VIET NAM

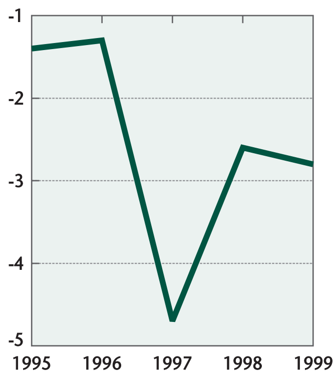
After two years of slowdown, the economy is showing some signs of recovery. Export prospects over the medium term have been boosted with the agreement reached with the US on normal trading rights. The sluggish pace of FDI inflows continues, despite recent policy changes to reverse the trend.

Economic Indicator (percent)	1997	1998	1999	2000	2001
GDP growth	8.2	4.4	4.8	6.0	6.5
Inflation rate	3.6	9.2	-0.2	2.5	5.0
Current account/GDP	-6.5	-4.3	4.0	2.1	-1.6

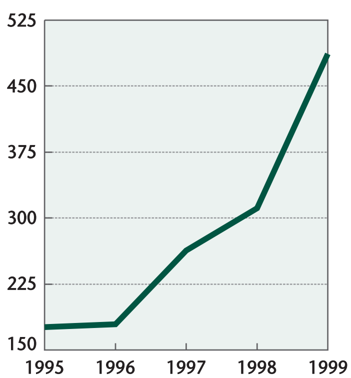
Economic Assessment. During the first half of 2000, the economic recovery in Viet Nam, which began in mid-1999, gained momentum. According to official estimates, GDP growth in the first six months of 2000 was 6.2 percent compared with 4.3 percent during the same period in 1999. This increase in growth was characterized by a strong performance of agriculture, industry, and exports. In the agriculture sector, output from the main winter-spring crop rose by 8.6 percent. The value of industrial production rose by 14.5 percent during the first six months of the year. In the service sector, after two years of disappointing performance, there are now signs of resurgence, with a boom in the insurance market, rising sales of consumer goods, and stronger tourism-related sales. Growing private consumption and domestic investment were most likely the main drivers of GDP growth in the first half of 2000.

External sector developments in the first half of the year were generally encouraging with continued strong export performance and recovery of imports from a two-year slump. Exports registered a growth of 26.2 percent led by an increase in crude oil exports which benefited from rising world prices. Among non-oil exports, garments, textiles, and footwear grew strongly, as a result of greater market diversification. However, agro-export earnings have suffered because of a decline in world prices of Viet Nam's leading primary commodity exports, particularly rice, coffee, and rubber. Import growth, which was sluggish in 1999 at 1.1 percent, was 30 percent higher in the first five months of 2000 compared with the same period of the previous year. This partly reflects higher imports of machinery and equipment. With the recovery of imports in the first half of 2000, the trade balance moved into deficit. Capital account developments remained dominated by the slowing of FDI inflows with investors keeping away because of Viet Nam's eroding labor cost advantage. According to official figures, in the first five months of 2000 foreign investment commitments were 40 percent lower than in the corresponding period of the previous year. The Government is hoping that recently approved amendments to the Foreign Investment Law, which include relaxation of the foreign exchange balancing requirement, will reverse the trend. Foreign exchange reserves as of April 2000 stood at $2.7 billion, 18.5 percent lower than at the beginning of the year, and represented about two and a half months of import cover.

Fiscal Balance/GDP
(percent)



Ratio of Reserves to Short-Term External Debt (percent)



The fiscal stance has been eased since mid-1999 to stimulate demand. The budget deficit (including onlending and excluding grants) widened to 2.8 percent in 1999 and is expected to widen further in 2000. Against conservative projections for budget revenues in 2000 (17.5 percent of GDP, the same figure as in 1999), in the first five months of 2000 revenue collections were generally in line with the Government's full-year target.

Monetary policy continued to be accommodative in the first half of the year, when broad money grew by 14.3 percent, foreign currency deposits by 16.8 percent, and dong deposits in commercial banks by 9.4 percent. Foreign currency lending remained low with many Vietnamese banks depositing their hard currency funds with foreign banks. Dong credit, sluggish in the first quarter of the year, recorded a 10.6 percent increase in the first five months of 2000 compared with a 1.9 percent rise in the corresponding period of the previous year. By the end of June 2000, the inflation rate fell to a negative 2.4 percent, a reflection of falling food and other agricultural prices that have more than offset the rise in nonfood prices. Following the adoption of the crawling peg system in February 1999, the dong depreciated by only 1.5 percent between February 1999 and June 2000. However, the gap between the official and parallel rates widened, due to the emergence of a hard currency shortage.

Structural Issues. The long-awaited trade agreement with the US was signed on 13 July 2000. Viet Nam was has been one of the few countries facing US tariffs that were typically much higher than normal trading status tariffs. Vietnamese exporters could benefit almost immediately, with tariff rates averaging 40 percent being cut to less than 3 percent. The agreement may increase Viet Nam's exports to the US from $455 million in 1999 to around $770 million annually in the next few years. Realizing this potential, however, depends on Vietnamese exporters' ability to reduce costs, improve quality, and ensure stable supplies. Indeed, the trade agreement is a necessary but not sufficient condition to awakening Viet Nam's latent export capability.

Forecast. The outlook for 2000 and 2001 is cautiously optimistic. Real GDP growth in the range of 6.0–6.5 percent can be attained. Inflation is expected to remain under 3 percent in 2000, with prices rising in the second half of the year reflecting acceleration in credit growth. This will bring inflation up to 5 percent in 2001. In contrast to fiscal outcomes in recent years, the deficit is expected to widen to 3.0–3.5 percent of GDP in 2000. With low world prices of rice and coffee, export growth for the whole of 2000 is likely to be around 12 percent. Import growth will probably recover to 16 percent. Consequently, the current account surplus as a share of GDP is likely to shrink to 2.1 percent in 2000 and swing from a surplus to a deficit in 2001. Viet Nam's external debt position is expected to remain sustainable over the medium term.