International Monetary Fund

IMF Mission Completes the 2014 Article IV Consultation Discussions with Vietnam

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An IMF mission team led by Mr. John Nelmes visited Hanoi and Ho Chi Minh City during May 28-June 11 to conduct the 2014 Article IV consultation discussions with Vietnam. The mission met with Deputy Prime Minister Vu Van Ninh, Governor Nguyen Van Binh, and Vice Finance Minister Nguyen Huu Chi, as well as senior officials from the State Bank of Vietnam (SBV), the Ministry of Finance, the Ministry of Planning and Investment, private sector representatives, academics and development partners. Discussions focused on recent economic developments and the outlook, near-term macroeconomic policies, and reforms in the financial and state-owned enterprise (SOE) sectors.[1]

Recent achievements in macroeconomic stabilization are commendable. Real GDP growth is projected to rise to 5½ percent in 2014, underpinned by continued robust exports and foreign direct investment (FDI), while domestic activity has been subdued due to headwinds from weaker domestic demand, slow progress in implementing reforms to state owned enterprises (SOEs), and banking sector difficulties, which dampen the transmission of easier monetary conditions to credit growth. Headline inflation has eased to mid single digits, and is projected to remain there in 2014. With robust growth in exports, tourism and remittances, a continued external current account surplus is projected. Gross international reserves have increased notably in 2014, and a further rise is projected.

While the near term outlook is favorable, risks exist, including from surges in global volatility, higher global interest rates, or a prolonging of recent geopolitical tensions, which require greater policy flexibility to maintain confidence and international reserve accumulation. Domestic risks may materialize from existing banking sector difficulties without a comprehensive reform package, particularly financial resources and legal reforms to accelerate bank restructuring and resolution of non-performing loans (NPL). Risks may also arise if SOE reform is slow. Public debt has risen noticeably to a level that needs increased attention. On the upside, early agreement on Trans Pacific Partnership negotiations and free trade agreements are opportunities that would provide preferential access to main export markets and spur market-based reforms.

The mission and the authorities discussed near term macroeconomic policies that would address risks and help to entrench recent stabilization gains. Improved liquidity management by the SBV has contributed to these achievements and the mission agreed that the current accommodative monetary policy stance is appropriate as long as inflation pressures remain muted. Over the medium term, moving gradually towards using inflation as a nominal anchor for monetary policy, along with greater exchange rate flexibility, would provide a useful framework for Vietnam to facilitate macroeconomic stability and inflation control while buffering external shocks.

Fiscal policy has been accommodative in recent years. The deficit increased last year, and a further increase is projected for 2014, with tax revenues continuing their downward trend as a share of GDP, and public debt on the rise. The mission recommended adopting a medium-term plan to reduce the deficit and public debt as a share of GDP. This should focus on broadening the revenue base, and reorienting spending towards high quality public investment, targeted social spending to extend recent commendable poverty reduction achievements and support inclusive growth, and for banking sector reform and NPL resolution costs.

Discussions also centered on structural reforms that would help return the economy to a higher sustainable growth trajectory over the medium term. The mission noted that scope exists to accelerate banking sector reform, with joint efforts among all state stakeholders, building on the SBV's success in reducing systemic risk, improving liquidity, and developing restructuring plans for banks. Important steps include a thorough recognition of NPLs and an accelerated approach to their resolution, including through relevant legal reform a strengthening of operations at the Vietnam Asset Management Company, and increased capital buffers in banks. At the same time, steps to improve the legal framework for SOE operations, including enhanced financial disclosure are welcome. Speedier equitization and implementation of restructuring plans, bolstered by improved coordination among government agencies and an expanded scope of divestment, would lay the groundwork for improved efficiency and a more level playing field for private sector growth.

[1] The conclusion of the Article IV Consultation is subject to the IMF Executive Board discussion.

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