April 2001
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Vietnam: Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility--Staff Report; Staff Statement; Press Release on the Executive Board Discussion; and Statement by Authorities of Vietnam

In the context of the request for a three-year arrangement for Vietnam under the Poverty Reduction and Growth Facility, the following documents have been released and are included in this package:

- the staff report for three-year arrangement for Vietnam under the Poverty Reduction and Growth Facility, prepared by a staff team of the IMF, following discussions that ended on **March 1, 2001** 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 March 22, 2001.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a staff statement of **April 6, 2001** updating information on recent economic developments.

- a Press Release summarizing the **views of the Executive Board as expressed during its April 6, 2001, discussion** of the staff report that completed the request.

- a statement by the authorities of Vietnam.

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

Interim Poverty Reduction Strategy Paper
Joint Staff Assessment of the Interim Proverty Reduction Strategy Paper
Letter of Intent by the authorities of the member country
Memorandum of Economic and Financial Policies by the authorities of the member country
Technical Memorandum of Understanding

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

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INTERNATIONAL MONETARY FUND

VIETNAM

Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility

Prepared by the Asia and Pacific Department

Approved by R. Anthony Elson and Shigeo Kashiwagi

March 22, 2001

- Discussions on a program that could be supported by a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) were held in Hanoi in August 2000, and January and February 2001.

- Staff participating in some or all of these discussions comprised Ms. Puckahtikom (head), Messrs. Winglee, Cowen, Unteroberdoerster (all APD), Mr. Chami and Ms. Thacker (PDR), Mr. Pham (STA), Ms. Li (EP-FAD), and Mr. Herron (Consultant-MAE). The missions were assisted by Mr. de Tray, the senior resident representative, and worked closely with a parallel Bank team for a Poverty Reduction Support Credit (PRSC).

- The staff met with State Bank of Vietnam (SBV) Governor Le Duc Thuy, SBV Deputy Governors Tran Minh Tuan and Duong Thu Huong, Vice Minister of Finance Le Thi Bang Tam and Vice Minister of Trade Luong Van Tu, and other senior officials in charge of economic and financial policy.

- In concluding the 2000 Article IV consultation on July 21, 2000, Executive Directors stressed that for the recent economic recovery to be sustainable, the pace of structural reforms needed to be accelerated. In view of the progress made in designing a broad-based program and the growing momentum for reform, they urged the staff and the authorities to work toward finalizing PRGF support for Vietnam.

- The quality and timeliness of macroeconomic data are broadly adequate for program monitoring but some data suffer from serious deficiencies, especially concerning the banking and state-owned enterprise sectors.

- The principal authors of this report were Ms. Puckahtikom and Mr. Cowen, with substantial inputs from Mr. Pham, Ms. Thacker, Mr. Unteroberdoerster, and Ms. Li.

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EXECUTIVE SUMMARY

Despite the rebound from the spillover effects of the Asian crisis, Vietnam's economic performance remains below potential. The main obstacles to growth in recent years stem from structural weaknesses, on account of the protected and uncompetitive state sector, and from a weak environment for private investment, both domestic and foreign.

The reform agenda under the proposed PRGF arrangement and the I-PRSP is aimed at returning Vietnam to a fast track for poverty reduction and growth. The strategy is centered on boosting private investment and opening up the economy to competition, through reforms of the state-owned enterprises (SOEs) and the state-owned commercial banks (SOCBs) and trade liberalization measures, while protecting macroeconomic stability. This strategy represents a shift in policy direction, and has therefore taken time to gain the required political consensus.

Key to maintaining Vietnam's record of macroeconomic stability will be a prudent fiscal stance, credit restraint, and a decisive containment of the fiscal burden arising from SOE losses and nonperforming loans in the SOCBs.

To ensure fiscal sustainability, the 2001 budget is cautiously accommodative and appropriately provides for the costs of structural reforms. Budget support to the SOCBs (through phased recapitalization of these banks) is being conditioned on improvements in banks' performance, and debt relief for SOEs is being confined to those SOEs that are subject to reform measures. Credit policy in 2001 is being tightened to keep inflation in check, and also to complement SOE and SOCB reforms, by restraining credit to the SOEs; credit to the targeted, 200 heavily-indebted SOEs is being closely monitored.

Restructuring the SOCBs and enforcing their lending discipline are central to restoring health to Vietnam's banking system, in order for it to better support the private sector. Firm and sustained implementation of the individual bank restructuring plans will be critical. Furthermore, to spur private investment and strengthen competitiveness, the exchange and trade systems are being further liberalized and the business environment improved to provide a level playing field between the state and private sectors.

The three-year SOE reform plan will subject one-third of SOEs to reform measures. Vigorous implementation of this plan and efforts to strengthen financial discipline in the SOE sector would provide a credible start to the process of curbing SOE losses and boosting their efficiency.

Risks to the program stem from the fragile political backing to the strategy and the demand it places on Vietnam's implementation capacity. This will require close monitoring under the PRGF in coordination with the World Bank's PRSC and extensive technical assistance from the Fund and the donor community.

I. Introduction

1. **In the attached letter** dated March 14, 2001, the Government of Vietnam requests a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) for the period March 2001–March 2004 (Attachment I). The government's program is described in the Memorandum of Economic and Financial Policies for 2001 (MEFP, Attachment II) and in the interim Poverty Reduction Strategy Paper (I-PRSP, EBD/01/32). In a joint assessment (EBD/01/33), the staffs of the Fund and the World Bank consider that the I-PRSP provides a sound basis for the development of a fully participatory PRSP and for Fund and Bank concessional assistance, and recommend its endorsement by the respective Executive Boards.

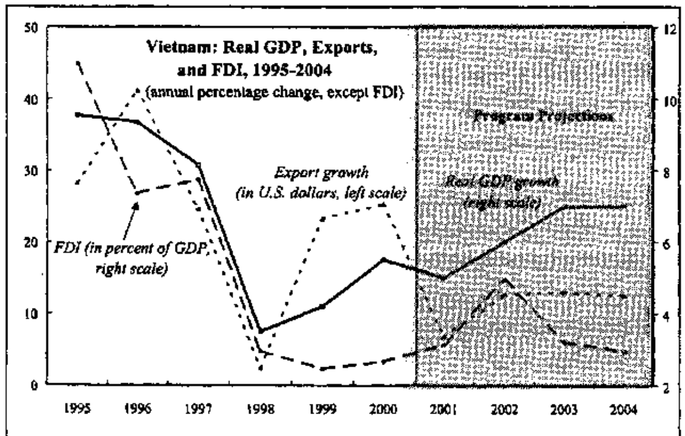
2. **The requested PRGF access is SDR 290 million** (88 percent of quota), to be disbursed in seven equal semi-annual installments. Full disbursement, under the schedule set out in Table 1, would raise Vietnam's outstanding use of Fund resources to 107 percent of quota by end 2003, from 72 percent of quota at end-February 2001 (Table 2). The Executive Board of the World Bank is provisionally scheduled to consider on May 3 a Poverty Reduction Support Credit (PRSC) for US$400 million over the next three years, with an initial two-tranche operation of US$200–250 million.

3. **Following several years of favorable economic performance, Vietnam's economy suffered a setback in the late 1990s**, owing to domestic structural weaknesses compounded by the regional crisis. Until then, GDP growth rates were high, boosted by large inflows of foreign direct investment (FDI). This performance, however, was not sustainable, since it depended on capital-intensive investment mainly by SOEs in uncompetitive sectors, and the business environment was stifling for the private sector. By the mid 1990s, Vietnam's transition to a market economy had stalled, the costs of protecting the SOEs started to mount, the banking system came under stress, and investor sentiment turned negative. In this context, Vietnam's arrangement under the Enhanced Structural Adjustment Facility (ESAF) was allowed to lapse in 1997 as understandings could not be reached on the third-year program. Compounded by the adverse impact of the regional crisis, GDP growth slowed sharply in 1998, and FDI slumped.

4. **Since late 1999 the economy has begun to rebound, and the pace of reform has picked up**. The recovery has been driven in part by a revival of domestic investment in response to recent policy initiatives. These initiatives have signaled a renewed focus on addressing structural weaknesses and on strengthening competitiveness. Program discussions, nonetheless, have been protracted reflecting the time needed for the technical preparation of the key structural reforms and for securing the necessary political support.

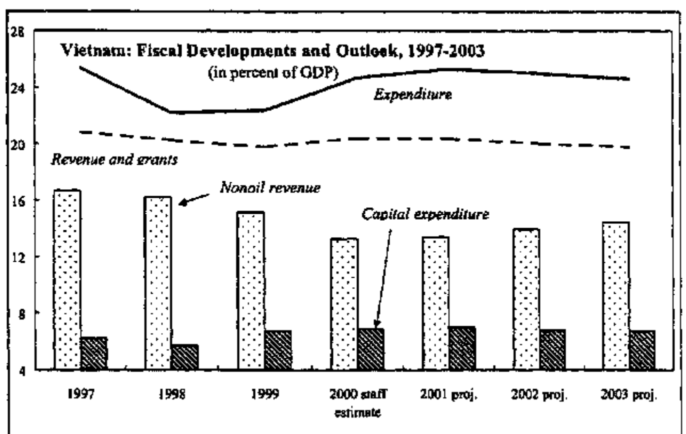
II. Recent Economic and Policy Developments

5. **Macroeconomic performance in 2000 was favorable, but signs of weakness began to emerge towards the end of the year.** Real GDP growth is estimated to have risen to 5½ percent from 4¼ percent in 1999 (Table 3), spurred by strong domestic demand.[1] Inflation remained subdued, with core inflation running at 2 percent as of end 2000, owing to excess capacity and a surge in imports (34 percent) (Figure 1). As a result, and in spite of strong export growth (25 percent, also reflecting high oil prices), the external current account surplus (including official transfers) narrowed from 4½ percent of GDP in 1999 to an estimated 2 percent in 2000. Gross official reserves rose moderately to US$3 billion as of end-December 2000, or 8 weeks of next year's imports. However, in the closing months of the year, non-oil export growth decelerated, in line with the weakening external environment (Figure 2),[2] and the dong was permitted to depreciate gradually against the U.S. dollar by a total of 3 percent in this period (Figure 3).



Sources: Vietnamese authorities; and staff estimates and projections.

6. **Aided by the windfall in oil revenue, the fiscal stance was eased in 2000**, but by slightly less than budgeted. The overall budget deficit (excluding onlending) is now estimated at 2 percent of GDP, compared with a budget plan of 3 percent and 1 percent in 1999, and was financed by domestic nonbank sources (Table 4). Total revenue exceeded the budget level by 3 percentage points of GDP, mostly on account of higher oil prices, providing room for a boost in the wage bill and in



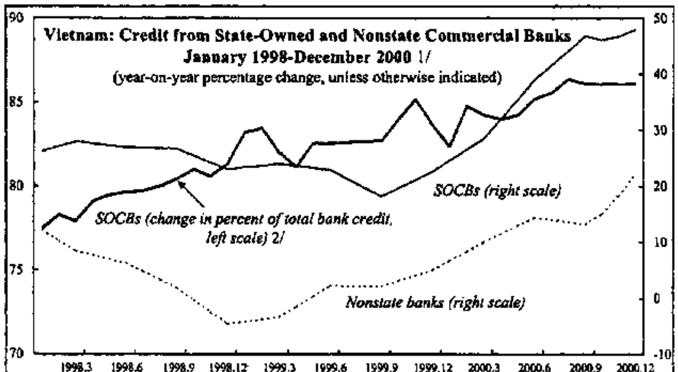
Sources: Vietnamese authorities; and staff estimates and projections.

[1] Official estimates of real GDP growth show a similar trend, with output increasing by 6¾ percent in 2000 from 4¾ percent in 1999. The differences between official and staff estimates reflect shortcomings in the compilation of the national accounts and difficulties in reconciling the GDP output and expenditure data. The authorities are seeking Fund technical assistance to address these weaknesses.

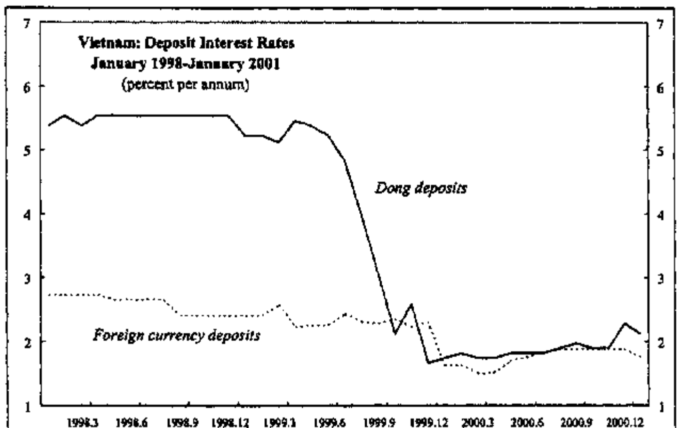
[2] Non-oil export growth decelerated to 13 percent in February 2001, compared with 21½ percent a year ago.

capital spending.[3] However, non-oil revenue performance was weak, reflecting in part ad hoc reductions in VAT and income tax rates, and also weak financial performance of SOEs and generous tax incentives. The overall fiscal stance for the year was more expansionary when taking into account the increase in capital projects financed by onlending of concessional external assistance.[4]

7. **Monetary conditions were relaxed further in 2000, reflecting an expansionary stance.** Broad money growth was 39 percent, fueled not only by foreign currency deposits arising from further large remittances by Vietnamese overseas, but also by a substantial loosening of credit policy in an effort to boost domestic investment. Credit growth reached 38 percent in 2000, almost exclusively in dong lending and mostly from the SOCBs (Table 5 and Figure 4). Given that the SOCBs are not subject to market discipline, this rapid credit growth is likely to have weakened their asset quality,[5] even though its impact on inflation has not been evident.[6] Over the year, dong liquidity shortage became a growing problem as the interest rate spread in favor of dong deposits fell to virtually zero, with growth in foreign currency deposits outstripping that in dong deposits for most of the year.



Sources: Vietnamese authorities; and staff estimates.
1/ Based on original monetary survey comprising State Bank of Vietnam, four large state-owned commercial banks, and 24 non-state banks.
2/ In percent of beginning of period (12-month) credit to the economy.



Sources: Vietnamese authorities; and staff estimates.

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[3] The large increase in the wage bill resulted from a 25 percent increase in wages, the first such increase since 1994. Nonwage current spending recovered to 8½ percent of GDP.

[4] The overall deficit (including onlending) is estimated to have risen to 4¼ percent of GDP in 2000, from 2½ percent in 1999. Rough staff estimates suggest that the total fiscal impulse for the year amounted to 1½ percent of GDP.

[5] Data are not available on banks' financial performance and the size of their nonperforming loans based on international loan classification and risk management standards.

[6] In the last two years, the causal link between credit expansion and inflation has been weaker than that observed in most of the 1990s. A factor in this weaker link may be that underlying credit growth is likely to have been lower than the recorded figure, if a part of new credit had been extended to regularize off balance sheet nonperforming loans.

8. **The exchange rate policy and regime were further relaxed during the year**. As noted above, the exchange rate was managed more flexibly in the last quarter of 2000, giving greater role to market forces, in contrast to virtual stability of the rate vis-à-vis the U.S. dollar in the previous two years. At the same time, the spread between the official and parallel market rates, which had increased to 1.3 percent in September, fell to 0.6 percent by end-year. However, because of the larger depreciation of partner countries' exchange rates, the real effective exchange rate appreciated by 2 percent in 2000, and by 4 percent relative to the position of June 1997. Further steps were also taken to liberalize the exchange system. Of the three remaining exchange restrictions under Article VIII, the foreign balancing requirement for foreign-invested enterprises (FIEs) was lifted in November 2000.[7] [8]

9. **The pace of key structural reforms picked up during 2000**. In particular:

- To foster private sector development, under the new Enterprise Law, 145 business licensing requirements (out of a total of 350) were lifted, easing entry into affected business sectors. Also, access to credit by small- and medium-scale enterprises (SMEs) improved through permitting the use of land-use rights as loan collateral. As a result, new registrations of private SMEs tripled to 14,400, of which about one-half are estimated (according to recent surveys) to be new investments, and one-half to be pre-existing (but unregistered) SMEs.

- To attract FDI, revisions to the Foreign Investment Law were made to improve the climate and incentives for foreign investors, as reflected notably in the signing in late 2000 of the Nam Con Son project in the oil and gas sector (US$1.4 billion). With these revisions, export-oriented investments now require only registration rather than licensing as previously, and government guarantees for projects are permitted, making feasible large infrastructure projects.

- In the banking sector, the preparations of an SOCB reform framework and individual bank restructuring plans were intensified, and 13 (out of a total of 48) joint stock banks (JSBs) were placed under special supervision/control by the SBV.

- In the SOE sector, a comprehensive reform plan was brought to near finalization, but the pace of equitization remained sluggish (an additional 250 equitizations were completed bringing the total to 620 by end 2000).

- In the trade area, quantitative restrictions (QRs) were removed on 8 of the 19 products subject to such restrictions, foreign trading rights were eased for exporting, rice export quotas were lifted, and a bilateral trade agreement with the United States (USBTA) was signed in July 2000.

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[7] At the same time, these enterprises became subject to the foreign exchange surrender requirement, bringing them in line with domestic enterprises.

[8] The two remaining restrictions under Article VIII are the tax on profit remittances of FIEs and the restriction that arises from limits on the availability of foreign exchange for payments for imports of certain commodities.

10. **Vietnam is one of the poorest countries in East Asia**, with poverty being predominantly rural, but education and health indicators compare favorably with other countries at similar income levels (Annex IV). Rapid growth in the rural sector in the 1990s has reduced poverty by about one third. Nonetheless, the incidence of poverty remains high at 37 percent, reflecting low per capita income (US$388 in 2000).

III. THE MEDIUM-TERM FRAMEWORK, 2001–03, AND THE I-PRSP

11. **The goal of the PRGF-supported program is to put Vietnam's economy on a higher growth path, for a lasting reduction in poverty**. Stronger growth with low inflation will need to come from maintaining macroeconomic stability, and from accelerating structural reforms to boost private investment and competitiveness of the economy. The main forces for growth and employment are expected to come from the private SME sector and FIEs. This strategy for the proposed PRGF-supported program is consistent with the medium-term structural and macroeconomic framework set out in the I-PRSP.

12. **Key policy elements to spur private investment include reforming the banking sector and further liberalizing the business environment to level the playing field vis-à-vis the state sector**. Domestic competition would be bolstered through promoting the private sector and reforming the SOE sector, and external competition strengthened through trade measures. Macroeconomic vulnerability would be addressed through prudent fiscal and monetary policies, and by stemming the losses of SOEs and strengthening the performance of the SOCBs. The main elements of the government's reform program are summarized in Box 1.

13. **With respect to the I-PRSP, the Joint Staff Assessment (JSA) notes a number of strengths**. These include the broad consultative process for its preparation, the analysis of the poverty situation, and the consistency of the strategy with the targets for accelerating economic growth. In developing the full PRSP in the coming year, priorities will need to be given to further strengthening socioeconomic data, analysis, and monitoring of poverty; defining and costing specific poverty-reducing policies; and putting in place effective institutional arrangements to oversee poverty reduction activities and to strengthen the participatory process. Owing to Vietnam's capacity constraints, the PRSP is likely to be an evolving document as the government gains experience with the process. Given that emphasis should be placed on focus and quality of policies rather than on speed or breadth, producing a full PRSP could take longer than a year.

IV. TARGETS AND POLICIES FOR 2001

14. **The macroeconomic outlook for 2001 is slightly less favorable than in 2000, reflecting weaker external demand**. GDP growth is projected to moderate to 5 percent on the continued strength of domestic demand, including from a further revival in private investment following programmed structural reforms.[9] Core inflation is projected to rise due

[9] The official GDP growth target, approved by the National Assembly, is more optimistic at 7½ percent in 2001, but this was set in October 2000 before the recent worsening of the global outlook.

to the lagged effect of rapid credit growth, but should still stay under 5 percent with some easing of demand pressures. The external position for 2001 is expected to weaken, owing to lower oil prices and slower growth in non-oil exports, and the current account is projected to be in near balance. With a moderate recovery in FDI[10] and donors' balance of payments support, gross official reserves are programmed to reach US$3.6 billion (or 8¼ weeks of next year's imports) at year end.

Box 1: Main Elements of the PRGF-Supported Program, 2001–03

Targets

- Real GDP growth to rise to 7 percent by 2003, with inflation under 5 percent and containment of the current account deficit in the financeable range of 2–3 percent of GDP. A faster rate of GDP growth would require a more rapid recovery in FDI than now conservatively assumed (Table 6).
- Real per capita GDP should rise by an average of 4 percent a year, which together with other supportive measures to be elaborated in the PRSP, should lead to a meaningful reduction in the poverty incidence and improvements in social indicators.

Macroeconomic Policy

- *Fiscal*: medium-term sustainability to be protected and with greater focus on poverty reduction, by keeping the overall deficit to an average of 3 percent of GDP during 2001–03 (compared with 1 percent during 1997–2000), by strengthening the efficiency of spending, by curbing SOE losses, and by strengthening SOCB performance.
- *Monetary and credit*: credit restraint to ensure low inflation and safeguard banks' portfolios, and move to indirect monetary policy instruments.
- *Exchange system*: exchange rate flexibility and acceptance of the obligations under Article VIII.

Structural Agenda

- *Banking sector reform* aims to enforce better lending discipline and transparency, and put SOCBs' operations on a commercial basis, including by phasing recapitalization over three years conditional on improvements in banks' performance.
- *SOE reform* calls for a three-year plan with reform measures for one-third of SOEs, and strengthened financial discipline through curbing credit to loss makers and monitoring credit use of targeted large SOEs.
- *Trade reform* is based on implementation of commitments under the USBTA and ASEAN Free Trade Agreement (AFTA) and removal, on a multilateral basis, of QRs on six items (out of current 11) by the start of 2003.
- *Private sector development and FDI* will be promoted through an easing of barriers to entry and liberalizing the business environment, for both domestic and foreign investors, and improvements in policy transparency.

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[10] Including initial disbursements of the Nam Con Son project in the amount of US$1.4 billion and two power projects totaling US$850 million.

A. Fiscal Policy

15. **Fiscal policy for 2001 is set in a medium-term framework that is aimed at stabilizing the public debt burden consistent with low interest rates.** Public debt is already relatively large (63 percent of GDP, see Box 2) and has a significant share of SOE debt on commercial terms. Thus, timely measures to curb SOE losses and deal with nonperforming loans (NPLs) in the SOCBs are critical for reducing medium-term fiscal risks. Meeting these reform costs and keeping the debt burden manageable will also require a moderate consolidation of the government's budget over the medium term. This gradual approach is feasible, owing to Vietnam's track record of a conservative budget stance, and is also appropriate given the considerable funding need in sectors critical for poverty reduction. At the same time, revenue efforts need to be strengthened, especially to reverse the decline in non-oil revenue, and the tax net broadened in an efficient way. Also, to ensure fiscal discipline and transparency, extrabudgetary funds should be brought into the budget framework.[11]

16. **In line with this medium-term framework and given the weak external outlook, the fiscal stance for 2001 is programmed to be cautiously accommodative**. Under the approved budget and at the current WEO oil price assumption (US$26 per barrel), the overall government deficit (excluding onlending and capital costs of reform) is projected to widen to 2¾ percent of GDP,[12] and domestic bank financing would be capped at ½ percent of GDP. Excluding current reform costs, this deficit would remain broadly unchanged from 2000.

17. **Revenue and grants are projected by the staff at 20¼ percent of GDP**, reflecting efforts to streamline VAT administration and customs collections, and the reimposition of import tariffs on petroleum products in response to lower world oil prices. The 2001 budget provided for no major new tax initiatives. However, over the next two years, in order to strengthen non-oil revenue performance, the number of VAT rates and the scope for VAT and customs exemptions are programmed to be reduced. The government is seeking Fund technical assistance for strengthening tax policy and administration in these areas.

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[11] Currently, most extrabudgetary funds are self-financed, and are mainly for capital investments (totaling 3½ percent of GDP estimated for 2000). The main exceptions are the Development Support Fund and the Social Security Fund, with the former having been funded by the operating surplus of the latter.

[12] An oil price increase of US$1 per barrel would raise government oil revenue and improve the external current account each by ¼ percent of GDP. The 2001 budget as approved by the National Assembly was based on an oil price assumption of US$21 per barrel and entailed a ceiling on the overall deficit of 4 percent of GDP (official definition, excluding onlending). In approving the budget, the National Assembly also decided that this overall deficit would be reduced by 40 percent of any central government revenue in excess of the budgeted level. The programmed deficit assumes implementation of this decision.

Box 2. Vietnam: Medium-Term Fiscal Framework and Costs of SOE and SOCB Reforms

Over the medium term, the budget will need to accommodate the costs of structural reform and ensure adequate funding for the sectors critical for poverty reduction, while keeping public sector debt at a manageable level. Meeting these goals will require a moderate path of fiscal consolidation, entailing a gradual decline in the overall deficit (excluding onlending, but including the current costs of reform) from about 3 percent of GDP between 2001 and 2003 to 2 percent by 2006. The augmented budget deficit (including onlending and costs of reform) is projected to expand from 4¼ percent of GDP in 2000 to an average of 8 percent of GDP during 2001–03, but to decline to about 4 percent of GDP by 2004.

Over the program period 2001–03, the costs of SOE and banking reforms and associated social spending are tentatively projected to total about 12 percent of GDP, comprising:

SOE reform
The capital costs, tentatively estimated to total 2 percent of GDP, are mostly in the form of absorbing nonperforming loans (NPLs) owed by SOEs to be equitized or restructured. They also include the cost of resolving losses in market value of physical assets, and dealing with bad debt of SOEs not currently covered under the equitization plan (but to be equitized in the future). The NPLs of SOEs that are not slated for reform will be dealt with through the SOCB reform.

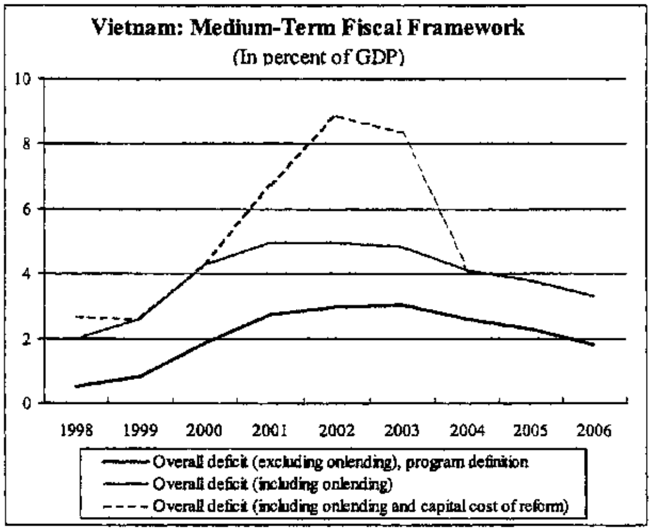
The current costs, 2 percent of GDP, cover mainly severance payments to redundant workers and interest on newly issued government bonds for debt absorption.

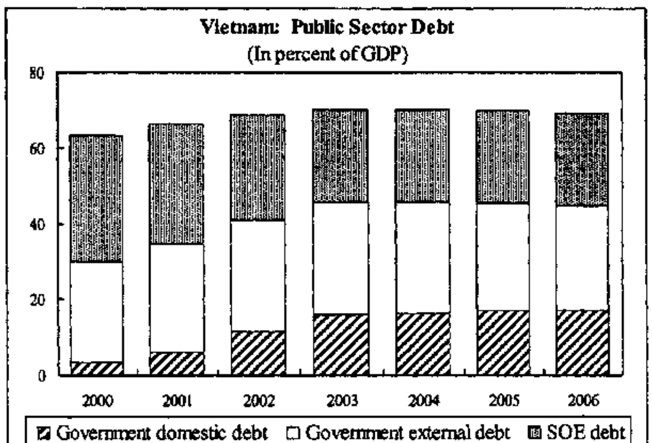
Banking reform
The capital costs, 7 percent of GDP, are chiefly for the provisioning for remaining NPLs in the SOCBs owed by SOEs and from raising the capital-asset ratio of SOCBs to international standards, and restructuring the joint stock banks.

The current cost, 1 percent of GDP, is mostly in the form of interest for newly issued government bonds to finance the capital costs.

In 2001, the capital costs of SOE and banking sector reforms are estimated at about 1¾ percent of GDP, mainly for provisioning for a small share of unrecoverable NPLs and clearing frozen SOE loans at the SOCBs, and for restructuring JSBs. Total current costs amount to about ¾ percent of GDP.

Public sector debt would remain manageable, provided the growth of SOE debt is capped at about the nominal growth rate of the economy through strengthened financial discipline and SOCB reform, inter-enterprise debt is resolved with minimal fiscal cost, and the budget position improves overtime.





1/ Based on projections using end-1999 stock of SOE debt.

Currently, the level of public debt of Vietnam is about 63 percent of GDP (staff estimate), including bank debt but excluding inter-enterprise debt of SOEs. The government's domestic debt (3 percent of GDP) is very small, and its external debt (27 percent of GDP) is all on concessional terms. Reforming the SOE sector will result in the government taking on some SOE debt, which by itself would not increase the level of debt of the public sector as a whole. Public debt is projected to peak at about 70 percent of GDP by 2004, and stabilize thereafter.

The sustainability of public debt depends critically on the success of curtailing the growth of SOE debt and improving the budget position. If, for example, growth of SOE debt remains rapid, and the budget position worsens over time because of poor non-oil revenue performance and maintenance of expenditure as a share of GDP, the required bank financing of the deficit and interest costs would rise significantly. Assuming that SOE debt grows at the rate of 20 percent annually (slightly lower than the average growth rate in the past three years) and the interest rate is 3 percentage points higher than the program scenario, public debt would grow to over 95 percent of GDP by 2006. Public debt dynamics also depend on the resolution of inter-enterprise debt. For instance, if one half of such debt had to be absorbed by the budget, then even if the SOE debt were capped at about the growth rate of the economy and the budget position improves overtime as programmed, public debt would reach about 83 percent of GDP by 2003.

18. **Government expenditure will be restrained to make room for reform costs and for the critical sectors.** Total spending is projected to rise to 23 percent of GDP, inclusive of the current costs of reform (estimated at ¾ percent of GDP, see Box 2). To contain the wage bill over time, a 16 percent wage increase this year is being accompanied by a 15 percent cut in civil servants at the central level over a three-year period under an administrative reform plan, and by a reduction in the number of retirees and pensioners covered directly by the budget.[13] Subsidies to SOEs would be avoided. Rough estimates of social spending (as recorded under the budget) point to an increase of one-half a percentage point to 7¾ percent of GDP, largely reflecting the wage increase. Within this aggregate, education and health spending is projected to rise significantly,[14] and more funds are also targeted for the poor areas, including for rural transportation, irrigation systems, and work training programs. The authorities stressed that the 2001 budget would be executed prudently, including expenditure cuts in the nonpriority sectors as necessary should revenue fall short of budget, in order to minimize bank financing and to stay within the deficit ceiling set by the National Assembly.

19. **Drawing on the Public Expenditure Review (PER) recently concluded with World Bank and donor assistance**, the government intends over time to strengthen expenditure management and enhance the transparency, efficiency, and equity of government operations. These efforts would include improving fiscal reporting (through expanded publication of the annual budget and including extrabudgetary transactions), restoring a better balance between recurrent and capital spending, and developing a medium-term expenditure framework.[15]

B. Monetary and Exchange Rate Policies and Banking Sector Reform

20. **Monetary policy and banking reform have been coordinated to ensure low inflation, safeguard the banking system, and buttress SOE reform.** In particular, restraining credit to SOEs would reinforce the strict lending discipline envisaged under SOCB reform and harden the budget constraints of highly indebted enterprises as part of SOE reform. In this context, the monetary stance will be tightened in 2001, in line with the inflation and foreign reserve objectives of the government's program. Broad money growth is expected to slow to 23 percent, on the assumption of continued confidence and inflows of foreign currency deposits and consistent with a trend decline in velocity. The rate of bank credit expansion is targeted to fall steadily to 28 percent by June and to 20 percent by year end, which is judged to be sufficient to maintain the momentum of economic recovery; credit growth for SOEs will be limited to 12 percent during 2001. The design of credit policy has

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[13] This reduction is being achieved by paying new retirees and pensioners from the Social Security Fund.

[14] The recording of social spending needs to better capture the full scope of such expenditure. In particular, the budget coverage of social capital investment may be understated. Moreover, in recent years, a share of social spending has been decentralized to local administrative units outside the budget.

[15] Key PER recommendations are included in the program being supported by the World Bank's PRSC and can be found in the Letter of Development Policy.

been complicated by the unusual difficulty of gauging the potential impact of the recent credit expansion on inflation and bank asset quality. The impact of credit policy on inflation performance will need to be monitored closely under the program. To this end, the authorities and staff have agreed to conduct informal reviews of credit and monetary developments and policy for 2001 on a quarterly basis.

21. **To contain credit growth,** the SBV has agreed to limit its advances to banks to no more than D 3.5 trillion in 2001 (1½ percent of projected broad money at year end) and, if necessary, impose bank-by-bank credit ceilings. Increasing reliance would also be placed on indirect instruments of credit control, including through more active use of the discount rate and open market operations. Additional steps will be needed to enhance the effectiveness of monetary management, including greater availability of short-term discountable paper, secondary market development, and a further relaxation of controls on lending rates. The base rate mechanism,[16] introduced in August 2000, provided a start by widening the allowable range in which banks set lending rates. Staff stressed that containing credit growth would be facilitated by further liberalizing lending rates. Thus, as a first step, SBV officials were encouraged to reassess the base rate more frequently and give banks greater leeway in setting lending rates around it, in keeping with banks following strict commercial lending criteria.

22. **Consistent with a more restrained monetary policy and ongoing structural reform, the exchange rate is expected to be managed more flexibly**. SBV officials emphasized that reliance on administrative measures would be minimized, and noted that steps would be taken to deepen the interbank market and to limit official intervention to meeting the international reserves target. Also, the 50 percent surrender requirement on export proceeds will be phased out within the PRGF period, and the remaining restrictions on current international transfers and payments will be removed by end 2002, enabling acceptance of Article VIII, Sections 2, 3, and 4 of the Fund's Articles of Agreement.

23. **The program provides for a targeted reform of the banking sector,** aimed at restoring financial soundness. Over the next three years, this reform is centered on restructuring the four large SOCBs, while continuing to rationalize the JSBs and improve the regulatory framework and supervision of all banks. To contain the fiscal cost of SOCB reform, the authorities are giving priority to enforcing lending discipline to stem the flow of bad loans, phasing out policy lending, and putting bank operations on a strictly commercial basis. Furthermore, the existing stock of NPLs will be resolved through SOCBs' own asset management companies and loan workout units to be set up in 2001. This overall approach (see Box 3 and MEFP paragraphs 15–19) is designed to minimize moral hazard, consistent with the program's medium-term macroeconomic framework.

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[16] Under this mechanism, the SBV sets a base lending rate and margins above this rate to serve as limits for lending rates charged by banks.

Box 3. Vietnam: Banking Sector Reform

The banking sector is dominated by the four large state-owned commercial banks (SOCBs), which have had weak lending practices and developed a large stock of nonperforming loans (NPLs), mainly to SOEs. Together, these banks account for 70 percent of total bank credit, and for nearly 85 percent of credit growth in 2000. Under Vietnamese accounting standards (VAS), NPLs on average amount to 13 percent of outstanding loans. Staff estimates, based on diagnostic audits on international accounting standards (IAS) during 1996–1998, suggest an average NPL ratio of at least 30 percent.

Overall restructuring framework for the SOCBs
The SBV adopted in March 2001 a restructuring framework to guide individual SOCB reform plans. This framework contains the following key elements aimed at improving management and operations of the SOCBs:

- ***Increased transparency to assess the true size of NPLs***: Decision 284 will be amended by end 2001 to move loan classification to international standards. In the meantime, each SOCB will undertake independent external IAS audits to assess NPLs at end 2000 and provide a basis for measuring financial performance.

- ***Phased recapitalization of each SOCB over a three-year period***: SOCBs will receive annual tranches of government funds for recapitalization, but only after implementing key reform measures and meeting bank specific financial targets as agreed on an annual basis in an explicit understanding with the SBV.

- ***Resolution of NPLs***: Each SOCB will set up an asset management company (AMC) and a loan-workout unit (LWU) with specific NPL recovery targets. Only SOEs with a restructuring plan approved by the Ministry of Finance and relevant creditor banks will be eligible for debt relief.

- ***A phase-out of policy and noncommercial directed lending***: Such lending by the SOCBs will be eliminated except under limited and specifically identified circumstances with explicit government guarantees.

Vietcombank (VCB) restructuring plan, adopted in March 2001, provides for:

- ***Performance targets and reform measures***: Specific targets are expected to include a capital-assets ratio of 6 to 8 percent, a return on assets of at least 0.5 percent, and NPLs below 4 percent of total loans outstanding by the end of the three-year restructuring period. Operational measures are expected to strengthen risk management and decision-making.

- ***Mechanism for NPL resolution***: Collateralized NPLs will be handled by the AMC, while the LWU will resolve noncollateralized NPLs, including completion of (i) a loan classification for all loans and recovery action plans for bad loans to the 50 largest debtors in the first year, and (ii) recovery plans for bad loans to the remaining debtors by 2002. The NPL recovery rate for the LWU is tentatively targeted at 10 percent in 2001, rising to 25 percent by 2002, and 35 percent by 2003. Over the three-year restructuring period, provisions based on IAS will be phased in accordingly.

Joint stock bank (JSB) restructuring
The financial assessment of the 48 JSBs has been completed. By end 2000, the government had placed 13 banks under special supervision, with two licenses revoked and one bank merged. Licenses of seven more banks are expected to be revoked in the first half of 2001. In addition, licenses of a number of other JSBs with weak prudential ratios would be revoked unless they meet capital adequacy targets by October 2001. Over the next two years, the total number of JSBs is expected to be halved.

Improvements in legal and regulatory framework
Beyond moving classification and provisioning to international norms, further improvements to the regulatory and legal framework will include a strengthening of creditor rights to facilitate foreclosure and liquidation of assets, a risk-based approach to banking supervision, and reinforcement of on-site inspection and off-site supervision.

24. **In order to assess the true financial conditions of the SOCBs, the four large SOCBs will undergo independent audits of their 2000 accounts on international accounting standards (IAS).** Decision 284 of the SBV will also be amended by year end to bring loan classification to international standards. The audits are expected to assist in refining estimates of each SOCB's need for recapitalization. Audit contracts for two SOCBs have already been awarded, and donors have indicated funding support for audits of the two remaining SOCBs; the SBV's formal acceptance of donor funding arrangements is a prior action for the program. In the context of the individual SOCB restructuring plans, the SBV will establish a three-year timetable and the terms for phased recapitalization of each bank. The specific funding mechanism for debt resolution and recapitalization will depend on each bank's needs and performance, but with a view to limiting the demand for government budget resources. Management accountability and lending practices would be improved, including through strict control of lending to enterprises with overdue debt and/or inefficient operations. By end 2003, the government will seek to secure for one of the six SOCBs[17] a strategic equity participation from a reputable foreign banking partner.

25. **As a further safeguard for strengthening bank operations and minimizing reform costs**, only SOEs under government-approved reform measures will benefit from debt relief provided in the context of SOCB restructuring. Moreover, the program contains, as a performance criterion, a ceiling on banking system credit to SOEs, and as quarterly benchmarks, bank credit and budget support will be monitored for the targeted 200 SOEs with large debt. Implementation of the restructuring plans for individual SOCBs is to be monitored under the program being supported by the World Bank's PRSC.

C. Other Structural Reforms and Safety Nets

26. **In order to curb SOE losses and improve SOE efficiency, the government adopted in March 2001 a medium-term SOE reform plan, with annual targets**, covering the period 2001–03 (see Box 4 and MEFP paragraphs 20–23).[18] Under the plan, about one-third of SOEs will be subject to reform measures (equitization, divestiture, and closure). Preliminary estimates indicate the program should directly cover about 10 percent of SOE debt. However, along with safeguards to strengthen the financial discipline of SOEs noted above, sustained implementation of this plan should provide a credible first step for dealing with the deep-seated problems in this sector.

27. **Over the period 2001–03, total SOE reform cost is estimated at 5 percent of GDP, mainly for debt resolution and safety nets for labor redundancies**. Recognizing that SOEs not included in the reform list still have a dominant presence and include some large loss-makers, the government will consider over time subjecting additional nonviable

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[17] Also includes the two smaller SOCBs.

[18] This three-year plan is part of a five-year plan that targets one-half of SOEs for enterprise specific reform measures, to ensure a competitive SOE sector by 2005.

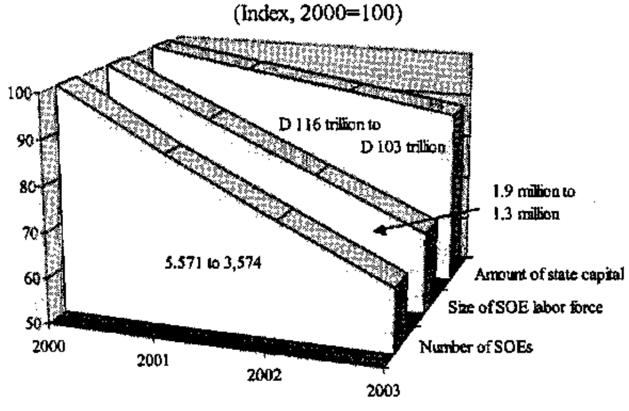
Box 4. Vietnam: Targets of State-Owned Enterprise Reform

Currently, SOEs account for around 30 percent of GDP and the bulk of bank credit. SOE inefficiencies are due to overstaffing and outdated technology, and are reinforced through trade protection and excessive leveraging. Despite relatively low interest rates in the last two years, one-half of SOEs are reportedly loss-makers or marginally profitable. Total SOE debt (including interenterprise debt) was officially estimated at D 190 trillion at end 1999 (48 percent of GDP), a large proportion of which is owed to banks and is nonperforming, thus contributing to a weakening of the SOCBs.

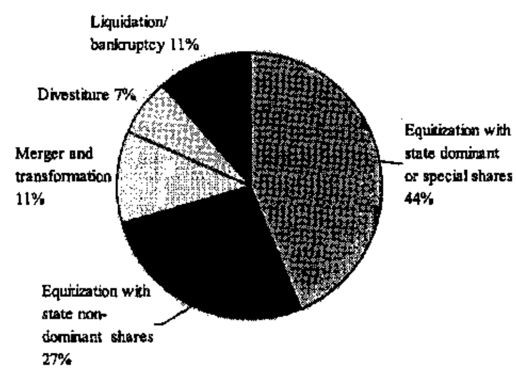
In March 2001, the government adopted a five-year SOE reform plan, with annual targets specified for the first three years (2001–03). The objectives of the plan are to reduce losses and improve competitiveness. During 2001–03, around 1,800 out of 5,571 SOEs will be subject to enterprise-specific reform measures, mostly through equitization (1,400), divestiture (140), or liquidation/closure (220). An additional 200 enterprises will face merger/consolidation.

Under the plan, SOEs subject to enterprise-specific reform measures comprise 31 percent of total SOE employment, 11 percent of state capital, and 10 percent of SOE debt. These SOEs are mainly small to medium scale. During the first-year PRGF program, the targets are to equitize, divest, or liquidate/close 600–650 enterprises and merge/consolidate 80–90. The cost of safety nets (for approximately 250,000 redundant workers expected over three years, or 13 percent of SOE employment) and debt resolution will be covered by the government's own and external concessional resources (see Box 2). Detailed implementation of this plan will be monitored under the Bank's PRSC.

Vietnam: Three-Year SOE Reform Framework
(Index, 2000=100)



Vietnam: Types of SOE Reform, 2001-03



Other main elements of the reform plan, also monitored under the PRSC, are to:

- **Strengthen and streamline the equitization process** by amending Decree 44, mainly to (i) remove ownership caps on domestic investors in equitized SOEs to attract more strategic investors, and (ii) require 30-day advance publication of details of prospective sales of SOEs.
- **Restructure three large general corporations** (Vinatea, Vinacafe, and Vinatex, which comprise 150 SOEs), with annual milestones over the next two years for improving corporate governance and overall competitiveness.
- **Conduct operational reviews** (i.e., diagnostic audits) using independent auditors for another 100 large SOEs to prepare the ground for their restructuring.

Over the medium term, trade reform is expected to bring additional SOEs into the restructuring framework (see Box 5).

loss-making SOEs to closure/liquidation and highly leveraged, larger SOEs to reform. Under the parallel PRSC, the World Bank will monitor implementation of SOE reform, including measures aimed at streamlining the equitization process.

28. **To enhance Vietnam's competitiveness, the government is pursuing further economic integration, through implementing commitments under AFTA and the USBTA** (Annex V). Actions envisaged under these agreements would accelerate the liberalization of Vietnam's relatively restrictive trade regime.[19] AFTA tariffs on the majority of tariff lines will be reduced to 20 percent by 2003 and to 0–5 percent by 2006. In addition, under the PRGF-supported program, QRs will be removed on six items on a multilateral basis at the latest by the start of 2003 (Box 5 and MEFP paragraph 24); by that time, QRs will remain on five items (motorcars, motorcycles, sugar, alcohol, and petroleum products). Also, trading rights, which have already been liberalized for domestic firms, would be further liberalized for FIEs in the context of further revisions to the Foreign Investment Law. More generally, the implementation of the USBTA could help pave the way for Vietnam's accession to the World Trade Organization (WTO). Overall, these trade measures are expected to expand export markets and strengthen competitiveness in the manufacturing and services sectors, and also foster the necessary restructuring in the affected SOEs, if buttressed by restraint on credit to loss-making SOEs.

29. **As noted earlier, the legal framework for private sector participation in Vietnam's economy has been improved recently**, through the new Enterprise Law and revisions to the Foreign Investment Law. Determined efforts are now needed to sustain policy implementation under these laws, in order to regain investor confidence and promote the SME sector. Administrative procedures will need to be streamlined and bureaucratic barriers removed. The government intends to open up additional subsectors to the private sector through further easing of business license procedures, and to enhance SMEs' access to land and to incentives under the Law on Domestic Investment Promotion. For foreign investors, the dual pricing system for labor costs and utility rates is also expected to be phased out. Furthermore, effective mechanisms are needed for dispute resolution and enforcement to protect investor rights.

30. **The program's approach to reform is measured and focused, for a manageable social impact.** From higher growth and trade opening measures, the program is expected to benefit the poor through more employment opportunities (especially in the SME sector) and lower prices for critical inputs. However, labor redundancies in the context of SOE, trade, and administrative reforms are anticipated. Safety nets for workers affected by SOE reform have been put in place with technical assistance from the Bank and bilateral donors, and provisions made in the budget. In addition, the Bank is planning to assess the potential impact of trade reform on the poor to identify possible measures to ease the transition.

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[19] Vietnam's current trade regime is rated 9 on the Fund's 10-point scale of trade restrictiveness (where 10 is the most restrictive). QR removal as envisaged by early 2003 would lower Vietnam's rating to 6.

Box 5. Potential Impact of Commitments Under ASEAN Free Trade Agreement and U.S. Bilateral Trade Agreement on Trade and SOE Efficiency

Under the framework of AFTA and the USBTA, Vietnam is committed to undertake several trade reforms—reduction of import tariffs, phased elimination of quantitative restrictions (QRs), and liberalization of trading rights—which aim to increase integration and improve competitiveness (see Annex V for a summary of the main commitments). These measures are expected to have a direct positive impact on trade and investment, and to subject producers in Vietnam to increased external competition, especially the inefficient SOEs, which have so far been shielded from such competition.

Potential impact on trade and investment flows

- **Expansion in markets**: Trade reforms under AFTA and the USBTA (and a similar agreement under discussion with the EU) should increase both intra-regional trade with ASEAN partners and trade with the U.S. and the EU. These three regions make up the vast bulk of Vietnam's trade. In particular, the USBTA is expected to provide a substantial boost to Vietnam's exports (and related FDI), especially for garments, footwear, seafood, and electronics. The World Bank has estimated that such exports could surge by US$600 million per year (5 percent of exports in 2000). Garment exports, in particular, could increase by as much as fifteen-fold.
- **Improvement in Vietnam's competitiveness**: Since AFTA members are relatively efficient producers of manufactured goods, liberalization under AFTA should increase intra-ASEAN trade and strengthen Vietnam's efficiency. For investment, in particular, data indicate that agriculture, light manufacturing (including garment and footwear sectors), and other manufactured exports in Vietnam have received in general a much lower share of foreign investment flows than in other regional countries such as China, due to restrictions and bureaucratic impediments on such FDI. With the trade reform now underway, these sectors could see increasing FDI if the environment for FDI is improved as programmed, and higher factor productivity and exports. Foreign entry into the services sector could also strengthen the competitiveness of Vietnamese suppliers of services and help attract FDI.

Potential impact on SOE efficiency and domestic costs

- **Rationalization of the SOE sector**: Loss-making SOEs are prominent in the manufacturing sector now slated to be opened up to competition under AFTA. Based on rough staff estimates, 10 percent of SOEs (in terms of state capital) are direct producers of the six products subject to QR removal by 2003, and to lower AFTA tariffs (Common Effective Preferential Tariffs (CEPT) are expected to be at most one-half of the current tariffs by 2004). Of the 200 large SOEs targeted for close debt monitoring, 10 percent would also be affected directly by such measures. Competitive pressures should help to rationalize these affected SOEs, through forcing their restructuring, particularly if this process is backed by complementary SOCB reform to stem directed credit to loss-making SOEs.

Efficiency gain and cost reduction: The removal of QRs is expected to reduce the costs of critical inputs such as cement and fertilizer and thus increase efficiency and competitiveness of downstream sectors. For example, in a study by the World Bank in 1999, it was estimated that as a result of existing NTBs, domestic prices of these products were 20–40 percent higher than international prices.

D. The External Sector and Balance of Payments Outlook

31. **Vietnam's external position is expected to strengthen over the medium term, with sound macroeconomic policies and structural reforms to improve competitiveness and attract FDI**. For 2001, the external financing gap, at US$400 million, is expected to be fully covered by prospective program support from multilateral and bilateral donors under the proposed PRGF. Over the period 2001–03, export and import volumes are projected to grow considerably, including imports for large oil and gas projects (Annex VI). The external current account deficit is projected to average 2–3 percent of GDP over the medium term, and gross official reserves are targeted to rise to 9¼ weeks of import cover by end 2003 (Table 7).

32. **The program provides for a prudent external debt policy to ensure a sustainable debt burden.** Relations with creditors are now fully normalized, with the conclusion in September 2000 of the rescheduling agreement with Russia.[20] Under the program, official financing needs are being met primarily on concessional terms, and limits have been set for 2001 on nonconcessional external borrowing and guarantees by the public sector (the government, including the SBV). These limits (cumulative commitments of US$550 million, or an estimated 6 percent of outstanding public external debt) are mainly in the form of guarantees to facilitate investments in key economic sectors, notably oil and gas, and for a pilot bond placement to test access to international capital markets. On the basis of such borrowing and other program financing, debt and debt-service indicators are projected to stay within a comfortable range (Figure 5).[21] By 2005, the ratio of debt to exports is projected to stay around 70 percent, and the debt service ratio to fall to about 5 percent. In addition, a comprehensive monitoring system is in place, which sets an overall ceiling and the broad terms for private sector and FDI-related borrowing. In order to protect the medium-term fiscal position, the staff stressed that careful attention would need to be given to appraising the commercial viability of the projects concerned and ensuring that such borrowing is in line with program understandings on SOE reform.

33. **Vietnam has in recent years maintained a sound record in meeting debt service obligations to the Fund**. With implementation of the PRGF-supported program, it can be expected that Vietnam will fully meet prospective Fund obligations; annual debt service to the Fund would amount to about 0.3 percent of exports of goods and nonfactor services over the period 2001–05, and would fall to an average 0.2 percent during 2005–10.

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[20] This agreement resulted in a reduction of 85 percent of the original loan amount. The remaining debt amounts to about US$1.7 billion, to be repaid over 23 years at an interest rate of 5 percent.

[21] A preliminary analysis by the staff indicates that under the program's medium-term scenario and factoring in prudent limits on nonconcessional borrowing, Vietnam's external debt would be sustainable over the medium to long term. A full debt sustainability analysis will be undertaken in the context of the 2001 Article IV consultation.

34. **Vietnam's external vulnerability remains low, in view of its relatively closed capital account and limited access to capital markets.** As noted above, external debt indicators are manageable (Table 8). The most important sources of risks, with an uncertain spillover into the external sector, are in the banking and SOE sectors. While the available stress indicators are inadequate, the staff believes that both the SOEs and the SOCBs are relatively more vulnerable to a sharp rise in interest rates than a sharp fall in the exchange rate, given the preponderance of domestic currency debt. Vietnam also remains susceptible to terms of trade shocks (particularly from volatile oil prices), but this vulnerability has declined over time with increasing export diversification away from commodity exports.[22]

E. Statistical Issues

35. **There is considerable scope for strengthening Vietnam's statistical base, despite recent improvements.** Macroeconomic data need to be brought in line with international standards with respect to their collection, production, and dissemination, including through statistical publications. Improved and more comprehensive economic and financial data will be needed to enhance policy transparency and boost investor confidence. To this end, an *IFS* page for Vietnam will be finalized by March 2001, and under the program during 2001, the government is seeking Fund technical assistance to strengthen the quality of national accounts and balance of payments statistics (especially for FDI). The presentation of money and banking and government finance statistics will also need to be unified and brought more in line with *IFS* and *GFS* standards. In addition, the authorities intend to accelerate preparations for participating in the General Data Dissemination System (GDDS) as a means to developing a medium-term program to upgrade the overall statistical system.

F. Program Monitoring and Implementation Capacity

36. **Risks to program implementation derive from the fragile political consensus for reform and the government's key concern to ensure social stability.** Resistance from vested interests, in the sensitive SOE sector and to trade reform in particular, could intensify as program measures come into effect. To address these risks, the program provides for significant prior actions to commit Vietnam to a reform path that should not be readily reversible. The program also incorporates safety nets for affected workers to partly ease the transition. Furthermore, it provides for close monitoring of the implementation of macroeconomic and structural policies through performance criteria and benchmarks, and through program reviews (Attachment III). The monitoring of structural policies is being coordinated with the Bank's PRSC, which focuses on the detailed implementation of the SOE and SOCB reforms. Both of these reforms are subject to reviews under the prospective PRGF arrangement, the first of which is scheduled for end-September 2001.

37. **Monitoring will need to take account of the weaknesses in Vietnam's statistical base.** While reporting lags for data required under program monitoring will be reduced, key financial indicators will need to be tracked on the basis of Vietnam's accounting practices and reporting systems, which currently fall short of international norms. This limitation applies in particular to the performance criterion on bank credit to SOEs, which is based on

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[22] The share of commodity exports has fallen to about 35 percent of total exports in 2000.

data reported by banks with an estimated component.[23] Other potential issues of classification and coverage in the monetary accounts might also arise, which will need to be addressed during envisaged quarterly reviews with the staff on monetary developments. Also, the monitoring of benchmarks on bank credit and budget support to the targeted 200 large SOEs is based on a newly introduced reporting system, the accuracy of which cannot be independently verified.

38. **Under the safeguards policy**, the SBV is subject to a full Stage One safeguards assessment, which includes determining whether the external audit mechanism meets internationally accepted standards. Vietnam has had no external audit of its State Bank to date, but the authorities have committed to initiate one beginning with the 2001 financial statements, which is expected to be completed by June 2002. Once completed and made available to the staff, the audited financial statements will be subject to the normal safeguards assessment to ascertain whether they meet internationally accepted standards. Meanwhile, the staff is preparing a full Stage One assessment, which is expected to be completed at the latest by the time of the first program review.

39. **Risks to the program also derive from Vietnam's weak administrative and untested technical capacity in the critical areas of SOE and SOCB reforms**. To reduce these risks, extensive technical assistance from the Bank, Fund, and donor community will need to be provided. The Bank is coordinating technical assistance with interested bilateral donors, particularly to support banking reform. As noted earlier, the authorities are requesting Fund technical assistance to strengthen tax policy and administration and to support the SBV in overseeing the restructuring of the SOCBs.

V. Staff Appraisal

40. **Vietnam's economic recovery from the spillover effects of the Asian crisis has continued and the pace of policy reform has stepped up**. Recent growth has been spurred by export demand and domestic stimulus, while inflation has remained low. This positive performance can be attributed to generally prudent fiscal policy and to policy initiatives that have begun to open up the economy to competition and to foster private sector development.

41. **The government's program, for which PRGF support is being requested, seeks to build on this record and policy momentum**. The program aims at raising rates of economic growth and poverty reduction to match Vietnam's potential. The reform agenda is appropriately centered on accelerating structural reforms to boost private investment and competitiveness of the economy. The key policy elements include maintaining macroeconomic stability, reforming the SOCB and SOE sectors, and liberalizing the exchange and trade regimes and the business environment to level the playing field between the state and private sector. Because this reform agenda entails a redirection of policies, it has taken time to develop and to gain the needed political support.

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[23] The authorities indicated that this component has recently averaged 5 percent of the reported data.

42. **The macroeconomic outlook for 2001 should remain favorable, despite the uncertain external environment.** While output growth is projected to moderate slightly on account of weaker export performance, growth should nonetheless remain relatively strong in view of robust domestic demand, especially from a revival of investment. In spite of latent inflationary pressures from the rapid credit growth in 2000, inflation should remain in check, provided credit policy is tightened as programmed. This tightening will also be critical to protect banks' asset quality. The authorities will need to closely monitor signs of inflationary pressures and be prepared to take additional measures in a timely way, including in the context of the envisaged quarterly reviews of monetary developments with the staff.

43. **To ensure a sustainable public debt burden over the medium term, it will be essential to continue a cautious fiscal stance, and to implement SOE and SOCB reform plans in a way that minimizes potential fiscal costs and moral hazard.** The 2001 fiscal stance is prudent, balancing the need to support a still fragile recovery with the need to meet the costs of structural reforms, and is consistent with medium-term sustainability. The authorities have stressed that the budget would be executed within the deficit limits set by the National Assembly and with expenditure restraint to ensure funding for the critical social sectors. Furthermore, over the next two years, they are committed to improve the performance of non-oil revenue by strengthening both tax policy and administration, where Fund technical assistance would be sought. Emphasis would also be given to improving public expenditure management, including the transparency and efficiency of spending, and the budget's pro-poor focus. Above all, the authorities recognize that the key to reducing medium-term fiscal risks lies in the strong implementation of well-designed SOCB restructuring plans and in strengthening the financial discipline of SOEs.

44. **The programmed liberalization of the exchange regime and steps to further improve the business environment will be essential in order to restore investor confidence.** With the uncertain external outlook and ongoing structural reforms, exchange rate policy will need to be managed more flexibly, avoiding reliance on administrative measures. Steps taken as prior actions to liberalize the exchange system are welcomed, but the foreign exchange surrender requirement should be phased out as soon as possible. Moreover, the government will need to take further measures to ease barriers to entry for private enterprises and to streamline bureaucratic procedures, so as to ensure a fair and predictable business environment.

45. **The external sector is expected to strengthen with program implementation, and to remain viable.** Medium-term external debt indicators are projected to be in a sustainable range, taking account of commercial borrowing for key economic sectors envisaged under the program's external debt ceilings. To protect the medium-term fiscal position, however, the authorities will need to carefully appraise the commercial viability of projects that are to enjoy government guarantees.

46. **Attaining the objectives of the program will hinge on the close coordination of credit policy with SOCB reform.** The adopted restructuring framework for the SOCBs adequately provides for improved transparency and accountability and for oversight by the SBV. Top priority will now need to be given to defining and implementing the restructuring

plans for each of the four large SOCBs in conformity with this framework. To put the restructuring process on a firm footing, audits on international standards of these banks will need to be completed on schedule, to allow a full assessment of the burden of NPLs. Looking ahead, loan classification and provisioning will need to be swiftly moved to international standards, following the amendment of Decision 284 by end 2001 as programmed. To contain costs, specific measures need to be put in place to stem the flow of bad loans and to ensure that SOCB management is subject to market discipline. These objectives can be best secured through a phased recapitalization over the next three years, conditional on banks meeting specified improvements in performance. Progress under this timetable would facilitate strategic equity participation in one of the SOCBs by end 2003, as envisaged under the program.

47. **With respect to SOE reform, while the government's three-year plan is less ambitious than the staff recommended, it is a meaningful first step and has been judged by the government as politically feasible.** Sustained implementation of this plan, together with safeguards to strengthen SOE financial discipline, would represent a credible start to the medium-term process of reforming the SOE sector, and would be consistent with attaining the program's macroeconomic objectives. Among the critical safeguards, it will be particularly important to restrain new credit to nonviable SOEs, to confine debt relief only to those SOEs subject to reform measures or with well-defined and approved restructuring plans, and to closely monitor credit and budget support to the targeted 200 large SOEs. The government should also stand ready to build on the experience with this reform, and over time extend the reform list to include additional nonviable SOEs (for closure) and highly leveraged large SOEs.

48. **The trade reform measures envisaged under the program are significant and complementary to SOE reform.** To reap their full benefits, the authorities will need to firmly implement Vietnam's commitments with key trading partners, and follow through with the planned removal of the majority of QRs on a multilateral basis by the start of 2003. This process can be expected to strengthen competitiveness and, together with credit restraint, help to rationalize those SOEs in the affected sectors.

49. **Improved policy and data transparency will be essential to restoring investor confidence.** The staff welcomes recent steps to this end, notably the finalization of an *IFS* page for Vietnam and the publication of the MEFP, as well as the I-PRSP.

50. **The I-PRSP has been prepared in a broad consultative process and meets the core requirements.** Building on this, the authorities will need to define a work program for developing a full PRSP, with emphasis on quality rather than speed. This work program should be aimed at filling the analytical/information gaps, preparing and costing specific poverty reduction policies, and further strengthening the participatory process.

51. **Risks to the program are considerable but manageable**, provided the present political backing to the reform strategy is sustained. The main risks to program implementation stem from potential resistance from vested interests and from Vietnam's capacity constraints. The envisaged safety nets to ease the transition of affected SOE workers should be helpful in this context. Furthermore, extensive technical assistance from the Bank, Fund, and bilateral donors will be required to boost implementation capacity, especially in SOE and SOCB reforms. Close monitoring of the program will also be essential, including in close coordination with the Bank's PRSC. In this connection, the Stage One safeguards assessment is expected to be completed by September 2001, and the authorities are committed to complete an external audit of the 2001 financial statements of the SBV by June 2002.

52. **The staff considers the proposed policy reforms to be appropriately comprehensive and realistic for achieving the program's objectives**. The proposed PRGF access is consistent with these envisaged policy reforms, and with Vietnam's balance of payments need and outstanding use of Fund credit. The government's reform program merits the support of the international community, and the staff therefore recommends Board approval of the authorities' request for an arrangement under the PRGF.

VI. Proposed Decision

The following decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

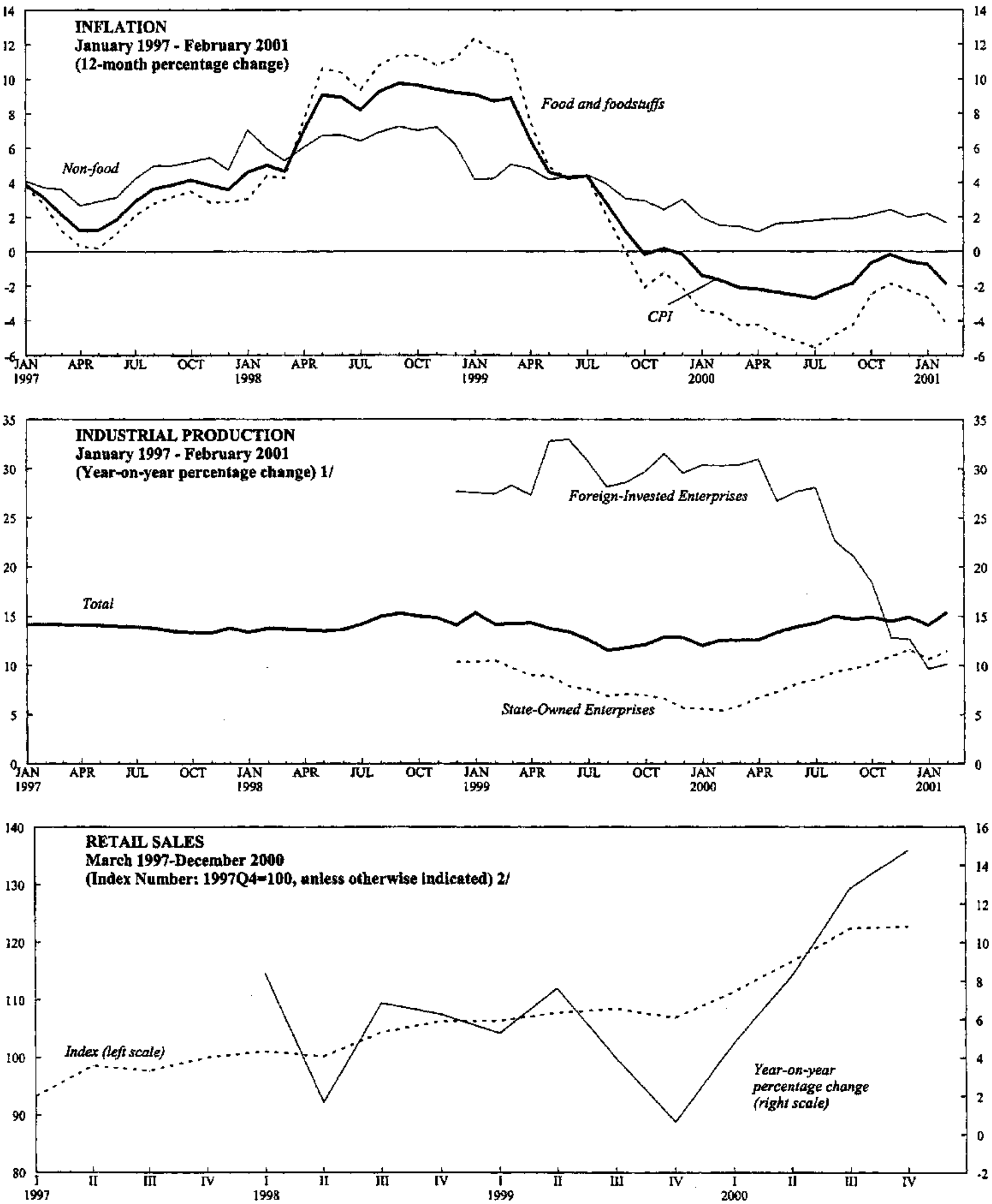
1. The Government of Vietnam has requested a three-year arrangement under the Poverty Reduction and Growth Facility in a total amount equivalent to SDR 290 million.

2. The Fund determines that the Interim Poverty Reduction Strategy Paper (I-PRSP) for Vietnam set forth in EBD/01/32, 3/23/01 provides a sound basis for the development of a fully participatory Poverty Reduction Strategy Paper (PRSP), and for Fund concessional financial assistance.

3. The Fund adopts the following decision in principle, which shall become effective on the date on which the Fund decides that the World Bank has concluded that the I-PRSP submitted by Vietnam provides a sound basis for the development of a fully participatory PRSP and for World Bank concessional financial assistance:

> "The Fund approves the arrangement set forth in EBS/01/43, and decides that Vietnam may request the first disbursement under the arrangement, on the condition that the information provided by Vietnam on the implementation of the measures referred to in Table 4 of the Memorandum on Economic and Financial Policies of the Government of Vietnam attached to the letter dated March 14, 2001 is accurate."

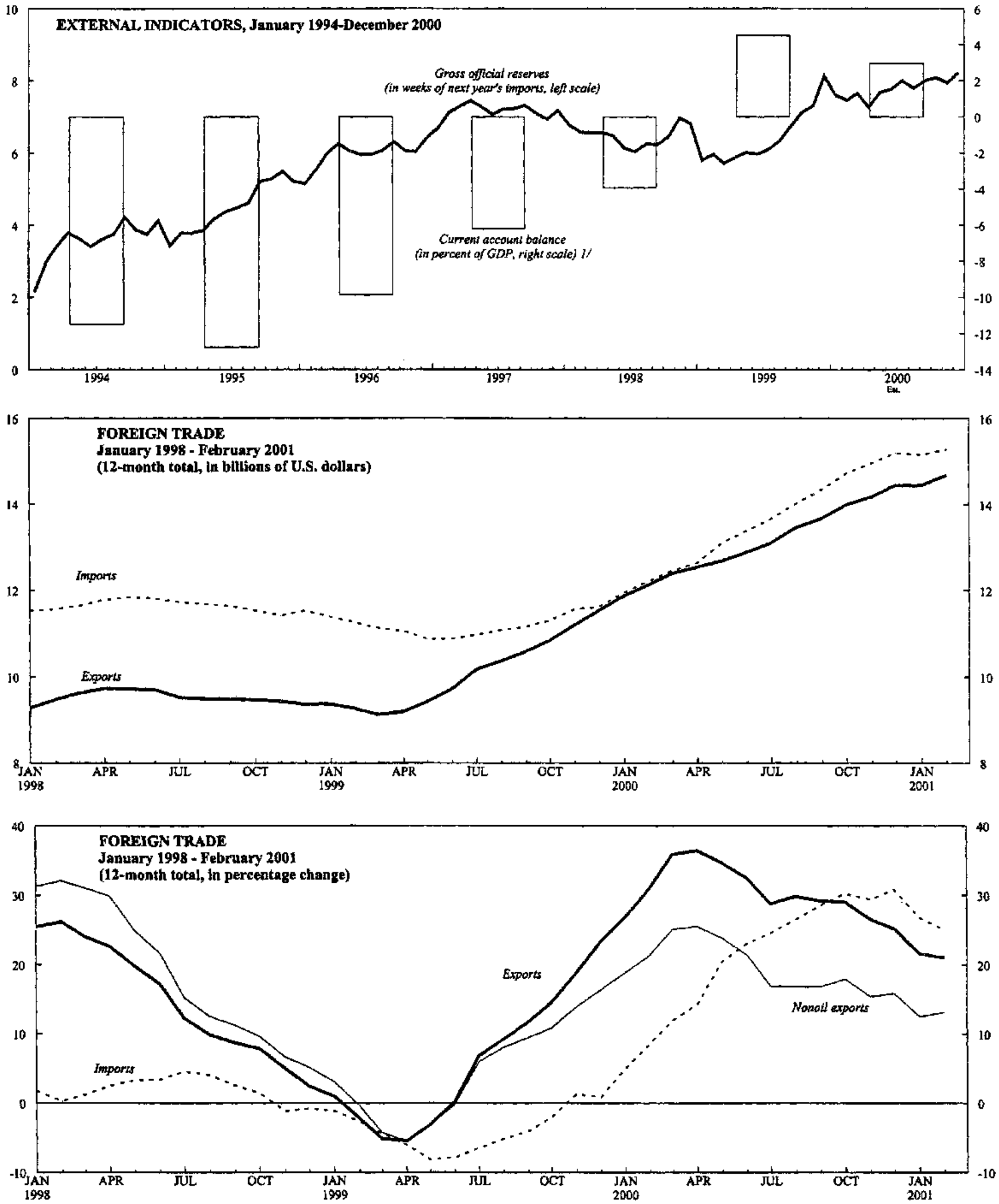
Figure 1. Vietnam: Selected Economic Indicators, 1997-2001



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

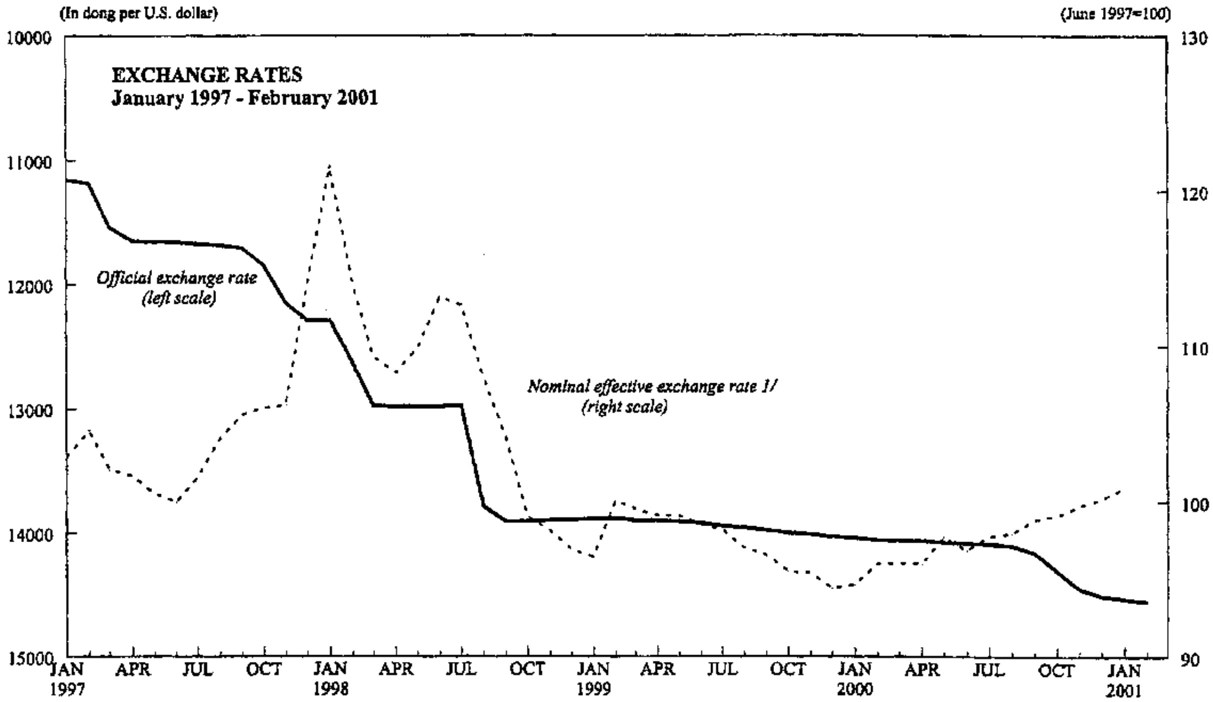
1/ 12-month moving average.
2/ Index of sales over preceding 12-months deflated by consumer price index.

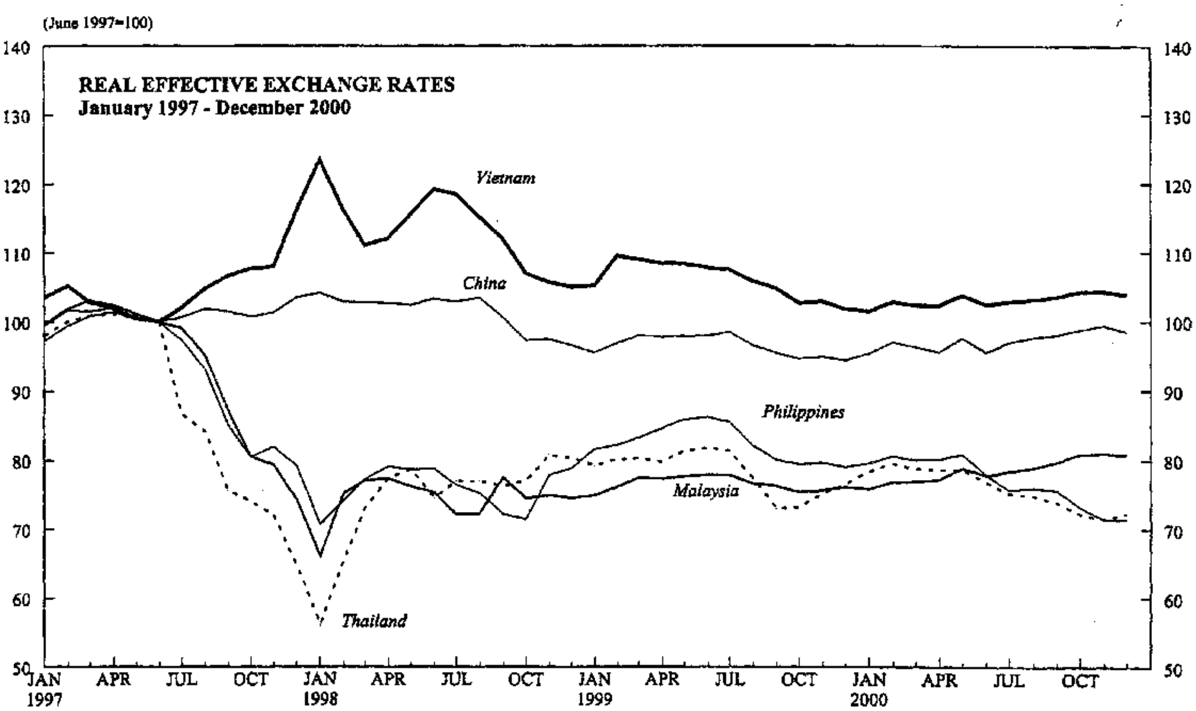
Figure 2. Vietnam: External Sector Developments, 1994-2001



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

Figure 3. Vietnam: Exchange Rate Indicators, 1997-2001

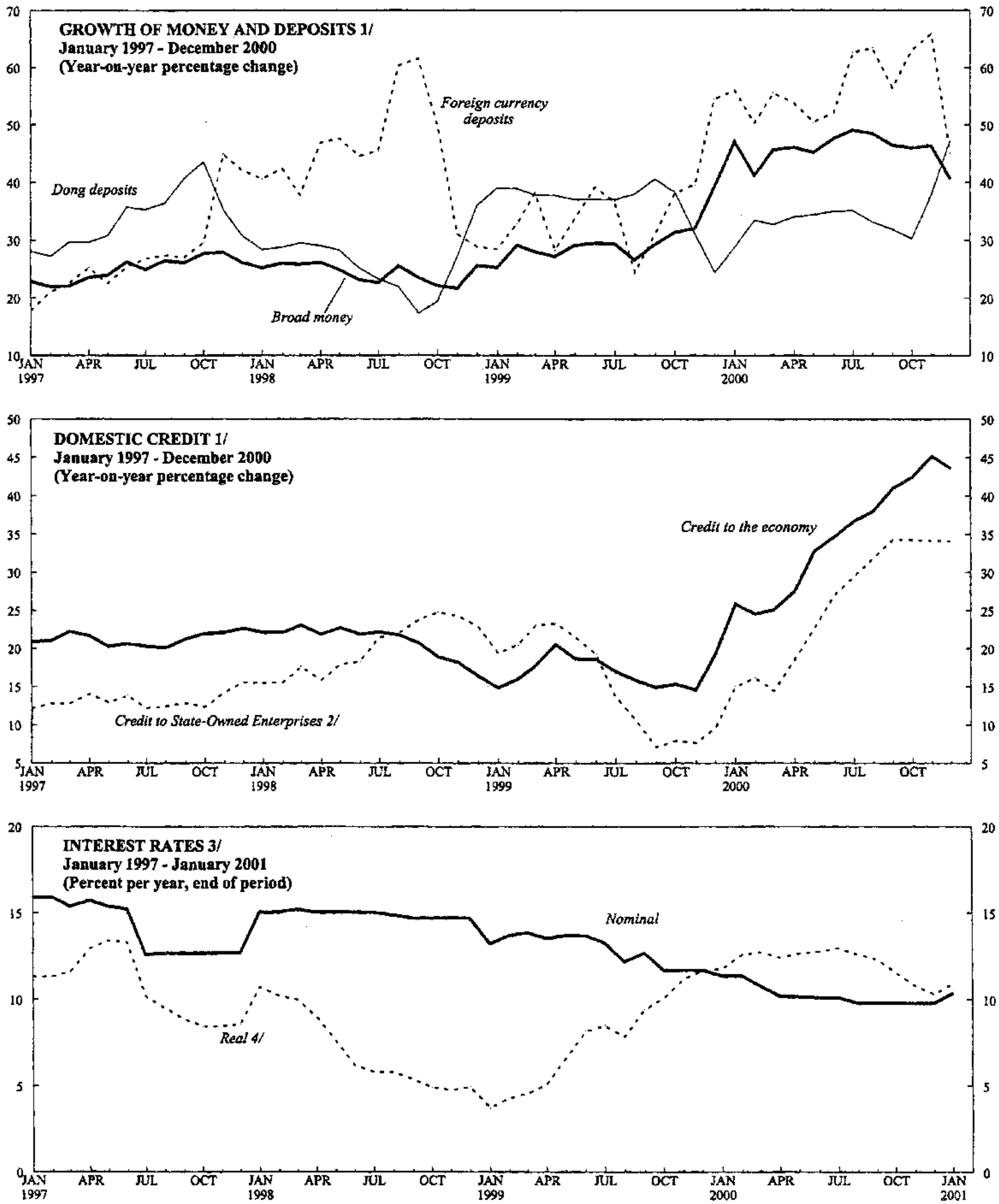




Sources: Data provided by the Vietnamese authorities; and Fund staff estimates.

1/ Through December 2000.

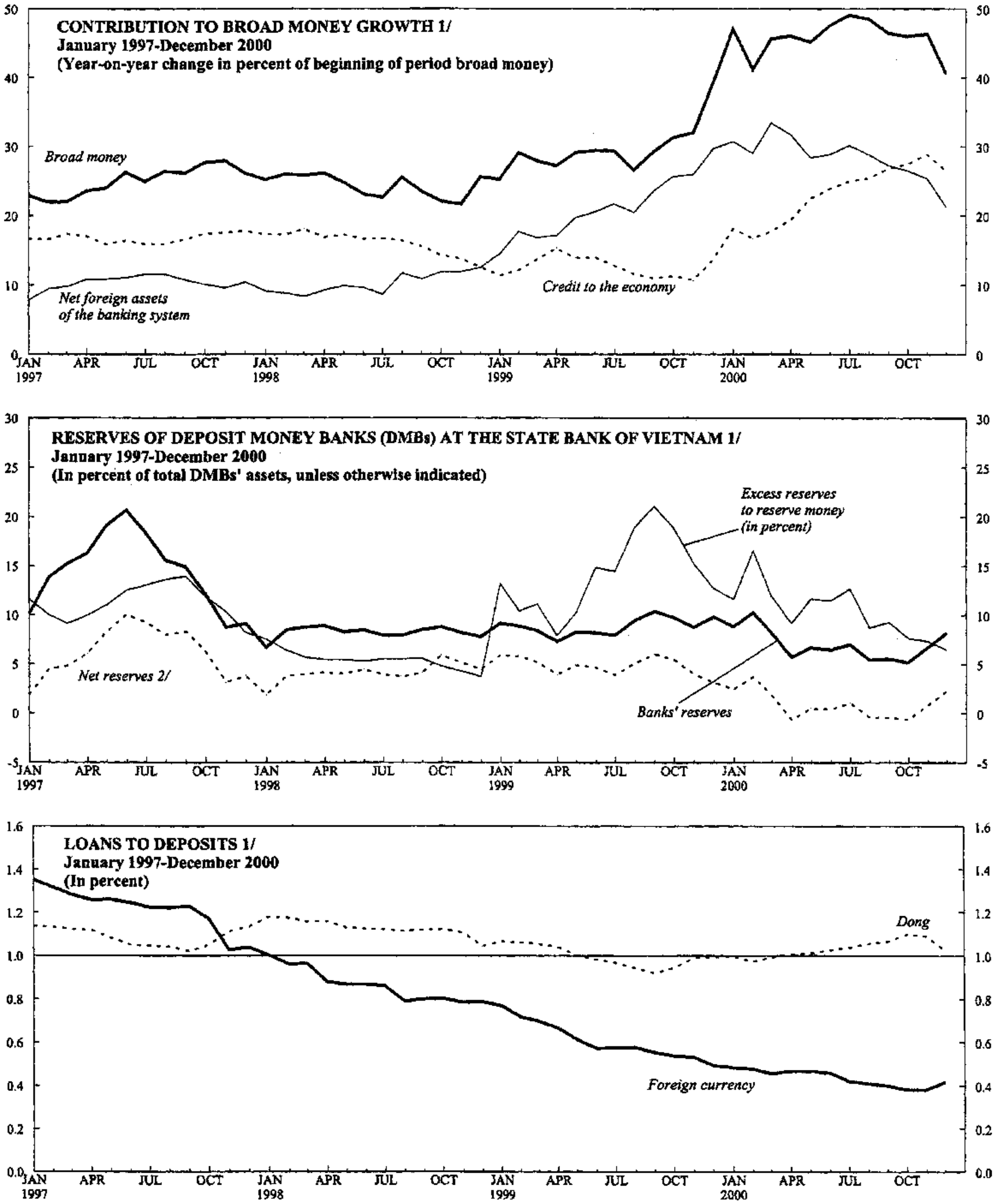
Figure 4A. Vietnam: Monetary and Financial Indicators, 1997-2000



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

1/ Based on original monetary survey comprising State Bank of Vietnam, four large state-owned commercial banks, and 24 non-state banks.
2/ Beginning in April 1999, based on official estimates rather than actual data.
3/ On short-term working capital loans.
4/ Measured with respect to nominal interest rate at the end of each month and three-month moving average of year-on-year inflation.

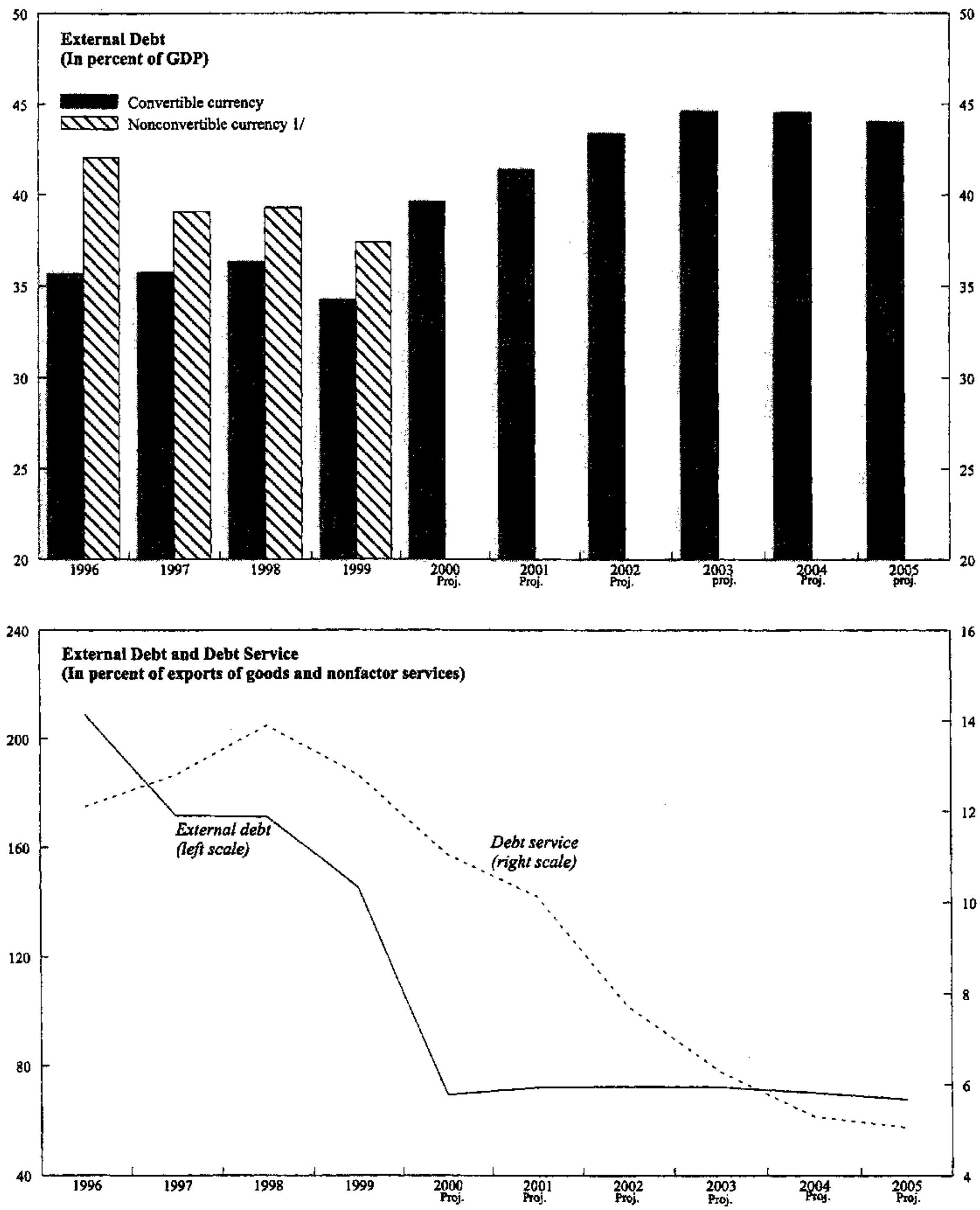
Figure 4B. Vietnam: Monetary and Financial Indicators, 1997-2000



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

1/ Based on original monetary survey comprising State Bank of Vietnam (SBV), four large state-owned commercial banks, and 24 non-state banks.
2/ Defined as banks' reserves at the SBV less credit from the SBV.

Figure 5. Vietnam: External Debt Indicators, 1996-2005



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

1/ Restructuring of nonconvertible Russian debt was concluded in September 2000.

Table 1. Vietnam: Proposed Schedule of Disbursements Under the PRGF Arrangement, 2001-2004

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

Table 2. Vietnam: Fund Position and Indicators of Fund Credit, 2000-04

	Outstanding on	2001					Projections		
	December 31, 2000	Jan.-Mar.	Apr.-Jun.	Jul.-Sep.	Oct.-Dec.	Cumulative	2002	2003	2004
				(In millions of SDRs)					
Transactions during the period (net)		-6.04	33.35	-12.08	33.35	48.57	30.45	30.45	-7.73
Tranche policies and special facilities repurchases (net)		0.00	2.01	0.00	2.01	4.03	4.03	4.03	1.01
Enhanced Structural Adjustment Facility repayments (net)		6.04	6.04	12.08	6.04	30.20	48.32	48.32	48.32
Poverty Reduction and Growth Facility disbursements (net)		0.00	41.40	0.00	41.40	82.80	82.80	82.80	41.60
Total Fund credit outstanding (end of period)	242.61	236.57	269.91	257.83	291.18	291.18	321.63	352.09	344.36
Tranche policies and special facilities	13.09	13.09	11.07	11.07	9.06	9.06	5.03	1.01	0.00
Enhanced Structural Adjustment Facility	229.52	223.48	217.44	205.36	199.32	199.32	151.00	102.68	54.36
Poverty Reduction and Growth Facility	0.00	0.00	41.40	41.40	82.80	82.80	165.60	248.40	290.00
				(In percent of quota)					
Total Fund credit outstanding (end of period)	73.7	71.9	82.0	78.3	88.5	88.5	97.7	107.0	104.6
Tranche policies and special facilities	4.0	4.0	3.4	3.4	2.8	2.8	1.5	0.3	0.0
Enhanced Structural Adjustment Facility	69.7	67.9	66.1	62.4	60.6	60.6	45.9	31.2	16.5
Poverty Reduction and Growth Facility	0.0	0.0	12.6	12.6	25.2	25.2	50.3	75.5	88.1
Memorandum item:									
Debt service to the Fund to exports of goods and nonfactor services (in percent)		...	...	...	...	0.3	0.4	0.3	0.3

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

Table 3. Vietnam: Selected Economic Indicators, 1995-2001

Nominal GDP (2000): US$30.1 billion
Population (2000): 77.5 million
GDP per capita (2000): US$388
Fund quota: SDR 329.1 million

	1995	1996	1997	1998	1999	2000 Est.	2001 Staff Proj.	Feb. 2001 1/ Official Est.
Real GDP (annual percentage change)	9.5	9.3	8.2	3.5	4.2	5.5	5.0	...
Industrial output 2/	14.5	14.2	13.8	12.5	10.4	15.8	...	14.1
Saving-investment balance (in percent of GDP)	-13.5	-10.5	-6.9	-4.6	4.1	1.7	-0.7	...
Gross national saving	13.6	17.6	21.4	21.2	27.0	25.5	24.7	...
Gross investment	27.1	28.1	28.3	25.8	23.0	23.9	25.4	...
Inflation (annual percentage change)								
Period average	16.9	5.6	3.1	7.9	4.1	-1.7	4.0	-1.7
End of period	12.9	4.4	3.6	9.2	-0.2	-0.6	5.0	-1.9
GDP deflator	17.0	8.7	6.6	11.1	5.7	1.6	5.2	...
Government budget (in percent of GDP) 3/								
Total revenue	22.6	22.4	20.0	19.6	19.2	19.9	19.9	...
Grants	0.7	0.6	0.8	0.6	0.6	0.4	0.4	...
Total expenditure (excluding onlending)	23.8	23.1	22.6	20.7	20.6	22.2	23.1	...
of which: current expenditure	18.6	17.4	16.3	15.0	13.9	15.4	15.6	...
Overall fiscal balance (including grants, excluding onlending)	-0.5	-0.2	-1.7	-0.5	-0.8	-1.8	-2.7	...
Money and credit (annual percentage change, end of period) 4/								
Broad money	22.6	22.7	26.1	25.6	39.3	39.0	22.8	...
Credit to the economy	26.9	20.1	22.6	16.4	19.2	38.1	20.0	...
Interest rates (in percent, end of period)								
Three-month deposits (households)	18.2	9.1	8.1	9.7	4.0	4.3	...	4.9 5/
Short-term lending (less than one year)	28.3	15.9	12.7	14.7	11.7	9.8	...	10.4 5/
Current account (including official transfers)								
(in millions of U.S. dollars)	-2,648	-2,431	-1,664	-1,067	1,285	642	-89	...
(in percent of GDP)	-12.8	-9.9	-6.2	-3.9	4.5	2.1	-0.3	...
Exports of goods (annual percentage change, U.S. dollar terms)	28.2	41.2	24.6	2.4	23.2	25.2	6.8	21.0
Imports of goods (annual percentage change, U.S. dollar terms) 6/	41.1	25.5	-0.2	-1.1	1.1	34.5	11.3	25.0
Foreign exchange reserves (in millions of U.S. dollars, end of period)								
Gross official reserves, including gold	1,323	1,673	1,857	1,765	2,711	3,030	3,601	...
(in weeks of next year's imports of goods and nonfactor services)	5.2	6.4	7.2	6.8	8.1	8.2	8.3	...
Net international reserves, including gold	886	1,065	1,258	1,173	2,118	2,332	2,672	...
External debt (in percent of GDP) 7/	86.1	77.7	74.8	75.6	71.6	39.6	41.4	...
Convertible currency 8/	35.0	35.7	35.7	36.3	34.2	39.6	41.4	...
Nonconvertible currency	51.1	42.0	39.1	39.3	37.4	0.0	0.0	...
Debt-service ratio (percent of exports of goods and nonfactor services)								
Debt due	12.1	12.9	12.8	13.9	12.8	11.0	10.1	...
Debt paid	6.7	5.6	8.1	8.1	10.5	9.9	...	...
Exchange rate (dong per U.S. dollar)								
Period average	11,038	11,033	11,706	13,297	13,944	14,170	...	...
End of period	11,015	11,150	12,292	13,890	14,028	14,514	...	14,534 9/
Real effective exchange rate (annual percentage change, + appreciation)								
Period average	6.5	6.6	3.4	8.1	-6.2	-2.9	...	...
End of period	8.9	3.7	12.7	-9.4	-3.1	2.0	...	...
Memorandum items:								
GDP (in trillions of dong at current market prices)	228.9	272.0	313.6	360.6	397.3	426.0	470.4	...
Per capita GDP (in U.S. dollars)	290	339	363	361	373	388	405	...

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

1/ Performance as of February 2001, unless otherwise indicated.
2/ Annual data are year-on-year changes in the gross value of industrial output; monthly data are changes since the beginning of the year compared with the same period in the previous year.
3/ Cash basis.
4/ Figures for 2000 and 2001 based on expanded monetary survey (State Bank of Vietnam (SBV) and 89 credit institutions); for previous periods, based on original monetary survey (SBV and 28 credit institutions).
5/ January 2001.
6/ For monthly data, rate of growth based on imports c.i.f.; otherwise, based on imports f.o.b.
7/ London Club rescheduling was concluded in early 1998. Restructuring of the Russian debt was concluded in September 2000 on comparable terms to the 1993 Paris Club rescheduling.
8/ Includes the loan component of foreign direct investment and other private sector borrowing, and short-term debt.
9/ As of March 20, 2001.

Table 4. Vietnam: Summary of General Government Budgetary Operations, 1997-2001 1/

(In trillions of dong)

	1997	1998	1999	2000		2001
				Budget	Staff. Est.	Staff. Proj.
Revenue and grants	65.4	73.0	78.5	74.5	86.9	95.7
Revenue	62.8	70.8	76.1	72.6	85.0	93.8
of which: Oil revenue	...	14.6	18.5	22.6	30.6	32.8
Tax revenue	53.1	59.0	64.9	62.0	70.7	79.1
Nontax revenue	9.7	11.9	11.2	10.6	14.2	14.7
Grants	2.6	2.1	2.4	1.9	1.9	1.9
Total expenditure (including onlending)	77.6	80.2	88.9	94.7	105.1	119.0
(excluding onlending)	70.7	74.8	81.8	86.7	94.7	108.6
Current expenditure	51.3	54.2	55.1	58.8	65.5	73.3
of which: Current cost of reform	0.0	0.0	0.0	0.0	0.0	2.8
Current non-interest expenditures	49.4	52.2	52.8	55.3	62.5	68.7
Wages and salaries	18.9	19.6	22.9	27.3	28.3	33.2
Other	30.5	32.6	29.9	28.0	34.1	35.5
Interest payments (paid)	1.9	2.1	2.3	3.5	3.0	4.6
(scheduled)	3.9	2.1	2.3	3.5	3.0	4.3
Capital expenditure and onlending (excluding capital costs of reform)	26.4	25.9	33.8	33.7	39.6	43.4
of which: onlending	6.9	5.4	7.1	8.0	10.4	10.4
Contingency	0.0	0.0	0.0	2.2	0.0	2.4
Capital costs of SOE and SOCB reform	0.0	2.4	0.0	0.0	0.0	8.2
Overall fiscal balance (excluding onlending and capital costs of reform)	-5.4	-1.8	-3.3	-12.2	-7.8	-12.9
Overall fiscal balance (including onlending)	-12.3	-7.2	-10.4	-20.2	-18.3	-23.4
Augmented balance (including onlending and capital costs of reform)	-12.3	-9.6	-10.4	-20.2	-18.3	-31.6
Financing	12.3	9.6	10.4	20.2	18.3	31.6
Domestic (net)	5.2	2.2	-1.5	7.6	3.7	12.4
Banking system 2/	0.0	-0.8	-5.4	0.0	-3.2	2.5
Bank restructuring bonds	0.0	0.0	0.0	0.0	0.0	5.0
Nonbanks 3/	5.2	3.0	3.9	7.6	6.9	4.9
Foreign (net)	7.1	7.4	11.9	12.6	14.6	19.2
Memorandum items:						
Reform cost for safety nets	0.0	0.0	0.0	0.0	0.0	2.5
Interest cost of reform	0.0	0.0	0.0	0.0	0.0	0.3
Expenditures managed at units 4/	...	3.6	4.8	6.3	6.3	...
Total social expenditure (excluding social security) 5/	...	...	24.1	25.6	30.3	36.2
of which: Education and health	11.8	13.5	14.0	11.3	17.2	21.0
Current social expenditure (excluding social security)	20.0	20.7	21.7	22.5	27.3	32.5
Social capital investment	...	...	2.3	3.1	3.1	3.7

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

1/ Cash basis.

2/ The difference between bank financing and net claims on government in the monetary survey for 1998 is due to bank recapitalization operations.

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

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

5/ Staff estimate based on current expenditure in the budget table and social priority investment projects identified by the authorities.

Table 4 (concluded). Vietnam: Summary of General Government Budgetary Operations, 1997-2001 1/

(In percent of GDP)

	1997	1998	1999	2000		2001
				Budget	Staff. Est.	Staff. Proj.
Revenue and grants	20.8	20.2	19.8	17.5	20.4	20.3
Revenue	20.0	19.6	19.2	17.1	19.9	19.9
of which: Oil revenue	...	4.1	4.7	5.3	7.2	7.0
Tax revenue	16.9	16.3	16.3	14.6	16.6	16.8
Nontax revenue	3.1	3.3	2.8	2.5	3.3	3.1
Grants	0.8	0.6	0.6	0.4	0.4	0.4
Total expenditure (including onlending)	24.8	22.2	22.4	22.2	24.7	25.3
(excluding onlending)	22.6	20.7	20.6	20.4	22.2	23.1
Current expenditure	16.3	15.0	13.9	13.8	15.4	15.6
of which: Current cost of reform	0.0	0.0	0.0	0.0	0.0	0.6
Current non-interest expenditure	15.7	14.5	13.3	13.0	14.7	14.6
Wages and salaries	6.0	5.4	5.4	6.4	6.7	7.1
Other	9.7	9.0	7.9	6.6	8.0	7.5
Interest payments (paid)	0.6	0.6	0.6	0.8	0.7	1.0
Capital expenditure and onlending (excluding capital costs of reform)	8.4	7.2	8.5	7.9	9.3	9.2
Contingency	0.0	0.0	0.0	0.5	0.0	0.5
Capital costs of SOE and SOCB reform	0.0	0.7	0.0	0.0	0.0	1.7
Overall fiscal balance (excluding onlending and capital costs of reform)	-1.7	-0.5	-0.8	-2.9	-1.8	-2.7
Overall fiscal balance (including onlending)	-3.9	-2.0	-2.6	-4.7	-4.3	-5.0
Augmented balance (including onlending and capital costs of reform)	-3.9	-2.7	-2.6	-4.7	-4.3	-6.7
Financing	3.9	2.7	2.6	4.7	4.3	6.7
Domestic (net)	1.7	0.6	-0.4	1.8	0.9	2.6
Banking system 2/	0.0	-0.2	-1.4	0.0	-0.8	0.5
Bank restructuring bonds	0.0	0.0	0.0	0.0	0.0	1.1
Nonbanks 3/	1.7	0.8	1.0	1.8	1.6	1.0
Foreign (net)	2.3	2.1	3.0	3.0	3.4	4.1
Memorandum items:						
Reform cost for safety nets	0.0	0.0	0.0	0.0	0.0	0.5
Interest cost of reform	0.0	0.0	0.0	0.0	0.0	0.1
Expenditures managed at units 4/	...	1.0	1.2	1.5	1.5	...
Total social expenditure (excluding social security) 5/	...	...	6.1	6.0	7.1	7.7
of which: Education and health	20.0	3.7	3.5	3.5	4.0	4.5
Current social expenditure (excluding social security)	6.4	5.7	5.5	5.3	6.4	6.9
Social capital investment	...	...	0.6	0.7	0.7	0.8

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

1/ Cash basis.
2/ The difference between bank financing and net claims on government in the monetary survey for 1998 is due to bank recapitalization operations.
3/ Domestic nonbank financing is derived as a residual and includes statistical discrepancy.
4/ Self-financed expenditures undertaken by government administrative units, which are excluded from the above budget presentation.
5/ Staff estimate based on current expenditure in the budget table and social priority investment projects identified by the authorities.

Table 5. Vietnam: Monetary Survey, 1997-2001 1/

	1997	1998	1999 Small Survey	1999 Large Survey	2000 March	2000 June	2000 Sept.	2000 Dec.	2001 March	2001 June	2001 Sept.	2001 Dec.
									Program			
(In trillions of dong, end of period)												
Net foreign assets	21.0	31.2	61.6	61.2	73.7	76.7	86.4	95.2	97.5	102.1	107.2	112.6
Foreign assets	37.9	47.0	74.7	77.7	90.5	92.2	101.9	112.2	114.5	119.5	124.6	130.5
Foreign liabilities	-16.9	-15.8	-13.0	-16.5	-16.8	-15.5	-15.5	-17.0	-17.0	-17.4	-17.4	-17.9
Net domestic assets	60.6	71.2	81.0	99.2	103.8	111.4	111.6	127.7	136.0	144.0	152.0	161.0
Domestic credit	66.8	81.0	89.6	115.7	119.8	130.1	135.9	155.2	163.7	171.5	179.8	188.9
Net claims on government 2/	4.4	8.4	2.9	3.0	-1.6	-2.9	-4.7	-0.5	1.0	1.0	1.5	2.0
Credit to the economy 3/	62.4	72.7	86.6	112.7	121.4	133.0	140.6	155.7	162.7	170.5	178.3	186.9
Claims on state enterprises 3/ 4/	31.0	38.1	41.8	54.3	58.0	64.0	64.8	69.9	72.0	74.1	76.2	78.3
Claims on other sectors 3/ 4/	31.4	34.6	44.9	58.4	63.4	69.0	75.8	85.8	90.7	96.4	102.1	108.6
Other items, net	-6.2	-9.8	-8.5	-16.5	-16.0	-18.7	-24.3	-27.6	-27.7	-27.5	-27.8	-27.9
Broad money (M2)	81.6	102.4	142.6	160.4	177.5	188.3	198.1	222.9	233.5	246.1	259.2	273.6
of which: total deposits	56.5	75.5	101.1	119.1	135.0	144.6	153.0	170.7	180.1	189.1	198.6	209.6
Dong liquidity	62.9	78.3	105.4	116.5	127.3	134.8	139.2	160.4	167.9	177.6	187.4	197.1
Currency outside banks	25.1	27.0	41.5	41.4	42.6	43.7	45.1	52.2	53.5	57.0	60.5	64.1
Deposits	37.8	51.4	63.9	75.3	84.8	91.1	94.1	108.2	114.4	120.6	126.9	133.1
Foreign currency deposits	18.7	24.1	37.2	43.8	50.2	53.5	58.9	62.5	65.6	68.4	71.8	76.5
(in millions of U.S. dollars)	1,521	1,733	2,652	3,126	3,570	3,799	4,144	4,309	4,527	4,718	4,950	5,274
(in percent of total liquidity)	22.9	23.5	26.1	27.3	28.3	28.4	29.7	28.0	28.1	27.8	27.7	28.0
(Annual percentage change)												
Net foreign assets	47.3	48.6	97.4	...	...	...	...	55.6	32.3	33.1	24.0	18.3
Net domestic assets	20.1	17.6	13.8	...	...	...	...	28.7	31.0	29.3	36.3	26.1
Domestic credit	20.8	21.3	10.5	...	...	...	...	34.2	36.7	31.9	32.3	21.7
Net claims on government 2/	-0.6	90.4	-65.0	...	...	...	...	-116.4	-161.5	-134.2	-131.7	-513.2
Credit to the economy 3/	22.6	16.4	19.2	...	...	...	...	38.1	34.0	28.2	26.8	20.0
Claims on state enterprises 3/ 4/	15.6	22.9	9.7	...	...	...	...	28.7	24.1	15.9	17.6	12.0
Claims on other sectors 3/ 4/	30.5	10.0	29.8	...	...	...	...	46.9	43.1	39.7	34.7	26.5
Broad money (M2)	26.1	25.6	39.3	...	...	...	...	39.0	31.6	30.7	30.9	22.8
of which: total deposits	34.3	33.6	34.0	...	...	...	...	43.3	33.4	30.7	29.8	22.8
Dong liquidity	22.0	24.6	34.6	...	...	...	...	37.6	31.9	31.8	34.7	22.9
Currency outside banks	10.9	7.4	54.1	...	...	...	...	26.1	25.7	30.6	34.4	22.7
Deposits	30.8	36.0	24.4	...	...	...	...	43.7	35.0	32.4	34.8	23.0
Foreign currency deposits	42.0	28.8	54.5	...	...	...	...	42.5	30.8	27.9	21.9	22.4
Velocity 5/	3.8	3.5	2.8	2.5	2.4	2.3	2.2	1.9	2.0	1.9	1.8	1.7
Money multiplier 6/	2.3	2.6	2.5	2.8	3.0	3.2	3.4	3.1	3.1	3.1	3.2	3.3
Currency/broad money (in percent)	30.8	26.3	29.1	25.8	24.0	23.2	22.7	23.4	22.9	23.2	23.4	23.4
Currency/dong deposits (in percent)	66.5	52.5	65.0	55.0	50.2	47.9	47.9	48.3	46.7	47.3	47.7	48.1
Currency/total deposits (in percent)	44.5	35.7	41.1	34.7	31.5	30.2	29.4	30.6	29.7	30.1	30.5	30.6
(In millions of U.S. dollars, unless otherwise indicated)												
Gross official international reserves (adjusted) 7/	1,857	1,765	2,711	2,711	2,789	2,928	2,947	3,030	3,114	3,257	3,432	3,601
(in weeks of next year's imports) 8/	7.2	6.8	8.1	8.1	7.6	8.0	8.0	8.2	7.2	7.5	7.9	8.3
(change during year, in millions of U.S. dollars)	184	-92	946	946	78	217	236	319	84	227	402	571
Net official international reserves (adjusted) 7/ 9/	1,258	1,173	2,118	2,096	2,158	2,297	2,322	2,232	2,297	2,407	2,542	2,672
Net foreign assets of the banking system	1,709	2,260	4,393	4,364	5,241	5,446	6,079	6,567	6,744	7,044	7,412	7,766
(change during year, in millions of U.S. dollars)	431	551	2,133	2,104	878	1,083	1,715	2,203	177	477	845	1,199
(Change in percent of beginning of year broad money, unless otherwise indicated)												
Net foreign assets	10.4	12.5	29.7	...	7.8	9.7	15.7	23.6	1.0	3.1	5.4	7.8
Net domestic assets	15.7	13.1	9.6	...	2.9	7.6	7.7	32.7	3.7	7.3	10.9	15.0
Net claims on government	0.0	4.9	-5.3	...	-2.9	-3.7	-4.8	-2.4	0.7	0.7	0.9	1.1
Credit to the economy	17.8	12.6	13.6	...	5.4	12.6	17.4	48.4	3.1	6.6	10.1	14.0

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

1/ Data for 1997-1999 (left column) comprise the State Bank of Vietnam (SBV), four state-owned commercial banks, and 24 nonstate-owned banks. Data from 1999 (right column) onwards comprise the SBV, six state-owned commercial banks, and 83 non-state owned banks.
2/ Fund staff projections exclude non-negotiable government bonds to cover capital cost of banking reform.
3/ Fund staff projections exclude the possible transfer of collateralized nonperforming loans of commercial banks to an asset management company.
4/ Beginning in June 1999, credit to the economy by sector are estimated rather than actual data.
5/ Velocity is measured as the ratio of GDP to end-of-period broad money (M2), using Fund staff estimates and projections for nominal GDP.
6/ Money multiplier is measured as the ratio of broad money (M2) to reserve money.
7/ Excludes the foreign currency counterpart of government foreign currency deposits at the SBV.
8/ Imports of goods and nonfactor services.
9/ Excludes foreign currency counterpart of banks' required reserves at the SBV on foreign currency deposits.

Table 6. Vietnam: Medium-Term Macroeconomic Framework, 1999-2005

(In percent of GDP, unless otherwise indicated)

	1999	2000	2001	2002	2003	2004	2005
		Est.	Projection				
Real GDP (annual percentage change)	4.2	5.5	5.0	6.0	7.0	7.0	7.0
Inflation (annual percentage change)							
(annual average)	4.1	-1.7	4.0	4.2	3.8	3.3	3.0
(end of period)	-0.2	-0.6	5.0	4.0	3.5	3.0	3.0
GDP deflator (annual percentage change)	5.7	1.6	5.2	4.1	3.6	3.3	3.1
Current account balance							
(including official transfers)	4.5	2.1	-0.3	-4.3	-3.3	-2.4	-1.8
(excluding official transfers)	4.1	1.7	-0.7	-4.7	-3.7	-2.7	-2.2
Saving-investment balance	4.1	1.7	-0.7	-4.7	-3.7	-2.7	-2.2
Gross national saving	27.0	25.5	24.7	23.3	23.2	24.5	25.6
Gross investment	23.0	23.9	25.4	27.9	26.8	27.2	27.8
Gross official reserves (in millions of U.S. dollars)	2.7	3.0	3.6	4.3	4.9	5.5	6.2
(in weeks of next year's imports of goods and nonfactor services)	8.1	8.2	8.3	8.9	9.3	9.5	9.8
General government budget							
Total revenue and grants	19.8	20.4	20.3	20.0	19.7	20.1	20.4
Revenue	19.2	19.9	19.9	19.5	19.2	19.6	19.9
Grants	0.6	0.4	0.4	0.5	0.5	0.5	0.5
Total expenditure (including onlending)	22.4	24.7	25.3	25.0	24.6	24.1	24.1
(excluding onlending)	20.6	22.2	23.1	23.0	22.8	22.6	22.6
Current expenditure 1/	13.9	15.4	16.1	16.2	16.1	16.1	16.1
of which: current reform costs	0.0	0.0	0.6	0.8	1.0	0.6	0.6
Capital expenditure and onlending	8.5	9.3	9.2	8.8	8.5	8.0	8.0
Overall balance (excluding onlending and capital costs of reforms)	-0.8	-1.8	-2.7	-3.0	-3.1	-2.5	-2.2
Overall balance (including onlending)	-2.6	-4.3	-5.0	-5.0	-4.9	-4.0	-3.7
Augmented fiscal balance (including onlending and capital costs of reforms)	-2.6	-4.3	-6.7	-8.9	-8.4	-4.0	-3.7
Broad money (annual percentage change) 2/	39.3	39.0	22.8	17.2	14.4	13.8	13.3
Velocity	2.5	1.9	1.7	1.6	1.6	1.5	1.5
External financing gap (in millions of U.S. dollars)	0	0	400	400	400	55	0
Debt service payments (in billions of U.S. dollars)	1.8	1.9	1.8	1.6	1.4	1.3	1.4
(in percent of exports of goods and nonfactor services)	12.8	11.0	10.1	7.6	6.1	5.2	5.0
External debt (in percent of GDP) 3/	34.2	39.6	41.4	43.4	44.6	44.4	43.7
(in percent of exports of goods and nonfactor services)	69.5	69.5	72.2	72.6	72.3	70.2	67.9

Source: Staff estimates and projections

1/ Includes budget contigency item.

2/ Starting in 2000, based on expanded monetary survey (State Bank of Vietnam (SBV) and 89 credit institutions); for previous periods, based on original monetary survey (SBV and 28 credit institutions).

3/ Debt in convertible currencies only.

Table 7. Vietnam: Balance of Payments, 1998-2004

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

	1998	1999	2000 Est.	2001	2002	2003	2004
				Projections			
Current account balance	-1,067	1,285	642	-89	-1,459	-1,221	-967
Excluding official transfers	-1,239	1,154	506	-227	-1,600	-1,364	-1,120
Trade balance	-981	1,080	378	-239	-1,259	-1,010	-775
Exports, f.o.b.	9,365	11,540	14,449	15,426	17,377	19,634	22,088
Imports, f.o.b.	10,346	10,460	14,071	15,665	18,636	20,644	22,863
Non-factor services (net)	-539	-547	-615	-656	-821	-856	-890
Receipts	2,604	2,493	2,695	2,876	3,134	3,416	3,724
Payments	3,143	3,040	3,310	3,532	3,956	4,272	4,614
Investment income (net)	-669	-429	-597	-702	-919	-948	-954
Receipts	133	142	185	199	225	258	290
Payments	802	571	782	901	1,144	1,206	1,244
Transfers (net)	1,122	1,181	1,476	1,508	1,540	1,593	1,653
Private	950	1,050	1,340	1,370	1,400	1,450	1,500
Official	172	131	136	138	140	143	153
Capital account balance	216	-334	-772	577	1,674	1,416	1,534
Gross foreign direct investment (FDI) inflows	800	700	800	1,000	1,700	1,200	1,200
Equity	240	301	320	600	1,190	480	480
Loan disbursements	560	399	480	400	510	720	720
FDI loan repayments	372	603	601	827	788	650	561
Medium and long-term loans (net)	432	605	729	1,304	1,462	1,366	1,395
Disbursements	1,121	1,036	1,411	1,767	1,931	1,731	1,731
ODA loans	796	970	1,361	1,275	1,531	1,531	1,531
Commercial loans	326	66	50	375	400	200	200
Scheduled amortization	690	431	682	463	469	365	336
Short term capital (net)	-644	-1,036	-1,700	-900	-700	-500	-500
Errors and omissions	327	-183	247	0	0	0	0
Overall balance	-524	768	116	488	215	194	567
Financing	524	-768	-116	-488	-215	-194	-567
Change in net foreign assets of the State Bank of Vietnam (-, increase)	-15	-1,316	-116	-888	-615	-594	-622
Of which: Change in net international reserves	90	-938	-342	-509	-615	-594	-622
Use of Fund credit (net)	-78	-26	-21	63	40	40	-10
Other NIR	168	-912	-321	-572	-655	-634	-612
Arrears and rescheduling 1/	126	548	-9,691	0	0	0	0
Debt relief 1/	413	0	9,691	0	0	0	0
Financing gap	0	0	0	400	400	400	55
IMF	0	0	0	110	110	110	55
World Bank	0	0	0	100	150	150	0
Other multilateral and bilateral assistance	0	0	0	190	140	140	0
Memorandum items:							
Gross official reserves, including gold	1,765	2,711	3,030	3,601	4,256	4,890	5,502
In weeks of next year's imports	6.8	8.1	8.2	8.3	8.9	9.3	9.5
Ratio to short term external debt (in percent) 2/	410	398	655	768	1,165	1,455	1,483
Ratio to broad money (in percent, end of period)	23.9	23.7	19.7	19.1	...	...	...
Current account deficit (in percent of GDP)	-3.9	4.5	2.1	-0.3	-4.3	-3.3	-2.4
Excluding official transfers	-4.6	4.1	1.7	-0.7	-4.7	-3.7	-2.7
Export value growth (annual percentage change)	2.4	23.2	25.2	6.8	12.6	13.0	12.5
Import value growth (annual percentage change)	-1.1	1.1	34.5	11.3	19.0	10.8	10.8

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

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

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

Table 8. Vietnam: Indicators of External Vulnerability, 1997-2000

	1997	1998	1999	2000 Est.
Financial indicators				
Public sector debt (in percent of GDP) 1/	59.8	59.6	58.4	28.7 2/
Broad money (M2: annual percentage change) 3/	26.1	25.6	39.3	39.0
Foreign currency deposits to broad money (in percent) 3/	22.9	23.5	27.3	28.0
Credit to other (nonstate) sectors (annual percentage change) 3/	30.5	10.0	29.8	46.9
Foreign currency loans to credit to the economy (in percent) 3/	31.1	26.1	21.2	20.7
Net open foreign currency position of commercial banks (in percent of capital) 3/ 4/	...	43.9	-9.8	67.9
External indicators				
Exports (annual percentage change, in US$)	24.6	2.4	23.2	25.2
Imports (annual percentage change, in US$)	-0.2	-1.1	1.1	34.5
Current account balance (in percent of GDP, including official transfers)	-6.2	-3.9	4.5	2.1
Capital account balance (in US$ billion) 5/	1.7	0.2	-0.3	-0.8
of which:				
Short-term capital (net) 6/	-0.6	-0.6	-1.0	-1.7
Gross foreign direct investment (inflows)	2.1	0.8	0.7	0.8
of which: Debt and loans	1.1	0.6	0.4	0.5
Medium-and long-term loans (net)	0.4	0.4	0.6	0.7
Exchange rate (per U.S. dollar, period average, + dong appreciation) 7/	11,706	13,297	13,944	14,170
(annual percentage change)	-6.1	-13.6	-4.9	-1.6
Exchange rate (dong per U.S. dollar, end of period, + dong appreciation) 7/	12,292	13,890	14,028	14,514
(annual percentage change)	-10.2	-13.0	-1.0	-3.5
Real effective exchange rate (end of period, annual percentage change, + appreciation)	12.7	-9.4	-3.1	2.0
Reserve indicators				
Gross official reserves, including gold (in US$ billion)	1.9	1.8	2.7	3.0
(in weeks of next year's imports of goods and nonfactor services)	7.2	6.8	8.1	8.2
Gross official reserves excluding banks' foreign currency reserves at SBV (in US$ billion)	1.8	1.7	2.6	2.7
Central bank short-term foreign liabilities (in US$ billion)	0.0	0.0	0.0	0.0
Net official international reserves (in US$ billion)	1.3	1.2	2.1	2.2
Gross official reserves to broad money (M2) (in percent)	28.0	23.9	23.7	19.7
Gross official reserves to short-term external debt by remaining maturity (in percent)	269	410	398	655
Net foreign assets of commercial banks (in US$ billion)	1.7	2.3	4.4	6.6
Debt indicators				
Total external debt (in US$ billion) 2/	20.0	20.5	20.4	11.9
of which: Public and publicly guaranteed debt	16.0	16.2	16.6	8.6
Total debt to exports of goods and services (in percent) 2/	171.7	171.3	145.5	69.5
Total debt service to exports of goods and services (in percent) 8/	12.8	13.9	12.8	11.0
of which: External interest payments to exports of goods and services (in percent)	3.8	3.7	3.0	2.7
Total short-term external debt by remaining maturity (in US$ billion)	0.7	0.4	0.7	0.5
Total short-term external debt by remaining maturity to total debt (in percent)	3.4	2.1	3.3	3.9
Financial market indicators				
Ho Chi Minh City Stock Exchange Composite Index (end of period, July 2000 = 100)	...	...	...	207
Number of listed companies	...	...	...	5

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

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

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

3/ Starting in 2000, based on expanded monetary survey (State Bank of Vietnam (SBV) and 89 credit institutions); for previous periods, based on original monetary survey (SBV and 28 credit institutions).

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

5/ Excludes errors and omissions.

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

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

8/ Accrual basis.

Vietnam—Fund Relations
(As of February 28, 2001)

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

II. **General Resources Account**:	SDR Million	Percent Quota
Quota	329.10	100.0
Fund Holdings of Currency	342.19	104.0
Reserve position in Fund	0.01	0.0

III **SDR Department**:	SDR Million	Percent Allocation
Net cumulative allocation	47.66	100.0
Holdings	1.02	2.2

IV. **Outstanding Purchases and Loans**:	SDR Million	Percent Quota
Systemic Transformation	13.09	4.0
PRGF arrangements	223.48	67.9

V. **Financial Arrangements**:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	11/11/1994	11/10/1997	362.40	241.60
Stand-by	10/06/1993	11/11/1994	145.00	108.80

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

	Overdue	Forthcoming				
	02/28/2001	2001	2002	2003	2004	2005
Principal	0.0	28.2	52.3	52.3	49.3	36.2
Charges/Interest	0.0	2.9	3.3	2.9	2.4	2.2
Total	0.0	31.1	55.6	55.2	51.7	38.4

VII. **Exchange Rate Arrangement**:

On February 25, 1999 the State Bank of Vietnam (SBV) revised the operation of the interbank foreign exchange market. Under this regime, the SBV allows interbank foreign exchange market rates to depreciate by a maximum of 0.1 percent a day from the previous day's average interbank market rate.

VIII. Article IV and XIV Consultations:

Vietnam is on a 12-month consultation cycle. The Executive Board concluded the 2000 Article IV (SUR/00/67; SM/00/153; and SM/00/154) on July 21, 2000. It concluded 1999 Article XIV consultation on December 16, 1999 (EBD/99/138) and adopted the following decision:

Vietnam continues to maintain restrictions on the making of payments and transfers for current international transactions under the transitional arrangements of Article XIV, Section 2, as described in EBD/99/138. The Fund encourages Vietnam to eliminate these restrictions as soon as circumstances permit.

IX. Technical Assistance Missions:

Missions:

- Liquidity management and open market operations (MAE), August 2000.
- Participation in Public Expenditure Review (FAD/APD), January 2000.
- Monetary and exchange operations and markets (MAE), November 1999.
- Tariff policy and customs administration reform (FAD) May 1999.
- State-owned enterprise reform (World Bank/APD), April 1999.
- Bank restructuring, banking supervision, and monetary and exchange reforms (MAE), March 1999.
- Bank insolvency law reform (LEG), March 1999.
- Tax policy (FAD), December 1998.
- Banking system restructuring (World Bank/APD), October 1998.
- Fiscal transparency (FAD), September 1998.
- Banking system soundness, monetary and foreign exchange operations, banking supervision, and central bank accounting and auditing (MAE/APD), April–May 1998.
- Money and banking statistics (STA), February–March 1998.

Resident Advisor

- Tax computerization (FAD) through April 1998.

X. Resident Representative:

Mr. Dennis de Tray has been the Senior Resident Representative since September 1999.

Vietnam—Relations With World Bank Group

The World Bank resumed lending to Vietnam in 1993 and opened a resident mission in Hanoi in 1994. The Bank Group's relationship with Vietnam is still relatively new, but growing and deepening. During FY 1994–2000, the IDA approved 26 projects for a total of US$2.6 billion, of which about US$1 billion has been disbursed.

The Country Assistance Strategy (CAS) for Vietnam, which was endorsed by the Board in September 1998, proposed an expanded program of IDA support for FY 1999–2002, which was justified on the basis of Vietnam's development needs, effective use of IDA resources, growing absorptive capacity, and special needs associated with the East Asian crisis. The CAS focused on the twin imperatives of restoring the momentum of growth and deepening the quality of development. To reach these goals, the government announced a program of action, and the CAS was designed around this program. Under the CAS, the World Bank also proposed changes to its way of doing business in Vietnam, including investing in operational partnerships, deepening the poverty focus, and moving toward sector-wide approaches. The Board discussed the CAS Progress Report for Vietnam in May 2000 and confirmed that the strategy laid out in the original CAS remained the right one, with its implementation largely on track.

The original CAS noted the risks of Vietnam not being able to return to the high growth path of recent years. It indicated the need to accelerate reforms and focus more attention on the social cost of macroeconomic and structural policies, and called for a well-positioned and flexible Bank Group program to be able to respond quickly in the event that risks materialized. To help address such risks, the Bank Group launched a major program of advisory and technical assistance in the key areas of banking, state-owned enterprise, and trade reform, including measures to mitigate social cost of reform, and has been assisting the government in designing and implementing the reform programs, together with the Fund.

Vietnam is current in its debt service payments to the Bank as of end-December 2000.

World Bank Financial Operations 1/

(In millions of U.S. dollars)

	1995	1996	1997	1998	1999	2000
Commitments	415	502	349	395	308	286
Disbursements	164	34	250	238	207	156
Of which: program loans	91	0	60	34	0	0
Debt service	2	2	4	5	7	8
Debt outstanding	223	257	507	745	952	1,108

Source: World Bank staff estimates.

1/ Fiscal year ending June 30.

Vietnam—Relations with the Asian Development Bank

The Asian Development Bank (AsDB) resumed its operations in Vietnam in October 1993. The operational strategy is to promote pro-poor sustainable growth taking into account the particular needs of a country in transition from a centrally-planned to market-oriented economy. To this end, AsDB has provided support for policy and institutional reforms, investment, and capacity building in the following areas: (i) rural development; (ii) financial sector development; (iii) enterprise development; (iv) human development; and (v) governance and the legal framework. The new country operational strategy for Vietnam, which is expected to be finalized in 2001, will be anchored in the government's medium-term development plans and AsDB's overarching goal of poverty reduction.

From October 1993 to December 2000, AsDB approved 30 loans totaling about US$1950 million from the concessional Asian Development Fund (ADF) and US$40 million from Ordinary Capital Resources (OCR). Disbursements in 2000 totaled US$219 million. Since December 1998, Vietnam has been classified as a B-1 country by the AsDB, which makes it eligible to supplement borrowing at ADF terms with limited amounts of borrowing at nonconcessional OCR terms. Loans have been provided for (i) rehabilitating physical infrastructure in the agricultural, energy, and transport sectors; (ii) financial sector and state-owned enterprise (SOE) reforms and corporate governance; and (iii) social, environmental, and cross-cutting concerns. In addition, the AsDB has extended technical assistance amounting to US$76 million for 108 projects.

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

The resident mission has been strengthened with transfer of the programming function from headquarters. During the past year, the AsDB has helped the government organize a number of regional consultation workshops as part of the process of formulating the national poverty reduction strategy. AsDB and Fund staff work closely together to support the process of economic reforms in Vietnam. AsDB staff participate in Fund missions, exchange information, and consult on policy matters. The resident missions of the two institutions also cooperate closely.

Table 1. Vietnam: AsDB Loans by Sector, October 1993–December 2000

(In millions of U.S. dollars)

Sector	Number	Net Amount
Lending	30	1,989.6
Agriculture and agro-industry	10	584.3
Social infrastructure	9	510.3
Transportation and communication	6	525.0
Finance and industry	3	190.0
Energy	2	180.0
Technical assistance	118	75.5
Advisory and operational purposes	87	55.5
Project preparation	31	20.0

Source: AsDB.

Table 2. Vietnam: AsDB Loan Approvals and Disbursements, 1995–2000

(In millions of U.S. dollars)

	1995	1996	1997	1998	1999	2000 1/
Loan approvals 2/	233.0	303.0	359.6	284.0	220.0	188.5
Loan disbursements	48.2	28.7	149.3	127.8	191.2	218.9
Undisbursed balance at the beginning of the year	581.8	590.2	994.4	742.8	804.9	970.7
Memorandum item:						
Technical assistance approvals	11.6	9.1	9.3	5.9	10.3	9.1

Source: AsDB.

1/ As of December 31, 2000.
2/ For 1999, includes the Vietnam component of Greater Mekong Subregion: East-West Corridor.

Vietnam—Poverty Profile

Despite considerable progress in reducing poverty, Vietnam is still one of the poorest countries in East Asia, with a per capita GDP of only US$388 in 2000. Based on the 2000 World Development Indicators, per capita GNP in Vietnam was only about one-third the level recorded in the low- and middle-income countries of the East Asia and Pacific region. The most salient trends in Vietnam's poverty profile can be summarized as follows:[1]

- **Poverty has declined considerably in recent years.** The share of persons living below the poverty line fell from 58 percent in 1992/93 to 37 percent in 1997/98. The share of persons below the "food poverty line"[2] also declined significantly over the same period, from 25 percent to 15 percent.

- **Poverty is mainly concentrated in rural areas.** Over 90 percent of poor households live in rural areas; 45 percent of the rural population was living below the poverty line in 1997/98, compared with 10 percent of the urban population.[3]

- **Poverty has declined in all seven regions of Vietnam, but cross-regional inequalities have increased.** Poverty is particularly high in the mountainous areas and those with large ethnic minorities. Three regions now account for 70 percent of poverty: Northern Uplands, North Central Coast, and Mekong Delta. While incomes in the Mekong Delta grew only by 18 percent, they advanced by 78 percent in the Southeast (mainly comprising Ho Chi Minh City) between 1992/93 and 1997/98.

- **Inequality has risen, but is still modest by international standards.** Based on the 1997/98 Vietnam Living Standards Survey and augmented data, the gap between the richest and poorest quintiles increased from a factor of 7.3 in 1996 to 8.9 in 1999.

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[1] These key findings are based on the joint government, donor, and NGO reports titled *Vietnam Development Report 2000: Attacking Poverty* (1999), and the 1992/93 and 1997/98 Vietnam Living Standards Surveys conducted by the General Statistics Office with assistance from the UNDP, SIDA, and World Bank (covering 4,800 and 6,000 households, respectively). They are also reflected in the government's interim Poverty Reduction Strategy Paper (I-PRSP).

[2] Defined as the cost to obtain daily food equivalent of 2,100 kcal.

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

- **Vulnerability to shocks is high, as many households live barely above the poverty line**. As a result, each year the number of persons who need emergency relief due to natural calamities ranges from 1 to 1.5 million.

- **School enrollment rates have increased significantly both for male and female students**. Between 1992/93 and 1997/98, net primary school enrollment rates went up from 87 to 92 percent for girls and from 86 to 93 percent for boys. Net lower secondary enrollment rates doubled for both girls (to 61 percent) and boys (to 62 percent), and net upper secondary enrollment rates quadrupled—for girls from 6 to 27 percent and for boys from 8 to 30 percent.

- **As a result, relatively high education standards have been further improved.** Between 1992/93 and 1997/98 literacy rates increased on all fronts, but particularly in rural areas, from 85 to 88 percent, and for the female population, from 82 to 86 percent. By comparison, urban literacy went up from 93 to 94 percent, and male literacy from 91 to 94 percent during the same period.

The government's I-PRSP identifies achieving fair and equitable growth, in particular between rural and urban areas, and reducing the vulnerability of the poor as key imperatives of its poverty reduction strategy. As growth from agricultural diversification is reaching its limit, the challenges ahead are in accelerating the creation of rural nonfarm and urban employment opportunities, with small- and medium-scale enterprises playing a significant role to this end.

Vietnam—Trade Policy Commitments Under AFTA, the USBTA, and the PRGF

Vietnam joined ASEAN on July 28, 1995, and subsequently committed to implement the Common Effective Preferential Tariff Scheme (CEPT) for the realization of the ASEAN Free Trade Area (AFTA) from January 1, 1996. The bilateral trade agreement with the United States (USBTA) was signed on July 13, 2000. Vietnam also completed a successful Working Party meeting of the World Trade Organization (WTO) in November 2000, beginning the process for bilateral trade negotiations to pave the way for WTO accession. Trade reforms to be undertaken during the PRGF period build on these commitments.

Vietnam's commitments under the AFTA include:

- ***Tariff reduction:*** Tariff on a vast majority of tariff lines on imports from ASEAN members (97 percent, according to preliminary estimates) will be reduced to at most 20 percent by the start of 2003 and to 0–5 percent by the start of 2006, to complete CEPT.

- ***Removal of nontariff barriers (NTBs):*** All goods in the Temporary Exclusion List (TEL) will be moved to the Inclusion List (IL) by 2003, and NTBs will be removed on goods in the TEL when the applicable tariff is reduced to 20 percent or below. Currently, 4,230 tariff line items are in the IL and 1,800 items in the TEL.

Under the USBTA, Vietnam is granted normal trade relations with the United States (subject to annual renewal) in return for the following :

- ***Trading rights***: Liberalize trading rights for U.S. firms in three to six years.

- ***Tariffs:*** Reduce current tariff rates on a limited range of industrial and agricultural items (about 250) by 30 to 50 percent over three years.

- ***QRs***: Remove QRs on most products in three to seven years, but backloaded for steel and cement (after six years) and petroleum products (after seven years).

- ***Intellectual property rights:*** Apply WTO-consistent protection for intellectual rights in 12–18 months.

- ***Banking services:*** Allow U.S. equity in joint ventures (with up to a 49 percent stake). After nine years, allow 100 percent U.S. owned subsidiary banks. Also allow U.S. equity in privatized Vietnamese banks at the same levels as Vietnamese investors. Phase in right of U.S. banks to accept dong deposits on same basis as domestic banks over eight years for business clientele and ten years for retail depositors.

- ***Nonbank financial services:*** Allow 100 percent U.S. equity in financial and other leasing after three years.

- ***Insurance:*** Allow joint ventures in three years and 100 percent U.S. equity in five to six years.

- ***Other services***: Allow immediately 100 percent U.S. equity in a range of technical services, including in legal, accounting, engineering, computer-related, and construction areas.

- ***Trade-related investment measures:*** Phase out all WTO-inconsistent measures (e.g., local content requirements) in five years.

- ***Transparency:*** Publish all laws and decisions governing issues in the agreement, establish administrative or judicial tribunals for review, and provide the right of appeal.

Under the PRGF:

- ***QRs:*** Building on AFTA commitments (including a six-year roadmap for meeting such commitments, which is being finalized), Vietnam will phase out QRs on a multilateral basis and replace them with tariffs on six product groups (cement and clinker, remaining steel products, paper, construction white glass, vegetable oil, and granite and ceramic tiles) by the start of 2003.

- ***Trading rights***: Rights for domestic firms have already been liberalized, and trading rights for foreign invested firms will be liberalized through further amendments to the Foreign Investment Law.

- ***Export quotas***: Rice quotas were removed starting 2001; restrictions on enterprises permitted to export rice and rice export-licensing will also be eased, and a more liberal regime adopted.

- ***Exemptions***: The government will cease granting any new and will phase out all existing ad hoc exemptions on import tariffs during 2001–03.

Vietnam—Medium-Term Balance of Payments

The medium-term balance of payments projections for 2001–06 are consistent with a reform scenario, which envisages a continuation of macroeconomic stability and a gradual but continuous process of structural reforms. More specifically, the following assumptions are used:

Merchandise trade: After a decline in overall export growth in 2001, exports in U.S. dollar terms are projected to grow by an average of 12 percent a year during 2002–06, with non-oil exports growing at an average of 13½ percent, reflecting the recovery in the world economy expected late this year or early 2002 and the impact of the bilateral trade agreement with the United States (USBTA). The latter is expected to result in an expansion of export markets for garments and footwear, seafood, and electronics. Imports are projected to increase sharply in 2002 in light of the large planned investments in oil and gas and power projects approved recently. Thereafter, imports are expected to increase in line with projected nominal GDP growth. Trade reform envisaged during this period would also likely contribute to import growth.

Services and transfers: Nonfactor service payments are projected to move broadly in line with merchandise imports, while receipts are expected to increase partly reflecting a steady improvement in tourism coupled with a moderate increase in interest receipts in line with the growing stock of foreign exchange reserves. Factor service payments are projected to remain substantial, linked primarily to earlier foreign direct investment (FDI) related loans and to equity inflows. The overall services balance is therefore expected to worsen in the next few years compared with recent years, but then remain fairly stable over 2003–06. Both official and private transfers are assumed to increase slightly over the same period.

Medium- and long-term loans: ODA disbursements are expected to increase somewhat to average about US$1.5 billion from 2002 onwards, in line with some pickup in the implementation rate compared with the past, as reforms are undertaken and the government's capacity to implement projects improves. Commercial borrowing, which includes state-owned enterprises, joint ventures, and the private corporate sector, is projected to increase in 2001–02, partly reflecting an increase in government-guaranteed debt for some core projects in the power sector. Thereafter, it is expected to average about US$200 million.

Foreign direct investment: FDI disbursements are expected to peak in 2002 at US$1.7 billion (about 5 percent of GDP), reflecting the completion of the US$1.4 billion oil and gas sector project with a consortium led by BP-Amoco. Assuming an improvement in the investment climate and a recovery in East Asia in 2002, FDI disbursements are projected to average US$1.2 billion over the medium term, larger than the depressed levels seen in the last three years. In particular, the USBTA is likely to have a positive impact on FDI. If the pace of structural reforms improves and the authorities liberalize the trade and exchange rate system and eliminate the foreign exchange surrender requirement, FDI could also be larger, as several sectors including agriculture, garment and textile, and fisheries could yet benefit from FDI.

Short-term capital flows and reserves: Short-term capital movements are related mainly to the change in commercial banks' net foreign asset position, which is assumed to decline gradually over the medium term, reflecting a portfolio shift in favor of domestic assets as confidence grows. No other changes in short-term capital flows are projected. Gross official reserves are targeted at about 9 weeks of imports by 2003, requiring an average increase in reserves by about US$0.6 billion a year between 2001 and 2003.

Financing gaps: On the basis of the projections, the financing gap is projected to total US$1.2 billion during 2001–03, which is expected to be filled mainly by multilateral and bilateral official creditors.

Vietnam—Statistical Issues

The overall coverage of macroeconomic statistics is limited, and the methodology for compilation and dissemination of these statistics continue to need substantial improvement. The authorities are cooperating with the Fund, but work is hampered in some areas by the lack of authorization to release data. Vietnam has few statistical publications that provide coverage beyond the real sector, and despite the recent publication of aggregate budget data, Fund documents are among the few publicly available sources of fiscal and monetary data.

Extensive technical assistance has contributed to improvements in a number of areas. A Vietnam page was introduced in the *GFS Yearbook* for 1999. Moreover, technical assistance from the Fund's Statistics Department (STA), in collaboration with the Asia and Pacific Department (APD), has produced a draft *IFS* page, which is expected to be finalized and approved for publication by the State Bank of Vietnam in March 2001. However, past technical assistance efforts have not yet led to regular reporting of data to STA.

National accounts

The General Statistical Office (GSO) provides data on external trade, output by industry, and prices. National accounts statistics are broadly consistent with the *System of National Accounts 1993* (*1993 SNA*), and are available beginning in 1989. However, a methodology fully consistent with the *1993 SNA*, including the collection of enterprise data based on generally accepted accounting principles, has yet to be implemented. Estimates of gross domestic product by expenditure in current prices have recently been produced, but in highly aggregated form, and further work is needed on the expenditure deflators. Although coverage has been broadened recently, the authorities need to focus on improving data collection from nonstate sectors, including reconciling similar data from different sources. To improve transparency, the authorities have agreed to initiate work on the publication of a monthly GSO bulletin.

Prices

A monthly consumer price index in line with international standards has been compiled since January 1996. The new series was phased in over a two-year period and is now reported with minimal lags. The introduction of a producer price index is planned.

Government finance statistics

Annual fiscal data on government operations are produced shortly after the end of the fiscal (calendar) year; final data are produced after about six months. In the past few years, Vietnam has received considerable technical assistance from STA in government finance statistics (GFS) methodology; recently, the authorities have made progress in a number of areas related to fiscal transparency, including the implementation of an improved budget management law and the adoption of a GFS-consistent budget classification at all levels of government. The authorities published for the first time in late 1998 the fiscal outturn for 1997 and the approved budget for 1999, although both in highly aggregated form. Considerable actions remain to be taken to improve the coverage of fiscal data as recommended in the 1998 Bank-Fund report on fiscal transparency and by the recent Public Expenditure Review. As earlier agreed, the government is continuing to work toward gazetting and publishing the annual national budget and its outturn and publishing commune levels budgets; preparing quarterly fiscal reports for budget monitoring with a 30-day delay; implementing a GFS-based functional budget classification system; and initiating work on revising government accounting standards and introducing an integrated financial information management system for improving treasury management and fiscal reporting. In addition, the government should ensure that the fiscal accounts include the accounts of extrabudgetary funds, among which are the Social Security Fund, Enterprise Restructuring Fund, National Development Support Fund, Export Support Fund, and Sinking Fund (for repayment of on-lent funds). More comprehensive information also is needed on government financing from and balances with the banking system in order to properly reconcile fiscal and monetary data.

Monetary Statistics

Data regularly provided by the State Bank of Vietnam (SBV) to APD include the monetary survey, and the central bank balance sheet (typically on a monthly basis with a six- to eight-week lag), and detailed consolidated balance sheets ("derivation tables") for six state- and 83 nonstate-owned deposit money banks, as well as individual balance sheets for the four large state-owned commercial banks (SOCBs) (typically on a quarterly basis with an eight- to ten-week lag).

In January 1999, the SBV and commercial banks began implementing new charts of accounts for compiling money and banking data. The new charts of accounts were formally adopted in April 1999. However, they do not adequately sectorize credit for monetary programming purposes, in particular the separation of bank credit to the state-owned enterprises (SOEs) and to other nongovernment sectors of the economy. Therefore, in addition to its regular monthly reports, the SBV has designed a new monthly report form for the four large SOCBs for submitting sectorized credit data to the central bank. For program monitoring purposes, bank credit to the SOEs will be estimated based on a combination of these statistical reports and estimates for the other credit institutions. Given the SOCBs dominance in bank lending to SOEs, the overall margin of error of these estimates is believed to be below 5 percent. For *IFS* purposes, the SBV has been encouraged to provide a complete breakdown of banks' credit to the economy by borrowing sectors and subsectors in the detailed consolidated balance sheet for six state- and 83 nonstate-owned deposit money banks.

External sector statistics

Data on foreign reserves (official reserves and net foreign assets) are derived from the monetary survey, but under the PRGF-supported program, such data will be reported on a bi–weekly basis with a 10-day lag. Gross official international reserves are derived as the U.S. dollar equivalent of the SBV's foreign assets, excluding the foreign currency counterpart of government foreign currency deposits, the use of which by the SBV is restricted. Vietnam does not report any balance of payments data to the Fund for publication in either *IFS* or the *Balance of Payments Statistics Yearbook.*

Beginning in January 1995, trade data have been compiled on the basis of customs reports, but a STA balance of payments technical assistance mission in December 1996 raised questions about the coverage and accuracy of the data. Data on invisibles continue to be based largely on banking records, which provide incomplete coverage and identification of the types of transactions. Improvements in balance of payments statistics continue to be hampered by interagency coordination problems.

Balance of payments data on foreign direct investment (FDI) are now complied by the SBV based on semi-annual and quarterly survey reports received from direct investment enterprises operating in Vietnam, supplemented by reports from SBV branches, and are no longer based on the administrative data on FDI maintained by the Ministry of Planning and Investment. However, at the September 2000 ASEAN Workshop on Improving the Quality of FDI Data, the Vietnamese authorities indicated that problems persist with the survey response rate, as not all FDI enterprises provide the requested information.

Data on contracting commercial debt are maintained by the SBV. Some loans are reported only after an extended delay, and the reporting of disbursements and repayments remains poor. Data on contracting, disbursement, and service of official debt are maintained by the Ministry of Finance.

Vietnam: Survey of Reporting of Main Statistical Indicators[1/]

(As of March 20, 2001)

	Exchange rates	International reserves	Reserve/ base money	Central bank balance sheet	Broad money	Interest rates	Consumer price index	Exports/ Imports	Current account balance	Overall government balance	GDP/GNP	External debt
Date of latest observation	3/20/01	12/00	12/00	12/00	12/00	1/01	2/01	2/01	2000Q4	2000Q4	2000	2000
Date received	3/20/01	2/01	2/01	2/01	2/01	2/01	2/01	2/01	2/01	1/01	2/01	2/01
Frequency of data	D	M	M	M	M	M	M	M	Q	Q	O	O
Frequency of reporting	D	M	M	M	M	M	M	M	Q	Q	A	A
Source of data	C/A[2/]	A	A	A	A	A	A	A	A	A	A	A
Mode of reporting	E	E	E	E	E	C	C	C	C	E	C	V
Confidentiality	C	B	B	B	B	C	C	C	B	C	C	B
Frequency of Publication	D	N	N	N	A	O	M	M	A	A	A	N

1/ The codes are as given below:

Frequency of data and reporting: D–daily, M–monthly, Q–quarterly, A–annual, O–irregular (when changed).
Source of data: A–direct reporting by the authorities, C–commercial electronic data provider, N–official publication.
Mode of reporting: E–electronic data transfer, C–cable or facsimile, V–irregularly in conjunction with staff visits.
Confidentiality: A–staff only, B–staff and Board, C–public.
Frequency of publication: D–daily, M–monthly, Q–quarterly, A–annual, O–irregular, N–not published.

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

Vietnam: Social and Demographic Indicators

Indicator	Unit of Measure	1985	1993	1998	Same Region/ Income Group East Asia	Low-Income
		(or latest year available)				
Poverty						
Upper poverty line 1/	Thousand dong	...	1,160	1,790	...	...
Percent of population living below		...	58	37	12	19
Food poverty line 1/	Thousand dong	...	750	1,287	...	...
Percent of population living below		...	25	15	...	...
GDP per capita	U.S. dollars	...	196	361	820	380
Access to safe water: total	Percent of population	...	26	39	67	67
Urban	Percent of population	...	60	75	84	79
Rural	Percent of population	...	17	29	61	62
Access to health care 2/	Percent of population	75	93	97	...	...
Health						
Mortality						
Infant mortality	Per thousand live birth	63	42	29	36	63
Under 5 mortality	Per thousand live birth	105	55	40	61	101
Immunization						
Measles	Percent of age group	19	93	96	93	87
DPT	Percent of age group	42	91	95	95	90
Child malnutrition (under 5)	Percent of age group	52	51	34	24	40
Maternal mortality rate	Per 100,000 live births	110	...	...	116	...
Population per physician	Persons	4,061	2,428	2,198	1,063	...
Population per nurse	Persons	1,245	723	785	1,490	...
Population per hospital bed	Persons	271	355	377	612	1,016
Human resources						
Population	Millions	59.9	69.2	75.1	1,714	3,092
Age dependency ratio	Ratio	0.81	0.74	0.67	0.54	0.67
Urban	Percent of population	19.6	19.8	22.8	31.3	27.6
Population growth rate	Annual percent	2.2	1.7	1.7	1.4	1.9
Urban	Annual percent	2.4	3.4	5.3	4.0	3.9
Life expectancy	Years	62	67	68	68	62
Female advantage	Years	3.8	4.5	4.8	3.6	2.1
Total fertility rate	Births per woman	4.6	3.3	2.4	2.3	3.6
Labor force (15-64)	Millions	28.8	36.2	39.1	943	1,442
Female	Percent of labor force	49	49	49	41	33
Natural resources						
Area	Thousands sq. km.	325	325	325	16,368	39,092
Density	Persons per sq. km.	184	213	231	103	78
Agricultural lands	Percent of land area	21	24	26	44	53
Agricultural land under irrigation	Percent	28	28	30	15	18
Forests and woodland	Thousand sq. km.	97	83	...	4,060	7,150
Energy consumption per capita	Kg. of oil equivalent	80	105	...	632	364
Income						
Share of top 20 percent of households	Percent of income	...	44	...	...	...
Share of bottom 40 percent of households	Percent of income	...	19	...	...	...
Share of bottom 20 percent of households	Percent of income	...	8	...	...	...
Education						
Gross enrollment ratios						
Primary	Pct. of school age population	103	87	93	118	108
Male 3/	Pct. of school age population	106	86	93	123	116
Female 3/	Pct. of school age population	100	87	92	115	101
Secondary	Pct. of school age population	42	47	...	53	41
Pupil-teacher ratio: secondary	Pupils per teacher	23	21	28	16	20
Illiteracy	Percent of population age 15+	13	11	8	22	41
Female	Percent of female age 15+	19	16	11	36	53
Newspaper circulation	Per thousand population	9	8	...	...	...

Sources: Vietnam: *Statistical Yearbook* (various years), and General Statistical Office, *Vietnam Living Standards Survey 1997-1998*; World Bank: *Vietnam Development Report 2000: Attacking Poverty,* and World Development Indicators; and staff estimates.

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

2/ For 1993 and 1998, rural population.

3/ For 1993 and 1998, net enrollment ratios.

Statement by the IMF Staff Representative
April 6, 2001

This Statement provides information on developments since issuance of the staff report (EBS/01/43, 3/23/01). These developments do not change the thrust of the staff appraisal.

1. **Macroeconomic performance so far in 2001 has generally been in line with program expectations**, reflecting robust domestic demand but in a weaker external environment. Core inflation in March continued to run at 2 percent. In the first quarter of 2001, retail sales, a key indicator of domestic demand, were up by 9 percent compared with the same period last year, while export growth (in U.S. dollar terms) slowed sharply to 14 percent and import growth to 8 percent, as was expected. Non-oil export growth was also 14 percent, with the largest slowdown reported for coffee, footwear, and electronics. Gross official reserves remained broadly stable at US$3.1 billion (as of mid-March), as was the exchange rate vis-à-vis the U.S. dollar in the first quarter. The annual growth in credit and broad money aggregates is estimated to have slowed to around 35 percent at end-January 2001, consistent with program targets for end-March. Information on the first quarter's fiscal performance is still very limited, but initial indications suggest government revenue has been running above the same period last year, continuing to benefit from relatively strong oil exports.

2. **The Ninth (Five-Year) Party Congress,** set to take place from April 19, is expected, among other things, to endorse a socioeconomic plan for the period 2001–05, which is envisaged to be consistent with the medium-term macroeconomic framework laid out in the I-PRSP (EBS/01/32) that is to be supported by the proposed PRGF arrangement.

3. **The Government of Vietnam has recently confirmed that all prior actions reported in EBS/01/43 have been completed.** (A full list of the prior actions for Board considerations of the PRGF arrangement is provided in Table 1.) In particular:

- The overall restructuring framework for the state-owned commercial banks (SOCBs) was adopted by the government on March 17. This framework is consistent with the key parameters laid out in the MEFP, especially in paragraph 17. Moreover, to oversee implementation of the framework, a steering committee was established on March 27, headed by the First Deputy Prime Minister and including the vice-ministers of Finance, Justice, Police, and Planning and Investment and officials from the State Bank of Vietnam.

- The restructuring plan for the Vietcombank was adopted on March 22. This plan conforms to the principles set out in the overall restructuring framework, and provides in particular for phased recapitalization of this bank over three years, conditional on specified improvements in bank performance and financing availability.

- The government formally accepted on March 22 offers from bilateral donors to finance audits on international accounting standards of Vietcombank and Incombank, the two key SOCBs, setting the stage for the selection of auditors on the timetable envisaged under the program.

- The timetable for a phased removal of quantitative restrictions (QRs) on a multilateral basis on six product groups was published on April 3. Under this timetable (Table 2), QRs on clinker and paper will be removed at the latest by end-2001, and those on all others items will be removed within 21 months, at the latest by January 1, 2003.

4. **Implementation of the prior actions noted in Table 1 represents a significant start of reforms in areas that are critical for the achievement of the program's macroeconomic objectives**. During the PRGF arrangement, firm implementation of the SOCB and SOE reforms, in particular, will be vital to protecting medium-term fiscal sustainability and to restoring growth. Progress in these critical reform areas is therefore being monitored through structural performance criteria and benchmarks, and will be a principal focus of the first PRGF review. As indicated in the staff report, the number of structural performance criteria and benchmarks in these two areas has also been streamlined, in close coordination with the monitoring of detailed implementation envisaged as tranche release conditions under the Bank's Poverty Reduction and Support Credit, which is expected to be considered by the Bank Board on May 3.

Table 1. Vietnam: Completed Prior Actions for the First-Year PRGF Program

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I. Banking reform

State Bank of Vietnam

State Bank of Vietnam's formal acceptance of donor funding arrangements on IAS audits of Vietcombank (VCB) and Incombank, subject to donor offer.

State-owned commercial banks (SOCBs)

Adopt framework, in consultation with the World Bank and the Fund, in line with the principles for the restructuring plans of the four SOCBs outlined in paragraph 17 of the MEFP.

Adopt plan and timetable, in consultation with the World Bank, for a comprehensive restructuring of VCB, in conformity with the overall framework for SOCB restructuring.

II. State-owned enterprise reform

Agree with the World Bank and Fund on annual targets for a three-year state-owned enterprise (SOE) reform program for equitization, divestiture, and liquidation, covering 10 percent of SOE debt.

III. Trade reform

Adopt and announce a program, with annual targets for phasing out quantitative restrictions, on a multilateral basis, on six items (cement and clinker, remaining steel products, construction white glass, paper, vegetable oil, and granite tiles and ceramic tiles) during 2001-03.

Free foreign trading rights for business-registered domestic firms, by allowing them to import all kinds of goods except banned and conditional imports.

IV. Exchange system liberalization

Eliminate the foreign exchange balancing requirement for foreign invested enterprises.

Table 2. Vietnam: Timetable for Removal of Quantitative Restrictions on Imports

Product group	Timing (latest date for removal)
1. Paper of all kinds	December 31, 2001
2. Cement and clinker	
Clinker	December 31, 2001
Cement	December 31, 2002
3. Remaining steel products	December 31, 2002
4. Construction glass	December 31, 2002
5. Ceramic and granite tiles	December 31, 2002
6. Vegetable oil, liquid refined	January 1, 2003

Source: Vietnamese authorities, as published on April 3, 2001.

Press Release No. 01/12
FOR IMMEDIATE RELEASE
April 6, 2001

International Monetary Fund
Washington, D.C. 20431 USA

IMF Approves US$368 Million PRGF Arrangement for Vietnam

The Executive Board of the International Monetary Fund (IMF) today approved in principle[1] a three-year arrangement for Vietnam under the Poverty Reduction and Growth Facility (PRGF)[2] for SDR 290 million (about US$368 million). The Board also approved in principle the release of a first loan under the PRGF arrangement in an amount equivalent to SDR 41.4 million (about US$53 million).

In commenting on the Executive Board's decision, Shigemitsu Sugisaki, Deputy Managing Director, made the following statement:

"The PRGF-supported economic program seeks to build on Vietnam's recent record of positive performance and policy momentum, in order to increase economic growth further and reduce poverty. The reform agenda is appropriately centered on accelerating structural reforms to boost private investment and competitiveness of the economy. While maintaining macroeconomic stability, key policy elements include reforms of the state-owned enterprises (SOE), the state-owned commercial banks (SOCB), and liberalization of the exchange and trade regimes. Greater emphasis will also be placed on policy and data transparency to bolster investor confidence and enhance the business environment.

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[1] A final decision by the IMF Executive Board is pending discussion of Vietnam's interim Poverty Reduction Strategy Paper by the Executive Board of the World Bank. The World Bank board discussion is expected to take place on April 12, 2001.

[2] On November 22, 1999, the IMF's concessional facility for low-income countries, the Enhanced Structural Adjustment Facility (ESAF), was replaced by the Poverty Reduction and Growth Facility (PRGF), and its purposes were redefined. It was intended that PRGF-supported programs will in time be based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners, and articulated in a poverty reduction strategy paper (PRSP). This is intended to ensure that each PRGF-supported program is consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. At this time for Vietnam, pending the completion of a PRSP, a preliminary framework has been set out in an interim PRSP, and a participatory process is underway. It is understood that all policy undertakings in the interim PRSP beyond the first year are subject to reexamination and modification in line with the strategy that is to be elaborated in the PRSP. Once completed and broadly endorsed by the Executive Boards of the IMF and World Bank, the PRSP will provide the policy framework for future reviews under this PRGF arrangement. PRGF loans carry an annual interest rate of 0.5 percent, and are repayable over 10 years with a 5 ½ year grace period on principal payments.

"To protect macroeconomic stability, a continued cautious fiscal stance and restrained credit policy will be needed. Medium-term fiscal sustainability will also hinge on improving the performance of non-oil revenue by strengthening both tax policy and administration, for which Vietnam has requested technical assistance from the Fund. Moreover, emphasis will need to be given to improving public expenditure management, including the transparency and efficiency of spending and the budget's focus on poverty reduction.

"Following the recent adoption of an overall framework for SOCB reform, top priority will now need to be given to defining and implementing the restructuring plans for each of the four large SOCBs, with adequate transparency and close oversight from the State Bank of Vietnam.

"The government's three-year SOE reform plan is a meaningful first step in the medium-term process of state enterprise restructuring. Sustained implementation of this plan, together with safeguards to strengthen SOE financial discipline and curb credit to SOEs, would advance the process of reforming the SOE sector.

"A flexible exchange rate policy will be essential, and further steps to liberalize the exchange system will also help to bolster investor confidence. The significant trade reform measures envisaged under the program complement the SOE reform. To reap their full benefits, it will be important that Vietnam firmly implement its commitments with key trading partners, and follow through with the recently announced plan to remove the majority of quantitative restrictions by the start of 2003.

"The I-PRSP has been prepared in a broad consultative process and meets the core requirements. In developing a full PRSP over the next year, attention will need to be given to defining a work program, with emphasis on the quality of the poverty reduction strategy, its links to the budget as well as data problems," Mr. Sugisaki said.

ANNEX

Recent Economic Developments

Since late 1999 the economy has begun to rebound, and the pace of reform has picked up. The recovery has been driven in part by a revival of domestic investment in response to recent policy initiatives aimed at addressing structural weaknesses and strengthening competitiveness. Real GDP growth is estimated to have risen from 4¼ percent in 1999 to 5½ percent in 2000, spurred by strong domestic demand. Despite this, inflation remained subdued in 2000 owing to excess capacity and a surge in imports. As a result, and in spite of strong export growth, the external current account surplus (including official transfers) narrowed and gross official reserves rose moderately to reach US$3.0 billion (8¼ weeks of prospective imports).

Domestic demand stimulus came from accommodative fiscal and monetary policies in 2000. Aided in part by the windfall in oil revenue, the overall budget deficit widened to 2 percent of GDP. Credit growth also reached 38 percent in 2000, almost exclusively in dong lending and mostly from the SOCBs.

The exchange rate policy and regime were further eased in 2000. With a greater role given to market forces, the dong depreciated by 3 percent in the last quarter of the year, in contrast to virtual stability of the exchange rate vis-à-vis the U.S. dollar in the previous two years. Of the three remaining exchange restrictions under Article VIII of the Fund's Articles of Agreement, the foreign balancing requirement for foreign-invested enterprises (FIEs) was lifted in November 2000.

The pace of key structural reforms picked up during 2000. In particular, to foster private sector development, a number of business licensing requirements were removed under the new Enterprise Law, easing entry into affected business sectors. Also, access to credit by small- and medium-scale enterprises (SMEs) improved through permitting the use of land-use rights as loan collateral. Furthermore, the Foreign Investment Law was revised to improve the climate and incentives for foreign investors. In the banking sector, the preparation of an SOCB reform framework was intensified and a comprehensive SOE reform plan was brought to near finalization, but the pace of equitization remained sluggish. In the trade area, quantitative restrictions (QRs) were removed on 8 of the 19 products subject to such restrictions, foreign trading rights were liberalized, rice export quotas were lifted, and a bilateral trade agreement with the United States (USBTA) was signed in July 2000.

Program Summary

Under the PRGF-supported program, real GDP growth is projected to rise to 7 percent by 2003, with inflation staying under 5 percent. Real per capita income should rise by an average of 4½ percent a year, which together with measures to strengthen the poverty focus, should lead to a meaningful reduction in the poverty incidence and improvements in social indicators. Under the program, **Vietnam's external position is also expected to strengthen**

with policies aimed at improving competitiveness and attracting FDI. The external current account deficit is projected to average 2–3 percent of GDP over the medium term, and gross official reserves are targeted to rise to 9¼ weeks of import cover by end 2003. The main forces for growth and employment generation are expected to come from the private SMEs and FIEs.

Macroeconomic performance is expected to remain sound in 2001, despite a likely moderation of GDP growth to 5 percent, reflecting weaker external demand. Inflation is projected to increase due to the lagged effect of rapid credit growth, but remain under 5 percent with some easing of demand pressures. The external position is also expected to weaken, owing to lower oil prices and slower growth in non-oil exports, and the current account projected to be in near balance. With a moderate recovery in FDI and donors' balance of payment support, gross official reserves are targeted to reach US$3.6 billion (8¼ months of prospective imports).

Fiscal policy will be aimed at protecting medium-term sustainability, and focusing more on poverty reduction and covering structural reform costs. The overall budget deficit is targeted to average 3 percent of GDP during 2001–03. This fiscal stance will be underpinned by efforts to expand non-oil revenue through improved tax administration and policy, and to strengthen the efficiency of spending, as well as to curb SOE losses and improve SOCB performance.

Monetary policy will be tightened, consistent with the inflation and reserves objectives, and also to safeguard the banking system. In line with the ongoing level of economic activity, credit growth is programmed at 20 percent in 2001. Credit policy will be coordinated closely with SOCB and SOE reforms, in particular to impose greater financial discipline on highly indebted SOEs. The SBV will rely increasingly on indirect instruments. At the same time, interest rate policy will be made more flexible, notably through strengthening the base interest rate system. Consistent with a more restrained monetary policy and ongoing structural reforms, **the exchange rate is expected to be managed more flexibly**, giving a greater role to market forces and minimizing administrative measures. During the program period, the government is committed to phasing out the foreign exchange surrender requirement.

The program provides for a targeted reform of the banking sector, aimed at enforcing better lending discipline and transparency and putting SOCBs' operations on a commercial basis, including by phasing recapitalization of the four large SOCBs over three years conditional on improvements in banks' performance. Reform plans for these banks will be finalized by mid-2001, under the overall restructuring framework approved by the government in March 2001. Moreover, each bank will undergo independent audits on international accounting standards by year end. Rationalization of the joint stock bank sector will also continue. To minimize moral hazard, only SOEs under government-approved reform measures will benefit from debt relief in the context of SOCB restructuring. Ceilings have also been set on banking system credit to SOEs and a monitoring of bank credit and budget support for a target 200 SOEs with large debt.

The government's medium-term SOE reform plan, adopted in March 2001, is aimed at curbing SOE losses and improving SOE efficiency over the period 2001–03. Reform measures in the plan (with annual targets for equitization, divestiture, and closure) will affect one-third of SOEs, accounting for 10 percent of SOE debt. This plan also includes steps to strengthen SOE financial discipline, and safety nets for labor redundancies.

To enhance Vietnam's competitiveness, **the government is committed to pursuing further economic integration, through implementing commitments with key trading partners.** Actions envisaged under these agreements are expected to accelerate the liberalization of Vietnam's relatively restrictive trade regime. Under the ASEAN Free Trade Area (AFTA), Vietnam is committed to reduce AFTA tariffs on the majority of tariff lines to 20 percent by 2003 and to 0–5 percent by 2006. In addition, the government recently announced plans to remove QRs on a multilateral basis on an additional six product groups at the latest by the start of 2003. Also, trading rights, which have already been liberalized for domestic firms, are to be further liberalized for FIEs through further revisions to the Foreign Investment Law.

More generally, **private sector development and FDI will be promoted through an easing of barriers to entry and liberalizing the business environment**, for both domestic and foreign investors, and improvements in policy transparency. Efforts to improve the scope and quality of economic and financial data, including the publication soon of a Vietnam page in *International Financial Statistics*, are also expected to enhance policy transparency and boost investor confidence.

Vietnam: Selected Economic Indicators, 1997–2001

	1997	1998	1999	Est. 2000	Proj. 2001
			(Percent change)		
Real GDP	8.2	3.5	4.2	5.5	5.0
Inflation (period average)	3.1	7.9	4.1	-1.7	4.0
Money and credit 1/					
Broad money	26.1	25.6	39.3	39.0	22.8
Credit to the economy	22.6	16.4	19.2	38.1	20.0
Exports 2/	24.6	2.4	23.2	25.2	6.8
Imports, f.o.b. 2/	-0.2	-1-1	1.1	34.5	11.3
Real effective exchange rate	3.4	8.1	-6.2	-2.9	...
			(In percent of GDP)		
Saving-investment balance	-6.9	-4.6	4.1	1.7	-0.7
Gross national saving	21.4	21.2	27.0	25.5	24.7
Gross investment	28.3	25.8	23.0	23.9	25.4
Government budget 3/					
Total revenue	20.0	19.6	19.2	19.9	19.9
Grants	0.8	0.6	0.6	0.4	0.4
Total expenditure 4/	22.6	20.7	20.6	22.2	23.1
Overall fiscal balance 4/	-1.7	-0.5	-0.8	-1.8	-2.7
External debt 5/	74.8	75.6	71.6	39.6	41.4
Convertible currency 6/	35.7	36.3	34.2	39.6	41.4
Nonconvertible currency	39.1	39.3	37.4	0.0	0.0
			(In billions of U.S. dollars, unless otherwise indicated)		
Current account balance 7/	-1.7	-1.1	1.3	0.6	-0.1
(in percent of GDP)	-6.2	-3.9	4.5	2.1	-0.3
Gross official foreign exchange reserves	1.9	1.8	2.7	3.0	3.6
(in weeks of next year's imports)	7.2	6.8	8.1	8.2	8.3

Sources: Vietnamese authorities; and staff estimates and projections.

1/ Figures for 2000 and 2001 are based on expanded monetary survey (State Bank of Vietnam (SBV) and 89 credit institutions); for previous periods, based on original monetary survey (SBV and 28 credit institutions).

2/ Goods and nonfactor services, in U.S. dollar terms.

3/ Cash basis and excluding capital costs of reforms.

4/ Excluding onlending.

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

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

7/ Includes official transfers.

Statement by Dono Iskandar Djojosubroto, Executive Director for Vietnam April 6, 2001

1. Introduction

Over the past ten years, Vietnam has achieved significant progress in economic development through the implementation of various economic reforms mainly in the areas of banking, state-owned enterprises and trade with support from the international community. Indeed, the economic progress has contributed to improving social conditions in Vietnam, with a significant decline in the level of poverty. However, much more remains to be done to further reduce poverty and Vietnam hopes that it can continue to count on the international community and bilateral partners for their support. The authorities believe that strong and sustained economic growth is a prerequisite for the country to meet its objectives of reducing poverty and improving the living standards of the people of Vietnam. In this context, we would like to express our gratitude to the management and staff of the Fund for their close cooperation with the Government of Vietnam to establish a three-year medium-term economic program (2001-03) to be supported by the Poverty Reduction and Growth Facility.

2. Economic Development in the Year 2000

Last year, Vietnam continued the course of comprehensive reform, pursued sound macroeconomic policies, and gradually regained the momentum of growth. This development was of paramount importance given the fact that the world was entering a new millennium with both opportunities and challenges of globalization. Vietnam's GDP growth reached 6.7 percent, which exceeded the target set out by the National Assembly of Vietnam and remarkably higher than that of 1999. The declining trend of economic growth, which started in 1996 and deepened in the following years, had been curbed. Gross official reserves leveled off to USD 3 billion at end 2000. Despite rapidly rising consumption, the non-food inflation rate was 2 percent in December 2000 (12-month basis). In the context of the overall growth of the economy, agriculture output grew quite rapidly despite the losses caused by natural calamities. Exports increased quickly, reaching USD 180 per capita, or more than 3 times higher than the pace of GDP growth and exceeding the threshold for less developed country status in terms of foreign trade. Many successes were accomplished in poverty reduction. All economic sectors contributed to the economic growth, with the private sector developing remarkably well since the Law on Enterprises came into effect. The flourishing economy had generated more investment resources for Vietnam. Although foreign investment declined, gross national investment in 2000 increased by nearly 20 percent compared with that of the previous year, thanks to the enhancement of internal resources. Prices were stable while the exchange rate was allowed to respond to market forces. Budget revenue was higher than anticipated, thus keeping the deficit within the acceptable limit. The balance of payments improved and this contributed to the increase in official reserves. The signing of the Bilateral Trade Agreement with the US and the ongoing negotiations to join the WTO reflected Vietnam's increased efforts to accelerate reforms to open its economy and actively integrate it into the global economy with an appropriate roadmap. The Government of Vietnam is doing its best to overcome the current difficulties in order to create the prerequisites for faster and more sustainable economic growth in the early years of the new century.

3. Long-term Development Vision

In its long-term economic development strategy, to help the country achieve industrial status with rapid, effective and sustainable development, Vietnam will speed up the process of industrialization and modernization by fully deploying all its internal resources as well as external support and by actively integrating itself into the international economy. The overall target of this strategy is to lift the country out of its underdevelopment status, significantly improve the living standards of its population, reach an annual economic growth rate of 7.5 percent and double its GDP from current levels by 2010. The basic thrust of Vietnam's economic strategy is to become an advanced economy by the year 2020, gradually enhancing its position in the international community. As part of this long-term strategy, Vietnam will consistently pursue its multi-sector economic development policy. All sectors of the economy that operate under the country's legal framework are important components of the socialist-oriented market economy and will be allowed, in the long run, to develop and to cooperate and compete with each other. The private sector will be encouraged to develop in all the fields as permitted by law. Vietnam will continue to refine its macroeconomic management instruments, making the improvement in economic as well as social sector development strategies. Transparency and equality in the State budget expenditures will be ensured. The tax system will be continually improved, consistent with the country's situation and with its international commitments. Appropriate measures will be taken to reform the state-owned commercial bank (SOCB) system to develop reputable and competitive monetary businesses. The administrative intervention of the governmental agencies into lending decisions of the SOCBs will be removed. In general, Vietnam's macroeconomic policies that aim at speeding up reforms, developing open and competitive markets and improving access to international markets, will help promote and maintain sustainable growth.

4. The 2001-2003 Medium-term Economic Development Program

In this context, the Government of Vietnam has adopted a medium-term economic reform program for the 2001-2003 period, in which the objective of restoring growth closer to its potential in a low inflation environment is set as a key target of the poverty reduction strategy. To this end, Vietnam will pursue sound macroeconomic policies, give priority to key structural areas, namely banking and state-owned enterprise (SOEs) reforms, and trade liberalization measures. As regard to banking reform, the authorities aim to restore the soundness to the whole system and improve the efficiency of financial intermediation. Vietnam has adopted an overall reform plan designed to maintain the stability for the banking industry, consistent with the program's medium-term macroeconomic framework that focuses on strong efforts to stem the flow of bad loans, phase out policy lending, and conduct banking operations on a commercial basis. With regards to SOE reforms, Vietnam has adopted a three-year reform plan for the 2001-2003 period, which aims at curbing SOE losses and improving the efficiency and competitiveness of the enterprise sector. As a necessary adjunct to SOCBs reform, Vietnam aims to reinforce this program over time by including additional nonviable loss-making SOEs for closure/liquidation, and highly leveraged, larger SOEs in the list of enterprises subject to reform. In trade reform, Vietnam's policy is being charted on the basis of commitments under the ASEAN Free Trade Area (AFTA) and the recently concluded bilateral trade agreement with the United States. This includes the adoption and publication of a long-term import-export regime for 2001-2005, and a timetable for the phased removal, on a multilateral basis, of quantitative restrictions (QRs) that will be replaced by tariffs. Trading rights for domestic firms have been fully liberalized. To bring into full play their ownership, relevant Vietnamese authorities started the drafting of the Interim Poverty Reduction Strategy Paper (I-PRSP) in April 2000 with assistance of the World Bank and IMF and have benefited from a wide range of consultations with concerned ministries, agencies, representatives of the donor community, and other participating organizations.

5. Conclusion

The authorities firmly believe that with the considerable efforts of the Government and the people of Vietnam coupled with the support and assistance from the international community, Vietnam will be able to overcome the various difficulties and fully employ its internal resources as well as make the best use of external assistance to ensure political and socio-economic stability which will be necessary for sustainable long-term economic development. Vietnam highly appreciates the multi-faceted support and assistance provided by the international financial community, including the IMF.

Finally, I would like to reaffirm the Vietnamese authorities' strong commitment to adhere to the reform program. The program envisaged in the I-PRSP is indeed important to fight poverty and raise the living standards of the Vietnamese people. In this connection, the authorities will greatly appreciate support from Executive Directors for Vietnam's request for a three-year arrangement under the PRGF which will give a much needed boost to the authorities' efforts to achieve the country's objectives.