FOR AGENDA

SM/83/123

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June 13, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Viet Nam - Staff Report for the 1983 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1983 Article IV consultation with Viet Nam. A draft decision appears on page 16. It is proposed to bring this subject to the agenda for discussion on Wednesday, July 6, 1983.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Evers, ext. 74956.

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INTERNATIONAL MONETARY FUND

SOCIALIST REPUBLIC OF VIET NAM

Staff Report for the 1983 Article IV Consultation

Prepared by the Staff Representatives for the 1983 Article IV Consultation with Viet Nam

Approved by Paul Chabrier and Donald K. Palmer

June 10, 1983

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I. Introduction

Discussions for the 1983 Article IV consultations were held during March 25-April 5, 1983 in Hanoi and on April 6, 1983 in Ho Chi Minh City. The staff team had discussions with Vice Chairman of the Council of Ministers Tran Phuong; Minister Nguyen Duy Gia, Director-General of the State Bank of Viet Nam; Executive Member of the State Committee for Economic Relations with Foreign Countries Nguyen Van Ich; and with officials of the State Bank of Viet Nam, the Bank for Foreign Trade, the Ministry of Finance, the State Planning Commission, and the State Pricing Commission. The staff team consisted of Messrs. Evers (Head of mission), De Wulf, Kimura (all ASD), Saint-Etienne (ETR), and Miss Symons (ETR, secretary).

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

As of June 10, 1983, Viet Nam had overdue payments to the Fund of SDR 52,399 on account of quarterly charges in the General Resources Account (due on May 5, 1983). The authorities are expected to settle the overdue payments shortly.

II. Background

During the period 1977-80, the Vietnamese economy stagnated as it operated under a number of constraints. The two major constraints were inadequate economic policies, including too much emphasis on investment in heavy industries at the cost of quick-yielding and export-oriented projects, and the extension of rigid planning and pricing policies that failed to reflect relative scarcities and to provide 5dequate production incentives. The rapid changes in economic structure in the South introduced after 1975 contributed to further disruptions in production and trade. These problems were compounded by disappointing crops in 1977 and 1978 due to poor weather and destruction of industrial capacity in the North during the war of 1979 with China.

A reversal of most of the factors that had caused the stagnation of output led to a rebound of economic activity during 1981-82. The agricultural sector benefited from favorable weather, the introduction of price incentives, and greater availability of fertilizer. Foodgrain production grew by 5 per cent in 1981 and 10 per cent in 1982, and there were important output gains in a number of other crops during both years (Table 1). However, despite the rapid growth in production, per capita availability of foodgrains remained below adequate nutritional requirements. Industrial production was aided by the introduction of a pay-according-to-work-performance system of wage determination, the transfer of decision-making powers from the central to the local level, and greater freedom of individual production units to acquire inputs from the free market and to determine output prices on the basis of cost. Most of the expansion in industrial output occurred in light industries under local

Table 1. Viet Nam: Selected Economic Indicators

	1979	1980	1981	1982
		(Percentage changes) 1/		
GDP 2/	-0.5	-3.7	5.1	8.2
Gross industrial production 2/	-4.5	-9.6	12.5	13.9
Heavy industry	-6.7	0.2	7.0	12.3
Light industry	-3.2	-15.2	16.2	15.0
Central management	-14.0	-15.8	-2.7	4.0
Local management	3.5	-5.2	22.1	18.9
Employment in industry	1.2	22.1	4.5	...
State sector	5.5	0.5	3.1	...
Central management	4.9	-3.2	-6.0	...
Local management	6.5	6.3	15.7	...
Gross agricultural production 2/	6.8	5.8	3.2	8.1
Foodgrain production	6.4	4.8	4.8	10.1
Fertilizer per hectare	-47.3	6.2	25.2	31.8
Foodgrain imports ('000 tons)	1,568	885	487	500
Foodgrain imports (mn.$)	200	145	61	69
Per capita foodgrain availability (kg.)	167	156	151	162
Domestic credit	7.8	8.8	89.6	69.1
Total liquidity	3.5	12.4	93.9	83.4
Consumer prices	4.0	25.0	90.0	80.0
GDP deflator	5.5	11.7	50.4	78.8
Exports	-9.4	-8.5	-13.0	27.4
		(Per cent of GDP)		
Budget				
Overall budget deficit	10.5	9.8	9.8	19.7
Bank-financed deficit	0.6	0.5	1.0	4.0
Balance of Payments				
Current account deficit	7.7	5.4	10.1	7.5
Exports	4.3	3.7	4.8	5.6
Gross foreign loans and grants	8.0	6.8	13.0	8.8
Convertible area	2.9	2.4	2.0	0.8
Nonconvertible area	5.1	4.4	11.0	8.0
Overall balance of payments deficit (-)	0.1	0.1	-2.5	-1.7

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

1/ Unless otherwise indicated.
2/ In 1970 prices.

management. The better output performance was also aided by an increase in aid from the nonconvertible area that helped maintain investment and alleviate the more serious supply bottlenecks. GDP is estimated to have risen by 5 per cent in 1981 and by more than 8 per cent in 1982.

Despite the recovery of production, inflation remained very high in the past two years. The staff estimates that consumer prices rose by about 90 per cent in 1981 and by about 80 per cent in 1982. The main reasons were continued shortages, sharp adjustments in administered prices during the fall of 1981, and expansionary financial policies.

The overall deficit of the government budget increased from D 5.0 billion in 1981 to D 19.5 billion in 1982; as a share of GDP it doubled to 20 per cent (Table 2). The revenue effort remained at about the level of previous years, but there was a substantial rise in both current and capital expenditures. Tax revenue from nonagricultural cooperatives and the private sector more than doubled, in line with the rise in the general price level and increased activity. Transfers of surpluses by state enterprises rose at a somewhat lower rate as further price increases in the state enterprise sector have tended to lag behind the rise in the average price level after the price adjustments of 1981. Most of the deterioration in the fiscal position stemmed from a rapid rise in social benefits and "other expenditure," which includes defense and commodity aid to Laos and Kampuchea. Government salaries rose only marginally, in part because of a postponement of a scheduled 25 per cent salary increase. Notwithstanding substantially larger receipts of foreign loans and grants, government borrowing from the State Bank amounted to D 4.0 billion or about 25 per cent of total liquidity at the beginning of the year.

Credit policies have been determined largely in response to price and wage measures in the public sector, the production targets under the plan and an acceleration in investment in the agricultural sector. In both 1981 and 1982, the growth in total liquidity was more than sufficient to accomodate the rise in official prices and therefore contributed importantly to continued pressures on prices in the free market. In order to encourage savings and a more efficient use of scarce financial resources, maximum interest rates were raised by 15-27 percentage points on November 1, 1982. 1/ There was an increase in time and savings deposits during the last two months of 1982, but it is too early to ascertain whether this reflects a continuing trend and whether it was on account of the higher deposit rates or of other factors.

A welcome development in 1982 was the rise of 27 per cent in officially recorded exports, which was due mainly to higher volumes of handicrafts, light industrial goods, and agricultural products. Exports to the

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1/ Deposit rates were increased from a range of 1.1-9.0 per cent to a range of 1.8-24.0 per cent and lending rates were increased from a range of 0.7-8.6 per cent to a range of 3.6-36.0 per cent.

Table 2. Viet Nam: Government Budget

(In billions of dong)

	1979	1980	1981	1982	1983 1/
Revenue	7.7	8.3	13.8	27.0	35.0
Transfers from state enterprises	6.2	6.4	10.3	17.5	21.0
Tax revenue	1.5	1.9	3.5	9.5	14.0
Agricultural tax	(0.4)	(0.5)	(0.5)	(2.6)	(3.7)
Expenditures	10.9	11.5	18.8	46.5	52.5
Current expenditures	7.7	8.3	13.9	33.0	36.0
Wages and salaries	(1.5)	(1.7)	(3.0)	(3.1)	(3.7)
Consumption subsidies	(0.7)	(0.9)	(3.0)	(6.5)	(6.2)
Education, health and social benefits	(...)	(...)	(2.7)	(7.8)	(8.5)
Debt service	(0.3)	(0.6)	(1.0)	(1.2)	(1.0)
Other	(5.2)	(5.1)	(4.2)	(14.4)	(16.6)
Capital expenditures	3.2	3.2	4.9	13.5	16.5
Overall deficit (-)	-3.2	-3.2	-5.0	-19.5	-17.5
Foreign loans and grants (net)	3.0	3.0	4.5	15.5	14.5
State Bank	0.2	0.2	0.5	4.0	3.0
Memorandum items 2/					
As percentage of GDP					
Revenue	25.6	25.7	27.0	27.3	29.1
Current expenditures	25.6	25.7	27.2	33.4	30.1
Wages and salaries	5.1	5.2	6.0	3.1	3.1
Consumption subsidies	2.2	2.8	5.9	6.6	5.2
Capital expenditures	10.6	9.8	9.6	13.6	13.7
Overall deficit	10.5	9.8	9.8	19.7	14.6
Foreign loans and grants	10.0	9.3	8.8	15.7	12.1
Bank financing	0.5	0.5	1.0	4.0	2.5

Source: Data provided by the Vietnamese authorities.

1/ Budget estimates.
2/ Staff estimates.

convertible area rose by 34 per cent, mainly on account of a sharp increase in exports of shrimp to Japan. Total imports rose by only 3 per cent, as a sharp rise in imports of raw materials was largely offset by a decline in imports of equipment and consumer goods. The reduced trade deficit and a sharp increase in official and private transfers contributed to a reduction in the deficit of the current account of the balance of payments from $996 million, or 10.1 per cent of GDP, in 1981 to $795 million, or 7.5 per cent of GDP, in 1982 (Table 3). But because of a sharp decline in net capital inflows, reflecting lower foreign aid receipts, and a rise in amortization payments, the overall balance of payments deficit was of the order of $182 million in 1982, following a deficit of $241 million in 1981.

Due to limited access to compensatory financing and given the low level of official reserves ($16 million or 2 weeks of imports) the entire deficit in 1982 was financed by a further accumulation of arrears on foreign debt service payments to the convertible area. Of the total amount of scheduled debt service payments to the convertible area of $378 million, Viet Nam was able to reschedule about $50 million due to the Governments of Libya, Algeria, and Iraq, and about $9 million to some private European banks. It settled about $110 million and incurred arrears of $209 million. Total arrears at the end of 1982 amounted to $247 million. Repayments on principal to the nonconvertible area amounted to $110 million in 1982.

III. Report on the Discussions

The authorities expect growth in production and exports to continue in 1983. However, no data are available on the economic performance since the beginning of the year. On the policy front, the Fifth Congress of the Communist Party of Viet Nam in March 1982 formally recognized that the poor economic performance until 1981 was the result not only of war damage sustained in 1979 and shortages of raw materials and spare parts, but also of projects and programs beyond the country's reach and a command system of economic management ill-suited to peacetime conditions and the management traditions in the South. A re-evaluation of policies was initiated and the authorities now consider that the building of a socialist society and the development of heavy industries must be preceded by further development of the agricultural sector to achieve and maintain self-sufficiency in food, the production of more consumer goods to give substance to financial incentives, and rapid growth in exports in order to alleviate external constraints.

The Vietnamese authorities indicated that it is the intention of the Government that overall economic management will henceforth rely less on the strict guidelines issued by the Government. Instead, more decisions regarding procurement, production, investment, inventories, and wages will be delegated to the provincial level and to individual production units, and the exchange of goods between state enterprises, cooperatives and the private sector without prior authorization of the Government will be encouraged. Although prices in the state sector remain subject to government control, more enterprises will be permitted to charge higher prices if they have incurred unexpected costs and to use financial incentives for the improvement of quality and the reduction of waste. Strict

Table 3. Viet Nam: Balance of Payments

(In millions of U.S. dollars) 1/

	1979	1980	1981	1982	1983 2/
Trade balance	-1,012	-759	-931	-843	-830
Convertible area	-331	-173	-151	-105	-70
Nonconvertible area 3/	-681	-586	-780	-738	-760
Exports, f.o.b.	587	537	467	595	775
Convertible area	102	121	119	160	210
Nonconvertible area 3/	485	416	348	435	565
Imports, c.i.f.	-1,599	-1,296	-1,398	-1,438	-1,605
Convertible area	-433	-294	-270	-265	-280
Nonconvertible area 3/	-1,166	-1,002	-1,128	-1,173	-1,325
Services and transfers 4/	-49	-29	-65	48	45
Current account	-1,061	-788	-996	-795	-785
Convertible area	-380	-202	-216	-57	-25
Nonconvertible area	-681	-586	-780	-738	-760
Capital movements (net)	979	786	895	580	605
Convertible area	298	173	-10	-158	-155
Nonconvertible area	681	613	905	738	760
SDR allocation	12	12	--	--	--
Overall balance 4/	18	15	-241	-182	-180
Change in reserves (increase -)	-18	-15	203	-27	...
Change in arrears 5/	--	--	38	209	...

Source: Based on data provided by the Vietnamese authorities.

1/ Transactions with the nonconvertible area are recorded by the Vietnamese authorities at an accounting rate of one transferable ruble per U.S. dollar. The data have been adjusted by the staff to reflect the official exchange rate for the transferable ruble.

2/ Staff estimates.

3/ Includes services and transfers.

4/ Convertible area

5/ Interest and amortization on debt.

cost accounting methods are being established to determine profits and losses more accurately and enterprises incurring losses through inefficiency will be disciplined.

Although the annual plan will assume a more indicative nature, attempts will be made to improve the coordination between the formulation of the plan and the guidance during its implementation. Monthly and quarterly reporting of performance will be introduced to permit timely corrective action in implementation or adjustment of objectives. The authorities will also aim at better coordination between the objectives of the plan and the setting of other economic and social priorities. For instance, the emphasis on production of consumer goods and exportables is now accompanied by policies that permit private initiatives in light industries and in the handicraft sector. Also, joint ventures between state enterprises and the private sector are now encouraged.

1. Production policies and prospects

The broad objectives of the remaining period of the Third Five-Year Plan (1981-85) are to consolidate the gains made in 1981 and 1982 and to establish a more balanced economy before starting the next five-year plan. One of the more important objectives is to raise the annual output of foodgrains to 17 million tons in 1983 and to 19 million tons in 1985, increases over 1982 of 2.5 and 14.5 per cent, respectively. The authorities consider 17 million tons a minimum requirement to feed the current population. The 1985 output target implies an increase in average yield from 2.4 tons to 2.7 tons per hectare, which is still below the average yield obtained in a number of other Asian countries. Although a small extension of the rice acreage is still feasible and possibilities exist for more intensive cultivation through multicropping, further gains in output will largely depend on the success of yield-raising techniques. The authorities intend to increase the area under high-yielding varieties from 1.5 million to 2.0 million hectares by 1985, and to allocate agricultural inputs in particular to rice growing areas in the South where the potential for higher yields is substantial. In order to achieve the 1985 target, fertilizer use will have to be raised to 2 million tons a year. For the 1983-85 period, contracts have already been signed for the importation of 4.5 million tons of fertilizer. Most of the remaining needs will have to be covered by imports still to be contracted; despite the recent rehabilitation of an apathite mine which was severely damaged during the war in 1979, domestic fertilizer production is expected to increase only gradually in the coming years.

The authorities consider adequate incentives and an increase in the supply of consumer goods key elements in their strategy to raise agricultural output. Although procurement prices for production within quotas will remain unchanged in 1983--as will the prices of agricultural inputs--the negotiated prices for above quota production have been increased to reflect the higher cost of inputs on the free market. In the case of rice, the negotiated price was increased by 20 per cent. Provincial authorities will be encouraged to increase investment in rural infrastructure and irrigation facilities, among other things by mobilizing

farm labor during idle periods. The collectivization of agriculture in the Mekong Delta, where about 80-90 per cent of the land is still privately owned, will continue at a more gradual rate. It will now be organized in three stages (1) the organization of production solidarity teams, (2) collective ownership of agricultural equipment, and (3) collective ownership of the land. In 1982, about 50 per cent of the farmers participated in production solidarity teams. Through persuasion the Government hopes to raise this to 100 per cent by 1985.

In industry, the authorities focus on increasing capacity utilization of existing factories by rehabilitation of equipment and by investment in those projects that are near completion, rather than building up new productive capacity. As a result, the construction of a number of projects, including a fertilizer plant, has been interrupted. Industrial output in 1983 will benefit from the expected completion of two cement plants, three textile factories and a sugar mill, and an increase in capacity utilization of a large paper mill that was put into operation during 1982. Electricity supply, which has been a major constraint on the expansion of industrial output, is to be increased progressively as generation will start in one thermo- and two hydroelectric power stations constructed with aid from the Soviet Union. Coal production is to benefit in 1983 from the opening of two new mines and the rehabilitation and expansion of a number of existing mines. Under a production sharing agreement with Japanese companies, Viet Nam has received storage and refrigeration equipment for the export of shrimp and similar arrangements are now under negotiation with European companies, among other things, for the export of coal. The authorities have announced their intention to liberalize the foreign investment code, adopted in 1976, but so far there has been no progress in this area.

2. Domestic resource mobilization and financial policies

After the rapid expansion of 1982, further growth in budgetary revenue and expenditure during 1983 is projected at 30 per cent and 13 per cent, respectively. The overall budget deficit is estimated to fall from nearly 20 per cent to about 15 per cent of GDP and borrowing from the banking system to about 2.5 per cent of GDP (4 per cent in 1982).

The revenue effort in the 1983 budget is estimated to rise to 29 per cent of GDP. Operating surpluses of state enterprises will be favorably affected by an increase in capacity utilization, more efficient use of inputs, and greater flexibility in determining sales prices on the basis of cost. Tax revenue from cooperatives and the private sector will benefit from the growth in output and from a number of new tax measures that are expected to yield D 3.5 billion or about 3 per cent of GDP. With the introduction of the 1983 budget, more enterprises were made subject to the commercial license tax and the profit tax, rates for the turnover tax were increased, and new excise taxes were introduced for oil products, beer, cigarettes, and about 12 other consumer products. The basis for the agricultural tax was changed from actual to potential output and extended to include private plots. The increase in current expenditures (9 per cent) is largely on account of a mid-day meal allowance of D 50 per month that

was granted to civil servants and some further growth in outlays for education, health and social benefits; the category of expenditure that includes defense outlays and commodity aid to Kampuchea and Laos is slated to increase only marginally. Despite a reduction in foreign aid, capital expenditures are projected to rise by 22 per cent.

Civil servants, employees of state enterprises, and selected groups of consumers such as pensioners, veterans, students, etc., are eligible for essential consumer goods at prices that are considerably below cost. For instance, the subsidized price for rice is D 0.4 per kilo compared with procurement cost of D 5.0 per kilo and an official retail price of D 5.5 per kilo. Employees that benefit from the subsidies consider them part of their salary. The average salary (cash salary plus subsidies) is about D 575 per month for civil servants and about D 750 per month for employees of state enterprises; members of cooperatives and workers in the private sector may earn D 1,000-D 2,000 per month. The authorities consider a gradual elimination of consumer subsidies desirable, not because it would reduce budgetary expenditures, but because it would improve the efficiency of distribution; a reduction in subsidies would have to be accompanied by a commensurate rise in salaries. However, some budgetary savings can be attained by tightening eligibility to the subsidies, in particular for members of cooperatives in the larger cities whose access to subsidized consumer items is difficult to justify, and by increasing the prices for employees of state enterprises who now benefit from work performance bonuses.

It is the intention of the authorities to eliminate the need for government borrowing from the banking system in the coming years and to increase resources for investment through improvement in the financial performance of state enterprises, stricter control of current expenditure, and additional taxes. Operational losses of state enterprises fell from D 217 million in 1981 to D 180 million in 1982 and a further reduction in these losses is expected as the result of more flexible pricing policies and a greater willingness to take disciplinary action against enterprises that are perennial losers. As an incentive to improve their financial performance, state enterprises have recently been permitted to retain part of their profits. For the medium term, the authorities are considering the imposition of import duties, and measures to increase the yield of the agricultural tax from 6.5 per cent to 10 per cent of agricultural incomes. The staff team observed that pending the introduction of import duties, additional resources for the budget could be generated by permitting trading companies to capture part of the scarcity premiums of imported goods in the domestic market, instead of applying the relatively modest profit margins of 10-30 per cent. The revenue situation can further be improved by stricter enforcement of the procedures whereby regional trading companies report and transfer profits to the central budget.

The authorities believe that credit expansion was excessive in both 1981 and 1982. To some extent, the rapid growth of credit for working capital reflected an accumulation of unsaleable stocks to an estimated

10-20 per cent of total inventories. Since the fall of 1982, credit policy has become more selective in that actual fulfillment of the plan targets rather than the targets themselves have become the dominant criterion in the evaluation of loan applications and extensions. In addition, the State Bank of Viet Nam is now more willing to apply penalty rates of double or triple the original interest rate to overdue amounts. Penalty rates of interest are not considered cost and must be charged against profits or reserves. The staff team welcomed the greater selectivity in credit policies and observed that greater recognition of the credit-granting mechanism as a tool for monitoring inventories could help in making timely adjustments in production targets and in reducing inflationary pressures. Moreover, the credit mechanism should also be used to foster economic efficiency and profitability.

3. External policies and prospects

The balance of payments projections for 1983 envisage an improvement in the current account and a small increase in aid receipts from the nonconvertible area. Exports will benefit from further expansion of the industrial and handicraft sector; from higher output of coffee, tea, and rubber; and possibly from the opening of new markets for coal in Asia and Europe. The authorities also intend to export 200,000 tons of cement and 300,000 tons of rice in 1983. Exports outside the plan, which are directed mainly to the convertible area, are projected to increase by more than 50 per cent. Despite the reduced need to import food, imports are estimated to grow at a somewhat faster rate than in 1982 mainly on account of higher purchases of fertilizer, fuel, and equipment for mining and oil exploration. Total scheduled debt service payments amount to $390 million, or 50 per cent of projected export earnings; scheduled debt service payments to the convertible area are slated at $250 million, or about 120 per cent of projected export earnings to that area. The current account deficit with the nonconvertible area is expected to be offset by net aid inflows and Viet Nam's access to credit under bilateral payments agreements. The balance of payments with the convertible area is projected to show a deficit of $180 million, about the same as in 1982. Given that gross official foreign exchange reserves are virtually depleted and that Viet Nam has very limited access to international capital markets, the amount of arrears on foreign debt service obligations is likely to grow further.

Viet Nam's total foreign indebtedness increased from $4.6 billion at the end of 1981 to $5.3 billion at the end of 1982, almost exclusively on account of operations with the nonconvertible area (Appendix I). Debt to the convertible area remained virtually unchanged at about $1.5 billion, as amortization payments more or less equaled disbursements. Scheduled service payments to the convertible area range from $230 million to $250 million per year during 1984-88; debt service payments to private creditors will gradually decline and those to official creditors will gradually increase (Table 4). The authorities estimate that scheduled amortization payments to the nonconvertible area will amount to about $140 million a year. Provided there is further progress in policies, in4 particular those promoting exports, and a continuation of gross foreign aid at about the present level, the current account of the balance of

Table 4. Viet Nam: Projections on the Balance of Payments and Foreign Debt Service Payments, 1983-88

(In millions of U.S. dollars)

	Estimate 1983	Projection 1984	1985	1986	1987	1988
Balance of payments with nonconvertible area 1/						
Current account	-760	-811	-831	-845	-852	-850
Exports 2/	565	656	753	867	996	1,146
Imports 2/	-1,325	-1,467	-1,584	-1,712	-1,848	-1,996
Capital account	760	811	831	845	852	850
Receipts	900	951	970	984	991	989
Repayments	-140	-140	-139	-139	-139	-139
Overall balance	--	--	--	--	--	--
Balance of payments with convertible area 3/						
Trade balance	-70	-56	-37	-10	25	71
Exports	210	252	302	363	435	522
Imports	-280	-308	-339	-373	-410	-451
Services and transfers 4/	45	32	43	48	55	60
Current account	-25	-24	6	38	80	131
Capital account 5/	-155	-98	-119	-150	-160	-150
Overall balance	-180	-122	-113	-112	-80	-19
Overall balance on the basis of alternative assumption 6/	-180	-132	-137	-156	-148	-119
Scheduled debt service payments to convertible area 7/	250	232	243	245	250	235
Official	133	125	160	175	193	180
Principal	105	92	133	150	170	160
Interest	28	33	27	25	23	20
Private	117	107	83	70	57	55
Principal	80	70	50	40	30	30
Interest	37	37	33	30	27	25

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

1/ Exports are projected to grow by 15 per cent per year and imports by 10 per cent in 1984 and 8 per cent per year thereafter.
2/ Includes services and transfers.
3/ Exports are projected to grow by 20 per cent per year and imports are assumed to grow by 10 per cent per year.
4/ Includes scheduled interest payments.
5/ Includes scheduled amortization payments.
6/ Exports are projected to grow by 15 per cent instead of 20 per cent per year.
7/ On debt outstanding at the end of 1982.

payments is likely to improve progressively in the years to come, particularly if Viet Nam succeeds in achieving and maintaining an export surplus in foodgrains and raising significantly the production of other exportable items. However, the available information and major uncertainties concerning future policies and Viet Nam's access to foreign aid sources do not permit accurate forecasts on the speed of such external adjustment. Tentative scenarios made by the staff--with exports increasing by 15-20 per cent per year and imports by about 10 per cent per year--would nevertheless indicate that the external situation will remain under considerable strain in the years to come, notwithstanding the improvement in the current account position.

As regards external debt service, the authorities indicated that it was their policy to obtain a multilateral rescheduling of outstanding debt obligations and that, to this end, they had approached the Secretariat of the Paris Club in June 1982. Pending a multilateral solution to the debt problem, the authorites intend to give priority to the payment of short-term trade credits and to obtain, where possible, a bilateral rescheduling of medium- and long-term debts. In early 1983, Viet Nam had obtained reschedulings of service payments on $375 million of outstanding debt to the convertible area and was negotiating reschedulings on another $230 million. The authorities will also make efforts to pay at least part of the payments that fall due each year. The staff indicated that, in view of the large amount of outstanding arrears and the prospects for further overall balance of payments deficits, there was an urgent need for comprehensive measures to improve the external position, in particular with the convertible area.

The greater autonomy introduced in 1981 for regional import and export companies was partly reversed in the middle of 1982, when the export of 25 commodities was reserved exclusively for state enterprises. In addition, the purchasing prices for exportable commodities and the selection and pricing of imports by regional trading companies was made subject to government approval. A number of trading companies in Ho Chi Minh City were consolidated; present regulations permit only one trading company per region and trading companies are not allowed to export goods originating in another region. These measures have been taken to facilitate the supply of inputs for export production, to promote imports of essential consumer goods and spare parts, and to reduce competition among regional trading companies and state enterprises in the procurement of exportable commodities. The authorities indicated that it had been their policy to maintain adequate export incentives; prices for export products in the domestic market are maintained at remunerative levels and export producers may retain 30 per cent of the export proceeds and 90 per cent of export proceeds that exceed their annual export target. However, as the result of rapid increases in domestic prices, the effects of the 70 per cent devaluation of 1981 have been eroded by now. Many exports incur losses of up to 30 per cent, which are financed by profits on imports or direct subsidies from the regional budgets in the case of regional trading companies and by surpluses from other operations in the case of state enterprises. The staff indicated that exchange rate policy

should be used in a flexible manner in order to maintain the profitablity of export- and import-competing sectors. The authorities mentioned that they were aware of the need for an adjustment in the exchange rate, not only to eliminate existing losses on exports, but also to attract additional resources to the export sector.

The statistical base of Viet Nam remains weak. Areas of particular weakness are the monetary and foreign trade statistics. Both exports to and imports from the convertible area reported in Viet Nam's balance of payments are considerably below those reported by Viet Nam's trading partners, in part because many transactions by official entities, particularly those involving barter arrangements, go unreported. The staff urged improvement in the organization and compilation of economic data as this would help improve economic decision making and the monitoring of trends, and suggested that preparations for the inclusion of financial data in IFS could be a first step in this direction.

Viet Nam applies premia to foreign exchange receipts from the convertible area: 20 per cent for tourist receipts and 30-40 per cent for remittances. In early 1983, Viet Nam introduced a preferential exchange rate for salary remittances from the nonconvertible area equivalent to D 20 per U.S. dollar. The premia applied to tourist receipts and inward remittances from the convertible area and the referential exchange rate for salary remittances from the nonconvertible area constitute multiple currency practices subject to Article VIII. Viet Nam maintains bilateral payments arrangements with the following Fund members: Bangladesh, Laos, Mali, the Peoples' Republic of China, Romania, and the Syrian Arab Republic. With the exception of the arrangements with Laos and Romania, these arrangements have been inoperative for some time as most of the transactions take place outside these arrangements. Viet Nam also maintains exchange restrictions, including external payments arrears.

IV. Staff Appraisal

After two years of declining output, the Vietnamese economy enjoyed a more satisfactory performance in 1981 and 1982, as the result of favorable weather, greater availability of fertilizer and other raw materials, and a wider application of incentive policies. Substantial progress was made toward the achievement of self-sufficiency in food grains, while an alleviation of the more serious supply bottlenecks and improvements in management contributed to a rebound in industrial output. A welcome development was the performance of exports in 1982, which reversed the declining trend of the previous three years.

The balance of payments continues to be a major constraint on the further development of the economy. The present and prospective deficits on the current account of the balance of payments are not sustainable given the low level of external reserves, the limited access to foreign capital markets and the diminished prospects for aid from the convertible area. A rapid improvement in the balance of payments position and the adoption of policies aimed at an early elimination of the payments

arrears are essential for maintaining the growth momentum of the economy and for regaining access to foreign capital markets. These policies should include restraint of domestic demand and more efficient use of resources. The staff welcomes the high priority the authorities have accorded to the promotion of exports.

The staff believes that an adjustment in the exchange rate aimed not only at eliminating losses on exports but also at attracting more resources to the export and import competing sectors should no longer be delayed. Thereafter, exchange rate management should aim at maintaining competitiveness and profitability in the foreign trade sector. As bureaucratic delays and poor management have constituted important impediments to the development of exports in the past, the staff believes that export performance should be monitored closely and that the authorities should not hesitate reintroducing local control over exports in case there is a loss in momentum. The success of the cooperation with private foreign interest in the development of shrimp exports bodes well for similar ventures in other sectors of the economy that have export potential.

The shift in policies announced in 1982 points to further decentralization of decision making, greater flexibility in the determination of prices and wages, and the provision of financial incentives to improve quality and reduce waste. Priority will be given to the production of export products and consumer goods, and investment policy will emphasize increasing capacity utilization of existing factories and the rapid completion of projects that are of direct benefit to the agricultural sector. Initiatives by the private sector and joint ventures between public and private enterprises are encouraged. The authorities will also focus on a better integration of the objectives of the plan with other economic and social policies and on the provision of more timely information to monitor overall economic performance. The staff believes that the adoption of these more pragmatic policies could contribute importantly to further growth of output and exports.

The achievement of a better balance of payments position will critically depend on an improvement in public finances. Mainly as the result of a rapid rise in current expenditure, budgetary performance deteriorated sharply in 1982, and government borrowing from the banking system was an important factor in the expansion of monetary aggregates and the continued pressure on prices in the free market. Although the authorities have taken several revenue measures and intend to limit the growth of current expenditure, it is unlikely that fiscal balance can be restored without further mobilization of resources. The staff welcomes present plans to impose new taxes and raise the yield of the agricultural tax over the medium term, but believes that, pending the introduction of these measures, additional resources should be generated by raising the prices of imported commodities. Also, a reduction in subsidies for selected groups of consumers would free resources, and be a first step toward a more efficient official distribution system. The recent introduction of stricter norms for profit and loss accounting should aid the government's objective of further reducing losses by state enterprises. While the adoption of more selective credit policies is welcome, greater recognition of the credit-granting mechanism as a tool for monitoring inventories would help in improving the efficiency of production and in reducing inflationary pressures.

Since the previous Article IV consultations, Viet Nam has introduced an additional multiple currency practice arising from the preferential exchange rate for salary remittances from the nonconvertible area, and there has been a rapid rise in the amount of outstanding payment arrears. The staff urges the Vietnamese authorities to undertake further measures to strengthen the balance of payments and thereby permit elimination of its restrictive practices. In the meantime, 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 1983 Article XIV consultation with the Socialist Republic of Viet Nam, in the 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/ . 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.

Viet Nam: External Debt Operations, 1979-1982

(In millions of U.S. dollars)

	Amounts Contracted	Effective Operations						Total accumulated arrears as of end-1982 1/
					1982			
	Commitments as of end-1981	Outstanding disbursed as of end-1979	Outstanding disbursed as of end-1980	Outstanding disbursed as of end-1981	Drawings	Amortization	Outstanding as of end-1982	
Convertible currencies	2,165.4	1,299.1	1,431.0	1,453.9	88.1	72.0	1,463.2	247.4
International organizations	238.9	131.4	116.3	192.0	6.9	24.3	167.8	--
AsDB	17.6	14.0	21.0	17.6	0.8	0.6	17.8	
OPEC	11.2			11.2	2.9	--	14.1	--
IBRD/IDA	80.0	11.8	22.1	33.1	3.2	--	36.3	--
IMF trust fund	70.5	33.8	32.8	70.5	--	--	66.8	--
IMF Fund credit	59.6	71.8	40.4	59.6	--	23.7	32.8	--
Official creditors (medium and long term)	1,536.1	888.7	973.5	927.0	40.4	20.7	946.7	76.2
Algeria	220.4	180.0	184.9	220.4	--	--	220.4	--
Belgium	28.0	...	...	5.4	--	--	5.4	--
Denmark	36.9	32.3	40.3	30.3	1.6	--	31.9	--
France	337.9	201.2	153.9	132.6	1.9	0.7	133.8	25.7
India	44.0	7.0	35.3	10.2	3.4	--	13.6	0.3
Iraq	450.0	219.0	302.5	335.7	20.0	20.0	335.7	31.4
Italy	57.0	30.0	42.3	17.2	8.6	--	25.8	4.2
Japan	145.5	118.1	143.9	126.2	--	--	126.2 2/	14.6
Kuwait	16.0	--	--	3.9	3.0	--	6.9	--
Libya	180.0	89.1	58.6	35.8	--	--	35.8	--
Netherlands	8.1	--	--	--	1.9	--	1.9	--
United Kingdom	12.3	12.0	11.8	9.3	--	--	9.3	--
Private creditors (medium and long term)	390.4	279.0	341.2	334.1	10.5	9.3	335.3	161.6
Austria	...	...	...	28.9	--	1.6	27.3	3.4
Belgium	...	...	...	10.3	0.1	--	10.4	--
Denmark	...	...	...	7.3	--	--	7.3	2.3
Hong Kong	...	...	...	4.3	--	0.8	3.5	--
India	...	...	...	31.0	8.0	--	39.0	--
Italy	...	...	...	3.8	--	0.6	3.2	--
Japan	...	...	...	175.9	--	--	175.9	144.9
Netherlands	...	...	...	9.0	2.4	--	11.4	--
Norway	...	...	...	7.9	--	0.3	7.6	--
Singapore	...	...	...	0.4	--	0.4	--	--
Sweden	...	...	...	7.9	--	0.9	7.0	4.8
Switzerland	...	...	...	2.0	--	0.9	1.1	--
United Kingdom	...	...	...	32.9	--	--	32.9	6.2
West Germany	...	...	...	12.5	--	3.8	8.7	--
Short-term credits	...	...	...	0.8	30.3	17.7	13.4	9.6
Nonconvertible currencies 3/	3,164.0	1,916.0	2,501.0	3,164.0	848.0	110.0	3,876.0	--
Total	5,329.4	3,215.1	3,932.0	4,617.9	936.1	182.0	5,339.2	247.4

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

1/ Arrears at the end of 1982 consisted of US$207 million on principal and US$40.4 million on interest. Arrears at the end of 1981 consisted of US$33 million on principal and US$5 million on interest.

2/ Of which about US$100 million of debt contracted by South Viet Nam before 1975.

3/ Debt to the nonconvertible area is recorded by the Vietnamese authorities at an accounting rate at one transferable ruble per U.S. dollar. In this table the debt has been converted in U.S. dollars at exchange rates of TR 0.6561 per U.S. dollar at end-1979, TR 0.6489 per U.S. dollar at end-1980, TR 0.7184 per U.S. dollar at end-1981, and TR 0.7244 per U.S. dollar at end-1982.

VIET NAM

BASIC DATA

Area and population

Area	332,800 square km.
Population (estimated 1981)	55 million
Annual rate of population increase (1976-81)	2.4 per cent

	1978	1979	1980	1981	1982
	(In millions of dong, at 1970 prices)				
GDP	23,047	22,931	22,082	23,209	25,111
	(In U.S. dollars)				
GDP per capita	257	260	271	178	189
Annual percentage changes in selected economic indicators	(In per cent)				
Real GDP	2.2	-0.5	-3.7	5.1	8.2
Gross agricultural production	0.1	6.8	5.8	3.2	8.1
Gross industrial production	5.4	-4.5	-9.6	12.5	13.9
Budget revenue	6.7	2.0	8.0	66.0	95.7
Budget expenditure	8.8	8.8	5.5	63.9	147.3
Net domestic credit	11.8	7.8	8.8	89.6	69.1
Total liquidity	6.7	3.5	12.4	93.9	83.4
Exports	5.7	-9.4	-8.5	-13.0	27.4
Imports	1.5	7.6	-18.9	7.9	2.9
Ratios to GDP					
Investment in public sector	13.5	12.2	11.1	5.8	12.0
Budget revenue	26.4	25.6	25.7	27.0	27.3
Budget expenditure	34.9	36.1	35.5	36.8	47.0
Government budget deficit	-8.5	-10.5	-9.8	-9.8	-19.7
Bank financed deficit	-0.6	-0.6	-0.5	-1.0	-4.0
Cash in circulation	8.4	8.7	9.4	9.8	10.4
Total liquidity	24.6	24.3	25.4	31.1	29.5
Exports	4.9	4.3	3.7	4.8 1/	5.6
Imports	-11.2	-11.6	-8.9	-14.2 1/	-13.5
Current account of B.O.P.	-6.7	-7.7	-5.4	-10.1 1/	-7.5
Overall balance	-0.4	0.1	0.1	-2.5 1/	-1.7
External debt	...	23.4	26.9	47.0 1/	50.2
Scheduled debt service payments	1.0	1.1	1.7	4.6 1/	4.0

Viet Nam Basic Data (continued)

	1978	1979	1980	1981	1982
		(In millions of U.S. dollars)			
Balance of Payments					
Exports	648	587	537	467	595
Imports	-1,485	-1,599	-1,296	-1,398	-1,438
Trade balance	-837	-1,012	-759	-931	-843
Current account	-887	-1,061	-788	-996	-795
Capital account	835	1,079	803	755	613
Overall balance	-52	18	15	-241	-182
		(In millions of U.S. dollars)			
International Reserves					
Gross international reserves	126	145	129	48	48
Net international reserves	56	74	89	-114	-87
		(In millions of U.S. dollars)			
External debt operations					
External debt (end of year)	...	3,215	3,932	4,617	5,339
Scheduled debt service payments	125	148	242	449	429
Percentage of total export	19	25	45	96	72
Arrears accumulation	--	--	--	38	209
		(Dong per U.S. dollar, end of year)			
Exchange rate	2.0445	2.0220	2.3900	9.0450	9.7575

1/ These percentages also reflect a decline in GDP expressed in U.S. dollars resulting from the 1981 devaluation.

Fund Relations with Viet Nam
(As of April 30, 1983)

Date of membership:	September 21, 1956.
Status:	Article XIV.
Quota:	SDR 135 million; proposed quota of SDR 176.8 million under the Eigth General Review of Quotas.
Use of Fund resources:	September 1976: Gold tranche (SDR 15.5 million). January 1977: CFF drawing (SDR 31 million or 50 per cent of quota). July 1978: First credit tranche (SDR 22.5 million or 25 per cent of quota). January 1981: First credit tranche (SDR 28.4 million or 21 per cent of quota).
Fund holdings of dong:	SDR 164.7 million or 122.0 per cent of quota, of which SDR 29.7 million was under the credit tranches.
Trust Fund loan disbursement:	Viet Nam received SDR 25.7 million in August 1978, on account of the first period of the Trust Fund, and SDR 34.89 million in March 1981 on account of the second period.
Gold distribution (four phases):	53,044.523 fine ounces.
Direct distribution of profits from gold sales:	US$9.83 million.
SDR position:	No holdings.
Exchange rate arrangement:	The dong is pegged to the SDR. In practice, the exchange rate between the dong and the US dollar is maintained within relatively narrow margins, while the rate for the SDR has been left to fluctuate. On April 30, 1983 the exchange rate was D 9.7575 = US$1 or D 10.554 per SDR 1.
Last Article IV consultation:	The Executive Board discussed the staff report (SM/82/84, 4/30/82) on June 2, 1982.

Viet Nam's Financial Relationship with the IBRD

The Board of the 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 OPEC-financed development fund. The project aims at developing about 100 small-scale irrigation projects in the South. As of May 31, 1983, total IDA disbursements amounted to $38.6 million.