MACRO-FISCAL PROFILE

VIETNAM

May 2016

Key Indicators	
Population (2015, est.)	94.3 million
Per capita GDP (2014, current USD)	$2,051
Average population growth rate (2010–2014)	1.1%
Government revenue as a % of GDP (2015)	19.9%
Country income classification	Lower-middle

Source: World Bank, 2015; IMF, 2016.

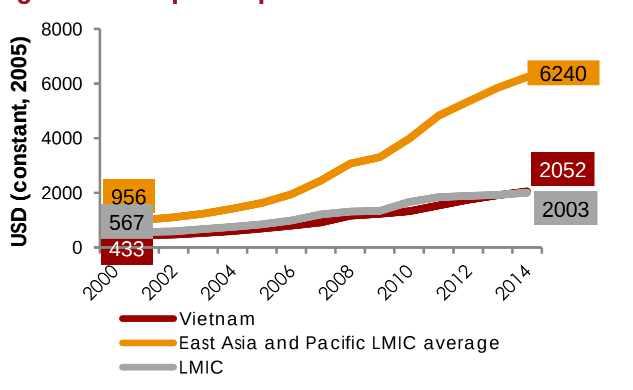
Country Policy and Institutional Assessment Ratings (1 = low, 6 = high), 2014	National	Mean Southeast Asia
Efficiency of revenue mobilization	4.0	3.4
Equity of public resource use	4.5	3.4
Fiscal policy	4.0	3.1
Macroeconomic management	4.0	3.5
Quality of budgetary and financial management	3.5	3.1

Source: World Bank, 2014.

Macroeconomic Indicators					
Indicator	2013	2014 (est.)	2015 (proj.)	2016 (proj.)	2018 (proj.)
Real GDP growth (%)	5.4	6.0	6.1	6.2	6.0
GDP per capita growth (%)	4.32	4.8	5.8	5.9	N/A

Source: World Bank, 2015.

Figure 1: GDP per Capita Growth



Source: IMF, 2015.

Overview

Vietnam is on a solid path of growth, with its real gross domestic product (GDP) growth reaching 6% in 2014, exceeding the country's forecast. GDP per capita in constant U.S. dollars also grew substantially from 2000 to 2014 (Figure 1). Manufacturing, construction, and export sectors led this growth. Vietnam's current account shows a surplus. It is a net exporter of petroleum and has an export-driven economy. Exports are from goods for which production is occurring at a higher value in the value chain. The manufacture of smartphones and electronic products is increasing, adding to traditional export products, such as textiles. Declining oil prices have helped to curb inflation. A reduction in lending rates by the State Bank of Vietnam and a 1% downward adjustment in the exchange rate in 2014 helped the production process and raised exports. In addition, the government has put in place a policy to reduce nonperforming loans held by banks. Revenue generation is relatively high in Vietnam, especially compared to other lower middle-income countries (LMICs). The corresponding government expenditure is also high; as a result, deficit spending has been high. Vietnam has invested in social services; for example, its expenditure on education is 6.3% of GDP.

Political Economy

Compared to its regional peers, Vietnam exhibits strong Country Policy and Institutional Assessment (CPIA) indicators, except for budget management. Sound fiscal and macroeconomic management have maintained price and macroeconomic stability, thus avoiding the crowding out of private investments that can occur through distorting prices and excessive government investment. Macroeconomic shocks, such as exchange rates fluctuations, inflationary pressure, and fluctuations in aggregate domestic and foreign demand for goods and services mostly are managed in a reasonable timeframe and manner.

Revenue generation depends on a value-added tax (VAT) and taxing personal income and corporate earnings—personal tax being much smaller than corporate tax. The tax base is broad; a solid tax administration is in place, and the cost of revenue generation is not high. Public expenditures have kept pace with meeting public wage demands and the investment needed to support medium-term growth objectives. CPIA rankings are good for both revenue administration and fiscal policy. Public expenditures generally are aligned with poverty-reduction priorities, the poor and vulnerable populations have been identified, and implementation of strategies has improved.

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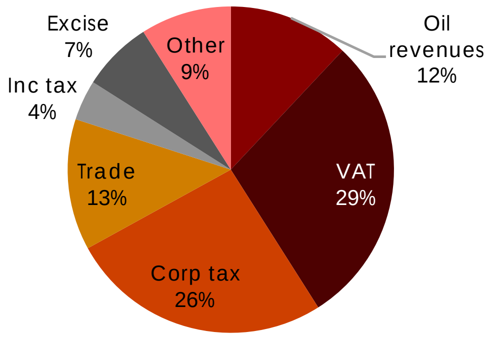
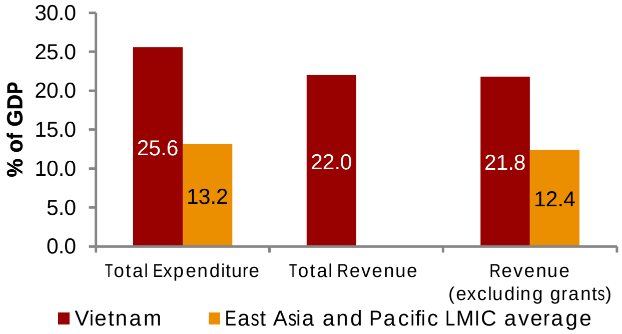
Figure 2: Revenue Composition (2010)



Source: IMF, 2016.

Figure 3: Government Revenue and Expenditure (2011)



Source: World Bank, 2015.

GDP and Economic Growth

Vietnam's current account surplus is an important feature of its economy, indicating a focus on export growth. The country engages in export promotion and has a very low export tax. The rise in imports in 2015 indicates a growing demand for consumer goods; thus, the current account surplus has declined, although there was a devaluation of the currency in 2015. The reduction in inflation over the last two years is due partly to low oil prices and increased agricultural production, despite an expansive monetary policy made possible through an induced fall in interest rates and reduced deposit rates for banks. Manufacturing growth in 2014 accelerated to 8.7%, from 7.3% in 2013 and 5.8% in 2012. This growth may be due partly to rising production costs in China. In 2014, the manufacturing sector attracted 70% of the US$20 billion in total registered foreign direct investment in the country, signaling its sustained leading role in the success of Vietnam's exports, which should continue for the foreseeable future.

Revenue and Expenditure

Vietnam collects a large portion of its GDP in taxes (Figure 2). In 2011, Vietnam collected about 27% of its GDP as revenue available to the government—an historic high; in 2010, non-oil revenue amounted to 20.4% of GDP, and slightly higher in 2011. The 2015 figure for revenue generation stands at 19.5% of GDP (CIA, 2015). This drop is partially a result of a cut in the corporate income tax rate from 25% to 22%, continued tariff reductions, and exemptions.

The budget deficit continues at a relatively high level (3.9% of GDP in 2015) and is unlikely to decline greatly, as falling oil prices have resulted in a decline in government revenue; in addition, the government has engaged in an expansionary policy. Because Vietnam is a small net oil exporter, the decline in oil prices has not affected the health of the overall economy. Non-oil revenue has continued apace. This expansionary policy will entail a continuation of the budget deficit, however. Recurrent expenditure makes up the bulk of this deficit.

Vietnam still faces obstacles regarding its nonperforming state enterprises that make up a third of the economy. A few of them have been floated for sale, but the success of this venture has been relatively low. Some make a profit, but a few impose a fiscal burden (The Economist, 2014). Given its budget deficits, there may be little the government can do to improve the performance of these enterprises. Another reason for concern is that Japan and China, the country's major trading partners, have experienced declines in economic growth recently and may continue to do so for the next few years.

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