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CONTAINS CONFIDENTIAL
INFORMATION

December 18, 1997

To: Members of the Executive Board

From: The Secretary

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

The attached supplement to the staff report for the 1997 Article IV consultation with Vietnam has been prepared on the basis of additional information.

Mr. Browne (ext. 34108) is available to answer technical or factual questions relating to this paper prior to the Board discussion, tentatively scheduled for Monday, January 5, 1998.

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 Tuesday, December 30, 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
Supplementary Information**

Prepared by the Asia and Pacific and Policy Development and
Review Departments

Approved by David Goldsbrough and Thomas Leddy

December 17, 1997

Sustainability of External Debt

1. This supplement discusses medium-term external prospects and assesses Vietnam's debt service capacity over the next 20 years. The sustainability analysis differs from that presented in the staff report for the 1996 Article IV consultation primarily in expectations of a less favorable external environment, as a result of which export performance is expected to be weaker. Foreign direct investment and the investment/GDP ratio are expected to be lower, and GDP and imports are expected to grow more slowly. Nevertheless, the main conclusion remains that the projected debt service burden is manageable and consistent with sustained high economic growth, provided that macroeconomic stability is maintained and structural reforms are intensified. As in the previous analysis, public debt service declines to below 4 percent of exports of goods and nonfactor services over the next 20 years. The projections take into account pledges made by donors during the Vietnam Consultative Group meeting in Tokyo on December 11-12, 1997. The World Bank staff agrees with this.

Stock of external debt and debt service burden

2. Vietnam's total stock of external debt is projected at \$13.2 billion at end-1997, including short-term debt of \$0.8 billion and private sector debt of \$5.4 billion. This assumes, for illustrative purposes, that debt incurred through the Council of Mutual Economic Assistance (CMEA), most of which is debt to Russia, is rescheduled in 1997 on terms at least comparable to the 1993 Paris Club rescheduling involving a 70 percent up-front discount on all debt and the application of London terms. It also assumes that the London Club rescheduling agreement is concluded in early 1998, on terms comparable to the 1993 Paris Club rescheduling. Multilateral debt is estimated at \$1.3 billion, of which 45 percent is owed to the World Bank, 17 percent to the Asian Development Bank, and 37 percent to the Fund.

3. The total stock of public and publicly guaranteed debt at end-1997 in net present value terms is estimated to amount to 22 percent of GDP and 46 percent of exports of goods and

nonfactor services. Scheduled external debt service in 1997 is expected to reach 4 percent of GDP and 8 percent of exports of goods and services. About one half of the total is public debt service, which is equivalent to 10 percent of budgetary revenue.

Medium and long-term prospects

4. On the assumption that Vietnam maintains prudent macroeconomic policies and accelerates implementation of structural reforms, especially with regard to trade, public enterprises, and the financial sector, it is expected that the economy would be able to achieve sustainable growth of up to 8 percent in the medium and long term. Such a growth would need to be supported initially by investment in the range of 27-28 percent of GDP, of which about 6 percent would be from foreign investors, even though domestic savings is expected to increase in the medium and long term. Foreign savings would decline from 9 percent of GDP to less than 7 percent in 2001, 4 percent in 2006 and 2 percent of GDP in the long run.

5. Export growth is assumed to slow from recent rates of over 20 percent a year to about 13 percent in the medium term. The actual outcome would depend partly on the size of FDI inflows and partly on the regional environment. Import growth will remain high, at about 11 percent a year, reflecting strong investment. Debt service would peak in 2002 at about 13 percent of exports of goods and services, and gradually decline thereafter. This reflects the expected continuation of tight limits on external commercial borrowing. In terms of government revenue, the debt service ratio is expected to average about 10 percent.

6. In order to meet such financing needs while keeping the debt service burden manageable, continued foreign support in the form of concessional loans and grants in the range of 4-5 percent of GDP would be required in the medium and long term. This would then enable Vietnam to reduce non-concessional loans from 2.5 percent of GDP in 1997 to about 1-1.5 percent in the medium-term, while maintaining adequate international reserves.

Sensitivity analysis

7. The medium-term outlook is sensitive to the assumptions made on domestic macroeconomic and structural policies and the regional environment. In particular, lower foreign direct investment resulting from loss of confidence in domestic policies or sluggish recovery in the region from the recent turmoil in financial markets would reduce both exports and growth.

8. The alternative scenario assumes that FDI inflows will be lower by 2 percent of GDP and annual export growth rate lower by 3 percent. With less investment and export growth, the real GDP growth rate is expected to slow to 5 percent. Imports are expected to grow on average by 8 percent, with marginally higher income elasticity reflecting some easing of macroeconomic policies. The external current account would decline to below 6 percent of GDP by 2001, partly reflecting the lower FDI inflows. With no change assumed in concessional and non-concessional loans and grants, the effect of the lower FDI and exports translates into a gradual decline in international reserve cover.

Table 1. Vietnam: Balance of Payments, 1996-2016
(In millions of U.S. dollars)

	1996	<u>Prel. est.</u> 1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	<u>Outer years</u>		<u>Average</u>	
												2011	2016	1997-2006	2007-2016
Current account balance	-2,431	-2,069	-2,137	-2,084	-2,059	-2,100	-2,206	-2,272	-2,269	-2,304	-2,133	-2,755	-1,970	-2,163	-2,610
(Excluding official transfers)	-2,581	-2,239	-2,309	-2,268	-2,255	-2,309	-2,429	-2,510	-2,522	-2,573	-2,421	-3,065	-2,303	-2,384	-2,922
Trade balance	-3,143	-2,430	-2,198	-2,098	-1,931	-1,845	-1,878	-1,949	-2,018	-2,068	-1,907	-1,963	-161	-2,032	-1,647
Exports, f.o.b.	7,337	8,638	10,175	11,789	13,480	15,200	16,944	18,905	21,082	23,547	26,326	46,526	85,020	16,609	52,504
Imports, f.o.b.	10,480	11,068	12,373	13,887	15,411	17,045	18,822	20,854	23,100	25,615	28,232	48,489	85,181	18,641	54,151
Non-factor services (net)	-61	-53	-51	-43	-75	-103	-93	-48	9	72	191	451	265	-19	369
Receipts	2,709	2,967	3,325	3,746	4,075	4,397	4,792	5,271	5,799	6,378	7,016	11,095	17,072	4,777	11,920
Payments	2,770	3,020	3,376	3,789	4,150	4,499	4,885	5,319	5,790	6,306	6,825	10,644	16,806	4,796	11,551
Investment income (net)	-427	-486	-711	-872	-995	-1,132	-1,264	-1,371	-1,427	-1,552	-1,694	-2,377	-3,095	-1,150	-2,458
Receipts	140	150	188	197	220	236	257	282	308	333	360	598	1,045	253	669
Payments	567	636	899	1,069	1,214	1,367	1,520	1,653	1,735	1,885	2,054	2,976	4,140	1,403	3,128
Transfers (net)	1,200	900	823	929	941	979	1,028	1,095	1,167	1,244	1,277	1,134	1,021	1,038	1,126
Private transfers	1,050	730	650	745	745	770	805	858	914	974	989	824	687	818	814
Official transfers	150	170	173	184	196	209	223	237	253	270	287	310	334	220	312
Capital Account	2,079	2,513	2,689	2,532	2,384	2,543	2,764	2,848	2,828	2,907	2,829	4,061	3,929	2,684	4,040
Gross foreign direct investment (FDI) inflows	1,813	2,100	1,890	1,890	1,890	1,985	2,084	2,188	2,297	2,412	2,533	3,233	4,126	2,127	3,345
FDI loan repayments	55	174	372	556	836	1,096	1,216	1,250	1,344	1,041	1,347	1,777	2,268	923	1,836
Medium and long-term loans (net)	98	807	1,006	1,108	1,234	1,557	1,799	1,804	1,758	1,405	1,508	2,348	1,592	1,399	2,235
Disbursements	772	1,152	1,561	1,457	1,707	2,073	2,387	2,501	2,501	2,277	2,435	3,992	4,633	2,005	4,105
Of which: Commercial loans	436	602	520	416	458	549	604	665	665	532	638	1,019	1,036	565	1,104
Scheduled amortization 1/	674	345	555	349	473	516	589	697	744	872	927	1,645	3,041	607	1,870
Short term capital (net)	224	-220	165	90	96	97	97	105	116	130	136	258	480	81	295
Errors and omissions	55	-41	0	0	0	0	0	0	0	0	0	0	0	-7	0
Overall Balance	-298	403	552	448	325	442	557	575	559	603	696	1,306	1,960	516	1,430
Financing	298	-403	-552	-448	-325	-442	-557	-575	-559	-603	-696	-1,306	-1,960	-516	-1,430
Change in net international reserves (-, increase)	-293	-440	-552	-448	-325	-442	-557	-575	-559	-603	-696	-1,306	-1,960	-520	-1,430
Use of Fund credit (net)	178	-54	86	-26	-22	-48	-73	-81	-102	-84	-59	0	0	-46	-6
Other net international reserves	-471	-386	-638	-422	-303	-395	-485	-494	-457	-519	-637	-1,306	-1,960	-473	-1,424
Arrears 1/	591	-8,289	-413	0	0	0	0	0	0	0	0	0	0	-866	0
Debt relief 1/	0	8,252	413	0	0	0	0	0	0	0	0	0	0	870	0
Financing gap	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Memorandum items:															
Gross official reserves, includes gold	1,798	2,184	2,822	3,244	3,547	3,941	4,426	4,920	5,377	5,896	6,533	11,697	20,774	4,289	13,152
(In weeks of imports)	8.9	10.3	11.9	12.2	12.0	12.1	12.3	12.3	12.1	12.0	12.1	12.6	12.7	11.9	12.6
Current account deficit/GDP (percent)	-10.4	-8.5	-8.1	-7.2	-6.5	-6.0	-5.8	-5.4	-5.0	-4.6	-3.9	-3.3	-1.5	-6.1	-3.1
(Excludes official transfers)	-11.0	-9.2	-8.7	-7.8	-7.1	-6.6	-6.4	-6.0	-5.5	-5.1	-4.4	-3.7	-1.8	-6.7	-3.4
Export value growth	41.1	17.7	17.8	15.9	14.3	12.8	11.5	11.6	11.5	11.7	11.8	12.3	13.2	13.7	12.4
Import value growth	25.5	5.6	11.8	12.2	11.0	10.6	10.4	10.8	10.8	10.9	10.2	11.4	12.2	10.4	11.7

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

1/ Assumes restructuring in 1997 of the Russian debt on terms at least comparable to the 1993 Paris Club rescheduling. For illustrative purpose, restructuring of the Russian debt assumes a 70 percent up-front discount on all debt, and the application of London terms (DR option; 50 percent NPV reduction) on pre-cutoff date arrears as of end-1997. Restructuring of commercial bank debt is assumed to be concluded in 1998 on terms at least comparable to the 1993 Paris Club rescheduling.

Table 2. Vietnam: Projected Stock of External Debt and Debt Service Obligations, 1997-2016 1/

	1997	1998	1999	2000	2001	2002	2003	2004	Average	
									1998-2007	2008-2016
(In millions of U.S. dollars)										
Total debt stock 2/	13,195	15,368	17,261	18,940	20,805	22,789	24,780	26,665	23,816	47,711
Medium- and long-term debt	12,410	14,418	16,221	17,804	19,573	21,459	23,346	25,114	22,401	44,419
Public debt	7,037	7,668	8,416	9,347	10,506	11,894	13,320	14,667	12,726	28,551
Private debt	5,373	6,750	7,805	8,458	9,066	9,565	10,025	10,447	9,676	15,868
Short-term debt 3/	785	950	1,039	1,135	1,232	1,329	1,435	1,551	1,415	3,292
Total external debt service 2/	968	1,628	1,660	2,145	2,553	2,846	3,078	3,268	2,781	5,838
Principal	573	1,005	933	1,333	1,661	1,879	2,030	2,192	1,785	3,847
Interest 4/	394	623	727	812	892	967	1,048	1,076	996	1,991
Public debt	485	844	628	694	771	832	902	1,005	924	2,311
Principal	337	571	325	361	402	419	440	493	475	1,346
Interest	147	273	302	333	369	413	462	512	450	965
Private debt	483	784	1,033	1,451	1,783	2,014	2,177	2,263	1,857	3,527
Principal	236	434	608	972	1,259	1,460	1,590	1,698	1,310	2,501
Interest 4/	247	350	425	479	523	554	587	565	547	1,026
(In percent of GDP)										
Memorandum items:										
Medium and long term debt										
Total debt service	4.0	6.2	5.7	6.8	7.3	7.5	7.4	7.1	6.7	6.2
Of which										
Public	2.0	3.2	2.2	2.2	2.2	2.2	2.2	2.2	2.3	2.4
Total debt stock	51.0	54.5	56.0	56.1	56.2	56.2	55.9	54.9	54.7	48.0
Of which										
Public	28.9	29.0	29.0	29.4	30.2	31.2	31.9	32.1	30.7	30.7
NPV of public and publicly guaranteed debt	21.8	22.0	23.4	24.7	26.0	27.0	27.6	27.5	26.1	25.2
(In percent of exports of goods and non-factor services) 5/										
Total debt service	8.3	12.1	10.7	12.2	13.0	13.1	12.7	12.2	11.8	8.8
Of which										
Public	4.2	6.3	4.0	4.0	3.9	3.8	3.7	3.7	4.0	3.4
Total debt stock	106.9	106.8	104.4	101.4	99.9	98.7	96.6	93.4	95.9	68.1
Of which										
Public	60.6	56.8	54.2	53.2	53.6	54.7	55.1	54.6	53.6	43.5
NPV of public and publicly guaranteed debt	45.6	46.2	48.9	51.8	54.5	56.6	57.7	57.6	54.6	52.8

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

1/ See footnote 1, Table 1.

2/ Includes new borrowing.

3/ Includes short-term debt of public enterprises for which breakdown is unavailable.

4/ Includes short-term debt.

5/ Excludes workers' remittances.

Table 3. Vietnam: Public and Publicly Guaranteed Debt Service Obligations, 1997-2016

(In millions of U.S. dollars)

	Prel. Proj. 1997	Projections							Average	
		1998	1999	2000	2001	2002	2003	2004	1998-2007	2008-2016
Public and publicly guaranteed debt										
Scheduled debt service 1/	485	844	628	694	771	832	902	1,005	924	2,311
Principal	337	571	325	361	402	419	440	493	475	1,346
Interest	147	273	302	333	369	413	462	512	450	965
Scheduled debt service on outstanding stock at end-1997	485	797	540	526	523	495	456	469	530	414
Medium- and long-term debt										
Principal	337	571	325	322	332	315	286	307	350	326
Multilateral	62	85	34	30	55	78	78	74	60	60
Of which: IMF	54	78	26	22	48	73	73	69	46	0
Official bilateral	138	163	166	170	184	192	196	222	204	237
Paris Club	88	123	122	124	136	142	144	168	161	210
Post-cutoff date	...	117	116	116	123	124	120	137	136	70
Pre-cutoff date	...	6	6	8	13	19	24	31	25	140
Of which: Russia	34	76	76	78	82	86	91	96	91	100
Post-cutoff date	...	76	76	76	76	76	76	76	76	0
Pre-cutoff date	...	0	0	1	5	10	15	20	15	100
Other	51	40	44	46	48	49	51	53	42	23
Commercial loans	137	324	126	122	92	45	12	12	86	29
London Club	0	61	0	0	0	0	12	12	21	29
Other commercial creditors	137	263	126	122	92	45	0	0	65	0
Interest	147	226	215	203	191	180	170	162	180	88
Multilateral	17	14	11	10	9	9	8	7	8	3
Of which: IMF	11	8	6	5	4	4	3	3	4	0
Official bilateral	87	164	159	154	148	141	133	126	135	63
Paris Club	52	132	130	129	126	123	119	116	119	63
Post-cutoff date	...	34	33	32	29	27	24	22	25	6
Pre-cutoff date	...	97	97	97	97	96	95	94	94	57
Of which: Russia	12	83	82	80	79	78	76	73	75	40
Post-cutoff date	...	11	10	9	7	6	5	4	6	0
Pre-cutoff date	...	72	72	72	72	71	70	69	70	40
Other	36	32	29	25	22	18	14	10	16	0
Commercial loans	43	48	45	39	34	30	29	29	36	22
London Club	0	24	26	28	28	29	29	29	30	22
Other commercial creditors	43	24	19	12	5	1	0	0	6	0
Debt service on new borrowing	0	47	88	168	248	337	446	535	394	1,897
Principal	0	0	0	39	70	105	154	186	125	1,020
Of which: IMF	0	0	0	0	0	0	8	34	14	3
Interest	0	47	88	129	178	233	291	350	269	877
Of which: IMF	0	0	1	1	1	1	1	1	1	0
Memorandum items:										
Public debt services										
In percent of government revenue	9.8	14.1	9.5	9.5	9.5	9.3	9.2	9.4	9.9	10.4
In percent of government expenditure	8.8	12.9	8.9	8.9	9.0	8.8	8.7	8.9	9.2	9.8
GDP (in US\$ mn)	24,314	26,432	28,975	31,762	34,817	38,167	41,800	45,736	41,187	93,609
Fiscal revenue (in US\$ mn)	4,960	5,974	6,606	7,305	8,078	8,931	9,781	10,702	9,579	21,905
Fiscal expenditure (in US\$ mn)	5,519	6,529	7,041	7,782	8,565	9,465	10,366	11,343	10,181	23,215

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

1/ See footnote 1, Table 1.

Table 4. Vietnam: Debt Sustainability Analysis, 1997-2016

	<u>Prel. est.</u> 1997	1998	1999	2000	2001	2002	2003	2004	<u>Average</u> 1998-2007 2008-2016	
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Baseline scenario										
						(Percent change)				
Real GDP	7.5	6.0	8.0	8.0	8.0	8.0	7.9	7.8	7.7	7.3
Export value (In U.S. dollars)	17.7	17.8	15.9	14.3	12.8	11.5	11.6	11.5	13.1	12.5
Export volume	15.1	18.8	13.7	13.4	11.1	10.0	10.1	10.1	11.8	10.6
Import value (In U.S. dollars)	5.6	11.8	12.2	11.0	10.6	10.4	10.8	10.8	11.0	11.7
Import volume	12.1	13.3	11.6	11.2	10.2	9.9	10.5	10.4	10.8	11.3
						(In percent of GDP)				
Gross domestic investment	27.5	27.0	27.0	27.5	27.7	28.0	28.9	28.5	27.8	26.9
Consumption	82.7	81.5	80.4	78.8	77.9	77.2	75.9	75.9	77.4	74.7
National savings	18.3	18.3	19.2	20.4	21.1	21.6	22.9	23.0	21.6	23.5
Current account balance	-8.5	-8.1	-7.2	-6.5	-6.0	-5.8	-5.4	-5.0	-5.6	-3.0
(Excludes official transfers)	-9.2	-8.7	-7.8	-7.1	-6.6	-6.4	-6.0	-5.5	-6.2	-3.3
Foreign direct investment (net)	8.6	7.2	6.5	6.0	5.7	5.5	5.2	5.0	5.5	3.7
Concessional loans and grants	3.0	4.6	4.2	4.6	5.0	5.3	5.0	4.6	4.5	3.7
Non-concessional loans	2.5	2.0	1.4	1.4	1.6	1.6	1.6	1.5	1.5	1.2
External debt 1/	51.0	54.5	56.0	56.1	56.2	56.2	55.9	54.9	54.7	48.0
Of which : Public debt	28.9	29.0	29.0	29.4	30.2	31.2	31.9	32.1	30.7	30.7
Gross official reserves (In weeks of imports)	10.3	11.9	12.2	12.0	12.1	12.3	12.3	12.1	12.1	12.6
Debt service ratio 2/	8.3	12.1	10.7	12.2	13.0	13.1	12.7	12.2	11.8	8.8
Of which : Public debt	4.2	6.3	4.0	4.0	3.9	3.8	3.7	3.7	4.0	3.4
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Alternative scenario										
						(Percent change)				
Real GDP	7.5	6.0	6.0	5.5	5.0	5.0	5.0	5.0	5.3	5.0
Export value (In U.S. dollars)	17.7	15.8	13.0	11.4	9.4	8.4	8.5	8.5	10.1	9.7
Export volume	15.1	16.9	10.9	10.5	7.7	7.0	7.1	7.0	8.9	7.5
Import value (In U.S. dollars)	5.6	11.7	9.5	7.0	7.6	7.7	7.3	7.4	8.2	8.2
Import volume	12.1	13.2	8.9	7.2	7.2	7.2	7.0	7.1	8.1	7.8
						(In percent of GDP)				
Gross domestic investment	27.5	26.0	24.5	23.0	22.0	21.0	20.5	20.5	21.9	20.5
Consumption	82.7	83.5	83.8	83.6	84.3	85.2	85.3	85.0	84.5	82.9
National savings	18.3	17.4	17.1	17.2	16.5	15.6	15.6	16.1	16.3	15.8
Current account balance	-8.5	-7.9	-6.7	-5.2	-4.9	-4.8	-4.3	-3.7	-4.9	-4.2
(Excludes official transfers)	-9.2	-8.6	-7.4	-5.8	-5.5	-5.4	-4.9	-4.4	-5.5	-4.7
Foreign direct investment (net)	8.6	6.8	5.0	4.0	3.6	3.4	3.3	3.1	3.7	1.8
Concessional loans and grants	3.0	4.6	4.3	4.7	5.3	5.8	5.6	5.3	5.0	5.2
Non-concessional loans	2.5	2.3	1.7	1.8	2.0	2.1	2.1	2.0	1.9	2.1
External debt 1/	51.0	55.4	57.5	58.1	58.4	58.7	58.8	58.4	57.8	58.6
Of which : Public debt	28.9	29.4	30.0	31.1	32.8	34.9	36.6	37.9	34.9	43.4
Gross official reserves (In weeks of imports)	10.3	12.0	11.6	11.2	10.6	10.4	10.7	11.0	11.0	8.3
Debt service ratio 2/	8.3	11.8	11.1	13.1	14.3	14.5	14.1	13.3	12.6	10.1
Of which : Public debt	4.3	6.0	4.3	4.3	4.5	4.5	4.5	4.6	4.7	5.3

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

1/ Includes short-term debt.

2/ In percent of goods and nonfactor services.