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February 3, 2021

**Statement by Mr. Jin and Mr. Law on Vietnam
(Preliminary)
Executive Board Meeting
February 5, 2021**

We thank staff for the comprehensive set of reports and Ms. Mahasandana, Mr. Mochtar, and Mr. Nghiem for their informative Buff statement. We commend the Vietnamese authorities' successful efforts in containing the COVID-19 pandemic, making the country one of the few in the world to achieve positive economic growth in 2020. We broadly agree with the thrust of staff's appraisal and would offer a few comments for emphasis.

Macro policies should remain supportive to avoid derailing the recovery. We are encouraged to note that the authorities had implemented a fiscal package that focuses on managing the health crisis and providing support to the vulnerable sectors and households. Going forward, we encourage the authorities to pivot the focus to revenue mobilization for financing productive and green infrastructure investment and to strength social protection systems. A well-coordinated medium-term revenue strategy should also be in place to improve tax administration.

The uncertain trade environment continues to pose significant downside risks.

Vietnam's economy is heavily reliant on external trade and is vulnerable to trade tensions. The signing of the Regional Comprehensive Economic Partnership by Vietnam in November 2020 is a major step in helping regional trade integration and regional supply chains. Nevertheless, **we are concerned about the designation of Vietnam as a "currency manipulator" by the US in December 2020.** This unilateral action would put undue pressure and uncertainty to the global trade and monetary systems. *Could staff elaborate on the impact of the designation on the Vietnamese economy?* As mentioned in the Buff statement, the State Bank of Vietnam continues to allow for a two-way exchange rate movement according to market forces within the current 3 percent band to absorb shocks. Noting the fact that the External Balance Assessment (EBA)-lite model does not fully account for Vietnam's specific structural characteristics, we encourage staff to exercise care

when interpreting and communicating model estimates. Furthermore, while the current account approach shows a 7.8 percent undervaluation of the dong, the alternative measure based on the Real Effective Exchange Rate model finds that the dong was *overvalued* by 2 percent. These widely diverging results seem to indicate that these methodologies provide very rough and fragile answers to questions on exchange rate valuation. *Staff's comments are welcome.*

We welcome the authorities' commitment to further structural reforms to boost productivity. We encourage the authorities to continue to improve the business climate, including ensuring a level playing field for SMEs. With a large internet and digital-savvy population, Vietnam is well-placed to harness the opportunities from technological innovation. To fully reap the benefits of the transition into a digital economy, it is important for the authorities to create an enabling environment while being mindful of potential risks. Meanwhile, continued work to strengthen anti-corruption efforts, alleviate labor skill mismatches, and tackle informality are important. Further addressing data gaps and improving data quality would also help better inform the authorities' policy decisions.

With these remarks, we wish the authorities every success in their policy endeavors.