International Monetary Fund

IMF Executive Board Concludes 2013 Article IV Consultation with Vietnam

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On June, 24, 2013, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Vietnam.[1]

Vietnam regained macroeconomic stability over the past year, but the economy is progressing at two speeds. The export sector is performing well—especially foreign-invested enterprises—but the domestic sector, though improving, has yet to find a solid footing because of several factors, including low productivity, structure of resource allocation, impaired bank balance sheets and inefficiency in several state-owned enterprises (SOEs). Credit growth has picked up modestly in real terms, mostly concentrated in the export-oriented and agricultural sectors. Headline inflation has declined significantly, but underlying pressures persist. Domestic and import-related fiscal revenue has been somewhat weaker during recent months. The current account surplus surged to US$9.1 billion in 2012 from US$0.2 billion in 2011 given a slowdown in imports and the strong export performance. The exchange rate has been stable, and gross international reserves more than doubled in February 2013 from end-2011, although they are still inadequate at about 2½ months of prospective imports. During the next two years, the current account surplus is expected to remain sizable, and foreign direct investment (FDI) inflows would remain strong, supporting international reserves. Growth in 2013 is projected to be 5⅓ percent in 2013, supported by exports. This outlook depends on an improvement in the global economy, broadly unchanged monetary and exchange rate policies, and a measured withdrawal of fiscal stimulus.

The authorities have made significant progress in macroeconomic stabilization and containing vulnerabilities in the banking sector and advancing reforms in the SOE sector. Calm has returned to financial markets after the State Bank of Vietnam (SBV) provided liquidity and facilitated the merger of several small, weak banks over the past two years. Moreover, to reduce bank balance sheet risks from gold speculation, the SBV has also implemented a measure to stop gold deposit taking and lending activities. While some weak banks cannot meet the required conditions to access the interbank market and must rely on the SBV’s refinancing facility and open market operations for liquidity support when needed, the interbank market's function has largely been restored. Banking system liquidity has eased, as evidenced by higher deposit growth and significantly lower funding costs. The government has outlined a restructuring plan that would require SOEs to divest noncore assets, clarify their reporting lines, and improve internal controls and financial reporting. About 1,200 SOEs are planned to be restructured, of which some are loss making or just breaking even. The reform strategy for the 2011–2015 period focuses on retaining full ownership of the roughly 50 percent of SOEs that mostly operate in public service areas or are of strategic interest, some of which have significant monopoly power. Around 43 percent of SOEs will be equitized, and the rest restructured, sold, or liquidated.

The financial and SOE sectors, however, remain key sources of vulnerability. As a result of past policies, part of the banking system is undercapitalized and underprovisioned and has low profitability. Furthermore, there is cross-ownership among banks and between banks and enterprises, which merits the authorities' attention and efforts to resolve and prevent the contagion risk. Data limitations and challenges in the regulatory and supervisory framework, hampers an understanding of the true state of the financial system. SOEs dominate key industries, and in the aggregate appear to have had high profit margins, though their true financial state remains publicly unknown. Recent estimates show that SOEs account for one-third of all business assets, and one-sixth of employment. They account for one-half of corporate income tax revenue and one-third of domestic value added taxes.

Executive Board Assessment

Executive Directors commended the authorities for significant progress in stabilizing the economy over the past two years, but cautioned that Vietnam faces important internal and external risks in the period ahead. Accordingly, Directors underscored the need to avoid loosening the policy stance at this juncture, and to accelerate structural reforms.

Directors encouraged the State Bank of Vietnam (SBV) to remain focused on achieving low and stable inflation, supporting the exchange rate anchor, and replenishing international reserves. In the near term, they saw little scope for further interest rate cuts, which could put the SBV's inflation-fighting credibility at risk. More broadly, Directors considered that the monetary policy framework could be strengthened further by relying more on market-based instruments and a more forward-looking communication of policy.

Directors agreed that continued fiscal consolidation remains appropriate, given large contingent liabilities from state-owned enterprises (SOEs) and banks. Accordingly, Directors advised against further tax cuts and suggested requiring profitable SOEs to pay dividends. They commended the authorities' commitment to social inclusion, and agreed that social spending should be safeguarded and public investment reform should be given a high priority in the consolidation effort.

Directors considered that it would also be wise to prepare for unforeseen outlays associated with SOE reform.

Directors acknowledged that much is being done to address weaknesses in the financial sector. However, they noted that problems remain, compounded by information gaps. To return the banking system to health, Directors encouraged following the steps recommended by the Financial Sector Assessment Program. In particular, measures should be put in place to recapitalize banks, strengthen banking supervision and regulation, and implement the workout scheme for non-performing loans. Strengthening credit risk analysis and governance by promoting greater transparency should continue to be a top priority.

Directors underscored the importance of reforming SOEs to enhance Vietnam′s growth potential and reduce fiscal risks. They emphasized that the establishment of a high-level steering committee would be critical to foster SOE restructuring. Equitization of SOEs could be accelerated, and accountability and financial discipline strengthened. Directors encouraged the creation of a level playing field for private and state firms, ensuring equal access to capital, and introducing greater competition into state-dominated sectors, including infrastructure.

Directors agreed that a continued reduction in the use of administrative measures in macroeconomic management would strengthen policy frameworks and the medium-term outlook. They agreed that a managed floating regime that allows more flexibility of the exchange rate over time is in Vietnam′s interest. Directors also supported more operational autonomy and simplified objectives for the SBV.

Selected Economic Indicators, 2009–14[1/]

				Est.	Projections	
	2009	**2010**	**2011**	**2012**	**2013**	**2014**
Output						
Real GDP (percent change)	5.4	6.4	6.2	5.2	5.3	5.4
Saving and investment (in percent of GDP)						
Gross national saving	30.7	31.6	29.7	33.0	29.4	26.3
Private	26.4	25.3	25.1	30.8	27.5	24.8
Public	4.4	6.3	4.5	2.1	1.9	1.5
Gross investment	37.2	35.7	29.8	27.2	24.0	23.1

Private	24.8	24.9	21.6	20.1	18.2	17.7
Public	12.3	10.8	8.2	7.1	5.8	5.4
Prices (percent change)						
CPI (period average)	6.7	9.2	18.7	9.1	8.8	7.4
CPI (end of period)	6.5	11.7	18.1	6.8	8.2	7.9
Core inflation (end of period)	6.6	9.8	14.3	9.6	…	…
General government finances (in percent of GDP) 2/						
Revenue and grants	25.0	27.2	25.2	22.9	22.2	21.7
Of which: Oil revenue	3.4	3.2	3.8	3.2	2.8	2.8
Expenditure	31.6	30.0	28.1	27.7	26.2	25.7
Expense	19.3	19.2	20.0	20.6	20.4	20.2
Net acquisition of nonfinancial assets	12.3	10.8	8.2	7.1	5.8	5.4
Net lending (+)/borrowing(-) 3/	-6.6	-2.8	-2.9	-4.8	-4.0	-4.0
Public and publicly guaranteed debt (end of period)	46.9	51.7	47.9	51.3	50.4	50.5
Money and credit (percent change, end of period)						
Broad money (M2)	29.0	33.3	12.1	18.5	16.1	15.7
Credit to the economy	39.6	32.4	14.3	8.7	12.4	13.1
Interest rates (in percent, end of period)						
Nominal three-month deposit rate (households)	10.7	11.6	14.9	9.4	...	…
Nominal short-term lending rate (less than one year)	12.7	14.0	16.4	12.3	…	…
Balance of payments (in percent of GDP, unless otherwise indicated)						
Current account balance (including official transfers)	-6.0	-3.8	0.2	5.9	5.6	3.3
Exports f.o.b.	56.2	64.0	72.0	75.0	77.9	77.7
Imports f.o.b.	64.3	68.5	72.3	68.5	71.0	73.6
Capital and financial account	11.2	4.1	4.1	4.5	2.5	0.7
Gross international reserves (in billions of U.S. dollars) 4/	14.1	12.4	13.5	25.4	38.7	46.1

In months of prospective GNFS imports	1.9	1.4	1.4	2.3	3.1	3.2
Total external debt (end of period) 5/	41.6	44.3	37.9	39.0	39.1	38.3
Nominal exchange rate (dong/U.S. dollar, end of period)	18,479	19,498	21,034	20,840	...	...
Nominal effective exchange rate (end of period)	80.8	81.0	68.2	67.6	...	
Real effective exchange rate (end of period)	116.2	117.4	122.7	122.0	...	...
Memorandum items:						
GDP (in trillions of dong at current market prices)	1,809	2,158	2,780	3,245	3,684	4,155
GDP (in billions of U.S. dollars)	101.6	112.8	134.6	152.8	170.0	187.0
Per capita GDP (in U.S. dollars)	1,182	1,298	1,532	1,814	1,997	2,174

Sources: Vietnamese authorities; and IMF staff estimates and projections.

1/ The national accounts has been re-based to 2010 from 1994 by the authorities.

2/ Follows the format of the *Government Finance Statistics Manual 2001*.

3/ Excludes net lending of the Vietnam Development Bank.

4/ Excludes government deposits.

5/ Uses interbank exchange rate.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

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