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March 13, 2009

**Statement by Mr. Talbot and Mr. Beck on Vietnam
(Preliminary)
Executive Board Meeting 09/26
March 16, 2009**

We are grateful to staff for a very good set of papers. We were, however, disappointed by the lack of coverage of regional spillovers given Vietnam's role in the Asian production chain. This could perhaps have been a topic for the Selected Issues Paper. We would therefore welcome staff comments on how the regional outlook is influencing Vietnam. We also thank Messrs Warjiyo and Raman for their comprehensive Buff Statement.

The Vietnamese economy has enjoyed an impressive period of growth, accompanied by dramatic improvements in its human development indicators. The authorities' robust response to the challenges of overheating and the food and fuel crisis in 2008 has helped subdue inflation and slow the growth of external imbalances.

External position

However, like many emerging markets, Vietnam remains vulnerable to the impacts of the global economic crisis and the decline in capital flows to the region. Vietnam's dependency on foreign capital flows to finance a sizeable current account deficit heighten this vulnerability, so we urge the authorities and the staff to remain vigilant to any potential financing difficulties. The outlook in the staff report states that export growth and remittances are likely to rebound and that capital inflows are expected to pick up as investor confidence recovers. *Could staff elaborate on the pipeline for FDI inflows and remittances in light of the rapidly changing and uncertain environment described in the staff statement?*

Exchange Rate/Monetary Policy

We would agree with staff's call for greater exchange rate flexibility given the limited amount of foreign exchange reserves; staff's analysis that the dong is somewhat overvalued; and to smooth the transition to an inflation targeting regime.

Fiscal Policy

We agree with the authorities' emphasis on Vietnam undertaking fiscal measures to help preserve growth through the downturn. But we support the staff assessment that the government should look to both reprioritize existing expenditure and mobilize additional

and concessional external financing to undertake this stimulus. A focus on safety nets and specific high quality investment projects will help cushion the blow of the global downturn and position Vietnam well for a recovery. We welcome the intention by the authorities to submit a revised budget plan for 2009 to the National Assembly in May.

Financial sector

We welcome recent initiatives to strengthen banking supervision and the effect this has had on the level of State Bank oversight. We also agree with staff's recommendation that vulnerable banks, in particular the smaller Joint Stock Banks, should continue to be watched closely and that contingency plans for restructuring could be developed in the event that default rates and non-performing loans are driven up by a slowing of economic activity. The authorities outline a range of contingency measures to secure financial sector stability in the event that intervention is required. *Could staff elaborate on the possible fiscal impacts of the proposal to use public funds to recapitalise certain banks in such an event?*

With these comments we wish the authorities well in managing the economic challenges ahead.