

FOR
AGENDA

SM/84/114
Correction 1

CONTAINS CONFIDENTIAL
INFORMATION

May 31, 1984

To: Members of the Executive Board
From: The Secretary
Subject: Viet Nam - Staff Report for the 1984 Article IV Consultation

The following corrections have been made in SM/84/114 (5/18/84):

Page 6, Table 3, column 3, line 4: for "12.4" read "11.4"

line 5: for "(3.5)" read "(2.5)"

line 14: for "42" read "43"

Page 8, last two lines: Delete "During the...distribution"

Page 13, line 1: insert "authorities have decided to forego exports of
rice for the time being,"

1st full para., line 3: for "\$170 million" read "\$175 million"

Page 14, Table 5, column 2, line 4: for "-244" read "-294"

column 5, line 3: for "307" read "367"

Page 20, column 4, last line: for "-84.1" read "-184.1"

column 5, line 8: for "-31.5" read "-37.0"

line 14: for "--" read "-2.6"

last column, line 20: for "197.0" read "200.3"

line 27: for "171.5" read "174.8"

line 35: for "10.8" read "7.5"

Corrected pages are attached.

Att: (5)

Other Distribution:
Department Heads

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.

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Table 3. Viet Nam: Factors Affecting Total Liquidity

	1981	1982	1983	1984 <u>1/</u>
<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	11.4	1.6
Investment credit	(1.3)	(3.0)	(2.5)	(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	43	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>	<u>15</u>	<u>-241</u>	<u>-186</u>	<u>-175</u>	<u>72</u>
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.

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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.

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

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authorities have decided to forego exports of rice for the time being, 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 \$175 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	367	422	486
Imports	-280	-294	-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, Libya, 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.

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 <u>1/</u>	Operations during 1983			Outstanding disbursed as of end-1983 <u>2/</u>	Total accumulated arrears as of end-1983 <u>3/</u>
			Drawings	Amorti- zation	Valuation Adjustment		
Convertible currencies <u>4/</u>	<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	228.7	166.4	6.5	-1.4	-5.5	166.0	0.2
AsDB	38.6	17.3	0.7	--	-0.6	17.4	0.2
OPEC	17.0	13.4	2.6	--	--	16.0	--
IBRD/IDA	80.0	36.1	3.2	--	0.2	39.5	--
IMF trust fund	63.4	66.8	--	--	-3.4	63.4	--
IMF Fund credit	29.7	32.8	--	-1.4	-1.7	29.7	--
Official creditors (medium- and long-term)	<u>1,244.8</u>	<u>935.3</u>	<u>39.6</u>	<u>--</u>	<u>-37.0</u>	<u>943.3</u>	<u>190.0</u>
Algeria	235.7	220.3	--	--	--	220.3	--
Belgium	19.4	5.3	--	--	-0.8	4.5	--
Denmark	33.4	30.5	2.4	--	-4.6	28.2	--
France	193.0	133.7	22.8	--	-26.0	130.5	38.4
India	33.4	13.7	11.7	--	-1.1	24.2	2.6
Iraq	415.0	335.0	--	--	-2.6	335.0	85.2
Italy	57.0	25.8	--	--	--	25.8	6.7
Japan	137.8	126.3 <u>5/</u>	--	--	-1.5	127.8	20.6
Kuwait	10.0	7.0	2.7	--	-0.1	9.6	--
Libya	102.0	35.8	--	--	--	35.8	36.5
Netherlands	8.1	1.9	--	--	-0.3	1.6	--
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>200.3</u>
Austria	31.0	24.7	--	--	-3.4	21.3	--
Belgium	22.9	10.4	1.6	--	-1.5	10.5	--
Denmark	...	6.2	--	--	-0.9	5.3	3.2
Hong Kong	5.9	2.9	--	--	-0.5	2.4	--
India	42.9	40.1	5.9	--	-3.3	42.7	6.2
Italy	29.5	1.7	--	--	--	1.7	--
Japan	169.2	174.6	--	--	-18.7	155.9	174.8
Netherlands	14.2	11.5	--	--	-1.6	9.8	0.1
Norway	5.8	6.3	--	--	-0.6	5.7	0.8
Singapore	...	--	--	--	--	--	--
Sweden	21.9	7.4	--	--	-0.9	6.4	7.2
Switzerland	28.7	--	--	--	--	--	--
United Kingdom	30.5	32.9	--	--	-3.4	29.5	7.8
West Germany	6.2	7.4	--	--	-0.9	6.4	0.2
Short-term credits	<u>...</u>	<u>13.4</u>	<u>59.6</u>	<u>-51.0</u>	<u>--</u>	<u>22.0</u>	<u>7.5</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>-184.1</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.