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Viet Nam - Reform and Stabilization, 1986-92

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Abstract

Viet Nam has made substantial progress in the transition to a market economy and toward financial stability since economic reform began in 1986. Piecemeal measures were adopted at first, followed by the launching of a bold and comprehensive program of structural reform in March 1989. Complemented by policies designed to achieve financial stabilization, the program met early success. Its continuation, however, was put at risk by the withdrawal of external financing by the former Soviet Union and the breakdown of preferential arrangements with the CMEA area. Although economic performance weakened temporarily in the wake of these shocks, the Vietnamese intensified the adjustment process. Viet Nam has since resumed its progress toward financial stability and sustained growth.

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Contents

Summary

Viet Nam has made substantial progress in the transition to a market economy and toward financial stability since embarking on economic reform in 1986. Piecemeal measures were adopted at first, followed by the launching of a bold and comprehensive program of structural reform in March 1989. Progress has included far-reaching land reform, comprehensive price liberalization, exchange rate unification, tax reform, public enterprise restructuring, modernization of the financial system, and steps toward freer trade. These reforms have taken place against the background of a more general decentralization of decision making.

The initial conditions for reform were set by the unsuccessful period of central planning, the damage incurred during the years of war, and the period of isolation from the international community. Notwithstanding, Viet Nam's structure of production was amenable to a quick supply response, while the recent legacy of a market economy in the South, enhanced by its endowment of natural and human resources, helped that region emerge as the driving force of growth. In addition, Viet Nam's low degree of integration into the Council for Mutual Economic Assistance (CMEA) and its proximity to the dynamic Southeast Asian economies cushioned the effects of the collapse of the CMEA. Finally, the growth in oil exports boosted fiscal revenue, thereby contributing to financial stability.

Since 1989, the structural reform process has been complemented by policies designed to achieve financial stabilization. The main features have included a reduction in the budget deficit, restraint in the growth of money and credit, and a rationalization of the interest rate structure. In the initial stages of stabilization, however, the withdrawal of external financing from the former Soviet Union and the breakdown of preferential arrangements with the CMEA area resulted in the temporary weakening of economic performance. Notwithstanding these constraints, the Vietnamese intensified the adjustment process and hastened the transition to a market economy. Viet Nam has since resumed its progress toward financial stability and sustained growth.

I. Introduction

Disappointed at the failure of initial attempts to reform the old system from within, the Vietnamese authorities in 1986 made a commitment to abandon that system and move to a market economy. Piecemeal measures were introduced at first, followed by the launching of a bold and comprehensive reform program in March 1989. Complemented by financial stabilization, the program met with early success. Its continuation, however, was put at risk by the withdrawal of Soviet aid and the collapse of preferential arrangements with the CMEA area. Notwithstanding these constraints, the Vietnamese authorities intensified the adjustment process and hastened the transition to a market economy. Although economic performance weakened temporarily, Viet Nam has resumed its progress toward financial stability and sustained growth.

The authorities are aware that they have embarked on a long and difficult road but the accomplishments of their policies have confirmed their conviction that they must stay the course. Persistence with coherent efforts to jettison the remnants of the old system and unlock the productive potential of the country, paired with financial discipline, is recognized as the only viable alternative to improve the welfare of the population. For this, broad social stability is indispensable. The human costs of economic transformation should be contained with the help of a social safety net, with features yet to be determined; and conditions should be promoted, including job training, to make its benefits widely accessible. Orderly economic transformation in a stable society will help ensure the sustained inflow of foreign resources that Viet Nam requires.

The progress Viet Nam has made is in part attributable to its favorable initial conditions. Being predominantly agricultural and with a small state sector, the structure of production was amenable to a quick supply response. The recent legacy of a market economy in the South, enhanced by its endowment of natural and human resources helped that region emerge as the driving force of growth. In addition, Viet Nam's relatively low degree of integration into the CMEA and proximity to the dynamic Southeast Asian economies cushioned the effects of the collapse of the CMEA. Finally, the growth in oil exports boosted fiscal revenues, thereby contributing toward financial stability.

Transformation of the Vietnamese economy has involved far-reaching land reform, comprehensive price and exchange rate liberalization, and the first steps toward freer trade and the restructuring of public enterprises. Against the background of a general move to decentralized decision making, a start has been made in the reform of the fiscal system and in the transformation of financial markets. While the steps taken have been in the right direction, much remains to be done in the area of structural reform. To develop the economy's potential over the medium term, much higher rates of productive investment are needed. For the future, it will be important to further strengthen public sector savings; to secure an efficient intermediation between savers and borrowers; to clearly define and limit the role of state enterprises; and to improve transparency and uniformity of the legal system.

II. Background

In the mid-1950s, following the end of war against France, the Hanoi Government adopted a development strategy aimed at shoring up the economy by promoting heavy industry within the framework of central planning. Being capital and resources scarce, and with the majority of the workforce concentrated in agriculture, the economy was singularly unsuited to the strategy. Soon, sectoral imbalances emerged, but the advent of the Viet Nam War diverted attention. Imports and aid from the former U.S.S.R. and China helped meet the mounting economic difficulties, even as they spurred expansion of the state sector, worsening the underlying distortions.

Following reunification in 1976, efforts to create a socialist economic system in the South, and integrate it with that of the North, were only partially successful. Resistance was strong among the farming population and the Mekong delta remained largely uncollectivized. Difficulties were compounded by the cessation of assistance from China and major Western donor countries, following Viet Nam's invasion of Cambodia. At the same time, the parallel economy, which had never been effectively quelled, regained momentum. Although some of the shortages of the official economy were thereby alleviated, its resource base was further eroded. The economic crisis intensified; industrial production stagnated, per capita food production fell to extremely low levels, forcing Viet Nam to import large amounts of rice, and the foreign debt position worsened. By the end of the 1970s, the failure of the centrally planned system had become widely apparent.

The tentative steps that were taken towards reform in the early 1980s, intended to alleviate some of the inefficiencies of the centrally planned system, fell far short of addressing the fundamental problems and imbalances in the economy. The reforms proceeded without a blueprint, with the authorities cautiously adopting measures similar to those introduced in China. 1/ As of 1986, the economy faced major difficulties: inflation accelerated to about 800 percent, price distortions magnified, output growth slowed as per capita agricultural production stagnated, and underemployment

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1/ As in China, initial changes were made in the agricultural sector because of the pressing need to increase food production.

was widespread. 1/ The standard of living of large segments of the rapidly growing population declined from already low levels. In addition, imports became increasingly constrained by both export shortfalls and declining long- and medium-term capital inflows, and external arrears rose to high levels.

Against this backdrop of domestic problems, external pressures heightened the need for a new reform strategy. Successful developments in China, and the progress of the dynamic economies of the region, encouraged the Vietnamese Communist party leadership to change their policies. Further impetus came from political and economic reform in the Soviet Union which meant that Viet Nam could no longer expect massive Soviet assistance. The withdrawal of aid raised the prospect of an even poorer macroeconomic performance.

1. Reform commitment

The Sixth Party Congress in 1986 paved the way for far-reaching reform, explicitly recognizing that the socialist economic model had failed in important respects. 2/ The Congress placed much of the blame on the central planning model. Past policies were criticized for attaching too much importance to the state sector, for discriminating against the collective and private sectors, for maintaining an inefficient system of centralized allocation of resources in the state sector, and for failing to rectify the serious sectoral imbalances. 3/ The Sixth Party Congress saw the departure of the top three party leaders and the appointment of Nguyen Van Linh as General Secretary of the party, a serious indication of the commitment to change. In contrast to reforms of the early 1980s, those

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1/ The reforms effectively strengthened the parallel economy, resulting in two interlinked economies, reflected in a "dual price system," one for centrally allocated and rationed goods at low, subsidized prices and the other for goods sold on the free market at much higher prices. Large price distortions resulted.

2/ "Numerous difficulties still beset the life of our people, especially workers and public employees. Many people of work age are jobless or still not fully employed. Many legitimate and minimal requirements of the people's material and cultural life have not yet been met. The countryside is running short of common consumer goods and medicines; housing, sanitary and cultural life in many areas still leave much to be desired." Sixth Party Congress of the Communist of Vietnam (15-18 December 1986), Documents, Hanoi: 1987, page 16.

3/ "The bureaucratically centralized management mechanism based on state subsidies, which has been in force for many years now, far from creating a driving force for development, has weakened the socialist economy, limited the use and transformation of the other economic sectors, put a break on production, lowered labor productivity, product quality and economic efficiency, put distribution and circulation in a state of chaos and given rise to numerous negative manifestations in our society." Ibid, page 71.

set in motion in 1986 attempted fundamentally to change the faltering economic system.

2. Reform strategy

Like China, Vietnam attempted to introduce market forces without altering the foundations of its political system. As such, certain choices regarding the sequencing, extent and pace of transformation were constrained by political factors. However, Vietnam's precarious fiscal and external positions precluded the option of proceeding gradually and incrementally with the reform process, as was the case with China; Viet Nam lacked both the domestic resources and access to foreign credit.

Among the main policy choices for an economy moving from a centrally planned (CPE) to a market-oriented system is the speed and sequencing of reform measures. It is important to establish whether a gradual or big-bang approach is to be pursued. And decisions must be made on (i) the order in which the multiple reforms are to be implemented; (ii) whether price and trade liberalization should be attempted simultaneously, or whether the opening to foreign trade should be postponed until enterprises are in a stronger competitive position; and (iii) whether prices and foreign trade should be freed prior to or following privatization. Viet Nam addressed these issues in the following manner.

During 1987-88 the authorities adopted a gradual approach, introducing reforms in a piecemeal fashion. In agriculture, the tiller was granted greater leeway in land use and product pricing. Generally, domestic prices were adjusted to better reflect costs; a new foreign investment law was adopted; and the foundations for a two-tier banking system were laid. In spite of these measures acute macroeconomic imbalances continued to build up, manifested in rampant inflation and balance of payments crises, accentuating the need for more incisive action. Thus, in March 1989, in conjunction with a financial stabilization program, involving fiscal and monetary tightening and a devaluation of the exchange rate, structural reforms were implemented, covering a wide spectrum of economic sectors and institutions. The reform program included a comprehensive liberalization of domestic prices and steps toward the liberalization of external trade.

The prices of virtually all goods and services were freed simultaneously in an effort to prevent commodity speculation, and to avoid a succession of inflationary shocks. The comprehensiveness of price liberalization spared Viet Nam the adjustment costs (for enterprises in terms of investments and personnel) and speculation otherwise entailed in successive waves of relative price adjustment. While the downside of the rapid price adjustment, the decline in industrial output and employment in state enterprises in particular, was more than offset by the supply response in other sectors.

While foreign prices were used to act as a guideline for the adjustment of all domestic prices, a set of tariffs was put in place with a view to promote the establishment of an import competing sector and simultaneously raise fiscal revenue. At the same time, a new fiscal system, more appropriate to a market economy, was being established.

The sequencing of price liberalization versus privatization was not an immediate issue given Viet Nam's political commitment to predominantly public ownership. Yet, private citizens were given the rights to use public assets, particularly in the case of agricultural land, including the free transfer of user rights, and foreign investors were guaranteed the unrestricted exercise of their property rights. Further developments in the legal framework include the recent introduction of private contract law and company law, primarily to encourage foreign investment. There have also been moves toward converting public enterprises into joint stock companies and toward divestiture, which should facilitate eventual privatization on a significant scale. There are plans also for introducing bankruptcy and antitrust provisions. All told, even though the political leadership remains ambivalent about the notion of private property, the reform of economic structures and the opening up of the economy has occurred in a context significantly more akin to a market economy than an orthodox socialist economy.

Viet Nam has gradually relaxed central planning, emphasizing decentralized economic decision making, and has started to transform its institutions to render them more consistent with the conduct of policy within a market-oriented system. The financial and fiscal reforms that are under way may be expected to take several more years to complete. Financial reform requires the development of a two-tier banking system with effective, indirect monetary control and the successful mobilization and allocation of savings. In the public finances, greater revenue buoyancy is contingent on the proper functioning of the new budgetary institutions and the modern tax system recently put in place. Within the reorganized Ministry of Finance, public spending needs to be redirected with emphasis on investment in infrastructure; the social safety net required to cushion the impact of public enterprise restructuring; and arresting the degradation of the environment.

3. Initial conditions

In contrast to Eastern European economies attempting to move to market-based system, Viet Nam's initial conditions were more favorable to a swift transition. The economy was predominantly agricultural and had a significant nonstate sector, with part of industrial production and services activity already in private hands. In the comparatively small state sector heavy industry played a limited role and there were few large enterprises. In the circumstances, the structure of production facilitated a quick supply response to reform.

The response was driven by the emergence of the South of Viet Nam as the main source of growth, enhanced by its endowment of human and physical resources. Almost half of manufacturing employment was concentrated in two labor-intensive sectors (textiles and food processing), located in the southern part of the country. Much of this had been developed in a market economy, the legacy of which was never wholly erased. Nguyen Van Linh, Party Secretary for Ho Chi Minh City from 1982, prior to his election as General Secretary of the Party at its crucial Sixth Congress in 1986, favored a mixed-economy model encouraging personal initiative among state enterprise managers and private business ventures. The agricultural sector of the South, never completely collectivized, had tremendous potential, having twice as much arable land as the, since the mid-1950s much more regimented, North for roughly the same population. Finally, the South had the benefits of a better infrastructure and transportation system as well as an important entrepreneurial base. 1/

Another factor that augured well for Viet Nam was its more limited integration into the CMEA. Rodrick (1992) argues that a large share of the output loss of the Eastern European countries in transition was attributable to the CMEA/Soviet trade shock. 2/ Viet Nam's lesser dependence on the CMEA and its proximity to one of the most dynamic regions in the world cushioned the effects of the shock. The extensive regional integration of trade and investment flows in Southeast Asia, and commodity composition of Viet Nam's exports, facilitated the switch in trading partners. In particular, transition was aided by the rapid growth of oil revenues which Viet Nam has been able to reap since 1989.

Even so, the loss of Soviet aid and trade, in the absence of alternative sources of official foreign support, was a shock exacerbating in the short run an already difficult situation. In otherwise unchanged circumstances, the effect would have been a severe tightening of the external constraint and a substantial fall in output. In the event, the prospect of such a deterioration galvanized the Vietnamese authorities into action, accelerating the transition to a market economy.

1/ In contrast, the North was similar to most Eastern European countries: it accounted for the bulk of the country's heavy industry (including iron and steel, chemicals, cement, fertilizer and vehicle manufacturing), agriculture had been collectivized, and, since 1956, the economy was administered under a central plan.

2/ According to Rodrick (1992), the CMEA/Soviet trade shock consisted of three distinct effects; (i) a terms of trade effect arising from changes in the prices of Eastern European countries' energy imports from the former Soviet Union and from changes in the prices of their manufactured exports; (ii) the market loss effect resulting from lower volumes of manufactured exports to the former Soviet Union; and (iii) the removal of implicit import subsidies and export taxes that resulted from inappropriate exchange rates.

III. Reform Measures

1. Goods and services market

a. Agriculture

A series of reforms since the early 1980's has transformed Vietnamese agriculture. Initially, cooperative farms extended over nearly 80 percent of the cultivated area, but they accounted for only 50 percent of total agricultural output. State farms, growing mainly tree crops (including tea, rubber, and coffee), spanned a further 13 percent of the cultivable land. By contrast, private farms (covering only 7 percent of arable land and considered too sparsely populated to warrant collectivization) and private households (engaged in production on small plots adjoining homes) constituted the more dynamic sector. Together, they provided the bulk of animal products, fruits and vegetables. Yet, under these arrangements, total production stagnated, rice, the main staple, had to be imported in large quantities, and there were periodic grain shortages.

Following the example of China, a "contract system" was introduced in the early 1980's with the objective of restoring the family as the basic unit of production. Individuals or groups of workers were given plots of communally owned land and inputs at fixed prices in exchange for officially determined shares of output; the remainder could be sold to the Government at either negotiated or free market prices. These partial reforms were largely unsuccessful: tenure security was not provided, marketing freedom was severely restricted, and lack of incentives impaired productivity growth.

In view of its failure, the contract system was altered in 1988. While agricultural land continued to be owned by the state, households were assured user rights to freely transferable land and tenure for at least 15 years, thereby providing the incentive for investing in land improvement. Furthermore, contractual obligations were reduced, with farmers free to choose production activities and inputs and obtaining control over at least 40 percent of output for the next five years. The role of collectives was limited to the provision of inputs and land management.

In 1989, state farms were given full autonomy. Early in the year, quantitative and fixed-price marketing obligations were relaxed considerably and farms were permitted greater marketing freedom, including the option to open their own wholesale or retail outlets. By mid-1989, in line with general price reform, agricultural prices were fully liberalized thereby eliminating the long standing relative price distortions hampering agricultural production. Decontrol of prices and the changes in land user rights resulted in a substantial increase of cultivation and crop yields. Total agricultural output increased by 4 percent in 1988 and markedly more rapidly still in 1989, primarily owing to higher rice production. In fact, paddy production increased by over 12 percent in 1989, transforming Viet Nam from a rice importer to the world's third largest rice exporter. The country has maintained this position since then and prospects for a continued strong agricultural performance are favorable in view of (i) the proposed further enhancement of property rights in 1992, extending tenure up to 75 years; and (ii) potential productivity growth associated with improvements in irrigation and processing. As in other areas, foreign technical assistance is contributing to progress in that direction.

b. Industry

Prior to reform, state-owned enterprises (SOEs) were controlled principally by provincial governments. Their lack of autonomy and soft budget constraints engendered inefficiencies, including low capacity utilization. A crucial problem was that a large part of the wage cost was borne by the budget in the form of consumer subsidies, resulting in overstaffing. By contrast, in non-state enterprises, output was generally free of price controls but constrained by other factors, including lack of access to bank credit and limitations on the scope of private sector activity. Even so, manufacturing output grew at about the same rate in the non-state sector as in the state sector.

Starting in early 1989, extensive industrial reforms were introduced. State enterprises have been given full autonomy in their pricing, production and investment decisions, and managers were authorized to lay off excess workers, subject to guidelines on compensation. At the same time, current budgetary subsidies have been eliminated and interest rates and prices of imports raised, thus hardening SOE budget constraints. For the non-state sector, decrees have been issued facilitating access to credit and inputs and reducing discriminatory taxation, thereby enhancing the scope of domestic competition. Non-state enterprises have also been given the right to negotiate foreign sales contracts and retain foreign exchange earnings. Yet, these measures have fallen short of defining and guaranteeing property rights within a firm legal framework. Bankruptcy laws and liquidation regulations, while envisaged, are yet to be issued, presenting a major obstacle to further reform. Moreover, areas open to private initiative have not been clearly specified resulting in considerable uncertainty.

c. Services

Reforms of services include privatization of distribution in agriculture and the entry of new banks, including private shareholding banks. Adoption in 1987 of a liberal foreign investment law has, despite difficulties in implementation, induced a significant inflow of foreign investment in a range of activities, including services, notably in the tourism, food-processing and financial sectors. Yet, there also have been problems: of the 7,500 rural credit cooperatives, the vast majority collapsed in 1989-90. Large amounts of outstanding loans and interest payments proved irrecoverable, and many depositors lost their money. Since then, a special commission has been formed to liquidate cooperatives and recover outstanding loans. In some of the more egregious instances, the commission has arrested debtors in arrears and seized their assets. Generally greater decision-making autonomy in the financial sector, including state-owned banks and credit cooperatives, has raised the prospects for intensifying competition and foreign financial and commercial involvement in the Vietnamese economy.

d. Prices

Liberalization of prices constitutes a cornerstone of structural change in Viet Nam. There have been mutual benefits from price liberalization and the greater autonomy in the private use of resources and, more generally, in private decision making in the economy.

Prior to 1989, Viet Nam had a dual-track price system. "Official" prices guided production of commodities, with a view to furthering the objectives of the central plan, while "free market" prices guided production in the non-state sector, including private enterprises and cooperatives. The Sixth Party Congress in 1986 decided that "official business prices" should be set to reflect market forces. From July 1987 to December 1988, these prices were substantially increased. Yet, despite efforts to realign prices, agricultural products continued to be underpriced. Also, while prices were set as a markup over costs, costs remained distorted by explicit and implicit subsidies.

Price reform was accelerated in March 1989. Most prices were liberalized, formally abolishing the distinction between "official prices" and "free-market prices." 1/ By mid-1989 business prices for virtually all goods and services were brought into line with free market prices, including the prices of rice and gold. The unification of the price structure, together with trade liberalization, resulted in a marked improvement in the relative prices of agricultural goods, which helped spur output. The price level effects of the reform were limited: the demand effects from tight credit policies, the earlier adjustment in official prices, and the buoyancy of the domestic supply response and exports, which increased the availability of domestic and imported goods, all helped contain the jump in the overall price level.

2. Labor market

In early 1989, the authorities decided to fully "monetize" the remuneration of state enterprise workers, with cash payments replacing assortments of subsidized goods and services. The intention was to render the composition of the wage bill more transparent and thus easier to control. Thereafter, a general nominal wage freeze in the government sector was effected, detaching the minimum wage from the price of rice. Although, at present, a substantial part of workers' remuneration continues to be paid in kind, the authorities are considering completing the process of monetiza-

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1/ The only exceptions were the prices of electricity, oil, cement, steel, and transportation, but even these prices were adjusted and thus better reflected operating costs.

tion. Further measures are also being considered as part of a comprehensive wage reform, including an increase and greater differentiation in civil service wage scales, the adoption by state enterprises of their own salary scale on the basis of market trends, and the introduction of a minimum wage to serve as a guideline for the private sector. There are also plans for additional cutbacks in government employment, with a view to containing the medium-term growth of the wage bill, once the effect of severance payments has been absorbed. These cutbacks would follow the retrenchments of 1989-91 when over one million employees in the enlarged public sector, including the state-owned enterprises, were laid off; when 500,000 soldiers were demobilized; and when conditions in the labor market were also affected by the repatriation of labor from Eastern Europe and the Middle East, and of refugees. The decline in real government wages during that period has since been partially reversed.

3. External sector

Reform of policies and institutions in the external sector may be regarded as the second cornerstone of Viet Nam's transition to a market economy. Since 1988 far-reaching liberalization measures have been implemented to open the economy to international trade and investment and to restore the competitiveness of domestic firms.

a. Exchange rates and exchange system

Concomitant with its comprehensive price reform, Viet Nam has parted with its earlier system of multiple and overvalued exchange rates. In March 1989, all exchange rates of the dong in terms of convertible currencies were unified to a single official exchange rate at the level of the parallel foreign exchange market, implying a fivefold increase in the price of foreign exchange. Viet Nam then pursued a policy of shadowing the parallel rate within a range of 10 to 20 percent, through adjustments of the official exchange rate at irregular intervals. In the process, the commercial dong/U.S. dollar rate depreciated further in 1990-91. These developments were broadly in line with the parallel market, which in turn tracked the inflation differential. As a result, the real rate remained broadly unchanged.

From August 1991, the authorities introduced a further major change in exchange rate determination. Foreign exchange trading centers, dealing in U.S. dollars, were established at the State Bank branch of Ho Chi Minh City, and in Hanoi, with spot auctions twice a week. As of late 1991, market participants included commercial banks, foreign trade organizations, gold import companies, and remittances companies (foreign exchange demand and supply requests are submitted before each session, with demands for import or debt payments, to be made seven days ahead of time; banks are obliged to check that requests conform with foreign trade and exchange regulations).

The Vietnamese authorities do not insist on the surrender of foreign currency proceeds. Exporting state enterprises have retained most of their foreign exchange, and supply to the banking system has remained well below total inflows.

b. Trade system

Export and import prices were administratively set prior to reform. To secure export competitiveness it was necessary to offset overvaluation of the exchange rate by reducing domestic export prices below the level of prices on the world market. The difference between the procurement price and the export price was covered by an export subsidy. Export prices to the CMEA area continued to be set according to trade protocol until 1991. However, when the exchange rates of the dong in terms of convertible currencies and the transferable ruble were devalued in March 1989, and prices were decontrolled, the direct foreign trade subsidy was eliminated.

Another important element of trade reform is the decentralization of trade. In 1988, state monopoly over international trade was discontinued as restrictions on the establishment of Foreign Trade Organizations (FTOs) were abolished (previously, a few specialized organizations, supervised by the line ministry corresponding to their monopoly, had exercised control over trade). In addition, a large number of exporters and importers were authorized to establish direct contacts with foreign firms without using the FTO as intermediary. As a result, the number of firms authorized to trade abroad increased significantly. The establishment of direct contacts between domestic and foreign firms nonetheless remained subject to restrictions, depending on the size of enterprise annual turnover. On account of their adverse effects, the authorities were prompted to relax those restrictions and further decentralize trade. As of January 1991, all firms have been allowed to trade directly abroad, irrespective of the forms of ownership, subject only to routine registration.

The large number of foreign trade quotas was reduced in 1989 to 8 export quotas and 11 import quotas. Subsequently, there were further reductions, to 3 export quotas (rice, lumber, and rubber) and 3 import quotas (automobiles and motorcycles, electronic components, and cigarette production inputs). 1/ By contrast, temporary import prohibitions on a few consumer goods (most notably cigarettes, soft drinks, and other food items) were imposed in mid-1990. Imports of an additional range of items were proscribed with effect from September 1992, amidst mounting concern about smuggling and calls for protection. Custom duties were rationalized and while the licensing system was streamlined, it remains cumbersome. In March 1991, in response to earlier oil price increases in the course of the Gulf crisis, import duties on petroleum products were increased from 8 percent to 15 percent on gasoline and from 8 to 12 percent on diesel oil. These adjustments in duty were kept in place despite the subsequent decline in international oil prices. On the other hand, the export duty on rice was

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1/ The number of quotas, however, says little about their weight in total trade.

reduced from 10 percent to 1 percent in April 1991, and export producers were exempted from duties on imported inputs.

c. Capital liberalization

The 1987 foreign investment law permits full foreign ownership and management of firms, provides tax exemptions and guarantees against expropriation, and secures full repatriation of profits. This law was amended in 1990 allowing domestic firms to participate with foreign firms in investment projects. Foreign investors have responded positively to those incentives. Since 1988, over 400 projects from more than 30 countries have been approved, with commitments totaling $4 billion by end-September 1992.

However, against the background of bureaucratic complexities, uncertainties about property rights and differences across regions and government agencies in the interpretation and application of laws, disbursements have remained below $1 billion. In response to complaints from foreign investors, the Vietnamese authorities have made efforts to streamline procedures and make them more transparent. They see themselves as engaged in a continuing dialogue, and step-by-step improvements, that will eventually sort out remaining problems. At the same time, one major step forward, apt to increase confidence, spur capital inflows, and help settle Viet Nam's external arrears, will be the raising, or erosion, of the United States embargo. Prospects for progress on this count have improved with the recent extension of a large Japanese government loan to Viet Nam, and in the wake of its close cooperation in accounting for Americans missing in action from the Viet Nam War.

4. Fiscal system

Main objectives of fiscal reform in transition to a market economy are (i) the disengagement of government from the pervasive intervention typical of a command economy; (ii) the modernization of institutions, budgetary procedures and tax and expenditure structures; and (iii) the introduction of nonmonetary debt instruments.

Viet Nam has moved decisively in substituting private for government decisions in many areas of the economy, including the state-owned enterprises (SOEs). Also, in the wake of price and exchange rate liberalization, Viet Nam has substantially reduced budgetary subsidies to SOEs. 1/ Further steps in disengagement are aimed at selective privatization and closure of SOEs. Yet, advances in this direction are complicated by the poor state of enterprise accounts, nonperforming debt, and the lack of bankruptcy and liquidation procedures. Solutions to each of these problems are necessary for the continuation of enterprise reform, and

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1/ Prior to reform many public subsidies were implicit rather than explicit (extended through subsidized interest rates, overvalued exchange rates, etc) and did not show up in the fiscal statistics.

in particular for the authorities to refrain from obliging banks to finance nonviable enterprises.

Viet Nam adopted a modern tax system in 1990-91, and has moved to central budgetary authority in a reorganized Ministry of Finance. While improved administration of the new system has helped raise tax buoyancy, much still remains to be done. The same is also true for the introduction of nonmonetary debt instruments. While the Government has apparently succeeded in financing nonmonetarily the domestically covered portion of its 1992 borrowing requirement, subscription to government paper has in part been compulsory.

a. Revenue

In moving to a market-oriented system, enterprises have become subject to taxation, rather than being required to remit all profits to the government. Revenue from SOEs declined sharply in 1989, but the effect on the state budget was mitigated by substantial growth in oil revenues as well as increased revenue from the non-state and trade sectors (not traditionally well-taxed sectors). As fiscal strains became more acute in the latter part of 1989, the authorities revised the tax system extensively with a view to (i) broadening the tax base to mobilize more revenue; (ii) establishing a uniform tax treatment of state and non-state sectors; and (iii) eliminating the practice of ex-post negotiations of tax liabilities between the Government and state enterprises. New laws on turnover, profit and consumption taxes were introduced for the non-state sector in October 1990 and for the state sector in January 1991. In addition, a series of further tax measures were taken by end-July 1991, including the natural resource tax, the personal income tax, the property tax, and the capital user fee. The reorganization of the Ministry of Finance, so it could cope with its new tax authority, has included establishment of a new system of tax collection.

b. Expenditure

On the expenditure side, prior to the major price and exchange rate reforms in 1989, total budgetary subsidies to consumers, exporters and state enterprises constituted over 6 percent of GDP. Consumer subsidies were associated with keeping official prices of rice, kerosene, and some foodstuffs below procurement prices while export subsidies arose from maintaining an unrealistic exchange rate.

In conjunction with the 1989 price reform, exchange rate devaluation and interest rate adjustments, budgetary subsidies to the state enterprise sector were eliminated, except for contributions of working capital to newly established state enterprises. And with the substantial monetization of public wages in 1988, consumer subsidies were largely reduced. Also, state enterprises, except those involved in key industrial projects, were required to finance their investment needs from their own resources or from commercial credit. In the process, the bulk of bank credit has gone to state enterprises, with the share of the Government proper considerably reduced.

Overall, the fragility of the revenue system during the transition period has forced reductions in the levels of current and capital public spending. Other relief measures have included the increase in the effective average level of custom duties on imports.

5. Financial market

Meeting the financing needs of the budget and the state enterprises was until 1988 the primary task of the State Bank of Viet Nam (SBV). Credit was extended to enterprises according to the annual "credit plan," with no consideration given to repayment risks and maturities of particular loans. Lending was guided to different sectors at different, administered, interest rates, which were often negative in real terms, and lower than deposit rates. The State Bank was subordinated to the Government, and its ability to control money and credit was correspondingly limited; in particular, provincial branches of the State Bank were susceptible to local political pressures. The ensuing expansion of liquidity and inflationary pressures induced shifts away from local currency, with savers increasingly preferring gold, rice, and foreign currency.

First steps in reforming the banking system were taken in mid-1988, with all commercial banking functions of the State Bank transferred to four specialized banks. Yet, while a two-tier banking system was created in principle, in practice this was not the case. The State Bank lacked the authority to exercise independent monetary control and remained part of the state bureaucracy. Interest rates continued to be set centrally and were differentiated by sector. Furthermore, the specialized banks could not operate like commercial banks because they were constrained to lending to one sector and, in addition, remained exposed to local government pressures.

In May 1990, two decree-laws were enacted addressing some of the shortcomings of the financial system and setting the basis for a competitive and market-oriented banking system. The SBV was authorized to assume traditional central bank functions, including bank supervision and policy formulation and implementation, with reference to overall credit expansion, interest rates, legal reserve requirements and the management of foreign exchange reserves. To a large extent, commercial banks have taken over from the SBV deposit and loan transactions with households and enterprises, including nonperforming state enterprise debt. Sectoral restrictions on specialized bank activity and impediments on competition among financial institutions, including barriers to entry to new private domestic and foreign banks, were abolished. In the process, licenses have been issued to an increasing number of banks constituted as joint stock companies. Also, foreign banks have entered into joint ventures with the Vietnamese authorities, and have opened fully foreign-owned subsidiaries in Ho Chi Minh City and Hanoi. This has enhanced prospects of intensifying financial and commercial relations, increased the scope for private domestic and foreign ownership, and created conditions favoring substantial gains in efficiency. By the end of 1993, domestic and foreign banks are intended to compete freely in a market determined environment, particularly as regards interest rates and credit allocation, subject to the same standards of monetary policy and banking supervision.

At present, the autonomy of the SBV remains constrained by the Government, both at central and local levels. Despite the restoration of positive spreads of lending over deposit rates, and of positive real interest rate levels, and despite greater allowance for market forces in the determination of interest rates and bank lending, administrative intervention continues. The specialized commercial banks remain large, public institutions, dependent on the State Bank for subsidized funds. Although the problem has diminished, their balance sheets remain constrained by the inheritance from the earlier monobank system. In the case of nonperforming loans, interest due is covered by new loans, or by SBV transfers, which also cover costs arising from adverse interest rate spreads, while maturing loans are rolled over. Technically this treatment involves subsidies to state enterprises that, where justified, should be accounted for in the budget. Their extension through the banking system distorts the fiscal accounts, giving an inaccurate view of the tightness of the country's fiscal policy. As long as this continues, commercial banks can pay reasonable compensation to savers only if they receive implicit fiscal subsidies from the central bank or explicit fiscal subsidies from the Government.

IV. Economic Stabilization

1. The 1989 stabilization

From late 1988 onward, the authorities complemented the structural reform process with a comprehensive program of financial stabilization. Cuts were made in budgetary subsidies and in the wage bill of the Government and the state enterprises, while taxation of the nonstate sector was enhanced. The consolidation of public sector finances, strengthened also by the rapid growth of oil revenues and the sale of enterprise inventories, induced a marked deceleration of credit and liquidity expansion. Interest rates were raised sharply, especially on household deposits, to levels that were positive in real terms. The official Dong/U.S. dollar exchange rate was devalued to the level prevailing in the parallel market, re-establishing traded goods prices at internationally competitive levels (the average exchange rate against the transferable ruble was devalued correspondingly).

In the wake of exchange rate devaluation and unification, the adjustment of interest rates and legalization of gold trading, households rearranged their portfolios, shifting out of gold, foreign currency and rice into dong-dominated assets. Indicative of the shift was the sharp fall in the free-market prices of gold and the U.S. dollar in the spring of 1989, and the concomitant rise in local currency deposits. Overall, household dong deposits in the banking system increased from 0.8 percent of GDP at end-1988 to 3.8 percent at end-1989.

Viet Nam's stabilization program was successful for close to one year. Inflation halted abruptly in the middle of 1989; through the year it was down to 35 percent from 394 percent in 1988. At the same time, economic expansion continued at a sustained pace, largely owing to the favorable supply response to structural reform. GDP growth accelerated to 8 percent in 1989, driven by exceptionally large increases in agricultural output (as rice production rebounded in the wake of price incentives and land decollectivization) and services. The buoyancy of those two sectors, which accounted for 80 percent of total economic activity, more than offset a decline of industrial output.

On the balance of payments front, developments were marked by a substantial decline (equivalent in amount to 7 percent of GDP) in aid from the former Soviet Union, which consisted of soft loans covering the imports of four key inputs, refined petroleum, fertilizer, steel, and cotton. Yet, the favorable supply response to the structural reform and financial stabilization programs, and the buoyancy of crude petroleum exports, helped contain the adverse effects from the loss of aid. With larger foreign exchange earnings, overall imports could be significantly increased. Even so, and notwithstanding rising foreign investment, import growth was limited by a persistent resource constraint. In the event, while the current account deficit narrowed, Viet Nam was unable to fully service or reschedule its large external debt, thus continuing to accumulate external arrears, which rose to over $2 billion at end-1989 vis-à-vis the convertible currency area.

2. Temporary reversal, 1990-91

The progress toward financial stability in 1989 was temporarily reversed in 1990-91. The shocks from the continued loss of aid in 1990 and the collapse of exports and all preferential arrangements with the CMEA area in 1991, together with the monetary financing of a widening deficit of the enlarged public sector (including the government and the public enterprises) and poor agricultural harvests, all led to a reacceleration of inflation and a slowdown in the pace of economic activity. The growth of GDP declined to below 5 percent in 1990-91. Agriculture suffered from a lack of hitherto imported fertilizer and from adverse weather conditions. The situation in the public enterprises worsened.

On the inflation front, effects from an accommodating stance of monetary policy, in the face of a rising borrowing requirement by the enlarged public sector 1/ and upward pressure on agricultural and oil prices, were exacerbated by weakening money demand in the wake of slower growth and declines in real interest rates. In the event, inflation in 1990-91 reaccelerated to 68 percent through the year.

The external current account deficit appears to have narrowed further, reflecting buoyant earnings from the export of oil, marine products, and light manufacturing, and the resource constraint on imports, which private foreign direct investment on the order of $100-200 million per annum could only help moderate. Viet Nam reached rescheduling agreements with Iraq, Libya and India which helped offset the accumulation of new arrears, leaving the stock of arrears to the convertible currency area broadly unchanged.

Signalling rising inflation expectations, the parallel exchange rate depreciated steadily between late 1989 and end-1991, broadly tracking the U.S. dollar/Dong inflation differential. The official market rate was kept within a range of 10-20 percent of the parallel market rate through adjustments at irregular intervals.

3. Renewed improvement, 1992

In the course of 1992 the Vietnamese authorities substantially redressed the situation. They tightened financial policies, reducing credit and liquidity expansion, raising interest rates to levels positive in real terms and establishing a positive spread of bank lending over deposit rates. Indeed, notwithstanding three downward adjustments of nominal interest rates during January-October, real interest rates appeared to have achieved levels too high to be sustainable.

Inflation declined progressively, to monthly rates consistently below 1 percent from June, in the wake of the declining liquidity expansion and against the background of a narrowing borrowing requirement of the enlarged public sector in relation to GDP, and nonmonetary financing of the domestically covered portion of the government deficit. Concomitantly, the exchange rate appreciated vis-à-vis the U.S. dollar, with official interventions in support of the Dong early in the year later reversed to stem its appreciation.

1/ Viet Nam's lack of access to a noninflationary source of finances inevitably meant that the enlarged public sector remained a source of pressure. Even though the government managed further to reduce its deficit in relation to GDP, by slashing both current and capital expenditure, nominal interest rates were lowered and credit expansion to the state enterprises increased as their financial position continued to weaken under the impact of the precipitous fall in assistance from the former Soviet Union (while employment was reduced substantially, the enterprises remained overstaffed and many laid-off workers continued to receive partial wage payments).

Inflation declined to below 20 percent through 1992 as a whole, compared with initial targets of 30-40 percent. On the interest rate front, the Vietnamese authorities stand ready to lower nominal interest rates further so as to rein in real rates. At the same time, the authorities have re-emphasized their commitment to maintaining both positive levels of interest rates in real terms and positive interest rate spreads. This should in time help improve the financial situation of the banks and thereby reduce any need for recourse to the central bank. The process would be spurred by raising all lending rates, particularly all those on loans to the public enterprises, above deposit rate levels and by discontinuing the practice of obliging banks to lend to enterprises, with little regard to their financial viability.

V. Agenda for the Future

Since its commitment to comprehensive reform in 1986, Viet Nam has moved in a gradual and deliberate manner to dismantle the apparatus of central planning and create a system of decentralized decision-making and user rights akin to those associated with private property. In contrast, in March 1989, prices were boldly decontrolled and important steps were taken to free foreign trade. The reform strategy has also aimed at introducing fiscal and financial institutions and measures consistent with the functioning of a market economy. Structural reform measures were complemented by a program of financial stabilization that, after temporary reversals, has been pursued with renewed vigor.

Viet Nam's reform and stabilization programs have met with remarkable success. Substantial progress has been made in the transition to a market economy and toward financial stability. Indications are that the effects of adverse shocks linked to the collapse of the former Soviet Union have been overcome and that economic growth is regaining its buoyancy in the context of strong export performance and rapid disinflation.

The Vietnamese authorities rightly regard the progress they have achieved as a base from which to launch further change. They know that sustained advances in financial stabilization and the transition to a well functioning market economy are contingent on additional measures. The agenda for the future should include the following:

First, budgetary revenue performance has to improve. While Viet Nam has introduced budget structures consistent with the functioning of a market economy, in practice the authorities continue to rely disproportionately on "profit" taxes negotiated _ex-post_ with public enterprises as a primary source of revenue. Also, as decision-making becomes more decentralized, and authority increases at the local level, the central authority is finding it more difficult to generate tax revenue. Consequently, it is essential to increase revenue by strengthening the administration of the newly introduced taxes and by broadening their coverage. By increasing revenue the authorities would be able to stop slashing current and capital expenditures and allocate more funds to investment on human resources and infrastructure as well as to areas that are socially critical, including the financing of a social safety net as unemployment rises from already high levels in the context of further restructuring of the public enterprises.

Second, enterprise and banking reform must be pursued simultaneously. A broad-based approach is necessary to limit access of public enterprises to bank financing. Enterprise reform alone may not be able to secure the necessary credit for viable state or nonstate enterprises as long as government-directed distress financing of unviable enterprises continues. Without enterprise reform, banking reform would not necessarily yield a superior allocation of capital since enterprises could engage in expedient short term behavior, including asset stripping, payment of excessive bonuses to avoid paying profits taxes, and off-balance sheet transactions. In these circumstances, financial institutions would be unable to provide working capital to enterprises on sound commercial criteria.

Before reform can proceed, the balance sheets of both firms and banks must be assessed and independent auditing procedures put in place. Subsequently, a decision needs to be taken with a view alternatively to merge, privatize and close selected enterprises, according to a timetable apt to contain the resulting costs in terms of unemployment. Action along those lines has to be complemented by a debt settlement process. The Government should assume nonperforming enterprise debt with banks, making debt repayments from the proceeds of bond sales to the public. The key is transparency, noninflationary debt financing and treating public enterprise failure as a fiscal burden rather than as a monetary phenomenon.

The authorities should set priorities in the allocation of credit to public enterprises. While credit allocation appears to favor exporters, because they generate foreign exchange and because it is believed that via exporting the economy will be exposed to foreign entrepreneurship, technology and market information, a clear and comprehensive policy strategy should be articulated.

Elimination of bad debts from the books of the commercial banks is necessary, but it is not sufficient to guarantee bank restructuring. It is crucial to ensure that banks will not continue contracting bad debts. 1/ Only the enforcement of arm's length relationships between the banks and firms and competent management, can avoid this. In addition, adequate

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1/ Essential to this process is the need to redefine the concept of bad loans. Without guideline for identifying and treating defaults on loan payments, loans are automatically rolled over if a request is made prior to maturity, and therefore there is no way of distinguishing between irrecoverable loans and merely overdue loans.

prudential supervision designed to contain various banking risks and well conceived licensing policies to ensure good management are essential. 1/

Improved monetary management over the medium term will depend on greater efficiency in commercial banking activity which, in addition to strengthening bank accounting systems, demands reform of the interbank payments system and recapitalization of banks. In time, an efficient and well-developed banking system will facilitate transition from direct to indirect monetary control.

Third, the legal framework needs to be further developed, with the emphasis on transparency and consistency across the national territory. In particular, despite a liberal investment law (which continues to be fleshed out), the lack of satisfactory legal and fiscal infrastructure, together with bureaucratic obstacles and differences across provinces in the interpretation and application of norms, means that business contracts generally exist in an uncertain environment.

Eventually, still outstanding issues of ownership will have to be addressed. Whereas the optimal speed of reform in some areas, including price reform is relatively clearcut, it is less so in the case of ownership changes. Viet Nam has introduced quasi-ownership of land and has to some extent accepted the importance, from an efficiency point of view, of privatizing small enterprises. However, whether and when specific larger enterprises should be privatized is not obvious. Account has to be taken of the effects on the budget and on unemployment, of how reversible enterprise losses are, and who the potential owners might be.

1/ McKinnon (1992), recalls that the massive collapse of credit cooperatives was linked to the lack of regulation and poor supervision. Nor was there a system of reserve assets or deposit insurance. In the event, the collapse caused the demise of more than 2,000 small private enterprises.

VIET NAM

Social and Demographic Indicators

Area	Population (1992)		Density (1992)
330,363 sq. km.	Total:	69 million	209 per sq. km.
	Rate of growth (1987-91):	2.0 percent	498 per sq. km. of arable land
	Aged 0-14:	27 million	

Population Characteristics and Health (1991-92)

Life expectancy at birth	
Male	64
Female	69
Infant mortality rate (aged under one, per thousand)	42
Under age five mortality rate (per thousand)	53

Access to safe water (1991-92)

Percent of population	
Urban	47
Rural	33
Total	36

Population per physician	947
Population per nurse	594
One-year olds fully immunized against (percent):	
Measles	89
Diphtheria/pertussis/tetanus	88
Population immunized against: (1987, percent)	
Diphtheria/pertussis/tetanus	54
Poliomyelitis	51
Measles	41
Access to health care during 1980-85 (percent)	80
Maternal mortality rate per 100,000 live births (1985)	110

Nutrition (1991-92)

Daily calorie supply per capita	2,233
(percentage of requirement)	(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)	...
Adult literacy rate (more than 15 years of age, percent)	88

Sources: Data provided by the Vietnamese authorities; IBRD, Social Indicators of Development in 1991-92; and staff estimates.

Viet Nam: Selected Economic Indicators

	1987	1988	1989	1990	1991	1992 Est.
		(Percentage change from previous year)				
Real GDP 1/	4.0	5.1	8.0	5.1	6.0	8.3
Agriculture	-0.6	4.0	16.6	1.6	2.2	6.3
Industry	11.0	3.3	3.6	2.6	9.9	12.6
GDP deflator (annual average)	364	411	70	41	73	35
Consumer price index (through the year)	232	394	35	68	68	18
Budget revenues	352	358	124	58	68	83
Taxes and transfers	349	343	88	52	101	77
State enterprises	372	289	65	51	123	77
Crude oil		--	--	204	154	94
Budget current expenditure 2/	379	445	86	55	35	69
Budget capital expenditure	218	461	209	2	1	167
Total liquidity	...	445	189	53	79	34
Dong liquidity	...	426	129	44	56	58
Cash in circulation	...	...	130	59	72	65
Reserve money	...	...	159	56	24	77
Credit to state enterprises	...	355	111	47	72	36
Exports (in US$ terms)	22	20	80	31	18	21
Imports (in US$ terms)	2	19	18	5	20	7
Nominal GDP (in bn. dong)	2,469	13,266	24,308	38,167	69,959	101,870
		(In percent of GDP)				
Budget revenue	15.4	13.1	16.0	16.1	14.8	18.6
Of which: State enterprises	(11.5)	(8.4)	(7.5)	(7.3)	(8.8)	(10.8)
Nonstate sector	(2.7)	(3.4)	(4.5)	(4.4)	(4.0)	(4.9)
Crude oil revenue	(--)	(--)	(1.2)	(2.2)	(3.1)	(4.1)
Current expenditure 2/	15.9	16.1	16.4	16.1	12.5	14.7
Capital expenditure	4.9	5.1	8.5	5.6	3.1	5.6
Overall fiscal deficit	-5.5	-8.3	-9.1	-6.4	-1.3	-3.1
Domestic financing	3.8	5.5	7.0	3.1	0.2	0.4
Of which: State Bank	(3.6)	(3.4)	(8.1)	(3.1)	(0.6)	(--)
Reserve money	...	5.2	10.3	13.3	10.7	10.5
Dong liquidity	...	8.9	14.1	16.4	14.5	15.3
Total liquidity	...	9.8	18.6	24.0	23.3	23.6
		(In millions of U.S. dollars)				
Balance of payments 3/						
Trade balance	-575	-679	-350	-30	-63	220
Exports	(610)	(733)	(1,320)	(1,731)	(2,042)	(2,475)
Imports	(-1,184)	(-1,412)	(-1,670)	(-1,761)	(-2,105)	(-2,255)
Current account 4/	-616	-747	-586	-255	-159	81
Capital account 5/	328	427	365	121	66	-130
Overall balance 4/	-288	-320	-222	-133	-93	-49
Gross official reserves	8	34	111	94	91	400
(In weeks of imports)	(0.4)	(1.6)	(3.2)	(2.5)	(2.1)	(8.3)
External debt 3/						
External debt (end of year)	6,343	7,300	7,840	8,183	8,372	9,124
Convertible area	(2,926)	(3,235)	(3,416)	(3,734)	(3,737)	(4,623)
Scheduled debt service payments 6/	240	513	558	517	496	568
(As percentage of exports)	(39)	(70)	(42)	(30)	(24)	(23)
Arrears	1,450	1,875	2,164	1,914	2,112	...
Convertible area	(1,397)	(1,776)	(2,028)	(1,806)	(2,062)	(...)
Of which: IMF 7/	(113)	(134)	(135)	(149)	(141)	(139)
Exchange rate						
Dong per US$, end of period 8/	225	900	4,300	6,800	11,975	10,555

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

1/ Due to the transition from the MPS to the SNA concept, data through 1990 are not fully comparable to data for later years.
2/ Excludes interest payments.
3/ Converted at an exchange rate of 2.4 transferable rubles per U.S. dollar during 1987-90. 1992 debt data are not fully comparable to data for previous years due to change in coverage.
4/ Includes imputed interest on arrears.
5/ Including errors and omissions.
6/ To the convertible area only.
7/ Constant at SDR 100.1 million since 1988.
8/ For 1987-88, the exchange rate is that applicable to trade transactions within the Plan; for 1989-92 the official (banking) exchange rate is used.

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