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VIET NAM AND GERMANY COOPERATION IN ECONOMICS AND FINANCE

1993-2023





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FOREWORD

2023 marks an important milestone in the cooperation between Viet Nam and Germany in the fields of economics and finance.

Over the last three decades, the German government, alongside the European Union in two periods, has actively supported Viet Nam with technical cooperation jointly delivered by GIZ and Vietnamese partners, particularly the Ministry of Planning and Investment, the Central Institute for Economic Management (CIEM), the Ministry of Finance (MOF) and the State Bank of Viet Nam (SBV).

We are delighted to present this publication as a celebration of our shared accomplishments over the past thirty years. It provides an overview of the key activities and achievements of the cooperation between Viet Nam and Germany in economics and finance, aligned with the development priorities of Viet Nam across three key periods:

The **1993-2005** period witnessed a remarkable beginning to Viet Nam-Germany cooperation, when economic reform, state budget reform, and banking system reform were identified as priority areas for action. At a time when international support for Viet Nam's economic reform was minimal, the launch of reform support projects in these three crucial macroeconomic areas was essential. These projects, with a focus on the development of legal frameworks, policy advice and capacity building, marked a significant beginning to bilateral cooperation in economy and finance.

On behalf of the Federal Ministry for Economic Cooperation and Development of Germany (BMZ), in this period GIZ started to work with Vietnamese partners to implement three projects: Viet Nam's Economic Reform in collaboration with CIEM; State Budget Reform, with MOF; and Reform of the Banking System, with SBV.

The cooperation delivered remarkable results in building a legal framework for the creation of a market economy in Viet Nam. The three projects supported the elaboration of important legislation, including the Law on Domestic Investment Promotion, the Law on State-owned Enterprises, the Law on Cooperatives, the Law on State Budget, the State Bank Law, and the Law on Credit Institutions.

The development of these institutional frameworks created an enabling environment for the private sector to flourish, state-owned enterprises to reform, the state budget to be managed more effectively, and for a two-tier banking system to be established to suit the market economy, providing a strong basis for ongoing economic reform.

The **2005-2015** period saw many changes in Viet Nam, such as accession to the World Trade Organization (WTO), alongside challenges such as the global financial crisis and various social and environmental issues. To improve coordination and efficiency, the three ongoing projects were merged into the Macroeconomic Reforms Programme in 2005.

The programme began at an important time in the economic transition process - when Viet Nam was preparing to join the WTO. Integration into the global economy required the country to promptly adjust its laws to match international practices. Additionally, the global financial crisis revealed the low quality of growth in Viet Nam. The programme therefore promptly adjusted its goals to ensure the sustainability of Viet Nam's economic development process.

The programme delivered significant results. It supported the decentralisation and engagement of people and mass organisations in the socio-economic development policymaking process. The programme supported the SBV in building a legal framework, policies and tools for a modern central bank, establishing a banking supervision agency and training SBV senior managers and experts. It supported the MOF to develop Viet Nam's first Environmental Protection Tax Law and to improve public financial management. As a result, fiscal management became more decentralised, budget deficits were defined in line with international practices, and a legal framework for medium-term financial planning was created.

In the **2015-2026** period, the Macroeconomic Reforms/Green Growth Programme, co-financed for several years by the European Union, is working to support Viet Nam to implement the National Green Growth Strategy and to improve public finance management to strengthen the economic governance of the country in the context of challenges such as climate change, environmental protection, pandemics, digital transformation and other changes in the global economy. This strategy not only meets Viet Nam's development needs, but is also consistent with the current challenges in the international economic and financial systems.

Within the framework of this programme, GIZ continues to work alongside Vietnamese partners in developing a national green growth action plan and enforcing its implementation, especially at subnational level. The programme also supports the monitoring and evaluation of green growth and the Sustainable Development Goals, alongside green financial sector reform and the integration of social dimensions into the country's ongoing economic transformation. The programme has allocated substantial resources to establish the policy and legal structures and tools needed to enable access to Green Finance resources from the public and private sectors internationally and domestically, including green investment, green credit, and green bonds. The programme is actively assisting Viet Nam with funding from BMZ and the EU to enhance public financial management in budget planning, debt management and tax policy, and advance the digital transformation of the banking industry.

Despite its many accomplishments in economic reform and development, Viet Nam continues to face significant challenges, particularly in terms of the quality of growth, resource and energy shortages, environmental protection, and climate change. Our collaboration in economic and financial reforms will support Viet Nam to address those challenges, and to achieve its goals of becoming a High-Income Country by 2045 and achieving net-zero emissions by 2050.

We would like to present our sincere thanks to the German Government and the European Union for their continued support, as well as to the Government of Viet Nam and all of our Vietnamese and international partners for their commitment to making our partnership over the last thirty years a leading example of trustful and enduring cooperation. We are confident that our joint efforts will continue to make an important contribution to achieving a more prosperous, green and equitable Viet Nam for future generations.

Hamburg and Hanoi, 1st November 2023

Mr. Dennis Quennet (Chief Technical Advisor 2022-present)

Dr. Michael Krakowski (Chief Technical Advisor 2012-2022)

Dr. Ulrike Männer (Chief Technical Advisor 2005-2011)

DEVELOPMENT OF THE MARKET ECONOMY

The Context

The collapse of the socialist bloc in Eastern Europe broke the value chain between countries belonging to the Council of Mutual Economic Assistance (CMEA), of which Viet Nam was a member. This collapse eliminated both the supply sources and consumption markets for most businesses in Viet Nam.

The Vietnamese economy faced production challenges due to the ongoing US embargo and strict limitations on foreign currency reserves, causing many businesses to close, while others were forced to limit production. Meanwhile, unemployment increased and life became harder for many people who were already struggling.

Regarding the economy in general, despite certain results achieved in the early years of economic reform, until the early 1990s Viet Nam's economy was still strongly characterised by the centrally planned economy. Most businesses were state-owned enterprises or cooperatives. The government controlled the economy with direct administrative orders. A legal framework for the market economy did not exist, nor was there an enabling environment for effective competition.

State budget management was largely administrative and command-based. There was no law regulating state budget management activities, either in terms of revenue or expenditure management. The National Assembly did not have the authority to supervise the Government's state budget management. The budget system's decentralisation was not optimal. The central budget made up a significant portion of the total national budget, while local budgets relied heavily on grants from higher authorities. This situation resulted in local governments becoming overly dependent and passive.

The economic downturn, coupled with reduced aid from Eastern European countries, led to severe budget deficits. This forced the Government to print more money, which drove inflation up to nearly 70% in 1990. By the end of 1995, inflation was still at 12.7%.

In terms of *monetary policy*, until 1990, Viet Nam's banking sector, which included the State Bank and four state-owned commercial banks, was a one-tier system. These four commercial banks were considered part of the State Bank, with the responsibility of allocating credit to different economic sectors, and interest rates were entirely governed by the State.



| First GIZ-MOF workshop on the State Budget in Hanoi - 1994

The lack of control and supervision of the State Bank over the activities of these credit institutions led to the collapse of a series of credit funds nationwide in 1991. This not only caused skyrocketing inflation, but also depleted the country's very limited credit resources, eroding the people's confidence in the Government's ability to manage money and credit.

Some of the fundamental causes leading to these problems were:

- Despite immense willingness, government personnel, including top leaders, demonstrated a lack of comprehension of the market economy and suitable methods for operating within it.
- Both state institutions and society exhibited prejudice against the private economy, under the belief that it exploited workers. Although the 1992 Constitution acknowledged citizens' right to business freedom, it was not genuinely put into practice.
- There was a near absence of a legal framework (in the form of law) enacted, with most administration being carried out through administrative orders.
- There were no facilities or courses available to enhance and develop the knowledge of state officials, employees and enterprise management teams on the market economy.



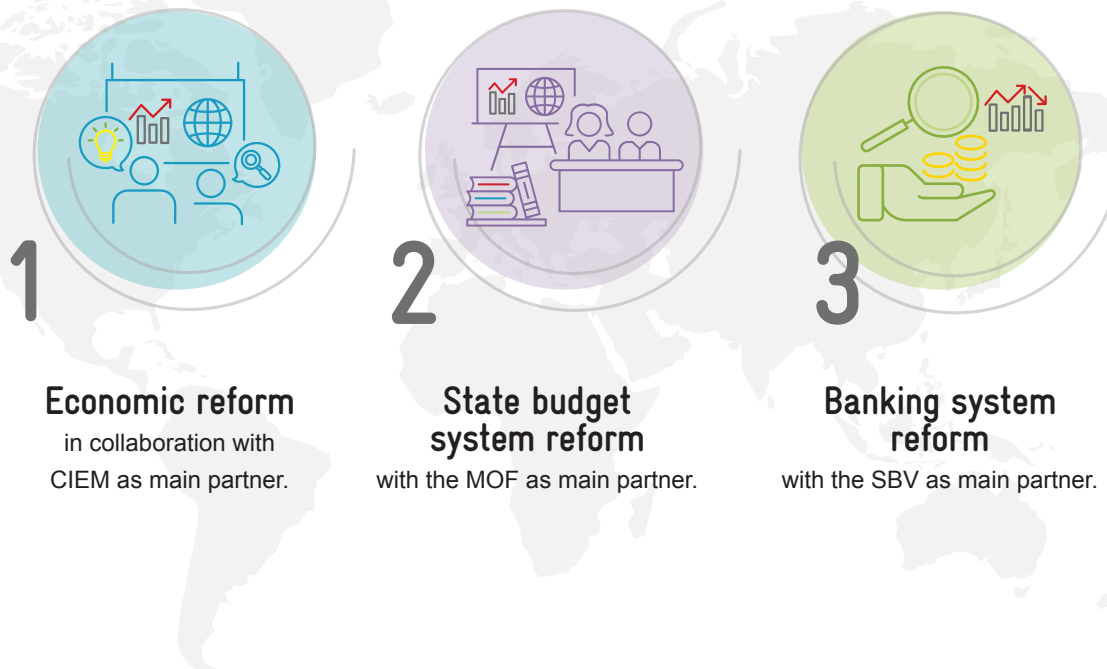
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The start of cooperation in transforming Viet Nam's economy

In 1991, the Federal Republic of Germany and the Government of Viet Nam entered into a Technical Cooperation Agreement. This established a legal foundation for the creation of technical assistance projects aimed at supporting Viet Nam's economic reform process.

The initial selection was focused on three priority areas:



At a time when Viet Nam was receiving limited assistance on economic reform, the concurrent establishment of three German-supported projects in the most critical macroeconomic areas was of immense importance to Viet Nam's economic transformation. These synchronised projects had a profound influence on the reform process. This is a key reason why these projects have had a lifespan of up to 30 years, yet continue to hold significant practical relevance in aiding the Vietnamese Government's innovation and economic development efforts.



| Vietnamese and German counterparts exchange on competition encouragement and monopoly supervision - 1994

Objectives of the three projects

- To support institutional reform in transition to a market economy.
- To build capacity for Vietnamese partners in building a legal framework suitable for the market economy.
- To develop laws and related legal documents to support the economic transition process.
- To provide advice on economic reform policies, fiscal reform, monetary and credit policies to align with the market economy.

Main collaborative activities

- Enhancing the capabilities of Vietnamese officials through training courses and seminars delivered by German experts.
- Conducting study programmes on international and in-country experience and supporting domestic research.
- Development of policies, draft legal documents and regulations based on the results of study trips and research.
- Consulting with agencies and mass organisations to obtain input on proposals and draft documents.
- Training for policy enforcement officers after policies had been issued to support implementation.



Key achievements

Viet Nam's Economic Reform Project

As a research and advisory institution to the Government on economic reforms in Viet Nam, the Central Institute for Economic Management was assigned as GIZ's main implementing partner for this project.

Project objectives

- To support the development of small and medium-sized enterprises (in essence, the development of the private economic sector).
- To reform the state-owned enterprise sector.
- To adapt the cooperative model to align with the market economy.
- To innovate socio-economic development planning.
- To take initial steps to develop competitive policy.

Project results

- The National Assembly approved the Law on Domestic Investment Promotion (1994, 1998) and the Law on Enterprises (2000) and related Decrees, promoting the development of the private economic sector in Viet Nam.
- The National Assembly approved the Law on State-owned Enterprises (1995) and related Decrees to reform the state economic sector and improve the operational efficiency of state-owned enterprises.
- The National Assembly approved the Cooperative Law (1996 and 2003) and related Decrees, fundamentally innovating the nature of this economic sector.
- The Innovation of Socio-Economic Development Planning project (SEDP) was developed, thereby fundamentally changing the way SEDP is developed and implemented at all levels.
- The Encouraging Competition and Monopoly Control project was developed, and contributed to drafting the Competition Law (2004).

State Budget Reform Project

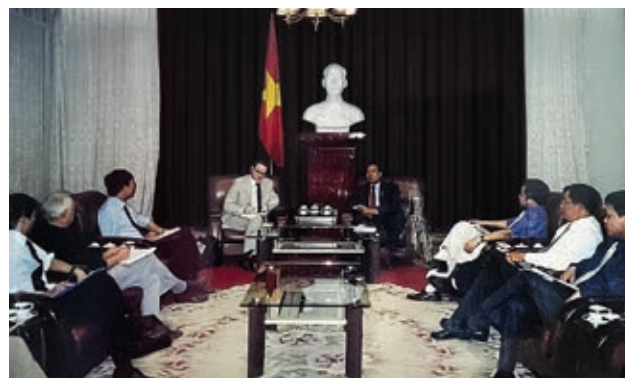
As a focal point for implementing priorities in the financial sector during the periods from 1991-2000 and 2001-2005, including the development and refinement of institutions that enhance budget management efficiency, the Ministry of Finance was assigned as GIZ's main implementing partner for this project.

Project objectives

- To develop the State Budget Law.
- To enhance the capacity of finance staff at central and provincial levels to improve efficiency in the implementation of the State Budget Law.

Project results

- The State Budget Law was prepared and submitted to the National Assembly for approval (passed in 1996, supplemented in 1998, and amended in 2002).
- The budget management process was renewed.
- Decentralisation in budget management was enhanced, which provided with autonomy in financial planning at the local level.
- The capacity of budget management officers at central and local levels was improved.
- The MOF was supported to develop a project to establish a State Audit Agency and submit it to the Government and National Assembly for approval.



GIZ experts working with Viet Nam National Assembly's Finance-Budgetary Department on budget cycle in Viet Nam- 2005

Banking System Reform Project

The State Bank of Viet Nam was the main implementing partner of GIZ for this project, which assisted Viet Nam in addressing critical and emerging challenges to foster economic transition and macroeconomic stability.

Project objectives

- To transition Viet Nam's banking system from a single-tier to a dual-tier system.
- To aid the SBV in formulating monetary, credit, and foreign exchange policies, and overseeing bank inspections.
- To assist the SBV in carrying out Central Bank operations.
- To help the SBV manage non-performing loans.
- To enhance the proficiency of the banking system's personnel.



Dr. Grosskreutz from GIZ headquarters and Dr. Nguyen Ngoc Oanh, SBV Deputy Governor signing Operation Plan MoU - 1994

Project results

The project has aided the SBV towards important achievements, including:

- Supporting the draft Law on State Bank of Vietnam submitted to the National Assembly for approval (1997, amended and supplemented in 2003) and the Law on Credit Institutions submitted to the National Assembly for approval (1997, amended and supplemented in 2004).
- Supporting the development of the Banks Association (1996).
- Supporting the SBV, MOF and the State Securities Commission of Viet Nam in establishing the stock market.
- Piloting the State Bank audit and proposing tools to support the SBV in controlling risks to prevent and handle bad debts.
- Supporting the SBV in carrying out reform of commercial banks to enable them to operate independently from the Central Bank.
- Improving the knowledge and skills of SBV staff in macroeconomics, monetary policy, banking inspection, and monetary markets.



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Impacts of the three projects

The significant outcomes of these three collaborative projects have played a crucial role in the initial stage of establishing a market economy in Vietnam:

Building the first institutional framework for a market economy in Viet Nam

The projects have helped to formulate crucial laws that have facilitated Viet Nam's transition from a centrally planned economy to a market economy. The enactment of these laws has contributed significantly to the country's economic development, specifically via:

- The enactment of the Enterprise Law encouraging the formation and growth of the private economic sector and the reform of the state economic sector. This has enabled Viet Nam's transition to a multi-sector economy, with private enterprises playing a crucial role.
- The enactment of the State Budget Law, which marked a new milestone for financial institutions. It strengthened the unified legal framework of national finance, reinforced financial discipline, and promoted economical and effective use of state funds. The law also significantly improved budget management efficiency at all levels.
- The enactment of the State Bank Law and the Credit Institutions Law, transforming the Vietnamese banking system into a dual banking system and contributing to the establishment of the stock market in Viet Nam.

Enhancing government economic management mechanisms

- Based on MPI-approved recommendations such as Innovation of Planning Processes, the government has shifted to primarily operating economic policy with indirect tools suitable for a market economy, while the centrally planned economy model has been completely abolished.
- With technical support from GIZ through the recommendations Encouraging Competition and Controlling Monopolies, numerous policies have been issued to encourage competition, contributing to the development of the Law on Competition.
- The amended State Budget Law (2002) allowed for stronger decentralisation of the state budget to local levels, increasing local autonomy in exploiting revenue sources, leading to a significant shift in financial resource mobilisation. The Law also contributes to the creation of state financial intervention tools suitable for a market economy.
- In addition to supporting law drafting, GIZ aided the SBV in operating money and credit markets with tools suitable for a market economy, such as basic interest rates and mandatory reserves, ensuring macroeconomic stability.
- As a result of GIZ technical support, the SBV became better able to conduct state bank audits, bank inspections and supervision, and to improve efficiency in risk management and preventing and handling bad debts.



2005 - 2015

INTERNATIONAL INTEGRATION AND MACROECONOMIC REFORM



The formation of the Macroeconomic Reforms Programme

Reform initiatives since 1986 not only fostered high economic growth rates in the 1990s, but also drastically reduced the poverty rate from 58% in 1993 to 29% in 2002. During this period, Viet Nam also engaged in numerous international and regional economic partnerships.

Operation Plan
signing ceremony
between GIZ and
SBV - 2007

The process of economic integration exerted pressure on Viet Nam's policymaking, driving reforms in a more comprehensive and consistent manner. Consequently, Viet Nam's focus during this period was on bolstering elements of the market economy, introducing new regulations, and enhancing the reform of essential state functions to align with the market economy. If the transition process from a centrally planned economy to a market economy had failed, it could have put Viet Nam's integration into the global economy at risk, hindering economic development, and possibly jeopardising the country's efforts to eradicate hunger and reduce poverty.

Building on the successes of the three projects from the previous phase, the Governments of Viet Nam and Germany agreed to continue these projects to support Viet Nam in the successive reform period. To enhance effectiveness through improved coordination between Viet Nam's macro policymaking agencies, both governments agreed to merge the three projects into the Macroeconomic Reforms Programme.

This programme supported the implementation of the Comprehensive Strategy for Growth and Poverty Reduction, approved by the Prime Minister in 2002. It was aligned with Germany's focus on supporting economic reform and market economy development for Viet Nam and in line with the multi-sectoral perspective of BMZ on promoting the private economy in partner countries.

Goals

In its initial phase, the Macroeconomic Reforms Programme aimed for the developmental policy goal of 'growth with widespread impact', assisting Viet Nam in building a foundation for sustainable growth that involved a large segment of the population. It sought to involve all classes of society in successful growth. The programme's overarching objective was to fortify market economic institutions. With significant real-world changes, particularly Viet Nam's accession to the WTO in 2006, the overall objective for the second phase of the programme was defined as: 'The chosen market economic institutions are adequately prepared to meet the demands brought about by increased integration into the global economy'.



| Peer learning between MOF and European counterparts on state budget management - 2013

Subsequently, as sustainability gained greater prominence in the development process, in the third phase the goal of the programme was modified to: 'Selected market economic institutions will be enhanced to meet the demands of global economic integration and environmentally friendly socio-economic development'.

German cooperation for Viet Nam's macroeconomic reforms

Based on experiences in the previous period, the Macroeconomic Reforms Programme focused on the following activities:

- Analysing the implementation and impact of the law, drafting laws, providing comments on draft laws, evaluating the economic and social impact of the law, and drafting sub-law documents.
- Sharing German and international knowledge, and providing expert advice and international experience on market economics in the law-making process
- Developing tools (macroeconomic analysis and forecasting processes, analysing socio-economic impacts from the implementation of issued policies).
- Organising an economic reporting forum and building informal inter-ministerial working groups on economic analysis and macro-economic management.
- Organising training to facilitate experience exchange and peer-to-peer learning.

Regarding **socio-economic policy**, the programme initially aimed to ‘Introduce and implement market economy-oriented models in economic and social policy at both central and local levels’. This objective was revised in the subsequent stage to ‘Construct a market economic model that will serve as a foundation for advising on the development of short-term and medium-term socio-economic policies as well as for formulating plans for long-term socio-economic and ecological development’.

Technical cooperation between GIZ and CIEM focused on the following key activities:

- Ensuring consistency between the Draft Enterprise Law and the Investment Law, ensuring equality between state-owned, private and foreign-invested enterprises.
- Renewing the Socio-Economic Development Plan (SEDP) at all levels of the socio-economic development process, and engaging people and social organisations in SEDP development.
- Coordinating with relevant agencies to build forecasting models to create a basis for macroeconomic policy planning.
- Integrating social and environmental policies into growth policies, ensuring the sustainability of the development process.
- Developing regional linkage development policy to improve the efficiency in use of resources and minimising the gap between regions in the development process.

Results

- The Enterprise Law, regulating all types of businesses, was passed by the National Assembly in 2014.
- Policy mechanisms for preparation of the 2011-2020 Economic Development Strategy and the 2006-2010 SEDP were approved by the Party Congress and the Government.
- The Innovative Planning project was approved by the MPI; Participatory planning processes engaging people and mass organisations were developed to ensure democracy and transparency in the preparation and implementation of the SEDP.
- Coordination with agencies in developing forecasting models for policy planning and reporting was enhanced, especially with the General Statistics Office, the MOF and the SBV.
- The Regional Linkage Development Policy project was submitted to the Government in 2015.



In the sphere of **public finance**, the programme initially set its target as achieving 'Public finance that aligns with international standards, aiming for a higher level in budget and financial policies'. As the programme progressed, this goal was adjusted to align with the evolving direction of Viet Nam's Socio-Economic Development Strategy to: 'Budget policy and public finance policy contribute to growth that is economically, socially, and ecologically sustainable, and is established according to international standards at a higher level'.

The cooperation between GIZ and the MOF as main partner focused on the following topics:

- Continuing to create a legal framework consistent with international practices, promoting Viet Nam's integration into the world economy.
- Developing mechanisms and policies to ensure sustainability in Viet Nam's development process.
- Managing state budget and extra-budget funds more effectively.

Results

- Regulations on the management of extra-budget funds (e.g. charity funds, social insurance funds) were proposed by the MOF to the Government for promulgation
- The Law on Public Debt Management was developed (2009).
- Viet Nam's first Environment Protection Tax Law was passed by the National Assembly (2010), with related Decrees developed and promulgated.
- The State Budget Law was amended (2015).
- The Law on Fees and Charges was developed and promulgated (2015).
- Recurrent expenditure allocation norms were developed and put into practice to serve the budget allocation for implementing budget stabilisation in the periods of 2006-2010 and 2011-2015.

Regarding **financial system development**, the goal of the programme in the first phase was: 'The financial sector is prepared to meet the requirements of market operations and WTO regulations in a few focal areas (capital market and banking sector) and reach a large population'. In the following period, this goal was adjusted to: '*Strengthen risk management in the banking system and strengthen the role of the bond market as an important domestic capital mobilisation channel*'.



| GIZ experts working with Da Nang Treasury on fund management - 2008



| Peer learning between MOF and European counterparts on state budget management - 2014



| SSC Viet Nam and Swiss FINMA exchange on finance supervision - 2013



| GIZ-MoF working with Southern provinces to roll out Circular on Fees and Charges - 2013

The cooperation between GIZ and the SBV as main partner centered on the following key areas:

- Supporting the Central Bank to develop into a modern and more independent bank, with clear responsibility for monetary policy and only a few regional branches, concentrated in locations with a strong banking presence.
- Enabling banking activities to be supervised to international standards, by establishing a Banking Supervision Agency (equivalent to the General Department) within the State Bank of Viet Nam.
- Developing a regulatory framework for modern corporate governance and risk management in the banking sector in the revision of the Law on Credit Institutions.

Technical cooperation between GIZ, the SBV and the State Securities Commission of Viet Nam delivered the following results:

- The Law on the State Bank and the Law on Credit Institutions was passed by the National Assembly (2010). The SBV was supported in monetary policy development, especially in exchange rate policy and foreign exchange management issues.
- The SBV was supported in development of an open market.
- The SBV was supported in development of the Vietnamese Monetary Market Development project (2010) and the Banking Industry Development Strategy project for the period 2011-2020.
- The SBV was supported to draft and promulgate Risk Management Regulations and draft Circulars stipulating minimum requirements for risk management in banking activities and credit institutions.
- The State Securities Commission was supported in developing the Bond Conversion project and the Bond Products Restructuring project.

"It was a pleasure for me to have worked with Vietnamese partners' representatives and experts in the Macroeconomic Reforms Programme. Through the many years of working for GIZ, I have hardly experienced an approach which is as cost-effective as this programme. The funding provided for the programme was not large in scale, but the topics it covered were plentiful. In my opinion, the very strong ownership of Vietnamese partners and the very proactive role they play have been key factors in the effectiveness of the programme."

- Dr. Ulrike Männer, (Chief Technical Advisor, 2005-2011).



Workshop on monetary policy organised by GIZ and SBV for senior banking officers - 2007

Impacts of the Macroeconomic Reforms Programme

The programme, which was centered on aiding Viet Nam's journey towards international economic integration and sustainable development, has yielded significant results, particularly in the following areas:

- The legal framework in relevant areas has been modified to align with international commitments during the integration process.
- A fair legal environment has been established across economic sectors, particularly through the Enterprise Law, which governs state-owned, private, and foreign-invested enterprises.
- Transparency in policy-making has been incrementally enhanced, as seen in the development of the SEDP, budget disclosure, and the inclusion of social organisations in policy-making.
- Decentralisation has been promoted, particularly in state budget allocation and in the content of SEDPs, enabling localities to take the initiative in socio-economic development.
- Sustainability in development has been taken into consideration by incorporating social and environmental protection indicators into the SEDP and introducing tax policies related to social issues and environmental protection.
- Significant contributions have been made to building policy mechanisms for the 2011-2020 Socio-Economic Development Strategy and the 2006-2010 and 2011-2015 Socio-Economic Development Plans.
- The SBV has been transformed into a true central bank, responsible for planning monetary policy, credit, exchange rate policy, and foreign exchange management.
- Advisory services provided by the programme aided the SBV in navigating the 2008 financial crisis and maintaining macroeconomic stability from 2011 to 2015.

MACROECONOMIC REFORMS ASSOCIATED WITH GREEN GROWTH

The formation of the Macroeconomic Reforms/Green Growth Programme

Having successfully navigated the hurdles of global economic integration and the financial crisis, Viet Nam now confronts new challenges. These include restructuring the economy through innovative economic models to enhance the quality of growth, addressing climate change issues, and curbing the overuse of energy and resources.

The economy faces a lack of innovation, coupled with a low value-add in exports. The application of fiscal policy tools, particularly those related to natural resource taxation, has been inadequate. These fiscal tools have created a disconnect between economic growth and resource utilisation. Furthermore, the existing tax system for business activities with environmental implications does not sufficiently incentivise environmentally conscious practices.

Additionally, challenges arise from the insufficient financial resources for 'green' investments. These eco-friendly projects often demand substantial capital, extended periods for capital recovery, and carry high risks. Given the constraints of the State budget, which is inadequate to fund these initiatives, there is a pressing need to attract private capital through credit institutions. The banking sector plays a pivotal role in this regard. Financial intermediaries, especially banks, remain the primary conduits for mobilising and allocating capital to investment projects, businesses and priority industries that adhere to environmental protection standards.

On February 19, 2013, the Prime Minister of Viet Nam approved the Master Plan on Economic Restructuring in Association with Conversion of the Growth Model





CIEM President Tran Thi Hong Minh and GIZ Chief Technical Advisor Dennis Quennet co-chair an economic symposium - 2022



Launch of Public Finance Modernisation Project, co-financed by the EU and Germany - 2015

Towards Improving Quality, Efficiency and Competitiveness During the 2013-2020 Period, aiming to evolve the growth model for increased innovation, creativity, and resource efficiency. In 2019, Viet Nam started to develop the 2021-2025 Socio-Economic Development Plan and the 2021-2030 Socio-Economic Development Strategy, with focus on economic restructuring and enhancing social and environmental responsibility.

Under these circumstances, the Macroeconomic Reforms/Green Growth Programme was established, in which the German government supports the Government of Viet Nam in executing the Green Growth Strategy. This involves economic restructuring and transforming the growth model to enhance labour productivity and ensure sustainable development.

"In 2013 and 2014, Viet Nam grappled with various issues, like the environment and food security. During this period, the concept of "green growth" was relatively unfamiliar, not just to Viet Nam, but to many countries worldwide. There were concerns that pursuing green growth might decelerate the economy's growth rate. Hence, the successful execution of the Green Growth Strategy necessitated strong will from the government and societal consensus."

- Dr. Michael Krakowski, Chief Technical Advisor, 2012-2022.



Peer learning between SBV and Bundesbank
on green finance in Frankfurt - 2023

Objectives of the programme

The goal of Macroeconomic Reforms/Green Growth Programme is two-fold:

- To support the Government of Viet Nam to implement specific initiatives and measures to promote environmentally conscious and socially responsible growth, as outlined in the Viet Nam Green Growth Strategy.
- To improve macroeconomic stability, bolster the proficiency of government agencies in effective socio-economic policy implementation, increase transparency and accountability in Viet Nam's public finances, and reform the Vietnamese financial and banking system for environmentally and socially sustainable development, thereby fostering equitable and sustainable growth in Viet Nam.

By incorporating sustainability and green elements into the nation's socio-economic development strategies and linking them with financial processes (including budgeting and private sector investments), the programme aims to ensure medium and long-term effectiveness.



“GIZ has provided valuable support to the Ministry of Finance by sharing international experiences and offering technical consultancy. This assistance has been instrumental in crafting budget reports and identifying effective ways to disseminate these documents to a wide audience. Citizen budgets have bridged the gap between the government and the people, enhancing government transparency and accountability. Moreover, it has enabled us to align with international standards for budget openness and transparency.”

- Mr. Nguyen Minh Tan, Deputy Director of the State Budget Department, Ministry of Finance

SBV delegation led by Vice Governor Dao Minh Tu working with Netherlands Central Bank on Green Finance- 2018

Viet Nam-Germany cooperation and achievements

Green Growth Strategy and relevant policies

GIZ collaborates with the Ministry of Planning and Investment (MPI) to enhance the Ministry's coordination capabilities in green growth. The main outcomes include:

- Support to the MPI in guiding and supporting ministries, branches, and provinces in formulating an action plan to execute the Green Growth Strategy.
- Support to the MPI in the coordination of the implementation, evaluation, monitoring and reporting on the implementation of the Sustainable Development Goals (SDGs).
- Integration of various social and environmental indicators into the development process of the 2021-2025 Socio-Economic Development Plan.
- Enactment of a number of policies to promote resource mobilisation from society at large for the implementation of the Green Growth Strategy.
- Approval of the National Green Growth Strategy for the 2021-2030 period with a vision towards 2050, by the Prime Minister in October 2021.

Strengthening the role of CIEM in green growth research and consultancy

The collaboration between GIZ and CIEM is centered on bolstering the role and capabilities of the institute in conducting research and providing advice to the Government of Viet Nam on crucial economic policies. This includes recommendations for transitioning to a green growth model and enhancing the quality of growth. The outcomes include:

- Support for CIEM in creating annual reports for government submission on topics such as ‘improving the business environment’ and ‘economic restructuring in conjunction with growth model transformation’.
- Assistance to CIEM in formulating various green growth-related initiatives for government approval, such as the Circular Economy and Sharing Economy projects
- CIEM has been aided in the development of the Regional Policy project for submission to the government.
- CIEM has been supported in researching and proposing mechanisms and policies to facilitate the development of the five-year Socio-Economic Development Plans for 2016-2020 and 2021-2025.



GIZ experts working with MONRE Minister (currently Deputy Prime Minister) Trần Hồng Hà (in chairing seat) on Green Taxonomy - 2022



Steering Committee meeting on Public Financial Management Project, co-funded by the EU and Germany - 2023

Green fiscal policies for sustainable and comprehensive growth

GIZ collaborates with the MOF to assess and modify existing financial policy tools, and to create new policy frameworks that support the implementation of the National Strategy on Green Growth. Key outcomes of this collaboration include:

- The State Budget Law (amended) was approved by the National Assembly in 2015. The State Budget Law was revised to align with international practices, enhance transparency, and foster decentralisation, thereby creating autonomy and proactiveness for localities.
- The Law on Fees and Charges was promulgated (2015).
- The Price Management Law was approved by the National Assembly (2023).
- Legal documents related to revenues (taxes, fees and charges), especially those related to environmental protection, were developed or amended.
- Research and evaluation of the 2017 state budget recurrent expenditure allocation system was conducted and new norms were developed for adoption during the 2021-2025 budget stabilisation period.
- State credit policy implemented by policy banks was amended and supplemented.
- A medium-term financial plan and three-year financial-budgetary plan were developed, and revenue forecasting was introduced.

“The promulgation of Decision 810 on digital transformation in the banking sector marks a very important milestone, demonstrating the proactiveness and creativity of the banking sector. It contributes to building a sustainable banking industry in the digital era, which will continue its pioneering role in implementing the National Digital Transformation Programme and fostering the growth of Viet Nam’s digital economy.”

- Ms. Nguyen Thi Hong, Governor of the State Bank of Viet Nam

Green Finance

The collaboration between GIZ, the SBV, the MOF, and the SSC is centered on institutional reform and capacity enhancement, implementation and supervision of the implementation of green banking policies, green credit, and green bonds, and encouraging credit institutions to participate in generating financial resources and developing green banking and financial service products. The key outcomes include:

- The SBV has been supported to develop a strategic plan for digital transformation in the banking sector, which was approved by the Governor of the SBV in Decision 810/QD-NHNN on May 11, 2021.
- Policies related to the creation of various credit products to support the implementation of the National Strategy on Green Growth have been promulgated. This has led to the development of outstanding green credit debt to a scale of more than US\$20 billion, equivalent to 4.3% of the total outstanding debt of the economy and 5.3% of Viet Nam’s GDP.
- The MOF has been supported in developing regulations on Green Bonds and relevant Government Decrees.
- The SBV has been supported in developing documents related to green growth, the Governor’s Decisions on the Action Plan to implement the Green Growth Strategy to 2030 with a vision to 2050, and the recommendations on ‘Implementing the COP26 Conference Results’.
- The MONRE, MOF and SBV have been supported in developing a Green Taxonomy List for application to green credit and green bonds.



Impact of the programme

Through its high-performing activities, the Macroeconomic Reforms/Green Growth Programme has shown positive impacts, including:

Overall, the programme has played a pivotal role in enhancing the alignment of Viet Nam's economic policies, facilitating economic restructuring and the shift towards sustainable growth. It has also aided in accomplishing several Sustainable Development Goals, backed the execution of the National Strategy for Green Growth, and bolstered Viet Nam's ability to mitigate climate change and its adverse effects.

Economically, the programme has been instrumental in enhancing the efficiency of economic policy coordination. It ensures a higher level of consistency in the development and execution of policies and laws in Viet Nam, thereby paving the way for economic growth. The programme firmly upholds sustainable economic growth, positively influencing the reduction of greenhouse gas emissions and budget deficits, the establishment of reasonable corporate income tax rates, and the increase in outstanding green credit debt and corporate bonds for rapidly expanding green economic sectors.



| GIZ and SBV co-hosting consulting workshop on Green Taxonomy in Ho Chi Minh City - 2022

Socially, an improved growth model has impacted the socio-economic conditions of Viet Nam's population of 95 million, especially impacting the poor who make up more than 10% of the population. Environmental hazards often result in unstable living conditions and income loss, predominantly for rural residents. These environmental risks heighten health threats, particularly for children. The adoption of green and sustainable growth strategies has enhanced living conditions, and provided economic advantages and societal benefits.

Ecologically, environmental conditions in Viet Nam are deteriorating, and the effects of climate change are intensifying, increasingly worrying both the public and the Government. The programme supports the Vietnamese Government's decisive shift from a resource-based growth model to a more sustainable model that relies on knowledge and efficiency. The programme further supports this government effort by improving policy coordination across key strategies and boosting the capabilities of major economic players.



| GIZ and MPI training on Green Growth Action Planning in Southern Provinces - 2023



| Peer learning between SBV and Bundesbank on green finance in Frankfurt - 2023

FUTURE OUTLOOK

It's been 30 years since the inception of German technical cooperation activities in Viet Nam.

Most German and Vietnamese experts have expressed their appreciation for the highly effective support provided by the projects and programmes undertaken with German technical cooperation. In this regard, Dr. Tran Thi Hong Minh, President of the Central Institute for Economic Management and National Director of the Macro Reforms/Green Growth Programme, has shared her thoughts:

'The German Cooperation has been consistent and coherent over the past 30 years in supporting Viet Nam's economic reform and development process. This has been achieved through technical cooperation initiatives with government bodies with advisory roles, such as the Ministry of Planning and Investment, the Ministry of Finance, and the State Bank of Viet Nam. These initiatives have not only enhanced the capabilities of macroeconomic policymakers, but have also deployed numerous proficient experts to directly aid in the establishment of market economic institutions in Viet Nam. They have conducted research and proposed various economic models that are well-suited to Viet Nam's circumstances and align with global development trends. I am confident that, building on the accomplishments over the past 30 years, the collaboration between Germany and Viet Nam will persist. This partnership will aid Viet Nam in tackling new challenges and successfully executing the Socio-Economic Development Strategy for 2021-2030, and beyond.'

"In the ongoing phase of the programme until 2026, we are focusing on the implementation of the Green Growth Strategy and the SDGs, considering the social dimension, enhancing public finance management and developing a green financial sector. We work together with our partners to make a remarkable contribution to Viet Nam's sustainable economic development in times of climate change and digitalisation. We do this based on the longstanding, trusting cooperation with our partners in Viet Nam and with the support of our commissioners from Germany and Europe."

- Dennis Quennet, Chief Technical Advisor since 2022.





MOF delegation led by Vice Minister Nguyễn Đức Chi exchange with German counterparts on Green Finance and Green Bonds - 2023

While Viet Nam's reform and economic development have achieved remarkable results, the country continues to grapple with substantial challenges. The process of economic restructuring, which is tied to the innovation of the growth model, must go hand in hand with addressing critical issues including the need to ensure efficient use of increasingly scarce resources, the need to enhance the use of renewable energy, the need to reduce emissions, and the fight against climate change.

In 2024 and 2025, the Macroeconomic Reforms/Green Growth Programme will support Vietnamese partners in building the five-year Socio-Economic Development Plan 2026-2030 with policy orientations to overcome these challenges.

Post-2026, the technical collaboration between Viet Nam and Germany will undoubtedly remain instrumental in aiding Viet Nam to further its accomplishments. This is particularly relevant in addressing challenges associated with enhancing the quality of economic growth, resolving social issues, safeguarding the environment, responding to climate change, and ensuring a just energy transition.

German technical cooperation has been a significant contributor to Viet Nam's economic transformation, with an initial focus on the development of a market economy, and now on fostering the growth of an environmentally conscious, climate-neutral economy. We are convinced that the enduring cooperation in the economic and financial sectors over the past 30 years has played a crucial role in nurturing a robust friendship between Viet Nam and Germany that will last for many years to come.