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SM/97/283

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December 10, 1997

To: Members of the Executive Board

From: The Secretary

Subject: **Vietnam—Staff Report for the 1997 Article IV Consultation**

Attached for consideration by the Executive Directors is the staff report for the 1997 Article IV consultation with Vietnam, which is tentatively scheduled for discussion on Monday, January 5, 1998. A draft decision appears on page 20.

Mr. Browne (ext. 34108) 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 WTO Secretariat on Thursday, December 18, 1997; and to the Asian Development Bank (AsDB), following its consideration by the Executive Board.

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INTERNATIONAL MONETARY FUND

VIETNAM

Staff Report for the 1997 Article IV Consultation

Prepared by Staff Representatives for the 1997 Consultation with Vietnam

Approved by David Goldsbrough and Thomas Leddy

December 9, 1997

- The consultation discussions were held during October 17-31, concurrently with negotiations toward a possible new ESAF arrangement.
- The staff team comprised Messrs. Browne (head), Shishido, Camard (all APD), I.H. Lee (PDR) and Ms. Rosario, Administrative Assistant (APD). Mr. Offerdal, Resident Representative, assisted the team. Mr. Phan, Executive Director's office, attended the discussions.
- The team met with Deputy Prime Minister Dung; Ministers of Finance, Planning and Investment and Trade; the Acting State Bank Governor; the Vice Chairman of the National Assembly; exporters, bankers and aid donors; and high level Ho Chi Minh City and Danang officials.
- Vietnam maintains exchange restrictions under the transitional arrangements of Article XIV, Section 2. The tax on profit remittances from foreign direct investment and the limitations on access to foreign exchange by certain foreign invested enterprises are subject to approval under Article VIII, Section 2 (a) and 3. The capital account is also subject to extensive controls.
- Vietnam's statistical base remains weak in most areas, despite extensive STA technical assistance, and the statistical methodology needs substantial strengthening. There is no IFS page for Vietnam.
- The principal author of this report was Mr. Browne.

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I. INTRODUCTION

1. **The Article IV consultation discussions focussed on the policies required to sustain economic development and improve external viability in 1998 and beyond, including the maintenance of macroeconomic stability and the accelerated implementation of structural measures to promote efficiency and competitiveness, foster integration into the world economy and reduce vulnerability to external shocks.**

2. **Vietnam has made impressive progress since the transition to a market-oriented economy began one decade ago, with rapid growth and a sharp fall in the underlying rate of inflation**. However, the external current account deficit is still high, raising concerns about sustainability, even though it has been largely financed by foreign direct investment inflows and external concessional assistance. Moreover, structural reform has slowed during the past two years and investors have expressed increasing concern about the lack of transparent policies and the reversal of policy directives.

3. **The regional financial crisis will adversely affect growth and FDI and heightens the urgency of a bold new round of structural reforms**. Greater flexibility is also needed in exchange rate management, which will likely result in a nominal depreciation against the U.S. dollar. The authorities intend to keep the overall budget deficit small, which in the staff's view requires new tax measures to avoid undue expenditure compression. They recognize the need to slow the rate of credit growth, mainly through reduced lending to state enterprises.

4. **A return to higher growth rates with external sustainability over the medium term appears feasible, provided that macroeconomic policies remain prudent and structural reforms are pursued vigorously.** In particular, a strong reform effort—especially in the banking, state enterprise and foreign trade—is crucial to ensure continued high levels of foreign direct investment and development finance. If the reform process is not expedited—and the current account deficit is not substantially reduced—Vietnam's vulnerability to external shocks will be increasingly exposed, given the manner in which the external environment is shifting.

5. **The government appointed in September 1997 has announced its intention to accelerate structural reform, preferably in the context of a new ESAF arrangement.** Delays in implementing structural measures prevented understandings being reached on a third annual program under the previous ESAF prior to its expiration in November 1997. Discussions have been held on an economic program for 1998 and a staff team is expected to return to Hanoi in the new year to continue the dialogue. The medium-term policy framework outlined in this report is expected to form the basis for these further discussions. The most important areas of disagreement relate to the extent and pace of structural reforms, especially with regard to the financial system, state enterprises and trade liberalization.

II. Economic Setting

A. Historical Perspective

6. **Prudent financial policies accompanied by structural reforms have led to rapid growth and a sharp fall in inflation in recent years (Chart 1).** The overall budget deficit has been reduced from 8 percent of GDP in the late 1980s to 2 percent of GDP. Revenue has risen from 14 percent of GDP to over 20 percent of GDP during this period, mainly reflecting increased trade taxes and rising oil revenue. Expenditure allocation has improved, including the elimination of most subsidies to state enterprises and increased allocations for education and health from 8 percent to 15 percent of budgetary spending. The elimination of domestic bank financing of the budget, coupled with bank-by-bank credit ceilings and positive real interest rates, has allowed greater monetary control. However, limited confidence in the banking system contributed to high levels of dollarization (both through foreign currency deposits equivalent to 20 percent of total liquidity and substantial cash amounts held outside the banking system).

7. **The emergence of a private sector has been facilitated by price and trade liberalization, and the initiation of legal and tax reforms.** Total investment has risen from 14 percent of GDP in the late 1980s to 27 percent of GDP and the domestic savings performance has improved. Production gains have been achieved in agriculture as a result of the disbandment of cooperatives, the reversion to family farming, and liberalized price incentives. Foreign direct investment inflows, presently equivalent to 8 percent of GDP, have been instrumental in expanding and diversifying the economy's export base.

8. **Nevertheless, many challenges still need to be overcome in completing the transformation to a market-oriented economy.** Real GDP is only $300 per capita, up to one half of the population live below the poverty line, access to safe water is limited to 40 percent of the population, sanitation services reach only 20 percent of the population, and income disparities are wide and increasing. The public sector remains large at 40 percent of GDP (Box 1). State enterprises impose severe constraints on economic flexibility and high resource costs for the banking system. Government intervention in domestic and international business is substantial. The legal framework for investors is rudimentary and arbitrary reversals in policy implementation are common.

B. Economic Developments in 1997

9. **The economy enjoyed real GDP growth of 7-8 percent in 1997, with underlying inflation (excluding the effects of volatile rice prices) remaining at 5-6 percent (Chart 2 and Table 1).** Production could have been higher without temporary import restrictions on selected goods, introduced in mid-year to protect domestic industry. Moreover, growth slowed during the second half year because importers had difficulties obtaining foreign exchange. The authorities did not impose exchange restrictions but holders of foreign

Box 1. Vietnam: Size of Public Sector

- The public sector accounted for 75 percent of GDP at the start of the transition to a market economy in the late 1980s. The share of central and local governments and state enterprises was about one-third of GDP and that of cooperatives was over 40 percent of GDP, including a dominant role in agriculture.

- The public sector currently accounts for 40 percent of GDP. The share of state enterprises has increased because oil production has risen and the authorities have promoted joint ventures with foreign investors. The role of cooperatives has been greatly diminished because of policies to promote the private sector.

- Public sector employment, officially estimated at 26 percent of nonagricultural employment, declined from 4 million in the mid-1980s to 3 million in 1991 as a result of state enterprise restructuring, and has since remained stable.

- Central and local government current expenditure less interest payments is 16-18 percent of GDP and capital expenditure is 5-7 percent of GDP. Budget revenue is 22 percent of GDP, much higher than at the beginning of this decade, mainly because of the larger contributions from state-owned enterprises.

- State enterprises account for an estimated 20 percent of total investment and nearly one half of outstanding domestic credit. They are responsible for two thirds of industrial output, with dominant shares in oil, cement, chemicals and steel.

Vietnam: Indicators of Public Sector Size 1/

	1989	1990	1991	1992	1993	1994	1995	1996
State share in GDP	33.2	32.5	33.3	36.2	39.2	40.2	42.3	42.5
Employment in millions	3.8	3.4	3.1	3.0	3.0	2.9	3.1	3.2
Central government	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Local government	1.0	1.1	1.0	1.0	1.0	1.0	1.1	1.1
State enterprises	2.5	2.1	1.8	1.7	1.7	1.7	1.8	1.9
State share of nonagricultural employment	47.2	42.9	38.6	33.2	30.2	27.5	25.5	26.3
Central and local government	16.1	16.8	15.9	13.9	12.8	11.6	10.1	10.9
State enterprises	31.2	26.1	22.6	19.4	19.4	15.9	15.4	15.4
Budget in percent of GDP								
Current non-interest spending	11.4	14.7	11.4	14.0	18.8	18.3	18.2	16.5
Capital spending	6.1	5.1	2.8	5.8	7.0	6.9	5.6	6.6

1/ Excluding cooperatives.

currency became less willing to sell as expectations grew that the dong would be devalued in response to the fall in value of regional currencies.

10. **The external current account deficit is projected to decline only marginally to 9 percent of GDP in 1997, far above that in other ASEAN countries (Table 2).** The value of exports is estimated to increase in U.S. dollar terms by 18 percent, led by agricultural products, textiles and footwear, but the rate of growth has slowed during the year. The value of imports is estimated to increase by only 6 percent. While the trade deficit will be smaller, workers remittances have fallen sharply reflecting a loss of confidence. Private capital inflows have started to slow, as a result of the regional turmoil and an earlier fall in new FDI commitments. The targeted modest rise in gross official reserves to 10 weeks of imports by year-end should still be achieved, but weaker capital inflows could place pressure on reserves.

11. **The budgetary targets of an overall deficit of 2 percent of GDP and a current surplus of almost 5 percent of GDP in 1997 are expected to be met (Table 3).** Revenue is projected to fall to 21 percent of GDP, less than budgeted, because of low import tariff collections and the poor performance of state enterprises, although there have been higher budgetary contributions from the oil and gas sector. Current expenditure has been correspondingly suppressed to 16 percent of GDP, notwithstanding an increase of 16 percent in the wage and salary bill (which is equivalent to 6 percent of GDP) following the first general wage increase since 1993. While social sector spending appears to have been relatively well protected, purchases of goods and services and operation and maintenance spending has been cut sharply. Capital expenditure has been in line with the target of 7 percent of GDP.

12. **Domestic credit growth is projected at 20 percent, slightly less than envisaged at the beginning of the year (Table 4).** Banks became more cautious about extending credit, because of increased evidence of the poor quality of their portfolios after loan classification regulations were introduced in January 1997. Credit to state-owned enterprises has been constrained during the year. Domestic bank financing of the budget has again been avoided. While administered nominal interest rates have been reduced, bank lending (13 percent) and time deposit (9 percent) rates are positive in real terms, as is the yield on auctioned treasury bills (9 percent). However, partly as a result of large outstanding state bank credit, excess bank reserves are equivalent to about 10 percent of total liquidity.

13. **The authorities have made further progress in restructuring existing external debts and have maintained prudent policy regarding new external commercial borrowing.** The total stock of medium- and long-term debt is estimated at 56 percent of GDP at end-1997, of which about two-thirds is public and publicly guaranteed debt. While the full extent of short-term external debt is not available, official data indicate short-term debt is about 5 percent of total debt or below 40 percent of gross official reserves (a debt sustainability analysis will be issued shortly as a supplement to the staff report). A debt and debt service reduction agreement with the London Club of commercial banks is to be signed shortly in mid-December 1997 with closing in February 1998; a proposed IDA credit of

$35 million will finance a substantial part of the upfront costs of about $60 million. The recent Paris Club agreement on a framework for restructuring loans extended by the former Soviet Union would allow Vietnam to regularize its debt payments to Russia. Difficulties arose in mid-1997 when several commercial banks failed to make scheduled payments on letters of credit because their own customers had defaulted on loan repayments. The authorities eventually directed banks to regularize the situation and further tightened regulations to prevent a recurrence.

14. **Flexibility in exchange rate management remains limited and the Vietnamese dong has appreciated substantially in real effective terms this year, especially against other ASEAN currencies.** The official mid-point exchange rate of the Vietnamese dong against the U.S. dollar has barely been moved in recent months. The interbank foreign exchange rate depreciated by 5 percent against the U.S. dollar immediately after the trading band was widened in mid-October from plus-or-minus 5 percent to plus-or-minus 10 percent around the mid-point rate (Chart 3). Since then, the dong has traded persistently at the depreciated limit of the band and the parallel market premium has risen.

III. Report on the Discussions

15. **Discussions focussed on the structural reforms that, in combination with prudent macroeconomic policies and flexibility in exchange rate management, should provide the foundation for the strategy to maintain economic growth and ensure external sustainability in 1998 and beyond.** The new government has announced that it will concentrate on economic efficiency and competitiveness, financial sector and state enterprise reforms, social equity and administrative reform. However, in several key areas, the authorities prefer to pursue a more gradualist approach than favored by the staff.

A. Medium-Term Policy Framework

16. **The staff team pointed to the potential vulnerability of Vietnam's external position in the context of the ongoing turbulence in regional financial markets.** The external current account deficit in relation to GDP was higher than in all of the most seriously affected countries (Table 5). Foreign direct investment commitments had begun to slow in 1996, partly because of investor concerns about the lack of transparency in policy implementation. Official international reserves were smaller than in many other Asian countries (although the authorities said that they had virtually no forward obligations). The fragility of the banking system was increasingly apparent, including substantial nonperforming loans and foreign-currency denominated loans to state enterprises. Although the authorities indicated that only limited guarantees had been given by the banking system, the large amount of foreign currency loans that have been onlent to state enterprises could create substantial difficulties especially for the state banks.

17. **The authorities initially took the view that the adverse impact of the regional crisis on Vietnam would be small, particularly in view of the strong fundamentals of the economy and the modest degree of integration with international financial markets.** They noted that there are no equity or bond markets, bank exposure to the property sector appears manageable, nonresidents cannot easily purchase treasury bills or open dong bank accounts, and the forward exchange market and opportunities for hedging are severely circumscribed. Most capital inflows are in the form of foreign direct investment or concessional development finance, with large undisbursed commitments in both cases. The scope to liquidate investments and generate capital outflow is correspondingly limited.

18. **However, the prospects for continued strong export growth and FDI inflows have diminished as the crisis has deepened and the contagion effects have spread throughout the region.** The exchange value of the dong, which had already been appreciating in real effective terms since 1995 as a result of the growing strength of the dollar, rose sharply against other regional currencies throughout the second half of 1997. At the same time Vietnam's exports—half of which go to other Asian countries—grew less rapidly than initially expected. Since 70 percent of foreign direct investment is from Asia (the largest investors include Japan, Korea and Taiwan Province of China), the deteriorating economic situation in the region is expected to slow their expansion plans for Vietnam.

19. **In addition, investor confidence is threatened by uncertainties regarding the extent of short-term external debt and the tightening of controls (or the threat of controls) that are impeding trade and foreign exchange transactions.** The external debt profile has clearly improved in recent years, particularly as a result of restructuring arrangements and actions since 1996 by the authorities to reduce the total amount of outstanding letters of credit, in order to reduce their short-term debt exposure. However, Vietnam's reserve cover remains modest. Moreover, recent delays in servicing maturing import letters of credit has raised questions about the continued willingness of foreign banks to maintain their credit lines to Vietnam.

20. **In these circumstances, the staff team took the position that it would be prudent to base the medium-term framework on a somewhat lower level of inflows, and correspondingly a smaller external current account deficit, than had been built into the projections of last year's staff report. The central scenario envisages real GDP growth of 6-8 percent annually from 1999, with a steady decline in the external current account deficit to less than 7 percent of GDP in 2001 (Table 6).** Higher growth would be feasible, with a commensurately larger external current account deficit, if the external environment were to become more favorable and foreign investors were to respond rapidly to the envisaged structural reforms.

21. **In practice, the expected path for the external current account deficit will be driven by the foreign direct investment inflows and concessional financing, both of which will be influenced by policy implementation.** The government intends to maintain

external commercial borrowing within clearly specified limits. Possible guarantees for infrastructure projects that involve private sector participation may be considered, in view of the importance of higher investment in this area to facilitate private sector growth. However, the viability of each project will be evaluated carefully, including its impact on external sustainability. The earlier proposal for an international bond issue is not now being pursued.

22. **The overall external debt burden in the central scenario is projected to peak at 13 percent of exports of goods and services in 2001-2002, before declining.** It is now estimated, on the basis of more extensive survey data, that capital inflows associated with foreign direct investment have so far taken the form of 50 percent equity, not 30 percent, as assumed previously. Debt in the form of inter-enterprise loans and loans guaranteed by parent companies has been correspondingly lower. The public sector debt burden is projected to remain at about 4 percent of exports of goods and services. Gross official reserves are targeted to cover three months of imports by 2001. While Vietnam is classified as a heavily indebted poor country, its external debt is expected to be sustainable.

23. **The investment ratio in the baseline scenario would remain at 27-28 percent of GDP for the next several years, with reduced reliance on foreign savings as domestic savings improves**. The medium-term fiscal framework envisages an overall budgetary deficit of about 1.5 percent of GDP, with a gradual rise in the current budgetary surplus to 6 percent of GDP. The authorities indicated that the revenue cap, which was imposed earlier to ease the burden of taxation on corporations and especially to limit the contribution of state-owned enterprises to the budget, would not be imposed rigidly, in view of the need to raise spending for the social sectors and infrastructure. The main source of higher savings is expected to be through the improved state enterprise performance, as reforms discourage unproductive investment and strengthen internal cash generation through more commercially oriented policies. At present, although direct budgetary subsidies and transfers to the state enterprises are modest, this sector does not generate sufficient budgetary revenue and absorbs a large amount of bank credit. In addition, a modest rise in private savings is expected, partly as a result of capital market development and other financial reforms.

24. **FDI inflows could be lower than projected above if the regional economic situation further deteriorates**. This would result in lower investment and growth. While the rate of increase of exports would also slow, the external current account deficit would decline, especially because of smaller imports of capital goods. If the investment ratio were to fall to 24-25 percent of GDP, the real GDP growth rate would likely be of the order of 5 percent and the external current account deficit could fall to 5 percent of GDP by 2001.

B. Economic Prospects and Policies for 1998

25. **Growth prospects for 1998 are uncertain, in light of the spillover effects from regional disturbances**. The authorities are optimistic that real GDP growth could reach 9 percent, whereas the staff team suggested that a slowdown appeared inevitable, perhaps to

5-7 percent. There is agreement that the outcome would depend importantly on the strength of policy adjustments, which would influence investor confidence. The major difference of view related to exports, where the authorities envisage a faster rate of increase than the 18 percent assumed by the staff. The rate of inflation is projected to increase to 7 percent, as a result of higher food prices and the impact of exchange rate depreciation.

26. **The staff projects an external current account deficit of 8.5-9.0 percent of GDP in 1998.** This forecast incorporates an increase in imports of 14 percent, substantially higher than in 1997, based on further progress in trade liberalization (see below), as well as some rebuilding of inventories and larger imports of intermediate and capital goods needed for exports. Disbursements of foreign direct investment and development assistance have been well below commitments in recent years, but major projects are now coming on stream.

27. **The authorities accept the need for greater exchange rate flexibility, although they feel that gradual movement of the rate is the best way to proceed.** They emphasized that exports remain buoyant; there have been large productivity gains in the economy during the 1990s that have helped to make Vietnam more internationally competitive; and the stiffest competitors at this stage are mainly low wage countries (including China, India, and Bangladesh) that have not significantly adjusted their exchange rate against the dollar. Although it is difficult to provide a measure of competitiveness on the basis of the relative cost of labor with respect to major trade partners, the staff team stressed that more frequent and larger adjustments against the U.S. dollar (and greater scope for forward transactions) were needed to prevent an erosion in competitiveness. In the staff's judgement, the authorities should not defend the rate at its current level, especially since the persistence of the dong at the bottom of the trading floor suggested that a true market clearing rate would be more depreciated; consequently, a nominal depreciation against the U.S. dollar appears to be warranted. At the request of the authorities during the visit, the staff team prepared a paper on the possible implications for Vietnam of the regional crisis that conveyed this view and stressed the importance of early implementation of the comprehensive policy package outlined in this report to reduce the risk of a speculative attack on the currency. In line with MAE technical assistance recommendations, the team urged the authorities to give banks greater freedom to set their daily exchange rates and engage more actively in transactions with each other (including forward transactions), while limiting central bank intervention to smoothing operations and achieving official reserve targets.

28. **The 1998 budget, which was being formulated during the staff visit, aims to again limit the overall deficit to 2 percent of GDP, raise the current surplus slightly to over 5 percent of GDP and avoid government recourse to domestic bank borrowing.** The authorities project budget revenue at only 20 percent of GDP, less than in 1997, in the absence of new revenue measures, because of lower receipts from state enterprises. In particular, the authorities have been permitting state enterprises to retain a larger proportion of their profit than in the past, with a view to self-financing more of their investment. In these circumstances, current expenditures would drop further to 15 percent of GDP, which would

probably cut into the social sectors and operation and maintenance. Capital expenditure is budgeted to remain at 7 percent of GDP, although it is recognized that an expanded public infrastructure program would facilitate private sector growth. As for potential cuts in other areas, the authorities stated that, as in the past, they were unable for legal reasons to provide information on military spending. While recognizing that this spending had probably declined during the 1990s, the staff team underscored the importance that the Fund attached to the provision of more concrete data.

29. **The staff team suggested that a more appropriate fiscal strategy would be to boost revenue through new taxes and higher revenue collection from state enterprises.** Measures could include higher excises on petroleum, the introduction of excise taxes on all domestic and imported motor vehicles, and the replacement of quantitative restrictions on imports with tariffs. These measures could raise up to 2 percent of GDP. Accelerated reform of the state enterprises was also crucial to increase their contributions to budgetary revenue. Higher revenue would not only allow adequate social spending and local counterpart funds for investment, in accordance with the recommendations of the World Bank's 1996 Public Expenditure Review, but would also contribute to macroeconomic stability.

30. **The authorities and the staff team agreed that broad money growth of 17-20 percent and nongovernment credit growth of 12-14 percent in 1998 would be consistent with macroeconomic stability and the agreed-upon build up of international reserves.** The government intends to continue avoiding domestic bank borrowing to finance the budget. The proposed monetary program therefore would permit credit growth of 17-19 percent for the private sector, provided that credit growth for the state enterprises is limited to 8 percent. The staff team urged severe curtailment of credit to loss-making enterprises and early withdrawal of the decree permitting state enterprises to borrow without collateral. These projections would imply a further decline in velocity, consistent with the trend during 1995-97, suggesting that depositors continue to be confident that the government remains behind the state banks. The staff team pointed out that this reinforced the need for prompt action on financial reform (see below), as well as a willingness to tighten monetary policy further if necessary to contain inflation.

31. **The staff team suggested that additional steps to reduce excess reserves in the banking system, including further moves toward the use of indirect instruments of monetary control, would be needed.** The authorities responded that the stock of central bank credit would be cut, a discount window at the central bank would be established in mid-1998 and open market operations would commence during the second half year. The staff team proposed larger sales of treasury bills and, if necessary, an increase in reserve requirements to absorb liquidity. Monetary policies conducive to low inflation, together with a realistic exchange rate, would help to reduce dollarization.

C. Banking Reform[1]

32. **Major improvements in regulation and a restructuring of key institutions are urgently required to place the banking system on a sound financial footing (Box 2).** Latest official data indicate that 15 percent of outstanding loans are nonperforming and this could go higher if international standards were adopted. Bad and doubtful loans are larger among state banks, reflecting several recent high profile defaults. A number of joint stock banks are experiencing difficulties as a result of fast credit expansion, based on inadequate risk appraisal. It is estimated that about one-third of total bank credit and one-half of loans to state enterprises are denominated in foreign currency, which could create additional repayment difficulties under a more flexible exchange rate regime.

33. **The long-delayed State Bank and commercial bank laws are being submitted to the National Assembly for consideration in the November-December session.** The staff team supported their early passage, which would clarify the responsibilities and strengthen the supervisory powers of the central bank and remove constraints on the business operations of commercial banks which act to undermine their financial position. The team stressed the importance of ensuring that the legislation provided for greater independence of the central bank, especially with regard to achieving the goal of price stability, rather than allowing monetary policy to be determined by the National Assembly after consideration by the government, as proposed in the latest draft legislation.

34. **The authorities stated that foreign exchange and loan loss provisioning regulations would be issued by end-December, even if passage of the banking legislation were to be delayed.** Foreign exchange regulations would clarify the criteria for approving sales of foreign exchange and outward transfers, which will be freely permitted for most purposes, and reduce discretionary elements in the system and thereby the potential for de facto exchange controls. Loan-loss regulations are intended to provide for provisioning in accordance with international standards. The authorities also said that regulations requiring banks to apply risk-based capital adequacy ratios would be introduced by end-March 1998, and revisions to the loan classification system to ensure consistency with international standards would be implemented by end-June 1998, including tighter criteria for assessing loan quality and shorter periods of time before overdue loans are classified as substandard.

35. **The staff team stressed the need for early actions to restructure the state banks, with World Bank assistance.** The authorities explained that the audit of the Bank for Agriculture and Rural Development had been completed and implementation of the restructuring plan would commence by end-December 1997. They stated that the audit for Incombank would be completed shortly and the restructuring plan initiated by end-March 1998 and those for the other two state banks would be completed by end-December 1998. Full

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[1]A background paper will discuss banking sector issues and the needed reform agenda in more detail.

Box 2. Vietnam: Banking Sector Issues

Stress in the Banking System
Signs of stress in the banking sector have been growing over the past year. Overdue loans have officially risen to 15 percent of total credit (5 percent of GDP), and would be higher using internationally-accepted standards. Two of the four large state-owned banks have suffered corruption scandals. A number of the small joint-stock banks, which make up about 20 percent of the banking system, have had difficulty servicing letters of credit.

Proposed Approach
A strategy for addressing weaknesses in the banking system has been prepared in consultation with World Bank staff and discussed extensively with the authorities.

Bank restructuring: A two-track approach would be appropriate in this area:

- Early action to merge or close nonviable joint-stock banks is needed. No bail-out for depositors should be provided.
- For state banks, progress in reforming SOEs is needed, but other measures would also improve performance. The first step is the completion of audits and the preparation of reform plans, which would address recapitalization; independence for bank managers from political pressure; the possible break-up of each bank into smaller, more viable entities; and partial or full privatization.

Supervision and regulation: Together with any restructuring in the banking system, it will be important to improve the ability to monitor the banks and deter or detect the emergence of further problems. Central to this will be the avoidance of state guarantees for bank deposits. The strategy in this area, based on MAE technical assistance, includes:

- New bank legislation to strengthen the State Bank in supervisory matters;
- Risk-adjusted capital rules, with better loan classification and provisioning;
- Improved accounting, especially for off-balance sheet risks; and
- Improvements in the State Bank's supervisory skills.

State enterprise reform: Improving the performance of SOEs is vital to ensuring the viability of the banking system. A separate strategy has been developed for addressing the problems in this sector. The main focus:

- Mass privatization of small enterprises and accelerated privatization for larger ones;
- Removal of preferences for SOEs in land use, credit, and trade policy;
- A reduced role for large state-owned conglomerates; and
- Better financial oversight for SOEs, with closure for the worst performers.

Budgetary Implications
The costs of these reforms cannot yet be estimated but, with domestic public debt at only 3 percent of GDP, they should be sustainable. The interest costs of any operations should be transparent and incorporated in the budget.

details of the restructuring plans had not been finalized but the staff team indicated that they would need to address how to write-off bad debts, the means by which the government commitment to increasing bank capital would be met, procedures for ensuring the independence of bank management, the possible break-up of the banks into smaller units and privatization. The staff team stated that the costs of restructuring including fiscal and quasi-fiscal support for banks should be transparently recorded in the budget, within the existing fiscal targets.

36. **The authorities are in the process of developing procedures for the orderly closure or merger of insolvent joint-stock banks.** They plan to ensure that international standard audits for the larger banks are completed by end-March 1998. It is not expected that public resources will be provided to bail out any of these banks, including budgetary transfers and equity and other cash infusions from the state banks. The authorities plan to allow viable nonstate banks to play a larger role over the medium term.

D. State Enterprise Reform and Private Sector Development[2]

37. **The Prime Minister's recently stated commitment to overhaul the state enterprise sector—through improved efficiency, greater management autonomy, privatization, and merger or closure of enterprises—has been widely interpreted as a clear departure from the policy of ensuring that these firms continue to play a dominant role in the economy.** The staff team, in coordination with the World Bank, discussed with the authorities how the broad objectives could be translated into a concrete reform agenda. As an initial step, the staff team proposed that the number of enterprises slated for equitization (where shares in the company are split among workers, investors and the state) or privatization by end-1998 should be raised substantially from the previously agreed 150-200 enterprises, including full privatization for some large enterprises. The authorities doubted that the administrative capacity existed to implement fully the staff proposals.

38. **The staff team underscored the importance of early decision making with regard to closures and sales in order to achieve the authorities' goal of reducing the number of state enterprises by one-half by 2000.** The order of priority should take into account their burden on the balance sheet of the banking system, with prompt liquidation of the worst loss-makers. The authorities stated that the financial performance of the largest enterprises would be monitored more closely, beginning in 1998. The staff team welcomed the recent decisions to permit equitization without prior approval by management and employees and to allow foreigners, on a trial basis, to buy shares in equitized enterprises.

39. **The staff team pressed for a substantially reduced role for general corporations.** These large holding companies, organized along sectoral lines, incorporate nearly one-half of the total number of state enterprises, and are primarily engaged in business ventures that could

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[2]A background paper will discuss state enterprise reform in more detail.

be carried out efficiently by the private sector. The authorities do not intend to establish any new enterprises of this type or to prevent the formation of new private enterprises in sectors where these corporations have been established. The staff urged the early dissolution of such corporations especially in areas in which economies of scale are minimal.

40. **The authorities intended to place state enterprises on the same legal footing as private enterprises over the period 1998-2000, although a firm timetable for the elimination of preferential treatment has not yet been established.** The staff team proposed that early steps to ensure a level playing field should encompass the abolition of tax privileges, the elimination of budgetary subsidies, the rescinding of decrees providing for favorable credit terms and subsidized interest rates, and the removal of trade protection. Another important step should be to provide all state and private enterprises with equal access to land use rights that are freely tradable at market value.

E. Trade and Exchange Liberalization

41. **Further trade liberalization is a key element of the government's strategy to improve competitiveness and remove remaining distortions in prices and resource allocation.** Reform of the trade system is needed to increase the export orientation of production and, in conjunction with state enterprise reform, reverse the recent shift toward import-substituting and capital-intensive industrial production. Based on an index of aggregate trade restrictiveness developed in a recent Fund study on trade liberalization, Vietnam's trade regime can be classified as highly restrictive—reflecting its use of nontariff barriers on a large share of imports and exports and a moderate level of average tariff protection.[3] While the index covers the most critical elements of trade restrictiveness—average tariffs and nontariff barriers coverage—it does not incorporate tariff dispersion and exemptions. Available information suggests that these are important in Vietnam, increasing the distortiveness of its trade regime. However, the authorities stressed that further reforms would need to be introduced gradually, since they would lead to a substantial decline in employment in protected sectors, especially state enterprises. Vietnam would fulfill all its obligations under the ASEAN Free Trade Area (AFTA) to reduce common effective preferential terms to a maximum rate of 5 percent by 2006.

42. **The authorities intend, during 1998, to reduce the maximum import tariff rate to 50 percent (presently 60 percent with a few exceptions) and the number of tariff bands to 15 (presently 29).** They recognize that high tariffs impair exports and become increasingly difficult to remove as industries are established, but believe that faster removal of barriers would be too disruptive. The staff team stressed that a complex tariff structure with high maximum rates is damaging to the economy, as the cost of administration increases and so does the potential for corruption. They proposed a maximum tariff rate of 40 percent and less

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[3]Tentative calculations on the basis used in EBS/97/163, 8/27/1997 indicate that Vietnam has a restrictive rating of 8 on a scale of 1-10 (with 10 being the most restrictive).

than 10 tariff bands from early 1998, with further reductions in the maximum rate by 10 percentage points in each of the subsequent two years to 20 percent in 2000. In conjunction with these changes, a 5 percent minimum tariff could be introduced, as part of a move toward relatively low and more even rates of effective protection.

43. **The authorities confirmed that no new quantitative import controls would be introduced.** In particular, the imposition of temporary restrictions on selected products of the type imposed in 1997 would not reoccur. They indicated that import licenses for the majority of consumer goods would be eliminated during 1998, without specifying goods that would remain restricted. In response to the staff proposal to remove by end-1998 all quantitative import restrictions (except for a short list for health, environmental and security reasons), the authorities said that they would only be phased out as part of the state enterprise reform.

44. **A private firm's entry into the international trade business would be liberalized in early 1998 by eliminating the requirement to employ specified personnel and by reducing minimum working capital needs.** The government is reviewing the scope for eliminating all export licenses and taxes. New rules are to be issued relaxing the eligibility criteria for rice exportation, for nonstate enterprises. The auctioning of export quotas for rice and for garments to preferred markets would be considered, following completion of a government study that is underway.

45. **The staff team recommended the abolition of the remaining restrictions on payments and transfers on current international transactions by end-1998, and that Vietnam subsequently accept the obligations of Article VIII, Sections 2, 3 and 4 of the Fund's Articles.** [4] The authorities said that virtually all current payments would be freely permitted when the new foreign exchange regulations are issued. Removal of the restrictions arising from the tax on profit remittances by foreign invested firms and the foreign exchange balancing requirements, which are subject to approval under Article VIII, Sections 2(a) and 3, requires amendment to the Foreign Investment Law and it is not clear when the National Assembly might consider this issue. Capital account restrictions include difficulties for foreign investors to conduct business except through joint ventures with state enterprises, limits on nonresident portfolio investment and tight controls on all forms of outward investment. The staff team pressed for the establishment of a timetable for the removal of capital restrictions.

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[4]Vietnam maintains restrictions under Article XIV, Section 2 on payments for certain invisible transactions. In addition, the following measures are subject to approval under Article VIII: (i) restrictions evidenced by external payments arrears; (ii) restrictions arising from the foreign exchange balancing requirements that apply to payments and transfers by foreign invested firms and foreign investors; (iii) the multiple currency practice arising from the tax on profit remittances by foreign investors; and (iv) the restriction arising from the prohibition on the availability of foreign exchange for payments for imports of certain commodities. The last of these restrictions, which applies to gold and other precious metals, although in place for some time, was only recently identified by the staff.

F. Budgetary Management

46. **The National Assembly earlier this year passed the Laws on Value-Added Tax and Enterprise Income Tax to become effective from January 1, 1999, one year later than initially recommended by the staff.** The staff team underlined the importance of putting in place administrative procedures to ensure their effective implementation, in accordance with FAD technical assistance recommendations, including the introduction of self-assessment procedures and a decree instructing the Customs to collect all import taxes (including the VAT when it becomes effective) prior to the release of imported goods. The staff team suggested that additional efforts should be made to broaden the tax base, including a revised personal income tax law with a lower threshold, fewer tax brackets and a more moderate top rate, and to establish a firm timetable for the elimination of excess profit tax, ad hoc tax exemptions, preferential rates and other privileges.

47. **The government aims to streamline its administrative structure and allocate increased resources to the social sectors over the medium term.** The authorities plan to cut the staff of agencies that are not fully suited to the needs of a market economy, freeze the number of staff positions in all other agencies, and encourage early retirement. The strategy for the health sector will promote preventive care and community health services, develop more effective policies for cost recovery, rationalize the hospital sector, and expand private health care services. The objectives for the education sector, which will see its share will increase to 15 percent of budgetary spending, focus on the development of pre-school education, universal primary schooling and higher participation rates in high schools and universities. The Hunger Eradication and Poverty Reduction Program, to be finalized shortly, brings together efforts to better target the social safety net, improve rural infrastructure and provide greater access to credit for the urban and rural poor.

IV. Staff Appraisal

48. **Vietnam's economy has performed well over the past decade, but the pace of structural reform has slowed recently.** Achievements have included a persistently high growth rate and a sharp reduction in inflation, reflecting tight policies and progress in making the transition to a market-oriented system. Nevertheless, Vietnam remains a poor country which is vulnerable to external shocks, especially because of its high external current account deficit, concerns about banking system soundness, a weak state enterprise sector, high effective protection and frustration among investors about the lack of transparency.

49. **A slowdown in economic growth is inevitable in 1998, but a resumption of faster growth with external sustainability in the medium term is feasible provided that the authorities adopt appropriate macroeconomic policies and implement structural reform.** However, the external current account deficit will need to be smaller in future as foreign direct investment seems unlikely to remain at present levels in relation to GDP. A

sharper adjustment of the external position would be needed if capital inflows are cut back even more than presently anticipated. Such a development would adversely impact growth unless the authorities act to strengthen their structural reform efforts. A comprehensive package of measures to increase exchange rate flexibility, tighten financial policies and address all key structural issues is required prior to the finalization of an economic program for 1998 that could be supported by a new ESAF arrangement. The authorities have not yet demonstrated their ability to take the required actions in a timely manner, which is of growing concern in view of the deterioration in regional economies.

50. **Greater flexibility in exchange rate management is needed in the form of larger and more frequent adjustments of the trading band against the U.S. dollar and possible further widening of the trading band.** The mid-October decision to widen the trading band was a welcome step in the right direction. However, the dong has appreciated in real effective terms, it continues to trade at the depreciated limit of the band, and the premium on the parallel market has widened.

51. **Tight fiscal and monetary policies will have to be maintained in 1998, as growth slows, in order to support exchange rate action and protect the external position.** New tax measures, including higher excises and the replacement of quantitative import restrictions with tariffs, are essential to sustain sound fiscal management and permit increased spending on social and infrastructure programs. Further fiscal adjustment could be needed, in the event that external developments are more adverse than anticipated. It is crucial to move ahead now with administrative measures to permit successful implementation of the value added tax and the enterprise income tax from January 1, 1999.

52. **A slower rate of domestic credit growth will also be required in 1998 in order to help prevent the re-emergence of inflationary pressures.** In particular, tighter limits should be maintained on lending to state enterprises, especially those with the weakest financial performance, so that credit to the private sector is not crowded out. Steps should be initiated to reduce the liquidity in the banking system, including reduced central bank credit.

53. **In the structural area, financial sector reform needs to be given the highest priority, especially in view of the large nonperforming loans of the state banks and the weak financial position of many joint stock banks.** The staff would urge early passage by the National Assembly of the state bank and commercial banking laws and prompt issuance of the foreign exchange and pre-tax loan loss provisioning regulations. It is urgent to finalize the audits of the state banks and begin implementing comprehensive restructuring plans for them. It is also necessary for the supervisory authorities to arrange for the liquidation or merger of unviable joint stock banks. The authorities have not yet shown the required degree of commitment to decisively address these banking sector issues.

54. **The staff would urge prompt attention to state enterprise reform, while recognizing the need to mobilize political support and offset adverse social effects**. The

authorities should adopt a much larger program of equitization and privatization for 1998, including sales of large enterprises, in line with their objective of reducing the number of enterprises by one half by the year 2000. Protection of state enterprises through discretionary tax, trade and credit measures should be discontinued.

55. **Trade liberalization is vital for improving efficiency in resource use and simplifying the Customs administration.** The staff welcomes the commitment of the authorities to introduce specific tariff cuts, reduce the number of tariff bands and remove import licensing on the majority of consumer goods during 1998. However, the staff would prefer to see further bold commitments, including faster tariff cuts and the removal of virtually all quantitative import restrictions, especially in view of the high tariff rates, the large number of tariff bands, significant quantitative restrictions and Vietnam's poor track record in trade liberalization (including the reversal of some policy measures and the imposition of import restrictions in 1997).

56. **It is hoped that the remaining restrictions on payments and transfers for current international transactions will be abolished and then Vietnam will subsequently accept the obligations of Article VIII, Sections 2, 3 and 4 of the Fund's Articles.** In the absence of a timetable for removal, the staff does not recommend approval for the retention of the restriction evidenced by external payments arrears, the restrictions arising from foreign exchange balancing requirements that apply to foreign-invested firms and foreign investors, the multiple currency practice that arises from a tax on profit remittances from foreign direct investment, or the restriction arising from the prohibition on the availability of foreign exchange for certain commodity import payments. The external debt situation appears sustainable provided commercial borrowing is limited and remaining arrears are restructured.

57. **There is growing awareness that many investors view Vietnam as a country where bureaucratic obstacles to doing business are high and more transparency is needed to allow market participants to make better informed choices.** The staff would urge the authorities to increase openness with regard to data and information to facilitate the assessment of economic policies and improve the quality of economic decision-making. This should include improvements in reporting to the Fund—including data on military spending—, the regular and prompt dissemination of economic information to the public, and greater transparency in the conduct of government business. In particular, the staff team would urge further efforts to improve the production and publication of statistics, in accordance with the recommendations of past STA technical assistance missions. Consistent and fair enforcement of the rules and regulations is also required to build the confidence of investors.

58. **It is proposed that the next Article IV consultation takes place on the standard 12-month cycle.**

V. Proposed Decision

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

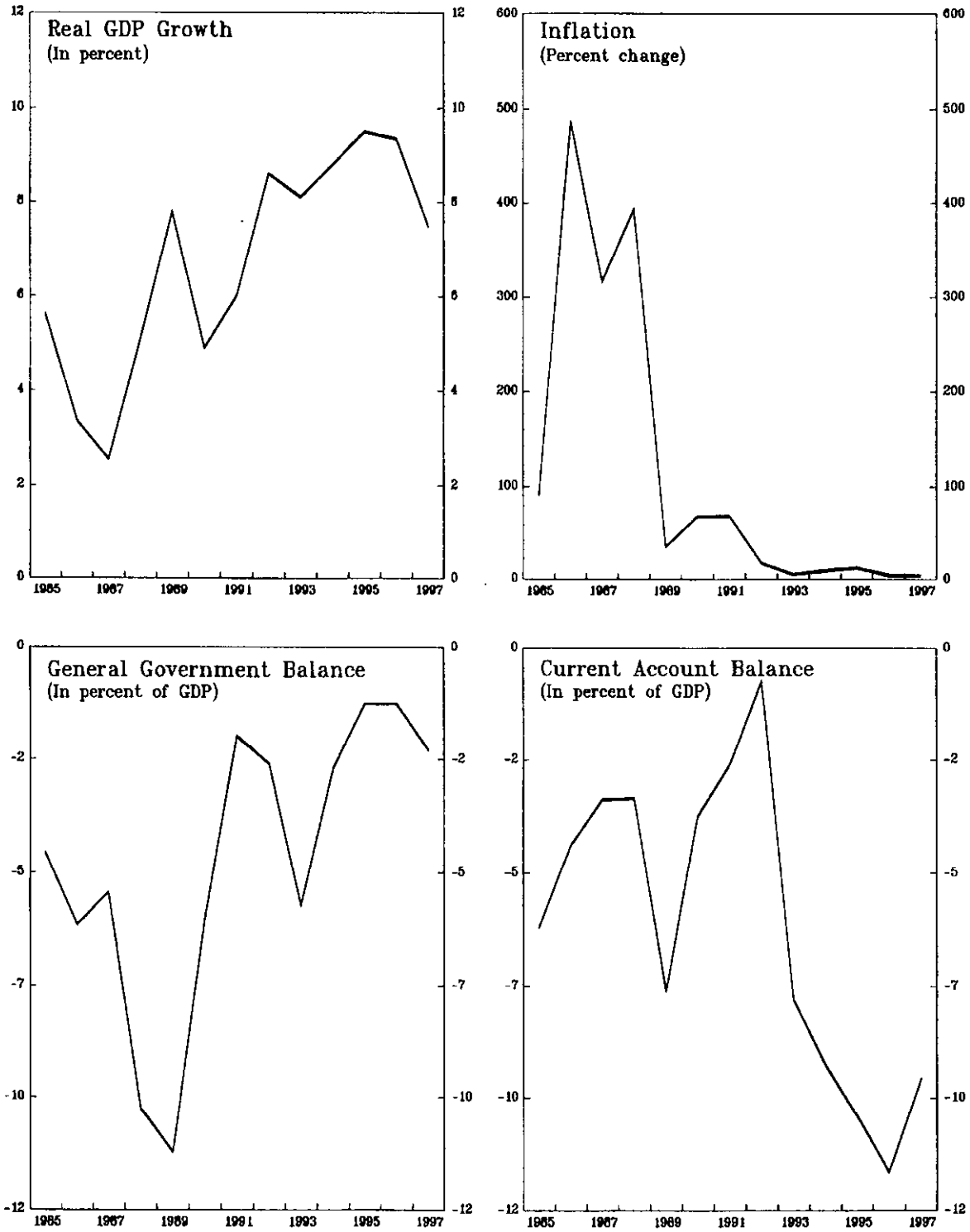
1. The Fund takes this decision relating to Vietnam's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1997 Article XIV consultation with Vietnam, in the light of the 1997 Article IV consultation with Vietnam conducted under Decision No. 5392-(77/63), adopted April 29, 1977, as amended (Surveillance over Exchange Rate Policies).

2. Vietnam maintains restrictions on the making of payments and transfers for current international transactions under Article XIV, Section 2 as described in SM/97/283 except for (i) the restrictions evidenced by external payments arrears; (ii) the restrictions arising from the foreign exchange balancing requirements applicable to foreign invested firms and foreign investors; (iii) the multiple currency practice arising from the tax on profit remittances; and (iv) and the restriction arising from the limitation on the availability of foreign exchange for imports of certain commodities, all of which are subject to approval under Article VIII. The Fund encourages Vietnam to remove the remaining restrictions maintained under Article XIV, Section 2 as soon as its balance of payments position permits and urges Vietnam to eliminate the measures that are subject to approval under Article VIII as soon as possible.

CHART 1

VIETNAM

ANNUAL ECONOMIC INDICATORS, 1985-97

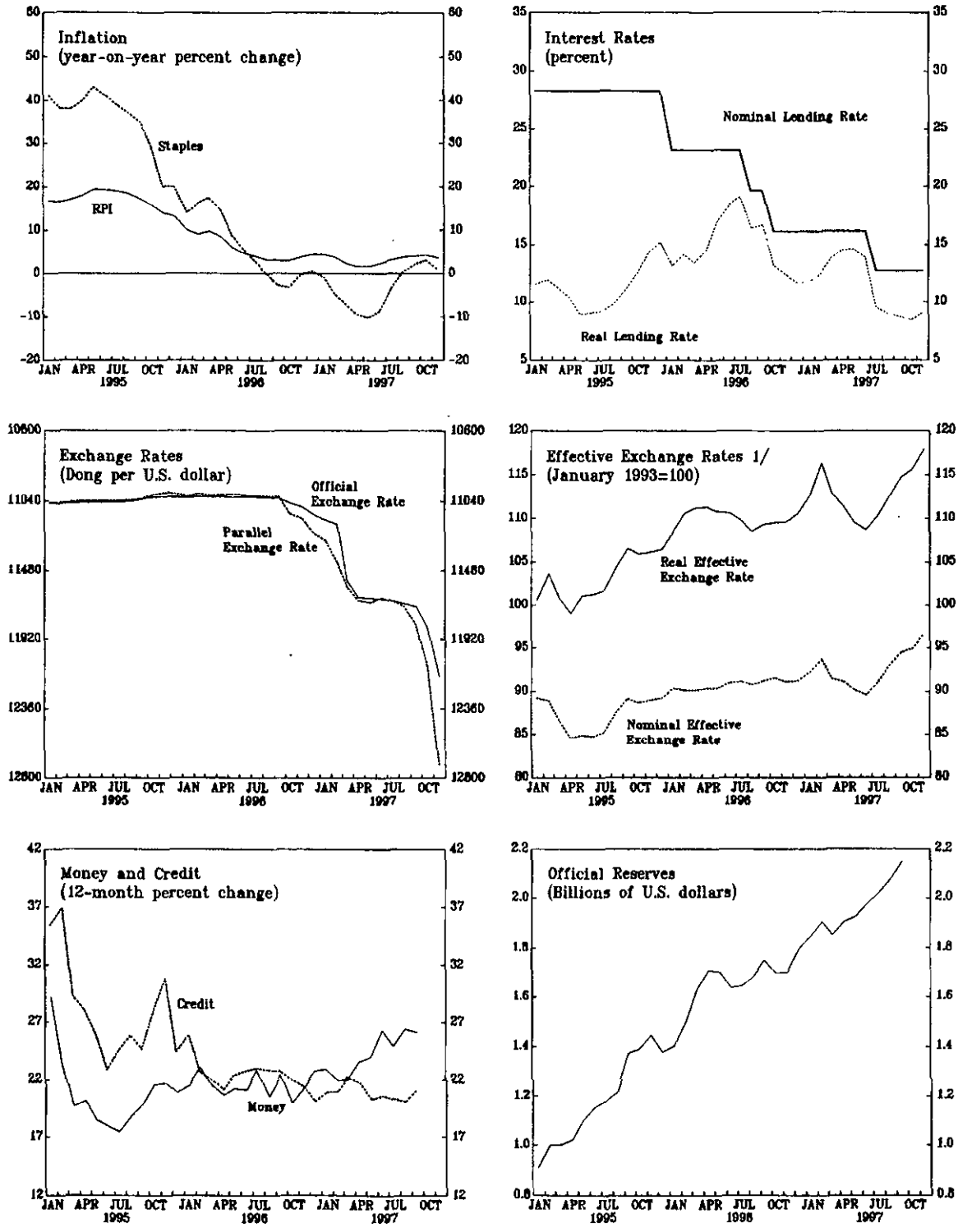


Sources: Data provided by the Vietnamese authorities; and staff estimates.

CHART 2

VIETNAM

MONTHLY ECONOMIC INDICATORS, 1995-97



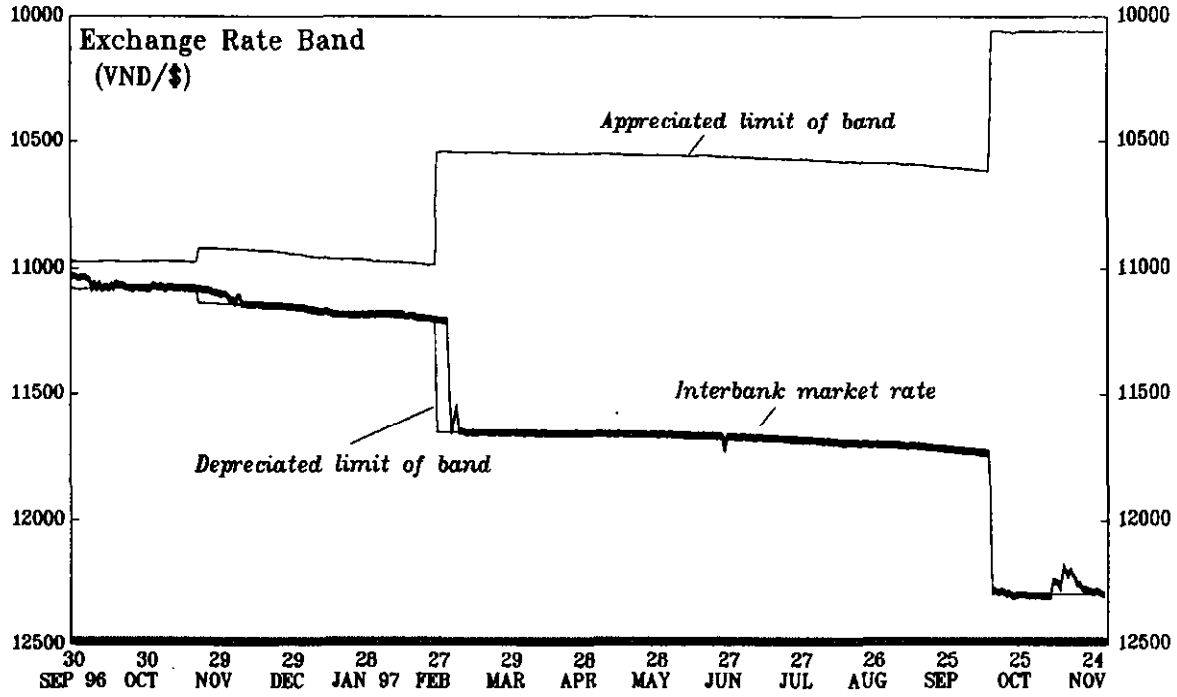
Sources: Data provided by the Vietnamese authorities; and staff estimates.

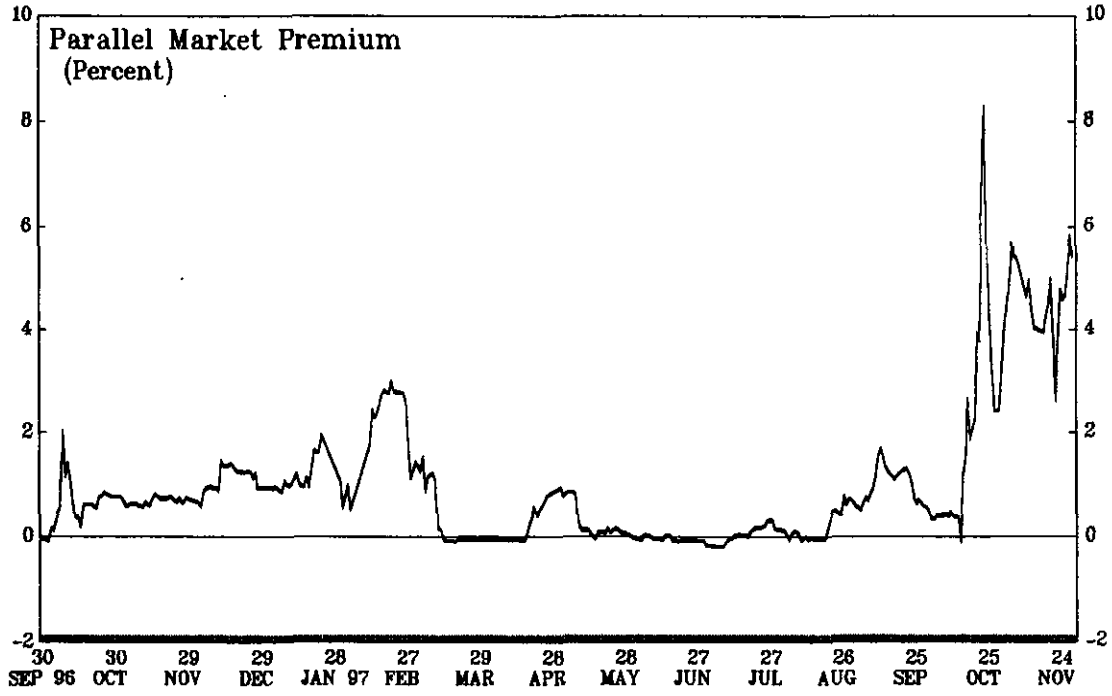
1/ Rates for November based on November 29 exchange rates.

CHART 3

VIETNAM

EXCHANGE SYSTEM DEVELOPMENTS, 1996-97





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

Table 1. Vietnam: Selected Economic Indicators, 1994-98

Nominal GDP (1996): $23.5 billion
Population: 75.5 million
GDP per capita: $319
Fund Quota: SDR 241.6 million

	1994	1995	1996	Proj. 1997	Proj. 1998 1/
Growth (percentage change)					
Real GDP	8.8	9.5	9.3	7.5	5.0-7.0
Industry	12.9	13.7	14.4	10.0	7.0-9.0
Saving-investment (percent of GDP)					
Gross capital formation	25.5	27.1	27.9	27.5	27.0
Gross national savings	16.6	17.1	16.8	18.3	18.0-18.5
Prices (percentage change)					
Retail price index (end of period)	14.5	12.7	4.5	4.0	7.0
Retail price index excluding food (end of period)	7.7	7.6	4.4	5.5	7.0
GDP deflator	14.5	19.5	6.1	4.5	7.0
Government budget (cash basis, percent of GDP)					
Revenue (excl. grants)	24.0	23.2	22.9	20.4	22.6
Grants	0.7	0.7	0.6	0.5	0.5
Total expenditure and onlending	26.7	25.1	24.7	22.7	24.7
Current expenditures	19.8	19.4	18.1	15.6	17.4
Current account balance (excl. grants)	5.1	4.4	5.4	4.9	5.2
Overall fiscal balance (excl. grants)	-1.8	-1.3	-1.2	-2.2	-2.0
Money and credit (percentage change, end of period)					
Total liquidity	27.8	22.6	22.7	25.4	17.0-20.0
Nongovernment credit	34.4	26.9	20.1	22.3	12.0-14.0
State enterprises	26.1	17.7	11.3	15.1	8.0-10.0
Nongovernment sectors	51.0	41.4	31.7	30.2	17.0-20.0
Interest rates (end of period)					
Three months savings (households)	18.2	18.2	10.0	8.7	...
Short-term lending (less than one year)	28.3	25.3	16.1	12.7	...
Balance of payments					
Current account (excl. grants) ($ mn)	-1,329	-2,029	-2,581	-2,239	-2,309
(In percent of GDP)	-8.9	-10.0	-11.0	-9.2	-8.5 to -9.0
Exports (percent change)	35.8	28.2	41.1	17.7	14-18
Imports (percent change)	48.5	43.8	38.9	5.6	11-14
Reserves					
Gross official reserves of SBV incl. gold	876	1,376	1,798	2,184	2,822
In weeks of imports	8.7	9.5	8.9	10.3	11.9
Net international reserves incl. gold	594	985	1,278	1,718	2,268
Medium- and long-term external debt 2/					
Convertible currency (US$ million) 3/	5,434	6,452	8,283	10,465	12,549
Nonconvertible currency (millions of transferable rubles)	10,399	10,637	10,267	3,087	3,011
Arrears 2/					
Convertible currency (US$ million)	1,236	1,304	1,374	1,144	...
Nonconvertible currency (millions of transferable rubles)	4,327	6,150	6,921	40	...
Debt-service ratio (percent of exports of goods and nonfactor services)					
Debt due	13.4	12.2	11.0	8.3	12.6
Debt paid	5.7	5.4	5.1	8.0	...
Dong per U.S. dollar (period average) 4/	10,978	11,037	11,032	12,270	...
REER (percent change, end of period)	2.9	9.1	3.0	5.0	...

Sources: Vietnamese authorities; and staff estimates.

1/ Assumes full implementation of policies propsed for the ESAF.
2/ Agreements with Russia and the London Club are assumed to be concluded in 1997 and 1998, respectively.
3/ Includes the loan component of foreign direct investment and other private sector borrowing.
4/ 1997 figure is for November 20.

Table 2. Vietnam: Balance of Payments, 1994-98

(In millions of U.S. dollars)

	1994	1995	Program 1996	Actual 1996	Proj. 1997	Proj. 1998
Current account balance	-1,197	-1,876	-2,733	-2,431	-2,069	-2,136
(Excluding official transfers)	-1,329	-2,029	-2,877	-2,581	-2,239	-2,309
Trade balance	-1,190	-2,345	-3,416	-3,143	-2,430	-2,198
Exports, f.o.b.	4,054	5,198	6,779	7,337	8,638	10,175
Oil	866	1,063	1,213	1,346	1,335	1,441
Non-oil	3,188	4,135	5,566	5,991	7,303	8,734
Imports, f.o.b.	5,244	7,543	10,195	10,480	11,068	12,373
Non-factor services (net)	19	159	132	-61	-53	-32
Receipts	1,283	2,074	2,398	2,709	2,967	3,344
Payments	1,264	1,915	2,266	2,770	3,020	3,376
Investment income (net)	-328	-317	-508	-427	-486	-783
Receipts	27	96	104	140	150	188
Payments	355	413	612	567	636	971
Of which: Scheduled interest 1/	198	270	400	377	394	697
Transfers (net)	302	627	1,058	1,200	900	876
Private transfers	170	474	914	1,050	730	703
Official transfers	132	153	144	150	170	173
Capital Account	897	1,765	2,995	2,079	2,513	2,689
Gross foreign direct investment (FDI) 2/	1,048	1,780	2,492	1,813	2,100	1,890
Equity	454	791	748	891	662	662
Loan disbursements	594	989	1,744	921	1,438	1,229
FDI loan repayments 2/	0	36	191	55	174	372
Medium and long-term loans (net)	-275	-290	308	98	807	1,006
Disbursements	272	443	624	772	1,152	1,561
Of which: Commercial loans	100	254	330	436	602	520
Scheduled amortization 1/	547	733	316	674	345	555
Short term capital (net)	124	311	386	224	-220	165
Errors and omissions	-109	-88	29	55	-41	0
Overall Balance	-409	-199	290	-298	403	552
Financing	409	199	-290	298	-403	-552
Change in net international reserves (-, increase)	-117	-348	-270	-293	-440	-552
Use of Fund credit (net)	175	92	175	178	-54	86
Other net international reserves	175	92	-446	-471	-386	-638
Arrears 1/	-292	-439	-3,793	591	-7,110	-413
Debt relief 1/	526	547	3,773	0	7,146	413
Financing gap	0	0	0	0	0	0
Memorandum items:						
Gross official reserves, includes gold	876	1,376	1,822	1,798	2,184	2,822
(In weeks of imports)	8.7	9.5	9.3	8.9	10.3	11.9
Current account deficit/GDP (percent)	-8.0	-9.3	-11.3	-10.4	-8.5	-8.1
(Excludes official tranfers)	-8.9	-10.0	-11.9	-11.0	-9.2	-8.7
Gross foreign direct investment/GDP (percent)	7.0	8.8	7.2	7.7	8.6	7.2

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

1/ Assumes restructuring in 1997 of the Russian debt and in 1998 of commerical bank debt. Restructuring of the Russian debt assumes an upfront reduction of debt stock and the remaining amount rescheduled on terms at least comparable to the 1993 Paris Club rescheduling and valued at par with the U.S. dollar.

2/ Revised on the basis of additional information received on foreign direct investments, especially on the breakdown of equity and loan components. The revised data show larger equity component reflecting the early stage of foreign investment where FDI inflows are largely associated with legal capital requirements.

Table 3. Vietnam: Summary of Budgetary Operations, 1994-98

	1994	1995	1996	Proj. 1997	Budget Proposal 1998	Staff Proposal 1998
			(In trillions of dong)			
Revenue and grants	42.1	53.4	60.9	60.2	67.4	76.1
Revenue	40.9	51.8	59.3	58.7	65.6	74.4
Tax revenue	32.4	42.4	50.5	50.7	56.2	64.1
State enterprises	15.6	19.0	22.7	21.2	24.2	27.5
Other	16.8	23.4	27.7	29.5	32.0	36.6
Non-tax revenue	8.5	9.4	8.8	7.9	9.4	10.2
State enterprises	5.0	2.9	2.5	1.7	2.1	2.8
Other	3.5	6.4	6.4	6.3	7.3	7.5
Grants	1.2	1.6	1.6	1.5	1.8	1.8
Total expenditure	45.4	55.8	63.9	65.0	72.7	81.0
Current expenditure	33.7	43.2	46.9	44.6	49.6	57.2
Current non-interest expenditures	31.1	40.7	42.8	42.3	47.2	54.1
Interest payments (scheduled)	2.6	2.6	4.1	3.9	2.4	3.1
Of which: paid	1.1	1.4	2.7	2.3	2.4	3.1
Capital expenditure and onlending	11.7	12.6	17.1	20.4	23.1	23.8
Of which: on-lending	0.4	0.5	1.4	2.8	4.4	4.6
Current balance on cash basis	9.9	11.3	15.5	15.5	17.8	18.9
Overall balance on cash-basis	-1.8	-1.2	-1.6	-4.9	-5.3	-4.9
Financing	1.8	1.2	1.6	4.9	5.3	4.9
Domestic	1.6	2.3	0.3	2.1	0.6	-0.2
Banking system	0.4	0.5	-0.3	0.0	0.0	0.0
Non-banking (net)	1.1	1.7	0.5	2.1	0.6	-0.2
Foreign	0.2	-1.0	1.3	2.8	4.7	5.1
Disbursements	1.5	2.0	3.7	6.0	9.0	9.5
Amortization paid (-)	1.3	3.0	2.4	3.2	4.3	4.3
			(In percent of GDP)			
Revenue and grants	24.7	23.9	23.6	21.0	20.5	23.2
Revenue	24.0	23.2	22.9	20.4	20.0	22.6
Tax revenue	19.0	19.0	19.5	17.7	17.1	19.5
State enterprises	9.1	8.5	8.8	7.4	7.4	8.4
Other	9.9	10.5	10.7	10.3	9.7	11.2
Non-tax revenue	5.0	4.2	3.4	2.8	2.9	3.1
State enterprises	2.9	1.3	1.0	0.6	0.7	0.8
Other	2.1	2.9	2.5	2.2	2.2	2.3
Grants	0.7	0.7	0.6	0.5	0.5	0.5
Total expenditure	26.7	25.1	24.7	22.7	22.1	24.7
Current expenditure	19.8	19.4	18.1	15.6	15.1	17.4
Current non-interest expenditures	18.3	18.2	16.5	14.7	14.4	16.5
Interest payments (scheduled)	1.5	1.2	1.6	0.8	0.7	0.9
Of which: paid	0.6	0.6	1.0	0.8	0.7	0.9
Capital expenditure and onlending	6.9	5.6	6.6	7.1	7.0	7.3
On cash basis						
Current account balance (excl. grants)	5.1	4.4	5.4	4.9	4.9	5.2
Overall fiscal balance (excl. grants)	-1.8	-1.3	-1.2	-2.2	-2.2	-2.0
Domestic financing	0.9	1.0	0.1	0.7	0.2	-0.1
Of which: banking system	0.2	0.2	-0.1	0.0	0.0	0.0
Foreign financing (net)	0.1	-0.5	0.5	1.0	1.4	1.6
Memorandum items						
Wages (in trillion dong) 1/	13.7	14.5	13.2	19.4	21.4	21.4
Percent of GDP	8.0	6.5	6.3	6.5	6.5	6.5
Education and Health Expenditures (in trillion dong)	5.6	7.1	8.0	9.6	10.2	11.6
Percent of GDP	3.3	3.2	3.1	3.4	3.1	3.5

Sources: Ministry of Finance, State Budget Department; and staff estimates and projections.

1/ Includes pension payments to those who retired before January 1, 1995.

Table 4 . Vietnam: Monetary Survey, 1994-98

(In trillions of dong at end of period)

	1994	1995	1996	Proj. 1997	Proj. 1998
Net Foreign Assets	6.94	10.85	14.25	20.97	27.68
Foreign assets	16.97	24.73	31.23	38.52	46.30
Foreign liabilities	-10.03	-13.88	-16.98	-16.81	-18.62
Net Domestic Assets	36.07	41.86	50.43	60.13	68.24
Domestic credit	37.95	47.05	55.32	66.63	74.74
Net claims on government	4.55	4.68	4.43	4.40	4.40
Credit to the economy	33.40	42.37	50.89	62.23	70.34
Claims on state enterprises	20.47	24.08	26.81	30.87	33.34
Claims on other sectors	12.94	18.29	24.09	31.36	37.00
Other items, net	-1.89	-5.20	-4.89	-6.50	-6.50
Total Liquidity	43.01	52.71	64.68	81.10	95.93
Dong liquidity	33.48	41.65	51.52	64.60	76.93
Currency outside banks	18.62	19.17	22.64	25.08	27.67
Deposits	14.85	22.48	28.88	39.52	49.25
Foreign currency deposits	9.53	11.06	13.16	16.50	19.00
Memorandum items:					
Liquidity growth (percent)	27.8	22.6	22.7	25.4	18.3
Nongovernment credit growth (percent)	34.8	26.9	20.1	22.3	13.0
Velocity	4.4	4.8	4.5	4.0	3.7
Money multiplier	1.8	2.0	2.0	2.2	2.4
Currency/deposit ratio	1.3	0.8	0.8	0.6	0.6

Sources: State Bank of Vietnam; and staff estimates and projections.

Table 5. Vietnam: External Resilience Indicators, 1994-96

(Annual averages)

	Vietnam	Indonesia	Thailand	Korea	Philippines
External current account (as percent of GDP)	-10.0	-2.8	-7.3	-2.7	-4.4
Foreign direct investment (as percent of GDP)	7.8	2.1	0.7	-0.4	1.9
Real effective exchange rate (percentage increase)	5.0	0.5	1.9	0.9	6.1
Exports (percentage increase)	36.7	11.8	15.3	17.1	21.6
M2 (as ratio to banking system foreign reserves)	2.2	6.6	3.8	6.2	4.1
Debt service (as ratio to gross official reserves)	0.8	1.2	0.2	0.2	0.7
External debt (as percent of GDP)	31.4	52.0	49.3	17.8	54.4

Sources: EBD/97/122 (10/30/97), Vietnamese authorities, and Fund staff estimates.

Table 6. Vietnam: Medium-Term Projections, 1997-2002

	Projections					
	1997	1998	1999	2000	2001	2002
	(Percentage change)					
Real GDP	7.5	5.0-7.0	6.0-8.0	6.0-8.0	6.0-8.0	6.0-8.0
Retail price index (end period)	4.0	7.0	6.0	6.0	6.0	6.0
GDP deflator	4.5	7.0	6.0	6.0	6.0	6.0
Export value	17.7	17.8	15.9	14.3	12.8	11.5
Import value	5.6	11.8	12.2	11.3	11.0	11.2
	(Percent of GDP unless otherwise noted)					
Gross capital formation	27.5	27.0	27.0	27.5	27.7	28.0
Government	7.1	7.3	7.2	7.2	7.3	7.4
Private	20.4	19.7	19.8	20.3	20.4	20.6
Foreign Direct Investment	8.6	7.2	6.5	6.0	5.7	5.5
Other	11.8	12.5	13.3	14.3	14.7	15.1
Gross national savings	18.3	18.3	19.2	20.4	21.1	21.6
Government	4.9	5.2	5.4	5.6	5.8	6.0
Nongovernment	13.4	13.1	13.9	14.8	15.3	15.6
Foreign savings 1/	9.2	8.7	7.8	7.1	6.6	6.4
Government revenue	20.4	22.6	22.8	23.0	23.2	23.4
Grants	0.5	0.5	0.5	0.5	0.5	0.5
Government expenditure	22.7	24.7	24.3	24.5	24.7	24.9
Of which						
Current non-interest expenditure	14.7	16.7	16.4	16.5	16.6	16.6
Current balance 2/	4.9	5.2	5.4	5.6	5.8	6.0
Overall fiscal balance 2/	-2.2	-2.0	-1.5	-1.5	-1.5	-1.5
Gross official reserves (in weeks of imports)	10.3	11.9	12.2	12.0	12.0	12.0
External debt service ratio 3/	8.3	12.6	11.1	12.6	13.3	13.4
Of which						
Public debt	4.2	6.8	4.5	4.3	4.3	4.2
External debt outstanding/GDP (Percent)	55.7	58.9	59.9	59.6	59.5	59.1

Sources: Vietnamese authorities; and staff projections.

1/ External current account deficit, excluding official transfers.

2/ On cash basis, excluding grants.

3/ In percent of exports of goods and nonfactor services.

Table 7. Vietnam: Development Indicators

Indicator	Unit of Measure	Latest Single Year 1970-75	Latest Single Year 1980-85	Most Recent Estimate 1988-96	Same Region/ Income Group: East Asia	Same Region/ Income Group: Low-Income
Poverty						
Upper poverty line 1/	Thousand dong	...	...	1,090	...	...
Percent of population living below		...	...	51	12	19
Food poverty line 1/	Thousand dong	...	...	748	...	...
Percent of population living below		...	...	25	...	...
GNP per capita 2/	U.S. dollars	...	...	290	820	380
Access to safe water: total	Percent of population	...	45	50	67	67
Urban	Percent of population	...	70	70	84	79
Rural	Percent of population	...	39	33	61	62
Access to health care	Percent of population	...	75	97	...	...
Health						
Mortality						
Infant mortality	Per thousand live birth	106	63	41	36	63
Under 5 mortality	Per thousand live birth	...	...	58	61	101
Immunization						
Measles	Percent of age group	...	19	85	93	87
DPT	Percent of age group	...	42	83	95	90
Child malnutrition (under 5)	Percent of age group	...	52	42	24	40
Maternal mortality rate	Per 100,000 live births	...	110	105	116	...
Population per physician	Persons	...	4,061	2,298	1,063	...
Population per nurse	Persons	4,306	1,245	402	1,490	...
Population per hospital bed	Persons	..	271	263	612	1,016
Human resources						
Population	Millions	48.0	59.9	75.4	1,713.9	3,091.8
Age dependency ratio	Ratio	0.91	0.82	0.75	0.54	0.67
Urban	Percent of population	18.8	19.6	20.4	31.3	27.6
Population growth rate	Annual percent	2.3	2.2	2.1	1.4	1.9
Urban	Annual percent	2.9	2.6	3.2	4.0	3.9
Life expectancy	Years	50	59	65	68	62
Female advantage	Years	5.4	4.4	4.5	3.6	2.1
Total fertility rate	Births per woman	5.9	4.7	3.8	2.3	3.6
Labor force (15-64)	Millions	22.3	28.8	36.0	943.0	1,442.4
Female	Percent of labor force	48	47	47	41	33
Natural resources						
Area	Millions sq. km.	332	332	332	16,368	39,092
Density	Persons per sq. km.	145	181	227	103	78
Agricultural lands	Percent of land area	20	21	22	44	53
Agricultural land under irrigation	Percent	15	26	26	15	18
Forests and woodland	Thousand sq. km.	...	97	83	4,060	7,150
Deforestation (net)	Annual percent	...	...	1.5	...	...
Energy consumption per capita	Kg. of oil equivalent	114	80	105	632	364
Income						
Share of top 20 percent of households	Percent of income	...	...	44	...	...
Share of bottom 40 percent of households	Percent of income	...	...	19	...	...
Share of bottom 20 percent of households	Percent of income	...	...	8	...	...
Education						
Gross enrollment ratios						
Primary	Percent of school age population	119	102	103	118	108
Male	Percent of school age population	125	105	101	123	116
Female	Percent of school age population	114	99	103	115	101
Secondary	Percent of school age population	46	42	33	53	41
Pupil-teacher ratio: secondary	Pupils per teacher	27	23	23	16	20
Pupils reaching grade 4	Percent of cohort	...	63	...	92	...
Illiteracy	Percent of population age 15+	...	16	12	22	41
Female	Percent of female age 15+	...	20	16	36	53
Newspaper circulation	Per thousand population	...	9	8	...	...

1/ The upper poverty line is constituted by the cost of a representative food bundle yielding 2,100 calories per day, plus a representative nonfood component. The lower poverty line represents the approximate cost of this food bundle only.
2/ Based on World Bank methodology.

Vietnam: Fund Relations
(As of November 30, 1997)

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

II. General Resources Account:	SDR Million	% Quota
Quota	241.60	100.0
Fund holdings of currency	341.34	141.3
Reserve position in Fund	0.01	0.0

III. SDR Department:	SDR Million	% Allocation
Net cumulative allocation	47.66	100.0
Holdings	16.10	33.8

IV. Outstanding Purchases and Loans:	SDR Million	% Quota
Stand-by arrangements	75.58	31.3
Systemic Transformation Facility	24.16	10.0
ESAF arrangements	241.60	100.0

V. **Financial Arrangements**:

Type	Approval Date	Expiration Date	Approved (SDR Million)	Drawn (SDR Million)
ESAF	11/11/94	11/10/97	362.40	241.60
Stand-by	10/06/93	11/11/94	145.00	108.80

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

	Overdue	Forthcoming				
	11/30/97	1997	1998	1999	2000	2001
Principal	0.0	6.1	57.4	19.2	16.1	34.2
Charges/Interest	0.0	0.5	6.1	4.0	3.4	3.0
Total	0.0	6.6	63.5	23.2	19.5	37.2

VII. **Exchange Rate Arrangement**:

The exchange rate of the dong is established under a managed float. At end-November 1997, a mid-rate of D 12,287 per dollar was quoted.

VIII. Article IV and XIV Consultations:

Vietnam is on a 12-month consultation cycle. The Executive Board concluded the 1996 Article IV and Article XIV consultations (EBS/96/173; SM/96/289) on November 27, 1996, and the following decision was adopted:

The Fund takes this decision relating to Vietnam's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1996 Article XIV consultation with Vietnam, in the light of the 1996 Article IV consultation with Vietnam conducted under Decision No. 5392-(77/63), adopted April 29, 1977, as amended (Surveillance over Exchange Rate Policies).

The restrictions on the making of payments and transfers for current international transactions described in EBS/96/173 are maintained by Vietnam under the transitional arrangements of Article XIV, Section 2, except for (i) exchange restrictions in the form of limitations on access by certain foreign-invested enterprises to foreign exchange and as evidenced by external payments arrears, which are both subject to approval under Article VIII, Section 2(a); and (ii) the multiple currency practice arising from a 5-10 percent tax on the remittance of profits from foreign direct investment, which is subject to approval under Article VIII, Section 2(a) and 3. The Fund encourages Vietnam to remove the remaining restrictions maintained under Article XIV and urges elimination of the measures that are subject to approval under Article VIII.

IX. Technical Assistance Missions:

Missions:

- Foreign Exchange Regulations (MAE), March 1997.
- Budget Classification System (FAD), April 1997.
- Central Bank Training (MAE), June-September 1997.
- Open Market Operations (MAE), July 1997.
- Tax and Customs Administration (FAD), August 1997.
- Central Bank Accounting & Auditing (MAE), September-October 1997.

Resident Advisors:

- Tax policy (FAD) through June 1997.
- Monetary Research (MAE) through November 1997.
- Tax computerization (FAD) through April 1998.

X. Resident Representative:

Mr. Erik Offerdal has been Resident Representative in Hanoi since August 1997.

Vietnam: Statistical Issues

The coverage of statistics is limited and the statistical methodology needs improvement. The authorities are cooperating with the Fund, though work is hampered in some areas by disputes as to which agency should be responsible for certain types of statistics. The authorities are aiming to improve timeliness and coverage of data reported to the staff. Vietnam has few statistical publications that cover statistics beyond the real sector, and Fund documents are among the few publicly available sources of monetary and fiscal data.

Extensive technical assistance has contributed to improvements in a number of areas. STA's technical assistance efforts culminated, in collaboration with the Asia and Pacific Department (APD), in the development of a draft Vietnam page that was sent to the State Bank for comments and approval. However, STA has not yet received a response. Also, the past technical assistance efforts have not yet led to the reporting of data to STA.

National accounts

The General Statistical Office (GSO) provides data on output by industry and on price developments. National accounts statistics are compiled according to the System of National Accounts (SNA), and are available beginning in 1989. However, a methodology fully consistent with the SNA, including the collection of enterprise data based on generally accepted accounting principles, has yet to be implemented. The estimates of gross domestic product (GDP) by expenditure categories remains weak. There are particular concerns about the coverage of small enterprises and joint ventures, which represent a rapidly increasing share in the economy, though coverage has been broadened to include military and Communist party expenditure. However, the available evidence still suggests that the level of GDP may be understated in the official data, and the authorities need to focus on improving data collection from nonstate sectors.

Prices

The GSO has in recent years published a retail price index (RPI) as its basic measure of inflation. A CPI in line with international standards has been compiled since January 1996. Rather than switching over to the new series, however, it appears that the authorities are phasing-in the new series in a nontransparent way to avoid any apparent discontinuity with the old series. The introduction of a producer price index is planned.

Government finance statistics

Annual fiscal data on government operations are produced shortly after the fiscal (calendar) year to which they refer, but are only finalized after extended delay. During the last few years, Vietnam has received from STA considerable amounts of technical assistance in *Government Finance Statistics (GFS)* methodology. Concurrently with STA's work on classification and

methodological issues, a consultant from FAD has worked on a new Treasury plan of accounts and other aspects of the budgetary process in Vietnam. The compilation of fiscal data in accordance with GFS methodology has, however, been slow. The only data available were compiled by an STA consultant and refer to the years 1992, 1993, and 1994, both at the level of the central government and the province/city governments. Additional technical assistance and training will be needed to enable the authorities to prepare GFS data on a regular basis. At this stage, however, priority needs to be given to developing improved reporting systems to better track developments during the year in progress.

Monetary statistics

Data regularly provided to the Fund by the State Bank include the monetary survey, the State Bank balance sheet, and a detailed consolidated balance sheet for commercial banks. Beginning with 1995, an expanded monetary survey has been compiled, raising from 16 to 28 the number of banks covered, and further expansion to 40 banks was begun in January 1997. The reporting lag continues to be around 6 weeks.

External statistics

Data on foreign reserves (official reserves and net foreign assets) are derived from the monetary survey. The official reserves data are therefore currently subject to the same six-week reporting lag as the monetary survey. Although, the authorities have agreed to commence reporting monthly official reserves data with a 2-week lag, there has been no reporting on this schedule. Moreover, data are reported only in local currency, and there are inconsistencies in the valuation procedures used across banks.

Beginning in January 1995, trade data have been compiled on the basis of customs reports, which are more comprehensive than earlier data. Published trade data, however, contain a number of adjustments to the customs reports, which have been difficult to reconcile, as the staff is only provided data at a relatively high level of aggregation. Data on invisibles continues to be based largely on the banking records, which provide incomplete coverage and incomplete identification of the types of transactions. Improvements in balance of payments data continue to be hampered by interagency coordination problems.

Detailed data on the contracting of foreign direct investment are maintained by the Ministry of Planning and Investment. Data on the disbursements of FDI are slowly improving, but still have major deficiencies. There is a pressing need for a survey of direct investment because the banking data do not provide sufficient detail. Data on contracting commercial debt are maintained by the State Bank. Some loans are reported only after an extended delay, and reporting of disbursements and repayments remains poor. Data on contracting, disbursement, and service of official debt are maintained by the Ministry of Finance.

Vietnam: Survey of Reporting of Main Statistical Indicators 1/

(As of end-October 1997)

	Exchange rates	International reserves	Reserve/ base money	Central Bank balance sheet	Broad money	Interest rates	Consumer price index	Exports/ Imports	Current account balance	Overall government balance	GDP/GNP	External debt
Date of latest observation	10/97	8/97	8/97	8/97	8/97	10/97	10/97	1997 Q3	1997 Q3	1997 Q2	1996	1996
Date received	10/97	10/97	10/97	10/97	10/97	10/97	10/97	10/97	10/97	8/97	3/97	3/97
Frequency of data	D	M	M	M	M	D	M	M	Q	Q	A	A
Frequency of reporting	D	M	M	M	M	O	M	M	Q	Q	A	A
Source of data	C/A	A	A	A	A	A	A/C	A	A	A	A	A
Mode of reporting	E/C	C	C	C	C	C	E/C	C	V	V	V	V
Confidentiality	C	B	B	B	B	C	C	B	A	B	C	C

1/ The codes are as given below:

Frequency of data: D - daily, M- monthly, Q - quarterly, A - annual, O - irregular (when changed).
Source of data: A - direct reporting by the authorities, C - commercial electronic data provider, N - official publication.
Mode of reporting: E - electronic data transfer, C - cable or facsimile, V - irregularly in conjunction with staff visits.
Confidentiality: A - staff only, B - staff and Board, C - public.

Vietnam: Relations with World Bank Group

The World Bank resumed lending to Vietnam in 1993 and opened a Resident Mission in Hanoi in 1994. By end-December 1996, 15 operations totaling about $1.6 billion had been approved. So far in 1997, three projects have been approved in forest protection and rural development ($22 million), highway rehabilitation ($196 million), and water supply ($97 million). IDA expects to commit up to $500 million in FY1998, including an IDA credit in support of Vietnam's London Club debt restructuring. The Bank will chair the next Consultative Group meeting in Tokyo in December 1997. Vietnam is current in its debt service payments to the Bank as of end-October 1997.

The Bank has done substantial sectoral and analytical work on Vietnam. A country economic memorandum on deepening reform for growth has recently been issued. Sector reports have been completed in agriculture, transport, energy, health, external trade, the financial sector, poverty, the environment, education and population. The Bank has also managed technical assistance projects funded by the UNDP and others.

World Bank Financial Operations
(Millions of U.S. dollars)

	1994	1995	1996	1997 Proj.	1998 Proj.
Commitments	246	314	508	316	450-500
Disbursements	126	47	189	269	300
Program loans	61	30	59	0	65
Debt service	1	2	2	4	6
Debt outstanding	181	231	412	680	983

International Finance Corporation (IFC)

Since late 1993, the IFC has approved 17 investments in Vietnam--in the tourism sector, industry, and infrastructure--involving total commitment of $195 million. In addition to investing, the IFC is advising the Government on the legal and institutional requirements for establishing a securities market and a leasing industry. The Foreign Investment Advisory Service (FIAS), a joint service of the World Bank and IFC, is also assisting Vietnam in the development of the policy, regulatory, and institutional framework for foreign investment.

Multilateral Investment Guarantee Agency (MIGA)

In 1994 Vietnam joined MIGA, which has begun approving guarantees and is receiving applications for investment insurance.

Vietnam: Relations with Asian Development Bank

Asian Development Bank (AsDB) resumed its operations in Vietnam in October 1993. The objective of operational strategy is to promote efficient economic growth, poverty reduction, and sustainable development, taking into account the particular needs of an economy undergoing transition from a centrally planned to a market-oriented system. Along this line, AsDB's support in the medium-term addresses key constraints in the following areas: (i) policy reform and institutional development; (ii) infrastructure development; (iii) rural development; (iv) human development; and (v) environment and natural resource management.

From October 1993 to October 1997, AsDB approved 17 loans totaling $1.2 billion from the concessional Asian Development Fund. Lending in 1997 is expected to be $357 million for 5 projects, compared to $303 million for 4 projects in 1996, $233 million for 4 projects in 1995 and $140 million for 2 projects in 1994. Lending has mainly focused on rehabilitating the dilapidated physical infrastructure in the agriculture, energy and transport sectors, but has also addressed social and environmental or cross-cutting concerns in line with the government development strategy. In addition, the Bank has extended technical assistance amounting to $44.3 million for 68 projects.

Support for policy and structural reforms to improve public sector efficiency and to encourage the development of the private sector forms a vital component of AsDB operations in Vietnam. Key areas targeted for policy support include (i) financial sector reforms to increase the confidence of the public in the financial system and improve the efficiency of financial intermediation; and (ii) industrial sector reform to promote a private sector-led export oriented enterprises. So far, AsDB has approved two policy-based program loans in the agriculture sector ($80 million in 1994) and the financial sector ($90 million in 1996). In addition to program lending, policy dialogue is an important feature in all of AsDB's loan projects in Vietnam. This will include support for increased efficiency through tariff reform and other measures to increase cost recovery and strengthen financial management, policy analysis, and planning within state-owned utilities.

In December 1996, AsDB established a Resident Mission in Hanoi, which assists in facilitating the implementation of AsDB-financed projects.

In view of the recent regional currency turmoil, the Bank organized a seminar, on December 1-2, 1997 in Hanoi, to discuss the experience of affected countries and draw lessons relevant for Vietnam. A Fund staff representative participated in the conference.

Table 1. AsDB: Loans to Vietnam by Sector, October 1993-October 1997
(In millions of U.S. dollars)

Sector	Number	Net Amount
Lending	17	1,148.8
Agriculture and agro-industry	7	450.4
Social infrastructure	5	279.5
Transportation and communication	3	261.6
Finance	1	86.8
Energy	1	70.4
Technical assistance	68	44.3
Advisory and operational purposes	52	33.8
Project preparation	16	10.5

Source: Data provided by the AsDB.

Table 2. AsDB: Loan Approvals and Disbursements to Vietnam, 1993-97
(In millions of U.S. dollars)

	1993	1994	1995	1996	1997 1/
Loan approvals	261.5	140.0	233.0	303.0	357.0
Loan disbursements	0	3.0	48.2	28.7	143.9 2/
Undisbursed balance at the end of the year	75.3	406.9	587.6	841.7	943.2
Memorandum item: Technical assistance approvals	9.9	8.5	11.6	9.1	8.6

Source: Data provided by the AsDB.
1/ Projected.
2/ As of October 1997.