THE WORLD BANK, VIETNAM

Vietnam Economic Monitor

Spring 2001[1]

[1] The **Economic Monitor**, prepared by the World Bank in Vietnam twice a year (spring and autumn), reports on recent economic developments and policy changes in the following areas: the overall economic situation (section – II), the enterprise/corporate sector (section-III), the banking system (section IV), trade (section-V) and the public expenditure system (section VI). This spring 2001 edition covers the whole of 2000 and the first quarter of 2001.

Table of contents[2]

[2] This report was prepared by Viet Dinh Tuan, Theo Larsen and Patrick Belser under the overall supervision of Kazi M. Matin. It drew on contributions from Duc Minh Pham, Bob Baulch, James Beard, Minh Van Nguyen, Thang-Long Ton, Carmen Genovese and Igor Artemiev.

SECTION I: BACKGROUND

Reform, Growth, and Poverty Reduction

Since the adoption of the *Doi Moi* or "renovation" policy for transition to a market economy in the late 1980s, Vietnam has been one of the fastest growing economies in the world. The average annual growth rate in the last decade was an impressive 7.6 percent (table 1) despite the slowdown since 1998 and inflation has been low and stable since 1992. Between 1991 and 2000, Vietnam's GDP doubled. Agriculture, covering 40 percent of GDP, grew at slightly over 4 percent, while industrial value-added increased rapidly at an average rate of 11.2 percent per year, albeit from a very low base. The services sector expanded at a little more than 7 percent each year.

Table 1: Average GDP Growth: 1991-2000

	(percent)
Total	**7.6**
Agriculture	4.2
Industry	11.2
Services	7.2

Source: *GSO*

Changing sectoral structure in 1990s. This altered the sectoral structure of the economy with the share of industry in GDP rising from 24 percent to around 37 percent (table 2) and the share of agriculture falling from 41 to 24 percent of GDP. The share of services sector rose too until 1995 but changed little thereafter.

Table 2: Changing Sectoral GDP Shares

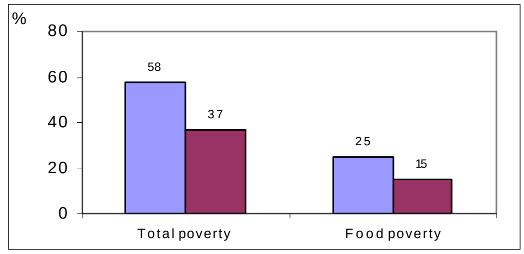
Share in GDP (percent)	**1991**	**1995**	**2000/e**
Total	**100**	**100**	**100**
Agriculture	40.5	27.2	24.3
Industry	23.8	28.7	36.6
Services	35.7	40.1	39.1

Source: *World Bank based on GSO*

Declining poverty in the 1990s. Rapid growth also led to a sharp decline in poverty incidence in all seven regions of Vietnam. Household surveys show that the proportion of people with expenditures below the poverty line declined from 58 percent in 1992/93 to 37 percent in 1997/98 (see figure 1). The share of the population under the food poverty line fell from 25 percent to 15 percent.

Slowdown from 1998. During 1998 and 1999, economic growth declined to around 4 percent a year due in part to the East Asian crisis and in part to the internal loss of momentum as the first round of reforms ran its course. Total investment fell from around 30 percent to around 20 percent of GDP, due to a collapse in foreign investment.

Figure 1: Incidence of Poverty: 1993-1998



Source: *"Vietnam: Attacking Poverty" (World Bank 1999)*

Simulations suggest that slow growth since 1998 has slowed Vietnam's pace of poverty reduction and weakened banks and enterprises. Restoring higher growth rate and a more favorable pattern of growth are necessary for faster poverty reduction.

Multi-year reform program adopted in 2001. In early 2001, the Government adopted a multi-year program of specific reform measures in the areas of banking, state-enterprises, private sector, trade and public expenditure management. Following a hiatus during 1995-97, reforms picked up momentum from mid-1998 and accelerated in 2000 (see Annex 1 for the measures taken since 1998 in the five reform areas). This program is being supported financially by the World Bank's Poverty Reduction Support Credit (PRSC) and the IMF's Poverty Reduction and Growth Facility (PRGF). Several bilateral donors have provided technical assistance grants for formulation and initial implementation of reforms over the last two years (see Annex 3 for details), and some donors are expected to provide co-financing of the PRSC.

SECTION II. RECENT MACROECONOMIC POLICY AND DEVELOPMENTS

Growth Picks Up. Real GDP grew by around 5.5 percent in 2000, much higher than the previous two years, but is projected now to be lower in 2001.[3] GDP in agriculture rose by 4 percent and in industry, by 10 percent. The service sector growth rate doubled relative to 1999 to reach 4 percent in 2000.

Agricultural output: Despite floods in the Southern and Central regions and drought in the North, food output reached 35.6 million tons (rice equivalent), up

[3] Official estimates show that GDP in 2000 grew by 6.7 percent, a significant increase over Government's estimate of 5 percent in 1999.

1.4 million tons from 1999, including 332.6 million tons of rice paddy, up 1.2 million tons. The fishery sector output rose by nearly 11 percent, with seafood output exceeding 2 million tons.

Industrial output growth. Industrial output grew slightly faster in the first quarter of 2001 (14.4 percent) relative to that in 2000. For the whole of 2000, it expanded by 15.7 percent, the highest in three years. The following were among the strongest growth performers in industry: cement (27.3 percent), ceramic products (26.2 percent), steel (17.2 percent), electric motors (22 percent), textiles (17.5 percent) garment (15.1 percent), and assembled motorbikes (65.4 percent).

Table 3: Industrial Output Growth (%)

	998	999	000/e
Total	**12.5**	**11.5**	**15.8**
State sector	7.7	5.4	12.2
Non-state sector	7.5	10.8	18.4
Foreign-invested sector	24.4	21.0	18.6

Source: *GSO*

Industrial output by the domestic private sector grew at 18 percent in 2000, the fastest ever. The state sector's industrial production recovered too, accounting for one third of the increase in industrial production. This pick up in the industrial sector reflects the strong effect of the Government's stimulus program supported by expansionary monetary and fiscal policy as well as rising consumer confidence.

Industrial Ownership structure. Nevertheless, in relative terms, the domestic private industrial sector remains small. In 2000 it accounted for 22 percent of industrial production, much less than the state-owned -enterprise sector that accounted for about 42 percent (see table 4).

Table 4: Structure of Industrial Output (%)

	2000/e
SOEs, of which:	42.0
Centrally-owned	*27.4*
Locally-owned	*14.6*
Non-State sector	22.4
Foreign-invested sector	35.5
Of which Oil and Gas	*12.7*

Source: *GSO*

However, including the foreign-invested enterprises, the private sector provides more than half of all industrial output. On the other hand, table 4 tends to underestimate the true contribution of the State sector, since the foreign-invested sector includes joint ventures with minority state-ownership, particularly in oil and gas.

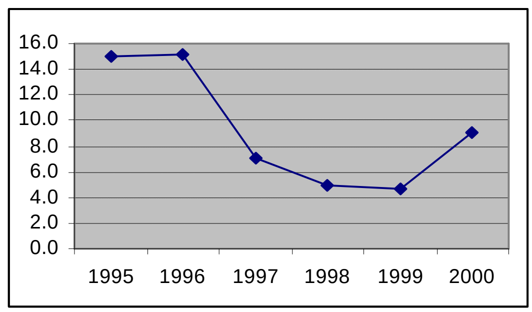
Services. The service sector's rebound in 2000 is owed to the recovery in trade activities and in retail sales, suggesting a rise in domestic demand (see figure 2). Tourism and transportation, have also picked up in 2000.

Domestic Demand

Domestic demand has been the main driver of GDP growth in 2000 and early 2001. Most of that demand has come from consumption. Total investment as a share of GDP has risen, but remains below 1997 levels.

Private consumption. Rising private consumption, was an important component of the recovery, as in other Asian countries. This is reflected in the sharp turnaround in growth of retail sales in 2000 after three years of decline.

Figure 2: Annual Growth of Retail Sales (%)



Source: *GSO*

Higher production of consumer durables confirms that turnaround as Table 5 shows, with the number of television sets, cars and motorbikes rising substantially.

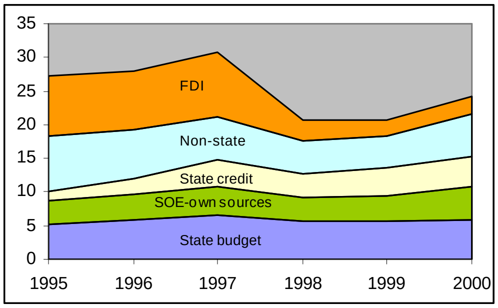
Table 5: Selected Consumer Durables Volume Change (%)

	1999	2000/e
Motorbikes	-5.0	65.4
Televisions	-28.1	13.0
Cars	10.3	110.8

Source: *GSO*

Investment is higher but below 1997 level. The recovery in investment share of GDP in 2000 has not reached the levels of 1997, suggesting fragility in the recovery (see figure 3). This is largely because foreign investment inflows remain depressed and the recovery in domestic private investment and government investment have been modest.

Figure 3: Composition of Investment in Vietnam



Source: *World Bank estimates*

Foreign investment inflows. Though foreign investment inflows continue to stagnate, recent approval of three large foreign investment projects in energy, augur well for the future.[4] The average foreign investment inflow was US$2 billion a year during the period 1995-1997 (around 8 percent of GDP), but only around an estimated US$700-800 million in 1999 and 2000 (about 2.2 percent of GDP). The first quarter of 2001 shows no change in this trend yet (however, see also Section III on the Enterprise Sector for future prospects in FDI).

Domestic private investment. After four years of continuous decline, private domestic investment (as share of GDP) increased in 2000, reaching its highest level since 1995. Around 14,000 new private SMEs have registered in 2000, compared to 3000 registrations a year for the last three years; this pace has been maintained in the first quarter of 2001 when another 4000 SMEs have registered.

Recent surveys also confirm rising domestic investor confidence in the economy. In a survey of senior executives in Vietnam carried out by *Vietnam Investment Review*, 69 percent of the respondents said that their financial performance would be "far better" or "slightly better" in 2000 than in 1999. For 2001, 85 percent believed that their firm's financial performance would show strong or moderate growth. This mood is also reflected in the recent upgrading of Vietnam by Moody's Investors Service.

External Sector

The external current account was marginally in surplus in 2000, though it is projected to result in a deficit of around $300 million in 2001. This is because the export growth rate in 2001 is likely to be much lower than in 1999 and 2000 (around 7-8 percent), as oil prices slump and world markets slow down sharply this year.

Export Earnings Growth. Total export earnings grew by 25 percent in 2000, led by oil -- but non-oil exports also grew by a robust 16 percent, the same as in 1999. there are signs of a significant slowdown in the first quarter of 2001. This is not only due to the declining oil prices. Non-oil export growth in the first quarter of 2001 is only 16 percent compared to 25 percent for the same quarter in 2000. The situation is even bleaker for manufactured export growth, with growth of only 1 percent this quarter relative to 29 percent in the same quarter last year.

The rising oil prices led to impressive export earnings, but the exported volume only grew by 4 percent (see Section V on Trade for further details on export performance).

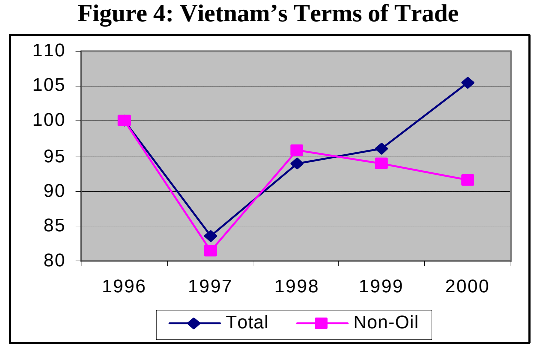
Table 6: Export Earnings Growth (%)

	1999	**2000/e**
Oil exports	69.7	67.5
Non-oil exports	16.3	16.1
Total Exports	23.4	25.4

Source: *Customs Office*

Terms of Trade. Oil price increases improved Vietnam's overall terms of trade (see Bank estimates of terms of trade in figure 4, measured as a ratio of export prices to import prices).

Figure 4: Vietnam's Terms of Trade



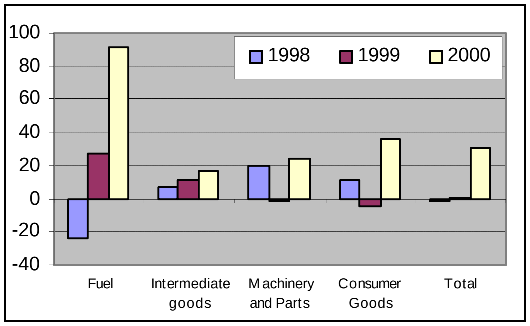
Source: *GSO and World Bank estimates*

However, "non-oil terms of trade" worsened as export prices of commodities fell for the second year.

[4] Nam-con-son gas pipeline project of $1.4 billion and BOTs in Phu My 2.2 and 3 of $850 million augur well for inflows over the next three years.

Imports grow rapidly. After increasing by just 1 percent in 1998 and 1999, the dollar value of imports in 2000 rose by 34.5 percent, in part due to a rise in petroleum product prices but also due to volume increases. Also, import restrictions, imposed in 1998 and in 1999, following lower foreign investment inflows and weak exports, were lifted in 2000, permitting significantly higher non-oil import growth.

Figure 5: Annual Import Value, % change

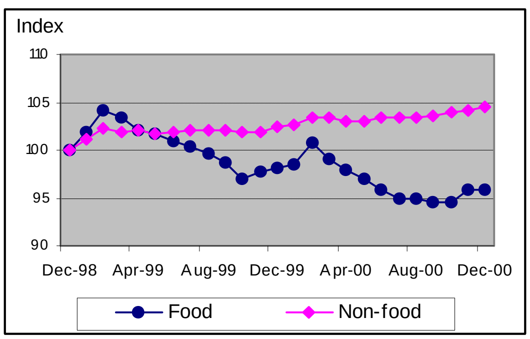


Source: *Customs Office*

Petroleum products' import volume grew by around 19 percent, a good sign of the recovery in demand. Imports of intermediate goods and machinery also rose. The expansion of export industries and a pick up in domestic investment generated the additional import demand. Consumer goods imports also rose with increasing consumer confidence.

Prices

Figure 6: Monthly CPI (Dec 1998 = 100)



Source: *GSO and WB estimates*

There has been little inflationary pressure in the economy notwithstanding the recovery and the expansionary monetary and fiscal policies. Year-on-year inflation fell to near zero by end-1999 and was negative 1 percent by end 2000. This reflects falling food prices, given two years of consecutive bumper rice harvests and falling rice prices in world markets (food prices account for 60 percent of the current CPI and rice comprises most of the food basket).

Non-food prices, on the other hand, rose by 2.4 percent by end-1999 and around 2 percent in 2000 suggesting the absence of deflationary pressures. This development has implied continuing declines in the relative price of food, especially rice, adversely affecting farmers' terms of trade and real incomes.

Monetary Policy

Domestic credit growth. State Bank of Vietnam (SBV) adopted expansionary monetary and domestic credit policies in 2000. Broad money grew by about 20 percent in 1999 and almost 40 percent in 2000. The expansion was fueled not only by foreign currency deposits arising from large remittances by overseas Vietnamese, but also by a substantial loosening of domestic credit. Domestic credit growth reached 38 percent in 2000. There are signs that SBV is slowing down credit growth in 2001.

Rapid expansion of domestic credit, especially through SOCBs, has probably worsened their financial health given their weak and financially vulnerable situation. Weak capital bases, inadequate credit-risk assessment processes and high levels of non-performing loans (see Section V. on Banking Reform) suggest that SOCBs' balance sheets are likely to have deteriorated significantly.

More flexible interest rate policy. In 2000 SBV introduced a more flexible interest rate policy, allowing commercial banks more discretion in the pricing of their loans. In the first half of 2000, the administered interest rate ceiling of 0.85 percent per month was replaced by an interest rate band with a SBV base rate of currently 0.70 percent per month. Credit institutions are now allowed to offer any interest-rate up to the new ceiling rate (i.e. ceiling is the base rate plus 0.3 percent for short-term loans and plus 0.5 percent for medium- and long-term loans). Thus banks can price their loans below the SBV base rate for their prime customers and higher rates for non-prime customers, subject to that ceiling.[5] Foreign currency lending is anchored in the Singapore interbank market. SIBOR is the anchor or base rate and banks can price their loans subject to a cap provided by SBV. This system limits the highest interest-rate a bank can charge, but provides flexibility to price risk below that rate.

Exchange rate policy

In 2000, as imports rose, signs of foreign currency shortages emerged. As the interest differential between deposits of dollars and dongs moved against

[5] Some of the foreign banks were charging 0.4 percent per month for their prime customers.

the latter, pressures on the exchange rate emerged. Despite these developments the exchange rate only depreciated by 3.4 percent against the dollar for the whole year. Two measures have helped ease the tension. First, a share of the receipts from crude oil exports was transferred from the budget to the State Bank of Vietnam (SBV). Second, restrictions on the use of letters of credit were eased, encouraging deferred payment. The daily exchange rate is set as a weighted average of the previous day's rates on the inter-bank market - which is itself only allowed to fluctuate within a daily band of 0.1 percent.

Fiscal Policy

Expansionary fiscal policies in support of the recovery were adopted in 1999 but implemented mostly in 2000. Capital expenditures, especially for rural infrastructure, were increased. In addition, the Government increased civil servants' salaries by 25 percent, without reducing employment thereby raising current expenditures. Social sector spending in education and health was also higher (see table 7)

Table 7. Fiscal Summary, 1999-2000

Share of GDP (%)	1999 Est.	2000 Prel.
Total revenues & grants	**19.8**	**20.4**
Tax revenues	16.3	16.6
Non-tax revenues	2.8	3.3
Grants	0.6	0.4
Total expenditures	**20.6**	**22.2**
Current expenditures excluding. Interests	13.3	14.7
(social sector expenditures)	(6.4)	(7.1)
Capital expenditures (exc. on-lending)	6.7	7.5
Interests (paid)	0.6	0.7
On lending	1.8	1.8
Overall Balance (exc. On lending)	**-0.8**	**-1.8**

Source: *MOF and World Bank estimates*

Fortunately overall revenue collection for 2000 was higher than projected due to the windfall revenue from oil. Non-oil tax revenue continued to perform poorly.

SECTION III. THE ENTERPRISE SECTOR

This section gives an overview of developments in the corporate sector, specifically state-owned-enterprises (SOEs) and private enterprises (both domestic private SMEs and foreign-invested enterprises) as well as the reform measures that were adopted or implemented by the Government in 2000 and in the first quarter of 2001.

State-Owned-Enterprises

The first round of substantive SOE reforms took place during 1989-93 when the number of SOEs was halved form 12,000 to 5800. SOEs have grown considerably since then -- though growth was not efficient as the current state of the SOE-sector attests. In 1999 SOEs accounted for 30 percent of GDP, 42 percent of industrial output, and 50 percent of exports. The sector absorbed nearly half the bank credit and employed around 1.6 million people, or 4 percent of the workforce. By end 1999 total SOE debt stood at 199 trillion dong, roughly a third of GDP.

Most SOEs are not competitive. Declining sales during 1998 and 1999, coupled with high costs have led to large financial losses, financed mainly with bank loans. This has led to a substantial build up in debt by the SOE sector – a large part of which is not being serviced, thereby weakening banks' asset quality (see Section IV on Banking Reform).

With the impending trade liberalization under AFTA and the USBTA over the next three to six years, SOE reform has become urgent for safeguarding fiscal stability, freeing up budgetary resources for other important areas of Government spending and of course, the survival and sound growth of the SOE sector.

Key Developments

Equitizations. The Government began to implement the equitization-component of the SOE reform program before the comprehensive program had been developed and adopted. Around 450 equitizations have been completed cumulatively, of which 428 were completed since 1998; only 17 were done prior to1998.[6] The bulk of these equitizations sold more than 65 percent of shares to non-state shareholders, thereby shifting control of these SOEs to non-State shareholders (see table 8). Nevertheless, the pace of completed equitizations has fallen short of the Government's ambitious target, set as early as 1998.

[6] Official media figures on equitizations are higher than in Table 8 because they use a less comprehensive definition of equitization by referring to all SOEs where the relevant authority has decided to equitize the SOE.

Table 8: Completed SOE Equitizations

	1998	1999	2000
"Major" equitizations*	27	117	142
Other Equitizations	25	34	83
Total	**52**	**151**	**225**

* Equitizations with >65 % of shares sold to non-state shareholders; other equitizations sell less, with many selling more than 51%. In all cases transactions are completed and enterprises registered under the Enterprise Law.

Outright sale and/or transfer. Though improvements in the legal framework for SOE reform in 1999 (i.e. decree 103) have expanded the menu of applicable techniques to change the ownership structure of the sector, only few of such transactions have been completed. The legal framework now provides for smaller SOEs (with capital less than 1 billion VND), to be sold entirely to one owner directly or using auction. Also, small loss-making SOEs can be transferred to employees free of charge, conditional on the enterprise being turned around. Nearly a dozen SOEs are being processed for such sale and transfer.

Liquidations. Chronic loss-making enterprises are to be liquidated. However, despite some strengthening of the legal framework and institutions, serious deficiencies prevail. Only few loss-making enterprises have been liquidated to date, though more are planned.

Diagnostic audits. Operational reviews or diagnostic audits of large SOEs have been initiated with Danish and Australian funding. At present such audits are being conducted for 5 SOEs and another 25 have been selected for these operational reviews under Japanese PHRD funding.

Restructuring General Corporations. Consultants have already completed a preliminary report on the three General Corporations – Vinatex, Vinacafe and Seaprodex. Fuller analysis, as well as development of a detailed restructuring-plan, is expected to start in the second half of this year.

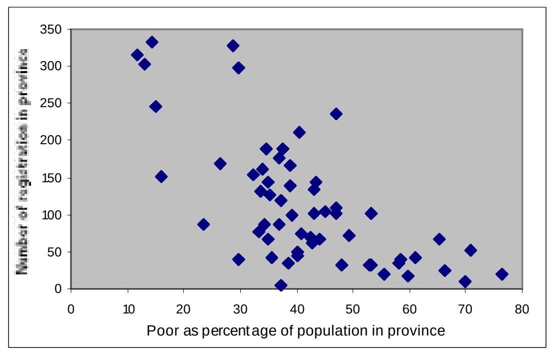
Information system on SOEs. The existing system of information on SOEs is being strengthened and extended in three ways. First, the existing annual database on 5571 SOEs is being strengthened and officials trained to produce reports for higher level decision makers. Second, an expanded annual database is being developed for 300 large SOEs, so that detailed appraisal and evaluation can be carried out using that data. Third, a quarterly monitoring system is being set up for a pre-selected 200 highly-indebted SOEs to provide information on credit and budgetary support to those SOEs.

The Domestic Private Sector

In 2000, more than 14,400 private small and medium sized enterprises (SMEs) registered under the new Enterprise Law, compared to just 3000 registrations a year, for the last three years.

Though nearly 60 percent of the newly registered enterprises were located in either Ho Chi Minh City or Hanoi, 55 out of the 61 provinces reported more than 25 new registrations and 44 of them reported more than 50 registrations (see figure 7). In view of the general teething troubles that any new legislation has in the first year of implementation, especially in poorer provinces, the initial private SME growth has had a relatively favorable regional distribution.

Figure 7. Distribution of new registrations across provinces 2000



Data for HCMC and Hanoi excluded from chart due to scale. Registrations in these provinces were 5498 and 2312 respectively. *Source*: MPI and Bob Baulch (forthcoming).

Some provinces with a greater incidence of poverty than the national average (i.e. greater than 37 percent) are home to many of the newly registered enterprises, and thus benefit from this expansion of the domestic private sector. More work is currently being done to assess the characteristics of this SME growth spurt.

Domestic private participation in trade increases. Between 1997 and 2000, the number of domestic private enterprises engaged in trade rose five-fold. As a result the share of private domestic firms has increased from 4 percent to 16 percent of total imports, and from 10 percent to 17 percent of total exports (see table 9). The domestic private sector's participation in non-oil exports is 22 percent, reflecting the dominance of FDI in oil exports.

Table 9: Domestic Private Participation in Trade

Domestic private sector share in	1997	1999	2000
Imports (%)	4	14	16
Exports (%)	10	15	17
Non-oil exports (%)	12	18	22

Source: *MPI and various*

Total non-oil exports grew by 42 percent from 1997 to 2000. With a growth rate of 161 percent from 1997 to 2000, non-oil exports by private domestic firms accounted for 46 percent of the increase (see table 10).

Table 10: Non-Oil Export Growth, 1997-2000

	3-Year Export Growth (%)	Distribution of Export Growth (%)
State-owned enterprises	4.5	7.1
Foreign-invested enterprises	84.8	47.2
Non-state enterprises	160.5	45.7
Total	**41.6**	**100.0**

Source: *Customs Office and MOT*

The Foreign Invested Sector

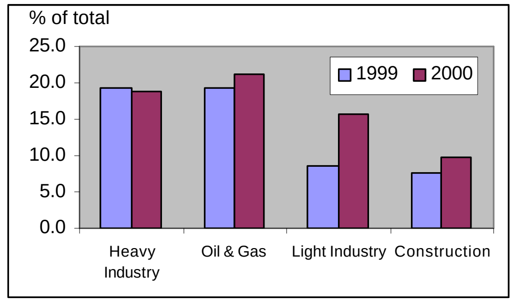
FDI inflow in the 1990s. The number of foreign-invested projects rose twenty-fold in the 1990s and the share of 100 percent foreign-owned projects, though small in the early years, has risen to 43 percent. Nearly a third of total industrial output is now produced by foreign-invested enterprises.

FDI inflow peaked at $2 billion each year during the 1995-97 period, a peak that was exceptionally high both as a share of GDP and per capita. The East Asian crisis led to a precipitous fall in such inflows in 1998 and 1999 to around $700 million a year, and is yet to recover.

In 2000 and first quarter of 2001, FDI inflows stagnated. Only three large and lumpy FDI projects in energy were signed in late 2000 and early 2001(i.e. Nam Con Son gas pipeline project of US$ 1.6 and the first-ever BOT projects in power generation of $800 million). These are expected to generate FDI inflows of nearly $2.5 billion during 2001-03 period. This together with USBTA-induced foreign investments in manufactured exports is likely to reverse the 1998-2000 trend.

According to official figures in 2000, the "USBTA-effect" may already be starting to show, as labor intensive FDI (services, light industry, food & agriculture, and construction) increased by 32 percent over 1999 –mostly due to investment in light industry (see figure 8).

Figure 8: FDI Implemented by Sector



Source: *MPI*

Policies

In 2000, three policy changes and a decision on BOT helped to improve the outlook for private investment considerably. First, the Enterprise Law, together with the implementing decrees, and the abolition of licensing requirements for domestic companies in 145 different trades, industries and services, opened up domestic private entry into many sub-sectors, generating the SME response discussed above. Second, the National Assembly revised and modified the Foreign Investment Law and issued Decree 24 and Circular 12 to implement that revision. The changes in foreign investment rules include the following:

- *Registration instead of licensing.* Export oriented foreign investment can be established on the basis of automatic registration (instead of the process of discretionary licensing and approval).
- *Government guarantees***.** The new law provides for the Government to issue specific project related guarantees. Complex financing of infrastructure projects, can now get the guarantees that are needed.
- *Better access to foreign currency.* Trading rights for foreign investors have been relaxed by permitting foreign-invested enterprises to purchase foreign currency from commercial banks for the purpose of making payments for current transactions.
- *Mortgages by Banks.* Banks operating in Vietnam (including foreign bank branches) can take mortgages over land use rights and assets attached to the land.

- *Overseas Vietnamese investors encouraged.* The remittance tax rate for overseas Vietnamese investors is reduced to the lowest applicable rate of 3 percent.
- *Conversion/ corporate restructuring allowed.* It is recognized that businesses may find it appropriate to convert or restructure invested capital e.g. by changing investment form, merging, consolidating or dividing. Such actions must now be approved by the investment license issuing body within 30 days.
- *Corporate governance improvements.* Now unanimous consent by the board of management of a joint venture is required for far fewer items, thereby reducing the potential for deadlock in decision making.

Third, the Vietnam-US bilateral trade agreement (USBTA) was signed, holding the promise of new export opportunities in the world's largest market (especially in labor-intensive manufactures), and thus new investment opportunities for both domestic and foreign investors. Fourth, as mentioned above, approval of the first-ever BOTs in power-generation have established a framework that future BOTs can follow with low transactions cost, opening up private participation in infrastructure.

SECTION IV. BANKING DEVELOPMENTS AND REFORMS

The first round of banking reforms in Vietnam during 1988-91 separated commercial banks from the central bank, and allowed entry of joint stock banks (JSBs), joint venture banks and foreign bank branches (see Table 11). While the structure of the banking system has been diversified and financial deepening has improved, the current banking system is considerably behind those of the region. Total bank credit does not exceed 22 percent of GDP and bank deposits does not exceed 8 percent of GDP – substantially lower than other countries in the region. Also the four state-owned commercial banks (SOCBs) have continued to dominate total lending and policy lending, continued to be the bulk of SOCB lending.

Table 11: Structure of Banking System

	1990	1994	1999
SOCBs	4	4	5
JSBs	0	36	48
Joint venture banks	0	3	4
Rep. Offices and foreign bank branches	0	41	103

Sources: SBV and Vietnam Development Report 2001, World Bank (2000).

The reform program comprises of four parts:

(i) *Improving and strengthening the legal, regulatory and supervisory framework* under which banks operate. This will secure transparency and accountability so that all banks have incentives to become competitive. To achieve this loan classification, and loan-loss provisioning will be brought in line with international standards and, a legal framework for creditor rights and asset resolution will be established;

(ii) *Leveling the playing field for all banks***.** As SOEs have mostly serviced the state-owned sector, service of the private sector has been mostly left to JSBs and foreign banks. Unfortunately these have not been able to rise to the challenge – for the JSBs due to mismanagement and low depositor confidence and for the foreign banks due to discriminatory regulations.

(iii) *Restructuring 48 joint-stock-banks*, by closing, merging or rehabilitating them to around half their current number. Lax and weak regulations and supervisions have allowed several JSBs to fail. The current cleaning up of the JSB sector is expected to be finalized in 2002.

(iv) *Restructuring state-owned commercial banks*, making them operate on a commercial basis. The Government will undertake IAS audits of all four major SOCBs before the end of 2001. SOCBs will be re-capitalized and their balance sheets cleaned of bad loans, as they meet performance targets.

Key developments

Regulation and supervision. SBV has issued regulations on the organization and operations of the State Bank Inspectorate, which is to supervise the sector. Setting up the surveillance and regulations body is a first step towards creating and nurturing a sound banking system. In 2000 13 JSBs were placed under special supervision/control by SBV.

The Ministry of Justice has pledged to set up the structures for registering transactions in collateral. The system should become operational by 2002 and will greatly encourage executions of mortgages and secured transactions.

Operations and activities. In 2000 the Government issued Decree 49. It is claimed to be the most significant regulation on banking activities since the Law on Credit Institutions from 1997. Most significantly the decree establishes that control with, and notably responsibility for, the credit cycle lies with the individual bank. The functions and responsibilities of different committees and bodies within banks are clarified and in some instances specific duties and procedures are listed. This is expected to enhance organizational transparency and corporate governance of banks. Better corporate governance will contribute to improving public confidence in banks.

Decree 49 also allows banks to complement their current product lines with non-core services. This will help banks diversify their income sources away from traditional credits, guarantees and L/Cs on which they are now dependent. It will also provide the corporate sector with the kind of services that are available in other countries.

Regulations that improve loan procedures in commercial banks have been implemented. A more comprehensive viability and feasibility study must now go into banks' credit and loan decisions. This is expected to improve efficiency, contribute to commercializing bank behavior, and halt the flow of bad loans into banks' balance sheets.

SBV has finalized a decree that allows all credit institutions in the country to make unsecured loans. Formerly only state-owned banks were allowed to issue unsecured loans to state-owned enterprises.

Interest rates have been liberalized. The interest on dollar deposits is now based on the SIBOR, while the interest rate on dong deposits is allowed to fluctuate within a band. This will make it easier for banks to price loans according to credit risk.

Technical Assistance for Banking Reform

The formulation and initial implementation of the Government's banking reform program has been supported by technical assistance grants from various donors, many of which are administered by the World Bank (see Annex 3). Further technical assistance is now being mobilized for implementation of the banking reform plan that has recently been adopted by the Government.

Technical Assistance IDA Credit: An ongoing "Payment System and Bank Modernization Project" is currently assisting the SBV and the six of the largest banks to improve the payment and settlement system in Vietnam through the provision of an inter-bank and 6 intra-bank networks.

SECTION V. TRADE, DEVELOPMENTS AND POLICIES

Between 1991 and 2000 the dollar value of imports and exports increased almost 7 times, raising the share of exports in GDP from 25 percent to 46 percent. The structure of exports also changed as the share of manufactures in total exports rose from 14 to 37 percent over the same period.

Key developments

Manufactured exports slowdown. In 2000, growth in manufactured exports fell sharply to 15.6 percent from 32.2 percent in 1999 (see table 12) and this trend has been accentuated in early 2001.

Table 12: Increased Openness

Value in US$ b llion	**1991**	**1997**	**:000/e**
Exports	2.1	9.2	14.4
Imports	2.3	11.6	15.6
Exports/GDP (%)	25.2	37.9	46

Source: *GSO and World Bank.*

Manufactured exports grew by only 1 percent in the first quarter of 2001 compared to 29 percent in the first quarter of 2000, with garments and footwear items hit the hardest. This means that manufactured export growth in the whole of 2001 is likely to be sharply lower than 2000.

Table 13. Growth of Selected Non-Oil Exports

	1999 (%)	2000 (%)
Agriculture	5.6	-9.8
Mining	-5.2	2.7
Seafood	16.3	55.5
Manufactures	32.5	15.6
of which:		
- Garments	29.3	8.3
- Footwear	39.1	5.2
- Electronic & computer goods	23.5	33.8
Total Non-oil Exports	**16.2**	**16.1**

Source: *World Bank and Customs Office*

Agricultural export growth. Depressed world prices of agricultural commodities, has dampened growth of agricultural export earnings. Especially rice and coffee prices remained low in 2000.

Destination of non-oil exports in 2000. Of the growth in total export earnings in 2000, 60 percent was attributable to exports to Asian markets outside ASEAN i.e. mainly Japan and China (see table 14). The U.S. market also expanded significantly – although from a low level.

Table 14: Total Export Growth by Markets in 2000

	Growth	Share	Distribution of Incr. Growth	Contribution To growth
ASEAN	6.2	18.1	5.2	1.3
Non-ASEAN Asia	42.6	40.8	60.1	15.3
Europe	7.9	22.1	8.0	2.0
US & Canada	39.6	5.8	8.1	2.0
Australia & NZ	55.0	8.9	15.6	4.0
Total	**25.4**	**100.0**	**100.0**	**25.4**

Source: *Customs Office*

Seafood export earnings growth in 2000 was highest to North America, and Non-ASEAN Asia (see table 15).

Table 15: Growth of Major Export Articles in 2000

	Seafood	Garments	Footwear
ASEAN	8.4	-9.4	19.0
Non-ASEAN Asia	49.1	34.6	3.4
Europe	17.9	2.8	11.1
US & Canada	144.2	32.5	-17.2
Australia & NZ	27.9	34.0	14.8
Total	**55.5**	**8.3**	**5.2**

Source: Customs Office

Policies

Removal of QRs multilaterally. In the year 2000, quantitative import restrictions were removed on a multilateral basis on 8 groups of products. Those were: fertilizer, liquid soda, ceramics and glass consumer goods, plastic packaging, DOP plasticizer, sanitary-ware, electric fans, and bicycles.

Timetable for further removal of QRs have also been announced through the five-year import export program. Thus QRs on remaining types of steel, construction glass, cement, vegetable oil, paper and ceramic & granite tiles will be lifted in phases by early 2003.

AFTA. To meet AFTA requirements, the Government has adopted a detailed annual road map for tariff reductions and phasing out of quantitative restrictions vis-à-vis ASEAN countries between 2001 and 2006. The key characteristics of this AFTA road-map include the following:

- *Overall tariff reductions*. Tariffs on the vast majority of tariff lines (95 percent, according to preliminary estimates) on ASEAN imports will be reduced to at most 20 percents by the start of 2003, and to 0-5 percent by beginning of 2006.
- *Tariff reductions on manufactures***.** By early 2004 average tariffs on manufactures from ASEAN countries will be cut by 50 percent.
- *Reduced average tariffs.* By early 2004, average tariffs on ASEAN imports of textiles, leather, wood products, non-metallic mineral products (e.g. glass and ceramic products), and food products will fall by more than 60 percent.

The U.S. Trade Agreement. In July 2000, Vietnam signed the long-awaited bilateral agreement with the U.S. establishing "normal" trade relations. After ratification by the U.S. Congress and Vietnam's National Assembly, Vietnamese exports will have "normal" (MFN) access to the U.S. market. In addition, over a period of 3 to 7 years Vietnam will cut tariff rates and reduce non-tariff barriers over a wide range of products, open up areas of the service sector to greater foreign investment, and generally ease investment rules. The agreement, which represents an important step towards the objective of WTO accession, includes the following key measures:

- *Liberalizing trading rights* for U.S. firms in three to six years.
- *Reducing current tariff rates* on a limited range of industrial and agricultural items (about 250) by 30 to 50 percent over three years.
- *Removing QRs* on most products in three to seven years -- steel and cement after six years and petroleum products after seven years.
- *Opening up the services sector*. Vietnam will be providing more market access than low and middle income countries under the Uruguay round and only slightly less than the larger transition economies.
- *Freeing entry in banking services*, by allowing U.S. equity in joint ventures (with up to a 49 percent stake) once the agreement becomes effective. After nine years 100 percent U.S. owned subsidiary banks will be allowed to operate in Vietnam. In addition, U.S. equity in privatized Vietnamese banks will be allowed at the same levels as Vietnamese investors. Finally, in eight years U.S. banks will be permitted to

accept dong deposits from business clientele and after ten years from retail depositors.

- *Non-bank financial services*. 100 percent U.S. equity in financial leasing and in other leasing will be introduced after three years.
- *Insurance*. Joint ventures will be able to start up in three years time; 100 percent U.S. equity insurance will be possible in five to six years.
- *Other services*. Immediate introduction of 100 percent U.S. equity in a range of technical services, including in legal, accounting, engineering, computer-related, and construction areas.
- *Trade-related investment measures*. All WTO-inconsistent measures (e.g. local content requirements) will be phased out within five years.
- *Intellectual property rights*. WTO-consistent protection of intellectual property rights are to be introduced in 12-18 months.
- *Transparency*. All laws and decisions governing issues in the agreement will be published; administrative or judicial tribunals for review will be established, as will the right of appeal.

SECTION VI. PUBLIC EXPENDITURE MANAGEMENT

Vietnam has implemented significant improvements in public expenditure management and in transparency of public spending by implementing the Budget Law in 1997, removing the secrecy of budgetary information and publishing the budget for the first time in 1999 and undertaking a participatory public expenditure review (PER), jointly with donors, in 2000.

In fact, the existing public expenditure management system performs well in respect of the following: (a) making relatively reliable forecasts of revenue every year; (b) keeping aggregate spending in line with available public resources, even when there is a decline in the GDP share of revenue; (c) ensuring that actual spending is in line with the budget in each sector, with rare deviations; (d) implementing checks and verifications of quarterly expenditures limits; and (e) achieving relatively strong impacts in the sectors relevant to poverty reduction, as evident from sectoral outcomes.

The joint government-donor PER, *Managing Public Resources Better*, presented to the Consultative Group of donors in 2000, confirmed these features and identified the following weaknesses that need to be corrected: (i) data recording and reporting is not consistent nor timely, in part because the classification and accounting systems used are not uniform across sectors, and because responsibility for reporting/recording government's accounts is not located in the treasury in MOF; (b) there is limited within-year monitoring of actual line item expenditures by first and second levels of a ministry, the treasury, and the state budget department, because such data is not available; (c) budgetary spending data is not comprehensive in the sense that it excludes "off-budget" accounts and a share of the ODA-funding; (d) detailed budgetary information is not accessible for the public at large nor is it easily available to all government agencies (including local authorities and sector ministries);[7] (e) budget formulation and execution processes do not integrate the recurrent and capital spending sufficiently, creating imbalances in various sectors; (f) existing allocation processes (e.g., norms for recurrent social spending and norms for transfers from state to poor provinces) are inadequately designed to ensure equity across regions and provinces.

The Government has adopted a set of measures to improve public expenditure management as indicated in the summary of the PER. In February 2001, the Government developed a detailed Matrix of Public Expenditure Actions with a timetable for the next two to three years and presented it to the Donor-Government-NGO workshop as the basis for all future reforms and technical assistance. Donors expressed strong support for this initiative and agreed to provided indications of their interest using this matrix. These indications and further progress in implementation are to be discussed at the next joint Donor-Government-NGO public expenditure working group to be held in May 2001.

SECTION VII. WORLD BANK GROUP SUPPORT TO GOVERNMENT'S REFORMS

The World Bank Group's strategy has been designed to support Vietnam's transition to a more efficient, market-based development path, with a strong emphasis on social equity, poverty reduction and rural development. The last full Country Assistance Strategy (CAS), prepared during the East Asian crisis, was built around the Government's agenda of "restoring the momentum of growth, and improving

[7] However, an earlier joint-Bank-Fund report *Towards Fiscal Transparency* (World Bank 1999) identified a medium-term program for increasing budgetary transparency. Initial steps, such as removing the budget from the secrecy law and doing a participatory PER, have been taken over the last two years.

the quality of development" and envisaged analytical and technical advise to Government's formulation of a multi-year reform program as well as financial assistance to finance the costs of reform.

Bank's Economic Work. Analytical and technical advise has been provided through the Bank's own economic and diagnostic work as well as technical work of consultant's funded by numerous bilateral donors (see Annex 3 for details). On the former, the Bank has completed a series of relevant core diagnostic work, in collaboration with the Government. The most recent reports include: *Vietnam 2010: Entering the 21st Century*, November 29, 2000 (Joint World Bank, ADB and UNDP); *Vietnam: Managing Public Resources Better: Public Expenditure Review 2000*, December 13, 2000 (Joint government and donor report); *Vietnam: Attacking Poverty*, November 15, 1999 (Joint government, donors and NGOs), *Vietnam: Preparing for Take-Off* November 30, 1999 and *Vietnam: Private Solutions for Infrastructure Development* December 1999. In addition, a joint ADB-World Bank *Country Financial Accountability Assessment* report is currently being discussed (ADB Volume 1 has already been completed), and a draft *Country Procurement Review* is expected to be finalized in June 2001.

Work under technical assistance grants. On technical work under technical assistance (TA) grants, these have been supported by many bilateral donors like Australia, Canada, Denmark, Germany, Japan, the Netherlands, Sweden, Switzerland and the U.K. among others (see Annex 3 for details of the work done or planned). Many of those grants are administered by the World Bank. The UNDP is providing technical support to the development and implementation of the program in equitization, in developing a management information system for SOEs, in trade and integration, as well as in the development of the private sector legal framework. The ADB has provided grant support for formulating and implementing the program on SOEs, on private enterprise legal framework. The EU is providing technical assistance on accounting and auditing systems as well as in preparations for WTO accession. Several donors have now committed to finance the next round of TA grants for implementation of the reform program and these offers are being coordinated by the World Bank through the joint Donor-Government-NGO working groups on reforms.

Other Bank Group Support. The creation of the Private Sector Forum, managed by the IFC and co-chaired by the Government and the World Bank, which meets prior to the annual and mid-term meetings of the Consultative Group of donors, has facilitated genuine dialogue with the private sector. The Bank Group has also been active in supporting private SME investment mainly through the Mekong Project Development Facility (MPDF). MPDF's work with the SME private sector has been especially promising: it is currently providing technical support to about 30 SMEs, implementing a broad training program for SME managers and bankers and supporting the market in the provision of business development services.

Financial assistance to reforms. The World Bank and the IMF have reached agreement to provide financial assistance to support the Government's multi-year reform program cited in the Government's interim Poverty Reduction Strategy Paper (I-PRSP) and detailed in the Letter of Development Policy and the Memorandum of Economic and Financial Policy. The IMF plans to provide US$368 million over three years under its Poverty Reduction and Growth Facility (PRGF). The World Bank plans to provide financial support in the amount of US$250 million over the next three years under its recently-established Poverty Reduction Support Credit (PRSC).

Box 1: Reforms for Private Sector Development, 1998 – 2000 Q1

Government actions include

1998

- Issuing a new Decree on foreign investment providing additional incentives to foreign investors;
- Initiating the private sector donor dialogue under auspices of the Consultative Group of donors in order to better understand the constraints faced by the private sector, especially foreign investors;
- Amending the Law on Promotion of Domestic Investment, allowing domestic and foreign organizations, and individuals, to buy shares or to contribute capital to domestic enterprises, including equitized SOEs, and provided additional incentives for new domestic investment;

1999

- Approving the Enterprise Law and issuing decrees to implement it, eliminating a number of discretionary restrictions on the establishment of private business (May 99);
- Providing regulations on secured transactions (Decree 165/1999/ND-CP), enabling mortgages of land-use rights and houses, and collateralized lending on the back of assets ranging from materials, machines, and production equipment to bonds, shares, and property rights;
- Providing regulations on the organization and operation of a Development Support Fund (Decree 50/1999/ND-CP on July 8, 1999). The Fund is a point of access for medium and long term development finance for private and public enterprises;
- Revising the Land Law to convert, transfer, lease, provide as collateral and capital contribution of land use-rights to banks or to joint-ventures;

2000

- Implementing the Enterprise Law effectively by revoking unnecessary business licensing restrictions in 145 industries, trades and services, and easing private entry;
- Revising the Foreign Investment Law to create more favorable conditions for foreign investors. Improving access to foreign exchange, allowing mortgaging of land by foreign bank branches in Vietnam (although implementing decrees still not in place), permitting automatic registration for export-oriented foreign investment, and making provisions for the government to issue guarantees for large infrastructure projects;
- Amending the 1993 Law on Petroleum making the investment and regulatory environment for foreign investment in the oil and gas sector more attractive;
- Establishing the first stock exchange center in Ho Chi Minh City, which is dealing in treasury bonds and shares of five listed companies. The government further plans to open the second transaction center in Hanoi and develop the OTC market (Over-the-Counter) for companies prior to listing.

2001 Q1

- Requiring all enterprises and organizations in Vietnam to keep accounting documents in a record system for a compulsory length of time.

Box 2: State Enterprise Reform, 1998 – 2001 Q1

Government actions include

1998

- Issuing Decree 44 to simplify the process of equitization and allow limited foreign shareholding in equitized SOEs;
- Issuing Directive 20 to adopt a wider menu of reform options for SOEs, e.g. outright sale, transfer to employees competitive bidding, for purchasing SOEs on SOE shares, leases, management contract etc.;
- Announcing annual targets for equitizations for 1998 – 2000;
- Equitizing 52 SOEs;

1999

- Completing classification of SOEs into three groups: profitable, temporary loss-makers and permanent loss-makers;
- Issuing decree and regulations for outright sale, transfer to employees, and lease of small SOEs, without requiring conversion of SOEs into joint-stock companies as required for equitization;
- Selecting 100 large troubled SOEs for independent diagnostic audits (i.e. operational reviews);
- Equitizing 151 SOEs;

2000

- Selecting three general corporations (Seaprodex, Vinatex, and Vinacafe) for developing specific action restructuring plans and completing preliminary consultancy work;
- Expanding authority of provinces to decide on divestiture of SOEs with capital up to five billion VND instead of 1 billion permitted before;
- Establishing an Assistance Fund for Restructuring and Equitizing SOEs to finance severance payments, early pension payments and retraining for redundant workers -- minimizing the negative social impact of SOE reforms on workers;
- Adopting a comprehensive five-year SOE-reform plan with annual target for the first three years.
- Equitizing 225 SOEs;

2001 Q1

- Establishing a quarterly monitoring system for 200 large highly-indebted SOEs.

Box 3: Banking Reforms, 1998 – 2001 Q1

Government actions include

1998

- Establishing a Bank Restructuring Committee and initiating restructuring of non-state Joint-Stock Banks (JSBs) in HCM City;
- Issuing regulations for intervening in troubled banks including conditions for "Special Control Regime" of the central bank;

1999

- Completing SBV's financial assessment of all JSBs and independent audits of 4 large SOCBs by international auditors and developing preliminary restructuring plans for all JSBs;
- Closing and merging 4 JSBs in HCM City;
- Issuing prudential regulations for banking operations, financial ratios for safe operation of credit institutions; authority of banking inspectors; deposit insurance and collateral;

2000

- Supplementing the existing legislation for foreign banks with detailed provisions concerning the organization and operations of state owned banks and JSBs, broadening the range of non-core activities (Decree 49);
- Issuing new regulations for operations of banks in respect of calculating provisions against their non-performing loans on a quarterly basis (Decision 488) assigning full responsibility and accountability for all aspects of the credit cycle to banks; requiring loan officers in commercial banks to check not only the capacity of the borrower to repay a loan but also to check the feasibility and viability of the project that is to be financed (Decision 284); lending on an unsecured basis to state owned enterprises and foreign invested enterprises (Decision 266);
- Replacing fully administered interest rates on dollar and dong loans by a more flexible interest-rate system under which the dollar rate is anchored in SIBOR, while the dong rate is allowed to vary around a SBV base rate subject to a ceiling rate (Decision 241 to 244);
- Clarifying provisions for registering secured transactions (Circular 10);
- Issuing regulations for the organization of SBV's supervision of the banking sector -- the State Bank Inspectorate (Decision 270);

2001 Q1

- Adopting a framework for SOCB restructuring;
- Adopting a detailed restructuring plan for one of the four large SOCBs (i.e. Vietcombank) including annual milestones (i.e. actions and targets) that need to be achieved to obtain phased re-capitalization funds from Government.

Box 4: Trade Reform Measures, 1998-2001 Q1

Government actions include:

1998

- Lowering the maximum import tariff to 50 percent (exceptions remain for six groups) and reducing the number of tariff-rates to 15;
- Liberalizing trading rights of domestic firms by allowing them to export and import goods directly, without a license, though residual restrictions remain for importers;
- Allowing private firms to import fertilizer;

1999

- Allocating rice export quotas to non-state firms for the first time (by listing 5 private firms and 4 joint-ventures among the 47 authorized primary rice exporters Decision 273/1999/QD-TTg, December, 24, 1999) and allowing foreign firms to buy rice directly from farmers for export purposes;
- Auctioning 20 percent of garment export quotas;
- Encouraging trading activities by reducing the foreign exchange surrender requirement from 80 percent to 50 percent of foreign exchange earnings (Decision 180/1999/QD-NHNN1, August 30, 1999);

2000

- Removing quantitative import restrictions on 8 out of remaining19 groups of products i.e. including fertilizer, liquid soda, ceramic goods, plastic packaging, DOP plasticizer, ceramic sanitary ware, electric fans, and bicycle (Decision 242/1999/QD-TTg, December 30, 1999, effective April, 1, 2000);
- Signing a bilateral trade agreement with the US in July paving the way for MFN access of Vietnamese exports to the US market, gradual opening up of Vietnam's economy, for goods and services as well as investments;
- Approving a roadmap for AFTA tariff reduction during 2001-2006 wherein most tariff lines will lines will have their tariff reduced to 20% by early 2003 and to 5% by early 2006;

2001 Q1

- Adopting a plan to remove QRs multilaterally by early 2003 on all tariff lines of the following groups of products: clinker, paper, cement, construction glass, remaining types of steel, vegetable oil, ceramic and granite tiles;
- Issuing Decision 46/2001 on the management of exports and imports of goods in the period 2001-2005.

Box 5: Public Expenditure Management, 1998-2001 Q1

Government actions include:

1998

- Publishing 1997 final accounts and the 1999 budget plan by the General Statistical Office, in the form of a freely available booklet;
- Providing fiscal information to international organizations and donors in a GFS-consistent format as well as to all relevant Government agencies (Decision 225 and 1581);

1999

- Improving fiscal management by requiring improved accounting of foreign grants and clarification of roles in management of external debt and in debt monitoring (Decree 90 in 1998 and Circular 22 in 1999);
- Clarifying processes for managing fees, charges and revenues raised and spent by spending agencies;

2000

- Completing and publishing the Public Expenditure Review – Managing Public Resources Better.

ANNEX 2

KEY ECONOMIC INDICATORS, 1997-2001

	1997	1998	1999	2000 Prel.	2001 Est.
Growth Rates (%)					
Real GDP	8.2%	4.0%	4.5%	5.5%	5.0%
Real GDY	9.8%	7.2%	1.4%	7.8%	2.7%
Real GDP per capita	7.8%	5.2%	-0.5%	5.8%	0.8%
Consumer price index (annual avg.)	3.2%	7.8%	4.3%	4.0%	4.0%
Consumer price index (Dec. to Dec.)	3.6%	9.2%	0.1%	-1.0%	..
Debt Service					
Debt service (US$ million)	1,341	1,647	2,056	1,904	2,889
Debt service/XGS (%)	11.5%	13.8%	14.6%	11.1%	15.6%
Debt service/GDP (%)	5.4%	6.4%	7.3%	6.2%	8.8%
Ratios to GDP (current prices) (%)					
Investment	29.8%	20.5%	20.5%	24.0%	25.7%
National savings	22.6%	15.6%	24.4%	25.5%	25.2%
Domestic savings	21.5%	13.8%	22.1%	23.0%	22.9%
Public investment	6.2%	5.7%	6.6%	6.8%	6.7%
Private investment	23.6%	14.8%	13.9%	17.2%	19.0%
Ratio of public/private investment	0.26	0.39	0.47	0.40	0.35
Other Items					
Export growth rates (nominal) (%)	24.8%	2.4%	23.2%	25.2%	8.4%
Exports/GDP (%)	36.7%	36.2%	40.8%	47.3%	47.7%
Export growth rates (real) (%)	13.3%	4.3%	19.7%	17.4%	7.1%
Import growth rates (nominal) (%)	4.1%	-0.9%	1.1%	34.5%	11.7%
Imports/GDP (%)	41.9%	40.0%	37.0%	46.1%	47.9%
Import growth rates (real) (%)	5.3%	5.3%	-2.5%	26.3%	7.9%
Current account balance (US$ million)					
- before official transfers	-1,798	-1,255	1,109	459	-160
* percent of GDP (%)	-7.2%	-4.9%	3.9%	1.5%	-0.5%
- after official transfers	-1,623	-1,057	1,239	599	-20
* percent of GDP (%)	-6.5%	-4.1%	4.4%	2.0%	-0.1%
Gross reserves in weeks of imports	8.0	7.0	9.1	9.1	10.8

Note: Figures are rounded

Source: Actual data: Vietnamese authorities and Bank and Fund staff estimates. Estimates: World Bank.

ECONOMIC WORK FUNDED BY THE WORLD BANK AND BY OTHER DONORS
(recently completed, ongoing and planned)

Reform Areas and Objectives	Key Benchmarks	WB Managed Economic-Work & Technical Assistance	Donor funded and Administered Technical Assistance Work
1. Integrating with the World Economy			
The Government of Vietnam is committed to integration with the region and the world. Over the next three-to-eight years this process will be dominated by implementation of Vietnam's commitments under AFTA and the USBTA, as well as removal of QRs multilaterally and expansion of private participation in exports.	• Implement the US Bilateral Trade Agreement (USBTA) • Implement the approved annual road map for tariff – reductions under AFTA • Implement removal of QRs multilaterally by early 2003 • Prepare for WTO accession	• Study on likely impact of USBTA on Vietnam's exports (completed in 1999 with WB funding) • Study on impact of AFTA on Vietnam's imports and exports (completed in 1999 with WB funding) • Trade Reform in Vietnam (with IMF) • Study on impact of planned trade liberalization on the poor. (ongoing, with AusAID – final report expected in Dec 01)	• International commercial law training program (AusAID) • Assistance on formulation implementation of USBTA (USAID) • Long term vision and strategy for integration (UNDP/UNIDO) • Capacity building for WTO accession and policy advice (Switzerland) • Multilateral trade policy assistance for WTO accession (EU) • Capacity building for MOT (FINNIDA) • Policy advice to PM's Research Group on External Economic Relations (SIDA) • Trade assistance program (New Zealand) • Stocktaking of Vietnam's external

Reform Areas and Objectives	Key Benchmarks	WB Managed Economic-Work & Technical Assistance	Donor funded and Administered Technical Assistance Work
			commitments on trade policy and needed actions by different Government agencies (UNDP)
a. Promoting Exports Though most quantitative restrictions and restrictions on trading rights for exports have been liberalized, there is need to open up exports further for the private firms. Also there is a need to ensure that exporters of labor-intensive manufactures and processed agricultural products have access to imported inputs at world prices and to supports of various kinds.	• Allow more private participation in rice and garment exports by liberalizing quotas • Ensure that customs is supportive of exporters e.g. access to imported inputs at world market prices, ease of shipment, etc	• Export Performance in 1999 and Beyond (for Mid-term CG 2000) • Study on ways of improving the auction of garment export quotas (planned) • Study on export policy and performance to develop a more detailed export strategy for achieving the export targets (planned with AusAID)	• Assistance to the Government on export promotion for specific products (UNDP/ITC) • Web site on Vietnam's economic integration (SIDA)
b. Liberalizing Imports Moving towards a tariff-based import regime and opening up the services sector – more transparent and more accessible to all importers – with domestic prices reflecting world market prices.	• Continue removing QRs multilaterally	• Study on Non-Tariff Import barriers in Vietnam, with case studies of cement, steel, plastics etc (completed in 1999 with AusAID) Studies on: • Impact of planned trade liberalization on key SOE sub-sectors (planned) • Petroleum price & marketing – (ongoing – June 01) • Sugar sector's trade and non-trade policies (with AusAID, June 01)	• Awareness campaigns aimed at provincial leaders and SOE managers (SIDA)
c. Modernizing Customs Comprehensive changes in customs procedures are required.	• Announce a program for computerization of all 142 custom points		• Assistance to upgrade Customs operation (USA)

Reform Areas and Obje tives	Key Benchmar s	WB Manage Economic-Wor & Technical Assist nce	Donor fundec and Administer d Technica Assistance W ork
	points		• Support for modernizing Customs (UNDP)
2. Strengthening the Banking System			
To make the banking system more transparent and accountable and to improve financial intermediation, the Government has adopted a four - track banking reform program, as shown in the key benchmarks.	• Improve legal, regulatory and supervisory framework, and level the playing field for all banks • Restructure joint-stock banks (JSBs) • Restructure State Owned Commercial Banks (SOCBs) • Build capacity and develop human resources in banking	• Advisory services and training materials for SBV (with European ASEM)	• Help SBV prepare long term strategy for the financial sector (ADB) • Support to SBV (GTZ, Germany) • Support to SBV (New Zealand) • Support for training of central bankers (Switzerland)
a. Improving legal, regulatory and supervisory environment Inadequate legal framework for creditor rights, poor regulatory and supervisory framework and weak accounting system have not encouraged prudent and modern banking. There is need to bring banks up to international standards.	• Adopts IAS in commercial banking, including revision of decision 284 to move loan classification and loan loss provisioning to IAS • Implement CAMEL procedures and policies for risk based banking supervision • Start training programs for SBV staff to enhance supervisory skills	• Support to reform of the banking system regulations (with European ASEM) • Support for improving banking supervision by drafting manuals for on-site inspection (with Japan PHRD) and for improving organization (with European ASEM) • Support to expand regulations, especially on loan classification and provisioning (with ASEM)	• Support for banking inspection system (GTZ, Germany) • Support for strengthening banking supervision (planned by SIDA and Austria)
b. Restructuring Joint-Stock Banks (JSBs) Restructuring seeks to ensure that remaining JSBs have larger capital, lower NPLs, better management and improved financial health and are in compliance with existing	• Close 9 JSBs that do not comply with regulations, especially chartered capital requirements • Restructure JSB-sector to reduce the	• Financial assessments & audits of 10 large JSBs (with European ASEM) • Review of the actual closure and merger	

Reform Areas and Objectives	Key Benchmarks	WB Managed Economic-Work & Technical Assistance	Donor funded and Administered Technical Assistance Work
regulations. There are currently 48 JSBs (12 percent of bank liabilities) after recent closure of 3 JSBs. Weak capital bases, related-lending, and high levels of NPLs make them highly vulnerable.	number of JSBs significantly and assess compliance of all JSBs with existing regulations • Ensure level playing field for all banks and promote growth of a sound non-state JSB sector	process for JSBs (with European ASEM) • MIS for monitoring progress in restructuring and improvements in health of JSBs (with ASEM)	
c. Restructuring State Owned Commercial Banks(SOCBs) To move SOCBs away from policy lending to commercial lending and to make management of banks accountable for the performance of their loans. For this purpose, each SOCB will finalize restructuring plans with annual milestones (relating to the key benchmarks) that have to be met, to make SOCBs operate on a commercial basis and to allow their phased re-capitalization over 3 years. The four large SOCBs account for 70-80% of the banking system assets and have only recently begun to move away from predominant policy-lending.	• Complete IAS audits for four SOCBs for 2000, and annually thereafter, to ensure that performance is transparent to all levels of managers and provisioning follows international standards • Phase out policy lending from SOCBs and use explicit MOF guarantees for such lending in the transition. • Establish SOCB-owned AMCs for collateralized bad loans and LWU for non-collateralized loans and develop & achieve debt recovery targets • Implement better credit risk assessment processes and internal audits consistent with commercial banking • Increase lending to non-state sector, especially private SMEs • Implement phased re-capitalization over three years,	• Support to the development of restructuring plans for SOCBs (with ASEM and Japanese PHRD) • Develop a MIS for monitoring progress on achievement of annual milestones and receipt of re-capitalization funds cited in individual SOCB restructuring plans (June 01) • Support to ICBV for establishing various systems indicated in the restructuring plan (with ASEM)	• Support to independent IAS audits of VCB and ICBV for 2000 (USAID and Danida, Denmark) • Support to twinning arrangement for VCB (planned – Netherlands) • Support to establishing internal audit systems in SOCBs (Ongoing - GTZ, Germany) • Strengthen corporate governance of VBARD (ADB)

Reform Areas and Objectives	**Key Benchmarks**	**WB Managed Economic-Work & Technical Assistance**	**Donor funded and Administered Technical Assistance Work**
	conditional on each SOCB meeting its annual milestones in restructuring plans		
	3. Reforming SOEs		
In their current form SOEs pose a serious threat to the growth perspectives of Vietnam. Comprehensive reforms are necessary to stop the drain on public finances and prepare industry for the competition implied by the trade regime Vietnam has signed up to. Implementation of social safety nets for displaced workers must follow hand-in-hand as a prerequisite for the viability of reforms.	• Improve performance accountability of SOE management • A hard budget constraint on SOEs through banks' adoption of commercial criteria for lending • Government's eligibility conditions for debt-relief • Credit ceilings and monitoring of 200 highly indebted SOEs	• Support to National Enterprise Reform committee (completed Danida, Denmark)	• Support to Steering Committee for Enterprise reform and Development (Danida, Denmark)
a. Equitizing and Divesting SOEs to reduce losses and improve governance Diversification of ownership is an important building block to improve management, and gradually cut the ties to Government finance and policy. Equitization of smaller labor intensive SOEs in competitive sectors could yield substantial early gains. Momentum has increased recently.	• Amend Decree 44 to increase transparency and effectiveness of the equitization process, including removal of shareholding caps • Move responsibility for issuing and selling shares away SOE-managers	• Support equitization and divestiture in sector ministries -- MOI, MOC,MARD, MOT & people's comttees i.e. Hanoi (with ASEM European) • Pilot program for small SOE divestiture, including auctions in Haiphong & Dak Lak (AusAID/IFC)	• Support to financial audits of SOEs to be equitized, for listing on the stock market (ADB)
b. Liquidating non-viable SOEs to reduce losses. Substantial resources for other Government initiatives and priorities will be freed up as the loss-making SOEs are liquidated. Progress in this area is slow as the legal framework is cumbersome	• Adopt improved regulations for bankruptcy and liquidation • Complete the set target of 300 liquidations over 3 years		• Support to review of existing bankruptcy and liquidation regulations and their revision (ADB)
c. Restructuring SOEs that remain in Government control For reasons of national security and special interest a number of	• Initiate diagnostic audits of the first 30 SOEs and complete audits of 100 large	• Diagnostic audits of large troubled SOEs (Japanese PHRD)	• Enhancing institutional capacity of key agencies in

Reform Areas and Objectives	**Key Benchmarks**	**WB Managed Economic-Work & Technical Assistance**	**Donor funded and Administered Technical Assistance Work**
SOEs are to remain in Government hands including the General Corporations. It is vital that these receive immediate attention, in order to stop debt build up and bring them on a commercially viable course. Also, economies of scale could be reaped by merging smaller SOEs.	audits of 100 large SOEs in 3 years		agencies in diagnostic audits (ADB) • Diagnostic audits of large SOEs (Danida, AusAID, CIDA) • Pilot restructuring of 3 General Corporations , Seaprodex, Vinatex and Vinacafe (DFID, UK) • Capacity building for management of state Capital and Assets in MOF, including MIS for SOEs (UNDP) • Support to restructuring SOEs in agriculture (GTZ, Germany)
d. Providing financial support to displaced workers to ease transition A total of 400.000 workers with a peak of 100.000 in one year are expected to be displaced as a consequence of reforms. This impact is manageable within budget limits without threatening the inflation objective. The Government has established an Assistance Fund, which among other things is to compensate displaced workers.	• Announce the portion of funds designated for displaced workers • Agree on the size of severance packages • Establish criteria for early retirement /retraining	• Social safety net program (ASEM 1 European)	
4. Promoting the Private Sector			
The private sector is constrained in Vietnam. The recent implementation of the Enterprise law has helped enormously, but more needs to be done.	• Improve overall climate for private enterprises in various ways	• Study on 95 SMEs with more than 200 employees (MPDF)	• Study on economic development policy in the transition towards a market

Reform Areas and Objectives	Key Benchmarks	WB Managed Economic-Work & Technical Assistance	Donor funded and Administered Technical Assistance Work
			oriented economy (JICA, Japan)
a. Improving Private Sector Climate	• Continue removing or modifying restrictive business licensing restrictions in various sub-sectors to ease private entry • Implement the revised law on FDI, especially for automatic registration of export oriented FDI • Top levels of Government should take the lead in speaking well of the private sector in public • Allow formation of private business association	• Study on attracting FDI (completed, IFC) • Study on the private construction industry	• Assistance to CIEM to improve regulatory business environment (UNDP) • Support to monitor business registrations in the provinces every month (UNDP). • Credit and finance for private SMEs (DFID, UK and EU)
b. Facilitating access to and transactions in land-use rights	• Establish registration offices and a national data system for implementing secured transactions • Complete issuing titles to land-use rights • Ease restrictions for converting agricultural land into industrial land		• Support for registration offices and national data system (UNDP)
c. Improving Corporate Governance Reforms are needed at many levels in the corporate sector. In order to change the managerial spirit, financial accountability of managers should be secured - in the largest enterprises by introducing corporate boards. Extended foreign participation in existing and new enterprises also among SMEs will bring more	• Adopt international accounting and auditing systems in phases over the next three years • Enforce the requirement that private SMEs maintain proper accounts	• Support to MOF for preparing various IAS systems	• Vocational training programs on business skills (ADB) • Support for conversion to IAS (EU)

Reform Areas and Objectives	Key Benchmarks	WB Managed Economic-Work & Technical Assistance	Donor funded and Administered Technical Assistance Work
managerial expertise.			
5. Improving Public Expenditure Management			
Timely and coherent budget data is of vital importance to asses the efficiency of public expenditures; for all decision makers in Vietnam; and to enhance the legitimacy of tax collection in the eyes of the public. The Government has embarked on the process towards greater fiscal transparency.	• Designate treasury in MOF as department responsible for maintaining comprehensive public accounts. • Implement a fully integrated MIS and accounting system in treasury • Publish detailed budgets annually at the central and local level, covering at least 75% of total spending	• Public Expenditure Review (with five other donors & government)	• Capacity building in MOF (CIDA) • Treasury Computerization (France) • Review of revising the State Budget Law (GTZ, Germany) • Capacity building for central and local level public spending(UNDP) • External debt management (UNDP and Switzerland)
a. Increasing tax revenue collection Revenue as a share of GDP has decreased in recent years. Reasons include a slowing economy, weakening enterprise performance and some weaknesses in tax administration. Revenue must be increased in order not to put too much pressure on poverty reduction efforts or put the prudent fiscal stance at risk. Planned SOE and banking reform will also require additional revenue to cover costs.	• Implement measures to raise revenue-collections in the medium term • Unify corporate income tax rate for domestic and foreign invested enterprises • Remove discretionary tax exemptions		

Reform Areas and Objectives	Key Benchmarks	WB Manage Economic-Work & Technical Assistance	Donor funded and Administered Technical Assistance Work
b. Improving expenditure management Reforms should aim at simplifying administration while accounting clearly for the use of revenue including foreign grants and loans and disclosing possible future financing gaps. Furthermore the budget should take into account all financial liabilities of the government.	• Prepare a medium-term fiscal outlook, making all assumptions explicit • Make inventory of all "off-budget" funds, accounts and guarantees • Develop reporting and MIS for SOEs		
c. Reallocating expenditures There may be scope for more efficient prioritization of expenditures to promote growth and reduce poverty. Recurrent budget implications of planned capital spending should be enhanced so as to increase over all efficiency. Existing safety nets are not very effective or well targeted to the poor.	• Coordinate capital and recurrent spending between MPI and MOF • Finance fee-exemptions for primary health treatment and education of the poor directly from the state budget • Reallocate within sectors to achieve better balance between capital and recurrent spending		
6. Building Legal Institutions			
Legal documentation is issued by different levels of law, leading authorities to cause conflict, unclear regulations and rules, and delays in implementation. An important task for the government is to provide the market with a sound legal system including institutions to implement and enforce laws, and resolve disputes under them. A sound legal system will reduce the risks associated with, and hence promote, longer term investments e.g. in the manufacturing sector.	• Deepen and strengthen legal reforms • Enforce rules and regulations to avoid corruption and distrust		