# Accelerating Sustainable Development in Viet Nam: Policy Options

## Macroeconomic Modelling (Augmented Public Debt Sustainability Analysis) Study

# EXECUTIVE SUMMARY

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## Introduction

Viet Nam has achieved remarkable successes in the past few decades in promoting economic development, raising living standards and lifting millions of people out of poverty. Building on these achievements, the country is strongly committed to implementation of the 2030 Agenda for Sustainable Development. Viet Nam aspires to become a high-income country by 2045 and achieve net-zero carbon emissions by 2050. Whereas the Voluntary National Review 2023 revealed that Viet Nam has made significant progress in achieving various Sustainable Development Goals (SDGs), the country needs to expedite their implementation to bring all Goals back on track in order to achieve the 2030 targets. In the current context of rising geopolitical tensions and economic uncertainty, the country faces critical development challenges, including building economic resilience, eradicating poverty and tackling climate risks.

The United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) and the United Nations in Viet Nam, in collaboration with the Ministry of Planning and Investment (MPI) of Viet Nam, have carried out a country study based on the region-wide ESCAP Macroeconomic Model. The objectives of the study are to assess the impact of selected policy scenarios on economic, social and environmental outcomes, including public debt sustainability, and further integrate sustainable development into macroeconomic modelling in Viet Nam. The selection of the specific model scenarios was conducted together with local experts by prioritizing the most relevant policy packages for Viet Nam's efforts to achieve its national development goals and realize the overall sustainable development agenda.

## Policy scenarios and simulation results

The modelling demonstrates that investment in renewable energy would likely help Viet Nam to achieve the targets of renewable energy development, reduction of carbon dioxide emissions and improvement of air quality, as well as economic expansion. Under the assumption that the Government would increase investment in renewable energy with an estimated amount of about US$ 13.5 billion per year from 2021 to 2030 and US$ 23 billion per year from 2031 to 2050, in line with Decision No. 500/QD-TTg, the share of renewable energy would increase considerably. This would especially be the case in the period after 2030 when nearly 60 per cent of the total energy mix would come from renewables, and carbon dioxide emissions would decrease by 53 per cent from the baseline in 2050. GDP will grow by 3-4 per cent compared with the baseline scenario in the first years of that investment before declining to a positive extra gain of about 2 per cent of baseline GDP until 2030. After 2030, the impact on GDP would increase again with an average gain of about 3.5 per cent, given the new and larger investments between 2031 and 2050. However, in view of the huge value of investments involved, there would likely be a surge in public debt if the investments were to be financed mainly by the Government.

The modelling also shows that a carbon tax could be a useful tool for decarbonizing the economy, reducing emissions and improving fiscal space, while having only a modest negative impact on the economy. Under the assumptions of raising the carbon tax from US$ 25 per $tCO_2e$ in 2023 to US$ 90 per $tCO_2e$ by 2040, as called for in a World Bank study, and easing of the carbon subsidy entirely from 2023 onwards, carbon dioxide emissions are projected to decrease substantially by about 10 per cent of the baseline in 2030 and 20 per cent in 2050, leading to improved air quality and associated health

benefits that would contribute to overall productivity growth. The revenue generated from the carbon tax and the savings from eliminating carbon-linked subsidies would create significant fiscal space, enabling government debt to decrease from the baseline of 60 per cent of GDP to 38.8 per cent in 2030, and achieve a larger debt reduction over the long term. However, the policy would likely have an adverse impact on GDP, which would decrease at the modest rate of 1 per cent over the long term. The simulation results indicate that a carbon tax policy could be a vital instrument for reducing emissions and improving air quality and fiscal space; however, the modest adverse impact on the economy still needs to be considered.

Investment in green infrastructure, health, social protection and education, as allocated in the three National Target Programmes (NTPs), is likely to have a significantly positive effect on poverty reduction and economic output, especially during the programme implementation period from 2021 to 2025. Assuming that the NTP investment is efficiently disbursed, the economic output is likely to expand by 2 per cent compared with the baseline scenario during the years of programme implementation from 2021 to 2025. The growth effect would subside to about 0.8 per cent compared with the baseline from 2025 onwards. Because the largest proportion of the investments would go to social protection, poverty is projected to decrease significantly. There would likely be an insignificant effect on fiscal space, as only 15.22 per cent of the total spending package would be funded by the State budget.

Investment in information, communication and technology (ICT) infrastructure, which would be approximately 2 per cent of GDP, would likely result in a positive effect on economic output in the long term. The positive growth effect is projected to increase gradually from the baseline in 2020 and grow by nearly 0.7 per cent of the baseline from 2025 onwards. Given that the size of the planned investment package is relatively moderate, it would have limited impacts on such social and environmental indicators as poverty, inequality and carbon emissions. Noticeably, as the majority of the investment package is expected to come from the private sector, public debt would decrease to a level lower relative to the baseline.

## Policy implications

The simulation results offer some policy implications for Viet Nam in considering the investments to accelerate the achievement of the Sustainable Development Goals and net-zero emission targets.

**First, the modelling results highlight the importance of inclusive fiscal policy in support of the achievements of the Sustainable Development Goals**. The most fundamental one is to maintain adequate public spending on three major development areas: health, education and social protection. Enhancing access to, and the quality of, these public services would directly benefit vulnerable populations, including people living in remote areas, ethnic minority areas and areas frequently affected by natural disasters – thus promoting socioeconomic equality over the long term.

**Second, the study demonstrates how environmental benefits can be realized through the investment in key transition areas,** such as renewable energy and energy efficiency, and boost economic growth through a healthy population and increasing labour productivity.

**Third, the simulations shed light on the trade-offs between different policy choices, and illustrate how different size, composition and pace of the investments would yield differentiated impacts**. For example, the same amount of investment in education would create longer-term benefits in employment, investment and poverty reduction, but convey less short-term stimulus in terms of household consumption compared with investment in social protection programmes. Yet, investment in social protection alone would lead to more carbon emissions compared with investment in energy efficiency enhancement infrastructure due to higher economic production, while carbon dioxide emissions per unit of production would remain unchanged. Moreover, introduction of a carbon tax

would offer enormous environmental benefits; however, it would create short-term inflationary pressure, which tends to have disproportional impacts on the poor and other vulnerable groups. To mitigate the negative impacts, the Government must spend the additional carbon tax revenues wisely to offset some of the short-term costs to the people.

**Fourth, it is critical to ensure public spending efficiency**. As emphasized in the report, the illustrated socioeconomic and environmental benefits are based on the assumptions of timely budget disbursement and effective project implementation. To this end, the Government of Viet Nam can seek to deploy digital technologies to further improve project management, monitoring and evaluation.

**Fifth, beyond fiscal revenue and spending policies, navigating a balance between prudent public debt management and achievement of long-term development goals is essential**. How the investments in the select policy priorities are financed would have a direct impact on government debts. Scenarios 1.1.1 and 1.1.2 compare the impacts of the same amounts of investments in renewable energy on public debt trajectory when funded entirely by the Government versus partially by the private sector. When private investment is assumed to account for 30 per cent of total investments in renewable energy, the public debt to GDP ratio goes up by 28.8 percentage points compared with 43.8 percentage points without private investments.

## Policy recommendations and ways forward

**To meet large fiscal needs, the Government needs to step up its efforts in exploring untapped public financial resources, lowering its costs of borrowing and mobilizing private capital**.

**The Government of Viet Nam can implement several strategies to increase its tax revenues effectively**. New estimates by ESCAP show that Viet Nam could potentially increase its government tax revenues by 2.5 per cent of GDP, if benchmarked against its best performing peers.[1] First, enhancing tax administration and enforcement mechanisms can help reduce tax evasion and increase compliance among taxpayers. This may involve leveraging technology for more efficient tax collection processes and improving monitoring systems to detect non-compliance. Second, broadening the tax base while ensuring progressive taxation can help to capture more revenue from a wider spectrum of economic activities and individuals. The introduction of a carbon tax, as illustrated in the modelling results, is a good example of how to broaden the tax base and increase government revenue. In addition, periodically reviewing and adjusting tax rates to reflect economic growth and changing circumstances can optimize revenue generation while maintaining competitiveness. Moreover, investing in initiatives to boost economic productivity and formalize the informal economic sectors can expand the base of taxpayers. Last, fostering a conducive business environment and promoting investment can stimulate economic activity, leading to higher taxable incomes and ultimately increased tax revenues for sustainable fiscal development.

**When introducing a carbon tax, the Government of Viet Nam should carefully plan, consider its potential negative impacts and implement measures to mitigate them effectively**. Introducing a carbon tax in Viet Nam involves careful planning and consideration of various factors, such as its legislative framework, setting the carbon price, taxation mechanism, exemptions and rebates, implementation and enforcement, revenue allocation and so on. Conducting thorough socioeconomic and environmental assessments would be the first step to help anticipate and address any adverse effects on vulnerable groups or industries. Ensuring transparency and stakeholder engagement throughout the policy development and implementation process can build public trust and support

[1] ESCAP (2024), "Boosting affordable and longer-term financing for Governments. *Economic and Social Survey of Asia and the Pacific 2024"*.

for the carbon tax, facilitating its successful adoption and long-term effectiveness in combating climate change.

**The Government of Viet Nam has a prime opportunity to explore non-conventional public bond financing mechanisms, notably sustainability bonds, to complement traditional fiscal borrowings and address financing gaps for achieving the Sustainable Development Goals.** By issuing sustainability bonds, the Government can attract a new pool of investors who prioritize environmental, social and governance (ESG) considerations, thereby expanding its funding sources. These bonds, specifically earmarked for sustainability-related projects, not only provide crucial capital for sustainable initiatives but also signal Viet Nam's commitment to sustainable development to both domestic and international stakeholders. Moreover, leveraging sustainability bonds can enhance the Government's credibility in the global financial markets and bolster its reputation on the international stage as a responsible and forward-thinking actor. Through strategic issuance and transparent allocation of proceeds, Viet Nam can harness the power of sustainable finance to accelerate progress towards achieving the Sustainable Development Goals while diversifying its funding base for long-term economic prosperity.

**Viet Nam can lower the cost of government borrowing by focusing on capital market development and channelling domestic savings into sovereign bonds through several strategic measures.** First, enhancing market infrastructure and regulatory frameworks can deepen liquidity and increase investor confidence in the bond market, attracting a broader investor base and lowering borrowing costs. This may involve improving trading platforms, implementing transparent pricing mechanisms, and strengthening legal protections for bondholders. Second, fostering financial innovation, such as introducing new bond products and facilitating access to bond markets for retail investors, can broaden the investor pool and create more competitive pricing dynamics. In addition, promoting financial literacy and investor education initiatives can raise awareness about the benefits of investing in sovereign bonds, encouraging households and institutional investors to allocate more of their savings to government securities. Furthermore, enhancing fiscal discipline and transparency in government finances can instil confidence among investors, reducing risk premiums associated with sovereign borrowing.

**Viet Nam should seek to enhance public debt management to cope with potential debt distress while increasing investments in long-term development priorities**. Some of the good practices which help lower fiscal risks and borrowing costs include: (a) having clear debt management objectives and a transparent legal framework; (b) taking an overall portfolio point of view when making a government borrowing decision; and (c) developing a more comprehensive debt management strategy, which focuses not only on the size of the debt but also its structure, along with various other factors.

**The development and implementation of the green taxonomy holds the potential to create a highly conducive business environment for green investment** by providing clear and standardized criteria for defining environmentally sustainable economic activities. By establishing a common language and classification system for what constitutes "green", investors gain greater clarity and confidence in identifying and assessing green investment opportunities. This transparency not only reduces information asymmetry but also facilitates better risk assessment and pricing, ultimately lowering the cost of capital for green projects. Moreover, a green taxonomy fosters market integrity and credibility by preventing "greenwashing" and ensuring that investments genuinely contribute to environmental objectives. Furthermore, it encourages innovation and the development of new green technologies and solutions by signalling market demand for sustainable products and services. Overall, the adoption of a green taxonomy can catalyse a virtuous cycle of investment, innovation and sustainability, driving the transition to a greener and more resilient economy.

**Viet Nam also possesses a significant opportunity to leverage foreign direct investment (FDI) in sustainability-focused sectors, particularly in renewable energy and climate-resilient infrastructure, which often require substantial capital investments.** By creating an attractive investment environment through streamlined regulations, fiscal incentives and investment guarantees, Viet Nam can attract international investors seeking opportunities in sustainable development. Partnering with foreign investors not only brings in much-needed capital but also facilitates the transfer of advanced technologies and expertise, thereby accelerating the deployment of renewable energy projects and climate-resilient infrastructure across the country. By harnessing FDI in these critical sectors, Viet Nam can not only meet its climate goals but also drive inclusive economic growth, create job opportunities and enhance resilience to climate change impacts, positioning the nation as a leader in sustainable development within the region and beyond.

**The State Bank of Vietnam (SBV) can play a pivotal role in promoting green development and mobilizing private capital into green investments through various strategic initiatives**. SBV should establish clear guidelines for green lending operations, incorporating environmental and social risk assessments and incentivizing banks to prioritize green projects. Robust risk management and reporting mechanisms are essential, along with standardized monitoring and evaluation frameworks to track performance and compliance. SBV should also invest in capacity-building for banks, offering training programmes and technical assistance to support the implementation of green lending strategies. In addition, SBV should strengthen its supervisory capacity to oversee green lending activities effectively and foster information-sharing to ensure compliance with environmental standards and regulatory requirements. These measures will enable SBV to promote sustainable finance and contribute to the transition to a low-carbon economy in Viet Nam.