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Vietnam: 2005 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 2005 Article IV consultation with Vietnam, the following documents have been released and are included in this package:

- the staff report for the 2005 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on June 17, 2005, 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 13, 2005. 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 7, 2005 updating information on recent developments.

- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its October 7, 2005 discussion of the staff report that concluded the Article IV consultation.

- a statement by the Executive Director for Vietnam.

The document(s) listed below have been or will be separately released.

Selected Issues Paper

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 2005 Article IV Consultation

Prepared by the Staff Representatives for
the 2005 Consultation with Vietnam

Approved by Masahiko Takeda and Mark Plant

September 13, 2005

- A staff team visited Hanoi and Ho Chi Minh City during June 2–17, 2005 to conduct the 2005 Article IV Consultation discussions. The team comprised Mr. Molho (Head), Mmes. Baker (APD) and Al-Mashat (formerly APD) and Mr. Sakr (PDR), and was assisted by Mrs. Adams, Senior Resident Representative. Mr. Takeda (APD) joined the mission during June 13–14, and Ms. Phang (Executive Director) and Mr. Duong (OED) attended the concluding meetings.

- In concluding the 2004 Article IV Consultation in November 2004, Directors noted the authorities' success in achieving high growth and poverty reduction in recent years, and encouraged them to build on these achievements by stepping up key structural reforms in the state-owned commercial bank (SOCB) and state-owned enterprise (SOE) sectors. In addition, they cautioned that the high rate of credit growth should be reduced significantly, given the uncertain loan quality and banks' weak balance sheets, as it could lead to mounting quasi-fiscal liabilities.

- Weaknesses in the availability, timeliness, and quality of key data impede surveillance. While data provision is still adequate overall, staff's analysis was affected by shortcomings in certain areas. At the time of the mission, monetary data and data on 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.

- The authorities are currently working, in conjunction with LEG and MFD, to remove the three remaining exchange restrictions subject to Article VIII, sections 2, 3 and 4.

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Executive Summary

Background

- **Overall macroeconomic performance has remained strong since the conclusion of the last Article IV consultation.** Despite slowing nonoil export growth, GDP growth was robust at about 7½ percent in the first half of 2005, and the current account has continued to be more than financed with ODA and FDI. However, inflation has remained high at about 7½ percent as of July, and the import cover of reserves remains low.

- **High credit growth in the context of weak bank balance sheets remains a cause for concern**. Bank credit continued to grow at an annual rate of 40 percent as of April 2005, as the monetary effects of increases in the State Bank of Vietnam's (SBV) policy rates have been mitigated by liquidity-injecting open market operations, and SOCB lending has continued to be aimed at helping to meet the government's ambitious growth target of 8½ percent for 2005.

- **The overall fiscal deficit narrowed from 7.2 percent of GDP in 2003 to 4½ percent of GDP in 2004, but a growing program of off-budget operations has weakened fiscal transparency and heightened concerns about medium-term debt sustainability**.

- **The government has recently taken steps to speed up structural reform**. The SBV's prudential standards were tightened in April, and banks were to provide accurate accounts by end-July to be used as a basis for their reform and recapitalization plans.

Key Issues and Staff Recommendations

- **The staff supports the SBV's aim to significantly reduce credit growth**. To meet this objective, all available instruments will need to be used in a concerted manner, and SOCBs should no longer be pressured to increase their lending to SOEs.

- **Part of the oil revenue windfall should be saved in 2005 and the overall fiscal deficit brought down to 3½ percent of GDP over the medium term**. The recently-augmented public investment program should be carefully reviewed and brought on budget, with emphasis placed on transparent fiscal accounting and investment quality over quantity.

- **The staff encourages the authorities to adopt a more flexible exchange rate policy.**

- **SOCB reform remains key to public sector debt sustainability.** Recently-adopted prudential regulations should be implemented strictly and without delay, and the SOCB reform plans finalized on the basis of reliable estimates of their capital shortfalls. Early action will also need to be taken to eliminate policy lending, improve SOCBs' corporate governance, and strengthen the SBV's independence and supervisory authority.

- **Improvements in the reliability, timeliness and dissemination of key data are urgently needed to enhance the quality of policy analysis and surveillance**.

I. Recent Economic Developments and Outlook

1. **Vietnam has recorded strong economic growth and impressive poverty reduction over the past decade**, supported by improvements in macroeconomic management, political stability, and increasing integration with the global economy. Sustained economic growth contributed to a decline in the poverty rate from 58 percent in 1993 to around 26 percent in 2004. This favorable performance was achieved with the support of generally prudent macroeconomic policies, which helped to contain inflation and promote external stability. However, implementation of structural reforms has been carried out through a gradual approach, and has been uneven, especially in the important SOE and SOCB sectors, whose quasi-fiscal activities remain substantial. Largely as a result, the public sector has maintained its dominant role in the economy, and the process of transition to a market-based system is far from complete.

2. **Overall macroeconomic performance has remained strong since the conclusion of the 2004 Article IV consultation.** Real GDP remained robust, and Vietnam has continued to make rapid progress towards poverty reduction. With the abatement of the supply shocks that caused a spike in food prices in 2004, inflation has shown some signs of moderation, although it has remained high relative to recent years. Despite a recent slowdown of export growth from the very high rates recorded in the past two years, the current account has continued to be comfortably financed with ODA and private capital inflows, as Vietnam has become an increasingly attractive destination for FDI.

3. **The consultation discussions focused on the policy challenges that need to be addressed to build on the recent achievements and place Vietnam on a path of continued rapid growth and poverty reduction.** The discussions took place as the authorities were beginning to formulate their new Five-Year Socio-Economic Development Plan (SEDP) for the period 2006–2010. One of the new SEDP's principal objectives would be to sustain the annual rate of economic growth in the range of 7½ to 8 percent, with a view to enabling Vietnam to graduate from the ranks of low-income countries by 2010. However, the authorities were considering a number of possible scenarios on the stance of specific policies, and there was still an internal debate on the tradeoffs between short-term growth and macroeconomic stability, and the relative roles of public versus private investment. Hence, the authorities were not yet in a position to share with the mission the government's definitive views on certain key policy issues. Consensus on these issues is to be reached over the coming months, culminating in approval of the new SEDP by the Communist Party's 10th Congress in May 2006.

A. Economic Developments

4. **Real GDP growth picked up to 7.7 percent in 2004, and remained strong in the first half of 2005, despite a number of successive external shocks**. Buoyant consumption and export growth offset slowing FDI and public investment during 2004. While growth was adversely affected in the first half of the year by an outbreak of avian flu, drought, and rising international prices of inputs such as steel and oil, it rebounded across all sectors in the

second half of 2004. Retail sales rose by 18 percent year-on-year (yoy) during the first half of 2005, pointing to continued rapid growth in real consumption, which is likely to have been spurred in part by implementation of the civil service wage increases (30 percent, on average) enacted in October 2004. However, with slowing export growth and a drought-induced decline in hydroelectric power generation, the rate of growth of GDP remained at about 7½ percent (yoy) during the first half of 2005. Thus, growth would have to rise to around 9½ percent during the second half of the year if the official target of 8½ percent for 2005 were to be met, which would be required for the SEDP's average growth target for 2001–05 to be achieved.

5. **Inflation rose sharply in 2004 and has remained high relative to recent years so far in 2005.** While most of the effects of the above-mentioned shocks have largely abated, inflation has declined only moderately from 9½ percent (yoy) at end-2004 to about 7½ percent as of July 2005. To some extent, the continuing inflationary pressures reflect the sustained strength of international commodity prices, together with the belated adjustment in domestic petroleum prices.[1] However, there have also been concerns about second-round effects on domestic costs, as the increases in civil service wages have reportedly affected the wages of skilled private sector workers. Underlying inflation could be higher than the actual inflation figures suggest, as the authorities have put a freeze on a number of regulated prices since mid-August 2004, including for electricity, coal, cement, and airline, train, and waterway transport.[2]

6. **The balance of payments has remained in comfortable surplus.** The surge in oil prices, together with the rapid increase in non-oil exports, helped to narrow the current account deficit to less than 4 percent of GDP in 2004. While garment exports stagnated in the first half of 2005, a renewed surge in oil prices, continued strong performance of other exports, and robust remittances[3] and tourism receipts mitigated the impact on the current

[1] Adjustments were made in March, July, and August, resulting in cumulative increases of about 34 percent for gasoline prices and 54½ percent for diesel prices during the first eight months of 2005. Combined with the adjustments made in 2004, average domestic gasoline prices have increased by a cumulative 81½ percent since end-2003, and diesel prices by 70½ percent (compared with increases of about 85 and 100 percent, respectively, in the corresponding international market prices). Although the direct contribution of oil price increases to inflation has been limited so far, the bulk of the adjustment took place in July and August, and can be expected to exert substantial upward pressure on inflation in the coming months. In addtion, the indirect effects of rising prices of oil and other imported raw materials are likely to be considerable.

[2] Administered prices are estimated to account for about 26 percent of the CPI basket.

[3] Chapter III of the Selected Issues paper provides a more detailed account of the increasing importance of remittances in Vietnam's balance of payments.

account (Box 1). With large inflows of FDI and ODA, gross official reserves rose by about US$700 million in 2004 and by another US$740 million during the first six months of 2005, to a level of US$7.1 billion at end-June.

7. **Credit growth surged to 42 percent in 2004, and seems to have remained very high so far in 2005, despite some tightening measures taken since mid-2004**.[4] Lending by the SOCBs came under strong upward pressure, as their corporate governance and profit orientation remained weak, and the government and local authorities continued to exercise moral suasion on them to finance a number of large SOE projects to help meet the SEDP's growth target. Despite the rise in U.S. interest rates, the differential between dong and dollar lending rates (600 basis points), together with an announcement by the State Bank of Vietnam (SBV) in January 2005 that exchange rate depreciation would be limited to 1 percent in 2005, encouraged increasing foreign-currency borrowing. While delays in the reporting of aggregate monetary data and discrepancies with the reports by individual commercial banks impede analysis of recent developments, the latest data for April 2005 suggest that the SBV's tightening measures have had a limited impact on credit growth to date. Although this may have been partly due to the large amount of excess liquidity within the banking system, it also reflects SOCBs' lack of profit orientation and institutional rigidities. Moreover, SBV's decisions to tighten were likely hampered by conflicting policy objectives that constrain monetary policy (Box 2).

8. **Vietnam officially maintains a managed floating exchange rate regime, but the exchange rate has de facto been pegged to the U.S. dollar over the last year.** The dong-U.S. dollar exchange rate depreciated by less than 1 percent in 2004, and was broadly stable in the first half of 2005. With a widening of the inflation differential, the real effective exchange rate has appreciated by about 4½ percent since end-2004. These developments need not be a cause for immediate concern in light of the continued strength of the overall balance of payments. Nonetheless, the import coverage of reserves has remained low, at around 8½ weeks of imports, and heavy foreign-currency borrowing from domestic banks has increased the economy's exposure to exchange rate risks.

9. **The government's overall financial position appears to have strengthened in 2004 and early 2005, although heavy reliance on off-budget operations has weakened fiscal transparency and contributed to concerns about medium-term debt sustainability**. The official budget deficit narrowed from about 2 percent of GDP in 2003 to less than 1½ percent of GDP in 2004. The budgetary position appears to have remained strong in the first half of 2005, as a surge in oil-related receipts has more than offset the increasing burden on the budget from petroleum subsidies and underperformance of corporate tax receipts from the SOE sector. The overall fiscal deficit (the sum of the official

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[4] The tightening measures included an increase in required reserve ratios (July 2004), and increases in the rediscount and refinance rates (50 bps each in January and April 2005) and the base rate (25 bps in February 2005).

Box 1. Vietnam's Garment Exports—Developments and Prospects

Vietnam's garment exports have grown strongly in recent years, but since the removal of textile and garment export quotas for WTO members at the beginning of 2005, Vietnam's exports have been facing severe competition, particularly from China.

Developments in 2005

- Garment export growth in the first six months of 2005 decelerated sharply to about 0.1 percent (yoy), after averaging about 30 percent over the past three years. The effects of the removal of garment export quotas are reported to have been amplified by Vietnam's quota distribution system, which may have continued to hinder timely reallocation among firms.
- The largest markets for Vietnam's garment exports are the U.S., the EU, and Japan (constituting approximately 40, 20 and 15 percent respectively of Vietnam's total garment exports). Both export volume and prices are reported to have declined in the U.S. While prices of garments exported to the EU also declined, their volume is reported to have increased somewhat, as competition from other low-cost producers appears to have been less severe and the EU removed quotas on Vietnam's garment exports from January 2005. Garment exports to Japan are not subject to quotas and have been stable thus far in 2005.

Challenges

- Vietnam's garment exports to the U.S. are still subject to quotas, which increase by 7 percent annually. WTO accession is important to level the playing field by removing these quotas. In the meantime, it will be important for the Ministry of Trade to take urgent steps to improve its quota allocation system, with a view to increasing its flexibility.
- However, to reap the full benefits of international integration, Vietnam will also need to address competitive pressures from China, India, and other low labor-cost producers whose exports are no longer subject to quotas. Many of these producers also benefit from higher domestic input content and more advanced infrastructure than producers in Vietnam.

While Vietnam faces challenges in garment exports, the impact on its external position is mitigated by the continued strong performance of a wide range of other exports, especially oil, computers and electronics, and furniture, as well as buoyant tourism receipts and workers' remittances.

Vietnam's Exports of Textiles and Garments[1]

	2001	2002	2003	2004	2005 HI[2]	2005 [3]
Value in millions of US$	1,975	2,752	3,687	4,319	2,052	4,470
Annual growth in percent	4.4	39.3	34.0	17.2	0.1	3.5
Share in total exports in percent	13.1	16.5	18.3	16.6	14.2	14.2
Share in non-oil exports in percent	16.6	20.5	22.6	21.2	18.5	18.8
Share in total current receipts	10.3	12.7	14.3	13.3	---	11.3

[1]Exports are mostly comprised of garments.

[2]Preliminary. Growth is calculated in relation to the outcome of HI 2004.

[3]Staff's projection.

Box 2. Monetary Policy in Vietnam—Challenges and Steps Ahead

Since the two-tier banking system replaced the monobank system in the late 1980s, monetary policy has been guided by multiple, and at times conflicting, policy objectives, including economic growth, price and currency stability, and financial system stability. The potential conflicts between these objectives were partially mitigated or masked by favorable domestic and external conditions in recent years. However, the current cycle of global tightening and rising domestic inflation poses new challenges for monetary policy in the context of the continuing opening up of the economy.

The conduct of an effective monetary policy in Vietnam has been circumscribed in recent years by several institutional and structural constraints, including:

- ***A segmented financial system*** dominated by 4 large state-owned commercial banks (SOCBs), but also including a small, and more dynamic, segment of foreign-owned and joint-venture banks. The SOCBs frequently operate on a non-commercial basis, with a culture of policy lending, which is subject to direct government interference. However, the rest of the banking system is more market-oriented. This complicates the transmission of monetary policy, which operates under a mix of direct channels (through the SOCBs) and market mechanisms (through other banks).

- ***The rapid structural transformation of the financial system***. Growing monetization, and increasing internationalization of the banking system, are making it very difficult to estimate stable relationships between key monetary and credit aggregates, interest rates, and other economic and financial variables.

- ***The conflicting policy objectives pursued by the SBV.*** Despite the recent increase in inflation, the SBV has been tasked to continue to focus its operations on the need to meet the economic growth objectives set by the National Assembly. As a result, OMOs during the first five months of 2005 have been used primarily to inject liquidity into the banking system, as needed to support the SOCBs' financing of large public infrastructure projects.

To ease these constraints and enhance the effectiveness of monetary policy a number of far-reaching reform measures need to be implemented. These are as follows:

- ***The objectives of monetary policy should be defined more narrowly and stated more clearly in the SBV's law***.

- ***Policy lending should be curtailed and completely removed from the banking sector and banking supervision strengthened***. This would serve to reduce the accumulation of non-performing loans by SOCBs, encourage SOCBs to operate on a commercial basis, alleviate the segmentation in the banking system, and thus facilitate transmission of monetary policy through indirect, market mechanisms.

budget and off-budget investment expenditure) narrowed from 7.2 percent of GDP in 2003 to 4½ percent of GDP in 2004 leading to a slight decline in the debt stock to 41 percent of GDP. However, this apparent improvement in the public finances is clouded by the government's large off-budget investment program for 2005–2010, which was recently augmented by the National Assembly from 68 trillion dong (9½ percent of 2004 GDP) to 110 trillion dong (15½ percent of 2004 GDP) (Box 3). While a significant portion of this investment program could probably be financed by oil revenue windfalls as long as the recent sharp increase in international oil prices is sustained, full execution could require issuance of a large amount of new bonds bearing market-determined interest rates. Moreover, slow progress in SOCB reform, together with high credit growth, has likely led to a large build-up of bad loans and contingent government liabilities in the banking system. While the size of these liabilities is uncertain, a substantial amount of additional government debt may eventually have to be issued to cover the SOCBs' capital shortfall. This debt, together with new infrastructure bonds, could raise the public debt stock well above the authorities' notional ceiling of 50 percent of GDP.

Summary Fiscal Indicators

	2000	2001	2002	2003	2004
	(In percent of GDP)				
Overall fiscal balance (incl. off-budget outlays)[1]	-5.0	-5.0	-4.5	-7.2	-4.5
of which : Non-oil balance	-11.4	-12.4	-11.3	-13.6	-10.9
Off-budget investment expenditure	2.2	2.2	3.1	5.1	3.1
Net-onlending (DAF)	2.2	2.2	2.4	2.9	1.9
ODA financed	2.2	1.0	0.9	1.2	0.9
Domestically financed	0.0	1.2	1.5	1.7	1.0
Education bonds	0.0	0.0	0.0	0.4	0.0
Infrastructure bonds	0.0	0.0	0.0	0.8	0.7
Bank recap. bonds (pre-2000 SOCB debt)	0.0	0.0	0.7	0.7	0.2
Municipal bonds	0.0	0.0	0.0	0.3	0.3
Official budget balance[2]	-2.7	-2.8	-1.4	-2.0	-1.4

[1]Defined as the sum of the official budget balance, adjusted as indicated in footnote 2 below, and total off-budget investment expenditure.

[2]Based on the authorities' definition, which excludes on-lending through the DAF and other off-budget investment expenditure, and adjusted to exclude debt amortization payments and revenues carried over from previous years.

10. **The government has recently signaled its intention to speed up the pace of structural reform.** In the banking system, the SBV's loan classification, provisioning, and

Box 3. Off-Budget Expenditure

Vietnam's off-budget operations appear to have been stepped up in recent years, raising important questions about fiscal governance. The off-budget outlays, motivated in part by the statutory budget deficit limit of 5 percent of GDP (Vietnamese accounting standards), have been directed primarily at recapitalizing SOCBs and funding large multi-year public investment projects. These projects have typically been approved by the National Assembly, with the associated bond issuance authorized as funding becomes necessary. However, the increasing importance of off-budget expenditure has undermined fiscal transparency, complicated public expenditure management, and made it more difficult to assess medium-term public sector debt sustainability.

The main off-budget operations and associated sources of financing have been as follows:

- ***On-lending through the Development Assistance Fund (DAF).*** The DAF provides soft loans for the financing of eligible investment projects on a priority list approved by the Prime Minister. DAF operations are funded in part through ODA loans, but there is also a significant domestically-financed component, which is funded through the issuance of DAF's own bonds, loans from the Postal Savings Service Company, loans from the Social Security Fund, funds mobilized by DAF branch offices (deposits) and project bonds. Net on-lending through DAF has amounted to about 2-3 percent of GDP per year since 2000.

- ***Education and infrastructure bonds.*** Education bonds are typically used to finance improvements in school buildings and related facilities, while infrastructure bonds are used primarily to finance investments in, and maintenance of, transportation and irrigation projects. The National Assembly has authorized issuance of a total of 110 trillion dong (about US$7 billion, or 15.6 percent of 2004 GDP) of education and infrastructure bonds for the period 2005–2010.

- ***SOCB recapitalization bonds***. In 2001, as a part of the government's restructuring program for SOCBs, non-performing loans worth 23 trillion dong (5.2 percent of GDP as of 2000) were identified for resolution. Under this program, the four largest SOCBs received capital injections totaling 10.9 trillion dong (2.5 percent of 2000 GDP), of which 9.7 trillion was provided in the form of recapitalization bonds and the remainder in cash.

- ***Municipal bonds***. Ho Chi Minh City and Hanoi are permitted to issue bonds equivalent to 100 percent of their annual investment budget (for other cities, the applicable limit is 30 percent), subject to MOF approval. HCMC has so far issued bonds in the amount of 2 trillion dong (0.2 percent of GDP), and is to issue another 2 trillion dong in 2005; while Hanoi has not yet issued any municipal bonds, it is expected to issue bonds on the order of 1.5 trillion dong in 2005.

- ***Extra-budgetary recurrent expenditure by local governments resulting in arrears to the transport and irrigation sectors***. While the size of these arrears is highly uncertain, the World Bank estimated the arrears to the transportation sector at end-2003 to be about 14.4 trillion dong (2.3 percent of GDP) and arrears to irrigation as of end-June 2004 of 1.3 trillion dong (0.2 percent of GDP and equivalent to one-quarter of annual public investment in agriculture). The clearance of these arrears is reportedly being financed through the issuance of government bonds and special budgetary allocations. To prevent accumulation of new arrears, the MOF has reportedly instructed local governments to cease spending outside their budgets.

prudential standards were tightened in April 2005, and banks have been instructed to produce accurate financial statements based on the new standards by end-July.[5] On that basis, the government aims to develop plans for the SOCBs' reform and recapitalization during the latter part of the year. In the SOE sector, while the restructuring of enterprises has remained slow, the auction mechanism for equitization has been expanded, shares of some larger SOEs have been sold to the public, and the list of sectors reserved for state ownership has been narrowed. The authorities also continue to work diligently toward WTO accession, including by expediting the National Assembly's consideration of an ambitious legislative agenda.

B. Macroeconomic Outlook and Risks

11. **The outlook for the rest of 2005 is broadly positive but subject to risks, especially if the authorities delay the adoption of needed measures to rein in monetary and fiscal policies**. Real GDP growth is projected to be about 7½ percent, underpinned by strong consumption and a rebound in FDI in anticipation of Vietnam's WTO accession. However, inflation would remain higher than in recent years, at around 7 percent by end-2005, and reserve coverage would remain low. The main risk to the outlook would be continued reliance on a loose monetary policy, and an easing of the fiscal stance, aimed at spurring public investment in projects of uncertain quality in pursuit of the official growth target. While such policies might affect overall macroeconomic performance with a considerable lag, they could increase short-term pressures on inflation and heighten external vulnerability. Additional risks to the outlook include intensifying wage pressures, a weakening of export demand, a widespread outbreak of the avian flu, and disruptions in production caused by adverse weather conditions.

12. **Looking ahead to the medium-term, prospects for sustained, higher-quality growth and poverty reduction depend critically on macroeconomic discipline and market-oriented structural reforms**. Assuming that credit growth is sharply reduced, the fiscal deficit is kept in check, and SOCB and SOE reforms are stepped up, growth is expected to remain robust in the range of 7–7½ percent, with inflation falling to around 3½ percent. As illustrated in the staff's debt sustainability analysis (Annex V), the public debt burden would remain manageable under this policy adjustment scenario. While the total public debt stock could rise sharply over the next few years as the government covers the costs of reform in the SOCB and SOE sectors, it would decline steadily in relation to GDP over the longer term. However, failure to rein in credit growth and delays in banking sector reform could lead to mounting demand pressure, a weakening of the balance of payments, and an increasing stock of SOCB-related quasi-fiscal liabilities, which could threaten medium-term fiscal sustainability. In addition, a significant fall in oil prices would reduce the windfall, and could lead to a further rise in the debt-to-GDP ratio in the absence of a scaling back of the government's ambitious public investment program.

[5] As of mid-August, three of the four large SOCBs were reported to have submitted their accounts to the SBV.

II. POLICY ISSUES

13. **A key challenge for the policies to be adopted under the SEDP for 2006–2010 will be to meet Vietnam's large investment requirements while protecting medium-term sustainability**. The authorities recognized the importance of building adequate flexibility into the policy making framework of the SEDP to ensure consistency with the transition to a more market-based economy. They agreed in principle with the staff that short-term growth targets should not be pursued at any cost, and that the SEDP should be centered on policies geared toward protecting macroeconomic stability and enhancing the quality rather than quantity of investment. To promote higher-quality sustainable growth, prudent macroeconomic policies will need to be supported by improvements in public sector financial management, accelerated reforms in the SOE and SOCB sectors, open and fair trade and investment regimes, and a reduction of the role of the state in the economy.

A. Monetary and Exchange Rate Policies

14. **The authorities and staff agreed that credit growth should be reined in significantly.** The weaknesses in the available monetary and credit statistics, together with the institutional and structural factors discussed in Box 2, make it difficult to derive appropriate short-term targets for the key monetary and credit aggregates. Nevertheless, the mission considered the authorities' target of 25 percent growth in credit to be broadly appropriate going forward and supported their efforts to bring credit growth down to this level. A slowing expansion of bank loans would be essential to limit the risk of inflation, shore up international reserves, and prevent an unsustainable build-up of SOCB-related quasi-fiscal liabilities. The authorities expressed confidence that they would be able to restrain credit growth to their target. While the absence of a well-developed capital market would make it difficult to complete some of the large investment projects now under way without new bank financing, the recent tightening of prudential standards was expected to make banks more cautious in their new lending.

15. **However, the staff cautioned that recent measures appeared to be sending mixed signals to the market** and, in the absence of a prompt and more concerted effort to slow current credit growth rates, it could be difficult to meet the authorities' target by end-2005. The increases in policy rates seemed to have had limited impact on the lending behavior of commercial banks, which remained intent on accommodating the economy's strong demand for credit. Moreover, the SBV carried out large liquidity-injecting open market operations (OMOs) in early 2005 with a view to supporting SOCB lending for large SOE projects. The authorities explained that most of their recent OMOs were of a short term duration, and will likely be unwound by the end of the year. However, they acknowledged that the SBV could come under pressure to maintain an easier monetary stance when seasonal demand for bank loans rises toward year-end.

16. **While the dong does not currently appear to be significantly misaligned, and fixing the exchange rate may help anchor inflationary expectations, continuation of Vietnam's de facto fixed exchange rate policy over a longer period of time would carry**

significant risks. Despite a modest appreciation of the real effective exchange rate since end-2003, Vietnam's share in the world's non-oil export market has continued to increase in the first half of 2005, albeit at a somewhat slower rate than in 2004. However, competitiveness could be quickly eroded in a high-inflation environment, with eventual adverse implications for export and growth performance. Moreover, Vietnam's exposure to international competition is bound to increase in the period ahead, as it progressively dismantles its remaining trade barriers and levels the playing field for domestic- and foreign-based economic entities, in line with its commitments under the WTO. A more flexible exchange rate would facilitate the economy's adjustment to structural changes and exogenous shocks, reduce external vulnerability, and create incentives for economic agents to improve their management of exchange rate risks. To these ends, the SBV will need to make full use of the flexibility built into the current regime while limiting intervention to addressing disorderly conditions. The authorities acknowledged the importance of exchange rate flexibility, and indicated that they were exploring ways to introduce a more flexible day-to-day management of the dong.

B. Fiscal Policy

17. **The near-term risks to inflation and the challenge of protecting fiscal sustainability call for an effort to save a good part of the oil revenue windfall in 2005, with a view to containing the fiscal impulse resulting from surging oil prices**. This would help narrow the overall fiscal deficit, including net lending and off-budget outlays, from 4½ percent of GDP in 2004 to less than 4 percent of GDP in 2005. Such a reduction could be achieved by containing investment expenditure and domestically-financed on-lending, the quality of which is uncertain, to offset the increase in the wage bill. The staff also urged the authorities to introduce as soon as possible needed adjustments in domestic petroleum prices, especially for kerosene and diesel. The authorities informed the team that they were considering a proposal to adjust petroleum prices, with a view to reducing the burden of oil subsidies and discouraging smuggling into neighboring countries. In the event, domestic oil prices were raised in July and again in August, but in light of renewed increases in international oil prices, these hikes will likely be insufficient to eliminate oil subsidy payments during the second half of the year.[6] As regards the overall fiscal stance for 2005, the authorities agreed that, consistent with the outcome of recent years, there was some scope

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[6] Subsidy payments accrued through August are estimated at 0.8 percent of GDP. Cash payments have been paid mostly from the contingency built into the budget. However, the full-year impact on the budget is highly uncertain, as the actual cost of oil imports responds with a lag to changes in international oil prices, depending on the length of forward contracts. Further complicating the calculation of the ultimate impact on the budget, trading companies are required to subsidize across petroleum products (i.e., use profits from gasoline sales to compensate for losses on diesel and kerosene) prior to receiving subsidy payments from the budget.

for under-execution of investment spending, which together with the oil windfall, should serve to keep the deficit below the level recorded in 2004.

18. **The authorities agreed that all capital expenditure should in principle be brought on budget to align Vietnam's fiscal transparency and expenditure management with best international practices.** The scrutiny associated with the budget process would help to improve the quality of public expenditure, especially on provincial and local infrastructure projects, which are currently subject to weak control mechanisms. While recognizing the important development needs of the country, the staff encouraged the authorities to review carefully the procedures for the screening of public investment projects. Investment expenditure should also be better integrated with recurrent expenditure in the budgeting process to limit problems related to inadequate maintenance. The authorities agreed with some of these recommendations. However, they noted that the approval procedures for large investment projects were to some extent affected by the lumpiness of the projects, the absence of a multi-year budgeting framework, and legal constraints. These often made it procedurally more efficient to have the National Assembly approve each multi-year project on an ad hoc basis.[7]

19. **The authorities see some scope for a streamlining of the government's significant on-lending operations.** In particular, the criteria for lending under the Development Assistance Fund (DAF) need to be further tightened, and applied on a more uniform basis, with domestically-financed operations scaled down.[8] The team also recommended that DAF operations be integrated into the budget, and fully reflected in the government's accounts to improve the analytical content of fiscal data. The authorities noted that they were working on improving DAF's operations, and informed the mission about their plans to have more projects financed through the local infrastructure development funds. However, they believed that DAF activities did not belong in the budget, as its liabilities were viewed not as government debt, but rather as contingent liabilities akin to those of the banking sector. The

[7] The current budget law includes no provisions for a multi-year public investment framework, and the stipulated annual deficit ceiling of 5 percent of GDP (based on the authorities' definition, i.e., including amortization but excluding on-lending and other off-budget investment expenditure) would preclude financing of some large projects through the budget. The authorities are currently working toward the development of a multi-year budgeting framework to be implemented in 2008, with the help of technical assistance from the World Bank.

[8] The DAF has become one of the largest financial institutions in Vietnam, and has outstanding loans equivalent to about 12 percent of GDP, half of which are financed through ODA. In addition, there are 13 non-DAF regional infrastructure development funds, which are still very small but could expand significantly in the period ahead. Eligibility criteria for DAF lending were tightened in 2004, but it is unclear that these have been strictly adhered to, and loan appraisal capacity remains in the early stages of development.

mission cautioned that local development funds should be restrained, and plans for them to issue bonds put on hold, until a regulatory framework for their operations is in place.[9]

20. **The staff and the authorities agreed that, over the medium term, fiscal policy should be geared to ensure public debt sustainability**. While the ultimate size of contingent liabilities associated with the banking system's nonperforming loans is highly uncertain, the eventual issuance of government bonds to cover SOCBs' recapitalization costs, together with full execution of the government's planned infrastructure investment program, would likely push the public debt stock on to a path of continuing expansion in relation to GDP (Annex V). To place the debt-to-GDP ratio on a sustainable path, the team recommended that the overall fiscal deficit be brought down to about 3½ percent of GDP. Risks to revenue include a possible decline in the oil windfall due to a decline in oil prices, which would necessitate a reprioritization and rephasing of the investment program to ensure that the public debt burden will remain manageable. In addition, the forecasted gradual decline in the contribution of oil revenues into the budget from 2007 onwards would require the authorities to begin to place the sizeable non-oil deficit on a declining path over the medium term. The authorities recognized that the shift in tax base to the harder-to-tax non-SOE sector would necessitate strong efforts to improve non-oil revenue performance, including by reforming tax policies and administration. Consistent with FAD recommendations, the reforms could include a progressive extension of the self-assessment pilot, a rationalization of investment incentives, and the adoption of a single-rate VAT with a higher threshold. In addition, strong efforts would be in order to improve the quality of spending in line with the recommendations of the recently completed Public Expenditure Review.

C. Structural Reforms

Financial Sector Reform

21. **A comprehensive reform of the banking system would be key to protecting medium-term debt sustainability and achieving the SEDP's broader economic and social objectives.** The authorities noted that they attach high priority to strengthening the operation of SOCBs to enable them to meet the challenges of increasing competition resulting from Vietnam's ongoing international economic integration. The government is to finalize its financial sector reform roadmap, including specific plans for the reform and recapitalization of SOCBs, soon after the receipt of bank financial reports based on the new prudential standards. To minimize the burden on the budget, the authorities planned to rely on the equitization of the main SOCBs as a means to fund at least a part of their capital shortfall.

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[9] Chapter I of the Selected Issues paper examines fiscal risks posed by DAF and local investment funds.

22. **The team stressed the importance of ensuring the accuracy of banks' reports prior to finalizing their recapitalization plans, and emphasized the need for accompanying measures to encourage SOCBs to operate on a commercial basis**. The introduction of private capital through equitization could play a positive role in this process, especially if this were to enable foreign strategic investors to take controlling stakes in the SOCBs. Improved SOCB corporate governance would also need to be supported by measures to eliminate residual policy lending and strengthen the overall governance of the banking system. In particular, the Ministry of Finance would need to assume a more active ownership role in the enforcement of controls on SOCBs, and the SBV's independence and supervisory authority should be strengthened through the necessary legal reforms. The authorities agreed with these recommendations. They informed the team that, given the National Assembly's full agenda associated with Vietnam's WTO accession, the required changes in the SBV and Credit Institutions Laws would have to be postponed until 2008. However, they were confident that the existing legal framework gave them sufficient leeway to introduce significant improvements in the governance of SOCBs in the meantime.

SOE Reform

23. **Restructuring of the SOE sector is another top priority**. The mission urged the authorities to push ahead with their equitization plans, while at the same time curbing government interference in the management and investment decisions of SOEs. The team emphasized the need to phase out administered prices, which may undermine the profitability of some key SOEs, with a view to reducing opportunities for rent-seeking activities and, thus, supporting the government's fight against corruption. Where needed, to alleviate the impact on the poor, price liberalization should be supplemented with the introduction of better-targeted subsidies and safety nets, which should be explicitly accounted for in the budget. The authorities agreed that, in principle, SOEs should be encouraged to operate on commercial terms. However, they acknowledged that SOEs operating in strategic sectors were at times instructed by the government to adopt policies aimed at broader social objectives. The authorities informed the team that they are in the process of receiving comprehensive financial reports from SOEs, which are to be used to formulate the SOE reform strategy. However, they were not in a position to share these reports with staff.

Trade Liberalization and Private Sector Development

24. **The authorities remain committed to international economic integration, as they appreciate how growing trade and foreign direct investment would be central to Vietnam's continued favorable growth performance in the period ahead.**[10] In this context, they are making a determined effort to secure accession to the WTO as soon as

[10] Chapter II of the Selected Issues paper reviews the pattern of Vietnam's recent international integration, with particular focus on the implications for the growth and direction of its trade.

possible. As of mid-July 2005, bilateral WTO agreements had been concluded with 10 countries. However, more than a dozen agreements remained to be finalized, and the authorities will be hard pressed to carry out this task in time to meet their target accession date of end-2005.

25. **To meet the requirements for WTO accession and create a level playing field, the authorities have modified the legislative agenda to allow key laws to be discussed at the November session of the National Assembly**. These include a new Common Investment Law (CIL) and a Unified Enterprise Law (UEL), which are being developed in close consultation with the private sector and foreign investor communities, and are viewed as key to successful negotiations with some major trading partners. The team welcomed these initiatives, and encouraged the authorities to implement the new laws in a credible and transparent manner. This should go a long way towards fostering private investment, including participation in infrastructure development projects, which should help to fund Vietnam's large investment needs without placing an excessive burden on the budget.

D. Other Issues

26. **The serious weaknesses in the availability, timeliness, and quality of economic data are an impediment to effective surveillance**. In the area of money and banking, in particular, delays in data reporting to the Fund have increased in the last year, and discrepancies between the reports of individual commercial banks and the SBV's monetary survey data have further hampered assessment of recent monetary and credit trends. The authorities explained that the delays were partly due to implementation of a new chart of accounts, which is still under way. While progress has been made on the coverage of fiscal data, further improvements are needed in the areas of off-budget activities, debt statistics, and contingent liabilities. Weaknesses also need to be addressed in the areas of the balance of payments, national income accounts, and SOE and SOCB operations. The team stressed the need for decisive measures to improve the reliability, timeliness and dissemination of economic data, consistent with the authorities' more general objective to meet the data and policy transparency requirements of a market-based economy.

27. **The mission welcomed the recently-issued Anti-Money Laundering (AML) decree** and urged the SBV to adopt the necessary measures for its effective implementation. In addition, it encouraged the authorities to amend the criminal code to criminalize the financing of terrorism, and to incorporate and implement the other requirements for Combating the Financing of Terrorism (CFT).

28. **The authorities expressed their intention to remove the three remaining exchange restrictions subject to Article VIII, sections 2, 3 and 4, and accept Article VIII of the Fund's Articles of Agreement** (Annex I). LEG and MFD have provided substantial technical assistance in this regard, including by offering advice on the drafting of the authorities' proposed new foreign exchange legislation. The mission welcomed the authorities' plan to remove the remaining exchange restrictions, and encouraged them to

accept Article VIII as soon as possible, taking full advantage of the advice provided by LEG and MFD.

III. Staff Appraisal

29. **In recent years, Vietnam has achieved sustained robust growth, which has contributed to a significant decline in poverty and made Vietnam an attractive destination for FDI**. This favorable performance has been supported by measures to increase international integration and move toward a more market-based economic system. To build on these achievements in the period ahead, a more flexible policy framework needs to be adopted under the new Five-Year Plan for 2006-2010. In addition, decisive action needs to be taken to ensure macroeconomic stability, protect debt sustainability, and enable the private sector to become the primary engine of growth.

30. **The outlook for 2005 remains positive, and should be strengthened by putting a more prudent mix of macroeconomic policies in place**. Growth in the first half of 2005 has remained robust, yet somewhat lower than the authorities' target of 8½ percent for the year. At the same time, inflation has been significantly higher than in recent years, and reserve coverage remains low. In this context, the staff cautions the authorities against stepping up public investment in projects of uncertain quality in pursuit of the official growth target, and urges them to protect macroeconomic stability by focusing on the quality rather than the quantity of investment and growth.

31. **The staff supports the authorities' aim to slow credit growth substantially, and urges them to take all necessary steps to meet this objective.** Slower credit growth will be essential to prevent an unsustainable build-up of SOCB-related quasi-fiscal liabilities, contain inflationary pressures, and shore up international reserves. To meet these objectives, the SBV will need to use all available instruments in a concerted way, and SOCBs should no longer be pressured to provide directed lending to SOEs.

32. **The staff encourages the authorities to adopt a more flexible exchange rate policy**. While the use of the exchange rate as a monetary anchor could help curb inflation in the short run, Vietnam's continued vulnerability to external shocks and increasing exposure to foreign competition call for a more flexible exchange rate policy. Increased exchange rate flexibility would also encourage improved management of exchange rate risks. To these ends, the staff urges the authorities to limit intervention to addressing disorderly market conditions and make full use of the flexibility embedded in the current exchange rate system.

33. **Given the near-term risks to inflation, the staff recommends that a good part of the projected sizable oil revenue windfall be saved in 2005.** This should help limit the short-term fiscal impulse resulting from the rise in oil prices, while reducing the overall fiscal deficit to less than 4 percent of GDP. Investment expenditure and domestically-financed on-lending should be scaled back to offset increases in the wage bill, and the authorities should consider further increases in domestic oil prices to avoid additional sizable oil subsidy payments in the event that prices remain at current levels. In addition, the staff urges the

authorities to move closer into line with best practices in the areas of fiscal transparency and public expenditure management by adopting an integrated system of fiscal accounting and reporting.

34. **Over the medium term, the need to protect debt sustainability calls for the overall fiscal deficit to be brought down to around 3½ percent of GDP**. In light of the significant oil revenue windfall over the medium term, the authorities should stand ready to reconsider their investment program in the event that oil prices drop sharply. The expected decline in oil-related receipts from 2007 onwards, and the pressures on the budget likely to emanate from the quasi-fiscal liabilities incurred by the SOCB and SOE sectors, make it all the more important to adopt a prudent fiscal stance. The achievement of the above objective will require bold measures to reform tax policy and administration, and to rationalize expenditure, including by improving the screening of investment projects and making all public investment subject to the same level of scrutiny received by central government expenditures.

35. **SOCB reform remains key to medium-term sustainability and would also be instrumental in promoting higher-quality investment and growth**. The recently-adopted prudential regulations for commercial banks are an important step in the right direction and should be implemented strictly and without delay. The staff urges the authorities to finalize their SOCB reform and nonperforming loan resolution plans based on accurate and reliable estimates of SOCBs' capital shortfall. In order to be credible, these plans need to be complemented by early action to eliminate policy lending, improve SOCBs' corporate governance, and strengthen the SBV's independence and supervisory authority.

36. **SOE reform is an integral part of the move to a more efficient, market-oriented economy**. The authorities should strengthen initiatives to move forward with equitization of larger SOEs, curb government interference in their management and investment decisions, and provide incentives for them to operate on a commercial basis.

37. **An open trade and investment regime and a fair and transparent regulatory environment will be key to promoting private sector-led growth**. The staff welcomes the authorities' progress toward WTO accession, and encourages them to pass and implement the legislation required to create a level playing field as soon as possible. Early liberalization of administered prices will be essential to removing distortions and bottlenecks in the supply of key industrial inputs. Market-determined prices, together with SOCB and SOE reforms, would also serve to limit the scope for rent-seeking activities and should thus complement the government's administrative measures to prevent corruption.

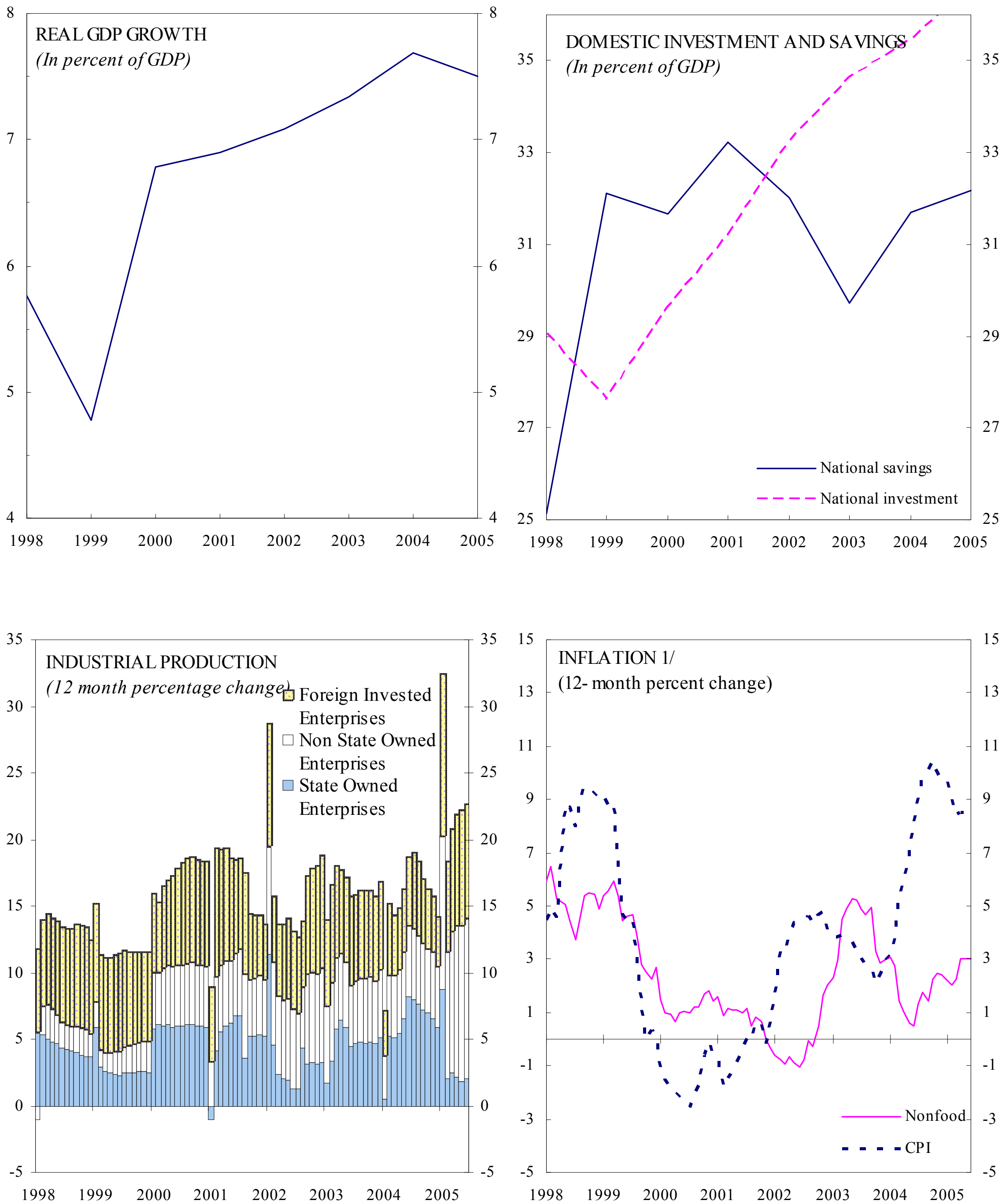
38. **The staff urges the authorities to take prompt measures to improve the reliability, timeliness and dissemination of Vietnam's economic data**. While data provision is still adequate overall, staff's analysis was affected by shortcomings in certain areas. Improvements are urgently required in the quality of money and banking statistics to enhance their usefulness in the assessment of monetary and credit policies. Improved coverage and reliability of data on off-budget activities, public debt, and contingent liabilities

would also be necessary to help improve the assessment of fiscal policy. In addition, a strong effort would be warranted to improve the quality and dissemination of balance of payments, external debt, and official reserve data, so as to improve surveillance and consolidate Vietnam's attractiveness as a destination of FDI.

39. **The staff welcomes the recently-passed AML decree and urges the authorities to strengthen the legal and institutional framework for CFT requirements**.

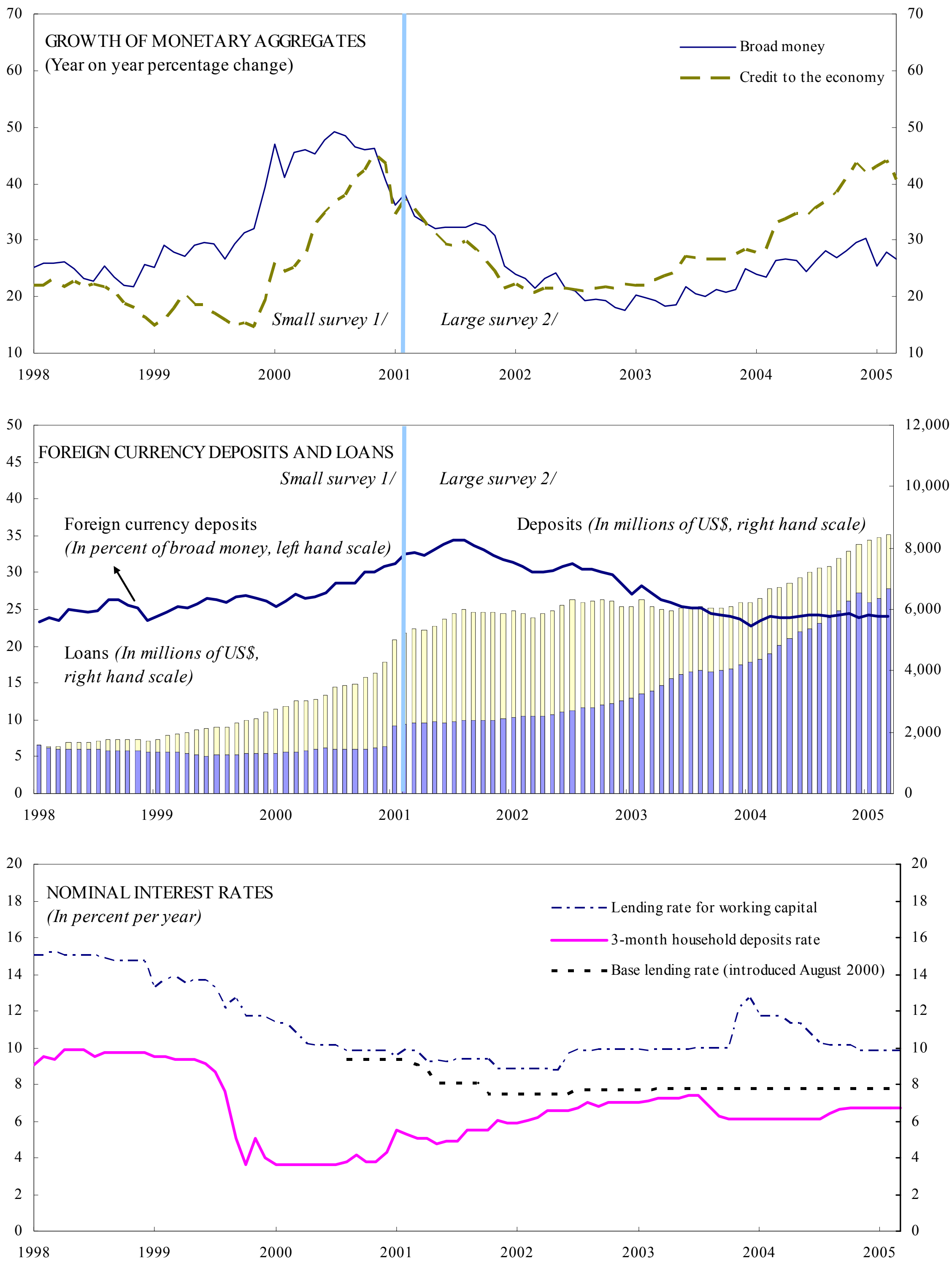
40. **It is recommended that the next Article IV consultation with Vietnam take place on the standard 12-month cycle**.

Figure 1. Vietnam: Selected Economic Indicators, 1998-2005



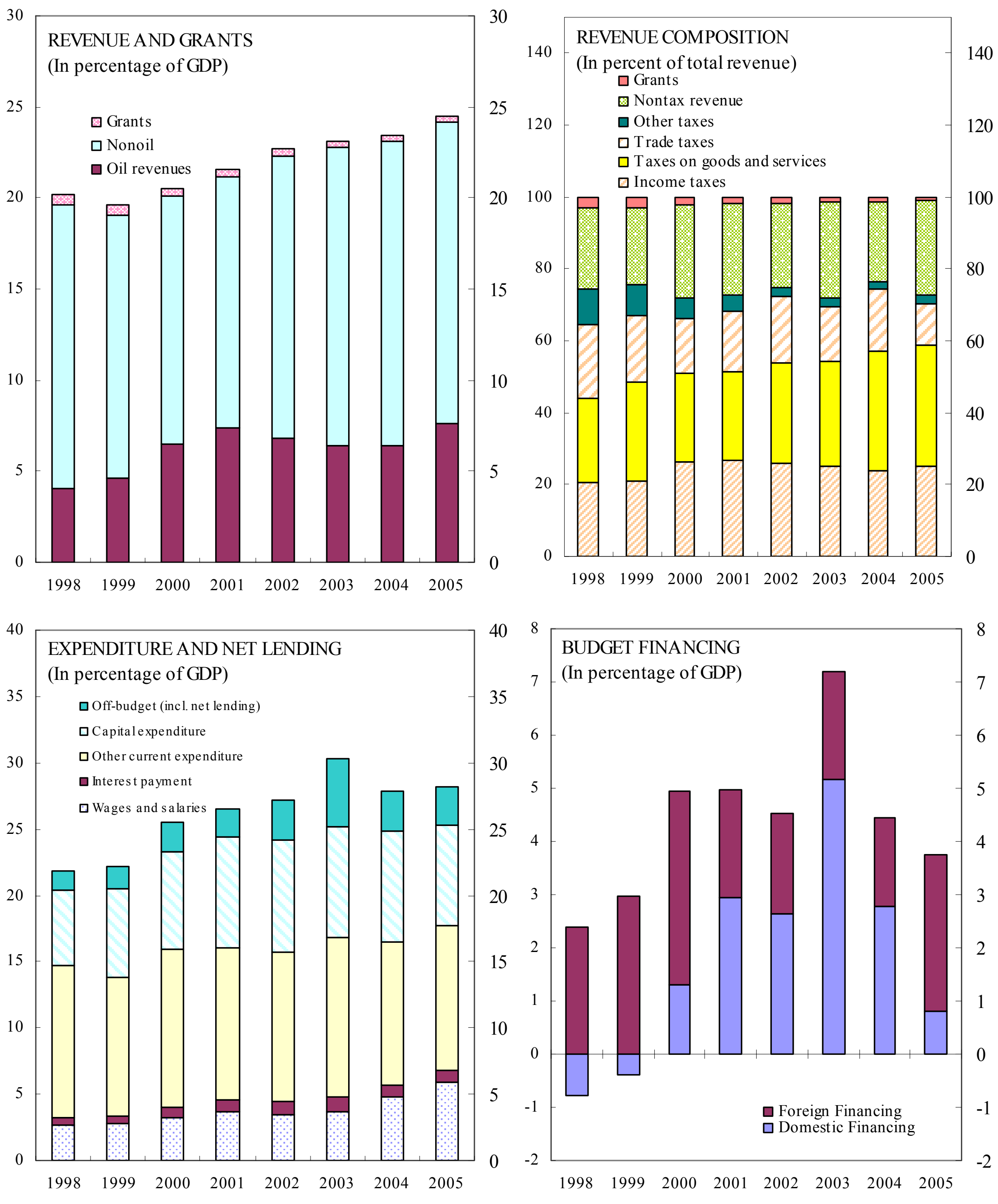
Source: Data provided by the Vietnames authorities and Fund staff estimates.
1/ Based on the June 2000 CPI weights.

Figure 2. Vietnam: Monetary and Financial Indicators, 1998-2005



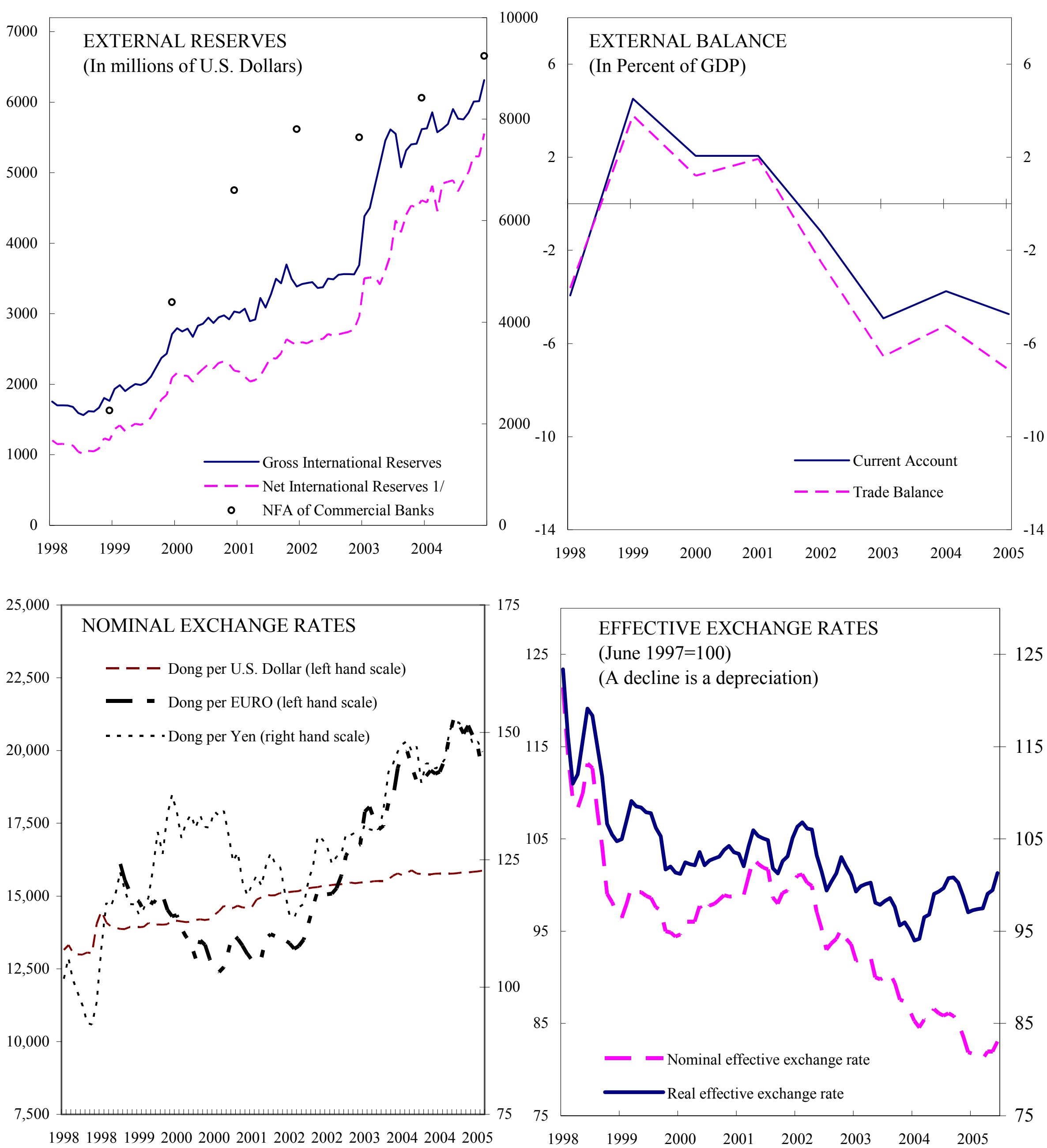
Source: Data provided by the Vietnamese authorities and Fund estimates.
1/ Monetary survey comprising of State Bank of Vietnam (SBV), four large state owned commercial banks (SOCBs), and 24 non-state banks.
2/ Monetary survey comprising of SBV, four large and two small SOCBs, and 78 non-state banks.

Figure 3. Vietnam: Fiscal Sector Developments, 1998- 2005



Source:Data provide by the Vietnamese authorities and Fund staff estimates.

Figure 4. Vietnam: External Sector Background, 1998- 2005



Source: Data provided by the Vietnamese authorities; and Fund staff estimates.
1/ Excludes foreign liabilities and commercial banks' foreign deposits.

Table 1. Vietnam: Social and Demographic Indicators

Indicator	Unit of Measure	1985	1993	1998	1999	2000	2001	2002	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		...	58	37	37	37	32	29	…	…
Food poverty line [1]	Thousand dong	...	750	1,287	1,287	1,287	1,287	1,287	…	…
Percent of population living below		...	25	15	13	13	10	10	...	...
GDP per capita	U.S. dollars	...	355	360	374	401	413	440	914	432
Access to safe water: total	Percent of population	...	26.1	40.1	40.1	40.1	40.6	48.5	…	…
Urban	Percent of population	...	58.5	76.8	76.8	76.8	76.3	76.3	…	…
Rural	Percent of population	...	18.1	29.1	29.1	29.1	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	34	80
Under 5 mortality	Per thousand live birth	105	47	40	40	34	30	26	44	121
Immunization										
Measles	Percent of age group	19.0	93.0	96.0	93.0	97.0	97.0	96.0	76.3	59.8
DPT	Percent of age group	42.0	91.0	95.0	93.0	96.0	98.0	75.0	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	14.8	…
Maternal mortality rate [4]	Per 100,000 live births	110	...	200	200	200	200	165	…	…
Population per physician	Persons	4,061	2,428	2,208	2,941	2,941	3,279	3,228	595	...
Population per nurse	Persons	1,245	723	789	789	789	813	822	…	…
Population per hospital bed	Persons	271	355	379	399	399	409	414	420	…
Human resources										
Population	Millions	60	69	75	77	78	79	80	1,823	2,506
Age dependency ratio	Ratio	0.82	0.74	0.66	0.64	0.62	0.60	0.58	0.50	0.70
Urban	Percent of population	19.6	19.8	23.1	23.6	24.2	24.7	25.1	37.3	30.8
Population growth rate	Annual percent	2.2	1.7	1.6	1.5	1.4	1.4	1.3	0.9	1.8
Urban	Annual percent	2.4	2.8	3.7	3.5	3.8	3.7	2.8	3.3	3.0
Life expectancy	Years	62	67	68	68	69	69	70	69	59
Female advantage	Years	3.8	4.5	4.8	4.8	4.8	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	2.1	3.5
Labor force (15-64)	Millions	29	36	39	40	40	41	42	1,038	1,138
Female	Percent of labor force	48.9	49.5	49.1	49.0	48.9	48.8	48.7	44.5	37.9
Natural resources										
Area	Thousands sq. km.	325	325	325	325	325	325	325	16,301	33,031
Density	Persons per sq. km.	184	213	232	235	239	242	245	115	76
Agricultural lands	Percent of land area	21.0	24.0	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	…	…
Forests and woodland	Thousand sq. km.	97	83	...	109	109	109	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	...	...
Share of bottom 40 percent of households	Percent of income	...	20.7	20.1	20.1	20.1	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	...	...
Education										
Net enrollment ratios										
Primary	Percent of gross	103.0	111.0	109.0	108.0	106.0	103.0	...	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		
Secondary	Percent of Gross	42.7	35.5	61.9	65.0	67.1	69.7		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*, and *Vietnam Development Report 2001: Entering the 21 st Century*, *Vietnam Development Report 2004: Poverty;* Vietnam Population Committee: Demographic and Health Survey 2002; 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 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, 2000-05

Nominal GDP (2004): US$45.3 billion
Population (2004): 82.0 million

GDP per capita (2004): US$552
Fund quota: SDR 329.1 million

	2000	2001	2002	2003	2004	2005	
					Prel.	H1[1]	Proj.
Real GDP (annual percentage change)	6.8	6.9	7.1	7.3	7.7	7.5	7.5
Industrial output	18.4	13.7	18.8	16.9	16.0	15.6	...
Saving-investment balance (in percent of GDP)	2.1	2.1	-1.2	-4.9	-3.8	...	-4.4
Gross national saving	31.7	33.2	32.0	29.7	31.7	...	32.2
Gross investment	29.6	31.2	33.2	34.6	35.5	...	36.6
Inflation (annual percentage change)							
Period average	-1.6	-0.4	4.0	3.2	7.7	9.2	8.0
End of period	-0.5	0.7	4.0	2.9	9.5	7.6	7.0
GDP deflator	3.4	1.9	4.0	6.7	7.9	...	5.3
General government budget							
Total revenue and grants	20.5	21.6	22.7	23.1	23.4	12.2	24.5
of which: oil revenue	6.5	7.4	6.8	6.4	6.4	...	7.6
Total Expenditure and net lending	25.5	26.6	26.6	28.0	26.7	...	27.1
Current expenditure	15.9	16.0	15.7	16.8	16.5	8.9	17.7
Capital expenditure	7.4	8.4	8.4	8.3	8.3	3.4	7.6
Net lending[2]	2.2	2.2	2.4	2.9	1.9	...	1.8
Off-budget expenditure	0.0	0.0	0.7	2.3	1.2	...	1.1
Overall fiscal balance including off-budget expenditure	-5.0	-5.0	-4.5	-7.2	-4.5	...	-3.8
Non-oil overall fiscal deficit	-11.4	-12.4	-11.3	-13.6	-10.9	...	-11.4
Money and credit (annual percentage change, end of period)							
Broad money	39.0	25.5	17.6	24.9	30.4	27.3	...
Credit to the economy	38.1	21.4	22.2	28.4	41.7	39.9	...
Interest rates (in percent, end of period)							
Three-month deposits (households)	4.3	5.9	7.0	6.3	6.7	7.4	...
Short-term lending (less than one year)	9.8	8.8	9.9	10.0	10.7	11.1	...
Current account balance (including official transfers)							
(in millions of U.S. dollars)	642	670	-419	-1,946	-1,700	...	-2,246
(in percent of GDP)	2.1	2.1	-1.2	-4.9	-3.8	...	-4.4
Exports f.o.b (annual percentage change, U.S. dollar terms)	25.2	4.0	11.2	20.4	29.3	16.2	21.3
Imports f.o.b. (annual percentage change, U.S. dollar terms)	34.5	2.3	22.1	29.1	25.0	18.5	23.2
Foreign exchange reserves (in millions of U.S. dollars, end of period)							
Gross official reserves, including gold	3,030	3,387	3,692	5,620	6,314	7,055	7,730
(in weeks of next year's imports of goods and nonfactor services)	8.9	8.3	7.2	8.9	8.1	...	8.6
Net international reserves, including gold	2,191	2,555	2,956	4,683	5,554	6,286	...
External debt (in percent of GDP)	38.6	37.9	34.9	33.6	34.2	...	34.2
Debt service due (in percent of exports of goods and nonfactor services)	10.5	10.6	8.6	7.9	6.2	...	5.2
Exchange rate (dong per U.S. dollar)							
Period average	14,170	14,806	15,272	15,514	15,745	15,798	...
End of period	14,514	15,084	15,404	15,646	15,773	15,771	...
Real effective exchange rate (annual percentage change, base 1997)							
Period average	-2.8	0.9	-0.6	-4.9	0.0	2.1	...
End of period	2.2	1.5	-3.8	-5.9	2.0	4.4	...
Memorandum items:							
GDP (in trillions of dong at current market prices)	441.6	481.3	535.8	613.4	713.1	...	806.9
Per capita GDP (in U.S. dollars)	401	413	440	489	552	...	...

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

[1] Data as of end-June, except broad money, credit to the economy and interest rates which are end-April.

[2] Includes DAF operations. The authorities record ODA received for onlending; repayments are included under amortization.

Table 3. Vietnam: Balance of Payments, 2000-05
(In millions of U.S. dollars, unless otherwise indicated)

	2000	2001	2002	2003	2004	2005
					Prel	Proj
Current account balance	642	670	-419	-1,946	-1,700	-2,246
Excluding official transfers	506	520	-551	-2,085	-1,874	-2,431
Trade balance	378	627	-876	-2,593	-2,368	-3,405
Exports, f.o.b.	14,449	15,027	16,706	20,112	26,003	31,551
of which: oil	3,503	3,126	3,270	3,821	5,666	7,758
Imports, f.o.b.	14,071	14,400	17,582	22,704	28,371	34,956
of which: oil	2,016	1,828	2,017	2,433	3,571	5,242
Non-factor services (net)	-615	-572	-648	-778	-878	-848
Receipts	2,695	2,810	2,948	3,272	3,860	4,825
Payments	3,310	3,382	3,596	4,050	4,739	5,673
Investment income (net)	-597	-635	-793	-814	-938	-1,066
Receipts	185	160	167	125	180	220
Payments	782	795	960	939	1,117	1,286
Transfers (net)	1,476	1,250	1,898	2,239	2,484	3,073
Private	1,340	1,100	1,767	2,100	2,310	2,888
Official	136	150	131	139	174	185
Capital account balance	-526	-476	862	4,097	2,379	3,663
Gross foreign direct investment (FDI) inflows	1,101	1,252	2,023	1,894	1,763	2,337
Equity	977	1,067	1,882	1,294	1,204	1,624
Loan disbursements	124	185	141	600	559	713
FDI loan repayments	601	819	414	590	536	524
Medium and long-term loans (net)	729	623	526	1,047	1,442	1,709
Disbursements	1,411	988	1,102	1,540	1,920	2,068
ODA loans	1,361	958	1,073	1,258	1,394	1,525
Commercial loans	50	30	29	283	526	543
Amortization[1]	682	365	576	493	477	358
Short-term capital (net) [2]	-1,755	-1,532	-1,273	1,745	-290	140
Overall balance	115	194	464	2,151	679	1,417
Financing	-115	-194	-464	-2151	-679	-1,417
Change in SBV's NFA (-, increase)	-115	-194	-464	-2,151	-679	-1,417
Memorandum items:						
Gross official reserves	3,030	3,387	3,692	5,620	6,314	7,730
In weeks of next year's imports of GNFS	8.9	8.3	7.2	8.9	8.1	8.6
Current account deficit (in percent of GDP)	2.1	2.1	-1.2	-4.9	-3.8	-4.4
Non-oil current account deficit (in percent of GDP)	-2.7	-1.9	-4.8	-8.4	-8.4	-9.4
Export value growth (in percent)	25.2	4.0	11.2	20.4	29.3	21.3
Import value growth (in percent)	34.5	2.3	22.1	29.1	25.0	23.2
Non-oil export value growth (in percent)	15.9	8.7	12.9	21.3	24.8	17.0
Non-oil import value growth (in percent)	28.2	4.3	23.8	30.2	22.3	19.8
External debt (in percent of GDP)	38.6	37.9	34.9	33.6	34.2	34.2
Debt service (in percent of exports of goods and nonfactor services)	10.5	10.6	8.6	7.9	6.2	5.2

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]Including errors and omissions and trade credit.

Table 4. Vietnam: Monetary Survey, 2000-2005[1]

	2000	2001	2002	2003	2004				2005				
					Mar.	June	Sept.	Dec.	Jan	Feb	Mar.	Apr.	Dec. Proj.
					(In trillions of Dong)								
Net foreign assets	95.7	117.6	117.4	131.4	133.6	130.5	138.9	145.8	144.1	148.8	151.5	153.5	169.1
Foreign assets	112.7	135.9	135.9	150.5	153.2	152.1	161.5	172.3	171.9	177.2	179.9	182.3	195.5
Foreign liabilities	-17.0	-18.3	-18.4	-19.1	-19.6	-21.7	-22.6	-26.4	-27.8	-28.4	-28.4	-28.8	-26.4
Net domestic assets	127.2	162.2	211.7	279.8	303.8	328.4	345.8	390.4	393.7	396.4	402.4	410.6	510.3
Domestic credit	155.2	191.2	239.9	316.9	341.5	372.4	391.4	435.2	448.8	455.8	464.1	477.5	561.3
Net claims on government[2]	-0.5	2.1	8.8	20.1	17.0	15.6	7.0	14.9	18.1	15.3	8.2	7.6	15.0
Credit to the economy[3]	155.7	189.1	231.1	296.7	324.5	356.8	384.4	420.3	430.7	440.5	455.9	469.9	546.3
of which in foreign currency	32.3	36.5	46.2	65.2	71.9	83.0	90.1	102.9	106.3	109.8	111.6	...	...
Claims on state enterprises[3 4]	69.9	79.7	89.5	105.4	115.8	127.5	134.5	142.9	...	...	...	...	...
Claims on other sectors[3 4]	85.8	109.4	141.6	191.3	208.6	229.3	249.9	277.4	...	...	...	...	...
Other items, net	-28.0	-29.0	-28.2	-37.0	-37.7	-44.0	-45.5	-44.9	-55.1	-59.4	-61.7	-67.0	-51.0
Total liquidity (M2)	222.9	279.8	329.1	411.2	437.4	458.9	484.7	536.2	537.8	545.2	553.9	564.1	679.4
of which: total deposits	170.7	213.5	254.9	320.6	341.7	363.8	388.5	427.1	416.2	426.8	439.7	449.7	551.7
Dong liquidity	152.5	191.1	235.5	314.1	332.5	348.1	368.2	408.1	407.5	413.9	420.6	427.1	513.6
Currency outside banks	52.2	66.3	74.3	90.6	95.7	95.0	96.3	109.1	121.5	118.3	114.2	114.4	127.6
Deposits	100.3	124.8	161.3	223.6	236.9	253.1	271.9	299.0	285.9	295.6	306.4	312.7	386.0
Foreign currency deposits	70.4	88.7	93.6	97.1	104.9	110.7	116.6	128.1	130.3	131.3	133.3	137.0	165.7
(in millions of U.S. dollars)	4,854	5,884	6,093	6,220	6,670	7,042	7,398	8,123	8,272	8,327	8,445	8,674	10,402
(in percent of total liquidity)	31.6	31.7	28.4	23.6	24.0	24.1	24.0	23.9	24.2	24.1	24.1	24.3	24.4
					(Annual percentage change, unless otherwise indicated)								
Net foreign assets	56.4	22.9	-0.2	11.9	4.8	3.9	6.9	11.0	6.5	9.6	13.4	19.2	16.0
Net domestic assets	28.2	27.5	30.6	32.2	39.2	35.2	37.1	39.5	34.2	36.5	32.4	30.6	30.7
Domestic credit	34.2	23.2	25.5	32.1	38.5	35.5	34.8	37.4	37.8	40.0	35.9	35.9	29.0
Net claims on government[2]	-116.4	-534.2	320.8	127.7	558.6	73.7	-45.2	-26.0	-26.7	-21.3	-51.6	-50.6	0.7
Credit to the economy[3]	38.1	21.4	22.2	28.4	33.0	34.2	38.5	41.7	43.1	43.9	40.5	39.9	30.0
of which in foreign currency	11.8	13.1	26.6	41.0	39.3	38.1	46.0	57.8	57.9	58.4	55.3	...	...
Claims on state enterprises[3]	28.7	14.1	12.2	17.8	25.5	30.4	32.9	35.6	...	...	...	...	...
Claims on other sectors[3]	46.9	27.5	29.5	35.1	37.6	36.5	41.7	45.0	...	...	...	...	...
Total liquidity (M2)	39.0	25.5	17.6	24.9	26.5	24.5	26.8	30.4	25.5	27.9	26.6	27.3	26.7
of which: total deposits	43.3	25.1	19.4	25.8	28.1	26.1	28.7	33.2	28.8	29.3	28.7	30.0	29.2
Dong liquidity	30.8	25.3	23.2	33.4	32.2	26.8	27.6	29.9	23.1	26.9	26.5	26.5	25.9
Currency outside banks	26.6	27.0	12.0	22.0	21.3	18.9	19.7	20.4	15.4	23.3	19.4	17.7	17.0
Deposits	33.2	24.4	29.2	38.6	37.2	30.0	30.7	33.7	26.7	28.5	29.3	30.1	29.1
Foreign currency deposits	60.5	26.0	5.6	3.7	11.4	18.0	24.5	32.0	33.6	31.1	27.1	29.9	29.3
(change during year, in millions of U.S. dollars)													
					(In percent, unless otherwise indicated)								
Velocity[4]	1.9	1.6	1.6	1.4	1.6	1.6	1.5	1.3	1.5	1.5	1.5	1.4	1.2
Dong velocity[4]	2.8	2.5	2.2	1.8	2.1	2.0	1.9	1.7	2.0	1.9	1.9	1.9	1.6
Money multiplier[5]	3.1	3.3	3.4	3.4	3.7	3.7	4.0	3.8	3.5	3.6	3.9	3.9	4.4
Currency/broad money (in percent)	23.4	23.7	22.6	22.0	21.9	20.7	19.9	20.3	22.6	21.7	20.6	20.3	18.8
Currency/dong deposits (in percent)	52.1	53.1	46.1	40.5	40.4	37.5	35.4	36.5	42.5	40.0	37.3	36.6	33.1
Currency/total deposits (in percent)	30.6	31.1	29.1	28.2	28.0	26.1	24.8	25.5	29.2	27.7	26.0	25.4	23.1
Foreign currency deposits/total deposits	41.2	41.5	36.7	30.3	30.7	30.4	30.0	30.0	31.3	30.8	30.3	30.5	30.0
Foreign currency loans/total loans	20.7	19.3	20.0	22.0	22.2	23.3	23.4	24.5	24.7	24.9	24.5	...	...
					(In millions of U.S. dollar, unless indicated otherwise)								
Gross official international reserves (adjusted)[6]	3,030	3,387	3,692	5,620	5,563	5,886	5,833	6,314	6,946	6,884	7,144	7,415	7,730
Net foreign assets of the banking system	6,599	7,805	7,640	8,419	8,496	8,298	8,817	9,246	9,148	9,437	9,598	9,722	10,615
(change during year, in millions of U.S. dollars)	2,235	1,206	-164	778	77	-121	398	827	-98	191	352	476	1,369

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

[1] Data comprise the State Bank of Vietnam (SBV), six state-owned commercial banks, and 83 non-state owned banks.

[2] Fund staff projections exclude capital cost of banking reform and the possible issuance of international bonds by the government.

[3] Fund staff projections exclude the possible transfer in collateralized nonperforming loans of commercial banks to an AMC.

[4] Velocity is measured as the ratio of GDP to end-of-period total liquidity (M2) or dong liquidity respectively

[5] Money multiplier is measured as the ratio of total liquidity (M2) to reserve money.

[6] 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 bo by the government.

Table 5. Vietnam: Summary of General Government Budgetary Operations, 2000-2005

(In percent of GDP; unless otherwise indicated)

	2000	2001	2002	2003	2004	2005	
					Prel.	Budget	Proj. Staff
Total Revenue and grants	20.5	21.6	22.7	23.1	23.4	22.7	24.5
Oil revenues	6.5	7.4	6.8	6.4	6.4	...	7.6
Nonoil revenue	13.6	13.8	15.5	16.4	16.7	...	16.6
Tax revenue	11.5	11.6	13.0	13.7	13.6	...	13.5
Nontax revenue	2.1	2.2	2.6	2.8	3.1	...	3.1
Grants	0.5	0.4	0.4	0.3	0.3	0.2	0.3
Total Expenditure and net lending	25.5	26.6	26.6	28.0	26.7	27.9	27.1
Current Expenditure	15.9	16.0	15.7	16.8	16.5	16.8	17.7
Wages and salaries	3.3	3.6	3.4	3.7	4.8	...	6.0
Interest payments	0.8	0.9	1.0	1.1	0.8	0.8	0.8
Other current expenditure	11.8	11.5	11.3	12.0	10.8	...	11.0
Capital Expenditure	7.4	8.4	8.4	8.3	8.3	8.2	7.6
Net lending[1]	2.2	2.2	2.4	2.9	1.9	2.9	1.8
ODA financed	2.2	1.0	0.9	1.2	0.9	1.6	1.1
Domestically financed	0.0	1.2	1.5	1.7	1.0	1.3	0.6
Fiscal Balance (old definition, excl. off-budget investment)[2]	-5.0	-5.0	-3.8	-4.9	-3.3	-5.2	-2.6
o/w Official budget balance (excl. net lending)	-2.7	-2.8	-1.4	-2.0	-1.4	-2.3	-0.9
Off-budget investment expenditure	0.0	0.0	0.7	2.3	1.2	...	1.1
Education bonds	0.0	0.0	0.0	0.4	0.0	...	0.2
Infrastructure bonds	0.0	0.0	0.0	0.8	0.7	...	0.7
Reform bonds (pre-2000 SOCB debt)	0.0	0.0	0.7	0.7	0.2	...	0.0
Municiple bonds	0.0	0.0	0.0	0.3	0.3	...	0.2
Overall fiscal balance (new definition, incl. off-budget inv.)	**-5.0**	**-5.0**	**-4.5**	**-7.2**	**-4.5**	...	**-3.8**
o/w Non-oil balance	-11.4	-12.4	-11.3	-13.6	-10.9		-11.4
Financing	5.0	5.0	4.5	7.2	4.5	...	3.8
Domestic (net)	1.3	2.9	2.6	5.2	2.8	...	1.2
Foreign (net)	3.7	2.0	1.9	2.0	1.7	1.9	2.6
Borrowing	4.2	2.5	2.3	2.5	2.1	2.5	3.0
Amortization	0.5	0.4	0.4	0.5	0.4	0.6	0.4
Memorandum Items:							
Expenditure managed by units[3]	1.4	1.8	1.6	2.4	1.6	1.8	1.8
Public debt stock[4]	...	37.0	38.5	41.9	41.0	...	41.2
Domestic	...	6.4	10.6	13.5	13.4	...	14.1
Foreign	...	30.5	28.0	28.3	27.6	...	27.0
exchange rate (p.a.)	14,170	14,806	15,272	15,514	15,739	...	...
Non-oil GDP (trillions of dong)	421	462	517	592	680	767	767
Nominal GDP (trillions of dong)	442	481	536	613	713	807	807

Source: Vietnamese authorities; and Fund staff estimates.

[1]Includes DAF operations. The authorities record ODA received for onlending; repayments are included under amortization.

[2]Definition of the fiscal deficit contained in IMF Country Report No. 05/148 (Table 6, p. 32).

[3]Self-financed expenditures undertaken by government administrative units, which are excluded from the above.

[4] Includes public and publicly guaranteed debt.

Table 6. Vietnam: Medium-Term Scenario, 2002-10

	2002	2003	2004	2005	2006	2007	2008	2009	2010
						Projection			
					(Percentage change)				
Real GDP (annual percentage change)	7.1	7.3	7.7	7.5	7.4	7.4	7.4	7.3	7.3
Nominal GDP (in trillions of dong)	535.8	613.4	713.1	806.9	889.5	982.0	1084.8	1197.6	1321.5
Inflation (annual percentage change)									
Consumer prices (annual average)	4.0	3.2	7.7	8.0	7.0	6.0	5.0	4.0	3.5
Consumer price index, end of period	4.0	2.9	9.7	7.0	6.5	5.5	4.0	3.5	3.5
GDP deflator	4.0	6.7	7.9	5.3	2.7	2.8	2.9	2.9	2.9
					(In percent of GDP)				
Saving-investment balance	-1.2	-4.9	-3.8	-4.4	-4.0	-4.0	-4.0	-3.9	-3.9
Gross national saving	32.0	29.7	31.7	32.2	31.9	31.8	31.4	31.5	31.0
Gross investment	33.2	34.6	35.5	36.6	35.9	35.7	35.4	35.4	34.9
ICOR	4.4	4.4	4.3	4.6	4.6	4.6	4.5	4.5	4.5
Fiscal balance (old definition, excl. off-budget)	-3.8	-4.9	-3.3	-2.6	-2.1	-2.4	-2.3	-2.2	-2.2
o/w Official budget balance (excl. net lending)	-1.4	-2.0	-1.4	-0.9	-0.4	-0.7	-0.8	-0.7	-0.8
Total revenue and grants	22.7	23.1	23.4	24.5	25.2	24.6	23.9	23.4	23.0
Revenue	22.3	22.8	23.1	24.2	25.0	24.4	23.7	23.3	22.8
Of which : oil revenue	6.8	6.4	6.4	7.6	8.3	7.6	6.9	6.3	5.7
Grants	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.2
Total Expenditure and net lending	26.6	28.0	26.7	27.1	27.3	27.0	26.2	25.6	25.2
Current expenditure	15.7	16.8	16.5	17.7	18.2	18.3	17.7	17.4	17.0
Capital expenditure	8.4	8.3	8.3	7.6	7.4	7.1	7.0	6.8	6.8
Net lending [1]	2.4	2.9	1.9	1.8	1.7	1.7	1.5	1.5	1.4
Off-budget investment expenditure	0.7	2.3	1.2	1.1	1.4	1.1	1.2	1.3	1.3
Overall fiscal balance (incl. off-budget investment)	-4.5	-7.2	-4.5	-3.8	-3.5	-3.5	-3.5	-3.5	-3.5
o/w Non-Oil balance	-11.3	-13.6	-10.9	-11.4	-11.8	-11.1	-10.4	-9.8	-9.2
				(In millions of U.S. dollars; unless otherwise indicated)					
Current account balance	-419	-1,946	-1,700	-2,246	-2,194	-2,299	-2,493	-2,639	-2,851
(In percent of GDP)	-1.2	-4.9	-3.8	-4.4	-4.0	-4.0	-4.0	-3.9	-3.9
Trade balance	-876	-2,593	-2,368	-3,405	-3,652	-4,322	-4,938	-5,536	-6,479
Exports	16,706	20,112	26,003	31,551	36,672	41,015	45,918	51,642	57,835
(Percentage change)	11.2	20.4	29.3	21.3	16.2	11.8	12.0	12.5	12.0
Imports	17,582	22,704	28,371	34,956	40,324	45,337	50,855	57,178	64,313
(Percentage change)	22.1	29.1	25.0	23.2	15.4	12.4	12.2	12.4	12.5
Net services and transfers (incl. investment income)	1,898	2,239	2,484	3,073	3,376	3,714	4,013	4,325	4,651
Of which: private transfers	1,767	2,100	2,310	2,888	3,176	3,494	3,773	4,075	4,401
Capital and financial account (net)	862	4,097	2,379	3,663	4,005	4,394	4,657	5,161	4,974
Direct investment	2,023	1,894	1,763	2,337	2,615	3,138	3,452	3,798	3,987
Medium- and long-term loans	526	1,047	1,442	1,709	1,875	1,834	1,916	1,891	1,635
Of which: ODA disbursements	1,073	1,258	1,394	1,525	1,600	1,600	1,600	1,500	1,400
Short-term capital (net)	-1,273	1,745	-290	140	150	200	250	250	250
Changes in reserves (- indicates increase) (USD million)	-305	-1,929	-693	-1,417	-1,811	-2,095	-2,164	-2,523	-2,123
Memorandum items									
Gross official reserves (in billions of US dollars)	3.7	5.6	6.3	7.7	9.5	11.6	13.8	16.3	18.4
(in weeks of next year's imports of GNFS)	7.2	8.9	8.1	8.6	9.5	10.3	10.9	11.5	...
Debt service payments (in billions of U.S. dollars)	1.7	1.8	1.8	1.9	2.1	2.6	3.1	3.3	3.9
(in percent of exports of GNFS)	8.6	7.9	6.2	5.2	5.0	5.5	5.8	5.4	5.7
External debt (in billion US dollars) [2]	12.2	13.3	15.5	17.4	19.6	21.8	24.0	26.5	28.8
(in percent of GDP)	34.9	33.6	34.2	34.2	35.9	37.7	38.7	39.4	39.5
Nominal GDP (US dollars)	35.1	39.5	45.3	50.9	54.5	57.7	61.9	67.1	72.9

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

[1]Includes DAF operations.

[2]Includes the loan component of foreign direct investment and other private sector borrowing and short-term debt.

Table 7. Vietnam: Indicators of External Vulnerability, 2000-05

	2000	2001	2002	2003	2004 Prel.	2005 Proj.
Financial indicators						
Public sector external debt (in percent of GDP) [1 2]	27.7	28.9	27.6	26.9	27.3	27.5
Broad money (M2: annual percentage change)[3]	39.0	25.5	17.6	24.9	30.4	26.7
Foreign currency deposits to broad money (in percent) [3]	28.0	31.7	28.4	23.6	23.9	24.4
Credit to other (nonstate) sectors (annual percentage change)[3]	46.9	27.5	29.5	35.1	45.0	...
Foreign currency loans to credit to the economy (in percent)[3]	20.7	19.3	20.0	22.0	24.9	...
External indicators						
Exports value growth (in percent)	25.2	4.0	11.2	20.4	29.3	21.3
Imports value growth (in percent)	34.5	2.3	22.1	29.1	25.0	23.2
Current account balance (in percent of GDP, including official transfers)	2.1	2.1	-1.2	-4.9	-3.8	-4.4
Capital account balance (in US$ billion)	-0.5	-0.5	0.9	4.1	2.4	3.7
Of which:						
Short-term capital (net)	-1.8	-1.5	-1.3	0.8	-0.3	0.1
Gross foreign direct investment (inflows)	1.1	1.3	2.0	1.9	1.8	2.3
Of which: Loans	0.1	0.2	0.1	0.4	0.6	0.7
Medium-and long-term loans (net)	0.7	0.6	0.5	1.0	1.4	1.7
Exchange rate (per U.S. dollar, period average)[4]	14,170	14,806	15,272	15,514	15,745	...
(annual percentage change)	-1.6	-4.5	-3.1	-1.6	-1.5	...
Exchange rate (dong per U.S. dollar, end of period) [4]	14,514	15,084	15,404	15,646	15,773	...
(annual percentage change)	-3.5	-3.9	-2.1	-1.6	-0.8	...
Real effective exchange rate (end of period, annual percentage change, + appreciation)	2.2	1.5	-3.8	-5.9	2.0	...
Reserve indicators						
Gross official reserves, including gold (in US$ billion)	3.0	3.4	3.7	5.6	6.3	7.7
(in weeks of next year's imports of goods and nonfactor services)	8.9	8.3	7.2	8.9	8.1	8.6
Net official international reserves (in US$ billion)	2.2	2.6	3.0	4.7	5.6	...
Gross official reserves to broad money (M2) (in percent)	19.7	18.3	17.3	21.4	20.2	...
Gross official to short-term debt (remaining maturity basis) (in percent)	256	425	375	555	716	788
Net foreign assets of the banking system	6,599	7,805	7,640	8,419	9,246	10,615
(in weeks of next year's imports of goods and nonfactor services)	19.4	19.2	14.9	13.3	11.9	11.8
Debt indicators						
Total external debt (in US$ billion)[2]	12.0	12.3	12.2	13.3	15.5	17.4
Of which: Public and publicly guaranteed debt	8.6	9.4	9.7	10.6	12.4	14.0
Total external debt to exports of goods and services (in percent)[2]	70.2	69.0	62.3	56.8	51.8	47.9
Total debt service to exports of goods and services (in percent)	10.3	10.6	8.6	7.9	6.2	5.2
Total short-term external debt by remaining maturity (in US$ billion)	0.1	0.7	0.7	0.7	0.6	0.7
Total short-term external debt by remaining maturity to total debt (in percent)	1.0	5.6	5.3	5.0	3.9	3.8
Financial market indicators						
Ho Chi Minh City Stock Exchange Composite Index (end of period, July 2000 = 100)	207	235	183	150	239	...
Number of listed companies	5	12	21	21	29	...

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

[1]Excludes domestic debt and unguaranteed external debt of state-owned enterprises, as well as contingent liabilities.

[2]Restructuring of nonconvertible Russian debt was concluded in September 2000.

[3]Starting in 2000, based on expanded monetary survey (currently comprising the State Bank of Vietnam (SBV) and 84 credit institutions); for previous periods, based on original monetary survey (SBV and 28 credit institutions).

[4]Official mid-rate, which comprises the previous day's average interbank buying and selling rates.

Table 8. Vietnam: Millennium Development Goals
(In percent, unless otherwise specified)

	1990	1995	2001	2002	2003
1 Eradicate extreme poverty and hunger	2015 target = halve 1990 $1 a day poverty and malnutrition rates				
Population below US$1 a day	...	...	...	...	2.0
Poverty gap at US$1 a day	...	...	...	...	0.5
Share of income or consumption held by poorest 20 percent	...	...	...	...	7.5
Prevalence of child malnutrition (percent of children under 5)	45.0	44.9	33.8	...	...
Share of population below minimum level of dietary energy consump	27.0	21.0	19.0	...	19.0
2 Achieve universal primary education	2015 target = net enrollment to 100				
Net primary enrollment ratio (percent of relevant age group)	...	87.8	94.0	...	...
Percentage of cohort reaching grade 5	...	...	89.0	...	...
Youth literacy rate (ages 15-24)	94.1	94.4	...	...	...
3 Promote gender equality	2005 target = education ratio to 100				
Ratio of girls to boys in primary and secondary education	...	...	92.7	...	92.8
Ratio of young literate females to males (ages 15-24)	99.1	99.9	...	...	...
Share of women employed in the nonagricultural sector	52.9	...	...	...	...
Proportion of seats held by women in national parliament	...	18.0	...	...	27.0
4 Reduce child mortality	2015 target = reduce 1990 under 5 mortality by two-thirds				
Under 5 mortality rate (per 1,000)	53.0	44.0	30.0	26.0	23.0
Infant mortality rate (per 1,000 live births)	38.0	32.0	23.0	20.0	19.0
Immunization, measles (percent of children under 12 months)	85.0	96.0	97.0	96.0	93.0
5 Improve maternal health	2015 target = reduce 1990 maternal mortality by three-fourths				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	...	...	130.0	...	...
Births attended by skilled health staff (percent of total)	...	77.1	69.6	85.0	85.0
6 Combat HIV/AIDS, malaria and other diseases	2015 target = halt, and begin to reverse, AIDS, etc.				
Prevalence of HIV, female (ages 15-24)	...	...	0.2	...	0.4
Contraceptive prevalence rate (of women ages 15-49)	...	75.3	...	78.5	78.5
Number of children orphaned by HIV/AIDS	...	...	22,000	...	...
Incidence of tuberculosis (per 100,000 people)	...	...	179.0	192.5	178.1
Tuberculosis cases detected under DOTS	...	30.0	85.0	81.9	86.1
7 Ensure environmental sustainability	2015 target = various[1]				
Forest area (% of total land area)	28.6	...	30.2	...	...
Nationally protected areas (percent of total land area)	...	3.0	3.1	3.5	3.7
GDP per unit of energy use (PPP $ per kg oil equivalent)	2.6	3.5	4.4	...	4.2
CO2 emissions (metric tons per capita)	0.3	0.4	0.7	...	...
Access to an improved water source (percent of population)	55.0	...	77.0	...	73.0
Access to improved sanitation (percent of population)	29.0	...	47.0	...	41.0
8 Develop a Global Partnership for Development	2015 target = various[2]				
Youth unemployment rate (percent of total labor force ages 15-24)	...	...	...	...	...
Fixed line and mobile telephones (per 1,000 people)	1.5	10.8	53.0	71.8	87.8
Personal computers (per 1,000 people)	0.1	1.4	8.6	9.8	9.8
General indicators					
Population (in millions)	66.2	73.0	79.5	80.4	81.3
Gross national income (US$ billion)	8.5	18.5	32.3	34.8	38.8
GNI per capita (US$)	130.0	250.0	410.0	430.0	480.0
Adult literacy rate (percent of people ages 15 and over)	90.4	91.5	90.3	...	
Total fertility rate (births per woman)	3.6	2.7	1.9	1.9	1.9
Life expectancy at birth (years)	64.8	67.1	69.1	69.7	69.9
External debt (percent of GNI)	384.0	124.0	39.0	38.0	...
Investment (percent of GDP)	12.6	27.1	31.2	32.1	...
Trade (percent of GDP)	81.3	74.7	111.6	115.0	127.3

Sources: World Development Indicators database, April 2004 (www.developmentgoals.org). In some cases the data are for earlier or later years than those stated.

[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 at least 100 million 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.

Vietnam—Fund Relations
(As of June 30, 2005)

I. Membership Status: Joined: 09/21/1956; Article XIV

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	0.72	1.52

IV. Outstanding Purchases and Loans:

	SDR Million	Percent Quota
PRGF arrangements	160.44	48.75

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				
	2005	2006	2007	2008	2009
Principal	18.12	22.26	16.56	24.84	24.84
Charges/Interest	0.98	1.86	1.76	1.66	1.53
Total	19.10	24.12	18.32	26.50	26.37

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 0.6 percent during the first eight months of 2005. 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 currently maintains the following exchange restrictions subject to Fund jurisdiction under Article VIII: (i) requirements for proof of payment of taxes other than those specifically due on the underlying transaction originating the payment and transfer of income, dividends or profits payable to non-residents; (ii) absolute limits of USD5,000 on the amount of foreign exchange available for certain current international transactions by individuals; and (iii) restrictions on amounts which nonresidents can re-exchange so as to exclude the re-exchange of recent proceeds, if any, of current international transactions. There is no timetable for their removal and staff does not recommend approval of these three exchange restrictions. Vietnam also 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 and XIV 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 and Article XIV Consultations were concluded on November 22, 2004.

IX. Technical Assistance: See attached matrix.

Resident Advisor:

Tax Computerization (FAD) through April 1998

In-Country Training/Outreach:

- 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

Mrs. Susan Adams, Senior Resident Representative between August 2001 and August 2005, was recently succeeded by Mr. Il Houng Lee.

Vietnam-Summary of Technical Assistance, 2001-2005

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 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
Tax Policy and Administration reform		
FAD	Review the status of implementation of tax policy and administration reform	July-August 2001
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
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 system restructuring and foreign exchange operations at the SBV	August-September 2001
Article VIII and current account liberazation		
MFD/LEG	Reviewing Status of Article VIII acception	February/05
MFD/LEG	Drafting Foreign Exchange Ordinance	June/05
Banking supervision		
MFD	Banking supervision strengthening	August/04
MFD	Banking supervision strengthening	November/04
MFD	Banking supervision strengthening	April/05

Strengthening the SBV audit capacity in the SAO		
MFD/OIA	Strengthening SBV audit capacity in the SAO	September/02
MFD	Strengthening SBV audit capacity in the SAO	December/02
FIN	Strengthening SBV audit capacity in the SAO	June/03
Monetary and Exchange Operation		
MFD	Banking Issues, Moneraty and Foreign Exchange Operation	February/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	Improvement plan of the real sector statistics project development	December/01
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	Sep-04
Multisector Statistics/GDDS		
STA	Guidance on statistical practices and development in the areas of national accounts, prices, foreign trade, fiscal and socio-demographic data	July/01
Balance of payment statistics		
STA	TA in BOP statistics and guidance in the development of international investment position statistics	September/03
CPI Statistics		
STA/MFD	CPI statistics and core inflation primary understanding	Arpil-05
Monetary Statistics		
STA	Monetary Statistics	Arpil-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
Capital market development		
ICM	Capital Markets Development	May-June 2004

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Vietnam—Relations with the World Bank[11]

I. Partnership in Vietnam's Development Strategy

The reform agenda of Vietnam is 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 planning documents based on a "command and control" view of the economy. 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 progress in implementation. The CPRGS was "expanded" in December 2003 so as to better address policies related to large-scale infrastructure. Broadly speaking, the reform agenda in the CPRGS is structured around three main pillars: completing the transition to a market economy, ensuring social inclusion and environmental sustainability, and building modern governance.

A Joint Staff Assessment (JSA) of the CPRGS was discussed by the Boards of the IMF and the World Bank in June and July 2002, respectively. The Government completed the first CPRGS Progress Report in November 2003. The Report evaluated performance in terms of economic growth and poverty reduction, reviewed policy implementation and identified challenges ahead. A JSA of the Progress Report was discussed by the Boards in 2004. More recently, a Joint Staff Advisory Note for the second CPRGS Progress Report was distributed to the Boards of the IMF and World Bank in August 2005.

The IMF's support for Vietnam's growth and poverty reduction efforts has included a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) which expired in April 2004. The IMF has taken the lead in the policy dialogue on macroeconomic policies and has been active on a set of structural issues, especially on trade and banking reform and related SOE reform. The direct involvement of the IMF in these structural areas is justified because of their potential impact on macroeconomic stability.

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 through a series of Poverty Reduction Support Credit (PRSCs). The PRSCs provide resources directly to the government's budget. The current PRSC cycle (PRSCs 1 to 5) covers a five-year period, much the same as the CPRGS and the last Socio-Economic Development Plan. With the CPRGS approach being integrated into the preparation of the next SEDP (2006-10), future PRSCs are proposed to be aligned to the implementation of this forthcoming five-year plan.

[11] Contact person: Ms. Keiko Sato.

II. World Bank Group Strategy and Lending

The World Bank Group is combining all of its instruments of assistance to support the objectives laid out by the CPRGS. Those instruments include analytical and advisory activities, IDA project support, IFC, Mekong Project Development Facility (MPDF) and MIGA activities, a series of PRSCs, and donor partnerships and ODA coordination. An update of the Country Assistance Strategy, presented to the World Bank Board in January 2004, sets out the planned support of the CPRGS objectives until the Bank's FY06. Virtually all IDA credits will provide policy, institutional and infrastructure support for Vietnam's ongoing transition, with the series of PRSCs being used as vehicles for the policy dialogue.

The implementation of the ambitious reform agenda spelled out in CPRGS and other strategies and plans has been supported through four PRSC operations so far. 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.

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 24 line ministries and 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 eleven in PRSC 4. As many as 15 bilateral and multilateral donors could co-finance PRSC 5. Three bilateral donors, namely Denmark, the Netherlands, and the United Kingdom, have co-financed all PRSC operations. These co-financiers together with Sweden contributed a total of US$43 million to PRSC 1. For PRSC 2, Denmark, the Netherlands, and the United Kingdom contributed a total of US$ 31 million as grant finance. In addition to these three, ADB, Canada, the EC and Japan supported PRSC 3, mobilizing the equivalent of US$122 million.

ADB and Japan contributed through parallel lending, whereas all other co-financiers provided grants. Other bilateral donors actively participated in the preparation of this preparation, with a view to join the process at some point. France, Ireland, Spain and Sweden might be in a position to co-finance PRSC 4.

Several priorities are identified by the CPRGS to enhance equitable, inclusive, and sustainable development. They refer to disadvantaged and lagging areas, to the living standards of ethnic minorities, to gender equality, to access and affordability of social services for the poor, to the mitigation of impacts from natural disasters, and to enhancing environmental management. The World Bank favors a sector-wide approach for two projects supporting this agenda, Rural Roads III and Education for All. Sectoral budget support in the education sector, approved by the Board in June 2005 has been facilitated through significant progress in piloting a medium term expenditure framework, as well as improved financial management.

Table 1: Selected Recent IDA Credits and Grants

Project Name	Original Amount (US$ equivalent)	Effective Date
HIV/AIDS Prevention (Grant)	35.0	Aug-05
2nd Payments System and Bank Modernization Project	105.0	Approved Mar-05
Forest Sector Development Project	39.5	Jul-05
Water Resources Assistance Project	157.8	Dec-04
Avian Influenza Emergency Recovery Project	5.0	Nov-04
Road Network Improvement Project	225.3	Oct-04
Poverty Reduction Support Credit III	100.0	Oct-04
Urban Upgrading Project	222.5	Oct-04
Poverty Reduction Support Credit II	100.0	Dec-03
Primary Education for Disadvantaged Children Project	138.8	Oct-03
Public Financial Management Reform Project	54.3	Sep-03
Second Rural Finance Project	200.0	Apr-03
System Efficiency Improvement, Equitization and Renewables (Energy Sector)	225.0	Feb-03
Regional Blood Transfusion Centers	38.2	Sep-02
Primary Teacher Development Project	19.8	Aug-02
Community Based Rural Infrastructure Project	102.8	Mar-02
Northern Mountains Poverty Reduction Project	110.0	Mar-02
Ho Chi Minh City Environmental Sanitation	166.3	Feb-02
Mekong Transportation and Flood Protection Project	110.0	Oct-01
Poverty Reduction Support Credit I	250.0	Oct-01
Rural Energy Project	150.0	Nov-00
Coastal Wetlands Protection and Development Project	31.8	May-00
Second Rural Transport Project	103.9	May-00
Three Cities Sanitation Project	80.5	Jan-00

Efforts to improve governance focus on public financial management, information and transparency, combating corruption, and legal development. Major technical assistance will be 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 scale of the lending program depends on the pace of the policy and institutional reform agendas, as well as on progress in project preparation and implementation. Over the next two years, the IDA program will range from less than US$300 million in the low case, to about US$760 million in the high case, with a base case of US$580 million per year. The IFC and MIGA programs are also expected to grow significantly as the investment climate improves. Today Vietnam is the largest IDA-only borrower, and the second largest user of IDA resources in the world after India. As of May 31, 2005 the original principal of approved IDA credits amounted to US$5.45 billion out of which US$2.86 billion had been disbursed.

In addition to its lending program, the World Bank will work in capacity-building and knowledge-sharing in key areas of emphasis. A Banking Sector Review was completed in 2002. The 2002 Vietnam Household Living Standards Survey was used as the basis for the Vietnam Development Report (VDR), titled "Poverty" in FY04. Annually, the VDR, co-authored by a number of donors and NGOs, summarizes the accumulated knowledge and fosters the policy and institutional reform agenda. The VDR for 2005 titled "Governance" focused on the fundamental changes that are occurring in the way the Government operates. It covered areas such as: modernizing planning, improving budget allocation, decentralization, strengthening service delivery, managing public assets, administrative reform, fighting corruption, and aid effectiveness. The next VDR will focus on the private sector. A Public Expenditure Review-Integrated Fiduciary Assessment was completed in FY05.

III. 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 reform, SOE reform 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 has taken place in the context of specific tasks, not directly related to lending. Since the expiration of the PRGF in April 2004 the IMF has provided Letters of Assessment in support of the PRSC 3 and PRSC 4 operations.

Trade reform has been an integral part of the Government's reform strategy, as evidenced by considerable trade liberalization through the 1990s. The World Bank has supported the following trade liberalization measures: (i) removal of quantitative restrictions on the imports a series of products; (ii) increases in the share of garment export quotas to be auctioned; (iii) further liberalization of rice exports; and (iv) reduction of tariffs on imports from ASEAN countries in the context of the ASEAN free trade agreement (AFTA). Progress in each of these areas has been achieved since early 2001. In parallel to these steps, the Government successfully completed a Bilateral Trade Agreement with the US and is currently aiming at securing accession to the WTO by 2005.

The PRSC-PRGF represented a breakthrough. It also led to a program with several atypical features, including initially retaining a relatively large share of the public sector in the economy, and a plan to restructure, rather than immediately privatize, large SOEs.

The World Bank has worked closely with the Ministry of Finance, the National Steering Committee on Enterprise Reform and Development and the Ministry of Labor, Invalids and Social Affairs in all areas of the SOE reform program. In parallel it has mobilized resources from several donors to carry out the various activities. The measures supported in this area have included the monitoring of 200 highly indebted SOEs, and strengthening the recording and reporting of systematic data on SOE performance. The World Bank plays a key role in the monitoring of ownership transformations (especially equitizations, sales and liquidations) and SOE creation. A series of diagnostic audits of 42 large SOEs have been implemented with the objective of assessing SOE viability. Restructuring three large General Corporations (SOE holding companies) in sectors where Vietnam has comparative advantage in world markets is also a priority. The design and implementation of the social safety net for redundant SOE workers has been an integral part of the World Bank's work program.

In the area of public expenditure management, key remaining challenges include: (i) integrating formulation of the recurrent and capital budgets within a medium-term expenditure framework; (ii) improving budgetary data and increasing the transparency of data and information flows; and (iii) ensuring an effective process for prioritizing and reallocating public expenditures to improve sector outcomes, reduce poverty and limit the prospective increase in inequality. To meet these challenges, the Government launched the Public Financial Management Reform Initiative (PFMRI), a medium-term program for strengthening public financial management. This overarching program deals with reforms in five areas: public expenditure management (including state budget management, investment planning, and financial management information); public debt management; revenue management; SOE fiscal risk management; and public asset management. In 2005, a Government led Public Expenditure Review-Integrated Fiduciary Assessment (PER-IFA) was conducted jointly with the World Bank and other donors. The PER-IFA set forth a series of recommendations which have been endorsed by the Prime Minister. Plans to implement these recommendations are currently under preparation.

The PFMRI is a Government-led initiative and donors are coordinating their financial and technical support for the program. The IMF takes the lead in revenue management while the World Bank takes the lead in public expenditure management. Currently, the IMF is providing technical assistance to help develop a comprehensive program for reforming the tax system and tax administration. The World Bank is leading the work in developing an integrated financial management information system, through a Public Financial Management credit for US$54 million, approved in May 2003. The credit also supports the preparation of medium-term expenditure frameworks in four sectors and four provinces, and the development of a database of public debts. The credit was co-financed by the UK's DFID.

Jointly with other donors, the World Bank is also supporting an effort to modernize planning and budgeting processes at the provincial level. This effort is part of a broader attempt by the Government of Vietnam to "roll out" CPRGS to the provinces. The goal of the exercise is for local policy makers to identify monitorable targets related to growth and poverty reduction, to align resources to the attainment of those targets, and to introduce mechanisms for consultation with the local population.

The World Bank, which has had a long-term role in the modernization of the financial sector, has taken the lead in the effort to strengthen the banking system. Input has been provided by way of direct technical assistance and policy dialogue, with the aim of rationalizing the Joint Stock Banks, strengthening of State-Owned Commercial Banks (SOCBs), improving the supervision of the system, and modernizing the infrastructure for banking. The areas of work with the SOCBs have included the resolution of Non-Performing Loans (NPLs), provisioning for loan loss, re-capitalizing banks as they meet their restructuring targets, introducing internal auditing, and developing a viable payments system. Current efforts aim at improving the regulatory framework for policy lending, and at developing more effective mechanisms for NPL resolution.

The IMF has assumed responsibility for advising on the monetary policy functions of the SBV. It has also been directly and intensely involved in the central area of SOCB reform because of its fiscal and macroeconomic implications, in particular NPL resolution and the resulting re-capitalization. Also included in this has been work on minimizing directed lending, interest rate liberalization and the process and timing of the recapitalization of SOCBs.

As a consequence of the many challenges facing the financial sector in its transition from a Government directed and managed system to a market-based one, assistance from the World Bank, IMF, AsDB, and other donors has been sought. The World Bank has led the effort of donor coordination in the financial sector. It hosts regular financial sector donor coordination meetings which have been recently supplemented by the IMF-hosted donor meetings specific to assistance to the SBV.

Thus far there has been cooperation and assistance between the two organizations. The policy actions supported by the PRSCs and PRGF have been complementary. A single-voice approach has been taken on many difficult issues. Looking ahead, it will be important to avoid duplication. The resolution of NPLs, the operation of Debts and Assets Trading Company and the State Capital Investment Corporation, the equitization of SOCBs, the regulatory framework for policy lending, and the management of fiscal risks by the Government are all areas where continued collaboration is needed.

The IMF and the World Bank currently collaborate to strengthen the capacity of the General Statistics Office in the area of 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 access to data.

Vietnam—Relations With the Asian Development Bank

The Asian Development Bank (ADB) resumed its operations in Vietnam in October 1993. The latest Country Strategy and Program (CSP), endorsed in January 2002, proposes a focus on four pillars to align ADB 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 ADB 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.

A new CSP (2007–2009) is currently under preparation and scheduled to be approved in 2006. The new CSP will be aligned with the Government's five-year socioeconomic development plan (2006–2010). It will be results-based (i.e., with indicators for development outcomes and impacts as developed by the Government), and jointly processed with other development partners like the World Bank. Through this CSP, ADB will continue to support the Government in the implementation of the new 5-year plan and assist towards meeting the investment gap. ADB will continue to provide Asian Development Fund (ADF) resources, following Performance Based Allocation. In addition, ADB would provide Ordinary Capital Resource (OCR) under its public sector and also private sector operations.

From October 1993 to end 2004, ADB approved 49 public sector loans, totaling about US$2.941 billion from the concessional (ADF) and US$160 million from Ordinary Capital Resources (OCR). Disbursements in 2004 amounted to US$182.350 million. Loans have been provided mainly for (i) rehabilitating physical infrastructure in the agricultural, energy, and transport sectors; (ii) financial sector reform with focus on non-banking sector; (iii) public administration reform; and (iv) preventive heath care and secondary education. In addition, ADB has provided 162 technical assistance grants amounting to US$108 million. Since December 1998, Vietnam has been classified as a B-1 country by ADB, which makes it eligible to supplement borrowing at ADF terms with borrowing at non-concessional (OCR) terms. A US$120 million loan in the energy sector financed from OCR was provided in 2004.

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 ADB operations in Vietnam. So far, ADB has approved ten policy-based program loans in the agricultural sector (US$80 million in 1994 and US$60 million in 2002), the financial sector (US$90 million in 1996, US$50 million in 2002 and US$35 in 2004), for SOE reform and corporate governance (US$100 million in 1999, of which US$40 million was from OCR), for SME development (US$60 million in 2004), for public administration reform (US$45 million in 2003) and for poverty reduction (US$6.4 million in 2004). In addition to program lending, policy dialogue is an important feature in all of ADB's loan projects in Vietnam. This includes support for private sector development and 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. Another component of ADB assistance program to Vietnam is the promotion of regional cooperation, particularly the cooperation in the Greater Mekong Subregion (GMS) through enhanced connectivity, increased competitiveness and a greater sense of community. Three GMS projects for transportation and tourism infrastructure development have been financed as of end-2004.

ADB was reorganized in 2002, and Vietnam belongs to the Mekong Department, along with Cambodia, Lao PDR, Myanmar, and Thailand. The Vietnam Resident Mission (VRM) has been strengthened and has been performing programming functions. Delegation in project administration has also been increasing. As of end-2004, 12 out of 32 on-going projects were administered by VRM. ADB and Fund staff work closely together to support the process of economic reforms in Vietnam. ADB staff participate in Fund missions, exchange information, and consult on macroeconomic developments and policy matters. The resident missions of the two institutions also cooperate closely.

Table 1. Vietnam: Public Sector Assistance by Sector (including regional projects)
October 1993–December 2004
(In millions of U.S. dollars)

Sector	Number	Approval Amount
Lending	49	2,941.57
Agriculture and Natural Resources	10	596.70
Education	5	239.00
Energy	3	299.98
Finance	6	335.00
Health, Nutrition and Social Protection	3	131.30
Industry and Trade	2	68.50
Law, Economic Management and Public Policy	4	151.40
Multisector	4	220.69
Transport and Communications	7	595.00
Water Supply, Sanitation and Waste Management	5	304.00
Technical assistance	165	108.390
Advisory	116	71.939
Project Preparation	49	36.451

Source: ADB.

Table 2. Vietnam: Loan and TA Approvals and Disbursements, 1999–2004
(In millions of U.S. dollars)

	1999	2000	2001	2002	2003	2004
Loan Approvals	220.0	188.5	243.1	233.5	179.0	296.4
Loan Disbursements	191.2	218.9	176.2	231.7	233.1	182.3
Undisbursed Balance at the Beginning of the year	1191.6	1190.4	1086.2	1118.8	1198.1	1191.6
Memorandum item: TA Approvals	10.3	9.1	8.4	9.3	8.6	7.7

Source: ADB.

Vietnam—Statistical Issues

The reliability and coverage of macroeconomic statistics have significant deficiencies. The methodology for compilation and dissemination of these statistics is 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 *IFS* in 2001.

Fund technical assistance has contributed to improvements in a number of statistical areas. STA multisector statistics/General Data Dissemination System (GDDS) mission in July 2001 reviewed statistical practices and developments in the areas of national accounts, prices, external trade, fiscal, monetary, balance of payments, and socio-demographic data. It found a number of deficiencies and recommended improvements in an action plan. A follow-up STA mission took place in December 2001 to begin addressing weaknesses in national accounts statistics (discussed below). The mission agreed on a program to improve national accounts and price statistics and a STA peripatetic expert has been assisting the GSO under a five-year project that commenced in January 2002. There was also a follow up mission in balance of payments statistics in September 2003. 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

The General Statistical Office (GSO) provides quarterly and annual data on the gross domestic product (GDP) by type of economic activity and annual data by expenditure[12] (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 government introduced a new methodology for calculating GDP. The two new handbooks on sources and methods for the Vietnam System of National Accounts and the Quarterly National Accounts were published in 2003 in Vietnamese and are currently being translated into English. In May 2005, the authorities released the results of the annual 2004 enterprise survey, upon which GDP estimates at constant 1994 prices are based.

Under current technical assistance projects, a peripatetic expert has been assisting the GSO in the following areas: promoting the effective use of enterprise and economic census data in compiling the national accounts statistics; improving estimates of GDP at constant prices; improving

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

estimates of household final consumption expenditure; improving estimates of quarterly GDP; further development of foreign trade and producer price indices; and developing wage indices. The consultant has noted steady progress by the GSO in these areas.

Prices

The GSO has compiled and published a monthly consumer price index (CPI) in line with international standards since January 1996. Effective July 2001, the GSO changed the CPI to reflect a larger nonfood weight and broader consumption basket based on data from the 1998 Vietnam Household Living Standard Survey (VHLSS) rebased to 2000. The weights are planned to be revised again when the results from the 2004 VHLSS become available. The introduction of a producer price index was planned in late 2001, but 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.

Government finance statistics

The Ministry of Finance's (MoF) State Budget Department produces provisional monthly, quarterly, and annual fiscal 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 six 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 quasi-fiscal activities of SOEs and extrabudgetary funds, among which are the Social Security Fund, Enterprise Restructuring Fund, Development Assistance Fund, Export Support Fund, and Sinking Fund (for repayment of on lent funds), for which no regularly reported data are currently compiled.

The basis of recording of data is mainly 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 forecasted 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, aims to strengthen the external debt management system, particularly the recording of disbursements and multiple currency loans.

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 2000 Public Expenditure Review, the STA multisector statistics mission of 2001.

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, 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 will allow a detailed classification of provisional budget data (as well as final accounts). In addition, it will incorporate 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 and the central bank balance sheet (both on a monthly basis and typically with a six-week lag); (ii) detailed consolidated balance sheets ("derivation tables") for six state-owned and 78 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 an eight-week lag); and (iii) deposit and lending rates of the large SOCBs (on a monthly basis and for various maturities). However, recently monetary data has been submitted to the team with a long lag because the authorities are adopting a new chart of accounts. In addition, there have been statistical discrepancies between the old data and the newly submitted series. 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. A follow-up mission took place during April 14-28, 2005. The mission 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 Vietnam's Fund accounts should be compiled in monetary statistics. In addressing APD's concerns that credit data for a state-owned bank reported to the Fund were substantially lower than reported in its 2002 Annual Report, further cooperation between the Fund and the authorities is needed to resolve the data discrepancies. There are indications that these discrepancies are continuing in 2004, with data reported to the

Fund showing lower credit. This reflects 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) data with a one- to two-month lag, although the data reported to the Fund for publication are less timely—the data published in the July 2005 issue of the *IFS* are for 2002. 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-invested 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 Vietnamese 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 was made to distinguish head office and other nonresident liabilities in the reported data. The 2003 balance of payments statistics mission recommended that the MPI, GSO, and SBV work jointly to improve FDI questionnaires and processes, including collecting data on both stocks and flows.

Data on contracting of commercial debt (by SOEs and privately owned firms) are maintained by the SBV. 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 mission 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 coverage of data on foreign grants is also incomplete.

VIETNAM: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE

AS OF JULY 13, 2005

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of publication[6]
Exchange Rates	7/13/05	7/13/05	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	3/31/05	6/15/05	M	I	NA
Reserve/Base Money	3/31/05	6/15/05	M	I	NA
Broad Money	3/31/05	6/15/05	M	I	NA
Central Bank Balance Sheet	3/31/05	6/15/05	M	I	NA
Consolidated Balance Sheet of the Banking System	3/31/05	6/15/05	M	I	NA
Interest Rates[2]	4/30/05	6/15/05	M	M	NA
Consumer Price Index	7/15/05	7/21/05	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	12/31/04	Mar 2005	Q	Q	A
Stocks of Central Government and Central Government-Guaranteed Debt[5]	...	...	...	...	NA
External Current Account Balance	2004	Feb 2005	A	A	A
Exports and Imports of Goods and Services[7]	6/30/05	June 2005	M	M	M
GDP/GNP	3/31/05	Apr 2005	Q	Q	Q
Gross External Debt	2004	Mar 2005	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.

Vietnam – Debt Sustainability Analysis [13]

Public sector debt sustainability

Given the high degree of uncertainty surrounding the quality of SOCB balance sheets, and of the magnitude of SOCB recapitalization and reform costs which will eventually be borne by the government, the DSA has been carried out in two stages. First, a baseline scenario, which abstracts from contingent liabilities and focuses on the fiscal stance consistent with stabilizing the debt to GDP ratio near its current level, is developed. Second, two scenarios with alternative assumptions regarding the fiscal cost of SOCB reform are presented along with policy implications.

Baseline

Under the baseline scenario, public and publicly-guaranteed debt increases slightly from about 41 percent of GDP in 2005 to 42½ percent in 2009, before stabilizing. In net present value (NPV) terms, the debt increases from 28 percent of GDP in 2005 to about 29 percent of GDP and stabilizes at that level over the long term. The baseline scenario assumes: (i) real GDP growth of 7–7½ percent; (ii) a fiscal deficit, including net-lending and off-budget investment expenditure, of 3½ percent of GDP starting in 2006, based on the assumptions that the official budget balance narrows from 1½ percent of GDP in 2004 to less than 1 percent of GDP over the medium term, net lending is gradually reduced from about 2 percent of GDP in 2004 to less than 1½ percent of GDP by 2010, and only 70 percent of the authorities' planned infrastructure spending program of 110 trillion dong is executed over the period 2005–2010;[14] and (iii) decreasing reliance on ODA from 2010 onward.

Under such a baseline scenario, the debt stock appears sustainable, but is subject to risks, such as permanently lower growth and a higher primary deficit (alternative baseline scenarios A2 and A3). While full implementation of the authorities' infrastructure spending program under current oil price assumptions (average US$58.70 per barrel) would lead to a modest increase in the NPV of the debt-to-GDP ratio over the medium term (scenario A4), continued full implementation in the event that oil prices were to fall by 20 percent relative to the WEO baseline over the period 2006–2010 would lead to a continual increase in the NPV of the debt-to-GDP ratio (scenario A5).

[13] This DSA was prepared jointly by the Bank and the Fund on the basis of the joint framework approved by Bank and Fund Boards in April 2005. (See "Operational Framework for Debt Sustainability Assessments in Low-Income Countries—Further Considerations", available via the Internet: http://www.imf.org/external/np/pdr/sustain/2004/020304.htm.)

[14] Relative to the authorities' initial program of 68 trillion dong, the assumed implementation represents 110 percent.

Alternative scenarios [15]

The largest risk to medium-term debt sustainability is the existence of contingent liabilities associated with SOCB reform. The two scenarios presented below should be viewed as indicative, given the high degree of uncertainty regarding (i) the current stock of NPLs in the banking system and (ii) the current and projected future SOCB 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 from 2005 onwards, and that credit growth decelerates markedly. As a result, the incidence of new nonperforming loans and the associated provisioning requirements fall sharply over the medium term, and the SOCBs' capital shortfall is effectively contained.

Using the latest available IAS audits (end-2002) for the four large SOCBs as a starting point, both scenarios estimate the capital shortfall assuming that 15 percent of off-balance sheet items were not recorded in the audits. Existing provisions were subtracted from the required provisioning in both cases. Despite possible alternative funding sources, both scenarios assume that the capital shortfall will be entirely financed by government bond issuance.[16] The main differences between the scenarios include the methodology used to estimate the capital shortfall, the assumed increase in capital-adequacy ratios (CAR), and the years over which recapitalization bond issuance is spread.[17]

More specifically:

Banking reform scenario 1: [18]

- estimates the capital shortfall by incorporating provisioning assumptions based on international experience, as audited balance sheet data are likely to significantly understate the true capital shortfall. This scenario assumes losses of 33 percent on the

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[15] For the sake of comparability with the baseline, the alternative scenarios maintain all the assumptions of the baseline scenario except the amount of bond finance required to cover the capital shortfall as of end-2005.

[16] The authorities could possibly partially finance recapitalization with proceeds from as-yet unidentified asset sales. In addition, going forward SOCBs would likely raise capital from the private sector either through equity or equity-like instruments, but it is unclear whether this could be done prior to recapitalization.

[17] The main methodological difference is that scenario 1 directly calculates provisioning needs based on international experience, while scenario 2 is based on non-performing loan estimates and loan classification.

[18] This scenario represents an update of the exercise carried out for the 2004 Article IV consultation and used as a basis for the DSA framework described in the staff report (Country Report 05/148, Annex V, pp. 49 – 54).

outstanding stock of loans, 40 percent on concessional and ODA loans, 50 percent on directed loans, 100 percent on frozen and debt recovery loans, 50 percent on letters of credit, 30 percent on loan guarantees, and 40 percent on performance guarantees and other off-balance sheet items. This results in an overall provisioning rate of 38 percent for past loans and 22 percent for off- balance sheet items. The resulting shortfall amounts to 20 percent of GDP. It is assumed to be filled by a capital injection by the government, in the form of a transfer of government bonds to SOCBs, spread over two years (2006-2007), and would bring the banks to solvency (i.e. the CAR is set at zero).

- Under this scenario, the debt stock jumps to over 63 percent of GDP in 2007 before the adjustment in the primary deficit required to keep the overall deficit at 3½ percent begins to rein in the debt stock. Over the long term, the primary adjustment, together with the improving quality of SOCBs' new lending, allows the government to steadily diminish the impact of SOCB reform costs on the public debt burden, leaving the debt stock at just above 47 percent by 2025.

Banking reform scenario 2:

- estimates provisioning requirements in line with SBV's recent Decision 493 on loan classification and provisioning: five percent for loans up to 90 days overdue, 20 percent from 90 to 180 days, 50 percent for up to 360 days, and 100 percent above that threshold.[19] Loans with insufficient information on their performance status were placed in the highest risk category. This leads to an average provisioning of 13.3 percent, which is also applied to off- balance sheet items. To account for possible misclassification, provisioning against loans is increased by 50 percent. The CAR is set at 8 percent of assets. The resulting shortfall amounts to 8 percent of GDP, and is assumed to be filled by a capital injection by the government, in the form of a transfer of government bonds to SOCBs, spread over five years (2006–2010).

- Under this scenario, the debt stock approaches the government's notional ceiling of 50 percent of GDP by 2010 and declines slowly over the long term to about 44 percent of GDP in 2025.[20]

The above scenarios show the important ways in which the level and evolution of contingent liabilities can influence debt sustainability. SOCB policy affects public debt dynamics both directly through the generation of quasi-fiscal liabilities and indirectly through the cost of servicing the resulting public debt. Going forward, delays in reining in credit growth and

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[19] Banks had until end-July 2005 to provide reports based on the new classification contained in Decision 493. As of mid-August, reportedly three of the four large SOCBs had done so.

[20] The authorities do not have a legal debt ceiling, and treat the 50 percent notional ceiling as indicative.

implementing reforms, as well as lack of progress in improving the quality of investment, could lead to further increases in contingent liabilities, which would likely have a negative social impact, as interest expenditure crowds out social expenditure. Given the uncertainty regarding the magnitude of the existing stock of contingent liabilities, and the fact that the quality of new SOCB lending could improve more slowly than envisaged in the above scenarios, the overall deficit target of 3½ percent of GDP should be viewed as an upper bound for a sustainable fiscal stance.

External debt sustainability

Vietnam's external debt is deemed sustainable under the baseline scenario, and should not be affected by the cost of SOCB reform as long as these costs are domestically financed. The stock of total external debt would rise modestly to about 40 percent of GDP by around 2015 before declining to about 32 percent in 2025. This scenario assumes (i) a gradually narrowing current account deficit, reflecting a steady deceleration in the growth of exports and imports from the current high levels and continued buoyant remittances and tourism receipts; (ii) a slight increase followed by a gradual decline in ODA in U.S. dollar terms; and (iii) an increase in FDI and commercial borrowing due to a steadily declining grant element of new public sector borrowing and increasing private sector borrowing. Under this scenario the NPV of debt-to-exports ratio falls from 28 percent in 2005 to 18½ percent in 2025, while the debt service ratio falls from 5.3 percent in 2005 to 4.7 percent in 2025. The main risks facing external debt dynamics are (i) a significant deterioration in the terms of external financing; and (ii) a significantly weaker than projected export performance.

Staffs' Assessment

Staff consider Vietnam to be at a low risk of external debt distress. Vietnam's external debt ratios are well below applicable policy-based debt thresholds both under the baseline and under standard stress scenarios.[21] However, the outlook for public debt dynamics is highly sensitive to assumptions regarding the level of contingent liabilities as well as assumptions related to continued fiscal consolidation and strong GDP growth. The analysis finds that public debt dynamics could deteriorate over the long term under some stress scenarios; this needs close monitoring in future assessments to determine whether a change in the debt distress rating is warranted.

[21] Vietnam is considered a "medium" performer on the basis of its 2004 CPIA score. Its applicable external debt thresholds are the following: (i) NPV of debt-to-exports = 150 percent, (ii) NPV of debt-to-GDP = 40 percent, and debt service-to-exports = 20 percent.

Table 1. Vietnam: Public Sector Debt - comparison of debt dynamics under various levels of contingent liabilities

(NPV of Debt-to-GDP Ratio)

	Estimate	Projections						
	2005	2006	2007	2008	2009	2010	2015	2025
Baseline Scenario: Excluding Contingent Liabilities								
Public and Publicly Guaranteed Debt in NPV	28.0	27.9	28.1	28.2	28.3	28.8	29.1	28.7
Memo: Public and publicly guaranteed debt in percent of GDP (in dong)	*41.2*	*41.6*	*42.2*	*42.5*	*42.5*	*42.4*	*42.4*	*42.3*
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	28.0	28.2	28.6	29.1	29.6	30.4	32.4	36.3
A2. Primary balance is unchanged from 2004	28.6	29.8	31.3	32.7	34.1	35.9	42.3	52.9
A3. Permanently lower GDP growth [1]	28.0	28.0	28.4	28.8	29.3	30.2	33.2	41.6
A4. Full execution of authorities' investment program	28.0	28.3	29.2	29.8	30.3	31.2	30.6	29.3
A5. Full exec. of authorties' investment program and oil price 20 percent lower than WEO	28.0	29.9	32.2	33.9	35.3	36.9	40.4	43.1
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2006-2007	28.0	28.6	29.8	30.5	31.2	32.2	34.8	37.8
B2. Primary balance is at historical average minus one standard deviations in 2006-2007	28.0	30.2	32.5	32.4	32.4	32.8	32.4	30.9
B3. Combination of B1-B2 using one half standard deviation shocks	28.0	29.3	31.0	30.9	31.0	31.3	31.2	30.0
B4. One-time 30 percent real depreciation in 2006	28.0	33.8	33.2	32.6	32.2	32.4	31.0	29.6
B5. 10 percent of GDP increase in other debt-creating flows in 2006	28.0	37.2	37.0	36.7	36.6	36.8	35.8	33.1
Scenario 1: Contingent Liabilities Equivalent to 20 percent of GDP								
Public and Publicly Guaranteed Debt in NPV	28.0	38.4	49.0	48.4	47.6	46.8	41.2	33.5
Memo: Public and publicly guaranteed debt in percent of GDP (in dong)	*41.2*	*52.1*	*63.2*	*62.7*	*61.7*	*60.4*	*54.5*	*47.0*
Memo: of which debt creating flows from contingent liabilities in percent of GDP	0.2	10.5	11.4	1.3	0.9	0.6	0.3	0.0
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	28.0	38.7	49.9	50.5	51.2	51.9	51.6	50.0
A2. Primary balance is unchanged from 2004	28.6	40.4	52.6	54.1	55.8	57.4	61.8	67.2
A3. Permanently lower GDP growth [1]	28.0	38.6	49.5	49.2	48.8	48.5	45.7	46.7
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2006-2007	28.0	39.3	51.3	51.3	51.0	50.7	47.2	42.7
B2. Primary balance is at historical average minus one standard deviations in 2006-2007	28.0	40.7	53.8	52.9	52.0	51.0	44.7	35.8
B3. Combination of B1-B2 using one half standard deviation shocks	28.0	39.9	52.5	51.7	50.8	49.9	43.8	35.1
B4. One-time 30 percent real depreciation in 2006	28.0	44.3	54.2	52.8	51.5	50.4	43.1	34.3
B5. 10 percent of GDP increase in other debt-creating flows in 2006	28.0	37.2	48.4	48.3	48.0	47.7	43.5	36.2
Scenario 2: Contingent Liabilities Equivalent to 8 percent of GDP								
Public and Publicly Guaranteed Debt in NPV	28.0	29.9	31.9	33.6	34.3	35.2	33.1	30.2
Memo: Public and publicly guaranteed debt in percent of GDP (in dong)	*41.2*	*43.6*	*46.0*	*47.9*	*48.4*	*48.7*	*46.3*	*43.8*
Memo: of which debt creating flows from contingent liabilities in percent of GDP	0.2	2.0	2.0	2.0	1.0	1.0	0.0	0.0
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	28.0	30.2	32.5	34.7	36.0	37.6	38.4	40.6
A2. Primary balance is unchanged from 2004	28.6	31.8	35.2	38.4	40.6	43.1	48.4	57.3
A3. Permanently lower GDP growth [1]	28.0	30.1	32.3	34.3	35.3	36.7	37.3	43.3
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2006-2007	28.0	30.6	33.7	36.1	37.3	38.8	38.9	39.4
B2. Primary balance is at historical average minus one standard deviations in 2006-2007	28.0	32.2	36.4	37.9	38.4	39.2	36.4	32.5
B3. Combination of B1-B2 using one half standard deviation shocks	28.0	31.4	34.9	36.5	37.0	37.9	35.3	31.6
B4. One-time 30 percent real depreciation in 2006	28.0	35.8	37.0	38.1	38.2	38.8	34.9	31.1
B5. 10 percent of GDP increase in other debt-creating flows in 2006	28.0	37.2	39.0	40.6	41.0	41.8	38.9	34.3
Memorandum items:								
Real GDP growth	7.5	7.4	7.4	7.4	7.3	7.3	7.0	7.0
Overall fiscal deficit including off-budget investment expenditure	-3.8	-3.5	-3.5	-3.5	-3.5	-3.5	-3.5	-3.5
Non-oil fiscal balance	-11.4	-11.8	-11.1	-10.4	-9.8	-9.2	-8.2	-6.2
Primary balance								
Baseline	3.0	2.2	2.1	2.1	2.0	2.0	1.9	1.4
Scenario 1	3.0	2.2	1.8	1.1	0.7	0.7	1.0	1.1
Scenario 2	3.0	2.2	2.1	1.9	1.7	1.6	1.6	1.3
Average nominal interest rate on forex debt (in percent)	1.8	1.8	1.8	1.8	1.8	1.8	2.2	3.0
Average real interest rate on domestic currency debt (in percent)	-2.0	4.2	4.5	4.7	5.0	5.2	4.9	5.2

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).

Table 1a.Vietnam: Public Sector Debt Sustainability Framework, Baseline Scenario, 2002-2025
(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2002	2003	2004	Historical Average [4]	Standard Deviation [4]	2005	2006	2007	2008	2009	2010	2005-10 Average	2015	2025	2011-25 Average
Alternative scenarios															
Banking reform scenario 1	38.5	41.9	41.0			41.2	52.1	63.2	62.7	61.7	60.4		54.5	47.0	
Banking reform scenario 2	38.5	41.9	41.0			41.2	43.6	46.0	47.9	48.4	48.7		46.3	43.8	
Public sector debt [1]	38.5	41.9	41.0			41.2	41.6	42.2	42.5	42.5	42.4		42.4	42.3	
o/w foreign-currency denominated	28.0	28.3	27.6			27.0	27.8	28.6	28.8	28.4	28.1		27.9	22.9	
Change in public sector debt	1.6	3.3	-0.8			0.1	0.4	0.7	0.3	0.0	-0.1		0.0	-0.1	
Identified debt-creating flows	2.1	3.5	-0.7			-0.5	0.9	0.5	0.1	-0.1	-0.1		0.0	0.0	
Primary deficit	3.5	6.1	3.6	2.5	2.1	3.0	2.2	2.1	2.1	2.0	2.0	2.2	1.9	1.4	1.8
Revenue and grants	22.7	23.1	23.4			24.5	25.2	24.6	23.9	23.4	23.0		22.7	22.7	
of which : grants	0.4	0.3	0.3			0.3	0.3	0.3	0.3	0.2	0.2		0.1	0.1	
Primary (noninterest) expenditure	26.2	29.2	27.0			27.4	27.4	26.8	26.0	25.5	25.0		24.6	24.1	
Automatic debt dynamics	-2.2	-3.4	-4.8			-3.7	-1.3	-1.6	-2.0	-2.1	-2.1		-1.9	-1.5	
Contribution from interest rate/growth differential	-2.0	-2.5	-3.4			-3.1	-2.3	-2.3	-2.4	-2.3	-2.3		-2.0	-1.6	
of which : contribution from average real interest rate	0.5	0.1	-0.4			-0.2	0.5	0.5	0.5	0.6	0.6		0.8	1.1	
of which : contribution from real GDP growth	-2.4	-2.6	-3.0			-2.9	-2.8	-2.8	-2.9	-2.9	-2.9		-2.8	-2.8	
Contribution from real exchange rate depreciation	-0.2	-0.9	-1.5			-0.6	1.1	0.8	0.4	0.2	0.2		...	...	
Other identified debt-creating flows	0.7	0.8	0.4			0.2	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	
On-lending	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	
Bank recapitalization	0.7	0.8	0.4			0.2	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	-0.5	-0.2	-0.1			0.7	-0.5	0.1	0.2	0.1	0.0		0.0	0.0	
NPV of public sector debt	27.3	28.5	26.6			28.0	27.9	28.1	28.2	28.3	28.8		29.1	28.7	
NPV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
NPV of public sector debt-to-revenue ratio (in percent) [2]	120.3	123.3	113.8			114.5	110.6	113.9	117.7	120.9	125.2		128.3	126.6	
Debt service-to-revenue ratio (in percent) [2,3]	4.4	4.7	3.6			3.3	5.3	5.6	5.9	6.2	6.5		7.2	9.0	
Primary deficit that stabilizes the debt-to-GDP ratio	...	...	...			2.8	1.8	1.5	1.8	2.1	2.1		1.9	1.5	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	7.1	7.3	7.7	7.3	1.5	7.5	7.4	7.4	7.4	7.3	7.3	7.4	7.0	7.0	7.0
Average nominal interest rate on forex debt (in percent)	1.9	2.0	1.7	1.8	0.1	1.8	1.8	1.8	1.8	1.8	1.8	1.8	2.2	3.0	2.5
Average real interest rate on domestic currency debt (in percent)	4.3	-0.1	-4.0	0.1	4.2	-2.0	4.2	4.5	4.7	5.0	5.2	3.6	4.9	5.2	5.2
Real exchange rate depreciation (in percent, + indicates depreciation)	-0.6	-3.4	-5.5	-1.8	6.8	-2.4	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	4.0	6.7	7.9	7.7	5.8	5.3	2.7	2.8	2.9	2.9	2.9	3.2	2.9	2.9	2.9
Growth of real primary spending (deflated by GDP deflator, in percent	9.6	19.5	-0.5	11.4	8.3	9.1	7.2	4.9	4.3	5.1	5.3	6.0	7.4	6.9	6.8

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

[1]Central government and DAF bonds; as of 2005 includes contingent liabilities of the banking system.

[2]Revenues including grants.

[3]Debt service is defined as the sum of interest and amortization of medium- and long-term debt.

[4]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 2005-2025

	Estimate	Projections						
	2005	2006	2007	2008	2009	2010	2015	2025
NPV of Debt-to-GDP Ratio								
Baseline	28.0	27.9	28.1	28.2	28.3	28.8	29.1	28.7
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	28.0	28.2	28.6	29.1	29.6	30.4	32.4	36.3
A2. Primary balance is unchanged from 2004	28.6	29.8	31.3	32.7	34.1	35.9	42.3	52.9
A3. Permanently lower GDP growth [1]	28.0	28.0	28.4	28.8	29.3	30.2	33.2	41.6
A4. Full execution of authorities' investment program	28.0	28.3	29.2	29.8	30.3	31.2	30.6	29.3
A5. Full execution of authorities' investment program and oil price 20 percent lower than WEO	28.0	29.9	32.2	33.9	35.3	36.9	40.4	43.1
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2006-2007	28.0	28.6	29.8	30.5	31.2	32.2	34.8	37.8
B2. Primary balance is at historical average minus one standard deviations in 2006-2007	28.0	30.2	32.5	32.4	32.4	32.8	32.4	30.9
B3. Combination of B1-B2 using one half standard deviation shocks	28.0	29.3	31.0	30.9	31.0	31.3	31.2	30.0
B4. One-time 30 percent real depreciation in 2006	28.0	33.8	33.2	32.6	32.2	32.4	31.0	29.6
B5. 10 percent of GDP increase in other debt-creating flows in 2006	28.0	37.2	37.0	36.7	36.6	36.8	35.8	33.1
NPV of Debt-to-Revenue Ratio [2]								
Baseline	114.5	110.6	113.9	117.7	120.9	125.2	128.3	126.6
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	114.5	111.7	116.3	121.5	126.2	132.2	142.6	160.1
A2. Primary balance is unchanged from 2004	117.0	118.3	127.2	136.8	145.8	155.9	186.3	232.9
A3. Permanently lower GDP growth [1]	114.5	111.2	115.4	120.5	125.2	131.3	146.4	183.5
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2006-2007	114.5	113.4	121.0	127.5	133.2	140.0	153.4	166.7
B2. Primary balance is at historical average minus one standard deviations in 2006-2007	114.5	119.5	132.1	135.6	138.5	142.4	142.9	136.2
B3. Combination of B1-B2 using one half standard deviation shocks	114.5	116.3	125.6	129.2	132.2	136.2	137.4	132.3
B4. One-time 30 percent real depreciation in 2006	114.5	133.9	134.8	136.4	137.7	140.9	136.6	130.3
B5. 10 percent of GDP increase in other debt-creating flows in 2006	114.5	147.3	150.1	153.7	156.2	159.8	157.7	146.0
Debt Service-to-Revenue Ratio [2]								
Baseline	3.3	5.3	5.6	5.9	6.2	6.5	7.2	9.0
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	3.3	5.3	6.0	6.5	7.0	7.4	8.9	13.3
A2. Primary balance is unchanged from 2004	3.3	6.2	7.8	8.9	9.7	10.5	13.2	21.7
A3. Permanently lower GDP growth [1]	3.3	5.3	5.7	6.2	6.7	7.2	9.1	15.2
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2006-2007	3.3	5.4	6.2	7.2	7.8	8.3	9.6	13.6
B2. Primary balance is at historical average minus one standard deviations in 2006-2007	3.3	5.3	8.8	10.5	8.3	7.8	8.1	10.6
B3. Combination of B1-B2 using one half standard deviation shocks	3.3	5.4	7.5	8.6	7.4	7.3	7.7	9.9
B4. One-time 30 percent real depreciation in 2006	3.3	5.7	6.6	7.1	7.6	7.9	9.1	12.1
B5. 10 percent of GDP increase in other debt-creating flows in 2006	3.3	5.3	18.6	11.2	9.2	8.8	8.9	12.1

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.

Table 3a. Vietnam: External Debt Sustainability Framework, Baseline Scenario, 2002-2025 [1]

(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/	Standard Deviation 6/	Estimate	Projections								
	2002	2003	2004			2005	2006	2007	2008	2009	2010	2005-10 Average	2015	2025	2011-25 Average
External debt (nominal) [1]	**34.9**	**33.6**	**34.2**			**34.2**	**35.9**	**37.7**	**38.7**	**39.4**	**39.5**		**41.8**	**31.4**	
Change in external debt	-3.0	-1.3	0.6			0.0	1.7	1.8	1.0	0.7	0.1		1.6	-3.2	
Identified net debt-creating flows	-7.0	-2.3	-3.2			-1.1	-1.4	-2.0	-2.2	-2.4	-2.3		-2.2	-1.7	
Non-interest current account deficit	**0.4**	**4.2**	**3.0**	**2.1**	**5.5**	**3.6**	**3.2**	**3.0**	**2.9**	**2.7**	**2.6**		**2.1**	**1.6**	1.7
Deficit in balance of goods and services	4.3	8.5	7.2			8.4	8.1	8.4	8.3	8.0	8.2		5.9	3.1	
Exports	56.0	59.1	65.9			71.5	77.6	82.5	86.5	90.1	93.1		115.7	139.0	
Imports	60.4	67.7	73.1			79.8	85.7	90.9	94.7	98.1	101.3		121.6	142.1	
Net current transfers (negative = inflow)	-5.4	-5.7	-5.5	-4.5	0.9	-6.0	-6.2	-6.4	-6.5	-6.4	-6.4		-5.0	-3.2	-4.5
Other current account flows (negative = net inflow)	1.4	1.3	1.4			1.2	1.2	1.0	1.1	1.1	0.8		1.2	1.7	
Net FDI (negative = inflow)	**-5.4**	**-3.3**	**-2.7**	**-3.8**	**1.3**	**-3.2**	**-3.1**	**-3.5**	**-3.6**	**-3.7**	**-3.6**		**-3.2**	**-2.7**	-3.1
Endogenous debt dynamics [2]	**-1.9**	**-3.2**	**-3.6**			**-1.4**	**-1.5**	**-1.5**	**-1.4**	**-1.4**	**-1.3**		**-1.1**	**-0.7**	
Contribution from nominal interest rate	0.8	0.7	0.7			0.9	0.9	1.0	1.2	1.3	1.3		1.6	1.6	
Contribution from real GDP growth	-2.5	-2.3	-2.3			-2.3	-2.4	-2.5	-2.6	-2.6	-2.6		-2.6	-2.3	
Contribution from price and exchange rate changes	-0.3	-1.7	-2.0			…	…	…	…	…	…		…	…	
Residual (3-4) [3]	**3.9**	**1.0**	**3.7**			**1.1**	**3.2**	**3.8**	**3.2**	**3.1**	**2.4**		**3.8**	**-1.4**	
o/w exceptional financing	0.0	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]	...	...	19.3			19.5	20.9	22.3	23.1	24.1	24.9		29.3	25.6	
In percent of exports	...	...	29.2			27.3	26.9	27.0	26.8	26.8	26.8		25.3	18.4	
NPV of PPG external debt	**...**	**...**	**12.4**			**12.8**	**14.0**	**15.1**	**15.7**	**16.0**	**16.2**		**19.4**	**20.3**	
In percent of exports	...	...	18.8			17.9	18.0	18.3	18.1	17.8	17.4		16.7	14.6	
Debt service-to-exports ratio (in percent)	8.6	7.9	6.2			5.2	5.0	5.5	5.8	5.4	5.7		5.7	5.7	
PPG debt service-to-exports ratio (in percent)	6.1	3.3	2.6			1.8	1.4	1.6	1.8	1.8	1.9		1.7	2.6	
Total gross financing need (billions of U.S. dollars)	-0.1	2.4	2.2			2.3	2.5	2.6	3.1	3.1	3.8		7.0	17.1	
Non-interest current account deficit that stabilizes debt rati	3.4	5.5	2.5			3.5	1.4	1.2	1.9	2.0	2.5		0.5	4.8	
Key macroeconomic assumptions															
Real GDP growth (in percent)	7.1	7.3	7.7	7.1	1.3	7.5	7.4	7.4	7.4	7.3	7.3	7.4	7.0	7.0	7.0
GDP deflator in US dollar terms (change in percent)	0.8	5.0	6.4	1.9	4.2	4.5	-0.3	-1.4	0.0	1.0	1.3	0.9	0.0	0.0	0.0
Effective interest rate (percent) [5]	2.4	2.4	2.4	3.0	0.5	2.8	2.7	3.0	3.3	3.5	3.6	3.2	4.2	4.9	4.5
Growth of exports of G&S (U.S. dollar terms, in percent)	10.2	19.0	27.7	16.8	10.0	21.8	16.3	12.5	12.5	12.9	12.4	14.7	11.1	7.8	9.9
Growth of imports of G&S (U.S. dollar terms, in percent)	19.1	26.3	23.8	14.1	12.7	22.7	15.0	12.2	11.9	12.2	12.2	14.4	10.5	7.5	9.4
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	43.7	41.4	40.5	39.6	36.2	35.3	39.5	18.0	7.3	15.8
Memorandum item:															
Nominal GDP (billions of US dollars)	35.1	39.5	45.3			50.9	54.5	57.7	61.9	67.1	72.9		102.3	201.2	

Source: Staff simulations.

[1] Includes both public and private sector external debt.

[2] Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = 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, 2005-25
(In percent)

	Estimate	Projections						
	2005	2006	2007	2008	2009	2010	2015	2025
NPV of debt-to-GDP ratio								
Baseline	12.8	14.0	15.1	15.7	16.0	16.2	19.4	20.3
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2006-25 [1]	12.8	12.1	11.9	11.8	12.1	12.2	14.6	11.1
A2. New public sector loans on less favorable terms in 2006-25 [2]	12.8	15.1	17.4	19.0	20.3	21.2	28.3	33.2
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2006-07	12.8	14.2	15.5	16.2	16.5	16.7	20.0	20.9
B2. Export value growth at historical average minus one standard deviation in 2006-07 [3]	12.8	19.9	30.9	30.0	27.0	24.0	19.6	20.3
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2006-07	12.8	14.3	15.5	16.1	16.5	16.6	19.9	20.9
B4. Net non-debt creating flows at historical average minus one standard deviation in 2006-07	12.8	17.0	21.6	21.5	20.5	19.3	19.5	20.3
B5. Combination of B1-B4 using one-half standard deviation shocks	12.8	19.1	25.8	25.2	23.3	21.4	19.6	20.3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2006 [5]	12.8	20.0	21.5	22.4	22.9	23.1	27.7	29.0
NPV of debt-to-exports ratio								
Baseline	17.9	18.0	18.3	18.1	17.8	17.4	16.7	14.6
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2006-25 [1]	17.9	15.6	14.4	13.7	13.4	13.1	12.6	8.0
A2. New public sector loans on less favorable terms in 2006-25 [2]	17.9	19.5	21.1	22.0	22.5	22.8	24.4	23.9
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2006-07	17.9	18.0	18.3	18.1	17.8	17.4	16.7	14.6
B2. Export value growth at historical average minus one standard deviation in 2006-07 [3]	17.9	28.0	42.9	39.8	34.4	29.5	19.5	16.7
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2006-07	17.9	18.0	18.3	18.1	17.8	17.4	16.7	14.6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2006-07	17.9	21.9	26.2	24.9	22.7	20.8	16.8	14.6
B5. Combination of B1-B4 using one-half standard deviation shocks	17.9	25.3	32.6	30.4	27.0	23.9	17.7	15.3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2006 [5]	17.9	18.0	18.3	18.1	17.8	17.4	16.7	14.6
Debt service ratio								
Baseline	1.8	1.4	1.6	1.8	1.8	1.9	1.7	2.6
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2006-25 [1]	1.6	1.3	1.3	1.1	1.0	0.9	0.7	1.5
A2. New public sector loans on less favorable terms in 2006-25 [2]	1.6	1.3	1.3	1.3	1.3	1.2	1.4	3.4
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2006-07	1.6	1.3	1.5	1.6	1.7	1.7	1.5	2.3
B2. Export value growth at historical average minus one standard deviation in 2006-07 [3]	1.6	1.4	1.9	4.0	6.2	5.8	1.9	2.7
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2006-07	1.6	1.3	1.5	1.6	1.7	1.7	1.5	2.3
B4. Net non-debt creating flows at historical average minus one standard deviation in 2006-07	1.6	1.3	1.6	2.5	3.2	3.1	1.6	2.3
B5. Combination of B1-B4 using one-half standard deviation shocks	1.6	1.4	1.7	3.2	4.4	4.1	1.7	2.4
B6. One-time 30 percent nominal depreciation relative to the baseline in 2006 [5]	1.6	1.3	1.5	1.6	1.7	1.7	1.5	2.3
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) [6]	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1

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.

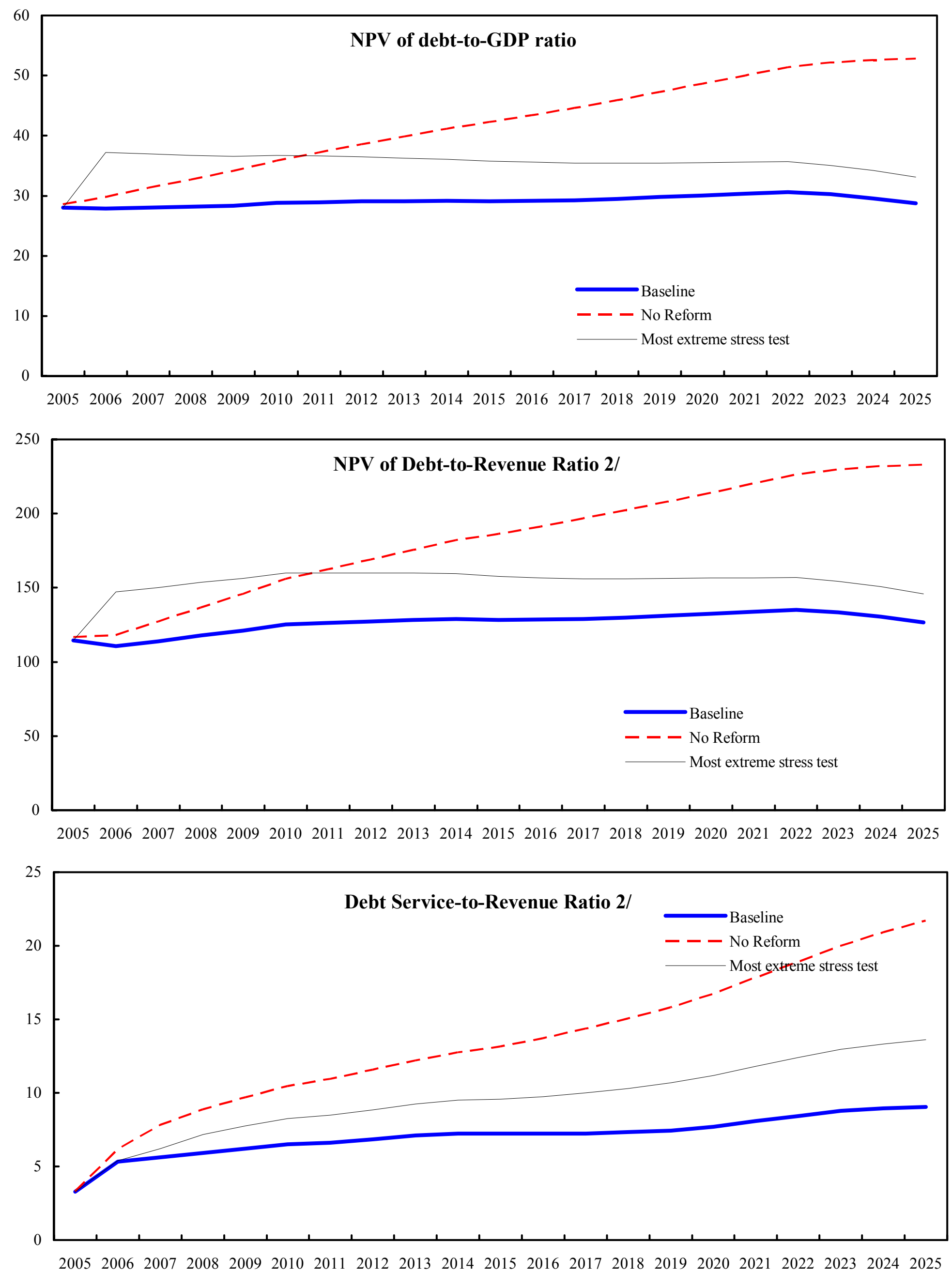
[3]Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).

[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.

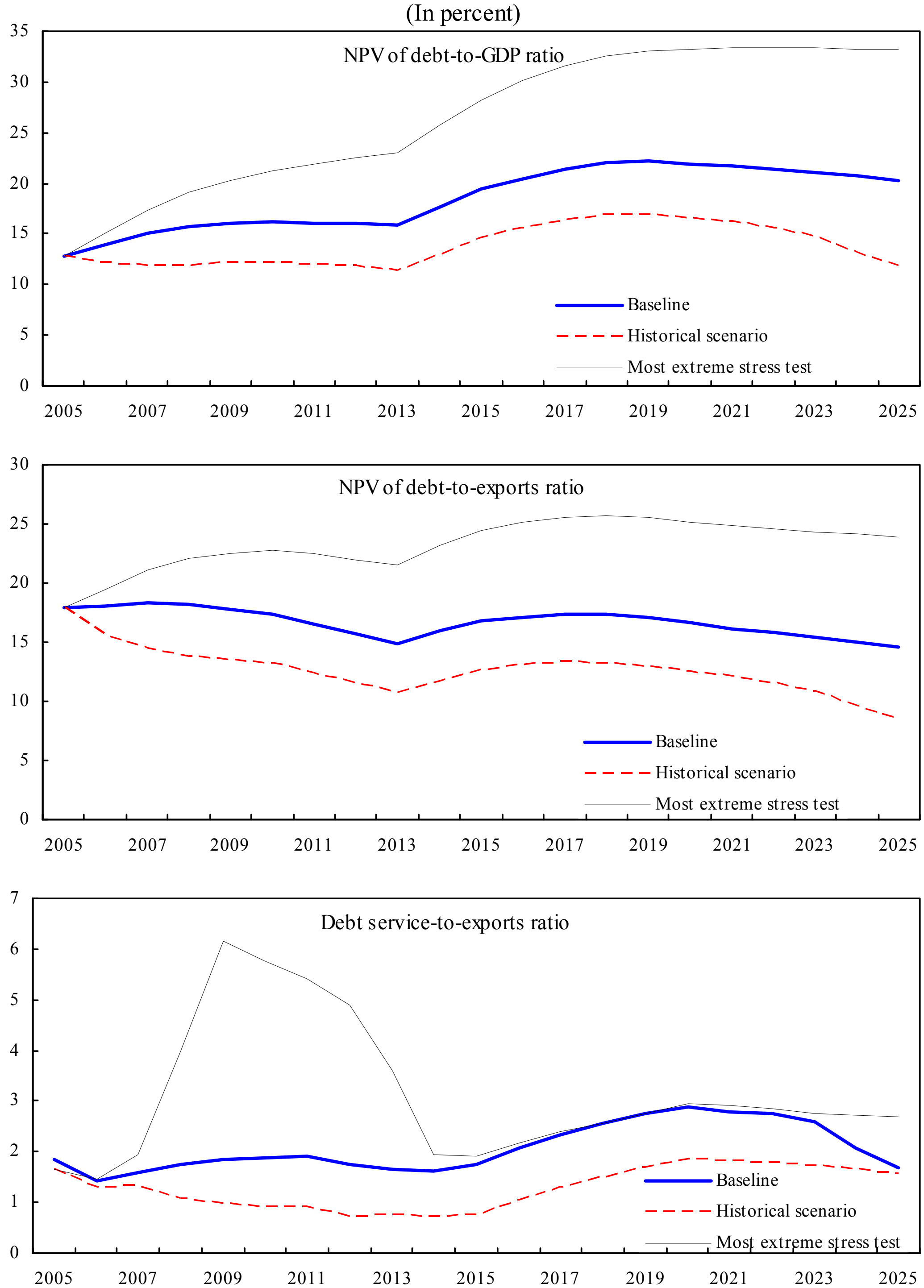
[6]Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Figure 1a.Vietnam: Indicators of Public Debt Under Alternative Scenarios, 2005-2025 1/



Source: Staff projections and simulations.
1/ The most extreme stress test in the first two panels corresponds to "a 10 percent of GDP increase in other debt-creating flows in 2006" (B5), and "real GDP growth is at historical average minus one standard deviation in 2006 - 2007" (B1) in the lower panel. Most extreme is defined as having the highest NPV after 10 years (i.e. 2015).
2/ Revenue including grants.

Figure 1b. Vietnam: Indicators of Public and Publicly Guaranteed External Debt
Under Alternative Scenarios, 2005-2025 1/
(In percent)



Source: Staff projections and simulations.

1/ The most extreme stress test in the first two panels corresponds to "New public sector loans on less favorable terms in 2006 - 2025" (A2), and "Export value growth at historical average minus one standard deviation" (B2) in the lower panel. Most extreme is defined as having the highest NPV in 10 years (i.e. 2015).

Statement by the IMF Staff Representative
October 7, 2005

The information provided below has become available since the issuance of the staff report (SM/05/351, 9/14/05). The thrust of the staff appraisal remains unchanged.

41. **Recently-released data point to continued buoyant activity during the third quarter of 2005**. Preliminary data indicate that real GDP growth picked up to 8.1 percent year-on-year (yoy) during the first nine months of 2005, compared with 7½ percent projected growth for the full year in the staff report. Inflation picked up to 7¾ percent in September (yoy), reflecting the effects of the latest round of increases in petroleum prices and continuing food price inflation. Inflationary pressures can be expected to remain strong in the fourth quarter of 2005 due to seasonal factors as well as the recently-announced 20.7 percent increase in the common minimum wage, which took effect on October 1, 2005 (see below). Preliminary projections by the State Bank of Vietnam (SBV) point to full-year inflation of about 8 percent, compared with a projection of 7 percent in the staff report.

42. **The increase in the minimum wage has clouded the outlook for inflation and the fiscal accounts**. The common minimum wage, which is the basis for the determination of the salaries and pensions of civil servants and provides a floor for salaries of employees of state-owned and non-FDI private enterprises, had last been raised in January 2003 (by 38 percent). However, average civil service wages were increased by another 30 percent in October 2004, when the civil service wage structure was decompressed, in line with the government's Master Program on Public Administration Reform for the Period 2001-2010. The latest increase in the minimum wage, which will affect the incomes of about 11 million salaried workers, can be expected to add to consumption demand in 2006, while at the same time depressing the profitability of state-owned and domestic private enterprises. Although the impact on the overall budget deficit may be buffered in the short run by the large oil revenue windfall, the government's wage and pension bill is projected to increase by at least 1 percentage point of GDP in 2006, thus increasing the burden of adjustment on investment and nonwage recurrent spending.

43. **The rate of growth of credit to the economy fell marginally to 38 percent (yoy) in June**. Broad money growth remained unchanged at around 26½ percent, while total bank deposits continued to expand at a rate of about 30 percent. Although reserve money growth slowed from 15½ percent in May to 11½ percent in June, commercial banks have used their considerable excess liquidity to finance continued rapid credit expansion. These trends are likely to have continued in recent months, as the SBV has maintained a broadly accommodative monetary policy. Moreover, on August 25, 2005, the Governor of the SBV issued an official letter to commercial banks encouraging them to actively consider granting loans to big government projects to support the achievement of the government's economic growth target for the remainder of 2005. Continuation of the recent policy stance would likely lead to a significant overshooting of the SBV's official credit growth objective for 2005.

44. **On September 21, 2005, the Prime Minister issued a decision to equitize the Vietnam Bank for Foreign Trade (VCB) on a pilot basis**. This decision stipulates that the state is to maintain its majority share of VCB, with the sale of shares to be carried out in various phases to bring about a gradual reduction of the state equity ratio. In the first phase in 2006, equitization is to be carried out in stages, with the shares to be sold at each stage limited to 10 percent of equity for the purpose of recapitalization, and with state ownership maintained at no less than 70 percent of VCB's total equity. The sales of shares are to continue during 2007-2010, with the state guaranteed to retain at least 51 percent of shares by the end of the period. Among eligible buyers, each legal entity can own up to 10 percent of the equity; each individual can own up to 5 percent; and each foreign investor up to 10 percent, with the total share holdings of foreign investors to be limited to 30 percent. Thus, while one of the stated objectives of equitization is to improve VCB's corporate governance, the envisaged ownership limits would make it difficult for any foreign strategic investors to make an important contribution in this area.

INTERNATIONAL MONETARY FUND
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FOR IMMEDIATE RELEASE
January 24, 2006

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

IMF Executive Board Concludes 2005 Article IV Consultation with Vietnam

On October 7, 2005, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Vietnam.[1]

Background

Vietnam's overall macroeconomic performance has remained strong since the conclusion of the 2004 Article IV consultation. Real GDP growth picked up to 7.7 percent in 2004, and it remained robust at about 7½ percent year-on-year (yoy) during the first half of 2005. With the abatement of the supply shocks that led to a spike in food prices in 2004, inflation has shown some signs of moderation, although it has remained high relative to recent years, at about 7½ percent (yoy) as of July 2005. Despite a recent slowdown of garment export growth from the very high rates recorded in the past two years, continued strong performance of other exports, and buoyant remittances and tourism receipts, mitigated the impact on the current account. With sustained inflows of ODA and FDI, the overall balance of payments has thus remained in comfortable surplus. Gross international reserves have risen from US$6.3 billion at end-2004 to US$7.1 billion as of end-June 2005, although the import cover of reserves has remained low, at about 8½ weeks of imports.

Credit growth surged to 42 percent in 2004, and remained high at 39 percent as of May 2005, despite some tightening measures taken by the State Bank of Vietnam (SBV). Lending by the

[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.

state-owned commercial banks (SOCBs) continued to expand rapidly in support of the government's official growth target. An announcement by the SBV in January 2005 that exchange rate depreciation would be limited to 1 percent in 2005 encouraged sustained growth in foreign-currency borrowing. Broad money growth rose to 30 percent in 2004, before edging down to a rate of 27 percent (yoy) in May 2005.

The fiscal position appears to have improved in 2004 and early 2005, but heavy reliance on off-budget operations and continued quasi-fiscal operations through the SOCBs make it difficult to assess the underlying strength of the public finances. The official budget deficit narrowed from about 2 percent of GDP in 2003 to less than 1½ percent of GDP in 2004. Surging net oil receipts contributed to continued favorable fiscal performance in the first half of 2005. The overall fiscal deficit (the sum of the official budget and off-budget investment expenditure) narrowed from 7.2 percent of GDP in 2003 to 4½ percent of GDP in 2004 leading to a slight decline in the debt stock to 41 percent of GDP. However, the improvement in the public finances is clouded by the recent augmentation of the government's off-budget investment program for 2005-2010 to 110 trillion dong (15½ percent of 2004 GDP). In addition, slow progress in SOCB reform, together with high credit growth, has likely led to a large build-up of bad loans and contingent government liabilities in the banking system.

The government has recently signaled its intention to speed up the pace of structural reform. In the important banking system, the SBV's loan classification, provisioning, and prudential standards were tightened in April 2005, and the government aims to develop plans for the SOCBs' reform and recapitalization during the latter part of the year. State-owned enterprise (SOE) reform appears to be moving forward through share auctions and a narrowing of the list of sectors reserved for the state, and the authorities continue to work diligently toward WTO accession.

The outlook for the rest of 2005 is broadly positive, provided that monetary and fiscal policies can be appropriately reined in. Real GDP growth is projected to be about 7½ percent, on strong consumption and a rebound in FDI in anticipation of Vietnam's WTO accession. However, inflation would remain higher than in recent years, at around 7 percent by end-2005, and reserve coverage would remain low. The main risk to the outlook would be continued reliance on a loose monetary policy, and an easing of the fiscal stance, which could increase short-term pressures on inflation and heighten external vulnerability. Over the medium-term prospects for sustained, higher-quality growth and poverty reduction remain broadly positive but hinge critically on macroeconomic discipline and market-oriented structural reforms. Assuming appropriate policies, growth is expected to remain robust in the range of 7 – 7½ percent, with inflation falling to around 3½ percent. However, the public debt stock could rise sharply over the next few years as the government covers the costs of the needed recapitalization and reform in the SOCB and SOE sectors.

Executive Board Assessment

Executive Directors welcomed Vietnam's continuing transition toward a market economy, and commended the authorities for the robust growth and significant poverty reduction achieved in recent years despite a number of exogenous shocks. Directors noted that structural reforms and prudent macroeconomic policies have made Vietnam an increasingly attractive destination for foreign direct investment, and that the external current account deficit is comfortably financed by private and official capital inflows. At the same time, Directors observed that the reserve coverage is low and, while inflation has shown some signs of moderation since mid-2004, it has accelerated recently, and is now expected to reach 8 percent in 2005. Directors encouraged the authorities to adopt a more flexible, market-oriented policy framework under the new Five-Year Socio-Economic Development Plan, centered on promoting private sector-led growth, achieving macroeconomic stability, and improving the quality of public investment. They stressed the need for more prudent macroeconomic policies, improved public sector financial management, accelerated reform of state-owned enterprises, and fair and transparent laws and regulations.

Directors noted that the near-term economic outlook is favourable but subject to risks. They cautioned the authorities that pursuit of an ambitious short-term growth target will likely exacerbate inflationary pressures and weaken the external reserve position. In addition, given the uncertain loan quality and weak balance sheets of the state-owned commercial banks, continuing high credit growth could give rise to large quasi-fiscal liabilities that could threaten medium-term debt sustainability.

Directors welcomed the authorities' intention to slow credit growth. However, they noted that the recent policy actions by the State Bank of Vietnam (SBV) are unlikely to be sufficient for this purpose, and may be sending mixed signals to the market. They urged a more concerted effort to tighten liquidity, with a number of Directors calling for a discontinuation of the practice of encouraging state-owned banks to finance large state-owned enterprise projects in order to achieve the authorities' growth target. Directors stressed the need to strengthen the monetary policy framework, including through greater central bank independence and focus on the objective of price stability.

While recognizing that there is no evidence of significant exchange rate misalignment and that a fixed exchange rate regime may have helped to anchor inflation expectations in the last year, Directors welcomed the authorities' intention to explore in a forward-looking manner ways to introduce more flexible exchange rate management. Several Directors noted that greater exchange rate flexibility will facilitate adjustment to exogenous shocks, reduce external vulnerability, and create incentives for economic agents to improve their management of exchange rate risks. They advised that exchange market intervention be limited to addressing disorderly market conditions, and that full use be made of the flexibility embedded in the current exchange rate system. Directors welcomed the authorities' positive efforts to accept the obligations of Article VIII of the Fund's Articles of Agreement, and to remove all remaining exchange restrictions subject to approval under this Article.

Directors welcomed the strengthening of the fiscal position in 2004, while expressing concern about the government's continued reliance on off-budget operations. They urged continued fiscal consolidation to help curb inflation and ensure public debt sustainability. Given the projected gradual decline in oil-related receipts from 2007 onwards, Directors called for urgent action to reduce the non-oil fiscal deficit. To this end, they suggested that a good portion of the oil revenue windfall be saved and that, in light of the recent sharp increase in public wages, investment and domestically-financed on-lending be contained in the period ahead, including through a review of off-budget expenditures. Directors also stressed the importance of reforms to improve the tax system, strengthen tax administration, rationalize public expenditure, improve project selection, and better integrate the capital and recurrent budgets. They also encouraged the authorities to move toward the adoption of best practices in the area of fiscal transparency, including by adopting integrated systems of accounting and reporting for all budget and off-budget operations and for all public debt and contingent government liabilities.

Directors considered reform of the state-owned commercial banks to be crucial to efforts to improve growth prospects and maintain fiscal sustainability in the medium term. They therefore supported the authorities' actions and plans to strengthen banking supervision, liberalize the banking sector, and improve the governance of banks. In this regard, Directors welcomed the recent tightening of prudential standards, including the adoption of regulations to bring loan classification and provisioning in line with international standards, and plans for development of a financial sector reform roadmap. They encouraged the authorities to ensure that the planned resolution of the nonperforming loans of the state-owned banks is based on accurate and reliable estimates of capital shortfalls. Furthermore, while supporting the authorities' plans to equitize the main state-owned banks, Directors emphasized that this should be accompanied by the elimination of residual policy lending, the improvement of banks' incentives to operate on a commercial basis, and the strengthening of the SBV's supervisory authority. A few Directors also encouraged the authorities to allow strategic investors to take over bank management to improve governance and increase efficiency.

Directors welcomed the recently-issued anti-money-laundering decree and encouraged the authorities to pursue full membership in the Asia Pacific Group on Money Laundering. They stressed the importance of strengthening the regime for combating the financing of terrorism, including by amending the criminal code so as to criminalize terrorism financing.

Directors urged the authorities to step up the restructuring of other state-owned enterprises as well, particularly the larger ones. Important needed reforms include equitization, the curbing of government interference in management and investment decision-making, and the provision of incentives to operate on a commercial basis.

Directors appreciated the authorities' commitment to international economic integration, and stressed that an open trade and investment regime and fair and transparent laws and regulations are key to promoting private-sector-led growth. In this regard, they supported Vietnam's objective of achieving WTO membership, and urged the authorities to pass and implement the legislation aimed at creating a level playing field and a more liberal and transparent investment regime. Liberalization of administered prices will be essential to remove distortions and production bottlenecks, and, together with reform of state-owned enterprises, including banks, should serve to support the government’s fight against corruption.

Directors urged the authorities to improve the reliability, timeliness and dissemination of economic data. This is especially important with respect to money and banking statistics, off-budget fiscal activities, and public debt and contingent liabilities.

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.

Vietnam: Selected Economic Indicators, 2000-05

	2000	2001	2002	2003	2004	2005 Proj.
Real GDP (annual percentage change)	6.8	6.9	7.1	7.3	7.7	7.5
Industrial output	18.4	13.7	18.8	16.9	16.0	...
Saving-investment balance (in percent of GDP)	2.1	2.1	-1.2	-4.9	-3.8	-4.4
Gross national saving	31.7	33.2	32.0	29.7	31.7	32.2
Gross investment	29.6	31.2	33.2	34.6	35.5	36.6
Inflation (annual percentage change)						
Period average	-1.6	-0.4	4.0	3.2	7.7	8.0
End of period	-0.5	0.7	4.0	2.9	9.5	7.0
GDP deflator	3.4	1.9	4.0	6.7	7.9	5.3
General government budget						
Total revenue and grants	20.5	21.6	22.7	23.1	23.4	24.5
of which: oil revenue	6.5	7.4	6.8	6.4	6.4	7.6
Total Expenditure and net lending	25.5	26.6	26.6	28.0	26.7	27.1
Current expenditure	15.9	16.0	15.7	16.8	16.5	17.7
Capital expenditure	7.4	8.4	8.4	8.3	8.3	7.6
Net lending 1/	2.2	2.2	2.4	2.9	1.9	1.8
Off-budget expenditure	0.0	0.0	0.7	2.3	1.2	1.1
Overall fiscal balance including off-budget expenditure	-5.0	-5.0	-4.5	-7.2	-4.5	-3.8
Non-oil overall fiscal deficit	-11.4	-12.4	-11.3	-13.6	-10.9	-11.4
Money and credit (annual percentage change, end of period)						
Broad money	39.0	25.5	17.6	24.9	30.4	...
Credit to the economy	38.1	21.4	22.2	28.4	41.7	...
Interest rates (in percent, end of period)						
Three-month deposits (households)	4.3	5.9	7.0	6.3	6.7	...
Short-term lending (less than one year)	9.8	8.8	9.9	10.0	10.7	...
Current account balance (including official transfers)						
(in millions of U.S. dollars)	642	670	-419	-1,946	-1,700	-2,246
(in percent of GDP)	2.1	2.1	-1.2	-4.9	-3.8	-4.4
Exports f.o.b (annual percentage change, U.S. dollar terms)	25.2	4.0	11.2	20.4	29.3	21.3
Imports f.o.b. (annual percentage change, U.S. dollar terms)	34.5	2.3	22.1	29.1	25.0	23.2
Foreign exchange reserves (in millions of U.S. dollars, end of period)						
Gross official reserves, including gold	3,030	3,387	3,692	5,620	6,314	7,730
(in weeks of next year's imports of goods and nonfactor services)	8.9	8.3	7.2	8.9	8.3	8.6
Net international reserves, including gold	2,191	2,555	2,956	4,683	5,554	...
External debt (in percent of GDP)	38.6	37.9	34.9	33.6	34.2	34.2
Debt service due (in percent of exports of goods and nonfactor services)	10.5	10.6	8.6	7.9	6.2	5.2
Exchange rate (dong per U.S. dollar)						
Period average	14,170	14,806	15,272	15,514	15,745	...
End of period	14,514	15,084	15,404	15,646	15,773	...
Real effective exchange rate (annual percentage change)						
Period average	-2.8	0.9	-0.6	-4.9	0.0	...
End of period	2.2	1.5	-3.8	-5.9	2.0	...
Memorandum items:						
GDP (in trillions of dong at current market prices)	441.6	481.3	535.8	613.4	713.1	806.9
Per capita GDP (in U.S. dollars)	401	413	440	489	552	...

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

1/ Includes DAF operations. The authorities record ODA received for onlending; repayments are included under amortization.

Statement by Hooi Eng Phang, Executive Director for Vietnam and Anh Quoc Duong, Senior Advisor to Executive Director October 7, 2005

1. We are pleased to convey to the management and staff of the Fund the authorities' appreciation for the continued support extended to Vietnam through policy dialogue, technical advice and training over the years. This relationship, which has been based on mutual trust and respect, has provided a conducive platform 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 path over the medium-term. On behalf of the Vietnamese authorities, we would like to thank staff for their analytical and well-written report. We are also appreciative of the selected issues papers, which complement the staff report and offer helpful insights on three highly topical issues.

2. The Vietnamese economy has made significant strides in moving from a centrally planned economy to a state-managed market economy. The combination of favorable macroeconomic conditions, socio-economic stability and increasing integration with the world economy, facilitated by speedy trade reforms and private sector development, have contributed to solid performances on the macroeconomic front with sustained, strong economic growth, single digit inflation and impressive poverty reduction in recent years. To build further on these achievements, the Vietnamese authorities are working diligently to achieve WTO accession by year-end. Looking ahead, the authorities recognize that some challenges remain but they are committed to continuing the implementation of structural reforms to ensure sustainable development for the country. Thus far, active consultations between the authorities and the Fund and other partners have largely been positive for progress in poverty reduction and sustained economic growth.

Recent Economic Developments

3. In the first half of 2005, the country was faced with several internal and external difficulties. On the domestic front, the widespread drought and avian flu outbreak had caused losses in tourism, agricultural production and decline in hydroelectric power generation. On the external front, the sharp rise in the price of key imported commodities and petrol, the removal of quotas on textile exports by WTO members and difficulties in seafood exports had posed problems for the economic development of the country. Nevertheless, the authorities have persevered with the implementation of policies and measures to maintain macroeconomic stability while structural reforms, including SOE reforms, the enhancement of enterprise competitiveness and the improvement of the legal framework in line with the integration process were all broadly on track. The Vietnamese economy continues to perform well in 2005.

4. Real GDP growth continues to strengthen to 8.1 percent (first nine months of 2005), underpinned by strong consumption, buoyant domestic investment, expansion in exports and a rebound in FDI in anticipation of Vietnam's accession to the WTO. Despite the adverse impact of the global rise in oil and commodity prices, inflation remains contained at 7.75

percent (yoy) in September 2005. The fiscal deficit has narrowed while the exchange rate has remained broadly stable. The current account deficit, which has improved since 2004, has remained manageable and is fully financed by strong capital inflows from both ODA and FDI. The balance of payments position has been generally satisfactory while official reserves have increased to US$ 7.1 billion as at end-June 2005. Overall, the macroeconomic outlook for Vietnam is broadly positive with growth remaining robust at more than 7 percent.

Fiscal Policy

5. The authorities have continued to pursue a prudent fiscal policy to ensure the provision of a favorable macroeconomic and financial environment as a foundation for growth. The official budget deficit narrowed markedly in 2004 and the first half of 2005. The Government 's budget deficit declined from 1.8 percent of GDP in 2003 to 1.7 percent in 2004 and is estimated to have remained restrained in 2005.

6. During 2002-2004, off-budget outlays financed through the issuance of infrastructure, education, bank reform and municipal bonds totalled VND 26 trillion. The overall general government deficit, including off-budget operations but excluding on-lending through the Development Assistance Fund (DAF), was 4.3 percent of GDP in 2003 but declined to 2.6 percent in 2004. In 2005, the authorities maintained their prudent fiscal policy stance, reducing the budget deficit by efficient management and effective use of the budget revenues and judicious planning for appropriate allocation of expenditure. In addition, the Government has tightened the eligibility criteria for DAF lending. We are pleased to highlight that the authorities have used the Medium Term Expenditure Framework to improve the quality of expenditure planning and to sharpen their ability to link budgets to desired outcomes.

7. The fiscal deficit has declined moderately in 2005 due partly to higher revenue from high oil prices, land user fees and more efficient use of budget expenditures. In the meantime, the authorities have accorded priority to efforts to strengthen the tax administration, including unifying the corporate tax, modifying personal income tax and launching a pilot VAT self assessment. In addition, the government has implemented a comprehensive set of civil service reforms and adopted a systematic cost-benefit analysis for projects. More forceful implementation of reforms of the SOEs, as discussed below, would also have a positive impact on the fiscal position.

Monetary and Exchange Rate Policies

8. The authorities understand the staff's concerns that the pursuit of targeted real GDP growth of 8.6 percent in 2005 to achieve the average growth target of 7.5 percent set out in the 2001-05 five-year plan would entail risks. The authorities have explained that such short-term growth targets are regarded as indicative targets and would not be pursued with blind determination. The authorities would like to assure staff that they are mindful of the risks entailed in achieving a particular growth target, including the risk that the expansionary monetary and fiscal policies needed might fuel inflation, increase risk of overheating, and further weaken the external and reserve positions.

9. Rapid credit growth is a concern for our Vietnamese authorities because a potential accumulation of nonperforming loans by the commercial banks could ultimately become a fiscal burden and threaten medium-term debt sustainability. The authorities have implemented several measures to tighten year-on-year credit growth from 41 percent of GDP in 2004 to 25 percent in 2005. These include increasing the policy interest rate (including the rediscount and refinancing rates), raising reserve requirements and tightening the prudential standards. In addition, to promote investment quality, SBV has introduced new loan classification and provisioning rules and will strictly implement the new regulations to strengthen banking supervision to ensure a safe, efficient and effective growth in credit. However, it should be noted that owing to the absence of a well-developed capital market, bank credit has at times grown at rates that are in tandem with the achievement of the economic development objective, and reflects the fact that banks provide financing for medium-term investment projects that would otherwise not be undertaken or completed.

10. The use of a managed float has kept the Dong-US Dollar exchange rate broadly stable in the last two years. This has helped to contain inflation and facilitate investment and international trade. However, in view of the staff's advice on the importance of exchange rate flexibility in the medium-term, the authorities have been exploring steps to introduce more flexible management in a gradual and cautious manner. In the meantime, specific administrative measures will continue to play an important role in protecting the domestic and financial systems.

11. The authorities have agreed to accept the obligations of Article VIII of the IMF's Articles of Agreement and have received advice and technical assistance from the Fund to draft the new foreign exchange legislation, including the removal of the remaining exchange restrictions. This new foreign exchange legislation is scheduled for approval by the National Assembly in November 2005.

Structural Reforms

12. The authorities are aware that sustained economic growth and enduring poverty reduction would hinge on the pace of structural reforms aimed at improving the efficiency of public sector financial management, accelerated reforms in the SOE and SOCB sectors, open and fair trade and investment regimes, ensuring public debt sustainability and encouraging private investment.

13. On financial sector reforms, the authorities attach high priority to strengthening the operations of SOCBs to enable them to meet the challenges of increasing competition arising from Vietnam's ongoing international economic integration. The government has developed a financial sector reform roadmap, including specific plans for the reform and recapitalization of the main SOCBs. At the same time, in order to improve the transparency of the banking sector and determine the capital required to ensure the solvency of commercial banks, the SBV has issued new regulations on asset classification and provisioning as well as capital adequacy and other prudential regulations, including liquidity mismatches. Banking supervision and regulation have also been strengthened to enhance the sector's economic efficiency and effectiveness and to reduce the accumulation of non-

performing loans and quasi-fiscal liabilities. The equitization of Vietcom Bank, an important initiative and a pilot scheme under the SOCBs reform plan, would provide momentum to the financial sector reform and shift the bank's operation to a more commercial basis.

14. Acknowledging that the efficient operation of SOEs is critical for Vietnam's successful transition to a more market-oriented economy, the authorities have made tremendous progress on SOE reform based on the Master Plan for SOE transformations, including the implementation of the auction mechanism, the rating exercise for SOEs, strict budget controls and improvement of corporate governance. There have also 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 September 2004, about 55 percent of the planned transformations were completed. According to the authorities' plan, an additional 1,154 SOEs – about 25 percent of total SOEs listed in 2001- will be transformed in 2005 and the first half of 2006.

15. In 2005, the authorities continued to create a more supportive environment for private enterprises. This included the introduction of the Common Investment Law and a Unified Enterprise Law as well as a commitment to substantially streamline business registration procedures and regulations. An additional 37,230 new private businesses were registered in 2004 while10,993 new businesses were registered in the first four months of 2005. In addition, FDI has risen sharply in 2005. In the first four months of 2005, 177 investment projects were licensed with a total committed investment of US$ 1,450 million. In addition, significant progress was achieved on international integration due to determined efforts by the authorities to secure early accession to the WTO. It should be noted that Vietnam has already achieved compliance with tariff reduction schedules on regional trade agreements and the adoption of international codes for the classification of imports and exports. In order to create a level playing field and to meet the requirements for WTO accession, the authorities have developed the Common Investment Law and a Unified Enterprise Law in close consultation with the private sector and foreign investor communities.

Other Issues

16. The authorities have taken progressive steps to improve transparency, particularly in the publication of the budget. The administration reforms have been implemented under the comprehensive civil service reform. The grassroots democracy regulations and the implementation of the One Stop Shop at the local level has provided the framework for improved accessibility to administrative services, increased transparency on fees, improved the quality of service and streamlined the procedures.

17. In addition, the authorities have increased emphasis on systemic measures in the fight against corruption, representing a move away from a more punitive approach. The new law on anti-corruption drafted by the Government Inspectorate is scheduled for approval by the National Assembly in 2005. The Anti-Money Laundering decree has also been issued and the authorities intend to amend the criminal code to criminalize the financing of terrorism and to incorporate and implement the other requirements for Combating the Financing of Terrorism.

Conclusion

18. With continuous support from the international community as well as the authorities' efforts to implement structural reforms and pursue sound macroeconomic policies, Vietnam has made considerable progress in 2005. While the road ahead is fraught with many challenges, the authorities would like to reaffirm their determination to overcome these challenges by continuing to pursue prudent macroeconomic policies as well as enhancing reform implementation in a progressive and steady manner. The Vietnamese authorities look forward to the continuation of the close and effective cooperation they have with the Fund through constructive communication and effective consultation on macroeconomic policies.