INTERNATIONAL MONETARY FUND

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VIETNAM

2012 ARTICLE IV CONSULTATION

July 2012

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2012 Article IV consultation with Vietnam, the following documents have been released and are included in this package:

- **Staff Report** for the 2012 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on March 14, 2012, with the officials of Vietnam on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on April 27, 2012. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- **Informational Annex** prepared by the IMF.
- **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- **Staff Statement** of May 24, 2012 updating information on recent developments.
- **Public Information Notice** (PIN) summarizing the views of the Executive Board as expressed during its May 25, 2012 discussion of the staff report that concluded the Article IV consultation.

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

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STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION

April 27, 2012

KEY ISSUES

Macroeconomic situation: As macroeconomic policies were tightened, output growth is slowing; inflation, after peaking in August 2011, is declining rapidly; confidence in the Vietnamese dong has increased; and international reserves are beginning to recover. The credibility of the State Bank of Vietnam rose significantly, but this gain remains fragile.

Financial sector: As credit growth has slowed, vulnerabilities in the financial sector have come to the fore. The authorities have begun to tackle several small weak banks that are experiencing a liquidity squeeze. The Prime Minister recently announced an ambitious reform program for the financial sector over the next few years.

State-owned enterprise (SOE) reform: SOE reform is needed to reduce risks to the financial sector and public finances, and to improve growth prospects in the medium term. The authorities are initiating reform measures, but progress is slow.

Policy recommendations: Staff recommend that, to reinforce the SBV's credibility and ensure that inflation remains on the downward path, further adjustment in monetary policy should be made only cautiously. While some fiscal expansion is projected to arrest a rapid slowdown in 2012, planned public sector wage increases should be partially offset by cuts in other current spending. In the financial sector, quick and comprehensive action to deal with weak banks, as well as deeper reforms in the financial sector will be needed. If downside risks from external factors materialize, there is scope for a somewhat more accommodative fiscal stance, though the authorities should eschew monetary loosening as far as possible.

Medium-term prospects: Growth prospects remain good as Vietnam transitions to middle-income status, if macroeconomic stability is restored and sustained and structural reforms, notably in the financial and SOE sectors, are implemented.

Exchange regime: The de facto exchange rate arrangement is classified as "stabilized," and the de jure exchange rate regime is "floating." Vietnam is an Article VIII member and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions.

Approved By
Masahiko Takeda and Dhaneshwar Ghura

Discussions took place in Hanoi and Ho Chi Minh City from March 1–14, 2012. The staff team comprised Messrs. Miyazaki (head) and Pitt, Ms. Duma (all APD), Ms. Matheson (FAD), Ms. Bhattacharya and Mr. Parker (both MCM). Ms. Budiman and Mr. Poonpatpibul participated in key meetings. Mr. Kalra (Resident Representative) supported the mission.

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BOXES

INTRODUCTION

1. **The economy and financial sector have begun to stabilize, and monetary policy credibility has improved.** Undergirded by tight macroeconomic policies, inflation is receding rapidly, activity is slowing, and the current account deficit has declined sharply. The informal interbank exchange rate has moved within the band around the official rate and investors, both domestic and foreign, are shifting into dong assets, allowing the State Bank of Vietnam (SBV) to increase foreign exchange reserves.

2. **However, significant vulnerabilities remain.** Even as problems in a number of small weak banks are being contained, the process of resolving them, as well as addressing broader weaknesses in the financial sector, is slow. Reform of SOEs is also proceeding slowly.

3. **Stabilization should remain the highest priority.** While much progress has been made, confidence is still nascent and policymakers should err on the side of caution, building policy credibility for the longer run.

RECENT DEVELOPMENTS AND OUTLOOK

A. Stabilization—Restoring Confidence

4. **The economy is slowing as tighter macroeconomic policies are having an effect.**

- ***Output and inflation:*** In Q1 2012, GDP fell by almost 8 percent (q/q annualized, seasonally adjusted), led by construction and mining, and industrial production remained flat (q/q annualized, s.a.). Growth in retail sales slowed to 3¼ percent (q/q annualized s.a.), compared to 13¾ percent in the previous quarter. The number of enterprises that went bankrupt or stopped operation reportedly increased by 6 percent (y/y) in Q1, and there is anecdotal evidence of subdued consumer spending during the Lunar New Year celebrations. Credit growth for 2011, at 14.3 percent (y/y), undershot the SBV's target (of 15–17 percent) and turned negative in Q1 2012 (q/q). Inflation slowed to 10.5 percent y/y) in April, despite increases in administered energy prices (Box 1).[1]

- ***Balance of payments:*** In 2011, the current account deficit narrowed sharply, to 0.5 percent of GDP, notwithstanding an appreciation of the real effective exchange rate (Box 2). Exports rose rapidly, in part because of higher commodity prices, but also due to production from a large foreign-financed investment project coming on stream. Imports, in line with slower demand, remained subdued. In the capital and financial account, direct investment held up well, while portfolio and other flows declined somewhat. Hoarding of gold and foreign exchange by residents outside the financial system, while overall still high in 2011, has begun to decline in Q4.

[1] However, to limit losses for SOEs, increases in fuel prices were accompanied by the reduction to zero of fuel import tariffs. Electricity price rises were insufficient to recover past losses by the state-owned distributor.

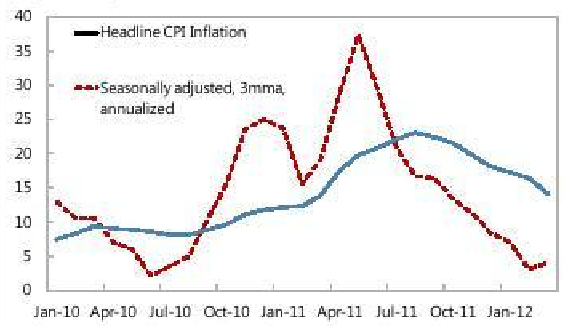
Box 1. Inflation Momentum and the Real Interest Rate[1]

Headline inflation. Vietnam experienced a bout of high inflation in 2011 comparable to 2008. Headline inflation peaked at 23 percent y/y in August 2011, and then declined to 10½ percent in April 2012. In the previous episode, inflation had similarly risen to 28½ percent in August 2008 and then declined rapidly to single digits in a space of about eight months. Both episodes appear to have originated with external shocks, but were exacerbated by loose macroeconomic policies. While the 2008 episode was related to large unsterilized capital inflows in the aftermath of WTO accession, the 2011 episode came in the wake of a large macroeconomic policy stimulus in response to the global financial crisis.

Inflation momentum. Although 12-month inflation is a widely used indicator of inflation, several other measures are useful to gauge inflationary pressures on a rolling basis. For Vietnam, one such measure, seasonally adjusted inflation (three-month moving average, annualized) suggests that the inflation momentum has fallen sharply in recent months. During Q1 2012, seasonally adjusted inflation fell to under 5 percent from a peak of over 37 percent in mid-2011 (earlier than the peak in headline inflation).[2]

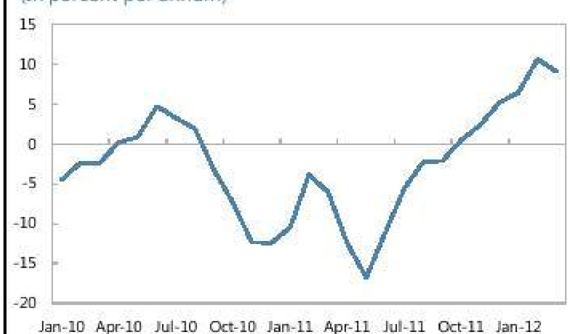
Real interest rate. With high inflation, the real interest rate fell into negative territory in Q3 2010. With the sharp decline in inflation (measured by the above-mentioned inflation momentum indicator), the real interest rate reverted back to positive territory around Q4 2011 and reached around 10 percent in early 2012, a high level by any measure. The SBV's recent rate announcement of cumulative 400 bps rate cuts by end-2012 may be understood in this context. However, further reining in inflation would require, among other factors: (i) supportive steps to limit credit growth by banks; (ii) quickly and decisively addressing problems of weak banks; and (iii) strengthening market confidence in the dong to stabilize inflation expectations.

Headline CPI and Inflation Momentum
(In percent)



Source: IMF staff estimates.

Real Interest Rate
(In percent per annum)



Source: IMF staff estimates.

[1] Prepared by Sanjay Kalra and Van Anh Nguyen (Research Officer, Resident Representative office).

[2] See Nguyen, Nguyen, and Nguyen (2012), Robust Core Inflation Measures for Vietnam, forthcoming. The seasonally adjusted inflation (3mma, annualized) is used as deflator to compute the real interest rate.

Box 2. Exchange Rate Assessment

The dong remained stable in 2011 while the trade balance strengthened. The real effective exchange rate (REER) appreciated by about 11 percent in real effective terms since March, largely reflecting high inflation.

Staff estimates suggest that the dong is broadly in line with fundamentals. The macroeconomic balance approach indicates a current account norm of -1.8 percent of GDP, which implies a small undervaluation of 0.3 to 0.7 percent. The external stability and the equilibrium exchange rate approaches suggest modest overvaluation. Given that the net foreign assets (NFA) used corresponds to the level in 2010, a higher NFA target would imply a higher level of overvaluation.

CGER Assessment of the Dong

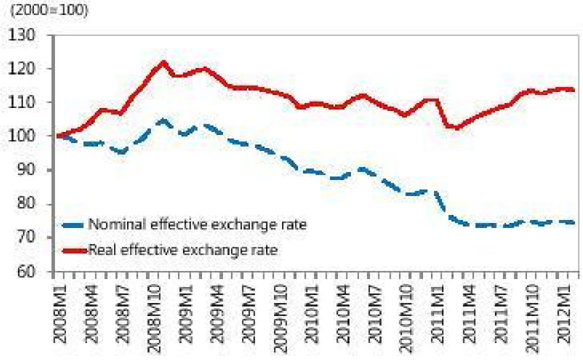
(In percent)

	Estimated Overvaluation
Macro balance	-0.7 to -0.3
External stability	1.6 to 3.7
Equilibrium exchange rate	7.4

Source: IMF staff estimates.

Effective Exchange Rates

(2000=100)



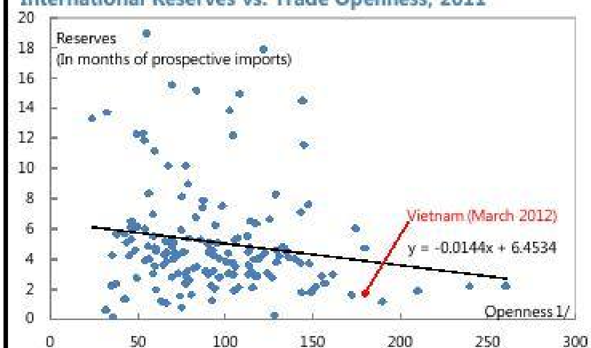
Source: IMF staff estimates.

- ***Foreign exchange market.*** Since the devaluation of the dong in February 2011 and subsequent tightening of monetary policy, the exchange rate has gradually stabilized. International reserves rose through July 2011 before declining again in the latter part of the year, in part due to seasonal reasons. More recently, reserves have again risen rapidly, underpinned by domestic and foreign investors' acquisition of dong assets, which has been driven by attractive yields in combination with increased confidence in the dong. Nonetheless, the level of foreign exchange reserves remains low (Box 3).

Box 3: Reserve Adequacy

Standard measures of reserve adequacy indicate that Vietnam's international reserves are low. At end-2011, coverage of prospective imports is only 1.3 months. Even taking into account Vietnam's very open economy, its reserves are low compared to peers (see figure below). Coverage of external short-term debt, on the other hand, at well over 100 percent, is adequate.

International Reserves vs. Trade Openness, 2011



Source: IMF staff estimates.
1/ Exports + imports of goods and services in percent of GDP.

- ***Fiscal developments.*** Net borrowing declined sharply in 2011, compared to 2010, and is estimated at 2.6 percent of GDP, much lower than the budgeted level of 5 percent of GDP.[2] This estimate is largely attributable to higher-than-budgeted revenues, both on account of the authorities' overly conservative revenue estimates, as well as higher-than-anticipated inflation and oil prices, but also to some rationalization of public investment.

[2] From this report onward, fiscal indicators are presented in accordance with GFSM 2001 definitions.

5. Risks in the financial sector have materialized. After years of rapid credit growth, the tightening of monetary conditions and a decline in asset prices have put a number of small joint-stock banks under intense liquidity pressure. The SBV Governor announced that the aggregate nonperforming loans (NPL) ratio had risen to 3.6 percent in late March. This would likely be higher under loan classification and provisioning rules in line with international best practices.

6. The direction of the authorities' macroeconomic policies during 2011 has been broadly in line with staff advice. However, policies were tightened more slowly and by less than envisaged by staff. Furthermore, the SBV has recently reduced interest rates rather aggressively. Reliance on administrative measures increased rather than declined, though staff recognize that they have been useful in stabilizing the financial sector. On the fiscal side, the better-than-projected outcome in 2011 has been due largely to higher revenue, though investment reduction, both by the budget and by SOEs, was also significant. Some progress was also made in addressing financial sector weaknesses.

B. Outlook and Risks—A Balancing Act

Staff's Views

7. Despite a sharp slowdown in Q1, the economy is projected to stabilize further in 2012. The recent cumulative reduction of policy interest rates by 200 bps and a modest fiscal impulse are expected to cushion adverse effects from slowing domestic demand and the projected slowdown in Europe and Asia. As a result, GDP would continue to grow at 6 percent, while inflation would decline to about 8¼ percent y/y (10¾ percent on average) by year-end, in line with the authorities' target of year-on-year inflation below 10 percent. Further rate cuts in the course of the year have been announced (see below), which could rekindle pressures on prices and the exchange rate, if implemented prematurely. International reserves would increase further from the level reached in March, to around $19 billion by year-end (1.6 months of prospective imports), even as the current account deficit would rise modestly.[3]

8. Exogenous risks to this outlook are relatively modest, but the risk of losing market confidence in the government's policy orientation is substantial. A possible sharper-than-anticipated slowdown in Asian economies in response to a weakening European economy, or severe financial sector turmoil in Europe with global spillovers, would adversely affect Vietnam's performance. On the domestic side, a spillover of liquidity problems in weak banks to the wider system could lead to a credit crunch, loss of confidence in the dong, and renewed inflation (Box 4). However, the probability of these risks materializing is small. A larger risk arises from a potential perception of waning government commitment to stabilizing the economy and safeguarding the financial sector. Maintaining public confidence is critical for the baseline

[3] See Tables 1–6. This scenario reflects the authorities' policies.

scenario outlined above to materialize, and to this end, government policies need to credibly prioritize stability and address weaknesses in the financial sector.

Box 4. Risk Matrix 1/

Likelihood	Shock	Transmission Channel	Affected Sectors (1st round)	Vulnerabilities	Potential Impact
Low	New global financial crisis	Exports, remittances, external financing	Export industries (incl. commodities), SOEs, banks, households	*Banks:* Weak capital base, rising NPLs, but low exposure to int'l capital markets, NFA recovered and financing from non-European sources appears available. *Export industries/SOEs:* Rising share of exports to Emerging Asia (21 percent in 2011). However, much of foreign financing is long-term and relates to project loans.	*High:* Growth and credit slowdown, pressure on exchange rate.
Low	Further slowdown in Europe/Asia	Exports, remittances	Export industries (incl. commodities)		*Medium:* Growth slowdown.
Medium	Deleveraging by European banks	External financing	Financial sector		*Low:* Some credit slowdown.
Low	Domestic systemic banking crisis	Credit crunch	Financial sector	Fragile confidence in financial system and currency	*High:* Credit crunch, pressure on exchange rate, loss of international reserves, fiscal risks.
High	Premature policy loosening	Renewed credit expansion, higher spending	Financial sector, SOEs, real estate and construction	Fragile confidence in financial system and currency	*High:* Loss of confidence: pressure on exchange rate, loss of international reserves.

1/ Assumes no policy response to external shocks.

9. **A debt sustainability analysis indicates that the risk of external debt distress remains low.** While the external debt-to-GDP ratio is projected to decline consistently only from 2016 onward, due to large projected disbursements from the Asian Development Bank, the net present value of external debt remains well below the thresholds set in the debt sustainability framework. Public and publicly guaranteed debt is set to continue to decline gradually from its peak of 54.2 percent of GDP in 2010.

10. **In the medium term, growth needs to derive more from efficiency gains and less from higher factor inputs.** Growth has hitherto been driven to a large extent by investment and domestic consumption, and has been broadly equitable, with poverty rates declining rapidly. However, with Vietnam reaching middle-income status and expecting a slowdown in labor force growth, reforms to enhance productivity—which would reinforce the inclusiveness of growth—will need to complement lasting macroeconomic stability. Reforming SOEs will be an important element in this process.

Authorities' Views

11. **The authorities broadly agreed with the staff's assessment of economic**

conditions and outlook. During the mission, they reaffirmed that reducing inflation remained their foremost policy goal, even as they expressed concern about possible social implications from a further growth slowdown. In his statement on a second interest rate cut in April (see below), the SBV Governor expressed concern about the slowing economy. The SBV is enhancing its effort toward banking sector reforms including through personnel and organizational changes. The authorities also explained that SOE reform was a high priority, but would take time.

POLICY THEME 1: REBUILDING STABILITY

The government's stabilization policies are beginning to bear fruit, but gains made thus far need to be preserved and built on. Priority should be accorded to preserving and adding to hard-won but still nascent credibility, which would lead to a further decline in inflation expectations and reinforce stability in the foreign exchange market. In this context, the SBV's decision to cut policy rates twice in quick succession has surprised market participants, though their response has been calm to date. While they expect further rate cuts over the course of 2012, as announced by the SBV Governor, the timing of the next move would be crucial, because if it is perceived premature, they could interpret the action as evidence for a shift of the policy objective toward growth from low inflation, risking the fruits of the tight policy stance over the past year.

Background

12. **Monetary policy was tightened during 2011 and sustained in early 2012, followed by a quick succession of rate cuts.** In H1 2011, policy rates were raised in several steps, and after a premature cut of the repo rate in July, the SBV raised the refinancing rate in October. In February 2012, it publicly stated that interest rates would not be lowered through Q1. At the same time, it requested banks to lower lending rates and allocate credit to specific sectors, and imposed differentiated credit growth limits based on banks' strength. Enforcement of regulations was generally strengthened, though ceilings on the credit-to-deposit ratio were suspended. The SBV also announced that depreciation of the dong would be limited to a maximum of 2–3 percent during 2012 in the absence of adverse external shocks, and has tightened restrictions in the gold market.

13. **In March 2012, the SBV announced that it would cut policy rates by a cumulative 400 bps in the course of 2012.** The rates were subsequently cut on March 13 and then again on April 10, by 100 bps each time. Also, the deposit rate ceiling was lowered by 100 bps each time, adding pressure on weak banks to seek fundamental solutions. While the two rate cuts came earlier than expected for most market participants, the pace of decline in inflation has also been faster than anticipated. Hence, the market seems to think that these cuts were justified, and expects further cuts down the road.

14. **The SBV has added substantially to its international reserves.** After several months of decline, in the first three months of 2012 gross international reserves rose by $4.3 billion and net international reserves by $4.5 billion, and officials expect further increases in the coming months. The SBV has

also issued about 45 trillion dong of central bank bills since mid-March to mop up liquidity.

15. **On the fiscal side, staff projections indicate an increase in net borrowing by ¾ percent of GDP in 2012.** This implies a slight loosening of the fiscal stance in 2012 from the -1 percent of GDP in 2011, resulting in a fiscal impulse of ½ percent of GDP, which is projected to help avert a slowdown in output growth. This is mainly the result of a significant increase in current expenditure, which is projected to increase total spending by about 1 percentage point of GDP.

A. Monetary and Exchange Policy—Reinforcing Credibility

Staff's Views

16. **Maintaining and enhancing policy credibility is critical.** The cumulative 200 bps interest rate cuts to date may be justified in view of rapidly falling inflation and slowing activity. However, the rapid decline in inflation in recent months owes much to the sharp decline in food prices, and core inflation has been flat, suggesting a risk of resurgence in inflationary pressure, if monetary policy is loosened prematurely and by too much, which would jeopardize the SBV's hard-won credibility as in 2010. Indeed, the authorities should build on the rapid decline in inflation to achieve lower inflation for 2012, well below their original target of "below 10 percent," by aiming at greater deceleration in inflation for the remaining months. To this end, they need to ensure before deciding on further cuts in policy rates that macroeconomic conditions are consistent with such a move, as staff project a stable growth for 2012 with no additional monetary action. Even in the event of exogenous risks materializing (see Box 4), monetary policy should continue to prioritize inflation reduction and confidence rebuilding.

17. **Monetary policy should increasingly rely on market-based instruments.** The use of credit growth ceilings is still warranted to complement interest rate policy, but should be phased out once inflationary pressures are firmly under control and weak banks have been decisively dealt with. Other administrative measures, such as limiting increases in energy prices to contain inflationary pressures, at the cost of losses in key SOEs and/or foregone tax revenues, should be eschewed. In this context, the SBV's operational independence should be further strengthened.

18. **Quickly rebuilding foreign exchange reserves while maintaining stability in the foreign exchange market should be a priority.** This is more urgent in the face of potentially destabilizing capital inflows attracted by high yields. Should there be an erosion of confidence in the dong and depreciation pressures re-emerge, policy rates need to be re-tightened quickly. Should appreciation pressures mount, instead of loosening monetary policy, reserve accumulation should be accelerated. Sales of foreign currency by the SBV should only occur to limit volatility in the foreign exchange market.

19. **In the medium term, the anchor for monetary policy should be simplified.** The simultaneous pursuit of multiple announced objectives limits policy options and necessitates administrative controls. Therefore, the SBV would need to target inflation and international reserves, while letting the exchange rate be determined by

market forces. For this shift not to trigger excessive volatility in the foreign exchange market, a high degree of credibility is required. Therefore, a lengthy period of exchange rate stability would have to precede such a move.

Authorities' Views

20. **The SBV stated that fortifying macroeconomic stability was of paramount importance.** Officials placed priority on reducing inflation to single digits by year-end, and reaffirmed that this goal enjoyed support at the highest political level. They explained that the interest rate cuts in March and April were prompted by slowdown in activity, declining inflation expectations, and weak credit demand. In addition, because credit growth is tightly controlled by the differentiated limits, the SBV argues that the rate cuts would not likely lead to a resurgence of credit-induced inflationary pressures. They also indicated that they planned substantial reserve accumulation over the course of the year. Overall, they felt that increased confidence—which was also reflected in capital inflows—had allowed their recent policy moves.

21. **With regard to exchange rate policy, the authorities reiterated their commitment to limiting depreciation of the dong.** They repeated that a stable exchange rate and an increase in international reserves were a high priority.

B. Fiscal Policy—Supporting Stabilization

Staff's Views

22. **Fiscal policy should be more supportive of macroeconomic stabilization.** The sharp reduction of investment and net borrowing in 2011 is welcome. In 2012, some fiscal expansion is projected given the sharp weakening of the economy in Q1. However, the main factor driving up spending, even as public investment is further reduced, is a planned increase in wages and salaries amounting to about 2 percent of GDP. Staff recognize that high inflation has eroded real remunerations, but consider that, to keep a prudent fiscal stance, other current spending should be contained to the extent possible. This could reduce the increase in net borrowing in 2012 to around ¼ percent of GDP (and all but eliminate the fiscal impulse). Such fiscal discipline could also help mitigate a rise in short-term capital inflows. Only if downward risks to the economy materialize should fiscal policy be loosened beyond staff's recommendation, which would then be broadly in line with current budget plans.

23. **In the medium term, the authorities should ensure that public debt remains on a downward trajectory.** This would serve to enhance fiscal cushions against possible future shocks as well as potential liabilities arising from the financial and state-owned sectors (see below). After peaking in 2010, public and publicly guaranteed debt has begun to decline and is projected to reach 48¼ percent of GDP in 2012, and 42½ percent by 2017. This, however, requires limiting net borrowing to an average of around 2 percent of GDP. In addition, declining oil and trade revenues would need to be compensated for by other sources of taxation (Box 5). In this regard, the authorities' plans for a comprehensive tax reform are welcome.

Authorities' Views

24. The authorities agreed with staff's assessment of the challenges faced by fiscal policy. Ministry of Finance (MoF) officials said that they would seek to build on the fiscal consolidation achieved last year, but explained that the planned wage and salary increases had already been enacted into law. They indicated, however, that they would make efforts to constrain non-wage recurrent spending, as well as increase taxpayer compliance to boost revenues. In this regard, they pointed out that higher wages would support efforts to combat corruption, including in the revenue administration.

25. The authorities are seeking to minimize fiscal costs arising from bank or SOE restructuring. They indicated that the 2012 budget did not contain provisions for assuming nonperforming loans, and that budgetary resources would not be used to restructure SOE debt. This policy, in their view, also limited the need to create fiscal cushions in anticipation of such contingencies, though they broadly agreed with the need to reduce public debt over the medium term.

Box 5. Tax Reform

Vietnam's 10-year budget plan envisions an overall decline in revenues from 26.2 percent of GDP in 2011 to 22½ percent of GDP in 2020, led by a drop in oil and trade revenues, as large offshore oil fields mature and tariffs are reduced under WTO commitments. To partially compensate for this revenue loss, the plan envisages a significant rise in revenues from business taxes (corporate income tax (CIT), royalties, and value-added tax (VAT)) as well as, to a lesser extent, personal income taxes (PIT).

To support this shift, the government has launched a five-year tax reform plan. This envisions broadening the VAT base and narrowing the scope of the lower 5 percent rate, and reducing CIT incentives. It also aims at improving the tax administration to manage the structural shift in revenue composition away from taxes collected at the border and from SOEs, toward those collected directly from private companies and individuals. However, some changes in the five-year plan threaten to undermine domestic revenue: for example, the government currently plans to cut the CIT rate from 25 percent to 22 percent and to eliminate the top rate of the PIT and raise its threshold, which is already high by international standards. Staff recommend that any CIT rate cut be offset by base broadening and that the current PIT threshold be preserved. Also, there is scope to significantly raise nonagricultural land tax (property tax) rates and extend its base to include buildings; increase petroleum excises to raise revenue, and protect the environment; and overhaul natural resource taxation including through the possible introduction of a resource tax.

POLICY THEME 2: RESTRUCTURING THE ECONOMY

Both in the short and medium term, key sectors of the economy will need to be reformed to improve factor allocation and raise productivity growth. In the financial sector, the SBV has contained the threat of small weak banks to the financial system, but a more forceful approach is needed. Beyond that, gaps in the supervisory and bank resolution frameworks, and governance issues in banks, will need to be addressed. Far-reaching SOE restructuring to improve performance on a sustained basis is required to lower contingent fiscal risks, level the playing field in more sectors, boost the economy's productivity, and enable the sector to play the leading role envisaged for it by the government.

Background

26. **Financial market confidence increased but remains tentative.** The authorities have taken action to address vulnerabilities emanating from a number of small weak banks, which account for approximately 7 percent of banking sector deposits. In a first step, the SBV reinforced deposit rate caps to prevent these banks from undermining competitors. Then, in order to stem a bank run late last year, the SBV announced unlimited deposit guarantees, merged three of the small weak banks (with more mergers expected), and provided direct and indirect liquidity support through state-owned commercial banks (SOCBs). Subsequently, it sent special inspection teams to the nine banks classified as weak (which are not allowed to expand credit). The combined assets of these nine banks amount to some six percent of the total banking sector assets. Based on the reports of the inspectors, as well as external audits, the banks will be required to present restructuring and recapitalization plans for the SBV's approval. If the recapitalization plan is deemed inadequate, the SBV may even nationalize the bank. Despite their improvised character, these measures have strengthened the SBV's credibility.

27. **As part of the stabilization strategy announced last year, the authorities have made SOE reform a priority.** Investments have been scaled back, and some SOEs have already sold part of their noncore operations. A broader plan, which includes a substantial reduction in the number of SOEs through listing on the stock market, and the creation of a centralized body to control state holdings in SOEs, is being considered for legislation. An improvement in corporate governance principles is under discussion. The authorities also intend to publish aggregated financial indicators for SOEs.

A. Financial Sector Reform—Cleaning Up

Staff's Views

28. **The government's bank restructuring plan is ambitious; it is now imperative that its provisions are fully utilized** (Box 6). The plan includes important features for dealing with weak banks, such as the possibility of restrictions on dividend payments and dismissing management.[4] It also allows for the resolution of NPLs through sale to the Debt and Asset Trading Corporation (DATC) under the MoF. More broadly, the plan introduces a framework for comprehensive reform of the financial sector, including through strengthening internal controls and management, and limiting control of dominant shareholders. However, the lack of implementation details implies that its application will still be to some extent ad hoc, and the reluctance to close insolvent banks (indeed, the plan makes no real distinction between illiquidity and insolvency) deprives the supervisory authorities of an important coercive tool.

29. **The SBV's steps to contain the problems at weak banks are welcome, but can only be a beginning, and need to be sped up.** Minimizing costs not only to the

[4] Using the management expertise of SOCBs to improve management of small weak banks can be effective, but it appears that in the most recent merger case this expertise is not being used.

Box 6. The Bank Restructuring Plan

On March 1, 2012, the Prime Minister approved the "Scheme for Restructuring the System of Credit Institutions in the Period of 2011–2015." Its objectives include developing the "modern, safe, sound, and efficient" operation of the financial sector compliant with "international banking standards and practices". The plan prescribes specific measures for different types of credit institutions.

State-Owned Commercial Banks

- Develop one to two SOCBs to compete regionally.
- Continue to promote equitization, with the state remaining a dominant share holder.
- Raising capital (including from the government) to meet Basel II requirements by 2015.
- Reduce the NPL ratio to less than 3 percent according to domestic standards.
- Improve risk management systems.
- Restructure and gradually divest from non-financial sector subsidiaries.
- Reduce the credit-to-deposit ratio below 90 percent by 2015.

Commercial Banks

- Classification into three groups based on financial strength (healthy, temporary liquidity shortage, and weak).
- *For healthy banks:* Voluntary consolidation to increase scale and competitiveness. These banks are expected to support weak banks with liquidity or through mergers.
- *For banks with temporary liquidity shortage:* Refinancing by the SBV, while they are strengthening their financial condition, operations, and management under close SBV supervision. The SBV may limit their operations and require higher prudential ratios.
- *For weak banks:* Refinancing by the SBV up to their charter capital under close and comprehensive supervision by the SBV. Purchase of good quality assets by SOCBs and healthy banks. The SBV may also put these banks under special control, limit dividend and other payments, suspend managers, force mergers, and allow foreign institutions to acquire them, or directly inject capital.

The Plan also lists ways to strengthen credit institutions, financially and operationally, which include:

- Sale to the DATC or private firms, conversion to equity, or write-off of bad debts.
- Write-off of bad debts stemming from directed loans through the budget.
- Raise charter capital.
- Reduction of the credit-to-deposit ratio to at most 85 percent by 2015.
- Increase of information disclosure.
- Gradual withdrawal of SOEs' shareholding in the financial sector.
- Limitation of control of dominant shareholders.
- Improvement of qualification of managers and board members.

budget, but to the economy as a whole should be the overarching goal in dealing with small weak banks. Merging them is no solution in itself. Liquidity support by the SBV or SOCBs should be extended only to solvent banks, and any solvency support needs to be accompanied by conditions, including that owners bear first losses. Executive compensation should be restricted where appropriate. Nonperforming assets need to be recognized and disposed of rapidly.

30. **Beyond the current efforts to deal with weak banks, the regulatory and supervisory framework needs to be strengthened at every stage including bank resolution.** This would entail introducing specific and progressive enforcement measures to prevent problems leading to insolvency, as well as a special bank resolution and insolvency regime. At a minimum, this should prevent the possibility of a reversal of the supervisory authorities' decisions by the court system, protect their staff from personal

liability, and strengthen fit and proper criteria for board members and senior managers.

31. **To improve supervision, the regulatory framework needs to be strengthened and better enforced.** Prudential rules, such as for loan classification and provisioning, should be aligned with international best practices. Better enforcement also requires raising the capacity of the supervisory authorities. For this, staff need to be adequately trained, including to collect, compile, and analyze data provided by banks but also to conduct effective onsite supervision. Moreover, to reduce turnover and retain talent, staff should be adequately compensated and receive political backing.

Authorities' Views

32. **The SBV agreed with the need for forceful action on weak banks.** Officials pointed out that their timetable was tight, and underscored their willingness to take over banks that did not submit adequate restructuring and recapitalization plans, or where owners were unwilling or unable to provide new capital and/or attract other investors. With regard to NPLs, the authorities acknowledged that they had as yet no reliable estimate of their magnitude, but indicated that the DATC's capacity would be increased. In any event, they considered that additional resources would not be needed in 2012, and expected that much of the nonperforming real estate assets (which constitute the bulk of NPLs) could be sold in the market over the course of the next two years.

B. SOE Reform—Raising Performance

Staff's Views

33. **SOE reform is essential to reduce risks to the economy.** In the short term, reducing inefficient investments would help control inflation and improve asset quality at some banks. Also, divestments to focus SOEs on their core businesses are welcome. However, the lack of information on SOEs' financial position is posing a threat to the financial system, as well as, ultimately, the public fiscal position.

34. **Reforming SOEs is also critical for longer-term growth prospects.** There is evidence that SOEs have been using capital and labor inputs much less efficiently than the private sector. For SOEs to play a productive role in the economy, their performance needs to be strengthened on a sustained basis. This requires decisive measures beyond planned equitization and/or privatization of minority stakes, such as those that raise standards of accountability, transparency (including through better accounting and stronger oversight by the state), and financial discipline (including through the remittance of profits to the owner). In the recently conducted World Bank survey, overwhelming majority responded that improving transparency and accelerating equitization were the most effective reform measures. Against this backdrop, the World Bank and other donors are urging the government to advance reorganization and restructuring of SOEs by dividing them into three groups: those that should be equitized immediately, those that need to be restructured first before equitization, and those that should remain fully owned by the state. They are also advocating improvement in corporate governance.

Authorities' Views

35. **The authorities broadly agreed with staff's assessment of the SOE sector and the required remedies.** Officials at the Ministry of Finance and the Ministry of Planning and Investment recognized the urgency of reforms and agreed that improved accountability and supervision would have to be part of the reform strategy. However, they pointed out that such reforms would take time, as they had to compile more comprehensive information on financial performance and debts of SOEs. They also acknowledged that a restructuring of SOE debt was being discussed, but ruled out using budgetary resources.

OTHER ISSUES

36. **Data analysis in the financial sector should be improved.** In particular, the authorities should compute high-frequency financial soundness indicators, for all banks as well as on an aggregate basis, on a regular (at least quarterly) basis. This is especially important for the upcoming assessment under the FSAP.

37. **Vietnam's AML/CFT framework should be enhanced.** In October 2010, Vietnam was identified—alongside other countries—by the Financial Action Task Force (FATF) as having "strategic AML/CFT deficiencies." The authorities initiated an action plan to address these deficiencies. While significant progress has been made, it was not deemed sufficient by the FATF, and there are outstanding issues, mainly regarding the criminalization of money laundering, the freezing of terrorist assets, customer due diligence measures, and international cooperation. The next FATF review of the progress made is scheduled for June.

STAFF APPRAISAL

38. **The authorities made significant strides in stabilizing the economy, but hard-won confidence is still fragile.** They tightened monetary and fiscal policy, and restrained investment by both the state and SOEs. At the same time, a start has been made to address banking sector vulnerabilities, and SOE reform is being prepared. As a consequence, inflation and inflation expectations have declined, confidence in the dong has increased, the exchange rate has stabilized, and international reserves have begun to recover.

39. **The SBV needs to maintain and build on gains in monetary policy credibility.** While the recent rate cuts in quick succession were justified in light of rapidly falling inflation and a weak economy, there is a risk of eroding market confidence and triggering renewed pressure on prices and the exchange rate if further rate cuts are implemented too rapidly and the authorities are perceived as again prioritizing growth. Instead, the authorities should seize the opportunity to bolster their credibility by aiming for inflation well below their original target of below 10 percent, rebuild international reserves further, and accept

somewhat slower economic growth. Thus, the SBV should err on the side of caution, and be prepared to delay rate cuts depending on developments in the course of the year.

40. **Going forward, monetary and exchange policies should rely less on administrative measures.** While credit growth and deposit rate ceilings can be useful in the current situation, it is strong supervision of the financial sector that should ensure that banks' lending decisions remain prudent. In the gold and foreign exchange markets, administrative measures cannot replace fundamental trust in the domestic currency.

41. **Fiscal policy should support macroeconomic stabilization and build cushions against contingent liabilities.** While further rationalization of public investment is welcome, the planned increase in the wage bill raises current spending significantly. Staff appreciate the need to compensate for the erosion of real wages due to high inflation, but to keep a prudent fiscal stance and to help contain inflationary pressures, this increase should be partially offset by cuts in other current spending to the extent possible.

42. **Should risks to the outlook materialize, care will need to be taken that stability gains are not jeopardized.** To this end, monetary policy would need to continue to focus on reducing inflation, while fiscal policy could be loosened moderately.

43. **Financial sector restructuring needs to move forward rapidly.** Market participants expect further steps, and maintenance of confidence depends on quick action by the authorities. In a first step, small weak banks need to be dealt with forcefully, including by forcing them to recognize NPLs, imposing strict conditions for liquidity support, and closing insolvent banks. In addition, the bank restructuring framework should be strengthened to prevent a recurrence of similar problems. More broadly, the legal framework for supervision, as well as its enforcement, need to be strengthened.

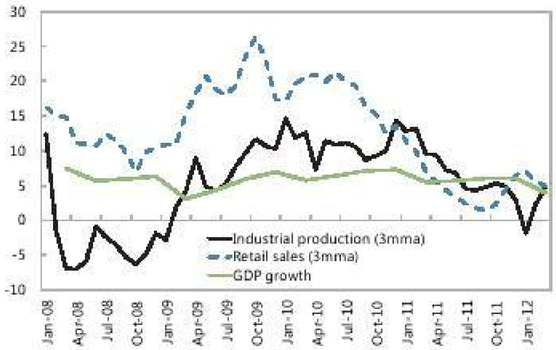
44. **SOE reform is critical.** The planned equitization and privatization of a large number of SOEs is welcome. However, oversight, accountability, and financial discipline of the remaining SOEs need to be raised, both to reduce risks to the financial sector and public finances, as well as to lay the foundations for continued strong economic performance in the medium term.

45. It is recommended that the next Article IV consultation be held on the standard 12-month cycle.

Figure 1. Slowdown

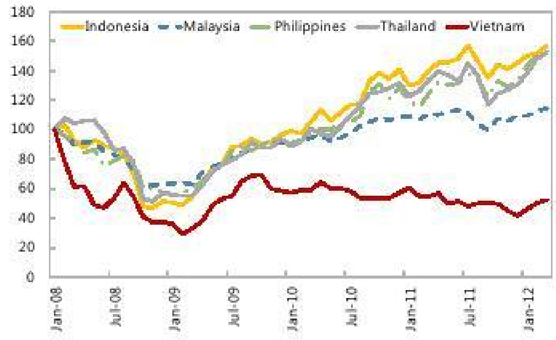
Growth has decelerated ...

GDP Growth
(Year-on year pecent change)



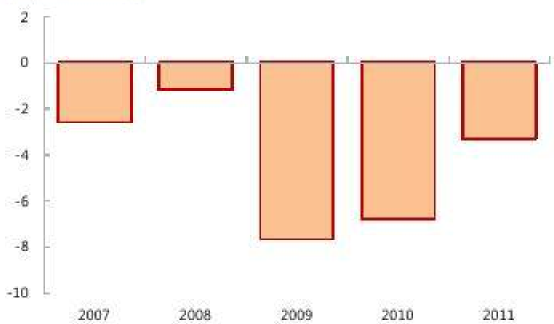
... and the stock market declined.

Stock Market Performance
(Index, January 2008=100)



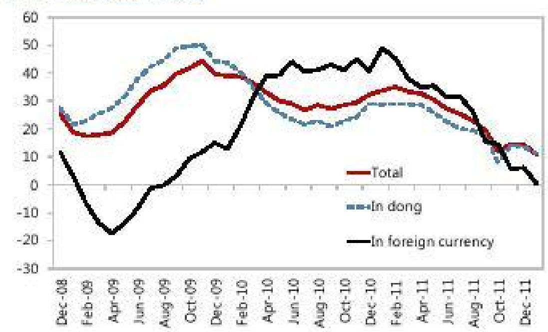
The fiscal deficit has been reduced ...

Fiscal Balance
(In percent of GDP)



... and credit growth slowed down ...

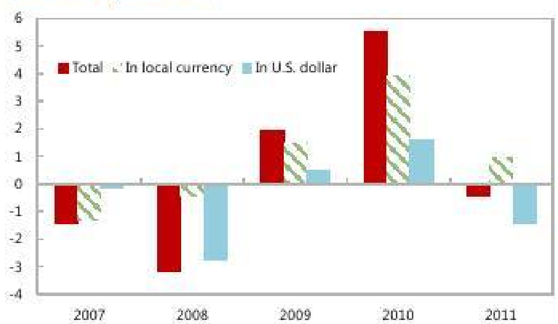
Credit to the Economy
(Year-on-year percent change)



Sources: Authorities, and IMF calculations.

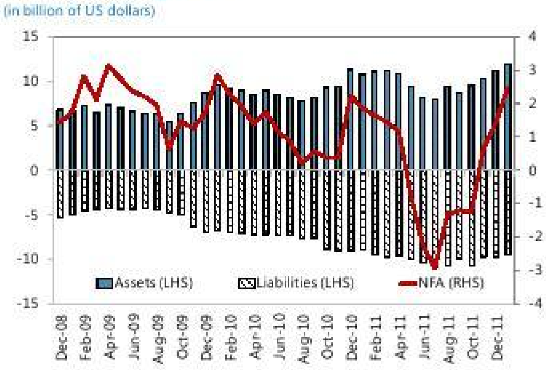
...as the SBV withdrew credit from banks, ...

SBV Net Credit to Banks
(Annual flow, in percent of GDP)



... which rebuilt their foreign position.

Banks' Net Foreign Assets
(in billion of US dollars)

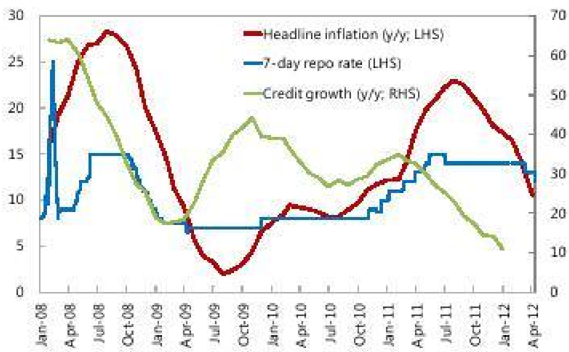


Sources: Authorities; Bloomberg LP; and IMF staff estimates.

Figure 2. Stabilization and Confidence Building

Inflation is declining rapidly ...

Inflation and Repo Rate
(Percent)

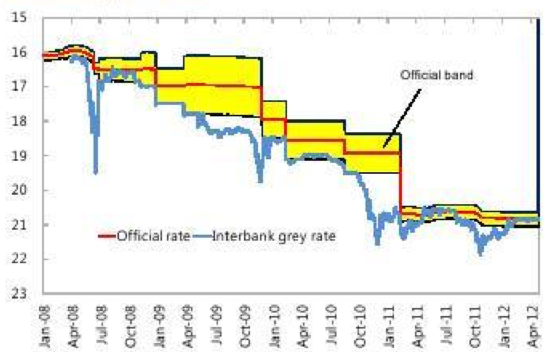


... but competitiveness gains have been eroded ...

Real Effective Exchange Rates
(Index, April 2008=100)

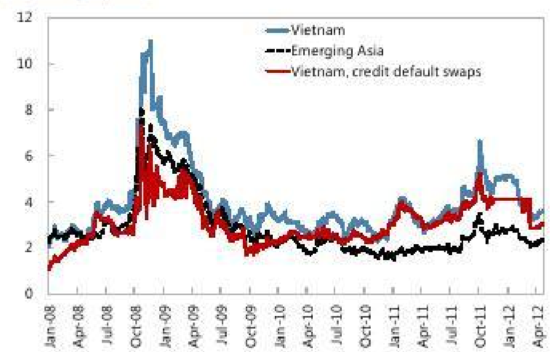
... as the exchange rate has stabilized.

Exchange Rates
(Thousand dong per U.S. dollar)



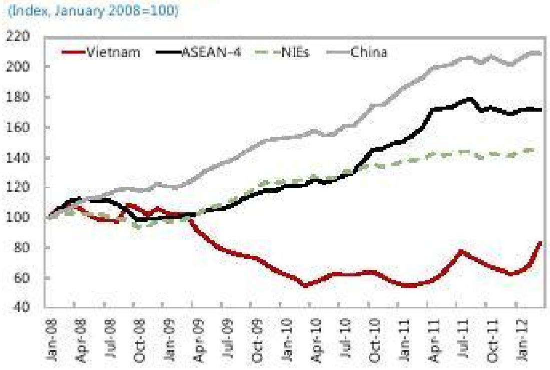
Spreads came down from their peaks ...

Sovereign Bond Spreads
(In percentage points)



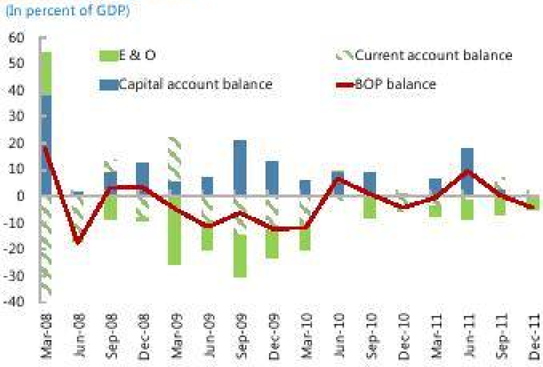
... and reserves are beginning to recover ...

International Reserves
(Index, January 2008=100)



... supported by an improving BOP.

Balance of Payments
(In percent of GDP)



Sources: Authorities; Bloomberg LP; and IMF staff estimates

Table 1. Selected Economic Indicators, 2008–13

	2008	2009	2010	Est. 2011	Projections 2012	Projections 2013
Output						
Real GDP (percent change)	6.3	5.3	6.8	5.9	6.0	6.3
Saving and investment (in percent of GDP)						
Gross national saving	27.8	31.6	34.9	29.3	33.5	33.1
Private	20.8	26.8	30.0	24.4	30.0	29.3
Public	7.0	4.7	4.9	5.0	3.5	3.7
Gross investment	39.7	38.1	39.0	29.9	34.3	33.8
Private	30.5	24.6	27.9	21.4	26.8	26.6
Public	9.2	13.6	11.2	8.5	7.5	7.2
Prices (percent change)						
CPI (period average)	23.1	6.7	9.2	18.7	10.8	7.4
CPI (end of period)	19.9	6.5	11.7	18.1	8.2	6.0
Core inflation (end of period)	16.3	6.1	8.8	12.7	...	...
General government finances (in percent of GDP) 1/						
Revenue and grants	28.9	27.3	27.8	27.8	27.9	27.7
Of which: Oil revenue	6.0	3.7	3.5	4.4	3.9	3.6
Expenditure	29.4	34.5	33.1	30.3	31.3	30.3
Expense	20.3	21.0	21.9	22.0	23.9	23.1
Net acquisition of non-financial assets	9.1	13.4	11.2	8.4	7.5	7.2
Net lending (+)/borrowing(-) 2/	-0.5	-7.2	-5.2	-2.6	-3.4	-2.6
Public and publicly guaranteed debt (end of period)	42.9	51.2	54.2	48.3	48.2	46.6
Money and credit (percent change, end of period)						
Broad money (M2)	20.3	29.0	33.3	12.1	21.6	18.1
Credit to the economy	25.4	39.6	32.4	14.3	16.8	14.4
Interest rates (in percent, end of period)						
Nominal three-month deposit rate (households)	8.1	10.7	11.6	14.9	...	...
Nominal short-term lending rate (less than one year)	11.5	12.7	14.0	16.4	...	...
Balance of payments (in percent of GDP, unless otherwise indicated)						
Current account balance (including official transfers)	-11.9	-6.6	-4.1	-0.5	-0.8	-0.7
Exports f.o.b.	69.4	61.3	69.7	79.0	81.7	84.2
Imports f.o.b.	83.6	70.2	74.7	79.3	83.5	86.2
Capital and financial account	14.0	12.2	4.4	3.0	4.1	3.5
Gross international reserves (in billions of U.S. dollars, end of period) 3/	23.0	14.1	12.4	13.5	19.0	25.7
In months of prospective GNFS imports	3.8	1.9	1.4	1.3	1.6	1.9
Total external debt (end of period) 4/	32.4	41.6	43.8	40.9	41.0	40.4
Nominal exchange rate (dong/U.S. dollar, end of period)	17,483	18,479	19,498	21,034	...	...
Nominal effective exchange rate (end of period)	92.0	80.8	81.0	67.5	...	...
Real effective exchange rate (end of period)	125.7	115.8	117.0	121.3	...	...
Memorandum items:						
GDP (in trillions of dong at current market prices)	1,485	1,658	1,981	2,535	2,927	3,336
GDP (in billions of U.S. dollars)	90.3	93.2	103.6	122.7	135.8	148.8
Per capita GDP (in U.S. dollars)	1,048	1,068	1,174	1,374	1,502	1,627

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

1/ Follows the format of the *Government Finance Statistics Manual* for 2001.

2/ Excludes net lending of the Vietnam Development Bank.

3/ Excludes government deposits.

4/ Uses interbank exchange rate.

Table 2. Balance of Payments, 2008–13 /1

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

				Estimate	Projection	
	2008	2009	2010	2011	2012	2013
Current account balance	-10.8	-6.1	-4.3	-0.7	-1.1	-1.1
Trade balance	-12.8	-8.3	-5.1	-0.4	-2.4	-3.0
Exports, f.o.b.	62.7	57.1	72.2	96.9	111.0	125.2
Imports, f.o.b.	75.5	65.4	77.3	97.4	113.4	128.3
Nonfactor services	-0.9	-1.2	-2.5	-3.0	-0.8	-0.6
Receipts	7.0	5.7	7.5	8.9	10.3	11.6
Payments	8.0	6.9	9.9	11.9	11.1	12.2
Investment income	-4.4	-3.0	-4.6	-5.1	-6.3	-6.5
Receipts	1.4	0.8	0.5	0.4	0.3	0.3
Payments	5.8	3.8	5.0	5.4	6.6	6.8
Transfers	7.3	6.4	7.9	7.9	8.4	9.1
Private (net)	6.8	6.0	7.6	7.6	8.1	8.8
Official (net)	0.5	0.4	0.3	0.3	0.3	0.2
Capital and financial account balance	12.3	11.3	6.9	5.4	8.0	7.8
Direct investment (net)	9.3	6.9	7.1	7.3	7.3	7.3
Of which: Foreign direct investment in Vietnam	9.6	7.6	8.0	8.2	8.2	8.2
Portfolio investment	-0.6	-0.1	2.4	1.4	2.0	2.1
Of which: Sovereign bond issuance	0.0	0.0	1.0	…	…	…
Medium- and long-term loans	1.0	4.5	3.4	2.0	2.2	2.0
Disbursements	2.4	6.1	5.4	4.7	5.1	4.7
Amortization	1.4	1.7	1.9	2.7	2.9	2.8
Short-term capital	2.6	0.0	-6.0	-5.2	-3.5	-3.5
Net foreign assets of commercial banks	0.7	-0.3	-7.1	-6.8	-4.1	-4.1
Trade credit (net)	2.0	0.3	1.0	1.6	0.6	0.6
Errors and omissions	-1.1	-13.3	-3.7	-3.6	-1.4	0.0
Overall balance	0.5	-8.2	-1.1	1.1	5.5	6.7
Memorandum items:						
Gross international reserves 2/	23.0	14.1	12.4	13.5	19.0	25.7
In months of prospective GNFS imports	3.8	1.9	1.4	1.3	1.6	1.9
Current account balance (in percent of GDP)	-11.9	-6.6	-4.1	-0.5	-0.8	-0.7
Capital and financial account balance (in percent of GD	13.7	12.1	6.6	4.4	5.9	5.3
Direct investment (in percent of GDP)	10.3	7.4	6.9	5.9	5.4	4.9
Non-oil current account balance (in percent of GDP)	-10.9	-5.9	-2.3	2.6	1.2	1.2
Trade balance (in percent of GDP)	-14.2	-8.9	-5.0	-0.4	-1.8	-2.1
Export value (percent change)	29.1	-8.9	26.4	34.2	14.5	12.9
Import value (percent change)	28.1	-13.3	18.3	25.9	16.5	13.2
External debt	27.5	37.3	44.5	49.3	54.3	59.2
In percent of GDP 3/	32.4	41.6	43.8	40.9	41.3	40.6
GDP	90.3	93.2	103.6	122.7	134.9	148.0

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

1/ Data up to 2009 reflect an old presentation; from 2010, part of errors and omissions began to be reflected in net foreign assets.

2/ Excludes government deposits; data for 2009 include the SDR allocation of SDR 267.1 million.

3/ Uses interbank exchange rate.

Table 3. General Government Budgetary Operations, 2008–13 1/

	2008	2009	Est. 2010	Est. 2011	Budg. 2/ 2012	Proj. 2012	Proj. 2013
			In trillions of dong				
Revenue	430	453	552	704	741	816	925
Tax revenue	363	373	477	615	681	736	834
Oil revenues	90	61	69	111	87	115	122
Non-oil tax revenues	274	312	408	504	594	621	713
Grants	9	8	5	7	5	5	5
Other revenue	57	72	69	82	55	75	85
Expenditure	437	572	655	769	917	917	1,010
Expense	302	349	434	557	688	698	771
Interest	17	20	25	37	47	47	42
Other expense	285	329	409	520	641	652	729
Net acquisition of non-financial assets	136	223	221	212	229	218	239
Net lending(+)/borrowing(-)	-8	-119	-103	-65	-176	-101	-86
Net incurrence of financial liabilities	61	138	142	70	197	121	110
Net acquisition of financial assets	-28	18	-39	-5	-20	-20	-24
Of which: Deposits	-11	42	0	10	...	...	...
			In percent of GDP, unless otherwise indicated				
Revenue	28.9	27.3	27.8	27.8	25.3	27.9	27.7
Tax revenue	24.5	22.5	24.1	24.2	23.3	25.2	25.0
Oil revenues	6.0	3.7	3.5	4.4	3.0	3.9	3.6
Non-oil tax revenues	18.4	18.8	20.6	19.9	20.3	21.2	21.4
Grants	0.6	0.5	0.3	0.3	0.2	0.2	0.1
Other revenue	3.8	4.3	3.5	3.2	1.9	2.6	2.6
Expenditure	29.4	34.5	33.1	30.3	31.3	31.3	30.3
Expense	20.3	21.0	21.9	22.0	23.5	23.9	23.1
Interest	1.1	1.2	1.3	1.4	1.6	1.6	1.3
Other expense	19.2	19.8	20.6	20.5	21.9	22.3	21.8
Net acquisition of non-financial assets	9.1	13.4	11.2	8.4	7.8	7.5	7.2
Net lending(+)/borrowing(-)	-0.5	-7.2	-5.2	-2.6	-6.0	-3.4	-2.6
Net incurrence of financial liabilities	4.1	8.3	7.1	2.8	6.7	4.1	3.3
Net acquisition of financial assets	-1.9	1.1	-2.0	-0.2	-0.7	-0.7	-0.7
Of which: Deposits	-0.8	2.6	0.0	0.4	...	...	...
Memorandum items:							
Public and publicly guaranteed debt	42.9	51.2	54.2	48.3	...	48.2	46.6
Net ODA onlending	0.6	0.5	1.6	0.6	...	0.7	0.7
Non-oil primary balance	-5.4	-9.6	-7.4	-5.5	...	-5.8	-5.0
Cyclically-adjusted NOPB (in percent of potential GDP)	-5.5	-8.9	-7.3	-5.4	...	-5.4	-4.6
Fiscal stance	0.0	-1.8	3.0	-1.1	...	-0.6	...
Fiscal impulse	2.8	-1.7	-1.0	-4.2	...	0.5	...
Nominal GDP (in trillions of dong)	1,485	1,658	1,981	2,535	2,927	2,927	3,336

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

1/ Government Finance Statistics 2001 presentation.

2/ Budget data include amounts allocated for contingency.

Table 4. Government Balance Sheet, 2008–13

	2008				2009			Estimate 2010			Estimate 2011	Projection 2012	Projection 2013
	Opening Balance	Transactions	Other 1/	Closing Balance	Transactions	Other 1/	Closing Balance	Transactions	Other 1/	Closing Balance	Closing Balance	Closing Balance	Closing Balance
						In trillions of dong							
Net financial worth	-250	-33	-22	-305	-156	-21	-482	-102	-31	-616	-735	-870	-980
Financial assets	160	28	0	188	-18	0	170	39	0	209	214	235	259
Domestic	160	28	0	188	-18	0	170	39	0	209	214	235	259
Currency and deposits	97	15	-4	108	-42	-1	65	-2	2	65	56	56	56
Loans	63	13	4	80	24	1	105	41	-2	144	159	179	204
Foreign	0	0	0	0	0	0	0	0	0	0	0	0	0
Liabilities	410	61	22	493	138	21	652	142	31	825	949	1,105	1,239
Domestic	134	29	0	162	48	0	210	57	1	268	296	359	390
Debt securities	114	26	0	140	14	0	154	22	1	178	223	270	294
Loans	19	3	0	22	34	0	55	35	0	90	73	89	96
Foreign	277	32	22	331	91	21	442	85	30	557	653	746	849
Loans	277	32	22	331	91	21	442	85	30	557	653	746	849
						In percent of GDP							
Net financial worth	-21.9	-2.2	-1.5	-20.5	-9.4	-1.3	-29.1	-5.2	-1.6	-31.1	-29.0	-29.7	-29.4
Financial assets	14.0	1.9	0.0	12.7	-1.1	0.0	10.3	2.0	0.0	10.6	8.5	8.0	7.8
Domestic	14.0	1.9	0.0	12.7	-1.1	0.0	10.3	2.0	0.0	10.6	8.5	8.0	7.8
Currency and deposits	8.4	1.0	-0.2	7.3	-2.5	0.0	3.9	-0.1	0.1	3.3	2.2	1.9	1.7
Loans	5.5	0.9	0.2	5.4	1.4	0.0	6.3	2.1	-0.1	7.2	6.3	6.1	6.1
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities	35.9	4.1	1.5	33.2	8.3	1.3	39.3	7.1	1.6	41.6	37.4	37.7	37.1
Domestic	11.7	1.9	0.0	10.9	2.9	0.0	12.7	2.9	0.1	13.5	11.7	12.3	11.7
Debt securities	10.0	1.8	0.0	9.5	0.8	0.0	9.3	1.1	0.1	9.0	8.8	9.2	8.8
Loans	1.7	1.8	0.0	1.5	2.0	0.0	3.3	1.8	0.0	4.6	2.9	3.0	2.9
Foreign	24.2	2.2	1.5	22.3	5.5	1.3	26.7	4.3	1.5	28.1	25.7	25.5	25.4
Loans	24.2	2.2	1.5	22.3	5.5	1.3	26.7	4.3	1.5	28.1	25.7	25.5	25.4
Memorandum item:													
Nominal GDP (VND trillions)	1,144	1,485	1,485	1,485	1,658	1,658	1,658	1,981	1,981	1,981	2,535	2,927	3,336

Sources: Vietnamese authorities; and IMF staff estimates and projections.
1/ Foreign loan residuals are due to exchange rate effects.

Table 5. Monetary Survey, 2008–13 1/
(In trillions of dong at end-period, unless otherwise indicated)

	2008	2009	2010	2011	Projections 2012	2013
Net foreign assets	429	312	267	300	530	792
State Bank of Vietnam (SBV)	405	281	224	271	408	574
Commercial banks	24	31	43	29	122	218
Net domestic assets	1,193	1,780	2,523	2,826	3,272	3,698
Domestic credit	1,401	2,040	2,690	3,063	3,550	4,031
Net claims on government	61	170	214	232	245	251
SBV	-24	76	82	55	...	...
Credit institutions	85	94	132	177	...	...
Credit to the economy	1,339	1,869	2,476	2,830	3,305	3,781
Claims on state-owned enterprises (SOEs) 2/	414	550	464	490	...	...
Claims on other sectors	925	1,319	2,012	2,341	...	...
In dong	1,071	1,542	1,990	2,264	...	...
In foreign currency	269	327	485	567	...	...
By state-owned banks	763	982	1,221	1,398	...	...
By joint stock banks	576	887	1,254	1,432	...	...
Other items net	-207	-260	-167	-237	-278	-334
Total liquidity (M2)	1,622	2,092	2,789	3,126	3,802	4,490
Dong liquidity	1,292	1,665	2,273	2,588	...	...
Deposits	1,055	1,372	1,935	2,217	...	...
Currency outside banks	237	293	338	371	...	...
Foreign currency deposits	330	427	517	538	...	...
Memorandum items:						
Money multiplier 3/	4.3	5.0	6.3	6.0	6.1	6.2
Velocity	0.92	0.79	0.71	0.79	0.77	0.74
Reserve money (year on year percent change)	20.0	11.4	4.1	18.9	19.2	17.2
Liquidity (M2; year on year percent change)	20.3	29.0	33.3	12.1	21.6	18.1
Currency/deposits (in percent)	17.1	16.3	13.8	13.5	...	...
Credit/deposits (total, in percent)	96.7	103.9	101.0	102.7	...	...
Credit/deposits (dong, in percent)	101.5	112.4	102.9	102.1	...	...
Credit/deposits (foreign currency, in percent)	81.3	76.5	93.9	105.3	...	...
Credit to the economy						
Total (in percent of GDP)	90.2	112.7	125.0	114.7	112.9	113.3
Total (year on year percent change)	25.4	39.6	32.4	14.3	16.8	14.4
In dong (year on year percent change)	27.6	44.1	29.0	13.7	...	...
In FC (year on year percent change)	17.6	21.7	48.4	16.8	...	...
In FC at constant exchange rate (year on year percent change)	11.6	15.1	40.7	6.1	...	...
To SOEs (year on year percent change) 2/	23.8	32.9	-15.7	5.5	...	...
To other sectors (year on year percent change) 2/	26.2	42.5	52.5	16.4	...	...
To SOEs (percent of total) 2/	30.9	29.4	18.7	17.3	...	...
Dollarization						
Foreign currency deposits/total deposits (in percent)	23.8	23.7	21.1	19.5	...	...
Foreign currency loans/total loans (in percent)	20.1	17.5	19.6	20.0	...	...
Banks' net foreign exchange position (in millions of U.S.$) 4/	-2,279	-3,886	583	2,816	...	...
Government deposits (in percent of GDP)	6.8	3.5	2.9	2.7	...	...
Nominal GDP (in trillions of dong)	1,485	1,658	1,981	2,535	2,927	3,336

Sources: SBV; and IMF staff estimates and projections.
1/ Includes the SBV and deposit-taking credit institutions.
2/ Break in series in 2010.
3/ M2 over reserve money.
4/ At interbank exchange rate; excludes SBV credit to credit institutions.

Table 6. Medium-Term Projections, 2011–17

	Estimate	Projections					
	2011	2012	2013	2014	2015	2016	2017
Output							
Real GDP (percent change)	5.9	6.0	6.3	6.9	7.3	7.5	7.5
Saving and investment		(In percent of GDP)					
Gross national saving	29.3	33.5	33.1	33.3	33.7	34.5	35.3
Private saving	24.4	30.0	29.3	29.6	29.7	30.6	31.4
Public saving	5.0	3.5	3.7	3.7	4.0	3.9	3.9
Gross investment	29.9	34.3	33.8	34.2	35.0	35.9	36.9
Private investment	21.4	26.8	26.6	27.2	28.2	29.0	29.9
Public investment	8.5	7.5	7.2	6.9	6.7	6.9	7.0
Prices		(Percent change)					
CPI (period average)	18.7	10.8	7.4	5.7	5.3	5.0	5.0
CPI (end of period)	18.1	8.2	6.0	5.5	5.0	5.0	5.0
GDP deflator	20.9	8.9	7.2	4.9	4.1	3.6	3.5
General government finances 1/	(In percent of GDP, unless otherwise indicated)						
Revenue and grants	27.8	27.9	27.7	27.3	27.3	27.4	27.3
Expenditure	30.3	31.3	30.3	29.6	28.9	29.0	28.8
Expense	22.0	23.9	23.1	22.6	22.2	22.3	22.1
Net acquisition of non-financial assets	8.4	7.5	7.2	6.9	6.7	6.7	6.7
Net lending (+)/borrowing(-) 2/	-2.6	-3.4	-2.6	-2.3	-1.6	-1.6	-1.5
Public and publicly guaranteed debt (end of period)	48.3	48.2	46.6	45.7	44.6	43.5	42.4
Balance of payments							
Current account balance	-0.5	-0.8	-0.7	-0.9	-1.3	-1.4	-1.6
Exports f.o.b.	79.0	81.7	84.2	87.5	92.0	96.7	96.5
Imports f.o.b.	79.3	83.5	86.2	89.6	94.5	99.2	99.4
Capital and financial account (net)	3.0	4.1	3.5	4.6	5.1	5.7	5.0
Gross international official reserves (in billions of U.S. dollars)	13.5	19.0	25.7	34.5	43.1	53.9	63.7
In months of prospective GNFS imports	1.3	1.6	1.9	2.3	2.5	2.9	3.2
Total external debt (in billions U.S. dollars)	49.3	54.3	59.2	65.1	70.8	77.9	84.1
In percent of GDP 3/	40.9	41.0	40.4	40.8	40.9	41.6	41.6
Memorandum items:							
Nominal GDP (in trillions of dong)	2,535	2,927	3,336	3,743	4,178	4,654	5,176
Nominal GDP (in billions of U.S. dollars)	123	136	149	162	176	190	205
Per capita GDP (in U.S. dollars)	1,374	1,502	1,627	1,751	1,875	2,004	2,138

Sources: Vietnamese authorities; and IMF staff estimates and projections.
1/ Follows the format of the Government Finance Statistics Manual for 2001.
2/ Excludes net lending of the Vietnam Development Bank.
3/ Uses interbank exchange rate.

Table 7. Progress Toward the Millennium Development Goals 1/

Goal/Target		Progress	Status
Goal 1: Eradicate extreme poverty and hunger			
Target 1	Halve between 1990 and 2015, the proportion of people living in poverty	Poverty reduced by more three-quarters between 1990 and 2008	Already achieved
Target 2	Halve between 2009 and 2015, the proportion who suffer from hunger	Proportion reduced by more than two-thirds between 1993 and 2006	Already achieved
Goal 2: Achieve universal primary education			
Target 3	By 2015, boys and girls to complete a full course of primary schooling	Grade 5 completion rate (gross) is 104 percent for boys and 100 percent for girls	Likely to be achieved
Goal 3: Promote gender equality			
Target 4	Eliminate gender gaps in primary and secondary education no later than 2015	Gender equality at all school levels, except for ethnic minorities	Already achieved
Goal 4: Reduce child mortality			
Target 5	Reduce by two-thirds between 1900 and 2015, the under-five mortality rate	Reduced by 64 percent between 1990 and 2009 (down from 53 to 19 per 1000)	Likely to be achieved
Goal 5: Improve maternal health			
Target 6	Reduce maternal mortality by three-quarters, between 1990 and 2015	Fell by 78 percent, from 250 per 100,000 births in 1990 to 56 in 2008	Already achieved
Goal 6: Combat HIV/AIDS and other diseases			
Target 7	By 2015, have halted and begun to reverse the spread of HIV/AIDS	Infection rate went up from 0.34 percent in 2001 to 0.44 in 2005, then slowed to 0.4 in 2009	Likely to be achieved
Target 8	By 2015, have halted and reversed the incidence of malaria and other diseases	Malaria cases severely reduced; with only 27 malaria-related deaths in 2009	Already achieved
Goal 7: Ensure environmental sustainability			
Target 9	Embrace sustainability and reverse the loss of environmental resources	Forest cover up but loss in closed-canopy forest and biodiversity	Uncertain to be achieved
Target 10	Halve by 2015, the share of people without safe drinking water and basic sanitation	Rapid progress on drinking water, much slower on hygienic sanitation	Uncertain to be achieved

Sources: United Nations Development Program, General Statistics Office of Vietnam, and the World Bank.
1/ As of March 2012.

INTERNATIONAL MONETARY FUND

VIETNAM

STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

April 27, 2012

Prepared By

Asia and Pacific Department
(In consultation with other Departments)

CONTENTS

ANNEX I. FUND RELATIONS

(As of March 31, 2012)

Membership Status

Joined: September 21, 1956; Article VIII

General Resources Account

	SDR Million	Percent of Quota
Quota	460.70	100.00
Fund holdings of currency	460.70	100.00
Reserve position in Fund	0.01	0.00

SDR Department

	SDR Million	Percent Allocation
Net cumulative allocation	314.79	100.00
Holdings	268.06	85.15

Outstanding Purchases and Loans

	SDR Million	Percent of Quota
ECF[1] arrangements	4.14	0.90

Latest Financial Arrangements

In millions of SDRs (mm/dd/yyyy)

Type	Date of Arrangement	Expiration Date	Amount Approved	Amount Drawn
ECF[1]	04/13/2001	04/12/2004	290.00	124.20
ECF[1]	11/11/1994	11/10/1997	362.40	241.60
Stand-By	10/06/1993	11/11/1994	145.00	108.80

Projected Payments to Fund

In millions of SDRs (based on existing use of resources and present holdings of SDRs)

	Forthcoming				
	2012	2013	2014	2015	2016
Principal	4.14				
Charges/interest	0.06	0.07	0.07	0.07	0.07
Total	**4.20**	**0.07**	**0.07**	**0.07**	**0.07**

Exchange Arrangement

The exchange rate arrangement is classified as "stabilized." The de jure arrangement is *floating*. The State Bank of Vietnam (SBV) announced an 8.5 percent devaluation of the dong (VND) on February 11, 2011, and narrowed the trading band from ±3 percent to ±1 percent. The SBV has also indicated that the official rate will be set more flexibly in the future to align with market rates.

Vietnam maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions, except for those exchange restrictions imposed for security reasons of which Vietnam has notified the IMF pursuant to Executive Board Decision No. 144-(52/51), 8/14/52.

Article IV Consultations

Vietnam is on a 12-month consultation cycle. The last Article IV consultation was held in Hanoi during February 24–March 9, 2011, and was concluded by the Executive Board on April 29, 2011 (Public Information Notice No. 11/81).

Technical Assistance

Vietnam is receiving extensive technical assistance (TA) in the areas of tax policy and administration, public financial management, statistics, banking supervision, and AML/CFT. From December 2008 to January 2012, a resident advisor assisted the authorities in improving banking supervision. The authorities have informally indicated interest in TA in the areas of General Data Dissemination System. The authorities have requested an assessment under the IMF-World Bank Financial Sector Assessment Program.

Resident Representative

Mr. Sanjay Kalra assumed the Resident Representative post for Vietnam and Lao P.D.R., based in Hanoi, on October 16, 2011.

[1] Extended Credit Facility (ECF), formerly PRGF.

ANNEX II. RELATIONS WITH THE WORLD BANK GROUP[2]

(As of March 2012)

A. Partnership in Vietnam's Development Strategy

The World Bank Country Partnership Strategy (CPS) for Vietnam was presented to the Board of Directors in December 2011. The CPS is fully aligned with Vietnam's Socio-Economic Development Strategy (SEDS) 2011–15 and sets out the World Bank's planned support for Vietnam between FY12 and FY16. The CPS program will support investments and policies organized into a strategic framework of three pillars and three cross-cutting themes. The pillars are: (i) strengthening Vietnam's competitiveness in the regional and global economy, (ii) increasing the sustainability of its development, and (iii) broadening access to opportunity. Key cross-cutting themes are (i) strengthening governance, (ii) supporting gender equity, and (iii) improving resilience in the face of external economic shocks, natural hazards, and the impact of climate change.

An underlying theme in the CPS is the importance of building on the country's strong track record of growth and poverty reduction to partner with Vietnam in its effort to achieve success as a middle-income country (MIC). The CPS program will support reforms for Vietnam's multiple transitions, notably, from an agrarian economy toward one that is more urban and industrialized; from a focus on quantity toward a greater focus on quality of production and service provision; and from a factor driven to an efficiency driven economy.

Competitiveness: Support in this area focuses on: (a) Vietnam's vulnerability to macroeconomic instability, including structural weaknesses in financial and SOE sector as well as Public Finance Management; (b) the low quality of key infrastructure services due to inefficiencies in power distribution and transmission, and in the water and transport sectors; (c) low-value addition in Vietnamese production; and (d) weak innovation capacity and the related low skills base of the Vietnamese labor force. Accountability gaps exacerbated by decentralization are among the governance challenges addressed under this pillar.

Sustainability: In this pillar, the focus is on management of water resource and land; conservation of forests and biodiversity; pollution control and the related issue of low connectivity to sanitation systems; mitigation and adaptation measures in light of Vietnam's high vulnerability to climate change; and disaster risk management in light of the country's increasing exposure to risks posed by extreme weather events. The CPS program under this pillar addresses governance weaknesses such as unclear and conflicting jurisdiction which undermines enforcement of environmental regulation, and limited access to information which undermines accountability.

Opportunity: The World Bank supports the development and implementation of policies to ensure that more citizens can benefit from the country's transition to MIC status. This involves efforts to address rising inequality, especially between ethnic minorities and the rest of Vietnam's population, and between urban and rural households; policy reform and institutional strengthening for social insurance and social

[2] Questions may be referred to Ms. Williams (202-473-6997).

safety nets to reduce vulnerability at the household level; weaknesses in basic public service delivery and access; and gender equality, a special theme for IDA 16.

Governance: Mainstreaming governance is a priority cutting across the three CPS pillars. The approach to mainstreaming is based on the following three principles: (i) systematically leveraging the Bank's lending and analytical activities to support improved governance in Vietnam; (ii) improving project performance by better understanding and addressing governance risks to the achievement of development outcomes; and (iii) sustaining the effort, including by making periodic adjustments if the approach is not working. This should lead to a more comprehensive approach to governance.

Gender: The Bank's support to gender in the CPS has four key elements: (i) to support Government in improving the implementation of the Law on Gender Equality and the National Strategy on Gender Equality, in part by building gender awareness and capacity within relevant ministries; (ii) to support the development of a national gender data system by building on the recent National Gender Statistical Indicator System; (iii) to apply a gender lens to identify opportunities to integrate gender more systematically into Bank operations, as was done in e.g., the Third Rural Transport Project, including by making the systematic collection of data disaggregated by gender a guiding principle; and (iv) to help close the knowledge gap through quantitative and qualitative research on gender issues.

Vulnerability: The global economic crisis has heightened Vietnam's vulnerability to external shocks at both the macroeconomic and household level, and there is increased awareness of risks posed by climate change. Resilience is, therefore, a third theme cutting across all three CPS pillars, in the context of the macroeconomic policy framework and financial sector soundness (engagement areas under Pillar 1—Competitiveness), climate change mitigation and adaptation (engagement areas under Pillar 2—Sustainability), and social protection and facilitation of livelihoods for the poor (engagement areas under Pillar 3—Opportunity).

B. World Bank Group Strategy and Lending

The World Bank Group uses a broad range of instruments, elaborated in the previous as well as the new CPS, to support the objectives laid out in the SEDP and other key strategies of the Government. These instruments include a broad range of development policy and investment operations, and analytical and advisory activities; the IFC's equity, loan, and technical assistance (TA) participations and the Mekong Private Sector Development Facility (MPDF); Multilateral Investment Guarantee Agency (MIGA) activities; and donor partnerships and ODA coordination.

Scale of the World Bank Group program: In FY10, the World Bank (IBRD) processed its first two IBRD operations for Vietnam, totaling US$700 million. Vietnam's IDA allocations depend on its performance relative to other eligible IDA recipients and on the overall IDA resource envelope. At more than US$2.1 billion equivalent for IDA and IBRD combined, the FY10 program significantly surpassed that of prior years, and Vietnam was the World Bank's eighth largest borrower in FY10. Commitments increased further in FY11, totaling US$2.348 billion, of which US$1.268 billion was

IDA and US$1.068 billion IBRD. In FY12, the first year of IDA 16, the eight planned World Bank operations are estimated to reach a total amount of US$1.15 billion, of which US$1.05 billion will be IDA. An indicative IDA 16 allocation[3] of about SDR 2.8 billion (equivalent to US$4.2 billion) would be available to support Vietnam's economic and social development in FY12–FY14. This would be the largest IDA allocation to Vietnam of any IDA Replenishment, reflecting Vietnam's strong performance as well as the increase in overall IDA resources mobilized for IDA 16 compared with IDA 15. The share of DPOs in the FY12–FY14 IDA program is currently estimated at about 25 percent and could rise if policy reform momentum increases.

Proposed FY12–FY14 IBRD commitments total US$770 million, of which around US$280 million is planned for two Development Policy Operations, and the balance for investment lending. Most of these resources would likely support infrastructure development. There are currently 49 active IDA/IBRD operations, totaling US$7.9 billion. IFC commitments totaled US$1,800 million over the five-year period of FY07–FY11, including commitments through their asset management business, and both IFC and MIGA programs are expected to grow in the coming years.

Lending program: The World Bank has a comprehensive investment lending program cutting across a broad range of sectors. Roughly two-thirds of the program is dedicated to infrastructure investments and it is expected that in the future, infrastructure will continue to dominate the lending program, especially Vietnam's IBRD borrowing. In infrastructure, the program includes lending operations in rural energy, energy transmission and distribution, hydropower, various types of transport projects, water supply and sanitation, urban upgrading and natural disaster risk management. In agriculture, the program includes lending for agricultural competitiveness, livestock competitiveness, northern mountains poverty reduction, avian and human influence control and forest sector development. In human development, operations cover various health support projects, hospital waste management, school education quality assurance, and support for higher education. The World Bank furthermore has investment lending in the areas of public financial investment, tax administration and financial sector modernization.

The Poverty Reduction Support Credits (PRSCs 1–10) have been the centerpiece of the World Bank's policy lending program during the last 10 years, supporting reforms in a broad range of areas. The PRSC series will be followed by a new DPO series of Economic Management and Competitiveness Credits (EMCC). Like the PRSCs, the EMCCs will be multi-year, multi-donor operations starting in FY12 with a five-year time horizon. The series will focus on critical reforms to enhance competitiveness, central to sustained growth and poverty reduction in Vietnam. Strategic and analytical underpinnings for the EMCCs will be drawn from the SEDS 2011–20, the Competitiveness Pillar of the CPS, the National Competitiveness Report, and recent Vietnam Development Reports (VDRs). Competitiveness is a function of many factors, but one of the lessons from the PRSC series is the importance of a focused reform agenda under one series of budget support operations. The EMCCs will, therefore,

3 For IDA16 allocations, only FY12 allocation is firm, and allocations in FY13–14 are indicative and can change depending on total IDA resources available in FY13 and 14, the IDA resource allocation process, and exchange rate changes between the SDR and the U.S. dollar.

focus on reforms to strengthen (i) macroeconomic stability and (ii) institutions for public sector governance and private sector development. In addition, policy lending has also included support for the government's poverty reduction program (P-135), higher education reform, power sector reform, and a series of DPOs supporting climate change mitigation and adaptation. Vietnam's first IBRD operation, approved in FY10, furthermore launched a development policy loan series supporting public investment reforms—partly as a response to the global economic crisis—with a second operation approved in FY11.

Knowledge program: The World Bank supports the Government's efforts to strengthen institutional capacity through its knowledge program of analytical and advisory services. While financing is still an important part of the partnership between the Vietnamese government and the World Bank, Vietnam's new status as an MIC highlights the important role the Bank can and does play in generating knowledge and sharing global experiences and best practice. The annual Vietnam Development Reports (VDRs), written in coordination with a large number of donors and submitted to the annual year-end Consultative Group meeting, summarize the accumulated knowledge in a specific policy area of Vietnam's reform agenda. Recent VDRs have focused on thematic areas such as social protection (2008), business development (2009), modern institutions (2010), natural resource management (2011) and Vietnam's transition to a market economy (2012). The next VDR will focus on Skills Development.

Other reports during this period included Infrastructure Finance, Higher Education and Skills for Growth, Country Financial Accountability Assessment, Health Financing, Gender Assessment, Financial Sector Strategy, a series on Vietnam's Infrastructure Challenges, High Quality Basic Education, and an Urbanization Review. Forthcoming reports include: Financial Inclusion and Access to Finance, Poverty Assessment, Agriculture Public Expenditure Review, Poverty and Social Impact Assessment for Climate Change and Poverty in the Central Highlands. In addition, the World Bank continues to provide technical assistance in areas such as governance, social protection, renewable energy, climate change adaptation, financial sector reform and public financial management reform.

C. IMF-World Bank Collaboration in Vietnam

Specific Areas

Since the expiration of the PRGF in April 2004, the two institutions have closely collaborated on monitoring the macroeconomic situation, and in discussions of PRSC triggers and benchmarks in the policy areas that used to be covered by the PRGF agreement. The IMF has provided Letters of Assessment in support of PRSC operations. The collaboration will continue with the EMCC. In the area of public financial management, the World Bank has an investment credit to support the introduction of a modern Treasury and Budget Management Information System, and coordinates technical inputs on a large multi-donor trust fund for public financial management reform. It also has an investment loan for Tax Administration Modernization. The World Bank has started a Programmatic Public Finance Review (PPFR) and will be collaborating closely on this with the IMF, including on a review of Budget Transparency. There is close cooperation between the IMF's Regional PFM Advisor and the Bank team in Hanoi.

In recent years, joint work has been under way in support of the establishment of a modern central bank, with the IMF providing technical assistance (TA) on monetary policy and operations, and both the World Bank and IMF providing TA on banking supervision. The World Bank has also set up investment credits to support development of an integrated system of advanced business processes and modern information technology at the SBV (including for the Deposit Insurance Agency and Credit Information Center) to improve its capacity to make more informed and timely policy decisions. The World Bank and IMF are working closely together toward fielding an FSAP, at the request of the authorities. A World Bank-IMF joint FSAP information seminar was held in September 2010, which has been followed up with joint meetings with the SBV. The IMF further fielded a mission on stress testing during the second half of 2011.

Since 2005, the World Bank and the IMF have jointly prepared an annual Debt Sustainability Assessment. The Asian Development Bank has joined since 2009. There are plans to jointly conduct training on debt management in the coming months. The IMF and the World Bank also collaborate in the development and timely dissemination of reliable economic and financial statistics. The IMF focuses on improving balance of payments, national accounts, and price statistics, while the World Bank provides assistance on issues related to the production of high-quality household and enterprise surveys. Through PRSC10 and specific TA, the World Bank and development partners have supported the SBV to formulate a regulation that would improve timeliness and availability of monetary and banking sector information. The two institutions consult during Article IV consultation in order to share information and help coordinate policies.

Table 1. Lending Commitments, FY 2011–12
(In millions of U.S. dollars)

Fiscal Year	Project Name	IDA	IBRD	Total
2011	Second Higher Education DPL	50		50
	Public Financial Management Reform - AF	14		14
	Transmission and Distribution II - AF		180	180
	Hospital Waste Management	150		150
	Coastal Cities Environment - AF	65		65
	Hai Phong Urban Transport Project	175		175
	Third Program 135 - Phase 2	50		50
	Trung Son Hydro Power Development		330	330
	Second Public Investment Reform	263	87	350
	Urban Water Supply & Waste Water	200		200
	Quang Ngai - Da Nang Expressway	143	471	614
	Mekong Delta Integrated Rural Development	160		160
	AHI Control and Preparedness - AF	10		10
	Total	**1,280**	**1,068**	**2,348**
2012	Third Rural Transport - AF	97		97
	Medium Cities Development	210		210
	Vietnam Poverty Reduction Support Credit 10	150		150
	Vietnam Climate Change Development Policy	70		70
	Forest Sector Development Project - AF	30		30
	Mekong Delta Region Urban Upgrading Project	292		292
	Vietnam Power Sector Reform DPO2	100	100	200
	Coastal Resources for Sustainable Development Project	100		100
	Total	**1,049**	**100**	**1,149**

Source: World Bank.

ANNEX III. RELATIONS WITH THE ASIAN DEVELOPMENT BANK

(As of March 2012)

The Asian Development Bank (AsDB) resumed its operations in Vietnam in October 1993. The Country Strategy and Program (CSP) 2007–10 was endorsed in October 2006 and was fully aligned with and designed to support implementation of the Government's Socio-Economic Development Plan (SEDP) 2006–10. The goals of the CSP were to help the Government reduce poverty, achieve the Millennium Development Goals/Vietnam Development Goals, and exit from low-income country status. Recognizing Vietnam has actually achieved poverty reduction through rapid economic growth, the CSP was also growth-oriented with focuses on: (i) business-led, pro-poor economic growth: AsDB support aimed to help the Government develop the foundations for increased private sector investment and employment; (ii) social equity and balanced development: in addition to supporting education, health, targeted poverty reduction, and rural infrastructure, the CSP addressed communicable diseases such as avian influenza and HIV/AIDS; gender and other equity issues were main-streamed in AsDB projects; (iii) environment: the CSP supported natural resources management, emphasizing the link between resources depletion and persistent poverty, through assistance on biodiversity, water, and coastal resources management and livelihood improvement. Governance has been addressed through all AsDB operations and regional cooperation has also been strongly supported through a number of projects. As Vietnam has prepared the new Socio-Economic Development Strategy for 2011–20 and Socio-Economic Development Plan 2011–15, the AsDB is also preparing a new CPS for 2012–15 to further support Vietnam's continuing rapid growth as a new middle-income country in line with AsDB's Strategy 2020. Important features of Vietnam CPS 2011–15 are: (i) fully aligned with SEDP 2011–15; (ii) consistent with the AsDB's Strategy 2020 for strategic directions and operational priorities; (iii) Results-based with monitorable and time-bound performance (outcome and output) indicators; (iv) formulated on the basis of sector assessment, strategy, and roadmap; and (v) more selective approach in order to maximize development effectiveness and minimize trans-action costs. The new CPS is expected to be approved by the AsDB Board in the second half of 2012.

From October 1993 until December 31, 2011, the AsDB approved 114 sovereign loans totaling US10.443 billion, comprising US$5.449 billion from highly concessional Asian Development Fund (ADF) and US$4.994 billion from less concessional Ordinary Capital Resources (OCR). The contract awards achievement in 2011 was US$1,353.45 million compared with US$610.21 million in 2010 and US$1,781.77 million in 2009. Disbursement in 2011 attained US$791.84 million compared with US$406.69 million in 2010 and US$1,093.4 million in 2009. The AsDB has also extended technical assistance grants amounting to US$242.2 million for 261 projects and other 26 grant projects totaling US$150.1 million. In addition to public sector operations, the AsDB has also approved eight nonsovereign loans, two political risk guarantees, and one B-loan totaling US$280.0 million. Vietnam also receives substantial support under the Greater Mekong Subregion initiatives, involving Cambodia, China, Lao P.D.R., Myanmar, Thailand, and Vietnam.

Support for policy and structural reforms to improve public sector efficiency and to encourage the development of the private sector is a vital component of AsDB operations in Vietnam. So far, the AsDB has approved 26 program loans in the agricultural sector, the financial sector, SOE reform and corporate governance, public administration reform, SME development, secondary education, health and in support of the multi-donor supported Poverty Reduction Support Credit (PRSC). The AsDB's policy dialogue included support for increased efficiency of state-owned utilities through reforming their rate structure and other measures to increase cost recovery and to strengthen financial management, policy analysis, and planning. The AsDB is also the key supporter of public administration reform, particularly through civil service reform.

Following a reorganization of the AsDB's regional departments in May 2006, Vietnam is covered by the Southeast Asia Department, along with Cambodia, Brunei Darussalam, Lao P.D.R., Myanmar, Thailand, Malaysia, Philippines, Indonesia, and Singapore. The resident mission has been gradually strengthened and is responsible for country economic monitoring, programming, and donor coordination functions, in addition to administration of 31 percent of the ongoing loan portfolio. The resident mission has helped the Government prepare the results-based SEDP 2006–10 through a broad, consultative process, including preparing the results framework for monitoring SEDP outcomes, and such efforts are continuing for the development of SEDP 2011–15. To implement the principles of the Paris Declaration on Aid Effectiveness, the resident mission actively participates in the Partnership Group on Aid Effectiveness with the Government and other development partners (which was reorganized to be the Aid Effectiveness Forum in 2010), taking a lead in harmonizing social safeguard policies and procurement rules and procedures between the Government and donors. The AsDB also actively participates in the "Six Banks Initiative," with Agence Française de Développement (AfD), KfW Development Bank, Korea Eximbank, Japan International Cooperation Agency, and the World Bank, to harmonize project preparation, implementation, monitoring and evaluation practices, and improve the quality and effectiveness of investment projects.

The AsDB and IMF staff work closely together to support the process of economic reforms in Vietnam. The AsDB staff interacts with IMF missions, exchange information, and regularly consult on policy matters. The resident missions of the two institutions cooperate closely. For the first time in 2008, the AsDB took part in the Vietnam debt sustainability analysis with the IMF and the World Bank. As of 2011, at the invitation of the authorities, the AsDB attended some meetings during IMF Article IV missions.

Table 1. Public Sector Lending by Sector, 1993–2011
(In millions of U.S. dollars)

Sector	Approved Amount	Number of Projects
Agriculture and Natural Resources	1,461	24
Education	643	13
Energy	2,368	10
Finance	470	8
Health and Social Protection	258	6
Industry and Trade	99	4
Multi-Sector	280	7
Public Sector Management	971	11
Transport and ICT	3,211	21
Water and Other Municipal Infrastructure and Services	682	10
Total	**10,443**	**114**

Source: Asian Development Bank.

Table 2. Technical Assistance by Sector, 1993–2011
(In millions of U.S. dollars)

Sector	Approved Amount	Number of Projects
Agriculture and Natural Resources	45.4	46
Education	11.9	18
Energy	28.9	34
Finance	17.2	28
Health and Social Protection	6.9	14
Industry and Trade	12.6	8
Multi-Sector	1.2	1
Public Sector Management	37.2	59
Transport and ICT	58.8	30
Water and Other Municipal Infrastructure and Services	21.2	23
Total	**241.2**	**261**

Source: Asian Development Bank.

Table 3. Grants by Sector, 1993–2011
(In millions of U.S. dollars)

Sector	Approved Amount	Number of Projects
Agriculture and Natural Resources	47.7	9
Education	2.8	2
Finance	1.5	1
Health and Social Protection	56.1	8
Multi-Sector	15.0	3
Transport and ICT	26.0	2
Water and Other Municipal Infrastructure and Services	1.0	1
Total	**150.1**	**26**

Source: Asian Development Bank.

Table 4. Sovereign Loan Approvals and Disbursement, 1998–2011
(In millions of U.S. dollars)

Year	Lending 1/	Disbursement	Undisbursed at End of Year	TA Approvals 2/
1998	284	128	1,224	5.9
1999	220	191	1,253	10.3
2000	189	219	1,223	9.1
2001	243	176	1,289	8.4
2002	234	232	1,291	9.3
2003	179	233	1,237	8.6
2004	296	182	1,351	7.7
2005	578	224	1,705	12.3
2006	308	184	1,829	16.1
2007	1,439	230	3,038	13.1
2008	765	265	3,538	26.9
2009 3/	1,926	1,093	4,371	10.0
2010	1,090	407	5,054	11.1
2011 4/	1,396	792	5,658	43.4

Source: Asian Development Bank.
1/ Includes loan component of regional project in Vietnam.
2/ Excludes regional technical assistance, but includes confinancing.
3/ Lending excludes a guarantee of $325 million for Electricity Vietnam.
4/ TA amount includes US$26 million confinancing from AusAID.

ANNEX IV. STATISTICAL ISSUES

(As of March 27, 2012)

Assessment of Data Adequacy for Surveillance

General: Data provision has some shortcomings, but is broadly adequate for surveillance. Most affected areas are: national accounts, government finance, external sector, and financial sector statistics.

National accounts: The General Statistics Office provides quarterly (cumulative) and annual data on GDP by type of economic activity and annual data by expenditure (both in current and constant prices), and monthly and annual data on external trade, industrial output, retail sales, and prices. The annual constant price GDP estimates have 1994 as the base year and are in need of updating. While the national accounts methodologies are broadly consistent with the *SNA93*, the compilation process suffers from poor data collection practices and a lack of coordination and communication between data collection agencies. The 2010 National Accounts Statistics mission outlined the following outstanding data issues: (i) compiling quarterly GDP by expenditure approach; (ii) accounting for the non-observed economy; (iii) conducting a quarterly survey on capital formation; (iv) use of price deflators rather than quantity valuation approach for estimating output of manufacturing at constant prices; and (v) development of real estate statistics, wage rate index for construction industry employees, construction price index, estimation of consumption of fixed capital (CFC), and capital stock.

Prices statistics: The CPI methodology is largely in line with international standards. However, there is only a notional inclusion of owner-occupied and rental housing. Also, there is a need to adopt a geometric mean of price relatives at the lower level of aggregation, instead of the upward biased arithmetic mean. Trade price indices are also compiled, but not used in the national accounts.

Government finance statistics: Government operations data reflect the consolidated operations of the state budget, which cover all four levels of government (central, provincial, district, and commune). However, data exclude off-budget investment expenditure, onlending, quasi fiscal activities of the central bank (and state-owned enterprises (SOEs)), and extra-budgetary funds, among which are the Social Security Fund, Enterprise Restructuring Fund, Development Assistance Fund, Export Support Fund, local development funds, and the Sinking Fund (for repayment of on-lent funds), for which data are not compiled/disseminated on a regular basis. Compilation is on a cash basis for final annual data, but varies for provisional data depending on their source. As a result, government financing data, in particular domestic bank financing, cannot be reconciled as reported in the fiscal and monetary accounts. The World Bank and the IMF have recommended improving the coverage of fiscal data and aligning definitions with the *GFSM 2001*. A new budget law, expected to become effective in 2013, is likely to significantly enhance the quality of fiscal reporting. Vietnam tentatively confirmed participation in the three-year GFS technical assistance (TA) project for Asia and Pacific Island countries, funded by the Japanese Government. Participation in this project, launched recently by STA, could enhance further the quality of fiscal data.

Monetary statistics: A key shortcoming is insufficient sectorization of bank credit. The IMF's Statistics Department (STA) has encouraged the State Bank of Vietnam (SBV) to develop a reporting scheme for a comprehensive break-down of banks' credit to the economy by borrowing sectors and subsectors. In addition, STA has recommended that: (a) a list of SOEs that have been privatized and, therefore, should be classified as private enterprises should be distributed to banks in order to guide their data reporting on enterprises; (b) funds for on-lending should be reclassified out of banks' "unclassified liabilities" to "other deposits." Further cooperation from the authorities is needed to resolve data discrepancies involving credit data for a state-owned bank. These discrepancies may reflect possible non-coverage and/or omission of certain loans and financial leases, offset by lower deposits and other liabilities.

External sector statistics: Balance of payments statistics rely on limited source data, resulting in gaps in all areas of the external accounts (current, capital, and financial). The authorities are working on improving data on tourism revenue (travel) and workers' remittances, supported by IMF's STA TA. Regarding foreign direct investment, the 2009 STA mission noted that direct investment statistics are incomplete because the legal definition of foreign investor as used by the State Securities Commission does not accord with statistical guidelines; as a result, branches of foreign banks in Vietnam and 100 percent foreign–owned enterprises resident in Vietnam are considered as nonresidents. Data on portfolio investment assets do not identify sector and instrument breakdowns; and the scope of the data on the liabilities side appears limited. International investment position (IIP) data are not compiled. The authorities are working on improving external sector statistics with assistance from STA.

Financial sector statistics: Financial sector data remain largely unavailable, even on financial soundness indicators.

Data Standards and Quality

Participant in the General Data Dissemination System (GDDS) since September 2003.

No data ROSC are available.

Reporting to STA

Currently, no government finance statistics (GFS) are reported for publication in the IMF's *Government Finance Statistics Yearbook (GFSY)* or *International Financial Statistics (IFS)*. Annual GFS data through 2004, excluding extra-budgetary funds and social security funds, based on the 1986 GFS format, have been reported for publication in the *GFSY*. No sub-annual fiscal data have been reported for publication in *IFS* since 2001.

Table of Common Indicators Required for Surveillance

As of March 27, 2012

	Date of Latest Observation	Date Received	Frequency of Data[1]	Frequency of Reporting[1]	Frequency of Publication[1]
Exchange Rates	Mar. 2012	Mar. 2012	D	M	W
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[2]	Jan. 2012	3/21/12	M	I	N/A
Reserve/Base Money	Dec. 2012	3/23/12	M	I	N/A
Broad Money	Dec. 2012	3/23/12	M	I	N/A
Central Bank Balance Sheet	Dec. 2012	3/23/12	M	I	N/A
Consolidated Balance Sheet of the Banking System	Dec. 2012	3/23/12	M	I	N/A
Interest Rates[3]	Mar. 2012	Mar. 2012	M	I	N/A
Consumer Price Index	Mar. 2012	3/26/12	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[4]—General Government[5]	...	...	...	...	N/A
Revenue, Expenditure, Balance and Composition of Financing[4]—Central Government	Dec. 2011	Jan. 2012	Q	Q	A
Stocks of Central Government and Central Government-Guaranteed Debt[6]	Dec. 2011	Jan. 2012	I	I	N/A
External Current Account Balance	Q3 2011	Jan. 2012	A	A	A
Exports and Imports of Goods and Services[7]	Q3 2011	Jan. 2012	M	M	M
GDP/GNP	Q4 2011	Jan. 2012	Q	Q	Q
Gross External Debt	2010	Jan. 2012	I	A	N/A
International Investment Position[8]	...	...	N/A	N/A	N/A

[1]Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); and Not Available (N/A).
[2]Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency, but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[3]Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[4]Foreign, domestic bank, and domestic nonbank financing.
[5]The general government consists of the central government (budgetary funds, extra-budgetary funds, and social security funds) and state and local governments.
[6]Including currency and maturity composition.
[7]Services data available on an annual basis.
[8]Includes external gross financial asset and liability positions vis-à-vis nonresidents.

INTERNATIONAL MONETARY FUND

VIETNAM

STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITYANALYSIS

April 27, 2012

Approved By
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Based on the external LIC DSA, Vietnam remains at low risk of debt distress. All external debt sustainability indicators are projected to remain well below their applicable thresholds in the baseline scenario and under stress tests.[1] *The outlook for public sector debt, however, calls for continued fiscal consolidation. In addition, potential contingent liabilities arising from the financial sector and state-owned enterprises (SOEs), whose size is unknown, pose further risks to public debt sustainability.*[2]

[1] Vietnam's policies and institutions, as measured by the World Bank's Country Policy and Institutional Assessment, averaged 3.81 over the past three years, placing it as a "strong performer." The relevant indicative thresholds for this category are: 50 percent for the present value (PV) of the debt-to-GDP ratio, 200 percent for the PV of the debt-to-exports ratio, 300 percent for the PV of the debt-to-revenue ratio, 25 percent for the debt service-to-exports ratio, and 22 percent for the debt service-to-revenue ratio. These thresholds are applicable to public and publicly guaranteed (PPG) external debt.

[2] This DSA was prepared jointly by Bank and Fund staff, in consultation with the Asian Development Bank (AsDB). The debt data underlying this exercise were provided by the Vietnamese authorities and donor partners. Data beyond end-2010 are staff estimates and projections.

INTRODUCTION

1. **Vietnam's external debt position has historically been low, but has risen somewhat since 2008.** Vietnam's total external (including private sector) debt is estimated to have risen to about 43¾ percent of GDP at end-2010, about 11½ percentage points higher than in 2008. Most of Vietnam's PPG external debt is concessional with long maturities and a fairly diversified currency composition (see text table). Meanwhile, large foreign direct investment (FDI) inflows have provided significant non-debt-creating financing. GDP growth has recovered somewhat since 2008, but remains below pre-crisis rates. Despite a significant narrowing of the current account deficit, international reserves remain low on account of large, albeit declining, domestic shift from Vietnamese dong into U.S. dollars and gold.[3]

2. **Domestic public debt has historically been manageable, but risks have increased in recent years.** Public sector debt in this analysis refers to debt of the general government and debt guaranteed by the central government. Debts of SOEs not guaranteed by the government are excluded from public sector debt due to lack of data (except that of Vietnam Development Bank, whose nonsecuritized domestic debts are included in public sector debt). Vietnam's domestic public debt has remained at around 17–18 percent of GDP during 2006–08, but increased to about 21½ percent of GDP in 2010 on account of the 2009 fiscal stimulus. Domestic financing needs have traditionally been met comfortably through borrowing at low or negative real interest rates from captive banks and quasi-government entities.

Public and Publicly Guaranteed External Debt by Main Creditor
As at end-2010
(In percent of GDP)

Creditors	Debt Holdings
Multilaterals	
The IMF	0.1
The World Bank	7.8
The Asian Development Bank	4.3
Other	2.1
Bilaterals	
Japan International Cooperation Agency	8.7
Other	4.4
Commercial	5.3
Total	32.7

Sources: Vietnam authorities; and IMF staff estimates.

COMPARISON AND ASSUMPTIONS

3. **Vietnam is assessed to be at a low risk of debt distress, similar to the assessment in the last DSA.** PPG external debt and the PV of PPG external debt in 2010 are slightly higher than projected in the last DSA. In 2010, PPG domestic debt (21½ percent of GDP) is about 1 percentage point higher than, and the PV of public debt is about ½ percentage point higher than projected in the last DSA. This largely reflects newly available information on additional government-guaranteed domestic debt. The noninterest current account deficit, FDI, and aid flows in 2011 were mostly better than projected in the last DSA. However, commercial banks' acquisition of large net foreign assets and large private capital outflows are reflected in the residual beyond the identified financing gap. The main baseline assumptions underlying the DSA are summarized in Box 1.

[3] As reflected in negative net foreign assets of commercial banks and in negative errors and omissions estimated at 4 percent of GDP in 2010, largely reflecting foreign currency and gold hoarding by residents outside the financial system as a hedge against inflation and depreciation.

EXTERNAL DSA[4]

A. Baseline

4. **Vietnam's PPG external debt position remains manageable.** The PV of the PPG external debt stock at end-2010 was about 28 percent of GDP and is estimated to have declined to 26½ percent of GDP in 2011—much lower than the threshold of 50 percent of GDP. Other PPG external debt and debt service indicators also remain well below the applicable debt thresholds.

5. **Under the baseline scenario, the PV of PPG external debt to GDP is projected to decline over the longer term.**[5] In addition, the PV of PPG external debt in percent of exports and revenues is expected to decline steadily between 2011–30, while the debt service-to-exports ratio is projected to remain relatively flat, and the debt service-to-revenue ratio to increase somewhat, reflecting a shift toward more commercial borrowing. With remittances included in the denominator of debt indicator calculations, the above results still hold broadly.

6. **Contingent liabilities arising from the SOE sector pose some risk to this assessment.** The assessment of risk of debt distress does not include private external debt. The debt servicing difficulties of the Vinashin conglomerate suggest risks of possible isolated cases of nongovernment external debt default, and some part of this external debt may need to be assumed by the government. Nonetheless, even in such a scenario, the external debt outlook will likely remain manageable given the relatively small size of private external debt and the low PPG external debt.

B. Alternative Scenarios and Stress Tests

7. **Stress tests indicate that the PV of PPG external debt is most sensitive to an export shock.** However, under none of the standard stress tests would the PV of PPG external debt to GDP breach the threshold.[6] Other PPG external debt indicators are also most sensitive to a slowdown in exports, yet they remain well below the applicable thresholds even under the most extreme stress tests. Results are similar when remittances are included in the denominator of debt indicator calculations.

[4] This analysis focuses on PPG external debt, which accounts for more than 75 percent of total external debt. Non-SOE private external debt is largely associated with foreign-invested projects, and hence is more self-sustainable. Non-government guaranteed external debt of SOEs is included in private external debt.

[5] Unidentified debt-creating flows are recorded as "residual" in the DSA summary tables, which also captures the impact of exchange rate movements.

[6] The modified debt burden thresholds are 10 percent lower than the applicable debt sustainability framework thresholds.

Box 1. Key Macroeconomic Assumptions for Baseline Scenario (2012–31)

Real GDP growth is projected at about 6 percent for 2012, slowing down somewhat, from an average of about 7 percent over the past 10 years, and gradually increase to about 7½ percent by 2017—the level prior to the 2009 global economic crisis—supported by domestic and a recovery in external demand. Real GDP growth is expected to average about 7½ percent per year during 2017–25, and thereafter slow gradually as Vietnam's level of development and demography begin to converge to those of more advanced neighbors.

Inflation is projected to decline from an average of 18.7 percent in 2011 to 10¾ percent in 2012 as food prices stabilize and also due to base effects. It is projected to then gradually decline to 5 percent by 2017 as macroeconomic conditions stabilize, and remain at that level through 2031.

The current account deficit is estimated to have narrowed from 4 percent of GDP in 2010 to ½ percent of GDP in 2011 largely due to a rebound in exports and subdued import growth. In the longer term, as the main exports shift toward higher value-added products and imports of capital goods decline, the current account deficit should gradually narrow and finally be slightly above balance by 2028. As high growth continues in the longer term, remittances (whose growth tends to be in line with GDP growth in the United States, the largest source country of remittances to Vietnam) as a share of GDP will gradually decline.

The capital and financial account surplus is projected to rise from slightly above 4 percent of GDP in 2012 to about 5 percent in 2017 and thereafter decline gradually throughout the projection horizon. The non-debt-creating portion of FDI is projected to decrease from about 6 percent of GDP in 2011 to about 2 percent in 2031. As Vietnam is expected to graduate from IDA eligibility around 2020, concessional official development assistance is assumed to decline as Vietnam transitions to IDA Blend, which has shorter grace periods and maturities, and higher interest rates.

Reserve coverage is expected to remain low at about 1.6 months of prospective imports by end-2012, but is forecast to gradually recover to about 3.2 months by end-2017 and increase further to 5 months by end-2031.

Effective interest rates on foreign borrowing are expected to increase gradually from around 2½ percent in 2010 to 6½ percent by 2031, as the share of concessional loans in total debt declines.

Net borrowing by the government (including off-budget expenditure and excluding official development assistance onlending) is projected to decline from 3½ percent of GDP in 2012 to below 2 percent of GDP by 2015, and remain at about 2 percent of GDP in the long run. Revenues and grants decline gradually to 27¼ percent of GDP by 2014, and in the long run gradually decline to around 25–26 percent of GDP as the ratio of grants, trade revenue, and natural resource revenues to GDP declines and are only partially replace with other revenues, in line with the authorities' plans. Noninterest current expenditure, while increasing somewhat in real terms, would decline gradually as a percentage of GDP. The primary deficit declines from 2.1 percent of GDP in 2012 to an average of around 1–1½ percent of GDP in 2017–31.

Net domestic financing (NDF) is projected to become slightly negative given expected ODA disbursements in the coming years and revenue and expenditure projections. However, the financing mix is projected to shift toward domestic sources in the long run, and NDF to rise to about 1½ to 1¾ percent of GDP in the outer years.

Contingent liabilities or exceptional financing are not assumed in the baseline scenario.

PUBLIC DSA

A. Baseline

8. **The PV of public sector debt at end-2010 is estimated at 49½ percent of GDP while the nominal debt-to-GDP ratio is estimated at 54¼ percent of GDP.** The nominal debt-to-GDP ratio is estimated to have declined to 48½ percent of GDP at end-2011, and is projected to decline further to 43½ percent of GDP by 2016, and to well below 35 percent of GDP in the longer term. The debt service-to revenue ratio declines initially to 12 percent in 2016 before rising again to about 18 percent, as concessional financing is expected to decline, and maturities of and interest on commercial debt are shorter and higher, respectively.

9. **These trends largely reflect fiscal consolidation in 2011 and over the medium term.** Fiscal consolidation has already begun. Net incurrence of liabilities is estimated to have declined to 2.8 percent of GDP in 2011 from 8.3 and 7.1 percent of GDP in 2009 and 2010, respectively. In the baseline scenario, the non-oil primary deficit is projected to decline from about 5½ percent of GDP in 2011 to about 3 percent of GDP by 2017. Over time, net incurrence of liabilities is projected to decline to around 2¼ percent of GDP, in line with the authorities' plans for revenue reform to replace declining oil and trade revenues.

B. Alternative Scenarios and Stress Tests

10. **The standard stress tests indicate the importance of fiscal consolidation over the medium term.** A less ambitious adjustment than assumed in the baseline may not provide a sufficient hedge against a large exchange rate shock. Lower GDP growth would also jeopardize public debt reduction.

11. **Contingent liabilities pose some risk to public debt sustainability.** Raising the capital of state-owned commercial banks (SOCBs) to required minimum levels is estimated at around 2–3 percent of GDP, while adequate provisioning for nonperforming loans (NPLs), if International Financial Reporting Standards are applied, could amount to some 4½ percent of GDP.[7] In a stress event, a broad approximation suggests that NPL levels in the whole banking sector—arising from SOEs, private companies, and households—may rise by about 23½ percent of GDP, based on past experience in emerging market banking crises (though not all NPLs would necessarily be reflected in public debt since the size of recapitalization would likely be smaller). Should such a scenario materialize, public sector debt could rise commensurately either in one step or distributed over a relatively short time period. A shock of this magnitude would drive up the debt-to-GDP ratio to about 78½ percent of GDP which would, under an unchanged fiscal stance, decline only to about 48½ percent of GDP by 2031. However, the large presence of SOCBs, the explicit guarantee of deposits extended in 2011, and the action already being undertaken by the SBV to address problems in a number of small weak banks, reduce the likelihood of a panic-driven crisis and hence the crystallization of contingent liabilities. Thus, this calculation should be taken as a mechanical illustration of the possible maximum, which by no means indicates any likelihood of such an outcome.

[7] Estimates for contingent liabilities are updated based on those from last year's DSA.

DEBT DISTRESS CLASSIFICATION AND CONCLUSIONS

12. **In the staffs' view, Vietnam remains at a low risk of external debt distress based on external debt burden indicators.** The projected PPG external debt ratios and projected path remain well below applicable thresholds. Under the sensitivity analysis, all external debt indicators remain well below the applicable thresholds.

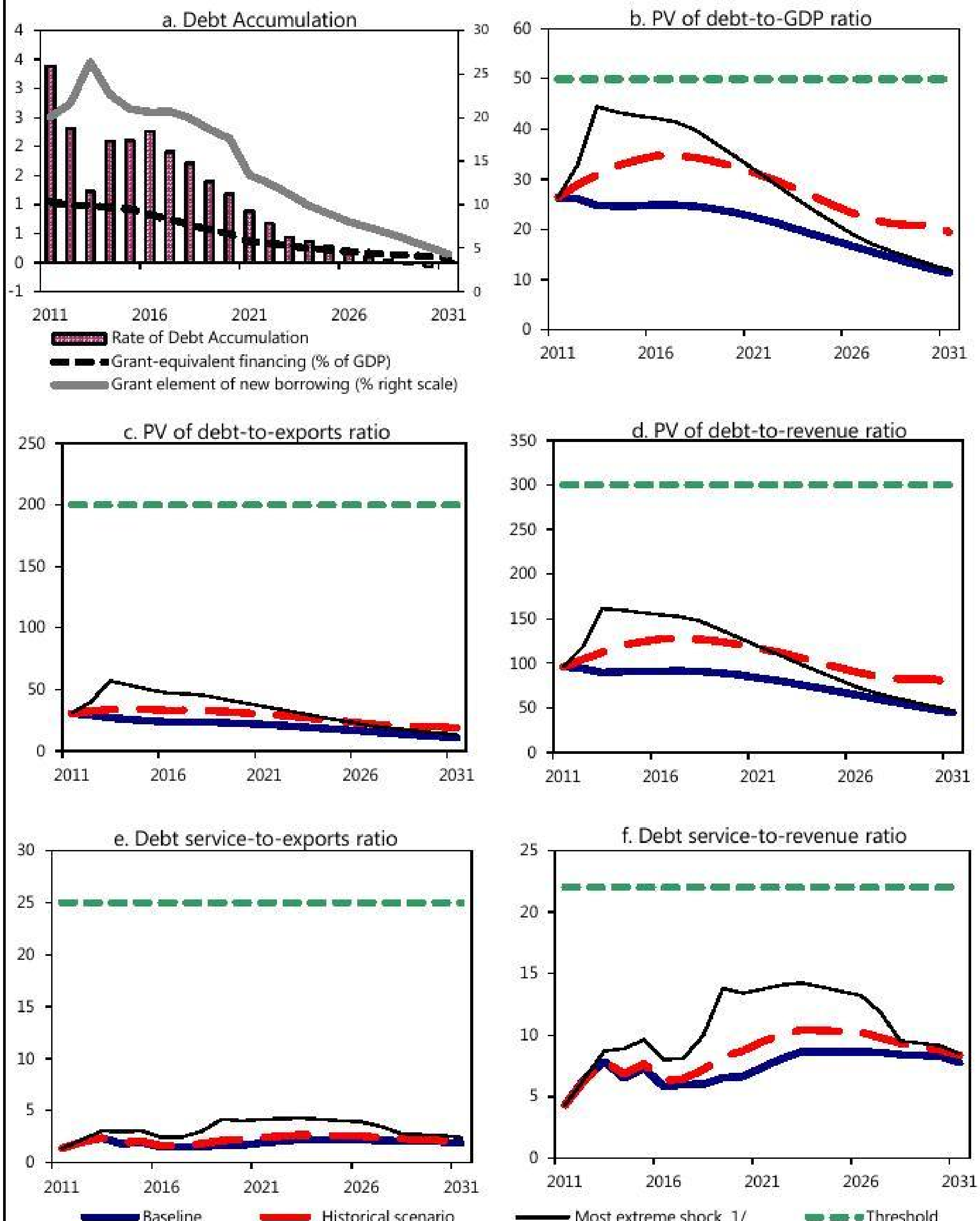
13. **The public DSA suggests that Vietnam's overall public sector debt dynamics are not at immediate risk.** However, continued fiscal consolidation with the aim of reducing the public debt-to-GDP ratio and building up cushions is necessary. Under the baseline scenario, public debt would gradually decline to more comfortable levels. However, potential contingent liabilities arising from the financial sector and SOEs pose sizable risks to public debt sustainability.

14. **Risks that stem from the possible impact of contingent liabilities on public finances need to be considered carefully.** The staffs' estimates of contingent liabilities are based on limited information on the financial state of SOCBs and SOEs, and on general experience with financial sector crises in other countries in the past, which may have little bearing on Vietnam's specific circumstances. Therefore, they are necessarily general and should be considered as indicative only. In this regard, the SBV and Ministry of Finance should strengthen their capacity to assess and monitor contingent liabilities arising from both the financial and SOE sectors.

15. **The above debt sustainability results depend critically on the underlying assumptions.** The key assumptions include: (i) a fiscal adjustment that reduces net incurrence of liabilities to around 2½ percent of GDP in order to reduce public sector debt to below 45 percent of GDP by 2016 and below 40 percent of GDP in the longer run; (ii) continued export growth and dynamism of the Vietnamese economy more generally; (iii) continued access to non-debt-creating external financing, especially private remittances and FDI; and (iv) continued albeit declining access to concessional financing by multilateral and bilateral sources in the medium term.

16. **The authorities broadly agree with the staffs on the external debt sustainability analysis.** They agree that the public debt-to-GDP ratio should decline over the medium and long term. They also share the staffs' concern on risks arising from contingent liabilities of SOEs and the banking sector, though they indicated that budgetary resources would not be used to restructure SOE debt. This policy, in their view, also limited the need to create fiscal cushions in anticipation of such contingencies, though they broadly agreed with the need to reduce public debt over the medium term.

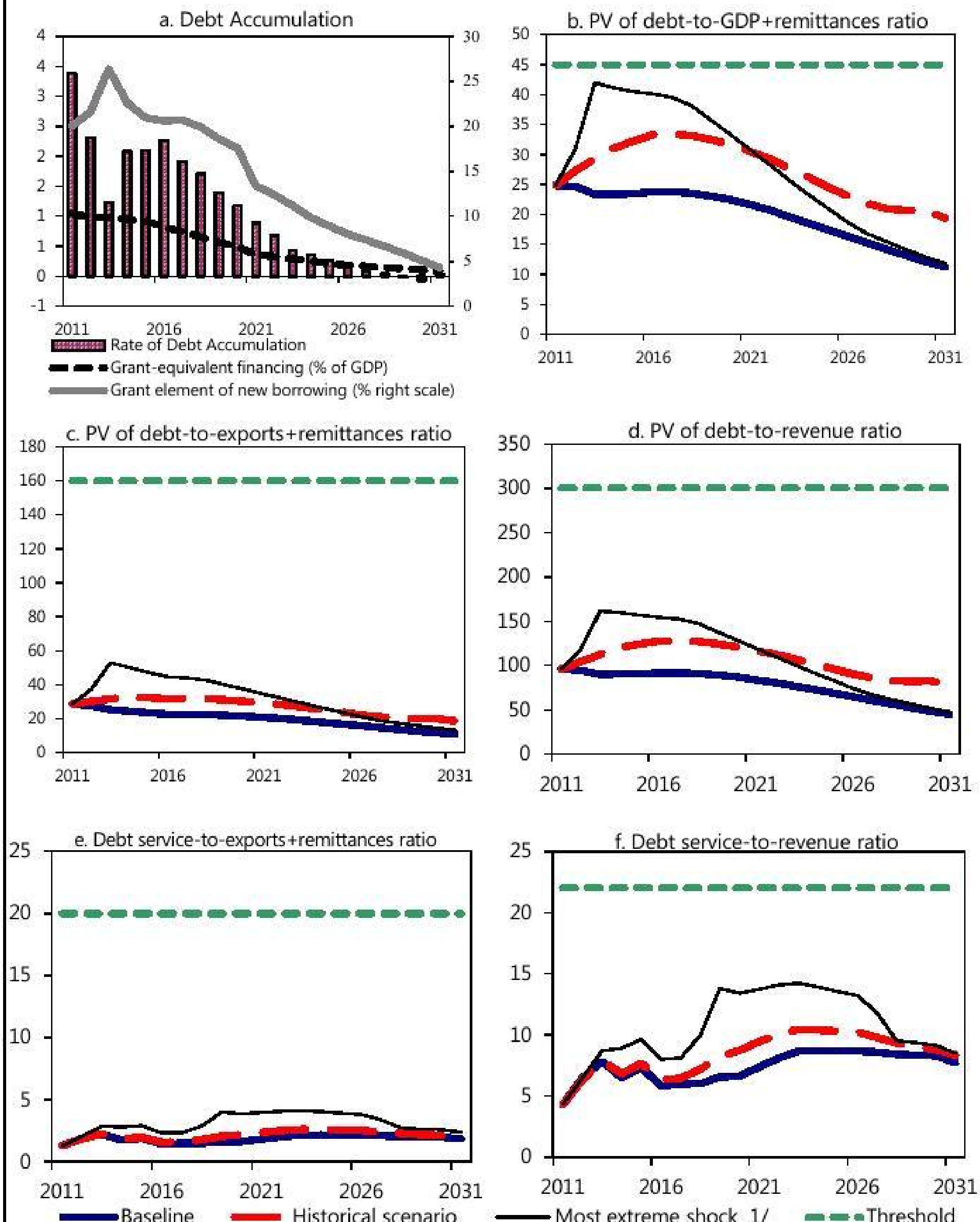
Figure 1. Vietnam: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2011–31[1]



Sources: Vietnamese authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2021. In figure b. it corresponds to a Exports shock; in c. to a Exports shock; in d. to a Exports shock; in e. to a Exports shock and in figure f. to a Exports shock.

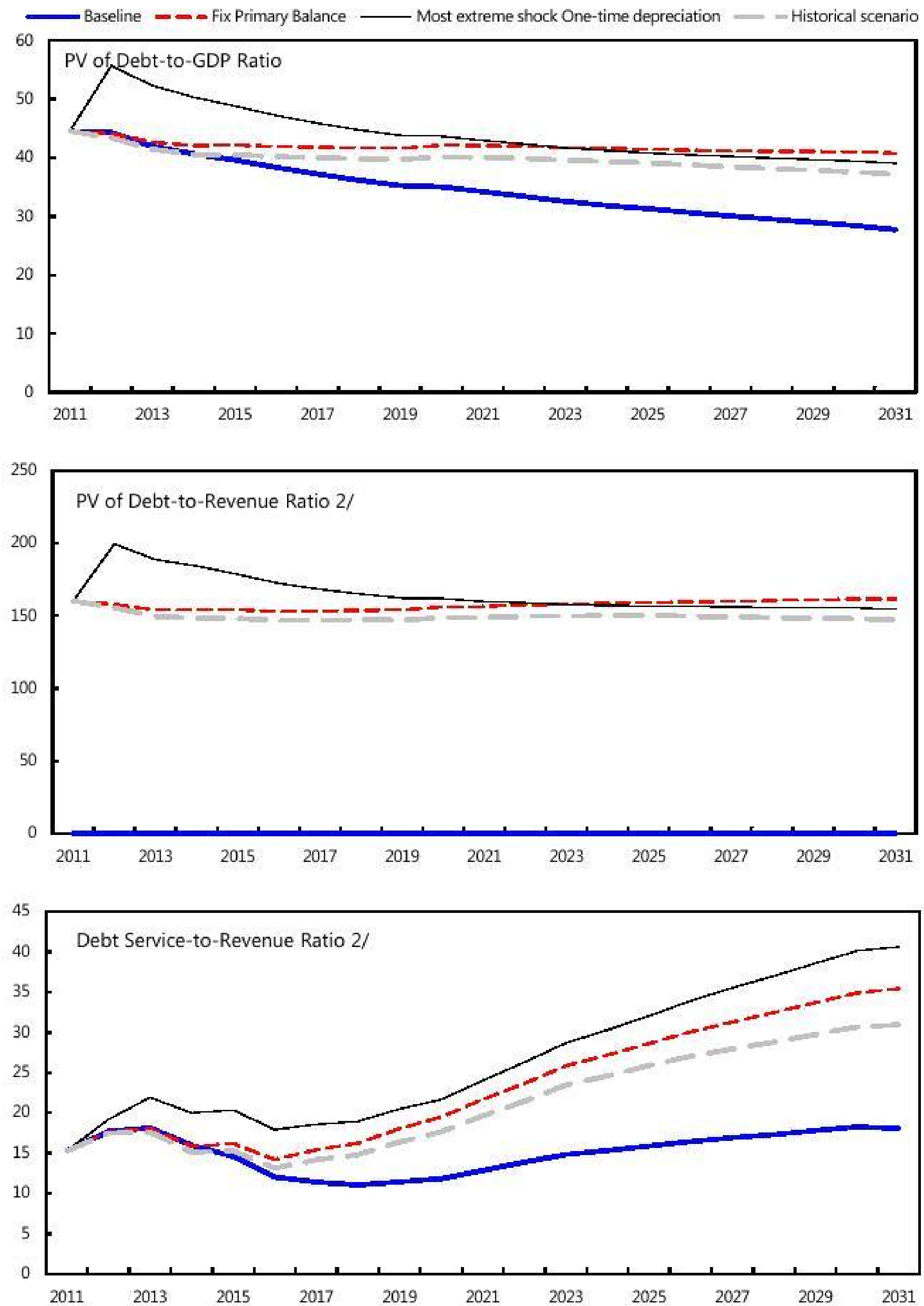
Figure 2. Vietnam: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios with Remittances, 2011–31[1]



Sources: Vietnamese authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2021. In figure b. it corresponds to a Exports shock; in c. to a Exports shock; in d. to a Exports shock; in e. to a Exports shock and in figure f. to a Exports shock.

Figure 3. Vietnam: Indicators of Public Debt Under Alternative Scenarios, 2011–31



Sources: Vietnamese authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2021.

2/ Revenues are defined inclusive of grants.

Table 1a. Vietnam: Public Sector Debt Sustainability Framework, Baseline Scenario, 2008–31

(In percent of GDP, unless otherwise indicated)

	Actual			Average 1/	Standard Deviation 1/	Estimate	Projections								
	2008	2009	2010			2011	2012	2013	2014	2015	2016	2011–16 Average	2021	2031	2017–31 Average
Public sector debt 2/	42.9	51.2	54.2			48.5	48.4	46.6	45.5	44.6	43.4		38.5	30.2	
Of which: Foreign-currency denominated	25.7	31.7	32.9			30.4	30.2	29.5	29.5	29.7	30.0		26.9	13.9	
Change in public sector debt	-1.7	8.3	3.0			-5.7	-0.1	-1.8	-1.2	-0.9	-1.2		-1.1	-0.8	
Identified debt-creating flows	-7.8	4.0	-1.6			-7.3	-1.7	-2.6	-2.0	-2.3	-2.1		-1.7	-0.9	
Primary deficit	-0.6	5.8	3.8	1.4	2.2	1.6	1.8	0.7	0.9	0.4	0.5	1.0	0.6	0.8	0.8
Revenue and grants	28.9	27.3	27.8			27.8	27.9	27.7	27.3	27.3	27.4		26.9	25.3	
of which: grants	0.6	0.5	0.3			0.3	0.2	0.1	0.1	0.1	0.1		0.1	0.0	
Primary (noninterest) expenditure	28.3	33.1	31.6			29.4	29.7	28.4	28.2	27.8	27.9		27.5	26.1	
Automatic debt dynamics	-7.2	-1.8	-5.4			-8.9	-3.6	-3.2	-3.0	-2.7	-2.6		-2.3	-1.7	
Contribution from interest rate/growth differential	-5.0	-1.9	-4.0			-6.2	-2.8	-2.2	-2.6	-2.8	-2.9		-2.6	-1.8	
Of which: Contribution from average real interest rate	-2.4	0.2	-0.8			-3.2	-0.1	0.7	0.4	0.3	0.3		0.2	0.3	
Of which: Contribution from real GDP growth	-2.6	-2.2	-3.3			-3.0	-2.8	-2.9	-3.0	-3.1	-3.1		-2.8	-2.0	
Contribution from real exchange rate depreciation	-2.2	0.2	-1.4			-2.7	-0.7	-1.0	-0.3	0.0	0.2		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	6.1	4.2	4.7			1.6	1.6	0.8	0.9	1.4	0.9		0.6	0.0	
Other Sustainability Indicators															
PV of public sector debt	...	...	49.4			44.5	44.3	42.0	40.7	39.6	38.4		34.2	27.8	
Of which: Foreign-currency denominated	...	...	28.1			26.5	26.2	24.8	24.7	24.8	25.0		22.5	11.4	
Of which: External	...	...	27.9			26.4	26.2	24.8	24.7	24.8	25.0		22.5	11.4	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 3/	4.0	11.3	8.7			6.1	6.8	6.3	5.9	5.0	4.3		4.5	6.1	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	177.2			160.4	159.0	151.4	148.9	145.0	140.0		127.3	109.8	
PV of public sector debt-to-revenue ratio (in percent)	...	...	178.8			162.1	159.9	152.2	149.6	145.7	140.6		127.6	109.9	
Of which: External 4/	...	...	101.1			96.1	94.4	89.9	90.9	91.0	91.6		84.0	45.1	
Debt service-to-revenue and grants ratio (in percent) 5/	13.6	16.2	16.0			15.3	17.7	18.1	16.0	14.6	12.0		12.8	18.1	
Debt service-to-revenue ratio (in percent) 5/	13.9	16.5	16.1			15.4	17.8	18.2	16.0	14.6	12.1		12.9	18.1	
Primary deficit that stabilizes the debt-to-GDP ratio	1.1	-2.5	0.7			7.3	1.9	2.4	2.1	1.3	1.7		1.7	1.6	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	6.3	5.3	6.8	7.3	1.0	5.9	6.0	6.3	6.9	7.3	7.5	6.7	7.5	7.0	7.3
Average nominal interest rate on forex debt (in percent)	2.2	2.4	2.5	2.3	0.2	0.3	2.2	4.0	2.3	2.2	2.3	2.2	2.4	3.3	2.7
Average real interest rate on domestic debt (in percent)	-14.2	-0.6	-6.3	-3.4	5.2	-13.0	-2.4	-1.9	-0.2	0.1	0.1	-2.9	-0.2	0.2	-0.1
Real exchange rate depreciation (in percent, + indicates depreciation)	-8.6	0.7	-4.6	-2.7	3.6	-8.8	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	22.1	6.0	11.9	8.4	5.5	20.9	8.9	7.2	4.9	4.1	3.6	8.3	3.6	4.1	3.8
Growth of real primary spending (deflated by GDP deflator, in percent)	0.0	0.2	0.0	0.1	0.1	0.0	0.1	0.0	0.1	0.1	0.1	0.0	0.1	0.1	0.1
Grant element of new external borrowing (in percent)	...	...	...	...	...	20.1	21.6	26.4	22.6	21.0	20.6	22.0	13.4	4.3	...

Sources: Vietnamese authorities; and staff estimates and projections.

1/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

2/ The public sector includes only general government and government-guaranteed debt.

3/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

4/ Revenues excluding grants.

5/ Debt service is defined as the sum of interest and amortization of medium- and long-term debt.

Table 1b. Vietnam: Sensitivity Analysis for Key Indicators of Public Debt 2011–31

				Projections				
	2011	2012	2013	2014	2015	2016	2021	2031
PV of Debt-to-GDP Ratio								
Baseline	45	44	42	41	40	38	34	28
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	45	43	41	41	40	40	40	37
A2. Primary balance is unchanged from 2011	45	44	43	42	42	42	42	41
A3. Permanently lower GDP growth 1/	45	44	42	41	41	40	38	39
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2012–13	45	44	42	40	39	38	34	27
B2. Primary balance is at historical average minus one standard deviations in 2012–13	45	46	47	45	44	43	38	31
B3. Combination of B1–B2 using one half standard deviation shocks	45	45	44	42	41	39	34	25
B4. One-time 30 percent real depreciation in 2012	45	56	52	50	49	47	43	39
B5. 10 percent of GDP increase in other debt-creating flows in 2012	45	54	52	50	49	47	42	34
PV of Debt-to-Revenue Ratio 2/								
PV of Debt-to-Revenue Ratio 2/								
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	160	156	150	149	148	147	149	147
A2. Primary balance is unchanged from 2011	160	158	154	154	154	153	157	161
A3. Permanently lower GDP growth 1/	160	160	153	151	148	144	140	153
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2012–13	160	158	151	148	144	139	126	107
B2. Primary balance is at historical average minus one standard deviations in 2012–13	160	165	168	165	161	155	141	121
B3. Combination of B1–B2 using one half standard deviation shocks	160	160	159	155	150	144	125	98
B4. One-time 30 percent real depreciation in 2012	160	200	189	184	179	172	160	155
B5. 10 percent of GDP increase in other debt-creating flows in 2012	160	195	187	184	179	173	157	134
Debt Service-to-Revenue Ratio 2/								
PV of Debt-to-Revenue Ratio 2/	15	18	18	16	15	12	13	18
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	15	17	18	15	15	13	20	31
A2. Primary balance is unchanged from 2011	15	18	18	16	16	14	22	35
A3. Permanently lower GDP growth 1/	15	18	18	16	15	13	16	31
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2012–13	15	18	18	16	14	12	12	17
B2. Primary balance is at historical average minus one standard deviations in 2012–13	15	18	19	20	21	17	18	22
B3. Combination of B1–B2 using one half standard deviation shocks	15	18	18	17	18	14	13	15
B4. One-time 30 percent real depreciation in 2012	15	19	22	20	20	18	24	41
B5. 10 percent of GDP increase in other debt-creating flows in 2012	15	18	22	33	25	25	24	27

Sources: Vietnamese authorities; and staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

Table 2a. Vietnam: External Debt Sustainability Framework, Baseline Scenario, 2008–31 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical 2/ Average	Standard 2/ Deviation	Projections									
	2008	2009	2010			2011	2012	2013	2014	2015	2016	2011–16 Average	2021	2031	2017–31 Average
External debt (nominal) 1/	**32.4**	**41.6**	**43.8**			**41.1**	**41.2**	**40.4**	**40.5**	**40.9**	**41.5**		**37.2**	**23.3**	
o/w public and publicly guaranteed (PPG)	25.7	31.1	32.7			30.4	30.2	29.5	29.5	29.7	30.0		26.9	13.9	
Change in external debt	1.0	9.2	2.3			-2.8	0.1	-0.8	0.1	0.4	0.6		-1.4	-1.1	
Identified net debt-creating flows	-2.9	-1.2	-6.5			-7.2	-6.5	-6.2	-6.0	-5.4	-5.2		-4.8	-3.1	
Non-interest current account deficit	**11.3**	**5.6**	**3.2**	**3.3**	**4.5**	**0.2**	**-0.1**	**-0.7**	**-0.1**	**0.3**	**0.3**		**0.0**	**-0.4**	-0.3
Deficit in balance of goods and services	15.2	10.2	7.3			2.8	2.3	2.5	2.4	2.7	2.8		2.1	-1.8	
Exports	77.2	67.4	76.9			86.2	89.3	92.0	95.6	100.4	105.3		104.4	104.4	
Imports	92.4	77.6	84.2			89.0	91.7	94.4	98.0	103.1	108.1		106.5	102.7	
Net current transfers (negative = inflow)	-8.1	-6.9	-7.6	-6.6	1.5	-6.4	-6.2	-6.1	-5.8	-5.5	-5.1		-4.1	-1.3	-3.2
o/w official	-0.6	-0.5	-0.3			-0.2	-0.2	-0.2	-0.1	-0.1	-0.1		0.0	0.0	
Other current account flows (negative = net inflow)	4.2	2.3	3.5			3.7	3.7	2.9	3.2	3.0	2.7		1.9	2.8	
Net FDI (negative = inflow)	**-8.2**	**-6.8**	**-6.5**	**-4.4**	**2.5**	**-5.6**	**-5.0**	**-4.6**	**-4.3**	**-4.0**	**-3.7**		**-3.1**	**-2.0**	-2.8
Endogenous debt dynamics 3/	**-6.0**	**0.0**	**-3.2**			**-1.8**	**-1.3**	**-0.9**	**-1.6**	**-1.7**	**-1.8**		**-1.6**	**-0.7**	
Contribution from nominal interest rate	0.7	1.0	1.0			0.4	0.9	1.5	1.0	1.0	1.1		1.0	0.9	
Contribution from real GDP growth	-1.6	-1.7	-2.5			-2.2	-2.2	-2.4	-2.6	-2.7	-2.8		-2.7	-1.6	
Contribution from price and exchange rate changes	-5.1	0.7	-1.6			...	...	...	...	...	...		...	...	
Residual (3–4) 4/	**3.9**	**10.4**	**8.7**			**4.4**	**6.6**	**5.5**	**6.1**	**5.8**	**5.8**		**3.3**	**2.0**	
Of which: Exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 5/	...	...	39.0			37.1	37.1	35.7	35.7	35.9	36.4		32.9	20.9	
In percent of exports	...	...	50.7			43.1	41.5	38.8	37.3	35.8	34.6		31.5	20.0	
PV of PPG external debt	**...**	**...**	**27.9**			**26.4**	**26.2**	**24.8**	**24.7**	**24.8**	**25.0**		**22.5**	**11.4**	
In percent of exports	**...**	**...**	**36.3**			**30.7**	**29.3**	**26.9**	**25.8**	**24.7**	**23.7**		**21.6**	**10.9**	
In percent of government revenues	**...**	**...**	**101.1**			**96.1**	**94.4**	**89.9**	**90.9**	**91.0**	**91.6**		**84.0**	**45.1**	
Debt service-to-exports ratio (in percent)	**2.9**	**4.9**	**3.3**			**2.8**	**3.5**	**3.8**	**3.2**	**3.2**	**2.6**		**3.1**	**2.9**	
PPG debt service-to-exports ratio (in percent)	**1.6**	**2.1**	**2.0**			**1.4**	**2.0**	**2.4**	**1.8**	**2.0**	**1.5**		**1.9**	**1.9**	
PPG debt service-to-revenue ratio (in percent)	**4.3**	**5.2**	**5.5**			**4.3**	**6.5**	**7.9**	**6.5**	**7.3**	**5.8**		**7.4**	**7.7**	
Total gross financing need (inbillions of U.S. dollars)	5.0	4.1	4.5			2.1	3.5	4.1	5.3	7.3	7.5		12.1	24.3	
Non-interest current account deficit that stabilizes debt ratio	10.2	-3.6	1.0			2.9	-0.2	0.1	-0.2	-0.1	-0.3		1.4	0.7	
Key macroeconomic assumptions															
Real GDP growth (in percent)	6.3	5.3	6.8	7.3	1.0	5.9	6.0	6.3	6.9	7.3	7.5	6.7	7.5	7.0	7.3
GDP deflator in U.S. dollar terms (change in percent)	19.4	-2.0	4.1	5.3	6.2	11.9	4.3	3.1	1.9	1.0	0.6	3.8	0.6	1.1	0.7
Effective interest rate (percent) 6/	2.8	3.2	2.6	2.7	0.3	1.1	2.5	3.9	2.6	2.7	2.8	2.6	2.9	3.9	3.3
Growth of exports of G&S (U.S. dollar terms, in percent)	27.7	-10.0	26.9	17.2	12.4	32.8	14.7	12.8	13.2	13.9	13.4	16.8	7.6	8.5	8.0
Growth of imports of G&S (U.S. dollar terms, in percent)	26.7	-13.3	20.7	18.4	14.3	25.2	13.9	12.9	13.0	14.0	13.4	15.4	7.3	8.1	7.7
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	20.1	21.6	26.4	22.6	21.0	20.6	22.0	13.4	4.3	11.3
Government revenues (excluding grants, in percent of GDP)	28.3	26.8	27.6			27.5	27.7	27.6	27.2	27.2	27.3		26.8	25.2	26.2
Aid flows (in billions of U.S. dollars) 7/	3.8	7.4	5.5			1.3	1.3	1.3	1.3	1.2	1.1		0.2	0.1	
Of which: Grants	0.6	0.4	0.3			0.3	0.2	0.2	0.2	0.2	0.2		0.2	0.1	
Of which: Concessional loans	3.2	6.9	5.2			1.0	1.1	1.1	1.1	1.0	0.9		0.0	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			1.1	1.0	1.0	0.9	0.9	0.8		0.4	0.1	0.3
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			25.6	25.0	29.7	25.4	23.4	23.0		15.8	5.6	13.3
Memorandum items:															
Nominal GDP (in billions of U.S. dollars)	90.3	93.2	103.6			122.7	135.8	148.8	162.1	175.7	190.0		280.1	610.0	
Nominal dollar GDP growth	27.0	3.2	11.2			18.5	10.6	9.6	8.9	8.4	8.2	10.7	8.1	8.2	8.1
PV of PPG external debt (in billions of U.S. dollars)			28.3			31.8	34.7	36.3	39.4	42.9	46.8		62.2	68.5	
(PVt-PVt-1)/GDPt-1 (in percent)						3.4	2.3	1.2	2.1	2.1	2.3	2.2	0.9	0.0	0.6
Gross workers' remittances (in billions of U.S. dollars)	6.8	6.0	7.6			7.6	8.1	8.8	9.1	9.4	9.6		11.3	8.2	
PV of PPG external debt (in percent of GDP + remittances)	...	...	26.0			24.9	24.7	23.4	23.4	23.5	23.8		21.6	11.2	
PV of PPG external debt (in percent of exports + remittances)	...	...	33.1			28.6	27.5	25.3	24.4	23.4	22.7		20.8	10.8	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	1.8			1.3	1.9	2.2	1.7	1.9	1.4		1.8	1.8	

Sources: Vietnamese authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

3/ Derived as $[r - g - \rho(1+g)]/(1+g+\rho+g\rho)$ times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

4/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

5/ Assumes that PV of private sector debt is equivalent to its face value.

6/ Current-year interest payments divided by previous period debt stock.

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 2b. Vietnam: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2011–31

(In percent)

	Projections							
	2011	2012	2013	2014	2015	2016	**2021**	2031
PV of debt-to-GDP ratio								
Baseline	26	26	25	25	25	25	**23**	11
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011–31 1/	26	29	31	33	34	35	**31**	19
A2. New public sector loans on less favorable terms in 2011–31 2/	26	27	27	27	28	29	**29**	20
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012–13	26	25	24	24	24	25	**22**	11
B2. Export value growth at historical average minus one standard deviation in 2012–13 3/	26	33	44	43	43	42	**32**	12
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012–13	26	27	27	27	27	27	**24**	12
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012–2013 4/	26	29	32	31	31	31	**26**	11
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012–13 4/	26	31	36	35	35	34	**28**	12
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	26	36	34	34	34	34	**31**	16
PV of debt-to-exports ratio								
Baseline	31	29	27	26	25	24	**22**	11
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011–31 1/	31	32	34	34	34	33	**30**	19
A2. New public sector loans on less favorable terms in 2011–31 2/	31	30	29	29	28	28	**28**	19
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012–13	31	29	27	25	24	23	**21**	11
B2. Export value growth at historical average minus one standard deviation in 2012–13 3/	31	40	57	54	50	47	**36**	14
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012–13	31	29	27	25	24	23	**21**	11
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012–13 4/	31	33	34	33	31	29	**25**	11
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012–13 4/	31	35	40	38	35	34	**27**	12
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	31	29	27	25	24	23	**21**	11
PV of debt-to-revenue ratio								
Baseline	96	94	90	91	91	92	**84**	45
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011–31 1/	96	104	112	120	124	127	**117**	77
A2. New public sector loans on less favorable terms in 2011–31 2/	96	96	97	101	104	107	**108**	79
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012–13	96	92	88	89	89	90	**82**	44
B2. Export value growth at historical average minus one standard deviation in 2012–13 3/	96	118	161	160	157	155	**119**	48
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012–13	96	97	97	98	98	99	**90**	48
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012–13 4/	96	106	115	115	114	113	**95**	45
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012–13 4/	96	111	129	129	127	126	**103**	47
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	96	129	124	125	126	126	**115**	62

Table 2b. Vietnam: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2011–31 (concluded)

(In percent)

		Projections						
	2011	2012	2013	2014	2015	2016	**2021**	2031
Debt service-to-exports ratio								
Baseline	1	2	2	2	2	2	**2**	2
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011–31 1/	1	2	2	2	2	2	**2**	2
A2. New public sector loans on less favorable terms in 2011–31 2/	1	2	2	2	2	1	**2**	3
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012–13	1	2	2	2	2	2	**2**	2
B2. Export value growth at historical average minus one standard deviation in 2012–13 3/	1	2	3	3	3	2	**4**	2
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012–13	1	2	2	2	2	2	**2**	2
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012–13 4/	1	2	2	2	2	2	**2**	2
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012–13 4/	1	2	3	2	2	2	**3**	2
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	1	2	2	2	2	2	**2**	2
Debt service-to-revenue ratio								
Baseline	4	6	8	6	7	6	**7**	8
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011–31 1/	4	6	8	7	8	6	**9**	8
A2. New public sector loans on less favorable terms in 2011–31 2/	4	6	7	6	7	5	**8**	11
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012–13	4	6	8	6	7	6	**7**	8
B2. Export value growth at historical average minus one standard deviation in 2012–13 3/	4	6	9	9	10	8	**14**	8
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2012–13	4	7	9	7	8	6	**8**	8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012–13 4/	4	6	8	7	8	7	**10**	8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012–13 4/	4	7	9	8	9	7	**11**	8
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	4	9	11	9	10	8	**10**	11
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	5	5	5	5	5	5	**5**	5

Sources: Vietnamese authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 2c. Vietnam: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, with Remittances 2011–31

(In percent)

		Projections						
	2011	2012	2013	2014	2015	2016	**2021**	2031
PV of debt-to-GDP+remittances ratio								
Baseline	25	25	23	23	23	24	**22**	11
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011–31 1/	25	27	29	31	32	33	**31**	19
A2. New public sector loans on less favorable terms in 2011–31 2/	25	25	25	26	27	28	**28**	20
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012–13	25	24	23	23	23	23	**21**	11
B2. Export value growth at historical average minus one standard deviation in 2012–13 3/	25	31	42	41	41	40	**31**	12
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2012–13	25	25	25	25	25	26	**23**	12
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012–13 4/	25	28	30	30	29	29	**25**	11
B5. Combination of B1–B4 using one-half standard deviation shocks	25	29	34	33	33	33	**27**	12
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	25	33	32	32	32	32	**29**	15
PV of debt-to-exports+remittances ratio								
Baseline	29	27	25	24	23	23	**21**	11
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011–31 1/	29	30	32	32	32	32	**29**	19
A2. New public sector loans on less favorable terms in 2011–31 2/	29	28	27	27	27	26	**27**	19
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012–13	29	27	25	24	23	22	**20**	11
B2. Export value growth at historical average minus one standard deviation in 2012–13 3/	29	37	53	50	47	45	**35**	13
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2012–13	29	27	25	24	23	22	**20**	11
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012–13 4/	29	31	33	31	29	28	**24**	11
B5. Combination of B1–B4 using one-half standard deviation shocks	29	33	37	35	34	32	**26**	11
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	29	27	25	24	23	22	**20**	11
PV of debt-to-revenue ratio								
Baseline	96	94	90	91	91	92	**84**	45
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011–31 1/	96	104	112	120	124	127	**117**	77
A2. New public sector loans on less favorable terms in 2011–31 2/	96	96	97	101	104	107	**108**	79
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012–13	96	92	88	89	89	90	**82**	44
B2. Export value growth at historical average minus one standard deviation in 2012–13 3/	96	118	161	160	157	155	**119**	48
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2012–13	96	97	97	98	98	99	**90**	48
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012–13 4/	96	106	115	115	114	113	**95**	45
B5. Combination of B1–B4 using one-half standard deviation shocks	96	111	129	129	127	126	**103**	47
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	96	129	124	125	126	126	**115**	62

Table 2c. Vietnam: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, with Remittances 2011–31 (concluded)

(In percent)

		Projections						
	2011	2012	2013	2014	2015	2016	**2021**	2031
Debt service-to-exports+remittances ratio								
Baseline	1	2	2	2	2	1	**2**	2
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011–31 1/	1	2	2	2	2	2	**2**	2
A2. New public sector loans on less favorable terms in 2011–31 2/	1	2	2	2	2	1	**2**	3
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012–13	1	2	2	2	2	1	**2**	2
B2. Export value growth at historical average minus one standard deviation in 2012–13 3/	1	2	3	3	3	2	**4**	2
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2012–13	1	2	2	2	2	1	**2**	2
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012–13 4/	1	2	2	2	2	2	**2**	2
B5. Combination of B1–B4 using one-half standard deviation shocks	1	2	2	2	2	2	**3**	2
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	1	2	2	2	2	1	**2**	2
Debt service-to-revenue ratio								
Baseline	4	6	8	6	7	6	**7**	8
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011–31 1/	4	6	8	7	8	6	**9**	8
A2. New public sector loans on less favorable terms in 2011–31 2/	4	6	7	6	7	5	**8**	11
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012–13	4	6	8	6	7	6	**7**	8
B2. Export value growth at historical average minus one standard deviation in 2012–13 3/	4	6	9	9	10	8	**14**	8
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2012–13	4	7	9	7	8	6	**8**	8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012–13 4/	4	6	8	7	8	7	**10**	8
B5. Combination of B1–B4 using one-half standard deviation shocks	4	7	9	8	9	7	**11**	8
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	4	9	11	9	10	8	**10**	11
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	5	5	5	5	5	5	**5**	5

Sources: Vietnamese authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt-creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Statement by the Staff Representative on Vietnam
Executive Board Meeting
May 25, 2012

1. This statement provides information that has become available since the staff report (SM/12/95) was circulated to the Executive Board on April 30, 2012. This information does not alter the thrust of the staff appraisal.

2. Inflation has continued to decelerate. Inflation slowed to 8.3 percent (y/y) in May, the first time in single digits since October 2010.

3. The authorities revised their estimate of the current account for 2011. Instead of a deficit of $0.7 billion (0.5 percent of GDP), the current account now shows a surplus of $0.2 billion (0.2 percent of GDP). This revision does not change overall gross international reserves accumulation, which remains at $13.5 billion.

Summary Balance of Payments, 2011

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

	2011	
	Revised	**Previous**
Current account balance	0.2	-0.7
Of which: Trade balance	-0.4	-0.4
Capital and financial account balance	6.4	5.4
Errors and omissions	-5.5	-3.6
Memorandum items:		
Gross international reserves	13.5	13.5
In months of prospective GNFS imports	1.3	1.3
Current account balance (in percent of GDP)	0.2	-0.5
Capital and financial account balance (in percent of GDP)	5.2	4.4

Sources: Vietnamese authorities.

INTERNATIONAL MONETARY FUND
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Washington, D.C. 20431 USA

IMF Executive Board Concludes 2012 Article IV Consultation with Vietnam

On May 25, 2012, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Vietnam.[1]

Background

As tighter macroeconomic policies were having an effect and the credibility of the State Bank of Vietnam (SBV) was strengthening significantly, the economy began to stabilize. GDP growth for 2011 decelerated to below 6 percent and declined to 4 percent year-on-year (y/y) in the first quarter of 2012. Credit growth slowed to 14.3 percent y/y in 2011, and inflation, after peaking at 23 percent in August 2011, declined to 10.5 percent in April. The current account moved to a small surplus of 0.2 percent of GDP in 2011 from a deficit of over 4 percent in 2010. Confidence in the Vietnam dong has improved, bringing the informal interbank exchange rate back within the official trading band. Investors, both domestic and foreign, are shifting into dong assets, allowing the SBV to increase international reserves significantly in the first three months of 2012, though they remain low.

The authorities adopted a stabilization package in February 2011 in response to increasing pressures on prices and the exchange rate in late 2010. As a result, they tightened macroeconomic policies significantly during 2011. Policy interest rates were raised, a credit

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

growth ceiling was imposed, and investment by the government and state-owned enterprises was contained. These policies had the desired effect, but with the sharper-than-expected slowdown of the economy and the rapid fall in inflation in early 2012, the SBV reduced policy interest rates three times over three months since March. The government also began to encourage more bank credit to strategic sectors (agriculture, SMEs, etc). The authorities maintained, however, that macroeconomic stability was of paramount importance. In addition, the authorities have taken action to address vulnerabilities at a number of small weak banks. The nine banks classified as weak were placed under the special inspection, and required to present restructuring and recapitalization plans for approval by the SBV. The authorities have also adopted a comprehensive medium-term strategy to strengthen the financial sector as a whole.

Despite the sharp slowdown in the first quarter, the economy is projected to stabilize further in 2012 given that the recent reduction of policy interest rates and a modest fiscal expansion are expected to cushion adverse effects from slowing domestic and external demand. As a result, GDP is projected to grow at 6 percent and inflation to decline to about 10¾ percent for 2012 (8¼ percent y/y at year-end). International reserves would increase further from the level reached in March, even as the current account deficit would rise somewhat. Risks to this scenario are tilted to the downside. In addition to a slowdown in export markets, there is a risk that pressures on prices and the exchange rate could resurface, if the authorities' commitment to stabilizing the economy and safeguarding the financial sector is perceived as waning.

Executive Board Assessment

Executive Directors commended the tightening of macroeconomic policies in 2011, which contributed to declining inflation, stabilizing the exchange rate, and a rebuilding of international reserves. While welcoming the authorities' commitment to macroeconomic stability, Directors noted that vulnerabilities and risks remain. A key challenge will be to balance support for the slowing economy against the risk of eroding hard-won confidence, while rebuilding policy buffers. Directors emphasized the need to resist loosening policies prematurely and to accelerate structural reforms.

Directors stressed that a cautious monetary policy stance is needed to build on recent gains in stability. While recognizing that slowing economic activity and falling inflation provide a basis for policy easing, Directors recommended that monetary policy give priority to reducing inflation and rebuilding reserves further. In this context, Directors emphasized the importance of giving careful consideration to further cuts in policy rates. In the medium term, the authorities should move toward market-based policy instruments and a more flexible exchange rate regime.

Directors agreed that fiscal policy needs to continue to support macroeconomic stability, especially in light of the recent sizable civil service salary adjustment. Noting that some progress has been made in rationalizing public investment, they recommended focusing further on containing current non-wage spending and improving the quality of public spending. They encouraged the implementation of the planned medium-term tax reforms to broaden the tax base and prepare for a decline in oil revenue.

Directors welcomed steps taken to date to contain problems in weak banks, but urged the authorities to speed up implementation of their bank restructuring plan. Banks should recognize nonperforming loans, enhance the size and quality of their capital, and improve corporate governance. The authorities need to strengthen the supervisory and regulatory framework, including on bank resolution, and improve transparency in the banking sector. Directors looked forward to the forthcoming Financial Sector Assessment Program (FSAP) for providing reform momentum. They also stressed the importance of strengthening legislation against money laundering and terrorism financing.

Directors called for intensification of efforts to reform state-owned enterprises and improve the business environment, both key actions to enhance growth potential and reduce budgetary and financial sector risks. They welcomed the plans for equitization and privatization of a large number of state-owned enterprises, but emphasized that improving accountability and financial discipline holds the key for successful reform.

Directors encouraged the authorities to increase the frequency, quality, and transparency of economic statistics.

Selected Economic Indicators, 2008–13

	2008	2009	2010	Est. 2011	Projections 2012	Projections 2013
Output						
Real GDP (percent change)	6.3	5.3	6.8	5.9	6.2	6.3
Saving and investment (in percent of GDP)						
Gross national saving	27.8	31.6	34.9	29.3	33.5	33.1
Private	20.8	26.8	30.0	24.4	30.0	29.3
Public	7.0	4.7	4.9	5.0	3.5	3.7
Gross investment	39.7	38.1	39.0	29.9	34.3	33.8
Private	30.5	24.6	27.9	21.4	26.8	26.6
Public	9.2	13.6	11.2	8.5	7.5	7.2
Prices (percent change)						
CPI (period average)	23.1	6.7	9.2	18.7	10.8	7.4
CPI (end of period)	19.9	6.5	11.7	18.1	8.2	6.0
Core inflation (end of period)	16.3	6.1	8.8	12.7	...	...
General government finances (in percent of GDP) 1/						
Revenue and grants	28.9	27.3	27.8	27.8	27.9	27.7
Of which: Oil revenue	6.0	3.7	3.5	4.4	3.9	3.6
Expenditure	29.4	34.5	33.1	30.3	31.3	30.3
Expense	20.3	21.0	21.9	22.0	23.9	23.1
Net acquisition of nonfinancial assets	9.1	13.4	11.2	8.4	7.5	7.2
Net lending (+)/borrowing(-) 2/	-0.5	-7.2	-5.2	-2.6	-3.4	-2.6
Public and publicly guaranteed debt (end of period)	42.9	51.2	54.2	48.3	48.2	46.6
Money and credit (percent change, end of period)						
Broad money (M2)	20.3	29.0	33.3	12.1	21.6	18.1
Credit to the economy	25.4	39.6	32.4	14.3	16.8	14.4
Interest rates (in percent, end of period)						
Nominal three-month deposit rate (households)	8.1	10.7	11.6	14.9	...	...
Nominal short-term lending rate (less than one year)	11.5	12.7	14.0	16.4	...	...
Balance of payments (in percent of GDP, unless otherwise indicated)						
Current account balance (including official transfers)	-11.9	-6.6	-4.1	0.2	-0.8	-0.7
Exports f.o.b.	69.4	61.3	69.7	79.0	81.7	84.2
Imports f.o.b.	83.6	70.2	74.7	79.3	83.5	86.2
Capital and financial account	14.0	12.2	4.4	5.2	4.1	3.5
Gross international reserves (in billions of U.S. dollars, end of period) 3/	23.0	14.1	12.4	13.5	19.0	25.7
In months of prospective GNFS imports	3.8	1.9	1.4	1.3	1.6	1.9
Total external debt (end of period) 4/	32.4	41.6	43.8	40.9	41.0	40.4
Nominal exchange rate (dong/U.S. dollar, end of period)	17,483	18,479	19,498	21,034	...	...
Nominal effective exchange rate (end of period)	92.0	80.8	81.0	67.5	...	...
Real effective exchange rate (end of period)	125.7	115.8	117.0	121.3	...	...
Memorandum items:						
GDP (in trillions of dong at current market prices)	1,485	1,658	1,981	2,535	2,927	3,336
GDP (in billions of U.S. dollars)	90.3	93.2	103.6	122.7	135.8	148.8
Per capita GDP (in U.S. dollars)	1,048	1,068	1,174	1,374	1,502	1,627

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

1/ Follows the format of the *Government Finance Statistics Manual* for 2001.

2/ Excludes net lending of the Vietnam Development Bank.

3/ Excludes government deposits.

4/ Uses interbank exchange rate.