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March 13, 2009

Statement by Mr. Yamaoka and Ms. Shinagawa on Vietnam
(Preliminary)
Executive Board Meeting 09/26
March 16, 2009

We thank the staff for their informative report and Mr. Warjiyo and Mr. Raman for their helpful statement. As we agree with the thrust of the Staff Paper, we would like to limit our comments to the following points.

Fiscal Policy

We agree with the staff that the authorities should be vigilant in striking a delicate balance between an accommodative fiscal policy and macroeconomic stability. First of all, we do not think the authorities can easily finance the fiscal deficit both domestically and externally. Regarding domestic financing, funding to the public sector would crowd out the funding of the private sector and may aggravate the already tight credit conditions of the private sector. With respect to external financing, under the current global economic conditions, realistic assumptions should be maintained regarding concessional external financing. Also, with a large current deficit and decreasing capital inflows, the authorities should monitor any further *deterioration in external imbalances.*

This chair also supports the staff's call for the authorities to prepare a revised budget plan for 2009, and encourages the authorities to closely engage with the Fund on the details of such a plan.

In addition, regarding the support plan to small- and medium-sized enterprises (SMEs) in the stimulus package, we concur with the staff that the authorities should consider any undesirable effects that the plan might have on SMEs. In view of the increasing default rate of the SMEs in Vietnam, the authorities might need to restructure the debt of those entities rather than support them by providing temporary interest rate subsidies, credit guarantees and so on.

Monetary and Exchange Rate Policy

Although the relatively stable exchange rate policy has served the country well, the dong is currently under depreciation pressures, with the real effective exchange rate already overvalued. Also, the authorities' intervention in the foreign exchange market has decreased the country's international reserves. Against this background, we welcome the enhancement of the country's exchange rate flexibility.

As to the monetary policy stance of the State Bank of Vietnam, we concur with the staff that monetary easing is not fully effective. With the increase in credit risks, the interest rate policy, currently, may have only a limited impact on bank lending. Additionally, as the staff pointed out, further rate cuts would be likely to add depreciation pressure on the dong.

Financial Sector

The lack of appropriate banking supervision, as well as the current global financial turmoil, have both contributed toward increasing the risks to the financial sector. We are concerned that credit risks would intensify if economic conditions further deteriorate. Given that loans to the corporate sector account for a large part of bank assets, the impact of worsening credit, as well as the increase in nonperforming loans on bank balance sheets is significant. Also, we note that banks have relied on short-term interbank funding, which may cause further liquidity shortages. Against this background, we agree with the staff that the authorities should strengthen banking supervision functions.

Technical Assistance

We take note of the authorities' appreciation of the Fund's technical assistance, as expressed in the statement by Mr. Warjiyo and Mr. Raman. We ask the staff to continue its engagement with the authorities, providing effective assistance in response to the country's challenges.

With these remarks, we wish the authorities every success in their future endeavors.