VIETNAM ECONOMY 2001-2005
AND SOCIO-ECONOMIC DEVELOPMENT PLAN 2006-2010

Dr. **Dinh Van An**
President, Central Institute for Economic Management

1. VIETNAM'S ECONOMIC PERFORMANCE IN 2005

1.1. Economic Growth and Structure[1]

1.1.1. Economic Growth

In 2005, Vietnam's GDP growth rate attained 8.4%, far exceeding the 2004 figure of 7.8%. This is the highest growth rate that Vietnam has experienced since 1997. Vietnam also scored the second highest growth rate (preceded by China) compared to other East Asian countries. High economic growth rate in 2005 enabled Vietnam to fulfill its targeted average growth rate of 7.5% per annum set in the 2001-2005 Five-year Plan.

Bảng 1: GDP growth rate and contribution to GDP growth by sector, 2001-2005

	2001	2002	2003	2004	2005 (est)	2001-2005
Growth rate (%)						
GDP	**6.89**	**7.08**	**7.34**	**7.79**	**8.43**	**7.51**
Agriculture-forestry-fisheries	2.98	4.17	3.62	4.36	4.04	3.84
Industry-construction	10.39	9.48	10.48	10.22	10.65	10.24
Services	6.10	6.54	6.45	7.26	8.48	6.97
Contribution to GDP growth by percentage point						
GDP	**6.89**	**7.08**	**7.34**	**7.79**	**8.43**	**7.51**
Agriculture-forestry-fisheries	0.69	0.93	0.79	0.92	0.82	0.83
Industry-construction	3.68	3.47	3.92	3.93	4.19	3.84
Services	2.52	2.68	2.63	2.94	3.42	2.84
GDP	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**
Agriculture-forestry-fisheries	10.07	13.20	10.76	11.80	9.78	11.12
Industry-construction	53.39	48.95	53.37	50.48	49.71	51.18
Services	36.54	37.85	35.86	37.72	40.52	37.70

Source: GSO and calculations by CIEM.

With the lion's share in GDP and highest value added growth rate (10.65%), in 2005, industry and construction sector continued to make the largest contribution (49.71%

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[1] Unless otherwise stated, all date in this section are provided by General Statistics Office (GSO). The 2005 data are estimated.

or 4.19 percentage points) to the aggregate GDP growth rate. Despites adverse effects of the natural calamities, avian influenza, and market price fluctuations, the agriculture-forestry-fisheries sector experienced an increase of 4.04% and contributed 9.78% or 0.82 percentage points to the aggregate GDP growth rate. The value added of the service sector was estimated to increase 8.8%. The year 2005 saw the highest growth rate of the service sector since 1997 and, for the first time, this rate is higher than the aggregate GDP growth rate. As a result, the service sector contributed 40.25% or 3.42 percentage points to the GDP growth rate, the largest share over the last 5 years (Table 1).

1.1.2. Economic Structure

Structure Shift by Sector

Over the last years, with regard to share of value-added in GDP, Vietnam's economic structure has mainly shifted in agriculture-forestry-fisheries and industry-construction sectors. The share of the former decreased by 3.8 percentage point from 2000 to 2005 while the later went up by 3.7 percentage point respectively (Table 2). During the period of 2001-2005, the structural shift within these sectors were slower than that during 1996-2000. The service sector did not achieve the goal of attaining the share of 41- 42% of GDP,[1] though it is considered to have much opportunities and potentials for development.

Table 2: GDP structure by economic sector, 2001-2005 (%)

	2000	2001	2002	2003	2004	2005
GDP	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**
Agriculture-forestry-fisheries	24.53	23.24	23.03	22.54	21.81	20.70
Industry-construction	36.73	38.13	38.49	39.47	40.21	40.80
Manufacturing	*18.56*	*19.78*	*20.58*	*20.45*	*20.34*	*20.70*
Services	38.73	38.63	38.48	37.99	37.98	38.50

Source: GSO and computations by CIEM.

In the agriculture-forestry-fisheries sector, the structure shift was observed mainly in agriculture and fisheries. The share of the fisheries increased to 18.5% in 2005 from 16.0% in 2001 and that of the agriculture decreased to 75.8% from 78.6% in the respective years. The structure shift was slow in the agriculture-forestry-fisheries sector. So was it in the agriculture: the cultivation was made of 78.6% of the total agriculture production in 2005 as compared to that of 2000 of 81.0% (at 1994 price). The biggest outcome of the structural changes in the agriculture sector was the internal shift within the cultivation sector in direction of reducing the planted areas under paddy for developing other crops with higher productivity and value added.

The value-added share of the manufacturing industry in the industry sector slightly

[1] According the Five-Year Plan, the targeted economic structure in 2005 is as followings: agriculture-forestry-fisheries accounting for 20-21%; industry-construction: 38-39%; and services: 41-42%.

increased from 59.2% in 2000 to 59.7% in 2005;

The structure of the service sector has experienced a slow shift. Almost all of important services, which have potentials to create high value added, have had a small share in GDP (for instance, finance, banking and insurance accounts for less than 2% of GDP in 2005). This circumstance has hindered Vietnam to enhance its competitiveness and foster economic growth, especially in the context of country's more in-depth economic integration in the global market and upcoming WTO accession. In addition, a number of other services such as consultancy on investment promotion, technology, legal service, labor export has yet fully exploited and/or underdeveloped.

Structure Shift by Ownership

In general, the shift in GDP structure by ownership during the period of 2001-2005 remained slow. The state economy has continued to occupy a relatively stable and significant share in GDP. The economic structure shift by ownership mainly took place in non-state and foreign-invested sectors.

In 2005, the share of state sector in GDP changed insignificantly, only decreased by 0.1 percentage point compared to that of 2000 (Table 3). At the same time, the share of the non-state sector in GDP reduced to 45.7% in 2005 from 48.20% in 2000.

The foreign- invested sector demonstrated its greater role as an integrated component of Vietnam's economy. Its share in GDP went up from 13.3% in 2000 to 15.9% in 2005.

Table 3: GDP share and growth rate by ownership, 2001-2005 (%)

	2000	2001	2002	2003	2004	2005
GDP composition (at current prices)	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**
State sector	38.52	38.40	38.38	39.08	39.23	38.42
Non-state sector	48.20	47.84	47.86	46.45	45.61	45.68
Foreign-invested sector	13.27	13.76	13.76	14.47	15.17	15.89
GDP growth rate (at constant prices)	**6.79**	**6.89**	**7.08**	**7.34**	**7.79**	**8.43**
State sector	7.72	7.44	7.11	7.65	7.75	7.36
Non-state sector	5.04	6.36	7.04	6.36	6.95	8.19
Foreign-invested sector	11.44	7.21	7.16	10.52	11.51	13.20

Source: Data from GSO and computations by CIEM.

1.2. Investment[1]

1.2.1. Investment Performance

In 2005, the value of total social investment at current price is estimated at 326 trillion VND, being equivalent to 38% GDP. At constant price, the total social investment in 2005 only increased by about 10.5%, lower than 11.6% of 2004. Of the three economic

[1] Except noted otherwise, the data in this part are mainly provided by the Ministry of Planning and Investment.

sectors, the FDI recorded the most rapid increase of about 16.4%, nearly 2.8 times higher than that of the state investment; the non-state sector investment experienced a slightly lower growth, increased by 15.7%; the state investment only increased 5.9%, thus, the share of this sector decreased faster than that of 2004.

While remaining the most important investment source of the economy, the state investment capital had a declining share from 59.8% in 2001 to 51.5% in 2005 (Table 4). This is a positive signal for the emerging market economy, which partly reflects the improvement of the investment environment. The total state investment was estimated at 168 trillion VND, of which the state budget investment contributed about 74 trillion VND, the credit to SOEs - 30 trillion VND, SOEs investment - 50 trillion VND, and other sources - 14 trillion VND[1]. In 2005, Vietnam for the first time issued Government bonds worth USD 750 million to the international market.

Table 4: Structure of investment source by ownership, 2001-2005 (%)

	2001	2002	2003	2004	2005 (est)
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
State investment	59.8	56.3	54.0	53.6	51.5
State budget	26.7	25.0	24.0	25.1	22.7
State credit	16.8	17.6	16.9	16.5	9.2
Investment of SOEs	10.6	7.8	9.3	9.1	15.3
Other mobilized funds	5.6	6.0	3.9	2.9	4.3
Non-state investment	22.6	26.2	29.7	30.9	32.2
FDI	17.6	17.5	16.3	15.5	16.3

Source: GSO (2005), data provided by the Ministry of Planning and Investment (MPI).

The sectoral investment structure clearly exhibits the Government's role in the market economy, according to which, the share of state investment in the total social investment allocated to social expenditure increased from 25.4% in 2004 to 27.4% in 2005, mainly from the state budget. The state investment has played a dominant role in improving infrastructure facilities, enhancing the human resource quality, and contributing to economic growth and poverty reduction.

Non-state sector has been the second biggest investment source since 1998. In 2005, the investment capital of the non-state sector went up dramatically and was estimated at 105 trillion VND, which nearly doubled that of FDI. Investment of non-state sector has provided its increasingly important role and great potentials in the country's socio-economic development.

In 2005, the FDI inflow into Vietnam continued its 2004 growth momentum. The newly registered and the extended FDI capital reached USD 5.89 billion, a 36% increase

[1] 'Capital mobilized from other sources' is the one mobilized by the Government through such forms as municipal bond, government bonds, etc. aimed at investment in infrastructure, schools, etc..

against 2004 and the highest figure since 1997. 509 projects were extended their capital during the year with total increase amount of nearly USD 1.87 billion. Total FDI realized capital was about 53 trillion VND, accounting for 16.3% of the total social investment

In 2005, 41 of 65 provinces/cities received FDI, 5 of which were leading with 70% of total registered FDI capital, namely: Hanoi (31.2%), Ba Ria-Vung Tau (17.8%), Dong Nai (10.7%), Ho Chi Minh City (10.2%), and Binh Duong (8.6%). This was the first time ever Hanoi has taken the first place in FDI attraction.

Amongst 43 countries and the territories investing in Vietnam in 2005, Asia represented 50.6% total registered capital, with South Korea ranked third with 13.8% total registered capital, Hong Kong - fourth with 9.6%, Japan - fifth with 9.4%, Taiwan - sixth with 8.6%. European countries shared 21.7% total registered capital, with Luxembourg at the first place with 19.2% total registered capital. Investment from the United States of America (USA) ranked only eighth with 3.6% registered capital. In comparison with 2004, Luxembourg rose up to the lead from 24^{th}, and Taiwan was pushed down to the sixth from the first position.

The foreign-invested sector continued to maintain its position in the development process of Vietnam and actually become an integrated component of Vietnam’s economy. In 2005, FDI contributed 15.9% of GDP, with the share of 57.4% in total merchandise export value, and 12% of the total state budget revenues.

During the period of 2001-2005, total newly registered FDI capital reached USD12.9 billion, surpassing the planned target by 7.5%. The supplementary registered FDI capital amounted to USD 6.85 billion. However, the figure of USD19.7 million of both newly registered and extended FDI capital in the period of 2001-2005 is just equal to 77.5% of total newly funded capital during 1996-2000. The realized FDI during 2001-2005 amounted to USD14 billion, 37% higher than the planned target and 4.5% increase compared to 1996-2000.

In 2005, there were 37 projects invested abroad by Vietnamese businesses with total registered investment capital of over USD 368.3 million, 2.1 times increase in terms of the number and 31.7 times increase in terms of registered capital compared to 2004. The overseas investment capital registered in 2005 was higher than the accumulated figure of the past years.

In general, the mobilization and attraction of investment in 2005, especially private investment and FDI, have made a notable progress, thus significantly contributing to the high economic growth of Vietnam. Overall, in the period of 2001-2005, the total social investment nearly achieved the planned target. Domestic savings have tended to increase and are currently equivalent to 30% of GDP, thus creating a firmer foundation for domestic mobilization of capital and stabilizing macroeconomic balances.

1.2.2. Reasons of the Positive Changes in Attracting Investment and Remaining Issues

The positive changes in mobilization and attraction of domestic and investment have, to a significant extent, been due to comprehensive direction of the Government in gradually improving investment environment, settling difficulties and obstacles for investors, and creating more favorable conditions for business operation. In particular, at the end of 2005, the National Assembly promulgated a number of important laws for further improvement of investment and business environment, among which are common Investment Law and unified Enterprise Law. The optimistic prospects of Vietnam's economic growth, together with the implementation of bilateral and multilateral commitments in international economic integration have created a higher attractiveness for both domestic and foreign investment.

In 2005 the Government adopted a number of specific solutions to create new changes in FDI attraction activities. A number of ordinances, decrees and other legal documents have been promulgated to amending inappropriate provisions, supplementing and issuing new regulations to make Vietnam more attractive for FDI, including reduction of the highest individual income tax rates for foreigners; expansion of business operation scopes for foreign bank branches; standardization of registration, issuance and using payment cheque in Vietnam in conforming with international practices; simplification of administrative procedures and intensification of the responsibility of state administrative bodies in supporting foreign investor to handle land procedures, elimination of dual price regime; abolishment of restrictions on technology transfer and capital transfer; lowering international call price down to the level equivalent to that of other countries in the region; exemption of import tariff on some input materials for newly established businesses; simplification of custom procedures in line with the international standards; improvement of visa issuance/exemption procedures; amendment of corporate income tax rates for foreign-invested businesses; abolishment of the limits of FDI capital share in selected industries, etc.

Nevertheless, the year 2005 also revealed many shortcomings in development investment and policies on investment mobilization and attraction, namely:

- The state investment in many cases has yet to play a role of facilitating investment from other sources (for instance, private investment), but even worse, crowding out these sources. One reason for this situation is the lion's share of state investment in total social investment and the dominant role of SOEs in some sectors and industries.

- The efficiency and supervision of the state investment is limited. Corruption and losses in state investment projects are rampant and no effective prevention measures have yet been introduced. In terms of employment creation, while accounting for a larger share of the social investment, the state enterprires only attracts 6-7% of total employment and creates less employment than that of non-state sectors. State budget investment distribution mechanism is not yet effective.

- There has been unfair competition among the localities in attracting investment by issuing investment license and adopting investment incentives beyond local competence. This has distorted the state policies on investment incentives, reduced the uniformity and transparency of the legal system, resulting in losses of the Vietnamese side. 33 provinces/cities under the Central authority have issued many legal documents violated current legal regulations to different extents. These local authorities have been given warnings by the Government and have been aware of the problem. Some others appeared too hasty in enhancing economic growth by promoting investments beyond their financial capacity, resulting in adverse impacts on long-term economic development.

- The results of attracting and using FDI in the past years are still below potentials of the country. FDI structure is not yet rational in both sectoral and geographical terms, with concentration on the more developed areas. The rate of big projects with the resource-technology transfer is recorded low. While the volume of FDI capital realized in 2005 did increase against 2004, its share of the total social investment tends to gradually decline, from 30.4% in 1995 to 18% in 2000 and 16.3% in 2005. Moreover, the realized FDI capital increases more slowly than the registered capital, thus widening the gap between the two figures. Up to now, the supporting industries and infrastructure facilities have not met the requirements of development and investments, including FDI sector.

1.3. International and Domestic Trade[1]

1.3.1. Merchandise and Services Exports

In 2005, total merchandise export value increased steadily to roughly USD 32.2 billion[2], or 21.6% higher than that in 2004. This growth rate was 5.6 percentage points higher than the average in period 2001-2005 (17.8%). In the period 2001-2005, the total merchandise export value reached USD 110.6 billion, or 1.8% higher than the target set in the Socio-Economic Development Strategy for 2001-2010.

The dramatic increase in the export merchandise value in 2005 was contributed by rises of both commodity price and export value. The average growth of 11.5% in export price led to the increase by USD 3.3 billion in export value. The largest rises in export prices were for crude oil (40.7%), coffee (24.7%), coal (20.7%), rubber (17.9%), tea (15.9%), rice (14.5%) and cashew nuts (12.5%). The items with the greatest increase in export volume were coal (53.8%), rice (28.1%), peanut (26.1%), and rubber (11.9%).

Export markets of Vietnam continued to expand. So far, the country has trade relations with over 220 nations and territories. In 2005, 16 of Vietnam's export destinations had turnover of over USD 500 million, and six of them had turnover of over USD 1 billion, namely: United States (USD 5.82 billion), Japan (USD 1.66 billion), China (USD 2.99 billion), Australia (USD 2.59 billion), Singapore (USD 1.66 billion) and Germany (USD

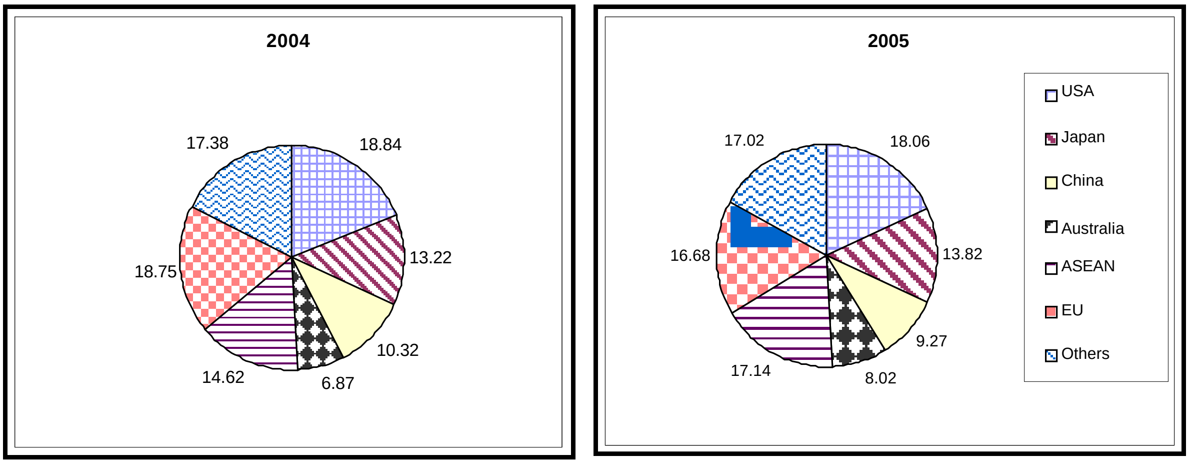
[1] Unless otherwise specified, the data in this Section are provided by the Ministry of Trade.
[2] If cross-border trade value is taken into account, total merchandise export value would be USD 32.44 billion.

1.05 billion). In total, total value of exports to these 16 markets was estimated to reach USD 24.91 billion or 77.3% of total merchandise export value in 2005.

A relatively high growth rate (ranging from 15% to 65%) in turnover was observed in most export markets. Specifically, export grew by 21.3% for Asia (42.62% for ASEAN), 6.7% for Europe (8.1% for EU), 21.7% for America, 51% for Oceania and 83.9% for Africa. The composition of export markets in 2005 exhibited evident changes, with the increase in export shares of ASEAN, Australia, Japan, etc., a sharp decline of EU and a slight decrease of the US and China (Figure 1).

There are several reasons for the impressive export achievements of Vietnam in 2005. *Firstly*, the economic growth and demand for imports of Vietnam's trade partners continued to recover rapidly, leading to the rises in export volume and price. *Secondly*, many key commodities of Vietnam have consolidated their positions and trademark in the world market. The Vietnamese entrepreneurs and traders have gradually become more experienced, professional and dynamic; therefore, the production, business and trade capacity have been improved and expanded. *Thirdly,* the Government's policies and measures were also an important catalysis in fostering exports in 2005, as well as in the whole period 2001-2005. Trade promotion activities become more diversified and more effective. Management mechanism of export and import policies has been more flexible and predictable. Moreover, the role and efficiency of the State administration in international trade activities, as evidenced by better coordination and timely solutions to immediate difficulties as well as reinforcement in accessing and expanding export markets.

Figure 1: Export share of Vietnam by destination, 2004-2005 (%)



Source: Ministry of Trade (MOT) and General Department of Customs.

However, the merchandise export in 2005 still has certain weaknesses. The primary and processed products still make up a considerable share in total export turnover.[1] These products have low value added and their prices are vulnerable to the fluctuations of the world market. The export-supporting measures are still weak and insufficient. Infrastructure for export activities lacks both quantity and quality; information provision, price forecast, analysis of import source and export markets are not timely; trade promotion activities, albeit some improvements, still lack professionalism. The linkage, connection between domestic enterprises in trade activities are still weak, while the advantages of industry and trade associations fail to be fully exploited.

1.3.2. Merchandise and Services Imports

In 2005, the merchandise import turnover was estimated at USD 36.9 billion, increased by USD 4.93 billion or 15.4% higher than that in 2004. However, this is the lowest import growth rate since 2002, and is significantly lower than the average growth of 19.1% in the period 2001-2005.

The import turnover in 2005 increased about USD 4.93 billion, mainly due to the rise in import price of 11.5% on average, leading to the climb of USD 3.52 billion (or 71.4% of import turnover increase). Meanwhile, the import quantity only went up by 4.7%, leading to an increase by USD 1.41 billion in import value (or 28.6% of import turover increasee). Regarding petroleum, despite the slight rise of import volume, the dramatic increase in price has led to an increase of 35.6% in import values (approximately USD 1.4 billion, or 28.4% of the rise in total value in 2005). However, there were two important items with falling import price, namely billet steel (-1.5%) and cotton (-20.6%).

The composition of merchandise import also presented noticeable changes. The import value of machines, equipments and spare parts grew rapidly to USD 13.28 billion, rising by 28.5% than that in 2004 and accounting for 36.1% of total import value. Import turnover of fuels and raw materials was about USD 22.5 billion, increasing by 14.7%, and accounting for 61.2% of total import turnover. Notably, some production inputs had much lower import turnover, namely: urea (a fall of 40%), fertilizer (a decrease by 21.7%) and cotton (a drop of 14.7%). Import value of the group of consumer goods decreased substantially to just about USD 0.994 billion, decreasing by 50.5% compared to that of 2004, and accounting for only 2.7% of total import turnover..

The composition of import market by continent in 2005 had the reverse changes to those in 2004. In 2005, the main import source of Vietnam was Asia, with total value of USD 29.7 billion, or 17.6% higher than that in 2004, in which, the ASEAN markets have already made up 25.4% of the total import turnover, rising by 20.7%. Import turnover shares from other continents, except for Africa, fell sharply. For example, the share of import values of Europe declined from 13.5% to 12.7%, America from 5% to 4% and

[1] For example, crude oil and coal already have total export value of over USD 8 billion, or approximately 25% of total export turnover.

Oceania from 1.8% to 1.6%. Total turnover of thirteen largest import sources (with turnover of over USD 600 million) were USD 31 billion, or 84.1% of total merchandise import. The ranking of market shares of Vietnam's top five import sources (with greater share than 10%) was almost the same as in 2004, respectively: China (15.4%), Singapore (12.7%), Taiwan (11.7%), Japan (11.1%), and South Korea (10%).

The slower growth of import turnover was due largely to closed coordination between trading enterprises and State agencies in conducting trade activities; particularly, in the import management of production inputs such as gasoline, fertilizers, etc. These achievements were notable in the context of that price of fuels and raw materials soared, especially strategic goods that Vietnam had to import in great volume. However, import share of hi-tech machinery, equipment, spare parts and source technology was still low. Meanwhile, the quality of information processing, markets and price forecasts were of insufficient quality, resulting in passively import activities and possibly negative effects on domestic investment and business activities.

The total service import turnover was estimated at USD 5.1 billion, or 7.6% higher than that of the year 2004. Transportation for merchandise imports was the main service import item, and was about USD 2.3 billion, making up 46% of total service import. Some main service imports were: tourism (USD 900 million, increasing by 16.5%), airline services (USD 600 million), marine services (USD 170 million), and finance, banking and insurance services (USD 330 million). Vietnam's balance in service trade deficit was estimated at USD 840 million.

1.3.3. Domestic Trade

The domestic trade in 2005 continued to prosper. Total retail revenues of goods and services were estimated to attain VND 475.4 trillion. If inflation were adjusted, the real increase of total retail revenues of goods and services would be 12.1%.

Of the total retail revenues, the domestic enterprise sector contributed VND 472 trillion, making the share of about 96.2%; and the rest was made by foreign-invested sector. Regarding the domestic enterprise sector, the non-state enterprises continued to be the biggest contributor, making the share of 83.1%. The state-owned sector contributed only about VND 62.1 trillion, or 13.1% of total revenue, increasing by 3.9%.

In general, the year 2005 witnessed a very strong and vibrant domestic market development throughout the country. The volume and quality of commodities in exchange kept increasing. There was no severe imbalance between demand and supply. The provision of indispensable goods was ensured in every circumstance; price volatility was timely taken under control at an acceptable level. Business networks have been established both in urban, rural and mountainous areas. The forms to meet the needs of selling and buying, and of consumption become more diversified and civilized (for instance, supermarkets, trading centers, etc.), somehow reflecting the consumption level of the society, which is moving toward civilization and modernization.

Still, Vietnam's domestic trade in 2005 had certain limitations, such as: (i) inflation (CPI) remained relatively higher than those of other countries in the region; (ii) the rearrangement and reorganization of the distribution system with a view to enhancing efficiency, preventing speculation and market manipulation have poorly carried out; (iii) the market information system and business monitoring mechanism of basic goods in the economy, albeit being paid much attention, fail to be effective, leading to the untimely or inaccurate directions. (iv) the long-term, efficient linkage between production and distribution, and between farmers and enterprises in supplying materials and consuming products were inadequately reinforced.

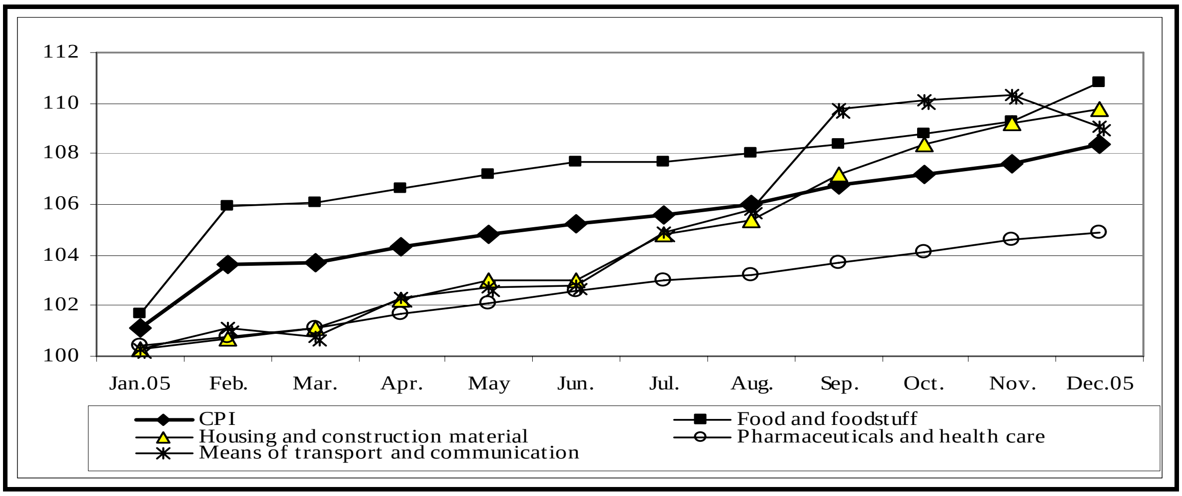
1.4. Macroeconomic Stability

1.4.1. Consumer Price Index

The inflation rate based on Consumer Price Index (CPI) in 2004 was as high as 9.5%, the highest recorded rate since 1996. The inflation in 2005 continued to be high at 8.4% (Figure 2). Similarly to 2004, inflation rate in 2005 surpassed the National Assembly's target of 6.5%. In the volatile economic environment, this fact shows the urgency of renovating the way of setting objectives of micro-economic stabilization, the role of State Bank of Vietnam and monetary policy in coordination with other policies.

Figure 2: CPI and price indexes of selected consumer goods and services in 2005

(The price level in December 2004 = 100)



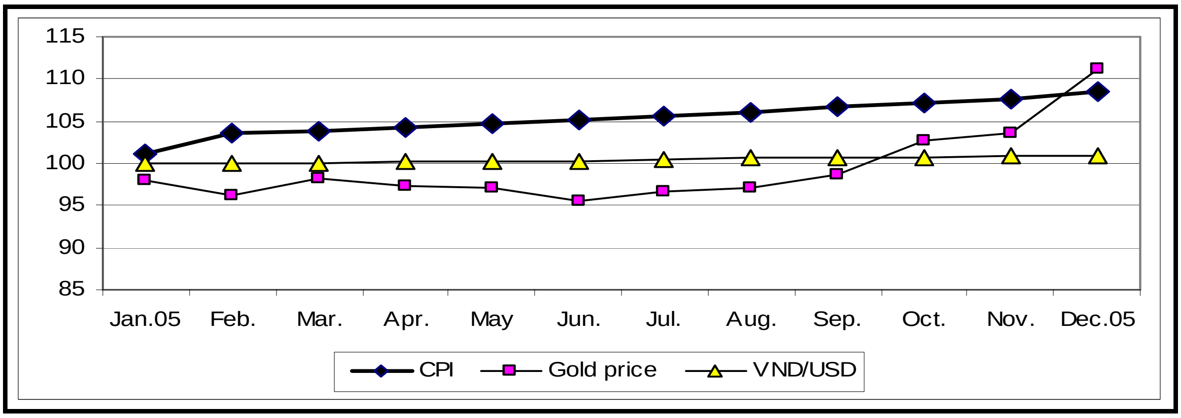
Source: Compiled from "Vietnam's Socio–economic Development Monthly Reports", Issues 1-12/2005.

1.4.2. Exchange Rate and Gold Price

Similarly to 2004, in 2005, the relatively stable trend of VND/USD exchange rate continued. Over the months of 2005, the nominal VND/USD exchange rate gradually increased but stayed at 0.9% for the whole 2005 (Figure 3), as compared to 0.4% of 2004. The noteworthy point is that during 2004-2005 the nominal VND depreciation was recorded low while inflation rate was high. This fact more or less results in concern about negative impacts of exchange rate on competitiveness of Vietnam's export commodities in the future, especially for manufacturing goods with high labor content, if the exchange rate is not adjusted in a more flexible manner.

Figure 3: CPI, gold price index and VND/USD exchange rate of 2005

(The price level in December 2004 = 100)



Source: Compiled from "Vietnam's Socio–economic Development Monthly Reports", Issues 1-12/2005.

1.4.3. International Payment Balance and Foreign Debt

Overall payment balance of 2005 was estimated at 1,900 million USD surplus, much higher than 2004 surplus level (Table 5), contributing to international reserve consolidation.

Table 5: Balance of payments, 2001-2005 (million USD)

	2001	2002	2003	2004	2005
Current account	**682**	**-604**	**-1,878**	**-926**	**130**
Balance of merchandise trade	481	-1,054	-2,528	-2,256	-897
Balance of trade in service	-572	-750	-778	-872	-845
Net remittance	1,250	1,921	2,239	3,093	3,175
Capital account	**220**	**1,980**	**3,305**	**2,753**	**3,179**
FDI	1300	1400	1450	1610	1850
Portfolio investment	0	0	0	0	750
Balance of payment	**40**	**357**	**2,151**	**883**	**1,900**
Errors	**-862**	**-1,019**	**724**	**-944**	**-1,409**

Notes: 2005 data are estimates. Merchandise trade is calculated by FOB price. Normally, estimated data are largely different from the later adjusted data.

Source: The SBVN.

In 2005, although deficit of investment income was as high as USD 1,081 million, much higher than 2004 figure of USD 891 million, the current balance experienced a surplus of USD 130 million (about 0.25% GDP), strikingly different from high deficit of 2004 (2.0% GDP) and 2003, 2002. This is due to a significant decline in deficit of merchandise trade balance and balance of trade in service and the maintained high surplus in net remittance. Trade balance deficit reduced from USD 3,128 million in 2004 to USD 1,742 million, mainly thanks to high growth of merchandise export, especially during the last months of the year, and increased revenue from tourism and airline service. Of the (net) money remittance, aid remittance amounted to USD 175 million and private remittance recorded USD 3.000 million USD, equivalent to that of 2004.

Capital account in 2005 considerably increased, reaching USD 3,179 million compared to USD 2,753 million of 2004. FDI capital flow accounted for the biggest part of the total capital inflow to Vietnam, amounting to USD 1,850 million in comparison with USD 1,610 million of 2004. Similarly to the past years, medium- and long-term borrowings represent a significant part in the foreign borrowings structure (surplus of USD 983 million compared to USD 1,162 million in 2004). Short-term borrowings recorded an insignificant surplus (USD 46 million in comparison with (-) USD 54 million of 2004) and were basically related to commercial loans. It is noted that in 2005 the scheduled medium- and long-term debts (USD 967 million) were mainly commercial loans of businesses (including scheduled loans of the FIEs.

Noteworthy in 2005 was the fact that Vietnam issued government bonds of USD 750 million in international securities market, helping to reduce the pressure of foreign currency spending from the bank system. The estimated foreign currency invested overseas in the form of commercial bank deposit was US D 450 million.

According to International Financial Center of Japan (October 2005), the total foreign debts of Vietnam in 2005 were estimated at USD 18.2 billion, compared to USD 17.0 billion of 2004. The ratios of total debt/GDP (35.2%), total debt/export (51.7%), and debt service rate (2.8%) are all at “controllable” level and are projected to decline in the next 3-4 years. Vietnam’s foreign debts will continue to increase, but Vietnam’s capability to serve foreign debt is still regarded as relatively high.

1.5. Fiscal and Monetary Policies

1.5.1. State Budget and Fiscal Policy[1]

In 2005, state budget implementation faced many difficulties and challenges such as natural calamities (droughts, floods, typhoons), persistent and widespread avian influenza, sharp increase in prices of gasoline and key production inputs, pressure of unequal competition with foreign competitors on some export commodities, etc. However, the budgetary tasks continued to record encouraging achievements, contributing to fulfillment of state budget targets planned for 2001-2005.

Total state budget revenue in 2005 is estimated to exceed the target assigned by the National Assembly by 15% (VND 210.4 trillion/VND 183 thousand billion), 16.0% increases against 2004. The total state budget revenue is equivalent to 25.1% GDP, the

[1] Except cited otherwise, the data in this part are supplied by the Ministry of Finance.

highest rate during the period of 2001-2005 (Table 6) and has important meaning in fulfilling the Five-year Plan's targets.

Domestic revenue in 2005 increased by 9.2% compared with the projected revenue and by 19.2% compared to implemented revenue in 2004. Revenue from FIEs is one of key items with relatively high revenue surpassed the projected revenue by 14.2% and increased 39.5% against 2004. A positive trend is that domestic revenue (excluding crude oil) plays an increasingly important role in total state budget revenue and noticeably grows, from 50.7% in 2001 to 54.7% in 2005.

In 2005, unlike 2004, company income tax suddenly increased and took up the biggest share in total tax revenue of state budget (replacing the Value Added Tax (VAT) revenue in 2004), representing 36.9% of total revenue from taxes, charges and fees (27.75% in 2004 and 26.01% in 2003), increasing by 23.4% against projected revenue and 88% against 2004 realized revenue. The reason for this is that the increased crude oil price enabled more revenue from FIEs exporting crude oil. It is worth noting that both foreign-invested sector and private sector paid higher company income tax than projected, while the contribution of the SOEs reduced. In 2005, total revenue from VAT was estimated at VND 47.547 billion, 3.6% increase compared to the projection and 16% increase against 2004 realization, representing 24.3% of total state budget revenue (the respective figures for 2004 and 2003 were 29.78% and 26.06%).

Revenue from crude oil surpassed 46.1% of the projection (VND 55.000 billion), 18.8% higher than in 2004 and highest figure in 2001-2005, mainly due to high crude oil price. The surpassed revenue from the crude oil over the projected revenue has been used to compensate for the losses of the businesses importing gasoline and diesel, which had to sell at ceiling price imposed by the Government for the sake of market stabilization, to supplement funds for salary reform program implement-tation, the preferential treatment regime for the people with merits, prevention of and recovery from natural disasters and avian flu, and to complement to international reserve.

Export-import revenue in 2005 increased by 10% compared to the projected (VND 51,700 billion) and by 13% increase against the implemented in 2004. All provinces and cities achieved or surpassed the assigned revenue tasks. It is noteworthy that the revenue from import and export duties ranks third in terms of share in total revenue from tax, charges and fees, representing 11.32%, a continued reduction in comparison with that of 2002, 2003, and 2004 (17.89%, 15.37% and 13.62%, respectively). This is reasonable with Vietnam's tariff reduction in compliance with the international commitments.

In general, revenue from tax in 2005 exceeded the projection and 2004 realization in both size and speed. However, the structure of direct and indirect items of the total revenue has not yet changed positively. In particular, the collections from real estates and lands were very low relative to potentials due to shortcomings in land management. State budget revenue increased, but this is still not sustainable. Revenue increase from the businesses has been low, not yet matching the development investment level. Items of revenue considered unstable and unsustainable such as crude oil and export-import activities still represent high shares, contributing up to 82.8% of revenue increase in 2005.

Total state budget expenditure in 2005 was estimated at VND 258,470 billion, 12.5% higher than the projected and 23.7% higher than the realized in 2004. Total state budget expenditure amounted to 30.8% GDP, the highest record since 2001 (Table 6).

Development investment expenditure in 2005 was estimated at VND 83,300 billion, 6.1% higher than the projected and 11.3% increase in comparison with the implemented in 2004, representing 32.2% total state budget expenditure, the highest investment ratio to date. This fact partly reflects the Government's determination in achieving high economic growth target for 2005.

Table 6: Revenues and expenditures of state budget, 2001-2005 (%)

	2001	**2002**	**2003**	**2004**	**2005 est.**	**2001-2005**
Total state budget revenues/GDP	**21.59**	**20.97**	**23.46**	**23.41**	**25.11**	**22.91**
Domestic revenues (excluding oil)/Total state budget revenues	50.7	50.4	52.3	53.5	54.7	52.32
Oil revenues/Total state budget revenues	25.3	21.8	22.6	25.9	26.4	24.40
Other revenues/Total state budget revenues	24.0	27.8	25.2	20.6	19.0	23.32
Total state budget expenditures /GDP	**26.96**	**26.33**	**29.14**	**28.89**	**30.8**	**28.42**
Expenditure on investment and development /Total state budget expenditures	31.0	30.5	28.9	30.1	32.2	30.54
Recurrent expenditures/Total state budget expenditures	55.1	52.7	54.2	55.7	52.1	53.96
Debt service and aid /Total state budget expenditures	11.5	13.4	14.0	14.1	13.5	13.30
State budget balance (actual)/GDP	**-4.67**	**-4.96**	**-4.95**	**-4.87**	**-4.86**	**-4.86**

Source: the National Steering Committee for implementing the CPRGS (2005) (excluding the state budget expenditure figures of 2005) and estimates by CIEM based on Ministry of Finance (MOF) and GSO data (regarding the figures of 2005 state budget expenditures and state budget revenues and expenditures during 2001-2005).

Recurrent expenditure for socio-operational activities was estimated at VND 145,595 billion, 23.5% increase compared with 2004. Of this, expenditure for education, training, health care, socio-cultural activities, national defense and security, State management, the Party, mass organizations, and salary reform program were estimated at VND 134,595 billion, 10.3% increase compared with the projected. Spending on education and training accounted for 18%, science-technology - 2% of the total state budget expenditure. Roughly VND 24,100 billion was spent on salary reform, 17.6% higher than the projected (to ensure minimum salary of VND 350,000 VND per month from October

2005). Spending on debt service and aid for the whole 2005 was VND 34,775 billion, equal to the projected level, ensuring full and timely payment of due debts as committed, thus contributing to restructuring foreign debt.

In 2005, the state budget deficit was estimated at around VND 40,750 billion, equivalent to 4.86% GDP of 2005, lower that the level assigned by the National Assembly (5%), equivalent to the average deficit level of 2001-2005 period (Table 6). The state budget expenditure deficit was compensated by international and domestic borrowings. In 2005, domestic borrowings experienced a strong increase equal 5.8 times of that in 2004, mainly through issuing education bond, government bond and treasury bills.

State budget balancing has followed the principle of sustainable balance, according to which, total revenue from tax, charges and fees must be higher than total recurrent expenditure, sparing the accumulated amount for development investment, and the deficit level should be under control (normally under 5% of GDP). In 2005, total revenue from tax, charges and fees amounted to VND 189,920 billion, while recurrent expenditure was VND 134,595 billion, and the accumulated amount of VND 44,325 billion was spared for development investment.

1.5.2. Monetary Policy and Money Movements

In 2005, the State Bank of Vietnam continued to exercise a prudent monetary policy with exchange rate stabilization measure (exchange rate ‘anchoring’), but with more flexibility in conducting interest rate and controlling credit.

In 2005, the growth rate of VND-denominated deposits of commercial banks was higher than that of foreign currency-denominated deposits. The people’s savings deposits increased sharply compared with 2004. Thus, the ratio of cash in circulation went down from 23.1% in December 2004 to 20.7% in December 2005. However, the fact that the deposit from the business significantly decreased in the first six months and slightly recovered again in the next five months, then recorded a rapid increase in December, more or less caused commercial banks a shortage of disposable capital at certain periods, especially in the early months of the year.

The credit growth rate in 2005 was estimated to decline 5-7 percentage point compared with that of 2004, where the growth rate of lending in foreign currency was slower and lending in VND faster than 2004. The credit growth decrease mainly took place in SOCBs, while join-stock commercial banks recorded a higher credit growth compared with 2004. The decline of credit growth in SOCBs was mainly due to the sector’s debt restructuring and credit quality enhancing (there was too high credit growth in the past years).

Based on the closed oversight of economic and monetary performance, SBV flexibly adopted monetary policy instruments to timely regulate capital supply-demand in the monetary market and meetings the demand for disposable capital of commercial banks. In 2005, the open market operations continued to be the main channel to regulate usable capital of credit institutions. The transaction turnover of open market operations reached VND 102,511 billion, 65.5% increase against 2004. State Bank of Vietnam also adjusted key interest rates 3 times in 2005. Specifically, in January 2005, SBVN raised basic interest rate, re-financing interest rate, and rediscount interest rate. The adjustments of ceiling rates from very beginning of the year was aimed at closer money tightening, by which, to control increasing inflation. Then, in March 2005, SBVN raised the refinancing interest rate, rediscount interest rate. Finally, in December 2005, SBVN increased basic interest rate, refinancing interest rate, and rediscount interest rate.

The movements of exchange rates, interest rates and inter-bank foreign currency market in 2005 were characterized as follows:

Exchange rate: As mentioned earlier, exchange rate was relatively stable, mainly due to SBVN's policy of 'anchoring' exchange rates for inflation control. Exchange rate performance seemed to be in line with demand-supply relation. The exchange rates in free and inter-bank markets are not much different. The SBVN bought a greater amount of foreign currency than the sold amount, thus increasing foreign currency reserve. Beside inflation targeting, SBVN also took into account possible negative impacts of increase in VND/USD nominal exchange rate (VND devalued against USD) on stability of monetary and production markets (since more than 97% of imports value are input materials, fuels, machinery and equipments).

Interest rate: Deposit interest rate for 3-month and 12-month maturity was largely at 7.56% - 8.4% per annum, an increase of 0.84% -1.2% per annum. Short-term lending interest rate was generally around (9.6%-12.39% per annum. The interest rate of medium- and long-term lending was around 10.8%-6.2% per annum, incresed by 1.2%-3% per annum.

The interest rate of borrowing and lending in VND in the first 10 months of 2005 increased about 15.8% in comparison with December 2004. This movement was caused by: (1) high inflation, (2) increased economic growth over the quarters, (3) tendency of interest rate increase in international market, (4) SBVN's adjustment of interest rate, and (5) competition amongst commercial banks to maintain market share. Although there is no specific study, the practice reveals that a competition among commercial banks for market share had significant impacts on interest rate movement in 2005.

Borrowing interest rate of foreign currency (USD) strongly rose from 2.75% per annum to 4.2% per annum for 12-month maturity. Other maturity instruments also evolved respectively. Lending interest rate rose about 2-2.25% percentage point per annum (short-term lending interest rate at the moment is around 5%-6.2% per annum, medium- and long-term interest rate 5.5%-7.2% per annum). Foreign currency interest rate increase was mainly due to FED increased interest rate adjustment and commercial banks' competition for market share.

Inter-bank foreign currency market performance: Total transaction value in the inter-bank market in 2005 increased about 27% against 2004, of which: spot transaction accounted for about 89.1% total transaction, an increase of about 50% in comparison with 2004; swap transaction represented 4.18%, 1000% increase over 2004; and forward transaction shared 6.72%, reducing about 30% against 2004. In general, market operations become more active, especially in swap transactions.

2. SOCIO-ECONOMIC DEVELOPMENT PLAN 2006-2010

2.1. General goals

General goals of the five-year socio-economic development plan in 2006-2010 are: "Boost the economic growth rate, achieving important changes of sustainable development, quickly bringing our country out of the low development state. Significantly improve people's material, cultural, and spiritual lives. Create foundations to boost the industrialization and modernization process and gradually develop the knowledge-based economy. Stabilize politics, order, and social security. Firmly protect our independence, sovereignty, territory, and national security. Improve Vietnam's status in the region and the world"

2.2. Main targets

2.2.1. Economy

At constant prices, Gross Domestic Product (GDP) in 2010 will be 2.1 times higher than that in 2000. Annual average growth rate per capita for the period of 5 years 2006-2010 will be 7.5-8%, of which agriculture, forestry, and fisheries will increase by 3-3.2%, industry and construction will increase by 10-10.2%, services will in crease by 7.7-8.2%.

GDP scale in 2010 will be VND 1,530-1,600 billion (current price), equivalent to USD 85-89 billion and GDP per capita will be about USD 1,050-1,100.

National budget revenue will be around 21-22% of GDP.

Economic sectoral structure in GDP in 2010 will be as followed: Agriculture, forestry, and fisheries about 15-16%, industry and construction about 42-43%, services about 41-42%.

Total export turnover will increase by 16% annually. Total social investment will be about VND 2,200 thousand billion (2005 price), equivalent to USD 138.6 billion, accounting for 40% of GDP.

If domestic and international conditions favor, there will be more new opportunities to boost export, develop services faster, mobilize more domestic capital, increase foreign capital attraction together with reducing production costs, increasing labor productivity among sectors, minimizing loss and waste in construction, etc., which will help attain an economic growth rate of above 8% (GDP).

2.2.2. Social affairs

Continue the implementation of the millenium development goals (MDG) as committed including:

- Completing the universalization of lower secondary schools. By 2010 tertiary education will be provided to 200 per 10,000 populations. Trained labor rate will reach 40% of the total social labor.

- In 2010, 100% households in need will have houses to live in, with the average of 14-15 m^2 per capita; telephone density will reach 35 sets per 100 population; Internet subscriber rates will reach 12.6 over 100 people, internet users will reach 48%; there will be expansion in the use of information technology.

- The population size will stay at about 88.4 million, in which urban populations is 26.4 million, rural population 62 million; the population growth rate by 2010 will be about 1.12 %.

- Create over 8 million jobs, i.e. an average of over 1.6 million per annum; vocational training will be offered to 7.5 million people, in which 25–30% will receive long-term training. Urban unemployment rate will stay under 5%.

- By 2010 agricultural labor will account for 50% of the total social labor.

- Vietnamese average life expectancy will be about 72 years of age.

- Under-1 infant mortality rate will be under 16‰ and under-five mortality will be about 25‰. Under-five malnutrition rate will be under 20% by 2010.

- Reduce maternity mortality and birth-related mortality to under 70/100,000 live births. The number of doctors will reach 7/10,000 people, and pharmacists will be 1-1.2/10,000 people, the number of beds in hospital will reach 26.3 beds/10,000 people.

- Completely eliminate hungry households; reduce poor households (according to new standards) to 10 – 11% by 2010.

2.2.3. The Environment

By 2010, increase forest coverage to 42%-43%.

Strive for 100% of type 3 centre and above, 50% of type 4 centre and newly built production establishment to apply clean technology or be equipped with pollution minimization facilities, ensure waste treatment and 50% of production and business establishments to satisfy environmental standards.

By 2010, 100% of industrial zones, export processing zones will be equipped with centralized wastewater treatment systems, 90% of solid waste collected, 80% of hazardous waste and 100% medical waste treated.

Strive to reach 95% of urban population and 75% of rural population to have access to clean water.

2.3. Forecasts of major balances of the economy

2.3.1. Forecasts of accumulation – consumption relationship

According to growth scenarios, the total GDP created in the next five years will be about VND 6,528– 6.674 thousand billion (current prices).The total consumption fund in the next five years may reach VND 4,496–4,548 thousand billion, accounting for 68%-69% of GDP. The ratio of consumption per GDP will tend to reduce faster than the 2001 – 2005 period, from 70.2% in 2005 to 67.5 – 68.7% by 2010. This will be necessary for the increase of accumulation for industrialization and modernization, and also for the reduction of excess importation against GDP. However, thanks to relatively high production growth, the growth of consumption funds during the five years can still reach 12.5–13.5% per annum on the average; it may reach 6 – 7% per annum if calculated regardless of consumption price factors. Actual consumption per capita is expected to increase by 5– 6% per annum, ensuring the people’s living standards and facilitating the development of domestic markets and services.

The total accumulation in the five years will reach VND 2,645–2,740 thousand billion, equivalent to 40.4-40.9% of GDP. The accumulation rate per GDP will increase from 36.7% in 2005 to nearly 41-42% by 2010. The total investment from domestic resources will reach 85%.

2.3.2. Forecasts of balances of all development investment capital resources

(1) In order to achieve the above objectives and ensure an economic growth rate of 7.5 – 8%, the investment rate over GDP in the five-year plan of 2006 – 2010 has to increase compared to the five-year plan of 2001 – 2005 from 35.7% to 40%. The total soial investment in the five-year plan of 2006 – 2010 (2005 prices) will attain VND 2,200 thousand billion, equivalent to USD 138.6 billion, i.e. about 17.2% increase per annum, ensuring the intended economic growth rate.

Of the total social investment, investment from the State budget is expected to reach VND 486 thousand billion, accounting for 22% of the total social investment; preferential credit sources is expected to reach VND 200.8 thousand billion, accounting for 9.1%; investment from state enterprises will be VND 307.4 thousand billion, accounting for 13.9%; investment from individuals and private sector may reach VND 748.7 thousand billion, accounting for 34%; investment from FDI and indirect investment is expected to reach VND 378 thousand billion, equivalent to USD 23.8 billion (2005 exchange rate), accounting for 17.1%; investment from other sources may reach VND 83.5 thousand billion, accounting for 3.8%.

Investment economic sectors is expected to account for 69.9% of the total social investment, in which investment into agriculture, forestry and fisheries accounts for 13.5%, industry and construction 44.5%, transport and post 11.9%. Investment into social affairs accounts for 28.3% of the total social investment, in which investment in education and training accounts 4.6%, health care and social welfare 2.7%, culture and sports 2.3%.

(2) In general, external sources of investment is estimated at USD 55.1 billion in 2006-2010, accounting for 35% of the total social investment, including:

Official Development Assistance (ODA) in the five years of 2006 – 2010 is expected to increase quickly thanks to favorable international conditions, the fast development of the Vietnam economy as well as the increasingly effective reception and utilization of this resource. For the whole five years, it is possible to mobilize USD 17 billion of capital committed. ODA disbursement in the budget is expected to increase from USD 1.7 billion in 2005 to USD 2.3 billion in 2010; the total ODA disbursed in the five years of 2006 – 2010 is approximately USD 10.9 billion, with investment of 85%.

FDI and foreign indirect capital flow is forecasted to increase significantly. In the five years of 2006 – 2010, the total FDI newly registered (including newly allocated, added capital and indirect investment) may reach USD 23 – 25 billion, in which the added capital of on-going projects account for about 35%. Realized FDI (including added capital of on-going projects) in the five years of 2006 – 2010 is expected to reach USD 17.5–19.5 billion, in which industry (including oil and gas) accounts for 72–75%; agriculture, forestry and fisheries 5–6.5% and services 20 – 21.5%.

Remittances is estimated at USD 12 billion.

Apart from the mentioned above, it is possible to mobilize some foreign indirect investment through bonds and shares overseas, through the stock exchange and other loans for medium-term and long-term investment; USD 9 billion is expected to mobilized in the next five years.

2.3.3. Forecast of the State budget balance

a) State budget revenue:

With the objective of positive budget balance on the basis of the stability of income-expenditure policies, reasonable budget deficit, gradual increase of reserves, ensuring macro-economic stability and compatibility to the international integration roadmap, the total budget revenue in the next five years of 2006 – 2010 is expected to reach VND 1,472 thousand billion, 1.9 times higher than that of 2001 – 2005 and about 21–22% of GDP, of which taxes and fees accounts or 20-21% of GDP. The average budget revenue increase may reach 11.5% per annum. Domestic revenue (excluding crude oil) accounts for 59-60%, export accounts for 17% and crude oil accounts for 22-23% of the total budget revenue.

The revenue structure is forecasted to shift toward more collection from domestic sources and reduction of revenue from crude oil, export and import.

b) State budget expenditure:

State budget expenditure is designed on the basis of the balance with income and also the satisfaction of debt payment by the State and control of debt inside and outside the country at the safety level, together with the improved effectiveness of the use of the State budget funding. State budget expenditure in the next five years is forecasted to reach VND

1,800 thousand billion, i.e. about 27-28% of GDP, 1.96 times higher than that of 2001-2005. The expenditure rate may increase by 11.5-12% per annum, to ensure the reasonable balance between development investment, recurrent and debt repayment: total spending on development investment is expected to reach VND 590 thousand billion, or 28.1% of total state bugdet expenditure, 22% of total social investment; spending for debt repayment will be VND 311 thousand billion, or 17.2% of state budget expenditure and recurrent spending may account for 52.8% of state budget expenditure, or VND 946 thousand billion.

The State budget spending structure is expected to shift towards more spending for development investment on infrastructure, ensuring debt repayment and implementation of social policies set by 2006-2010.

c) Budget deficit and methods for its compensation:

The bugdet deficit is forecasted at 5% of GDP. Budget deficit will be compensated by 2 sources: domestic borrowing and foreign loans.

2.3.4. Forecast of international payment balance, foreign loans and reimbursement

On the basis of export-import forecasts, the foreign trade balance in the next five years may suffer from a USD 3 billion deficit per annum on average because Vietnamese enterprises have to import machinery, equipment, and raw materials for the expansion of domestic investment and production. The deficit of service and the investment income balance is expected to increase slightly over the five years. During 2006 – 2010, the deficit of service and investment income balance will be about 12.1 billion USD.

The surplus of official and private money transfer balances is expected to gradually increase over the next five years of 2005 – 2010 from USD 3.1 billion in 2005 to USD 3.5 billion in 2010 owing to the fast increase of foreign remittances by Vietnamese overseas. The general surplus in the next five years may reach USD 16.8 billion.

The current balance of payments (including foreign trade balance, service payment balance and investment in come, official and private money transfer) in 2006 – 2010 is expected to suffer from an annual deficit of USD 2.1 billion. Most notably, the current balance of payment tends to have increased and the deficit is stable.

Capital balance: Over the five years of 2006 – 2010, it is possible to have approximately USD 14.4 billion of FDI disbursed, or an average of 2.9 USD billion per annum (the part to be included in international payment balance). Foreign loans disbursement will increase at a gradually declining rate; it is expected to reach about USD 14.4 billion in the next five years. However, the requirements of debt repayment in the next five years will increase more strongly than the previous five years, with the amount of USD 11 billion. Therefore, medium and long-term capital in the next five years may possibly increase by USD 3.4 billion. In generally, the capital balance for the period of 2006 – 2010 will have a surplus of USD 18 billion, or an average of USD 3.6 billion per annum.

Due to the big surplus of capital balance, the overall international payment balance in the next five years will have a surplus of approximately USD 3.8 billion, or an average of USD 0.8 billion per annum. The year 2010 will have a surplus of USD 1.2 billion.

Foreign loans and reimbursement:

For the whole five years of 2006 – 2010, the total new loans may reach USD 14.4 billion, an increase of 38.6% compared to that of 2001 – 2005, including the Government's new loans of USD 8.4 billion, accounting for 58.3%, enterprises' new loans of USD 6 billion, accounting for 41.7%.

The total foreign debt reimbursement, including both the principal and interest, will reach USD 11 billion, in which reimbursement of Government's debt will be USD 5.4 billion, and enterprises' debts will be USD 5.6 billion. Debt reimbursement compared to export turnover are 5.4% in 2005 and will decrease to 4.3% in 2010. The Government debt reimbursement over total State budget revenue are 6.9% in 2005 and will drop to 6.2% in 2010. This will account for only 2 – 4% of the total State budget revenue if mature debts from re-loan through the Cumulative Fund for Foreign Loan Reimbursement are not taken into consideration (i.e. excluded from the State budget).

The outstanding foreign loan balance of the entire economy is expected to increase from USD 16.7 billion in 2005 to USD 24.4 billion in 2010. The total outstanding balance of foreign loans over GDP in the next five years will remain stable at 37.5%, a slight increase against the five years of 2001 – 2005. The ratio of outstanding foreign loan balance against the export turnover in 2005 is 54.5%, and drop to 41.4% in 2010.