# 18 VIETNAM

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## ECONOMIC SITUATION IN 2004

There were some notable features in the preliminary indicators for 2004. GDP growth rate was 7.7%, with inflation at 9.5%, both of which were higher than estimated, especially the inflation rate. During the year, there were three negative and two positive factors that influenced economic growth and the level of inflation. The negative impacts were the outbreaks of bird flu, prolonged cold weather conditions and the increased price of input materials. These were offset to some extent by strengthened external economic conditions and the strength of investment.

The consumer price index increased by an unexpectedly high 9.5% compared to 2003. Consumption accounted for 5.48% of the GDP growth rate with the increase in consumption reaching almost 17.2%. Total domestic retail sale of commodities was up by 17.7% compared to 2003. This was accounted for mainly by the increased price of essential commodities such as food and input materials — construction materials, petroleum, metals, fertilizer and pesticides. Partly responsible for the situation was also the psychological factor of a pay-rise for nine groups of State salary earners starting from November 2004.

Total investment increased by 17.7%, to account for 36% of GDP. Investment from the State budget increased by 17.9%, to make up 23.5% of the total investment, while investment credit increased by 1.8%, accounting for 11.2% of the total. Investment by State-owned enterprises increased by 19.4%, making the source of 18.2% of the total investment. Investment by the individuals and private enterprises increased by 15.3%, accounting for 26.9% of the total investment, with foreign direct investment (FDI) up by 16%, to account for 17.09% of the total. Realized FDI was approximately US$2.8B. The estimated ODA disbursement was US$1.49B. The increased foreign investment could be attributed to the government's moves to apply National Treatment to foreign investors. As noted, private enterprises also increased investment, one response to the ongoing reform of the State sector which results in further opportunities for investment.

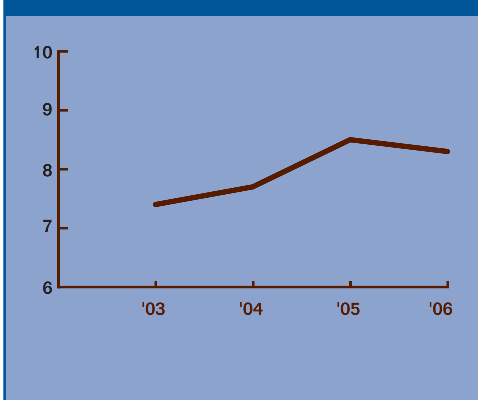
The export of goods increased by 28.9% compared with 2003. In part this can be attributed to the higher price of key commodities. The price of rice was up 27.7%, rubber 34.2%, crude oil 16.6%, anthracite coal 12% and cashew nuts 10%. In addition, shipments of a number of export products in various categories also increased. For instance, the increase in export turnover of wooden products was 85%, computer parts 60.2%, plastic products 39.2%, garment and textile products 17.1% and marine products 9%. Finally, world demand for Vietnam-made goods went up strongly in major markets (Japan 20%, China 57%, EU 25% and the US 27%).

Imports increased by about 25%. Firstly, international prices of several materials sharply increased causing consequent increases in import values (petroleum was up 30.4%, finished steel 36.9%, steel bar 41%). Secondly, there was an increase in the volume of imports used as inputs in production, resulting in an increase in the import turnover (petroleum 46.7%, raw plastic material 55.7%, steel 45.7%, steel bars 64.5%, raw materials for textile and garments and footwear 8.9%). The estimated surplus import volume was approximately US$5B, accounting for about 20% of the total export turnover. Net exports accounted for –0.6% of GDP, with the trade deficit at around US$2B.

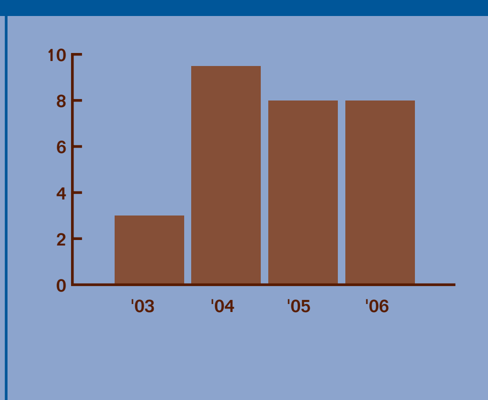
In 2004, there were significant changes in budgetary activities. Budget revenues increased by 17.4%, equivalent to about 23.4% of GDP. Domestic revenue increased by 23.8%; with revenue from crude oil production rising 18%. Budget expenditure increased by 16.7%. The proportion of expenditure for development investment was 28.6% of the total State budget, an increase of 15.7% compared to 2003. Overall, the budget deficit was roughly 4.9% of GDP.

During the year monetary policy continued to be loosened, but with caution. The increase in

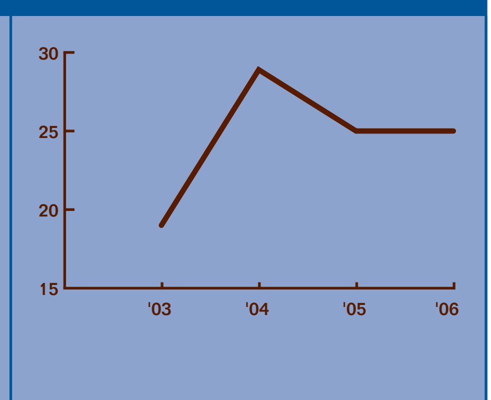
**GDP GROWTH %**




**CPI INFLATION %**




**EXPORT GROWTH %**



the total of payment instruments was 24.9%; credit volume was up 28.4% and mobilized capital 24% Credits to the non-State owned sector accounted for about 46% of the total credit advanced. The nominal devaluation of the Vietnam dong was 0.78%, which was much lower than the inflation rate.

## OUTLOOK FOR 2005-2006

Economic growth rates for 2005 and 2006 are forecast at 8.5% and 8.3% respectively. The main source of this slightly higher growth will be the impact of the economic cycle. Investment, especially private and public, will increase. As these are the two last years of the State five-year planning period, growth will be promoted. Consumption will rise due to a likely increase in inflation, which should result in an increase in consumption expenditure. Exports will rise as a result of promotion efforts, while imports will increase due to both the increased volume of materials needed and the increased price of some imported goods.

The inflation rate for 2005-2006 will likely be steady at 8%. There are some reasons for an expected high inflation rate for 2005. Firstly, the price of imported materials (steel, fertilizer, etc.) will increase, leading to higher domestic prices. Secondly, increased investment will lead to increased consumption. Thirdly, with the pay rise for State salary earners, prices will likely increase as a result of increased demand. Consumption is expected to contribute 4.9% to the GDP growth rate for each of the years. Increased consumption will come from a greater sense of security, economic growth, and also partly from concern about inflation.

The investment increase will likely be 16% for both years as a result of efforts in attracting domestic and foreign investment and will contribute 4.3% and 4.3% to GDP growth rate respectively. Investment from the State budget will continue to increase due to efforts to promote growth in the last years of the planning period. Private investment will also go up as the investment environment will continue to be improved. As a result of strengthened integration, FDI will also rise.

Estimated net exports will probably account for -9% and -10% of GDP for the respective years. Exports are expected to increase at a steady 25% rate for both years as a result of strengthened integration (a prerequisite for accession to membership of the World Trade Organization). The import increase is also estimated to be 25% each year, driven by an increase in the volume of imported input materials and their increased prices. As a result of these movements, the deficit in the current account will continue at about 5% of GDP for each of the years. However, given the strengthened capacity of ODA disbursement and increased inflow of foreign exchange from overseas Vietnamese, the overall balance will still be positive.

## RISKS AND UNCERTAINTIES

The most important risk is with the unpredictable price of petroleum. Too big a change will have unforeseeable impact on the economic indicators for the coming years as changes in petroleum price will create a chain effect on input materials for the economy. A second risk is with the price of agricultural products. As an exporter of agricultural products, any big changes in the price of shrimp or rice will largely influence the export of the products.

### SOME INDICATORS FOR 2001-2006

| | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|
| GDP growth rate (%) | 7.24 | 7.7 | 8.5 | 8.3 |
| Contribution of (%) | | | | |
| Consumption | 4.85 | 4.8 | 4.9 | 4.9 |
| Capital formation | 4.41 | 4.0 | 4.3 | 4.3 |
| Government expenditure | 2.0 | 2.1 | 2.0 | 2.0 |
| Net exports | -2.20 | -1.6 | -2.0 | -2.0 |
| Errors and omissions | 0.20 | 0.1 | 0.3 | 0.1 |
| Agriculture growth rate (%) | 3.20 | 3.5 | 3.5 | 3.4 |
| As percentage of GDP | 22.5 | 21.8 | 21.0 | 20.5 |
| Industry growth rate (%) | 10.34 | 10.5 | 13.5 | 13.0 |
| As percentage of GDP | 39.5 | 40.1 | 40.5 | 40.9 |
| Service growth rate (%) | 6.57 | 6.5 | 10.5 | 11.0 |
| As percentage of GDP | 38.2 | 38.1 | 38.5 | 38.6 |