
Country Report

Vietnam

May 2011

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Economist Intelligence Unit

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ISSN 1356-403X

Symbols for tables

"0 or 0.0" means nil or negligible; "n/a" means not available; "--" means not applicable

Printed and distributed by IntypeLibra, Units 3/4, Elm Grove Industrial Estate, Wimbledon, SW19 4HE

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Executive summary

Highlights

May 2011

Outlook for 2011-15

- The Communist Party of Vietnam 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 in the Arab world is low.
- 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.
- Real GDP growth will slow this year, to 6.4%, but it will return to an average rate of 7-7.5% a year in the remainder of the forecast period, 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 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 authorities have adopted something of an "arrest first, ask questions later" policy to stamp out the threat of political dissent. There have also been some high-profile legal cases against dissidents in recent months.
- Vietnam appears to be fighting a losing battle to prevent the construction of a hydropower dam project in Laos, which could further disrupt the flow of water into the fertile flood plains of the Mekong delta in southern Vietnam.
- The State Bank of Vietnam (the central bank) has continued to push up policy interest rates. It increased the refinance rate by 100 basis points twice in April, raising it to 14%.
- Although the pace of year-on-year economic growth slowed to 5.4% in the first quarter, industrial output growth remains strong—in January-April it grew by 14% year on year, the same pace of growth recorded in 2010 as a whole.
- The pace of growth in merchandise export revenue has been impressive, but the import bill continues to increase at a fast pace, rising by 29% year on year in January-April, to US\$31.8bn.
- Concerns over the state of the economy continue to be driven by the acceleration in inflation, which reached 17.5% year on year in April.

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, 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 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 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 pres-

sure 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

International assumptions

	2010	2011	2012	2013	2014	2015
Economic growth (%)						
US GDP	2.9	2.9	2.5	2.6	2.6	2.7
OECD GDP	2.9	2.5	2.3	2.4	2.4	2.2
World GDP	3.8	3.2	3.2	3.2	3.2	3.2
World trade	12.5	7.0	6.0	6.1	6.1	5.7
Inflation indicators (% unless otherwise indicated)						
US CPI	1.6	2.3	2.1	2.5	2.8	2.8
OECD CPI	1.4	2.0	1.8	2.0	2.1	2.3
Manufactures (measured in US\$)	3.4	5.1	-0.1	-0.1	1.2	2.3
Oil (Brent; US\$/b)	79.6	101.0	85.0	78.3	75.5	76.0
Non-oil commodities (measured in US\$)	24.3	29.2	-11.5	-5.9	-3.0	-0.3
Financial variables						
US\$ 3-month commercial paper rate (av; %)	0.3	0.3	0.7	1.5	2.7	2.8
¥ 3-month money market rate (av; %)	0.4	0.2	0.4	0.6	1.4	2.0
¥:US\$ (av)	87.88	81.75	81.00	81.00	82.13	83.50

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.

Economic growth

%	2010 ^a	2011 ^b	2012 ^b	2013 ^b	2014 ^b	2015 ^b
GDP	6.8 ^c	6.4	7.0	7.1	7.3	7.2
Private consumption	7.0	2.9	5.8	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	5.1	7.2	8.2	9.1	9.0
Exports of goods & services	15.2	13.4	13.6	12.4	12.2	12.5
Imports of goods & services	17.2	9.7	10.2	11.4	11.8	12.6
Domestic demand	9.0	3.7	4.8	7.3	7.8	7.8
Agriculture	2.8 ^c	3.5	3.4	3.2	3.1	3.3
Industry	7.7 ^c	7.0	8.0	9.0	9.0	9.0
Services	7.5 ^c	7.0	7.3	6.7	7.0	6.7

^a Economist Intelligence Unit estimates. ^b Economist Intelligence Unit forecasts. ^c Actual.

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.

Forecast summary

(% unless otherwise indicated)

	2010 ^a	2011 ^b	2012 ^b	2013 ^b	2014 ^b	2015 ^b
Real GDP growth	6.8	6.4	7.0	7.1	7.3	7.2
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	16.9	10.4	7.9	7.5	6.1
Consumer price inflation (end-period)	11.8	15.9	8.2	7.8	7.5	6.2
Lending rate	13.1 ^c	19.0	18.0	12.0	11.5	11.5
Government balance (% of GDP)	-5.5	-4.8	-5.3	-5.1	-5.0	-5.4
Exports of goods fob (US\$ bn)	71.9 ^c	90.3	96.3	108.2	123.2	142.6
Imports of goods fob (US\$ bn)	79.5 ^c	98.5	105.9	119.9	136.5	156.1
Current-account balance (US\$ bn)	-5.6 ^c	-6.1	-6.2	-7.3	-7.6	-7.3
Current-account balance (% of GDP)	-5.4 ^c	-5.6	-5.3	-5.7	-5.3	-4.5
External debt (end-period; US\$ bn)	31.1 ^c	34.6	37.2	40.6	44.9	50.1
Exchange rate D:US\$ (av)	19,127	21,108	22,620	23,121	23,581	24,082
Exchange rate D:US\$ (end-period)	19,498	21,864	22,867	23,351	23,832	24,333
Exchange rate D:¥100 (av)	21,677	24,055	26,075	26,885	27,420	28,215
Exchange rate D:€ (end-period)	23,982	25,253	26,182	26,620	27,256	27,997

^a Actual. ^b Economist Intelligence Unit forecasts. ^c Economist Intelligence Unit estimates.

Monthly review: May 2011

The political scene

The CPV is growing ever fearful of vocal opponents

The recent surge in inflation remains a political and an economic problem for Vietnam's leadership. Given that the rate of inflation accelerated to 17.5% year on year in April, the ruling Communist Party of Vietnam (CPV) is growing concerned about the possibility that rapidly rising prices and a weak currency will trigger social unrest. These fears appear to have been further exacerbated by the continuing wave of social unrest in some countries with authoritarian regimes in the Middle East and North Africa. The authorities have therefore adopted something of an "arrest first, ask questions later" policy to stamp out the threat of political dissent. There have also been some high-profile legal cases against dissidents in recent months, with the most recent prominent legal action being the trial of Cu Huy Ha Vu, the son of one of Vietnam's best-known revolutionaries, Cu Huy Can, a close associate of the country's founding president, Ho Chi Minh, and who served in the first government after Vietnam's revolutionaries declared independence from France in 1945. In early April Mr Vu was sentenced to seven years in prison having been found guilty of demanding an end to one-party Communist rule, a charge he denied. The presiding judge in the case, Nguyen Huu Chinh, ruled that the defendant's behaviour had been harmful to society. Mr Vu initially rose to prominence after filing a lawsuit against the prime minister, Nguyen Tan Dung, for encouraging Chinese firms to mine for bauxite in Vietnam's pristine Central Highlands region. Environmental activists and Vietnamese nationalists took exception to the mining deal because of the potential ecological damage inflicted by mining for the ore and also because the deal involves Chinese companies. Legal officials dropped Mr Vu's complaint and then blocked a subsequent lawsuit against Mr Dung for allegedly preventing the filing of class action lawsuits.

Officials also appear to be growing more aware of Western criticism of their heavy-handed approach to dealing with dissidents. Mr Vu is just one of several dissidents to have been both arrested and convicted in the past few months, worsening Vietnam's reputation among international human-rights advocates and potentially complicating the pursuit of regional free-trade discussions that include the US. However, a small number of convicted dissidents have seen their sentences reduced recently. The sentence given to a former member of the CPV, Vi Duc Hoi, for allegedly calling for multiparty democracy was cut from eight years to five years after an appeal hearing in Lang Son province, north of the capital, Hanoi. Mr Hoi helped to school top leaders during his time with the CPV but was later expelled from the party for advocating democratic reforms. Meanwhile, two prominent government critics, Le Quoc Quan and Pham Hong Son, were recently released after being arrested outside the court building where the trial of Mr Vu was under way in Hanoi. Initially picked up by police for public-order offences, the critics were released without charge. They could soon find themselves in trouble again, however, as they have said that they are considering taking legal action against police authorities for wrongful detention.

Laos's plans for a dam on the Mekong raises tensions

Vietnam appears to be fighting a losing battle to prevent the construction of the US\$3.5bn Xayaburi hydropower dam project in Laos, which could further disrupt the flow of water into the fertile flood plains of the Mekong delta in southern Vietnam. Salinisation is already affecting the densely populated area, reducing the stock of freshwater fish and inflicting damage on rice-growing land. Environmentalists warn of a major shock to the food security of the entire region if the project goes ahead, affecting not just the millions of people who live in the Mekong delta, but potentially reducing the supply of rice to the global market, too. Some enterprising farmers have switched to farming shrimp instead, but Vietnamese officials have been pressing hard to limit the number of dams on the Mekong, which flows through China, Myanmar, Thailand, Laos and Cambodia before exiting the South China Sea through Vietnam. The government fears that if the project goes ahead, it will set a dangerous precedent for more hydropower projects along the river, especially in Laos, which aspires to use hydropower generation to become "the battery of South-east Asia" and kick-start its poverty-stricken economy. Vietnam's stated goal is a ten-year moratorium on the construction of new dams along the Mekong. The Vietnamese authorities have tried to exert considerable pressure on the Communist-run government in Laos, which is normally fairly pliant when it comes to matters affecting the national interest of Vietnam. But the valuable export market in power-hungry Thailand appears too much for the Lao government to resist.

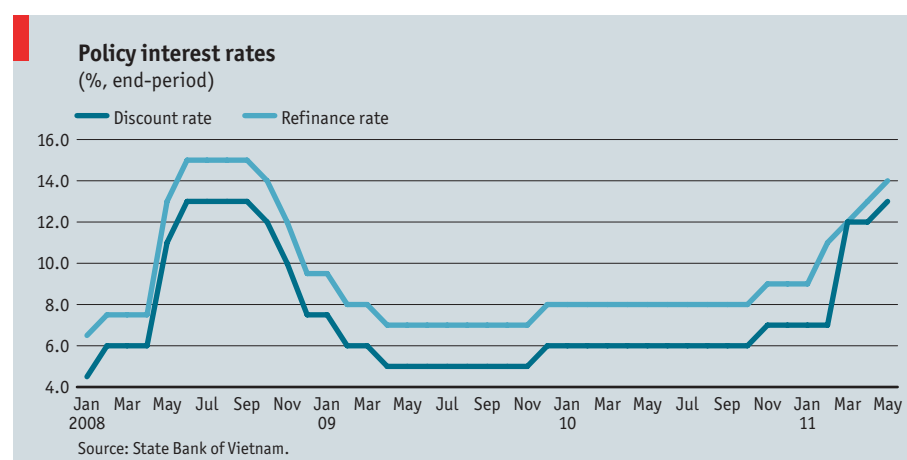
Laos, Thailand, Cambodia and Vietnam held a meeting on the matter in Laos on April 19th at which Vietnam hoped to negotiate some way to stop the Xayaburi dam from going ahead. The government has won some support in the US Congress (that country's legislature), with a US senator, Jim Webb, recently arguing that the project be suspended until the full environmental impact of building dams on the Mekong is better understood. The four countries in the lower Mekong region failed to agree a common stand on the controversy, saying that the discussions would continue at a ministerial level. None of the four countries are able to veto any proposed projects. In the meantime, construction of the 1,285-mw dam continues, with a Thai contractor, Ch Karnchang, stating that it expects to sign a contract to complete construction of the dam, which is expected to begin generating electricity in 2019. There are also plans to build another ten dams along the Mekong, mostly in Laos and Cambodia, in addition to the existing four in the upper reaches of the river in China. Environmental activists say that the Chinese dams have already disrupted water flows downstream, contributing to a significant drought in 2010, which saw water levels in the Mekong dwindle to levels not seen in 50 years.

Economic policy

The SBV tightens policy further, raising rates again

Vietnam's policymakers are now engaged in a scramble to contain domestic inflation without choking off credit to small- and medium-sized businesses (SMEs) that form the backbone of the local economy. It is a difficult balancing act. The rate of inflation hit 17.5% year on year in April—the highest rate since December 2008. Inflationary expectations remain a significant obstacle to the

government's efforts to control the situation, with signs that inflation will surpass 20% in the coming months. The authorities have been using a variety of measures to slow credit growth and increase lending rates in order to help ease inflation. The State Bank of Vietnam (SBV, the central bank) raised the refinance rate by 100 basis points at the beginning of April and also in early May, to reach 14%, and there were further increases of 100 basis points in both the reverse repurchase (repo) rate (to 14%) and the discount rate (to 13%), taking effect in early May. Lending rates, meanwhile, are standing at around the 19-20% level for small businesses—high enough to make many of them scale back expansion plans and deter others from setting up new ventures. To help them, the government has announced that it will defer this year's corporate tax payments for SMEs until 2012. The corporate tax rate is 25%, and the measure applies to firms with fewer than 300 employees or with capital of less than D100bn (US\$4.8m). However, the catch is that companies engaged in real estate, banking, stock trading and providing financial services such as insurance will not be included.



Taken as a whole, the latest series of interest rate rises provide further evidence that Vietnam's leaders are taking the country's inflationary problems seriously. Increasing prices were a major topic of discussion during the CPV's national congress in January, which is held every five years and sets economic policy for the next five years. Although the party's leaders maintained their view that Vietnam needs to maximise its economic growth potential by encouraging private and state-run businesses to expand, they also placed an increasing emphasis on doing so without jeopardising the country's fragile economic balance by triggering an upsurge in inflation. In particular, they fear that quickly rising prices could trigger unpredictable social consequences that could undermine the authority of the CPV; Vietnam already has some experience of this. In 2008, as monthly inflation rates rose, to peak at 28%, a series of strikes rippled around the major industrial zones in Ho Chi Minh City in the south and Hanoi. In some cases, workers who returned to their home provinces to celebrate the Lunar New Year holiday did not return to work because their wages (in real terms) had been so badly eroded.

Vietnam's leaders struggled to get a firm grip on the problem of accelerating inflation in 2007-08 and arguably only managed to avoid a worse situation at the time owing to the onset of the 2008-09 global financial crisis, which tem-

pered the cost of imported products, especially refined oil. A subsequent burst of inflation in 2010 was only partially contained; the government eased off on its monetary tightening when the threat appeared to have subsided in the middle of that year, only to see prices track upwards again. By the time the CPV met in January, inflation had already returned to double-digit growth and the government was also preparing to let fuel and electricity prices rise sharply, as the cost of subsidising them was becoming too onerous.

Economic performance

Growth in industrial output and exports is strong

Although the pace of year-on-year economic growth slowed to 5.4% in the first quarter, industrial output growth remains strong. In January-April industrial output grew by 14.2% year on year—the same pace of growth recorded in 2010 as a whole. Output by private firms and foreign-invested enterprises rose by nearly 17%, offsetting sluggish growth of 5% by the state-owned sector. Output of garments rose by 17.6% year on year, while footwear output grew by 17%. The electrical appliances and white-goods sectors recorded a mixed performance, with production of air-conditioners falling by nearly 7%, refrigerators by 22% and televisions by 1%, while output of washing machines grew by nearly 25%. Meanwhile, the number of motorcycles produced rose by 9% year on year in January-April.

On the expenditure side, the latest data on consumption and investment indicators suggest that the pace of expansion is slowing. According to figures from the General Statistics Office (GSO), total retail sales of consumer goods and services jumped by 22.7% year on year in nominal terms in January-April, with the GSO stating that in real terms sales growth was at 7.7%. In 2010 as a whole the GSO put retail sales growth in real terms at 14%. Meanwhile, macro-economic uncertainty appears to be deterring some investment. While foreign direct investment inflows remained largely unchanged on a year-on-year basis, at US\$3.6bn in the first four months of 2011, applications for fresh investment and new capital for existing projects fell by 48% in the first four months of the year, to just over US\$4bn. The government had earlier projected that new pledges for 2011 as a whole would reach US\$20bn, up from 16% in 2010.

The recovery in the global economy, however, has ensured that demand for Vietnam's merchandise exports has stayed high. In April export revenue rose by 36.9% year on year, to US\$7.3bn, and in the first four months of the year revenue had increased by 35.7%, to US\$26.9bn. Exports of textiles grew by 33% year on year in January-April, to reach US\$3.9bn, while footwear exports rose by 26%, to reach US\$1.7bn. Exports of most other manufactured goods posted healthy growth during the four-month period, notably electronics and computers, which grew by 11%, to US\$1.1bn, and machinery, tools and spare parts, which grew by 23.7%, to reach US\$1.1bn. Commodity exports also performed well, with revenue driven up by high global prices. The value of coffee exports, for example, more than doubled on a year-on-year basis in the period, to US\$1.4bn, while volume was up by 37%. Crude oil exports also grew on a year-on-year basis, rising by 41% to US\$2.5bn, with volume rising by just 2.5%.

Concerns persist over the wide trade deficit and high inflation

Although the pace of growth in export revenue has been impressive, the import bill continues to increase at a fast pace, rising by 29% year on year in the first four months of 2011, to US\$31.8bn. Owing to both rising prices and higher import volume, the bill for imported petroleum products reached US\$3.6bn in the period, representing a year-on-year increase of 64%. Steel imports rose by 17% to US\$2bn, while machinery and equipment imports, the largest import group, were up by 17% in the period, to US\$4.7bn. The bill for imports of electronics, computers and spare parts grew by 29% on a year-on-year basis, to US\$1.8bn. Vietnam's merchandise trade deficit stayed at around US\$1.4bn in April, practically unchanged from the revised level for March, pushing the total for January-April to US\$4.8bn, up from US\$4.5bn in the year-earlier period.

In addition to the widening trade deficit, concerns over the state of the economy continue to be driven by the acceleration in inflation. The GSO has stated that the sharp rise in fuel prices at the beginning of March was the major contributing factor behind the acceleration in inflation in April, but food prices have also soared. In the breakdown of the consumer price index, prices for grains rose by 22.7% year on year and prices for other foodstuffs rose by 26.6%. Prices for drinks and cigarettes rose by 11.5%, while prices for clothing and footwear increased by 11.3% and housing and construction materials by 19%. Meanwhile, transport costs jumped by 16%, and education soared by 24.5%.

Data and charts

Annual data and forecast

	2006 ^a	2007 ^a	2008 ^a	2009 ^a	2010 ^b	2011 ^c	2012 ^c
GDP							
Nominal GDP (US\$ bn)	61.0	71.1	90.3	93.2	103.6 ^a	109.3	116.1
Nominal GDP (D trn)	974.3	1,143.7	1,485.0	1,658.4	1,981.7 ^a	2,306.3	2,625.2
Real GDP growth (%)	8.2	8.5	6.3	5.3	6.8 ^a	6.4	7.0
Expenditure on GDP (% real change)							
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
Population and income							
Population (m)	84.4 ^b	85.3 ^b	86.1 ^b	87.0 ^b	87.8	88.7	89.5
GDP per head (US\$ at PPP)	2,358 ^b	2,606 ^b	2,803 ^b	2,950 ^b	3,150	3,371	3,667
Recorded unemployment (av; %)	4.8	4.6	4.7	4.6	4.4 ^a	4.1	4.1
Fiscal indicators (% of GDP)							
Central government balance	-2.9	-7.3	-5.2	-7.0	-5.5 ^a	-4.8	-5.3
Net public debt	42.9 ^b	45.6 ^b	43.9 ^b	49.8 ^b	57.1	56.0	55.4
Prices and financial indicators							
Exchange rate D:US\$ (end-period)	16,055	16,010	17,433	18,472	19,498 ^a	21,864	22,867
Exchange rate D:€ (end-period)	21,188	23,379	24,234	26,474	26,478 ^a	28,861	29,041
Consumer prices (end-period; %)	6.6	12.6	20.0	6.5	11.8 ^a	15.9	8.2
Stock of money M1 (% change)	20.7	48.9	-0.4	30.4	1.8	11.2	12.3
Stock of money M2 (% change)	29.7	49.1	20.7	26.2	25.5	22.1	16.7
Lending interest rate (av; %)	11.2	11.2	15.8	10.1	13.1	19.0	18.0
Current account (US\$ m)							
Trade balance	-2,776	-10,438	-12,782	-8,307	-7,655	-8,198	-9,521
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
Services balance	-8	-755	-915	-1,230	-966	-1,375	-974
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
Current-account balance	-164	-6,953	-10,787	-6,117	-5,623	-6,121	-6,178
External debt (US\$ m)							
Debt stock	20,126	23,865	26,158	27,366 ^b	31,123	34,640	37,230
Debt service paid	949	1,249	1,344	1,114 ^b	1,210	1,392	1,530
Principal repayments	495	640	776	710 ^b	739	793	824
Interest	454	609	568	404 ^b	471	599	706
International reserves (US\$ m)							
Total international reserves	13,591	23,748	24,176	16,803	13,280	15,730	15,989

^a Actual. ^b Economist Intelligence Unit estimates. ^c Economist Intelligence Unit forecasts.

Source: IMF, *International Financial Statistics*.

Quarterly data

	2009			2010				2011
	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr
Prices								
Consumer prices (2005=100)	151.5	153.6	156.2	162.6	165.1	166.6	173.2	183.4
Consumer prices (% change, year on year)	6.2	2.6	4.6	7.5	9.0	8.4	10.8	12.8
Financial indicators								
Exchange rate D:US\$ (av)	17,785	17,820	18,094	18,742	18,993	19,278	19,495	20,234
Exchange rate D:US\$ (end-period)	17,801	17,841	18,472	19,080	19,065	19,485	19,498	20,908
Deposit rate (av; %)	7.3	7.9	9.5	10.3	11.1	n/a	n/a	n/a
Lending rate (av; %)	9.6	10.2	11.0	12.0	13.4	n/a	n/a	n/a
Refinancing rate (end-period; %)	7.0	7.0	8.0	8.0	8.0	8.0	8.7	10.7
Treasury bill rate (av; %)	7.6	8.4	9.4	11.2	n/a	n/a	n/a	n/a
M1 (end-period; D trn)	507.8	515.5	565.2	520.5	548.3	563.5	n/a	n/a
M1 (% change, year on year)	48.5	60.2	30.4	12.6	8.0	9.3	n/a	n/a
M2 (end-period; D trn)	1,776.0	1,842.3	1,910.6	1,982.4	2,166.6	2,325.0	n/a	n/a
M2 (% change, year on year)	37.1	36.7	26.2	20.5	22.0	26.2	n/a	n/a
Foreign trade (US\$ m)								
Exports fob	13,572	14,026	15,214	14,345	17,961	18,984	20,366	19,386
Imports cif	-17,416	-18,813	-20,865	-17,775	-20,736	-21,232	-24,037	-22,784
Trade balance	-3,844	-4,787	-5,651	-3,430	-2,775	-2,248	-3,671	-3,398
Foreign payments (US\$ m)								
Merchandise trade balance	-2653.0	-3654.0	-4328.0	-2239.0	-1535.0	-733.0	n/a	n/a
Services balance	-28	-498	-472	-149	-103	-354	n/a	n/a
Income balance	-846	-575	-621	-1,430	-763	-1,034	n/a	n/a
Net transfer payments	1,561	1,618	1,721	2,051	1,835	2,170	n/a	n/a
Current-account balance	-1,966	-3,109	-3,700	-1,767	-566	49	n/a	n/a
Reserves excl gold (end-period)	20,260	18,769	16,447	13,854	14,121	14,111	n/a	n/a

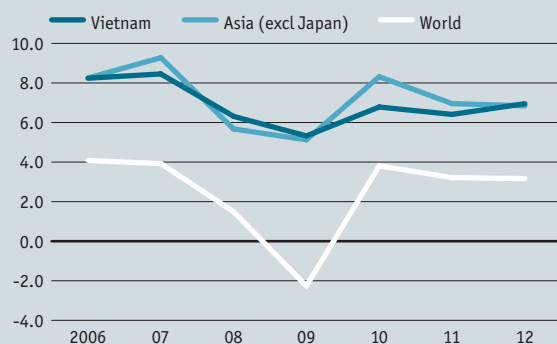
Sources: IMF, *International Financial Statistics*.

Monthly data

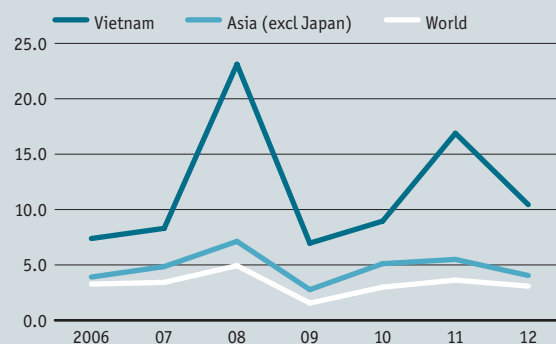
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Exchange rate D:US\$ (av)												
2009	17,463	17,482	17,553	17,776	17,785	17,796	17,809	17,816	17,834	17,852	17,960	18,472
2010	18,472	18,679	19,077	19,011	18,987	18,981	19,086	19,262	19,485	19,491	19,498	19,498
2011	19,498	20,329	20,877	20,845	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Exchange rate D:US\$ (end-period)												
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	20,908	20,625	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Money supply M1 (% change, year on year)												
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
Money supply M2 (% change, year on year)												
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
Deposit rate (av; %)												
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
Lending rate (av; %)												
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
Consumer prices (av; % change, year on year)												
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	13.9	17.5	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Goods exports fob (US\$ m)												
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	4,848	7,447	7,300	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Goods imports cif (US\$ m)												
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	5,960	8,856	8,700	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Trade balance fob-cif (US\$ m)												
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	-1,112	-1,409	-1,400	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Foreign-exchange reserves excl gold (US\$ m)												
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.

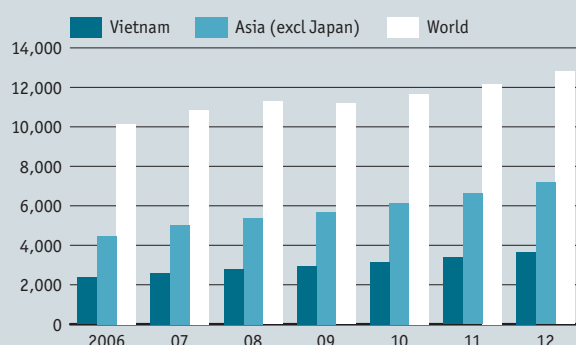
Annual trends charts

Real GDP growth
(% change)


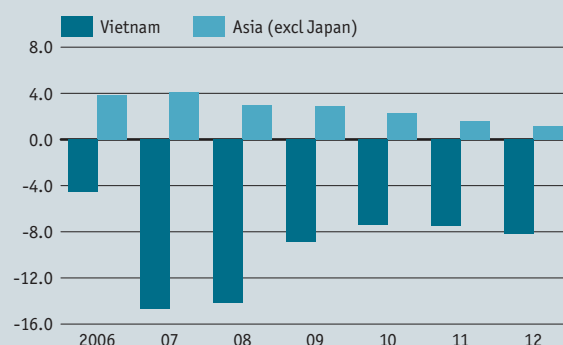
Source: Economist Intelligence Unit.

Consumer price inflation
(av; %)


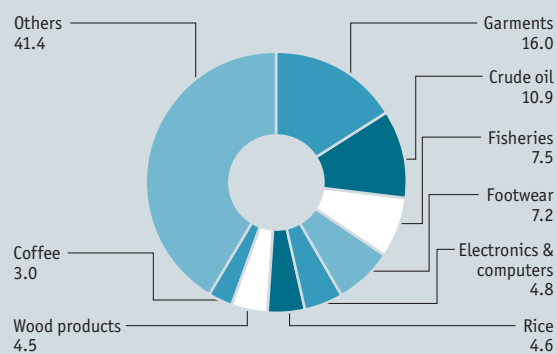
Source: Economist Intelligence Unit.

GDP per head
(US\$, PPP)


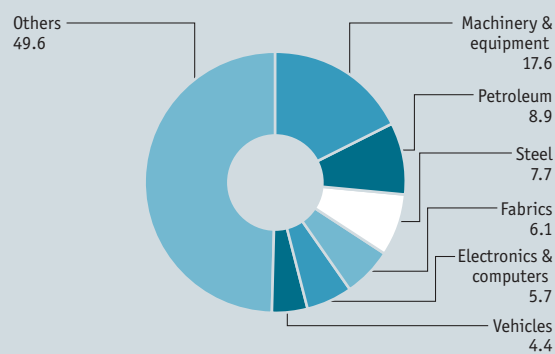
Source: Economist Intelligence Unit.

Trade balance
(% of GDP)


Source: Economist Intelligence Unit.

Main exports, 2009
(% of total)


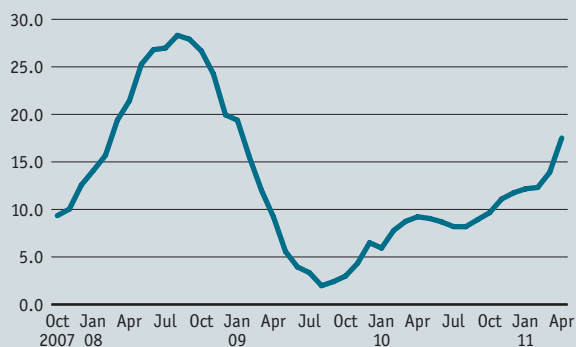
Source: Economist Intelligence Unit.

Main imports, 2009
(% of total)


Source: Economist Intelligence Unit.

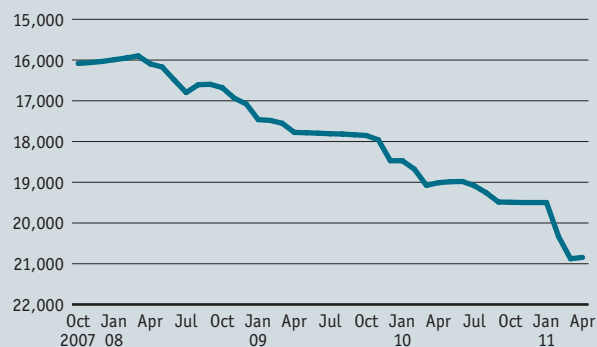
Monthly trends charts

Consumer price inflation
(% change, year on year)



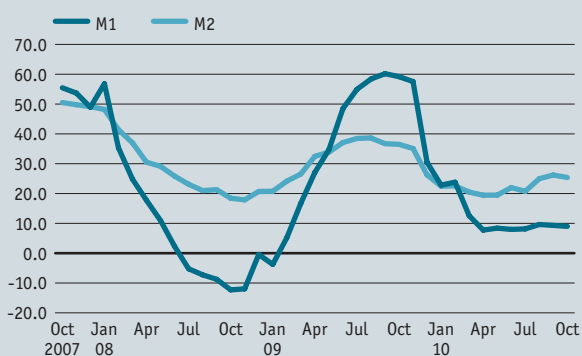
Source: Economist Intelligence Unit.

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



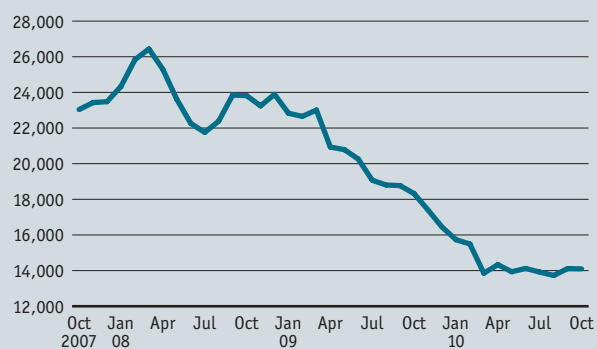
Source: Economist Intelligence Unit.

Monetary aggregates
(% change, year on year)



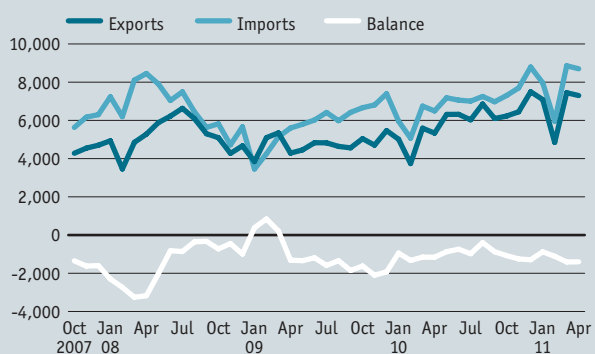
Source: Economist Intelligence Unit.

Foreign-exchange reserves
(US\$ m)



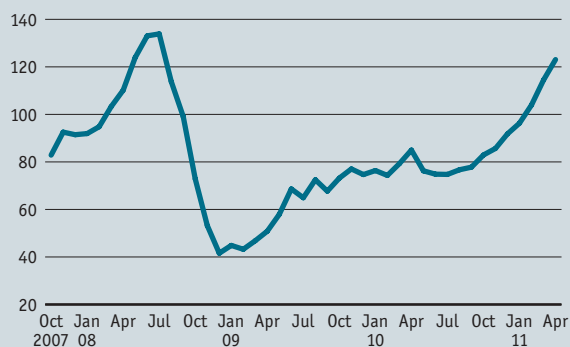
Source: Economist Intelligence Unit.

Foreign trade
(US\$ m; goods only)



Source: Economist Intelligence Unit.

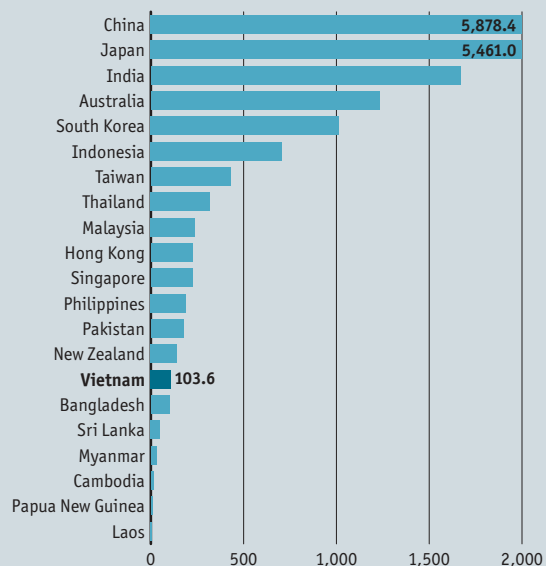
Oil: Brent crude price
(US\$/b; av)



Source: Economist Intelligence Unit.

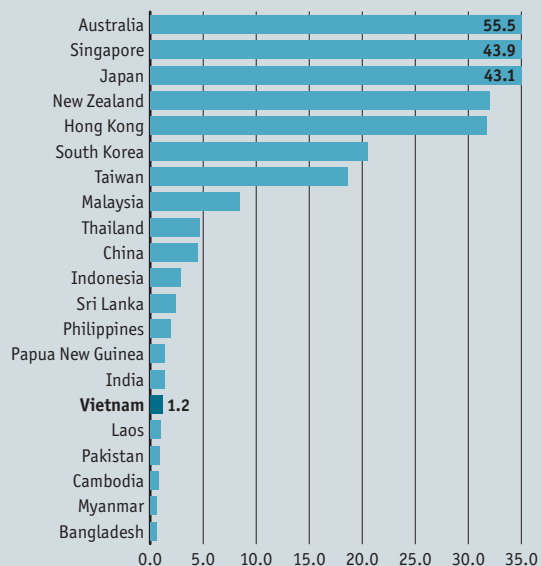
Comparative economic indicators, 2010

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



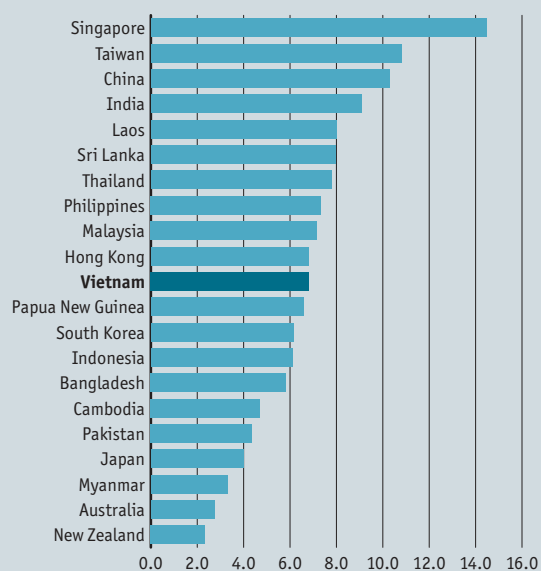
Sources: Economist Intelligence Unit estimates; national sources.

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



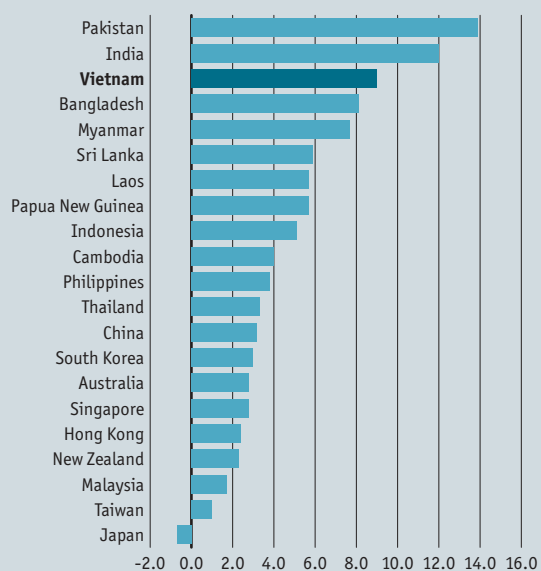
Sources: Economist Intelligence Unit estimates; national sources.

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

Land area	331,051 sq km
Population	86m (2009, General Statistics Office estimate)
Main towns	Population (of province) in '000 (2009)
	Ho Chi Minh City 7,165
	Hanoi (capital) 6,472
	Haiphong 1,842
Climate	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
Weather in Hanoi (altitude 216 metres)	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
Weather in Ho Chi Minh City (altitude 9 metres)	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
Language	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
Weights and measures	Metric system. Local land measurement: 1 mau = 3,600 sq metres (north); 1 mau = 5,000 sq metres (centre)
Currency	Dong (D). Average exchange rate in 2010: D19,127:US\$1
Time	7 hours ahead of GMT
Public holidays	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

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