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2003

In 2003, Vietnam's economic growth rate was 7.2%, and inflation was 3%. Negative factors that impacted on the economy were SARS and the Iraq war. The positive factors were high export growth and investment.

Consumption accounted for 4.9% of economic growth. The growth rate of consumption decreased from 6.9% in 2002 to 6.8% in 2003. Retail sales increased by 12.1%.

Total investment accounted for 35.6% GDP, an increase of 13.5% from 2002. State investment accounted for 56.5%, private investment for 26.7% and foreign investment for 16.8%. The increase in development investment was due to a recovery in foreign investment, the boost received by domestic private investment from the enterprise law, and the restructuring of the state economic sector.

Goods exports increased by 19% from 2002, with ten major items contributing 75.6% of total export revenue—crude oil, textiles, shoes, seafood, rice, electrical equipment and computer parts, wood products, coffee, rubber, and handicrafts. The increase in exports was due to the high level of competitiveness of certain traditional markets, the expansion of the American market and the implementation of the export promotion policy.

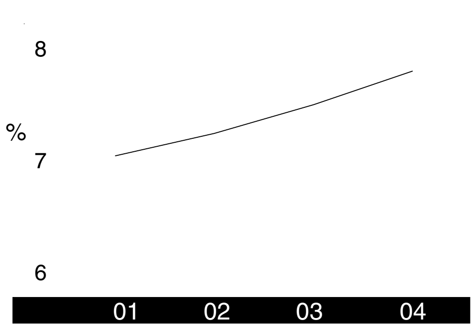
Total import value was US$25 billion, an increase of 26.7% from 2002. The increase was due to increased prices in the international market, increased import volumes resulting from imports of machinery and equipment under foreign investment, and increased consumption resulting from reduced import taxes and rising incomes.

Net exports contributed –2.3% to GDP. The deficit was recorded at US$5.1 billion, equal to 25.7% of export revenue. The trade balance deficit was about US$2.6 billion lower than the US$1 billion recorded in 2002. The deficit in international trade and services was approximately US$1 billion lower than the US$750 million recorded in 2002. The current account deficit was US$2.5 billion, approximately 8.5% of GDP, up from 6.4% of GDP in 2002.

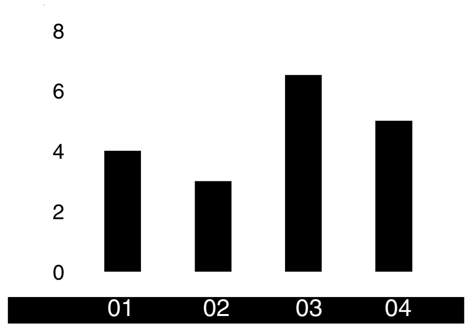
The surplus in the capital account was US$3.9 billion. Out of that the direct foreign investment disbursement was US$1.5 billion, up from 2002 US$1.4 billion in 2002. was). Middle and long-term credit was US$285 million, and short-term credit US$7 million. Draw deposit from foreign banks was US$2 billion, up from US$624 million in 2002.

2003 was the first year in which the law on the state budget was followed. State budget revenue was 21.7% of GDP, with domestic revenue accounting for 52.6% of the total and revenue from import–export tax and crude oil for 45.9% of total revenue. State budget expenditure was 27.7% of GDP, with development investment accounting for 7.8% GDP and recurrent expenditure for 15.5% of GDP.

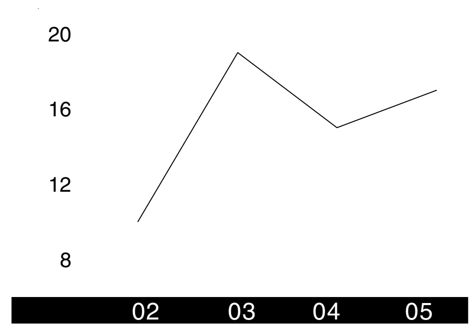
GDP growth



CPI inflation



Export growth



Monetary policies were implemented carefully. Total payments increased by 20.5%. The compulsory reserve rate was adjusted from 3% to 2% for 12-month deposits, to 1% for Vietnamese and foreign currency deposits of 12–24 months and from 5% to 4% for foreign currency deposits of less than 12 months.

The interest rate for investment from the state budget was adjusted from 4.8% to 6.6% and then down to 5%. The interest rate on the market rose and fell between 1.6% and 5%. Interest on foreign currency lending was stable at 3.5% for short-term lending and 5% for long-term lending.

Credit increased by about 25%, with credit for state-owned enterprises increasing by 16% and private sector credit by 30.7%. Foreign currency credit increased from 26.8% in 2002 to 45% in 2003.

The Vietnamese dong nominally depreciated at about 2.2%, a rate lower than inflation because of favourable balance of trade between Vietnam and America, and the depreciation of the US dollar relative to other strong currencies.

OUTLOOK 2004–2005

Economic growth in 2004 and 2005 is forecast to be about 7.5% and 7.8% respectively. Investment, especially private investment, is expected to increase. Consumption will increase because of increasing inflation. Export promotion activities will bring about increased exports. Imports will also increase mainly because of increasing imports of materials and increasing consumer goods prices.

Inflation in 2004 and 2005 is expected to be about 6.5% and 5% respectively. The high inflation in 2004 can be explained by an increase in the price of imported materials (for example, fertiliser, steel), which will boost inside prices, an increase in the price of food as the result of bird flu, and the state bank's issuing new high-value notes (the highest worth 500,000 dong, compared to 100,000 dong previously), which may psychologically influence inflation. In 2005, the changing amplitude is expected to be reasonably sustained.

Investment will increase by about 15% and 17% as the result of investment promotion activities. The contribution of investment to GDP growth is expected to be about 4.3 and 4.0 percentage points. Investment from the state budget will continue to increase because of investment centralisation. Investment from state-owned enterprises will also increase as a result of economic reform. Private investment will also increase. FDI will increase as a result of foreign investment promotion activities. ODA is also expected to increase because of greater ODA commitments or disbursements.

Consumption is expected to contribute about 4.8 and 4.9 percentage points to growth. Increased consumption will result from rising inflation and additional government expenditure on bird flu, as well as increased state officials' salaries.

Net exports are expected to contribute –2 percentage points of growth. Exports will increase because of increased exports to the expanding European market (with the quota for Vietnamese textiles being removed). The continuing exploitation of the American market (for example, in the aviation sector), a new focus on the Japanese market (with the implementation of the Vietnam–Japan initiative), a strengthening regional market in ASEAN (as the CEPT commitment is implemented), and the exploration of potential new markets (for example, the Middle East, South America). Imports are expected to increase at 22% for both 2004 and 2005, mainly because of the rising price of materials and increased investment.

The current account is expected to show a deficit of about 7.5% and 7.4% of GDP. However, as ODA disbursements and remittances increase the balance will remain positive.

RISKS

If the negative effects of bird flu and bad weather are not contained, agricultural exports may not increase according to plan.

If the prices of material commodities on the international market such as gas, steel, fertiliser and plastic materials continue to rise, the growth rate may not be as high as planned.