

## VIET NAM

### Medium-term economic outlook (forecast)

GDP growth (2012-16 average, percentage changes)	6.3
Current account balance (2012-16 average, % of GDP)	-4
Fiscal balance (2012-16 average, % of GDP)	-3.5

### Medium-term plan

Period	2011-2015
Theme	(*)

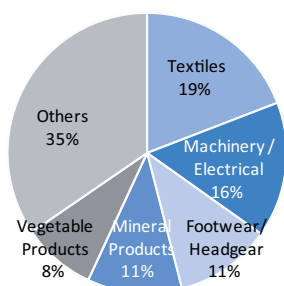
### Basic data (in 2010)

Total population	87 million
Population of Hanoi	6.6 million
GDP per capita at PPP	3 134 (current USD)

Sources: OECD Development Centre, MPF-SAE0 2011/12, national sources and IMF.

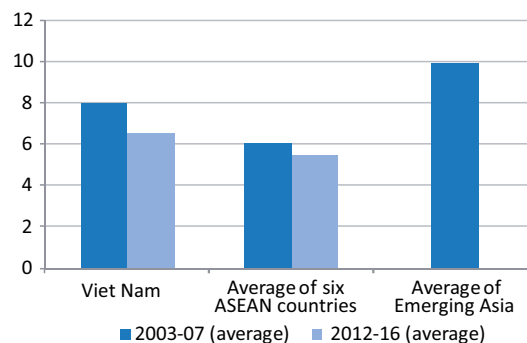
Notes: Six ASEAN countries includes Indonesia, Malaysia, the Philippines, Singapore, Thailand and Viet Nam. Emerging Asia includes six countries of ASEAN plus China and India.

### Composition of exports (in 2010) (percentage of total exports)



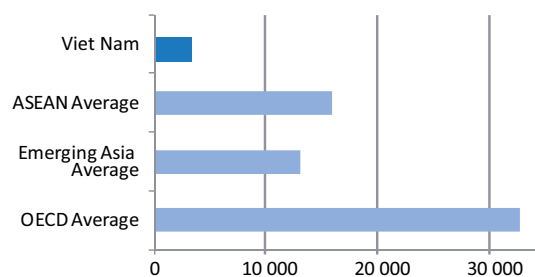
Source: Trademap.

### GDP growth rates (percentage changes)



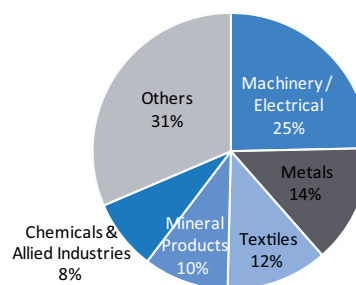
Source: OECD Development Centre, MPF-SAE0 2011/12.

### GDP per capita (PPP, current USD)



Sources: IMF and national sources.

### Composition of imports (in 2010) (percentage of total imports)



(\*) Viet Nam's forthcoming medium-term plan was in the process of formulation as of 1 November 2011.

## Structural policy focus

### Viet Nam's medium-term policy challenges and responses

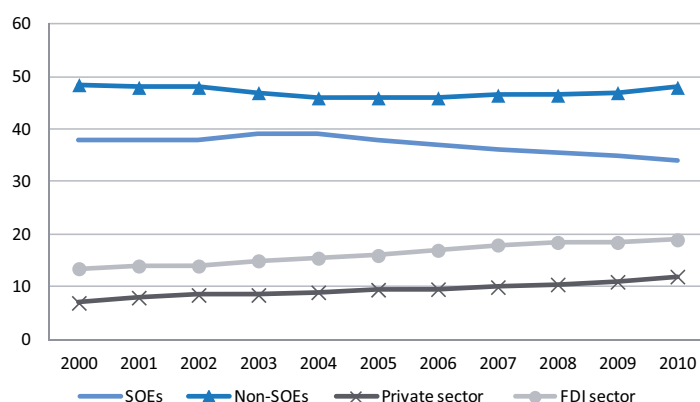
- Speed up the reform of state-owned enterprises, particularly by improving the governance and management
- Establish an adequate monetary policy framework to control inflation
- Increase skilled labour by education reform

### POLICY FOCUS

**Speed up the reform of state-owned enterprises, particularly by improving governance and management**

State-owned enterprises (SOEs) play a big role in Viet Nam's economy (Figure 3.6.1). After decades of reforms, the economy has increased its market orientation and has achieved substantial liberalisation. The number of SOEs fell consistently from around 7 000 in 1995, to about 1 000 in 2010.

**Figure 3.6.1. Contribution to GDP by ownership**  
(percentage)



Source: General Statistics Office, Viet Nam.

StatLink <http://dx.doi.org/10.1787/888932562697>

In 2005, the Enterprise Law stipulated the transformation of all state-owned enterprises (SOEs) into joint stock companies and limited liability companies by July 2010. This is in line with the legal and regulatory frameworks in OECD countries, where SOEs are subject to the same laws and regulations as other enterprises. However, management and governance of the SOEs in Viet Nam still need to be strengthened.

Viet Nam needs to improve management of the SOEs, according to international practices. State intervention has continued in the process of SOE reforms. To limit state intervention in business administration of the SOEs and ensure independence, OECD members such as Estonia have put in place specific legislation forbidding SOE boards from taking "instructions" from government. In Chile, the governing body of the ownership agency has been instructed not to "duplicate the work" of SOE boards.

A key factor in ensuring that boards can function effectively is their independence. Boards must have autonomy and independence in the conduct of their duties. In the Slovak Republic, a majority of board members have to be independent (OECD, 2011c). For greater autonomy and to foster improved corporate governance, India made it obligatory for some SOEs to restructure the boards such that there are at least four independent directors with demonstrated experience and professional standing. It further advised that such members of the board should reach at least one third of the total strength.

At the same time, the state needs to ensure that SOEs and the State Capital Investment Corporation (SCIC) are accountable. In Viet Nam, efficiency of state capital investment has been low. The SOE sector has grown more slowly than the private sector and bad debts are growing. For instance, in the case of Vinashin, the state-owned shipbuilder amassed debts of more than USD 4 billion while expanding into non-core activities such as securities and tourism. It was unable to make repayment on a large amount of loan. In addition to Vinashin, mismanagement occurred in a state bank and oil producer. This included credit mismanagement by the director general of the Agribank Financial Leasing Company No. 2 (ALCII), a member of the state-owned Vietnam Bank for Agriculture and Rural Development (Agribank), and misappropriation of funds from state-owned PetroVietnam, the country's largest oil producer and second-largest power producer.

Although the regulation stipulated that SOEs must be audited, implementation has been weak. In particular, *i)* the accounting regime for SOEs in Viet Nam needs to be aligned with international standards such as IFRS (International Financial Reporting Standards) and US GAAP (Generally Accepted Accounting Principles); and *ii)* annual independent external audits are necessary. In most OECD countries, SOEs are subject to the same requirements in terms of auditing by an external auditor. This provides assurance by an outside expert that financial results and performance indicators are reasonable and correct, *i.e.* free from error or misrepresentation. External audits are also an important incentive for SOE management and boards to be accountable.

To improve management of the SOEs, Viet Nam also requires a mechanism to monitor and evaluate the performance and efficiency of SOEs. Reporting is a key element for monitoring whether the board is fulfilling its agreed objectives (OECD, 2005b). Disclosure by SOEs in OECD countries has improved significantly in recent years. In OECD countries, SOEs have to submit annual reports, summarising the main outcomes and financial results of SOEs for the year and SOEs also publish bi-annual reports, (such as Norway), with a few countries publishing quarterly reports (*e.g.* New Zealand, Sweden and Turkey). These reports usually include financial statements, information on capital expenditure to date, reports on operations, as well as discussion on the evolution of strategy and changes in overall operating conditions. Such information helps in the identification of trends and assessment of emerging difficulties regarding SOEs' performance. The comparison across SOEs will allow for benchmarking their performance.

In countries such as Chile and Israel, there is also strong emphasis on annual and case-by-case reporting to Parliament. In Estonia, annual reporting informs government of the operations of SOEs held by individual ministries. In Slovenia, parliament and state auditors probe SOEs on an individual basis. In more developed OECD countries, reporting takes various forms, such as statements of corporate intent, management contracts, corporate plans, etc. For instance in France, performance contracts clarify the respective commitments of the state and SOEs (in terms of profitability, social policy, productivity, quality and indebtedness). They also define common tools to measure the performance in terms of financial profitability and productivity targets. Finally, they define the incentive policy for the management and employees.

In addition, in accordance to market regulations and its World Trade Organisation commitments, Viet Nam needs to ensure a level playing field and effective competition for the private sector. Today, SOEs are still given high priority in resource allocation, enjoying capital raised from government bond issuance. Viet Nam can reduce the number of areas with state monopolies and ensure equal access to finance for SOEs and private entities.

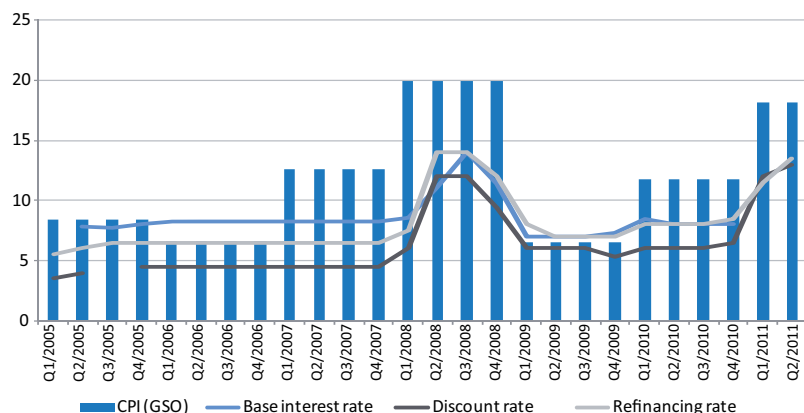
#### **POLICY FOCUS**

##### **Establish an adequate monetary policy framework to control inflation**

Although Viet Nam has enjoyed high economic growth in the past decade, recent inflation rates exceeding 20% have revealed the weakness of the macroeconomic management framework in this country (Figure 3.6.2).

Due to a lack of tools to anchor inflation expectations of economic agents, international food price inflation directly translates into domestic inflation in Viet Nam. High inflation, compounded by an immature financial sector, forces people to look for refuge in harder currencies. The extent of dollarisation in Viet Nam has reached 20%, entering into such a situation that it turns progressively harder to have an effective monetary policy. But in the current context, dedollarising the banking sector by law (prohibiting deposits in dollars) would run the risk of creating a black market harder to control. Therefore, instead of prohibiting financial transactions in foreign currencies, enhancing credibility of the domestic currency is important.

**Figure 3.6.2. Inflation and interest rates from 2005-11**  
(percentage)



Source: CEIC.

StatLink  <http://dx.doi.org/10.1787/888932562716>

Under these circumstances, several policy options could be conceivable, though all elements are complementary.

- Establishing a proper framework of macromanagement is urgently needed. In particular, with regards to the monetary regime, anchoring an inflationary goal such as inflation targeting could be a policy option. Overall, OECD countries that apply an inflation targeting framework are considered to be able to manage inflation expectations relatively well and this scheme is managed by an independent body such as the central bank in most cases. In the case of Viet Nam, independence of the central bank should be discussed in line with the macroeconomic management framework in the long run but a more immediate need is to set up an institutional arrangement to conduct monetary policy in a transparent and credible way.
- Fiscal and external balances also need to be monitored closely in the macroeconomic framework.
- Strengthening prudential regulation in the banking sector is also needed to encourage prudent lending behaviour by banks while providing an appropriate safety net.

#### POLICY FOCUS

##### Increase skilled labour by education reform

Viet Nam has attained rapid economic development by making full use of low labour costs in the global production network and attracted foreign direct investment. Recently, some signs of upgrading of skills have emerged. However, in recent years, the lack of high quality workforce is a serious issue in many provinces, as the labour market is facing a severe shortage of skilled labour in different service sectors such as banking, finance, tourism and business. There are several pieces of evidence to support this view. For instance, as we will see below, only a limited number of individuals possess the highest professional and technical qualifications necessary for the country's development. The number of scientific publications in Viet Nam lags behind not only globally but also among regional peers. There are no universities in Viet Nam with an international reputation.

This labour quality issue is tightly linked to the issue of education-employment mismatch. The results of a survey carried out in 2006 by the Ministry of Education and Training showed that more than 60% of college graduates were unemployed, the rest were employed but had to be retrained because the field they were working in was unrelated to their major.

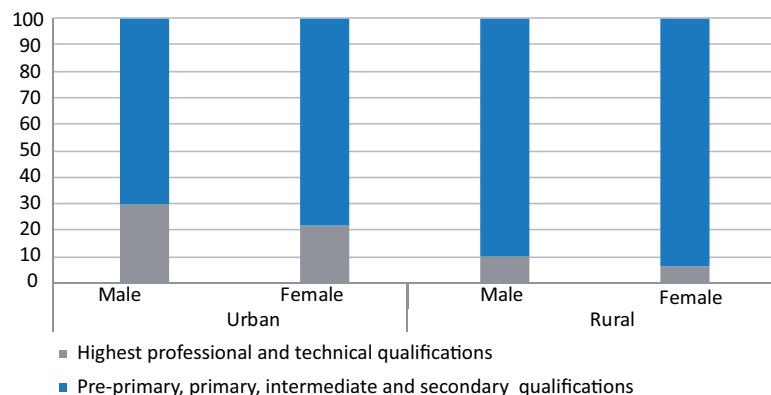
The government recognised that the shortage of skilled labour in Viet Nam is becoming a bottleneck to development in several sectors. The Strategy on Development of Vietnamese Human Resources during

2011-20 approved in September 2010 emphasises that human development strategy should lead the country's sustainable growth and human resources should reach international standards (Box 3.6.1).

In particular, three issues need to be addressed:

- There is room for increasing the rate of tertiary enrolment. Viet Nam's tertiary education needs to be more focused on "mass" education. Given that the income level is the bottleneck to access to tertiary education in Viet Nam, well-targeted subsidy and scholarships/student loans to poor households would be effective to increase enrolment in tertiary education.
- In the access to tertiary education in Viet Nam, there exist disparities in various dimensions: the gap is substantial between urban and rural inhabitants and the gender issue also prevails (Figure 3.6.3). Gaps between urban and rural infrastructure and teachers' salaries should be reduced to encourage a larger participation in tertiary education by rural students.
- In addition to access, the quality of education needs to be enhanced. This could be done by undertaking a number of quality-enhancing measures relating to education infrastructure, such as adopting flexible and international standard curriculum frameworks and effective ways of teaching and increasing academic qualified staff to enhance research capacity. In the last years, the government has started several programmes to overcome these challenges. For example, a plan of training 20 000 PhD students; Vietnamese universities offering programmes based on international curricula; review of exams of teachers, and so on. The evaluation scheme of education should also be enhanced further. Together with university education, strengthening TEVT – traditionally weak in Viet Nam – would be important to reduce the skill mismatch problem in the country's labour market.

**Figure 3.6.3. Qualifications by sex and urban-rural areas in 2009**  
(percentage)



Sources: national sources.

StatLink  <http://dx.doi.org/10.1787/888932562735>

**Box 3.6.1. The Strategy on Development of Vietnamese Human Resources 2011-20**

Vietnamese Prime Minister, Nguyen Thien Nhan, approved the Strategy on Development of Vietnamese Human Resources in 2011-2020 on April 2011. The objective of this Strategy is to allow Vietnamese human resources to lead the country's sustainable growth, worldwide integration and social stability to increase competitiveness. Key targets of the human resource development plan are the following:

Targets	2010	2015	2020
I. Raising intellectual power and working skills			
1. Rate of trained workers (%)	40.0	55.0	70.0
2. Rate of vocationally trained workers (%)	25.0	40.0	55.0
3. Number of university and college students per 10 000 people	200	300	400
4. Number of international-standard vocational schools	-	5	>10
5. Number of international-standard universities	-	-	>4
6. Highly qualified human resources in breakthrough fields			
-State management, policy making and international law	15 000	18 000	20 000
-University and college lecturers	77 500	100 000	160 000
-Science-technology	40 000	60 000	100 000
-Medicine and health care	60 000	70 000	80 000
-Finance and banking	70 000	100 000	120 000
-Information technology	180 000	350 000	550 000
II. Raising physical strength of human resources			
1. Average life expectancy (years)	73	74	75
2. Young people's average height (m)	>1.61	>1.63	>1.65
3. Malnutrition rate among under-5 children (%)	17.5	<10.0	<5.0

Source: Decision on Approving the Strategy on Development of Vietnamese Human Resources during 2011-2020.