

Vietnam

Vietnam at a glance: 2010-11

OVERVIEW

The ruling Communist Party of Vietnam is due to hold its next national congress in 2011. As a result, there will be considerable jockeying for position within the current leadership from mid-2010. The budget deficit (excluding on-lending) will remain wide in 2010-11. The government's revenue position will improve in the next two years, but expenditure will remain relatively high. The State Bank of Vietnam (SBV, the central bank) is likely to continue to tighten monetary policy in 2010-11 as inflationary pressures build. The Economist Intelligence Unit forecasts that the pace of economic growth will accelerate in 2010-11, but we do not expect it to return to the heady rates that were recorded in the years preceding the 2008-09 slowdown. Inflation will accelerate to an average rate of 10.1% in 2010-11. On an annual average basis, we forecast that the dong will depreciate against the US dollar by 5% in 2010 and by 1.7% in 2011, although there are significant downside risks to this forecast. We expect the current-account deficit to remain wide in 2010-11, standing at an annual average of around 10.1% of GDP.

Key changes from last month

Political outlook

- In January the government's aggressive moves toward stamping out dissent and limiting religious freedom became increasingly apparent when three democracy activists were convicted of subversion. The government will continue to harshly punish individuals convicted of political offenses.

Economic policy outlook

- The government bolstered its fiscal position in January by raising US\$1bn in its second international sovereign bond issue. The sale was fully subscribed, reflecting the eagerness of foreign institutional investors to gain exposure to the country without dipping into its frequently chaotic stockmarket.

Economic forecast

- Consumer prices rose by 7.6% year on year in January, an acceleration from the 6.5% that was recorded in December. We now expect inflation to average 10.3% in 2010, up from 8.7% previously.

February 2010

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February 2010

Vietnam

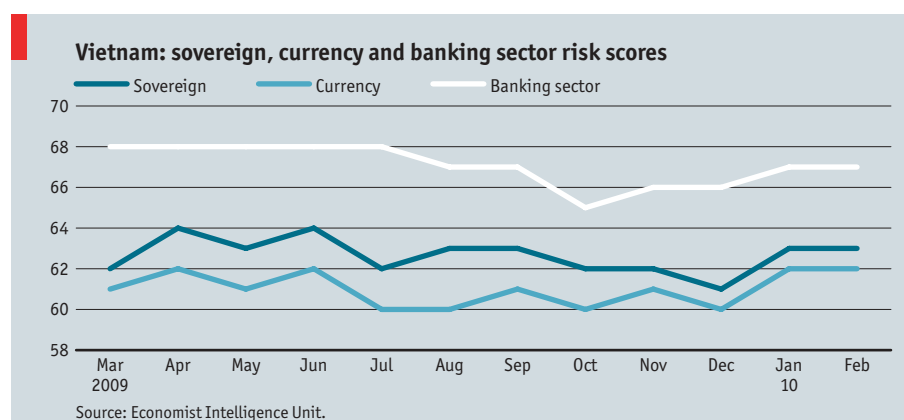
Vietnam: risk assessment

| | Sovereign risk | Currency risk | Banking sector risk | Political risk | Economic structure risk | Country risk |
|---------------|----------------|---------------|---------------------|----------------|-------------------------|--------------|
| February 2010 | CCC | B | CCC | B | CCC | CCC |

Sovereign risk **Stable:** The ratio of foreign-exchange reserves to external short-term debt is high, at 457%, greatly reducing Vietnam's vulnerability in the event of a liquidity crisis. However, this ratio has recently fallen in line with declining reserves.

Currency risk **Negative:** The authorities have taken steps to weaken the dong. The currency is likely to remain under pressure amid a shortage of US dollars in the local market, a wide trade deficit and growing concerns over inflation.

Banking sector risk **Stable:** Rising inflation will keep real interest rates paid to banks at a relatively low level. Given the cap on lending interest rates (which is set at 1.5 times the base rate), bank profitability will be significantly constrained.



Political risk The ruling Communist Party of Vietnam maintains a tight grip on power, ensuring a high degree of political stability. The leadership is embracing market-oriented reforms, but there is a risk that the pace of reform could slow, particularly if a conservative leader comes to power following the 2011 national congress.

Economic structure risk Although Vietnam's economy has appeared resilient amid the global recession, there is a risk that market-oriented reforms will give way to more protectionist policies aimed at safeguarding the domestic economy.

Hilary Ewing (analyst); Kilbinder Dosanjh (consulting editor)

February 7th 2010

Sovereign risk

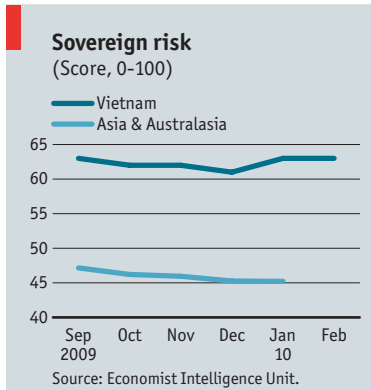
Vietnam: sovereign risk

Rating

February 2010

CCC

Current assessment



There are concerns about the potential negative side-effects of the ongoing stimulus efforts. The government has extended its interest rate subsidy scheme for medium- and long-term loans to cover the whole of 2010 (in 2009 the subsidy also applied to short-term loans). There are worries about how the government will finance its stimulus programmes (much of which are off-budget) while also funding a wide budget deficit. At the equivalent of 8.1% of GDP, the budget deficit (excluding on-lending) is expected to remain wide in 2010, after hitting an estimated 9% in 2009. In late January 2010 the government floated a US\$1bn international bond that was fully subscribed. However, this form of financing is relatively expensive. Nevertheless, as most of the government's debt is on a concessional basis, the cost of servicing this debt will remain relatively low. Public debt is expected to rise moderately in the forecast period, from an estimated 52.1% of GDP in 2009 (significantly above the median of CCC-rated countries of 43.2%) to 54.3% by 2011.

Positive factors

- Vietnam continues to enjoy strong donor support. Foreign donors pledged to disburse US\$8bn in official development assistance in 2010, up significantly from the US\$5bn that was promised in 2009.
- The ratio of foreign-exchange reserves to external short-term debt is high, at 457%, greatly reducing Vietnam's vulnerability in the event of a liquidity crisis. However, this ratio has recently fallen in line with declining reserves.

Negative factors

- The government is committed to honouring public debt obligations, both external and domestic, but this commitment could waver in the face of social and economic pressures.
- The country's level of foreign exchange-reserves fell by 21.3% to US\$18.8bn between end-2008 and end-August 2009. The lack of timely data has helped to fuel speculation that reserves have fallen even further in recent months. A low level of reserves raises the risk that the government would be unable to meet its debt-servicing obligations in the event of a liquidity crisis.

Rating outlook

Stable. Vietnam's sovereign risk rating is unlikely to improve in the forecast period. The government is committed to meeting its debt-servicing obligations. There is only a small risk that the government will find itself unable to service its debt in 2010-11, and if this were to occur, it is very likely that concessional financing would be forthcoming. The effectiveness of state institutions in terms of formulating and executing policy is poor, and this raises the risk that policy responses to the current challenges will be inadequate. Major shortcomings in fiscal accounting will continue to inhibit substantive analysis of the state of the government's accounts. Further US dollar-denominated international bond issuances are likely throughout the forecast period, although this will remain a relatively expensive means of raising financing.

Currency risk

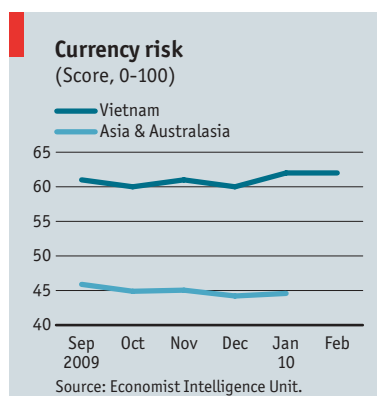
Vietnam: currency risk

Rating

February 2010

B

Current assessment



Buoyant demand for US dollars, underpinned by the wide trade deficit and rising inflationary expectations, has pushed down the value of the dong against the US currency in recent months. Owing to this persistent downward pressure, in November 2009 the State Bank of Vietnam (SBV, the central bank) narrowed the trading band within which the dong is allowed to fluctuate on a daily basis against the US dollar to 3%, from 5% previously. At the same time, the authorities took action to engineer a drop of over 5% in the value of the currency by adjusting its central point. Until the trade account and inflation show marked improvements, it is unlikely that the downward pressure on the dong will diminish significantly. The SBV may try to manage a controlled depreciation of the dong, but it may have to execute one-off devaluations and a widening of the trading band. However, allowing the dong to depreciate further against the US currency would increase the dong value of firms' US dollar-denominated debt, raising the risk of default for the many firms that rely on trade financing in US dollars.

Positive factors

- If the government widens the dong's trading band in 2010, it will introduce more flexibility into foreign-exchange markets, reducing the risk that there will be forced devaluations of the currency.

Negative factors

- The relatively low level of foreign-exchange reserves could inhibit the government's ability to intervene in the event of a run on the dong, increasing the risk of a maxi-devaluation.
- As long as the *de facto* currency peg against the US dollar remains in place, the economy will struggle to cope with external shocks.

Rating outlook

Negative. There appears to be little commitment to liberalising the foreign-exchange rate regime in the short term. This will diminish confidence in the government's ability to manage exchange-rate policy prudently, thereby raising the risk of a destabilising run on the currency. There are essentially no institutional mechanisms in place to ensure that inflation remains low, and this increases the risk that domestic price rises could erode the value of the dong. Dollarisation, whereby domestic holdings of US dollars increase as confidence in the dong wanes, could remain a problem, particularly if the authorities prove unable to control inflation and the exchange-rate regime is not liberalised.

Foreign-exchange regime

The government has operated a crawling peg since 1999, allowing the exchange rate of the dong against the US dollar to adjust regularly to changing market conditions. The State Bank of Vietnam (SBV, the central bank) sets the official exchange rate on a daily basis. The interbank market rate (at which banks exchange dong for foreign exchange among themselves) cannot deviate from the official rate by more than 3%.

Banking sector risk

Vietnam: banking sector risk

Rating

February 2010

CCC

Current assessment



Government initiatives to boost economic activity have helped to drive extraordinary credit expansion. Domestic credit growth is estimated at 45.6% in 2009, suggesting poor assessment of the associated risks. As some of this lending was directed towards unproductive investments, it is likely that there will be an increase in non-performing loans (NPLs). Moreover, owing to considerable state intervention in the banking sector, lending is often based on political rather than a purely financial criterion, which also raises the risk of NPLs. In December 2009 the SBV began to tighten monetary policy, raising the prime rate by 1 percentage point, to 8%. In view of the rapid growth in credit, the central bank is expected to increase policy rates in 2010, possibly by as much as 2 percentage points. The continued equitisation (part-privatisation) of state-owned commercial banks will contribute to improved efficiency in the sector. The government will proceed with banking sector reform, but progress will be slow.

Positive factors

- Low official interest rates will reduce debt-servicing costs and therefore limit the risk of a rise in NPLs.
- The government's stake in all major banks means that it would provide financial support if any of them were to come under pressure. This reduces the risk of a debt or currency crisis originating from the banking sector.

Negative factors

- There are significant deficiencies in the regulation and supervision of the financial sector, increasing the risk of a currency or debt crisis stemming from problems in the banking system.
- Rising inflation will keep real interest rates paid to banks relatively low. Given the cap on lending interest rates (which is set at 1.5 times the base rate), bank profitability will be significantly constrained.
- The SBV has not been particularly successful in directing banks to cap growth in lending in order to reign in expanding domestic credit. This raises the risk that credit growth will continue to grow rapidly, and with it NPLs.

Rating outlook

Stable. Banks will continue to call on the SBV to scrap the cap on lending interest rates as it constrains profitability and does not allow financial institutions to price in risk. However, abolishing the cap would probably lead to a marked increase in lending interest rates, which could stifle economic activity, making it unlikely that the government will heed the banks' calls. However, the government will improve its supervision of the banking sector in the long term. The SBV has introduced minimum capital requirements for commercial banks, with a view to creating a system that is centred on a small number of strong banks. Although there are minor restrictions that govern the convertibility of the dong by banks, there is only a small risk that further limits will be implemented.

Generic risks

The assessment of *political risk* and *economic structure risk* informs our assessment of *sovereign risk*, *currency risk* and *banking sector risk*.

Political risk assessment **Rating: B**

Political risk is dampened by the fact that the ruling Communist Party of Vietnam maintains a tight grip on power, ensuring a high degree of political stability. The leadership is embracing market-oriented reforms, but there is a risk that the pace of reform could slow, particularly if a conservative leader comes to power following the 2011 national congress. Although it is not part of the Economist Intelligence Unit's central forecast, a public health crisis, such as an avian influenza (bird flu) or swine flu epidemic in the human population, could pose a significant risk to the economy. Political effectiveness continues to be undermined by endemic corruption, and one of the main challenges facing the ruling party as it strives to maintain its grip on power is that of tackling graft within its own ranks; foreign investors and donors regularly express concern about the extent to which corruption permeates the government. Moreover, the prospects for political reform and improved protection of human rights remain poor. There is only a small risk that military conflict with another country will occur.

Economic structure risk assessment **Rating: CCC**

Economic indicators will improve in 2010-11, although they will remain below their peak levels. Real GDP will remain below the heady rates witnessed in recent years, reflecting relatively lacklustre external demand for Vietnamese merchandise exports, which will dampen growth in the manufacturing and industrial sectors. There have been a number of structural shifts in the economy in the past decade, with the importance of agriculture diminishing and private and foreign-invested firms accounting for an increasing share of industrial output. These trends have helped Vietnam to develop an economy that is becoming increasingly broad-based and less vulnerable to fluctuations in global commodity prices, although falls in commodity prices will still have an adverse effect on the country. Income per head is relatively low, constraining the government's ability to issue debt in the local currency and raising the cost of borrowing. These factors, among others, increase the risk that the government will default on its debt. There are doubts over the reliability of official government statistics, giving rise to concerns that the current economic picture is unfavourable and raising questions over the capabilities of the national statistics office.

Country risk

Overall country risk **Rating: CCC**

The country risk rating is derived by taking a simple average of the scores for *sovereign risk*, *currency risk* and *banking sector risk*.

Rating definitions

Sovereign risk

This risk category measures the risk of a build-up in arrears of principal and/or interest on foreign- and/or local-currency debt that is the direct obligation of the sovereign or guaranteed by the sovereign. The *sovereign risk* rating is informed by scores for a combination of political, policy, cyclical and structural variables.

Currency risk

This risk category measures the risk of a devaluation against the reference currency (usually the US dollar, occasionally the euro) of 25% or more in nominal terms over the next 12-month period. The *currency risk* rating is informed by scores for a combination of political, policy, cyclical and structural variables.

Banking sector risk

This risk category gauges the risk of a systemic crisis whereby bank(s) holding 10% or more of total bank assets become insolvent and unable to discharge their obligations to depositors and/or creditors. A banking crisis is deemed to occur even if governments restore solvency through large bail-outs and/or nationalisation. A run on banks facing a temporary lack of liquidity rather than underlying solvency problems is not deemed to constitute a crisis, provided that public confidence in the banking system is quickly restored. Banking crises are typically associated with payment difficulties in the corporate or household sectors; bursting of asset price bubbles; currency and/or maturity mismatches. The rating can therefore serve as a proxy for the risk of a systemic crisis in the private sector. The *banking sector risk* rating is informed by scores for a combination of political, policy, cyclical and structural variables.

Political risk

This risk category evaluates a range of political factors relating to political stability and effectiveness that could affect a country's ability and/or commitment to service its debt obligations and/or cause turbulence in the foreign-exchange market. The *political risk* rating informs the ratings for *sovereign risk*, *currency risk* and *banking sector risk*.

Economic structure risk

This risk category is derived from a series of macroeconomic variables of a structural rather than a cyclical nature. Consequently, the rating for *economic structure risk* will tend to be relatively stable, evolving in line with structural changes in the economy. The *economic structure risk* rating informs the ratings for *sovereign risk*, *currency risk* and *banking sector risk*.

Overall country risk

This risk rating is derived by taking a simple average of the scores for *sovereign risk*, *currency risk* and *banking sector risk*.

Central scenario for 2010-11

Political outlook

Domestic politics The ruling Communist Party of Vietnam is facing a number of major challenges in the run-up to the next national congress, which is due in January 2011. In the months leading up to the congress, there will be considerable jockeying for position within the current leadership, although it will be largely invisible from outside of the party. There could be important changes in personnel in the higher echelons of the party, but its central tenets will remain unchanged and its overriding objective will be to maintain its position of dominance. However, factional splits in the party are becoming increasingly apparent. Such divisions tend to be between reformists and conservatives, but recent jostling suggests that the divide is no longer as clear-cut and that internal wrangling is now more related to attempts to grab power than to policy differences. Nevertheless, it appears that the prime minister, Nguyen Tan Dung, and his reformist allies, including two deputy prime ministers, Hoang Trung Hai and Nguyen Thien Nhan, could be eclipsed by those in the party with conservative tendencies. Any such differences would be evident in matters relating to economic policy, media freedom and foreign relations. Those lining up against Mr Dung include the general secretary of the party, Nong Duc Manh, the public security minister, Le Hong Anh, the party's head of personnel and organisation, Ho Duc Viet, and the head of the party secretariat, Truong Tan Sang.

The party's success in promoting economic growth, even in the global economic downturn, has both contributed to a sense of political apathy and strengthened the party's long-standing claim to the right to govern the country unchallenged. However, its legitimacy and its defence of the virtues of the one-party state could yet be questioned amid economic uncertainty, endemic corruption, environmental degradation and strongly felt grievances relating to land seizures. Reflecting such threats, the leadership will remain anxious about the activities of political dissidents, and will therefore not hesitate to suppress opposition activism. Vocal opponents of the regime who advocate multiparty politics and genuine democratic reform will continue to be punished and imprisoned.

There may be attempts by the party to demonstrate a degree of political openness, together with limited "grass-roots democracy" at provincial, district and commune levels. However, hardliners within the party are growing increasingly fearful that greater social freedoms will threaten the party's hold on power. This is particularly apparent in the area of media freedom. Although the ongoing crackdown on corrupt officials and managers of state-owned enterprises is an indication that the government is taking the issue of graft seriously, recent steps to tighten control over the flow of news via print media and the Internet suggest that party leaders remain determined not to allow the true extent of corruption to be revealed or to allow dissenting opinions to be aired publicly.

International relations Vietnam will play a central role in developments in South-east Asia in 2010, having taken over the chair of the Association of South-East Asian Nations (ASEAN) in January. The government's stated priority during its year-long stint as ASEAN chair is that of promoting co-operation within the group. It is also keen to foster closer ties with China. Although prickly issues such as sovereignty of disputed islands in the South China Sea could create diplomatic tension, on the whole Sino-Vietnamese relations will continue to strengthen. This is not expected to damage Vietnam's links with the US; the Economist Intelligence Unit expects the Vietnamese government to continue to be successful in maintaining a balance whereby it avoids too close an alignment with one country at the expense of ties with the other. However, relations with the US could be strained by allegations of human rights abuses in Vietnam.

The government will also focus on developing the country's commercial links with other countries, as it appears eager to push ahead with free-trade agreements (FTAs). There have been discussions concerning the possibility of negotiating an FTA with the EU, and Vietnam has also recently expressed an interest in joining the Trans-Pacific Partnership bloc, which so far includes New Zealand, Singapore, Chile and Brunei.

Economic policy outlook

Policy trends The government continues to confront the major policy challenge of containing inflation, stabilising the exchange rate and also boosting economic growth. The authorities face a trade-off between tightening monetary policy to bolster the exchange rate and keep rampant inflation at bay, and maintaining policy at a relatively loose level so as to not starve firms of working capital and stifle economic activity. In terms of economic stimulus, the government has extended its interest rate subsidy scheme for medium- and long-term loans to cover the whole of 2010 (in 2009 the subsidy also applied to short-term loans). However, there are concerns about the potential negative side-effects of the ongoing stimulus efforts. The interest rate subsidy, combined with relatively low official lending rates in 2009, has resulted in a surge in domestic credit that has intensified inflationary pressures. There are also worries about how the government will finance its stimulus programmes (much of which are off-budget) while also funding a wide budget deficit.

Policymakers are likely to push ahead with conventional policy measures to try to contain inflationary pressures. For example, the State Bank of Vietnam (SBV, the central bank) raised its benchmark policy interest rate by 1 percentage point, to 8%, in December. However, perhaps more importantly, the SBV lowered the reserve requirement ratio on compulsory foreign reserves to 4%, from 7% previously, effective from February 1st 2010. This will free up capital in the short term and will boost lending. However, by raising interest rates and then cutting the reserve requirement, policymakers appear to be trying to tighten and loosen monetary policy simultaneously, raising concerns about the overall policy direction.

The authorities also appear to be considering more controversial measures, such as price controls on private and foreign businesses, to keep prices stable. If

implemented, such drastic measures would do much to undermine confidence in the government's economic management. It would also suggest that those in the government who are espousing a more liberal approach to economic policymaking have been overshadowed by those with a controlling mentality who aim to reassert the state's involvement in managing the economy.

Fiscal policy After expanding to an estimated 9% of GDP in 2009, the budget deficit (excluding on-lending) will remain wide in 2010-11. The government's revenue position will improve in the next two years as economic growth accelerates and global crude oil prices rise from the lows to which they sank in 2009, but expenditure will remain relatively high as the government continues to spend heavily on infrastructure and on programmes to improve social welfare provision. Although the budget deficit will narrow in 2010-11, to an average of 7.8% of GDP, there are serious concerns about how the government will finance this, particularly given that it is already borrowing heavily to fund its off-budget stimulus programmes. In late January 2010 the government raised US\$1bn through an international sovereign bond issue, but this was at a premium. The government will continue to receive funds from international donors.

Monetary policy The SBV is expected to further tighten monetary policy in 2010-11 as inflationary pressures build. The central bank dramatically loosened policy between mid-2008 and early 2009, cutting its main policy interest rate, the prime rate, from 14% to 7%. However, by December 2009 the SBV began to tighten monetary policy, raising the prime rate by 1 percentage point, to 8%. In view of the rapid pace of credit growth, the bank is expected to increase policy rates in 2010, possibly by as much as 2 percentage points. The IMF and the Asian Development Bank have already called on the authorities to tighten monetary policy and rein in credit growth. Although it is not our central forecast, the government may choose to loosen policy again in 2010 in order to boost economic activity. However, such a course of action would have a severely negative impact on economic stability.

Economic forecast

International assumptions The global economic recovery, which started in Asian emerging markets but has since spread to most major regions, is now well under way. Companies and consumers have realised that worst-case scenarios are unlikely to materialise and are adjusting their consumption, investment and hiring behaviour to suit a more benign outlook. Importantly, businesses are also no longer cutting their inventories; destocking was one of the main factors behind the decline in global GDP in 2009. The recovery is also being driven by powerful monetary and fiscal stimulus in almost all major economies. However, fiscal stimulus in particular cannot be sustained indefinitely without raising concerns about the sustainability of debt levels. The key question is whether other sources of demand will be sufficient to maintain the strength of the worldwide recovery beyond 2010.

Global GDP growth at purchasing power parity exchange rates is forecast at 3.6% in 2010. Measured at market exchange rates (which give greater emphasis to richer countries and better reflect the exchange rates at which firms trade and repatriate profits), global economic growth is forecast at 2.7% this year. In 2011 the soft patch that is expected in the US and the sluggishness of economic recovery in the euro zone and Japan will constrain global growth. More broadly, the world economy will suffer from the after-effects of the financial crash that started in mid-2007 and the subsequent wealth destruction of 2008-09, which will prevent a return to the fast, credit-fuelled rates of growth that prevailed in 2004-07.

Economic growth

Although Vietnam's long-term economic growth prospects remain positive, the next two years will be challenging. In 2010-11 we forecast that the pace of expansion in GDP will accelerate from the 5.3% that was recorded in 2009, but we do not expect it to return to the heady rates of the years that preceded the 2008-09 slowdown. On the positive side, the recovery in the global economy bodes well for Vietnam's export sector, and the recent rise in imports suggests that consumer and investor demand is strengthening. However, on the negative side the proactive approach taken by the government to keep the economy afloat in 2009 (in particular loose fiscal and monetary policy) is likely to prove inflationary, thus limiting policy flexibility in the next two years. Moreover, rising inflation and relatively high unemployment (owing to slowing job creation) could constrain future consumer spending growth.

On the supply side, growth in the industrial sector will accelerate in 2010-11. Although there will be an improvement in manufacturing output compared with 2009, growth in demand for Vietnam's manufactured exports will be lacklustre in the next two years compared with the period that preceded the global recession in 2009. Similarly, foreign investors remain positive about Vietnam's long-term prospects, but growth in manufacturing investment will also be relatively slow in the next two years, owing to low capacity utilisation rates in 2009. The construction sector has been growing rapidly, boosted in 2009 by low interest rates and reduced prices for materials. In addition to an expansion of office space, state investment in infrastructure development projects will help to support the construction industry in 2010-11. The services sector, which was the main driver of economic expansion in 2009, will also record a steady acceleration in growth.

Inflation

Consumer price inflation will accelerate in 2010-11, having slowed sharply in 2009 owing to a drop in food and fuel prices. Global food and fuel prices will rise on an annual average basis in 2010, and demand-side pressures will also push up the general price level. By making credit cheaper and actively encouraging domestic banks to lend, the government has successfully boosted demand for credit. Assuming that the authorities continue to maintain a bias in policymaking towards supporting economic growth rather than stabilising the economy, we forecast that the outstanding stock of domestic credit will rise by an average of over 40% a year in 2010-11. Although inflation is forecast to average 10.1% a year in the next two years, the risks are on the upside.

- Exchange rates** Owing to persistent downward pressure on the dong, on November 25th 2009 the authorities took action to engineer a drop of over 5% in the value of the currency by adjusting its central point. At the same time, the SBV narrowed the trading band within which the dong is allowed to fluctuate on a daily basis against the US dollar to 3%, from 5% previously. Strong demand for US dollars, underpinned by the wide trade deficit and rising inflationary expectations, has pushed down the value of the dong against the US currency in recent months. The SBV's moves were intended to relieve some of this pressure. However, until there are concrete signs that the trade deficit is narrowing, foreign direct investment is rising and inflationary pressures are receding, it is unlikely that downward pressure on the dong will diminish significantly. Although officials at the SBV have expressed confidence that the bank has sufficient international reserves to enable it to support the dong, reserves have dwindled in the past year and are forecast to remain below the equivalent of three months of imports in 2010-11. Therefore, assuming that pressure on the currency continues to build, we expect the SBV to have to allow the dong to fall by a further 5% in 2010 and then by another 1.7% in 2011 on an annual average basis. The central bank may try to manage a controlled depreciation of the dong, but it will probably have to opt for one-off sharp devaluations, a widening of the trading band or both.
- External sector** The current account will remain in deficit in 2010-11, averaging the equivalent of around 10.1% of GDP, compared with an estimated 10.5% in 2009. Despite a recovery in exports, pent-up demand for imports and an acceleration in consumption and investment growth will mean that the merchandise trade deficit will remain massive in 2010-11. In addition to the deficit on the merchandise trade account, the services and income accounts will also stay in the red. The current transfers surplus will continue to be sufficient to offset the combined deficit on the services and income accounts. Despite continuing to run a deficit on the current account, Vietnam's international reserves position will improve in 2010-11, as capital and financial inflows (including official foreign borrowing) will increase from the low levels to which they sank in 2009. However, they will not return to the highs that they reached in 2008.
- External financing requirement** Vietnam's gross external financing requirement (including repayments of short-term debt) is set to rise to US\$16.4bn in 2011, largely because the current-account deficit is forecast to remain substantial. Moreover, short-term debt due will rise sharply in 2011, reflecting the improved availability of financing in 2010. The gross financing requirement, which is estimated to have reached 16.1% of GDP in 2009, will fall to an average of 14.8% in the forecast period.
- Vietnam's membership of the World Trade Organisation since January 2007 means that foreign firms now perceive the country to be a safer and more attractive investment destination, with the proviso that the government continues to implement legislative changes to improve the business operating environment. Moreover, Vietnam benefits from its inclusion in the Generalised System of Preferences. This means that it enjoys preferential access to the US and EU markets for a range of products, and foreign companies may therefore see Vietnam as offering cost-effective access to their final markets in the West.

Investors' interest in Vietnam remains strong. As such, we expect foreign direct investment (FDI) to grow strongly in the forecast period. FDI inflows fell in 2009 on the back of the global financial crisis and the fact that global credit markets witnessed unprecedented levels of risk aversion. Inward FDI was estimated at US\$7.3bn in 2009, but inflows are set to rise to US\$8.5bn in 2010 and US\$9.3bn in 2011.

The government has shown that it can tap international money markets, having successfully issued its second sovereign bond in January 2010. The second issue was worth US\$1bn and was fully subscribed. On balance, inflows on the capital account will be sufficient to finance the gross financing deficit in the forecast period.

External debt

Vietnam's external debt stock will rise significantly in 2010-11, reflecting growing public medium- and long-term debt inflows as well as an increase in short-term debt. The rise in public medium- and long-term debt inflows will be a reflection of the government's need to finance ongoing projects, including major infrastructure works. The rise in short-term debt inflows will reflect stronger growth in the requirement for international trade financing, in line with an expansion in trade. The external debt stock is forecast to reach US\$37.5bn by end-2011, up from US\$24.2bn at end-2007 (latest actual data from the World Bank). However, as a percentage of GDP the external debt stock will remain relatively low, at an average of around 34% in 2010-11. The main component of Vietnam's external debt stock is lending provided on a concessional basis, which accounted for around 87% of total external debt in 2009. Given that low interest rates apply to most of its outstanding debt, the country is unlikely to struggle to fulfil its debt-servicing obligations, and the debt-service ratio is forecast to hold steady in 2010-11, at around 1.6%.

International donors remain generous, pledging US\$8bn in official development assistance for disbursement in 2010, compared with pledges of around US\$5bn in 2008 and 2009. Although aid pledges do not automatically (or necessarily fully) translate into actual disbursements, the trend suggests that Vietnam will probably receive the support of donors if it experiences financing difficulties, despite continued concerns about official corruption involving aid money. The government is set to receive at least US\$5bn in the next three years from official donors, in part to help to shore up the country's foreign-exchange reserves.

According to the World Bank, Vietnam's principal and interest arrears stood at nearly US\$1.4bn at end-2007. However, the country has been active in reaching debt-settlement agreements with bilateral creditors, and the government claims that since mid-2005 it has been current with all principal and interest payments. The discrepancy between World Bank and local data may reflect either differences in how arrears are calculated or variations in methodology relating to accounting conventions.

Key risk indicators

| (% unless otherwise indicated) | Vietnam | Median of CCC-rated | Median of ASEAN | Median of emerging markets |
|--|---------|------------------------|--------------------|-------------------------------|
| Largest single goods export (2-digit SITC code)/total goods exports | 19.7 | 37.6 | 29.8 | 34.0 |
| Gross public debt/GDP | 52.6 | 43.2 | 51.5 | 33.7 |
| Gross external debt/GDP | 30.0 | 36.5 | 27.2 | 28.6 |
| Interest & principal arrears (if any)/gross external debt | 5.5 | 3.6 | 0.3 | 0.0 |
| Net external debt/exports | 14.4 | 67.2 | 16.8 | 28.8 |
| Primary fiscal balance/GDP required to stabilise public debt/GDP ratio | -1.6 | -0.5 | -1.7 | -0.9 |
| Foreign-exchange reserves/gross external financing requirement | 118.5 | 107.5 | 182.7 | 126.7 |
| Foreign-exchange reserves/external short-term debt | 457.0 | 367.1 | 657.3 | 452.0 |
| Foreign-exchange reserves (change over last 6 months) | -15.2 | 3.1 | 8.8 | 8.6 |
| Banks' net foreign asset position/total foreign assets | 26.9 | 13.8 | 22.8 | 18.7 |
| Bank credit to private sector/GDP (change over last 36 months; percentage points) | 37.7 | 8.3 | 4.2 | 6.6 |
| Over last 12 months | | | | |
| Average real money-market interest rates | 0.2 | 2.8 | 1.1 | 1.1 |
| Fiscal balance/GDP | -8.8 | -4.6 | -4.6 | -3.8 |
| US\$ export receipt growth | -4.9 | -10.0 | -6.8 | -13.0 |
| Current-account balance/GDP | -10.5 | -6.6 | 2.8 | -1.2 |
| Debt-service due/exports | 1.5 | 6.7 | 5.0 | 8.2 |
| Interest due/exports | 0.6 | 2.5 | 0.9 | 2.2 |
| Average import cover (months) | 2.7 | 4.2 | 7.2 | 6.4 |
| Banks' loan-deposit spread (percentage points) | 2.4 | 6.5 | 5.1 | 5.2 |
| Change in bank credit to private sector | 28.3 | 13.7 | 13.9 | 11.2 |
| Over last 48 months | | | | |
| Average current-account balance/GDP | -8.8 | -6.9 | 3.5 | -1.5 |
| Average GDP growth | 6.9 | 4.2 | 4.1 | 4.1 |
| Average inflation rate | 11.5 | 9.3 | 7.6 | 7.1 |
| Change in real trade-weighted exchange rate | 12.4 | 8.0 | 11.9 | 9.8 |

Ratings summary

| | Aug 2009 | Sep 2009 | Oct 2009 | Nov 2009 | Dec 2009 | Jan 2010 | Feb 2010 |
|-----------------------------------|----------|----------|----------|----------|----------|----------|----------|
| Sovereign risk score ^a | 63 | 63 | 62 | 62 | 61 | 63 | 63 |
| Sovereign risk rating | CCC | CCC | CCC | CCC | CCC | CCC | CCC |
| Currency risk score | 60 | 61 | 60 | 61 | 60 | 62 | 62 |
| Currency risk rating | B | B | B | B | B | B | B |
| Banking sector risk score | 67 | 67 | 65 | 66 | 66 | 67 | 67 |
| Banking sector risk rating | CCC | CCC | CCC | CCC | CCC | CCC | CCC |
| Political risk score | 62 | 62 | 62 | 62 | 62 | 62 | 62 |
| Political risk rating | B | B | B | B | B | B | B |
| Economic structure risk score | 63 | 63 | 63 | 63 | 63 | 63 | 63 |
| Economic structure risk rating | CCC | CCC | CCC | CCC | CCC | CCC | CCC |
| Country risk score | 63 | 64 | 62 | 63 | 62 | 64 | 64 |
| Country risk rating | CCC | CCC | CCC | CCC | CCC | CCC | CCC |

Note. Ratings are derived from scores as follows: 100-89 = D; 92-79 = C; 82-69 = CC; 72-59 = CCC; 62-49 = B; 52-39 = BB; 42-29 = BBB; 32-19 = A; 22-9 = AA; 12-0 = AAA. In boundary areas, the higher or lower rating is assigned at the discretion of the analyst.

^a For the backtesting period (1997-2005) the probability of sovereign default associated with the different score ranges is as follows: 0-10, 0%; >10-20, 0%; >20-30, 0%; >30-40, 0%; >40-50, 1.4%; >50-60, 14.1%; >60-70, 57.9%; >70-80, 90.4%; >80-90, 100%; >90-100, not available.

Quarterly indicators

| | 2008 | | | | 2009 | | |
|--|-----------|-----------|-----------|-----------|-----------|-----------|--------|
| | 1 Qtr | 2 Qtr | 3 Qtr | 4 Qtr | 1 Qtr | 2 Qtr | 3 Qtr |
| Exchange rate (D:US\$) | | | | | | | |
| Average | 15,947 | 16,252 | 16,666 | 16,898 | 17,499 | 17,785 | 17,820 |
| End-period | 16,105 | 16,842 | 16,575 | 17,433 | 17,756 | 17,801 | 17,841 |
| Domestic indicators (% change) | | | | | | | |
| Consumer prices (av) | 16.4 | 24.5 | 27.7 | 23.6 | 15.5 | 6.9 | 2.8 |
| Money supply M1 | 24.8 | 2.3 | -8.8 | -0.4 | 16.7 | 48.5 | - |
| External sector (US\$ m) | | | | | | | |
| Total exports fob | 13,411 | 15,750 | 17,839 | 14,163 | 14,059 | 13,431 | 13,767 |
| Total imports cif | 19,998 | 22,650 | 19,087 | 15,757 | 12,560 | 17,027 | 18,124 |
| Trade balance | -6,587 | -6,900 | -1,248 | -1,594 | 1,499 | -3,596 | -4,357 |
| Foreign direct investment inflows | 1,394 | 2,864 | 2,465 | 2,856 | 1,152 | - | - |
| International liquidity (US\$ m) | | | | | | | |
| Total reserves | 26,744 | 22,560 | 24,136 | 24,176 | 23,308 | 20,260 | - |
| Foreign-exchange reserves | 26,436 | 22,262 | 23,848 | 23,890 | 23,008 | 20,253 | - |
| Gold, national valuation | 308 | 297 | 288 | 286 | 300 | 306 | - |
| Assets with BIS-reporting banks | 12,826 | 12,700 | 12,621 | 16,081 | 10,929 | 10,751 | 11,949 |
| Liabilities to BIS-reporting banks | 5,602 | 6,044 | 5,973 | 3,438 | 4,265 | 3,447 | 2,898 |
| Liabilities due within 1 year to BIS-reporting banks | 7,310 | 7,026 | 6,456 | 4,785 | 5,407 | 4,979 | 4,369 |
| Commercial banks' foreign assets | 4,098 | 6,523 | 6,235 | 5,234 | 5,988 | 6,229 | - |
| Commercial banks' foreign liabilities | 5,917 | 6,485 | 5,792 | 5,132 | 4,531 | 4,554 | - |
| Commercial banks' net foreign assets | -1,819 | 38 | 442 | 102 | 1,457 | 1,675 | - |
| IMF credits & loans outstanding | 163 | 149 | 135 | 121 | 111 | 103 | 98 |
| Net flow of IMF credits & loans | -7 | -14 | -6 | -13 | -6 | -13 | -7 |
| Banking indicators (D bn) | | | | | | | |
| Commercial banks' claims on: | | | | | | | |
| Public sector | 98,736 | 99,954 | 106,760 | 152,519 | 159,656 | 162,568 | - |
| Central government | 98,736 | 99,954 | 106,760 | 152,519 | 159,656 | 162,568 | - |
| Private sector | 1,204,990 | 1,262,540 | 1,266,680 | 1,339,260 | 1,419,800 | 1,619,230 | - |
| Non-financial private sector | 1,204,990 | 1,262,540 | 1,266,680 | 1,339,260 | 1,419,800 | 1,619,230 | - |
| Lending interest rate (%; av) | 12.3 | 16.6 | 20.1 | 14.1 | 9.5 | - | - |
| Deposit interest rate (%; av) | 9.1 | 13.8 | 17.0 | 11.0 | 6.9 | - | - |
| Money market interest rate (%; av) | 7.5 | 15.0 | 15.0 | 10.3 | 8.0 | - | - |

Symbols0, 0.0 *nil or negligible*- *not applicable or not available*

International assumptions summary

(% unless otherwise indicated)

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|--|--------|--------|--------|--------|-------|-------|-------|
| Real GDP growth | | | | | | | |
| World | 4.4 | 5.0 | 5.0 | 2.8 | -1.3 | 3.2 | 3.4 |
| China | 10.4 | 11.6 | 13.0 | 9.0 | 8.2 | 8.7 | 8.4 |
| EU27 | 2.1 | 3.2 | 2.8 | 0.7 | -4.2 | 0.7 | 1.2 |
| Exchange rates | | | | | | | |
| ¥:US\$ | 110.08 | 116.22 | 117.78 | 103.36 | 93.76 | 90.00 | 89.00 |
| US\$:€ | 1.25 | 1.26 | 1.37 | 1.47 | 1.40 | 1.42 | 1.40 |
| Financial indicators | | | | | | | |
| ¥ 3-month money market rate | 0.0 | 0.3 | 0.7 | 0.9 | 0.4 | 0.3 | 0.6 |
| US\$ 3-month commercial paper rate | 3.4 | 5.0 | 5.1 | 2.2 | 0.3 | 0.6 | 1.5 |
| Commodity prices | | | | | | | |
| Oil (Brent; US\$/b) | 54.4 | 65.4 | 72.7 | 97.7 | 62.0 | 74.0 | 70.0 |
| Food, feedstuffs & beverages (% change in US\$ terms) | -0.5 | 16.1 | 30.9 | 29.5 | -20.0 | 6.0 | 1.3 |
| Industrial raw materials (% change in US\$ terms) | 10.2 | 49.6 | 11.2 | -5.1 | -28.8 | 18.6 | 6.0 |

Note. Regional GDP growth rates weighted using purchasing power parity exchange rates.

Economic structure

| | 2005 ^a | 2006 ^a | 2007 ^a | 2008 ^a | 2009 ^b | 2010 ^c | 2011 ^c |
|---|--------------------|--------------------|--------------------|--------------------|------------------------|-------------------|-------------------|
| GDP at market prices | | | | | | | |
| Nominal GDP (US\$ bn) | 52.9 | 61.0 | 71.1 | 89.9 | 92.6 ^a | 99.3 | 110.6 |
| Nominal GDP (D bn) | 839,211 | 974,266 | 1,143,720 | 1,477,720 | 1,648,352 ^a | 1,861,038 | 2,109,857 |
| Real GDP (D bn at 1994 prices) | 392,989 | 425,373 | 461,344 | 489,833 | 515,794 ^a | 547,902 | 586,172 |
| Expenditure on GDP (% real change) | | | | | | | |
| GDP | 8.4 | 8.2 | 8.5 | 6.2 | 5.3 ^a | 6.2 | 7.0 |
| Private consumption | 7.3 | 8.3 | 10.8 | 9.2 | 4.0 | 6.1 | 6.6 |
| Government consumption | 7.9 | 8.8 | 8.9 | 7.5 | 8.2 | 8.0 | 7.8 |
| Gross fixed investment | 9.8 | 9.9 | 24.2 | 3.8 | 2.0 | 6.2 | 7.2 |
| Exports of goods & services | 20.5 | 17.3 ^b | 15.5 ^b | 14.7 ^b | -6.0 | 7.0 | 9.6 |
| Imports of goods & services | 15.9 | 18.6 ^b | 27.7 ^b | 15.0 ^b | -5.6 | 7.3 | 8.0 |
| Origin of GDP (% real change) | | | | | | | |
| Agriculture | 4.0 | 3.4 | 3.7 | 4.4 | 1.8 ^a | 2.0 | 3.0 |
| Industry | 10.7 | 10.4 | 10.6 | 5.7 | 5.5 ^a | 7.0 | 6.8 |
| Services | 8.5 | 8.3 | 8.7 | 7.3 | 6.6 ^a | 7.2 | 8.7 |
| Ratios, GDP at market prices (%) | | | | | | | |
| Gross fixed investment/GDP | 32.9 | 33.4 | 38.3 | 36.0 | 36.8 | 39.8 | 41.4 |
| Exports of goods & services/GDP | 69.4 | 73.6 | 76.9 | 78.2 | 66.9 | 71.0 | 69.7 |
| Imports of goods & services/GDP | 73.5 | 78.2 | 92.7 | 94.7 | 82.6 | 89.4 | 91.7 |
| Gross national savings/investment | 97.0 | 99.3 | 77.3 | 71.0 | 74.8 | 74.7 | 77.9 |
| Ratios, GDP at factor cost (%) | | | | | | | |
| Agriculture/GDP | 21.0 | 20.4 | 20.3 | 22.0 | 21.3 ^a | 20.4 | 19.7 |
| Industry/GDP | 41.0 | 41.5 | 41.6 | 39.9 | 40.0 ^a | 40.3 | 40.2 |
| Services/GDP | 38.0 | 38.1 | 38.1 | 38.1 | 38.7 ^a | 39.3 | 40.1 |
| Population and income | | | | | | | |
| Population (m) | 83.5 | 84.4 ^b | 85.3 ^b | 86.1 ^b | 87.0 | 87.8 | 88.7 |
| Labour force (m) | 43.6 | 45.5 | 46.4 ^b | 47.4 ^b | 48.3 | 49.2 | 50.0 |
| GDP per head (US\$ at PPP) | 2,132 ^b | 2,358 ^b | 2,604 ^b | 2,796 ^b | 2,946 | 3,130 | 3,355 |

^a Actual. ^b Economist Intelligence Unit estimates. ^c Economist Intelligence Unit forecasts.

Public finances

| | 2005 ^a | 2006 ^a | 2007 ^a | 2008 ^b | 2009 ^b | 2010 ^c | 2011 ^c |
|-------------------------------------|-------------------|----------------------|----------------------|-------------------|-------------------|-------------------|-------------------|
| Fiscal indicators (D bn) | | | | | | | |
| Budget revenue | 228,287 | 279,472 | 315,915 | 397,127 | 389,879 | 443,907 | 507,582 |
| Budget expenditure | 262,697 | 308,058 | 399,402 | 477,024 | 537,987 | 593,837 | 663,967 |
| Budget balance | -34,410 | -28,586 | -83,487 | -79,897 | -148,108 | -149,931 | -156,385 |
| Public debt | 368,992 | 447,578 ^b | 571,065 ^b | 720,962 | 859,071 | 1,009,001 | 1,145,386 |
| Fiscal indicators (% of GDP) | | | | | | | |
| Budget revenue | 27.2 | 28.7 | 27.6 | 26.9 | 23.7 | 23.9 | 24.1 |
| Budget expenditure | 31.3 | 31.6 | 34.9 | 32.3 | 32.6 | 31.9 | 31.5 |
| Budget balance | -4.1 | -2.9 | -7.3 | -5.4 | -9.0 | -8.1 | -7.4 |
| Public debt | 44.0 | 45.9 ^b | 49.9 ^b | 48.8 | 52.1 | 54.2 | 54.3 |

^a Actual. ^b Economist Intelligence Unit estimates. ^c Economist Intelligence Unit forecasts.

Exchange rates, interest rates and prices

| | 2005 ^a | 2006 ^a | 2007 ^a | 2008 ^a | 2009 ^a | 2010 ^b | 2011 ^b |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|-------------------|-------------------|
| Exchange rates | | | | | | | |
| Exchange rate D:US\$ (av) | 15,859 | 15,981 | 16,078 | 16,440 | 17,800 | 18,745 | 19,073 |
| Exchange rate D:US\$ (end-period) | 15,916 | 16,055 | 16,010 | 17,433 | 18,472 | 18,959 | 19,276 |
| Exchange rate D:¥100 (av) | 14,407 | 13,750 | 13,651 | 15,905 | 18,995 | 21,302 | 21,923 |
| Exchange rate D:¥100 (end period) | 13,495 | 13,489 | 14,332 | 19,201 | 19,845 | 21,668 | 22,284 |
| Exchange rate D:€ (av) | 19,756 | 20,066 | 22,005 | 24,167 | 24,795 | 26,665 | 26,655 |
| Exchange rate D:€ (end-period) | 18,775 | 21,188 | 23,379 | 24,234 | 26,474 | 26,259 | 27,179 |
| Black market exchange rate D:US\$ (av) | 16,652 ^c | 16,780 ^c | 16,882 ^c | 17,591 ^c | 19,224 ^c | 19,683 | 20,027 |
| Real effective exchange rate (consumer prices) | 90.2 | 93.2 | 93.9 | 104.4 | 105.1 ^c | 104.5 | 110.3 |
| Real effective exchange rate (producer prices) | 88.6 ^c | 89.8 ^c | 89.9 ^c | 97.2 ^c | 102.5 ^c | 97.0 | 99.5 |
| Real effective exchange rate (unit labour costs) | 76.7 ^c | 78.9 ^c | 76.7 ^c | 84.8 ^c | 77.9 ^c | 77.0 | 80.0 |
| Interest rates | | | | | | | |
| Lending interest rate (%; av) | 11.0 | 11.2 | 11.2 | 15.8 | 10.4 ^c | 13.8 | 13.5 |
| Deposit interest rate (%; av) | 7.1 | 7.6 | 7.5 | 12.7 | 8.2 ^c | 10.6 | 10.5 |
| Money market interest rate (%; av) | 5.0 | 6.5 | 6.5 | 10.3 | 7.5 ^c | 9.5 | 9.0 |
| Money market spread over US T-bills (basis points) | 179 | 165 | 203 | 891 | 735 ^c | 906 | 761 |
| Real money market rate (%; av) | -3.1 | -0.8 | -1.7 | -11.6 | 0.6 | -0.7 | -0.9 |
| Prices | | | | | | | |
| Consumer prices (% change; av) | 8.3 | 7.4 | 8.3 | 23.1 | 6.9 | 10.3 | 9.9 |
| Consumer prices (% change; end-period) | 8.7 | 6.6 | 12.6 | 21.6 | 6.5 | 13.3 | 6.8 |

^a Actual. ^b Economist Intelligence Unit forecasts. ^c Economist Intelligence Unit estimates.

Financial sector

| | 2005 ^a | 2006 ^a | 2007 ^a | 2008 ^b | 2009 ^b | 2010 ^c | 2011 ^c |
|---|-------------------|-------------------|--------------------|------------------------|-------------------|-------------------|-------------------|
| Banking sector (US\$ bn) | | | | | | | |
| Bank loans | 24.0 ^b | 29.2 ^b | 43.8 ^b | 51.2 | 72.0 | 90.4 | 113.5 |
| Bank deposits | 25.2 ^b | 32.9 ^b | 48.7 ^b | 58.5 | 73.4 | 90.6 | 113.8 |
| Banking assets | 35.9 ^b | 43.3 ^b | 64.4 ^b | 76.2 | 93.4 | 118.8 | 153.3 |
| Loans/assets (%) | 66.8 ^b | 67.4 ^b | 68.0 ^b | 67.2 | 77.1 | 76.1 | 74.0 |
| Financial sector (US\$ bn) | | | | | | | |
| Total lending by banking & non-banking financial sector | 40.2 | 49.8 | 74.3 | 81.7 | 116.3 | 145.3 | 180.4 |
| Total lending to the private sector | 34.7 | 43.2 | 66.7 | 76.8 | 100.6 | 125.6 | 159.6 |
| Total lending per head (US\$) | 482 | 590 ^b | 872 ^b | 949 | 1,337 | 1,655 | 2,034 |
| Total lending/GDP (%) | 76.3 | 82.0 ^b | 104.0 ^b | 96.4 | 130.3 | 148.1 | 164.8 |
| Money and credit (D bn) | | | | | | | |
| Stock of domestic credit | 597,715 | 734,391 | 1,100,080 | 1,403,750 ^a | 2,043,516 | 2,654,328 | 3,406,363 |
| Domestic credit growth (%) | 34.9 | 22.9 | 49.8 | 27.6 ^a | 45.6 | 29.9 | 28.3 |
| Stock of money M1 | 242,002 | 292,215 | 435,168 | 433,318 ^a | 663,353 | 868,945 | 1,117,122 |
| Stock of quasi-money | 406,572 | 548,796 | 818,830 | 1,080,230 ^a | 1,396,599 | 1,857,134 | 2,473,754 |
| Stock of money M2 | 648,574 | 841,011 | 1,253,998 | 1,513,548 ^a | 2,059,953 | 2,726,079 | 3,590,876 |
| M1 (% change) | 22.2 | 20.7 | 48.9 | -0.4 ^a | 53.1 | 31.0 | 28.6 |
| M2 (% change) | 30.9 | 29.7 | 49.1 | 20.7 ^a | 36.1 | 32.3 | 31.7 |

^a Actual. ^b Economist Intelligence Unit estimates. ^c Economist Intelligence Unit forecasts.

Current account

| | 2005 ^a | 2006 ^a | 2007 ^a | 2008 ^a | 2009 ^b | 2010 ^c | 2011 ^c |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Current-account balance (US\$ m) | -560 | -164 | -6,953 | -10,706 | -9,752 | -10,525 | -10,591 |
| Goods: exports fob | 32,447 | 39,826 | 48,561 | 62,685 | 56,612 | 65,143 | 74,005 |
| Goods: imports fob | -34,887 | -42,602 | -58,999 | -75,468 | -68,806 | -78,437 | -86,720 |
| Trade balance | -2,439 | -2,776 | -10,438 | -12,782 | -12,194 | -13,294 | -12,715 |
| Services: credit | 4,176 | 5,100 | 6,030 | 7,096 | 6,177 | 6,895 | 7,804 |
| Services: debit | -4,472 | -5,108 | -6,785 | -7,931 | -6,959 | -7,880 | -8,832 |
| Services balance | -296 | -8 | -755 | -835 | -782 | -985 | -1,028 |
| Income: credit | 364 | 668 | 1,166 | 1,357 | 1,006 | 1,418 | 1,737 |
| Income: debit | -1,569 | -2,097 | -3,356 | -5,757 | -4,018 | -4,349 | -5,703 |
| Income balance | -1,205 | -1,429 | -2,190 | -4,400 | -3,011 | -2,931 | -3,965 |
| Current transfers balance | 3,380 | 4,049 | 6,430 | 7,311 | 6,236 | 6,685 | 7,117 |

^a Actual. ^b Economist Intelligence Unit estimates. ^c Economist Intelligence Unit forecasts.

International liquidity

| | 2005 ^a | 2006 ^a | 2007 ^a | 2008 ^a | 2009 ^b | 2010 ^c | 2011 ^c |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Total reserves (US\$ m) | 9,217 | 13,591 | 23,748 | 24,176 | 17,132 | 20,234 | 21,901 |
| Foreign-exchange reserves | 9,051 | 13,384 | 23,479 | 23,890 | 16,842 | 19,954 | 21,631 |
| Total reserves (net of IMF credits & loans outstanding) | 9,013 | 13,410 | 23,584 | 24,059 | 17,032 | 20,164 | 21,862 |
| Months of import cover | 2.8 | 3.4 | 4.3 | 3.5 | 2.7 | 2.8 | 2.8 |
| Commercial banks' foreign assets | 4,469 | 6,188 | 4,981 | 5,234 | 5,809 | 6,008 | 6,749 |
| Commercial banks' foreign liabilities | 1,458 | 2,045 | 3,469 | 5,132 | 4,705 | 4,906 | 5,199 |
| Commercial banks' net foreign assets | 3,011 | 4,143 | 1,512 | 102 | 1,103 | 1,102 | 1,550 |

^a Actual. ^b Economist Intelligence Unit estimates. ^c Economist Intelligence Unit forecasts.

Foreign payment and liquidity indicators

| | 2005 ^a | 2006 ^a | 2007 ^a | 2008 ^a | 2009 ^b | 2010 ^c | 2011 ^c |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Foreign payment indicators (% of GDP) | | | | | | | |
| Current-account balance | -1.1 | -0.3 | -9.8 | -11.9 | -10.5 | -10.6 | -9.6 |
| Trade balance | -4.6 | -4.6 | -14.7 | -14.2 | -13.2 | -13.4 | -11.5 |
| Services balance | -0.6 | 0.0 | -1.1 | -0.9 | -0.8 | -1.0 | -0.9 |
| Income balance | -2.3 | -2.3 | -3.1 | -4.9 | -3.3 | -3.0 | -3.6 |
| Current transfers balance | 6.4 | 6.6 | 9.0 | 8.1 | 6.7 | 6.7 | 6.4 |
| Liquidity indicators (ratios) | | | | | | | |
| Foreign-exchange reserves/short-term debt | 3.5 | 5.3 | 5.0 | 5.3 ^b | 4.9 | 4.0 | 3.4 |
| Foreign-exchange reserves/gross external financing requirement ^d | 2.8 | 4.2 | 2.3 | 1.5 ^b | 1.1 | 1.4 | 1.3 |

^a Actual. ^b Economist Intelligence Unit estimates. ^c Economist Intelligence Unit forecasts. ^d A minus sign indicates a financing surplus.

External trade

| | 2005 ^a | 2006 ^a | 2007 ^a | 2008 ^a | 2009 ^b | 2010 ^c | 2011 ^c |
|---|--------------------|--------------------|--------------------|--------------------|-------------------|-------------------|-------------------|
| Main destinations of exports (% share) | | | | | | | |
| US | 18.7 | 19.8 | 20.9 | 20.6 | - | - | - |
| Japan | 13.7 | 13.2 | 12.6 | 13.5 | - | - | - |
| Australia | 8.6 | 9.5 | 7.4 | 8.1 | - | - | - |
| China | 10.2 | 8.2 | 6.9 | 6.8 | - | - | - |
| Main origins of imports (% share) | | | | | | | |
| China | 16.2 | 16.6 | 20.6 | 22.7 | - | - | - |
| Singapore | 12.3 | 14.1 | 12.5 | 13.0 | - | - | - |
| Japan | 11.2 | 10.6 | 10.2 | 11.1 | - | - | - |
| South Korea | 9.9 | 8.8 | 8.8 | 7.9 | - | - | - |
| Principal exports (% share) | | | | | | | |
| Crude oil | 22.4 | 20.4 | 16.8 | 16.8 | 13.2 | 15.2 | 18.5 |
| Textiles & garments | 15.3 | 14.7 | 16.5 | 15.2 | 15.5 | 15.0 | 15.0 |
| Footwear | 9.5 | 8.9 | 8.4 | 7.7 | 7.0 | 7.7 | 8.0 |
| Fisheries products | 8.6 | 8.2 | 7.9 | 7.4 | 6.2 | 7.5 | 7.5 |
| Principal imports (% share) | | | | | | | |
| Machinery, equipment & parts | 14.4 | 14.8 | 15.7 | 17.5 | 16.5 | 17.0 | 16.3 |
| Refined petroleum | 13.6 | 13.9 | 11.2 | 13.0 | 10.5 | 12.4 | 12.0 |
| Steel | 8.1 | 6.8 | 7.7 | 8.3 | 7.1 | 7.0 | 8.2 |
| Materials for textile industry | 6.2 | 4.6 | 3.7 | 3.0 | 2.8 | 3.0 | 4.2 |
| Volume and prices (% change) | | | | | | | |
| Export volume of goods | 20.5 ^b | 19.2 ^b | 16.4 ^b | 18.5 ^b | -6.8 | 6.9 | 9.9 |
| Import volume of goods | 15.9 ^b | 20.5 ^b | 30.8 ^b | 15.8 ^b | -6.2 | 7.7 | 8.5 |
| Export prices | 2.0 ^b | 17.5 ^b | 1.4 ^b | 13.3 ^b | -7.6 | 6.7 | -2.0 |
| Import prices | 0.8 ^b | 5.9 ^b | 6.1 ^b | 14.8 ^b | -5.6 | 8.7 | 5.5 |
| Terms of trade (1990=100) | 100.6 ^b | 111.7 ^b | 106.7 ^b | 105.3 ^b | 103.0 | 101.2 | 93.9 |

^a Actual. ^b Economist Intelligence Unit estimates. ^c Economist Intelligence Unit forecasts.

External financing requirement

| | 2005 ^a | 2006 ^a | 2007 ^a | 2008 ^b | 2009 ^b | 2010 ^c | 2011 ^c |
|--|-------------------|-------------------|-------------------|----------------------|-------------------|---------------------|-------------------|
| Gross financing requirement (US\$ m) | -3,220 | -3,206 | -10,109 | -16,103 | -14,929 | -14,700 | -16,434 |
| Current-account balance | -560 | -164 | -6,953 | -10,706 ^a | -9,752 | -10,525 | -10,591 |
| Medium- & long-term repayments due (including IMF debits) | -519 | -468 | -652 | -710 | -673 | -708 | -824 |
| Short-term debt due | -2,141 | -2,575 | -2,504 | -4,687 ^a | -4,504 | -3,468 ^b | -5,018 |
| Financed by: | | | | | | | |
| Medium- & long-term debt inflows | 2,047 | 1,228 | 1,805 | 1,475 | 2,100 | 5,345 | 3,695 |
| Commercial bank loans | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Officially guaranteed loans | 1,297 | 1,228 | 1,805 | 1,475 | 2,100 | 4,345 | 2,945 |
| International bond issues | 750 | 0 | 0 | 0 | 0 | 1,000 | 750 |
| IMF credits & loans | 0 | 0 | 0 | 0 ^a | 0 | 0 | 0 |
| Short-term borrowing | 2,575 | 2,504 | 4,687 | 4,504 | 3,468 | 5,018 | 6,427 |
| Net portfolio investment (net of external bonds) | -609 | 1,339 | 6,269 | -553 ^a | -1,547 | 426 | 1,497 |
| Inward portfolio investment (net of external bonds) | -609 | 1,339 | 6,269 | -553 ^a | -1,547 | 426 | 1,497 |
| Outward portfolio investment | 0 | 0 | 0 | 0 ^a | 0 | 0 | 0 |
| Net direct investment flows | 1,889 | 2,315 | 6,516 | 9,279 ^a | 7,177 | 8,420 | 9,205 |
| Inward direct investment | 1,954 | 2,400 | 6,700 | 9,579 ^a | 7,252 | 8,500 | 9,300 |
| Outward direct investment | -65 | -85 | -184 | -300 ^a | -75 | -80 | -95 |
| Increase in interest arrears (if any) | 21 | 3 | 4 | 0 | 0 | 0 | 0 |
| Increase in principal arrears (if any) | 0 | 3 | 6 | 0 | 0 | 0 | 0 |
| Other capital flows (net) | -671 | 188 | 979 | 1,826 | -3,313 | -1,408 | -2,722 |
| Change in international reserves | -2,030 | -4,375 | -10,157 | -428 ^a | 7,044 | -3,101 | -1,668 |

^a Actual. ^b Economist Intelligence Unit estimates. ^c Economist Intelligence Unit forecasts.

External debt stock

| | 2005 ^a | 2006 ^a | 2007 ^a | 2008 ^b | 2009 ^b | 2010 ^c | 2011 ^c |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| External debt stock (US\$ m) | | | | | | | |
| Total | 19,211 | 20,202 | 24,222 | 25,887 | 26,587 | 33,268 | 37,504 |
| Public medium- & long-term | 16,433 | 17,518 | 19,372 | 21,266 | 23,019 | 28,179 | 31,039 |
| Private medium- & long-term | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| IMF | 203 | 181 | 164 | 117 ^a | 100 | 70 | 39 |
| Short-term | 2,575 | 2,504 | 4,687 | 4,504 | 3,468 | 5,018 | 6,427 |
| Interest arrears | 75 | 77 | 81 | 81 | 81 | 81 | 81 |
| Official creditors | 72 | 75 | 78 | 78 | 78 | 78 | 78 |
| Private creditors | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Ratios (%) | | | | | | | |
| Total debt/exports of goods & services | 46.9 | 40.1 | 39.5 | 33.4 | 38.5 | 42.0 | 41.8 |
| Total debt/GDP | 36.3 | 33.1 | 34.1 | 28.8 | 28.7 | 33.5 | 33.9 |
| International reserves/total debt | 48.0 | 67.3 | 98.0 | 93.4 | 64.4 | 60.8 | 58.4 |
| Debt per head (US\$) | 230 | 239 ^b | 284 ^b | 301 | 306 | 379 | 423 |
| Net debt | | | | | | | |
| Total (US\$ m) | 9,995 | 6,611 | 475 | 1,711 | 9,454 | 13,034 | 15,603 |
| Net debt/exports of goods & services (%) | 24.4 | 13.1 | 0.8 | 2.2 | 13.7 | 16.5 | 17.4 |
| Net debt/GDP (%) | 18.9 | 10.8 | 0.7 | 1.9 | 10.2 | 13.1 | 14.1 |
| Medium- and long-term debt by lender (US\$ m) | | | | | | | |
| Total | 16,433 | 17,518 | 19,372 | 21,266 | 23,019 | 28,179 | 31,039 |
| Official creditors | 14,389 | 15,531 | 17,441 | 19,277 | 21,093 | 25,280 | 27,431 |
| Bilateral | 9,246 | 9,671 | 10,335 | 11,046 | 11,582 | 12,867 | 13,933 |
| Multilateral | 5,144 | 5,860 | 7,106 | 8,231 | 9,512 | 12,413 | 13,498 |
| Private creditors | 2,044 | 1,987 | 1,931 | 1,989 | 1,926 | 2,899 | 3,608 |
| Memorandum items (US\$ m) | | | | | | | |
| Export credits | 56 | 68 | 95 ^b | 121 | 110 | 126 | 139 |
| Principal arrears | 1,360 | 1,364 | 1,370 | 1,370 | 1,370 | 1,370 | 1,370 |
| Official creditors | 1,354 | 1,356 | 1,362 | 1,362 | 1,362 | 1,362 | 1,362 |
| Private creditors | 7 | 7 | 8 | 8 | 8 | 8 | 8 |

^a Actual. ^b Economist Intelligence Unit estimates. ^c Economist Intelligence Unit forecasts.

External debt service

| | 2005 ^a | 2006 ^a | 2007 ^a | 2008 ^b | 2009 ^b | 2010 ^c | 2011 ^c |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| External debt service (US\$ m) | | | | | | | |
| Total paid | 957 | 918 | 1,256 | 1,219 | 1,072 | 1,166 | 1,474 |
| Medium- & long-term debt service | 787 | 761 | 1,037 | 1,071 | 972 | 1,071 | 1,336 |
| Paid to official creditors | 566 | 523 | 785 | 903 | 818 | 923 | 1,145 |
| Paid to private creditors | 221 | 238 | 252 | 168 | 154 | 147 | 191 |
| IMF debits & charges | 55 | 34 | 26 | 43 ^a | 25 | 30 | 33 |
| Short-term debt (interest only) | 115 | 123 | 193 | 105 | 76 | 65 | 106 |
| Total due | 977 | 924 | 1,266 | 1,219 | 1,072 | 1,166 | 1,474 |
| Debt-service ratios (%) | | | | | | | |
| Debt-service ratio, paid | 2.3 | 1.8 | 2.1 | 1.6 | 1.6 | 1.5 | 1.6 |
| Debt-service ratio, due | 2.4 | 1.8 | 2.1 | 1.6 | 1.6 | 1.5 | 1.6 |
| Debt service paid/GDP | 1.8 | 1.5 | 1.8 | 1.4 | 1.2 | 1.2 | 1.3 |
| Principal repayments (US\$ m) | | | | | | | |
| Total paid | 519 | 464 | 646 | 710 | 673 | 708 | 824 |
| Medium- & long-term debt | 466 | 432 | 621 | 670 | 650 | 679 | 793 |
| Paid to official creditors | 306 | 288 | 482 | 545 | 528 | 567 | 661 |
| Paid to private creditors | 160 | 144 | 139 | 125 | 122 | 113 | 132 |
| IMF debits | 54 | 33 | 25 | 39 ^a | 23 | 28 | 31 |
| Total due | 519 | 468 | 652 | 710 | 673 | 708 | 824 |
| Interest payments (US\$ m) | | | | | | | |
| Total paid | 437 | 453 | 610 | 509 | 399 | 458 | 650 |
| Medium- & long-term debt | 321 | 329 | 416 | 401 | 322 | 392 | 543 |
| Paid to official creditors | 260 | 235 | 303 | 359 | 289 | 357 | 484 |
| Paid to private creditors | 61 | 94 | 113 | 42 | 32 | 35 | 59 |
| IMF charges | 1 | 1 | 1 | 3 ^a | 2 | 2 | 1 |
| Short-term debt (interest only) | 115 | 123 | 193 | 105 | 76 | 65 | 106 |
| Total due | 458 | 456 | 614 | 509 | 399 | 458 | 650 |
| Interest payments ratios (%) | | | | | | | |
| Interest paid/debt service paid | 45.7 | 49.4 | 48.6 | 41.8 | 37.2 | 39.3 | 44.1 |
| Interest paid/exports of goods & services | 1.1 | 0.9 | 1.0 | 0.7 | 0.6 | 0.6 | 0.7 |
| Interest due/exports of goods & services | 1.1 | 0.9 | 1.0 | 0.7 | 0.6 | 0.6 | 0.7 |
| Interest paid/GDP | 0.8 | 0.7 | 0.9 | 0.6 | 0.4 | 0.5 | 0.6 |
| Effective maturity and interest rates | | | | | | | |
| Effective interest rate (%) | 2.1 | 2.0 | 2.4 | 2.1 | 1.5 | 1.7 | 1.9 |
| Effective maturity (years) | 33.6 | 38.1 | 28.2 | 28.9 | 32.7 | 33.9 | 35.5 |

^a Actual. ^b Economist Intelligence Unit estimates. ^c Economist Intelligence Unit forecasts.

Data sources and notes

Current account: IMF, *International Financial Statistics*

Economic structure: General Statistics Office, *Statistical Yearbook*; IMF, *International Financial Statistics*

External debt service: World Bank, *Global Development Finance*

External debt stock: World Bank, *Global Development Finance*

External financing requirement: IMF, *International Financial Statistics*; World Bank, *Global Development Finance*

External trade: General Statistics Office, *Statistical Yearbook*; IMF, *International Financial Statistics*

Financial sector: IMF, *International Financial Statistics*

Foreign payment and liquidity indicators: IMF, *International Financial Statistics*; World Bank, *Global Development Finance*

International liquidity: IMF, *International Financial Statistics*

Public finances: IMF, *Statistical Appendix*

Quarterly indicators: IMF, *International Financial Statistics*

Exchange rates, interest rates and prices: IMF, *International Financial Statistics*

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