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Measuring the Non-observed Economy

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Country Paper: Viet Nam

This paper, prepared by Mr Hoang Phuong Tan, Senior Official, National Accounts Department, General Statistics Office, Hanoi, Viet Nam, has been reproduced as submitted. It has been issued without formal editing.

Report on
Non- observed economy in Vietnam national accounts

Introduction

Macroeconomic indicators in the System of National Accounts (SNA) such as: Gross Domestic Product (GDP), Gross Capital Formation (GCF), Final Consumption, Export and Import of goods and services, Gross National Income (GNI), National Disposable Income (NDI), Saving... not only withdraw attention of managers, policy-makers and economists but also withdraw attention of business, foreign investors and international financial organizations. The General Statistics Office of Viet Nam (GSO) has responsibility to calculate the said indicators in time.

Under sponsor of the United Nation Statistics Division (UNSD) and the Asian Development Bank (ADB) for 1990-2003 period, National Accounts statistics of Viet Nam had the transition from the Material Product System (MPS) into the System of National Accounts 1993 of the United Nations (1993 SNA). Since the year of 2000, Statistics of Viet Nam has implemented partly of the 1993 SNA and calculated Gross Domestic Product, Final Consumption, Export and Import of goods and services for the whole economy and provinces and cities as well. However, Gross Domestic Product in Viet Nam have been compiled by Production Approach, Expenditure Approach and Income Approach are in experimental basis. National Accounts statistics of Viet Nam has experimented on compilation of indicators: Gross National Income; National Disposable Income; Saving and Input-Output tables for the year of 1996 and 2000 for the whole economy.

In the past, information for statistical work came from two channels: State statistics (Centralized system of the General Statistics Office) and statistics in Ministries and Agencies. After the transition from MPS to SNA, the system have been used for collecting statistical data and information. In order to compile National

Accounts in accordance with international standard, it requires a huge volume and complex of information, National Accounts statistics of Viet Nam has improved the system gathering data and information to correspond to the facts.

System of periodical and regular financial and statistical reports from establishments and enterprises from central to local level has reformed to be come suitable for compiling National Accounts. In the years 2002 and 2003 the General Statistics Office improved the system of statistical report for administrative and business units (first of all for enterprise), and promulgated the system of statistical report for Provincial Statistics Office and City Statistics Office. Presently, GSO is in progress to prepare system of statistical report for Ministries and Agencies.

The General Statistics Office, step by step improves system of statistical data collection. Especially, in the last three years, GSO conducted many big size surveys, information of these surveys was important basis serving for compilation of national accounts in Viet Nam, name of these surveys is given below:

- Census of Agriculture and rural for the year of 2001;
- Census of economic and administrative units for the year of 2002;
- Living standard survey for the 2001-2002 period;
- Census of enterprise for three years of 2001 - 2003 period.
- Input - output survey for the year of 2000;
- Quarterly survey for the three years of 2001-2003 period;
- Pilot survey for improving plan design of compilation of Supply and use table for the year of 2003.
- Annual sample surveys on household runt enterprise.

Since implementation of 1993 SNA, National Accounts statistics of Vietnam has recognized the importance of non-observed economy and it's effects on estimation of GDP and on compilation of national accounts. Vietnam national accounts staff have been well informed about the

methods used by other countries. Due to the lack of statistical information sources and experience, National Accounts statistics of Vietnam is not applying them as required. However, Vietnam national accountants have tried to approach the concept and method estimating non-observed economy and they have studied the way to apply them in compiling national accounts in order to improve quality of statistical data and save national human resource and finance.

Definitions and concepts

National Accounts statistics of Vietnam follows non-observed economy's definitions and concepts, that employed in the publication are based on 1993 SNA. However, in order to meet definitions and concepts are using in estimation of National Accounts in Vietnam, pay attention to the following points :

- Illegal activities like production, import, sale of drug, prostitution, gambling are excluded in production concepts.
- Illegal activities like export and import of smuggling goods, sale stolen and smuggling goods are examined to add the estimation to export and import in the period.
- Underground production and Informal activities are not estimated separately but are examined during measuring the Gross Output (GO) and GDP by economic activities.

Sources and estimation methods:

National Accounts statistics of Vietnam mainly use Production Approach to estimate GDP. The Expenditure Approach and Income Approach are in experimental basis. Annual and quarterly GDP of Vietnam is estimated as the sum of value added of all economic branches and import duty in the period. The GSO identified the Statistics Departments in GSO have responsibility to estimate Gross Output by economic branches included the underground production and informal activities. Methods estimating and collecting needed information are arranged by

economic branch. National Accounts Department use these results to estimate GDP and compile production accounts.

According to the content of gross output and the source of information, the economy is divided into two groups to identify the method estimating Underground production and Informal activities:

- The first includes enterprises and units that carry out regular financial and statistical reports. It is divided into two sub-groups:
 - Enterprises and units which have accounting and statistical reports that are regularly submitted using prescribed forms. They are observed. Official export and import are included in this group, the information comes from Custom Office.
 - Enterprises and units which do not put into practice the System of Account for Enterprises but adopt some other simple forms of accounting, it is necessary to examine contents of these forms and make some revisions in conformity with the Official Accounting Report. In fact, some enterprises and units from the sub-group are concealed from state authorities in order to avoid paying VAT and social and health securities. Then following the definition is mentioned above they are underground production but GSO do not have information and suitable method for estimating the value.
- The second covers different kinds of economic activities, which are treated as informal activities, namely small business units that do not carry out regular financial and statistical reports and other social organizations and households. In the group there are some activities like trade, transport, construction, repair and renovation of dwellings, repair of motor vehicles and

household appliances, private lessons and other personal services.

- Small business units includes self-employed persons registered for VAT and self-employed persons not registered for VAT. All of them do not carry out regular financial and statistical reports. The Tax Office collects from these self-employed persons registered for VAT a small amount like trade - license but self-employed persons not registered for VAT pay a small fee to local authorities - Commune Committees like a part of Commune committee's budget.

In order to collect needed information from this units, annual sample survey at 1 of July has been conducted by Statistics Departments in GSO. In the year 2002, the total of small business units was 2,625,744 and the sample was 2.0-3.0 per cent of total. The size of sample is changed year by year depends on the budget. Departments in GSO have responsibility to estimate gross output by branches included these economic activities and provide National Accounts Department with the result.

Concerning Commune committee's budget, National Accounts Department conducts the periodical five years sample survey to estimate the ration between the budget from State and the amount from other sources. The size of sample is from 3 to 5 per cent of total of commune. The ration is used for estimation in several years.

The information from these sample surveys is important basis serving for the National Accounts in estimation GDP for the whole economy. However, the quality of indicators is limited. Reasons of the

limitation may be from the way of data collection, the number of small business units has many changes and its effects on method selecting samples, may be from the fact that professional ability of statistical field staff is still weak.

- Non-profit units cover different kinds of organization. All of them are missing statistical information, especially churches, pagodas and charitable organizations. In sample surveys which are conducted by National Accounts Department, main indicators of these units like number of their members, receipts and expenditure are included in questionnaires. The result has been used for estimation of gross output for some years. In fact, this information is changed year by year and National Accounts cannot update so that the quality is limited.
- Beside the observed economic production, soldiers and servicemen engage in some economic activities, that should be estimated as informal activities: production of own - consumption for example construction, agricultural, forestry, fishery production, give help to people and to local Committees in disasters like repair or reconstruction of houses, roads and public welfare construction projects. Presently GSO cannot cover these activities.
- Prisoners and trainees in reeducation class have created different kinds of products for sale and for own-consumption, which should be treated as informal activities in various branches but in practice the information for estimation of the value is lacking.
- Main information sources of households are collected by statistical household sample surveys. These surveys have been conducted by Social and Environment

Statistics Department of GSO every two years. Household survey's samples cover different kinds of households: rural, urban, households engage in economic actives like production for own consumption and households do not engage in economic actives. In 2002, the Department conducted the "Household Standard Living Survey for period 2001-2002 ". The sample was selected from 16,000,000 households in the whole of country (the number of households in 1999 Population Census) is 75,000 and among them 30,000 households had filled receipt and expenditure questioners. The results of the survey are the most important basis for calculation of statistical indicators in household sector, especially estimating own - consumption of agricultural, forestry, fishery production, own-accounts construction, owner-occupied dwelling and final household consumption. However, the quality of these indicators is lacked because of the complication of household economic activities and professional ability of interviewers is weak.

- Households also engage in import and export actives. Major smuggling goods mainly agricultural and essential consumer goods are carried out by households through national boundary. There were small surveys conducted by National Accounts Department at entering places and national boundary markets in order to estimate the value of goods imported or exported. As the estimation showed, the value of surveyed goods takes from 1.4 to 2.0 per cent of the total of annual official importing and exporting revenue.

Implication for and effects on national accounts and GDP estimates

Through the complication of National Accounts in Vietnam, GSO noted that non-observed economy has important effects on the valuation of GDP. Recently GSO has tried to study method and collect information necessary for estimation of non-observed economy. As mentioned above, value of some kinds of non-observed economy were included in calculation of GDP in Vietnam but there are a lot of them still were not. Because the information for estimation of missing value is not adequate. Therefore GSO could not assess the effect

of non-observed economy on GDP. Some studies pointed out that the relationship between the GDP per capital and the actual living standard in Vietnam was not reasonable. For example, the actual living standard in Vietnam in 2002 seemed higher than USD 440 GDP per capital of the year. Some experts estimated the non-observed value takes 20 to 30 per cent of GDP and we consider it as reference information.