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Vietnam Economics

Reining In the Tiger Cub

Classic signs of overheating: Vietnam is facing the classic overheating problems of a typical emerging market attempting to move from a centrally planned economy with a large public sector presence to a market-oriented economy dominated by the private sector. A weak institutional framework to manage this transition to a market-oriented economy has pushed a number of macro indicators to unsustainable levels.

Loose monetary policy is at the heart of current overheating: A pegged exchange rate, large capital inflows, and a loose monetary policy supported a strong credit cycle and major asset price euphoria. Credit growth has accelerated to 63%YoY as of March 2008. Inflation reached a high of 25% in May, while the trade deficit shot up to an unsustainably high level of 49% of GDP (3M trailing sum, annualised, custom basis). The government is facing a major challenge to rein in the overheating economy.

Right policy measures over the last four weeks: Although after some delay, the government has moved aggressively, lifting the base rate to 14% from 12% two months back. We expect both inflation and the trade deficit to decline significantly by 4Q08, reducing the economy's vulnerability to an external shock. We believe that a major external shock (potential 33% depreciation in VND as priced in the non-deliverable forward exchange rate market) is unlikely to materialize. We expect the Central Bank to allow only 4-5% depreciation over the next three months and a maximum of 8-10% over the next 12 months.

Pain to be felt in the real economy, banking sector, and non-financial corporate sector: We believe the sharp rise in lending rates will cause GDP growth to slow to 5.5-6% by 1Q09 from 9.2% in 4Q07. The sharp fall in the stock market, big drop in property prices, weaker GDP growth, and rising cost of borrowing should lead to a significant increase in banks' non-performing loans. We also expect corporate sector earnings to be hit severely in the second half of 2008.

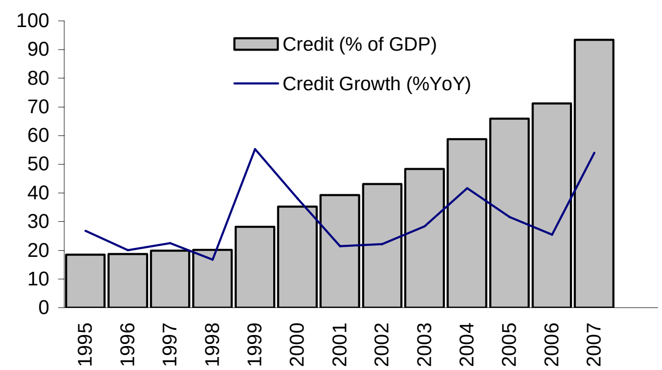
Reining In the Tiger Cub

Summary
In recent weeks, concerns about Vietnam's macroeconomic outlook have increased. We visited government officials, banks and companies last week to get a better understanding of the macroeconomic developments. Vietnam is facing the classic overheating problem of a typical emerging market attempting to move from a centrally planned economy with a large public sector presence to a market-oriented economy dominated by the private sector. Opening up of the economy has created unprecedented foreign interest in the macroeconomic development of the country. However, a weak institutional framework to manage this transition to a market-oriented economy has pushed a number of macro indicators to unsustainable levels. A pegged exchange rate, large capital inflows, and a loose monetary policy supported a strong credit cycle and major asset price euphoria. Inflation reached a high of 25.2%YoY in May as the trade deficit shot up to an unsustainably high level of 49% of GDP (custom basis, 3M trailing sum annualised percentage of GDP). The government is facing a major challenge to rein in the overheating economy.

Loose Monetary Policy at the Heart of Overheating in the Economy…
Vietnam has witnessed the classic overheating in an economy driven by large capital inflows and loose monetary policy. Increased foreign interest in Vietnam's economic development story led to a spike in capital inflows. In 2007, the capital account balance rose to 24.6% of GDP (US$17.5bn), we estimate, from 5.1% in 2006 and 5.8% in 2005. Foreign direct investment (FDI) and portfolio investment balance accounted for 9.2% and 8.8%, respectively, of GDP in 2007 (Exhibit 19). During the first five months of 2008, the trend appeared to continue. The Central Bank had intervened in the foreign exchange market to avoid appreciation of the Vietnamese dong (VND), resulting in a rise in domestic liquidity. While the State Bank of Vietnam (SBV) sterilized a part of this rise in liquidity by way of open market operations (OMO) and an increase in the cash reserve ratio, it did not fully sterilize it. With domestic interest rates higher than the return earned by the Central Bank on dollar reserves, the cost of sterilization was high, and this high cost probably weighed in the Central Bank's decision.

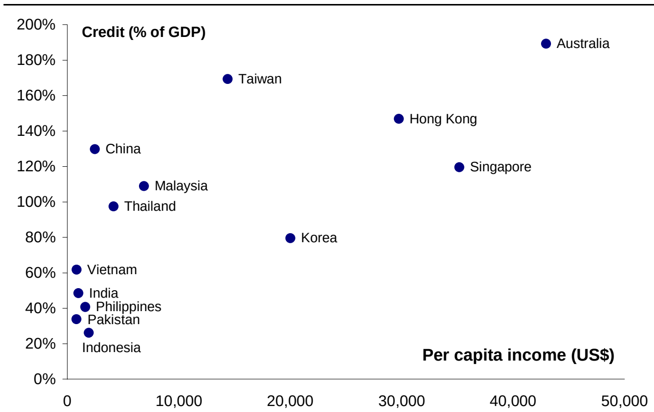
Not surprisingly, credit growth accelerated to 54% in 2007 after growing at an average of 32% in the last four years (Exhibit 1). We estimate that the credit to GDP ratio spiked to 93% as of December 2007 from 71% as of Dec 2006. Vietnam's credit to

Exhibit 1
Strong Credit Cycle



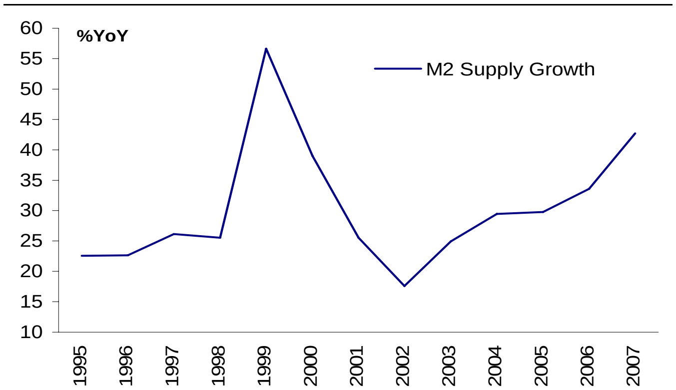
Source: CEIC, SBV, Morgan Stanley Research

Exhibit 2
Vietnam: Relatively High Credit Penetration for a Developing Economy



Source: CEIC, Morgan Stanley Research

Exhibit 3
Inflation Is Always and Everywhere a Monetary Phenomenon?



Source: CEIC, Morgan Stanley Research

GDP ratio is now one of the highest in the region relative to its per capita income (Exhibit 2), reflecting the excesses in the current credit cycle. Strong credit growth delivered by the relatively under-developed banking sector caused misallocation of capital. Banks were funding households' purchases of equity shares. Banks also increased their exposure to the property market significantly by way of lending to real estate companies and construction companies and to individuals for mortgage loans.

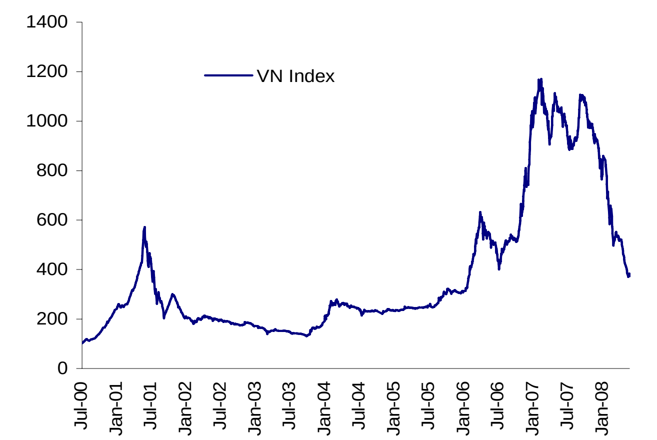
...Reflected in Asset Market Boom

The lagged impact of loose monetary policy was reflected in a major increase in domestic demand (particularly construction) and a sharp rise in asset prices. Even as domestic demand and asset prices rose sharply, there was a delay in hiking policy rates. The VN Index rose from 167 at the end of 2003 to a peak of 1,171 in Mar-07 (Exhibit 4) and the index traded at a P/E of more than 50 times in early 2007. Similarly, property prices in Ho Chi Minh City and Hanoi increased by 100-200% between 2004 and 2007. The Central Bank has since put an end to the stock market euphoria by restricting banks from funding purchases of equity shares. In January 2007, banks were ordered to stop extending new credit to securities companies under their control. They may lend to non-affiliated companies, but such lending is restricted to 20% of their charter capital. SBV also increased to 150% risk weight on loans related to share purchases, meaning that banks now need to hold more capital against those loans. A bank's shareholding in a firm or investment fund is now limited to 11% of the firm's charter capital. Most importantly, SBV imposed an aggregate ceiling of 40% of an individual bank's charter capital for all such investments.

…And a Spike in Domestic Demand and Inflation

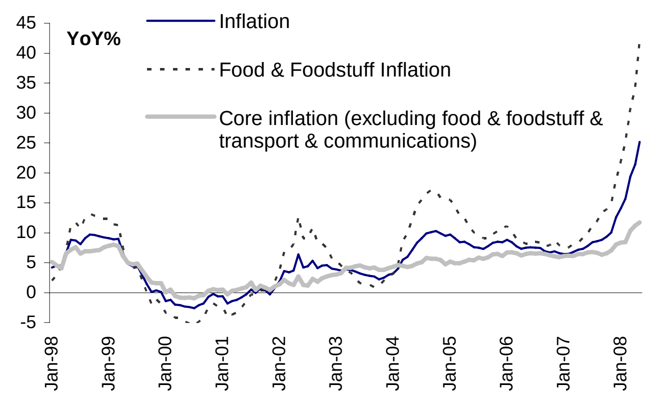
Inflation rate has continued to accelerate, reaching 25.2%YoY in May 2008 from an average of 8.6%YoY in QE Sep-07 (Exhibit 5). Core inflation (ex-food and transportation) has risen to 11.7%YoY in May from 6.6%YoY in QE Sept-07. Indeed, the rise in inflation has meant a sharp decline in real lending rates for the banking sector. The Central Bank kept the base rate at 8.75% until May 19. Apart from this, the government has always capped lending rates for banks at 1.5 times the base rate. Hence until May 19, banks could charge a maximum rate of 13.1%. Additionally, from Feb-08 to May-08, banks were directed to offer a maximum deposit rate of 12%. Thus, deposit and lending rates were kept at lower levels than warranted by supply/demand and inflation. While low real lending rates meant stronger demand for credit, low real deposit rates resulted in slower deposit growth. According to a

Exhibit 4
VN Index: Falling From the Top



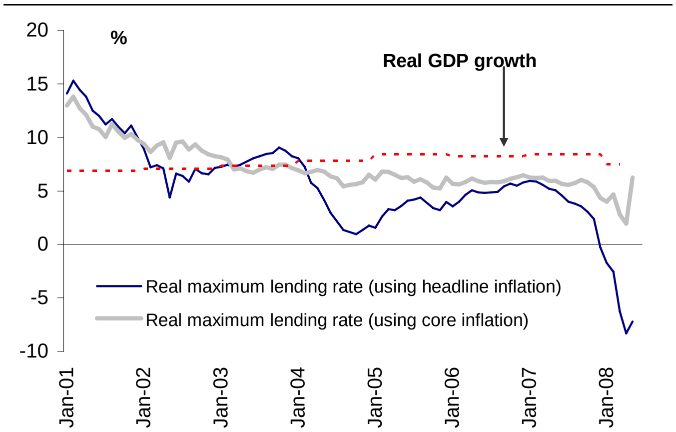
Source: Bloomberg, Morgan Stanley Research

Exhibit 5
Inflation: Both Global and Local



Source: CEIC, Morgan Stanley Research

Exhibit 6
Sharp Decline in Real Lending Rates



Source: CEIC, Morgan Stanley Research

recent World Bank report, credit growth accelerated to 63%YoY in March 2008 compared with 33%YoY at the start of 2007. Deposit growth decelerated to about 40%YoY in March 2008 from about 55% in December 2007 and about 45% in Jan-Feb 2007. Indeed, some of the small banks suffered a liquidity crunch, having to borrow in the inter-bank market at very high rates of 25-30%.

Supply-side factors such as food and energy added to the inflation pressures. Of the current inflation rate of 25%, food & foodstuff has contributed 18.6 percentage points. A sharp rise in domestic rice prices has been a key factor driving food inflation. Rice exports have been allowed to continue until recently. Bad weather and its adverse impact on crops resulted in some stress in the domestic market. A spike in international prices and news of increased shortages in various countries in the region heightened anxiety in the domestic market, particularly in March and April.

Balance of Payments Stress

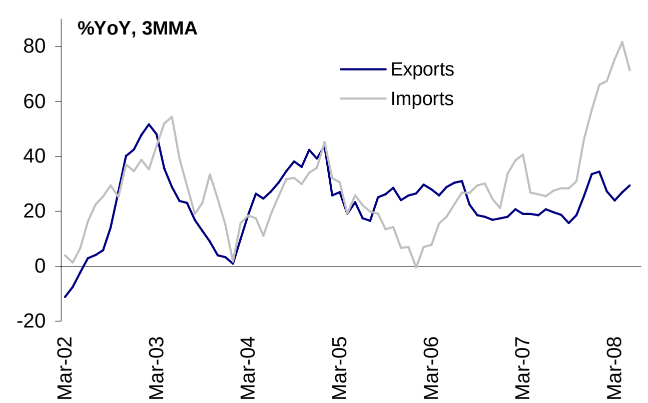
Strong credit growth resulted in a major spike in imports over the last eight months. Import growth (custom basis) stood at 70.5%YoY for Jan- May 2008 compared with an average of 28.4%YoY during QE Sep-07. Import growth has accelerated not only for capital goods such as machinery but also for automobiles, steel, and fertilizers. We believe high inflationary expectations and precautionary advance purchases by residents are key reasons for this spike in import growth. Higher prices of some international commodities also contributed to the acceleration in import growth, as Vietnam imports all of its refined oil needs. The jump in imports over the last few months has pushed the trade deficit to unsustainably high levels (Exhibit 9). Based on balance of payments data, during 1Q08, trade deficit and the current account deficit increased to US$7.05bn (38.2% of GDP on annualized basis) and US$5.29bn (28.6% of GDP on annualized basis), respectively. Strong growth in remittances and FDI ensured that the overall balance of payments remained in surplus at US$3.0bn. However, amid declining investor confidence and slowing capital inflows, the government is facing challenges in containing balance-of-payments pressures.

First-round Corrective Measures Slow in Pace

The government initially attempted to control the overheating by taking administrative measures, persuading banks to slow credit growth. Policy rates were lifted by only a minimal amount. On February 1, 2008, SBV increased the base rate to 8.75% from 8.25% and raised the cash reserve ratio from 10% to 11% for deposits under 12M and from 4% to 5% for deposits

Exhibit 7

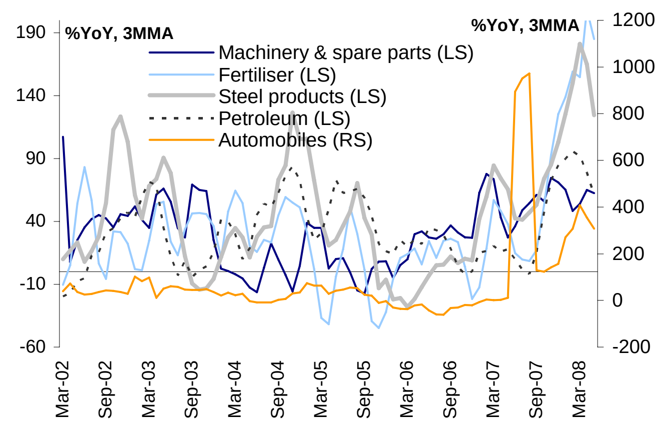
Export-Import Growth Divergence



Source: CEIC, Morgan Stanley Research

Exhibit 8

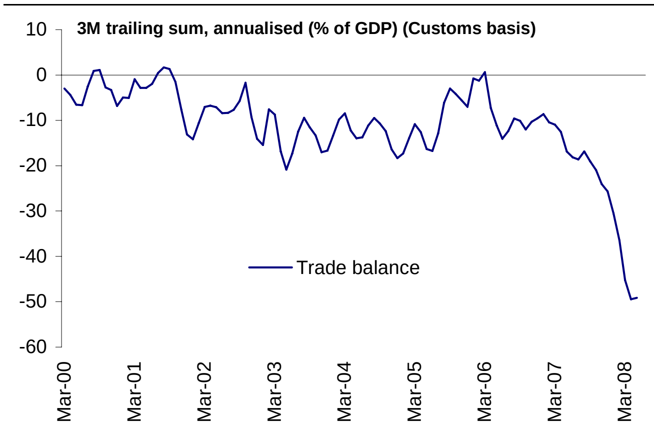
Key Import Drivers



Source: CEIC, Morgan Stanley Research

Exhibit 9

Widening Trade Deficit



Source: CEIC, Morgan Stanley Research

between 12M and 24M. Moreover, in the second week of February, it instructed banks to subscribe to 365-T-bills worth US$1.3 billion (~2% of total deposits) at a coupon of 7.8%. Increased stretch on liquidity forced banks to hike deposit rates. Depositors started moving from one bank to another based on which one could offer higher deposit rates. At the end of February, however, the SBV announced a 12% cap on deposit rates. We believe the decision to limit the rise in interest rates at a time when inflation was rising fast only added to the complexities.

Aggressive Policy Measures Being Implemented Now
While the government delayed implementing measures to control the overheating in the economy, it has recently taken the following steps:

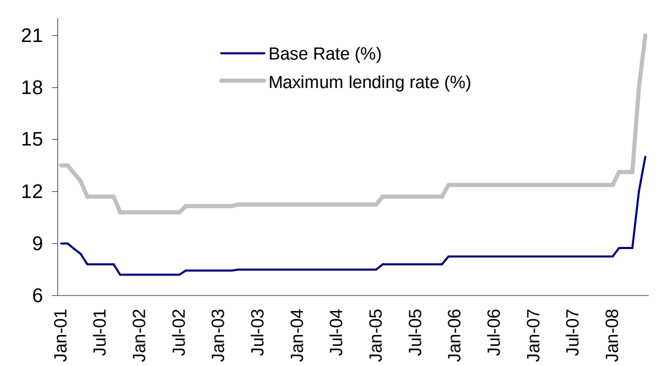
(a) **Tightening of monetary policy:** On May 19, SBV hiked the base rate to 12% from 8.75%. On June 10, it was hiked further to 14%. More importantly, on May 19, SBV removed the 12% cap on deposit rates. While the lending rate is still limited to 1.5 times the base rate, with the rise in the base rate, banks can now charge up to a maximum of 21% (1.5 times 14%). Banks have since increased deposit rates to about 15-17% and lending rates to 20-21% from a maximum lending rate of 12.4% in Jan-08.

(b) **Fiscal policy tightening:** The government aims to cut spending to slow aggregate demand. It plans to reduce its recurrent expenditure (excluding salary) by 10% and to cut capital spending on projects funded by government bonds. We believe the government is likely to try to reduce its fiscal deficit to 4% of GDP in 2008 from 5% in 2007.

(c) **Slowing business activity of SOEs**: SOEs are expected to focus on core businesses; their investments in banking and securities are subject directly to the Prime Minster's approval.

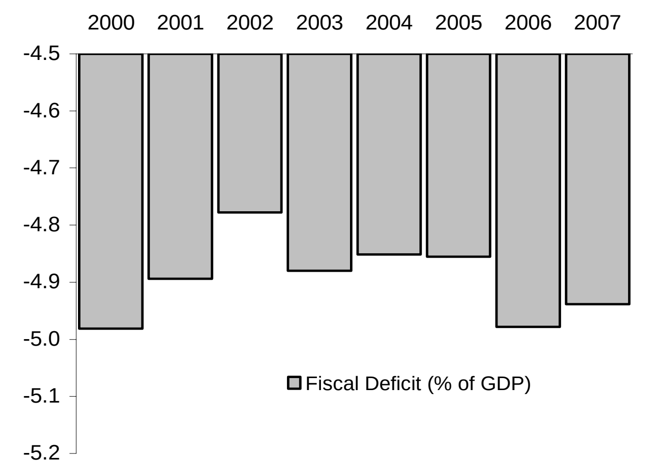
Large Exchange Rate Adjustment Unlikely
We believe the Central Bank is unlikely to opt for a major one-off exchange rate adjustment. In our view, the exchange rate adjustment priced in the non-deliverable forwards (NDF) market is unlikely to come through. As of June 19, the one-year forward NDF is pricing in a 33% depreciation of VND. The Central Bank will resist making such a large adjustment. First, any major one-off depreciation would increase the risk of instability in the FX market. Second, with inflation

Exhibit 10
Base Rate



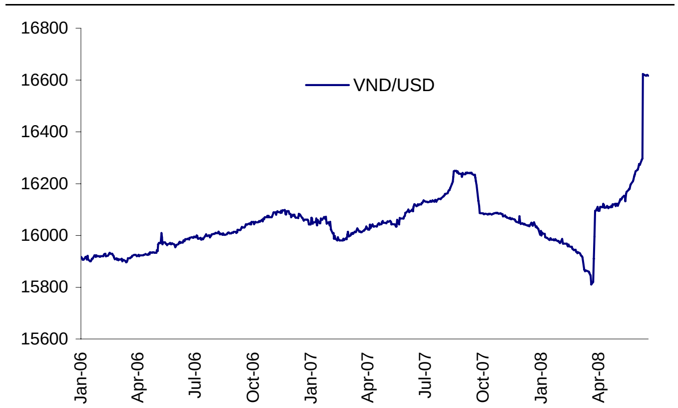
Source: CEIC, Morgan Stanley Research
Base rate is set by the Central Bank and refers to the best rate that banks charge their customers.

Exhibit 11
Fiscal Policy Tightening Ahead?



Source: CEIC, Morgan Stanley Research

Exhibit 12
Depreciating VND, but Large Adjustment Unlikely



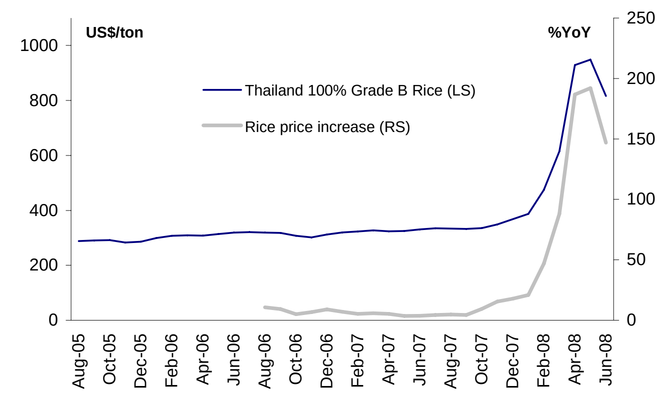
Source: Bloomberg, Morgan Stanley Research already at 25% as of May, any sharp depreciation would seriously damage domestic confidence, and inflationary expectations could intensify. We believe that the Central Bank will likely allow a further minor depreciation of 4-5% over the next three months. If circumstances warrant, the SBV could choose to hike the prime rate (policy rate) by an additional 2-3% over the next 1-2 months, we think.

Real Economy Adjustments Will Likely Be Painful
Efforts to restrict banks' funding of equity share purchases and increased concerns about the macro outlook have pushed the VN Index down 68% from its peak in Mar-07. The sharp drop in the equity market has weighed on the property market. According to CB Richard Ellis, residential property prices in Ho Chi Minh City have fallen 25%, from US$6,000psm in 2007 to US$4,500psm currently. Meanwhile, residential property prices in Hanoi have fallen by about 10-20% from US$3,500psm in 2007. The sharp increase in lending rates is beginning to cause a significant slowdown in real economic activity. In our conversations with banks, they indicated that they have significantly cut back on credit disbursements. Not only is the cost of borrowing high, but banks are hesitant to lend, as they are not sure if the borrower will be able to service loans at the level of interest rates. According to the SBV, credit growth has decelerated from 6.3%MoM in January to 1.2%MoM in June. We believe property prices will likely fall further. We expect GDP growth to slow sharply, to 5.5-6% by 1Q09 from 7.5% in 1Q08 and 8.5% in 2007. Full-year GDP growth will probably be 6.5%, below the government's revised target of 7%.

Corporate sector earnings are likely to be hit significantly. Companies will be reporting earnings before mid-July. Apart from slowing growth and the higher cost of borrowing, the corporate sector will probably report losses on cash surpluses parked in marketable securities. Additionally, many companies have increased their exposure to real estate.

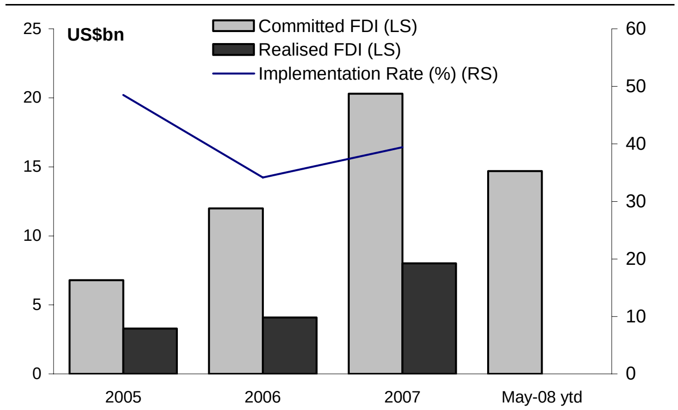
Balance of Payments Stress to Diminish by 4Q08
We expect import growth to slow from the current 70% level to 25-30% over the next 3-4 months and then to 15-20% by year-end. The spike in interest rates will not only slow real business demand for imports but also halt the precautionary and speculative demand. The slowdown in capital inflows, particularly portfolio inflows, means the balance of payments could be negative during the third quarter. To address this gap over the next 3-4 months, we believe the government will opt for a combination of (a) a drawdown on FX reserves, (b) increased borrowing from multilateral agencies for infrastructure projects, and (c) encouraging the corporate sector to borrow from the international markets.

Exhibit 13
International Rice Prices Have Retreated But Are Still Up YoY



Source: FAO, Morgan Stanley Research

Exhibit 14
May08-YTD Registered FDI Is 72% of 2007 Levels



Source: MP, Morgan Stanley Research

Exhibit 15
Current Account Balances: Now and Then

Current Account Balance (% of GDP)	Indonesia	Malaysia	Philippines	Thailand	Vietnam
1994	-1.7	-7.2	-5.4	-5.6	-7.3
1995	-3.4	-10.0	-4.5	-8.1	-12.7
1996	-3.4	-4.3	-4.3	-8.1	-9.8
1997	-2.4	-6.2	-5.7	-0.8	-6.1
2004	0.6	12.0	1.1	1.7	-3.5
2005	0.1	14.3	2.6	-4.3	-0.9
2006	3.0	14.6	3.8	1.0	-0.3
2007	2.4	16.5	5.1	6.1	-9.8

Source: CEIC, Morgan Stanley Research

We expect the trade deficit to narrow to US$4.5bn during the fourth quarter from US$7.05bn in 1Q08. We believe that this gap will be adequately matched by remittances, FDI, and official development assistance from multilateral agencies.

Supply-Side Inflation Pressures to Linger

Even though the slowdown in domestic demand and asset price deflation should help reduce core inflation, food and energy prices could continue to keep the headline inflation rate high. The government has already implemented some measures to address food price inflation. It has increased the supply of rice in the domestic market and announced a moratorium on new contracts for rice exports. The government cannot completely block exports, as that would hurt farmers, though it might benefit the urban population. Domestic rice prices have fallen over the last six weeks, but the overall stock of rice in the country is still low. The government hopes to bring rice prices down further post the April-June harvesting season.

While the government raised domestic fuel prices by 12-36% in February, international crude oil prices have shot up by 31% since then. The government can afford to continue subsidizing domestic fuel prices, as Vietnam is a net exporter of oil (it exports crude oil and imports refined products). However, the risk remains that if there is any further major spike in oil prices, the government might have to hike domestic fuel prices.

External Account Vulnerability High, But a Severe Shock Will Likely Be Avoided

Whilst there are many signs that Vietnam is facing macro conditions similar to those faced by Thailand and a number of other Asian countries pre-1997, we believe this is not a fair comparison. We expect three key factors to prevent Vietnam from facing a similar external shock. First, the key sources of Vietnam's balance-of-payments surplus are FDI, private equity and portfolio equity inflows, and non-short-term debt. None of these sources of funds is likely to move out of the country quickly. Even portfolio investors are finding it difficult to sell due to low liquidity. Vietnam's external account to GDP ratio is also low at under 30%. Second, there is no capital account convertibility in Vietnam. Individuals are not allowed to remit money from abroad or to move their bank savings deposits in VND to foreign currency deposits. Third, FX reserves are estimated to be at a reasonable level of US$23-24bn as of 1Q08. FX reserves are about 4.9 times monthly imports, higher than the adequacy benchmark of 3 times.

Exhibit 16

Basic Balance Comparisons: Now and Then

Basic Balance (% of GDP)	Indonesia	Malaysia	Philippines	Thailand	Vietnam
1994	-0.5	-1.5	-2.6	-5.0	--
1995	-1.2	-2.2	-2.6	-7.4	-0.8
1996	-0.7	0.9	-3.2	-7.3	1.5
1997	-0.2	0.8	-4.0	1.5	2.6
2004	0.0	14.1	2.0	5.3	0.0
2005	2.0	15.2	3.7	0.0	2.6
2006	3.6	16.3	6.9	4.9	3.5
2007	2.9	14.1	4.0	9.3	-0.5

Source: CEIC, Morgan Stanley Research|
" Basic balance refers to current account and FDI balance.

Exhibit 17

External Debt Levels Are Low

External Debt (% of GDP)	Indonesia	Malaysia	Philippines	Thailand	Vietnam
1994	--	36.2	60.2	44.9	--
1995	--	36.8	53.3	60.0	--
1996	--	37.1	48.2	59.7	--
1997	--	58.3	53.2	72.3	--
2004	53.6	42.3	63.2	31.8	29.7
2005	45.9	37.8	54.7	29.5	26.9
2006	35.2	32.2	45.4	28.9	25.8
2007	31.6	29.2	38.0	25.1	--

Source: CEIC, Morgan Stanley Research

Banking Sector Stress Is the Bigger Risk

We believe the banking sector will face major challenges over the next 12 months. Although most banks have recently reported low non-performing loans as per Vietnam accounting standards, the underlying NPL levels as per international accounting standards are likely higher. We believe the banking sector's credit risk management systems are yet to be fully modernized. The coming slowdown in growth and increased cost of debt servicing will likely result in a further rise in NPLs from small and medium-size companies. The declines in the equity market and in property prices are also beginning to translate into more NPLs. Banks' ability to raise capital from the international market is likely to be further impaired in this environment. The duration of the current downturn will be key in determining the outcome of the banking sector's problems.

Time to Reflect on Difficult Structural Reforms

We believe the government needs to use the current challenging environment as an opportunity to push through a series of difficult reforms. In our view, the government has to address several challenges to ensure sustained 8% GDP growth.

First, Vietnam's banking system and capital markets still lack the required robustness. A strong banking sector is a key ingredient of faster and stable economic growth in transition economies. An efficient financial sector can promote savings and enable the flow of a larger share of savings into productive investments. The efficiency of the banking sector will be important for systemic stability of the financial system. The recent developments in the stock market also indicate the need to strengthen the regulatory framework related to capital markets.

Second, while Vietnam's infrastructure spending has been picking up, the current state of its infrastructure is still poor. Vietnam must continue this incremental spending, but, increasingly, building modern infrastructure will require technical as well as financial support from the private sector. The government needs to introduce measures to strengthen the legal and policy framework for private sector participation.

Third, Vietnam is facing the bigger challenge of building the soft infrastructure – economic and political institutions required for effective management and monitoring of a liberalized market-oriented economy. It needs to strengthen the overall institutional framework, including its judicial system, the presence of independent media, and regulatory agencies for capital markets and industries like telecom, electricity, and oil & gas.

Fourth, Vietnam needs to increase spending on education, particularly tertiary education. Over the last two years, Vietnam has been facing significant shortages of skilled labour. Indeed, a number companies including multinationals operating in Vietnam are currently facing a significant increase in labour turnover. While Vietnam's primary education system has been sound, the tertiary education sector needs improvement, in our opinion.

Fifth, rising income and wealth inequality is likely to increase discontent among the lower- and middle-income population. As per the World Bank's Gini coefficient measure, inequality in Vietnam was relatively high at 0.36 in 2006. We believe this number has deteriorated further in recent years. To ensure social stability, the government must initiate adequate policy measures to provide a safety net for the lower-income population, we believe.

Bottom Line

We believe the government has initiated the right policy measures to address the current inflation and balance-of-payments challenges head-on. We expect the government to continue to rely on monetary policy as the key tool to reduce the macro imbalances. The growth cycle is likely to see a shock over the next 12 months. However, we believe Vietnam should be able to avoid a major external shock as priced in the non-deliverable forward exchange rate market.

Exhibit 18

Foreign Reserve Cover in a More Comfortable Position

	1996			1997			2006			2007		
	Foreign reserves (US$ bn)	Reserves/ Imports ratio	Reserves/ Short-term debt ratio	Foreign reserves (US$ bn)	Reserves/ Imports ratio	Reserves/ Short-term debt ratio	Foreign reserves (US$ bn)	Reserves/ Imports ratio	Reserves/ Short-ter m debt ratio	Foreign reserves (US$ bn)	Reserves/ Imports ratio	Reserves/ Short-term debt ratio
Indonesia	19.1	5.2	0.6	17.4	4.5	--	42.6	6.9	1.4	56.9	8.0	--
Malaysia	--	--	--	21.7	3.6	1.4	83.2	8.0	7.1	119.5	10.3	7.5
Philippines	11.8	3.4	2.2	8.8	2.2	1.4	23.0	5.2	4.6	33.8	7.0	4.8
Thailand	38.7	6.6	0.4	27.0	5.3	0.2	67.0	6.3	1.1	87.5	7.5	1.4
Vietnam	1.8	2.2	0.4	2.1	2.4	--	13.6	3.8	3.6	23.9	4.9	--
Adequacy Benchmark		3.0	1.0		3.0	1.0		3.0	1.0		3.0	1.0

Source: CEIC, Morgan Stanley Research

Exhibit 19

Monetary Measures Implemented

Date	Area	Details
Jun-07	Compulsory Reserve Requirements	Compulsory reserve requirement rate raised from 5% to 10% (for VND deposits under 12 months), from 2% to 4% (for VND deposits between 12 and under 24 months). Compulsory reserve requirements rate raised from 8% to 10% (for foreign currency deposits under 12 months), from 2% to 4% (for foreign currency deposits between 12 and under 24 months).
Dec-07	Trading Band	Trading band of the VND/USD widened to +-0.75%
Jan-08	Lending Restrictions	Lending Restriction on stock investment changed from 3% of total loans outstanding to 20% of charter capital
Feb-08	Compulsory Reserve Requirements	Compulsory reserve requirement rate raised from 10% to 11% (for VND and foreign currency deposits under 12 months), from 4% to 5% (for VND and foreign currency deposits between 12 and under 24 months).
	Prime / Base Rate	Raised from 8.25% to 8.75%
	Refinancing Rate	Raised from 6.5% to 7.5%
	Discount Rate	Raised from 4.5% to 6.0%
	365-Day-Bills	SBV to issue by 17th Mar-08 VND20.3trn worth of 365-day-bills with a coupon of 7.8% with a compulsory purchase by 41 commercial banks.
Mar-08	Trading Band	Proposal to widen the trading band of the VND/USD to +-2.0% from +-0.75% (date when this comes into effect undecided)
May-08	Prime / Base Rate	Raised from 8.75% to 12.0%
	Refinancing Rate	Raised from 7.5% to 13.0%
	Discount Rate	Raised from 6.0% to 11.0%
	Maximum Return on Deposits	The maximum return that commercial banks can offer depositors raised to 18%p.a.
Jun-08	Prime / Base Rate	Raised from 12.0% to 14.0%
	Currency	The value of currency lowered by 1.96% against USD.

Source: Various sources, Morgan Stanley Research

Exhibit 20

Vietnam: Balance of Payments Breakdown

USD million	1999	2000	2001	2002	2003	2004	2005	2006	2007	1Q08
Trade balance (1)	972	377	481	-1,054	-2,581	-3,854	-2,439	-2,776	-10,360	-7,050
--Exports (FOB)	11,540	14,448	15,027	16,706	20,149	26,485	32,447	39,826	48,561	13,160
--Imports (FOB)	10,568	14,072	14,546	17,760	22,730	30,339	34,886	42,602	58,921	20,210
Services (2)	-547	-550	-572	-749	-778	61	-219	-8	-894	-277
--Exports	2,493	2,702	2,810	2,948	3,272	3,867	4,176	5,100	6,030	1,850
--Imports	3,040	3,252	3,382	3,697	4,050	3,806	4,395	5,108	6,924	2,127
Investment income (3)	-429	-451	-477	-721	-811	-891	-1,219	-1,429	-2,168	-510
--Receipts	142	331	318	167	125	188	364	668	1,093	320
--Payments	571	782	795	888	936	1,079	1,583	2,097	3,261	830
Transfer (net) (4)	1,181	1,732	1,250	1,921	2,239	3,093	3,380	4,049	6,430	2,550
--Private sector	1,050	1,585	1,100	1,767	2,100	2,919	3,150	3,800	6,180	2,500
--Government sector	131	147	150	154	139	174	230	249	250	50
Current Account (1+2+3+4) =(5)	**1,177**	**1,108**	**682**	**-603**	**-1,931**	**-1,591**	**-497**	**-164**	**-6,992**	**-5,287**
Foreign Direct Investment (6)	1,412	1,298	1,300	1,400	1,450	1,610	1,889	2,315	6,550	1,462
Medium and Long-term Loans (7)	2	65	139	-51	457	1,162	921	1,025	2,045	635
Short-Term Loan (8)	-118	-29	-22	7	26	-54	46	-30	79	56
Portfolio Investments (9)	--	--	--	--	--	--	865	1,313	6,243	1,366
Currencies and deposits (10)	-787	-2,088	-1,197	624	1,372	35	-634	-1,535	2,623	3,302
Capital account (6+7+8+9+10) = (11)	**509**	**-754**	**220**	**1,980**	**2,533**	**2,753**	**3,087**	**3,088**	**17,540**	**6,821**
Errors and omissions (12)	-917	-676	-862	-1,020	777	-279	-459	1,398	-350	1,459
Overall balance (5+11+12)	**769**	**-322**	**40**	**357**	**2,151**	**883**	**2,131**	**4,322**	**10,198**	**2,993**
% of GDP	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**1Q08 (Annualised)**
Trade balance	3.4	1.2	1.5	-3.0	-6.5	-8.6	-4.6	-4.6	-14.5	-38.2
Services balance	-1.9	-1.8	-1.8	-2.1	-2.0	0.1	-0.4	0.0	-1.3	-1.5
Investment Income	-1.5	-1.4	-1.5	-2.1	-2.0	-2.0	-2.3	-2.3	-3.0	-2.8
Transfers	4.1	5.6	3.8	5.5	5.7	6.8	6.4	6.6	9.0	13.8
Current account balance	**4.1**	**3.6**	**2.1**	**-1.7**	**-4.9**	**-3.5**	**-0.9**	**-0.3**	**-9.8**	**-28.6**
Foreign Direct Investment	4.9	4.2	4.0	4.0	3.7	3.5	3.6	3.8	9.2	7.9
Medium & Long-term loans	0.0	0.2	0.4	-0.1	1.2	2.6	1.7	1.7	2.9	3.4
Short term loans	-0.4	-0.1	-0.1	0.0	0.1	-0.1	0.1	0.0	0.1	0.3
Portfolio investment	--	--	--	--	--	--	1.6	2.2	8.8	7.4
Currencies & deposits	-2.7	-6.7	-3.7	1.8	3.5	0.1	-1.2	-2.5	3.7	17.9
Capital account	**1.8**	**-2.4**	**0.7**	**5.6**	**6.4**	**6.0**	**5.8**	**5.1**	**24.6**	**36.9**
Overall balance	**2.7**	**-1.0**	**0.1**	**1.0**	**5.4**	**1.9**	**4.0**	**7.1**	**14.3**	**4.1**

Source: ADB, SBV & Morgan Stanley Research

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