

VIETNAM

2002: GROWTH RESUMED

The GDP growth rate in 2002 was 7 per cent compared to 6.7 per cent in 2001. The agricultural sector grew by 4.1 per cent, manufacturing by 9.4 per cent and services 6.5 per cent (including tourism at 21.2 per cent). Inflation in 2002 was 4 per cent, with food prices rising 5.6 per cent and buildings and construction material prices rising 7.1 per cent. Retail sales grew 12.8 per cent in 2002, the highest rate in the last 4 years.

In 2002, the total estimated increase in capital formation was 10.3 per cent over the 2001 figure, accounting for 33.7 per cent of GDP growth. State investment accounted for 52.3 per cent of total capital formation. Disbursed overseas development assistance was US\$1.58 billion (US\$1,450 million loans and US\$157 million grant funds). About 75 per cent of state credit was used for state-owned enterprises.

In 2002, 669 FDI projects were issued business licenses, with a total registered capital amounting to US\$1.3 billion. The number of projects increased by 32.4 per cent compared to 2001, but the volume of registered capital decreased by 41.1 per cent.

Disbursed FDI was approximately US\$1,200 million compared to US\$1,300 million in 2001. The average amount of registered capital per project in 2002 was about US\$2 million, compared to US\$4–5 million in 2001. FDI was still focused on industrial production (515 projects with a total registered capital of US\$1.0 billion, accounting for 77 per cent of the total number of projects and 76 per cent of

the registered capital). Compared to 2001, FDI from Europe sharply decreased while that from East Asia (except Japan) and the United States increased.

Total exports in 2002 were about US\$16.7 billion, 11.2 per cent more than in 2001. This represents a much higher rate of growth than the 3.8 per cent achieved in 2001. The total exports of domestic enterprises grew 7.4 per cent to US\$8.8 billion, 52.9 per cent of the total. The exports of foreign-invested enterprises increased by 15.8 per cent to US\$7.9 billion, 47.1 per cent of the total. This growth in exports was rooted in the recovery of prices of several commodities, including rice and crude oil.

Crude oil remains the largest export, but its value was highly dependent on price changes in the international market. The increase in revenue from crude oil exports was 3.2 per cent whereas crude oil production output grew by only 0.7 per cent. Rice export revenues increased by 16 per cent but the actual production of rice decreased by 13 per cent.

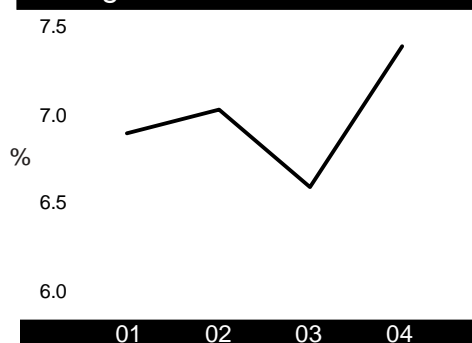
Exports in electronic goods and computer parts decreased by 17.3 per cent. The share of exports to the US market increased from 9.7 per cent in 2001 to 15.9 per cent in 2002, leaving the United States as the second largest importer of Vietnamese exports.

Imports in 2002 were about US\$19.7 billion, a 22.1 per cent increase on the 2001 level. Imports by domestic enterprises totalled US\$13.1 billion, accounting for 66.5 per cent of total

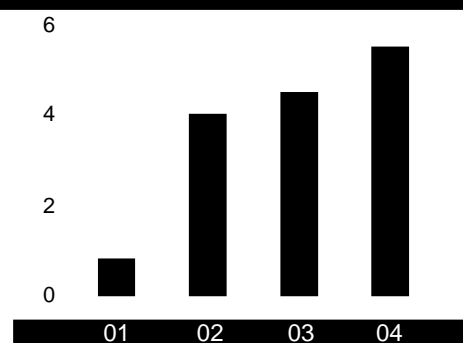
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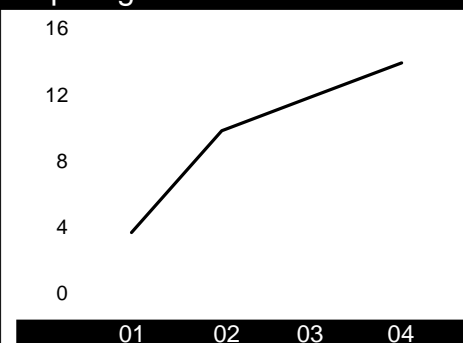
GDP growth



CPI inflation



Export growth



import turnover—an increase of 17.3 per cent over the 2001 figure. Imports by foreign-invested enterprises increased 32.8 per cent to US\$6.6 billion, accounting for 33.5 per cent of the total. Imports of materials, fuel, machinery, equipment and equipment parts accounted for 97.5 per cent of total imports. Imports of consumption goods accounted for 2.5 per cent.

Both deposit and lending interest rates increased in 2002. The Vietnamese Dong–US Dollar exchange rate also depreciated by 2.1 per cent 2002, which was much lower than the 3.8 per cent level in 2001. The demand for gold increased due to saving in gold instead of hard currencies. The price of real estate in urban areas increased sharply in 2002, especially in Hanoi and Ho Chi Minh city.

In 2002, monetary policy adjustments were made by reducing the compulsory reserve ratio from 10 per cent to 8 per cent (valid from 1 April 2002) and this level was further reduced to 5 per cent in November 2002 for foreign currency deposits.

After three consecutive years of surpluses, the current account showed a deficit of about US\$1266 million in 2002. The deficit in goods was US\$600 million and that in services was US\$666 million.

State budget revenues increased by 7.8 per cent in 2002, accounting for almost 21 per cent of total GDP. Taxes collected in 2002 were just equal to the amount of current expenditure and loan repayments (and grant). State budget expenditure in 2002 increased by 8.8 per cent, much lower than the increase in 2001. Expenditure for development remained at high level, leading to a state

budget deficit of almost 5 per cent of GDP, higher than that in 2001.

2003–04: EXPORTS, INVESTMENT, AND GOVERNMENT SPENDING PROMOTE GROWTH

The estimated GDP growth rates in 2003 and 2004 are 7.1 per cent and 7.4 per cent respectively. The growth in 2003 and 2004 will depend mainly on government expenditure, domestic private investment and exports.

Government expenditure will increase as a result of significant infrastructure spending aimed at promoting economic growth and integration with the world economy (aid disbursements on infrastructure projects, infrastructure projects for the Southeast Asian Games, expenditure on social welfare activities, and so forth) The contribution of government expenditures in economic growth in 2003 and 2004 will be 1.7 and 1.8 percentage points respectively.

In addition, investments by the domestic private sector will continue to increase and its contribution to economic growth in 2003 and 2004 will be 3.5 and 3.6 percentage points respectively. Domestic consumption in 2003 and 2004 will account for 3.8 and 4.1 points of the actual growth rate.

Along with this, the access to the US market will create new opportunities for exports of Vietnamese goods. Exports are expected to increase 12 per cent in 2003 and 14 per cent in 2004. Imports are estimated to increase 14 per cent in 2003 and 16 per cent in 2004 as more materials are imported for use in the production of export goods. Accordingly, the deficit on the current

account is expected to be US\$700 million in 2003 and US\$900 million in 2004, accounting for 1.6 per cent and 1.9 per cent of GDP.

Inflation in 2003 and 2004 will be 4.5 per cent and 5.5 per cent respectively. The Vietnamese Dong will depreciate slightly against the US dollar.

RISKS

The main concern is that there will be complicated consequences from SARS. Right after it found out about SARS, the Vietnamese government set up a government committee to control the response, organised SARS disease attack forces, isolated all SARS patients, set the right treatment for patients, and cooperated with WHO to warn people about SARS. The result was that Vietnam was the first country to control the SARS outbreak. The large volume of people passing through Vietnam's border gates represents an ongoing threat in this regard.

The effect of SARS on Vietnam will depend on how the problem develops in other countries. If the situation deteriorates, Vietnam's service sector, especially tourism and aviation, will be hit hard, with major consequences on overall economic performance.

Tourist arrivals ('000)

Tourist arrivals have grown steadily, but the SARS epidemic presents a serious risk to these developments in 2003.

