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May 18, 1984

To: Members of the Executive Board

From: The Secretary

Subject: Socialist Republic of Viet Nam - Staff Report for the 1984
Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1984 Article IV consultation with Viet Nam. A draft decision appears on page 19.

This subject will be brought to the agenda for discussion on a date to be announced.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Evers, ext. (5)7611.

Att: (1)

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INTERNATIONAL MONETARY FUND

SOCIALIST REPUBLIC OF VIET NAM

Staff Report for the 1984 Article IV Consultation

Prepared by the Staff Representatives for the
1984 Article IV Consultation with Viet Nam

Approved by Tun Thin and Donald K. Palmer

May 17, 1984

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I. Introduction

The 1984 Article IV consultation discussions with Viet Nam were held in Hanoi during February 22-March 5, 1984 and in Ho Chi Minh City during March 5-8, 1984. The staff team had discussions with Mr. Nguyen Duy Gia, Governor of the State Bank of Viet Nam; Mr. Nguyen Van Ich, Executive Member of the State Committee for Economic Relations with Foreign Countries; and Mr. Nyo Thiet Thac, Vice Minister of Finance. The staff team consisted of Messrs. Evers (Head of mission), Golle (both ASD), de Schaetzen (ETR), Mrs. Schulze-Ghattas (FAD), and Mrs. Owen (LEG, secretary).

Viet Nam continues to avail itself of the transitional arrangements of Article XIV and maintains restrictions authorized under those provisions.

Since the beginning of 1983, Viet Nam has frequently been late in discharging its financial obligations to the Fund. Delays in payments during this period have ranged from a few days to eight weeks, and the Executive Board has been informed on several occasions of the more protracted delays. As of May 10, 1984, Viet Nam has overdue payments to the Fund totaling SDR 10,205,093, including obligations of SDR 4,079.367 outstanding since February 1984 and reported in EBS/84/74 on April 2, 1984.

II. Background and Recent Economic Developments

Viet Nam's main economic activity is agriculture, which provides the principal livelihood for about 70 percent of the population and accounts for about 45 percent of GDP. The economy is marked by regional disparities. Rice, the main staple, is grown predominantly in the Mekong and Red River deltas, areas that are about 1,300 kilometers apart. The industrial base consists of a number of heavy industries in the north and light industries in the region of Ho Chi Minh City. Together they contribute about 30 percent to GDP. Poor transportation facilities have been an important obstacle to the smooth functioning of the economy and to the economic integration of the North and South. The economy is organized along socialist lines, and priorities in production, investment, imports, and consumption are determined within the framework of an annual plan. However, due to lack of qualified staff and comprehensive and up-to-date information on performance, the plan is more a statement of intentions than a guideline for economic management. About 80 percent of the economy in the South is still private.

Since 1979/80, the authorities have softened their drive for transformation of the economy toward full socialism. The emphasis on heavy industries and on central control of economic decisions has been reduced and the price mechanism has been accorded a greater role in the allocation of resources. Specific measures taken since 1979/80 include

the introduction of a two-way contractual system of agricultural procurement. Under this system, farmers and other producers are permitted to sell production in excess of their contractual obligation on the free market. In addition, where the Government has failed to provide the necessary inputs under a two-way contract, it will procure products at negotiated prices that take into account the higher production cost. A pay-according-to-work performance system of wage determination was introduced for workers in public enterprises and cooperatives, but the system is not yet applied universally. Another important development has been the greater emphasis on decision making at the local level; output from enterprises under local management rose from 54 percent of total industrial output in 1978 to 68 percent in 1983. However, the greater autonomy introduced in 1981 for regional import and export companies has been reversed; since early 1983, the export of 25 commodities is reserved exclusively for state enterprises, and all imports must again conform with the priorities set out in the annual plan.

Although agricultural output was affected by bad weather, gross domestic product is estimated to have risen by about 6 percent in 1983, compared with 8 percent in 1982 (Table 1). Industrial output rose by 15 percent, largely in response to wider application of incentive policies in light industries under local management. The growth of heavy industries, which have remained largely under central management, was much less pronounced, and production in a number of key industries such as coal and steel remained stagnant. Despite the bad weather, foodgrain production reached 17 million tons of paddy equivalent (16.6 million tons in 1982) and there were important gains in a number of cash crops, such as jute, sugar, and groundnuts. The rise in foodgrain production more or less matched the rise in population, but per capita consumption declined because of a sharp decline in imports.

A welcome development in 1983 was the improvement in the government budgetary position. Largely because of expenditure restraint, the overall deficit fell from D 19.5 billion in 1982 to D 17.4 billion in 1983, or from 19 to 11 percent of GDP (Table 2). Despite a number of new taxes introduced on the private sector in April 1983, the revenue effort remained at about the same level as in 1982, as the high marginal rates of some of these taxes led to a reduction in business activity. The rise in tax receipts stemmed almost exclusively from increases in prices. Similarly, the effect on the surpluses of public enterprises of the coming into operation of new production facilities and of a reduction in inventories was more than cancelled out by the reduction in profitability caused by the fact that official sales prices have continued to lag behind cost. Current expenditures fell from 31 to 24 percent of GDP, largely because of a deceleration of outlays for education, health and social benefits, and of "other expenditures," which includes defense and commodity aid to Laos and Kampuchea. Government civil servants, who had not received a salary increase in 1982, were granted a midday meal allowance of D 50 per month in April 1983, and raises of 30 percent in September 1983 and 10 percent in

Table 1. Viet Nam: Selected Economic Indicators

	1980	1981	1982	1983 Est.	1984 Proj.
	(Percentage changes) 1/				
Real GDP	-3.7	5.1	8.2	5.9	7.0
Gross industrial production	-9.6	15.1	13.9	14.9	7.6
Heavy industry	0.2	23.0	3.7	2.0	4.4
Light industry	-15.2	9.8	21.5	23.3	9.4
Central management	-15.8	4.7	5.9	12.1	8.2
Local management	-5.2	21.7	18.2	16.3	7.4
Gross agricultural production	5.8	3.6	7.9	2.8	10.3
Foodgrain production	4.8	4.8	10.1	2.4	6.0
Fertilizer per hectare	6.2	25.2	31.8	17.1	27.0
Average of foodgrain yield (ton/ha)	2.06	2.16	2.38	2.52	2.55
Foodgrain imports ('000 tons)	885	487	400	60	--
Per capita foodgrain consumption)	138	134	143	138	143
Domestic credit	10.2	91.6	68.6	34.3	24.0 2/
Total liquidity	15.2	97.6	84.0	36.9	23.0 2/
Cash in circulation	16.3	64.1	106.0	43.2	43.0 2/
Consumer prices 3/	25.0	90.0	80.0	55.0	40.0 2/
Wholesale prices 3/	33.0	165.0	74.0	38.0	...
Agricultural products 3/	113.0	214.0	46.0	67.0	...
Industrial products 3/	5.0	125.0	104.0	32.0	...
GDP deflator 3/	14.5	54.3	80.4	47.5	22.0 2/
Exports (in dollars)	-8.5	-13.0	26.6	10.3	14.0
Imports (in dollars)	-19.0	7.9	2.2	8.4	6.1
	(In percent of GDP)				
Investment	11.9	11.6	15.8	14.1	14.5
Central management	9.0	8.5	13.1	11.4	...
Local management	2.9	3.1	2.7	2.7	...
Budget					
Overall budget deficit	9.5	9.3	18.6	10.7	9.7
Bank-financed deficit	0.7	-1.3	2.3	1.0	1.7
Public savings	0.1	-0.1	-5.8	1.3	2.8
Balance of payments					
Current account deficit	4.8	10.7	7.1	5.7	4.9
Exports	3.3	5.0	5.3	4.0	3.9
Gross foreign loans and grants	6.0	13.7	8.3	6.5	6.7
Convertible area	2.1	2.1	0.8	0.7	1.7
Nonconvertible area	3.9	11.6	7.6	5.8	5.0
Overall balance of payments deficit (-)	-0.1	-2.6	-1.7	-1.1	0.3

Sources: Statistical Data of the Socialist Republic of Viet Nam, 1981; data provided by the Vietnamese authorities; and staff estimates.

1/ Unless otherwise indicated.

2/ Staff projection.

3/ Staff estimates.

Table 2. Viet Nam: Government Budget

	1980	1981	1982	1983	1984 ^{1/}
(In billions of dong)					
Revenue	8.3	13.8	27.0	41.3	54.0
Transfers from state enterprises	6.4	10.3	17.5	26.0	32.5
Taxes on the private sector	1.4	3.0	6.9	10.8	14.0
Agricultural tax	0.5	0.5	2.6	4.5	4.5
Other revenue	--	--	--	--	3.0
Expenditures	11.5	18.8	46.5	58.7	74.5
Current expenditures	8.3	13.9	33.0	39.2	48.0
Wages and salaries	(1.7)	(3.0)	(3.1)	(5.2)	(6.2)
Consumption subsidies	(0.9)	(3.0)	(6.5)	(7.2)	(9.2)
Education, health, and social benefits	(...)	(2.7)	(7.8)	(8.8)	(11.0)
Debt service ^{2/}	(0.6)	(1.0)	(1.2)	(1.0)	(1.0)
Other expenditures	(5.1)	(4.2)	(14.4)	(17.0)	(20.6)
Capital expenditures	3.2	4.9	13.5	19.5	26.5
Overall deficit (-)	-3.2	-5.0	-19.5	-17.4	-20.5
Foreign loans and grants	3.0	5.7	17.1	15.8	13.9
State Bank (net)	0.2	-0.7	2.4	1.6	3.6
Bonds	--	--	--	--	3.0
Memorandum items: ^{3/}					
Change in arrears (decrease -)	--	0.4	2.5	1.8	-0.7
(In percent of GDP)					
Revenue	25.0	25.7	25.7	25.4	25.7
Transfers from enterprises	(19.3)	(19.2)	(16.6)	(16.0)	(15.4)
Taxes on the private sector	(4.2)	(5.6)	(6.6)	(6.6)	(6.7)
Agricultural tax	(1.5)	(0.9)	(2.5)	(2.8)	(2.1)
Current expenditures	25.0	25.9	31.5	24.1	22.8
Wages and salaries	(5.1)	(5.6)	(3.0)	(3.2)	(3.0)
Consumption subsidies	(2.7)	(5.6)	(6.2)	(4.4)	(4.4)
Health, education and social benefits	(...)	(5.0)	(7.4)	(5.3)	(5.4)
Other expenditures	(15.4)	(7.8)	(13.7)	(10.5)	(9.8)
Capital expenditures	9.7	9.1	12.8	12.0	12.6
Overall deficit	9.5	9.3	18.6	10.7	9.7
Foreign loans and grants	(8.8)	(10.6)	(16.3)	(9.7)	(6.6)
Bank financing	(0.7)	(-1.3)	(2.3)	(1.0)	(1.7)
Bond financing	(--)	(--)	(--)	(--)	(1.4)

Sources: Data provided by the Vietnamese authorities; and staff estimates.

^{1/} Budget estimates.

^{2/} Includes amortization on principal.

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I. Introduction

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Heavy industry	0.2	23.0	3.7	2.0	4.4
Light industry	-15.2	9.8	21.5	23.3	9.4
Central management	-15.8	4.7	5.9	12.1	8.2
Local management	-5.2	21.7	18.2	16.3	7.4
Gross agricultural production	5.8	3.6	7.9	2.8	10.3
Foodgrain production	4.8	4.8	10.1	2.4	6.0
Fertilizer per hectare	6.2	25.2	31.8	17.1	27.0
Average of foodgrain yield (ton/ha)	2.06	2.16	2.38	2.52	2.55
Foodgrain imports ('000 tons)	885	487	400	60	--
Per capita foodgrain consumption)	138	134	143	138	143
Domestic credit	10.2	91.6	68.6	34.3	24.0 ^{2/}
Total liquidity	15.2	97.6	84.0	36.9	23.0 ^{2/}
Cash in circulation	16.3	64.1	106.0	43.2	43.0 ^{2/}
Consumer prices ^{3/}	25.0	90.0	80.0	55.0	40.0 ^{2/}
Wholesale prices ^{3/}	33.0	165.0	74.0	38.0	...
Agricultural products ^{3/}	113.0	214.0	46.0	67.0	...
Industrial products ^{3/}	5.0	125.0	104.0	32.0	...
GDP deflator ^{3/}	14.5	54.3	80.4	47.5	22.0 ^{2/}
Exports (in dollars)	-8.5	-13.0	26.6	10.3	14.0
Imports (in dollars)	-19.0	7.9	2.2	8.4	6.1
	(In percent of GDP)				
Investment	11.9	11.6	15.8	14.1	14.5
Central management	9.0	8.5	13.1	11.4	...
Local management	2.9	3.1	2.7	2.7	...
Budget					
Overall budget deficit	9.5	9.3	18.6	10.7	9.7
Bank-financed deficit	0.7	-1.3	2.3	1.0	1.7
Public savings	0.1	-0.1	-5.8	1.3	2.8
Balance of payments					
Current account deficit	4.8	10.7	7.1	5.7	4.9
Exports	3.3	5.0	5.3	4.0	3.9
Gross foreign loans and grants	6.0	13.7	8.3	6.5	6.7
Convertible area	2.1	2.1	0.8	0.7	1.7
Nonconvertible area	3.9	11.6	7.6	5.8	5.0
Overall balance of payments deficit (-)	-0.1	-2.6	-1.7	-1.1	0.3

Sources: Statistical Data of the Socialist Republic of Viet Nam, 1981; data provided by the Vietnamese authorities; and staff estimates.

^{1/} Unless otherwise indicated.

^{2/} Staff projection.

^{3/} Staff estimates.

Table 2. Viet Nam: Government Budget

	1980	1981	1982	1983	1984 ^{1/}
(In billions of dong)					
Revenue	8.3	13.8	27.0	41.3	54.0
Transfers from state enterprises	6.4	10.3	17.5	26.0	32.5
Taxes on the private sector	1.4	3.0	6.9	10.8	14.0
Agricultural tax	0.5	0.5	2.6	4.5	4.5
Other revenue	--	--	--	--	3.0
Expenditures	11.5	18.8	46.5	58.7	74.5
Current expenditures	8.3	13.9	33.0	39.2	48.0
Wages and salaries	(1.7)	(3.0)	(3.1)	(5.2)	(6.2)
Consumption subsidies	(0.9)	(3.0)	(6.5)	(7.2)	(9.2)
Education, health, and social benefits	(...)	(2.7)	(7.8)	(8.8)	(11.0)
Debt service ^{2/}	(0.6)	(1.0)	(1.2)	(1.0)	(1.0)
Other expenditures	(5.1)	(4.2)	(14.4)	(17.0)	(20.6)
Capital expenditures	3.2	4.9	13.5	19.5	26.5
Overall deficit (-)	-3.2	-5.0	-19.5	-17.4	-20.5
Foreign loans and grants	3.0	5.7	17.1	15.8	13.9
State Bank (net)	0.2	-0.7	2.4	1.6	3.6
Bonds	--	--	--	--	3.0
Memorandum items: ^{3/}					
Change in arrears (decrease -)	--	0.4	2.5	1.8	-0.7
(In percent of GDP)					
Revenue	25.0	25.7	25.7	25.4	25.7
Transfers from enterprises	(19.3)	(19.2)	(16.6)	(16.0)	(15.4)
Taxes on the private sector	(4.2)	(5.6)	(6.6)	(6.6)	(6.7)
Agricultural tax	(1.5)	(0.9)	(2.5)	(2.8)	(2.1)
Current expenditures	25.0	25.9	31.5	24.1	22.8
Wages and salaries	(5.1)	(5.6)	(3.0)	(3.2)	(3.0)
Consumption subsidies	(2.7)	(5.6)	(6.2)	(4.4)	(4.4)
Health, education and social benefits	(...)	(5.0)	(7.4)	(5.3)	(5.4)
Other expenditures	(15.4)	(7.8)	(13.7)	(10.5)	(9.8)
Capital expenditures	9.7	9.1	12.8	12.0	12.6
Overall deficit	9.5	9.3	18.6	10.7	9.7
Foreign loans and grants	(8.8)	(10.6)	(16.3)	(9.7)	(6.6)
Bank financing	(0.7)	(-1.3)	(2.3)	(1.0)	(1.7)
Bond financing	(--)	(--)	(--)	(--)	(1.4)

Sources: Data provided by the Vietnamese authorities; and staff estimates.

^{1/} Budget estimates.

^{2/} Includes amortization on principal.

^{3/} Staff estimates.

December 1983. The increases compensated civil servants not only for the rise in their cost of living in 1983, but also for part of the loss in purchasing power they experienced in 1982.

Government borrowing from the State Bank fell from D 2.4 billion in 1982 to D 1.6 billion in 1983, or from 17 to 6 percent of liquidity outstanding at the beginning of the period (Table 3). The growth in total liquidity decelerated from 84 percent in 1982 to 37 percent in 1983, which was an important factor in the reduction of inflation. The staff estimates that consumer prices rose by about 55 percent in 1983, compared with 80 percent in 1982.

The progress in production and public finance did not translate itself into an improvement in the external accounts. After an expansion of 27 percent in 1982, the growth of exports slowed to 10 percent in 1983, far below the plan target or the rate of export growth consistent with a viable balance of payments over the medium term (Table 4). Exports of coal fell for the second year in a row, mainly because of failure to find alternative markets to the declining demand from Japan and exports of shrimps declined following the reintroduction of central control over foreign trade companies. The rate of growth of imports accelerated from 2 percent in 1982 to 8 percent in 1983, largely because of a rise in purchases of fuel and raw materials. The deficit on the current account of the balance of payments widened from \$794 million in 1982 to \$926 million in 1983, but, largely because of an increase in aid disbursements from the nonconvertible area, the overall balance of payments deficit fell from \$186 million to \$175 million.

In view of the low level of reserves, the entire deficit was financed by a further accumulation of arrears on foreign debt service payments to the convertible areas. Of the total amount of scheduled debt service payments to the convertible area of \$255 million, Viet Nam paid \$51 million due on short-term trade credits, \$2 million on a medium-term loan, and \$25 million in interest on outstanding principal. Including accumulated interest on the outstanding amount, total arrears with the convertible area at the end of 1983 amounted to \$428 million. ^{1/} There are no payment arrears with the nonconvertible area, as deficits under bilateral payments agreements, through which all debt service payments are channeled, are more or less automatically converted into 30-year loans with a grace period of 10 years and an interest rate of 2 percent. Viet Nam has continued to have access to short-term trade credits; in 1983, about \$60 million of imports from the convertible area were financed by an inflow of these credits.

^{1/} Official creditors: principal, \$159 million; interest, \$31 million; imputed interest on arrears, \$12 million. Private creditors: principal, \$174 million; interest, \$27 million; imputed interest on arrears, \$18 million. Short-term trade credits: \$7 million. The arrears on short-term trade credits had been eliminated by March 1984.

Table 3. Viet Nam: Factors Affecting Total Liquidity

	1981	1982	1983	1984 ^{1/}
<u>(Changes during the year; in billions of dong)</u>				
Net foreign assets	-3.7	0.1	-0.8	-2.5
Domestic credit	10.7	15.4	13.0	5.2
Government (net)	-0.7	2.4	1.6	3.6
Public enterprises and cooperatives	11.4	13.0	12.4	1.6
Investment credit	(1.3)	(3.0)	(3.5)	(5.0)
Credit for working capital	(10.1)	(10.0)	(8.9)	(-3.4)
Total liquidity	7.2	12.2	9.9	1.9
Currency in circulation	2.0	5.3	4.5	3.8
Demand deposits	4.9	6.0	3.4	-2.9
Savings deposits	0.3	0.9	2.0	1.0
Other items (net)	-0.1	-3.3	-2.3	-0.8
<u>(As percentage of total liquidity at the end of the previous year)</u>				
Domestic credit	146	106	49	15
Government (net)	-9	17	6	10
Public enterprises and cooperatives	155	89	42	5
Investment credit	(17)	(21)	(9)	(14)
Credit for working capital	(138)	(68)	(33)	(-9)
Total liquidity	98	84	37	5
Cash in circulation	27	37	17	10
Demand deposits	67	41	13	-8
Savings deposits	4	6	7	3

Source: Based on data provided by the Vietnamese authorities.

^{1/} Projection of the Vietnamese authorities.

Table 4. Viet Nam: Balance of Payments

(In millions of U.S. dollars)

	1980	1981	1982	1983	1984 <u>1/</u>
Trade balance	-759	-931	-838	-898	-902
Convertible area	-173	-151	-105	-82	-70
Nonconvertible area <u>2/</u>	-586	-780	-733	-816	-832
Exports, f.o.b.	537	467	591	652	743
Convertible area	121	119	160	178	210
Nonconvertible area <u>2/</u>	416	348	431	474	533
Imports, c.i.f.	-1,296	-1,398	-1,429	-1,550	-1,645
Convertible area	-294	-270	-265	-260	-280
Nonconvertible area <u>2/</u>	-1,002	-1,128	-1,164	-1,290	-1,365
Services and transfers <u>3/</u>	-29	-65	44	-28	-52
Current account	-788	-996	-794	-926	-954
Convertible area	-202	-216	-61	-110	-122
Nonconvertible area	-586	-780	-733	-816	-832
Capital movements (net)	786	895	575	750	1,026
Convertible area	173	-10	-158	-67	194
Nonconvertible area	613	905	733	817	832
SDR allocation	12	12	--	--	--
Errors and omissions	5	-152	33	1	--
Overall balance <u>3/</u>	15	-241	-186	-175	72
Change in reserves (increase -)	-15	203	-27	-2	--
Change in arrears <u>4/</u>	--	38	213	177	-72
Memorandum items: <u>5/</u>					
Exports to convertible area	110	105	151	164	...
Imports from convertible area	612	467	360	351	...

Source: Based on data provided by the Vietnamese authorities; and Direction of Trade.

1/ Projection.

2/ Includes services and transfers.

3/ Convertible area only.

4/ Interest and amortization on debt.

5/ Based on transactions reported by trade partners.

Gross convertible foreign exchange reserves have remained unchanged at \$16 million, a level the authorities consider an absolute minimum. ^{1/} Viet Nam holds 735,191 ounces of gold, of which 321,051 ounces are pledged as collateral for a loan of \$102 million. Including gold, which is valued at \$42 per ounce, gross reserves were equivalent to less than two weeks of imports. The exchange rate in the unofficial market is now about D 160 per dollar, compared with D 110 per dollar a year ago. On February 29, 1984, the official exchange rate was D 10.11 per dollar.

On the occasion of the 1983 consultation with Viet Nam, Executive Directors observed that a substantial reduction in the budget deficit was urgently needed to control inflation, and that a more realistic level of the dong, along with greater flexibility in domestic prices and removal of administrative bottlenecks in foreign trade, was essential for the expansion of the export- and import-competing sectors.

III. Report on the Discussions

Despite the recent progress in industry and agriculture, the Vietnamese economy continues to show considerable weaknesses. Largely because of a decline in the production of secondary food crops (potatoes, corn, etc.), the country has remained vulnerable to food shortages, and lack of attention to the cultivation of industrial crops (coffee, tea, rubber) has hampered export growth. Although a major part of investment has been directed toward centrally managed enterprises, the performance of these enterprises has been disappointing and has contributed to shortages of both investment and consumer goods. In addition, labor productivity and the quality of output has remained low in most sectors of the economy.

With regard to production, the authorities attribute most problems to errors and shortcomings in management and planning, and they will therefore continue policies that will emphasize decentralization of decision making, and reliance on the free market where inputs cannot be provided through the administrative supply system. However, they consider that the rapid growth in private retail trade, i.e., from 20 percent of total distribution in 1980 to an estimated 50 percent in 1983, and the uncontrolled nature of transactions in some companies under local management have led to diversion of resources from priority areas and a continued rise of prices in the free market. Thus, the decision to return the control over the export of 25 commodities to centrally managed companies was taken after it appeared that local export companies were excessively bidding up prices in the local market. The introduction of tax measures on the private sector, which consist mainly of retail trade and handicraft establishments, was in part aimed at increasing control over the commercial activities of private enterprises. During the remaining period of the current national plan (1981-85), the authorities will aim at improving the distribution

^{1/} Foreign exchange reserves exclude \$163 million held abroad in accounts that have been blocked since May 1975.

During the remaining period of the current national plan (1981-85), the authorities will aim at improving the distribution of goods by enlarging the role of the state and the cooperatives in the commercial sector, particularly in urban areas. They also intend to gradually eliminate the free market in food, and other agricultural, forestry and maritime products. The staff team observed that reliance on the free market in recent years had materially contributed to the growth in production and exports, precisely because prices had been permitted to guide the allocation of resources where planning and management had been inadequate. Particularly in the absence of reasonable prospects to improve the quality of management and the flow of information, more control in distribution would tend to exacerbate, rather than reduce, the misallocation of resources and the pressure on prices.

The discussions on production and investment policies, domestic resource mobilization, export promotion policies, and external debt policies were hampered by incomplete and inadequate statistical data.

1. Production policies

The authorities expect real GDP to grow by about 7 percent in 1984. Despite a delay in planting caused by three successive spells of cold weather at the beginning of the year, gross agricultural output is projected to rise by over 10 percent, a rate of increase well above the average attained during 1980-83. Most of the output growth is to come from the development of jute, soybeans, groundnuts, and sugar on new land in the Mekong Delta. The total area under cultivation of these crops is to rise by about 50 percent in 1984 and by another 50 percent in 1985. Agricultural output is to benefit also from the coming into production of new rubber, coffee, and tea plantations. Following the somewhat disappointing performance of 1983, foodgrain production is expected to increase by 6 percent in 1984.

As most newly developed land will be used for the cultivation of cash crops, food production will increasingly depend on yield increasing techniques, such as the use of high yielding varieties, irrigation, and fertilizer. Because of a rise in domestic production and higher imports, the use of fertilizer is expected to increase by 27 percent in 1984. The authorities also intend to promote double cropping, particularly in the Mekong delta where only 5 percent of the land is double cropped, compared with 55 percent in the Red River Delta. However, both double cropping and the use of high-yielding varieties might be constrained by lack of irrigation. Between 1978 and 1981, investment in the agricultural sector declined by 18 percent, and in irrigation facilities, by 35 percent.

The effects of last year's droughts and floods, which led to a loss in foodgrain production of 400,000 tons or 2.5 percent, have again brought to the fore Vietnam's vulnerability to adverse weather conditions. The authorities have therefore decided to forego possibilities of exporting rice and, instead, will start building a

buffer stock so that self-sufficiency in food may be assured in lean years. As 20-25 percent of foodgrain production is lost in transportation or storage, such a policy will have to be accompanied by adequate remedial action in these areas. Though still a major policy objective, the collectivization of agriculture in the Mekong Delta will continue to be gradual and on a voluntary basis, so as not to disrupt production.

In industry, the authorities will continue to emphasize decentralization in economic decision making and greater autonomy in the management of individual plants. With the possible exception of production facilities in the food processing sector, investment will focus on increasing the utilization of existing plant capacity, and on projects that are near completion. Industrial output in 1984 is expected to benefit from the completion of two cement plants, two textile mills, a sugar plant, and a fertilizer factory. Except for one textile mill and the fertilizer factory, these facilities had originally been scheduled to start operations in 1983. Improvements in the supply of electricity will continue to receive high priority and, in order to alleviate current shortages, the authorities will divert more electricity from residential to industrial use. ^{1/} Coal production is unlikely to rise substantially before the 1990s, when the construction of several new mines will be completed. Existing production is adversely affected by outdated equipment; a relatively large share of output consists of dust coal. Offshore oil exploration was recently resumed with aid from the Soviet Union.

2. Domestic resource mobilization and financial policies

With domestic revenue projected to rise by 31 percent and current expenditure by 23 percent in 1984, the public savings rate may increase from 1.3 percent in 1983 to 2.9 percent this year. However, because of the relatively large rise in capital expenditure, the overall deficit is expected to remain at around 10 percent of GDP and, because aid receipts are projected to decline, a larger part (D 6.6 billion) of the total deficit will have to be financed from domestic sources. Since the beginning of 1984, the authorities have issued bonds, which carry an interest of 2 percent and whose nominal value will be adjusted *pari passu* with the rise in official prices. During the two-month period after their introduction, the Government sold about D 800 million of these bonds; the target for 1984 is D 3 billion. However, even if this target is met, government borrowing from the banking system would amount to the equivalent of 1.7 percent of GDP, compared with 1.0 percent in 1983.

^{1/} Power plants under construction with aid from the Soviet Union include a 1,500-2,000 MW hydroelectric facility at Hoa Binh on the Black River, a 500 MW thermal power plant at Pha Lai, and a 300 MW hydroelectric facility at Tri An in the south. The authorities are also considering a 3,000-4,000 MW hydroelectric plant on the Black river north of Hoa Binh.

About D 3 billion of the growth in revenue in 1984 will come from a reorganization of the national lottery and from sundry revenues such as the sale of property obtained through confiscation. However, despite these additional receipts, the total revenue effort will remain at about 25-26 percent of GDP, as both transfers from public enterprises and the yield of the agricultural tax are projected to lag behind the growth of nominal GDP. Current expenditures are projected to fall from 24 to 23 percent of GDP, largely because of restraint in "other expenditures". The 20 percent increase in outlays for salaries reflects the effect of increases granted in 1983; no raises are anticipated for 1984.

Despite recent progress in containing current expenditure, the government budget continues to be affected by a number of structural weaknesses: (1) because public enterprises are allowed to retain only 8-10 percent of their profits, they rely mainly on the banking system to finance investment and additional working capital; (2) transfers of public enterprises to the budget have included funds that became available from a reduction in inventories (D 1.5 billion in 1983); (3) even with the Government claiming a disproportionate share of their cash flow, the transfers from public enterprises have fallen in real terms since 1980, suggesting an erosion in profitability because of rigid pricing policies or falling productivity; (4) the Government has not fully met the service obligations on foreign indebtedness, which has understated expenditures; and (5) further rises in foodgrain production will be contingent on higher investments in the agricultural sector, particularly for irrigation.

The absorption by the Government of large parts of the cash flow of public enterprises has reduced the Government's need for borrowing from the banking system while increasing it for public enterprises. The reduction in bank borrowing by the public sector as a whole will therefore depend on raising additional revenue and on further expenditure constraint. The authorities have been considering for some time the introduction of import duties and measures to raise the yield of the agricultural tax from about 5 to 10 percent of agricultural incomes. ^{1/} Other measures that would improve the financial position of the public sector include more flexible pricing policies, so as to capture scarcity premiums in the domestic market, and a reduction in consumption subsidies for workers in public enterprises that have come to benefit from work performance bonuses. The adoption of lower marginal rates for some of the taxes that were introduced for the private sector in 1983 may lead to higher tax yields, and extension of these taxes to public sector enterprises would encourage these enterprises to make profits after payment of taxes. In addition to greater financial discipline, the latter measure would lead to a more equitable sharing of the tax burden between the public and private sector. Serious consideration should also be given to further reduction in expenditures, particularly "other expenditures," which amount to

^{1/} Import duties are now levied only on goods received through the mail.

about 10 percent of GDP. The authorities agreed to the need for more revenue and additional expenditure restraint, but did not indicate that policy action in these areas was likely during the course of 1984.

The expansion in total liquidity in recent years has in part been caused by adherence to the credit plan, even when the performance of the economy fell short of the targets, and a preference of public enterprises to finance transactions with new credit rather than with the use of deposits. The authorities intend to slow the growth of total liquidity in 1984 by encouraging enterprises to use their deposits (Table 3). To this end, they have adopted stricter criteria for the granting of credit for the purpose of financing working capital. However, the growth of both credit to the government and investment credit to public enterprises is expected to accelerate, which will pose limits on the extent to which the authorities will be able to reduce the growth of credit for working capital. In addition, a reduction in deposits may, among other things, lead to similar injections of cash into the economy as would the additional use of credit; with increases in cash in circulation the main cause for higher retail prices, inflationary pressures would therefore not necessarily be reduced. The staff team observed that further abatement of inflation would be contingent not only on a reduction of the financial deficit of the public sector as a whole, but also on monetary policies designed to limit in particular the growth of cash in circulation. The establishment of financial relations between the government and public enterprises that would permit the latter to retain a larger share of their profits and other cash resources would have to be an essential element of such policies.

Time and savings deposits have risen rapidly in recent years, in part because of transfers from low-yielding demand deposits; interest rates on demand deposits range from 1.8 to 4.3 percent and those on time and savings deposits from 12 to 24 percent. In addition, lending rates are relatively low, ranging from 3.6 to 4.3 percent for investment credit and from 5.0 to 6.8 percent for general purpose loans. The staff team indicated that the structure of interest rates favored the use of credit instead of deposits and that, for the government's policy of limiting the growth of monetary aggregates to be successful, it was essential that lending rates be brought more in line with maximum deposit rates. Higher lending rates and the payment of interest by state enterprises on loans they receive from the Government would promote more efficient use of scarce capital resources.

3. External policies and prospects

The balance of payments projection for 1984 envisages a current account deficit of \$954 million, an increase of \$28 million over 1983. The widening of the deficit is mainly the result of a fall in grants from the convertible area. Exports will benefit from continued expansion in light industries, from higher output of cash crops, and from a recovery of exports of shrimps to their 1982 level. The

but exports of other agricultural and forestry products are expected to rise by \$20 million, or 16 percent. ^{1/} Imports are projected to rise by 6 percent mainly on account of a further increase in purchases of petroleum and fertilizer from the Soviet Union. Imports of consumer goods, which fell from 22 percent of the total in 1979 to 10 percent in 1983, are expected to decline further to about 8 percent in 1984. Although Viet Nam has become self-sufficient in sugar (production doubled between 1978 and 1983), it will import about 80,000 tons of sugar from Cuba in 1984 in order to improve the chances for exports under a bilateral trade and payments agreements with that country. As in the past, the current account deficit with the nonconvertible area is expected to be financed with aid inflows and Viet Nam's access to credit under bilateral payments agreements.

The authorities have been negotiating with both official and private creditors for the rescheduling of debt service payments. A tentative agreement has been reached for the refinancing of \$170 million in arrears to private Japanese banks. Under the agreement, outstanding arrears on principal will be paid over a four-year period beginning in 1988 and outstanding arrears on interest over a six-year period beginning in 1986. The authorities are also negotiating the rescheduling of \$36 million of arrears owed to Libya; the rescheduling of \$2.5 million of arrears owed to India; the postponement of \$220 million, plus interest, falling due in 1984-87 to Algeria; and \$4.6 million of debt service payments falling due in 1984 to India. If these negotiations are successful, debt relief would amount to \$291 million in 1984. The overall balance of payments would show a surplus of \$72 million, which would be reflected in a reduction of outstanding arrears from \$428 to \$356 million. The successful completion of the negotiations would result in debt relief of \$62 million in 1985, \$58 million in 1986, and \$47 million in 1987.

Aid and credits under bilateral payments agreements will probably continue to finance deficits on the current account with the nonconvertible area, but the medium term outlook for the balance of payments with the convertible area remains a matter of serious concern, despite recent and prospective agreements on the consolidation of debt. Due to lack of information on the course of future policies, on the distribution of future trade between the convertible and the nonconvertible area, and on Viet Nam's access to foreign aid or further refinancing of debt, it is not possible to make medium term projections of the balance of payments with reasonable accuracy. However, the staff team discussed with the authorities a number of scenarios for the balance of payments with the convertible area until the year 1990 (Table 5). Under both Scenario A (export growth of 15 percent and import growth of 5 percent per year) and Scenario B (exports 20 percent and imports 10 percent per year), the balance of payments would be more

^{1/} At current world market prices, the projected increase in the production of jute, soybeans, groundnuts, tea, coffee, and rubber in 1984 would amount to about \$60 million.

Table 5. Balance of Payment Scenarios with the Convertible Area

(In million of U.S. dollars)

	1984 Est.	1985	1986	1987	1988	1989	1990
		Projections					
<u>Scenario A 1/</u>							
Current account	-122	-84	-62	-62	-40	-12	25
Trade balance	-70	-52	-31	-5	27	65	111
Exports	210	242	278	319	307	422	486
Imports	-280	-244	-309	-324	-340	-357	-375
Services and transfers	-52	-32	-31	-57	-67	-77	-86
Scheduled interest 2/	-52	-38	-25	-27	-20	-18	-15
Interest on rescheduled amounts	-18	-18	-18	-21	-15	-12	-9
Imputed interest on arrears	-40	-36	-53	-72	-94	-112	-126
Other services and transfers	58	60	65	63	62	65	64
Capital account	194	-86	-137	-150	-145	-121	-44
Receipt of loans	60	38	38	32	25	28	30
Scheduled repayments 2/	-157	-186	-155	-126	-84	-72	-42
Amortization of debt relief	--	--	-78	-103	-88	-77	-32
Debt relief 3/	291	62	58	47	2	--	--
Overall balance	72	-170	-199	-212	-185	-133	-19
Arrears outstanding	356	526	725	937	1,122	1,255	1,274
<u>Scenario B 4/</u>							
Current account	-122	-88	-68	-69	-43	-8	44
Trade balance	-70	-56	-37	-10	25	71	131
Imputed interest on arrears	-40	-36	-53	-74	-95	-114	-127
Overall balance	72	-174	-205	-219	-188	-129	---
Arrears outstanding	356	530	735	954	1,142	1,271	1,271
<u>Scenario C 5/</u>							
Current account	-122	-73	-37	-15	37	104	194
Trade balance	-70	-41	-7	39	95	165	252
Imputed interest on arrears	-40	-36	-52	-69	-85	-96	-98
Overall balance	72	-159	-174	-165	-108	-17	149
Arrears outstanding	356	515	689	854	962	979	830

Sources: Data provided by the Vietnamese authorities; and staff estimates.

1/ Exports are projected to grow by 15 percent and imports by 5 percent per year.

2/ Before debt relief.

3/ Estimated effect of refinancing and rescheduling of external debt obligations, including outstanding arrears, to Japan, Algeria, Lybia, and India.

4/ Exports are projected to grow by 20 percent and imports by 10 percent per year.

5/ Exports are projected to grow by 20 percent and imports by 5 percent per year.

or less in balance by 1990, but arrears on foreign debt obligations would have accumulated to about \$1.3 billion. Under Scenario C (exports growing by 20 percent and imports by 5 percent per year), the balance of payments would be more or less in balance by 1989 and the amount of arrears would have increased to about \$1.0 billion. The staff team indicated that all three scenarios pointed to the need for early and comprehensive adjustment measures on all policy fronts.

The rapid rise in domestic prices has now more than offset the effects of the 70 percent devaluation of 1981. Financial losses on exports, which are estimated at 30-50 percent, are financed mainly by profits on imports or on the sale of domestically produced goods. The need to make profits to finance losses on exports has introduced a bias toward the import of consumer goods at the expense of equipment and spare parts, which together with cumbersome procedures to obtain authorization for imports under the plan, has contributed to shortages of inputs, among others, in such key export industries as fishing. The staff team reiterated its position of previous years that exchange rate action was essential, not only to eliminate the export losses but also to facilitate the channeling of additional resources to the export sector. To be effective, exchange rate action needs to be accompanied by greater flexibility in the determination of import and export prices and greater autonomy of exporting and importing entities. The authorities indicated that their efforts to bring about external adjustment would concentrate mainly on raising investment for the production of cash crops such as coffee, rubber, and soybeans, and for the further development of the fishing industry.

Since 1977, a foreign investment code has been in effect, but very few investments have been made so far, in part because of some ambiguous provisions in the code, but mainly because of cumbersome administrative procedures that have often discouraged potential investors, or prevented a satisfactory conclusion of the negotiations. The staff team indicated that a more forthcoming attitude toward obtaining foreign capital and technical, managerial, and marketing skills may alleviate existing bottlenecks, particularly in such key export industries as coal mining and fishing.

During 1983, total foreign indebtedness rose from \$5.3 billion to \$6.0 billion, mainly because of disbursements from the nonconvertible area (Appendix I). Of the total debt, \$4.5 billion was owed to the nonconvertible area and \$1.5 billion to the convertible area. Despite the debt relief Viet Nam may obtain from some of its most important creditors in the convertible area (Algeria, Libya, and Japan), the debt servicing burden will remain high in the years to come. Debt service payments to the convertible area will rise from \$186 million in 1984 to about \$300 million per year during the period 1987-89 (Appendix II). The debt service ratio will remain between 80 and 100 percent until 1987, after which it will decline to 30-50 percent in 1990 depending on the rate of growth in exports. The authorities indicated that, without further consolidation of external debt it would be difficult to avoid

the further building up of payment arrears. They would, therefore, continue their efforts to seek bilateral and multilateral rescheduling of foreign debt obligations. The staff team observed that a viable balance of payments would crucially depend on the timely implementation of adjustment measures more comprehensive than the authorities have so far been willing to consider. In view of the heavy debt service burden, adjustment would need to be supplemented by a restructuring of foreign debt.

Viet Nam maintains several multiple currency practices and exchange restrictions requiring approval under Article VIII. A premium of D 20 per ruble is applied to salary remittances from Vietnamese workers in the nonconvertible area. Effective September 1, 1983, the premium of 30-40 percent applied to inward remittances from the convertible area was terminated and, instead, a preferential exchange rate of D 60 per dollar was introduced for these transactions. Viet Nam maintains bilateral payments arrangements with the following Fund members: Bangladesh, Laos, Mali, China, Romania, and Syria. With the exception of the arrangements with Laos and Romania, these arrangements have been inoperative for some time.

4. Quality of statistics

The scope, quality, and timeliness of Viet Nam's economic and financial statistics remain weak. Among other things, official foreign trade statistics substantially underestimate imports from the convertible area, balance of payments and foreign debt data with regard to the nonconvertible area are incomplete, and there are deficiencies in the recording and classification of both budgetary and in monetary data. In addition, data on price developments and on the magnitude and composition of Net Material Product are compiled by the authorities but are not shared with the staff. The authorities are considering a revision of their monetary data on the basis of technical assistance that was provided by the Bureau of Statistics during the summer of 1983. The staff team urged the authorities to provide statistics to the Fund on a more frequent and consistent basis, inter alia, with a view to having its country page published in IFS.

IV. Staff Appraisal

The Vietnamese economy experienced another year of satisfactory growth in 1983, as production in light industries and in agriculture continued to respond to incentives policies and an easing of supply constraints. Growth in heavy industries continued to be affected by deficiencies in planning and management. Despite unfavorable weather, foodgrain output reached a new record, but per capita consumption declined due to sharply lower imports. Expenditure restraint led to a reduction of the government deficit and a deceleration in monetary

expansion contributed to a decline of inflation. However, the balance of payments registered another large deficit and there was a further accumulation of arrears on debt service payments.

The outlook for the balance of payments is not sustainable and, in the absence of comprehensive adjustment measures, the foreign exchange constraint is an important impediment to the further development of the economy. The staff believes that, given the urgent need to raise foreign exchange earnings from the convertible area, export promotion measures should receive a much higher priority than they have been accorded so far. A substantial adjustment of the exchange rate accompanied by flexible pricing policies in the export and import-competing sectors is essential for achieving a viable balance of payments and should no longer be delayed. In view of the heavy debt service burden, the staff encourages the authorities to continue to seek external debt rescheduling. However, as debt restructuring will only postpone the burden on the balance of payments, these efforts should not divert attention from the urgent need to redress the external constraint with comprehensive adjustment measures.

Shortage of qualified staff and lack of adequate information on the performance of the economy have continued to hamper the design and execution of the plan, particularly in domestic and foreign trade. A greater role of the Government in retail trade, which is now being considered, may lead to further strains on administrative capacity, without necessarily reducing inflationary pressures through better allocation of resources. Given the poor prospects for improving the management of the economy through training and establishment of a comprehensive information system, greater reliance on decentralized management and on financial autonomy of public entities would improve the performance of the economy in general and the export sector in particular.

Lack of equipment, technical know-how, and marketing skills have continued to hamper export growth. Greater willingness to rely on foreign sources of these inputs may alleviate some of these constraints. The staff believes that the export sector in particular would benefit from liberalization of the foreign investment code and from adoption of less cumbersome approval procedures for joint ventures with foreign interests. The adoption of financial incentives aimed at improving the quality of output would benefit both exports and the domestic economy. These incentives would be consistent with the greater financial autonomy of enterprises and the already existing system of work performance bonuses for manual workers.

The achievement of a viable balance of payments will be contingent on an improvement of public finances and a reduction in the growth of monetary aggregates. As the government budget remains affected by a number of structural weaknesses that may prevent the achievement of lower rates of inflation, it is essential that domestic resource mobilization and additional expenditure restraint receive high

priority. Efforts to raise revenue, such as the introduction of import duties and measures to raise the yield of the agricultural tax, should no longer be delayed. Other measures that would improve the financial position of the public sector include more flexible pricing policies and a reduction in subsidies for selected groups of consumers. The extension to the public sector of taxes introduced for the private sector in 1983 would encourage greater financial discipline in public enterprises. The adoption of lower marginal rates for some of these taxes may lead to higher tax yields.

The staff welcomes the more stringent criteria for the granting of credit to public enterprises, but believes that these should be accompanied by closer coordination of monetary and fiscal policies, and the adoption of a policy stance more conducive to reducing inflationary pressures. A rise in lending rates would help stem the growth in monetary aggregates and would promote a more efficient use of scarce capital resources.

Economic management is constrained by the lack of adequate and timely statistics and there are limitations on the availability of statistics that do exist. The staff encourages the authorities to increase the provision of statistical information and to seek technical assistance in areas where the compilation of data needs to be improved.

Viet Nam continues to maintain multiple currency practices and restrictions subject to Article VIII. The staff urges the authorities to undertake further measures to strengthen the balance of payments and thereby permit early elimination of these restrictive practices. The staff does not recommend approval of either the restrictions on the making of payments and transfers for current international transactions or the multiple currency practices maintained by Viet Nam.

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

V. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. The Fund takes this decision relating to the Socialist Republic of Viet Nam's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1984 Article XIV consultation with the Socialist Republic of Viet Nam, in light of the 1984 consultation with Viet Nam conducted under Decision No. 5392-(77/63) adopted April 29, 1977 (Surveillance Over Exchange Rate Practices).

2. Viet Nam maintains restrictions on payments and transfers for current international transactions, including external arrears and multiple currency practices, as described in SM/84/114 and SM/84/. The Fund urges Viet Nam to take comprehensive measures to improve its balance of payments and to abolish the restrictions and multiple currency practices as soon as possible. The Fund also urges Viet Nam to terminate bilateral payments arrangements with Fund members.

Viet Nam: External Debt
(In millions of U.S. dollars)

	Amounts Contracted Commitments as of end-1983	Outstanding disbursed as of end-1982 ^{1/}	Operations during 1983			Outstanding disbursed as of end-1983 ^{2/}	Total accumulated arrears as of end-1983 ^{3/}
			Drawings	Amorti- zation	Valuation Adjustment		
Convertible currencies ^{4/}	<u>1,882.2</u>	<u>1,441.3</u>	<u>113.2</u>	<u>-52.4</u>	<u>-72.8</u>	<u>1,429.2</u>	<u>398</u>
International organizations	<u>228.7</u>	<u>166.4</u>	<u>6.5</u>	<u>-1.4</u>	<u>-5.5</u>	<u>166.0</u>	<u>0.2</u>
AsDB	<u>38.6</u>	<u>17.3</u>	<u>0.7</u>	<u>--</u>	<u>-0.6</u>	<u>17.4</u>	<u>0.2</u>
OPEC	<u>17.0</u>	<u>13.4</u>	<u>2.6</u>	<u>--</u>	<u>--</u>	<u>16.0</u>	<u>--</u>
IBRD/IDA	<u>80.0</u>	<u>36.1</u>	<u>3.2</u>	<u>--</u>	<u>0.2</u>	<u>39.5</u>	<u>--</u>
IMF trust fund	<u>63.4</u>	<u>66.8</u>	<u>--</u>	<u>--</u>	<u>-3.4</u>	<u>63.4</u>	<u>--</u>
IMF Fund credit	<u>29.7</u>	<u>32.8</u>	<u>--</u>	<u>-1.4</u>	<u>-1.7</u>	<u>29.7</u>	<u>--</u>
Official creditors (medium- and long-term)	<u>1,244.8</u>	<u>935.3</u>	<u>39.6</u>	<u>--</u>	<u>-31.5</u>	<u>943.3</u>	<u>190.0</u>
Algeria	<u>235.7</u>	<u>220.3</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>220.3</u>	<u>--</u>
Belgium	<u>19.4</u>	<u>5.3</u>	<u>--</u>	<u>--</u>	<u>-0.8</u>	<u>4.5</u>	<u>--</u>
Denmark	<u>33.4</u>	<u>30.5</u>	<u>2.4</u>	<u>--</u>	<u>-4.6</u>	<u>28.2</u>	<u>--</u>
France	<u>193.0</u>	<u>133.7</u>	<u>22.8</u>	<u>--</u>	<u>-26.0</u>	<u>130.5</u>	<u>38.4</u>
India	<u>33.4</u>	<u>13.7</u>	<u>11.7</u>	<u>--</u>	<u>-1.1</u>	<u>24.2</u>	<u>2.6</u>
Iraq	<u>415.0</u>	<u>335.0</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>335.0</u>	<u>85.2</u>
Italy	<u>57.0</u>	<u>25.8</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>25.8</u>	<u>6.7</u>
Japan	<u>137.8</u>	<u>126.3</u> ^{5/}	<u>--</u>	<u>--</u>	<u>-1.5</u>	<u>127.8</u>	<u>20.6</u>
Kuwait	<u>10.0</u>	<u>7.0</u>	<u>2.7</u>	<u>--</u>	<u>-0.1</u>	<u>9.6</u>	<u>--</u>
Libya	<u>102.0</u>	<u>35.8</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>35.8</u>	<u>36.5</u>
Netherlands	<u>8.1</u>	<u>1.9</u>	<u>--</u>	<u>--</u>	<u>-0.3</u>	<u>1.6</u>	<u>--</u>
Private creditors (medium- and long-term)	<u>408.7</u>	<u>326.2</u>	<u>7.5</u>	<u>--</u>	<u>-35.8</u>	<u>297.9</u>	<u>197.0</u>
Austria	<u>31.0</u>	<u>24.7</u>	<u>--</u>	<u>--</u>	<u>-3.4</u>	<u>21.3</u>	<u>--</u>
Belgium	<u>22.9</u>	<u>10.4</u>	<u>1.6</u>	<u>--</u>	<u>-1.5</u>	<u>10.5</u>	<u>--</u>
Denmark	<u>...</u>	<u>6.2</u>	<u>--</u>	<u>--</u>	<u>-0.9</u>	<u>5.3</u>	<u>3.2</u>
Hong Kong	<u>5.9</u>	<u>2.9</u>	<u>--</u>	<u>--</u>	<u>-0.5</u>	<u>2.4</u>	<u>--</u>
India	<u>42.9</u>	<u>40.1</u>	<u>5.9</u>	<u>--</u>	<u>-3.3</u>	<u>42.7</u>	<u>6.2</u>
Italy	<u>29.5</u>	<u>1.7</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>1.7</u>	<u>--</u>
Japan	<u>169.2</u>	<u>174.6</u>	<u>--</u>	<u>--</u>	<u>-18.7</u>	<u>155.9</u>	<u>171.5</u>
Netherlands	<u>14.2</u>	<u>11.5</u>	<u>--</u>	<u>--</u>	<u>-1.6</u>	<u>9.8</u>	<u>0.1</u>
Norway	<u>5.8</u>	<u>6.3</u>	<u>--</u>	<u>--</u>	<u>-0.6</u>	<u>5.7</u>	<u>0.8</u>
Singapore	<u>...</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Sweden	<u>21.9</u>	<u>7.4</u>	<u>--</u>	<u>--</u>	<u>-0.9</u>	<u>6.4</u>	<u>7.2</u>
Switzerland	<u>28.7</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
United Kingdom	<u>30.5</u>	<u>32.9</u>	<u>--</u>	<u>--</u>	<u>-3.4</u>	<u>29.5</u>	<u>7.8</u>
West Germany	<u>6.2</u>	<u>7.4</u>	<u>--</u>	<u>--</u>	<u>-0.9</u>	<u>6.4</u>	<u>0.2</u>
Short-term credits	<u>...</u>	<u>13.4</u>	<u>59.6</u>	<u>-51.0</u>	<u>--</u>	<u>22.0</u>	<u>10.8</u>
Nonconvertible currencies	<u>...</u>	<u>3,827.0</u>	<u>948.1</u>	<u>-131.7</u>	<u>-149.2</u>	<u>4,494.2</u>	<u>--</u>
Total	<u>6,376.4</u>	<u>5,268.3</u>	<u>1,061.3</u>	<u>-84.1</u>	<u>-222.0</u>	<u>5,923.4</u>	<u>398</u>

Source: Data provided by the Vietnamese authorities adjusted for exchange rate fluctuations.

^{1/} Excluding interest arrears of \$40 million.

^{2/} Excluding interest arrears of \$62 million and interest on arrears estimated at \$30 million.

^{3/} Including interest arrears of \$62 million, but excluding interest on arrears estimated at \$30 million.

^{4/} Excluding loans received from the United States prior to May 1975.

^{5/} Of which about US\$100 million of debt contracted by South Viet Nam before 1975.

Viet Nam: Projections of Debt Service to the Convertible Area by Creditors

	1984	1985	1986	1987	1988	1989	1990
(In millions of U.S. dollars)							
International organizations	22.0	25.2	16.3	17.0	16.0	11.0	10.5
Interest	3.1	2.2	1.1	1.8	0.8	0.8	0.3
Principal	18.9	23.0	15.2	15.2	15.2	10.2	10.2
Official creditors (Paris Club)	10.1	10.4	11.5	8.7	12.6	13.3	13.1
Interest	3.8	3.8	3.3	3.1	2.8	2.7	2.7
Principal	6.3	6.6	8.2	5.6	9.8	10.6	10.4
Official creditors (Others)	45.3	61.7	130.9	147.1	96.1	85.1	13.8
Interest	25.3	2.8	4.6	2.8	1.6	1.2	0.6
Rescheduled interest	-21.2	-3.1	-2.0	-0.9	--	--	--
Interest on rescheduled amounts	--	--	--	3.0	--	--	--
Principal	100.9	120.4	106.3	85.4	38.6	36.6	11.1
Rescheduled principal	-59.7	-58.4	-56.0	-46.4	-2.1	--	--
Principal due to the rescheduling	--	--	78.0	103.2	58.0	47.3	2.1
Private creditors	62.5	76.2	51.0	47.7	69.6	59.2	50.6
Interest	14.0	21.8	7.5	10.2	4.3	2.9	1.8
Interest on rescheduled arrears	18.0	18.0	18.0	18.0	15.0	12.0	9.0
Principal	30.5	36.4	25.5	19.5	20.3	14.3	9.8
Rescheduled arrears	--	--	--	--	30.0	30.0	30.0
Interest on arrears	40.0	36.0	53.0	72.0	94.0	112.0	126.0
Interest on short-term debt	6.0	7.0	8.0	9.0	10.0	10.0	10.0
Total debt service payments	185.9	216.5	270.7	301.5	298.3	290.6	224.0
Interest	89.0	88.5	93.5	110.0	128.5	141.6	150.4
Principal	96.9	128.0	177.2	182.5	169.8	149.0	73.6
(In percent)							
Debt service ratios							
Scenario A ^{1/}	88.0	89.0	97.0	95.0	81.0	68.0	46.0
Scenario B ^{2/}	88.0	86.0	90.0	84.0	69.0	56.0	36.0
Scenario C ^{3/}	88.0	86.0	89.0	82.0	67.0	53.0	31.0

Sources: Based on data provided by the Vietnamese authorities and staff estimates.

^{1/} Exports are projected to grow by 15 percent and imports by 5 percent per year.

^{2/} Exports are projected to grow by 20 percent and imports by 10 percent per year.

^{3/} Exports are projected to grow by 20 percent and imports by 5 percent per year.

VIET NAM

Basic Data

Area and population

Area	332,800 square km.
Population	60 million
Annual rate of population increase	2.4 percent

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
	<u>(In millions of dong, at 1970 prices)</u>			
<u>GDP</u>	22,082	23,209	25,111	26,582

(Percentage changes)

Real GDP	-3.7	5.1	8.2	5.9
Gross agricultural production	5.8	3.6	7.9	2.8
Gross industrial production	-9.6	15.1	13.9	14.9
Budget revenue	8.0	66.0	95.7	53.1
Budget expenditure	5.5	63.9	147.3	26.3
Net domestic credit	10.2	91.6	68.6	34.3
Total liquidity	15.2	97.6	84.0	36.9
Exports (In US\$ terms)	-8.5	-13.0	26.6	10.3
Imports (In US\$ terms)	-19.0	7.9	2.2	8.4

(In percent of GDP)

Budget revenue	25.0	25.7	25.7	25.4
Budget expenditure	34.7	35.0	44.3	36.1
Government budget deficit	9.7	9.3	18.6	10.7
Bank-financed deficit	0.7	-1.3	2.3	1.0
Cash in circulation	9.2	9.3	9.8	9.0
Total liquidity	22.2	27.1	25.5	22.4
Exports	3.3	5.0	5.3	4.0
Imports	7.9	15.1	12.8	9.5
Current account of B.O.P.	-4.8	-10.7	-7.1	-5.7
Overall balance	0.1	-2.6	-1.7	-1.1
External debt	24.0	49.8	47.6	36.7
Scheduled debt service payments	1.5	4.8	3.9	2.5

Viet Nam: Basic Data (concluded)

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
	<u>(In millions of U.S. dollars)</u>			
<u>Balance of payments</u>				
Exports	537	467	591	652
Imports	-1,296	-1,398	-1,429	-1,550
Trade balance	-759	-931	-838	-898
Current account	-788	-996	-794	-926
Capital account	786	895	575	751
Overall balance	15	-241	-186	-175
<u>International reserves</u>				
Gross international reserves	129	48	48	48
Net international reserves	89	-114	-87	-85
<u>External debt operations</u>				
External debt (end-of-year)	3,932	4,618	5,313	6,016
Scheduled debt service payments	242	449	437	407
Percentage of total exports	45	96	74	62
Arrears accumulation	--	38	213	177
	<u>(Dong per U.S. dollar, end of year)</u>			
<u>Exchange rate</u>	2.3900	9.0450	9.7575	10.5500

Viet Nam - Fund Relations
(As of end-March 1984)

I. Membership Status

- (a) Date of membership: September 21, 1956
- (b) Status: Article XIV

A Financial Relations

II. General Department (General Resources Account)

- (a) Quota: SDR 176.8 million
- (b) Total Fund holdings
of dong: SDR 205.2 million (116 percent of
quota)
- (c) Fund credit:
First credit
tranche: SDR 28.4 million (16.1 percent of
quota)
- (d) Reserve tranche
position: none

III. Stand-By and Special Facilities

- (a) July 1978: First credit tranche (SDR 22.9 million;
25 percent of quota)
- (b) January 1981: First credit tranche (SDR 28.4 million;
21 percent of quota)

IV. SDR Department

- (a) Net cumulative
allocation: SDR 47.7 million
- (b) Holdings: none

V. Administered Accounts

- (a) Trust Fund loans
Disbursed: SDR 60.6 million
Outstanding: SDR 60.6 million

Viet Nam - Fund Relations (concluded)

VI. Overdue Obligations to the Fund: Total SDR 10.2 million

- (a) General Department
 - Repurchases: SDR 3.6 million, due April 11, 1984
 - Charges: SDR 0.5 million, due February 6, 1984, and SDR 0.5 million due May 7, 1984
- (b) SDR Department Charges: SDR 1.0 million, due February 1, 1984, and SDR 2.1 million due May 1, 1984
- (c) Trust Fund Repayments: SDR 2.6 million, due February 14, 1984
- (d) Trust Fund Interest SDR 0.007 million due April 30, 1984

B. Nonfinancial Relations

VIII. Exchange Rate Arrangement: The dong is pegged to the SDR.

IX. Last Article IV Consultation:

The Executive Board discussed the staff report (SM/83/123) on July 6, 1983. It was expected that the next Article IV consultation would be held on the standard 12-month cycle. The following decision was adopted:

1. The Fund takes this decision relating to the Socialist Republic of Viet Nam's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1983 Article XIV consultation with the Socialist Republic of Viet Nam, in light of the 1983 Article IV consultation with the Socialist Republic of Viet Nam conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Viet Nam maintains restrictions on payments and transfers for current international transactions and multiple currency practices as described in SM/83/123 and SM/83/138. The Fund encourages Viet Nam to undertake measures to strengthen the balance of payments and thereby permit the restrictions and multiple currency practices, including the bilateral payments arrangements with Fund members, to be eliminated as soon as possible.

X. Technical Assistance:

The Bureau of Statistics sent a mission to Hanoi during August 1983 to familiarize officials with the Fund's analytical framework of financial statistics and improve Viet Nam's money and banking statistics. The authorities are studying the mission's report.

Viet Nam's Financial Relations with the IBRD

The Board of Executive Directors of the IBRD approved one project loan on August 8, 1978; the loan amounts to \$90 million, of which \$60 million is from IDA resources and \$10 million each from Kuwait, the Netherlands and IFAD. The project aims at developing about 100 small-scale irrigation projects in the South. As of December 31, 1983, total IDA disbursements amounted to \$39.5 million.