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October 28, 1994

To: Members of the Executive Board

From: The Secretary

Subject: Viet Nam - Request for Arrangements Under the Enhanced  
Structural Adjustment Facility

Attached for consideration by the Executive Directors is a request from Viet Nam for arrangements under the enhanced structural adjustment facility. A draft decision appears on page 28.

This subject, together with the policy framework paper for Viet Nam (EBD/94/175, 10/31/94), is tentatively scheduled for discussion on Friday, November 11, 1994.

Mr. Dodsworth (ext. 37091) or Mr. Miranda (ext. 36522) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Unless the Documents Preparation Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the Asian Development Bank (AsDB), following its consideration by the Executive Board.

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INTERNATIONAL MONETARY FUND

VIET NAM

Staff Report for Request for Arrangements Under  
the Enhanced Structural Adjustment Facility

Prepared by the Central Asia and Policy Development  
and Review Departments

(In consultation with other Departments)

Approved by Bijan B. Aghevli and Thomas Leddy

October 27, 1994

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## I. Introduction

Following the 1994 Article IV consultation and review under the stand-by arrangement on June 8, 1994, discussions on a medium-term economic program took place in Hanoi during June 17-29 and August 26-September 7, 1994. The mission 1/ had meetings with Mr. Phan Van Khai (First Deputy Prime Minister), Mr. Cao Sy Kiem (Governor of the State Bank), Mr. Do Quoc Sam (Chairman of the State Planning Committee), Mr. Ho Te (Minister of Finance), and other senior officials. On the basis of understandings reached during the discussions, the Vietnamese authorities have requested that the stand-by arrangement be canceled and replaced by arrangements under the enhanced structural adjustment facility (ESAF). The letter of intent, accompanied by a Memorandum on Economic and Financial Policies for 1994-95, is contained in Annex I. A Policy Framework Paper for 1994-97 (EBD/94/175, 10/31/94) was discussed by Executive Directors of the World Bank on October 25, 1994. The request for a three-year ESAF arrangement is in an amount equivalent to SDR 362.4 million (150 percent of quota) with a first annual arrangement thereunder in an amount equivalent to SDR 120.8 million (50 percent of quota). The projected Fund position during the arrangements is provided in Appendix Table 1.

On the occasion of the review of the stand-by arrangement, Executive Directors commended the authorities on the rapid pace of economic development, but also expressed concerns over expansionary financial policies and external commercial borrowing that had led to the nonobservance of several performance criteria (Appendix Table 2). In light of corrective policies introduced from late 1993 onward, the Executive Board approved a second purchase under the stand-by arrangement (10 percent of quota) and a second purchase under the systemic transformation facility (5 percent of quota). 2/ At the same time, the stand-by arrangement was extended through end-1994 and the remaining purchases were rephased. Directors stressed that Viet Nam should establish a sound track record of policy implementation prior to an ESAF arrangement.

In the event, the corrective policies were reflected in full observance of the performance criteria for end-June 1994, which allowed a third purchase under the stand-by arrangement in an amount equivalent to

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1/ The staff representatives were Messrs. Dodsworth, Arora, Dunn, Miranda, Mulder, and Ms. Rose (all CTA), Mr. van der Mensbrugge (PDR), Miss Bhatt (EXR), and Mrs. Abraham and Mrs. Sahasranam (assistants, CTA). Mr. Dollar (IBRD) and Ms. Tremblay (AsDB) participated in the discussions. The missions were assisted by Mr. Spittler, the Senior Resident Representative.

2/ Although Viet Nam was eligible for use of the systemic transformation facility (STF) at an access level of 50 percent of quota, the authorities indicated that they would not make full use of STF resources, and preferred this to be taken into account in determining access under an ESAF arrangement.

SDR 24.2 million (10 percent of quota). The final purchase under the stand-by arrangement (equivalent to 15 percent of quota) will not take place, upon cancellation of the stand-by, as requested by the authorities.

## II. Background and Performance Under the Stand-by Arrangement

### 1. Background

Viet Nam's transition from a centrally planned economy has been swift and relatively successful. From modest beginnings in 1986, major structural changes have been introduced to promote the role of the domestic and foreign private sectors, to place the state enterprise sector on a commercial footing, and to establish legal, financial, and regulatory frameworks favorable to market-oriented development. While much remains to be done, the authorities have already implemented a number of important policies, including: the lifting of virtually all price controls; the adoption of a unified and market-related exchange rate mechanism; the recognition of private property and land-use rights; the enhancement of managerial autonomy in state-owned enterprises; and the establishment of a two-tier banking system. 1/

During the transition, Viet Nam achieved strong growth of output and a slowing of inflation. During 1988-92, real GDP growth averaged about 6 1/2 percent per year, while inflation declined from triple-digit levels to 17 percent (on an end-year basis), and gross official reserves rose from negligible levels to the equivalent of 9 1/2 weeks of imports. 2/ The strong growth performance during this period, in part, reflected a steady rise in agricultural production in response to price liberalization measures. In addition, industrial output rose strongly, particularly from 1990 onward, reflecting a rapid increase in crude oil production and the development of light industries, including textiles. Total fixed investment is estimated to have risen from 12 percent of GDP in 1988 to 17 percent in 1992. The increase was financed mainly from higher national savings as concessional assistance from the former Soviet Union ceased. At the same time, external trade was quickly redirected from the former CMEA countries to the convertible-currency area, including to the high-growth countries in the region. Between 1988 and 1992, the value of exports tripled as Viet Nam--once a net importer--became a net exporter of both oil and rice.

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1/ Detailed accounts of earlier structural measures are provided in EBS/93/154 (9/15/93), EBS/94/105 (5/20/94) and SM/94/138 (6/3/94).

2/ Viet Nam's macroeconomic statistical database is weak in virtually all sectoral areas, and continuing efforts will be required to bring it up to acceptable international standards. The Government has indicated that it will continue to undertake improvements, with substantial inputs from the Fund, the World Bank, and bilateral donors. See Annex VIII for a discussion of statistical issues.

Critical to the successful transition was a tightening of macroeconomic policies. Budgetary measures lowered the overall fiscal deficit from 7 1/2 percent of GDP in 1988 to 2 1/2 percent of GDP in 1992, and transformed a deficit on current budget operations of 3 percent of GDP into a surplus of 3 1/2 percent of GDP. 1/ The measures allowed the elimination of government bank financing, which, in combination with the imposition of hard budget constraints on state enterprises, led to a substantial deceleration in domestic credit growth. As inflation declined, nominal interest rates were reduced but, for most of the period, were still held at positive real levels. After depreciating rapidly for several years, the exchange rate of the dong stabilized in 1991 and appreciated in both nominal and real effective terms during 1992.

In the first half of 1993, macroeconomic policies became significantly more expansionary. Credit to the nonstate sector 2/--previously available mainly through informal markets--was rapidly expanded through the banking system. Bank borrowing by state enterprises also accelerated, resulting in rapid growth of domestic credit. At the same time, in anticipation of increased external assistance, government spending rose sharply to cover, among other things, a public sector wage reform and the costs of a large power transmission project. While inflation continued to decline, the policies were reflected in a rapid rise in imports financed by a substantial drawdown in international reserves. During the first half of 1993, net international reserves fell by \$350 million--about one third of the end-1992 level--while gross official reserves declined to about 6 1/2 weeks of imports.

2. Performance under the stand-by arrangement, 1993/94

a. Macroeconomic policies

The principal objective of the economic program, put in place in August 1993 and supported by the stand-by arrangement, was to tighten macroeconomic policies in order to limit an expected resurgence in inflation and to start rebuilding international reserves. The program envisaged a sharp reduction in credit expansion to the nongovernment sector, as well as budgetary measures aimed at holding the overall fiscal deficit for 1993 to 5 1/4 percent of GDP (1 1/4 percentage points less than the budget) and

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1/ All references to the overall fiscal balance and the current budget balance are on a cash basis and exclude grants. It should be noted that in the Memorandum on Economic and Financial Policies (Annex I), the authorities present the overall deficit on a cash basis including grants.

2/ The nonstate sector includes the private sector, cooperatives, and joint ventures.

maintaining a surplus on current operations of 1 1/4 percent of GDP (Table 1 and Chart 1). 1/

As outlined in the staff report for the review under the stand-by arrangement (EBS/94/105, 5/20/94), economic performance during the second half of 1993 deviated in several important respects from the program. Although the 1993 outcomes for real GDP growth (8 percent) and inflation (which declined to 5 1/4 percent by end-year) were more favorable than projected, the balance of payments continued to be weak, mainly reflecting a failure to curb domestic credit expansion until late in the year. Nevertheless, progress was made during the last quarter of 1993 to reduce the growth of nongovernment credit. On the fiscal side, strong efforts were made to boost revenues and the targeted surplus on current government operations was exceeded by a small margin. However, with higher-than-expected capital spending, the overall deficit (excluding grants) rose to 5 1/2 percent of GDP, necessitating higher bank credit and external commercial borrowing which was contracted at inappropriately short maturities (Appendix Table 3). The tightening of policies arrested the decline in reserves, but by year's end gross official reserves were equivalent to only six weeks of imports (compared with a program target of nine weeks). Most of the end-December performance criteria under the stand-by arrangement were not observed.

During the first eight months of 1994, the economy has remained buoyant. Real GDP growth for the year is projected at 9 percent, reflecting an exceptionally good spring paddy harvest and continued expansion of industrial production. Retail prices, however, have risen faster than expected, particularly in the third quarter when the price index rose by 3 percent, mainly as a result of higher food prices in the wake of torrential rains and flooding. As a result, the retail price index is projected to increase by 10-11 percent in 1994 (end-of-period basis) compared with a program target of 7 percent.

Although the inflation target is expected to be exceeded, policy implementation in both the fiscal and monetary areas has improved significantly during 1994. In the area of fiscal policy, the 1994 budget initially anticipated an overall deficit of 5 1/2 percent of GDP, financed in large part by concessional foreign financing. 2/ As it became clear that aid disbursements would fall far short of the budgeted amounts, a series of measures were introduced in order to avoid recourse to borrowing from external commercial sources or domestic banks. The measures,

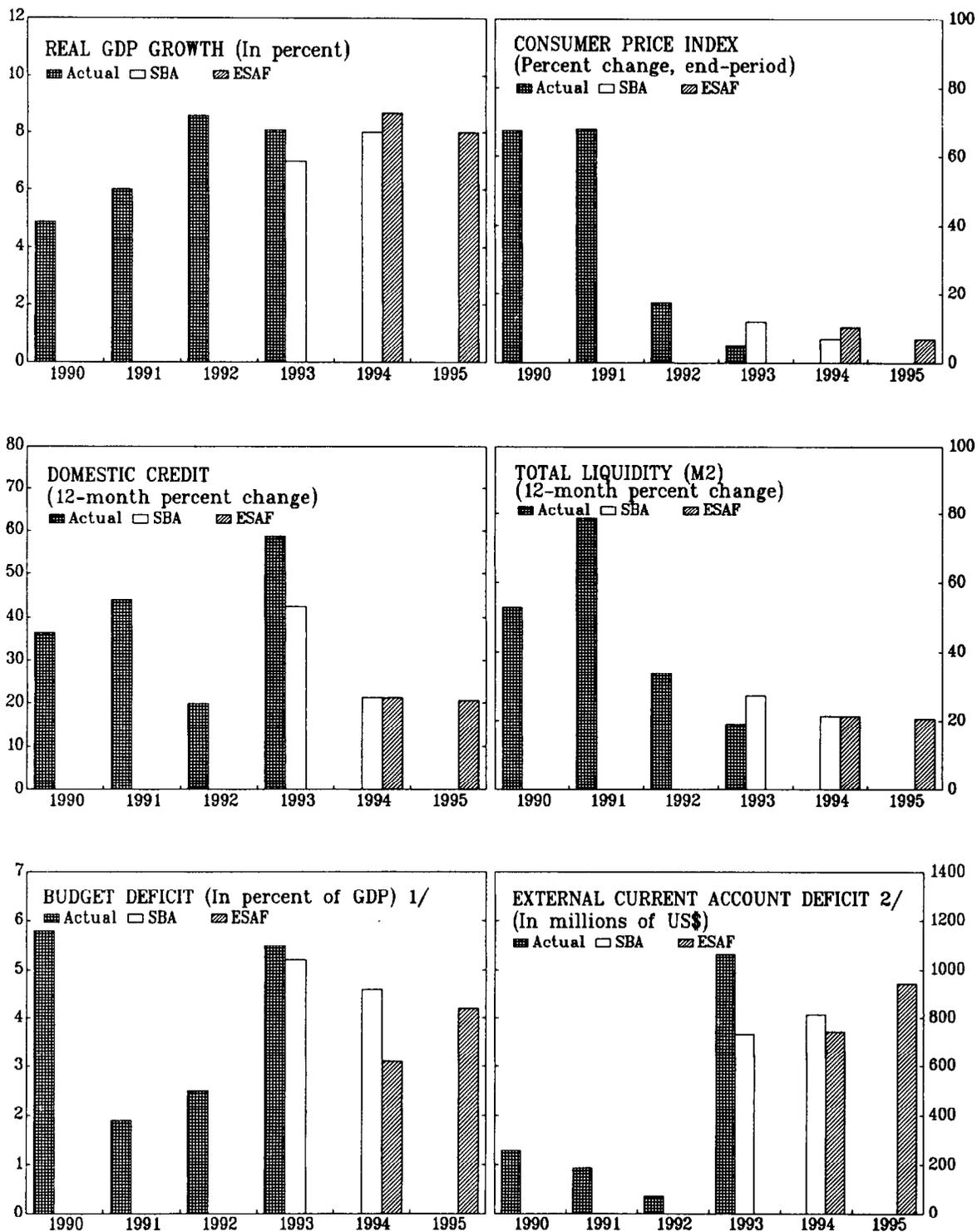
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1/ Targets under the stand-by supported program expressed in terms of ratios to GDP differ from those in the original program documents due to revisions to the national accounts series.

2/ This figure excludes onlending, consistent with the authorities' budget presentation. The budgeted overall deficit increases to 6 percent of GDP if onlending is included.

CHART 1

VIET NAM  
SELECTED INDICATORS, 1990-95



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

1/ On a cash basis, excluding grants.

2/ Excluding official transfers, except for 1990.



Table 1. Viet Nam: Macroeconomic Framework and Key Objectives, 1992-95 1/

(In percent, unless otherwise indicated)

	1992	SBA 2/ 1993	Prel.	SBA 3/ 1994	ESAF	ESAF 1995
Real GDP growth	8.6	7.0	8.1	8.0	8.7	8.0
Prices						
Consumer prices (end of period)	17.5	12.0	5.2	7.0	10.5	7.0
Consumer prices (period average)	37.8	10.0	8.3	6.8	8.6	7.8
Government budget on a cash basis (percent of GDP)						
Revenue <u>4/</u>	18.3	21.3	21.6	23.9	24.8	24.7
Expenditure <u>5/</u>	20.7	26.5	27.1	28.5	27.8	28.9
Current account balance <u>4/</u>	3.4	1.3	1.5	2.9	4.1	3.7
Overall fiscal deficit (-) <u>4/</u>	-2.5	-5.2	-5.5	-4.6	-3.1	-4.2
Broad money growth	33.7	27.2	19.0	21.3	21.3	20.6
Domestic credit	19.9	42.5	58.7	21.3	21.3	20.7
Private sector	169.9	88.8	177.9	32.0	40.7	40.0
State enterprises	36.3	28.3	24.7	21.5	17.2	13.6
Exports (in millions of U.S. dollars)	2,475	2,600	2,850	3,362	3,600	4,086
Imports (in millions of U.S. dollars)	2,535	3,079	3,505	3,875	4,008	4,631
Current account balance (percent of GDP) <u>4/ 6/</u>	-0.7	-6.0	-8.3	-5.5	-4.9	-5.6
Gross official reserves (weeks of imports) <u>7/</u>	9.5	9.3	6.0	8.4	8.5	9.8
Net international reserves (in millions of U.S. dollars) <u>7/</u>	1,006	903	517	602	602	702
Memorandum items:						
ICOR	2.0	1.9	2.4	1.9	2.3	2.7
Velocity of broad money	5.0	4.3	4.7	4.4	4.5	4.4

Sources: Vietnamese authorities; and staff estimates and projections.

1/ In mid-1994, the historical GDP series was revised upward by about 10 percent. Variables expressed as a percent of GDP, including those in program columns, have been changed to reflect the revisions to the GDP series.

2/ Monetary data are adjusted as allowed for under the program (see EBS/94/105 and EBS/93/154).

3/ Revised program.

4/ Excluding grants.

5/ Includes estimates for onlending in 1994 and 1995.

6/ On an accrual basis, excluding official transfers.

7/ Including gold.

introduced in February and July, are expected to restore the surplus on current operations to 4 percent of GDP, while reducing the overall deficit to about 3 percent of GDP. About three quarters of the budgetary adjustment is accounted for by revenue measures, including import tariff increases, higher petroleum product prices, increased tax payments on land and housing, and higher fees and charges. On the expenditure side, most of the adjustment has fallen on public investment; however, capital outlays (including onlending) are still expected to rise modestly to 7 1/4 percent of GDP in 1994 compared with 7 percent in 1993. Net credit to Government in the first half of 1994 was within the limit set under the stand-by arrangement and is expected to be repaid within the year.

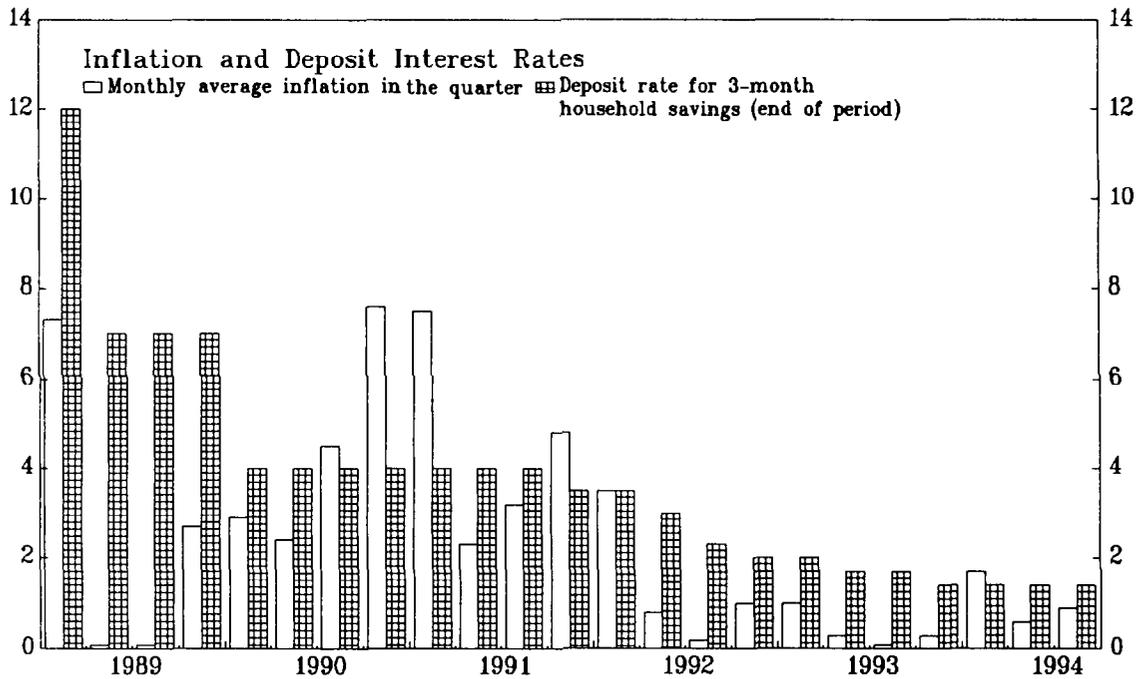
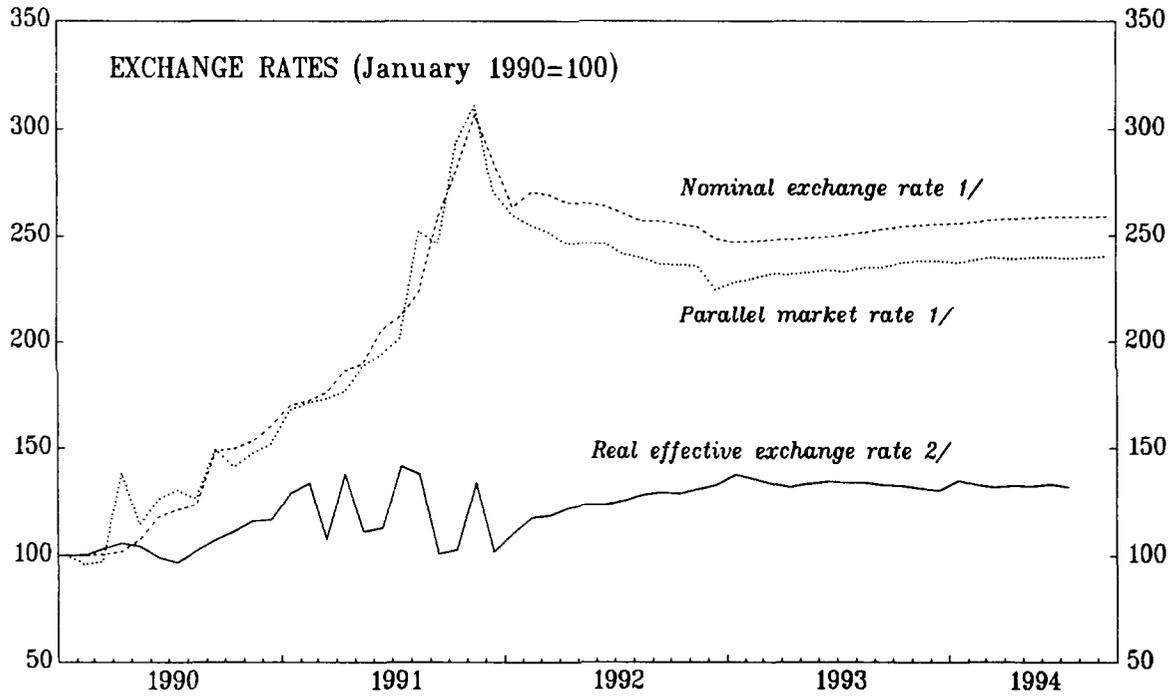
In the area of monetary policy, there was some easing of credit to the nongovernment sector in the first quarter of 1994, but substantial progress has been made following the introduction of a system of bank-by-bank credit ceilings in April 1994. In addition, steps were taken to: (i) raise the maximum foreign currency lending rate; (ii) place limits on refinancing by the State Bank; and (iii) enforce more rigorously the reserve requirement regulations on state-owned banks. These actions led to a slowing of nongovernment credit growth from 53 percent in 1993 to an annualized average of 27 percent during April-August 1994. In combination with the improved fiscal position, the tightening of monetary policies resulted in observance of the revised end-June 1994 performance criteria (Appendix Table 4). On the basis of July and August data, the targets for end-September 1994 should also be achievable.

Partly reflecting the tighter macroeconomic policies in 1994, the external position has strengthened considerably. Import growth is projected at 14 percent for the year (in value terms) compared with 38 percent in 1993. At the same time, exports have benefited from higher world prices (for oil, rice, and coffee) and are expected to increase by 26 percent in value terms (a volume increase of 17 percent). The external current account deficit (excluding official transfers) is projected to decline to 5 percent of GDP from 8 1/4 percent of GDP in 1993 (Appendix Table 5). The bulk of capital flows will be in the form of foreign direct investment, which accelerated sharply following the lifting of the U.S. embargo in February and measures to streamline approval and implementation. Despite a slow pace of concessional aid disbursements, net international reserves have increased faster than expected, reaching \$622 million by end-August (somewhat higher than the target for end-December). Since October 1993, the dollar value of the dong has declined by about 2 percent in nominal terms and by about 1/2 percent in real effective terms (Chart 2).

#### b. Structural reforms

While progress was made with certain structural reforms envisaged under the program, there were delays, particularly in tax and trade reform and state enterprise divestiture, caused, in part, by a lack of technical preparation. Most progress was made in the monetary area where the State Bank unified refinancing rates for all banks (except the Agricultural Bank)

EXCHANGE RATE AND INTEREST RATE DEVELOPMENTS, 1989-94



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

1/ A decline indicates an appreciation.

2/ An increase indicates an appreciation. Based on trading partner weights in SM/94/138, adjusted for trade with China passing through Hong Kong.



and streamlined controls on commercial bank lending rates. Restrictions on interbank trading in foreign currency were lifted (December 1993) and treasury bills were made negotiable and were allowed to be held by banks (January 1994). In the fiscal area, the authorities completed a wage reform, but little progress was made with the expected rationalization of turnover taxes and the draft organic budget law was not enacted. As regards state enterprise reform, the re-registration process continued satisfactorily, but little progress was made in the pilot program for equitization under which only two firms have so far issued shares. In the external area, steps were taken to liberalize export permits, a foreign exchange interbank market was formally established, after some delay, in October 1994, and foreign investment procedures were simplified. However, planned measures in the areas of import licensing and import permits were delayed until 1995, and the centralization of official reserves, which proved more complex than expected, was only partially implemented. In other areas, the Domestic Investment Law, which simplifies regulations for domestic investors and provides incentives similar to those provided to foreign investors, was passed by the National Assembly in June 1994. At that time, a Bankruptcy Law and a comprehensive Labor Code were also approved. <sup>1/</sup> The process of issuing certificates of land-use rights to farmers was begun in the spring of 1994.

### III. Medium-Term Macroeconomic Framework and Structural Reform Agenda

Despite recent achievements, Viet Nam remains an extremely poor country with high population growth and comparatively weak infrastructure. The authorities are acutely aware of the need for sustained high economic growth to raise living standards and create employment opportunities for the fast-growing work force. To this end, the authorities are committed to intensifying the structural reform process and maintaining prudent financial policies. The authorities also recognize that to sustain the growth momentum, substantially higher levels of investment will be required and, in that context, strong efforts will be needed to mobilize domestic and foreign savings.

#### 1. Macroeconomic framework

The authorities' specific macroeconomic objectives for the period through 1997 are: (i) to sustain economic growth at an average of 8 percent per year; (ii) to reduce inflation to levels prevailing in major trading-partner countries (presently estimated at 6 percent per year); and (iii) to strengthen the external position by raising gross official reserves to the equivalent of 11 weeks of imports (Table 2). In the discussions, the authorities emphasized their desire to achieve higher growth and that they

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<sup>1/</sup> The Labor Code includes regulations governing dismissal, the right to strike, and working conditions.

Table 2. Viet Nam: Medium-Term Macroeconomic Framework, 1991-97

	1991	1992	Pre-l. 1993	SBA 1994	ESAF 1994	ESAF 1995	ESAF 1996	1997
<u>(Annual change, in percent)</u>								
Real GDP growth <u>1/</u>	6.0	8.6	8.1	8.0	8.7	8.0	8.0	8.0
GDP deflator	72.6	32.6	14.3	9.8	11.3	8.0	6.0	6.0
Retail price index (end of period)	68.1	17.5	5.2	7.0	10.5	7.0	6.0	6.0
Exports	18.0	21.2	15.1	18.0	26.3	13.5	10.5	9.8
Imports	18.8	20.4	38.3	10.6	14.4	15.5	11.7	10.0
Real nongovernment per capita consumption	6.8	-1.5	7.3	1.3	2.2	3.8	4.4	4.1
<u>(As percentage of GDP) <u>1/</u></u>								
Gross capital formation	15.1	17.0	19.4	14.9	19.9	21.8	23.4	24.6
Government <u>2/</u>	2.8	5.8	7.0	8.3	7.2	7.9	8.2	8.5
Nongovernment <u>3/</u>	12.3	11.2	12.4	6.6	12.7	13.9	15.2	16.1
Of which: Government guaranteed <u>3/</u>	(...)	(...)	(...)	(0.6)	(0.8)	(0.9)	(1.1)	(1.2)
Gross national savings	12.8	16.3	11.2	8.8	15.0	16.2	17.2	18.2
Government	-1.3	1.4	0.1	2.8	3.9	3.7	4.0	4.2
Nongovernment	14.1	14.9	11.1	6.0	11.1	12.5	13.2	14.0
Revenue and grants	13.5	19.0	22.3	24.5	25.4	25.5	25.6	25.7
Total expenditure <u>2/</u>	17.2	22.7	28.5	28.9	28.1	28.9	29.1	29.4
Of which: Current expenditure	(14.4)	(16.9)	(21.5)	(21.3)	(20.9)	(21.0)	(20.9)	(20.9)
Current account balance (cash) <u>4/</u>	0.9	3.4	1.5	2.9	4.1	3.7	4.0	4.2
Overall fiscal balance (cash) <u>4/</u>	-1.9	-2.5	-5.5	-4.6	-3.1	-4.2	-4.2	-4.3
Domestic financing	0.5	-0.7	3.4	1.5	1.5	1.6	1.6	1.6
External current account <u>4/</u>	-2.3	-0.7	-8.3	-5.5	-4.9	-5.6	-6.2	-6.5
External debt service/exports (due)	(20.2)	(22.4)	(26.8)	(12.7)	(12.0)	(11.8)	(8.6)	(9.2)
External debt/GDP <u>5/</u>	...	...	31.4	31.5	29.8	29.8	30.7	31.1
<u>(In millions of U.S. dollars)</u>								
Current account	-133	-8	-869	-712	-641	-808	-1,031	-1,235
Exports (f.o.b.)	2,042	2,475	2,850	3,362	3,600	4,086	4,514	4,956
Imports (f.o.b.)	-2,105	-2,535	-3,505	-3,875	-4,008	-4,631	-5,174	-5,693
Nonfactor services (net)	179	311	78	149	134	118	75	55
Factor services (net)	-339	-382	-556	-539	-560	-618	-697	-791
Of which: Scheduled interest	(-248)	(-282)	(-327)	(-259)	(-256)	(-262)	(-285)	(-312)
Private transfers	35	59	70	91	91	100	110	121
Official transfers	55	64	194	101	101	136	142	117
Capital account	-59	271	-161	543	444	761	1,130	1,365
Foreign direct investment	220	260	300	330	435	500	575	662
Medium- and long-term loans	-191	52	-403	213	28	261	555	704
Disbursements	65	487	241	500	315	600	750	900
Scheduled amortization	-256	-435	-644	-287	-287	-340	-195	-196
Short-term capital (net)	-88	-41	-58	--	-19	--	--	--
Errors and omissions	142	4	-76	--	28	--	--	--
Overall balance	-50	268	-1,106	-169	-169	-47	100	130
Financing	50	-268	1,106	169	169	47	-100	-130
Change in NIR (increase-)	-282	-464	488	-85	-85	-100	-100	-130
Change in other NIR (increase-)	-276	-464	527	-220	-254	-269	-269	-160
Use of Fund credit (net)	-6	--	-39	135	169	169	169	30
Arrears (net)	332	196	-265	-2,459	-2,459	--	--	--
Debt relief/financing gap <u>6/</u>	--	--	883	2,713	2,713	147	--	--
Memorandum items:								
Gross official reserves <u>7/</u>								
(In millions of U.S. dollars)	27	465	404	624	658	877	1,096	1,206
(In weeks of imports)	0.7	9.5	6.0	8.4	8.5	9.8	11.0	11.0
ICOR	2.5	2.0	2.4	1.9	2.3	2.7	2.9	3.1
Terms of trade (percent change)	...	...	9.6	0.9	4.9	-1.6	-2.7	-3.2
Velocity of broad money <u>8/</u>	5.3	5.0	4.7	4.4	4.5	4.4	4.4	4.3

Sources: Vietnamese authorities; and staff estimates and projections.

1/ In mid-1994, the historical GDP series and nongovernment investment series were revised upward. Variables expressed as a percent of GDP have been changed to reflect the revisions to the GDP series.

2/ Accrual basis; beginning with the 1994 stand-by arrangement figures, estimates for onlending are included.

3/ Government guarantees for foreign financed capital expenditure only.

4/ Excludes grants.

5/ Convertible currency debt only.

6/ Includes expected debt rescheduling.

7/ Includes gold.

8/ Calculated on the basis of quarterly monetary data.

regarded 8 percent as being at the lower end of the feasible range. <sup>1/</sup> The staff took the position that although prospects for the oil and gas industry, tourism, and light manufactures were promising, agriculture--which still accounts for about 30 percent of GDP--could at best grow at an average of 3 1/2 percent per year. In these circumstances, an average of 8 percent growth sustained over the medium term would be a considerable achievement.

The recent high rates of economic growth have been achieved with relatively modest investment. Although there are problems in accurately estimating capital formation, the historical ICOR appears relatively low (at between 2 and 2 1/2). This is thought to be attributable to improvements in the allocation of resources, the application of new technologies, and higher capacity utilization--all of which are, in part, the results of market-based reforms. However, the availability of quick-return investments, notably from the rehabilitation of existing capital stock, can be expected to gradually decline, particularly as larger infrastructure projects come on stream. The medium-term projections therefore assume a steady increase in the ICOR to 3 by 1997 and to higher levels thereafter. Consistent with these projections, investment is expected to increase from 20 percent of GDP in 1994 to 24 1/2 percent of GDP in 1997.

The higher level of investment is expected to be financed primarily from national savings which are projected to increase by 3 percentage points of GDP during 1994-97. Budgetary adjustment would account for only a small part (about one tenth) of the increase. A higher level of savings by the nongovernment sector is expected to result from a number of structural measures intended, among other things, to expand the range and attractiveness of financial assets, improve state enterprise profitability, increase remittances from Vietnamese abroad, and make domestic investment more attractive. The targeted increase in investment will also require additional foreign savings. The external current account deficit (excluding official transfers) is projected to rise to a peak of 6 1/2 percent of GDP in 1997 compared with 5 percent of GDP in 1994. The increase would reflect import expenditures associated with higher foreign direct investment and increased disbursements of medium- and long-term loans. While the bulk of the latter would be on concessional terms, the economic program also allows for a limited amount of external commercial borrowing under government guarantee (see Section IV.2. below).

The fiscal framework for the medium term envisages an overall budget deficit in the range of 4 1/4 percent of GDP. The ratio of revenue to GDP (currently about 25 percent) is expected to increase only marginally as the emphasis will shift to revenue neutral tax reform rather than new revenue-raising measures. With current expenditure also expected to stay broadly unchanged as a percentage of GDP, the surplus on current operations is projected in the range of 3 3/4-4 1/4 percent of GDP. The authorities have indicated that they will not finance the budget deficit by domestic bank

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<sup>1/</sup> See Annex I, paragraph 4.

borrowing or external commercial borrowing and that domestic nonbank borrowing will be limited to about 1 1/2 percent of GDP so as not to crowd out private sector investment. The critical factor in determining the level of capital expenditure will, therefore, be the pace of disbursement of external aid. While the baseline projections indicate capital spending (including onlending) increasing to 8 1/2 percent of GDP by 1997, the staff emphasized that the authorities should be prudent in projecting the level of external aid and that the public investment program should be sufficiently flexible so that it can be tailored to the amount of external assistance forthcoming. In addition, the staff noted that if concessional loans disbursed faster than projected, the authorities must ensure that sufficient funds could be generated, within the overall financing objectives, to cover local currency costs.

In line with the growth, inflation, and foreign reserves objectives, the authorities intend to follow prudent monetary and credit policies over the medium term. It is expected that the velocity of broad money will continue to gradually decline, particularly as financial sector reforms are implemented. Nevertheless, the targeting of liquidity growth will use cautious assumptions in this respect. The authorities wish to move as soon as it is feasible to more efficient indirect instruments of monetary policy. However, while securities markets are being developed and the commercial banking system is being strengthened, reliance will be placed on direct credit controls and administered interest rates. In this context, the authorities intend to continue their policy of recent years of setting interest rates at positive real levels.

In regard to exchange rate policy, the authorities reaffirmed their commitment to a market-based exchange rate with limited official intervention aimed only at smoothing out short-term fluctuations. The authorities recognize that the goal of relative stability of the exchange rate over the medium term will be achievable only by sound fiscal and monetary policies.

## 2. Agenda for structural reforms

As detailed in the Policy Framework Paper, the authorities have an ambitious agenda for structural reforms over the period of the ESAF arrangements. They recognize that such reforms will be crucial to the attainment of the macroeconomic objectives outlined above. To this end, major steps are planned to: (i) rationalize taxation and government expenditure policies and strengthen the institutional framework for fiscal management; (ii) improve financial markets, strengthen the commercial banking system, and develop indirect instruments of monetary policy; (iii) further liberalize the trade and exchange systems by eliminating all major nontariff barriers, reforming the tariff system, and removing the remaining exchange restrictions on current international transactions; (iv) restructure the state-owned enterprise sector through a program of divestiture; and (v) further develop the legal framework for market-based transactions.

In support of these policies, the authorities are actively seeking technical assistance from bilateral and multilateral donors as well as from private businesses and financial institutions. As delays in structural reforms have resulted from inadequate technical preparation, and given the still weak administrative and implementation capacity of the civil service, the ESAF-supported program will emphasize the provision of technical assistance. The Fund will take a lead role or act as a coordinating agency with the World Bank in a number of key areas, including tax reforms, public expenditure management, development of a macroeconomic fiscal management capability, strengthening of the State Bank and development of monetary instruments, development of the foreign exchange market, reform of the tariff and trade systems and improvement of economic statistics (see Annex V). The World Bank is also providing major technical assistance on the legal framework, state enterprise restructuring, reform of the state-owned commercial banks, and the public investment program. The IFC is providing assistance in the area of capital markets.

a. Budgetary reforms

(i) Rationalization of the tax system

Over the past seven years, Viet Nam has established a tax system with an appropriate range of tax instruments. <sup>1/</sup> While the system has been effective in raising revenue, it has serious weaknesses that will increasingly affect the allocation of resources and the course of future development. In particular, the cascading turnover tax--which has 17 rates--is distortionary, acts as a disincentive to investment and exports, and is difficult to administer. The structure of import duties--with 29 rates--is also excessively complex, and, particularly in the categories with high tariff rates, has the potential to foster inefficient domestic industries. In addition, the enterprise profits tax is highly discriminatory both between industries and between domestic and foreign enterprises, while the individual income tax has only a limited coverage.

During the period of the ESAF arrangements, the authorities plan to rationalize these taxes in a phased and revenue-neutral manner. The measures to be put in place include: (i) a value-added tax; (ii) a simple import tariff system with a low level of effective protection; (iii) an enterprise profits tax with a less discriminatory rate structure; and (iv) a more broadly based personal income tax.

A start to these reforms will be made in April 1995 when the maximum import tariff rate will be reduced to 60 percent (from 200 percent). At the same time, excise taxes will be introduced on the previous high-tariff items to cover resulting revenue losses. This will be followed in October 1995 by

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<sup>1/</sup> Import duties were introduced in 1987, while the turnover tax, excise duties, individual income tax, enterprise profits tax, and land and housing taxes have been introduced since 1990.

presentation to the National Assembly of a comprehensive package of tax reforms, which will include, as first steps: (i) a reduction in the number of turnover tax rates to a maximum of 10; (ii) a reduction in the number of import tariff rates to 6; (iii) a simplification of the enterprise profits tax by reducing the dispersion of rates, eliminating the excess profits tax, and (to ensure revenue neutrality) raising capital user fees charged to state-owned enterprises; and (iv) the extension of personal income tax to all forms of cash remuneration, with a withholding tax introduced for interest and rental income. The tax reform package will specify the timing of subsequent steps to reach the objectives set for the period of the ESAF arrangements. 1/

Complementary to the tax reforms, the authorities have initiated steps to improve tax administration in a program which will be supported by Fund technical assistance. The program, which will involve computerization of tax records, will focus on the introduction of self-assessment and tax identification number systems.

(ii) Public expenditure reforms

On the expenditure side, efforts will be directed toward (i) improvements in public expenditure management; (ii) a reprioritization of current outlays; and (iii) rationalization of the public investment program.

An institutional framework for public expenditure management will be established through the passage of an Organic Budget Law scheduled for submission to the National Assembly in April 1995. The law will clarify the respective roles of central government ministries, establish modalities for budget preparation and approval, and provide a basis for the allocation of revenues and expenditures among different levels of government. Subsequently, steps will be taken to strengthen Treasury control over both current and capital expenditures. The authorities are also developing a macroeconomic fiscal management capability, with technical assistance from the Fund.

Over the next several years, current expenditures will be gradually reallocated toward priority economic and social services, including a strengthening of the social safety net. 2/ A public expenditure review--undertaken in conjunction with the World Bank's Structural Adjustment Credit (SAC)--will be completed in mid-1995, and its findings will be taken into

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1/ A great deal of preparatory work is entailed in the reform package and substantial Fund and World Bank technical assistance will be required. Detailed understandings on the reform package will be an important focus of the midterm review under the first annual ESAF arrangement.

2/ The present allocation of expenditures is unclear from available data and a priority in technical assistance provision will be the development of reliable functional and economic classifications of expenditures.

account in formulating the 1996 budget. The authorities plan, in particular, to increase resources available for basic health care and education. The authorities also plan an administrative reform which will reduce the number of government ministries and agencies. Although the administrative reform will not involve a reduction in the overall size of the civil service, there will be a reallocation toward more teachers and health care workers. In the discussions, the authorities were not specific in regard to plans for defense spending--which is estimated at about 2 1/2-3 percent of GDP in 1994.

In regard to the social safety net, the authorities plan to strengthen the existing Social Insurance Fund (which at present is inadequately funded through the budget) by moving toward a system of employer and employee contributions. A similar scheme is envisaged for public sector pensions. At the same time, the authorities are attempting to strengthen budget-financed training schemes by seeking greater involvement of the private sector. During the retrenchment of 1989-93 (when approximately 1 million people were laid off from state enterprises and government employment), redundant workers received lump-sum payments based on seniority, and such payments will continue. The World Bank has found that with market reforms having a beneficial impact on both rural and urban areas the majority of laid-off workers have been re-employed.

With respect to capital expenditures, the authorities, in collaboration with the World Bank, have developed guidelines for a three-year rolling public investment program (PIP) covering budgetary outlays, onlending, and government-guaranteed loans for state enterprises. Understandings on the PIP are an important condition for the World Bank's SAC. During the discussions, the authorities indicated that the investment program over the medium term will focus on infrastructure projects in transportation, power, and other sectors.

b. Financial sector reforms

Reform of the financial sector is crucial for the mobilization of domestic savings and the efficient allocation of loanable funds. Currently, there are no organized capital or securities markets within Viet Nam and the banking system, despite a recent influx of foreign and joint venture banks, is still dominated by the state-owned banks which have weak loan portfolios. The banks are generally underutilized by the public which has preferred to invest in gold, foreign currency, or physical assets. The State Bank of Viet Nam, which has gradually divested itself of commercial functions since 1988, is still at an early stage in its development as a central bank.

The reforms envisaged over the period of the ESAF arrangements will involve: (i) the creation of institutional and legal frameworks for financial markets; (ii) the strengthening of the commercial banking system and the adoption of an efficient payments system; and (iii) the development of the State Bank's capability to conduct monetary policy and bank supervision. Along with progress in each of these areas, the authorities

plan to gradually liberalize the present system of administered interest rates. In addition, by mid-1995, the authorities plan to centralize the control of all holdings of official reserves at the State Bank and to phase out the practice of investing official reserves through the state-owned commercial banks.

In the area of financial markets, the main progress so far has been the establishment of interbank money markets in domestic and foreign currency. A first step toward the establishment of securities markets will be the introduction of a treasury-bill auction in early 1995 which will be followed by the opening of a secondary market. The Government also wishes to move forward with a longer-term bond market, though the demand for such bonds may be small at this stage. Plans are also under way to start a stock exchange in 1996; however, for this to be feasible, faster progress will be required in the equitization of state-owned enterprises (Section d. below).

To strengthen the banking system, measures will be introduced in 1995 to improve accounting standards and loan classification procedures, as well as to allow for more adequate provisioning against bad loans. Efforts are also being made, with technical assistance from the Fund, the World Bank, and bilateral donors, to improve the quality of banking supervision and efficiency of the payments system. External audits have been initiated for the four state-owned banks. By the scheduled date for completion of the audits (mid-1995), a committee is expected to report on outstanding claims against closed state enterprises and on the proceeds of sales of assets of the enterprises under the Bankruptcy Law. 1/ This information will provide the basis for important decisions on recapitalization, management, and ownership of the state-owned banks.

The authorities intend to move gradually toward indirect instruments of monetary policy as progress is made in restructuring the banking system and in establishing securities markets. In the meantime, steps will be taken to improve the present system of direct controls. In particular, during 1995, credit ceilings will become tradable among the commercial banks, and the reserve requirement system and State Bank refinancing facilities will be further reformed. The authorities will also continue the rationalization of interest rates and make further adjustments to the term structure of interest rates. 2/ Given a sustained reduction in inflation over the program period, there should also be scope for a gradual reduction in nominal interest rates.

c. External sector reforms

In order to foster growth and job creation, the authorities plan to make further progress in liberalizing trade, eliminating remaining exchange

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1/ The net cost of the operation may be about 1/2 percent of GDP. Some budgetary expenditure may be needed on this account in 1996.

2/ See Section V.2. below.

restrictions on current account transactions, and streamlining the procedures for foreign investment.

(i) Trade reform <sup>1/</sup>

In recent years, many nontariff barriers--including the bulk of export shipment licenses, most import prohibitions, and virtually all import quotas--have been eliminated. <sup>2/</sup> Import licenses are still required, however, on an individual shipment basis for almost all commodities, in addition to which special import permits are required for 15 "strategic" import categories. The major thrust of trade liberalization measures will be to eliminate the requirements for both shipment licenses and import permits during the first two years of the ESAF arrangements. Substantive steps will be taken during the first annual arrangement as described in Section V.3.c.

(ii) Exchange restrictions

During the period of the ESAF arrangements, the authorities will eliminate the few remaining restrictions on current international transactions with a view to accepting the obligations of Article VIII of the Fund's Articles of Agreement. <sup>3/</sup> The authorities plan to announce shortly an increase in the travel allowance (currently \$3,000) and will, prior to the second-year ESAF arrangement, issue implementing guidelines to the commercial banks specifically indicating the elimination of all exchange restrictions on current transactions for both goods and services. In addition, in the context of overall tax reform, the 5-10 percent tax on profit remittances from foreign direct investment, which constitutes a multiple currency practice, will be eliminated in the 1996 budget.

(iii) Foreign direct investment

During the past year, the authorities have responded to criticisms of excessively bureaucratic intervention in the foreign investment process by streamlining procedures for approval, selection, and implementation. These reforms are expected to continue as experience is gained. An important next step will be the clarification of the respective roles of different levels of government, and regulations on this aspect will be issued by the end of 1994.

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<sup>1/</sup> The authorities' plans for reduction of tariff barriers are detailed in Section III.2.a.(i) above.

<sup>2/</sup> Export shipment licenses still remain for crude petroleum, rice, wood products, and re-exported commodities. The authorities indicated that, at this stage, they wished to retain the remaining export shipment licenses.

<sup>3/</sup> In addition to the noted restrictions, Viet Nam also maintains exchange restrictions evidenced by external payments arrears.

d. State enterprise reforms

State enterprise reform has been ongoing for many years and extensive progress has been made with the imposition of hard budget constraints on state enterprises. <sup>1/</sup> As part of a successful re-registration drive, the number of state enterprises has been reduced from 12,000 to about 6,500 through liquidation and mergers. Notwithstanding this progress, the state enterprise sector still accounts for about one half of production in the industrial and service sectors. A core element of the authorities' economic strategy is, therefore, the reform program of the state enterprise sector. The authorities' aim is to improve the performance of this sector through better management of "strategic" enterprises and through divestiture of ownership of other enterprises to the private sector. To these ends, the authorities are working closely with the World Bank to formulate a State Enterprise Reform Action Program which will be adopted in 1995. The key issues of determining specifically the split between strategic and nonstrategic enterprises and the strategy to be followed for each of these categories has still to be decided. However, it is expected that the strategic enterprises (possibly numbering 300-400) will mostly be large companies providing infrastructure and commercial public services. Their management will be regulated under a State Enterprise Law (to be enacted in 1995), and their financial supervision will be strengthened through improved audits under the direction of a General Department of State Enterprises that is to be established within the Ministry of Finance.

The nonstrategic enterprises will be transformed into shareholding companies--a process that is to be completed around mid-1996--before divestiture takes place. Some experience with divestiture has been gained through a pilot program, but so far only two enterprises have been privatized. More immediate progress is likely through joint ventures with foreign companies, which will mobilize additional capital as well as improve management.

e. Legal reforms

The legal reforms envisaged over the coming three years include promulgation of a civil code (mid-1995), a commercial law (1996), and an amended company law (mid-1995). In addition, implementing regulations for the land law (including an extension of the management of land-use rights to urban areas), and provision for leasing, tenancy, mortgaging, foreclosure, and eviction are expected to be enacted in 1995. Also, the institutions for implementing the laws and regulations are being strengthened through the establishment of economic courts and an International Arbitration Center.

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<sup>1/</sup> Net transfers to the budget have improved by 8 percent of GDP during 1989-93, while growth in bank credit has declined by 5 percent of GDP during this period.

#### IV. Medium-Term Balance of Payments Outlook

##### 1. Current account prospects

The anticipated widening of the external current account deficit (from 5 percent of GDP in 1994 to 6 1/2 percent of GDP in 1997) reflects the impact of structural reform measures as well as import expenditures associated with the expansion of foreign direct investment and externally financed projects (Table 2). The baseline projection assumes that imports grow by an annual average of 13 percent during 1994-97. While imports of industrial inputs and capital goods are projected to expand particularly rapidly, consumer goods imports would also be expected to have an income elasticity greater than unity. Exports are assumed to rise at an average of 15 percent per year with the main increases being in petroleum, marine products, agricultural and forestry products, and handicraft goods. On the basis of WEO commodity price forecasts, the terms of trade are projected to deteriorate (by a cumulative 7 1/4 percent) over 1995-97. The current account projections are based on relatively conservative assumptions with regard to foreign exchange receipts from tourism and remittances from Vietnamese abroad. In both of these categories, there is large potential for expansion.

##### 2. Capital inflows

The total external financing requirement for 1995-97 is estimated at about \$5 billion, including public debt repayments of \$730 million and an accumulation of international reserves by the banking system of \$700 million. While foreign direct investment would account for about one third of the total financing requirement, the bulk of the remainder would be in the form of grants and concessional loans (\$2.5 billion, including use of Fund resources). The sources of external assistance are relatively well identified. About \$1.5 billion is expected from the multilateral institutions. As regards bilateral assistance, several countries (with Japan being the largest) made substantial pledges at the Aid Group meetings in November 1993 and there are indications that these will be augmented at the upcoming Consultative Group meeting to be held in Paris in November 1994. In the recent discussions with the authorities and subsequent contacts with donors, there were positive signs that the initial difficulties with disbursements of project assistance which were reported during the midterm review of the stand-by arrangement are gradually being overcome. The initial difficulties partly reflected a complicated internal review and decision-making process. The problems have been taken up at the Prime Ministerial level and efforts made to streamline procedures. 1/ Notwithstanding these improvements, while the project pipeline is being established, program loans will be required. About \$235 million of direct balance of payments assistance has

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1/ External concessional loan disbursements which were only \$24 million in the first half of 1994, accelerated in the third quarter with receipt of about \$50 million in assistance from the World Bank to \$80 million.

been included for 1995, including \$135 million in program loan disbursements from the World Bank and the Asian Development Bank.

It is envisaged that during the period of the ESAF arrangements, concessional assistance will be supplemented by a limited amount of external commercial borrowing with a public sector guarantee. The amount of such borrowing will be prudently set to ensure that the resulting debt-service payments are kept well within Viet Nam's projected capacity for repayment. As indicated in Section V.3.b. below, such borrowing would have a maturity of greater than five years and would not be used for the financing of budget operations or for strengthening the resources of the State Bank or other public financial institutions. The limit on the contracting of such debt during the first annual arrangement is set at \$350 million, about one third of which is expected to be disbursed in 1995.

### 3. External debt

The authorities are still engaged in the process of normalizing relations with external creditors. While most of the bilateral agreements with Paris Club creditors have been completed, there are a few that still have to be signed, and the authorities have requested that the deadline be extended to March 31, 1995. In the meantime, progress has been made in negotiations with commercial bank creditors and it is expected that a debt buyback/Brady bond restructuring of the debt could take place in early 1995. 1/ The regularization of the commercial bank debt will facilitate the expected rescheduling of the suppliers' credits that were contracted earlier in support of the budget.

With regard to the non-Paris Club bilateral creditors, and, in particular, in the negotiations regarding the transferable ruble debt, only limited progress appears to have been made. The authorities report that during the past few months, there has been an exchange of views on the issue of the outstanding debt to Russia and Eastern European countries at Ministerial and Prime Ministerial level meetings with the creditors. Taking into account the principles of the rescheduling agreed with Paris Club creditors, the Vietnamese authorities are presently engaged in preparing detailed proposals for bilateral settlement with those creditors. The initial discussions on the proposals at the technical level are expected to commence before the end of 1994. In the meantime, Viet Nam continues to make debt-service payments in kind to those creditors.

As a result of high export growth over a number of years and debt rescheduling at concessional terms, the debt-service ratio has fallen from 42 percent in 1989 to 12 percent in 1994. The ratio is projected to decline

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1/ The authorities have requested assistance with upfront costs of the operation under the IDA Debt Reduction Facility. At this stage, neither the assistance nor the upfront costs have been incorporated in the projected balance of payments.

further to about 9 percent in 1996-97 after the sizable commercial debt contracted in 1993-94 at very short maturities has been repaid or rescheduled.

#### 4. Risks and capacity to repay the Fund

While the debt-service ratio is expected to decline over the next few years, the external outlook is still subject to a number of uncertainties, both exogenous and policy-induced, which could adversely affect Viet Nam's external viability. In order to assess the sensitivity of the Vietnamese economy to adverse developments, the staff has prepared three alternative scenarios (lower export growth, slower disbursement of concessional loans, and higher levels of commercial borrowing) to illustrate the impact on external viability. In the first two scenarios, the medium-term balance of payments proves to be fairly resilient with a combination of adjustment (lower output and import growth) and financing (in the form of lower reserve accumulation). In the third scenario, although the initial impact on the balance of payments is quite small, an increased dependence on commercial borrowing over the medium term could give rise to a significant increase in the debt-service ratio making the economy more vulnerable to adverse shocks in the future.

##### a. Alternative scenarios

A first scenario illustrates the impact of reduced export growth as a consequence of disappointing oil exploration at the new Dai Hung (Big Bear) field and declining world market prices for primary products (Appendix Table 6). More specifically, the scenario assumes a reduction in overall export growth of about 2 1/2 percent per year as a result of lower growth in oil production from 10 percent to 2 percent per year, constant oil prices of \$15 per barrel, and coffee prices that fall back rapidly to 1993 levels. Notwithstanding lower export receipts, external viability can be maintained through a contraction of import growth by around 2 percentage points and modestly lower reserve accumulation. Growth, though lower, would still register a fairly robust rate of more than 6 1/2 percent.

A second scenario examines the consequences of slower disbursements of concessional loans. The scenario assumes that unexpectedly severe delays cause a 25 percent shortfall in estimated disbursements in 1995. The shortfall continues in outer years, but gradually declines to 10 percent in 1999. In response, it is assumed that the authorities reduce capital expenditures. The effect of such a policy response is to lower growth--but the impact is far less than in the first scenario. Again, external viability can be maintained through a modest reduction in import growth and a slower accumulation of reserves.

The third scenario illustrates the impact of utilizing commercial borrowing to substitute for the shortfalls in concessional finance. The resulting increase in commercial loans over the period 1994-97 is assumed to be in the range of \$1.5 billion, funded at maturities of under five years.

While the shift to commercial funding would have little impact on the external situation in the first one or two years, the debt-service burden would rise rapidly thereafter as the debt-service ratio rises from 9 percent of exports of goods and services in 1996 to 15 percent in 1999. Meeting the debt-service burden would necessitate significant budgetary measures and a cut in absorption. Growth in real GDP and imports are projected under this scenario to be 1 1/2-2 percentage points lower than in the baseline from 1997 onward.

b. Capacity to repay the Fund

Against the background of a good overall capacity to repay, and with exports continuing to grow rapidly, the capacity to discharge obligations to the Fund is relatively well assured (Appendix Table 7). Obligations to the Fund, including repayments for the requested ESAF arrangements, are projected to average about 3/4 of 1 percent of exports of goods and services during the repayment period, with a peak of 1.4 percent in 1998, when the drawings under the stand-by arrangement are being repaid. The absolute amount of future obligations to the Fund will peak later, in 2002-2004 at 31-33 percent of quota, when repayments under the ESAF are due. These amounts would at that time constitute about 1 percent of projected exports of goods and services or about 15 percent of overall debt-service payments. Total indebtedness to the Fund will reach a maximum of SDR 480 million (200 percent of quota) in mid-1997. At that time, projected gross reserves would be equivalent to 170 percent of outstanding Fund credit.

V. Economic Program for 1994-95

Economic policies for the remainder of 1994 and for 1995 are formulated within the medium-term framework outlined in Section III. For the remainder of 1994, the policies and targets are broadly similar to those established under the stand-by arrangement. For 1995, economic policies will aim to support real GDP growth of 8 percent, a decline in inflation to about 7 percent, and an increase in gross official reserves to about ten weeks of imports.

1. Fiscal policies

During 1994, the authorities are expected to meet the stand-by program objectives of avoiding bank financing or recourse to external commercial borrowing. Compared with an initial target of 6 percent of GDP, the authorities expect to contain the overall fiscal deficit to 3 percent of GDP. <sup>1/</sup> The authorities indicated that they would take additional measures during the remainder of the year, if necessary, to meet the target.

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<sup>1/</sup> The budget figure has been adjusted to include an estimate for onlending to keep it comparable to the 1994 ESAF figure.

The 1995 budget will be formulated on the basis of conservative projections of available finance so as to avoid the need for intrayear adjustments. The overall deficit is to be targeted at 4 1/4 percent of GDP with a surplus on current operations of 3 3/4 percent of GDP. The deficit will be entirely covered by concessional external assistance and nonbank domestic financing which will be limited to about 1 1/2 percent of GDP.

While reforms of tariff rates and excise duties are planned during the year (Section III.2.a. above), these will be revenue neutral and the revenue-to-GDP ratio for the year is expected to remain broadly unchanged. On the expenditure side, both current spending and capital expenditures will be budgeted at about the same levels (in relation to GDP) as in 1994. However, the budget will also provide for contingency funds equivalent to D 2 trillion which are not explicitly allocated for current or capital purposes. 1/ The authorities have indicated that they will accord priority to increasing capital expenditure and, to the extent that greater foreign assistance becomes available, such resources will be channeled into the public investment program provided that any necessary domestic counterpart funds can be made available within the overall budget objectives. At the same time, if a shortfall in external assistance becomes apparent, the authorities are committed to take revenue and expenditure measures in order to contain the overall deficit.

## 2. Monetary and credit policies

During the remainder of 1994, financial policies will be geared toward achieving the targets established under the stand-by arrangement. In the last quarter, with the Government expected to repay earlier domestic bank borrowing and nongovernment credit expansion limited to 5 percent, the growth of broad money for the year is expected to be contained to 21-22 percent. Given the current inflation projections, the velocity of broad money in 1994 is expected to decline to 4.5 from 4.7 in 1993 and 5 in 1992.

For 1995, policies will aim to limit broad money growth to about 20 percent. Based on growth and inflation targets, this would imply a further small reduction in velocity to 4.4. With an expected accumulation of net international reserves of about \$100 million during the year, domestic credit growth will need to be limited to about 20 1/2 percent during 1995--about the same as in 1994. Within this framework, no net credit will be extended to the Government for the year overall, while growth in credit to state enterprises is expected to be limited to 13 1/2 percent. On this basis, credit to the nonstate sector is targeted to rise by 40 percent.

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1/ In the staff's presentation of the budget, about 3/4 of the contingency (equivalent to 3/4 percent of GDP) has been allocated to capital expenditures.

In order to meet the financial program targets for 1994-95, the system of quarterly bank-by-bank credit ceilings will be continued. In October 1994, an interest-based penalty system was introduced to improve compliance with the ceilings and, by no later than April 1995, the commercial banks will be allowed to trade the credit ceilings among themselves. In support of the credit ceilings, the State Bank will restrict its refinancing facilities under quarterly limits specified within the economic program. In addition, from the beginning of October 1994, the refinancing rate was raised to 100 percent of the applicable lending rate for all banks except the Agricultural Bank. 1/ A uniform refinancing rate will be introduced by the end of 1995.

In order to further reduce liquidity in the commercial banks, the authorities will raise (by 1 percentage point) the required reserve ratio for time and savings deposits by November 1994. The Fund staff has been working with the authorities to improve the structure of the reserve requirements system and to establish uniform compliance. A penalty system for noncompliance was introduced in September 1994, and further actions will be taken following a study of the reserve requirement system to be completed with technical assistance from the Fund by March 1995.

As indicated earlier, the authorities plan during 1995 to begin redressing some of the distortions caused by the system of administered interest rates. Specifically, the differential on deposit interest rates for economic entities and households will be phased out by September 1995 and, by the end of the year, the minimum deposit regulations will be eliminated. The structure of lending rates will also be further rationalized in 1995 2/ with the maximum medium-term lending rate being raised above the short-term rate and the long-term rate for public investment projects being raised to 10 percent.

### 3. External policies

Under the 1994-95 economic program; the authorities intend to continue their commitment to a market-based exchange rate policy and prudent external debt management. Specific steps will also be taken to accelerate the process of liberalization of the trade and payments system.

#### a. Exchange rate policy

As indicated in Section III.1. above, the authorities recognize the need to maintain an exchange rate that reflects overall demand and supply of

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1/ For the Agricultural Bank, the refinancing rate was raised to 95 percent of the applicable lending rate and this will be further increased to 100 percent by March 1995.

2/ The medium-term lending rate was raised by 1/2 percent in July 1994. However, at 1.7 percent per month, it remains below the maximum short-term lending rate of 2.1 percent per month.

foreign exchange for the economy. During 1994-95, the determination of the official exchange rate will be moved from the foreign exchange floors that have operated since the second half of 1991 to an interbank foreign exchange market that was established in October 1994. Under the new arrangements, the rate will be allowed to respond to market forces within a daily margin (that is set at the discretion of the State Bank). The authorities have indicated that the opening exchange rate, which is set by the State Bank on a daily basis, will be adjusted according to movements in the rate over the preceding period. The exchange rate, as under the previous arrangement, is not expected to deviate significantly from the rate in the parallel market. <sup>1/</sup>

Along with the introduction of the interbank foreign exchange market, the authorities introduced new foreign exchange regulations aimed at promoting the use of the dong and increasing the supply of foreign exchange to the commercial banking system. The new regulations involve a surrender requirement for foreign exchange earnings. However, in response to concerns expressed by the staff, the authorities have indicated that the requirement will only be enforced for a few of the larger enterprises, accounting for only a small part of export earnings. The experience with the new regulations will be discussed and reassessed during the midterm review of the first annual ESAF arrangement.

b. External debt management

As indicated in Section IV.3. above, the authorities will move forward in the remainder of 1994 and in 1995 to finalize the normalization of relations with Paris Club and non-Paris Club bilateral creditors, as well as to regularize overdue debt to commercial banks and private suppliers. Under the program, the authorities do not intend to incur any new external payment arrears except transitionally for amounts for which a rescheduling is programmed. Moreover, nonconcessional external borrowing by the public sector will be limited to maturities of greater than five years and to borrowing by enterprises where a government guarantee may be needed.

c. Trade and exchange system liberalization

Within the framework set out in Section III.2.c. above, steps will be taken during the first annual ESAF arrangement to further liberalize the trade and exchange system. By April 1995, the commodity groups requiring an import permit will be reduced to ten, while the requirement for import shipment licenses will be eliminated for about one half of other imports. The authorities plan to abolish the remaining requirements for import shipment licenses and import permits during the period of the second annual ESAF arrangement. Understandings on the schedule for their removal will be

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<sup>1/</sup> The differential between the parallel and official market exchange rates has averaged 0.14 percent during 1994.

reached at the time of the midterm review under the first annual ESAF arrangement.

In addition to the phasing out of licensing requirements, the authorities will take steps to increase domestic private sector access to foreign trade. To this end, registration procedures for exporters and importers--presently a three-stage process--will be simplified during 1995. <sup>1/</sup>

In the area of exchange restrictions, the authorities will increase the current travel allowance above the present level of \$3,000 and instruct the banks to honor all bona fide requests above the ceiling. As noted above, a comprehensive set of implementation guidelines covering foreign exchange for current transactions on goods and services will be issued prior to the Board approval of the second annual arrangement under the ESAF.

#### VI. Modalities of the ESAF Arrangement

To monitor progress in policy implementation under the program, quantitative and structural benchmarks and performance criteria are summarized in Tables 1 and 2 of the annexed Memorandum on Economic and Financial Policies. The program period for the first annual arrangement under the ESAF would be October 1, 1994-September 30, 1995. Performance criteria established for end-March 1995 include: ceilings on net domestic assets of the banking system, net credit to Government, and credit to state-owned enterprises; a floor on net international reserves, a ceiling on the stock of short-term debt, and a ceiling on nonconcessional loans contracted or guaranteed by the public sector with maturities from 1-12 years, with subceilings of zero for loans with 1-5 year maturities and loans contracted by the Government or public sector financial institutions (see Annex I, Table 1). With several program loans scheduled to disburse at year-end, an adjustment mechanism has been specified to take account of delays or more rapid disbursement of these loans. The program also incorporates a performance criterion on the nonaccumulation of new external arrears--except transitionally for amounts for which a rescheduling is programmed.

The review of the program, which will take place before June 30, 1995, will focus, inter alia, on the outturn for 1994, the implementation of the 1995 budget and other stabilization policies, as well as experience gained with the new foreign exchange market arrangements and progress with structural reforms.

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<sup>1/</sup> Following promulgation of the commercial law in 1996, the registration procedures will be reduced to a single step.

## VII. Staff Appraisal

Viet Nam's good macroeconomic performance during the transition from central planning, combined with the recent progress toward normalization of international relations and the prospect of substantial external inflows, has raised expectations of rapid economic progress in the coming years. Nevertheless, much remains to be done to adapt to a market system and, within the new environment, the policy challenges have also increased. The authorities' medium-term program, which builds on progress made under the stand-by arrangement, places emphasis on strengthening the institutional framework and developing policy instruments as both stabilization policies and structural reforms move into more complex phases.

Recent performance under the stand-by supported program has been encouraging. After initial slippages, policy implementation has improved substantially and the performance criteria for June 1994 were fully observed. In the monetary area, the use of bank-by-bank credit ceilings has brought domestic credit expansion under control and the latest data indicate that the targets for September and December 1994 can be met. In the fiscal area, while the initial 1994 budget incorporated an unrealistic expectation for external assistance, the authorities have shown a willingness to implement revenue and expenditure measures during the year so as to realize the program's fiscal objectives.

With the strengthening of stabilization policies and favorable external developments, there has been a marked improvement in the external situation and the target for international reserves accumulation for 1994 should be surpassed. At the same time, however, retail prices have risen more sharply than expected in the past few months, partly owing to higher prices of staple foods. The authorities will need to monitor the price situation closely to ascertain whether there is any incipient overheating of the economy and, if necessary, tighten macroeconomic policies.

The medium-term objectives of the ESAF-supported program--to maintain growth at 8 percent per year, reduce inflation to the level of trading-partner countries, and raise gross official reserves to 11 weeks of imports--are feasible, but ambitious. Their realization will require restrained financial policies combined with an intensification of market-based reforms. Investment levels will need to be raised substantially and efforts should be directed toward mobilizing both foreign and domestic savings. The agenda for structural reforms emphasizes a comprehensive restructuring of tax and expenditure policies, strengthening of financial markets and the banking sector, and further liberalization of the trade and exchange system. These reforms will be complemented by progress in restructuring of the state enterprise sector and development of the legal framework.

The 1995 budget will be consistent with the medium-term fiscal objectives. In light of recent experience, the budget is to be based on a conservative expectation of foreign assistance. However, the authorities

need to continue to work closely with donors to facilitate the disbursement of foreign aid. Provided current expenditures are maintained at the 1994 level in relation to GDP, the budget should provide scope for an expansion of capital spending without recourse to domestic bank finance or external commercial borrowing. The staff would emphasize, however, the importance of flexibility in the implementation of the capital budget, particularly in response to changes in the flow of external assistance.

The medium-term program envisages important structural changes in taxes and the composition of expenditure. The phased introduction of a value-added tax, a restructuring of import tariffs, and reform of the personal income and enterprise profits taxes, are crucial for future economic development. As regards government expenditure reforms, the authorities' plans for reallocation from less productive to priority sectors--such as basic health and education expenditures--still need to be specified in detail. In this context, it is important that the authorities complete, as quickly as possible, the envisaged public expenditure review and the appraisal of the public investment program, which are being conducted in collaboration with the World Bank. The staff would also encourage the authorities to utilize technical assistance from the Fund and others to help improve overall fiscal management.

Monetary and credit policies have been formulated in a prudent manner. In the near term, the authorities will rely mainly on direct controls to ensure the necessary restraint in credit expansion. In this context, they are taking steps--such as rationalizing the administered interest rate structure and making credit ceilings tradable--to reduce the distortions caused by such policies. Over the medium term, the authorities will be able to move to more efficient indirect instruments of monetary policy once securities markets are established and the banking system is strengthened and placed firmly on a commercial footing. In this regard, the introduction of a treasury-bill auction in early 1995 will represent an important step. The results of the auction will also, in the interim, provide information on interest rate developments that can be used in setting maximum lending rates. Beyond this, based on external audits that will become available in mid-1995, the authorities will need to make critical decisions on the future of the state-owned banks. The staff would emphasize at this stage that any recapitalization of the state banks should be accompanied by appropriate changes in management or ownership to ensure that their operations are placed on a fully commercial basis. In the meantime, the authorities should continue their policy of ensuring that there is no substantial credit extension by the state-owned banks to loss-making state enterprises.

The authorities have affirmed their continued commitment to a market-based exchange rate policy and to limit official intervention to smoothing out short-term fluctuations. They recognize that maintaining relative stability of the exchange rate will require sound fiscal and monetary policies. In the context of the new foreign exchange interbank market, it will be important that the prescribed margin for daily changes be sufficiently wide to allow the rate to respond to market forces and that the

opening daily rate reflects market developments. In regard to the new foreign exchange regulations issued in October 1994, the staff has concerns that the introduction of a surrender requirement will have a counter-productive influence on the supply of foreign exchange to the banking system. Experience with the implementation of the new regulations will be reviewed during the midterm review under the first annual ESAF arrangement.

In other areas of structural reform, it is important that more rapid progress is made with state enterprise reform and divestiture and that the streamlining of the foreign direct investment process is continued. In the external sector, the staff supports the authorities' intention to make bold moves toward eliminating nontariff barriers and abolishing the remaining exchange restrictions on current international transactions. With the elimination of the remaining restrictions, it is expected that the authorities will be in a position to accept the obligations of Article VIII of the Fund's Articles of Agreement during the period of the ESAF arrangements. In regard to external debt management, while there have been delays in normalizing relations with creditors, the authorities are making good faith efforts to conclude negotiations to regularize outstanding arrears. Nevertheless, it is hoped that more rapid progress will be made, particularly in regard to the overdue debt denominated in transferable rubles.

Given the envisaged stabilization and structural policy measures, the medium-term prospects for Viet Nam's economic development are promising. However, as with all economic programs, there are risks from adverse exogenous factors. There are also clear difficulties in projecting economic relationships in a rapidly evolving economy with a poor statistical base. Notwithstanding these caveats, the staff believes the program to be reasonably robust provided economic policies are sufficiently responsive to changes in circumstances. The alternative medium-term scenarios indicate that, even with more pessimistic assumptions concerning export receipts or external assistance, the balance of payments would remain viable, albeit with lower growth of output and imports and some reduction in reserve accumulation. The capacity-to-repay indicators also strongly suggest that Viet Nam should be in a position to discharge future Fund obligations in a timely manner.

The staff recommends approval of the request for the three-year ESAF arrangement and the first annual arrangement thereunder.

VIII. Proposed Decision

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

1. The Government of Viet Nam has requested a three-year arrangement under the enhanced structural adjustment facility, and the first annual arrangement thereunder.
  
2. The Fund notes the Policy Framework Paper for Viet Nam set forth in EBD/94/175.
  
3. The Fund approves the arrangements set forth in EBS/94/209.

Table 1. Viet Nam: Prospective Fund Position During the Period of the ESAF Arrangements

	Outstanding Sept. 30, 1994	1994 Q4	1995				1996				1997		
			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
(In millions of SDRs)													
Net use of Fund resources		60.4	--	60.4	--	60.4	--	60.4	--	60.4	-7.6	52.8	-10.6
Tranche policies	--	--	--	--	--	--	--	--	--	--	-7.6	-7.6	-10.6
Special facilities	--	--	--	--	--	--	--	--	--	--	--	--	--
Enhanced Structural Adjustment Facility	--	60.4	--	60.4	--	60.4	--	60.4	--	60.4	--	60.4	--
Total Fund credit outstanding	133.0	193.4	193.4	253.8	253.8	314.2	314.2	374.6	374.6	435.0	427.4	480.2	469.6
Tranche policies	108.8	108.8	108.8	108.8	108.8	108.8	108.8	108.8	108.8	108.8	101.2	93.6	83.0
Special facilities	24.2	24.2	24.2	24.2	24.2	24.2	24.2	24.2	24.2	24.2	24.2	24.2	24.2
Enhanced Structural Adjustment Facility	--	60.4	60.4	120.8	120.8	181.2	181.2	241.6	241.6	302.0	302.0	362.4	362.4
(In percent of quota)													
Total Fund credit outstanding	55.0	80.0	80.0	105.0	105.0	130.0	130.0	155.0	155.0	180.0	176.9	198.7	194.4
Tranche policies	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	41.9	38.7	34.4
Special facilities	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Enhanced Structural Adjustment Facility	--	25.0	25.0	50.0	50.0	75.0	75.0	100.0	100.0	125.0	125.0	150.0	150.0

Source: IMF Treasurer's Department.

Table 2. Viet Nam: Performance Under the Stand-By Arrangement, 1993-94 1/

	1993 2/					Stock at end-Dec. Actual	March		1994 3/			Sept. Rev. Prog. 5/
	Stock end-June Actual	September Prog.	Actual	December 4/ Prog.	Actual		Prog.	Actual	June Prog.	Rev. Prog. 5/	Actual	
(In billions of dong)												
Net domestic assets of the banking system	22,129	1,188	2,597	1,952	4,550	26,678	1,248	3,117	2,548	4,600	4,399	5,500
Net bank claims on the Government	2,411	597	685	794	1,546	3,957	227	371	327	1,450	949	1,050
Bank claims on the state enterprises	15,079	442	102	884	432	15,511	592	592	1,243	1,850	1,383	2,600
(In millions of U.S. dollars)												
Floor on net international reserves	688	100	-183	244	-171	517	30	11	50	30	36	55
Ceiling on external debt Up to 1 year 6/ Contracting of external debt	--	--	--	--	--	--	--	--	--	--	--	--
1-12 years	...	180	63.7	180	193.7	...	--	--	--	100	100	100
Of which: 1-5 years	...	(--)	55.2	(--)	(185.2)	(...)	(--)	(--)	(--)	(100)	(100)	(100)

Source: Vietnamese authorities; and staff estimates and projections.

1/ Performance criteria were specified for end-December 1993 and end-March 1994 in the Memorandum of Economic and Financial Policies attached to EBS/93/154, in which indicative targets for June were also established. Performance criteria for June and September 1994 are as specified in the Memorandum on Economic and Financial Policies attached to EBS/94/105.

2/ Cumulative changes from June 30, 1993.

3/ Cumulative changes from December 31, 1993. The performance criteria of the original program have been rebased to reflect cumulative changes vis-à-vis the adjusted December 1993 performance criteria. The original performance criteria for December 1993 and March 1994 have been adjusted as indicated in footnote 4. Maximum adjustment has been assumed. The September 1993 indicative targets have only been adjusted for June 1993 data revisions (see footnote 4 below) as full data on other adjusters are not available.

4/ December 1993 performance criteria have been adjusted for (a) revisions to the estimated data for June 1993 used as the basis for original program projections; and (b) the combined effects of higher foreign disbursements and grants and lower external debt service than programmed. The latter adjustment is up to the maximum of D 400 billion (domestic targets) and \$35 million (foreign currency targets) as applicable.

5/ The revised program for June and September 1994 incorporates in the ceiling on external debt a syndicated commercial bank loan for \$100 million which was under negotiation in May 1994.

6/ Stock of short-term debt outstanding (defined as original maturities of up to one year) of any public sector entity with the exception of normal import-related financing and any bridge financing related to the payment of overdue financial obligations to the Fund.

Table 3. Viet Nam: Summary of Budgetary Operations, 1991-95

	1991	1992	Prel. 1993	Budget	SBA 1994	ESAF	ESAF 1/ 1995
(In billions of dong)							
Revenue and grants	10,353	21,023	30,500	38,660	39,660	41,885	49,138
Tax revenue	8,119	14,586	23,701	30,987	31,877	34,083	40,221
State enterprises	5,305	9,106	12,685	16,087	16,087	16,087	19,023
Other	2,814	5,480	11,016	14,900	15,790	17,996 2/	21,198
Nontax revenue	1,964	5,589	5,801	6,713	6,823	6,823	7,369
State enterprises	884	2,807	3,400	4,213	4,213	4,213	4,550
Other	1,080	2,782	2,401	2,500	2,610	2,610	2,819
Grants 3/	270	848	998	960	960	979	1,547
Total expenditure	13,196	25,120	38,975	46,853	46,773	46,381	55,693
Current expenditure	11,061	18,670	29,375	34,853	34,519	34,518	40,485
Current noninterest expenditure	8,728	15,452	25,700	31,470	31,070	31,070	36,508
Interest payments (scheduled)	2,333	3,218	3,675	3,383	3,449	3,448	3,977
Capital expenditure and onlending 4/	2,135	6,450	9,600	12,000	12,254	11,863	15,208
Current account balance on accrual basis	-708	2,353	1,125	3,807	5,141	7,367	8,653
Overall balance on accrual basis	-2,843	-4,097	-8,475	-8,193	-7,113	-4,496	-6,555
Interest arrears 5/	1,683	2,218	1,965	343	553	431	--
Current account balance on cash basis	975	4,571	3,090	4,150	5,694	7,798	8,653
Overall balance on cash basis	-1,160	-1,879	-6,510	-7,850	-6,560	-4,064	-6,555
Financing	1,160	1,879	6,510	7,850	6,560	4,064	6,555
Domestic	393	-794	4,585	2,500	2,500	2,500	3,170
Banking system	144	-2,208	2,044	--	--	--	--
Nonbank (net)	249	1,414	2,541	2,500	2,500	2,500	3,170
Foreign loans	767	2,673	1,925	5,350	4,060	1,564	3,385
Disbursements	1,335	3,481	3,158	7,110	4,860	2,359	5,575
Amortization paid (-) 6/	568	808	1,233	1,760	800	795	2,190
(In percent of GDP)							
Revenue and grants	13.5	19.0	22.3	23.9	24.5	25.4	25.5
Revenue	13.1	18.3	21.6	23.3	23.9	24.8	24.7
Tax revenue	10.6	13.2	17.4	19.1	19.7	20.6	20.9
State enterprises	6.9	8.2	9.3	9.9	9.9	9.7	9.9
Other	3.7	5.0	8.1	9.2	9.7	10.9 2/	11.0
Nontax revenue	2.6	5.1	4.2	4.1	4.2	4.1	3.8
Of which: State enterprises	1.2	2.5	2.5	2.6	2.6	2.6	2.4
Grants	0.4	0.8	0.7	0.6	0.6	0.6	0.8
Total expenditure	17.2	22.7	28.5	28.9	28.9	28.1	28.9
Current expenditure	14.4	16.9	21.5	21.5	21.3	20.9	21.0
Of which: Current noninterest expenditure	(11.4)	(14.0)	(18.8)	(19.4)	(19.2)	(18.8)	(18.9)
Capital expenditure and onlending	2.8	5.8	7.0	7.4	7.6	7.2	7.9
On accrual basis							
Current account balance (excl. grants)	-1.3	1.4	0.1	1.8	2.6	3.9	3.7
Overall fiscal balance (excl. grants)	-4.1	-4.5	-6.9	-5.7	-5.0	-3.3	-4.2
On cash basis							
Current account balance (excl. grants)	0.9	3.4	1.5	2.0	2.9	4.1	3.7
Overall fiscal balance (excl. grants)	-1.9	-2.5	-5.5	-5.4	-4.6	-3.1	-4.2
Domestic financing	0.5	-0.7	3.4	1.5	1.5	1.5	1.6
Of which: Banking system	(0.2)	(-2.0)	(1.5)	(-)	(-)	(-)	(-)
Foreign loans (net)	1.0	2.4	1.4	3.3	2.5	0.9	1.8

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

1/ The expected contingency of D 2 trillion has been allocated to capital expenditure (D 1.5 trillion) and current expenditure (D 0.5 trillion).

2/ Includes D 2,206 billion of revenue measures (1.3 percent of GDP).

3/ Through 1993, investment grants were classified under foreign loans. Grant figure for 1993 excludes those for clearance of Fund arrears.

4/ Compared with figures presented in EBS/94/105, an estimate for onlending activity (D 854 billion) has now been included in the 1994 stand-by arrangement figures. The 1994 and 1995 ESAF figures also include onlending of D 463 billion and D 455 billion, respectively.

5/ In 1993 and 1994, this line includes interest rescheduling.

6/ The 1994 revised program and ESAF figures include \$214 million of rescheduling of principal repayments. The 1995 ESAF figure includes \$147 million of rescheduling of principal repayments.

Table 4. Viet Nam: Monetary Survey, 1992-95

	1992 Dec.	1993 Dec.	1994				1995				
			June SBA <u>1/</u>	June	Aug.	Sept. SBA	Dec. ESAF	March ESAF	June ESAF	Sept. ESAF	Dec. ESAF
(In billions of dong; end of period)											
Net foreign assets	10,593	5,610	6,042	6,079	6,837	6,380	6,762	7,050	7,419	7,795	8,180
Net domestic assets	16,550	26,678	31,278	31,077	31,459	32,171	32,410	34,482	36,464	37,672	39,064
Domestic credit (net)	17,122	27,166	31,797	31,720	32,577	32,709	32,966	35,062	37,092	38,347	39,783
Government (net)	1,912	3,957	5,388	4,906	5,032	5,000	3,957	4,057	4,157	4,057	3,957
Nongovernment sectors	15,209	23,209	26,409	26,814	27,545	27,709	29,009	31,005	32,935	34,290	35,826
State enterprises	12,439	15,511	17,353	16,894	17,282	18,102	18,174	18,799	19,461	20,011	20,652
Nonstate sector	2,770	7,698	9,056	9,920	10,263	9,607	10,835	12,205	13,474	14,279	15,174
Other items (net)	-572	-488	-519	-643	-1,118	-538	-556	-579	-628	-675	-719
Total liquidity	27,144	32,288	37,319	37,156	38,295	38,552	39,172	41,532	43,882	45,468	47,244
Dong liquidity	18,931	24,882	28,948	28,447	28,928	29,903	30,063	32,195	34,318	35,676	37,224
Currency	10,579	14,218	16,630	16,382	16,972	17,179	17,313	18,355	19,370	19,934	20,592
Deposits	8,351	10,665	12,318	12,065	11,956	12,725	12,750	13,840	14,948	15,741	16,632
Foreign currency deposits	8,213	7,406	8,372	8,709	9,367	8,648	9,109	9,337	9,564	9,792	10,020
(Annual percentage change)											
Domestic credit	19.9	58.7	42.0	41.7	32.5	30.1	21.3	19.9	16.9	19.0	20.7
Nongovernment sectors	49.8	52.6	32.2	34.2	29.1	25.7	25.0	24.4	22.8	23.7	23.5
State enterprises	36.3	24.7	15.1	12.0	14.3	19.2	17.2	16.7	15.2	14.6	13.6
Nonstate sector	169.9	177.9	84.9	102.5	64.9	40.0	40.7	38.5	35.8	39.3	40.0
Total liquidity	33.7	19.0	26.9	26.3	25.9	27.8	21.3	16.8	18.1	19.5	20.6
Dong liquidity	58.5	31.4	40.0	37.5	31.7	35.7	20.8	16.7	20.6	22.4	23.8
Foreign currency deposits	-1.7	-9.8	-4.1	-0.3	10.7	6.4	23.0	17.0	9.8	9.9	10.0
(Quarterly percentage change)											
Domestic credit	6.0	8.1	8.7	8.5	3.9	2.9	0.8	6.4	5.8	3.4	3.7
Nongovernment sectors	17.9	5.3	6.0	7.6	4.2	4.9	4.7	6.9	6.2	4.1	4.5
State enterprises	12.1	2.2	7.8	4.9	4.4	4.3	4.1	3.4	3.5	2.8	3.2
Nonstate sector	54.0	12.2	2.7	12.5	3.9	6.1	5.7	12.6	10.4	6.0	6.3
Total liquidity	17.1	7.1	4.9	4.5	4.0	3.3	1.6	6.0	5.7	3.6	3.9
(Twelve-month change as a percent of total opening liquidity)											
Net foreign assets	19.1	-18.4	-4.2	-4.1	1.9	3.1	3.6	3.6	3.6	3.7	3.6
Net domestic assets	14.6	37.3	31.1	30.4	24.0	24.7	17.8	13.2	14.5	15.8	17.0
Domestic credit	14.0	37.0	32.0	31.7	26.3	25.1	18.0	16.4	14.5	16.1	17.4
Government	-10.9	7.5	10.1	8.5	5.9	6.3	--	-0.8	-2.0	-1.2	--
Nongovernment sectors	24.9	29.5	21.9	23.2	20.4	18.8	18.0	17.1	16.5	17.3	17.4
State enterprises	16.3	11.3	7.7	6.2	7.1	9.7	8.2	7.6	6.9	6.7	6.3
Nonstate sector	8.6	18.2	14.1	17.1	13.3	9.1	9.7	9.5	9.6	10.6	11.1
Other items	0.5	0.3	-0.9	-1.3	-2.3	-0.4	-0.2	-3.2	--	-0.4	-0.4
Memorandum items:											
Velocity (total liquidity) <u>2/</u>	4.99	4.65	...	...	...	...	4.49	...	...	...	4.43
Money multiplier	1.86	1.76	1.88	1.83	1.79	1.87	1.87	1.88	1.89	1.92	1.94

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

1/ Adjusted as allowed for under the stand-by program (EBS/93/154) on the basis of (a) revisions to data in the base period (June 1993) and (b) foreign financing disbursements and external debt-service payments that were different from programmed amounts.

2/ Calculated on the basis of quarterly monetary data.

Table 5. Viet Nam: Balance of Payments, 1991-95

(In millions of U.S. dollars)

	1991	1992	Prel. 1993	SBA	ESAF	ESAF 1995
				1994		
Trade balance	-63	-60	-655	-513	-408	-545
Exports, f.o.b.	2,042	2,475	2,850	3,362	3,600	4,086
Petroleum	581	756	844	792	899	1,024
Nonpetroleum	1,461	1,719	2,006	2,570	2,702	3,062
Imports, f.o.b.	2,105	2,535	3,505	3,875	4,008	4,631
Nonfactor services (net)	179	311	78	149	134	118
Investment income (net)	-339	-382	-556	-539	-560	-618
Receipts	42	43	31	32	37	57
Payments	381	425	587	571	597	675
Of which: Scheduled interest	(248)	(282)	(327)	(259)	(256)	(262)
Transfers (net)	90	123	264	192	192	236
Private	35	59	70	91	91	100
Official	55	64	194	101	101	136
Current account	<u>-133</u>	<u>-8</u>	<u>-869</u>	<u>-712</u>	<u>-641</u>	<u>-808</u>
Current account excluding official transfers	-188	-72	-1,063	-813	-743	-944
Capital account	<u>-59</u>	<u>271</u>	<u>-161</u>	<u>543</u>	<u>444</u>	<u>761</u>
Foreign direct investment	220	260	300	330	435	500
Medium- and long-term loans	-191	52	-403	213	28	261
Disbursements	65	487	241	500	315	600
Amortization	256	435	644	287	287	340
Short-term capital, net	-88	-41	-58	--	-19	--
Errors and omissions	<u>142</u>	<u>4</u>	<u>-76</u>	<u>--</u>	<u>28</u>	<u>--</u>
Overall balance	<u>-50</u>	<u>268</u>	<u>-1,106</u>	<u>-169</u>	<u>-169</u>	<u>-47</u>
Financing	<u>50</u>	<u>-268</u>	<u>1,106</u>	<u>169</u>	<u>169</u>	<u>47</u>
Change in net international reserves (increase-)	-282	-464	488	-85	-85	-100
Use of Fund credit, net	-6	--	-39	135	169	169
Change in other net international reserves (increase-)	-276	-464	527	-220	-254	-269
Arrears	332	196	-265	-2,459 <u>1/</u>	-2,459 <u>1/</u>	--
Accumulation	332	386	594	--	--	--
Reduction through restructuring	--	-190	-846	-2,459 <u>1/</u>	-2,459 <u>1/</u>	--
Cash payments	--	--	-13	--	--	--
Debt relief	--	--	883	--	--	--
Financing gap	--	--	--	2,713 <u>2/</u>	2,713 <u>2/</u>	147 <u>2/</u>
Memorandum items:						
Gross official reserves of State Bank <u>3/</u>	27	465	404	624	658	877
In weeks of imports	0.7	9.5	6.0	8.4	8.5	9.8
Current account as percent of GDP <u>4/</u>	-2.3	-0.7	-8.3	-5.5	-4.9	-5.6
Debt-service ratio <u>5/</u>						
Debt due	20.2	22.4	26.8	12.7	12.0	11.8
Debt paid	9.1	11.7	10.7	6.8	6.4	8.9

Sources: Vietnamese authorities; and staff estimates and projections.

1/ Includes arrears to non-Paris Club bilateral creditors which, for program purposes, have been eliminated.2/ Expected to be filled through rescheduling and restructuring.3/ Includes gold.4/ Excluding official transfers.5/ Debt service due and paid as a percent of exports of goods and nonfactor services.

Table 6. Viet Nam: Alternative Scenarios, 1993-99

(In percent, unless otherwise indicated)

	1993 Prel. Est.	1994 ESAF	1995	1996	1997	1998	1999
			Projections				
<b>Baseline</b>							
Export growth	15.1	26.3	13.5	10.5	9.8	10.2	10.6
Import growth	38.3	14.4	15.5	11.7	10.0	8.9	9.3
Current account/GDP	-8.3	-4.9	-5.6	-6.2	-6.5	-6.2	-5.9
Overall balance (in millions of dollars)	-1,106	-169	-47	100	130	115	99
Gross official reserves (weeks of import)	6.0	8.5	9.8	11.0	11.0	10.8	10.8
GDP growth	8.1	8.7	8.0	8.0	8.0	8.0	8.0
Debt-service ratio (paid)	10.7	6.4	8.9	8.6	9.2	9.6	9.0
<b>Reduced export scenario</b>							
Export growth	15.1	26.3	7.5	7.2	7.8	10.0	9.4
Import growth	38.3	14.4	12.2	9.9	7.9	6.7	7.8
Current account/GDP	-8.3	-4.9	-6.1	-7.1	-7.4	-6.3	-5.9
Overall balance (in millions of dollars)	-1,106	-169	-126	-29	31	158	197
Gross official reserves (weeks of import)	6.0	8.5	9.2	9.3	8.8	9.4	10.6
GDP growth (percent)	8.1	8.7	7.0	6.8	6.6	6.5	6.5
<b>Slower aid disbursements</b>							
Export growth	15.1	26.3	13.5	9.9	9.3	9.8	10.3
Import growth	38.3	14.4	14.5	10.7	9.4	8.6	9.5
Current account/GDP	-8.3	-4.9	-5.3	-5.8	-6.1	-6.0	-5.9
Overall balance (in millions of dollars)	-1,106	-169	-144	44	105	131	122
Gross official reserves (weeks of import)	6.0	8.5	8.8	9.7	9.6	9.7	10.0
GDP growth (percent)	8.1	8.7	7.3	7.3	7.5	7.5	8.0
Debt-service ratio (paid)	10.7	6.4	8.8	8.5	9.1	9.5	8.9
<b>Commercial debt scenario</b>							
Export growth	15.1	26.3	13.5	10.5	9.8	10.2	10.6
Import growth	38.3	14.4	15.5	11.7	8.1	6.3	7.3
Current account/GDP	-8.3	-5.0	-5.7	-6.4	-6.3	-5.3	-4.4
Overall balance (in millions of dollars)	-1,106	-85	12	128	120	37	65
Gross official reserves (weeks of import)	6.0	8.5	8.6	8.5	8.0	8.3	8.6
GDP growth (percent)	8.1	8.7	8.0	8.0	6.5	6.0	6.0
Debt-service ratio (paid)	10.7	6.4	9.2	9.2	12.5	13.9	15.3

Sources: Vietnamese authorities; and staff estimates and projections.

Table 7. Viet Nam: Indicators of Capacity to Repay the Fund, 1993-2007

(In percent)

	1993 <sup>1/</sup> Prel. Est.	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
								Projections							
Fund repurchases and charges relative to:															
Exports of goods and nonfactor services	4.0	0.3	0.3	0.3	1.1	1.4	0.5	0.5	0.8	1.1	1.1	1.0	0.6	0.3	0.1
Medium- and long-term debt falling due	15.3	2.3	2.6	3.5	14.9	17.3	5.7	5.6	10.2	14.8	15.4	13.5	9.6	4.5	0.8
Gross official reserves	36.1	1.8	1.7	1.4	5.8	7.1	2.5	2.5	4.4	6.1	6.2	5.6	3.8	2.0	0.4
Fund quota	43.1	3.5	4.3	4.6	20.7	27.1	10.3	11.3	21.2	31.0	33.3	31.8	22.5	12.5	2.5
Outstanding Fund credit relative to: <sup>2/</sup>															
GDP	0.8	1.8	2.6	3.2	3.1	2.4	2.1	1.7	1.4	1.0	0.6	0.3	0.1	--	--
Exports of goods and nonfactor services	2.7	6.0	8.6	10.9	10.4	8.3	7.1	6.2	5.0	3.6	2.3	1.2	0.4	0.1	--
Fund quota	30.0	80.0	130.0	180.0	188.7	165.0	157.1	147.9	128.8	99.6	67.9	37.5	15.0	2.5	--

Source: Staff projections.

<sup>1/</sup> Includes elimination of overdue financial obligations to the Fund.<sup>2/</sup> At end of period.

Three-Year and First Annual Arrangements Under  
the Enhanced Structural Adjustment Facility

Attached hereto is a letter with annexed memorandum on Economic and Financial Policies of the Government of Viet Nam dated September 22, 1994, from the Governor of the State Bank of Viet Nam, requesting from the International Monetary Fund a three-year arrangement under the enhanced structural adjustment facility, and the first annual arrangement thereunder, and setting forth:

- (i) the objectives and policies of the program to be supported by the three-year arrangement; and
- (ii) the objectives and policies of the program to be supported by the first annual arrangement.

To support these objectives and policies, the Fund grants the requested arrangements in accordance with the following provisions, and subject to the Instrument to Establish the Enhanced Structural Adjustment Facility Trust, as amended:

- 1. (a) For a period of three years from \_\_\_\_\_, 1994, Viet Nam will have the right to obtain loans from the Fund under the enhanced structural adjustment facility, in a total amount equivalent to SDR 362.4 million, subject to the availability of resources in the Enhanced Structural Adjustment Facility Trust.
- (b) The amount of the first annual arrangement will be the equivalent of SDR 120.8 million; the amount of the second annual arrangement will be the equivalent of SDR 120.8 million; the amount of the third annual arrangement will be the equivalent of SDR 120.8 million.
- (c) Under the first annual arrangement:
  - (i) the first loan, in an amount equivalent to SDR 60.4 million, will be available on \_\_\_\_\_, 1994 at the request of Viet Nam, and
  - (ii) the second loan, in an amount equivalent to SDR 60.4 million, will be available on June 30, 1995 at the request of Viet Nam, subject to paragraph 2 below.
- 2. Viet Nam will not request disbursement of the second loan specified in paragraph 1(c)(ii) above
  - (a) if the Managing Director finds that the data at the end of March 1995 indicate that:
    - (i) the limit on the net domestic assets of the banking system, or

- (ii) the limit on the net bank claims on the Government, or
- (iii) the limit on the bank claims on the state enterprises,  
or
- (iv) the floor on net international reserves, or
- (v) the limit on the contracting or guaranteeing by the  
public sector of new nonconcessional loans of maturities  
of 1-12 years, or
- (vi) the limit on the stock of outstanding short-term debt  
with maturities of up to one year,

as specified in Table 1 attached to the memorandum annexed to the  
attached letter, is not observed; or

- (b) if Viet Nam has not carried out its intentions with respect  
to the structural performance criteria regarding:
  - (i) the replacement of tariffs by excise duties and  
reduction in the maximum import tariff rate to  
60 percent, or
  - (ii) the presentation to the National Assembly of a draft  
organic budget law, or
  - (iii) the elimination of the import permits for at least five  
commodities,

as described in paragraphs 16, 17 and 28, respectively, and paragraph 8  
of the memorandum annexed to the attached letter; or

- (c) if Viet Nam:
  - (i) has imposed or intensified restrictions on payments and  
transfers for current international transactions, or
  - (ii) has introduced or modified multiple currency practices,  
or
  - (iii) has concluded bilateral payments agreements that are  
inconsistent with Article VIII, or
  - (iv) has imposed or intensified import restrictions for  
balance of payments reasons, or
  - (v) fails to fulfill its intentions regarding the avoidance  
of new external payments arrears as set out in paragraph  
30 of the memorandum annexed to the attached letter; or

- (d) until the Fund has determined that the midterm review of Viet Nam's program referred to in paragraph 4 of the attached letter has been completed.

If the Managing Director finds that any of the performance clauses that have been established in or under this paragraph 2 have not been met, the second loan specified in paragraph 1(c)(ii) above may be made available only after consultations have taken place between the Fund and Viet Nam, and understandings have been reached regarding the circumstances in which Viet Nam may request that second loan.

3. Before approving the second annual arrangement, the Fund will appraise the progress of Viet Nam in implementing the policies and reaching the objectives of the program supported by the first annual arrangement, taking into account primarily:

- (a) the indicators specified in Tables 1 and 2 attached to the memorandum annexed to the attached letter;
- (b) imposition or intensification of restrictions on payments and transfers for current international transactions;
- (c) introduction or modification of multiple currency practices;
- (d) conclusion of bilateral payments agreements that are inconsistent with Article VIII; and
- (e) imposition or intensification of import restrictions for balance of payments reasons.

4. In accordance with paragraph 4 of the attached letter, Viet Nam will provide the Fund with such information as the Fund requests in connection with the progress of Viet Nam in implementing the policies and reaching the objectives supported by these arrangements.

5. In accordance with paragraph 4 of the attached letter, during the period of the first annual arrangement, Viet Nam will consult with the Managing Director on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests such a consultation. Moreover, after the period of the first annual arrangement and while Viet Nam has outstanding financial obligations to the Fund arising from loans under that arrangement, Viet Nam will consult with the Fund from time to time, at the initiative of the Government or whenever the Managing Director requests consultation on Viet Nam's economic and financial policies. These consultations may include correspondence and visits of officials of the Fund to Viet Nam or of representatives of Viet Nam to the Fund.

Hanoi, Viet Nam

September 22, 1994

Dear Mr. Camdessus,

1. During the past year, under the program supported by a stand-by arrangement and systemic transformation facility from the Fund, Viet Nam has achieved high rates of growth of output and exports while making significant progress toward strengthening international reserves, and keeping inflation to single-digit levels. Building on these efforts, the Government of Viet Nam has formulated a medium-term economic program that aims to sustain high output growth, further strengthen the external position, and reduce inflation to levels prevailing in trading-partner countries. Crucial elements of the Government's strategy are continued restrained financial policies, a comprehensive program of structural reforms, and a prudent approach to external commercial borrowing.

2. The Vietnamese Government has prepared, in collaboration with Fund and World Bank staff, a Policy Framework Paper which articulates the Government's medium-term strategy and policies for the period through 1997. The policies and objectives for the remainder of 1994 and 1995, which are consistent with the medium-term strategy, are detailed in the attached Memorandum of Economic and Financial Policies. In support of its economic program, the Government of Viet Nam hereby requests a three-year arrangement under the ESAF in an amount equivalent to SDR 362.4 million (150 percent of quota), and a first annual arrangement thereunder in an amount of SDR 120.8 million. Concurrently, the Government of Viet Nam requests that the stand-by arrangement approved on October 6, 1993 be canceled and replaced by the three-year ESAF arrangement, with effect from the date of approval of the latter by the Executive Board of the International Monetary Fund. Accordingly, it is our intention not to make the final purchase under the stand-by arrangement.

3. To facilitate a wide distribution of the policy framework paper, the Vietnamese Government authorizes you, at your discretion, to transmit the document to any international organization providing assistance to developing countries and to donor countries in the context of the Consultative Group meeting for Viet Nam.

4. It is our view that the policies described in the attached Memorandum will achieve the economic objectives of the 1994-97 period. However, the Government of Viet Nam stands ready to take additional measures, as necessary, to ensure that the overall objectives of the program are achieved. During the program period, the Government will consult with the Managing Director on the adoption of any measures which might be deemed appropriate in accordance with Fund policies in this regard. The Government will remain in close consultation with the Fund in accordance with Fund policies on such consultations and will also provide the Fund with such information as the Fund may request in connection with progress in

implementing policies and achieving the objectives of the program. The Government will conduct with the Fund a midterm review of the program supported by the first annual arrangement under the ESAF no later than June 30, 1995.

Sincerely yours,

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/s/ Cao Si Kiem  
Governor

Attachments

- (1) Memorandum of the Government of Viet Nam on Economic and Financial Policies for 1994-95
- (2) Policy Framework Paper, 1994-97

Mr. Michel Camdessus  
Managing Director  
International Monetary Fund  
Washington D.C. 20431  
U.S.A.

Memorandum of the Government of Viet Nam on  
Economic and Financial Policies for 1994-95

Hanoi, September 22, 1994

1. Viet Nam has achieved strong economic growth over the past few years largely as a result of market-based reforms. The Government realizes, however, that to sustain such growth over the medium term, the ongoing reforms will need to be complemented by higher capital investment which can only be achieved in a stable macroeconomic environment. Accordingly, the Government's economic policies for 1994-95 will reflect the following priorities: (i) the mobilization of domestic and external resources to permit a rapid expansion of economic and social infrastructure; (ii) the adoption of restrained financial policies to keep inflation low and strengthen Viet Nam's external position; and (iii) the intensification of structural reforms to further enhance incentives and promote more efficient use of the country's resources.

Economic Developments in 1993-94

2. During 1993, economic developments were generally favorable with real GDP growing by 8 percent and inflation declining to about 5 percent by end-year from 17 percent at end-1992. However, rising government expenditures and a sharp expansion of bank credit, particularly to the nonstate sector, resulted in a deterioration in the external position. The external current account deficit (excluding official transfers) rose to 8 percent of GDP (from 1 percent in 1992) and there was a substantial loss of international reserves. Under the program supported by the stand-by arrangement from the Fund, the Government took steps in the latter part of the year to reduce credit growth and lower the budget deficit. Although the performance criteria under the stand-by arrangement for the end of 1993 were not observed, the tighter policies were reflected in a slowdown in imports, and gross international reserves were stabilized at about six weeks of imports.

3. During the first half of 1994, economic growth was further stimulated by a good harvest and increased foreign direct investment. Present projections indicate that real GDP may rise by 9 percent this year. Inflation also, however, has tended to rise; the retail price index increased by about 8 percent during the first eight months of the year. The stabilization efforts have continued and the performance criteria under the stand-by arrangement for end-June 1994 were fully observed. The introduction in April 1994 of bank-by-bank credit ceilings was effective in slowing credit expansion and a moderate rise in international reserves was achieved during the first six months of the year. This occurred despite extremely slow foreign aid disbursements which necessitated continuing budgetary adjustment. Although a series of fiscal measures were put in place, a drawdown in government deposits was needed to finance the budget deficit. In order to fund investment expenditures within the state-owned enterprises, the Government also took recourse to external commercial borrowing of about \$100 million.

Macroeconomic framework

4. The Government's policies for the remainder of 1994 and for 1995 will be formulated within a medium-term framework that is more fully described in the Government's Policy Framework Paper. The medium-term strategy emphasizes continued high economic growth (at about 8 percent per annum), a steady reduction in inflation to the level prevailing in trading-partner countries, and a further strengthening of the external position allowing a gradual buildup of international reserves (to about 11 weeks of imports by 1997). In 1995, the Government's policies will be based upon a projected real GDP increase of 8 percent, a decline in inflation to about 7 percent, and an increase in gross official reserves to about 10 weeks of imports. The Government hopes, however, that these targets will be surpassed and, in particular, that a higher growth rate can be achieved.

5. Reflecting the Government's priorities, investment is projected to increase substantially to about 25 percent of GDP by 1997. In 1995, total investment is expected to reach 22 percent of GDP, over one third of which would be accounted for by capital formation in the public sector. To finance this level of investment, the Government will promote higher national savings both in the private sector and through an increase in the current surplus in budgetary operations.

6. The planned increase in investment will also require some increase in foreign savings over the medium term, though the Government's goal is to eventually reduce its reliance on foreign assistance. By 1997, the external current account deficit (excluding official transfers) is expected to widen to 6 1/2 percent of GDP from 5 3/4 percent of GDP in 1995. The overall external financing requirement is projected for 1995 at \$1.5 billion, of which foreign direct investment is expected to account for about one third. The bulk of the remainder will take the form of grants and medium- and long-term loans, of which the latter are expected to double from about \$300 million in 1994 to \$600 million in 1995. The Government foresees the need for some nonconcessional borrowing. However, to ensure that future debt-service payments are kept within the country's capacity to repay, the amount of nonconcessional external borrowing will be strictly limited both in 1995 and over the medium term. Such borrowing will not be used for financing the budget or to strengthen the resources of the public financial institutions. The Government will, however, allow a limited amount of borrowing by state and other enterprises where a government guarantee may be needed. The limits on the contracting of such borrowing are set out in the attached Table 1.

Summary of main policy measures

7. During the first year of the ESAF arrangement, the main elements of stabilization policies are as follows:

(i) A 1995 budget with an overall deficit 1/ of no more than 3 1/4 percent of GDP, with a surplus on current operations (excluding grants) of 3 3/4 percent of GDP, and with no recourse to bank financing;

(ii) A prudent financial program which would limit credit growth to the nongovernment sector to 23 1/2 percent in 1995;

(iii) A market-related exchange rate with limited intervention in the foreign exchange market by the monetary authorities; and

(iv) Limits on external commercial borrowing.

8. The main structural reforms envisaged under the program are as follows:

(i) Conversion of high tariffs into excise taxes and reduction of the maximum rate of import tariff to 60 percent (by April 1, 1995) and rationalization of the import tariff schedule into 6 rates (October 1995);

(ii) Presentation of a draft organic budget law to the National Assembly by April 1, 1995;

(iii) Presentation to the National Assembly of comprehensive tax reform legislation which would include, in the first phase, a reduction in the number of turnover tax rates and a streamlining of the profit tax for domestic enterprises (October 1995);

(iv) Financial sector reforms, including elimination of concessional refinancing to all banks except the Agricultural Bank (October 1994); introduction of interest-based penalties for noncompliance with credit ceilings and reserve requirements (October 1994); introduction of trading in credit ceilings (April 1995); relaxation of controls on interest rates (by end-1995); introduction of a treasury-bill auction (first quarter, 1995); centralization of foreign exchange holdings (mid-1995); and external audits of state-owned commercial banks (mid-1995);

(v) Establishment of an interbank market in foreign exchange with an appropriate regulatory framework (October 1994); and

(vi) Trade liberalization measures, including a reduction in the coverage of imports requiring an import shipment license and a reduction in the number of commodities subject to import permits from 15 to no more than 10 (by April 1995).

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1/ In line with the format of the budget submitted to the National Assembly, references to the fiscal deficit are on a cash basis and include grants; extra budgetary onlending operations (estimated at \$40 million in 1995) are excluded. References to the surplus on current operations exclude grants so as to show the contribution of the budget to national savings.

Fiscal policies

a. Fiscal policies and developments in 1994

9. The 1994 budget anticipated an overall deficit of 5 1/4 percent of GDP financed in large part by concessional external assistance. In the event, expected aid disbursements failed to materialize and the Government implemented a series of measures intended to avoid recourse to domestic bank financing. On the revenue side, import tariffs were adjusted (in February and July 1994), land and housing taxes and selected fees and charges were raised, and tax administration procedures were strengthened. Expenditures were also cut as the Government tightened procurement policies, reduced subsidies, and introduced new regulations to streamline management of capital projects.

10. On the basis of the measures introduced during 1994, the Government expects to contain the budget deficit to 2 1/4 percent of GDP. Given the external financing projections, no net domestic bank financing will be needed for the year as a whole. The Government will closely monitor fiscal developments during the remainder of 1994, and will adopt additional revenue or expenditure measures as needed to ensure that the budgetary objectives are achieved.

b. The budget for 1995

11. The Government is currently formulating a budget for 1995 which will reflect the priority assigned to resource mobilization and higher capital expenditures. Given the experience of 1994, when an overestimation of the sources of financing led to continuous intra-year adjustments, the 1995 budget will be based on prudent estimates of foreign financing. As in previous years, the Government is committed to avoid net domestic bank financing of the budget. In addition, the amount of nonbank domestic financing will be limited and no recourse will be taken to external commercial borrowing.

12. By mid-October 1994, the Government intends to submit the 1995 budget to the National Assembly. The plan is for a budget with an overall deficit of no more than 3 1/4 percent of GDP and with a surplus on current operations (excluding grants) of 3 3/4 percent of GDP. The budget is expected to incorporate revenues of about D 49.1 trillion (25 1/2 percent of GDP) and non-interest current expenditure of about D 36.4 trillion (18.9 percent of GDP). Capital outlays will be budgeted, initially, at D 13.3 trillion (6.9 percent of GDP) but, as noted below, the Government would wish to expand such expenditures if additional financing becomes available. <sup>1/</sup> There will also be a contingency equivalent to about D 2 trillion to meet unforeseen expenditures.

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<sup>1/</sup> It is understood that the presentation of such a budget will be a prior action under the ESAF arrangement.

13. The 1995 budget is predicated on the assumption of gross foreign financing of \$450 million (excluding funds for onlending). The Government intends, however, to work with the donors to speed up aid disbursements. Should greater foreign assistance become available during the year, the Government would wish to channel these resources into the public investment program, provided that the necessary domestic counterpart funds can be made available within the overall budget objectives. An assessment of progress in the implementation of the 1995 budget and the need for adjustment of expenditure targets (in light of either an excess or a shortfall in external aid) would be discussed during the midterm review of the program supported by the first annual arrangement under the ESAF.

14. During the course of 1995, the Government intends to complete, in conjunction with the World Bank's structural adjustment credit, a comprehensive public expenditure review that will be used in formulating the 1996 budget. The goal of the review will be to facilitate a reallocation of budgetary resources to priority social and economic services, including a strengthening of provisions for the social safety net. <sup>1/</sup> In addition, the Government is collaborating with the World Bank to develop guidelines for a public investment program (including onlending and government-guaranteed loans), with the goal of introducing a three-year rolling public investment program covering the 1995-97 period.

c. Structural reforms in the fiscal area

15. During 1995, the Government will begin a comprehensive reform of the tax system. The reforms, which will be revenue-neutral, will aim to put in place by 1997: (i) a value-added tax; (ii) a simple tariff system with a low level of effective protection; and (iii) a corporate and individual income tax system that will reduce distortions and allow the Government to pursue its income distribution objectives.

16. The Government intends to adopt a phased approach to the reforms so as to minimize potential shocks to the productive sectors and to take account of social and administrative implementation constraints. By April 1, 1995, a number of important initial steps will be taken in the area of indirect taxation. In particular, high tariffs on luxury goods and petroleum products will be converted into special consumption taxes (excise taxes) and the maximum rate of import tariff will be reduced to 60 percent. The Government will discuss the modalities and strategy of tax reform and reach understandings with the staff during the midterm review of the first annual arrangement under the ESAF. By October 1995, comprehensive tax reform legislation will be proposed to the National Assembly, which will include as a first phase a reduction in the number of turnover tax rates to a maximum of 10, and a reduction in the number of import tariff rates to 6. As regards direct taxes, several measures are envisaged in the context of the 1996 budget. Specifically, the rate structure of the profit tax for domestic enterprises will be simplified from the present 3 rates, excess

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<sup>1/</sup> This is elaborated further in the Policy Framework Paper.

profits taxes will be eliminated, and capital user fees will be increased. In addition, the supplementary income tax will be abolished, while interest and rental payments would become subject to withholding.

17. The Government also intends to improve overall fiscal management. To this end, a draft organic budget law will be presented to the National Assembly by April 1, 1995. <sup>1/</sup> In addition, the Government is taking steps to strengthen the role of the Treasury. It is envisaged that the Treasury will be assigned (at latest by 1996) the sole authority for the making of payments, including the responsibility for capital expenditures currently assigned to the Bank for Investment and Development. Further technical assistance from the IMF will be sought to facilitate the implementation of the fiscal reforms.

#### Monetary and credit policies

##### a. Financial program for 1994-95

18. The Government's financial program for 1994-95 incorporates continued restrained credit policy aimed at limiting the growth of broad money to about 20 1/2 percent during 1995. During the remainder of 1994, policies will be directed toward achieving the targets previously established under the stand-by arrangement. For 1995, credit to the nongovernment sector is projected to expand by about 23 1/2 percent, with a rising share of credit being allocated to the nonstate sector. To this end, growth in credit to state-owned enterprises will be limited to 13 1/2 percent in 1995. The ceilings on net domestic assets and domestic credit variables are set out in Table 1.

19. To ensure that program targets are met, quarterly bank-by-bank ceilings will be set on credit extended by the state-owned and joint-stock commercial banks. The State Bank will closely monitor compliance with the credit ceilings. From October 1, 1994 any bank that breaches the quarterly credit ceiling will be charged an interest-based penalty on the amount in excess of its ceiling. As a measure to increase the efficiency of the system, by the beginning of April 1995, the commercial banks will be allowed to trade credit ceilings among themselves.

##### b. State Bank refinancing and reserve requirements

20. To reinforce the controls on credit expansion, the State Bank will take a number of steps to reduce the current excess liquidity of the banking system. Quantitative limits will be set on the amount of State Bank

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<sup>1/</sup> The submission of this legislation will be a performance criterion under the first annual ESAF arrangement.

refinancing 1/ and, by October 1, 1994, the rate on refinancing facilities will be raised to 100 percent of the applicable interest rate for all banks except the Agricultural Bank. The refinancing rate for the Agricultural Bank will be raised from 85 percent to 95 percent of the applicable lending rate by October 1, 1994, and to 100 percent of the applicable lending rate by end-March 1995. 2/ By end-1995, the State Bank will set a uniform refinancing rate.

21. The State Bank will also raise, by November 1994, the required reserve ratio to 8 percent for time and savings deposits. The reserve requirements will be enforced on a uniform basis. A regulation stipulating a penalty interest rate equivalent to 200 percent of the maximum lending rate on the difference between required and actual reserves will be issued by October 1994. The present composition of eligible reserve assets--which include cash in vault and treasury bills--will be maintained pending the results of a study of the effectiveness of the present system, which is expected to be completed, with technical assistance from the IMF, by March 1995.

c. Interest rates and government securities

22. The Government recognizes that the present system of credit control coupled with administered interest rates causes serious distortions in the process of financial intermediation. Over the medium term, as financial markets develop and the commercial banking system becomes more efficient and competitive, the Government intends to liberalize interest rates and move toward indirect instruments of monetary policy.

23. In the near term, several steps are planned to relax controls and further rationalize the structure of interest rates. To this end, the differences between interest rates for deposits of equal maturity held by economic entities and households will be gradually phased out by end-September 1995, with at least two thirds of the difference between these interest rates (presently 0.6 percent per month) eliminated by the beginning of June 1995. By the end of 1995, the State Bank intends to eliminate the remaining minimum deposit rate regulations. Also during 1995, the structure of lending rates will be further rationalized by raising the maximum medium-term lending rate above the short-term lending rate and by increasing the long-term lending rate for capital projects including those in the State Plan to a minimum of 10 percent.

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1/ State Bank refinancing will be limited to D 485 billion in the first quarter of 1995 and D 400 billion in the second quarter of 1995. The refinancing limit for the third quarter of 1995 will be determined at the time of the midterm review of the ESAF arrangement.

2/ In the event of natural disasters affecting the agricultural sector, the State Bank can extend to the Agricultural Bank refinancing equivalent to 15 percent of the Agricultural Bank's credit ceiling for a quarter at an interest rate equivalent to 85 percent of the applicable lending rate.

24. In the context of the overall development of capital markets in Viet Nam, new draft regulations on the issuance of Government and bank securities and on the operations of a securities market, will be finalized by October 1994. Subsequently, the State Bank will conduct two pilot treasury-bill auctions in the last quarter of 1994. Treasury-bill auctions will be regularized in the first quarter of 1995; thereafter treasury bills issued with a maturity of one year or less will be sold through the auctions which are expected to take place on at least a monthly basis. It is envisaged that introduction of the auction and the implementation of other financial sector reforms will benefit from technical assistance from the IMF.

d. Restructuring of the state-owned commercial banks

25. As a step toward the restructuring of the state-owned commercial banks, external audits will be carried out in order to quantify the extent of nonperforming loans. It is expected that the audits will be completed for all banks by mid-1995. Following these audits, more appropriate loan-classification procedures will be introduced and accounting practices will be modified so as to allow commercial banks to make more adequate provisions against bad loans. Decisions concerning recapitalization and the management and ownership of the banks will also be made at that time. A further initiative to be taken in this area will be to gradually eliminate the placement by the State Bank of foreign currency deposits in the state-owned commercial banks. It is envisaged that by mid-1995, the control of all holdings of official reserves will be centralized at the State Bank and that the practice of investing the reserves through the state-owned banks will be phased out.

External policies

a. Exchange rate policy

26. The Government recognizes that a market-based exchange rate system, a liberal trade and payments regime, and prudent external debt management policies are all necessary to sustain economic growth and move toward balance of payments viability. In regard to exchange rate policy, the Government wishes to ensure relative stability in the exchange rate, and, to this end, reliance will be placed on sound fiscal and monetary policies. The exchange rate will reflect market forces and intervention by the monetary authorities will be limited to smoothing out short-term fluctuations. On October 1, 1994, an interbank foreign exchange market will be introduced with an appropriate regulatory framework. The exchange rate will be determined in the interbank market in much the same manner as it has been determined on the trading floors, i.e., the rate will reflect market forces and will be permitted to move on a given day within a prescribed margin. Also by October 1, 1994, the Government will introduce new foreign exchange regulations to promote the use of the dong and to increase the supply of foreign exchange on the interbank foreign exchange market. The Government's intention is to introduce--on a temporary basis--a partial surrender requirement; however, this is expected to affect only a small

fraction of export earnings. The operation of the new regulations will be reviewed with the Fund staff during the midterm review of the first annual ESAF arrangement.

b. Trade liberalization

27. Consistent with the commitment to an open economy, the Government intends to steadily remove the obstacles to free international trade. During 1995, the registration procedures for exporters and importers will be simplified. Following this, once a commercial law has been promulgated, the registration procedure will be further simplified with only one administrative step required to fulfill all the conditions necessary to conduct international trade.

28. In regard to shipment licenses, export shipment licenses were abolished in July 1994 for all commodities except crude petroleum, rice, wood products, and re-exported commodities. For imports, the Government plans to take action also by April 1995 so that the 15 commodity groups of imports requiring a permit will be reduced to 10. At that time, the import prohibition on cigarettes will also be lifted and the number of commodities requiring an import shipment license reduced. Measured in terms of value, at least one half of imports (excluding the imports which require "permits") will no longer require import shipment licenses. During the midterm review under the first annual ESAF arrangement, a specific timetable will be established to abolish the remaining requirements for import permits and import shipment licenses within the period of the second annual ESAF arrangement.

c. Exchange restrictions

29. During the three-year ESAF arrangement, the Government will eliminate the remaining restrictions on current account transactions with a view to accepting the obligations of Article VIII of the Fund's Articles of Agreement. Prior to the second annual arrangement under the ESAF, the State Bank will issue implementation guidelines which will clearly indicate that there are no exchange restrictions on current transactions for both goods and services. In the meantime, with respect to travel, the Government will raise the current travel allowance above the present level of \$3,000; all bona fide requests above the current ceiling will continue to be honored. In the context of the 1996 government budget, the 5-10 percent tax on profit remittances from foreign direct investment will be eliminated. During the period of the ESAF arrangement, the Government does not intend to introduce new or intensify existing exchange restrictions or multiple currency practices, nor conclude any bilateral payments agreements that are inconsistent with Article VIII of the Fund's Articles of Agreement, nor impose any import restrictions for balance of payments purposes.

d. External debt management

30. Before the end of the year, the Government expects to have concluded all of the bilateral agreements under the December 1993 Paris Club Agreed

Minute. The Government is currently in the process of normalizing its relations with all other external creditors, most notably the bilateral creditors holding claims in transferable rubles and the commercial bank creditors. The Government does not intend to incur any new external payments arrears during the period of the ESAF arrangement except transitionally for amounts for which a rescheduling is programmed. <sup>1/</sup> As indicated in paragraph 6 above and Table 1 (attached), the Government will limit the contracting of new external borrowing on nonconcessional terms directly undertaken by the public sector or publicly guaranteed.

Other structural reforms

31. In addition to the structural measures indicated above, the Government has a wide agenda of structural reforms which are more fully described in the Policy Framework Paper. One of the most important areas is the establishment of a legal framework. In this area, significant laws were passed in 1993-94 and further measures are expected in the coming period, including enactment of a civil code (by mid-1995) and a commercial law (by 1996), and amendments to the company law (by mid-1995). Important measures are also planned to strengthen property rights to land, including the distribution of land use rights certificates to most farmers; extension of the regulations of the Land Law to cover the management of land-use rights in urban areas; improvement of the legal procedures for settlement of land disputes; promulgation of a property tax law; and the issuance of urban land tenure certificates.

32. On state enterprise reform, the Government's main intention is to create a level playing field between public and private firms in the competitive sectors as a first step toward a phased program of divestiture. A comprehensive state enterprise reform program, which is being formulated with assistance from the World Bank, is expected to be adopted by mid-1995. The main elements of the program would be the following: introduction of internationally accepted accounting rules for state enterprises; identification of strategic firms to be maintained within the public sector; submission of a state enterprise law for these firms; establishment of a general department overseeing state enterprises; and a pilot program of privatization.

Program monitoring

33. The Government believes that the policies and measures described in this memorandum are adequate to achieve the objectives established under the program supported by the first annual ESAF arrangement. However, the Government will take additional measures as necessary to ensure that program targets are met. The program will be closely monitored through the quantitative benchmarks set out in Table 1. The quantitative benchmarks for end-March 1995 are performance criteria under the program. The benchmarks

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<sup>1/</sup> This would be a performance criterion under the first annual arrangement under the ESAF.

for monitoring policy implementation in the structural areas during the program period are shown in Table 2. The structural performance criteria under the ESAF program are also indicated in Table 2 and would be completed at the latest by June 1, 1995. The Government will remain in close consultation with the Fund during the program period and the program will be reviewed not later than June 30, 1995. The review will assess the outturn for 1994, the implementation of the 1995 budget and other stabilization policies, as well as the progress with structural reforms, including a timetable for trade liberalization.

Initialed by representatives of:

State Bank of Viet Nam

\_\_\_\_\_  
/s/ Chu Van Nguyen, Deputy Governor

Ministry of Finance

\_\_\_\_\_  
/s/ Nguyen Sinh Hung, Vice Finance Minister

Ministry of Trade

\_\_\_\_\_  
/s/ Ta Ca, Vice Minister

State Planning Committee

\_\_\_\_\_  
/s/ Vo Hung Phuc, Vice Chairman

Table 1. Viet Nam: Quantitative Performance Criteria and Benchmarks  
Under the First Annual ESAF Arrangement, 1994-95 <sup>1/</sup>

	Stock	1994		1995	
	end-June 1994 Actual	December	March <sup>2/</sup>	June	September
(In billions of dong)					
<u>Cumulative change from end-June 1994</u>					
Net domestic assets of the banking system <sup>3/</sup>	31,077	1,335	3,405	5,390	6,595
Net bank claims on the Government <sup>3/</sup>	4,906	-950	-850	-750	-850
Bank claims on the state enterprises <sup>4/</sup>	16,894	1,280	1,905	2,570	3,120
(In millions of U.S. dollars)					
<u>Cumulative change from end-June 1994</u>					
Floor on net international reserves <sup>5/</sup>	554	48	73	98	123
New nonconcessional external borrowing contracted or guaranteed by the public sector with 1-12 year maturity <sup>4/ 6/ 7/</sup>	--	100	225	275	350
Of which: contracted by government or public financial institutions	--	--	--	--	--
Of which: contracted by state enterprises with or without government guarantee and joint ventures/private sector with government guarantee	--	100	225	275	350
Of which: 1-5 years	--	--	--	--	--
<u>Stock</u>					
Outstanding short-term debt (up to 1 year) <sup>8/</sup>	--	--	--	--	--

<sup>1/</sup> All performance criteria and benchmarks are ceilings, except those for international reserves.

<sup>2/</sup> Performance criteria.

<sup>3/</sup> The ceilings on net domestic assets of the banking system and net bank claims on government will be adjusted downward (upward) in the event that disbursements of program loans from the World Bank and AsDB are more (less) than projected. On a cumulative basis from end-June 1994, disbursements are projected to be D 721 billion by end-December 1994, D 1,290 billion by end-March 1995, D 1,590 billion by end-June 1995, and D 1,953 billion by end-September 1995. The adjustment will be equal to the full deviation of actual from programmed loan disbursements in December 1994, 80 percent of the deviation at end-March 1995, 60 percent of the deviation at end-June 1995, and 40 percent of the deviation at end-September 1995. The adjustment will not exceed D 400 billion.

<sup>4/</sup> These include those nonfinancial publicly owned enterprises that fall under the jurisdiction of central, provincial and district governments, but exclude cooperatives and joint ventures.

<sup>5/</sup> The floor on net international reserves will be adjusted upward (downward) in the event that disbursements of program loans from the World Bank and AsDB are more (less) than projected. On a cumulative basis from end-June 1994, disbursements are projected to be \$65 million by end-December 1994, \$115 million by end-March 1995, \$140 million by end-June 1995, and \$170 million by end-September 1995. The adjustment will be equal to the full deviation of actual from programmed loan disbursements in December 1994, 80 percent of the deviation at end-March 1995, 60 percent of the deviation at end-June 1995, and 40 percent of the deviation at end-September 1995. The adjustment will not exceed \$35 million.

<sup>6/</sup> The concessionality of the borrowing will be determined on the basis of the financing costs (interest charges and other) and repayment terms (grace period and maturity) as defined by the OECD's DAC criteria on concessionality (25 percent grant element).

<sup>7/</sup> The public sector is defined to include all levels of general government, all nonfinancial public enterprises, and all public financial institutions. The general government comprises the central, provincial, and district governments.

<sup>8/</sup> Stock of short-term debt outstanding (defined as original maturities of up to one year) of any public sector entity with the exception of normal import-related financing.

Table 2. Viet Nam: Structural Performance Criteria  
and Benchmarks Under the First Annual ESAF Arrangement, 1994/95

Action	Programmed completion date
<u>Fiscal reforms</u>	
The replacement of tariffs by excise duties and reduction in the maximum import tariff rate to 60 percent <u>1/</u>	By April 1, 1995
Presentation of a draft organic budget law to the National Assembly <u>1/</u>	By April 1, 1995
<u>Financial sector reforms</u>	
Introduction of a regular auction for government securities	By April 1, 1995
Reduction by at least two thirds of the differential between interest rates paid on deposits held by economic entities and households	By June 1, 1995
Complete centralization of official foreign currency holdings	By June 1, 1995
<u>Trade liberalization</u>	
Elimination of the import permits for at least 5 commodities <u>1/</u>	By April 1, 1995
Reduction in import shipment licenses as described in paragraph 28	By April 1, 1995

1/ Established as a performance criteria under the first annual ESAF arrangement.

Viet Nam: Fund Relations

(As of September 30, 1994)

I. Membership Status: Joined 9/21/56; Article XIV

II. <u>General Resources Account</u> :	<u>SDR Million</u>	<u>% Quota</u>
Quota	241.60	100.0
Fund holdings of currency	374.56	155.0
Reserve position in Fund	.01	.0

III. <u>SDR Department</u> :	<u>SDR Million</u>	<u>% Allocation</u>
Net cumulative allocation	47.66	100.0
Holdings	13.18	27.7

IV. <u>Outstanding Purchases and Loans</u> :	<u>SDR Million</u>	<u>% Quota</u>
Stand-by arrangements	108.8	45.0
Systemic transformation facility	24.16	10.0

V. Financial Arrangements:

<u>Type</u>	<u>Approval Date</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR Million)</u>	<u>Amount Drawn (SDR Million)</u>
Stand-by	10/06/93	12/31/94	145.0	108.8

VI. Projected Obligation to Fund: (SDR million; based on existing use of resources and present holdings of SDRs):

	<u>Overdue 9/30/94</u>	<u>Forthcoming</u>				
		<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
Principal					36.2	45.3
Charges/interest		2.0	8.0	8.0	7.3	5.1
<b>Total</b>		<u>2.0</u>	<u>8.0</u>	<u>8.0</u>	<u>43.5</u>	<u>50.4</u>

VII. Termination of Ineligibility to Use the General Resources of the Fund:

Effective October 6, 1993, the Executive Board of the Fund terminated Viet Nam's ineligibility to use the general resources of the Fund (EBS/93/163, 10/5/93). The decision reads:

"The Fund decides that effective October 6, 1993, Viet Nam is no longer ineligible to use the general resources of the Fund pursuant to Executive Board Decision No. 7855-(84/173), adopted December 3, 1984."

This decision was taken following a payment by Viet Nam on October 5, 1993, equivalent to SDR 100.2 million which fully settled its overdue obligations to the Fund. Settlement of Viet Nam's arrears was facilitated through a combination of grants provided by the Support Group for Viet Nam, under the co-chairmanship of France and Japan, and bridge finance from commercial institutions.

VIII. Exchange Rate Arrangement:

Multiple exchange rates vis-à-vis the convertible currency area were unified in early 1989. Subsequently, the exchange rate was managed by the State Bank on a daily basis until August 1991, when two foreign exchange centers were established in Ho Chi Minh City and Hanoi. All foreign exchange transactions through September 1994 took place at the rates established at these centers. At end-September 1994, the central rate was D 11,000 per dollar. On October 14, 1994, an interbank foreign exchange market was formally established.

IX. Article IV and XIV Consultations:

Viet Nam is on the standard 12-month consultation cycle. The Executive Board concluded the 1994 Article IV and Article XIV consultations (SM/94/138 and EBS/94/105) on June 8, 1994 and the following decisions were adopted:

1. The Fund takes this decision relating to Viet Nam's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1994 Article XIV consultation with Viet Nam, in the light of the 1994 Article IV consultation with Viet Nam conducted under Decision No. 5392-(77/63), adopted April 29, 1977, as amended (Surveillance over Exchange Rate Policies).

2. The restrictions on the making of payments and transfers for current international transactions described in EBS/94/105 are maintained by Viet Nam under the transitional arrangements of Article XIV, Section 2, except (i) exchange restrictions evidenced by certain external payments arrears, which are subject to approval under Article VIII, Section 2(a); and (ii) the multiple currency practice arising from a 5 percent tax on the remittance of profits from foreign direct investment, which is subject to approval under Article VIII, Section 3. The Fund encourages Viet Nam to remove the remaining restrictions maintained under Article XIV and urges elimination of the measures that are subject to Article VIII.

In view of the authorities' intention to eliminate all external payments arrears by end-December 1994, the Fund has approved (EBD/94/148) the retention by Viet Nam of the restrictions evidenced by these arrears until end-December 1994.

X. Technical Assistance:

See Annex V.

XI. Resident Representative:

Mr. Spitaller, the senior resident representative, has been stationed in Hanoi since December 1992.

Viet Nam: Relations with the World Bank Group 1/

The World Bank resumed its lending program to Viet Nam with the signing of two IDA credits in early November 1993: a primary education project (\$70 million) and a highway rehabilitation project (\$158 million). A third credit for agricultural rehabilitation was signed in March 1994. IDA expects to commit around \$400 million in FY 1995. A structural adjustment operation is scheduled for Board presentation in October 1994. Planned sector projects include power rehabilitation, irrigation, family planning, and financial sector reform. Before the recent resumption of lending, Viet Nam had received one IDA credit for an irrigation project in 1978.

In November 1993, the first Donor Conference for Viet Nam was held at the World Bank office in Paris. Aid indications from donors amounted to \$1.8 billion. The next donor conference, to be held in November 1994, will take the format of a Consultative Group chaired by the World Bank.

The Bank has greatly increased its sectoral and analytical work on Viet Nam. A country economic memorandum (CEM) that examined public sector management and private sector incentives was issued in September 1994. An earlier CEM reviewed Viet Nam's transition to a market economy (September 1993) and three sector reviews have been completed: transport in 1994; energy in 1993; and population, health, and nutrition in September 1992. Several others are being prepared, including reviews of the environment, land policy, the financial sector, and poverty. With funding from the UNDP, the Bank is managing several technical assistance (TA) projects: macroeconomic management (including macroeconomic projections and the public investment program) and project evaluation for relevant government ministries; the design, implementation, and analysis of a nationally representative household survey; and the design and implementation of a comprehensive program of state enterprise restructuring. Another TA project, funded by the Swedish International Development Authority, provides assistance for training and modernization of the banking system.

Viet Nam is current in its debt-service payments to the Bank as of September 1994. After the normal ten-year grace period, Viet Nam began repaying principal on its IDA credit in 1989. Details of disbursements and service payments are shown below.

International Financial Corporation (IFC)

The IFC has been active in Viet Nam with advisory work on leasing, banking laws, and capital markets. IFC is also exploring opportunities for investment in manufacturing, tourism, and infrastructure sectors such as power. It made its first loan, in the tourism sector, during 1994.

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1/ Prepared by World Bank staff.

## Viet Nam: World Bank Group Disbursements and Debt Service, 1989-1994

	1989	1990	1991	1992	1993	1994 <u>1/</u>
<u>(In millions of U.S. dollars)</u>						
<b>Loans</b>						
IBRD (net)	--	--	--	--	--	--
Disbursements	(--)	(--)	(--)	(--)	(--)	(--)
Amortization	(--)	(--)	(--)	(--)	(--)	(--)
IDA (net)	--	-0.3	-0.6	-0.6	-0.6	51.6
Disbursements	--	(--)	(--)	(--)	(--)	(52.2)
Amortization	(--)	(0.3)	(0.6)	(0.6)	(0.6)	(0.6)
Total loans (net)	<u>--</u>	<u>-0.3</u>	<u>-0.6</u>	<u>-0.6</u>	<u>-0.6</u>	<u>51.6</u>
<b>Interest payments</b>						
IBRD	(--)	(--)	(--)	(--)	(--)	(--)
IDA	<u>(0.4)</u>	<u>(0.4)</u>	<u>(0.4)</u>	<u>(0.4)</u>	<u>(0.4)</u>	<u>(0.4)</u>

1/ As of September 30, 1994.

Viet Nam: Relations with the Asian Development Bank 1/

Viet Nam became a member of the Bank in 1966 and lending and technical assistance operations commenced in 1968. During the period 1968-78, the Bank approved eleven loans for a total of \$44.6 million, and twelve technical assistance projects amounting to \$6.1 million. Of the eleven Bank loans, two were not declared effective. Two loans were terminated at the request of the Government and the undrawn amounts cancelled. Seven loans were reactivated in 1978 and now all have been closed. Most of the projects were in agriculture (fisheries and irrigation) and infrastructure.

Although the Bank did not sanction any new loans between 1975-92, some assistance was provided through the Bank's regional assistance program. Since 1992, Viet Nam has been participating in a Bank-sponsored initiative aimed at encouraging greater subregional economic cooperation among six countries in the Mekong River basin. Bank staff have also made contributions to a number of UNDP-financed technical assistance projects. Considerable technical assistance has also been provided through the extensive project preparatory work undertaken over the past three years.

In the last quarter of 1993, the Bank approved three loans amounting to \$261.5 million, in irrigation and flood protection, transport, and water supply; and eleven technical assistance projects in an amount of \$9.95 million.

Financial Operations from 1989 to 1994 are summarized below:

	1989	1990	1991	1992	1993	1994 <u>1/</u>
Commitments	--	--	--	--	261.50	--
Disbursements	--	--	--	--	--	3.0
Loan service payments (Repayments)	--	--	--	--	14.39	--
Debt outstanding <u>2/</u>	20.31	20.31	20.31	20.31	25.39	--

1/ As of August 25, 1994.

2/ As of September 30, 1994.

For 1994, the Bank expects to lend up to \$250 million for up to four project loans and around \$11.0 million in technical assistance. The latter includes technical assistance to the General Statistical Office for improving the national accounts (in an amount of \$700,000) which has already been approved, and for external debt management (in an amount of \$400,000) which is currently in preparation.

1/ Prepared by AsDB staff.

Viet Nam: Technical Assistance

The bulk of Fund technical assistance to Viet Nam during the past three years was provided under a UNDP-funded project (Table 1). Much of the assistance was concentrated in the design of reforms in the financial sector.

Viet Nam is expected to continue to require extensive technical assistance during the coming years to strengthen the institutional framework and improve the design and implementation of policies in a wide range of areas. The medium term technical assistance program has been designed to integrate resources from bilateral donors as well as multilateral institutions. Some of the needs will be met in the context of a second IMF/UNDP-funded, Fund-executed program aimed at improving macroeconomic management (Table 2). In the Ministry of Finance, this program has identified technical assistance needs in the following areas: tax policy; tax administration; fiscal policy capacity; treasury management; budget design, control and reporting; management of foreign aid and external debt; and government finance statistics. At the State Bank, the identified areas include: monetary operations; the government securities market; banking supervision; the interbank foreign exchange market; training capacity; the computerization of central bank operations; the accounting methodology and accounting plan; and monetary and balance of payments statistics. Technical assistance is also being provided to strengthen and develop the financial management information system, which will underpin the reforms in all of the areas outlined above. The funding for short-term consultants, experts, and advisors in a number of these areas remains unidentified. Under the current allocation, the UNDP funding under the program is expected to be exhausted during 1996.

Table 1. Viet Nam: Technical Assistance Under First UNDP/IMF Program, 1990-93

Department	Topic	Period	Financing
<u>a. Missions and staff visits</u>			
BCS	Computerization	May 1992	
MAE	Financial sector legislation and banking supervision	April 1990; October 1990	
	- Foreign exchange trading	October 1990	
FAD	Tax reform	October 1990; April 1992	
	- Budget control and planning	September 1990	
	- Budget and accounting systems	August 1991	
	- Budget law	May 1992; August 1992	
INS	Seminar on financial analysis	May 1990	
STA	Monetary statistics	August 1992; June 1993	
<u>b. Advisors and consultants</u>			
BCS	Computerization of financial accounts	July 1993	JAA <u>1/</u>
MAE	Long-term advisor to State Bank	Aug. 1991-Aug. 1993	UNDP/IMF <u>2/</u>
	- Banking supervision	Nov.-Dec. 1990	UNDP
	- External debt management	Sept.-Nov. 1992; May-July 1993	UNDP UNDP
	- Banking supervision	July 1991-Jan. 1992	
	- Seminar and workshop on monetary policy	February- March 1993	UNDP
FAD	Long-term advisor to Ministry of Finance	Oct. 1990-June 1993	UNDP
	- Public enterprise monitoring	Nov. 1991-Apr. 1992	UNDP
	- Seminar and workshop on public expenditure management	March 1993	UNDP
STA	Monetary statistics	April-July 1991; May-Aug. 1992	UNDP UNDP
	- Balance of payments statistics	Oct.-Dec. 1991	UNDP
	- Government finance statistics	June-Sept. 1992; May-July 1993	UNDP UNDP

1/ Japan Administered Account.

2/ Fund-financed for the period June-August 1993.

Table 2. Viet Nam: Program of Technical Assistance Under Second UNDP/IMF Program, 1993-95 <sup>1/</sup>

Department	Topic	Period	Person-Months	Financing
<b>a. Missions and staff visits</b>				
MAE	Bank supervision, payments system, and foreign exchange trading	July 1993		
	- Monetary operations, government securities market, bank supervision, foreign exchange operations	January 1994, September 1994		
	- Foreign exchange operations	July 1994		
FAD	Expenditure management and tax reform	June 1993		
	- Budget legislation	May 1994		
	- Tax and customs administration	May 1994		
	- Tax policy reform	June 1994		
	- Fiscal management	June 1994		
STA	Monetary, fiscal, balance of payments statistics, national accounts	January 1994		
TRE	Fund accounting	January 1994		
PDR	Commercial debt restructuring	February 1994, June 1994		
	- Paris Club rescheduling	October 1993		
BCS	Financial management information system	May 1994		
<b>b. Advisors</b>				
	Banking operations	Oct. 1993-Oct. 1995	24	IMF
	Monetary policy	Dec. 1993-Dec. 1995	24	IMF
	Central bank training advisor	Jan. 1994-Jan. 1996	24	IMF
	Tax administration	1994-95	18	UNDP
	Budget/Treasury	1994-95	18	UNDP
	Banking supervision	Late 1994-early 1995	6	UNDP
	Government finance statistics	1994-95	12	UNDP
	Balance of payments statistics	1994-95	12	UNDP
	Accounting and monetary statistics	1994-95	8	UNDP

<sup>1/</sup> Additional funding is sought to finance short-term consultants/experts/advisors in a number of identified areas.

## VIET NAM

Social and Demographic Indicators

<u>Area</u>	<u>Population (1993)</u>		<u>Density (1992)</u>
331,041 sq. km.	Total:	70.9 million	214 per sq. km.
	Rate of growth (1988-93):	2.3 percent	1,102 per sq. km. of arable land
	Aged 0-14:	27.6 million	

Population Characteristics and Health (1991-92)

Life expectancy at birth (years)		Population per physician (1990)	2,694
Male	64	Population per nurse (1990)	760
Female	69	One-year olds fully immunized against (percent):	
Infant mortality rate (aged under one, per thousand)	42	Measles	89
Under age five mortality rate (per thousand)	53	Diphtheria/pertussis/tetanus	89
		Population immunized against (1987, percent):	
		Diphtheria/pertussis/tetanus	54
		Poliomyelitis	51
		Measles	41
<u>Access to safe water (1991-92)</u>		Access to health care during 1980-85 (percent)	80
Percent of population		Maternal mortality rate per 100,000 live births (1990)	107
Urban	47		
Rural	33		
Total	36		

Nutrition (1991-92)

Daily calorie supply per capita (percentage of requirement)	2,233 (91)
Daily protein supply per capita (grams)	51
Babies with low birth weight (under 2.5 kilos; 1985, percent)	18
Infant and child malnutrition (1985, percent)	
Moderate	39
Severe	12

Education (1991-92)

Primary school enrollment (percent)	99
Secondary school enrollment (percent)	42
Children completing primary school (percent of first grade)	87
Adult literacy rate (more than 15 years of age, percent)	88

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Sources: Data provided by the Vietnamese authorities; IBRD, Social Indicators of Development in 1991-92; IBRD, Viet Nam: Population, Health and Nutrition Sector Review, 1992; and staff estimates.

Environmental Issues

Deforestation is a prime environmental concern in Viet Nam, with half of the total forest area having disappeared over the past 50 years through war damage, overexploitation, and forest fires. This has affected both the watershed forests in the high mountainous areas and the mangrove forest in the estuary areas.

Forest loss has contributed to the rapid degradation of soil quality, which has suffered also from the lack of fertility-building measures, and the abusive use of chemical insecticides and fertilizers.

Marine resources in the shallow waters and coastal areas have been considerably depleted by poor management of their exploitation in the face of high demand, oil spills, land-based pollution sources, rudimentary fishing methods, and nonobservance of laws protecting marine bioresources. In mining, inefficient exploitation of hundreds of mineral deposits results in waste surpassing two or three times permissible limits.

Water, air, and soil pollution have been noted in both urban and rural areas. In the two largest cities, air pollution includes dust content in the atmosphere exceeding 2-10 times permissible limits, gas 6-10 times, carbon monoxide 2-5 times, and sulfur dioxide up to 30 times. Household wastes have caused serious pollution to water resources in urban centers, particularly in the dry season when availability of surface water is reduced several times over. Residues of toxic chemicals used during the war still affect significant portions of the country.

Rapid population growth has increased pressure on resources, particularly as a result of the concentrations of people in the delta regions and in urban centers.

Legislation now being considered seeks to strengthen the environmental component of planning and centralize environmental management in a ministerial-level body supplementing previous sectoral responsibilities. Government efforts are being embodied in a new National Plan on Environment and Sustainable Development and in a National Environment Law which was passed in December 1993.

The Vietnamese authorities have actively promoted reforestation, including through a program to reduce pressure on highland forests. To further this objective, the authorities plan to promote the settlement of nomadic people, the introduction of environmentally responsible farming techniques, and income and employment activities in buffer zones surrounding special-use forests, which are designed to protect biodiversity in upland areas.

Viet Nam: Statistical Issues

Viet Nam has received extensive technical assistance to help in the process of transforming its accounting and statistical systems, which were originally designed to support a centrally planned economy, into modern systems in the context of a market-oriented economy which are capable of producing macroeconomic statistics in conformity with international standards. 1/

However, the transformation of systems has still to be completed and is, in some areas, at a very rudimentary stage. In addition, officials and staff of the government agencies that are mainly responsible for the generation of macroeconomic statistics need further training in international statistical methodologies and in the operation of statistical systems. 2/

Outstanding statistical issues

a. Real sector

The General Statistical Office (GSO) provides data on output by productive sector, and on price developments. National accounts on the basis of the System of National Accounts (SNA) have been prepared for the period since 1989, but the full SNA methodology has not yet been implemented, including the collection of enterprise data based on generally accepted accounting principles. The industry group production accounts suffer from coverage deficiencies because the GSO is not permitted access to data on production of military goods and services and of police service. Estimates of the components of GDP by expenditure category have recently been included in the data provided by the GSO, but they are not consistent with data on government expenditure provided by the Ministry of Finance or with the external sector accounts.

Data are provided on a range of price indices, the most widely used of which is the retail price index (RPI). The overall standard of the indices is considered to be reasonable, given the present stage of development of official statistics in Viet Nam, but the RPI, which is a form of producer output price index for the retail distribution industry, is not a statistically valid consumer price index (CPI). Introduction of a CPI is

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1/ A Fund multitopic statistical mission visited Hanoi during January 12-26, 1994 and made a number of recommendations for improving the quality of statistics.

2/ Under the auspices of the UNDP/IMF technical assistance project, the Fund will provide three UNDP-funded long-term advisors in statistics: one each in government finance and balance of payments statistics for a year, and one in accounting and monetary statistics for eight months. However, to ensure effective operation, access of advisors to data needs to be assured, and legal issues regarding data compilation need to be resolved. An advisor for balance of payments statistics has been identified.

expected only after January 1997 following the completion of a national household expenditure survey.

b. Government finance

Annual government finance statistics are produced in final form several months after the fiscal year 1/ to which they refer. However, data are not reported by economic classification, and functional classification is very limited. In terms of coverage, the final annual government accounts cover all levels of government, including the transactions of the two main social security funds. Coverage of the budget is being made more comprehensive, and, apart from the exceptional treatment of one major foreign currency loan, there is no firm evidence of extra-budgetary funds.

c. Monetary statistics

Data regularly provided to the Fund by the State Bank include the monetary survey, the State Bank balance sheet, the consolidated balance sheet for the commercial banks, and the balance sheets of the four state-owned commercial banks. There are, however, considerable lags in data reporting. In terms of coverage, the monetary survey is limited to covering 16 major commercial banks, as it has not been able to keep pace with the rapid growth in the number of banks. The recent multitopic statistical mission helped incorporate 11 additional banks into a widened survey which will be produced in parallel with the original survey for a period. The analytical usefulness of the data is limited by the system of accounts used by the State Bank and other financial institutions, which does not permit, inter alia, an accurate sectorization of resident and nonresident accounts.

d. Balance of payments

Balance of payments data provided by the State Bank include the current account and the capital account. However, these data are compiled mostly from the exchange record derived from banking sources in Viet Nam, leading to a number of deficiencies in coverage. First, the exchange record does not, at present, permit a distinction between transactions with residents and with nonresidents, so that the balance of payments includes some transactions among residents. Second, transactions that do not pass through the banking system are excluded; so are transactions that do not pass through the limited number of banks included in the exchange record.

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1/ The Vietnamese fiscal year corresponds to the calendar year.

Viet Nam: Selected Economic Indicators, 1990-95 1/

	1990	1991	1992	<u>SBA 2/</u> 1993	<u>Est.</u>	<u>SBA</u> 1994	<u>ESAF</u>	<u>ESAF</u> 1995
<b>Growth (percentage change)</b>								
Real GDP	4.9	6.0	8.6	7.0	8.1	8.0	8.7	8.0
Agriculture	1.5	2.2	7.2	2.0	3.8	3.5	5.5	3.5
Industry	2.5	9.9	14.6	9.9	12.1	10.0	12.3	12.0
Services	10.4	8.3	7.0	9.9	9.2	10.4	9.3	9.4
<b>Saving-investment (percent of GDP)</b>								
Gross national saving	11.7	12.8	16.3	6.9	11.2	8.8	15.0	16.2
Gross capital formation	15.1	15.1	17.0	13.5	19.4	14.9	19.9	21.8
<b>Prices (percentage change)</b>								
Consumer prices (end of period)	67.5	68.1	17.5	12.0	5.2	7.0	10.5	7.0
Consumer prices (period average)	36.4	83.1	37.8	10.0	8.3	6.8	8.6	7.8
GDP deflator	50.5	73.0	32.6	9.7	14.3	9.8	11.3	8.0
<b>Government budget (percent of GDP)</b>								
On cash basis								
Budget revenue <u>3/</u>	14.7	13.1	18.3	21.3	21.6	23.9	24.8	24.7
Government expenditure <u>4/</u>	20.5	15.0	20.7	26.5	27.1	28.5	27.8	28.9
Current account balance <u>3/</u>	-0.7	0.9	3.4	1.3	1.5	2.9	4.1	3.7
Overall fiscal deficit (-) <u>3/</u>	-5.8	-1.9	-2.5	-5.2	-5.5	-4.6	-3.1	-4.2
On accrual basis								
Current account balance <u>3/</u>	-3.0	-1.3	1.4	-0.6	0.1	2.6	3.9	3.7
Overall fiscal deficit (-) <u>3/</u>	-8.0	-4.1	-4.5	-7.2	-6.9	-5.0	-3.3	-4.2
<b>Money and credit (percentage change, end of period)</b>								
Total liquidity (M2)	53.1	78.7	33.7	27.2	19.0	21.3	21.3	20.6
Domestic credit	36.4	44.1	19.9	42.5	58.7	21.3	21.3	20.7
Private sector	21.2	65.6	169.9	88.8	177.9	32.0	40.7	40.0
State enterprises	47.2	71.9	36.3	28.3	24.7	21.5	17.2	13.6
<b>Interest rates (percent per year)</b>								
Three-months savings (households)	57.4	49.1	26.2	...	18.2	...	18.2 <u>5/</u>	...
Short-term lending (less than one year)	...	...	37.6	...	28.3	...	28.3 <u>5/</u>	...
Medium-term lending (1-3 years)	...	...	23.9	...	15.4	...	22.4 <u>5/</u>	...
<b>External trade (percentage change in dollar terms)</b>								
Export value	31.1	18.0	21.2	5.0	15.1	18.0	26.3	13.5
Import value	6.1	18.8	20.4	21.5	38.3	10.6	14.4	15.5
<b>Balance of payments (\$ mn.) <u>6/</u></b>								
Trade balance	-41	-63	-60	-479	-655	-513	-408	-545
Exports (f.o.b.)	1,731	2,042	2,475	2,600	2,850	3,362	3,600	4,086
Imports (f.o.b.)	1,772	2,105	2,535	3,079	3,505	3,875	4,008	4,631
Current account balance <u>7/</u>	-259	-188	-72	-732	-1,063	-813	-743	-944
(In percent of GDP)	(-3.4)	(-2.3)	(-0.7)	(-6.0)	(-8.3)	(-5.5)	(-4.9)	(-5.6)
Overall balance	-142	-50	268	-899	-1,106	-169	-169	-47
<b>Gross official reserves <u>8/</u></b>								
In weeks of imports (f.o.b.)	24	27	465	550	404	624	658	877
Net international reserves <u>8/</u>	(0.7)	(0.7)	(9.5)	(9.3)	(6.0)	(8.4)	(8.5)	(9.8)
<b>External debt <u>9/</u></b>								
Convertible currency (\$ mn.)	2,704	2,739	3,775	...	4,024	4,626	4,477	5,053
Nonconvertible currency (in millions of transferable rubles)	11,077	10,774	10,867	...	10,935	...	...	...
<b>Arrears</b>								
Convertible currency (\$ mn.)	1,296	1,368	1,628	--	1,076 <u>10/</u>	--	--	--
Nonconvertible currency (in millions of transferable rubles)	703	992	3,311	--	3,320 <u>10/</u>	--	--	--

Viet Nam (concluded): Selected Economic Indicators, 1990-95 <sup>1/</sup>

	1990	1991	1992	SBA 2/ 1993	Est. 1993	SBA 1994	ESAF 1994	ESAF 1995
Debt-service ratio <sup>11/</sup>								
Debt due	29.9	20.2	22.4	29.0	26.8	12.7	12.0	11.8
Debt paid	12.3	9.1	11.7	9.7	10.7	6.8	6.4	8.9
Fund operations (in millions of SDRs)								
Arrears due to the Fund	104.6	100.4	100.1	--	--	--	--	--
Fund drawings	--	--	--	72.5	72.5	96.6	120.8	120.8
Exchange rate								
Dong per U.S. dollar (end of period)	6,817	12,145	10,555	10,628	10,850	...	10,988 <sup>5/</sup>	...
REER (percent change) <sup>12/</sup>	18.9	-12.5	30.5	0.3	-1.7	...	-2.1 <sup>5/</sup>	...
Memorandum item:								
GDP at current prices (In billions of dong)	41,930	76,707	110,535	129,745	136,571	161,951	165,179	192,658

Sources: Vietnamese authorities; and staff estimates and projections.

<sup>1/</sup> The General Statistical Office has recently revised the official System of National Accounts (SNA) series, raising the estimates of both nominal and real GDP. Correspondingly, variables expressed as a percentage of GDP have changed, but the broad trends remain the same. In addition, the estimates for gross capital formation were raised upward.

<sup>2/</sup> Monetary data adjusted as mandated under the program (see EBS/94/105 and EBS/93/154).

<sup>3/</sup> Excluding grants.

<sup>4/</sup> Includes estimates for onlending in 1994 and 1995.

<sup>5/</sup> As of end-August 1994, except REER as of end-July 1994.

<sup>6/</sup> On accrual basis.

<sup>7/</sup> Excluding official transfers, except for 1990.

<sup>8/</sup> Including gold, in millions of U.S. dollars.

<sup>9/</sup> Owing to a change in coverage, data for 1992 and later are not entirely comparable with data for previous years.

<sup>10/</sup> Includes arrears to non-Paris Club bilateral creditors which, for program purposes, have been eliminated.

<sup>11/</sup> Debt service due and paid as a percentage of exports of goods and nonfactor services.

<sup>12/</sup> Minus sign indicates depreciation.