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Vietnam

Deepening Reform for Growth

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ABBREVIATIONS

ADB	Asian Development Bank
ASEAN	Association of Southeast Asian Nations
EPZ	Export Processing Zone
ESAF	Enhanced Structural Adjustment Facility
GDP	Gross Domestic Product
HCMC	Ho Chi Minh City
ICOR	Incremental Capital Output Ratio
IDA	International Development Association
IMF	International Monetary Fund
IP	Industrial Park
JV	Joint Venture
MOF	Ministry of Finance
MOLISA	Ministry of Labor, War Invalids and Social Affairs
MPI	Ministry of Planning and Investment
ODA	Official Development Assistance
OOG	Office of Government
QRs	Quantitative Restrictions
SAC	Structural Adjustment Credit
SBV	State Bank of Vietnam
SME	Small and Medium Enterprises
SOE	State Owned Enterprise
UNDP	United Nations Development Programme
VAT	Value-Added Tax
VCCI	Vietnam Chamber of Commerce and Industry

Vice President	:	Jean-Michel Severino
Country Director, Vietnam	:	Andrew Steer
Sector Manager, PREM (Acting)	:	Pieter Bottelier
Task Manager	:	Victoria Kwakwa

VIETNAM

DEEPENING REFORM FOR GROWTH

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EXECUTIVE SUMMARY

1. Vietnam has achieved remarkable economic success over the last decade. Macroeconomic and structural reforms initiated in the late 1980s have stabilized the economy, and yielded unprecedented levels of income growth. Vietnam's successes have been widely recognized and the country is perceived as a nascent Asian Tiger. Vietnam is nevertheless only at the beginning of a long and difficult transition from a low-income economy to a status equivalent to its ASEAN partners. It is still one of the poorest countries in the world with GNP per capita of about US\$ 300 and over half of its population classified as poor. Income disparities, particularly between rural and urban populations, are large and widening. The current financial crisis in surrounding East Asian countries has also made Vietnam's short-term economic reform agenda both more difficult and more urgent.

2. The Government intends to build on its success and has set ambitious medium term development objectives, including achieving per capita income growth of between seven and eight percent annually, and building a modern industrialized economy within the next twenty years. At the heart of the Government's medium term objectives is ensuring that this rapid growth and transformation of the economy occurs in parallel with a significant reduction in poverty and greater equity. This will demand a pattern of economic transformation that generates higher productivity employment opportunities for a rapidly growing labor force, particularly in the rural areas where over three quarters of the Vietnamese people still live.

3. The key message of this report is that *Vietnam's ambitious development objectives are achievable but will require a substantially reinvigorated structural reform effort*. Vietnam's industrious labor force, its potentially dynamic private sector, and its macroeconomic stability, all augur well for the achievement of rapid and sustained growth. But continued rapid economic progress and poverty reduction cannot be taken for granted. Vietnam needs to be careful to avoid the trap that other countries have fallen into of locking into an inefficient capital stock which has led to economic decline and severe macroeconomic instability. Signs are already emerging that distortions in the incentive framework may be encouraging a pattern of growth that favors lower productivity capital-intensive activities over export-oriented labor-absorbing ones and urban areas over rural areas. This is contrary to the Government's own stated objective of improving the productivity and efficiency of the economy, and promoting export-oriented labor-absorbing growth. Further reforms are therefore urgently needed to remove existing biases and create a more neutral economic environment that fosters greater efficiency of resource use, and promotes broader-based economic growth.

4. The new Government's recent statement of its intention to embark immediately on a deeper round of reforms is thus appropriate. It is also timely in light of recent

financial developments in neighboring countries, which will likely result in a less favorable external environment for Vietnam's economic growth. *Deeper reforms will allow Vietnam to achieve the large increases in domestic savings necessary to ensure the sustainability of growth, while at the same time ensuring that the economy continues to attract large inflows of external capital and channels these inflows into the most productive areas.* This report hopes to help review Vietnam's recent economic success, highlighting both its impressive achievements, as well as some worrying trends. It also hopes to help identify key economic reforms that are needed to sustain rapid and broad-based growth.

Box 1: Summary of Measures under Vietnam's Reform Program, 1989-1996

- **Agricultural Reforms**
 - Dismantled collective agriculture in favor of system with individual families as the basic unit;
 - Guaranteed security of tenure in new land law defining rights of farmers;
 - Freed farmers to sell their produce on the market;
 - Liberalized domestic rice trade.
- **Price Reform**
 - Removed virtually all administered prices.
- **Exchange Rate**
 - Unified exchange rate now largely determined by foreign exchange trading on the interbank market.
- **Interest Rate Reform**
 - Raised interest rates in real terms to positive levels;
 - Abolished specific lending rates in favor of lending rates differentiated by term structure;
 - Switched from mandating specific deposit rates to controlling rates by applying limit to banks' interest rate spreads for Dong lending while maintaining maximum lending rates.
- **Fiscal Reform**
 - Reduced size of civil service;
 - Passed organic Budget Law;
 - Enacted new tax laws to replace turnover tax with a three-rated VAT and replace the profit tax by a uniform enterprise tax.
- **Foreign Trade and Investment**
 - Eliminated many trade barriers, including most import quotas;
 - Shifted decisions about foreign trade from state to enterprise level;
 - Allowed increasing numbers of enterprises to engage directly in international trade;
 - Adopted Foreign Investment Law in 1989, amended several times to respond to investor concerns.
- **Financial Sector Reform**
 - Developed two-tier banking system;
 - Opened banking system to private shareholding and cooperative banks, joint ventures with foreign banks and wholly foreign owned banks.
- **State Enterprise Reform**
 - Reduced number of enterprises to about 6,000 from over 12,000;
 - Eliminated virtually all direct subsidies to state enterprises;
 - Passed Law on State Enterprises (1995) and implementing regulations (1996);
 - Begun pilot equitization program--13 enterprises equitized.
- **Private Sector**
 - Passed Company Law (1990, amended in 1994);
 - Established same tax rates for both private and state enterprises;
 - Passed Bankruptcy Law (1993).

Longer Term Reform

5. Vietnam's reform program was initiated in the late 1980s in response to macroeconomic imbalances, growing rural hunger and economic stagnation. The underlying objective was to improve the economy's efficiency while preserving the central role of the state sector. Key structural reforms under the program are summarized in Box 1.

6. These reforms, coupled with stringent monetary and fiscal policies, have reduced economy-wide distortions that inhibited growth, and have created a stable macroeconomic environment. This has, in turn, generated a tremendous increase in both domestic and foreign investment, spurred domestic savings and supported rapid growth. Box 2 details some of the achievements of the last decade of reforms.

Box 2: Vietnam's Reforms have Yielded Impressive Results

Vietnam's reforms have yielded an impressive pay-off, well exceeding original expectations. Not only has the economic decline of the 1980s been halted, Vietnam has become one of the fastest growing economies in the world. Highlights of successes over the decade include the following:

- Per capita income growth in excess of five percent per year;
- Inflation reduced from near hyperinflationary levels to single digits;
- Threefold increase in investment in real terms, rising from around 12 percent of GDP in the late-1980s, to 28 percent of GDP, in 1996;
- Dramatic growth in foreign investment flows to about 8 percent of GDP in 1996, from virtually zero;
- Five-fold increase in domestic savings from three percent of GDP to about 17 percent;
- Doubling in agricultural production has moved Vietnam from a food-deficit position to become the world's second largest exporter of rice;
- Major export boom, with exports growing at over 25 percent per year;
- Widespread, visible improvements in the lives of Vietnam's population.

Progress over the Past Year

7. During 1996 and 1997, Vietnam has continued to perform well although there are signs that the economy is beginning to slow. The Government has maintained good macroeconomic management and reforms have continued albeit at a much slower pace than earlier in the reform program. The conduct of both monetary and fiscal policy has remained sound, and the band between the official exchange rate and the transactions rate in the interbank market has been widened twice, to provide greater latitude in exchange rate management. Vietnam's sound monetary and fiscal management has been reflected in strong macroeconomic performance: inflation has remained low at an annualized rate of about 4 percent at the end of September 1997, and the fiscal deficit has remained under

2 percent of GDP in 1996. Real economic growth was 9.3 percent in 1996 and preliminary estimates for 1997 suggest that growth, although slowing, will remain rapid in the range of 8 to 9 percent.

8. Notable among the Government's reform efforts over the past year are the following:

- A Brady-type Debt and Debt Service Reduction (DDSR) Agreement with Vietnam's London Club Creditors was successfully negotiated and will be concluded by end 1997. This represents a major step forward in reducing Vietnam's external debt burden;
- Two new tax laws were adopted by the National Assembly to further simplify and streamline taxation: a single rate Enterprise Income Tax to replace the current multi-rated profit tax, and a three-rate Value-Added Tax to replace the current cascading system of turnover taxes. Both taxes are expected to come into effect in 1999;
- Two important measures were taken to liberalize rice trade: (i) in March 1997, the Prime Minister removed all restrictions on the domestic trade of rice, freeing the movement of rice between and within provinces; and (ii) a decree was issued decentralizing the allocation of specific export quotas to individual enterprises to the provinces, and allowing all firms that received a rice export quota to export directly;
- The State Bank of Vietnam (SBV) began implementation of new regulations on loan classification in January 1997. This may already be contributing to improving the information base regarding non-performing loans;
- Improvements are also being made to the economic and financial legal framework: (i) the Foreign Investment Law was amended further to improve the climate for foreign investors; (ii) a Commercial Law was passed by the National Assembly in May 1997; and (iii) an amendment to the Company Law, a new Electricity Law, a Banking Law and a Central Banking Law are all at an advanced stage of preparation.

Reasons for Concern About Recent Economic Performance

9. While Vietnam's performance during its first decade of reforms has been impressive on several fronts, a closer review brings to light several trends (summarized in Box 3 below) that are still inconsistent with long-term rapid growth with appreciable reduction in poverty and with greater equity. *These trends suggest that the Government's objectives of achieving significant improvements in the efficiency of the economy and promoting outward oriented, broad-based labor-intensive growth are not being achieved. On the contrary, substantial inefficiencies persist and growth is inward-looking, increasingly capital-intensive and biased in favor of urban dwellers.* Labor market trends also suggest that the current pattern of growth is not generating

enough jobs nor creating enough wage jobs in high productivity activities to allow broad-based income and employment growth.

10. Recent trends also raise concerns about the sustainability of recent stabilization gains. There is **increasing evidence that the financial performance of state enterprises is deteriorating**: budget revenues from SOEs have declined as a percentage of GDP; although direct subsidies to SOEs have been virtually eliminated, the Government has increased efforts to ease access to credit for cash strapped SOEs; and banking sector overdues from SOE clients are increasing. This apparent weakening performance implies a deteriorating consolidated fiscal balance position, which could in turn threaten recent stabilization gains.

11. **The large current account deficit also raises concerns** for two reasons. First, protection against domestic and external competition is drawing a substantial part of FDI resources--which constitute the bulk of foreign savings --into inefficient industrial subsectors and into the production of non-tradables. This could jeopardize Vietnam's ability to achieve the productivity gains necessary to sustain rapid growth. Second, the financing of the deficit has recently shifted towards increasing use of non-concessional (including short-term) debt financing, as FDI disbursements have slowed (see Table 1). Furthermore, although gross reserves increased in 1996, Vietnam's reserve cover declined to just under nine weeks of imports, leaving Vietnam vulnerable to external shocks.

12. Beyond these worrisome trends within the economy, **Vietnam's external environment has deteriorated significantly in the wake of the recent currency and financial crisis in East Asia**. This could have substantial adverse effects on economic performance. FDI flows to Vietnam could slow even further with the dampening of investor confidence in the region as a whole. In addition, since a significant part of Vietnam's FDI flows originates in the region, continued weakening in the performance of regional economies could also exacerbate the recent slowdown in FDI inflows, with adverse implications for medium term growth and for macroeconomic stability. The potential impact of the crisis on competitiveness is of particular concern: despite the widening of the exchange rate band and the nominal depreciation vis-à-vis the U.S. dollar, the Dong has appreciated significantly relative to other regional currencies since July 1997. These developments in the external environment underscore the need for greater flexibility in exchange rate management and for deeper reforms to enhance efficiency and improve the economy's competitiveness in international markets.

	1994-95 Annual Avg.	1996
C.A. Balance	-9.4	-11.3
Inflows:		
FDI	10.8	7.9
ODA	2.4	2.4
Others a/	-1.3	2.2
Int.Res. b/	-2.5	-1.2
Memo:		
Res.Cover c/	9.1	8.9
Note:		
a/ Non-concessional capital inflows, including errors and omissions.		
b/ Minus indicates increase in reserves.		
c/ Reserves in weeks of imports.		
Source: SBV and MPI.		

Box 3: Concerns About Vietnam's Recent Economic Performance

Pattern of Growth

- Industrial activity has shifted in favor of protected capital-intensive production, while labor-intensive industry has declined in share from 58 percent to 51 percent;
- Production in some key areas of industry yields low returns to the economy and is uncompetitive at world prices: local automobile assembly for example is carried out in plants that are significantly smaller than optimal size for the industry.

Private Sector Role

- The corporate private sector that has provided the backbone to successful broad-based labor-intensive growth in other East Asian economies still accounts for under one percent of GDP.

Labor Market Trends

- Employment creation has lagged behind labor force growth, increasing unemployment to over six percent in 1996;
- New job creation is concentrated in lower productivity informal sector activities: the service sector which has accounted for about 56 percent of new job creation since 1990, has experienced a decline in productivity of about 2.3 percent annually.

Income Disparities

- Rural/urban income gap has widened since 1991 as the growth of urban incomes has outpaced rural incomes; average rural income was barely one fifth of urban incomes in 1995.

Sustainability of Stabilization Gains

- The large current account deficit--over 11 percent of GDP in 1996--and the apparent worsening of the financial performance of SOEs suggest that Vietnam's recent stabilization successes could be reversed.

Providing a Policy Environment Conducive to Rapid Growth with Poverty Reduction

13. Vietnam's medium term growth objectives are achievable, but only if reforms are deepened to create the conditions for successful labor-intensive, market-oriented growth. The new Government recognizes this and has recently announced a six-point program of reforms focusing on (i) improving the efficiency and competitiveness of the economy including trade reform; (ii) promoting agricultural and rural development; (iii) intensifying reform of the ailing SOE sector; (iv) renovating and strengthening the financial sector; (v) promoting environmentally sustainable development and growth with equity; and (vi) building a competent and effective government administration.

14. This report focuses on three elements of the Government's reform program: state enterprises, trade policy, and the financial sector. Government policies in these three areas, constitute some of the most important sources of distortion in the Vietnamese economy today. ***Deeper reforms are needed to build a less biased incentive framework which will channel resources into areas of economic activity likely to promote rapid labor absorption, and in which Vietnam can compete internationally.*** It will also allow growth of a strong and competitive private sector which the experience of other East Asian countries shows has been critical in fostering broad-based growth. The policy measures outlined below, could provide useful input into defining the new Government's reform program.

Policies with regard to the SOE sector

15. The Government formally recognized the private sector as part of a multi-sector economy when the reform program was launched in 1986. Indeed the Government's stated intention is to encourage labor absorption and income growth through both private sector and SOE activities. But at present, Government policies on SOEs still squeeze the private sector out of its potentially important role in the economy and encourage the continued inefficiency of the SOE sector. In addition, the consolidation of SOEs into General and Special Corporations has also tended to reduce competition in the economy. As a result, despite the considerable advantages SOEs enjoy over private enterprises, many industrial SOEs are still unable to compete, as evidenced by their growing inventories of basic commodities and by their deteriorating financial performance. A vigorous reform effort would make SOEs more efficient and internationally competitive, and promote private sector growth. This effort would need to be centered around two broad thrusts: (i) fostering competition by leveling the playing field between the private sector and SOEs; and (ii) restructuring the SOE sector to improve its productivity and ensure adequate oversight over its financial performance. SOE reform alone, while essential, would need to be complemented by a comprehensive strategy to promote private sector development in order to unleash the full potential of Vietnam's private sector.

16. ***Leveling the playing field.*** Currently, SOEs enjoy many advantages over the private sector. They have more favorable access to critical inputs such as capital and land. They are also shielded from both domestic and foreign competition through trade and entry restrictions: key import-substituting industries which are dominated by SOEs, are heavily protected; and restrictive licensing and registration requirements, constitute important barriers to entry. The effect of these restrictions is that SOEs have little incentive to improve their efficiency. Recent actions by government have made the playing field even more unequal: announcements of increased working capital support to SOEs as well as directives issued by the State Bank of Vietnam (SBV) to State Owned Commercial Banks (SOCBs) to facilitate lending to SOEs have further eased SOE access to credit at the expense of the private sector. Recent efforts to control the widening trade deficit through temporary import bans also work to the advantage of SOEs.

17. The following measures could help remove these biases and encourage efficiency gains in the SOE sector:

- SOCB *credit* policies and in particular, recent SBV directives with regard to lending to SOEs need to be reviewed to ensure that such lending is based solely on sound credit and risk analysis. Interest rates on loans under the National Investment Fund could be raised to market levels, and clear guidelines provided and implemented for assessing loan applications;
- Despite efforts to reduce the advantage enjoyed by SOEs in access to *land* under the Land Law, SOEs still enjoy considerable advantages. Further revisions are needed to land legislation, including: allowing the transfer of land use rights upon the direct agreement of the parties concerned, and without need for Government approval; determining rental rates for land use rights on the basis of their market values; and establishing more neutral and transparent taxation of land use rights;
- *Barriers to entry* by the private sector could be removed by relaxing and simplifying registration requirements for entry into both domestic and international business activity. Removal of these barriers to entry will also make the business climate more transparent and lower the perceived “high costs of doing business” in Vietnam.

18. *Restructuring the SOE sector.* Earlier reforms have increased the autonomy of SOE managers but much less has been done to increase their accountability. In addition, it is administratively difficult and costly for the state to manage and supervise effectively the still large number of SOEs--currently about 6,000. Improving supervision and accountability is needed to prevent abuse of increased SOE autonomy and to strengthen management and efficiency. This would require further reduction in the size of the sector through equitization and liquidation, as well as measures to improve financial monitoring.

19. The Government has launched a potentially important pilot equitization program but progress so far has been slow. While to date, only 13 enterprises have been equitized, effects have already been positive: enterprise employment has increased, and the contribution of the equitized enterprises to the state budget has risen as their profits have soared. This early, albeit modest success suggests that a much larger program is now warranted. Besides, international experience indicates that countries that have been successful in building efficient state enterprise sectors have included divestiture as a key component of reform. To move forward on its equitization program, the Government would need to:

- Complete the ongoing classification of enterprises into public service and business enterprises; finalize the list of enterprises to be equitized; and provide clearer guidelines to enhance transparency in bidding procedures and prevent under-compensation;

- Proceed with a second and larger round of equitizations once the steps above have been completed; and
- Experiment with more rapid divestiture methods for small enterprises for which equitization is appropriate.

20. To improve financial monitoring and accountability, enterprise performance would need to be systematically evaluated and monitored on the basis of a simple set of measurable financial indicators. The Government could also provide incentives for improved performance through a system of appropriate rewards for good performance and penalties for lack of performance. This will require that enterprises have appropriate accounting standards in place to measure and track their financial performance.

Creating a Neutral Trade Regime

21. The Government has announced its intention to create a more neutral trade regime. This will help greatly in promoting economic growth, and is consistent with sweeping trade reforms that are occurring in virtually every country in the region. Vietnam's efforts to improve competitiveness will require that it keeps up with its neighbors.

22. Current distortions in the trade regime are a major constraint on the efficient allocation and use of resources in Vietnam. These biases stem from the structure and level of trade taxation; controls on entry into international trading; and from controls on the volume of trade. These distortions impede both domestic and external competition, promote inefficient resource allocation, and will constrain export growth as import substitution activities become more profitable vis-à-vis export activities and as input costs for exporters rise.

23. Over the longer term, the direction of trade policy in Vietnam will be largely set by commitments under AFTA and obligations under WTO once its membership into this group is ratified. Nevertheless actions are needed now to provide the right incentives for investors, both domestic and foreign, since long-term investments are being made on the basis of current policy. Moreover, the longer reform is delayed, the higher the costs to the economy in terms of inefficient investment, lost opportunities for job creation and for further reductions in poverty. Delays now will make it even more difficult to successfully carry out reforms later as Vietnam locks into an inefficient capital stock and as the economic rents from these distortions increase for some groups. Each year of delay will require larger and more painful adjustments in the future.

24. A few key policy measures are needed:

- A timetable for tariff reductions and rationalization in line with commitments under AFTA, but extended to all countries, should be announced and implemented decisively and quickly;
- The US\$ 200,000 working capital requirement for entry into international trading activities could be eliminated or, at a minimum, substantially reduced; personnel requirements and the requirement to obtain the support of People's Committees could also be removed. These steps would help ease entry by the private sector;
- Use of import and export bans could be restricted to a limited number of goods based on cultural and security considerations. Controls to balance the economy and import and export quotas should be phased out. In the meantime, the quota allocation system could be reformed to make it more market-oriented through for example the auction and the trading of quotas. With regard to the rice sector, ensuring full implementation of the recent measures to liberalize domestic and international trade in rice (para. 8) will be an important factor in achieving the goals of raising rural incomes and reducing poverty. The export quota could also be raised further to ensure that domestic prices remain broadly in line with world prices.

Increasing the Resiliency of the Financial System

25. Vietnam lags behind comparator countries on several indicators of financial sector development. Moreover, the recent rise in overdues, coupled with a weak capital base and a high indirect exposure to foreign currency risk, indicate that the sector is highly vulnerable to a slowdown in economic growth or to other adverse economic shocks. Defaults and payment delays on guarantees of deferred payment letters of credit by several smaller joint stock banks and by the Government-owned Vietcom Bank raise further concerns about the soundness of the sector. The recent currency and financial crises in the region highlight that the penalties of maintaining a fragile, under-developed banking system can be severe in a world that is increasingly integrated financially.

26. The financial fragility of the banking system can be attributed to a variety of factors: (i) an inadequate regulatory and supervisory system, including inadequate loan classification, as well as the absence of loan-loss provisioning rules; (ii) weak disclosure rules; (iii) inadequate criteria and capability to assess and monitor credit risk, coupled with inadequate risk management systems; and (iv) weak management, particularly in the state-owned commercial banks and in the joint stock banks. In addition, rapid credit growth during the last six years has put further strain on the weak credit risk assessment and monitoring capabilities. To strengthen the banking system and improve its allocative efficiency, the regulatory and supervisory framework within which banks operate needs to be improved. This will align the incentives of all players in the banking system (owners, creditors and debt holders as well as supervisory authorities) with prudent

banking and strengthen their capacity to support prudent banking. Key policy actions could include the following:

- To improve the prudential, regulatory and accounting framework, regulations on loan classification and loan loss provisioning requirements as well as income recognition rules that are consistent with international standards, need to be enacted, implemented, and strictly enforced;
- To encourage prudent risk taking behavior of banks, the Government's efforts to implement a risk weighted capital-to-asset ratio set at a level commensurate with the high risk environment in which Vietnamese banks operate need to be continued;
- SBV efforts to improve supervision need to continue. In addition, the SBV could develop a catalogue of prompt corrective actions as well as stringent intervention and exit strategy for financially weak banks. To enhance oversight by financial market participants, disclosure requirements including information on income, expense and loss recognition practices, asset quality and non-performing assets, insider lending transactions as well as the extent of sectoral portfolio concentration should be outlined and implemented;
- To improve bank governance and guard against conflict of interest, the ownership structure of banks could be broadened: restrictions on non-bank ownership of banking institutions need to be tightened overtime and brought in line with international best practice;
- Continuation of SBV's relatively liberal entry policy will be important for improving allocative efficiency and increasing competition in the banking sector. Nevertheless, recent events in the joint stock banks highlight the importance of strengthening SBV licensing procedures and implementing a "fit and proper test" in line with international best practice.

Medium Term Prospects and Financing Requirements

27. The worsening external environment, arising from the ongoing currency and financial crisis in Asia, poses risks to the Vietnamese economy: there could be significant slowing of growth, which would further weaken the financial performance of state-owned enterprises, and in turn put more pressure on the budget and the banking system. This could reverse past progress on reducing inflation and achieving more sustainable external balance. Such a scenario can only be avoided with decisive and timely implementation of a new round of economic reform along the lines outlined by the new Government and discussed in this report.

28. The objective of the reforms outlined in this Report is to achieve rapid growth with equity and substantial poverty reduction by creating the conditions for successful labor-intensive market-oriented growth. These macroeconomic and structural reforms need to go hand in hand with appropriate sectoral policies to promote sustainable rural development, strengthen social services, and provide adequate supporting economic infrastructure. The implementation of these sectoral policies will foster sustainable growth and poverty reduction, and help achieve broader medium term development objectives. A more neutral incentive framework and reduced barriers to entry should allow industry to grow at about 13 percent annually over the medium term, compared to an average of about 10 percent annually over the last five years. This, with continued growth in agriculture (about 4 percent) and services (about 8 percent) would allow overall growth averaging about 8 percent annually over the medium term. Reforms to improve the soundness of the banking system, will be important in achieving the significant improvements in domestic savings needed to help reduce the savings-investment gap and the current account deficit. Achieving this high level of economic growth would also depend on the external environment.

29. Even with the projected significant improvements in domestic savings, considerable external resources (both public and private) will be required to finance the development needs described above, and support rapid growth. This calls for strong support from the international donor and financial community for the implementation of the Government's recently announced reform program and its overall development plan. In 1998, we estimate that external financing requirements would total roughly US\$ 3.7 billion, the bulk of which is expected to come from ODA and FDI sources. Despite recent progress in resolving its external debt, Vietnam is still classified as a severely indebted low income country and its debt service capacity is limited. Vietnam therefore needs to continue to maintain a prudent external borrowing strategy, limiting external borrowing, particularly external borrowing on non-concessional terms.

30. Disbursements of ODA, including grants, will need to increase to nearly US\$ 1 billion in 1998. While much of this can be met by disbursements from already existing commitments, **the level of new CG commitments would need to be in the order of last year's commitment of about US\$ 2.4 billion.** This level of commitments is essential to ensure a build-up of a pipeline of project disbursements in the medium term. The priorities for this assistance are outlined in the Government's Socio-Economic Development Plan and its documentation for the 1997 Consultative Group meeting. In addition to supporting the implementation of the Government's reform program, the bulk of ODA commitments are needed to support the attainment of Vietnam's socio-economic needs, which are substantial. Roughly a half of the population lives below the poverty line and access to, as well as the quality of key basic services is poor. Access to safe water is limited to barely 40 percent of the population, while sanitation services are enjoyed by only 21 percent of the population. Vietnam's past gains in delivering health services are being reversed, as evidenced in the sharp deterioration in some sector performance indicators since the 1980s. While expenditure by the private sector is by far the largest source of financing for health care, some increase in public expenditures in the

sector is required to improve quality of publicly provided health services, and to meet the needs of poor and the disadvantaged. In the education sector, Vietnam has achieved quantitative enrollment levels that are impressive given its current income level. However, educational attainment and quality need to improve significantly to provide the skilled labor force needed for rapid growth. As regards economic infrastructure, Vietnam's rural infrastructure network is still small and increased access to this service will be fundamental for overall growth and for agricultural and rural development. Energy needs are also high and are expected to expand significantly with growth: electricity demand is forecast to increase between 14 and 16 percent annually over the next decade. It is estimated that about 5 percent of GDP would need to be invested annually in energy to meet this growing demand.

Aid Implementation and Absorption

31. Progress has been made on ODA implementation and absorption over the last few years. ODA disbursements (including grants) increased to about US\$ 570 million in 1996 from US\$ 430 million in 1995, and this trend is expected to continue with total disbursements projected to reach close to US\$ 900 million in 1997. This would still leave about US\$ 5 billion in outstanding ODA commitments, and further substantial improvements will be needed in disbursements over the medium term. The Government recognizes that improvements in the speed of implementation of ODA resources will be an important factor in achieving medium term investment and growth objectives and is responding to concerns about slow ODA absorption. The Government expects to complete revisions to key executive decrees governing management and official utilization of ODA by the end of this year. This would for the first time provide a complete set of consistent budget and ODA management regulations. Capacity to manage ODA resources in key ministries is also being strengthened.

32. In the final analysis however, what matters most is the impact of ODA resources on the lives of the Vietnamese people. This underscores the importance of getting sector strategies right and making sure that project selection conforms with these strategies. In addition, donors need to work closely with Government to ensure that project design takes full account of Vietnam's needs and institutional capacity in order to enhance the chances of successful implementation.

1. RECENT ECONOMIC AND SOCIAL DEVELOPMENTS ¹

Introduction

1.1 Vietnam's sound economic performance continued in 1996 and 1997. Growth has been maintained in the 8-9 percent range, both monetary and fiscal policy have remained sound, and exchange rate management has become more flexible. Reforms have continued, albeit at a much slower pace than earlier in the reform program. However, there have been worrying developments in the economy: growth appears to be slowing; foreign direct investment has slowed noticeably and domestic savings have stagnated; there have been increasing problems in the banking system; and growing evidence of deteriorating performance of State Owned Enterprises (SOEs). The external balance has improved but mainly as a result of the introduction of import controls, and changes in the structure of the financing of the current account deficit have raised concerns about its medium term sustainability. Moreover, with the recent currency and financial crises in Southeast Asia, the external environment facing Vietnam is far less favorable. One immediate consequence of these regional developments is that the economy has lost competitiveness as the Dong has appreciated substantially relative to several regional currencies.

1.2 This chapter reviews the most significant economic and social developments in Vietnam to set the background for the following chapters. Section A describes macroeconomic developments in the real economy, the balance of payments and prices; Section B reviews the Government's macroeconomics policy stance in the past year; Section C reviews progress on structural reform and highlights developments in other sectors of the economy.

¹ Data for 1997 used in this report are preliminary and incomplete as they are based on estimates for the first nine months of the year.

A. MACROECONOMIC PERFORMANCE

Continued Rapid Economic Growth

1.3 Economic growth overall has continued at a high level. Final estimates for 1996 indicate GDP growth of 9.3 percent, only slightly below the rate of 1995. Preliminary estimates for 1997 show growth continuing at a high level, but slowing to within the range of 8 to 9 percent.

1.4 In **agriculture**--now less than 30 percent of GDP, but still providing the bulk of the earning power of the poor--Vietnam has continued to reap large production benefits from the liberalization of

rice production and marketing, continuing investments in irrigation, improvements in the availability of critical inputs and high-yielding varieties, better extension services and favorable weather. Sector growth averaged close to 4.5 percent in 1996 and is estimated at around the same level in 1997. **Rice** continued to lead agricultural growth, reaching a record level of production (over 26 million tons) in 1996. The 1997 winter-spring harvest was estimated at 13.3 million tons, another record, which resulted in the first ever rice surplus in the North. The Government also took several important steps to liberalize the rice trade in early 1997, but trends in the domestic price of rice indicate that the implementation of these measures needs to be closely monitored, especially given the importance of rice in rural incomes (see the discussion in Chapter 2).

1.5 Agricultural growth has also been spurred by high growth of other food crops and industrial crops: other food crops, such as maize and peanuts, grew by over eight percent in 1996; coffee production has registered double-digit increase in the past two years (16 percent in 1996 and 21 percent in 1995) while rubber production recovered from weak performance in previous years, growing by about 19 percent in 1996. Marine products also continue to represent an increasing share of agriculture, as fisheries, particularly aquaculture, recovered from two years of debilitating disease incidence. The strong performance of non-traditional agriculture reflects the Government's increasing emphasis on agricultural diversification.

1.6 **Industry** has continued to lead growth. Nevertheless during the first nine months of 1997, industrial output growth slowed to about 13 percent year-on-year from 13.5 percent in the same period last year. Growth in the sector (outside of construction) was driven mainly by foreign-invested enterprises which grew at about 20 percent while growth of both the state and domestic non-state sectors slowed from about 13 percent last year to about 10 percent. The slowdown in the growth of state sector output illustrates the difficulties that many SOEs face due to over-employment, inefficient production technologies and in many cases, unskilled labor and management. The private sector continues to be dominated by small household enterprises, reflecting to a large extent

	1995	1996	1997
		Pre.	Est.
GDP	9.5	9.3	8.0
Agriculture & Forestry	5.1	4.4	4.0
Industry	13.9	14.4	13.0
Services	10.6	10.0	8.0

Source: GSO and Bank staff estimates.

Government restrictions on entry and expansion. Activities in **construction** slowed sharply in 1996 and probably further in 1997, reflecting the downturn in hotel, office and apartment construction and the slump in real estate prices that surfaced first in Ho Chi Minh City during 1996.

1.7 **Services** has continued to grow in line with aggregate GDP. The most important trend within the sector was the slow down in the banking and insurance subsector which grew only 6 percent in 1996, after very rapid growth in the previous two years (23 percent in 1994 and about 28 percent in 1995). This reflects both the small number of new financial institutions after very rapid growth and the slowing of economic growth, especially in real estate. There were also worrying developments in the banking sector: several joint stock banks experienced liquidity and asset quality problems and were unable to meet their letters of credit obligations in a timely fashion. The implementation of stricter loan loss classification standards in 1997 has also revealed a large and growing level of non-performing loans (the implications of these developments are analyzed in depth in Chapter 3).

Slowdown in Foreign Investment and Leveling off in Domestic Savings

1.8 Investment, especially foreign direct investment (FDI), has provided a major impetus to economic growth over the past several years. But, beginning in 1996, there were some indications that the interest of foreign investors in Vietnam may be waning. FDI approvals in 1996 were US\$ 8.6 billion--the highest level ever--but this was achieved only by the approval of two mega-land development projects at the end of December, totaling over US\$ 3 billion. One of these two projects has already been suspended. Without these two projects, FDI approvals in 1996 would have been lower than in 1995. In addition, FDI approvals in the first eight months of 1997 were only US\$ 3.5 billion, 18 percent lower than in the same period in 1996. In 1996, FDI disbursements fell to US\$ 1.8 billion from US\$ 2.3 billion in 1995. This slowdown is unusual, as the pattern in other developing countries is that disbursements continued to increase even after approvals begin to decline, due to a 2-3 year implementation lag. While there is some evidence in 1997 that disbursements are rising again, lower-than-anticipated FDI disbursements can be linked to the cumbersome procedures that still exist for the approval, registration and implementation of foreign-invested projects, to perceptions that the "costs of doing business" in Vietnam are too high. It can also be linked to stricter enforcement of existing foreign exchange balancing requirements, which has restricted access to foreign exchange for imports for several FDI ventures. The slowdown in foreign investment is a worrying trend, as foreign investment is a key component of the Government's industrialization and modernization plans and its financing plan.

1.9 Maintaining a high level of investment is critical to the realization of the Government's growth targets. Attaining these growth targets while maintaining external stability requires a significant increase in domestic savings. Savings performance compares favorably with other countries at similar income levels and in 1996 national savings was again the largest source of funding for investment. But savings have leveled

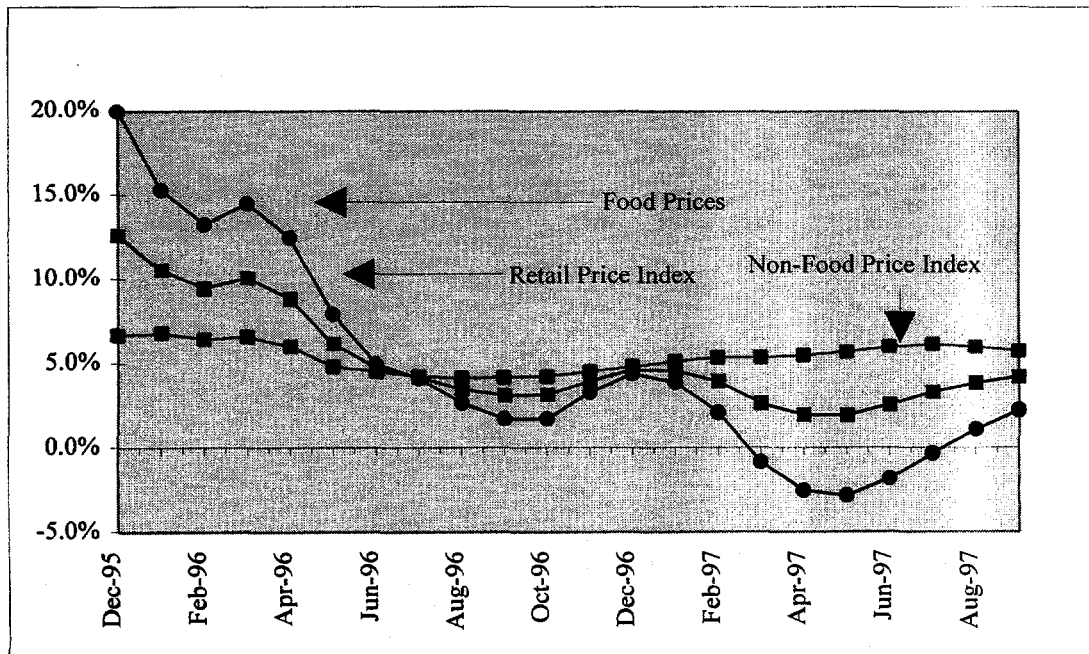
off since 1994 due to declining non-government savings. This decline is of concern as further improvements in government savings will be difficult in the near term (measures to increase non-government savings are discussed in Chapter 4).

Low Inflation Maintained

1.10 Vietnam's success in maintaining low inflation continued in 1996 and early 1997. Inflation was 4.5 percent at end-1996 and declined slightly to about 4 percent by September 1997². This has been achieved through a combination of sound fiscal and monetary policies. Exchange rate appreciation and the strong supply response in agriculture have also been important factors.

1.11 An analysis of the components of inflation over the past 18 months, indicates differing trends between the food and non-food components. Food prices have declined in some months, due to a combination of production increases and the existing impediments to the rice trade. Non-food prices have also remained low, about 5 percent on an annual basis in July 1997, but have been on an upward trend since end-1996. Price increases have been strongest in the manufacturing and service subsectors. This trend in non-food prices indicates that underlying inflation is about 5-6 percent. There is thus little evidence that the Government needs to relax its current macroeconomic policy stance.

Figure 1.1: Retail Price Indices: Growth Rates (%)



Source: GSO.

² The inflation figures used in this Report refer to the annual percentage rise in the retail price index.

Current Account Deficit Lower ...

1.12 The trade and current account deficits widened considerably in 1996, reaching a level that raised concerns about medium-term macroeconomic stability. In parallel, the decline in disbursements of FDI, was only partially offset by an increase in Official Development Assistance (ODA). With a higher inflow of short-term capital, including deferred payment letters of credit, gross official reserves rose in nominal terms, but declined as a proportion of imports (see para. 1.16). In early 1997, both the trade and current account deficits were lower mainly in response to the imposition of tight controls on imports and on external borrowing as well as a slowdown in economic activity.

Table 1.2: Balance of Payments
(US\$ million)

	1995	1996	1997 Est.
Current Account			
Exports (fob)	5,198	7,330	8,798
Imports (fob)	-7,543	-10,481	-11,955
Trade Balance	<u>-2,345</u>	<u>-3,150</u>	<u>-3,157</u>
Services and Transfers (Net)	422	668	796
Current Account Balance	<u>-1,923</u>	<u>-2,482</u>	<u>-2,361</u>
Capital Account			
M&L Term Loans (net) a/	-174	-215	751
<i>of which:</i>			
- IDA (net)	47	189	269
- Other ODA (net)	50	107	277
Short-term Capital	-225	285	130
Direct Foreign Investment	2,236	1,838	1,930
Errors & Omissions	-392	286	-
Overall Balance	<u>-478</u>	<u>-288</u>	<u>450</u>
Financing	<u>478</u>	<u>288</u>	<u>-450</u>
of which: Change in Foreign Reserves	-179	-471	-470
Memo Items:			
Current Account Balance/GDP (%)			
- excluding Grants	-10.2	-11.3	-9.7
- including Grants	-9.6	-10.7	-9.0
Exchange Rate: Dong/US\$ b/	11,000	11,080	12,300
Reserves (inc. gold, US\$ billion)	1.4	1.8	2.3
in Weeks of Imports (weeks)	9.4	8.9	9.9

Note: Figures are rounded. For details, see Statistical Appendix Tables 3.1, 3.2, and 3.3.

a/ Including ODA and M&L Term commercial loans.

b/ For 1997, the rate is as end-October 1997.

Source: GSO, SBV, and Bank staff estimates.

1.13 **Trade Balance.** The trade deficit expanded to US\$ 3.2 billion in 1996 (about 14 percent of GDP), considerably larger than in 1995³. Both exports and imports expanded

³ The inclusion of smuggled goods would probably increase the trade deficit.

sharply, each growing by 40 percent in US\$ terms. All key components of **merchandise exports** experienced growth. Light manufactured exports doubled, increasing from US\$ 1 billion in 1995 to US\$ 2 billion in 1996 driven by growth in textiles and garments, and footwear. Agricultural exports (including rice) and crude oil exports also increased sharply during 1996. Rice exports rose to 3.2 million tons, securing Vietnam's position as one of the world's leading rice exporters. Crude oil exports grew by 30 percent, split about equally between a rise in the price of crude oil and higher production.

1.14 Merchandise imports rose to over US\$ 10 billion, about 45 percent of GDP. Capital and intermediate goods imports were the fastest growing import items. Official, reported consumer good imports grew slowly and constituted only a small proportion (about 12 percent) of total imports. However, imports of consumer goods are probably significantly higher, due to the smuggling of these goods through China, Cambodia and along Vietnam's long coast.

Table 1.3: Exports--Selected Commodities
(US\$ million)

	1995	1996	1997 Jan-Jun
Rice	547	855	458
Crude Oil	1,033	1,346	684
Coffee	596	337	291
Marine Products	621	651	351
Coal	89	115	53
Rubber	193	163	90
Tea	27	33	13
Agriculture & Forestry Products	1,749	1,481	-
Light Industrial Goods	1,143	2,099	1450
Others	145	251	-
Total Exports	5,198	7,330	4,100

Source: Ministry of Trade and General Customs Department.

1.15 During the first nine months of 1997, merchandise exports have continued to grow robustly, increasing by about 23 percent compared with the same period in 1996. Imports, in contrast, declined by 2 percent over the same period. This may reflect a combination of the slowdown in economic activity, excess imports of basic commodities financed through letters of credit in 1996, and most importantly, temporary bans on a number of imports (including some consumer goods and basic commodities). But, with the lifting of some import bans in mid-1997, imports began to rise again. Moreover, in September and October 1997, there was some evidence that Vietnam's loss of competitiveness was beginning to effect export growth. Thus, while the trade and current account deficits are likely to be lower in 1997, they are still expected to be large, raising concerns over their financing.

... But Structure of Financing Less Healthy and Reserve Cover Lower

1.16 In 1996, the burgeoning trade deficit was only partially offset by a surplus on the service account, leading to a current account deficit of about 11 percent of GDP--a substantial increase from the level of 1995. The bulk of the financing of the current account deficit was provided by FDI and ODA. But commercial and short term debt also increased. This is a concern as Vietnam capacity to service its external debt remains weak. In aggregate, there was a surplus on the balance of payments and gross official reserves rose by over US\$ 400 million in 1996. However, reserve growth was outstripped by import growth, leading to a slight decline in Vietnam's reserve cover to just under nine weeks of imports by end-1996. This level is low by international standards and illustrates the still fragile nature of Vietnam's external balance. For 1997, gross official reserves are expected to increase by about US\$ 360 million but pressures on the balance of payments likely in the remainder of 1997 need to be accommodated while maintaining strong growth in international reserves, in order to raise reserve cover more in line with international standards.

Debt Burden Reduced

1.17 During 1996 and 1997, the Government resolved its outstanding commercial debt in arrears with its commercial bank creditors. With the successful conclusion of a Brady-type Debt and Debt Service Reduction (DDSR) Agreement expected in late 1997 (see Box 1 for details on the DDSR Agreement), Vietnam has now made considerable progress in resolving the large overhang of external debt inherited from the pre-reform period.

1.18 Another external debt issue which received considerable attention during 1996 and early 1997 was deferred payments letters of credit. In the first half of 1996, a large number of letters of credit were guaranteed by commercial banks in Vietnam. The payment on some of these letters of credit were deferred until as long as one year after the delivery of goods. Estimates of the stock of these letters of credit reached as high as US\$ 1.5 billion in early 1997. In mid-1997, when a large proportion of these letters of credit became due, there were reports of defaults as some of the proceeds of the LCs had been used for non-trade purposes, such as real estate investments, or had financed an excess of imports which could not be sold during a slowdown in economic activity. In some cases, the commercial banks, including one large state-owned commercial bank, could not meet the external obligations that they had guaranteed. While most payments have now been made, this incident and the overall weakening performance of the banking sector may have already had adverse effects on external perceptions of Vietnam's creditworthiness. It illustrates the need to further improve external debt monitoring, as well as the regulatory and supervisory capability of the State Bank in order not to damage Vietnam's progress towards improving its external creditworthiness.

**Box 1.1: Vietnam's Debt and Debt Service Reduction Agreement
with the London Club's Creditors**

Since the early 1990's, the Government of Vietnam has made substantial efforts to restructure its debt in order to restore its external creditworthiness. After the successful negotiation of a Paris Club restructuring in 1993, the next step was the resolution of Vietnam's commercial debt in arrears. The Government of Vietnam has now reached agreement with its London Club Creditors on the financial terms of a Debt and Debt Service Reduction (DDSR) Agreement that would settle all of Vietnam's outstanding private uninsured commercial debt (including interest) in arrears. The total debt included under this Agreement amounts to close to US\$ 755 million, consisting of about US\$ 301 million in principal and close to US\$ 454 million in past due interest. Under the DDSR Agreement, creditors have three options for eligible principal: (i) a buyback at a price of 44 cents for each dollar of eligible principal and associated interest arrears; (ii) a discount bond issued at 50 percent of the principal amount with a single payment of principal on maturity in 30 years with the principal and six months interest fully collateralized; or (iii) a par bond, with 30 years maturity, semi-annual payments and with the last principal repayment (equivalent to half the face value) collateralized. Past due interest (not exchanged under the buyback option) can be exchanged for a past due interest bond with 18 years maturity and no collateralization. The upfront costs of the DDSR Agreement are estimated at US\$ 53 million, the financing of which is expected to come from a World Bank IDA credit worth US\$ 35 million and the remainder from the Government's own resources. The Agreement is expected to be concluded in late 1997.

The DDSR Agreement would deliver substantial debt relief and sustainable debt service: debt reduction would be almost 50 percent in net present value terms and is roughly consistent with the terms of the agreement with the Paris Club. The Agreement would also facilitate Vietnam's access to international capital markets, including facilitating the involvement of the private sector in financing critical infrastructure priorities.

B. THE MACROECONOMIC POLICY STANCE

Monetary Policy Remained Tight

1.19 During 1996, the Government maintained a tight monetary policy stance. **Domestic credit** growth was 17.5 percent at end-December 1996 (compared to 25 percent in December 1995) and only slightly higher (19.5 percent) on an annual basis in mid-1997. Moreover, a decline in net Government credit permitted a healthy expansion of credit to the enterprise and household sectors. Domestic credit growth to non-financial state enterprises was about 11 percent at end-December, implying that the bulk of credit growth went to the non-state sector.

1.20 Overall, **liquidity** expanded at the same annual rate (22 percent) in December 1996 as in December 1995. The trend towards Dong deposits continued during 1996, as growth in these deposits (29 percent) outpaced both growth in the demand for currency (18 percent), and the growth in foreign currency deposits (about 19 percent). This relatively faster growth of Dong deposits, which continued through September 1997,

reflects high real interest rates on Dong deposits, and indicates public confidence in macroeconomic management and in the domestic financial system. However, recent problems in the banking system could slow both the trends towards declining dollarization and the movement from currency to deposits.

1.21 **Interest rate policy** continued to support the Government's tight monetary policy stance, as real deposit and lending rates remained high. Nevertheless, lower inflation allowed the Government in June 1997 to reduce the ceiling for short-term lending rates from 1.25 percent per month to 1 percent per month and the ceiling for long-term rates from 1.35 percent per month to 1.1 percent per month. Scope for further interest rate reductions may be limited in the near term given underlying inflation of about 5-6 percent.

Exchange Rate Management Became more Flexible

1.22 Twice during the first 10 months of 1997, the Government has widened the band around the central rate to give itself more latitude in foreign exchange management in the face of downward pressure on the Dong. In early 1997, the band was widened to plus/minus five percent and the exchange rate subsequently depreciated by roughly five percent in nominal US\$ terms after a long period of stability against the US Dollar. In October 1997, the trading band was widened further to plus/minus ten percent and the Dong depreciated by close to five percent in nominal US\$ terms, hovering around the lower limit of the band. While these changes represent greater flexibility in exchange rate management, they reflect more a response to market conditions than a proactive policy effort.

1.23 In spite of the recent nominal depreciation, the real exchange rate has appreciated significantly (about 18 percent) since 1993. This trend has continued through July 1997, with the real effective rate rising by about 5 percent in the past twelve months. Vietnam's continued robust export growth would seem to suggest that any adverse effects of this long term appreciation on competitiveness has been avoided. Indeed productivity gains, particularly in the rice sector have been important in maintaining competitiveness and allowing rapid export expansion. However, in other areas, notably light manufactured goods such as garments, textiles and footwear, export growth is more a reflection of the loosening of restrictions on imports from Vietnam in key markets such as the European Union. Moreover, since mid-year, the real effective rate has probably appreciated much more since recent trends in Southeast Asia currency markets have led to a substantial appreciation of the Dong relative to other regional currencies. This is already beginning to have adverse effects on Vietnamese competitiveness. Vietnamese rice exports could fall as Thai rice, which is of superior quality, becomes even more attractive given the substantial depreciation of the Baht. This would have adverse consequences for farmer and rural incomes and could eventually slow growth even further. The Government is aware of this danger as evidenced in the recent widening of the trading band. Nevertheless further flexibility in exchange rate management will be important in restoring Vietnam's competitiveness vis-à-vis other regional currencies.

Moreover, Vietnam's large trade deficit and modest reserve cover also suggest that the continuing real appreciation and the fluctuations within the trading band need to be closely monitored.

Fiscal Policy Supported Monetary Policy in Sustaining Low Inflation

1.24 The Government continued to pursue prudent fiscal policy in 1996. The budget deficit was estimated at 0.2 percent of GDP on a cash basis, lower than the 1995 outturn. This deficit was covered by higher disbursements of foreign grants and loans and a minimal amount of domestic non-bank financing. The fiscal position is expected to remain largely unchanged in 1997, although slowing growth and an apparent decline in the financial performance of state enterprises could put pressures on revenue performance.

1.25 **Revenues.** Vietnam's revenue effort continued to be strong, as total revenues for 1996 were about 24 percent of GDP, roughly the same as in 1995. Revenues from taxes and from the SOEs accounted for the bulk of receipts. This revenue effort is impressive, given the low level of income in Vietnam and the transitional stage of its economy. Maintaining a strong revenue performance will be important in sustaining a level of fiscal deficit consistent with low inflation, given Vietnam's pressing expenditure priorities especially in the social sectors and in rural development.

Table 1.4: Improved Fiscal Balance
(Percent of GDP)

	1990	1995	1996 Prel.	1997 Budget
Revenue and Grants	14.7	23.9	23.6	22.2
of which:				
Tax Revenue (excluding SOEs)	4.0	10.5	10.7	11.4
Taxes and Transfers from SOEs	8.6	9.8	9.7	8.4
Current Expenditures	14.7	17.8	16.7	14.9
Current Balance (exc. interest)	0.0	6.1	6.9	7.3
Interest paid	0.7	1.3	1.6	0.7
Capital Expenditures	5.1	5.4	6.0	5.7
Overall Balance (cash basis)	-5.8	-0.5	-0.2	-0.6
Financing	5.8	0.5	0.2	0.6
Foreign Borrowings (net)	3.0	-0.5	neg.	neg.
Domestic Loans (net)	2.8	1.2	0.2	0.6

Note: Figures are rounded.

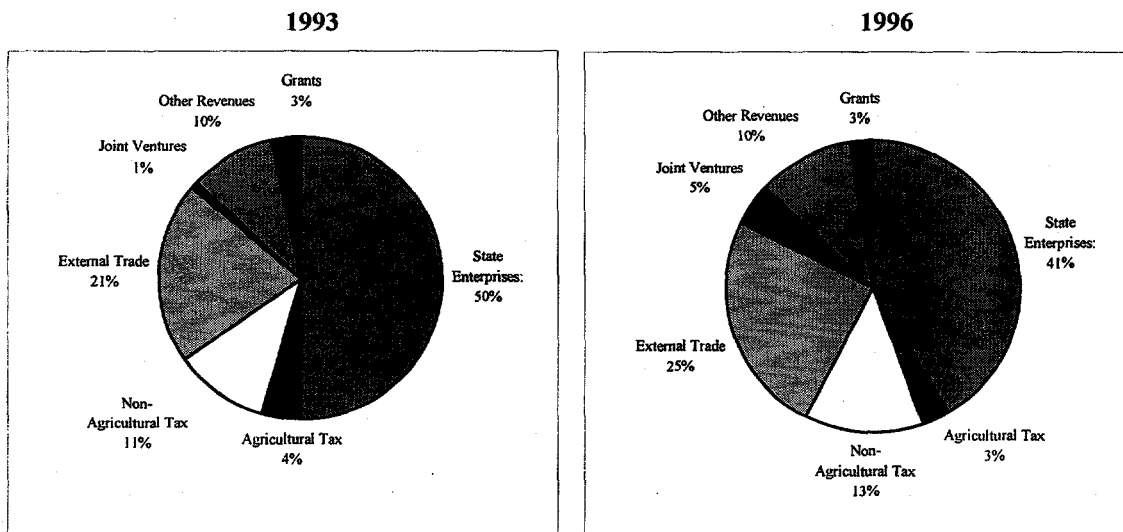
Source: Ministry of Finance.

1.26 There were some structural shifts in the composition of revenue in 1996. The contribution from state enterprises declined from a peak of 50 percent of total revenue in 1993 to about 41 percent in 1996. While this largely represents the ongoing process of structural change in the economy, it may also reflect a weakening of SOE financial

performance. It is a source of concern given the budget's dependence on revenues from SOEs. The share of trade taxes increased to 25 percent of total revenue from 23 percent in 1993 reflecting growing share of trade in GDP. The growing importance of foreign-invested enterprises in the economy is reflected in the increase in their contributions to revenues to about 5 percent from a mere one percent in 1993.

1.27 **Expenditures.** Total expenditures reached over 23 percent in 1996, a slight decline from close to 24 percent in 1995. While current expenditures increased in nominal terms, they dropped slightly from about 18 percent of GDP in 1995 to about 17 percent of GDP in 1996.

Figure 1.2: Composition of Revenues: 1993 and 1996



Source: Ministry of Finance.

1.28 At the same time, capital expenditures grew to about 6 percent of GDP from about 5.4 percent in 1995, reflecting increased disbursements from foreign-assisted projects. These projects--mostly in infrastructure--are being implemented at a quicker space following the removal of initial administrative bottlenecks. In 1997, capital expenditures are projected at about 5.7 percent of GDP.

C. PROGRESS ON THE REFORM AGENDA AND SECTORAL DEVELOPMENTS

1.29 The pace of reform has slowed considerably in the past two years. Widely-anticipated changes in the highest levels of Government were not made during the Eighth Party Congress in the summer of 1996 and this has made achieving a consensus around specific reforms more difficult.

1.30 Nevertheless, some important reforms were taken:

- in the area of fiscal management, the Government put in place a new tax regime, which will be implemented beginning in 1999. In 1997, two new tax laws were

enacted. First, an Enterprise Income Tax was passed, which basically unifies the tax rate applying to domestic enterprises, except for some special rates for resource extractive industries. Second, a Value-Added Tax was also passed during the May National Assembly Session. This law will replace the current cascading system of turnover taxes in January 1999;

- in the rice sector, the Government took several important measures to deregulate the domestic trade in rice, to allow more competition in the allocation of export quotas, and to raise the export quota. These measures, when fully implemented, will help to liberalize domestic and external trade in rice;
- in the banking sector, the Government formulated and began implementation of new regulations on loan classification. The Government is also in the process of drafting a new Financial Institutions Law;
- the National Assembly amended the Foreign Investment Law. This amendment clarified and simplified the incentive regime, the rules for convertibility and permitted the establishment of a joint venture with a private company. In addition, the Government issued several implementing decrees for the amended Law. The most important provisions of these implementing decrees was the decentralization of the authority to approve foreign investment projects (below a certain US\$ amount and outside of certain sensitive sectors) to several large provinces and to EPZs and industrial zones; and
- the Government has also continued to work on the legislative framework for an efficiently functioning market economy. A new Commerce Law was passed by the National Assembly in May 1997. In addition, an Electricity Law which will help, inter alia, to clarify the role of the private sector in the electricity sector, is being drafted.

1.31 While these measures are important, the reform effort needs to be substantially reinvigorated to deal with fundamental distortions in the economy which have been manifested in the increasing difficulties in the banking sector, the weakening performance of SOEs, the slowdown in FDI, the widening current account deficit and the slowing of economic growth. These distortions are discussed in more detail in Chapters 2 and 3.

1.32 There were important developments in other sectors. Reflecting the Government's emphasis on human resources development, in June 1996, the Eighth Party Congress took as a special topic **education and the human resources** sector. At the December meeting of the Party's Central Committee, there was a comprehensive review of the progress that had been made towards the Party's education objectives. The Committee also revisited and updated the education sector objectives and goals for the next 15 years. As a result of these discussions, and to underscore the high priority allocated to teaching, the Government revised the basic salary level of school teachers. The Central Committee indicated it wished to see teachers paid from the highest salary

band for civil servants and set targets for an increased allocation (15 percent) of the State budget on education. These events underline the very strong emphasis given by the Government to the education sector.

1.33 In 1995, the Bank for the Poor (VBP), a **microfinance** institution was formed to pull together various Government initiatives to help Vietnam's rural population. VBP was capitalized by US\$ 42.9 million from SBV, and the Bank for Agriculture. In 1996, it received additional funding of up to US\$ 171 million from a combination of state budget allocations, treasury bond issues, and long-term bank loans. Its only international funding to date has been a loan on non-concessional terms of US\$ 20 million from South Korea. Since its inception, its loan portfolio has grown rapidly to reach US\$ 177 million at the end of 1996. An estimated 1.4 million borrowers (of an estimated pool of 8 million households) have received loans at an average loan size of US\$ 127. VBP's field operations are carried out by the branch offices of the Vietnam Bank for Agriculture throughout the country. The term of the loans range from 6 months to 3 years and VBP charges subsidized rates that do not even cover its operating costs let alone allow it to build up reserves for possible loan losses. VBP's operations raises three major issues of concern. First, the institution will not be able to become financially sustainable or commercially viable unless it is allowed to charge interest rates that cover its funding costs, administrative expenses and risks. Second, VBP's operating procedures sets a negative example for successfully operating micro-finance institutions in Vietnam, and may even undermine their existence since VBP charges much lower interest rates on its loans than other micro-finance institution in Vietnam. Third, accounting procedures and practices in the bank are weak and delinquent accounts are not tracked. These issues will need to be tackled to ensure the financial and commercial viability of the bank, if it is to play a vital role in Vietnam's push to alleviate poverty.

2. PAST PROGRESS AND FUTURE CHALLENGES

INTRODUCTION

2.1 For nearly a decade, Vietnam has been undertaking a program of economic reforms. This program has had remarkable success in eliminating widespread hunger, initiating vigorous economic growth, and reducing macroeconomic imbalances. Building on this success, the Government of Vietnam has set ambitious medium term economic development objectives. This Chapter assesses Vietnam's economic performance under the reform program and argues that while performance has been impressive in several respects, there are disturbing trends that could prevent achievement of medium term growth, poverty reduction and equity objectives. The next section reviews reform, stabilization and growth performance over the past decade, Section B assesses performance and argues that a labor-absorbing, outward-oriented growth strategy is more likely than the current approach of inward-looking, capital-intensive industrialization to secure high "quality" growth, and the achievement of Vietnam's important medium term development objectives.

A. THE "DOI MOI" PROGRAM OF REFORM AND STABILIZATION ¹

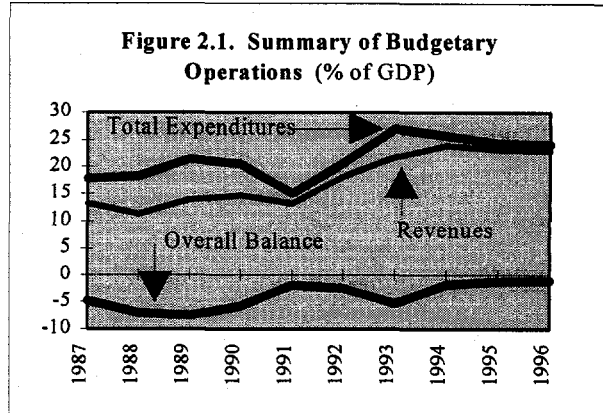
Deep Reforms Have Restructured and Stabilized the Economy

2.2 In 1986, the Government of Vietnam launched a comprehensive reform program to respond to severe macroeconomic instability, economic stagnation and growing rural hunger. Structural reforms were aimed at building a multi-sector economy by recognizing and formalizing the role of the private sector, opening the economy to foreign trade and investment, and returning to a system of smallholder agriculture. The underlying strategy was to introduce market principles to enhance the efficiency of the economy, while at the same time preserving a central role for the state in economic management. Implementation gathered momentum in 1989 when price controls were largely phased out and agriculture reverted to family farming as opposed to farming based on collectives. Since then, reforms have been extended to cover a broad range of areas (see Box 1 in Executive Summary).

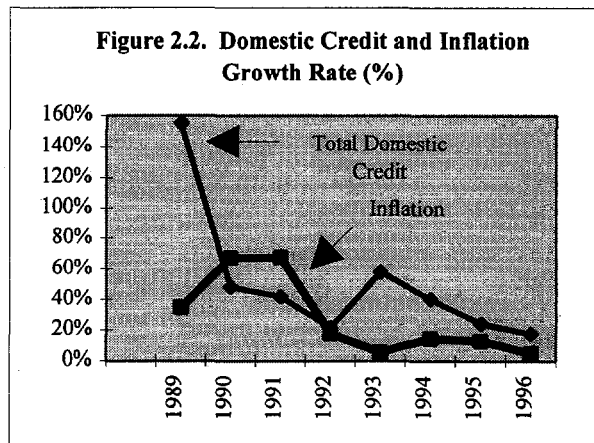
¹ This program is documented in several World Bank reports. For a comprehensive description, see *Vietnam: Transition to the Market*, The World Bank, September 1993.

2.3 Success of stabilization efforts under the program has provided the macroeconomic stability that has underpinned economic growth and generated significant inflows of foreign investment. Key elements of this effort are:

- Strong Fiscal Adjustment:** The fiscal position² has been strengthened appreciably (see Figure 2.1), mainly through improved revenue performance: revenues have risen from just under 14 percent of GDP in 1989 to a peak of 24 percent in 1994, due mainly to more aggressive collection from SOEs in the wake of initially successful Government efforts to harden budget constraints facing state enterprises; from increased trade taxes as trade volumes expanded; and from rising oil revenues. There have also been improvements in expenditure allocation: direct subsidies to state enterprises have been almost eliminated from about 6 percent of GDP in 1988³; the share of education and health in current spending has also increased from about 7.5 percent in 1988, to about 18.7 percent in 1996.



- Tight Monetary Stance.** The reduction in the fiscal balance and the elimination of domestic bank financing, coupled with high real interest rates, have allowed greater monetary control and hence a significant reduction in inflation (see Figure 2.2). Under bank-by-bank credit ceilings introduced in 1993, annual credit growth has declined sharply from over 75 percent in 1988-91, to 20 percent in 1996.



- Gradual Liberalization of Interest Rates.** The Government has also implemented a gradual liberalization of interest rates. In 1993, sector specific lending rate controls were abolished in favor of lending rates differentiated by the term structure of loans.

² No data are available on the consolidated public sector fiscal deficit. The discussion on fiscal deficit is thus limited to the Government fiscal deficit.

³ Direct subsidies are estimated at about 20 billion Dong in 1996.

In January 1996, the SBV switched from mandating specific deposit rates to controlling rates by applying a limit to banks' interest rate spreads for Dong lending. The maximum spread was set at 4.2 percent per year⁴.

Reforms Have Yielded unprecedented Levels of Growth...

2.4 Under the reform program, Vietnam has achieved rapid growth. From a low of 4 percent in 1987, the annual rate of growth has increased to over 9 percent in both 1995 and 1996, averaging 7.3 percent annually for the past decade. This has translated into annual per capita real income growth of about 5 percent. In US dollar terms, per capita income grew from barely \$100 in 1987, to over \$300 in 1996. This growth performance compares well with the performance of a wide range of countries (see Table 2.1).

Table 2.1: Vietnam's Recent Growth Compares Favorably with Other Rapidly Growing East Asian Countries

Country or Country Grouping	Average GDP Growth Rate (percent)	Average GDP per Capita Growth Rate (percent)
Vietnam (1987-96)	7.3	5.2
Low Income Countries (ex. China and India)	2.3	-
China (1987-95)	9.8	8.6
Other East Asia Countries:		
Hong Kong (1970-85)	8.0	5.8
Indonesia (1970-85)	7.1	4.9
South Korea (1960-75)	9.1	7.2
Malaysia (1970-85)	6.9	4.4
Thailand (1970-85)	6.4	4.0
Selected Transition Economies (1987-95) a/	-1.3	-1.3

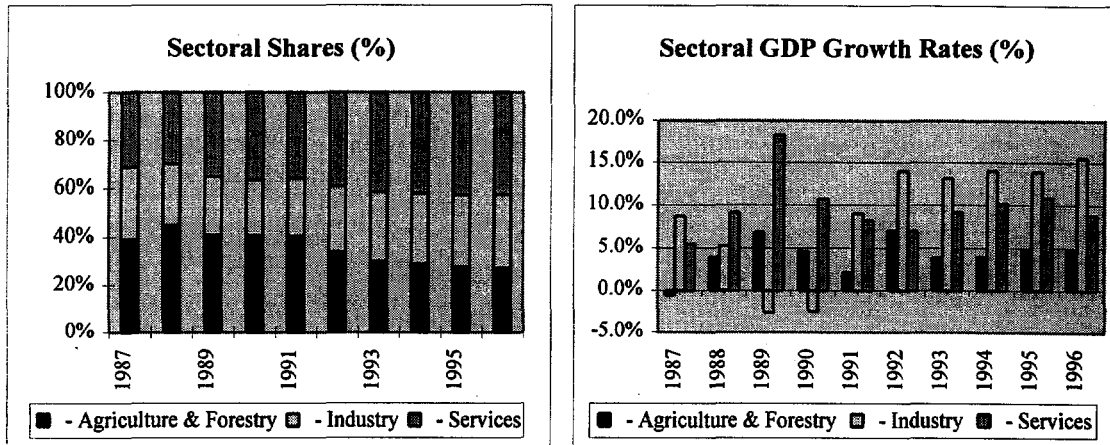
Note: a/ Includes Bulgaria, Czech Republic, Hungary, Poland, and Slovak Republic.

Source: World Bank. Selected Reports and K. S. Kim, et. al., *Growth and Structural Transformation*, 1979.

2.5 All key sectors have participated in growth. Overall, the service sector has grown the fastest, at an annual rate of close to 10 percent over the period, with industry and agriculture growing at close to 9 percent and just over 4 percent respectively over the period. This sectoral pattern of growth implies that both the service and industrial sectors have assumed greater importance in total output, while agriculture, though still the dominant sector of the economy, has contracted substantially as a share of total production (see Figure 2.3).

⁴ The spread regulations may adversely affect competition and thus the efficiency of financial intermediation and the Government has announced its intention to phase this out.

Figure 2.3: Reforms Have Resulted In Structural Changes



Source: GSO.

2.6 Growth in agriculture⁵ has been propelled by intensification of rice production in the wake of de-collectivization and the return to family farming, and productivity improvements due mainly to technological progress in the form of improved seeds and increased use of tractors and pumps. Paddy output increased some 57 percent between 1988 and 1996, from 17 million to 27 million tons. Much of this growth came from a 37 percent aggregate yield increase and the expansion of irrigated area which increased cropping intensities⁶. This increased productivity has allowed bumper crops in 1996 and 1997, despite natural disasters such as flooding and droughts. Vietnam has also become a leading exporter of rice, a dramatic turnaround from the late 1980s when it could not feed itself and when rural hunger was widespread. Production response has been slower for other crops but is still dynamic--about 20 percent for industrial crops. Their growth has however come essentially from area expansion.

2.7 In services, growth was fastest in banking while fuel extraction and a construction boom have been driving factors in industrial growth. The growth in fuel production reflects the coming on stream of crude oil extraction activities in the offshore oil fields in the early 1990s⁷. Capital intensive industry accounted for over 58 percent of industrial growth over the period. More labor intensive areas of industry, notably textiles, leather, food and foodstuffs have also expanded but at a slower pace.

⁵ Though substantially lower than in services and industry, growth of Vietnam's agriculture is comparable to that of other Asian countries during their periods of initial rapid growth and achievements in the sector are impressive.

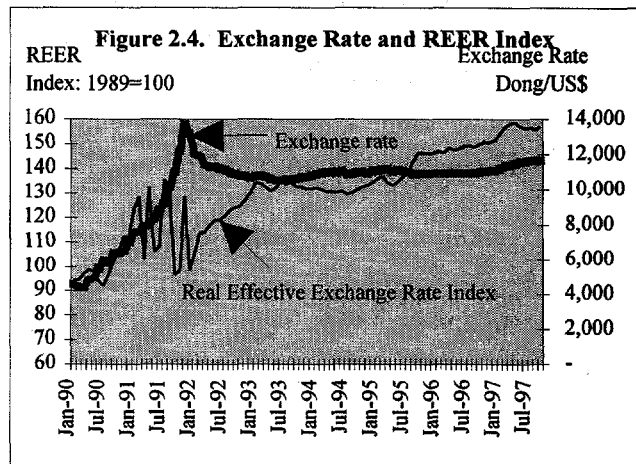
⁶ Cropping intensities increased by about 21 percent as cultivated areas declined by 17 percent.

⁷ Exploration begun in the 1970s as a joint venture between the Vietnamese Government and the former Soviet Union.

2.8 Both state⁸ and the non-state sectors experienced growth but the state sector has grown much faster, reflecting largely the increasing number of joint venture operations between SOEs and foreign investors. The difference is most glaring in agriculture, where the non-state sector grew by barely 4 percent annually compared with over ten percent for the state sector. This difference is also partly explained by state sector dominance of the rapidly growing industrial crops. The non-state sector is on the other hand concentrated in rice production whose growth has largely stabilized. With its more rapid growth over the period, the share of the state sector in GDP has expanded from about 36 percent in 1987 to 42 percent in 1995.

Opened the Economy to Foreign Trade ...

2.9 Trade expansion has been an important component of growth. Trade reforms have increased Vietnam's volume of external trade in parallel with a substantial diversification of trade. Trade has risen to about 97 percent of GDP in 1996 from 46 percent in 1989. Export growth has averaged 28 percent annually, doubling as a share of GDP from about 20.5 percent in 1989 to over 41 percent in 1996, while import growth has averaged 31 percent annually. At the same time, the share of rice and crude oil exports has declined to about 30 percent in 1996 from close to 40 percent in 1990, while the share of manufactured exports has risen to close to 30 percent from barely 2 percent in 1990. In 1996, Vietnam recorded trade with a total of over 100 trading partners. Trade reforms have occurred in parallel with a move towards market-oriented exchange rate management. In 1989, the Government re-aligned the exchange rate and adopted a market-oriented exchange rate policy. The official exchange rate was devalued by about 73 percent (in real terms), to close to the level in the parallel market. An interbank foreign exchange market was introduced in 1994, with buying and selling rates allowed to move within a band around the official reference rate stipulated daily by the central bank⁹. Since March 1992 the difference between the official exchange rate and the exchange rate in the parallel market has been usually less than one percent. Since 1993, there has been little volatility in both the nominal and real exchange rates (see Figure 2.4).



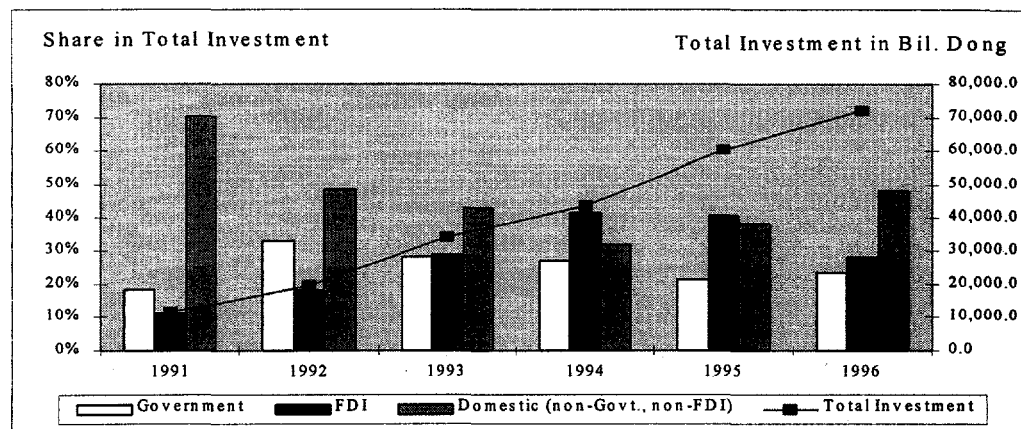
⁸ The definition of state sector used in the national accounts covers government, SOEs, and joint ventures in which the state has a greater than 50 percent share.

⁹ The interbank market was preceded by the establishment of foreign exchange trading floors in 1991, in Ho Chi Minh City and in Hanoi.

and to Foreign Investment Which Has Provided the Primary Stimulus to Growth ...

2.10 Investment has tripled in real terms expanding as a share of GDP from 11.6 percent in 1989 to close to 28 percent in 1996 (Figure 2.5).¹⁰ The stimulus for this growth has come mainly from the non-government sector and in particular from foreign financed investment in the form of FDI. Investment expenditure by the non-government sector rose from barely 6 percent of GDP to 21 percent in 1996, with foreign financed investment increasing to 8 percent of GDP and 28 percent of total investment expenditure in 1996.

Figure 2.5: FDI Leads Investment Growth In Vietnam



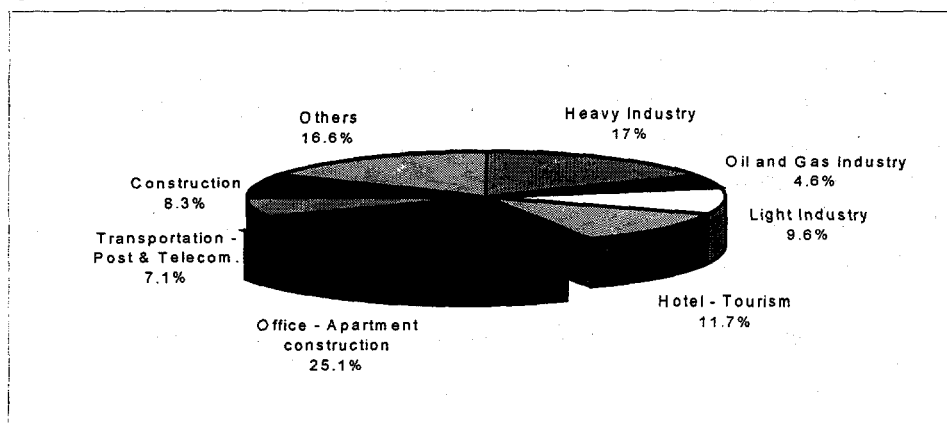
Source: GSO, MPI, MOF and Bank staff estimates.

2.11 FDI commitments have gradually diversified into manufacturing, but remain dominated by construction activities (about 44 percent of total commitments). Manufacturing still represents only about one quarter of commitments in contrast to other countries where it has tended to absorb the bulk of FDI flows (e.g. 65 percent in China and 59 percent in India). Within manufacturing, heavy industry is dominant (see Figure 2.6). Overall, about 43 percent of commitments has gone into production of tradable goods, including manufacturing, while production of purely non-tradables absorbed about 26 percent of commitments. The remaining 31 percent has gone into other non-tradable activities which are export-oriented or should contribute towards improving the investment climate (notably, hotel and tourism, construction of Export Processing and Industrial Zones, and transport and communications). SOE investment has also been concentrated in heavy industry, including cement, steel, fertilizer and in agricultural cash crops, such as rubber, coffee, and tea.¹¹ Government investment has been largely in infrastructure, transport and communications, water management, and also industry and construction.

¹⁰ Some of the increase in investment could be due to improved statistics on investment activity.

¹¹ Data on the disaggregation of domestic private investment is sparse.

Figure 2.6: FDI Approvals Dominated by Construction and by Heavy Industry



Note: Cumulative through 1996.

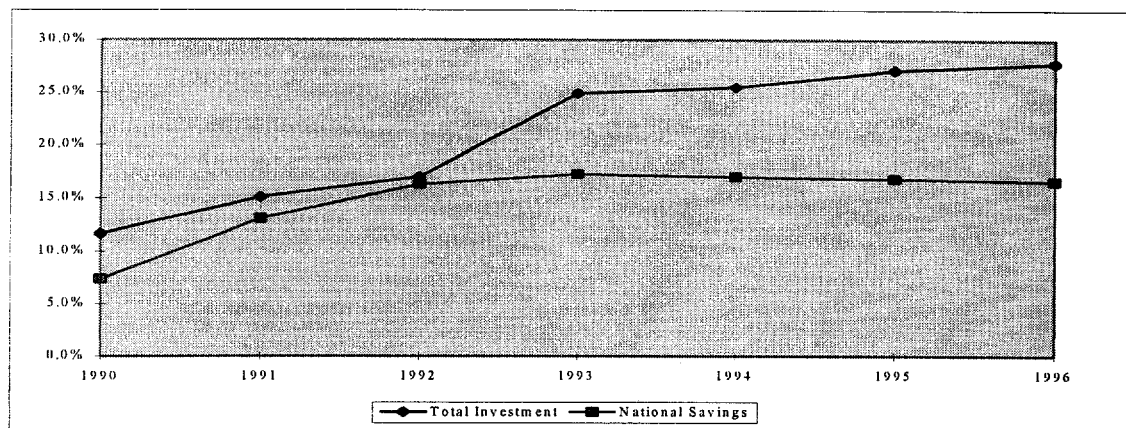
Source: MPI.

... Which Has Been Financed by Rapid Growth in Domestic Savings, and Increased Foreign Savings

2.12 Vietnam's recent growth has been propelled by growth in both savings and investment but investment growth has outstripped savings, as reflected in the widening current account deficit. Saving increased at an impressive rate, rising from 3 percent of GDP to a peak of 17.3 percent in 1993 (Figure 2.7)¹² but has since tapered off to about 16 percent in 1996. Government savings increased as revenue performance improved but savings patterns have been driven by non-Government savings which rose to a peak of 14.6 percent of GDP in 1993 before declining to about 10.6 percent in 1996. This increase is likely due in part to increased incomes and lower inflation, which has helped protect real returns to savings. Nevertheless this link does not explain the recent declining trend. One possible explanation of this recent trend is lower savings of the SOE sector, given indications of weakening financial performance of the sector. It could also indicate that individual savers perceive the recent rapid growth in incomes as a permanent rather than a temporary change and have thus reduced their share of savings even as income growth has remained high over the last two years. Vietnam's savings compare well with countries at similar per capita incomes (see Chapter 4), nevertheless, the recent stagnation in aggregate savings and the decline in non-Government savings need to be reversed if Vietnam is to sustain its rapid growth with macroeconomic stability.

¹² Data on savings need to be interpreted with some care given that application of the SNA started only in 1993 and given statistical and conceptual difficulties in measuring savings.

Figure 2.7: Widening Investment - Savings Gap
(percent of GDP)



Source: GSO and Bank staff estimates.

Initial Gains in Poverty Reduction Have Been Achieved.

2.13 There are no time series data to allow a detailed analysis of trends in poverty in Vietnam over the last decade. Nevertheless there are indications that recent growth occurred with some initial reduction in poverty and improvements in living standards. 95 percent of respondents in the 1992-93 VLSS community questionnaire administered in 120 rural sampling areas indicated that the quality of life in the community had improved in the last five years.¹³ This reduction in poverty has been made possible for several reasons. When Vietnam's reforms were initiated in 1989, over 70 percent of the population were farmers. Thus liberalization of agricultural prices, coupled with the return to family farming, had significant positive impacts on the incomes of most households. Retrenched public sector workers were also offered an adequate compensation package (on average equivalent to one year's pay), and were quickly absorbed into the expanding private sector. In addition, the provision of social services by SOEs--particularly industrial SOEs--was not as significant as in China and other transition economies, hence household access to social services was not appreciably affected by liquidation of SOEs.

B. ASSESSING VIETNAM'S ECONOMIC PERFORMANCE

2.14. Vietnam has achieved unprecedented levels of growth but as worldwide empirical evidence shows, rapid growth alone is not sufficient to meet broader development objectives. The Government's medium term development objectives include a strong focus on the achievement of several social objectives (see Chapter 3). Moreover, Vietnam is a country that attaches great importance to the achievement of social justice and greater equity. In other words, Vietnam is concerned not only about the quantity of growth but also about the "quality" of growth.

¹³ World Bank: *Vietnam Poverty Assessment and Strategy*, January 1995, para 1.12.

Box 2.1: The "Quality" of Growth

Two important indicators of the "Quality" of growth include: (i) who benefits from growth--specifically, is growth associated with a substantial reduction in poverty, and with increasing equity; and (ii) whether growth is sustainable from the point of view of macroeconomic stability. The past two decades of growth in East Asia is considered a "miracle", not just because of high levels of sustained growth, but because this high growth was achieved with a dramatic reduction in poverty. In addition, growth was associated with good macroeconomic management which provided sustained macroeconomic stability. In other words, East Asia has produced both high levels of *quantity* as well as *quality* of growth.

The East Asian model has been described as an outward-oriented, private-sector driven, labor-absorbing pattern of broad-based growth. Growth has been based first on agricultural development, then on exports from unskilled labor-absorbing manufacturing, and then a gradual move up the skills ladder to more skill- and capital-intensive manufacturing and services. This has been backed by strong human resources development. In Indonesia, for example, this pattern of growth produced a dramatic reduction in poverty: between 1970 and 1996, the proportion of poor declined from 60 to 11 percent. In addition, the quality of life of the average Indonesian improved significantly: infant mortality declined sharply, life expectancy rose considerably, education became more widespread and illiteracy was reduced dramatically. In Indonesia, the benefits of growth have been spread widely between different groups of workers: males and females, skilled and unskilled, agricultural and non-agricultural, rural and urban, and those living on Java and off-Java.

In its early stages of reform, Vietnam was also able to achieve a high *quantity* of growth as well as widespread reduction in poverty as bold agricultural reforms increased rural incomes. But the indicators of "quality" of growth have not remained good. Growth in Vietnam has become increasingly tilted towards protected capital intensive industry, dominated by the SOE sector. The benefits of growth from such a pattern of development are unlikely to be as widespread and as sustainable as from, say, the Indonesian model of growth. In fact, such a pattern of growth is likely to favor the more-skilled over the less-skilled, the urban over the rural, and the owners of capital over those with labor as their main endowment.

2.15 Evidence from around the world also illustrates that rapid growth today that is generated without attention to its long term sustainability or its quality cannot be maintained. Moreover, the longer that policies which are not conducive to the sustainability of growth are continued, the higher the costs of adjustments are likely to be. Several countries that have enjoyed rapid growth over the medium term have ended up with crises that have implied lower average growth over the longer term. The Philippines in the late 1970s is a good example of this (see Box 2.2 below). It grew rapidly for a period but its growth was inefficient and distorted and eventually could not be sustained. It ended in a financial crisis that had to be cleaned up at significant cost to the economy and to growth. The lesson in this for Vietnam is that it cannot expect to maintain its

strong economic performance unless it tackles distortions that could cause macroeconomic instability and derail growth.

Box 2.2: Philippines in Late 1970s--Rapid but Distorted Growth

In the 1970s, the Philippines' economy grew rapidly. Growth was led by investment. A highly protectionist industrial and trade policy regime and an appreciating real exchange rate channeled investment into import-substituting industrial subsectors and non-tradable sectors. Thus, because of a distorted incentive regime, by the end of the 1970s, high levels of investment had created an inefficient and uncompetitive capital stock. Moreover, throughout the 1970s, domestic savings did not keep pace with the expansion in investment. The widening current account deficit was financed by external borrowing that created a large debt burden.

These development resulted in an economy that was inefficient and uncompetitive. When the economy was beset by a series of external shocks in the early 1980s, it was forced to adjust through a severe compression of imports and a deep recession. As a result, growth was negative for the first half of the 1980s. It took nearly a decade until the economy resumed rapid growth. Another consequence of the Philippines' pattern of growth in the 1970s is that GDP per capita still had not recovered its 1980 level by 1995. Vietnam could avoid a similar pattern, by putting in place a neutral incentive regime that can help ensure efficient allocation of resources and thus allow investment to flow into areas where Vietnam has a comparative advantage.

Selected Macroeconomic Indicators

	<u>1972-79</u>	<u>1980-85</u>
GDP Annual Average Growth Rate	6.2%	-0.6%
	<u>1981</u>	<u>1995</u>
GDP per capita (US\$. real) a/	680	630
	End Period	
	<u>1975</u>	<u>1985</u>
Exports/GDP	21.0%	24.0%
Debt/Exports	138.7%	388.1%
Debt Service Ratio	14.5%	31.6%

Source: World Bank, World Development Indicators, 1997.

Note: a/ Base year is 1987

2.16 Given the importance of the sustainability and quality of growth to achieving Vietnam's long term development objectives, a closer review of Vietnam's growth over the last decade, provides cause for concern about: (i) the emerging pattern of growth; (ii) the role of the private sector in the economy; (iii) the distribution of the gains from growth; and (iv) the sustainability of recent stabilization gains.

Pattern of Growth ... more Capital Intensive, more Inward Looking

2.17 Vietnam is fortunate to have the experiences of several countries both within and outside the region to draw on as it seeks to consolidate its economic takeoff. The experiences of the newly industrializing countries in South East Asia are perhaps of particular relevance given some of the initial similarities between their economies and the Vietnamese economy. In each of these cases, success came through industrialization along the lines of the economy's comparative advantage: in other words, industrialization that stressed increased use of the economy's abundant resource, labor. This allowed the creation of substantial numbers of wage jobs that promoted broad-based poverty reduction. These countries also succeeded in building dynamic rural sectors through significant investments in agricultural and rural development, and through policies that ensured that agriculture was not taxed in favor of industry and urban activities. This emphasis on agriculture and rural development was important in sustaining the growth outcomes, and also in promoting greater equity with growth. Market friendly policies that removed distortions in the economy, and allowed resources to be allocated more efficiently to high-yielding investments and to activities in which these economies could compete internationally, played a key role in this success.

2.18 Vietnam's recent growth, in contrast to the experiences of these other successful countries has been characterized by increasingly capital-intensive industrialization and by growing investment in inefficient, low-return investments. Industry has become a larger share of GDP in line with the Government's industrialization objectives. However, it has also shifted towards import-substituting, capital-intensive production. In 1989, Vietnam had virtually no heavy industry. Nearly half of manufacturing employment was concentrated in two labor-intensive sectors: textiles and food processing.¹⁴ The picture has changed substantially since capital-intensive industry has expanded more rapidly than labor-intensive industry: real output of capital intensive industry (outside of oil) grew by over 15 percent annually, outpacing labor-intensive industry which grew about 10 percent annually. Consequently the share of the former increased to about 25 percent of total industrial output, while light industry declined to 53 percent (see Table 2.2).

¹⁴ Ljunggren B., *"The Challenge of Reform in Indochina,"* 1993.

Table 2.2: Vietnamese Industry Shifts towards Protected Capital-Intensive Activities
(percent)

Item	1990	1991	1992	1993	1994	1995	Average. 1990-95
A. STRUCTURE (in percent)							
Capital intensive Industry a/ o/w industry excluding Oil	42 (24)	45 (24)	47 (25)	48 (26)	50 (27)	49 (26)	47 (25)
Labor intensive Industry	58	55	53	52	50	51	53
B. GROWTH (in percent)							
Total Industry	-3.3	10.4	17.1	12.7	13.5	14.7	13.7
Capital intensive Industry o/w industry excluding oil		15.7 13.5	19.0 16.9	16.9 18.1	17.4 18.2	11.0 9.7	16.0 15.3
Labor intensive Industry		3.3	13.9	10.5	13.7	11.0	10.5

Note: a. Including oil, energy, metallurgy, construction material, and machinery.

Source: GSO.

2.19 This trend is a concern given that production in most of these capital-intensive import substituting industries receives high rates of effective protection, suggesting that they are inefficient, yield low returns to the economy, and are uncompetitive at world market prices. The automobile industry is a case in point (see Box 2.3 below). These activities are carried out mainly by SOEs but have in recent years been given an important boost with significant inflows of FDI either as joint ventures with SOEs or as wholly owned foreign ventures. Under a less distorted incentive regime, the profitability of production in these areas is likely to be substantially lower and fewer resources would be drawn into them, but current high levels of protection make them very rationale business decisions for both domestic and foreign investors. However, the returns to the economy are low. Quite apart from the costs to the economy in terms of inefficiency of resource use, the opportunity costs in terms of extra jobs that could have been created in labor-intensive activities are probably considerable.

Box 2.3: Inefficient Capital Intensive Industry--Automobile Assembly

So far, 15 FDI automobile assembly ventures have been approved, and 8 are currently in operation. However, the typical efficient scale of operations for a motor vehicle manufacturing plant is some twenty times the size of the entire Vietnamese market. The small size of the domestic market relative to optimal plant size suggests that automobile assembly in Vietnam cannot yield high returns to the economy and represents an extremely inefficient use of scarce FDI resources. Nevertheless the high level of protection--currently at about 200 percent--makes it a sound and lucrative investment choice for potential investors. Consumers end up bearing the brunt of this distortion: with high level of protection, domestic manufacturers are able to price their cars at up to three times the duty free price of imported cars.

2.20 In a few labor intensive manufacturing areas notably garments, textiles and footwear, Vietnam has achieved remarkable export success. However, the increasing focus on protected import-substituting production is reflected in the fact that while Vietnam has made progress in opening up its economy and in diversifying exports, manufactured exports remain a relatively low share of total exports especially compared to other East Asian countries (see Table 2.3 below).

Table 2.3: Low Share of Manufacturing Exports in Total Exports
(percent)

	1985	1996
Vietnam	-	28.6
China	35.9	85.4
Indonesia	11.0	60.6
Malaysia	27.2	80.5
Philippines	26.6	83.3
Thailand	38.1	81.5

Source: For Vietnam: GSO and SBV; for other countries: *World Development Indicators*, and *At A Glance Tables*, 1997.

Role of the Private Sector ... Still Limited

2.21 Since its formal recognition at the beginning of the reform program, Vietnam's private sector has grown considerably but still consists almost entirely of small family farms and household businesses. In both agriculture and industry, growth of non-state sector output has lagged behind growth of the state sector. In industry, domestic private sector share of output declined to under 58 percent in 1995, from over 67 percent in 1990. Manufacturing production is currently concentrated in SOEs while a multitude of very small firms provide the bulk of employment. Currently in Vietnam, the domestic corporate private sector still accounts for under one percent of GDP¹⁵. In 1995, there were fewer than two thousand such firms in manufacturing, accounting for only about 8 percent of the total registered capital in the sector (see Table 2.4). Moreover, labor productivity in the existing private sector is considerably lower than in the state sector, reflecting significant underemployment in the private sector. These trends are worrisome because despite evidence of its potential dynamism, Vietnam's private sector is still not playing the important role that the Government recognizes it could play in Vietnam's economic development. In the other successful East Asian economies, the corporate private sector consisting largely of small and medium scale firms--and not the Government sector--has provided the backbone for successful labor absorbing growth. In addition, the weakness of the private sector implies there is very little avenue for the kind of competition which is needed to promote efficiency and thus support sustained rapid growth. SOEs in particular have little incentive to improve their performance since competition from the private sector is weak.

¹⁵ Riedel, J., Chuong S. Tran, "The Emerging Private Sector and the Industrialization of Vietnam," April, 1997.

**Table 2.4: Limited Role of Private Sector in Industry:
Evidence from Ownership of Industrial Firms
as of July 1, 1995**

	Sole Proprietor Enterprises	Limited Liability Companies	Joint- Stock Companies	Household Enterprises	State- Owned Enterprises
In All Branches of Industry					
Number	18,243	7,346	165	800,000	6,310
Capital (Dong millions)	3,071	5,693	1,704	NA	77,656
In Manufacturing					
Number	5,030	1,735	41	400,000	2,777
Capital (Dong millions)	758	1,628	183	NA	21,099

Source: GSO.

Labor Market Trends...Labor Absorption Concentrated in Low Productivity Activities

2.22 The effects of the growth patterns described above are evident in employment and labor productivity trends. Vietnam's recent growth experience has been low on employment generation and low in generating high productivity jobs. Employment creation has averaged about 2.9 percent annually, lagging behind labor force growth of about 3.3 percent annually. As a result, unemployment has increased from an estimated 3.4 percent in 1989, to over 6 percent in 1996. Labor force growth rates can be expected to increase further as labor force participation rises with development, and as a result of Vietnam's rapid population growth rate. This would imply continued increases in unemployment, if the current pattern of growth is maintained.

2.23 In addition, Vietnam has not experienced the intersectoral labor shifts towards higher productivity activities that has characterized the success of other East Asian Economies. The large majority of new job creation has been in small household businesses and in services and agriculture with relatively low labor productivity growth (see Table 2.5). In services which absorbed the largest number of workers, value-added per worker actually declined by about 2.3 percent per year during the past five years, indicating that large numbers of workers are being absorbed into low productivity, informal sector activities. Vietnam is still very much a dualistic economy with the formal modern sector providing much of the output growth but not the jobs. This is in stark contrast to the picture in Indonesia. After a decade of dynamic structural reform, Indonesian workers are being absorbed roughly in equal numbers in industry--the sector with the highest labor productivity--and in services. Even in the latter, productivity growth has been robust, as the formal service sector has experienced growth relative to low productivity, informal jobs in the service sector. Vietnam's recent employment and labor productivity patterns do not provide a basis for the substantial and broad-based increase in incomes that is needed to achieve appreciable poverty reduction and promote greater equity.

**Table 2.5: Employment and Productivity Trends:
Vietnam and Indonesia, 1990-1995**

Sector	Vietnam 1990-1995		Indonesia 1990-1995	
	Labor Absorption share in (%)	Value-Added per Worker (Annual Average Growth)	Labor Absorption share in (%)	Value-Added per Worker (Annual Average Growth)
Agriculture	28.5	3.2	-5.7	3.2
Industry	15.7	8.3	54.7	5.5
Manufactures	na	na	35.8	6.6
Services	55.8	-2.3	50.9	5.6

Source: For Vietnam: GSO.

For Indonesia: *Indonesia: Sustaining High Growth with Equity*, World Bank, Report No. 16433-IND, May 30, 1997.

Distribution of the Gains from Growth...Rural Sector Lagging Behind

2.24 These production and employment trends are worrisome because ultimately, they limit Vietnam's ability to spread the gains of growth broadly and ensure a significant reduction in poverty. In particular, the benefits of growth are likely to be captured more by urban and relatively well off segments of the population, with poorer groups benefiting less from growth. In other words, they limit the "quality of growth" (See Box 2.1). While reforms have provided initial improvements in living standards (see para 2.13), there is still an estimated 51 percent of the population living below the poverty line. About 20 percent of the population is classified as food poor. Furthermore, rural-urban income gaps have widened since 1990. Per capita income growth in urban areas has averaged about 8.8 percent annually between 1991 and 1995 compared to only 2.7 percent for rural areas. The gap between rural and urban per capita incomes has thus widened steadily. In 1994, average rural incomes were barely one fifth of urban incomes, significantly lower than can be explained by differences in rural-urban cost of living. This growing income inequality is in direct contrast to the Government's objectives of achieving greater equity and social justice. It is also likely to inhibit Vietnam's longer term progress in reducing poverty. Empirical evidence worldwide shows that when inequality is high, the gains to the poor from a given rate of growth are likely to be lower¹⁶.

¹⁶ Bruno M., Ravallion M., and Squire L., 1996: "*Equity and Growth in Developing Countries: Old and New Perspectives on the Policy Issues*". World Bank, 1996.

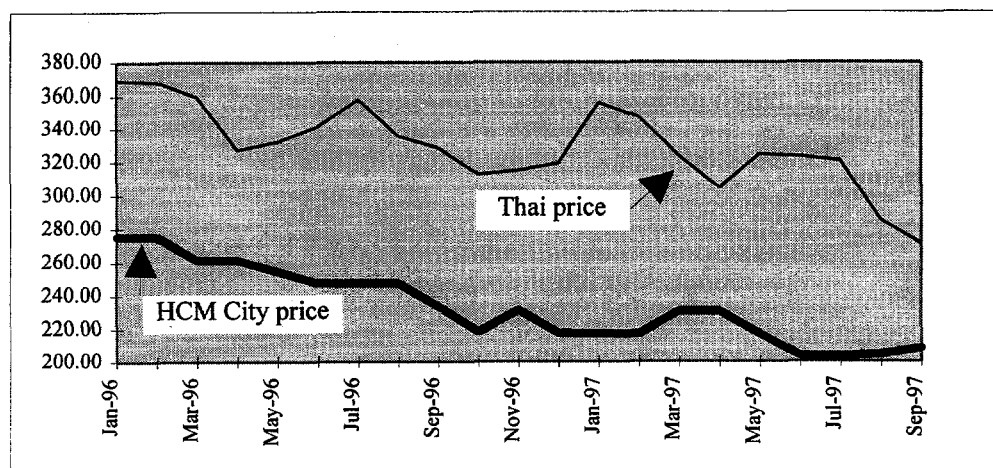
Table 2.6: Widening Rural-Urban Income Gap
(Rural GDP per Capita as % of Urban GDP per Capita, 1990-1994)

	1990	1991	1992	1993	1994
Whole country	25	28	21	19	18
North	20	22	17	15	14
South	31	35	26	23	23

Source: GSO.

2.25 Recent events in the rice sector could further worsen rural-urban income inequalities. In spite of the dramatic growth of rice production, there have been concerns about declining rice prices and possible declines in rural incomes linked to the regulation of the rice market. In 1996 the domestic and international trade in rice was subject to a myriad of formal and informal regulations, including both severe restrictions on the domestic trade and movement of rice as well as export quotas.¹⁷ The costs of this system became apparent in 1996, when rice production grew significantly. The export quota was not expanded rapidly enough, leading to a sharp drop in domestic rice prices. Towards the end of 1996, domestic rice prices rose closer to international levels when the quota was finally raised.

Figure 2.8: Rice Prices in Vietnam Have Not Kept Pace with International Prices
(US\$ per ton)



Source: World Bank and GSO.

¹⁷ Rice trade and the effect of the regulations system on rice production and trade are discussed in detail in the recent report prepared by the International Policy Research Institute (IFPRI). See IFPRI, "Rice Market Monitoring and Policy Options Study: Progress Report" October 1996.

2.26 Despite the Government's attempts to liberalize the domestic and international trade in rice in early 1997 (see Chapter 1), there are concerns that the domestic price of rice has fallen below international prices (see Figure 2.8 above). The adverse effect of this decline on rural incomes, may have been exacerbated by the continuing real appreciation of the Dong. It is not clear the extent to which this adverse effect on rural incomes has been offset by increasing incomes from other crops. Nevertheless, with more than 80 percent of the population living in rural areas and a large proportion of these households dependent on rice (either directly or indirectly) for their livelihood, the decline in rice prices is a worrying trend and could indicate the erosion of initial progress in rural poverty reduction, and a further widening of the rural-urban income gap.

Sustainability of Stabilization Gains at Risk

2.27 Vietnam's successful stabilization effort has been an important factor in achieving and sustaining rapid economic growth, but recent developments point to potential threats to stabilization gains. As indicated above, the Government's fiscal position has strengthened considerably since the beginning of the reform program. Steps taken early in the program to harden budget constraints and rationalize the SOE sector indicate that the consolidated fiscal balance, also improved in the initial years of the reform program.

2.28 While comprehensive data are unavailable, there is increasing evidence that the financial performance of the state enterprise sector is deteriorating. Budget revenues from state enterprises have declined as a percentage of GDP, from over 12 percent in 1994 to about 8.5 percent in 1997. Moreover, in 1996 more than 80 percent of budget revenues from state enterprises were derived from only a small minority of enterprises (see discussion in Chapter 3), indicating that the vast majority of them may be loss making. Further evidence is provided by recent Government announcements of increased financial support to state enterprises, including eliminating collateral requirements for SOE borrowing from the banking system. Recent data from the banking system also indicate an increase in overdues from SOE clients and defaults by a number of SOEs on their letter of credit obligations. A sharp deterioration in the economic performance of state enterprises would pose considerable difficulties for macroeconomic stability, as revenues from SOEs still constitute 40 percent of budget revenues and SOEs account for about 50 percent of the stock of domestic credit.

2.29 There are also concerns about the sustainability of Vietnam's external balance, as the current account deficit reached over 11 percent of GDP in 1996 (excluding smuggled imports which could be significant). While external sustainability cannot be judged solely on the basis of the size of the current account deficit, there are important reasons for concern now. First, as is discussed in detail in Chapter 3, the incentive regime under which resources, including foreign savings, are being allocated is distorted. While the widening deficit has resulted largely from an expansion in imports of intermediate goods and capital equipment and has been financed by foreign investment inflows, existing distortions in the trade regime have drawn a substantial part of FDI resources into industrial subsectors enjoying very high effective rates of protection. There is a danger,

therefore, that these investments could be inefficient and uncompetitive at world market prices. In addition, a substantial part of FDI flows have also gone into non-tradable activities (see para 2.11). Both of these trends could jeopardize Vietnam's ability to achieve the productivity gains necessary to sustain a high rate of growth.

2.30 Second, recent trends in the structure of financing pose risks for sustainability. For much of the period, as noted above, the large current account deficit has been financed almost exclusively by foreign direct investment and official development assistance. Hence, the deficit has been financed without an excessive buildup of explicit government or government-guaranteed foreign debt. Much of the debt on FDI ventures has come from parent companies or other foreign entities at generally favorable terms, with maturities exceeding seven years and interest rates less than one percentage point over LIBOR. However, more recent trends are cause for concern. FDI disbursements in 1996 were significantly lower than in 1995. Approvals in the last 18 months have also been sluggish, indicating that future FDI inflows may be lower than originally anticipated. Concurrent with the slowdown in FDI disbursements and the widening current account deficit, there was evidence that short-term debt, including deferred letters of credit, may have played a relatively larger role in financing Vietnam's current account deficit. Given that Vietnam still has a large overhang of external debt and its repayment capacity is still weak, financing a large current account deficit through short term or non-concessional debt could harm Vietnam's hard-won gains in re-establishing creditworthiness.

2.31 Finally, even though Vietnam has not had to finance its deficit by drawing down international reserves, changes in official reserves during 1996 did not keep pace with the rapid growth of imports. As a result, Vietnam's reserve cover dropped to just under 9 weeks of merchandise imports by the end of 1996 which is low by international standards and leaves Vietnam extremely vulnerable to external shocks.

2.32 Recently, the Government has recognized the unsustainability of such a large current account deficit. It has tried to tackle the widening imbalance through a combination of measures involving tighter controls on external borrowing by state enterprises and state banks, more aggressive enforcement of foreign exchange balancing requirements in the foreign investment law and import bans. These measures will at best have only temporary beneficial effects, and over the longer term, will increase existing distortions in the incentive regime, further raising returns to economically inefficient activities. While continuing to control tightly external borrowing, the Government's attention should focus on removing trade distortions and leveling the playing field between the SOE and private sector to enhance the efficient use of FDI resources and ensure sustainability of the current account deficit.

3. DEEPENING REFORMS TO SUSTAIN GROWTH

INTRODUCTION

3.1 Building on its success in the first decade of reform, Vietnam has set ambitious economic and social development objectives for the medium term. The Eighth Party Congress, held in June 1996, identified the following key development objectives for 2000:

- achieving 9 to 10 percent annual growth and a doubling in per capita income (compared to the 1990 level);
- building human capital and achieving further reduction in poverty and inequality. Specifically, resolving several social issues including abolishing illiteracy, achieving universal primary education; providing 6.5 to 7 million new jobs in order to reduce unemployment in urban areas to under 5 percent and to increase the productive work time in rural areas to 75 percent; and
- preparing and firmly establishing the pre-conditions for building a modern industrialized country after 2000.

3.2 These medium term growth objectives are broadly achievable. Vietnam has an industrious, hard-working labor force, and a potentially dynamic private sector. But as the new Government recognizes in its recently announced reform agenda, the achievement of these objectives will require implementation of a comprehensive reform program that includes: (i) improving the efficiency and competitiveness of the economy including through trade reform; (ii) promoting agricultural and rural development; (iii) intensifying reform of the ailing SOE sector; (iv) renovating and strengthening the financial sector; (v) promoting environmentally sustainable development and growth with equity; and (vi) building a competent and effective government administration. These reforms are even more urgently needed given that the recent deterioration in Vietnam's external environment will make it more difficult to sustain rapid growth.

3.3 This Chapter focuses on three elements of the Government's reform agenda¹--state enterprise, trade policy and financial sector reform--and discusses a program of measures in these areas that will help create *a less biased incentive framework, channel resources into economic activities in which Vietnam can compete internationally, and promote labor-absorbing growth*. It will also allow development of a strong and competitive private sector which the experience of other East Asian countries shows has been critical in fostering broad-based growth. Section A discusses how reform of the SOE sector could promote the emergence of a strong and viable private sector, in parallel with a more efficient and competitive SOE sector; Section B discusses existing distortions in trade policy and measures to create a more neutral trade regime; and Section C discusses weaknesses in the financial system and what could be done to develop a sound financial system capable of effectively intermediating resources.

A. PROMOTING A STRONG PRIVATE SECTOR AND BUILDING AN EFFICIENT STATE ENTERPRISE SECTOR

3.4 Following the formal recognition of its role in the economy in 1986, the private sector has grown rapidly. However, as discussed in Chapter 2, the private sector still consists largely of small family firms and household units with very little in the form of a corporate private sector that can compete on international markets and provide the backbone for outward-oriented growth. Some of the fundamental constraints impeding the development of the sector stem from Government policies that give preferential treatment to SOEs. These policies have created an uneven playing field between the private sector and the SOE sector and reduced incentives for the latter to improve its efficiency. Any efforts to promote the development of a strong private sector must thus first and foremost tackle the distortions in policies towards SOEs. This will require a fundamental shift away from the dominant role ascribed to the state sector in the Government's development strategy. SOE reform will have important direct as well as indirect consequences for private sector development. Not only will it provide room for further private sector growth, it will also indirectly benefit private sector development by creating a more efficient sector able to provide key supporting services for private sector growth.

3.5 In line with the Government's strategy to build a state-managed economy, the approach towards reform of the SOE sector has been to maintain state control of productive activity, while introducing measures to improve enterprise efficiency. Earlier

¹ The other aspects of the reform agenda are the subject of several World Bank reports. Last year's economic report, *Vietnam: Fiscal Decentralization and the Delivery of Rural Services* (Report No. 15745-VN), focused on the efficient delivery of rural services. In addition, the World Bank, in partnership with UNDP, FAO, ADB and selected bilateral donors, are also working with Ministry of Agriculture and Rural Development, the Ministry of Planning and Investment, and participating stakeholders to prepare a comprehensive Rural Development Strategy for Vietnam. Policies for the education sector are extensively discussed in another recent economic report, *Vietnam: Education Financing Sector Study* (Report No. 15925-VN).

reforms focused on sector rationalization, hard budget constraints and increased enterprise autonomy. More recent reforms include the introduction of a program of equitization to help corporatize enterprises and open the sector to private capital. Progress on this has however been extremely slow with only 13 smaller enterprises equitized so far.

3.6 In 1995, a department was created within the Ministry of Finance to centralize the management of SOEs in the Ministry of Finance (MOF) and improve the efficiency of capital use. A new Law on Enterprises was also passed in 1995. This Law provides criteria for distinguishing commercial enterprises from public service enterprises, establishes clear rules for the creation of new state enterprises, and a supervision system for SOEs². The Law is yet to be fully implemented. The Government has also established 18 general corporations as well as 64 smaller special corporations, which group enterprises along sectoral lines under a single management. Together, these holding companies incorporate nearly half the total number of SOEs and a significantly larger proportion of employment and equity. The Government's stated objective is to help enterprises realize economies of scale and improve their ability to compete internationally. However, this move may have served to further limit competition, and allowed cross-subsidization of loss-making enterprises. Both of these will imply further constraints on SOE efficiency and on private sector growth.

Impact of Reforms

3.7 At first glance, the available data suggest that overall the state enterprise sector is not performing too poorly (see Table 3.1). Its contribution to GDP is still significant and has been growing faster than the private sector. In parallel, its share of national resources appears to have declined. Other indirect benefits such as the level of protection provided to the sector, availability of directed credit and legal monopolies also declined with initial reforms of the trade regime and the banking sector. This would suggest that some efficiency gains have been made. Indeed, labor productivity in the state sector has increased faster than in the private sector as SOEs have reduced employment and teamed up in joint ventures with Foreign-invested firms.

3.8 A closer analysis of the evidence however reveals that the picture may not be as rosy. It may also be worsening. First, the recent rapid growth in SOE output in the national accounts data is driven by increased output of FDI joint ventures with SOEs, which is counted as part of state sector output. If production under FDI joint ventures with SOEs were netted out, the output performance of the SOE sector would not look as strong. In 1996 for example, gross output in the foreign-invested manufacturing sector grew by close to 30 percent while output of the SOE sector alone (i.e. excluding joint ventures) grew by much less--barely 12 percent. Second, it is not clear the degree to

² These reforms are described in more detail in *The World Bank, 1995: Viet Nam Economic Report on Industrialization and Industrial Policy.*

which the apparent improvements are generalized across the sector. Data available on enterprise contributions to the budget shows that about 80 percent of contributions is provided by only 360 enterprises (out of a total of about 6,000).

Table 3.1: SOE Sector: Selected indicators

Item	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
SOE growth rate ^{a/} (GDP)	5.9	7.3	4.6	3.0	11.5	11.7	11.9	13.5	12.7	-
SOE Share in:										
GDP (%) ^{a/}	35.8	32.5	33.2	32.9	34.1	36.2	40.8	41.3	42.3	42.9
Domestic Credit ^{b/}	70.7	64.9	53.7	53.3	64.7	72.6	57.3	53.9	51.2	48.5
Total Investment ^{a/}	-	-	-	-	-	-	-	-	-	20.0
Budget Revenues ^{b/}	-	-	57.6	58.8	89.8	56.7	49.9	48.8	41.1	41.4
Total Employment ^{b/} (workers, million)	9.7	9.5	8.7	6.9	5.9	5.4	5.2	5.0	5.2	5.2

Note: a/ includes foreign-invested enterprises b/ Excludes foreign-invested enterprises

Source: GSO and Ministry of Finance.

3.9 There are even more disturbing trends regarding recent SOE performance. First the indebtedness of the sector is high and grew by over 13 percent in 1996³. SOE overdues to the banking sector has risen and their exposure to foreign currency risk is high (see discussion of the banking system in Section C). SOEs are also suffering from production inefficiencies stemming from overemployment, inefficient production technologies and unskilled labor and management. Inefficiencies in rice marketing are particularly striking (see Box 3.1). Increasing Government efforts to replace direct subsidies, which have been largely eliminated with other forms of indirect support, in particular soft credit, would also suggest that the financial performance of the sector is not strong. In 1995, the Government created a National Investment Fund to provide preferential credits for selected sectors and disadvantaged regions. While in theory both private sector firms and SOEs can qualify for loans from this fund, in practice, loans have gone almost exclusively (close to 90 percent of the total volume of loans) to SOEs. The fund currently has close to 600 billion Dong in capital. Credits are extended at an interest rate of 0.81 percent a month for priority industries and 0.7 percent for disadvantaged areas (compared to "market" rates of about one percent) per month. While the size of the fund is relatively small and is intended to be phased out by 2000, it still represents an unfair advantage state enterprises have over the private sector. It is also not clear that loans will be adequately assessed before being granted. The Government has justified the creation of this Fund on the basis of a scarcity of medium to longer term credit. Empirical evidence⁴ shows however that while increased availability of long term finance

³ According to data recently provided by the Ministry of Finance.

enhances productivity among manufacturing firms, this result is reversed to the extent that such credit is subsidized.

Box 3.1: Inefficiencies in Rice Marketing by SOEs

The marketing of rice in Vietnam illustrates some of the inefficiencies in the SOE sector. These inefficiencies need to be dealt with to avoid adverse long run repercussions not only on the product itself, but on rural incomes and poverty. Although about 98% of paddy sold from the farm is procured by private marketing agents, marketing channels leading to exports are controlled by SOEs. Until March 1997, only two SOEs (VINAFOOD 1 and 2) had the rights to procure rice for exports; and since 1995, increased restrictions on rice movements--especially from South to North (to reduce smuggling to China)--have resulted in inordinate marketing margins for such activity. The consequence has been higher prices for rice consumers in the north and lower prices for paddy in the south. Last year, it is estimated that farmers in the Mekong Delta earned only US\$60-70 per head from producing rice after paying all their production costs. There is also growing concern about the rising number of indebted smaller farmers.

A 1996 IFPRI study found that because of these restrictions, SOE unit marketing and operating costs are five times higher than the private sector. It is estimated that removing restrictions on internal and external rice trade could increase exportable surpluses to 4.9 million tons (with a value of US\$1.2 billion) despite a reduction in world prices. This would help increase farmer returns from rice production and contribute towards reducing rural poverty.

Despite recent Government efforts to liberalize the rice trade, some constraints still persist indicating that the playing field in rice marketing is yet to be leveled. First, in expanding the allocation of export quotas, the Government expanded its reservation of the sole rights of VINAFOOD to sell to the high quality importing markets like Iran, Malaysia and the Philippines. Second, restrictions to rice movement do not appear to have been completely removed. Further assessment and measures to remedy these remaining persisting constraints are needed.

Source: World Bank: Agriculture for Sustainable Rural Development (Draft), October 1997.

3.10 A more recent indication of the weakening in SOE financial performance is the announcement by the Minister of Finance in July that working capital to SOEs will be supplemented in the last half of 1997. Moreover, the State Bank (SBV) has issued several other directives to the State Owned Commercial Banks (SOCBs) aimed at improving the availability of credit to SOEs. In particular, SOEs will not be required to have collateral when borrowing from SOCBs. In addition, even loss-making SOEs can access funds upon submission of a sound operational plan (it is not clear how or by whom

⁴ Caprio, G., and Demirguc-Kunt, A., "The Role of Long-Term Finance Theory & Evidence", April 1997.

assessment of soundness will be carried out). The amount of loans to any individual SOE can exceed the limit of 10 percent for single borrower exposure applicable elsewhere in the banking system. Although direct subsidies have been largely eliminated, these recent measures constitute a reversal of earlier efforts to subject SOEs to hard budget constraints, further tilts access to credit in favor of the SOE sector and distorts the allocation of financial resources.

3.11 The financial performance of SOEs is deteriorating, despite the fact that Vietnam's SOE sector still enjoys considerable advantages over the private sector. As discussed above, there are increasing efforts by Government to provide easier access to credit for SOEs. SOEs also have significant greater advantages over the private sector in their access to land. An important stated objective of the new land law issued in 1993 was to reduce the advantage enjoyed by state enterprises by requiring the transformation of their long-term land use rights into rental land use rights. However, the new regulations do not alter the existing land distribution: the SOE sector has a substantial advantage over private firms in the form of more favorable initial land allocation. SOEs are estimated to control over 2 million hectares of land. No effective legal system now exists for the private sector to gain access to this land unless it is approved by the Government. Moreover, the new land law does not fully clarify the situation regarding urban commercial land. The unclear legal framework, continued market segmentation, high transactions costs (including high transfer taxes) and the danger that artificial underpricing of newly allocated land will lead to arbitrary rationing, all put the private sector at a disadvantage relative to well-established and well-connected state enterprises. SOEs with large amounts of land use rights are also able to use their land as capital contribution to joint ventures with FDI and thus earn "rents."

3.12 Complicated business registration procedures and tough entry requirements also imply significant barriers to entry for new private sector firms. Prospective businesses must obtain three separate licenses before they begin operation. Application for these licenses requires the preparation of detailed business plans which are reviewed by provincial and in many cases by central government officials. Granting of the licenses is usually made subject to the absence of a state enterprise in that proposed sector and location of activity. Furthermore licenses are issued to cover very narrowly defined areas of activity. These advantages enjoyed by SOEs imply that they face very little competition and therefore have little incentive to become efficient.

Box 3.2: Recent Performance of Chinese SOEs

In China as in Vietnam, SOEs play a central role in the economy. China like Vietnam, has also avoided mass privatization of SOEs in contrast with the transition economies of Eastern Europe. A review of recent developments in China's SOE sector could perhaps provide useful lessons for policy makers in Vietnam. Overall, Chinese SOEs have remained largely uncompetitive against growing domestic and international competition and have become a drag on growth and employment creation. For example in 1995, SOEs absorbed 61.5 percent of investment in industry and employed 43 percent of the industrial labor force but produced only 43 percent of industrial output. In the same year, the sector generated losses equivalent to 2.4 percent of GDP.⁵ In 1996, operating losses of industrial SOEs fell slightly to 2 percent of GDP but the number of loss-making enterprises has increased steadily from 26.4 percent in 1992, to 44 percent in 1995. Value added per worker in industrial SOEs, is half that of nonstate enterprises also suggesting lower levels of efficiency. Furthermore, the financial support they have received through the fiscal and banking systems has periodically threatened macroeconomic stability.⁶ Growth in China appears to have occurred despite, rather than because of the continued dominance of the large scale SOEs. Furthermore, while these enterprises may have been able to grow over the last fifteen or so years, the limits to this strategy may be approaching. Recognizing the weak performance of the SOE sector, Chinese leaders have announced at the recent opening of the 15th Party Congress, their intention to privatize a large number of small and medium scale enterprises.

3.13 Aside from the direct implications for private sector growth, there are other important risks associated with not pushing ahead on SOE reform. The financial performance of enterprises is likely to worsen unless they are made more competitive. This will weaken the consolidated public sector fiscal position which is in turn likely to spill over to the Government fiscal deficit as Government support to financially strapped enterprises increases or as SOE revenues to the budget are eroded. SOCB financial performance may also be compromised as they are forced to finance SOE losses. This could lead to inflationary pressure, to appreciation of the real exchange rate and reduced competitiveness. Banking sector development could be hampered and financial crises could emerge. Each of these situations would have adverse consequences for macroeconomic stability and for growth.

Reform Priorities

3.14 The evidence on enterprise reform from around the world illustrates that countries that have succeeded in building the best performing state enterprise sectors have done better at implementing comprehensive sector reform programs covering five broad elements: divestiture, competition, hard budget constraints, financial sector reform, and

⁵ Broadman, Harry, "Meeting the Challenge of Chinese Enterprise Reform," Discussion Paper 283. World Bank, 1995.

⁶ World Bank: *The Chinese Economy Fighting inflation, Deepening Reforms* 1996.

changes in the relationships between governments and SOE managers (see Box 3.3 below).

3.15 A vigorous reform effort is needed in Vietnam to help make SOEs more efficient and internationally competitive, and to unleash the productivity of the private sector. This effort would need to be centered around two broad thrusts: (i) fostering competition by leveling the playing field between the private sector and SOEs; and (ii) restructuring the SOE sector to improve its productivity and ensure adequate oversight over its financial performance.

Box 3.3: What Makes for Success in State Enterprise Reform?

Although the potential gains from state enterprise reform are substantial, only a few countries have successfully reformed their state enterprise sectors. What distinguishes the few that have been successful from the many that have not? A 1995 World Bank Study covering experiences from around the world came up with the following findings:

- Successful reformers *divested more*, especially where the initial state enterprise sector was large;
- Successful reformers *introduced more competition*. They liberalized trade, eased restrictions on entry, and unbundled large enterprises;
- Successful reformers *hardened SOE budget constraints*. They reduced or eliminated direct subsidies, put access to credit on a more commercial basis and reduced or eliminated hidden subsidies;
- Successful reformers *reformed the financial sector*. They strengthened supervision and regulation, relaxed controls over interest rates and reduced direct credit
- All reformers alike tried to *improve the incentive structure by changing the relationship between SOE managers and the government*.

Source: World Bank, 1995: Bureaucrats in Business.

3.16 *Leveling the playing field.* Measures are needed to remove unfair and distortionary advantages that SOEs enjoy over the private sector in access to credit and to land; promote ease of entry into various areas of economic activity; and reform trade to reduce protection provided to SOE activities. Specifically;

- Recent SBV directives to SOCBs with regard to lending to SOEs could be reviewed to ensure that SOE access to credit (as for the private sector) is based on sound credit risk assessment. Any other forms of financial support to SOEs would also need to be clearly justified and made subject to good financial performance;

- Existing land regulations could be revised to permit: (a) the transfer of land use rights upon the direct agreement of the parties concerned and without need for Government approval; (b) determination of rental rates for land on the basis of their market value; and (c) allow more neutral and transparent taxation of land use rights. In particular, the current transfer tax could be reduced to encourage compliance and accurate reporting of transactions;
- Entry by the private sector could be eased by relaxing licensing and registration requirements for entry into both domestic and international business activity. Business licenses need to be issued for broader areas of activity and the requirement that there be no SOEs already engaged in the proposed sector and province of activity could be removed. Business establishment, registration and investment licenses could also be simplified and centralized in one single agency and into one single license. Removal of these barriers to entry will also make the business climate more transparent and lower the perceived “high costs of doing business” in Vietnam.
- Reforms to reduce tariffs, and phase out controls on trade volumes (see discussion of trade policy in Section B) will also contribute towards leveling the playing field between SOEs and the private sector.

3.17 ***Restructuring the SOE sector.*** Earlier reforms have increased the autonomy of SOE managers but much less has been done to increase their accountability. In addition, it is costly for the state to manage and supervise effectively the still large number of SOEs--currently about 6,000. Improved supervision and accountability would prevent abuse of increased SOE autonomy and strengthen management and efficiency. This calls for a two-pronged approach--a downsizing of the SOE sector and improvements to the supervision and accountability of those enterprises that will remain in state hands.

3.18 **Equitization.** The Government has so far proceeded cautiously on enterprise equitization, completing only 13 so far. There are reasons for this slow pace including: (i) the central role ascribed to the SOE sector in the economy; (ii) reluctance of SOE management to give up control over productive activity; (iii) concerns over workforce reductions; and (iv) concerns that revenues to the Government budget would fall with equitization. The first reason springs directly from the Government’s stated development strategy of building a state managed economy. This implies active Government involvement in productive activity through state enterprises. Evidence the world over however, illustrates that large public sectors are bad for growth. Besides as indicated above (Box. 3.3), countries that have been successful in building efficient state enterprise sectors have included divestiture of enterprises as a key component of reform. Moreover, the results of recent equitizations should help allay fears about adverse impacts on revenues or on employment (see Table 3.2). Employment and contributions to the state budget both actually increased as enterprise profitability soared.

3.19 The Government could move ahead more rapidly on equitization by first completing the ongoing classification of enterprises, identifying which are public service enterprises that could remain in the public portfolio and which are business enterprises which would be eligible for equitization or eventual divestiture and which enterprises could be closed down; and by establishing clearer guidelines for equitization to ensure transparency in bidding procedures and to guard against under-compensation. Given the successes of the first round of equitization, the Government could proceed with a second and larger round of equitizations once the steps above have been completed. This round could include a pilot program to experiment with more rapid methods of divesting, such as auctions and management employee buy-outs, for enterprises that are too small to equitize (i.e. enterprises with equity under US\$100,000, or fewer than 50 employees). This would both rid the Government of a tremendous administration burden and help create a dynamic entrepreneurial class.

3.20 Improving supervision and accountability. Relationships between enterprises and Government need to be redefined to give enterprises the flexibility and the incentives to respond appropriately to these new pressures to improve their performance. Earlier reforms have increased autonomy for managers and thus some degree of flexibility. To complement this increased autonomy, enterprise supervision and accountability needs to be strengthened. Government could establish systematic evaluation and monitoring of enterprise performance, based on a simple set of measurable financial indicators. Government could also provide incentives for improved performance through a system of appropriate rewards for good performance and penalties--including changing management--for poor performance. This will require that enterprises have appropriate accounting standards in place to measure and track their financial performance.

**Table 3.2: Performance Improves after Equitization:
Selected Equitized Enterprises**
(as of October 1, 1996)

Enterprise Name	Turnover (billion Dong)	Profit (billion Dong)	Taxes (billion Dong)	Number of Workers	Average Income per Worker (Mil. Dong)
Transportation Agent					
Equitized: July 1993					
Before Equitization	28.2	8.4	5.7	85	21.0
After Equitization	87.2	35.0	2.3	256	29.4
REE Corporation					
Equitized: October 1993					
Before Equitization	46.6	7.4	2.9	334	9.8
After Equitization	297.0	23.5	17.4	700	19.7
Hiep An Shoe Co.					
Equitized: October 1994					
Before Equitization	4.8	0.018	0.027	435	5.5
After Equitization	5.0	0.072	0.136	486	7.2
Long-An Export Processing Co.					
Equitized: July 1995					
Before Equitization	23.3	1.2	0.7	850	4.8
After Equitization	25.2	1.2	0.8	930	6.0
Fodder Processing Co.					
Equitized: July 1995					
Before Equitization	26.9	2.8	1.8	92	6.2
After Equitization	33.6	3.4	2.0	103	7.0

Source: GSO.

B. CREATING A NEUTRAL TRADE REGIME

3.21 Trade reforms have increased the openness and outward orientation of the economy and have succeeded in securing new markets for trade while drawing in unprecedented levels of external capital inflows. However, certain features of the pre-reform trade regime remain and in many areas, trade liberalization has been achieved through selective relaxation rather than through removal or dismantling of trade regulations. Recently, the Government has resorted to increasing use of instruments of managed trade notably import bans. This recent trend, and the fact that there is considerable scope for discretion in the interpretation and application of existing rules, suggest that reforms so far are fragile. To succeed in sustaining recent rapid export growth and in particular, substantially raising manufactured export growth, producers and

investors need clear and credible signals that the Government's objective is to create an open and more neutral trade regime in order to build a competitive economy. Remaining trade distortions stemming from the current tariff structure, from controls on entry into international trading and from controls on the volume of trade need to be dealt with. Above all, implementation of reform measures will need to be consistent and transparent in order to provide a credible and predictable policy environment.

3.22 Trade taxation. Despite important improvements, Vietnam's tariff policy uniformly discourages the import of consumer goods and encourages the import of intermediate and investment goods. At the same time, it provides significant effective rates of protection for specific intermediate and investment goods industries. The main deficiencies in Vietnam's tariff structure are the following:

- large dispersion in tariffs-with zero rates for many goods on the one hand and very high rates (and some bans) on the other. A few items currently have tariffs in excess of 60 percent;
- high and uneven rates of effective protection, given very low rates of duty on inputs and frequently high rates on outputs;
- large number (about 30) of rates and frequent changes in rates; and
- large number of end use distinctions so that the same good draws different rates depending on alleged use or users;

Table 3.3: Vietnam - Summary of Tariff Regime

	May 1995	June 1996	March 1997
Average Tariff Rate:			
Unweighted	12.8	12.3	13.4
Import - Weighted ^{a/}	n.a	n.a.	19.5
Variation ^{b/}	131	127	128
Number of Tariff Rates	36	31	35

Note: ^{a/} Based on 1995 import weights, using UNCTAD data.

^{b/} Defined on the standard deviation of the unweighted tariff rates or a percentage of the mean of those tariff rates.

Source: Center for International Economics: Vietnam's Trade Policies, 1997.

3.23 There are several adverse effects of Vietnam's current tariff policy. First, high protection of import substitution is drawing resources into inefficient capital-intensive activities. This could constrain export growth and development in the longer run as import substitution activities become more profitable vis-à-vis export activities.

Moreover, input costs for exporters rise either because they are forced to use higher priced domestically produced inputs, or because they have to pay significantly more than world prices for imported inputs. This makes Vietnamese exporters less competitive even in areas of activity where Vietnam should normally be able to compete strongly on world markets. This impact is likely to be exacerbated by the heavy dependence of Vietnamese exports on imported inputs, such as petroleum products, cotton and fabrics, steel, etc.

3.24 The Government is trying to compensate exporters for some of the costs which import barriers impose on them through several measures including a duty drawback or refund systems, and the creation of export processing zones. While the duty drawback system seems to be working reasonably well, it is seldom possible to rebate for the costs of barriers on capital items and never possible to compensate for non-tariff barriers. Moreover, exporters do not get rebated for turnover taxes on their imports. In addition, while the turnover tax law specifically exempts direct exporters, indirect exporters bear some costs of turnover tax. The evidence from around the world indicates that the best way to encourage exports is to continue to reduce barriers to imports.

3.25 High tariffs are also largely responsible for the endemic levels of smuggling in Vietnam. The complexity of the tariff structure discriminates against small and new firms in favor of larger and more established firms (usually SOEs) and is thus both inequitable as well as inefficient. Furthermore it makes revenue collection more difficult.

3.26 Controls on entry. Currently, enterprises cannot engage in export or import activity unless they have been granted a license from the Ministry of Trade certifying them as competent to undertake international trading activity. Trade licenses also specify the commodities that the enterprise can trade. For enterprises that are producers, as of late-1996, import-export licenses are granted that allows them to export directly and import equipment specific to the production of their export commodities. Enterprises that are only engaged in trading, are granted business and/or trade licenses that indicate the categories of goods they may trade. Guidelines have been provided for interpreting what commodities are covered under these categories but detailed interpretation could vary from one official to another. To be eligible, enterprises have to show that they have working capital equivalent to at least US\$ 200,000 and have appropriately trained staff.⁷

3.27 This system limits domestic competition in two ways: compared to enterprise income and capitalization size, the working capital requirements are unduly high for most Vietnamese enterprises. This and the requirement that enterprises not owned by central government agencies must have the support of the People's Committee in their area of establishment imply a formidable barrier to entry, particularly by the private sector. This is evidenced by the fact that such trading is dominated by state enterprises. Several

⁷ Foreign invested enterprises are granted authorization to import capital and producer goods and to export finished products at the time of registration of the venture. The details of what goods can be imported is determined by the technical specifications of the project.

enterprises engaged in domestic wholesale and retail trade or service activity, import goods through these licensed enterprises for a fee of about 1-2 percent of the consignment although minimal services are provided. This suggests monopoly rents are being made by enterprises with trade licenses and represents another distortion that may be helping keep state enterprises afloat.

3.28 Controls on trade volumes. Trade in specific commodities is still regulated through bans, quantitative limits and authorization and or approval by specialized agencies. A small number of goods are banned from export reflecting security and cultural objectives. The list of banned imports appears to change from year to year. In May 1997, imports of a few items were temporarily banned. In addition, tourism automobiles and motor bikes are banned for the whole of 1997, apparently to encourage local production of these goods⁸. The duration of the bans on these goods is not stipulated in the decrees and they are reported to lead to price instability. Imports of some key producer goods are also subject to controls for the purpose of balancing the economy. For these products, the Ministry of Trade, in consultation with the Ministry of Planning and relevant line ministries develop a plan based on assessments of likely demand and local production. A global quota target for imports is announced, the rights for which is then allocated to selected enterprises (again mostly state enterprises). Until 1997, the number of commodities managed this way progressively declined. In 1996, only imports of petroleum products, fertilizer, cement, sugar and steel were managed this way. In 1997 however, two additional goods, construction paper and glass, were added again to this list. Imports of sugar have also been banned as have imports of certain types of steel on the grounds that local production is sufficient to satisfy demand. Quotas have also been set on imports of some other steel products.

3.29 This system of growing quantitative restrictions on imports is problematic for several reasons: (i) it sends the signal to producers and potential producers of these goods that they have a guaranteed market regardless of price or quality thus supporting continued operation of inefficient activity; (ii) local producers will be forced to use higher cost domestic production thus eroding their competitiveness; (iii) there is significant scope for individual discretion in applying the rules since the restrictions do not identify the commodities in terms of tariff nomenclature; and (iv) quotas tend to be allocated largely to the local producers of the same goods, rather than to independent traders, thus reinforcing their oligopolistic positions. For example in 1997, 40 percent of the total quota of steel was allocated to the Steel Corporation alone. In the case of cement in particular, imports of clinker (main material input) are also subject to quota thus constraining the scope of competition among domestic producers. The import restrictions and the allocation of quota to producers serve to reinforce local monopolies at the expense of users.

⁸ Tourism automobiles and motor bikes is another example of the recent proliferation of "end-use" trade distinctions that in practice are extremely difficult to monitor and enforce.

3.30 Quotas are also used to manage imports of passenger motor vehicles, motorcycles and of kits for assembly. The inefficiencies created by import controls is evident in the high costs of local production of goods. Glaring examples are sugar and motor vehicle assembly. In both cases, consumers bear the costs through higher prices while inefficient production is rewarded. There is also the more fundamental loss to the economy in terms of misused resources. Certain specialized agencies are responsible for identifying classes of goods which require certification before they can be traded internationally, and for approving applications to trade in these categories. It is not clear the degree to which this process acts as a barrier to trade but they may serve to preserve the privileged position of state-owned traders.

3.31 Export quotas are in place for rice as well as for the export of textiles and garments to the EU, Canada and Norway. Rice export quotas reflect Government concerns about food security. The quota is allocated to selected traders twice during the year. The regulation of rice exports means some export revenues are forgone. Moreover, the allocating of quota entitlements to a restricted number of trading companies probably shifts revenue away from producers to exporters, thus contributing to rural/urban income disparities. Moreover, as discussed in Chapter 2, in the wake of bumper crops of rice, export quotas have contributed to depressed rice prices and falling rural incomes. Recently the Government has taken steps to liberalize rice export trade but it is still not clear whether the new regulations are being effectively and fairly enforced. Exports of textiles and garments are determined under bilateral agreements with the relevant partners. The allocation of these quotas is also not market determined.

Reform Priorities

3.32 Over the longer term, the direction of trade policy in Vietnam will be largely set by its commitments under AFTA and obligations under WTO once its membership into this group is accepted. Nevertheless actions are needed right now to provide the right incentives for investors, both domestic and foreign, since long-term investments are being made on the basis of current policy. Government should push forward reforms to create a more neutral trade and exchange regime that will channel more resources into export oriented activities. There is some urgency to this issue since the longer reform is delayed, the higher the costs to the economy in terms of inefficient investment, lost opportunities for job creation and lost opportunities to make further reductions in poverty. Delays now, will make it even more difficult to successfully carry out reforms later as Vietnam locks into an inefficient capital stock and as the economic rents from these distortions increase for some groups. Each year of delay will require larger and more painful adjustments in the economy.

3.33 A few key policy measures are needed:

- (i) To create a stable and predictable policy environment and encourage efficient investment decision making, the Government could announce a timetable for tariff reductions and rationalization in line with commitments under AFTA, but extended to all countries. This timetable should be maintained and every effort made to desist from the current approach of frequent tariff changes. In particular, Government could begin with a reduction in the maximum tariff rate to between 40-50 percent, and a reduction in the number of tariff brackets to around 5. Virtually all countries in the region are introducing sweeping changes in their tariffs in order to create a more neutral incentive environment and foster international competitiveness. Vietnam has no choice but to keep pace with its regional neighbors and competitors. The Philippines for example has undertaken extensive reforms which will reduce its average tariff and the dispersion of tariffs substantially. Indonesia has for the last ten years announced regular packages of reforms. The most recent package was announced in July 1997 and reduced the average nominal tariff rate to 12 percent. In Singapore's case, more than 96 percent of the value of imports enter duty free. There are duties on only 83 tariff lines;
- (ii) To promote competition, Government should consider removal or at a minimum a substantial reduction in the working capital requirements for entry into international trading activities; the elimination of personnel requirements as well as the requirement to obtain the support of People's Committees; and,
- (iii) The use of import and export bans could also be limited to a restricted list of goods based on cultural and security concerns while the use of temporary import bans should be abolished. Controls on trade volumes to balance the economy should also be ended and quotas on imports and rice exports gradually phased out. At the same time, the quota allocation system should be reformed to make it more market-oriented through for example the auction and trading of quotas. In the short term, the Government needs to ensure that recent steps to deregulate domestic rice trade and broaden access to rice export quotas are fully implemented. At the same time, the export quota could be raised to ensure that domestic prices remain broadly in line with world prices.

C. DEVELOPING A STRONG FINANCIAL SYSTEM

3.34 Recent empirical research based on cross-country evidence indicates there is a major positive effect on economic growth of increasing the size and efficiency of the

financial system⁹. Moreover, Vietnam's success in rapid export-oriented growth will depend crucially on the financial sector's ability to mobilize savings and allocate credit efficiently across different sectors of the economy and across time.

3.35 The financial sector in Vietnam consists essentially of the banking sector. Earlier reforms in 1988 set up a two-tier system by separating commercial banking from central banking and creating four state-owned commercial banks (SOCBs) and the State Bank of Vietnam as the central bank. In 1990, the forced sectoral specialization of SOCBs was removed and entry into the banking system was liberalized. At the end of 1996, aside from the SOCBs, Vietnam's financial sector had expanded to include 52 joint-stock banks (shareholders are private entities, state-owned enterprises and state-owned commercial banks), 23 branches of foreign banks, four joint-venture banks, 62 representative offices of foreign banks, 68 credit cooperatives, two finance companies and one government-owned insurance company. There were also close to 900 people's credit funds operating in the system. Recent reforms include (i) the rationalization of the structure of interest rates in 1995-96, (ii) the unification of reserve requirements across institutions and across deposit types, (iii) the cessation of concessionary refinancing for state-owned commercial banks and (iv) the establishment of a unified refinancing rate. In addition, the Government took initial steps in 1995 to develop money markets by introducing T-bill auctions and an interbank deposit and foreign exchange market. In 1995, the turnover tax on banks' intermediation activity was removed.

Impact of Reforms

3.36 Reforms have had positive effects. Total financial system assets have expanded rapidly totaling about 50.4 trillion Dong and 35 percent of GDP at the end of 1996, more than triple the 1990 level. During the same period, the ratio of credit to GDP increased from 13.1 (1991) to 19.6 (1996) percent. Furthermore, the balance between lending to the private sector and lending to the state enterprise sector improved: lending to SOEs has decreased steadily, falling from 90.2 percent of total credit in 1990 to approximately 55 percent at the end of November 1996. During the same period, lending to the private sector, joint venture companies, and cooperatives has risen substantially accounting for 45 percent of total loans outstanding by November 1996. Interest rates have also become strongly positive in real terms the term structure of interest rates has improved and a positive yield curve on loans has been established.

3.37 Despite this progress, Vietnam's financial sector remains relatively shallow compared to countries with similar levels of per capita income (See Table 3.4). The ratio of broad money to GDP amounts to only 25 percent and bank credit to the economy to only 19 percent of GDP. While the interest rate policies pursued by the State Bank of Vietnam (SBV) have largely been in line with achieving financial deepening, it appears that other factors have blocked intermediation. Among them are low public confidence,

⁹ King and Levine "Financial Indicators and Growth in a Cross Section of Countries," 1992.

restrictions on withdrawals from foreign currency deposits, restrictions on foreign/joint venture bank deposit mobilization and deficient infrastructure. In addition to the low financial depth, the sector suffers from a low level of competition which is hampering efficient resource allocation. Despite the recent entry of a large number of banks, the system continues to be dominated by the four state-owned commercial banks which account for almost 75 percent of total banking system assets with the remaining system assets being held by branches of foreign banks, joint-stock banks (their share of banking system assets amount to ten percent each) and joint venture banks.

Table 3.4: Comparison of Selected Financial Indicators, 1991-96

	1991	1992	1993	1994	1995	1996
Total Deposits/GDP						
Vietnam	18.1	15.0	13.2	14.3	15.1	16.3
China	44.5	47.3	51.9	54.4	60.3	-
Indonesia	31.9	34.7	39.5	40.7	44.5	50.2
Malaysia	47.6	54.2	60.4	58.8	60.4	-
Korea	28.7	29.8	31.1	32.9	32.7	-
Philippines	25.8	27.5	32.4	36.2	40.1	43.4
Singapore	70.5	70.6	62.9	65.2	63.5	-
Thailand	63.8	65.9	69.6	68.8	71.3	-
Currency/Deposit Ratio						
Vietnam	46.2	63.9	78.7	76.4	57.2	53.9
China	22.3	21.0	22.2	21.5	19.8	16.1
Indonesia	12.1	10.4	10.7	12.0	10.3	10.3
Malaysia	17.2	15.6	12.2	10.6	11.3	10.2
Korea	11.3	10.4	9.8	12.0	10.9	10.9
Philippines	20.6	19.6	18.3	16.0	14.3	13.2
Singapore	13.0	12.1	12.3	12.2	11.1	10.8
Thailand	9.9	8.9	9.3	9.1	9.4	9.4
M2/GDP						
Vietnam	46.5	24.6	23.6	25.3	23.7	25.0
China	83.0	92.1	101.3	110.7	107.1	-
Indonesia	43.3	43.7	45.8	45.6	49.1	54.3
Malaysia	66.2	69.2	78.3	89.9	89.1	-
Korea	38.3	38.8	40.0	42.0	43.5	43.8
Philippines	34.1	34.5	36.2	42.1	45.7	50.3
Singapore	91.1	92.3	93.5	87.1	86.8	84.5
Thailand	69.8	72.7	74.9	79.2	78.7	79.5

Source: IFS and Klingebiel (1997). Statistical Annex.

3.38 Finally, the system appears to be financially fragile. While it is difficult to discern the degree of soundness of Vietnam's banking sector in the absence of adequate loan classification and loan loss provisioning requirements and income recognition rules, available data provide reasons for concern. First, bank overdues appear to have risen quite substantially since the end of 1995, after having declined steadily from 1992. At the end of June 1997, banks classified about 15.4 percent of total loans as overdue. The increase in loan overdue ratio partly reflects the implementation of stricter loan

classification standards at the beginning of 1997 and is therefore partly a one time stock adjustment. But, overdues rose between March 1997 and June 1997 indicating that there is an ongoing deterioration in the quality of bank portfolios. The current level of overdues is worrisome as they indicate a large overhang of non-performing loans in the economy. Loan losses could wipe out over 50 percent of the system's total capital, even under the extremely optimistic assumption that banks recover 50 percent on their non-performing loans. The picture is even worse for the SOCBs. With an overdue ratio of 16.4 percent of total loans which is equivalent to over 180 percent of their capital, up to 90 percent of their capital could be wiped out even under similar optimistic loan recovery assumption. The high level of overdues coupled with a weak capital base leave the SOCBs highly vulnerable to a slowdown in economic growth or to adverse economic shocks.

3.39 Furthermore, the means by which the Government has sought to address the problem of rising overdues may have the effect of hiding and aggravating the worsening situation. Banks are now permitted to extend the maturity of past due loans virtually indefinitely. The majority of loans in Vietnam are short term. This recent move mitigates any positive impact on increased transparency that the new loan classification rules could provide. In addition, banks are likely to be further adversely impacted as they are now permitted to lend to SOEs unsecured and are facing significant foreign exchange exposure.

Table 3.5: Weakening Performance of Vietnam's Financial System
(end of period, percentage)

	1990	1991	1992	1993	1994	1995	1996	1997 June
Total Banking System								
Total Overdues/Capital			88.1	95.5	85.0	61.9	75.7	112.3
Total Overdues/Total Loans			13.7	11.1	6.0	7.8	9.3	15.4
Total Overdues/Total Assets			6.0	6.6	5.5	4.4	5.5	8.9
Total Capital/Total Assets	6.8	7.4	6.8	6.9	6.9	7.1	7.2	7.9
State Owned Commercial Banks								
Total Overdues/Capital	48.8	106.7	109.0	125.6	121.0	105.5	128.4	181.4
Total Overdues/Total Loans	8.6	19.7	13.7	11.6	10.2	8.9	11.0	16.4
Total Overdues/Total Assets	3.3	7.0	6.0	6.9	6.3	5.2	6.4	13.0
Total Capital/Total Assets	6.8	6.6	5.5	5.5	5.0	4.9	5.0	7.2

Source: IFS and Klingebiel (1997); Statistical Annex and SBV.

3.40 Defaults on letters of credit and payment delays by several smaller joint stock banks and by the Government-owned Vietcom Bank raise further concerns about the soundness of the sector and has adversely affected the confidence of the international banking community. The financial fragility of the banking system can be attributed to a variety of factors: an inadequate regulatory and supervisory system, including inadequate loan classification rules, and the absence of loan loss provisioning rules; weak disclosure rules; inadequate resources to assess and monitor credit risk coupled with inadequate risk

management systems; and weak bank management. In addition, rapid credit growth during the last six years has put further strain on the weak credit risk assessment and monitoring skills.

3.41 Recent events in neighboring countries (Thailand and the Philippines) also indicate another cause for concern. While banks' direct exposure to foreign exchange rate risk is limited by prudential regulations, banks can be indirectly exposed to such risks. Against the background of a stable exchange rate and a large differential between loans denominated in domestic and foreign currency, borrowers tend to engage in interest rate arbitrage and take out loans denominated in foreign currency. If borrowers do not have a natural hedge against such risk (as exporters) and they do not hedge their open positions they become exposed to foreign currency risk. For example, the recent depreciation of the Baht severely hurt the repayment capacity of banks' borrowers and in turn adversely affected the loan portfolio of financial institutions. In Vietnam, the stable Dong has made foreign currency loans that carry much lower interest rates very attractive to domestic borrowers. As a result, 34 percent of total credit is extended in foreign currency. State enterprise exposure to foreign currency risk is even higher as about 50 percent of their loans are denominated in foreign currency. The resulting high indirect exposure of the banking system to foreign currency risk is disturbing since hedging instruments are not available for borrowers and foreign currency loans are limited to import activities.

Reform Priorities

3.42 The recent currency crises in the region illustrate that the penalties of maintaining a fragile, under-developed banking system can be severe in a world that is increasingly integrated. To develop a resilient and strong financial system and improve its allocative efficiency, policies are needed that enhance competition and strengthen the regulatory and supervisory framework so that it is conducive to prudent banking. Specific actions should include the following:

- To improve the prudential, regulatory and accounting framework, regulations on loan classification and loan loss provisioning requirements as well as income recognition rules consistent with international standards need to be enacted, implemented and strictly enforced. An important complement to strengthening the regulatory and supervisory framework would be the adoption of the requirement to have banks undergo annual audits that are performed by independent external auditors who have complied with certain minimum requirements;
- To encourage prudent risk taking behavior of banks, the Government should continue in its efforts to implement a risk weighted capital-to-asset ratio set at a level commensurate with the high risk environment in which Vietnamese banks operate;
- In order to effectively supervise banks and enforce the regulatory framework, SBV should continue in its efforts to improve supervision and develop a catalogue of

prompt corrective actions as well as a stringent intervention and exit policy for financially weak banks;

- To enhance oversight by market participants, disclosure requirements including information on income, expense and loss recognition practices, asset quality and non-performing assets, insider lending transaction as well as the extent of sectoral portfolio concentration should be adopted and implemented;
- To improve bank governance and guard against conflicts of interest, steps should be taken to broaden the ownership structure. Restrictions on non-bank ownership of banking need to be lowered considerably and brought in line with international best practice. International practice indicates that Government should limit ownership of the total share of any banking institution by any individual enterprise (state or non state) to under 10 percent. This reduction could be phased in over time.
- To improve allocative efficiency and increase competition in the banking sector, SBV should continue its relatively liberal entry policy and should consider removing restrictions on Dong deposit mobilization for joint-venture and foreign banks. Nevertheless, recent events in the joint stock banks highlights the importance of strengthening SBV's licensing procedures and improving its "fit and proper test."

4. MEDIUM-TERM PROSPECTS AND FINANCING REQUIREMENTS

INTRODUCTION

4.1 Vietnam can achieve its primary medium-term growth and development objectives of high economic growth and poverty reduction. But it is likely to face a much less favorable external environment which will make sustaining the rapid growth of the past several years more difficult. Achieving these objectives will therefore require a strong domestic policy stance, including appropriate macroeconomic policies and an acceleration of structural reforms, in parallel with continued strong donor support. This chapter focuses on Vietnam's medium-term economic prospects, and their financing. Section A discusses the external environment facing Vietnam in the next several years, and a macroeconomic scenario consistent with the Government's medium term growth objectives. Section B discusses external financing requirements and sources, including an appropriate level of ODA commitment for 1998, and an external debt management strategy. Finally, Section C discusses absorption and implementation of ODA financing.

A. MEDIUM TERM OUTLOOK

The Setting

4.2 Recent external developments have significantly clouded the external environment facing Vietnam. Asia is currently in the midst of an unprecedented currency and financial crisis. The depth and duration of this crisis are difficult to predict at this time. Nevertheless, consensus opinions seem to suggest that growth rates in Southeast Asia will fall significantly below past levels in 1997 and 1998. The prospects for the medium term are also highly uncertain at this time. As noted in the preceding Chapters, Vietnam is not immune to these regional developments. Competitiveness has been adversely affected. Moreover, since a substantial proportion of Vietnam's external trade and its foreign investment are with regional economies, the economic slowdown currently being experienced by these economies will, at least in the short term, negatively affect both the level of foreign investment inflows and export growth.

Table 4.1a: Vietnam's Medium-Term Prospects: Alternative Growth Scenarios

Ext. Environment Reform Program	FAVORABLE	POOR
STRONG	High Growth 8-9%	Moderate Growth 6-8%
WEAK	Low Growth 4-5%	Very Low Growth 3-4%

Source: World Bank staff estimates.

4.3 Both the external environment and the strength of the Government's reform effort will be important in determining Vietnam's medium term macroeconomic prospects. For illustrative purposes, we have categorized medium term macroeconomic prospects based on these two factors (see Table 4.1a). A favorable external environment would involve a medium-term recovery of neighboring Asian economies to the rapid rates of economic growth of the past decade. The impact of a rapid recovery in Asia would be primarily the maintenance of high FDI inflows (see Table 4.1b) and strong export demand. A less favorable external environment would involve a more protracted slowdown in Southeast Asia. Given Vietnam's current low level of economic development however, it can still achieve relatively rapid rates of growth over the medium term, if the reform effort is re-invigorated consistent with the recently stated objectives of the new Government. Under a high case in which economic reforms are decisively and quickly implemented in the context of a favorable external environment, growth prospects could average in the range of 7-9 percent, consistent with the Government's socio-economic development plan. Strong domestic economic reform with an unfavorable external environment in Asia would result in lower growth, due to exogenous factors limiting foreign investment inflows and export performance. But, if the Government does not implement a vigorous reform program, as outlined in this Report, growth would be sharply lower. One consequence of recent regional developments is that investors are likely to be much more discriminating on the domestic climate for investment and reform across countries in East Asia. Thus, the costs of a weak or inadequate reform effort are likely to be high: low levels of FDI inflows and lower external assistance. In turn, growth would be sharply lower.

Table 4.1b: Vietnam's Medium-Term Prospects -- Alternative Scenarios for FDI Flows (% of GDP)

External. Environment Policy	FAVORABLE	POOR
STRONG	7-9%	5-6%
WEAK	3-4%	1-2%

Source: World Bank staff estimates.

An Appropriate Policy Framework

4.4 The intensity of the Government's reform effort will be the most important factor in determining the pace and pattern of economic growth. Maintaining a rapid rate of economic growth consistent with achieving Vietnam's development objectives would require appropriate macroeconomic policies including continued low inflation, low budget deficits with high government savings, and a more sustainable external balance position. This will provide the stable economic climate necessary to promote the required growth in savings and investment. As discussed in earlier chapters, macroeconomic management would also need to be supported by deeper structural reforms to create a neutral incentive regime that promotes broad-based, labor-absorbing growth. Key areas for further reforms include the enabling environment for private sector development, especially trade policy, the banking sector and the state enterprise sector. Deepening of reforms in these areas would enhance the efficiency of investment decisions, allowing more resources both domestic and foreign to be channeled into areas of activity in which Vietnam can compete internationally--primarily labor-absorbing activity. This pattern of growth will promote the creation of significant numbers of higher productivity jobs that would permit widespread improvements in income and in living standards.

The High Growth Scenario

4.5 This macroeconomic scenario is predicated on both strong policy reform and a favorable external environment, as described above. Under these assumptions, overall growth of about 8 percent of GDP over the medium term is possible with growth in industry of about 13 percent annually, compared to an average of about 10 percent annually over the last five years. Continued steady growth in services (about 8 percent) and in agriculture (about 4 percent) could also be maintained. Industry growth is expected to come primarily from expansion in labor absorbing activities such as agro-processing and light manufactures (e.g. garments, textiles and footwear). Growth in agriculture of around 4 percent would be driven by continued diversification of production into industrial crops and animal husbandry activities. Rice production is

expected to experience a smaller increase given the opportunities available from other higher-value crops and the already high yield per hectare. This growth in industry and agriculture can be expected to provide positive spill-over effects and allow the projected expansion in services. Growth in tourism is also expected to be an important factor in service sector growth. Investment would need to increase to about 29 percent of GDP by 2005, compared to about 27.6 percent in the last two years to achieve this growth scenario. Reforms to improve the soundness of the banking system will be important both to allocate investment resources into high productivity areas and to achieve the significant improvements in domestic savings needed to reduce the savings-investment gap and the current account deficit.

Table 4.2: Medium-Term High Growth Scenario
(%)

Indicator	Prel. Actual	Est.	Projections			
	1996	1997	1998	1999	2000	2005
Real Growth Rate (%)						
GDP	9.3	8.0	8.0	8.0	8.0	8.0
Exports	24.2	14.8	14.8	14.3	13.7	9.1
Imports	29.5	11.7	10.6	11.2	10.7	8.6
Share in GDP (%)						
Investment	27.9	27.3	27.3	27.6	28.0	29.0
National Savings	16.7	17.5	18.2	18.6	19.3	21.8
Current Account Balance:						
- excluding Grants	-11.3	-9.7	-9.0	-8.9	-8.6	-7.2
- including Grants	-10.7	-9.0	-8.4	-8.4	-8.1	-6.8

Source: Bank staff estimates, based on official medium-term macroeconomic objectives as approved by the National Assembly. 1997 estimates are based on data of the first six months.

4.6 Vietnam's savings rate is high compared to other low-income countries. Only China and the South Asian countries of India, Pakistan and Sri Lanka have higher savings rates. Considered in the context of East Asia, Vietnam's savings rate is low but this could be due largely to income differences. With the exception of China, most of the East Asian economies had savings rates in the early 1970s (when they had much lower income levels), that were comparable to Vietnam's current level. But these countries made rapid improvements in domestic savings over a very short period. Vietnam's savings have improved over the past decade but efforts are needed to reverse the recent declining trend and resume rapid savings growth to realize the projected increase in the saving rate to over 19 percent of GDP in 2000 (see Table 4.3). Achieving such growth will require efforts to (i) increase the incomes of those who currently do not have sufficient income to allow savings; (ii) promote savings in the formal financial system; and (iii) improve government savings.

Table 4.3: Trends in Savings in Vietnam, 1989-2005
(% of GDP)

	1989	1991	1993	1995	1996	1997	2000	2005
						est.	proj.	proj.
National Savings	3.2	13.1	17.3	17.0	16.7	17.5	19.3	21.8
Govt. Savings a/	-1.7	1.3	2.5	5.0	6.0	5.3	6.7	8.2
Non-Govt Savings b/	4.9	11.8	14.8	11.9	10.7	12.8	12.6	13.6

Note: Figures are rounded and may not add to total.

a/ Revenue and Grants minus current expenditure (cash basis). Coverage includes central and local governments.

b/ National savings minus public savings.

Source: Ministry of Finance, GSO, and Bank staff estimates.

4.7 The evidence from around the world shows a strong correlation between income growth and savings growth. In East Asia, rapid savings growth has been attributed in part to rapid income growth. Thus Vietnam needs to continue to pursue growth-oriented policies. Moreover, as argued in Chapter 2, successful export-oriented, labor-intensive growth based on small and medium scale enterprise development is most likely to promote the type of broad-based growth that would have the greatest effect in increasing the incomes of those who are now not able to save and thus increase the share of households that save. It is estimated that less than five percent of the population saves in the formal financial system yet there is evidence of significant savings outside the formal system. A key element of promoting saving in the formal financial system would be building confidence in the system. Measures discussed in Chapter 3 to build a sound banking system, as well as maintaining good macroeconomic policies that keep inflation low and real interest rates positive would be important in this respect. In addition, care should be taken to assure that the burden of taxation is not so onerous as to encourage under- or non-reporting of income and activities. Efforts to assure that public expenditures are used on activities that also help to promote private sector performance and thus "crowd in" private sector savings will also be important in promoting private savings. As shown in Table 4.3 above, indicators of Government savings look quite strong. Nevertheless, recent efforts to provide increasing support to the SOE sector could pose a threat to sustaining increases in public savings.

B. EXTERNAL FINANCING REQUIREMENTS AND EXTERNAL DEBT MANAGEMENT

External Financing Requirements

4.8 Even with a significant increase in domestic savings, Vietnam's external financing requirements remain considerable (see Table 4.4). In 1998, we estimate that external financing requirements would total roughly US\$ 3.7 billion. Given the still large overhang of external debt and Vietnam's limited capacity to service external debt over the

medium term, the bulk of this external financing would need to be in the form of FDI and concessional assistance.

4.9 Vietnam remains an attractive location for foreign investment, given its industrious and hard-working labor force, its recent integration into ASEAN and potential membership in the WTO. Nevertheless, high levels of FDI inflows into Vietnam will be neither automatic nor guaranteed, especially in light of recent developments in the East Asia region. Thus, as noted throughout this Report, the Government will need to pay particular attention to easing regulatory and institutional constraints, especially as regards the existing trade and investment regime, that hinder the implementation of export-oriented FDI projects. If further reforms are decisively and quickly implemented and the external environment remains favorable, FDI inflows could be expected to account for a little over half of Vietnam's external financing requirements. If, despite a vigorous domestic reform effort, FDI flows remain lower than projected due to the effects of events in the region, Vietnam would need to accept lower growth rather than attempting to maintain rapid growth with non-concessional borrowing.

4.10 Within the context of a strong Government reform effort, the role for Official Development Assistance (ODA) would remain both considerable and important. Even with a high level of FDI inflows, substantial inflows of ODA would still be required to ensure that Vietnam can reach its medium term development objectives. Disbursements of ODA, including official grants, would need to increase to about US\$ 1 billion in 1998 from close to US\$ 900 million in 1997. While much of this can be met by disbursements from already existing commitments, **the level of new CG commitments would need to be about the same as last year's commitments of US\$ 2.4 billion.** This level of commitments is essential to ensure both a build-up of a pipeline of project disbursements in the medium term and adequate concessional inflows in the near term.

4.11 Vietnam's main development priorities, which this official assistance should support, are outlined in the Government's Socio-Economic Development Plan and its documentation for the 1997 Consultative Group meeting. In addition to supporting the implementation of the Government's reform program, ODA commitments are needed to support the attainment of Vietnam's socio-economic needs, which are substantial. Roughly a half of the population lives below the poverty line and access to, as well as the quality of key basic services is poor. Access to safe water is limited to barely 40 percent of the population, while sanitation services are enjoyed by only 21 percent of the population. Vietnam's past gains in delivering health services are being reversed, as evidenced in the sharp deterioration in some sector performance indicators since the 1980s. While expenditure by the private sector is by far the largest source of financing for health care, some increase in public expenditures in the sector is required to improve quality of publicly provided health services, and to meet the needs of poor and the disadvantaged. In the education sector, Vietnam has achieved quantitative enrollment levels that are impressive given its current income level. However, educational attainment and quality need to improve significantly to provide the skilled labor force needed for rapid growth. As regards economic infrastructure, Vietnam's rural

infrastructure network is still small and increased access to this service will be fundamental for overall growth and for agricultural and rural development. Energy needs are also high and are expected to expand significantly with growth: electricity demand is forecast to increase between 14 and 16 percent annually over the next decade. It is estimated that about 5 percent of GDP would need to be invested annually in energy to meet this growing demand.

Table 4.4. External Financing Requirements and Sources
(US\$ Billions)

	<u>Prel.Act</u>	<u>Estimate</u>	<u>Projected</u>			<u>Proj.</u>
	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>Annual</u> <u>2001-2005</u>
Financing Needs						
Current Account Deficit	2.6	2.5	2.6	2.9	3.1	3,7
Official M& L	0.9	0.5	0.6	0.8	0.8	1,0
Amortization						
Others (net)	-0.3	-	-	-	-	-
Reserve Requirements	0.5	0.5	0.4	0.5	0.7	0.7
Total Needs	3.7	3.5	3.7	4.1	4.5	5.4
Financing Resources						
Official Grants	0.2	0.2	0.2	0.2	0.2	0.2
Long Term Borrowing	0.6	1.2	1.5	1.6	1.9	2.3
of which:						
ODA Disbursements	0.4	0.7	0.9	1.1	1.4	1.8
IMF (net)	0.2	0.03	0.0	-0.0	-0.0	-0.08
Direct Foreign Investment	1.8	1.9	2.0	2.1	2.1	2.5
Short-term Capital (net)	0.3	0.1	-0.0	0.3	0.4	0.5
Arrears Accumulations	0.6	-4.1	-	-	-	-
Debt Relief	-	4.1	-	-	-	-
Total Resources	3.7	3.5	3.7	4.1	4.5	5.4

Source: SBV, MOF, MPI and Bank staff estimates.

External Debt Strategy and Management

4.12 Vietnam began its reforms with a significant external debt burden from the pre-reform period, including debt in non-convertible currencies. At the end of 1996, Vietnam's debt in convertible currency amounted to US\$ 3.6 billion and about 10 billion in nonconvertible currency (in Transferable Rubles). The debt service ratio fell from 27 percent in 1989 to 15 percent in 1996. This decline reflects the rapid growth in GDP and Vietnam's success in resolving its pre-reform (particularly convertible currency) debt.¹ The non-convertible debt has proved more difficult to address. With the exception of debt to Bulgaria and Romania, and the debt to Russia (which forms the bulk of the non-

¹ In 1993, Vietnam reached a rescheduling agreement with its Paris Club creditors, and the last bilateral agreement under this (with the US) was concluded and signed in May 1997. An agreement reached in May 1996 with London Club creditors to settle all commercial debt in arrears is expected to be implemented by the end this year.

convertible currency debt), Transferable Ruble debt has been rescheduled and converted to convertible currency terms. Negotiations with Bulgaria and Romania are advanced. However progress in the negotiations with the Russian Federation has been slow largely because of difficulties in reaching agreement on the ruble exchange rate. Russia's recent membership of the Paris Club provides a framework for resolving this and other issues based on comparable treatment with the concessional debt relief provided by the other Paris Club creditors. Vietnam is nevertheless still classified as a severely indebted low income country.

4.13 Given this heavy debt burden, Vietnam needs to continue to maintain a prudent external borrowing strategy, keeping a tight lid on external borrowing, particularly external borrowing on non-concessional terms. Recently, the Government has been anxious to tap non-concessional capital sources in support of its growth objectives. But efforts to accelerate growth through the build-up of significant non-concessional debt is likely to jeopardize macroeconomic stability. Over the medium term, the Government will need to continue to limit public sector recourse to non-concessional external borrowing in order to ensure consistency of the resulting debt service obligations with inflation, fiscal balance and external balance targets. In this context the Government needs to proceed cautiously on its proposed international bond issue.

Table 4.5: External Debt Service (%)

	1995	1996	1997 Est.	1998 Proj.	2000 Proj.	2001-2005 Proj. Annual Average
Debt Service/XGNFS a/	20.0	15.4	11.8	13.3	14.0	15.4
Debt Service/GDP	7.3	6.5	5.2	6.3	7.2	8.6

Note: Figures are rounded.
a/ Including short-term debt service.

Source: World Bank, DRS and staff estimates.

4.14 The Government also needs to strengthen its capacity for external debt management. Currently, both the legal and institutional frameworks for external debt management are weak. The decrees and regulations that govern external debt management, particularly Decree No. 58/CP, need to be revised. In line with the revision of the existing legal framework for external debt management, the Government needs to strengthen and clarify institutional mandates in external debt management. One key step would be the establishment of an inter-ministerial coordination mechanism for external debt management. Recently, the Government has begun the development of an action plan for external debt management, which includes both legal and institutional reform. The finalization of this action plan and its implementation is a priority. Donor technical assistance for the implementation of the action plan would also be critical to its success.

C. MANAGING THE IMPLEMENTATION OF EXTERNAL FINANCING

4.15 Vietnam has been highly successful in attracting unprecedented levels of external financing. But absorption of these resources has been much slower. The Government recognizes that the speed of uptake of ODA resources directly affects the rate of economic growth and improvement in welfare. Moreover, since public investment can be a significant stimulus for FDI, slow public investment implementation could inhibit future FDI growth. Progress has been made on ODA absorption. Disbursements (including grants) increased to over US\$ 570 million in 1996 from about US\$ 430 million in 1995, and this trend is projected to continue with total disbursements projected to reach close to US\$ 900 million in 1997 (including from ODA and financial institutions). This would still leave a significant amount in outstanding ODA commitments totaling around US\$ 5 billion. Moreover, Vietnam's ODA disbursement ratio² is estimated at around 7 percent, considerably lower than the regional average, estimated at between 18-20 percent. Further substantial improvements are thus needed in ODA disbursements over the medium term.

4.16 Following donor concerns about slow ODA implementation, structural and procedural impediments in ODA management and absorption are being tackled through a process of capacity building and revisions to key executive decrees governing development budget and aid management, and foreign borrowing. The new decree (No. 87/CP) concerning management and utilization of ODA issued in August 1997, provides a framework for systematic multi-year aid programming and clarifies roles, responsibilities and procedures to be followed by core and line ministries and--for the first time--provinces and major cities. The decree also clarifies and streamlines rules for preparation, approval, implementation and local counterpart funding of grant and concessional aid projects. Provinces, provincial level cities, and line ministries will have delegated approval authority over ODA funded investment projects up to 400 billion Dong in value and technical assistance projects up to US\$ 500,000 in value, depending on the nature of the project within the list approved by the Prime Minister. This decree is now consistent with and would be implemented in conjunction with other decrees concerning State Investment Budget Management and Procurement Regulation. With the forthcoming revision of the decree concerning foreign borrowing (CP58), a complete set of consistently drafted budget and ODA management regulations would become available for the first time.

4.17 The new decrees continue to divide foreign borrowing responsibility between SBV and MOF and still retain some outmoded concepts from the earlier regulations³. In addition, detailed regulations to guide their implementation are yet to be issued. Nevertheless the new regulations create important new opportunities to improve overall

² Based on the outstanding balance of project commitments in the first half of 1996 by the three largest donors (OECD, AsDB and IDA) and disbursements during the following twelve months.

³ Including approval by Ministry to Trade of lists of equipment to be imported with ODA concessional finance, and endorsing quasi-price controls over domestic construction inputs.

efficiency in ODA absorption through improved quality of aid programming and of project design, as well as accelerated implementation. Assistance in capacity building for implementation of the regulations is being sought and is already underway in various areas. With Japanese Government support, IDA is providing technical assistance to MPI and MOF to address generic problems in investment project preparation and monitoring, annual budgeting and payment procedures, as well as in special problem areas such as involuntary resettlement, procurement training and construction industry development. Other donors are assisting through various ad hoc countermeasures (such as monthly progress reviews of the AsDB portfolio chaired by the MPI) to tackle project specific issues. However, the implementation of new procedures and training of staff involved, especially the provincial level officials now increasingly responsible for project implementation, is a lengthy process and results in many sectors can be expected to materialize only gradually.

4.18 In the final analysis however, what matters most is not just the speed of disbursements but the impact of ODA resources on the lives of the Vietnamese people and not just amounts or speed of disbursement. This underscores the importance of getting sector strategies right and making sure that project selection conforms with these strategies. In addition, project design needs to take full account of Vietnam's needs and institutional capacity in order to enhance the chances of successful implementation.

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Table 1.1: POPULATION

Year	Population (mid-year) (000 persons)	Growth Rate (%)	By Sex		By Area	
			Male	Female	Urban	Rural
(000 persons)						
1975	48,030	-	-	-	-	-
1976	49,160	2.35	23,597	25,563	10,127	39,033
1977	50,237	2.19	24,197	26,039	10,116	40,114
1978	51,337	2.19	24,813	26,524	10,105	41,226
1979	52,462	2.19	25,444	27,018	10,094	42,368
1980	53,630	2.23	26,047	27,583	10,295	43,335
1981	54,824	2.23	26,665	28,159	10,499	44,324
1982	56,045	2.23	27,297	28,747	10,708	45,336
1983	57,292	2.23	27,944	29,348	10,921	46,371
1984	58,568	2.23	28,607	29,961	11,138	47,429
1985	59,872	2.23	29,285	30,587	11,360	48,512
1986	61,109	2.07	29,912	31,197	11,817	49,292
1987	62,452	2.20	30,611	31,841	12,271	50,181
1988	63,727	2.04	31,450	32,277	12,662	51,065
1989	64,774	1.64	31,589	33,185	12,919	50,801
1990	66,233	2.25	32,327	33,906	13,281	51,908
1991	67,774	2.33	32,994	34,780	13,619	53,111
1992	69,405	2.41	33,814	35,591	13,285	55,075
1993	71,026	2.33	34,671	36,355	13,663	56,318
1994	72,510	2.00	35,386	37,123	14,139	57,326
1995 rev.	73,962	2.00	36,095	37,867	14,575	58,342
1996 est.	75,355	1.88	36,773	38,582	15,232	59,079
1997 proj.	76,711	1.80	37,435	39,276	15,506	60,142

Note:

Population by sex and by area may not add to the grand total due to the possible exclusion of the armed forces and migrant workers.

For 1989-1996, population by area is based on legal residency.

Source:

General Statistical Office, *Statistical Yearbook, 1993*. Hanoi: Statistical Publishing House, 1994, and GSO, *Statistical Yearbook, 1994*. Hanoi: GSO, 1995, GSO, *Statistical Yearbook 1995, 1996*, and May 1997.

Table 1.2: POPULATION BY SEX, BY SECTOR, AND BY PROVINCE

Region/Province	1994 Population (000 Persons)				
	Total	Male	Female	Urban	Rural
Ha Noi - Hai Phong:					
Ha Noi	2,194.4	1,077.2	1,117.2	1,150.8	1,043.6
Hai Phong	1,615.1	786.5	828.6	539.5	1,075.6
Sub-Total	3,809.5	1,863.7	1,945.8	1,690.3	2,119.2
Northern Mountains:					
Ha Giang	535.2	259.8	275.4	47.6	487.6
Tuyen Quang	645.3	315.2	330.1	64.3	581.0
Cao Bang	638.0	313.8	324.2	64.6	573.4
Lang Son	689.6	311.2	378.4	89.6	600.0
Lai Chau	520.6	296.1	224.5	74.3	446.3
Lao Cai	552.1	272.2	279.9	72.7	479.4
Yen Bai	651.5	318.0	333.5	115.6	535.9
Bac Thai	1,168.0	578.2	589.8	219.6	948.4
Son La	802.0	396.8	405.2	103.2	698.8
Hoa Binh	729.1	360.9	368.2	117.6	611.5
Vinh Phu	2,248.7	1,083.7	1,165.0	163.5	2,085.2
Ha Bac	2,308.2	1,100.6	1,207.6	114.8	2,193.4
Quang Ninh	899.6	454.1	445.5	387.5	512.1
Sub-Total	12,387.9	6,060.6	6,327.3	1,634.9	10,753.0
Red River Delta:					
Ha Tay	2,256.7	1,067.4	1,189.3	173.1	2,083.6
Hai Hung	2,708.6	1,300.1	1,408.5	140.9	2,567.7
Thai Binh	1,789.2	844.2	945.0	103.5	1,685.7
Nam Ha	2,640.3	1,254.1	1,386.2	303.3	2,337.0
Ninh Binh	861.1	416.6	444.5	76.5	784.6
Sub-Total	10,255.9	4,882.4	5,373.5	797.3	9,458.6
North Central Coast:					
Thanh Hoa	3,381.7	1,621.2	1,760.5	319.5	3,062.2
Nghe An	2,743.4	1,340.4	1,403.0	225.0	2,518.4
Ha Tinh	1,308.8	630.9	677.9	74.5	1,234.3
Quang Binh	762.3	369.5	392.8	89.1	673.2
Quang Tri	535.0	254.5	280.5	89.2	445.8
Sub-Total	8,731.2	4,216.5	4,514.7	797.3	7,933.9
South Central Coast:					
Thua Thien - Hue	995.4	483.8	511.6	256.6	738.8
Quang Nam - Da Nang	1,952.7	937.3	1,015.4	603.4	1,349.3
Quang Ngai	1,178.8	562.1	616.7	102.0	1,076.8
Binh Dinh	1,407.0	676.1	730.9	251.1	1,155.9
Phu Yen	730.6	348.1	382.5	135.5	595.1
Khanh Hoa	947.0	464.4	482.6	356.1	590.9
Ninh Thuan	459.3	222.0	237.3	105.9	353.4
Binh Thuan	882.2	426.1	456.1	208.1	674.1
Sub-Total	8,553.0	4,119.9	4,433.1	2,018.7	6,534.3
Central Highlands:					
Gia Lai	763.3	374.2	389.1	170.5	592.8
Kon Tum	255.8	120.2	135.6	55.5	200.3
Dac Lac	1,210.5	598.2	612.3	201.6	1,008.9
Lam Dong	769.1	388.4	380.7	259.1	510.0
Sub-Total	2,998.7	1,481.0	1,517.7	686.7	2,312.0
Ho Chi Minh City and Environs					
Ho Chi Minh City	4,391.9	2,108.1	2,283.8	3,251.8	1,140.1
Song Be	1,113.8	541.3	572.5	55.1	1,058.7
Tay Ninh	888.1	426.3	461.8	105.4	782.7
Dong Nai	1,813.4	892.2	921.2	455.0	1,358.4
Baria - Vung Tau	670.8	330.4	340.4	224.9	445.9
Sub-Total	8,878.0	4,298.3	4,579.7	4,092.2	4,785.8
Mekong Delta:					
Long An	1,251.7	591.4	660.3	158.2	1,093.5
Dong Thap	1,490.7	706.6	784.1	236.3	1,254.4
An Giang	1,970.7	954.0	1,016.7	365.6	1,605.1
Tien Giang	1,655.8	779.5	876.3	200.7	1,455.1
Ben Tre	1,330.2	651.8	678.4	97.5	1,232.7
Vinh Long	1,061.9	504.1	557.8	144.9	917.0
Tra Vinh	958.2	451.0	507.2	58.7	899.5
Can Tho	1,817.2	873.7	943.5	353.4	1,463.8
Soc Trang	1,197.1	565.2	631.9	195.6	1,001.5
Kien Giang	1,359.7	655.5	704.2	285.4	1,074.3
Minh Hai	1,757.4	842.7	914.7	325.6	1,431.8
Sub-Total	15,850.6	7,575.5	8,275.1	2,421.9	13,428.7
Grand Total	72,509.5	35,386.4	37,123.0	14,139.3	57,325.5

Note: Data do not add to grand total, due to possible exclusion of military forces.

Source: General Statistical Office, Statistical Yearbook -1994, Hanoi, 1995., and GSO, 1996.

Table 1.3: TOTAL EMPLOYMENT BY SECTOR

(000 persons)

	1990	1991	Rev. 1992	Rev. 1993	Rev. 1994	Rev. 1995	Prel. 1996
Total Employed Labor Force	30,289	30,974	31,819	32,724	33,664	35,514	35,560
State	3,416	3,144	2,975	2,960	2,928	3,053	3,161
Cooperatives	20,414	18,071	18,629)	-	-	-	-
Non-state	6,459	9,759	10,215)	29,764	30,736	32,461	32,399
State Sector Employment (by unit)	3,416	3,136	2,975	2,960	2,928	3,053	3,161
Government	1,340	1,296	1,242	1,256	1,232	1,206	1,308
Central	253	279	264	260	254	264	266
Local	1,087	1,017	978	996	978	942	1042
State-owned Enterprises	2,076	1,840	1,733	1,704	1,696	1,847	1,853
Central	1,091	1,018	978	995	996	1,092	1094
Local	985	822	755	709	700	755	759
Employment by Sector							
Productive Sector	28,710	29,361	29,859	30,614	31,267	32,268	-
Industry	3,094	3,156	3,210	3,322	3,366	3,497	-
Construction	567	579	637	818	960	996	-
Agriculture & Forestry	22,319	22,841	22,867	22,935	23,000	23,521	-
Marine Products	275	281	293	490	565	585	-
Transportation	523	533	537	550	556	578	-
Hotels & Tourism	508	518	484	486	458	482	-
Trade and Supply	1,266	1,292	1,640	1,813	2,137	2,214	-
Other	158	161	191	200	225	395	-
Non-productive Sector	1,579	1,613	1,960	2,110	2,397	3,322	-
of which:							
Science	44	45	40	40	37	38	-
Education & Training	753	769	844	883	947	980	-
Culture, Arts, and Sports	55	56	72	77	91	94	-
Health & social welfare	234	240	250	260	271	279	-
Finance, Insurance, Banking	72	73	95	103	122	126	-
State Management	289	295	292	298	297	307	-
Others	132	135	367	449	632	1,498	-

Note: Figures are rounded.

Source: General Statistical Office.

**Table 2.1A: GDP BY INDUSTRIAL ORIGIN AND BY ECONOMIC SECTOR
IN CURRENT PRICES (Billions of Dong)**

	1990	1991	1992	1993	1994	Rev. 1995	Prel. 1996
Total	41,955	76,707	110,535	136,571	170,258	222,840	258,609
State	13,811	26,137	40,012	55,740	70,267	94,210	-
Non-State	28,144	50,570	70,523	80,831	99,991	128,630	-
Agriculture, Forestry	17,107	31,058	37,513	40,796	48,865	63,219	70,334
-- State	688	1,294	1,423	1,824	2,210	2,995	-
-- Non-State	16,419	29,764	36,090	38,972	46,655	60,224	-
Industry -- Total	9,572	18,252	30,135	39,472	50,481	66,804	79,501
-- State	5,848	11,864	19,833	25,933	33,558	45,207	-
-- Non-State	3,724	6,388	10,302	13,539	16,923	21,597	-
Industry	7,959	15,193	23,956	29,371	37,535	50,912	-
-- State	5,025	10,477	17,053	20,943	27,618	-	-
-- Non-State	2,934	4,716	6,903	8,428	9,917	-	-
Construction	1,613	3,059	6,179	10,101	12,946	15,892	-
-- State	823	1,387	2,780	4,990	5,940	-	-
-- Non-State	790	1,672	3,399	5,111	7,006	-	-
Services -- Total	15,276	27,397	42,887	56,303	70,912	92,817	108,774
-- State	7,275	12,979	18,756	27,983	34,499	47,617	-
-- Non-State	8,001	14,418	24,131	28,320	36,413	45,200	-
Transport & Communications	1,449	2,860	4,662	6,036	6,924	8,747	10,634
-- State	869	1,730	3,190	4,123	4,729	6,298	-
-- Non-State	580	1,130	1,472	1,913	2,195	2,449	-
Trade	5,460	9,742	15,281	17,549	23,072	29,198	33,974
-- State	1,802	2,728	3,973	4,071	5,906	7,934	-
-- Non-State	3,658	7,014	11,308	13,478	17,166	21,264	-
Banking & Insurance	490	1,108	1,567	2,318	3,450	5,314	6,127
-- State	482	1,104	1,562	2,311	3,439	4,596	-
-- Non-State	8	4	5	7	11	984	-
Public Adm., Medical, Education	3,608	6,807	9,718	14,402	18,270	22,770	27,694
-- State	3,586	6,772	9,673	14,333	18,160	22,475	-
-- Non-State	22	35	45	69	110	125	-
Rent, NGO, Tourism & Others	4,269	6,880	11,659	15,998	19,196	26,788	30,345
-- State	536	645	358	3,145	2,265	6,314	-
-- Non-State	3,733	6,235	11,301	12,853	16,931	20,474	-

Note: Data for Agriculture and Industry have been revised.

Source: General Statistical Office, 1997.

**Table 2.1B: SECTORAL SHARES IN GDP BY ECONOMIC SECTOR
IN CURRENT PRICES (Billions of Dong)**

	1990	1991	1992	1993	Rev. 1994	Rev. 1995	Prel. 1996
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
State	32.9%	34.1%	36.2%	40.8%	41.3%	42.3%	-
Non-State	67.1%	65.9%	63.8%	59.2%	58.7%	57.7%	-
Agriculture, Forestry	40.8%	40.5%	33.9%	29.9%	28.7%	28.4%	27.2%
-- State	1.6%	1.7%	1.3%	1.3%	1.3%	1.3%	-
-- Non-State	39.1%	38.8%	32.7%	28.5%	27.4%	27.0%	-
Industry -- Total	22.8%	23.8%	27.3%	28.9%	29.6%	30.0%	30.7%
-- State	13.9%	15.5%	17.9%	19.0%	19.7%	20.3%	-
-- Non-State	8.9%	8.3%	9.3%	9.9%	9.9%	9.7%	-
Industry	19.0%	19.8%	21.7%	21.5%	22.0%	22.8%	-
-- State	12.0%	13.7%	15.4%	15.3%	16.2%	-	-
-- Non-State	7.0%	6.1%	6.2%	6.2%	5.8%	-	-
Construction	3.8%	4.0%	5.6%	7.4%	7.6%	7.1%	-
-- State	2.0%	1.8%	2.5%	3.7%	3.5%	-	-
-- Non-State	1.9%	2.2%	3.1%	3.7%	4.1%	-	-
Services -- Total	36.4%	35.7%	38.8%	41.2%	41.6%	41.7%	42.1%
-- State	17.3%	16.9%	17.0%	20.5%	20.3%	21.4%	-
-- Non-State	19.1%	18.8%	21.8%	20.7%	21.4%	20.3%	-
Transport & Communications	3.5%	3.7%	4.2%	4.4%	4.1%	3.9%	4.1%
-- State	2.1%	2.3%	2.9%	3.0%	2.8%	2.8%	-
-- Non-State	1.4%	1.5%	1.3%	1.4%	1.3%	1.1%	-
Trade	13.0%	12.7%	13.8%	12.8%	13.6%	13.1%	13.1%
-- State	4.3%	3.6%	3.6%	3.0%	3.5%	3.6%	-
-- Non-State	8.7%	9.1%	10.2%	9.9%	10.1%	9.5%	-
Banking & Insurance	1.2%	1.4%	1.4%	1.7%	2.0%	2.4%	2.4%
-- State	1.1%	1.4%	1.4%	1.7%	2.0%	2.1%	-
-- Non-State	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%	-
Public Adm., Medical, Education	8.6%	8.9%	8.8%	10.5%	10.7%	10.2%	10.7%
-- State	8.5%	8.8%	8.8%	10.5%	10.7%	10.1%	-
-- Non-State	0.1%	0.0%	0.0%	0.1%	0.1%	0.1%	-
Rent, NGO, Tourism	10.2%	9.0%	10.5%	11.7%	11.3%	12.0%	11.7%
-- State	1.3%	0.8%	0.3%	2.3%	1.3%	2.8%	-
-- Non-State	8.9%	8.1%	10.2%	9.4%	9.9%	9.2%	-

Note: Data for Agriculture and Industry have been revised.

Source: General Statistical Office, 1997.

**Table 2.2A: GDP BY INDUSTRIAL ORIGIN AND BY ECONOMIC SECTOR
IN CONSTANT 1989 PRICES (Billions of Dong)**

	1990	1991	1992	1993	Rev. 1994	Rev. 1995	Prel. 1996
Total	29,526	31,286	33,991	36,736	39,982	43,797	47,888
State	9,598	10,700	11,948	13,373	15,174	17,095	-
Non-State	19,928	20,586	22,043	23,363	24,808	26,703	-
Agriculture, Forestry	12,003	12,264	13,132	13,634	14,169	14,892	15,551
-- State	467	523	581	636	692	746	-
-- Non-State	11,536	11,741	12,551	12,998	13,477	14,146	-
Industry -- Total	6,629	7,228	8,242	9,324	10,631	12,114	13,861
-- State	4,286	4,858	5,742	6,578	7,631	8,737	-
-- Non-State	2,343	2,370	2,500	2,746	3,000	3,377	-
Industry	5,500	6,042	6,925	7,766	8,771	9,998	11,448
-- State	3,630	4,057	4,832	5,543	6,306	7,373	-
-- Non-State	1,870	1,985	2,093	2,223	2,465	2,603	-
Construction	1,129	1,186	1,317	1,558	1,860	2,115	2,413
-- State	656	801	910	1,035	1,325	1,364	-
-- Non-State	473	385	407	523	535	774	-
Services -- Total	10,894	11,794	12,617	13,778	15,182	16,792	18,476
-- State	4,845	5,319	5,625	6,159	6,851	7,612	-
-- Non-State	6,049	6,475	6,992	7,619	8,331	9,180	-
Transport & Communications	744	792	842	897	960	1,066	1,183
-- State	447	483	520	563	605	678	-
-- Non-State	297	309	322	334	355	388	-
Trade	3,486	3,654	3,877	4,109	4,478	4,981	5,559
-- State	1,115	1,167	1,236	1,292	1,358	1,520	-
-- Non-State	2,371	2,487	2,641	2,817	3,120	3,461	-
Banking & Insurance	379	448	496	578	710	906	961
-- State	373	446	493	574	705	717	-
-- Non-State	6	2	3	4	5	157	-
Public Adm., Medical, Education	2,675	2,841	3,040	3,322	3,760	4,114	4,537
-- State	2,660	2,824	3,021	3,298	3,731	4,054	-
-- Non-State	15	17	19	24	29	32	-
Rent, NGO, Tourism	3,610	4,059	4,362	4,872	5,274	5,725	6,236
-- State	250	399	355	432	452	643	-
-- Non-State	3,360	3,660	4,007	4,440	4,822	5,082	-

Note: Data for Agriculture and Industry have been revised.

Source: General Statistical Office, 1997.

Table 2.2B: GDP BY INDUSTRIAL ORIGIN -- GROWTH RATE
(Billions of Dong in Constant 1989 Prices)

	1990	1991	1992	1993	Rev. 1994	Rev. 1995	Prel. 1996
Total	5.1%	6.0%	8.6%	8.1%	8.8%	9.5%	9.3%
State	3.0%	11.5%	11.7%	11.9%	13.5%	12.7%	-
Non-State	6.2%	3.3%	7.1%	6.0%	6.2%	7.6%	-
Agriculture, Forestry	4.6%	2.2%	7.1%	3.8%	3.9%	5.1%	4.4%
-- State	24.2%	12.0%	11.1%	9.5%	8.8%	7.8%	-
-- Non-State	4.0%	1.8%	6.9%	3.6%	3.7%	5.0%	-
Industry -- Total	-2.4%	9.0%	14.0%	13.1%	14.0%	13.9%	14.4%
-- State	4.9%	13.3%	18.2%	14.6%	16.0%	14.5%	-
-- Non-State	-13.4%	1.2%	5.5%	9.8%	9.2%	12.6%	-
Industry	2.5%	9.9%	14.6%	12.1%	12.9%	14.0%	14.5%
-- State	4.7%	11.8%	19.1%	14.7%	13.8%	16.9%	-
-- Non-State	-1.6%	6.1%	5.4%	6.2%	10.9%	5.6%	-
Construction	4.7%	5.0%	11.0%	18.3%	19.4%	13.7%	14.1%
-- State	10.4%	22.1%	13.6%	13.7%	28.0%	2.9%	-
-- Non-State	-2.3%	-18.6%	5.7%	28.5%	2.3%	44.7%	-
Services -- Total	10.8%	8.3%	7.0%	9.2%	10.2%	10.6%	10.0%
-- State	-0.3%	9.8%	5.8%	9.5%	11.2%	11.1%	-
-- Non-State	21.7%	7.0%	8.0%	9.0%	9.3%	10.2%	-
Transport & Communications	4.8%	6.5%	6.3%	6.5%	7.0%	11.0%	11.0%
-- State	-1.1%	8.1%	7.7%	8.3%	7.5%	12.1%	-
-- Non-State	15.1%	4.0%	4.2%	3.7%	6.3%	9.3%	-
Trade	5.3%	4.8%	6.1%	6.0%	9.0%	11.2%	11.6%
-- State	-31.3%	4.7%	5.9%	4.5%	5.1%	11.9%	-
-- Non-State	40.5%	4.9%	6.2%	6.7%	10.8%	10.9%	-
Banking & Insurance	8.3%	18.2%	10.7%	16.5%	22.8%	27.6%	6.1%
-- State	20.3%	19.6%	10.5%	16.4%	22.8%	1.7%	-
-- Non-State	-85.0%	-66.7%	50.0%	33.3%	25.0%	3040.0%	-
Public Adm., Medical, Education	13.1%	6.2%	7.0%	9.3%	13.2%	9.4%	10.3%
-- State	12.4%	6.2%	7.0%	9.2%	13.1%	8.7%	-
-- Non-State	-	13.3%	11.8%	26.3%	20.8%	10.3%	-
Rent, NGO, Tourism	16.6%	12.4%	7.5%	11.7%	8.3%	8.6%	8.9%
-- State	125.2%	59.6%	-11.0%	21.7%	4.6%	42.3%	-
-- Non-State	12.6%	8.9%	9.5%	10.8%	8.6%	5.4%	-

Note: Data for Agriculture and Industry have been revised.

Source: General Statistical Office, 1997.

Table 2.3: GDP DEFLATOR
(1989=100)

	1990	1991	1992	1993	Rev. 1994	Rev. 1995	Prel. 1996
Total	142.1	245.2	325.2	371.8	425.8	508.8	540.0
State	143.9	244.3	334.9	416.8	463.1	551.1	-
Non-State	141.2	245.7	319.9	346.0	403.1	481.7	-
Agriculture, Forestry	142.5	253.2	285.7	299.2	344.9	424.5	452.3
-- State	147.3	247.4	244.9	286.8	319.4	401.5	-
-- Non-State	142.3	253.5	287.5	299.8	346.2	425.7	-
Industry -- Total	144.4	252.5	365.6	423.3	474.8	551.5	573.6
-- State	136.4	244.2	345.4	394.2	439.8	517.4	-
-- Non-State	158.9	269.5	412.1	493.0	564.1	639.5	-
Industry	144.7	251.5	345.9	378.2	427.9	509.2	-
-- State	138.4	258.2	352.9	377.8	438.0	-	-
-- Non-State	156.9	237.6	329.8	379.1	402.3	-	-
Construction	142.9	257.9	469.2	648.3	696.0	751.4	-
-- State	125.5	173.2	305.5	482.1	448.3	-	-
-- Non-State	167.0	434.3	835.1	977.2	1309.5	-	-
Services -- Total	140.2	232.3	339.9	408.6	467.1	552.7	588.7
-- State	150.2	244.0	333.4	454.3	503.6	625.6	-
-- Non-State	132.3	222.7	345.1	371.7	437.1	492.4	-
Transport & Communications	194.8	361.1	553.7	672.9	721.3	820.5	898.9
-- State	194.4	358.2	613.5	732.3	781.7	928.9	-
-- Non-State	195.3	365.7	457.1	572.8	618.3	631.2	-
Trade	156.6	266.6	394.1	427.1	515.2	586.2	611.2
-- State	161.6	233.8	321.4	315.1	434.9	522.0	-
-- Non-State	154.3	282.0	428.2	478.5	550.2	614.4	-
Banking & Insurance	129.3	247.3	315.9	401.0	485.9	586.5	637.6
-- State	129.2	247.5	316.8	402.6	487.8	641.0	-
-- Non-State	133.3	200.0	166.7	175.0	220.0	626.8	-
Public Adm., Medical, Education	134.9	239.6	319.7	433.5	485.9	553.5	610.4
-- State	134.8	239.8	320.2	434.6	486.7	554.4	-
-- Non-State	146.7	205.9	236.8	287.5	379.3	390.6	-
Rent, NGO, Tourism	118.3	169.5	267.3	328.4	364.0	467.9	486.6
-- State	214.4	161.7	100.8	728.0	501.1	982.0	-
-- Non-State	111.1	170.4	282.0	289.5	351.1	402.9	-

Note: Data for Agriculture and Industry have been revised.

Source: General Statistical Office, 1997.

Table 2.4: NATIONAL ACCOUNTS: SOURCES AND USES

	1991	1992	1993	Rev. 1994	Rev 1995	Prel. 1996
(Billions of Current Dong)						
Sources	80,632	115,051	148,867	187,124	243,659	294,294
- GDP	76,707	110,535	136,571	170,258	222,840	258,609
- Trade Balance	3,925	4,516	12,296	16,866	20,819	35,685
Uses	80,632	115,051	148,867	187,124	243,659	294,294
- Total Consumption	68,959	95,314	116,719	141,175	180,522	217,345
- Gross Capital Formation	11,506	19,498	34,020	43,375	60,488	72,117
- Statistical Discrepancy	167	239	-1,872	2,574	2,649	4,832
(Percentage of Total)						
Sources	100.0	100.0	100.0	100.0	100.0	100.0
- GDP	95.1	96.1	91.7	91.0	91.5	87.9
- Trade Balance	4.9	3.9	8.3	9.0	8.5	12.1
Uses	100.0	100.0	100.0	100.0	100.0	100.0
- Total Consumption	85.5	82.8	78.4	75.4	74.1	73.9
- Gross Capital Formation	14.3	16.9	22.9	23.2	24.8	24.5
- Statistical Discrepancy	0.2	0.2	-1.3	1.4	1.1	1.6

Note: Data estimates provided by the Ministry of Planning and Investment and GSO, 1997

Source: Ministry of Planning and Investment and General Statistical Office.

Table 3.1: BALANCE OF PAYMENTS
(US\$ million)

	1990	1991	1992	1993	1994	1995	Rev. 1996
Exports, Total	1,731	2,042	2,475	2,985	4,054	5,198	7,330
Imports, Total	-1,775	-2,107	-2,535	-3,532	-5,250	-7,543	-10,481
Trade Balance	-44	-65	-60	-547	-1,196	-2,345	-3,150
Services and Transfers	-218	-69	49	-220	4	422	668
Interest Payments	-238	-248	-284	-335	-214	-357	-534
Official Transfers	88	55	64	194	135	150	150
Others	-118	88	269	-80	83	629	1,052
Current Account Balance	-262	-134	-10	-767	-1,192	-1,923	-2,482
Capital Account Balance	122	188	656	107	1,363	1,837	1,908
Disbursements	233	109	540	12	288	652	627
Scheduled Amortizations	-279	-104	-175	-695	-679	-826	-842
Short Term Loans (Net)	48	19	-41	-133	124	-225	285
Direct Foreign Investment	120	165	333	923	1,631	2,236	1,838
Errors and Omissions	-2	-4	-378	-397	-580	-393	286
Overall Balance	-142	50	268	-1,057	-409	-479	-288
Financing:	142	50	-268	1,056	409	479	288
Change in NFA (excl. IMF)	-159	-276	-463	477	-292	-179	-471
IMF Credit (Net)	0	-6	0	-39	175	92	178
Debt Rescheduling	0	0	0	883	0	0	0
Change in Arrears	301	332	195	-266	526	566	581
Memorandum Item:							
Dong per US\$	5,133	9,274	11,150	10,640	10,955	10,970	11,100

Note: Figures are rounded.

1/ Figures for 1996 are preliminary.

Source: Data provided by the Vietnamese authorities and Bank staff estimates.

Table 3.2: MERCHANDISE EXPORTS BY COMMODITY
(US\$ million)

	1990	1991	1992	1993	1994	Rev 1995	Prel 1996
Total Exports	1,731	2,042	2,475	2,985	4,054	5,198	7,330
Convertible Area	1,305	1,999	2,475	2,985	4,054	5,198	7,330
Rice	272	225	300	363	429	549	855
Quantity (000 tons)	1,455	989	1,860	1,725	1,950	2,052	3,003
Unit Value (US\$/ton)	187	228	161	210	220	268	285
Petroleum	390	581	756	844	866	1,024	1,346
Quantity (000 tons)	2,600	3,917	5,400	6,153	6,942	7,652	8,705
Unit Value (US\$/ton)	150	148	140	137	125	134	155
Coal	38	48	47	70	75	81	115
Quantity (000 tons)	1,075	1,173	1,580	1,940	2,319	2,800	3,647
Unit Value (US\$/ton)	35	41	30	36	32	29	32
Rubber	16	50	54	74	133	181	163
Quantity (000 tons)	20	63	68	97	129	130	122
Unit Value (US\$/ton)	800	789	800	763	1,031	1,392	1,336
Tea	2	14	16	26	16	33	33
Quantity (000 tons)	2	10	13	21	17	25	25
Unit Value (US\$/ton)	1,000	1,370	1,231	1,262	905	1,300	1,300
Coffee	25	74	86	110	328	495	337
Quantity (000 tons)	28	94	96	122	177	200	239
Unit Value (US\$/ton)	893	795	900	901	1,853	2,475	1,410
Marine Products	220	285	302	427	551	620	651
Quantity (000 tons)	-	-	-	1,197	1,462	1,564	1,550
Unit Value (US\$/ton)	-	-	-	357	377	396	420
Agriculture & Forestry Products	203	440	434	400	608	1,050	1,481
of which:							
* Cashew Nut	13	26	41	44	59	130	
Quantity (000 tons)	25	30	52	48	57	130	
Unit Value (US\$/ton)	508	850	799	922	1,030	1,000	
* Meat	28	45	21	26	45	0	
Quantity (000 tons)	16	25	12	15	30	0	
Unit Value (US\$/ton)	1,728	1,800	1,783	1,733	1,500		
* Pepper	12	18	15	15	17	0	
Quantity (000 tons)	9	16	22	20	20	0	
Unit Value (US\$/ton)	1,333	1,080	695	750	850	0	
Handicrafts & Light Industrial Goods	20	204	321	576	870	1,020	2,099
of which:							
* Textiles and Garments	20	156	221	336	550	800	
* Footwear							
*							
*							
Others	119	78	158	88	178	145	251
Non-Convertible Areas	426	43	-	-	-	0	0

Note: For the non convertible areas in transferable rubble, the conversion rate is 2.4 per US\$ for 1990-91.

Source: Ministry of Trade and Bank staff estimates.

Table 3.3: MAJOR IMPORTS BY COMMODITY
(US\$ millions)

	1990	1991	1992	1993	1994	1995	Prel. 1996
Total Imports	1,772	2,105	2,535	3,532	5,245	7,543	10,481
Petroleum	356	485	615	614	696	856	1,079
Quantity (000 tons)	2,400	2,572	3,075	4,095	4,550	4,969	5,803
Unit Value (US\$/ton)	148	189	200	150	153	172	186
Fertilizers	210	246	320	189	247	339	628
Quantity (000 tons)	2,233	2,425	1,600	925	1,495	1,471	2,832
Unit Value (US\$/ton)	94	101	200	204	165	230	222
Steel	23	25	104	233	211	-	529
Quantity (000 tons)	200	113	260	656	725	-	1,549
Unit Value (US\$/ton)	115	221	400	355	291	-	342
Machines and Spare Parts Equipment for oil & gas Spare parts	0	0	100	922	1,815	2,761	na
Others	619	1,090	1,396	1,574	2,276	3,419	na
of which:							
* Cotton Textiles	102	32	23	54	55	96	
Quantity (Mil. meters)	23	29	25	24	34	49	
* Raw Cotton	38	61	13	20	43	77	
Quantity (000 tons)	62	32	11	16	24	35	
* Wheat	32	36	59	51	52	60	
Quantity (000 tons)	116	150	283	250	300	226	
* Cars and Trucks	50	12	39	69	103	134	
Quantity (number)	5,240	1,320	3,502	6,869	14,350	19,549	
* Sugar	3	5	4	14	39	61	
Quantity (000 tons)	60	14	13	44	124	147	
* MSG	40	45	53	70	44	32	
Quantity (000 tons)	24	30	38	56	42	23	
* Motorbikes	-	-	50	286	347	460	
Quantity (number)	-	-	54	374	285	458	
* Pharmaceuticals	-	-	60	86	140	114	
Non-Convertible Area	564	259	-	-	-	-	

Note: For the non-convertible areas in transferable rubble, the conversion rate is 2.55/US\$1 for 1986-88, and 2.4/US\$1 for 1989-92.

Source: Ministry of Trade and Bank staff estimates.

Table 4.1: MONETARY SURVEY

	1989	1990	1991	1992	1993	Rev. 1994	Rev. 1995	Dec 1996
(Billions of Dong; End of Period)								
Foreign Assets (Net)	1,004	2,626	8,503	10,593	6,231	6,940	10,851	14,200
Net Domestic Assets:	6,416	8,732	11,797	16,550	26,055	36,066	41,871	50,400
of which:								
- Domestic Credit:	6,717	9,960	14,111	17,122	27,079	37,951	47,071	55,300
-- Government (Net)	2,600	4,032	3,956	1,913	3,870	4,551	4,700	4,400
-- Non-Financial Public Enterprises	3,606	5,308	9,129	12,439	15,511	20,464	24,079	26,800
-- Non-State Sector:	511	620	1,026	2,770	7,698	12,936	18,292	24,100
--- Cooperatives	511	620	-	-	-	-	-	-
--- Private Business and Households	-	-	-	-	-	-	-	-
- Other Items (Net)	-301	-1,229	-2,314	-572	-1,024	-1,885	-5,200	-4,900
Total Liquidity (M2):	8,575	11,357	20,301	27,144	32,288	43,006	52,710	64,700
- Currency Outside Banks a/	2,352	3,735	6,419	10,579	14,218	18,624	19,170	22,600
- Deposits (in Dong)	4,127	3,943	5,528	8,352	10,665	14,852	22,479	28,900
- Deposits (in foreign currency)	2,096	3,680	8,354	8,213	7,406	9,530	11,061	13,200
(Change in Percent from Previous Year)								
Foreign Assets (Net)	253.4	161.7	223.8	24.6	-41.2	11.4	56.4	30.9
Domestic Credit:	155.1	48.3	41.7	21.3	58.2	40.1	24.0	17.5
- Government (Net)	288.6	55.1	-1.9	-51.6	102.3	17.6	3.3	-6.4
- Non-Financial Public Enterprises	111.0	47.2	72.0	36.3	24.7	31.9	17.7	11.3
- Non-State Sector:	100.4	21.3	65.5	170.0	177.9	68.0	41.4	31.8
-- Cooperatives	199.0	21.2	-	-	-	-	-	-
-- Private Businesses and Households	-	-	-	-	-	-	-	-
Total Liquidity (M2)	233.7	32.4	78.7	33.7	19.0	33.2	22.6	22.7
of which:								
- Currency Outside Banks a/	129.6	58.8	71.9	64.8	34.4	31.0	2.9	17.9
- Deposits (in Dong)		-4.5	40.2	51.1	27.7	39.3	51.4	28.6
- Deposits (in foreign currency)		75.6	127.0	-1.7	-9.8	28.7	16.1	19.3
Memorandum Items:								
Currency/GDP Ratio a/ b/	8.4	8.9	8.4	9.6	10.4	10.9	8.6	8.7
Liquidity (M2)/GDP Ratio b/	30.5	27.1	26.5	24.6	23.6	25.3	23.7	25.0
Domestic Credit/GDP b/	23.9	23.7	18.4	15.5	19.8	22.3	21.1	21.4
GDP in Current Prices (Billions of Dong)	28,093	41,955	76,707	110,535	136,571	170,258	222,840	258,609

Note: Figures are rounded.

a/ Currency in circulation.

b/ GDP in current prices, revised by the General Statistical Office, May 1997.

Source: State Bank of Vietnam, General Statistical Office, and IMF estimates.

Table 5.1: SUMMARY OF BUDGETARY OPERATIONS

	Actual						1996
	1990	1991	1992	1993	1994	1995	Rev.
	(Billions of Dong)						
Revenue and Grants	6,153	10,353	21,023	30,696	42,125	53,370	60,920
Tax Revenue (non-SOEs)	1,698	2,814	5,480	11,337	16,846	23,375	27,730
Tax and Transfers from SOEs	3,620	6,189	11,913	15,322	20,557	21,938	25,210
Other Non-Tax Revenue	835	1,080	2,782	3,020	3,522	6,437	6,380
Grants	-	270	848	1,017	1,200	1,620	1,600
Current Expenditure (exc. Interest)	6,156	8,728	15,452	25,626	31,121	39,615	43,100
Wages and Salaries	1,744	2,001	na	8,921	13,654	14,450	16,240
Subsidies	-	-	-	262	190	265	300
Other	4,412	6,727	na	16,443	17,277	24,900	26,560
of which: Operation and Maintenance	290	428	na	595	1,160	1,450	1,750
Capital Expenditure	2,124	2,135	6,450	9,600	11,715	12,079	15,630
Contingency	-	-	-	-	-	-	-
Overall Balance (before Interest)	-2,127	-510	-879	-4,530	-711	1,676	2,190
Interest (Scheduled)	1,242	2,333	3,218	3,675	4,415	4,177	4,107
Interest (Paid)	310	650	1,000	1,710	1,094	2,895	2,700
Overall Balance (Accrual Basis)	-3,369	-2,843	-4,097	-8,205	-5,126	-2,501	-1,917
Overall Balance (Cash Basis)	-2,437	-1,160	-1,879	-6,240	-1,805	-1,219	-510
Financing	2,437	1,160	1,879	6,240	1,805	1,219	510
Foreign Loans (Net)	1,264	767	2,673	3,726	240	-1,490	-50
Utilization	1,860	1,335	3,481	5,184	1,500	1,470	2,400
- Short-Term	-	-	-	-	-	-	-
- Medium- and Long-Term	-	-	-	-	-	-	-
Amortization	596	568	808	1,458	1,260	2,960	2,450
Domestic Loans (Net)	1,173	393	-794	2,514	1,565	2,709	560
State Bank (Net)	832	689	-2,208	0	0	0	0
Government Securities (Net)	341	-296	1,414	2,514	1,565	2,709	560
	(Percent of GDP)						
Revenue and Grants	14.7	13.5	19.0	22.5	24.7	23.9	23.6
Tax Revenue	4.0	3.7	5.0	8.3	9.9	10.5	10.7
Transfers from State Enterprises a/	8.6	8.1	10.8	11.2	12.1	9.8	9.7
Other Non-Tax Revenue	2.0	1.4	2.5	2.2	2.1	2.9	2.5
Grants	0.0	0.4	0.8	0.7	0.7	0.7	0.6
Current Expenditure (exc. Interest)	14.7	11.4	14.0	18.8	18.3	17.8	16.7
Wages and Salaries	4.2	2.6	-	6.5	8.0	6.5	-
Subsidies	0.0	0.0	-	0.2	0.1	0.1	-
Other	10.5	8.8	-	12.0	10.1	11.2	-
of which: Operation and Maintenance	0.7	0.6	-	0.4	0.7	0.7	-
Capital Expenditure	5.1	2.8	5.8	7.0	6.9	5.4	6.0
Overall Primary Balance	-5.1	-0.7	-0.8	-3.3	-0.4	0.8	0.8
Interest (Scheduled)	3.0	3.0	2.9	2.7	2.6	1.9	1.6
Interest (Paid)	0.7	0.8	0.9	1.3	0.6	1.3	1.0
Overall Balance (Accrual Basis)	-8.0	-3.7	-3.7	-6.0	-3.0	-1.1	-0.7
Overall Balance (Cash Basis)	-5.8	-1.5	-1.7	-4.6	-1.1	-0.5	-0.2
Financing	5.8	1.5	1.7	4.6	1.1	0.5	0.2
Foreign Grants and Loans (Net)	3.0	1.0	2.4	2.7	0.1	-0.7	0.0
Domestic Loans (Net)	2.8	0.5	-0.7	1.8	0.9	1.2	0.2
State Bank (Net)	2.0	0.9	-2.0	0.0	0.0	0.0	0.0
Government Securities (Net)	0.8	-0.4	1.3	1.8	0.9	1.2	0.2
Arrears	-	-	-	-	-	-	-
Memo Item: GDP b/	41,955	76,707	110,535	136,571	170,258	222,840	258,609

Note: a/ Transfers include all taxes, operating surplus, depreciation allowances, and capital user fees.

b/ Revised GDP series from the GSO, May 1997.

Source: Ministry of Finance and General Statistical Office.

Table 5.2A: GOVERNMENT REVENUE

	Actual						Prel.
	1990	1991	1992	1993	1994	1995	1996
	(Billions of Dong)						
I. State Enterprises:	3,620	6,189	11,913	15,322	20,558	21,938	25,210
A. Taxes:	-	5,567	9,636	12,780	16,732	20,311	24,250
a. Profit Tax	-	1,103	2,028	4,041	5,585	5,997	7,655
b. Turnover Tax	-	1,779	2,158	2,967	4,402	5,832	7,300
c. Special Consumption Tax (Excises)	-	739	1,317	1,395	2,120	2,520	3,000
d. Natural Resources Tax	-	797	1,874	1,714	1,934	2,369	2,960
e. Licence Tax	-	-	6	7	8	9	10
f. Capital User Charge	-	262	530	678	1,174	1,322	1,505
g. Other Taxes	-	887	1,723	1,978	1,509	2,262	1,820
B. Transfers	3,620	622	2,277	2,542	3,826	1,627	960
a. Operating Surplus	3,112	-	-	-	-	-	-
b. Depreciation Allowance	508	622	2,277	2,542	3,826	1,627	960
II. Non-State Sector:	965	1,715	3,286	4,714	5,619	7,971	9,880
A. Agricultural Tax	298	707	1,294	1,350	1,107	1,552	1,850
B. Non-Agricultural Tax:	667	1,008	1,992	3,364	4,512	6,419	8,030
a. Turnover Tax	262	250	582	806	1,318	2,017	2,600
b. Profits Tax	118	161	420	560	900	1,443	1,800
c. Personal Income Tax	-	62	153	181	336	520	1,050
d. License Tax	31	-	72	114	142	198	248
e. Commodities Tax	75	69	22	0	8	7	10
f. Wholesale Tax	32	-	-	-	-	-	-
g. Slaughter Tax	26	35	45	57	69	92	110
h. Land Tax	-	5	18	241	220	313	360
i. Other	123	426	680	1,405	1,519	1,829	1,852
III. External Trade:	733	1,099	2,194	6,398	10,012	13,273	15,000
A. Non-Commercial Import Tax	126	-	-	-	-	-	-
B. Import and Export Duties	607	1,099	2,194	6,398	10,012	13,273	15,000
IV. Joint Ventures	-	-	-	225	1,215	2,131	2,850
V. Other Revenue	835	1,080	2,782	3,020	3,522	6,437	6,380
VI. Grants	-	270	848	1,017	1,200	1,620	1,600
Total Revenue (inc. Grants)	6,153	10,353	21,023	30,696	42,126	53,370	60,920

Source: Ministry of Finance.

Table 5.2B: GOVERNMENT REVENUE: PERCENTAGE SHARE

	Actual						Prel.
	1990	1991	1992	1993	1994	1995	1996
	(Percent of GDP)						
I. State Enterprises	8.6	8.1	10.8	11.2	12.1	9.8	9.7
- Taxes:	-	7.3	8.7	9.4	9.8	9.1	9.4
-- Profit Tax	-	1.4	1.8	3.0	3.3	2.7	3.0
-- Turnover Tax	-	2.3	2.0	2.2	2.6	2.6	2.8
-- Special Consumption Tax (Excises)	-	1.0	1.2	1.0	1.2	1.1	1.2
-- Natural Resources Tax	-	1.0	1.7	1.3	1.1	1.1	1.1
-- Licence Tax	-	0.0	0.0	0.0	0.0	0.0	0.0
-- Other Taxes	-	1.2	1.6	1.4	0.9	1.0	0.7
- Transfers:	8.6	0.8	2.1	1.9	2.2	0.7	0.4
-- Operating Surplus	7.4	-	-	-	-	-	-
-- Depreciation Allowance	1.2	0.8	2.1	1.9	2.2	0.7	0.4
-- Capital User Fee	-	0.3	0.5	0.6	0.7	0.0	0.0
II. Non-State Sector:	2.3	2.2	3.0	3.5	3.3	3.6	3.8
- Agricultural Tax	0.7	0.9	1.2	1.0	0.7	0.7	0.7
- Non-Agricultural Tax	1.6	1.3	1.8	2.5	2.7	2.9	3.1
III. External Trade:	1.7	1.4	2.0	4.7	5.9	6.0	5.8
- Non-Commercial Import Tax	0.3	0.0	0.0	0.0	0.0	0.0	0.0
- Import and Export Duties	1.4	1.4	2.0	4.7	5.9	6.0	5.8
IV. Joint Ventures	-	-	-	0.2	0.7	1.0	1.1
V. Other Revenue	2.0	1.4	2.5	2.2	2.1	2.9	2.5
VI. Grants	-	0.4	0.8	0.7	0.7	0.7	0.6
Total Revenue (inc. Grants)	14.7	13.5	19.0	22.5	24.7	23.9	23.6
Memo Item: GDP (Billions of Dong)	41,955	76,707	110,535	136,571	170,258	222,840	258,609
	(Percent of Total Revenues)						
I. State Enterprises	58.8	59.8	56.7	49.9	48.8	41.1	41.4
- Taxes	-	53.8	45.8	41.6	39.7	38.1	39.8
-- Profit Tax	-	10.7	9.6	13.2	13.3	11.2	12.6
-- Turnover Tax	-	17.2	10.3	9.7	10.4	10.9	12.0
-- Special Consumption Tax (Excises)	-	7.1	6.3	4.5	5.0	4.7	4.9
-- Natural Resources Tax	-	7.7	8.9	5.6	4.6	4.4	4.9
-- Licence Tax	-	0.0	0.0	0.0	0.0	0.0	0.0
-- Other Taxes	-	8.6	8.2	6.4	3.6	4.2	3.0
- Transfers	58.8	6.0	10.8	8.3	9.1	3.0	1.6
-- Operating Surplus	50.6	0.0	0.0	0.0	0.0	0.0	0.0
-- Depreciation Allowance	8.3	6.0	10.8	8.3	9.1	3.0	1.6
-- Capital User Fee	-	2.5	2.5	2.6	2.8	0.0	0.0
II. Non-State Sector:	15.7	16.6	15.6	15.4	13.3	14.9	16.2
- Agricultural Tax	4.8	6.8	6.2	4.4	2.6	2.9	3.0
- Non-Agricultural Tax	10.8	9.7	9.5	11.0	10.7	12.0	13.2
III. External Trade:	11.9	10.6	10.4	20.8	23.8	24.9	24.6
- Non-Commercial Import Tax	2.0	0.0	0.0	0.0	0.0	0.0	0.0
- Import and Export Duties	9.9	10.6	10.4	20.8	23.8	24.9	24.6
IV. Joint Ventures	-	-	-	0.7	2.9	4.0	4.7
V. Other Revenue	13.6	10.4	13.2	9.8	8.4	12.1	10.5
VI. Grants	-	2.6	4.0	3.3	2.8	3.0	2.6

Note: GDP series have been revised by the General Statistical Office in May 1997.

Source: Ministry of Finance and General Statistical Office.

Table 5.3: FUNCTIONAL CLASSIFICATION OF CURRENT EXPENDITURE

	Actual					Rev.	Prel.
	1990	1991	1992	1993	1994	1995	1996
	(Billions of Dong)						
General Administrative Service	676	1,290	2,404	4,335	4,779	5,683	5,190
Economic Services	523	784	1,490	2,498	3,085	4,004	4,610
Social Service	1,998	3,343	6,245	9,639	14,042	18,249	19,680
- Education	439	748	1,495	2,321	3,414	4,722	5,500
- Health	368	636	1,136	1,754	2,214	2,387	2,530
- Pensions, Social Relief	695	1,278	2,374	3,752	5,861	7,382	7,450
- Other	496	681	1,240	1,812	2,553	3,758	4,200
Interest due	1,242	2,333	3,218	3,675	4,415	4,177	-
Interest Paid	310	651	1,000	1,710	1,094	2,895	2,700
Others (inc. Subsidies and excl. Contingency)	2,959	3,311	5,313	9,154	9,215	11,679	13,620
Total Current Expenditure:							
- Cash Basis, incl. Interest	6,466	9,379	16,452	27,336	32,215	42,510	45,800
- Cash Basis, excl. Interest	6,156	8,728	15,452	25,626	31,121	39,615	43,100
	(Percent of GDP)						
General Administrative Service	1.6	1.7	2.2	3.2	2.8	2.6	2.0
Economic Services	1.2	1.0	1.3	1.8	1.8	1.8	1.8
Social Service	4.8	4.4	5.6	7.1	8.2	8.2	7.6
- Education	1.0	1.0	1.4	1.7	2.0	2.1	2.1
- Health	0.9	0.8	1.0	1.3	1.3	1.1	1.0
Interest due	3.0	3.0	2.9	2.7	2.6	1.9	-
Interest Paid	0.7	0.8	0.9	1.3	0.6	1.3	1.0
Other (inc. Subsidies)	7.1	4.3	4.8	6.7	5.4	5.2	5.3
Total Current Expenditure							
incl. Interest	15.4	12.2	14.9	20.0	18.9	19.1	17.7
exc. Interest	14.7	11.4	14.0	18.8	18.3	17.8	16.7
Memo Item: GDP a/	41,955	76,707	110,535	136,571	170,258	222,840	258,609
(Billions Dong)							

Note: a/ GDP series have been revised by the General Statistical Office in May 1997.

Source: Ministry of Finance and General Statistical Office.

Table 5.4: ECONOMIC CLASSIFICATION OF CURRENT EXPENDITURE

	Actual		a/	Rev.	Rev.	Rev.	Budget
	1990	1991	1992	1993	1994	1995	1996
(Billions of Dong)							
Wage and Salaries	1,744	2,001	5,369	8,921	13,654	14,450	16,240
Subsidies	-	-	-	262	190	265	300
Food Procurement	-	-	-	-	-	-	-
Production	-	-	-	-	-	-	-
Exports	-	-	-	-	-	-	-
Interest due	1,242	2,333	3,218	3,675	4,275	4,177	4,107
Interest paid	310	651	1,000	1,710	1,094	2,895	2,700
Other	4,412	6,727	10,083	16,443	17,277	24,900	26,560
Working Capital for SOEs	68	-	401	667	635	302	200
Administrative Expenses	181	241	1,656	2,752	3,180	3,555	3,790
Medical and Social Benefits	295	433	1,218	2,024	2,200	3,195	2,722
Education and Scholarship	261	385	1,271	2,111	2,350	2,420	2,800
Operation and Maintenance	290	428	358	595	1,160	1,450	1,750
Residual b/	3,316	5,240	5,179	8,294	7,752	13,978	15,298
Total Current Expenditure (Cash basis; exc. Contingency; (Inc. Interest)	6,466	9,379	16,452	27,336	32,215	42,510	45,800
(Percent of GDP)							
Wage and Salaries	4.2	2.6	4.2	6.5	8.0	6.5	6.3
Subsidies	-	-	na	0.2	0.1	0.1	0.1
Food Procurement	-	-	na	-	-	-	-
Interest due	3.0	3.0	2.9	2.7	2.5	1.9	1.6
Interest paid	0.7	0.8	0.9	1.3	0.6	1.3	1.0
Other:	10.5	8.8	9.1	12.0	10.1	11.2	10.3
of which:							
Operation and Maintenance	0.7	0.6	0.3	0.4	0.7	0.7	0.7
Total Current Expenditure (Cash basis; exc. Cont.; Inc. Interest)	15.4	12.2	14.9	20.0	18.9	19.1	17.7
Current Expenditures (exc. Inte	14.7	11.4	14.0	18.8	18.3	17.8	16.7
Memo Item: GDP c/ (Billions Dong)	41,955	76,707	110,535	136,571	170,258	222,840	258,609

Note: a/ Figures for 1992 are estimated using the 1993 appropriate shares.

b/ Including spending on security and national defense and others not elsewhere classified.

c/ GDP series have been revised by the General Statistical Office in May 1997.

Source: Ministry of Finance and General Statistical Office.

Table 5.5: GOVERNMENT BUDGET: CAPITAL EXPENDITURE

	Actual						Prel.
	1990	1991	1992	1993	1994	1995	1996
	(Billions of Dong)						
Industry and Construction	746	49	2,284	5,692	2,925	1,408	1,230
Agriculture and Forestry	113	70	345	266	580	830	1,100
Irrigation	244	244	456	623	1,240	1,516	1,580
Transportation & Communications	323	335	613	1,020	2,999	3,631	4,711
Commerce and Services	91	23	17	27	35	152	120
Non-Productive Sector a/	425	367	790	763	2,323	3,228	3,987
Contingency Fund b/	0	136	0	0	0	0	
Other	6	566	452	1,209	1,613	1,314	2,902
Unallocated	176	345	1,494	0	0	0	
Total Capital Expenditure	2,124	2,135	6,450	9,600	11,715	12,079	15,630
	(Percent in GDP)						
Industry and Construction	1.8	0.1	2.1	4.2	1.7	0.6	0.5
Agriculture and Forestry	0.3	0.1	0.3	0.2	0.3	0.4	0.4
Irrigation	0.6	0.3	0.4	0.5	0.7	0.7	0.6
Transportation & Communications	0.8	0.4	0.6	0.7	1.8	1.6	1.8
Commerce and Services	0.2	0.0	0.0	0.0	0.0	0.1	0.0
Non-Productive Sector a/	1.0	0.5	0.7	0.6	1.4	1.4	1.5
Contingency Fund b/	0.0	0.2	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.7	0.4	0.9	0.9	0.6	1.1
Unallocated	0.4	0.4	1.4	-	-	-	-
Total Capital Expenditure	5.1	2.8	5.8	7.0	6.9	5.4	6.0
Memo Item: GDP c/	41,955	76,707	110,535	136,571	170,258	222,840	258,609

Note:

a/ Includes education, health, culture, finance and government.

b/ Stockpiling of key commodities and materials.

c/ GDP series were revised by the GSO in May 1997.

Source: Ministry of Finance and General Statistical Office.

Table 6.1A: GROWTH RATE OF RETAIL PRICES, BY MONTH

Month/Year	1990	1991	1992	1993	1994	1995	1996	1997
January	2.9%	13.2%	4.4%	1.7%	1.8%	3.8%	0.9%	0.8%
February	3.8%	8.7%	5.5%	1.9%	3.7%	3.4%	2.5%	1.8%
March	1.9%	0.5%	0.5%	-0.5%	-0.4%	0.2%	0.8%	-0.5%
April	2.5%	2.2%	0.9%	-0.2%	0.3%	1.0%	0.1%	-0.6%
May	2.6%	3.0%	1.3%	1.5%	0.6%	1.8%	-0.5%	-0.5%
June	2.1%	1.7%	0.2%	-0.3%	0.9%	0.8%	-0.5%	0.1%
July	3.6%	2.5%	0.3%	-0.2%	0.2%	0.0%	-0.7%	0.2%
August	5.8%	3.4%	0.3%	0.5%	0.9%	0.3%	-0.4%	0.1%
September	4.7%	3.7%	0.0%	-0.1%	1.6%	0.5%	0.3%	0.6%
October	6.4%	2.8%	-0.2%	-0.3%	1.3%	0.1%	0.1%	
November	7.8%	5.6%	2.0%	0.5%	1.7%	0.1%	0.9%	
December	8.9%	6.1%	1.4%	0.6%	1.1%	0.3%	1.0%	

Table 6.1B: RETAIL PRICE INDEX, BY MONTH (Jan 1986=100)

Month/Year	1990	1991	1992	1993	1994	1995	1996	1997
January	15695.6	28925.0	44706.8	51203.4	53892.6	62941.2	68995.8	72061.6
February	16292.0	31441.4	47147.8	52176.3	55886.6	65062.3	70720.7	73358.7
March	16601.6	31598.6	47402.4	51915.4	55663.1	65179.4	71286.4	72991.9
April	17016.6	32293.8	47829.0	51811.6	55846.8	65831.2	71357.7	72553.9
May	17459.0	33262.6	48426.9	52588.8	56181.8	67003.0	71000.9	72191.2
June	17825.7	33828.1	48514.0	52431.0	56687.5	67532.3	70645.9	72263.4
July	18467.4	34673.8	48640.2	52326.1	56800.9	67532.3	70151.4	72407.9
August	19538.5	35852.7	48766.6	52587.8	57312.1	67728.2	69870.8	72480.3
September	20456.8	37179.3	48766.6	52535.2	58229.1	68060.1	70080.4	72915.2
October	21766.1	38220.3	48678.9	52377.6	58986.0	68121.3	70150.5	
November	23463.8	40360.6	49662.2	52639.5	59988.8	68182.6	70781.8	
December	25552.1	42822.6	50347.5	52955.3	60648.7	68380.3	71489.7	
Annual Index: (Jan 1986=100)	19177.9	35038.2	48240.7	52295.7	57177.0	66796.2	70544.3	
Annual Index: (1989=100)	136.4	249.2	343.1	372.0	406.7	475.1	501.7	
Annual Growth Rate	36.4%	82.7%	37.7%	8.4%	9.3%	16.8%	5.6%	
Dec/Dec Growth Rate	67.5%	67.6%	17.6%	5.2%	14.5%	12.7%	4.5%	

Source: Statistical Data of the SRV, 1986-1991, 1992, p. 89; 1993-97: GSO.

TABLE 6.2A: PRICE INDEX BY COMMODITY GROUPS
Index (January 1990 = 100)

Year	Month	Goods	Total Food	Agr Products	Proc Food	Manu- factures	Services
1994	Jan	205.2	199.9	148.7	236.4	207.6	240.8
	Feb	211.5	213.3	158.1	252.4	209.5	248.0
	Mar	210.3	212.0	157.2	251.2	208.6	248.5
	Apr	211.1	213.5	158.1	253.2	208.2	248.7
	May	212.6	215.9	159.8	256.1	208.6	249.7
	Jun	214.5	218.4	160.8	259.6	210.1	251.7
	Jul	215.0	218.4	158.2	261.7	211.1	252.0
	Aug	216.9	220.6	160.8	263.6	212.8	254.2
	Sep	220.6	225.7	167.5	267.0	214.9	257.0
	Oct	223.7	230.4	176.4	268.6	216.4	259.1
	Nov	227.7	237.8	191.4	269.9	217.3	261.1
	Dec	229.7	240.2	194.6	271.6	219.0	266.5
1995	Jan	239.2	252.2	206.9	283.2	221.7	266.1
	Feb	247.8	268.3	215.6	305.0	223.9	272.7
	Mar	248.5	269.9	214.7	308.4	224.1	271.3
	Apr	251.3	275.1	219.9	313.3	225.2	273.5
	May	256.0	283.0	226.5	322.4	228.2	276.5
	Jun	258.1	287.3	224.5	331.1	228.8	278.2
	Jul	257.6	285.0	217.7	332.1	229.8	280.4
	Aug	258.3	285.6	217.9	332.7	230.4	281.2
	Sep	259.6	287.8	224.9	331.7	231.1	283.8
	Oct	259.9	287.3	225.6	330.1	231.8	284.6
	Nov	260.1	287.6	228.1	329.1	231.8	285.5
	Dec	260.7	288.1	234.0	325.8	232.5	287.8
1996	Jan	262.5	290.7	240.1	326.1	233.7	293.2
	Feb	269.6	303.8	252.3	339.8	235.6	298.5
	Mar	272.0	309.0	255.1	347.0	235.3	299.7
	Apr	272.3	309.3	254.3	348.0	235.6	299.4
	May	270.6	305.6	247.7	346.3	235.8	299.4
	Jun	268.7	301.6	238.3	345.9	235.6	301.5
	Jul	266.6	296.7	225.5	345.9	235.8	303.1
	Aug	265.0	293.2	219.7	344.2	236.0	304.3
	Sep	265.5	292.9	219.4	343.8	237.4	305.5
	Oct	265.5	292.3	219.2	343.2	237.9	307.6
	Nov	268.2	296.9	227.8	344.5	238.6	309.2
	Dec	270.9	300.8	234.6	346.2	240.1	312.3
1997	Jan	272.5	302.0	237.4	346.2	242.2	318.2
	Feb	276.8	310.2	239.1	359.1	243.4	328.4
	Mar	275.2	306.4	236.2	354.4	243.9	327.4
	Apr	273.0	301.5	229.6	350.8	243.9	329.0
	May	271.1	297.0	221.8	348.7	244.4	330.3
	Jun	271.3	296.1	217.1	350.8	245.9	330.7
	Jul	271.6	295.8	217.6	350.1	246.9	331.7
	Aug	271.9	296.4	220.4	349.1	246.9	332.0
	Sep	273.5	299.4	223.7	351.5	247.4	334.0
	Oct						

Source: Statistical Data of the SRV, 1986-1991, 1992, p. 89; 1993-97: GSO.

**TABLE 6.2B: PRICE INDEX BY COMMODITY GROUPS:
Monthly Growth Rates**

Year	Month	Goods	Total Food	Agr Products	Proc Food	Manu- factures	Services
1994	Jan	1.7%	0.6%	6.1%	-0.1%	2.3%	1.8%
	Feb	3.1%	6.7%	6.3%	6.8%	0.9%	3.0%
	Mar	-0.6%	-0.6%	-0.6%	-0.5%	-0.4%	0.2%
	Apr	0.4%	0.7%	0.6%	0.8%	-0.2%	0.1%
	May	0.7%	1.1%	1.1%	1.1%	0.2%	0.4%
	Jun	0.9%	1.2%	0.6%	1.4%	0.7%	0.8%
	Jul	0.2%	0.0%	-1.6%	0.8%	0.5%	0.1%
	Aug	0.9%	1.0%	1.6%	0.7%	0.8%	0.9%
	Sep	1.7%	2.3%	4.2%	1.3%	1.0%	1.1%
	Oct	1.4%	2.1%	5.3%	0.6%	0.7%	0.8%
	Nov	1.8%	3.2%	8.5%	0.5%	0.4%	0.8%
	Dec	0.9%	1.0%	1.7%	0.6%	0.8%	2.1%
1995	Jan	4.1%	5.0%	6.3%	4.3%	1.2%	-0.2%
	Feb	3.6%	6.4%	4.2%	7.7%	1.0%	2.5%
	Mar	0.3%	0.6%	-0.4%	1.1%	0.1%	-0.5%
	Apr	1.1%	1.9%	2.4%	1.6%	0.5%	0.8%
	May	1.9%	2.9%	3.0%	2.9%	1.3%	1.1%
	Jun	0.8%	1.5%	-0.9%	2.7%	0.3%	0.6%
	Jul	-0.2%	-0.8%	-3.0%	0.3%	0.4%	0.8%
	Aug	0.3%	0.2%	0.1%	0.2%	0.3%	0.3%
	Sep	0.5%	0.8%	3.2%	-0.3%	0.3%	0.9%
	Oct	0.1%	-0.2%	0.3%	-0.5%	0.3%	0.3%
	Nov	0.1%	0.1%	1.1%	-0.3%	0.0%	0.3%
	Dec	0.2%	0.2%	2.6%	-1.0%	0.3%	0.8%
1996	Jan	0.7%	0.9%	2.6%	0.1%	0.5%	1.9%
	Feb	2.7%	4.5%	5.1%	4.2%	0.8%	1.8%
	Mar	0.9%	1.7%	1.1%	2.1%	-0.1%	0.4%
	Apr	0.1%	0.1%	-0.3%	0.3%	0.1%	-0.1%
	May	-0.6%	-1.2%	-2.6%	-0.5%	0.1%	0.0%
	Jun	-0.7%	-1.3%	-3.8%	-0.1%	-0.1%	0.7%
	Jul	-0.8%	-1.6%	-5.4%	0.0%	0.1%	0.5%
	Aug	-0.6%	-1.2%	-2.6%	-0.5%	0.1%	0.4%
	Sep	0.2%	-0.1%	-0.1%	-0.1%	0.6%	0.4%
	Oct	0.0%	-0.2%	-0.1%	-0.2%	0.2%	0.7%
	Nov	1.0%	1.6%	3.9%	0.4%	0.3%	0.5%
	Dec	1.0%	1.3%	3.0%	0.5%	0.6%	1.0%
1997	Jan	0.6%	0.4%	1.2%	0.0%	0.9%	1.9%
	Feb	1.6%	2.7%	0.7%	3.7%	0.5%	3.2%
	Mar	-0.6%	-1.2%	-1.2%	-1.3%	0.2%	-0.3%
	Apr	-0.8%	-1.6%	-2.8%	-1.0%	0.0%	0.5%
	May	-0.7%	-1.5%	-3.4%	-0.6%	0.2%	0.4%
	Jun	0.1%	-0.3%	-2.1%	0.6%	0.6%	0.1%
	Jul	0.1%	-0.1%	0.2%	-0.2%	0.4%	0.3%
	Aug	0.1%	0.2%	1.3%	-0.3%	0.0%	0.1%
	Sep	0.6%	1.0%	1.5%	0.7%	0.2%	0.6%
	Oct						

Source: Statistical Data of the SRV, 1986-1991, 1992, p. 89; 1993-97: GSO.

Table 7.1: AGRICULTURAL PRODUCTION

	1990	1991	1992	1993	1994	1995	Prel. 1996
(Billions of 1989 Dong)							
Gross Output	14,323	14,739	15,973	17,033	17,856	19,023	20,012
Crop Cultivation	11,099	11,512	12,331	13,186	13,801	14,786	15,555
Food Crops	7,396	7,542	8,281	8,747	8,999	9,431	9,997
Industrial Crops and Other Crops	3,703	3,970	4,050	4,439	4,902	5,355	5,558
Animal Husbandry	3,224	3,227	3,642	3,847	4,055	4,237	4,462
of which:							
Livestock	2,027	2,000	2,261	2,418	2,613	2,712	2,851
Poultry	615	618	691	707	713	736	774
(Thousands of metric tons)							
Foodgrains a/	21,488	21,989	24,214	25,502	26,199	27,571	29,218
Paddy	19,225	19,622	21,590	22,837	23,528	24,964	26,397
Other	2,263	2,367	2,624	2,665	2,670	2,607	2,821
Memorandum Items:							
Area Cultivated (000 ha) b/	7,111	7,448	7,707	7,797	7,809	7972	8,218
Foodgrain Output per Capita (kg)	324	325	349	359	361	372.5	387

Note: Revised data series.

a/ Paddy equivalent.

b/ Foodgrains.

Source: General Statistical Office.

Table 7.2: INDUSTRIAL CROP PRODUCTION AND YIELDS

	1990	1991	1992	1993	1994	1995	Prel. 1996
Production (000 metric tons)							
Cotton	3.1	8.3	12.8	5.2	8.7	12.8	11.2
Jute	23.8	25.3	25.7	23.4	12.8	14.8	15.0
Rush	63.6	54.4	77.2	69.5	69.1	75.1	55.0
Mulberry	100.2	103.5	142.8	191.3	169.3	163.6	..
Sugarcane	5,397.6	6,130.9	6,437.0	6,083.2	7,750.1	10,711.2	11,372.1
Peanuts	213.1	234.8	226.7	259.3	294.4	334.4	357.7
Soybeans	86.6	80.0	80.0	105.7	124.5	125.5	113.8
Tobacco	21.8	36.2	27.3	20.3	21.7	25.8	23.5
Tea	32.2	33.1	36.2	37.7	42.0	40.2	46.8
Coffee	92.0	100.0	119.0	136.0	180.0	218.0	253.0
Rubber	57.9	64.6	67.0	96.9	128.8	122.7	146.0
Coconut	894.4	1,052.5	1,139.8	1,184.0	1,100.0	1,022.0	1,130.8
Area Cultivated (000 ha)							
Cotton	8.3	16.1	19.2	11.5	13.2	17.5	15.1
Jute	11.7	10.5	11.6	14.4	6.6	7.4	8.0
Rush	11.4	9.4	11.0	9.9	10.9	10.4	9.1
Mulberry	12.3	13.9	20.2	26.7	24.1	21.3	..
Sugarcane	130.6	143.7	146.5	143.2	166.6	224.8	237.0
Peanuts	201.4	210.9	217.3	217.2	248.2	260.0	262.7
Soybeans	110.0	101.1	97.3	120.1	132.0	121.1	110.4
Tobacco	26.5	37.7	31.4	23.5	24.5	27.7	23.9
Tea	60.0	60.0	62.9	65.6	67.3	66.7	74.7
Coffee	119.3	115.0	103.7	101.3	123.0	186.4	254.0
Rubber	221.7	220.6	212.4	242.5	258.4	278.4	303.0
Coconut	212.3	214.2	204.1	207.6	182.5	172.9	179.5
Average Yield (Metric ton/Ha; derived from above)							
Cotton	0.4	0.5	0.7	0.5	0.7	0.7	0.7
Jute	20.3	2.4	2.2	1.6	1.9	2.0	1.9
Rush	5.5	5.8	7.0	7.0	6.3	7.2	6.0
Mulberry	8.1	7.4	7.1	7.2	7.0	7.7	..
Sugarcane	41.3	42.7	43.9	42.5	46.5	47.6	48.8
Peanuts	1.1	1.1	1.0	1.2	1.2	1.3	1.4
Soybeans	0.8	0.8	0.8	0.9	0.9	1.0	1.0
Tobacco	0.8	1.0	0.9	0.9	0.9	0.9	1.0
Tea	..	0.6	0.6	0.6	0.6	0.6	0.6
Coffee	0.8	0.9	1.1	1.3	1.5	1.2	1.0
Rubber	0.3	0.3	0.3	0.4	0.5	0.4	0.5
Coconut	4.2	4.9	5.6	5.7	6.0	5.9	6.3

Source: General Statistical Office, Statistical Data of the Socialist Republic of Vietnam, 1996, and GSO, May 1997.

Table 8.1: INDUSTRIAL PRODUCTION AND NUMBER OF STATE ENTERPRISES

Item	1990	1991	1992	1993	1994	1995	Prel. 1996
(1989 Billion Dong)							
Gross Industrial Production	14,011	15,471	18,117	20,410	23,170	26,584	30,332
	-3.3%	10.4%	17.1%	12.7%	13.5%	14.7%	14.1%
By Sector							
Heavy Industry	4,932	5,857	7,180	8,141	9,578	10,911	12,510
Light Industry	9,079	9,614	10,937	12,269	13,592	15,673	17,822
By Type of Management	14,011	15,471	18,117	20,410	23,170	26,584	30,332
Central	6,438	7,435	9,155	10,602	12,090	13,824	..
Local	7,573	8,036	8,962	9,808	11,080	12,760	..
By Industrial Branches	14,012	15,471	18,117	20,410	23,170	26,584	30,332
Energy Combustible	2,597	3,242	4,124	4,625	5,277	5,950	6,800
Metallurgy	219	319	406	488	461	583	740
Machinery	1,195	1,182	1,295	1,436	1,852	2,086	2,330
Chemical Industry	921	1,114	1,355	1,592	1,988	2,292	2,640
Other Manufacturing a/	2,031	2,231	2,577	2,760	3,437	4,590	5,200
Food and Foodstuffs	5,040	5,378	6,100	6,982	7,090	8,006	9,540
Weaving, Leather, Sewing, and Dyeing	1,555	1,552	1,764	1,856	2,393	2,360	2,611
Printing and Cultural Products	97	108	128	152	242	323	361
Other Industries	356	344	368	409	320	284	..
Number of State Industrial Enterprises	..	2,599	2,268	2,056	1,996	1,958	..
By Sector							
Heavy Industry	..	1,192	990
Light Industry	..	1,407	1,278
By Type of Management	..	2,599	2,268	2,056	1,996	1,958	..
Central	..	546	537	519	527	549	..
Local	..	2,053	1,731	1,537	1,469	1,409	..

Note: a/ Including construction material, earthenware, porcelain, glassware, wood, forest products, cellulose part, and paper industries.

Source: General Statistical Service, Statistical Data of the Socialist Republic of Vietnam, 1976-90, 1991.

General Statistical Service, Statistical Data of the Socialist Republic of Vietnam, 1986-91, 1992, and May 1997.

Table 8.2: MAJOR INDUSTRIAL PRODUCTS

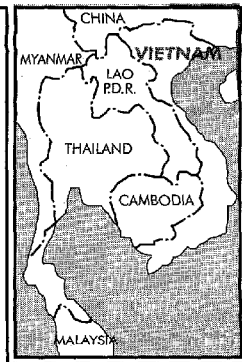
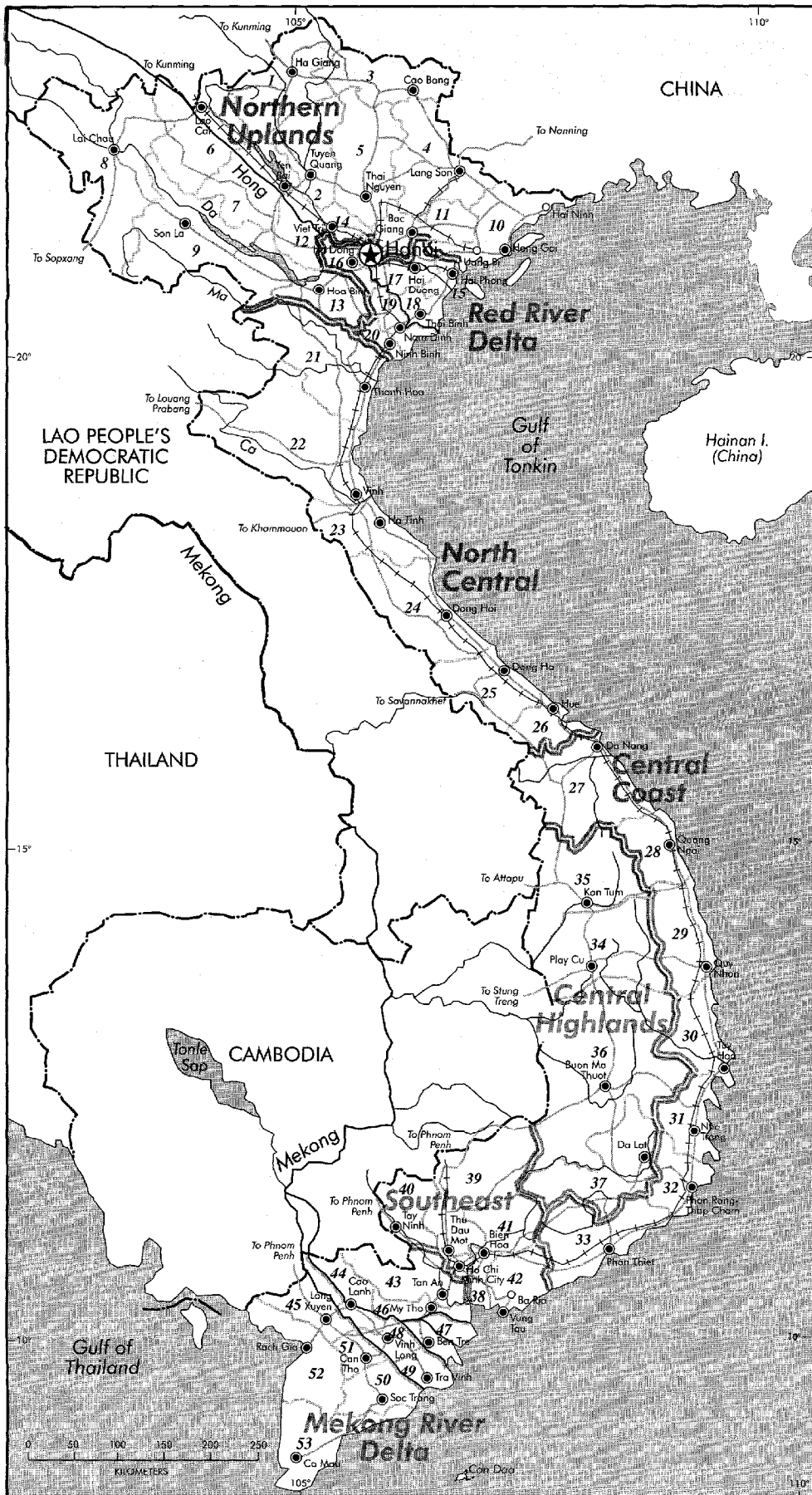
Product	Unit	1990	1991	1992	1993	1994	1995	Prel. 1996
Energy								
Electricity	Mil. Kwh.	8,790.0	9,307.0	9,818.0	10,851.0	12,473.3	14,665.0	16,996.0
- State		8,787.0	9,303.0	9,813.0	10,851.0	12,473.0	14,665.0	16,972.0
- Non-State		3.0	4.0	5.0	-	-	-	-
Coal	Mil. Tons	4.6	5.0	5.0	5.9	5.7	8.4	8.8
- State		4.5	5.0	5.0	5.9	5.7	8.4	8.8
- Non-State		0.1	0.0	0.0	0.0	-	-	-
Crude Oil	Mil. Tons	2.7	4.0	5.5	6.3	7.1	7.6	8.8
- State		2.7	4.0	5.5	6.3	7.1	7.6	8.8
- Non-State		-	-	-	-	-	-	-
Raw Material								
Steel	000 Tons	101.5	142.0	202.0	252.0	288.0	470.0	510.0
- State		101.0	142.0	202.0	252.0	288.0	445.0	-
- Non-State		0.5	-	-	-	-	25.0	-
Chromium	000 Tons	4.6	6.0	3.6	3.5	6.3	24.5	-
- State		4.6	6.0	3.6	3.5	6.3	20.5	-
- Non-State		-	-	-	-	-	4.0	-
Tin (sticks)	Tons	1,602.0	1,686.0	4,544.0	3,600.0	2,800.0	1,862.0	2,262.0
- State		1,602.0	1,686.0	4,544.0	3,600.0	2,800.0	1,862.0	2,262.0
- Non-State		-	-	-	-	-	-	-
Manufacturing Goods								
Metalworking Machine Tools	Pieces	894	1,235	864	1,517	1,538	1,358	1,408
- State		894	1,235	827	1,517	1,538	1,358	1,408
- Non-State		-	-	-	-	-	-	-
Diesel Motor	Pieces	4,470	5,296	3,264	2,849	3,371	4,217	8,300
- State		4,470	5,296	3,264	2,849	3,371	4,217	8,300
- Non-State		-	-	-	-	-	-	-
Electric Rotating Engines	Pieces	10,596	9,550	13,923	21,363	28,789	29,390	36,800
- State		8,413	9,010	13,443	21,000	28,109	28,181	-
- Non-State		2,183	540	480	363	680	1,209	-
Transformers	Pieces	2,612	1,964	1,310	3,750	5,881	6,186	6,400
Water Pumps	Pieces	430	412	330	360	632	547	-
- State		430	412	330	360	632	547	-
- Non-State		-	-	-	-	-	-	-
Rice Mill Equipment	Pieces	1,013	657	706	820	2,067	2,043	-
- State		666	415	424	500	191	105	-
- Non-State		347	242	282	320	1,876	1,938	-
Ploughs and Harrows	000 Pieces	172	190	188	180	187	134	-
Chemical Fertilizers	000 Tons	354.0	450.0	530.0	661.0	841.0	931	960
- State		354.0	450.0	530.0	661.0	841.0	931	-
- Non-State		-	-	-	-	-	-	-
Insecticides	000 Tons	9.2	10.0	11.0	14.4	14.0	16	14
Bicycle Tires	000 Pieces	9,238.0	8,606.0	8,458.0	8,144.0	9,821.0	6,703	8,380
- State		8,318.0	7,470.0	6,959.0	7,144.0	7,470.0	8,295	-
- Non-State		920.0	1,136.0	1,499.0	1,000.0	2,351.0	1,408	-
Bicycle Tubes	000 Pieces	8,349.0	8,533.0	9,177.0	9,100.0	10,800.0	11,917	-
- State		8,349.0	8,533.0	9,177.0	9,100.0	10,740.0	11,781	-
- Non-State		-	-	-	-	60.0	136.0	-
Cement	000 Tons	2,534.0	3,127.0	3,926.0	4,413.0	6,371.0	5,828.0	6,200.0
- State		2,534.0	3,127.0	3,926.0	4,413.0	5,371.0	5,828.0	-
- Non-State		-	-	-	-	-	-	-

Table 8.2: MAJOR INDUSTRIAL PRODUCTS (Continued)

Product	Unit	1990	1991	1992	1993	1994	1995	1996
Bricks	Mil. Pieces	3,476	3,769	4,274	4,370	5413	6892	7107
- State		809	808	740	1,000	604	1244	-
- Non-State		2,667	2,961	3,534	3,370	4,809	5648	-
Consumer Goods								
Glass and Glass Products	000 Tons	39	32	37	47	38	77	-
- State		27	19	26	30	21	65	-
- Non-State		12	13	11	17	16	12	-
Porcelain	Mil. Pieces	140	163	130	168	152	187	212
- State		20	17	15	18	19	18	-
- Non-State		120	146	115	150	173	169	-
Sawn Wood	000 m3	896	1,182	1,246	844	1,573	1606	-
- State		446	483	514	384	526	514	-
- Non-State		450	699	732	460	1,047	1092	-
Matches	Mil. Packets	94	151	184	145	145	143	-
Paper and Paper Products	000 Tons	79	108	118	128	154	216	-
- State		71	97	109	116	130	181	-
- Non-State		8	11	9	12	24	35	-
Salt	000 Tons	593	583	594	488	470	689	-
- State		77	108	131	88	93	174	-
- Non-State		516	475	463	400	377	515	-
Sea Fish	000 Tons	616	666	685	737	-	-	-
- State		47	38	42	37	-	-	-
- Non-State		569	628	643	700	-	-	-
Sugar	000 Tons	323	372	365	341	364	517	588
- State		59	68	98	91	99	117	-
- Non-State		264	304	267	250	265	400	-
Beer	Mil. Liters	100	131	169	217	366	465	512
- State		99	129	166	215	356	450	-
- Non-State		1	3	3	2	10	15	-
Cigarettes	Mil. Packets	1,249	1,298	1,541	1,604	1948	2147	2124
- State		1,243	1,295	1,536	1,600	1,645	2117	-
- Non-State		6	3	5	4	3	30	-
Tea	000 Tons	24	23	22	28	31	24	-
- State		20	18	19	20	23	13	-
- Non-State		4	5	3	8	10	11	-
Fish Sauce	Mil. Liters	131	151	148	131	141	149	-
- State		62	64	61	31	48	56	-
- Non-State		70	87	87	100	93	93	-
Textile Fibers	000 Tons	58	40	44	40	50	59	53
- State		58	40	44	40	50	59	53
- Non-State		-	-	-	-	-	-	-
Cotton Fabrics	Mil. Meters	318	280	272	225	251	263	282
- State		256	205	180	188	161	191	-
- Non-State		62	75	92	37	-	-	-
Cotton Fabrics for Mosquito Nets	Mil. Meters	67	36	86	-	-	-	-
Soap	000 Tons	55	68	72	79	97	129	170
- State		51	66	70	75	90	116	-
- Non-State		3	2	2	4	7	13	-

Source: General Statistical Office, Statistical Data of the Socialist Republic of Vietnam, 1993, Hanoi: Statistical Publishing House, 1994; GSO, Industrial Data, 1989-1993, Hanoi: Statistical Publishing House, 1994, GSO, May 1997.

MAP SECTION



VIETNAM

- Selected Towns
- Province Capitals
- ★ National Capital
- Rivers
- Roads
- Railroads
- Province Boundaries
- Planning Region Boundaries
- International Boundaries

Northern Uplands

- 1 Ha Giang
- 2 Tuyen Quang
- 3 Cao Bang
- 4 Lang Son
- 5 Bac Thai
- 6 Lao Cai
- 7 Yen Bai
- 8 Lai Chau
- 9 Son La
- 10 Quang Ninh
- 11 Ha Bac
- 12 Vinh Phu
- 13 Hoa Binh

Central Coast

- 27 Quang Nam
- 28 Quang Ngai
- 29 Binh Dinh
- 30 Phu Yen
- 31 Khanh Hoa
- 32 Ninh Thuan
- 33 Binh Thuan

Central Highlands

- 34 Gia Lai
- 35 Kon Tum
- 36 Dak Lac
- 37 Lam Dong

Red River Delta

- 14 Ha Noi
- 15 Hai Phong
- 16 Ha Tay
- 17 Hai Hung
- 18 Thai Binh
- 19 Nam Ha
- 20 Ninh Binh

Southeast

- 38 T.P. Ho Chi Minh
- 39 Song Be
- 40 Tay Ninh
- 41 Dong Nai
- 42 Ba Ria-Vung Tau

North Central

- 21 Thanh Hoa
- 22 Nghe An
- 23 Ha Tinh
- 24 Quang Binh
- 25 Quang Tri
- 26 Thua Thien Hue

Mekong River Delta

- 43 Long An
- 44 Dong Thap
- 45 An Giang
- 46 Tien Giang
- 47 Ben Tre
- 48 Vinh Long
- 49 Tra Vinh
- 50 Soc Trang
- 51 Can Tho
- 52 Kien Giang
- 53 Minh Hai

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