
Country Report

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The Economist Intelligence Unit

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Executive summary

Highlights

June 2009

Outlook for 2009-10

- The political landscape is unlikely to change dramatically in 2009-10, with the ruling Communist Party of Vietnam almost guaranteed to maintain its firm grip on power.
- The government's fiscal stimulus, estimated to be worth under US\$4bn by the IMF, will be directed at a raft of infrastructure projects as well as other measures that will help to boost growth.
- In addition to fiscal loosening, the State Bank of Vietnam (the central bank) will maintain an accommodative monetary policy stance in order to support the economy.
- The Economist Intelligence Unit forecasts that the economy will grow by 2.1% this year, before the rate of growth increases in 2010, to 4.9%.
- As domestic demand growth weakens, we expect price rises to abate and inflation to slow to an average of 6% in 2009. It will stay relatively low in 2010 as external supply-side pressures remain weak.
- The value of the dong against the US dollar will fall by around 8% in nominal terms in 2009, and will decline further, although at a slower pace, in 2010.
- The current-account deficit will narrow in 2009-10 as a result of a reduction in the merchandise trade deficit.

Monthly review

- The controversy surrounding a number of proposed large bauxite mines rumbled on in May. Major concerns have arisen over the involvement of Chinese firms in the projects.
- A number of delegates in the National Assembly (the legislature) have called for greater clarity on the scope of the government's fiscal stimulus package and improved targeting of its intended beneficiaries.
- The Ministry of Planning and Investment is believed to be seeking government approval to open up several service sectors to foreign investors.
- Stockmarket investors appear to be pricing in an economic recovery, with the VN index (an index of all stocks on the Ho Chi Minh Stock Exchange) rising from a low of just 235.5 on February 24th to 458.2 on June 4th.
- Industrial output in the first five months of 2009 grew by 3.9% year on year, a markedly slower rate than the 14-15% annual growth in industrial production that Vietnam has become used to in recent years.
- The trade deficit for the first five months of 2009 totalled US\$1.2bn. This is in spite of the massive 37% fall in the value of imports, which totalled just US\$23.9bn in the period.

Outlook for 2009-10

Political outlook

Domestic politics The political landscape is unlikely to change dramatically in 2009-10, with the ruling Communist Party of Vietnam almost guaranteed to maintain its firm grip on power. The party will reject calls (especially from groups of overseas Vietnamese) for political pluralism. There will continue to be small pockets of domestic dissent, but the population has yet to show an appetite for major political change. Nonetheless, political stability is not assured. The government faces a severe test of its ability to manage the economy, and there is a risk that demonstrations (albeit only small ones) could occur as economic growth slows sharply and unemployment rises. The party is acutely aware that social stability is vital if it wants to maintain full control of the country, and it is therefore likely to push ahead with plans for greater spending on social welfare. Policies to improve assistance for unemployed workers came into effect in January (although those laid off will not be able to secure financial help until January 2010, as to do so they have to have been in employment and making social security payments for at least 12 consecutive months following the introduction of the new system). The government has also implemented a programme to support firms facing the prospect of mass lay-offs.

Although there is little risk that the party will face a serious challenge to its authority in 2009-10, it will struggle in its attempts to continue to present itself as the sole defender of the nation's interests if its policy response to the economic downturn is deemed to be insufficient or ineffective. Moreover, if there are further revelations of corruption or of party officials enriching themselves at the state's expense, particularly in the current period of relative economic distress, the party's moral authority will be undermined further. Ongoing crackdowns on corrupt officials and managers of state-owned enterprises are an indication that the government is taking the issue of graft seriously. Moreover, the government's expected ratification of the UN's Convention Against Corruption, which would outlaw the bribing of officials abroad and the taking of money from foreign entities at home, may demonstrate to the international donor community that it is committed to tackling corruption. Nonetheless, enforcement of anti-corruption legislation will remain a major stumbling block to progress in this area.

International relations Relations between China and Vietnam have been improving recently, as demonstrated by the completion of an agreement on the demarcation of their land border and the setting up of a "hotline" between the two governments. The trend in improving Sino-Vietnamese ties is unlikely to damage Vietnam's relations with the US—the Economist Intelligence Unit expects the Vietnamese government to continue to succeed in balancing its position and avoiding too close an alignment with one country at the expense of the other. Despite the potential for an increase in protectionism amid the global economic crisis, the government appears eager to push ahead with free-trade agreements (FTAs). In December 2008 it signed an FTA with Japan, in a move that helped to undo

some of the damage that was caused to bilateral ties by a corruption scandal involving Japanese aid.

Economic policy outlook

Policy trends The global financial crisis and economic downturn has generated new challenges for the Vietnamese government, forcing policymakers to shift their focus from containing inflation to supporting economic growth. The government's fiscal stimulus is estimated to be worth under US\$4bn by the IMF (estimates vary dramatically; the government's fiscal accounting lacks credibility) and will go towards a raft of infrastructure projects as well as other measures that will help to boost growth. The government has also introduced tax breaks and delayed the implementation of a new personal income tax regime. However, such measures will not be sufficient to enable the government to achieve its GDP growth target for 2009 of 6.5%. There is also the risk that any major effort on the part of the government to spend its way out of the economic downturn will result in severe external imbalances, given the open (and to an extent import-dependent) nature of Vietnam's economy. In addition to fiscal loosening, the State Bank of Vietnam (SBV, the central bank) will maintain an accommodative monetary policy stance in order to support the economy.

Fiscal policy The budget deficit (excluding on-lending) will widen in 2009, to reach the equivalent of 8.8% of GDP. This will partly reflect a significant rise in expenditure as the government pushes ahead with stimulus measures and remains committed to programmes to improve social welfare provision. However, the widening deficit will also be a result of relatively slow revenue growth in an environment of subdued economic activity and falling crude oil prices (revenue from crude oil represents around 30% of government income). The widening deficit raises serious concerns about fiscal sustainability, with the government having to borrow heavily in the domestic market. However, in late 2008 the government received US\$5bn in pledges of official development assistance (mainly in the form of loans) from foreign donors for disbursement in 2009. Thus, despite the global credit crunch, the government can be reasonably confident that financial support from foreign donors will continue to be made available.

Monetary policy The SBV has loosened monetary policy in recent months, in part to boost domestic economic activity. In February the main policy interest rate, the prime rate, was cut from 8.5% to 7%. (It was as high as 14% in mid-2008.) The SBV has since kept the prime rate unchanged, suggesting that the recent bout of loosening may have come to an end. (The bank may be reluctant to cut the prime rate further out of concern that it will hurt commercial banks by squeezing their interest rate margins, given that the ceiling on lending interest rates is set at 1.5 times the prime rate.) Nevertheless, given that inflation is continuing to ease, the SBV is likely to keep the rate low this year and next.

The SBV will also allow Vietnam's currency, the dong, to continue to depreciate in value against the US dollar. Although the bank has kept the official exchange

rate largely unchanged in recent months, in late March it widened the daily trading band within which the dong is allowed to fluctuate around its official rate against the US dollar to 5%, from 3% previously. This step was taken in the face of growing downward pressure on the dong and also in the hope that a weaker dong will make Vietnamese exporters more competitive. It remains unlikely that the SBV will engineer a sharp or sudden depreciation of the dong in 2009-10, as such a move would be out of character for the country's policymakers.

Economic forecast

International assumptions

International assumptions summary

(% unless otherwise indicated)

	2007	2008	2009	2010
Real GDP growth				
World	5.0	3.0	-1.8	2.1
China	13.0	9.0	6.5	7.3
EU27	2.9	0.9	-4.4	-0.5
Exchange rates				
¥:US\$	117.8	103.4	96.3	94.8
US\$:€	1.37	1.47	1.33	1.39
SDR:US\$	0.65	0.63	0.66	0.65
Financial indicators				
¥ 3-month call rate	0.73	0.85	0.45	0.30
US\$ 3-month commercial paper rate	5.06	2.18	0.32	0.30
Commodity prices				
Oil (Brent; US\$/b)	72.7	97.7	47.5	53.3
Gold (US\$/troy oz)	696.7	870.2	895.8	827.5
Food, feedstuffs & beverages (% change in US\$ terms)	30.9	29.5	-22.4	3.1
Industrial raw materials (% change in US\$ terms)	11.2	-5.1	-40.0	14.3

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

Recent data suggest that the worst of the recent global economic freefall may be ending. Notwithstanding the recent rally in global stockmarkets, we maintain our cautious view of economic prospects in the forecast period, with global GDP at purchasing power parity (PPP) exchange rates forecast to shrink by 1.8% in 2009 and to rise by a modest 2.1% in 2010. Factors that will limit global growth in the medium term include continued impaired financial intermediation in many large economies, and higher savings and reduced consumption by US households as they adjust to lower house prices and reduced expectations of future wealth.

Economic growth **Gross domestic product by expenditure**

(D bn at constant 1994 prices where series are indicated; otherwise % change year on year)

	2007 ^a	2008 ^b	2009 ^c	2010 ^c
Private consumption	302,184	316,934	315,239	322,640
	9.6	4.9	-0.5	2.3
Public consumption	30,272	32,694	35,375	38,205
	8.9	8.0	8.2	8.0
Gross fixed investment	179,993	205,192	200,062	204,063
	23.0	14.0	-2.5	2.0
Final domestic demand	512,449	554,819	550,676	564,908
	13.9	8.3	-0.7	2.6
Stockbuilding	19,018	15,000	10,000	11,000
	1.2 ^d	-0.9 ^d	-1.0 ^d	0.2 ^d
Total domestic demand	531,467	569,819	560,676	575,908
	14.6	7.2	-1.6	2.7
Exports of goods & services	449,679 ^b	516,849	488,749	510,195
	15.2 ^b	14.9	-5.4	4.4
Imports of goods & services	528,808 ^b	605,009	556,017	562,084
	25.6 ^b	14.4	-8.1	1.1
Foreign balance	-79,129^b	-88,160	-67,268	-51,889
	-11.4 ^{bd}	-2.0 ^d	4.3 ^d	3.1 ^d
GDP	461,443	490,181^a	500,408	525,019
	8.5	6.2 ^a	2.1	4.9

^a Actual. ^b Economist Intelligence Unit estimates. ^c Economist Intelligence Unit forecasts. ^d Contribution to real GDP growth (as a percentage of real GDP in the previous year).

Official preliminary estimates for real GDP growth show that Vietnam has yet to be as badly affected by the global economic downturn as many other countries in Asia. Nevertheless, the performance of the economy in the first quarter of 2009, when it grew by 3.1% year on year, marked a dramatic slowdown, and there is little sign that the economy will experience a major recovery in the next few quarters. We forecast that the economy will grow by 2.1% this year, before the rate of growth increases in 2010, to 4.9%. However, there are downside risks to our forecast, and concerns also exist that official data releases will not reflect fully the extent to which the economy is suffering.

We expect a sharp contraction in exports of goods and services in 2009, owing to deteriorating demand from Vietnam's major trading partners. The US, the EU and Japan, which together consume around 60% of Vietnam's exports, are all forecast to experience recession this year. Although the direct impact of the fall in exports (on a national-accounts basis) will be offset by an even sharper contraction in imports (such that net exports will make a positive contribution to GDP growth in 2009), the drop in exports will feed through into rising unemployment (as export-oriented manufacturing output contracts) and weak investment. Firms have already begun to lay off staff in large numbers amid falling export orders. Moreover, the recent contraction in imports is a reflection of severe weakness in consumer and investor demand, and future growth prospects will be undermined by the decline in imports of raw materials and capital goods. Despite the fact that foreign investors remain confident about Vietnam's long-term prospects, foreign direct investment commitments have dropped sharply in recent months and actual disbursements will be severely curtailed in the forecast period by a lack of available financing. Although public

investment will increase as the government spends heavily on infrastructure development, this will be insufficient to offset the drop in total private-sector investment spending this year.

On the supply side, growth in the industrial sector, which accounts for around 40% of GDP, will slow in 2009 before picking up in 2010. Manufacturing output growth will wilt in 2009, in line with the weakness of external demand. The services sector, which was the main driver of growth in the first quarter of 2009, will also suffer during the year as a whole. Weak consumer confidence (stemming from rising unemployment and the erosion of real incomes) and falling private remittances will hit the retail sector, while tourism will be negatively affected by the recessionary conditions prevailing in many developed countries—there has already been a sharp drop in international arrivals. Growth in agricultural output will also remain weak, as the slump in global commodity prices will hurt profitability and thus limit plans for expansion.

Inflation Consumer price inflation has continued to slow, after peaking on a year-on-year basis in August 2008. Inflation slowed to 5.6% year on year in May, down from 9.2% in April. Although fuel prices have plummeted (as reflected by the fall in the transport and communications cost index), in month-on-month terms there has been a worrying rise in prices in recent months. In May transport and communications costs rose by 1.9% month on month, the strongest gain since August 2008. Moreover, prices for food and foodstuffs have remained stubbornly high. Despite the drop in global food prices in 2009, domestic food prices will remain elevated this year, propping up the headline inflation rate. However, as domestic demand growth weakens, we expect price rises to abate and inflation to slow to an average of 6% in 2009. It will stay relatively low in 2010 as external supply-side pressures remain weak.

Exchange rates The dong has come under downward pressure in recent months, prompting the authorities to widen the currency's trading band in late March—in effect allowing the dong to trade at a lower level against the US dollar. In early June the mid-point of commercial banks' transaction rates stood at D17,788:US\$1, representing only a marginal depreciation from around D17,755:US\$1 in early March. The government has continued to crack down on illegal foreign-exchange trading, fearing that continued use of US dollars in the domestic market could put severe downward pressure on the dong. The offshore non-deliverable spot forward rate is around D18,065:US\$1, reflecting the expectation that economic uncertainty, the trade deficit and the relatively slow depreciation of the dong against the US dollar will result in further depreciation. Owing to continued downward pressure on the dong and policymakers' efforts to support exporters, the dong is forecast to continue on a weakening trend in 2009-10. We forecast that the value of the dong against the US dollar will fall by around 8% in nominal terms in 2009, and that it will decline further, although at a slower pace, in 2010.

External sector The current-account deficit will narrow in 2009-10 as a result of a reduction in the merchandise trade deficit. The value of goods exports will fall in 2009, owing to weak demand from Vietnam's leading export markets and falling international prices for the country's major goods exports. Trends in global crude oil prices suggest that the value of Vietnam's oil exports (the country's largest goods export category) will fall in 2009, before recovering marginally in 2010. The recent substantial widening of the current-account deficit has been driven primarily by soaring imports, much of which has been in the form of capital goods bought by foreign-invested enterprises (FIEs). However, given the uncertainty affecting the global economy and the fact that foreign investors will face difficulties obtaining financing in the forecast period, capital goods imports will fall from the high levels that they have reached in recent years. The slowdown in consumption growth will also curtail growth in imports of consumer goods in 2009-10.

In addition to the deficit on the merchandise trade account, the services and income accounts will also remain in the red. Tourism receipts will decline, but so will imports of trade-related services. The upward trend in the repatriation of foreign investors' income and profits will reverse temporarily, in line with a slowdown in the operations of FIEs. Inflows on the current-transfers account will be affected by recessionary conditions in the US and the EU, which are home to large numbers of Vietnamese, and, as a result, we forecast that inflows will fall from the high levels that they reached 2008. However, the current-transfers surplus will still be sufficient to offset the combined deficit on the services and income accounts in 2009-10.

Forecast summary

(% unless otherwise indicated)

	2007 ^a	2008 ^a	2009 ^b	2010 ^b
Real GDP growth	8.5	6.2	2.1	4.9
Industrial production growth	17.0	14.6	5.0	6.5
Gross agricultural production growth	3.7	3.8	2.1	3.0
Consumer price inflation (av)	8.9	24.4	6.0	5.8
Consumer price inflation (year-end)	14.4	21.5	3.4	7.6
Lending rate	11.2	15.6 ^c	9.9	9.6
Government balance (% of GDP)	-7.0	-5.0	-8.8	-8.0
Exports of goods fob (US\$ bn)	48.6	61.6 ^c	49.9	58.5
Imports of goods fob (US\$ bn)	58.9	77.6 ^c	62.8	68.8
Current-account balance (US\$ bn)	-7.0	-11.7 ^c	-9.5	-7.9
Current-account balance (% of GDP)	-9.8	-12.8 ^c	-10.2	-8.0
External debt (year-end; US\$ bn)	21.9 ^c	23.1 ^c	21.8	23.0
Exchange rate D:US\$ (av)	16,078	16,440	17,880	18,435
Exchange rate D:¥100 (av)	13,651	15,905	18,577	19,456
Exchange rate D:€ (year-end)	23,379	24,234	24,674	25,764
Exchange rate D:SDR (year-end)	25,551	26,215	27,691	28,595

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

Monthly review: June 2009

The political scene

Proposed bauxite mines stir up controversy

The controversy surrounding a number of proposed large bauxite mines in the central highland provinces of Dak Nong and Lam Dong rumbled on in May. A revered retired general, Vo Nguyen Giap, used the opportunity of the 55th anniversary of his epic military victory against the French army at Dien Bien Phu to reiterate his opposition to the bauxite mines, citing environmental and geostrategic concerns. The moral authority that Mr Giap commands, as the last of the original leadership that won independence for Vietnam, makes it hard for the government to dismiss his public statements. Nonetheless, the government appears determined to continue with the mining projects, and a state-owned company, Vinacomin, has already embarked on preparatory activities. One reason why the bauxite issue has become so hotly debated is the involvement of a Chinese state-owned enterprise (SOE), Chinalco, in at least one of the proposed projects. Given Vietnam's tumultuous history with China and the ongoing disagreement over offshore territorial claims, it is unsurprising that a Chinese firm's involvement in the proposed mining projects has served to inflame the issue.

Just across the lengthy border that Vietnam shares with Laos, two Australian mining companies, OZ Minerals and PanAust, have been partially or wholly acquired by Chinese investors in recent months. This can only exacerbate worries in Vietnam about potential encroachment by Chinese quasi-strategic business interests. For its part, Vietnam has encouraged its own SOEs to pursue various investment projects in Laos (and Cambodia), and Laos has consistently been the leading host country for Vietnamese foreign direct investment (FDI). Vietnamese companies have reportedly pledged over US\$800m to more than 150 approved projects in Laos—particularly in the mining, energy and plantation sectors—and a further US\$200m to various projects in Cambodia. However, Vietnam's aggregate investment clout in Cambodia and Laos cannot rival that of China.

Graduates may struggle to obtain employment

Concern over Chinese involvement in the bauxite-mine projects segues with what appears to be a growing concern about illegal workers in Vietnam. The Ministry of Labour, Invalids and Social Affairs estimates that of around 50,000 foreign workers believed to be resident in Vietnam, around 30% are working illegally. The sensitivity towards illegal foreign labour has been heightened by the global economic downturn and its adverse impact on employment in Vietnam. It is thought that around 1.5m young people join the country's labour force each year, but the corporate sector struggles to generate 1m jobs a year, even in times of buoyant economic growth. Given the gloomy outlook for the domestic economy in 2009-10, the number of new jobs created could drop below 500,000 a year. A study conducted by the UN Development Programme suggests that unemployment in Vietnam could rise to 8.5% in 2010, from around 5% before the global economic downturn.

**The National Assembly may
revise the Investment Law**

In late May the National Assembly (the legislature) commenced the first of two full sessions that are scheduled for 2009. Each session lasts for approximately one month. Recent years have seen the National Assembly become increasingly confident in debating government policy and holding individual ministries to account for performance issues. This latest session is expected to see the legislature pass revised drafts of laws relating to public debt management, criminal records, urban planning and compensation payments from the government to citizens for acts committed by state agencies or officials. Assembly members are also expected to debate proposed changes to various economic targets for 2009, and whether to further extend the current deferment of changes to the new personal income tax regime beyond the end of June. (The Ministry of Finance has proposed that income derived from capital gains and securities investment be exempt until the end of 2010, and that the current deferment of personal income tax for the first half of 2009 be made into a one-off tax holiday.) There may also be revisions made to the current Investment Law, Housing Law, Construction Law and Land Law, among others.

Regarding the Investment Law, it is conceivable that a deadline that expired in mid-2008 for all foreign-invested enterprises (FIEs) that were licensed before 2006 to re-register will be pushed back, or effectively lifted altogether, as remarkably few have complied thus far. In addition, the definition of an FIE may be revised to include only those enterprises in which overseas investors hold at least 30% or more of total equity. That in turn could have a positive impact on issues faced by FIEs. In particular, foreign firms typically face more stringent conditions or eligibility requirements than domestic firms when it comes to labour and land allocation.

Economic policy

**The National Assembly will
review the budget**

One of the first issues on the National Assembly's agenda in late May was the impact of the government's economic stimulus package. The stimulus package (estimates of its size vary wildly; the IMF puts the figure at under US\$4bn) has burgeoned in scale since it was announced in late 2008 and remains a work in progress, both in terms of design and implementation. A number of National Assembly delegates have called for greater clarity on the scope of the package and improved targeting of its intended beneficiaries. Other delegates pointed out that while the package's short-term approach to stimulating demand was of some utility, a more long-term industrial and economic development strategy is also required once the global downturn is deemed to be over.

The National Assembly is also expected to approve an increase in the budget deficit for 2009. This will enable the government to fund its economic stimulus package and also allow for lower tax revenue. As a consequence of the personal income tax deferment alone, the Ministry of Finance expects a US\$380m fall in tax revenue this year. In the first quarter of 2009 total revenue was down by around 20% year on year, while expenditure increased by 4% in the same period. Should these trends persist, it is likely that the budget deficit will rise significantly: the government expects the deficit to increase to the equivalent of around 8.3% of GDP, up from around 4.8% of GDP in 2008,

although even this number could prove to be optimistic. A number of National Assembly delegates have expressed a desire for the deficit remain below 6-6.5% of GDP. The Economist Intelligence Unit remains sceptical of the government's fiscal accounting, which does not reflect significant off-budget spending.

Several members of the legislature have suggested that the equitisation (or part-privatisation) campaign for state-owned enterprises should be accelerated as a means of generating additional revenue for state coffers. One reason why the underwhelming equitisation campaign slowed in 2008 was the poor performance of the stockmarket since early 2007, which diluted investor appetite and drove down company valuations. But, given that Vietnam's stockmarket indices are rallying in 2009 and valuations are picking up, equitisations may be revived—provided that the government's more lofty expectations on valuations are tempered.

The government may accelerate crucial reforms

The leadership is commencing preparations to draft the country's social and economic development strategy for 2011-20. The decade-long strategy may include new approaches to a number of policies. Although it is too early to tell what these might be, it is conceivable that a more strident approach to economic reform and business liberalisation will arise. Such a scenario transpired in the wake of the 1997-98 Asian financial crisis, when Vietnam's leadership was obliged to adopt a more proactive approach to reform in order to achieve its economic growth targets. This was demonstrated by the Enterprise Law of 1999, which is now widely regarded as a milestone. Vietnam aspires to become an industrialised country by 2020, and attaining such a target necessitates that the pace and depth of economic reform and business liberalisation be amplified dramatically.

There are already signs the government is intensifying its reform efforts. Examples include the recent change to the ceiling placed on foreign investment in unlisted Vietnamese companies, likely revisions to the Investment Law and a further relaxation on rules pertaining to the acquisition of property by *viet kieu* (overseas Vietnamese). To date, less than 200 overseas Vietnamese have officially been granted home-ownership approval rights, although considerably more have unofficially acquired property using local nominees, such as family members and friends. Changes to the Land Law and Housing Law may provide *viet kieu* with more flexibility in terms of the use of land acquired for a home, and could even allow homeowners to rent their property. Nevertheless, overseas Vietnamese will still not be permitted to mortgage a property.

A handful of important service sectors may be opened to foreign investment. The Ministry of Planning and Investment is reportedly seeking government approval to open up several service sectors to foreign investors ahead of the schedule set prior to Vietnam's accession to the World Trade Organisation. This is presumably a bid to attract greater foreign investment inflows, which have suffered as a result of the global economic slowdown. Service sectors that could be opened up include transportation, communications, healthcare, education and culture. The local media has also hinted that the ministry may be poised to reconsider what has until now been a marked ambivalence towards allowing foreign investors into the energy, infrastructure, utilities and logistics fields. If

the government's stance were to shift in favour of foreign investment, it would be a marked change in policy towards these critical sectors, where domestic investment has been lagging behind the needs of the burgeoning business community. Continued underinvestment in these areas, and, in particular, the exclusion of foreign investors, could potentially imperil Vietnam's allure as a host country for foreign investment.

The State Bank of Vietnam (the central bank) is currently preparing legislation concerning commercial banking activity. Current drafts of the bill include a prohibition against margin lending (lending to borrowers to finance securities investment activity, with shares held by borrowers serving as collateral) by all commercial banks, with the aim of preventing stockmarket bubbles forming and ensuring the systemic integrity of the banking sector. Not surprisingly, many stockbrokerages are vehemently opposed to the proposed clause in the draft law. A new commercial banking law for Vietnam is long overdue, and it is expected that a draft of the law will be submitted to the National Assembly for debate in late 2009. Should this happen, the new law could be passed in the first half of 2010. The securities market regulator, the State Securities Commission, is also in the early stages of preparing new legislation governing securities activity, although this is unlikely to be passed into law before the end of 2010.

Following the recent visit to the Middle East by the prime minister, Nguyen Tan Dung, a new joint-venture investment vehicle has been established between the holding company of the Vietnamese government, the State Capital Investment Corporation (SCIC) and the government of Oman. The new venture has a mandate to invest in Vietnam across a range of sectors, including real estate, infrastructure, logistics and oil. This is the first joint venture of its kind that the SCIC has undertaken, and underlines the fact that it is not simply a vehicle to assist in state-sector divestment. The SCIC may also make new investments, perhaps even in the country's burgeoning private sector, on behalf of the government.

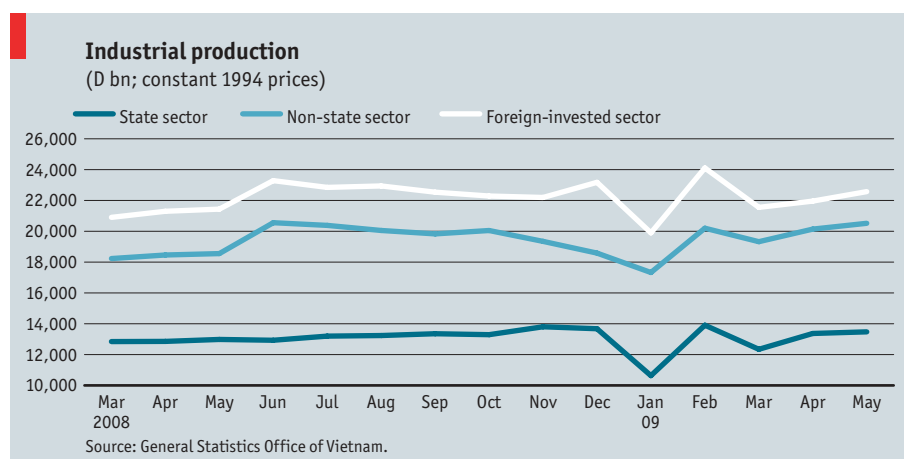
Economic performance

Firms are struggling through the downturn

Figures published by the General Statistics Office (the national statistics office) show that industrial output in the first five months of 2009 grew by 3.9% year on year, markedly below the annual growth of 14-15% that Vietnam has become used to in recent years. The data suggest that private domestic firms are setting the pace, with output growth of 7.8% in the same period, driven in part by surprisingly resilient domestic demand. The primarily export-oriented foreign-invested sector (excluding oil and gas) has been harder hit: industrial production grew by just 1.9% year on year in the first five months of the year. The state-owned sector has fared even worse, with industrial production falling by 1.3% in the same period, despite the curative effects of the economic stimulus package.

The poor performance of the state-owned sector will presumably add to the growing perception that the kind of unbridled diversification that many larger state enterprises have pursued in recent years was a mistake, and that they

should stay focused on their core competencies. It may also change perceptions of the degree to which larger state enterprises should be placed at the forefront of the economy in the years ahead—if they are not able to compete as effectively as their private-sector peers. That, in turn, could translate into a more hands-on approach by the government in its management of SOEs. The reasoning behind several of the larger firms remaining wholly state owned—and retaining dominant or monopoly market positions—is that they perform strategically important economic roles. However, this reasoning is increasingly being questioned. A number SOEs have diversified into a large array of non-core but supposedly lucrative business fields, and in doing so may have crowded out private-sector competitors. A number of National Assembly members have even openly questioned both the poor performance of the state-owned sector, and the value of allocating state capital to them in these economically difficult times.



The government is aiming for industrial production growth of 7.5% in 2009, which is roughly one-half of the target that was set in 2008. Attaining this figure will depend in large part on export demand and the extent to which domestic demand holds up in the second half of the year. In the first five months of the year production of oil, cement, steel, electricity and footwear all rose, but output of coal, fertiliser, seafood and vehicles fell. After the rare trade surplus that was seen in the first quarter of 2009, Vietnam has now reverted to a more typical trade deficit position.

The government is widely expected to revise down its economic growth forecast for Vietnam in 2009 to 5%, from 6.5% previously. Even so, attaining 5% GDP growth this year necessitates that economic activity accelerates in the second half of the year. Investors in domestic stockmarkets appear to be pricing in an economic recovery, with the VN index (an index of all stocks on the Ho Chi Minh Stock Exchange, or HOSE) rallying from a low of 235.5 on February 24th to 458.2 on June 4th. Even more striking has been the significant increase in average daily trading volumes on the country's two stockmarkets as domestic investors return, encouraged by the sustained rise in the equity indices. The finance ministry's proposal to exempt earnings derived from securities investment from the new personal income tax law until end-2010 has

no doubt been a fillip for the stockmarkets, as has the resumption of margin lending by banks.

Trade and investment flows fall dramatically

The trade deficit for the first five months of 2009 totalled US\$1.2bn. This is in spite of the massive 37% fall in the value of imports, which totalled just US\$23.9bn in the period. Meanwhile, the value of exports fell by 6.8% to total US\$22.7bn. Plunging export values for several of the country's major exports—including crude oil (down by 44% year on year in the first five months of 2009), seafood (down by 9%), footwear (down by 10%), electronics (down by 8%), garments (down by 2%) and wood products (down by 22%)—all contributed to the aggregate export picture. A 20.2% increase in the value of rice exports helped to mitigate the losses elsewhere.

Official figures suggest that Vietnam attracted roughly US\$6.7bn in FDI pledges in the first five months of 2009, down by 76.3% year on year. New FDI pledges (excluding FDI committed to existing projects) totalled just US\$2.7bn in the same period, down by nearly 90% from the same period in 2008. Actual disbursements reached US\$2.8bn, representing a more modest 30% year-on-year fall. The bulk of the pledges (totalling US\$4bn) emanate from foreign-invested projects already operating in Vietnam that are looking to scale up their activities.

Domestic prices continue to fall, bringing relief to policymakers who struggled with rampant inflation in 2008. Despite various policy measures intended to stimulate domestic demand (such as a 50% cut in the value-added tax on a spectrum of goods), inflationary pressures continue to weaken. Consumer prices rose by just 0.5% month on month in May, up only marginally from a 0.3% gain in April. On a year-on-year basis inflation remained in single digits in May, rising by 5.6%; by contrast, inflation soared to 25.3% year on year in May 2008. The spectre of inflation is unlikely to re-emerge as a major issue in the short term.

Education is a major concern for business

Foreign firms often note that while there are plenty of Vietnamese graduates every year, their skill sets are often inadequate. The issue was recently highlighted by the case of a US technology firm, Intel, which tested 2,000 graduates from Vietnam's top universities in a variety of subjects, including physics, maths and English. The top performers had the chance of securing a job with the firm. In the end, just 40 students performed well enough to make the final cut. Intel's country manager for Vietnam, Than Trong Phuc, responded to the results by saying, "Is Vietnam a literate society with good people with fundamental skills? Yes. But do these people already have knowledge about chip-making in place? No. So we have to start from the ground." Both supply and quality are major concerns surrounding the country's higher-education system, which many foreign observers claim is antiquated and ill-equipped to train the next generation of young professionals demanded by the growing number of foreign-owned enterprises operating in Vietnam. The Ministry of Education and Training believes that only around 30% of university graduates have the skills required for their jobs, and that demand of highly skilled workers will far outstrip supply in the future. The ministry expects that the higher-education system will supply only around 40-60% of the 4m or so highly skilled workers that will be required between now and 2015.

Data and charts

Annual data and forecast

	2004 ^a	2005 ^a	2006 ^a	2007 ^a	2008 ^b	2009 ^c	2010 ^c
GDP							
Nominal GDP (US\$ bn)	45.4	52.9	61.0	71.2	91.3 ^a	93.4	98.6
Nominal GDP (D trn)	715.3	839.2	974.3	1,144.0	1,670.8 ^c	1,817.2	1,981.2
Real GDP growth (%)	7.8	8.4	8.2	8.5	6.2 ^a	2.1	4.9
Expenditure on GDP (% real change)							
Private consumption	7.1	7.3	8.3	9.6	4.9	-0.5	2.3
Government consumption	7.8	7.9	8.8	8.9	8.0	8.2	8.0
Gross fixed investment	10.4	9.8	9.9	23.0	14.0	-2.5	2.0
Exports of goods & services	25.7	20.5	17.1 ^b	15.2 ^b	14.9	-5.4	4.4
Imports of goods & services	21.9	15.9	18.4 ^b	25.6 ^b	14.4	-8.1	1.1
Origin of GDP (% real change)							
Agriculture	4.4	4.0	3.4	3.7	3.8 ^a	2.1	3.0
Industry	10.3	10.7	10.4	10.6	6.3 ^a	5.0	6.5
Services	7.3	8.5	8.3	8.7	7.2 ^a	-0.9	4.0
Population and income							
Population (m)	82.7	83.5	84.4 ^b	85.3 ^b	86.1	87.0	87.8
GDP per head (US\$ at PPP)	1,932 ^b	2,132 ^b	2,357 ^b	2,599 ^b	2,793	2,840	2,956
Recorded unemployment (av; %)	5.6	5.3	4.8	4.6 ^b	4.7	8.6	8.5
Fiscal indicators (% of GDP)							
Central government balance	-3.3	-4.1	-2.9	-7.0	-5.0 ^a	-8.8	-8.0
Net public debt	42.7	44.0	45.9 ^b	49.7 ^b	45.5	52.1	58.1
Prices and financial indicators							
Exchange rate D:US\$ (end-period)	15,777	15,916	16,055	16,010	17,433 ^a	18,142	18,403
Exchange rate D:€ (end-period)	21,359	18,775	21,188	23,379	24,234 ^a	24,674	25,764
Consumer prices (end-period; %)	9.7	8.6	6.6	14.4	21.5 ^a	3.4	7.6
Stock of money M1 (% change)	26.1	22.2	20.7	48.9	-21.6	-0.5	9.1
Stock of money M2 (% change)	31.1	30.9	29.7	49.1	16.1	18.4	20.9
Lending interest rate (av; %)	9.7	11.0	11.2	11.2	15.6	9.9	9.6
Current account (US\$ m)							
Trade balance	-2,287	-2,439	-2,776	-10,360	-16,006	-12,944	-10,265
Goods: exports fob	26,485	32,447	39,826	48,561	61,600	49,856	58,499
Goods: imports fob	-28,772	-34,887	-42,602	-58,921	-77,606	-62,801	-68,764
Services balance	-872	-296	-8	-894	-1,115	-1,413	-1,908
Income balance	-891	-1,205	-1,429	-2,168	-2,453	-1,732	-2,295
Current transfers balance	3,093	3,380	4,049	6,430	7,862	6,549	6,563
Current-account balance	-957	-560	-164	-6,993	-11,711	-9,541	-7,905
External debt (US\$ m)							
Debt stock	18,049	19,212	20,202	21,852 ^b	23,093	21,755	22,989
Debt service paid	787	957	918	944 ^b	1,029	1,022	1,046
Principal repayments	430	519	464	533 ^b	570	667	675
Interest	357	438	454	411 ^b	459	354	371
International reserves (US\$ m)							
Total international reserves	7,186	9,217	13,591	23,748	23,182	23,449	25,245

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

Source: IMF, *International Financial Statistics*.

Quarterly data

	2007				2008			
	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr
Prices								
Consumer prices (2000=100)	140.1	142.7	146.8	152.9	165.7	180.4	189.5	188.9
Consumer prices (% change, year on year)	6.5	7.4	9.1	12.4	18.3	26.4	29.1	23.6
Financial indicators								
Exchange rate D:US\$ (av)	16,019	16,064	16,169	16,060	15,947	16,252	16,666	16,898
Exchange rate D:US\$ (end-period)	16,023	16,113	16,092	16,010	16,105	16,842	16,575	17,433
Deposit rate (av; %)	7.7	7.6	7.4	7.3	9.1	13.8	17.0	n/a
Lending rate (av; %)	11.2	11.2	11.2	11.2	12.3	16.6	20.1	n/a
Refinancing rate (end-period; %)	6.5	6.5	6.5	6.5	7.5	15.0	15.0	n/a
Treasury bill rate (av; %)	3.6	4.1	4.8	n/a	8.2	n/a	15.5	n/a
M1 (end-period; D trn)	317.3	334.4	352.8	435.2	396.1	342.1	321.8	n/a
M1 (% change, year on year)	31.3	40.4	49.2	48.9	24.8	2.3	-8.8	n/a
M2 (end-period; D trn)	949.2	1,029.6	1,111.0	1,254.0	1,300.2	1,295.5	1,347.5	n/a
M2 (% change, year on year)	35.6	41.6	47.5	49.1	37.0	25.8	21.3	n/a
Foreign trade (US\$ m)								
Exports fob	10,565	11,901	12,319	13,528	13,160	15,750	17,839	14,163
Imports cif	-12,277	-14,783	-15,537	-18,100	-21,510	-22,650	-19,087	-15,757
Trade balance	-1,712	-2,882	-3,218	-4,572	-8,350	-6,900	-1,248	-1,594
Foreign payments (US\$ m)								
Merchandise trade balance	-974.0	-2047.0	-2298.0	-5041.0	n/a	n/a	n/a	n/a
Services balance	-142	-284	-209	-259	n/a	n/a	n/a	n/a
Income balance	-400	-803	-387	-578	n/a	n/a	n/a	n/a
Net transfer payments	1,564	1,774	1,473	1,619	n/a	n/a	n/a	n/a
Current-account balance	47	-1,360	-1,421	-4,259	n/a	n/a	n/a	n/a
Reserves excl gold (end-period)	18,317	20,793	22,575	23,479	26,436	20,979	23,848	n/a

Sources: IMF, *International Financial Statistics*.

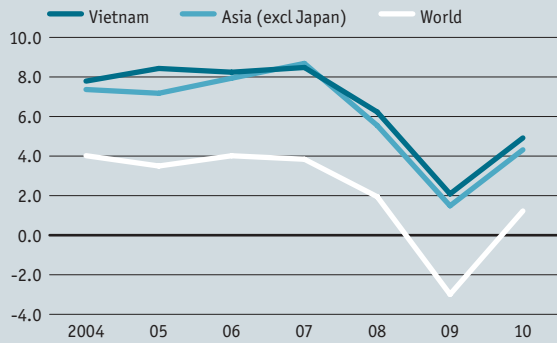
Monthly data

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Exchange rate D:US\$ (av)												
2006	15,902	15,912	15,906	15,924	15,954	15,972	15,984	15,998	16,023	16,053	16,077	16,065
2007	16,056	15,991	16,011	16,038	16,054	16,101	16,120	16,192	16,196	16,083	16,062	16,034
2008	15,992	15,951	15,898	16,094	16,171	16,490	16,798	16,605	16,596	16,679	16,936	17,079
Exchange rate D:US\$ (end-period)												
2006	15,912	15,898	15,914	15,938	15,945	15,984	15,994	16,000	16,041	16,070	16,063	16,055
2007	16,036	15,990	16,023	16,046	16,079	16,113	16,127	16,226	16,092	16,083	16,044	16,010
2008	15,971	15,931	16,105	16,116	16,246	16,842	16,755	16,525	16,575	16,813	16,974	17,433
Money supply M1 (% change, year on year)												
2006	29.8	18.2	24.4	21.5	23.1	22.0	23.9	22.7	17.6	18.7	20.5	20.7
2007	16.2	35.4	31.3	35.7	37.4	40.4	43.1	41.9	49.2	55.4	53.7	48.9
2008	56.8	35.3	24.8	17.7	10.9	2.3	-5.2	-7.3	-8.8	-12.3	n/a	n/a
Money supply M2 (% change, year on year)												
2006	34.6	32.5	35.4	33.8	34.1	33.5	34.1	32.7	30.3	30.4	30.6	29.7
2007	28.8	34.0	35.6	39.0	40.6	41.6	43.7	43.2	47.5	50.5	49.8	49.1
2008	48.2	41.4	37.0	30.5	29.1	25.8	23.1	21.0	21.3	18.4	n/a	n/a
Deposit rate (av; %)												
2006	7.5	7.7	7.7	7.7	7.5	7.7	7.7	7.7	7.7	7.7	7.7	7.7
2007	7.7	7.7	7.7	7.7	7.7	7.4	7.4	7.4	7.4	7.4	7.2	7.2
2008	7.2	9.0	11.2	11.5	13.3	16.6	16.9	17.2	16.9	15.2	n/a	n/a
Lending rate (av; %)												
2006	11.2	11.2	11.2	11.2	11.2	11.2	11.2	11.2	11.2	11.2	11.2	11.2
2007	11.2	11.2	11.2	11.2	11.2	11.2	11.2	11.2	11.2	11.2	11.2	11.2
2008	11.2	11.2	14.6	14.3	16.5	19.1	20.3	20.2	19.9	18.0	n/a	n/a
Consumer prices (av; % change, year on year)												
2006	8.8	8.3	7.8	7.2	7.4	7.4	7.4	7.3	6.8	6.7	6.8	6.6
2007	6.5	6.5	6.7	7.1	7.2	7.8	8.4	8.6	10.5	11.0	11.8	14.4
2008	15.9	17.5	21.4	23.3	27.2	28.8	29.1	30.3	27.9	26.7	24.2	20.0
Goods exports fob (US\$ m)												
2006	3,065	2,404	3,442	2,973	3,444	3,510	3,582	3,674	3,378	3,343	3,290	3,500
2007	3,759	2,925	3,881	3,650	4,066	4,185	4,278	4,313	3,728	4,280	4,548	4,700
2008	4,911	3,800	4,700	5,100	5,150	5,500	6,547	6,018	5,274	5,044	4,219	4,900
Goods imports cif (US\$ m)												
2006	2,599	2,714	3,519	3,582	4,294	4,008	3,985	4,151	3,968	3,845	3,746	4,000
2007	4,331	3,468	4,478	4,493	5,279	5,011	5,239	5,335	4,963	5,630	6,170	6,300
2008	7,198	5,800	7,000	7,850	8,000	6,800	7,300	6,276	5,511	5,706	4,651	5,400
Trade balance fob-cif (US\$ m)												
2006	466	-310	-77	-609	-850	-498	-403	-477	-590	-502	-456	-500
2007	-572	-543	-597	-843	-1,213	-826	-961	-1,022	-1,235	-1,350	-1,622	-1,600
2008	-2,287	-2,000	-2,300	-2,750	-2,850	-1,300	-753	-258	-237	-662	-432	-500
Foreign-exchange reserves excl gold (US\$ m)												
2006	9,993	10,199	10,742	11,180	11,391	11,293	11,357	11,684	11,904	12,015	12,291	13,384
2007	15,265	16,967	18,317	19,300	20,267	20,793	21,701	21,925	22,575	23,036	23,428	23,479
2008	24,336	25,836	26,436	25,298	23,607	20,979	21,756	22,383	23,848	23,820	n/a	n/a

Sources: IMF, *International Financial Statistics*; Haver Analytics.

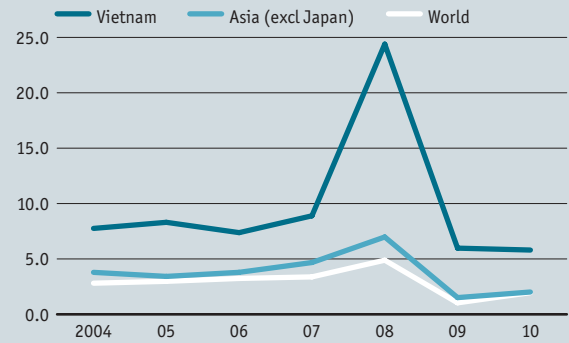
Annual trends charts

Real GDP growth
(% change)



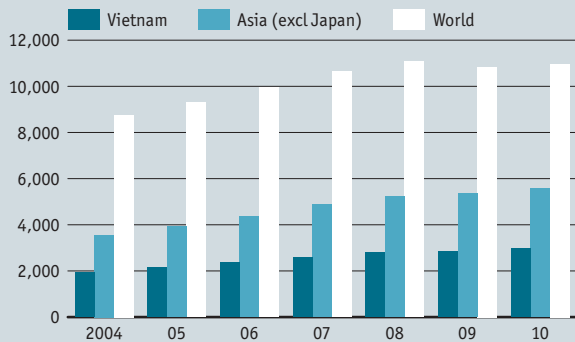
Source: Economist Intelligence Unit.

Consumer price inflation
(av; %)



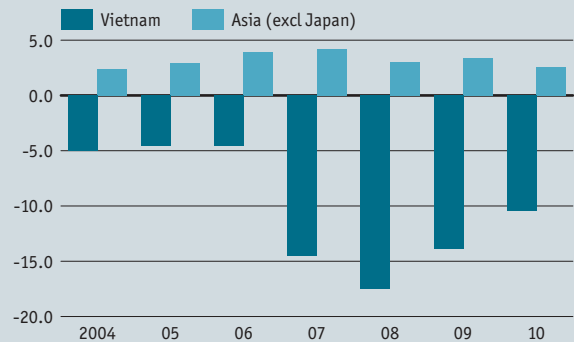
Source: Economist Intelligence Unit.

GDP per head
(US\$, PPP)



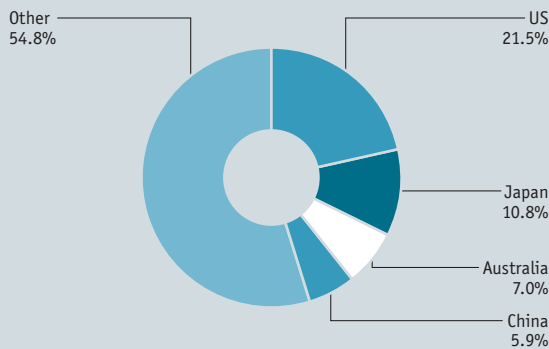
Source: Economist Intelligence Unit.

Trade balance
(% of GDP)



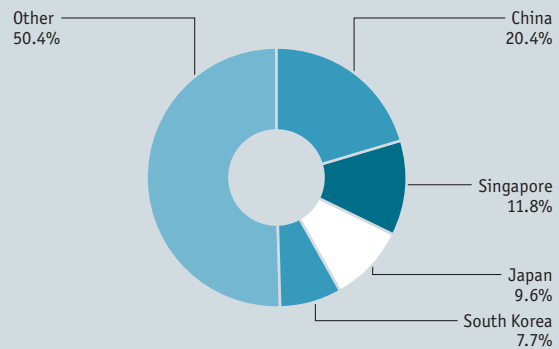
Source: Economist Intelligence Unit.

Main origins of exports, 2007
(share of total)



Source: Economist Intelligence Unit.

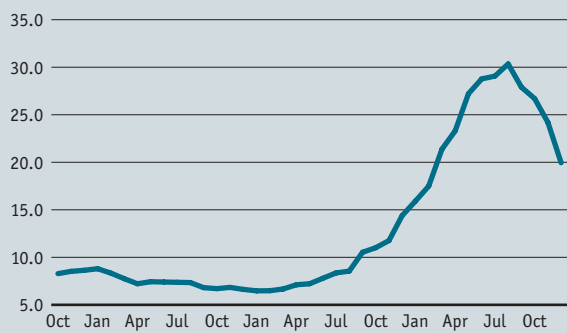
Main origins of imports, 2007
(share of total)



Source: Economist Intelligence Unit.

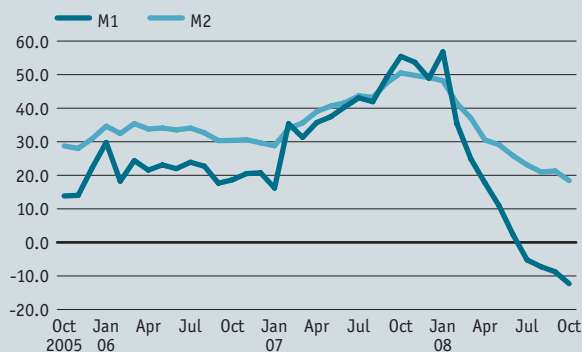
Monthly trends charts

Consumer price inflation
(% change, year on year)



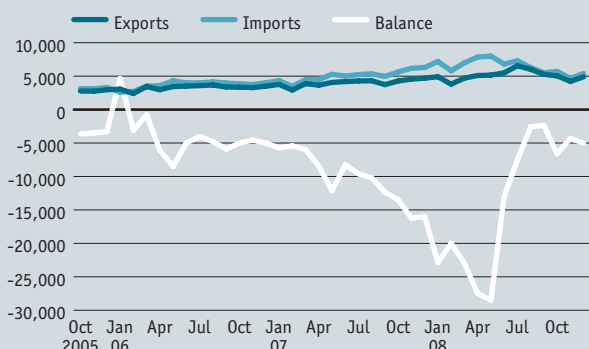
Source: Economist Intelligence Unit.

Monetary aggregates
(% change, year on year)



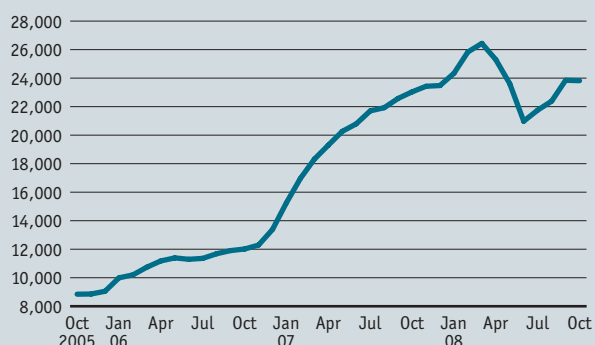
Source: Economist Intelligence Unit.

Foreign trade
(US\$ m; goods only)



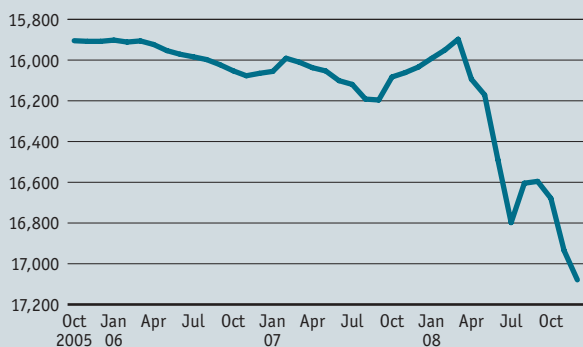
Source: Economist Intelligence Unit.

Foreign-exchange reserves
(US\$ m)



Source: Economist Intelligence Unit.

Exchange rate
(D:US\$; av; inverted scale)



Source: Economist Intelligence Unit.

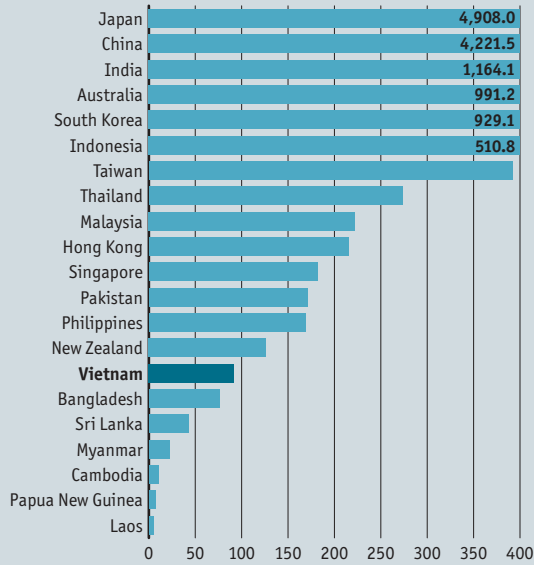
Oil: Brent crude price
(US\$/b; av)



Source: Economist Intelligence Unit.

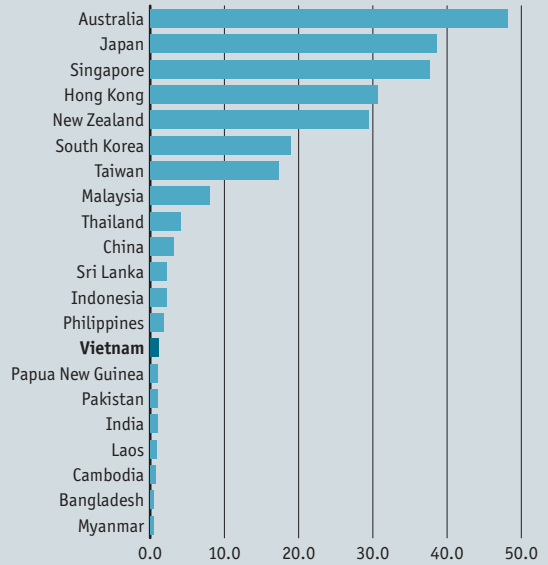
Comparative economic indicators, 2008

Gross domestic product
(US\$ bn)



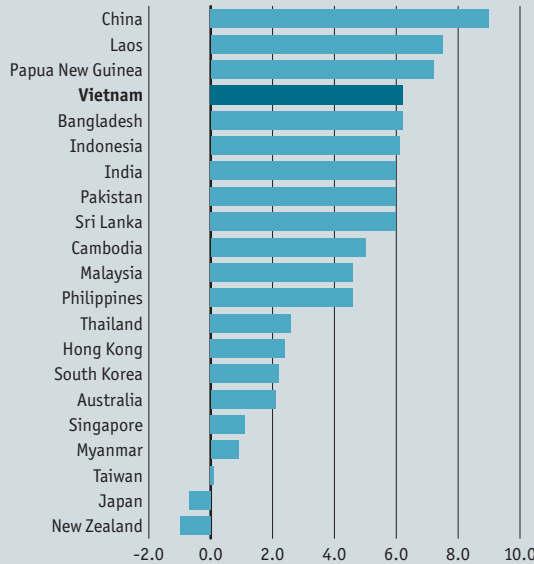
Sources: Economist Intelligence Unit estimates; national sources.

Gross domestic product per head
(US\$ '000; market exchange rates)



Sources: Economist Intelligence Unit estimates; national sources.

Gross domestic product
(% change, year on year)



Sources: Economist Intelligence Unit estimates; national sources.

Consumer prices
(% change, year on year)



Sources: Economist Intelligence Unit estimates; national sources.

Country snapshot

Basic data

Land area	330,363 sq km
Population	85.2m (2007, General Statistics Office estimate)
Main towns	Population (of province) in '000 (2006)
	Ho Chi Minh City 6,347
	Hanoi (capital) 3,289
	Haiphong 1,828
Climate	Tropical monsoon; north cool and damp in winter (November-April), hot and rainy in summer; south more equable; centre most subject to typhoons. The rains are highly unpredictable
Weather in Hanoi (altitude 216 metres)	Hottest month, June, 26-33°C; coldest month, January, 13-20°C; wettest month, August, 343 mm average rainfall; driest month, January, 18 mm average rainfall
Weather in Ho Chi Minh City (altitude 9 metres)	Hottest month, April, 24-35°C; coldest month, January, 21-32°C; wettest month, September, 335 mm average rainfall; driest month, February, 3 mm average rainfall
Language	Vietnamese (spoken by about 90% of the population); English (increasingly favoured as a second language); some French; a little Russian and German; minority languages such as Hmong, Thai, Khmer in more remote rural areas
Weights and measures	Metric system. Local land measurement 1 mau=3,600 sq metres (north); 1 mau=5,000 sq metres (centre)
Currency	Dong (D). Average exchange rate in 2008: D16,440:US\$1
Time	7 hours ahead of GMT
Public holidays	January 1st (New Year's Day); January 25th-29th (Tet, Lunar New Year); April 30th (Liberation of Saigon); May 1st (Labour Day); September 2nd (National Day)

Political structure

Official name	Socialist Republic of Vietnam	
Form of state	One-party rule	
The executive	The cabinet is constitutionally responsible to the National Assembly, which is elected for a five-year term	
Head of state	The president, currently Nguyen Minh Triet	
National legislature	The unicameral 493-member Quoc Hoi (National Assembly) meets biannually; an election takes place every five years. The assembly appoints the president and the cabinet	
Local government	Centrally controlled provinces and municipalities are subdivided into towns, districts and villages, which have a degree of local accountability through elected People's Councils	
Legal system	The regional people's courts and military courts operate as courts of first and second instance, with the Supreme Court at the apex of the system	
National elections	Elections for the National Assembly and People's Councils took place in May 2007; the next are due in 2012	
National government	The Communist Party of Vietnam, and in particular its politburo, controls both the electoral process and the executive	
Main political organisations	The Communist Party of Vietnam (general secretary: Nong Duc Manh); the Vietnam Fatherland Front	
Main members of the cabinet	Prime minister	Nguyen Tan Dung
	Deputy prime ministers	Nguyen Sinh Hung Pham Gia Khiem Hoang Trung Hai Nguyen Thien Nhan Truong Vinh Trong
	Key ministers	Agriculture & rural development Cao Duc Phat Construction Nguyen Hong Quan Culture, sports & tourism Hoang Tuan Anh Education & training Nguyen Thien Nhan Finance Vu Van Ninh Foreign affairs Pham Gia Khiem Industry & trade Vu Huy Hoang Information & communications Le Doan Hop Interior Tran Van Tuan Justice Ha Hung Cuong Labour, war invalids & social affairs Nguyen Thi Kim Ngan National defence Phung Quang Thanh Natural resources & environment Pham Khoi Nguyen Planning & investment Vo Hong Phuc Public health Nguyen Quoc Trieu Transport Ho Nghia Dung
Central bank governor	Nguyen Van Giau	