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## **Country Report**

# **Vietnam**

**March 2011**

Economist Intelligence Unit  
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# Vietnam

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# Executive summary

## Highlights

*March 2011*

### Outlook for 2011-15

- The Communist Party of Vietnam (CPV) will keep a firm grip on power in the next five years, and, despite signs of factional splits between conservative hardliners and reformers, there is no prospect of any major internal instability.
- Policymakers will face stiff challenges in the early part of the forecast period in terms of striking a balance between stimulating the economy and containing inflationary pressures.
- Real GDP growth in Vietnam is expected to average 7.2% a year in the forecast period, underpinned by strong growth in consumption, investment and exports. However, this forecast is subject to downside risks.
- Consumer price inflation will accelerate to an average rate of 14.3% in 2011, from 9% in 2010, before slowing to an average of 7.8% a year in 2012-15.
- Policymakers are likely to face an ongoing battle to keep the dong stable against the US dollar. The Economist Intelligence Unit forecasts that the dong will depreciate from D19,127:US\$1 in 2010 to D23,873:US\$1 in 2015.
- The current account will remain in deficit over the next five years, but capital and financial inflows (including official foreign borrowing) will increase from the low levels that they reached in 2009.

### Monthly review

- The prime minister, Nguyen Tan Dung, announced a series of measures designed to constrain rapid credit growth and force state-owned enterprises and commercial banks to be cautious about how they spend or lend money.
- On the foreign policy front, Vietnam scored something of a coup when Indonesia said that it would take up Vietnam's goal of establishing multi-lateral talks on territorial claims over the South China Sea.
- The State Bank of Vietnam (the central bank) has adjusted the dong's peg to the US dollar from D18,932:US\$1 to D20,693:US\$1, and it has also tightened monetary policy by putting up two key interest rates.
- Consumer price inflation rose by 12.3% year on year in February, compared with 12.2% in January.
- Electricity prices were increased by 15% on March 1st. This followed an increase in subsidised retail fuel prices on February 24th, when petrol prices rose by 17% and diesel prices were set 24% higher.
- In February the merchandise trade deficit expanded to US\$950m from a revised estimate of US\$877m in January.

# Outlook for 2011-15

## Political outlook

### Political stability

The ruling Communist Party of Vietnam (CPV) will maintain a firm grip on power in the next five years, and, despite signs of factional splits between conservative hardliners and relative reformers, there is no prospect of any major internal instability. Indeed, at the party's 11th national congress, in January, there were displays of unity as the party continued to espouse one-party rule. The congress did provide a chance for different factions to stake a claim to greater influence, but the spoils have been shared. The beleaguered prime minister, Nguyen Tan Dung, appears to have kept his post—his re-appointment will only be formally made following the formation of the 13th National Assembly (NA, the legislature) after national elections in May. Truong Tan Sang, the head of the CPV secretariat, is in line to become president. Although the presidency is largely a ceremonial post, Mr Sang is one of Mr Dung's most formidable rivals within the party and is regarded as being a highly influential member of the party's conservative bloc. The post of party general secretary has gone to a Marxist theorist, Nguyen Phu Trong, who will stand down as chairman of the NA. The choice of Mr Trong, who is widely regarded as being a moderate, was possibly a compromise, providing some balance to the rivalry between Mr Dung and Mr Sang. However, given that Mr Trong is already 66, unlike his predecessor, Nong Duc Manh, he is not expected to serve two five-year terms. This suggests that internal power struggles could be reignited towards the end of the forecast period, ahead of the next congress.

Although Mr Dung's continuation in office has been endorsed by the CPV, his reputation has been damaged by the near-collapse of one of the largest state-owned enterprises (SOEs), the Vietnam Shipbuilding Industry Group (Vinashin), and his political opponents have appeared bent on using the debacle as a way to reduce his political power. The prime minister may thus have secured a reprieve, but at the cost of a significant reduction in his authority, with conservatives demanding greater control over the policy agenda.

The CPV will continue to face objections from some quarters to its long-standing claim that it has the right to govern unchallenged. However, given the generally high level of political apathy, together with the regime's determination to crackdown on activists who advocate genuine democratic reform, there is little likelihood that any opposition movement will gain traction. Therefore the likelihood that Vietnam will suffer an upheaval similar to that in the Arab world is low. Protests over land seizures, however, could become more common over the forecast period. The fast pace of industrial development in Vietnam has entailed the increasingly rapid construction of factories, plants and large infrastructure projects, such as roads and dams, throughout the country. As a result, the number of displaced residents has risen, and some have been vocal about what they perceive as inadequate government compensation for the loss of their land. Meanwhile, corruption in local bureaucracies occasionally

results in the embezzlement of funds earmarked to compensate people who have been evicted from their land, leaving them dispossessed and with inadequate resources to rebuild their livelihoods. Public anger over such issues will intensify unless the authorities take action to punish corrupt local officials.

Tensions between the authorities and religious and ethnic-minority groups could come to the fore again in the next five years, with the state taking a harder line against minorities. The CPV tolerates religious activity as long as it does not pose a threat to the regime, although there have been flashpoints recently in the party's dealings with the Roman Catholic church. The party has warned that "social disorder" arising from land disputes over religious property will be strictly punished. The confiscation of property belonging to the Catholic church between the 1950s and 1970s remains a sore point in relations between the Vietnamese government, the local church and the Vatican. There are 6m Catholics in Vietnam, making the Catholic church the largest organisation in the country outside the orbit of the CPV. The party leadership will also remain concerned about the potential for social unrest in the Central Highlands. The area is largely populated by ethnic-minority groups, and, owing to the fact that party membership is not common, official control in the region is relatively weak.

#### **Election watch**

Vietnam is a one-party communist state, and elections do not play a major role in its political life. Appointments to CPV posts take place behind closed doors, with votes conducted merely to confirm decisions that have already been made. NA delegates are chosen by popular vote, and the next such election is scheduled for May 2011. However, candidates are closely vetted by the Vietnam Fatherland Front, a CPV-controlled umbrella body that includes all of the country's "mass organisations", and only those deemed suitable are allowed to stand. The same is true of elections for members of the People's Councils, the local organs of state power that operate at the commune, district and provincial levels.

#### **International relations**

Vietnam will continue to make strides in strengthening its ties with the West, particularly with the US. Vietnamese-US diplomatic ties have been bolstered by high-level exchanges in recent years, and the economic relationship between the two countries has developed rapidly. Military links have also become dramatically closer, as highlighted by joint military exercises in the South China Sea in August 2010. Despite these positive trends, US concerns over human rights and religious freedom in Vietnam will remain a source of bilateral tensions. However, such stress will not cause anything more serious than the occasional diplomatic spat. The US views Vietnam as an important ally in Asia, while Vietnam has both an economic and a security interest in maintaining close ties with the US. Although keen to become closer to the US, the current leadership in Vietnam will also seek to maintain strong relations with China. However, the two foreign policy objectives could prove difficult to balance.

The most significant unresolved issue between Vietnam and China concerns competing claims to the Spratly and Paracel islands in the South China Sea, particularly in view of China's increasingly assertive approach to matters of sovereignty. In addition to claims by Vietnam and China of full sovereignty

over the islands, the Philippines, Brunei, Malaysia and Taiwan have also made full or partial claims. The dispute is unlikely to be resolved within the next five years, but all the claimants have signed the Declaration on the Code of Conduct in the East (South China) Sea, which was initiated by the Association of South-East Asian Nations (ASEAN) and commits signatories to "resolving all disputes through peaceful negotiations in accordance with international laws and practices". However, the disputed area is becoming increasingly important strategically, as it is believed to contain oil and gas deposits and is also an important shipping route. During its chairmanship of the ten-member ASEAN last year, Vietnam was successful in bringing the topic of the South China Sea to the top of the group's agenda and Indonesia, which currently holds the chairmanship, has said that it would take up Vietnam's goal of establishing multilateral talks on the issue. The US government has been pushing for a multilateral solution to maritime border disputes in the area, and this has angered China. With the support of the US, smaller nations, such as Vietnam (where mistrust of Chinese motives runs deep), could be encouraged to band together to resist China's overtures and its rapidly growing military might.

## Economic policy outlook

**Policy trends** Policymakers will face stiff challenges in the early part of the forecast period, in terms of the need to strike a balance between stimulating the economy through expansionary fiscal measures on the one hand and containing inflationary pressures on the other. Vietnam has been experiencing double-digit inflation in recent months. The consumer price index (CPI) has risen by more than 10% year on year in the past four months, with the most recent data showing an increase of 12.3% in February. The State Bank of Vietnam (SBV, the central bank) tightened monetary policy in February, after the Tet (Lunar New Year) holidays, raising two main interest rates. However, increases in subsidised retail prices for fuel and electricity are likely to continue to contribute to inflationary pressures, as will the recent devaluation of the dong (which will increase the import bill in the short term).

Policy is also likely to remain biased in favour of rapid economic growth rather than price stability. Although the authorities will remain concerned about the threat of rising inflation, they will not take a coherent and consistent approach to tightening policy in order to keep prices stable, and instead could yet take more controversial steps, such as the use of price controls on private and foreign businesses and lending limits on banks. If implemented, such drastic measures would undermine confidence in economic management in Vietnam. They would also indicate that those in the government who favour a more liberal approach to economic policymaking have been sidelined by others who want to expand the state's involvement in the management of the economy.

In the wake of the Vinashin debt debacle (in late December 2010 Vinashin defaulted on the first scheduled repayment of an eight-year US\$600m international syndicated loan), there is likely to be greater scrutiny of the financial health of SOEs and their role in the economy over the next five years. Although the authorities will continue to make steady progress implementing the policy of equitisation (part-privatisation) of SOEs (as there is a large number of SOEs



with an approved equitisation plan), there is unlikely to be a rapid acceleration in the number of firms undergoing such reform during the period. Perhaps more importantly, the authorities may need to reconsider the policy of encouraging some of the largest SOEs to follow a debt-driven expansion plan. Indeed, it will be more expensive and more difficult for SOEs to access funding in the wake of the recent downgrades in international credit ratings.

### **Fiscal policy**

The government will maintain a fairly loose fiscal policy stance in the next five years. Calming worries over the government's fiscal health, government revenue grew sharply in 2010, contributing to an estimated budget deficit in that year equivalent to 5.9% of GDP, a slight improvement from the deficit of 6.2% that was posted in 2009. Although the deficit will decrease slightly over the forecast period, it will remain above 5% of GDP, with spending on infrastructure and social welfare programmes remaining high—the IMF has voiced serious doubts as to whether a planned reduction in investment spending will be achieved. Government revenue will continue to be supported to some extent by strong economic growth and by generally higher global prices for crude oil (as the Vietnamese government derives substantial tax revenue and royalties from the oil and gas sector). However, the need for the government to rein in the fiscal deficit and avoid financing problems has become more apparent given that outstanding public debt is estimated to have reached nearly 57% of annual GDP at the end of 2010.

### **Monetary policy**

The SBV will continue to adjust policy on an ad hoc basis, and policymaking will remain inconsistent. The main objective of the SBV's approach will be to combat inflation while ensuring that the cost of financing does not undermine economic growth. The policy tools available to the central bank include a mix of both direct and indirect instruments. In February 2011 the SBV tightened monetary policy by increasing its refinance rate and the reverse repo rate in an attempt to slow the expansion of credit. In early 2010 it removed the cap on commercial bank lending rates, previously limited to 1.5 times the base rate, rendering the rate ineffective as a tool to influence monetary conditions. However, the SBV announced a cap on deposit rates in late 2010, and warned in March 2011 that it would double reserve requirements for banks that fail to reduce the ratio of lending to non-productive activities (as a percentage of total lending) to below 16% by the end of the year. Whether these measures are sufficient to cool an overheated economy remains to be seen. But with the CPV endorsing a five-year plan targeting annual real GDP growth of 7-7.5% and maximum inflation of 7%, the SBV could loosen its policy stance if inflation slows, as it did in mid-2010.

## **Economic forecast**

### **International assumptions**

|                            | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|----------------------------|------|------|------|------|------|------|
| <b>Economic growth (%)</b> |      |      |      |      |      |      |
| US GDP                     | 2.9  | 2.7  | 2.2  | 2.4  | 2.3  | 2.3  |
| OECD GDP                   | 2.9  | 2.3  | 2.1  | 2.3  | 2.3  | 2.0  |
| World GDP                  | 3.8  | 3.1  | 3.0  | 3.1  | 3.0  | 3.0  |
| World trade                | 12.7 | 6.6  | 6.4  | 6.6  | 6.6  | 5.8  |

|  | 2010  | 2011  | 2012  | 2013  | 2014  | 2015  |
|--|-------|-------|-------|-------|-------|-------|
| <b>Inflation indicators (% unless otherwise indicated)</b> |       |       |       |       |       |       |
| US CPI   | 1.6   | 1.9   | 2.3   | 2.5   | 2.8   | 2.8   |
| OECD CPI   | 1.4   | 1.6   | 1.8   | 2.0   | 2.1   | 2.3   |
| Manufactures (measured in US\$)                            | 3.3   | 1.9   | 0.0   | 1.4   | 1.2   | 1.7   |
| Oil (Brent; US\$/b)  | 79.6  | 90.0  | 82.3  | 78.3  | 75.5  | 76.0  |
| Non-oil commodities (measured in US\$)                     | 24.5  | 24.9  | -9.4  | -8.8  | 0.4   | 0.2   |
| <b>Financial variables</b>                                 |       |       |       |       |       |       |
| US\$ 3-month commercial paper rate (av; %)                 | 0.3   | 0.3   | 0.7   | 2.2   | 4.1   | 5.1   |
| ¥ 3-month money market rate (av; %)                        | 0.4   | 0.2   | 0.3   | 0.9   | 1.4   | 2.0   |
| ¥:US\$ (av)  | 87.88 | 82.00 | 81.00 | 81.00 | 82.13 | 83.50 |

## Economic growth

Economic growth in Vietnam is expected to average 7.2% a year in 2011-15, underpinned by strong growth in consumption, investment and exports. Private consumption growth will be driven by an improvement in the labour market and a consequent increase in real wages. As demand for Vietnamese goods strengthens in line with improving economic conditions globally, the manufacturing sector is expected to ramp up production. This will require more workers, and this stronger demand for labour will in turn encourage growth in wages. In addition, remittances from overseas Vietnamese will remain high, while the development of the financial services industry will make consumer credit more easily available, thus providing an important boost to private consumption. As the demand for exports revives, investment in the form of purchases of capital goods for the manufacturing sector will pick up. Despite concerns about the quality of Vietnam's business environment and a recent downturn in planned foreign-invested projects, foreign investor interest in general remains strong. Demand for Vietnamese goods—particularly in the US, China and Europe—will remain robust, but import expansion will also be significant, and net exports will consequently act as a drag on real GDP growth for much of the forecast period.

## In focus

### Macroeconomic risks are intensifying

The Economist Intelligence Unit's economic growth forecast is subject to downside risks. On the domestic front, if the government fails to adopt a clear macroeconomic policy agenda that gives sufficient attention to economic stabilisation, there are concerns that inflation will remain in double digits and that the downward pressure on the dong will intensify. The authorities have recently taken steps to tighten both monetary and fiscal policy, but there are concerns that this is a case of too little, too late. Owing to the fact that inflation has accelerated in recent months and that the currency has been devalued sharply over the past few years, confidence in the dong has diminished, and there is increased demand for safe havens for US dollars and gold. Part of the problem is that the authorities have failed to damp down inflationary expectations, and as a result drastic measures, such as direct controls on prices, may yet be needed to bring down inflation rather than indirect measures, for example increases in policy interest rates. However, in a move that suggests that the government's fiscal position is too weak to support mechanisms to keep prices

artificially low, the authorities have recently been forced to raise prices for electricity and fuel at a time when several Asian economies are increasing or expanding their subsidy programmes in response to rising global commodity prices.

On the international front, there is a risk that the global economic recovery will be weaker than we currently expect. Not only would this damage exports, but it would also have a knock-on effect on consumer and business spending in Vietnam, thereby inhibiting economic growth. Given the precarious nature of the country's international reserves—as indicated by the difficulty that the State Bank of Vietnam (the central bank) has had in managing the level of the dong:US dollar exchange rate—there is cause for concern over the country's ability to finance a widening trade deficit. Vietnam has already had its international credit ratings downgraded. Citing concerns over an external payments crisis, partly owing to the sharp fall in Vietnam's foreign-exchange reserves in the past year or so, an international credit-ratings agency, Moody's Investors Service, downgraded Vietnam's sovereign debt rating in mid-December 2010 to BB- from BB. This was followed shortly after by a downgrade by another credit-ratings agency, Standard & Poor's, which lowered Vietnam's long-term foreign-currency sovereign credit rating to B1 from Ba3, stating that it was concerned that the Vietnamese banking sector had become more vulnerable to shocks. In July 2010 a US-based credit-rating agency, Fitch, downgraded Vietnam's sovereign debt rating, citing concerns over contradictory economic policymaking. Such downgrades and growing concerns over economic stability and the country's diminished international reserves has raised speculation that a support package from the IMF may be needed.

#### Economic growth

| %                           | 2010 <sup>a</sup> | 2011 <sup>b</sup> | 2012 <sup>b</sup> | 2013 <sup>b</sup> | 2014 <sup>b</sup> | 2015 <sup>b</sup> |
|-----------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| GDP                         | 6.8 <sup>c</sup>  | 7.0               | 7.1               | 7.3               | 7.3               | 7.4               |
| Private consumption         | 7.0               | 3.8               | 6.5               | 7.1               | 7.5               | 7.5               |
| Government consumption      | 8.0               | 7.8               | 7.8               | 7.7               | 7.0               | 7.0               |
| Gross fixed investment      | 8.5               | 8.0               | 8.0               | 8.2               | 9.1               | 9.0               |
| Exports of goods & services | 15.0              | 12.9              | 13.1              | 12.3              | 12.2              | 12.4              |
| Imports of goods & services | 17.2              | 10.3              | 10.0              | 10.9              | 11.4              | 12.0              |
| Domestic demand             | 9.0               | 5.2               | 5.4               | 7.3               | 7.8               | 7.8               |
| Agriculture                 | 2.8 <sup>c</sup>  | 3.5               | 3.4               | 3.2               | 3.1               | 3.3               |
| Industry                    | 7.7 <sup>c</sup>  | 7.0               | 8.0               | 9.0               | 9.0               | 9.0               |
| Services                    | 7.5 <sup>c</sup>  | 8.4               | 7.7               | 7.0               | 7.1               | 7.1               |

<sup>a</sup> Economist Intelligence Unit estimates. <sup>b</sup> Economist Intelligence Unit forecasts. <sup>c</sup> Actual.

#### Inflation

The average rate of consumer price inflation is now forecast to accelerate to 14.3% in 2011 (up from the previous forecast of 12.3%) from 9% in 2010, before slowing to an average rate of 7.8% a year in 2012-15. The acceleration this year partly reflects the fact that the domestic price level remains vulnerable to movements in international commodity prices. The Economist Intelligence Unit expects crude oil prices (dated Brent Blend) to rise by 13% this year and food prices to rise by 27%, up from 20% previously. Global commodity prices will fall in 2012, however, and are forecast to remain relatively stable in 2013-15, and this will help to calm supply-side price pressures. However, strong demand-side pressures will continue to push up the overall price level. Although the authorities appear intent on slowing the pace of growth in domestic credit, the

target for this year has been lowered only slightly from 23% to below 20%. We therefore still forecast that the stock of domestic credit will rise by an average rate of around 21% a year in 2011-15. The continued depreciation of the dong against the US dollar over the next five years will also serve to make imports more expensive.

**Exchange rates** Maintaining stability in the exchange rate between the dong and the US dollar will remain a challenge for policymakers. In the face of strong downward pressure on the dong, the SBV has devalued the currency on four occasions since November 2009, most recently in February 2011. The devaluations have resulted in a cumulative drop of almost 14% in the currency's value against the US dollar. Further such measures are likely to be necessary in the coming years as the dong will remain under pressure until there are clear signs that the trade deficit is narrowing and inflationary pressures are receding. Moreover, Vietnam's meagre foreign-exchange reserves mean that the central bank will not be able to stem any downward pressure by intervening in the currency markets. According to the latest available data from the IMF, foreign-exchange reserves stood at US\$14.1bn (equivalent to around eight weeks of imports) in October 2010, down from a high of US\$26.4bn in March 2008. Recent media reports have quoted a government minister as saying that reserves stood at more than US\$10bn in December 2010, although the exact level of reserves was not specified. On balance, we forecast that the dong will depreciate by 4.3% a year in 2011-15, dropping from D19,127:US\$1 in 2010 to D23,873:US\$1 in 2015.

**External sector** The current account will stay in deficit during the next five years. Despite a recovery in exports, imports will continue to rise in line with strong growth in consumption and investment, and this means that the merchandise trade deficit will remain worryingly wide. In addition to the deficit on the merchandise trade account, the services and income accounts will also stay in the red throughout 2011-15. Tourism receipts are expected to rise steadily in the forecast period, boosting services exports. However, Vietnam will remain reliant on a host of imported services, and there will be particularly strong growth in payments for trade-related services. Outflows on the income account will also continue to rise in line with the repatriation of profits by the growing number of foreign-invested enterprises in the country. But the combined deficit on the services and income accounts will continue to be offset by a large surplus on the current transfers account. Capital and financial inflows (including official foreign borrowing) will increase from the low levels that they reached in 2009. The country's international reserves position will therefore improve over the forecast period, having deteriorated in 2009 and early 2010.

**Forecast summary**

(% unless otherwise indicated)

|                                       | 2010 <sup>a</sup> | 2011 <sup>b</sup> | 2012 <sup>b</sup> | 2013 <sup>b</sup> | 2014 <sup>b</sup> | 2015 <sup>b</sup> |
|---------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Real GDP growth                       | 6.8               | 7.0               | 7.1               | 7.3               | 7.3               | 7.4               |
| Industrial production growth          | 14.0              | 14.0              | 15.5              | 15.5              | 15.0              | 15.0              |
| Gross agricultural production growth  | 2.8               | 3.5               | 3.4               | 3.2               | 3.1               | 3.3               |
| Consumer price inflation (av)         | 9.0               | 14.3              | 9.7               | 7.9               | 7.5               | 6.1               |
| Consumer price inflation (end-period) | 11.8              | 12.6              | 8.2               | 7.8               | 7.5               | 6.2               |
| Lending rate                          | 13.1 <sup>c</sup> | 13.8              | 12.5              | 12.0              | 11.5              | 11.5              |
| Government balance (% of GDP)         | -5.9 <sup>c</sup> | -5.5              | -5.3              | -5.7              | -5.7              | -5.4              |
| Exports of goods fob (US\$ bn)        | 71.7 <sup>c</sup> | 86.1              | 94.3              | 104.9             | 119.4             | 136.9             |
| Imports of goods fob (US\$ bn)        | 79.2 <sup>c</sup> | 95.0              | 103.5             | 115.9             | 131.5             | 150.2             |
| Current-account balance (US\$ bn)     | -5.6 <sup>c</sup> | -6.6              | -5.7              | -6.6              | -6.1              | -6.6              |
| Current-account balance (% of GDP)    | -5.4 <sup>c</sup> | -6.3              | -5.2              | -5.4              | -4.4              | -4.2              |
| External debt (end-period; US\$ bn)   | 30.8 <sup>c</sup> | 33.7              | 36.5              | 40.2              | 44.5              | 49.4              |
| Exchange rate D:US\$ (av)             | 19,127            | 21,234            | 22,487            | 22,920            | 23,376            | 23,873            |
| Exchange rate D:US\$ (end-period)     | 19,498            | 21,861            | 22,700            | 23,148            | 23,625            | 24,122            |
| Exchange rate D:¥100 (av)             | 21,677            | 24,199            | 25,922            | 26,651            | 27,182            | 27,970            |
| Exchange rate D:€ (end-period)        | 23,982            | 25,249            | 25,991            | 26,389            | 27,019            | 27,754            |

<sup>a</sup> Actual. <sup>b</sup> Economist Intelligence Unit forecasts. <sup>c</sup> Economist Intelligence Unit estimates.

# Monthly review: March 2011

## The political scene

### Mr Dung turns his attention to Vietnam's economic problems

Vietnam's political environment began to settle after the ruling Communist Party of Vietnam (CPV) completed its five-yearly national congress in January, which resulted largely in a continuation of the status quo in terms of the country's political leadership. In February the country's top leaders turned their attention towards rectifying Vietnam's worsening economic problems and furthering its foreign policy goals. The prime minister, Nguyen Tan Dung, announced a series of measures designed to constrain rapid credit growth and force state-owned enterprises (SOEs) and commercial banks to be more careful about how they spend or lend money. Mr Dung's actions were largely driven by concerns about inflation outweighing the government's goal of job-creation. Consumer price inflation on a yearly basis reached its highest rate in over two years in February, and the prime minister is well aware that the CPV is keeping a close eye on his efforts to contain rising prices. During the national congress held in January, many prominent delegates criticised the CPV's handling of the economy, highlighting rising inflation and the debt crisis surrounding one of the country's most prominent SOEs, the Vietnam Shipbuilding Industry Group (Vinashin), which nearly collapsed with debts of US\$4.4bn in late 2010 (in December Vinashin defaulted on the first scheduled repayment, US\$60m, of a US\$600m international syndicated loan). Mr Dung needs to deliver results quickly. The National Assembly (NA, the legislature) will meet from March 21st onwards to discuss Vietnam's economic situation and the prime minister is likely to come under criticism if he is not seen to be taking decisive action to improve the country's economic stability, particularly with regards to curbing inflation. The NA is not as pliant as it once was. In 2010 Mr Dung admitted some culpability for the Vinashin debacle during a televised session of the legislature—this was seen as an acknowledgement of his prominent role in encouraging Vinashin and other SOEs to expand aggressively during his tenure.

The legislature is also scheduled to decide, following elections in May, whether to reappoint Mr Dung to the role of prime minister. (He was reappointed to the Politburo—a 14-member council that oversees policy formulation, but his expected retention of the post of prime minister still needs to be endorsed by the NA.) The political risks engendered by Mr Dung's moves to combat inflation and shore up the country's finances are substantial. One of the measures taken by the government in February was to allow oil companies to increase the retail prices of petrol and diesel. The government subsidises fuel prices, but the cost of doing so has been increasing rapidly, owing to a sharp rise in the price of crude oil (dated Brent Blend) as a result of both the ongoing political turmoil in the Middle East and the recent devaluation of the local currency, the dong. Long queues of motorcycles and cars were seen outside petrol stations on the day of the price rise, with their owners hoping to fill their tanks before a 10 am deadline. Still, with the economy growing rapidly—real GDP grew by 6.8% in 2010—the risk of street demonstrations, akin to protests seen recently in the Middle East, occurring in the capital, Hanoi, or Ho Chi Minh City appear slim.

**Indonesia offers to push for talks in the maritime dispute**

On the foreign policy front, Vietnam scored something of a coup when Indonesia said that it would take up Vietnam's goal of establishing multilateral talks on territorial claims over the South China Sea. During its chairmanship of the ten-member Association of Southeast Asian Nations (ASEAN) in 2010, Vietnam was successful in bringing that topic to the top of the group's agenda. China, Vietnam, Taiwan, Malaysia, the Philippines and Brunei claim ownership of all or part of the disputed waters, which include some of the world's busiest shipping lanes, lie atop rich fishing grounds, and potentially have large reserves of oil and natural gas. This year Indonesia has taken up the revolving chairmanship of ASEAN and the Indonesian president, Susilo Bambang Yudhoyono, said in February that he would continue to push China to engage in multilateral discussions over the disparate claims to the disputed waters. This is an uncomfortable development for China, which prefers to discuss its overlapping claims to the area separately with each individual nation involved. On the one hand, bilateral discussions would enable China to make the most of its growing economic influence over South-east Asia, but, on the other, multilateral talks would allow the individual nations involved to present a stronger front.

In 2010 Vietnam also encouraged the US to step into the fray and the US secretary of state, Hillary Clinton, said during a visit to Hanoi that the US would be willing to help rival claimants to come together to discuss their dispute. This appears to have given Indonesia some confidence to pursue the multilateral approach in addition to the West. Indonesia does not claim any portion of the South China Sea for itself. However, the country is concerned about the strength exhibited by China in pressing its claims over the area, and over its impact on the status of the Natuna Islands—an archipelago close to Indonesia's largest natural-gas reserve. Indonesia has tried unsuccessfully for years to get China to spell out the exact extent of its claim to the South China Sea. It should be noted that while Vietnam's leaders will likely be pleased that Indonesia is pushing for a multilateral resolution of the disputes over the area, the government is also pursuing its own, separate discussions with China about their overlapping claims. In 2010 a Hong Kong-based daily newspaper, *South China Morning Post*, reported that Vietnamese and Chinese officials had met four times to discuss the dispute and that China had refused to discuss claims to the Paracel Islands, limiting discussions instead to only the Spratly Islands.

## Economic policy

**The central bank takes steps towards tightening policy**

In the past month Vietnam's policymakers have again tried to recalibrate the economy, devaluing the dong for the fourth time in 14 months and gradually tightening monetary policy in order to buttress the currency at its new, lower level. The goal appears to be to defeat the widely held assumption within Vietnam that there will be further devaluations in the months to come, a phenomenon that has encouraged many people to speculate in gold, real estate or foreign currencies. The State Bank of Vietnam (SBV, the central bank) has adjusted the dong's peg to the US dollar from D18,932:US\$1 to D20,693:US\$1, a devaluation of 8.5%. The central bank has also narrowed the band in which it is traded, announcing that the inter-bank market rate will be allowed to fluctuate

daily by no more than 1% (either side of the official rate), compared with 3% previously. When making its announcement on February 11th the SBV gave two reasons for the policy changes: "controlling the trade deficit" and "facilitating the implementation of a more active and flexible monetary policy". On February 24th the central bank also announced that all SOEs would be required to sell all their US dollars to banks, in an attempt to stop hoarding of the US currency. It appears that the SBV hopes that the devaluation will help bring the rates for the US dollar in the grey market (the legal but unofficial market) to closer alignment with official rates, making it easier for companies to source foreign currency to pay import bills.

The initial devaluation announcement, which was made shortly after the Tet (Lunar New Year) holidays, was not accompanied by any measures to tighten monetary policy (a policy tightening was not announced until a week later). This misstep fuelled concerns about the impact of Vietnam's already high rate of inflation on the exchange rate and unsettled investors, who remain anxious about the standards of economic policymaking in Vietnam. A week later, on February 17th, the SBV announced measures aimed at tightening monetary policy. The central bank put up the refinance rate—the lending rate on one of two main lending facilities of the central bank, used on short term loans—by 200 basis points, to 11%. This was followed by an increase in the reverse repo rate (the rate of interest charged by the SBV during open market operations) of 100 basis points, to 12% on February 22nd. Since early November 2010 the central bank has raised the latter rate for seven-day repurchase agreements by 500 basis points (and has stopped conducting 14- and 28-day transactions) in an attempt to squeeze liquidity in the banking sector. On March 1st the SBV announced that banks are required to reduce loans made to the "non-productive sector" (such as real estate and securities) to 22% of total credit by June 30th and 16% by the end of the year. Banks that fail to do so could have their reserve requirements, currently between 1-3%, doubled, the central bank warned. These measures taken together will have the effect of encouraging banks to be more cautious in their lending, and while these will eventually feed through to the interest rates that banks charge their customers, they do not reflect the immediate toughening of Vietnam's monetary policy stance that many observers were hoping for.

### **The prime minister announces plans to contain inflation**

On February 24th Mr Dung approved a package of other policies designed to control inflation, including plans to rein in domestic credit growth to below 20% this year (compared with a previous target of 23%, and down from 28% in 2010), limit the growth of money supply (broad money, M2) to 15-16% this year and do more to slow lending towards speculative activities, such as buying real estate or stocks. At the same time policymakers have also been making plans to increase revenue collection in order to reduce the size of the country's budget deficit, which the government is now hoping to restrict to below 5% of GDP, compared with an earlier target of 5.3%. Various ministries, meanwhile, have been ordered to cut spending by 10%. It appears likely that Vietnam's policymakers will introduce further tightening measures in the months to come.

The consumer price index (CPI) rose by 12.3% in February, compared with 12.2% in January, and the latest round of devaluations of the dong is expected to push



the CPI higher in the short term as the import bill rises. A recent increase in subsidised retail electricity and fuel prices is expected to further add to inflationary pressures in Vietnam. Electricity prices rose by 15% on March 1st, following an increase in fuel prices on February 24th, with petrol prices rising by 17% and diesel prices being set 24% higher. This comes at a time when some other Asian countries are expanding or increasing fuel subsidies in an effort to combat rising oil prices, which have been increasing owing to rising uncertainty over the supply of fuel from the Middle East. Diesel has a direct relationship with inflation. Besides being an important fuel in its own right, diesel also powers the trucks that bring produce to cities. Any rise in the price of diesel results in a quick increase in food costs, which make up a large proportion of Vietnam's CPI.

It is unclear whether these latest policy shifts are indicative of a lasting re-ordering of the country's economic priorities. Vietnam has pursued aggressive pro-growth policies for several years, and concerns abound over whether policymakers have the political will to follow through on tightening monetary policy. At the CPV congress in January officials came out once again in favour of adopting a pro-economic growth policy stance and left the inflation target unchanged from last year, at 7%. In previous years Vietnam has been quick to stimulate its economy once the immediate inflationary threat is seen to have passed. In 2008 inflation rose to a high level of 28% on an annual basis before the 2008-09 global economic recession dampened demand and moderated prices. In 2010 policymakers initially introduced a hard monetary policy stance to prevent prices from rising again. In the middle of the year, however, they loosened monetary policy again, believing that the economy was stable enough to proceed with a rapid expansion of credit. That decision contributed to the return of double-digit inflation rates by the end of 2010. There remains every possibility that if the inflationary risks were seen to be receding, policymakers may once again choose to fuel growth prematurely.

## Economic performance

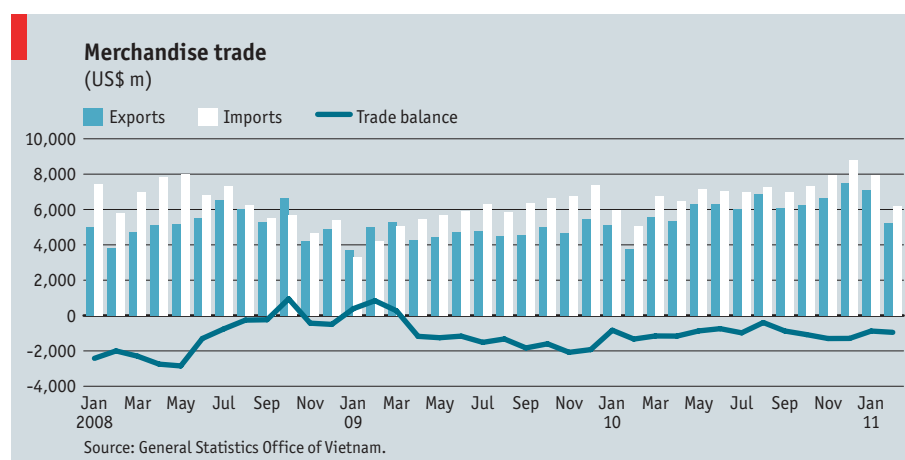
### **Inflation remains a major risk to Vietnam's growth prospects**

Inflation is now clearly established as the single largest issue facing the Vietnamese economy with the potential to derail the country's longer-term growth prospects. A persistent failure to rein in prices has undermined confidence in the stability of the economy and the viability of the currency which, in turn, has put additional upward pressure on prices. In February consumer price inflation rose by 12.3% year on year, compared with an increase of 12.2% in January. On a monthly basis the CPI increased by 2.1%, the largest monthly increase since 2008. The rise was largely driven by growing demand for goods and services in the run-up to the annual Tet (Lunar New Year) holidays, when much of the country shuts down for several days (this year the holiday took place in early February). Unseasonably cold weather also contributed to higher prices, with tens of thousands of cattle in northern Vietnam reported to have died. The devaluation of the dong on February 11th may have also contributed to the increase in prices as the import bill would have increased as a result of the weaker currency. Prices increased across the board, with food prices increasing by 17.2% year on year. Prices also increased year on

year for beverages and cigarettes (17.2%), garments and footwear (9%), household appliances (6.5%), healthcare (4.1%) and education (23.5%).

### Vietnam's trade deficit remains wide

Vietnam's trade performance revealed a large deficit that continues to exert downward pressure on the value of the country's currency. In February the trade deficit expanded to US\$950m from a revised estimate of US\$877m in January. The General Statistics Office initially estimated the deficit in January to be US\$1bn. Export revenue reached US\$5.3bn in that month, up by around 40% year on year. Exports of textiles grew by 51% year on year, to reach US\$900m, while footwear exports rose by 37%, to reach US\$370m. Exports of most other manufactured goods posted healthy growth in February, notably electronics and computers, which grew by almost 26%. Commodity exports also performed well, with the value of coffee exports rising by 64%, to US\$180m, and rice exports jumping by 61%, to US\$330m. Crude oil exports also grew on a year-on-year basis, rising by 67% to US\$517m.



Meanwhile, the import bill rose by 22% on a yearly basis in February, to an estimated US\$6.2bn. As a result of both rising prices and higher import volume, the bill for imported petroleum products reached US\$760m in February, a year-on-year increase of 36%. Steel imports rose by 6% to US\$350m, while machinery and equipment imports, the largest import group, were up by 26% to US\$950m. The bill for imports of electronics, computers and spare parts grew by 6% on a year-on-year basis, to US\$350m.

Although the wide merchandise trade deficit continues to raise worries over potential financing problems, the foreign-invested sector accounts for around 40% of total imports and import demand in this sector is rising at a faster pace than that of the domestic sector. This suggests that much of the rise in the import bill is being met by foreign-invested firms. However, the latest data on approvals of foreign direct investment (FDI) suggest that foreign-investor confidence may be waning. The value of approved FDI projects in the first two months of the year was US\$1.6bn, about 32% lower than the same period in 2010. In February there were 93 newly licensed projects worth US\$1.5bn, with the remainder being accounted for by additional investment by firms already registered in the country.

# Data and charts

## Annual data and forecast

|   | 2006 <sup>a</sup>  | 2007 <sup>a</sup>  | 2008 <sup>a</sup>  | 2009 <sup>a</sup>   | 2010 <sup>b</sup>    | 2011 <sup>c</sup> | 2012 <sup>c</sup> |
|---|--------------------|--------------------|--------------------|---------------------|----------------------|-------------------|-------------------|
| <b>GDP</b>                                |                    |                    |                    |                     |                      |                   |                   |
| Nominal GDP (US\$ bn)                     | 61.0               | 71.1               | 90.3               | 93.2                | 103.7 <sup>a</sup>   | 104.5             | 110.2             |
| Nominal GDP (D trn)                       | 974.3              | 1,143.7            | 1,485.0            | 1,658.4             | 1,984.4 <sup>a</sup> | 2,219.0           | 2,478.2           |
| Real GDP growth (%)                       | 8.2                | 8.5                | 6.3                | 5.3                 | 6.8 <sup>a</sup>     | 7.0               | 7.1               |
| <b>Expenditure on GDP (% real change)</b> |                    |                    |                    |                     |                      |                   |                   |
| Private consumption                       | 8.3                | 10.8               | 9.3                | 3.7                 | 7.0                  | 3.8               | 6.5               |
| Government consumption                    | 8.5                | 8.9                | 7.5                | 7.6                 | 8.0                  | 7.8               | 7.8               |
| Gross fixed investment                    | 9.9                | 24.2               | 3.8                | 8.7                 | 8.5                  | 8.0               | 8.0               |
| Exports of goods & services               | 17.7 <sup>b</sup>  | 16.0 <sup>b</sup>  | 15.1 <sup>b</sup>  | -6.0 <sup>b</sup>   | 15.0                 | 12.9              | 13.1              |
| Imports of goods & services               | 18.9 <sup>b</sup>  | 28.2 <sup>b</sup>  | 15.4 <sup>b</sup>  | -6.3 <sup>b</sup>   | 17.2                 | 10.3              | 10.0              |
| <b>Origin of GDP (% real change)</b>      |                    |                    |                    |                     |                      |                   |                   |
| Agriculture                               | 3.4                | 3.7                | 4.4                | 2.4                 | 2.8 <sup>a</sup>     | 3.5               | 3.4               |
| Industry                                  | 10.4               | 10.6               | 5.7                | 5.4                 | 7.7 <sup>a</sup>     | 7.0               | 8.0               |
| Services                                  | 8.3                | 8.7                | 7.3                | 6.8                 | 7.5 <sup>a</sup>     | 8.4               | 7.7               |
| <b>Population and income</b>              |                    |                    |                    |                     |                      |                   |                   |
| Population (m)                            | 84.4 <sup>b</sup>  | 85.3 <sup>b</sup>  | 86.1 <sup>b</sup>  | 87.0 <sup>b</sup>   | 87.8                 | 88.7              | 89.5              |
| GDP per head (US\$ at PPP)                | 2,358 <sup>b</sup> | 2,606 <sup>b</sup> | 2,803 <sup>b</sup> | 2,950 <sup>b</sup>  | 3,138                | 3,378             | 3,667             |
| Recorded unemployment (av; %)             | 4.8                | 4.6                | 4.7                | 4.6                 | 4.4 <sup>a</sup>     | 4.1               | 4.1               |
| <b>Fiscal indicators (% of GDP)</b>       |                    |                    |                    |                     |                      |                   |                   |
| Central government balance                | -2.9               | -7.3               | -5.2               | -6.2 <sup>b</sup>   | -5.9                 | -5.5              | -5.3              |
| Net public debt                           | 42.9 <sup>b</sup>  | 45.6 <sup>b</sup>  | 43.9 <sup>b</sup>  | 49.0 <sup>b</sup>   | 56.6                 | 58.4              | 58.6              |
| <b>Prices and financial indicators</b>    |                    |                    |                    |                     |                      |                   |                   |
| Exchange rate D:US\$ (end-period)         | 16,055             | 16,010             | 17,433             | 18,472              | 19,498 <sup>a</sup>  | 21,861            | 22,700            |
| Exchange rate D:€ (end-period)            | 21,188             | 23,379             | 24,234             | 26,474              | 26,302 <sup>a</sup>  | 26,451            | 27,012            |
| Consumer prices (end-period; %)           | 6.6                | 12.6               | 20.0               | 6.5                 | 11.8 <sup>a</sup>    | 12.6              | 8.2               |
| Stock of money M1 (% change)              | 20.7               | 48.9               | -0.4               | 30.4                | 2.0                  | 6.6               | 10.1              |
| Stock of money M2 (% change)              | 29.7               | 49.1               | 20.7               | 26.2                | 25.6                 | 16.7              | 15.3              |
| Lending interest rate (av; %)             | 11.2               | 11.2               | 15.8               | 10.1                | 13.1                 | 13.8              | 12.5              |
| <b>Current account (US\$ m)</b>           |                    |                    |                    |                     |                      |                   |                   |
| Trade balance                             | -2,776             | -10,438            | -12,782            | -8,307              | -7,495               | -8,903            | -9,200            |
| Goods: exports fob                        | 39,826             | 48,561             | 62,685             | 57,096              | 71,655               | 86,090            | 94,330            |
| Goods: imports fob                        | -42,602            | -58,999            | -75,467            | -65,403             | -79,151              | -94,992           | -103,529          |
| Services balance                          | -8                 | -755               | -915               | -1,388              | -706                 | -628              | -224              |
| Income balance                            | -1,429             | -2,190             | -4,401             | -3,028              | -5,024               | -4,804            | -5,259            |
| Current transfers balance                 | 4,049              | 6,430              | 7,311              | 6,448               | 7,595                | 7,750             | 9,000             |
| Current-account balance                   | -164               | -6,953             | -10,787            | -6,275              | -5,630               | -6,585            | -5,683            |
| <b>External debt (US\$ m)</b>             |                    |                    |                    |                     |                      |                   |                   |
| Debt stock                                | 20,126             | 23,865             | 26,158             | 27,027 <sup>b</sup> | 30,781               | 33,730            | 36,545            |
| Debt service paid                         | 949                | 1,249              | 1,344              | 1,114 <sup>b</sup>  | 1,200                | 1,380             | 1,493             |
| Principal repayments                      | 495                | 640                | 776                | 710 <sup>b</sup>    | 735                  | 788               | 805               |
| Interest                                  | 454                | 609                | 568                | 404 <sup>b</sup>    | 465                  | 592               | 688               |
| <b>International reserves (US\$ m)</b>    |                    |                    |                    |                     |                      |                   |                   |
| Total international reserves              | 13,591             | 23,748             | 24,176             | 16,803              | 13,201               | 14,836            | 15,369            |

<sup>a</sup> Actual. <sup>b</sup> Economist Intelligence Unit estimates. <sup>c</sup> Economist Intelligence Unit forecasts.

Source: IMF, *International Financial Statistics*.

## Quarterly data

|  | 2009    |         |         |         | 2010    |         |         |         |
|--|---------|---------|---------|---------|---------|---------|---------|---------|
|  | 1 Qtr   | 2 Qtr   | 3 Qtr   | 4 Qtr   | 1 Qtr   | 2 Qtr   | 3 Qtr   | 4 Qtr   |
| <b>Prices</b>                            |         |         |         |         |         |         |         |         |
| Consumer prices (2005=100)               | 151.3   | 151.5   | 153.6   | 156.2   | 162.6   | 165.1   | 166.6   | 173.2   |
| Consumer prices (% change, year on year) | 15.5    | 6.2     | 2.6     | 4.6     | 7.5     | 9.0     | 8.4     | 10.8    |
| <b>Financial indicators</b>              |         |         |         |         |         |         |         |         |
| Exchange rate D:US\$ (av)                | 17,499  | 17,785  | 17,820  | 18,094  | 18,742  | 18,993  | 19,278  | 19,495  |
| Exchange rate D:US\$ (end-period)        | 17,756  | 17,801  | 17,841  | 18,472  | 19,080  | 19,065  | 19,485  | 19,498  |
| Deposit rate (av; %)                     | 6.9     | 7.3     | 7.9     | 9.5     | 10.3    | 11.1    | n/a     | n/a     |
| Lending rate (av; %)                     | 9.5     | 9.6     | 10.2    | 11.0    | 12.0    | 13.4    | n/a     | n/a     |
| Refinancing rate (end-period; %)         | 8.0     | 7.0     | 7.0     | 8.0     | 8.0     | 8.0     | n/a     | n/a     |
| Treasury bill rate (av; %)               | 6.8     | 7.6     | 8.4     | 9.4     | 11.2    | n/a     | n/a     | n/a     |
| M1 (end-period; D trn)                   | 462.3   | 507.8   | 515.5   | 565.2   | 520.5   | 548.3   | 563.5   | n/a     |
| M1 (% change, year on year)              | 16.7    | 48.5    | 60.2    | 30.4    | 12.6    | 8.0     | 9.3     | n/a     |
| M2 (end-period; D trn)                   | 1,645.3 | 1,776.0 | 1,842.3 | 1,910.6 | 1,982.4 | 2,166.6 | 2,325.0 | n/a     |
| M2 (% change, year on year)              | 26.5    | 37.1    | 36.7    | 26.2    | 20.5    | 22.0    | 26.2    | n/a     |
| <b>Foreign trade (US\$ m)</b>            |         |         |         |         |         |         |         |         |
| Exports fob                              | 14,285  | 13,572  | 14,026  | 15,214  | 14,345  | 17,961  | 18,984  | 20,366  |
| Imports cif                              | -12,854 | -17,416 | -18,813 | -20,865 | -17,775 | -20,736 | -21,232 | -24,037 |
| Trade balance                            | 1,431   | -3,844  | -4,787  | -5,651  | -3,430  | -2,775  | -2,248  | -3,671  |
| <b>Foreign payments (US\$ m)</b>         |         |         |         |         |         |         |         |         |
| Merchandise trade balance                | 2328.0  | -2653.0 | -3654.0 | -4328.0 | -2239.0 | -1535.0 | -733.0  | n/a     |
| Services balance                         | -114    | -304    | -498    | -472    | -149    | -49     | -354    | n/a     |
| Income balance                           | -986    | -846    | -575    | -621    | -1,430  | -763    | -1,034  | n/a     |
| Net transfer payments                    | 1,548   | 1,561   | 1,618   | 1,721   | 2,051   | 1,835   | 2,170   | n/a     |
| Current-account balance                  | 2,776   | -2,242  | -3,109  | -3,700  | -1,767  | -566    | 49      | n/a     |
| Reserves excl gold (end-period)          | 23,008  | 20,260  | 18,769  | 16,447  | 13,854  | 14,121  | 14,111  | n/a     |

Sources: IMF, *International Financial Statistics*.

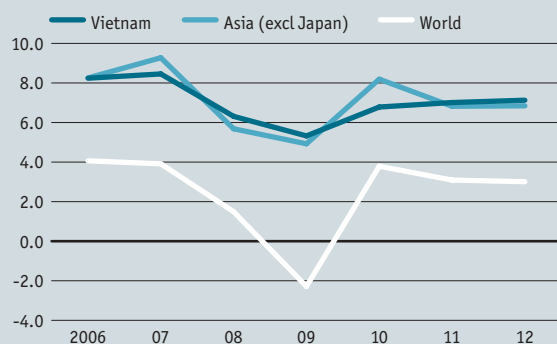
## Monthly data

|   | Jan    | Feb    | Mar    | Apr    | May    | Jun    | Jul    | Aug    | Sep    | Oct    | Nov    | Dec    |
|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Exchange rate D:US\$ (av)</b>                    |        |        |        |        |        |        |        |        |        |        |        |        |
| 2009  | 17,463 | 17,482 | 17,553 | 17,776 | 17,785 | 17,796 | 17,809 | 17,816 | 17,834 | 17,852 | 17,960 | 18,472 |
| 2010  | 18,472 | 18,679 | 19,077 | 19,011 | 18,987 | 18,981 | 19,086 | 19,262 | 19,485 | 19,491 | 19,498 | 19,498 |
| 2011  | 19,498 | 20,329 | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    |
| <b>Exchange rate D:US\$ (end-period)</b>            |        |        |        |        |        |        |        |        |        |        |        |        |
| 2009  | 17,475 | 17,475 | 17,756 | 17,784 | 17,784 | 17,801 | 17,815 | 17,823 | 17,841 | 17,862 | 18,485 | 18,472 |
| 2010  | 18,472 | 18,925 | 19,080 | 18,960 | 18,980 | 19,065 | 19,095 | 19,485 | 19,485 | 19,495 | 19,498 | 19,498 |
| 2011  | 19,498 | 20,875 | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    |
| <b>Money supply M1 (% change, year on year)</b>     |        |        |        |        |        |        |        |        |        |        |        |        |
| 2009  | -3.8   | 5.2    | 16.7   | 27.1   | 34.7   | 48.5   | 54.9   | 58.4   | 60.2   | 59.2   | 57.5   | 30.4   |
| 2010  | 22.8   | 23.8   | 12.6   | 7.7    | 8.4    | 8.0    | 8.1    | 9.6    | 9.3    | 9.0    | n/a    | n/a    |
| 2011  | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    |
| <b>Money supply M2 (% change, year on year)</b>     |        |        |        |        |        |        |        |        |        |        |        |        |
| 2009  | 20.8   | 24.1   | 26.5   | 32.5   | 33.9   | 37.1   | 38.5   | 38.6   | 36.7   | 36.5   | 35.1   | 26.2   |
| 2010  | 22.5   | 22.6   | 20.5   | 19.4   | 19.5   | 22.0   | 20.7   | 25.0   | 26.2   | 25.4   | n/a    | n/a    |
| 2011  | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    |
| <b>Deposit rate (av; %)</b>                         |        |        |        |        |        |        |        |        |        |        |        |        |
| 2009  | 7.0    | 6.5    | 7.1    | 7.2    | 7.3    | 7.5    | 7.6    | 8.0    | 8.1    | 8.4    | 10.0   | 10.2   |
| 2010  | 10.2   | 10.2   | 10.3   | 11.0   | 11.2   | 11.2   | 11.1   | 11.1   | n/a    | n/a    | n/a    | n/a    |
| 2011  | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    |
| <b>Lending rate (av; %)</b>                         |        |        |        |        |        |        |        |        |        |        |        |        |
| 2009  | 10.1   | 9.4    | 9.2    | 9.2    | 9.6    | 10.0   | 10.0   | 10.3   | 10.4   | 10.5   | 10.5   | 12.0   |
| 2010  | 12.0   | 12.0   | 12.0   | 13.9   | 13.2   | 13.2   | 13.3   | 13.0   | n/a    | n/a    | n/a    | n/a    |
| 2011  | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    |
| <b>Consumer prices (av; % change, year on year)</b> |        |        |        |        |        |        |        |        |        |        |        |        |
| 2009  | 19.4   | 15.5   | 12.0   | 9.2    | 5.6    | 3.9    | 3.3    | 2.0    | 2.4    | 3.0    | 4.3    | 6.5    |
| 2010  | 5.9    | 7.8    | 8.7    | 9.2    | 9.0    | 8.7    | 8.2    | 8.2    | 8.9    | 9.7    | 11.1   | 11.8   |
| 2011  | 12.2   | 12.3   | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    |
| <b>Goods exports fob (US\$ m)</b>                   |        |        |        |        |        |        |        |        |        |        |        |        |
| 2009  | 3,842  | 5,097  | 5,346  | 4,287  | 4,454  | 4,831  | 4,825  | 4,639  | 4,562  | 5,043  | 4,704  | 5,467  |
| 2010  | 5,013  | 3,740  | 5,592  | 5,332  | 6,312  | 6,317  | 6,029  | 6,857  | 6,098  | 6,227  | 6,450  | 7,498  |
| 2011  | 7,091  | 5,250  | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    |
| <b>Goods imports cif (US\$ m)</b>                   |        |        |        |        |        |        |        |        |        |        |        |        |
| 2009  | 3,456  | 4,257  | 5,141  | 5,600  | 5,796  | 6,020  | 6,415  | 5,982  | 6,416  | 6,664  | 6,806  | 7,395  |
| 2010  | 5,958  | 5,070  | 6,747  | 6,494  | 7,183  | 7,059  | 7,007  | 7,252  | 6,973  | 7,304  | 7,700  | 8,792  |
| 2011  | 7,968  | 6,200  | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    |
| <b>Trade balance fob-cif (US\$ m)</b>               |        |        |        |        |        |        |        |        |        |        |        |        |
| 2009  | 386    | 840    | 205    | -1,313 | -1,342 | -1,189 | -1,590 | -1,343 | -1,854 | -1,621 | -2,102 | -1,928 |
| 2010  | -945   | -1,330 | -1,155 | -1,162 | -871   | -742   | -978   | -395   | -875   | -1,077 | -1,250 | -1,294 |
| 2011  | -877   | -950   | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    |
| <b>Foreign-exchange reserves excl gold (US\$ m)</b> |        |        |        |        |        |        |        |        |        |        |        |        |
| 2009  | 22,830 | 22,653 | 23,008 | 20,931 | 20,790 | 20,260 | 19,072 | 18,802 | 18,769 | 18,320 | 17,400 | 16,447 |
| 2010  | 15,735 | 15,492 | 13,854 | 14,332 | 13,936 | 14,121 | 13,917 | 13,727 | 14,111 | 14,098 | n/a    | n/a    |
| 2011  | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    | n/a    |

Sources: IMF, *International Financial Statistics*; Haver Analytics.

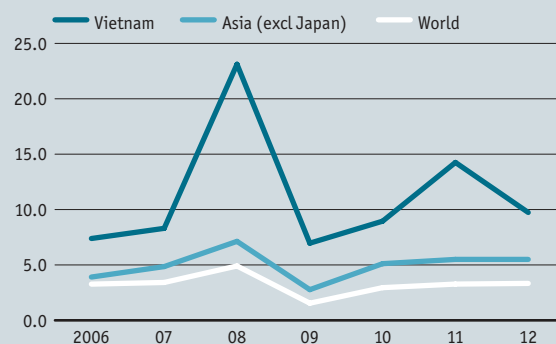
## Annual trends charts

**Real GDP growth**  
(% change)



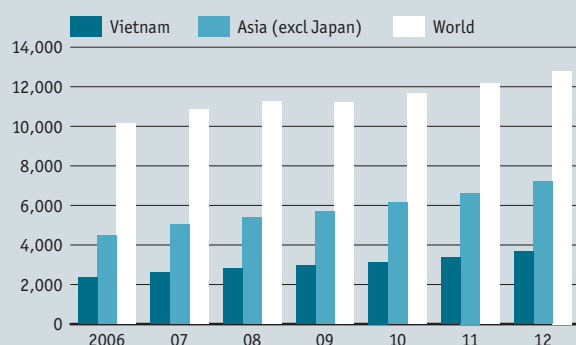
Source: Economist Intelligence Unit.

**Consumer price inflation**  
(av; %)



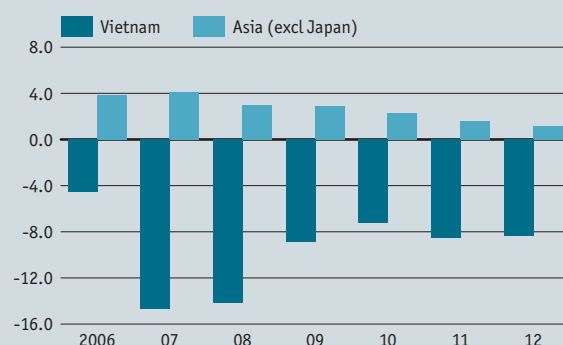
Source: Economist Intelligence Unit.

**GDP per head**  
(US\$, PPP)



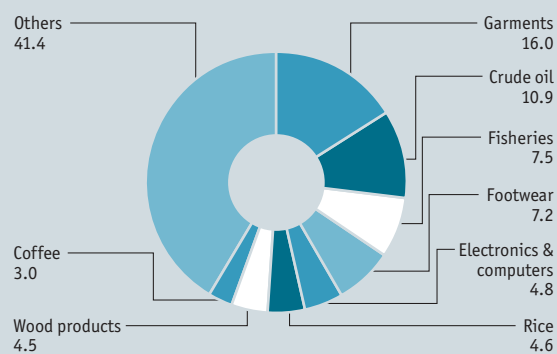
Source: Economist Intelligence Unit.

**Trade balance**  
(% of GDP)



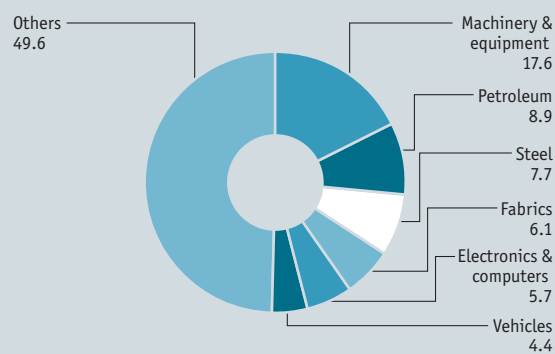
Source: Economist Intelligence Unit.

**Main exports, 2009**  
(% of total)



Source: Economist Intelligence Unit.

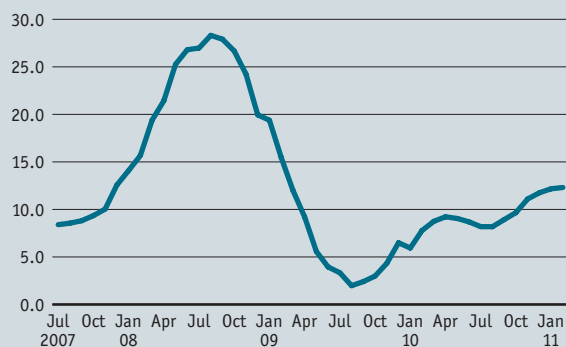
**Main imports, 2009**  
(% of total)



Source: Economist Intelligence Unit.

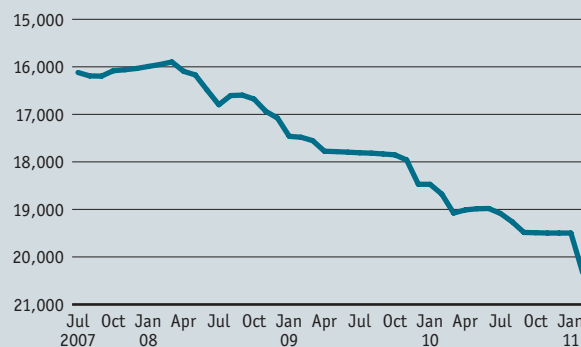
## Monthly trends charts

**Consumer price inflation**  
(% change, year on year)



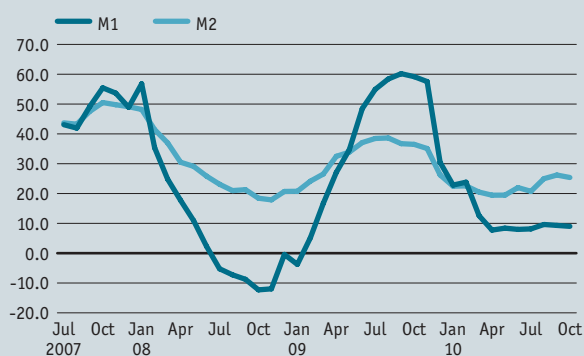
Source: Economist Intelligence Unit.

**Exchange rate**  
(D:US\$; av; inverted scale)



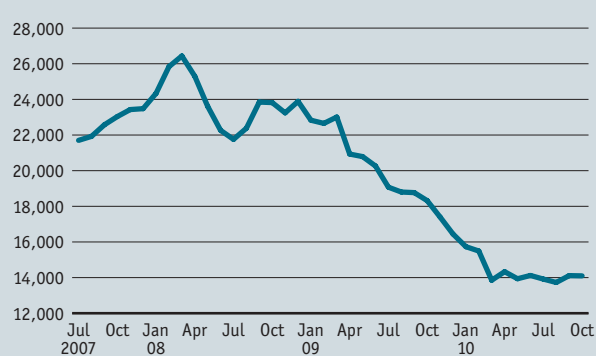
Source: Economist Intelligence Unit.

**Monetary aggregates**  
(% change, year on year)



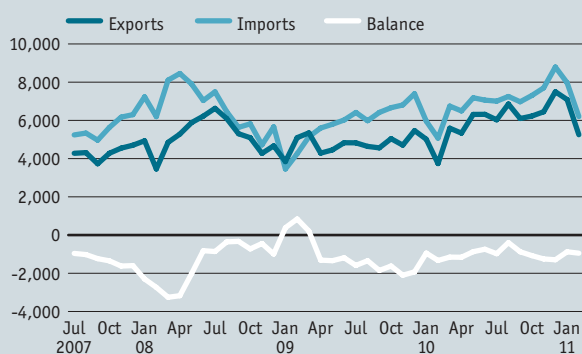
Source: Economist Intelligence Unit.

**Foreign-exchange reserves**  
(US\$ m)



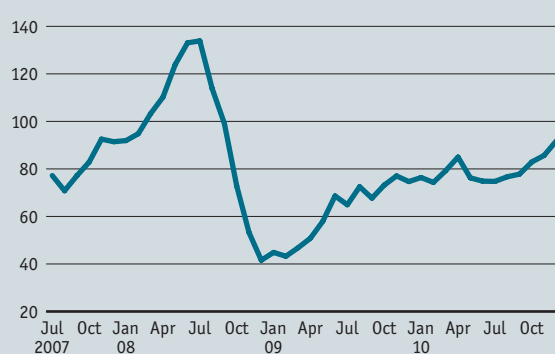
Source: Economist Intelligence Unit.

**Foreign trade**  
(US\$ m; goods only)



Source: Economist Intelligence Unit.

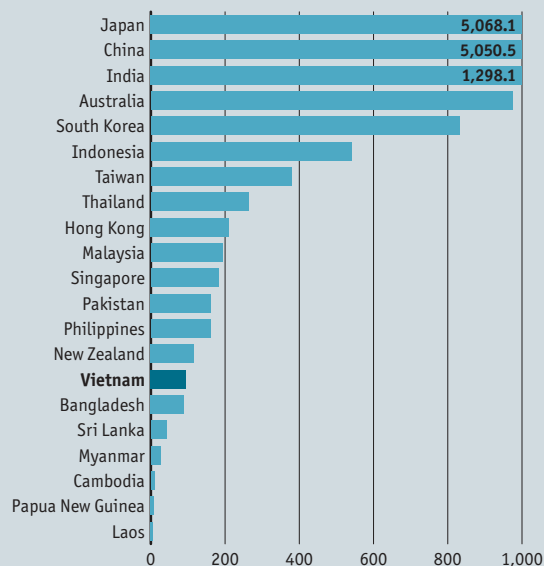
**Oil: Brent crude price**  
(US\$/b; av)



Source: Economist Intelligence Unit.

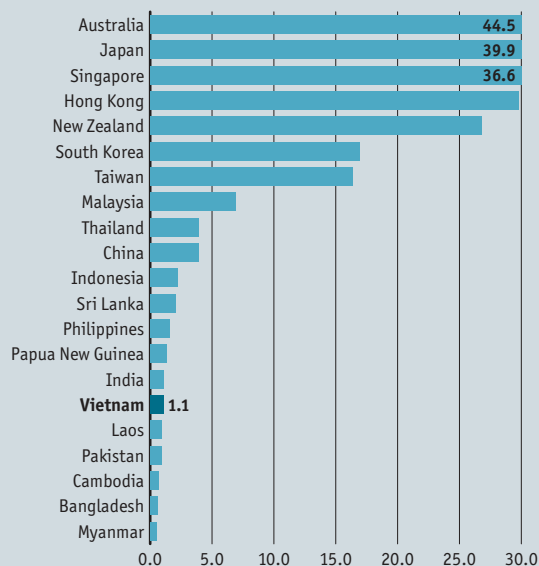
## Comparative economic indicators, 2009

**Gross domestic product**  
(US\$ bn; market exchange rates)



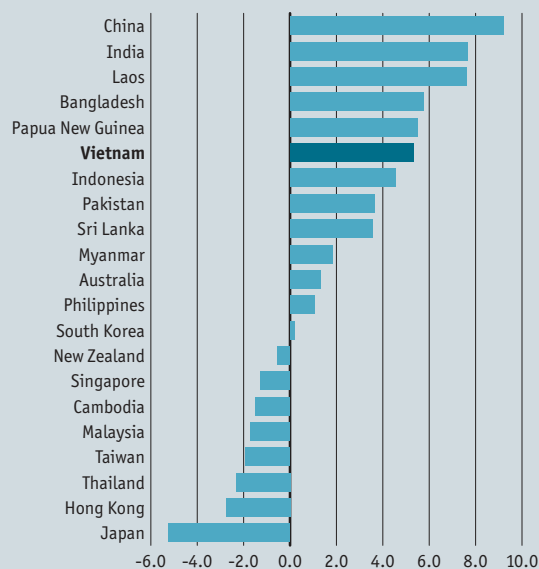
Sources: Economist Intelligence Unit estimates; national sources.

**Gross domestic product per head**  
(US\$ '000; market exchange rates)



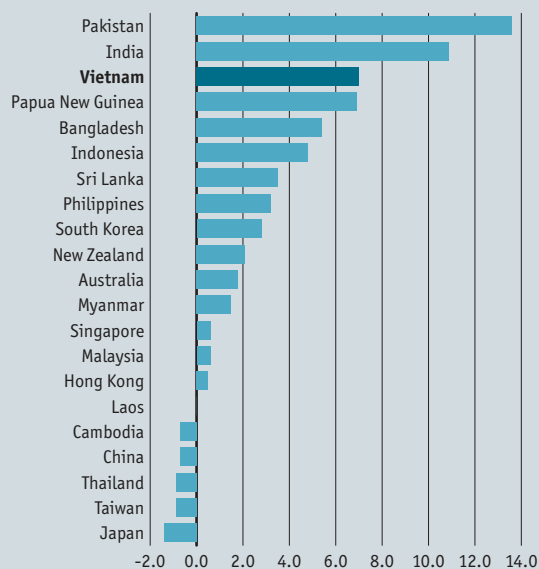
Sources: Economist Intelligence Unit estimates; national sources.

**Gross domestic product**  
(% change, year on year)



Sources: Economist Intelligence Unit estimates; national sources.

**Consumer prices**  
(% change, year on year)



Sources: Economist Intelligence Unit estimates; national sources.



# Country snapshot

## Basic data

|  |   |
|--|---|
| <b>Land area</b>   | 331,051 sq km   |
| <b>Population</b>  | 86m (2009, General Statistics Office estimate)  |
| <b>Main towns</b>  | Population (of province) in '000 (2009)   |
|  | Ho Chi Minh City 7,165  |
|  | Hanoi (capital) 6,472   |
|  | Haiphong 1,842  |
| <b>Climate</b>   | Tropical monsoon; north cool and damp in winter (November-April), hot and rainy in summer; south more equable; centre most subject to typhoons. The rains are highly unpredictable  |
| <b>Weather in Hanoi<br/>(altitude 216 metres)</b>          | Hottest month, June, 26-33°C; coldest month, January, 13-20°C; wettest month, August, 343 mm average rainfall; driest month, January, 18 mm average rainfall  |
| <b>Weather in Ho Chi Minh City<br/>(altitude 9 metres)</b> | Hottest month, April, 24-35°C; coldest month, January, 21-32°C; wettest month, September, 335 mm average rainfall; driest month, February, 3 mm average rainfall  |
| <b>Language</b>  | Vietnamese (spoken by about 90% of the population); English (increasingly favoured as a second language); some French; a little Russian and German; minority languages such as Hmong, Thai, Khmer in more remote rural areas  |
| <b>Weights and measures</b>                                | Metric system. Local land measurement: 1 mau = 3,600 sq metres (north); 1 mau = 5,000 sq metres (centre)  |
| <b>Currency</b>  | Dong (D). Average exchange rate in 2010: D19,127:US\$1  |
| <b>Time</b>  | 7 hours ahead of GMT  |
| <b>Public holidays</b>                                     | January 1st (New Year's Day; holiday taken on January 3rd); February 2nd-7th (Tet, Lunar New Year); April 12th (Gio To Hung Vuong Day); April 30th (Liberation of Saigon; holiday taken on May 2nd); May 1st (Labour Day; holiday taken on May 3rd); September 2nd (National Day) |

## Political structure

|                                     |  |   |
|-------------------------------------|--|---|
| <b>Official name</b>                | Socialist Republic of Vietnam  |   |
| <b>Form of state</b>                | One-party rule   |   |
| <b>The executive</b>                | The cabinet is constitutionally responsible to the National Assembly, which is elected for a five-year term  |   |
| <b>Head of state</b>                | The president, currently Nguyen Minh Triet   |   |
| <b>National legislature</b>         | The unicameral 493-member Quoc Hoi (National Assembly) meets biannually and typically serves a five-year term. The assembly appoints the president and the cabinet                 |   |
| <b>Local government</b>             | Centrally controlled provinces and municipalities are subdivided into towns, districts and villages, which have a degree of local accountability through elected People's Councils |   |
| <b>Legal system</b>                 | The regional people's courts and military courts operate as courts of first and second instance, with the Supreme Court at the apex of the system                                  |   |
| <b>National elections</b>           | Elections for the National Assembly took place in 2007; the next are due in May 2011   |   |
| <b>National government</b>          | The Communist Party of Vietnam, and in particular its politburo, controls both the electoral process and the executive   |   |
| <b>Main political organisations</b> | The Communist Party of Vietnam (general secretary: Nguyen Phu Trong); the Vietnam Fatherland Front   |   |
| <b>Main members of the cabinet</b>  | <b>Prime minister</b>  | Nguyen Tan Dung   |
|                                     | <b>Deputy prime ministers</b>  | Nguyen Sinh Hung<br>Pham Gia Khiem<br>Hoang Trung Hai<br>Nguyen Thien Nhan<br>Truong Vinh Trong |
| <b>Key ministers</b>                | <b>Agriculture &amp; rural development</b>   | Cao Duc Phat  |
|                                     | <b>Construction</b>  | Nguyen Hong Quan  |
|                                     | <b>Culture, sports &amp; tourism</b>   | Hoang Tuan Anh  |
|                                     | <b>Education &amp; training</b>  | Nguyen Thien Nhan   |
|                                     | <b>Finance</b>   | Vu Van Ninh   |
|                                     | <b>Foreign affairs</b>   | Pham Gia Khiem  |
|                                     | <b>Industry &amp; trade</b>  | Vu Huy Hoang  |
|                                     | <b>Information &amp; communications</b>  | Le Doan Hop   |
|                                     | <b>Interior</b>  | Tran Van Tuan   |
|                                     | <b>Justice</b>   | Ha Hung Cuong   |
|                                     | <b>Labour, war invalids &amp; social affairs</b>   | Nguyen Thi Kim Ngan   |
|                                     | <b>National defence</b>  | Phung Quang Thanh   |
|                                     | <b>Natural resources &amp; environment</b>   | Pham Khoi Nguyen  |
|                                     | <b>Planning &amp; investment</b>   | Vo Hong Phuc  |
| <b>Central bank governor</b>        | <b>Public health</b>   | Nguyen Quoc Trieu   |
|                                     | <b>Transport</b>   | Ho Nghia Dung   |
| <b>Central bank governor</b>        | Nguyen Van Giau  |   |