Country Risk Service

Vietnam

Vietnam at a glance: 2011-15

OVERVIEW
The Communist Party of Vietnam (CPV) will keep a firm grip on power in the forecast period, and, despite signs of factional splits between conservative hardliners and reformers, there is no prospect of any major internal instability. Given the generally high level of political apathy, together with the regime's determination to crack down hard on pro-democracy activists, the likelihood that Vietnam will suffer an upheaval similar to that currently occurring in the Arab world is low. Economic policymakers have embarked on a tightening programme, but concerns persist over whether the political will exists to implement the tougher measures that may be needed to stabilise the economy. Real GDP growth will slow this year, to 6.4%, but will return to an average annual rate of 7-7.5% in 2012-15, underpinned by strong growth in consumption, investment and exports. Inflation will accelerate to an average rate of 16.9% in 2011, before slowing to an average of 8% a year in 2012-15. Policymakers are likely to face an ongoing battle to keep the dong stable against the US dollar. The current account will remain in deficit.

Key changes from last month

Political outlook

- An election for the National Assembly (the legislature) is scheduled for May 22nd. However, candidates are 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.

Economic policy outlook

- The State Bank of Vietnam (the central bank) has continued to push up policy interest rates. It raised the refinance rate by 100 basis points at the beginning of April and also at the beginning of May, lifting it to 14%.

Economic forecast

- Owing to the negative impact that the recent sharp increases in interest rates and accelerating inflation will have on private consumption and investment, the Economist Intelligence Unit has revised down its forecast for real GDP growth this year to 6.4%, from 6.8% previously.

May 2011

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May 2011

Vietnam

Vietnam: risk assessment

	Sovereign risk	Currency risk	Banking sector risk	Political risk	Economic structure risk	Country risk
May 2011	CCC	CCC	CCC	CCC	CCC	CCC

Sovereign risk

Stable. The budget deficit will narrow relative to GDP in 2011, primarily because of higher revenue stemming from the rise in global crude oil prices. Public debt is high, but much of it has been provided on concessional terms.

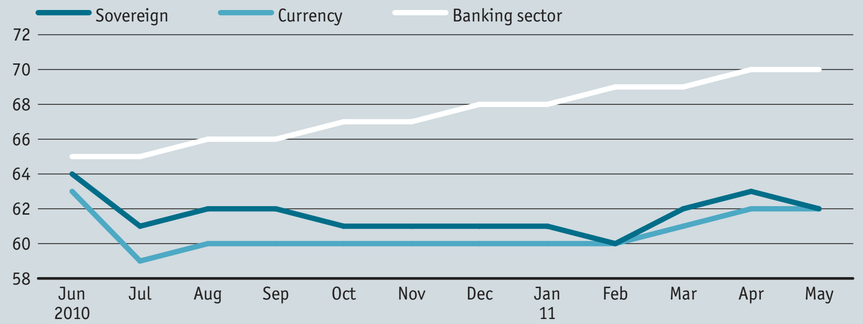
Currency risk

Stable. In the face of strong downward pressure on the dong, the State Bank of Vietnam (the central bank) devalued the currency in February 2011. Since November 2009 the dong's value against the US dollar has dropped by almost 14%. The currency will remain under pressure until there are clear signs that the trade deficit is narrowing and inflationary pressures are receding.

Banking sector risk

Stable. The authorities aim to slow the pace of growth in domestic credit in 2011, but only marginally. The overall rapid pace of credit expansion has raised concerns over the potential for a sharp increase in non-performing loans.

Vietnam: sovereign, currency and banking sector risk scores



Source: Economist Intelligence Unit.

Political risk

The Communist Party of Vietnam exerts a tight grip on power, ensuring a high degree of political stability. There is a risk that the pace of reform could slow, given that conservatives in the party have strengthened their hand.

Economic structure risk

Vietnam's dependence on imports of intermediate and capital goods has contributed to the large deficits that have been recorded on the merchandise trade account in recent years, but foreign investment will remain high.

Danny Richards (editor); Kilbinder Dosanjh (consulting editor) *May 6th 2011*

For more details on ratings methodology, see www.eiu.com/crs

Sovereign risk

Vietnam: sovereign risk

	Rating
May 2011	CCC

Current assessment

The government posted a budget deficit in 2010 equivalent to 5.5% of GDP, and by the end of the year the outstanding stock of public-sector debt had risen to 57% of annual GDP, up from just under 50% at end-2009. The fiscal position is coming under greater scrutiny because of growing concerns over instability in the domestic economy, and also because of debt-repayment problems at a large state-owned enterprise (SOE), Vinashin. (In December 2010 Vinashin defaulted on the first scheduled repayment of principal on a US$600m syndicated loan from international lenders.) The government had no legal obligation to provide support to Vinashin to help it to meet its debt-repayment commitments, and its decision not to do so is likely to have been made in order to send a clear message to other SOEs that they must put their own houses in order, rather than because the government was unable to bear the financial burden of a bailout. But the default has badly damaged the sovereign's reputation in the international financial markets, not least because creditors appear to have believed that an implicit state guarantee was in place.

Positive factors

- The government retains the support of foreign donors. At the annual Consultative Group Meeting in December last year, donors pledged to provide nearly US$8bn in official development assistance in 2011, down only slightly from the amount pledged in 2010.
- As part of its overall strategy to stabilise the economy, in February the government set a limit for the budget deficit in 2011 of the equivalent of 5% of GDP (compared with the previous target of 5.3%) and ordered ministries to withhold 10% of non-essential current expenditure for the remainder of the year.

Negative factors

- Although the spread on Vietnam's five-year credit default swaps (CDS) has dropped from a peak of nearly 410 basis points in late January, in early May the cost of insuring Vietnam's sovereign debt remained elevated, with the CDS spread standing at 290 basis points. By way of comparison, CDS spreads for Thailand, the Philippines and Indonesia are currently below 200 basis points.

Rating outlook

Stable. The government will succeed in making only a small reduction in its budget deficit in 2011, and the stock of public debt will remain high. However, as much of this debt has been granted on concessional terms, the government is not expected to run into repayment problems. If it were to encounter such difficulties, or to face greater economic pressures, it is likely that international financial support would be forthcoming. The government may try to carry out further US dollar-denominated international bond issues to finance its deficit and also to pay for infrastructure development and the expansion of SOEs. But in the wake of recent downgrades by international credit-rating agencies this will prove a difficult and expensive means of raising money.

Currency risk

Vietnam: currency risk

	Rating
May 2011	CCC

Current assessment

The dong has regained some ground in recent weeks, standing at D20,640:US$1 in early May, compared with a record low of D20,915:US$1 in late March. But policymakers will continue to face the challenge of maintaining the stability of the exchange rate of the dong against the US dollar. Strong demand for US dollars, underpinned by the substantial trade deficit and rising inflationary expectations, has put the dong under significant pressure in the past few years, forcing the State Bank of Vietnam (SBV, the central bank) to devalue the currency on a number of occasions. The most recent devaluation was in mid-February, when the official rate was cut by 8.5%. High inflation in particular has contributed to a loss of confidence in the value of the dong, and the widespread belief that there will be further downward adjustments has driven up demand in Vietnam for gold and US dollars. The SBV is working on new regulations to prohibit banks from accepting gold deposits or lending gold to clients, in a bid to reduce speculation that could damage confidence in the local currency.

Positive factors

- Although Vietnam continues to run a large deficit on the current account, if it were to encounter external financing difficulties or come to be in desperate need of foreign exchange, support from the IMF would be forthcoming.

Negative factors

- Vietnam's foreign-exchange reserves have dropped sharply over the past year or so and currently provide less than two months of import cover, compared with an average for CCC-rated countries of over five months.

- Downward pressure on the dong is emanating partly from rising inflationary expectations. Inflation reached 17.5% year on year in April.

Rating outlook

Stable. Since the large devaluation in mid-February, the SBV has managed to keep the official exchange rate of the dong against the US dollar fairly stable, and in the past month the dong has been trading above the lower limit of the tight daily trading band. However, the recent acceleration in inflation will further undermine confidence and will encourage consumers and investors to switch to US dollars and gold (even at premium prices) to protect their wealth, and the low level of foreign-exchange reserves means that the authorities will be unable to intervene in the currency markets with sufficient weight to offset any downward pressure on the dong. In early May non-deliverable forwards were pricing the Vietnamese currency at D22,875:US$1 in 12 months' time.

Foreign-exchange regime

The government has operated a crawling peg since 1999, allowing the exchange rate of the dong against the US dollar to adjust to changing market conditions. The State Bank of Vietnam (SBV, the central bank) sets the official exchange rate on a daily basis. The interbank market rate (the rate at which banks exchange dong for foreign exchange among themselves) cannot deviate from the official rate by more than 1%.

Banking sector risk

Vietnam: banking sector risk

	Rating
May 2011	CCC

Current assessment

The SBV has pushed through reforms to the banking sector aimed at improving the regulatory environment in line with global regulatory changes. However, banking sector reform in general remains slow, and the government's continued intervention in the domestic banking sector is creating much uncertainty. Following calls from the government for revisions to the SBV's Circular 13 on banking sector operations, which was introduced in May last year, the central bank announced minor amendments in September, including defining deposits more broadly so as to allay bankers' concerns over the new maximum loan-deposit ratio of 80%. As well as setting this new limit, the SBV raised the capital adequacy ratio from 8% to 9% under Circular 13 from October 2010; for some banks, and particularly state-owned institutions, this requirement is proving difficult to meet. Under a separate regulatory change, banks were supposed to have achieved a minimum level of chartered capital of D3trn (US$155m) by the end of 2010. But owing to the fact that a number of banks have still not reached this level, a 12-month extension has been granted.

Positive factors

- The government holds stakes in all major banks, and as a result it would be in a position to provide financial support were any bank to come under pressure. This limits the likelihood of a run on banking sector deposits.

Negative factors

- The authorities aim to slow the pace of growth in domestic credit in 2011, but in February they reduced the target ceiling for growth only modestly, to 20%, from 23% previously. In 2010 the outstanding stock of domestic credit rose by 29%, following an increase of 45% in 2009. Such rapid credit expansion has given rise to concerns about the potential for a big jump in non-performing loans.

- The net foreign assets position of Vietnam's commercial banks has deteriorated. According to the latest available data, the banks had a negative net assets position of US$967m in October 2010, compared with a positive position of US$406m at end-2009.

Rating outlook

Stable. The SBV has allowed commercial banks a greater degree of flexibility in setting lending interest rates. In early 2010 it abolished the cap on such rates—a restriction that impeded banks' ability to price in risk fully, and which encouraged financial institutions to impose other (mainly hidden) charges and fees. However, although the authorities have removed the cap on lending rates, they do not appear to be willing to allow banks a free hand in setting interest rates, as a new limit on deposit interest rates came into effect in December 2010. In the wake of recent conflicting policy initiatives and official statements, there is considerable uncertainty regarding the monetary policy agenda and about which tools the authorities are likely to use to manage domestic credit growth. Banking sector reserve requirements are currently low, at just 2-4% (for US dollar reserves), and the SBV recently dismissed speculation that it intended to push up the requirement to 10% in order to curb credit growth.

Generic risks

The assessment of *political risk* and *economic structure risk* informs our assessment of *sovereign risk*, *currency risk* and *banking sector risk*.

Political risk assessment

Rating: CCC

The ruling Communist Party of Vietnam (CPV) maintains a tight grip on power, thereby ensuring a high degree of political stability. Its leaders have embraced market-oriented reforms, but the pace of reform could slow, owing to the fact that conservatives in the party have strengthened their hand. Political effectiveness continues to be undermined by endemic corruption, and one of the challenges facing the CPV as it strives to maintain its grip on power is the need to tackle graft within its own ranks; foreign investors and donors regularly voice concern over the extent to which corruption permeates the government. Prospects for political reform and improved protection of human rights remain poor. Despite strengthening diplomatic and economic ties with China, an ongoing major point of disagreement is the sovereignty of islands in the South China Sea. Both countries claim the Spratly and Paracel archipelagoes and, more importantly, the surrounding seabed, which is believed to hold substantial oil and gas reserves.

Economic structure risk assessment

Rating: CCC

Economic growth will remain at around 6-7% a year over the next two years. However, owing to the fact that the economy is open (as indicated by the high ratio of total external trade to GDP), it is exposed to changes in global demand. There have been a number of structural shifts in the economy in the past decade, with the importance of agriculture diminishing and private and foreign-invested firms accounting for an expanding share of industrial output. But reform of SOEs has been slow, and there are still a large number of inefficient state-owned companies that enjoy better access to capital and land than their more efficient private-sector rivals. Low income levels limit the extent to which the government can borrow from domestic investors, while the cost of borrowing internationally is likely to have risen amid concerns about policy uncertainty and structural weaknesses. The country's dependence on imports of intermediate and capital goods has contributed to the large merchandise trade deficits that have been recorded in recent years, but foreign investment will generally remain high.

Country risk

Overall country risk

Rating: CCC

The country risk rating is derived by taking a simple average of the scores for *sovereign risk*, *currency risk* and *banking sector risk*.

Rating definitions

Sovereign risk

This risk category measures the risk of a build-up in arrears of principal and/or interest on foreign- and/or local-currency debt that is the direct obligation of the sovereign or guaranteed by the sovereign. The *sovereign risk* rating is informed by scores for a combination of political, policy, cyclical and structural variables.

Currency risk

This risk category measures the risk of a devaluation against the reference currency (usually the US dollar, occasionally the euro) of 25% or more in nominal terms over the next 12-month period. The *currency risk* rating is informed by scores for a combination of political, policy, cyclical and structural variables.

Banking sector risk

This risk category gauges the risk of a systemic crisis whereby bank(s) holding 10% or more of total bank assets become insolvent and unable to discharge their obligations to depositors and/or creditors. A banking crisis is deemed to occur even if governments restore solvency through large bail-outs and/or nationalisation. A run on banks facing a temporary lack of liquidity rather than underlying solvency problems is not deemed to constitute a crisis, provided that public confidence in the banking system is quickly restored. Banking crises are typically associated with payment difficulties in the corporate or household sectors; bursting of asset price bubbles; currency and/or maturity mismatches. The rating can therefore serve as a proxy for the risk of a systemic crisis in the private sector. The *banking sector risk* rating is informed by scores for a combination of political, policy, cyclical and structural variables.

Political risk

This risk category evaluates a range of political factors relating to political stability and effectiveness that could affect a country's ability and/or commitment to service its debt obligations and/or cause turbulence in the foreign-exchange market. The *political risk* rating informs the ratings for *sovereign risk*, *currency risk* and *banking sector risk*.

Economic structure risk

This risk category is derived from a series of macroeconomic variables of a structural rather than a cyclical nature. Consequently, the rating for *economic structure risk* will tend to be relatively stable, evolving in line with structural changes in the economy. The *economic structure risk* rating informs the ratings for *sovereign risk*, *currency risk* and *banking sector risk*.

Overall country risk

This risk rating is derived by taking a simple average of the scores for *sovereign risk*, *currency risk* and *banking sector risk*.

Central scenario 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 reappointment will only be formally made following the formation of the 13th National Assembly (NA, the legislature) after national elections, which will be held on May 22nd. Although Mr Dung's continuation in office appears to have been endorsed by the CPV, his reputation has been damaged by the near-collapse of one of the largest state-owned enterprises, 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. 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.

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 crack down on activists who advocate genuine democratic reform, there is little likelihood that any opposition movement will gain traction. The likelihood that Vietnam will suffer an upheaval similar to that taking place in a number of countries in the Middle East and North Africa is therefore low. However, concerns over soaring prices could create the conditions for social unrest in the short term, while protests over land seizures could become more common during 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 ear-marked 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 government 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 that 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 22nd 2011. However, candidates are closely vetted by the Vietnam Fatherland Front (VFF), a CPV-controlled umbrella body that includes all of the country's "mass organisations", and only those deemed suitable are allowed to stand. According to the vice-chair of the VFF Central Committee, Nguyen Van Pha, 832 out of 1,086 candidates were recently shortlisted for the NA election, of whom 83 were self-nominated (including both members and non-members of the CPV). At the 2007 election only 43 of the 493 people elected to the NA were non-CPV members.

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 in 2011-15, 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". The disputed area is becoming increasingly important strategically, however, as it is believed to contain oil and gas deposits and is also an important shipping route.

Economic policy outlook

Policy trends

Policymakers have embarked on a process of tightening economic policy, but concerns persist over whether there is sufficient political will to implement tougher measures that may be needed to stabilise the economy. The State Bank of Vietnam (SBV, the central bank) has tightened its monetary policy stance by pushing up its policy interest rates in recent months, but inflation is likely to remain in double digits in the short term—the sharp devaluation of the dong over the past year or so will create greater imported inflationary pressures, while the government has had to increase subsidised retail prices for fuel and electricity, owing to sharp rises in global crude oil prices recently. The government has also signalled its intention to tighten its fiscal policy stance, and further administrative measures may be introduced to slow the pace of growth in domestic credit. However, in the light of the government's general policy bias in favour of rapid economic growth rather than price stability, there is a risk that if the pace of growth does not pick up in the coming quarters (growth fell to 5.4% in the first quarter of 2011) that the authorities will again loosen policy.

Fiscal policy

Although there is a need for the government to rein in the fiscal deficit—to cool the economy and to avoid financing problems (outstanding public debt is estimated to have reached nearly 57% of annual GDP at end-2010)—it will struggle to narrow the deficit during the forecast period. The government recently revealed that it would cut planned investment spending this year by D50trn (US$2.4bn), or around 7.4% of the original total budget for the year. If it is implemented, the measure would help to lower the deficit, but it could yet prove difficult to administer such cuts in expenditure. Nevertheless, the government is still expected to record a lower deficit this year than in 2010, as high crude oil prices will boost official revenue (the authorities derive substantial tax revenue and royalties from the oil and gas sector). The Economist Intelligence Unit therefore expects the budget deficit to narrow to 4.8% of GDP this year, from an estimated 5.5% in 2010 and 7% in 2009. Government revenue will continue to be supported to some extent by strong economic growth in the remainder of the forecast period, and global prices for crude oil will remain relatively high. However, heavy spending on infrastructure and social welfare programmes will keep the budget deficit at above 5% of GDP in 2012-15.

Monetary policy

The SBV has taken aggressive steps to tighten monetary policy in recent months, pushing up its policy rates by up to 6 percentage points since November 2010. However, the SBV is not operationally independent, and it will be under pressure to ensure that the rising 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 the past few months the SBV has increased its refinance and discount rates in an attempt to slow the expansion of credit. However, the official target for domestic credit growth this year has only been revised down slightly from a limit of 23% to 20%. Although in March 2011 the central bank warned 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, the measures that have been taken so far are unlikely to be sufficient to cool an overheated economy. We therefore expect the authorities to have to tighten policy further this year.

Economic forecast

Economic growth

The recent sharp increases in interest rates and the acceleration in inflation will weaken private consumption and investment growth, and we have therefore revised down slightly our forecast for real GDP growth this year, to 6.4%, from 6.8% previously. However, assuming that officials manage to tighten policy further and have some success in cooling the economy without severely undermining growth momentum, we expect economic expansion to return to an average annual rate of 7-7.5% in 2012-15. Although global economic growth will slow in 2011, demand for Vietnamese goods is likely to hold up, and the manufacturing sector is expected to ramp up production. This will require more workers, and thus keep unemployment fairly low. In addition, remittances from overseas Vietnamese will remain high, providing an important boost to private consumption. As demand for exports remains strong, 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 remains strong. Demand for Vietnamese goods—particularly in the US, China and Europe—will remain strong, but import expansion will also be significant, and net exports will consequently act as a drag on real GDP growth from 2013.

There are still some major downside risks to this growth outlook. On the domestic front, the government still has much to do in terms of stabilising the economy and rebuilding consumer and investor confidence. In part owing to a surge in inflation and a wide current-account deficit, confidence in the dong has diminished, and there is increased demand for safe havens in the form of US dollars and gold. 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 foreign exchange reserves—as indicated by the difficulty that the SBV 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. Citing concerns over an external payments crisis, partly owing to the sharp fall in Vietnam's reserves in the past year or so, international credit-ratings agencies have 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.

Inflation

Consumer price inflation is forecast to accelerate to 16.9% in 2011, from 9% in 2010, before slowing to an average rate of 8% a year in 2012-15. The acceleration this year partly reflects supply-side pressures stemming from rising international commodity prices. We expect crude oil prices (dated Brent Blend) to rise by nearly 27% this year and global food prices to rise by 29%. However, global commodity prices will fall in 2012, and are expected to remain relatively stable in 2013-15, and this will help to calm supply-side price pressures. But with the authorities yet to succeed in anchoring inflation expectations, annual price increases will remain high. The continued depreciation of the dong against the US dollar in 2011-15 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 next two years, and we forecast that the dong will depreciate by an annual average of 8% a year in 2011-12, before depreciating by around 2% a year in 2013-15. 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 SBV will not be able to stem any downward pressure by intervening in the currency markets. According to the latest available figures 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 over US$10bn in December 2010, although the exact level was not specified.

External sector

The current account will stay in deficit during the next five years, averaging the equivalent of 5.3% of GDP a year. Despite a recovery in exports, imports will rise in line with strong growth in consumption and investment, and this means that the merchandise trade deficit will remain 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 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.

External financing requirement

Vietnam's gross external financing requirement (including repayments of short-term debt) will remain large over the next two years, primarily because of the substantial current-account deficit. The requirement will stand at the equivalent of around 11.4% of GDP in 2011-12. This is down from the average of 13.5% in 2007-10, but is still sizeable compared with that of 6.4% of GDP in 2002-06. Although new commitments of foreign direct investment (FDI) have fallen sharply since 2008, actual FDI inflows have held up well in the past year or so. However, foreign investors remain concerned about the country's macro-economic instability. After soaring in 2007, inflows of foreign portfolio investment slumped in 2008-09, reflecting the deterioration in both the global and domestic economies. The volatile nature of the local stockmarkets also continues to undermine the confidence of foreign investors in these markets. But portfolio investment picked up in 2010 and will stand at US$1.5bn-2bn a year in the next two years. In January 2010 the government successfully issued its second sovereign bond, worth US$1bn. Although the issue was fully subscribed, the government had to offer a relatively high yield, and in the wake of recent downgrades to Vietnam's sovereign rating by international credit-rating agencies, future bond issues will be difficult and costly. Still, foreign donors remain keen to provide funds on a concessional basis: they recently pledged to disburse US$8bn in official development assistance in 2011. On balance, inflows on the capital account will be sufficient to finance the gross financing deficit during the next two years, enabling the authorities to gradually rebuild foreign-exchange reserves. However, owing to intervention in the foreign-exchange market as the authorities seek to support the dong, reserves will remain below the high that they reached in early 2008.

External debt

The external debt stock is forecast to reach US$37.2bn by the end of 2012, up from US$26.2bn at end-2008 (latest actual data from the World Bank). However, as a proportion of GDP external debt will remain relatively low in 2011-12, at around 32%. The government has been promised generous amounts of aid (in the form of both grants and concessional loans) by international donors, but it could face greater difficulties obtaining other forms of international finance. The government is unlikely to tap the international debt markets again during the next two years, as this would be a relatively expensive form of borrowing. The overall rise in public medium- and long-term debt will reflect the need of the government to finance ongoing projects, including major infrastructure development. The rise in short-term debt will occur as a result of growth in demand for international trade financing, in line with an expansion in external trade. The main component of Vietnam's external debt stock, however, will remain debt provided on a concessional basis: according to World Bank data, such lending accounted for over 80% of the country's external debt in 2008. Given that low interest rates apply to most of its existing debt, Vietnam is unlikely to struggle to fulfil its debt-servicing obligations—the debt-service ratio is forecast to hold steady in 2011-12, at around 1.3%.

According to the World Bank, Vietnam's principal and interest arrears stood at nearly US$1.2bn at end-2008. However, this is related to debt dating from the era of the Soviet Union, with regard to which the government has been active in negotiating a settlement. When floating its inaugural international sovereign bond in 2005, the government claimed that it was up to date with all its principal and interest payments.

Key risk indicators

(% unless otherwise indicated)	Vietnam	Median of CCC-rated	Median of ASEAN	Median of emerging markets
Largest single goods export (2-digit SITC code)/total goods exports	19.7	38.2	29.8	34.3
Gross public debt/GDP	56.5	41.5	52.8	35.8
Gross external debt/GDP	30.9	33.5	25.3	27.9
Interest & principal arrears (if any)/gross external debt	3.7	2.4	0.0	0.0
Net external debt/exports	19.0	64.0	6.5	27.2
Primary fiscal balance/GDP required to stabilise public debt/GDP ratio	-0.9	-2.1	-2.8	-1.2
Foreign-exchange reserves/gross external financing requirement	125.4	114.9	455.7	121.5
Foreign-exchange reserves/external short-term debt	240.2	165.1	535.4	419.9
Foreign-exchange reserves (change over last 6 months)	2.0	3.3	12.3	6.4
Banks' net foreign asset position/total foreign assets	-6.2	19.0	9.1	17.6
Bank credit to private sector/GDP (change over last 36 months; percentage points)	36.0	4.7	8.6	5.1
Equity market (change over last 24 months)	53.6	54.5	93.4	63.9
Over last 12 months				
Average real money-market interest rates	-1.3	-0.2	-1.3	-0.6
Fiscal balance/GDP	-5.2	-4.0	-4.8	-3.3
US$ export receipt growth	23.8	14.1	18.3	17.7
Current-account balance/GDP	-5.5	-5.6	3.8	-1.8
Debt-service due/exports	1.3	11.8	3.9	6.7
Interest due/exports	0.5	3.5	0.8	1.7
Average import cover (months)	1.8	5.1	6.7	5.7
Banks' loan-deposit spread (percentage points)	3.8	4.6	5.0	5.3
Change in bank credit to private sector	27.2	18.8	23.2	10.6
Over last 48 months				
Average current-account balance/GDP	-7.9	-8.0	4.2	-2.3
Average GDP growth	6.5	3.4	4.6	3.8
Average inflation rate	12.9	10.2	6.5	6.2
Change in real trade-weighted exchange rate	2.2	2.2	11.6	8.3

Ratings summary

	Nov 2010	Dec 2010	Jan 2011	Feb 2011	Mar 2011	Apr 2011	May 2011
Sovereign risk score[a]	61	61	61	60	62	63	62
Sovereign risk rating	CCC	CCC	CCC	CCC	CCC	CCC	CCC
Currency risk score	60	60	60	60	61	62	62
Currency risk rating	CCC	CCC	CCC	CCC	CCC	CCC	CCC
Banking sector risk score	67	68	68	69	69	70	70
Banking sector risk rating	CCC	CCC	CCC	CCC	CCC	CCC	CCC
Political risk score	62	67	67	67	67	67	67
Political risk rating	B	CCC	CCC	CCC	CCC	CCC	CCC
Economic structure risk score	63	63	63	63	63	63	63
Economic structure risk rating	CCC	CCC	CCC	CCC	CCC	CCC	CCC
Country risk score	63	63	63	63	64	65	65
Country risk rating	CCC	CCC	CCC	CCC	CCC	CCC	CCC

Note. Ratings are derived from scores as follows: 100-89 = D; 92-79 = C; 82-69 = CC; 72-59 = CCC; 62-49 = B; 52-39 = BB; 42-29 = BBB; 32-19 = A; 22-9 = AA; 12-0 = AAA. In boundary areas, the higher or lower rating is assigned at the discretion of the analyst.

[a] For the backtesting period (1997-2005) the probability of sovereign default associated with the different score ranges is as follows: 0-10, 0%; >10-20, 0%; >20-30, 0%; >30-40, 0%; >40-50, 1.4%; >50-60, 14.1%; >60-70, 57.9%; >70-80, 90.4%; >80-90, 100%; >90-100, not available.

Quarterly indicators

	2009		2010				2011
	3 Qtr	**4 Qtr**	**1 Qtr**	**2 Qtr**	**3 Qtr**	**4 Qtr**	**1 Qtr**
Exchange rate (D:US$)							
Average	17,820	18,094	18,742	18,993	19,278	19,495	20,234
End-period	17,841	18,472	19,080	19,065	19,485	19,498	20,908
Domestic indicators (% change)							
Consumer prices (av)	2.6	4.6	7.5	9.0	8.4	10.8	12.8
Money supply M1	60.2	30.4	12.6	8.0	9.3	–	–
External sector (US$ m)							
Total exports fob	14,026	15,214	14,345	17,961	18,984	20,366	19,386
Total imports cif	18,813	20,865	17,775	20,736	21,232	24,037	22,784
Trade balance	-4,787	-5,651	-3,430	-2,775	-2,248	-3,671	-3,398
Foreign direct investment inflows	2,064	1,723	1,990	2,320	1,820	–	–
International liquidity (US$ m)							
Total reserves	19,091	16,803	14,215	14,524	14,537	–	–
Foreign-exchange reserves	18,769	16,447	13,854	14,121	14,111	–	–
Gold, national valuation	323	356	361	403	426	–	–
Assets with BIS-reporting banks	11,949	12,382	12,555	12,669	14,181	–	–
Liabilities to BIS-reporting banks	2,897	4,086	3,776	3,901	4,047	–	–
Liabilities due within 1 year to BIS-reporting banks	4,329	5,768	6,301	6,280	6,903	–	–
Commercial banks' foreign assets	4,940	7,280	7,657	7,242	7,291	–	–
Commercial banks' foreign liabilities	5,033	6,873	7,287	7,428	7,745	–	–
Commercial banks' net foreign assets	-92	406	370	-186	-454	–	–
IMF credits & loans outstanding	98	84	75	61	58	45	39
Net flow of IMF credits & loans	-7	-13	-6	-12	-6	-13	-6
Banking indicators (D bn)							
Commercial banks' claims on:							
Public sector	170,653	158,080	156,858	202,527	202,241	–	–
Central government	170,653	158,080	156,858	202,527	202,241	–	–
Private sector	1,769,474	1,869,260	1,935,790	2,087,380	2,251,500	–	–
Non-financial private sector	1,769,474	1,869,260	1,935,790	2,087,380	2,251,500	–	–
Lending interest rate (%; av)	10.2	11.0	12.0	13.4	–	–	–
Deposit interest rate (%; av)	7.9	9.5	10.3	11.1	–	–	–
Money market interest rate (%; av)	7.0	8.0	8.0	8.0	8.0	8.7	10.7

Symbols

0, 0.0 *nil or negligible*

– *not applicable or not available*

International assumptions summary

(% unless otherwise indicated)

	2006	2007	2008	2009	2010	2011	2012
Real GDP growth							
World	5.1	5.2	2.7	-0.7	4.4	3.6	4.0
China	12.7	14.2	9.6	9.1	9.9	8.6	8.7
EU27	3.3	3.0	0.5	-4.2	1.5	1.0	1.5
Exchange rates							
¥:US$	116.22	117.78	103.36	93.70	88.24	87.75	86.75
US$:€	1.26	1.37	1.47	1.39	1.30	1.19	1.15
Financial indicators							
¥ 3-month money market rate	0.3	0.7	0.9	0.4	0.2	0.3	1.0
US$ 3-month commercial paper rate	5.0	5.1	2.2	0.3	0.2	0.3	0.7
Commodity prices							
Oil (Brent; US$/b)	65.4	72.7	97.7	61.9	78.0	76.4	81.3
Food, feedstuffs & beverages (% change in US$ terms)	16.1	30.9	28.3	-20.4	6.5	5.2	-4.0
Industrial raw materials (% change in US$ terms)	49.6	11.2	-5.1	-25.6	37.5	5.4	1.4

Note. Regional GDP growth rates weighted using purchasing power parity exchange rates.

Economic structure

	2006[a]	2007[a]	2008[a]	2009[a]	2010[b]	2011[c]	2012[c]
GDP at market prices							
Nominal GDP (US$ bn)	61.0	71.1	90.3	93.2	103.6[a]	109.3	116.1
Nominal GDP (D bn)	974,266	1,143,720	1,485,040	1,658,390	1,981,713[a]	2,306,268	2,625,201
Real GDP (D bn at 1994 prices)	425,373	461,344	490,458	516,568	551,609[a]	586,966	627,769
Expenditure on GDP (% real change)							
GDP	8.2	8.5	6.3	5.3	6.8[a]	6.4	7.0
Private consumption	8.3	10.8	9.3	3.7	7.0	2.9	5.8
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	5.1	7.2
Exports of goods & services	17.7[b]	16.0[b]	15.1[b]	-6.0[b]	15.2	13.4	13.6
Imports of goods & services	18.9[b]	28.2[b]	15.4[b]	-6.3[b]	17.2	9.7	10.2
Origin of GDP (% real change)							
Agriculture	3.4	3.7	4.4	2.4	2.8[a]	3.5	3.4
Industry	10.4	10.6	5.7	5.4	7.7[a]	7.0	8.0
Services	8.3	8.7	7.3	6.8	7.5[a]	7.0	7.3
Ratios, GDP at market prices (%)							
Gross fixed investment/GDP	33.4	38.3	34.6	34.5	33.9	34.2	34.8
Exports of goods & services/GDP	73.6	76.9	77.9	68.3	77.2	91.8	93.4
Imports of goods & services/GDP	78.2	92.7	93.1	78.7	89.6	103.2	104.7
Gross national savings/investment	99.3	77.3	69.9	82.8	86.1	85.7	85.9
Ratios, GDP at factor cost (%)							
Agriculture/GDP	20.4	20.3	22.0	20.9	20.6[a]	20.0	19.4
Industry/GDP	41.5	41.6	39.9	40.2	41.1[a]	41.3	41.7
Services/GDP	38.1	38.1	38.1	38.8	38.3[a]	38.7	38.9
Population and income							
Population (m)	84.4[b]	85.3[b]	86.1[b]	87.0[b]	87.8	88.7	89.5
Labour force (m)	43.6	44.5[b]	45.6[b]	46.5[b]	47.4	48.2	49.2
GDP per head (US$ at PPP)	2,358[b]	2,606[b]	2,803[b]	2,950[b]	3,150	3,371	3,667

[a] Actual. [b] Economist Intelligence Unit estimates. [c] Economist Intelligence Unit forecasts.

Public finances

	2006[a]	2007[a]	2008[a]	2009[a]	2010[a]	2011[b]	2012[b]
Fiscal indicators (D bn)							
Budget revenue	279,472	315,915	416,783	468,795	559,170	634,970	711,582
Budget expenditure	308,058	399,402	494,600	584,695	668,630	745,234	850,069
Budget balance	-28,586	-83,487	-77,817	-115,900	-109,460	-110,264	-138,487
Public debt	417,960[c]	521,536[c]	651,933[c]	826,276[c]	1,130,711[c]	1,290,974	1,454,462
Fiscal indicators (% of GDP)							
Budget revenue	28.7	27.6	28.1	28.3	28.2	27.5	27.1
Budget expenditure	31.6	34.9	33.3	35.3	33.7	32.3	32.4
Budget balance	-2.9	-7.3	-5.2	-7.0	-5.5	-4.8	-5.3
Public debt	42.9[c]	45.6[c]	43.9[c]	49.8[c]	57.1[c]	56.0	55.4

[a] Actual. [b] Economist Intelligence Unit forecasts. [c] Economist Intelligence Unit estimates.

Exchange rates, interest rates and prices

	2006[a]	2007[a]	2008[a]	2009[a]	2010[a]	2011[b]	2012[b]
Exchange rates							
Exchange rate D:US$ (av)	15,981	16,078	16,440	17,800	19,127	21,108	22,620
Exchange rate D:US$ (end-period)	16,055	16,010	17,433	18,472	19,498	21,864	22,867
Exchange rate D:¥100 (av)	13,750	13,651	15,905	18,995	21,765	25,821	27,926
Exchange rate D:¥100 (end period)	13,489	14,332	19,201	19,845	23,612	26,795	28,230
Exchange rate D:€ (av)	20,066	22,005	24,167	24,795	25,358	28,808	29,293
Exchange rate D:€ (end-period)	21,188	23,379	24,234	26,474	26,478	28,861	29,041
Black market exchange rate D:US$ (av)	16,780[c]	16,882[c]	17,591[c]	19,224[c]	20,466[c]	22,586	23,751
Real effective exchange rate (consumer prices)	93.3	93.8	104.2	105.2	101.5[c]	101.0	101.9
Real effective exchange rate (producer prices)	89.9[c]	90.1[c]	97.3[c]	103.9[c]	100.4[c]	94.2	93.1
Real effective exchange rate (unit labour costs)	76.3[c]	74.3[c]	81.4[c]	76.8[c]	74.2[c]	69.4	68.0
Interest rates							
Lending interest rate (%; av)	11.2	11.2	15.8	10.1	13.1[c]	19.0	18.0
Deposit interest rate (%; av)	7.6	7.5	12.7	7.9	11.2[c]	13.4	11.4
Money market interest rate (%; av)	6.5	6.5	10.3	8.0	8.3	14.5	13.5
Money market spread over US T-bills (basis points)	165	203	891	785	811	1,430	1,292
Real money market rate (%; av)	-0.8	-1.7	-11.6	1.0	-0.6	-2.1	2.7
Prices							
Consumer prices (% change; av)	7.4	8.3	23.1	7.0	9.0	16.9	10.4
Consumer prices (% change; end-period)	6.6	12.6	20.0	6.5	11.8	15.9	8.2

[a] Actual. [b] Economist Intelligence Unit forecasts. [c] Economist Intelligence Unit estimates.

Financial sector

	2006[a]	2007[a]	2008[a]	2009[a]	2010[b]	2011[c]	2012[c]
Banking sector (US$ bn)							
Bank loans	32.4	49.7	57.4	75.5	92.5	102.0	116.2
Bank deposits	37.4	57.4	64.4	80.7	94.4	103.0	115.8
Banking assets	56.8	87.2	96.6	117.3	146.4	163.2	188.1
Loans/assets (%)	57.1	57.1	59.4	64.4	63.1	63.7	63.3
Financial sector (US$ bn)							
Total lending by banking & non-banking financial sector	49.8	74.3	86.3	108.0	129.8	144.2	167.2
Total lending to private sector	43.2	66.7	76.8	95.7	115.4	142.4	163.7
Total lending per head (US$)	590	872	1,002	1,242	1,476	1,706	1,989
Total lending/GDP (%)	82.0	104.0	101.3	120.3	127.4	131.2	140.4
Money and credit (D bn)							
Stock of domestic credit	734,391	1,100,080	1,403,750	2,040,050	2,628,859	3,260,514	3,894,587
Domestic credit growth (%)	22.9	49.8	27.6	45.3	28.9	24.0	19.4
Stock of money M1	292,215	435,168	433,318	565,213	575,408	639,646	718,102
Stock of quasi-money	548,796	818,830	1,080,230	1,345,370	1,822,909	2,289,317	2,699,609
Stock of money M2	841,011	1,253,998	1,513,548	1,910,583	2,398,317	2,928,962	3,417,710
M1 (% change)	20.7	48.9	-0.4	30.4	1.8	11.2	12.3
M2 (% change)	29.7	49.1	20.7	26.2	25.5	22.1	16.7

[a] Actual. [b] Economist Intelligence Unit estimates. [c] Economist Intelligence Unit forecasts.

Current account

	2006[a]	2007[a]	2008[a]	2009[a]	2010[b]	2011[c]	2012[c]
Current-account balance (US$ m)	**-164**	**-6,953**	**-10,787**	**-6,117**	**-5,623**	**-6,121**	**-6,178**
Goods: exports fob	39,826	48,561	62,685	57,096	71,893	90,334	96,350
Goods: imports fob	-42,602	-58,999	-75,467	-65,403	-79,548	-98,531	-105,870
Trade balance	**-2,776**	**-10,438**	**-12,782**	**-8,307**	**-7,655**	**-8,198**	**-9,521**
Services: credit	5,100	6,030	7,041	5,656	7,050	7,959	9,144
Services: debit	-5,108	-6,785	-7,956	-6,886	-8,016	-9,334	-10,118
Services balance	**-8**	**-755**	**-915**	**-1,230**	**-966**	**-1,375**	**-974**
Income: credit	668	1,166	1,357	753	512	1,021	1,106
Income: debit	-2,097	-3,356	-5,758	-3,781	-5,098	-5,672	-6,267
Income balance	**-1,429**	**-2,190**	**-4,401**	**-3,028**	**-4,587**	**-4,652**	**-5,161**
Current transfers balance	**4,049**	**6,430**	**7,311**	**6,448**	**7,585**	**8,103**	**9,477**

[a] Actual. [b] Economist Intelligence Unit estimates. [c] Economist Intelligence Unit forecasts.

International liquidity

	2006[a]	2007[a]	2008[a]	2009[a]	2010[b]	2011[c]	2012[c]
Total reserves (US$ m)	**13,591**	**23,748**	**24,176**	**16,803**	**13,280**	**15,730**	**15,989**
Foreign-exchange reserves	13,384	23,479	23,890	16,447	12,855	15,280	15,539
Total reserves (net of IMF credits & loans outstanding)	13,410	23,584	24,055	16,715	13,232	15,721	15,989
Months of import cover	3.4	4.3	3.5	2.8	1.8	1.8	1.7
Commercial banks' foreign assets	6,188	4,981	5,234	7,280	8,213	9,077	9,482
Commercial banks' foreign liabilities	2,045	3,469	5,132	6,873	9,404	10,650	11,538
Commercial banks' net foreign assets	**4,143**	**1,512**	**102**	**406**	**-1,192**	**-1,573**	**-2,056**

[a] Actual. [b] Economist Intelligence Unit estimates. [c] Economist Intelligence Unit forecasts.

Foreign payment and liquidity indicators

	2006[a]	2007[a]	2008[a]	2009[a]	2010[b]	2011[c]	2012[c]
Foreign payment indicators (% of GDP)							
Current-account balance	-0.3	-9.8	-11.9	-6.6	-5.4	-5.6	-5.3
Trade balance	-4.6	-14.7	-14.2	-8.9	-7.4	-7.5	-8.2
Services balance	0.0	-1.1	-1.0	-1.3	-0.9	-1.3	-0.8
Income balance	-2.3	-3.1	-4.9	-3.2	-4.4	-4.3	-4.4
Current transfers balance	6.6	9.0	8.1	6.9	7.3	7.4	8.2
Liquidity indicators (ratios)							
Foreign-exchange reserves/short-term debt	5.3	5.0	5.4	4.2[b]	2.5	2.4	2.2
Foreign-exchange reserves/gross external financing requirement[d]	4.1	2.3	1.5	1.5[b]	1.2	1.3	1.2

[a] Actual. [b] Economist Intelligence Unit estimates. [c] Economist Intelligence Unit forecasts. [d] A minus sign indicates a financing surplus.

External trade

	2006[a]	2007[a]	2008[a]	2009[a]	2010[a]	2011[b]	2012[b]
Main destinations of exports (% share)							
US	19.8	20.9	18.9	19.9	–	–	–
Japan	13.2	12.6	13.6	11.0	–	–	–
China	8.2	7.5	7.2	8.6	–	–	–
Switzerland	0.4	0.5	0.8	4.4	–	–	–
Main origins of imports (% share)							
China	16.6	20.9	19.4	23.5	–	–	–
Japan	10.6	10.2	0.0	10.7	–	–	–
South Korea	8.8	8.8	8.8	10.0	–	–	–
Thailand	6.8	6.2	6.1	6.5	–	–	–
Principal exports (% share)							
Textiles & garments	14.7	16.5	14.8	15.9	15.5	15.0	15.0
Footwear	8.9	8.4	7.5	7.1	7.1	8.0	8.0
Crude oil	20.4	16.8	16.3	10.8	6.9	7.8	7.2
Fisheries products	8.2	7.9	7.2	7.4	6.9	7.5	7.8
Principal imports (% share)							
Machinery, equipment & parts	14.8	15.7	16.8	17.4	15.9	16.3	16.0
Steel	6.8	7.7	7.9	7.6	7.2	7.5	8.0
Refined petroleum	13.9	11.2	12.4	8.8	6.7	9.2	9.2
Materials for textile industry	6.5	6.6	5.3	6.0	6.3	4.2	4.5
Volume and prices (% change)							
Export volume of goods	19.6[c]	16.9[c]	18.9[c]	-6.2[c]	16.2[c]	12.4	12.2
Import volume of goods	20.8[c]	31.3[c]	16.2[c]	-7.3[c]	18.4[c]	10.4	10.7
Export prices	6.4	6.6	22.0	-15.3[c]	10.7[c]	11.8	-7.2
Import prices	2.9	4.5	15.6	-5.2[c]	9.0[c]	11.3	-3.0
Terms of trade (1990=100)	119.5	121.9	128.7	115.0[c]	116.8[c]	117.3	112.2

[a] Actual. [b] Economist Intelligence Unit forecasts. [c] Economist Intelligence Unit estimates.

External financing requirement

	2006[a]	2007[a]	2008[a]	2009[b]	2010[b]	2011[c]	2012[c]
Gross financing requirement (US$ m)	**-3,235**	**-10,096**	**-16,242**	**-11,247**	**-10,287**	**-12,157**	**-13,475**
Current-account balance	-164	-6,953	-10,787	-6,117[a]	-5,623	-6,121	-6,178
Medium- & long-term repayments due (incl IMF debits)	-496	-640	-776	-710	-739	-793	-824
Short-term debt due	-2,575	-2,503	-4,679	-4,419[a]	-3,925	-5,242[b]	-6,473
Financed by:							
Medium- & long-term debt inflows	1,228	1,805	1,854	2,100	3,075	2,405	2,968
Commercial bank loans	0	0	0	0	0	0	0
Officially guaranteed loans	1,228	1,805	1,854	2,100	2,075	2,405	2,718
International bond issues	0	0	0	0	1,000	0	250
IMF credits & loans	0	0	0	0[a]	0[a]	0	0
Short-term borrowing	2,503	4,679	4,419	3,925	5,242	6,473	7,207
Net portfolio investment (net of external bonds)	1,313	6,243	-578	178	2,124	1,739	1,590
Inward portfolio investment (net of external bonds)	1,313	6,243	-578	178	2,124	1,739	1,590
Outward portfolio investment	0	0	0	0	0	0	0
Net direct investment flows	2,315	6,516	9,279	6,900[a]	7,160	9,000	10,920
Inward direct investment	2,400	6,700	9,579	7,600[a]	7,930	9,800	11,800
Outward direct investment	-85	-184	-300	-700[a]	-770	-800	-880
Increase in interest arrears (if any)	2	0	0	0	0	0	0
Increase in principal arrears (if any)	1	0	0	0	0	0	0
Other capital flows (net)	247	1,009	1,696	-9,229	-10,837	-5,010	-8,952
Change in international reserves	-4,375	-10,157	-428	7,373[a]	3,523	-2,450	-259

[a] Actual. [b] Economist Intelligence Unit estimates. [c] Economist Intelligence Unit forecasts.

External debt stock

	2006[a]	2007[a]	2008[a]	2009[b]	2010[b]	2011[c]	2012[c]
External debt stock (US$ m)							
Total	**20,126**	**23,865**	**26,158**	**27,366**	**31,123**	**34,640**	**37,230**
Public medium- & long-term	17,442	19,022	21,618	23,354	25,833	28,159	30,023
Private medium- & long-term	0	0	0	0[a]	0	0	0
IMF	181	164	121	88[a]	48[a]	9	0
Short-term	2,503	4,679	4,419	3,925	5,242	6,473	7,207
Interest arrears	76	49	46	46	46	46	46
Official creditors	74	47	46	46	46	46	46
Private creditors	3	2	0	0	0	0	0
Ratios (%)							
Total debt/exports of goods & services	39.9	39.0	33.4	39.0	35.7	32.2	32.0
Total debt/GDP	33.0	33.5	29.0	29.4	30.0	31.7	32.1
International reserves/total debt	67.5	99.5	92.4	61.4	42.7	45.4	42.9
Debt per head (US$)	238[b]	280[b]	304[b]	315	354	391	416
Net debt							
Total (US$ m)	6,535	117	1,982	10,563	17,843	18,910	21,241
Net debt/exports of goods & services (%)	13.0	0.2	2.5	15.1	20.5	17.6	18.3
Net debt/GDP (%)	10.7	0.2	2.2	11.3	17.2	17.3	18.3
Medium- and long-term debt by lender (US$ m)							
Total	**17,442**	**19,022**	**21,618**	**23,354**	**25,833**	**28,159**	**30,023**
Official creditors	15,456	17,094	19,718	21,515	23,050	25,329	26,974
Bilateral	9,596	9,988	11,741	12,258	12,803	13,675	14,165
Multilateral	5,860	7,106	7,977	9,257	10,248	11,654	12,809
Private creditors	1,986	1,928	1,900	1,839	2,783	2,829	3,049
Memorandum items (US$ m)							
Export credits	68	95[b]	121[b]	105	128	158	170
Principal arrears	1,361	1,142	1,130	1,130	1,110	1,090	1,070
Official creditors	1,355	1,137	1,128	1,128	1,108	1,088	1,068
Private creditors	7	5	2	2	2	2	2
Debt owed to BIS banks (US$ m)							
Total	**6,239**	**11,587**	**11,306**	**13,101**[a]	**–**	**–**	**–**
0-1 year	2,711	4,901	4,785	5,768[a]	–	–	–
1-2 years	272	507	580	742[a]	–	–	–
Over 2 years	2,706	4,431	4,902	5,550[a]	–	–	–

[a] Actual. [b] Economist Intelligence Unit estimates. [c] Economist Intelligence Unit forecasts.

External debt service

	2006[a]	2007[a]	2008[a]	2009[b]	2010[b]	2011[c]	2012[c]
External debt service (US$ m)							
Total paid	949	1,249	1,344	1,114	1,210	1,392	1,530
Medium- & long-term debt service	792	1,028	1,169	1,000	1,097	1,244	1,375
Paid to official creditors	553	774	916	850	954	1,067	1,189
Paid to private creditors	239	254	253	149	143	177	185
IMF debits & charges	34	26	40	40[a]	40[a]	40	14
Short-term debt (interest only)	123	194	135	74	73	108	141
Total due	952	1,249	1,344	1,114	1,210	1,392	1,530
Debt-service ratios (%)							
Debt-service ratio, paid	1.9	2.0	1.7	1.6	1.4	1.3	1.3
Debt-service ratio, due	1.9	2.0	1.7	1.6	1.4	1.3	1.3
Debt service paid/GDP	1.6	1.8	1.5	1.2	1.2	1.3	1.3
Principal repayments (US$ m)							
Total paid	495	640	776	710	739	793	824
Medium- & long-term debt	463	615	736	672	700	754	810
Paid to official creditors	318	474	596	554	591	633	684
Paid to private creditors	145	140	140	118	109	121	126
IMF debits	33	25	39	38[a]	38[a]	39	14
Total due	496	640	776	710	739	793	824
Interest payments (US$ m)							
Total paid	454	609	568	404	471	599	706
Medium- & long-term debt	329	414	433	328	396	490	565
Paid to official creditors	235	300	320	297	363	434	505
Paid to private creditors	94	114	113	31	33	56	60
IMF charges	1	1	1	2[a]	1[a]	1	0
Short-term debt (interest only)	123	194	135	74	73	108	141
Total due	455	609	568	404	471	599	706
Interest payments ratios (%)							
Interest paid/debt service paid	47.8	48.8	42.3	36.2	38.9	43.0	46.1
Interest paid/exports of goods & services	0.9	1.0	0.7	0.6	0.5	0.6	0.6
Interest due/exports of goods & services	0.9	1.0	0.7	0.6	0.5	0.6	0.6
Interest paid/GDP	0.7	0.9	0.6	0.4	0.5	0.5	0.6
Effective maturity and interest rates							
Effective interest rate (%)	2.0	2.4	2.3	1.5	1.7	1.9	2.0
Effective maturity (years)	35.3	28.4	25.8	32.2	33.3	34.3	34.8

[a] Actual. [b] Economist Intelligence Unit estimates. [c] Economist Intelligence Unit forecasts.

Data sources

Current account: IMF, *International Financial Statistics*
Economic structure: General Statistics Office, *Statistical Yearbook*; IMF, *International Financial Statistics*
External debt service: World Bank, *Global Development Finance*
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ISSN 1354-5655

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