stat.link/lrsgot

As these emergency treatments, particularly debt restructuring, have been removed along with the economic recovery, enhanced supervision has become more important. The construction, trade and services sectors, which have been affected severely by the pandemic, accounted for large share of bank loans outstanding (9%, 24% and 38% respectively at the end of 2021, while manufacturing was 19%). Nevertheless, the on-balance sheet non-performing loan (NPL) ratio has been low and stable, although it edged up slightly in 2020 and early 2021(Figure 1.16, Panel A). The quick economic recovery has helped contain the NPL ratio, but the temporary measures could also conceal the worsening of asset quality. For example, estimates by the IMF suggest that the NPL ratio, which includes off-balance sheet NPLs enshrined in the Viet Nam Asset Management Corporation, would rise by around 2.5 percentage points from 2019 to 2020 if regulatory forbearance were not taken into account (IMF, 2021[36]). The temporary measures would unnecessarily help nonviable businesses survive for a longer time, deteriorating bank profitability. This could also hinder a better resource allocation in the whole economy through resources being tapped in low performing firms. As the temporary debt restructuring measure expired in June 2022, loan quality should be adequately recognised and banks need to make necessary provisions or write-offs in accordance with the debt classification applied to normal economic conditions, while avoiding a deterioration of their balance sheets. To this end, the State Bank of Viet Nam needs to enhance supervision of individual banks.

Figure 1.16. The economic recovery has helped to manage non-performing loans



Note: Panel B: data for Malaysia is -0.10. For Viet Nam, data shown refer to the high-end market and the average prices in Ho Chi Minh City and Hanoi.
Source: Panel A: IMF, Financial Soundness Indicators database; Monetary Authority of Singapore; and State Bank of Viet Nam. Panel B: BIS, Property Prices; OECD, House Prices Indicators database; CBRE and Cushman-Wakefield for Viet Nam.

StatLink https://stat.link/vtbd8z

In addition, market-based solutions for NPLs could also be further strengthened. Compared with on-balance solutions, such as stringent provision or write-offs, removing NPLs from banks' balance sheets through direct sales could avoid deterioration of bank capital and profitability (OECD, 2021[37]). Viet Nam has already moved in this direction. In April 2022, the effective period of Resolution 42 was extended from August 2022 to the end of 2023. Nevertheless, there is scope for improvement (Nguyen, 2021[38]). As asset seizure relies on *bona fide* cooperation of debtors, creditor rights could be further enhanced by stipulating clearly in regulation that ordinary investors can seize collateral without court arbitration (Asian Development Bank, 2021[39]). Entry of foreign investors could be more encouraged by easing restrictions related to property ownership. In addition, the Viet Nam Asset Management Corporation (VAMC) could focus more on direct purchase of NPLs, so that it would benefit from scale economies (Hoang, Nguyen and Le, 2020[40]). The VAMC can buy NPLs from credit institutions either directly at market value or in exchange for special bonds. In the latter case, the VAMC's role is passive, just supporting NPL resolution by credit institutions, and unresolved debts will be returned to the credit institutions after five years, which means that NPLs are not permanently transferred but tentatively ring-fenced in the VAMC. To strengthen the VAMC's leverage, its charter capital has increased from VND 500 billion to 5 trillion between 2013 and 2019, but should be further increased, as it is smaller than total NPLs in the whole banking system (VND 424 trillion as of August 2021, as identified under Resolution 42 (Nguyen, 2021[38])). The authorities should also consider reducing charter capital after a pre-determined period in order to facilitate overall NPL resolution processes.

The government could establish more enabling environments for the functioning of the NPL market. Insolvency processes should be sped up, as slower bankruptcy procedure could increase risk premiums and thus lower asset value (OECD, 2021[37]). It has been pointed out that, in Viet Nam, the process of court decision and its enforcement concerning NPL resolution is often lengthy and delayed with backlogs (Asian Development Bank, 2021[39]) (Nguyen, 2021[38]). Viet Nam could consider introducing a fast-track process and improving out-of-court procedures in the context of a more comprehensive insolvency framework for businesses and households (see Chapter 2). The current court process for bankruptcy is rarely used as it is cumbersome and time-consuming. Moreover, a number of European countries established a platform that collects NPL data and serves as a central data warehouse (OECD, 2021[37]). These platforms help improve market transparency, so that they can expand diversity of transaction assets and induce new investors. In 2021, Viet Nam launched a trading floor to nurture the secondary NPL market. The remit of this NPL exchange could be expanded to the collection and storage of debt data.

Data collection and dissemination related to real estate market conditions also need to be improved. Like in many other countries, monitoring property market developments is essential for formulating financial market policy, as there are a range of potential ramifications, including for household wealth and banks' balance sheets. Indeed, the State Bank of Viet Nam instructed banks to watch lending quality to the real estate sector over the past years. Although there are some differences, such as availability of regional data, a number of countries publish residential property price statistics (Scatigna, Szemere and Tsatsaronis, 2014[41]). In particular, these price data provide essential information for the implementation of macroprudential policy. In Viet Nam, the government has collected information on the real estate market since 2015. Nevertheless, official statistics on property prices have not yet been compiled (IMF Statistics Department, 2019[42]), and it is crucial to develop these statistics, particularly residential property prices. The other ASEAN-6 countries regularly publish residential property price statistics (the Philippines started publishing from 2016) (Figure 1.16, Panel B). Timeliness of data will be particularly crucial. Most countries release quarterly data within three months from the reference period. Compared with residential property, commercial property price statistics are difficult to compile due to heterogeneity of market segments and scarcity of representative transaction data (Deryol et al., 2019[43]). Only a handful of countries publish these statistics, including Indonesia and Singapore. Based on Decree 117, Viet Nam gathers information of the commercial property market. It would be useful to explore the usage of administrative data related to commercial property for monitoring market developments.

The financial markets can be further developed through liberalisation

In the medium term, Viet Nam could pursue a system-wide reform to the banking sector with the aim of facilitating credit allocation to more productive sectors. Currently, a number of regulations are implemented as part of prudential measures. In addition to the annual credit growth target at the national level, the State Bank of Viet Nam assigns a credit growth ceiling to individual banks based on their qualifications. Open-ended and less-than-six-month termed deposit rates and short-term lending rates for priority sectors are capped. The individual credit growth ceiling was introduced in the wake of the Global Financial Crisis, when ample liquidity associated with currency interventions caused asset overvaluation (Tran-Thi and Vu-Thanh, 2020[44]). The deposit rate cap aims at preventing excess competition among banks with thin profit margins. As capital and profitability of banks improve, these legacy regulations could be gradually removed to shift to more market-based credit allocation. At the same time, instead of the granular approach, Viet Nam could adopt macroprudential measures used in other countries, such as a countercyclical-capital buffer and a loan-to-value ratio, giving more autonomy to banks. In this regard, achieving the Basel II target by 2023 is the crucial first step. In 2020, the government launched a programme to increase the capital ratio of four state-owned commercial banks, which is a move in the right direction. Relaxing the foreign ownership limit of 30% would also help strengthen banks' capital buffer. These reforms could pave the way to a more flexible exchange rate regime, which would strengthen the transmission of monetary policy.

Nurturing the non-bank financial sector has also become more important. Compared with other Southeast Asian countries, the recent evolution of Viet Nam's financial market has been driven mostly by banks. Despite recent evolvement of new services, such as mobile payment, overall the non-bank financial sector is still underdeveloped. Diversifying financial channels can reduce dominance of state-owned banks (which hold more than 40% of assets of all credit institutions as of end-2020) and will help promote more efficient resource allocation (World Bank Group, 2019[45]). Households would also benefit from having more diverse saving options. Recently fewer households prefer to save in the form of cash or precious metals, such as gold (Nguyen and Floro, 2019[46]). Making profits on long-term investments has become an important motivation for households to allocate savings through formal financial means (Ha, 2019[47]). Moreover, rising demand for green investments increases the need for greater access to long-term capital through diverse and deeper financial markets. Although gradually growing, the non-bank financial market is still shallow. For example, insurance premiums were 2.6% of GDP in 2021 compared with the ASEAN average of 3.5%. Thus, the development of private institutional investors, such as insurance companies and private pension funds needs to be further encouraged (the first private pension fund was launched in 2021). This should also be in tandem with enhanced consumer protection and education, in particular, financial literacy. Financial literacy can help safeguard consumers. In addition, it can help encourage consumers to become more active in adopting new financial instruments, such as Fintech (Morgan and Trinh, 2020[48]). Reinvigorating private sector dynamism through regulatory reform and market liberalisation could also facilitate new entrants into the non-bank financial market (see Chapter 2). The stock market has grown relatively fast (the market capitalisation was 69% of GDP as of end-2020, up from 32% in end-2010), but former SOEs account for the majority of listed firms (WTO, 2021[49]).

On the external front, limited exposure to international financial markets safeguarded Viet Nam from external shocks during the pandemic. Capital account regulation has been liberalised since the mid-2000s, but there are still stringent restrictions on cross-border transactions. For example, a ceiling is imposed on external borrowing by the private sector. Accordingly, the level of private sector's external debt is contained (Figure 1.17, Panel A). Portfolio investment inflows were stable but limited before the pandemic. Accordingly, in contrast to other Southeast Asian countries, where portfolio investment by non-residents experienced large outflows in early 2020, capital outflows from Viet Nam have also been mostly subdued since the onset of the pandemic (Figure 1.17, Panel B).

In the medium term, Viet Nam should consider gradually but further liberalising its capital account. This reform should be well aligned with the transformation of both monetary and financial market policy frameworks. While volatile portfolio investment would be associated with potential risks, such as asset overvaluation, exchange rate fluctuations and sudden stops, it could also have positive effects on economic growth by providing financial resources for more dynamic firms (Working Group of Committee on the Global Financial System, 2021[50]). Improving macroeconomic fundamentals and institutional frameworks, including a sound financial sector, could help mitigate these risks together with macroprudential measures (Working Group of Committee on the Global Financial System, 2021[50]). Indeed, during the pandemic, portfolio investment by non-residents showed some differences among other Southeast Asian countries. In some countries, capital inflows regained quickly from the second quarter of 2020. This suggests that, while global financial market conditions are important factors, economic fundamentals and policy frameworks could also affect stability of investment. In particular, to move in this direction, Viet Nam needs to strengthen macroprodential measures. In contrast to measures directly managing capital flows, macroprudential measures focus on vulnerabilities of domestic financial sectors. Recently, some Southeast Asian countries have been developing macroprudential tools. For example, Indonesia intensively utilises these instruments (Working Committee on Capital Account Liberalisation, 2019[51]) (Box 1.3).

Box 1.3. Indonesia's comprehensive macroprudential policy toolkit

Indonesia has developed and strengthened macroprdential policy tools since the late 2000s. Currently, four countercyclical measures are used by Bank Indonesia, in addition to an emergency liquidity provision to a bank with liquidity constraints (Short-Term Liquidity Assistance).

Countercyclical Capital Buffer: This provision requires an additional capital buffer that banks need to maintain during an expansionary period. When the economy is in a downturn, banks can use the buffer. The required buffer can vary between 0% and 2.5% of risk-weighted assets according to economic and financial conditions. The central bank sets the ratio every six months. This measure started in 2016.

Loan To Value/Financing To Value: The central bank regulates the ratio of the loan value that a home buyer can borrow against the value of property and the ratio of the minimum initial payment to the value of the purchased motor vehicle. The regulated ratios are adjusted according to developments in the residential property market and in consumer loans on motor vehicles to prevent financial risks from building in these sectors. This regulation was introduced in 2012.

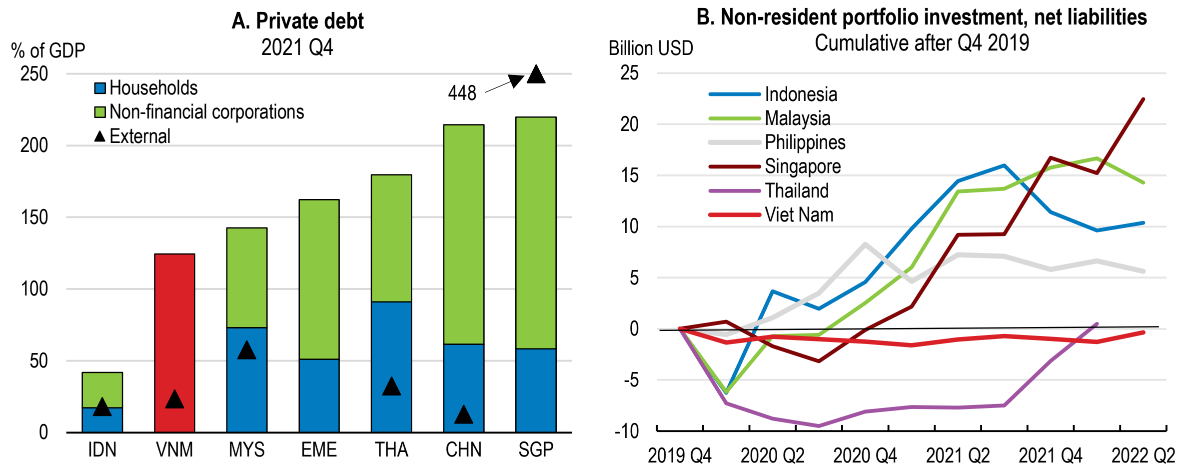
Macroprudential Intermediation Ratio: This measure regulates banks' loan-to-funding ratio. Securities issued by non-financial corporations and have a sound investment rating can be included in the calculation (as part of the denominator). The ratio is changed according to economic and financial conditions. The regulation began as a loan-to-deposit ratio regulation in 2010.

Macroprudential Liquidity Buffer: This regulation requires banks to have a liquidity buffer in the form of securities. These can be used for Bank Indonesia's monetary operation, to a certain minimum percentage of their rupiah deposits. The ratio is adjusted according to economic and financial conditions. The initial form of the regulation was introduced in 2009.

Source: (Bank Indonesia, 2019[52]), (Working Committee on Capital Account Liberalisation, 2019[51]).

In addition, outbound portfolio investment by residents has become more important for many emerging market economics. In other Southeast Asian countries, such as Malaysia and Thailand, investment needs for the ageing population and the rise of institutional investors, have resulted in the expansion of capital outflows (McGuire et al., 2021[53]). As domestic financial markets are less developed in these countries, institutional investors, such as insurance companies, seek for investment opportunities abroad as creditors. This requires additional monitoring of non-bank financial institutions, which are exposed to currency risks. This implies that, although the non-bank financial sector is still underdeveloped in Viet Nam, monitoring of the sector will need to be strengthened in the medium term along with the liberalisation of cross-border financial transactions.

Figure 1.17. Viet Nam is less exposed to international financial markets



Note: In panel A, EME is comprised of Argentina, Brazil, Chile, China, Colombia, the Czech Republic, Hong Kong SAR, Hungary, India, Indonesia, Israel, Korea, Malaysia, Mexico, Poland, Russia, Saudi Arabia, Singapore, South Africa, Thailand and Turkey. Household debt and non-financial corporation debt refer to credit provided by all financial sectors, including non-residents, except for Viet Nam where they refer to credit provided by banks only. Moreover, no breakdown is available, hence the red bar represents the whole private sector debt in Viet Nam.
Source: BIS; CEIC; and State Bank of Viet Nam.

StatLink https://stat.link/q96gzk

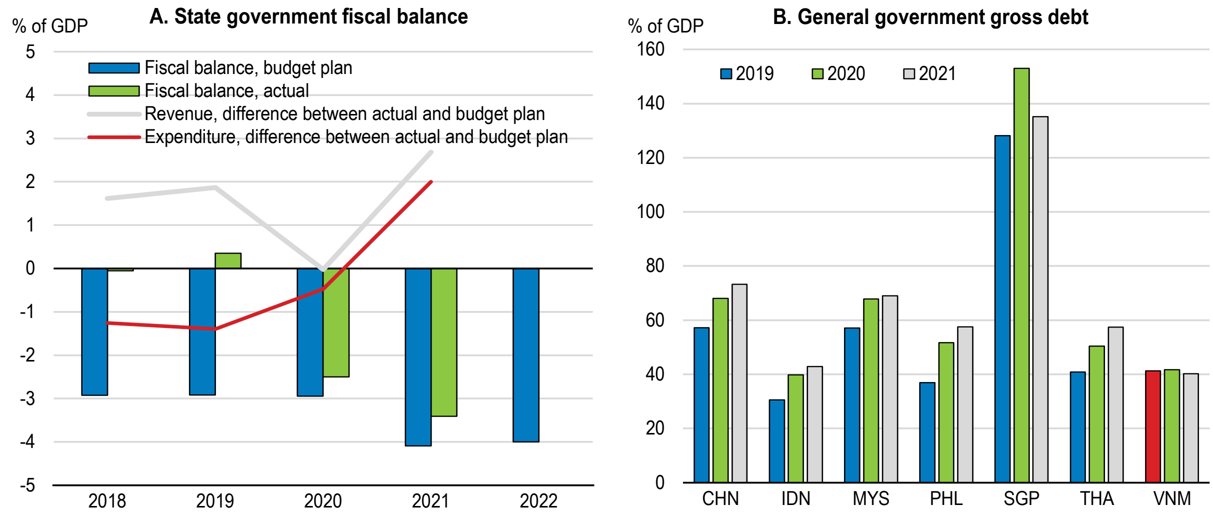
Making fiscal policy more transparent would strengthen its effectiveness

Past prudence has provided fiscal space, but more challenges are emerging

Viet Nam has improved its fiscal policy framework over the past years, contributing to the government having ample fiscal space when the pandemic hit the economy. The amended 2015 Law on State Budget provides overarching policy settings. The government needs to prepare five-year fiscal plans ("Financial Plan"), which underpin five-year Socio-Economic Development Plans. Similar to other countries' medium-term fiscal planning, Viet Nam's fiscal plan includes several fiscal targets, including deficit projections and debt limits. In addition to the annual budget, a three-year rolling plan ("State Budget Finance Plan") is prepared every year to monitor consistency between medium-term planning and actual policy implementation. Among Southeast Asian countries, Viet Nam is one of the countries that has more detailed fiscal rules, such as a revenue rule and ceilings on programme expenditures (OECD/ADB, 2019[54]). Together with high economic growth, these rules helped the government deficit decline steadily from 2015.

While the policy stance is gradually being normalised, fiscal policy should be the first defence if economic conditions worsen. During the pandemic, accelerated spending and contingency measures affecting revenue temporarily or permanently (e.g. tax deferrals or tax cuts) widened the government deficit (Figure 1.18, Panel A). Nonetheless, the rise was smaller than in other Southeast Asian countries. Indeed, the government prioritised reallocation of spending from other policy areas in order to contain debt accumulation (Madani, Nguyen and Nguyen, 2021[11]). State-owned enterprises (e.g. soft loans provided by state-owned banks) and extra-budgetary funds (i.e. social security funds) were also mobilised to cover additional financial support to affected households and businesses. Together with positive economic growth, these efforts helped contain the increase of government debt to moderate levels (Figure 1.18, Panel B). Although the planned budget expects a slight reduction in the government deficit amid the steady economic recovery, the gradual return to a consolidation path could be delayed if downside risks materialise. In particular, targeted support to poor households affected by high energy and food prices should be a priority. The government lowered the government debt ceiling to 50% of GDP for 2021-2025, from 54% of GDP in 2016-2020. Nevertheless, as the level of nominal GDP rose by 25% due to statistical revisions, this implies that, according to OECD calculations, the effective debt ceiling was actually increased by approximately 7%, which gives the government more flexibility in the current uncertain environments.

Figure 1.18. The pandemic has widened Viet Nam's fiscal deficit, but public debt is well managed



Note: Panel A: Actual data for 2021 are 2nd estimates. Panel B: China and the Philippines include social security funds.
Source: CEIC; Viet Nam Ministry of Finance; IMF, World Economic Outlook database; and OECD calculations.

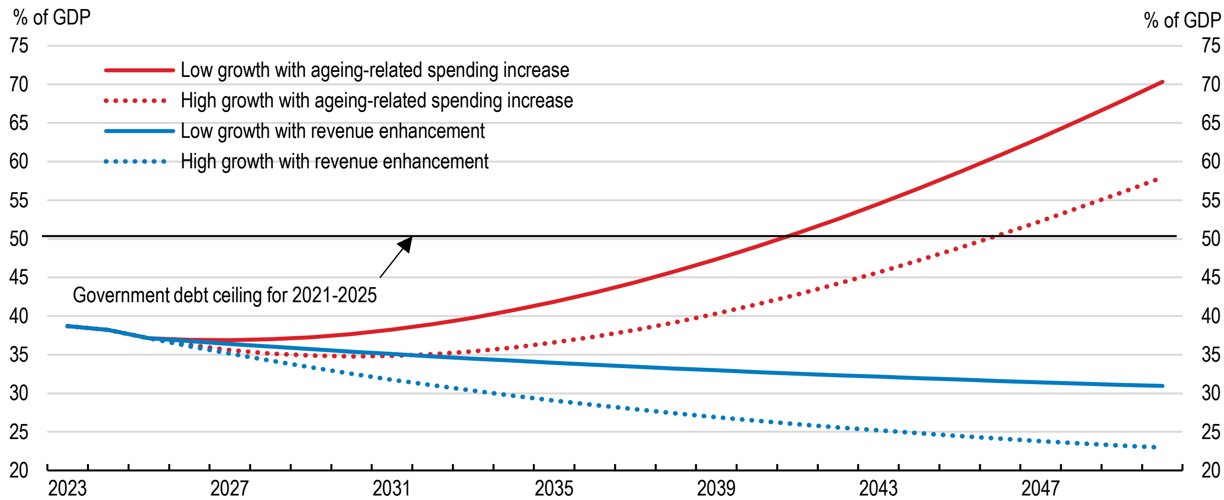
StatLink https://stat.link/sbjra5

In the medium term, further fiscal reform that is underpinned by a concrete consolidation plan covering both the spending and revenue sides of government accounts, as well as public debt management, will be necessary, as spending needs are expected to increase rapidly due to public investment in digitalisation, the transformation to a greener economy and an ageing population (Figure 1.19). Indeed, the old age dependency rate will increase at one of the fastest paces in Southeast Asia, from the current 11% to 33% in 2050. A number of people are not covered by social security and healthcare spending for vulnerable people, including some elderly people, is subsidised by the government. The ageing population will thus require more tax-funded government spending on healthcare, as well as social assistance benefits. In addition, further economic development will push per capita spending for healthcare higher. Fiscal reform should include strengthening the fiscal framework and increasing government revenues. The medium-term plan could also include alternative economic scenarios, which gives more transparency and accountability to the plan.

Enhancing government redistribution will become more important to improve the efficiency and efficacy of fiscal policy. Income inequality is higher than the OECD average, but lower than in most other Southeast Asian countries. The high rate of labour force participation, particularly among women, contributes to a more equal income distribution (Annex 1.A.). On the other hand, despite Viet Nam's high level of social spending compared with other Southeast Asian countries, government redistribution is only moderate (Figure 1.20). Social spending has increased steadily thanks to the development of the social security system (social security expenditure increased from 3.1% of GDP to 5.0% between 2010 and 2019), but the difference between the market and disposable Gini coefficients has changed little over these years. In this context, social security reform, notably expanded coverage of the public pension, is crucial. Such reforms can bring about a better division of labour between social security and social assistance, helping improve efficiency of overall social spending (see below). Strengthening pension sustainability is also important to contain additional fiscal transfers from the state budget to the social security funds.

Figure 1.19. Revenue enhancement will be crucial to prepare for the rapid population ageing

State government debt scenarios

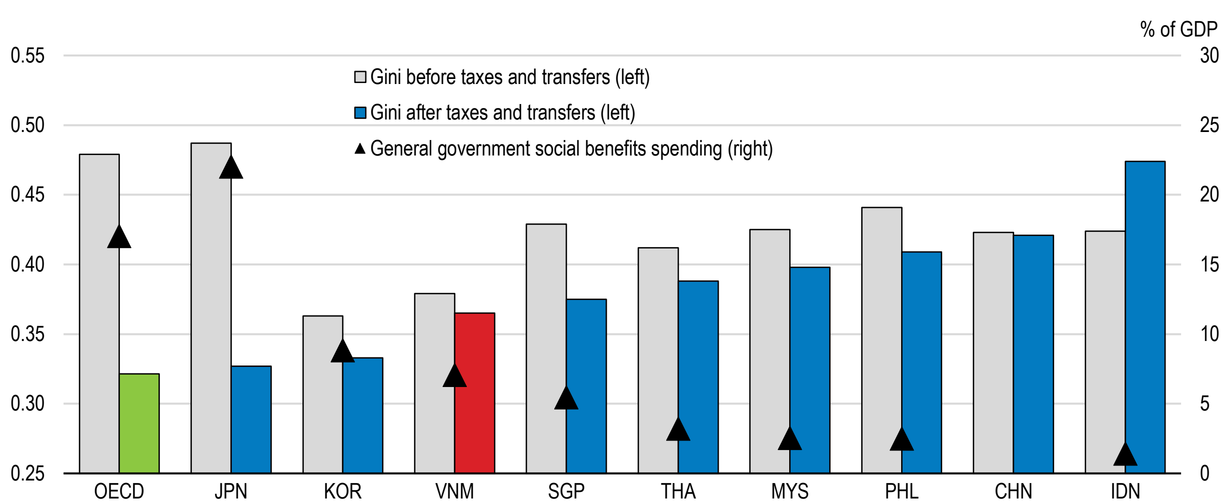


Note: Due to data limitations, social security debts are not considered and no additional fiscal transfer from the state government to the social security funds is assumed. The ageing-related spending increase scenario assumes that the state government's social benefit spending will increase by 4% of GDP by 2050, while the rest of social benefits will be covered by the social security funds. Total social benefit spending is assumed to reach 20% of GDP by 2050, similar to the current levels of European countries that have an old-age dependency ratio of around 30%. Viet Nam's old-age dependency ratio is assumed to increase to the same level (33%) by 2050 based on the United Nations projections. Spending by the social security funds is assumed to increase proportional to the rise of the old-age dependency ratio. The revenue enhancement scenario assumes that primary balance is maintained at -1% of GDP throughout the estimation period, meaning policy adjustments are made that offset the projected ageing-related spending increase. Nominal GDP is assumed to grow at 10% under the high growth scenario, and at 8% from 2025 under the low growth scenario. Interest rates are fixed at 4% based on the historical average.
Source: OECD calculations.

StatLink https://stat.link/fw3zqo

Figure 1.20. Viet Nam's income inequality is the lowest in the region

2020 or closest year available



Note: State government's transfer to the social insurance programme is not included in the social benefits spending for Viet Nam.
Source: F. Solt (2020), "Measuring Income Inequality Across Countries and Over Time: The Standardized World Income Inequality Database", Social Science Quarterly 101(3):1183-1199, SWIID Version 9.2, December 2021; IMF, Government Finance Statistics database; Malaysia's Social Security Organisation (SOCSO), Annual Report; Viet Nam GSO.

StatLink https://stat.link/pdfxmk

Further reforms are required to improve the functioning of the fiscal framework

Reforming some fiscal practices, especially carryover of surplus revenue (between planned and actual) and unspent budget, is necessary for the renewed fiscal policy framework to achieve its objectives. Although it shrank during the pandemic, the discrepancy between planned budget and final settlement, both on the revenue and spending sides, has been large (Figure 1.18, Panel A). This has been attributed to various causes, such as conservative revenue estimates by local governments to obtain more fiscal transfers and land clearance processes that delay public works (e.g. disputes on compensation) (Madani, Nguyen and Nguyen, 2021[11]). On the revenue side, the gap between planned and actual tax revenues declined due to the government's efforts, including the improvement of forecasting techniques, from an average of 8.8% for 2011-2015 to 6.5% for 2016-2020. On the other hand, carryovers can make the monitoring of fiscal policy difficult at a macro level (World Bank and Government of Viet Nam, 2017[55]), potentially detracting from fiscal transparency. Although some countries with well-established multi-year budget systems allow unused budget to be spent in the following year(s), this is not the case in most countries (Potter and Diamond, 1999[56]). In Viet Nam, unspent budget of the previous year can be used as current year revenue. Moreover, the amounts of carryover can be considerable. The 2015 Law on State Budget aimed at narrowing down the scope of carryover expenditure. Nevertheless, between 2015 and 2019, the average carryover size from the previous year was 18% of actual revenue for the central government and 21% for the local governments respectively. In principle, both differences between actual and planned revenue and unspent budget should be treated as a budget surplus. A rule should be established to return unspent budget to the national treasury, if the carryover is not used within a certain period of delay in the following year. In this regard, as strictly forbidding carryover of unspent budget may cause a spending rush towards the end of fiscal years, a limited amount of spending could be allowed to be delayed until a specified date in the following year. The current reporting of carryover spending on an accrual basis is appropriate, but carryover revenue from the previous year should not be treated as actual revenue. This should be recorded as a reduction of government assets (as it is recorded as surplus in the previous year). The 2019 Law on Public Investment made a crucial step. The Law stipulates that the disbursement period of the annual budget for public investment is up to end-January of the following year, which is shorter than the previous 12 months (moreover, the condition for further extension in the 2014 Law was laxer than in the 2019 Law).

Improving the quality of fiscal data can help implement rigorous accounting rules, but also increase the transparency of fiscal policy. This can further expedite strong fiscal discipline and evidence-based policy making. The government has strived to improve fiscal statistics over the past years. For example, delineation between current and capital revenue has been improved, such as the change in the treatment of sales of government shares in enterprises in 2015. Nevertheless, the reporting practice has scope to be further developed. Viet Nam should consider periodically publishing fiscal data in line with more recent and internationally recognised methodologies, such as the *IMF Government Finance Statistics Manual 2014 (GFSM2014)*, as part of the budget statistics or national accounts, starting from principal tables (IMF, 2019[33]). The government has already moved in this direction. In 2020, the Ministry of Finance issued a Guide to Government Finance Statistics in Viet Nam to help government institutions prepare financial settlements aligned with international standards. In addition, the Ministry published revenue and expenditure data of the budgetary central government for 2003-2019 based on the *GFSM2014* in November 2022. In particular, given the importance of social security funds in government policy, publishing general government data is most crucial. Moreover, fiscal data is conducive to reforms of state-owned enterprises. As a statutory ceiling is imposed on public debt (60% of GDP for 2021-2025), explicit government guarantees are already disclosed. Nevertheless, the government could consider disclosing contingent liabilities to state-owned enterprises.

In the medium term, a more comprehensive review of institutional frameworks would help further strengthen fiscal performance. In particular, experience of a number of OECD countries that established an independent fiscal institution after the Global Financial Crisis would be useful (von Trapp, Lienert and

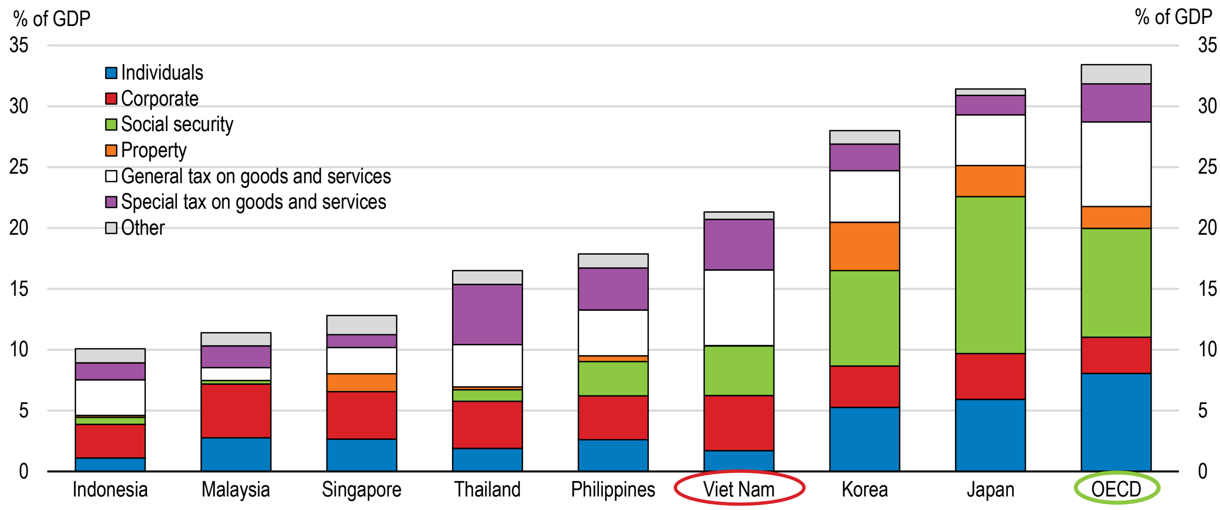
Wehner, 2016[57]). Independent fiscal institutions do not make policy decisions but provide assessment of economic and fiscal situations, including short- and medium-term projections, independently from policy making organisations. They are often an independent executive body (e.g. the United Kingdom) or a parliamentary organisation (e.g. the United States). Information provided by independent fiscal institutions brings additional transparency to fiscal policy, improving public debate, encouraging greater accountability of policy making organisations and enhancing government communication with financial markets. Establishment of independent fiscal institutions is often associated with fiscal rules which independent fiscal institutions are mandated to monitor, thus contributing to enhancing fiscal sustainability. Indeed, during the pandemic, these institutions in many OECD countries published near real-time assessments of economic and fiscal conditions, which were difficult for policy making organisations in the crisis time, and were able to provide adequate monitoring of government emergency spending plans (OECD, 2020[58]). In Viet Nam, the National Financial Supervisory Commission, which gives advice to the Prime Minister about financial sector development, occasionally provides its own assessments of the macroeconomic situation, although monitoring fiscal conditions is not explicitly under its mandate. The Financial and Budgetary Committee of the National Assembly also monitors conditions of government finances, but does not publish its own projections.

Enhancing revenues is urgently needed to meet the increasing spending demands

Additional tax revenues will be needed, especially to strengthen the social safety net and meet the obligations deriving from an ageing population. When social security contributions are taken into account, Viet Nam's tax-to-GDP ratio is higher than in some other Southeast Asian countries, such as the Philippines and Thailand (Figure 1.21) (non-tax revenue, such as oil revenue is not included). Nevertheless, overall tax revenues are low compared with the OECD average. There is scope for increasing revenues through broadening the tax base, enhancing the role of the personal income tax, strengthening the functioning of the tax administration and introducing new taxes. While the country raises significant revenues from taxes on goods and services, including the value added tax (VAT), similar to other emerging market economies, the personal income tax makes up a small share of government revenue. A number of goods and services are subject to a reduced 5% VAT rate or not subject to the VAT (the standard VAT rate is 10%), and there may be scope for increasing the standard VAT rate. The personal income tax base raises little revenue, partly as a result of generous tax allowances that narrow the tax base. Indeed, only a small fraction of the population pay the personal income tax (Shukla et al., 2011[59]). In addition, the tax schedule has not been changed since 2014, which increases the tax burden on lower-income earners more than of high-income earners because of inflation. At the same time as streamlining deductions and allowances, the number of tax brackets (currently seven from 5% to 35%) could be reduced to three to four. Similarly, the corporate income tax (the tax rate is 20%) has a number of exemptions owing to various incentive schemes, such as tax holidays and reduced rates applied in special economic zones, accumulated over the years, some of which have little economic merit (OECD, 2018[60]). In this context, the Tax System Reform Strategy to 2030 approved in April 22 was a welcome step. In the Strategy, the government aims at introducing broad reforms, including the VAT reform. In addition, it is crucial to improve tax compliance by encouraging the adoption of proper auditing practices, enhancing inspection and simplifying tax-related procedures, including using digitalised tax administration services. The revised Law on Tax Administration effective in 2020 aims to simplify various procedures, in addition to strengthening enforcement power of the tax authorities against tax evasion. For example, issuance of tax registration certificates has been shortened from ten to three days. Accelerating digitalisation will help reduce administrative burdens on taxpayers further. Currently, filing the personal income tax requires both a tax code and a personal identification code. The government plans to use electronic personal identification cards, which have been issued since 2020, to simplify tax filing. Moreover, new taxes could be considered, as in other Southeast Asian countries. For example, Thailand recently introduced a land tax and a tourism tax, among others.

Figure 1.21. Viet Nam's tax-to-GDP ratio is among the highest in the region

Tax revenue, 2020 or closest year available



Note: Value-added tax and sales tax are classified in general taxes on goods and services. Data for Viet Nam refer to 2018 and the social security contributions are estimated by the OECD.
Source: OECD, Tax Revenue database; CEIC; Viet Nam Social Security Report to the National Assembly; and OECD calculations.

StatLink https://stat.link/i0swx6

Viet Nam could strengthen recurrent taxes on immovable property. In Viet Nam, land is collectively owned by the state, but individuals and businesses can use land in exchange for payments. Vietnamese citizens and businesses can use land indefinitely by paying one-off levies and foreign investors can retain land use rights for definite periods up to 50 years by paying annual or lump-sum rental fees (the government can also lease land). Revenue from land use levies is one of the most important non-tax revenue sources of local governments. In particular, sales of land use rights increased rapidly, especially from the mid-2010s ("land use right assignment" increased from 1.3% of GDP to 2.0% between 2015 and 2019, while "rental of land" inched up from 0.3% to 0.4% in the same period). Nevertheless, one-off levies are not a sustainable revenue source as the supply of land is limited. On the other hand, compared with other countries, revenue from property taxes is moderate (0.03% of GDP in 2019). Viet Nam levies recurrent taxes on land both for agricultural and non-agricultural use (buildings on land are not subject to the tax). While increasing land levies and high property prices (see above) reflect the buoyant property market, revenue from land taxes has recently been low and stable. Indeed, there is scope for raising additional revenues by reconsidering the approach to taxing property.

The tax base of the property taxes could be expanded to include buildings on land. In general, recurrent taxes levied on the value of immovable property are considered more efficient than other types of taxes, as these taxes have a more limited impact on the decisions of households and businesses on labour supply, production and investments (Brys et al., 2013[61]). Recurrent taxes on immovable property are also difficult to evade as buildings and land are highly visible. In addition, these taxes can generate stable revenues compared with other types of taxes, such as corporate income taxes. Accordingly, many OECD countries have a recurrent immovable property tax levied both on buildings and land (Blöchliger and Kim, 2016[62]). In Viet Nam, the land use tax on non-agricultural land is levied according to land value (for example, residential land is subject to progressive rates, 0.03%, 0.07% and 0.15% of land value). Valuation is based on unit prices determined by local governments every five years under a price framework set by the central government. This valuation does not necessarily reflect the market value, making the tax base 30-70% smaller than the actual value (Asian Development Bank, 2020[63]). The revised draft Law on Land currently discussed by the National Assembly aims at removing the price framework in order to reduce the gaps between valuation and market prices. Since transactions of property on land, such as housing, are more abundant and frequent than those of land, they provide more accurate and up-to-date information for updating the tax base. Information on rents is also useful to estimate the market-based value of property. Viet Nam's current frequency of value updates is shorter than in some OECD countries, but longer than in other Southeast Asian countries. Raising the frequency would be easier if information on property prices in the market were widely available on a regular basis (see above). More Frequent revaluation would help mitigate a sudden rise of tax burdens caused by rapid increase of immovable property prices. Some measures for low-income earners may be useful in reforming property taxes in order to offset redistributive consequences (Slack and Bird, 2014[64]). Tax deferrals for seniors, who earn little income but own valuable immovable property, could be considered. Recurrent taxes on immovable property could also be levied on property above a certain value. This could improve the progressivity of these taxes by reducing tax liabilities of low-income households. Some parts of the United States and Canada have Homestead exemptions that lower the value of taxes on owner-occupied principal residences.

The property tax system also needs to be simplified as a whole. In particular, registration fees could be reduced or abolished as the expanded recurrent taxes on immovable property would generate additional revenues. In Viet Nam, the registration fee, a stamp duty of 0.5% of the real estate value (the value of both houses and land), is imposed when a new land use right is registered, such as a change in ownership. Such levies on transactions can discourage transactions and thus deter efficient resource allocation (Boulhol, 2011[65]). The burden of the registration fee could also discourage declared transactions, making it less effective. In addition, property hoarding for speculative purposes could be reduced by imposing a tax on second houses or under-used property (Asian Development Bank, 2020[63]). Such measures have been introduced in other Southeast Asian countries and could also be considered in Viet Nam (Box 1.4). However, there are some implementation challenges that also need to be taken into account. For example, gathering accurate information on second home ownership is not easy in Viet Nam as most transactions are not recorded digitally. While this type of tax can be progressive, it may affect supply in the rental housing market, which the government considers important in its housing policy.

Box 1.4. Southeast Asian countries have strengthened property taxes

As spending needs have increased, Southeast Asian countries have strived to expand the tax base. Recently, more countries come to consider property taxes, such as recurrent taxes on immovable property, transaction taxes and inheritance taxes, as a useful instrument for strengthening fiscal revenue. For example, a new recurrent tax on immovable property was introduced in Thailand from 2020 (OECD, 2020[26]). The recent experience of booms and busts in property markets in some countries is another reason why policy makers have begun to pay more attention to property taxes.

Practical application of property taxes, such as tax rates and tax base, is considerably different among OECD countries reflecting differences in overall tax systems and property markets (Blöchliger and Kim, 2016[62]). Similarly, the types of property taxes vary in Southeast Asian countries (Table 1.5).

Philippines

In addition to the main recurrent tax on immovable property (the Real Property Tax with the ceiling rate of 1% or 2% depending on region), the Idle Land Tax is levied on under-used land, based on the assessed value of land. The maximum rate of the Idle Land Tax is set at 5%. The tax base of the Real Property Tax includes all the rights, interest and benefits attached to property ownership.

Singapore

Stamp duties are levied based on the length of property holding. High rates are applied to short-term transactions. For example, for residential property, the highest 12% rate of the value is applied if it is sold within one year of acquisition, and 0% if the holding period is more than three years.

Thailand

The Land and Building Tax has base exemptions for the primary residence of individual owner and residential buildings, but second homes are fully taxed. Rights of using government-owned land and buildings are also included in the tax base.

Table 1.5. Southeast Asian countries levy various types of taxes on property

	Recurrent taxes				Transaction taxes	Others
	Tax base	Multiple property holding	Under-used property	Value update frequency		
Malaysia	Land Land and building	-	-	Not specified	√	-
Philippines	Land Land, building, intangible and movables	-	√ (Only for land)	Every three years	√	Inheritance tax
Singapore	Land and building	-	-	Annual	√ (Higher rates for multiple property acquisitions)	Stamp duty on short-term selling
Thailand	Land, building and intangible	√	-	Every four years	√	Inheritance tax
Viet Nam	Land	-	-	Every five years	√	-

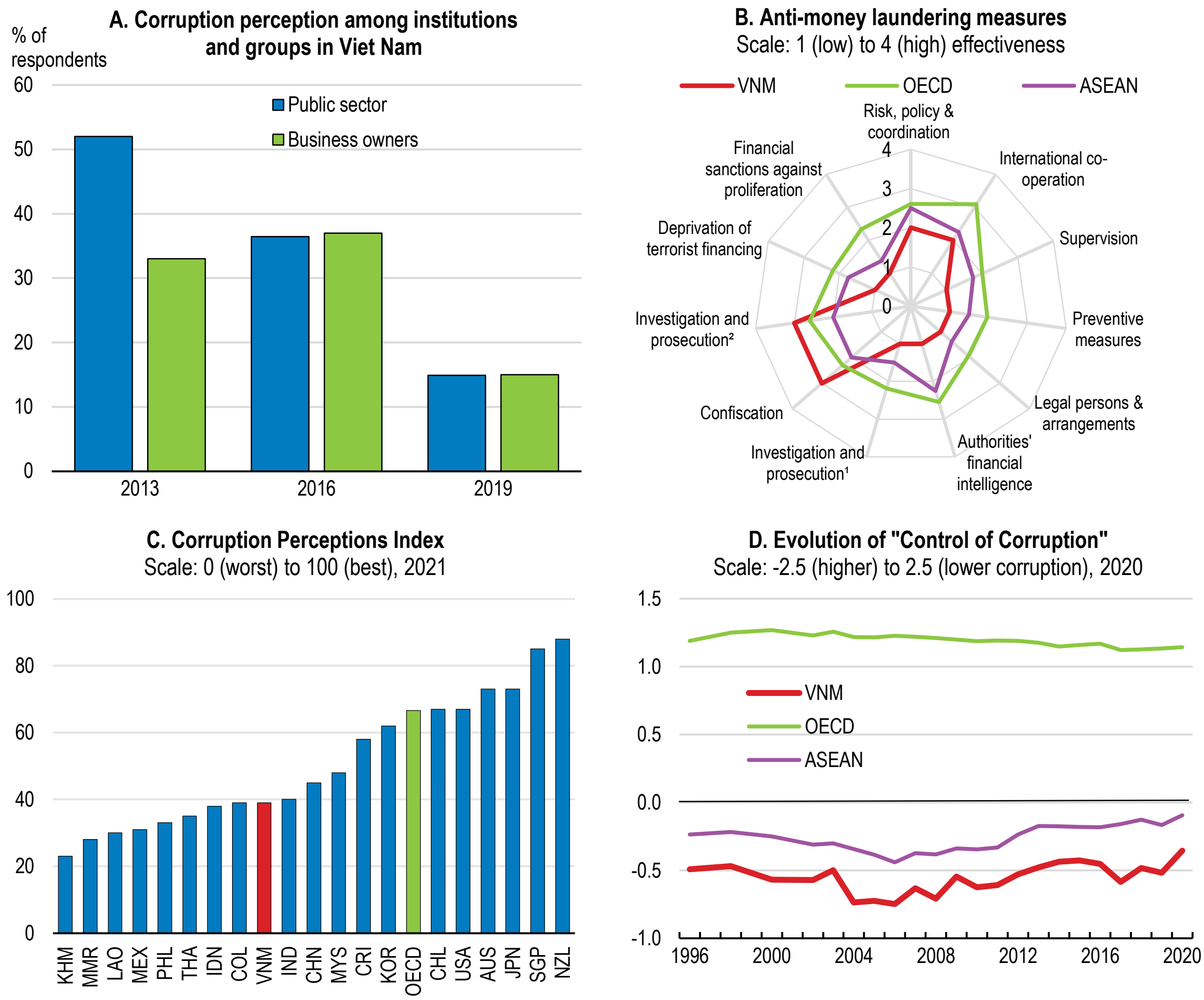
Note: Taxes on capital gain, such as the Real Property Gain Tax in Malaysia, and on rental income are not included.
Source: (Asian Development Bank, 2020[63]); national sources.

Viet Nam's anti-corruption efforts have gained strong momentum recently

Enhancing public sector integrity is crucial to improve Viet Nam's economic fundamentals, such as the rule of law, the business climate and reducing economic informality. Like other Southeast Asian countries, Viet Nam has made long-standing efforts to combat corruption. Particularly, the process of becoming a signatory of the United Nations Convention against Corruption in 2009, provided strong momentum (UNODC, 2012[66]). More comprehensive legal and institutional frameworks have been developed since then. The Law on Prevention and Combating of Corruption (the Anti-Corruption Law) was introduced for the first time in 2005 to control corruption of public sector workers through prevention, detection and handling of corrupt acts, including confiscation and recovery of corruption-related assets. An Ordinance on Anti-corruption adopted in 1998 by the National Assembly Standing Committee had existed before. The Central Steering Committee for Anti-Corruption headed by the Prime Minister was established in 2006 with the aim of enhancing coordination among government anti-corruption institutions (Tran, 2012[67]). A number of further reforms have followed. For example, in 2007, an assets declaration mechanism and regular job rotation rules for public sector workers were introduced. The National Strategy on Preventing and Combating Corruption towards 2020 was launched in 2009 to set out the concrete policy orientation, which is now under revision. In order to accelerate the adoption of international best practice, the government adopted an Implementation Plan of the United Nations Convention against Corruption in 2010.

Accordingly, people's perception of corruption has improved over the past years, although the level of corruption risk is still high. A range of survey results suggest that the perception of corruption by the Vietnamese people has recently improved (Figure 1.22, Panel A). This is consistent with other surveys that suggest improvements in overall public sector integrity, in contrast with some other Southeast Asian countries whose scores have slipped. Efforts to tackle money laundering, which have lagged (UNCAC, 2012[68]), are now also progressing (Figure 1.22, Panel B). Nevertheless, citizens and the business community, including international stakeholders, consider that corruption is still one of the most important concerns for Viet Nam (Figure 1.22, Panel C and D). In specific risk areas, such as control of judicial corruption, the country still underperforms ASEAN peers. Consequently, there is significant scope for improving the anti-corruption framework. Doing so effectively will bring tangible benefits in improving the economic prosperity of Viet Nam.

Figure 1.22. Corruption perception has improved recently, but combating it remains the priority



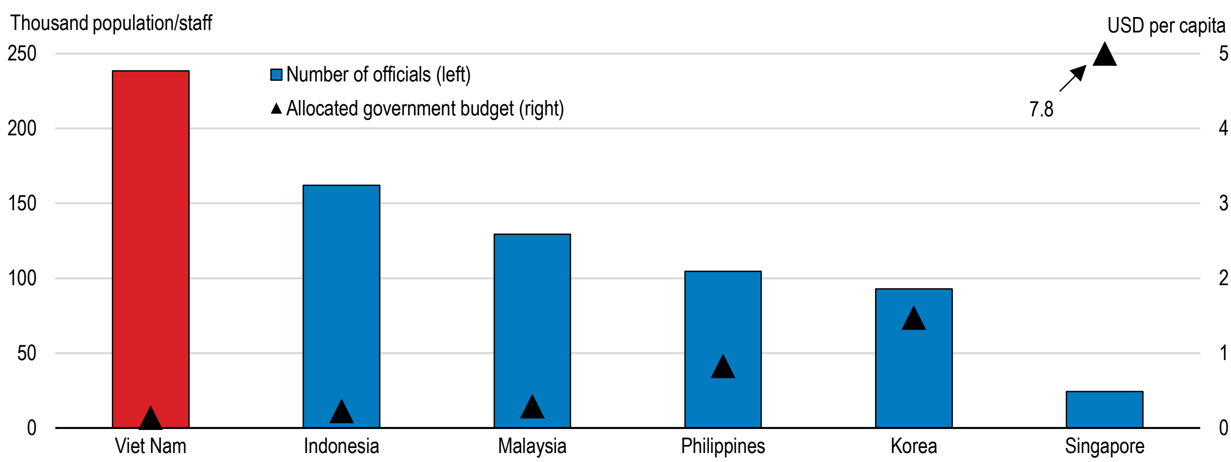
Note: Panel A: Public sector consists of traffic policy, police, tax officials, government officials, president/prime minister/his office, local government, judges and magistrates, members of parliament. Panel B shows ratings from the FATF peer reviews of each member to assess levels of implementation of the FATF Recommendations. The ratings reflect the extent to which a country's measures are effective against 11 immediate outcomes. "Investigation and prosecution¹" refers to money laundering. "Investigation and prosecution²" refers to terrorist financing.
Source: Panel A: Towards Transparency, Vietnam Corruption Barometer 2019 - Vietnamese Citizens' Views and Experiences of Corruption; Panel B: OECD, Financial Action Task Force (FATF); Panel C: Transparency International; Panel D: World Bank, Worldwide Governance Indicators.

StatLink https://stat.link/d3tkae

The function of principal anti-corruption agencies, notably the Government Inspectorate, could be further strengthened. Viet Nam's institutional anti-corruption framework is considered rather decentralised (Nguyen, 2020[69]). The Government Inspectorate is a ministerial level agency, and the other ministries have their own internal inspectors. Except for some large-scale and specific cases, these inspectors at each ministry deal with reported cases under the direction of their Ministers. While each ministry also reports to the Government Inspectorate, the role of the Government Inspectorate is to supervise the inspection activity conducted by each ministry and give guidance to them (cases are then investigated by the police and prosecuted by the Supreme People's Procuracy of Viet Nam, if they are considered criminal). The same process is applied at the local government level. Provincial People's Committees have their own Provincial Inspectorates, and inspections are conducted by departmental inspectors of each provincial government. Provincial Inspectorates supervise departmental inspectors, but Ministries can also give guidance to departmental inspectors. Both the Government Inspectorate and Ministries can intervene in inspection activity at the provincial level (e.g. requesting re-inspection). A decentralised self-inspection system is not always ineffective if a strong central coordination function is embedded in the system (OECD, 2020[70]). Nevertheless, an overly decentralised system has the potential risk of compromising the inspection implementation and entailing insufficient resource allocation. Indeed, previous studies on Asian countries suggest that a country giving more consolidated power to the leading anti-corruption agency is likely to be associated with a stronger perception of anti-corruption implementation, as this type of system could avoid the functional overlapping and reduce loopholes and self-leniency (Quah, 2021[71]), (Quah, 2018[72]). Moreover, compared with the principal anti-corruption agencies in other Southeast Asian countries, the Government Inspectorate in Viet Nam has less resources (Figure 1.23). Although the expansion of its mandate, such as to prosecution, is not required, further enhancements of the inspection power and resource allocation in the Government Inspectorate should be considered. In particular, the Government Inspectorate could act as a resource to provide supervision and technical support for local governments.

Figure 1.23. Viet Nam allocates less resources to anti-corruption agencies than other countries

Resources of anti-corruption agencies, 2022 or latest year available



Note: Anti-corruption agencies are Corruption Eradication Commission (Indonesia), Anti-Corruption and Civil-Rights Commission (Korea), National Centre for Governance, Integrity and Anti-Corruption (Malaysia), Ombudsman (Philippines), Corruption Practices Investigation Bureau (Singapore) and Government Inspectorate (Viet Nam).
Source: World Bank, World Development Indicators database; National sources.

StatLink https://stat.link/frgtab

Strengthening and enhancing the function of the Government Inspectorate would need to be pursued in tandem with the enhancement of mechanisms of checks and balances in the overall anti-corruption system. This is also conducive to preventing corruption within anti-corruption agencies, including the Government Inspectorate itself and the police. In this regard, Viet Nam has made a significant change in its institutional framework. The independence of the Central Steering Committee for Anti-Corruption Committee has been strengthened since 2013. The Committee was transformed from an affiliate to the National Assembly to a Communist Party organisation, and is headed by the General-Secretary of the Communist Party. While its members include the heads of anti-corruption agencies as before, the Committee also consists of representatives from the National Assembly and the civil society (the Vietnamese Fatherland Front). In addition to the framework change, the strong political commitment has added more influence to its direction. Accordingly, the number of cases dealt with by anti-corruption agencies has increased since the mid-2010s (Nguyen, 2020[69]). In June 2022, Viet Nam's Communist Party decided to establish an Anti-Corruption Steering Committee in each province with a similar structure to the Central Committee.

Strengthening anti-corruption endeavours outside the public sector is also crucial, as corruption cases often involve the private sector (UNCAC, 2021[73]), (OECD, 2016[74]). In this regard, establishing a clear and comprehensive whistleblower protection framework provides a strong preventive mechanism (OECD, 2020[70]). While whistleblower protection for public sector workers has been a strong focus of the Vietnamese authorities, involvement of private sector workers has been more limited. The 2005 Law on Prevention and Combating of Corruption introduced whistleblower protection for the first time to public sector workers, earlier than in other Southeast Asian countries. Furthermore, reporting of illegal acts became a duty of public officials in the 2008 Law on Cadres and Civil Servants. The protection mechanism has been improved since then. Although reporting persons are still required to identify themselves, the 2018 Law of Denunciations ensures legal protection for the confidentiality of the reporting persons. Following the new 2018 Anti-Corruption Law that criminalises corruptive acts of private sector workers, Circular 08 was issued in 2020 to extend whistleblower protection to private sector workers, which is a welcome step. Nevertheless, a law could be introduced to give stronger protection to private sector whistleblowers.

Enhancing overall accountability and transparency of public sector activities is also crucial to promote further engagement with the wider society in combatting corruption. Viet Nam has strived to make progress in open government reforms. The 2016 Law on Access to Information ensures that citizens have access to government information, and encourages the public sector to provide information. All documents and data which are created by government entities when they conduct their policy duties will be accessible, except for information related to state secrets (e.g. national defence), potential harm to state interests (e.g. social order) and internal documents (e.g. minutes of internal meetings). Nevertheless, robust implementation is key. In particular, considering Viet Nam's decentralised administrative system, it would be more effective that all levels of government institutions should follow a standard framework on information provision based on the Law, rather than each government entity setting up its own guidelines. Some OECD countries have a stronger legal framework for specialised institutions to guarantee citizens' access to information. For example, Spain has the Council for Transparency and Good Governance, an independent government body which is responsible for guaranteeing access to information and responding to administrative appeals (OECD, 2019[75]).

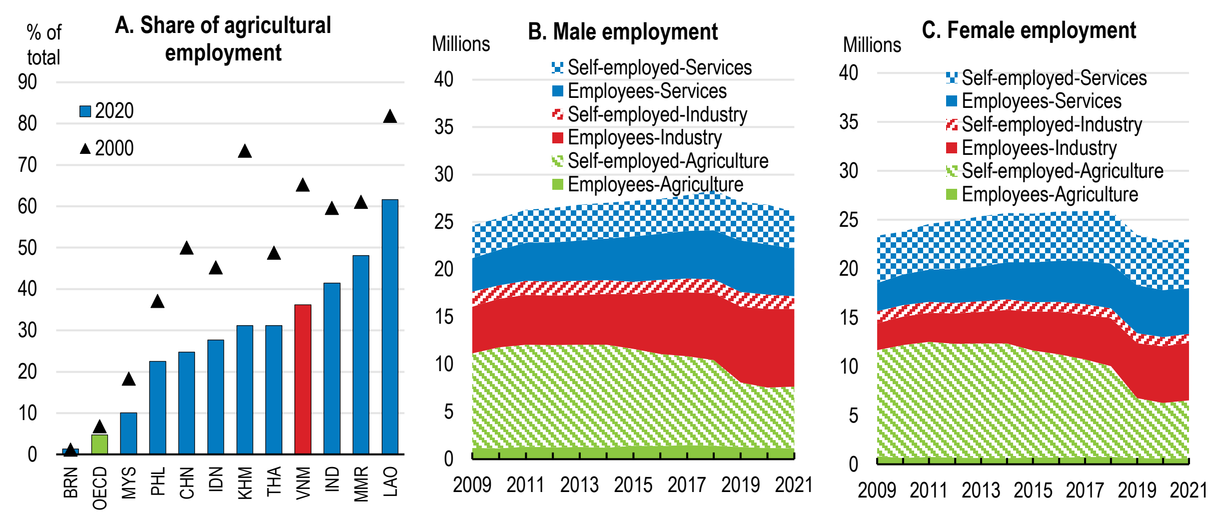
Despite recent progress, significant scope for improvement exists concerning anti-money laundering policies. Overall, institutional and legal frameworks have been strengthened in the past decade. In 2009, the National Steering Committee on Anti-Money Laundering headed by the Deputy Prime Minister was established to enhance intra-governmental coordination. A Law on Anti-Money Laundering was established in 2013 as Viet Nam's first comprehensive legal setting on the topic. The Law requires licensed financial institutions to regularly submit reports on anti-money laundering to the State Bank of Viet Nam, significantly expanding the coverage of anti-money laundering obligations, which had in effect previously been limited to the banking sector. Nevertheless, shifting from a rule-based to a risk-based approach is a pressing priority (Asia/Pacific Group on Money Laundering, 2022[76]). A risk-based approach requires the strong engagement of a broad range of business entities, such as firms dealing with real estate and cross-border remittance transfers. This includes by engaging in preventive measures, such as reporting to the authorities, to avoid being involved in illicit activities unintentionally or unknowingly. At present, adoption of preventive measures is weak, outside of financial institutions which frequently conduct international transactions. Since not all sectors are under the remit of the State Bank of Viet Nam, implementing such policies also calls for effective coordination among government agencies and their strong supervision of the entities in other relevant sectors. In 2019, Viet Nam conducted the first National Risk Assessment based on international guidelines, which was an important step to address these requirements. However, supervising agencies, including the State Bank of Viet Nam, lack resources (e.g. digital tools are not widely used) and information sharing within the government is limited. Improving their capacity is an urgent need. Against this background, the government adopted a comprehensive National Action Plan on anti-money laundering and counter-terrorist financing in August 2022. In addition, a revised Law on Anti-Money Laundering was adopted in November 2022 with a view to improve overall policy effectiveness. Strong implementation of the Law is crucial to enhance the capacity of responsible agencies and improve coordination between various stakeholders.

Tackling informality should be more centred in economic policy

The dynamic labour market creates many new jobs, but some are precarious

The labour market has experienced a dynamic transformation alongside Viet Nam's rapid economic development. The agriculture sector still accounts for a major part of employment in Viet Nam compared with other Southeast Asian countries (Figure 1.24, Panel A). Nevertheless, rapid industrialisation has raised the share of non-farm employment dramatically, much faster than in other Southeast Asian countries. This has coincided with the share of self-employed workers in total employment becoming much smaller than a decade ago. While most workers in the agriculture sector have traditionally been self-employed, namely own-account and unpaid family workers, newly created jobs in both the industry and services sector are mostly employees. Despite a slight increase in self-employed workers in the services sector, the number of self-employed workers overall declined by 1.4 million in net terms between 2009 and 2018 (Figure 1.24, Panel B). The rising share of non-farm employment and dwindling share of self-employed workers have occurred similarly for both male and female workers.

Figure 1.24. Viet Nam's employment structure has changed rapidly



Note: For Panels B and C, there is a break in data between 2018 and 2019.
Source: World Bank, World Development Indicators database; International Labour Organisation, Employment by sex, status in employment and economic activity.

StatLink https://stat.link/7yn3kw

Viet Nam has maintained a high rate of labour force participation for both men and women over the course of its economic transformation. Viet Nam stands out with comparatively high rates of labour force participation of the working-age population over recent decades, for both men and women (Figure 1.25). In addition to the tradition of matriarchal society and war legacies (The Economist, 2019[77]), policy efforts since the early 1990s that provided gender equal education have helped supply a high quality labour force of both men and women (Banerji et al., 2018[78]). Together with the economic reform, *Doi Moi*, this facilitated labour reallocation to industry from agriculture, where many women had worked. Nevertheless, compared with other countries, the share of unpaid family workers is high (12% of total employed and one fourth of self-employed workers), and this pushes up the labour force participation rate, particularly for women (Barcucci, Cole and Gammarano, 2021[79]). While the majority of unpaid family workers can be found in the agriculture sector (approximately 70% of female unpaid family workers are in this sector), almost one in ten women in the services sector were unpaid family workers at the end of 2021. This is because family-run small businesses are prevalent in Viet Nam, which provide job opportunities for many people, especially for women.

Many workers are in precarious jobs without formal contracts, working in small businesses or self-employed. The number of employees is increasing, and employees working for enterprises (incorporated businesses) are expanding their share (from 21% of total employment in 2012 to 28% in 2019, including agriculture). Nevertheless, the rise of employees not in enterprises (mostly non-regular workers with short-term or no contracts but also include employees in unincorporated household businesses) was significant (Figure 1.26) (Box 1.5). Between 2012 and 2019, the share of this job category increased from 13% to 20% of total employment, which occurred mostly in manufacturing and construction. Although the share in total employment is small, employees in micro enterprises (with less than ten employees) have edged up (from 2% of total employment in 2012 to 3% in 2019). In the services sector, employees working for enterprises increased most between 2012 and 2017 (1.1 million), but workers in micro enterprises showed high contributions despite their small volume (0.3 million). To some extent, the upsurge of employees working for micro enterprises in the services sector may have been inflated by incorporation of household businesses (i.e. existing household businesses registered themselves as enterprises). Moreover, while most self-employed workers are in the agriculture sector, self-employed workers account for the largest share in the services sector (51% of total services employment in 2019, excluding the government sector).

Box 1.5. Decomposing employment status in Viet Nam

Despite their significance in emerging market economics, capturing a comprehensive picture of informal workers (self-employed workers and employees who are not covered by social security or work without formal contracts) and the informal sector (businesses that do not follow state regulation, often small businesses, in particular household businesses) is often difficult due to a lack of data.

In Viet Nam, detailed employment data are available both from a household survey (Labour Force Survey) and from an establishment survey (Annual Business Survey/Economic Census), and comparing the two can provide useful information. The establishment survey distinguishes employment according to the legal status of employers, namely, "enterprises" (incorporated business) and "household businesses" (unincorporated business, including sole proprietors). Most workers in enterprises can be considered as formal employees, and incidence of double counting would be small (i.e. a person does not work for two different enterprises simultaneously). As the Labour Force Survey contains information on worker's employment status, the difference between employees in the Labour Force Survey and those who are hired by enterprises can be recognised as non-regular workers. Some of them work for enterprises with short-term/no contract or as dispatched workers, and others work for household businesses. Results are in line with previous studies and suggest that one third of workers are non-regular workers (Table 1.6) (General Statistics Office, 2018[80]). The number of non-regular workers is almost comparable to the number of own-account workers, who are the majority of household businesses.

Table 1.6. Employees not in enterprises account for a large share in employment

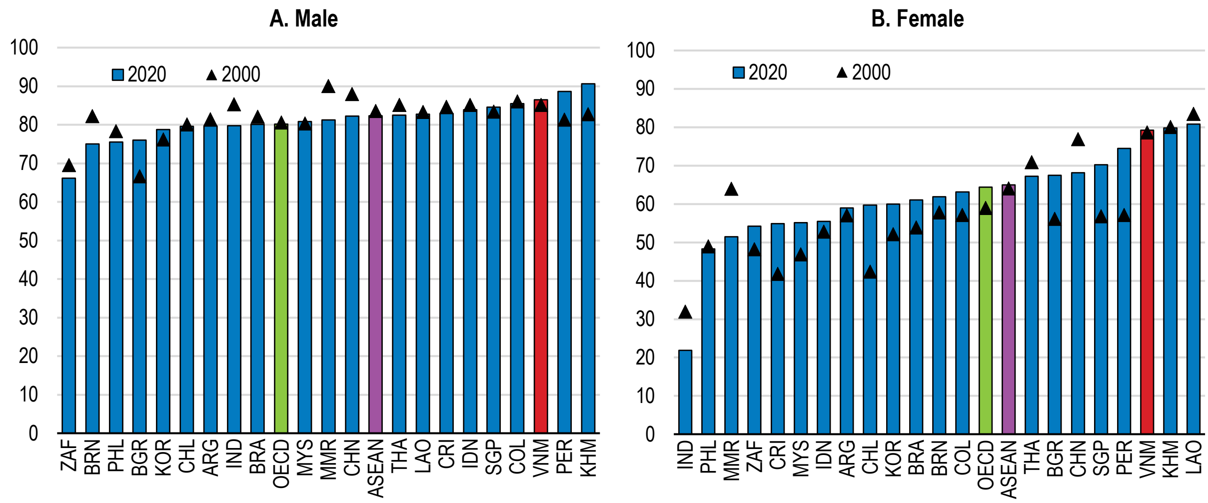
Non-farm private sector workers, million persons, 2019

Type of businesses	Employees	Self-employed workers		
		Employers	Own-account workers	Unpaid family workers
Enterprises	14.9	x	x	x
Household businesses	7.6	1.4	8.3	2.1
Unknown		x	x	x
Total	22.5	1.4	8.3	2.1

Source: General Statistical Office, Labour Force Survey and Annual Business Survey; International Labour Organisation, Employment by status in employment and economic activity.

Figure 1.25. Viet Nam's labour force participation rates are high

As a percentage of the corresponding population aged 15-64

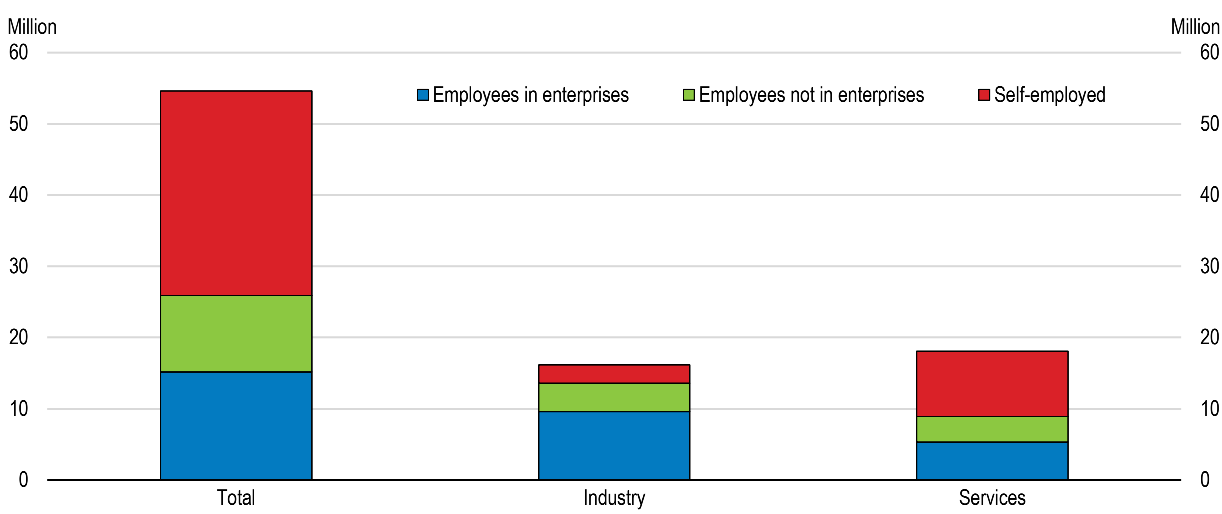


Source: World Bank, World Development Indicators database.

StatLink https://stat.link/0oyenp

Figure 1.26. Formal employees are still a small part of total employment

Employment by status, 2019



Note: Total includes agriculture, and services do not include the government sector. Self-employed workers include employers.
Source: ILO, ILOStat database; GSO, Annual Business Survey 2019 and Labour Force Survey 2019; and OECD calculations.

StatLink https://stat.link/q9s7gm

The impact of the pandemic downturn on workers varied with their economic status and sectors where they worked, and those who were in precarious positions were affected more severely (Figure 1.27). The number of employees in industry fluctuated due to seasonality and occasional adoption of sanitary restrictions, but it surpassed the pre-pandemic level by the fourth quarter of 2021 amid relaxation of the restrictions (employees accounted for 84% of industry employment in 2019). The swift rebound reflected robust job creation in the sector. Self-employed workers in industry were affected in the second half of 2021 and have not yet shown a sign of recovery (self-employed workers accounted for 12% of industry employment in 2019, excluding employers). Similar to other countries, employees in services were hit hardest from the early stage of the pandemic, and the employment recovery in this sector has been weak (employees constituted 53% of services employment in 2019). A number of employees in small businesses or with non-regular contracts lost jobs, as their share is large in the services sector (25% in 2017). Although the recovery was faster than for employees, self-employed workers in services were also affected severely, especially in the third quarter of 2021 (self-employed workers, excluding employers, accounted 43% of services employment in 2019). In addition, the number of employers who are owners of household businesses declined steadily both in industry and services during the pandemic. This suggests that employees and unpaid family workers who had worked for these small businesses lost their jobs. Working conditions for many who remained in their job were also impacted, with working time declining considerably during the lockdown periods. Previous studies suggest that, in the second quarter of 2020, weekly hours worked declined approximately 5% from the pre-pandemic levels, both for employees and self-employed workers (World Bank, 2021[81]).

Figure 1.27. The pandemic affected services sector workers more severely

Changes from 2019 Q4, thousand persons

Note: Self-employed workers don't include unclassified self-employed workers.
Source: International Labour Organisation, Employment by status in employment and economic activity.

StatLink https://stat.link/xh48m5

The role of household businesses in the economy should be strengthened

Tackling informality can bring multiple benefits, not only expanding social security coverage and improving tax compliance, but also stimulating entrepreneurship and helping businesses grow, eventually creating more jobs. Like in many other emerging market economies, many small businesses (smaller enterprises and household businesses, including self-employed workers) do not comply with government regulations, such as business registration, tax payments and social security contributions (Pasquier-Doumer, Oudin and Nguyen, 2017[82]). Reducing burdens on smaller businesses would help encourage them to comply with these regulations (OECD, 2015[83]), but it is also conducive to stimulating job creation, as lower regulatory and administrative burdens can remove obstacles to their business expansion. Lowering costs for small businesses also means that starting a business becomes easier for entrepreneurs. Although there was possible underreporting, the average profit of micro enterprises (less than ten employees) was negative in 2017, according to the Economic Census, while the enterprises of other sizes reported positive profits. The low level of profits makes it hard for smaller businesses to pay taxes, including social security contributions. Nevertheless, participation in social security could encourage workers staying for a longer duration in a business, investing in job specific human capital and thereby boosting profits in the medium term. Indeed, previous studies suggest that participation in social security is associated with the improvement of overall enterprise performance, although micro enterprises tend to show negative profits at the early stage after they registered for social security (Lee and Torm, 2017[84]).

In this regard, the policy should focus more on unincorporated businesses ("household businesses") through reviewing their overall administrative and tax burdens and regulations that distinguish them from incorporated businesses ("enterprises"). As unincorporated businesses are an important source of entrepreneurship, a number of countries encourage individuals to start a business, including from this category. In Viet Nam, the policy has so far given priority to encouraging household businesses to register as an enterprise (micro or small enterprises) and this is often referred to as "formalisation". However, a number of household businesses are reluctant to become enterprises due to additional burdens, such as high tax rates and a requirement of standard accounting. The 2015 Law of Fees and Charges defines the population groups eligible for exemptions from fees and charges, including poor households, senior citizens and ethnic minorities facing socio-economic difficulties, among others. In this context, the government helps household businesses convert into micro or small enterprises, with a range of support policies, including an exemption from licence fees for three years and a simpler bookkeeping system. In addition, successfully converted small- and medium-sized enterprises (SMEs) are entitled to receive various forms of government support, such as financial and technical support.

Smooth transition from household businesses to enterprises should certainly be further encouraged. However, less attention has been paid to the formalisation of household businesses as a household business, which could also support business growth and participation in the social security system. The importance of this "formalisation" should be given more emphasis. As the Vietnamese economy further develops, household businesses should be considered a potential growth engine rather than part of the economy which is vulnerable and needs government support. The government should encourage household businesses to play a pivotal role in the economy as formal household businesses by preparing a conducive environment to expanding businesses, creating jobs and paying taxes.

Regulations applied to household businesses and enterprises are considerably different (Central Institute of Economic Management, 2017[85]). Some regulations are applied consistently to both types of firms. For example, social security contributions are compulsory if a business hires paid workers irrespective of its number of employees. Nevertheless, differentiated regulations across the two firm types are common, which influences the incentives for business growth and the type of business registration. Under the previous 2014 Law on Enterprises, household businesses could hire less than ten paid employees, but they must convert to be an enterprise once they grew to employ ten or more workers. On the other hand, there has been no threshold for enterprises concerning the number of employees. While this employment ceiling was abolished in the new 2020 Law on Enterprises, some tax rates for household businesses are lower than those for enterprises.

Household businesses are taxed on their business incomes at the personal income tax rate (from 0.5% to 5%) whereas enterprises are taxed at the corporate income tax rate of 20%. Enterprises can pay the corporate income tax based on their turnover of these goods and services with a tax rate between 1% and 5%, if they engage in certain activities, such as the supply of some goods and services, and pay the VAT through a direct method where VAT liabilities are directly calculated from turnover. The statutory bankruptcy regime is only applied to enterprises with limited liability whilst owners of household businesses must assume unlimited liability. In addition, an individual may only register one household business in one place, but can then do business at many locations. The owner of such a sole proprietorship must not concurrently own a household business or hold the position of general partner of a partnership. In this context, other countries consider that reducing a distinction imposed on small businesses is an important policy tool to encourage their business expansion. For example, in 2019, Italy extended the flat-rate tax for self-employed workers (15%) to small businesses, which had been subject to the corporate income tax (24%), and also raised income thresholds, in order to encourage the self-employed and small businesses to grow (OECD, 2019[86]).

Household businesses are provided with some preferential treatments. While enterprises need to keep full business accounts, large-scale household businesses can follow a simplified system. Other household businesses can utilise the accounting that is used for tax payments or choose not to keep financial accounts. For example, in 2019, the government introduced a simplified accounting framework for micro-sized enterprises, which is simpler than that for small- and medium-sized enterprises. This simplified accounting is similar to another accounting framework introduced for household businesses in 2021. However, some other differences in regulations may also disadvantage household businesses. Preparing full accounting books may be burdensome for less profitable businesses, giving them adverse incentives to stay small or pretend to be small.

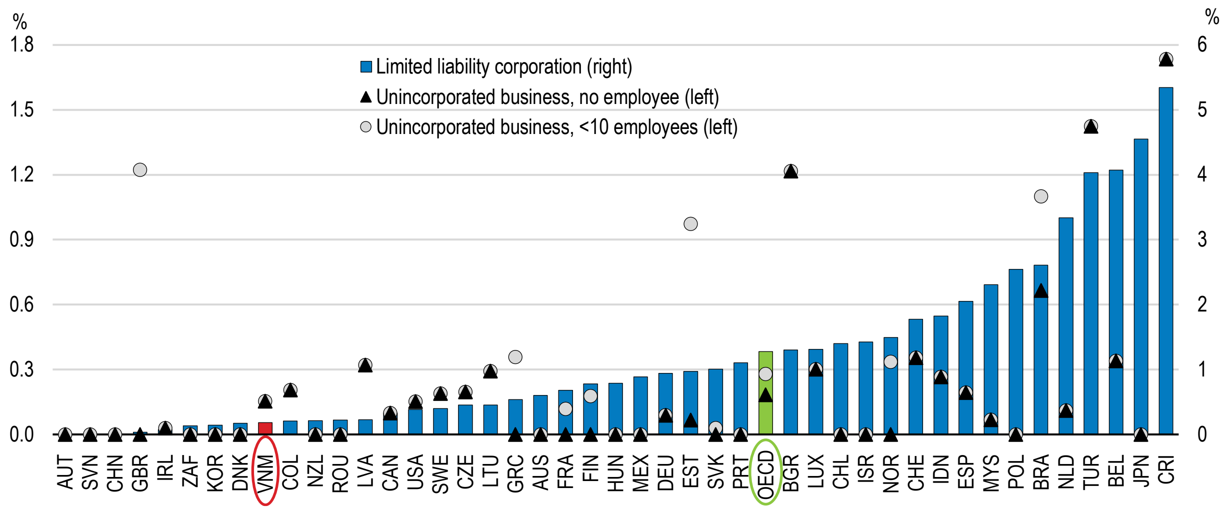
Easing the administrative burdens of business registration is essential to encourage the birth of more household businesses. Indeed, previous surveys suggest that many household businesses do not register although they need to do so. Registration procedures are simplified for enterprises. For instance, when establishing an enterprise, initial registration, tax and social security can be done all together. Starting a household business requires contacting tax and social security offices separately from business registration, although these processes can be done online. Simplified registration procedures for household businesses, akin to those for enterprises, should be established. This would also help improve coordination between business registration, tax and social security, including inspection, and reduce evasion. Indeed, compared with the compliance rate for business registration, only a fraction of household businesses pay social security contributions (Pasquier-Doumer, Oudin and Nguyen, 2017[82]). In this regard, the government plans to simplify both business and tax registration from 2023, making it similar to the process for enterprises, which can be conducted online.

Moreover, licence fees are still required for household businesses, but lower than those for enterprises. In Viet Nam, a licence fee exemption is provided for household businesses that have annual turnover below VND 100 million (USD 4 000) or newly registered household businesses for their first year. Enterprises that have been transformed from household businesses are provided with three years of licence fee exemption starting from the transformation date. To promote entrepreneurship, many countries do not require registration fees in starting an unincorporated business hiring less than ten employees, or the fees are much lower than for establishing an incorporated business (Figure 1.28). These are experiences by other countries that Viet Nam could consider.

Investing in human capital development of informal workers, including those working for household businesses, can also help them move into formal employment. Informal workers have less opportunities for upskilling and reskilling compared with formal workers (ILO, 2020[87]). Therefore, governments need to deploy specific measures to improve the skills of these workers. In addition to enhancing formal technical and vocational education and training (TVET) programmes tailored for informal workers, new informal (e.g. on-the-job training and apprenticeship) and non-formal TVET (i.e. services provided outside the formal education system) initiatives should be considered (Palmer, 2020[88]). In Viet Nam, access to formal and non-formal TVET programmes is limited in rural areas compared to urban areas (OECD, 2018[89]), which implies that strengthening informal training could particularly benefit marginalised workers outside of the cities. While informal TVET is diverse in quality and thus not recognised as a widely acceptable qualification, upgrading informal training to semi-formal status through the collaboration with public or private training centres could improve the quality and recognition of informal TVET (OECD/ILO, 2019[90]). For example, Jordan conducted a pilot project that combined basic skills courses, such as IT and English, with an informal apprenticeship, with 92% of participants obtaining a job after the completion (ILO; International Youth Foundation, 2014[91]).

Figure 1.28. Fees for starting an unincorporated business are low in many countries

Registration cost relative to per capita GDP to start an enterprise, latest available year



Note: Information used to calculate the 2018 PMR indicators is based on laws and regulation in place on 1 January 2018 or a later year depending on when the information was provided by the relevant country (1 January 2020 for Viet Nam). For the United States, data refer to New York.
Source: OECD, Product Market Regulation database; OECD-WBG, Product Market Regulation database; World Bank, World Development Indicators database.

StatLink https://stat.link/kgebwr

Viet Nam's social safety net should be more comprehensive

To strengthen the social safety net, expanding the coverage of social security should be the highest priority. Viet Nam has been developing its social security system progressively as a pivot of social protection, but its coverage is still low (Box 1.6). In particular, the high level of informality in the economy means that a number of businesses and employees do not comply with compulsory contributions to social insurance, which contains a compulsory public pension programme. Reducing informality or increasing formalisation can directly expand the social security coverage, but helping businesses grow in the formal sector will also boost the creation of more formal jobs. By definition, social security aims at pooling risks by covering a large part of the population. Social security systems in economies with informal employment are often relatively ineffective, owing to gaps in coverage and high contribution rates relative to benefits (OECD, 2003[92]). The low rate of social security coverage cements the gap between insured and uninsured people, deteriorating its redistribution effect, as people from higher-income groups and with long life expectancy tend to participate more in social security (and are entitled to receive benefits) and those from lower-income groups do not.

Social assistance also needs to be further expanded to those who are not covered by social security. In many countries, self-employed workers are not insured by compulsory social security programmes. Although rapid economic advancement has increased the number of employees in Viet Nam, similar to some other Southeast Asian countries, a significant number of people still work as self-employed. Self-employed workers accounted for more than half of total employment in 2019 (the OECD average was 16%), and are not covered by the compulsory public pension programme as well as unemployment insurance. Social assistance also needs to act as a backstop for informal workers who are subject to the compulsory social security system but do not participate in it.

Box 1.6. Viet Nam's social security system has been expanding

Viet Nam's social security system has a comprehensive framework, consisting of health insurance, social insurance and unemployment insurance. A government agency, Viet Nam Social Security (VSS, also known as the Viet Nam Social Insurance Agency [this phrase may be dropped]) manages these funds. The Ministry of Labour, Invalids and Social Affairs serves as a unified organisation for social insurance administration matters.

Health insurance

Viet Nam has a universal health care system, underpinned by health insurance. Health insurance was set up in 1992 and expanded its statutory coverage to the entire population. It now covers almost 90% of the population. Compulsory contributions can be reduced or exempted depending on individuals' statuses. For example, the government subsidises the poor, the ethnic minority, children under 6, and the elderly above 80. For formal workers, the contribution rate is 3% of wages for employers and 1.5% for employees.

Social insurance

Social insurance was established in 1995, replacing the public pension for government officials, Viet Nam's compulsory social insurance covers all employees with contracts of longer than one month. In addition to a public pension, it also provides some other benefits, such as insurance for work-related injury. The contribution rate is 17.5% of wages for employers and 8% for employees. Self-employed workers can participate in a voluntary programme. Social insurance covered 29% of the labour force in 2020.

Unemployment insurance

Unemployment insurance was launched in 2009. It is compulsory for all employers hiring at least one paid worker. Both employers and employees contribute 1% of wages. The minimum job spell is 12 months, and the reference period is the previous 24 months for normal employees (36 months for seasonal workers). It covered only 51% of employees in 2020, steadily increasing from 43% in 2010.

A more inclusive approach is required to safeguard vulnerable workers

During the pandemic, the government provided support to affected workers by fully mobilising the existing labour market safety nets. In particular, unemployment insurance has worked as an automatic stabiliser despite its low coverage. The number of people who applied for unemployment insurance increased sharply from the first quarter in 2020 (170 thousand) to the second quarter (400 thousand). In 2020, wage subsidies were provided to workers whose contracts were suspended or who took unpaid leave for more than one month between April and June, if they were eligible for unemployment insurance. In 2021, eligibility conditions were eased. The minimum contribution period necessary to receive unemployment benefits was tentatively abolished: workers who lost jobs between January 2020 and September 2021 could receive one-off benefits, even if they had not fulfilled the usual condition of contributing to unemployment insurance more than 12 months out of the previous 24 months.

For workers not covered by unemployment insurance, the government provided additional social protection. In 2020, a special allowance (VND 1 million per month up to three months) was distributed to workers with formal contracts, but not eligible for unemployment benefits due to their shorter job tenure, if their contracts were terminated between April and June. The same amount of allowance was also provided to workers with formal contracts but who earned no income or incomes below the near-poverty line, and to workers without formal contracts who lost their jobs in certain sectors, such as tourism and street vendors. Nevertheless, the actual disbursement was slow and the scope was narrower than planned.

Improving the coverage of unemployment insurance is crucial to enhancing labour market safety nets for vulnerable employees. The reform in 2015, which expanded the statutory coverage from employers with at least ten employees to all employers, was significant progress. Nonetheless, there are still significant gaps, with only around half of employees covered by the system in 2019 (Box 1.6). In Viet Nam, the high prevalence of unstable employment and small businesses is a major obstacle to further improving social security coverage, including unemployment insurance (see below). Nevertheless, recent policy developments in OECD countries concerning unemployment benefit systems are relevant to Viet Nam's unemployment insurance system, as there are some common underlying policy issues.

Many countries have attempted to strengthen the effectiveness of unemployment benefit systems amid the recent rise of non-standard workers, such as part-time or unstable workers, with lower eligibility for unemployment benefits due to short job tenure or discrete employment records. Adjusting eligibility conditions is the key policy option, but it should be carefully designed to minimise adverse effects. Avoiding too strict employment requirements, notably a longer minimum employment period or a shorter reference period (a period out of which the minimum contribution period is considered effective), is crucial to give more flexibility to workers with unstable job records (ILO, 2017[93]). While too short employment requirements could give incentive to creating unstable jobs, customised adjustments to the difference between minimum employment periods and reference periods would be useful (OECD, 2020[94]). In the Slovak Republic, temporary workers are given an additional 12 months for reference periods (36 months for ordinary workers; the minimum employment period is 24 months). Viet Nam's minimum job spell (12 months) and reference period (24 months) are around the middle of other countries (OECD, 2020[94]), (Asenjo and Pignatti, 2019[95]). In addition, Viet Nam already has a 1-year extension of reference periods for seasonal workers. This reference period extension could be expanded to other unstable jobs, such as construction workers. Introducing higher contribution rates for some types of employment or firms could also be considered. A number of European countries have adopted differentiated contribution rates. For example, Spain imposes higher contribution rates on both employers and employees in fixed-term contracts than in permanent contracts (Unédic, 2020[96]). For fixed-term contracts, the share of employer contributions is higher than for permanent contracts; the employee share is lower for fixed-term contracts than for permanent contracts. This policy measure can provide financial incentives for employers and employees to choose more stable employment contracts.

Strengthening employee rights would also boost compliance among employers with unemployment insurance (OECD, 2004[97]). Some OECD countries have developed specific mechanisms. In Japan, public employment services can accept a jobseeker's claim for unemployment benefits even if his/her former employer has not paid contributions. This is intended to prevent employers from illegally avoiding contributions, as the evasion can be revealed by the former employee's insurance claim. In Viet Nam, labour unions could not only help employees to understand but also enact their rights. In this regard, recent reforms to strengthen overall workers' rights is helpful. Under the new 2019 Labour Code, forming labour unions has become easier (labour unions will not need to be affiliated with the sole labour union at the national level). Nevertheless, this kind of mechanism could make some employers reluctant to hire employees, in particular, when these entitlements are specific to only some cohorts of employees (e.g. formal workers). In such a case, these employers could prefer individuals who will not make complaints, such as illegal migrants. The new Labour Code stipulates that all employees can form and participate in labour unions and prohibits discrimination and interference by employers against employees engaging in labour union activities. The government should ensure that these rights are fully enforced.

Enhancing connection between unemployment benefits and active labour market policy (ALMP) is also a priority. This would enhance the attractiveness of Viet Nam's unemployment insurance, helping to attain higher coverage. In Viet Nam, 83 public employment services, Employment Services Centres, provide jobseekers who receive unemployment benefits with guidance and administrative support for vocational training of up to six months. Nevertheless, the participation rate is very low. Only 5% of unemployment insurance beneficiaries used it in 2019 and the rate declined to 2% by mid-2020 due to the pandemic

(World Bank, 2021[81]). Currently, Employment Services Centres devote significant resources to the administration of unemployment insurance. At the same time, they do not have up-to-date labour market information to designing effective training programmes (Stienon, Cunningham and Nguyen, 2020[98]). The government needs to strengthen the functioning of Employment Service Centres, notably through the collection of labour market information in order for the Centres to provide relevant training for jobseekers. In particular, coordination among Centres in different regions, cooperation with private placement services and outreach to employers are essential.

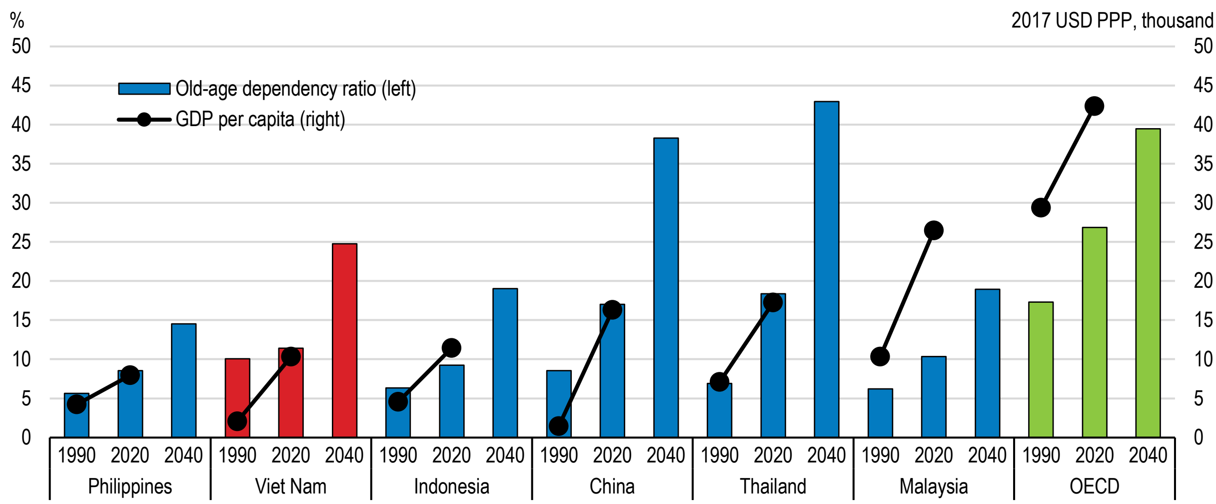
In addition, labour market safety nets for self-employed workers could be enhanced in the medium term. Like in many other countries, in Viet Nam, compulsory social security, including unemployment insurance, does not cover self-employed workers. A number of countries have recently expanded labour market safety nets to include self-employed workers, in particular, those self-employed workers who have less autonomy about their employment conditions ("dependent" self-employed workers) (OECD, 2019[99]), (OECD, 2018[100]). Digitalisation, which has accelerated during the pandemic, has facilitated the rise of these types of workers, such as platform workers (see Chapter 2). This poses a challenge that is being tackled in different ways across countries. For example, Portugal's compulsory unemployment insurance covers dependent self-employed workers, who receive more than half of their earnings from a single firm (OECD, 2020[101]). In Malaysia, self-employed taxi, e-hailing and bus drivers were included in mandatory employment insurance from 2017, which covers occupational injuries. Eligible self-employed workers pay contributions according to their monthly earning levels. Since 2020, an additional 19 jobs have been included, including hawkers (OECD, 2021[102]). Given the high rate of economic informality in Viet Nam, thresholds defining these workers (e.g. 50% of earnings from one source) could induce evasion (i.e. limiting earnings from a single source to be below these thresholds). Instead, a targeted approach to specific jobs, similar to Malaysia, could be applicable.

Employment Services Centres need to strengthen support to all vulnerable workers. In Viet Nam, Employment Services Centres have a mandate to serve all workers. Indeed, while approximately 1 million people claim unemployment insurance annually, around 3 million people receive advice and services from the Employment Services Centres each year. Nevertheless, for some Centres, most of their clients are claimants of unemployment insurance (80-90% of all clients (Stienon, Cunningham and Nguyen, 2020[98])). As unemployment benefit systems do not cover all workers, similar problems have been experienced in other countries. In OECD countries, less than one third of unemployed individuals receive unemployment benefits (OECD, 2018[103]), implying that labour market safety nets do not cover a number of individuals. It is therefore crucial to reach out proactively to non-claimants, who are mostly not formal employees in Viet Nam. Cooperation with relevant institutions, such as social protection services, would be effective to this end (OECD, 2021[104]). In Viet Nam, Employment Services Centres need to expand their client base extensively, cooperating with educational institutions and local communities (Stienon, Cunningham and Nguyen, 2020[98]). At the same time, focus should be on enhancing the job placement function of Employment Services Centres, which is currently weak. In particular, Employment Services Centres should focus on collecting and providing labour market information to all workers, while outsourcing some technical services, such as job search assistance, to private placement services. In 2020, Malaysia launched the MYFutureJobs portal as a one-stop shop to provide placement services for all jobseekers, which could be a good example at the national level. Since only one quarter of employed persons are covered by unemployment insurance in Viet Nam, most job seekers will not necessarily be insured people if Employment Services Centres can successfully expand their client base. It is therefore critical that these activities of Employment Services Centres are funded by the government budget as part of social assistance, not by the revenue of unemployment insurance.

Old-age social safety nets needs to be strengthened amid the rapid population ageing

As Viet Nam will become one of the most rapidly ageing societies in Southeast Asia in the coming decades, it needs to accelerate the development of social protection for elderly people (Figure 1.29). Like some other East and Southeast Asian countries, family members have traditionally supported elderly people. Nevertheless, the size of households has gradually declined and it is unlikely that the traditional model will be feasible with the changing demographics. In that context, the government will need to play a more active role in ensuring that vulnerable people are adequately supported. Moreover, population ageing tends to widen income inequality (Wang et al., 1990[105]) (Annex 1.A.). In Viet Nam, households headed by the elderly have higher poverty headcounts and the presence of an elderly person is likely to be associated with a higher risk of poverty (Evans et al., 2005[106]). In this context, enhancing social safety nets for the elderly, notably the overall public pension system, is crucial to preventing old-age poverty.

Figure 1.29. Southeast Asian countries will age rapidly in the coming decades



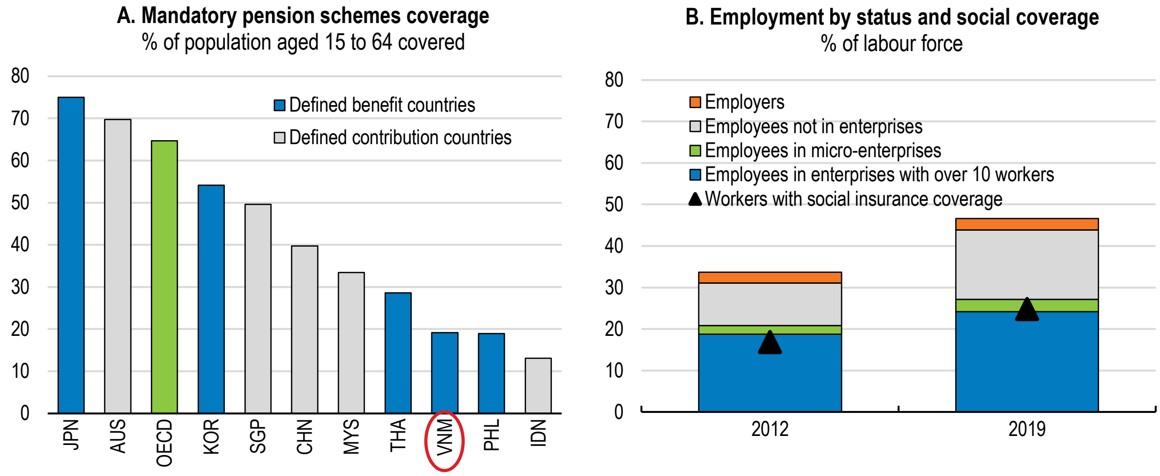
Note: The old-age dependency ratio is defined as the number of persons aged 65 and over relative to the 15-64 years old population.
Source: United Nations, Department of Economic and Social Affairs, Population Division (2019). World Population Prospects 2019, Online Edition. Rev. 1. ; World Bank, World Development Indicators database.

StatLink https://stat.link/8mt1v9

Viet Nam's public pension has been evolving, but is still underdeveloped

In Viet Nam, the public pension does not yet cover the majority of the population (Figure 1.30, Panel A). Similar to many other emerging market economies, this under-coverage is strongly associated with employment status. The Law on Social Insurance requires that, even if there is just one paid employee, the worker should be covered by the compulsory programme if the contract is longer than one month. Nevertheless, many small businesses, mostly micro enterprises and household businesses, do not participate in social insurance for their employees (the public pension being the major component). In addition, it is highly likely that most non-regular workers, whose number has recently increased, are also not covered by social insurance (Figure 1.30, Panel B). Some employers and employees intentionally opt for a short-term contract or underreport earnings to avoid making contribution. Uninsured workers are more susceptible to labour market disruptions than others, as was revealed by the pandemic, and vulnerability to economic shocks can increase the risk of old-age poverty in the future.

Figure 1.30. Coverage of public pension is still low in Southeast Asian countries



Note: In Panel B, employees do not include those in the government sector. Social insurance coverage refers to mandatory contribution and doesn't include the government sector.

Source: OECD (2018), Pensions At a Glance Asia/Pacific 2018, Figure 2.6; General Statistical Office, Economic Census, Enterprise Survey, Labour Force Survey and Statistical Yearbook, various years; and ILO, ILOStat database.

StatLink https://stat.link/y89psm

Improving the public pension coverage of non-regular workers is increasingly important. The government is stepping up its efforts in this direction. If implemented effectively, the amendment of the Labour Code in 2019 (effective January 2021) is a large step in filling one of the loopholes. In Viet Nam, short-term employment contracts are prevalent. In 2020, around 40% of employees worked with short-term contracts of less than three months or no contract. Statutorily, social insurance is compulsory for employers and employees with contracts of at least one month duration. Nevertheless, in the previous 2012 Labour Code, verbal contracts were possible for contracts of less than three month duration, which resulted in no written documents for employees with one- to three-month contracts to prove their employment records for social security. This inconsistency, which would induce intentional or unintentional evasion from public pension contributions, has now been resolved.

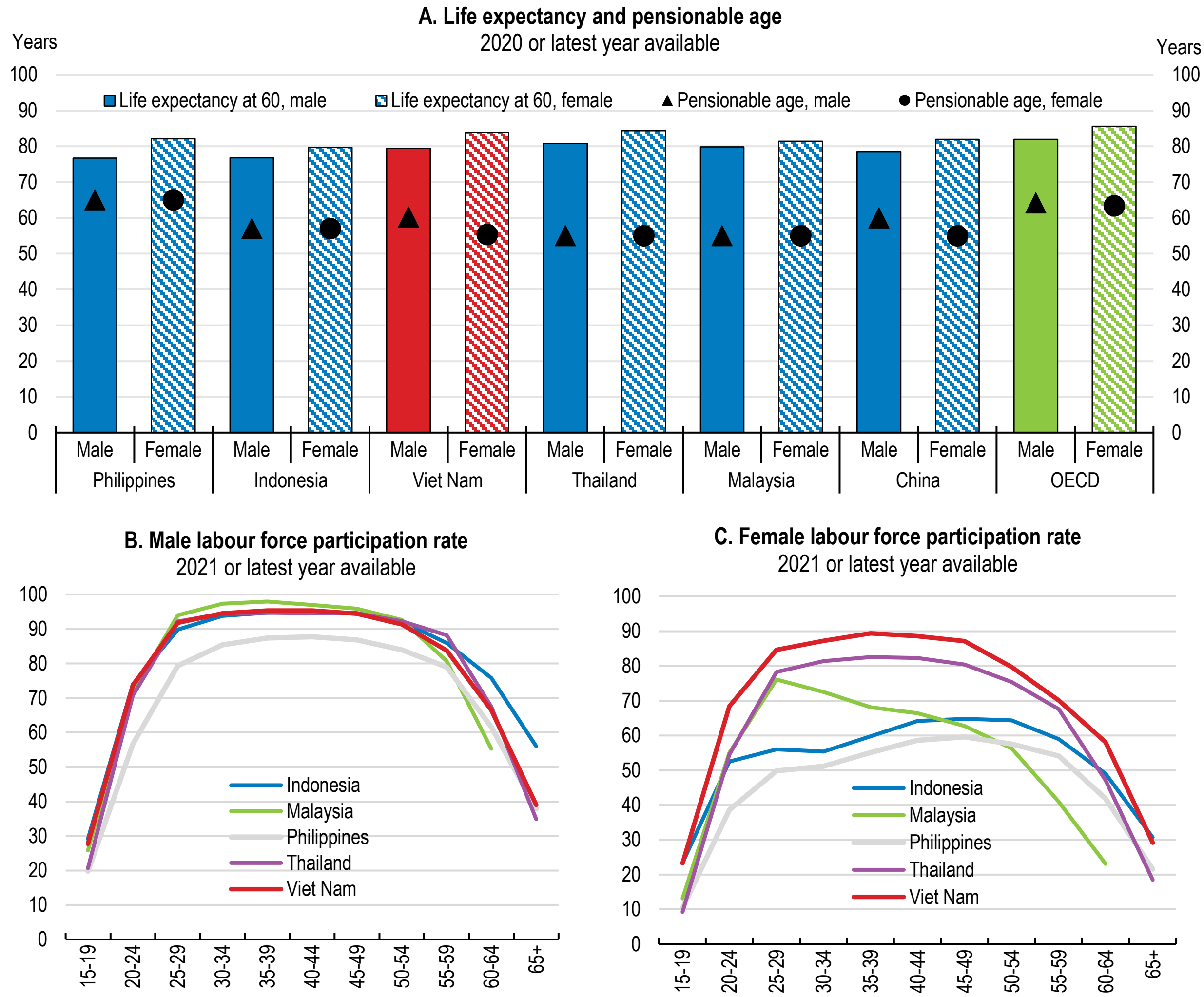
Introducing chief contractor responsibility would be useful to help expand the public pension coverage in some sectors, such as manufacturing and construction, where subcontracting is prevalent. Subcontracting provides flexible labour supply for businesses. However, subcontracting can entail evasion of compulsory social security contributions particularly by small subcontractors, to compress labour costs, if inspection is weak. A number of European countries have regulations that make chief contractors responsible for compliance of their subcontractors with government regulations, notably social security contributions (OECD, 2004[97]). In Viet Nam, given the importance of public investment in construction, the public sector (notably, state-owned enterprises) should be included in the framework along with the private sector.

Reviewing some eligibility conditions would also be useful. In particular, the threshold of one-month job tenure could be removed to expand the pension coverage to all workers, including unstable temporary workers (OECD, 2019[107]). In addition, the minimum contribution period of Viet Nam's public pension (20 years) is longer than in other Southeast Asian countries (10-15 years). The current long period is considered a hurdle for workers with unstable jobs, especially for women. The government is planning to shorten the period to 15 years from 2024 and 10 years from 2028 (ILO, 2021[108]). Nevertheless, if people could get the same or a similar amount of benefits with shorter contribution period, it weakens the linkage between contributions and benefits. In Greece, a generous non-contributory minimum pension discouraged workers to contribute beyond the minimum contribution period (Kangur, Kalavrezou and Kim, 2021[109]). Moreover, if the current lump sum withdrawal is maintained for those who do not meet the minimum contribution period, the impact would be limited (ILO, 2021[108]). A number of countries increase the periods as retirement ages are raised.

Strengthening the sustainability of the public pension is also crucial to improve its attractiveness. In particular, the statutory retirement ages (60 for men and 55 for women), which are lower than in OECD countries (the average is 64 for men and 63 for women), need to be raised (Figure 1.31, Panel A). Previous studies suggest that the net revenue of the social security fund is expected to be in deficit before the mid-21st Century without this reform (World Bank, 2019[110]). The life expectancy at the age of 60 is as high as the OECD averages (Viet Nam: 19.4 years for men and 23.9 years for women, OECD: 21.9 years for men and 25.6 years for women), and are expected to increase further. By 2040-45, men at the age of 60 will live for 21.7 years on average and women for 25.6 years, which will be the same as the current OECD averages. In addition, the current statutory retirement ages also deviate from the actual situation in the labour market, where more elderly Vietnamese women stay in the labour force than in other Southeast Asian countries (Figure 1.31, Panels B and C). A number of workers do not retire early, as they do not have sufficient pension savings. Indeed, the gap between the effective retirement age (67 for men and 64 for women) and the pensionable is large for women (9 years) (Annex 1.B.). The government recently decided to increase the pensionable age for the compulsory pension gradually to 62 (men) and to 60 (women) by 2035. Nevertheless, the reform should be more ambitious and also be accelerated. The difference between men and women could be abolished (c.f. currently, the official unemployment rates are calculated differently for men and women based on the different statutory retirement ages). Most countries have the same pensionable age for men and women. Among ASEAN-6 countries, only Viet Nam has different pensionable ages.

To improve pension sustainability, early lump-sum withdrawal should be prohibited. In Viet Nam, individuals who contribute to the public pension but do not meet the minimum contribution period (20 years) can withdraw lump sums instead of receiving regular pension payments. The original intention was to pay benefits to retirees who start contributing at a later stage of working age. Nevertheless, the number of withdrawals (500-700 thousand individuals per year) has typically been much larger than the number of new pensioners (around 100 thousand individuals per year). Indeed, with individuals below the retirement age able to claim lump-sum withdrawals, their share is significant (77% of lump-sum withdrawers in 2015 (Castel and Pick, 2018[111])). Many of them temporarily or permanently quit the public pension. To some extent, this early withdrawal acts as a safety net for young workers, as a number of them withdraw lump sums when they become unemployed or lose their jobs. In Chile, a transitory early withdrawal during the pandemic served as a financial backstop for many young people (Chile has a defined contribution pension), stimulating consumption and inflation (OECD, 2021[112]). Chilean people were allowed to withdraw up to 10% of accumulated pension assets three times since July 2020. Nevertheless, the large amounts of lump-sum withdrawals significantly reduced their pension savings, raising the risk of future old-age poverty. The Chilean Congress rejected a bill for a fourth withdrawal in December 2021. In Viet Nam, amid strong opposition from the public, the government withdrew the proposed prohibition of early cash out from the draft Law on Social Insurance 2014. Nevertheless, this scheme violates the principle of a defined benefit pension, and should be abolished. As early withdrawals will reduce future pension benefits of the withdrawers, it will also increase the risk of old-age poverty considerably among them. The policy priority should be to enhance the social safety net, such as unemployment insurance, so as for young workers not to need to rely on early withdrawal.

Figure 1.31. Women's pensionable age is lower than men's in Viet Nam



Note: For China, nominal retirement age is 50 years for blue collar women and 55 years for white collar women.
Source: ILOStat, Labour Force Participation Rate by Sex and Age - ILO Modelled Estimates; UN Department of Economic and Social Affairs, Population Division (2019), World Population Prospects 2019, Online Edition Rev. 1; OECD (2018), Pensions at a Glance Asia/Pacific; OECD (2021), Pensions at a Glance 2021 - OECD and G20 Indicators; and national sources.

StatLink https://stat.link/cmiuzs

Providing social pension for all people is urgent

Extending the pension coverage of self-employed workers is a challenge, as they are not covered by compulsory social insurance. Countries with voluntary programmes tend to have low participation rates (OECD, 2019[107]). In Viet Nam, in addition to low levels of incomes of self-employed workers, a significant number of unpaid family workers make the challenge more complicated. Indeed, despite recent increases, the participation rate is still very low (3.7% of total self-employed workers in 2020). In principle, exclusion of a large share of self-employed workers (in Viet Nam, it accounted for more than 50% of total employment and 30% in 2020, including and excluding agriculture respectively) from social security weakens its risk sharing function. The coverage of contributory pensions for self-employed workers varies from country to country. Not all countries have compulsory public pensions for self-employed workers. Nevertheless, recent changes in labour markets, notably the rise of dependent self-employed workers, increases the necessity of enhancing the inclusiveness of public pension systems. Indeed, more countries have come to include self-employed workers in their compulsory systems (OECD, 2019[107]). Germany has mandatory social insurance for artists, to which workers, contracting "employers" and the government contribute with the share of 50%, 30% and 20% respectively (OECD, 2018[100]).

In Viet Nam, strengthening the existing first-tier social pension with universal flat-rate benefits could serve as a more adequate public pension system for self-employed workers. Expanding compulsory coverage of the public pension to self-employed workers with subsidies to low-income individuals is one option for Viet Nam. Nevertheless, a large number of unpaid family workers (more than 25% of self-employed workers in 2020) would be left behind as they have no income. In this regard, tax-funded social assistance benefits can fill this gap (OECD, 2019[107]). In Viet Nam, currently, people aged over 80, who are not eligible for the public pension or other old-age social protection programmes, are entitled to a tax-funded old-age pension (VND 360 thousand per month). Those who are aged over 60 and poor can receive an additional allowance (the adjustment ratio is 1.5 for aged 60-80 and 2 for aged over 80). Expanding the old-age social pension for aged over 80 to all retirees who have reached pensionable ages but cannot receive the public pension needs to be considered (Tsuruga, Da Cunha and Nguyen, 2019[113]). This reform can provide social pensions for self-employed workers but will also be able to complement the whole old-age safety nets during the transition time when the compulsory pension expands its coverage to a critical mass of employees, as the social pension can provide support to retired employees who are not covered by the compulsory pension due to various reasons. Preliminary calculations suggest that the cost of this reform would be modest, while it could improve incomes of a number of elderly people (Table 1.7).

Table 1.7. Additional fiscal costs of old-age social net reform are small

Additional annual costs, % of GDP, 2020

Reforms	Details	Fiscal costs
Expanding the coverage of the old-age social pension to those who aged over 60	People who are aged 60-79 and do not receive either the social insurance pension benefits or the old-age social pension for the poor will receive an allowance of VND 360 thousand per month.	0.4
Expanding the coverage of the old-age social pension to those who aged over 65	People who are aged 65-79 and do not receive either the social insurance pension benefits or the old-age social pension for the poor will receive an allowance of VND 360 thousand per month.	0.2
Expanding the coverage of the old-age social pension to those who aged over 70	People who are aged 70-79 and do not receive either the social insurance pension benefits or the old-age social pension for the poor will receive an allowance of VND 360 thousand per month.	0.1

Source: OECD calculations.

Table 1.8. Table of Recommendations

MAIN FINDINGS	RECOMMENDATIONS (Key in bold)
Improving macroeconomic policy and fiscal sustainability	
Despite rapid reopening of the economy, external uncertainties are weighing on growth prospects. Furthermore, the risk of COVID-19 outbreaks, potentially stemming from the emergence of a new variant, remains.	Enhance public health capacity to prepare for the possible emergence of more contagious or deadly variants. **Consider providing targeted financial support to households strongly affected by high energy and food prices.** **Accelerate disbursement of public investment, including by simplifying public investment procedures and regulations.**
Inflation has picked up and is expected to remain high due to rising global energy and commodity prices and supply chain disruptions. At the same time, policy rate hikes in advanced economies are putting downward pressure on the exchange rate which could also push up domestic inflation.	**Raise policy rates earlier if there are signs that inflation is rising more rapidly and persistently than expected.**
Central bank independence is not solidly established, as the central bank is part of the Cabinet system and its operational autonomy is not secured by the statutes.	Consider strengthening the independence of the Central Bank, with a view towards eventually establishing a monetary policy committee in the medium- to long-term. Eventually adopt stricter inflation targeting with a more flexible exchange rate regime.
While banking sector resilience has been improved with the introduction of Basel II compatible regulations, bank-by-bank regulations are still used which gives less autonomy to banks and thus would be less conducive to facilitating efficient credit allocation.	Replace regulation on banking activity with macroprudential measures.
Despite past experiences of booms and busts that severely affected the financial sector, official statistics relating to property market conditions have not yet been compiled.	Publish quarterly residential property price indexes in a timely manner for major regions.
Actual fiscal spending often deviates considerably from planned budget and this makes effective monitoring of fiscal policy difficult, sometimes resulting in a pro-cyclical policy stance.	Introduce a rule that bans budget carryover spending after a certain period from the end of the previous fiscal year.
Despite growing expenditure from social security funds that accounts for a significant share in social benefit spending, no fiscal data is available for the consolidated government sector embracing both the state government and social security funds.	Publish comprehensive government finance data that covers the general government sector and shows inter-governmental fiscal transfers.
Government spending is expected to increase, especially for investments to facilitate the digital transformation and the green transition. A rapidly ageing population will also require more public spending on social benefits, including healthcare.	**Prepare a concrete medium-term fiscal consolidation plan to further enhance revenue, improve spending efficiency and increase the transparency of debt management based on plausible economic projections.**
The tax system has great complexity due to a number of exemptions, deductions, reduced rates and other special treatments, weakening the tax base, inducing low compliance and increasing collection costs.	**Expand the tax base by reducing exemptions and deductions in the corporate income tax and the personal income tax and narrowing the application of the reduced VAT rate.**
Fiscal revenues from property taxes are small compared with other Southeast Asian countries, while revenues from sales of land use rights have increased from the recent buoyant property market.	**Replace the land tax on non-agricultural land with a recurrent tax on immovable property levied on both buildings and land.** **Value immovable property more frequently based on the market value of the property.** Reduce or abolish registration fees on property transactions in tandem with the tax base expansion of the current land tax.
Making the recovery more robust	
Trade facilitation performance has been improved, but coordination among government agencies is still weak and some border clearance procedures, notably specialised inspection, are time-consuming.	Strengthen the mandate of the National Trade Facilitation Committee for policy monitoring and coordination by enhancing stakeholder engagement, particularly with SMEs.
Compared with other policy measures on trade facilitation, progress in cross-border cooperation is slow, as indicated by OECD Trade Facilitation Indicators.	More actively advance and implement the Great Mekong Subregion Cross-Border Transport Facilitation Agreement.
The deterioration of banks' loan quality could not be recognised fully due to temporary debt restructuring programmes introduced during the pandemic.	Enhance inspection for individual banks to avoid a deterioration in the quality of their balance sheet .

While the Viet Nam Asset Management Corporation has gradually expanded its non-performing loan transactions, policy frameworks to support market-based solutions for non-performing loans are still underdeveloped and the non-performing loan market is shallow.	Introduce regulations that allow creditors to seize collateral without lengthy court arbitration. Ease restrictions on property ownership by foreign investors (the ceiling on investment in property assets) to expand market participants. Expand the remit of the non-performing loan exchange by including the collection and storage of data related to non-performing loans in the market.
Strengthening public sector integrity	
Considerable progress has been made in combatting corruption in the public sector, setting up comprehensive legal frameworks and enhancing international commitments. However, despite declines in measures of perceived corruption, many stakeholders, including the international business community, consider that fighting corruption remains a priority.	**Continue to make strong commitments to enhancing anti-corruption efforts, allocating more government resources and increasing awareness among people and businesses, including public sector workers of local governments.**
The role of the principal anti-corruption agency, the Government Inspectorate is limited and its resources are small.	Consolidate more power in the Government Inspectorate and allocate more resources to it so as to provide direct supervision and guidance to ministries and local governments, including technical support.
Whistleblower protection for public sector workers has been strengthened but there is no dedicated law for whistleblower protection of private sector workers.	Enact a new law that ensures whistleblower protection for private sector workers.
Despite recent progress in legal and institutional frameworks for anti-money laundering, preventive measures based on a risk-based approach are still weak due to limited resources of responsible government agencies and weak coordination between them.	Allocate more resources to anti-money laundering supervision by responsible government agencies and enhance coordination among them, particularly through information sharing.
Reducing informality and developing effective social protection for all	
The statutory retirement ages are lower than in OECD countries and the gap with the average life expectancy is particularly large for women. Labour force participation rates of elderly people are high.	Raise the statutory retirement age faster and to a higher level (65) than currently planned, while removing the difference between men and women.
Social insurance can be withdrawn as a lump sum even before reaching pensionable age. A significant number of young individuals apply for early withdrawals, which threatens the sustainability of the public pension.	**Restrict the lump sum withdrawal scheme for those who have not reached pensionable ages, eventually phasing it out.**
Although participation is compulsory, only half of employees are covered by unemployment insurance.	Ease unemployment insurance eligibility conditions for non-regular workers, by applying the extended reference period of 36 months for seasonal workers to other unstable jobs, such as construction workers.
Viet Nam's job placement service entities, Employment Service Centres, mostly focus on administration of unemployment insurance claims. Their involvement in job placement services for job seekers, particularly those who are not covered by unemployment insurance, is weak.	Expand the client base of Employment Service Centres to reach non-insured job seekers through enhanced coordination with outside institutions.
A number of household businesses are staying small because of administrative and financial burdens, resulting in high rates of informality.	**Simplify and reduce various administrative and financial burdens for household businesses to encourage them to formalise and grow.**
The administrative burden, namely business registration, tax and social security administration, is higher for starting an unincorporated business (household businesses) than incorporated business (enterprises). A number of sole proprietors are exempted from administration requirements and licence fees.	Reduce the number of procedures concerning business registration, tax and social security administration required to establish a household business to the same level as for enterprises. Reduce licence fees for all household businesses.
The self-employed account for a half of total employment but, despite recent increases, only a small fraction of self-employed workers participate in the voluntary public pension system (3.7% of total self-employed workers).	Expand the current old-age social pension for those aged over 80 to cover those who are not covered by the compulsory public pension but have reached pensionable age.

References

Adrian, T. et al. (2020), "A Quantitative Model for the Integrated Policy Framework", *IMF Working Paper*, No. 122, IMF, Washington D.C., https://www.imf.org/en/Publications/WP/Issues/2020/07/07/A-Quantitative-Model-for-the-Integrated-Policy-Framework-49555. [28]

Asenjo, A. and C. Pignatti (2019), "Unemployment Insurance Schemes around the World: Evidence and Policy Options", *Research Department Working Paper*, No. 49, ILO, https://www.ilo.org/wcmsp5/groups/public/---dgreports/---inst/documents/publication/wcms_723778.pdf. [95]

Asia/Pacific Group on Money Laundering (2022), *Anti-Money Laundering and Counter-Terrorist Financing Measures: Viet Nam - Third Round Mutual Evaluation Report*, Asia/Pacific Group on Money Laundering, http://www.apgml.org/includes/handlers/get-document.ashx?d=c28e7a40-87d5-4535-a196-847ef08383c0. [76]

Asian Development Bank (2022), *Asian Economic Integration Report 2022: Advancing Digital Services Trade in Asia and the Pacific*, Asian Development Bank, Manila, Philippines, https://doi.org/10.22617/TCS220041-2. [27]

Asian Development Bank (2021), *Asian Economic Integration Report 2021: Making Digital Platforms Work for Asia and the Pacific*, Asian Development Bank, Manila, Philippines, https://doi.org/10.22617/TCS210048-2. [21]

Asian Development Bank (2021), *Asia-Pacific Trade Facilitation Report 2021: Supply Chains of Critical Goods Amid the COVID-19 Pandemic - Disruptions, Recovery, and Resilience*, https://doi.org/10.22617/SPR210365-2. [20]

Asian Development Bank (2020), *Mapping Property Tax Reform in Southeast Asia*, Asian Development Bank, https://doi.org/10.22617/TCS200425. [63]

Banerji, A. et al. (2018), "Asian Women at Work: As Women Advance in Asia's Labor Force, Vietnam is a Standout", *IMF Finance & Development*, https://www.imf.org/external/pubs/ft/fandd/2018/09/pdf/female-labor-force-participation-in-vietnam-banerji.pdf. [78]

Bank Indonesia (2019), *2018 Economic Report on Indonesia*, Bank Indonesia, https://www.bi.go.id/en/publikasi/laporan/Pages/LPI_2018.aspx. [52]

Barcucci, V., W. Cole and R. Gammarano (2021), "Gender and the Labour Market in Viet Nam - An Analysis based on the Labour Force Survey", *ILO Brief*, https://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/---ilo-hanoi/documents/publication/wcms_774434.pdf. [79]

Blöchliger, H. and J. Kim (eds.) (2016), *Fiscal Federalism 2016: Making Decentralisation Work*, OECD Publishing, Paris, https://doi.org/10.1787/9789264254053-en. [62]

Boulhol, H. (2011), "Making the French Housing Market Work Better", *OECD Economics Department Working Papers*, No. 861, OECD Publishing, Paris, https://doi.org/10.1787/5kgcd9w73qvf-en. [65]

Broda, C. and C. Tille (2003), “Coping with Terms-of-Trade Shocks in Developing Countries”, *Current Issues in Economics and Finance*, Federal Reserve Bank of New York, https://www.newyorkfed.org/medialibrary/media/research/current_issues/ci9-11.html. [30]

Brys, B. et al. (2013), “Tax Policy and Tax Reform in the People’s Republic of China”*, OECD Taxation Working Papers*, No. 18, OECD Publishing, Paris, https://doi.org/10.1787/5k40l4dlmnzw-en. [61]

Castel, P. and A. Pick (2018), “Increasing Social Insurance Coverage in Viet Nam’s SMEs”*, OECD Development Policy Papers*, No. 13, OECD, https://www.oecd.org/dev/inclusivesocietiesanddevelopment/Increasing_social_insurance_coverage_in_Vietnam_SMES.pdf. [111]

Central Institute of Economic Management (2017), *Executive Summary - A Study on “Formalization” of Household Business in Viet Nam*, Central Institute of Economic Management, Viet Nam, http://www.mekongbiz.org/wp-content/uploads/2017/07/Executive-Summary-Formalization-of-household-business-in-Vietnam.pdf. [85]

Deryol, E. et al. (2019), “Mind the Data Gap: Commercial Property Prices for Policy”*, IFC Report*, No. 8, BIS, https://www.bis.org/ifc/publ/ifc_report_cppis.pdf. [43]

Égert, B. and P. Gal (2016), “The Quantification of Structural Reforms in OECD Countries: A New Framework”*, OECD Economics Department Working Paper*, No. 1354, OECD Publishing, Paris, https://www.oecd.org/competition/reform/The-quantification-of-structural-reforms-in-OECD-countries-a-new-framework.pdf. [9]

Epstein, N. et al. (2022), “Quarterly Projection Model for Vietnam: A Hybrid Approach for Monetary Policy Implementation”*, IMF Working Paper*, No. 125, IMF, Washington D.C., https://www.imf.org/en/Publications/WP/Issues/2022/06/24/Quarterly-Projection-Model-for-Vietnam-A-Hybrid-Approach-for-Monetary-Policy-Implementation-519929. [29]

Evans, M. et al. (2005), *The Relationship Between Old Age and Poverty in Viet Nam*, UNDP, https://www.researchgate.net/publication/265106891_The_Relationship_Between_Old_Age_and_Poverty_in_Viet_Nam. [106]

Felipe, J. (2012), “Tracking the Middle-Income Trap: What is It, Who is in It, and Why? (Part 1)”*, Economics Working Papers*, No. 306, Asian Development Bank, Manila, https://www.adb.org/publications/tracking-middle-income-trap-what-it-who-it-and-why-part-1. [3]

Fell, J. et al. (eds.) (2021), *Nonperforming Loans in Asia and Europe - Causes, Impacts, and Resolution Strategies*, Asian Development Bank, https://www.adb.org/sites/default/files/publication/754716/nonperforming-loans-asia-europe-causes-impacts.pdf. [39]

General Statistics Office (2018), *2016 Report on Informal Employment in Viet Nam*, Government of Viet Nam, https://www.gso.gov.vn/wp-content/uploads/2019/05/Bao-cao-phi-chinh-thuc-2016_Eng_in.pdf. [80]

Ha, D. and L. Lan (2021), “Trade Facilitation in Viet Nam and Result of the ASTFI Baseline Study”, in *Towards Seamless Trade Facilitation in ASEAN Baseline Study*, ERIA, https://www.eria.org/publications/towards-seamless-trade-facilitation-in-asean-baseline-study/. [19]

Harvard Kennedy School, Ash Center for Democratic Governance and Innovation (2022), *In visit to Harvard Kennedy School, Vietnamese Prime Minister Underscores Multilateral Ambitions*, https://ash.harvard.edu/visit-harvard-kennedy-school-vietnamese-prime-minister-underscores-multilateral-ambitionsin?. [2]

Ha, V. (2019), "Do Long Term Savings Motives Foster Household Participation and Contribution to Savings Mechanisms in Rural Vietnam?", *The Journal of Asian Finance, Economics and Business*, Vol. 6/2, pp. 75-82, https://doi.org/10.13106/JAFEB.2019.VOL6.NO2.75. [47]

Hoang, T., T. Nguyen and T. Le (2020), "Handling Bad Debt of Credit Institutions - Experience from Vietnam Asset Management Company (VAMC)", *Journal of Economics and Business*, Vol. 3/2, https://ssrn.com/abstract=3581795. [40]

ILO (2021), *Adapting Social Insurance to Women's Life Courses: A Gender Impact Assessment of Viet Nam*, https://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/---ilo-hanoi/documents/publication/wcms_819801.pdf. [108]

ILO (2020), "Lifelong Learning in the Informal Economy", *Research Brief*, ILO, Geneva, https://www.oitcinterfor.org/sites/default/files/file_publicacion/Research_brief_LLL%20in%20the%20IE.pdf. [87]

ILO (2017), *Strengthening Social Protection for the Future of Work*, ILO, https://www.ilo.org/wcmsp5/groups/public/---dgreports/---inst/documents/publication/wcms_559136.pdf. [93]

ILO; International Youth Foundation (2014), *Upgrading Informal Apprenticeships in Jordan: Key Findings from a Pilot Studies*, https://iyfglobal.org/sites/default/files/library/ILO-IYF_EquipYouth_Pilot_Study_Report.pdf. [91]

IMF (2022), *Vietnam: 2022 Article IV Consultation-Press Release; Staff Report, and Statement by the Executive Director for Vietnam*, IMF, Washington D.C., https://www.imf.org/en/Publications/CR/Issues/2022/07/05/Vietnam-2022-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-520395. [14]

IMF (2021), *Vietnam : 2020 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Vietnam*, https://www.imf.org/en/Publications/CR/Issues/2021/02/24/Vietnam-2020-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-50121. [36]

IMF (2019), *Vietnam: 2019 Article IV Consultation; Press Release; Staff Report; and Statement by the Executive Director for Vietnam*, IMF, https://www.imf.org/en/Publications/CR/Issues/2019/07/16/Vietnam-2019-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-47124. [33]

IMF Fiscal Affairs Department (2021), *Fiscal Monitor Database of Country Fiscal Measures in Response to the COVID-19 Pandemic*, https://www.imf.org/en/Topics/imf-and-covid19/Fiscal-Policies-Database-in-Response-to-COVID-19. [7]

IMF Statistics Department (2019), "Vietnam: Technical Assistance Report - Report on Residential Property Price Statistics Capacity Development Mission", *IMF Staff Country Reports*, Vol. 2019/005, https://doi.org/10.5089/9781484393222.002. [42]

Kangur, A., N. Kalavrezou and D. Kim (2021), “Reforming the Greek Pension System”, *IMF Working Paper*, No. 188, IMF, https://www.imf.org/-/media/Files/Publications/WP/2021/English/wpiea2021188-print-pdf.ashx. [109]

Khatat, M., M. Buessing-Loercks and V. Fleuriet (2020), “Monetary Policy Under an Exchange Rate Anchor”, *IMF Working Paper*, No. 180, IMF, https://www.imf.org/en/Publications/WP/Issues/2020/09/04/Monetary-Policy-Under-an-Exchange-Rate-Anchor-49722. [32]

Kidd, S. et al. (2016), *Social Assistance in Viet Nam: A Review and Proposals for Reform*, UNDP, Ministry of Labour, Invalids and Social Affairs, https://www.developmentpathways.co.uk/wp-content/uploads/2018/06/3.Social-Assistance-in-VN-A-review-and-proposal-for-reform-EN-1.pdf. [10]

Lee, S. and N. Torm (2017), “Social Security and Firm Performance: The case of Vietnamese SMEs”, *International Labour Review*, Vol. 156/2, pp. 185-212, https://doi.org/10.1111/J.1564-913X.2015.00054.X. [84]

Luong, H. (2018), “The Changing Configuration of Rural-Urban Migration and Remittance Flow in Vietnam”, *Journal of Social Issues in Southeast Asia*, Vol. 33/3, https://doi.org/10.1355/sj33-3d. [13]

Madani, D., V. Nguyen and H. Nguyen (2021), *Vietnam Fiscal Update: Aggregate Fiscal Impact of COVID-19*, World Bank Group, Washington, D.C., https://documents.worldbank.org/en/publication/documents-reports/documentdetail/398321636737256503/vietnam-fiscal-update-aggregate-fiscal-impact-of-covid-19. [11]

Matthew, S. (2020), *Digital FDI: Policies, Regulations and Measures to Attract FDI in the Digital Economy - White Paper*, World Economic Forum, https://www3.weforum.org/docs/WEF_Digital_FDI_2020.pdf. [25]

McGuire, P. et al. (2021), “Outward Portfolio Investment and Dollar Funding in Emerging Asia”, *BIS Quarterly Review*, https://www.bis.org/publ/qtrpdf/r_qt2112d.pdf. [53]

Ministry of Foreign Affairs (2019), *Political System, About Viet Nam*, Home page, Ministry of Foreign Affairs, https://www.mofa.gov.vn/en/tt_vietnam/nr040810155159/. [5]

Morgan, P. and L. Trinh (2020), “Fintech and Financial Literacy in Viet Nam”, *ADBI Working Paper Series*, No. 1154, Asian Development Bank Institute, https://www.adb.org/sites/default/files/publication/616781/adbi-wp1154.pdf. [48]

National Assembly Economic Committee (2012), *Inflation Targeting and the Implications for Monetary Policy Framework in Vietnam*, UNDP, https://www.undp.org/content/dam/vietnam/docs/Publications/Inflation%20targeting%20and%20the%20implications%20for%20monetary%20policy%20framework%20in%20Vietnam-Eng.pdf. [34]

Nguyen, Q. (2021), *NPL Resolution in Vietnam - the Current Market Practices*, https://www.ifc.org/wps/wcm/connect/b8204b47-d4d9-4524-a10c-7601d770e3b4/4.+Speech+by+VBA+Secretary+General_+ENG.pdf?MOD=AJPERES&CVID=nPA7dtO. [38]

Nguyen, T. (2020), "The System of Anti-Corruption Agencies in Vietnam: Concept, Function, and Challenges", *Journal of Global Studies, Doshisha University, Graduate School of Global Studies*, Vol. 11, https://global-studies.doshisha.ac.jp/attach/page/GLOBAL_STUDIES-PAGE-EN-147/149717/file/123-144.pdf. [69]

Nguyen, V. and M. Floro (2019), "Understanding Asset Holdings of Vietnamese Households", *Journal of the Asia Pacific Economy*, https://doi.org/10.1080/13547860.2019.1699986. [46]

Niehues, J. (2010), "Social Spending Generosity and Income Inequality: A Dynamic Panel Approach", *IZA Discussion Paper Series*, No. 5178, Institute for the Study of Labour, Bonn, Germany, https://docs.iza.org/dp5178.pdf. [114]

Obstfeld, M., J. Ostry and M. Qureshi (2017), "A Tie That Binds : Revisiting the Trilemma in Emerging Market Economies", *IMF Working Paper*, No. 130, IMF, https://www.imf.org/en/Publications/WP/Issues/2017/06/08/A-Tie-That-Binds-Revisiting-the-Trilemma-in-Emerging-Market-Economies-44942. [31]

OECD (2022), *FDI Qualities Policy Toolkit*, OECD Publishing, Paris, https://doi.org/10.1787/7ba74100-en. [16]

OECD (2021), "Building Inclusive Labour Markets: Active Labour Market Policies for the Most Vulnerable Groups", *OECD Policy Responses to Coronavirus (COVID-19)*, OECD, Paris, https://doi.org/10.1787/607662d9-en. [104]

OECD (2021), *Fostering Economic Resilience in a World of Open and Integrated Markets - Risks, Vulnerabilities and Areas for Policy Action*, OECD Publishing, Paris, https://www.oecd.org/newsroom/OECD-G7-Report-Fostering-Economic-Resilience-in-a-World-of-Open-and-Integrated-Markets.pdf. [24]

OECD (2021), *OECD Economic Surveys: Chile 2021*, OECD Publishing, Paris, https://doi.org/10.1787/79b39420-en. [112]

OECD (2021), *OECD Economic Surveys: Malaysia 2021*, OECD Publishing, Paris, https://doi.org/10.1787/cc9499dd-en. [102]

OECD (2021), *Resolution Strategies for Non-Performing Loans in the Post-COVID-19 Landscape*, OECD, https://www.oecd.org/daf/fin/financial-markets/Resolution-strategies-for-non-performing-bank-loans-in-the-post-COVID-19-landscape.pdf. [37]

OECD (2020), "Independent fiscal institutions: promoting fiscal transparency and accountability during the Coronavirus (COVID-19) pandemic", *OECD Policy Responses to Coronavirus (COVID-19)*, OECD Publishing, Paris, https://doi.org/10.1787/d853f8be-en. [58]

OECD (2020), *Multi-dimensional Review of Viet Nam: Towards an Integrated, Transparent and Sustainable Economy, OECD Development Pathways*, OECD Publishing, Paris, https://doi.org/10.1787/23087358. [1]

OECD (2020), *OECD Economic Surveys: Thailand 2020: Economic Assessment*, OECD Publishing, Paris, https://doi.org/10.1787/ad2e50fa-en. [26]

OECD (2020), *OECD Employment Outlook 2020: Worker Security and the COVID-19 Crisis*, OECD Publishing, Paris, https://doi.org/10.1787/1686c758-en. [94]

OECD (2020), *OECD Policy Responses to Coronavirus (COVID-19)*, OECD Publishing, Paris, https://doi.org/10.1787/5b0fd8cd-en. [23]

OECD (2020), *OECD Public Integrity Handbook*, OECD Publishing, Paris, https://doi.org/10.1787/ac8ed8e8-en. [70]

OECD (2020), *OECD Tax-Benefit Model for Portugal: Description of Policy Rules for 2020*, OECD, https://www.oecd.org/els/soc/TaxBEN-Portugal-2020.pdf. [101]

OECD (2019), *Institutions Guaranteeing Access to Information: OECD and MENA Region*, OECD Publishing, Paris, https://doi.org/10.1787/e6d58b52-en. [75]

OECD (2019), *OECD Economic Surveys: Italy 2019*, OECD Publishing, Paris, https://doi.org/10.1787/369ec0f2-en. [86]

OECD (2019), *OECD Employment Outlook 2019: The Future of Work*, OECD Publishing, Paris, https://doi.org/10.1787/9ee00155-en. [99]

OECD (2019), *Pensions at a Glance 2019: OECD and G20 Indicators*, OECD Publishing, Paris, https://doi.org/10.1787/b6d3dcfc-en. [107]

OECD (2018), *Good Jobs for All in a Changing World of Work: The OECD Jobs Strategy*, OECD Publishing, Paris, https://doi.org/10.1787/9789264308817-en. [100]

OECD (2018), *OECD Employment Outlook 2018*, OECD Publishing, Paris, https://doi.org/10.1787/empl_outlook-2018-en. [103]

OECD (2018), *OECD Investment Policy Reviews: Viet Nam 2018*, OECD Investment Policy Reviews, OECD Publishing, Paris, https://doi.org/10.1787/9789264282957-en. [60]

OECD (2018), “The Role of Technical and Vocational Education and Training (TVET) in Fostering Inclusive Growth at the Local Level in Southeast Asia”*, OECD Local Economic and Employment Development (LEED) Papers*, No. 1, OECD Publishing, Paris, https://www.oecd-ilibrary.org/employment/the-role-of-technical-and-vocational-education-and-training-tvet-in-fostering-inclusive-growth-at-the-local-level-in-southeast-asia_5afe6416-en. [89]

OECD (2016), *Committing to Effective Whistleblower Protection*, OECD Publishing, Paris, https://doi.org/10.1787/9789264252639-en. [74]

OECD (2015), *OECD Employment Outlook 2015*, OECD Publishing, Paris, https://doi.org/10.1787/19991266. [83]

OECD (2004), *OECD Employment Outlook 2004*, OECD, Paris. [97]

OECD (2003), *Labour Market and Social Policies in the Baltic Countries*, OECD Publishing, Paris, https://doi.org/10.1787/9789264100077-en. [92]

OECD/ADB (2019), *Government at a Glance Southeast Asia 2019*, OECD Publishing, Paris, https://doi.org/10.1787/9789264305915-en. [54]

OECD/ILO (2019), *Tackling Vulnerability in the Informal Economy*, Development Centre Studies, OECD Publishing, Paris, https://doi.org/10.1787/939b7bcd-en. [90]

Palmer, R. (2020), *Lifelong Learning in the Informal Economy : A Literature Review*, ILO, https://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/documents/publication/wcms_741169.pdf. [88]

Park, C., P. Petri and M. Plummer (2021), “Economic Implications of the Regional Comprehensive Economic Partnership for Asia and the Pacific”, *ADB Economics Working Papers*, No. 639, Asian Development Bank, Manila, Philippines, https://doi.org/10.22617/WPS210371-2. [22]

Pasquier-Doumer, L., X. Oudin and T. Nguyen (eds.) (2017), *The Importance of Household Businesses and the Informal Sector for Inclusive Growth in Viet Nam*, Viet Nam Academy of Social Sciences and the French National Research Institute for Sustainable Development, https://hal.archives-ouvertes.fr/hal-01827323/document. [82]

Potter, B. and J. Diamond (1999), *Guidelines for Public Expenditure Management*, IMF, https://www.imf.org/external/pubs/ft/expend/index.htm. [56]

Quah, J. (2021), “Breaking the Cycle of Failure in Combating Corruption in Asian Countries”, *Public Administration and Policy*, Vol. 24/2, pp. 125-138, https://doi.org/10.1108/PAP-05-2021-0034. [71]

Quah, J. (2018), “Combating Corruption in Asian Countries: Learning from Success & Failure”, *Daedalus, Anticorruption: How to Beat Back Political & Corporate Graft*, Vol. 147/3, https://www.jstor.org/stable/48563090. [72]

Scatigna, M., R. Szemere and K. Tsatsaronis (2014), “Residential Property Price Statistics across the Globe”, *BIS Quarterly Review*, https://www.bis.org/publ/qtrpdf/r_qt1409h.pdf. [41]

Scherer, P. (2002), “Age of Withdrawal from the Labour Force in OECD Countries”, *OECD Labour Market and Social Policy Occasional Papers*, No. 49, OECD Publishing, Paris, https://doi.org/10.1787/327074367476. [115]

Shukla, G. et al. (2011), *Tax Reform in Vietnam: Toward a More Efficient and Equitable System*, World Bank, Washington, DC., https://openknowledge.worldbank.org/handle/10986/26851. [59]

Slack, E. and R. Bird (2014), “The Political Economy of Property Tax Reform”, *OECD Working Papers on Fiscal Federalism*, No. 18, OECD Publishing, Paris, https://doi.org/10.1787/5jz5pzvzv6r7-en. [64]

Stienon, A., W. Cunningham and N. Nguyen (2020), *Employment Service Centers in Vietnam: Summary Review*, World Bank, Washington, D.C., http://documents1.worldbank.org/curated/en/119211588060338962/pdf/Employment-Service-Centers-in-Vietnam-Summary-Review.pdf. [98]

The Economist (2019), *Vietnam has one of the highest shares of women in work in the world*, https://www.economist.com/asia/2019/06/08/vietnam-has-one-of-the-highest-shares-of-women-in-work-in-the-world. [77]

Tran, A. (2012), *Anti-Corruption in Vietnam*, United Nations Asia and Far East Institute for the Prevention of Crime and the Treatment of Offenders, Tokyo, https://www.unafei.or.jp/publications/pdf/GG5/GG5_Vietnam2.pdf. [67]

Tran-Thi, Q. and T. Vu-Thanh (2020), "Vietnam: The Dilemma of Bringing Global Financial Standards to a Socialist Market Economy", in *The Political Economy of Bank Regulation in Developing Countries: Risk and Reputation*, Oxford University Press, https://doi.org/10.1093/OSO/9780198841999.003.0013. [44]

Tran, V. (2019), "Vietnam's Experiences with International Investment Agreements Governance: Issues and Solutions", *Asian Yearbook of International Law*, Vol. 25, https://doi.org/10.1163/9789004501249_005. [15]

Tran, V. (2013), "The Middle-Income Trap: Issues for Members of the Association of Southeast Asian Nations", *ADBI Working Paper Series*, No. 421, Asian Development Bank Institute, Tokyo, https://www.adb.org/sites/default/files/publication/156275/adbi-wp421.pdf. [4]

Tsuruga, I., N. Da Cunha and Q. Nguyen (2019), *Summary Note on Options for the Design of a Multi-Tier Pension System in Viet Nam*, ILO, https://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/---ilo-hanoi/documents/publication/wcms_729536.pdf. [113]

UNCAC (2021), *State of Implementation of the United Nations Convention against Corruption: Executive Summary*, Conference of the States Parties to the United Nations Convention against Corruption, https://www.unodc.org/documents/treaties/UNCAC/WorkingGroups/ImplementationReviewGroup/6-10September2021/CAC-COSP-IRG-II-2-1-Add.28/V2105226_E.pdf. [73]

UNCAC (2012), *Review of Implementation of the United Nations Convention against Corruption*, Conference of the States Parties to the United Nations Convention against Corruption, https://www.unodc.org/documents/treaties/UNCAC/WorkingGroups/ImplementationReviewGroup/ExecutiveSummaries/V1255476e.pdf. [68]

UNCTAD (2020), "National Trade Facilitation Committees as Coordinators of Trade Facilitation Reforms", *Transport and Trade Facilitation Series*, No. 14, UNCTAD, https://unctad.org/system/files/official-document/dtltlb2020d1_en.pdf. [17]

Unédic (2020), *INSIGHT: Spanish Unemployment Insurance System*, Unédic, https://www.unedic.org/sites/default/files/2020-12/Insight%20-%20spanish%20unemployment%20insurance%20system.pdf. [96]

United Nations et al. (2009), *System of National Accounts 2008*, https://unstats.un.org/unsd/nationalaccount/docs/SNA2008.pdf. [6]

UNODC (2012), *Country Review Report of the Socialist Republic of Vietnam*, United Nations Office on Drugs and Crime, https://www.unodc.org/documents/treaties/UNCAC/CountryVisitFinalReports/2014_11_24_Vietnam_Final_Country_Report.pdf. [66]

USAID (2021), *Midterm Evaluation: USAID/Vietnam Trade Facilitation Program*, USAID/Vietnam, https://pdf.usaid.gov/pdf_docs/PA00Z6BV.pdf. [18]

von Trapp, L., I. Lienert and J. Wehner (2016), "Principles for independent fiscal institutions and case studies", *OECD Journal on Budgeting*, https://doi.org/10.1787/budget-15-5jm2795tv625. [57]

Wang, C. et al. (1990), "Aging and Inequality: The Perspective of Labor Income Share", *ADBI Working Paper Series*, No. 764, Asian Development Bank Institute, https://www.adb.org/sites/default/files/publication/336016/adbi-wp764.pdf. [105]

Working Committee on Capital Account Liberalisation (2019), *Capital Account Safeguard Measures in the ASEAN Context*, ASEAN, https://asean.org/wp-content/uploads/2021/08/Capital-Account-Safeguard-Measures-in-the-ASEAN-Context.pdf. [51]

Working Group of Committee on the Global Financial System (2021), "Changing Patterns of Capital Flows", *CGFS Papers*, No. 66, BIS, https://www.bis.org/publ/cgfs66.pdf. [50]

World Bank (2022), *From the Last Mile to the Next Mile - 2022 Vietnam Poverty & Equity Assessment*, World Bank, Washington, D.C., https://documents1.worldbank.org/curated/en/099115004242216918/pdf/P176261055e180087097d60965ce02eb562.pdf. [8]

World Bank (2021), *Non-Performing Loans in East Asia and the Pacific : Practices and Lessons in Times of COVID-19*, World Bank, Kuala Lumpur, https://openknowledge.worldbank.org/handle/10986/36522?locale-attribute=fr. [35]

World Bank (2021), *The Labor Market and the COVID-19 Outbreak in Vietnam: Impacts and Lessons Learned for Social Protection*, World Bank, https://openknowledge.worldbank.org/bitstream/handle/10986/35990/The-Labor-Market-and-the-COVID-19-Outbreak-in-Vietnam-Impacts-and-Lessons-Learned-for-Social-Protection.pdf?sequence=1. [81]

World Bank (2019), *A Vision for the 2030 Social Protection System in Viet Nam*, World Bank, https://documents1.worldbank.org/curated/en/457311600401962011/pdf/A-Vision-for-the-2030-Social-Protection-System-in-Vietnam.pdf. [110]

World Bank (2018), *Public Investment Management in Vietnam: Assessment and Reform Priorities for Overcoming the Bottlenecks*, World Bank, Hanoi, https://doi.org/10.1596/31762. [12]

World Bank Group (2019), *Finance in Transition: Unlocking Capital Markets for Vietnam's Future Development*, World Bank Group, https://documents1.worldbank.org/curated/en/971881576078190397/pdf/Finance-in-Transition-Unlocking-Capital-Markets-for-Vietnam-s-Future-Development.pdf. [45]

World Bank and Government of Viet Nam (2017), *Vietnam Public Expenditure Review: Fiscal Policies towards Sustainability, Efficiency, and Equity*, World Bank, Washington, D.C., https://doi.org/10.1596/28610. [55]

WTO (2021), *Trade Policy Review: Viet Nam*, WTO, https://www.wto.org/english/tratop_e/tpr_e/tp510_e.htm. [49]

Annex 1.A. Determinants of income inequality

Previous studies suggest that income inequality is determined by various economic factors (Niehues, 2010[114]). Simple empirical work was done for this report by using panel data of 192 countries and regions across the world for the period between 2009 and 2019. As income inequality changes very slowly over time, dynamic panel model was utilised similar to previous studies.

Regression results suggest that GDP per capita, ageing, social spending and the employment rate of women would be likely to be associated with levels of the Gini coefficient of disposable income, and difference between the Gini coefficients of market and disposable income would be likely to be associated with GDP per capita and social spending (Annex Table 1.A.1).

Annex Table 1.A.1. High social spending is likely to be associated with low income inequality

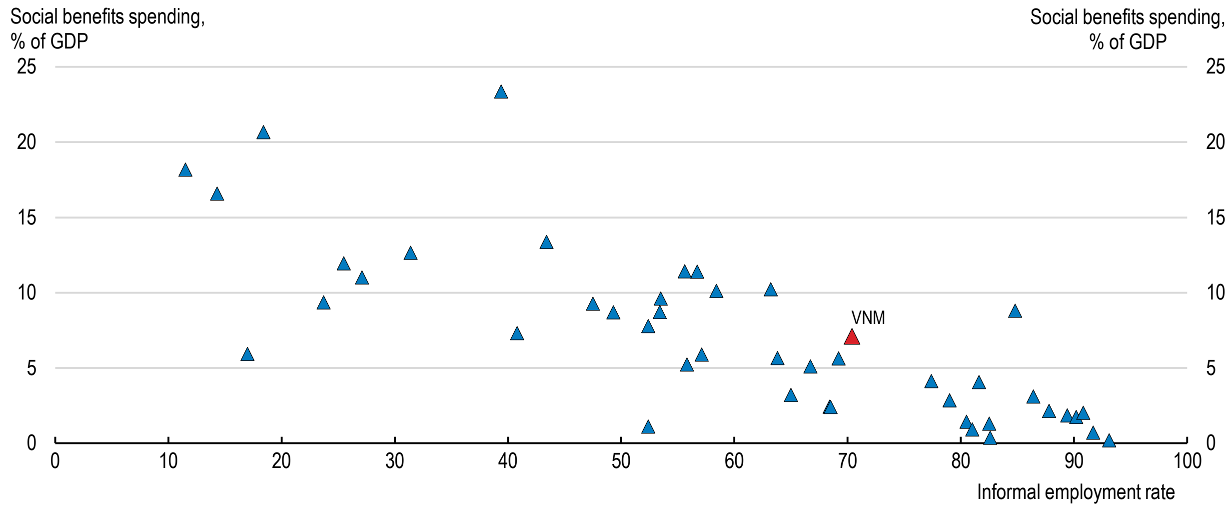
Regression of Gini coefficients on GDP per capita, social spending, female employment rate and ageing

	Dependent variable is Gini coefficient of disposable income	Dependent variable is difference between Gini coefficients of market and disposable income
	(1)	(2)
Lagged Gini coefficient	0.710294	0.685391
	(0.0000)	(0.0000)
Log of per capita GDP, constant 2017 PPP	-1.465073	23.14986
	(0.0000)	(0.0000)
Social benefits, % of GDP	-0.010822	0.514006
	(0.0000)	(0.0000)
Employment rate, women	-0.009245	
	(0.0000)	
Share of aged over 65 in population	0.025886	
	(0.0044)	
Period effects	Yes	Yes
Observations	744	776
Sargan test	0.235743	0.409114
Arellano-Bond Serial Correlation Test		
First-order correlation	0.0939	0.0173
Second-order correlation	0.7992	0.2045

Note: ( ) indicates p-value.
Source: IMF, GFS; WB, WDI; SWIID; ILO, ILOstat; and OECD calculations.

Tackling informality would be conducive to improving the efficiency of social spending. Prevalence of informal employment would require more social spending to reach out to people who are not covered by formal labour market safety nets or social security. Nevertheless, cross-section data show that social spending has negative correlation with the rate of informal employment (Annex Figure 1.A.1). This would be caused by country specific factors, such as the efficiency of government institutions or strengths of revenue collection. Revenue collection would be less efficient if the incidence of informal employment is high. Social spending itself may be affected by levels of fiscal revenues. The effect of the prevalence of informal employment on social spending was estimated by using difference-in-difference (DID) model. Estimation results suggest that a high rate of informal employment would be likely to be associated with more social spending after excluding country specific factors (Annex Table 1.A.2).

Annex Figure 1.A.1. Social spending is low where labour informality is high



Source: ILO, ILOStat database; IMF, Government Finance Statistics; Viet Nam GSO.

StatLink https://stat.link/175ae8

Annex Table 1.A.2. High incidence of informal employment would require more social spending

Regression of social spending on informal employment, fiscal revenue, unemployment rates and ageing

	Dependent variable is first order difference of log of social benefits, % of GDP
	(1)
First order difference, log of informal employment rate	0.310770
	(0.0367)
First order difference, log of share of aged over 65 in population	0.838567
	(0.0108)
First order difference, log of fiscal revenue, % of GDP	0.922044
	(0.0000)
First order difference, log of unemployment rate	0.235998
	(0.0003)
Observations	161
Adjusted R-squared	0.547552

Note: ( ) indicates p-value.
Source: IMF, GFS; WB, WDI; SWIID; ILO, ILOstat; and OECD calculations.

Annex 1.B. Estimation of effective retirement age

Among other parameters, such as life expectancy, the age when a person permanently leaves the labour market provides important information for pension reform. Based on the method introduced in (Scherer, 2002[115]), the average effective retirement age for some Southeast Asian countries, including Viet Nam, was calculated for this report.

An average effective retirement age is the average age of withdrawal from the labour force (for those who stayed in the labour force until then), and can be estimated by using the labour force participation rate by age group. A probability of leaving the labour force for each age group is calculated as a ratio of the labour force participation rates between two consecutive age groups (5-year band). It is assumed that no one retires at the age of 40-44, and all people withdraw from the labour force by the age of 80-84. Due to the limited data availability, "static" estimates were calculated, assuming that the age-specific labour force participation structure does not change over time.

Preliminary results suggest that those who are in the labour market retire at an older age than the statutory pensionable age. This is partly because many people are not covered by the public pension and they are likely to continue working until the later stage of their life. Indeed, Indonesia, where the pension coverage is the lowest among the four countries, has the highest effective retirement age. The effective retirement age for men is higher than women's. The effective retirement age cannot capture the situation of those who do not enter the labour market. Low labour participation rates of working–age women in Indonesia and the Philippines suggest that there may be a large gap in old-age incomes among women.

Annex Table 1.B.1. In Southeast Asia, people leave the labour force later than pensionable ages

		Indonesia	Philippines	Thailand	Viet Nam
Effective retirement age, 2020	Men	73.4	69.5	69.5	67.0
	Women	71.9	69.0	65.4	64.3
Pensionable age, 2021 or the latest	Men	57.0	65.0	60.0	60.3
	Women	57.0	65.0	60.0	55.3

Note: For Indonesia and the Philippines, it is assumed that the labour force participation rate of women aged 40-44 is equal to that of aged 45-49.
Source: OECD (2018), Pensions at a Glance Asia/Pacific; ILOstat, Labour Force Participation Rate by Sex and Age – ILO Modelled Estimates; UN Department of Economic and Social Affairs, Population Division (2019), World Population Prospects 2019; and OECD calculations.

2 Strong, digital, and green post-COVID recovery

Patrick Lenain, OECD

Ben Westmore, OECD

Quoc Huy Vu, Viet Nam Academy of Social Science

Minh Cuong Nguyen, Asian Development Bank

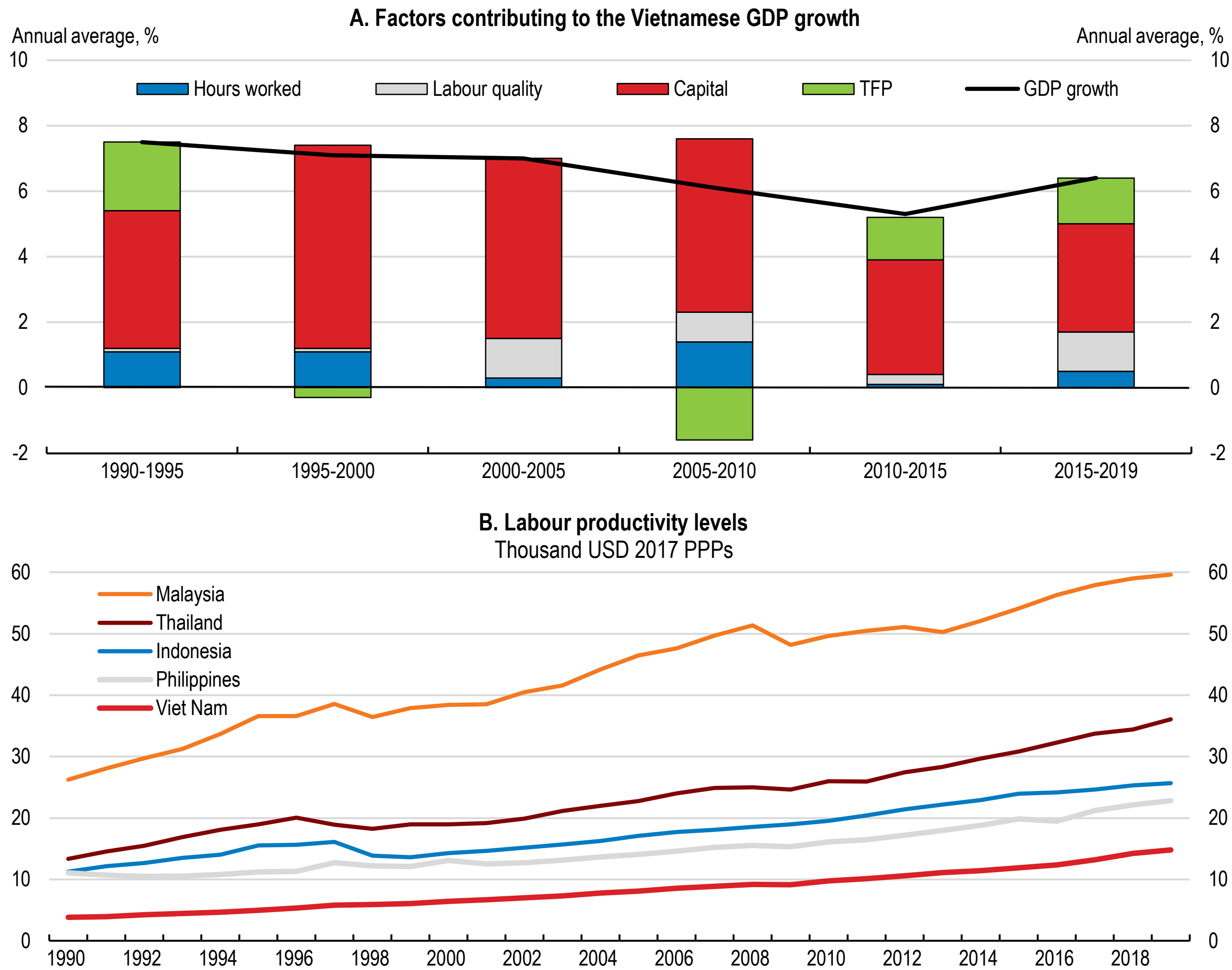
Viet Nam has implemented extensive reforms since the late 1980s, becoming one of the most open markets in Southeast Asia. Still, sustaining high economic growth in the coming decade will require additional efforts to boost labour productivity. To advance reforms, the government will need to take bold action to reduce state involvement and secure a level playing field among all market participants, including state-owned enterprises. Viet Nam's recent rapid digitalisation driven by the private sector proves that competition is crucial to absorb and disseminate the latest technologies. The commitment to net zero emissions by 2050 creates challenges but also opportunities to stimulate innovation and pursue greener growth. Against this background, this chapter discusses how Viet Nam can make further progress in terms of levelling the playing field for businesses, providing an enabling environment for the digital transformation and moving towards a low carbon economy.

Viet Nam's strong growth over the past three decades was largely based on factor accumulation as structural reforms implemented since *Doi Moi* in 1986 have encouraged large amounts of fixed investment – both by domestic and foreign investors (Figure 2.1). The country's abundant natural resources have also been used extensively to fuel the economic expansion. Such a growth pattern is typical in developing countries at their initial stage of development but it usually comes with diminishing returns. Future growth will need to be increasingly driven by the adoption of advanced technologies and improved economic efficiency, which will boost productivity growth and lower environmental pressures.

The recognition of this need to boost productivity has prompted renewed policy efforts to step up structural reforms. Signs are emerging that productivity has already benefitted from reforms introduced in the past decade. After slow economic growth in the early 2010s in the wake of the global financial and economic crisis, Viet Nam introduced new market reforms and accelerated its economic integration into global value chains, leading to a rebound of productivity growth. Accelerating structural reforms, including those that help facilitate the exit and entry of firms, could also help lower the costs of the green transition through allowing for smoother resource reallocation from diminishing sectors, such as coal mining which embraces a large number of workers in Viet Nam (ILO, 2022[1]), to emerging sectors. This chapter argues that such reforms should continue and even be accelerated. The key messages are:

- Despite improvements underway, Viet Nam's business climate remains difficult, which acts as a deterrent to private business activity and foreign investment. Increasing business dynamism will require further reductions in barriers to firm entry and exit and the introduction of greater competitive neutrality between the various sources of activity.
- Viet Nam is already among the leaders of digital technology in Southeast Asia and has the potential to further develop its take-up of digital tools. Enhancing the diffusion of such technology will require improved skills and less stringent regulation in some areas so as to facilitate experimentation. The government should lead by example and further improve its digital services and facilitate access to data. The private sector should play the key role in digital transformation. Restrictions on cross-border data flows should also be lowered.
- The rapid increase in greenhouse gas emissions is unsustainable. Although Viet Nam has actively promoted the roll-out of renewable energies, this has not prevented a rapid increase in coal-fired electricity production and transport emissions. More needs to be done to shift towards a sustainable energy mix and to improve energy efficiency. Agriculture is also a source of greenhouse gas emissions, especially methane from rice farming. Addressing this source of emissions will support the government's commitment to achieve net zero emissions by 2050.

Figure 2.1. Viet Nam's productivity has rebounded in the last decade



Note: Labour productivity is defined as GDP per worker.
Source: Asian Productivity Organisation, APO Productivity database 2021.

StatLink https://stat.link/pesg5k

Improving the functioning of markets will be crucial for the post-pandemic recovery

Viet Nam has relied on a toolkit of policies to spur economic growth in the past decade to enhance business dynamism, improve the business climate, and upgrade its technological sophistication:

- Starting a new business has been made easier, which is essential to encourage a process of creative destruction, where resources can be reallocated to newly created high potential firms from less productive incumbents, and therefore boost overall business dynamism and productivity. New firms can bring innovative technologies and new managerial approaches, which is a source of greater efficiency and productivity.
- Restrictions impeding foreign direct investment have been eased, although not in all sectors. The acquisition of publicly listed firms by foreign investors, through mergers and acquisition, is still subject to an equity limit of 49% in many sectors. Foreign firms are therefore often not able to compete with domestic producers in restricted sectors, hence reducing the benefits in terms of overall business dynamism, innovation, and productivity.

- Incumbent state-owned enterprises have been partially reformed, although they continue to dominate their market with the help of privileged access to credit and land, which distorts competition. Furthermore, the regulatory authorities that supervise state-owned enterprises are not independent from government. This section provides an overview of recent reforms and discusses how to address remaining challenges.

More could be done to enhance product-market competition

Viet Nam has implemented many reforms since the late 1980s to improve the business environment and to enhance competition. Since 2014, the government has set yearly targets with respect to governance quality, competitiveness, innovation and e-government. It has also implemented steps to reduce administrative burdens in areas such as taxation, customs, social security, construction licenses, land registration, electrical access, corporate establishment and closure, and investment procedures. In addition, state-owned enterprise (SOE) reform and private sector development have been at the centre of government policy priorities and efforts to ensure fair competition among different players in the product market. Efforts have also been made to deal with different forms of abuse of market power even by non-state dominant players.

A one-stop shop procedure has also been in place since 2015, with instructions given to relevant ministries to improve the use of online portals and e-government websites. Significant improvements have been achieved in the implementation, including an inter-agency one-stop shop that deals with the various administrative procedures via Public Service Centres to handle business registration, export-import procedures, land use, production safety and tax payments. The online public service system has four levels, and allows making transactions online and beyond administrative boundaries (Decree 61/ND-CP issued in 2018). The electronic system reduces compliance costs and the time required for administrative procedures. It also potentially restricts collusive contacts between businesses and state management agencies, therefore reducing the risk of corruption.

To improve trade facilitation, Viet Nam joined the ASEAN Single Window system in 2015, with involvement of the customs administration and Ministry of Finance. This enables electronic transmission of standardised data and information on shipments, exchange of information between government agencies of various countries and expedited official decisions on clearance and release of cargo and conveyances. Surveys of businesses have shown that the single window system sharply reduces the time needed to clear customs and drastically lowers the cost of cross-border trade procedures. Most recently, two revised laws, the Law on Investment and the Law on Enterprises, which were approved by the National Assembly in June 2020 and came into effect on 1 January 2021, aimed to improve the business environment, simplify administrative regulations and further facilitate investments.

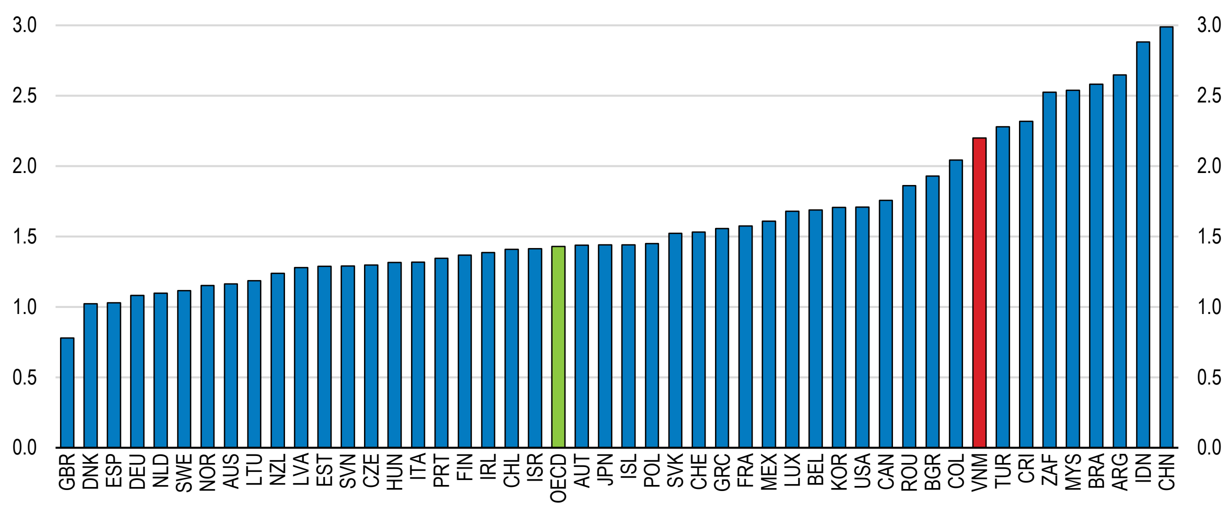
As a result of these reforms, Viet Nam has displayed an improved performance in international benchmarks of market conditions. According to the World Economic Forum report “Global Competitiveness Index 4.0” in 2019, on the “Enabling Environment Component”, Viet Nam ranked 66th (out of 141 economies), based on a score of 64.9. The country’s ranking was better than the Philippines (78th), Cambodia (93rd) and Laos (101st), but lower than for Malaysia (28th) and Thailand (55th) and Indonesia (56th). There have been significant improvements since 2017 when Viet Nam ranked 79th out of 132 countries. Viet Nam performed well in this report in terms of government long-term vision and ICT adoption but less well in settling disputes, competition, insolvency regulatory framework and transparency (Schwab and World Economic Forum, 2019[2]).

Viet Nam also performs well compared to regional peers according to the OECD Product Market Regulation (PMR) indicators. PMR indicators assess the extent to which regulations support or restrict competition in key sectors of the economy, including the extent to which firms can enter markets and compete with incumbents (Box 2.1). According to the PMR indicators assessing the situation in early-2022, Viet Nam’s regulatory policies impose lighter restrictions than in the non-OECD emerging-market economies for which data are available (South Africa, Brazil and Argentina) and regional peers (Indonesia and People's Republic of China (hereafter China) (Figure 2.2). Competitive forces are therefore allowed to play an important role in the country.

However, delving below the aggregate PMR score gives a more nuanced picture of the policy landscape. The PMR sub-indicator for "barriers to domestic and foreign entry" is low (1.63), suggesting that Viet Nam is widely open to foreign trade and foreign investment and enforces relatively light administrative burdens on businesses and start-ups. By contrast, the PMR sub-indicator for "distortions induced by state involvement" is relatively high (2.77). This reflects an economy where several sectors are dominated by state-owned enterprises (SOEs) and the government is directly involved in business operations, including through price controls. As such, reform efforts should be focused on sectors currently dominated by state involvement, with measures to liberalise market forces in these sectors and reform the governance of SOEs. While the government has already taken steps to equitise state-owned firms and partly float equity stakes in these firms on the stock market, more could be done to sell more shares of equity capital to private investors. More could also be done to improve the governance of state-owned enterprises and reduce the involvement of state ministries and provincial governments in their day-to-day operations.

Figure 2.2. Regulatory barriers to competition could be lower in Viet Nam

Overall Product Market Regulation Indicator, index scale of 0-6 from least to most restrictive, latest year available



Note: Information used to calculate the 2018 PMR indicators is based on laws and regulation in place on 1 January 2018 or a later year depending on when the information was provided by the relevant country (1 January 2020 for Viet Nam).
Source: OECD, Product Market Regulation database and OECD-WBG, Product Market Regulation database.

StatLink https://stat.link/xub52i

Box 2.1. OECD Product Market Regulation (PMR) Indicators

Competitive pressures in markets for goods and services can bring many economic benefits and ultimately result in faster output growth and higher living standards of citizens. Pro-competition regulation is necessary to ensure that markets function with competitive pressures, helping to reduce market failures. In contrast, improperly designed regulations can impede competition and therefore hinder business dynamism, firm entry and exit, and the ease of reallocation of capital and labour resources. Regulatory reform can help to restore the pressure of competition in markets of goods and services, and eventually boost innovation, productivity, and economic growth.

In emerging markets, the quality of institutions and regulations exerts a large influence on firm productivity, for example through incentives to invest in human capital, make productive investments, and adapt to new technologies. If markets are poorly regulated, such as with weak enforcement of competition laws, inefficient firms can drive competitors out of the market by abusing market power. State-owned enterprises with special privileges to access credit, land and technology have an unfair competitive advantage that can be used to erect barriers that constrain the entry and growth of some highly productive and innovative private firms. Hence, improvements in the business environment and conducive regulatory practices – fair competition, increased business freedom – support growth of multifactor and labour productivity.

To help policymakers design proper regulation, the economy-wide PMR indicators measure the regulatory barriers to firm entry and competition in a broad range of key policy areas, ranging from licensing and public procurement, to governance of SOEs, price controls, evaluation of new and existing regulations, and foreign trade. Since 1998, the PMR indicators have been compiled every five years for most OECD countries, and more recently they have been made available for a range of emerging markets. In emerging Asia, PMR indicators are available for China, Korea, Indonesia, Malaysia and Viet Nam. The indicators take values that range from 0 (least restrictive) to 6 (most restrictive). For most countries, the latest observation refers to 2018, with more recent measurement for a few countries, including Viet Nam.

Hence, significant room remains available to further improve market forces and reduce government involvement as well as the abuse forms of market power. Building on past progress, market reforms should be pursued with renewed vigour, along with improving the ease of doing business, investment freedom and competitive neutrality. This will be particularly important as the country moves past the most acute phase of the COVID-19 pandemic and needs to cement a solid recovery path (APEC, 2021[3]). The priority should be to level the playing field between private firms, SOEs and foreign entities. Also important would be to simplify and reduce the regulatory burden faced by SMEs, notably in terms of improving access to land and to financial resources, which could help increase profitability, investment, and growth.

The government has recently adopted a number of initiatives for further market reforms during the period 2022-25 under the Economic Restructuring Action Plan (Resolution 54/NQ-CP/2022). These include steps to reduce the number of procedures requiring time, costs and risks for businesses. The government also plans to reduce the list of investments subject to barriers and eliminate regulations that are overlapping, conflicting, and legally unclear. Land registration will be accelerated, and the renewal of land authorisation will be facilitated. The authorities also wish to promote the digital transformation of the public administration, promote decentralisation and local empowerment, and tailor regulatory policy so as to boost business development and activity. Nevertheless, a consistent implementation will be needed with respect to accelerating SOE reform, further improving SOE management, re-enforcing the implementation of the Competition Law, dealing with all kinds of market power abuse and collusion, avoiding all forms of state-business collusive behaviours harmful for competition.

Further broad-based simplification of administrative burdens, cutting red-tape and reducing compliance costs for businesses and households need to be pursued. The Administrative Procedure Control Agency

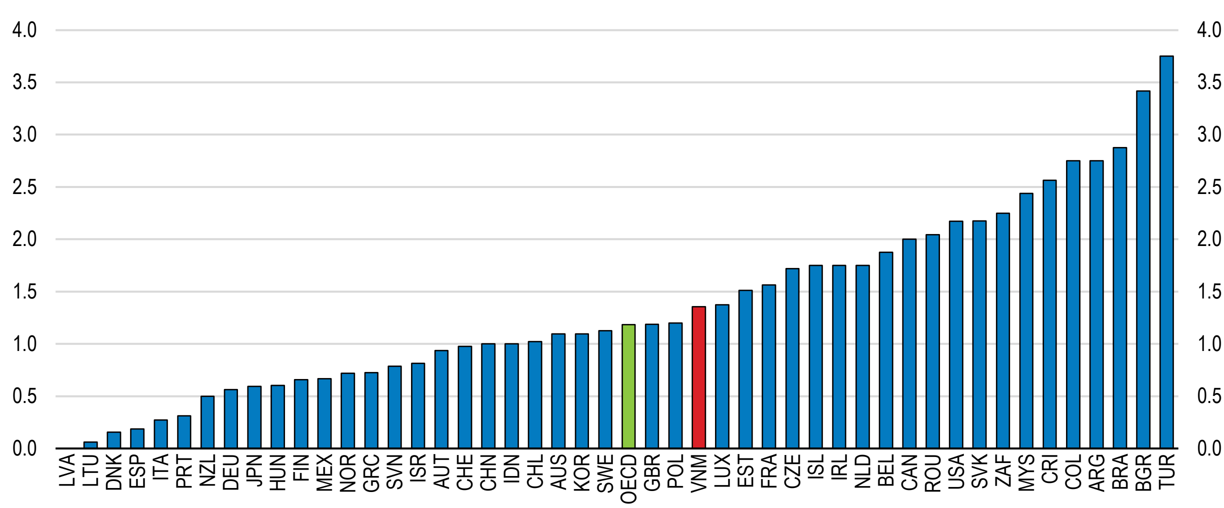
(APCA) inside the Office of the Government has been leading an effort to reduce administrative burdens for over a decade (OECD, 2011[4]). The new Government Resolution 02/NQ-CP issued in 2022 has specific targets related to the business environment, national competitiveness, technological innovation and sustainable development indicators. The Administrative Procedures Compliance Cost Index (APCI) annual report serves as an important tool for monitoring and improving administrative procedure reform. This report objectively reflects the level of administrative reform, improvements to the business environment and enforcement of policies and laws through analysing costs faced by enterprises when undertaking administrative procedures.

Further enhancing SME development support

Viet Nam's SME and entrepreneurship support policies began in the early 2000s. In 2017, the National Assembly passed the Law on Support for Small and Medium Enterprises (SMEs), which is the first of its kind in Viet Nam and replaces all previous decrees on SMEs (OECD, 2021[5]). The law provides several measures to support the development of SMEs, with facilitation steps regarding access to credit, credit guarantees, corporate income tax and land use for production. It also establishes new technological support in the form of incubators and start-up hubs, market expansion, information and legal support, and human resource development. In accordance with the SME law, support has been prioritised for women-led, individual and innovative SMEs. Thanks to this reform, the regulatory framework is in principle easy to navigate. Accordingly, the PMR sub-indicator assessing aspects important to SME development, such as the administrative burden on start-ups, obtains a better score than in many emerging-market economies and in some OECD countries (Figure 2.3).

Figure 2.3. Establishing start-ups is relatively easy in Viet Nam

Indicator of administrative burdens on start-ups, index scale of 0-6 from least to most restrictive, latest year available



Note: Information used to calculate the 2018 PMR indicators is based on laws and regulation in place on 1 January 2018 or a later year depending on when the information was provided by the relevant country (1 January 2020 for Viet Nam).
Source: OECD, Product Market Regulation database and OECD-WBG, Product Market Regulation database.

StatLink https://stat.link/bqkm34

Viet Nam has been successful in attracting foreign direct investment (FDI) and entering global value chains (GVCs). The share of exports to GDP reached 93% in 2021 to be one of the highest in the world. Nevertheless, domestic linkages with global value chains remain relatively weak. A survey of Japanese firms operating in Vietnam by the Japan External Trade Organization in 2021 showed that the share of domestic purchase of parts and components in Viet Nam by Japanese firms at 37.4% is higher than

Malaysia (35.5%) and the Philippines (30.7%) but much lower than Indonesia (45.5%), Thailand (56.4%) and China (69.5%). The share of domestic firms in these domestic purchases is even lower since most of these purchases are from foreign firms producing in Viet Nam. There are both supply-side constraints (access to key factors of production such as land, credit and technology) and demand-side constraints (market information, product quality, standards and certification) that prevent Vietnamese domestic firms, especially SMEs, from actively engaging in GVCs. Addressing these constraints to help SMEs improve their competitiveness and capacity in product innovation and management is essential to enhance productivity, value creation and value capture for the overall economy.

In early-2021, the OECD published an in-depth review of Viet Nam's policies to sustain the performance of small and medium enterprises and entrepreneurship (OECD, 2021[5]). The report assesses the quality of the business environment, and national policies in support of new and small businesses. Its main finding is that Viet Nam's business environment is conducive to business growth, although there are still areas for improvement. A key reform has been to lower the statutory corporate tax rate from 32% in the early 2000s to 20% today, which is below the OECD average of about 23%. Preferential tax rates of 15% and 17% have been discussed for SMEs, but not implemented so far. Instead, the government is providing financial help through its SME Development Fund (SMEDF), which supports sectors such as innovative companies, agriculture, forestry, aquaculture, water supply, water treatment and water management, as well as manufacturing firms. A credit guarantee fund (CGF) was also established to facilitate access to finance for SMEs. However, both programmes suffer from low take-up, in part because of the stringency of conditions that need to be met to become eligible. It is crucial that measures for improving the institutional capacity of the SME Development Fund (SMEDF) are undertaken. This will enhance the relevance and accessibility for SMEs, thereby increasing take-up. The local credit guarantee fund (CGF) network that is supposed to facilitate SME access to credit needs to be comprehensively reviewed given its current capacity in both financial and human resources which is very weak.

In addition, during the pandemic the government introduced several supporting measures for SMEs. The corporate income tax was cut by 30% for enterprises with revenues less than VND 200 billion in 2020 and 2021. The government is also supplying non-financial business development services (BDS) to help SMEs improve their managerial performance and improve their ability to compete, with advice in the form of consulting, training, mentoring, and incubating. Three assistance centres were open in key metropolitan areas to provide this advice in-house. The comprehensive Programme for Socio-Economic Recovery and Development (PSERD) adopted by the Government in January 2022 (Resolution 11/NQ-CP) provides an interest-subsidised loan to enterprises (mostly SMEs) and the authorities have committed to "continue to review and remove barriers on institutions, mechanisms, policies, and legal regulations that hinder production and business activities; reducing and simplifying administrative procedures, improving the business investment environment; strengthen the handling of administrative procedures on the online platform".

In particular, administrative rules remain burdensome for SMEs and should be simplified further. The government should develop a more concrete programme to implement the administration and institutional reforms and business environment component of the PSERD. Many firms claim to have trouble with completing post-registration administrative procedures, obtaining qualification certificates, and certificates proving that they comply with existing technical standards and regulatory requirements. Therefore, companies often have to rely on informal and costly shortcuts to circumvent administrative obstacles. There is past evidence that interference in business activities can be more burdensome for large firms with sizeable profits, further discouraging investment and upgrading (OECD, 2018[6]). This weak control of corruption is consistent with the results of the Viet Nam Provincial Governance and Public Administration Performance Index (PAPI) 2021 which found that informal factors, such as personal relationships, remain important to secure a place in public sector employment, to get a land use right certificate or to access better healthcare services (CECODES; VFF-CRT; RTA & UNDP, 2022[7]). This explains to a large extent why the informal sector remains so pervasive and large, despite the simplification of business procedures.

Large differences in administrative burden across provinces

While the overall policy framework is the same for all local governments, there is room for flexibility and proactive initiatives in implementing policy. To make doing business easier, local officials can take different approaches to the administrative procedures required for business operations such as delivering license certificates, approving permits, providing supporting documents, minimising paperwork, conducting inspections and handling tax filing applications. The incidence of bribery and other means of corruption also vary across provinces, and not all provinces have been equally effective in implementing anti-corruption decisions made by the central government and the National Assembly. The Provincial Competitiveness Index, which is designed to assess the ease of doing business, quality of economic governance and the results of administrative reform efforts by local governments in Viet Nam's 63 provinces and cities to promote private sector development, shows that large gaps prevail between provinces (Malesky, Pham and Truong, 2022[8]). To facilitate and encourage local government officials to take proactive and innovative actions and to improve government officials' accountability, a number of new measures have been outlined in the Government New Comprehensive Action Plan for Administration Reform 2021-2030 (Resolution N76/NQ-CP in July 2021). These measures include improving the civil service system, strengthening open and merit-based recruitment and performance evaluation and providing a favourable environment for innovative decision-making culture. It is important to effectively implement these policies. More autonomy in decision making should be further encouraged at all levels of government, with strong accountability systems in place.

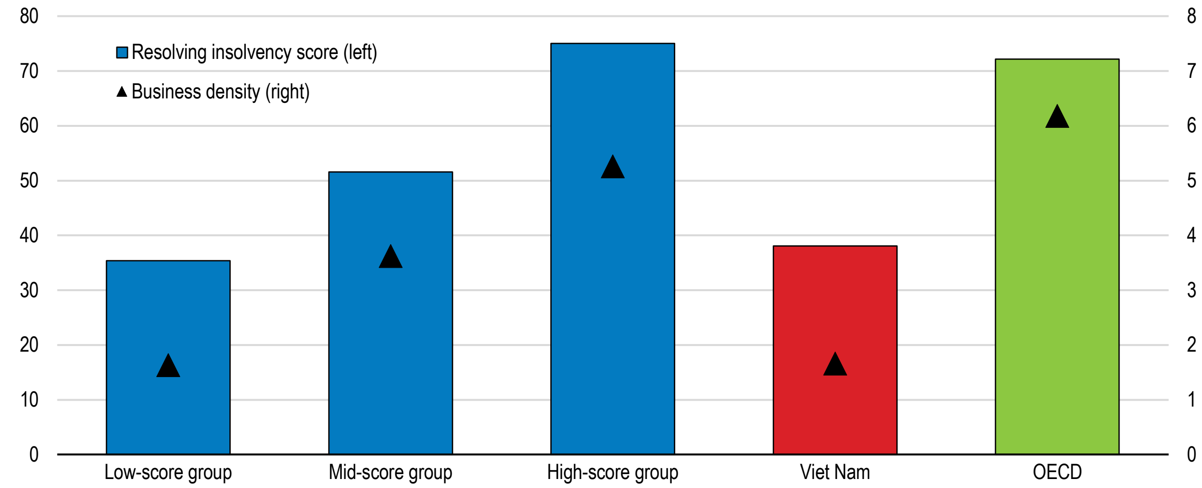
A weak insolvency framework hinders business dynamism

Unrestricted firm entry to markets is important for enhancing product-market competition and productivity. Similarly, unrestricted exit from markets is also crucial to allow unproductive firms to be quickly liquidated, therefore allowing a swift reallocation of labour and capital to other market participants. Empirical research based on firm-level data shows that reforms to insolvency regimes that lower barriers to corporate restructuring are associated with higher multifactor productivity growth of laggard firms (Adalet, Andrews and Millot, 2017[9]). Hence, insolvency regimes should not unduly inhibit corporate restructuring, which will in turn incentivise experimentation and encourage the adoption of new technologies. Reforming insolvency regimes to reduce the cost and length of procedures can therefore enhance technological diffusion and contribute to faster productivity growth.

In Viet Nam, firm exit can occur through two different processes, notably firm liquidation/dissolution and firm bankruptcy. Final settlements for these two kinds of firm exit are different but both involve time and resources that often lead to a significant delay or protracted settlement that obviously hinders overall business dynamism. In 2021, only 35% of cases were completed (46% in 2022). The procedure for winding down a company seeks to ensure that all debts have been settled and relevant documents are in order. Dissolution regulation requires that all documents are properly prepared and filed with the competent licensing authority to commence the liquidation procedure. Final wind-down approval requires the approval of the tax authority, thus presenting the opportunity to collect any outstanding tax shortfall, relevant penalties and interest. This procedure can be time-consuming and costly: dissolving a company takes in principle four to six months, but in practice it often takes a much longer period if questions are raised by authorities about past regulatory and tax compliance. While the OECD has not compiled insolvency indicators for Viet Nam, indicators from the World Bank Doing Business survey show that there is clearly room to improve insolvency procedures in the country (Figure 2.4).

Figure 2.4. Improving insolvency regimes further could help stimulate business dynamism

2020 or latest year available, average of each group



Note: The score for resolving insolvency is the simple average of the scores for each of the component indicators: the recovery rate of insolvency proceedings involving domestic entities, as well as the strength of the legal framework applicable to judicial liquidation and reorganisation proceedings. Business density is defined as new registrations per 1 000 people aged 15-64. 144 countries, where data is available, are grouped by the score of resolving insolvency (44 countries for the low-score group, 44 for the middle, and 44 for the high). Viet Nam belongs to the low-score group.
Source: World Bank, World Development Indicators database and Doing Business 2020 database.

StatLink https://stat.link/zi5m1t

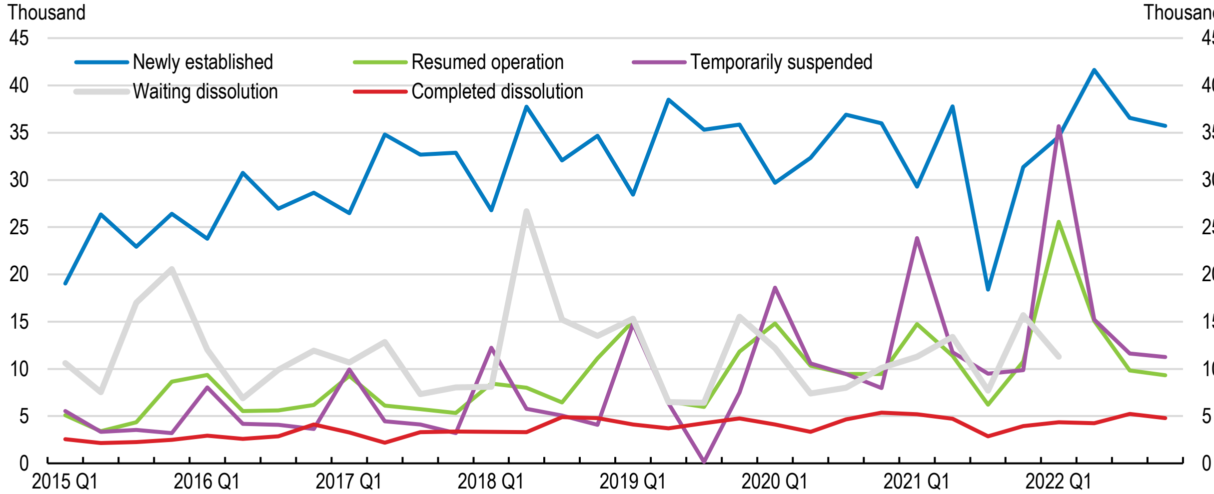
The current insolvency regime is rarely used because it entails significant resources and time and is therefore an impediment when seeking a formal bankruptcy procedure. Reform should take the form of reducing the length of the whole process and increasing the recovery rate for secured creditors (21% compared to the OECD average of 70%). This would help re-allocate productive resources more quickly and strengthen access to credit by re-assuring creditors of the ability to recover part of their credit if borrowers go bust. In practice, consideration could be given to introducing a specialised SME bankruptcy regime aimed at achieving fast reorganisation and liquidation. For example, in 2020, Malaysia integrated an out-of-court scheme for SMEs into one for individuals to simplify procedures, given that micro-sized firms owned by individual entrepreneurs are more susceptible to adverse economic shocks. In addition, out-of-court restructuring of firms should be encouraged to speed up the process and avoid congestion in courts. A set of indicators should be provided to entrepreneurs to give them information about the risk of bankruptcy, so that they can begin restructuring procedures before becoming insolvent. In addition, the bankruptcy procedure could be accelerated by simplifying some requirements on financial statements of firms and establishing a database of firms.

During the COVID-19 pandemic, government support was provided to avoid a wave of business bankruptcies, like in many other countries. Without such support policy, both viable and unviable businesses would have faced the risk of becoming insolvent and exiting the market, with long-lasting damage to human capital, skills, and economic growth. Successive support packages were approved by Viet Nam's National Assembly, such as combined monetary and fiscal measures in Resolution 43 in January 2022 with VND 40 trillion in funds for loans at a low rate of 2% through commercial banks for businesses in a variety of industries.

According to the General Statistics Office's data, the number of firms leaving the market increased by 17.7% in 2021 from the previous year, a relatively small increase considering the strictness of confinement measures throughout the year. Out of 119 800 enterprises leaving the market, about 55 000 were temporarily suspending operations, while 48 100 stopped operations while waiting for approval of their dissolutions (Figure 2.5).

Figure 2.5. Permanent firm exits did not surge during the pandemic

Number of firms entering and exiting



Source: CEIC.

StatLink https://stat.link/kx82j7

Effective public consultations matter for the quality of regulation

Viet Nam has a strong system for public consultation on new regulations, but there is scope for the process to be further developed. The 2015 Law on Promulgation of Legal Documents (the 2015 Law on Laws) provided a solid legal framework for public consultation (social criticism) on new legal documents. The revised Law in 2020 reinforces further this foundation. It requires that feedback and comments obtained as a result of a public consultation on a draft legal document should be assessed by the sponsoring agencies and attached to the draft legal document for approval (National Assembly, 2020). However, public consultation can often be a formal procedure without substantive discussions; time for inputs is limited and there is a serious lack of incentives and interest from various stakeholders to provide meaningful contributions to the legal document formulation and approval.

Formulating regulations in an open and transparent fashion, with appropriate and well publicised procedures such as consultation of all interested stakeholders, brings many benefits. In particular, it improves the quality of rules and programmes, and it also improves compliance and reduces enforcement costs for both governments and citizens subject to regulations. Most OECD and non-OECD countries have designed public consultation procedures to collect feedback on draft regulations and ensure that regulators can take into account the views of opposing interests in designing new rules, as well as bringing in expertise and new ideas on how best to design new policies. Countries have adopted procedures that must be put into place when designing new regulations such as:

1. Notice-and-comment practices that involve a pre-publication of regulatory proposals and a public invitation to post comments on these proposals within a prescribed time period.
2. Public hearings where interested parties and groups are invited to comment in person on a regulatory proposal, in addition to other forms of public consultation.
3. Advisory bodies such as councils, committees, commissions and working parties with a defined task within the regulatory process and composed of either only government officials, or a combination of stakeholders.
4. Lobbying regulations to ensure transparency in the interaction between businesses and interest groups with policy makers and avoid unjustified influence over the regulatory process, which would result in less pro-competitive regulation, or regulation that protects incumbents or firms with

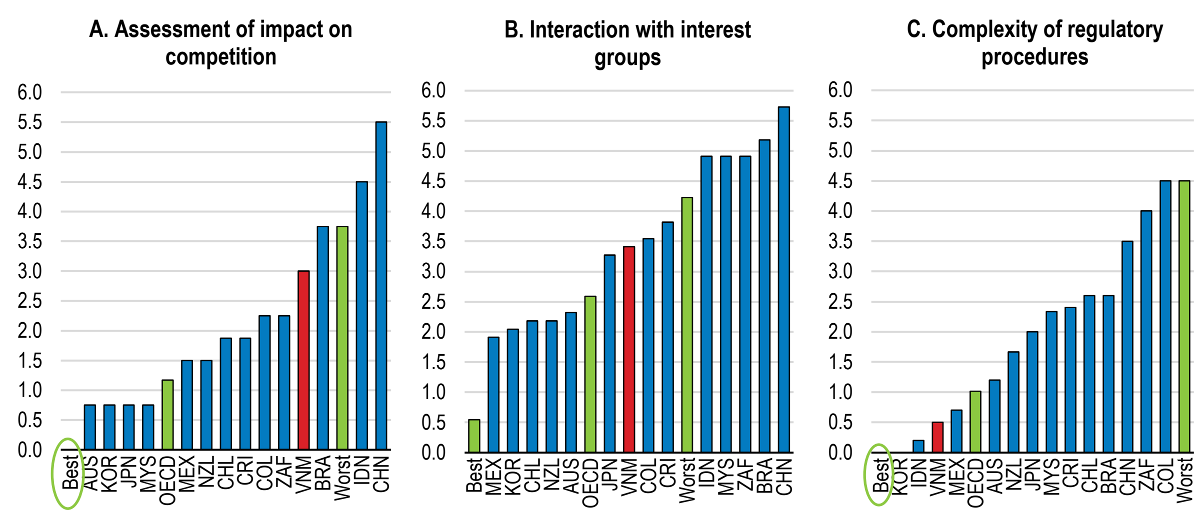
stronger lobbying capacities. Requiring policy makers to make their agenda of meetings publicly available and require "cooling-off" periods, during which departing government officials cannot join private entities they had previously been regulating, are examples of such measures.

The PMR indicators take into account these various channels to compile a sub-indicator on "interaction with interest groups". According to this sub-indicator, Viet Nam has a strong performance overall in this area (Figure 2.6). This reflects the considerable progress made in improving the quality of its regulation-making processes. Viet Nam has an established practice of extensive and generally effective consultation with affected stakeholders both within and outside government and, for principal legislation, multiple stages of quality checking from different perspectives at the policy formation, drafting and enactment stages (OECD, 2018[6]).

According to the legal system, draft legislation must be posted on websites and mass media. Legislative proposals, including the assessment of their impact, must be placed on government websites for 20 days to solicit comments. The draft legislative agenda, once finalised and submitted to the National Assembly for consideration, is to be posted on the Internet. A draft Legal Normative Document (LND) is to be posted for comment online for at least 60 days and any changes to that draft, incorporated pursuant to its appraisal by the Ministry of Justice, are similarly to be posted. The lead agency should collect comments from the concerned agencies and those who would be directly affected by the legislation. For LNDs affecting business, the drafting agency must also send the draft to the Viet Nam Chamber of Commerce and Industry to collect comments. These comments are to be consolidated, analysed, and incorporated into the draft. A consolidation of the comments, and a report on their incorporation, then accompanies the draft to the Ministry of Justice for appraisal, as well as being posted on the relevant website.

Figure 2.6. Viet Nam can further improve its regulatory assessment

Indicators of the simplification and evaluation of regulations, index scale of 0-6 from least to most restrictive, latest year available



Note: Information used to calculate the 2018 PMR indicators is based on laws and regulation in place on 1 January 2018 or a later year depending on when the information was provided by the relevant country (1 January 2022 for Viet Nam). Best/worst represents the OECD best/worst performing country.
Source: OECD, Product Market Regulation database and OECD-WBG, Product Market Regulation database.

StatLink https://stat.link/bydh4s

Social organisations have the right to comment on, and propose, amendments to drafts of laws, ordinances and regulations. Rule-makers are also required to collect opinions of citizens, especially those who are directly affected. The law imposes a duty on rule-makers to collect opinions of the concerned organisations and individuals on draft laws and ordinances, and to consider, summarise, review and write replies to the collected opinions (Le, 2016[10]). Rules are also in place to reduce the risk of conflict of interest, notably cooling-off periods applying to government officials who wish to join the sector that they previously regulated. However, public consultation rules such as public hearings and consultation of advisory bodies are not embedded in the legal system, including at the level of local governments. Hence, public consultation should benefit from a more formal anchoring in the process of legislative and regulatory policy.

The governance of SOEs should be improved to ensure competitive neutrality

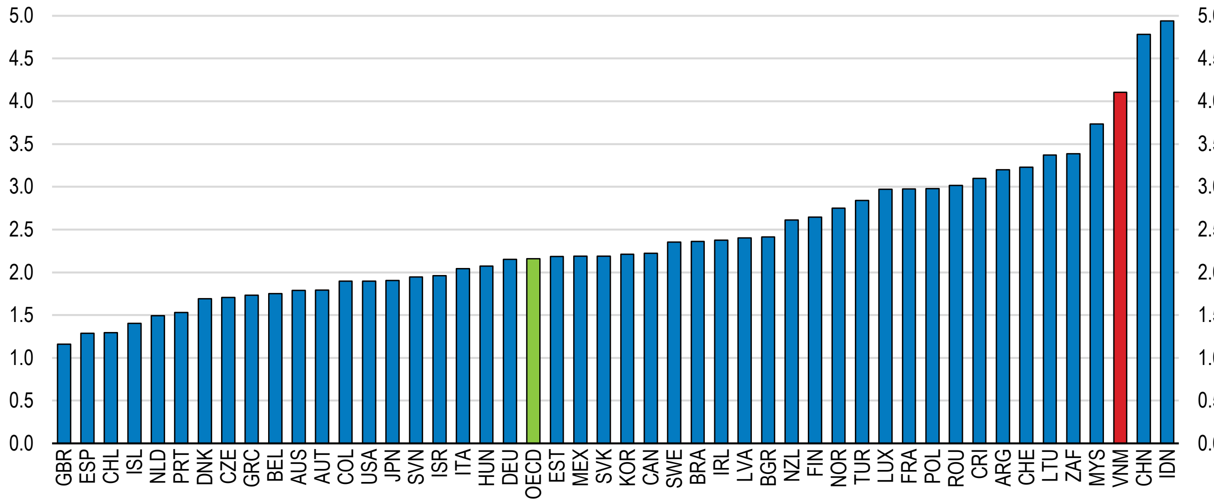
The goal of promoting competition is not only about consumer welfare and dynamism in existing markets, but also encouraging innovation and knowledge diffusion, and making sure that missing markets can be created (Aghion, Cherif and Hasanov, 2021[11]), (Hasanov and Cherif, 2021[12]). Antitrust authorities have therefore a crucial role to play in ensuring that incumbent firms do not abuse their market power and prevent entry by innovative firms. Experience in advanced and emerging economies shows that the predominance of state-owned enterprises (SOEs), and the preferential treatment that they get from governments, often result in distortions to competition, lower business dynamism, weak innovation, and subdued economic expansion. Empirical research using data from emerging Asia finds that the relatively low performance of SOEs poses several problems, including slowing down economic growth, which is especially pronounced in countries where these firms represent a large share of the economy (Taghizadeh-Hesary et al., 2019[13]).

Concerns about the potentially negative impact from a large sector of SOEs have encouraged the adoption of corporate governance codes, which were initially formulated by the OECD (OECD, 2005[14]) and built upon by the World Bank (World Bank Group, 2014[15]). The OECD codes of governance provide concrete advice to countries on how to manage more effectively their responsibilities as owners, and thus help them to make SOEs more competitive, efficient and transparent. The World Bank adds emphasis on performance monitoring and fiscal discipline, with research seeking to identify the most suitable performance indicators, as well as the most appropriate monitoring and evaluation systems. Some countries have been successful in reinvigorating their SOEs and making them contribute productively to strong and inclusive growth, while in other countries the performance of SOEs remains disappointing, with negative consequences for citizens. Avoiding bailing out lagging SOEs with state aid is therefore important to create space for new entrants that will bring innovation and dynamism.

Viet Nam has reduced the number of SOEs from 12 000 in the 1990s to around 2 000 in 2020 (enterprises with over 50% state-owned capital, including 100%) (General Statistics Office, 2022[16]). According to the Agency for Enterprise Development, based on a different definition used in the 2020 Law on Enterprises, the number was smaller but still 673 in 2021. The government has also authorised the equitisation of SOEs since the 1990s, and further efforts have been ongoing to widen the floatation of equity on stock markets thanks to the government's extensive divestment programme. Nonetheless, the economic importance of state-owned enterprises remains very large by international standards (Figure 2.7 and Figure 2.8), with entire sectors still dominated by a few of these firms, such as in energy (electricity (87%) and petroleum products (84% of gasoline retail sale)) and telecommunications (90% of mobile phone subscribers). The government retains a significant share of ownership in SOEs, even when equitised, in part because foreign investors have not participated in the process. The equitisation of SOEs in 2016-2020 was rather slow: only 39 out of 128 targeted SOEs were equitised; 106 out of 348 targeted were divested with total value of divestment about VND 6 500 billion or 11% of the target (Ministry of Planning and Investment, 2022[17]).

Figure 2.7. Public ownership of enterprises is widespread in Viet Nam

Indicator of public ownership, index scale of 0-6 from least to most restrictive, latest year available



Note: Information used to calculate the 2018 PMR indicators is based on laws and regulation in place on 1 January 2018 or a later year depending on when the information was provided by the relevant country (1 January 2022 for Viet Nam).
Source: OECD, Product Market Regulation database and OECD-WBG, Product Market Regulation database.

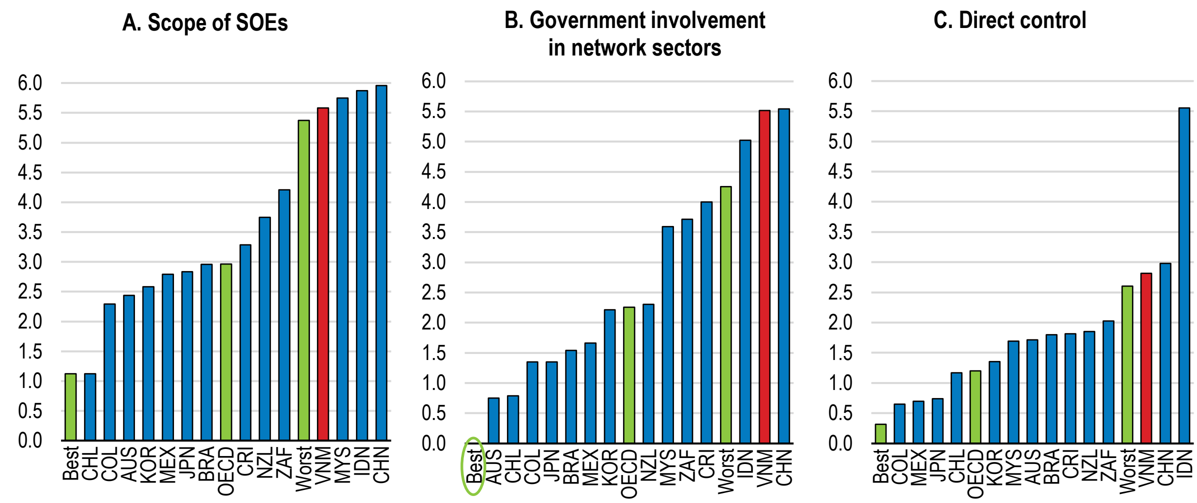
StatLink https://stat.link/jub17y

In many OECD countries where the state is the owner of enterprises, governments seek to achieve "competitive neutrality", i.e. the equal treatment of private and state-owned firms. An important goal is to separate the role of the government as owner of enterprises and regulator of their activities, so as to avoid conflicts of interest. OECD corporate governance codes provide useful guidelines to achieve competitive neutrality, such as establishing independent regulators, which do not depend on a ministry and have an autonomous budget.

A new OECD review of Viet Nam's SOE governance (OECD, 2022[18]) did not detect formal statutory discrimination between SOEs and private firms. However, it detected continued conflation of the exercise of ownership rights, the government's explicit use of SOEs as a main vehicle for the implementation of the State's industrial or sectoral policies, and no clear separation between policy formulation and regulatory responsibilities, among others. In some measures, SOEs account for a large part of the economy. Concerning SOEs with 100% state-owned capital, although their number was 0.1% of all enterprises, they held 24% of the total fixed assets and their average asset size was 18 times larger than that of foreign-owned enterprises in 2020 (Socialist Republic of Viet Nam Government News, 2022[19]). Continued policy efforts to ensure a level playing field between SOEs and private firms are crucial. In this regard, the new OECD PMR sub-indicator on public ownership control confirms that government involvement in SOEs is high in Viet Nam (Figure 2.8).

Figure 2.8. Vietnamese government involvement in SOEs is high

Indicators of public ownership control, index scale of 0-6 from least to most restrictive, latest year available



Note: Information used to calculate the 2018 PMR indicators is based on laws and regulation in place on 1 January 2018 or a later year depending on when the information was provided by the relevant country (1 January 2022 for Viet Nam). Best/worst represents the OECD best/worst performing country.
Source: OECD, Product Market Regulation database and OECD-WBG, Product Market Regulation database.

StatLink https://stat.link/6a2w8s

Viet Nam should pursue a clear separation between the functions of ownership and regulation, in order to ensure a level playing field with the private sector and to avoid competitive distortions. This requires clear laws and regulations that protect the independence of regulators, especially vis-à-vis ministries. Budget autonomy of regulators is also important to ensure that they remain immune to the influence of ministries. It is also important that regulators have the appropriate financial and human resources to function adequately and with the right level of operational independence. In this context, a Resolution issued by the Central Executive Committee of the Communist Party (12-NQ/TW in 2017) set a policy objective to separate and clearly define the functions of state ownership and regulation for state-owned enterprises, which is a welcome step.

The government should also clearly formulate its ownership policy and how it should behave as an owner. Clear and published ownership policies provide a framework for prioritising SOE objectives and are instrumental in limiting the dual pitfalls of passive ownership or excessive intervention in SOE management. In addition, the government should increase the independence of SOE corporate boards and improve the transparency of the nomination process. One of the most effective tools to protect minority shareholders is the election of independent directors. The public perception in Viet Nam is sometimes that independent directors are not independent-minded and there is a risk that the nomination process could be influenced by factors, which are not necessarily conducive to better SOE management, such as selection and removal of directors not based on professional criteria. Minority shareholders should be able to exert influence on their election through the possibility of nominating candidates through e-voting. The board nomination process should include full disclosure about prospective board members, including their qualifications, with emphasis on the selection of qualified candidates.

In addition, Viet Nam should do more to assure that SOE boards of directors play a strong, autonomous, and professional role. This requires that the appointment of SOE board members follow a strong procedural framework, including selection and removal based on professional criteria, which is beneficial to efficient operations of SOEs (World Bank; Ministry of Planning and Investment, 2016[20]). At present, CEOs and the top management of SOEs are often appointed by the Prime Minister or by sectoral ministers. In some cases, important corporate decisions are made directly by the government (OECD, 2022[18]). Instead, these appointments should be made based on professional credentials, and through a transparent process, to ensure full accountability.

The government established the Commission for the Management of State Capital at Enterprises (CMSC) in February 2018. The Commission, which became operational in September 2018 under Decree No. 131/2018/ND-CP dated 29 September 2018, is an autonomous government body. It exercises full ownership rights in several enterprises in which the State owns 100% of the charter capital and acts as the representative of state capital in joint stock and limited liability companies with more than one shareholder. The CMSC is currently charged with exercising the state's ownership role in 19 of the country's state-owned entities – many of which are Corporate Groups or the even larger State Enterprise Groups. By one estimate from the Ministry of Finance of Viet Nam, its portfolio amounts to around 200 individual companies and the total value of state equity in these companies is over VND 1 000 trillion.

The CMSC has a co-ordination power over SOEs in its portfolio, but it is required to take important decisions in concert with other government bodies. An impediment to its effective influence is that it does not have a comprehensive data collection and reporting mechanism to formulate a comprehensive view over key financial and non-financial data of companies in its portfolio. Due to the lack of data and limited sectoral knowledge of the CMSC across its portfolio of SOEs, line ministries in practice continue to play an important role in the control of SOEs, which implies that regulatory functions and policy formulation are undertaken *de facto* by the same bodies (OECD, 2022[18]).

The provision of state aid support to SOEs, either explicit or implicit, contravenes the spirit and the texts of international free trade agreements. Viet Nam has signed many trade agreements, which have benefitted the country by encouraging foreign investment and facilitating access to foreign markets, and should therefore make sure that the operations of SOEs do not contravene them. The recently signed Comprehensive and Progressive Agreement for Trans-Pacific Partnership and EU-Viet Nam Free Trade Agreement explicitly prohibit state aid, with transition periods to withdraw existing subsidies. As this happens, SOEs will have to become competitive and innovative in their own right. An important step in phasing out state aid will be to stop providing government guarantees on debt issued by SOEs, as such guarantees undermine competitive neutrality and provide an undue advantage to these public companies. The government has stopped providing such guarantees since 2018 and should continue to reduce the stock of existing guarantees.

Reflecting these concerns, the Ministry of Planning and Investment issued in early 2022 a draft project on "Developing large state-owned corporations, especially multi-ownership state economic groups, to promote the leading role and the role of paving the way for enterprises of other economic sectors". The government will select a few large and strategic enterprises, using criteria of overall size, market share, profitability, use of technology and corporate governance. The selected SOEs will be encouraged to form linkages with value chains, promote innovation, and enter into participation agreements with firms in other economic sectors. Ministries will be encouraged to consider these large SOEs like private enterprises, with the management of these firms allowed to make decisions autonomously.

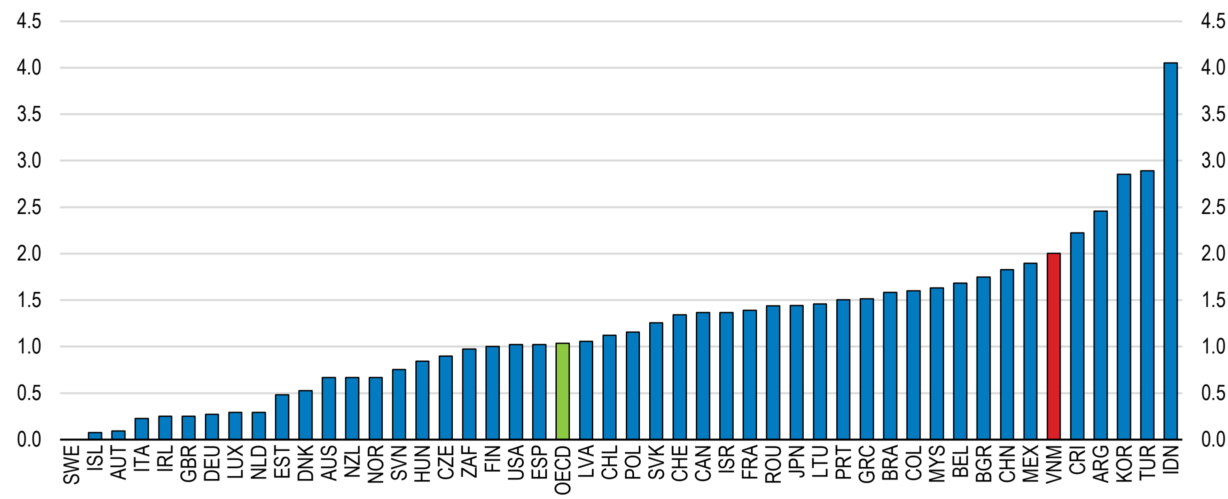
While SOE reform remains important for private sector developments, policy challenges are presently emerging from large private domestic corporations. Recent cases of stock and bond market manipulation by some large private corporations have revealed that large private corporations can also cause serious sovereign risks due to their significant exposure to the banking and financial sectors and their increasing importance for job creation. Although few in number, they are therefore creating "market or monopoly power" problems. The new generation of Viet Nam's reform to strengthen business dynamism should therefore also focus on improving the regulatory environment for all market players, regardless of ownership, to ensure a level playing field for all market participants, including small, medium, and large sized state and private enterprises.

Price controls hinder product-market competition

Controls of retail prices are used as a policy tool in a number of countries to some extent. However, they are more widely used in Viet Nam than in many other countries covered by the OECD PMR indicators, although they are less extensive than in some regional peers such as Indonesia (Figure 2.9). Price controls in Viet Nam are implemented through two main mechanisms: price stabilisation and price determination as stipulated in the 2012 Law on Price and its subsequent Decrees. Price stabilisation measures can be enacted only when prices of essential goods or services on a pre-determined list change irregularly or price changes of these products affect socio-economic stabilisation. Eleven categories of commodities are under the price stabilisation list, including gasoline and petrol products, electricity, liquefied petroleum gas, fertilisers and pesticide, sugar, salt, powdered milk for children aged under 6, rice, vaccine and some medicine. The government can use several policy tools, such as rationing, direct purchase or sales, tax measures and price fixing. Price stabilisation is rarely used. Price determination (price cap or band) is applied to a number of commodities and services such as air transport, power transformation, water, heath care and education service. Additional measures of price control have been placed temporarily on some health services and equipment. In 2022, the government halved the environmental tax on fossil fuels to ease the abrupt hike of gasoline prices caused by the war in Ukraine. The government intends to gradually narrow the list of goods and services under prices controls along with the country's economic development.

Figure 2.9. Viet Nam should further ease price controls

Indicator of retail price controls, index scale of 0-6 from least to most restrictive, latest year available



Note: Information used to calculate the 2018 PMR indicators is based on laws and regulation in place on 1 January 2018 or a later year depending on when the information was provided by the relevant country (1 January 2022 for Viet Nam).
Source: OECD, Product Market Regulation database and OECD-WBG, Product Market Regulation database.

StatLink https://stat.link/48ya0s

Price controls are frequently motivated by social goals such as protecting the income of producers (with a price floor) or conversely protecting the living standards of consumers (with a price ceiling). However, there is considerable evidence across countries that price controls distort production and investment decisions, delay market entry, misdirect consumer choices (leading often to over-consumption), and can favour the development of parallel black markets. Price controls hinder market forces and restrain competition because more productive and innovative suppliers are not able to gain market share by offering lower prices than their competitors. Price controls deter the market entry of new investors, which are likely to be disincentivised by the lack of scope to compete with other participants. As such, price controls act as a hindrance to business dynamism, innovation, and creative destruction. Relaxing retail price controls and eventually liberalising them have been a key policy priority in OECD countries. In addition, price controls entail significant fiscal risks when retail prices are set below production costs and can lead to an inefficient use of resources by distorting the signalling mechanism provided by prices. Finally, environmental damage can result from the under-pricing of commodities and their over-consumption. A better and more targeted approach than generalised price controls to protect low-income households is to provide means-tested cash transfers, which enable vulnerable families to purchase the goods and services needed for their daily subsistence (Guenette, 2020[21]).

Liberalising prices subject to controls can be challenging, as shown by episodes of social unrest following sharp price increases in food and energy products. Nevertheless, the policy objectives of keeping costs of living at a manageable level for vulnerable households can be more efficiently achieved through alternative measures such as direct cash-transfers to vulnerable households. Prior conditions need to be established, including a well-designed social safety net to help vulnerable households hit by price increases. The successful experience of natural gas price liberalisation in Ukraine in 2015-16 and Egypt in 2012 suggests that relaxing price controls can be achieved without undue social impact if means-tested subsidies are made available and take-up encouraged by large communication campaigns and with the help of social workers (Guenette, 2020[21]). Some other policy settings that support competitive markets are also a pre-condition to successful price liberalisation. Strong competition and consumer protection authorities together with antitrust laws are essential components to support market forces and dealing with government influence on competition, including state monopolies. The new 2018 Competition Law provides a better legal and regulatory framework to support competitive markets, including a special clause prohibiting government agencies to obstruct competition law enforcement. Effective implementation of this Law will constitute a more effective response to many of the problems that price controls attempt to address (see below).

Accelerating digitalisation after the pandemic

The diffusion of digital technologies has significant potential to boost productivity. Digital technologies help to access new knowledge and facilitate the diffusion of innovation. They can also contribute to better-functioning markets by enhancing competition. For instance, the wide use of online platforms has lowered transaction costs by putting sellers and buyers in touch directly, including across borders, and by reducing information asymmetries. In the services sector (hotels, taxis, restaurants and retail trade), platforms boost the productivity of incumbent service firms and stimulate labour reallocation towards more productive firms in these industries (Bailin Rivares et al., 2019[22]), (Costa et al., 2021[23]). In Viet Nam, examples of rapid business development triggered by digitalisation include the emergence of ride-hailing platforms, such as Uber followed by Grab, Gojek and Be, which have displaced incumbent taxi services.

Like in other countries, the outbreak of COVID-19 has accelerated the digitalisation of Viet Nam as businesses adopted teleworking arrangements and shoppers used e-commerce services more actively. In addition, schools switched to online education following confinement orders by health authorities and government services were increasingly provided via official online platforms. Together with Indonesia, Viet Nam saw the highest growth rate in the daily average hours spent online for personal use in ASEAN-6 countries (Asian Development Bank, 2021[24]). This section discusses how the country could continue to take advantage of digital opportunities as it emerges from the health crisis.

For emerging markets, embracing digital technologies provides an opportunity to leapfrog various steps in technological development; for instance, China went directly to master technologies linked to artificial intelligence, big data, image recognition, blockchain and digital currencies. In 2022, Viet Nam also decided to accelerate its digital transformation with a new “National Strategy to Develop Digital Economy and Digital Society by 2025, with orientation to 2030”. The government aims to improve the digital infrastructure, accessibility to 5G services and e-government portals, with the objective for the digital economy to account for 30% of Viet Nam’s GDP by 2030, compared to estimates of 6-8% of GDP at present. This would imply further digitalisation, which is likely to require strong policy support. To facilitate the digital transformation of the business sector, the government currently provides various support, including technical advice. In addition, the government should deepen trade integration. In particular, attracting foreign investment in the broad digital economy, including services sectors, will help promote the digital transformation of the domestic economy (see Chapter 1).

With the fast growth of digital activities around the world, the question of how to measure statistically the size of the digital economy has gained importance, together with the analysis of its economic, financial and social impact. Work under the auspices of G20 countries have made progress to identify the main issues and discuss measurement options. It has been proposed to agree that "The digital economy incorporates all economic activity reliant on, or significantly enhanced by the use of digital inputs, including digital technologies, digital infrastructure, digital services and data. It refers to all producers and consumers, including government, that are utilising these digital inputs in their economic activities" (OECD, 2020[25]). However, measuring the digital economy remains fraught with difficulty due to the lack of a universally accepted definition and reliable statistics on its key components, especially in developing countries. Depending on the definition used, the size of the digital economy is estimated at 4.5 to 15.5% of global GDP. A "narrow definition" of the digital economy includes the ICT sector, ICT-producing sectors and digital and platform-enabled products/services ("sharing economy"), but does not include ICT-using sectors such as tourism and transportation.

Using this narrow definition, a previous study suggests that Viet Nam's digital economy is estimated to have grown strongly since the late 2010s (Google, TEMASEK and BAIN&COMPANY, 2021[26]). Besides manufacturing of products such as smartphones and micro-processors by FDI firms, Viet Nam's digital economy encompasses financial technology, blockchain, gaming, education technology, healthcare and e-commerce. Viet Nam has three digital unicorns (VNG, VNPay and MoMo) and eleven startups valued at over USD 100 million such as Tiki and Topica Edtech. It has increasingly attracted large amounts of financing, both domestic venture capital and international investment. While this is a good start, the country has the potential to expand its digital activities at an even faster pace.

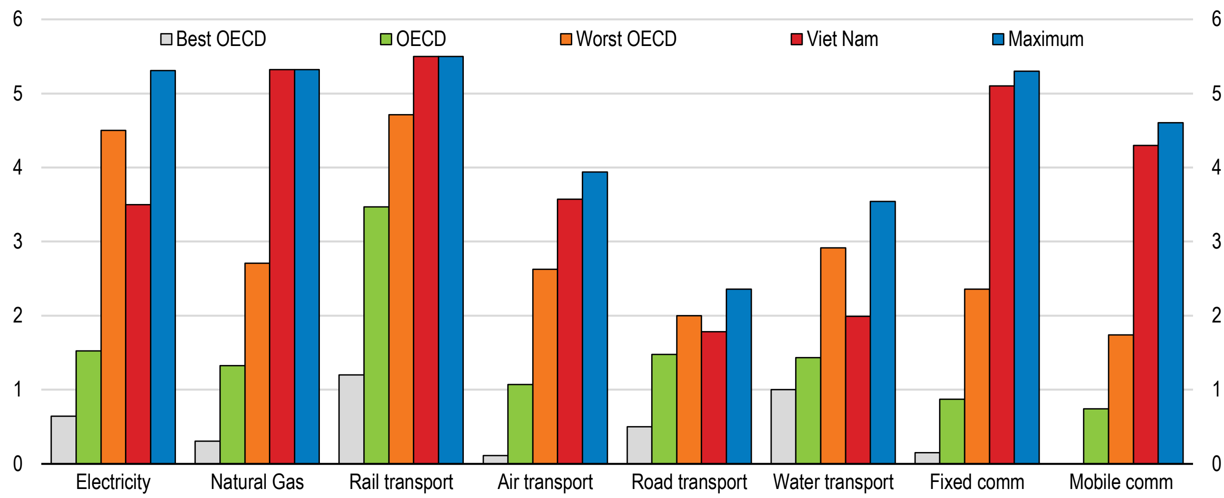
Digital transformation and innovation

Digital innovations are transformative because they can be applied and diffused much more quickly than other technologies. The time required to innovate, test and apply digital technologies is much shorter than in manufacturing, energy, or medicine. For example, it took only a few years for artificial intelligence to provide accurate voice and image recognition and to make it available on multiple devices. In both advanced and emerging countries, most people now have access to e-commerce, services platforms, telemedicine, video streaming and e-government portals. Firms that apply these technologies to new products and services can challenge incumbent companies and trigger a fast reallocation of labour and capital, which boosts productivity and economic dynamism.

Both existing big firms and new small start-ups can be part of this transformation – as seen in Viet Nam where large state-owned enterprises were quick to roll out modern mobile telephone networks, while new start-ups were entering the business of ride-hailing and cashless payments. Big companies have the financial power and economies of scale to undertake large digital projects, while small start-ups are agile and flexible and can challenge incumbents. However, market failures resulting from network externalities, advantages for incumbents deriving from user data and economies of scale due to high fixed costs and low variable costs can result in dominant market positions that are hard for new entrants to challenge. Governments should therefore make sure that markets dominated by one large company remain contestable and open to firm entry so as to retain the beneficial dynamism arising from digitalisation and technological innovation. However, in Viet Nam the evidence presented in this chapter is that high barriers to entry, weak implementation of competition policy, including banning anti-trust behaviour, has made it difficult to challenge firms with established market power in some sectors (Figure 2.10).

Figure 2.10. Several network sectors are strictly regulated in Viet Nam

Index scale of 0-6 from least to most restrictive, latest year available



Note: Information used to calculate the 2018 PMR indicators is based on laws and regulation in place on 1 January 2018 or a later year depending on when the information was provided by the relevant country (1 January 2022 for Viet Nam). Best OECD/worst OECD represents the OECD best/worst performing country, while maximum corresponds to the most restrictive country among those in the PMR database. For mobile communications, the OECD best scores is zero.
Source: OECD, Product Market Regulation database and OECD-WBG, Product Market Regulation database.

StatLink https://stat.link/k254np

In this regard, a significant improvement in providing a sound legal framework to tackle the abuse of market dominance and monopoly positions has been made in the New Competition Law 2018. However, effective implementation of this Law requires speeding up the process of establishing a new National Competition Commission (NCC) which has a broader and stronger mandate and enhanced capacity to deal with uncompetitive behaviour and to ensure a sound business environment for fair competition. The amalgamation of the two previous agencies to deal with competition issues under the previous 2004 Law, namely the Vietnam Competition and Consumer Agency and Vietnam Competition Council, into the single National Competition Commission (NCC) will help streamline institutional arrangements. However, this may also cause some difficulties in operation due to putting different tasks that require different mandates and institutional support under one authority. Under the 2018 Law, the National Competition Commission will conduct all legal proceedings from detection, investigation to handling of violations of the Competition Law and complaints against settlement decisions on handling of competition cases. In particular, the power of dealing with complaints against its settlement decisions has the potential for conflicts of interest to arise. Therefore, the NCC should ensure high levels of transparency and accountability in its policy implementation to attain trust in competition policy.

On the other hand, many SMEs are faced with numerous obstacles and challenges in realising the digital transformation. In particular, high investment costs, limited knowledge and a lack of human resources make adoption of digital technologies and changes of their business processes difficult. Against this background, the government has been providing a range of supporting programmes for SMEs. For example, the Supporting Enterprises' Digital Transformation Programme 2021-2025 includes awareness-raising campaigns, training and consulting for SMEs. The 2017 Law on Supporting Small and Medium Enterprises explicitly stipulates that the government needs to formulate policies to support SMEs, such as financial support, including in the area of digitalisation.

The successful digital transformation of Viet Nam will also require investing in digital skills. At present, many firms are unable to use advanced digital technologies due to the lack of workers with the relevant skills. More investment in education, training, and reskilling will be needed so that Vietnamese firms can make a more widespread use of cloud computing, big data and artificial intelligence, while protecting users from cybercrime and consumers from using their private data.

Digital infrastructures have expanded rapidly

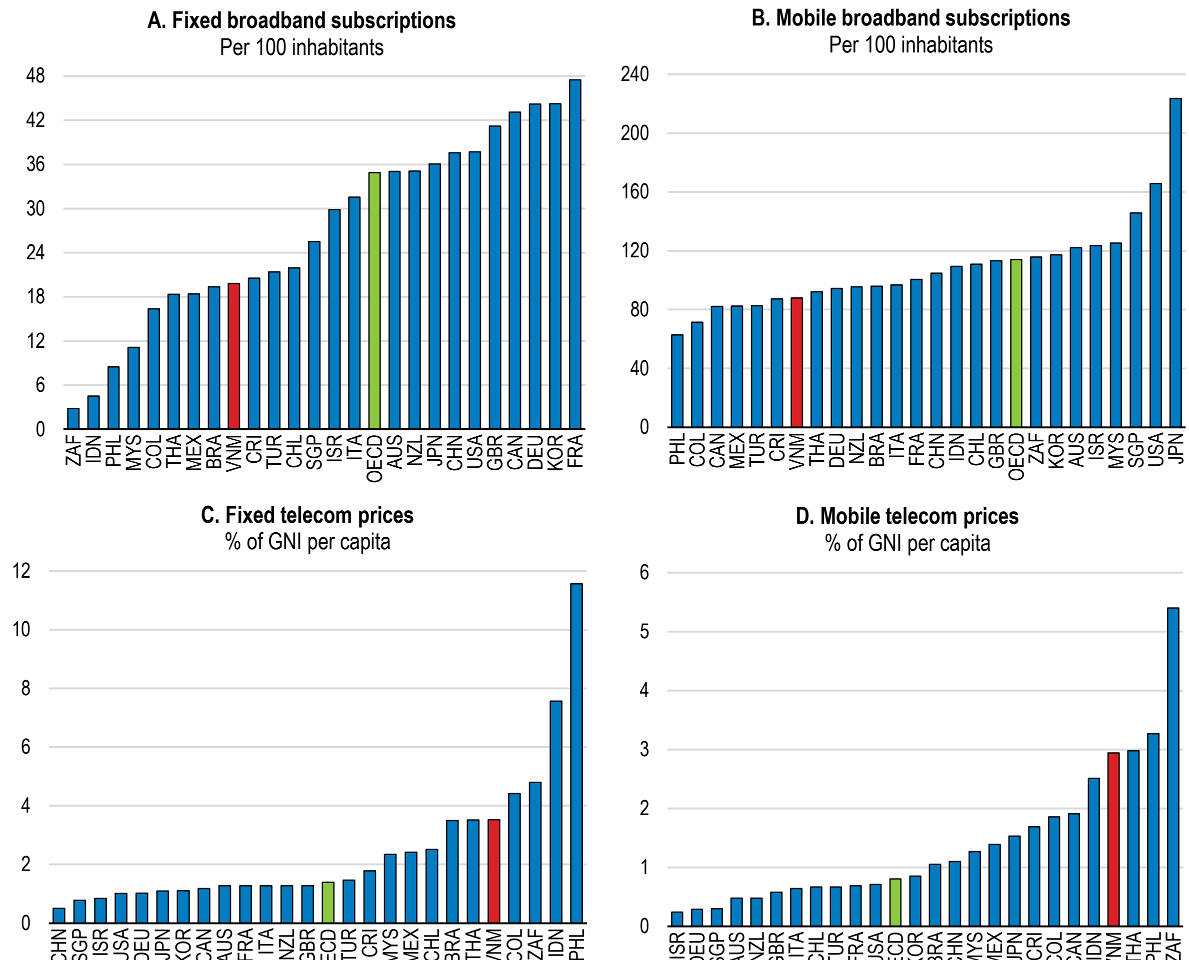
Widespread and affordable access to high-quality mobile telephone and internet connections are essential to the diffusion of digital technologies. Starting from little connectivity in the 1990s, Viet Nam has proceeded fast with the expansion of mobile internet and fixed broadband, including fibre optic. Mobile telephony subscriptions have grown by nearly 3 million per year over the last decade and are now widespread, with more mobile phone subscription than people in the country. Almost 88% of the population has a mobile broadband data connection, allowing them to access internet services and e-government websites (Figure 2.11), though with varying quality. High-speed 4G connection is not always available in rural and mountainous areas, and the speed of internet connection is slow compared to peers (World Bank, 2021[27]). Viet Nam plans to issue licenses for 5G wireless service in 2022 following pandemic delays, with coverage to start in Hanoi, Ho Chi Minh City and other urban areas, which will allow access to high-speed internet and may avoid installing costly fibre infrastructure. However, building a fibre optic network will remain essential for businesses, schools, universities, and government agencies – and will require large investments.

Like in other parts of the Vietnamese economy, state-owned enterprises (SOEs) dominate the telecommunication sector. Viet Nam Posts and Telecommunications Group (VNPT) is the incumbent operator owned by the Commission for the Management of State Capital at Enterprises (CMSC), a financial holding entity of the government. Following the creation of a separate regulatory entity, market segments were opened to competition, starting with mobile services in 1995. However, SOEs are still dominating the telecommunication market. Vinaphone, one of the largest mobile operators, is a subsidiary of VNPT and other big players, MobiFone and Viettel are owned by the CMSC and Ministry for Defence respectively. Although the competition among these state-owned telecommunication corporations has resulted in lower prices of telecommunication services, it has hindered the entry of domestic private firms to the telecommunication market, which will be important for Viet Nam in the long term to improve efficiency and transparency in the market. The ownership of these companies has been transferred to the CMSC but, as noted in the previous section, sectoral ministries are perceived as still exerting considerable influence on the management of these companies, including through the appointment of board members, senior executives, and with favourable access to land and credit.

While there is a telecommunication regulator (Authority of Telecommunications), it is a ministerial unit inside the Ministry of Information and Communications, rather than a regulator that is independent of the ministry. If regulators are independent, they can operate impartially without favouritism or conflicts of interest. For instance, major operators, often SOEs, could request favourable treatment, or regulators could behave in the ministry’s interest. Such arrangements can discourage other operators from entering a market in the first place, and thus distort competition. Against this background, a number of countries have enhanced the independence of the regulatory bodies in the telecommunications sector with respect to the institutional set-up of regulators, the structure and sources of their budget and the scope of their functions (OECD, 2016[28]). In Viet Nam, the line ministry oversees the regulator of the sector. Further strengthening regulatory independence would promote competition in the market.

Figure 2.11. Stronger competition could reduce telecom prices further

2021 data



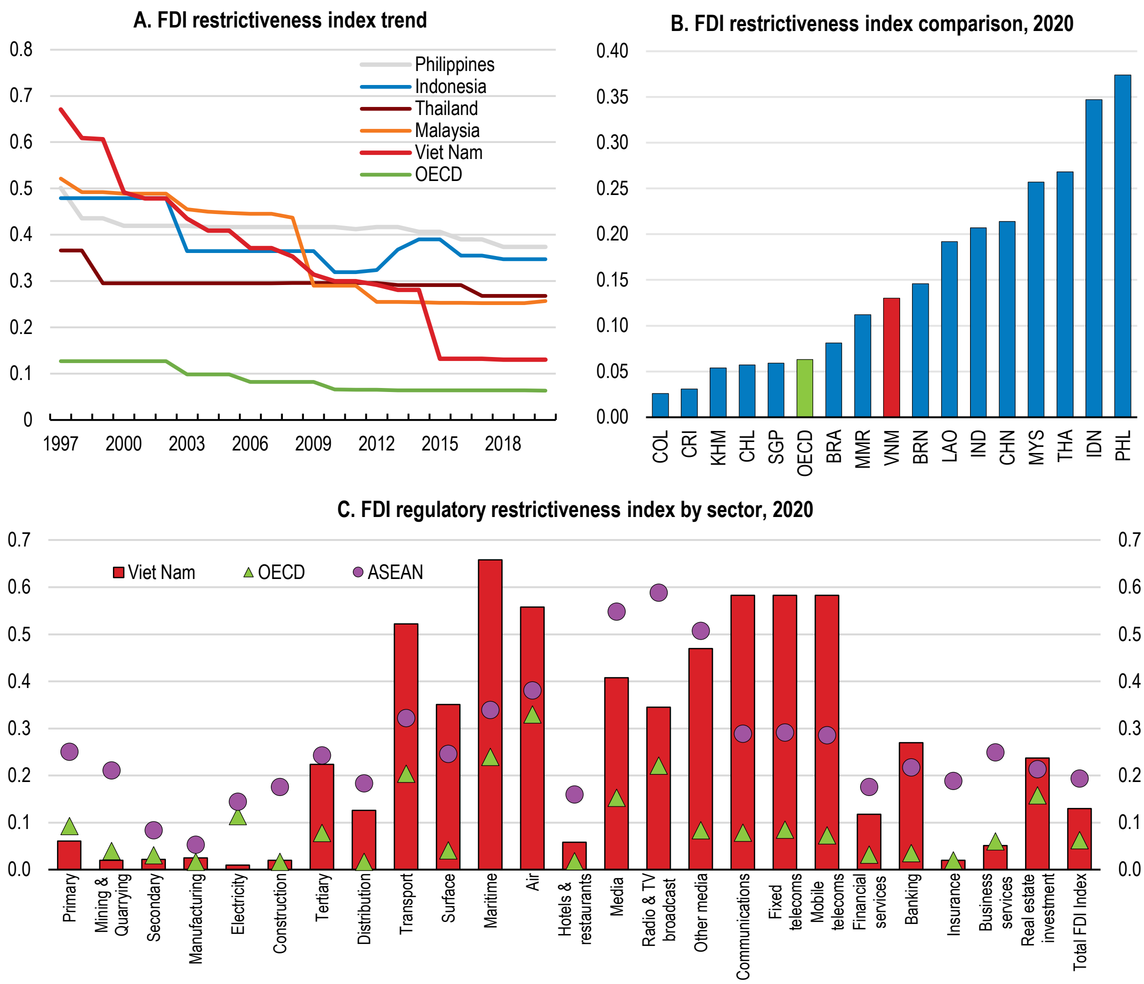
Note: The fixed telecom price refers to a fixed-BB basket with 5 GB and the mobile telecom price refers to a high usage voice and data allowing up to 140 minutes of phone calls, 70 SMS and 2 GB data.
Source: International Telecommunication Union.

StatLink https://stat.link/y681nq

In the telecommunications sector, foreign investors still face some restrictions. Research finds that foreign investment has positive spillover effects on domestic industries, including cross-border dissemination of technologies (Pham, 2009[29]), (Arnold, Javorcik and Mattoo, 2011[30]), (Arnold et al., 2016[31]). Moreover, foreign investment in the digital sectors, especially digital infrastructure, is crucial to help facilitate the digital transformation of the domestic economy (Satyanand, 2021[32]). Indeed, MobiFone was initially established as a joint-venture with a Swedish telecom company. The OECD FDI Regulatory Restrictiveness Index shows that Viet Nam maintains tighter entry restrictions in the sectors of communications, mobile telecoms and fixed telecoms (Figure 2.12). Greater liberalisation of entry conditions would therefore boost Viet Nam's business dynamism, with likely tangible benefits for total factor productivity (OECD, 2018[33]). Foreign investors are currently subject to a range of restrictions. Services must be offered through commercial arrangements with an entity established in Viet Nam and licensed to provide international telecommunication services. While foreign ownership is allowed up to 65% in non-facilities-based services (i.e. non-infrastructure services providers), majority ownership in facilities-based telecommunications activities is prohibited, thus greatly reducing investors' interest. Moreover, the Prime Minister's approval is required for investment in telecommunications services with network infrastructure. In this regard, trade integration gives Viet Nam strong reform momentum. The government has made firm commitments to widen market access to foreign investors in the context of the Regional Comprehensive Economic Partnership and the ASEAN Framework Agreement on Services (ASEAN-Japan Centre, 2022[34]). A new Law on Telecommunications is envisaged to remove the restriction on commercial arrangements, among others. Nevertheless, the government intends to maintain the foreign ownership restrictions. In particular, the restriction on majority ownership in facilities-based telecommunications activities could be further relaxed.

Figure 2.12. Viet Nam's FDI restrictions have been eased except in the transport and communications sectors

OECD FDI Regulatory Restrictiveness Index, scaled from 0 (open) to 1 (closed)



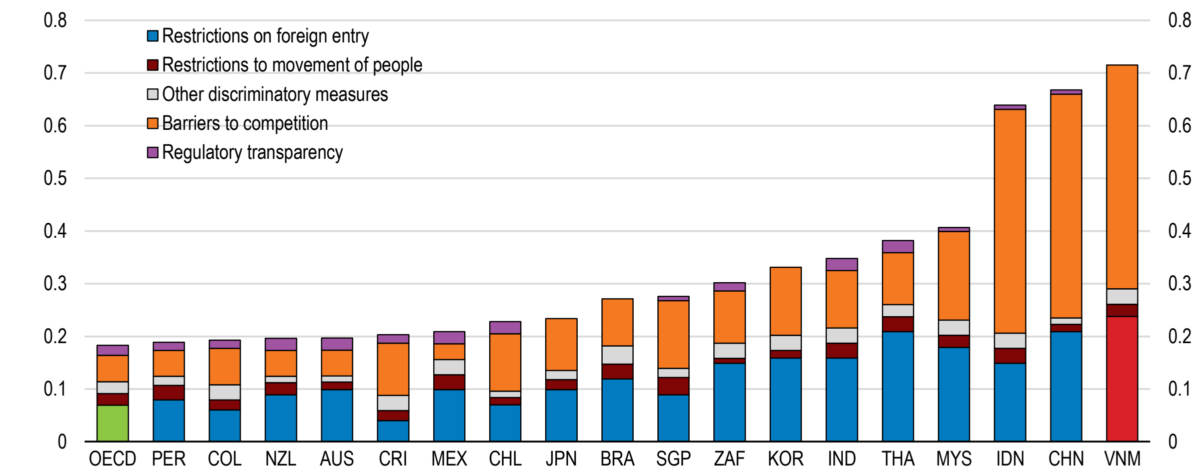
Note: The OECD FDI Regulatory Restrictiveness Index covers only statutory measures discriminating against foreign investors (e.g. foreign equity limits, screening & approval procedures, restriction on key foreign personnel, and other operational measures). Other important aspects of an investment climate (e.g. the implementation of regulations and state monopolies, preferential treatment for export-oriented investors and special economic zones regimes among other) are not considered. See Kalinova et al. (2010) for further information on the methodology.
Source: OECD FDI Regulatory Restrictiveness Index database, http://www.oecd.org/investment/fdiindex.htm; see also the ASEAN FDI Regulatory Restrictions Database for information on the underlying measures captured in the Index, https://qdd.oecd.org/subject.aspx?Subject=ASEAN_INDEX.

StatLink https://stat.link/cvuy07

Ensuring a more conducive environment to cross-border data flows is crucial to promote digital innovation. The cross-border flows of telecommunication and digital services are strictly regulated by the government. The OECD Services Trade Restrictiveness Index (STRI) compares the degree of restrictions in services trade across a sample of OECD and non-OECD countries. Among these countries, Viet Nam has the strictest score for telecommunication services (Figure 2.13). This reflects restrictions regarding foreign investment in these sectors, foreign participation in executive boards and obligations to have presence of executives in the country. In addition, Viet Nam's regulations prescribe that certain types of data (such as accounting data and some user-generated data) must be stored in the country, rather than on cloud servers in foreign countries. The Law on Electronic Transactions and the Law on Cybersecurity both contain legal provisions to store certain data in the country for certain enterprises. Both domestic and foreign companies providing telecommunications, internet, and value-added services must store related personal data in the country. Viet Nam, China and Russia are among the very few countries that apply strict limitations on cross-border data flows. While restrictions of the localisation of data can enhance data privacy and consumer trust, helping to fight cyber-criminality (Figure 2.14), they also involve unnecessary compliance costs and restrictions on the free flow of data, creating trade barriers. Such barriers can reduce the benefits of being integrated in global digital networks.

Figure 2.13. Viet Nam's cross-border regulations on telecommunications are very strict

Services Trade Restrictiveness Index ranging from 0 (open) to 1 (closed), 2021

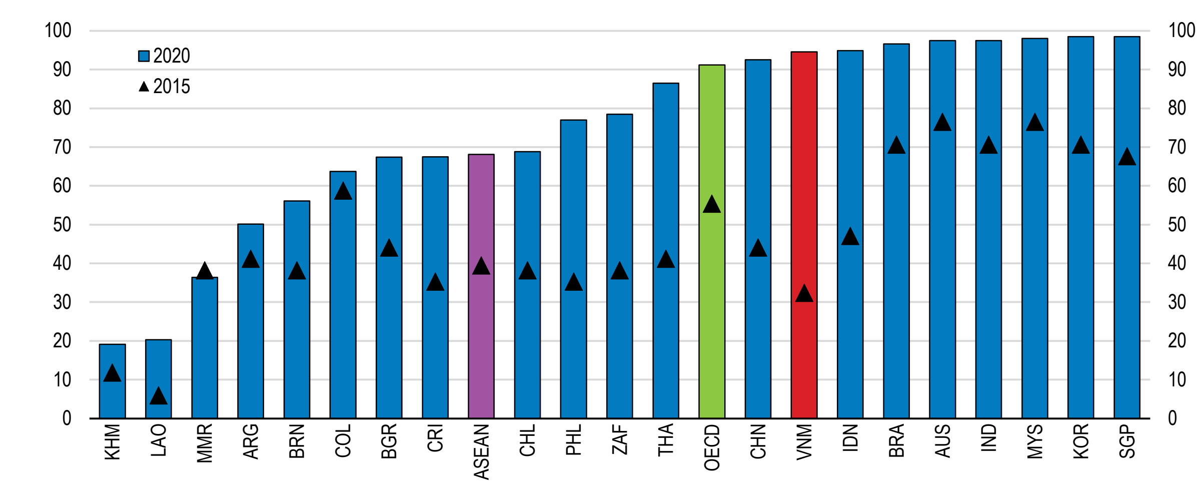


Source: OECD, Services Trade Restrictiveness Index database.

StatLink https://stat.link/igc2ye

Figure 2.14. Viet Nam has strengthened its cybersecurity measures

Global Cybersecurity Index, score from 0 to 100 (best)



Note: The Global Cybersecurity Index is a composite index of indicators that monitors the level of cybersecurity commitment in five pillars (legal, technical, organisational, capacity development and cooperative measures). For more details, see Source.
Source: ITU, Global Cybersecurity Index 2020 and Global Cybersecurity Index & Cyberwellness Profiles 2015.

StatLink https://stat.link/inmhu8

Strengthening the acquisition of digital skills

Strengthening digital skills among the labour force is crucial to accelerate the digital transformation. Acquiring digital skills can also help Vietnamese workers reap the benefits from the digital economy, notably through seizing opportunities for better jobs and utilising digital technologies that enhance well-being. The outbreak of COVID-19 has also encouraged the take-up of digital skills because physical distancing has required the shift to on-line education, teleworking, tele-medicine and e-government. However, successful acquisition of digital skills requires tremendous motivation and efforts by individual workers and businesses and government support concerning education and training. Designing and implementing a digital skills development programme need to be tailored to the needs of different groups of people and different levels of education in a comprehensive and cohesive framework.

Government policy should focus not only on enhancing the supply of high-skilled workers but also on nurturing basic skills for all workers. In the digital world of work, three different types of skillsets become important (OECD, 2019[35]). First, workers need to be equipped with general cognitive skills, such as literacy and numeracy, and basic digital skills. For example, business communication using email and searching information on the internet requires these general skills as the foundation of conducting daily business tasks. Second, soft skills become more important. These skills include analytical skills and a range of complementary skills such as problem solving, creative and critical thinking, communication skills and a strong capacity for continuous learning. While digital technologies reduce demand for routine jobs, workers also need to deal with more complex job tasks, resulting in an increasing demand for these types of skills. Moreover, working in occupations more directly related to new technologies, such as programmers, requires advanced digital skills.

Enhancing basic digital skills of all workers should be a priority. Viet Nam has invested in basic education and achieved both high enrolment rates and high-quality outcomes. The results of the OECD's Programme for International Student Assessment (PISA), based on tests administered in 2015 on 15-year-old students, show that students in Viet Nam were on par with the OECD average in mathematics and reading, while they scored above the OECD average in science (Viet Nam participated in PISA 2018, but the international comparability of the results could not be fully ensured). However, compared with the advancement of basic education, levels of basic digital skills among workers are not sufficient to meet the growing demand. Business people consider that workers with basic digital skills have been lacking in Viet Nam, with evidence suggesting that people are less equipped with basic digital skills than in peer countries (Figure 2.15). In this regard, experience of other Southeast Asian countries would be useful. Malaysia, where basic digital skills of workers are considered to be among the highest in the region, has strong training programmes for basic digital skills (OECD, 2021[36]). The eRezeki programme provides people in the bottom 40% income group with opportunities to develop basic digital skills for jobs, such as programming and translation. The eUsahawan programme trains entrepreneurs who lack digital knowledge. Entrepreneurs can attend courses at community centres, public education institutions and on online learning platforms. In Viet Nam, the government has introduced a knowledge dissemination initiative at the community level. A group of experts (digital technology group) is formed to enlighten citizens on basic digital skills, such as the usage of digital apps, while the government prepares guidelines for the pilot programme. By end-August 2022, 51 provinces have participated in the pilot programme and 45 895 digital technology groups were established at the community level. This initiative could be further enhanced by strengthening financial support by the government and collaboration with education institutions.

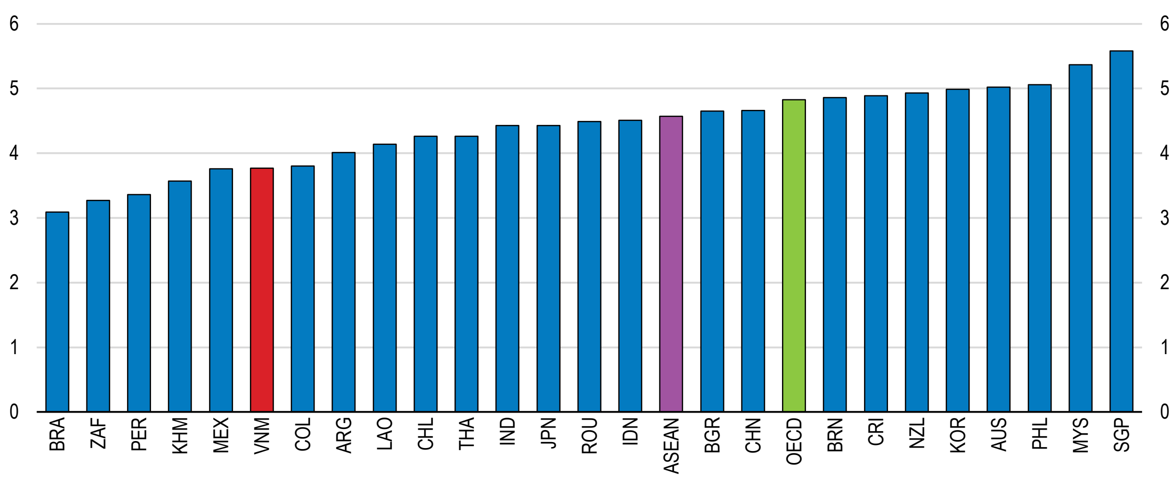
Nurturing basic digital skills is also helpful for people to improve their broad skills. Building on e-learning platforms mostly for digital skills of public sector workers, including local government workers, the government has promoted mass open online courses for all adults. Mass open online courses can potentially provide training opportunities for a range of skills, including non-digital skills, for a large population group with low costs. However, lower digital skills of people can be a significant obstacle to their active participation, in addition to other constraints, such as limited access to computer and internet facilities (OECD, 2020[37]). Therefore, to strengthen the usefulness of the increasing online learning opportunities, it is crucial to invest more to improve basic digital skills.

The supply of workers equipped with advanced digital skills also needs to be enhanced. For example, such skills are often in the areas of software programming, big data analysis, managing digital hardware and networks, cybersecurity and machine learning. The lack of advanced digital skills is likely to hinder the digitalisation of Vietnamese businesses compared with other countries, especially for tasks requiring knowledge of advanced technological tools. Only 7% of Vietnamese firms used cloud computing for business tasks and just under 2% of firms used big data or artificial intelligence for marketing purposes (Cirera et al., 2021[38]). More generally, only about 6% of manufacturing firms used additive manufacturing or advanced manufacturing techniques, and less than 2% used robots. In the European Union, more than 40% of businesses used cloud computing in 2021 (Eurostat, 2021[39]).

Viet Nam should strengthen the quality of vocational training and higher education in terms of digital skills. The acquisition of advanced digital skills typically takes place in OECD countries at the level of vocational training and higher education and continues during the adult life with on-the-job training and lifelong learning. While Viet Nam has achieved high levels of education enrolments in primary and secondary education, enrolment in tertiary education still lags behind, with gross tertiary enrolment of only 28.6% in 2019, less than in peer countries such as Malaysia (43.1%), Indonesia (36.3%) and far behind the OECD average. Furthermore, student enrolment in tertiary programmes in tracks relevant for digital skills, namely "natural sciences, mathematics and statistics" and "information and communication technologies", has been very low at 0.6% and 1.0%, which is five to ten times lower than the OECD average and enrolment in the region (OECD, 2020[40]). Previous studies highlight that Viet Nam's rapid technological advancement could bring a large skills gap in areas such as agro-processing and logistics sectors, meaning that the gap will have to be addressed by technical and vocational education and training (TVET) institutions which provide up-skilling and re-skilling opportunities (Asian Development Bank, 2021[41]).

Figure 2.15. Viet Nam needs to improve its population's digital skills

Digital skills among population, score from 1 to 7 (best), 2019



Note: Based on response to the Executive Opinion Survey question "In your country, to what extent does the active population possess sufficient digital skills (e.g. computer skills, basic coding, digital reading)?" [1 =not all; 7 = to a great extent].
Source: World Economic Forum, Global Competitiveness Index 2019.

StatLink https://stat.link/bg517z

In response to growing digital skill needs, the Vietnamese government has introduced policies to develop the acquisition of digital skills in all levels of education and vocational training. Digitalisation of education is conducive to nurturing broader digital skills. For example, Hungary has a higher share of ICT graduates than the EU average (4.3% and 3.6% of total graduates), but has put strong emphasis on the digitalisation of higher education, adopting the Digital Education Strategy and the Shifting of Gears in Higher Education

Mid-Term Policy Strategy (2016-2030) (OECD, 2021[42]). In Viet Nam, the government issued a Decision 131/QD-TTg in January 2022 which aims at "enhancing the application of information technology and digital transformation to create breakthroughs in educational and training innovation; renovating state management in the field of education and training; positively and comprehensively transform the mode of operation, improve quality, efficiency and equity in education". Further action is needed to establish new platforms for online and distance learning, notably national open sources for education at all levels and forms of education. Targets included in the government plan are: by 2025, 50% of students and teachers will have adequate facilities (internet connections, software and hardware) for online and distance learning; 5% of courses at primary schools and 10% at secondary schools will be provided online. Education management should also be digitalised and the government plan is that 100% of education establishments will be managed by digital platforms and databases.

The government has also adopted a 5-year programme aimed at strengthening the use of digital technology in vocational training. The reform requires that all trainers and managers receive supplementary training to improve their capacity to conduct vocational training activities in the digital environment by 2030. All lecturers and trainers will be required to create digital learning documents. The programme also aims to create a national digital platform for vocational training with shared digital resources for training and learning activities, to digitise all training processes, results, and degrees. Training curricula will be changed to meet digital transformation requirements, and the digital infrastructure of vocational education institutions will be strengthened.

For post-education workers, digital skills can be obtained through lifelong learning, adult learning and on-the-job training. Many Vietnamese are aware of the challenges of digitalisation and ready to learn new skills, including basic digital skills. According to a recent survey, 84% of Vietnamese respondents say that they would learn new skills now or completely retrain in order to improve future employability in response to the digital transformation, which is higher than the global average (77%) (PwC, 2021[43]). Governments can encourage firms to train their workers, for instance, by contributing to the cost of training. Additionally, the provision of e-government services can encourage ICT use by individuals by helping to foster an affinity with digital technologies. Financial support for digitalisation of the education sector is important to achieve ambitious targets. Special support also needs to be designed for "training of trainers" for all levels of education, especially at primary and secondary schools.

Looking ahead, there is a need for further identifying and monitoring skill gaps and mismatches; continuing reform of the training curricula across education levels; enhancing linkages between business and training institutions; developing and applying new learning platforms. Measuring people's digital skills is also important to formulate more effective policy measures. Viet Nam could benefit from participating in international programmes to benchmark its workers' skills. For example, the OECD's Programme for the International Assessment of Adult Competencies (PIAAC) aims at providing assessment and analysis of adult skills, including literacy, numeracy and problem solving in technology-rich environments.

Digital finance: fast rise of cashless payments

The Vietnamese banking system has expanded rapidly in recent years, though it remains small by international standards. A large share of the population is without access to financial services: there are only 4.0 bank branches per 100 000 adults, much less than other countries in other ASEAN countries. By the end of 2020, only 68.4% of Vietnamese adults (aged over 15) had a bank account, much lower than Indonesia, China, Thailand, Malaysia, and Singapore. Although increasing, the penetration of stock-market accounts and insurance accounts was only 4% and 11% respectively in 2020. In addition, the banking system has been subject to cyber-threats and breaches, and further bank computer network attacks are feared in the future without improvement in cybersecurity.

When provided via new technologies such as mobile phones, digital finance offers the opportunity to deepen financial development and incorporate more people into the banking system. As in many other countries, the outbreak of COVID-19 accelerated the take-up of digital services in Viet Nam because contactless payments were favoured during periods of confinement in order to avoid physical contacts. This acceleration of digital services has benefitted lower-income groups that previously did not have access to the financial system.

Cashless payments have expanded at a fast pace in Viet Nam, such as payments via QR code, mobile payment on Mobile Banking, Internet Banking, and Mobile-Money applications. The number of ATMs has increased to over 21 thousand, points of sales (POS) systems to more than 410 thousand and QR accepting points to over 100 thousand by end-2022. However, in terms of the number of ATMs, the level of development is still relatively low by international comparison: in 2020, Viet Nam had 26.3 ATMs per 100 000 adults, which was well below the world average (61.4), the ASEAN average (40.6), Indonesia (51.7) and Malaysia (55.6). On this metric, Viet Nam ranked 91 out of 110 countries. Security of transactions has also improved thanks to secure biometric authentication, card information encryption (tokenisation) and safe and convenient electronic identification (eKYC).

Three telecommunication companies, namely VNPT-Media, MobiFone, Viettel, were approved to pilot their Mobile Money services for goods and services of small value. This project aimed at promoting cashless payment and enhancing financial inclusiveness, especially for people in rural areas, mountainous areas, remote areas, border areas and islands. Mobile Money has provided these groups with a non-cash payment tool, and therefore accelerated the digital transformation of population groups who had previously not benefited from the technological innovation resulting from digitalisation. Various fintech companies have also been set up to provide digital wallets that combine online payments with e-commerce and other electronic services. Timo, a fintech company, provides technical solutions for banks. MoMo is the largest e-wallet, with a variety of digital services in addition to electronic payments.

The fast development of cashless payments, via private electronic platforms, in all countries around the world including Viet Nam, has triggered a debate about the future of currencies issued by central banks (Demmou and Sagot, 2021[44]). Technological developments make it possible to send secure messages that are fully traceable and therefore offer the opportunity of deeply reforming existing payment systems. Consumers are increasingly expressing a preference for new payment methods, outside of the traditional infrastructures of commercial banking and central banking. The availability of blockchain technology has facilitated the fast growth of cryptocurrencies, created by private initiatives, which fall outside the existing regulatory framework and financial supervision networks. However, the risks of financial instability, payment fraud, tax evasion, money laundering and criminal activities are such that central banks have started to consider issuing their own form of digital currency rather than allowing the circulation of private digital currencies.

Viet Nam is currently restricting the use and mining of cryptocurrencies. In 2014, the State Bank of Viet Nam (SBV) warned against the risks and dangers of operations and transactions related to Bitcoin and other similar cryptocurrencies. It also confirmed the non-acceptance of Bitcoin and other similar cryptocurrencies as legal currencies and means of payment in Viet Nam. In 2019, the issuance and use of cryptocurrencies were forbidden. The SBV instructed credit institutions and payment intermediary service providers not to participate in transactions and operations related to cryptocurrencies due to possible risks of money laundering, terrorism financing, payment fraud, and tax evasion. It also asked these institutions to report suspicious transactions and operations related to cryptocurrencies.

Viet Nam should consider creating a more enabling environment for digital finance. If it is well regulated and supervised, digital currency-based payment systems offer the opportunity to reduce transaction costs – therefore lifting trade, growth and employment. At present, transaction costs on foreign remittances are large – the current global average cost for international remittances stands at 7%. As Viet Nam receives very large amounts of foreign remittances from emigrated workers and its diaspora, the benefits would be substantial. Furthermore, these benefits would largely accrue to lower and middle-income households. In 2021, Viet Nam received remittances of USD 18 billion and is one of the top-ten recipients among low- and middle-income countries (Ratha et al., 2022[45]). In Asia, several central banks are piloting the issuance of digital currencies including Cambodia, China, and Korea. As Viet Nam's authorities have adopted the dual stated objectives of expanding digital government services and promoting cashless payments, researching and piloting experiments involving a central bank digital currency is an option. In 2021, the Prime Minister assigned the SBV to study and propose mechanisms and policies on central bank digital currency and the Governor of SBV approved a Plan on digital transformation of the banking sector up to 2025. The SBV is actively investigating international experience. The State Bank of Viet Nam has already submitted to the government a new draft Decree on a Fintech regulatory sandbox. The sandbox will allow small scale live testing of innovative fintech products by private firms for a limited period in a controlled regulatory environment. The products could include credit provision on new technology platforms, credit scoring, P2P lending and data sharing through open application programming interfaces (APIs) that enable interactions between different software. Enhancing financial literacy and inclusion is also important to accelerate the development of digital finance.

Government digital services are a priority

Digital government services are an essential driver of any country's digital transformation. Such services can help transform how public agencies collaborate among themselves and with the public, and they make public organisations more open, user-driven and proactive. When digital services are well established, governments can be more resilient and responsive when confronted by shocks. Governments with effective digital services were well-prepared when the COVID-19 pandemic struck, and other countries accelerated the delivery of e-government services in 2020 and 2021 to ensure the continuity of government during periods of confinement and the ongoing fight against the outbreak, including vaccination campaigns, information, and public health monitoring.

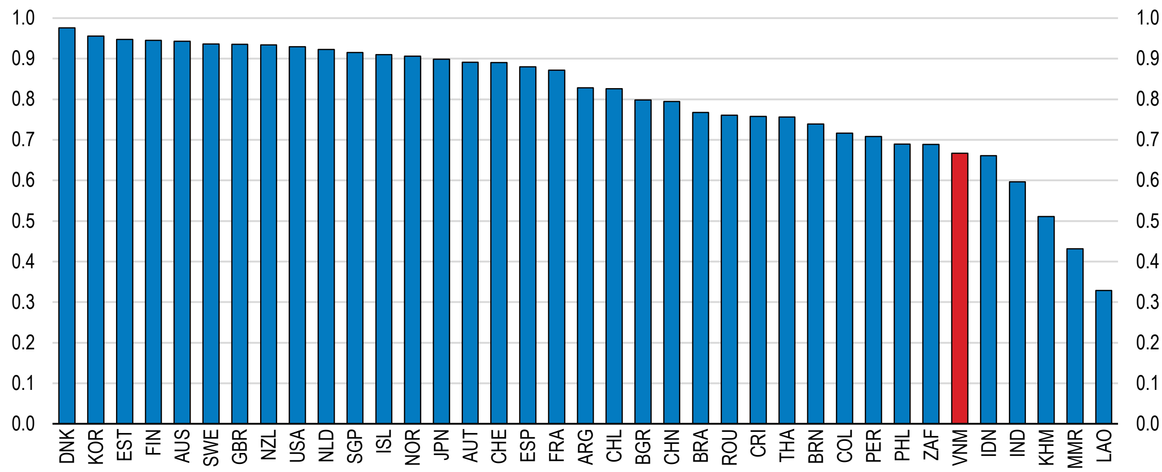
In Viet Nam, the government has stepped up its digital efforts toward streamlining administrative procedures for businesses, especially for those involving finance, customs and tax management. According to the Ministry of Information and Communication's Annual Report 2021, 96% of online public services provided by the end of 2021 allowed customers to apply, process, get approval online of required administrative procedures, pay fees for these services and even receive final results online including online services for tax management, business registration and customs declarations (Ministry of Information and Communications, 2021[46]). The government also rolled out an e-cabinet programme in 2019 which aims to apply a paperless system for all government meetings and processes to strengthen the government's efficiency. In addition, the Digital Transformation Index has been calculated annually since 2021 to evaluate the digitalisation of ministries, agencies and local governments.

There is room to further improve the efficient delivery of digital services in Viet Nam. The United Nations E-Government Development Index (EGDI) summarises the quality and scope of digital governments in terms of provision of online services, participation of the public, digital infrastructure and human capacity, with top-performing countries including Denmark, Korea and Estonia. Viet Nam has improved its ranking over past years, but was still ranked only 86th in 2020 (Figure 2.16), lower than Malaysia (47th), Thailand (57th) and Philippines (77th), and similar to Indonesia (88th).

Creating a national data platform and implementing it effectively would help improve government services through access to information, sharing information for different policy purposes, including better targeting for many on-going government support programmes. The experience of implementing government financial support during the pandemic showed that these relief programmes could be better designed, well targeted and better delivered if a national data platform were operational. Therefore, the establishment and operation of such a national data platform should be accelerated.

Furthermore, a Decree (No. 47/2020/ND-CP) issued in 2020 provides a legal framework on the sharing of digital data between government agencies and the private sector. While considering a draft decree on privacy protection, the government issued a new decree on electronic identification and authentication in September 2022. The government has started to improve data collection and sharing practices through the National Government Service Platform (NGSP). The first phase covers three ministries and the enterprise registry, civil registry, and social insurance database. The NGSP is expected to be expanded to other ministries and provinces, and to additional databases, through 2022.

Figure 2.16. Viet Nam has scope to improve its digital government services



Note: The EGDI is a composite measure of three important dimensions of e-government: provision of online services, telecommunication connectivity and human capacity. The EGDI is not designed to capture e-government development in an absolute sense; rather, it aims to give a performance rating of national governments relative to one another. The figure shows the first top 18 that are also mostly OECD countries, together with selected emerging and ASEAN countries.
Source: United Nations, E-Government Development Index (EGDI 2020).

StatLink https://stat.link/vbtexl

Pursuing green recovery

Viet Nam is faced with a significant challenge of achieving both high economic growth and lowering carbon emissions. Growing energy supply has been both a source and consequence of Viet Nam's past economic development. Almost universal access to the electricity grid has been achieved both for households and firms. Hydro-based power has been augmented with coal-based and gas-based sources, and more recently renewables. The development of large-scale offshore oil and gas fields has increased domestic energy supply and strengthened the country's energy security, while also increasing government revenue. Access to affordable energy has facilitated the expansion of the transportation sector and its integration into international supply chains.

However, like in other countries, fast economic growth has been accompanied by rising emissions of greenhouse gases that contribute to climate change (Table 2.1). As a fast-growing emitter of greenhouse gases, Viet Nam is adding to global environmental risks and weather hazards. The country is itself highly exposed to the consequences of global warming – such as rising sea levels, flooding, and severe heat – which could threaten its future socioeconomic development. The government has therefore made commitments to gradually reduce the country's greenhouse gas emissions. At COP26 in October 2021, Viet Nam's Prime Minister announced the country's commitment to achieve net zero emissions by 2050.

Pursuing a low-carbon economy can improve people's well-being, stimulate innovation and make the economy more resilient against energy shocks, which are important drivers of economic growth. Nonetheless, this will require broad-based policy measures that could radically change the way people work and spend their life. The transformation requires financial resources, as well as a comprehensive government action programme that plots the path forward. The process of decarbonisation also needs to be just, balancing the need of reducing carbon emissions with growing aspiration for economic prosperity and helping those who may be adversely affected by this transition. This section first discusses the trends in greenhouse emissions and policies introduced to abate and adapt to climate change. Sectoral developments in power generation, agriculture and transportation are then reviewed in the second section.

Table 2.1. The national GHG inventory results for 2010, 2014 and 2016

2006 IPCC code	Sector	2010	2014	2016
Total net emissions, ktCO2e		**264 210.67**	**278 659.70**	**316 734.96**
1	Energy	151 879.06	175 540.20	205 832.20
2	IPPU	25 844.05	38 732.71	46 094.64
3	AFOLU	68 710.81	44 997.92	44 069.74
4	Waste	17 776.74	19 388.87	20 738.38

Source: (Ministry of Natural Resources and Environment, 2020[47]).

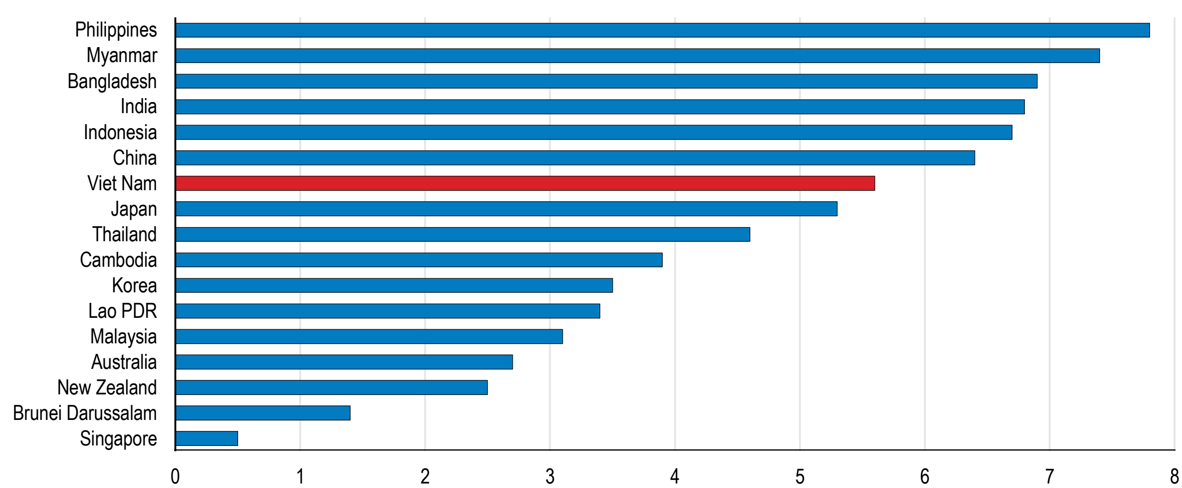
Viet Nam is severely exposed to weather hazards

For emerging-market economies, climate change presents the risk of derailing their convergence toward higher income levels and the fight against poverty. Flooding, rising sea levels and extreme weather events put production facilities and transport infrastructure at risk of severe disruptions. Extreme heat events can make working conditions unhealthy and reduce workers' productivity. Climate change also creates risks for the financial stability of emerging-market economies and for fiscal sustainability. Reflecting these various risks and their likely fiscal impact, sovereign bond spreads have increased for many of the emerging-market borrowers facing climate risks (Beirne, Renzhi and Volz, 2021[48]).

According to the Climate Change Vulnerability Index, Viet Nam is considered one of 30 "extreme risk countries" in the world. Among Asian countries, Viet Nam is highly exposed to climate hazards (Figure 2.17). Recent catastrophic flooding events and successive typhoons have underscored the need to prepare for extreme weather events. Vulnerable communities in coastal, rural and mountainous areas need to be protected against such large-scale disruptions. In particular, strengthening the resilience of transport infrastructure would bolster the sustainability of economic growth and generate significant social benefits.

Figure 2.17. Viet Nam is at risk of climate hazards

Climate-driven hazard & exposure, index score from 0 (best) to 10 (worst), 2022



Note: INFORM Risk is a global multi-hazard risk assessment tool that combines hazards, exposure, vulnerability and lack of coping capacity indicators with the purpose to quantify the risk of humanitarian crisis. The hazard & exposure dimension reflects the probability of physical exposure associated with specific hazards. For more details, see Source.
Source: INFORM, INFORM Risk Index 2022 (https://drmkc.jrc.ec.europa.eu/inform-index).

StatLink https://stat.link/n96haj

Densely populated coastal cities are exposed to rising sea levels and intensifying tropical cyclones, while inland areas will have to cope with greater climate variability that results in droughts and floods (World Bank Group and Asian Development Bank, 2021[49]). The rising temperature will increase economic burdens, ranging from health risks to higher electricity bills. Viet Nam has already experienced severe environmental issues related to climate change and local air pollution. Droughts and strong typhoons have occurred more frequently and severely. In 2020, Viet Nam was hit by 14 storms and several depressions that triggered heavy flooding and landslides. Natural disasters like storms, floods and drought caused costly damages.

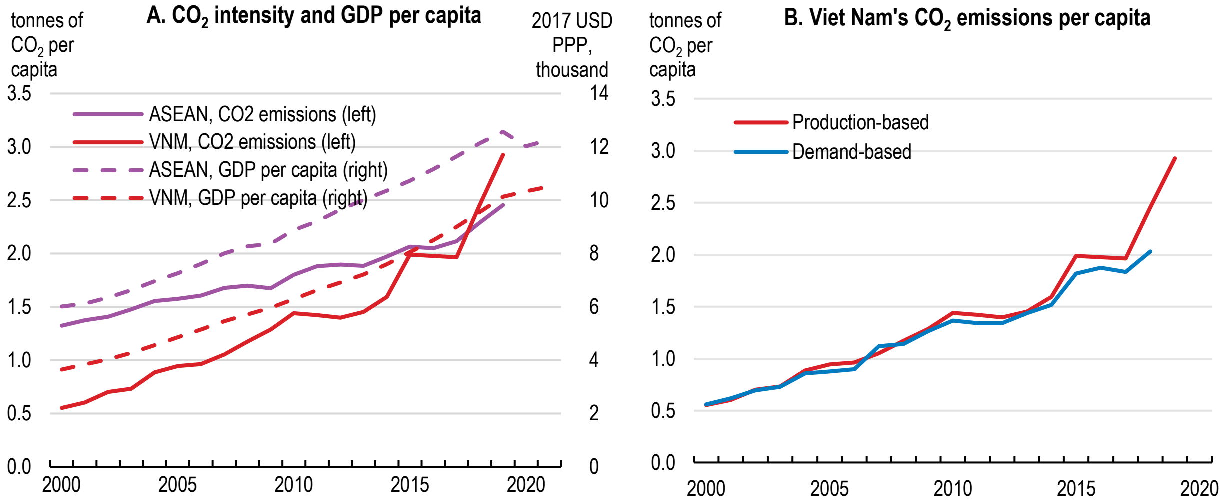
The Mekong River Delta and Red River Delta have already suffered from saltwater intrusion, which threatens agricultural productivity and contributes to greater rural poverty. A 1-meter sea level rise could affect more than 4% of the railway system, 9% of the national highway system and 12% of the provincial roadway system (World Bank Group and Asian Development Bank, 2021[49]). Major urban centres in low-lying areas, such as Hanoi and Ho Chi Minh City, face significant climate change challenges. Both cities are also among the world's most threatened urban areas by heat stress. Ho Chi Minh City itself is regularly prone to flooding. This trend is likely to increase, with rising costs related to prevention of floods and clean-up operations.

Against this background, the government has been implementing a number of measures for climate adaptation and mitigation. In 2011, the first National Climate Change Strategy was adopted, followed by an Action Plan setting numerical targets and timeframes. Efforts have been made to cope with adverse impacts of climate change such as introducing new cultivation technologies and new varieties of crops which are drought and saline-resistant to regions that are heavily affected by drought or sea-level rise and salination. Land use regulations have also been modified together with spatial regional development planning that takes into account climate risks. However, implementation of the first National Climate Change Strategy also revealed a range of constraints that hindered its successful completion, such as lack of financial resources, ineffective coordination among different government entities and inconsistent regulations. Accordingly, only 9 of 18 targets were achieved by the end of 2020.

Greenhouse gas emissions are rising fast

Viet Nam has increasingly used fossil fuels to meet its fast-rising energy demand. CO_2 emissions have increased at the rapid rate of 7.9% annually since 2005, faster than real GDP (by 7% per year; Figure 2.18, Panel A). Although Viet Nam's integration in global supply chains has contributed to higher emissions, especially fast-rising exports of goods by foreign-owned firms (Borga et al., 2022[50]), domestic demand has also made a large contribution to the rise of emissions (Figure 2.18, Panel B). Increased use of fossil fuels and weak energy efficiency have made Viet Nam one of the most carbon intensive economies in the world. The country now emits more carbon dioxide per unit of GDP (at PPP rate) than regional peers in Southeast Asia, such as Malaysia, Thailand, Singapore and Indonesia (Figure 2.19). Adding other greenhouse gases (GHG) such as methane and nitrous oxide, Viet Nam's GHG emissions reached 369 million tonnes of CO_2 equivalent in 2018 mostly coming from the energy (29.6%), agriculture (19.2%), manufacturing (17%) and transport (9.8%) sectors. In this context, the adoption of the National Green Growth Strategy in 2021 is an important step. The Strategy aims at reducing the GHG emission intensity per GDP at least by 15% in 2030 and by 30% in 2050 compared with the 2014 level.

Figure 2.18. GDP growth has become more carbon intensive

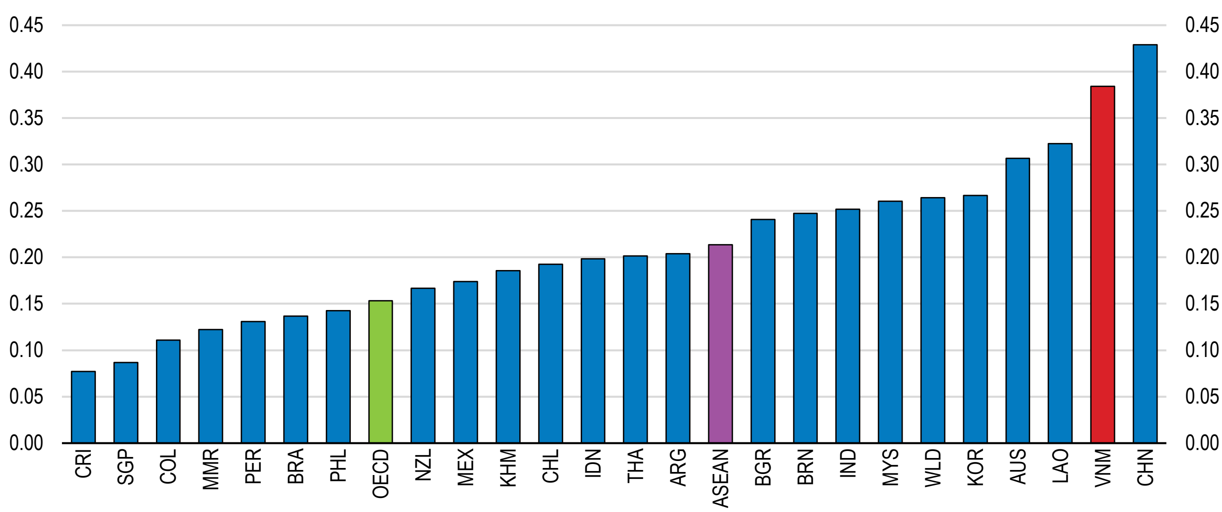


Note: Intensity of energy-related CO2 emissions is expressed in tonnes of CO2 per capita. In Panel A, they refer to production-based.
Source: OECD, Green Growth Indicators database; World Bank, World Development Indicators database.

StatLink https://stat.link/xe2tdi

Figure 2.19. Viet Nam's emission intensity is higher than in peer countries

CO2 emissions per unit of GDP in USD PPP, 2020 or latest year available



Source: OECD, Green Growth Indicators database.

StatLink https://stat.link/ei25lm

Viet Nam aims at net zero greenhouse gas emissions in 2050

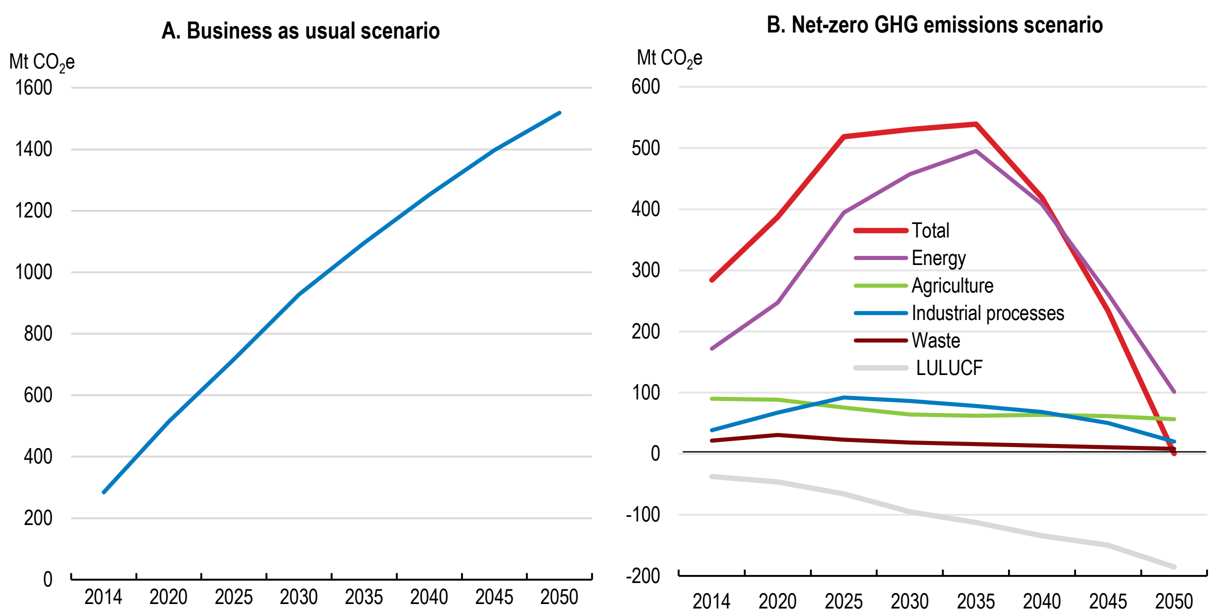
Viet Nam has adopted a welcome climate strategy to moderate the past rise of its high level of greenhouse gas emissions. The overall objective is to achieve economic prosperity, environmental sustainability and social justice, hence usefully contributing to the abatement of global warming. To implement this strategy, in 2012, the government established the National Committee on Climate Change, chaired by the Prime Minister and including key ministers, in charge of supervising the rollout of various climate programmes. In addition, the Viet Nam Panel on Climate Change (VPCC) was established in 2015 to advise the government on policy and scientific aspects.

At COP26 in Glasgow, Viet Nam's Prime Minister announced the country's commitment to reduce greenhouse gas emissions to net zero in 2050. In July 2022, the Prime Minister issued a new National Strategy on Climate Change to 2050. A key interim objective is to lower total national greenhouse gas (GHG) emissions by 43.1% by the end of the decade, compared to the government's business-as-usual scenario. The government projects that emissions will peak in 2035 (Figure 2.20). To achieve this goal, Viet Nam plans to gradually shift away from coal: no new coal-fired thermal power projects would be developed after 2030 and the scale of coal power would be reduced after 2035. Viet Nam would also consider developing nuclear power plants after 2035 if conditions on advanced technology and safety are met. Full implementation of this strategy would lower the share of coal in electricity generation from 50% presently to 9.6% in 2040. To address the problem of intermittency inherent with renewable energies, the government would encourage private investment in integration technologies such as battery storage, pumped hydropower, heat storage and smart grids that aim to ensure a high level of stability and integration of renewable energy in the power system. The government is also aiming to improve energy efficiency, for instance by reducing the need for cooling in buildings through implementing higher efficiency standards and regulations of buildings. A shift from individual passenger transportation to public transportation will be facilitated by investing both in inner-city and inter-city railways infrastructure.

Realising this ambitious strategic vision is an enormous challenge for Viet Nam. Drawing from the lessons learned from the first Strategy 2011-2022, such as a lack of effective coordination within the government, it will require a multi-faceted and well-coordinated effort over a short period. A clear roadmap that stipulates tasks, responsibilities and timeframes should be prepared. This roadmap should also be underpinned by adequate human, financial and institutional resources to ensure a smooth implementation. In addition, some areas are still not adequately addressed in the Strategy. Recognition of the potential social impacts of the green transition is weak (see below) and promoting investment in research and development and human capital development, both of which are currently at low levels, will require significant institutional reforms that are not discussed. The government should detail these issues in a new Action Plan that builds on this new Strategy.

Figure 2.20. Viet Nam plans to reduce greenhouse gas emissions to net zero in 2050

Total greenhouse gas emissions, million tonnes CO_2 equivalent



Note: The business as usual scenario is based on the latest nationally determined contribution. Panel B is based on the government's latest scenario for net-zero GHG emissions by 2050 and its sectoral contributions.
Source: Viet Nam updated Nationally Determined Contribution (NDC), 2020; Ministry of Natural Resources and Environment.

StatLink https://stat.link/it6lpw

Achieving carbon neutrality in less than 30 years will require large investments in low-emission capital and in green skills. As a fast-growing emerging market, Viet Nam will face the dual challenge of replacing a significant share of its capital stock – such as high-carbon electricity generation plants and combustion-engine cars – and meeting the rapid growth of demand for products such as electricity and transportation. In agriculture, systemic changes in farming techniques, currently dominated by methane-intensive rice production, will have to take place quickly. Such large changes can be disruptive because they require reallocating labour and capital away from high-emission to low-emission activities. However, the experience of countries having already made large cuts in their GHG emissions suggests that, with the right policy tools, this can be done without harming economic growth and while staying at full employment (OECD, 2021[51]). Some population groups will be exposed to disruptions during the energy transition, such as workers in fossil-fuel industries, but training programmes can be effective in providing them with skills to reallocate to other sectors.

For a smooth and successful transition towards decarbonisation, research and development (R&D) and innovation will also play an important role. Viet Nam has adopted a number of policy measures to support R&D and innovation in green and sustainable consumption and production. In a new Action Plan for sustainable production and consumption in the period 2021-2030 (Decision 889/QD-CP issued in June 2020), the government aims at designing policy instruments to encourage developments of green industries and environmentally friendly products, to support businesses participating in sustainable value-chains, to promote a circular economy and to support R&D activities for sustainable consumption and production, including those in collaboration with international partners. This is a welcome step, but it is crucial to promote actual implementation of these policies ideas, such as through government subsidies to R&D activities.

Multiple funding sources are available to reach net zero GHG emissions

A sustainable pathway would involve making upfront large investments in renewable energy sources, with incentives coming from price signals such as carbon prices and tradeable emission permits (see below); large public investments especially in public transport, recharging stations, and the power transmission grid; and further market openness to private providers as a way to accelerate the adoption of energy efficiency and low-carbon innovative technologies. Reaching the objective of net zero emissions by 2050 will require large public and private investments to increase the share of renewable electricity – currently only one-third of overall power production. This will involve building new power plants using energy sources such as solar, wind, biomass and hydropower to replace coal, gas and oil. Such a transition towards net zero emission electricity would be costly. Additional investment of USD 81 billion would be required during 2022-2040 (1.5% of GDP per year) (World Bank, 2022[52]). This accounts for one fifth of the total additional investment that would be needed for climate change policies, including adaptation measures (USD 254 billion) and social programmes (USD 33 billion). The scenario does not consider new technologies such as carbon capture and storage and green hydrogen, which remain expensive at present and would lead to even higher investment costs. Similarly large investments will be required to reduce the carbon footprint of transport, housing, manufacturing and agriculture.

Hence, the transition to green growth will require a large amount of funding to finance the required investment. Significant financing will also be needed to facilitate the reallocation of the workforce from high-carbon to low-carbon activities. Households and businesses will need to be helped during the transition, as they will initially face higher energy prices and will need to purchase new vehicles and upgrade their housing appliances. Considering the public debt ceiling (60% of GDP) and additional spending needs for the ageing society, there will be limited fiscal room for the government to finance the energy transition. The banking sector’s financing is also constrained, given increasing potential mismatch of short-term capital with long-term financing. Hence, funding will need to come from the capital market sector, private investors and borrowing from multilateral organisations.

State-owned enterprises and large domestic private corporations with positive credit rating can attract the attention of capital market participants and mobilise the funding required for their investment needs: Electricity of Viet Nam has received a Fitch long-term debt rating of BB, with a positive outlook affirmed in September 2021. However, government involvement in energy markets, such as administrative decisions regarding the retail price of electricity and gasoline, can have negative implications for the financial health of state-owned enterprises and therefore reduce investor interest.

Viet Nam's banking system is playing a growing role in the green transition. Credit institutions have increased their outstanding credit to green investment by 25% per year during the period 2017-2021, reaching the level of VND 443 trillion in 2021 (5.2% of GDP). Commercial banks in Viet Nam provide debt financing to renewable energy projects. For example, the State Bank of Viet Nam developed a directive on "Promoting Green Credit Growth" in 2015, followed by the "Action Plan of Banking Sector" to implement its national "Green Growth Strategy" until 2020. The Viet Nam Development Bank financed a 40.7 MW small hydropower project with Asiatic Group Holdings.

Further credit expansion would be facilitated by a clarification of the taxonomy of activities considered as climate friendly by authorities. At present, Viet Nam has not yet issued its own taxonomy, unlike Malaysia and Indonesia, and it has not yet adhered to international definitions of green investments (Box 2.2). However, preparations for issuing such a green taxonomy are currently ongoing. Adopting such a taxonomy would provide clarity to investors about government climate priorities. In addition to providing clarity to banks, this would also encourage green investment coming from institutional investors such as life insurance and pension funds, and therefore facilitate the funding of large private low-carbon investments that will need to put GHG emissions on a fast-declining pathway. However, increasing pressure for the banks to apply Basel II requirements for capital adequacy ratio will limit bank finance for the energy transition. In this regard, the Ministry of Natural Resources and Environment is currently preparing a draft Decision concerning criteria and certification for investments financed by green credits or green bonds, which is expected to be submitted to the Prime Minister in 2022. This will be an important step.

In addition to scaling up their funding of green investments, Viet Nam's credit institutions should gradually reduce their exposure to high-carbon borrowers, such as coal-fired power plants or carbon-intensive manufacturing facilities. Such borrowers have become riskier around the world and have faced difficulties in attracting funding, as investors have been working to improve their ESG scores and reduce their loan portfolio in these sectors. These high-carbon emitting borrowers also need the support from credit institutions in their smooth energy transition. Viet Nam's credit institutions are also facing physical risks which are related to direct losses due to the country's high vulnerability to extreme weather events (as noted above) and transition risks which can occur when moving towards a less carbon intensive economy. The perception among credit institutions has changed markedly concerning the implementation of environmental and social risk assessment in credit granting activities. As of end-2021, 17.7% of the total outstanding loans were assessed by credit institutions concerning their environmental and social risks. A further step would be that bank supervisors conduct climate risk stress tests of credit institutions, with different scenarios for climate policies and temperature increases, as done in several jurisdictions such as the European Central Bank and the Bank of England and considered by the US Federal Reserve. Membership in the Network for Greening the Financial System would help the central bank and supervisors familiarise themselves with the best practices in this area.

Box 2.2. Taxonomies of green activities

Following the Paris Agreement and COP26 discussions, decarbonisation efforts have become increasingly important for governments, private companies and financial markets. To facilitate these efforts, work has been underway around the world to identify appropriate definitions for which economic activities can be considered environmentally sustainable. The objective of such a taxonomy is to create security for investors, protect private investors from greenwashing, help companies to become more climate-friendly, mitigate market fragmentation and help shift investments where they are most needed. For instance, bonds can be considered as “green bonds” if the proceeds are invested in the activities covered by the taxonomy.

Viet Nam has not yet adopted an official taxonomy of green finance. The State Bank of Viet Nam considers the following set of activities in its statistics on green finance, but does not enforce related regulatory measures: green agriculture; sustainable forestry; green industry; renewable energy, green energy; recycling and reuse of resources; waste treatment and pollution prevention; environmental protection, ecological restoration and prevention of natural disasters; sustainable water management in urban and rural areas; green construction works; sustainable transport; provision of environment-friendly and energy saving services; other green sectors.

The **EU taxonomy** is considered as the most advanced effort to agree on a list of environmentally sustainable activities. The EU Taxonomy Regulation was published in June 2020 and delegated acts were issued in December 2021, January 2022 and February 2022. It establishes six environmental objectives: climate change mitigation; climate change adaptation; the sustainable use and protection of water and marine resources; the transition to a circular economy; pollution prevention and control; and the protection and restoration of biodiversity and ecosystems. In order to qualify as environmentally sustainable under this classification system, an economic activity must make a substantial contribution to at least one of six environmental objectives, while doing no significant harm to any of them (OECD, 2021[53]). The use of natural gas and nuclear activities is included under the taxonomy, with strict and clear conditions such as being clearly established as transitional activities making identifiable contributions to the transition from coal to renewables. The United Kingdom is reviewing the EU taxonomy and is working to adapt it to the UK specific circumstances.

In April 2021, **Malaysia** published its national climate-focused sustainability taxonomy for the financial sector, the Climate Change and Principle-based Taxonomy (CCPT). The CCPT sets out five guiding principles intended to help financial institutions assess and categorise economic activities according to the extent to which they meet climate objectives and promote the transition to a low-carbon economy. Activity falls inside the taxonomy if they relate to a) climate change mitigation, b) climate change adaptation, c) if they cause no significant harm to the environment, and d) if they provide remedial measures to the transition. The taxonomy identifies also explicitly prohibited activities such as illegal deforestation, illegal waste management, and using fire for land clearance. Apart from these prohibited activities, the taxonomy does not explicitly exclude unsustainable activities, such as palm oil plantation, but makes it subject to strict and transparent conditions such as independent verifications.

Indonesia launched its green taxonomy in January 2022. It contains a list of classifications of economic activities that support environmental protection efforts and management efforts, as well as climate change mitigation and adaptation. The taxonomy classifies 2 733 sectors and sub-sectors in three categories: green (do no significant harm, apply minimum safeguard, provide positive impact to the environment, align with the environmental objective of the taxonomy); yellow (do no significant harm); and red (harmful activities).

To provide a regional taxonomy framework, **ASEAN** countries have worked on a taxonomy intended to serve as a common language for sustainable finance while complementing the national sustainability initiatives of its members. The first version of the ASEAN Taxonomy for sustainable finance was circulated in November 2021 for comments. It consists of two main elements: the Foundation Framework which is applicable to all ASEAN member states and allows a qualitative assessment of activities and the Plus Standard with metrics and thresholds to further qualify and benchmark eligible green activities and investments. The ASEAN Taxonomy aims to facilitate climate change mitigation and adaptation, protection of healthy ecosystems and biodiversity and promotion of resource resilience and transition to a circular economy. A non-exhaustive list of green and red activities has been compiled for possible implementation, which could be used for building a green taxonomy for the Vietnamese context.

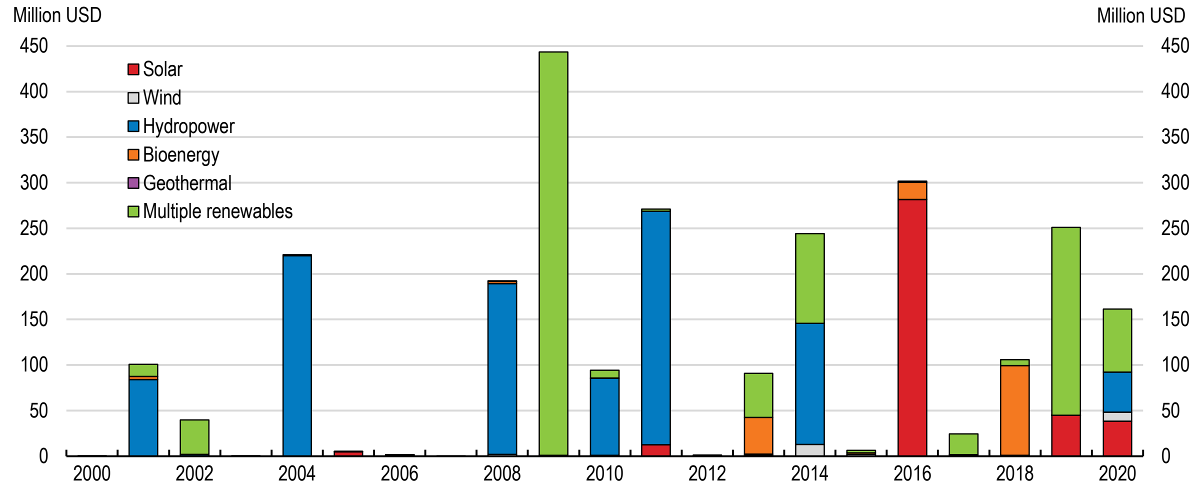
As a developing country, Viet Nam is still eligible for concessional finance from multilateral organisations and bilateral aid agencies. However, fast growth has enabled Viet Nam to reach the status of lower middle-income country, and concessional flows have therefore declined. Net disbursements from DAC donor countries have declined from USD 1.7 billion in 2011 to about USD 620 million in 2020 (constant prices at 2020 prices), while net disbursements from multilateral organisations have declined from USD 1.1 billion to USD 530 million during the same period. Disbursements targeted to renewable energies have been variable, but generally insufficient to finance the large-scale investment required to achieve fast decarbonisation (Figure 2.21).

Viet Nam can benefit more from international funding facilities that have been pledged by developed economies, including concessional green finance. Under the Paris Climate Agreement, developed economies announced that they would provide climate funding of USD 100 billion annually to help developing countries cover the cost of their mitigation policies and adaptation measures. For example, the Green Climate Fund (GCF), an international funding mechanism established by the UNFCCC, provided USD 86.3 million in financing to Viet Nam through its guaranteed instrument for technical assistance and capacity building activities. Additionally, the GCF also provided a dedicated credit line to scale up investments in energy efficiency in Viet Nam’s industrial sector. International funding mechanisms have been reinforced further since then. At COP26, a Just Energy Transition Partnership between South Africa and France, Germany, the United Kingdom, the United States and the European Union was launched, which contains investment plans and financing packages in addition to technical support, which will be provided by various institutions, including multilateral development banks. The programme plans to mobilise USD 8.5 billion over the next three to five years. In June 2022, G7 countries expressed their strong support for these collaborative programmes between developing countries and development and green finance institutions, acknowledging that similar initiatives are underway for Indonesia, India, Senegal and Viet Nam. In Southeast Asia, Indonesia launched a similar mechanism, an Energy Transition Mechanism (ETM), which aims for early retirement of coal-fired power plants and acceleration of the green energy transition with the Asian Development Bank and Indonesia's national infrastructure fund in July 2022. Some other Southeast Asian countries, namely the Philippines and Viet Nam, and the Asian Development Bank are studying the feasibly of a possible ETM. As the ETM focuses on divestment of coal-fired power plants, Viet Nam could greatly benefit from this mechanism.

Viet Nam needs to simplify further its procedures for external concessional green finance from developed economies. Current regulations for official development assistance targeting the energy transition and climate change are still complicated, discouraging donors to invest in green growth in Viet Nam. In particular, extremely low recent disbursement of overseas development assistance suggests that this source of funding is being underutilised. Often, this is related to periodic changes to the regulations and lengthy review and clearance processes; implementation bottlenecks resulting from slow investment policy adjustment decisions, delays in land clearance and counterpart funding shortages. There is also an issue of government coordination and governance to support project implementation. A special “green channel” for green projects may be needed to facilitate mobilisation and effective use of green finance through overseas development assistance programmes. Further simplifying administrative procedures including applying digitalised fast-track approval and coordination for green projects would be highly desirable.

Figure 2.21. Investment in renewable energy is variable

Development finance institutions' investment in renewable energy, million USD at 2020 prices and exchange rates



Source: International Renewable Energy Agency, IRENASTAT database.

StatLink https://stat.link/5c41kd

Emission pricing

In addition to government investment and regulation, price signals play a key role in determining the level of energy demand and carbon emissions in an economy. Policy tools affecting carbon prices include the level of taxation applied to the use of energy, and prices established on trading markets for emission allowances such as the European Union Emissions Trading System (EU ETS), California's cap-and-trade programme and America's North-East Regional Greenhouse Gas Initiative. Using these tools to influence carbon prices is widely viewed as an important part of policy packages to encourage investment in low-carbon energy sources and to mitigate climate change. Viet Nam applies taxes on the use of some energy products, and it plans to operate a trading market in the future.

Although Viet Nam does not have a carbon tax at present, it collects an environmental protection tax on products that, when used, are deemed to cause negative environmental impacts. The environmental protection tax is applied on the production and imports of polluting goods, while exports are not taxed. All petroleum products are subject to the environmental protection tax (gasoline, diesel, fuel oil, jet fuel) as well as various categories of coal. In 2021, the equivalent of USD 2.37 billion was collected by the environmental protection tax (about 0.7% of GDP), the bulk of it coming from the taxation of petroleum products. This helps to price negative externalities and sends useful price signals.

However, the environmental protection tax does not necessarily reflect the carbon content of the polluting commodity. In addition, it is not applied uniformly to all activities emitting greenhouse gases and is therefore not the most efficient policy tool to mitigate climate change. At present, gasoline is taxed at a high level relative to its carbon content, while diesel and coal face a tax rate that is lower than that on gasoline, relative to their respective carbon content (Table 2.2). A better alignment of taxation with the carbon content of these energy sources would be a more efficient approach to decarbonisation. In addition to the environmental protection tax, under the current price setting for petroleum products, the price components include additional taxes such as a special consumption tax, value-added tax, import tax, business expenses charge (a special charge on the quantity of gasoline sold to retailers/distributers), profit norm (an additional charge on the quantity of gasoline for sale) and a contribution to the stabilisation fund. Altogether, in mid-May 2022, the retail price of gasoline including taxes was equivalent to USD 1.332 per litre, higher than in Malaysia (USD 0.468), Indonesia (USD 1.143) and the United States (USD 1.191), but lower than in Thailand (USD 1.434), China (USD 1.351) and Singapore (USD 2.179) (GlobalPetrolPrices.com, 2022[54]).

Table 2.2. Tax rates for various fossil fuels under the Environmental Protection Law

Item	Gasoline	Diesel	Coal
Tax rate	4 000 VND/litre	2 000 VND/litre	15 000 VND/tonne
Rate in VND/tCO_2e	1 259 755	766 598	5 969
Rate in USD/tCO_2e (1 USD = 23 108 VND)	54.52	33.17	0.26

Source: National Assembly Standing Committee, 2018. Resolution 579/2018/UBTVQH14 dated September 26, 2018 on Tax rates under Environment Protection Law. Coal does not include anthracite coal. The tax rate on anthracite coal is 30 000 VND/tonne.

At present, Viet Nam does not operate a trading market for carbon emission allowances, but it plans to launch such a market in the future. To prepare for it, the government decided to establish a GHG inventory for large emitters which emit more than 3 000 tonnes of CO_2 equivalent per year. Specific thresholds apply to thermal power plants, industrial facilities, merchandise transport companies and commercial buildings that consume more than 1 000 tonnes of oil equivalent (TOE) in total per year. In January 2022, the government identified facilities that are required to submit information (1 662 facilities in industry and trade, including power plants, 70 in transport, 104 in construction and 76 in the natural resources and environment sector). The information will feed into a monitoring, reporting and verifying (MRV) system for greenhouse gas emissions and will be updated every two years.

The inventory of greenhouse gas emissions will provide key information necessary to launch a carbon market. Viet Nam's revised Law on Environmental Protection (LEP) legalises the establishment of a carbon market that will aim to reduce greenhouse gas emissions, enhance Viet Nam's contribution to global climate change goals, and encourage greener technology innovation. The government plans to establish and operate a pilot carbon credit exchange from 2025. This will be followed during the 2026-27 period by the preparatory phase. During this period, the government will put forward regulations on the management of carbon credits, the exchange of GHG emission quotas and carbon credits, and the operation of a carbon credit exchange. From 2028, the carbon market will fully be operated.

While higher carbon prices help to reduce emissions, they will increase production costs of manufacturing industries and could raise concerns about competitiveness. If Viet Nam is no longer an attractive location for manufacturing industries because of high carbon prices, this could encourage the relocation of firms to other countries without carbon pricing, thus resulting in "emission leakages". Policymakers can mitigate the risk of such leakages with appropriate measures such as exemptions from carbon pricing, output-based rebating and border carbon adjustments (Fischer, 2015[55]).

Carbon markets are best suited from large emitters such as power plants, industrial facilities, truck fleets or airlines, which have the capabilities required to enter the market and trade emission permits. However, they are impractical for small emitters such as households emitting carbon anytime they use their passenger vehicles and when they heat or cool their house. For small emitters, a carbon tax paid directly at the retail level is more appropriate, with a tax level corresponding to the carbon market price. A uniform carbon price across energy uses is important to avoid introducing distortions and to encourage carbon savings where it is the most economically efficient to do so. Announcing carbon pricing plans ahead of time, and making future price increases predictable, is also essential to help emitters prepare for future changes and adopt investment plans.

Carbon pricing can negatively impact low-income households who need to purchase energy for their daily use, such as commuting to work. For households in the lowest income quintile, fuels represented 3% of monthly income in 2018, while it was 2% for most other income quintiles. While this is much lower than the budget allocated to food, considerable variation is likely to occur inside the quintiles depending on factors such as commuting distance. While households will eventually transition toward low-carbon ways of life – such as electric vehicles, shared rides, public transportation and energy-efficient houses – the transition can be disruptive for the most vulnerable groups. Hence, the revenue proceeds from carbon pricing could partly be used to assist low-income households during the transition phase, with means-tested cash transfers, as done in other countries. In addition, cash transfers can also incentivise these groups to cut their carbon emissions, for example through specific subsidies for improvements in housing energy efficiency or the purchase of an electric vehicle. Such measures have been used in other countries but need to be calibrated carefully to be cost-effective.

Aligning domestic energy prices with costs would also be important. According to the International Energy Agency, the gap between end-user prices and full costs of supply amounts to 2.3% of GDP in Viet Nam in 2021, higher than in some regional peers such as Malaysia (1.0%) and Thailand (0.6%), but smaller than Indonesia. This suggests that there is scope for improving domestic energy markets, including the efficiency of distribution systems and the price adjustment mechanism of some energy sectors such as electricity.

Price signals can also be used to attract private investment in renewable energy production, such as feed-in tariffs and auction mechanisms. Independent power producers are already playing an important role in Viet Nam's renewable energy markets, and this role could be further expanded with the right conditions. These private producers have the technical skills and efficiency in terms of operations and delivery of projects. The government has successfully used feed-in tariffs to boost investment in solar photovoltaic panels, but feed-in tariffs have entailed the risk of uncontrolled expansion of solar supply, with unwanted repercussions on the short-term stability of the electricity system. OECD countries are now increasingly offering volume of renewable energy supply through auction mechanisms, rather than feed-in tariffs, in order to obtain prices closer to levelised costs, which represent the average revenue per unit of electricity generated or discharged that would be required to recover the costs of building and operating a power plant over an assumed financial life and duty cycle. The government of Viet Nam is considering an auction system in the market of wind-powered electricity generation from 2023 onwards, akin to a scheme already experimented for solar power projects.

Sectoral trends and prospects

While cross-cutting approaches, such as carbon pricing, are important to accelerate the green transition of the broader economy, different economic sectors require different policies. Each sector relies on different technologies and thus policy measures which are most effective to reduce GHG emissions vary from sector to sector. This section discusses trends in three sectors with large GHG emissions: power generation, transport and agriculture.

Power generation

Power generation has expanded at a particularly rapid pace to meet the country's demand for electricity. Hydropower provided a large share of electricity supply until the late 1990s, but coal and petroleum products have become the predominant source of energy since then, accounting for 50% and 19% of power generation, respectively, in 2019. Coal has traditionally been procured domestically for the most part: a state-owned company (Vinacomin) extracts coal in the North-Eastern province, with an annual production of 40 million tons in 2019. About 25% of coal used for electricity generation is imported.

In recent decades, Viet Nam has moved away from a centrally planned monopoly of electricity towards a market-based system, where independent power generators can sell electricity in the wholesale market managed by a system and market operator. Electricity liberalisation started in 2004 with the unbundling of Viet Nam Electricity (EVN), the establishment of Electricity Regulatory Authority of Viet Nam (ERAV) as a regulator, and the introduction of competition in power generation and the wholesale market. With more open access to the electricity market, plants are currently operated by Viet Nam Electricity, other state-owned entities, private domestic companies, and a few foreign investors (including from China, Korea and the United States). Transmission and distribution of power remain the monopoly of Viet Nam Electricity for now. The liberalisation of the electricity market will continue with the expansion of a competitive wholesale market and an introduction of competition in the retail market. The government is embarking on a similar liberalisation process for natural gas.

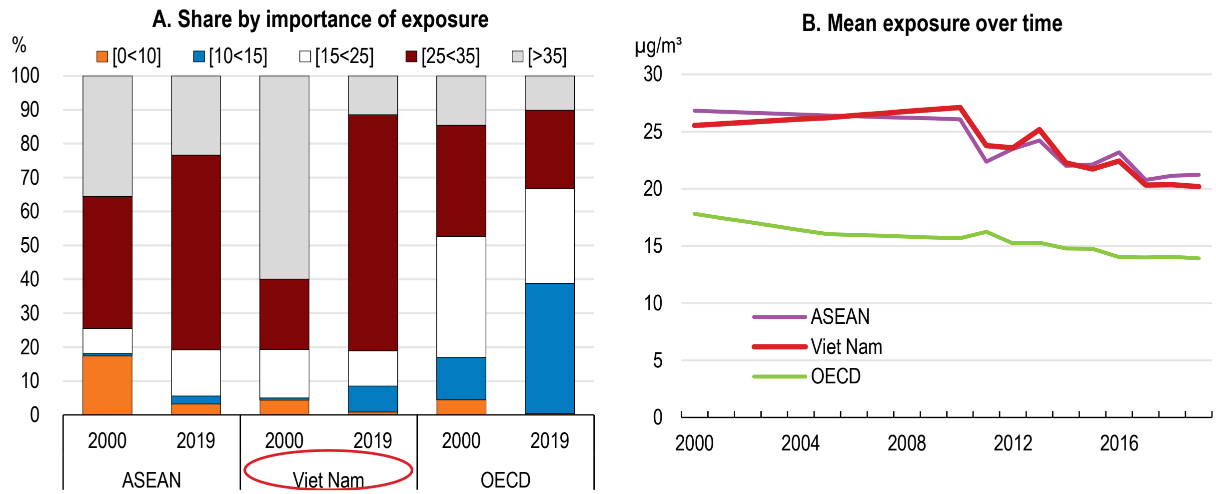
Viet Nam’s electricity tariffs are regulated by the Prime Minister Decision No.24/2017/QD-TTg. Unified retail electricity tariffs are applied across the country, at levels that are low in comparison with other countries in the region. In September 2021, retail electricity prices paid by households were the equivalent of 8.2 US cents per kWh, higher than in Malaysia (5.2 cents), but lower than in China (8.8 cents), Thailand (11.2 cents) and Singapore (18.4 cents). Business consumers paid a slightly reduced price (7.7 cents), which was also set at a lower level than in regional peers. To attract more investment into private and independent power generation facilities, the government has developed a price bracket scheme which can reflect market-based costs. The state-owned enterprise responsible for electricity distribution, Viet Nam Electricity, may now increase or decrease the retail electricity prices every six months as far as the prices change by up to 5% and within a predetermined price bracket. Viet Nam Electricity is also allowed to increase the prices by 5% or more after consulting with the Prime Minister and the Ministry of Industry and Trade. The retail electricity prices are adjusted annually according to changes in input costs, such as those of generation, transmission, distribution and sector administration. Within-year adjustments could also be possible based on the changes in other input costs, such as fuel prices, foreign exchange rates and prices in the wholesale market.

Growing concerns about the environmental impact of coal-fired generation plants, including unhealthy local pollution of particles (Figure 2.22), have led to a pushback against new investment in coal-fired energy capacity. Not only do coal-fired plants generate large amounts of climate-warming carbon dioxide, but they also emit local air pollution and contribute to poorer health of residents mainly due to an increased incidence of heart disease and stroke.

Faced with rising public opposition and growing reluctance of lenders, the government has encouraged investment in renewable energy sources. Over the past decade, it has offered feed-in tariffs and various tax incentives to producers of renewable electricity sourced from wind, solar, biomass, small hydropower and waste. Attractive feed-in tariffs for solar photovoltaic energy, especially for rooftop panels (USD 0.0838 per kWh), together with significant reductions in the levelised cost, have made such investments profitable and caused a surge in solar-powered capacity. At end-2020, Viet Nam had approved solar rooftop installations of almost 10 GW. As a result, renewable energy investment has increased from around USD 500 million in 2016 to USD 7.4 billion in 2020. The share of solar and wind generation increased by 4.3 percentage points of generation in 2020. However, this has not been enough to offset the declining relative weight of hydropower generation, which has decreased by 12 percentage points as most locations suitable for large hydro power have already been developed. On the other hand, the share of fossil fuel generation has increased from 60% to 64%, with a significant impact in terms of rising carbon emissions (Figure 2.23, Panel A).

Figure 2.22. Intense use of fossil fuels entails high levels of air pollution

Population exposure to PM2.5, µg/m³

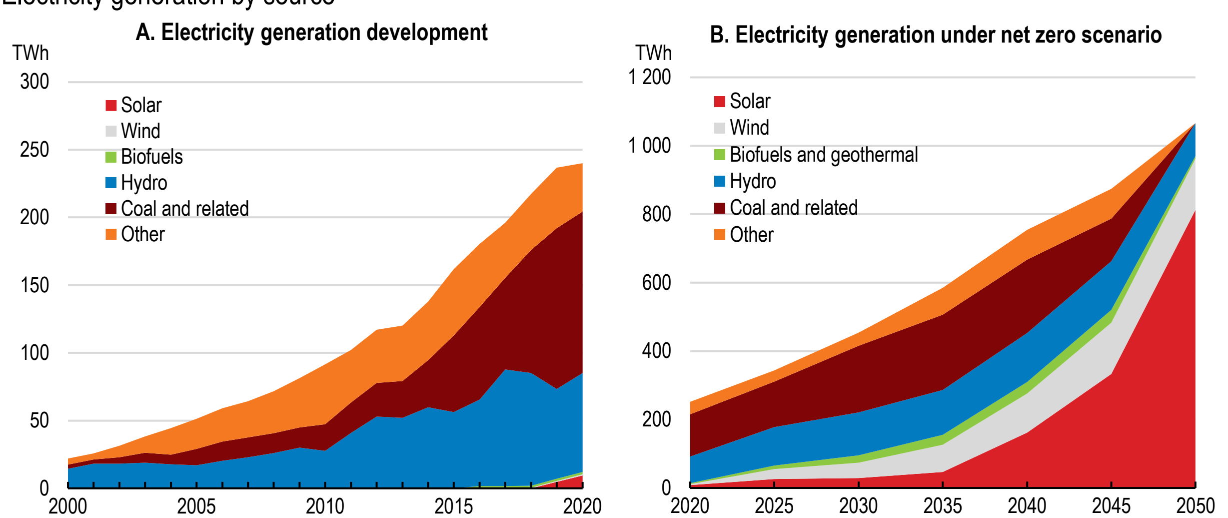


Source: OECD, Environment database.

StatLink https://stat.link/grxj1a

Figure 2.23. Viet Nam should reduce coal-fired and increase renewable electricity generation

Electricity generation by source



Note: TWh = Terawatt (thousand Gigawatt)/h. Panel B: For more details on scenario assumptions, see Handayani et al. (2022).
Source: International Energy Agency, Energy database; Handayani, K., Anugrah, P, Goembira, F. Overland, I., Suryadi, B. and Swandaru, A. (2022), "Moving Beyond the NDCs: ASEAN Pathways to a Net-Zero Emissions Power Sector in 2050", Applied Energy 311, No. 118580, Elsevier.

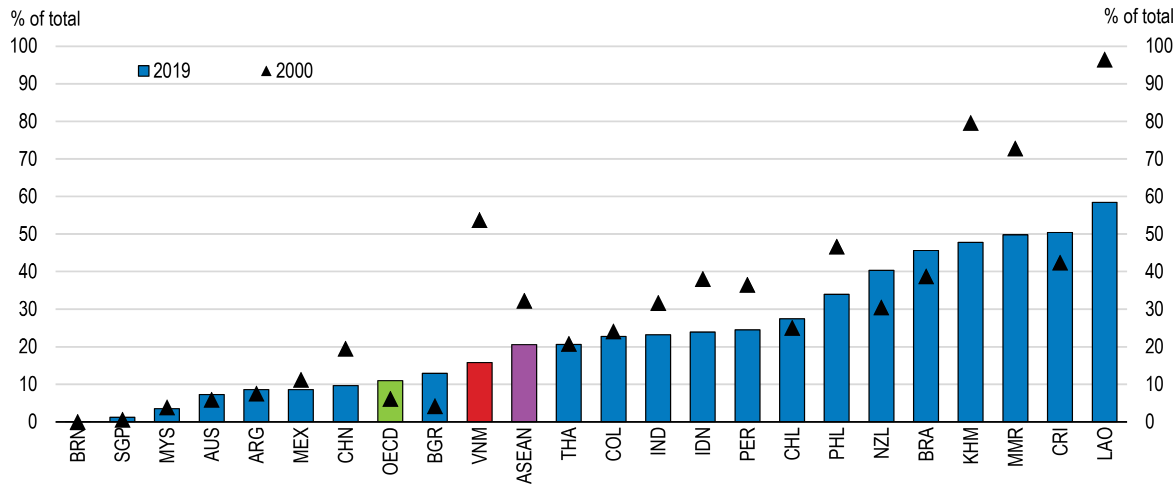
StatLink https://stat.link/9wepkx

Viet Nam plans to invest further in renewable energy as part of its net zero objective by 2050. The draft eighth Power Development Plan (PDP8) outlines a roadmap to cut coal-fired electricity to just 9.6% of total capacity by 2045, while the share of wind and solar power is raised to 50.7%. Thanks to favourable geographic conditions, Viet Nam has a large potential for solar energy production, especially in the central and southern regions. Viet Nam's potential capacity of wind energy is also considerable. With a coastline of more than 3 000 km and a location in the monsoonal climate zone, the country has considerable potential for harnessing its wind resources. Estimates indicate that the total technical potential for wind power development in the country is 24 GW (AWS Truepower LLC, 2011[56]). There is also scope to further expand hydropower generation capacity.

Making investments in renewable energy happen will require establishing many enabling conditions, such as identifying adequate funding sources, pricing energy at levels that make these investments profitable, and adopting a regulatory framework that opens the door to the entry of new market participations (OECD, 2021[57]). According to simulations by (Handayani et al., 2022[58]), Viet Nam can achieve net zero electricity emissions by expanding multiple times its present solar-based generation capacity (Figure 2.22, Panel B). Implementing a strategy to rapidly increase renewable electricity generation is essential to reverse the sharp decline of renewable sources in the country's energy supply since 2000, which goes against the trend observed in many OECD countries and regional peers (Figure 2.24).

Figure 2.24. The share of renewable energy has declined sharply in Viet Nam since 2000

Share of renewable energy in total energy supply



Source: OECD, Green Growth Indicators database.

StatLink https://stat.link/kwg5ml

Shifting the supply of electricity from thermal-based power generation to renewable energy poses many challenges. Solar and wind power generations provide intermittent energy: they can be insufficient at night and when wind is lacking, or they can overload the grid when solar output is very high in the middle of the day. However, like other Southeast Asian countries, Viet Nam has many opportunities to mitigate the problem of intermittency (Lu et al., 2021[59]): pumped-storage hydropower can be made available; grid integration with neighbouring countries can provide diversification and help to smooth the peaks and troughs; demand response to price fluctuations can be solicited in housing and industry, while electric car batteries will provide in the future a source of demand response; finally hydro-based power can be dispatched to offset fluctuations in solar-based and wind-based power generation. Establishing a wholesale electricity market would facilitate the take-up of these solutions and would promote the impact of price signals. Further decarbonisation of electricity generation will also require large investments in the electricity grid, as solar generation mostly takes place in the south and central regions of the country, while electricity demand is high in the north, where the potential for solar power is more limited.

In addition to changes in the energy mix, the overall supply of electricity will need to increase rapidly to meet the fast-rising demand of electricity fuelled by the shift to electricity in electric vehicles, electric heating, and industrial processes. The National Development Programme expects that power consumption will grow annually by 8.4% from 2025-2030, 6.3 % from 2030-2035 and 3.0% from 2040-2045, reflecting fast economic growth and the above-mentioned switch in the fuel mix to electricity. Large investments will be needed to satisfy this rapid growth and to replace older equipment that will have to be shut down to meet the country's net zero emission objective. According to the latest government assumption, the capital requirement for the high-load scenario is about USD 362.2 billion (USD 24.1 billion/year) and for the high-load scenario operating is about USD 345.9 billion (USD 23.1 billion/year). Large investments in energy efficiency will also be necessary.

Estimating the capital cost of such investment comes with a high degree of uncertainty. Assumptions need to be made about the future pace of economic growth, improvements in energy efficiency and the various shares of the energy mix. Large uncertainties also prevail on the capital cost of different energy technologies – past developments have involved faster-than-expected declines in the cost of solar panels and wind turbines. Technological innovation is also difficult to predict at long-term horizons.

To meet this fast-rising demand for electricity, the government projects under the PDP8 investments in renewable sources of 19-20 GW of solar and 18-19 GW of wind. The draft PDP8 also cancels or postpones one-third of coal power capacity currently in the pipeline until after 2030. Only coal plants already under construction will be allowed, with no new coal plants being planned. However, this would still imply large investments in fossil fuel power generation to reach 22 GW of gas-fired and 37 GW of coal-fired plants – a substantial increase from present levels. Viet Nam is a large producer of natural gas, crude oil and coal and therefore wishes to use its domestic resources and promote activity and jobs domestically. However, this would involve large increases in carbon emissions inconsistent with its climate strategy. In addition, mobilising financing to build new coal-fired power plants would be very difficult. Multilateral organisations, bilateral aid agencies, private lenders and capital markets have all announced decisions to cease funding new investment in coal-fired plants in the short to medium term, in compliance with international sustainability commitments. It is also noteworthy that China has announced its decision to stop funding overseas investments in new coal-fired plants as part of its COP26 commitments. By contrast, as noted earlier, large pools of sustainable finance are available from the same sources to invest in renewable sources, which could be tapped by Viet Nam.

Agriculture

Agriculture is responsible for about 20% of Viet Nam's greenhouse gas emissions – with livestock and rice production being primary sources. Not only should agriculture reduce its emissions, but the sector must itself adapt to future climate trends. Rising sea levels and salinisation of farming land will threaten rice production in river deltas, while elevated temperatures will have a negative effect on staple commodities such as coffee. The government has identified mitigation measures to reduce emissions focused on improving farming management practices, such as different irrigation and drainage techniques in rice fields and converting livestock waste into biogas. Forestry management, new crop techniques, and use of biomass have also the potential to reduce net emissions. Agriculture provides income to a large group of the vulnerable population, making climate mitigation and adaptation crucial for inclusive growth.

Viet Nam is a large producer and exporter of rice, with a large part of its production located in the Mekong River Delta. The rice sector plays an important role in economic and social development, providing income to a large share of the rural population. Moreover, Viet Nam is currently maintaining a strict food security policy which requires at least 3.5 million hectares for rice cultivation. However, the rice sector represents 15% of the country's greenhouse gas emissions. It is also facing challenges relating to low efficiency, resource intensiveness, environmental pollution, and climate change. Farming techniques involve flooding the rice fields with water, thus preventing the exchange of air between the soil and the atmosphere, and feeding the development of methane-producing bacteria. At the time when rice production is harvested, large quantities of methane are released into the air, thus strongly contributing to climate change. The rice sector is itself negatively affected by the effects of climate due to dry weather, high temperature, and the intrusion of saline water in rice fields. The government has encouraged pilot projects seeking effective measures to reduce the emission of methane in rice production, such as alternating wetting and drying techniques. Farmers are also encouraged to diversify their activities, such as taking up shrimp farming and other aquaculture opportunities.

Viet Nam has adopted a new "Strategy for Sustainable Agriculture and Rural Development in the period of 2021-2030 and vision towards 2050" in 2022 which aims at developing green agriculture that is friendly to the environment, adapts to climate change and reduces rural pollution. GHG emissions from agriculture activities are expected to fall by 10% by 2030; forest coverage will be maintained at a stable level of 42%. At least one million hectares of forest will be given a Certificate of Sustainable Forest Management. In addition, in June 2022, the government approved a project called “Developing Circular Economy in Viet Nam” that will further facilitate the green transformation of agriculture in the overall green growth strategy framework. It is crucial for the government to develop a comprehensive and well-coordinated evaluation framework with good monitoring systems.

Transport

The rapid expansion of Viet Nam’s transport infrastructure has contributed to the country’s strong economic growth and poverty reduction. Almost all municipalities can be reached by weather-proof roads, and the transport infrastructure has played a key role in integrating the country into global value chains. However, transportation now account for about 10% of Viet Nam’s GHG emissions and these emissions are expected to continue rising fast without policy changes (Figure 2.25). Viet Nam’s urbanisation continues at a fast pace, with parallel increases in transportation needs of commuters. All modes of transport based on combustion engines have increased fast: freight transport, passenger cars, and motorcycle ownership. The country’s climate objectives cannot be achieved without reforms in transport policies.

Although car ownership is still low at 23 cars per thousand people, about half of the population owns motorcycles, and metropolitan areas have registered sharp increases in traffic congestion as well as local pollution linked to combustion engines. Many countries have adopted policies to discourage vehicles with internal combustion engines and to encourage low-emission transportation modes, such as electric vehicles. The transition to low-carbon transportation faces challenges such as ensuring enough recharging stations are available to meet the demand of the increasing numbers of electric vehicles. A massive shift to low-emission vehicles would also boost demand for electricity and require additional capacity in power generation. While more wind-powered and solar-powered installations will add more capacity, they supply electricity intermittently and the peak time of supply may not match the peak time of demand, making it necessary to plan for baseload power, or hold sufficient buffers such as pumped-storage hydroelectricity, as mentioned earlier. Promoting public transport can help mitigate serious traffic congestion and reduce overuse of high-carbon emitting vehicles in urban areas. The potential impacts would be large since the share of public transport passengers in Hanoi was 13.7% in total and 9.4% in Ho Chi Minh City as at 2018.

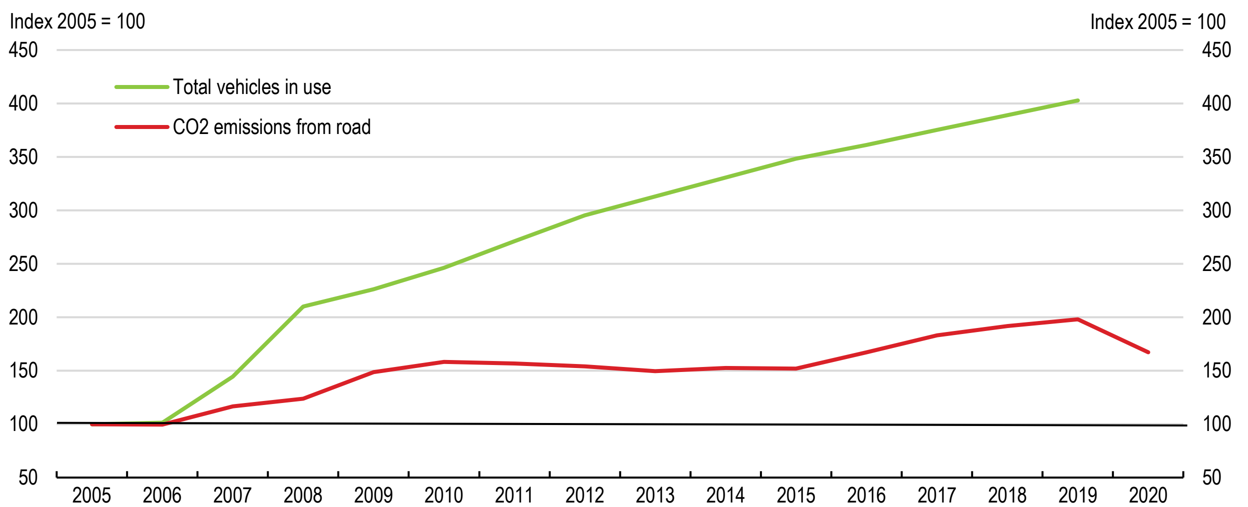
Tax incentives have been introduced in many countries to encourage a shift to low-emission vehicles, and penalties are used to discourage using highly polluting cars and trucks. Tax incentives could also promote the adoption of low-emission vehicles in Viet Nam, such as cuts in registration fees of electric vehicles or a feebate system with additional excise taxes on fossil-fuel cars providing resources to subsidise the purchase of low-emitting vehicles. Nevertheless, any measures to encourage greater electric vehicle usage would require further complementary efforts to decarbonise electricity production.

Some cities, such as Singapore, have decided to phase out all fossil-fuelled vehicles over the next decades, as part of their path toward net zero emissions. Indonesia, Malaysia and Thailand have released roadmaps for electric vehicle development. Access to mass transportation systems is currently insufficient to replace private vehicles and large projects will have to be accelerated if daily commutes are to exclude CO_2-emitting combustion engines.

Viet Nam has adopted many measures to deal with environmental problems caused by unsustainable development of the transport sector. Key policy initiatives are focused on limiting vehicles with internal combustion engines, shifting transportation modes for both passenger and freight from heavily polluted means of transport and vehicles to greener ones; accelerating use of electric vehicles and speeding up public transport that use greener vehicles (including buses and urban subways). Under a moderate transport development scenario developed by a group of experts, 34% of newly sold motorbikes and 30% of newly sold cars in 2030 will be electric. The Viet Nam Automobile and Motorcycle Association (VAMA) projects that by 2028, Viet Nam will have 1 million electric vehicles, although combustion engine vehicles will still dominate. For all vehicles to become electric, it is projected that the number of electric vehicles will need to increase to 3.5 million units by 2030-2040 and 4.5 million units by 2040-2050.

Given the importance of the transport sector for the climate transition, the government adopted a new Action Programme for the sector's green transition in July 2022 (Decision No. 876/QD-TTg). The Programme set a target that all road transport should be electric or use green energy by 2050. It also aims at developing charging infrastructure with green energy use across the country. In recent years, one domestic company has been very active in developing and promoting electric vehicles for both domestic and international markets. The government adopted some measures to support the development of electric vehicles, providing some tax incentives such as reducing registration fees and excise taxes for the domestic purchase of electric vehicles, starting from March 2022. In March 2022, VAMA requested the government to work with them for a new strategic development plan for the automobile industry with special focus on the transition to electric vehicles. The government positively responded to this request and instructed the Ministry of Commerce and Industry to work on this matter (Circular No2506/VPCP-CN in April 2022). It is crucial for the government to start this process with wide public consultation and in-depth analyses that lead to specific and comprehensive measures to speed up the green transformation of the sector.

Figure 2.25. Viet Nam's road transport vehicles have become more fuel efficient



Source: International Energy Agency, Energy database; OICA (International Organisation of Motor Vehicle Manufacturers).

StatLink https://stat.link/an5hkm

Table 2.3. Table of Recommendations

MAIN FINDINGS	RECOMMENDATIONS (key in bold)
Enhancing product-market competition and boosting productivity	
Viet Nam has made remarkable progress in improving the business climate with the aim of boosting productivity. Total factor productivity has rebounded during the 2010s. Nonetheless, large differences still prevail between provinces, and some procedures remain cumbersome.	**Continue to simplify business regulations, including through stronger use of digital technologies in areas such as tax payments and insolvency procedures.**
Despite the transfer of SOE ownership to the Commission for the Management of State Capital at Enterprises, reductions in government holdings of SOE equities have been slower than planned and ministries and government agencies are still perceived as having an active influence on the management of these firms.	**Clarify the functions of the state as owner of companies and regulator of the same companies in order to ensure effective separation.**
The appointment of SOE board members remains influenced by non-professional considerations.	Increase the independence of boards and improve the transparency of the nomination process, in line with OECD guidelines on SOEs.
The establishment of a single National Competition Commission (NCC) envisaged by the 2018 Law on Competition has not yet been realised and the incumbent Competition and Consumer Agency (CCA) lacks independence and a sufficient budget.	**Give the competition authority the power to take action against state-owned enterprises at central and local levels that abuse their market power, to advocate for competition and to perform market studies**. Accelerate the establishment of the National Competition Commission with clear mandate and high transparency and accountability.
Viet Nam invites public comments before adopting new legislation, but there are shortcomings, especially regarding subordinate regulation.	Make public consultation mandatory for new regulations at all levels of government, including through notify and comment procedures, public hearings, and discussion with advisory bodies.
Price controls are widespread, with government agencies setting prices of many retail goods and services, thus undermining the benefits of competition.	Liberalise prices in competitive markets and support low-income groups instead with targeted social transfers.
Boosting the digital economy	
In the telecommunications sector, foreign investors still face some restrictions. Consequently, key telecommunication markets are dominated by three state-owned enterprises, holding back potential economy-wide productivity gains.	**Open telecommunications markets to foreign investors, especially by accelerating the adoption and implementation of a new Law on Telecommunications to reduce barriers to foreign entry and easing the foreign ownership restrictions.**
The government has improved the delivery of its digital services, but access to government information remained underdeveloped.	Create a national data platform which can be shared among related parties and enterprises.
Both basic and advanced digital skills are lacking, and few students opt for academic courses in science and computing areas.	**Enhance digital skills by providing more training opportunities for basic skills and allocating more resources to the technical and vocational education training system and on-the-job IT training of advanced skills.**
Cross-border data flows are strictly regulated by the government, which results in high compliance costs.	Ease restrictions on digital cross-border data flows and data localisation.
Early progress has been made with cashless payments, especially during the COVID-19 pandemic, but market entry restrictions remain in place.	Create a more favourable legal environment for digital financial services, including introducing regulatory sandboxes for Fintech, P2P lending and new digital financial models; and updating the National Personal Identification database.
Achieving net zero emissions by 2050	
Viet Nam's greenhouse gas emissions have increased faster than GDP, and the country is one of the largest emitters relative to GDP. The current emissions target of the authorities include reaching net zero emissions by 2050.	**Adopt a clear and predictable climate strategy, with consistent long-term goals, especially in relation to greenhouse gas emissions and energy sector reform.**
Coal-fired power plants have become the main source of electricity but the government plans to shift away from coal gradually with no new investment after 2030.	**Halt investment in new coal-fired power plants as planned and strengthen investment incentives for renewable energy sources, especially onshore and offshore wind energy.**
International momentum for green financing to help accelerate the green transition in developing countries has been strong since the Paris Climate Agreement, such as a recently proposed Energy Transition Mechanism that focuses on early retirement of coal-fired power plants.	Participate actively in available international green finance mechanisms, including the acceleration of a feasibility study for the Energy Transition Mechanism.
Agriculture is responsible for about 20% of greenhouse gas emissions and vulnerable to climate change.	Set up a simple, comprehensive and well-coordinated evaluation framework to monitor progress in reducing agriculture emissions.
Car ownership is increasing rapidly and public transportation is still underdeveloped.	Develop a comprehensive programme for decarbonising the transport sector and promoting the shift to electric vehicles.

Unlike some other ASEAN countries, Viet Nam has not yet adopted a green taxonomy to direct finance toward climate-friendly investments.	Adopt a taxonomy of activities that are considered to be contributory to the net zero target.
Credit institutions are exposed to significant risks from the high level of fossil fuel consumption and vulnerabilities to extreme weather events.	Conduct stress tests of commercial banks for their exposure to climate transition and physical risks.
An environmental tax partially reflects the social cost of carbon for gasoline prices, but other fossil fuels face a lower tax burden than gasoline, relative to their respective carbon content. A market for trading emission allowances and carbon credits is planned but the implementation horizon is long.	**Accelerate the implementation of the carbon market, starting with an emission trading system in high emission sectors, including the power sector, and eventually expand its coverage, in order to ensure that energy prices can duly reflect cost and increasingly include the negative externalities from greenhouse gas emissions.**
Feed-in tariffs have been successful in attracting investment in roof-top solar panels, but they are not the most efficient policy tool.	Use well-coordinated auction mechanisms to attract independent power producers to renewable energy supply.
Carbon pricing can disproportionately impact low-income households whose energy expenditure tends to account for a larger share of their total income compared with other households.	Allocate a certain portion of any carbon pricing revenues to schemes compensating low-income and fuel-poor households and supporting their green investments.

References

Adalet, M., D. Andrews and V. Millot (2017), "Insolvency Regimes, Technology Diffusion and Productivity Growth : Evidence from Firms in OECD Countries", *OECD Economics Department Working Papers*, No. 1425, OECD Publishing, Paris, https://doi.org/10.1787/36600267-en. [9]

Aghion, P., R. Cherif and F. Hasanov (2021), "Fair and Inclusive Markets: Why Dynamism Matters", *IMF Working Paper*, No. 29, IMF, Washington, D.C., https://www.imf.org/en/Publications/WP/Issues/2021/02/06/Fair-and-Inclusive-Markets-Why-Dynamism-Matters-50052. [11]

APEC (2021), *Concept Paper on Enhanced APEC Agenda for Structural Reform*, APEC, http://mddb.apec.org/Documents/2021/EC/EC1/21_ec1_006a.pdf. [3]

Arnold, J. et al. (2016), "Services Reform and Manufacturing Performance: Evidence from India", *The Economic Journal*, Vol. 126/590, pp. 1-39, https://doi.org/10.1111/ECOJ.12206. [31]

Arnold, J., B. Javorcik and A. Mattoo (2011), "Does Services Liberalization Benefit Manufacturing Firms?: Evidence from the Czech Republic", *Journal of International Economics*, Vol. 85/1, pp. 136-146, https://doi.org/10.1016/J.JINTECO.2011.05.002. [30]

ASEAN-Japan Centre (2022), *Review of ASEAN Commitments in Telecommunication Services under AFAS 10 and RCEP*, https://www.asean.or.jp/ja/wp-content/uploads/sites/2/Review-of-ASEAN-Commitments-in-Telecommunication-Services-under-AFAS-10-and-RCEP.pdf. [34]

Asian Development Bank (2021), *Capturing the Digital Economy: A Proposed Measurement Framework and Its Applications - A Special Supplement to Key Indicators for Asia and the Pacific 2021*, Asian Development Bank, Manila, Philippines, https://doi.org/10.22617/FLS210307-3. [24]

Asian Development Bank (2021), *Reaping the Benefits of Industry 4.0 through Skills Development in Viet Nam*, Asian Development Bank, Manila, Philippines, https://doi.org/10.22617/SPR200308. [41]

AWS Truepower LLC (2011), *Wind Resource Atlas of Vietnam*, https://www.esmap.org/sites/default/files/esmap-files/MOIT_Vietnam_Wind_Atlas_Report_18Mar2011.pdf. [56]

Bailin Rivares, A. et al. (2019), "Like it or not? The impact of online platforms on the productivity of incumbent service providers", *OECD Economics Department Working Papers*, No. 1548, OECD Publishing, Paris, https://doi.org/10.1787/080a17ce-en. [22]

Beirne, J., N. Renzhi and U. Volz (2021), "Feeling the Heat: Climate Risks and the Cost of Sovereign Borrowing", *International Review of Economics & Finance*, Vol. 76, pp. 920-936, https://doi.org/10.1016/J.IREF.2021.06.019. [48]

Borga, M. et al. (2022), "Measuring Carbon Emissions of Foreign Direct Investment in Host Economies", *IMF Working Papers*, No. 86, IMF, Washington, D.C., https://doi.org/10.5089/9798400206863.001. [50]

CECODES; VFF-CRT; RTA & UNDP (2022), *The 2021 Viet Nam Governance and Public Administration Performance Index (PAPI 2021): Measuring Citizens' Experiences*, Centre for Community Support and Development Studies (CECODES), Centre for Research and Training of the Viet Nam Fatherland Front (VFF-CRT), Real-Time Analytics (RTA), and United Nations Development Programme (UNDP), https://papi.org.vn/eng/bao-cao/. [7]

Cirera, X. et al. (2021), "Firm-Level Technology Adoption in Vietnam", *Policy Research Working Papers*, No. 9567, World Bank, Washington, D.C., https://doi.org/10.1596/1813-9450-9567. [38]

Costa, H. et al. (2021), "Are online platforms killing the offline star? Platform diffusion and the productivity of traditional firms", *OECD Economics Department Working Papers*, No. 1682, OECD Publishing, Paris, https://doi.org/10.1787/1e2bbe10-en. [23]

Demmou, L. and Q. Sagot (2021), "Central Bank Digital Currencies and payments: A review of domestic and international implications", *OECD Economics Department Working Papers*, No. 1655, OECD Publishing, Paris, https://doi.org/10.1787/f06c0d89-en. [44]

Eurostat (2021), *Cloud Computing - Statistics on the Use by Enterprises*, Eurostat, https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Cloud_computing_-_statistics_on_the_use_by_enterprises#Use_of_cloud_computing:_highlights. [39]

Fischer, C. (2015), "Options for Avoiding Carbon Leakage", *Geneva Reports on the World Economy*, https://research.vu.nl/en/publications/options-for-avoiding-carbon-leakage. [55]

General Statistics Office (2022), *Statistical Yearbook of Viet Nam 2021*, The Government of Viet Nam, Hanoi, Viet Nam, https://www.gso.gov.vn/en/data-and-statistics/2022/08/statistical-yearbook-of-2021/. [16]

GlobalPetrolPrices.com (2022), *Retail Energy Price Data*, https://www.globalpetrolprices.com/. [54]

Google, TEMASEK and BAIN&COMPANY (2021), *e-Conomy SEA - 2021*, https://economysea.withgoogle.com/. [26]

Guenette, J. (2020), "Price Controls: Good Intentions, Bad Outcomes", *Policy Research Working Paper*, No. 9212, World Bank, Washington, D.C., https://doi.org/10.1596/1813-9450-9212. [21]

Handayani, K. et al. (2022), "Moving Beyond the NDCs: ASEAN Pathways to a Net-Zero Emissions Power Sector in 2050", *Applied Energy*, Vol. 311, p. 118580, https://doi.org/10.1016/J.APENERGY.2022.118580. [58]

Hasanov, F. and R. Cherif (2021), "Competition, Innovation, and Inclusive Growth", *IMF Working Paper*, No. 80, IMF, Washington, D.C., https://doi.org/10.5089/9781513574172.001. [12]

ILO (2022), *A Just Energy Transition in Southeast Asia: The Impacts of Coal Phase-out on Jobs*, ILO, https://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/documents/publication/wcms_845700.pdf. [1]

Le, H. (2016), "Public Participation in the Legislative Process in Vietnam and the Concept of Public Consultation", *Australian Journal of Asian Law*, Vol. 17/2, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2937542. [10]

Lu, B. et al. (2021), "Low-cost, Low-emission 100% Renewable Electricity in Southeast Asia Supported by Pumped Hydro Storage", *Energy*, Vol. 236, p. 121387, https://doi.org/10.1016/J.ENERGY.2021.121387. [59]

Malesky, E., N. Pham and D. Truong (2022), *The Vietnam Provincial Competitiveness Index: Measuring Economic Governance for Private Sector Development, 2021 Final Report*, Vietnam Chamber of Commerce and Industry and United States Agency for International Development, Hanoi, Viet Nam, https://pcivietnam.vn/en/publications/2021-pci-full-report-ct204. [8]

Ministry of Information and Communications (2021), *Annual Report 2021 (in Vietnamese)*, The Government of Viet Nam, Hanoi, Viet Nam, https://www.mic.gov.vn/mic_2020/Pages/TinTuc/151957/Bo-TT-TT-to-chuc-Hoi-nghi-tong-ket-cong-tac-nam-2021-va-trien-khai-nhiem-vu-nam-2022.html. [46]

Ministry of Natural Resources and Environment (2020), *Viet Nam: Third Biennial Update Report to the United Nations Framework Convention on Climate Change*, The Government of Viet Nam, https://unfccc.int/sites/default/files/resource/Viet%20Nam_BUR3.pdf. [47]

Ministry of Planning and Investment (2022), *MPI Report on SOE Equitisation (in Vietnamese)*, The Government of Viet Nam, Hanoi, Viet Nam, https://business.gov.vn/cms/trang/788/hoi-nghi-truc-tuyen-toan-quoc-cua-thu-tuong-chinh-phu-voi-doanh-nghiep-nha-nuoc. [17]

OECD (2022), *OECD Review of the Corporate Governance of State-Owned Enterprises in Viet Nam*, OECD Publishing, Paris, https://www.oecd.org/countries/vietnam/oecd-review-of-the-corporate-governance-of-state-owned-enterprises-in-viet-nam-a22345d0-en.htm. [18]

OECD (2021), *Clean Energy Finance and Investment Policy Review of Viet Nam*, Green Finance and Investment, OECD Publishing, Paris, https://doi.org/10.1787/61c33f7f-en. [57]

OECD (2021), *OECD Economic Surveys: Denmark 2021*, OECD Publishing, Paris, https://doi.org/10.1787/86f7b2d9-en. [51]

OECD (2021), *OECD Economic Surveys: European Union 2021*, OECD Publishing, Paris, https://doi.org/10.1787/a77ab220-en. [53]

OECD (2021), *OECD Economic Surveys: Malaysia 2021*, OECD Publishing, Paris, https://doi.org/10.1787/cc9499dd-en. [36]

OECD (2021), *SME and Entrepreneurship Policy in Viet Nam*, OECD Studies on SMEs and Entrepreneurship, OECD Publishing, Paris, https://doi.org/10.1787/30c79519-en. [5]

OECD (2021), *Supporting the Digital Transformation of Higher Education in Hungary*, Higher Education, OECD Publishing, Paris, https://doi.org/10.1787/d30ab43f-en. [42]

OECD (2020), *A Roadmap toward a Common Framework for Measuring the Digital Economy: Report for the G20 Digital Economy Task Force*, OECD, https://www.oecd.org/sti/roadmap-toward-a-common-framework-for-measuring-the-digital-economy.pdf. [25]

OECD (2020), *Multi-dimensional Review of Viet Nam: Towards an Integrated, Transparent and Sustainable Economy*, OECD Publishing, Paris, https://doi.org/10.1787/367b585c-en. [40]

OECD (2020), "The Potential of Online Learning for Adults: Early Lessons from the COVID-19 Crisis", *OECD Policy Responses to Coronavirus (COVID-19)*, OECD Publishing, Paris, https://www.oecd.org/coronavirus/policy-responses/the-potential-of-online-learning-for-adults-early-lessons-from-the-covid-19-crisis-ee040002/. [37]

OECD (2019), *OECD Skills Outlook 2019: Thriving in a Digital World*, OECD Publishing, Paris, https://doi.org/10.1787/df80bc12-en. [35]

OECD (2018), *OECD Investment Policy Reviews: Viet Nam 2018*, OECD Investment Policy Reviews, OECD Publishing, Paris, https://doi.org/10.1787/9789264282957-en. [33]

OECD (2018), *OECD Peer Reviews of Competition Law and Policy: Viet Nam*, OECD Publishing, Paris, https://www.oecd.org/daf/competition/competition-law-and-policy-in-vietnam.htm. [6]

OECD (2016), *Being an Independent Regulator*, OECD Publishing, Paris, https://www.oecd.org/publications/being-an-independent-regulator-9789264255401-en.htm (accessed on 15 November 2022). [28]

OECD (2011), *Administrative Simplification in Viet Nam: Supporting the Competitiveness of the Vietnamese Economy*, Cutting Red Tape, OECD Publishing, Paris, https://doi.org/10.1787/9789264096646-en. [4]

OECD (2005), *OECD Guidelines on Corporate Governance of State-Owned Enterprises*, OECD Publishing, Paris, https://www.oecd.org/daf/ca/oecd-guidelines-corporate-governance-soes-2005.htm. [14]

Pham, T. (2009), “Assessment of FDI Spillover Effects for the Case of Vietnam: A Survey of Micro-data Analyses”, in Corbett, J. and S. Umezaki (eds.), *Deepening East Asian Economic Integration*, ERIA, Jakarta, https://www.eria.org/uploads/media/Research-Project-Report/RPR_FY2008_1_Chapter_13.pdf. [29]

PwC (2021), *Vietnam Digital Readiness Report - PwC Vietnam’s Survey on Technology, Jobs and Skills*, https://www.pwc.com/vn/en/publications/vietnam-publications/digital-readiness.html. [43]

Ratha, D. et al. (2022), *Migration and Development Brief 36: A War in a Pandemic: Implications of the Russian invasion of Ukraine and the COVID-19 Crisis on Global Governance of Migration and Remittance Flows*, KNOMAD-World Bank, Washington, D.C., https://www.knomad.org/publication/migration-and-development-brief-36. [45]

Satyanand, P. (2021), “Foreign Direct Investment and the Digital Economy”*, ARTNeT on FDI Working Paper Series*, No. 2, ESCAP, Bangkok, https://artnet.unescap.org/fdi/resources/publications/foreign-direct-investment-and-digital-economy. [32]

Schwab, K. and World Economic Forum (2019), *The Global Competitiveness Report 2019*, World Economic Forum, Geneva, https://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf. [2]

Socialist Republic of Viet Nam Government News (2022), “Thủ tướng Phạm Minh Chính chủ trì Hội nghị trực tuyến toàn quốc để phát triển doanh nghiệp nhà nước (in Vietnamese)”, https://baochinhphu.vn/thu-tuong-pham-minh-chinh-chu-tri-hoi-nghi-truc-tuyen-toan-quoc-de-phat-trien-doanh-nghiep-nha-nuoc-102220324110918578.htm. [19]

Taghizadeh-Hesary, F. et al. (2019), “A Comprehensive Evaluation Framework on the Economic Performance of State-Owned Enterprises”*, ADBI Working Paper*, No. 949, Asian Development Bank Institute, Tokyo, https://www.adb.org/publications/comprehensive-evaluation-framework-economic-performance-state-owned-enterprises. [13]

World Bank (2022), *Vietnam Country Climate and Development Report*, World Bank, Washington D.C., https://openknowledge.worldbank.org/handle/10986/37618. [52]

World Bank (2021), *Digital Vietnam: The Path to Tomorrow*, World Bank, Washington, D.C., https://openknowledge.worldbank.org/handle/10986/36190. [27]

World Bank Group (2014), *Corporate Governance of State-Owned Enterprises: A Toolkit*, World Bank, Washington, D.C., https://doi.org/10.1596/978-1-4648-0222-5. [15]

World Bank Group and Asian Development Bank (2021), *Climate Risk Country Profile: Vietnam*, World Bank, Asian Development Bank, https://openknowledge.worldbank.org/handle/10986/36367. [49]

World Bank; Ministry of Planning and Investment (2016), *Vietnam 2035: Toward Prosperity, Creativity, Equity, and Democracy*, World Bank, Washington, D.C., https://doi.org/10.1596/978-1-4648-0824-1. [20]

OECD Economic Surveys

VIET NAM

Viet Nam has made remarkable economic progress over the past decades, sustaining high economic growth. The economy has also proven resilient to shocks, including the COVID-19 pandemic. Extensive and continued reforms since the late 1980s have been key to this economic success. Nevertheless, with significant challenges ahead, Viet Nam needs to make additional efforts to advance structural reforms that will further strengthen market forces. The population is rapidly ageing and boosting productivity is an urgent priority. This will require further reforms to reduce state involvement, especially in network sectors such as telecommunications, and ensure a level playing field among all firms. Further deepening trade integration is also crucial to strengthen supply chains amid the changing global economic landscape. Despite recent increases in digital uptake, Viet Nam needs to upgrade worker skills by improving vocational training and adult learning. The pledge to achieve net zero emissions by 2050 requires dramatic changes in the economic system. To reduce dependence on fossil fuels, new investment in coal should be halted and the implementation of a carbon market accelerated. As these reforms will require additional fiscal resources, the tax base should be expanded to enhance government revenues.

SPECIAL FEATURES: PRODUCT MARKET REGULATION; DIGITALISATION; GREEN GROWTH

PRINT ISBN 978-92-64-71823-4
PDF ISBN 978-92-64-96015-2

Volume 2023/2
April 2023

ISSN 0376-6438
2023 SUBSCRIPTION
(18 ISSUES)

9 789264 718234