September 2010
IMF Country Report No. 10/281

Vietnam: 2010 Article IV Consultation—Staff Report and Public Information Notice

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 2010 Article IV consultation with Vietnam, the following documents have been released and are included in this package:

- The staff report for the 2010 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on May 18, 2010, 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 July 7, 2010. 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 Public Information Notice (PIN).

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

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org • Internet: http://www.imf.org

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

VIETNAM

Staff Report for the 2010 Article IV Consultation

Prepared by the Staff Representatives for the 2010 Consultation with Vietnam

Approved by Masahiko Takeda and Dhaneshwar Ghura

July 7, 2010

- **Discussions:** Hanoi during May 5–18, 2010. Some members also visited Ho Chi Minh City on May 5–6, 2010. The mission met with State Bank of Vietnam Governor Giau, Vice Minister of Finance Ha, Vice Minister of Planning and Investment Sinh, other senior government officials, and private sector representatives.
- **Staff team:** Mr. Miyazaki (Head), Mses. Pongsaparn and Bi (all APD), Messrs. Abbas (FAD) and Ahmed (MCM), and Mr. Bingham (Senior Resident Representative). Ms. Vongpradhip and Mr. Do (OED) attended key meetings.
- **Past advice:** The 2008 Article IV consultation was concluded on March 16, 2009. The IMF and authorities generally agreed on strategic priorities, including the need to support economic activity during the global crisis while maintaining macroeconomic stability, promote financial sector soundness, ensure debt sustainability, and advance structural reforms to maintain the pace of economic development in Vietnam.
- **Consultation focus:** Discussions revolved around policies to ensure macroeconomic and financial stability, following the largely successful stimulus during 2009, as well as structural reforms to maximize Vietnam's growth potential and poverty reduction.
- **Outreach:** The mission held a seminar on the Financial Sector Assessment Program at the State Bank of Vietnam and met with private-sector representatives, donors, and legislators from the National Assembly.
- **Exchange arrangement:** The de facto exchange rate regime is currently classified as "stabilized." 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.
- **Economic statistics:** Data are adequate for surveillance purposes, though some shortcomings remain. Staff encouraged the authorities to improve communications with the market by timely data publication.

Contents Page

Main Websites for Vietnam Data

General Statistics Office of Vietnam (www.gso.gov.vn)
- National accounts
- Consumer price inflation
- Agricultural and industrial production
- Retail sales
- Population and employment
- Merchandise trade
- Foreign direct investment

Ministry of Finance (www.mof.gov.vn)
- Government budgetary operations
- External debt and debt service

State Bank of Vietnam (www.sbv.gov.vn)
- Exchange rates
- Interest rates set by the State Bank of Vietnam (SBV)

Customs Office and World Trade Organization (www.customs.gov.vn and www.wto.org/english/thewto_e/acc_e/a1_vietnam_e.htm)
- Tariffs
- WTO tariff reduction schedule

IMF Resident Representative Office in Vietnam (www.imf.org/external/country/VNM/rr/index.htm)
- Monetary survey
- Balance sheet of the SBV
- Consolidated balance sheet of deposit money banks
- Nominal interest rates
- Balance of payments
- Official gross international reserves

EXECUTIVE SUMMARY

Economic activity held up well during the global crisis, thanks to ambitious stimulus measures. Real GDP growth slowed somewhat to 5.3 percent in 2009, its the slowest pace since 2000, though Vietnam was among the better performers in developing Asia.

The 2009 stimulus resulted in elevated macroeconomic risks, which the government began to address with policy tightening later in the year. As confidence has been restored, calm has returned in the market. Yet, a sharp widening of spreads between the overnight interbank rates and rates for longer maturities, especially beyond three months, suggests that market participants are yet to be fully convinced of the government's sound policy commitment.

An immediate challenge is to consolidate the current stable macroeconomic conditions through prudent policies and better communications. With macroeconomic stability sustained, staff projects that the government can meet its growth target of 6½ percent for 2010. While the government views its growth target is within reach, and while it places high value in maintaining macroeconomic stability, it also appears concerned that a prolonged period of high lending rates could jeopardize industry activity. It has thus noted the need to lower the lending rates. Staff cautioned against premature monetary loosening, however, because staff believes it could lead to deterioration of the trade deficit and/or inflation, which would have to be addressed by sharp tightening measures at a later date with high costs to the economy. Staff and the authorities are in broad agreement on the pace of ongoing fiscal adjustment from the large stimulus of 2009.

Staff also made a number of medium-term policy recommendations. Staff encouraged operational improvement in the conduct of monetary policy. It also recommended adoption of a more ambitious plan to lower medium-term deficit and debt level. Staff welcomed the increased focus on strengthening financial sector regulatory/supervisory capacity, but stressed the importance of decisively addressing weaker banks, and bringing supervisory practices up to international standards.

The government's reform efforts must be accompanied by increased transparency. Timely release of key economic data is critical, as is a clear message from the government on assessments of economic/financial conditions and policy intentions.

INTRODUCTION

1. **Vietnam has exited the ambitious and largely successful stimulus policies adopted to counter the global crisis, but sustaining stable economic conditions remains a challenge.** Vietnam has demonstrated commendable pragmatism in its handling of a series of domestic and external shocks in the past few years. However, adapting its style of macroeconomic management to an increasingly private sector-oriented economy is posing a growing challenge, and the resulting economic and/or financial instability has had an adverse impact on investor perceptions of the economic environment in Vietnam. Maintaining macroeconomic stability, together with steady implementation of structural reforms, are critical for achieving its goal of becoming a modern emerging market economy by the end of this decade. These challenges are currently being debated in the context of the preparation for the next five-year plan (Socio-Economic Development Plan (SEDP)).

I. RECENT ECONOMIC AND POLICY DEVELOPMENTS

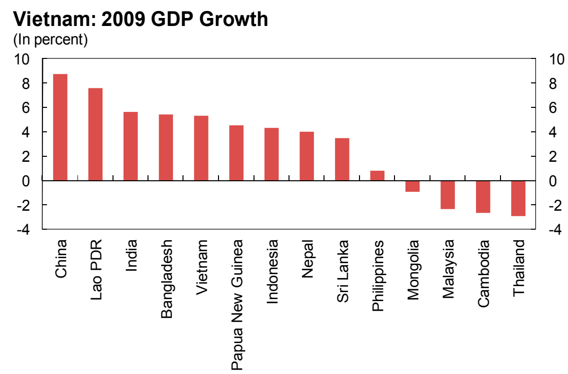
2. **Economic activity held up well during the global crisis, thanks to ambitious stimulus measures.** The 2008 global crisis hit Vietnam when it had just stabilized the economy after a period of overheating in 2007, resulting from extraordinary capital inflows following its accession to the WTO. Facing a decline in foreign direct investment (FDI) commitments and expecting sluggish external demand for exports in the wake of the global crisis, the government decisively shifted policies toward supporting growth. Monetary policy was drastically loosened and a sizable fiscal package (5 percent of GDP) was executed (Appendix I). As a result, real GDP grew by 5.3 percent in 2009, down from 6.3 percent in 2008 and the slowest pace since 2000, but among the better performers in developing Asia. Robust growth in manufacturing, supported by resilient external demand for Vietnam's exports, also helped underpin growth in 2009 (Table 1).

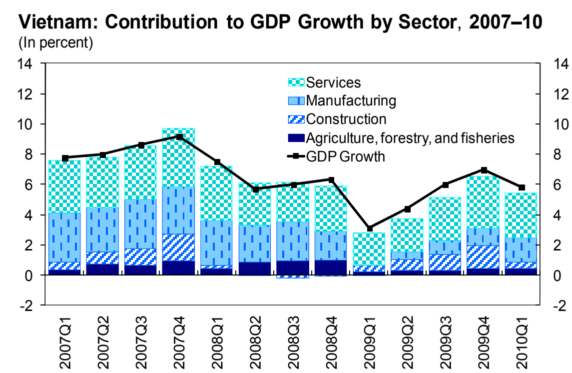
3. **The economic stimulus, however, resulted in elevated macroeconomic risks.** Credit growth accelerated to 40 percent (y/y) toward end-2009 (up from 25 percent in 2008), resulting in a deterioration of the trade deficit.[1] Expecting a severe loss in international reserves, and consequently dong devaluations, domestic residents dramatically shifted from dong assets into U.S. dollar assets and/or gold, which accounts for unusually large errors and omissions (about 13 percent of GDP). As a result, a substantial balance of payments deficit (8¾ percent of GDP) was recorded, despite the current account deficit (excluding gold exports and imports) remaining stable relative to 2008 with resilient inflows of remittances and FDI disbursements, and an increase in ODA disbursements. As depreciation expectations

---

[1] Trade balance registered a surplus of about 13 percent of GDP in 2009 Q1 owing to large one-off gold re-exports (of about US$2½ billion) and a collapse in imports. As the stimulus measures gathered strength, however, trade balance quickly reversed to deficit, which rapidly widened to about 14¼ percent of GDP in 2009 Q3 and about 16½ percent of GDP in 2009 Q4.

mounted, the parallel market exchange rate fell to about 10 percent below the weaker end of the official band in late 2009, and gross international reserves (GIR) declined by about US$8 billion to US$14.1 billion by end-2009, equivalent to only about two months of imports projected for 2010.[2]





4. **The authorities have tightened the policy stance since late 2009.** In November 2009, the authorities shifted the policy priority from growth to stability, and adopted a number of measures.[3] Liquidity was squeezed in December, driving the interbank interest rates sharply to as high as 18 percent at one point. The termination of the interest subsidy scheme for short-term loans at end-2009 and the liberalization of lending rates in early 2010,[4] led to a slowdown in credit growth (3.6 percent year-to-date at end-March), affecting especially activity in construction and financial services. A rebound in manufacturing, in line with the global recovery, picked up the slack only partially. As a result, real GDP growth slowed from 7 percent (y/y) in 2009 Q4 to 5.8 percent in 2010 Q1.

5. **The government began to balance growth and stability since late March 2010, as it became confident in the improvement in economic and financial conditions.** During 2010 Q1, investment in capacity expansion, especially in the export sector, was said to be held back by high borrowing costs, which invited many complaints from the industry

[2] Including SDRs allocated in 2009 Q3, amounting to SDR276.1 million (about US$410 million).

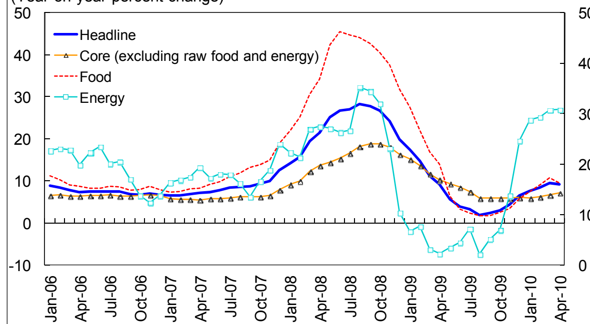
[3] In November 2009, the government announced a rise in the policy interest rate by 100 basis points, devaluation of the official central exchange rate by 5½ percent, and phasing out of the interest subsidy scheme for short-term loans by end-2009. In February 2010, the government announced a further devaluation of 3.4 percent, a cap on enterprises' dollar deposit rate at 1 percent, and removed the lending rate cap on medium- and long-term commercial loans. The lending rate cap on short-term commercial loans was removed in April 2010.

[4] Vietnam's Civil Code stipulates that financial institutions cannot charge lending rates exceeding 1.5 times the base (prime) rate. During much of 2009, therefore, the maximum lending rate was capped at 10.5 percent (7 times 1.5). The SBV finally allowed loan rates to be negotiated between the lender and the borrower, without an amendment of the civil code. As a result, in some cases, loan rates are said to have risen from a subsidized 6 percent to a negotiated 16–18 percent, before declining to 14–15 percent.

directed to the government. Also to secure the growth target of 6½ percent, the government began to strongly encourage banks to lower commercial lending and deposit rates, and started to bring downward pressure to bear on short-term interest rates through its open market operations (OMOs), reducing them to around 7 percent (for one week) since mid-April. The effect on lending and deposit rates seems to have been more mixed,[5] but credit did grow somewhat faster after March: year-to-date growth was 7½ percent at end-May.

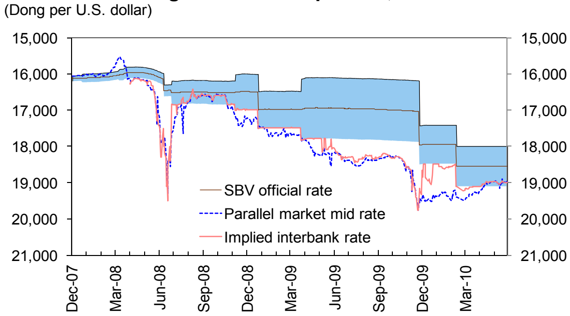
6. **The rebalancing of policy priority combined with more positive economic news calmed the market, and confidence in the dong has risen.** Against the backdrop of subdued inflation and contained trade deficit, both the interbank and the parallel market rates appreciated back within the band since mid-April,[6] allowing the SBV to gradually replenish GIR from the low level at end-March (US$11¾ billion) to US$12.9 billion by end-May 2010. Nondeliverable forward rates have also been on an appreciation trend.

Vietnam: Inflation Developments, 2006–10
(Year-on-year percent change)



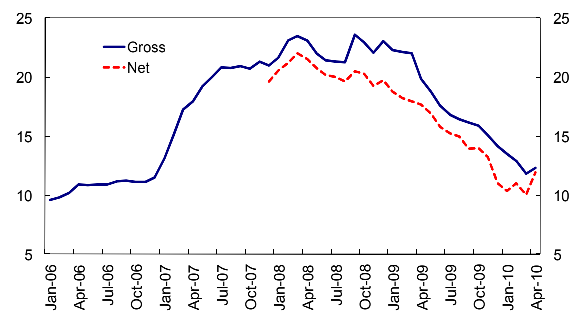
Source: Vietnam, General Statistics Office.

Vietnam: Exchange Rate Developments, 2008–10 1/
(Dong per U.S. dollar)



Sources: State Bank of Vietnam; and Reuters.
1/ An upward movement indicates an appreciation.

Vietnam: International Reserves, 2006–10
(In billions of U.S. dollars)

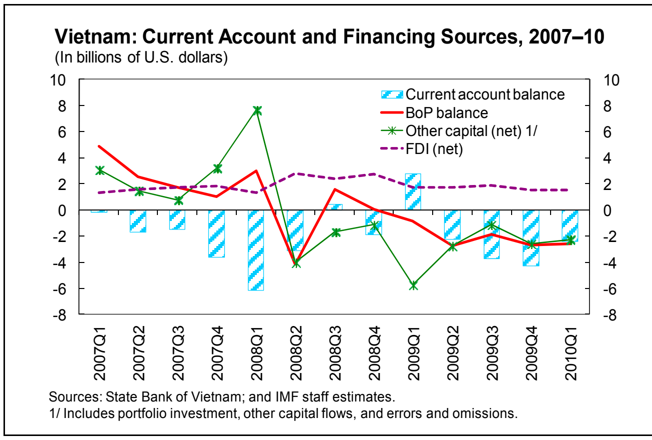


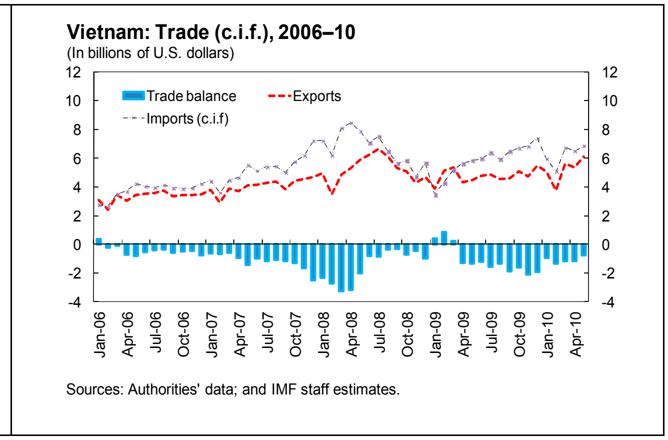
Sources: State Bank of Vietnam; and IMF staff estimates.

---

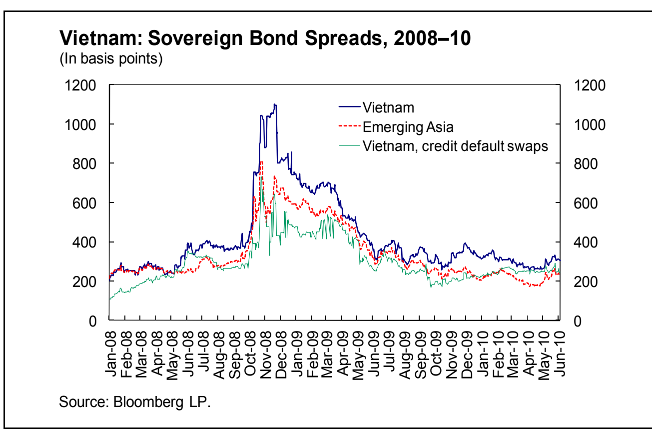
[5] Staff has found that large private banks (joint stock banks (JSBs)) either charge fees and other extras on top of the advertized loan rate, or ration the credit to selected borrowers. Similarly, competition for deposits following effective liberalization of deposit rates has also kept deposit rates high. Some banks are said to continue offering bonuses to depositors.

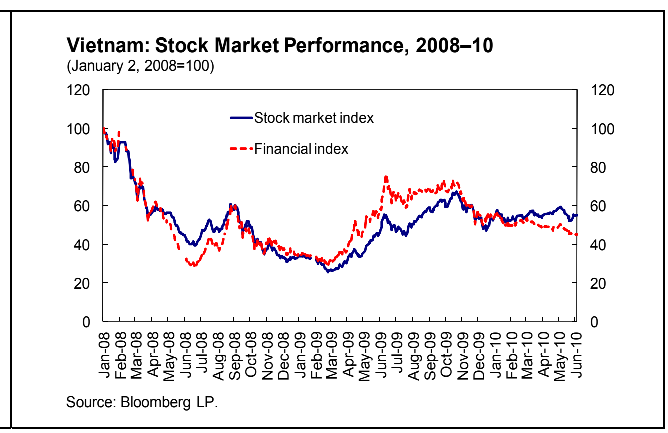
[6] There are reportedly investors who borrow in U.S. dollars (at around 5 percent interest rate) to benefit from a high dong deposit rate at around 10 percent), a sign of confidence that the dong's devaluation prospect is limited in the short term.





7. **Vietnam's relatively good performance has been marred by large swings in economic and financial conditions.** In the past few years, policies were tightened and loosened in succession, giving an impression of "stop and go" policy style. Delays in rersponse to changing circumstances, a weak monetary transmission mechanism, use of moral suasion, and uncertainty about policy stance including fiscal management have made it necessary for the government to apply strong measures to ensure policy effectiveness. The consequent large swings seem to have made overseas investors more cautious about investing in Vietnam. Movement of sovereign bond spread since the beginning of the year is in line with the regional trend, but its level is higher than in other emerging Asian economies. Foreign investors left the stock market after its collapse in 2008, from which the index has recovered only partially. The successful issuance of an international bond worth US$1 billion on January 25 was both a sign of investor confidence (the bond was oversubscribed) and misgivings (the yield was higher than a similar bond issued by the Philippines, at a comparable credit rating, shortly before). Also, Vietnam has not benefitted from the resurgence of international capital inflows experienced elsewhere in the region.





II. Outlook and Risks

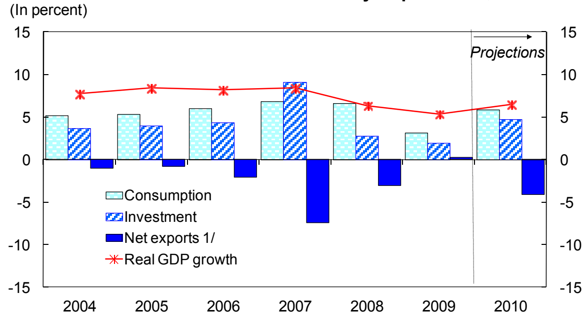
8. **Market stability has been restored, but appears fragile, compounded by confusion over the government's policy intentions.** Market participants appear unconvinced that the

current calm in the foreign exchange and money markets will be sustained in the remainder of 2010, judging from elevated spreads between overnight and three-month dong interbank rates (at around 4 percentage points). Uncertainties about the outlook are compounded by confusion about the government's policy intentions, in particular with regard to monetary policy. The SBV's repeated comments on the need for lower lending rates may be taken as a precursor of its policy action through OMOs. In addition, the fact that some key data, including GIR, have not been published since late 2009 is raising concerns in the market about the level of reserves and ultimately the ability of the government to cope with shocks. The lack of clarity on the fiscal policy stance, and the resulting market financing needs, for 2010 is also adding to the uncertainty.

9. **The near-term outlook hinges critically on whether the current stability can be maintained, with downside risks from both internal and external sources.** If the existing macroeconomic stability can be maintained through end-2010, staff projects that the government's objectives are largely attainable:

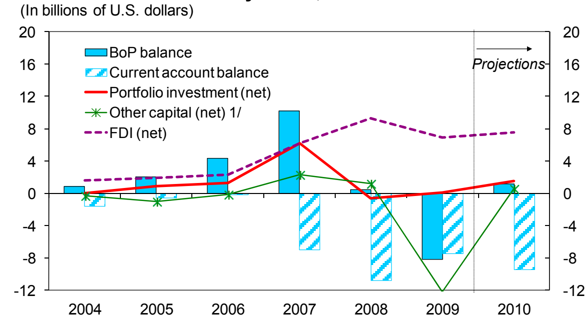
- Real GDP growth is projected at 6½ percent—the same as the authorities' target—supported by robust manufacturing and construction activity, underpinned by buoyant private investment, consumption, and non-oil exports.
- Inflation is currently projected to reach 10.4 percent (y/y) for the year as a whole. Although core inflation is edging up, headline inflation eased slightly in the last few months. Going ahead, it depends importantly on the pace and magnitude of the expected deceleration of commodity and food prices later in the year.
- The external position is projected to slightly improve. Exports should rebound, along with the global recovery, and the overall current account deficit is expected to narrow to 9 percent of GDP compared with 10.7 percent (excluding gold re-exports) in 2009. With market confidence sustained, short-term capital outflows (including errors and omissions), are also expected to moderate significantly, allowing a modest build up of reserves in 2010.

Vietnam: Contribution to GDP Growth by Expenditure, 2004–10
(In percent)



Sources: Vietnam, General Statistics Office; and IMF staff estimates.
1/ Includes contribution from statistical discrepancy.

Vietnam: Balance of Payments, 2004–10
(In billions of U.S. dollars)



Sources: Authorities' data; and IMF staff estimates.
1/ Includes errors and omissions.

10. **To this baseline scenario, while there is some upside potential, the greatest downside risk lies in uncertainty about domestic policies.** At the moment, a successful exit from the stimulus is being consolidated, and it would take some time for the government to convince market participants that the government is serious about maintaining macroeconomic stability. Further policy loosening is not warranted, in staff's view, to achieve the growth target. The authorities also seem confident that the growth target will be met. At the same time, however, they appear to believe that lending rates can be lowered without much disruption to the current stability, so that the industry base is protected, the credit growth target (25 percent for 2010) is met, and even higher growth may be achieved. Hence, the government has strongly encouraged banks to lower their lending rates. Staff argued that premature policy loosening, real or perceived, would be counter-productive, since it could raise market participants' expectations for a deterioration in the trade deficit and/or inflation, which could quickly result in devaluation pressures on the dong, requiring a sharp tightening down the road with great cost to the economy inflicted by another "stop-and-go cycle." Slower economic activity could then heighten vulnerabilities in the banking system down the line. While the authorities are aware of these risks, they are still publicly stating that lower lending rates are desirable.

11. **Downside external risks also exist**, including possible spillover effects from Europe (Appendix II), lower-than-expected recoveries in major trading partners (e.g., the United States, Japan, ASEAN-4, and newly industrialized economies), a slowdown in China, and higher-than-expected commodity and food prices. With prudent macroeconomic management, these risks are more or less manageable, given Vietnam's robust domestic demand.

12. **The medium-term outlook is favorable.** Provided that the government is committed to implementing sound macroeconomic policies and sustaining the momentum of reforms in its next SEDP (2011–15), Vietnam remains an attractive destination for foreign investors. In this scenario, real GDP growth is expected to rise to 7½ percent by 2015 (Table 4), supported by buoyant exports and domestic private investment and consumption. Inflation should ease further in 2011 and gradually fall to 5 percent (y/y) by 2015, provided that commodity and food prices remain stable, the credit growth is contained, and the exchange rate stability is maintained. The current account deficit is projected to narrow to about 4½ percent of GDP by 2015, as export growth and private remittances are likely to rebound. Capital inflows are also expected to pick up as investor confidence recovers. With the improved balance of payment environment, GIR is projected to rebuild and the reserve coverage ratio improve. The debt sustainability analysis (DSA), under the baseline scenario of sustained macroeconomic stability, indicates that external debt levels would be manageable, provided that external borrowing remains prudent.

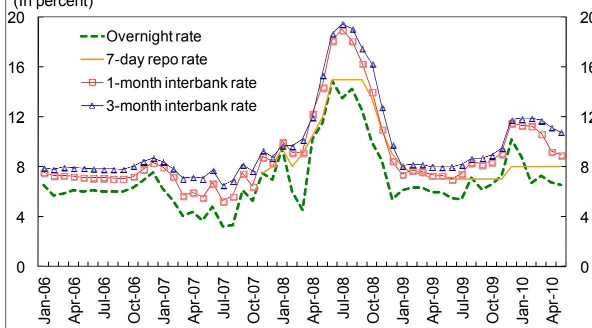
III. Policy Discussions

A. Macroeconomic Policies: Balancing Growth and Stability Objectives

Monetary and exchange rate policies

13. **Commitment to macroeconomic stability should be unequivocally communicated to the market.** Staff believes that the immediate priority for the government is to safeguardthe ongoing macroeconomic stability, reached after the exit from the stimulus measures during 2009, by sustaining market confidence, and take the opportunity to rebuild GIR. It is important, therefore, to convince the market that the government's commitment to maintaining and reinforcing the stability is firm, by sending out the unequivocal message that monetary conditions will not be eased further until inflation is on a downward trajectory, sentiment toward the dong is firmly established, and external reserves are rebuilt to more comfortable level.

Vietnam: Interest Rates, 2006–10
(In percent)



Sources: State Bank of Vietnam; and Reuters.

14. **The interest rate structure should be gradually normalized to resolve maturity mismatch problems.** There exists a sizable difference between OMO rates and interbank rates (around 7 percent for up to one week) and deposit rates (around 11–12 percent), which distorts and destabilizes the interest rate structure. This situation has led some banks to increasingly rely on OMOs and money market for funding, deteriorating the maturity mismatch between banks' assets and liabilities.[7] To resolve this, staff encouraged the SBV to gradually move toward a normalized interest rate structure,[8] where OMO interest rates would complement but not substitute deposits as sources of funds, having factored in liquidity and maturity structure.[9] Repurchase agreement (repo) at longer maturities (three months to one year) can also be an option to temporarily resolve maturity mismatch problems.

---

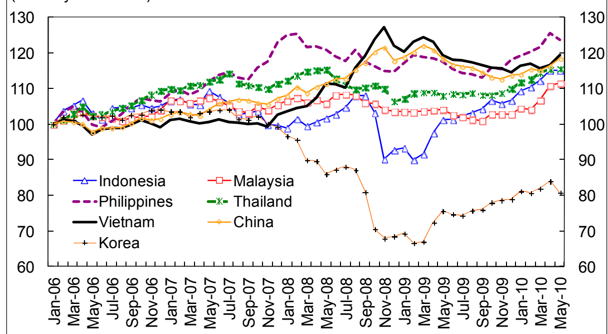
[7] Banks are not allowed to fund more than 20 percent of their loans from the money market by a regulation.

[8] The timing of normalization process depends on changes to the factors that have contributed to rising deposit rates. It is also conditional on how fast the banking sector can adapt to the recent interest rate liberalization and be able to find the market equilibrium. Addressing an excessive competition problem through regulation/supervision would also be important to prepare the ground for normalization.

[9] Open market operations rates are normally higher than deposit rates at the short end of the maturity structure.

15. **Despite recent stabilization, risks to the exchange rate remain.** The dong has depreciated by 9 percent since December 2008 but due to relatively high inflation, it has depreciated by only 2.1 percent in real effective terms. It has appreciated in real terms since the beginning of 2010, and its size (4.2 percent year-to-date) is comparable to Chinese yuan, but less than most regional currencies. The CGER-type exchange rate assessment exercise suggests that the value of the dong is broadly in line with medium-term fundamentals. The recent stability of the dong cannot be taken for granted, however. Although the risk of depreciation induced by a "sudden stop" of capital inflows may be limited because much of capital inflows are in the form of FDI, the greater risk is a shift of residents' assets, as witnessed in late 2009. Over the medium term, staff recommended that the exchange rate regime be made more flexible, with a move from the current focus on bilateral dong/U.S. dollar exchange rate to a system based on a basket including currencies of regional trading partners.

Emerging Asia: Real Effective Exchange Rates, 2006–10
(January 2006=100)



Source: IMF, Information Notice System; and IMF staff estimates.

Box 1: Exchange Rate Assessment

The dong is broadly in line with medium-term fundamentals based on three approaches of CGER exchange rate assessment exercise. Estimates of overvaluation of the dong range between -2.9 and 2.4 percent. Under the baseline scenario that the government is committed to implementing sound macroeconomic policies, current account deficit and external liabilities (as captured by negative NFA) are projected to decline. Improvement in external balances has led to estimates of slight undervaluation of 2.9 and 0.9 percent in the cases of external sustainability and equilibrium exchange rate approaches, respectively. Given that the projected current account deficit over the medium term of around 5 percent—slightly above the norm of around 4 percent—the macro-balance approach suggests a small overvaluation of 2.4 percent.

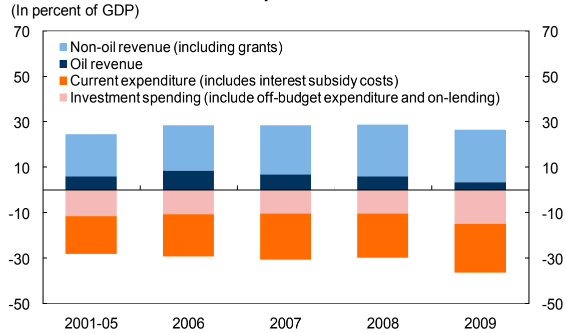
16. **The SBV agrees in principle with staff's recommendations.** The SBV reiterated its commitment to macroeconomic stability, especially low inflation. The SBV also acknowledged that aiming for a higher credit growth could risk deterioration in the trade deficit. Yet, because it is tasked with balancing stability and growth, it wants to maintain a degree of flexibility in the conduct monetary policy. As for the structure of interest rates, the SBV agrees that it should be "normalized" at an appropriate time, though it wondered if such a move would be supported by the general public. While understanding the importance of increasing flexibility, the SBV focuses on the stability under the current exchange rate

regime for the moment. Staff welcomes the new SBV Law, approved in late June, which removed growth promotion from the list of monetary policy objectives and strengthened operational authority of the SBV, though the details have yet to be clarified.

Fiscal policy

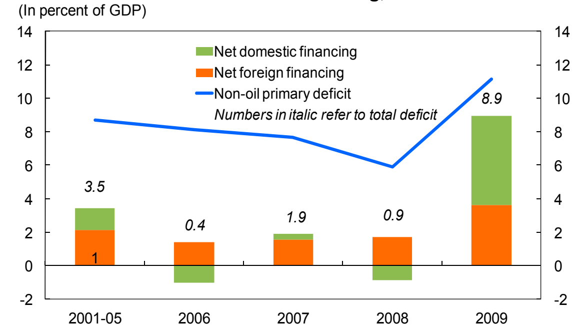
17. **Overall fiscal balance in 2009 deteriorated by about 8 percentage points of GDP.** According to the official estimates, the 2009 overall fiscal deficit[10] widened to about 9 percent of GDP, from about 1 percent of GDP in 2008. The large deterioration reflected two major factors: a 2½ percentage points of GDP decline in oil revenues, linked to the moderation in world oil prices from 2008 peak levels; and a spending surge of more than 5 percentage points of GDP related largely to the stimulus package. Although official foreign financing (3½ percent of GDP) was more than double the level envisaged in the 2009 plan, much of the deficit was financed domestically, split evenly between deposit draw-downs and nonmarket loans from the social security fund, the SBV, and state-owned commercial banks (SOCBs), as domestic bond issuance was constrained due to a low interest rate ceiling. Public and publicly-guaranteed debt increased by 5 percentage points of GDP to 49 percent of GDP.

Vietnam: Revenues and Expenditures, 2001–09
(In percent of GDP)



Sources: Authorities, and IMF staff calculations.

Vietnam: Overall Deficit and Financing, 2001–09
(In percent of GDP)



Sources: Authorities data; and IMF staff estimates.

18. **With most stimulus measures having expired at end-2009 and a favorable growth outlook ahead, staff projects a narrowing of the fiscal deficit by around 3 percentage points of GDP in 2010.**[11] Non-oil revenues are expected to rise by ¼ percentage point of

[10] The mission has adopted the new IMF definition of the overall balance that excludes net lending by the Vietnam Development Bank (VDB), estimated at 1.2 percent of GDP during 2001–08 and 1.5 percent of GDP during 2009–10. The change in definition brings fiscal reporting closer in line with *GFSM 2001* principles. The mission will track the VDB balance sheet for potential losses that might represent a contingent liability. In the meantime, bonds issued by the VDB will continue to be recorded as part of publicly-guaranteed domestic debt.

[11] The only two stimulus measures remaining are the interest subsidy scheme on medium- and long-term loans and a one-quarter extension on corporate income tax deferral.

GDP, compared to the 2009 level, to 23 percent of GDP,[12] while oil revenues are expected to remain flat. On the expenditure side, staff projects a small increase in current outlays, while total investment spending would decline by 3 percentage points of GDP. It is expected that the overall deficit for 2010 would narrow to a financeable level of about 6 percent of GDP.[13] Staff views the implied structural consolidation of about 3 percentage points of GDP (year-on-year) as striking the right balance between the need to exit from crisis-support policies and protecting the growth recovery and social safety nets.

19. **Considerable uncertainty over the fiscal outlook for 2010 exists.** Two factors appear to be contributing to this uncertainty (Appendix III). First, the government's official definition of budgetary aggregates excludes off-budget expenditures, onlending, and the subnational fiscal surplus but includes principal repayments, thus precluding a clear assessment of the actual fiscal stance. Second, in the absence of official recognition of the expected revenue overperformance, or of government intentions to save it, it is difficult to form an informed view on the size of the 2010 deficit and associated financing needs.

20. **Over the medium term, Vietnam needs to implement fiscal consolidation with a view to lowering the public debt-to-GDP ratio.** A cross-country comparison (Figure 1) of 2009 fiscal indicators suggests that Vietnam's deficit level is quite elevated (due, in large measure, to the stimulus-related surge in investment spending). Public and publicly-guaranteed debt, at 50 percent of GDP (based on staff's definition), also appears relatively high, especially when considering Vietnam's large state-owned enterprise (SOE) sector, prospective graduation from concessional financing, and vulnerability to refinancing and exchange rate risks. Staff thus supports the authorities' current strategy of setting the ceiling on public and publicly-guaranteed debt at 50 percent of GDP (based on the authorities' definition,[14] the current debt level is 44 percent of GDP). Staff proposed that, over time, the ceiling be revised down toward the 40 percent of GDP level, a more prudent threshold for emerging economies in general, and considering Vietnam's afore-mentioned contingent risks, in particular. Although the DSA places Vietnam at a low risk of debt distress, it also shows that the debt-to-GDP ratio could rise rapidly above 60 percent, if there is an adverse exchange rate shock or if deficits are not reined in. There are also growing concerns about the quality of public investment in Vietnam, indicating that any medium-term fiscal adjustment strategy would likely involve a rationalization of investment spending.

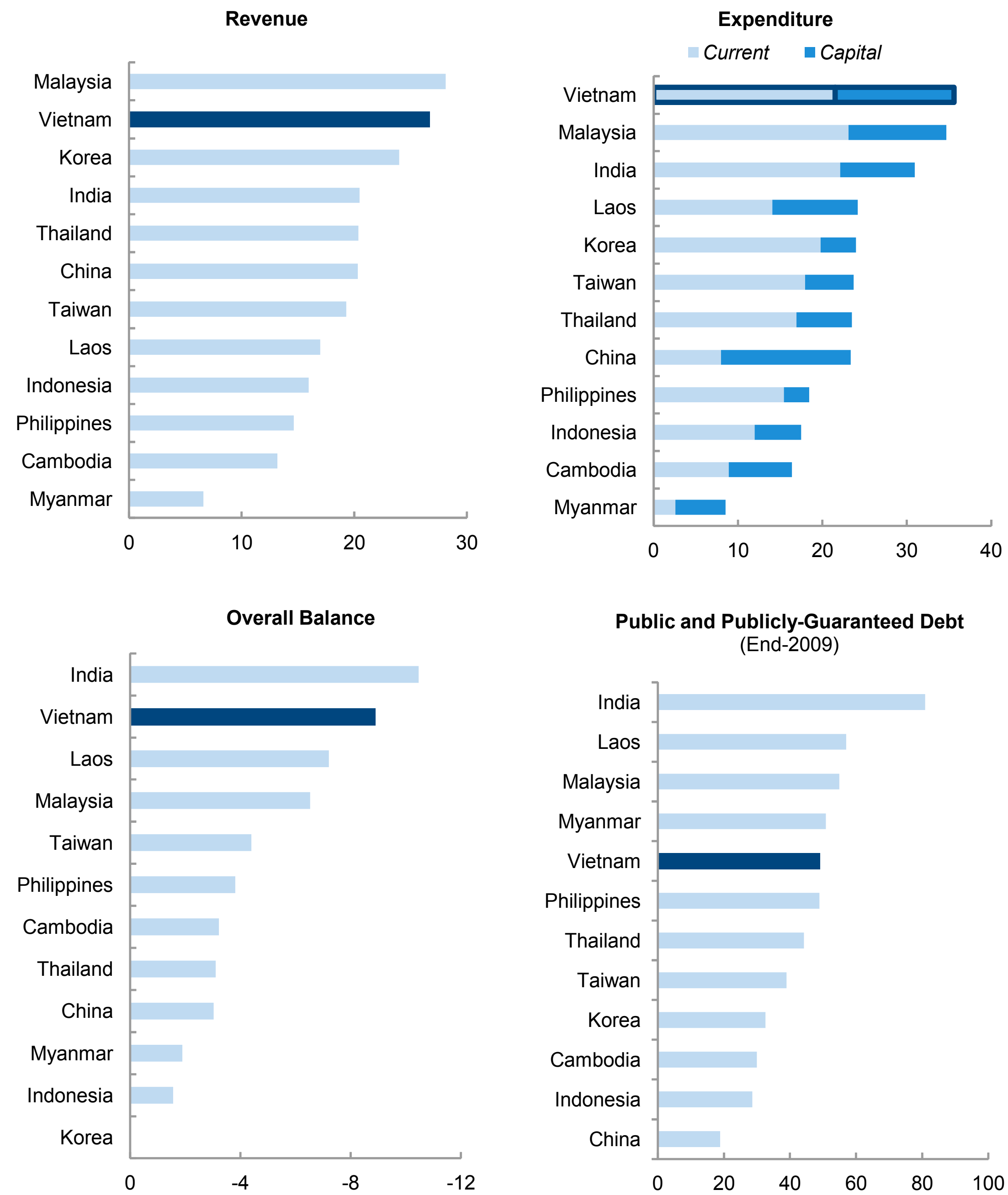
---

[12] The authorities have traditionally adopted unrealistically conservative revenue projections. The revenue projection by staff is 3 percentage points of GDP above the 2010 budget plan by the government.

[13] Staff project foreign financing to reach about 3½ percent of GDP, 2 percentage points of GDP above the 2010 budget plan. This implies net domestic financing need of 2½ percent of GDP, which appears manageable, given the recent uptick in domestic bond issuance.

[14] The authorities' definition uses the official exchange rate to convert foreign currency debt, and excludes certain banking sector claims and implicitly-guaranteed VDB debt.

Figure 1. General Government Indicators: Vietnam vs. Regional Comparators
(2009; percent of GDP)



Sources: World Economic Outlook (April 2010 vintage); Vietnam Ministry of Finance; and IMF staff estimates.

21. **The authorities broadly concurred with staff's assessment of the fiscal outlook.** The Ministry of Finance (MOF) recognized that the 2010 revenues would likely turn out to be significantly larger than the level envisaged in the approved budget plan, and indicated the intention to save much of the revenue overperformance, provided no legitimate spending needs arose. The MOF also emphasized the need to distinguish what the government must continue to provide and what can be left to the market, which would help streamline the government's fiscal

responsibilities. On the issue of communication with markets, the MOF noted plans to introduce a new budget law (see below) that would, inter alia, bring national fiscal definitions closer to international standards. Staff stressed the more urgent need to release the government's near-term spending and borrowing plans, to help reassure markets that fiscal policy is working in tandem with monetary policy to ensure macroeconomic stability. Staff also reiterated the need to further streamline expenditure, especially on large infrastructure projects, and to use revenue overperformance as far as possible for deficit reduction.

22. **Staff welcomed the authorities' intentions to reduce the deficit in the context of the 2011–15 SEDP.** The authorities agreed that much of the consolidation would have to come from the expenditure side, especially investment spending, while preserving outlays for key public infrastructure projects and social spending to protect the poor. Revenues would remain under pressure due to the anticipated decline in oil revenues (as existing oilfields mature) and the loss in trade taxes arising from import tariff reductions linked to Vietnam's WTO commitments and ASEAN-China FTA. Staff welcomed the authorities' willingness to consider public private partnership (PPP) and other methods to mobilize private sector funding for infrastructure investment. At the same time, staff highlighted the importance of preserving a high tax-to-GDP ratio by the introduction of new taxes (such as the environmental tax, and land and housing tax, currently under consideration), broadening the tax base, and introducing and better enforcement of existing taxes. Staff also recommended a medium-term fiscal plan that could reduce the deficit to about 3½ percent of GDP by 2015, and sustainably put debt on a downward path below 50 percent of GDP.

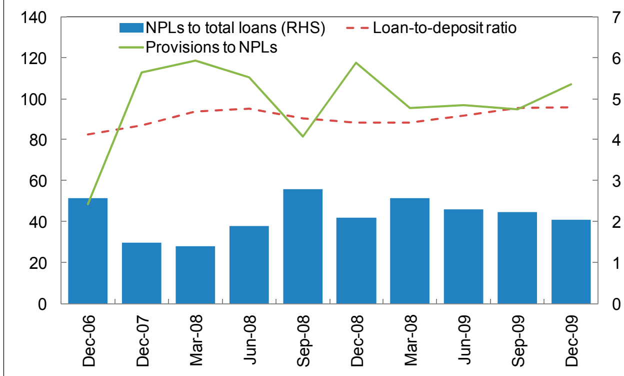
23. **Staff welcomed the move to modernize and strengthen fiscal management.** The new State Budget Law is expected to take effect from January 1, 2013, if approved by the National Assembly. The new law seeks to align fiscal reporting and accounting with international standards, institute medium-term planning, introduce performance budgeting, and reduce overlap of budgetary responsibilities between various levels of government. Public debt management reforms, including in the context of draft decrees to accompany the Public Debt Law of 2009, are also underway, aimed at, inter alia, introducing prudent limits on the ratios of external debt and public debt to GDP (both at 50 percent) as an anchor for fiscal management, as discussed above, and reforming the microstructure of T-bill/bond issuance to allow more market-based determination of Treasury yields, which is crucial to enable the authorities to rollover bond redemptions during 2010–12 especially in view of the recent shortening of the maturity structure of public securities.[15]

[15] Because the government has been reluctant to accept market-based yield on Treasury securities, there have been large under-subscriptions and failed auctions in the past 18 months,

B. Addressing Financial Sector Vulnerabilities

24. **Bank profitability received support from high loan growth and low loss provisioning in 2009.** Average return on asset of the six largest banks (the four SOCBs, including partially privatized Vietcombank and Vietinbank, and the two largest private banks, covering over half of the banking system) increased to an annualized 1.9 percent (1.5 percent in 2008). Noninterest income (e.g., gold trading) contributed to higher profitability in some private banks, according to a report by Fitch.

Vietnam: Banking Indicators, 2006–09
(In percent)



Source: State Bank of Vietnam

25. **Reversing the deceleration in 2008, banking system assets grew rapidly in 2009.** Over a longer horizon, private sector credit has roughly doubled to over 110 percent of GDP and has increased in real terms by over 150 percent in last five years. Of the increase, both direct (lending to real estate and construction sector) and indirect (collateral) exposure to the real estate sector against the backdrop of sharp increases in asset prices can pose future challenges to the banking system.[16]

26. **The banking sector will likely experience downward pressure on profitability in 2010.** Narrowing interest margin, higher provisioning costs, the moderation of credit growth, and the closure of gold trading could constrain profitability at some banks this year. At end-2009, nonperforming loans (NPL) declined to 2.0 percent (2.1 percent in 2008) according to the official report,[17] partly due to rapid credit growth; special-mention loans (SML) declined to 6.5 percent (9.4 percent in 2008).[18] However, pressure on credit quality, including of the large loan portfolio disbursed under the interest subsidy program, may translate into higher NPL down the road.

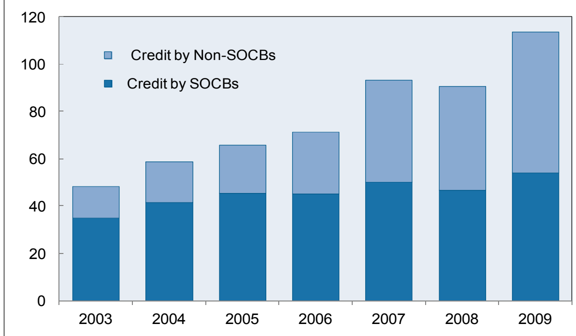
[16] Although the SBV reports that direct real estate related lending remains slightly above 10 percent, 80–90 percent of collateral in the banking system is held in the form of land and real estate. Loan to value ratio ranges from 50–70 percent.

[17] According to a report by Moody's, the NPL ratios in the banking system under International Financial Reporting Standards (IFRS) could be up to three times those under Vietnamese Accounting System.

[18] Loan classification under Vietnamese Accounting Standards focuses primarily on past-due status and is less strict than IFRS. In contrast, IFRS puts more emphasis on individually assessed loans on the borrower's financial situation.

27. **Private banks are expanding their balance sheet more rapidly than SOCBs.** Credit growth in recent years has been quite pronounced in the private sector banks, resulting in their increased market share. SOCBs now constitute less than half of total banking sector asset, down from over 60 percent in 2006. The SBV noted that SOCBs and large JSBs are performing well and improving their capitalization. They added that some of the smaller JSBs have faced some liquidity pressure and are being closely monitored for any early signs of stress.

Vietnam: Private Sector Credit, 2003–09
(In percent of GDP)



Sources: International Financial Statistics; and IMF staff calculations.

28. **Staff emphasized further strengthening of the regulatory and supervisory framework to safeguard banking sector soundness.** Various financial soundness indicators, including leverage ratios, concentration, and liquidity risks, need to be developed and closely monitored. Going forward, the results from the recent risk-based pilot project to assess borrowers' repayment capacity conducted by the Banking Supervision Agency could help guide the strengthening of banking supervision. Bringing the classification and provisioning to international best practice will also enhance the resilience of the sector. The authorities concurred and pointed out that they are upgrading the classification and provisioning rules and prudential ratios, and moving from compliance-based toward risk-based supervision. Furthermore, the need for greater supervisory vigilance toward the rapidly growing nonbank financial institutions was acknowledged.

29. **The SBV acknowledged the importance of increasing capitalization in the banking system.** They expressed strong commitment to raising the minimum capital requirement (MCR) to VND 3 trillion by end-2010.[19] The affected small banks will have to report to the banking supervision agency their capitalization plans by June 30 and their merger and acquisition plans by September 30. The authorities need to carefully evaluate the planned level and pace of increases in MCR (to VND 10 trillion by 2015, high by international standard), so that there is some room for small and efficient banks to operate. The SBV agreed on the importance of transparent communication with the market regarding small banks' progress with their

[19] Currently over 20 credit institutions have less than VND 3 trillion of capital, but none has less than VND 1 trillion. The authorities noted their plans to increase the minimum capital requirement to VND 5 trillion by 2012 and to VND 10 trillion by 2015 in order to achieve capital cushion and consolidation in the banking system. Besides upgrading minimum capital requirement, the authorities have announced plans to increase their minimum capital adequacy ratio from 8 percent to 9 percent by October 2010.

capitalization plans. They also noted that measures have been taken to ensure that undercapitalized banks do not engage in aggressive lending practices.[20]

30. **Staff welcomed the SBV's interest in requesting the joint IMF-World Bank Financial Sector Assessment Program** (FSAP) and shared general information on the process. Staff welcomed the new Law on Credit Institution, which would help improve the SBV's banking supervision.

C. Structural Reform Priorities

Efficiency of the economy

31. **The authorities want to raise efficiency of its public investment projects.** The government believes that efficiency of its public investment projects is lower than other regional economies (when they were at a similar development stage). Indeed, because a broad framework does not exist to ensure the coherence of public investment plans and the quality of individual projects, public infrastructure projects, including donor-funded projects, often experienced delays.[21] Moreover, without sufficiently developed monitoring mechanisms, some public investments went to "unproductive" sectors, such as the real estate sector.

32. **The efficiency of foreign invested enterprises (FIEs) is constrained by insufficient infrastructure and the shortage of skilled labor, and also there are limited technology spillovers from FIEs to domestic private sector.** The FIE sector has been using up Vietnam's supplies of skilled labor. If skilled labor supplies are not replenished fast enough, the output growth from FDI will slow.[22] Moreover, relatively low levels of labor skills limit FDI within low value-added industries and make technology transfer via labor movement difficult. As a result, the technology spillovers from FIEs to domestic firms are limited.[23]

33. **The authorities are well aware of, and concerned about these problems.** In the 2011–15 SEDP currently under preparation, inefficiencies of public investment and lack of competitiveness of domestic private enterprises are considered as key limitations of the

---

[20] They include regular monitoring of lending by undercapitalized banks and limiting lending funded by interbank borrowing.

[21] World Bank, "Vietnam—First Public Investment Reform Development Policy Loan Program," 11/19/2009.

[22] For example, the mission heard complaints from a number of manufacturers, both domestic and foreign, that they could not fully benefit from the recovery in external demand, as they cannot hire enough workers even at a higher wage, and hence have to be cautious in accepting new orders.

[23] For a comprehensive study on this issue, see "The Impacts of Foreign Direct Investment on the Economic Growth," the Central Institute for Economic Management, 2006.

economy. General objectives and solutions are to be specified in the plan. Staff welcomed the initiatives and stressed that improving the efficiency of public investment is essential in maintaining capital expenditures on key infrastructure projects while achieving fiscal consolidation at the same time.

Trade strategy

34. **Value-added in Vietnam's major export industries, including processing trade, is relatively low.**[24] The low value-added is associated with low labor cost, which has been a key comparative advantage of Vietnam, and was essential in attracting export-oriented FDI in the past. However, as wage cost increases,[25] foreign investors seriously begin to consider whether it is wise to establish their production base for export in Vietnam, given the need to import many intermediate goods owing to the lack of supporting industries. If such high inflation and real appreciations observed in the past few years continue in the medium term, Vietnam's competitiveness in exports would be impaired. As concerns over Vietnam's competitiveness rise, more foreign investors are interested in the potential of Vietnam's domestic consumer market, which has been buoyant in the last few years. However, to attract foreign investment aiming at domestic market, it is important to maintain a stable dong exchange rate, and more generally, a stable macroeconomic environment, which would provide predictability and boost investor confidence.

35. **More measures are needed in the transition to higher value-added export industries in the longer term.** These measures include developing human capacity, improving infrastructure and business environment, and promoting supporting industries. The authorities shared these views, and have been working to specify the high value-added industries to be targeted, together with strategies in improving infrastructure, education, and business environment in the context of the 2011–15 SEDP.

State-owned enterprises

36. **Following a successful equitization and consolidation program, SOE reform must now focus on potential risks posed by the large state-owned economic groups.** The last decade has seen a significant decline in the share of the state-owned sector, in terms of both assets and profits (see figure below). Attention is now focusing increasingly on the larger

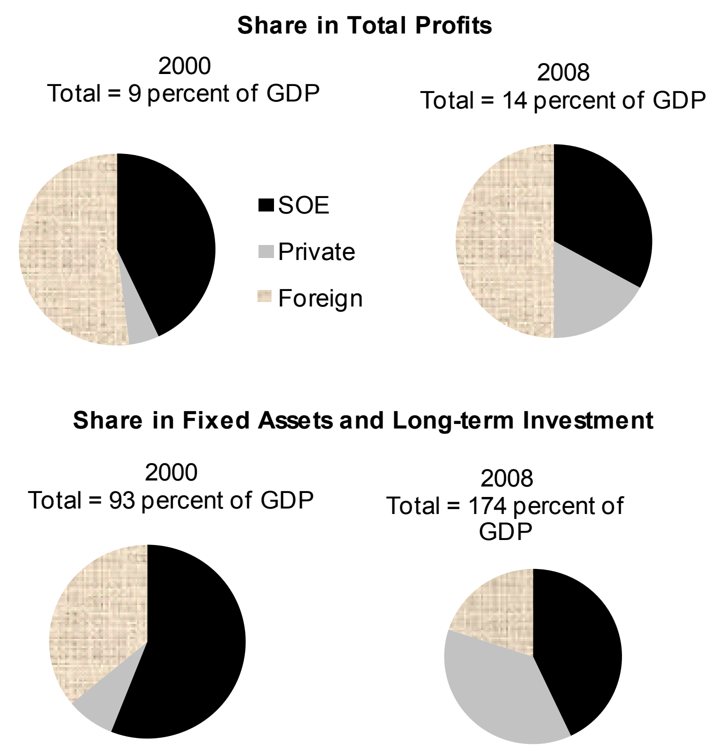
---

[24] It was reported, anecdotally, that about two-thirds of inputs and intermediate goods for noncommodity exports are imported.

[25] A salary survey conducted by the Navigos Group, a recruitment solutions provider in Vietnam, suggested that the average gross salary increased about 16½ percent during the period from April 2008 to March 2009, against the inflation rate of about 9 percent over the same period. The survey collected data from 163 companies across Vietnam, spanning more than 15 industries and covering 75 job categories. Among the companies surveyed, 47 percent are completely foreign-owned, and only 11.7 percent are local companies.

state-owned economic groups (conglomerates specializing in particular sectors), as their profitability and efficiency have been called into question with implications on fiscal soundness. Some SOEs have extremely low capital ratios, such as Vinashin, necessitating budgetary outlays for recapitalization (as in 2009), or support via onlending.[26] Moreover, many of these conglomerates have indicated their plans to undertake very large investments over the medium-term, raising questions about the quality of the underlying projects as well their financeability. Large domestic financing could crowd out resources for the budding private sector, while sovereign-backed issuance abroad may threaten debt sustainability. In addition, their role in the economy, following diversification strategies that have included investments in financial institutions, has raised governance and competition concerns. These concerns have been amplified by recently announced plans to increase the number of economic groups from 7 to 30.

Vietnam: State-Owned Sector Vis-a-Vis Other Enterprise Sectors



Source: Enterprise Survey 2008.

[26] The proceeds of the US$1 billion bond issued in January 2010 were on-lent to state-owned oil refineries (US$700 million), Vinashin, and other projects (US$300 million).

Vietnam: State-Owned Enterprises—Balance Sheet: Size and Composition
(In percent of GDP) 1/

	Assets			Equity			Debt			Equity/Assets 2/		
	2006	2007	2008	2006	2007	2008	2006	2007	2008	2006	2007	2008
Major economic groups (EGs)	48.0	48.7	52.3	23.8	22.8	22.7	23.4	24.5	26.7	49.6	49.5	43.4
EVN (electricity)	14.1	16.2	13.8	5.5	6.5	4.5	8.6	9.4	8.0	38.8	40.2	32.8
PETROVN (petroleum and gas)	15.1	12.5	19.1	10.2	8.4	10.6	4.8	4.1	7.9	67.4	66.9	55.6
VNPT (post and telecommunications)	8.1	7.7	6.9	5.7	5.3	4.7	1.8	1.6	2.1	70.4	68.5	67.2
VINASHIN (shipping/ship-building)	5.7	6.8	6.2	0.3	0.5	0.5	5.4	6.2	5.7	5.8	6.8	8.4
VINACOMIN (coal and minerals)	2.2	2.8	3.3	0.9	1.0	1.0	1.3	1.7	2.1	39.2	35.1	30.4
VINARUBBER (rubber)	2.0	1.8	2.2	1.0	1.0	1.1	0.9	0.8	0.6	52.1	54.4	49.8
VINATEX (textiles)	0.9	1.0	0.8	0.3	0.3	0.2	0.6	0.7	0.5	29.1	26.3	29.6
Other EGs/special general corporations	11.1	12.4	…	4.4	4.4	…	6.5	7.7	…	39.8	35.4	…
Other general corporations	18.1	19.3	…	5.4	6.5	…	12.5	12.4	…	30.0	33.7	…
All EGs and general corporations 1/	77.2	80.4	…	33.7	33.7	…	42.5	44.7	…	43.6	41.9	…

Sources: Ministry of Finance; National Steering Committee for Enterprise Reform and Development (NSCERD); and IMF staff calculations.

1/ Combined, the EGs and general corporations account for about 80 percent of total state capital invested in SOEs (estimated at 43.7 percent of GDP at end-2007).

2/ In percent.

Vietnam: State-Owned Enterprises—Profitability Indicators
(In percent; asset-weighted averages) 1/

	Pre-tax Profit Rate			Return on Assets			Return on Equity		
	2006	2007	2008	2006	2007	2008	2006	2007	2008
Major EGs	20.2	21.0	14.9	9.5	9.6	7.4	17.2	17.8	15.1
EVN (electicity)	5.8	7.4	2.8	1.9	2.3	0.9	4.9	5.8	2.8
PETROVN (petroluem and gas)	36.0	32.2	24.7	15.5	16.5	11.4	23.0	24.7	20.5
VNPT (post and telecommunications)	27.9	38.5	24.7	14.1	13.2	12.6	20.0	19.3	18.8
VINASHIN (shipping/ship-building)	4.1	3.9	2.7	0.9	1.1	0.9	15.0	16.4	10.6
VINACOMIN (coal and minerals)	8.9	7.9	11.2	12.4	9.6	13.3	31.6	27.5	43.7
VINARUBBER (rubber)	39.2	32.2	29.8	23.6	22.2	15.1	45.2	40.7	30.2
VINATEX (textiles)	1.6	2.2	3.3	2.3	2.7	3.1	7.8	10.4	10.4
Other EGs/special general corporations	3.0	3.3	…	2.9	3.2	…	7.3	9.1	…
Other general corporations	4.6	6.0	…	4.5	6.0	…	15.0	17.9	…
All EGs and general corporations	11.3	10.9	…	7.4	7.2	…	16.9	17.2	…

Sources: Ministry of Finance; NSCERD; and IMF staff calculations.

1/ Combined, the EGs and general corporations account for about 80 percent of total state capital invested in SOEs (estimated at 43.7 percent of GDP at end-2007).

State-owned commercial banks

37. **Staff argued for further reforms, as SOCBs still do not totally follow market-based business principles.** Although they have a declining share in the banking system (about 45 percent of total banking assets), the SOCBs still exert a significant influence on the financial landscape of Vietnam as the primary agents for implementing

certain government policies (e.g., interest rate subsidy of 2009[27]). Therefore ensuring the market-based operation of SOCBs (some of which underwent significant recapitalization in early 2010) can contribute to continued financial sector development by providing a level playing field for the private sector. In this respect, SOCB reform, including through continued equitization[28] by selling stakes to domestic and foreign strategic investors, can contribute to a more efficient banking system through improved governance and risk management, better quality of service, and greater product innovation. The SOCB reform also needs to be mindful of the fiscal implications associated with any need for capital injection by the government.

IV. Other Issues

38. **Staff emphasized that an effective public communication strategy is needed, especially when the macroeconomic balance is fragile and market sentiment could change rapidly.** Market confusion and speculations over the recent policy announcements underscore the urgency of improving public communication strategy. The authorities should present a regular assessment of the economic situation and policy direction to the public in a transparent and consistent manner, in order to manage market expectations more effectively and enhance investor confidence.

39. **The authorities should improve the quality and timeliness of data, especially in the monetary, international reserves, fiscal, SOE, and banking sectors.** More timely data on monetary survey and on international reserves are essential in analyzing monetary development and policy stance, as well as developments on the external position. Higher quality fiscal and SOE data would allow for better analysis of fiscal developments and the policy stance. There is also a significant perception gap on the banking sector soundness between the public and the authorities. The authorities shared these concerns and indicated that efforts will be made to provide more information in a timely manner.

V. Staff Appraisal

40. **Vietnam has managed to ride out difficult challenges in recent years, which deserves international acknowledgment.** As soon as an overheated economy in 2007, owing to rapid capital inflows, was successfully cooled down, an external demand shock triggered by the global crisis had to be countered in 2009 by a sizable stimulus package. As the stimulus policy began to threaten macroeconomic stability toward end-2009, a successful

[27] The SOCBs extended a large share—about two-thirds—of loans under the interest rate subsidy scheme.

[28] The government still fully owns Bank for Investment and Development, Agribank, Mekong Housing Bank, and Vietnam Bank for Social Policies. After partial equitization, the government holds 91 percent of Vietcom Bank and 89 percent of Vietinbank, equitized in 2007 and 2008 respectively.

exit (monetary and fiscal tightening) was made. The fact that most fiscal measures were introduced with a sunset clause also helped the timely exit.

41. **Delicate macroeconomic stability is maintained for now.** The policy tightening that started at end 2009 has stabilized economic and financial conditions, and helped restore market confidence, as evidenced by the stable dong exchange rates in both the interbank and the parallel markets. Whether the current stability can be sustained through the rest of 2010 and beyond depends on whether the government can maintain and enhance market confidence by limiting, for instance, deterioration in the trade deficit or a decline in the U.S. dollar liquidity in the financial system. The repeated announcements by the government about the need to lower the commercial lending rates thus appear counter-productive.

42. **Maintaining a solid economic recovery will require the government to prioritize among its multiple goals.** The government has stated that in 2010 it aims at the growth target (6.5 percent), inflation target (7 percent, now officially projected at 8 percent), credit growth target (25 percent), and money supply growth target (20 percent), while maintaining a stable dong exchange rate. It may be difficult to convince the market that the government can achieve all these objectives with relatively blunt policy tools, namely OMOs and budget, especially if there's no apparent hierarchy of objectives. A lack of coordination between monetary and fiscal policies, or the appearance thereof, would amplify market skepticism. The government, therefore, needs to convince market participants that its priority rests with macroeconomic stability. For this purpose, staff believes that maintaining the current stable exchange rate, and taking the opportunity to rebuild GIR, should be the immediate goal for the government. Once the government's credential for macroeconomic stability is established, and GIR is further built up, staff believes that the government will be able to adopt a more flexible exchange rate regime without risking resurgent devaluation pressures.

43. **Monetary policy should be prudent and its effectiveness should be further strengthened.** Further loosening, real or perceived, could disrupt the existing delicate macroeconomic stability, and could inflict substantial damage to the growth prospect, not just for 2010, but even for the medium term. To enhance the effectiveness of monetary policy, the operational improvement in OMOs, and the gradual normalization of the interest rate, structure should also progress. The early indications are that the new SBV Law, approved in late June, strengthened operational authority of the SBV, though the details have yet to be clarified.

44. **Exchange rate regime should be reformed over the medium term.** In the medium term, a move from the current regime that focuses on the bilateral dong/U.S. dollar exchange rate to a system that is based on a basket of currencies including those of regional trading partners may be appropriate. In the process, a wide use of the U.S. dollar in the economy (partial dollarization) could be wound down. In addition, further exchange rate flexibility is encouraged once necessary infrastructure, particularly in terms of hedging instruments, is readily available for the private sector to manage foreign exchange rate risks effectively.

45. **There is room for further reduction in the budget deficit in the medium term.** In 2010, total investment spending is expected to decline by 3 percentage points of GDP from the 2009 level to about 11 percent of GDP. Staff believes that there is room for further reduction in investment spending, for example, by project prioritizing, increased cost efficiency, and the use of PPP and other innovative financing methods. This would enable the government to reduce both the budget deficit and the public and publicly-guaranteed debt levels over the medium term.

46. **Strengthening the financial sector requires further reform.** While welcoming the ongoing efforts to strengthen supervisory capacity, more could, and should be done. An FSAP is expected to help the authorities establish a reform agenda and a concrete timeline. One of the fundamental problems facing Vietnam is over-banking: while the introduction of the minimum capital requirement at end-2010 could promote consolidation of smaller banks, further streamlining should be pursued in the medium term. The equitization (privatization) of SOCBs should also be advanced.

47. **As the economy is driven more by market principles, the government is required to change its style of policy conduct.** For instance, moral suasion could create distortions that need to be addressed later at a higher cost. Reforms of SOEs and SOCBs would not only provide a level playing field, but also raise the efficiency of the economy. Most importantly, transparency in government intentions, based on higher quality data published timely, should be further advanced to provide market players predictability.

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

Table 1. Vietnam: Selected Economic Indicators, 2006–11 1/

Nominal GDP (2009): US$93.2 billion — GDP per capita (2009): US$1,068
Population (2009, est.): 87.2 million — Fund quota: SDR 329.1 million

	2006	2007	2008 Est.	2009 Est.	2010 Proj.	2011 Proj.
Real GDP (annual percentage change)	8.2	8.5	6.3	5.3	6.5	6.8
Saving and investment (in percent of GDP)						
Gross national saving	36.5	33.3	29.0	30.1	29.8	30.3
Private	28.1	27.0	21.4	25.6	25.8	25.3
Public	8.4	6.3	7.5	4.6	4.0	5.0
Gross investment	36.8	43.1	40.9	38.1	38.8	38.4
Private	26.7	32.6	31.0	23.9	29.1	29.4
Public	10.1	10.6	9.9	14.2	9.7	9.0
Consumer price inflation (annual percentage change)						
Period average	7.5	8.3	23.1	6.7	10.4	8.3
End of period	6.7	12.6	19.9	6.5	10.3	6.2
GDP deflator	7.3	8.2	22.1	6.0	10.6	9.0
General government (in percent of GDP)						
Revenue and grants	28.7	28.7	29.0	26.7	26.9	27.2
Of which: Oil revenue	8.6	6.9	6.0	3.6	3.6	3.7
Expenditure	29.1	30.6	29.8	35.6	32.8	31.5
Plan 2/	27.5	29.4	27.6	31.7	28.6	27.8
Off-budget, onlending and other 3/	1.5	1.2	2.2	3.9	4.2	3.7
Overall fiscal balance 4/	-0.4	-1.9	-0.9	-8.9	-5.9	-4.3
Non-oil primary fiscal balance 4/	-8.1	-7.7	-5.9	-11.1	-8.3	-6.7
Money and credit (annual percentage change, end of period)						
Broad money (M2)	33.6	46.1	20.3	29.0	24.5	28.4
Credit to the economy	25.4	53.9	25.4	39.6	25.0	30.9
Interest rates (in percent, end of period)						
Nominal three-month deposit rate (households)	7.9	7.8	8.1	10.7	...	...
Nominal short-term lending rate (less than one year)	11.8	11.8	11.5	12.7	...	...
Current account balance (including official transfers)						
(In billions of U.S. dollars) 5/	-0.2	-7.0	-10.8	-7.4	-9.4	-9.5
(In percent of GDP) 5/	-0.3	-9.8	-11.9	-8.0	-9.0	-8.1
Exports f.o.b. (annual percentage change, U.S. dollar terms) 5/	22.7	21.9	29.1	-8.9	14.5	16.9
Imports f.o.b. (annual percentage change, U.S. dollar terms) 5/	22.1	38.3	28.1	-13.3	16.2	14.3
Foreign exchange reserves (in billions of U.S. dollars, end of period)						
Gross official reserves, including gold	11.5	21.0	23.0	14.1	15.4	19.2
(In months of next year's imports of GNFS)	2.1	3.0	3.8	2.0	1.9	2.1
External debt (in percent of GDP, using interbank exchange rate) 6/	31.5	32.3	33.5	40.7	40.8	41.3
External debt (in percent of GDP, using official exchange rate) 6/	31.6	32.6	32.5	39.5	38.3	…
Total public and publicly-guaranteed debt (in percent of GDP)	42.9	45.6	43.9	49.0	51.3	50.9
Dong per U.S. dollar exchange rate (end of period) 7/	16,068	16,003	17,486	18,479	19,040	...
Nominal effective exchange rate (end of period) 8/	77.4	73.3	73.8	62.5	...	
Real effective exchange rate (end of period) 8/	96.8	100.2	119.1	106.8	...	...
Memorandum items:						
GDP (in trillions of dong at current market prices)	974	1,144	1,485	1,658	1,953	2,273
Per capita GDP (in U.S. dollars)	724	835	1,048	1,068	1,178	1,312

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

1/ Figures in 2008–10 are staff estimates and projections unless otherwise indicated.
2/ 2010 expenditure projection assumes some spending out of expected revenue overperformance.
3/ Includes costs of interest subsidy schemes in 2009 and 2010.
4/ Excludes VDB net lending.
5/ Includes gold imports in 2008 and gold re-exports in 2009.
6/ Includes private debt.
7/ Interbank exchange rate. Data for 2010 is as of June 29.
8/ 2000 annual average=100.

Table 2. Vietnam: Balance of Payments, 2006–15

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
				Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(In millions of U.S. dollars, unless otherwise indicated)									
Current account balance	-164	-6,992	-10,787	-7,440	-9,405	-9,470	-9,360	-8,793	-8,471	-7,813
Trade balance	-2,776	-10,360	-12,782	-8,306	-10,596	-10,422	-10,729	-10,874	-11,084	-11,012
Exports, f.o.b.	39,826	48,561	62,685	57,096	65,389	76,436	89,220	104,312	121,973	142,907
Imports, f.o.b.	42,602	58,921	75,467	65,402	75,984	86,857	99,949	115,186	133,057	153,919
Nonfactor services (net)	-8	-894	-915	-1,129	-1,649	-1,633	-1,645	-1,704	-1,818	-1,969
Receipts	5,100	6,030	7,041	5,766	6,502	7,413	8,457	9,605	10,879	12,317
Payments	5,108	6,924	7,956	6,895	8,152	9,047	10,102	11,308	12,697	14,285
Investment income (net)	-1,429	-2,168	-4,401	-4,532	-3,859	-4,755	-5,042	-5,044	-5,238	-5,589
Receipts	668	1,093	1,357	752	619	435	831	1,520	2,042	2,427
Payments	2,097	3,261	5,758	5,284	4,478	5,189	5,873	6,565	7,280	8,016
Transfers (net)	4,049	6,430	7,311	6,527	6,698	7,340	8,056	8,830	9,669	10,756
Private	3,800	6,180	6,804	6,018	6,138	6,724	7,378	8,084	8,849	9,855
Official	249	250	507	509	560	616	677	745	820	902
Financial account balance	3,088	17,540	12,341	11,452	12,113	13,312	14,525	15,203	15,759	15,328
Net foreign direct investment (FDI)	2,315	6,550	9,279	6,900	7,565	7,928	8,490	9,149	9,607	10,062
Medium- and long-term loans (net)	1,025	2,045	992	4,473	2,541	3,176	3,686	3,542	3,453	3,093
Disbursements	2,260	3,397	2,441	6,140	4,500	5,500	6,200	6,500	6,700	7,000
Amortization	1,235	1,352	1,449	1,667	1,959	2,324	2,514	2,958	3,247	3,907
Portfolio investment 1/	1,313	6,243	-578	128	1,568	1,627	1,692	1,763	1,841	1,177
Short-term capital (net)	-1,565	2,702	2,648	-49	439	581	658	749	858	997
NFA of commercial banks	-1,535	2,623	677	-305	200	220	242	266	293	322
Net trade credit	-30	79	1,971	256	239	361	416	482	565	675
Errors and omissions	1,398	-349	-1,081	-12,178	-1,500	0	0	0	0	0
Overall balance	4,322	10,199	473	-8,166	1,208	3,842	5,165	6,410	7,288	7,515
Memorandum items:										
Gross official reserves (excluding government deposits) 2/	11,491	20,964	23,022	14,148	15,356	19,197	24,362	30,772	38,060	45,575
(In months of next year's imports)	2.1	3.0	3.8	2.0	1.9	2.1	2.3	2.5	2.7	2.9
Current account balance (in percent of GDP) 3/	-0.3	-9.8	-11.9	-8.0	-9.0	-8.1	-7.2	-6.2	-5.4	-4.5
Trade balance (in percent of GDP) 3/	-4.6	-14.6	-14.2	-8.9	-10.2	-8.9	-8.3	-7.6	-7.1	-6.4
Non-oil current account balance (in percent of GDP) 3/	-4.5	-11.6	-10.9	-7.4	-8.1	-7.4	-6.7	-5.6	-4.7	-3.8
Export value (annual percentage change) 3/	22.7	21.9	29.1	-8.9	14.5	16.9	16.7	16.9	16.9	17.2
Export volume (annual percentage change) 3/	14.4	13.7	6.5	8.3	5.0	15.7	15.7	15.7	15.9	15.8
Import value (annual percentage change)	22.1	38.3	28.1	-13.3	16.2	14.3	15.1	15.2	15.5	15.7
Import volume (annual percentage change)	17.3	34.9	16.1	-0.3	8.2	13.4	14.0	14.3	14.5	14.7
GDP (in millions of U.S. dollars)	60,933	71,111	90,274	93,164	103,929	117,208	129,191	142,417	156,908	173,042

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

1/ Includes the sovereign bond issuance of US$750 million in 2005 and US$1 billion in 2010.

2/ Data for 2009 includes the SDR allocation of SDR 267.1 million.

3/ Data for 2009 includes gold re-exports.

Table 3. Vietnam: General Government Budgetary Operations, 2006–11 1/

	2006	2007	2008	2009		2010		2011
			Est.	Budget	2nd Est.	Budget	Proj.	Proj.
				(In trillions of dong)				
Total revenue and grants 2/	279	328	430	390	442	462	524	619
Revenue (excluding grants)	272	322	421	385	436	457	519	614
Tax revenue	236	269	368	345	370	404	444	527
Oil revenues	83	79	90	64	61	66	71	85
Non-oil tax revenues	153	190	278	282	310	338	373	442
Non-tax and capital revenues	35	53	53	40	66	52	75	86
Grants	8	6	9	5	7	5	5	6
Official expenditure	268	336	410	456	526	536	559	633
Current 3/	180	232	290	343	346	410	423	480
Of which: Interest	8	13	15	23	24	24	24	30
Capital	88	104	120	113	180	126	136	153
Other expenditures	15	14	33	74	64	72	82	84
Off-budget expenditure	10	17	27	36	46	56	47	52
ODA onlending (less SF net lending)	5	-3	6	21	8	9	28	32
Interest rate subsidy cost	0	0	0	17	10	7	7	0
Total expenditure	283	350	443	529	591	608	640	717
Overall fiscal balance	-4	-22	-13	-139	-148	-147	-116	-97
Discrepancy (+ is overfinancing)	14	-3	23		-4			
Financing	18	19	37	139	145	147	116	97
Foreign (net)	14	18	26	41	60	25	64	81
Domestic (net)	4	1	11	98	84	121	52	16
				(In percent of GDP)				
Total revenue and grants 2/	28.7	28.7	29.0	23.5	26.7	23.6	26.9	27.2
Revenue (excluding grants)	27.9	28.1	28.3	23.2	26.3	23.4	26.6	27.0
Tax revenue	24.3	23.5	24.8	20.8	22.3	20.7	22.7	23.2
Oil revenues	8.6	6.9	6.0	3.8	3.6	3.4	3.6	3.7
Non-oil tax revenues	15.7	16.6	18.7	17.0	18.7	17.3	19.1	19.5
Non-tax and capital revenues	3.6	4.7	3.5	2.4	4.0	2.7	3.9	3.8
Grants	0.8	0.5	0.6	0.3	0.4	0.3	0.3	0.3
Official expenditure	27.5	29.4	27.6	27.5	31.7	27.4	28.6	27.8
Current 3/	18.5	20.3	19.6	20.7	20.9	21.0	21.7	21.1
Of which: Interest	0.8	1.1	1.0	1.4	1.4	1.2	1.2	1.3
Capital	9.1	9.1	8.1	6.8	10.9	6.4	7.0	6.7
Other expenditures	1.5	1.2	2.2	4.4	3.9	3.7	4.2	3.7
Off-budget expenditure	1.1	1.5	1.8	2.2	2.8	2.9	2.4	2.3
ODA onlending (less SF net lending)	0.5	-0.3	0.4	1.2	0.5	0.5	1.4	1.4
Interest rate subsidy cost	0.0	0.0	0.0	1.0	0.6	0.4	0.4	0.0
Total expenditure	29.1	30.6	29.8	31.9	35.6	31.1	32.8	31.5
Overall fiscal balance	-0.4	-1.9	-0.9	-8.4	-8.9	-7.5	-5.9	-4.3
Discrepancy (+ is overfinancing)	1.4	-0.3	1.6		-0.2			
Financing	1.8	1.6	2.5	8.4	8.7	7.5	5.9	4.3
Foreign (net)	1.4	1.6	1.7	2.5	3.6	1.3	3.3	3.6
Domestic (net)	0.4	0.1	0.7	5.9	5.1	6.2	2.7	0.7
Memorandum items:								
Non-oil primary balance	-8.1	-7.7	-5.9	-10.8	-11.1	-9.7	-8.3	-6.7
Domestic non-oil revenue	19.3	21.3	22.3	19.4	22.6	20.0	23.0	23.3
Plan investment & off-budget spending	10.1	10.6	9.9	9.0	13.6	9.3	9.3	9.0
Total investment spending (incl. net onlending)	10.6	10.3	10.3	10.2	14.1	9.8	10.8	10.4
Nominal GDP (in trillions of dong)	974	1,144	1,485	1,658	1,658	1,953	1,953	2,273

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

1/ Based on IMF definition.

2/ Revenue estimates reflect fiscal stimulus measures in 2009–10.

3/ Budget data include the amount allocated for contingency.

Table 4. Vietnam: Monetary Survey, 2006–11 1/

	2006	2007	2008	2009				2010			2011
	Dec.	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Jan. Est.	Feb. Est.	Dec. Proj.	Dec. Proj.
	(In trillions of dong)										
Net foreign assets	287.9	410.4	428.9	425.7	383.6	322.8	312.3	319.8	315.7	339.2	419.1
State Bank of Vietnam	211.9	376.6	404.8	389.9	343.3	312.0	281.2	268.6	273.5	304.3	379.9
Commercial banks	76.0	33.9	24.2	35.8	40.3	10.8	31.0	51.2	42.3	34.8	39.2
Net domestic assets	634.7	937.8	1,193.2	1,322.5	1,523.9	1,663.3	1,780.2	1,772.7	1,807.7	2,265.0	2,923.7
Domestic credit	730.3	1,096.8	1,400.7	1,498.5	1,702.8	1,887.4	2,039.7	2,028.4	2,049.4	2,524.5	3,183.2
Net claims on government	36.5	29.1	61.4	78.7	83.5	117.9	170.4	155.0	155.2	188.0	124.7
Credit to government	13.5	13.4	12.9	12.9	15.2	28.8	23.4	43.2	43.6	15.9	13.4
Government securities	87.7	105.5	149.3	159.4	161.2	183.7	205.1	193.3	186.0	235.9	177.1
Government deposits	-64.7	-89.8	-100.7	-93.6	-92.9	-94.6	-58.1	-81.5	-74.4	-63.8	-65.7
Credit to the economy	693.8	1,067.7	1,339.3	1,419.8	1,619.2	1,769.5	1,869.3	1,873.4	1,894.1	2,336.6	3,058.6
In dong	547.5	839.2	1,070.5	1,171.4	1,359.6	1,478.1	1,559.9	1,557.5	1,557.0	…	…
In foreign currency	146.4	228.5	268.7	248.4	259.6	291.3	309.4	315.9	337.2	…	…
By nonstate banks	219.1	444.2	575.9	606.3	706.1	805.5	886.8	…	…	…	…
By state-owned commercial banks	474.7	623.5	763.3	813.5	913.1	964.0	982.5	…	…	…	…
Claims on state-owned enterprises	218.5	334.2	413.8	440.1	499.9	529.4	…	…	…	…	…
Claims on other sectors	475.3	733.5	925.5	979.7	1119.3	1240.1	…	…	…	…	…
Other items, net	-95.6	-159.0	-207.5	-176.0	-178.8	-224.0	-259.5	-255.7	-241.6	-259.5	-259.5
Total liquidity (M2)	922.7	1,348.2	1,622.1	1,748.2	1,907.5	1,986.1	2,092.4	2,092.5	2,123.5	2,604.2	3,342.8
Of which: Total deposits	763.9	1,127.7	1,385.3	1,467.6	1,629.4	1,710.1	1,799.2	1,777.5	1,797.6	…	…
Dong liquidity	723.2	1,089.6	1,291.8	1,409.2	1,562.9	1,622.5	1,665.3	1,664.9	1,695.2	…	…
Foreign currency deposits	199.5	258.6	330.4	339.0	344.6	363.6	427.1	427.6	428.2	…	…
	(Annual percentage change)										
Total liquidity (M2)	33.6	46.1	20.3	25.0	35.8	36.1	29.0	25.3	25.4	24.5	28.4
Of which: Total deposits	36.5	47.6	22.8	24.9	34.6	33.6	29.9	29.4	26.7	…	…
Dong liquidity	36.1	50.7	18.6	23.4	41.4	43.4	28.9	24.4	24.8	…	…
Foreign currency deposits	25.3	29.7	27.7	32.1	15.2	10.7	29.3	29.2	28.0	…	…
Domestic credit	24.7	50.2	27.7	25.4	36.3	51.2	45.6	39.5	41.5	23.8	26.1
Credit to the economy	25.4	53.9	25.4	17.8	28.3	39.7	39.6	38.9	38.9	25.0	30.9
Of which: In foreign currency	9.0	56.1	17.6	-8.2	-6.0	6.1	15.1	19.4	32.3	…	…
Memorandum items:											
Money multiplier 2/	4.0	4.3	4.3	4.2	5.1	5.4	5.0	5.0	4.9	…	…
Currency to total deposits (in percent)	20.8	19.6	17.1	19.1	17.1	16.1	16.3	17.7	18.1	…	…
Foreign currency deposits to total deposits (in percent)	26.1	22.9	23.8	23.1	21.1	21.3	23.7	24.1	23.8	…	…
Foreign currency loans to total loans (in percent)	21.1	21.4	20.1	17.5	16.0	16.5	16.5	16.9	17.8	…	…
Loans to deposits (in percent)	90.8	94.7	96.7	96.7	99.4	103.5	103.9	105.4	105.4	…	…
Gross official reserves (in billions of U.S. dollars)	11.5	21.0	23.0	22.0	17.6	16.2	13.7	13.5	12.9	15.4	19.2
NFA of the banking system (in billions of U.S. dollars)	17.9	25.5	25.3	25.1	22.6	19.0	16.9	17.8	17.0	18.3	22.4
Nominal GDP (in trillions of dong)	974.3	1,143.7	1,485.0	…	…	…	1,658.4	…	…	1,953.1	2,273.1

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

1/ Data include the State Bank of Vietnam and all deposit-taking credit institutions.
2/ Money multiplier is measured as the ratio of total liquidity (M2) to reserve money.

Table 5. Vietnam: Medium-Term Scenario, 2006–15

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
			Est.	Est.	Proj.					
	(Percentage change)									
Real GDP (annual percentage change)	8.2	8.5	6.3	5.3	6.5	6.8	7.0	7.2	7.4	7.5
Nominal GDP (in trillions of dong)	974	1,144	1,485	1,658	1,953	2,273	2,581	2,930	3,325	3,777
Consumer prices (annual average)	7.5	8.3	23.1	6.7	10.4	8.3	5.6	5.0	5.0	5.0
Consumer price (end of period)	6.7	12.6	19.9	6.5	10.3	6.2	5.0	5.0	5.0	5.0
GDP deflator	7.3	8.2	22.1	6.0	10.6	9.0	6.1	5.9	5.6	5.7
	(In percent of GDP)									
Saving-investment balance	-0.3	-9.8	-11.9	-8.0	-9.0	-8.1	-7.2	-6.2	-5.4	-4.5
Gross national saving	36.5	33.3	29.0	30.1	29.8	30.3	31.2	32.5	33.4	34.1
Private saving	28.1	27.0	21.4	25.6	25.8	25.3	25.8	27.0	27.9	28.4
Public saving	8.4	6.3	7.5	4.6	4.0	5.0	5.4	5.5	5.5	5.7
Gross investment	36.8	43.1	40.9	38.1	38.8	38.4	38.5	38.6	38.8	38.6
Private investment	26.7	32.6	31.0	23.9	29.1	29.4	29.5	29.7	29.9	29.8
Public investment	10.1	10.6	9.9	14.2	9.7	9.0	8.9	8.9	8.9	8.8
General government revenue and grants	28.7	28.7	29.0	26.7	26.9	27.2	27.4	27.3	27.3	27.4
Of which: Oil revenue	8.6	6.9	6.0	3.6	3.6	3.7	3.7	3.6	3.5	3.4
General government expenditure	29.1	30.6	29.8	35.6	32.8	31.5	31.1	30.9	30.8	30.7
Plan	27.5	29.4	27.6	31.7	28.6	27.8	27.6	27.4	27.3	27.3
Off-budget, onlending and other	1.5	1.2	2.2	3.9	4.2	3.7	3.5	3.5	3.5	3.4
General government fiscal balance	-0.4	-1.9	-0.9	-8.9	-5.9	-4.3	-3.7	-3.6	-3.5	-3.3
Non-oil primary balance	-8.1	-7.7	-5.9	-11.1	-8.3	-6.7	-6.1	-5.9	-5.7	-5.4
	(In billions of U.S. dollars; unless otherwise indicated)									
Current account balance	-0.2	-7.0	-10.8	-7.4	-9.4	-9.5	-9.4	-8.8	-8.5	-7.8
(In percent of GDP)	-0.3	-9.8	-11.9	-8.0	-9.0	-8.1	-7.2	-6.2	-5.4	-4.5
Trade balance	-2.8	-10.4	-12.8	-8.3	-10.6	-10.4	-10.7	-10.9	-11.1	-11.0
Exports (f.o.b.)	39.8	48.6	62.7	57.1	65.4	76.4	89.2	104.3	122.0	142.9
(Percentage change)	22.7	21.9	29.1	-8.9	14.5	16.9	16.7	16.9	16.9	17.2
Imports (f.o.b.)	42.6	58.9	75.5	65.4	76.0	86.9	99.9	115.2	133.1	153.9
(Percentage change)	22.1	38.3	28.1	-13.3	16.2	14.3	15.1	15.2	15.5	15.7
Net services and transfers (including investment income)	2.6	3.4	2.0	0.9	1.2	1.0	1.4	2.1	2.6	3.2
Of which: Private transfers	3.8	6.2	6.8	6.0	6.1	6.7	7.4	8.1	8.8	9.9
Capital and financial account (net)	3.1	17.5	12.3	11.5	12.1	13.3	14.5	15.2	15.8	15.3
Direct investment	2.3	6.6	9.3	6.9	7.6	7.9	8.5	9.1	9.6	10.1
Portfolio investment	1.3	6.2	-0.6	0.1	1.6	1.6	1.7	1.8	1.8	1.2
Medium- and long-term loans	1.0	2.0	1.0	4.5	2.5	3.2	3.7	3.5	3.5	3.1
Short-term capital (net)	-1.6	2.7	2.6	0.0	0.4	0.6	0.7	0.7	0.9	1.0
Memorandum items:										
Gross official reserves (in billions of U.S. dollars)	11.5	21.0	23.0	14.1	15.4	19.2	24.4	30.8	38.1	45.6
(In months of next year's imports of GNFS)	2.1	3.0	3.8	2.0	1.9	2.1	2.3	2.5	2.7	2.9
Total external debt (in billions U.S. dollars)	19.1	23.1	28.4	36.5	41.7	47.7	54.4	61.1	68.0	73.8
(In percent of GDP, using interbank exchange rate)	31.5	32.3	33.5	40.7	40.8	41.3	42.7	43.6	44.0	43.3
(In percent of GDP, using official exchange rate)	31.6	32.6	32.5	39.5	38.3	…	…	…	…	…
Total public debt (in percent of GDP)	42.9	45.6	43.9	49.0	51.3	50.9	51.0	50.8	50.4	49.8
Nominal GDP (in billions of U.S. dollars)	60.9	71.1	90.3	93.2	103.9	117.2	129.2	142.4	156.9	173.0

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

Table 6. Vietnam: Millennium Development Goals

	1990	1995	2000	2005	2008
Goal 1: Eradicate extreme poverty and hunger					
Employment to population ratio, 15+, total (percent)	75	74	71	70	69
Employment to population ratio, ages 15-24, total (percent)	75	69	56	54	51
GDP per person employed (constant 1990 PPP $)	2,346	3,094	3,803	4,832	5,676
Income share held by lowest 20 percent	…	8	7	7	7
Malnutrition prevalence, weight for age (percent of children under 5)	…	37	27	20	20
Poverty gap at $1.25 a day (PPP) (percent')	…	24	11	5	5
Poverty headcount ratio at $1.25 a day (PPP) (percent of population)	…	64	40	21	21
Vulnerable employment, total (percent of total employment)	…	82	80	74	…
Goal 2: Achieve universal primary education					
Literacy rate, youth female (percent of females ages 15–24)	93	…	94	…	96
Literacy rate, youth male (percent of males ages 15–24)	94	…	96	…	97
Persistence to last grade of primary, total (percent of cohort)	…	…	86	92	…
Primary completion rate, total (percent of relevant age group)	…	…	96	…	…
Total enrollment, primary (percent net)	…	…	95	…	…
Goal 3: Promote gender equality and empower women					
Proportion of seats held by women in national parliaments (percent)	18	19	26	27	26
Ratio of female to male primary enrollment (percent)	94	…	95	…	…
Ratio of female to male secondary enrollment (percent)	…	…	91	…	…
Ratio of female to male tertiary enrollment (percent)	…	…	72	…	…
Share of women employed in the nonagricultural sector (percent of total nonagricultural employment)	…	41.0	40.7	40.4	…
Goal 4: Reduce child mortality					
Immunization, measles (percent of children ages 12–23 months)	88	95	97	95	92
Mortality rate, infant (per 1,000 live births)	39	33	24	15	12
Mortality rate, under-5 (per 1,000)	56	44	30	18	14
Goal 5: Improve maternal health					
Adolescent fertility rate (births per 1,000 women ages 15–19)	…	…	22	18	17
Births attended by skilled health staff (percent of total)	…	77	68	88	88
Contraceptive prevalence (percent of women ages 15–49)	53	65	74	77	76
Maternal mortality ratio (modeled estimate, per 100,000 live births)	…	…	…	150	…
Pregnant women receiving prenatal care (percent)	…	71	68	91	91
Unmet need for contraception (percent of married women ages 15–49)	…	7	5	…	…
Goal 6: Combat HIV/AIDS, malaria, and other diseases					
Children with fever receiving antimalarial drugs (percent of children under age 5 with fever)	…	…	7	3	3
Incidence of tuberculosis (per 100,000 people)	204	204	204	202	200
Prevalence of HIV, female (percent ages 15–24)	…	…	…	0.3	0.3
Prevalence of HIV, male (percent ages 15–24)	…	…	…	0.6	0.6
Prevalence of HIV, total (percent of population ages 15–49)	0.1	0.1	0.3	0.5	0.5
Tuberculosis case detection rate (all forms)	…	51	67	66	62
Goal 7: Ensure environmental sustainability					
CO2 emissions (kg per PPP $ of GDP)	0	0	0	1	1
CO2 emissions (metric tons per capita)	0	0	1	1	1
Forest area (percent of land area)	28.8	32.4	37.7	41.7	43.3
Improved sanitation facilities (percent of population with access)	29	40	51	65	65
Improved water source (percent of population with access)	52	64	77	92	92
Marine protected areas (percent of total surface area)	…	…	…	0	1
Terrestrial protected areas (percent of total surface area)	…	…	…	…	6
Goal 8: Develop a global partnership for development					
Net ODA received per capita (current US$)	3	11	22	23	30
Debt service (PPG and IMF only, percent of exports, excluding workers' remittances)	…	3	2	2	2
Internet users (per 100 people)	0.0	0.0	0.3	12.9	24.2
Mobile cellular subscriptions (per 100 people)	0	0	1	12	81
Telephone lines (per 100 people)	0	1	3	19	34
Other					
Fertility rate, total (births per woman)	4	3	2	2	2
GNI per capita, Atlas method (current U.S. dollars)	120	250	390	620	890
GNI, Atlas method (current U.S. dollars) (billions)	8.2	18.5	30.2	51.3	76.8
Gross capital formation (percent of GDP)	14.4	27.1	29.6	35.6	40.9
Life expectancy at birth, total (years)	65	69	72	74	74
Literacy rate, adult total (percent of people ages 15 and above)	88	…	90	…	93
Population, total (billions)	0.1	0.1	0.1	0.1	0.1
Trade (percent of GDP)	81.3	87.6	110.6	143.5	169.6

Source: World Bank, World Development Indicators.

APPENDIX I. VIETNAM: STIMULUS MEASURES IN 2009

Monetary policy

The base (prime) rate was cut by a total of 700 basis points (bps) between October 2008 and February 2009, and kept at 7 percent until November 2009.

The SBV injected liquidity through OMOs as well as lowering reserve requirement on dong deposits from 11 percent in October 2008 to 3 percent in March 2009.

Fiscal policy

The fiscal stimulus package was announced piecemeal since December 2008, and finalized in May 2009. It focused on four main objectives (projected cost at the time is shown in parentheses):[1]

- Supporting small and medium enterprises (SMEs):
  - corporate income tax reduction/deferral (0.8 percent of GDP)
  - the interest rate subsidy scheme (1.0 percent of GDP)
- Stimulate private consumption:
  - halving VAT rates on selected items (0.5 percent of GDP)
  - personal income tax reductions/deferrals (0.4 percent of GDP)
- Accelerate public investment:
  - frontloading implementation of rural multi-year projects for rural irrigation, infrastructure, and student and teacher housing (2.2 percent of GDP)
  - announcing additional off-budget projects in transportation, education, and health (1.2 percent of GDP)[2]
- Strengthening the social safety net:
  - boosting financial aid for low-income earners, students, and loss-making enterprises; and introducing food support payments to local governments (0.4 percent of GDP).

---

[1] Other measures whose cost was not explicitly quantified included: (i) provision of credit guarantees to SMEs by the Vietnam Development Bank; (ii) acceleration of VAT refund procedures for exporters; (iii) speeding up of customs clearance processes; and (iv) reduction in import tariffs on goods used for the production of export items (offset by higher tariffs on some items competing with domestically produced goods).

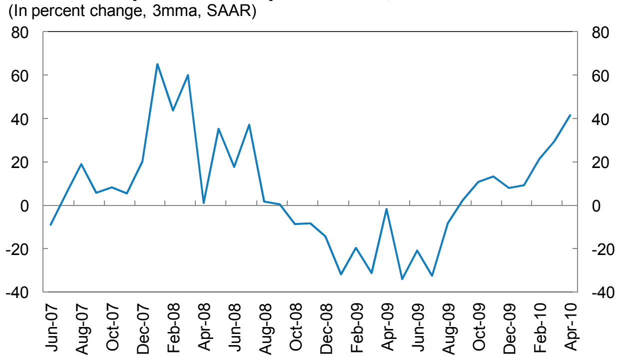
[2] Excludes the 2 percentage points of GDP carryover in investment capital disbursements from 2008.

APPENDIX II. VIETNAM: SPILL-OVER RISKS FROM EUROPE

Recent disruptive moves in the Euro area have raised concerns over the near-term prospects of emerging market economies and low-income countries around the globe. While Vietnam's direct financial linkages to the most vulnerable euro area economies, namely, Greece, Ireland, Italy, Portugal, and Spain (GIIPS) are limited, contagion effects from a Europe-wide credit event could materialize through such channels as external trade, bank funding, portfolio and bond investment, and FDI. This appendix discusses possible spillover risks to Vietnam through each of these channels, and finds that, overall, potential spillover risks are limited.

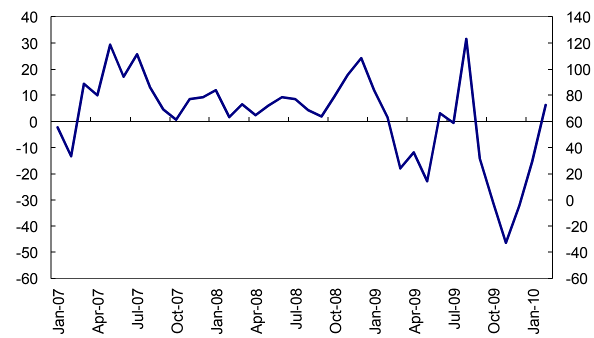
Trade channel

Vietnam: Exports to European Union, 2007–10
(In percent change, 3mma, SAAR)



Sources: Eurostat; and IMF staff calculations.

Vietnam: Garment Exports to European Union, 2007–10
(In percent change, SAAR)



Sources: Eurostat; and IMF staff calculations.

Europe is traditionally one of the most important export destinations for Vietnam. Although Vietnam's direct exports to GIIPS are small (about 3 to 5 percent of total non-oil exports), its exports to the European Union (EU) is about 20 to 25 percent of total non-oil exports. Vietnam's main export products to the EU are textile and garments (relatively low end), and food items, which account for about 40 percent and 25 percent of total exports to Europe, respectively.

Recent data suggest little negative impact on Vietnam's exports to the EU. Vietnam's exports to the EU remained resilient during the global crisis, and have been picking up strongly since September 2009. Despite of euro depreciation and its negative impact on demand from Europe, there is little sign of a substantial slowdown in exports to the EU. A key reason for this resilience is that (low-end) textile and garments and food items are primary goods, demand for which tends to be less cyclical and less dependent on financial conditions.[1]

[1] Other major Asian exporters of lower-end textile and garments experienced similar resilience in exports during the global crisis. See "How Have Low-Income Countries in Asia Fared Amid the Global Crisis?" Bi and Chensavasdijai, Asia and Pacific Economic Outlook Chapter 1 Box 1.1, October 2009.

Financial channel

Spillover risks through financial channels may affect bank funding, portfolio, and bond investment and FDI inflows to Vietnam. However, the overall impact is expected to be limited, because the absolute size of exposure to financing inflows from Europe is relatively small.

- *Bank funding.* Based on BIS data on consolidated banking statistics, 51 percent of Vietnam's total liabilities to foreign banks were to European banks, about average in the region as of December 2009. However, the size of total liabilities itself is only around 14 percent of GDP, which is on the lower end for the region. The share of domestic lending market served by foreign banks is at 14 percent (Moody's, August 2009). Strategic investment by European banks in Vietnamese banks also remained very limited (less than 1 percent of banking sector assets). Hence, the possible deleveraging may have rather limited impact on the credit market in Vietnam on the banking sector.

- *Portfolio and bond investment*. In 2008, around 41 percent of total portfolio investment was from European countries according to Coordinated Portfolio Investment Survey Data. The participation of foreign investors in the equity market was sizable, at around 18–25 percent of total volume. After the bust of the stock market bubble at the end of 2008, however, most of the foreign portfolio investments flew out of the country, and since then have remained very small, reflecting continued concerns over macroeconomic risks. Similarly, foreign bond investments were significant during 2007, but have largely disappeared since late 2008. The small size of foreign portfolio and bond investments, coupled with restrictions on foreign holdings of domestic listed companies' shares, helps limit the funding risks.

- *FDI.* FDI commitments from the EU have been very buoyant so far this year.[2] In the first five months of this year, FDI commitments from EU amounted to about US$2.4 billion, four times of the commitments from the EU in 2009 as a whole. Also, FDI commitments from the EU was only about 3 percent of total FDI commitments in 2009, but so far this year, they accounted for about 30 percent of total FDI commitments. Actual FDI disbursements, however, can be very different from commitments. Historical data suggest that the former is generally one-third of the latter. Even assuming no disbursement is made for European FDI, it would only mean a reduction of FDI inflows by about US$0.8 billion, less than 10 percent of the financial account surplus projected for 2010.

---

[2] Data on FDI commitment by source country are very limited, starting from mid-2008 only. Data on FDI disbursement by source country are not available.

APPENDIX III. VIETNAM: THE FISCAL PROJECTIONS REGIME, DEFICIT DEFINITIONS, AND OPACITY OF FISCAL POLICY

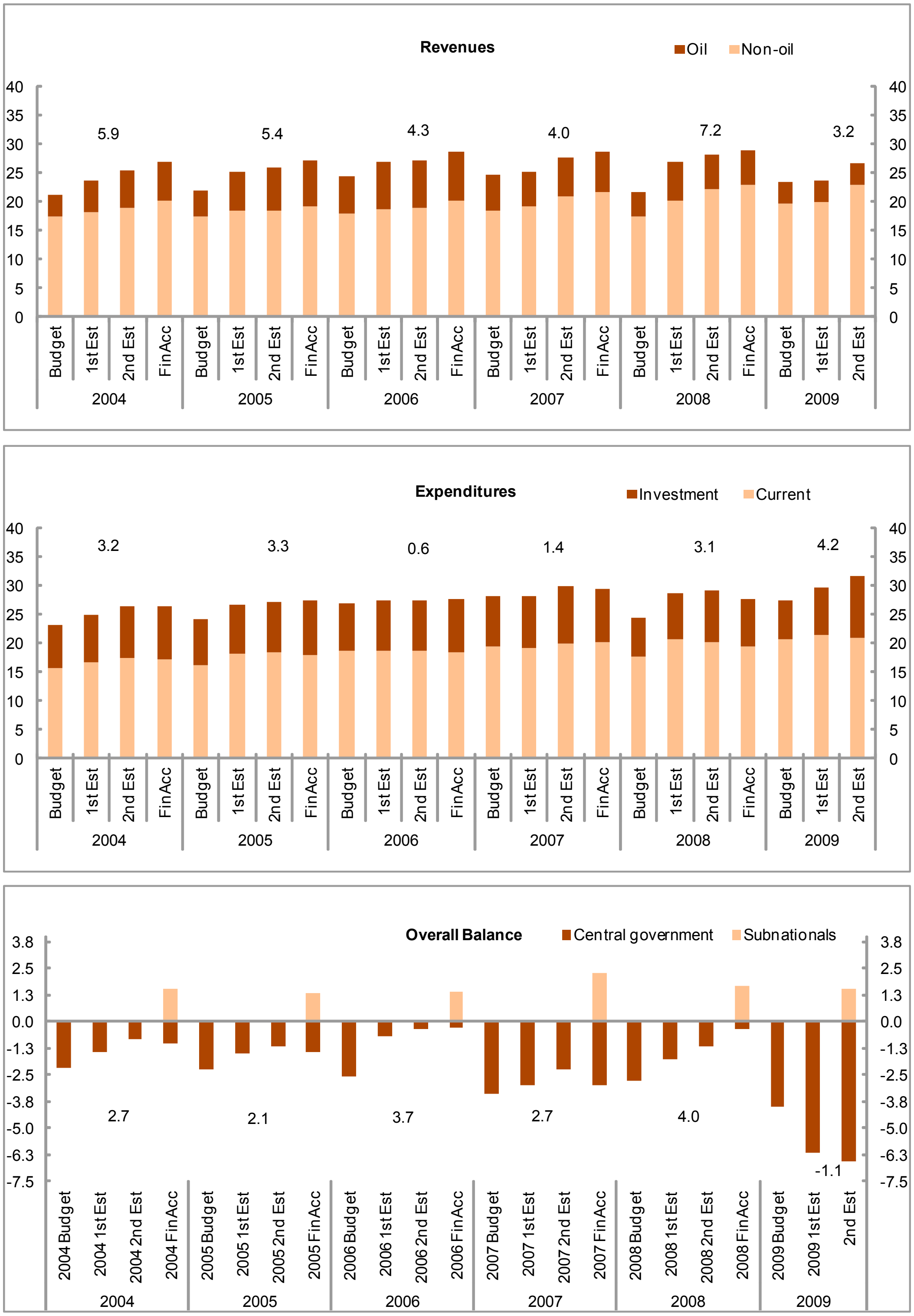
The assessment of Vietnam's fiscal stance is complicated by the interplay of two distinct features of the budget system:

- *The national definition of fiscal aggregates (and hence the deficit) differs substantially from international definitions more suited for cross country comparison* (see Appendix Table 1). The national definition, which is enshrined in the public finance act: (a) relies on a "central" government concept and excludes the local government surplus; (b) categorizes debt-reducing item, principal repayments, as expense; (c) treats any authorized but unpaid spending commitments as part of total expenditure for the year; and (d) excludes significant debt-creating items, such as off-budget items like ODA onlending from expenditures. As can be seen, the two deficit measures differed substantially in 2006 and 2009, and not just in direction, but also in magnitude: in 2006, the overall balance was -5 percent of GDP under the national definition (D) – perfectly in line with the budget projection; but -0.1 percent of GDP according the IMF definition. The converse pattern emerges in 2009 due, mainly, to the large off-budget items not included in the national definition.

- *The deviation of fiscal out-turns published in the final accounts (released 18 months after year-end) from the budget plans are alarmingly large* (see Appendix Figure 1). During 2004–09, the average difference in revenues was 5 percentage points of GDP, of which about half showed up in higher spending and half was saved. Moreover, the first estimate (annual projection based on nine-month data which forms the basis for the following year's budget plan) also appear systematically biased vis-à-vis the final accounts, with revenues being under-estimated by about 4 percentage points of GDP, on average. The bias for the second estimate (released in April of the following year) is comparatively smaller but still nontrivial, at about 2 percentage points of GDP. Conservative revenue projections are often encouraged as prudent practice for budget preparation, and sometimes also help constrain expenditure. However, the magnitudes involved here are simply too large and undermine the realism of the budget plan and subsequent estimates.

The confluence of the above two factors lends an opacity to the fiscal stance that is not easily surmountable. The ultimate cost of this is borne by the government: a systematic understatement of revenues can undermine the credibility of fiscal policy plans and create unnecessary uncertainty about the government's ability to meet gross domestic financing needs, even when they appear manageable, as was the case in late 2009 and is the case in 2010. The authorities have recently articulated plans to align budgetary reporting in line with international standards (via the new public finance act), as well as to devote more resources to strengthening fiscal forecasting. While these changes are welcome, they will take some time to take effect. In the meantime, considerable scope remains to enhance communication with markets on both fiscal out-turns and up-to-date and realistic projections in order to reduce unnecessary anxiety about macroeconomic stability.

Figure 1. Vietnam: Comparison of National Plan Fiscal Aggregates Reported in Budget Plans, First and Second Estimates and Final Accounts, 2004–09 (percent of GDP) 1/



Sources:

1/ Numbers shown on the charts are deviations (in percentage points of GDP), in each year, of final account figures from budget projections; numbers are for total revenues, total expenditures and general government overall balance.

Table 1. Vietnam: Illustrating Divergence between National and IMF Definitions of Overall Budget Balance

(In trillions of Vietnamese dong)

	2006		2009	
	Plan	Fin.Acc.	Plan	Est. 2
State budget balancing revenues (A) 1/	245.9	350.8	404.0	605.3
National Plan revenues	237.9	279.5	389.9	442.3
Oil revenue	63.4	83.3	63.7	60.5
Non-oil revenue	172.0	188.2	321.2	375.3
Domestic	132.0	145.4	233.0	269.7
Foreign	40.0	42.8	88.2	105.7
Grants	2.5	7.9	5.0	6.5
Other (including "brought forward" revenues from previous year) 2/	8.0	71.4	14.1	163.0
State budget balancing expenditures (B) 1/	294.4	385.7	491.3	696.4
National Plan expenditures	294.4	308.1	491.3	567.5
Development	81.6	88.3	112.8	180.3
Recurrent spending (including contingency)	171.9	171.4	319.6	322.3
Transfer to reserve fund	0.1	0.1	0.1	0.1
Debt service	40.8	48.2	58.8	64.8
Principal repayment (including aid and other)	32.0	40.2	35.5	40.9
Interest	8.8	8.0	23.3	23.9
Expenditure "carried forward" to next year 3/	…	77.6	…	129.0
Local budget surplus (C)	…	13.8	…	25.0
Budget balance (national definition) (D=A-B-C)	-48.5	-48.6	-87.3	-116.0
(Ratio to GDP; in percent)	-5.0	-5.0	-4.8	-7.0
Investment from bond issues (E)	18.0	8.4	36.0	46.0
Net onlending (F)	12.2	4.7	20.6	8.1
Onlending borrowing	12.2	7.8	25.7	23.7
Less: Repayments to Sinking Fund	…	3.1	5.1	15.6
Interest rate subsidy scheme (G)	…	…	17.0	10.0
Overall budget balance (H=D-E-F-G)	-78.7	-61.6	-160.9	-180.2
(Ratio to GDP; in percent)	-8.1	-6.3	-8.9	-10.9
Overall budget balance (H) after:				
Adding back principal repayments	-46.7	-21.4	-125.4	-139.2
Adding back transfer to reserve fund	-46.6	-21.3	-125.3	-139.1
Adding back expenditure carried forward	-46.6	56.3	-125.3	-10.2
Adding back local budget surplus	-46.6	70.1	-125.3	14.8
Deducting other revenues (including B/F revenues)	-54.6	-1.3	-139.4	-148.2
IMF overall balance	-54.6	-1.3	-139.4	-148.2
(Ratio to GDP; in percent)	-5.6	-0.1	-7.7	-8.9

Source: Ministry of Finance.

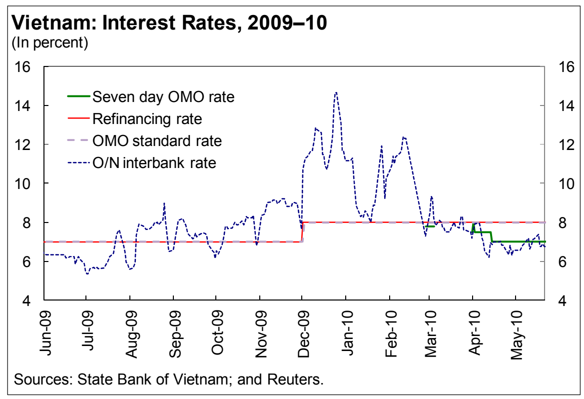
1/ State Budget covers general government, although off-budget spending and onlending are excluded.

2/ Other revenue (revenue brought forward) in year t is an accounting entry to balance the expenditure carried over from year t-1 plus the local budget surplus in year t-1. to slow project implementation are project-related expenditures originally planned for year t-1 but postponed to year t.

3/ "Expenditure carried over" from year t-1 into year t consists of (i) salary reform; (ii) excess revenue; (iii) paid-out items; and (iv) expenditure carryover due to slow project implementation. Both the first two items relate to carry forward of surplus revenues, with "salary reform" earmarking some of that surplus revenue for wages and salaries. "Paid out items" refers to expenditures paid in year t-1 that will be accounted for in year t. Expenditure carryover due to slow project implementation are project-related expenditures originally planned for year t-1 but postponed to year t.

APPENDIX IV. VIETNAM: MONETARY POLICY REGIME

The SBV is a government agency with constrained autonomy to formulate and conduct monetary policy. Under the new SBV Law, the Governor of the SBV remains a cabinet member, and assigned to follow government policies. The objectives of monetary policy have been simplified and focused on stabilizing the currency value and controlling inflation.[1] The Government is charge with submitting an annual inflation target, based on the recommendation of the SBV, for approval by the National Assembly. The Prime Minister and Governor of SBV are charged with conducting monetary policy, in consultation with the Prime Minister, and in accordance with government regulations, to achieve the monetary policy objectives, including the inflation target approved by the National Assembly.



Monetary policy regime in Vietnam can be characterized as a combination of exchange rate targeting and monetary targeting regimes, made possible by existing capital controls.[2] A bilateral exchange rate target is set vis-à-vis the U.S. dollar with limited flexibility currently in the form of central parity and a symmetric band. At the same time, the SBV also sets targets for monetary aggregates and credit growth consistent with the inflation target approved by the National Assembly. To achieve the quantitative target, the SBV makes use of a range of conventional monetary instruments alongside some administrative controls. It also employs moral suasion.

A mixture of controls on prices and quantities in the conduct of monetary policy without readily accessible lender of last resort facilities has led to interest rate volatility. The daily operations involve liquidity forecasting and the use of OMOs, particularly in the form of repurchase agreements at different tenors ranging from 7 to 28 days. Currently, both prices (OMO rates) and quantities (amount offered) are set by the SBV for all tenors. As such, market signals on liquidity conditions and market expectations on the policy direction cannot be fully reflected particularly when offered quantities become binding constraints. Impaired market signals may prevent the SBV from managing liquidity effectively. Furthermore, administrative procedures[3] have made refinancing and rediscount facilities less

---

[1] Under the old SBV law, promoting economic growth was also included in the objectives, which had a significant influence over the stance of monetary policy

[2] Controls apply to all transactions in capital and money market instruments and in collective investment securities.

[3] Request processing for approval, which includes verification of collaterals and purposes of fund usage, may take up to two days.

accessible as the true lender of last resort. As a result, immediate or unexpected short-term liquidity shortage needs to be accommodated by repurchase and/or interbank market transactions leading to volatile money market rates. When banks with significant liquidity shortage, particularly at year-end and during Tet holidays, were unable to engage in repurchase transactions due to lack of collaterals, the overnight interbank rate could shoot up, which partly explains the volatility observed earlier in 2010. To help minimize interest rate volatility, the SBV might also revisit earlier technical assistance recommendations to establish standing facilities to create an interest rate corridor.

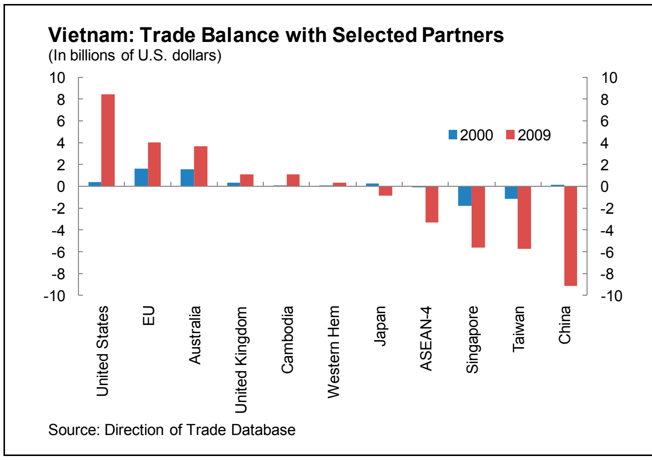
APPENDIX V. VIETNAM: CHANGES IN TRADE PATTERNS DURING 2000–09

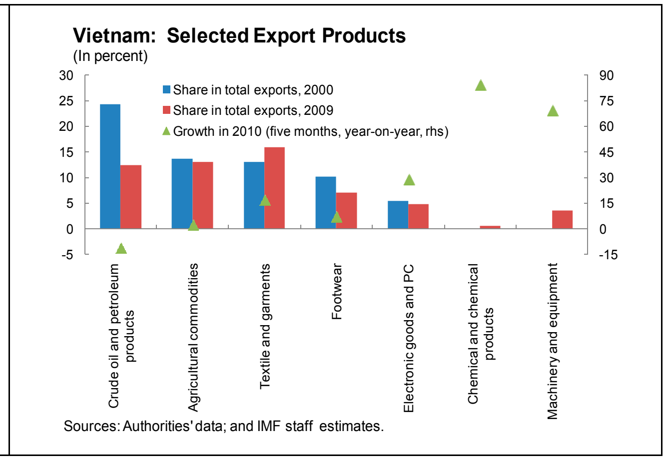
Vietnam's trade with the outside world has achieved an impressive average annual growth above 20 percent between 2000 and 2008. Trade slowed down somewhat in 2009 due to the global recession.

During the period, Vietnam benefited from new markets and strong demand for commodities. The U.S. domestic market was truly opened up for exports from Vietnam by the U.S.-Vietnam bilateral trade agreement, which came into effect in November 2001. Exports to the United States doubled in 2002, and the U.S. market became the largest destination of exports in early 2007. It currently accounts for about 20 percent of total Vietnamese exports. While new markets are being developed, especially in Canada and other countries in the Western Hemisphere and Europe, the share of exports to more traditional markets of ASEAN and other regional countries, especially neighboring Cambodia, started to rise again recently, raising expectations for potential future growth. China is an important market for commodity exports from Vietnam, while it is the largest supplier of imports to Vietnam, overtaking Japan. Thus, the bilateral trade balance with China has turned from a surplus of US$135 million in 2000 to a deficit of about US$10 billion in recent years, accounting for over half of Vietnam's overall trade deficit.

Exports items such as footwear, textiles, and garments, and major commodities have driven the growth, but there are signs that room for further growth may be limited. Concerns over competitiveness of its labor intensive industries are increasing, owing to rising wages and shortage of qualified workers. The ship-building industry has grown rapidly, bringing Vietnam to the fifth largest exporter in the world, but its future growth may be hampered by competition and by uncertain financial prospects for the dominant ship-building SOE. Oil fields are maturing and thus difficult to maintain production levels, and new domestic fields are harder to develop. Major agricultural products have experienced unstable production conditions amid volatile world and domestic prices. More recently, exports of more value-added items such as computer components, electronics, and machinery and equipment have posted significant growth, although their share in the total exports remains relatively modest. These new sectors could become the next driver for exports.

Imports have been driven by strong development needs (e.g., machinery and equipment, and steel), as well as by the need to import for processing trade (e.g., intermediary goods). Because of the latter, rising exports are usually accompanied by increasing imports. Although Vietnam is an oil-producing country, it imports most of petroleum products for domestic use, due to the lack of refinery capacity. In addition, imports of vehicles have increased as income levels rise especially in the city area. Luxury goods have also begun to flow in, albeit in a comparatively small amount in the value terms. Share of consumer goods in total imports have slightly declined, partially replaced by unofficial cross-border trade. The China-ASEAN free trade agreement, which took effect January 1, 2010, could somewhat facilitate more Vietnamese exports to the world's most populous market. However, it would be more likely to intensify the current trade deficit and challenges. Under the agreement, Vietnam will have to gradually reduce tariffs on most Chinese goods and eliminate them entirely in 2015. Major industries, particularly those manufacturing consumer goods, should face harsher direct competition from China in both domestic and regional markets. Therefore, identifying a new trade strategy, including supporting high value-added industries and finding new niche products and markets, will be an urgent task for Vietnam to achieve sustainable medium-term growth.





INTERNATIONAL MONETARY FUND AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

VIETNAM

Joint IMF/World Bank Debt Sustainability Analysis 2010[1]

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

Approved by Masahiko Takeda and Dhaneshwar Ghura (IMF)
and Lili Liu and Vikram Nehru (IDA)

July 7, 2010

This document presents the joint IMF-World Bank debt sustainability analysis (DSA) for Vietnam using the Debt Sustainability Framework for Low-Income Countries (LIC).[2] *Vietnam remains at low risk of debt distress, although the debt indicators have deteriorated due to the negative impact of the global crisis and the increased macroeconomic risks since late 2008.*[3] *Under the baseline scenario, all external debt sustainability indicators are projected to remain well below their applicable debt thresholds. Under the standard sensitivity analysis, only one indicator (the present value (PV) of debt-to-GDP) breaches its threshold marginally and very briefly. The outlook for public sector debt (including domestic debt) is less favorable and hinges on the authorities' ability to (a) substantially narrow the fiscal deficit from the stimulus-induced high of 2009, and (b) consistently issue long-term local currency debt at market-determined yields acceptable to the authorities.*

---

[1] This DSA was prepared jointly by the IMF and World Bank. The staffs also consulted with the Asian Development Bank. The debt data underlying this exercise were provided by the Vietnamese authorities and donor partners. Data beyond end-2009 are staffs projections.

[2] See "Debt Sustainability in Low-Income Countries: Proposal for an Operational Framework and Policy Implications" (www.imf.org/external/np/pdr/sustain/2004/020304.htm and IDA/SECM2004/0035, 2/3/04), "Debt Sustainability in Low-Income Countries: Further Considerations on an Operational Framework, Policy Implications" (www.imf.org/external/np/pdr/sustain/2004/091004.htm and IDA/SECM2004/0629, 9/10/04), and reference to "Staff Guidance Note on the Application of the Joint Bank-Fund Debt Sustainability Framework for Low-Income Countries" (http://www.imf.org/external/pp/longres.aspx?id=4419).

[3] Vietnam's policies and institutions, as measured by the World Bank's Country Policy and Institutional Assessment (CPIA), averaged 3.8 over the past three years, placing it as a "strong performer." The relevant indicative thresholds for this category are: 50 percent for the PV of debt-to-GDP ratio, 200 percent for the PV of debt-to-exports ratio, 300 percent for the PV of debt-to-revenue ratio, 25 percent for the debt service-to-exports ratio, and 35 percent for the debt service-to-revenue ratio. These thresholds are applicable to public and publicly-guaranteed external debt.

I. Background and Baseline Assumptions

1. **Vietnam's external debt position has historically been robust, but has been negatively affected by the global crisis and domestic macroeconomic instability since late 2008.** Most of Vietnam's external debt is concessional with long maturity and a fairly diversified currency composition.[4] Vietnam has access to large foreign direct investment (FDI) inflows, providing significant nondebt-creating financing. However, the recent global crisis led to an economic slowdown and declines in exports and imports, remittances, and FDI. The stimulus measures helped support GDP growth in 2009, but resulted in significant widening in trade deficit which, in turn, contributed to a loss of confidence in the currency. Large private capital outflows (as domestic residents switched their dong-denominated assets into foreign currency-denominated assets or gold) led to severe loss in international reserves, and finally depreciations of the exchange rate. As a result, Vietnam's total external debt (including the private sector) increased by 7 percentage points to 40¾ percent of GDP by end-2009,[5] and the PPG external debt increased by 4 percentage points to 30½ percent of GDP by end-2009.

Public and Publicly-Guaranteed External Debt at End-2009 by Main Creditors

(In percent of GDP)

Creditors	Debt Holdings
Multilaterals	
The IMF	0.1
The World Bank	7.0
The Asian Development Bank	4.1
Other	0.5
Bilaterals	
Japan International Cooperation Agency	9.3
Other	5.5
Commercial	4.2
Total	30.6

Sources: Vietnamese authorities; and staff estimates.

2. **Domestic public debt[6] has historically been manageable, although risks have increased with recent macroeconomic instability.** Public sector debt in this analysis refers to debt of the general government and debt guaranteed by the central government. Debts of the state-owned enterprises (SOEs) not guaranteed by the government are excluded from public sector debt (except Vietnam Development Bank (VDB), whose nonsecuritized domestic debts are also included in the public sector debt) due to data limitations. Vietnam's domestic public debt has remained at around 17–18 percent of GDP over the past three years. Domestic financing needs have traditionally been met comfortably through borrowing at low or negative

[4] Information on Vietnam's creditors can be found in the Ministry of Finance's External Debt Bulletin at www.mof.gov.vn.

[5] In this analysis, all external debt and debt service ratios are calculated using the interbank exchange rate, which is the "effective" exchange rate. The authorities calculate external debt ratios using the official exchange rate, according to which the total external debt (including private sector) is about 39½ percent of GDP by end-2009.

[6] Public sector debt in this analysis is in gross terms.

real interest rates from captive banks and other quasi-government entities. However, with financing needs rising sharply due to economic expansion and the recent stimulus, these sources have been pressured, while issuance of marketable securities remains constrained by the authorities' unwillingness to pay the market clearing interest rate.

3. **The assessment of Vietnam's debt situation has not changed significantly since the last DSA, despite a higher level of debt than projected previously.** The PPG external debt increased for about 4 percentage points of GDP from 2008 to 2009 in nominal terms, and the PV of public and publicly-guaranteed (PPG) external debt in 2009 is about 9 percentage points higher than projected in the last DSA. Although the GDP growth, noninterest current account deficit, FDI, and aid inflows in 2009 were better than, or close to, the projections in the last DSA, large private capital outflows (mostly reflected in the errors and omissions, amounting to about 13 percent of GDP) led to an increase in debt-creating flows beyond the identified financing gap (the unidentified debt-creating flows are recorded as "residual" in the DSA summary tables). The "residual" explains about 7 percentage points of the increase in the PV of PPG external debt in 2009 relative to the last DSA, while the change in discount factor from 5 percent to 4 percent in the template explains the remaining 2 percentage points. Domestic financing of the government deficit is estimated to have soared above 5 percent of GDP in 2009, in line with the fiscal stimulus. About half of this financing was obtained via drawdown of government deposits; the rest came in the form of nonmarket loans from Vietnam Social Security Fund, State Capital Investment Corporation (SCIC), and the banking system.[7]

Public and Publicly-Guaranteed External Debt by End-2009: Projections in the Previous DSA vs. Actual Data

(In percent of GDP)

	Previous DSA	Current DSA
External debt (nominal)	31.9	40.7
Of which: Public and publicly-guaranteed (PPG)	26.0	30.6
Identified net debt-creating flows	3.3	0.3
Noninterest current account deficit	7.0	7.1
Net FDI (negative = inflow)	-3.4	-6.8
Endogenous debt dynamics	-0.3	0.0
Residual	-1.1	6.9
PV of PPG external debt	18.0	26.7
PPG debt service-to-exports ratio (in percent)	1.4	2.0
PPG debt service-to-revenue ratio (in percent) 1/	3.7	5.2
Real GDP growth (in percent)	4.8	5.3
GDP deflator in U.S. dollar terms (change in percent)	-3.9	-2.0
Effective interest rate (in percent)	3.7	3.3
Growth of exports of G&S (in U.S. dollar terms, in percent)	-15.2	-9.8
Growth of imports of G&S (in U.S. dollar terms, in percent)	-19.3	-13.3
Government revenues (excluding grants, in percent of GDP	23.8	26.3
Aid flows (in billions of U.S. dollars)	1.6	4.0
Of which: Grants	0.2	0.4
Of which: Concessional loans	1.7	3.6
Memorandum items:		
Nominal GDP (in billions of U.S. dollars)	90.6	93.2
Nominal dollar GDP growth	0.8	3.2
PV of PPG external debt (in billions of U.S. dollars)	16.3	23.9

Sources: Vietnamese authorities; and staff estimates.
1/ Revenue excludes grants.

[7] Includes a claim of 0.6 percent of GDP in respect of State Bank of Vietnam's payment of the interest subsidy cost.

4. **The main baseline assumptions underlying the DSA are summarized in Box 1.** A critical assumption is that Vietnam will continue to pursue sound macroeconomic and financial policies and press ahead with structural reforms to maintain macroeconomic stability, support growth, and reduce poverty. Based on these assumptions, GDP growth is expected to accelerate to 6½ percent in 2010 and to 7½ percent in 2015, underpinned by buoyant private investment, consumption, and non-oil exports. As exports and remittances rebound and imports are contained by prudent monetary policy and fiscal consolidation, the noninterest current account deficit is projected to gradually decline from about 7 percent of GDP in 2009 to 3½ percent in 2015, further down to 2¼ percent in 2020, and finally reverse into a small surplus by 2030. As investors' confidence restores, FDI and portfolio inflows are expected to recover, official development assistance (ODA) is projected to pick up in the near term, in line with donors' commitment in the last Consultative Group (CG) meeting. Reserve coverage is expected to improve from about 2 months by end-2009 to about 3 months by 2015 and to about 3½ months by end-2030.[8] The primary fiscal deficit is projected to decline from 7½ percent of GDP in 2009 to 2½ of GDP in 2010–15, as non-oil revenues recover, stimulus-related surge in investment spending unwinds, and other investment expenditures consolidate, consistent with the earlier government announcements in the context of the five-year financial plan accompanying the 2011–15 Social Economic Development Plan (SEDP). In the longer term, the primary fiscal deficit is expected to continue declining gradually and reach about 1 percent of GDP at the end of the projection horizon.

II. External Debt Sustainability Analysis[9]

5. **PPG external debt is likely to remain manageable, despite the deterioration of the debt indicators relative to the last DSA.** The PV of PPG external debt stock by end-2009 reached about 27 percent of GDP. Although the ratio is higher than projected in the last DSA, it remains much lower than the threshold of 50 percent of GDP. Other PPG external debt and debt service indicators also remain well below the applicable debt thresholds, suggesting that Vietnam's current PPG external debt position is likely to be manageable.

---

[8] Increases in GIR are reflected as positive "residuals" in the DSA summary tables. In outer years, as import-to-GDP ratio increases, an improvement in reserve coverage relative to prospective imports leads to a gradual increase in "residuals" (in percent of GDP).

[9] This analysis focuses on PPG external debt, which accounts for more than 80 percent of total external debt. Private external debt is largely associated with foreign-invested projects, and hence is more self-sustainable.

Box 1: Key Macroeconomic Assumptions for Baseline Scenario (2010–30)

Real GDP growth is projected to be 6½ percent for 2010 and to gradually increase to about 7½ percent in 2015. Real GDP growth will average at about 7 percent per year during 2010–15 (below the 10-year historical average of 7.3 percent). It will thereafter remain at 7½ percent for a decade and then decline slightly, as Vietnam's level of development and demography begins to converge to those of more advanced neighbors.

Inflation is projected to increase from 6¾ percent in 2009 to 10½ percent in 2010 as economic activities recover and commodity and food prices rise. Inflation will then gradually decline to 5 percent in 2015 and will remain at that level through 2020. Thereafter, a further decline is assumed reflecting productivity gains.

The current account deficit is projected to narrow from 10¾ percent of GDP in 2009 (excluding gold re-exports) to 9 percent of GDP in 2010. It will gradually narrow to about 4½ percent in 2015 as exports and remittances pick up in line with the global recovery. In the longer term, as the main exports shift toward higher value-added products, current account deficit will gradually narrow and will finally reverse into a very small surplus in 2030. As Vietnam continues high growth in the longer term, remittances (whose growth tends to be in line with the GDP growth rate in the U.S., the largest source country of remittances to Vietnam) as a share of GDP will decline from 6½ percent of GDP in 2009 to 4 percent in 2030.

The financial account surplus will fall from about 12 percent of GDP in 2009 to 9 percent in 2015 and remain at that level throughout the projection horizon. The nondebt-creating part of FDI will decrease from about 7 percent of GDP in 2009 to about 3 percent in 2030. Concessional official development assistance is assumed to decline from US$3.6 billion in 2009 to about US$1.1 billion by 2030. Commercial borrowing, on the other hand, is projected to increase from about 29 percent of total PPG external borrowing to about 92 percent in 2030.

The reserve coverage is likely to remain low at about 2 months of prospected imports by end-2010, but will gradually recover to about 3 months by end-2015 and increase further to 3½ months by end-2030.

Effective interest rates on foreign borrowing will gradually increase from around 3.3 percent in 2009 to above 4.1 percent by 2030, as the share of concessional loans in total debt gradually declines.

The overall fiscal deficit (including off-budget expenditure and onlending; but excluding VDB net lending) will moderate from 8.9 percent of GDP in 2009 to 3.3 percent of GDP by 2015 and stabilize at about 3 percent of GDP in the long run (correspondingly, the primary deficit is projected to narrow from 7½ percent of GDP in 2009 to 1¾ percent of GDP). The adjustment will be frontloaded, in line with an unwinding of the 2009 stimulus-related surge in investment spending, so that the deficit will narrow to below 6 percent of GDP by 2010. Of the remaining 2½ percentage point of GDP fiscal effort in 2011–15, four-fifths will come from the expenditure side, considering Vietnam's high expenditure ratio. Although aggregate revenues will rise by only ½ percentage point of GDP (to 27½ percent of GDP in 2015), non-oil domestic revenues will rise by 1½ percentage points of GDP to offset the decline in oil revenues, import tariffs and grants. As such the implied improvement in the non-oil primary balance (share of GDP) is about 3 percent of GDP.

Net domestic financing (NDF) is expected to decline through 2013 (to 0.3 percent of GDP), due to the expected increase in ODA disbursements in the coming two years as donors committed in last year's CG meeting, coupled with the assumed fiscal adjustment. However, the financing mix will shift toward domestic sources after that, and NDF will rise to 1.7 percent and 2.1 percent of GDP in 2015 and 2016–30, respectively. The net domestic financing figures mask somewhat the bulge in gross issuance requirements arising from the increase in domestic bond redemptions to 1¼ percent of GDP (annually) during 2010–12.

Contingent liabilities or exceptional financing items are not assumed.

6. **Under the baseline scenario, the PV of PPG external debt and debt service are projected to initially rise in relation to GDP, exports, and government revenue, followed by a decline over the longer term.** In terms of averages over the whole projection period, the PV of PPG external debt ratios are expected to decrease relative to the ratios in 2009, while the debt service-to exports ratio is projected to remain flat, and the debt service-to-revenue ratio is projected to be higher as an average between 2010 and 2030 relative to 2009, reflecting a shift toward more commercial borrowing in PPG external debt. With remittances included in the denominator of debt indicator calculations, the above results hold as well.

Policy-Based Public and Publicly-Guaranteed External Debt Burden Thresholds for Vietnam

	Thresholds	Vietnam's Ratios	
		2009	2010–30 1/
PV of debt in percent of:			
GDP	50	27	23
Exports	200	40	24
Revenues	300	101	88
Debt service in percent of:			
Exports	25	2	2
Revenues	35	5	9

Sources: Vietnamese authorities; and staff estimates.
1/ Average for the period, under the baseline scenario.

7. **Stress tests indicate that the PV of PPG external debt is most sensitive to a loss of access to nondebt-creating flows and a slowdown in exports.** The most extreme stress test—defined as the test that triggers the highest debt ratio in 2020—is a combination shock.[10] Under such a shock, the PV of PPG external debt in relation to GDP would breach the threshold in 2012 and 2013 (at 51 percent of GDP) before trending down below the threshold. Within the combination shock, a loss of access to nondebt-creating flows and a slowdown in exports seem to play the most important roles. The vulnerability of the debt dynamics vis-à-vis export proceeds can also be seen by the marginal breach of the PV of external debt-to-GDP for two consecutive years when export performance is weaker than expected. The results should however be downplayed as the standard assumptions[11] for the combination shock and export shock tend to be severe and are unlikely to materialize. Similarly, other PPG external debt indicators are most sensitive to the combination shock and the export shock, but they remain well below the applicable thresholds even under the most extreme stress tests. Results remain the same when remittances are included in the denominator of debt indicator calculations.

[10] A combination shock assumes: (i) real GDP growth at historical average minus one-half standard deviation in 2011–12; (ii) export value growth at historical average minus one-half standard deviation in 2011–12; (iii) U.S. dollar GDP deflator at historical average minus one-half standard deviation in 2011–12; and (iv) net nondebt-creating flows at historical average minus one-half standard deviation in 2011–12.

[11] Including the assumption pertaining to the borrowing terms of the residual financing induced by the shocks (i.e., the average grant element is -5 percent).

III. Public Debt Sustainability Analysis

8. **The current and medium-term public debt indicators have worsened somewhat relative to the previous DSA.** The PV of public sector debt at end-2009 is estimated at 45 percent of GDP, 5 percentage points above the previous DSA baseline projection; the debt service-to-revenue ratio (revenues excluding grants) during 2010–15 is also about 3–4 percentage points of GDP higher than projected. The nominal debt-to-GDP ratio (49 percent of GDP at end-2009) is similarly projected to peak at over 51.3 percent of GDP in 2010 (rather than at 50.8 percent in 2012), before falling to 48 percent of GDP by 2015.

9. **These trends largely reflect the fiscal expansion implemented in the context of the global economic crisis.** The stimulus measures (estimated to have cost over 5 percent of GDP in net terms), particularly the hike in investment spending, pushed the 2009 overall deficit to almost 9 percent of GDP. Although the stimulus package did support growth (ceteris paribus, the debt ratio fell by 2.2 percentage points of GDP due to nominal growth) and much of it was financed domestically (including 2½ percent of GDP via nondebt increasing deposit drawdown), the concomitant increase in foreign currency borrowing and commitments (both concessional and commercial) through 2012, and the aggravating effect of exchange rate depreciations in 2009 and early 2010, contributed to an increase in debt.[12]

10. **The standard stress tests indicate the importance of reining in public finances over the medium term.** A perpetuation of the 2009 fiscal deficit level would be unsustainable, and would push the PV of debt to near 60 percent of GDP by 2015. A less ambitious adjustment than assumed in the baseline may not provide a sufficient hedge against a large exchange rate shock. As shown in one stress test, a one-time 30 percent real depreciation in 2011 could push debt near 60 percent of GDP in one year, given that more than 60 percent of public sector debt is denominated in foreign currency by end-2009. Against this backdrop, the authorities' plans to undertake spending-led, medium-term fiscal adjustment in the context of the SEDP 2011–15, as well as impose ceilings on nominal public and external debt at 50 percent of GDP, are steps in the right direction.[13] Over time, and consistent with the DSA results, a sufficiently prudent fiscal policy would deliver debt

---

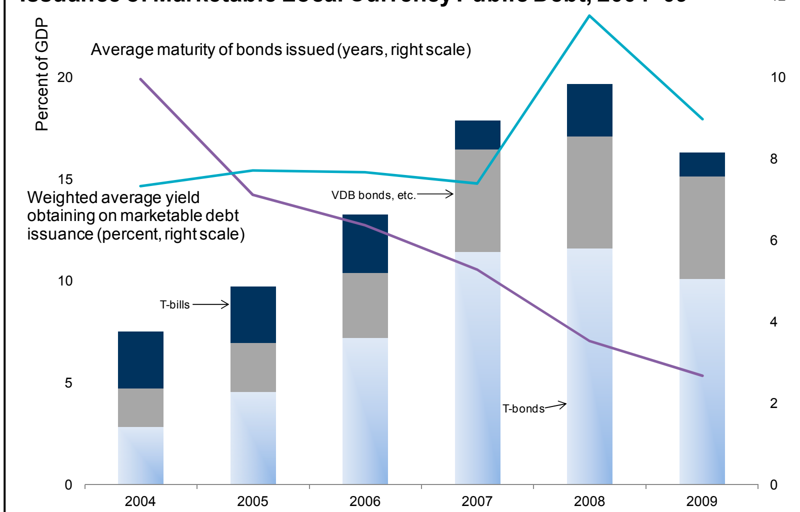
[12] On the concessional side, official loan disbursements will increase from about US$1.5 billion a year during 2005–08 to about US$2 billion (on average) a year in 2009–12 before moderating to about US$1.2 billion a year during 2013–15. A significant part of this increase was motivated by the desire to help the government fund its stimulus package for 2009–10 (as well as bridge the induced external deficits). On the commercial side, Vietnam issued a 6.9 percent 10-year bullet repayment sovereign bond of US$1billion in January 2010 (about 1 percent of GDP). This is the country's second sovereign bond; the first was issued in 2005 also as a 10-year bond, but in the amount of US$750 million. In addition, the government issued about 0.5 percent of GDP in shorter-term foreign currency denominated domestic bonds in 2009 (maturing before 2012).

[13] Under the authorities' definition, which excludes certain banking system claims and implicitly guaranteed debt of the VDB, and converts external debt at official rather than market exchange rates, public and publicly-guaranteed debt was 44 percent of GDP at end-2009.

trajectories that are consistent with even lower nominal debt thresholds, such as 40 percent of GDP, as is more customary for small emerging economies and considering Vietnam's potential contingent risks linked to its large SOE sector, low reserve buffer, and emerging domestic debt vulnerabilities (see below).

11. **The authorities need to factor in the additional vulnerability implied by a shortening of domestic debt maturities.** There has been an unmistakable decline in the maturity of public sector marketable securities issued, from 10 years in 2004 to just over 2 years in 2009. While some of this is traceable to the liquidity squeeze in the aftermath of the global financial crisis, the trend appears to indicate a supply appetite (as evidenced by the increase in amounts issued through 2008) that has almost exhausted demand at current interest rates. To ensure a smooth rollover of maturing debt obligations in the coming years and cultivate the ability to borrow long term in local currency, a review of the current low interest rate ceiling and of the microstructure of Treasury auctions would be important.

Issuance of Marketable Local Currency Public Debt, 2004–09



Source: Ministry of Finance, HASTC, and State Bank of Vietnam.

12. **The authorities are strengthening public debt management.** Public debt management and reporting have traditionally been fragmented. As Vietnam gradually moves from concessional financing to more market-based financing, and given the potential maturity, refinancing, and currency risks over the medium term, improving debt management capacity and reporting (especially to markets) are essential. Against this backdrop, the authorities passed the 2009 Public Debt Management Law, and four accompanying decrees are currently under preparation. The integration of external and domestic public debt management reporting under the Ministry of Finance debt department is ongoing.

IV. Conclusion

13. **Vietnam remains at low risk of external debt distress, but debt indicators have deteriorated due to the negative impact of the global crisis and the increased macroeconomic risks in late 2009.** Compared with the last DSA, the projected PPG external debt ratios and projected path are less favorable, but still remain well below indicative thresholds under the baseline scenario. Under the sensitivity analysis, one indicator (PV of

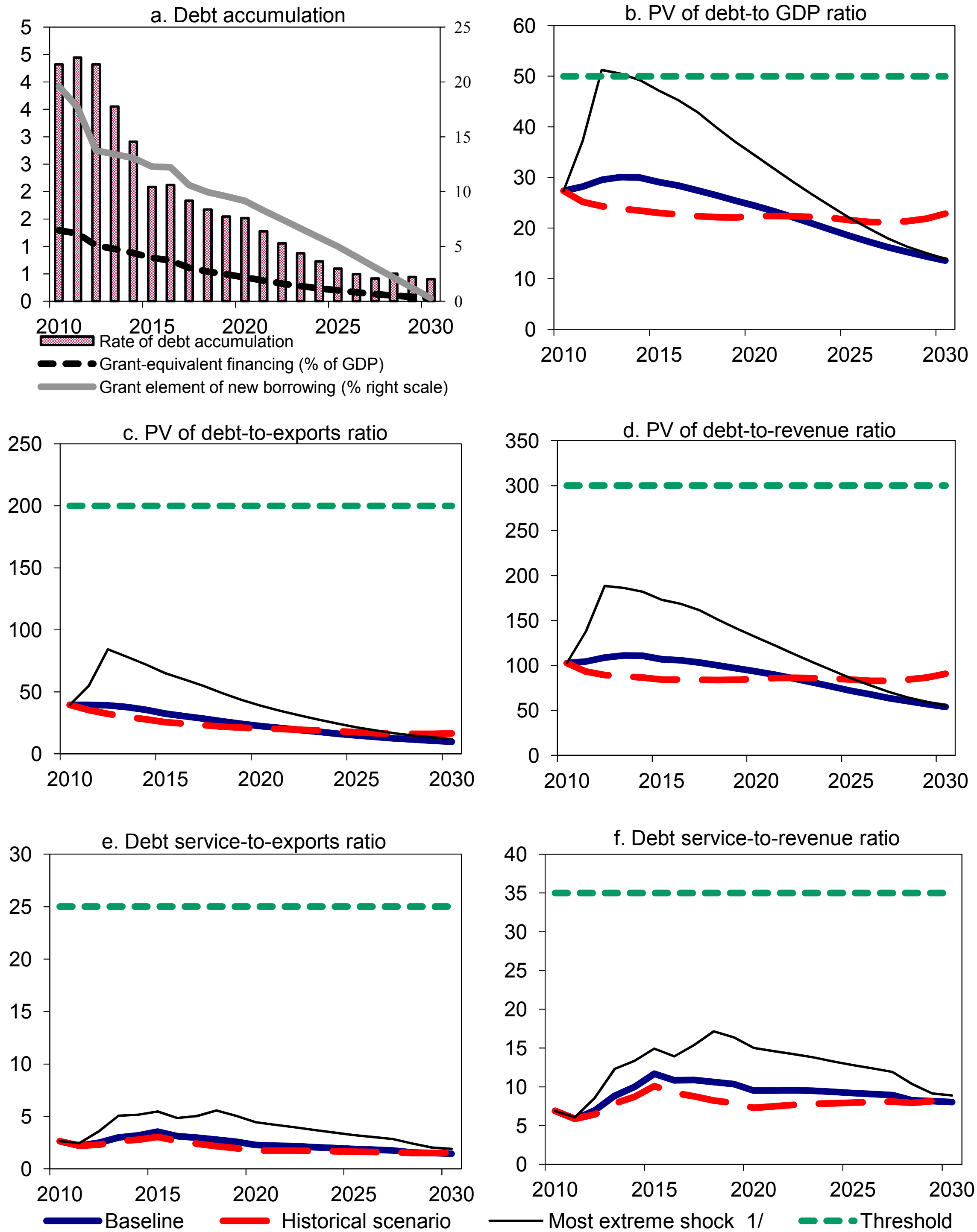
PPG external debt-to-GDP ratio) breaches the threshold very briefly and marginally under two tests, while the others remain below the applicable thresholds.

14. **Public debt indicators have been adversely impacted by the global downturn and the large stimulus package implemented in 2009.** Vietnam's end-2009 fiscal deficit and public sector debt, at 9 and 49 percent of GDP, respectively, are more elevated than the levels projected in the previous DSA. Given Vietnam's prospective, albeit gradual, graduation from concessional external financing over the medium term, and the currency and refinancing risks highlighted above, there appears less cause for complacency than before on the fiscal front.

15. **The above debt sustainability results depend critically on the underlying assumptions.** The key assumptions include: (i) a fiscal adjustment that reduces the overall deficit to about 3 percent of GDP in order to anchor public sector debt to below 50 percent of GDP by 2015 and toward 40 percent of GDP thereafter; (ii) healthy export growth and continued dynamism of the Vietnamese economy more generally; (iii) continued access to non-debt-creating external financing, especially private remittances and FDI; and (iv) continued access to concessional financing by multilateral and bilateral sources in the medium term.

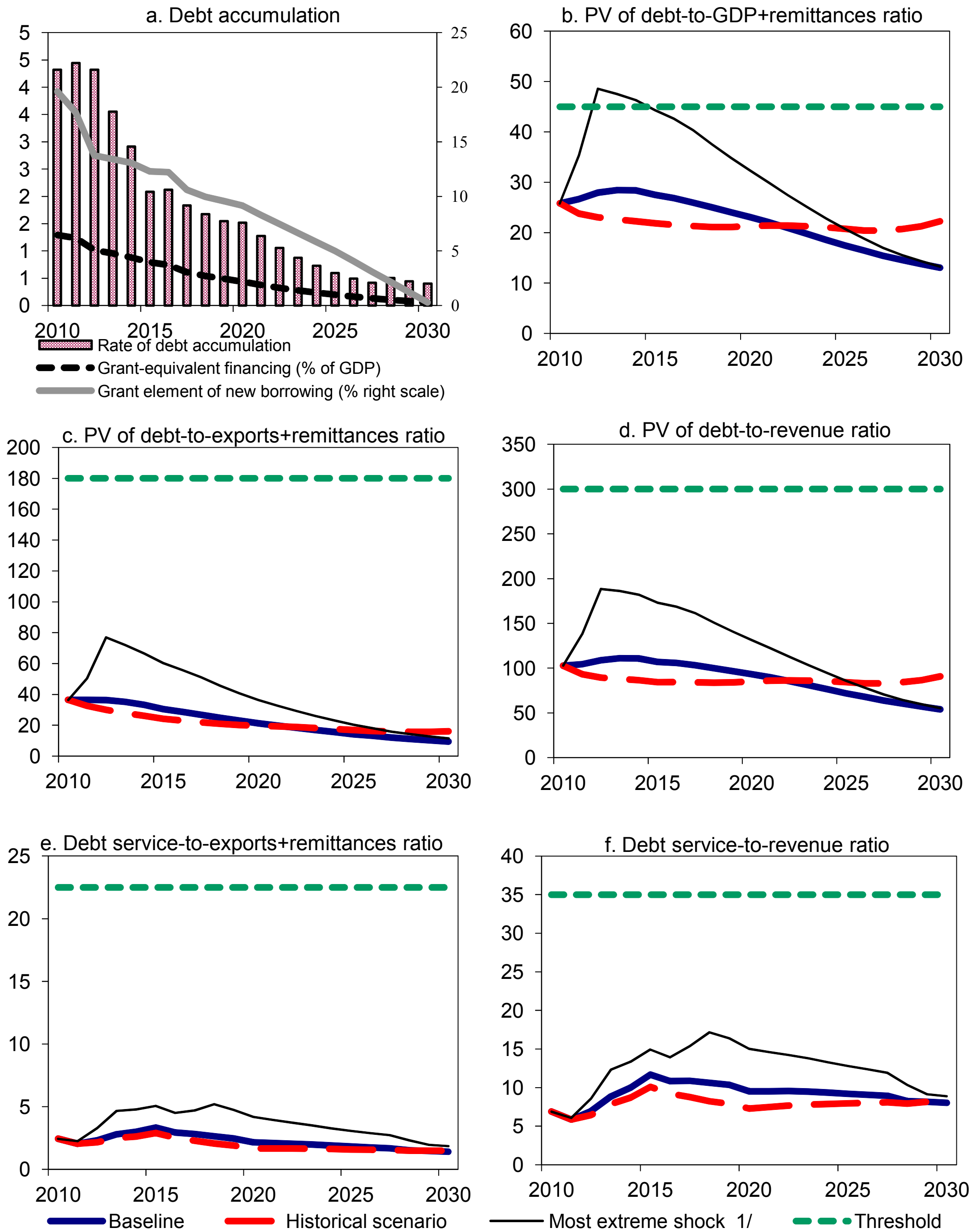
16. **A risk that deserves special attention is the possible impact of potential government contingent liabilities.** Given inadequate information on the true net worth of state-owned enterprises, it is not possible to quantify the fiscal risks posed by the sector. However, the experience of recent state-owned commercial bank recapitalizations and support to Vinashin (a state-owned maritime company) suggests the need for added caution when projecting the net contribution from SOEs to fiscal aggregates (both stocks and flows).

Figure 1. Vietnam: Indicators of Public and Publicly-Guaranteed External Debt under Alternatives Scenarios, 2010–30 1/



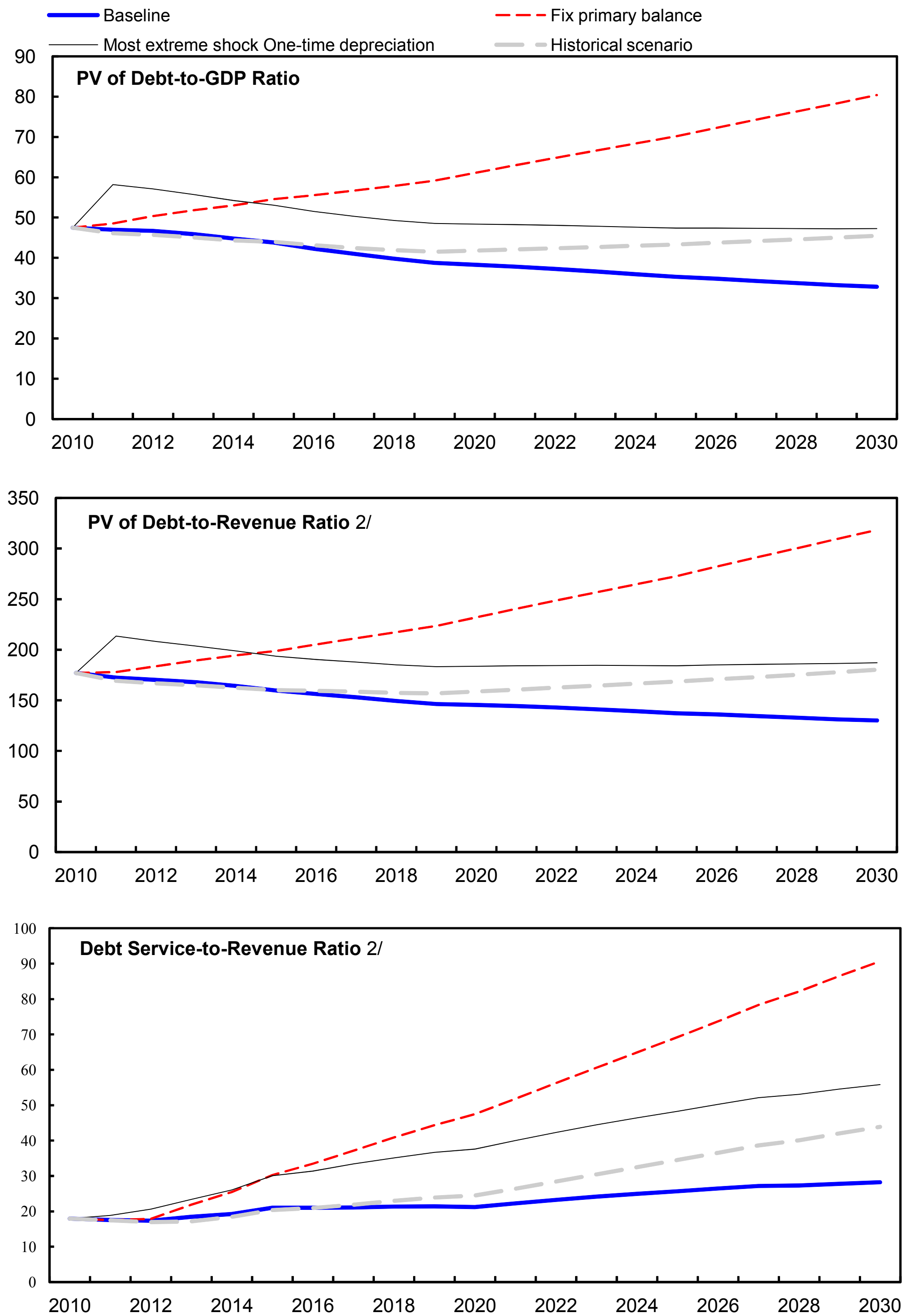
Sources: Vietnamese authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2020. In figure b. it corresponds to a Combination shock; in c. to a Exports shock; in d. to a Combination shock; in e. to a Exports shock and in figure f. to a Combination shock.

Figure 2. Vietnam: Indicators of Public and Publicly-Guaranteed External Debt under Alternative Scenarios with Remittances, 2010–30 1/



Sources: Vietnamese authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2020. In figure b. it corresponds to a Combination shock; in c. to a Exports shock; in d. to a Combination shock; in e. to a Exports shock and in figure f. to a Combination shock.

Figure 3.Vietnam: Indicators of Public Debt Under Alternative Scenarios, 2010–30 1/



Sources: Vietnamese authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2020.
2/ Revenues are defined inclusive of grants.

Table 1a. Vietnam: Public Sector Debt Sustainability Framework, Baseline Scenario, 2007–30

(In percent of GDP, unless otherwise indicated)

	Actual			Average	Standard Deviation	Estimate	Projections								
	2007	2008	2009			2010	2011	2012	2013	2014	2015	2010–15 Average	2020	2030	2016–30 Average
Public sector debt 1/	45.6	43.9	49.0			51.3	50.9	50.8	50.0	49.0	48.0		41.7	34.6	
Of which: Foreign-currency denominated	28.0	26.8	31.2			31.6	33.1	34.5	35.1	35.1	34.4		29.5	18.3	
Change in public sector debt	2.6	-1.6	5.1			2.3	-0.4	-0.2	-0.7	-1.1	-1.0		-0.6	-0.5	
Identified debt-creating flows	-4.5	-7.6	5.7			-0.6	-2.1	-1.5	-1.6	-1.5	-1.6		-1.1	-0.4	
Primary deficit	0.7	-0.3	7.4	2.2	2.3	4.5	2.9	2.3	2.1	2.0	1.7	2.6	1.5	0.9	1.3
Revenue and grants	28.7	29.0	26.7			26.9	27.2	27.4	27.3	27.3	27.4		26.3	25.2	
Of which: Grants	0.5	0.6	0.4			0.3	0.3	0.3	0.2	0.2	0.2		0.1	0.0	
Primary (noninterest) expenditure	29.3	28.7	34.0			31.3	30.2	29.7	29.4	29.3	29.2		27.8	26.2	
Automatic debt dynamics	-5.2	-7.3	-1.6			-5.0	-5.0	-3.8	-3.7	-3.5	-3.4		-2.6	-1.4	
Contribution from interest rate/growth differential	-3.9	-5.0	-1.9			-3.2	-3.8	-3.4	-3.4	-3.3	-3.1		-2.4	-1.3	
Of which: Contribution from average real interest rate	-0.5	-2.3	0.4			-0.3	-0.5	-0.1	0.0	0.2	0.3		0.6	1.0	
Of which: Contribution from real GDP growth	-3.3	-2.7	-2.2			-3.0	-3.3	-3.4	-3.4	-3.5	-3.4		-3.0	-2.3	
Contribution from real exchange rate depreciation	-1.3	-2.3	0.2			-1.8	-1.2	-0.4	-0.3	-0.2	-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	7.2	5.9	-0.6			2.8	1.8	1.3	0.9	0.5	0.6		0.5	-0.1	
Residual, including asset changes															
Other Sustainability Indicators															
Present value (PV) of public sector debt	…	…	45.1			47.5	47.0	46.7	45.9	44.8	43.8		38.3	32.8	
Of which: Foreign-currency denominated	…	…	27.2			27.8	29.1	30.4	31.0	30.9	30.2		26.0	16.5	
Of which: External	...	...	26.7			27.3	28.2	29.6	30.1	30.0	29.1		24.4	13.6	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	6.1	4.2	12.9			9.9	8.6	8.6	8.6	8.7	8.9		9.0	11.8	
PV of public sector debt-to-revenue and grants ratio (in percent)	…	…	169.0			177.0	172.4	170.2	167.8	164.2	159.7		145.4	130.1	
PV of public sector debt-to-revenue ratio (in percent)	…	…	171.5			178.7	174.0	171.8	169.3	165.7	161.1		146.2	130.4	
Of which: External 3/	…	…	101.5			102.8	104.5	108.8	111.0	110.9	107.0		93.3	53.9	
Debt service-to-revenue and grants ratio (in percent) 4/	12.6	13.1	16.6			17.9	17.5	17.3	18.4	19.3	21.0		21.2	28.2	
Debt service-to-revenue ratio (in percent) 4/	12.8	13.4	16.9			18.1	17.7	17.5	18.6	19.4	21.2		21.3	28.3	
Primary deficit that stabilizes the debt-to-GDP ratio	-2.0	1.4	2.3			2.2	3.3	2.5	2.8	3.0	2.7		2.2	1.5	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	8.5	6.3	5.3	7.3	1.0	6.5	6.8	7.0	7.2	7.4	7.5	7.1	7.5	7.0	7.3
Average nominal interest rate on forex debt (in percent)	2.3	2.1	2.1	2.3	0.3	2.8	2.2	2.6	2.8	3.0	2.9	2.7	3.1	4.3	3.5
Average real interest rate on domestic debt (in percent)	-2.8	-13.9	0.8	2.6	9.2	-5.2	-4.2	-1.8	-1.6	-1.2	-0.4	-2.4	1.9	3.6	2.5
Real exchange rate depreciation (in percent, + indicates depreciation)	-5.4	-8.6	0.9	-2.0	3.8	-5.9	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	8.2	22.1	6.0	7.6	5.6	10.6	9.0	6.1	5.9	5.6	5.7	7.1	5.7	5.0	5.4
Growth of real primary spending (deflated by GDP deflator, in percent)	0.1	0.0	0.2	0.1	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.0	0.1	0.1	0.1
Grant element of new external borrowing (in percent)	...	...	...	…	…	19.6	17.7	13.8	13.4	13.1	12.3	15.0	9.2	0.3	...

Sources: Vietnamese authorities; and staff estimates and projections.

1/ Gross debt of the general government plus gross debt guaranteed by the 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 2010–30

	Projections							
	2010	2011	2012	2013	2014	2015	2020	2030
PV of debt-to-GDP ratio								
Baseline	48	47	47	46	45	44	38	33
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	48	46	46	45	44	44	42	45
A2. Primary balance is unchanged from 2010	48	49	50	52	53	55	61	80
A3. Permanently lower GDP growth 1/	48	47	47	47	46	45	42	44
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011–12	48	47	48	47	46	46	42	38
B2. Primary balance is at historical average minus one standard deviations in 2011–12	48	49	51	50	48	47	41	35
B3. Combination of B1-B2 using one half standard deviation shocks	48	47	48	48	47	46	40	35
B4. One-time 30 percent real depreciation in 2011	48	58	57	56	54	53	48	47
B5. 10 percent of GDP increase in other debt-creating flows in 2011	48	57	56	55	54	53	46	39
PV of Debt-to-Revenue Ratio 2/								
Baseline	177	172	170	168	164	160	145	130
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	177	169	167	165	162	160	159	180
A2. Primary balance is unchanged from 2010	177	178	184	190	194	199	232	319
A3. Permanently lower GDP growth 1/	177	173	172	170	168	164	159	174
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011–12	177	174	174	173	170	167	158	152
B2. Primary balance is at historical average minus one standard deviations in 2011–12	177	178	184	182	178	173	157	140
B3. Combination of B1-B2 using one half standard deviation shocks	177	174	177	174	171	166	153	139
B4. One-time 30 percent real depreciation in 2011	177	214	208	204	199	193	184	187
B5. 10 percent of GDP increase in other debt-creating flows in 2011	177	209	206	203	198	192	175	154
Debt Service-to-Revenue Ratio 2/								
Baseline	18	18	17	18	19	21	21	28
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	18	17	17	17	18	20	24	44
A2. Primary balance is unchanged from 2010	18	18	18	22	25	30	47	91
A3. Permanently lower GDP growth 1/	18	18	17	19	20	22	24	41
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011–12	18	18	18	19	20	23	25	35
B2. Primary balance is at historical average minus one standard deviations in 2011–12	18	18	18	22	25	26	26	32
B3. Combination of B1-B2 using one half standard deviation shocks	18	18	18	20	22	23	24	31
B4. One-time 30 percent real depreciation in 2011	18	19	21	23	26	30	38	56
B5. 10 percent of GDP increase in other debt-creating flows in 2011	18	18	21	36	30	34	32	37

Sources: Vietnamese authorities; and staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
2/ Revenues are defined inclusive of grants.

Table 3a. Vietnam: External Debt Sustainability Framework, Baseline Scenario, 2007–30 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/	Standard Deviation 6/	Projections									
	2007	2008	2009			2010	2011	2012	2013	2014	2015	2010–15 Average	2020	2030	2016–30 Average
External debt (nominal) 1/	**32.3**	**33.5**	**40.7**			**40.8**	**41.3**	**42.5**	**42.8**	**42.5**	**41.4**		**36.0**	**22.7**	
Of which: Public and publicly-guaranteed (PPG)	28.0	26.8	30.6			31.1	32.2	33.6	34.2	34.2	33.3		27.9	15.4	
Change in external debt	0.8	1.1	7.2			0.1	0.5	1.2	0.3	-0.3	-1.1		-1.2	-1.0	
Identified net debt-creating flows	-1.9	-3.1	0.3			0.2	-0.5	-1.3	-2.4	-3.0	-3.6		-3.9	-4.9	
Noninterest current account deficit	**9.0**	**11.3**	**7.1**	**2.7**	**5.1**	**8.1**	**7.3**	**6.4**	**5.2**	**4.4**	**3.5**		**2.3**	**-1.2**	1.4
Deficit in balance of goods and services	15.8	15.2	10.1			11.8	10.3	9.6	8.8	8.2	7.5		6.6	3.2	
Exports	76.8	77.2	67.5			69.2	71.5	75.6	80.0	84.7	89.7		109.0	138.9	
Imports	92.6	92.4	77.6			81.0	81.8	85.2	88.8	92.9	97.2		115.7	142.1	
Net current transfers (negative = inflow)	-9.0	-8.1	-7.0	-6.5	1.5	-6.4	-6.3	-6.2	-6.2	-6.2	-6.2		-6.0	-4.2	-5.6
Of which: Official	-0.4	-0.6	-0.5			-0.5	-0.5	-0.5	-0.5	-0.5	-0.5		-0.2	-0.1	
Other current account flows (negative = net inflow)	2.2	4.2	3.9			2.8	3.3	3.0	2.6	2.3	2.2		1.7	-0.1	
Net FDI (negative = inflow)	**-7.3**	**-8.2**	**-6.8**	**-4.0**	**2.4**	**-6.7**	**-6.2**	**-6.0**	**-5.9**	**-5.6**	**-5.3**		**-4.8**	**-3.1**	-4.2
Endogenous debt dynamics 2/	**-3.6**	**-6.2**	**0.0**			**-1.3**	**-1.6**	**-1.6**	**-1.7**	**-1.7**	**-1.7**		**-1.4**	**-0.6**	
Contribution from nominal interest rate	0.9	0.7	1.1			1.1	0.9	1.0	1.1	1.1	1.2		1.1	0.9	
Contribution from real GDP growth	-2.3	-1.6	-1.7			-2.4	-2.5	-2.6	-2.8	-2.9	-2.9		-2.5	-1.5	
Contribution from price and exchange rate changes	-2.2	-5.3	0.7			…	…	…	…	…	…		…	…	
Residual (3–4) 3/	**2.7**	**4.2**	**6.9**			**-0.1**	**1.0**	**2.5**	**2.7**	**2.7**	**2.5**		**2.7**	**3.9**	
Of which: Exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	36.7			37.0	37.3	38.4	38.7	38.3	37.3		32.5	20.9	
In percent of exports	...	...	54.4			53.4	52.2	50.8	48.3	45.3	41.6		29.8	15.1	
PV of PPG external debt	**...**	**...**	**26.7**			**27.3**	**28.2**	**29.6**	**30.1**	**30.0**	**29.1**		**24.4**	**13.6**	
In percent of exports	**...**	**...**	**39.5**			**39.5**	**39.4**	**39.1**	**37.6**	**35.4**	**32.4**		**22.4**	**9.8**	
In percent of government revenues	**...**	**...**	**101.5**			**102.8**	**104.5**	**108.8**	**111.0**	**110.9**	**107.0**		**93.3**	**53.9**	
Debt service-to-exports ratio (in percent)	**3.1**	**2.9**	**4.2**			**4.1**	**3.9**	**4.1**	**4.4**	**4.5**	**4.7**		**3.1**	**1.9**	
PPG debt service-to-exports ratio (in percent)	**1.6**	**1.6**	**2.0**			**2.7**	**2.2**	**2.5**	**3.0**	**3.2**	**3.5**		**2.3**	**1.5**	
PPG debt service-to-revenue ratio (in percent)	**4.4**	**4.3**	**5.2**			**6.9**	**5.9**	**7.0**	**8.8**	**10.0**	**11.7**		**9.5**	**8.0**	
Total gross financing need (billions of U.S. dollars)	3.1	5.0	5.1			9.7	10.0	10.2	10.3	10.8	11.4		13.8	17.9	
Noninterest current account deficit that stabilizes debt ratio	8.2	10.1	-0.1			8.0	6.8	5.2	4.9	4.7	4.6		3.5	-0.2	
Key macroeconomic assumptions															
Real GDP growth (in percent)	8.5	6.3	5.3	7.3	1.0	6.5	6.8	7.0	7.2	7.4	7.5	7.1	7.5	7.0	7.3
GDP deflator in U.S. dollar terms (change in percent)	7.6	19.4	-2.0	5.0	6.3	4.8	5.6	3.0	2.8	2.6	2.6	3.5	2.7	2.0	2.4
Effective interest rate (percent) 5/	3.2	2.7	3.3	2.8	0.3	3.0	2.5	2.6	2.8	3.0	3.1	2.8	3.3	4.1	3.5
Growth of exports of G&S (U.S. dollar terms, in percent)	21.5	27.7	-9.8	16.8	12.1	14.4	16.6	16.5	16.6	16.6	16.8	16.3	14.8	11.8	13.1
Growth of imports of G&S (U.S. dollar terms, in percent)	38.0	26.7	-13.3	19.1	14.5	16.4	14.0	14.8	14.9	15.2	15.4	15.1	14.2	11.3	12.7
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	19.6	17.7	13.8	13.4	13.1	12.3	15.0	9.2	0.3	6.4
Government revenues (excluding grants, in percent of GDP)	28.1	28.3	26.3			26.6	27.0	27.2	27.1	27.0	27.2		26.2	25.2	25.9
Aid flows (in billions of U.S. dollars) 7/	1.9	2.5	4.0			1.7	1.8	1.5	1.7	1.6	1.5		1.5	1.4	
Of which: Grants	0.4	0.6	0.4			0.3	0.3	0.3	0.4	0.4	0.4		0.4	0.3	
Of which: Concessional loans	1.5	2.0	3.6			1.4	1.5	1.2	1.3	1.2	1.1		1.1	1.1	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			1.3	1.2	1.0	1.0	0.9	0.8		0.4	0.1	0.3
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			23.3	21.3	17.5	17.3	17.1	16.6		12.9	2.8	9.8
Memorandum items:															
Nominal GDP (in billions of U.S. dollars)	71.1	90.3	93.2			103.9	117.2	129.2	142.4	156.9	173.0		281.3	709.2	
Nominal dollar GDP growth	16.7	26.9	3.2			11.6	12.8	10.2	10.2	10.2	10.3	10.9	10.3	9.1	9.9
PV of PPG external debt (in billions of U.S. dollars)			23.9			28.0	32.6	37.6	42.2	46.4	49.6		67.7	94.9	
(PVt-PVt-1)/GDPt-1 (in percent)						4.3	4.4	4.3	3.5	2.9	2.1	3.6	1.5	0.4	1.0
Gross remittances (in billions of U.S. dollars)	6.2	6.8	6.0			6.1	6.7	7.4	8.1	8.8	9.9		16.3	29.3	
PV of PPG external debt (in percent of GDP + remittances)	...	...	25.0			25.8	26.7	28.0	28.5	28.4	27.5		23.1	13.0	
PV of PPG external debt (in percent of exports + remittances)	...	...	36.1			36.4	36.5	36.4	35.1	33.2	30.5		21.3	9.5	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	1.8			2.4	2.0	2.3	2.8	3.0	3.3		2.2	1.4	

Sources: Vietnamese authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes errors and omissions and changes in gross international reserves (GIR) for historical data and 2010. For 2011-30, residuals mainly reflect changes in GIR (i.e., a positive residual implies an accumulation of GIR). As the reserve coverage is projected to improve from about 2 months in 2010 to about 3.5 months in 2030, and imports increase as a share of GDP, the accumulation of GIR (and hence residuals) in percent of GDP is projected to rise gradually in outer years.

4/ Assumes that PV 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 generally derived over the past 10 years, subject to data availability.

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 PV of new debt).

Table 3b. Vietnam: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2010–30

(In percent)

	Projections							
	2010	2011	2012	2013	2014	2015	**2020**	2030
PV of debt-to GDP ratio								
Baseline	27	28	30	30	30	29	**24**	14
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	27	25	24	24	23	23	**22**	23
A2. New public sector loans on less favorable terms in 2010-2030 2	27	30	32	34	35	35	**34**	25
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	27	28	29	30	29	28	**23**	12
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	27	35	51	51	49	47	**34**	13
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	27	30	32	33	32	31	**26**	13
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	27	34	41	40	40	38	**29**	13
B5. Combination of B1-B4 using one-half standard deviation shocks	27	37	51	51	49	47	**34**	14
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	27	39	40	41	41	39	**32**	16
PV of debt-to-exports ratio								
Baseline	40	39	39	38	35	32	**22**	10
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	40	35	32	30	28	26	**20**	16
A2. New public sector loans on less favorable terms in 2010-2030 2	40	41	43	43	42	39	**31**	18
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	40	39	38	37	34	31	**21**	8
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	40	55	84	78	72	65	**39**	12
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2011-2012	40	39	38	37	34	31	**21**	8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	40	47	54	51	47	42	**26**	9
B5. Combination of B1-B4 using one-half standard deviation shocks	40	53	71	67	61	55	**33**	11
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	40	39	38	37	34	31	**21**	8
PV of debt-to-revenue ratio								
Baseline	103	104	109	111	111	107	**93**	54
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	103	93	90	88	87	85	**85**	91
A2. New public sector loans on less favorable terms in 2010-2030 2	103	109	119	126	130	130	**128**	100
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	103	103	108	109	109	104	**89**	47
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	103	131	189	187	182	173	**130**	53
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2011-2012	103	110	118	120	120	115	**98**	52
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	103	125	150	149	147	140	**110**	50
B5. Combination of B1-B4 using one-half standard deviation shocks	103	138	189	186	182	173	**131**	55
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	103	143	148	151	150	144	**122**	65

Table 3b. Vietnam: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2010–30 (concluded)

(In percent)

	Projections							
	2010	2011	2012	2013	2014	2015	**2020**	2030
Debt service-to-exports ratio								
Baseline	3	2	3	3	3	4	**2**	1
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	3	2	2	3	3	3	**2**	2
A2. New public sector loans on less favorable terms in 2010-2030 2	3	2	2	2	2	3	**2**	2
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	3	2	2	3	3	4	**2**	1
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	3	2	4	5	5	5	**4**	2
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2011-2012	3	2	2	3	3	4	**2**	1
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	3	2	3	4	4	4	**3**	1
B5. Combination of B1-B4 using one-half standard deviation shocks	3	2	3	4	4	5	**4**	2
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	3	2	2	3	3	4	**2**	1
Debt service-to-revenue ratio								
Baseline	7	6	7	9	10	12	**10**	8
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	7	6	6	8	9	10	**7**	8
A2. New public sector loans on less favorable terms in 2010-2030 2	7	6	6	7	8	9	**10**	13
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	7	6	7	9	10	12	**9**	8
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	7	6	8	12	13	15	**15**	9
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2011-2012	7	6	8	10	11	13	**10**	8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	7	6	8	11	12	13	**12**	8
B5. Combination of B1-B4 using one-half standard deviation shocks	7	6	9	12	13	15	**15**	9
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	7	8	10	12	14	16	**13**	10
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	-5	-5	-5	-5	-5	-5	**-5**	-5

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

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

Table 3b. Vietnam: Sensitivity Analysis for Key Indicators of Public and Publicly-Guaranteed External Debt with Remittances, 2010–30

(In percent)

		Projections						
	2010	2011	2012	2013	2014	2015	**2020**	2030
PV of debt-to-GDP+remittances ratio								
Baseline	26	27	28	28	28	28	**23**	13
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	26	24	23	23	22	22	**21**	22
A2. New public sector loans on less favorable terms in 2010-2030 2	26	28	31	32	33	33	**32**	24
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	26	26	28	28	28	27	**22**	11
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	26	33	49	48	47	45	**32**	13
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2011-2012	26	28	30	31	30	29	**24**	13
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	26	32	39	38	38	36	**27**	12
B5. Combination of B1-B4 using one-half standard deviation shocks	26	35	49	48	46	44	**32**	13
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	26	36	37	38	38	36	**30**	16
PV of debt-to-exports+remittances ratio								
Baseline	36	36	36	35	33	31	**21**	9
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	36	33	30	28	26	24	**20**	16
A2. New public sector loans on less favorable terms in 2010-2030 2	36	38	40	40	39	37	**29**	18
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	36	36	35	34	32	29	**20**	8
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	36	50	77	72	66	60	**36**	12
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2011-2012	36	36	35	34	32	29	**20**	8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	36	44	51	47	44	40	**25**	9
B5. Combination of B1-B4 using one-half standard deviation shocks	36	49	66	61	57	52	**31**	10
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	36	36	35	34	32	29	**20**	8
PV of debt-to-revenue ratio								
Baseline	103	104	109	111	111	107	**93**	54
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	103	93	90	88	87	85	**85**	91
A2. New public sector loans on less favorable terms in 2010-2030 2	103	109	119	126	130	130	**128**	100
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	103	103	108	109	109	104	**89**	47
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	103	131	189	187	182	173	**130**	53
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2011-2012	103	110	118	120	120	115	**98**	52
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	103	125	150	149	147	140	**110**	50
B5. Combination of B1-B4 using one-half standard deviation shocks	103	138	189	186	182	173	**131**	55
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	103	143	148	151	150	144	**122**	65

Table 3b. Vietnam: Sensitivity Analysis for Key Indicators of Public and Publicly-Guaranteed External Debt with Remittances, 2010–30 (concluded)

(In percent)

	Projections							
	2010	2011	2012	2013	2014	2015	2020	2030
Debt service-to-exports+remittances ratio								
Baseline	2	2	2	3	3	3	**2**	1
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	2	2	2	2	3	3	**2**	1
A2. New public sector loans on less favorable terms in 2010-2030 2	2	2	2	2	2	3	**2**	2
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	2	2	2	3	3	3	**2**	1
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	2	2	3	5	5	5	**4**	2
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2011-2012	2	2	2	3	3	3	**2**	1
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	2	2	3	3	3	4	**3**	1
B5. Combination of B1-B4 using one-half standard deviation shocks	2	2	3	4	4	4	**4**	2
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	2	2	2	3	3	3	**2**	1
Debt service-to-revenue ratio								
Baseline	7	6	7	9	10	12	**10**	8
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	7	6	6	8	9	10	**7**	8
A2. New public sector loans on less favorable terms in 2010-2030 2	7	6	6	7	8	9	**10**	13
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	7	6	7	9	10	12	**9**	8
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	7	6	8	12	13	15	**15**	9
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2011-2012	7	6	8	10	11	13	**10**	8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	7	6	8	11	12	13	**12**	8
B5. Combination of B1-B4 using one-half standard deviation shocks	7	6	9	12	13	15	**15**	9
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	7	8	10	12	14	16	**13**	10
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	-5	-5	-5	-5	-5	-5	**-5**	-5

Sources: Vietnamese authorities; and staff estimates and projections.

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

INTERNATIONAL MONETARY FUND

VIETNAM

Staff Report for the 2010 Article IV Consultation—Informational Annex

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

July 7, 2010

Contents Page

ANNEX I. VIETNAM: FUND RELATIONS
(As of May 31, 2010)

I. **Membership Status:** Joined: September 21, 1956; Article VIII

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	314.79	100.00
Holdings	267.67	85.03

IV. **Outstanding Purchases and Loans:**

	SDR Million	Percent Quota
Extended Credit Facility (ECF)[1] arrangements	45.54	13.84

V. **Latest Financial Arrangements:**

Type	Arrangement	Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	Apr. 13, 2001	Apr. 12, 2004	290.00	124.20
ECF	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				
	2010	2011	2012	2013	2014
Principal	16.56	20.70	8.28	0.00	0.00
Charges/interest	0.07	0.12	0.13	0.12	0.12
Total	16.63	20.82	8.41	0.12	0.12

VII. **Exchange Arrangement:**

Vietnam's exchange rate system is currently classified as "stabilized." Effective November 26, 2009, the State Bank of Vietnam (SBV) reverted to its previous policy of a ±3 percent dollar-dong trading band around the rate quoted by the SBV with a

[1] Formerly PRGF.

one step devaluation of about 5½ percent in the central rate. Previously the trading band was widened to ±5% on March 24, 2009. The dong stabilized at the most depreciated edge of the band in January 2009, which was devalued several times since then. Therefore the exchange rate arrangement has been reclassified to "stabilized" against the U.S. dollar from "other managed" effective January 1, 2009. In 2008, the SBV increased exchange rate flexibility substantially by widening the dong-U.S. dollar trading band from ±0.75 to ±3 percent on three separate occasions.

Vietnam maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions, except for those exchange restrictions imposed for security reasons of which Vietnam has notified the IMF pursuant to Executive Board Decision No. 144-(52/51), 8/14/52.

VIII. **Article IV Consultations:**

Vietnam is on a 12-month consultation cycle. The last Article IV consultation was held in Hanoi during December 3–18, 2008 and was concluded by the Executive Board on February 27, 2009 (IMF Country Report No. 09/110). In addition, staff visits took place in April and October 2009. The current Article IV consultation was postponed as per the authorities' request.

IX. **Technical Assistance:**

Technical assistance is currently focused on balance of payment, monetary and financial statistics, banking supervision, tax policy and administration, and AML/CFT. A long-term resident advisor in banking supervision based in Hanoi began assisting the SBV in December 2008 and will continue in the role until January 2011. In June 2010, additional technical assistance was requested for compiling balance of payments, monetary statistics, and the "green GDP" indicator.

X. **Resident Representative:**

Mr. Benedict Bingham assumed the Senior Resident Representative post for Vietnam and Lao P.D.R., based in Hanoi, on October 17, 2007.

ANNEX II. VIETNAM: RELATIONS WITH THE WORLD BANK GROUP[2]

A. 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) 2006–10 and sets out the World Bank's planned support between FY07 and FY11. The objectives of the SEDP are mapped into four broad pillars that are the organizing principles of the CPS: (i) improving the business environment; (ii) strengthening 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 relates 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 focuses on banking reform and overall financial sector development; improved competitiveness with fuller integration with the world economy, including through improved quality, efficiency, and equity of the higher education system; a more level playing field for enterprises; a better foundation for knowledge-based growth and enhancing agricultural competitiveness; and investment in more efficient and reliable infrastructure.

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

Strengthening environmental and natural resource management: Rapid economic growth is putting the environment under increasing stress. The livelihoods of poor people in Vietnam

[2] Questions may be referred to Ms. Myla Taylor Williams (202-473-6997).

still depend overwhelmingly on natural resources. The World Bank's activities will focus on livelihood-supporting roles and public benefits of better management of the 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 first three pillars will require institutions with enhanced transparency, accountability, and stakeholder voice and participation. World Bank support under this pillar will focus on strengthening public financial management, simplifying administrative procedures, and modernizing the planning process through more participatory approaches and greater accountability of public service providers for achievement of development outcomes.

B. World Bank Group Strategy and Lending

The World Bank Group is employing a broad range of instruments, elaborated in the CPS, to support the objectives laid out in the SEDP 2006–10 and other key strategies of the Government. These instruments include the World Bank's Poverty Reduction Support Credits (PRSCs), other development policy and investment operations, and analytical and advisory activities; the IFC's equity, loan, and technical assistance (TA) participations and the Mekong Private Sector Development Facility (MPDF); Multilateral Investment Guarantee Agency (MIGA) activities; and donor partnerships and ODA coordination.

Scale of the World Bank Group program: Vietnam's IDA allocations depend on its performance relative to other eligible IDA recipients and on the overall IDA resource envelope. During FY09–FY11 (the IDA 15 replenishment period), Vietnam's IDA commitments will likely average more than US$1 billion equivalent annually. In FY10, the World Bank (IBRD) processed its first two IBRD operations for Vietnam, totaling US$700 million. At more than US$2.1 billion equivalent for IDA and IBRD combined, the FY10 program significantly surpassed that of prior years, and Vietnam is the World Bank's eighth largest borrower in FY10. World Bank operations in FY11 will likely continue to exceed US$2 billion. Thereafter, World Bank lending volume will depend inter alia on the outcome of the IDA 16 replenishment discussions. There are currently 43 active IDA credits totaling US$5.7 billion equivalent of which US$1.8 billion has been disbursed, and one IBRD loan in the amount of US$200 million, approved but not yet effective. The IFC and MIGA programs are also expected to grow in the coming years.

Lending program: The ongoing second series of five Poverty Reduction Support Credits (PRSCs 6–10) is the centerpiece of the World Bank's policy lending program during the CPS period. These operations support the reforms envisaged chiefly in the SEDP 2006–10, which also serves as the Poverty Reduction Strategy (PRS) for Vietnam. PRSC 9 (US$150 million equivalent) is expected to be approved by the World Bank's Board in June 2010.
The five PRSC operations in the first series mainly supported implementation of the

Government's Comprehensive Poverty Reduction and Growth Strategy. PRSC 1 was approved by the World Bank's Board in June 2001, in parallel with a PRGF operation by the IMF. It focused on structural reforms in trade liberalization, the financial sector, state-owned enterprises (SOEs), and private sector development. Subsequent PRSCs have had significantly broader scope and supported policy actions in areas such as health, social protection, education, and environmental protection and natural resource management. They have also included actions to build modern governance systems in Vietnam, such as those aimed at public financial management and public administration reform, and fighting corruption. The number of PRSC co-financiers increased from 4 under PRSC 1 to 12 under PRSC 7. In addition to providing resources, PRSCs serve as a donor coordination device as well as a single, unified platform for policy dialogue between Vietnam's partners and the Government on a broad range of issues.

The World Bank's operational program also includes sector development and investment operations aligned with the four pillars of the CPS. A sector development policy lending program supported poverty reduction, another one higher education reform, and a third one power sector reform. Vietnam's first IBRD operation, approved in FY10, launched a development policy loan series supporting public investment reforms and aligned with the governance pillar of the CPS. Well over half of sector investment commitments have financed infrastructure projects, with the balance focused on the health and education sectors, rural development, and public administration reform. More than 75 percent of the FY11 lending program is expected to finance infrastructure investments. Thereafter, it is expected that infrastructure would continue to dominate the lending program, especially Vietnam's IBRD borrowing.

Knowledge program: The World Bank supports the Government's efforts to strengthen institutional capacity through its knowledge program of analytical and advisory services. The annual Vietnam Development Reports (VDRs), written in coordination with a large number of donors and submitted to the annual year-end Consultative Group meeting, summarize the accumulated knowledge in a specific policy area of Vietnam's reform agenda. Recent VDRs have focused on tackling the challenges to attainment of SEDP objectives (2007) as well as thematic areas such as social protection (2008), business development (2009), and modern institutions (2010). The next VDR will focus on the management of Vietnam's natural resources.

Other reports during this period included Infrastructure Finance, Higher Education and Skills for Growth, Country Financial Accountability Assessment, Policy Agenda for Health Sector Transition, Health Financing, Financial Sector Strategy, and a series on Vietnam's Infrastructure Challenges. Forthcoming reports include High Quality Education for All, Infrastructure Regulatory and Policy Reform; Regional Development and Urbanization; Science, Innovation, and Technology Review, Poverty Analysis, Social Safety Net Technical Assistance, Gender Assessment, Prioritizing Climate Change Investments, and Support to National Development Strategy and SEDP 2011–15. In addition, the World Bank continues to provide advisory services in areas such as tax policy, social security, and public financial management reform.

C. IMF-World Bank Collaboration in Specific Areas

Since the expiration of the PRGF in April 2004, the two institutions have closely collaborated in the discussions of PRSC triggers and benchmarks in the policy areas that used to be covered by the PRGF agreement. The IMF has provided Letters of Assessment in support of PRSC operations. In the area of public financial management, the World Bank has an investment credit to support the introduction of a modern Treasury and Budget Management Information System, and coordinates technical inputs on a large multi-donor trust fund for public financial management reform. The World Bank is also following up on the technical assistance provided by the IMF in relation to tax reform and revenue management. An investment credit for tax administration reform has been set up to this effect. Joint work is also under way in support of the establishment of a modern central bank, with the IMF providing technical assistance on monetary policy and operations, and both the World Bank and IMF providing technical assistance on banking supervision. The World Bank has also set up an investment credit to reorganize the State Bank of Vietnam and to develop appropriate information management systems.

Since 2005, the World Bank and the IMF have jointly prepared an annual Debt Sustainability Assessment. The Asian Development Bank has joined since 2009. The IMF and the World Bank also collaborate in the development and timely dissemination of reliable economic and financial statistics. The IMF focuses on improving balance of payments, and national accounts, and price statistics, while the World Bank provides assistance on issues related to the production of high-quality household and enterprise surveys.

The two institutions have coordinated closely on the recent macroeconomic turbulence faced by Vietnam. Their joint inputs to government were instrumental in the adoption of the stabilization package of March 2008 and its subsequent implementation. The World Bank and the IMF have also coordinated their policy dialogue with the government in relation to the stimulus policies adopted between late 2008 and early 2009 and, more recently, they jointly supported the rebalancing of the government policy stance toward a greater focus on macroeconomic stability.

Table 1. Vietnam: FY05–08 Commitments

Fiscal Year	Project Name	IDA Amount (US$ million equivalent)
2005	PRSC IV	100
	HIV/AIDS Prevention	35
	Targeted Budget Support for Education for All	50
	Road Safety	32
	Urban Water Supply Development	113
	Second Rural Energy	220
	Forest Sector Development	40
	Avian Influenza Emergency Recovery	5
	Second Payment System and Bank Modernization	105
	Total	**700**
2006	PRSC V	100
	ICT Development	94
	Mekong Health Support	70
	Customs Modernization	66
	Red River Delta Rural Water Supply and Sanitation	46
	Second Transmission and Distribution	200
	Third Rural Transport	106
	Natural Disaster Risk Management	86
	Total	**768**
2007	PRSC VI	175
	Second Higher Education	60
	Program 135 Phase 2 (DPL)	50
	Avian and Human Influenza Control	20
	Mekong Transport Infrastructure Development	207
	Mekong Transport/Flood Protection (Additional Financing)	25
	Ho Chi Minh City Infrastructure Fund (HIFU)	50
	Coastal Cities Environment and Sanitation	125
	Total	**712**
2008	PRSC VII	150
	Tax Administration Modernization	80
	Northern Upland Health Support	60
	Land Administration	75
	Third Rural Finance	200
	Hanoi Urban Transport Development	155
	Northern Delta Transport Development	170
	Da Nang Priority Infrastructure Investment	152
	Rural Distribution	150
	Total	**1,192**
	Total FY05–FY08 Commitments	**3,372**

Source: World Bank.

ANNEX III. 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) 2007–10 was endorsed in October 2006 and was fully aligned with and designed to support implementation of the Government's Socio-Economic Development Plan (SEDP) 2006–10. The goals of the CSP were to help the Government reduce poverty incidence to 10–11 percent of households by 2010, achieve the Millennium Development Goals/Vietnam Development Goals and exit from low-income country status. Recognizing Vietnam has actually achieved poverty reduction through rapid economic growth, the CSP was also growth-oriented with focuses on: (i) *Business-led, Pro-poor Economic Growth:* AsDB support aimed to help the Government develop the foundations for increased private sector investment and employment; (ii) *Social equity and balanced development:* in addition to supporting education, health, targeted poverty reduction, and rural infrastructure, the CSP addressed communicable diseases such as avian influenza and HIV/AIDS; gender and other equity issues were mainstreamed in AsDB projects; (iii) *Environment:* the CSP supported natural resources management, emphasizing the link between resources depletion and persistent poverty, through assistance on biodiversity, water, and coastal resources management and livelihood improvement. *Governance* has been addressed through all AsDB operations and *regional cooperation* has also been strongly supported through a number of projects. As Vietnam is now preparing the new Socio-Economic Development Strategy for 2011–20 and Socio-Economic Development Plan 2011–15, the AsDB is also preparing a new Country Partnership Strategy (CPS) for 2011–15 to further supporting Vietnam's continuing rapid growth as a new middle-income country in line with AsDB's Strategy 2020.

From October 1993 until April 2010, the AsDB approved 91 sovereign loans and guarantee[3] totaling over US$8.5 billion, comprising US$4.6 billion from highly concessional Asian Development Fund (ADF) and US$3.9 billion from less concessional Ordinary Capital Resources (OCR). The contract awards achievement in 2009 was US$1,781.77 million as compared with US$390.4 million in 2008. Disbursement in 2009 attained US$1,093.4 million as compared with US$264.4 million in 2008. The AsDB has also extended technical assistance grants amounting to $192 million for 237 projects. In addition to public sector operations, the AsDB has provided US$193.5 million for seven nonsovereign projects, as well as US$60 million in guarantees under two projects. Vietnam also receives substantial support under the Greater Mekong Subregion (GMS) initiatives, involving Cambodia, China, Lao P.D.R, Myanmar, Thailand, and Vietnam.

Support for policy and structural reforms to improve public sector efficiency and to

[3] Guarantee to commercial banks for a loan in connection with the Investment Support Program for Vietnam Electricity of US$325 million.

encourage the development of the private sector is a vital component of AsDB operations in Vietnam. So far, the AsDB has approved 15 policy-based programs (19 loans) in the agricultural sector, the financial sector, SOE reform and corporate governance, public administration reform, SME development, secondary education, and in support of the multi-donor supported Poverty Reduction Support Credit (PRSC). The AsDB's policy dialogue included support for increased efficiency of state-owned utilities through reforming their rate structure and other measures to increase cost recovery and to strengthen financial management, policy analysis, and planning. The AsDB is also the key supporter of public administration reform particularly through civil service reform. 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.

Following a reorganization of the AsDB's regional departments in May 2006, Vietnam is covered by the Southeast Asia Department, along with Cambodia, Brunei Darussalam, Lao P.D.R., Myanmar, Thailand, Malaysia, Philippines, Indonesia, and Singapore. The resident mission has been gradually strengthened and is responsible for country economic monitoring, programming and donor coordination functions, in addition to administration of 36 percent of the ongoing loan portfolio. The resident mission has helped the government prepare the results-based SEDP 2006–10, through a broad, consultative process, including preparing the results framework for monitoring SEDP outcomes, and such efforts are continuing for the development of SEDP 2011–15. To implement the principles of the Paris Declaration on Aid Effectiveness, the resident mission actively participates in the Partnership Group on Aid Effectiveness with the Government and other development partners (which was reorganized to be Aid Effectiveness Forum in 2010), taking a lead in harmonizing social safeguard policies and procurement rules and procedures between the Government and donors. The AsDB also actively participates in the "Six Banks Initiative," with Agence Française de Développement (AfD), KfW Development Bank, Korea Eximbank, Japan International Cooperation Agency and the World Bank, to harmonize project preparation, implementation, monitoring and evaluation practices, and improve the quality and effectiveness of investment projects.

The AsDB and IMF staffs work closely together to support the process of economic reforms in Vietnam. The AsDB staff interacts with IMF missions, exchange information, and regularly consult on policy matters. The resident missions of the two institutions cooperate closely. The AsDB has taken part in the 2008 Vietnam debt sustainability analysis for the first time with the IMF and the World Bank.

Table 1. Vietnam: Public Sector Lending, by Sector, October 1993–April 2010
(In millions of U.S. dollars)

Sector	Number	Approved Amount
Lending	91	8,186.9
Agriculture and natural resources	19	1,150.1
Education	9	383.0
Energy	8	1,937.7
Finance	7	410.0
Health and Social Protection	5	231.2
Industry and Trade	4	98.5
Public Sector Management	7	776.4
Transportation and ICT	18	2,502.7
Water and Other Municipal Infrastructure and Services	10	546.8
Multisector	4	150.0
Guarantee	1	325.0
Energy	1	325.0
Technical assistance	237	191.5
Advisory and operational purposes	146	109.9
Project preparation	88	75.5
Capacity and Development	4	4.6
Policy and Advisory	1	1.5

Source: Asian Development Bank.

Table 2. Vietnam: Sovereign Loan Approvals and Disbursements, 1997–2010

(In millions of U.S. dollars)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010 1/
Loan approvals	359.60	284.00	220.00	188.50	243.10	233.50	179.00	296.40	577.70	308.19	1,438.86	764.70	1.925.85	230.00
Loan disbursements	149.3	127.8	191.2	218.9	176.2	231.7	233.2	182.4	223.7	184.07	229.88	264.56	1,093.36	112.74
Undisbursed balance at the beginning of the year 2/	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	970.63	1,316.67	1,456.84	1,533.3	3,208.7
Memorandum item:														
Technical assistance approvals	9.51	5.93	10.34	9.12	8.42	9.28	8.61	7.68	12.25	16.07	13.12	26.86	10.64	4.18

Source: Asian Development Bank.

1/ As of April 2010.
2/ Excludes approved loans that are not yet effective.

ANNEX IV. VIETNAM: STATISTICAL ISSUES

As of June 16, 2010

I. Assessment of Data Adequacy for Surveillance

General: Data provision has some shortcomings, but broadly adequate for surveillance. Most affected areas are: national accounts, government finance and external sector statistics.

National Accounts: The General Statistics Office (GSO) provides quarterly (cumulative) and annual data on GDP by type of economic activity and annual data by expenditure (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 are broadly consistent with the *SNA93*, the compilation process suffers from poor data collection practices and a lack of coordination and communication between data collection agencies.

Prices statistics: The CPI methodology is largely in line with international standards. 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. Trade price indices are also compiled, but not used in the national accounts.

Government finance statistics: Government operations data reflect the consolidated operations of the state budget, which cover all four levels of government (central, provincial, district, and commune). However, they exclude data on off-budget investment expenditure, onlending, quasi-fiscal activities of the central bank (and state-owned enterprises (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/disseminated 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. The World Bank and the IMF have recommended improving the coverage of fiscal data and aligning definitions with the *GFSM 2001*. A new budget law, expected to become effective 2013, is likely to significantly enhance the quality of fiscal reporting.

Monetary statistics: A key shortcoming is insufficient sectorization of bank credit. The IMF's Statistics Department (STA) has encouraged the SBV to develop a reporting scheme for a comprehensive breakdown of banks' credit to the economy by borrowing sectors, subsectors, and ownership of enterprises. In addition, STA has recommended that: (a) a list of SOEs that have been privatized and therefore should be classified as private enterprises should be distributed to banks in order to guide their data reporting on enterprises; (b) funds for onlending should be reclassified out of banks' "unclassified liabilities" to "other deposits." 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: 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 22 percent and 16~~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. STA has recommended that the Government Statistical Office, Ministry of Planning and Investment, and State Bank of Vietnam work jointly to improve FDI questionnaires and processes, including collecting data on both stocks and flows. 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).

II. Data Standards and Quality	
Participant in the General Data Dissemination System (GDDS) since September 2003.	No data ROSC is available.

III. Reporting to STA
Annual government finance statistics (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.

Vietnam: Table of Common Indicators Required for Surveillance
As of June 16, 2010

	Date of Latest Observation	Date Received	Frequency of Data[1]	Frequency of Reporting[1]	Frequency of Publication[1]
Exchange Rates	June 2010	06/07/10	D	M	W
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[2]	4/31/10	5/13/10	M	I	NA
Reserve/Base Money	Feb. 2010	5/4/10	M	I	NA
Broad Money	Feb. 2010	5/4/10	M	I	NA
Central Bank Balance Sheet	Feb. 2010	5/19/10	M	I	NA
Consolidated Balance Sheet of the Banking System	Feb. 2010	5/19/10	M	I	NA
Interest Rates[3]	Mar. 2010	4/21/10	M	I	NA
Consumer Price Index	May 2010	5/24/10	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[4]—General Government[5]	...	...	...	...	NA
Revenue, Expenditure, Balance and Composition of Financing[4]—Central Government	12/31/09	4/20/10	Q	Q	A
Stocks of Central Government and Central Government-Guaranteed Debt[6]	2009	5/12/10	I	I	NA
External Current Account Balance	Q1 2010	May 2010	A	A	A
Exports and Imports of Goods and Services[7]	Q1 2010	May 2010	M	M	M
GDP/GNP	Q1 2010	3/30/10	Q	Q	Q
Gross External Debt	2009	5/7/10	I	A	NA
International Investment Position[8]	...	...	NA	NA	NA

[1] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); and Not Available (N/A).
[2] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency, but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[3] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[4] Foreign, domestic bank, and domestic nonbank financing.
[5] The general government consists of the central government (budgetary funds, extra-budgetary funds, and social security funds) and state and local governments.
[6] Including currency and maturity composition.
[7] Services data available on an annual basis.
[8] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 10/127
FOR IMMEDIATE RELEASE
September 8, 2010

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

IMF Executive Board Concludes 2010 Article IV Consultation with Vietnam

On July 28, 2010, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Vietnam on a lapse of time basis. Under the IMF's lapse of time procedures, the Executive Board completes Article IV consultations without convening formal discussions.

Background

Facing the downturn from the global crisis, Vietnam successfully supported growth in 2009, realizing a 5.3 percent growth, one of the better performances in developing Asia. However, the sizable stimulus measures resulted in elevated macroeconomic risks. The trade deficit deteriorated since the summer, and domestic residents dramatically shifted from dong assets into U.S. dollar assets and/or gold, leading to a substantial balance of payments deficit (8¾ percent of GDP) and significant depreciation pressures on the dong. The parallel market exchange rate fell to about 10 percent below the weaker end of the official band in late 2009, and by end-2009 gross international reserves (GIR) declined to about two months of imports projected for 2010.

In November 2009, the authorities shifted the policy priority from growth to macroeconomic stability. The dong was devalued by 5½ percent in November 2009 and by another 3½ percent

[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. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

in February 2010. Monetary tightening through liquidity squeeze in December, the termination of interest subsidy scheme for short-term loans at end-2009, and the liberalization of lending rates in early 2010 led to a slowdown in credit growth, affecting especially activity in construction and financial services. Most fiscal stimuli were also terminated at end-2009. Partly as a result, real GDP growth slowed in 2010 Q1.

In late March 2010, the government began to balance growth and stability, marking the largely successful exit from the substantial stimulus policies during 2009. Market confidence in the dong has been restored, and both interbank and parallel exchange rates appreciated back within the official band and have remained stable. Inflation is subdued, thanks largely to a decline in rice prices, and the trade deficit has been contained. Yet, the market does not seem fully convinced about the sustainability of the existing macroeconomic stability later in 2010, judging by the wide spreads between the overnight interbank rates and the rates for longer maturities especially beyond three months. Inadequate clarity on government policies, exemplified by repeated statements by the government to favor lower commercial lending and deposit rates, while lowering short-term interest rates through its open market operations, has undermined market confidence. Thus, the current macroeconomic stability does not appear robust. The immediate goal for the government is, therefore, to sustain market confidence and take the opportunity to rebuild GIR.

The near-term outlook hinges critically on maintaining current macroeconomic stability. In staff's baseline scenario, with the assumption that stability is maintained, real GDP growth for 2010 is projected to be 6½ percent, underpinned by buoyant private investment, consumption, and nonoil exports. Current inflation projection of 10.4 percent (y/y) for the year as a whole depends importantly on the development of commodity and food prices.[2] The current account deficit is expected to narrow to 9 percent of GDP in 2010, and short-term capital outflows (including the errors and omissions) are expected to moderate significantly, allowing a modest build up of reserves in 2010. This baseline scenario is most sensitive to domestic macroeconomic stability, which could be affected by perceived occasional incoherence between the government's policy stance and its public statements. External downside risks, including possible spillover effects from Europe, are expected to be manageable provided that macroeconomic management remains prudent.

Fiscal policy is on track of consolidation in 2010. The 2009 overall fiscal deficit is estimated to have widened to about 9 percent of GDP (from about 1 percent of GDP in 2008), mainly reflecting declines in oil revenues and a spending surge related to the stimulus package.[3] With

---

[2] Headline inflation in July slowed to 8.2 percent (y/y). While food prices increased, the decline in items such as construction materials and fuel contributed to the deceleration.

[3] Based on IMF definition, which differs from the national definition in, for example, the treatments of the local government surplus and off-budget investment spending.

most stimulus measures expiring at end-2009 and a favorable growth outlook ahead, the fiscal deficit is projected to narrow to about 6 percent of GDP in 2010, largely owing to a decline in total investment spending by 3 percentage points of GDP over 2009.

Bank profitability was supported by high loan growth and low loss provisioning in 2009, but in 2010 it may not reach such high levels. Average return on asset of the six largest banks, including four state-owned commercial banks (SOCBs), increased to an annualized 1.9 percent (1.5 percent in 2008). Noninterest income (e.g., gold trading) contributed to higher profitability in some private banks. However, in 2010, narrowing interest margin, higher provisioning costs, the moderation of credit growth, and the closure of gold trading could constrain profitability at some banks. At end-2009, nonperforming loans (NPL) declined to 2.0 percent (2.1 percent in 2008) according to the official report, partly due to rapid credit growth. However, pressure on credit quality, including of the large loan portfolio disbursed under the interest subsidy program, may translate into higher NPL down the road.

Executive Board Assessment

In concluding the 2010 Article IV consultation with Vietnam, Executive Directors endorsed staff's appraisal, as follows:

Vietnam has managed to ride out difficult challenges in recent years, which deserves international acknowledgment. As soon as an overheated economy in 2007, owing to rapid capital inflows, was successfully cooled down, an external demand shock triggered by the global crisis had to be countered in 2009 by a sizable stimulus package. As the stimulus policy began to threaten macroeconomic stability toward end-2009, a successful exit (monetary and fiscal tightening) was made. The fact that most fiscal measures were introduced with a sunset clause also helped the timely exit.

Macroeconomic stability is maintained for now. The policy tightening that started at end 2009 has stabilized economic and financial conditions, and helped restore market confidence, as evidenced by the stable dong exchange rates in both the interbank and the parallel markets. Whether the current stability can be sustained through the rest of 2010 and beyond depends on whether the government can maintain and enhance market confidence by limiting, for instance, deterioration in the trade deficit or a decline in the U.S. dollar liquidity in the financial system. Thus the repeated announcements by the government about the need to lower the commercial lending rates may be counter-productive.

Maintaining a solid economic recovery will require the government to prioritize among its multiple goals. The government has stated that in 2010 it aims at the growth target (6.5 percent), inflation target (7 percent, now officially projected at 8 percent), credit growth target (25 percent), and money supply growth target (20 percent), while maintaining a stable dong exchange rate. It may be difficult to convince the market that the government can achieve all these objectives with relatively blunt policy tools, namely OMOs and budget, especially if there's no apparent hierarchy of objectives. A lack of coordination between monetary and fiscal policies, or the appearance thereof, would amplify market skepticism. The government, therefore, needs to convince market participants that its priority rests with macroeconomic stability. For this purpose, staff believes that maintaining the current stable exchange rate, and taking the opportunity to rebuild GIR, should be the immediate goal for the government. Once the government's credential for macroeconomic stability is established, and GIR is further built up, staff believes that the government will be able to adopt a more flexible exchange rate regime without risking resurgent devaluation pressures.

Monetary policy should be prudent and its effectiveness should be further strengthened. Further loosening, real or perceived, could disrupt the existing macroeconomic stability, and could inflict substantial damage to the growth prospect, not just for 2010, but even for the medium term. To enhance the effectiveness of monetary policy, the operational improvement in OMOs, and the gradual normalization of the interest rate, structure should also progress. The early indications are that the new SBV Law, approved in late June, strengthened operational authority of the SBV, though the details have yet to be clarified.

Exchange rate regime should be reformed over the medium term. In the medium term, a move from the current regime that focuses on the bilateral dong/U.S. dollar exchange rate to a system that is based on a basket of currencies including those of regional trading partners may be appropriate. In the process, a wide use of the U.S. dollar in the economy (partial dollarization) could be wound down. In addition, further exchange rate flexibility is encouraged once necessary infrastructure, particularly in terms of hedging instruments, is readily available for the private sector to manage foreign exchange rate risks effectively.

There is room for further reduction in the budget deficit in the medium term. In 2010, total investment spending is expected to decline by 3 percentage points of GDP from the 2009 level to about 11 percent of GDP. Staff believes that there is room for further reduction in investment spending, for example, by project prioritizing, increased cost efficiency, and the use of PPP and other innovative financing methods. This would enable the government to reduce both the budget deficit and the public and publicly-guaranteed debt levels over the medium term.

Strengthening the financial sector requires further reform. While welcoming the ongoing efforts to strengthen supervisory capacity, more could, and should be done. An FSAP is expected to help the authorities establish a reform agenda and a concrete timeline. One of the fundamental problems facing Vietnam is over-banking: while the introduction of the minimum capital requirement at end-2010 could promote consolidation of smaller banks, further streamlining should be pursued in the medium term. The equitization (privatization) of SOCBs should also be advanced. As the economy is driven more by market principles, the government is required to change its style of policy conduct. For instance, moral suasion could create distortions that need to be addressed later at a higher cost. Reforms of SOEs and SOCBs would not only provide a level playing field, but also raise the efficiency of the economy. Most importantly, transparency in government intentions, based on higher quality data published timely, should be further advanced to provide market players predictability.

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. The staff report (use the free Adobe Acrobat Reader to view this pdf file) for the 2010 Article IV Consultation with Vietnam is also available.

Vietnam: Selected Economic Indicators, 2006–11 1/

Nominal GDP (2009): US$93.2 billion | GDP per capita (2009): US$1,068
Population (2009, est.): 87.2 million | Fund quota: SDR 329.1 million

	2006	2007	2008	2009	2010	2011
			Est.	Est.	Proj.	Proj.
Real GDP (annual percentage change)	8.2	8.5	6.3	5.3	6.5	6.8
Saving and investment (in percent of GDP)						
Gross national saving	36.5	33.3	29.0	30.1	29.8	30.3
Private	28.1	27.0	21.4	25.6	25.8	25.3
Public	8.4	6.3	7.5	4.6	4.0	5.0
Gross investment	36.8	43.1	40.9	38.1	38.8	38.4
Private	26.7	32.6	31.0	23.9	29.1	29.4
Public	10.1	10.6	9.9	14.2	9.7	9.0
Consumer price inflation (annual percentage change)						
Period average	7.5	8.3	23.1	6.7	10.4	8.3
End of period	6.7	12.6	19.9	6.5	10.3	6.2
GDP deflator	7.3	8.2	22.1	6.0	10.6	9.0
General government (in percent of GDP)						
Revenue and grants	28.7	28.7	29.0	26.7	26.9	27.2
Of which: Oil revenue	8.6	6.9	6.0	3.6	3.6	3.7
Expenditure	29.1	30.6	29.8	35.6	32.8	31.5
Plan 2/	27.5	29.4	27.6	31.7	28.6	27.8
Off-budget, onlending and other 3/	1.5	1.2	2.2	3.9	4.2	3.7
Overall fiscal balance 4/	-0.4	-1.9	-0.9	-8.9	-5.9	-4.3
Non-oil primary fiscal balance 4/	-8.1	-7.7	-5.9	-11.1	-8.3	-6.7
Money and credit (annual percentage change, end of period)						
Broad money (M2)	33.6	46.1	20.3	29.0	24.5	28.4
Credit to the economy	25.4	53.9	25.4	39.6	25.0	30.9
Interest rates (in percent, end of period)						
Nominal three-month deposit rate (households)	7.9	7.8	8.1	10.7	...	...
Nominal short-term lending rate (less than one year)	11.8	11.8	11.5	12.7	...	...
Current account balance (including official transfers)						
(In billions of U.S. dollars) 5/	-0.2	-7.0	-10.8	-7.4	-9.4	-9.5
(In percent of GDP) 5/	-0.3	-9.8	-11.9	-8.0	-9.0	-8.1
Exports f.o.b. (annual percentage change, U.S. dollar terms) 5/	22.7	21.9	29.1	-8.9	14.5	16.9
Imports f.o.b. (annual percentage change, U.S. dollar terms) 5/	22.1	38.3	28.1	-13.3	16.2	14.3
Foreign exchange reserves (in billions of U.S. dollars, end of period)						
Gross official reserves, including gold	11.5	21.0	23.0	14.1	15.4	19.2
(In months of next year's imports of GNFS)	2.1	3.0	3.8	2.0	1.9	2.1
External debt (in percent of GDP, using interbank exchange rate) 6/	31.5	32.3	33.5	40.7	40.8	41.3
External debt (in percent of GDP, using official exchange rate) 6/	31.6	32.6	32.5	39.5	38.3	…
Total public and publicly-guaranteed debt (in percent of GDP)	42.9	45.6	43.9	49.0	51.3	50.9
Dong per U.S. dollar exchange rate (end of period)	16,068	16,003	17,486	18,479	...	...
Nominal effective exchange rate (end of period) 7/	77.4	73.3	73.8	62.5	...	...
Real effective exchange rate (end of period) 7/	96.8	100.2	119.1	106.8	...	...
Memorandum items:						
GDP (in trillions of dong at current market prices)	974	1,144	1,485	1,658	1,953	2,273
Per capita GDP (in U.S. dollars)	724	835	1,048	1,068	1,178	1,312

Sources: Data provided by the Vietnamese authorities; and IMF staff estimates and projections.
1/ Figures in 2008–11 are staff estimates and projections unless otherwise indicated.
2/ 2010 expenditure projection assumes some spending out of expected revenue overperformance.
3/ Includes costs of interest subsidy schemes in 2009 and 2010.
4/ Excludes VDB net lending.
5/ Includes gold imports in 2008 and gold re-exports in 2009.
6/ Includes private debt.
7/ 2000 annual average=100.