

Vietnam: Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver of Performance Criteria—Staff Report; Staff Statement; News Brief on the Executive Board Discussion; and Statement by the Executive Director for Vietnam

In the context of the Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver of Performance Criteria, the following documents have been released and are included in this package:

- the staff report for the Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver of Performance Criteria, prepared by a staff team of the IMF, following discussions that ended on **May 14, 2002**, 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 June 7, 2002.** 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 **June 21, 2002** updating information on recent developments;
- a News Brief summarizing the **views of the Executive Board as expressed during the June 21, 2002 Executive Board discussion** of the staff report that completed the second review;
- a statement by the Executive Director for Vietnam.

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

Letter of Intent sent to the IMF by the authorities of Vietnam*

Memorandum of Economic and Financial Policies by the authorities of Vietnam*

*May also be included in Staff Report

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

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**International Monetary Fund
Washington, D.C.**

INTERNATIONAL MONETARY FUND

VIETNAM

**Second Review Under the Three-Year Arrangement Under the
Poverty Reduction and Growth Facility and
Request for Waiver of Performance Criteria**

Prepared by the Asia and Pacific Department
(In consultation with the Fiscal Affairs, Legal, Monetary and Exchange Affairs, Policy
Development and Review, Statistics, and Treasurer's Departments)

Approved by R. Anthony Elson and Shigeo Kashiwagi

June 7, 2002

- Discussions for the second review of the arrangement under the Poverty Reduction and Growth Facility (PRGF) were held in Hanoi during March 21--April 3, 2002, and May 8-14, 2002. The staff team comprised Ms. Puckahtikom (head), Messrs. Cowen and Unterberdoerster (all APD), Ms. Thacker (PDR), Mr. Fletcher (FAD), Mr. Xiao (EP, APD), and Mrs. Cormier (administrative assistant, APD). The mission was assisted by Mrs. Adams (senior resident representative), overlapped with an MAE team on bank restructuring, and worked with Bank staff in its review of the Poverty Reduction Support Credit.
- The missions met with Deputy Governors Huong and Tuan of the State Bank of Vietnam, Vice Minister of Finance Bang Tam, Vice Chairman Ly of the Government Office, and other senior officials dealing with economic and financial matters.
- Vietnam's three-year PRGF arrangement for SDR 290 million (88 percent of quota) was approved by the Executive Board on April 13, 2001 (EBS/101/43). The first review under the arrangement and the 2001 Article IV consultation were completed on November 21, 2001. Executive Directors stressed the need for firm and steady implementation of the structural agenda, together with continued sound macroeconomic management. They emphasized the particular importance of moving ahead vigorously with reforming the state-owned commercial banks and enterprises.
- The authorities intend to publish this report and the Memorandum of Economic and Financial Policies in support of the second PRGF review.
- The main authors of this report are David Cowen and Chanpen Puckahtikom.

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EXECUTIVE SUMMARY

- **Under the first-year PRGF**, Vietnam's economic performance was relatively strong, despite weak external demand. In line with program expectations, GDP growth slowed in 2001 only slightly, on account of robust domestic demand—especially private investment, while inflation was subdued. The outlook for 2002 remains favorable. Growth should pick up if external demand rebounds, and inflation should remain low.
- **Macroeconomic performance in 2001** was generally on track, although some slippages arose in the latter part of the year and the performance criteria were missed on credit to state-owned-enterprises (SOEs), net credit to the government, net domestic assets, and net international reserves. However, overall credit growth slowed to a more sustainable pace. Corrective steps in the first quarter of 2002 have brought these program targets back on track and the March benchmarks have been broadly met.
- **Structural policy implementation** was broadly satisfactory except with respect to SOE reform. Trade measures and steps to boost the private sector were ahead of program, while reform of the state-owned commercial banks (SOCBs) proceeded on course and the structural performance criteria and benchmarks were observed, albeit with some delays. Measures have been taken in recent months to speed up SOE reform closer to program expectations, particularly in the pace of privatization.
- **The goals under the second-year PRGF-supported program** remain to boost investment and competitiveness as the bases for returning Vietnam's rates of growth and poverty reduction closer to potential. The key priorities are disciplined macroeconomic management and a firmer implementation of the structural agenda.
- **On the macroeconomic side**, the 2002 budget framework is prudent, but will require stronger revenue administration and spending restraint, especially on the wage bill. Prudent credit policy and external debt management, particularly on SOEs, will be critical to protecting medium-term fiscal sustainability. More flexible management of the exchange rate will improve Vietnam's resilience to external shocks.
- **On the structural side**, and to ensure that the private sector remains the engine of growth, central program elements are: (i) improving the investment climate and firmly implementing regional and bilateral trade arrangements to facilitate WTO accession; (ii) advancing banking reform by strengthening credit risk management and debt recovery in the four large SOCBs, and by bringing loan classification and provisioning in line with international best practices; and (iii) curbing SOE losses, by stepping up the pace of privatization to meet the original three-year SOE reform targets.
- **The CPRGS (as the PRSP is called in Vietnam)** has been prepared in a broadly participatory process, and is centered on growth as key to poverty reduction. Successful implementation of this strategy will require a sharper prioritization of policies, a better definition of the medium-term expenditure framework, and a more systematic monitoring.

I. INTRODUCTION

1. In the attached letter dated June 3, 2002, together with the Memorandum of Economic and Financial Policies (MEFP) (Attachments I and II), the Government of Vietnam requests completion of the second PRGF review and waivers for the nonobservance of four quantitative performance criteria for end-December 2001. In support of these requests, the MEFP reviews progress made under the first-year program and sets out the policies to be implemented in the second year. A third disbursement of SDR 41.4 million is being requested, conditional on the completion of the second review and observance of end-December quantitative performance criteria and structural performance criteria (Table 1).¹ The government's program is set within the Comprehensive Poverty Reduction and Growth Strategy (CPRGS) (EBD/02/84, 06/06/02). In a joint staff assessment (EBD/02/86, 06/07/02), the staffs of the Fund and the World Bank consider the CPRGS to represent a credible strategy that is a sound basis for Fund and Bank concessional assistance, and therefore recommend its endorsement by the respective Executive Boards.²

2. Vietnam's PRGF-supported program was adopted in early 2001, when the authorities gave renewed focus to addressing structural weaknesses and the economy had rebounded from the Asian crisis. The goals of the program are to return Vietnam to the high growth path and rapid poverty reduction that the country enjoyed in the mid-1990s. Unlike in the earlier period, however, the strategy is to boost competitiveness and investment through trade reform, promotion of the private sector, and reforms of state-owned commercial banks (SOCBs) and enterprises (SOEs). The targets for 2001,³ the first-year program, included real GDP growth of at least 4¾ percent, inflation under 5 percent, a surplus in the current account of 1¾ percent of GDP, and a buildup in gross reserves to US\$3.6 billion (or 9½ weeks of imports) (Table 3).

II. PERFORMANCE UNDER THE FIRST-YEAR PROGRAM

3. **Economic performance in 2001 was largely consistent with these program objectives.** Real GDP is estimated to have slowed only slightly to 5 percent, supported by robust domestic demand—especially a pickup in private investment due to improved business sentiment (Box 1). Inflation was very low, with nonfood prices virtually unchanged

¹ Vietnam's outstanding use of Fund resources amounted to SDR 278.1 million (84.5 percent of quota) as of April 30, 2002 (Annex I). Assuming full disbursements as scheduled under the PRGF arrangement, Vietnam's outstanding use of Fund resources would amount to SDR 369.5 million (112.3 percent of quota) in mid-2004 (Table 2).

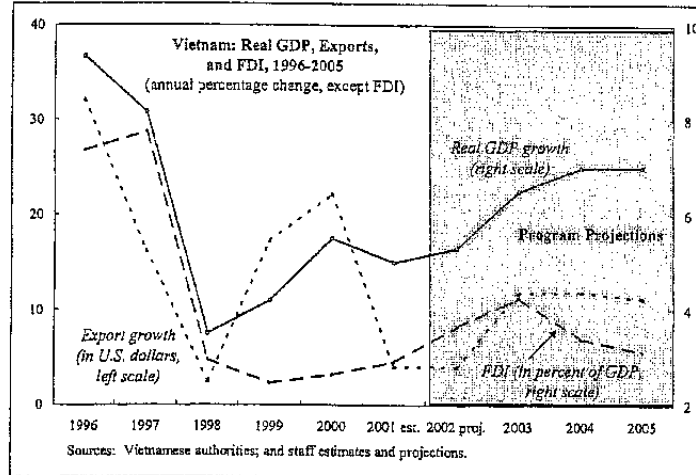
² Vietnam's reform effort is also being supported by the World Bank's Poverty Reduction Support Credit (PRSC), in an amount of US\$250 million, approved in June 2001 (Annex II).

³ As revised during the first PRGF review (EBS/01/184).

Box 1. Vietnam: Growth Performance and Medium-Term Prospects

Real GDP slowed only slightly to an estimated 5 percent in 2001, from 5½ per cent in 2000, as external weakness was offset by domestic demand. Private consumption and investment, including FDI, were buoyed by an accommodative fiscal policy and improved business sentiment. Despite a weak external environment and lower commodity prices, exports (in U.S. dollars) grew at 4 percent, but below programmed.

The moderation in growth in 2001 reflects several supply-side factors. While growth was lifted by sizable increases in oil and coffee output, other agricultural production was below the record harvests of recent years. Official estimates put growth in total agricultural output at 2¾ percent in 2001 (compared with 4 percent in 2000), mainly because rice production dropped by 1¼ percent. Industrial production also grew at a slower pace than in 2000, with growth largely attributable to the domestic market and in part to support construction activity. The service sector was still relatively strong, despite a slump in rural incomes caused by low world prices for rice and coffee. Official estimates had retail sales growth staying at 9 percent, reflecting low import prices, a sharp rise in government wages, and the expansion of small and medium-sized enterprises.



For 2002, growth is projected at 5½ percent, on the strength of a moderately expansionary fiscal policy and a further boost in private sector activity, with rising investor confidence. FDI flows should rise substantially in 2002 as new oil and gas projects enter their full implementation phase. Growth in exports is projected to stay at 4 percent. Non-oil export growth would continue to lead the way, but down slightly owing to an expected further decline in coffee prices and moderation of growth in seafood exports (see Annex IV). From the production side, agricultural output is projected to increase by at least 3 percent, the official estimate for the first quarter of 2002. After four consecutive years of decline, a 15 percent projected rise in rice prices should more than offset the impact of lower coffee prices on farm incomes and bolster consumption.

Over the medium term, growth is expected to be driven by the private and external sectors, moving away from the dependence in the 1990s on the capital-intensive and import-substituting state sector. As Vietnam is expected to face strong regional competition and diminishing returns in the primary sector, growth in the range of 6–7 percent a year will need to come increasingly from agroprocessing and manufacturing export sectors and from domestic services. This pattern of growth will also need to be labor intensive, in order to create enough jobs for an exceptionally young population and to achieve lasting poverty reduction. Fulfilling this pattern of growth and doubling per capita income in the next 10 years (as targeted under the government's CPRGS) will require:

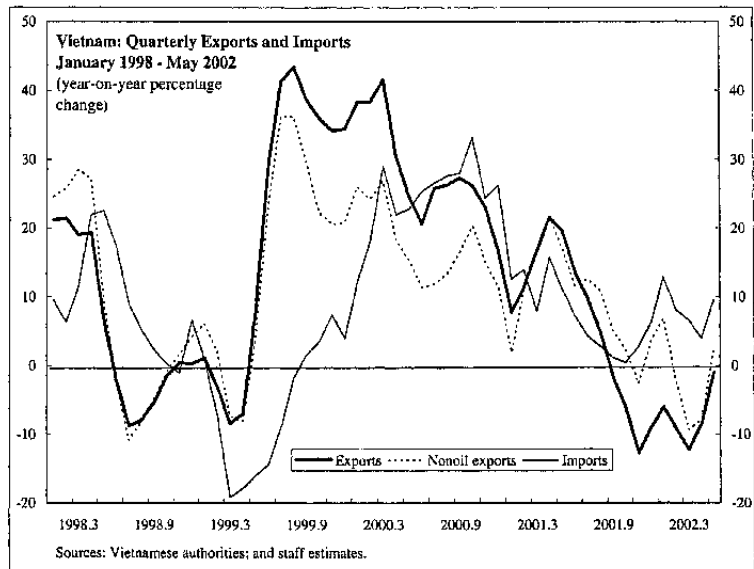
- maintenance of macroeconomic stability to avoid an excessive tax burden and crowding out;
- further liberalization of the trade and exchange regimes, with timely accession to WTO;
- equal treatment between private and foreign-invested sectors (the main sources of new job creation) with the state sector, and opening state-dominant sectors to greater private sector participation; and
- firm implementation of banking and SOE reforms to provide needed capital and protect macroeconomic stability.

	1996-98 Average	1999	2000 Est.	2001 Est.	2002 Proj.	2003-05 Proj.
Consumption	5.6	1.8	7.1	2.2	6.4	4.3
Investment 1/	0.7	-0.3	4.2	1.8	3.0	2.7
Of which: gross capital formation	0.4	-0.3	3.9	2.0	3.3	2.8
Of which: FDI	-2.1	-0.5	0.3	0.5	1.3	0.1
Net exports 2/	0.7	2.7	-5.7	1.0	-4.1	-0.2
Real GDP growth	7.0	4.2	5.5	5.0	5.3	6.8

Source: Staff estimates and projections.

1/ Includes changes in inventories.
2/ Includes statistical discrepancy between expenditure- and production-based GDP.

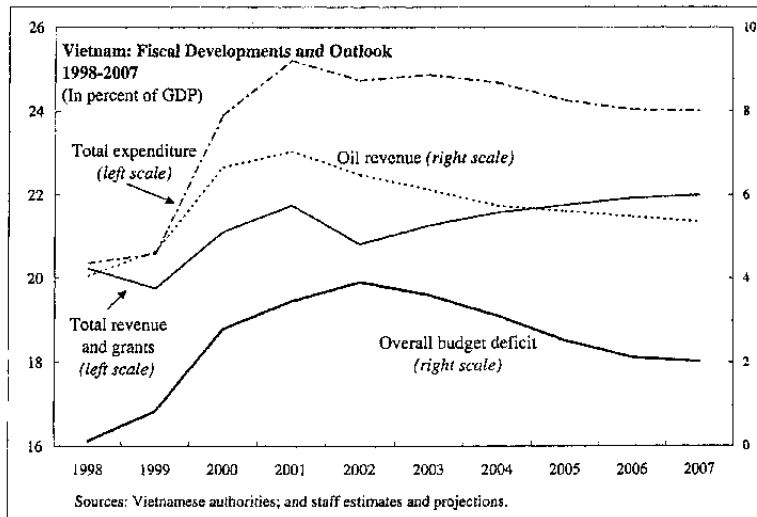
during the year (Figure 1). Export growth (in U.S. dollar terms) fell sharply to 4 percent (from 24 percent average in the previous two years) owing to weak manufactured exports and depressed non-oil commodity prices, even though volumes of key commodity exports remained strong. The external current account was nonetheless in surplus, at 2¼ percent of GDP (Table 4 and Figure 2), due to a sharper slowdown in imports. With a strengthening of FDI inflows, gross reserves rose by US\$357 million to US\$3.4 billion at end-December (9 weeks of prospective imports), but short of programmed.



4. **Macroeconomic policies were implemented broadly in line with program expectations for most of 2001.** However, with policy slippages towards year-end, four quantitative performance criteria for end-December were missed—net domestic assets of the banking system (NDA), bank credit to SOEs, net claims on government by the banking system, and net official international reserves (NIR) (Table 5 and as discussed below).

5. **The fiscal stance in 2001 was more expansionary than envisaged,** with the overall budget deficit (excluding onlending) estimated at 3½ percent of GDP, compared with a target of 2.9 percent (Table 6).⁴

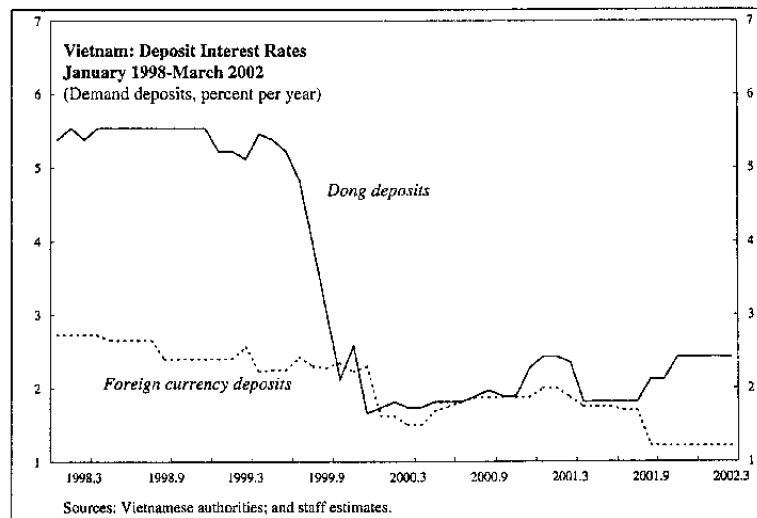
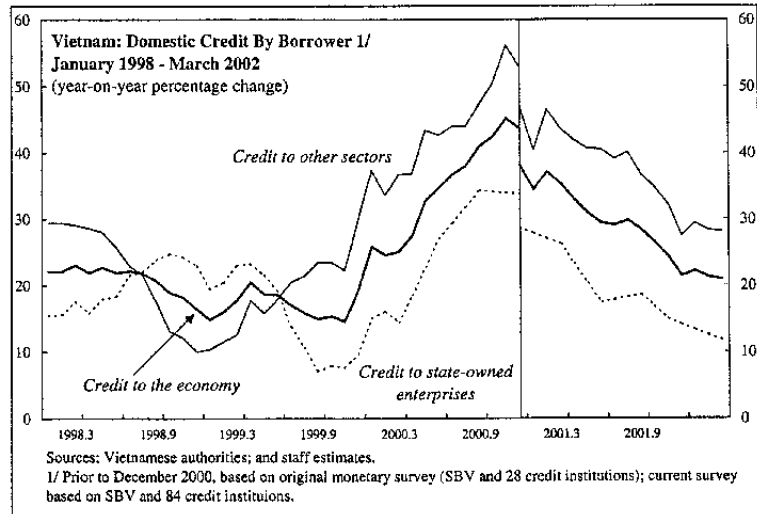
However, bank financing for the deficit (0.6 percent of GDP) exceeded the program limit only marginally. Revenue performance was broadly on track, with a small shortfall from the programmed level (¼ percent of GDP) mostly on account of non-oil SOE tax revenue. Relative to 2000, overall revenue growth was strong, increasing by ¾ percent of GDP. Expenditure overruns



⁴ When adjusted for the delayed SOE reform (and the postponement of its current cost into 2002), the budget deficit for 2001 was ¾ percent of GDP above program.

(¼ percent of GDP) were due to higher-than-programmed spending on the civil service wage bill and war veterans' pensions.⁵ Social and infrastructure spending in critical areas rose in line with program expectations, with annual outlays for education and health increasing by an estimated ½ percent of GDP.

6. **Credit policy has generally been restrained as programmed.** Growth of credit to the economy fell sharply from 38 percent at end-2000 to 21½ percent at end-2001, only slightly above programmed, and has since remained near this level (Table 7). This deceleration reflected a tightening of dong liquidity, adherence to agreed refinancing limits by the State Bank of Vietnam (SBV), and relatively moderate cuts in the base lending rate (by 2 percentage points compared with almost 5 percentage points in global interest rates). Growth in foreign currency liquidity also slowed, in particular in the last quarter of 2001, owing to a widened dong–U.S. dollar deposit rate spread. As a result, broad money growth declined to 25½ percent in 2001 (Figure 3). Despite this, the end-

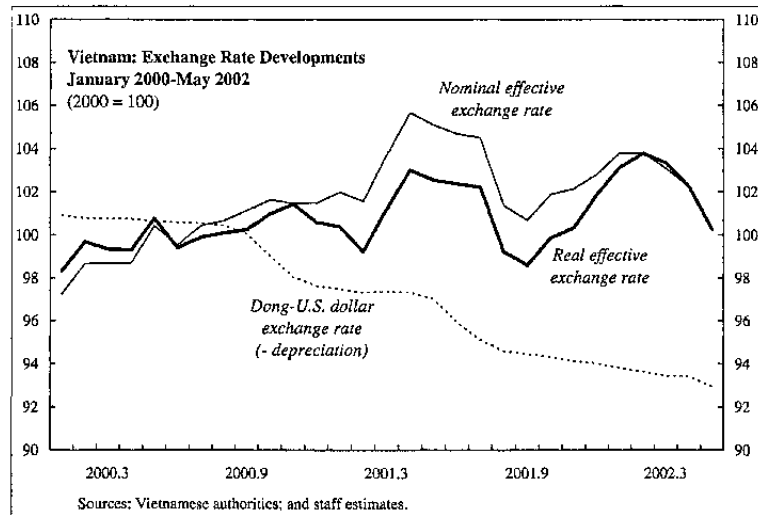


December 2001 performance criterion on bank credit to the SOEs was missed by 0.9 percent of programmed SOE credit, due to the financing of infrastructure projects in the last quarter of the year. As a result, the December performance criterion on NDA was missed, but by only ½ percent of broad money. Owing to a further moderation in credit growth as programmed in 2002, the March

⁵ Compared with 2000, the wage bill increased by 21 percent to 3¾ percent of GDP, which comprised a 17 percent general wage increase, a nationwide transfer of some local security forces to the government payroll, and new hires of teachers and doctors in rural areas. In addition, total war veterans' pensions increased by about 26 percent under a new option providing for a lump sum payment.

benchmark on net claims on government was met, but benchmarks on NDA and bank credit to SOEs were marginally missed.

7. **Exchange rate management was flexible during most of 2001.** With official reserves under pressure and given depreciating regional currencies, the dong was allowed to depreciate by nearly 4 percent against the U.S. dollar between May and November. However, the exchange rate was largely unchanged in December when exports were falling, and the performance criterion on the buildup in NIR was missed at year-end. Starting in early 2002, the SBV strengthened reserve management and the dong depreciated by 1 percent in the first three months, and the March benchmark on NIR was met by a small margin. However, the structural benchmark on removing the tax on profit remittances was missed (Table 8). External debt management remained cautious. The December performance criterion on nonconcessional debt was met comfortably, with the contracting and/or guaranteeing of such debt at under 10 percent of programmed limits.



8. **On the structural front, progress has been better than programmed in liberalizing the trade regime and promoting private sector development:**

- **Quantitative restrictions (QRs)** on imports of three additional items were removed effective January 1, 2002. Since the adoption of a five-year trade regime in April 2001, QRs have been lifted for 8 (out of 13) items altogether (including five ahead of schedule) (Box 2). Tariffs were also reduced in line with commitments under the ASEAN Free Trade Area (AFTA), a bilateral trade agreement with the United States (USBTA) came into force in December 2001, and active preparations began for WTO entry.
- **The business environment was significantly improved** through implementation of the new Enterprise Law, which eased entry for private businesses. Altogether, 22,000 small and medium-sized enterprises (SMEs) were registered in 2001, up 50 percent from 2000. Activity on the Ho Chi Minh City (HCMC) stock exchange, established in 2000, also picked up, with total listings rising to 17 companies by May 2002. The direct impact of the amended Foreign Investment Law is more

Box 2. Vietnam: Trade Reform and WTO Accession

Trade reform has played an important role under the PRGF-supported program adopted in April 2001. The authorities are pursuing a multipronged approach toward liberalizing Vietnam's trade regime, with measures covering the general import-export regime and AFTA and USBTA commitments. Eventually, these measures are expected to help accelerate accession to the WTO.

General import-export regime: Quantitative restrictions (QRs) are being removed, tariffs reduced, and other trade barriers eliminated under the five-year export-import regime announced in April 2001. Further to the trade reforms implemented as scheduled in 2001, the following actions were also taken:

- QRs on three additional imports (construction white glass, certain steel products, and vegetable oil) were removed ahead of schedule, effective January 1, 2002.
- Foreign-invested enterprises were granted the right to export commodities other than those they produce and thus act as distribution agents. Import rights remain restricted.

AFTA commitments: Further progress also has been made on this front. According to Ministry of Finance Decrees 21 and 53 issued in February and May 2002:

- An additional 498 items have been transferred from the Temporary Exclusion List (TEL) to the Inclusion List (IL), leaving 719 items still in the TEL. All items are expected to be moved to the IL by 2003.
- Of the 5,566 items now in the IL, 65 percent are subject to a tariff rate of 0-5 percent and the remainder to an average tariff rate of 16.4 percent.

USBTA: Following ratification in December 2001, a timetable was adopted in March 2002 establishing the legal framework for implementing the USBTA. This process is being guided by an assessment committee set up at the National Assembly. A more general action plan was also issued in March aimed at exploiting the full potential of the USBTA by proposing measures to improve training opportunities, reinforce intellectual property rights, and increase overall competitiveness. The most far-reaching commitments under the USBTA relate to Vietnam's opening of the service sector, as they have a direct bearing on economic reform, in particular in financial services, and could facilitate WTO accession. Key commitments for financial services include:

- **Banking sector:** (i) permit majority U.S. ownership of banks after three years; (ii) grant national treatment in the possible equitization of SOCBs; and (iii) phase in national treatment of deposit-taking activities after eight years.
- **Insurance sector:** (i) permit majority U.S. ownership of firms after three years; (ii) eliminate restrictions on the operations of joint ventures after three years (and wholly U.S.-owned companies after six years); and (iii) permit wholly U.S.-owned firms after five years.

WTO accession: With China's accession to the WTO in 2001, Vietnam has become the most populous Asian country still remaining outside the world trading system. Against this background, Vietnam is committed to accelerate its own accession so as to minimize risks from trade diversion and reap the full benefits of market access. The fifth meeting of the Working Party on accession of Vietnam (established in 1995) was held in April 2002 to review the status of Vietnam's bilateral access negotiations and action plans for implementation of a number of WTO agreements, including those related to investment (TRIMS) and intellectual property rights (TRIPS). Ahead of this meeting, Vietnam made its initial offer on specific commitments in services in January 2002. However, the offer fell short of key commitments under the USBTA. Bilateral negotiations are scheduled to begin with the EU and Japan this year.

Item or group	Actual or target date of removal
Clinker and cement	
Clinker	May 1, 2001
Cement	December 31, 2001
Construction white glass	December 31, 2001
Granite and ceramic tiles	May 1, 2001
Paper	May 1, 2001
Remaining steel products	December 31, 2001
Vegetable oil	December 31, 2001
Alcohol	May 1, 2001
Motorcycles	December 31, 2002
Passenger vehicles	
10-16 seats	May 1, 2001
Up to 9 seats	December 31, 2002

difficult to gauge, but the streamlining of licensing and entry requirements and an increase in sectors open to foreign investors have been viewed as largely positive. Also effective early 2002, the constitution was amended to give the private sector equal treatment with the state sector. Finally, members of the Communist Party are now permitted to own shares in private businesses, which should help move the privatization process.

9. **Banking reform has stayed broadly on course, and the related structural performance criteria and benchmarks have been met** (Box 3). In the first phase of the three-year SOCB reform framework adopted in March 2001, the focus has been on completing external audits, initiating resolution of nonperforming loans (NPLs), and beginning to strengthen credit risk management, in preparation for the first phase of recapitalization. With respect to the joint-stock banks (JSBs), 11 have been closed or merged (reducing the total to 38) to ensure compliance with SBV regulations, including on capital adequacy, and a number are under consideration for listing on the stock exchange.

10. **However, delays continued to be experienced in SOE reform until recently**, and most program benchmarks were observed with significant delays. The government attempted to jump-start the process in the second half of 2001 by publishing the reform framework and issuing an action plan. However, problems persisted, as evidenced by slippages in strengthening the monitoring of the implementation of SOE reform and in finalizing guidelines on SOE debt resolution and safety nets for labor redundancies by year end (structural benchmarks). As a result, the number of SOEs subject to reform measures in 2001 fell well short of the target under the original three-year reform framework. More recently, however, some corrective steps have been taken, starting with the approval of the guidelines on SOE labor redundancies in April 2002.

11. **For the 200 large SOEs, the reporting of their bank debt and budget support has become more timely**, but the December 2001 benchmark was exceeded by a large margin, pointing to the need for more effective restraint. The authorities are seeking to identify the main sources of the overrun.

Vietnam: Debt Monitoring System for 200 Large Debt SOEs, December 1999-March 2002								
	1999 Dec.	2000 Dec.	2001		2002			
			March	June	Sept.	Dec. 1/ Orig.	Rev.	March
(End of period, in trillions of dong)								
Total	28.4	35.3	36.8	34.5	38.0	42.3	42.6	43.6
of which: bank debt	26.2	30.1	31.2	32.2	35.6	38.6	38.9	40.8
(Change since beginning of year, in trillions of dong)								
Total	...	6.9	1.5	-0.8	2.7	7.0	...	1.0
(program benchmark)	...	...	0.6	1.2	1.8	2.4	...	0.6
Source: Ministry of Finance; and staff estimates.								
1/ Original data covers list of 200 large debt SOEs under first-year PRGF-supported program; revised data covers 200 large debt SOEs under second-year program.								

Box 3. Vietnam: Progress in Banking Reform

Under the second-year PRGF-supported program, banking reform remains focused on the four large state-owned commercial banks (SOCBs). These banks still dominate the banking system and are heavily exposed to the troubled state-owned enterprise (SOE) sector. At end-2001, they accounted for 72 percent of all bank liabilities, 91 percent of outstanding SOE bank credit (and all new SOE bank credit extended in 2001), and 75 percent of nonperforming loans (NPLs). Therefore, current reforms center on restoring the financial health of SOCBs by putting them on a commercial footing, strengthening credit risk management, and stemming NPLs. At the same time, more needs to be done to improve the legal, regulatory, and supervisory frameworks, and to consolidate the joint-stock banks (JSBs).

	Share (in percent) in total of:				
	Bank credit outstanding	SOE credit outstanding	New credit during 2001	New SOE credit	Overdue loans
Four large SOCBs	71.9	91.4	81.6	118.2	74.7
VCB	8.2	14.4	1.3	9.5	12.8
ICB	20.0	26.8	29.5	45.8	40.1
VBARD	24.5	12.0	30.5	11.7	12.9
BIDV	19.3	38.2	20.2	51.2	8.9
Other banks	28.1	8.6	18.4	-18.2	25.3

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

The State Bank of Vietnam (SBV) adopted an overall SOCB restructuring framework in March 2001, centering on a

phased and conditional recapitalization, and approved individual SOCB reform plans in September 2001. Reform efforts are being guided by a steering committee on financial restructuring of commercial banks and supported by an SBV assistance board that was made operational in November 2001.

In the past year, the following measures have been taken to advance the reform agenda:

- **Commencing external audits at the four large SOCBs of their year 2000 financial statements based on international accounting standards (IAS),** in order to help assess the true size of NPLs. These audits are expected to be completed by June 2002, and will be followed by IAS audits of the 2001 financial statements.
- **Setting minimum conditions for a phased recapitalization of the SOCBs,** by issuing an SBV directive in November 2001 establishing milestones in terms of quantitative NPL resolution and performance targets.
- **Moving loan classification closer to international best practices,** by adopting Decision 1627 in December 2001 (a structural performance criterion). In particular, banks will be required to classify the entire loan balance as overdue if any interest and/or principal payment becomes overdue. Implementation of the decision is expected to be completed by end-2002.
- **Resolving NPLs totaling D 1.5 trillion by end March 2002,** slightly above the target of D 1.4 trillion (a structural performance criterion). Resolution efforts are being monitored by the assistance board and have been concentrated on collateralized loans so far, with recovery ratios around 50 percent, in part helped by the recent upturn in real estate prices.
- **Establishing credit risk management and internal audit committees at the SOCBs.** However, more needs to be done to strengthen credit policies and procedures, by designing and implementing clear and focused credit manuals building on the SOCBs' recent experience.

The program for 2002 envisages the following next steps:

- **The first phase of recapitalization is expected to take place in mid-year,** with banks having met the March NPL resolution targets and established credit risk management and internal audit committees. To become eligible for the next tranche of recapitalization, however, the four large SOCBs will need to further improve their credit risk management so as to pass a special credit file examination by the SBV, a milestone for end-December. A work program for this purpose is being drawn up for each of the SOCBs. They are also required to resolve at least D 3.5 trillion in NPLs on a cumulative basis by end-September, and to eliminate major qualifications on the 2000 IAS audits by year end, in consultation with Fund and Bank staff.
- **For the next phase of recapitalization,** agreement and completion of future milestones will need to reflect the results from the recent audits and the new standards for loan classification, as well as the experience gained from the implementation of earlier milestones. The new milestones will also include a timetable for removing qualifications from the audits.

III. THE MEDIUM-TERM FRAMEWORK AND PRSP

12. **The strategy for putting Vietnam on a higher growth path remains centered on improving competitiveness and spurring investment**, as originally set out in 2001 (EBS/01/43). Vietnam managed to weather well the global slump, on the strength of domestic demand and through broadening the reform effort. With a global recovery, the outlook is favorable, in view of Vietnam's openness. However, growth over the medium term will need to be faster, at 6–7 percent a year (Table 9), if enough jobs are to be created for an exceptionally young population (over half are under the age 25). The cornerstones for a high growth strategy remain accelerated structural reforms, focusing on trade reform, an improved business environment, and decisive banking and SOE restructuring. Critical to sustained output and employment growth will be an expanded private sector, in particular through SMEs and foreign-invested enterprises (FIEs).

13. **The achievement of high growth is also a key objective of the government's Comprehensive Poverty Reduction and Growth Strategy (CPRGS)**, as the PRSP is called in Vietnam (Annex V). The CPRGS has been prepared in a participatory process, involving national, provincial, and village level consultations, and key objectives include high and balanced growth. The PRGF-supported program is closely aligned with these objectives and the main underlying policies. The CPRGS also includes specific poverty targets tailored to Vietnam from the Millennium Development Goals and a preliminary costing of the policies and programs to achieve them. The JSA has noted these strengths, particularly the strong focus on growth as a means for poverty reduction, but also suggests that successful implementation will require a sharper prioritization of programs, a further defining of the medium-term expenditure framework, a fuller assessment of the social impact of reform, and improved data for a more systematic monitoring of intermediate targets.

IV. TARGETS AND POLICIES FOR 2002

14. **The macroeconomic outlook for 2002 is slightly more favorable than in 2001, but with uncertainties** (Table 3). GDP growth is projected to rise to 5¼ percent based on a modest recovery in external demand as well as continued strength in domestic demand. While export performance was weak in the first five months of 2002 (falling by an estimated 5 percent), there should be a gradual pick-up, given recent signs of a global recovery and improved non-oil exports and competitiveness. Inflation, which rose to 4 percent in May 2002 owing to a sharp increase in rice prices, is targeted at 3–4 percent, in view of the very low core inflation. Gross official reserves (at US\$3.5 billion as of late May) are programmed to reach US\$3.8 billion (9 weeks of imports) by year-end.

A. Macroeconomic Policy Framework

Fiscal policy

15. **The fiscal stance in 2002 is cautiously accommodative**, consistent with increasing resources for poverty reduction and covering the costs of structural reforms, but stabilizing public debt over the medium term (Box 4). To this end, the overall fiscal deficit will be

limited to 4 percent of GDP. The easing relative to 2001 reflects slightly lower oil prices⁶ and the current costs of reform (mainly severance payments to redundant SOE workers). To ensure adequate resources over the medium term, however, the authorities will take measures to strengthen VAT policy and administration. These include: (i) reducing the number of VAT rates and exemptions effective in the 2003 budget, and (ii) adopting procedures for self-assessment by large taxpayers in HCMC and Quang Ninh provinces by end-2002 (a structural performance criterion) and operating them on a pilot basis in these provinces by April 2003 (a structural benchmark), drawing on Fund technical assistance.

16. On the expenditure side, the authorities intend to exercise greater restraint in 2002. Excluding the cost of structural reform, primary current expenditure is budgeted to fall by 1 percent of GDP. This saving is expected to come from keeping wages unchanged and from the nonrecurrence of certain expenditure in 2001 (largely in distressed rural areas). Spending on education and health care is budgeted to be maintained at 5¾ percent of GDP. The authorities also reaffirmed their commitment to increase budget transparency and improve expenditure management, in order to effectively strengthen the pro-poor focus of the budget. This effort would be in the context of the Bank's Public Sector Financial Management Project and with Fund technical assistance. Envisaged reforms in this area include developing a medium-term expenditure framework, moving to *Government Finance Statistics (GFS)* standards for centralized reporting in the Treasury, better expenditure classification for a closer monitoring of poverty reducing spending, and bringing on budget extrabudgetary revenues and expenditures.

Monetary policy

17. Monetary policy in 2002 will be geared toward moderate credit restraint to keep inflation low and stem new NPLs, while ensuring sufficient credit to the economy. Credit growth is targeted at 20½ percent in 2002, but growth in SOE credit is capped at 12 percent. In light of slippages in 2001 and in order to limit SOE leveraging, the SBV will need to monitor credit to SOEs more closely. The SBV is expected to increase reliance on indirect instruments to manage liquidity conditions, which should be facilitated by the lifting of the cap on lending rates for dong loans effective June 1, 2002. An SBV refinancing limit of D 3½ trillion has been set, the same as in 2001.

18. Foreign currency deposits (FCDs) have been a source of vulnerability.⁷ Growth in these deposits is expected to further moderate in 2002 owing to more competitive dong interest rates. The SBV has shifted away from an administrative approach to discouraging FCDs, by lowering the reserve requirement to 8 percent in March (compared with 5 percent

⁶ Based on an average oil price of US\$23 per barrel; under current policies, an increase of US\$1 in the average price would raise net oil revenue by ¼ percent of GDP.

⁷ See SM/01/334 for an analysis of FCDs. As of end-March 2002, FCDs were 41 percent of total bank deposits.

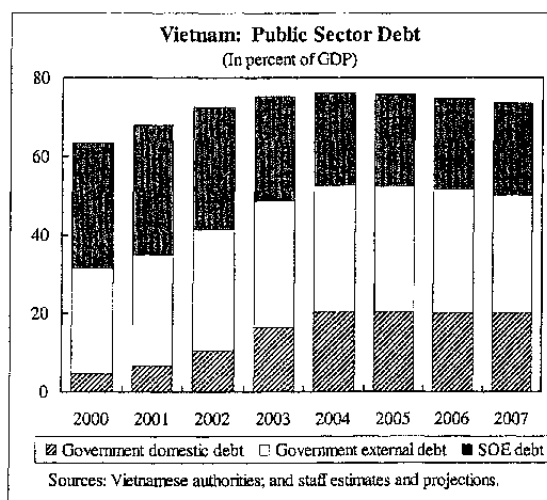
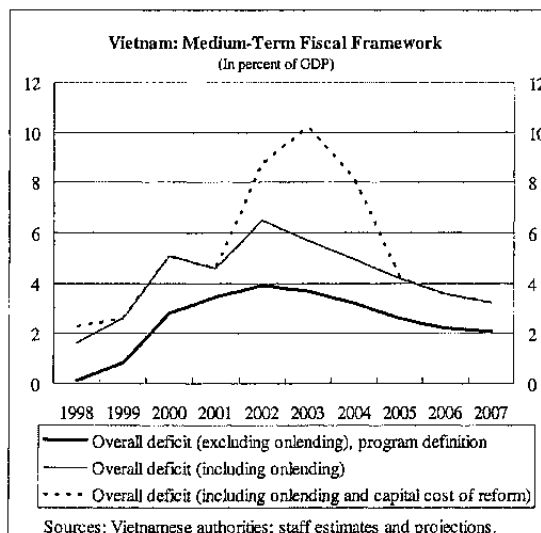
Box 4. Vietnam: Medium-Term Fiscal Framework and Debt Sustainability

Over the medium term, public sector debt is projected to stay at a manageable level. Under the second-year PRGF-supported program, a moderate path of fiscal consolidation is envisaged, with the overall deficit (excluding onlending and the capital costs of reform) declining gradually from 4 percent of GDP in 2002 to about 2 percent of GDP by 2007. As a result, Vietnam's public sector debt is expected to peak at 76 percent of GDP in 2004 and slowly decline thereafter. The capital costs of reform will cause the augmented budget deficit to spike during 2002–04, but to decrease thereafter. Overall, these costs will have a significant but moderate impact on total public sector debt since they mainly entail the government absorbing nonperforming loans of state-owned enterprises (SOEs) in order to facilitate equitization and recapitalize banks.¹ In any event, the augmented deficit is also projected to decline to a moderate level by 2005 once these one-time costs have been absorbed.

Steady implementation of the policies envisaged under the program will be required to achieve fiscal consolidation, while accommodating the current costs of reform and providing adequate funds for poverty reduction. The main assumptions underlying the sustainability analysis are as follows:

- Improving tax policy and administration, gradually raising revenue (net of oil) by 2–2½ percent of GDP by 2007.
- Containing the wage bill and ad hoc expenditure so that current noninterest spending (excluding reform costs) declines from 16 percent of GDP in 2001 to 14 percent by 2007.
- Strengthening SOE financial discipline and limiting growth of new lending to SOEs to growth in nominal GDP.
- Keeping most public sector external borrowing on concessional terms, with ODA at US\$1.2 billion a year and commercial borrowing at most US\$400 million a year on average during 2002–07. Half of this latter amount is assumed to be government borrowing for onlending to SOEs and half as direct SOE borrowing with government guarantees. SOEs are assumed to be able to service half of government onlent and guaranteed debt.

In the absence of such policies and/or in the face of negative shocks, Vietnam's public debt position would deteriorate over the medium term. For example, if oil revenue moderated due to a fall in crude oil prices by an average of 20 percent during 2003–07 compared with current projected levels and non-oil revenue stayed the same (in percent of GDP) due to a lack of reform, public debt would rise steadily to 88 percent of GDP by 2007. Similarly, public debt would reach 83 percent of GDP by 2007 if commercial external borrowing were increased to US\$1 billion a year starting in 2002, and external debt service would rise to 20 percent of government revenue by 2007. If such additional external borrowing were to be obtained entirely on concessional terms, the effect on Vietnam's debt sustainability would be moderated, with public debt peaking at 78 percent of GDP in 2005, and external debt service at 13 percent of government revenue in 2007.



¹ Estimates of the cost of structural reform will be further updated during the third PRGF review to reflect the IAS audits of the four large state-owned commercial banks and revised SOE reform roadmap.

on dong deposits). However, tight prudential reporting and supervision of foreign currency loan operations remain necessary, as does close monitoring of the quality and liquidity of counterpart foreign assets held abroad.

External sector policies

19. **More flexible management of the exchange system will help to reduce Vietnam's external vulnerability.**⁸ Intervention in the foreign exchange market will be limited to addressing disorderly conditions and will be consistent with achieving the program's NIR target. In addition, the foreign exchange surrender requirement was reduced from 40 to 30 percent in May 2002, and will be phased out by the end of the program period. The tax on profit remittances of FIEs will be eliminated by end-2002, later than programmed but consistent with efforts to harmonize tax treatment between foreign and domestic enterprises. Remaining restrictions on current international transfers and payments will also be removed to enable Vietnam to accept the obligations under Article VIII, Sections 2, 3, and 4 within the program period (see Annex I on these restrictions).

20. **The authorities remain committed to prudent external debt management.** Under the program, external borrowing by the government will continue to be confined primarily to loans on concessional terms, and government guarantees for nonconcessional debt contracted by SOEs will be subject to program limits. The program's debt ceilings take into account the possibility of a sovereign bond issue in the second half of 2002, in light of improved market conditions. The staff urged the authorities to approach this first entry into capital markets in a cautious way, in order to minimize foreign exchange and debt service risks. The authorities intend to structure the operation so as to protect fiscal debt sustainability and access to concessional financing. In line with this, the proceeds from bond issuance will not be used for the budget and will be onlent to SOEs only for commercially viable projects, concentrating on those that generate foreign exchange. The program provides for a partial offsetting reduction in SOE credit limits for such onlending. The authorities will carefully appraise the viability of projects eligible for such financing.

21. **Staff projections show that the programmed external debt on commercial terms would be consistent with fiscal debt sustainability,** provided that it is used productively and with progress in structural reforms. The external debt of the public sector (including SOEs) at end-2001 stood at 30 percent of GDP, while general government external debt amounted to 134 percent of revenue. Further, government debt service amounted to 5 percent of revenue, which is relatively low due to the concessional nature of outstanding debt. Under the programmed debt ceilings for 2002 and assuming a modest increase in the share of commercial debt over the medium term, general government debt service would rise, but would peak at a manageable level of about 10 percent of revenue by 2006.

⁸ Vietnam's external vulnerability is moderate, given its relatively closed capital account and limited access so far to capital markets (Table 9). External debt indicators are in a comfortable range and exports are diversified.

B. Key Structural Reforms

Trade reform and private sector development

22. **With respect to the trade regime and private sector development, significant advances are envisaged during 2002.** The authorities are giving top priority to successful implementation of existing regional and bilateral arrangements, and are actively preparing for the earliest possible accession to the WTO. Many of Vietnam's commitments under the USBTA (notably in the service sector), when applied on a multilateral basis, are in line with WTO norms, and their implementation could facilitate WTO entry. Moreover, a timetable has been set to establish the needed legal framework, and bilateral WTO negotiations are underway (see Box 2). Also, QRs on three out of five remaining items will be removed by end-2002 so that by 2003, QRs will remain on only two items (petroleum products and sugar).⁹

23. **The authorities are taking additional steps to ease market access for the private sector.** Regulations are being prepared to further open to foreign investors the agribusiness and fisheries sectors and parts of the service sector (retail sales and distribution). The dual pricing system for foreign investors will be phased out by 2003 for almost all charges and fees, except those for power, which will be removed by 2004. With these steps, private domestic and foreign investors would be put on a more equal footing with the state sector, which should bolster competitiveness.

Banking reform

24. **In banking reform, the focus will remain on strengthening credit risk management and resolving NPLs at the SOCBs, in order to reduce fiscal risks.** Stronger efforts by SOCBs and closer monitoring by the SBV will be critical to meeting the agreed milestones in these areas, in order to keep on course the recapitalization process. The authorities remain committed to seeking strategic equity participation in one of the SOCBs by end-2003, as envisaged under the program. Key commitments include:

- **Credit risk management:** Banks will be expected to pass special credit file examinations by the SBV by year-end (a structural benchmark).
- **NPL resolution:** A cumulative target of D 3.5 trillion (25 percent of total NPLs measured on Vietnamese accounting standards) for the four large SOCBs has been set for September 2002 (a structural performance criterion), and a target for March 2003 will be agreed before the third PRGF review. These targets are set to be reasonably

⁹ Full implementation of these as well as other non-tariff measures could improve Vietnam's rating on the Fund's scale of trade restrictiveness index from 9 at present to 6 by 2003 (with a rating of 10 indicating the highest degree of restrictiveness).

ambitious but also realistic. Further progress in NPL recovery will hinge on effective SOE debt resolution.

- **External audits:** With completion of audits of the year 2000 accounts, major audit qualifications are to be eliminated by year-end. The SOCBs are also expected to sign contracts for external audits of the year 2001 accounts by July 2002 (a structural benchmark).

25. **In order to assess the true financial condition of banks and for greater transparency**, new rules on loan classification and on loan provisioning conforming with international best practices will be completely phased in by end-2002 and end-2003, respectively. The SOCBs' need for recapitalization would then be more fully assessed. The staff emphasized the need to put in place soon an appropriate public funding mechanism for recapitalization, which would restore financial soundness, while also constraining the demand on budget resources. Furthermore, continued efforts will be made to restructure and consolidate the JSBs. Under the current strategy, the authorities are aiming at halving the number of JSBs since 2000 to about 25 through closure/merger by end-2003.

State-owned enterprise reform

26. **The authorities will need to revitalize and deepen SOE reform, as a critical complement to SOCB reform and also to contain medium-term fiscal risks.**¹⁰ The staff stressed the need to build forcefully on the recent momentum, so as to minimize slippages from the original three-year reform framework. For this purpose, a roadmap will be published by end-September, indicating annual targets on SOE reform by type of reform action through 2004 (a structural benchmark). Looking ahead, the staff encouraged the authorities to extend the reform plan to cover the larger, heavily indebted SOEs. The key commitments for the second-year program include:

- **Equitization:** With the required legislative measures in place, the number of equitizations is expected to increase to 500 SOEs (mostly small and medium sized) over the next 12 months;¹¹ the Bank will continue to monitor the equitization process. The government is also considering partial equitization of some larger SOEs through listing on the stock exchange.

¹⁰ For an analysis of the SOE sector and the authorities' five-year SOE reform plan, see *Vietnam: Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility* (EBS/01/43; 3/23/01)

¹¹ More broadly, in line with the original three-year SOE reform plan, 1,400 SOEs will be subject to reform measures (equitization, transfer/sales/lease, and liquidation) over the two-year period to mid-2004.

- **Debt resolution and safety nets:** Implementation guidelines will be put in place by mid-2002, including safeguards on budgetary resources to ensure their intended use for restructured SOEs only.
- **Monitoring:** A special monitoring unit in the National Steering Committee for Enterprise Reform and Development (NSCERD) has been established to track performance in SOE reform, through regular reporting by public entities charged with oversight of SOEs at the central and local levels. A monitoring system is also being set up for this purpose (a structural benchmark), with Bank technical assistance.

27. **To curb SOE losses, the authorities have been closely monitoring the bank debt and budget support of 200 large SOEs**, with quarterly limits (quantitative benchmarks) set for 2002. In view of the slippages in 2001, the Ministry of Finance (MoF) is upgrading this debt monitoring mechanism, also drawing on technical assistance from the Bank.

C. Social Impact Analysis

28. **The social impact of reforms under the program is expected to be manageable, but is difficult to quantify.** Significant positive impact is expected to derive from trade opening measures through more off-farm employment opportunities, especially in the growing SME sector, and from lower domestic prices (notably for critical inputs). On the negative side, labor redundancies in the context of SOE and trade reforms are anticipated. Appropriate safety nets for workers displaced by SOE reform have been costed and are in place. Looking ahead to further adjustments related to WTO accession, the authorities are studying the potential social impact, with technical assistance from the Bank and bilateral donors, and will need to stand ready to adopt appropriate measures to help ease the transition.

V. PROGRAM MONITORING AND TECHNICAL ASSISTANCE

29. **The authorities have reaffirmed their commitment to the reform strategy supported by the PRGF, but given slippages experienced in SOE reform, risks to program implementation remain considerable.** These risks stem both from continued resistance by vested interests to reducing the role of SOEs and from Vietnam's weak administrative capacity, particularly in restructuring the SOCBs. To contain risks, the program provides for significant prior actions and puts strong emphasis on appropriate safety nets for affected workers. Also, the program is being monitored through performance criteria and benchmarks (see Attachments II and III) and through semi-annual program reviews; the third review is envisaged for November 2002. To strengthen administrative capacity, Fund technical assistance is being extended in key reform areas, most notably by MAE (in bank restructuring and supervision), FAD (in tax policy and administration), and STA (in upgrading the statistical base). The Bank continues to coordinate technical assistance with bilateral donors, in particular in banking reform.

30. **Structural conditionality under the program has been reviewed**, in line with the staff guidelines in this area (Box 5). The monitoring of structural policies is being coordinated with the Bank's PRSC, which focuses on the detailed implementation of banking

Box 5. Vietnam: Structural Conditionality

Coverage of structural conditionality under the second-year PRGF arrangement

Structural conditions for the second year are set out in Table 6 of the MEFP (Attachment II). They continue to focus on the dominant SOCB and SOE sectors, as reforms in these areas are judged by the authorities in their CPRGS to have a critical bearing on the maintenance of macroeconomic stability and medium-term fiscal sustainability. To a limited extent, structural conditions also cover policies within the Fund's competence that are essential for improving growth prospects, notably in the exchange regime. **For the second PRGF review**, prior actions have been set on SOCB and SOE reforms to ensure adequate progress in these areas, in consultation with the Bank. **For the third PRGF review** and in line with program objectives, additional structural conditions in tax administration (two benchmarks and a performance criterion) have been set under the second-year PRGF arrangement, to better secure the fiscal framework and medium-term fiscal sustainability.

Status of structural conditionality from earlier programs

The status of structural benchmarks and performance criteria set under the first-year PRGF arrangement (approved in April 2001) is reported in Table 4 of the MEFP, covering SOCB and SOE reforms and exchange system liberalization.¹ Prior actions for the first and second PRGF reviews concentrated on these areas, as well as trade liberalization, and also included key measures that had experienced significant delays. All conditions reflected a streamlining in coordination with conditionality under the parallel PRSC. For the first PRGF review, the one structural benchmark (on audits of two SOCBs) was subject to a three-month delay, while the structural performance criterion (also on these audits) was met with a slight delay. For the second review, two benchmarks were subject to significant delays: (i) guidelines for SOE safety nets (by four months) and for debt resolution (by about five months and only for equitized SOEs), and (ii) equipping a special government monitoring unit to oversee implementation of SOE reform (by five months). Also, the structural benchmark on exchange system liberalization was not observed owing to the need for broader legal changes than originally envisaged by the government. As a result, it has been rephased as a structural benchmark for the third PRGF review.

Structural areas covered by World Bank lending and conditionality

Under the parallel PRSC arrangement approved in June 2001, tranche release conditions overlap with PRGF conditions in three areas—reforms of the SOCBs, SOEs, and trade system, but they also cover private sector development and public expenditure management (Table 11). In the overlapping areas, structural conditions have been designed to be complementary. PRGF conditions have been defined in aggregative terms, relating to the framework for, or dimensions of, SOCB/SOE reforms that are critical from the fiscal and overall macroeconomic standpoints. PRSC conditions have been formulated at the more detailed implementation level, for example, relating to the specific targets for and the effectiveness of equitization, the restructuring plans of three large SOEs (general corporations), diagnostic audits of selected large SOEs, and implementation of the SOCB restructuring plans and of safety nets for affected workers in restructured SOEs.

Other relevant structural conditions not included in current program

Further trade reform, private sector development, and public expenditure reform are all vital for improving growth prospects and reducing poverty. These are being partly addressed by the PRSC and also in project operations supported by the Asian Development Bank. However, the coverage of trade reform is incomplete, leaving out trade policies relating to petroleum products and sugar, with medium-term macroeconomic implications, but where the Fund staff has no expertise.

¹ The status under the last three-year ESAF arrangement (which lapsed in 1997) is not readily comparable, given the gap of five years.

and SOE reforms. Both of these reforms are subject to reviews under the PRGF. In addition, in view of the need to further safeguard revenue performance, structural benchmarks and a performance criterion have been introduced on tax administration. In addition, new structural benchmarks have been agreed on SOE reform, given limited progress under the first-year program.

31. **Further steps are being taken in line with the safeguards framework.** Contrary to information reported to the Fund for the Stage One safeguards assessment, the SBV's 1999 and 2000 financial statements have been audited by the State Auditor. The Stage One assessment identified potential weaknesses that might pose a risk to Fund resources and increase the possibility of misreporting (Annex I). To ensure compliance with the safeguards framework, the SBV has agreed to complete by end-June 2002: (i) an audit of the 2001 financial statements by the State Auditor based on international auditing standards; (ii) a restatement (for internal use) of these audited financial statements in accordance with international accounting standards (IAS); and (iii) the publication of all future post-audit financial statements and attendant audit opinions in accordance with IAS. Before the third PRGF review, the authorities will set a timetable for adapting the SBV's accounting framework permanently onto IAS, with technical assistance from the Fund. A Stage Two mission will be conducted after completion of the 2001 audit.

32. **The authorities are requesting waivers of the nonobservance of four end-December quantitative performance criteria.** A waiver for the performance criteria on bank credit to SOEs and on NDA could be justified, given that these targets have been essentially brought back on track, in line with the March program benchmarks. Waiving the nonobservance of the performance criterion on net bank claims on government could also be justified, given that the deviation was marginal. Finally, waiving the nonobservance of the performance criterion on NIR would also be justified, given the slowdown in exports and remittances, the flexible exchange rate policy, and the fact that the NIR benchmark for March has been observed.

VI. POLICY TRANSPARENCY AND STATISTICAL ISSUES

33. **While the authorities have adopted greater policy and data transparency in the last year, there remains considerable scope for a further strengthening in both these areas.** Continued efforts should be made to provide to the public a better and broader range of statistics and more comprehensive information on policy objectives and performance. The MoF website now contains regular postings of budget plans and outturns, in addition to data published in *GFS*. The authorities plan to take further steps to bring budget data in line with *GFS* standards as a key element of strengthening expenditure management (including the monitoring of pro-poor expenditure), drawing on technical assistance from the Fund and Bank. The SBV is working on a website, with a view to complementing monetary and financial data already published in *International Finance Statistics* with more timely and comprehensive information. Fund staff reports will continue to be published.

34. **Despite recent progress, Vietnam's statistical base is still in need of upgrading.** A multisector statistics mission in mid-2001 identified a number of important shortcomings

(Annex VI). Key problems are the lack of reconciliation of intersectoral inconsistencies in economic statistics and the practice of reporting provisional statistics before the end of the reference period (but not final outcomes, most notably for monthly industrial production, retail sales, external trade, and quarterly GDP data). Weaknesses are most acute in national accounts and FDI statistics. A follow up STA mission devised a work plan in late 2001 for improving national accounts and related statistics, which is aimed at correcting deficiencies in survey and estimation techniques and developing reliable estimates of expenditure-based GDP and deflators. In addition, the authorities plan to announce Vietnam's participation in the General Data Dissemination System (GDDS) by July 2002.

VII. STAFF APPRAISAL

35. **Under the first-year PRGF, Vietnam's economy performed relatively well despite weakness in the external environment.** Real GDP growth in 2001 slowed only slightly and was among the fastest in the region, while inflation was subdued. Sluggish exports have been offset by robust domestic demand, especially private investment. The near-term outlook remains favorable, underpinned by an expected rebound in exports along with global recovery, as well as by sustained domestic demand.

36. **This record of performance is due in large measure to generally sound macroeconomic policies and progress in structural reforms, broadly in line with program objectives.** Macroeconomic policies were on track through most of 2001, and the slippages that arose in the latter part of the year have been broadly addressed. While the fiscal stance was eased, domestic bank financing was well restrained. Credit growth was contained broadly within programmed limits, including for SOEs, although the overrun in bank credit and budget support to the largest SOE debtors in the last quarter of the year is a concern. Despite weakening exports, official reserves were built up, albeit below the program target, owing to a flexible exchange rate management for most of the time. In the structural areas, advances have been made in trade reform and in boosting the private sector, and the restructuring of the large SOCBs has been initiated. However, the pace of SOE reform has lagged until very recently.

37. **For the second-year PRGF program, the authorities are building on these early results, and are aiming to meet the remaining considerable challenges in order to return Vietnam to high rates of economic growth and poverty reduction.** The program is centered on a firmer implementation of the structural agenda to accelerate Vietnam's transition to a market economy, as well as disciplined macroeconomic management. Top priorities continue to be placed on boosting investment and improving competitiveness, through further opening the economy to the private sector, closer integration into the global markets, and SOCB and SOE reforms.

38. **The 2002 budget framework is consistent with medium-term sustainability and provides for structural reform.** The government has rightly capped the budget deficit at a financeable level. However, adhering to this limit will require intensified efforts to strengthen revenue performance and discipline on spending—especially for the wage bill.

The authorities will need to monitor spending closely and to stand ready to compress low priority outlays in the event of revenue shortfalls. Looking ahead, the staff strongly endorses the steps to strengthen VAT policy and administration planned for the 2003 budget and encourages the authorities to make effective use of the Fund's technical assistance in this area. On the expenditure side, stronger management within a better defined medium-term framework will be essential to ensure a greater pro-poor focus and the infrastructure spending necessary to support rapid economic growth.

39. **Continued credit restraint will be important, especially with respect to the SOEs, in order to protect banks' asset quality.** The current level of interest rates is consistent with monetary program targets, and SBV refinancing should be contained to help curb credit. As a complement, a more flexible management of the exchange rate will be essential, and will help to strengthen further Vietnam's resilience to external shocks and protect its reserves position.

40. **External debt management policy will need to remain prudent, consistent with debt and fiscal sustainability and effective management of public resources.** The staff welcomes the authorities' intention to continue to rely primarily on concessional financing, and to keep in check debt servicing on commercial terms. In this regard, the authorities' planned bond placement is aimed at striking a proper balance between cautiously taking advantage of improved market conditions while protecting access to concessional funds, and ensuring effective use of such financing. It will be important to limit such financing to commercially viable projects and to concentrate on foreign exchange generating projects, so as to minimize fiscal risks.

41. **Given the positive response to steps taken so far to boost the private sector and FDI,** the authorities are appropriately aiming to ease market access for the private sector and further improving the business climate. Steady progress and a consistent policy signal in these areas will be critical in spurring investment and growth.

42. **Market-opening measures and steadfast implementation of existing regional and bilateral trade agreements would strengthen growth prospects and could facilitate WTO accession,** a key goal of the authorities. In this context, the staff encourages the authorities to complete soon an assessment of the potential social impact of these integration efforts, and to put in place adequate safety nets to ease the transition.

43. **In banking reform, top priority should be given to firmly implementing the restructuring plans for the four large SOCBs and closely monitoring this process by the SBV.** To strengthen transparency, it will be important to bring loan classification and provisioning in line with international best practices as programmed. Furthermore, the SBV will need to strengthen its monitoring of the banks in order to meet the agreed milestones for an early but phased recapitalization. Of particular importance are further steps to strengthen credit risk management and sustain NPL resolution efforts, including through effective use of technical assistance. Returning the SOCBs to health is essential for financing investment and would also allow one of them to seek strategic equity participation by end-2003 as envisaged under the program.

44. **To advance SOE reform, more decisive implementation over the period ahead will be required**, especially if the goals of the three-year reform plan are to be realized. The recent steps taken to accelerate the pace of equitization are welcome, but these will need to be followed through so as to meet the equitization targets set under the PRSC and for 2002. The staff also urges that the reform plan be extended over time to cover the larger, heavily indebted SOEs.

45. **The CPRGS represents a credible, growth-oriented strategy for poverty reduction, and has been prepared in a commendable participatory process.** For its successful implementation, attention will need to be given to prioritizing pro-poor programs, further defining the medium-term expenditure framework, fully assessing the social impact of reform, and monitoring intermediate targets in a systematic way.

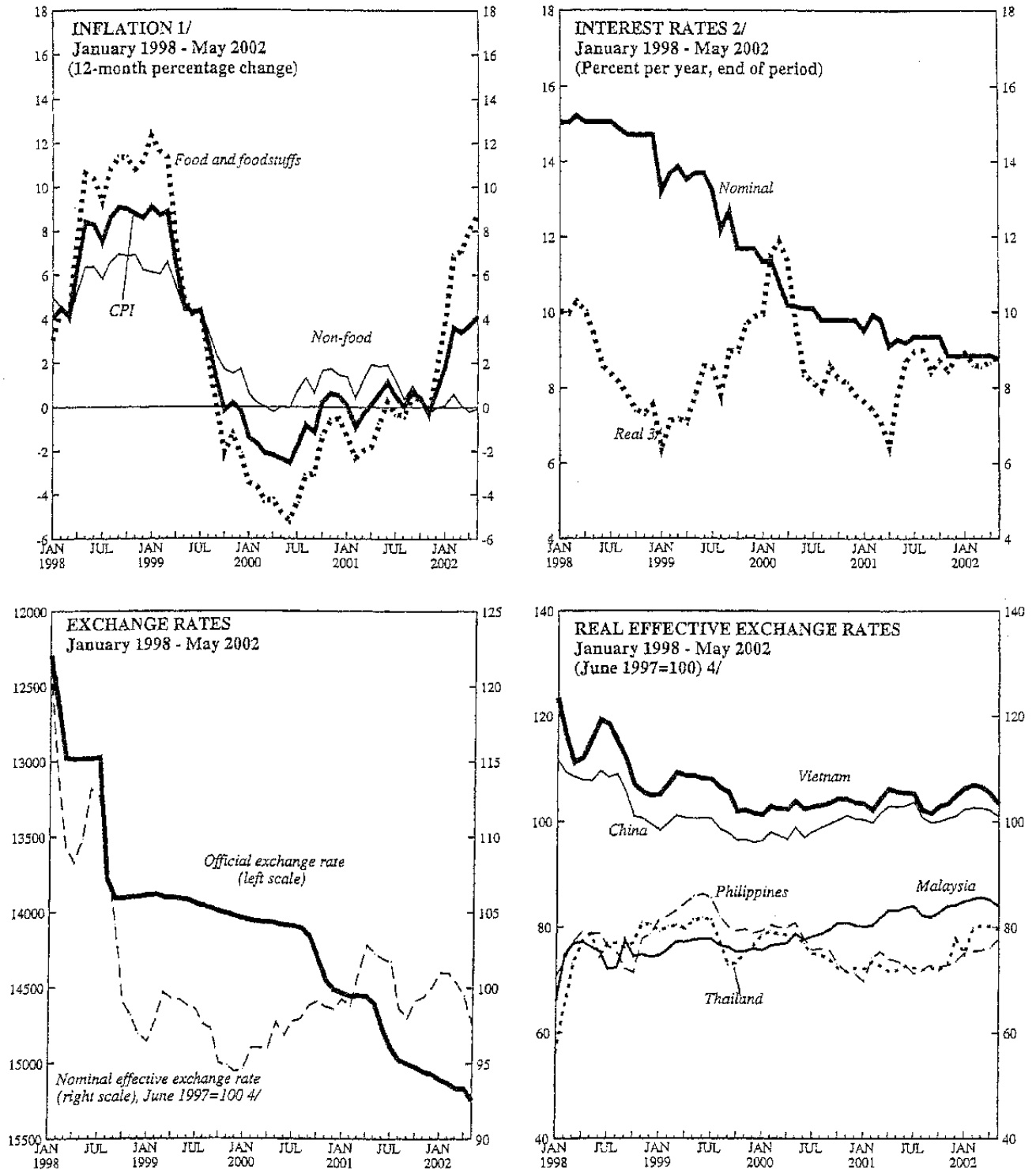
46. **Despite recent progress, greater transparency and further upgrading of the statistical base are needed to better inform investors and boost confidence.** The authorities' intention to participate in the GDDS soon is welcome, as this is an important first step in bringing Vietnam's statistical base closer to international standards. Effective use should be made of Fund technical assistance, especially to improve national accounts statistics. More transparency, through publication of a wider range of economic data, will also be helpful.

47. **Following the Stage One safeguards assessment**, the authorities have committed to implementing appropriate remedial measures. The staff proposes that the Executive Board complete this review based on these commitments. Following the completion of the external audit of the SBV envisaged for end-June, an onsite assessment is expected to be completed by the time of the third PRGF review. With implementation of any further corrective measures, the safeguards assessment is expected to be completed by end 2002.

48. **The authorities are firmly committed to the program, but implementation slippages remain the key risks, given the politically difficult measures that lie ahead and Vietnam's limited capacity.** To address these risks, close program monitoring is required, as is continued, extensive technical assistance by the Fund as well as the World Bank and the donor community.

49. **Based on the authorities' record of performance under the first-year program, the strength of their second-year program, and completion of the prior actions**, the staff recommends completion of the second review under the PRGF arrangement. The staff also supports the authorities' request for waivers of the nonobservance of the four performance criteria for end-December 2001. One of these breaches was minor, and with respect to the others, the associated policy slippages have been addressed so that the program has been brought back on track.

Figure 1. Vietnam: Selected Economic Indicators, 1998-2002



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

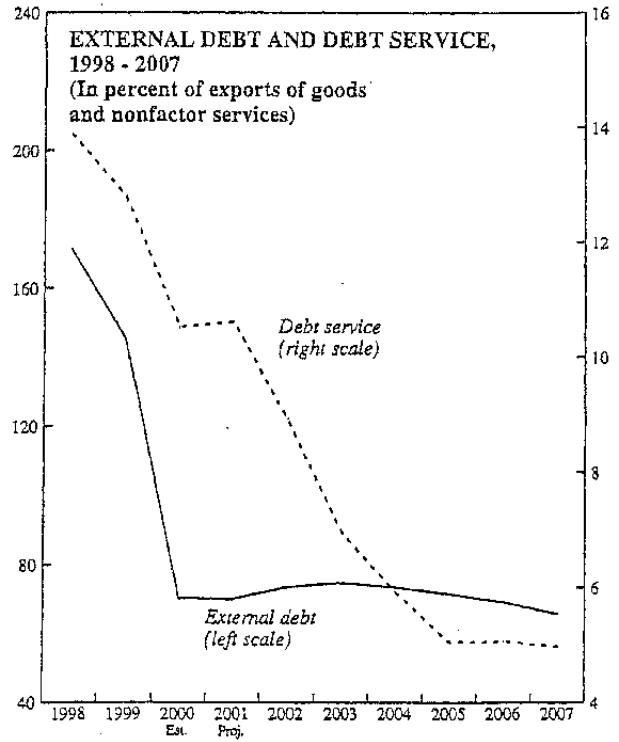
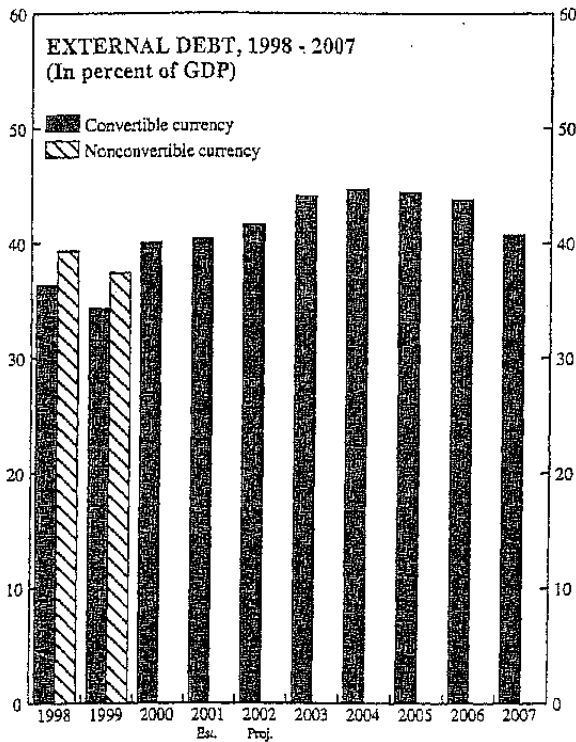
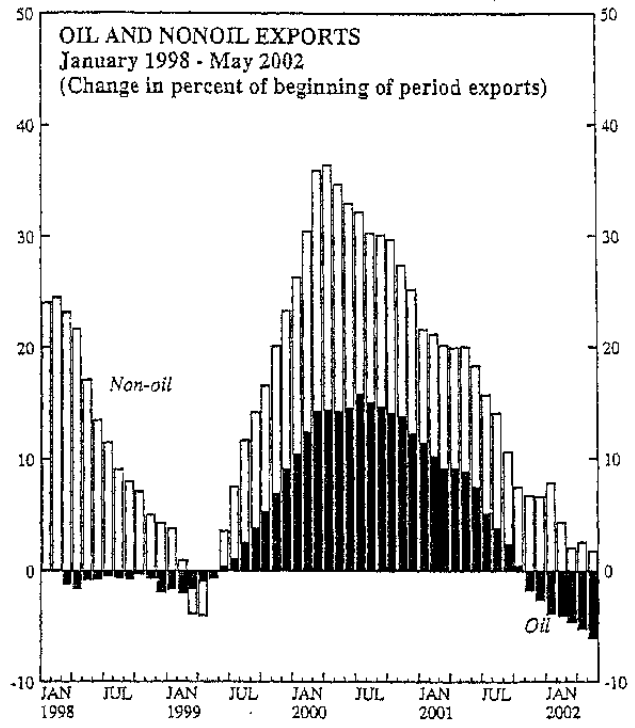
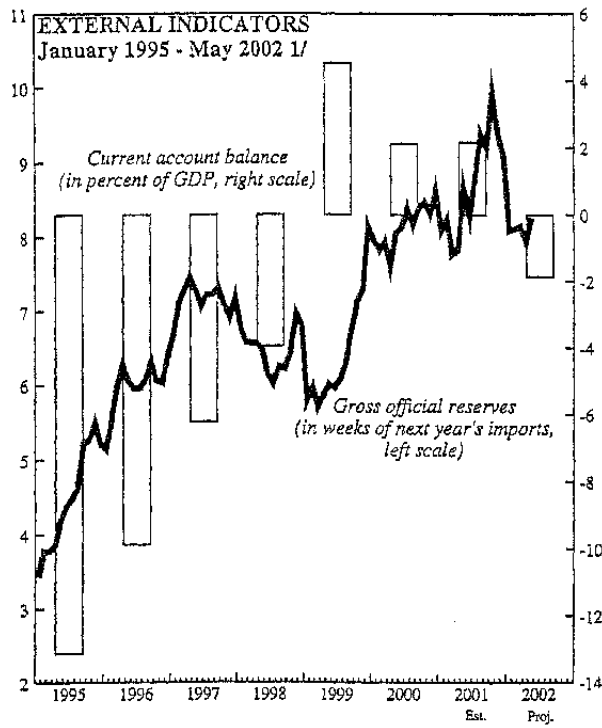
1/ Based on the June 2001 CPI weights.

2/ On short-term working capital loans.

3/ Measured with respect to nominal interest rate at the end of each month and three-month moving average of year-on-year non-food inflation.

4/ Estimated for April and May 2002.

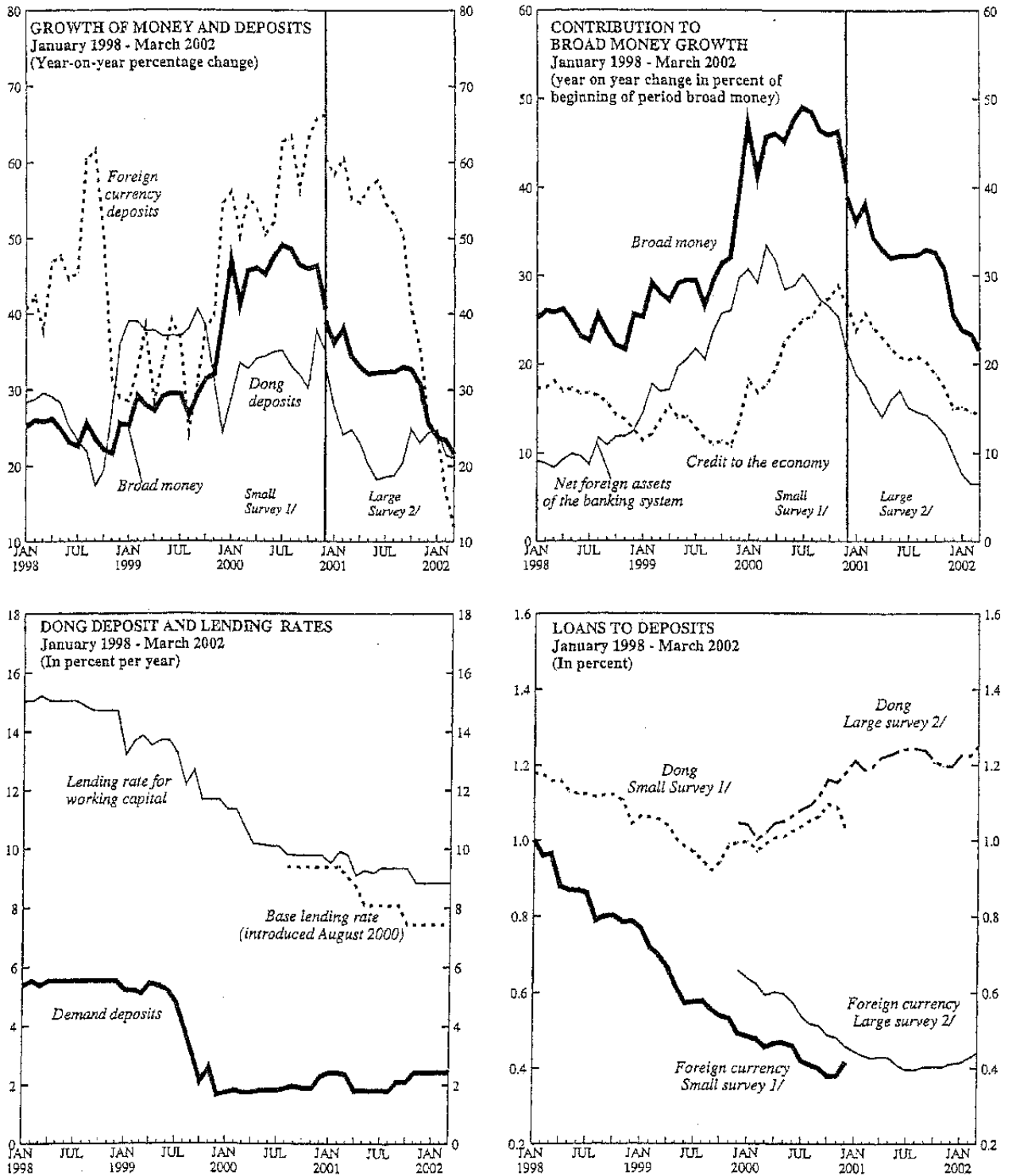
Figure 2. Vietnam: External Sector Developments, 1995-2002



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

1/ As of May 24, 2002.

Figure 3. Vietnam: Monetary and Financial Indicators, 1998-2002



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

1/ Monetary survey comprising State Bank of Vietnam (SBV), four large state-owned commercial banks, and 24 non-state banks.
 2/ Monetary survey comprising SBV, six large state-owned commercial banks, and 78 non-state banks.

Table 1. Vietnam: Proposed Schedule of Remaining Disbursements
Under the PRGF Arrangement

Amount	Available Date	Conditions for Disbursement
SDR 41,400,000 (12.6 percent of quota)	Upon completion of the second PRGF review	Observance of the end-December 2001 performance criteria, and upon the authorities' request and on the condition that information provided on implementation of prior actions is accurate.
SDR 41,400,000 (12.6 percent of quota)	October 15, 2002	Observance of the end-June 2002 performance criteria and completion of the third review.
SDR 41,400,000 (12.6 percent of quota)	April 15, 2003	Observance of the end-December 2002 performance criteria and completion of the fourth review.
SDR 41,400,000 (12.6 percent of quota)	October 15, 2003	Observance of the end-June 2003 performance criteria and completion of the fifth review.
SDR 41,600,000 (12.6 percent of quota)	April 15, 2004	Observance of the end-December 2003 performance criteria and completion of the sixth review.

Table 2. Vietnam: Fund Position and Indicators of Fund Credit, 2001-05

	Outstanding on December 31, 2001	2002				Cumulative	Projection		
		Jan.-Mar.	Apr.-Jun.	Jul.-Sep.	Oct.-Dec.		2003	2004	2005
(In millions of SDRs)									
Transactions during the period (net)		-12.08	27.31	-12.08	27.31	30.45	30.45	-7.73	-36.24
Tranche policies and special facilities									
repurchases (net)		0.00	2.01	0.00	2.01	4.03	4.03	1.01	0.00
Enhanced Structural Adjustment Facility									
repayments (net)		12.08	12.08	12.08	12.08	48.32	48.32	48.32	36.24
Poverty Reduction and Growth Facility									
disbursements (net)		0.00	41.40	0.00	41.40	82.80	82.80	41.60	0.00
Total Fund credit outstanding (end of period)	291.18	279.10	306.41	294.33	321.63	321.63	352.09	344.36	308.12
Tranche policies and special facilities	9.06	9.06	7.05	7.05	5.03	5.03	1.01	0.00	0.00
Enhanced Structural Adjustment Facility	199.32	187.24	175.16	163.08	151.00	151.00	102.68	54.36	18.12
Poverty Reduction and Growth Facility	82.80	82.80	124.20	124.20	165.60	165.60	248.40	290.00	290.00
(In percent of quota)									
Total Fund credit outstanding (end of period)	88.5	84.8	93.1	89.4	97.7	97.7	107.0	104.6	93.6
Tranche policies and special facilities	2.8	2.8	2.1	2.1	1.5	1.5	0.3	0.0	0.0
Enhanced Structural Adjustment Facility	60.6	56.9	53.2	49.6	45.9	45.9	31.2	16.5	5.5
Poverty Reduction and Growth Facility	25.2	25.2	37.7	37.7	50.3	50.3	75.5	88.1	88.1
Memorandum item:									
Debt service to the Fund to exports of goods and nonfactor services (in percent)		...	...	...	...	0.4	0.4	0.3	0.2

Sources: International Monetary Fund, Treasurer's Department; and staff projections.

Table 3. Vietnam: Selected Economic Indicators, 1996-2002

	Nominal GDP (2001): US\$30.9 billion Population (2001): 78.7 million					GDP per capita (2001): US\$393 Fund quota: SDR 329.1 million			
	1996	1997	1998	1999	2000	2001		2002	May 2002 1/
						Prog.	Estimate	Prog.	Estimate
Real GDP (annual percentage change)	9.3	8.2	3.5	4.2	5.5	4.7	5.0	5.3	...
Industrial output	14.2	13.8	12.5	11.6	15.7	...	12.9	...	...
Saving-investment balance (in percent of GDP)	-10.5	-6.9	-4.6	4.1	1.7	1.2	1.7	-2.3	...
Gross national saving	17.6	21.4	19.1	26.5	27.0	27.3	27.3	24.4	...
Gross investment	28.1	28.3	23.7	22.4	25.3	26.1	25.6	26.7	...
Inflation (annual percentage change)									
Period average	5.7	3.2	7.3	4.1	-1.7	0.1	0.2	4.1	1.6
End of period	4.5	3.6	8.6	-0.2	-0.6	2.0	0.8	4.0	4.1
GDP deflator	8.7	6.6	11.1	5.7	2.5	1.7	1.5	4.7	...
Government budget (in percent of GDP) 2/									
Total revenue	22.4	20.0	19.6	19.2	20.6	21.6	21.3	20.4	22.1 3/
Grants	0.6	0.8	0.6	0.6	0.5	0.4	0.4	0.4	0.3 3/
Total expenditure (excluding onlending)	23.1	22.6	20.4	20.6	23.9	24.9	25.2	24.7	23.8 3/
of which: current expenditure	17.4	16.3	14.7	13.9	16.3	16.1	17.0	16.5	16.8 3/
Overall fiscal balance (including grants, excluding onlending)	-0.2	-1.7	-0.1	-0.8	-2.8	-2.9	-3.5	-3.9	-1.3 3/
Money and credit (annual percentage change, end of period) 4/									
Broad money	22.7	26.1	25.6	39.3	39.0	23.2	25.5	19.9	21.6 5/
Credit to the economy	20.1	22.6	16.4	19.2	38.1	21.0	21.4	20.5	20.9 5/
Interest rates (in percent, end of period)									
Three-month deposits (households)	9.1	8.1	9.7	4.0	4.3	...	2.4	...	2.4
Short-term lending (less than one year)	15.9	12.7	14.7	11.7	9.8	...	8.8	...	8.8
Current account (including official transfers)									
(in millions of U.S. dollars)	-2,431	-1,664	-1,067	1,285	642	512	670	-608	...
(in percent of GDP)	-9.9	-6.2	-3.9	4.5	2.1	1.7	2.2	-1.9	...
Exports of goods (annual percentage change, U.S. dollar terms) 6/	41.2	24.6	2.4	23.2	25.2	5.8	4.0	4.0	-5.4
Imports of goods (annual percentage change, U.S. dollar terms) 6/ 7/	25.5	-0.2	-1.1	1.1	34.5	6.0	2.3	10.0	5.9
Foreign exchange reserves (in millions of U.S. dollars, end of period)									
Gross official reserves, including gold	1,673	1,857	1,765	2,711	3,030	3,601	3,387	3,815	3,498 8/
(in weeks of next year's imports of goods and nonfactor services)	6.4	7.2	6.8	8.1	8.9	9.7	9.1	9.0	8.3
Net international reserves, including gold 9/	1,065	1,258	1,173	2,118	2,191	2,631	2,574	2,895	2,639 5/
External debt (in percent of GDP) 10/	81.8	76.3	78.1	73.6	39.7	44.5	40.4	41.6	...
Convertible currency 11/	39.8	37.2	38.8	36.2	39.7	44.5	40.4	41.6	...
Nonconvertible currency	42.1	39.1	39.3	37.4	0.0	0.0	0.0	0.0	...
Debt service due (in percent of exports of goods and nonfactor services)	12.9	12.8	13.9	12.8	10.5	10.2	10.6	8.9	...
Exchange rate (dong per U.S. dollar)									
Period average	11,033	11,706	13,297	13,944	14,170	14,819	14,806	...	15,174
End of period	11,150	12,292	13,890	14,028	14,514	15,250	15,084	...	15,251 12/
Real effective exchange rate (annual percentage change)									
Period average	6.6	3.4	8.1	-6.5	-2.8	...	0.8	...	1.4 5/
End of period	3.7	12.7	-9.4	-3.3	2.1	...	1.3	...	2.1 5/
Memorandum items:									
GDP (in trillions of dong at current market prices)	272.0	313.6	360.6	397.3	429.7	457.6	458.1	505.2	...
Per capita GDP (in U.S. dollars)	337	361	359	372	391	392	393	412	...

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

1/ Performance as of May 2002, unless otherwise indicated.

2/ Cash basis.

3/ Performance in the first quarter of 2002 on an annualized basis.

4/ Starting in 2000, figures based on an expanded monetary survey (currently the State Bank of Vietnam (SBV) and 84 credit institutions); for previous periods, based on original monetary survey (SBV and 28 credit institutions).

5/ End March 2002.

6/ Monthly data are changes since the beginning of the year compared with the same period in the previous year.

7/ For monthly data, rate of growth based on imports c.i.f.; otherwise, based on imports f.o.b.

8/ Provisional estimate as of May 24, 2002.

9/ For 2001 and 2002, at program monitoring exchange rates.

10/ London Club rescheduling was concluded in early 1998. Restructuring of the Russian debt was concluded in September 2000 on comparable terms to the 1993 Paris Club rescheduling.

11/ Includes the loan component of foreign direct investment and other private sector borrowing, and short-term debt.

12/ As of May 31, 2002.

Table 4. Vietnam: Balance of Payments, 2000-2007

(In millions of U.S. dollars, unless otherwise indicated)

	2000	2001	2002	2003	2004	2005	2006	2007
		Est.			Projection			
Current account balance	642	670	-608	-1,146	-637	-487	-387	-176
Excluding official transfers	506	520	-758	-1,296	-787	-637	-537	-326
Trade balance	378	627	-213	-722	-540	-410	-232	-23
Exports, f.o.b.	14,449	15,027	15,628	17,503	19,691	22,054	24,701	27,665
Imports, f.o.b.	14,071	14,400	15,841	18,225	20,231	22,465	24,933	27,688
Non-factor services (net)	-615	-572	-666	-603	-541	-518	-592	-552
Receipts	2,695	2,810	2,930	3,252	3,545	3,793	4,021	4,343
Payments	3,310	3,382	3,596	3,855	4,087	4,311	4,613	4,895
Investment income (net)	-597	-635	-779	-971	-956	-1,009	-1,013	-1,051
Receipts	185	160	180	217	259	293	330	363
Payments	782	795	959	1,188	1,215	1,302	1,343	1,415
Transfers (net)	1,476	1,250	1,050	1,150	1,400	1,450	1,450	1,450
Private	1,340	1,100	900	1,000	1,250	1,300	1,300	1,300
Official	136	150	150	150	150	150	150	150
Capital account balance	-772	-502	848	1,168	1,157	1,257	1,218	1,032
Gross foreign direct investment (FDI) inflows	800	900	1,200	1,500	1,300	1,300	1,400	1,400
Equity	320	540	840	600	520	520	560	560
Loan disbursements	480	360	360	900	780	780	840	840
FDI loan repayments	601	819	788	686	574	432	500	576
Medium and long-term loans (net)	729	623	936	1,105	1,182	1,138	1,068	958
Disbursements	1,411	988	1,407	1,450	1,550	1,550	1,550	1,550
ODA loans	1,361	958	1,057	1,200	1,300	1,300	1,300	1,300
Commercial loans	50	30	350	250	250	250	250	250
Scheduled amortization	682	365	471	345	368	412	482	592
Short term capital (net)	-1,700	-1,206	-500	-750	-750	-750	-750	-750
Errors and omissions	247	157	-150	0	0	0	0	0
Overall balance	116	325	90	22	520	769	831	856
Financing	-116	-325	-90	-22	-520	-769	-831	-856
Change in net foreign assets of the State Bank of Vietnam (-, increase)	-116	-325	-390	-422	-575	-769	-831	-856
of which: Use of Fund credit (net)	-21	59	38	40	-10	-48	-29	-22
Arrears ^{1/}	-9,691	0	61	0	0	0	0	0
Debt relief and rescheduling ^{1/}	9,691	0	-61	0	0	0	0	0
Financing gap	0	0	300	400	55	0	0	0
Memorandum items:								
Gross official reserves, including gold	3,030	3,387	3,815	4,277	4,842	5,563	6,365	7,221
In weeks of next year's imports	8.9	9.1	9.0	9.2	9.4	9.8	10.2	10.5
Ratio to short term external debt (in percent) ^{2/}	655	928	1,105	1,161	1,176	1,153	1,075	1,148
Current account deficit (in percent of GDP)	2.1	2.2	-1.9	-3.3	-1.7	-1.2	-0.9	-0.4
Excluding official transfers	1.7	1.7	-2.3	-3.7	-2.1	-1.5	-1.2	-0.7
Export value growth (annual percentage change)	25.2	4.0	4.0	12.0	12.5	12.0	12.0	12.0
Import value growth (annual percentage change)	34.5	2.3	10.0	15.0	11.0	11.0	11.0	11.1

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

^{1/} Restructuring of the Russian debt was concluded in September 2000 on comparable term to the 1993 Paris Club rescheduling. Discussions on a rescheduling agreement with Algeria are ongoing and expected to be concluded in 2002.

^{2/} Short-term debt by remaining maturity refers to non-equity claims falling due over the next period.

Table 5. Vietnam: Quantitative Performance Criteria and Benchmarks Under the First-Year PRGF-Supported Program Through June 2002 1/ 2/

	Stock at:		Maximum cumulative change from end-December 2000 to:								Stock at:		Maximum cumulative change from end-December 2001 to:		
	Dec. 31	March 31	June 30		September 30		December 31		December 31	March 31	June 30				
	2000		2001									2002			
	Actual	Program	Actual	Program	Actual	Program	Actual	Program	Actual	Program	Actual	Program	Est.	Program	
(In trillions of dong)															
1. Net domestic assets of the banking system 3/	127.2	8.3	10.0	16.3	13.6	24.3	22.4	34.9	36.1	162.1	163.3	10.0	11.1	20.3	
2. Net credit to the government of the banking system 4/	-0.5	1.5	-0.2	1.5	-4.0	2.0	-3.0	2.5	2.6	2.0	2.1	0.7	0.7	1.4	
3. Credit to the state-owned enterprises (SOEs) from the banking system	69.9	2.1	3.2	4.2	5.2	6.3	7.0	9.1	9.8	79.0	79.7	1.9	2.0	4.4	
4. Credit from the banking system and from the budget and budget support to the 200 targeted large SOEs 5/	35.3	0.6	1.5	1.2	-0.8	1.8	1.7	2.4	7.0	37.7	42.3	0.6	1.0	1.5	
(In millions of U.S. dollars)															
5. Contracting or guaranteeing of nonconcessional external debt by the government															
Up to one-year maturity	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Medium and long-term debt	598	100	0	220	40	420	40	550	40	...	...	100	100	220
Of which: 1-5 years' maturity	...	0	0	0	0	150	0	150	0	...	...	0	0	0
6. External payments arrears 6/	57.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	57.3	60.6	0.0	0.0	0.0	
7. Net official international reserves 7/	2,191	65	-141	175	73	310	256	440	382	2,631	2,574	62	65	125	

Sources: Vietnamese authorities; and staff estimates and projections.

1/ The measurement and reporting requirements of quantitative benchmarks and performance criteria are described in the Annex I (Technical Memorandum of Understanding) of the Supplementary Memorandum on Economic and Financial Policies (MEFP) of the Government of Vietnam for September 2001-June 2002.

2/ Performance criteria for end-December 2001 and quantitative benchmarks otherwise, except for (i) credit from the banking system and from the budget and budget support to 200 targeted large SOEs, which is a quantitative benchmark for end-December 2001; and (ii) external payments arrears, which is a continuous performance criterion through December 2001.

3/ At program monitoring exchange rates for 2001.

4/ Excludes non-negotiable government bonds for state-owned commercial banks' reform.

5/ Ministry of Finance estimate.

6/ Represent outstanding arrears to Algeria; a rescheduling agreement is currently under discussion between the Vietnamese and Algerian authorities. The stock at end-December 2001 reflects the additional interest arrears accumulated while discussions are ongoing.

7/ Actual performance measured on the basis of using program monitoring exchange rates for non-U.S. dollar-denominated foreign assets and liabilities of the State Bank of Vietnam, as described in Annex I of the Supplementary MEFP (November 2001).

Table 6. Vietnam: Summary of General Government Budgetary Operations, 1998-2002 1/

(In trillions of dong)

	1998	1999	2000 Est.	2001		2002 Program
				Program	Prel. est.	
Revenue and grants	73.0	78.5	90.7	100.7	99.7	105.2
Revenue	70.8	76.1	88.7	98.8	97.8	103.2
<i>of which:</i> Oil revenue	14.6	18.5	28.6	32.2	32.3	32.8
Tax revenue	55.7	60.3	65.4	75.4	73.6	79.7
Nontax revenue	15.2	15.8	23.3	23.4	24.2	23.5
Grants	2.1	2.4	2.0	1.9	1.9	2.0
Total expenditure (including onlending)	78.8	88.9	112.6	120.5	120.8	138.0
(excluding onlending)	73.4	81.8	102.8	114.1	115.5	124.9
Current expenditure	52.9	55.1	70.1	73.7	77.8	83.2
<i>of which:</i> Current cost of reform	...	...	...	0.9	0.0	3.0
Current non-interest expenditures	50.9	52.8	66.6	69.2	73.6	76.5
Wages and salaries 2/	9.8	11.1	14.4	16.6	17.5	18.4
Other	41.1	41.7	52.2	52.6	56.1	58.1
Interest payments (paid)	2.1	2.3	3.5	4.5	4.2	6.7
Capital expenditure and onlending (excluding capital costs of reform)	25.9	33.8	42.5	44.3	43.0	52.0
<i>of which:</i> onlending	5.4	7.1	9.9	6.4	5.3	13.0
Contingency	0.0	0.0	0.0	2.5	0.0	2.7
Capital costs of SOE and SOCB reform	2.4	0.0	0.0	2.7	0.0	11.3
Overall fiscal balance (excluding onlending and capital costs of reform)	-0.5	-3.3	-12.0	-13.4	-15.8	-19.7
Overall fiscal balance (including onlending)	-5.8	-10.4	-21.9	-19.8	-21.1	-32.8
Augmented balance (including onlending and capital costs of reform)	-8.2	-10.4	-21.9	-22.6	-21.1	-44.1
Financing (excluding onlending and for capital costs of reform)	0.5	3.3	12.0	13.4	15.8	19.7
Domestic (net)	-1.6	-1.5	7.3	7.3	10.8	11.9
Banking system	1.6	-5.4	-3.4	2.5	2.6	3.5
Nonbanks 3/	-3.2	3.9	10.7	4.8	8.2	8.4
Foreign (net) 4/	2.0	4.8	4.8	6.2	5.0	7.9
Financing (onlending and for capital costs of reform)	7.8	7.1	9.9	9.1	5.3	24.4
Bank restructuring bonds	2.4	0.0	0.0	1.9	0.0	6.8
Onlending	5.4	7.1	9.9	6.4	5.3	13.0
Other 5/	0.0	0.0	0.0	0.8	0.0	4.5
Memorandum items:						
Reform cost for safety nets	0.0	0.0	0.0	0.6	0.0	2.5
Interest cost of reform	0.0	0.0	0.0	0.3	0.0	0.5
Expenditures managed at units 6/	3.6	4.8	5.3	7.4	6.4	6.8
Total social expenditure (excluding social security) 7/	18.1	21.2	24.5	29.8	29.4	34.8
<i>of which:</i> Education and health	17.9	19.5	22.4	26.5	26.4	29.1
Current social expenditure (excluding social security)	13.2	14.0	16.7	19.1	20.6	25.0
Social capital investment	4.9	7.2	7.8	10.7	8.7	9.8

Sources: Ministry of Finance, State Budget Department; and staff estimates and projections.

1/ Cash basis.

2/ Excludes wages and salaries of military/defense personnel.

3/ Domestic nonbank financing is derived as a residual and includes statistical discrepancy.

4/ Includes actual and prospective external budget support for structural reforms.

5/ Additional financing required to cover prospective cost of structural reforms, including possible domestic nonbank and external financing.

6/ Self-financed expenditures undertaken by government administrative units, which are excluded from the above budget presentation.

7/ Staff estimate based on (i) current social expenditure in the budget on education and training, health, and family planning; (ii) safety net costs of state-owned enterprise reform; (iii) targeted capital spending programs in poverty reduction and employment, clean water and public health, family planning, education and training, and reforestation; and (iv) other capital expenditure on education and training and health, and on poverty-related projects in the agriculture, transportation, and electricity and water sectors.

Table 6. Vietnam: Summary of General Government Budgetary Operations, 1998-2002 (concluded) 1/

(In percent of GDP)

	1998	1999	2000 Est.	2001		2002 Program est.
				Program	Prel. est.	
Revenue and grants	20.2	19.8	21.1	22.0	21.8	20.8
Revenue	19.6	19.2	20.6	21.6	21.3	20.4
<i>of which:</i> Oil revenue	4.1	4.7	6.7	7.0	7.0	6.5
Tax revenue	15.4	15.2	15.2	16.5	16.1	15.8
Nontax revenue	4.2	4.0	5.4	5.1	5.3	4.6
Grants	0.6	0.6	0.5	0.4	0.4	0.4
Total expenditure (including onlending)	21.9	22.4	26.2	26.3	26.4	27.3
(excluding onlending)	20.4	20.6	23.9	24.9	25.2	24.7
Current expenditure	14.7	13.9	16.3	16.1	17.0	16.5
<i>of which:</i> Current cost of reform	...	...	...	0.2	...	0.6
Current non-interest expenditure	14.1	13.3	15.5	15.1	16.1	15.2
Wages and salaries 2/	2.7	2.8	3.4	3.6	3.8	3.6
Other	11.4	10.5	12.1	11.5	12.2	11.5
Interest payments (paid)	0.6	0.6	0.8	1.0	0.9	1.3
Capital expenditure and onlending (excluding capital costs of reform)	7.2	8.5	9.9	9.7	9.4	10.3
<i>of which:</i> onlending	1.5	1.8	2.3	1.4	1.2	2.6
Contingency	0.0	0.0	0.0	0.5	0.0	0.5
Capital costs of SOE and SOCB reform	0.7	0.0	0.0	0.6	...	2.2
Overall fiscal balance (excluding onlending and capital costs of reform)	-0.1	-0.8	-2.8	-2.9	-3.5	-3.9
Overall fiscal balance (including onlending)	-1.6	-2.6	-5.1	-4.3	-4.6	-6.5
Augmented balance (including onlending and capital costs of reform)	-2.3	-2.6	-5.1	-4.9	-4.6	-8.7
Financing (excluding onlending and for capital costs of reform)	0.1	0.8	2.8	2.9	3.5	3.9
Domestic (net)	-0.4	-0.4	1.7	1.6	2.4	2.4
Banking system	0.4	-1.4	-0.8	0.5	0.6	0.7
Nonbanks 3/	-0.9	1.0	2.5	1.0	1.8	1.7
Foreign (net) 4/	0.6	1.2	1.1	1.3	1.1	1.6
Financing (onlending and for capital costs of reform)	2.2	1.8	2.3	2.0	1.2	4.8
Bank restructuring bonds	0.7	0.0	0.0	0.4	0.0	1.3
Onlending	1.5	1.8	2.3	1.4	1.2	2.6
Other 5/	0.0	0.0	0.0	0.2	0.0	0.9
Memorandum items:						
Reform cost for safety nets	0.0	0.0	0.0	0.1	...	0.5
Interest cost of reform	0.0	0.0	0.0	0.1	...	0.1
Expenditures managed at units 6/	1.0	1.2	1.2	1.6	1.4	1.4
Total social expenditure (excluding social security) 7/	5.0	5.3	5.7	6.5	6.4	6.9
<i>of which:</i> Education and health	5.0	4.9	5.2	5.8	5.8	5.8
Current social expenditure (excluding social security)	3.7	3.5	3.9	4.2	4.5	5.0
Social capital investment	1.4	1.8	1.8	2.3	1.9	1.9

Sources: Ministry of Finance, State Budget Department; and staff estimates and projections.

1/ Cash basis.

2/ Excludes wages and salaries of military/defense personnel.

3/ Domestic nonbank financing is derived as a residual and includes statistical discrepancy.

4/ Includes actual and prospective external budget support for structural reforms.

5/ Additional financing required to cover prospective cost of structural reforms, including possible domestic nonbank and external financing.

6/ Self-financed expenditures undertaken by government administrative units, which are excluded from the above budget presentation.

7/ Staff estimate based on (i) current social expenditure in the budget on education and training, health, and family planning; (ii) safety net costs of state-owned enterprise reform; (iii) targeted capital spending programs in poverty reduction and employment, clean water and public health, family planning, education and training, and reforestation; and (iv) other capital expenditure on education and training and health, and on poverty-related projects in the agriculture, transportation, and electricity and water sectors.

Table 7. Vietnam: Monetary Survey, 1999-2002 1/2/

	1999	2000	2001												2002		
			March		June		Sept.		Dec.		Mar.		June	Sept.	Dec.		
			Prog.	Est.	Prog.	Est.	Prog.	Est.	Prog.	Est.	Prog.	Est.	Program				
(In trillions of dong)																	
Net foreign assets	61.2	95.7	97.8	101.3	102.8	108.7	108.5	114.7	112.6	117.6	121.3	116.8	120.8	125.9	131.0		
Foreign assets	77.7	112.7	114.8	118.5	120.2	126.5	125.9	133.0	130.5	135.9	139.8	135.4	139.4	144.7	149.9		
Foreign liabilities	-16.5	-17.0	-17.0	-17.2	-17.4	-17.8	-17.4	-18.3	-17.9	-18.3	-18.5	-18.5	-18.6	-18.8	-18.9		
Net domestic assets	99.2	127.2	136.0	137.1	144.0	140.2	152.0	148.7	162.1	162.2	172.2	173.0	182.4	193.5	204.5		
Domestic credit	115.7	155.2	163.7	163.6	171.5	167.6	179.8	177.1	190.4	191.2	201.2	201.4	211.5	222.5	233.5		
Net claims on government	3.0	-0.5	1.0	-0.7	1.0	-4.5	1.5	-3.5	2.0	2.1	2.8	2.8	3.5	4.6	5.6		
Credit to the economy	112.7	155.7	162.7	164.3	170.5	172.1	178.3	180.6	188.4	189.1	198.4	198.6	208.0	218.0	227.9		
Claims on state enterprises	54.3	69.9	72.0	73.1	74.1	75.1	76.2	76.9	79.0	79.7	81.6	81.7	84.1	86.7	89.3		
Claims on other sectors	58.4	85.8	90.7	91.2	96.4	97.0	102.1	103.6	109.4	109.4	116.8	116.9	123.8	131.2	138.6		
Other items, net	-16.5	-28.0	-27.7	-26.5	-27.5	-27.4	-27.8	-28.4	-28.4	-29.0	-29.0	-28.4	-29.0	-29.0	-29.0		
Broad money	160.4	222.9	233.8	238.5	246.8	249.0	260.5	263.4	274.7	279.8	293.5	289.9	303.3	319.4	335.5		
Dong liquidity	116.5	152.5	164.9	160.6	171.5	164.7	178.1	174.8	184.8	191.1	201.6	202.7	213.6	226.0	237.9		
Foreign currency deposits	43.8	70.4	68.9	77.8	75.3	84.3	82.3	88.6	89.9	88.7	91.9	87.2	89.6	93.4	97.6		
(Annual percentage change)																	
Credit to the economy	...	38.1	34.1	35.4	28.2	29.4	26.8	28.4	21.0	21.4	20.8	20.9	20.8	20.7	20.5		
Credit to state enterprises	...	28.7	24.4	26.3	15.9	17.4	17.5	18.6	13.0	14.1	11.7	11.8	12.0	12.7	12.0		
Credit to other sectors	...	46.9	42.9	43.6	39.7	40.5	34.7	36.7	27.5	28.1	28.2	27.7	26.6	26.8			
Broad money	...	39.0	31.7	34.3	31.1	32.3	31.5	33.0	23.2	25.5	23.1	21.6	21.8	21.3	19.9		
Dong liquidity	...	30.8	29.5	26.2	27.3	22.2	28.0	25.6	21.2	25.3	25.5	26.2	29.7	29.3	24.5		
Foreign currency deposits	...	60.5	37.3	55.1	40.8	57.6	39.8	50.5	27.7	26.0	18.1	12.0	6.3	5.4	10.0		
(Changes in percent since the beginning of the year)																	
Credit to the economy	...	38.1	4.5	5.5	9.5	10.5	14.5	16.0	21.0	21.4	4.9	5.0	10.0	15.3	20.5		
Credit to state enterprises	...	28.7	3.0	4.5	6.0	7.5	9.0	10.0	13.0	14.1	2.4	2.5	5.5	8.8	12.0		
Credit to other sectors	...	46.9	5.7	6.3	12.4	13.1	19.0	20.8	27.5	27.5	6.8	6.9	13.2	20.0	26.8		
Broad money	...	39.0	4.9	7.0	10.7	11.7	16.9	18.2	23.2	25.5	4.9	3.6	8.4	14.2	19.9		
Dong liquidity	...	33.2	3.1	5.5	6.2	7.4	9.3	13.0	21.2	24.4	4.7	2.6	9.4	17.1	24.5		
Foreign currency deposits	...	60.5	10.3	10.6	20.4	19.7	31.7	25.9	27.7	26.0	3.7	-1.7	1.1	5.3	10.0		
(Quarterly percentage changes)																	
Credit to the economy	...	10.7	4.5	5.5	4.8	4.8	4.6	4.9	5.2	4.7	4.9	5.0	4.7	4.8	4.6		
Credit to state enterprises	...	7.8	3.0	4.5	2.9	2.8	2.8	2.4	2.5	3.7	2.4	2.5	3.0	3.1	3.0		
Credit to other sectors	...	13.2	5.7	6.3	6.3	6.4	5.9	6.9	7.2	5.5	6.8	6.9	6.0	6.0	5.6		
Broad money	...	12.5	4.9	7.0	5.6	4.4	5.5	5.8	5.5	6.2	4.9	3.6	4.6	5.3	5.0		
Dong liquidity	...	6.6	3.1	5.5	3.0	1.8	2.9	5.3	6.6	10.1	4.7	2.6	6.7	7.0	6.3		
Foreign currency deposits	...	19.5	10.3	10.6	9.2	8.3	9.4	5.1	4.3	0.1	3.7	-1.7	2.8	4.2	4.5		
(In millions of U.S. dollars, unless otherwise indicated)																	
Gross official international reserves	2,711	3,030	3,123	2,896	3,280	3,086	3,473	3,432	3,601	3,387	3,464	3,448	3,511	3,622	3,815		
(in weeks of next year's imports of goods and nonfactor services)	8.1	8.9	8.4	7.0	8.8	7.4	9.3	8.3	9.7	9.1	8.2	8.1	8.3	8.6	9.0		
Foreign currency deposits of DMBs at the State Bank of Vietnam	105	351	342	384	374	335	409	473	372	295	305	315	285	297	311		
Net official international reserves	2,093	2,191	2,297	2,040	2,407	2,246	2,542	2,438	2,631	2,555	2,618	2,616	2,681	2,775	2,895		
Net foreign assets of the banking system	4,364	6,599	6,762	6,968	7,092	7,325	7,497	7,644	7,766	7,805	8,050	7,699	8,017	8,356	8,694		
Velocity	2.5	1.9	2.0	1.9	1.9	1.8	1.8	1.7	1.7	1.6	1.7	1.6	1.7	1.6	1.5		
Dong velocity	3.4	2.8	2.6	2.7	2.5	2.6	2.4	2.5	2.3	2.2	2.5	2.1	2.4	2.2	2.1		
Money multiplier	2.8	3.1	3.1	3.2	3.1	3.4	3.2	3.3	3.3	3.3	3.3	3.2	3.3	3.4	3.5		
Memorandum items:	(Changes in trillions of dong since the beginning of the year, unless otherwise indicated)																
Net domestic assets of the banking system 3/	...	28.0	8.3	10.0	16.3	13.6	24.3	22.4	34.9	36.1	10.0	11.1	20.3	31.3	42.3		
Net credit to the government of the banking system	...	-3.4	1.5	-0.2	1.5	-4.0	2.0	-3.0	2.5	2.6	0.7	0.7	1.4	2.4	3.5		
Credit to the state-owned enterprises from the banking system	...	15.6	2.1	3.2	4.2	5.2	6.3	7.0	9.1	9.8	1.9	2.0	4.4	7.0	9.6		
Net official international reserves (in millions of U.S. dollars)	885	98	65	-141	175	73	310	256	440	382	62	65	125	220	340		

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

1/ Currently comprising the State Bank of Vietnam (SBV), six state-owned commercial banks, and 78 nonstate-owned credit institutions.

2/ Estimates at current exchange rates, unless indicated otherwise. The program exchange rate for 2001 is D 14,501 per U.S. dollar; for 2002 it is D 15,070 per U.S. dollar.

3/ At program monitoring exchange rates.

Table 8. Vietnam: Status of Key Structural Actions Under the First-Year PRGF-Supported Program

Policy Action/Conditions	Timing	Status
A. Banking reform		
1. Amend Decisions 284 to bring the criteria for loan classification by banks in accordance with international standards.	Structural performance criterion December 2001	Completed in December 2001.
2. Make fully operational special monitoring unit to oversee implementation of state-owned commercial bank (SOCB) reform under the interministerial committee for SOCB financial restructuring.	Structural benchmark December 2001	Completed in November 2001.
3. Resolve a total of D 1.4 trillion in non-performing loans for the four large SOCBs (Vietcombank, Incombank, Bank for Agriculture and Rural Development, and Bank for Industry and Development) in accordance with the terms specified in the State Bank of Vietnam directive with each bank.	Structural performance criterion March 2002	Completed in January 2002.
B. State-owned enterprise reform		
4. Equip the special monitoring unit in the National Steering Committee for Enterprise Reform and Development with enforcement power to oversee implementation of state-owned enterprise (SOE) reform plan.	Structural benchmark December 2001	Not observed.
5. Government approval of implementation guidelines on SOE debt resolution and safety nets for labor redundancies.	Structural benchmark December 2001	Mostly observed.
C. Exchange system liberalization		
6. Submit a recommendation to the National Assembly to eliminate the tax on profit remittances for foreign invested enterprises.	Structural benchmark March 2002	Not observed.

Table 9. Vietnam: Medium-Term Macroeconomic Framework, 2000-07

(In percent of GDP, unless otherwise indicated)

	2000	2001 Est.	2002	2003	2004	2005	2006	2007
			Projection					
Real GDP (annual percentage change)	5.5	5.0	5.3	6.5	7.0	7.0	7.0	7.0
Inflation (annual percentage change)								
(annual average)	-1.7	0.2	4.1	3.8	3.3	3.0	3.0	3.0
(end of period)	-0.6	0.8	4.0	3.5	3.0	3.0	3.0	3.0
GDP deflator (annual percentage change)	2.5	1.5	4.7	3.7	3.1	3.0	3.0	3.0
Current account balance								
(including official transfers)	2.1	2.2	-1.9	-3.3	-1.7	-1.2	-0.9	-0.4
(excluding official transfers)	1.7	1.7	-2.3	-3.7	-2.1	-1.5	-1.2	-0.7
Saving-investment balance	1.7	1.7	-2.3	-3.7	-2.1	-1.5	-1.2	-0.7
Gross national saving	27.0	27.3	24.4	24.1	26.2	27.9	29.8	31.0
Gross investment	25.3	25.6	26.7	27.8	28.3	29.5	31.0	31.7
Gross official reserves (in millions of U.S. dollars)	3.0	3.4	3.8	4.3	4.8	5.6	6.4	7.2
(in weeks of next year's imports of goods and nonfactor services)	8.9	9.1	9.0	9.2	9.4	9.8	10.2	10.5
General government budget								
Total revenue and grants	21.1	21.8	20.8	21.3	21.6	21.7	21.9	22.0
Revenue	20.6	21.3	20.4	20.9	21.2	21.4	21.5	21.6
<i>of which</i> : oil revenue	6.7	7.0	6.5	6.1	5.7	5.6	5.5	5.4
Grants	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Total expenditure (including onlending)	26.2	26.4	27.3	27.0	26.5	25.9	25.5	25.2
(excluding onlending)	23.9	25.2	24.7	25.0	24.8	24.3	24.1	24.1
Current expenditure 1/	16.3	17.0	17.0	17.7	17.3	16.8	16.5	16.2
<i>of which</i> : current reform costs	0.0	0.0	0.6	0.9	0.9	0.6	0.5	0.5
Capital expenditure and onlending	9.9	9.4	10.3	9.3	9.2	9.1	9.0	9.0
Overall balance (excluding onlending and capital costs of reforms)	-2.8	-3.5	-3.9	-3.7	-3.2	-2.6	-2.2	-2.1
Overall balance (including onlending)	-5.1	-4.6	-6.5	-5.7	-4.9	-4.2	-3.6	-3.2
Augmented fiscal balance (including onlending and capital costs of reforms)	-5.1	-4.6	-8.7	-10.2	-8.1	-4.2	-3.6	-3.2
Broad money (annual percentage change)	39.0	25.5	19.9	18.3	16.6	14.6	13.8	12.9
Velocity	1.9	1.6	1.5	1.4	1.3	1.3	1.2	1.2
External financing gap (in millions of U.S. dollars)	0	0	300	400	55	0	0	0
Debt service payments (in billions of U.S. dollars)	1.8	1.9	1.7	1.4	1.4	1.3	1.5	1.6
(in percent of exports of goods and nonfactor services)	10.5	10.6	8.9	7.0	5.9	5.0	5.1	5.0
General government debt service payments (in percent of revenue)	...	4.6	7.1	7.7	8.9	9.4	10.4	10.3
External debt (in percent of GDP)	39.7	40.4	41.6	44.1	44.7	44.4	43.8	42.5
(in percent of exports of goods and nonfactor services)	70.2	70.0	73.5	74.8	73.5	71.4	69.0	65.6

Source: Staff estimates and projections

1/ Includes budget contingency item.

Table 10. Vietnam: Indicators of External Vulnerability, 1998-2002

	1998	1999	2000	2001 Est.	2002 May
Financial indicators					
Public sector debt (in percent of GDP) 1/ 2/	59.6	58.4	28.4	30.8	...
Broad money (M2: annual percentage change) 3/	25.6	39.3	39.0	25.5	21.6 4/
Foreign currency deposits to broad money (in percent) 3/	23.5	27.3	28.0	31.7	30.1 4/
Credit to other (nonstate) sectors (annual percentage change) 3/	10.0	29.8	46.9	27.5	28.2 4/
Foreign currency loans to credit to the economy (in percent) 3/	26.1	21.2	20.7	19.3	19.4 4/
Net open foreign currency position of commercial banks (in percent of capital) 3/ 5/	43.9	21.7	31.1	44.3	42.5 4/
External indicators					
Exports (annual percentage change, in US\$)	2.4	23.2	25.2	4.0	-5.4
Imports (annual percentage change, in US\$)	-1.1	1.1	34.5	2.3	5.9
Current account balance (in percent of GDP, including official transfers)	-3.9	4.5	2.1	2.2	...
Capital account balance (in US\$ billion) 6/	0.2	-0.3	-0.8	-0.5	...
<i>of which:</i>					
Short-term capital (net) 7/	-0.6	-1.0	-1.7	-1.2	...
Gross foreign direct investment (inflows)	0.8	0.7	0.8	0.9	...
<i>of which: Debt and loans</i>					
Medium-and long-term loans (net)	0.4	0.6	0.7	0.6	...
Exchange rate (per U.S. dollar, period average, + dong appreciation) 8/	13,297	13,944	14,170	14,806	15,174 9/
(annual percentage change)	-13.6	-4.9	-1.6	-4.5	-2.5 9/
Exchange rate (dong per U.S. dollar, end of period, + dong appreciation) 8/	13,890	14,028	14,514	15,084	15,251 9/
(annual percentage change)	-13.0	-1.0	-3.5	-3.9	-1.1 9/
Real effective exchange rate (end of period, annual percentage change, + appreciation)	-9.4	-3.3	2.1	1.3	2.1 10/
Reserve indicators					
Gross official reserves, including gold (in US\$ billion)	1.8	2.7	3.0	3.4	3.5
(in weeks of next year's imports of goods and nonfactor services)	6.8	8.1	8.9	9.1	8.3
Gross official reserves excluding banks' foreign currency reserves at SBV (in US\$ billion)	1.7	2.6	2.7	3.1	3.2 4/
Central bank short-term foreign liabilities (in US\$ billion)	0.0	0.0	0.0	0.0	0.0
Net official international reserves (in US\$ billion)	1.2	2.1	2.2	2.6	2.6 4/
Gross official reserves to broad money (M2) (in percent)	23.9	23.7	19.7	18.3	18.3 4/
Gross official reserves to short-term external debt by remaining maturity (in percent)	222	279	223	354	...
Net foreign assets of commercial banks (in US\$ billion)	2.3	4.4	6.6	7.8	7.7 4/
Debt indicators					
Total external debt (in US\$ billion) 2/	20.5	20.4	12.0	12.5	...
<i>of which: Public and publicly guaranteed debt</i>					
Total debt to exports of goods and services (in percent) 2/	171.3	145.5	70.2	70.0	...
Total debt service to exports of goods and services (in percent) 11/	13.9	12.8	10.5	10.6	...
<i>of which: External interest payments to exports of goods and services (in percent)</i>					
Total short-term external debt by remaining maturity (in US\$ billion)	0.8	1.0	1.4	1.0	...
Total short-term external debt by remaining maturity to total debt (in percent)	3.9	4.8	11.3	7.7	...
Financial market indicators					
Ho Chi Minh City Stock Exchange Composite Index (end of period, July 2000 = 100)	...	...	207	235	207
Number of listed companies	...	...	5	12	17

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

1/ Excludes domestic debt and unguaranteed external debt of state-owned enterprises.

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 period based on original monetary survey (SBV and 28 credit institutions).

4/ As of end-March.

5/ Foreign and foreign currency denominated assets minus foreign and foreign currency denominated liabilities.

6/ Excludes errors and omissions.

7/ Includes net external position of banking system and portfolio investment.

8/ Official mid-rate, which comprises the previous day's average interbank buying and selling rates.

9/ Year-to-date.

10/ March 2002.

11/ Accrual basis.

Table 11. Vietnam: Conditions for Release of the World Bank's PRSC Second Tranche 1/

Policy Action/Conditions	Timing
State-owned enterprise reform	May 2002
<ol style="list-style-type: none">1. Streamline the equitization process: to expand capital and security markets, to remove existing ceilings on shareholdings by individuals and legal entities in equitized SOEs, to improve transparency of the process, and to move responsibility for issuing, selling, and registering shares out of individual SOE's management.2. Complete major equitizations (i.e., selling more than 65 percent of shares to non-state shareholders and having no dominant or special state shares), sale under Decree No. 103-199-ND-CP of September 10, 1999 on Transfer, Sale, Management Contract and Lease of State Enterprises, or liquidation of at least 200 SOEs, with the equitized and sold SOEs operating and existing under the Enterprise Law.3. Complete minor equitizations (i.e., sales of shares with the State having dominant or special shares) of at least 200 SOEs, with the equitized SOEs operating and existing under the Enterprise Law.4. Modify the design of the fund established to finance the social safety net for SOE workers, put the fund as modified into operation with dedicated staff in adequate numbers, and complete a review and written report on the disbursement performance of the fund.	
Banking reform	May 2002
<ol style="list-style-type: none">5. Adopt restructuring plans for four SOCBs (VCB, BARD, BIDV, and ICB) in accordance with the key principles of State Bank of Vietnam's (SBV) SOCB restructuring framework, and achieve the first year milestones in the said restructuring plan.6. Close nine joint-stock banks (JSBs) under SBV intervention and ensure compliance of all remaining JSBs with existing regulations.7. Amend Decision No. 284/2000/QD-NHNN1 of August 25, 2000 Issuing Regulation on Lending to Clients of Credit Institutions to bring criteria for loan classification by banks in accordance with international practice, and initiate implementation of revised criteria for classification of non-performing loans as well as for their provisioning.8. Complete audits of financial statements for the 2000 fiscal year of VCB, BARD, BIDV, and ICB in accordance with international auditing and accounting standards by international auditors acceptable to the Association [IDA] and furnish said audits to the Association.	

1/ For more details, see the World Bank's *Report and Recommendations of the President of the International Development Association to the Executive Directors on a Proposed PRSC of SDR 197.2 Million to the Socialist Republic of Vietnam* (Report No: P-7446-VN; 4/23/01).

Vietnam —Fund Relations
(As of April 30, 2002)

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

II. General Resources Account:	<u>SDR Million</u>	<u>Percent Quota</u>
Quota	329.10	100.00
Fund Holdings of Currency	337.15	102.45
Reserve position in Fund	0.01	0.00

III SDR Department:	<u>SDR Million</u>	<u>Percent Allocation</u>
Net cumulative allocation	47.66	100.00
Holdings	9.20	19.30

IV. Outstanding Purchases and Loans:	<u>SDR Million</u>	<u>Percent Quota</u>
STF	8.05	2.45
ESAF/PRGF arrangements	270.04	82.05

V. Financial Arrangements:

<u>Type</u>	<u>Approval Date</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR Million)</u>	<u>Amount Drawn (SDR Million)</u>
PRGF	04/13/2001	04/12/2004	290.00	82.80
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):

	Overdue	<u>Forthcoming</u>				
	<u>04/30/2002</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Principal	0.0	39.3	52.3	49.3	36.2	22.3
Charges/Interest	0.0	2.1	2.1	1.7	1.5	1.3
Total	0.0	41.4	54.4	51.0	37.7	23.6

VII. Safeguards Assessment:

Under the Fund's safeguards assessment policy, the State Bank of Vietnam (SBV) is subject to a full Stage One safeguards assessment with respect to the PRGF arrangement, which was approved on April 13, 2001, and is scheduled to expire on April 12, 2004. A Stage One safeguards assessment of the SBV was completed on September 26, 2001. The assessment concluded that high

risks may exist in all the areas under the safeguards framework and recommended an on-site assessment upon completion of the first time external audit of the SBV.

VIII. 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 *de facto* managed floating regime, the SBV allows interbank foreign exchange market rates to depreciate by a maximum of 0.1 percent a day from the previous day's average interbank market rate.

Exchange measures subject to the approval under Article VIII are: (i) a multiple currency practice arising from the tax on profit remittances by foreign investors; and (ii) a restriction arising from the limits on the availability of foreign exchange for payments for imports of certain commodities.

IX. Article IV and XIV Consultations:

Vietnam is on a 12-month consultation cycle. The Executive Board concluded the 2001 Article IV (EBS/01/184; SM/01/334; and SUR/01/122) on November 21, 2001. It concluded the 2001 Article XIV consultation on November 21, 2001 (EBS/01/184) and adopted the following decision:

Vietnam continues to maintain restrictions on the making of payments and transfers for current international transactions under the transitional arrangements of Article XIV, Section 2. The restrictions consist of limits on the availability of foreign exchange for certain invisible payments. The Fund encourages Vietnam to eliminate these restrictions as soon as circumstances permit.

X. Technical Assistance:

Missions:

- State-owned commercial bank (SOCB) restructuring (MAE), November–December 2001, March–April 2002, and May–June 2002.
- National income accounts statistics (STA) November–December 2001
- SOCB restructuring and foreign reserve management (MAE), August–September 2001.
- Tax policy and administration reform (FAD), August 2001 and February–March 2002
- Multisector statistics/GDDS (STA), July 2001.
- SOCB restructuring (MAE), June 2001.
- Liquidity management and open market operations (MAE), August 2000.
- Participation in Public Expenditure Review (FAD/APD), January 2000.
- Monetary and exchange operations and markets (MAE), November 1999.
- Tariff policy and customs administration reform (FAD) May 1999.
- State-owned enterprise reform (World Bank/APD), April 1999.

- Bank restructuring, banking supervision, and monetary and exchange reforms (MAE), March 1999.
- Bank insolvency law reform (LEG), March 1999.
- Tax policy (FAD), December 1998.
- Banking system restructuring (World Bank/APD), October 1998.
- Fiscal transparency (FAD), September 1998.
- Banking system soundness, monetary and foreign exchange operations, banking supervision, and central bank accounting and auditing (MAE/APD), April–May 1998.
- Money and banking statistics (STA), February–March 1998.

Resident Advisor:

- Tax computerization (FAD) through April 1998.

XI. Resident Representatives:

Mrs. Susan Adams has been the Senior Resident Representative since August 2001.

Vietnam—Relations With the World Bank Group

The World Bank resumed lending to Vietnam in 1993 and opened a resident mission in Hanoi in 1994. During FY 1994–2002 (as of end-April), the IDA approved 34 projects totaling US\$3.4 billion, of which about US\$1.6 billion has been disbursed.¹

The Country Assistance Strategy (CAS) for Vietnam, which was endorsed by the Board in September 1998, proposed an expanded program of IDA support for FY 1999–2002, which was justified on the basis of Vietnam's development needs, effective use of IDA resources, growing absorptive capacity, and special needs associated with the East Asian crisis. The CAS focused on the twin imperatives of restoring the momentum of growth and deepening the quality of development. To reach these goals, the government announced a program of action, and the CAS was designed around this program. Under the CAS, the World Bank also proposed changes to its way of doing business in Vietnam, including investing in operational partnerships and deepening the poverty focus. The Board discussed the CAS Progress Report for Vietnam in October 2001 and confirmed that the strategy laid out in the original CAS remained the right one, with its implementation largely on track.

The original CAS noted the risks of Vietnam not being able to return to the high growth path of recent years. It indicated the need to accelerate reforms and focus more attention on the social cost of macroeconomic and structural policies, and called for a well-positioned and flexible Bank Group program to be able to respond quickly in the event that risks materialized. To help address such risks, the Bank Group launched a major program of advisory and technical assistance in the key areas of banking, state-owned enterprise (SOE), public expenditure management, private sector, and trade reforms, including measures to mitigate the social cost of reform, and has been assisting the government in designing and implementing the reform programs, together with the Fund. The Bank Group is currently preparing a new CAS that would cover its program of IDA support for FY 2003–06, and that would be built on the PRSP (which is called CPRGS in Vietnam).

The Bank's Board approved a two-year Poverty Reduction and Support Credit (PRSC) for US\$250 million in June 2001. Overall, the progress on implementation of the PRSC reform program has been good. The second tranche of US\$150 million is currently expected to be released sometime in August, slightly later than originally scheduled. Policy measures in the trade and public expenditure management areas are well on track, and those in banking and the private sector broadly on track, although recent signs point to difficulties in some aspects of the restructuring of state-owned-commercial banks. The implementation of SOE reform still remains behind schedule, but has accelerated in recent months.

Vietnam is current in its debt service payments to the Bank as of end-April 2002.

World Bank Financial Operations¹
(In millions of U.S. dollars)

	1996	1997	1998	1999	2000	2001	2002 ²
Commitments	502	349	395	308	286	629	168
Disbursements	34	250	238	207	156	160	291
<i>Of which: program loans</i>	0	60	34	0	0	0	100
Debt service	2	4	5	7	8	10	12
Debt outstanding	257	507	745	952	1,108	1,268	1,560

Source: World Bank staff estimates.

1/ Fiscal year ending June 30.

2/ As of April 30, 2002.

Vietnam—Relations With the Asian Development Bank

The Asian Development Bank (AsDB) resumed its operations in Vietnam in October 1993. The new Country Strategy and Program (CSP), endorsed in January 2002, proposes a focus on four pillars to align AsDB operations in Vietnam to the overarching objective of poverty reduction: (i) sustainable growth through rural development and private sector development, with a focus on small and medium enterprise development; (ii) inclusive social development, by mainstreaming poverty, gender, and ethnic dimensions in AsDB operations, with an emphasis on human capital development through secondary education and health; (iii) good governance, with special emphasis on public administration and civil service reform; and (iv) geographic focus on the impoverished central region.

From October 1993 to April 2002, the AsDB approved 34 loans totaling about US\$2.2 billion from the concessional Asian Development Fund (ADF) and US\$40 million from Ordinary Capital Resources (OCR). Disbursements in 2001 totaled US\$176 million, and in the first four months of 2002, US\$37 million. Since December 1998, Vietnam has been classified as a B-1 country by the AsDB, which makes it eligible to supplement borrowing at ADF terms with limited amounts of borrowing at nonconcessional OCR terms. Loans have been provided for (i) rehabilitating physical infrastructure in the agricultural, energy, and transport sectors; (ii) financial sector and state-owned enterprise (SOE) reforms and corporate governance; and (iii) social, environmental, and cross-cutting concerns. In addition, the AsDB has extended technical assistance amounting to US\$83 million for 120 projects.

Support for policy and structural reforms to improve public sector efficiency and to encourage the development of the private sector is a vital component of AsDB operations in Vietnam. So far, the AsDB has approved three policy-based program loans in the agricultural sector (US\$80 million in 1994), the financial sector (US\$90 million in 1996), and for SOE reform and corporate governance (US\$100 million in 1999, of which US\$40 million was from OCR). In addition to program lending, policy dialogue is an important feature in all of the AsDB's loan projects in Vietnam. This includes support for increased efficiency of state-owned utilities through reforming their rate structure and other measures to increase cost recovery and to strengthen financial management, policy analysis, and planning.

The AsDB has been reorganized as of January 2002, and Vietnam now belongs to the Mekong Department, along with Cambodia, Laos, Myanmar, and Thailand. The resident mission has been strengthened and has been performing programming functions. During the past year, the AsDB has helped the government organize regional consultations and analyze Vietnam's achievements against development targets in the areas of health and governance as part of the process of formulating the national poverty reduction and growth strategy. AsDB and Fund staff work closely together to support the process of economic reforms in Vietnam. AsDB staff participate in Fund missions, exchange information, and consult on policy matters. The resident missions of the two institutions also cooperate closely.

Table 1. Vietnam: AsDB Loans by Sector, October 1993–April 2002
(In millions of U.S. dollars)

Sector	Number	Net Amount
Lending	34	2,232.7
Agriculture and agro-industry	12	697.4
Social infrastructure	10	570.3
Transportation and communication	7	595.0
Finance and industry	3	190.0
Energy	2	180.0
Technical assistance	120	83.1
Advisory and operational purposes	91	61.0
Project preparation	29	22.1

Source: AsDB.

Table 2. Vietnam: AsDB Loan Approvals and Disbursements, 1997–2002
(In millions of U.S. dollars)

	1997	1998	1999	2000	2001	2002 ¹
Loan approvals ^{2/}	359.6	284.0	220.0	188.5	243.1	--
Loan disbursements	149.3	127.8	191.2	218.9	176.2	37.4
Undisbursed balance at the beginning of the year	994.4	742.8	804.9	970.7	895.9	879.4
Memorandum item:						
Technical assistance approvals	9.3	5.9	10.3	9.1	7.7	1.1

Source: AsDB.

1/ As of April 30, 2002.

2/ For 1999, includes the Vietnam component of Greater Mekong Subregion: East–West Corridor.

Vietnam—Medium-Term Balance of Payments

The medium-term balance of payments projections for 2002–07 are based on a reform scenario that envisages a continuation of macroeconomic stability and steady structural reforms. The following specific assumptions are used:

Merchandise trade: Overall exports declined by an estimated 5 percent in the first five months of 2002 but were up by an estimated 4 percent in April and May 2002 compared with the same period last year. If the global economy continues to recover, overall exports are expected to grow at 4 percent in 2002, the same as in 2001. However, over the medium term (2003–07), exports in U.S. dollar terms are still projected to grow by an average of 12 percent a year, with non-oil exports growing at an average of about 14 percent, reflecting a recovery in the world economy and the impact of the bilateral trade agreement with the United States (USBTA) (which was ratified by the U.S. Congress and the National Assembly of Vietnam in December 2001). The USBTA is expected to result in a significant expansion of export markets for garments and footwear, seafood, and electronics. Exports to the U.S. grew by 35 percent in the first quarter of 2002 compared with the same period last year. In addition, the recent emphasis on accelerating accession to the WTO and the beginning of talks on a bilateral basis with trading partners could also help to boost exports. Imports are projected to increase in 2002–03 mainly on account of large investments in oil and gas and power projects approved last year. Thereafter, imports are expected to increase in line with projected nominal GDP growth. Trade reform envisaged during this period would also likely contribute to import growth.

Services and transfers: Nonfactor service payments are projected to move broadly in line with merchandise imports, while receipts are expected to increase in part reflecting a steady improvement in tourism and a moderate rise in interest receipts in line with the level of foreign exchange reserves. Factor service payments will remain large, linked primarily to FDI-related loans and to equity inflows. The overall services balance is therefore expected to worsen in the next few years compared with recent years. Both official and private transfers are assumed to increase slightly over the same period.

The current account deficit is projected to be in the range of US\$0.5–1.0 billion over the medium term, or 2–3 percent of GDP, which is judged to be broadly financeable.

Medium- and long-term loans: ODA disbursements have been lower than expected in 2001, and are now projected to remain subdued in 2002–03. As economic activity and financial conditions in donor countries regain strength, ODA flows are projected to start increasing moderately from 2004 onwards. In light of the more positive market sentiment toward Vietnam and given the need for capital for investment, the government is planning a sovereign bond issue in the second half of 2002. As access to capital market improves, over the medium term, commercial borrowing is expected to increase gradually, including government-guaranteed debt for some core infrastructure projects.

Foreign direct investment: FDI disbursements are expected to peak in 2002–03 at US\$1.5 billion (about 5 percent of GDP), reflecting the completion of a US\$1.4 billion oil and gas sector project with a consortium led by BP-Amoco and two other projects totaling some

US\$1 billion. Assuming an improvement in the investment climate and a recovery in East Asia starting in the latter half of 2002, FDI disbursements are projected to average US\$1.3 billion over the medium term, above the depressed levels seen in the last three years. In particular, the recent ratification of the USBTA is likely to have a positive impact on FDI as more U.S. firms enter Vietnam. Under the USBTA, U.S. firms can enter the market (and own 100 percent equity) for a range of technical services immediately, including in legal, accounting, computer-related, and construction activities, and can form joint ventures in other areas, including banking. In addition, if the pace of structural reforms improves, especially in the SOE sector as envisaged, and the authorities continue to liberalize the trade and exchange rate system and eliminate the foreign exchange surrender requirement, FDI could be larger, as several sectors including agriculture, garments and textile, and fisheries could yet benefit. The government is also actively trying to attract FDI, through further streamlining of investment procedures.

Short-term capital flows and reserves: Short-term capital movements are related mainly to the change in commercial banks' net foreign asset position, which is assumed to decline gradually over the medium term, reflecting a portfolio shift in favor of domestic assets as confidence grows. No other changes in short-term capital flows are projected. Gross official reserves are expected to increase by about US\$400 million to US\$3.8 billion by end-2002 or 9 weeks of projected imports, reflecting the relatively adverse external environment, but to gradually increase thereafter to reach 10½ weeks of imports by 2007.

Financing gaps: On the basis of these projections, the financing gap is projected to total US\$0.8 billion during 2002–04, which would be filled mainly by multilaterals, including the Fund (PRGF), the World Bank (PRSC), and the AsDB and some bilateral official creditors.

Debt service indicators: Vietnam's total external debt at end-2001 is estimated at US\$12.5 billion (40 percent of GDP), of which public external debt amounted to an estimated US\$9.5 billion.¹ The stock of private sector debt mainly reflects loans to foreign invested enterprises extended by their parent companies, as Vietnam does not have any market access. Government borrowing is principally in the form of ODA loans. Thus, Vietnam's overall debt service is estimated at only 9 percent of exports of goods and nonfactor services (GNFS) in 2002.

Over the medium to long term, with exports expected to grow at an average of 12 percent and assuming that Vietnam continues to benefit from FDI and concessional loans with very limited nonconcessional borrowing, external debt service would fall to under 6 percent of exports of GNFS by 2008–09 and further decline thereafter. The NPV of total external debt to exports would fall in the range of 40–60 percent.

¹ Vietnam concluded a rescheduling agreement with Russia in September 2000, whereby Vietnam's debt to Russia was reduced by about 85 percent, based on an upfront discount of 70 percent and Naples treatment (50 percent NPV reduction) on the remaining amounts. As a result, the total remaining debt outstanding is US\$1.7 billion, payable over 23 years, with a grace period of six years and an interest rate in the range of 5 percent.

Vietnam—Summary of Poverty Profile and the Comprehensive Poverty Reduction and Growth Strategy (CPRGS)

Despite considerable gains in the last decade, poverty remains widespread and deep, and many of the gains remain fragile. Vietnam is still one of the poorest countries in East Asia, with a per capita GDP of only US\$393 in 2001, about one-third the regional average. The most salient trends in Vietnam's poverty profile can be summarized as follows:²

- **Poverty has declined considerably in recent years.** The share of persons living below the poverty line fell from 58 percent in 1992/93 to 37 percent in 1997/98 and is estimated at 32 percent in 2000³. The share of persons below the “food poverty line” also declined significantly from 25 percent in 1992/93 to 15 percent and 13 percent respectively.⁴
- **Poverty is mainly concentrated in rural areas.** Over 90 percent of poor households live in rural areas; 45 percent of the rural population was living below the poverty line in 1997/98, compared with 10 percent of the urban population.⁵ Currently, around 25 million people (60 percent of the labor force) are underemployed in rural areas.
- **Poverty has declined in all seven regions of Vietnam, but cross-regional inequalities have increased.** Poverty is particularly high in the mountainous areas and those with large ethnic minorities. Three regions now account for 70 percent of poverty: Northern Uplands, North Central Coast, and Mekong Delta.⁶ While incomes in the Mekong Delta

² These findings are based on the 1992/93 and 1997/98 Vietnam Living Standards Surveys conducted by the General Statistics Office with assistance from the UNDP, SIDA, and World Bank (covering 4,800 and 6,000 households, respectively), and the joint government, donor, and NGO reports titled *Vietnam Development Report 2000: Attacking Poverty* (1999) and *Vietnam Development Report 2001: Vietnam 2010; Entering the 21st Century* (2000). They are also reflected in the government's Comprehensive Poverty Reduction and Growth Strategy Paper (CPRGS).

³ Estimates for 2000 were obtained by augmenting the 1997/98 Living Standards Survey by participatory poverty assessments (see CPRGS).

⁴ Defined as the cost of obtaining the daily food equivalent of 2,100 kcal.

⁵ The latest living standard survey excluded migrants without a permanent residency permit and therefore likely underestimated urban poverty. Adjusting for unregistered urban migrants, the World Bank estimates the incidence of urban poverty was in the range of 10-15 percent in 1998.

⁶ Based on new national poverty line, which is defined at different levels for specific areas, these three regions would account for 56 percent of all poor households in 2000.

grew only by 18 percent, they advanced by 78 percent in the Southeast (mainly comprising Ho Chi Minh City) between 1992/93 and 1997/98.

- **Inequality has risen, but is still modest by international standards.** Based on the 1997/98 Vietnam Living Standards Survey and augmented data, the gap between the richest and poorest quintiles increased from a factor of 7.3 in 1996 to 8.9 in 1999.
- **Vulnerability to shocks is high, as many households live barely above the poverty line.** As a result, each year on average 1–1.2 million persons need emergency relief due to natural calamities.
- **School enrollment rates have increased significantly for both male and female students.** Between 1992/93 and 1997/98, net primary school enrollment rates went up from 87 to 92 percent for girls and from 86 to 93 percent for boys. Net lower secondary enrollment rates doubled for both girls (to 61 percent) and boys (to 62 percent), and net upper secondary enrollment rates quadrupled—for girls from 6 to 27 percent and for boys from 8 to 30 percent.
- **As a result, relatively high education standards have been further improved.** Between 1992/93 and 1997/98 literacy rates increased on all fronts, but particularly in rural areas, from 85 to 88 percent, and for the female population, from 82 to 86 percent. By comparison, urban literacy went up from 93 to 94 percent, and male literacy from 91 to 94 percent during the same period.

Vietnam's CPRGS is based on its ten-year Socio-Economic Development Strategy for 2001–10. The CPRGS sets out three broad objectives: high growth through a transition to a market economy; an equitable, socially inclusive, and sustainable pattern of growth; and adoption of a modern public administration, and legal and governance system. The CPRGS identifies achieving fair and equitable growth, in particular between rural and urban areas, and reducing the vulnerability of the poor including ethnic minorities as key imperatives. As growth from agricultural diversification is reaching its limit, the challenges ahead are in accelerating the creation of rural nonfarm and urban employment opportunities, with small- and medium-scale enterprises playing a significant role.

Preparation of the CPRGS began in June 2001, led by the Ministry of Planning and Investment in a 56-member team from 18 line ministries. It has been prepared in a participatory way, based on consultations with poor people, with local government officials from all 61 provinces, mass organizations, NGOs, and the donor community. The diagnostic work draws on household surveys and participatory poverty assessments (PPAs) on the nature and causes of poverty. Consultations with more than 1,800 poor people on the draft strategy were undertaken in 6 sites across the country (Lao Cai, Ha Tinh, Tra Vinh, Ho Chi Minh City, Quang Tri, and Vinh Long). These were facilitated by international NGOs and the World Bank. Reports from these consultations were fed into four provincial workshops

(held in Tuyen Quang, Quang Binh, Can Tho, and Ho Chi Minh City) that brought together more than 500 local and central government participants and donors and NGOs. Four rounds of workshops were held in Hanoi to solicit inputs from donors, NGOs, researchers and academics, mass organizations, and government agencies.

Goals and monitoring. The CPRGS has used localized Millennium Development Goals (MDGs) to develop a system of indicators to monitor progress in implementation. Although the MDGs are consistent with Vietnam's poverty goals, the exact targets are, in many cases, not appropriate for Vietnam, in part because many have already been reached. The Poverty Task Force (PTF), which is a coalition of Government, donors, and NGOs, helped Vietnam localize the MDGs, and proposed indicators which could set the framework for monitoring progress in the implementation. Based on this work, the CPRGS has set goals in the following areas: eradicating poverty and hunger, reducing vulnerability and providing social protection, promoting ethnic minority development, reaching gender equality and the empowerment of women, ensuring environmental sustainability, providing quality basic education for all, improving health status and reducing inequalities, enhancing access to basic infrastructure, and ensuring good governance for poverty reduction.

The following key targets have been set for the period 2001–10:

- reduce overall poverty according to the international poverty line by two-fifths;
- reduce food poverty according to the international poverty line by three-fourths;
- reduce vulnerability by raising the average income of the poorest quintile by 190 percent, reduce by half the rate of poor people falling back into poverty due to natural disasters and other risks, improve the efficiency of the social safety net; and
- create 1.4–1.5 million jobs per annum and increase the share of women in the total job creation to 40 percent by 2005 and 50 percent by 2010.

Vietnam—Statistical Issues

The reliability and coverage of macroeconomic statistics are limited. The methodology for compilation and dissemination of these statistics continues to need substantial improvement, so that data properly reflect economic developments and aid 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.

Despite these shortcomings, Fund technical assistance has contributed to improvements in a number of statistical areas. Most recently, a 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 sociodemographic 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 to address weaknesses in national accounts statistics (discussed below). The mission agreed on a program to improve national accounts and price statistics, which will be supported by a STA peripatetic expert.

National accounts

The General Statistical Office (GSO) provides quarterly and annual data on gross domestic product (GDP) by type of economic activity and by expenditure (both in current and constant prices), and monthly and annual data on external trade, industrial output, agricultural production, 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.

Estimates of GDP by expenditure have been produced since 1998, but they are in highly aggregated form, and further work is needed to develop a set of expenditure deflators. Although coverage has been broadened recently, the available evidence suggests that the level of GDP may be understated in the official statistics, and that the authorities need to focus on improving data collection from the nonstate sector (including informal sector activity), which remains quite weak. In addition, much data on national accounts are compiled before the end of the reference period, requiring data providers to resort to forecasting data in the remaining period in order to derive relevant estimates.

Prices

The GSO has compiled and published a monthly consumer price index (CPI) in line with international standards since January 1996. The new series was phased in over a two-year period and is now reported with minimal lags. Effective July 2001, the GSO changed the CPI to reflect

a larger nonfood weight and broader consumption basket. 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 are 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 an extended 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, National Development Support Fund, Export Support Fund, and Sinking Fund (for repayment of onlent funds), for which no regularly reported data are currently compiled.

The time of recording 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. 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 *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, and, most recently, the STA multisector statistics mission.

In this context, the government continues to work toward gazetteing and publishing the annual national budget, as well as having 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 internationally recognized 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) regularly 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 nonstate 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). Data on foreign reserves (gross and net official international reserves and net foreign assets of the banking system) are derived from the monetary survey. In addition, under the PRGF-supported program, data on official reserves are reported to the Fund at mid- and end-month with a 10-day lag.

In January 1999, the SBV and commercial banks began implementing new charts of accounts for compiling money and banking data, developed with STA assistance. The new charts of accounts were formally adopted in April 1999. 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. For program monitoring purposes, bank credit to the SOEs is being estimated based on a combination of these statistical reports and estimates for the other credit institutions. Given the SOCBs dominance in bank lending to SOEs, the overall margin of error of these estimates is believed to be below 5 percent. However, the recent STA mission encouraged the SBV to develop a reporting scheme for a comprehensive breakdown of banks’ credit to the economy by borrowing sectors, subsectors, and ownership of enterprises.

External sector statistics

The SBV compiles quarterly and annual balance of payments (BOP) data with a one- to two-month lag. 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 monthly reported exports (approximately 30 percent) is unknown. Published trade data, however, contain a number of adjustments to the customs reports, which have been difficult to reconcile, as the staff is only provided data at a relatively high level of aggregation. Data on invisibles continue to be based largely on banking records, which provide incomplete coverage and identification of the types of transactions. Improvements in BOP statistics also continue to be hampered by interagency coordination problems, in particular foreign direct investment (FDI).

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 recent STA mission noted that no effort was made to distinguish head office and other nonresident liabilities in the reported data.

Data on contracting commercial debt (namely 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).

Vietnam recently provided more complete quarterly balance of payments data for the period through Q4 2000, which were published in the January 2002 issue of the *IFS*.

Vietnam: Core Statistical Indicators^{1/}
(As of May 31, 2002)

	Exchange rates	International reserves	Reserve/ base money	Central bank balance sheet	Broad money	Interest rates	Consumer price index	Exports/ Imports	Current account balance	Overall government balance	GDP/GNP	External debt
Date of latest observation	5/31/02	5/10/02	3/02	3/02	3/02	3/02	5/02	5/02	2002Q1	2002Q1	2002Q1	2001
Date received	5/31/02	5/20/02	5/02	5/02	5/02	4/02	5/02	5/02	5/02	5/02	3/02	3/02
Frequency of data	D	Bi-weekly	M	M	M	M	M	M	Q	Q	Q	O
Frequency of reporting	D	Bi-weekly	M	M	M	M	M	M	Q	Q	Q	A
Source of data	C/A ^{2/}	A	A	A	A	A	A	A	A	A	A	A
Mode of reporting	E	E	E	E	E	C	C	C	C	E	C	V
Confidentiality	C	B	B	B	B	C	C	C	B	C	C	B
Frequency of Publication	D	N	N	N	A	O	M	M	A	A	Q	N

1/ The codes are as given below:

Frequency of data and reporting: D-daily, M-monthly, Q-quarterly, A-annual, O-irregular (when changed).

Source of data: A-direct reporting by the authorities, C-commercial electronic data provider, N-official publication.

Mode of reporting: E-electronic data transfer, C-cable or facsimile, V-irregularly in conjunction with staff visits.

Confidentiality: A-staff only, B-staff and Board, C-public.

Frequency of publication: D-daily, M-monthly, Q-quarterly, A-annual, O-irregular, N-not published.

2/ Initial source is commercial electronic data provider, which is later verified by direct reporting by the authorities.

Vietnam: Social and Demographic Indicators

Indicator	Unit of Measure	1985	1993	1998	2001 Prel. Est. 1/	Same Region/ Income Group	
						East Asia	Low- Income
Poverty							
Upper poverty line 2/	Thousand dong	...	1,160	1,790	...	...	...
Percent of population living below		...	58	37	32	...	...
Food poverty line 2/	Thousand dong	...	750	1,287	...	...	...
Percent of population living below		...	25	15	13	...	...
GDP per capita	U.S. dollars	...	196	361	393	1,032	427
Access to safe water: total	Percent of population	...	26	39	...	...	...
Urban	Percent of population	...	60	75	...	...	...
Rural	Percent of population	...	17	29	...	...	...
Access to health care 3/	Percent of population	75	93	97	...	...	...
Health							
Mortality							
Infant mortality	Per thousand live births	63	42	29	25	35	77
Under 5 mortality	Per thousand live births	105	55	40	...	44	116
Immunization							
Measles	Percent of age group	19	93	96	...	83	64
DPT	Percent of age group	42	91	95	...	82	70
Child malnutrition (under 5)	Percent of age group	52	51	34	34	12	...
Maternal mortality rate	Per 100,000 live births	110	...	...	100	...	...
Population per physician	Persons	4,061	2,428	2,198	...	905	...
Population per nurse	Persons	1,245	723	785	...	...	...
Population per hospital bed	Persons	271	355	377	...	334	...
Human resources							
Population	Millions	59.9	69.2	75.5	78.7	1,837	2,417
Age dependency ratio	Ratio	0.81	0.74	0.67	...	0.51	0.72
Urban	Percent of population	19.6	19.8	22.8	23.0	34.5	31.4
Population growth rate	Annual percent	2.2	1.7	1.7	1.4	1.1	1.9
Urban	Annual percent	2.4	3.4	5.3	3.0	2.8	3.4
Life expectancy	Years	62	67	68	69	69	59
Female advantage	Years	3.8	4.5	4.8	...	3.5	2.2
Total fertility rate	Births per woman	4.6	3.3	2.4	...	2.1	3.7
Labor force (15-64)	Millions	28.8	36.2	39.1	...	1,039	1,090
Female	Percent of labor force	49	49	49	...	44	38
Natural resources							
Area	Thousands sq. km.	325	325	325	325	16,385	33,008
Density	Persons per sq. km.	184	213	231	239	115	73
Agricultural lands	Percent of land area	21	24	26	26	...	...
Agricultural land under irrigation	Percent	28	28	30	30	...	...
Forests and woodland	Thousand sq. km.	97	83	...	109	...	...
Energy consumption per capita	Kg. of oil equivalent	80	105	...	...	857	550
Income							
Share of top 20 percent of households	Percent of income	...	44	...	...	...	...
Share of bottom 40 percent of households	Percent of income	...	19	...	...	...	...
Share of bottom 20 percent of households	Percent of income	...	8	...	...	...	...
Education							
Gross enrollment ratios							
Primary	Pct. of school age population	103	87	93	114	119	...
Male 4/	Pct. of school age population	106	86	93	116	121	...
Female 4/	Pct. of school age population	100	87	92	110	121	...
Secondary	Pct. of school age population	42	47	...	...	69	...
Pupil-teacher ratio: secondary	Pupils per teacher	23	21	28	...	...	...
Illiteracy	Percent of population age 15+	13	11	8	7	15	39
Female	Percent of female age 15+	19	16	11	...	22	48
Newspaper circulation	Per thousand population	9	8	...	7	...	...

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 21st Century*, and World Development Indicators; and Bank and Fund staff estimates.

1/ Preliminary estimates by Bank and Fund staff and by Vietnamese authorities (CPRGS). A comprehensive *Vietnam Living Standards Survey* is scheduled for 2002.

2/ 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 lower poverty line represents the approximate cost of this food bundle only.

3/ For 1993 and 1998, rural population.

4/ For 1993 and 1998, net enrollment ratios.

SOCIALIST REPUBLIC OF VIETNAM

Hanoi, June 3rd, 2002



To: Mr. Horst Köhler
Managing Director
International Monetary Fund
Washington, D.C. 20431 U.S.A.

Dear Mr. Köhler

On November 21, 2001, the Executive Board of the IMF concluded the first review of the three-year arrangement for Vietnam under the Poverty Reduction and Growth Facility (PRGF) approved on April 13, 2001. The purpose of this letter is to inform you of the progress in implementing the first-year economic program, and to request the third loan disbursement following the completion of the second review under the arrangement.

The attached Memorandum of Economic and Financial Policies (MEFP) sets out the objectives and policies that the Government of Vietnam intends to pursue during 2002.

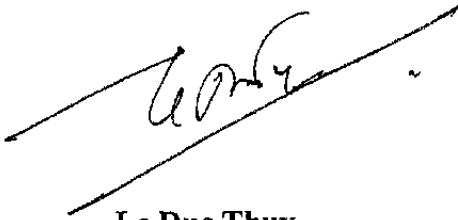
Vietnam's economic performance in 2001 was positive, despite the external weakness. Macroeconomic policies were prudent and progress was made in the key structural areas. As a result, the program targets for the second PRGF review have been achieved for the most part. The Government of Vietnam believes that the policies it intends to implement during 2002, as described in the MEFP, will build on this favorable performance, help lift rates of economic growth and poverty reduction, and further strengthen Vietnam's resilience to external shocks. On this basis, it requests completion of the second review under the arrangement; and waivers for the nonobservance of the end-December 2001 performance criteria on net domestic assets of the banking system, bank credit to state-owned enterprises, net claims on government by the banking system, and net international reserves, taking into account the policy measures that have been taken to address the slippages and the satisfactory performance relative to the March 2002 benchmarks.

The government believes that the policies and measures set forth in the MEFP are adequate to achieve the objectives of the program supported by the PRGF arrangement, but will take further measures if deemed necessary. During the remaining period of the arrangement, Vietnam will continue to consult with the Managing Director on the adoption of measures that may be appropriate, at the initiative of the government or whenever the Managing Director requests such a consultation. The government will continue to provide the IMF with such information as it requires to assess Vietnam's progress in implementing the economic and financial policies under the program.

The government intends to make these understandings public and authorizes the IMF to provide this letter and the attached memorandum to all interested parties that so request them, including through the IMF's external website.

We can assure you that the Government of Vietnam is determined to fully implement the program, and we hope we can count on the continued support of the IMF in our endeavors.

Sincerely yours,^{ty}

A handwritten signature in black ink, appearing to read 'L. Duc Thuy', is written over a diagonal line that extends from the top left towards the bottom right.

Le Duc Thuy
Governor
State Bank of Vietnam

**MEMORANDUM ON ECONOMIC AND FINANCIAL POLICIES OF THE
GOVERNMENT OF VIETNAM FOR 2002**

June 3, 2002

I. INTRODUCTION

1. This memorandum lays out the economic and financial policies for 2002, the second-year program under the PRGF arrangement approved in April 2001, and the policy framework covering 2002–04. This framework is consistent with our Comprehensive Poverty Reduction and Growth Strategy (CPRGS) (dated May 21, 2002), which has been prepared in a broadly participatory process.

II. PERFORMANCE AND POLICY IMPLEMENTATION IN 2001

2. While not immune to the global downturn, Vietnam's economy performed relatively well in 2001. In line with program assumptions, real GDP growth moderated owing to a significant weakening in the external environment. Growth was supported by cautiously accommodative fiscal and monetary policies and a renewal of private investment, which buoyed domestic demand. At the same time, inflation was kept low at only 1 percent (Table 1). Reflecting the progressive slowing of export growth (to 4 percent at end year compared with 25 percent in 2000), gross reserves grew by less than programmed to US\$3.4 billion, or nine weeks of prospective imports.

3. Macroeconomic policy implementation in 2001 was broadly on track. The 2001 budget was eased slightly relative to the program to better support activity. The overall budget deficit (excluding onlending and amortization, and based on *GFS*) is estimated at 3.5 percent of GDP, against 2.9 percent programmed. Revenue performance was much stronger than budgeted, thanks to improved collection from corporate income tax and import duties, and from higher oil prices. This permitted us to step up spending in key social and infrastructure areas. At the same time, however, wages and pensions were 0.6 percent of GDP above budget, reflecting one-time payments to war heroes, incorporation of local security forces into the state budget, and wage spending on education and health care. Nonetheless, the December performance criterion on bank credit to the government was missed marginally (Table 2).

4. Bank credit was restrained in line with the program through most of the year. Growth of credit to the economy fell from 38 percent in 2000 to 21½ percent by end year (Table 3). Credit growth was on course until December, when it rose above programmed due to overruns in credit to state-owned enterprises (SOEs). As a result, the December performance criteria on net domestic assets and on SOE credit were missed. This outcome reflects the difficulties in containing lending to SOEs through indirect means, as our interest rate and refinancing policies adhered to program commitments. Notably, the base interest rate was

reduced cautiously and the State Bank of Vietnam (SBV) gross refinancing was kept at D 3.5 trillion as programmed.

5. Exchange rate management was flexible for the most part in 2001. From April through November, the dong depreciated by 4 percent against the U.S. dollar. However, in December, the exchange rate did not move due in part to inflow of remittances. The December performance criterion on the buildup in net international reserves was missed, given a large depreciation of regional currencies and a rapid weakening in exports late in the year.

6. On the structural front, good progress was made in the trade area and in promoting private sector development. As programmed, quantitative restrictions (QRs) on imports of three additional items (construction white glass, certain steel products, and vegetable oil) were removed effective January 1, 2002; this move brought to eight the total number of items whose QRs have been removed since the start of the program. Tariff reductions were also introduced in line with commitments under the ASEAN Free Trade Area (AFTA). In addition, reflecting the successful implementation of the new Enterprise Law, a further 22,000 small and medium-sized enterprises were registered during 2001.

7. State-owned commercial bank (SOCB) restructuring has also been improved, although with some delays. The four large SOCBs started implementing their restructuring plans, aimed at meeting milestones set under an SBV directive (Annex I describes the status). At end-December, the criteria for loan classification were adapted (Decision 1627) to move closer to international standards (a structural performance criterion), and external audits for all four SOCBs will be completed by end-June, somewhat behind schedule. In addition, a special unit in the SBV to monitor SOCB reform was made operational in November 2001 (a structural benchmark) (Table 4). However, progress in strengthening credit risk management fell short of the milestones established with banks.

8. SOE reform has proceeded below expectations. In particular, the number of equitizations in 2001 fell well short of the target under the three-year SOE reform framework. Also, the structural benchmarks on the approval of implementation guidelines for SOE debt settlement and for safety nets and on strengthening SOE reform oversight were not observed at end-December. The December benchmark on debt and budget support for the 200 large SOEs was also missed.

III. MEDIUM-TERM MACROECONOMIC FRAMEWORK

9. We remain committed to the medium-term reform strategy laid out in our 2001 MEFP dated March 14, 2001. To lift growth rates and reduce poverty, we will pursue sound macroeconomic policies and foster efficient state and private sector development and global integration. Priority will be given to accelerating banking and SOE reforms, complemented by private sector deregulation and trade opening measures. The macroeconomic framework for 2002–04 aims at raising GDP growth to 7 percent, keeping inflation under 5 percent, and

increasing the import coverage of reserves to 9½ weeks. The external current account deficit (excluding official transfers) is projected to average 2 percent of GDP, and remains financeable given prospective support under the PRGF, the PRSC, and donor assistance.

10. Our fiscal stance will aim at protecting sustainability, focusing more on poverty reduction and minimizing domestic bank financing. This stance will be underpinned by further efforts to boost non-oil revenue, expenditure on poverty-reducing programs, and external concessional support. The budget deficit is projected to average 3½ percent of GDP during 2002–04, compared with 2½ percent during the previous three years, reflecting the current costs of structural reform; the underlying budget position, exclusive of these costs, will remain prudent. Monetary policy will be moderately tightened, the exchange rate will be managed flexibly, and exchange restrictions will be further reduced.

IV. MACROECONOMIC POLICIES FOR 2002

11. Under the 2002 program, real GDP growth is projected to benefit from a slight recovery in external demand and continued strength in domestic demand. Despite a sharp weakening in the first quarter, export performance is expected to improve, owing to the recent upturn in oil prices and given signs of a global rebound. In addition, policies will be geared to improving competitiveness. Inflation is targeted at 3–4 percent and the external current account is expected to be in a deficit of 2 percent of GDP, with gross reserves increasing to US\$3.8 billion (9 weeks of imports).

12. **Fiscal policy** will stay cautiously accommodative while providing for structural reform costs. The overall deficit will be capped at 4 percent of GDP and domestic bank financing limited to D 3.5 trillion (Table 5). We are targeting revenue and grants at 21 percent of GDP and keeping expenditure under 25 percent of GDP. The key policy elements are:

- Strengthening VAT and customs collection, and setting domestic prices for petroleum products so as to safeguard revenue, as in 2001. For the 2003 budget, we intend to reduce the number of rates and the scope for exemptions under the VAT in a revenue-neutral way, in line with Fund technical assistance. Moreover, a pilot self-assessment for large taxpayers will be implemented, starting with Ho Chi Minh City and Quang Ninh provincial offices, also drawing on Fund technical assistance.
- Improving public expenditure policy and management by ensuring adequate spending for structural reform as well as for poverty reduction. In line with this, we will cap the government wage and pension payments at the budgeted level of D 37 trillion. An initial effort at incorporating a basic medium-term expenditure framework has also been made for the CPRGS. Moreover, in light of revenue uncertainty, we will closely monitor spending, and a set of low priority spending items has been identified in case of revenue shortfalls.

- Enhancing fiscal reporting and transparency to better track spending, including moving toward *GFS* standards for centralizing reporting in the Treasury, and bringing into the budget extrabudgetary revenue (and associated expenditure).

13. We have approved the cost estimates of banking and SOE reforms at D 35 trillion (6 percent of GDP). These costs will be adjusted at the time of the third PRGF review, based on classification of nonperforming loans (NPLs) consistent with international standards. On this basis and including debt resolution for SOEs not undergoing ownership transformation, Fund staff have tentatively estimated total reform costs at D 70 trillion (12 percent of GDP). The main financing sources include banks' internal resources, concessional external support, and other budgetary resources, as well as through bank recapitalization bonds that will be appropriately structured and will rebuild the banks' capital in stages as planned.

14. **Monetary policy** will continue to be restrained, consistent with the inflation and reserves objectives, and also to safeguard the banking system. Credit growth will be contained at 20.5 percent year-on-year by end 2002, and will be provided only to efficient projects of creditworthy borrowers—state and nonstate—in line with the monetary program under the PRGF. Consistent with these targets, the performance criteria for net domestic assets of the banking system for end-June and end-December 2002 are set out in Table 5. To achieve these targets, the SBV will limit its additional gross refinancing to banks to no more than D 3.5 trillion in 2002. It will also further move to indirect instruments, and will further rationalize interest rate policy, with the first step taken on May 30, 2002 by promulgating a decision to remove the margins on lending rates for dong loans.

15. The SBV will manage the **exchange rate** more flexibly, giving a greater role to market forces and minimizing administrative measures. In particular, the band for the maximum movement of the daily interbank exchange rate will be widened. The SBV will intervene in the interbank market only to stem disorderly conditions, and will gear its foreign exchange sales toward meeting the quarterly reserve targets agreed under the program. Furthermore, the surrender requirement was lowered from 40 percent to 30 percent effective May 2002, and will be phased out as and when economic circumstances permit and at the latest by the end of the PRGF arrangement. Also, to limit external vulnerability, the SBV will closely monitor the quality and liquidity of foreign assets held by banks, given the potential volatility of foreign currency deposits. With respect to the exchange system, we intend to submit to the National Assembly at the latest by September 2002 a proposal to remove the tax on profit remittances of foreign-invested enterprises (FIEs). This is later than initially programmed but consistent with our ongoing efforts to harmonize tax treatment between foreign-invested and domestic enterprises. All remaining restrictions on current international transfers and payments will be removed, subject to National Assembly approval, by end 2002 in order to pave the way for acceptance of the obligations under Article VIII, Sections 2, 3, and 4 of the Fund's Articles of Agreement.

16. We will continue our prudent **external debt** management policy, focusing government borrowing primarily on concessional terms. In view of improved market

sentiment for Vietnam and the need for foreign capital for investment, we are considering issuing our first and only international bond in 2002. In order to keep our debt service within sustainable limits and to contain fiscal risks, we will cautiously structure the scale and terms of the bond issue and will institute appropriate safeguards for the use of its proceeds. In line with this, we will transfer the proceeds into a separate account to effectively track their usage. Furthermore, in order to minimize risks, these proceeds (i) will not be used for budgetary purposes, (ii) will be onlent only to projects that have been carefully appraised by our authorities according to the government regulation on investment project appraisal, and (iii) will be concentrated on projects that generate foreign exchange. The Ministry of Finance (MoF) will be responsible for putting together the list of eligible projects based on commercial criteria.

V. STRUCTURAL POLICIES

17. Our structural reform agenda is centered on strengthening competitiveness across all sectors, opening up the economy, and attracting investment, both domestic and foreign. The CPRGS and its policy matrix spell out the envisaged reforms over the rest of the PRGF arrangement period.

18. We are resolved to advance our **trade agenda**, giving top priority to successful implementation of the bilateral trade agreement with the United States (USBTA) and active preparations for earliest possible accession to the WTO. In line with this policy, we have adopted a timetable to establish the proper legal framework to implement the USBTA. Preparations for bilateral negotiations for WTO accession have also begun. With respect to trade in goods, QRs on three out of five remaining items¹ will be removed by end-December 2002 (cement, motorcycles, and passenger vehicles up to nine seats). We also intend to effect tariff reductions already announced under the AFTA roadmap. In addition, timely implementation of commitments under the USBTA regarding services and intellectual property rights will be important, since many of these meet WTO norms and can be applied on a multilateral basis. To facilitate this process, we will assess the potential impact of global integration on the most vulnerable sectors, drawing on donor technical assistance.

19. We recognize the **private sector** as an important component of Vietnam's economy, and are taking steps to further boost domestic and foreign investment. The business climate will be made more open, fair, and predictable. In particular, and in advance of the timeframes under the USBTA, we are preparing regulations to further open to foreign investors areas in the services (including most retail sales and distribution), agribusiness, and fishery sectors. The dual pricing system for FIEs will be phased out by 2003 for almost all charges and fees, except those for power, which will be removed by 2004. Performance requirements for FIEs

¹Besides other currently banned imports as stipulated in Decision 46/2001/QD-TTg, dated April 4, 2001.

will also be phased out. In addition, tax incentives for FIEs will be streamlined and rationalized relative to domestic enterprises.

20. **Banking reform** remains central to our strategy. Our reform approach has been designed to minimize fiscal costs, avoid moral hazard, and maintain systemic stability. Strong efforts will be made to stem the flow of bad loans, phase out policy lending from commercial banks, and put commercial bank operations on a commercial basis. Success here will depend on coordinating SOCB reform with SOE reform.

21. To allow a realistic assessment of NPLs, guidelines were issued in April 2002, which apply Decision 1627 to all loans, except policy loans. We will issue a supplementary guideline to apply this decision to policy loans by July 1, 2002, and will resolve these loans within SOCBs. The new classification standards under this decision will be phased in starting in July 2002 and be completed by year-end. To facilitate this, banks will provide monthly information under the guidelines to the SBV starting in June. Loan provisioning will be brought fully onto the new standards in stages, starting in December 2002, and will be completed by 2003 subject to the availability of funding resources.

22. The four large SOCBs are implementing individual restructuring plans, striving to meet milestones agreed with the SBV in order to qualify for phased recapitalization (Annex I describes these milestones). In particular:

- SOCBs have established credit risk management and internal audit committees. Technical assistance is being sought from the Bank and Fund to improve the structure and operations of these functions, including the independence of the audit committees. We intend to ensure that credit is extended on the basis of objective credit analysis and commercial criteria.
- By March 2002, banks resolved NPLs of D 1.6 trillion, against the minimum of D 1.4 trillion targeted under the milestones.

23. Further progress will be made in bank restructuring in line with the agreed quarterly milestones. Specifically:

- By end-July, subject to donor financing the SOCBs will sign contracts for IAS audits by international auditing firms for the year 2001, and by end-year, we intend to remove agreed qualifications from audits of their 2000 accounts. The SOCBs will make changes necessary to prevent similar qualifications for the audits of the 2001 accounts. We intend to continue IAS audits until accounting standards are brought up to IAS, with donor financial assistance.
- We have set NPL resolution targets for end-September 2002. We intend to set, by December, NPL resolution targets for end-March 2003 based on the new classification standards.

- We will closely monitor progress in strengthening credit risk management in banks.
- In addition, we remain committed to seek for one of the SOCBs strategic equity participation with a reputable foreign partner by end 2003.

24. With respect to the JSBs, following the closure/merger of 11 banks so far (remaining total of 38), further progress will be made to consolidate the system and strengthen the financial conditions of these banks, toward the aim of reducing by about 50 percent their number.

25. **SOE reform** will be reinvigorated, in order to make up for slippages so far. To this end, we will rephase our original three-year roadmap and will soon announce an SOE reform program covering 2002–04. In consultation with Bank staff, our agenda of actions is as follows:

- We have put in place in April 2002 Decree 41 which specified guidelines on safety nets for all SOEs, and in June 2002 will adopt a decree on debt settlement for those SOEs being equitized and consistent with budget resources earmarked for such reforms.
- A new equitization decree will also be issued in June 2002, which provides for, among others, the removal of caps on first-time shareholdings in equitized enterprises.
- We will equip as of June the special monitoring and coordinating unit in the National Steering Committee for Enterprise Reform and Development with enforcement powers to oversee implementation of the SOE reform plan.
- We are redoubling efforts to complete our equitization sale, and liquidation of 400 SOEs as targeted under the PRSC through end-June 2002. In line with the original SOE reform framework, the roadmap will lay out an additional 1,400 SOEs subject to ownership transformation over the next two years. We will also set a target through June 2003 on equitization, sale, and liquidation in consultation with Bank staff in the context of the follow-up PRSC.

26. Further progress will be made to strengthen the financial discipline on SOEs through the quarterly monitoring system for a targeted group of 200 large SOEs on their outstanding debt to banks and to the government and other budget support. The MoF will work more closely with provincial financial offices to enforce reporting requirements, including sanctions, so as to reduce delays. In addition, we will make fuller use of such data and will take appropriate measures to contain risks posed by excessive leveraging among these enterprises.

VI. STATISTICAL ISSUES AND POLICY TRANSPARENCY

27. To strengthen **policy transparency and data quality**, we are continuing to upgrade the statistical system, drawing on Fund technical assistance. In particular, we intend to participate in the GDDS by July 2002. We also will embark on a work program to further strengthen national account statistics within two years, and will improve budget data in line with *GFS* standards as a key element of strengthening expenditure management, including the monitoring of pro-poor spending. We are committed to further policy transparency by providing additional information on the website for the MoF, and by initiating a website for the SBV. Publication of IMF staff reports for Vietnam will continue.

28. With respect to the Fund's **safeguards assessment**, we remain committed to completing by the state auditor an audit of the SBV 2001 financial statements by June 2002, to restating these audited financial statements in accordance with IAS by June 2002 for internal use, and to publishing all future audited financial statements of the SBV on an IAS basis. At the latest by the third PRGF review, we will agree with the Fund staff an appropriate timeframe for adapting the SBV's accounting framework permanently onto international accounting standards; we will seek Fund technical assistance for this purpose. Before completion of the second PRGF review, we will provide the Fund staff with a progress report from the State Auditor on the external audit of the SBV to ensure its completion by June 2002.

VII. PROGRAM MONITORING

29. Prior actions for the IMF Executive Board consideration of the second PRGF review are summarized in Table 6. Table 5 contains quantitative performance criteria for end-June and end-December 2002 and quantitative benchmarks for end-September 2002; key structural policy undertakings are in Table 6. Program monitoring and reporting requirements are detailed in the Technical Memorandum of Understanding (Annex II). The third review under the PRGF arrangement will be completed by November 2002, which will focus on progress in implementing the second-year program under the PRGF arrangement and progress in accelerating SOCB and SOE reforms. To help strengthen program implementation, technical assistance is being sought from the IMF and the World Bank in bank restructuring and supervision, and from the IMF in tax policy and administration and statistics.

Attachments

Table 1	Medium-Term Macroeconomic Framework, 1999–2004
Table 2	Quantitative Performance Criteria and Benchmarks Under the First-Year PRGF Program Through December 2001
Table 3	Monetary Program, 2000–2002
Table 4	Status of Key Structural Actions Under the First-Year PRGF-Supported Program
Table 5	Quantitative Performance Criteria and Benchmarks Under the Second-Year PRGF Program Through December 2002
Table 6	Key Structural Policy Undertakings for the Second PRGF Review and Structural Benchmarks and Performance Criteria for the Second-Year PRGF-Supported Program
Annex I	Milestones for State-Owned Commercial Banks in 2002
Annex II	Technical Memorandum of Understanding
Table 7	Monitoring and Reporting Requirements
Table 8	List of 200 Large Debt State-Owned Enterprises in the Debt Monitoring System Under the Second-Year PRGF-Supported Program

Table 1. Vietnam: Medium-Term Macroeconomic Framework, 1999-2004 1/

	1999	2000	2001		2002	2003	2004
	Estimates		Rev. proj.	Est.	Projections		
Real GDP (annual percentage change) 2/							
Official	4.8	6.8	7.1	6.8	7.0	>7.0	7.5
Fund staff	4.2	5.5	4.7	5.0	5.3	6.5	7.0
Inflation (end of period, annual percentage change)	-0.2	-0.6	2.0	0.8	4.0	3.5	3.0
Current account balance (including official transfers, in percent of GDP)	4.5	2.1	1.7	2.2	-1.9	-3.3	-1.7
Exports and imports (annual percentage change)							
Exports of goods 3/	23.2	25.2	5.8-10.7	4.0	4.0 4/	12.0-14.0	12.5-14.0
Imports of goods	1.1	34.5	6.0	2.3	10.0	15.0	11.0
General government budget (in percent of GDP)							
Total revenue and grants	19.8	21.1	22.0	21.8	20.8	21.3	21.6
Total expenditure (excluding onlending) 5/	20.6	23.9	24.9	25.2	24.7	25.0	24.8
Overall fiscal balance (excluding onlending)	-0.8	-2.8	-2.9	-3.5	-3.9	-3.7	-3.2
Gross official reserves (in weeks of next year's imports of goods and nonfactor services)	8.1	8.9	9.4	9.1	9.0	9.2	9.4

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

1/ Based on projections derived in cooperation with Fund staff, unless otherwise indicated.

2/ Differences between official and staff estimates and projections of real GDP growth reflect alternative methodologies used to estimate GDP and its components on an expenditure basis and recent changes in the external outlook. Under the PRGF-supported program, the Vietnamese authorities are receiving technical assistance from the Fund on improving national income accounts.

3/ The bottom- and top-end of the range reflect staff and official projections, respectively.

4/ The original target approved by the National Assembly in December 2001 was 10 percent. The staff estimate takes into account performance in the first quarter of 2002. The official target will be revised, as necessary, by mid-year.

5/ Includes current costs of structural reforms.

Table 2. Vietnam: Quantitative Performance Criteria and Benchmarks Under the First-Year PRGF Program Through December 2001 1/ 2/

	Stock at: Dec. 31 2000 Actual	Maximum cumulative change from end-December 2000 to:								Stock at: December 31	
		March 31		June 30		September 30		December 31		Program	Actual
		Program	Actual	Program	Actual	Program	Actual	Program	Actual		
(In trillions of dong)											
1. Net domestic assets of the banking system 3/	127.2	8.3	10.0	16.3	13.6	24.3	22.4	34.9	36.1	162.1	163.3
2. Net credit to the government of the banking system 4/	-0.5	1.5	-0.2	1.5	-4.0	2.0	-3.0	2.5	2.6	2.0	2.1
3. Credit to the state-owned enterprises (SOEs) from the banking system	69.9	2.1	3.2	4.2	5.2	6.3	7.0	9.1	9.8	79.0	79.7
4. Credit from the banking system and from the budget and budget support to the 200 targeted large SOEs 5/	35.3	0.6	1.5	1.2	-0.8	1.8	2.7	2.4	7.0	37.7	42.3
(In millions of U.S. dollars)											
5. Contracting or guaranteeing of nonconcessional external debt by the government											
Up to one-year maturity	0	0	0	0	0	0	0	0	0	0	0
Medium and long-term debt	598	100	0	220	40	420	40	550	40	...	...
<i>Of which: 1-5 years' maturity</i>	...	0	0	0	0	150	0	150	0	...	...
6. External payments arrears 6/	57.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	57.3	60.6
7. Net official international reserves 7/	2,191	65	-141	175	73	310	256	440	382	2,631	2,574

Sources: Vietnamese authorities; and staff estimates and projections.

1/ The measurement and reporting requirements of quantitative benchmarks and performance criteria are described in the Annex I (Technical Memorandum of Understanding) of the Supplementary Memorandum on Economic and Financial Policies (MEFP) of the Government of Vietnam for September 2001-June 2002.

2/ Performance criteria for end-December 2001 and quantitative benchmarks otherwise, except for (i) credit from the banking system and from the budget and budget support to 200 targeted large SOEs, which is a quantitative benchmark for end-December 2001; and (ii) external payments arrears, which is a continuous performance criterion through December 2001.

3/ At program monitoring exchange rates for 2001.

4/ Excludes non-negotiable government bonds for state-owned commercial banks' reform.

5/ Ministry of Finance estimate based on the list of 200 targeted large SOEs in Annex I of the Supplementary MEFP (November 2001).

6/ Represent outstanding arrears to Algeria; a rescheduling agreement is currently under discussion between the Vietnamese and Algerian authorities. The stock at end-December 2001 reflects the additional interest arrears accumulated while discussions are ongoing.

7/ Actual performance measured on the basis of using program monitoring exchange rates for non-U.S. dollar-denominated foreign assets and liabilities of the State Bank of Vietnam, as described in Annex I of the Supplementary MEFP (November 2001).

Table 3. Vietnam: Monetary Program, 2000-2002 1/

	2000 Dec.	2001								2002				
		March		June		Sept.		Dec.		March		June	Sept.	Dec.
		Prog.	Est.	Prog.	Est.	Prog.	Est.	Prog.	Est.	Prog.	Est.	Program		
(In trillions of dong)														
Net foreign assets	95.7	97.8	101.3	102.8	108.7	108.5	114.7	112.6	117.6	121.3	116.8	120.8	125.9	131.0
Foreign assets	112.7	114.8	118.5	120.2	126.5	125.9	133.0	130.5	135.9	139.8	135.4	139.4	144.7	149.9
Foreign liabilities	-17.0	-17.0	-17.2	-17.4	-17.8	-17.4	-18.3	-17.9	-18.3	-18.5	-18.5	-18.6	-18.8	-18.9
Net domestic assets	127.2	136.0	137.1	144.0	140.2	152.0	148.7	162.1	162.2	172.2	173.0	182.4	193.5	204.5
Domestic credit	155.2	163.7	163.6	171.5	167.6	179.8	177.1	190.4	191.2	201.2	201.4	211.5	222.5	233.5
Net claims on government	-0.5	1.0	-0.7	1.0	-4.5	1.5	-3.5	2.0	2.1	2.8	2.8	3.5	4.6	5.6
Credit to the economy	155.7	162.7	164.3	170.5	172.1	178.3	180.6	188.4	189.1	198.4	198.6	208.0	218.0	227.9
Claims on state enterprises	69.9	72.0	73.1	74.1	75.1	76.2	76.9	79.0	79.7	81.6	81.7	84.1	86.7	89.3
Claims on other sectors	85.8	90.7	91.2	96.4	97.0	102.1	103.6	109.4	109.4	116.8	116.9	123.8	131.2	138.6
Other items, net	-28.0	-27.7	-26.5	-27.5	-27.4	-27.8	-28.4	-28.4	-29.0	-29.0	-28.4	-29.0	-29.0	-29.0
Broad money	222.9	233.8	238.5	246.8	249.0	260.5	263.4	274.7	279.8	293.5	289.9	303.3	319.4	335.5
Dong liquidity	152.5	164.9	160.6	171.5	164.7	178.1	174.8	184.8	191.1	201.6	202.7	213.6	226.0	237.9
Foreign currency deposits	70.4	68.9	77.8	75.3	84.3	82.3	88.6	89.9	88.7	91.9	87.2	89.6	93.4	97.6
(Annual percentage change)														
Credit to the economy	38.1	34.1	35.4	28.2	29.4	26.8	28.4	21.0	21.4	20.8	20.9	20.8	20.7	20.5
Credit to state enterprises	28.7	24.4	26.3	15.9	17.4	17.5	18.6	13.0	14.1	11.7	11.8	12.0	12.7	12.0
Credit to other sectors	46.9	42.9	43.6	39.7	40.5	34.7	36.7	27.5	27.5	28.1	28.2	27.7	26.6	26.8
Broad money	39.0	31.7	34.3	31.1	32.3	31.5	33.0	23.2	25.5	23.1	21.6	21.8	21.3	19.9
Dong liquidity	30.8	29.5	26.2	27.3	22.2	28.0	25.6	21.2	25.3	25.5	26.2	29.7	29.3	24.5
Foreign currency deposits	60.5	37.3	55.1	40.8	57.6	39.8	50.5	27.7	26.0	18.1	12.0	6.3	5.4	10.0
(Changes in percent since the beginning of the year)														
Credit to the economy	38.1	4.5	5.5	9.5	10.5	14.5	16.0	21.0	21.4	4.9	5.0	10.0	15.3	20.5
Credit to state enterprises	28.7	3.0	4.5	6.0	7.5	9.0	10.0	13.0	14.1	2.4	2.5	5.5	8.8	12.0
Credit to other sectors	46.9	5.7	6.3	12.4	13.1	19.0	20.8	27.5	27.5	6.8	6.9	13.2	20.0	26.8
Broad money	39.0	4.9	7.0	10.7	11.7	16.9	18.2	23.2	25.5	4.9	3.6	8.4	14.2	19.9
Dong liquidity	33.2	3.1	5.5	6.2	7.4	9.3	13.0	21.2	24.4	4.7	2.6	9.4	17.1	24.5
Foreign currency deposits	60.5	10.3	10.6	20.4	19.7	31.7	25.9	27.7	26.0	3.7	-1.7	1.1	5.3	10.0
(Quarterly percentage changes)														
Credit to the economy	10.7	4.5	5.5	4.8	4.8	4.6	4.9	5.2	4.7	4.9	5.0	4.7	4.8	4.6
Credit to state enterprises	7.8	3.0	4.5	2.9	2.8	2.8	2.4	2.5	3.7	2.4	2.5	3.0	3.1	3.0
Credit to other sectors	13.2	5.7	6.3	6.3	6.4	5.9	6.9	7.2	5.5	6.8	6.9	6.0	6.0	5.6
Broad money	12.5	4.9	7.0	5.6	4.4	5.5	5.8	5.5	6.2	4.9	3.6	4.6	5.3	5.0
Dong liquidity	6.6	3.1	5.5	3.0	1.8	2.9	5.3	6.6	10.1	4.7	2.6	6.7	7.0	6.3
Foreign currency deposits	19.5	10.3	10.6	9.2	8.3	9.4	5.1	4.3	0.1	3.7	-1.7	2.8	4.2	4.5
Memorandum items:	(Changes in trillions of dong since the beginning of the year, unless otherwise indicated)													
Net domestic assets of the banking system 2/	28.0	8.3	10.0	16.3	13.6	24.3	22.4	34.9	36.1	10.0	11.1	20.3	31.3	42.3
Net credit to the government of the banking system	-3.4	1.5	-0.2	1.5	-4.0	2.0	-3.0	2.5	2.6	0.7	0.7	1.4	2.4	3.5
Credit to the state-owned enterprises from the banking system	15.6	2.1	3.2	4.2	5.2	6.3	7.0	9.1	9.8	1.9	2.0	4.4	7.0	9.6
Net official international reserves (in millions of U.S. dollars) 2/	98	65	-141	175	73	310	256	440	382	62	65	125	220	340

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

1/ Estimates at current exchange rates, unless indicated otherwise. The program exchange rate for 2001 is D 14,501 per U.S. dollar, for 2002 it is D 15,070 per U.S. dollar.

2/ At program monitoring exchange rates.

Table 4. Vietnam: Status of Key Structural Actions Under the First-Year PRGF Program

	Policy Action/Conditions	Timing	Status
A. Banking reform			
1.	Amend Decisions 284 to bring the criteria for loan classification by banks in accordance with international standards.	Structural performance criterion December 2001	Completed in December 2001.
2.	Make fully operational special monitoring unit to oversee implementation of state-owned commercial bank (SOCB) reform under the interministerial committee for SOCB financial restructuring.	Structural benchmark December 2001	Completed in November 2001.
3.	Resolve a total of D 1.4 trillion in non-performing loans for the four large SOCBs (Vietcombank, Incombank, Bank for Agriculture and Rural Development, and Bank for Investment and Development) in accordance with the terms specified in the State Bank of Vietnam directive with each bank.	Structural performance criterion March 2002	Completed in January 2002.
B. State-owned enterprise reform			
4.	Equip the special monitoring unit in the National Steering Committee for Enterprise Reform and Development with enforcement power to oversee implementation of state-owned enterprise (SOE) reform plan.	Structural benchmark December 2001	Not observed.
5.	Government approval of implementation guidelines on SOE debt resolution and safety nets for labor redundancies.	Structural benchmark December 2001	Mostly observed.
C. Exchange system liberalization			
6.	Submit a recommendation to the National Assembly to eliminate the tax on profit remittances for foreign invested enterprises.	Structural benchmark March 2002	Not observed.

Table 5. Vietnam: Quantitative Performance Criteria and Benchmarks Under the Second-Year PRGF Program Through December 2002 1/ 2/

	Stock at: Dec. 31 2001 Actual	Maximum cumulative change from end-December 2001 to:					Stock at: Dec. 31
		March 31		June 30	Sept. 30	Dec. 31	
		2002					
		Program	Estimate	Program			
(In trillions of dong)							
1. Net domestic assets of the banking system 3/	162.2	10.0	11.1	20.3	31.3	42.3	204.5
2. Net credit to the government of the banking system 4/	2.1	0.7	0.7	1.4	2.4	3.5	5.6
3. Credit to the state-owned enterprises (SOEs) from the banking system	79.7	1.9	2.0	4.4	7.0	9.6	89.3
4. Credit from the banking system and from the budget and budget support to the 200 targeted large SOEs	42.6 5/	0.6	1.0 5/	1.5	2.3	3.2	45.8
(In millions of U.S. dollars)							
5. Contracting or guaranteeing of nonconcessional external debt by the government							
Up to one-year maturity	0	0	0	0	0	0	0
Medium and long-term debt	...	100	100	220	665	750	...
<i>Of which</i> : 1-5 years' maturity	...	0	0	0	300	300	...
6. External payments arrears 6/	60.6	0.0	0.0	0.0	0.0	0.0	60.6
7. Net official international reserves 7/	2,555	62	65 8/	125	220	340	2,895

Sources: Vietnamese authorities; and staff estimates and projections.

1/ The measurement and reporting requirements of quantitative benchmarks and performance criteria are described in the Annex II (Technical Memorandum of Understanding) of the Memorandum on Economic and Financial Policies of the Government of Vietnam for 2002

2/ Performance criteria for end-June 2002 and end-December 2002; and quantitative benchmarks otherwise, except for (i) credit from the banking system and from the budget and budget support to 200 targeted large SOEs, which is a quantitative benchmark for end-June 2002 and end-December 2002; and (ii) external payments arrears, which is a continuous performance criterion through December 2002.

3/ At program monitoring exchange rates for 2002, unless otherwise indicated.

4/ Excludes non-negotiable government bonds for state-owned commercial bank reform.

5/ Ministry of Finance estimate based on the revised list of 200 targeted large SOEs in Annex II.

6/ Represent outstanding arrears to Algeria; a rescheduling agreement is currently under discussion between the Vietnamese and Algerian authorities.

7/ Actual performance measured on the basis of program monitoring exchange rates for non-U.S. dollar-denominated foreign assets and liabilities of the State Bank of Vietnam, as described in Annex II.

8/ At program monitoring exchange rates for 2001.

Table 6. Vietnam: Key Structural Policy Undertakings for the Second PRGF Review and Structural Benchmarks and Performance Criteria for the Second-Year PRGF-Supported Program

Policy Action/Conditions	Timing
A. Prior Actions for the Second PRGF Review	
Banking reform	
1. Issue implementation guidelines to apply State Bank of Vietnam (SBV) Decision 1627 to all loans (excluding policy loans) of commercial banks.	
2. Agree with each state-owned commercial bank (SOCB) on a work program to prepare a credit manual, including all credit policies and procedures, which incorporates necessary improvements based on each SOCB's recent experience.	
3. Government approval of the terms and conditions of bank recapitalization bonds that are fiscally sustainable and recapitalize the banks in stages as planned.	
4. Agree with each large SOCB (Vietcombank, Incombank, Bank for Agriculture and Rural Development, and Bank for Investment and Development) on cumulative targets for loan resolution for end-September 2002.	
State-owned enterprise reform	
5. Equip the special monitoring unit in the National Steering Committee for Enterprise Reform and Development (NSCERD) with enforcement power to oversee implementation of state-owned enterprise (SOE) reform plan.	
6. Government approval of implementation guidelines on SOE debt resolution for equitized SOEs and safety nets for labor redundancies.	
B. Structural Benchmarks and Performance Criteria Under the Second-Year PRGF Arrangement	
Banking reform	
1. Apply first phase of loan loss provisioning using the new definition of NPLs under Decision 1627.	Structural benchmark December 2002
2. Agree with each large SOCB the audit qualifications from year 2000 audits to be eliminated by end 2002.	Structural benchmark June 2002

Table 6. Vietnam: Key Structural Policy Undertakings for the Second PRGF Review and Structural Benchmarks and Performance Criteria for the Second-Year PRGF-Supported Program (concluded)

Policy Action/Conditions	Timing
Banking reform (concluded)	
3. Subject to donor financing, each of the four large SOCBs will contract with an international accounting firm for an external audit of the year 2001 accounts based on international standards of auditing and accounting.	Structural benchmark July 2002
4. Resolve a cumulative total of D 3.5 trillion in NPLs for the four large SOCBs in accordance with the amounts the SBV agreed with each bank. 1/	Structural performance criterion September 2002
5. Pass a special SBV examination of credit file documentation.	Structural benchmark December 2002
State-owned enterprise reform	
6. Establish a quarterly monitoring system for tracking performance against annual targets on SOE reform, under which line ministries, general corporations, and provincial Peoples Committees report regularly to the special monitoring unit in the NSCERD.	Structural benchmark June 2002
7. Publish a roadmap indicating annual targets on SOE reform by type of reform action through 2004.	Structural benchmark September 2002
Fiscal management	
8. Promulgate regulations on the value added tax and on the the corporate income tax to enable self assessment on a pilot basis.	Structural benchmark November 2002
9. Issue implementation guidelines for self assessment tax administration procedures on a pilot basis for large taxpayers in Ho Chi Minh City and Quang Ninh provincial offices.	Structural performance criterion December 2002
10. Make fully operational self assessment procedures on a pilot basis in Ho Chi Minh City and Quang Ninh provincial offices.	Structural benchmark April 2003
Exchange system liberalization	
11. Submit a recommendation to the National Assembly to eliminate the tax on profit remittances for foreign invested enterprises.	Structural benchmark September 2002

1/ For definition of "resolve", see the MEFP Annex on milestones for SOCBs.

Vietnam—Milestones for State-Owned Commercial Banks in 2002
(Adopted on June 3, 2002)¹

The “Milestones for SOCBs” listed below are the minimum conditions in the context of the first and second PRGF reviews, as agreed by the State Bank of Vietnam (SBV) with the staffs of the International Monetary Fund and the World Bank, for the purpose of recapitalization of the four large state-owned commercial banks (SOCBs). Bank-specific milestones are expected to be developed consistent with these overall milestones and issued as a directive by the SBV.

Milestones for end-March 2002:

- Establish credit risk management and internal audit committees (where they do not already exist) and submit to the SBV for review the manual of procedures for those committees, revised to incorporate improvements relevant to each SOCB’s recent experience.

Status: Credit risk management and internal audit committees have been set up, but three of the four SOCBs have not yet submitted manuals of procedures for those committees to the SBV for review. There are some legal issues concerning the independence of the audit committee. Technical assistance from the Bank and the Fund is being sought.

- Resolve at least D 1.4 trillion of potentially recoverable nonperforming loans (NPLs) of the four large SOCBs. Resolution targets for individual SOCBs will be agreed by the SBV and SOCBs and communicated to the World Bank and the International Monetary Fund.

Status: Two of the four large SOCBs submitted reports on NPL resolution as of end-March 2002 as required under Decree 01/2002/CT-NHNN. A third one submitted a report as of end-February 2002.

Milestones for end-June 2002:

- Agree audit qualifications from year 2000 audit that are to be eliminated by year-end and sign contracts for external audits for year 2001.

Status: Signing of contracts for IAS audits of 2001 financial statements by international auditing firm moved to end-July.

- Agree on September 2002 targets for loan resolution.

¹ Italics indicate status of milestones or amended milestones relative to those agreed at the first PRGF review in November 2001.

Milestones for end-September 2002:

- *Resolve at least D 3.5 trillion of potentially recoverable NPLs of the four large SOCBs. Resolution targets for individual SOCBs will be agreed by the SBV and SOCBs and communicated to the World Bank and the International Monetary Fund.*

Milestones for end-December 2002:

- Complete year 2001 external audit, eliminating qualifications agreed in June.
- *Pass a special SBV examination of credit file documentation. (Examples of features to monitor are: inclusion of appropriate signatures on credit documents; centralization at headquarters of credit extensions throughout the branch network to a single borrower; existence of a cash flow analysis of borrowers, even for collateralized loans; existence of written government guarantees for directed lending; etc.)*
- *Agree on March 2003 targets for loan resolution based on the new loan classification as defined in Decision 1627.*

Future milestones will be specified on the basis of experience with the implementation of earlier milestones and developments in SOCB conditions. The SOCBs will continuously improve performance against these milestones over three years, in addition to meeting these first-year milestones.

Technical Notes and Definitions Related to the Milestones²

Potentially recoverable loans are defined as: all collateralized loans + commercial noncollateralized loans to active borrowers + directed loans to active borrowers. The amount of resolved loans is the sum of:

1. *Payments received from borrowers (after payment of any past due interest).*
2. *For all collateralized loans the sum of (1) proceeds from the sale or lease of collateral, and (2) the loss written-off after the sale or other disposal of all collateral.*
3. For collateralized loans to active borrowers and noncollateralized loans to active non-SOE borrowers, the amount of the loan that is restructured, if the active borrower

² The technical definition for measuring NPL resolution from June 2002 onwards has been modified to conform with the results-based definition (Decree 07/2002/CT-NHNN). Performance against the March 2002 targets is measured against the original effort-based definition (MEFP, Annex I; November 1, 2001).

negotiates with the SOCB a restructuring of business operations to improve debt-servicing capability.

4. For noncollateralized loans to active SOEs—the amount of the loan that is restructured if an approved SOE restructuring plan with appropriate conditions exists or provisions are made against the loan after an active SOE is closed.

5. *Proceeds from the sale of debt (or another asset for which the debt was exchanged) to third parties.*

6. For all loans— the amount of provisions made against the loan, if they are matched by “independent” capital injections, i.e., sources other than the government, the IMF, or the World Bank.

VIETNAM—TECHNICAL MEMORANDUM OF UNDERSTANDING

June 3, 2002

1. This memorandum sets out (i) the definitions of quantitative performance criteria and benchmarks for the second-year PRGF-supported program (Table 5), and (ii) related reporting requirements to the Fund's Asia and Pacific Department (Table 7).

I. DEFINITIONS¹

Item 1: Net domestic assets (NDA) of the banking system

- Defined as total liquidity minus net foreign assets of the banking system.
- Total liquidity is defined as the sum of dong liquidity (currency outside the banks, deposits, and deposit substitutes) and foreign currency deposits with the banking system; deposits are defined to exclude government deposits.
- Net foreign assets of the of the banking system are the sum of net foreign assets of the SBV and net foreign assets of the deposit money banks (DMBs).
- Net foreign assets of the DMBs are defined as foreign assets minus foreign liabilities. Foreign assets comprise gold, foreign currency holdings, and claims on nonresidents. Foreign liabilities comprise all liabilities to nonresidents.

Item 2: Net claims on the government of the banking system

- Defined as the claims on government minus deposits of the government with the banking system.
- Claims comprise advances to the state budget, investment in government securities, and any other forms of credit to the state budget.
- Government securities will be measured at the transaction price. Repayments of government securities will exclude interest payments, either as coupon interest or the discount.

¹ These definitions, except Items 4, 5, and 6, adhere to the existing classification schemes used for the monetary derivation tables of the State Bank of Vietnam (SBV) covering 84 credit institutions and the SBV, and the associated monetary survey tables. More specifically, the banking system is defined as the SBV and the deposit money banks (DMBs), which consist of six state-owned commercial banks (SOCBs), 42 joint stock banks, 4 joint venture banks, 26 foreign bank branches, 5 finance companies, and the Central People's Credit Fund.

- Government onlending funds financed by ODA and deposits of all proceeds from the issuance of international government bonds are excluded from government deposits.

Item 3: Credit to the state-owned enterprises from the banking system

- Defined as the sum of all claims on the state-owned enterprises (SOEs) by the banking system and any transfer of funds from the government or government agencies to SOEs in excess of US\$200 million in 2002. These funds comprise proceeds from the issuance of international bonds and exclude onlending from ODA disbursements.
- SOEs are defined as wholly state-owned enterprises.

Item 4: Credit from the banking system and from the budget and budget support to the 200 targeted large SOEs

- Credit from the banking system will be derived and verified from Report Form 1 (Report on Debt Situation of the Enterprise) of the Ministry of Finance (MoF) *Decision No. 47/2001/QD/BTC on Promulgating Criteria to Monitor State-Owned Enterprises with Large Debts* (issued on May 25, 2001 and amended on September 21, 2001).
- Credit from the budget and budget support will also be derived and verified from Report Form 1.
- The list of targeted large SOEs is given in Table 8.

Item 5: Contracting or guaranteeing of nonconcessional external debt by the government

- Defined as the sum of all new foreign currency loans or other external debt to nonresidents contracted or guaranteed by the central government (including the SBV), that have a grant element of less than 35 percent of the overall value of the loan's original principal. Local governments and agencies cannot contract external debt, and SOEs cannot guarantee such debt.
- This performance criterion applies not only to debt as defined below, but also to commitments contracted or guaranteed for which value has not been received. For the purpose of this memorandum, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services at some future point(s) in time; these payments will

discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances of money to obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of this memorandum, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property. Under the definition of debt set out above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

- The grant element is to be calculated by using the currency-specific discount rates reported by the OECD as Commercial Interest Reference Rates (CIRR) as of December 31, 2001; for maturities of less than 15 years, the grant element will be calculated based on six-month averages of the commercial interest rates, and for maturities of 15 years or longer, the grant element will be calculated based on 10-year averages. Maturity will be determined on the basis of the original loan contract.
- For maturities of up to one year, the ceiling will apply to the amount of the stock of foreign currency loans or other external debt to nonresidents contracted or guaranteed by the government.
- Excluded from the limits are changes in indebtedness resulting from rescheduling operations (including the deferral of interest on commercial debt) and normal import related credits, and credits extended by the IMF.
- Debt falling within the limit of this definition shall be valued in U.S. dollars at the bilateral market exchange rate prevailing at the time the contract or guarantee becomes effective.

Item 6: External payments arrears

- Defined as the stock of overdue payments (interest and principal payments) on short-term debt in convertible currencies with an original maturity of up to and including one year (spot, money market, letters of credit, and others) and medium- and long-term debt contracted or guaranteed by the government (including the SBV).
- The limit excludes those overdue payments that relate to debts which are subject to rescheduling or a stock-of-debt operation.
- As of end-December 2001, there were no reported external arrears, except for arrears totaling US\$60.6 million with Algeria currently under negotiation.

Item 7: Net official international reserves (NIR)

- Defined as foreign assets minus foreign liabilities of the SBV, expressed in U.S. dollars and valued at the program monitoring exchange rates (see Section II).
- Foreign assets comprise gold, foreign currency holdings, and claims on nonresidents. As such, these assets must be readily available, i.e. sellable at any time and free of any pledges or encumbrances, and directly and exclusively controlled by the SBV. These assets will exclude holdings of nonconvertible currencies, claims on nonresident financial institutions denominated in nonconvertible currencies, holdings of foreign exchange of government ministries, the foreign currency deposits of deposit money banks held at the SBV, assets to be resold under a swap arrangement or forward contract, foreign exchange sold to the SBV from the proceeds of the issuance of international government bonds, and such other claims that are not readily available and/or are encumbered.
- Foreign liabilities are liabilities to nonresidents contracted by the SBV, including deposits of foreign governments, foreign central banks, foreign DMBs, and international organizations, irrespective of their maturity. They also include IMF purchases and disbursements.

II. PROGRAM MONITORING EXCHANGE RATES

1. Foreign assets and liabilities and all other elements of the items defined above that are denominated in foreign currency will be valued at the program monitoring exchange rates, unless specified otherwise.

- Holdings in gold will be valued at Vietnamese dong (D) 506,000 per Vietnamese chi (equivalent to 3.75 grams).

- Assets and liabilities denominated in SDRs, including the SDR value of gold holdings and assets and liabilities resulting from transactions with the IMF will be converted at the rate of US\$1.2567 per SDR.
- Assets and liabilities denominated in currencies other than the U.S. dollar will be converted into U.S. dollars at the market rates of the respective currencies prevailing on December 31, 2001, as published in *International Financial Statistics* (IFS).
- The U.S. dollar value of assets and liabilities will be converted into Vietnamese dong at the official rate of the SBV on December 31, 2001, which was D 15,070 per U.S. dollar.

I. PERFORMANCE CRITERIA AND BENCHMARKS

2. **Performance criteria** include Items 1 to 3 and 5 to 7 as defined above. For external payments arrears (Item 6), the performance criterion will be measured on a continuous basis throughout 2002. The other performance criteria will be measured on the last day of June 2002 and December 2002. **Quantitative benchmarks** include Items 1 to 5 and 7 as defined above. They will be measured on the last day of September 2002. Item 4 is also a quantitative benchmark to be measured on the last day of June 2002 and December 2002.

II. MONITORING AND REPORTING REQUIREMENTS

3. For the purposes of program monitoring, the following information, including any revisions to historical data, will be provided by the SBV, unless specified otherwise, to the Asia and Pacific Department of the Fund, through the office of the Senior Resident Representative of the IMF in Vietnam, as set out in Table 5.

Attachments

Table 7. Vietnam: Monitoring and Reporting Requirements

Table 8. Vietnam: List of 200 Large Debt State-Owned Enterprises in the Debt Monitoring System Under the Second-Year PRGF-Supported Program

Table 7. Vietnam: Monitoring and Reporting Requirements

Item	Reporting Requirement	Periodicity
<p>1. Net domestic assets (NDA) of the banking system.</p> <p>2. Net credit to the government from the banking system.</p>	<p>In addition to data on the listed items and their components, data on amounts of external nonproject budget support (in U.S. dollars), write-offs of non-performing loans (NPLs) at the state-owned commercial banks (SOCBs), cost of SOCB recapitalization incurred by the government, and credit to the government from the nonbank public.</p>	<p>Monthly within six weeks of the end of each month except credit from the nonbank public which is quarterly within six weeks of the end of each quarter.</p>
<p>3. Credit to the state-owned enterprises (SOEs) from the banking system.</p>		<p>Quarterly within eight weeks of the end of each quarter.</p>
<p>4. Credit from the banking system and from the budget and budget support to the 200 targeted large SOEs.</p>	<p>Enterprise-by-enterprise data on credit from the banking system and from the budget and budget support as compiled from Report Form 1 (Report on Debt Situation of the Enterprise). As supporting material, enterprise-by-enterprise data on tax debt and other obligations of enterprises to the state budget (compiled from Report Form 2) and debts of enterprises to bank and credit institutions (compiled from Report Form 3).</p>	<p>Quarterly within eight weeks of the end of each quarter.</p>
<p>5. Nonconcessional publicly contracted or guaranteed foreign currency loans or other external debt to nonresidents.</p>	<p>A loan-by-loan summary of all new concessional and nonconcessional loans contracted or guaranteed by the government (including the SBV), with amounts and terms (i.e. amount borrowed and the terms of the loan, including the length of maturity, schedule of payments, rate of interest, currency of denomination, and conditions for government guarantee).</p>	<p>Quarterly within four weeks of the end of each quarter.</p>
<p>6. External payments arrears.</p>	<p>An accounting of nonrescheduable external arrears (on interest and principal payments), if any, by creditor countries. This accounting includes, separately, arrears owed by the government (including the SBV and on government guaranteed foreign currency loans), as well as a breakdown of arrears owed to Paris Club creditors, non-Paris Club creditors, and other creditors. In addition, data on other arrears, which are rescheduable.</p>	<p>Quarterly within four weeks of the end of each quarter.</p>
<p>7. Net official international reserves (NIR).</p>	<p>On a twice-monthly basis, two data series, one in U.S. dollars based on current bilateral exchange rates and one in U.S. dollars based on the program monitoring exchange rates, will be reported. Also, in U.S. dollars based on current bilateral exchange rates, gross official international reserves will be reported broken down as gold, cash and deposits, assets held against swap arrangements, other official foreign assets, and deposits in foreign currency of deposit money banks held at the SBV.</p> <p>On a quarterly basis, reserves data broken down by major currencies in units of original currency.</p>	<p>On the 15th day and last day of each month, or the last business day immediately preceding these days, and within 10 days of the reporting date.</p> <p>On the last day of each quarter, or the last business day immediately preceding this day, and within four weeks of the reporting date.</p>
<p>8. Proceeds from the issuance of international bonds.</p>	<p>Quarterly balance of the separate account and list of projects being financed from the proceeds of the bonds.</p>	<p>Quarterly within two weeks of the end of the quarter.</p>

Table 8. Vietnam: List of 200 Large Debt State-Owned Enterprises in the Debt Monitoring System
Under the Second-Year PRGF-Supported Program
(Báo cáo 200 DNNN có số nợ phải trả lớn)

Number	Tên doanh nghiệp 1/	Name
1	Công ty PETEC	Petec Investment, Technique, and Trading Co.
2	Công ty XNK dịch vụ thương mại	Import/Export and Trading Services Co.
3	Công ty thực phẩm miền trung	Foodstuff Co. in Central
4	Công ty thực phẩm miền bắc	Northern Foodstuff Co.
5	Cty XNK Ngũ Cốc	Cereal Import/Export Co.
6	Cty Vật tư bảo vệ thực vật 1	Plant Protection and Material Co. 1
7	Cty Đường Quảng Ngãi	Quang Ngai Sugar
8	Công ty phát triển nhà và đô thị	Housing and Urban Development Co.
9	Công ty XD cấp thoát nước số 2	Water Supply/ Drainage and Construction Co. II
10	Công ty xây dựng dầu khí	Petroleum and Gas Construction Co.
11	VP TCTy XD Thăng Long	Thang Long Bridge Construction General Corp. (head office)
12	CTy Tracimexco	Waterway Transportation Export/Import Co. (TRACIMEXCO)
13	Nhà xuất bản Giáo dục	Education Publishing House
14	Cty phát triển đầu tư công nghệ FPT	FPT Co.
15	Bảo Minh	Bao Minh Insurance
16	Vinare	Vinare
17	Cty đầu tư phát triển GTVT	Transport Development Investment Co.
18	VP Tcty xây dựng CTGT 6	No. 6 Transport Work Construction Corp. (Head Office)
19	Cty dịch vụ kỹ thuật dầu khí	Petroleum and Gas Technical Services Co.
20	Cty thiết kế và xây dựng dầu khí	Petroleum and Gas Design and Construction Co.
21	Công ty thương mại dầu khí	Petroleum and Gas Trading Co.
22	Cty thép thái nguyên	Thai Nguyen Steel and Iron Co.
23	Cty thép miền nam	Southern Steel Co.
24	Công ty dây cáp điện VN	Vietnam Power Cables and Wires Co.
25	CTy tơ việt ý Lâm đồng	Vietnamese-Italian Silk Co.
26	Công ty vật tư Hà Nội	Hanoi Material and Equipment Co.
27	Cty than Uôngbi	Uong Bi Coal Co.
28	Mỏ than Dương huy	Duong Huy Coal Mine
29	Cty than Nội địa	Domestic Coal Co.
30	Cty than Quảng ninh	Quang Ninh Coal Co.
31	Mỏ than Hà tu	Ha Tu Coal Mine
32	Xn Tuyển than hòn gai	Hon Gai Coal Selection Enterprise
33	Xn tuyển than Cửa ồng	Cua Ong Coal Selection Co.
34	Công ty vật tư vật tải xếp dỡ	Transport Equipment and Loading/Unloading Co.
35	Công ty hoá chất mỏ	Mine Chemicals Co.
36	Công ty kỹ nghệ TP VN	Vietnam Foodstuff Technology Co.
37	Cty dệt hà nội	Ha Noi Textile Co.
38	Cty dệt nam định	Nam Dinh Textile Co.
39	Cty dệt 8/3	March 8 Textile Co.
40	Cty dệt Huế	Hue Textile Co.
41	Cty dệt thành công	Thanh Cong Textile Co.
42	Cty dệt Việt thắng	Viet Thang Textile Co.
43	Cty dệt thăng lợi	Thang Loi Textile Co.
44	Cty dệt phong phú	Phong Phu Textile Co.
45	Cty dệt nha trang	Nha Trang Textile Co.
46	Công ty may Việt Tiến	Viet Tien Garment Co.
47	Cty bông Việt nam	Vietnam Cotton Co.
48	NM Thuốc lá Sài gòn	Sai Gon Tobacco Factory
49	NM Thuốc lá Vĩnh hoi	Vinh Hoi Tobacco Factory
50	NM thuốc lá Thăng Long	Thang Long Tobacco Factory
51	Cty XNK Thuốc lá	Tobacco Import/Export Co.
52	Xn in bao bì & phụ liệu thuốc lá	Tobacco Material and Package Printing Enterprise
53	Cty NL Thuốc lá Nam	South Tobacco Raw Material Co.
54	VP TCT Giấy	Vietnam Paper General Corp. (head office)
55	Cty giấy Bãi Bằng	Bai Bang Paper Co.
56	Cty giấy Đông nai	Dong Nai Paper Co.
57	Cty giấy Tân mai	Tan Mai Paper Co.
58	Cty NL giấy vịnh phú	Vinh Phu Paper Raw Material Co.
59	Cty phân đạm và hoá chất Hà bắc	Ha Bac Chemical and Nitrogenous Fertilizer Co.
60	Công ty phân bón miền nam	Southern Fertilizer Co.
61	Cty thuốc sát trùng VN	Vietnam Germicide Co.
62	Cty sơn chất dẻo	Plastic Paint Co.
63	Cty Cao su sao vàng	Sao Yang Rubber Co.
64	Cty Bia Sài gòn	Saigon Beer Co.
65	Cty Bia HN	Ha Noi Beer Co.
66	Cty Nhựa hưng yên	Hung Yen Plastic Co.

1/ Name of enterprise in Vietnamese.

Table 8. Vietnam: List of 200 Large Debt State-Owned Enterprises in the Debt Monitoring System
Under the Second-Year PRGF-Supported Program (continued)
(Báo cáo 200 DNNN có số nợ phải trả lớn)

Number	Tên doanh nghiệp	Name
67	Công ty giấy Hiệp Hưng	Hiep Hung Footwear Co.
68	Cty xây lắp điện II	Power Construction and Installation Co. II
69	Cty xây lắp điện III	Power Construction and Installation Co. III
70	Công ty xây lắp điện 4	Power Construction and Installation No. IV
71	Cty xây lắp SX CN	Industrial Construction, Installation, and Production Co.
72	Cty sữa	Vietnam Milk Co.
73	Cty dầu thực vật và hương liệu MP	Vietnam Vegetable Oil, Cosmetic, and Perfume Materials
74	Cty DVXNK cà phê II	Coffee Export/Import and Services No. II
75	VP Tcty Cà phê VN	Vietnam Coffee Gen. Corp. (Head Office)
76	Cty Cao su Đông Nai	Dong Nai Rubber Co.
77	VP TCTY Lương thực m.Bắc	Northern Foods General Corp. (head office)
78	Cty lương thực TPHCM	HCMC Foods Co.
79	Cty Lương thực Tiền Giang	Tien Giang Foods Co.
80	Cty Lương thực Cần thơ	Can Tho Foods Co.
81	Cty Lương thực TP Sóc Trăng	Soc Trang Foods and Foodstuff Co.
82	Cty XNK LT VTNN Đồng Tháp	Dong Thap Agricultural Material and Foods Export/Import Co.
83	Công ty lương thực An Giang	An Giang Foods Co.
84	Cty Lương thực & CNTP	Foodstuff and Foodstuff Industry Co.
85	VP TCTY Lương thực m.Nam	Southern Foods General Corp. (head office)
86	Cty Đường-Rượu-Bia Việt Trì	Viet Tri Sugar, Wine, and Beer Co.
87	Cty Đường Bình Dương	Binh Duong Sugar Co.
88	Cty Đường Biên Hoà	Bien Hoa Sugar Co.
89	Cty MĐ Tuy Hoà	Tuy Hoa Sugar Co.
90	VP TCTY XĐNN & PTNT	Agricultural Construction and Rural Development (head office)
91	Cty XNK nông sản và TP HN	Hanoi Agricultural Products Export/Import Co.
92	VP TCTY Chè	Vietnam Tea General Corp. (head office)
93	VP TCTY Dâu tằm tơ	Vietnam Mulberry General Corp. (head office)
94	VP TCTY Vật tư NN	Agricultural Material/Equipment General Corp. (head office)
95	Công ty xi măng Hải Phòng	Hai Phong Cement Co.
96	Công ty xi măng Hoàng Thạch	Hoang Thach Cement Co.
97	Công ty xi măng Bim Sơn	Bim Son Cement Co.
98	Công ty Xi măng Hà tiên 1	Ha Tien Cement Co. No. I
99	Công ty xi măng Bút sơn	But Son Cement Co.
100	Công ty đầu tư và phát triển XD	Investment and Development Co. (Hanoi Construction Corp.)
101	Công ty đầu tư và phát triển đô thị	Urban Investment and Development Co.
102	Công ty xây dựng số 8	Construction Co. No. 8
103	Công ty xây dựng số 14	Construction Co. No. 14
104	VP Tcty xây dựng số 1	Construction General Corp. I (head office)
105	VP Tcty xây dựng Sông Đà	Song Da Construction Corp. (head office)
106	Công ty lắp máy và XD số 45.1	Machinery Installation and Construction No. 45.1
107	VP TCTy lắp máy Việt nam	Vietnam Machine Installation General Corp. (head office)
108	VPTCTy XD phát triển hạ tầng	Infrastructure Development Gen. Corp. (Head Office)
109	Công ty sứ Thanh trì	Thanh Tri Ceramic Co.
110	Cty gạch ốp lát Hà Nội	Ha Noi Ceramic Tile Co.
111	Công ty Thạch Bàn	Thach Ban Co.
112	Tcty thủy tinh và gốm XD	Construction Glass and Porcelain Co.
113	VP TCTy VINACONEX	VINACONEX General Corp. (head office)
114	Cty vận tải biển VN	Vietnam Marine Transport Co.
115	Cty vận tải dầu khí VN	Vietnam Petroleum and Transportation Co.
116	Cty VTái và thuê tàu biển VN	Vietnam Ship Lease and Transport Co.
117	VP TCTy Hàng hải VN	Vietnam Shipping Liners Co. (head office)
118	Cảng Sài Gòn	Sai Gon Port
119	VP TCTy CN tàu thủy VN	Vietnam Shipping Industry Gen. Corp. (Head Office)
120	VP TCTy XDCTGT 1	Transport Work Construction General Corp. I (head office)
121	Cty cầu 12	Bridge Co. No. 12
122	Cty cầu 14	Bridge Co. No. 14
123	Cty XDCT 507	Work Construction Co. No. 507
124	Cty nạo vét đường thủy 2	Waterway Dredging Co. No 2
125	Công ty công trình 86	Construction Work No. 86 (Waterway Construction Corp.)
126	Cty XNK Thủy sản TPHCM	HCMC Aquatic Product Export/Import Co.
127	Cty XNK Thủy đặc sản	Special Aquatic Products Export/Import Co.
128	Cty XNK Thủy sản m.Trung	Central Aquatic Products Export/Import Co.
129	VP TCTY Hải sản biển Đông	Bien Dong Sea Products General Corp. (head office)
130	Công ty dược phẩm TW2	Central Pharmacy Co. II
131	Công ty XNK y tế II	Medical Export/Import Co. II
132	Công ty sản xuất thiết bị điện Đ.Anh	Dong Anh Electric Equipment Production Co.
133	Công ty tư vấn XD điện 1	Power Construction and Consultation No. 1

Table 8. Vietnam: List of 200 Large Debt State-Owned Enterprises in the Debt Monitoring System
Under the Second-Year PRGF-Supported Program (concluded)
(Báo cáo 200 DNNN có số nợ phải trả lớn)

Number	Tên doanh nghiệp	Name
134	Công Ty Thực phẩm và Dịch vụ tổng hợp	Foodstuff and General Services Co.
135	Công Ty Điện Máy Miền Trung	Machinery and Electrical Company of Central Vietnam
136	Công Ty Dệt Vĩnh Phú	Vinh Phu Textile Co.
137	Cty dược phẩm thiết bị y tế HN	Hanoi Medical Equipment and Pharmacy Co.
138	Cty vật tư tổng hợp Hà Anh	Ha Anh General Material and Equipment Co.
139	Công ty thương mại dịch vụ Hachimex	Hachimex Trading Co.
140	Công ty thương mại dịch vụ XNK Hải phòng	Hai Phong Export/Import, Services and Trading Co.
141	Cty Quản lý khai thác công trình thủy lợi Xuân thủy Nam định	Xuan Thuy Nam Dinh Irrigation Work Exploitation and Mgmt. Co.
142	Công ty Mía đường Sơn La	Son La Sugar Co.
143	Công ty Thủy nông Sông Chu	Song Chu Irrigation Co.
144	Công ty Xuất nhập khẩu Đà Nẵng	Da Nang Export/Import Co.
145	Công ty Hữu Nghị	Huu Nghi Co.
146	Công ty Cement Hải Vân	Hai Van Cement Co.
147	Cty Khai thác công trình thủy lợi Quảng Ngãi	Quang Ngai Irrigation Work Exploitation Co.
148	Công ty đường Bình định	Binh Dinh Sugar Co.
149	Công ty Thương mại tổng hợp Phú yên	Phu Yen General Trading Co.
150	Công ty sản xuất kinh doanh XNK Phú yên	Phu Yen Export/Import, Trading and Production Co.
151	Công ty Đường Khánh Hòa	Khanh Hoa Sugar Co.
152	Công ty Yến sào	Bird Nest Co.
153	Nhà máy Dệt Tân Tiến	Tan Tien Textile Factory
154	XI nghiệp Liên hiệp thuốc lá Khánh Hòa	Khanh Hoa Tobacco Enterprise
155	Công ty Mía Đường Kon tum	Kontum Sugar Co.
156	Công ty Đầu tư XNK Đắk Lắk	Daklak Investment and Export/Import Co.
157	Công ty Mía đường Đắklăk	Daklak Sugar Co.
158	Công ty Cà phê Phước An	Phuoc An Coffee Co.
159	Công ty Xuất nhập khẩu 2-9	September 2 Export/Import Co.
160	Công ty XNK T. hợp và ĐT TPHCM (IMEXCO)	HCMC Investment and General Export/Import Co.
161	Công ty phát triển công nghiệp Tân thuận	Tan Thuan Industrial Development Co.
162	Công ty sản xuất kinh doanh bao bì LIKSIN	LIKSIN Printing Co. (HCMC)
163	Công ty Dược Thành Phố (SAPHARCO)	HCMC Pharmacy Co. (SAPHARCO)
164	Công ty Quản lý và Phát triển nhà Quận 4	Real Estate Management and Development (District 4, HCMC)
165	Công ty XNK Và Đầu Tư Chợ Lớn	Cho Lon Investment and Export/Import Co.
166	Công ty XNK Phú Thọ	Phu Tho Export/Import Co.
167	Công ty XNK Tân bình	Tan Binh Export/Import Co.
168	Công ty Đầu tư & Dịch vụ TP.HCM	HCMC Investment and Service Co.
169	Công ty Thanh Niên Xung Phong Tp. HCM	HCMC Young Volunteer Co.
170	Công ty PT và Kinh Doanh Nhà TPHCM	HCMC Real Estate Development and Trading Co.
171	Công ty phát triển Nhà Bình Thạnh	Binh Thanh Real Estate Development Co.
172	Công ty kinh doanh thủy hải sản	Aquatic and Sea Product Trading Co.
173	Công ty xuất nhập khẩu và đầu tư quận 1 (Sunimex)	Sunimex Co.
174	Công ty dịch vụ tổng hợp Sài gòn	Sai Gon General Services Co.
175	Công ty Du lịch TP HCM	HCMC Tourism Co.
176	Công Ty Mía Đường Tây ninh	Tay Ninh Sugar Co.
177	Công ty TM XNK Thành Lê	Thanh Le Trading and Import/Export Co.
178	Cty thương mại đầu tư & phát triển Bình Dương(BECAMEX)	BECAMEX Co.
179	Cty Mía đường Trj an	Tri An Sugar Co.
180	Công ty Xuất Nhập Khẩu và đầu tư Bình thuận	Binh Thuan Export/Import and Investment Co.
181	Nhà Máy Đường Bình thuận	Binh Thuan Sugar Factory
182	Công Ty đầu tư xây dựng và TM Vũng tàu	Vung Tau Construction, Investment, and Trading Co.
183	Công ty XNK Nông Sản & tiểu thủ CN	Handicraft and Agricultural Product Export/Import Co.
184	Công ty xây lắp Bà rịa-Vũng tàu	Vung Tau Construction and Installation Co.
185	Công ty xây dựng và phát triển đô thị Vũng tàu	Vung Tau Urban Development and Construction Co.
186	Công Ty Du lịch Quốc Tế Bà rịa-Vũng Tàu	Baria-Vung Tau International Tourism Co.
187	Công ty XNK lồng hợp Long an	Long An General Export/Import Co.
188	Công Ty Thương Mại Dầu Khí Đồng Tháp	Dong Thap Petroleum and Gas Trading Co.
189	Cty XNK nông sản thực phẩm An giang	An Giang Agricultural Product and Foods/Foodstuff Exp./Imp. Co.
190	Công Ty Xổ Số Kiến Thiết Tiền giang	Tien Giang Lottery Co.
191	Công Ty Dược Và VT Y Tế	Medical Material & Equipment and Pharmacy Co.
192	Công ty đường Bến Tre	Ben Tre Sugar Co.
193	Công ty Thương mại Kiên Giang	Kien Giang Trading Co.
194	Công ty Mía đường Kiên giang	Kien Giang Sugar Co.
195	Nông trường Sông Hậu	Song Hau Farm
196	Công Ty VT Kỹ Thuật Nông Nghiệp Cần Thơ	Can Tho Agricultural Material and Equipment and Technique Co.
197	Cty SXKD Vật liệu xây dựng	Construction Material Production and Trading Co.
198	Công ty Mía đường Sóc trắng	Soc Trang Sugar Co.
199	Cty Bia Sóc trắng	Soc Trang Beer Co.
200	Cty Công trình thủy lợi Sóc Trắng	Soc Trang Irrigation Work Co.

Source: Ministry of Finance, Corporate Finance Department.

Statement by the IMF Staff Representative
June 21, 2002

This Statement provides an update on developments based on information that has become available since the issuance of the staff report (EBS/02/101, 6/7/02). These developments do not change the thrust of the staff appraisal.

1. **Recent developments.** Based on preliminary data through early June, the program remains broadly on track:

- **The exchange rate has continued to depreciate gradually in recent weeks**, and by a total of 1¼ percent against the U.S. dollar and 3¾ percent in real effective terms so far this year. Gross official reserves have risen moderately as programmed to US\$3.5 billion as of June 7 (8¼ weeks of prospective imports).
- **There have been tentative signs of a recovery in exports.** For April and May combined, exports rose by 4 percent year-on-year, the first increase in seven months. Non-oil exports grew by 9 percent, with notable improvements for textile, footwear, and handicraft exports, and in particular to the United States.
- **Through April 2002, bank credit and broad money grew** at an annual rate of 21½ percent and 23¼ percent, respectively, somewhat ahead of the program.
- **The fiscal stance in the first quarter was relatively tight, in line with seasonal patterns**, with an annualized budget deficit of 1¼ percent of GDP, against a program target of 4 percent of GDP. Both revenue and expenditure are running somewhat higher than programmed, with a shift towards capital expenditure.
- **As of mid June, 297 state-owned enterprises (SOEs) have completed equityizations, outright sales, or liquidations**, relative to the target of 400 set for the release of the second tranche under the Bank's Poverty Reduction Support Credit, which is envisaged for August.

2. **Status of the prior actions.** The authorities have confirmed that all prior actions noted in EBS/02/101 have been completed. (A full list of the prior actions for Board consideration of the PRGF review is summarized at the end of this statement.) In particular:

- The State Bank of Vietnam (SBV) has agreed with each of the four large state-owned commercial banks (SOCBs) on a **work program to prepare a credit manual** containing all credit policies and procedures, which incorporates necessary improvements based on each

bank's recent experience. These work programs have been prepared with Fund technical assistance and are already being implemented by the SOCBs, including with external experts.

- The Prime Minister has approved a **decision providing for the terms and conditions of recapitalization bonds for the SOCBs**, which are fiscally sustainable and consistent with program understandings. Specifically, the decision provides for the issuance of such bonds totaling D 8 trillion (1½ percent of GDP) over the period 2002–04, with a 20-year maturity at a fixed interest rate of 3.3 percent.
 - The SBV has agreed with each SOCB on **cumulative targets for the resolution of nonperforming loans (NPLs)**, which in the aggregate are consistent with the NPL resolution target of D 3.5 trillion set as a structural performance criterion for end-September 2002.
 - **A special monitoring unit has been formally established to assist the National Steering Committee for Enterprise Reform and Development (NSCERD) with enforcement power to oversee the implementation of the SOE reform plan.** While the group is organizationally attached to the Office of Government, and not within the NSCERD as originally envisaged, the Bank and Fund staffs consider its intent and mandate to be consistent with program understandings. Technical assistance from the Bank will be necessary to ensure strong implementation.
 - **In addition to the approval in April of Decree 41 specifying guidelines for safety nets for labor redundancies, the government approved on June 19 Decree 64 setting out, inter alia, guidelines for debt resolution for equitized SOEs.** This latter action was taken short of the normal five-day minimum period required for Board consideration of the PRGF review. The delay was due to the fact that the guidelines were part of a comprehensive decree designed to speed up and improve the transparency of equitization, which took longer than expected to finalize. The authorities have consulted with Bank and Fund staff on earlier drafts of these guidelines, and the approved guidelines are consistent with staff recommendations.
3. **In other related developments**, the SBV has agreed with each of the SOCBs on the year 2000 audit qualifications that are to be eliminated by end 2002, thus meeting ahead of time the end-June benchmark under the next PRGF review. With respect to the Fund's safeguards assessment, the authorities reported that the State Auditor is now finalizing the audit of the year 2001 financial statements of the SBV, and work to restate these accounts in accordance with international accounting standards is underway.

Vietnam: Summary of Prior Actions for Second PRGF Review

Policy Action/Conditions	Timing
Banking reform	
1. Issue implementation guidelines to apply State Bank of Vietnam (SBV) Decision 1627 to all loans (excluding policy loans) of commercial banks.	Completed April 16, 2002.
2. Agree with each state-owned commercial bank (SOCB) on a work program to prepare a credit manual, including all credit policies and procedures, which incorporates necessary improvements based on each SOCB's recent experience.	Completed June 14, 2002.
3. Government approval of the terms and conditions of bank recapitalization bonds that are fiscally sustainable and recapitalize the banks in stages as planned.	Completed June 14, 2002.
4. Agree with each large SOCB (Vietcombank, Incombank, Bank for Agriculture and Rural Development, and Bank for Investment and Development) on cumulative targets for loan resolution for end-September 2002.	Completed June 12, 2002.
State-owned enterprise reform	
5. Equip the special monitoring unit in the National Steering Committee for Enterprise Reform and Development (NSCERD) with enforcement power to oversee implementation of state-owned enterprise (SOE) reform plan.	Completed June 14, 2002.
6. Government approval of implementation guidelines on SOE debt resolution for equitized SOEs and safety nets for labor redundancies.	Completed April 11 and June 19, 2002.

NEWS  **BRIEF**

FOR IMMEDIATE RELEASE

News Brief No. 02/53
FOR IMMEDIATE RELEASE
June 21, 2002

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

IMF Completes Second Review of Vietnam's PRGF Program and Approves In Principle US\$53 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the second review of Vietnam's arrangement under the Poverty Reduction and Growth Facility (PRGF). The Board also determined that Vietnam's Comprehensive Poverty Reduction and Growth Strategy (CPRGS) provides a sound basis for Fund concessional financial assistance.

The Board's decision will become effective after the World Bank's review of the CPRGS, which is currently scheduled for July 2, 2002. Vietnam will be able to draw SDR 41.4 million (US\$53 million) from the arrangement.

Vietnam's three-year IMF-supported program was approved on April 6, 2001 (see [Press Release No. 01/12](#)). It amounts to SDR 290 million (US\$370 million), of which SDR 82.8 million (US\$106 million) has been disbursed.

The PRGF is the IMF's concessional facility for low-income countries. It is intended that PRGF-supported programs will in time be based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners, and articulated in a Poverty Reduction Strategy Paper (PRSP). This is intended to ensure that each PRGF-supported program is consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty.

EXTERNAL RELATIONS DEPARTMENT

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PRGF loans carry an annual interest rate of 0.5 percent, and are repayable over 10 years with a 5 ½-year grace period on principal payments.

After the Executive Board's discussion on Vietnam, Shigemitsu Sugisaki, Deputy Managing Director and Acting Chairman, made the following statement:

"The Vietnamese authorities have continued to make progress in implementing their three-year program, which seeks to improve competitiveness and spur investment in order to foster high growth and rapid poverty reduction. Economic performance under the first-year program was relatively strong and based on generally sound macroeconomic policies and progress in structural reforms. However, delays continued to be experienced in reforming state-owned enterprises (SOEs).

"The second-year program is therefore appropriately centered on a firmer implementation of the structural reform agenda, along with continued discipline in macroeconomic management. To promote growth and investment, the authorities will need to press ahead with steps to further open the economy to the private sector and to reform the trade regime and the state-owned commercial banks (SOCBs) and SOEs.

"The budget deficit will be capped at a financeable level, but adhering to this limit and ensuring medium-term sustainability will require strengthened revenue performance and spending discipline. Credit growth will continue to be restrained, to keep inflation low and to protect banks' asset quality. External debt management will remain prudent and will continue to rely primarily on concessional financing.

"The authorities are expected to press ahead with restructuring the four large SOCBs, bringing loan classification and provisioning in line with international best practices. Under the bank restructuring program, strategic equity participation by a foreign investor in one of the SOCBs is envisaged to take place by end-2003.

"To advance SOE reform, more forceful implementation of the authorities' three-year reform plan will be required. Recent steps taken to accelerate the pace of equitization will need to be fully implemented, and over time, the reform plan should be extended to cover the larger, heavily indebted SOEs.

"The authorities' Comprehensive Poverty Reduction and Growth Strategy has been prepared in a commendable participatory process. Its successful implementation will require careful prioritization and costing, strong expenditure management and monitoring, and a full assessment of the social impact of reform.

"In view of the encouraging progress thus far and the authorities' commitment to accelerate reforms in critical program areas, the Executive Board completed the second review under the arrangement, and granted waivers for the nonobservance of a number of performance criteria under the program, as well as for a minor incident of misreporting of reserves data," Mr. Sugisaki said.

**Statement by Kwok Mun Low, Alternate Executive Director for Vietnam
June 21, 2002**

On behalf of the Vietnamese authorities, I would like to express our appreciation to the Fund staff for devoting their time and unceasing efforts in working closely with the authorities to complete the second review of the PRGF-supported medium-term economic program. Despite the countless challenges and difficulties, the authorities' determination to vigorously pursue economic reforms under the program over the last year has become evident and begun to bear fruit.

In 2001, Vietnam achieved significant and encouraging results, a namely strong and sustainable economic growth rate, active transformation of the economic structure, greater mobilization of internal resources for investment in development, higher fiscal revenues compared with budget targets, reduction in the number of poor households and a decline in the unemployment rate. Despite these achievements, however, Vietnam continues to face enormous challenges. With the global economic slowdown, the shrinking market for Vietnamese exports after the tragic events of September 11, the continued decline in prices of most of the important commodities, and natural disasters in the Mekong Delta areas and several central provinces, Vietnam's prospects for achieving its annual targets for socio-economic development were made much more difficult.

Nevertheless, the Vietnamese authorities are committed to continue pursuing sound macro-economic policies and foster efficient state and private sector development as well as seek greater integration with the global economy. In particular, they are seeking to maintain strong and sustainable economic growth by tapping the full potential of all economic sectors, improve competitiveness and attract foreign investment. They would also speed up structural transformation of the economy, especially in the agricultural sector as well as reform the state-owned enterprises (SOEs) so as to enhance efficiency. The Vietnamese authorities acknowledge that reforms of the SOEs have proceeded slower than expected because of the many difficulties encountered. However, they are committed to accord greater priority to accelerating reforms of the SOE as well as the banking sectors in the period ahead, and these would be complemented with further deregulation of the private sector and liberalization of the trade sector.

With strong and sustained economic growth, this would enable the authorities to augment their poverty reduction strategy. The authorities will continue to implement policy measures which would encourage economic growth through raising production in the agricultural, industrial and services sectors. For 2002, the authorities target economic growth to reach between 7% and 7.3% with CPI inflation kept between 3% and 4%. The authorities also hoped to raise gross investments to 32% of GDP, create 1.4 million new jobs and provide vocational training to 1 million people.

To reach these goals, in the first half of 2002, despite the many difficulties and challenges, the momentum of reforms in the previous years has been sustained with the combined efforts of the Government and the business community across all economic

sectors. These efforts have yielded good results in the first four or five months, not only in the industrial sector and infrastructure investments, but also in fiscal revenues and some socio-cultural activities. It is estimated that in the first five months of 2002, industrial production increased by 14% compared with the corresponding period last year, with growth rates of the SOE sector, non-state sector and foreign invested enterprises reaching 11.4%, 19.4% and 13.6%, respectively. Prices have been relatively stable, with the consumer price index rising by only 2.8% over the first 5 months, entirely due to the increase in food prices. Although export earnings during this period were estimated to have declined by 6.8% compared with the same period last year, certain export items, such as rubber, coal, tea, handicrafts, footwear and textiles, grew strongly. Actual infrastructure investment under the central budget in the first five months is estimated to have increased by 15.3%. Total fiscal revenues over the same period is expected to have increased by 8.4%, of which revenue from SOEs is estimated to have risen by 6.1%. The budget deficit over the first five months is estimated to be only 18.2% of the annual deficit level approved by the National Assembly.

However, on an annualized basis, the overall economic growth performance as well as export earnings in the first half of 2002 appear to fall slightly short of expectations. Nevertheless, the Vietnamese authorities remained committed and determined to achieve the socio-economic indicators set for 2002 by continuing to take the necessary measures to promote production, stimulate investment demand, remove obstacles in the production and export of goods and services, and accelerate poverty reduction.

After one full year of implementing the economic program under the PRGF, the Vietnamese authorities are confident that the policies and measures stated in the MEFP are appropriate to the achievement of the said objectives. In May, the 11th National Assembly was elected. The new National Assembly plans to convene its first session in July to approve the new Cabinet, which is one of its most important undertakings. The new government is firmly committed to the program of reforms as outlined in the MEFP to industrialize and modernize the Vietnamese economy and it believes that it will be able to vigorously implement the comprehensive program.

As part of the PRGF-supported program, the authorities took about one year to finalize the draft of the Comprehensive Poverty Reduction and Growth Strategy (CPRGS), with broad participation of representatives of central and local governments, mass organizations and people from all walks of life. This is a clear indication of program ownership by Vietnam. This success could not have been achieved without the strong support of the IMF, the World Bank and other multilateral and bilateral donors.

In order to achieve the targets set in the CPRGS, the Vietnamese authorities will continue to do their best to capitalize on Vietnam's internal strengths and resources, but they will still have to count on the support and assistance from the international community, including the International Monetary Fund. The authorities would greatly appreciate the Board's understanding of the difficulties and challenges they faced, most of which were beyond their control. They would like to thank the Board for their support of Vietnam's PRGF program thus far and look forward to continued support of the Board for the completion of the second review of the PRGF program.