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Vietnam: 2007 Article IV Consultation—Staff Report; Staff Supplement and Statement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Vietnam

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2007 Article IV consultation with Vietnam, the following documents have been released and are included in this package:

- The staff report for the 2007 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on June 27, 2007, 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 August 28, 2007. 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 supplement on the joint IMF/World Bank debt sustainability analysis.
- A staff statement of October 26, 2007 updating information on recent developments.
- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its October 26, 2007 discussion of the staff report that concluded the Article IV consultation.
- A statement by the Executive Director for Vietnam.

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

Selected Issues Paper
Statistical Appendix

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

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

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VIETNAM

Staff Report for the 2007 Article IV Consultation

Prepared by the Staff Representatives for the 2007 Consultation with Vietnam

Approved by Masahiko Takeda and Anthony R. Boote

August 28, 2007

- **This report is based on discussions held in Hanoi during June18–27.** The staff team comprised Mr. Molho (Head), Ms. Tumbarello (both APD), Mr. Ahmed (PDR), and Mr. Sacasa (MCM). The team was assisted by Mr. Lee (senior resident representative). Messrs. Warjiyo and Raman (OED) participated in the discussions.

- **The last Article IV consultation was concluded on October 25, 2006.** (A summary of the Executive Board discussion can be found at http://www.imf.org/external/np/sec/pn/2006/pn06129.htm). This year, the staff and the authorities largely agreed that the main priorities for Vietnam's policies should be to contain inflation, protect financial stability, advance banking system reforms, and ensure medium-term debt sustainability. Differences of view principally related to the pace of implementation of adjustment measures and reforms in some of the above areas.

- **Economic statistics:** Data provision to the Fund is broadly adequate for surveillance, but shortcomings in key areas, especially in the financial sector, hamper the staff's analysis.

- **Exchange rate regime:** Vietnam has accepted the obligations of Article VIII, sections 2, 3 and 4 of the Articles of Agreement, and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions, except for exchange restrictions maintained for security reasons that have been notified to the Fund pursuant to Executive Board Decision No. 144-(52/51). Vietnam's exchange rate regime is currently classified as a conventional peg under the IMF's classification system.

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EXECUTIVE SUMMARY

- **The economic landscape since the last consultation has been dominated by WTO accession and a dramatic boom in the stock market.** Vietnam has now emerged on to the world stage as one of the most attractive investment destinations. However, growing exposure to global markets has complicated macroeconomic management and heightened the urgency of reform in state-controlled industries.

- **Overall macroeconomic performance remains strong.** Real GDP is projected to grow by more than 8 percent in 2007. Surging FDI and portfolio capital inflows have led to a sharp increase in reserves, fueling rapid growth in bank liquidity.

- **Inflation has picked up to 8.4 percent (y/y) as of July 2007.** While rising world commodity prices are a factor, tightening capacity constraints are also in evidence.

- **The fiscal deficit was contained to 3.8 percent of GDP in 2006, but it seems set to widen to 6½–7 percent of GDP in 2007–08.**

- **Credit growth picked up to 35 percent (y/y) as of May 2007.** To contain inflation and forestall a possible stock price bubble, the State Bank of Vietnam (SBV) has raised bank reserve requirements and tightened controls on share-related lending.

- **The authorities plan to step up equitization of state-owned commercial banks (SOCBs) and state-owned enterprises (SOEs).** However, new SOE-dominated financial-industrial groups could pose challenges for bank regulation and supervision.

Key issues and staff recommendations

- **The short-term outlook is positive, but demand pressures need to be contained to promote sustainable growth.** To rein in credit growth, the recent increase in reserve requirements needs to be supported by strong efforts to absorb excess bank liquidity.

- **The level of the dong seems broadly in line with the maintenance of external stability.** However, a more flexible exchange rate could improve the effectiveness of monetary policy, and buffer the economy from the effects of volatile capital flows.

- **Fiscal consolidation is essential to promote disinflation and medium-term debt sustainability, and create space for countercyclical fiscal policies in the future.**

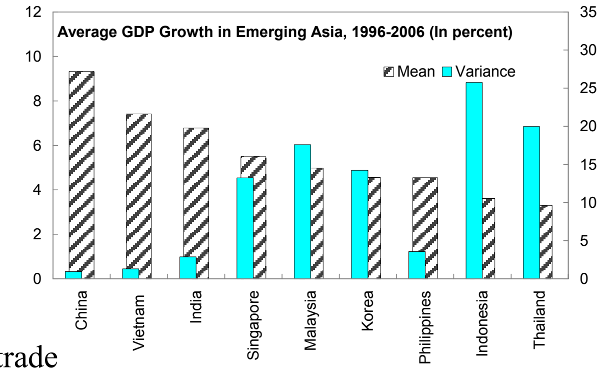
- **Reforms to improve the governance of SOEs need to be accelerated to improve the quality of investment and growth and facilitate fiscal consolidation.**

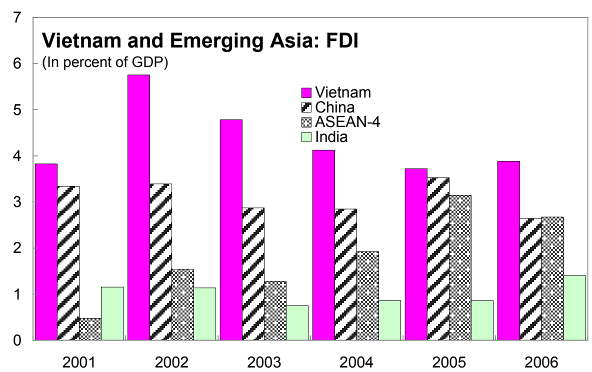
- **To protect financial stability, bank supervision and transparency requirements in the stock market need to be further strengthened.**

I. Economic Developments and Outlook

A. Background

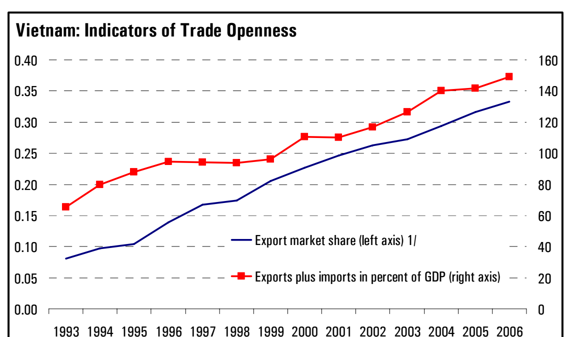
1. **Vietnam has recorded impressive economic performance in recent years.** GDP has recorded the second-highest growth rate in Asia over the last decade, poverty has fallen from 58 percent in 1993 to less than 25 percent in 2006, and most social indicators have shown marked improvement (Table 1). These gains have been achieved with the help of an outward-oriented development strategy, including far-reaching reforms to open up the trade and investment regimes.





Sources: WEO; and Fund staff estimates.

2. **WTO accession has further improved Vietnam's economic prospects, but has also given rise to new challenges.** Growing access to foreign markets and a continuing opening up of the economy can be expected to yield significant benefits (Box 1).[1] Capital inflows have contributed to a decline in domestic-currency bond yields and a boom in the stock market, boding well for the financing of Vietnam's investment needs. However, portfolio capital flows are posing complex challenges for macroeconomic management. Increasing global competition will also call for faster market-oriented reforms in the state-dominated sectors of the economy.



Sources: IMF, *Direction of Trade;* and IMF staff calculations.
1/ Vietnam's exports as a percentage of world imports.

B. Recent Macroeconomic and Financial Market Developments

3. **Overall macroeconomic performance has been strong since the conclusion of the last Article IV consultation, but demand pressures pose risks to the outlook.**

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[1] Chapter 1 of the selected issues paper provides a detailed analysis of the implications of WTO accession.

- **GDP rose by 8.2 percent in 2006, led by continued rapid growth in exports** (Figure 1). Despite lackluster performance by the state sector, industrial activity, retail sales, and trade data point to a sustained strong expansion so far in 2007.

Vietnam: Activity Indicators, 2004–07
(Percentage change)

	2004	2005	H1 2006	2006	H1 2007
	(At constant 1994 prices)				
Real GDP	7.8	8.4	7.5	8.2	7.9
Industrial production	16.6	17.2	15.9	21.3	16.8
	(At current prices)				
Retail sales	19.4	20.5	19.7	20.9	22.9
State sector	14.2	3.9	8.0	16.0	-7.7
Non-State sector	20.9	23.6	18.9	21.4	29.5
Foreign-invested enterprises	10.3	20.7	21.9	27.1	28.1

Sources: General Statistics Office; and Fund staff estimates.

- **However, inflation has crept up to 8.4 percent (y/y) in July.** This pick-up is due partly to rising food and world commodity prices, and overdue adjustments in administered prices.[2] However, Vietnam's core inflation has remained stubbornly high, compared with other countries in the region (Figure 2). Shortages of skilled labor, increases in the minimum wage, and strong demand for housing and construction materials also appear to be pushing up prices.

- **The balance of payments remains sound.** Import growth picked up to 30 percent (y/y) during the first seven months of 2007, but high oil prices and booming non-oil exports helped to restrain the current account deficit. With buoyant FDI and portfolio inflows, official reserves rose from \$11.5 billion at end-2006 to \$19 billion (3½ months of next year's imports of goods and services) in May 2007 (Figures 3 and 4).

- **Vietnam's stock market experienced an unprecedented boom in late 2006 and early 2007.** The Ho Chi Minh City (HCMC) Stock Market Price Index rose by 144.5 percent in 2006, and by another 51 percent in early 2007, before receding by about 20 percent during March–July. Improved market confidence following WTO accession, a rapid expansion of the number of listed companies, and foreign

[2] Electricity tariffs were raised by 8 percent in January 2007, and gasoline prices were liberalized in May. However, the government has recently decided to postpone adjustments in coal and fertilizer prices previously planned for the second half of the year, reduced tariffs on some imported food products and intermediate inputs effective August 8, 2007, and advanced the introduction of WTO-mandated tariff reductions on imported cars.

investors' increasing appetite for risky assets spurred foreign and domestic investment in shares, with the latter partly financed by local banks.[3]

Vietnam. Price Indicators, 2003-07
(end-of-period, annual percentage change)

	2003	2004	2005	2006	Mar-07	Jun-07	Jul-07
Headline Inflation	2.9	9.7	8.8	6.6	6.8	7.8	8.4
Food	2.8	15.6	11.1	7.9	8.1	9.9	11.1
Staples	2.9	13.6	7.9	14.1	14.7	14.9	15.0
Foodstuff	2.8	17.2	12.1	5.5	5.5	8.1	10.1
Core 1/	2.6	1.4	3.0	4.3	4.6	4.6	4.6
Garments	3.3	4.8	5.0	5.8	5.8	6.2	6.4
Household equipments	2.1	3.6	4.9	6.2	6.4	6.2	6.4
Housing & construction	3.3	4.8	5.0	6.7	7.0	7.8	8.5
Fuel	6.0	22.1	27.0	8.6	8.5	9.3	8.5

Sources: General Statistics Office, and Fund estimates.
1/ Nonfood component of CPI net of fuel and fuel-related items.

- **Despite increased sterilization, the growth of credit to the economy picked up from 25 percent in 2006 to 35 percent (y/y) as of end-May 2007, with joint-stock banks recording the fastest credit growth.** Reserve requirements on bank deposits were virtually doubled from June 2007 (to a range of 4 to 10 percent). However, with bank liquidity remaining ample, interbank rates rose only for a brief period in June, and subsequently reverted to the low levels recorded in previous months (Figure 5).

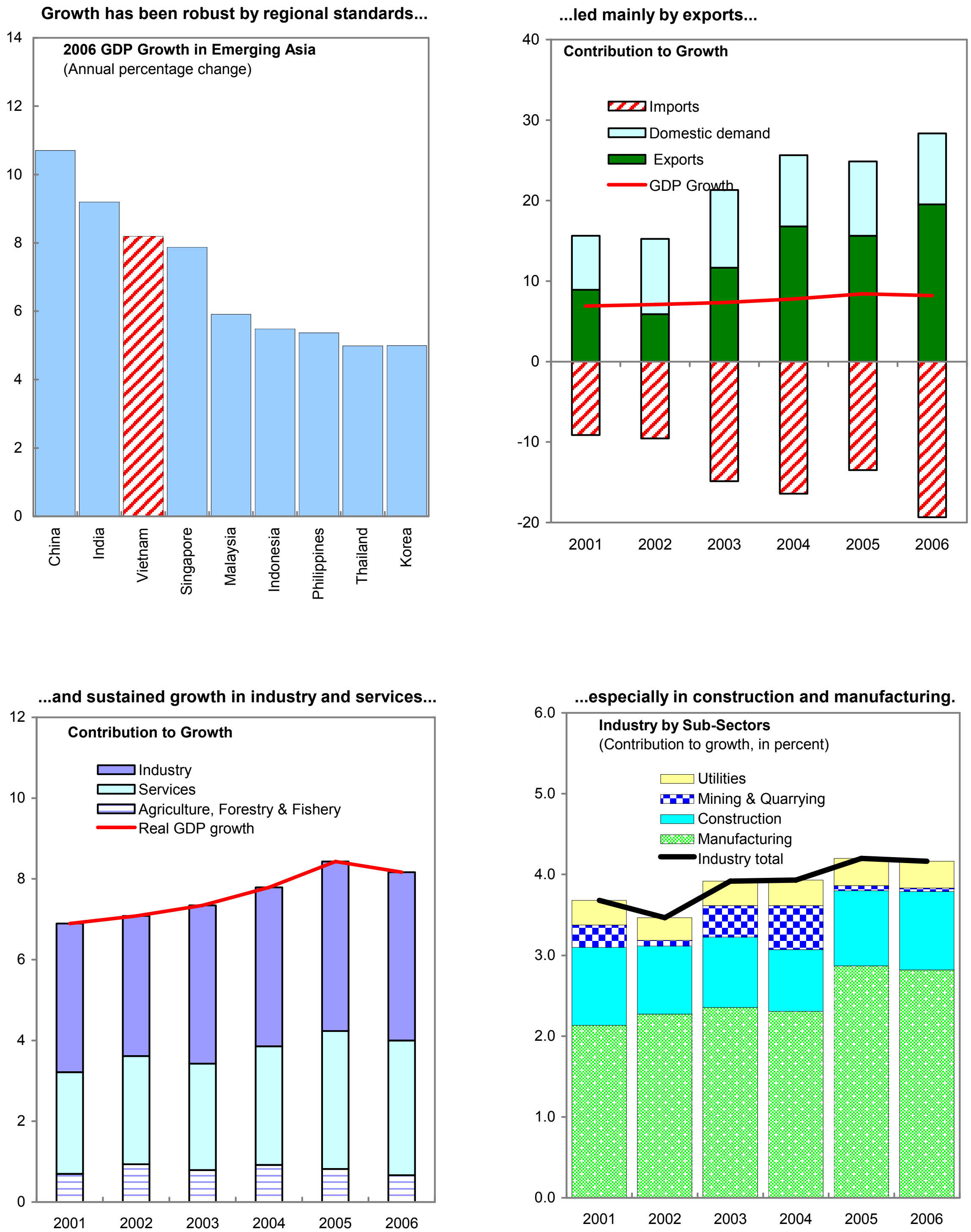
- **The overall fiscal deficit was lower than budgeted in 2006, but the fiscal stance appears set to be eased in 2007.** A better-than-expected revenue outturn, together with slow implementation of off-budget investment plans, helped to compress the overall deficit to 3.8 percent of GDP. However, if the government fully implements its plans for 2007, the fiscal deficit could widen to well over 7 percent of GDP in 2007, with the non-oil deficit rising by at least 1–1½ percentage points of GDP.

- **Vietnam officially maintains a managed floating exchange rate regime, but the dong has been pegged de facto to the U.S. dollar over the last few years.** The dong/U.S. dollar rate depreciated by 1.3 percent in 2006, and by another 0.3 percent during the first seven months of 2007. In January 2007, in the face of large capital inflows, the trading band of the dong was widened from ±0.25 percent to ±0.5 percent around the SBV's daily reference rate, and the dong was allowed to appreciate modestly. However, this appreciation has been more than reversed since March.

- **The nominal effective exchange rate (NEER) of the dong has depreciated by about 8 percent since end-2005, but the real effective exchange rate (REER) has been broadly stable, and remains close to its long-run average.**

[3] Chapter 2 of the selected issues paper includes a further discussion of recent stock market developments.

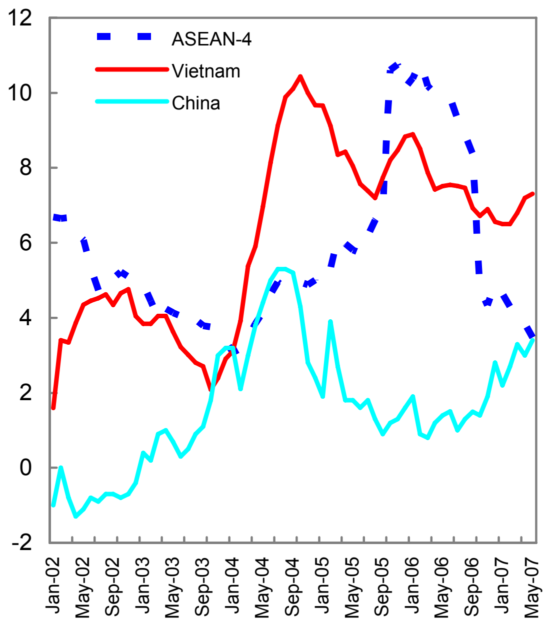
Figure 1. Vietnam: GDP Growth: Some Stylized Facts



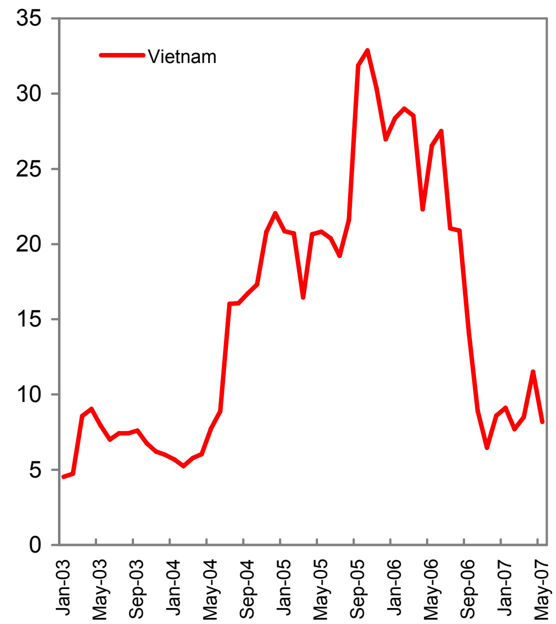
Sources: WEO Database; General Statistics Office; and Fund staff estimates.

Figure 2.Vietnam: Measures of Inflation. Regional Comparisons, 2002–07
(Year-on-year increases in prices, in percent)

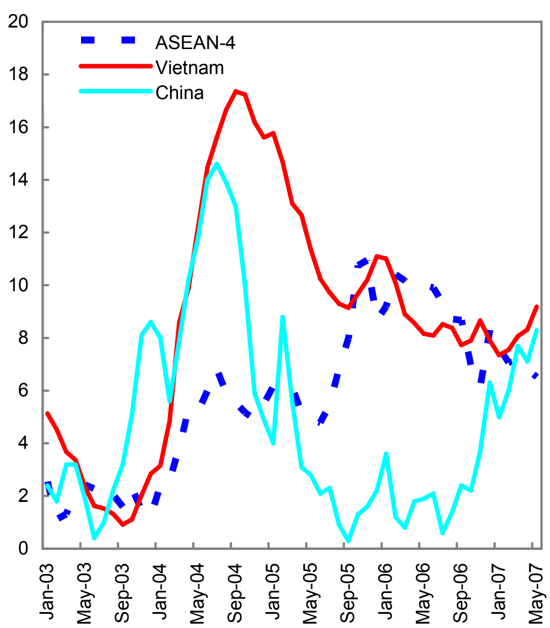
Headline inflation has declined from its peak levels reached in 2004...



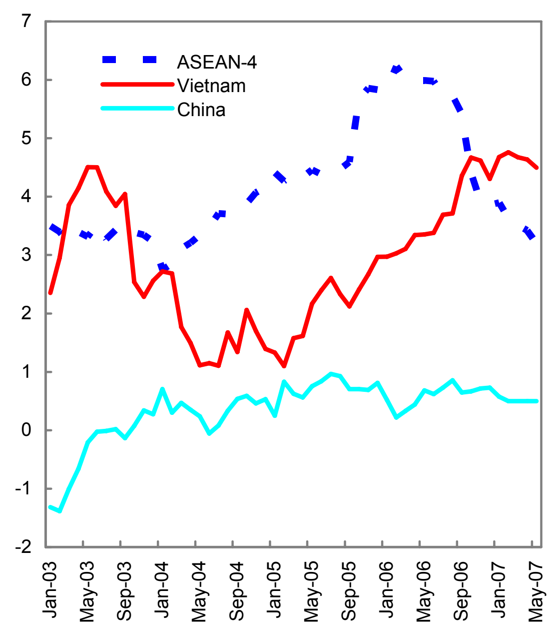
...as fuel inflation has fallen markedly...



...but food inflation has shown signs of picking up in recent months...



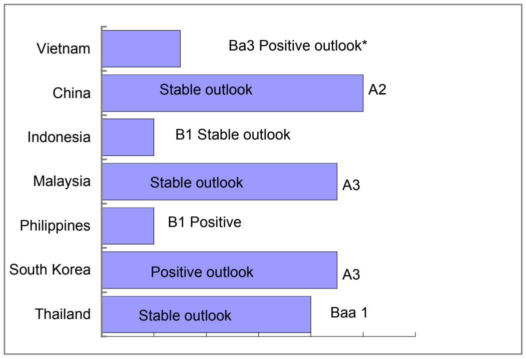
...and core inflation has remained on a upward trend.



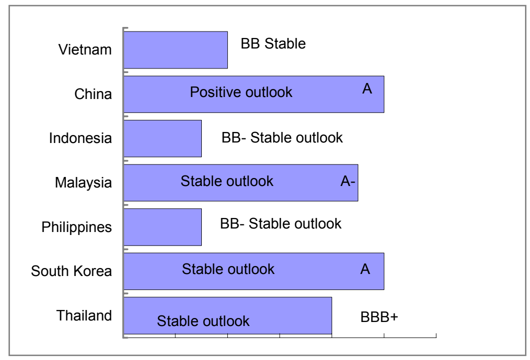
Sources: General Statistics Office; and Fund staff estimates.

Figure 3. Vietnam: Financial Market and External Developments

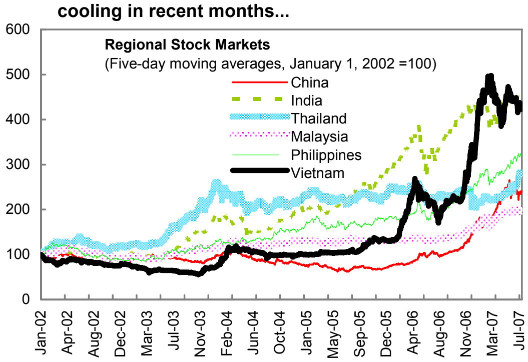
Moody's LTFC Debt Rating 1/



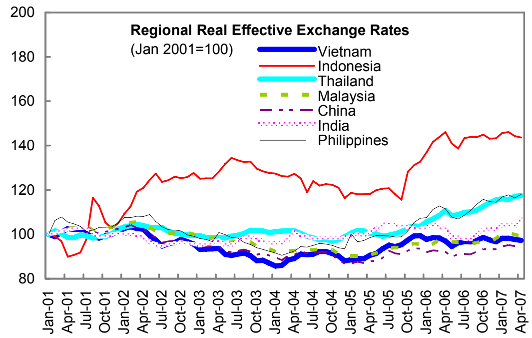
Standard & Poor's LTFC Debt Rating 1/



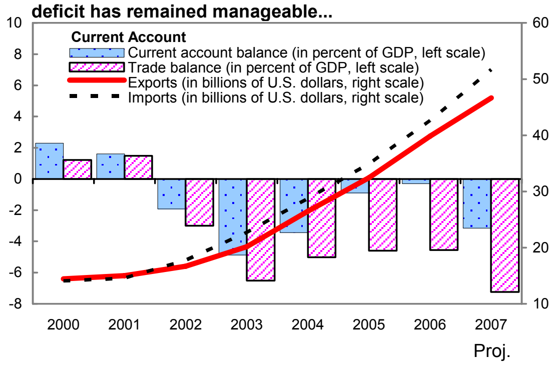
Vietnam's stock market boom has shown signs of cooling in recent months...



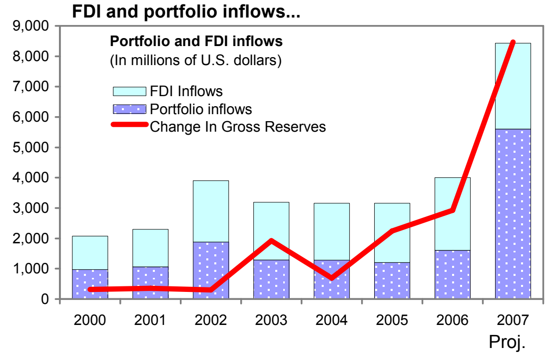
...while the dong has depreciated relative to other countries in the region.



Although the trade deficit has widened, the current account deficit has remained manageable...



...and is being more than financed by strong FDI and portfolio inflows...

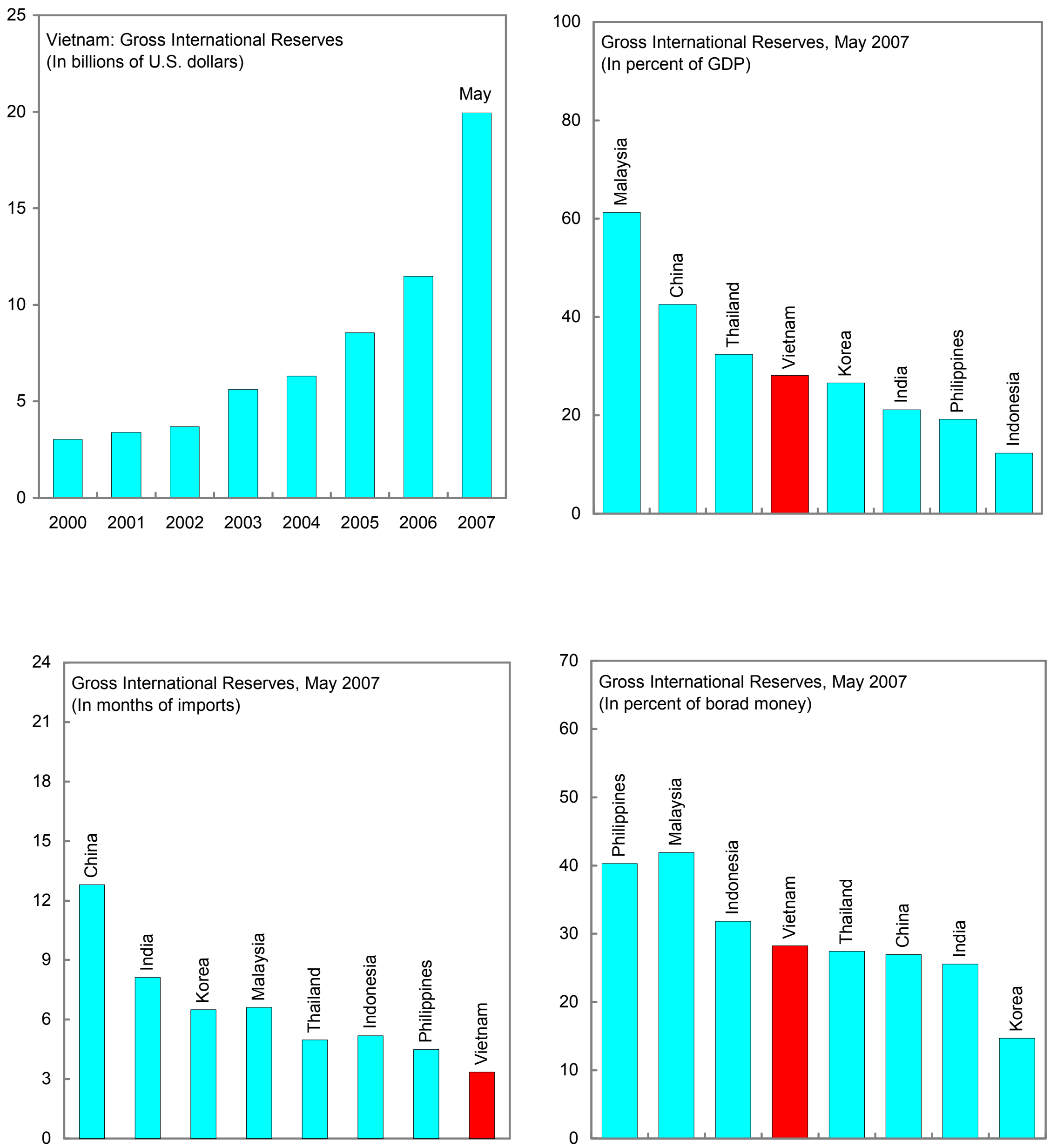


Sources: Moody's; Standard & Poor; Bloomberg; Information Notice System; APDCORE; and WEO databases.

1/ LTFC refers to long-term foreign currency.
2/ Stock price index with January 1, 2002 =100.

Figure 4. Vietnam: Gross International Reserve Indicators

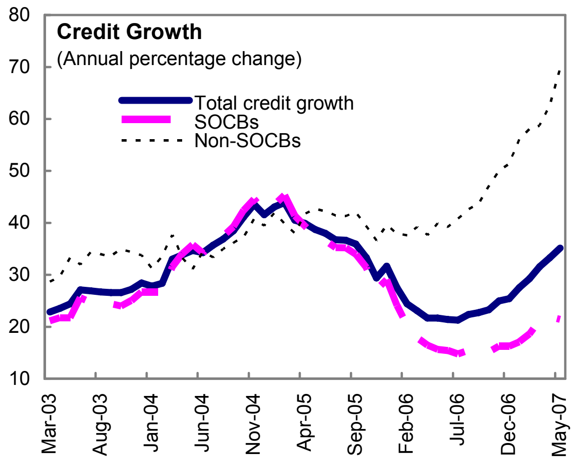
... but reserves are still modest by regional standards



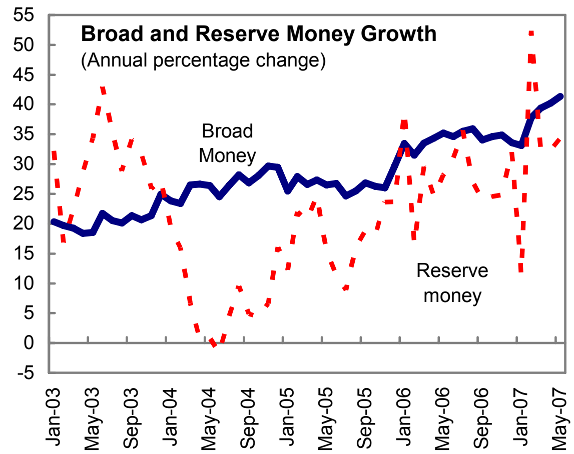
Sources: WEO and APDCORE databases.

Figure 5. Vietnam: Banking Sector Developments

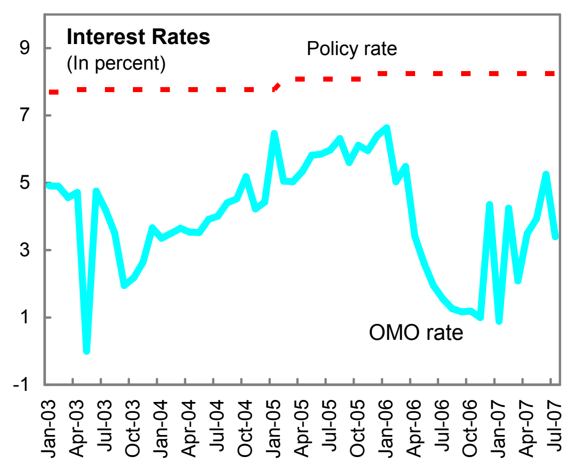
Credit growth has picked up again since late 2006...



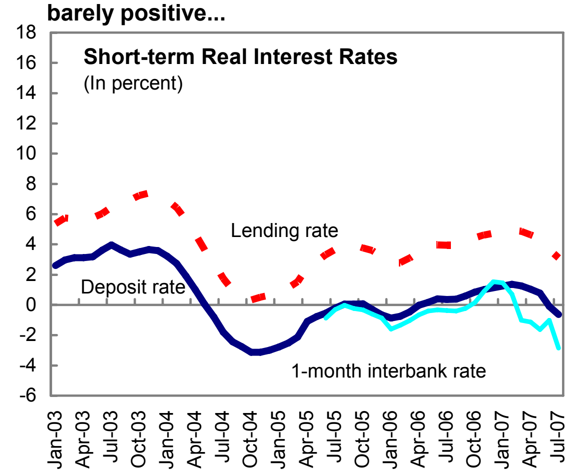
...and broad money growth has remained high.



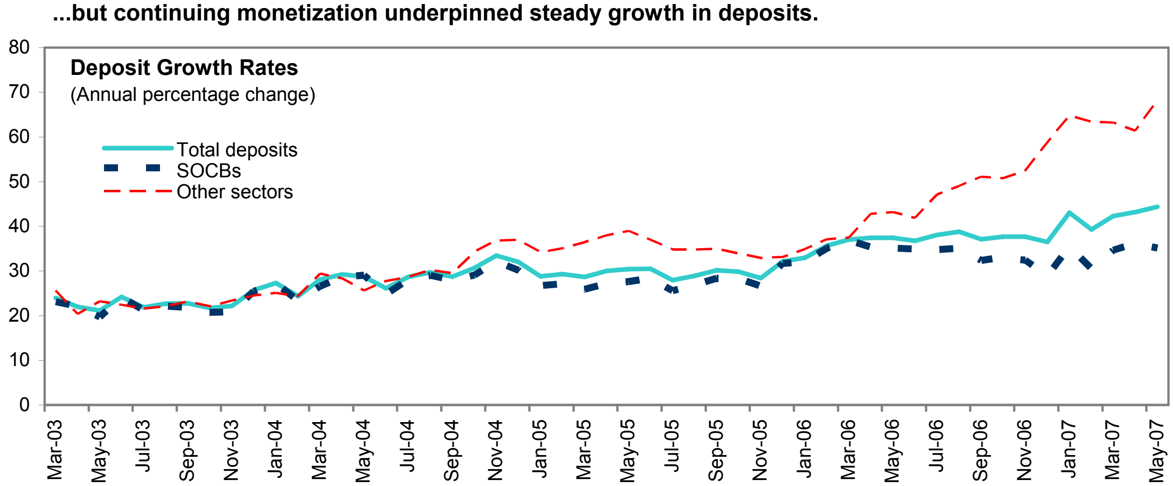
Policy rates have been on hold since December 2005 while the OMO rate has fallen markedly...



...and interbank rates have turned negative in real terms, while deposit rates have remained barely positive...



...but continuing monetization underpinned steady growth in deposits.



Source: State Bank of Vietnam.

C. Macroeconomic Outlook and Risks

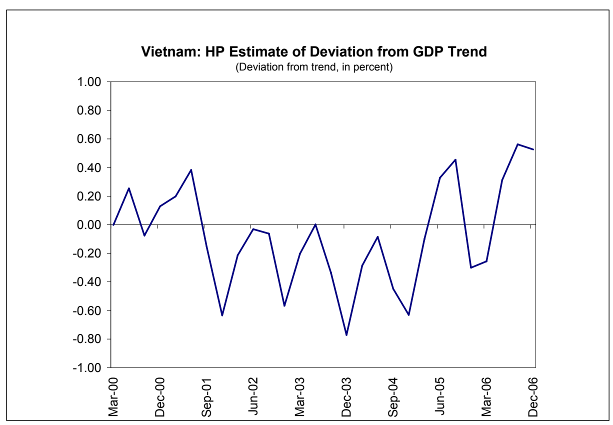
4. **The near-term outlook remains favorable.** GDP is projected to expand by about 8¼ percent in 2007–08, underpinned by strong growth in exports, investment, and private consumption. The average rate of inflation would rise to 7½–8 percent, as higher food prices and nonfuel commodity prices compound the impact of tightening capacity constraints. The current account deficit would widen to 3¼ percent of GDP, but it would be more than financed by ODA and private capital inflows.

Vietnam: Medium-Term Scenario, 2006-12

	2006	2007	2008	2009	2010	2011	2012
Real GDP 1/	8.2	8.3	8.2	8.0	8.0	7.8	7.8
CPI Inflation (period average) 1/	7.5	7.3	7.7	6.9	6.5	5.8	4.8
Saving-investment balance 2/	-0.3	-3.2	-3.2	-3.5	-3.6	-3.5	-3.4
Saving	35.0	32.5	32.6	31.9	32.0	31.7	32.0
Investment	35.3	35.7	35.8	35.5	35.6	35.2	35.4
Overall fiscal balance 2/	-3.8	-6.9	-6.6	-5.8	-5.6	-5.6	-5.6
Non-oil fiscal balance 2/	-13.5	-14.8	-14.5	-12.8	-11.7	-11.0	-10.5
Total public debt 2/	43.3	43.4	44.9	46.0	46.8	47.7	48.7

Sources: Data provided by the authorities; and staff estimates and projections.
1/ Annual growth rate.
2/ In percent of GDP.

5. **Vietnam has good prospects for sustained growth and poverty reduction over the medium term, provided that the government can rein in demand pressures.** As illustrated in the staff's medium-term scenario, a soft landing should be feasible if the SBV can slow credit growth in line with the stated official objectives; the real effective exchange rate of the dong is placed on a path of slow appreciation; the overall fiscal deficit declines slowly from 7 percent of GDP, in line with official projections; and the non-oil deficit peaks at 14¾ percent of GDP in 2007–08, and falls to 10¾ percent of GDP by 2012.



6. **Under these assumptions, GDP growth would edge down to slightly below 8 percent in 2011–12, thus moving closer in line with the economy's potential.** Inflation could be placed on a declining trend from 2008 onwards as WTO-mandated tariff reductions help contain pressures on the prices of tradables and divert demand to imports. The current account deficit would edge up to around 3½ percent of GDP over the medium term, but it would continue to be more than financed by FDI and other private inflows.

7. **The staff's updated Debt Sustainability Analysis (DSA), as elaborated in Supplement 2, suggests that Vietnam's external debt situation would remain benign under the baseline, provided that external borrowing policies remain prudent.** The ratio of external debt to GDP would fall below 30 percent over the medium term, while the debt service-to-exports ratio would remain below 5 percent. The stock of total public debt would remain on an upward trend, rising from 43½ percent of GDP in 2006 to 48½ percent of GDP in 2012. However, the debt service-to-revenue ratio would be contained to 14–15 percent.

8. **This favorable outlook is subject to risks.**

- **Large capital inflows in the context of the de facto peg of the dong could prevent an effective tightening of monetary policy.** Inflation could remain on an upward trend, possibly rising to double-digits by 2009–10. More rapid appreciation of the real exchange rate could then lead to losses in competitiveness, and a more significant widening of the current account deficit, which could, in time, threaten external sustainability and undermine investor confidence. Eventually, belated introduction of needed adjustment measures could lead to sharp falls in investment and growth.

- **Unchecked credit growth, together with a weak regulatory environment, could also threaten financial system stability.** Despite the recent correction, there are still risks associated with possible volatility in stock prices, and a reversal of portfolio inflows. To the extent that bank borrowers have taken on large stock market-related risks, and unhedged foreign-currency loans on the expectation of continued exchange rate stability, there could be fall-out on the soundness of some banks.

- **On the fiscal front, key risks would stem from large increases in public wages and pensions, heavy on-lending to SOEs, and/or falling oil-related revenues.** Lack of fiscal adjustment could, in turn, compound pressures on inflation and the external current account, and lead to rapid accumulation of public debt. Some of these risks are highlighted in the DSA, under alternative scenario A2, which illustrates that, if the primary balance were to remain unchanged, the debt-to-GDP ratio, the debt-to-revenue ratio, and the debt service-to-revenue ratio would all rise sharply. To protect debt sustainability, the government could eventually have to curtail investment or social outlays, thus undermining growth and poverty reduction.

- **Insufficient improvement in banking sector and SOE governance, and continued state-sector dominance of key industries, could pose additional risks.** Sub-optimal lending and investment by these sectors would weaken the efficiency of investment and possibly place additional future burdens on the budget.

II. Key Challenges and Policy Discussions

9. **Against this background, the main policy challenges that Vietnam needs to address are:**

- Adapting monetary and exchange rate policies to contain inflation and protect external stability;
- Strengthening the regulatory framework in the financial system to take full advantage of the developing capital market, while reducing associated risks and vulnerabilities;
- Moving ahead with banking system reforms to foster competition and efficiency, while reinforcing prudential supervision to ensure bank soundness;
- Pursuing fiscal consolidation to counter potential adverse effects of capital inflows, contain the current account deficit, and promote medium-term debt sustainability;
- Placing SOE reforms on a faster track to enable SOEs to meet the challenges of global competition, and decrease their reliance on the budget.

A. Monetary and Exchange Rate Policies

10. **The authorities are wary of rising inflation, and they have taken welcome steps to tighten monetary conditions.** With liquidity continuing to be fueled by rising reserves, the SBV took the bold step of doubling reserve requirements on bank deposits from June 2007, while also increasing its sales of SBV bills. However, the extent of sterilization has been insufficient to slow credit growth. Although interbank rates rose initially in response to the increase in reserve requirements, they have since fallen back to the low levels reached in April-May. The authorities recognize that further action will likely be required in the period ahead to slow the growth of money and credit, and they are ready to step up the issuance of SBV bills. Sterilization is not considered to be costly at this point, as open market operations (OMO) rates have so far remained lower than rates of return on official reserves.

11. **In the staff's view, Vietnam's balance of payments is basically sound, and the level of the exchange rate is broadly consistent with the maintenance of external stability** (Box 2). However, the maintenance of a broadly stable exchange rate vis-à-vis the U.S. dollar has resulted in a significant depreciation of the NEER as the dollar weakened vis-à-vis other major currencies over the last year, and the SBV's intervention policies have complicated monetary management.

12. **In this context, the staff argued that this is a propitious time for a move toward a more flexible exchange rate regime.** In the face of continuing large inflows, greater flexibility of the exchange rate would serve to stem inflationary pressures while decreasing the need for intervention and sterilization. Increasing two-way flexibility would also help foster the development of markets for derivatives, encourage better hedging of exchange rate risks, and allow the exchange rate to act as a shock absorber in the event of future reversal of capital inflows. A more flexible exchange rate would also be an essential element of the authorities' planned move toward the adoption of an inflation-targeting (IT) regime.

13. **The authorities noted that the government's roadmap for exchange system liberalization envisaged progressive increases in exchange rate flexibility.** They agreed that, as the economy becomes more open to capital flows, allowing two-way flexibility in the exchange rate would introduce a higher degree of risk in foreign exchange operations, which could help to discourage one-way bets on the exchange rate. However, they were also mindful of the need to protect competitiveness, encourage exports, and contain the trade deficit. Given the economy's increasing exposure to the risk of reversal of capital inflows, and the SBV's moderate level of reserves, they considered it prudent to continue to build their reserve cushion, and were inclined to maintain a cautious pace of change in their current exchange rate and intervention policies.

B. Financial Sector Issues

Reducing vulnerabilities associated with the stock market

14. **The authorities have relied on prudential measures to cool down the market, and have so far ruled out recourse to capital controls.** In January, banks were required to phase out their lending to their securities company affiliates within one year, and the risk weight of securities-related loans was raised from 100 percent to 150 percent. In June, banks were required to contain their securities-related credit to less than 3 percent of total loans outstanding, with banks above this limit required to comply by end-2007. Banks were also required to report monthly to the SBV their exposures to such credit, with those exceeding the cap subject to closer monitoring. The team supported these initiatives. It also advised the authorities to thoroughly assess potential weaknesses in highly-exposed banks to determine any possible needs for supervisory action, and to apply adequate standards and procedures to better manage foreign exchange, interest rate, and liquidity risks. Securities market exposures are so far concentrated in smaller joint-stock banks. Given that all SOCBs (which account for nearly 70 percent of bank assets) are reported as below the 3 percent cap, further measures may be needed to ensure that they do not unduly increase securities-related lending.

15. **The authorities are keen to improve securities market regulation.** A new Securities Law came into force in 2007, and the State Securities Commission (SSC) has strengthened enforcement of disclosure and transparency requirements on listed companies. However, the SSC is facing serious capacity constraints, and its salary structure makes it difficult for it to attract and retain a sufficient number of adequately-qualified staff. In addition, the existing legislation includes weak penalties against insider trading, and there are concerns that the stock market can be easily used for money laundering.

Banking sector reform and supervision

16. **Important steps are under way to open up the banking system in line with WTO commitments.** A decree issued in April clarified conditions for foreign participation in domestic banks, and raised the maximum share of individual strategic investors in each bank from 10 percent to 15 percent (or 20 percent with the Prime Minister's permission). In

addition, since mid-June 2007, foreign banks can apply for the establishment of wholly owned subsidiaries, and a number of such applications have been submitted to the SBV.

17. **The stock market listing and partial privatization (equitization) of SOCBs has recently been placed on a faster track.** The government is injecting VND 11 trillion (US$0.7 billion or about 1 percent of GDP) to the SOCBs set for stock market listing to enable them to meet the SBV's capital adequacy requirements. Three of the banks have hired major international banks to assist them in appraising assets, planning IPOs, and selecting strategic investors, and the IPOs are now slated for late 2007 or early 2008. The mission welcomed these steps, and stressed the need to offer adequate scope and incentives for participation by foreign strategic investors to ensure that equitization will bring about needed improvement in SOCBs' corporate governance. The team questioned whether the recent capital infusions would suffice to restore the SOCBs' capital adequacy under realistic provisioning. The authorities noted that, while the current provisioning was based on Vietnamese Accounting Standards, the use of IFRS would have an ambiguous effect on the capital adequacy of SOCBs, as it would require a marking to market of real estate and equity holdings now accounted for at acquisition cost. Pending the equitizations, the mission urged the authorities to allow SOCB managers to make lending decisions based on purely commercial criteria.

18. **Over the medium term, the authorities plan to convert the SBV into a modern, more independent central bank**. Following equitization, the responsibility for exercising the government's ownership rights on SOCBs will be transferred from the SBV to the State Investment Capital Corporation (SCIC), thereby removing the conflict of interest that has hitherto constrained SBV's bank supervision. New draft laws on the SBV, Credit Institutions, Deposit Insurance, and Bank Supervision are to be submitted for consideration by the National Assembly beginning in 2008. In the meantime, the SBV will strive to improve coordination among its various departments in the conduct of bank supervision. In addition, the SBV, the SSC, and the Ministry of Finance need to improve the tracking of transactions among banks, their securities company affiliates, and the buyers or issuers of securities. The team expressed concern about the risks posed by related-party transactions within SOE groups involved in a mix of industrial operations and financial services. The authorities explained that, under existing regulations, each nonfinancial company can hold no more than a 20 percent stake in at most one bank, and banks are not allowed to make any loans to their principal shareholders. The authorities considered these provisions adequate to prevent inappropriate related-party transactions.

C. Ensuring Fiscal Consolidation and Debt Sustainability

19. **The authorities and the staff agreed that the risk of inflation calls for a more cautious fiscal stance.** The team recommended that any unanticipated additional revenue resulting from rising income, improved tax administration and higher oil prices should be saved in 2007, and the funding of SOE projects through the issuance of sovereign bonds

postponed. The authorities have decided to postpone wage increases previously planned for October. However, the government attaches great importance to removing Vietnam's infrastructure bottlenecks, as this is essential to encourage FDI and promote growth.[4] In this context, the authorities intend to use any revenue windfalls for the implementation of additional investment projects. Even so, they expect that under-execution of approved projects would likely keep the fiscal deficit to a level below the staff's projection.

20. **The need to protect medium-term debt sustainability will require a concerted effort to bolster revenues and curb expenditure growth.** The authorities recognize that the import tariff reductions following WTO accession, together with pressures to align corporate income tax rates with those of regional competitors, call for stepped up efforts to protect non-oil revenues. The team recommended that existing tax reform plans be revisited, and tax administration strengthened, including by expediting the establishment of a Large Taxpayer Unit. Moreover, to contain the government's wage bill and pension liabilities, the indexation of public wages and pensions to the common minimum wage should be discontinued, and a more differentiated and merit-based salary structure adopted instead. While slowing public investment growth is likely to be a challenge, projects funded through investment bond issues or on-lending should be screened more rigorously, and the loan appraisal and risk management capacities of the Vietnam Development Bank (VDB) strengthened.

III. SOE Reform, Data Issues, and Other Matters

21. **The government's reform strategy in the SOE sector continues to be centered on broadening the process of partial privatization through equitization.** The recent boom in the stock market had created a propitious environment for a stepped up pace of equitization, and the government has decided to expand the range of SOEs to be equitized, including in strategic industrial sectors and public services. A major insurance company (Bao Viet) recently carried out an IPO, and a number of other large SOEs are slated to be equitized in the second half of 2007 or early 2008, depending on conditions in the equity market. However, the role of foreign strategic investors is to be determined on a case-by-case basis, and it remains to be seen whether they will be given enough scope to bring about needed improvements in the corporate governance of SOEs.

22. **The authorities recognize the need to improve macroeconomic and financial statistics.** They are keen to improve the compilation, monitoring and analysis of Financial Soundness Indicators (FSIs), showed interest in Fund technical assistance in this area, and are prepared to cooperate on improving the staff's access to data needed for improved financial sector surveillance. In the fiscal area, the authorities intend to adopt more transparent accounting of extra-budgetary operations. In addition, they agreed that there is a

[4] Chapter 3 of the selected issues paper includes a more systematic effort to assess the extent to which public investment may crowd in or crowd out private investment in Vietnam.

need for improved coverage of data on external debt, portfolio capital flows, and government and SOE bond issues. To facilitate effective monitoring of developments in the above areas, the team stressed the importance of better coordination and information-sharing among the SBV, the SSC and the MOF.

23. **The team encouraged the authorities to move ahead with the issuance of implementing regulations for Vietnam's Anti-Money Laundering Decree.**

IV. Staff Appraisal

24. **Vietnam's economic performance has been impressive over the last decade.** Real GDP has increased on average by 7½ percent a year and poverty has fallen sharply. Following its historic WTO accession, Vietnam has emerged on to the world stage as one of the most attractive investment destinations.

25. **The near-term outlook remains favorable, but medium-term prospects are clouded by gathering demand pressures.** Growth is projected to remain above 8 percent in 2007–08, underpinned by rapid export growth, strong foreign and domestic investment, and rising consumption. However, inflation has crept up again in recent months, and remains stubbornly high relative to major trading partners. On the external front, demand pressures have been reflected in a widening current account deficit. While the deficit is being more than financed by ODA and private capital inflows, and the SBV's cushion of reserves is being built up, Vietnam's ongoing financial integration in the context of its relatively rigid exchange rate makes the external position vulnerable. Overheating in the stock market could pose additional risks to financial stability.

26. **To promote sustainable growth and safeguard external stability, a more effective mix of monetary and exchange rate policies, vigilant financial system supervision, and a prudent fiscal stance will need to be adopted.** In this regard, the staff supports the authorities' recent steps to tighten monetary conditions, and urge the authorities to issue sufficient amounts of SBV bills, as needed, to absorb excess bank liquidity and slow credit growth on a sustained basis.

27. **The staff welcomes the authorities' plan to introduce greater flexibility in the exchange rate regime, but urges them to accelerate its implementation.** While the de facto peg of the dong to the U.S. dollar has played a useful role as a nominal anchor over the last few years, and its level currently seems consistent with the maintenance of external stability, continuation of this policy would not meet the current and future needs of the Vietnamese economy. A more flexible exchange rate could facilitate the tightening of monetary policy in the period ahead, while decreasing the need for intervention and sterilization. Greater two-way flexibility would also help foster the development of hedging instruments, encourage better hedging of exchange rate risks, and protect external financial stability in the event of abrupt and disruptive reversals of capital inflows.

28. **The growing securities market offers promising opportunities for cost-effective financing of Vietnam's investment needs, but has also created new risks.** The staff supports the authorities' measures to tighten prudential controls on banks' exposures to securities-related lending. Improved securities market regulation, including additional steps to discourage inappropriate trading practices, insider trading, and money laundering, will also be essential to protect the stability and integrity of the capital market.

29. **The new possibilities for financing through the capital market, JSBs, and foreign-owned banks have increased the urgency of banking system reform.** The staff welcomes the government's plans to accelerate the equitization of the main SOCBs, and urges it to offer adequate scope and incentives for participation by foreign strategic investors. Also welcome are the authorities' medium-term plans to grant the SBV adequate authority and independence to carry out an anti-inflationary monetary policy and more effective bank supervision. In the meantime, the SBV, the SSC, and the Ministry of Finance are urged to better coordinate their efforts to track vulnerabilities associated with transactions among banks, their securities company affiliates, and the domestic and foreign buyers of securities.

30. **A more prudent fiscal policy is also appropriate.** Given the limited room for maneuver in monetary policy in the short run, and the need to create space for possible recourse to a countercyclical fiscal policy in the future, the non-oil fiscal deficit needs to be placed on a declining path as soon as possible. The staff welcomes the government's decision to reconsider earlier plans for further large increases in public wages. In addition, any revenue windfalls should be saved, and the funding of SOE projects through the issuance of sovereign bonds postponed.

31. **Over the medium term, a concerted effort to boost revenues and curb expenditure growth will be required to protect debt sustainability.** Efforts to bolster non-oil revenues will need to be intensified, including by carefully considering the revenue impact of planned tax reforms and strengthening tax administration. The indexation of public wages and pensions to the minimum wage will also need to be reviewed, and a more differentiated, merit-based salary structure adopted, along with reforms to rationalize civil service employment and restrain the future growth of the wage bill. In addition, increased efforts could be made to improve the screening and quality of public projects, and allow FDI participation in commercially-viable infrastructure projects.

32. **Faster progress toward improving the governance of SOEs will need to be a central element of the government's strategy to improve the quality of growth and investment and facilitate fiscal consolidation.** The government's plans to expand and expedite its equitization of SOEs are welcome. To ensure that equitization will result in meaningful improvements in SOEs' corporate governance, every effort should be made to encourage broad-based participation by foreign strategic investors. In addition, the use of public funds for the financing of SOE projects should be discontinued as soon as possible,

and extra care taken to prevent related-party lending within the new SOE groups or strategic partnerships involved in a mix of industrial operations and financial services.

33. **The quality, timeliness, and dissemination of macroeconomic and financial statistics need to be improved to support informed policy decisions and build investor confidence.** The staff strongly supports the authorities' plans to develop FSIs and improve the transparency of budgetary data, and stands ready to provide technical assistance in these areas. The authorities are also urged to improve monitoring of data on external debt, portfolio capital flows, and government and SOE bond issues.

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

Box 1. Vietnam's WTO Accession: Challenges and Opportunities

WTO accession is expected to facilitate further Vietnam's global integration by improving Vietnamese exporters' access to foreign markets. This should be particularly beneficial for the key textile and footwear export industries, where Vietnam can now compete on an equal footing with other WTO member countries.

Import barriers in most other sectors will also decline, albeit in a more gradual fashion. Vietnam has committed to bound tariff rates on most products ranging from zero to 35 percent, although tariffs on cars and motorbikes are to remain somewhat higher. Reductions in most bound rates—from 17.2 percent on average in 2007 to 13.4 percent by 2019—are to be phased-in over periods of up to 12 years (see Table).

Vietnam: WTO Commitments on Trade in Goods

	2006 MFN Rates 1/	WTO 2007 Bound Rates	WTO Final Bound Rates	WTO Implementation
Simple average	17.3	17.2	13.4	2007–19
Agricultural products (incl. fisheries)	25.7	27.3	21.7	2007–12
Nonagricultural products 2/	16.3	15.8	12.2	2007–19
Textiles and clothing	36.4	13.6	13.5	2007
Footwear	43.9	35.8	27.2	2007–12
Cars and other motor vehicles 2/	55.5	84.8	58.7	2009–19
Maximum tariff				
Agricultural products 3/	100	100–150	85–135	
Nonagricultural products 2/ 4/	90–100	100	75–100	

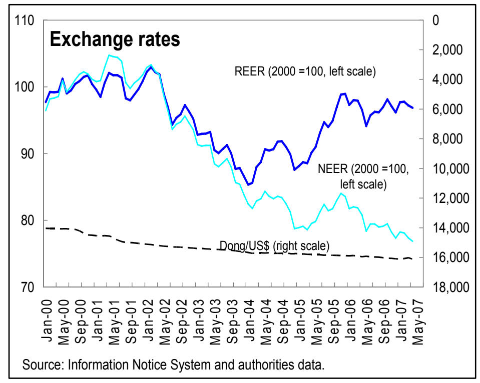
Sources: WTO; Vietnamese authorities; and IMF staff calculations.
1/ Most-favored-nation (MFN) rates applicable as of July 2006.
2/ Excluding used motor vehicles, whose importation was prohibited until May 2006.
3/ Applicable to sugar and tobacco products, which were subject to import bans or quotas until 2006.
4/ Applicable to new cars and motorcycles, and used clothing, previously subject to nontariff barriers.

WTO accession should have largely positive macroeconomic effects. While the reduction in import tariffs can be expected to lower annual import duty receipts by as much as 0.5 percent of GDP over the medium term, the negative impact on revenues should be tempered over time with import growth, and should be more than offset by the welfare gains accruing to consumers. Increasing access to cheaper imports should also help contain inflation. Staff estimates point to net welfare gains from trade liberalization on the order of 1–1.2 percent of GDP a year over the medium term.

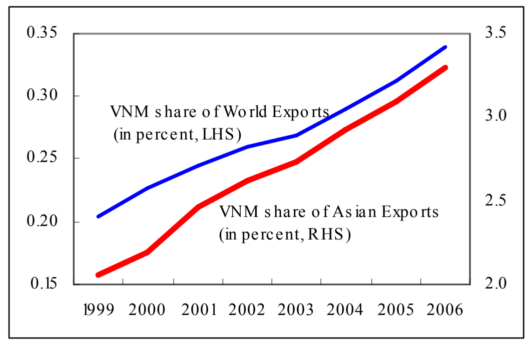
Vietnam is also likely to derive important gains in productivity from trade liberalization and the other market-friendly reforms introduced in the context of WTO accession. Increased competition with foreign banks can be expected to prod the government to speed up the restructuring of SOCBs. These reforms should help increase the efficiency and profitability of investment. Indeed, the prospect of accession has already bolstered the investment climate with FDI approvals reaching a record $10 billion last year.

However, WTO accession is no panacea. Heavily-protected and/or uncompetitive industries and SOE sectors, including auto-assembly and motorbike plants, and the financial sector, need to undertake significant reforms to remain viable. In this process, there may well be a compression of profit margins and, possibly, labor-shedding or bankruptcies in loss-making SOEs and declining industries.

Box 2. Assessing the Level of the Exchange Rate



Based on available data as of mid-2007, the level of Vietnam's exchange rate seems broadly appropriate. The CPI-based real effective exchange rate (REER) of the dong has remained around its long-term average during the first half of 2007. While the REER depreciated significantly during 2002–03, a period of rapid opening up of Vietnam's trade system, this depreciation has since been largely reversed.



Broad macroeconomic indicators suggest that Vietnam's overall policies are consistent with the maintenance of external stability. Although import growth has picked up in recent months, continued rapid export growth has helped contain the current account deficit to a level that is more than financed by inflows of ODA, FDI, and portfolio capital. Developments so far in 2007 point to a current account deficit over the full year of about 3 percent of GDP, a level that is broadly consistent with the maintenance of external balance and debt sustainability.[1] As elaborated in the staff's medium-term baseline scenario, on current trends, the current account deficit would remain in a range of 3–3½ percent of GDP; the stock of external debt would be contained to 30 percent of GDP; and official reserves would level off at about 3½ months of imports.

Available indicators suggest that Vietnam's external competitiveness is currently adequate, although continued structural reforms and improved infrastructure will be required to preserve its competitive edge. Non-oil exports, including exports of labor-intensive manufacturing products such as textiles and footwear, have grown at a robust pace of over 20 percent a year during 2002–2006, and non-oil export growth has picked up to 28 percent (y/y) during the first seven months of 2007. As a result, the market share of Vietnamese exports has recorded a sustained increase in relation to both world exports and exports from Asian countries. The adequacy of Vietnam's external competitiveness is further evidenced by the ongoing strong expansion of FDI and other private capital inflows. Firm-level data, however, paint a more nuanced picture. Cross-country survey data compiled by the Japan External Trade Organization indicate that, although Vietnam's large pool of relatively low-cost labor makes it an attractive destination for foreign investment, inadequate infrastructure (especially power, ports, and roads), shortages of skilled managerial and professional staff, and a nontransparent legal and regulatory system weaken its comparative advantage.

[1] Preliminary staff estimates based on the macro-balance approach used by the Consultative Group on Exchange Rate Issues (CGER) suggest that the level of the current account deficit consistent with external balance over the medium term (the so-called current account norm) may be on the order of 2 percent to 3 percent of GDP. While these estimates are subject to a large margin of error, the alternative CGER methodology of estimating a reduced-form equilibrium real exchange rate equation is not feasible, given the ongoing rapid structural changes in the Vietnamese economy and the lack of a long-run cointegrating relationship for the REER of the dong.

Table 1. Vietnam: Social and Demographic Indicators

Indicator	Unit of Measure	1985	1993	2002	2004	2005	Same Region/ Income Group East Asia	Same Region/ Income Group Low-Income
		(or latest year available)						
Poverty								
Upper poverty line 1/	Thousand dong	...	1,160	…	…	...	...	...
Percent of population living below (old standard)		...	58	29	29	29	…	…
Percent of population living below (new standard)		...	...	32	23	…	…	…
Food poverty line 1/	Thousand dong	...	750	1,287	1,287	…	…	…
Percent of population living below		...	25	10	10	…	...	...
GDP per capita	U.S. dollars	...	355	444	502	538	914	432
Access to safe water: total	Percent of population	...	26.1	48.5	48.5	…	…	…
Urban	Percent of population	...	58.5	76.3	76.3	…	…	…
Rural	Percent of population	...	18.1	39.6	39.6	…	…	…
Access to health care 2/	Percent of population	75.0	93.0	…	…	...	...	...
Health								
Mortality								
Infant mortality	Per thousand live birth	63	36	20	17	16	34	80
Under 5 mortality	Per thousand live birth	105	47	26	23	19	44	121
Immunization								
Measles	Percent of age group	19.0	93.0	96.0	97.0	95.0	76.3	59.8
DPT	Percent of age group	42.0	91.0	75.0	96.0	95	76.8	61.5
Child malnutrition (under 5)	Percent of age group	52.0	51.0	29.5	28.4	…	14.8	…
Maternal mortality rate 4/	Per 100,000 live births	110	...	165	169	…	…	…
Population per physician	Persons	4,061	2,428	3,228	3,321	…	595	...
Population per nurse	Persons	1,245	723	822	846	…	…	…
Population per hospital bed	Persons	271	355	414	426	…	420	…
Human resources								
Population	Millions	60	69	80	82	83.1	1,823	2,506
Age dependency ratio	Ratio	0.82	0.74	0.58	0.56	0.54	0.50	0.70
Urban	Percent of population	19.6	19.8	25.1	26.5	27.0	37.3	30.8
Population growth rate	Annual percent	2.2	1.7	1.3	1.4	1.33	0.9	1.8
Urban	Annual percent	2.4	2.8	2.8	2.7	2.8	3.3	3.0
Life expectancy	Years	62	67	70	70	71	69	59
Female advantage	Years	3.8	4.5	4.9	4.9	…	3.5	2.1
Total fertility rate	Births per woman	4.6	3.3	1.9	1.8	1.8	2.1	3.5
Labor force (15-64)	Millions	29	36	42	43	44.0	1,038	1,138
Female	Percent of labor force	48.9	49.5	48.7	48.5	48.5	44.5	37.9
Natural resources								
Area	Thousands sq. km.	325	325	325	325	329	16,301	33,031
Density	Persons per sq. km.	184	213	245	265	268	115	76
Agricultural lands	Percent of land area	21.0	24.0	30.4	30.8	31	…	…
Agricultural land under irrigation	Percent	28.0	28.0	30.2	30.2	…	…	…
Forests and woodland	Thousand sq. km.	97	83	98	98	...	…	…
Energy consumption per capita	Kg. of oil equivalent	368	383	...	...	...	871	569
Income								
Share of top 20 percent of households	Percent of income	...	42.0	46.0	46.0	...	...	...
Share of bottom 40 percent of households	Percent of income	...	20.7	19.0	19.0	...	...	...
Share of bottom 20 percent of households	Percent of income	...	8.0	7.8	7.8	...	...	...
Education								
Net enrollment ratios								
Primary	Percent of gross	103.0	111.0	102	98.0	95	105.7	91.8
Male 3/	Percent of gross	106.0	114.0	105	101	98	105.3	103.0
Female 3/	Percent of gross	100.0	108.0	99	94	91	106.1	87.5
Pupil-teacher ratio: primary	Pupils per teacher	34	35	24	23	22	...	...
Secondary	Percent of gross	42.7	35.5	...	73.5	76	60.8	44.5
Illiteracy	Percent of population age 15+	10.8	9.0	...	...	...	13.2	37.0
Female	Percent of female age 15+	14.9	11.8	...	...	...	19.2	46.1

Sources: Vietnam: *Statistical Yearbook* (various years), and General Statistical Office, *Vietnam Living Standards Survey 1997-1998;* World Bank: *Vietnam Development Report 2000: Attacking Poverty; Vietnam Development Report 2001: Entering the 21st Century.*

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

2/ For 1993 and 1998, rural population.

3/ For 1993 and 1998, net enrollment ratios.

4/ For 1998 and 2002, comprises revised data.

Table 2. Vietnam: Selected Economic Indicators, 2002–08

Nominal GDP (2006): US$60.9 billion
Population (2006): 84.15 million

GDP per capita (2006): US$723
Fund quota: SDR 329.1 million

	2002	2003	2004	2005	2006	2007		2008
					Prel.	June 1/	Proj.	Proj.
Real GDP (annual percentage change)	7.1	7.3	7.8	8.4	8.2	7.9	8.3	8.2
Saving-investment balance (in percent of GDP)	-1.9	-4.9	-3.4	-0.9	-0.3	...	-3.2	-3.2
Gross national saving	31.3	30.6	32.0	34.6	35.0	...	32.5	32.6
Private	23.9	23.3	23.6	28.0	27.3	...	27.0	26.5
Public	7.4	7.3	8.4	6.7	7.7	...	5.4	6.1
Gross investment	33.2	35.4	35.5	35.6	35.3	...	35.7	35.8
Private	21.5	20.8	22.9	22.3	23.0	...	23.2	23.1
Public	11.7	14.7	12.6	13.3	12.3	...	12.4	12.7
Inflation (annual percentage change)								
Period average	4.0	3.2	7.7	8.3	7.5	7.2	7.3	7.7
End of period	4.0	2.9	9.7	8.8	6.6	8.4	8.0	7.3
GDP deflator	4.0	6.7	8.2	8.2	7.3	...	7.2	6.5
General government								
Official budget balance	-1.4	-1.2	0.9	-1.2	-0.3	...	-3.4	-2.1
Revenue and grants	22.7	24.9	26.7	25.9	27.1	...	25.5	25.9
of which: oil revenue	6.8	7.0	7.9	8.7	9.7	...	7.9	7.9
Expenditure	24.2	26.1	25.8	27.0	27.5	...	28.9	28.0
Off-budget expenditure and net lending	3.3	5.2	3.7	4.7	3.5	...	3.5	4.5
Net lending	2.4	3.2	2.4	2.7	2.1	...	2.1	3.3
ODA	0.9	1.5	1.4	0.8	1.4	...	1.2	1.0
VDB	1.5	1.7	1.0	0.5	0.7	...	1.0	1.1
Sovereign bond-financed lending to SOEs	0.0	0.0	0.0	1.4	0.0	...	0.0	1.3
Off-budget investment expenditure	0.9	2.0	1.3	2.0	1.3	...	1.4	1.2
Overall fiscal balance including off-budget expenditure	-4.7	-6.4	-2.8	-5.9	-3.8	...	-6.9	-6.6
Non-oil overall fiscal deficit	-11.5	-13.5	-10.7	-14.6	-13.5	...	-14.8	-14.5
Money and credit (annual percentage change, end of period)								
Broad money	17.6	24.9	29.5	29.7	33.6	41.3	36.0	...
Credit to the economy	22.2	28.4	41.6	31.7	25.4	35.1	29.0	...
Reserve money	12.4	27.4	16.1	23.7	32.2	34.3	41.0	...
Interest rates (in percent, end of period)								
Nominal three-month deposit rate (households)	7.0	6.3	6.7	7.8	7.9	7.7	...	...
Nominal short-term lending rate (less than one year)	9.9	10.0	10.7	12.0	11.8	11.8	...	...
Real three-month deposits rate (households)	2.4	3.6	-3.0	-0.6	1.1	-0.1	...	...
Real short-term lending rate (less than one year)	5.2	7.3	0.6	3.2	4.7	3.7	...	...
Current account balance (including official transfers)								
(in millions of U.S. dollars)	-676	-1,935	-1,565	-497	-164	...	-2,199	-2,563
(in percent of GDP)	-1.9	-4.9	-3.4	-0.9	-0.3	...	-3.2	-3.2
Exports f.o.b (annual percentage change, U.S. dollar terms)	11.2	20.6	31.4	22.5	22.7	19.4	17.2	19.1
Imports f.o.b. (annual percentage change, U.S. dollar terms)	22.1	28.0	26.6	21.2	22.1	30.4	21.4	19.0
Foreign exchange reserves (in millions of U.S. dollars, end of period)								
Gross official reserves, including gold	3,692	5,619	6,314	8,557	11,483	19,174	19,931	23,658
(in weeks of next year's imports of GNFS)	7.2	8.7	8.4	9.4	10.4	14.6	15.2	15.5
External debt (in percent of GDP) 2/	35.0	33.7	33.5	32.2	30.2	...	30.8	30.2
External debt service due (in percent of exports of GNFS)	8.6	7.8	6.0	5.6	5.3	...	5.5	5.6
Total public and publicly guaranteed debt (in percent of GDP)	38.2	41.0	42.4	43.8	43.3	...	43.4	44.9
Real effective exchange rate (annual percentage change)								
Period average	-1.8	-7.8	-1.3	4.3	3.8	1.0	...	...
End of period	-5.6	-9.0	1.1	13.0	-2.8	2.8	...	...
Memorandum items:								
GDP (in trillions of dong at current market prices)	535.8	613.4	715.3	839.2	973.8	...	1130.0	1302.1
Per capita GDP (in U.S. dollars)	440	492	553	636	723	...	809	916

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

1/Credit and monetary aggregates and reserves data end-May 2007. Inflation numbers end-July.

2/ It includes private debt.

Table 3. Vietnam: Medium-Term Scenario, 2004–12

	2004	2005	2006	2007	2008	2009	2010	2011	2012
				Projection					
				(Percentage change)					
Real GDP (annual percentage change)	7.8	8.4	8.2	8.3	8.2	8.0	8.0	7.8	7.8
Consumer price (end of period)	9.7	8.8	6.6	8.0	7.3	6.5	6.5	5.0	4.5
GDP deflator	8.2	8.2	7.3	7.2	6.5	6.0	5.6	5.0	4.5
				(In percent of GDP)					
Saving-investment balance	-3.4	-0.9	-0.3	-3.2	-3.2	-3.5	-3.6	-3.5	-3.4
Gross national saving	32.0	34.6	35.0	32.5	32.6	31.9	32.0	31.7	32.0
Private saving	23.6	28.0	27.3	27.0	26.5	26.3	26.3	26.4	26.6
Public saving	8.4	6.7	7.7	5.4	6.1	5.7	5.6	5.3	5.4
Gross investment	35.5	35.6	35.3	35.7	35.8	35.5	35.6	35.2	35.4
Private investment	22.9	22.3	23.0	23.2	23.1	24.1	24.5	24.7	24.8
Public investment	12.6	13.3	12.3	12.4	12.7	11.4	11.1	10.5	10.5
ICOR	4.3	3.9	3.9	4.0	4.0	4.1	4.1	4.1	4.2
General government budget	-2.8	-5.9	-3.8	-6.9	-6.6	-5.8	-5.6	-5.6	-5.6
(excluding onlending)	0.9	-1.2	-0.3	-3.4	-2.1	-2.5	-2.5	-3.0	-3.0
Non-oil fiscal balance	-10.7	-14.6	-13.5	-14.8	-14.5	-12.8	-11.7	-11.0	-10.5
Total revenue and grants	26.7	25.9	27.1	25.5	25.9	25.1	24.3	23.7	23.3
Revenue	26.3	25.6	26.8	25.2	25.6	24.9	24.1	23.5	23.1
of which: oil revenue	7.9	8.7	9.7	7.9	7.9	7.0	6.1	5.4	4.9
Grants	0.4	0.3	0.4	0.3	0.3	0.3	0.3	0.2	0.2
Total Expenditure (including onlending)	29.5	31.7	30.9	32.4	32.6	31.0	29.9	29.3	28.9
Current expenditure	16.9	18.5	18.6	20.0	19.8	19.6	18.9	18.8	18.3
Capital expenditure	8.9	8.6	8.8	9.0	8.2	8.1	7.9	7.9	7.9
Onlending 1/	3.7	4.7	3.5	3.5	4.5	3.3	3.1	2.6	2.6
				(In millions of U.S. dollars; unless otherwise indicated)					
Current account balance	-1,565	-497	-164	-2,199	-2,563	-3,171	-3,658	-3,938	-4,209
(In percent of GDP)	-3.4	-0.9	-0.3	-3.2	-3.2	-3.5	-3.6	-3.5	-3.4
Trade balance	-2,287	-2,439	-2,776	-5,064	-5,961	-6,855	-8,004	-8,757	-9,526
Exports	26,485	32,447	39,826	46,668	55,575	64,552	74,462	84,897	96,668
(Percentage change)	31.4	22.5	22.7	17.2	19.1	16.2	15.4	14.0	13.9
Imports	28,772	34,886	42,602	51,731	61,536	71,407	82,466	93,654	106,193
(Percentage change)	26.6	21.2	22.1	21.4	19.0	16.0	15.5	13.6	13.4
Net services and transfers (incl. investment income)	2,485	3,380	4,049	5,220	5,490	5,763	6,038	6,166	6,298
Of which: private transfers	2,310	3,150	3,800	5,000	5,250	5,513	5,788	5,904	6,022
Capital and financial account (net)	1,878	1,954	2,400	2,832	3,115	3,427	3,769	4,146	4,354
Direct investment	1,878	1,954	2,400	2,832	3,115	3,427	3,769	4,146	4,354
Medium- and long-term loans	1,396	1,360	1,139	1,458	1,477	1,431	1,355	1,650	2,359
Of which: ODA disbursements	1,394	1,432	1,380	1,625	1,686	1,750	1,817	1,886	1,958
Short-term capital (net)	-291	-1,027	277	1,550	50	50	50	50	50
Memorandum items:									
Gross official reserves (in millions of US dollars)	6,314	8,557	11,483	19,931	23,658	27,459	31,154	35,334	40,060
(in weeks of next year's imports of GNFS)	8.4	9.4	10.4	15.2	15.5	15.7	15.7	15.7	15.9
Debt service payments (in billions of U.S. dollars)	1.8	2.1	2.4	2.9	3.5	3.7	4.3	5.0	5.6
(in percent of exports of GNFS)	6.0	5.6	5.3	5.5	5.6	5.1	5.1	5.2	5.2
Total external debt (in billions US dollars) 2/	15.3	17.1	18.4	21.3	24.0	25.6	27.6	30.3	33.3
(in percent of GDP)	33.5	32.2	30.2	30.8	30.2	28.5	27.4	27.0	26.7
Public debt stock	42.4	43.8	43.3	43.4	44.9	46.0	46.8	47.7	48.7
Domestic	15.4	17.4	18.6	19.4	20.8	23.0	24.8	26.1	27.2
Foreign	27.0	26.4	24.7	24.0	24.1	23.0	22.0	21.7	21.5
Nominal GDP (in billions of US dollars)	45.5	53.1	61.0	69.2	79.5	89.7	100.7	112.3	124.6

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

1/ Includes VDB operations.
2/ It includes private debt.

Table 4. Vietnam: Balance of Payments, 2003–12

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
					Projection					
	(In millions of U.S. dollars, unless otherwise indicated)									
Current account balance	-1,935	-1,565	-497	-164	-2,199	-2,563	-3,171	-3,658	-3,938	-4,209
Excluding official transfers	-2,074	-1,740	-727	-413	-2,419	-2,803	-3,421	-3,908	-4,200	-4,485
Trade balance	-2,582	-2,287	-2,439	-2,776	-5,064	-5,961	-6,855	-8,004	-8,757	-9,526
Exports, f.o.b.	20,149	26,485	32,447	39,826	46,668	55,575	64,552	74,462	84,897	96,668
of which: oil	3,821	5,676	7,389	8,265	8,247	8,894	8,861	8,635	8,538	8,473
Imports, f.o.b.	22,730	28,772	34,886	42,602	51,731	61,536	71,407	82,466	93,654	106,193
of which: oil	2,433	3,574	4,968	5,970	6,280	6,949	7,104	7,102	7,287	7,476
Non-factor services (net)	-778	-871	-219	-8	-468	-493	-341	-246	205	702
Receipts	3,272	3,867	4,176	5,100	5,571	6,518	7,626	8,770	10,261	11,902
Payments	4,050	4,739	4,395	5,108	6,038	7,011	7,967	9,016	10,056	11,200
Investment income (net)	-814	-891	-1,219	-1,429	-1,888	-1,599	-1,737	-1,446	-1,553	-1,683
Receipts	125	188	364	668	649	1,048	1,223	1,797	2,018	2,269
Payments	939	1,079	1,583	2,098	2,537	2,647	2,960	3,242	3,571	3,953
Transfers (net)	2,239	2,485	3,380	4,049	5,220	5,490	5,763	6,038	6,166	6,298
Private	2,100	2,310	3,150	3,800	5,000	5,250	5,513	5,788	5,904	6,022
Official	139	175	230	249	220	240	250	250	263	276
Capital account balance	4,086	2,447	2,628	4,486	10,647	6,290	6,972	7,353	8,118	8,935
Gross foreign direct investment (FDI) inflows	1,894	1,878	1,954	2,400	2,832	3,115	3,427	3,769	4,146	4,354
Equity	1,294	1,283	1,204	1,605	1,896	2,086	2,294	2,524	2,776	2,915
Loan disbursements	600	595	750	795	936	1,030	1,133	1,246	1,370	1,439
FDI loan repayments	590	536	524	643	793	952	735	821	929	1,028
Medium and long-term loans (net)	974	1,396	1,360	1,139	1,458	1,477	1,431	1,355	1,650	2,359
Disbursements	1,540	1,920	1,914	1,687	2,055	2,171	2,240	2,312	2,736	3,613
ODA loans	1,258	1,394	1,432	1,380	1,625	1,686	1,750	1,817	1,886	1,958
Amortization 1/	566	523	555	548	597	694	809	957	1,086	1,254
Portfolio Investment 2/	--	--	865	1,313	5,600	2,600	2,800	3,000	3,200	3,200
Short-term capital (net) 3/	1,808	-291	-1,027	277	1,550	50	50	50	50	50
Overall balance	2,151	883	2,131	4,322	8,448	3,727	3,801	3,695	4,180	4,726
Financing	-2151	-883	-2,131	-4,322	-8,448	-3,727	-3,801	-3,695	-4,180	-4,726
Change in SBV's NFA (-, increase)	-2,151	-883	-2,131	-4,322	-8,448	-3,727	-3,801	-3,695	-4,180	-4,726
Memorandum items:										
Gross official reserves	5,619	6,314	8,557	11,483	19,931	23,658	27,459	31,154	35,334	40,060
In weeks of next year's imports	8.7	8.4	9.4	10.4	15.2	15.5	15.7	15.7	15.7	15.9
Current account deficit (in percent of GDP)	-4.9	-3.4	-0.9	-0.3	-3.2	-3.2	-3.5	-3.6	-3.5	-3.4
Non-oil current account deficit (in percent of GDP)	-8.4	-8.0	-5.5	-4.0	-6.0	-5.7	-5.5	-5.2	-4.6	-4.2
Export value (ann. perc. change)	20.6	31.4	22.5	22.7	17.2	19.1	16.2	15.4	14.0	13.9
Import value (ann. perc. change)	28.0	26.6	21.2	22.1	21.4	19.0	16.0	15.5	13.6	13.4
Non-oil export value (ann. perc. change)	21.5	27.4	20.4	26.0	21.7	21.5	19.3	18.2	16.0	15.5
Non-oil import value (ann. perc. change)	28.9	24.1	18.7	22.4	24.1	20.1	17.8	17.2	14.6	14.3
External debt (in percent of GDP)	33.7	33.5	32.2	30.2	30.8	30.2	28.5	27.4	27.0	26.7
Debt service (in percent of exports of GNFS)	7.8	6.0	5.6	5.3	5.5	5.6	5.1	5.1	5.2	5.2

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

1/ Including two debt buyback operations carried out in 2002 and 2003, respectively.
2/ Includes US$750 million sovereign bond issue in 2005.
3/ Including net errors and omissions and trade credit.

Table 5. Vietnam: Summary of General Government Budgetary Operations, 2004–08

	2004	2005	2006		2007		2008
			Budget	Prel.	Budget	Proj.	Proj
	(in percent of GDP)						
Total revenue and grants	26.7	25.9	24.4	27.1	24.9	25.5	25.9
Oil revenues	7.9	8.7	7.6	9.7	7.8	7.9	7.9
Nonoil revenue	18.4	16.8	16.6	17.1	16.8	17.4	17.8
Tax revenue	13.6	13.5	...	13.8	14.3	14.2	...
Nontax revenue	4.8	3.3	...	3.2	2.6	3.2	...
Grants	0.4	0.3	0.3	0.4	0.3	0.3	0.3
Total expenditure	25.8	27.0	27.0	27.5	28.4	28.9	28.0
Current Expenditure 1/	16.9	18.5	18.6	18.6	19.6	20.0	19.8
Wages and salaries	4.8	7.7	7.8	7.8	7.7	7.7	7.8
Interest payments	1.0	0.8	0.9	0.9	1.0	1.2	1.5
Other current expenditure	11.1	9.9	9.9	9.9	10.8	11.1	10.5
Capital Expenditure	8.9	8.6	8.4	8.8	8.8	9.0	8.2
Official budget balance	0.9	-1.2	-2.6	-0.3	-3.4	-3.4	-2.1
Off-budget expenditure and net lending	3.7	4.7	4.7	3.5	4.5	3.5	4.5
Net lending	2.4	2.7	2.5	2.1	3.1	2.1	3.3
ODA financed	1.4	0.8	1.3	1.4	1.0	1.2	1.0
Foreign financed (sovereign issue)	0.0	1.4	...	0.0	0.7	0.0	1.3
VDB	1.0	0.5	1.2	0.7	1.3	1.0	1.1
Off-budget investment expenditure	1.3	2.0	2.2	1.3	1.4	1.4	1.2
Overall fiscal balance	-2.8	-5.9	-7.2	-3.8	-7.9	-6.9	-6.6
Financing	2.8	5.9	7.2	3.8	7.9	6.9	6.6
Domestic (net)	0.9	3.3	5.4	1.8	5.5	5.2	3.9
Treasury bills and bonds including banking system	0.7	1.2	1.2	1.2	1.1	1.1	1.6
Other bonds	2.1	2.3	2.2	2.1	1.4	2.2	2.3
Education bonds	0.0	0.3	...	0.0	...	0.0	...
Infrastructure bonds	0.7	1.3	...	1.1	...	1.1	...
Reform bonds (pre-2000 SOCB debt)	0.2	0.0	...	0.0	...	0.0	...
Municipal bonds	0.4	0.4	...	0.3	...	0.3	...
VDB bonds	0.8	0.3	...	0.8	...	0.8	...
Other (net) from Banking System 2/	-1.9	0.0	0.0	0.0	0.0	0.0	...
Other (residual)	0.1	-0.3	2.1	-1.5	3.0	1.8	...
Foreign (net)	1.9	2.6	1.8	2.0	2.4	1.7	2.7
Borrowing	2.4	3.2	2.5	2.7	3.0	2.3	3.4
ODA	1.4	0.8	1.3	1.4	1.0	1.2	1.0
Other concessional borrowing	1.0	1.0	1.3	1.3	1.2	1.2	1.1
Sovereign bond issuance	0.0	1.4	0.0	0.0	0.7	0.0	1.3
Amortization	0.6	0.6	0.7	0.7	0.6	0.6	0.6
Memorandum items:							
Non-oil overall fiscal balance	-10.7	-14.6	...	-13.5	...	-14.8	-14.5
Public debt stock	42.4	43.8	...	43.3	...	43.4	44.9
Domestic	15.4	17.4	...	18.6	...	19.4	20.8
Foreign	27.0	26.4	...	24.7	...	24.0	24.1

Sources: Ministry of Finance; and Fund staff estimates and projections.

1/ Budget data include the amount allocated as contingency.

2/ Comprises Net Credit to Government minus government bills and securities.

Table 6. Vietnam: Monetary Survey, 2003–07 1/

	2003	2004	2005	2006	2007		
					Mar	May	Dec Proj.
Net foreign assets	131.4	145.9	191.1	287.9	341.4	366.6	427.9
Foreign assets	150.5	172.5	220.5	327.0	387.0	410.8	477.0
Foreign liabilities	-19.1	-26.6	-29.4	-39.1	-45.6	-44.2	-49.1
							...
Net domestic assets	279.8	386.4	499.7	634.7	689.4	723.9	826.9
Domestic credit	316.9	434.6	585.6	730.3	764.7	808.9	924.2
Net claims on government	20.1	14.5	32.5	36.5	26.3	20.3	29.2
Credit to the economy	296.7	420.0	553.1	693.8	738.3	788.6	895.0
of which in foreign currency	65.2	104.5	134.3	146.4	162.7	...	...
Claims on state enterprises	105.4	142.9	181.3	218.5	231.8	...	...
Claims on other sectors	191.3	277.1	371.8	475.3	506.5	...	...
Other items, net	-37.0	-48.1	-86.0	-95.6	-75.2	-85.8	-97.3
Total liquidity (M2)	411.2	532.3	690.7	922.7	1,030.8	1,089.7	1,254.8
of which: total deposits	320.6	423.2	559.5	763.9	856.9	918.9	993.0
Dong liquidity	314.1	402.7	531.5	723.2	828.6	876.8	1,026.4
Currency outside banks	90.6	109.1	131.2	158.8	173.9	170.8	261.8
Deposits	223.6	293.6	400.3	564.4	654.7	706.1	764.6
Foreign currency deposits	97.1	129.6	159.2	199.5	202.2	212.8	228.4
(in millions of U.S. dollars)	6,220	8,215	10,027	12,396	12,560	13,207	13,873.1
(in percent of total liquidity)	23.6	24.3	23.0	21.6	19.6	19.5	18.2
	(Annual percentage change, unless otherwise indicated)						
Credit to the economy	28.4	41.6	31.7	25.4	31.6	35.1	29.0
of which in foreign currency	41.0	60.3	28.5	9.0	21.3	...	...
Claims on state enterprises	17.8	35.6	26.9	20.5	26.9	...	...
Claims on other sectors	35.1	44.8	34.2	27.8	33.8	...	...
Total liquidity (M2)	24.9	29.5	29.7	33.6	39.4	41.3	36.0
of which: total deposits	25.8	32.0	32.2	36.5	42.2	44.3	30.0
Dong liquidity	33.4	28.2	32.0	36.1	45.0	48.6	41.9
Currency outside banks	22.0	20.4	20.2	21.1	26.8	27.1	64.9
Deposits	38.6	31.3	36.3	41.0	50.8	54.9	35.5
Foreign currency deposits	3.7	33.5	22.8	25.3	20.2	17.6	14.5
(change during year, in millions of U.S. dollars)							
	(In percent, unless otherwise indicated)						
Velocity 2/	1.4	1.3	1.2	1.1	1.1	1.0	0.9
Dong velocity	1.8	1.8	1.6	1.3	1.3	1.3	1.1
Money multiplier 3/	3.4	3.8	4.0	4.0	4.3	4.5	3.9
Currency/total deposits (in percent)	28.2	25.8	23.4	20.8	20.3	18.6	26.4
Foreign currency deposits/total deposits	30.3	30.6	28.5	26.1	23.6	23.2	23.0
Foreign currency loans/total loans	22.0	24.9	24.3	21.1	22.0	...	...
	(In millions of U.S. dollar, unless indicated otherwise)						
Memorandum items:							
Gross official international reserves	5,619	6,314	9,597	11,483	17,244	19,174	19,931
(in weeks of next year's imports of GNFS)	8.7	8.4	9.4	10.4	...	...	15.2
(change during year, in millions of U.S. dollars)	1,929	694	3,283	1,886	5,761	7,691	8,466
Net foreign assets of the banking system	8,419	9,248	12,036	17,894	21,204	22,749	25,993
(change during year, in millions of U.S. dollars)	778	829	2,788	5,857	3,310	4,856	8,099

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

1/ Data comprise the SBV, six state-owned commercial banks, and 79 non-state credit institutions.
2/ Velocity is measured as the ratio of GDP to end-of-period total liquidity (M2) or dong liquidity, respectively.
3/ Money multiplier is measured as the ratio of total liquidity (M2) to reserve money.

Table 7. Vietnam: Indicators of External Vulnerability, 2003–07

	2003	2004	2005	2006	2007
Financial indicators					
Total external debt (in percent of GDP)	33.7	33.5	32.2	30.2	30.8
Broad money (M2: annual percentage change)	24.9	29.5	29.7	33.6	36.0
Credit to the economy (annual percentage change)	28.4	41.6	31.7	25.4	29
Foreign currency loans to credit to the economy (in percent)	22.0	24.9	24.3	21.1	...
Foreign currency deposits in percent of gross official reserves	110.7	130.1	104.5	108.0	...
External indicators					
Exports value growth (in percent)	20.6	31.4	22.5	22.7	17.2
Imports value growth (in percent)	28.0	26.6	21.2	22.1.	21.4
Current account balance (in percent of GDP, including official transfers)	-4.9	-3.4	-0.9	-0.3	-3.2
Capital account balance (in US$ million)	4,086	2,447	2,628	4,486	10,647
Of which:					
Short-term capital (net)	1,808	-291	-1,027	277	1,550
Gross foreign direct investment (inflows)	1,894	1,878	1,954	2,400	2,832
Medium-and long-term loans (net)	974	1,396	1,360	1,139	1,458
Exchange rate (per U.S. dollar, period average) 1/	15,479	15,705	15,819	15,965	...
(annual percentage change)	-1.5	-1.5	-0.7	-0.9	...
Exchange rate (dong per U.S. dollar, end of period) 1/	15,608	15,739	15,875	16,091	...
(annual percentage change)	-1.6	-0.8	-0.9	-1.4	...
Real effective exchange rate (end of period, annual percentage change, + appreciation)	-9.0	1.1	13.0	-2.8	...
Reserve indicators					
Gross official reserves, including gold (in US$ billion)	5.6	6.3	8.6	11.5	19.9
(in weeks of next year's imports of goods and nonfactor services)	8.7	8.4	9.4	10.4	15.2
Net official international reserves (in US$ billion)	4.7	5.6	7.7	10.3	...
Debt indicators 2/					
Total external debt (in US$ billion) 2/	13.4	15.3	17.1	18.4	21.3
Total debt service to exports of goods and services (in percent)	7.8	6.0	5.6	5.3	5.5
Of which: External interest payments to exports of goods and services (in percent)	1.2	1.0	1.2	1.2	1.3
Total short-term external debt by remaining maturity (in US$ billion)	1.5	1.5	1.6	1.8	2.2
Total short-term external debt by remaining maturity to total debt (in percent)	11.6	9.9	9.4	9.9	10.2

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

1/ Interbank market rate.

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

Table 8. Vietnam: Millennium Development Goals, 1990–2005

	1990	1995	1998	2001	2004	2005
Goal 1: Eradicate extreme poverty and hunger	2015 target = halve 1990 $1 a day poverty and malnutrition rates					
Income share held by lowest 20%	...	...	...	8	9	...
Malnutrition prevalence, weight for age (% of children under 5)	45	45	40	34	28	...
Poverty gap at $1 a day (PPP) (%)	...	...	...	...	...	...
Poverty headcount ratio at $1 a day (PPP) (% of population)	...	...	...	...	...	...
Poverty headcount ratio at national poverty line (% of population)	...	...	37	29	...	...
Prevalence of undernourishment (% of population)	...	...	23	...	17	
Goal 2: Achieve universal primary education	2015 target = net enrollment to 100					
Literacy rate, youth total (% of people ages 15-24)	94	...	...	...	...	94
Persistence to grade 5, total (% of cohort)	...	...	83	89	...	...
Primary completion rate, total (% of relevant age group)	...	...	96.4	102.3	...	94
School enrollment, primary (% net)	90	...	96	94	...	88
Goal 3: Promote gender equality and empower women	2005 target = education ratio to 100					
Proportion of seats held by women in national parliament (%)	18	...	26	26	27	27
Ratio of girls to boys in primary and secondary education (%)	...	...	92	93	93	94
Ratio of young literate females to males (% ages 15-24)	99	...	...	...	...	99
Share of women employed in the nonagricultural sector (%)	45	49	50	50	49	...
Goal 4: Reduce child mortality	2015 target = reduce 1990 under 5 mortality by two-thirds					
Immunization, measles (% of children ages 12-23 months)	88	95	96	98	96	95
Mortality rate, infant (per 1,000 live births)	38	32	...	*23*	17	16
Mortality rate, under-5 (per 1,000)	53	44	...	*30*	23	19
Goal 5: Improve maternal health	2015 target = reduce 1990 maternal mortality by three-fourths					
Births attended by skilled health staff (% of total)	...	...	*77.1*	*85*	90	...
Maternal mortality ratio (modeled estimate, per 100,000 live births)	...	...	...	*130*	...	...
Goal 6: Combat HIV/AIDS, malaria, and other diseases	2015 target = halt, and begin to reverse, AIDS, etc.					
Children orphaned by HIV/AIDS	...	...	...	...	...	...
Contraceptive prevalence (% of women ages 15-49)	...	*75*	...	*79*	...	...
Incidence of tuberculosis (per 100,000 people)	202	...	...	...	177	175
Prevalence of HIV, female (% ages 15-24)	...	...	...	...	...	...
Prevalence of HIV, total (% of population ages 15-49)	...	...	...	...	...	...
Tuberculosis cases detected under DOTS (%)	...	30	83	83	89	...
Goal 7: Ensure environmental sustainability	2015 target = various 1/					
CO2 emissions (metric tons per capita)	0.3	0.4	0.6	0.8	...	...
Forest area (% of land area)	29	...	...	*36*	*40*	*42*
GDP per unit of energy use (constant 2000 PPP $ per kg of oil equivalent)	3	4	4	4	*4*	...
Improved sanitation facilities (% of population with access)	22	...	...	*41*	61	...
Improved water source (% of population with access)	72	...	...	*73*	80	...
Nationally protected areas (% of total land area)	...	...	...	...	3.7	...
Goal 8: Develop a global partnership for development	2015 target = various 2/					
Aid per capita (current US$)	3	12	15	18	22	23
Debt service (PPG and IMF only, % of exports of G&S, excl. workers' remittances)	...	3	9	7	...	...
Fixed line and mobile phone subscribers (per 1,000 people)	2	11	26	54	184	306
Internet users (per 1,000 people)	0	0	0.1	12.7	77.2	128.9
Personal computers (per 1,000 people)	...	1.4	5.2	8.8	12.7	...
Total debt service (% of exports of goods, services and income)	...	4	9	7	...	...
Unemployment, youth female (% of female labor force ages 15-24)	...	2.9	3.8	7.1	4.9	...
Unemployment, youth male (% of male labor force ages 15-24)	...	3.5	4.3	4.7	4.4	...
Unemployment, youth total (% of total labor force ages 15-24)	...	3.2	4	5.9	4.6	...
Other						
Fertility rate, total (births per woman)	3.6	2.7	2.4	1.9	1.8	...
GNI per capita, Atlas method (current US$)	130	250	350	410	540	620
GNI, Atlas method (current US$) (billions)	8.5	18.5	26.9	32.3	44.6	51.3
Gross capital formation (% of GDP)	12.6	27.1	29	31.2	33.4	33.1
Life expectancy at birth, total (years)	64.8	67.1	68.1	69.7	70.3	70.7
Literacy rate, adult total (% of people ages 15 and above)	...	...	...	...	90.3	90.3
Population, total (millions)	66.2	73	76.5	78.6	82.0	83.1
Trade (% of GDP)	81.3	74.7	97.0	111.6	142.3	145.5

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

1/ Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources. Halve, by 2015, the proportion of people without sustainable access to safe drinking water. By 2020, to have achieved a significant improvement in the lives of slum dwellers.
2/ Develop further an open, rule-based, predictable, non-discriminatory trading and financial system. Address the Special Needs of the Least Developed Countries. In cooperation with developing countries, develop and implement strategies for decent and productive work for youth. In cooperation with pharmaceutical companies, provide access to affordable, essential drugs. In cooperation with the private sector, make available the benefits of new technologies, especially information and communications.

INTERNATIONAL MONETARY FUND

VIETNAM

Staff Report for the 2007 Article Consultation—Informational Annexes

Prepared by the Asia Pacific Department
(In Consultation with Other Departments)

August 28, 2007

Contents Page

ANNEX I

Vietnam—Fund Relations
(As of July 31, 2007)

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

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

III SDR Department:	SDR Million	Percent Allocation
Net cumulative allocation	47.66	100.00
Holdings	1.52	3.18

IV. Outstanding Purchases and Loans:	SDR Million	Percent Quota
PRGF arrangements	111.78	33.97

V. Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	Apr. 13, 2001	Apr. 12, 2004	290.00	124.20
ESAF	Nov. 11, 1994	Nov. 10, 1997	362.40	241.60
Stand-by	Oct. 6, 1993	Nov. 11, 1994	145.00	108.80

VI. Projected Payments to Fund (SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2007	2008	2009	2010	2011
Principal	8.28	24.84	24.84	24.84	20.70
Charges/Interest	1.27	2.45	2.33	2.20	2.08
Total	9.55	27.29	27.17	27.04	22.78

VII. Exchange Rate Arrangement and Exchange Restrictions:

On February 25, 1999 the State Bank of Vietnam (SBV) revised the operation of the interbank foreign exchange market. Under this regime, the SBV allows interbank foreign exchange market rates to fluctuate by a maximum of ±0.25 percent a day (effective July 2002) from the previous day's average interbank market rate. In January 2007, the trading band was widened from ±0.25 percent to ±0.5 percent.

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

Vietnam has accepted the obligations of Article VIII, sections 2, 3, and 4 of the Articles of Agreement, and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions, except for exchange restrictions maintained for security reasons that have been notified to the Fund pursuant to Executive Board Decision No. 144-(52/51).

VIII. Article IV Consultations:

Vietnam is currently on a 12-month consultation cycle, subject to provisions of Board Decision No. 12794-(02/76) of July 15, 2002. The last Article IV Consultation was concluded on October 25, 2006.

IX. Technical Assistance: See attached matrix.

Resident Advisor:

Tax Computerization (FAD) through April 1998

In-Country Training/Outreach:

- Conference on Compilation and Use of Core Inflation (APD/OAP), April 2007.
- 4-session seminar for MPI on the Fundamentals of Macroeconomic Analysis, May 2006.
- Conference on SBV Reforming (APD/MFD), March 2006.
- STI Regional Course on Financial Programming and Policies, March 2005.
- Workshop on Macroeconomic Policies for Parliamentarians (EXR/APD/INS), March 2004.
- 10-session Seminar for Parliamentarians on the Fundamentals of Macroeconomics (APD), October-December 2003.
- 10-session Seminar on Topics in Financial Programming for State Bank of Vietnam and related Government Agencies (APD), January–May 2002.

X. Other Visits:

The Deputy Managing Director, Mr. Kato, visited Vietnam in May 2005 and May 2007. The Managing Director, Mr. de Rato, visited in June 2004.

XI. Resident Representative:

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

Vietnam-Summary of Technical Assistance, 2002-07

Department	Purpose	Date
Tax self-assessment pilot projects		
FAD	Tax self-assessment pilot preparations	June-July 2002
FAD	Tax self-assessment pilot preparations	November-December 2002
FAD	Tax self-assessment pilot preparations	March-April 2003
FAD	IT for Tax self-assessment pilot preparations	May/03
FAD	Tax self-assessment pilot preparations Assessment of training needs and organization change	August/03
FAD	Tax self-assessment pilot preparations	September/03
FAD	Tax self-assessment pilot preparations	November/03
FAD	Introduction of self assessment and reform of the tax administration taxpayers services; debt collection	February-March 2004
FAD	Assessment of tax self-assessment pilot implementation and planning for the future	April/04
FAD	Strategic planning and tax self-assessment pilot implementation	June-July 2004
FAD	Tax self-assessment pilot implementation	August/04
FAD	Tax self-assessment pilot implementation	October-November 2004
FAD	Tax self-assessment pilot implementation	November/04
FAD	Tax self-assessment pilot implementation	May/05
FAD	Tax self-assessment pilot implementation	July/05
FAD	Tax self-assessment pilot implementation	November-December 2005
FAD	Tax self-assessment pilot implementation	March-April 2006
FAD	Tax self-assessment pilot implementation	June-July 2006
FAD	Tax administration reform: key areas	November 2006
FAD	Performance measurement in tax administration	December 2006
FAD	Taxpayers service centers	March 2007
Tax Policy and Administration reform		
FAD	Tax policy and administration reform	February-March/02
FAD	Tax policy and administration reform	July/02
FAD	Tax policy and administration reform	November/02
FAD	Tax policy and administration reform	May-June/03
FAD	Assessment of the major taxes	May-June/04
FAD	Review of tax administration TA to date	November/04
FAD	Tax policy and administration reform- Strategic planning	March/05
FAD	Revenue administration	July-August/05
SOCB Restructuring		
MFD	SOCB restructuring	September/02
MFD	SOCB restructuring	November/02
MFD	SOCB restructuring	June/03
MFD	SOCB equitization	September/04
SOCB restructuring and foreign reserve management		
MFD	Banking restructuring and foreign exchange management at the SBV	March/06
Article VIII and current account liberalization		
MFD/LEG	Article VIII and Forex Control Ordinance	February/05
MFD/LEG	Drafting Foreign Exchange Ordinance	June/05

Vietnam-Summary of Technical Assistance, 2002-07

Banking supervision		
MFD	Banking supervision	August/04
MFD	Banking supervision strengthening	November/04
MFD	Banking supervision strengthening	April/05
MFD	Banking supervision strengthening	November/05
MFD	Banking supervision, taking the views of SOCB financial restructuring	March-April/06
Strengthening the SBV audit capacity in the SAO		
MFD/OIA	Safeguards-related T.A	September/02
MFD	Strengthening SBV audit capacity in the SAO	December/02
FIN	Strengthening SBV audit capacity in the SAO	June/03
MFD	Strengthening SBV audit capacity in the SAO	December/03
Monetary and Exchange Operation		
MFD	Banking Issues, Monetary and Foreign Exchange Operation	February/04
MFD	Inflation Targeting Issues	November/04
MFD/STA	Reviewing monetary TA	April/05
MFD	CPI statistics and core inflation	September/06
STA	Core inflation measurement and inflation forecasting	April/07
MCM	Strengthening the monetary policy framework and follow-up on core inflation measurement	April-May/07
Anti-money laundering		
MFD/LEG	TA program for anti-money laundering and combating the financing of terrorism	December/03
MFD/LEG	The Progress in AML/CFT regime and internal control, workshop on AML/CFT	March/05
LEG	Anti-money laundering and combating the financing of terrorism (AML/CFT) measures	June/07
National Income Account and Statistics		
STA	National Income Account and Statistics	August-September/02
STA	National Income Account and Statistics	May-June/03
STA	National Income Account and Statistics	Feb-March/04
STA	National Income Account and Statistics	September/04
Balance of payment statistics		
STA	BOP statistics and guidance in the development of international investment position statistics	September/03
STA	BOP statistics	February-March/06
CPI Statistics		
STA/MFD	CPI statistics and core inflation primary understanding	April/05
Monetary Statistics		
STA	Monetary Statistics	April/05
Debt sustainable analysis		
PDR	Debt sustainable analysis	October/02
Tax Administration Law		
LEG	Tax law	February/04
LEG	Tax administration law	November-December 04
LEG	Tax legislation	August/05
Capital Market development		
ICM	Capital Markets Development	May-June/04
Foreign reserve management		
MCM	Foreign reserve management	November-December/06

ANNEX II

Vietnam—Relations with the Asian Development Bank

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

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

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

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

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

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

Source: AsDB.

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

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

Source: AsDB.

1/ As of July 2006

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

ANNEX III

Vietnam—Relations with the World Bank Group[1]

Partnership in Vietnam's Development Strategy

A new Country Partnership Strategy (CPS) was presented to the World Bank Board in February 2007. The CPS is fully aligned to Vietnam's Socio-Economic Development Plan (SEDP) 2006–2010 and sets out the planned World Bank support between FY07 and FY11. The objectives of the SEDP can be mapped onto four broad pillars, which in turn are the organizing principles of the CPS: (i) improving the business environment; (ii) preserving social inclusion; (iii) strengthening environmental and natural resource management; and (iv) improving governance.

A common theme underlining the four pillars is the need to complete the remaining first-generation structural reforms, while moving forward on a set of ambitious second-generation reforms. The former group is related to the transition to a market economy and the restructuring of the state sector. The latter group focuses on the institutional underpinnings for the operation of a more complex economy, as Vietnam becomes a middle-income country. Through these reforms, the role of the Government will be transformed from direct producer of goods and services to regulator and provider of the foundations for a well-functioning, equitable, modern market economy.

Improving the Business Environment. Support for this theme will witness a shift in emphasis from design to implementation of the policy reform agenda. It focuses on banking reform and overall financial sector development; improved competitiveness with fuller integration with the world economy; a more level playing field for businesses regardless of ownership; laying a better foundation for knowledge-based growth and enhancing agricultural competitiveness; and building up more efficient and reliable infrastructure.

Preserving Social Inclusion. Priorities for World Bank Group support are: better understanding of poverty and piloting of new instruments to reach the poor; mainstreaming gender issues across the portfolio and including people with disabilities in the development process; increasing access to quality, basic infrastructure services for the rural poor; increasing the access to affordable and better quality education and health care services; including and empowering ethnic minorities in the development processes; improving policies and services to address the needs to urban poor and migrants and reducing vulnerability to adverse shocks.

Strengthening Environmental and Natural Resource Management. Rapid economic growth is putting the environment increasingly under stress. The livelihoods of poor people in Vietnam

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[1] Contact person: Ms. Keiko Sato.

still depend overwhelmingly on natural resources. World Bank's activities will focus on livelihood-supporting roles and public benefits of better managed environment and natural resources. In practice, this will raise a range of challenges related to regional planning; land, forestry, water resources and integrated river basin management; and the introduction of modern tools for environmental protection.

Improving Governance: Progress across the structural, social and environmental areas will require more modern institutions, emphasizing transparency and accountability. The thrust of Bank support under this pillar will be: strengthening public financial management, simplification of administrative procedures, assisting with the Government's fight against corruption, greater accountability of public service providers, modernizing the planning process with a focus on development outcomes and more participatory approaches.

World Bank Group Strategy and Lending

The World Bank Group employs a broad range of instruments to support the objectives laid out by the Socio-Economic Development Plan 2006–2010 (SEDP 2006–2010) and other key strategies of the Government. They include analytical and advisory activities; IDA investment projects; Poverty Reduction Support Credits (PRSCs); IFC's equity, loan and TA participations; Mekong Private Sector Development Facility (MPDF) and Multilateral Investment Guarantee Agency (MIGA) activities; and donor partnerships and ODA coordination. IDA credits provide policy, institutional and physical investment support for Vietnam's development and structural reforms, with PRSCs used as vehicles for policy dialogue.

The Scale of Bank Group Activities: The CPS operational program is calibrated based on an assumption of annual IDA lending envelopes in the order of US$900 million. Actual allocations will depend on Vietnam's performance relative to other potential IDA recipients and on the overall resource envelope. During the CPS period, Vietnam's GNI per capita is projected to move steadily towards the IDA graduation threshold, and the Vietnamese government has expressed its desire to seek an opportunity for blending IDA and IBRD resources. The World Bank has scheduled a creditworthiness review in FY08 to this effect. The IFC and MIGA programs are also expected to grow in the coming years.

Poverty Reduction Support Credits (PRSCs): A sixth PRSC operation for US$175 million equivalent was approved by the Board in June 2007. This PRSC is the first in a series of five proposed operations (PRSCs 6-10) to support the reforms envisaged chiefly in the SEDP 2006–2010, which also serves at the Poverty Reduction Strategy (PRS) for Vietnam. Prior to this new series, five PRSC operations mainly supported the implementation of the Government's Comprehensive Poverty Reduction and Growth Strategy. PRSC 1, a two-tranche operation for US$250 million was approved by the Board in June 2001. Its focus was mainly on structural reform issues in trade liberalization, financial sector and SOE reforms, and private sector development. The following five operations PRSC 2-5 had a significantly broader coverage and supported policy actions in areas such as health, social protection, education, and environmental protection and natural resource management. They also included actions to build modern governance systems in Vietnam, such as those aimed at public financial management and public administration reform, modernizing planning, and fighting corruption. Each of these four operations was for US$100 million. PRSC operations have served as an effective donor coordination device, being co-financed by an increasingly large number of donors. The number of co-financiers has increased from 4 at the time of PRSC 1 to 11 for PRSC 6. The contribution of co-financiers exceeded US$150 million for PRSC 5. Apart from providing resources, PRSCs serve as a single unified platform for policy dialogue between about 16 donors and the Government on a broad range of issues.

Knowledge Products: In addition to its lending program, the World Bank has been working on capacity-building and knowledge-sharing in key areas of emphasis. The annual *Vietnam Development Reports* (VDR), written in coordination with a large number of donors and submitted to the year-end Consultative Group meeting, summarizes the accumulated knowledge in a specific policy area and fosters the policy and institutional reform agenda. Recent VDRs have focused on thematic areas such as poverty, governance, and business development. The VDR 2007 was cross sectoral, and based on the SEDP 2006–2010 laid out a roadmap for tackling development challenges over the next five years. A forthcoming VDR will focus on social protection. Upcoming reports over the CPS period will include Skills for Growth and Tertiary Education, Investment Climate Assessment, Capital Market Monitoring and Assistance, Country Social Analysis, Health Issues Paper, Country Environmental Analysis, Land Policy Dialogues, Public Expenditure Review/Integrated Fiduciary Assessment and Country Financial Assessment Update.

IMF-World Bank Collaboration in Specific Areas

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

Table 1: VIETNAM—FY04-07 ACTUAL DELIVERIES

Fiscal Year	Project Description	IDA Amount (US$ mil.)	
2004	Vietnam PRSC III	$100	
	VN-Road Network Improvement		$225
	VN-Urban Upgrading		$222
	Vietnam Water Resources Assistance		$158
	Total		**$706**
2005	Vietnam PRSC IV	$100	
	VN-HIV/AIDS Prevention Project		$35
	VN-Targeted Budget Support for EFA		$50
	VN-Road Safety		$32
	VN-Water Supply Development		$113
	VN-Rural Energy 2		$220
	VN-Forest Sector Development Project		$40
	VN-Avian Influenza Emergency Recovery Project		$5
	Payment System and Bank Modernization 2		$105
	Total		**$699**
2006	Vietnam PRSC V	$100	
	VN-ICT Development		$94
	Mekong Health Support		$70
	Customs Modernization Project		$66
	VN-RRD Rural Water and Sanitation		$46
	VN-Transmission and Distribution 2		$200
	Rural Transport 3		$106
	VN-Natural Disaster Risk Management Project		$86
	Total		**$768**
2007	Vietnam PRSC VI	$175	
	VN-Second Higher Education Project		$60
	VN-Program 135 Phase 2 (DPL)		$50
	VN-Avian and Human Influenza Control		$20
	VN-Mekong Transport Infrastructure Development		$207
	Mekong Transport/Flood Protection (Supplementary)		$25
	VN-Ho Chi Minh City Infrastructure Fund (HIFU)		$50
	VN-Coastal Cities Environment and Sanitation Project		$125
	Total		**$712**

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

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

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

ANNEX IV

Vietnam—Statistical Issues

While data provision to the Fund is broadly adequate for surveillance, the reliability and coverage of macroeconomic statistics have significant deficiencies that hamper economic analysis. Compilation and dissemination are in need of substantial improvement, so that data properly reflect economic developments and assist policy formulation, implementation, and monitoring. The authorities are cooperating with the Fund, but work is hampered in some areas by the lack of authorization to release data. Vietnam has few official statistical publications that provide coverage beyond the real sector. A Vietnam page was introduced in the *GFS Yearbook* in 1999 (data were last reported for fiscal year 2004) and in the *IFS* in 2001. Vietnam has participated in the GDDS since September 2003, and its metadata are posted on the Fund's Dissemination Standards Bulletin Board.

Fund technical assistance has contributed to improvements in a number of statistical areas. The STA multisector statistics/General Data Dissemination System (GDDS) mission in July 2001 found a number of deficiencies and recommended an action plan. The follow-up STA mission in December 2001 agreed on a program to improve national accounts and price statistics. Subsequently, a STA peripatetic expert was assigned to assist the General Statistics Office (GSO) under a five-year project that commenced in January 2002, and a series of four follow-up missions was fielded. More recently, there have also been follow-up missions in balance of payments statistics in September 2003 and 2006. A mission on core inflation measurement and inflation forecasting took place in April 2007.

National accounts

Vietnam has benefited from extensive technical assistance in the area of national accounts and price statistics. The GSO provides quarterly and annual data on gross domestic product (GDP) by type of economic activity and annual data by expenditure[2] (both in current and constant prices), and monthly and annual data on external trade, industrial output, retail sales, and prices. The annual constant price GDP estimates have 1994 as the base year and are in need of updating. While the national accounts methodologies is broadly consistent with the *System of National Accounts 1993*, the compilation process suffers from poor data collection practices and a lack of coordination and communication between data collection agencies. In 2001 the GSO introduced new methodology for calculating GDP and, in 2003, published two revised handbooks on sources and methods in Vietnamese.

Prices

The consumer price index (CPI) methodology is largely in line with international standards. The GSO released a revised CPI in May 2006 based on data from the 2004 Vietnam Household

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

Living Standards Survey (VHLSS). The basket now includes about 500 items, compared with about 400 for the previous index (based on the 1998 VHLSS), and the weight of food has decreased from 47 percent to 42 percent. However, there is only a notional inclusion of owner-occupied and rental housing. Also, there is a need to adopt a geometric mean of price relatives at the lower level of aggregation, instead of the upward biased arithmetic mean. The GSO planned to introduce a producer price index in late 2001 but this has been delayed for technical reasons. Trade price indices are also compiled, but not used in the national accounts by the GSO because the sample size is deemed too small. The authorities are working on a core inflation index.

Government finance statistics

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

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

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

In this context, the government continues to work toward gazetteing and publishing the annual national budget, as well as preparing commune-level budgets, implementing the *GFS*-based functional budget classification system, initiating work on revising government accounting standards, preparing a medium-term expenditure framework, and introducing an integrated financial management system (IFMS) for improving treasury management and fiscal reporting. The 2001 STA mission found that the functional classification had not yet been fully aligned with international classification standards, which might hamper formulation, execution, and monitoring of fiscal policy. The IFMS should allow a detailed classification of provisional, as well as final budget accounts. In addition, it will permit incorporation of data on extrabudgetary funds into the Treasury database.

Annual GFS data through 2004, excluding extrabudgetary funds and social security funds, have been reported for publication in the *GFS Yearbook*, using the 1986 GFS format. No sub-annual fiscal data have been reported for publication in *IFS* since 2001.

Monetary and financial statistics

The State Bank of Vietnam (SBV) reports monetary and financial data to the Fund, including: (i) the monetary survey (on a monthly basis with a ten-week lag), (ii) the central bank balance sheet (on a monthly basis and typically with a twelve-week lag) (iii) detailed consolidated balance sheets ("derivation tables") for six state-owned and 77 non-state deposit money banks and individual balance sheets for the four large state-owned commercial banks (SOCBs) (since the beginning of 2001 on a monthly basis and typically with a twelve-week lag; (iv) deposit and lending rates of the large SOCBs (on a monthly basis and for various maturities); (v) data on reserve requirement on a monthly basis and with a twelve-week lag; and (vi), data on open market operations on a daily basis with a twelve-week lag. Since December 2005 the consolidated balance sheets of deposit money banks cover additionally five financial companies. Recently, monetary data and data on foreign reserves (gross and net official international reserves and net foreign assets of the banking system) have been submitted to the APD mission team with a lag of 8–9 weeks.

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

External sector statistics

The SBV compiles quarterly and annual balance of payments (BOP) statistics with a one- to two-month lag, although the data reported to the Fund for publication are less timely—the data published in the August 2007 issue of the *IFS* are for the second quarter of 2006. The SBV does not compile international investment position statistics. Since 1995, monthly and annual trade data have been compiled using customs reports, but the coverage and accuracy of these data need to be improved. In particular, the commodity breakdown of a large share of reported exports and imports (approximately 17 percent and 27 percent respectively in 2006) is unknown. Data on invisibles continue to be based largely on banking records, which provide incomplete coverage and identification of the types of transactions. Improvements are particularly needed for data on tourism revenue and workers' remittances.

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

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

VIETNAM: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE

AS OF AUGUST 10, 2007

	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange Rates	8/07/07	8/09/07	D	M	W
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	5/31/07	6/27/07	M	I	NA
Reserve/Base Money	5/31/07	7/11/07	M	I	NA
Broad Money	5/31/07	7/11/07	M	I	NA
Central Bank Balance Sheet	5/31/07	7/19/07	M	I	NA
Consolidated Balance Sheet of the Banking System	5/31/07	7/19/07	M	I	NA
Interest Rates[2]	7/31/07	7/31/07	M	I	NA
Consumer Price Index	7/15/07	7/24/07	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	...	...	...	...	NA
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	6/30/07	8/1/07	Q	Q	A
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2006	6/26/07	I	I	NA
External Current Account Balance	2005 and 2006	8/7/07	A	A	A
Exports and Imports of Goods and Services[7]	7/31/07	7/25/07	M	M	M
GDP/GNP	7/31/06	7/23/07	Q	Q	Q
Gross External Debt	2006	8/3/07	I	A	NA

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

INTERNATIONAL MONETARY FUND AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

VIETNAM

Joint IMF/World Bank Debt Sustainability Analysis 2007

Prepared by the staffs of the International Monetary Fund and
the International Development Association

Approved by Masahiko Takeda and Mark Plant (IMF) and
Vikram Nehru and Deepak Bhattasali (IDA)

September 14, 2007

Vietnam remains at low risk of external debt distress over the medium term, provided that external borrowing will continue to be guided by the prudence that has characterized government policies over the last few years. However, the inclusion of domestic debt in the analysis paints a somewhat more nuanced picture, as prolonged maintenance of an expansionary fiscal policy or a permanently lower GDP growth rate could pose risks to long-run fiscal sustainability. These considerations reinforce the need for the adoption of a more restrained fiscal stance over the medium term, along with accelerated reform and equitization of SOEs.

A. Introduction

1. This analysis updates the DSA presented in Country Report No. 06/421 (Annex VII, pp. 48–59). The DSA was prepared jointly by the Bank and the Fund on the basis of the joint framework approved by the Bank and Fund Boards in April 2005.

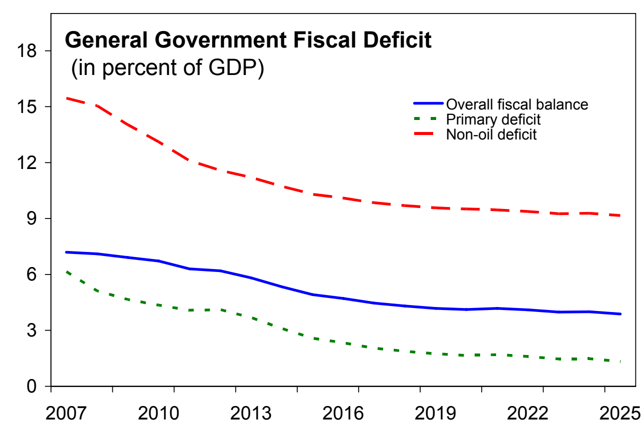
B. The Baseline Scenario

2. The baseline scenario is broadly consistent with the policies and public investment program contained in Vietnam's Socio-Economic Development Plan (SEDP) for 2006–10, which is also the government's Poverty Reduction strategy (PRS).

3. **The key assumptions envisage:**

- GDP growth at 8 percent on average during 2007–12 and 7.1 percent thereafter, slightly above the growth rates assumed in last year's DSA;

- Consumer price inflation picking up to 8 percent in 2007, somewhat above the rate projected under last year's DSA (6.5 percent), but progressively declining thereafter, to 4½ percent by 2012, and 2.8 percent over the long run, in line with major trading partners, broadly as envisaged in last year's DSA;
- Exchange rate of the dong continuing to depreciate by 1–1½ percent a year vis-à-vis the U.S. dollar over the medium term, and stabilizing over the long run, with the implied cumulative appreciation of the real exchange rate remaining modest, so that projected increases in labor productivity in the traded goods sector can help preserve competitiveness;
- Oil revenues declining at a somewhat faster pace than envisaged in last year's DSA, from a peak of 9¾ percent of GDP in 2006 to around 8 percent of GDP in 2007–08 and 5 percent of GDP from 2012 onward, in line with a projected leveling off of oil export receipts;
- Non-oil revenues increasing from around 17¼ percent of GDP in 2007 to 18¼ percent of GDP by 2012, as the government is expected to intensify its efforts to broaden the tax base and strengthen tax administration, with a view to mitigating the decline in total revenue;
- Total primary (non-interest) expenditure declining in relation to GDP broadly in line with the pace of adjustment envisaged in last year's DSA, with non-interest current expenditure declining from 18¾ percent of GDP in 2007 to about 17½ percent of GDP by 2010 as oil subsidies are phased out, and falling further to about 15½ percent of GDP over the long run as wage increases slow from 2010 onwards;
- Total public investment, including on-lending for the financing of SOE projects, would decline slightly faster than envisaged under last year's DSA, from about 12½ percent of GDP in 2007 to 10½ percent of GDP by 2012, as SOE reform and equitization help transfer more responsibilities for the financing of large investment projects to the private sector;
- The composition of new borrowing would shift towards debt secured under less concessional terms, with an increase of the average interest rate on external debt from an historical average of 3 percent to about 5½ percent during 2013-27;



- No further liabilities incurred in connection with SOCB reform, and no contingent liabilities arising from the SOE sector, as SOCB capital is being replenished through an injection of public funds equivalent to around 1 percent of GDP, and the government intends to meet any further needs for SOCB or SOE recapitalization through recourse to the government's equitization fund.

4. Under the above assumptions, the non-oil fiscal deficit would fall from 14¾ percent of GDP in 2007–08 to 10½ percent of GDP by 2012, and it would decline somewhat more slowly thereafter, leveling off at about 9 percent of GDP over the long run. The overall fiscal deficit would decline from about 7 percent of GDP in 2007 to 5½ percent of GDP by 2012, and would also remain on a downward trend thereafter, leveling off at about 4 percent of GDP in the long run. The primary deficit would decline from 5½ percent of GDP in 2007 to 3¾ percent of GDP in 2012, and it would fall further in subsequent years to 1 percent of GDP by 2027.

C. Public Sector Debt Sustainability

5. Under the baseline, the stock of total public debt, which is projected at 43½ percent of GDP in 2007, broadly in line with the average debt level of the ASEAN-4 countries,[1] would remain on an upward trend over the medium term. It would breach the authorities' notional ceiling of 50 percent of GDP in 2014, and would peak at about 51 percent of GDP in 2016, but would decline steadily thereafter, falling to 46½ percent of GDP by 2027.[2] Although the NPV of debt to GDP ratio would reach a high of 47½ percent, and the NPV of debt to revenue ratio would exceed 200 percent in 2017, both ratios would be placed on rapidly declining paths over the long run. The debt service to revenue ratio would remain manageable throughout the projection period.

6. The stress tests suggest that the path of total public debt is particularly sensitive to changes in the assumptions about the extent of fiscal adjustment and the GDP growth rate. The biggest risks would be posed by a failure to carry out the envisaged adjustment in the primary balance. As is illustrated under alternative scenario A2, if the primary balance were to remain unchanged at its level as of 2007 (-5.5 percent of GDP), the NPV of debt to GDP ratio, the NPV of debt to revenue ratio, and the debt service to revenue ratio would all rise sharply, and would reach levels of 81 percent, 351 percent and 30 percent, respectively, by 2027. A permanently lower GDP growth rate (alternative scenario A3) would also have significant, but somewhat more modest, adverse effects on the debt dynamics, with the NPV of debt to GDP ratio, the NPV of debt to revenue ratio, and the debt service to revenue ratio reaching levels of 54 percent, 233 percent, and 16 percent, respectively, by 2027.

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[1] ASEAN 4 includes: Indonesia, Malaysia, the Philippines, and Thailand.

[2] The authorities' notional debt ceiling excludes VDB liabilities and municipal bonds, which are included in the staff's definition of public and publicly guaranteed debt.

D. External Debt Sustainability

7. The baseline scenario assumes that the authorities continue their past policy of setting an annual external borrowing limit for the public sector, while maintaining a prudent policy in their issuance of sovereign bonds. In addition, the scenario does not incorporate any foreign holdings of domestic-currency bonds, as such holdings have been limited in the past. As a result, the baseline can be viewed as a relatively optimistic external debt scenario for a country that is rapidly transitioning to emerging-market status, and some of the underlying assumptions will need to be reconsidered in future DSA updates.

8. More specifically, the baseline assumes (i) a gradual decline in financing on IDA terms from 2.3 percent of GDP in 2007 to about 1.8 percent of GDP in 2010, followed by a slow move toward a blended mix of multilateral and bilateral finance; (ii) a gradual decline in ODA-financed on-lending; (iii) a decline in SOE external debt with government guarantee, as SOEs progressively gain direct access to foreign capital markets; (iv) continued robust growth in FDI; (v) net annual issuance of commercial sovereign bonds rising to 1.3 percent of GDP in 2008 (based on the assumption that the forthcoming US$1 billion bond issue will occur in 2008) and leveling off at 1 percent of GDP over the long run; and (vi) an increase in private debt from 5.2 percent of GDP in 2007 to 8.7 percent of GDP in 2027.

9. The baseline implies a fairly benign external debt situation. Total external debt is projected to decline from an already manageable 31 percent of GDP in 2007 to 26½ percent of GDP in 2012 and 22 percent by 2027. The NPV of the public and publicly guaranteed (PPG) debt to GDP ratio would level off at about 17 percent of GDP during 2010–2012, declining to 11½ percent of GDP by 2027. The NPV of PPG debt to exports ratio would record a more marked decline, falling from 24 percent in 2007 to 20 percent in 2012 and 14 percent by 2027. While the NPV of PPG debt to revenue ratio would edge up to 74 percent in 2012, it would fall markedly over the long run to 50 percent by 2027. The debt service-to-export ratio would remain very low at about 4 percent throughout the projection period. While the debt service-to-revenue ratio would rise steadily from 10 percent in 2007 to 15 percent by 2017, it would level off thereafter, and decline to 13 percent by 2027.

10. The alternative scenarios on the external debt show that Vietnam's external debt is most sensitive to changes in the assumption on the terms of new debt. Under the assumption that new public sector loans will have to be incurred at less favorable terms throughout the projection period (alternative scenario A2), the NPV of debt-to-exports ratio could remain at 24 percent over the long run, while the NPV of debt-to-revenue ratio would rise to 97 percent by 2017. These scenarios underscore the need for Vietnam to continue to attract FDI, and make maximal use of concessional sources of finance, to keep its external debt manageable.

11. Additional risks that are not reflected in the baseline call for continuation of a prudent external debt management policy. First, as in the case of the baseline for total public debt, the path of external debt is predicated on a relatively rapid pace of medium term fiscal

adjustment. If the adjustment is postponed or does not materialize, external borrowing could be more extensive, and the external public debt dynamics less favorable. Second, as foreign investors' appetite for Vietnamese paper continues to increase, the authorities could make increasing recourse not only to sovereign bond issues for purposes of on-lending to SOEs (as appears to be the case with the currently-planned US$1 billion bond issue) but also placements of domestic-currency government and SOE bonds abroad. Such operations could lead to a considerably faster than projected increase in the level of external debt.

E. Public Sector Debt Sustainability Scenario with Contingent Liabilities

12. Following the approach used for last year's DSA, this section attempts to incorporate the possible increase in contingent government liabilities associated with the operations of SOCBs and/or SOEs by developing two alternative scenarios.[3]

13. Alternative Scenario 1 assumes that the balance sheets of the four large SOCBs have improved markedly over the last two years, based on audited financial statements for 2005 and 2006, the quality of which has also been upgraded (some of these statements have been prepared and audited in line with international practices). While the recent financial statements continue to report capital levels (after accounting for accumulated losses) that are below the SBV's 8 percent requirement (significantly so in some cases), the estimates for recapitalization costs that might have to be borne by the government are lower than those based on financial statements from before 2005. This is not only because of stronger balance sheets, but also because the likelihood of private sector equity injections is much greater now than earlier anticipated. Taking these factors into account, and also the possibility that some non-performing assets may have gone unreported or remain off-balance sheet, the recapitalization costs to raise capital to 8 percent of assets are estimated at 4 percent of GDP. The associated contingent liabilities are assumed to be absorbed by the government in four equal installments over the period 2008–11 (one percent of GDP a year). Under this scenario, the public debt dynamics does not change in any drastic way with respect to the baseline. As is illustrated in Table 1, the NPV of public debt rises slightly faster than under the baseline over the medium term, but it follows a declining trend over the long run, and remains below the authorities' notional debt ceiling of 50 percent of GDP throughout the projection period.

14. Alternative Scenario 2 assumes that, aside from the need to recapitalize SOCBs, slow progress in improving the governance of SOEs, and delays in their equitization, lead to a slower than expected accumulation of resources in the equitization fund. As a result, the government has to assume a larger share of the costs of recapitalizing SOCBs and SOEs. The

[3] The DSA in Country Report No. 06/421 included two alternative scenarios with contingent liabilities ranging from 8 percent of GDP to 20 percent of GDP. The assumed size of contingent liabilities has been scaled down to 4 percent to 8 percent of GDP in this year's DSA on the assumption that the government's efforts to speed up the equitization of SOCBs, together with slowing growth in SOCB lending, will help contain possible future burdens on the budget associated with SOCB recapitalization.

scenario also assumes that SOEs increase their borrowing to finance their ambitious investment projects, and that some of these obligations will eventually have to be assumed by the government. As a result, over the medium term, the government incurs total contingent liabilities equivalent to 8 percent of GDP, which are again evenly spread over a period of four years (2008–11). Under these assumptions, the debt stock in NPV terms would breach the authorities' notional debt ceiling of 50 percent by 2012, peaking at around 51½ percent of GDP in 2015, and declining steadily over the longer term to about 45 percent in 2027.

15. The above scenarios illustrate the important ways in which contingent liabilities can influence public debt dynamics. Going forward, even if SOCB bank equitizations are implemented as planned in 2007–08, and the quality of new SOCB lending is improved considerably, SOEs' increasing borrowing from other sources, including the capital market and/or new SOE-affiliated financial conglomerates, could give rise to contingent government liabilities, which could be larger the longer needed SOE reforms are postponed. An increase in the size of these liabilities could, in turn, pose a threat to medium-term debt sustainability, if it is combined with a significant delay in the adjustment of the primary balance and/or a sharp reduction in the oil price. This could eventually require a larger and more abrupt adjustment to quickly place debt on a sustainable path, with the increasing debt servicing requirements likely to crowd out higher-priority investment and social expenditures.

F. Staff Assessment

16. Staffs consider Vietnam to be at low risk of external debt distress over the period 2007–12. Vietnam's external debt ratios would remain below applicable policy-based debt thresholds under the baseline, provided that external borrowing policies will continue to be guided by the prudence that has characterized Vietnam's policies over the last few years.[4] Vietnam's external debt dynamics are also robust to most standardized shocks. While the external public debt seems most sensitive to an exchange rate shock, the level of the debt would still remain well below the external debt applicable thresholds (Figure 2). A gradual decline in the NPV of external debt-to-GDP ratio would still occur under various shocks, as in the baseline scenario (Table 3b).

17. However, the inclusion of domestic debt paints a somewhat more nuanced picture. Under the baseline, the NPV of domestic debt would rise from 19.4 percent of GDP in 2007 to 27 percent of GDP by 2012, while the NPV of debt to revenue ratio would rise above 200 percent by 2017. As is illustrated in the stress tests, an expansionary fiscal policy or a permanently lower GDP growth rate could then pose risks to long-run fiscal sustainability. In particular, if the substantial fiscal adjustment envisaged to take place over the long run under

[4] Vietnam is considered a "medium" performer on the basis of the three-year moving average of its CPIA rating, which is the same as its CPIA score for 2005. Its applicable external debt thresholds are the following: (i) NPV of debt-to-exports = 150 percent; (ii) NPV of debt-to-GDP = 40 percent; and (iii) debt service-to-exports = 20 percent.

the baseline fails to materialize, the NPV of total public debt would rise to about 350 percent of revenue by 2027, while the debt service to revenue ratio would rise to 30 percent. These considerations underscore the importance of continued close monitoring of Vietnam's public debt dynamics, and reinforce the need for the adoption of a more restrained fiscal stance over the medium term, along with an acceleration of the pace of reform and equitization of SOEs.

Table 1. Vietnam: Public Sector Debt - Comparison of Debt Dynamics with and without Contingent Liabilities

(NPV of Debt-to-GDP Ratio)

	Est.	Projections												
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2026	2027
Baseline Scenario: Excluding Contingent Liabilities														
Public and Publicly Guaranteed Debt in NPV	37.6	37.9	39.7	40.8	41.7	43.0	44.2	45.3	46.5	47.1	47.4	47.3	43.8	43.3
Memo: Public and publicly guaranteed debt in percent of GDP	43.3	43.4	44.9	46.0	46.8	47.7	48.7	49.6	50.5	50.5	51.1	50.9	46.9	46.4
A. Alternative scenarios														
A1. Real GDP growth and primary balance are at historical averages	37.6	37.9	38.1	38.5	39.0	39.9	40.8	41.7	42.9	44.0	44.9	45.6	51.8	52.7
A2. Primary balance is unchanged from 2006	37.6	37.9	40.0	42.3	44.5	47.1	49.6	52.1	54.9	57.7	60.1	62.4	78.9	80.7
A3. Permanently lower GDP growth 1/	37.6	37.9	39.8	41.2	42.4	43.9	45.5	47.0	48.5	49.7	50.5	50.9	53.2	53.5
B. Bound tests														
B1. Real GDP growth is at historical average minus one standard deviations in 2007 - 2008	37.6	37.9	41.0	43.9	45.6	47.7	49.7	51.4	53.3	54.6	55.5	55.9	56.0	55.8
B2. Primary balance is at historical average minus one standard deviations in 2007 - 2008	37.6	37.9	39.4	41.0	42.0	43.2	44.4	45.5	46.6	47.3	47.6	47.5	43.9	43.4
B3. Combination of B1-B2 using one half standard deviation shocks	37.6	37.9	39.1	40.5	41.4	42.7	44.0	45.0	46.2	46.9	47.2	47.1	43.8	43.3
B4. One-time 30 percent real depreciation in 2007	37.6	37.9	47.1	47.4	47.6	48.4	49.3	50.1	50.9	51.6	51.5	51.2	46.8	46.4
B5. 10 percent of GDP increase in other debt-creating flows in 2007	37.6	37.9	49.0	49.4	49.7	50.4	51.3	52.0	52.8	53.1	53.1	52.7	47.0	46.4
Scenario 1: Contingent liabilities equivalent to 4 percnet of GDP 2/														
Public and Publicly Guaranteed Debt in NPV	37.6	37.9	40.7	42.7	44.4	46.3	47.2	48.0	48.9	49.3	49.4	49.1	44.5	44.0
Memo: Public and publicly guaranteed debt in percent of GDP	43.3	43.4	45.9	47.8	49.4	51.1	51.7	52.2	52.9	52.6	53.0	52.7	47.7	47.1
of which debt creating flows from contingent liabilities in percent of GDP	0.0	0.0	1.0	1.0	1.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
A. Alternative scenarios														
A1. Real GDP growth and primary balance are at historical averages	37.6	37.9	39.1	40.5	42.0	43.7	44.4	45.1	46.2	47.1	47.9	48.5	53.6	54.5
A2. Primary balance is unchanged from 2006	37.6	37.9	41.1	44.3	47.4	50.8	53.1	55.4	58.0	60.6	63.0	65.1	80.7	82.3
A3. Permanently lower GDP growth 1/	37.6	37.9	40.9	43.1	45.0	47.3	48.5	49.6	51.0	51.9	52.5	52.7	54.0	54.3
B. Bound tests														
B1. Real GDP growth is at historical average minus one standard deviations in 2007 - 2008	37.6	37.9	42.1	45.8	48.4	51.2	52.8	54.2	55.8	56.9	57.5	57.8	56.8	56.6
B2. Primary balance is at historical average minus one standard deviations in 2007 - 2008	37.6	37.9	40.4	43.0	44.7	46.6	47.5	48.2	49.1	49.5	49.6	49.3	44.7	44.1
B3. Combination of B1-B2 using one half standard deviation shocks	37.6	37.9	40.1	42.5	44.2	46.2	47.1	47.9	48.8	49.3	49.4	49.1	44.6	44.1
B4. One-time 30 percent real depreciation in 2007	37.6	37.9	48.1	49.3	50.3	51.8	52.3	52.7	53.3	53.8	53.5	53.0	47.6	47.1
B5. 10 percent of GDP increase in other debt-creating flows in 2007	37.6	37.9	49.0	50.4	51.6	53.1	53.6	54.1	54.7	54.9	54.7	54.2	47.6	46.9
Scenario 2: Contingent liabilities equivalent to 8 percnet of GDP 3/														
Public and Publicly Guaranteed Debt in NPV	37.6	37.9	41.7	44.6	47.0	49.7	50.2	50.6	51.3	51.5	51.4	50.9	45.3	44.7
Memo: Public and publicly guaranteed debt in percent of GDP	43.3	43.4	46.9	49.7	52.0	54.4	54.6	54.9	55.3	54.8	55.0	54.5	48.4	47.8
of which debt creating flows from contingent liabilities in percent of GDP	0.0	0.0	2.0	2.0	2.0	2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
A. Alternative scenarios														
A1. Real GDP growth and primary balance are at historical averages	37.6	37.9	40.2	42.5	44.9	47.5	48.0	48.5	49.5	50.2	50.9	51.3	55.5	56.2
A2. Primary balance is unchanged from 2006	37.6	37.9	42.1	46.3	50.3	54.5	56.6	58.7	61.1	63.6	65.8	67.8	82.5	84.0
A3. Permanently lower GDP growth 1/	37.6	37.9	41.9	44.9	47.7	50.6	51.5	52.3	53.4	54.1	54.5	54.6	54.8	55.0
B. Bound tests														
B1. Real GDP growth is at historical average minus one standard deviations in 2007 - 2008	37.6	37.9	43.1	47.8	51.1	54.6	55.8	57.0	58.3	59.1	59.6	59.7	57.6	57.3
B2. Primary balance is at historical average minus one standard deviations in 2007 - 2008	37.6	37.9	41.4	45.0	47.4	50.0	50.5	50.9	51.6	51.8	51.7	51.2	45.4	44.8
B3. Combination of B1-B2 using one half standard deviation shocks	37.6	37.9	41.2	44.5	47.1	49.8	50.2	50.7	51.3	51.6	51.5	51.0	45.5	44.9
B4. One-time 30 percent real depreciation in 2007	37.6	37.9	49.1	51.1	52.9	55.1	55.2	55.4	55.7	56.0	55.5	54.8	48.4	47.7
B5. 10 percent of GDP increase in other debt-creating flows in 2007	37.6	37.9	49.0	51.4	53.4	55.8	56.0	56.2	56.6	56.6	56.3	55.6	48.2	47.5

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

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

2/ Assumes capital injection equal to 4 percent of GDP, spread over 2008-11.

3/ Assumes capital injection equal to 8 percent of GDP, spread over 2008-11.

Table 1a.Vietnam: Public Sector Debt Sustainability Framework, Baseline Scenario, 2004-2027
(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2004	2005	2006	Historical Average 5/	Standard Deviation 5/	2007	2008	2009	2010	2011	2012	2007-12 Average	2017	2027	2013-27 Average
Memo: non-oil deficit:	-10.7	-14.6	-13.5			-14.8	-14.5	-12.8	-11.7	-11.0	-10.5		-9.3	-8.6	
Public sector debt 1/	42.4	43.8	43.3			43.4	44.9	46.0	46.8	47.7	48.7		50.9	46.4	
o/w foreign-currency denominated	27.0	26.4	24.7			24.0	24.1	23.0	22.0	21.7	21.5		20.2	14.7	
Change in public sector debt	1.4	1.4	-0.5			0.1	1.5	1.1	0.8	1.0	1.0		-0.2	-0.5	
Identified debt-creating flows	-2.8	-0.2	-1.9			1.1	1.2	0.5	0.3	0.4	0.5		-0.3	-0.6	
Primary deficit	1.8	5.0	2.9	3.0	1.8	5.5	5.1	4.2	3.9	3.9	3.8	4.4	2.2	1.1	2.1
Revenue and grants	26.7	25.9	27.1			25.5	25.9	25.1	24.3	23.7	23.3		23.1	23.0	
of which : grants	0.4	0.3	0.4			0.3	0.3	0.3	0.3	0.2	0.2		0.0	0.0	
Primary (noninterest) expenditure	28.5	30.9	30.0			31.0	31.0	29.3	28.3	27.6	27.1		25.3	24.1	
Automatic debt dynamics	-4.6	-5.2	-4.8			-4.4	-3.9	-3.7	-3.7	-3.4	-3.3		-2.5	-1.7	
Contribution from interest rate/growth differential	-3.2	-3.9	-3.9			-3.5	-3.3	-3.2	-3.2	-3.1	-3.1		-2.4	-1.6	
of which : contribution from average real interest rate	-0.2	-0.6	-0.6			-0.2	0.0	0.1	0.1	0.3	0.3		1.0	1.6	
of which : contribution from real GDP growth	-3.0	-3.3	-3.3			-3.3	-3.3	-3.3	-3.4	-3.4	-3.4		-3.4	-3.1	
Contribution from real exchange rate depreciation	-1.4	-1.3	-0.9			-0.9	-0.6	-0.5	-0.4	-0.3	-0.2		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	4.2	1.6	1.5			-1.0	0.2	0.6	0.5	0.5	0.4		0.1	0.1	
NPV of public sector debt			37.6			37.9	39.7	40.8	41.7	43.0	44.2		47.3	43.3	
o/w foreign-currency denominated	...	...	19.0			18.5	18.9	17.9	16.9	16.9	17.0		16.6	11.5	
o/w external	...	...	19.0			18.5	18.9	17.9	16.9	16.9	17.0		16.6	11.5	
NPV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	2.8	5.9	3.8			6.9	6.6	5.8	5.6	5.6	5.6		4.4	3.8	
NPV of public sector debt-to-revenue and grants ratio (in percent)	...	...	138.6			148	153	162	172	181	190		205.1	188.6	
NPV of public sector debt-to-revenue ratio (in percent)	...	...	140.5			150.1	154.8	164.2	173.5	182.6	191.8		205.1	188.6	
o/w external 3/	...	...	71.2			73.1	73.7	71.9	70.4	71.9	73.8		71.8	50.2	
Debt service-to-revenue and grants ratio (in percent) 4/	3.8	3.2	3.4			5.5	5.9	6.4	6.9	7.3	7.6		9.3	11.5	
Debt service-to-revenue ratio (in percent) 4/	3.8	3.3	3.4			5.6	5.9	6.5	7.0	7.4	7.7		9.3	11.5	
Primary deficit that stabilizes the debt-to-GDP ratio	0.4	3.7	3.3			5.4	3.7	3.1	3.1	2.9	2.8		2.4	1.6	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	7.8	8.4	8.2	7.1	1.1	8.3	8.2	8.0	8.0	7.8	7.8	8.0	7.1	7.1	7.1
Average nominal interest rate on forex debt (in percent)	1.8	2.1	2.1	2.0	0.1	2.4	2.7	2.7	2.5	2.5	2.5	2.5	3.1	4.5	3.6
Average real interest rate on domestic currency debt (in percent)	-4.3	-5.7	-3.5	-1.8	4.2	-2.2	-1.5	-0.6	-0.7	0.7	1.0	-0.5	2.7	4.1	2.8
Inflation rate (CPI, in percent)	9.7	8.8	6.6	4.1	4.1	8.0	7.3	6.5	6.5	5.0	4.5	6.3	2.8	2.8	2.9
Growth of real primary spending (deflated by GDP deflator, in percent)	1.4	17.4	5.1	...	...	11.8	8.3	2.1	4.0	5.2	5.7	6.2	5.8	5.8	6.3
Grant element of new external borrowing (in percent)	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...

Sources: Vietnamese authorities; and Fund staff estimates and projections.
1/ General government.
2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.
3/ Revenues excluding grants.
4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.
5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 2a.Vietnam: Sensitivity Analysis for Key Indicators of Public Debt 2007-2027

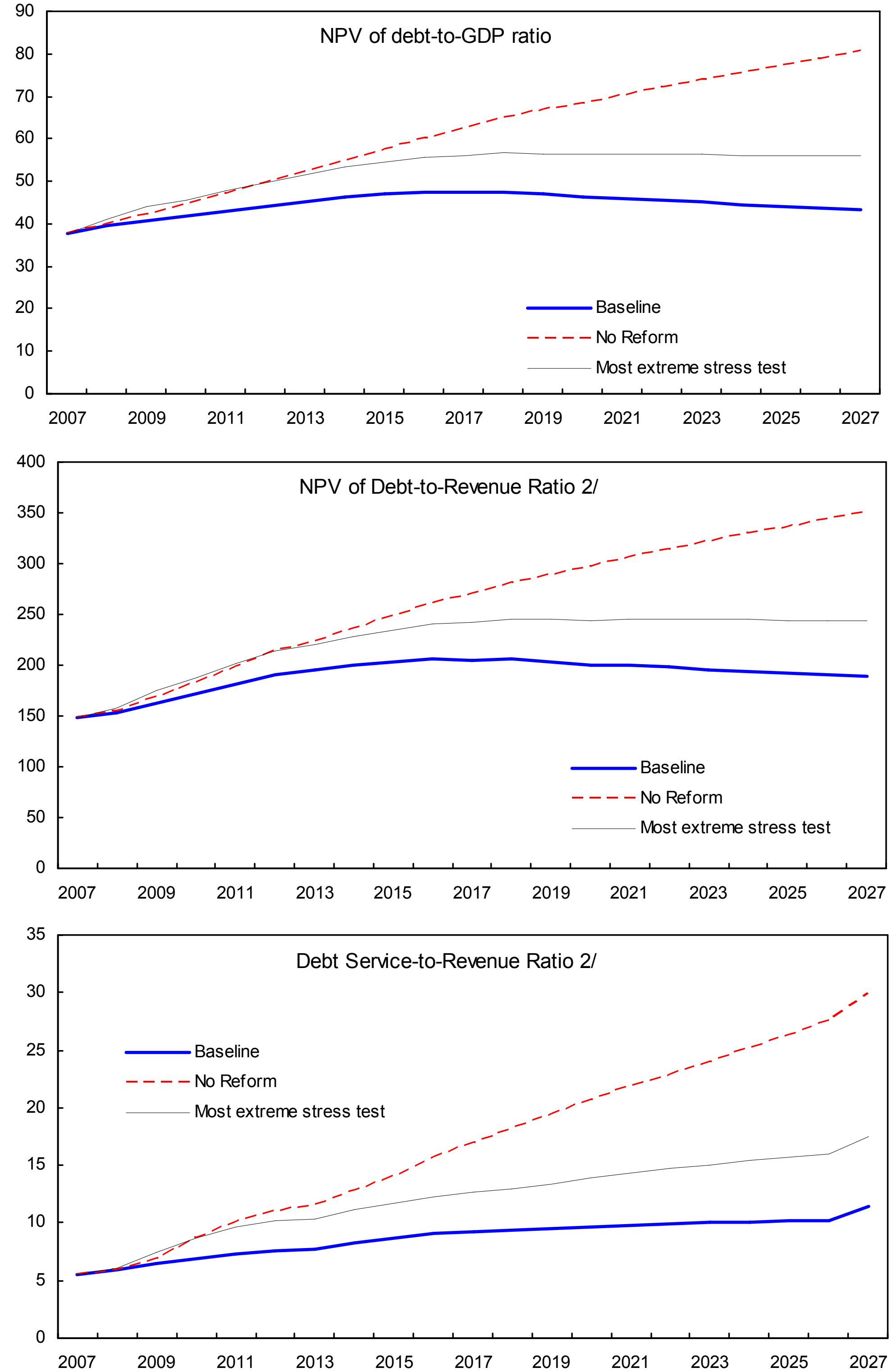
	Projections							
	2007	2008	2009	2010	2011	2012	2017	2027
NPV of Debt-to-GDP Ratio								
Baseline	38	40	41	42	43	44	47	43
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	38	38	39	39	40	41	46	53
A2. Primary balance is unchanged from 2007	38	40	42	45	47	50	62	81
A3. Permanently lower GDP growth 1/	38	40	41	42	44	45	51	54
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2008-2009	38	41	44	46	48	50	56	56
B2. Primary balance is at historical average minus one standard deviations in 2008-2009	38	39	41	42	43	44	47	43
B3. Combination of B1-B2 using one half standard deviation shocks	38	39	40	41	43	44	47	43
B4. One-time 30 percent real depreciation in 2008	38	47	47	48	48	49	51	46
B5. 10 percent of GDP increase in other debt-creating flows in 2008	38	49	49	50	50	51	53	46
NPV of Debt-to-Revenue Ratio 2/								
Baseline	148	153	162	172	181	190	205	189
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	148	147	153	160	168	175	198	229
A2. Primary balance is unchanged from 2007	148	155	168	183	198	213	270	351
A3. Permanently lower GDP growth 1/	148	154	164	174	185	195	221	233
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2008-2009	148	158	175	188	201	213	242	243
B2. Primary balance is at historical average minus one standard deviations in 2008-2009	148	152	163	172	182	191	206	189
B3. Combination of B1-B2 using one half standard deviation shocks	148	151	161	170	180	189	204	189
B4. One-time 30 percent real depreciation in 2008	148	182	189	196	204	212	222	202
B5. 10 percent of GDP increase in other debt-creating flows in 2008	148	189	197	204	212	220	229	202
Debt Service-to-Revenue Ratio 2/								
Baseline	6	6	6	7	7	8	9	11
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	6	6	4	4	5	5	9	15
A2. Primary balance is unchanged from 2007	6	6	7	9	10	11	17	30
A3. Permanently lower GDP growth 1/	6	6	7	7	8	8	11	16
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2008-2009	6	6	7	9	10	10	13	18
B2. Primary balance is at historical average minus one standard deviations in 2008-2009	6	6	6	7	8	8	9	12
B3. Combination of B1-B2 using one half standard deviation shocks	6	6	5	6	7	7	9	11
B4. One-time 30 percent real depreciation in 2008	6	6	8	8	9	9	11	14
B5. 10 percent of GDP increase in other debt-creating flows in 2008	6	6	19	12	10	10	11	14

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

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

2/ Revenues are defined inclusive of grants.

Figure 1. Vietnam: Indicators of Public Debt Under Alternative Scenarios, 2007-2027 1/



Source: Fund staff projections and simulations.
1/ Most extreme stress test is test that yields highest ratio in 2017.
2/ Revenue including grants.

Table 3a.Vietnam: External Debt Sustainability Framework, Baseline Scenario, 2004-2027 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/	Standard Deviation 6/	Projections									
	2004	2005	2006			2007	2008	2009	2010	2011	2012	2007-12 Average	2017	2027	2013-27 Average
External debt (nominal) 1/	33.5	32.2	30.2			30.8	30.2	28.5	27.4	27.0	26.7		25.7	22.2	
o/w public and publicly guaranteed (PPG)	27.2	26.6	25.0			24.3	24.4	23.3	22.4	22.1	21.9		20.6	15.1	
Change in external debt	-0.2	-1.3	-2.0			0.6	-0.6	-1.7	-1.1	-0.4	-0.3		0.0	-0.4	
Identified net debt-creating flows	-3.8	-6.1	-6.6			-1.8	-1.6	-1.2	-0.9	-0.9	-0.9		-0.6	-0.5	
Non-interest current account deficit	2.7	0.1	-0.6	-0.3	3.3	2.2	2.1	2.4	2.5	2.4	2.3		2.0	2.0	1.9
Deficit in balance of goods and services	6.9	5.0	4.6			8.0	8.1	8.0	8.2	7.6	7.1		6.0	5.1	
Exports	66.6	69.0	73.7			75.5	78.1	80.5	82.6	84.7	87.1		92.2	79.8	
Imports	73.6	74.0	78.2			83.5	86.2	88.5	90.8	92.3	94.2		98.2	84.9	
Net current transfers (negative = inflow)	-5.5	-6.4	-6.6	-5.2	1.0	-7.5	-6.9	-6.4	-6.0	-5.5	-5.1		-4.0	-2.5	-3.5
o/w official	-0.4	-0.4	-0.4			-0.3	-0.3	-0.3	-0.2	-0.2	-0.2		-0.2	-0.1	
Other current account flows (negative = net inflow)	1.3	1.4	1.4			1.7	0.9	0.8	0.3	0.3	0.3		0.0	-0.6	
Net FDI (negative = inflow)	-2.8	-2.3	-2.6	-3.1	0.9	-2.7	-2.6	-2.6	-2.5	-2.5	-2.3		-2.1	-2.1	-2.1
Endogenous debt dynamics 2/	-3.7	-3.9	-3.3			-1.2	-1.1	-1.0	-0.9	-0.8	-0.8		-0.4	-0.4	
Contribution from nominal interest rate	0.7	0.9	0.9			1.0	1.1	1.1	1.1	1.1	1.1		1.2	1.1	
Contribution from real GDP growth	-2.3	-2.4	-2.3			-2.2	-2.2	-2.1	-2.0	-1.9	-1.9		-1.7	-1.5	
Contribution from price and exchange rate changes	-2.1	-2.3	-1.9			…	…	…	…	…	…		…	…	
Residual (3-4) 3/	3.6	4.7	4.6			2.4	1.0	-0.5	-0.2	0.5	0.5		0.5	0.1	
o/w exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
NPV of external debt 4/	...	...	24.3			25.0	24.7	23.0	22.0	21.9	21.8		21.7	18.7	
In percent of exports	...	...	33.0			33.1	31.7	28.6	26.6	25.8	25.0		23.5	23.4	
NPV of PPG external debt	...	...	19.0			18.5	18.9	17.9	16.9	16.9	17.0		16.6	11.5	
In percent of exports	...	...	25.9			24.5	24.2	22.2	20.5	20.0	19.5		18.0	14.4	
In percent of government revenues	...	...	71.2			73.1	73.7	71.9	70.4	71.9	73.8		71.8	50.2	
Debt service-to-exports ratio (in percent)	6.0	5.6	5.3			5.5	5.6	5.1	5.1	5.2	5.2		5.3	6.0	
PPG debt service-to-exports ratio (in percent)	3.9	3.7	3.3			3.4	3.5	3.5	3.6	3.7	3.7		3.7	3.8	
PPG debt service-to-revenue ratio (in percent)	9.9	10.1	9.2			10.2	10.7	11.5	12.3	13.3	14.0		14.9	13.1	
Total gross financing need (billions of U.S. dollars)	2.0	1.2	0.7			2.9	3.6	4.2	5.0	5.9	6.7		11.6	29.8	
Non-interest current account deficit that stabilizes debt ratio	2.9	1.4	1.3			1.6	2.7	4.1	3.6	2.8	2.6		2.0	2.4	
Key macroeconomic assumptions															
Real GDP growth (in percent)	7.8	8.4	8.2	7.3	1.3	8.3	8.2	8.0	8.0	7.8	7.8	8.0	7.1	7.1	7.1
GDP deflator in US dollar terms (change in percent)	6.6	7.4	6.3	2.3	4.0	4.8	6.2	4.4	4.0	3.4	3.0	4.3	2.8	2.8	2.8
Effective interest rate (percent) 5/	2.4	3.0	3.3	3.0	0.5	3.8	4.2	4.2	4.3	4.4	4.5	4.2	5.2	5.1	5.3
Growth of exports of G&S (US dollar terms, in percent)	29.6	20.7	22.7	17.9	9.4	16.3	18.9	16.2	15.3	14.3	14.1	15.9	10.4	7.1	9.5
Growth of imports of G&S (US dollar terms, in percent)	25.1	17.2	21.5	15.2	11.4	21.1	18.7	15.8	15.3	13.4	13.2	16.2	10.2	7.3	9.3
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	29.4	15.4	28.8	29.0	18.0	15.8	22.7	9.4	1.1	7.3
Aid flows (in billions of US dollars) 7/	1.6	1.7	1.6			1.8	1.9	2.0	2.1	2.1	2.2		2.7	3.4	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			1.1	0.9	1.0	0.9	0.7	0.7		0.2	0.0	0.2
Memorandum items:															
Nominal GDP (billions of US dollars)	45.5	53.1	61.0			69.2	79.5	89.7	100.7	112.3	124.6		201.7	526.7	
(NPVt-NPVt-1)/GDPt-1 (in percent)	...	...	...			1.9	3.3	1.2	1.2	1.9	2.0	1.9	1.5	0.7	1.1

Source: Fund staff simulations.

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

Table 3b. Vietnam: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2007-27
(In percent)

	Projections							
	2007	2008	2009	2010	2011	2012	2017	2027
NPV of debt-to-GDP ratio								
Baseline	18	19	18	17	17	17	17	12
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008-27 1/	18	18	15	12	10	8	0	0
A2. New public sector loans on less favorable terms in 2008-27 2/	18	20	20	19	20	21	22	19
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008-09	18	19	19	18	18	18	17	12
B2. Export value growth at historical average minus one standard deviation in 2008-09 3/	18	26	36	34	33	32	25	13
B3. US dollar GDP deflator at historical average minus one standard deviation in 2008-09	18	20	20	19	19	20	19	13
B4. Net non-debt creating flows at historical average minus one standard deviation in 2008-09 4/	18	22	23	22	22	22	19	12
B5. Combination of B1-B4 using one-half standard deviation shocks	18	27	36	34	33	33	26	14
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 5/	18	26	25	24	24	24	23	16
NPV of debt-to-exports ratio								
Baseline	24	24	22	21	20	20	18	14
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2007-26 1/	24	23	18	14	12	9	0	0
A2. New public sector loans on less favorable terms in 2007-26 2/	24	26	24	23	23	24	24	24
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008-09	24	24	22	21	20	20	18	14
B2. Export value growth at historical average minus one standard deviation in 2008-09 3/	24	36	52	48	46	43	32	19
B3. US dollar GDP deflator at historical average minus one standard deviation in 2008-09	24	24	22	21	20	20	18	14
B4. Net non-debt creating flows at historical average minus one standard deviation in 2008-09 4/	24	28	29	27	26	25	21	15
B5. Combination of B1-B4 using one-half standard deviation shocks	24	34	43	40	38	36	27	17
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 5/	24	24	22	21	20	20	18	14
NPV of debt-to-revenue ratio								
Baseline	73	74	72	70	72	74	72	50
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2007-26 1/	73	69	60	49	42	35	2	0
A2. New public sector loans on less favorable terms in 2007-26 2/	73	78	79	80	84	89	97	85
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008-09	73	75	75	73	75	77	75	52
B2. Export value growth at historical average minus one standard deviation in 2008-09 3/	73	100	145	141	140	139	109	56
B3. US dollar GDP deflator at historical average minus one standard deviation in 2008-09	73	80	82	81	82	85	82	58
B4. Net non-debt creating flows at historical average minus one standard deviation in 2008-09 4/	73	86	94	92	93	94	83	52
B5. Combination of B1-B4 using one-half standard deviation shocks	73	106	146	143	142	142	114	62
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 5/	73	103	100	98	100	103	100	70

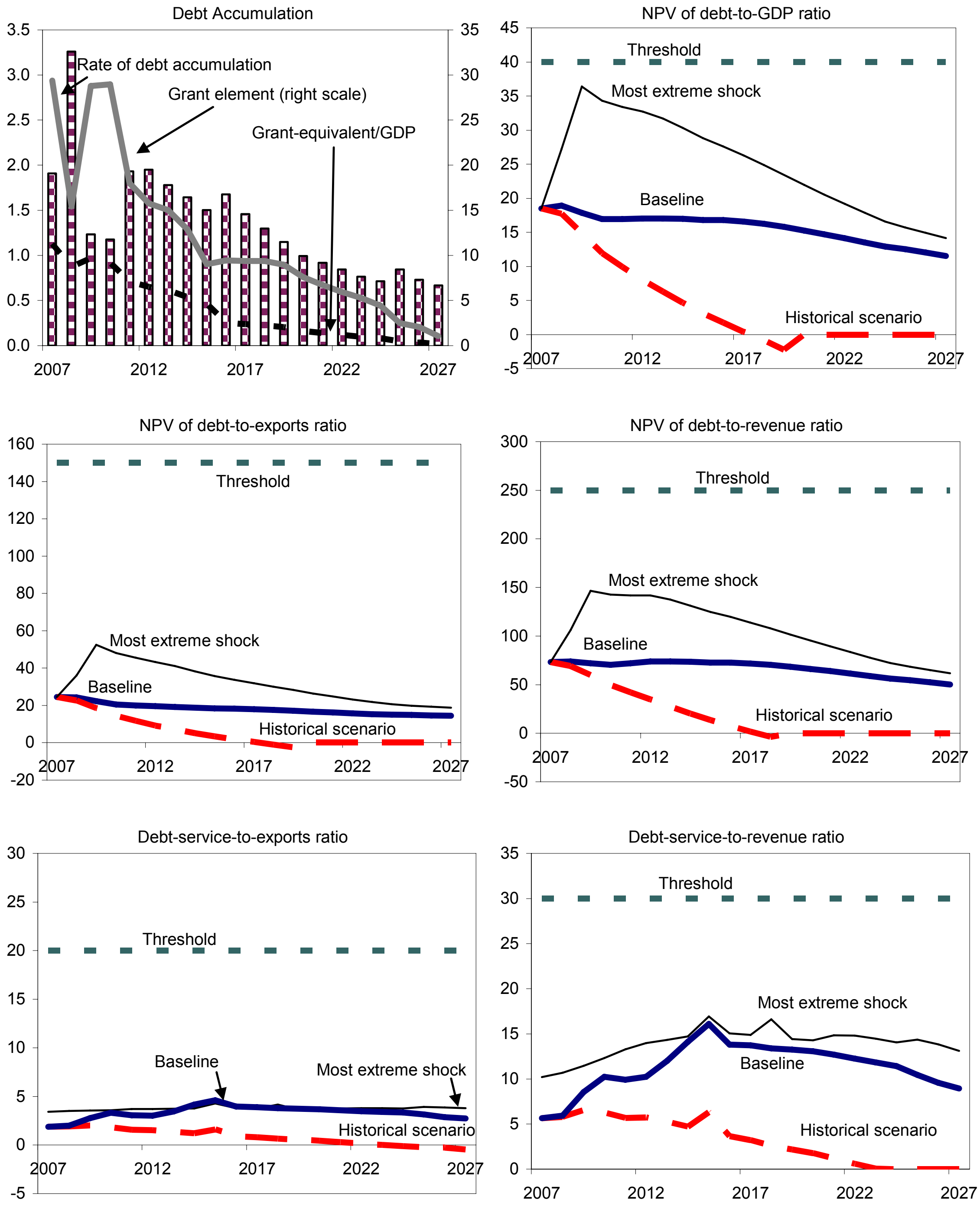
Table 3b. Vietnam: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2007-27 (continued)
(In percent)

	Projections							
	2007	2008	2009	2010	2011	2012	2017	2027
Debt service-to-exports ratio								
Baseline	3	4	4	4	4	4	4	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008-27 1/	2	2	2	2	2	2	1	0
A2. New public sector loans on less favorable terms in 2008-27 2/	2	2	2	2	1	1	2	3
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008-09	2	2	2	2	2	2	2	2
B2. Export value growth at historical average minus one standard deviation in 2008-09 3/	2	2	3	3	3	3	4	3
B3. US dollar GDP deflator at historical average minus one standard deviation in 2008-09	2	2	2	2	2	2	2	2
B4. Net non-debt creating flows at historical average minus one standard deviation in 2008-09 4/	2	2	2	2	2	2	2	2
B5. Combination of B1-B4 using one-half standard deviation shocks	2	2	3	3	3	3	3	2
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 5/	2	2	2	2	2	2	2	2
Debt service-to-revenue ratio								
Baseline	10	11	11	12	13	14	15	13
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008-27 1/	6	6	7	6	6	6	3	0
A2. New public sector loans on less favorable terms in 2008-27 2/	6	6	5	6	5	6	8	10
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008-09	6	6	7	7	6	7	8	7
B2. Export value growth at historical average minus one standard deviation in 2008-09 3/	6	6	8	10	9	10	13	8
B3. US dollar GDP deflator at historical average minus one standard deviation in 2008-09	6	6	7	7	7	8	9	8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2008-09 4/	6	6	7	7	7	8	10	7
B5. Combination of B1-B4 using one-half standard deviation shocks	6	6	9	10	10	10	14	9
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 5/	6	8	9	9	9	9	11	10
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	1	1	1	1	1	1	1	1

Source: Fund staff projections and simulations.

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

Figure 2. Vietnam: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2007-27



Source: Fund staff projections and simulations.

Statement by IMF Staff Representative
October 26, 2007

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

1. Most indicators suggest that economic activity has remained buoyant over the last few months. Real GDP growth picked up to 8.2 percent (year-on-year (yoy)) during the first nine months of 2007, supported by continued rapid growth of domestic demand and non-oil exports. Retail sales growth has remained brisk and the boom in foreign direct investment (FDI) has continued. If recent trends continue, the authorities' revised target for GDP growth of 8.5 percent over the full year will likely be achieved. Like other emerging markets in the region, Vietnam has been relatively unscathed by the global market turmoil triggered by the subprime mortgage crisis in the United States.

2. Inflation has remained on an upward path, reaching a level of 9.3 percent (yoy) in October. Continuing cost-push pressures on food and commodity prices, largely due to local supply shocks and global market conditions, have been compounded by demand pressures. To address the growing concerns about these developments, the Prime Minister issued a directive in August (Directive 18/2007) instructing a number of ministries and the SBV to adopt urgent measures to curb inflation.

3. As a first step, the Ministry of Finance (MOF) has temporarily reduced import tariffs on a number of food and foodstuff products and construction materials, and has permanently reduced tariffs on some other consumption goods by advancing the implementation of commitments under the WTO. The government has also postponed previously-planned steps to ease controls on key administered prices. Accordingly, oil trading enterprises were asked in August to reduce their gasoline retail prices by VND 500 per liter (i.e., by about 4¼ percent), and an effective freeze was imposed on the prices of electricity, oil products, coal sold to electricity, cement, fertilizer, and paper producers, clean water, postal services, and bus tickets.

4. Despite a doubling of reserve requirements from June 2007, the growth of total liquidity (M2) and credit to the economy continued to accelerate through end-August 2007 (to 42 percent and 40 percent, respectively). In August, the SBV was instructed to adopt measures to control the growth of monetary and credit aggregates, and its monetary program targets for end-2007 were subsequently set at 25–28 percent for M2 growth and 26–28 percent for credit growth. To achieve these targets, the SBV is to continue to absorb excess bank liquidity through open market operations. Preliminary data suggest that there has been some tightening of money market conditions in recent weeks, although interbank deposit rates have remained negative in real terms.

5. Fiscal policy trends have remained broadly in line with the projections in the staff report. Based on preliminary data for the first nine months of 2007, revenues have been running slightly below the budget target, but disbursements of capital expenditure have also fallen short of budget targets, helping to contain the overall deficit so far in 2007. However, expenditures are likely to be boosted in the remainder of the year, as implementation of planned capital projects is expected to be stepped up.

6. On September 26, the Prime Minister approved the long-awaited equitisation plan for Vietcombank (VCB). Under this plan, private sector participation in VCB is to be raised gradually to a maximum of 49 percent, with up to 20 percent to be allocated initially to foreign strategic investors and another 15 percent to be subsequently issued and listed abroad. VCB is to select no more than two foreign strategic investors, and submit their names to the Prime Minister for approval before the bank launches its initial public offering (IPO). Following the IPO, VCB will be allowed to reserve a part of any accrued surplus capital for investment in key public infrastructure projects subject to the Prime Minister's decision.

7. Continuing progress has been made in the issuance of implementing regulations for the Unified Enterprise Law, the Common Investment Law, and the new Commercial Law. Decree 139 dated September 5 provides detailed guidelines relating to the establishment, management structure, operation modalities, and restructuring and dissolution of enterprises. Among other things, application of these guidelines is expected to facilitate the issuance of business registration certificates.

8. On September 18, the MOF published its first semi-annual external debt bulletin on its website (http://www.mof.gov.vn/DefaultE.aspx?tabid=5591&ItemID=46332). The Bulletin contains statistics on government and government-guaranteed external debt, together with detailed information on the coverage, methodology, sources, and definition of data.

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

IMF Executive Board Concludes 2007 Article IV Consultation with Vietnam

On October 26, 2007, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Vietnam.[1]

Background

Vietnam has recorded continued strong economic performance since the conclusion of the last Article IV consultation. GDP growth rose to 8.2 percent in 2006, with non-oil exports remaining an important engine of growth. Private investment has also expanded briskly, led in large part by accelerated foreign direct investment (FDI) disbursements in the wake of Vietnam's historic World Trade Organization (WTO) accession. Industrial activity, retail sales, and trade data point to a continued strong expansion so far in 2007.

However, rising inflation points to tightening capacity constraints. Inflation picked up to 8.4 percent (y/y) as of July 2007**,** up from 6.6 percent in late 2006. While this pick-up was due partly to food supply shocks, rising world commodity prices, and overdue adjustments in administered prices, Vietnam's core inflation has remained on an upward trend, and its inflation seems higher and more entrenched than in other countries in the region.

The balance of payments has remained sound. Import growth picked up to 30 percent (y/y) during the first seven months of 2007, but high oil prices, booming non-oil exports, and buoyant

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

remittances helped to restrain the current account deficit. With rapidly growing FDI and portfolio inflows, gross official reserves rose from US$11½ billion at end-2006 to around US$19 billion (3½ months of imports) as of end-May 2007.

The surge in reserves has contributed to an easing of monetary conditions. Despite increased sterilization, the growth of overall credit to the economy picked up from 25 percent in 2006 to 35 percent (y/y) as of end-May 2007. Reserve requirements on bank deposits were virtually doubled from June 2007 (to a range of 4 to 10 percent), and banks' securities-related lending made subject to a cap equivalent to 3 percent of total loans. Interbank rates and real time deposit rates, however, have remained low.

The overall fiscal deficit was lower than budgeted in 2006, but the budget plan for 2007 suggests that the fiscal stance appears set to be eased. A better-than-expected revenue outturn, together with slow implementation of off-budget investment plans, helped to compress the overall deficit to 3.8 percent of GDP. However, if the government fully implements its plans for 2007, the fiscal deficit could widen to well over 7 percent of GDP in 2007, with the non-oil deficit rising by at least 1–1½ percentage points of GDP.

Vietnam's exchange rate continues to be pegged de facto to the U.S. dollar, with the dong/U.S. dollar rate depreciating by about 1 percent a year. In January 2007, in the face of large capital inflows, the trading band of the dong versus the U.S. dollar was widened from +/-0.25 percent to +/-0.5 percent around the daily reference rate set by the State Bank of Vietnam (SBV), and the dong was temporarily allowed to appreciate modestly. However, this appreciation has been more than reversed since March. The nominal effective exchange rate (NEER) of the dong has depreciated by about 8 percent since end-2005, but the real effective exchange rate (REER) has been broadly stable, and remains close to its long-run average.

The improved investment climate generated by WTO accession contributed to an unprecedented boom in the stock market. The Ho Chi Minh City Stock Market Price Index rose by 144.5 percent in 2006, and by another 51 percent in early 2007, before receding by about 20 percent during March–July. A rapid expansion of the number of listed companies spurred rising foreign and domestic investment in shares, with the latter partly financed by local banks. The stock market's capitalization soared from US$0.5 billion at end-2005 to around US$18 billion (25 percent of GDP) as of end-July 2007.

The near-term outlook remains broadly favorable, and Vietnam has good prospects for sustained growth and poverty reduction over the medium term, provided that the government can take timely action to rein in demand pressures. GDP is projected to expand by about 8–8¼ percent in 2007–08, underpinned by continued strong growth in exports, investment, and private consumption. The increase in domestic demand would likely lead to a widening of the current account deficit to 3–3½ percent of GDP, but that deficit would continue to be comfortably financed with official development assistance, FDI, and other private capital inflows.

However, this favorable outlook is subject to risks. Large foreign exchange inflows could prevent an effective tightening of monetary policy, and continued rapid credit growth, together with a weak regulatory environment, could threaten domestic financial stability. On the fiscal front, large increases in public wages and pensions, and heavy on-lending to state-owned enterprises (SOEs), could compound inflationary pressures, and lead to a rapid accumulation of public debt. Insufficient improvement in banking sector and SOE governance, and continued state-sector dominance of key industries, could pose additional risks, as sub-optimal lending and investment by these sectors would weaken the efficiency of investment and possibly place additional future burdens on the budget.

Executive Board Assessment

Executive Directors commended Vietnam for its impressive record of economic growth and poverty reduction over the last few years, and welcomed its historic accession to the World Trade Organization (WTO). The near-term outlook remains favorable, with exports expected to continue to grow and domestic demand and investment remaining strong. At the same time, inflation has crept up, and credit growth and equity prices have risen sharply and substantially. The current account deficit continues to be more than financed by official development assistance and private inflows, especially foreign investment, but significant inflows of portfolio capital in the context of the present level of financial sector development and the pegged exchange rate regime could expose Vietnam's external position to risks.

Against this background, Directors welcomed recent measures toward greater monetary restraint, which will help to lower inflation and safeguard external stability. They supported the authorities' plans to slow significantly the growth of monetary and credit aggregates. To ensure that the official monetary and credit targets for end-2007 are achieved, Directors encouraged the authorities to continue to sterilize foreign currency inflows, as needed. Directors supported the authorities' request for technical assistance in the eventual transition to an inflation-targeting framework.

Directors agreed with the staff's assessment that the exchange rate of the dong is aligned with medium-term fundamentals. They welcomed the authorities' plan to introduce greater exchange rate flexibility as the institutional and operational infrastructure for it is set in place. Greater flexibility could facilitate disinflation and de-dollarization over the medium term, while reducing the need for intervention and sterilization. It would also create an incentive to manage exchange rate risks effectively, and protect external stability in the event of an abrupt reversal of capital inflows.

Directors called on the authorities to maintain a prudent and restrained fiscal policy. Given the need to curb inflationary pressures in the short run, the non-oil fiscal deficit needs to be placed on a declining path as soon as possible. Directors therefore welcomed the government's decision to postpone further large increases in public sector wages. Most Directors recommended that any revenue windfalls be saved. Directors encouraged the authorities to complete as soon as possible the pass-through of higher oil prices to domestic administered prices, while ensuring that an adequate social safety net is in place to protect low-income groups. Directors also encouraged the authorities to ensure that state-owned enterprise (SOE) projects are not funded through the issuance of new sovereign bonds.

Directors stressed that over the medium term, a concerted effort to boost revenues and curb expenditure growth will be required to protect debt sustainability. Planned tax reforms will need to be carefully designed, and tax administration should continue to be strengthened. Civil service administrative reforms, including the implementation of a more differentiated, merit-based wage structure and overall rationalization of employment, also need to be pursued. Directors noted that efficiencies in building critical infrastructure could be secured by improving the screening of public projects, and encouraging private investment in those that are commercially viable.

Directors observed that the opening up of Vietnam's financial system has heightened the importance of banking system reform. They supported the government's plans to equitize the main state-owned commercial banks (SOCBs). In this regard, Directors welcomed the recent approval of the equalization plan for Vietcombank. They considered that allowing scope for foreign strategic investors to participate in SOCB equitizations would help strengthen SOCB governance. Directors encouraged the authorities to expedite plans to grant the State Bank of Vietnam (SBV) adequate autonomy and authority to carry out monetary policy aimed at price stability and effective bank supervision. They supported the authorities' request for technical assistance to build financial sector institutional capacity.

Directors shared the authorities' concerns about the risks posed by possible overheating in the stock market, and they supported the measures to tighten prudential controls on banks' securities-related lending. Improved securities market regulation, including steps to discourage insider trading and money laundering, will be essential to protect the stability and integrity of the capital market.

Directors called for faster SOE reform in order to enhance competitiveness and efficiency. They welcomed plans to expand the equitization of SOEs, and urged the authorities to be open to participation in the equitizations by foreign strategic investors. They stressed that related-party lending within new SOE groups involved in a mix of industrial and financial operations should be prohibited. Directors supported steps to implement ahead of schedule WTO-mandated tariff reductions, which will also enhance efficiency.

Directors welcomed the recent publication of the first external debt bulletin by the Ministry of Finance. They encouraged the authorities to improve transparency further, including by strengthening reporting on external debt of SOEs, portfolio capital flows, and government and SOE bond issues.

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

Vietnam: Selected Economic Indicators, 2002–08

Nominal GDP (2006): US$60.9 billion — GDP per capita (2006): US$723
Population (2006): 84.15 million — Fund quota: SDR 329.1 million

	2002	2003	2004	2005	2006 Prel.	2007 Proj.	2008 Proj.
Real GDP (annual percentage change)	7.1	7.3	7.8	8.4	8.2	8.3	8.2
Inflation (annual percentage change)							
Period average	4.0	3.2	7.7	8.3	7.5	7.3	7.7
End-of-period	4.0	2.9	9.7	8.8	6.6	8.0	7.3
GDP deflator	4.0	6.7	8.2	8.2	7.3	7.2	6.5
General government							
Official budget balance	-1.4	-1.2	0.9	-1.2	-0.3	-3.4	-2.1
Revenue and grants	22.7	24.9	26.7	25.9	27.1	25.5	25.9
Of which: Oil revenue	6.8	7.0	7.9	8.7	9.7	7.9	7.9
Expenditure	24.2	26.1	25.8	27.0	27.5	28.9	28.0
Off-budget expenditure and net lending	3.3	5.2	3.7	4.7	3.5	3.5	4.5
Overall fiscal balance including off-budget expenditure	-4.7	-6.4	-2.8	-5.9	-3.8	-6.9	-6.6
Non-oil overall fiscal deficit	-11.5	-13.5	-10.7	-14.6	-13.5	-14.8	-14.5
Money and credit (annual percentage change, end-of-period)							
Broad money	17.6	24.9	29.5	29.7	33.6	36.0	...
Credit to the economy	22.2	28.4	41.6	31.7	25.4	29.0	...
Reserve money	12.4	27.4	16.1	23.7	32.2	41.0	...
Interest rates (in percent, end-of-period)							
Nominal three-month deposit rate (households)	7.0	6.3	6.7	7.8	7.9	...	...
Nominal short-term lending rate (less than one year)	9.9	10.0	10.7	12.0	11.8	...	...
Real three-month deposits rate (households)	2.4	3.6	-3.0	-0.6	1.1	...	...
Real short-term lending rate (less than one year)	5.2	7.3	0.6	3.2	4.7	...	...
Current account balance (including official transfers)							
(In millions of U.S. dollars)	-676	-1,935	-1,565	-497	-164	-2,199	-2,563
(In percent of GDP)	-1.9	-4.9	-3.4	-0.9	-0.3	-3.2	-3.2
Exports f.o.b. (annual percentage change, U.S. dollar terms)	11.2	20.6	31.4	22.5	22.7	17.2	19.1
Imports f.o.b. (annual percentage change, U.S. dollar terms)	22.1	28.0	26.6	21.2	22.1	21.4	19.0
Foreign exchange reserves (in millions of U.S. dollars, end-of-period)							
Gross official reserves, including gold	3,692	5,619	6,314	8,557	11,483	19,931	23,658
(In weeks of next year's imports of GNFS)	7.2	8.7	8.4	9.4	10.4	15.2	15.5
External debt (in percent of GDP) 1/	35.0	33.7	33.5	32.2	30.2	30.8	30.2
External debt service due (in percent of exports of GNFS)	8.6	7.8	6.0	5.6	5.3	5.5	5.6
Total public and publicly guaranteed debt (in percent of GDP)	38.2	41.0	42.4	43.8	43.3	43.4	44.9
Memorandum items:							
GDP (in trillions of dong at current market prices)	535.8	613.4	715.3	839.2	973.8	1,130.0	1,302.1
Per capita GDP (in U.S. dollars)	440	492	553	636	723	809	916

Sources: Data provided by the authorities; and IMF staff estimates and projections.
1/ Includes private debt.

Statement by Perry Warjiyo, Executive Director for Vietnam and Narayanan Raman, Advisor to Executive Director
October 26, 2007

1. On behalf of the Vietnamese authorities, we would like to thank staff for constructive and productive discussions and the excellent set of papers. As the report notes, there is substantial concurrence between staff and authorities on the outlook, and many of the issues flagged in it are also key policy concerns for the authorities. Our statement will mainly seek to highlight recent developments in and the outlook for the Vietnamese economy; and outline what the authorities see as the key challenges going forward. In this respect, we will highlight key policy actions undertaken and the rationale for those actions.

Latest Economic Developments and Policy Stance

2. The Vietnamese economy grew rapidly by 8.2 percent in the first nine months of 2007, with growth in the third quarter being the fastest in 10 years. With real GDP traditionally growing more rapidly in the fourth quarter, the Vietnamese authorities expect to achieve a growth rate of 8.4–8.5 percent for the year, exceeding the 8.2 percent growth experienced in 2006 and consistent with their projections. Vietnam achieved this sustained growth by pursuing an outward-oriented development strategy, centred on WTO ascension. As a result of this outward orientation, both foreign direct investment and official development assistance reached record highs in 2007. In this respect, the authorities' commitment to reform has proven wholehearted and durable, and its success has made it possible to build broad support for its key elements.

3. The strong growth in 2007 continues to be supported by broad-based expansion in all sectors of the economy, most notably industry and services. For the authorities, the recovery in agriculture following the difficulties experienced due to disease in the early part of the year is particularly gratifying. This is not only due to the success of their prompt and decisive actions in dealing with difficulties, but also because agriculture remains a major sector in the economy. Improvements in agricultural production are important in Vietnam's overall strategy to reduce poverty and ensure the fruits of liberalization and growth are spread as widely as possible.

4. The performance of the external sector is a key facet of recent growth and development. Export turnover as of September 2007 increased of 19.4% compared to the same period a year ago. Similarly, foreign capital inflows also set new records. Foreign direct investment increased to US$9.6 billion, while the commitment for official development assistance rose to US$4.5 billion. In addition, there were record inflows of other private capital flows, including portfolio capital. Greater activity in Vietnam's capital markets, driven by the on-going process of listing state-owned enterprises (SOEs) and other private firms, attracted US$6.2 billion in investment funds in 2007.

5. To be sure, macroeconomic management in an environment of sustained strong growth and rapid structural change has been challenging. Strong domestic demand conditions, coupled with higher prices for key commodities, most notably energy, had put some upward pressure on prices in 2007. To this end, monetary policy has responded flexibly, firmly and through market-based mechanisms, in line with the authorities' guiding principles. The evolution of the monetary policy stance in Vietnam reflects this. In the first five months of the year, the central bank, the State Bank of Vietnam (SBV), maintained its reserve requirement ratio in order to stabilize the money market. However, as credit growth accelerated in an environment of ample liquidity, the SBV moved decisively in June to double the ratio. In addition, the SBV stepped up its efforts to sterilize large capital inflows, particularly those related to short-term funds attracted by the strong performance of the domestic equity market. The authorities are also keen to stress the close coordination between monetary and fiscal policy as an important aspect in their macroeconomic management.

6. However, the authorities also note that constraints in supply have also been a source of price pressures. To this end, the authorities have moved decisively to increase supply by reducing import tariffs, and have taken action to reduce supply bottlenecks through improvements in infrastructure. Given that inflation in Vietnam is driven by a variety of factors, the authorities believe that targeted solutions would achieve better results than broad actions, including monetary tightening. Monetary tightening and fiscal restraint do have important roles to play, but in the case of a developing country like Vietnam, alleviating supply-driven constraints must also be part of the policy mix. To the extent price increases reflect supply-side constraints, tighter monetary and fiscal policies would certainly not suffice. In the same vein, it is also clear that sequencing structural reforms will need to be flexible in order to manage short-term challenges. Therefore, while the authorities remain committed to progressively removing administrative controls on prices, timing is an issue in an environment supply-driven price pressures.

7. Monetary management in Vietnam, which has to cope with a dynamic and fast-evolving financial system and strong credit growth, is challenging. Credit growth remains strong as lending for activities, including for investment in the equity markets, has increased significantly in the last two years. Some of the growth is also related to funds needed to complete government projects, but this demand will subside as projects are completed. In addition, it is equally clear that the growing sophistication of the financial sector and the monetisation of the economy will continue to drive rapid structural change. On one hand, these developments are welcome, as they would make monetary policy more effective. However, in the short-term, the challenges of such rapid structural change means caution in judgment is needed to achieve the goals of policy without unduly constraining growth.

8. To this end, Vietnam continues to seek technical assistance from the Fund. In particular, the authorities have proposed additional work on developing the tools for successfully adopting and implementing an inflation-targeting framework. The authorities wish to inform the Board that they see the Fund playing a key role in providing assessments and feedback on the proposed core inflation measures the SBV has developed; communicating these assessments to the Vietnamese and international public; and providing guidance on communicating the SBV's monetary stance effectively. The thoughtful and comprehensive plan developed by the SBV, and the high degree of ownership exhibited by the authorities demonstrates a strong commitment to upgrade the quality of macroeconomic management, a commitment that the Fund is a unique position to foster.

9. On fiscal policy, the authorities continue to feel that staff assessments are too pessimistic, particularly the judgment that the fiscal stance in 2007 will be eased. On the contrary, the performance in 2007 points to a fiscal deficit that remains contained below budgeted levels. The budget does not envisage additional expenditure plans or extra-ordinary revenue shortfalls. Therefore, the characterization that policy is "loose" is unwarranted. Further, the commitment to ensuring economic stability has also ensured that steps have been taken to safeguard this restraint. Staff has rightly pointed to wage restraint as a prime example and the authorities will seek to build on these gains. Going forward, the authorities remain committed to expanding revenue sources, which would entail pursuit of a prudent and transparent fiscal stance and progress in broadening the tax base. In this regard, the Ministry of Finance has announced and provided full disclosure of off-balance sheet fiscal items on its website. Further reform on the horizon would be centred on implementing the Law on Tax Administration. The Law, which came into effect on July 1, 2007, enhances transparency in the regulations and increases the power of tax administration agencies to enforce the tax rules. The implementing regulations for the Law on Tax are now being developed.

10. The authorities concur with staff that Vietnam's external position is sustainable and consistent with underlying fundamentals. In particular, the authorities note a strengthening of the reserves position due to sustained long-term private investment inflows, indicating the attractiveness of the Vietnamese economy. The authorities also concur with staff that the Vietnamese *dong* is appropriately valued and note the call to allow for more flexibility in the exchange rate. In this regard, the SBV reiterates its commitment to greater flexibility, and has taken steps towards this goal. The central bank is currently in the process of drafting the implementing regulations under the new Foreign Exchange Ordinance, which envisions greater exchange rate flexibility and a less-rigid exchange rate management regime. However, the authorities caution that the speed, though not direction, of the shift will need to take into account prevailing market conditions. In anticipation of this move towards greater flexibility, the SBV is working on a plan to increase the convertibility of the *dong* and to accelerate de-dollarization. In the meantime, the operational focus of the central bank is on reducing risks in the short term while building capacity in the financial sector to manage the greater flexibility over the medium term.

Outlook and Structural Policies

11. The authorities agree with staff that strong growth will be sustained in 2008. Further, they concur with staff's view that the external sector would strengthen while inflationary pressures would ease somewhat. To the extent that the growth picture for 2008 is similar as the one seen in 2007, macroeconomic policy will respond in a similar manner, with an appropriate monetary stance and prudent fiscal management.

12. A key factor that would influence the short- and medium-term outlook would be implementation of structural reforms. In this area, the authorities have announced an ambitious programme, centred on adjusting to a more externally-oriented economy. Based on the government's Post-WTO Plan of Action, each ministry is now issuing its own Plan of Action in order to implement WTO commitments. There is also progress in combating corruption. Following the passage of the Anti-Corruption Law, the government has enacted its Plan of Action on the matter. As a first step, Steering Committees on Anti-corruption at the central and local levels have been set up and put into operation.

13. The reform of SOEs is a key plank of structural reform efforts in Vietnam. Staff has outlined in some detail the progress on this front in terms of regularising their status and operations as commercial entities, efforts at addressing their financial reporting, valuation of assets and, in many cases, partial privatization and listing, or equitization. As staff also point out, not only has the progress on this front been impressive but it is being expedited further. However, the authorities wish to highlight that staff's assessment on the use of public funds is not accurate. Vietnam does not have a policy of concessional public financing for SOEs. To the extent that they are publicly-owned enterprises, funds for re-capitalization, where needed, would naturally come from the government as the current owners of these entities. However, public funds are no longer earmarked for SOE projects. For instance, the authorities have abolished the export assistance fund, while the Development Assistance Fund has been turned into Vietnam Development Bank, which will be run as a normal bank going forward. Thus, SOEs that need to borrow to meet project financing requirements would be expected to do so on commercial terms, similar to other enterprises.

14. To complement the reform of the SOEs and to build an indigenous supply chain, the Vietnamese authorities are also giving due attention to small- and medium-scale enterprise (SME) development. To this end, the authorities are actively implementing the Master Plan for SME Development, 2006-10. Some localities have already developed their own SME development plans and have established implementing units.

Financial Sector: Developments in the Regulatory Framework and Structural Reforms

15. The rapid growth of the financial system has been another positive feature of Vietnam's recent development experience. The growth of the sector mirrors the growth of the economy in general, and is an important supportive factor behind rapid real GDP expansion. Staff's assessments quite rightly point out the peculiar challenges such rapid growth has placed on all concerned, including economic planners and regulators. Nevertheless, the authorities remain committed to fostering financial development and expanding financial inclusion. The main task will be to balance the competing needs for rapid development against ensuring the regulatory and risk management infrastructure is able to keep pace.

16. Regulatory developments have been guided both by the short-term concerns raised by rapid credit growth and the long-term aspiration to move to an updated and modern regulatory model. In April of this year, the SBV issued revised regulations on loan classification and provision towards better credit quality, and improved control of credit risks. Following that, a directive to the control of the scope and quality of credit to securities investment in order was issued in May in order to ensure orderly development of the country's nascent equity market and also as a measure to maintain macroeconomic stability. Going forward, the authorities continue to put in place elements of a risk-based supervision framework. To this end, work on developing risk warning and assessment instruments, setting up risk-based supervisory procedures and formulating minimum requirements on risk management for credit institutions are all in progress. Staff's positive assessment of the authorities' request for technical assistance in this matter is welcome, showing again the congruence between staff and the authorities on key policy challenges in the immediate term.

17. In terms of structural reforms in the financial sector, the large state-owned commercial banks (SOCBs) are all at various stages of equitization. A number have already completed the process and will be listed in due course, with the first initial public offering to take place in the near term. This reform process will include room for substantial foreign participation, as was seen in the similar process that was put in place for insurers in Vietnam. As staff has pointed out, foreign financial institutions have the scope to take substantial stakes in the reformed SOCBs of up to 15 percent, an increase from the previous limit of 10 percent. The authorities also would reaffirm that staff are correct in noting that flexibility to raise the level of foreign ownership exists on a case-by-case basis. In addition, as the excellent chapter on trade liberalisation in the special issues paper notes, the authorities are moving forward on financial liberalization expeditiously.

Conclusion

18. The Vietnamese economy stands on a momentous threshold. The country will transition from low-income to middle-income status in the very near future, a success story that testifies to the importance of maintaining an outward orientation in order to embrace the

benefits of international trade and investment. Balancing that, of course, would be structural reforms and capacity building – including developing the legal and regulatory framework, improving the depth of financial markets and improving human resources – in order to mitigate risks arising from globalization. Vietnam's authorities have rightly recognized both the opportunities and risks and have endeavoured to strike the appropriate balance between the two. Nevertheless, the authorities also reiterate their belief that in the longer term, there is no trade-off between stability and growth; indeed, without the former, the latter could not be sustained. This philosophy underscores their commitment to economic and financial stability, even under challenging conditions. In this regard, the Fund has played a key role in assisting the authorities, especially during this year's Consultations, which rightly focused on these institutional capacities in an environment of strong growth and relative stability. For these efforts, and for the long-term engagement between the Fund and Vietnam, the authorities and we would like to record our appreciation to staff and Management.