

Vietnam: Fiscal Strategy and Public Debt

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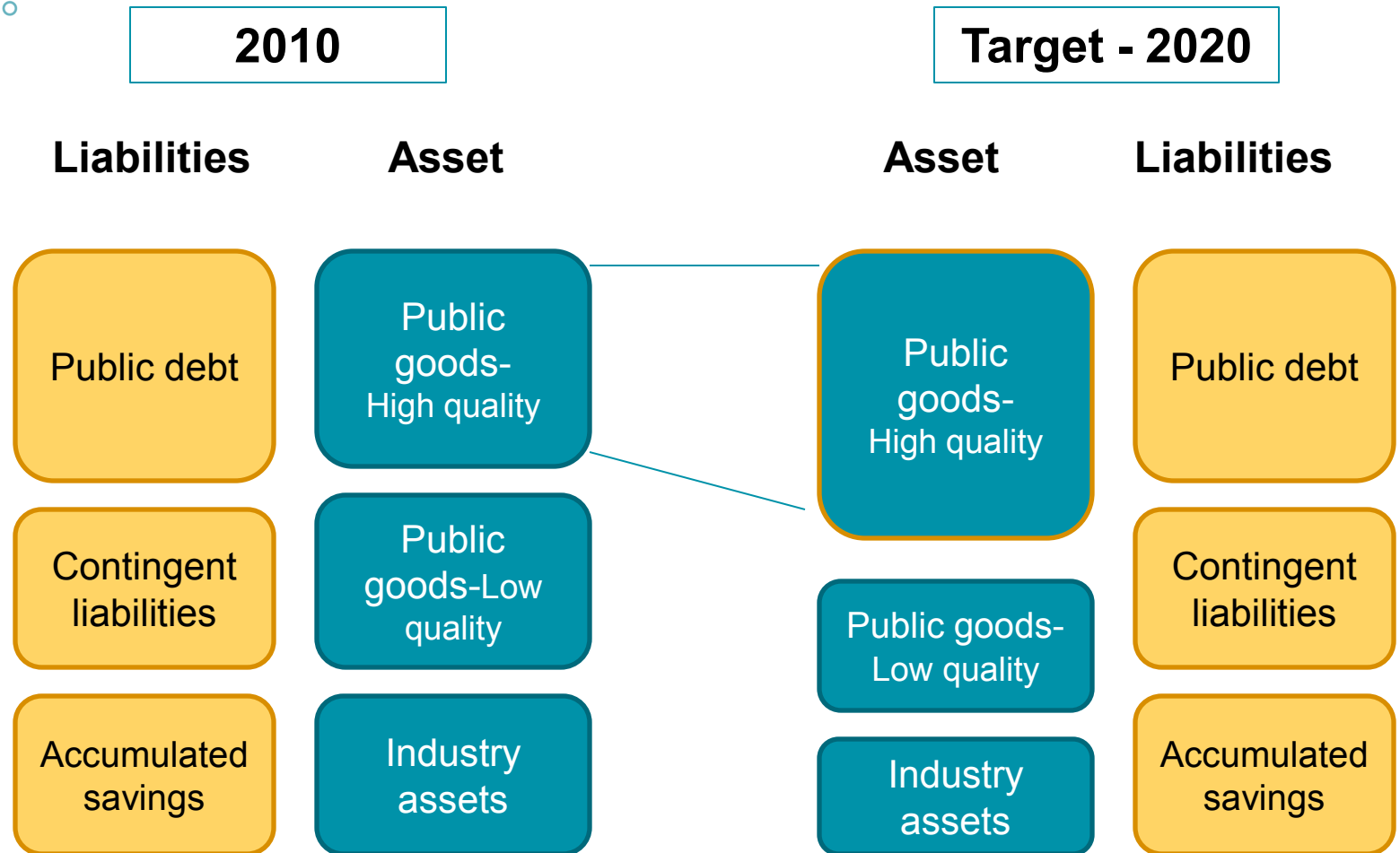
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Outline

- Vietnam's fiscal challenge
- Debt management issues
- IMF/WB Debt Sustainability Analysis

The fiscal challenge: how to finance investment needs?



The fiscal challenge: Constraints and Implications



Three constraints:

- Scope for increasing aggregate size of public sector limited
- Scope for raising debt levels limited
- Contingent liabilities will need careful management

Some implications:

- PPP may help but are unlikely to be a panacea (PPP should be driven by VfM not fiscal constraints)
- Raising savings (revenue), improving efficiency of investment, and equitization will all have to play a role.

Debt Management I: Definition of Public Debt



Vietnam - Gross Public and Publicly Guaranteed Debt - 2005-2009					
	2005	2006	2007	2008	2009
	<i>(In percent of GDP)</i>				
A. Gross public and publicly guaranteed debt (B+C)	42.2	42.9	45.6	43.9	49.0
B. Gross domestic public and publicly guaranteed debt (B1+B2)	14.3	16.1	17.6	17.2	18.4
B1. Gross domestic public debt	9.2	10.8	11.7	10.9	12.4
Securities	6.3	8.3	10.0	9.5	9.0
Loans and advances	2.9	2.5	1.7	1.5	3.3
B2. Gross domestic publicly guaranteed debt	5.1	5.2	5.9	6.3	6.1
VDB domestic debt	5.1	5.2	5.9	6.3	5.9
Other entities (Social Policy Bank, VEC, Vinashin bonds etc.)	0.0	0.0	0.0	0.0	0.1
C. Gross external public and publicly guaranteed debt (C1+C2)	28.0	26.9	28.0	26.8	30.6
C1. Gross external public debt	25.2	24.1	24.2	22.3	26.2
Multilateral	10.4	10.1	10.6	9.5	11.7
Bilateral	12.5	12.0	11.8	11.2	12.9
Commercial	2.3	2.0	1.8	1.6	1.6
C2. Gross external publicly guaranteed debt	2.7	2.8	3.8	4.5	4.4

Debt Management I: Definition of Public Debt



IMF Definition includes:

- All debt of general government and debt guaranteed by government.
- Includes: (a) advances from banking system; and (b) liabilities of VDB

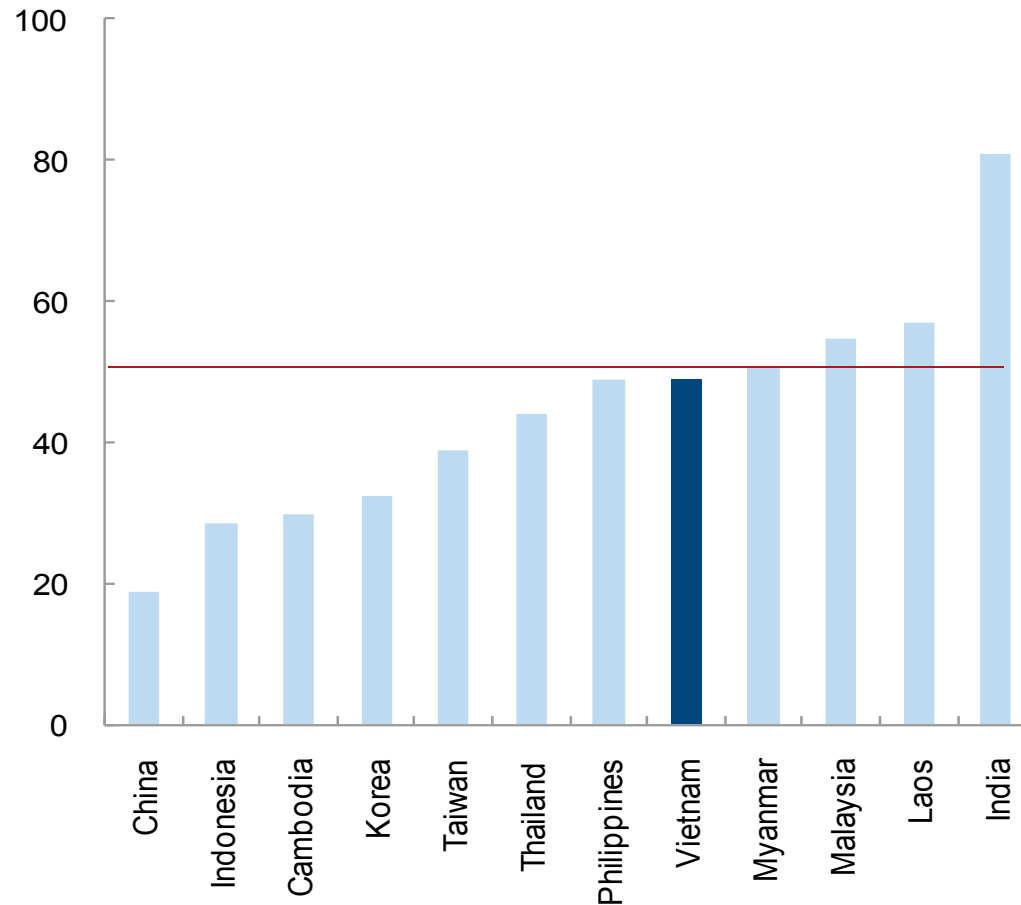
IMF Definition excludes:

- Public sector (SOE) liabilities not explicitly guaranteed by government
- Other implicit liabilities (e.g., unfunded deposit guarantees)

Debt Management II: Debt Thresholds



Public and Publicly Guaranteed Debt
(End-2009)



Debt Management II: Debt Thresholds



- Public Debt threshold of 50 percent of GDP ok (in line with region).
- But: may want to aim below threshold.
 - Emerging market average about 35-40 percent of GDP (wide variation).
 - Provide space to absorb risks (graduation from concessional financing; contingent liabilities in SOE and banking sectors; refinancing and exchange rate risks).

Debt Management II: Thresholds – Caveats



- Don't over rely on debt threshold
- Many countries have had fiscal crises at low levels of debt:
 - Argentina (2001; 45 percent of GDP; FX debt)
 - Ukraine (2007; 13 percent of GDP; SOE debts)
 - Thailand (1996; 15 percent of GDP; corporate/banking system)
 - Venezuela (1981; 15 percent of GDP; short term debt)
 - Romania (2007; 20 percent of GDP; fiscal deficit)

Debt Management III: Debt Composition



Debt structure, Advanced Economies and Emerging Markets (in percent)

	Debt in Local Currency								Debt in Foreign Currency		
	Central Government Debt (% of GDP)	Local Currency share of Cent. Gov. Debt	Average Maturity of Debt in Local Currency	Variable Rate, Indexed and Others	Fixed Rate	Short Term	of which: Medium Term	Long Term	Foreign Currency share of Cent. Gov. Debt	Short Term	Long Term
<i>Advanced Economies (2009)</i>											
Japan	158.2	100	6.1	7	93	31	35	34	0	n.a.	n.a.
Greece	116.6	100	7.9	24	76	5	26	69	0	n.a.	n.a.
United States	48.5	100	4.4	8	92	41	34	24	0	n.a.	n.a.
Ireland	47.3	100	6.0	1	99	20	29	52	0	n.a.	n.a.
Spain	42.6	99	6.4	1	99	18	20	62	1	n.a.	n.a.
United Kingdom	55.5	100	14.1	21	79	10	27	64	0	n.a.	n.a.
France	57.0	100	6.7	12	88	21	21	58	0	n.a.	n.a.
Portugal	65.9	98	6.0	0	100	17	5	78	2	n.a.	n.a.
Netherlands	44.8	98	6.6	0	100	31	31	38	2	n.a.	n.a.
Italy	90.3	100	7.0	28	72	13	25	62	0	n.a.	n.a.
Average	72.7	99	7.1	10	90	21	25	54	1	n.a.	n.a.
<i>Emerging Economies (2005)</i>											
Argentina	51.8	28	n.a.	99	1	0	0	100	72	28	72
Brazil	67.9	81	n.a.	68	32	60	40	0	19	11	89
Chile	48.9	38	7.7	63	37	58	42	0	62	6	94
China	18.9	80	n.a.	0	100	5	43	52	20	52	48
Colombia	43.6	64	n.a.	40	60	9	40	51	36	16	84
Hungary	...	...	4.6	8	92	24	54	22	...	...	...
India	46.1	85	n.a.	9	91	3	49	48	15	7	93
Indonesia	47.3	47	n.a.	69	31	0	0	100	53	17	83
Israel	...	...	n.a.	83	17	0	30	70	...	...	...
Korea	...	...	3.9	0	100	0	72	28	...	...	...
Malaysia	54.3	70	n.a.	0	100	2	45	53	30	25	75
Mexico	26.2	51	6.4	36	64	36	43	21	49	4	96
Poland	43.6	74	4.9	12	88	9	86	5	26	25	75
Russia	17.0	23	n.a.	0	100	0	24	76	77	10	90
Thailand	31.3	73	n.a.	3	97	25	23	52	27	30	70
The Czech Republic	...	...	n.a.	0	100	16	84	0	...	...	...
The Philippines	75.5	52	n.a.	2	98	30	42	28	48	11	89
Turkey	49.0	71	2.0	54	46	6	83	11	29	0	99
Venezuela	32.5	33	n.a.	89	11	88	0	12	67	22	78
Average	43.6	58	4.9	33	67	20	42	38	42	18	82
<i>Default Cases (year prior to default)</i>											
Argentina (1981)	10.6	36	n.a.	3	97	94	0	6	64	39	61
Argentina (2001)	43.1	1	n.a.	100	0	0	0	100	99	14	86
Brazil (1982)	17.5	35	n.a.	0	100	19	81	0	65	19	81
Chile (1982)	26.2	14	n.a.	69	31	71	0	29	86	15	85
Indonesia (1998)	63.9	13	n.a.	100	0	...	...	...	87	19	81
Mexico (1981)	24.2	57	n.a.	6	94	9	0	91	43	32	68
Russia (1997)	44.2	41	n.a.	13	87	65	0	35	59	14	86
The Philippines (1982)	30.2	32	n.a.	16	84	22	23	55	68	50	50
Venezuela (1981)	15.0	100	n.a.	98	2	100	0	0	0	53	47
Average	30.5	37	n.a.	45	55	47	13	40	63	28	72

Debt Management III: Debt Composition



Key messages:

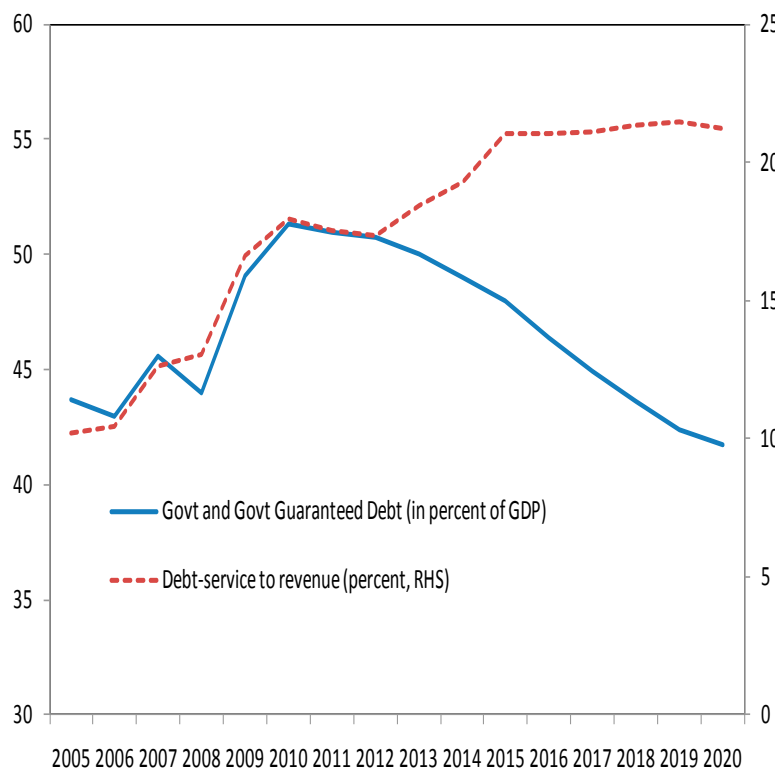
- Debt composition matters
- Implicit liabilities can trip you up.
- Ensuring market confidence in medium-term fiscal strategy critical
- All need to be factored into strategy and monitored carefully.



Debt Sustainability Analysis

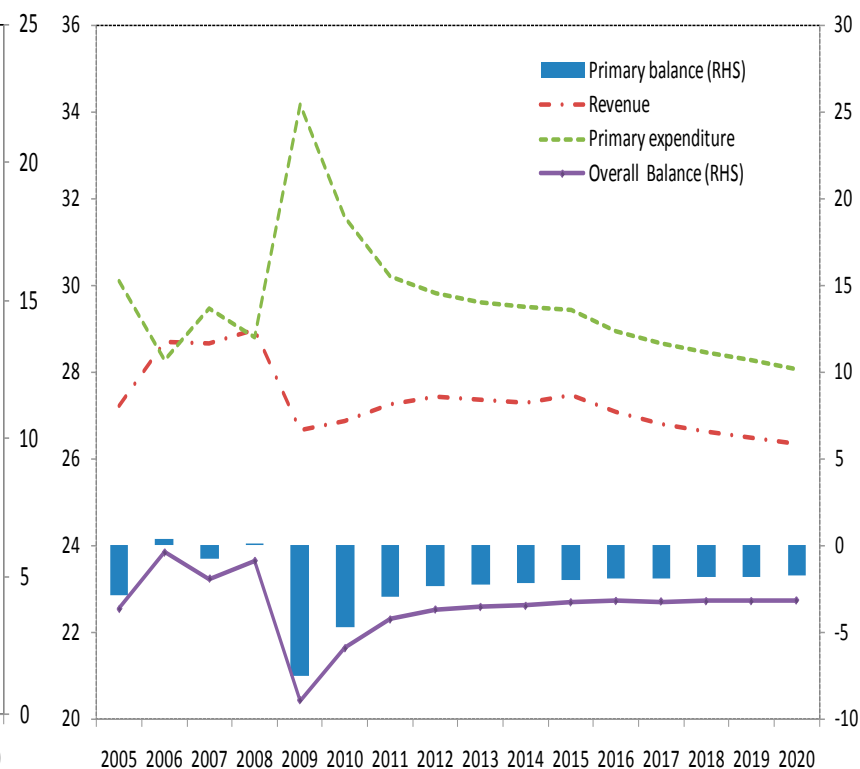


Vietnam: Public Debt and Debt Service, 2005-2020
(In percent of GDP)



Sources: MOF and Fund staff calculation

Vietnam: Fiscal Adjustment, 2010-2020
(In percent of GDP)



Source: MOF and the Fund Staff calculation

Debt Sustainability Analysis



Key findings:

- PPG debt jumped in 2009 (net debt rose even faster)
- Baseline scenario:
 - Gross debt rises above 50 percent of GDP in 2010, but falls below 50 percent of GDP by 2015
 - Debt service burden rises to 20 percent of revenue by 2015, stabilizing thereafter
- Assumptions achievable but quite strenuous:
 - Large adjustment in primary balance
 - Significant increase in non oil revenues to offset falling oil revenues
 - Front-loaded adjustment in expenditure post stimulus package



Final Thoughts

- Sophisticated strategy needed to meet challenges for 2010-2020 (many moving parts)
- Enhance fiscal transparency to improve decision making and reduce market anxiety (international definitions; up-to-date data and projections)
- Debt framework important, but avoid being too legalistic
- Beware panaceas

Thank you

