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# Vietnam: 2006 Article IV Consultation—Staff Report; Staff Statement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Vietnam

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2006 Article IV consultation with Vietnam, the following documents have been released and are included in this package:

- the staff report for the 2006 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on June 22, 2006, with the officials of Vietnam on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on September 26, 2006. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF;

- a staff statement of October 25, 2006 updating information on recent developments;

- a Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its October 25, 2006 discussion of the staff report that concluded the Article IV consultation; and

- a statement by the Executive Director for Vietnam.

The documents listed below have been or will be separately released.

Selected Issues Paper
Statistical Appendix

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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VIETNAM

**Staff Report for the 2006 Article IV Consultation**

Prepared by the Staff Representatives for the 2006 Consultation with Vietnam

Approved by Masahiko Takeda and Mark Plant

September 26, 2006

- A staff team visited Hanoi and Ho Chi Minh City during June 6–22, 2006 to conduct the 2006 Article IV Consultation discussions. The team comprised Mr. Molho (Head), Mmes. Baker and Tumbarello (all APD) and Mr. Ahmed (PDR), and was assisted by Mr. Lee, Senior Resident Representative. Ms. Phang (Executive Director) and Mr. Duong (OED) attended some of the policy meetings.

- Vietnam's data provision to the Fund is broadly adequate for surveillance, but staff's analysis continues to be hampered by shortcomings in certain areas. At the time of the mission, data on the monetary accounts and international reserves were available with a three-month lag. Important weaknesses also remain in the areas of public finance, the balance of payments, national accounts, and SOE and SOCB operations.

- Vietnam accepted the obligations of Article VIII, sections 2, 3 and 4 with effect from November 8, 2005, and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions.

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# EXECUTIVE SUMMARY

## Background

- **Overall macroeconomic performance has remained strong since the conclusion of the last Article IV consultation.** Real GDP rose by 8.4 percent in 2005, and the balance of payments has remained in comfortable surplus, led by rising oil prices and a sustained expansion of non-oil exports. The year-on-year (yoy) rate of inflation has edged down from 8¾ percent in December 2005 to 7½ percent in August.

- **Fiscal policy was eased considerably in 2005, and it seems set to be eased further in 2006.** Despite the oil revenue windfall, expenditure growth has outpaced revenues, spurred by increasing public sector wages and oil subsidies, and a surge in off-budget investment and net lending. The 2006 budget implies a continuation of these trends.

- **The rate of growth of credit to the economy fell to 21 percent (yoy) as of June 2006**, as state-owned commercial banks (SOCBs) endeavored to meet the State Bank of Vietnam's (SBV) new prudential standards. However, the increase in official reserves has given rise to ample excess bank liquidity.

- **The authorities have introduced market-opening legislation in line with WTO requirements, but SOCB and state-owned enterprise (SOE) reforms remained uneven**.

## Key Issues and Staff Recommendations

- **The short-term outlook is broadly positive, but medium-term prospects are subject to risks**. Inflation is likely to remain higher and more entrenched than in most other Asian countries; growth is to continue to be led by public investment, whose quality is uncertain; and public debt is projected to remain on a path of increase in relation to GDP.

- **A part of the large oil windfall should be saved in 2006 and 2007, and the non-oil deficit placed on a declining trend over the medium term**. The appraisal and monitoring of all publicly-funded investment projects should be strengthened.

- **To guard against a premature easing of monetary policy, excess bank liquidity needs to be mopped up**. Adequate prudential measure should also be introduced to manage potential new risks associated with banks' off-balance-sheet transactions and stock-market related lending.

- **The staff supports the SBV's plan to establish a more flexible exchange rate regime**.

- **SOCB reform remains key to medium-term debt sustainability**. A realistic valuation of existing nonperforming loans (NPLs) is an indispensable first step toward developing credible bank reform plans.

## I. Recent Economic Developments and Outlook

1. **The consultation took place against the backdrop of the June session of the National Assembly (NA), which approved a new Socio-economic Development Plan (SEDP) for 2006–2010**. The new SEDP has reaffirmed the "socialist orientation" of the economy, with the state sector expected to continue to play a leading role in the promotion of industrialization and economic development (Annex I).

2. **Vietnam has achieved impressive economic performance over the past decade.** With the help of broadly prudent macroeconomic management and a gradual opening of the economy, its growth has outperformed that of most other low-income countries. Poverty has remained on a rapidly declining path, falling from 32½ percent in 2002 to 23 percent in 2004, and most social indicators of development recorded large gains (Table 1).

3. **The prospects for continued strong economic performance in the period ahead are reasonably bright, but there are also risks**. WTO accession, which is expected to occur soon, is likely to create new opportunities and risks. With the right policies, Vietnam could become one of the most attractive destinations for foreign investment. Nonetheless, important challenges will have to be overcome to support the achievement of the new SEDP's objectives.

4. **The consultation discussion focused on how to address these challenges**. The discussions emphasized the need for (i) prudent macroeconomic policies to stem inflationary pressures and preserve medium-term debt sustainability; (ii) accelerated reforms to improve the competitiveness and efficiency of SOEs and SOCBs; and (iii) reforms to enable the private sector to become a stronger engine of growth.

Vietnam. Key Macroeconomic Indicators, 2004-06
(Percentage change)

| | 2004 | 2005 H1 | 2005 | 2006 H1 |
|---|---|---|---|---|
| | *(At constant 1994 prices)* | | | |
| Real GDP | 7.8 | 7.8 | 8.4 | 7.5 |
| Industrial production | 16.6 | 17.8 | 17.2 | 16.1 |
| Retail sales (current prices) | 19.2 | 18.9 | 20.5 | 19.7 |

### A. Economic Developments

5. **Overall macroeconomic performance has remained strong since the conclusion of the last Article IV consultation.** Real GDP growth rose to 8.4 percent in 2005, spurred by strong domestic and external demand, including heavy public investment in support of the ambitious growth target of the SEDP for 2001–2005 (Figure 1 and Table 2). While public investment leveled off in the first half of 2006, export growth picked up and domestic consumption remained strong.

Vietnam. CPI Inflation, 2003-06
(Period average, Annual percentage change)

| | 2003 | 2004 | 2005 | Jan 2006-Aug 2006 |
|---|---|---|---|---|
| CPI Inflation | 3.2 | 7.7 | 8.3 | 7.8 |
| *of which:* | | | | |
| Food | 2.5 | 12.6 | 11.3 | 9.0 |
| Non-food: | 3.9 | 3.0 | 5.0 | 6.6 |
| *of which:* | | | | |
| Garments | 2.4 | 4.3 | 4.2 | 5.9 |
| Housing & Construction Materials | 8.2 | 6.6 | 7.2 | 9.8 |
| Household Goods & Equipment | 1.2 | 3.1 | 4.3 | 5.2 |
| Transportation/Post/Telecomm. | 1.6 | 1.6 | 8.3 | 8.8 |
| Others | 4.1 | 4.6 | 3.7 | 4.8 |

6. **The expansion of aggregate demand, together with rising world commodity prices, has hampered efforts to bring down inflation.** The year-on-year (yoy) rate of inflation declined from 8¾ percent in December 2005 to 7½ percent in August, as food price inflation eased. However, inflation has become more broadly based and it remains well above the rates prevailing in Vietnam's major trading partners. Large increases in public sector wages have reportedly led to second-round effects on private sector wages, and core inflation, as proxied by nonfood inflation net of fuel costs, has been creeping up, despite the authorities' efforts to keep a lid on administered prices.[1] [2]

7. **The balance of payments has remained in comfortable surplus.** Although non-oil export growth slowed in the first half of 2005, exports rebounded in the second half of the year, led by a marked recovery in garment exports, together with sharp increases in exports of wood and plastic products, electronic items, and agricultural goods (Figure 2). Non-oil

[1] Domestic oil prices were raised in April and August 2006 by a cumulative 18.5 percent on average. Following these adjustments, the pass-through of international oil prices since end-2003 could be deemed to have been complete as of end-August 2006 for gasoline and kerosene, but incomplete for diesel (at about 72 percent). However, with diesel accounting for 65 percent of Vietnam's oil imports, subsidies to oil traders are projected to remain at around 1.3 percent of GDP in 2006. The regulated prices of some other key items such as electricity, coal, and cement have not been adjusted to limit the short-term impact on inflation, but the authorities consider this to be a temporary measure. A more detailed analysis of the recent causes of inflation is provided in Chapter I of the Selected Issues paper.

[2] Average civil service wages were raised by 30 percent in October 2004, and the common minimum wage, which is the basis for the determination of civil service salaries and pensions and sets a floor for salaries of employees of SOEs and non-FDI private enterprises, was raised by 21 percent in October 2005. The common minimum wage is slated to increase by another 28½ percent in October 2006, in line with the government's Master Program on Public Administration Reform.

import growth also slowed in 2005, reflecting in part increasing import substitution in the energy and steel sectors. The resulting improvement in the current account, together with strong inflows of official development assistance (ODA) and foreign direct investment (FDI), helped increase gross official reserves from US$6.3 billion at end-2004 to US$8.6 billion as of end-2005 (Table 3). Exports continued to grow briskly in 2006, and gross official reserves continued to rise, reaching a level of almost $11 billion as of end-June.

8. **Fiscal policy was eased considerably in 2005.** Despite the oil revenue windfall, the narrowly-defined official budget balance shifted from a surplus of 1 percent of GDP in 2004 to a deficit of about 1 percent of GDP in 2005. Expenditure was spurred by increasing public sector wages and oil subsidies, and a surge in off-budget investment and net lending further boosted total outlays to nearly 32 percent of GDP, up from 29½ percent of GDP in 2004. The overall deficit (in accordance with the IMF's definition, which includes on-lending through the Development Assistance Fund (DAF) and off-budget investment) rose from less than 3 percent of GDP in 2004 to almost 6 percent of GDP in 2005.[3] The non-oil deficit widened more markedly to 14½ percent of GDP, while the stock of public debt rose to 43½ percent of GDP as of end-2005 (Figure 3 and Table 4).

9. **The rate of growth of credit to the economy fell from more than 30 percent in 2005 to 21 percent (yoy) as of June 2006**. New lending fell sharply as SOCBs endeavored to meet the SBV's new prudential standards. However, bank liquidity was boosted as a result of the already-mentioned increase in official reserves, and reserve money growth increased to 31 percent (yoy) as of June (Figure 4 and Table 5). The SBV's policy rates were raised by about ½ percentage point in December 2005, and have remained unchanged since then (with the discount rate at 4½ percent, the refinancing rate at 6½ percent and the base rate at 8¼ percent). However, open market operation (OMO) rates have fallen to 2-3 percent in recent months, as sales of SBV bills have fallen short of absorbing banks' excess reserves. While bank lending rates have remained flat, deposit rates have been under upward pressure, reflecting intensified competition for funds among joint stock banks, which have ample capital adequacy.[4]

10. **The dong remained broadly stable relative to the U.S. dollar during the first eight months of 2006.** No pre-announced maximum depreciation has been set for 2006 (as against a limit of 1 percent a year in 2004 and 2005). However, given the rate's limited short-term variability, Vietnam's exchange rate continues to be classified as a de facto peg according to the IMF's criteria. Vietnam's inflation differential relative to trading partners, together with movements in major currencies, led to a large appreciation of the real effective exchange rate (REER) of the dong (by 13 percent) in 2005, which was partly reversed in the first eight months of 2006.

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[3] For an overview of Vietnam's off-budget expenditures, see IMF Country Report No. 06/22 (January 2006), Box 3 (p.10).

[4] While the growth of credit extended by SOCBs, which accounted for around 69 percent of outstanding loans as of end-2005, slowed to 15½ percent (yoy) as of May, the growth of credit extended by joint stock banks has remained buoyant (about 40 percent as of May 2006).

11. **Good progress has been made over the last year in adopting market-opening measures required for WTO compliance.** The new Common Investment Law (CIL) and Unified Enterprise Law (UEL) were approved in November 2005. The implementing regulations that are now being finalized should help level the playing field between domestic and foreign investors and private businesses and SOEs. Vietnam has now completed all bilateral negotiations and hopes to accede to the WTO shortly.

12. **Progress in banking sector reform has remained uneven**. The SBV issued new prudential standards in April 2005, and the SOCBs were initially to produce financial statements based on the new standards by end-July 2005; on that basis, NPL resolution and SOCB recapitalization plans were to be prepared by end-2005. However, the development of these plans has been delayed by difficulties in implementing the new standards. With reported discrepancies between SOCBs' initial NPL estimates and those of international auditors, the size of potential contingent liabilities remains uncertain. An equitization plan for the Vietcombank was approved by the Prime Minister in September 2005, but the advisor for the initial public offering has not yet been selected. The existing equitization plans for the Vietcombank and the Mekong Housing Bank envisage limited participation by foreign strategic investors and the retention of a controlling share by the state. However, the approval in May of a comprehensive Banking Sector Reform Roadmap has reiterated the government's commitment to banking sector reform.

13. **Progress towards restructuring large SOEs has remained slow**. While the government issued a new directive in 2005 to step up SOE equitization in nonstrategic sectors, and it established a new State Corporation of Investment Capital (SCIC) to manage its stakes in equitized SOEs, equitized firms represented only 12 percent of SOE assets as of end-2005. The transfer of assets to the SCIC, which was to become operational in January 2006, has yet to occur. In addition, the recent formation of eight "economic groups" that are to remain wholly state-owned could complicate future SOE reform efforts.

## B. Macroeconomic Outlook and Risks

14. **The outlook for the rest of 2006 is positive.** With public investment expected to rebound in the second half of the year, and with the external environment remaining broadly favorable, GDP growth is projected to be close to the official target of 8 percent in 2006. The rise in international oil prices, together with the continuing boom in non-oil exports, is projected to keep the external current account in a small surplus. As ODA, FDI and private capital inflows remain buoyant, reserves would rise to about 11 weeks of imports.

15. **Medium-term prospects are also favorable but subject to risks.** WTO accession should create new opportunities for growth of non-oil exports and FDI, and high oil prices should continue to underpin the public finances. However, greater exposure to global competition following WTO accession could pose challenges for SOEs operating in sectors that still benefit from protective tariffs or subsidies. Major risks to the outlook would stem from expansionary macroeconomic policies or delays in needed reforms. Expansionary policies could spur inflation, exert pressure on reserves, and ultimately erode confidence in the dong. Although capital inflows are still dominated by relatively stable FDI and ODA, private capital flows are being progressively liberalized (see below) and the dollarization of

the financial system, together with the de facto peg of the dong, makes the balance of payments vulnerable to shifts in market sentiment.[5] These risks would be heightened by delays in SOE and SOCB reform, as the low quality of investment would constrain growth, and the government's contingent liabilities would rise. On the external front, key risks include a significant slowdown in the U.S. economy; a disorderly adjustment of global imbalances, which could reduce investors' appetite for risk; and a fall in international oil prices.

16. **Some of these risks are highlighted in the staff's medium-term scenario and Debt Sustainability Analysis (DSA) framework** (Table 6 and Annex VII). Implementation of the state sector investment program of the SEDP would likely keep the overall deficit at a level of 5½ – 6½ percent of GDP over the medium term, with the stock of public debt rising to around 50 percent of GDP by 2010. As long as the external environment and real economic performance remain favorable, Vietnam would face a low risk of debt distress, with all external debt burden indicators remaining below the applicable thresholds.[6] However, the total debt burden could become onerous over the long run in the absence of measures to rein in public spending, especially if oil prices were to ease. This, in turn, could eventually lead to a crowding out of high-priority public expenditures, and threaten the SEDP's growth and poverty reduction efforts.

## II. Policy Discussions

17. **The discussions focused on the need to strike a balance between the pursuit of the SEDP's short-term targets and the promotion of higher-quality, sustainable growth**. The authorities were concerned that too great a focus on short-term growth could hinder macroeconomic stabilization, and slow the pace of improvement of investment quality. They were also mindful of the risks posed by continuing high inflation, which could erode external competitiveness. The authorities and the staff agreed that the maintenance of price stability and medium-term debt sustainability would be key to the achievement of the SEDP's objectives. At the same time, the authorities cautioned that the need to meet the economy's investment needs limited the scope for the adoption of tighter macroeconomic policies.

### A. Fiscal Policy

18. **The 2006 budget, together with approved off-budget expenditure, would imply a further expansion of the fiscal deficit from its already high level in 2005**. While the recent run-up in oil prices is projected to generate a large revenue windfall relative to the 2006 budget, a part of this windfall was already being spent to finance subsidies to oil traders resulting from the less-than-complete pass-through to domestic prices. This, together with a planned sovereign issue in late 2006 for purposes of on-lending to SOEs, would lead to a further increase in total expenditure and net lending. The overall deficit would rise by about

[5] Chapter II of the Selected Issues Paper discusses alternative ways to assess the adequacy of Vietnam's reserves, taking into account the effects of dollarization and the prospective liberalization of the capital account.

[6] Vietnam was rated as a strong performer under the 2005 IDA Country Policy and Institutional Assessment.

½ of a percentage point of GDP in 2006, while the non-oil deficit would rise by 1½ percentage points of GDP.[7]

**Vietnam. Fiscal Operations**

| *in percent of GDP* | 2004 | 2005 | | 2006 | |
|---|---|---|---|---|---|
| | final | budget | prel. | budget | proj. |
| **Official budget (authorities' definition)** | **0.9** | **-2.2** | **-1.2** | **-2.6** | **-1.3** |
| Total revenue and grants | 26.7 | 21.8 | 25.9 | 24.5 | 26.8 |
| o/w oil revenues | 7.9 | ... | 8.8 | 7.6 | 9.8 |
| Total expenditure | 25.8 | 24.1 | 27.1 | 27.1 | 28.0 |
| Current Expenditure | 16.9 | 16.2 | 18.5 | 18.7 | 19.6 |
| Wages and salaries | 4.8 | ... | 7.8 | 7.8 | 7.8 |
| Interest payments | 1.0 | 0.8 | 0.8 | 0.9 | 0.9 |
| Other current expenditure | 11.1 | ... | 9.9 | 10.0 | 10.9 |
| Capital Expenditure | 8.9 | 7.9 | 8.6 | 8.4 | 8.4 |
| **Off-budget expenditure and net lending** | **3.7** | **3.4** | **4.7** | **4.7** | **5.0** |
| **Overall fiscal balance (IMF definition)** | **-2.8** | **-5.7** | **-5.9** | **-7.3** | **-6.3** |
| **Non-oil fiscal balance** | **-10.7** | **...** | **-14.6** | **...** | **-16.1** |

19. **Against this backdrop, the discussions focused mainly on the appropriateness of the fiscal stance this year and beyond**. The staff cautioned that a continuing deterioration of the fiscal position could hinder efforts to stem inflation in the short run, and prove difficult to reverse over the medium term. The staff therefore recommended that the government save some of its large oil windfall in 2006 and 2007, and try to place the non-oil deficit on a declining path thereafter.

20. **The authorities questioned the team's interpretation of fiscal policy trends**. As regards the definition of the fiscal deficit, they viewed it as inappropriate to consider on-lending through the DAF as akin to fiscal expenditure. The DAF and its successor institution, the Vietnam Development Bank (VDB), enjoyed a considerable degree of financial autonomy. The VDB is expected to service its debts in full, even though these debts will continue to be guaranteed by the government. The staff agreed that, if the VDB is eventually granted full autonomy in selecting its loan portfolio, develops a capacity to operate under market principles, and has a good track record of loan repayment, its operations can legitimately be excluded from the staff's broad definition of the overall deficit. However, as long as VDB's debt is guaranteed by the government, it would still need to be included in data on public and publicly-guaranteed debt for purposes of assessing debt sustainability,

21. **The authorities also questioned the appropriateness of saving the oil windfall**. In their view, a country at Vietnam's stage of development, which faces huge gaps in public infrastructure, would be better off using the windfall upfront to increase investment. They noted that the SEDP viewed the removal of infrastructure bottlenecks as key to fostering private investment and sustained growth.

22. **The staff recognized the need to meet Vietnam's infrastructure needs, but also noted the need to protect medium-term debt sustainability**. Oil revenues are projected to level off over the medium term, even if oil prices remain at the current high level, and nonoil

[7] In the staff's view, the non-oil deficit is a more accurate gauge of the short-term thrust of fiscal policy than the overall balance when oil revenues are subject to large exogenous shocks, and it could be a useful measure of the structural imbalance that could emerge once oil export receipts level off.

revenues could come under pressure (see below). While Vietnam's public debt is low relative to other low-income countries, a high deficit, if it continues unabated, could strain the government's debt servicing capacity. Indeed, most emerging and low-income countries in Asia have taken advantage of improving growth prospects and revenue overperformance in recent years to curb budget deficits and reduce the vulnerability of their fiscal positions. Against this background, the team recommended that public wage increases be limited to those included in the budget and accompanied, where possible, by retrenchment. In addition, increases in world oil prices should be passed through more fully.[8] The authorities agreed that there was a need to contain the growth in current expenditure, and indicated that the large estimated increase in the wage bill over the last few years was partly attributable to a monetization of benefits. However, they explained that improving the remuneration of civil servants was a key objective, which the government was committed to achieve under its public administration reform program.[9]

23. **The authorities attach great importance to the need to upgrade the quality of public investment**. This is especially the case in construction projects, where the rate of leakage and waste may be as high as 20-40 percent of total investment according to some estimates.[10] The allegations of misuse of ODA in Project Management Unit 18 of the Ministry of Transport have sensitized the NA and the donor community to this issue. A Law on Corruption Prevention and Control and a Law on Practicing Thrift and Combating Wastefulness were passed in November 2005. The team also recommended that lending through the VDB be scaled back until its loan and risk appraisal capacity is improved and an adequate supervisory framework for its operations is in place, and cautioned against an expansion of indirect financing of SOE investment, especially in areas where project evaluation and monitoring mechanisms were weak. The authorities agreed that care needs to be taken to avoid the issuance of government guarantees and indicated that they were about to issue new guidelines to safeguard the quality of SOE investment projects.

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[8] Subsequently, domestic oil prices were raised by 9-9 ½ percent in August, and the authorities have announced a plan to phase out remaining oil subsidies by 2008.

[9] The reform aims to decompress the wage structure to strengthen the government's capacity to retain and attract high-quality staff; provide a decent living standard for employees that earn the common minimum wage; and improve transparency through the monetization of a number of fringe benefits.

[10] Central Institute of Economic Management, *Vietnam's Economy in 2005*, pp. 79-90.

**Vietnam. Public Debt and Fiscal Balance: Regional Comparisons, 2003-06**

(In percent of GDP)

| | General Government Debt | | | | Fiscal Balance | | | |
|---|---|---|---|---|---|---|---|---|
| | 2003 | 2004 | 2005 | Proj. 2006 | 2003 | 2004 | 2005 | Proj. 2006 |
| China 1/ | 19.2 | 18.5 | 17.9 | 17.3 | -2.4 | -1.5 | -1.3 | -1.2 |
| India 2/ | 86.1 | 85.9 | 83.0 | 81.2 | -5.1 | -4.1 | -4.2 | -3.9 |
| **ASEAN-4** | **57.0** | **55.7** | **49.8** | **45.8** | **-2.6** | **-2.3** | **-1.2** | **-1.1** |
| Indonesia 3/ | 58.3 | 55.7 | 46.5 | 40.9 | -2.0 | -1.4 | -0.3 | -1.2 |
| Malaysia 3/ | 47.8 | 48.1 | 46.2 | 45.3 | -5.3 | -4.3 | -3.8 | -3.0 |
| Philippines 4/ | 71.4 | 69.9 | 63.1 | 59.0 | -4.9 | -4.2 | -3.0 | -2.1 |
| Thailand 5/ 6/ | 50.6 | 48.9 | 47.3 | 45.1 | 1.8 | 0.7 | 0.0 | 1.0 |
| **Low Income Countries in Asia** | 81.5 | 75.6 | 67.9 | 60.6 | -4.7 | -3.7 | -2.5 | -3.1 |
| Bangladesh 6/ | 51.1 | 48.7 | 47.6 | 46.9 | -3.4 | -2.9 | -3.4 | -3.3 |
| Cambodia 7/ | 64.4 | 61.1 | 54.0 | 36.4 | -6.0 | -4.7 | -3.4 | -2.6 |
| Lao P.D.R. 6/ | 89.6 | 83.4 | 77.4 | 70.0 | -5.7 | -3.4 | -3.2 | -3.2 |
| Mongolia | 113.9 | 93.8 | 75.0 | 59.4 | -4.2 | -2.1 | 3.2 | 5.0 |
| Nepal 6/ | 66.5 | 65.2 | 59.0 | 56.2 | -1.6 | -1.0 | -0.8 | -1.7 |
| Sri Lanka 8/ | 105.8 | 105.4 | 93.9 | 89.6 | -8.3 | -8.2 | -7.5 | -7.3 |
| **Vietnam 9/** | **40.8** | **42.7** | **43.7** | **45.5** | **-6.4** | **-2.8** | **-5.9** | **-6.3** |

Sources: IMF, September 2006 APD Regional Outlook, APDCORE database; and staff estimates.
1/ Net debt.
2/ Fiscal year ending March; privatization receipts excluded from revenues.
3/ Central government only.
4/ Consolidated national government debt, net of debt held by sinking funds; and national government balance, excluding privatization receipts, and including net deficit from restructuring the central bank.
5/ Public sector debt.
6/ Fiscal year ending September (Thailand and Lao PDR); June (Bangladesh); mid-July (Nepal).
7/ Includes IMF debt forgiveness in January 2006 under the MDRI.
8/ Fiscal balance excludes tsunami-related outlays in 2005-06.
9/ Debt estimates based on data available as of end-August 2006.

24. **The authorities are wary that the reduction of customs duties in line with international commitments, together with the shift of the tax base to the harder-to-tax private sector, could pose risks to revenue going forward**. Although official information on the timetable for the implementation of customs duty reductions was not available, the authorities expected the net effect on revenues to be neutral over the medium term as the volume of imports picks up. However, prospects for receipts from the SOE sector were more uncertain. While income taxes are to be reformed over the medium term, and tax incentives streamlined, these measures are expected to be revenue neutral at best. In light of the positive results to date under the tax self-assessment pilot, the team encouraged the authorities to strengthen tax administration by rolling out the self-assessment program throughout the country as soon as possible. Supporting measures could include a functional reorganization of the General Department of Taxation (GDT), creation of a large taxpayer office, and passage of the new tax administration law, in line with FAD recommendations.

25. **While the management of the hitherto largely concessional external public debt has been prudent, the authorities recognize the need for a more disciplined public sector borrowing strategy as opportunities for borrowing on capital markets expand**. The recent introduction of Decree 134 on the control and repayment of foreign loans is an important step toward unified oversight of Vietnam's external debt and the development of a

medium and long-term debt strategy. The government also plans to set up a single unit to consolidate the monitoring of all domestic and external debts.

## B. Monetary and Exchange Rate Policies

26. **The SBV's revised monetary program for 2006 targets a deceleration of credit growth to 20 percent by end-2006.** The team supported the authorities' aim to slow credit growth and welcomed the increased caution exercised by the SOCBs in their new lending. However, given a still large amount of excess bank liquidity, there is a risk that credit growth will resurge during the remainder of the year, especially if this proves necessary to ensure the financing of strategic SOE projects.[11] Additional challenges may be posed by banks' potential new off-balance sheet risks, such as the issuance of guarantees for SOE bonds, and stock market-related lending. The authorities acknowledged that bank financing for many large SOE projects was likely to materialize in the coming months. However, the conflicting mandates faced by the SBV will constrain its room for maneuver in the conduct of monetary policy at least until the reforms set forth in the Banking Sector Reform Roadmap are implemented (see below). The authorities shared the staff's concerns about the risks posed by stock-market related lending. To contain these risks, the SBV recently issued new regulations to tighten the monitoring and control over lending for the purchase of shares.

27. **Consistent with the Board's advice during the last Article IV consultation, the SBV is pursuing a roadmap toward a more flexible exchange rate regime.** Under this roadmap, trading bands on foreign exchange trading are to be gradually loosened, capital account transactions progressively liberalized, and the dong made fully convertible by 2010. An early step in this process was taken in July, when the SBV allowed a small joint-stock bank to set its own buy-sell rates for cash transactions on a pilot basis. The team strongly supported these developments. To be sure, the de facto peg of the dong may have been a useful nominal anchor in recent years, and the level of the exchange rate does not appear to be misaligned to any significant extent (Box 2).[12] Nevertheless, going forward, greater exchange rate flexibility would encourage improved management of exchange rate risk, and protect external stability, as the economy opens itself to global competition and private capital. In the team's view, the current strength of the external position offers a window of opportunity for the adoption of early measures to enhance exchange rate flexibility. The authorities cautioned, however, that further steps to increase flexibility will need to be accompanied by measures to improve the functioning of the foreign exchange market.

[11] The monetary transmission mechanism in Vietnam operates under a mix of direct channels and market mechanisms. For a discussion of the resulting challenges for monetary policy, see IMF Country Report No. 06/22, Box 2 (p. 8).

[12] Chapter III of the Selected Issues paper includes an effort to assess the extent to which recent movements in the real effective exchange rate may be indicative of misalignment.

## C. Structural Reform

### Financial Sector Reform

28. **The staff welcomed the recent approval of the government's Banking Sector Reform Roadmap.** Under this roadmap, the restructuring of commercial banks is to be accelerated, with all SOCBs to be gradually equitized and with international prudential standards to be applied by 2010. The SBV is to be converted into a modern central bank, with greater autonomy in the conduct of monetary policy, and a mandate to protect the value of the currency, control inflation, ensure the safety of the monetary and banking system, and create a favorable macroeconomic environment for growth and development. Importantly, the SBV will no longer represent the ownership rights of the state in the administration of SOCBs, thus removing a potential conflict with its supervisory role. These reforms are to be incorporated in new draft legislation to be considered by the NA in 2008.

29. **Vietnam's commitment under the WTO to liberalize foreign entry into its banking system from April 2007 has heightened the urgency of bank reform**. While the entry of foreign banks would be unlikely to threaten the survival of the SOCBs, it would probably increase competition for prime bank customers and make it more difficult to improve their profitability. The team stressed the importance of ensuring the accuracy of banks' reports prior to finalizing the NPL resolution and bank recapitalization plans. To guard against a renewed buildup of NPLs, the SOCBs' mandate to operate on sound market principles should be effectively enforced, with their managers given more operational autonomy and incentives to improve corporate governance, residual policy lending discontinued, and loans for already-approved SOE projects extended only under government guarantee. Implementation of SOCB equitization should also be accelerated, and enlarged scope provided for participation by foreign strategic investors. The authorities noted that the ongoing strengthening of SBV's prudential regulations, together with SOCBs' efforts to tighten their internal control and audit systems, were already bearing fruit. In addition, the possibility of increasing the maximum allowed participation in equitized banks by foreign strategic investors was under consideration.

### SOE Reform

30. **The need for SOE reform has also taken on new urgency ahead of WTO accession.** The authorities are aware that a number of hitherto protected SOEs may need to take painful adjustment measures to survive in a market-based environment. A recently-completed performance-based SOE rating exercise had been a welcome first step in the establishment of appropriate restructuring plans. The staff urged the authorities to speed up equitization of larger SOEs and the transfer of SOE assets to the SCIC. The SCIC should be given clear guidelines for the appointment of SOE Board members, and SOE managers granted operational autonomy and made subject to strict and transparent accountability mechanisms. The authorities agreed with these recommendations. However, they noted that a lack of capacity for accurately valuing large SOEs was hampering implementation and that consideration was being given to contracting international valuation firms.

**Trade Liberalization and Private Sector Development**

31. **The staff strongly supported Vietnam's efforts to secure WTO accession and urged the authorities to build on their good progress on legislative measures by creating a more enabling environment for private sector-led growth**. To this end, it will be important that the implementing regulations for the CIL and UEL remove concerns about provisions that might open the door for government interference in private investment decisions. The staff welcomed recent and prospective reductions in tariff rates in line with commitments under the AFTA, the WTO, and other trade agreements. In light of a still-high average tariff rate, the authorities should also continue to liberalize trade on an MFN basis.

32. **The government's public investment program, together with SOEs' dominant role in some industries, may have discouraged private investment in the past**. To improve the quality of investment and growth, the authorities are taking steps to encourage private investment in infrastructure projects. A draft decree was recently submitted to the government to clarify procedures for the approval of projects undertaken by public-private partnerships (PPPs). The team welcomed these initiatives, but also urged the authorities to take steps to ensure an appropriate division of risks between the private and public sectors, so as to limit possible risks to fiscal sustainability. Among other things, this will require establishment of a strong regulatory environment to negotiate and enforce PPPs.

## D. Other Issues

33. **Vietnam's ongoing global integration calls for stepped up efforts to improve the quality, transparency, and dissemination of economic data**. While progress has been made on the coverage of budget and external public debt, further improvements are needed in the areas of off-budget activities, domestic debt statistics, and contingent liabilities. Weaknesses also need to be addressed in the monitoring of portfolio and other private capital inflows, and SOE and SOCB operations. Improvements in the timeliness and dissemination of data on foreign exchange reserves and the monetary accounts will also be key to a more efficient functioning of financial markets as the exchange rate system is liberalized.

34. **The staff encouraged the authorities to speed up the issuance of implementing regulations for the Anti-Money Laundering (AML) law, and move forward in drafting an amendment to the criminal code on Combating the Financing of Terrorism.** The authorities were wary that the burden of certain AML provisions could lead to disintermediation, and requested LEG technical assistance to help address these concerns.

# III. Staff Appraisal

35. Vietnam has achieved sustained robust growth and made great strides in poverty reduction over the last few years. Nonetheless, the transition to a market-based system is far from complete, and important challenges are yet to be overcome if the government is to achieve its goal of graduation from low-income status by 2010. While WTO accession should create enhanced opportunities, it is also likely to add an element of uncertainty going forward, heightening the need for vigilant macroeconomic policies, and for faster reforms to improve the economy's efficiency.

36. The short-term outlook is broadly positive, but medium-term prospects are subject to risks. Growth in 2006 is projected to remain robust, and the balance of payments should continue to record a large surplus. However, inflation is likely to remain higher and more entrenched than in most other Asian countries; growth is expected to continue to rely heavily on public investment, whose quality remains uncertain; and public debt is projected to remain on a path of increase in relation to GDP.

37. The economy's strong cyclical position, the need to rein in inflation, and the concerns about the quality of public investment all call for a strong effort to minimize any further increase in the fiscal deficit. While the fiscal stance implicit in the new SEDP is unlikely to lead to debt problems on current trends, a rising debt burden could lead to a crowding out of poverty-reducing outlays if external conditions become less favorable. To create more fiscal space for contingencies, expenditure growth needs to be reined in, and the non-oil deficit placed on a declining trend. The staff welcomes the recent adjustment in oil prices, and the authorities' plan to eliminate oil subsidies by 2008. Wage increases also need to be restrained, and efforts to improve the screening and quality of new investment projects intensified. The recently approved legislation to curb corruption and prevent the waste of public funds should facilitate this task, if effective implementing regulations can be put in place soon. To shore up donor and investor support, additional steps should be taken to introduce more transparent accounting and reporting for the government's extra-budgetary operations and strengthen procedures for the appraisal and monitoring of publicly-funded investment projects. Reforms to improve tax administration, in line with FAD recommendations, will also be essential to guard against potential risks associated with declining revenues.

38. The staff welcomes the significant recent deceleration of credit growth. Slowing credit expansion should help contain inflation and slow the growth of banks' nonperforming loans. However, ample excess bank liquidity could lead to a quick reversal of the recent trend. To guard against a premature easing of monetary policy, excess bank liquidity needs to be mopped up and OMO rates allowed to increase significantly. At the same time, adequate prudential measures should be introduced to better manage potential new risks associated with banks' off-balance-sheet transactions and stock-market related lending.

39. The staff commends the authorities for the recent removal of remaining restrictions on the making of payments and transfers for current international transactions, and acceptance of Article VIII obligations, and it supports their plan to move towards full convertibility of the dong by 2010. The recent piloting of negotiated cash transactions is a welcome first step toward the authorities' goal of establishing a more flexible exchange rate regime. While the exchange rate does not currently seem to be misaligned to any significant extent, greater exchange rate flexibility would serve to better cushion the economy from external shocks, and encourage market participants to improve their management of exchange rate risks. The usefulness of the exchange rate as a shock absorber is likely to become increasingly important as the economy becomes progressively more open to portfolio capital flows in the period ahead.

40. SOCB reform is key to ensuring debt sustainability and improving the allocation of savings and investment. The staff welcomes the recent approval of the authorities' Banking

Sector Reform Roadmap, and strongly supports the plans to accelerate SOCB reform and convert the SBV into a modern central bank. A realistic valuation of existing NPLs is an indispensable first step toward developing credible NPL resolution and bank recapitalization plans. To guard against a renewed build-up of NPLs, SOCB operations should be placed on a sound commercial basis, with their managers given a greater degree of operational autonomy. Equitization could also have a salutary effect on SOCB governance, if it provides adequate scope for participation by strategic foreign investors.

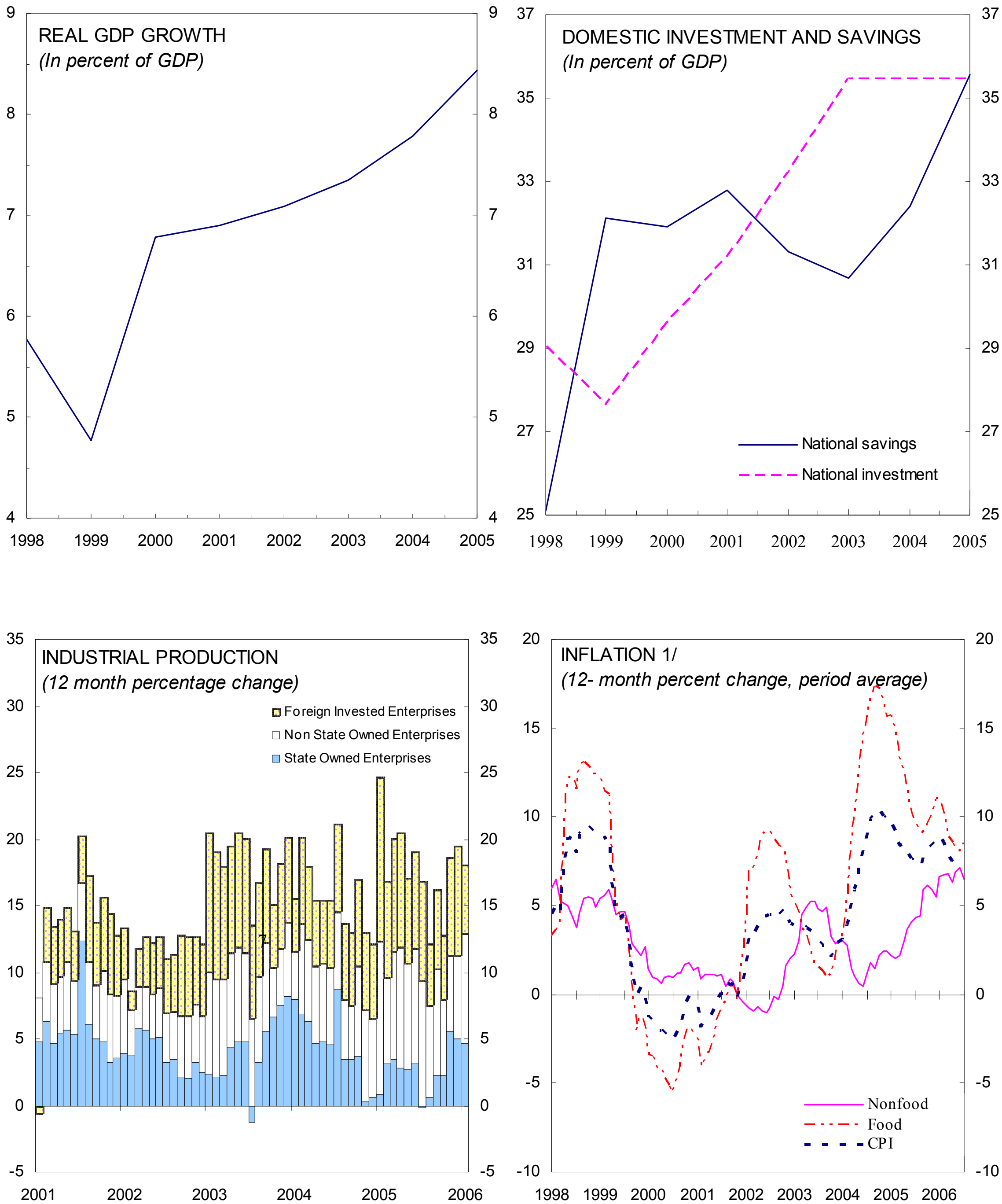
41. SOE reform is an integral part of the move to a more efficient, market-oriented economy. The prospect of WTO accession has increased the urgency of reforms of SOEs to prepare them to meet the challenges of exposure to global competition. Accordingly, government interference in SOEs' management decisions should be discontinued without delay, and SOE operations placed on a commercial basis. Managers should be granted the autonomy to make their own pricing and investment decisions subject to strict and transparent accountability mechanisms. As in the case of SOCBs, faster equitization of larger SOEs could be a useful vehicle for the introduction of improved management practices, provided that there is adequate scope for participation by interested strategic investors.

42. An open trade and investment regime and a simple and transparent regulatory environment will be key to promoting private sector-led growth. Implementing regulations for the CIL and UEL should be put in place to level the playing field as soon as possible, with adequate provisions to simplify and reduce bureaucratic requirements, so as to guard against any inadvertent increase in government intervention in private investment decisions.

43. Good economic and financial statistics are essential to provide high-quality and timely input to the authorities for their policy decisions and improve interactions with markets. Building on recent improvements in budget and external public debt data, the authorities need to develop more comprehensive data on all off-budget investment funded through the issuance of government and municipal bonds, domestic and external debt of state-owned institutions, and the associated contingent government liabilities. A strong effort is also warranted to improve the timeliness, coverage, and dissemination of monetary, balance of payments, and official reserve data, so as to bring them closer into line with the standards expected of a market economy.

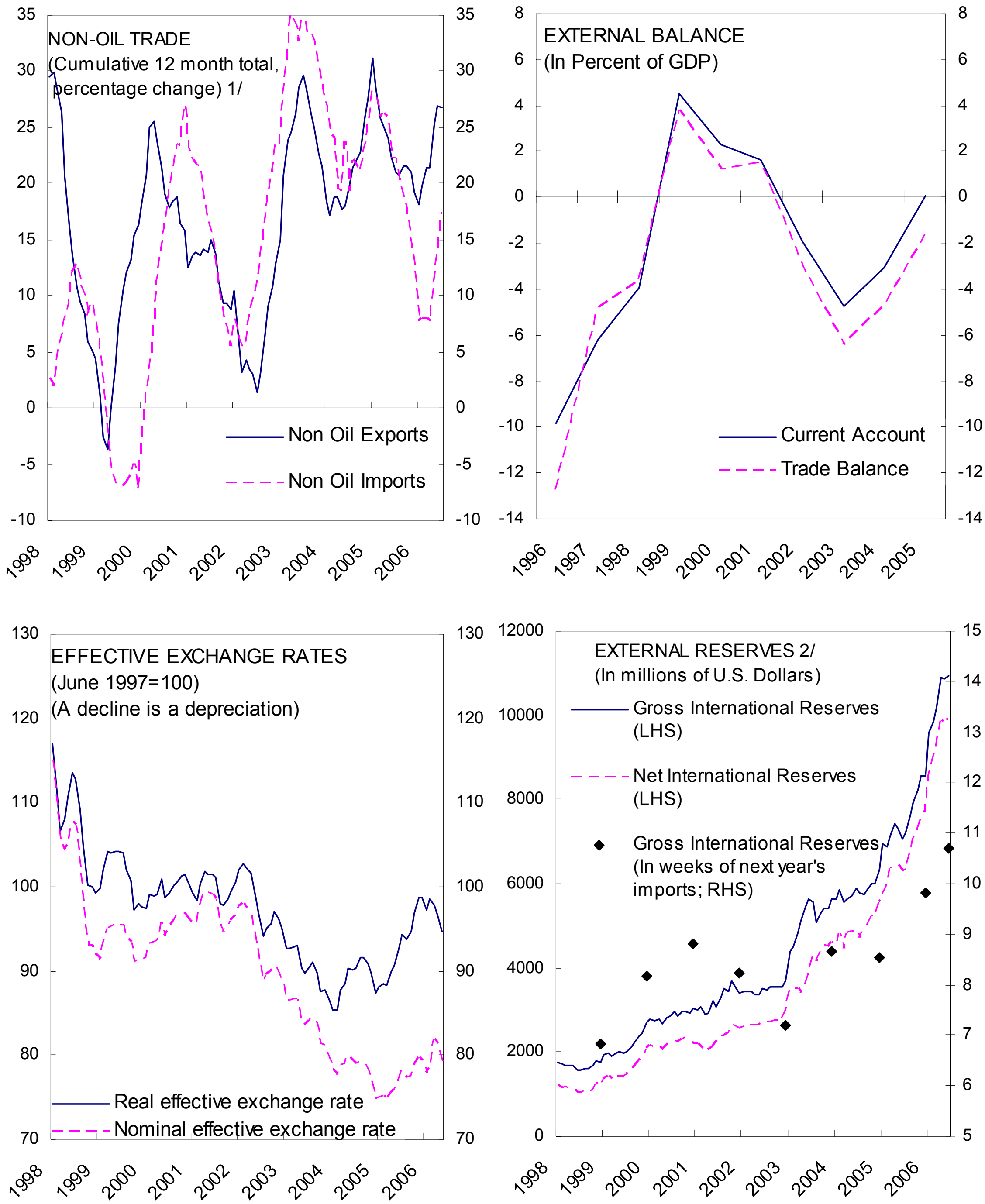
44. It is recommended that the next Article IV consultation with Vietnam take place on the standard 12-month cycle.

**Figure 1. Vietnam: Selected Economic Indicators, 1998–2006**



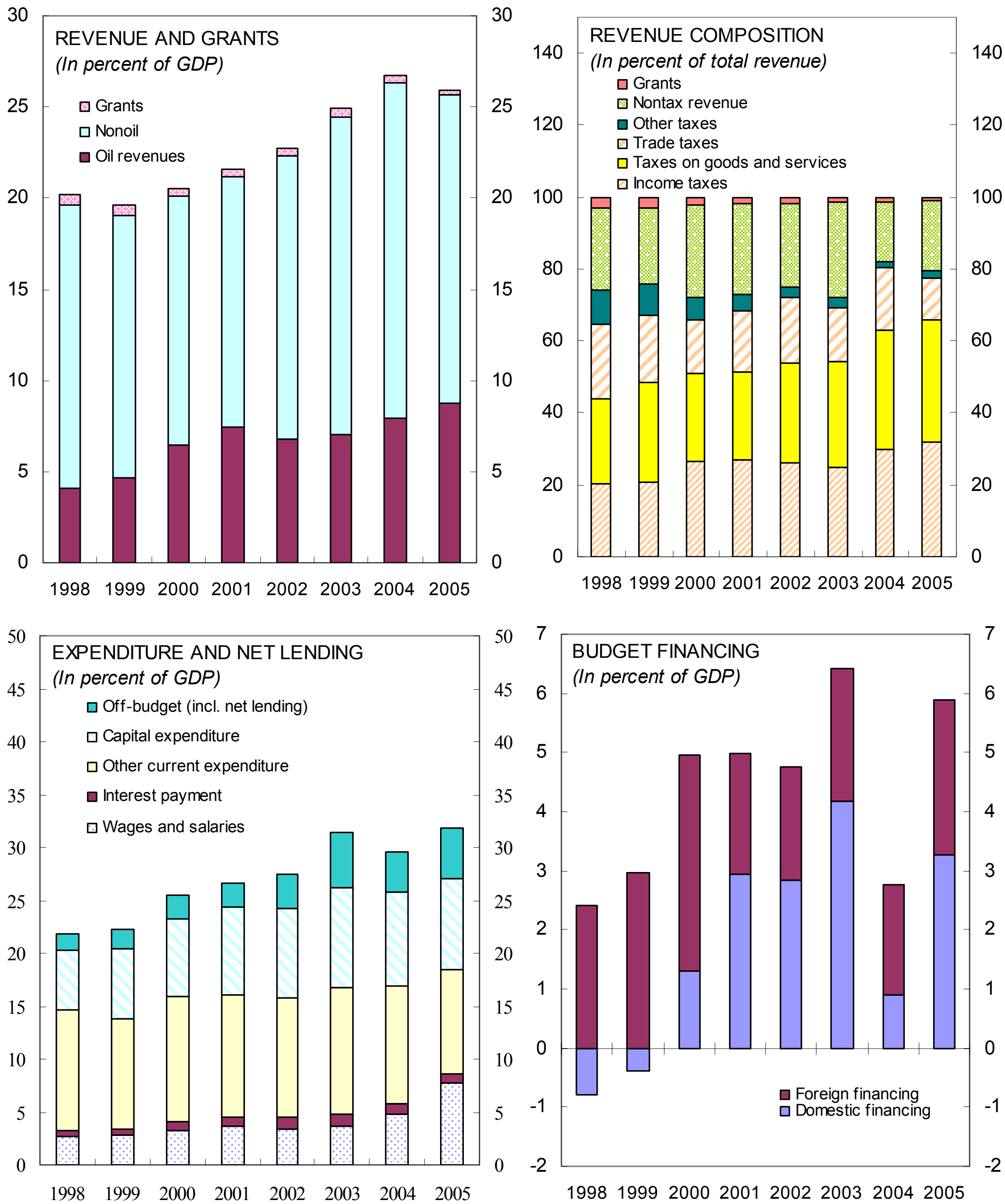

Sources: Data provided by the Vietnamese authorities; and Fund staff estimates.
1/ Based on the new CPI weights, since May 2006.

**Figure 2. Vietnam: External Sector Background, 1998–2006**



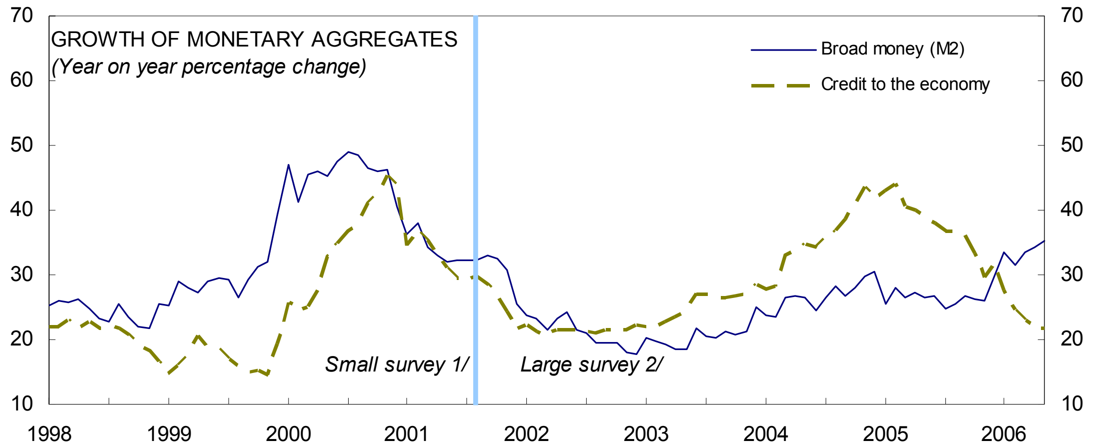

Sources: Data provided by the Vietnamese authorities; and Fund staff estimates.
1/ Monthly data based on c.i.f. imports and exports.
2/ Excludes foreign liabilities and commercial banks' foreign deposits.

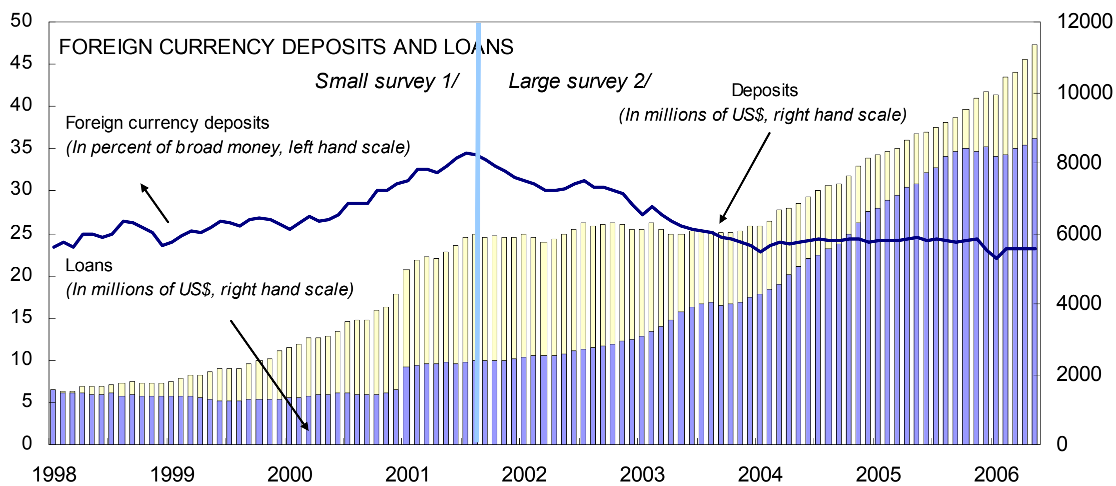
**Figure 3. Vietnam: Fiscal Sector Developments, 1998–2005**

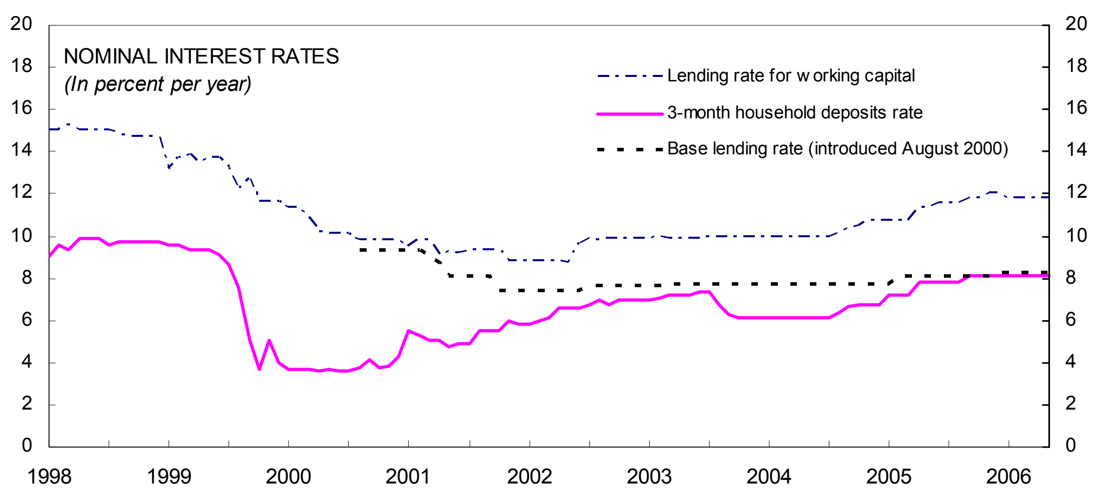



Sources: Data provided by the Vietnamese authorities; and Fund staff estimates.

**Figure 4. Vietnam: Monetary and Financial Indicators, 1998–2006**




Sources: Data provided by the Vietnamese authorities; and Fund estimates.
1/ The small monetary survey is comprised of State Bank of Vietnam (SBV), four large state owned commercial banks (SOCBs), and 24 non- state banks.
2/ The large monetary survey is comprised of SBV, four large and two small SOCBs, and 77 non-state banks.

Table 1. Vietnam: Social and Demographic Indicators

| Indicator | Unit of Measure | 1985 | 1993 | 1998 | 1999 | 2000 | 2001 | 2002 | 2004 | Same Region/ Income Group East Asia | Same Region/ Income Group Low-Income |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | (or latest year available) | | | | | | | | | |
| Poverty | | | | | | | | | | | |
| Upper poverty line 1/ | Thousand dong | ... | 1,160 | 1,790 | 1,790 | 1,790 | … | … | … | ... | ... |
| Percent of population living below (old standard) | | ... | 58 | 37 | 37 | 37 | 32 | 29 | 29 | … | … |
| Percent of population living below (new standard) | | ... | ... | ... | ... | ... | ... | 32 | 23 | … | … |
| Food poverty line 1/ | Thousand dong | ... | 750 | 1,287 | 1,287 | 1,287 | 1,287 | 1,287 | 1,287 | … | … |
| Percent of population living below | | ... | 25 | 15 | 13 | 13 | 10 | 10 | 10 | ... | ... |
| GDP per capita | U.S. dollars | ... | 355 | 360 | 374 | 401 | 413 | 440 | 553 | 914 | 432 |
| Access to safe water: total | Percent of population | ... | 26.1 | 40.1 | 40.1 | 40.1 | 40.6 | 48.5 | 48.5 | … | … |
| Urban | Percent of population | ... | 58.5 | 76.8 | 76.8 | 76.8 | 76.3 | 76.3 | 76.3 | … | … |
| Rural | Percent of population | ... | 18.1 | 29.1 | 29.1 | 29.1 | 39.6 | 39.6 | 39.6 | … | … |
| Access to health care 2/ | Percent of population | 75.0 | 93.0 | 97.0 | 97.0 | 97.0 | … | … | … | ... | ... |
| Health | | | | | | | | | | | |
| Mortality | | | | | | | | | | | |
| Infant mortality | Per thousand live birth | 63 | 36 | 30 | 30 | 28 | 23 | 20 | 17 | 34 | 80 |
| Under 5 mortality | Per thousand live birth | 105 | 47 | 40 | 40 | 34 | 30 | 26 | 23 | 44 | 121 |
| Immunization | | | | | | | | | | | |
| Measles | Percent of age group | 19.0 | 93.0 | 96.0 | 93.0 | 97.0 | 97.0 | 96.0 | 97.0 | 76.3 | 59.8 |
| DPT | Percent of age group | 42.0 | 91.0 | 95.0 | 93.0 | 96.0 | 98.0 | 75.0 | 96.0 | 76.8 | 61.5 |
| Child malnutrition (under 5) | Percent of age group | 52.0 | 51.0 | 34.0 | 34.0 | 34.0 | 33.8 | 29.5 | 28.4 | 14.8 | … |
| Maternal mortality rate 4/ | Per 100,000 live births | 110 | ... | 200 | 200 | 200 | 200 | 165 | 169 | … | … |
| Population per physician | Persons | 4,061 | 2,428 | 2,208 | 2,941 | 2,941 | 3,279 | 3,228 | 3,320 | 595 | ... |
| Population per nurse | Persons | 1,245 | 723 | 789 | 789 | 789 | 813 | 822 | 845 | … | … |
| Population per hospital bed | Persons | 271 | 355 | 379 | 399 | 399 | 409 | 414 | 426 | 420 | … |
| Human resources | | | | | | | | | | | |
| Population | Millions | 60 | 69 | 75 | 77 | 78 | 79 | 80 | 82 | 1,823 | 2,506 |
| Age dependency ratio | Ratio | 0.82 | 0.74 | 0.66 | 0.64 | 0.62 | 0.60 | 0.58 | 0.50 | 0.50 | 0.70 |
| Urban | Percent of population | 19.6 | 19.8 | 23.1 | 23.6 | 24.2 | 24.7 | 25.1 | 25.9 | 37.3 | 30.8 |
| Population growth rate | Annual percent | 2.2 | 1.7 | 1.6 | 1.5 | 1.4 | 1.4 | 1.3 | 1.4 | 0.9 | 1.8 |
| Urban | Annual percent | 2.4 | 2.8 | 3.7 | 3.5 | 3.8 | 3.7 | 2.8 | 2.8 | 3.3 | 3.0 |
| Life expectancy | Years | 62 | 67 | 68 | 68 | 69 | 69 | 70 | 70 | 69 | 59 |
| Female advantage | Years | 3.8 | 4.5 | 4.8 | 4.8 | 4.8 | 4.9 | 4.9 | 4.9 | 3.5 | 2.1 |
| Total fertility rate | Births per woman | 4.6 | 3.3 | 2.4 | 2.3 | 1.9 | 2.2 | 1.9 | 1.8 | 2.1 | 3.5 |
| Labor force (15-64) | Millions | 29 | 36 | 39 | 40 | 40 | 41 | 42 | 43 | 1,038 | 1,138 |
| Female | Percent of labor force | 48.9 | 49.5 | 49.1 | 49.0 | 48.9 | 48.8 | 48.7 | 48.5 | 44.5 | 37.9 |
| Natural resources | | | | | | | | | | | |
| Area | Thousands sq. km. | 325 | 325 | 325 | 325 | 325 | 325 | 325 | 325 | 16,301 | 33,031 |
| Density | Persons per sq. km. | 184 | 213 | 232 | 235 | 239 | 242 | 245 | 252 | 115 | 76 |
| Agricultural lands | Percent of land area | 21.0 | 24.0 | 26.2 | 26.2 | 26.2 | 26.2 | 26.2 | 26.2 | … | … |
| Agricultural land under irrigation | Percent | 28.0 | 28.0 | 30.2 | 30.2 | 30.2 | 30.2 | 30.2 | 30.2 | … | … |
| Forests and woodland | Thousand sq. km. | 97 | 83 | ... | 109 | 109 | 109 | 98 | 98 | … | … |
| Energy consumption per capita | Kg. of oil equivalent | 368 | 383 | 448 | 454 | 471 | 495 | ... | ... | 871 | 569 |
| Income | | | | | | | | | | | |
| Share of top 20 percent of households | Percent of income | ... | 42.0 | 43.3 | 43.3 | 43.3 | 45.9 | 46.0 | 46.0 | ... | ... |
| Share of bottom 40 percent of households | Percent of income | ... | 20.7 | 20.1 | 20.1 | 20.1 | 19.0 | 19.0 | 19.0 | ... | ... |
| Share of bottom 20 percent of households | Percent of income | ... | 8.0 | 8.2 | 8.2 | 8.2 | 7.8 | 7.8 | 7.8 | ... | ... |
| Education | | | | | | | | | | | |
| Net enrollment ratios | | | | | | | | | | | |
| Primary | Percent of gross | 103.0 | 111.0 | 109.0 | 108.0 | 106.0 | 103.0 | ... | 98.0 | 105.7 | 91.8 |
| Male 3/ | Percent of gross | 106.0 | 114.0 | 114.0 | 111.0 | 109.0 | 107.0 | ... | ... | 105.3 | 103.0 |
| Female 3/ | Percent of gross | 100.0 | 108.0 | 105.0 | 104.0 | 102.0 | 100.0 | ... | ... | 106.1 | 87.5 |
| Pupil-teacher ratio: primary | Pupils per teacher | 34 | 35 | 30 | 30 | 28 | 26 | 24 | 24 | | |
| Secondary | Percent of Gross | 42.7 | 35.5 | 61.9 | 65.0 | 67.1 | 69.7 | | 73.0 | 60.8 | 44.5 |
| Illiteracy | Percent of population age 15+ | 10.8 | 9.0 | 7.9 | 7.7 | 7.5 | 7.3 | ... | ... | 13.2 | 37.0 |
| Female | Percent of female age 15+ | 14.9 | 11.8 | 10.0 | 9.7 | 9.3 | 9.1 | ... | ... | 19.2 | 46.1 |

Sources: Vietnam: *Statistical Yearbook* (various years), and General Statistical Office, *Vietnam Living Standards Survey 1997-1998;* World Bank: *Vietnam Development Report 2000: Attacking Poverty; Vietnam Development Report 2001: Entering the 21st Century; Vietnam Development report 2004: Poverty;* Vietnam Population Committee: Demographic and Health Survey 2000; World Development Indicators; and staff estimates.

1/ The upper poverty line is constituted by the cost of a representative food bundle yielding 2,100 calories per day, plus a representative nonfood component. The food poverty line represents the approximate cost of this food bundle only.

2/ For 1993 and 1998, rural population.

3/ For 1993 and 1998, net enrollment ratios.

4/ For 1998 and 2002, comprises revised data.

Table 2. Vietnam: Selected Economic Indicators, 2001-06

Nominal GDP (2005): US$52.8 billion
Population (2005): 83.12 million

GDP per capita (2005): US$636
Fund quota: SDR 329.1 million

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | |
|---|---|---|---|---|---|---|---|
| | | | | | Prel. | Q2 1/ | Staff Proj. |
| Real GDP (annual percentage change) | 6.9 | 7.1 | 7.3 | 7.8 | 8.4 | 7.5 | 7.8 |
| Industrial output | 14.6 | 14.8 | 16.8 | 16.6 | 17.2 | 16.5 | ... |
| Saving-investment balance (in percent of GDP) | 1.6 | -1.9 | -4.9 | -3.4 | 0.4 | ... | 0.3 |
| Gross national saving | 32.8 | 31.3 | 30.6 | 32.3 | 35.6 | ... | 35.8 |
| Private | 26.9 | 23.9 | 23.3 | 23.9 | 28.9 | ... | 29.3 |
| Public | 5.9 | 7.4 | 7.3 | 8.4 | 6.7 | ... | 6.5 |
| Gross investment | 31.2 | 33.2 | 35.4 | 35.7 | 35.2 | ... | 35.5 |
| Private | 20.6 | 21.5 | 20.8 | 23.1 | 22.0 | ... | 22.1 |
| Public | 10.6 | 11.7 | 14.7 | 12.6 | 13.2 | ... | 13.4 |
| Inflation (annual percentage change) | | | | | | | |
| Period average | -0.4 | 4.0 | 3.2 | 7.7 | 8.3 | 7.8 | 7.6 |
| End of period | 0.7 | 4.0 | 2.9 | 9.7 | 8.8 | 7.5 | 7.7 |
| GDP deflator | 1.9 | 4.0 | 6.7 | 8.2 | 8.0 | ... | 7.4 |
| General government | | | | | | | |
| Official budget balance | -2.8 | -1.4 | -1.2 | 0.9 | -1.2 | ... | -1.3 |
| Revenue and grants | 21.6 | 22.7 | 24.9 | 26.7 | 25.9 | ... | 26.8 |
| *of which:* oil revenue | 7.4 | 6.8 | 7.0 | 7.9 | 8.8 | ... | 9.8 |
| Expenditure | 24.4 | 24.2 | 26.1 | 25.8 | 27.1 | ... | 28.0 |
| Off-budget expenditure and net lending | 2.2 | 3.3 | 5.2 | 3.7 | 4.7 | ... | 5.0 |
| Net lending | 2.2 | 2.4 | 3.2 | 2.4 | 2.7 | ... | 2.9 |
| ODA | 1.0 | 0.9 | 1.5 | 1.4 | 0.8 | ... | 1.2 |
| DAF | 1.2 | 1.5 | 1.7 | 1.0 | 0.5 | ... | 0.8 |
| Sovereign bond-financed lending to SOEs | 0.0 | 0.0 | 0.0 | 0.0 | 1.4 | ... | 0.8 |
| Off-budget investment expenditure | 0.0 | 0.9 | 2.0 | 1.3 | 2.0 | ... | 2.2 |
| Overall fiscal balance including off-budget expenditure | -5.0 | -4.7 | -6.4 | -2.8 | -5.9 | ... | -6.3 |
| Non-oil overall fiscal deficit | -12.4 | -11.5 | -13.5 | -10.7 | -14.6 | ... | -16.1 |
| Money and credit (annual percentage change, end of period) | | | | | | | |
| Broad money | 25.5 | 17.6 | 24.9 | 29.5 | 29.7 | 34.6 | 28.9 |
| Credit to the economy | 21.4 | 22.2 | 28.4 | 41.6 | 31.7 | 21.4 | 22.6 |
| Reserve money | 16.7 | 12.4 | 27.4 | 16.1 | 23.7 | 30.9 | ... |
| Interest rates (in percent, end of period) | | | | | | | |
| Nominal three-month deposit rate (households) | 5.9 | 7.0 | 6.3 | 6.7 | 7.8 | 7.9 | ... |
| Nominal short-term lending rate (less than one year) | 8.8 | 9.9 | 10.0 | 10.7 | 12.0 | 11.8 | ... |
| Real three-month deposits rate (households) | 5.1 | 2.8 | 3.3 | -2.7 | -0.9 | 0.3 | ... |
| Real short-term lending rate (less than one year) | 8.0 | 5.6 | 6.9 | 1.0 | 3.0 | 3.9 | ... |
| Current account balance (including official transfers) | | | | | | | |
| (in millions of U.S. dollars) | 524 | -673 | -1,932 | -1,565 | 218 | ... | 164 |
| (in percent of GDP) | 1.6 | -1.9 | -4.9 | -3.4 | 0.4 | ... | 0.3 |
| Exports f.o.b (annual percentage change, U.S. dollar terms) | 4.0 | 11.2 | 20.6 | 31.4 | 22.5 | 25.7 | 20.1 |
| Imports f.o.b. (annual percentage change, U.S. dollar terms) | 3.4 | 22.1 | 28.0 | 26.6 | 15.7 | 16.5 | 18.1 |
| Foreign exchange reserves (in millions of U.S. dollars, end of period) | | | | | | | |
| Gross official reserves, including gold | 3,387 | 3,692 | 5,620 | 6,314 | 8,557 | 10,925 | 11,458 |
| (in weeks of next year's imports of goods and nonfactor services) | 8.2 | 7.2 | 8.7 | 8.5 | 9.8 | 10.7 | 11.2 |
| External debt (in percent of GDP) 2/ | 38.5 | 35.0 | 33.8 | 33.9 | 32.5 | ... | 32.6 |
| External debt service due (in percent of exports of goods and nonfactor services) 2 | 10.59 | 8.29 | 7.52 | 5.90 | 5.51 | ... | 5.6 |
| Total public and publicly guaranteed debt (in percent of GDP) 2/ | 36.0 | 38.2 | 40.8 | 42.7 | 43.7 | ... | 45.5 |
| Exchange rate (dong per U.S. dollar) | | | | | | | |
| Period average 3/ | 14,786 | 15,244 | 15,475 | 15,704 | 15,816 | ... | ... |
| End of period 3/ | 15,070 | 15,368 | 15,608 | 15,739 | 15,875 | 15,957 | ... |
| Real effective exchange rate (annual percentage change, base 1997) | | | | | | | |
| Period average | 0.1 | -1.8 | -7.9 | -1.4 | 4.2 | ... | ... |
| End of period 4/5/ | 0.4 | -5.5 | -9.0 | 1.1 | 13.0 | 4.3 | ... |
| Memorandum items: | | | | | | | |
| GDP (in trillions of dong at current market prices) | 481.3 | 535.8 | 613.4 | 715.3 | 837.9 | ... | 970.1 |
| Per capita GDP (in U.S. dollars) | 413 | 440 | 492 | 553 | 636 | ... | 715 |

Sources: Data provided by the authorities; and Fund staff estimates and projections.

1/ End-June, except REER (end-May), Industrial production (end-July) and exports and imports and CPI (end-August).
2/ Debt estimates based on data available as of end-August 2006.
3/ Interbank market rate.
4/ A positive number implies an appreciation.
5/ Percentage change over corresponding period in the previous year.

Table 3. Vietnam: Balance of Payments, 2002-06
(In millions of U.S. dollars, unless otherwise indicated)

| | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|
| | | | | Prel. | Proj. |
| Current account balance | -673 | -1,932 | -1,565 | 218 | 164 |
| Excluding official transfers | -827 | -2,071 | -1,740 | -12 | -36 |
| Trade balance | -1,054 | -2,582 | -2,287 | -838 | -345 |
| Exports, f.o.b. | 16,706 | 20,149 | 26,485 | 32,442 | 38,953 |
| of which: oil | 3,270 | 3,821 | 5,676 | 7,389 | 9,632 |
| Imports, f.o.b. | 17,760 | 22,730 | 28,772 | 33,280 | 39,298 |
| of which: oil | 2,017 | 2,433 | 3,574 | 4,968 | 6,644 |
| Non-factor services (net) | -749 | -778 | -871 | -1,106 | -1,389 |
| Receipts | 2,948 | 3,272 | 3,867 | 4,176 | 4,802 |
| Payments | 3,697 | 4,050 | 4,739 | 5,282 | 6,192 |
| Investment income (net) | -791 | -812 | -891 | -1,219 | -1,768 |
| Receipts | 167 | 125 | 188 | 364 | 331 |
| Payments | 958 | 937 | 1,079 | 1,583 | 2,099 |
| Transfers (net) | 1,921 | 2,239 | 2,485 | 3,380 | 3,665 |
| Private | 1,767 | 2,100 | 2,310 | 3,150 | 3,465 |
| Official | 154 | 139 | 175 | 230 | 200 |
| Capital account balance | 1,136 | 4,083 | 2,447 | 1,913 | 2,737 |
| Gross foreign direct investment (FDI) inflows | 2,023 | 1,894 | 1,878 | 1,972 | 2,150 |
| Equity | 1,882 | 1,294 | 1,283 | 1,347 | 1,468 |
| Loan disbursements | 141 | 600 | 595 | 625 | 681 |
| FDI loan repayments | 414 | 590 | 536 | 524 | 643 |
| Medium and long-term loans (net) | 523 | 1,045 | 1,396 | 1,405 | 1,864 |
| Disbursements | 1,102 | 1,540 | 1,920 | 1,914 | 2,440 |
| ODA loans | 1,073 | 1,258 | 1,394 | 1,432 | 1,815 |
| Commercial loans | 29 | 283 | 526 | 483 | 625 |
| Amortization 1/ | 578 | 495 | 523 | 509 | 576 |
| Portfolio Investment 2/ | ... | ... | ... | 850 | 700 |
| Short-term capital (net) 3/ | -996 | 1,734 | -291 | -1,790 | -1,334 |
| **Overall balance** | 463 | 2,151 | 883 | 2,131 | 2,900 |
| **Financing** | -464 | -2151 | -883 | -2,131 | -2,900 |
| Change in SBV's NFA (-, increase) | -464 | -2,151 | -883 | -2,131 | -2,900 |
| **Memorandum items:** | | | | | |
| Gross official reserves | 3,692 | 5,620 | 6,314 | 8,557 | 11,458 |
| In weeks of next year's imports | 7.2 | 8.7 | 8.5 | 9.8 | 11.2 |
| Ratio to short term external debt (in percent) on remaining maturity basis 2/ | 373 | 530 | 611 | 702 | 815 |
| Net official international reserves | 2,956 | 4,683 | 5,554 | 7,728 | ... |
| In weeks of next year's imports | 5.8 | 7.3 | 7.5 | 8.9 | ... |
| SBV's net foreign assets | 3,682 | 5,833 | 6,716 | 8,847 | ... |
| Net foreign assets of the banking system | 7,640 | 8,419 | 9,271 | 12,036 | ... |
| In weeks of next year's imports | 14.9 | 13.1 | 12.5 | 13.8 | ... |
| Current account balance (in percent of GDP) | -1.9 | -4.9 | -3.4 | 0.4 | 0.3 |
| Trade deficit (in percent of GDP) | -3.0 | -6.5 | -5.0 | -1.6 | -0.6 |
| Non-oil current account deficit (in percent of GDP) | -5.5 | -8.4 | -8.1 | -4.2 | -4.7 |
| Export value (ann. perc. change) | 11.2 | 20.6 | 31.4 | 22.5 | 20.1 |
| Import value (ann. perc. change) | 22.1 | 28.0 | 26.6 | 15.7 | 18.1 |
| Non-oil export value (ann. perc. change) | 12.9 | 21.5 | 27.4 | 20.4 | 17.0 |
| Non-oil import value (ann. perc. change) | 23.8 | 28.9 | 24.1 | 12.4 | 15.3 |
| External debt (in percent of GDP) 4/ | 35.0 | 33.8 | 33.9 | 32.5 | 32.6 |
| Debt service (in percent of exports of GNFS) 4/ | 8.3 | 7.5 | 6.0 | 5.5 | 5.6 |

Sources: Data provided by the Vietnamese authorities; and staff estimates and projections.

1/ Including two debt buyback operations carried out in 2002 and 2003, respectively.

2/ Includes US$750 million sovereign bond issue in 2005 and projected US$500 million issue in 2006.

3/ Including net errors and omissions and trade credit.

4/ Debt estimates based on data available as of end-August 2006.

Table 4. Vietnam: Summary of General Government Budgetary Operations, 2001-06

| | 2001 | 2002 | 2003 | 2004 | 2005 Budget | 2005 Prel. | 2006 Budget | 2006 Proj. |
|---|---|---|---|---|---|---|---|---|
| | (In percent of GDP) | | | | | | | |
| Official budget | | | | | | | | |
| Total revenue and grants | 21.6 | 22.7 | 24.9 | 26.7 | 21.8 | 25.9 | 24.5 | 26.8 |
| Oil revenues | 7.4 | 6.8 | 7.0 | 7.9 | ... | 8.8 | 7.6 | 9.8 |
| Nonoil revenue | 13.8 | 15.5 | 17.4 | 18.4 | ... | 16.9 | ... | 16.8 |
| Tax revenue | 11.6 | 13.0 | 13.8 | 13.6 | ... | 13.5 | ... | 13.5 |
| Nontax revenue | 2.2 | 2.6 | 3.7 | 4.8 | ... | 3.3 | ... | 3.3 |
| Grants | 0.4 | 0.4 | 0.5 | 0.4 | 0.2 | 0.3 | 0.3 | 0.2 |
| Total expenditure | 24.4 | 24.2 | 26.1 | 25.8 | 24.1 | 27.1 | 27.1 | 28.0 |
| Current Expenditure 1/ | 16.0 | 15.7 | 16.7 | 16.9 | 16.2 | 18.5 | 18.7 | 19.6 |
| Wages and salaries | 3.6 | 3.4 | 3.7 | 4.8 | ... | 7.8 | 7.8 | 7.8 |
| Interest payments | 0.9 | 1.0 | 1.0 | 1.0 | 0.8 | 0.8 | 0.9 | 0.9 |
| Other current expenditure | 11.5 | 11.3 | 11.9 | 11.1 | ... | 9.9 | 10.0 | 10.9 |
| Capital Expenditure | 8.4 | 8.4 | 9.4 | 8.9 | 7.9 | 8.6 | 8.4 | 8.4 |
| Official budget balance | -2.8 | -1.4 | -1.2 | 0.9 | -2.2 | -1.2 | -2.6 | -1.3 |
| Off-budget expenditure and net lending | 2.2 | 3.3 | 5.2 | 3.7 | 3.4 | 4.7 | 4.7 | 5.0 |
| Net lending | 2.2 | 2.4 | 3.2 | 2.4 | 2.0 | 2.7 | 2.5 | 2.9 |
| ODA financed | 1.0 | 0.9 | 1.5 | 1.4 | 1.5 | 0.8 | 1.3 | 1.2 |
| Foreign financed (sovereign issue) | 0.0 | 0.0 | 0.0 | 0.0 | ... | 1.4 | ... | 0.8 |
| DAF | 1.2 | 1.5 | 1.7 | 1.0 | 0.5 | 0.5 | 1.2 | 0.8 |
| Off-budget investment expenditure | 0.0 | 0.9 | 2.0 | 1.3 | 1.4 | 2.0 | 2.2 | 2.2 |
| **Overall fiscal balance** | -5.0 | -4.7 | -6.4 | -2.8 | -5.7 | -5.9 | -7.3 | -6.3 |
| Financing | 5.0 | 4.7 | 6.4 | 2.8 | 5.7 | 5.9 | 7.3 | 6.3 |
| Domestic (net) | 2.9 | 2.9 | 4.2 | 0.9 | 3.8 | 3.3 | 5.4 | 3.2 |
| Treasury bills and bonds including bank | 1.5 | 0.9 | 1.0 | 0.7 | 1.2 | 1.2 | 1.2 | 0.2 |
| Other bonds | ... | 1.1 | 3.0 | 2.1 | ... | 2.4 | 2.2 | 2.9 |
| Education bonds | ... | 0.0 | 0.4 | 0.0 | ... | 0.3 | ... | 0.3 |
| Infrastructure bonds | ... | 0.0 | 0.8 | 0.7 | ... | 1.3 | ... | 1.6 |
| Reform bonds (pre-2000 SOCB debt) | ... | 0.9 | 0.5 | 0.2 | ... | 0.0 | ... | 0.0 |
| Municipal bonds | ... | 0.0 | 0.3 | 0.4 | ... | 0.4 | ... | 0.3 |
| DAF bonds | | 0.2 | 0.9 | 0.8 | ... | 0.3 | ... | 0.8 |
| Other (net) from Banking System 2/ | 0.3 | -0.3 | -1.2 | -1.9 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other (residual) | 1.1 | 1.1 | 1.4 | 0.1 | 1.2 | -0.3 | 2.1 | 0.0 |
| Foreign (net) | 2.0 | 1.9 | 2.3 | 1.9 | 1.9 | 2.6 | 1.8 | 3.1 |
| Borrowing | 2.5 | 2.3 | 2.7 | 2.4 | 2.4 | 3.2 | 2.5 | 3.8 |
| ODA | 1.0 | 0.9 | 1.5 | 1.4 | 1.5 | 0.8 | 1.3 | 1.2 |
| Other concessional borrowing | 1.4 | 1.4 | 1.1 | 1.0 | 0.9 | 1.0 | 1.3 | 1.8 |
| Sovereign bond issuance | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 1.4 | 0.0 | 0.8 |
| Amortization | 0.4 | 0.4 | 0.4 | 0.6 | 0.6 | 0.6 | 0.7 | 0.7 |
| Memorandum Items | | | | | | | | |
| Non-oil overall fiscal balance | -12.4 | -11.5 | -13.5 | -10.7 | ... | -14.6 | ... | -16.1 |
| Revenue carried over 3/ | 0.7 | 0.4 | 3.2 | 3.7 | ... | 0.8 | ... | 0.8 |
| Expenditure carried over 4/ | 0.4 | 0.8 | 2.7 | 4.8 | ... | 1.3 | ... | 0.0 |
| Expenditure managed by units 5/ | 1.8 | 1.6 | 1.2 | 0.8 | 0.5 | 0.5 | 0.4 | 0.4 |
| Public debt stock 6/ | 36.0 | 38.2 | 40.8 | 42.7 | ... | 43.7 | ... | 45.5 |
| Domestic | 6.2 | 10.1 | 13.4 | 15.3 | ... | 17.1 | ... | 18.2 |
| Foreign | 29.8 | 28.1 | 27.4 | 27.4 | ... | 26.6 | ... | 27.3 |
| Nominal GDP in trillions of dong | 481.3 | 535.8 | 613.4 | 715.3 | 837.9 | 837.9 | 970.1 | 970.1 |

Sources: Ministry of Finance; and Fund staff estimates.

1/ Budget data include the amount allocated as contingency.
2/ Comprises Net Credit to Government minus government bills and securities.
3/ Comprises funds used to pay floating debt and savings carried over to pay for salary reform and salary increases.
4/ Comprises floating debt and savings carried over to pay for salary reform and salary increases.
5/ Comprises revenues collected, retained and executed at the local level, which are not included in the budget, mostly representing tolls and road fees.
6/ Debt estimates based on data available as of end-August 2006.

Table 5. Vietnam: Monetary Survey, 2002-06 1/

| | 2002 | 2003 | 2004 | 2005 | 2006 Mar | 2006 June | 2006 Staff Proj. |
|---|---|---|---|---|---|---|---|
| | (In trillions of Dong) | | | | | | |
| Net foreign assets | 117.4 | 131.4 | 145.9 | 191.1 | 218.4 | 227.6 | 257.0 |
| Foreign assets | 135.9 | 150.5 | 172.5 | 220.5 | 247.7 | 257.3 | 289.0 |
| Foreign liabilities | -18.4 | -19.1 | -26.6 | -29.4 | -29.4 | -29.7 | -32.0 |
| Net domestic assets | 211.7 | 279.8 | 386.4 | 499.7 | 521.2 | 555.3 | 633.0 |
| Domestic credit | 239.9 | 316.9 | 434.6 | 585.6 | 591.8 | 621.1 | 698.0 |
| Net claims on government | 8.8 | 20.1 | 14.5 | 32.5 | 30.7 | 23.5 | 20.0 |
| Credit to the economy | 231.1 | 296.7 | 420.0 | 553.1 | 561.1 | 597.6 | 678.0 |
| *of which in foreign currency* | 46.2 | 65.2 | 104.5 | 134.3 | 134.2 | 141.7 | ... |
| Claims on state enterprises | 89.5 | 105.4 | 142.9 | 181.3 | 182.6 | 192.7 | ... |
| Claims on other sectors | 141.6 | 191.3 | 277.1 | 371.8 | 378.5 | 404.9 | ... |
| Other items, net | -28.2 | -37.0 | -48.1 | -86.0 | -70.6 | -65.9 | -65.0 |
| Total liquidity (M2) | 329.1 | 411.2 | 532.3 | 690.7 | 739.6 | 782.9 | 890.0 |
| *of which:* total deposits | 254.9 | 320.6 | 423.2 | 559.5 | 602.4 | 649.4 | 720.0 |
| Dong liquidity | 235.5 | 314.1 | 402.7 | 531.5 | 571.3 | 601.0 | 700.1 |
| Currency outside banks | 74.3 | 90.6 | 109.1 | 131.2 | 137.2 | 133.4 | 171.7 |
| Deposits | 161.3 | 223.6 | 293.6 | 400.3 | 434.1 | 467.6 | 528.4 |
| Foreign currency deposits | 93.6 | 97.1 | 129.6 | 159.2 | 168.3 | 181.8 | 189.9 |
| (in millions of U.S. dollars) | 6,093 | 6,220 | 8,235 | 10,027 | 10,575 | 11,395 | 11,276 |
| (in percent of total liquidity) | 28.4 | 23.6 | 24.3 | 23.0 | 22.8 | 23.2 | 21.3 |
| | (Annual percentage change, unless otherwise indicated) | | | | | | |
| Net foreign assets | -0.2 | 11.9 | 11.0 | 39.0 | 44.1 | 51.0 | 34.5 |
| Net domestic assets | 30.6 | 32.2 | 38.1 | 29.3 | 29.5 | 28.9 | 26.7 |
| Domestic credit | 25.5 | 32.1 | 37.1 | 34.7 | 27.5 | 24.8 | 19.2 |
| Credit to the economy | 22.2 | 28.4 | 41.6 | 31.7 | 23.1 | 21.4 | 22.6 |
| *of which in foreign currency* | 26.6 | 41.0 | 60.3 | 28.5 | 20.1 | 15.6 | ... |
| Claims on state enterprises | 12.2 | 17.8 | 35.6 | 26.9 | 19.6 | 17.9 | ... |
| Claims on other sectors | 29.5 | 35.1 | 44.8 | 34.2 | 24.9 | 23.1 | ... |
| Total liquidity (M2) | 17.6 | 24.9 | 29.5 | 29.7 | 33.5 | 34.6 | 28.9 |
| *of which:* total deposits | 19.4 | 25.8 | 32.0 | 32.2 | 37.0 | 36.8 | 28.7 |
| Dong liquidity | 23.2 | 33.4 | 28.2 | 32.0 | 35.8 | 36.3 | 31.7 |
| Currency outside banks | 12.0 | 22.0 | 20.4 | 20.2 | 20.1 | 25.0 | 30.9 |
| Deposits | 29.2 | 38.6 | 31.3 | 36.3 | 41.7 | 39.9 | 32.0 |
| Foreign currency deposits | 5.6 | 3.7 | 33.5 | 22.8 | 26.2 | 29.3 | 19.3 |
| (change during year, in millions of U.S. dollars) | | | | | | | |
| | (In percent, unless otherwise indicated) | | | | | | |
| Velocity 2/ | 1.6 | 1.4 | 1.3 | 1.2 | 1.3 | 1.2 | 1.1 |
| Dong velocity 4/ | 2.2 | 1.8 | 1.8 | 1.6 | 1.7 | 1.6 | 1.4 |
| Money multiplier 3/ | 3.4 | 3.4 | 3.8 | 4.0 | 4.0 | 4.4 | 4.8 |
| Currency/broad money (in percent) | 22.6 | 22.0 | 20.5 | 19.0 | 24.8 | 22.9 | 19.3 |
| Currency/dong deposits (in percent) | 46.1 | 40.5 | 37.2 | 32.8 | 44.8 | 39.9 | 32.5 |
| Currency/total deposits (in percent) | 29.1 | 28.2 | 25.8 | 23.4 | 22.8 | 20.5 | 23.9 |
| Foreign currency deposits/total deposits | 36.7 | 30.3 | 30.6 | 28.5 | 27.9 | 28.0 | 26.4 |
| Foreign currency loans/total loans | 20.0 | 22.0 | 24.9 | 24.3 | 23.9 | 23.7 | ... |
| | (In millions of U.S. dollar, unless indicated otherwise) | | | | | | |
| Gross official international reserves (adjusted) 4/ | 3,692 | 5,620 | 6,314 | 8,557 | 10,185 | 10,925 | 11,457 |
| (in weeks of next year's imports of GNFS) | 7.2 | 8.7 | 8.5 | 9.8 | ... | ... | 11.2 |
| (change during year, in millions of U.S. dollars) | 305 | 1,929 | 694 | 2,243 | 1,628 | 2,368 | 2,900 |
| Net foreign assets of the banking system | 7,640 | 8,419 | 9,271 | 12,036 | 13,726 | 14,262 | 15,260 |
| (change during year, in millions of U.S. dollars) | -164 | 778 | 852 | 2,766 | 1,690 | 2,226 | 3,253 |

Sources: State Bank of Vietnam (SBV); and Fund staff estimates.

1/ Data comprise the SBV, six state-owned commercial banks, and 79 non-state credit institutions.
2/ Velocity is measured as the ratio of GDP to end-of-period total liquidity (M2) or dong liquidity, respectively.
3/ Money multiplier is measured as the ratio of total liquidity (M2) to reserve money.
4/ Excludes foreign currency counterpart of swap operations, government foreign currency deposits at the SBV, and foreign currency transactions related to the possible issuance of international bonds by the government.

Table 6. Vietnam: Medium-Term Scenario, 2003-11

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Projections | | | | | |
| Real GDP (annual percentage change) | 7.3 | 7.8 | 8.4 | 7.8 | 7.6 | 7.5 | 7.5 | 7.6 | 7.5 |
| Consumer price (end of period) | 2.9 | 9.7 | 8.8 | 7.7 | 6.5 | 6.3 | 5.5 | 5.5 | 5.0 |
| GDP deflator | 6.7 | 8.2 | 8.1 | 7.3 | 6.7 | 6.8 | 6.7 | 6.4 | 4.9 |
| Saving-investment balance | -4.9 | -3.4 | 0.4 | 0.3 | -0.7 | -1.9 | -3.2 | -3.3 | -3.2 |
| Gross national saving | 30.6 | 32.3 | 35.6 | 35.8 | 35.9 | 35.6 | 34.4 | 33.9 | 34.6 |
| Private saving | 23.3 | 23.9 | 28.9 | 29.3 | 28.7 | 29.0 | 28.5 | 28.3 | 28.7 |
| Public saving | 7.3 | 8.4 | 6.7 | 6.5 | 7.2 | 6.6 | 6.0 | 5.6 | 5.9 |
| Gross investment | 35.4 | 35.7 | 35.2 | 35.5 | 36.7 | 37.5 | 37.7 | 37.2 | 37.8 |
| Private investment | 20.8 | 23.1 | 22.0 | 22.1 | 24.1 | 25.1 | 25.6 | 25.6 | 26.4 |
| Public investment | 14.7 | 12.6 | 13.2 | 13.4 | 12.6 | 12.4 | 12.1 | 11.6 | 11.4 |
| ICOR | 4.5 | 4.3 | 3.9 | 4.2 | 4.5 | 4.7 | 4.7 | 4.6 | 4.7 |
| General government budget | -6.4 | -2.8 | -5.9 | -6.3 | -5.5 | -6.1 | -6.7 | -6.8 | -6.3 |
| (excluding on-lending) | -1.2 | 0.9 | -1.2 | -1.3 | -1.5 | -2.1 | -2.8 | -3.2 | -2.9 |
| Total revenue and grants | 24.9 | 26.7 | 25.9 | 26.8 | 26.8 | 25.6 | 24.6 | 23.7 | 23.6 |
| Revenue | 24.5 | 26.3 | 25.6 | 26.6 | 26.5 | 25.4 | 24.4 | 23.5 | 23.5 |
| of which: oil revenue | 7.0 | 7.9 | 8.8 | 9.8 | 9.6 | 8.5 | 7.4 | 6.4 | 6.4 |
| Grants | 0.5 | 0.4 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.1 |
| Total Expenditure (including on-lending) | 31.4 | 29.5 | 31.8 | 33.1 | 32.3 | 31.7 | 31.3 | 30.5 | 29.9 |
| Current expenditure | 16.7 | 16.9 | 18.5 | 19.6 | 19.7 | 19.4 | 19.2 | 18.9 | 18.5 |
| Capital expenditure | 9.4 | 8.9 | 8.6 | 8.4 | 8.5 | 8.4 | 8.2 | 8.0 | 8.0 |
| On-lending | 5.2 | 3.7 | 4.7 | 5.0 | 4.0 | 4.0 | 3.9 | 3.6 | 3.4 |
| Current account balance | -1,932 | -1,565 | 218 | 164 | -505 | -1,455 | -2,764 | -3,170 | -3,422 |
| (In percent of GDP) | -4.9 | -3.4 | 0.4 | 0.3 | -0.7 | -1.9 | -3.2 | -3.3 | -3.2 |
| Trade balance | -2,582 | -2,287 | -838 | -345 | -1,168 | -2,270 | -3,725 | -4,617 | -5,107 |
| Exports | 20,149 | 26,485 | 32,442 | 38,953 | 45,108 | 51,507 | 58,599 | 66,607 | 75,577 |
| (Percentage change) | 20.6 | 31.4 | 22.5 | 20.1 | 15.8 | 14.2 | 13.8 | 13.7 | 13.5 |
| Imports | 22,730 | 28,772 | 33,280 | 39,298 | 46,275 | 53,777 | 62,324 | 71,225 | 80,685 |
| (Percentage change) | 28.0 | 26.6 | 15.7 | 18.1 | 17.8 | 16.2 | 15.9 | 14.3 | 13.3 |
| Net transfers | 2,239 | 2,485 | 3,380 | 3,665 | 4,032 | 4,433 | 4,862 | 5,231 | 5,542 |
| Of which: private transfers | 2,100 | 2,310 | 3,150 | 3,465 | 3,812 | 4,193 | 4,612 | 4,981 | 5,280 |
| Direct investment | 1,894 | 1,878 | 1,972 | 2,150 | 2,580 | 2,838 | 3,121 | 3,433 | 3,777 |
| Medium- and long-term loans | 1,045 | 1,396 | 1,405 | 1,864 | 1,992 | 2,118 | 2,309 | 2,269 | 2,363 |
| Of which: ODA disbursements | 1,258 | 1,394 | 1,432 | 1,815 | 1,800 | 1,868 | 1,938 | 2,011 | 2,087 |
| Short-term capital (net) | 1,734 | -291 | -1,790 | -1,334 | 200 | 250 | 250 | 250 | 250 |
| Memorandum items | | | | | | | | | |
| Gross official reserves (in millions of US dollars) | 5,620 | 6,314 | 8,557 | 11,458 | 15,357 | 18,803 | 21,856 | 24,815 | 27,780 |
| (in weeks of next year's imports of goods and nonfactor services) | 8.7 | 8.5 | 9.8 | 11.2 | 12.9 | 13.7 | 14.0 | 14.0 | ... |
| Debt service payments (in billions of U.S. dollars) 1/ | 1.8 | 1.8 | 2.0 | 2.5 | 3.0 | 3.4 | 3.6 | 4.2 | 5.1 |
| (in percent of exports of goods and nonfactor services) 1/ | 7.5 | 5.9 | 5.5 | 5.6 | 5.8 | 5.9 | 5.4 | 5.7 | 5.9 |
| External debt (in billions US dollars) 1/ | 13.4 | 15.4 | 17.2 | 19.7 | 21.8 | 24.0 | 26.7 | 29.7 | 32.6 |
| (in percent of GDP) 1/ | 33.8 | 33.9 | 32.5 | 32.6 | 32.1 | 31.5 | 31.2 | 30.9 | 30.8 |
| Nominal GDP (in billions of US dollars) | 39.5 | 45.4 | 52.8 | 60.4 | 67.8 | 76.2 | 85.6 | 96.1 | 105.7 |

Sources: Data provided by the authorities; and staff estimates and projections.

1/ Debt estimates based on data available as of end-August 2006.

Table 7. Vietnam: Indicators of External Vulnerability, 2001-06

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 Proj |
|---|---|---|---|---|---|---|
| Financial indicators | | | | | | |
| Public and publicly guaranteed external debt (in percent of GDP) | 38.5 | 35.0 | 33.8 | 33.9 | 32.5 | 32.6 |
| Broad money (M2: annual percentage change) | 25.5 | 17.6 | 24.9 | 29.5 | 29.7 | 28.9 |
| Credit to the economy sectors (annual percentage change) | 21.4 | 22.2 | 28.4 | 41.6 | 31.7 | 22.6 |
| Foreign currency loans to credit to the economy (in percent) | 19.3 | 20.0 | 22.0 | 24.9 | 24.3 | ... |
| Foreign currency deposits in percent of gross official reserves | 173.7 | 165.0 | 110.7 | 130.1 | 116.9 | ... |
| External indicators | | | | | | |
| Exports value growth (in percent) | 4.0 | 11.2 | 20.6 | 31.4 | 22.5 | 20.1 |
| Imports value growth (in percent) | 3.4 | 22.1 | 28.0 | 26.6 | 15.7 | 18.1 |
| Current account balance (in percent of GDP, including official transfers) | 1.6 | -1.9 | -4.9 | -3.4 | 0.4 | 0.3 |
| Capital account balance (in US$ million) | -330 | 1136 | 4083 | 2447 | 1913 | 2847 |
| *Of which:* | | | | | | |
| Short-term capital (net) | -1,377 | -996 | 1,734 | -291 | -1,790 | -1,334 |
| Gross foreign direct investment (inflows) | 1,243 | 2,023 | 1,894 | 1,878 | 1,972 | 2,150 |
| *Of which:* Loans | 185 | 141 | 600 | 595 | 625 | 681 |
| Medium-and long-term loans (net) | 623 | 523 | 1,045 | 1,396 | 1,405 | 1,864 |
| Exchange rate (per U.S. dollar, period average) 1/ | 14,786 | 15,244 | 15,475 | 15,704 | 15,816 | ... |
| (annual percentage change) | -4.3 | -3.098 | -1.5 | -1.5 | -0.7 | ... |
| Exchange rate (dong per U.S. dollar, end of period) 1/ | 15,070 | 15,368 | 15,608 | 15,739 | 15,875 | ... |
| (annual percentage change) | -3.8 | -2.0 | -1.6 | -0.8 | -0.9 | ... |
| Real effective exchange rate (end of period, annual percentage change, + appreciation) | 0.4 | -5.5 | -9.0 | 1.1 | 13.0 | ... |
| Reserve indicators | | | | | | |
| Gross official reserves, including gold (in US$ billion) | 3.4 | 3.7 | 5.6 | 6.3 | 8.6 | 11.5 |
| (in weeks of next year's imports of goods and nonfactor services) | 8.2 | 7.2 | 8.7 | 8.5 | 9.8 | 11.2 |
| Net official international reserves (in US$ billion) | 2.6 | 3.0 | 4.7 | 5.6 | 7.7 | ... |
| Debt indicators 2/ | | | | | | |
| Total external debt (in US$ billion) 2/ | 12.5 | 12.3 | 13.4 | 15.4 | 17.2 | 19.7 |
| Total debt service to exports of goods and services (in percent) | 10.6 | 8.3 | 7.5 | 6.0 | 5.5 | 5.6 |
| *Of which:* External interest payments to exports of goods and services (in percent) | 0.6 | 0.8 | 1 | 0.8 | 0.8 | 0.8 |
| Total short-term external debt by remaining maturity (in US$ billion) | 1.5 | 1.3 | 1.5 | 1.5 | 1.6 | 1.8 |
| Total short-term external debt by remaining maturity to total debt (in percent) | 11.7 | 10.9 | 11.1 | 9.8 | 9.1 | 9.3 |

Sources: Vietnamese authorities; and Fund staff estimates and projections.

1/ Interbank market rate.

2/ Debt estimates based on data available as of end-August 2006.

Table 8. Vietnam: Millennium Development Goals, 1990-2004

| | 1990 | 1995 | 1998 | 2001 | 2004 |
|---|---|---|---|---|---|
| **Goal 1: Eradicate extreme poverty and hunger** | 2015 target = halve 1990 $1 a day poverty and malnutrition rates | | | | |
| Income share held by lowest 20% | .. | .. | .. | 8 | .. |
| Malnutrition prevalence, weight for age (% of children under 5) | 45 | 45 | 40 | 34 | 28 |
| Poverty gap at $1 a day (PPP) (%) | .. | .. | .. | .. | .. |
| Poverty headcount ratio at $1 a day (PPP) (% of population) | .. | .. | .. | .. | .. |
| Poverty headcount ratio at national poverty line (% of population) | .. | .. | 37 | 29 | .. |
| Prevalence of undernourishment (% of population) | .. | .. | 23 | .. | 17 |
| **Goal 2: Achieve universal primary education** | 2015 target = net enrollment to 100 | | | | |
| Literacy rate, youth total (% of people ages 15-24) | 94 | .. | .. | .. | 94 |
| Persistence to grade 5, total (% of cohort) | .. | .. | 83 | 89 | .. |
| Primary completion rate, total (% of relevant age group) | .. | .. | 96.4 | 102.3 | 100.8 |
| School enrollment, primary (% net) | 90 | .. | 96 | 94 | .. |
| **Goal 3: Promote gender equality and empower women** | 2005 target = education ratio to 100 | | | | |
| Proportion of seats held by women in national parliament (%) | 18 | .. | 26 | 26 | 27 |
| Ratio of girls to boys in primary and secondary education (%) | .. | .. | 91.5 | 93 | 94.3 |
| Ratio of young literate females to males (% ages 15-24) | 99.1 | .. | .. | .. | 99.4 |
| Share of women employed in the nonagricultural sector (%) | 45 | 49 | 50 | 50 | 52 |
| **Goal 4: Reduce child mortality** | 2015 target = reduce 1990 under 5 mortality by two-thirds | | | | |
| Immunization, measles (% of children ages 12-23 months) | 88 | 95 | 96 | 98 | 97 |
| Mortality rate, infant (per 1,000 live births) | 38 | 32 | .. | *23* | 17 |
| Mortality rate, under-5 (per 1,000) | 53 | 44 | .. | *30* | 23 |
| **Goal 5: Improve maternal health** | 2015 target = reduce 1990 maternal mortality by three-fourths | | | | |
| Births attended by skilled health staff (% of total) | .. | .. | *77.1* | *85* | 90 |
| Maternal mortality ratio (modeled estimate, per 100,000 live births) | .. | .. | .. | *130* | .. |
| **Goal 6: Combat HIV/AIDS, malaria, and other diseases** | 2015 target = halt, and begin to reverse, AIDS, etc. | | | | |
| Children orphaned by HIV/AIDS | .. | .. | .. | .. | .. |
| Contraceptive prevalence (% of women ages 15-49) | .. | *75* | .. | *79* | .. |
| Incidence of tuberculosis (per 100,000 people) | 202.2 | .. | .. | .. | 176.5 |
| Prevalence of HIV, female (% ages 15-24) | .. | .. | .. | 0 | .. |
| Prevalence of HIV, total (% of population ages 15-49) | .. | .. | .. | 0 | *0* |
| Tuberculosis cases detected under DOTS (%) | .. | 29.6 | 82.6 | 83.4 | 88.8 |
| **Goal 7: Ensure environmental sustainability** | 2015 target = various 1/ | | | | |
| CO2 emissions (metric tons per capita) | 0.3 | 0.4 | 0.6 | 0.8 | .. |
| Forest area (% of land area) | 29 | .. | .. | *36* | *40* |
| GDP per unit of energy use (constant 2000 PPP $ per kg of oil equivalent) | 3 | 4 | 4 | 4 | *4* |
| Improved sanitation facilities (% of population with access) | 22 | .. | .. | *41* | 32 |
| Improved water source (% of population with access) | 72 | .. | .. | *73* | 80 |
| Nationally protected areas (% of total land area) | .. | .. | .. | .. | 3.7 |
| **Goal 8: Develop a global partnership for development** | 2015 target = various 2/ | | | | |
| Aid per capita (current US$) | 2.9 | 11.5 | 15.4 | 18.2 | 22.3 |
| Debt service (PPG and IMF only, % of exports of G&S, excl. workers' remittances) | .. | 3 | 9 | 7 | .. |
| Fixed line and mobile phone subscribers (per 1,000 people) | 1.5 | 10.9 | 25.7 | 54.1 | 130.6 |
| Internet users (per 1,000 people) | 0 | 0 | 0.1 | 12.7 | 71.4 |
| Personal computers (per 1,000 people) | .. | 1.4 | 5.2 | 8.8 | 12.7 |
| Total debt service (% of exports of goods, services and income) | .. | 4 | 9 | 7 | .. |
| Unemployment, youth female (% of female labor force ages 15-24) | .. | 2.9 | 3.8 | 7.1 | 4.9 |
| Unemployment, youth male (% of male labor force ages 15-24) | .. | 3.5 | 4.3 | 4.7 | 4.4 |
| Unemployment, youth total (% of total labor force ages 15-24) | .. | 3.2 | 4 | 5.9 | 4.6 |
| **Other** | | | | | |
| Fertility rate, total (births per woman) | 3.6 | 2.7 | 2.4 | 1.9 | 1.8 |
| GNI per capita, Atlas method (current US$) | 130 | 250 | 350 | 410 | 540 |
| GNI, Atlas method (current US$) (billions) | 8.5 | 18.5 | 26.9 | 32.3 | 44.6 |
| Gross capital formation (% of GDP) | 12.6 | 27.1 | 29 | 31.2 | 35.6 |
| Life expectancy at birth, total (years) | 64.8 | 67.1 | 68.1 | 69.7 | 70.3 |
| Literacy rate, adult total (% of people ages 15 and above) | .. | .. | .. | .. | 90.3 |
| Population, total (millions) | 66.2 | 73 | 76.5 | 78.6 | 82.0 |
| Trade (% of GDP) | 81.3 | 74.7 | 97.0 | 111.6 | 140.0 |

Sources: World Development Indicators database, April 2006 (www.developmentgoals.org). In some cases the data are for earlier or later years than those related.

1/ Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources. Halve, by 2015, the proportion of people without sustainable access to safe drinking water. By 2020, to have achieved a significant improvement in the lives of slum dwellers.

2/ Develop further an open, rule-based, predictable, non-discriminatory trading and financial system. Address the Special Needs of the Least Developed Countries. In cooperation with developing countries, develop and implement strategies for decent and productive work for youth. In cooperation with pharmaceutical companies, provide access to affordable, essential drugs. In cooperation with the private sector, make available the benefits of new technologies, especially information and communications.

## ANNEX I

### The Socio-Economic Development Plan for 2006–10

In its May-June session, the National Assembly approved the new Socio-Economic Development Plan (SEDP) for the period 2006–10, which had been endorsed by the newly-formed Politburo in April. The overarching goal of the SEDP is to maintain high economic growth in support of Vietnam's graduation from low-income status by end-2010. The SEDP will also become the authorities' new Poverty Reduction Strategy (PRS), with an associated monitoring framework covering its four main pillars: economic development and poverty reduction, social inclusion, environmental protection, and improving governance.

The new SEDP reaffirms the socialist orientation of the economy and the prominent role of the state in promoting investment-led growth, which could create tension with the objective of transition to a market-based system. Total investment is targeted to rise to an average of 40 percent of GDP over 2006–10. The enlarged public sector, including government and SOEs, would account for just under half of this investment (19.4 percent of GDP), modestly lower than under the previous SEDP. The implicit rise in the incremental capital-output ratio (ICOR) over the period 2006–10 suggests that there may be significant scope to improve the quality of investment.

| Indicator | 2001–05 | Target 2006–10 |
|---|---|---|
| Real GDP growth | 7.50% | 7.5–8.0 percent per year, more if possible |
| Inflation | 5.20% | Lower than the real growth rate |
| Per capita income (end-2005) | US$640 | US$1,050–1,100 by end-2010 |
| Investment (percent of GDP) | 37.5% | Reach 40 percent of GDP, approximately US$140 billion (cumulative) |
| State sector | 20.1% | 19.4 percent |
| o/w SOE | 5.8% | 6.0 percent |
| Private incl. FDI | 17.4% | 20.6 percent |
| Manufacturing (share of GDP) | 41% | Increase share to 43–44 percent of GDP by end-2010 |
| Annual growth of exports | 17.5% | 16 percent in value terms |
| Annual growth of imports | 18.7% | 14.7 percent in value terms |
| Government revenue (percent of GDP) | 24.4% | In the range of 21–22 percent of GDP |

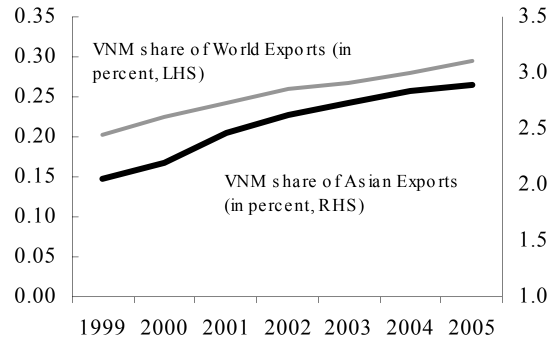
Even at the currently-projected high oil prices and continued strong growth, and assuming that the government will take steps to restrain the future growth of current expenditure, implementation of the investment program contained in the SEDP would raise the overall fiscal deficit to an average of more than 6 percent of GDP through 2010. As a result, public sector debt (excluding contingent liabilities) would increase by about 6½ percentage points of GDP to approach the authorities' notional ceiling of 50 percent of GDP by 2010. While the rising level of debt should not pose serious risks to medium-term debt sustainability given the continued high, albeit falling, level of concessionality of external debt, this assessment is subject to risks. In particular, inadequate progress towards slowing the growth of non-interest current expenditure or a decline in oil prices could result in a significantly more rapid build-up of public debt, which could place strains on the budget down the road (see Annex VI).

# ANNEX II

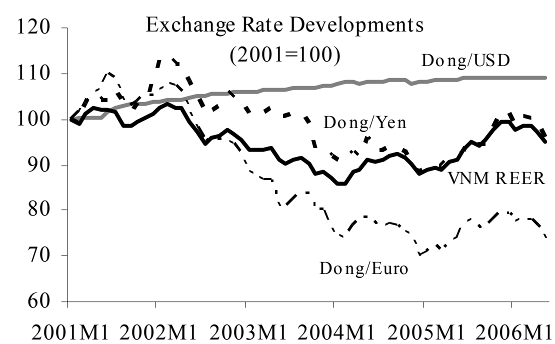
## External Competitiveness

While the limited availability of reliable wage and price data makes it difficult to assess Vietnam's competitiveness with accuracy, the available indicators suggest that external competitiveness remains adequate. However, going forward, structural reforms and improved infrastructure will be required to ensure that competitiveness will not be eroded as Vietnam's global trade and financial integration intensifies.

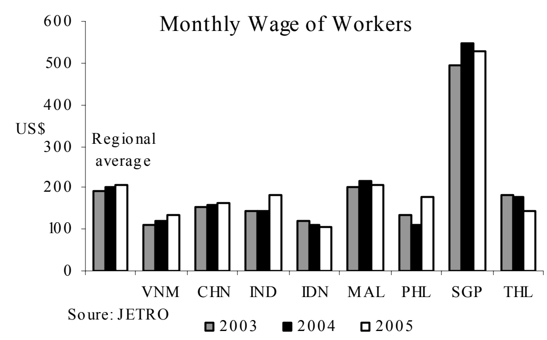
Recent external sector performance provides a picture of adequate competitiveness. During 2002–2005, non-oil exports, including a large component of labor-intensive manufacturing products, grew by more than 20 percent a year on average. As a result, Vietnam's share of both total world exports and exports from Asia has remained on an upward trend.




The CPI-based real effective exchange rate (REER) of the dong has fluctuated significantly over the last few years without exhibiting any noticeable long-term trend. The REER reverted close to its 2001 level in recent months, following a period of depreciation in 2002–04. These movements appear to have been broadly in line with fundamentals, including the effects of Vietnam's significant opening up of its trade system from 2001 onwards. The more recent appreciation of the REER does not appear to have affected export performance to date, as noted above, and it has been accompanied by strong private capital inflows, low sovereign risk premia, and a robust balance of payments.




However, micro-level data provide a more nuanced picture. Cross-country firm-level survey data compiled by the Japan External Trade Organization (JETRO) show that monthly wages of Vietnamese workers in foreign-invested enterprises (FIEs) are lower than those in most other countries of the region, and investors reportedly view Vietnam as a favorable destination to transfer production capacity from China. However, Vietnam fares less favorably with respect to the adequacy of basic infrastructure and related costs (e.g., office rent, electricity, transportation, and telecommunications costs). Looking ahead, if wages in Vietnam continue to rise faster than in other countries in the region, competitiveness could be eroded in the absence of structural reform to reduce the costs of other key inputs. Overall competitiveness could come under particular strain if delays in SOE reform undermine the viability of major SOE sectors following WTO accession.



**ANNEX III**

**Vietnam—Fund Relations**
(As of July 31, 2006)

**I.** **Membership Status**: Joined: 09/21/1956; Article XIII (November 8, 2005).

| **II. General Resources Account**: | SDR Million | Percent Quota |
|---|---|---|
| Quota | 329.10 | 100.00 |
| Fund Holdings of Currency | 329.10 | 100.00 |
| Reserve position in Fund | 0.01 | 0.00 |

| **III SDR Department**: | SDR Million | Percent Allocation |
|---|---|---|
| Net cumulative allocation | 47.66 | 100.00 |
| Holdings | 0.94 | 1.97 |

| **IV. Outstanding Purchases and Loans**: | SDR Million | Percent Quota |
|---|---|---|
| PRGF arrangements | 130.24 | 39.57 |

**V.** **Financial Arrangements**:

| Type | Approval Date | Expiration Date | Amount Approved (SDR Million) | Amount Drawn (SDR Million) |
|---|---|---|---|---|
| PRGF | 04/13/2001 | 04/12/2004 | 290.00 | 124.20 |
| ESAF | 11/11/1994 | 11/10/1997 | 362.40 | 241.60 |
| Stand-by | 10/06/1993 | 11/11/1994 | 145.00 | 108.80 |

**VI.** **Projected Obligations to Fund** (in SDR Million; based on existing use of resources and present holdings of SDRs):

| | Forthcoming | | | | |
|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2009 | 2010 |
| Principal | 10.18 | 16.56 | 24.84 | 24.84 | 24.84 |
| Charges/Interest | 1.20 | 2.36 | 2.25 | 2.12 | 2.00 |
| Total | 11.38 | 18.92 | 27.09 | 26.96 | 26.84 |

**VII.** **Exchange Rate Arrangement and Exchange Restrictions:**

On February 25, 1999 the State Bank of Vietnam (SBV) revised the operation of the interbank foreign exchange market. Under this regime, the SBV allows interbank foreign exchange market rates to fluctuate by a maximum of ±0.25 percent a day (effective July 2002) from the previous day's average interbank market rate.

While Vietnam officially maintains a managed floating exchange rate regime, the exchange rate has de facto been pegged to the U.S. dollar since August 2004. The SBV governor made announcements in August 2004 and January 2005 that annual exchange rate depreciation would be limited to one percent, and the dong in fact depreciated by 1 percent vis-à-vis the U.S. dollar in 2004 and by 0.8 percent in 2005. Although the authorities have not made any announcement to date regarding the expected movement of the exchange rate in 2006, the dong/U.S. dollar rate remained virtually unchanged during January-April 2006. Given that the Fund's exchange arrangement classification is based on *de facto* and not *de jure* policies, Vietnam is now classified as maintaining a conventional fixed peg.

Vietnam accepted the obligations of Article VIII, sections 2, 3 and 4 with effect November 8, 2005. Vietnam maintains exchange restrictions for security reasons, and has notified the Fund of those restrictions pursuant to Executive Board Decision No. 144-(52/51).

**VIII. Article IV Consultations**:

Vietnam is currently on a 12-month consultation cycle, subject to provisions of Board Decision No. 12794-(02/76) of July 15, 2002. The last Article IV Consultation was concluded on October 7, 2005.

**IX. Technical Assistance**: See attached matrix.

**Resident Advisor:**

Tax Computerization (FAD) through April 1998

**In-Country Training/Outreach:**

- 4-session seminar for MPI on the Fundamentals of Macroeconomic Analysis, May 2006.
- Conference on SBV Reforming (APD/MFD), March 2006.
- STI Regional Course on Financial Programming and Policies, March 2005.
- Workshop on Macroeconomic Policies for Parliamentarians (EXR/APD/INS), March 2004.
- 10-session Seminar for Parliamentarians on the Fundamentals of Macroeconomics (APD), October-December 2003.
- 10-session Seminar on Topics in Financial Programming for State Bank of Vietnam and related Government Agencies (APD), January-May 2002.

**X. Other Visits**

The Deputy Managing Director, Mr. Kato, visited Vietnam in May 2005. The Managing Director, Mr. de Rato, visited in June 2004.

**XI. Resident Representative**

Mr. Il Houng Lee has been Senior Resident Representative since August 2005.

## Vietnam-Summary of Technical Assistance, 2002-2006

| Department | Purpose | Date |
|---|---|---|
| **Tax self-assessment pilot projects** | | |
| FAD | Tax self-assessment pilot preparations | June-July 2002 |
| FAD | Tax self-assessment pilot preparations | November-December 2002 |
| FAD | Tax self-assessment pilot preparations | March-April 2003 |
| FAD | IT for Tax self-assessment pilot preparations | May/03 |
| FAD | Tax self-assessment pilot preparations<br>Assessment of training needs and organization change | August/03 |
| FAD | Tax self-assessment pilot preparations | September/03 |
| FAD | Tax self-assessment pilot preparations | November/03 |
| FAD | Introduction of self assessment and reform of the tax administration taxpayers services; debt collection | February-March 2004 |
| FAD | Assessment of tax self-assessment pilot implementation and planning for the future | April/04 |
| FAD | Strategic planning and tax self-assessment pilot implementation | June-July 2004 |
| FAD | Tax self-assessment pilot implementation | August/04 |
| FAD | Tax self-assessment pilot implementation | October-November 2004 |
| FAD | Tax self-assessment pilot implementation | November/04 |
| FAD | Tax self-assessment pilot implementation | May/05 |
| FAD | Tax self-assessment pilot implementation | July/05 |
| FAD | Tax self-assessment pilot implementation | November-December 2005 |
| FAD | Tax self-assessment pilot implementation | March-April 2006 |
| FAD | Tax self-assessment pilot implementation | June-July 2006 |
| **Tax Policy and Administration reform** | | |
| FAD | Tax policy and administration reform | February-March 2002 |
| FAD | Tax policy and administration reform | July/02 |
| FAD | Tax policy and administration reform | November/02 |
| FAD | Tax policy and administration reform | May-June 2003 |
| FAD | Assessment of the major taxes | May-June 2004 |
| FAD | Review of tax administration TA to date | November/04 |
| FAD | Tax policy and administration reform- Strategic planning | March/05 |
| FAD | Revenue administration | July-August 2005 |
| **SOCB Restructuring** | | |
| MFD | SOCB restructuring | September/02 |
| MFD | SOCB restructuring | November/02 |
| MFD | SOCB restructuring | June/03 |
| MFD | SOCB equitization | September/04 |
| **SOCB restructuring and foreign reserve management** | | |
| MFD | Banking restructuring and foreign exchange management at the SBV | March/06 |
| **Article VIII and current account liberalization** | | |
| MFD/LEG | Article VIII and Forex Control Ordinance | February/05 |
| MFD/LEG | Drafting Foreign Exchange Ordinance | June/05 |

## Vietnam-Summary of Technical Assistance, 2002-2006

| Department | Purpose | Date |
|---|---|---|
| **Banking supervision** | | |
| MFD | Banking supervision | August/04 |
| MFD | Banking supervision strengthening | November/04 |
| MFD | Banking supervision strengthening | April/05 |
| MFD | Banking supervision strengthening | November/05 |
| MFD | Banking supervision, taking the views of SOCB financial restructuring | March-April 2006 |
| **Strengthening the SBV audit capacity in the SAO** | | |
| MFD/OIA | Safeguards-related T.A | September/02 |
| MFD | Strengthening SBV audit capacity in the SAO | December/02 |
| FIN | Strengthening SBV audit capacity in the SAO | June/03 |
| MFD | Strengthening SBV audit capacity in the SAO | December/03 |
| **Monetary and Exchange Operation** | | |
| MFD | Banking Issues, Monetary and Foreign Exchange Operation | February/04 |
| MFD | Inflation Targeting Issues | November/04 |
| MFD/STA | Reviewing monetary TA | April/05 |
| **Anti-money laundering** | | |
| MFD/LEG | TA program for anti-money laundering and combating the financing of terrorism | December/03 |
| MFD/LEG | The Progress in AML/CFT regime and internal control, workshop on AML/CFT | March/05 |
| **National Income Account and Statistics** | | |
| STA | National Income Account and Statistics | August-September 2002 |
| STA | National Income Account and Statistics | May-June 2003 |
| STA | National Income Account and Statistics | Feb-March 2004 |
| STA | National Income Account and Statistics | September/04 |
| **Balance of payment statistics** | | |
| STA | BOP statistics and guidance in the development of international investment position statistics | September/03 |
| STA | BOP statistics | February-March 2006 |
| **CPI Statistics** | | |
| STA/MFD | CPI statistics and core inflation primary understanding | April/05 |
| MFD | CPI statistics and core inflation | September/06 |
| **Monetary Statistics** | | |
| STA | Monetary Statistics | April/05 |
| **Debt sustainable analysis** | | |
| PDR | Debt sustainable analysis | October/02 |
| **Tax Administration Law** | | |
| LEG | Tax law | February/04 |
| LEG | Tax administration law | November-December 04 |
| LEG | Tax legislation | August/05 |
| **Capital Market development** | | |
| ICM | Capital Markets Development | May-June 2004 |

# ANNEX IV

## Vietnam—World Bank-IMF Relations[13]

### Partnership in Vietnam's Development Strategy

Vietnam's reform agenda has been guided by a series of strategic plans and documents, including the Comprehensive Poverty Reduction and Growth Strategy (CPRGS), the 2001–2006 Socio-Economic Development Plan (SEDP) and the Ten-Year Socio-Economic Development Strategy. The CPRGS, approved in 2002, represented a sharp improvement from earlier investment- and production- focused planning documents. Rather than spelling out detailed sector-by-sector production targets, the CPRGS focused on development outcomes such as poverty reduction and other Vietnam Development Goals (VDGs). Empirical evidence and a broad consultation process were used to identify the policies best suited to attaining those development outcomes. Efforts were also made to "cost" these policies and to align resources towards their attainment. A set of monitoring indicators was developed to assess implementation. The CPRGS was "expanded" in December 2003 to better address policies related to large-scale infrastructure. Broadly speaking, the CPRGS structures the reform agenda around three main pillars: completing the transition to a market economy, ensuring social inclusion and environmental sustainability, and building modern governance.

Since then, several policy breakthroughs have contributed to shape reforms. In 2003, the decision was made to accede to the WTO as early as possible, making global integration one of the main drivers of domestic reform. In 2004, a new approach to the fight against corruption was adopted, one emphasizing transparency and the strengthening of government systems. In 2005, the decision was made to reform the banking system, separating the management of banks from their supervision and aiming at the creation of a modern central bank.

A Joint Staff Assessment (JSA) of the CPRGS was discussed by the Boards of the IMF and the World Bank in mid-2002. The Government has produced three CPRGS Progress Reports on an annual basis, starting in November 2003. These Reports evaluate performance on economic growth and poverty reduction, review policy implementation and identify the challenges ahead. Joint Staff Assessments or Joint Staff Advisory Notes (JSANs) for these Progress Reports have been distributed to the Boards of the IMF and World Bank in 2004–2006.

The IMF has taken the lead in the policy dialogue on macroeconomic policies and has been active on a set of structural issues, especially trade, banking, and SOE reform, because of their potential impact on macroeconomic stability. The IMF's three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) expired in April 2004.

The World Bank has taken the lead in supporting the Government's structural and institutional reforms in a number of sectors. These wide ranging reforms cover the three broad pillars of the CPRGS and are backed by a series of Poverty Reduction Support Credit (PRSCs). The PRSCs provide resources directly to the government's budget. The recently concluded PRSC cycle (PRSCs 1 to 5) covered a five-year period, much the same as the CPRGS and the last SEDP.

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[13] Contact person: Ms. Keiko Sato.

With the CPRGS approach being integrated into the preparation of the next SEDP (2006–2010), future PRSCs are proposed to be aligned to the implementation of this new five-year plan.

**World Bank Group Strategy and Lending**

The World Bank Group employs a broad range of instruments to support the objectives laid out by the CPRGS and other key strategies of the Government. They include analytical and advisory activities; IDA investment projects; PRSCs; IFC's equity, loan and TA participations; Mekong Private Sector Development Facility (MPDF) and Multilateral Investment Guarantee Agency (MIGA) activities; and donor partnerships and ODA coordination. IDA credits provide policy, institutional and physical investment support for Vietnam's development and structural reforms, with PRSCs used as vehicles for policy dialogue.

An update of the Country Assistance Strategy (CAS), presented to the World Bank Board in January 2004, set out the planned support until FY06. The World Bank Group is now in the process of drafting a new CAS covering the period from FY07 to FY11. The new CAS will be in support of the SEDP for 2006–2010.

The implementation of the ambitious reform agenda spelled out in CPRGS and other strategies and plans has been supported through PRSC operations. PRSC 1, a two-tranche operation for US$250 million, was approved by the Board in June 2001, based on an Interim Poverty Reduction Strategy Paper (I-PRSP). The focus of PRSC 1 was mainly on the structural reform agenda, with policies articulated around five main areas: liberalizing trade, reforming SOEs, strengthening the banking sector, creating an enabling environment for the private sector, and improving the management and transparency of public finances. PRSC 2, a one-tranche operation for US$ 100 million, was approved by the Board in June 2003. Under PRSC 2, based on the CPRGS, the range of economic reforms supported was considerably broadened. In addition to the mainly structural reforms covered by PRSC 1, this second credit included various policy actions aimed at keeping development inclusive and building modern governance. Measures related to education and health sectors, environmental sustainability, land management, legal development and public financial management, were all part of PRSC 2. PRSC 3 and PRSC 4 were one-tranche operations for US$100 million each. These were approved by the Board in June 2004 and June 2005, respectively. Both of these later operations deepened the broad range of reforms covered under PRSC 2. A fifth PRSC operation, the last one in this five-year cycle, was approved by the Board of the World Bank in June 2006. PRSC 5 has the same sectoral coverage and characteristics as its immediate predecessors.

In addition to providing resources to the budget, PRSC operations have served as an effective coordination device, supported by an increasingly large number of donors. The Steering Committee for PRSCs is led by the Deputy Prime Minister in charge of economic reforms, and brings together representatives from most line ministries and several Government agencies. On the donor side, PRSC operations have been co-financed by several bilateral and multilateral agencies, either through grants or through parallel lending. More importantly, the process saw a transition in the role of co-financiers, from providers of finance to partners substantially engaged in the preparation of the operations and the policy dialogue with Government. This dialogue is organized by policy areas, in which donors engage selectively, based on their interests and technical capacity on the ground. All donors who seriously consider the possibility to partner in this process are invited to participate in the preparation of PRSC operations, even if they cannot commit to co-financing them in the short term.

The number of donors participating in this process has increased from four in PRSC 1 to seven in PRSC 3 to nine in PRSC 4. As many as 11 bilateral and multilateral donors are expected to co-finance PRSC 5. Some of the participating donors contribute grant resources during the PRSC process, whereas others set up parallel credits based on the same policy matrix. At present, donors contribute about US$130 million per year, in addition to the US$100 disbursed by the World Bank.

The World Bank group has assisted the government in the three pillars areas of the Government's reform program, identified above and in the CAS, by financing investment projects. Some of the investment projects are listed in Table 1. Efforts to improve governance focus on public financial management, information and transparency, combating corruption, and legal development. Major technical assistance has been provided by the World Bank in each of these areas, and IDA projects are being implemented in Public Financial Management and Customs Modernization. So far, AsDB, UNDP, and a number of donors have taken the lead on public administration and civil service reform, whereas the World Bank plays the leading role in public financial management.

The volume of IDA lending has expanded over the past few years. In FY06, IDA's overall lending was $768 million. In light of the good Country Policy and Institutional Assessment (CPIA) rating, the IDA annual allocation for Vietnam is expected to be close to $900 million for FY07 and 08. Today, Vietnam is the largest IDA-only borrower and the second largest user of IDA resources in the world after India. As of June 30, 2006 the total active IDA credits amounted to US$4.1 billion, out of which US$1.3 billion had been disbursed.

The IFC and MIGA programs are also expected to grow significantly as the investment climate improves. From 1992 to date, IFC has provided nearly $500 million in financing to more than 25 companies in a wide range of sectors, including finance, health care, education, information technology, manufacturing, and agribusiness. The Mekong Private Sector Development Facility, IFC's multidonor-funded technical assistance initiative, has also been working in Vietnam since 1997 to reduce poverty through sustainable private sector development.

In addition to its lending program, the World Bank has been working on capacity-building and knowledge-sharing in key areas of emphasis. The annual Vietnam Development Report (VDR), written in coordination with a large number of donors and submitted to the main Consultative Group meeting, summarizes the accumulated knowledge in a specific policy area and fosters the policy and institutional reform agenda. The VDRs delivered in 2003, 2004 and 2005, entitled *Poverty*, *Governance* and *Business* respectively, provided a comprehensive analytical and policy coverage each of the three pillars identified by the CAS. Other important reports over this period included a *Banking Sector Review* in 2002, a *Public Expenditure Review-Integrated Fiduciary Assessment* (PER-IFA) in 2004, an *Infrastructure Strategy* in 2006, and a forthcoming *Investment Climate Assessment*. Several of these reports are prepared in partnership with local institutes and researchers; the PER-IFA was jointly prepared by the World Bank and the Government of Vietnam. In parallel, continuous support has been provided to the upgrading of statistics, both in terms of quality and access. As a result, the Government currently produces a comprehensive household expenditure survey every other year and an enterprise census every year. The quality and transparency of information on public financial management has also improved considerably.

**Table 1: VIETNAM – FY03-06 ACTUAL DELIVERIES**

| Fiscal Year | Project Description | IDA Amount (US$ mil.) |
|---|---|---|
| **2003** | | |
| | Vietnam PRSC II | $100 |
| | Public Financial Management Reform Project | $54 |
| | VN-Primary Education for Disadvantaged Children | $139 |
| | **Total** | **$293** |
| **2004** | | |
| | Vietnam PRSC III | $100 |
| | VN-Road Network Improvement | $225 |
| | VN-Urban Upgrading | $222 |
| | Vietnam Water Resources Assistance | $158 |
| | **Total** | **$706** |
| **2005** | | |
| | Vietnam PRSC IV | $100 |
| | VN-HIV/AIDS Prevention Project | $35 |
| | VN-Targeted Budget Support for EFA | $50 |
| | VN-Road Safety | $32 |
| | VN-Water Supply Development | $113 |
| | VN-Rural Energy 2 | $220 |
| | VN-Forest Sector Development Project | $40 |
| | VN-Avian Influenza Emergency Recovery Project | $5 |
| | Payment System and Bank Modernization 2 | $105 |
| | **Total** | **$699** |
| **2006** | | |
| | Vietnam PRSC V | $100 |
| | VN-ICT Development | $94 |
| | Mekong Health Support | $70 |
| | Customs Modernization Project | $66 |
| | VN-RRD RWSS | $46 |
| | VN-Transmission & Distribution 2 | $200 |
| | Rural Transport 3 | $106 |
| | VN-Natural Disaster Risk Management Project | $86 |
| | **Total** | **$768** |
| | | |
| | **Overall** | **$2,465** |

## IMF-World Bank Collaboration in Specific Areas

Collaboration between the World Bank and the IMF was essential to launch the PRSC-PRGF program in 2001. The process leading to this program spanned four years, starting at the onset of the East Asian crisis. The overall framework for this collaboration was laid out in 1998, in preparation for what was then expected to be the second Structural Adjustment Credit for Vietnam. The lead agency in each policy area was identified in the Policy Framework Paper, and particularly in the Structural and Sectoral Policy Matrix for 1999–2001. The direct involvement of the IMF in some of the structural areas such as financial sector, SOE, and trade reform was justified because of their potential impact on macroeconomic stability.

As a result of this overall framework, the World Bank supported policy reforms in collaboration with the IMF in several areas, including external debt management, financial sector reform, SOE reform, and public expenditure management. In some of these areas, the World Bank and the IMF identified complementary sets of policy triggers for the PRSC and the PRGF programs respectively. In others, cooperation between the two institutions took place in the context of specific tasks, not directly related to lending.

Since the expiration of the PRGF in April 2004 the two institutions have closely collaborated in the discussion of PRSC prior actions and triggers in the policy areas that used to be covered by the PRGF agreement. The IMF has provided Letters of Assessment in support of the last three PRSC operations. In the area of public financial management, the World Bank is currently following up on the technical assistance provided by the IMF in relation to tax reform and revenue management. Joint work is also under way in support of the establishment of a modern central bank, with the IMF providing technical assistance on monetary policies and banking supervision, whereas the World Bank has set up an investment credit to reorganize the State Bank of Vietnam and develop appropriate information management systems.

From 2005 onwards, the World Bank and the IMF have jointly prepared an annual Debt Sustainability Assessment. More recently, they joined efforts in commenting on the direction and contents of the SEDP 2006–2010. The IMF and the World Bank also collaborate in the development of reliable economic statistics. The IMF focuses on improving balance of payments, national accounts, and price statistics, while the World Bank concentrates on issues related to the production of high-quality household and enterprise surveys, and to help develop broader access to data in Vietnam.

## ANNEX V

## Vietnam—Relations with the Asian Development Bank

The Asian Development Bank (AsDB) resumed its operations in Vietnam in October 1993. The Country Strategy and Program (CSP) endorsed in January 2002, proposed a focus on four pillars to align AsDB operations in Vietnam to the overarching objective of poverty reduction: (i) sustainable growth through rural development and private sector development, with a focus on small- and medium-enterprise development; (ii) inclusive social development, by mainstreaming poverty, gender, and ethnic dimensions in AsDB operations, with an emphasis on human capital development through secondary education and health; (iii) good governance, with special emphasis on public administration and civil service reform; and (iv) geographic focus on the impoverished central region. The AsDB is currently preparing the new CSP for 2007–2010. The preparation of the new CSP is aligned with the preparation schedule of the SEDP in order to synchronize, synergize and supplement the government's development goals and objectives as espoused in the SEDP, and to allow for harmonization of development assistance in support of result-based SEDP implementation.

From October 1993 until the end-2005, the AsDB approved 55 public sector loans totaling about US$ 3.5 billion. Since December 1998, Vietnam has been classified as a B-1 country by the AsDB, which makes it eligible to supplement borrowing at ADF terms with limited amounts of borrowing at nonconcessional OCR terms. The cumulative $3.5 billion loan portfolio includes nearly $ 3.0 billion from the concessional Asian Development Fund (ADF) and US$520 million from Ordinary Capital Resources (OCR). Loans have been provided for (i) rehabilitating physical infrastructure in the agricultural, energy, and transport sectors; (ii) financial sector, public administration reform, and state-owned enterprise (SOE) reforms and corporate governance; and (iii) social, environmental, and cross-cutting concerns. The contract awards achievement in 2005 was $209.8 million as compared with $116 million in 2004, rendering a contract award ratio of 13.6 percent compared with 9.7 percent in 2004. Disbursement in 2005 attained $223.7 million as compared with $182.4 million in 2004. The disbursement ratio has increased from 15.7 percent in 2004 to 17.5 percent in 2005. The AsDB has also extended technical assistance amounting to US$123.7 million for 185 projects. In addition to public sector operations, the AsDB has provided $168.5 million for 7 private sector loans. Vietnam also receives substantial support under the Greater Mekong Subregion (GMS) initiatives.

Support for policy and structural reforms to improve public sector efficiency and to encourage the development of the private sector is a vital component of AsDB operations in Vietnam. So far, the AsDB has approved eleven policy-based program loans in the agricultural sector, the financial sector, SOE reform and corporate governance and public administration reform, SME development and support to poverty reduction implementation. In addition to program lending, policy dialogue is an important feature in all of the AsDB's loan projects in Vietnam. This includes support for increased efficiency of state-owned utilities through reforming their rate structure and other measures to increase cost recovery and to strengthen financial management, policy analysis, and planning. A high level capacity building program is also in place under the Japan Fund for Public Policy Training (JFPPT) funded by the Government of Japan.

The AsDB has been reorganized as of 1 May 2006, and Vietnam now belongs to the Southeast Asia Regional Department, along with Cambodia, Laos, Myanmar, Thailand, Malaysia, Philippines and Indonesia. The resident mission has been strengthened and has been performing programming functions and administration of a portion of loan projects. During the past years, the AsDB has helped the government carry out participatory poverty reduction assessment and rolling down the Comprehensive Poverty Reduction and Growth Strategy. ADB was also active in supporting the Socio-economic Development Plan consultation process. AsDB and Fund staff work closely together to support the process of economic reforms in Vietnam. AsDB staff participate in Fund missions, exchange information, and consult on policy matters. The resident missions of the two institutions also cooperate closely.

Table 1. Vietnam: Public Sector Lending, by Sector, October 1993–July 2006
(In millions of U.S. dollars)

| Sector | Number | Approved Amount |
|---|---|---|
| Lending | 55 | 3,519.3 |
| Agriculture and Natural Resources | 11 | 671.0 |
| Education | 5 | 239.0 |
| Energy | 4 | 660.0 |
| Finance | 6 | 335.0 |
| Health, Nutrition, and Social Protection | 4 | 159.2 |
| Industry and Trade | 2 | 68.5 |
| Law, Economic Management & Public Policy | 4 | 151.4 |
| Transportation and communication | 9 | 695.5 |
| Water Supply, Sanitation & Waste Management | 5 | 304 |
| Multi-sector | 5 | 235.7 |
| Technical assistance | 185 | 123.7 |
| Advisory and operational purposes | 132 | 83.5 |
| Project preparation | 53 | 40.2 |

Source: AsDB.

Table 2. Vietnam: Loan Approvals and Disbursements, 1997–2006
(In millions of U.S. dollars)

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 1/ |
|---|---|---|---|---|---|---|---|---|---|---|
| Loan approvals 2/ | 359.60 | 284.00 | 220.00 | 188.50 | 243.10 | 233.50 | 179.00 | 296.40 | 577.70 | - |
| Loan disbursements | 149.3 | 127.8 | 191.2 | 218.9 | 176.2 | 231.7 | 233.2 | 182.4 | 223.7 | 69.7 |
| Undisbursed balance at the beginning of the year | 842.42 | 997.48 | 1,191.56 | 1,190.38 | 1,086.15 | 1,118.80 | 1,198.10 | 1,191.59 | 1,313.69 | 1,560.87 |
| Memorandum item: | | | | | | | | | | |
| Technical assistance approvals | 9.51 | 5.93 | 10.34 | 9.12 | 8.42 | 9.28 | 8.61 | 7.68 | 12.25 | 3.04 |

Source: AsDB.

1/ As of July 2006
2/ Includes loan components of regional projects in Viet Nam: 1998 -GMS: Phnom Penh to HCMC Highway ($100 million), 1999 - GMS: East-West Corridor ($25 million), and 2002 - GMS: Mekong Tourism Development ($8.5 million).

## ANNEX VI

## Vietnam—Statistical Issues

While data provision to the Fund is broadly adequate for surveillance, the reliability and coverage of macroeconomic statistics have significant deficiencies. Compilation and dissemination are in need of substantial improvement, so that data properly reflect economic developments and assist policy formulation, implementation, and monitoring. The authorities are cooperating with the Fund, but work is hampered in some areas by the lack of authorization to release data. Vietnam has few official statistical publications that provide coverage beyond the real sector. A Vietnam page was introduced in the *GFS Yearbook* in 1999 and in the *IFS* in 2001.

Fund technical assistance has contributed to improvements in a number of statistical areas. The STA multisector statistics/General Data Dissemination System (GDDS) mission in July 2001 found a number of deficiencies and recommended improvements in an action plan. The follow-up STA mission that took place in December 2001 agreed on a program to improve national accounts and price statistics. Subsequently, a STA peripatetic expert was assigned to assist the General Statistics Office (GSO) under a five-year project that commenced in January 2002, and a series of four follow-up missions were fielded. There have also been follow-up missions in balance of payments statistics in September 2003 and 2006. Vietnam is a GDDS participant with metadata published on the Fund's Dissemination Standards Bulletin Board since September 30, 2003 (http://dsbb.imf.org/Applications/web/gdds/gddscountrycategorylist/?strcode=VNM).

### National accounts

Vietnam has benefited from extensive technical assistance in the area of national accounts and price statistics, as noted above. The GSO provides quarterly and annual data on the gross domestic product (GDP) by type of economic activity and annual data by expenditure[14] (both in current and constant prices), and monthly and annual data on external trade, industrial output, retail sales, and prices. While the methodology for producing national accounts is broadly consistent with the *System of National Accounts 1993*, the compilation process suffers from poor data collection practices and a lack of coordination and communication between data collection agencies. In 2001 the GSO introduced new methodology for calculating GDP and published two revised handbooks on sources and methods in 2003 in Vietnamese.

### Prices

The consumer price index (CPI) is in line with international standards. The GSO released a revised CPI in May 2006 based on data from the 2004 Vietnam Household Living Standards Survey (VHLSS). The basket now includes about 500 items, compared with about 400 for the previous index (based on the 1998 VHLSS), and the weight of food has decreased from 47 percent to 42 percent. The GSO planned to introduce a producer price index in late 2001 but

[14] GDP by type of expenditure was calculated from 2002Q1 to 2003Q2 but discontinued due to lack of resources.

this has been delayed for technical reasons. Trade price indices are also compiled, but not used in the national accounts by the GSO because the sample size is deemed too small. The authorities are working on a core inflation index.

**Government finance statistics**

The Ministry of Finance's (MoF) State Budget Department produces provisional monthly, quarterly, and annual data on government operations shortly after the end of the reference period; final data for the fiscal (calendar) year are produced after a delay of about eighteen months. These data reflect the consolidated operations of the state budget, which covers all four levels of government: central, provincial, district, and commune. They exclude data on off-budget investment expenditure, quasi-fiscal activities of SOEs and extrabudgetary funds, among which are the Social Security Fund, Enterprise Restructuring Fund, Development Assistance Fund, Export Support Fund, local development funds, and the Sinking Fund (for repayment of on lent funds), for which data are not compiled on a regular basis.

Compilation is on a cash basis for final annual data, but varies for provisional data depending on their source. As a result, government financing data, in particular domestic bank financing, cannot be reconciled as reported in the fiscal and monetary accounts. Like the national accounts, provisional data are compiled before the end of the reference period and thus involve a projected component. The quarterly data are only revised when data are compiled for the same quarter of the following year. The MoF's External Finance Department maintains a centralized record of all general government external debt, excluding guarantees issued on behalf of state-owned enterprises. The MoF, with support from the UNDP, has put in place an external debt management system for the recording of disbursements and multiple currency loans, which as of May 2006 was in the testing phase.

Despite these shortcomings, the authorities have made progress in a number of other areas related to fiscal transparency, including implementation of an improved budget management law and adoption of a *1986 GFS*-consistent budget classification at all levels of government. The authorities published for the first time in late 1998 the fiscal outturn for 1997 and the approved budget for 1999, although both in highly aggregated form. Starting in late 2001, the MoF began posting annual budget outturns and plans on its external website, including by major revenue and expenditure items. However, considerable actions remain to be taken to improve the coverage of fiscal data as recommended in the 1998 Bank-Fund report on fiscal transparency, the STA multisector statistics mission of 2001, and the 2005 Public Expenditure Review.

In this context, the government continues to work toward gazetteing and publishing the annual national budget, as well as preparing commune-level budgets, implementing the *GFS*-based functional budget classification system, initiating work on revising government accounting standards, preparing a medium-term expenditure framework, and introducing an integrated financial management system (IFMS) for improving treasury management and fiscal reporting. The STA mission found that the functional classification had not yet been fully aligned with international classification standards, which might hamper formulation, execution, and monitoring of fiscal policy. The IFMS should allow a detailed classification of provisional, as well as final budget accounts. In addition, it will permit incorporation of data on extrabudgetary funds into the Treasury database.

**Monetary and financial statistics**

The State Bank of Vietnam (SBV) reports monetary and financial data to the Fund, including: (i) the monetary survey (on a monthly basis with a ten-week lag); (ii) the central bank balance sheet (on a monthly basis and typically with a twelve-week lag); (iii) detailed consolidated balance sheets ("derivation tables") for six state-owned and 79 non state deposit money banks and individual balance sheets for the four large state-owned commercial banks (SOCBs) (since the beginning of 2001 on a monthly basis and typically with a twelve-week lag; (iv) deposit and lending rates of the large SOCBs (on a monthly basis and for various maturities); (v) data on reserve requirement on a monthly basis and with a twelve-week lag; and (vi), data on open market operations on a daily basis with a twelve-week lag. Since December 2005 the consolidated balance sheets of deposit money banks covers additionally 5 financial companies. Recently monetary data has been submitted to the APD mission team with a long lag compared to the past. Data on foreign reserves (gross and net official international reserves and net foreign assets of the banking system) are received from the authorities, but with substantial lags.

In January 1999, the SBV and commercial banks began implementing new charts of accounts for compiling money and banking data, developed with STA assistance. However, they do not adequately sectorize credit for monetary programming purposes, in particular failing to distinguish between bank credit to state-owned enterprises (SOEs) and to other nonstate sectors of the economy. Therefore, in addition to its regular monthly reports, the SBV has designed a new monthly report form for the four large SOCBs for submitting sectorized credit data to the central bank. The STA mission in July 2001 encouraged the SBV to develop a reporting scheme for a comprehensive breakdown of banks' credit to the economy by borrowing sectors, sub-sectors, and ownership of enterprises. The follow-up mission that took place during April 14-28, 2005 recommended changes to new bank report forms to allow greater sectorization of bank credit. In addition, it recommended that a list of state-owned enterprises that should be classified as private enterprises be distributed to banks to guide their data reporting on enterprises; that funds for on-lending be reclassified out of banks' "unclassified liabilities" to "other deposits"; and gave a presentation of how Fund accounts should be compiled in monetary statistics. Further cooperation from the authorities is needed to resolve data discrepancies involving credit data for a state-owned bank. These discrepancies may reflect possible noncoverage and/or omission of certain loans and financial leases, offset by lower deposits and other liabilities.

**External sector statistics**

The SBV compiles quarterly and annual balance of payments (BOP) statistics with a one- to two-month lag, although the data reported to the Fund for publication are less timely—the data published in the August 2006 issue of the *IFS* are for 2004. The SBV does not compile international investment position statistics. Since 1995, monthly and annual trade data have been compiled using customs reports, but the coverage and accuracy of these data need to be improved. In particular, the commodity breakdown of a large share of reported exports and imports (approximately 17 percent and 22 percent respectively in 2004) is unknown. Data on invisibles continue to be based largely on banking records, which provide incomplete coverage and identification of the types of transactions. Improvements are particularly needed for data on tourism revenue and workers' remittances.

Improvements in BOP statistics, in particular foreign direct investment (FDI), also continue to be hampered by interagency coordination problems. Data on FDI are now compiled by the SBV based on quarterly and semi-annual survey reports received from foreign enterprises operating in Vietnam and supplemented by reports from SBV branches. The Ministry of Planning and Investment (MPI) also collects administrative data on FDI. However, at the September 2000 ASEAN Workshop on Improving the Quality of FDI Data, the authorities indicated that problems persisted with the survey response rate, as not all FDI enterprises were providing the requested information. Moreover, the 2001 STA GDDS mission noted that no effort had been made to distinguish head office and other nonresident liabilities in the reported data. The 2003 and 2006 balance of payments statistics missions recommended that the MPI, GSO, and SBV work jointly to improve FDI questionnaires and processes, including collecting data on both stocks and flows.

The SBV maintains data on contracting of commercial debt (by SOEs and privately owned firms). Some loans are reported only after an extended delay, and the reporting of disbursements and repayments remains poor. Data on contracting, disbursement, and service of official debt are maintained by the MoF. The MPI also reports the loan obligations of foreign investors. The STA missions found that the overlapping responsibility for debt statistics has at times resulted in some deficiencies in coverage, including the lack of monitoring certain leasing arrangements (e.g., for aircraft). The 2006 mission also recommended creation of a line item for portfolio capital flows to capture the 2005 sovereign bond issuance, as well as expected future portfolio inflows, and a draft report form was left with the authorities for their review.

## Vietnam: Table of Common Indicators Required for Surveillance

As of August 23, 2006

| | Date of latest observation | Date received | Frequency of Data[6] | Frequency of Reporting[6] | Frequency of publication[6] |
|---|---|---|---|---|---|
| Exchange Rates | 8/11/06 | 8/18/06 | D | W | W |
| International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1] | 6/30/06 | 8/21/06 | M | I | NA |
| Reserve/Base Money | 5/31/06 | 8/8/06 | M | I | NA |
| Broad Money | 5/31/06 | 8/8/06 | M | I | NA |
| Central Bank Balance Sheet | 5/31/06 | 8/8/06 | M | I | NA |
| Consolidated Balance Sheet of the Banking System | 5/31/06 | 8/8/06 | M | I | NA |
| Interest Rates[2] | 7/31/06 | 8/11/06 | M | M | NA |
| Consumer Price Index | 8/15/06 | 8/22/06 | M | M | I |
| Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4] | ... | ... | ... | ... | NA |
| Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government | 12/31/05 | 12/15/05 | Q | Q | A |
| Stocks of Central Government and Central Government-Guaranteed Debt[5] | 12/31/05 | 2/10/06 | I | I | NA |
| External Current Account Balance | 2005 | Feb 2006 | A | A | A |
| Exports and Imports of Goods and Services[7] | 7/31/06 | July 2006 | M | M | M |
| GDP/GNP | 6/30/06 | 7/6/06 | Q | Q | Q |
| Gross External Debt | 2005 | Feb 2006 | I | A | NA |

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments. Including currency and maturity composition.
[6] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).
[7] Services data available on an annual basis.

## ANNEX VII

## Vietnam—Debt Sustainability Analysis[15]

### Public Sector Debt Sustainability

Since the time of the last joint DSA, the most important new signal on the likely direction of Vietnam's economic policies over the medium term has been the recent approval by the Politburo and National Assembly of the five-year Socio Economic Development Plan (SEDP) for 2006–2010, which is also the government's new Poverty Reduction Strategy (PRS). The new baseline is intended to broadly capture the implications of the policies contained in the SEDP evaluated at the currently high international price of oil, excluding any effects from the contingent government liabilities in the SOE and SOCB sectors.

Alternative scenarios capturing the implications of continent liabilities related to SOCB reform are also presented. However, given the delay in the compilation of a reliable estimate of the magnitude of SOCB recapitalization and reform costs, the portion which may eventually be borne by the government remains highly uncertain. In the absence of more definitive new information, the two indicative scenarios with contingent liabilities have been left virtually unchanged from the DSA contained in Country Report No. 06/22. [16]

### *Baseline (excluding contingent government liabilities)*

The baseline is broadly consistent with the policies contained in the SEDP. Full implementation of the SEDP's public investment program over 2006–2010, together with a forecasted decline in international oil prices, would imply a steady increase in the overall deficit (IMF staff definition),[17] despite a sizeable fall in non-interest current expenditure.[18] However, the non-oil deficit would be placed on a path of rapid decline over the 2007–11 period. The baseline assumes that the non-oil deficit would continue to decline steadily thereafter, albeit at a somewhat slower pace. This implies that the overall fiscal deficit would begin to decline following Vietnam's graduation from low-income status at end-2010, as the need for public investment falls and non-interest current expenditure returns to its 2001–2005

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[15] This DSA was prepared jointly by the Bank and the Fund on the basis of the joint framework approved by the Bank and Fund Boards in April 2005.

[16] Scenario I was slightly revised to account for the actual decline in credit growth in 2005 and the first half of 2006, and the assumed start date for the recapitalization process has been shifted by one year to 2007 for both scenarios.

[17] The assumed transfer in 2006 of the proceeds from a US$500 million (0.8 percent of GDP) sovereign bond issue in one lump sum payment for the purposes of on-lending to an SOE leads to a one-time decline in the overall deficit in 2007 relative to 2006, but the deficit reverts to a rising path thereafter.

[18] Non-interest current expenditure is assumed to decline by 2 percentage points of GDP over the period 2006–2010.

average. The debt stock (excluding contingent liabilities) would rise by about 8½ percentage points of GDP between 2005 and 2011 under this scenario, peaking at about 54 percent of GDP in 2016, when ODA already in the pipeline is assumed to dry up. The implied narrowing in the primary deficit from 2010 onwards would moderate the pace of increase in the debt ratio and eventually lead to a decline in the debt ratio to slightly below the authorities' notional debt ceiling of 50 percent of GDP by 2026. Under such conditions, the overall debt burden would remain manageable.

More specifically, the principal assumptions of the baseline are as follows: (i) continued high GDP growth of 7–7½ percent a year; (ii) government investment in line with the levels envisaged in the SEDP over the 2006–2010 period; (iii) a decline in non-interest current expenditure resulting from the authorities' planned phasing out of oil subsidies to oil traders by end-2008 and a slowdown in wage increases; (iv) a peaking of oil revenue at 9½-10 percent of GDP in 2006–07, followed by a steady decline to 6½ percent of GDP by 2011 and 6¼ percent of GDP by 2026, which reflects the projected decline in international oil prices, less favorable revenue sharing contracts on new fields, and a diversion of a growing share of output for domestic consumption as oil refining capacity comes on stream; (v) a steady decline in public investment (including net lending) from 13½ percent of GDP in 2006 to 11½ percent of GDP in 2011 and 9¼ percent of GDP by 2026; and (vi) an increasing shift in the composition of new borrowing from 2010 onward from ODA debt secured mostly on IDA terms to a blend in multilateral and bilateral lending as well as increasing sovereign bond issuance, all of which lead to a sharp decline in the concessionality of new borrowing.

Under these assumptions, the stock of total public debt would approach the authorities' notional debt ceiling[19] of 50 percent of GDP by 2010, and would remain on an upward trend through 2016, before beginning to decline thereafter as the primary deficit is sharply reduced. Although the ratio of the NPV of debt to GDP would reach a level of 50 percent of GDP by 2016, and the NPV of debt to revenue ratio would rise above 200 percent, the debt service burden would remain manageable.

However, the above scenario would be subject to significant risks. In particular, a failure to carry-out the envisaged adjustment in the primary balance, lower growth or lower-than-projected oil prices could result in significantly faster and larger increases in the public debt burden. More specifically, as is illustrated under alternative scenario A2, if the primary balance were to remain unchanged at its level as of 2006 (-6.3 percent of GDP), the NPV of debt-to-GDP ratio, the NPV of debt-to-revenue, and the debt-service-to-revenue ratios would rise sharply, and would reach levels of 83 percent, 354 percent, and 28 percent, respectively, by 2026. A permanently lower GDP growth rate (alternative baseline scenario A3) would also have a significant, albeit less dramatic effect on the dynamics of the NPV of debt

[19] The authorities' notional debt ceiling excludes DAF/VDB liabilities and municipal bonds, which are included in staffs' definition of public and publicly guaranteed debt.

relative to GDP and revenue.[20] Alternative baseline scenario A4 demonstrates the large potential impact of a future decline in oil prices on fiscal revenues and public debt sustainability. A decline in international oil prices to the levels published in the April 2006 WEO would raise the overall deficit by 1.8 percent of GDP in 2007, with the impact declining to 1 percent of GDP per year from 2011 onwards. As a result, the NPV of the debt stock would rise by an additional 6 percentage points of GDP by end-2011, and would remain on a continually rising trend, reaching 63½ percent of GDP by end-2026. While the impact of the assumed decline in oil prices may seem less dramatic than that of an unchanged primary deficit, movements in the oil price represent an external shock which could require costly cut-backs in the government's public expenditure program to protect public debt sustainability.

*Banking reform scenarios*

The existence of contingent liabilities associated with SOCB reform is a major additional risk to medium-term sustainability. The two scenarios presented below, which are broadly unchanged from the 2005 DSA, should be viewed as indicative given the continued high degree of uncertainty regarding (i) the current stock of NPLs in the banking system; and (ii) the current and projected future capital shortfalls, which depend on a number of difficult-to-predict policy variables. Both scenarios assume that the pace of banking sector reform is stepped up starting in 2007, while credit growth remains on the declining path observed in 2005 and the first half of 2006, decelerating to 15 percent per year by 2010. As a result, the incidence of new NPLs and associated provisioning requirements fall sharply over the medium term, and the SOCBs' capital shortfall is contained.

For simplicity, both scenarios assume that the entire capital shortfall will be financed by bond issuance,[21] and that the overall deficit will increase to accommodate any increase in the interest bill, so as not to force a compression of primary expenditure. The main differences between the scenarios include the magnitude of the capital shortfall and the time period over which recapitalization is spread.[22]

Banking reform scenario 1:

- Under this scenario, the end-2006 capital shortfall of 20 percent of GDP is assumed to be filled by a capital injection by the government, in the form of the transfer of government bonds to SOCBs, spread over two years (2007 and 2008). As a result, the

[20] The magnitude of this shock is small due to the low historical variation in growth. Under the baseline scenario growth averages 7.2 percent over the period 2007–2026, while under the stress test, growth is reduced by only 0.3 percent per year and averages 6.9 percent over the period.

[21] The authorities could also use equitization receipts or proceeds from as-yet unidentified asset sales to cover a part of the capital shortfall.

[22] For a complete discussion of the methodology, see Country Report No. 06/22, Annex V, pp. 52–55 and Country Report No. 05/148, Annex V, pp. 49–54.

debt stock jumps to 66½ percent of GDP by end-2008, peaks at around 67 ½ percent of GDP in 2010–11,and falls thereafter with the help of the continuing decline in the primary deficit and continued high real growth, to a level of about 53 percent of GDP over the long run.

Banking reform scenario 2:

- Under this scenario, the end-2006 capital shortfall amounts to 8 percent of GDP and is assumed to be filled by a capital injection by the government, spread over a period of 4 years. The debt stock would jump to 56½ percent of GDP by end-2010, peaking at 58½ percent of GDP in 2014, and declining moderately over the longer term to approach the authorities' notional debt ceiling by 2026.

The above indicative scenarios illustrate the important ways in which contingent liabilities can influence public debt dynamics. Going forward, a renewed acceleration in credit growth, delays in implementing bank reforms, and slow progress in improving the quality of new lending could all lead to further increases in contingent liabilities, the cost of which could have a significantly larger impact than is envisaged under the above scenarios. A sharp increase in the size of the required capital injection into the banking system could, in turn, pose a more serious threat to medium-term debt sustainability, if it is combined with a significant delay in the adjustment of the primary balance and/or a sharp reduction in the oil price. This could require a larger and more abrupt adjustment to quickly place debt on a sustainable path, with the increasing debt servicing requirements likely to crowd out higher-priority investment and social expenditures.

**External Debt Sustainability**

The baseline scenario assumes that the authorities continue their current policy of setting an annual external borrowing limit, while maintaining the existing system of controls on capital flows. As a result, it could be viewed as a conservative external debt scenario for a country which can be expected to transition in the middle of the projection period from IDA-only to emerging-market status.

More specifically, the baseline scenario assumes (i) a peak in IDA finance in 2010, followed by a slow tapering off and move toward a blended mix of multilateral and bilateral finance; (ii) a gradual decline in ODA-financed on-lending; (iii) a decline in the ratio of SOE external debt with government guarantee; (iv) continued robust growth in FDI; (v) net annual issuance of commercial sovereign bonds equivalent to 1 percent of GDP; and (v) a modest increase in  private debt from about 5 percent of GDP in 2006 to 8½ percent of GDP over the long run.

Vietnam's external debt is deemed sustainable under the baseline scenario. The external debt stock would remain roughly flat through 2011 at 31–32 percent of GDP, as ODA and concessional financing would complement domestic financing, and would decline over the longer term to about 27 percent of GDP, as the steady decline in the primary deficit contains the overall size of the government's external borrowing requirement. The NPV of public and publicly guaranteed debt-to-exports ratio would decline throughout the period due to robust exports, falling to 18 percent by 2026, while the debt service ratio would rise slightly from 3.7 percent in 2006 to 4.7 percent by 2026, as the concessionality of new borrowing drops off.

While the current low NPV of debt in relation to exports makes it unlikely external finance would lead to external debt distress over the medium term, a number of risks that are not properly reflected in the baseline call for continuation of a prudent external debt management policy. First, as in the case of the baseline for total public debt, the path of external debt is predicated on a relatively rapid pace of fiscal adjustment. If the adjustment fails to materialize or is significantly postponed, external borrowing could be more extensive than assumed under the baseline, and the external public debt dynamics less favorable. Second, as Vietnam's capital account is progressively opened up, and foreign investors' appetite for Vietnamese paper increases, the government could make increasing recourse to sovereign bond issues for purposes of on-lending to SOEs that face large capital needs. Additional risks, which could adversely affect external debt dynamics, include (i) a significantly faster than expected deterioration in the terms of new external financing, and (ii) a large depreciation of the dong.

**Staff's Assessment**

Staff consider Vietnam to be at low risk of external debt distress over the period 2006–2011. Vietnam's external debt ratios would remain below applicable policy-based debt thresholds under the baseline and under standard stress scenarios, provided that external borrowing policies will continue to be guided by the prudence that has characterized Vietnam's policies over the last few years.[23] However, the expansionary policies contained in the SEDP could pose risks to this relatively benign outlook in the event of a sharp decline in oil prices or if the fiscal adjustment assumed to take place from 2010 fails to materialize. The sensitivity tests and alternative scenarios suggest that the risks to medium-term external and public sector debt sustainability could be considerably larger than projected in the baseline over the long term, warranting close monitoring.

[23] Vietnam is considered a "strong" performer on the basis of its 2005 CPIA score. Its applicable external debt thresholds are the following: (i) NPV of debt-to-exports = 200 percent, (ii) NPV of debt-to-GDP = 50 percent, and debt service-to-exports = 25 percent.

Table 1. Vietnam: Public Sector Debt–Comparison of Debt Dynamics Under Various Levels of Contingent Liabilities

*(NPV of Debt-to-GDP Ratio)*

| | Projections | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2016 | 2026 |
| **Baseline Scenario: Excluding Contingent Liabilities** | | | | | | | | |
| **Public and Publicly Guaranteed Debt in NPV** | 40.6 | 40.9 | 41.6 | 42.9 | 44.6 | 45.9 | 49.7 | 47.0 |
| *Memo: Public and publicly guaranteed debt in percent of GDP (in dong)* | *45.5* | *46.0* | *46.9* | *48.3* | *49.9* | *51.3* | *54.3* | *49.4* |
| **A. Alternative scenarios** | | | | | | | | |
| A1. Real GDP growth and primary balance are at historical averages | 40.6 | 40.1 | 39.5 | 39.2 | 39.5 | 39.8 | 42.7 | 49.3 |
| A2. Primary balance is unchanged from 2006 | 40.6 | 42.4 | 44.0 | 45.8 | 47.9 | 50.2 | 62.6 | 83.1 |
| A3. Permanently lower GDP growth 1/ | 40.6 | 41.1 | 42.0 | 43.6 | 45.6 | 47.4 | 54.0 | 59.6 |
| A4. Oil price at WEO Spring 2006 published baseline | 40.6 | 42.5 | 44.5 | 46.9 | 49.4 | 51.7 | 59.6 | 63.5 |
| **B. Bound tests** | | | | | | | | |
| B1. Real GDP growth is at historical average minus one standard deviations in 2007–2008 | 40.6 | 41.9 | 44.0 | 46.0 | 48.3 | 50.2 | 56.7 | 57.5 |
| B2. Primary balance is at historical average minus one standard deviations in 2007–2008 | 40.6 | 41.8 | 42.8 | 44.0 | 45.6 | 46.9 | 50.5 | 47.5 |
| B3. Combination of B1-B2 using one half standard deviation shocks | 40.6 | 41.2 | 41.7 | 43.0 | 44.6 | 46.0 | 49.7 | 47.0 |
| B4. One-time 30 percent real depreciation in 2007 | 40.6 | 49.9 | 49.6 | 50.0 | 51.0 | 52.1 | 55.1 | 52.9 |
| B5. 10 percent of GDP increase in other debt-creating flows in 2007 | 40.6 | 50.2 | 50.2 | 50.9 | 52.0 | 53.0 | 55.4 | 50.5 |
| **Scenario 1: Contingent Liabilities Equivalent to 20 percent of GDP end-2006 2/** | | | | | | | | |
| **Public and Publicly Guaranteed Debt in NPV** | 40.6 | 51.1 | 61.2 | 61.6 | 62.1 | 62.3 | 60.3 | 50.8 |
| *Memo: Public and publicly guaranteed debt in percent of GDP (in dong)* | *45.5* | *56.2* | *66.6* | *67.0* | *67.4* | *67.7* | *64.9* | *53.2* |
| Memo: of which debt creating flows from contingent liabilities in percent of GDP | 0.0 | 10.2 | 10.8 | 1.5 | 1.2 | 0.8 | 0.0 | 0.0 |
| **A. Alternative scenarios** | | | | | | | | |
| A1. Real GDP growth and primary balance are at historical averages | 40.6 | 50.3 | 59.2 | 58.0 | 57.2 | 56.3 | 53.3 | 53.1 |
| A2. Primary balance is unchanged from 2006 | 40.6 | 52.6 | 63.6 | 64.4 | 65.4 | 66.6 | 73.2 | 86.9 |
| A3. Permanently lower GDP growth 1/ | 40.6 | 51.3 | 61.8 | 62.4 | 63.3 | 64.0 | 64.9 | 63.7 |
| **B. Bound tests** | | | | | | | | |
| B1. Real GDP growth is at historical average minus one standard deviations in 2007–2008 | 40.6 | 52.3 | 64.3 | 65.2 | 66.3 | 67.1 | 67.6 | 61.5 |
| B2. Primary balance is at historical average minus one standard deviations in 2007–2008 | 40.6 | 52.0 | 62.5 | 62.7 | 63.1 | 63.3 | 61.1 | 51.3 |
| B3. Combination of B1-B2 using one half standard deviation shocks | 40.6 | 51.5 | 61.7 | 62.0 | 62.5 | 62.6 | 60.5 | 51.0 |
| B4. One-time 30 percent real depreciation in 2007 | 40.6 | 60.1 | 69.2 | 68.7 | 68.5 | 68.4 | 65.7 | 56.8 |
| B5. 10 percent of GDP increase in other debt-creating flows in 2007 | 40.6 | 50.2 | 61.0 | 61.8 | 62.7 | 63.4 | 62.5 | 53.1 |
| **Scenario 2: Contingent Liabilities Equivalent to 8 percent of GDP** | | | | | | | | |
| **Public and Publicly Guaranteed Debt in NPV** | 40.6 | 42.9 | 45.3 | 48.2 | 51.2 | 51.8 | 53.2 | 48.3 |
| *Memo: Public and publicly guaranteed debt in percent of GDP (in dong)* | *45.5* | *48.0* | *50.7* | *53.6* | *56.5* | *57.2* | *57.8* | *50.7* |
| Memo: of which debt creating flows from contingent liabilities in percent of GDP | 0.0 | 2.0 | 2.0 | 2.0 | 2.0 | 0.0 | 0.0 | 0.0 |
| **A. Alternative scenarios** | | | | | | | | |
| A1. Real GDP growth and primary balance are at historical averages | 40.6 | 42.1 | 43.2 | 44.5 | 46.1 | 45.7 | 46.2 | 50.6 |
| A2. Primary balance is unchanged from 2006 | 40.6 | 44.4 | 47.7 | 51.0 | 54.5 | 56.1 | 66.1 | 84.3 |
| A3. Permanently lower GDP growth 1/ | 40.6 | 43.1 | 45.8 | 48.9 | 52.3 | 53.3 | 57.6 | 61.0 |
| **B. Bound tests** | | | | | | | | |
| B1. Real GDP growth is at historical average minus one standard deviations in 2007–2008 | 40.6 | 44.0 | 47.9 | 51.4 | 55.1 | 56.3 | 60.3 | 58.8 |
| B2. Primary balance is at historical average minus one standard deviations in 2007–2008 | 40.6 | 43.8 | 46.5 | 49.3 | 52.2 | 52.8 | 54.0 | 48.8 |
| B3. Combination of B1-B2 using one half standard deviation shocks | 40.6 | 43.2 | 45.5 | 48.3 | 51.4 | 51.9 | 53.3 | 48.3 |
| B4. One-time 30 percent real depreciation in 2007 | 40.6 | 51.9 | 53.3 | 55.3 | 57.6 | 57.9 | 58.6 | 54.2 |
| B5. 10 percent of GDP increase in other debt-creating flows in 2007 | 40.6 | 50.2 | 52.2 | 54.6 | 57.3 | 57.7 | 58.2 | 51.6 |
| *Memorandum items:* | | | | | | | | |
| Real GDP growth | 7.8 | 7.6 | 7.5 | 7.5 | 7.6 | 7.5 | 7.0 | 7.0 |
| Primary balance | -5.4 | -3.8 | -4.3 | -4.7 | -4.6 | -4.2 | -2.5 | -1.4 |
| Overall balance | | | | | | | | |
| Baseline | -6.3 | -5.5 | -6.1 | -6.7 | -6.8 | -6.3 | -4.8 | -3.9 |
| Scenario 1 | -6.3 | -5.5 | -6.7 | -7.7 | -7.7 | -7.2 | -5.6 | -4.3 |
| Scenario 2 | -6.3 | -5.5 | -6.3 | -6.9 | -7.1 | -6.6 | -5.1 | -4.2 |
| Nonoil balance | | | | | | | | |
| Baseline | -16.1 | -15.2 | -14.6 | -14.1 | -13.2 | -12.7 | -11.2 | -10.3 |
| Scenario 1 | -16.1 | -15.2 | -15.2 | -15.1 | -14.2 | -13.6 | -12.0 | -10.7 |
| Scenario 2 | -16.1 | -15.2 | -14.8 | -14.3 | -13.5 | -13.1 | -11.6 | -10.5 |
| Average nominal interest rate on forex debt (in percent) | 2.8 | 2.8 | 2.9 | 2.9 | 2.9 | 3.0 | 3.7 | 4.7 |
| Average real interest rate on domestic currency debt (in percent) | -5.1 | 0.1 | 0.3 | 0.9 | 1.2 | 1.4 | 1.8 | 2.5 |

Sources: Country authorities; and Fund staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of 20 (i.e., the length of the projection period).

2/ Assumes the recapitalization is financed by bonds, over two years.

Table 1a.Vietnam: Public Sector Debt Sustainability Framework, Baseline Scenario, 2003-2026
(In percent of GDP, unless otherwise indicated)

| | Actual | | | | | Projections | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2003 | 2004 | 2005 | Historical Average 5/ | Standard Deviation 5/ | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2006-11 Average | 2016 | 2026 | 2012-26 Average |
| Memo: nonoil deficit | -13.5 | -10.7 | -14.6 | | | -16.1 | -15.2 | -14.6 | -14.1 | -13.2 | -12.7 | -14.3 | -11.2 | -10.3 | -10.9 |
| **Public sector debt 1/** | **40.8** | **42.7** | **43.7** | | | **45.5** | **46.0** | **46.9** | **48.3** | **49.9** | **51.3** | | **54.3** | **49.4** | |
| o/w foreign-currency denominated | 27.4 | 27.4 | 26.6 | | | 27.3 | 27.3 | 27.1 | 26.9 | 26.5 | 26.4 | | 25.1 | 18.3 | |
| Change in public sector debt | 2.6 | 1.9 | 1.0 | | | 1.8 | 0.5 | 0.9 | 1.4 | 1.6 | 1.4 | | 0.4 | -0.6 | |
| Identified debt-creating flows | 2.0 | -2.8 | -0.2 | | | 0.9 | 0.2 | 0.7 | 1.2 | 1.1 | 1.3 | | -0.1 | -0.7 | |
| Primary deficit | 5.4 | 1.8 | 5.0 | 2.7 | 2.0 | 5.4 | 3.8 | 4.3 | 4.7 | 4.6 | 4.2 | 4.5 | 2.5 | 1.4 | 2.2 |
| Revenue and grants | 24.9 | 26.7 | 25.9 | | | 26.8 | 26.8 | 25.6 | 24.6 | 23.7 | 23.6 | | 23.5 | 23.4 | |
| *of which*: grants | 0.5 | 0.4 | 0.3 | | | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.1 | | 0.0 | 0.0 | |
| Primary (noninterest) expenditure | 30.3 | 28.5 | 31.0 | | | 32.2 | 30.5 | 29.9 | 29.3 | 28.4 | 27.9 | | 26.1 | 24.9 | |
| Automatic debt dynamics | -3.4 | -4.6 | -5.2 | | | -4.5 | -3.5 | -3.6 | -3.5 | -3.5 | -2.9 | | -2.7 | -2.1 | |
| Contribution from interest rate/growth differential | -2.5 | -3.2 | -3.9 | | | -3.8 | -3.0 | -3.0 | -2.9 | -2.9 | -2.9 | | -2.7 | -2.1 | |
| *of which*: contribution from average real interest rate | 0.1 | -0.2 | -0.6 | | | -0.6 | 0.2 | 0.2 | 0.4 | 0.5 | 0.5 | | 0.9 | 1.2 | |
| *of which*: contribution from real GDP growth | -2.6 | -2.9 | -3.3 | | | -3.2 | -3.2 | -3.2 | -3.3 | -3.4 | -3.5 | | -3.5 | -3.3 | |
| Contribution from real exchange rate depreciation | -0.9 | -1.4 | -1.3 | | | -0.7 | -0.5 | -0.6 | -0.6 | -0.6 | 0.0 | | ... | ... | |
| Other identified debt-creating flows | 0.0 | 0.0 | 0.0 | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | 0.0 | 0.0 | |
| Privatization receipts (negative) | 0.0 | 0.0 | 0.0 | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | 0.0 | 0.0 | |
| Recognition of implicit or contingent liabilities | 0.0 | 0.0 | 0.0 | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | 0.0 | 0.0 | |
| Debt relief (HIPC and other) | 0.0 | 0.0 | 0.0 | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | 0.0 | 0.0 | |
| Other (specify, e.g. bank recapitalization) | 0.0 | 0.0 | 0.0 | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | 0.0 | 0.0 | |
| Residual, including asset changes | 0.6 | 4.7 | 1.2 | | | 0.9 | 0.3 | 0.2 | 0.2 | 0.5 | 0.1 | | 0.6 | 0.1 | |
| **NPV of public sector debt** | 13.4 | 15.3 | 38.8 | | | 40.6 | 40.9 | 41.6 | 42.9 | 44.6 | 45.9 | | 49.7 | 47.0 | |
| o/w foreign-currency denominated | 0.0 | 0.0 | 21.7 | | | 22.4 | 22.2 | 21.8 | 21.5 | 21.1 | 21.0 | | 20.5 | 15.9 | |
| o/w external | ... | ... | 21.7 | | | 22.4 | 22.2 | 21.8 | 21.5 | 21.1 | 21.0 | | 20.5 | 15.9 | |
| NPV of contingent liabilities (not included in public sector debt) | ... | ... | ... | | | ... | ... | ... | ... | ... | ... | | ... | ... | |
| Gross financing need 2/ | 6.4 | 2.8 | 5.9 | | | 6.3 | 5.5 | 6.1 | 6.7 | 6.8 | 6.3 | | 4.8 | 3.9 | |
| NPV of public sector debt-to-revenue ratio (in percent) 3/ | 53.9 | 57.3 | 149.7 | | | 151.7 | 152.9 | 162.6 | 174.5 | 187.6 | 194.3 | | 211.0 | 200.4 | |
| o/w external | ... | ... | 83.8 | | | 83.7 | 82.9 | 85.2 | 87.4 | 89.0 | 88.9 | | 86.9 | 67.7 | |
| Debt service-to-revenue ratio (in percent) 3/ 4/ | 4.2 | 3.8 | 3.2 | | | 3.4 | 6.6 | 7.2 | 8.2 | 8.9 | 8.6 | | 9.5 | 10.6 | |
| Primary deficit that stabilizes the debt-to-GDP ratio | 2.8 | -0.1 | 4.0 | | | 3.6 | 3.3 | 3.4 | 3.3 | 3.0 | 2.9 | | 2.1 | 2.0 | |
| **Key macroeconomic and fiscal assumptions** | | | | | | | | | | | | | | | |
| Real GDP growth (in percent) | 7.3 | 7.8 | 8.4 | 7.2 | 1.3 | 7.8 | 7.6 | 7.5 | 7.5 | 7.6 | 7.5 | 7.6 | 7.0 | 7.0 | 7.0 |
| Average nominal interest rate on forex debt (in percent) | 2.0 | 1.8 | 2.1 | 2.0 | 0.1 | 2.8 | 2.8 | 2.9 | 2.9 | 2.9 | 3.0 | 2.9 | 3.7 | 4.7 | 3.9 |
| Average real interest rate on domestic currency debt (in percent) | -0.4 | -2.9 | -5.1 | -1.9 | 4.0 | -5.1 | 0.1 | 0.3 | 0.9 | 1.2 | 1.4 | -0.2 | 1.8 | 2.5 | 2.0 |
| Real exchange rate depreciation (in percent, + indicates depreciation) | -3.4 | -5.7 | -5.1 | -0.6 | 4.5 | -3.0 | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Inflation rate (GDP deflator, in percent) | 6.7 | 8.2 | 8.1 | 6.2 | 2.4 | 7.3 | 6.7 | 6.8 | 6.7 | 6.4 | 4.9 | 6.5 | 3.5 | 3.5 | 3.5 |
| Growth of real primary spending (deflated by GDP deflator, in percent) | 23.0 | 1.3 | 17.6 | 13.1 | 8.0 | 12.2 | 2.2 | 5.3 | 5.2 | 4.4 | 5.5 | 5.8 | 5.6 | 6.8 | 6.2 |
| Grant element of new external borrowing (in percent) | ... | ... | ... | ... | ... | 20.1 | 23.8 | 22.7 | 20.2 | 19.5 | 18.0 | 20.7 | 10.5 | 2.6 | 9.2 |

Sources: Country authorities; and Fund staff estimates and projections.

1/ Includes public and publicly guaranteed debt, both domestic and external. Excludes SOE and SOCB non-guaranteed debt.

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues including grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 2a.Vietnam: Sensitivity Analysis for Key Indicators of Public Debt 2006-2026

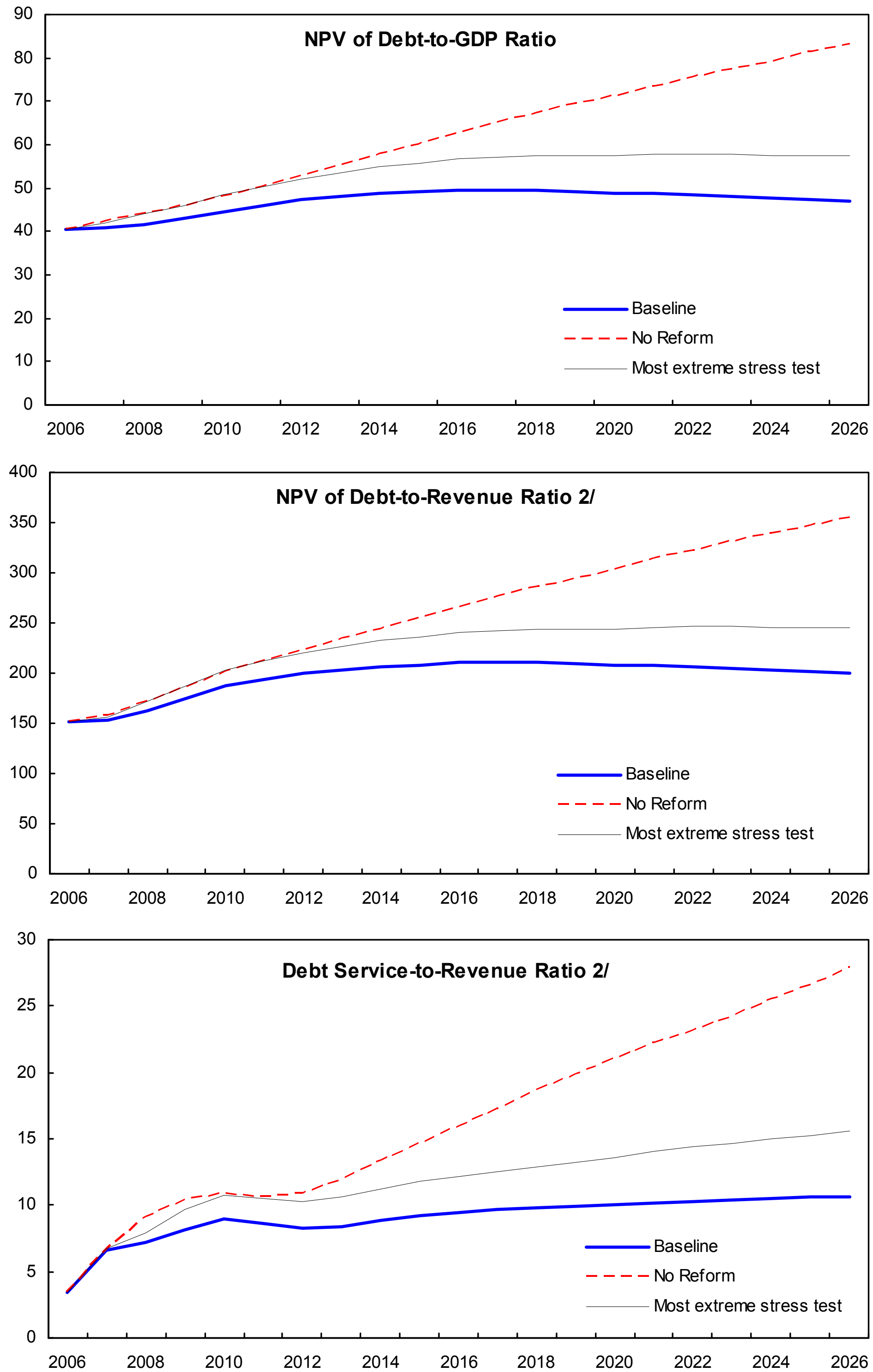
| | Projections | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2016 | 2026 |
| **NPV of Debt-to-GDP Ratio** | | | | | | | | |
| **Baseline** | 41 | 41 | 42 | 43 | 45 | 46 | 50 | 47 |
| **A. Alternative scenarios** | | | | | | | | |
| A1. Real GDP growth and primary balance are at historical averages | 41 | 40 | 39 | 39 | 39 | 40 | 43 | 49 |
| A2. Primary balance is unchanged from 2006 | 41 | 42 | 44 | 46 | 48 | 50 | 63 | 83 |
| A3. Permanently lower GDP growth 1/ | 41 | 41 | 42 | 44 | 46 | 47 | 54 | 60 |
| A4. Oil price at WEO Spring 2006 published baseline | 41 | 43 | 44 | 47 | 49 | 52 | 60 | 64 |
| **B. Bound tests** | | | | | | | | |
| B1. Real GDP growth is at historical average minus one standard deviations in 2007-2008 | 41 | 42 | 44 | 46 | 48 | 50 | 57 | 58 |
| B2. Primary balance is at historical average minus one standard deviations in 2007-2008 | 41 | 42 | 43 | 44 | 46 | 47 | 50 | 47 |
| B3. Combination of B1-B2 using one half standard deviation shocks | 41 | 41 | 42 | 43 | 45 | 46 | 50 | 47 |
| B4. One-time 30 percent real depreciation in 2007 | 41 | 50 | 50 | 50 | 51 | 52 | 55 | 53 |
| B5. 10 percent of GDP increase in other debt-creating flows in 2007 | 41 | 50 | 50 | 51 | 52 | 53 | 55 | 51 |
| **NPV of Debt-to-Revenue Ratio 2/** | | | | | | | | |
| **Baseline** | 152 | 153 | 163 | 174 | 188 | 194 | 211 | 200 |
| **A. Alternative scenarios** | | | | | | | | |
| A1. Real GDP growth and primary balance are at historical averages | 152 | 150 | 154 | 159 | 166 | 168 | 181 | 210 |
| A2. Primary balance is unchanged from 2006 | 152 | 159 | 172 | 186 | 202 | 212 | 266 | 354 |
| A3. Permanently lower GDP growth 1/ | 152 | 154 | 164 | 177 | 192 | 201 | 229 | 254 |
| A4. Oil price at WEO Spring 2006 published baseline | 160 | 171 | 185 | 201 | 218 | 229 | 265 | 284 |
| **B. Bound tests** | | | | | | | | |
| B1. Real GDP growth is at historical average minus one standard deviations in 2007-2008 | 152 | 157 | 172 | 187 | 203 | 212 | 241 | 245 |
| B2. Primary balance is at historical average minus one standard deviations in 2007-2008 | 152 | 156 | 167 | 179 | 192 | 199 | 214 | 203 |
| B3. Combination of B1-B2 using one half standard deviation shocks | 152 | 154 | 163 | 175 | 188 | 195 | 211 | 201 |
| B4. One-time 30 percent real depreciation in 2007 | 152 | 187 | 194 | 204 | 215 | 220 | 234 | 226 |
| B5. 10 percent of GDP increase in other debt-creating flows in 2007 | 152 | 188 | 196 | 207 | 219 | 224 | 236 | 216 |
| **Debt Service-to-Revenue Ratio 2/** | | | | | | | | |
| **Baseline** | 3 | 7 | 7 | 8 | 9 | 9 | 9 | 11 |
| **A. Alternative scenarios** | | | | | | | | |
| A1. Real GDP growth and primary balance are at historical averages | 3 | 7 | 6 | 6 | 5 | 4 | 7 | 11 |
| A2. Primary balance is unchanged from 2006 | 3 | 7 | 9 | 10 | 11 | 11 | 16 | 28 |
| A3. Permanently lower GDP growth 1/ | 3 | 7 | 7 | 8 | 9 | 9 | 11 | 16 |
| A4. Oil price at WEO Spring 2006 published baseline | 4 | 7 | 8 | 10 | 11 | 11 | 13 | 16 |
| **B. Bound tests** | | | | | | | | |
| B1. Real GDP growth is at historical average minus one standard deviations in 2007-2008 | 3 | 7 | 8 | 10 | 11 | 11 | 12 | 16 |
| B2. Primary balance is at historical average minus one standard deviations in 2007-2008 | 3 | 7 | 8 | 9 | 9 | 9 | 10 | 11 |
| B3. Combination of B1-B2 using one half standard deviation shocks | 3 | 7 | 7 | 7 | 9 | 8 | 9 | 10 |
| B4. One-time 30 percent real depreciation in 2007 | 3 | 7 | 9 | 10 | 11 | 11 | 12 | 14 |
| B5. 10 percent of GDP increase in other debt-creating flows in 2007 | 3 | 7 | 20 | 13 | 12 | 11 | 11 | 13 |

Sources: Country authorities; and Fund staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of 20 (i.e., the length of the projection period).

2/ Revenues are defined inclusive of grants.

**Figure 1a. Vietnam: Indicators of Public Debt Under Alternative Scenarios, 2006-2026 1/**




Source: Staff projections and simulations.
1/ Most extreme stress test is test that yields highest ratio in 2016.
2/ Revenue including grants.

Table 3a. Vietnam: External Debt Sustainability Framework, Baseline Scenario, 2006-2026 1/
(In percent of GDP, unless otherwise indicated)

| | Actual | | Historical Average 6/ | Standard Deviation 6/ | Projections | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2004 | 2005 | | | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2006-11 Average | 2016 | 2026 | 2012-26 Average |
| **External debt (nominal) 1/** | **33.9** | **32.5** | | | **32.6** | **32.1** | **31.5** | **31.2** | **30.9** | **30.8** | | **30.6** | **26.8** | |
| o/w public and publicly guaranteed (PPG) | 27.6 | 26.8 | | | 27.5 | 27.5 | 27.4 | 27.2 | 26.9 | 26.8 | | 25.6 | 18.8 | |
| Change in external debt | 0.2 | -1.4 | | | 0.1 | -0.5 | -0.6 | -0.3 | -0.3 | -0.1 | | 0.4 | -0.3 | |
| Identified net debt-creating flows | -4.1 | -7.4 | | | -4.9 | -4.1 | -2.8 | -1.4 | -1.3 | -1.3 | | -1.0 | -1.1 | |
| **Non-interest current account deficit** | **2.4** | **-1.0** | **0.1** | **3.7** | **-1.3** | **-0.5** | **0.7** | **2.0** | **2.0** | **1.9** | | **1.7** | **1.6** | 1.7 |
| Deficit in balance of goods and services | 6.5 | 3.8 | | | 2.9 | 4.1 | 5.3 | 6.6 | 6.8 | 6.6 | | 4.9 | 3.4 | |
| Exports | 68.1 | 69.3 | | | 72.5 | 74.6 | 75.9 | 77.0 | 78.1 | 80.6 | | 91.6 | 86.8 | |
| Imports | 74.6 | 73.1 | | | 75.4 | 78.7 | 81.2 | 83.6 | 84.9 | 87.2 | | 96.5 | 90.2 | |
| Net current transfers (negative = inflow) | -5.5 | -6.4 | -4.8 | 1.0 | -6.1 | -5.9 | -5.8 | -5.7 | -5.4 | -5.2 | | -3.8 | -1.9 | -3.2 |
| Other current account flows (negative = net inflow) | 1.4 | 1.6 | | | 1.9 | 1.4 | 1.2 | 1.1 | 0.7 | 0.6 | | 0.6 | 0.2 | |
| **Net FDI (negative = inflow)** | **-2.8** | **-2.5** | **-3.5** | **0.9** | **-2.4** | **-2.6** | **-2.5** | **-2.5** | **-2.4** | **-2.4** | | **-2.2** | **-2.4** | -2.3 |
| **Endogenous debt dynamics 2/** | **-3.7** | **-3.9** | | | **-1.2** | **-1.0** | **-0.9** | **-0.8** | **-0.8** | **-0.8** | | **-0.5** | **-0.3** | |
| Contribution from nominal interest rate | 0.7 | 0.9 | | | 1.1 | 1.2 | 1.2 | 1.3 | 1.3 | 1.3 | | 1.4 | 1.4 | |
| Contribution from real GDP growth | -2.3 | -2.5 | | | -2.2 | -2.2 | -2.2 | -2.1 | -2.1 | -2.1 | | -1.9 | -1.7 | |
| Contribution from price and exchange rate changes | -2.1 | -2.3 | | | … | … | … | … | … | … | | … | … | |
| **Residual (3-4) 3/** | **4.3** | **6.0** | | | **5.0** | **3.6** | **2.2** | **1.1** | **0.9** | **1.2** | | **1.4** | **0.8** | |
| o/w exceptional financing | 0.0 | 0.0 | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | 0.0 | 0.0 | |
| NPV of external debt 4/ | ... | 27.4 | | | 27.4 | 26.7 | 25.9 | 25.5 | 25.1 | 25.0 | | 25.5 | 23.9 | |
| In percent of exports | ... | 39.5 | | | 37.9 | 35.8 | 34.0 | 33.1 | 32.2 | 31.0 | | 27.8 | 27.5 | |
| **NPV of PPG external debt** | **...** | **21.7** | | | **22.4** | **22.2** | **21.8** | **21.5** | **21.1** | **21.0** | | **20.4** | **15.9** | |
| In percent of exports | ... | 31.3 | | | 30.9 | 29.7 | 28.7 | 27.9 | 27.1 | 26.1 | | 22.3 | 18.3 | |
| Debt service-to-exports ratio (in percent) | 5.9 | 5.5 | | | 5.6 | 5.8 | 5.9 | 5.4 | 5.7 | 5.9 | | 6.3 | 7.2 | |
| **PPG debt service-to-exports ratio (in percent)** | 3.8 | 3.6 | | | 3.7 | 3.8 | 3.7 | 3.8 | 4.1 | 4.4 | | 4.8 | 4.7 | |
| Total gross financing need (billions of U.S. dollars) | 1.8 | 0.4 | | | 0.5 | 1.2 | 2.4 | 3.6 | 4.5 | 5.5 | | 10.2 | 25.3 | |
| Non-interest current account deficit that stabilizes debt ratio | 2.2 | 0.4 | | | -1.4 | 0.0 | 1.3 | 2.2 | 2.3 | 2.0 | | 1.3 | 1.9 | |
| **Key macroeconomic assumptions** | | | | | | | | | | | | | | |
| Real GDP growth (in percent) | 7.8 | 8.4 | 7.2 | 1.3 | 7.8 | 7.6 | 7.5 | 7.5 | 7.6 | 7.5 | 7.6 | 7.0 | 7.0 | 7.0 |
| GDP deflator in US dollar terms (change in percent) | 6.6 | 7.2 | 2.5 | 4.3 | 5.9 | 4.5 | 4.4 | 4.5 | 4.3 | 2.4 | 4.3 | 2.0 | 2.0 | 1.9 |
| Effective interest rate (percent) 5/ | 2.4 | 2.9 | 3.0 | 0.5 | 3.7 | 4.2 | 4.4 | 4.5 | 4.6 | 4.6 | 4.3 | 5.2 | 5.7 | 5.3 |
| Growth of exports of G&S (U.S. dollar terms, in percent) | 32.0 | 18.3 | 17.4 | 10.1 | 19.5 | 15.7 | 14.3 | 13.9 | 13.8 | 13.6 | 15.1 | 10.7 | 7.0 | 9.6 |
| Growth of imports of G&S (U.S. dollar terms, in percent) | 26.7 | 14.0 | 14.4 | 11.9 | 17.7 | 17.4 | 15.9 | 15.6 | 14.0 | 13.0 | 15.6 | 10.3 | 7.2 | 9.3 |
| Grant element of new public sector borrowing (in percent) | ... | ... | ... | ... | 20.1 | 23.8 | 22.7 | 20.2 | 19.5 | 18.0 | 20.7 | 10.5 | 2.6 | 9.2 |
| *Memorandum item:* | | | | | | | | | | | | | | |
| Nominal GDP (billions of U.S. dollars) | 45.4 | 52.8 | | | 60.4 | 67.8 | 76.2 | 85.6 | 96.1 | 105.7 | | 162.2 | 389.4 | |

Source: Staff simulations.

1/ Includes both public and private sector external debt.
2/ Derived as [r - g - r(1+g)]/(1+g+r+gr) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and r = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
4/ Assumes that NPV of private sector debt is equivalent to its face value.
5/ Current-year interest payments devided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

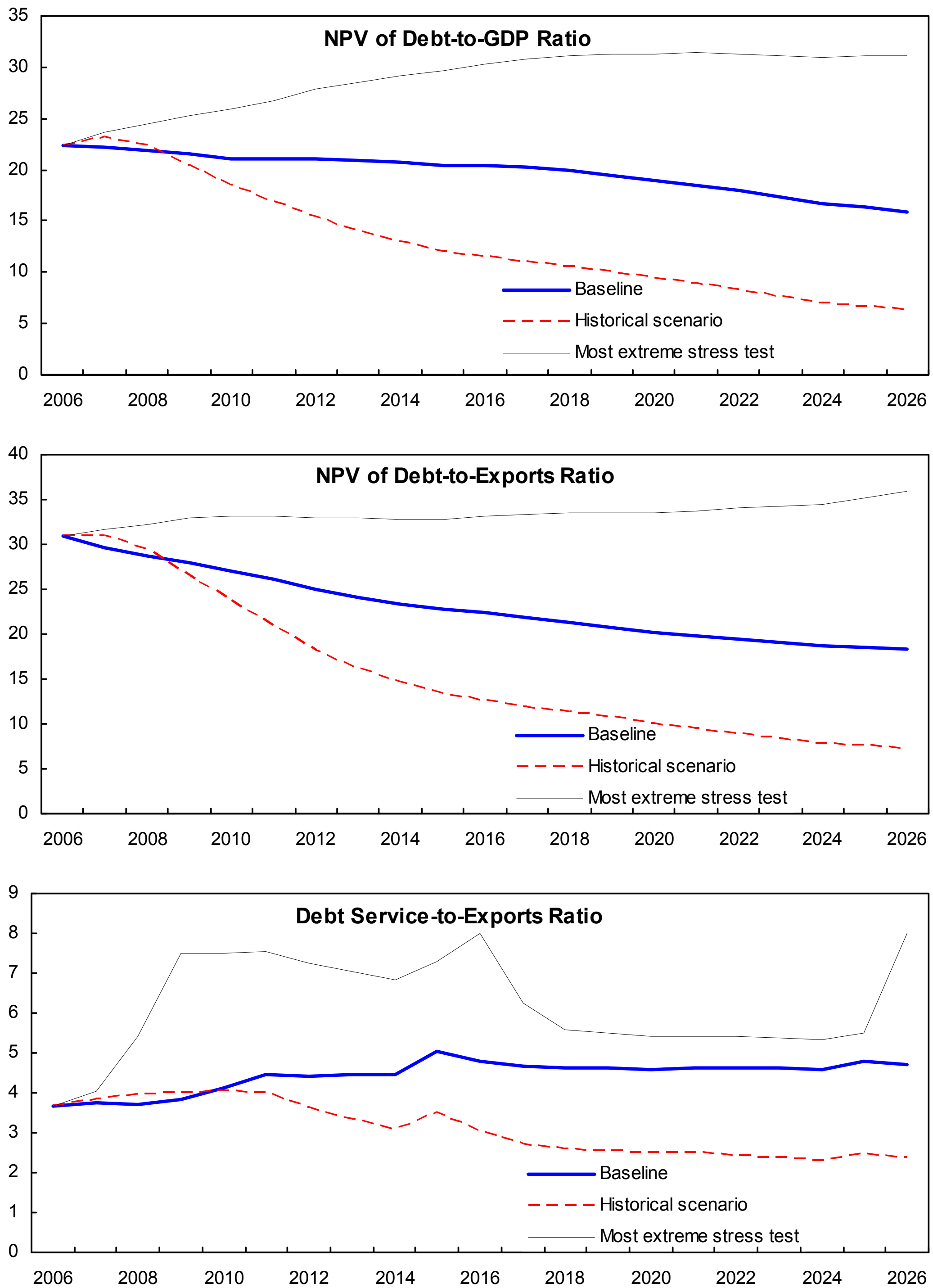
Table 3b. Vietnam: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2006-26
(In percent)

| | Projections | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2016 | 2026 |
| **NPV of debt-to-GDP ratio** | | | | | | | | |
| **Baseline** | 22 | 22 | 22 | 21 | 21 | 21 | 20 | 16 |
| **A. Alternative Scenarios** | | | | | | | | |
| A1. Key variables at their historical averages in 2007-26 1/ | 22 | 23 | 22 | 20 | 19 | 17 | 12 | 6 |
| A2. New public sector loans on less favorable terms in 2007-26 2/ | 22 | 24 | 24 | 25 | 26 | 27 | 30 | 31 |
| **B. Bound Tests** | | | | | | | | |
| B1. Real GDP growth at historical average minus one standard deviation in 2007-08 | 22 | 23 | 22 | 22 | 22 | 22 | 21 | 16 |
| B2. Export value growth at historical average minus one standard deviation in 2007-08 3/ | 22 | 28 | 36 | 33 | 31 | 29 | 22 | 16 |
| B3. US dollar GDP deflator at historical average minus one standard deviation in 2007-08 | 22 | 24 | 25 | 24 | 24 | 24 | 23 | 18 |
| B4. Net non-debt creating flows at historical average minus one standard deviation in 2007-08 4/ | 22 | 24 | 26 | 25 | 24 | 23 | 21 | 16 |
| B5. Combination of B1-B4 using one-half standard deviation shocks | 22 | 27 | 34 | 32 | 30 | 28 | 24 | 18 |
| B6. One-time 30 percent nominal depreciation relative to the baseline in 2007 5/ | 22 | 31 | 31 | 30 | 30 | 29 | 29 | 22 |
| **NPV of debt-to-exports ratio** | | | | | | | | |
| **Baseline** | 31 | 30 | 29 | 28 | 27 | 26 | 22 | 18 |
| **A. Alternative Scenarios** | | | | | | | | |
| A1. Key variables at their historical averages in 2007-26 1/ | 31 | 31 | 29 | 27 | 24 | 21 | 13 | 7 |
| A2. New public sector loans on less favorable terms in 2007-26 2/ | 31 | 32 | 32 | 33 | 33 | 33 | 33 | 36 |
| **B. Bound Tests** | | | | | | | | |
| B1. Real GDP growth at historical average minus one standard deviation in 2007-08 | 31 | 30 | 29 | 28 | 27 | 26 | 22 | 18 |
| B2. Export value growth at historical average minus one standard deviation in 2007-08 3/ | 31 | 40 | 54 | 50 | 45 | 41 | 27 | 21 |
| B3. US dollar GDP deflator at historical average minus one standard deviation in 2007-08 | 31 | 30 | 29 | 28 | 27 | 26 | 22 | 18 |
| B4. Net non-debt creating flows at historical average minus one standard deviation in 2007-08 4/ | 31 | 33 | 34 | 32 | 30 | 29 | 23 | 18 |
| B5. Combination of B1-B4 using one-half standard deviation shocks | 31 | 36 | 42 | 39 | 36 | 33 | 24 | 19 |
| B6. One-time 30 percent nominal depreciation relative to the baseline in 2007 5/ | 31 | 30 | 29 | 28 | 27 | 26 | 22 | 18 |
| **Debt service ratio** | | | | | | | | |
| **Baseline** | 4 | 4 | 4 | 4 | 4 | 4 | 5 | 5 |
| **A. Alternative Scenarios** | | | | | | | | |
| A1. Key variables at their historical averages in 2007-26 1/ | 4 | 4 | 4 | 4 | 4 | 4 | 3 | 2 |
| A2. New public sector loans on less favorable terms in 2007-26 2/ | 4 | 4 | 4 | 4 | 4 | 4 | 5 | 7 |
| **B. Bound Tests** | | | | | | | | |
| B1. Real GDP growth at historical average minus one standard deviation in 2007-08 | 4 | 4 | 4 | 4 | 4 | 4 | 5 | 5 |
| B2. Export value growth at historical average minus one standard deviation in 2007-08 3/ | 4 | 4 | 5 | 7 | 7 | 8 | 8 | 8 |
| B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2007-08 | 4 | 4 | 4 | 4 | 4 | 4 | 5 | 5 |
| B4. Net non-debt creating flows at historical average minus one standard deviation in 2007-08 4/ | 4 | 4 | 4 | 5 | 5 | 5 | 5 | 5 |
| B5. Combination of B1-B4 using one-half standard deviation shocks | 4 | 4 | 4 | 5 | 5 | 5 | 5 | 5 |
| B6. One-time 30 percent nominal depreciation relative to the baseline in 2007 5/ | 4 | 4 | 4 | 4 | 4 | 4 | 5 | 5 |
| *Memorandum item:* | | | | | | | | |
| Grant element assumed on residual financing (i.e., financing required above baseline) 6/ | 1 | 1 | 1 | 1 | 1 | 0 | 0 | 0 |

Source: Staff projections and simulations.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline, while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

**Figure 2. Vietnam: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2006-2026**
**(In percent)**




Source: Staff projections and simulations.
1/ Most extreme stress test is test that yields highest ratio in 2016.

**Statement by the IMF Staff Representative**
**October 25, 2006**

The information provided below has become available since the issuance of the staff report. The thrust of the staff appraisal remains unchanged.

1. On October 9, the Government of Vietnam issued the action plan to implement the Socio-Economic Development Plan (SEDP) for 2006–2010. The new SEDP, which is also the government's new Poverty Reduction Strategy Paper, will soon be issued to the Board, together with a Joint Staff Advisory Note, for information.

2. Real GDP is estimated to have risen by 7.8 percent (year-on-year (yoy)) during the first nine months of 2006, in line with the staff report's projections. While inflation declined to 6.9 percent (yoy) as of September, and the pass-through of recent decreases in international oil prices should serve to moderate cost-push pressures in the short run, average inflation is still projected at around 7½ percent in 2006. The coming into effect of the increase in the common minimum wage (by 28½ percent) on October 1, 2006, together with strong seasonal demand and a possible pick-up in credit growth (see below), can be expected to restrain the disinflationary impact of falling oil prices in the period ahead. Gasoline prices have been reduced in two steps by a cumulative 12½ percent since end-August, compared with a 20 percent decline in international oil prices. As the profit margins of oil traders were restored, import tariffs on gasoline, which had been reduced from 5 percent to zero in April 2006, were reinstated in late-August and have since been raised to 20 percent. The domestic prices of diesel and kerosene, which had not been fully adjusted to reflect the earlier increases in world prices, have remained unchanged, and applicable import tariffs kept at zero. Following the recent decline in international oil prices, the subsidy element has been largely eliminated.

3. The revised outlook for oil prices implies a significant reduction in the oil revenue windfall for the budget. Oil revenues under the new WEO oil price baseline are now projected to fall short of the staff report's projections by 0.5-1 percent of GDP over the medium term. During 2006-07, the net effect on the fiscal balance should be largely offset by a faster-than-projected decline in subsidies to oil traders, together with the increase in import duty receipts resulting from the above-mentioned reinstatement of gasoline import tariffs. The overall deficit is now projected to increase by 0.1 and 0.3 percent in 2006 and 2007 respectively, compared to the staff report's projections. However, the increase in the deficit could be a little higher (0.6-0.7 percent of GDP) in 2008–10 (since the authorities' announced plan to eliminate oil subsidies by 2008 were already factored into the staff's baseline scenario). These developments reinforce the need for measures to rein in the growth of public expenditure, so as to save a good part of the oil revenue windfall.

4. The growth of credit to the economy edged down to 21.3 percent (yoy) in July, but the recent pattern of slowing credit growth may be difficult to sustain in the period ahead. The growth of credit extended by state-owned commercial banks (SOCBs) fell to 13.4 percent (yoy) in July, more than offsetting a pick-up in the growth of lending by joint-

stock banks (to 40.8 percent). While the State Bank of Vietnam (SBV) has kept its policy rates unchanged, open market operations (OMO) rates have fallen to 1-1½ percent in recent months, as excess bank liquidity was boosted by a further increase in official reserves—to US$11.2 billion as of end-August. Following recent instructions from the Prime Minister, the SBV Governor issued several official letters in August and September, which instructed SOCBs to provide financing for a number of large SOE projects without requiring project evaluation. In addition, the SBV has provided SOCBs with exemptions from the single-borrower limit of 15 percent of equity for lending to selected SOEs. While data on the size and likely phasing of the new SOCB loans are not available, their aggregate amount could be significant, and could lead to a pick-up in credit growth in the coming months.

5. On the structural front, continued progress has been made towards strengthening the regulatory and legal framework, and the authorities have announced plans to step up market-oriented reforms in the period ahead. In the banking system, SOCBs have been required to conduct annual audits in accordance with International Accounting Standards, with their first such reports for 2005 to be submitted to the SBV by October 31, 2006, and their equitization is to be completed on an accelerated schedule by 2008. On October 17, in his opening statement to the National Assembly's fall session, the Prime Minister indicated that the government will reduce its intervention in pricing in 2007, including by liberalizing the prices of cement, steel and fertilizer and reducing state subsidies for petroleum, coal and electricity production and trading. The Prime Minister also reiterated the government's plan to restructure all SOEs, including by allowing most of them to be partly equitized during 2006-2010. As regards the legal framework, all implementing decrees for the Unified Enterprise Law and the Common Investment Law were issued in August and September 2006, with a view to complying with Vietnam's WTO agreements. The government has also established an inter-agency task force to address potential difficulties in implementation, which could arise from possible inconsistencies between the two laws and the implementing regulations.

6. The 14th session of multilateral negotiations on Vietnam's accession to the WTO was completed on October 10, 2006. The working party on Vietnam will meet again on October 26 in Geneva to address any outstanding issues. If all goes smoothly, agreement on Vietnam's WTO membership could be finalized in time for accession by the end of this year.

INTERNATIONAL MONETARY FUND
*Public Information Notice*
EXTERNAL RELATIONS DEPARTMENT

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November 7, 2006

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

## IMF Executive Board Concludes 2006 Article IV Consultation with Vietnam

On October 25, 2006, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Vietnam.[1]

**Background**

Overall macroeconomic performance has remained strong since the conclusion of the last Article IV consultation. Real GDP growth rose to 8.4 percent in 2005, spurred by strong domestic and external demand, and it remained robust in the first half of 2006 as continued strong domestic consumption and rising export growth offset a slowdown in public investment. However, the expansion of aggregate demand, together with increases in world commodity prices, has hampered efforts to bring down inflation. The year-on-year (yoy) rate of inflation has edged down from 8¾ percent in December 2005 to 7½ percent in August, but inflation has become more broadly based and has remained well above the rates prevailing in Vietnam's major trading partners. The continued brisk pace of exports and resulting strengthening of the current account, together with strong official development assistance (ODA) and foreign direct investment (FDI) has kept the balance of payments in comfortable surplus. Gross official reserves rose from US$6.3 billion at end-2004 to US$8.6 billion as of end-2005, and to nearly $11 billion as of end-June (Table 1).

Fiscal policy was eased considerably in 2005. Despite the oil revenue windfall, the narrowly-defined official budget balance shifted from a surplus of 1 percent of GDP in 2004 to a deficit of

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

about 1 percent of GDP in 2005. Expenditure growth outpaced revenues, spurred by increasing public sector wages and oil subsidies. A surge in off-budget investment and net lending further boosted total outlays, and the overall deficit (as measured in accordance with the IMF's definition, which includes on-lending through the Development Assistance Fund and other off-budget operations) rose from less than 3 percent of GDP in 2004 to almost 6 percent of GDP in 2005. The non-oil deficit widened more markedly to 14½ percent of GDP, while the stock of public debt rose to 43½ percent of GDP as of end-2005.

The rate of growth of credit to the economy fell from more than 30 percent in 2005 to 21 percent (yoy) as of June 2006. New lending fell sharply as state-owned commercial banks (SOCBs) endeavored to meet the new prudential standards of the State Bank of Vietnam (SBV). However, with bank liquidity boosted as a result of the already-mentioned sharp increase in official reserves, reserve money growth increased to 31 percent (yoy) as of June. The SBV's policy rates were raised by about ½ percentage point in December 2005, and they have remained unchanged since then (with the discount rate at 4½ percent, the refinancing rate at 6½ percent and the base rate at 8¼ percent). However, open market operation rates have fallen to 2-3 percent in recent months, as sales of SBV bills have fallen far short of absorbing banks' excess reserves. While bank lending rates have remained basically flat, dong deposit rates have been under upward pressure, reflecting intensified competition for funds among joint stock banks, which have ample capital adequacy.

Good progress has been made over the last year in adopting legislation and market opening measures required for WTO compliance. The National Assembly approved the much-awaited Common Investment Law and Unified Enterprise Law in November 2005. The implementing regulations that are now being finalized should help level the playing field between domestic and foreign investors and private businesses and state-owned enterprises (SOEs). Vietnam has now completed all bilateral negotiations and hopes to accede to the WTO shortly. With the accession, Vietnam is expected to lower its trade barriers to a wide range of products and services.

Progress in SOCB and SOE reform has remained uneven. The development of plans for the resolution of nonperforming loans (NPLs) and for SOCB recapitalization has been delayed by difficulties in implementing new prudential standards. Discrepancies between SOCBs' initial NPL estimates and those of international auditors have led to further uncertainty regarding the size of potential contingent liabilities. However, the approval in May of a comprehensive Banking Sector Reform Roadmap has reiterated the government's commitment to banking sector reform. In the SOE sector, progress towards restructuring larger enterprises has remained slow, with equitized firms representing only 12 percent of SOE assets as of end-2005.

The outlook for the rest of 2006 is positive. With public investment expected to rebound in the second half of the year, and with the external environment remaining broadly favorable, GDP growth is projected to be close to the official target of 8 percent in 2006. However, inflation would remain higher than in trading partner countries. The rise in international oil prices, together with the continuing boom in non-oil exports, is projected to keep the external current account in a small surplus, which together with buoyant ODA, FDI and incipient private capital inflows would lead to a continuing rise in reserves.

Medium-term prospects for sustained high-quality growth and poverty reduction are also favorable but subject to risks. WTO accession should create new opportunities for growth of non-oil exports and FDI, and high oil prices should continue to underpin the public finances. However, greater exposure to global competition following WTO accession could pose challenges for SOEs operating in sectors that still benefit from protective tariffs or government subsidies. Additional risks to the outlook would stem from expansionary macroeconomic policies and delays in needed reforms. On the external front, key risks include a significant slowdown in the U.S. economy; a disorderly adjustment of global imbalances, which could reduce investors' appetite for risk; and a fall in international oil prices.

**Executive Board Assessment**

Executive Directors praised Vietnam's impressive record of sustained high growth and rapid poverty reduction, and noted that continuing efforts to improve the economy's market orientation had made Vietnam an attractive destination for foreign investment. Looking ahead, Directors underscored that faster reforms of previously-protected industries would be essential to enable the economy to reap the full benefits from Vietnam's forthcoming WTO accession.

Directors noted that the short-term outlook is broadly positive, but medium-term prospects are subject to some uncertainties. Inflation remains higher and more entrenched than in most other Asian countries and, under the new Five-Year Socio-Economic Development Plan, growth will continue to rely heavily on public investment, whose quality remains uncertain.
While recognizing the economy's large infrastructure needs, Directors cautioned that a rising public debt burden could eventually crowd out poverty-reducing outlays in the event of a slowdown in world growth or lower oil prices.

Directors stressed the need for a more prudent fiscal stance, particularly in light of the economy's strong cyclical position. They welcomed the substantial reduction in oil subsidies in 2006, but considered that the recent decline of international oil prices had weakened the fiscal outlook, reinforcing the need to rein in growth in public spending. Furthermore, Directors urged the authorities to contain future increases in public wages and intensify efforts to improve the screening of new investment projects. In this context, they called for the adoption of enabling regulations to help enforce the recently-approved laws to curb corruption and prevent the waste of public funds. Directors stressed that more transparent accounting, reporting, and monitoring of the government's extra-budgetary operations and all publicly-funded projects is needed to shore up donor and investor confidence.

Directors welcomed the recent deceleration of credit growth, and stressed that continuation of this trend would help contain inflation and reverse the growth of banks' NPLs, although excess bank liquidity could reverse the recent progress in this area. Directors urged the authorities to step up liquidity-absorbing open market operations, avoid directed lending through state-owned commercial banks, and introduce adequate prudential measures to limit banks' off-balance-sheet risks.

Directors commended the authorities' acceptance of the obligations under the Fund's Article VIII and supported their plan to make the dong fully convertible by 2010. While the dong does not currently appear to be misaligned, most Directors were of the view that the current strength of the external position would facilitate a move towards greater exchange rate flexibility, which would serve to cushion the economy from external shocks and foster better management of exchange rate risks. In this respect, they welcomed the recent move toward liberalizing banks' own exchange rates for currency transactions.

Directors welcomed the authorities' Banking Sector Reform Roadmap and the plans to convert the State Bank of Vietnam into a modern central bank. They also supported the plans to apply International Accounting Standards for all state-owned banks, and urged the authorities to proceed with a realistic valuation of NPLs as a basis for NPL resolution and bank recapitalization plans. Directors emphasized that, to place state-owned bank operations on a sound commercial basis, their managers would need to be given increased operational autonomy. While supporting the government's plans to accelerate the issuance of equity in state-owned banks, Directors stressed that adequate strategic foreign investor participation would be important to help improve governance.

Directors welcomed the authorities' plans to restructure and issue equity in most state-owned enterprises by 2010. They urged the authorities to grant managers full autonomy to make their own pricing and investment decisions. In this connection, Directors welcomed the recently-announced plans to liberalize the prices of cement, steel and fertilizer and reduce state subsidies in the energy sector, and urged the authorities to adopt time-bound plans to remove all other remaining distortionary price regulations.

Directors stressed that a continuing opening up of the trade and investment regimes would be key to private sector-led growth. They urged the authorities to implement the Common Investment Law and Unified Enterprise Law to level the playing field, while preventing any increase in government intervention.

Directors urged the authorities to improve the timeliness and quality of data on off-budget fiscal activities, money and banking statistics, and balance of payments and reserve data to support informed policy decisions and effective interaction with markets.

***Public Information Notices (PINs)*** form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Table 1. Vietnam: Selected Economic Indicators, 2002-07

Nominal GDP (2005): US$52.8 billion
Population (2005): 83.12 million

GDP per capita (2005): US$636
Fund quota: SDR 329.1 million

| | 2002 | 2003 | 2004 | 2005 Prel. | 2006 Proj. | 2007 Proj. |
|---|---|---|---|---|---|---|
| Real GDP (annual percentage change) | 7.1 | 7.3 | 7.8 | 8.4 | 7.8 | 7.6 |
| Industrial output | 14.8 | 16.8 | 16.6 | 17.2 | ... | ... |
| Inflation (annual percentage change) | | | | | | |
| Period average | 4.0 | 3.2 | 7.7 | 8.3 | 7.6 | 7.1 |
| End of period | 4.0 | 2.9 | 9.7 | 8.8 | 7.7 | 6.5 |
| GDP deflator | 4.0 | 6.7 | 8.2 | 8.0 | 7.4 | 6.7 |
| General government | | | | | | |
| Official budget balance | -1.4 | -1.2 | 0.9 | -1.2 | -1.3 | -1.5 |
| Revenue and grants | 22.7 | 24.9 | 26.7 | 25.9 | 26.8 | 26.8 |
| *of which:* oil revenue | 6.8 | 7.0 | 7.9 | 8.8 | 9.8 | 9.6 |
| Expenditure | 24.2 | 26.1 | 25.8 | 27.1 | 28.0 | 28.3 |
| Off-budget expenditure and net lending | 3.3 | 5.2 | 3.7 | 4.7 | 5.0 | 4.0 |
| Overall fiscal balance including off-budget expenditure | -4.7 | -6.4 | -2.8 | -5.9 | -6.3 | -5.5 |
| Non-oil overall fiscal deficit | -11.5 | -13.5 | -10.7 | -14.6 | -16.1 | -15.2 |
| Money and credit (annual percentage change, end of period) | | | | | | |
| Broad money | 17.6 | 24.9 | 29.5 | 29.7 | 28.9 | 25.0 |
| Credit to the economy | 22.2 | 28.4 | 41.6 | 31.7 | 22.6 | 23.6 |
| Reserve money | 12.4 | 27.4 | 16.1 | 23.7 | ... | ... |
| Interest rates (in percent, end of period) | | | | | | |
| Nominal three-month deposit rate (households) | 7.0 | 6.3 | 6.7 | 7.8 | ... | .. |
| Nominal short-term lending rate (less than one year) | 9.9 | 10.0 | 10.7 | 12.0 | ... | .. |
| Real three-month deposit rate (households) | 2.8 | 3.3 | -2.7 | -0.9 | ... | .. |
| Real short-term lending rate (less than one year) | 5.6 | 6.9 | 1.0 | 3.0 | ... | .. |
| Current account balance (including official transfers) | | | | | | |
| (in millions of U.S. dollars) | -673 | -1,932 | -1,565 | 218 | 164 | -505 |
| (in percent of GDP) | -1.9 | -4.9 | -3.4 | 0.4 | 0.3 | -0.7 |
| Exports f.o.b (annual percentage change, U.S. dollar terms) | 11.2 | 20.6 | 31.4 | 22.5 | 20.1 | 15.8 |
| Imports f.o.b. (annual percentage change, U.S. dollar terms) | 22.1 | 28.0 | 26.6 | 15.7 | 18.1 | 17.8 |
| Foreign exchange reserves (in millions of U.S. dollars, end of period) | | | | | | |
| Gross official reserves, including gold | 3,692 | 5,620 | 6,314 | 8,557 | 11,458 | 15,357 |
| (in weeks of next year's imports of goods and nonfactor services) | 7.2 | 8.7 | 8.5 | 9.8 | 11.2 | 12.9 |
| External debt (in percent of GDP) 1/ | 35.0 | 33.8 | 33.9 | 32.5 | 32.6 | 32.1 |
| External debt service due (in percent of exports of goods and nonfactor services) 1/ | 8.3 | 7.5 | 5.9 | 5.5 | 5.6 | 5.8 |
| Total public and publicly guaranteed debt (in percent of GDP) 1/ | 38.2 | 40.8 | 42.7 | 43.7 | 45.5 | 46.0 |
| Memorandum items: | | | | | | |
| GDP (in trillions of dong at current market prices) | 535.8 | 613.4 | 715.3 | 837.9 | 970.1 | 1114.0 |
| Per capita GDP (in U.S. dollars) | 440 | 492 | 553 | 636 | 715 | 793 |

Sources: Data provided by the authorities; and IMF staff estimates and projections.

1/ Debt estimates based on data available as of end-August 2006.

**Statement by Hooi Eng Phang, Executive Director for Vietnam
and Quoc Anh Duong, Advisor to Executive Director
October 25, 2006**

## Introduction

1. We would like to convey to the management and staff of the Fund the appreciation of our Vietnamese authorities for the continued support extended to Vietnam through policy dialogue, technical advice and training over the years. This has provided a conducive environment for the authorities to embark on a forward-looking economic program aimed at enhancing the country's economic potential and strengthening its capacity, in order to attain a more sustainable and broad-based growth over the medium term. On behalf of the Vietnamese authorities, we would like to thank staff for their well-written report and selected issues paper.

2. The authorities have made significant progress in moving from a state-controlled economy towards a market economy. Under the Five year Socio-economic Development Plan (SEDP) 2001–2005, all levels of the public sector had worked with dedication and diligence to achieve solid growth with poverty eradication. They are now working hard to implement the next Five year SEDP (2006–2010) with the aim of lifting the country out of the low income situation. Cognizant of challenges ahead, the authorities are nevertheless committed to implementing reforms to raise productivity and competitiveness for sustained economic growth and poverty reduction. In this endeavour, they hope that they can count on continued cooperation and assistance from the international donor community in general and active consultations with the Fund in particular.

## Recent Economic Developments

3. In 2005 and the first half of 2006, the country was faced with a plethora of adversities, including adverse weather, the outbreak of foot-and-mouth disease, the re-occurrence of avian flu with the risk of a pandemic outbreak, and significant upsurge in commodity and service prices, especially oil and gas and other key materials. However, thanks to the efforts of the authorities, sound policies and good measures for maintaining macroeconomic stability such as appropriate State-owned enterprise (SOE) reform, enhancement of enterprise competitiveness and improvement of the legal framework in line with the integration process were all effectively implemented. Thus the Vietnamese economy continued to perform well in 2005 and early 2006.

4. Real GDP growth remained strong at 8.4 percent in 2005, supported by robust growth in consumption, buoyant domestic investment, expansion in exports and a rebound in FDI in anticipation of Vietnam's accession to the WTO. Inspite of the adverse impact of the global

increase in commodity prices, the year-on-year inflation rate declined from 8.4 percent in December 2005 to 7.5 percent in August 2006. The fiscal deficit continued to be restrained and the exchange rate remained broadly stable.

5. The macroeconomic outlook for Vietnam is broadly positive with continued robust growth projected at 8.2 percent in 2006. The performance of the external sector is expected to remain favourable with strong capital inflows from emigrants' remittances, tourism receipt, sustained ODA and FDI and export growth. The balance of payments has been generally satisfactory and external reserves have increased to about 11 weeks of imports (2005: 10.1 weeks of imports).

**Fiscal Policy**

6. The authorities have continued to pursue a prudent fiscal policy as part of their effort to provide a strong foundation for growth. In 2005, the final year of the 2001-2005 SEDP, the authorities were faced with many difficulties and challenges in implementing the state budget to achieve the targets of the Plan. Nevertheless, official data shows that the state budget deficit in 2005 was maintained at 4.9 percent of GDP, below the 5 percent target set by the National Assembly. This ratio is projected to remain restrained in 2006.

7. On the expenditure front, improvements were made in three main areas. Firstly, action was taken to improve the linkage between economic development plans and the budget. Secondly, administrative norms were rationalised. For example, procedures for state expenditure through the treasury system were significantly improved with the removal of unnecessary formalities. Thirdly, the authorities passed the Law on Corruption Prevention and Control and the Law on Practicing Thrift and Combating Wastefulness to upgrade the quality of public investment and prevent leakage and waste. In addition, in May 2006, the government established the Vietnam Development Bank through reorganizing the Development Assistance Fund (DAF) to improve the management mechanism and credit quality, and reduce the outstanding debt of the DAF.

8. Over the past years, the government has managed the domestic and external debt prudently. However, with the recent financial innovations by SOEs and State-owned commercial banks (SOCBs), the opportunities for borrowing on domestic and international capital markets are increasing and the government recognizes the need for a coordinated and disciplined public sector borrowing strategy. As recommended by staff, the government has recently issued Decree 134 on the control and repayment of foreign loans and plans to set up a single unit to monitor all domestic and external debts.

9. On the revenue front, the Government explored all means to broaden the tax base to mobilize more resources for socio-economic development. The government made continuous efforts to strengthen the tax administration. Main taxes such as VAT, special consumption

tax, and business income tax were further supplemented and amended in line with international best practices. Taxes were adjusted in the spirit of simplifying tax-paying procedures, reducing tax rates as well as creating favorable conditions for monitoring and prevention of tax evasion and fraud. Since 2003, the authorities have moved the budget revenue structure in the direction of increasing the proportion of stable revenues from domestic production. Besides tax innovations, many other policies have been adopted to improve revenue, including those relating to land and residential property, particularly revenues from assigning land use rights. Higher revenue from increased domestic activity and higher crude oil prices provided an additional source of financing for the investment and development of the national economy. It should be noted that though customs duties accounted for the third biggest share of total tax revenue, the share of fees and charges has decreased continuously since 2002 in line with Vietnam's international commitment.

**Monetary and Exchange Rate Policy**

10. In the past year, monetary activities were flexibly managed to curb inflation while supporting economic development. In order to control inflation, in line with staff's recommendation, the authorities have raised some key interest rates, including the refinancing rate, rediscount interest rate and the interest rate cap on deposits in foreign currencies. The credit institutions were instructed to improve credit quality and assess credit risk provisioning capacity to ensure the safety of the system. Consequently, the year-on-year inflation rate was contained to 8.4 percent by late 2005 and 7.5 percent in August 2006, while the rate of credit growth continued to decline to 23 percent in March 2006 and 21.5 percent in June. However, the present situation may have changed. While the policy rates have remained unchanged, the domestic interest rates have increased in line with the increase in global interest rates. The situation of excess liquidity in the banking system is temporary and differs between the state owned commercial banks, foreign bank branches and joint stock commercial banks while the interbank money market is not yet well developed. The authorities are concerned that the prolonged use of a tight monetary policy to control inflation may also dampen economic growth.

11. After nearly six years of dormant existence, the stock market has become more active in 2006. This would help to mobilize capital for economic development. However, it also poses a new potential risk associated with stock market-related lending. Sharing staff's concern about this issue, the authorities have launched an investigation and have recently issued new regulations to tighten the monitoring and control of lending for the purchase of shares.

12. The use of a managed floating exchange rate regime has helped to keep the Dong-US Dollar exchange rate broadly stable in recent years and to contain inflation and facilitate investment and international trade. However, in line with staff's advice, the authorities are exploring the option of exchange rate flexibility in the medium-term period. While

maintaining some essential administrative measures to protect the domestic and financial system, the authorities have been looking into ways to introduce broad reforms in the foreign exchange management mechanism which are consistent with the development of an open and internationally integrated economy.

13. The authorities have issued an amendment to Decree 63/1998/ND-CP on Foreign Exchange Management to confirm liberalization of the current account, to allow payments and transfers for current account transactions to be conducted freely within the territory of Vietnam. With the issuance of this amended Decree and the Ordinance on Foreign Exchange, the Fund has accredited Vietnam as being in full compliance with paragraphs 2, 3, and 4 of Article VIII of the IMF Articles of Agreement.

**Structural Reforms**

14. The authorities recognize the importance of intensifying structural reforms in order to encourage private investment, and sustain economic growth and poverty reduction. The structural reforms are ongoing in a wide range of areas include improving the efficiency of public sector financial management, accelerating reforms in the SOE and SOCB sectors, addressing the weaknesses in competition and investment regimes, ensuring public debt sustainability and encouraging foreign investment.

15. On financial sector reform, the authorities have implemented measures to accelerate the process of restructuring commercial banks to enhance the financial capacity and competitiveness of the banking system. In line with international best practices on debt classification, risk provisioning and capital adequacy, the State Bank of Vietnam (SBV) has issued legal documents on loan classification, making and using of provisions to settle credit risks in banking operations of credit institutions and on prudential ratios applied to credit institutions. All SOCBs' total debt outstanding incurred as at December 31, 2000 have been basically settled and they have been recapitalized by the state budget while all commercial banks have formulated their plans for NPL resolution and loan classification in accordance with the new prudential standard issued by SBV. It should be noted that the authorities have recently approved the government's Banking Sector Reform Roadmap, under which the SBV will be developed into a modern central bank; the commercial banks will be restructured and all SOCBs will be gradually equitized while international prudential standards will be in place by 2010. As part of this Reform, the government had previously decided to equitize the first two SOCBs, namely the Bank for Foreign Trade of Vietnam (VIETCOMBANK) and the Mekong Housing Bank (MHB), in 2007. As of now, these two banks are in the process of asset revaluation and financial settlement before hiring international consultants on equitization. The equitization of these two banks will provide momentum for the reform of the sector.

16. Being cognizant that SOE reform is essential for the development of a competitive and efficient economy, the authorities have made substantial progress on SOE reform in accordance with the Master Plan for SOE transformation, including the implementation of performance-based rating exercise and the establishment of the State Corporation of Investment Capital (SCIC) to manage the government’s stake in equitized SOEs. The government has issued a new directive to step up SOE equitization. There have been welcome revisions to the legal documents required for improving the equitization process, extending equitization to larger enterprises and listing equitized SOEs on the stock market. It should be noted that by August 2006, 4,447 SOEs have been transformed, of which 3,060 SOEs have been equitized and 61 equitized SOEs have been listed on the stock market.

17. The government has continued to create a more supportive environment for private and foreign enterprises. In order to create a level playing field and to meet the requirement for WTO accession, the authorities, in close consultation with private sector and foreign investor communities, have developed the Unified Enterprise Law and Common Investment Law. Under the Unified Enterprise Law, which was effective from July 1, 2006, domestic and foreign enterprises, regardless of ownership, are governed by the same corporate legislation and are free to choose the form of corporate entity (previously, foreign enterprises were allowed to operate only as limited liability companies). The Common Investment Law introduces a common investment regime for domestic and foreign investors alike so that a wider range of sectors is now open for foreign investment, in line with Vietnam’s current and prospective international commitments. In addition, the authorities have made substantial progress on efforts to secure early accession to the WTO. Vietnam is already in compliance with tariff reduction schedules on regional trade agreements and the adoption of international codes for classification of imports and exports. In addition, all bilateral and multilateral negotiations have been completed in preparation for Vietnam’s accession to the WTO.

**Other Issues**

18. The authorities have taken steps to improve transparency, and reduce bureaucracy and red tape over the past year. The administrative reforms have been implemented under very comprehensive civil service reforms. The Prime Minister has instructed ministries, government agencies and provinces to conduct a review of administrative procedures with a view toward simplifying them. Progress has been made in areas such as residential registration permits, business registration, land use rights certificates, and customs and tax procedures. The government also introduced new regulations to strengthen the delivery of public services through improved monitoring of service quality, introducing user feedback, and limiting the use of proceeds from service fees to fund salary expenditure.

19. In addition, recognizing the need to tackle the systemic causes of corruption, the National Assembly has passed the law on the prevention of corruption. The Prime Minister has issued an action plan delineating the roles of various ministries and agencies in ensuring

effective implementation. The authorities will be issuing the regulations for implementing the Anti-Money Laundering Law and moving forward in drafting an amendment to the criminal code on Combating the Financing of Terrorism.

**Conclusion**

20. While the road ahead is fraught with many challenges, the authorities would like to reaffirm their determination to overcome those challenges, by continuing to pursue prudent economic policies as well as enhancing reform implementation in a progressive and steady manner. This will have to take into account economic considerations, capacity constraints, and more importantly, the aspirations and hence the ownership of the people of Vietnam, which will be strengthened with further improvements in economic growth and poverty reduction.