



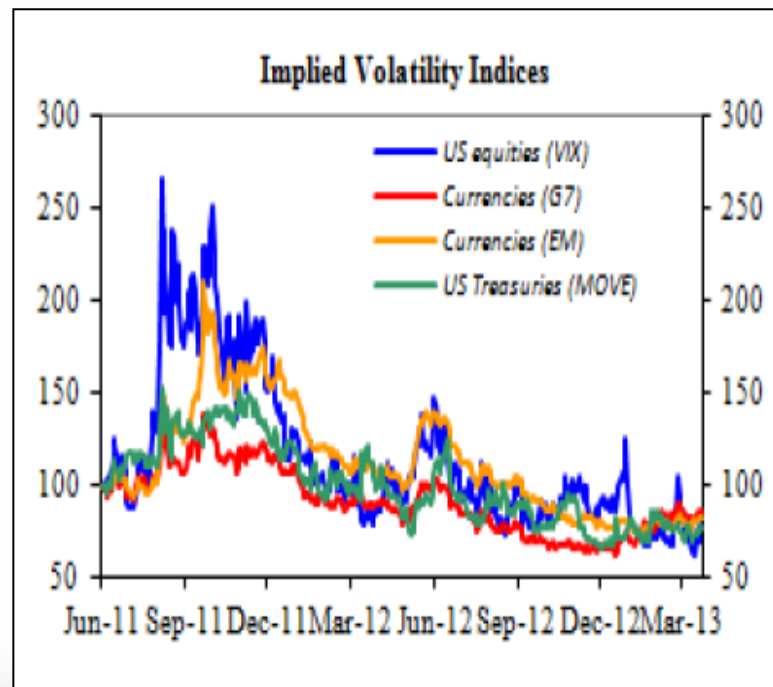
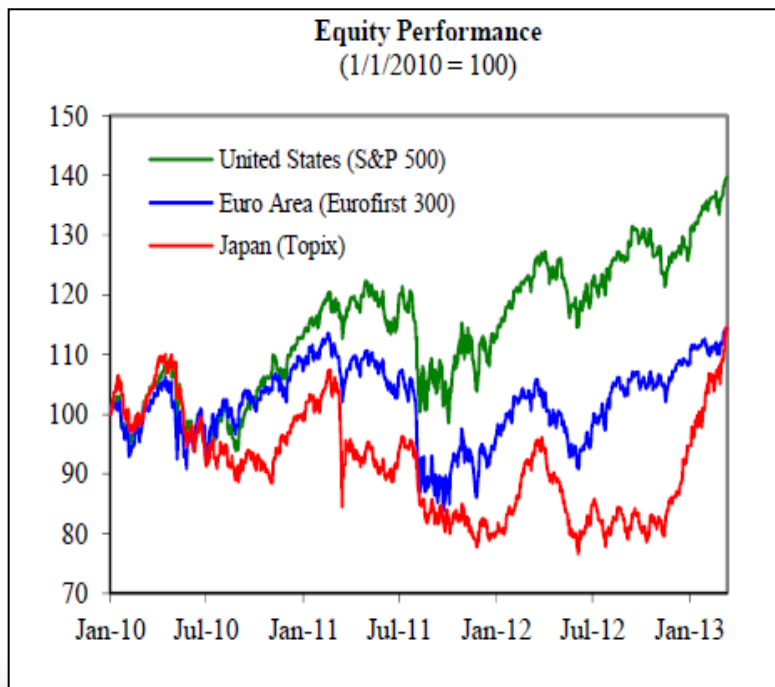
Outline

- 
- A light blue world map is centered in the background of the slide. The continents are shown in a darker blue color, providing a geographical context for the topics listed in the bullet points.
- **The Global Economy: Stability, Growth, and Restructuring**
 - **Asia**
 - **Vietnam: Prospects, Opportunities and Challenges**



The Global Economy: Stability

Financial markets have rallied and near-term stability risks have eased in response to policy action in the Euro area and the US. Financial markets have rallied and equity price volatility has fallen to pre-crisis levels.





The Global Economy: Growth

- Lead indicators suggest that real activity will strengthen only gradually, as easier financial conditions take time to transmit to the broader economy.
- Significant downside risks remain.
 - ✓ Potential for stalled policy implementation in Euro area
 - ✓ Unsustainable public finances in US and Japan
 - ✓ Growth disappointments in emerging economies.
- However, there are also upside risks from better financial conditions and confidence.

Real GDP Growth (Year-on-year percent change)

	2012	2013
World	3.2	3.5
Advanced economies	1.3	1.4
Emerging economies	5.1	5.5
Euro area	-0.4	-0.2



The Global Economy: Policies

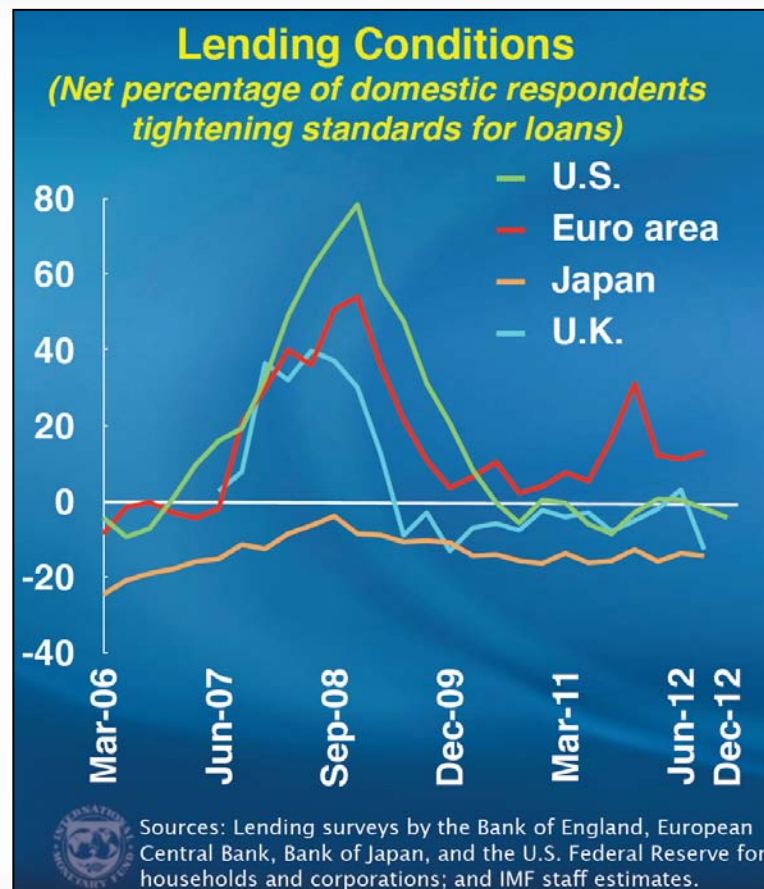
Important medium-term challenges remain.

- ✓ *Euro area: Proceed towards a genuine economic and monetary union. Rolling back financial fragmentation essential to improve transmission of monetary policy. Requires tangible progress toward banking union with greater fiscal integration.*
- ✓ *Advanced economies: Fiscal adjustment and targets in most advanced economies broadly appropriate. Fiscal consolidation needs to continue at a gradual and sustained pace, supported by accommodative monetary policy and adoption and implementation of concrete medium-term consolidation plans in the US and Japan. More generally, need to curtail rising age-and health-related spending.*
- ✓ *Emerging economies: Policy responses vary. General challenge is to rebuild fiscal space. Some EMs can maintain current monetary policy settings, while others may have to gradually tighten. EMs with strong capital inflows or still-elevated credit growth need supervisory and macroprudential measures to curb sectoral excesses.*



The Global Economy: Structural Trends

- Deleveraging
- Debt and deficits
- Zero interest rates in advanced economies and monetary conditions
- Financial sector regulatory reform
- Asia and emerging markets
- Asian regional integration
- Demographic transitions



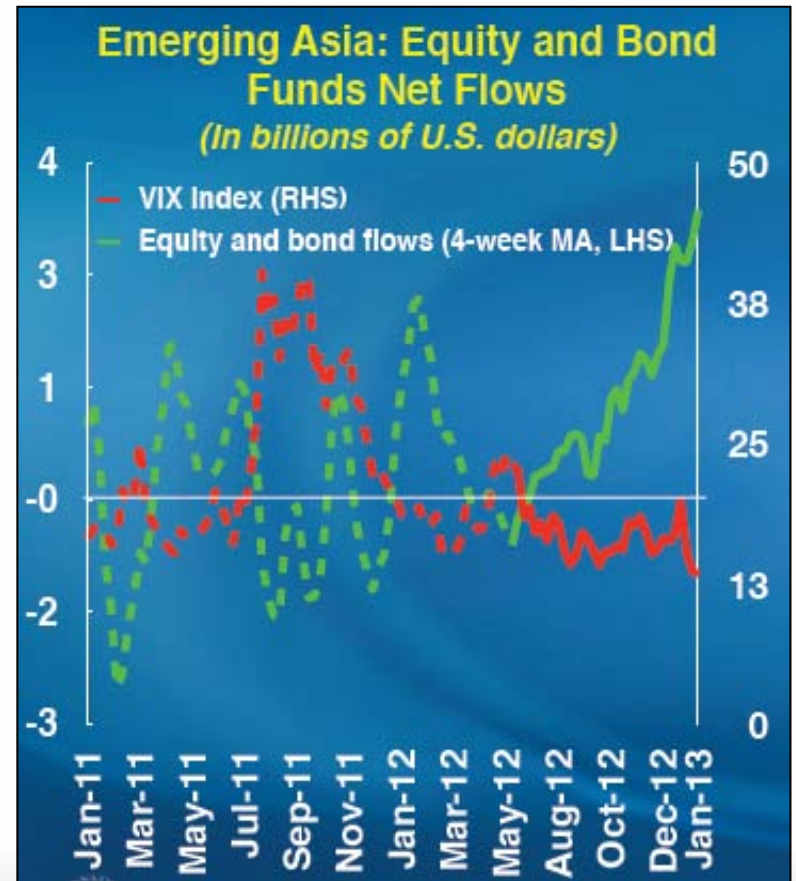
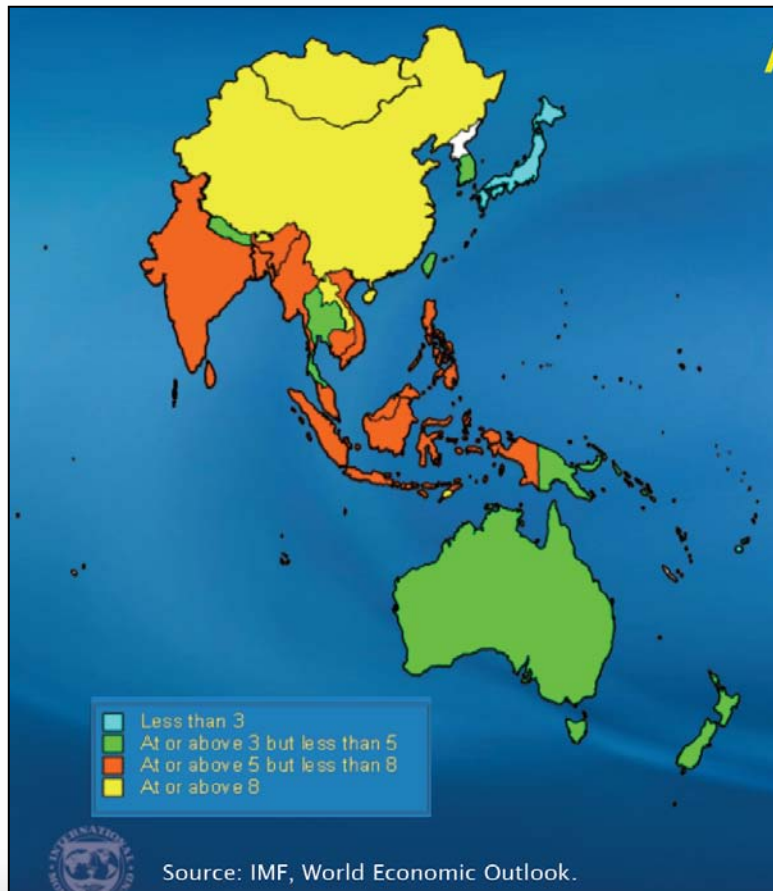


Asia





Asia

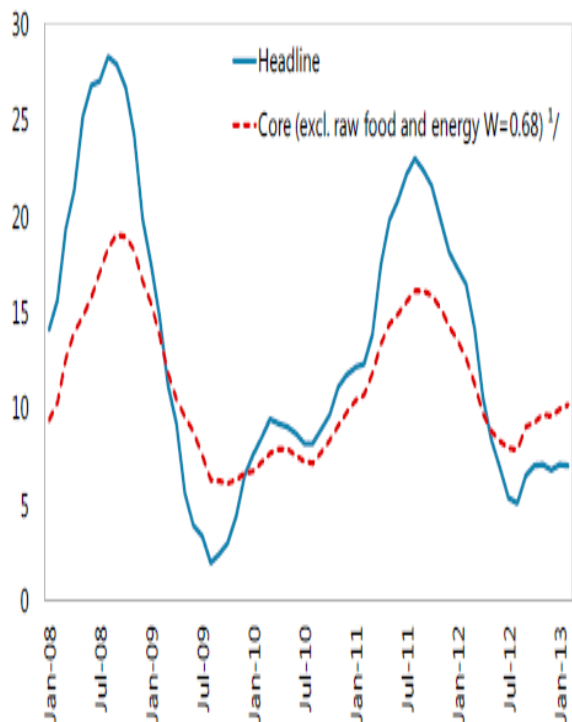




Vietnam: Macroeconomic Stability

Inflation

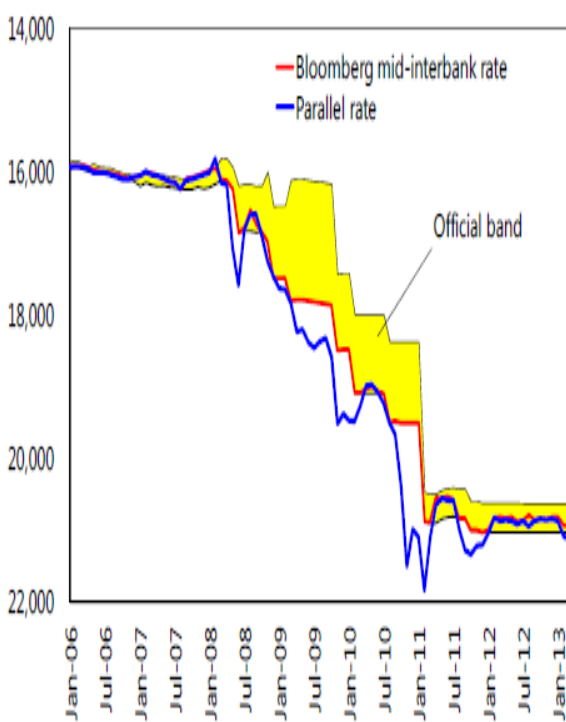
(Year-on-year percent change)



^{1/} W=2009 Weight

Exchange Rates^{1/}

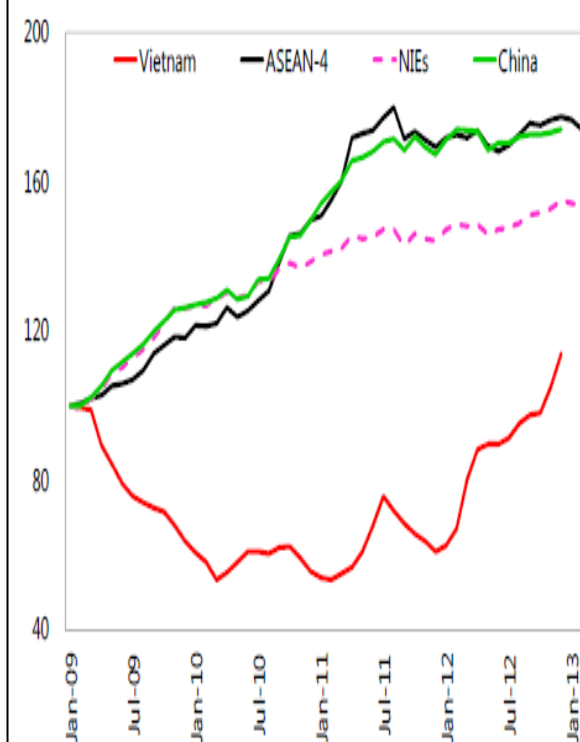
(Dong per U.S. dollar)



^{1/} An upward movement indicates an appreciation.

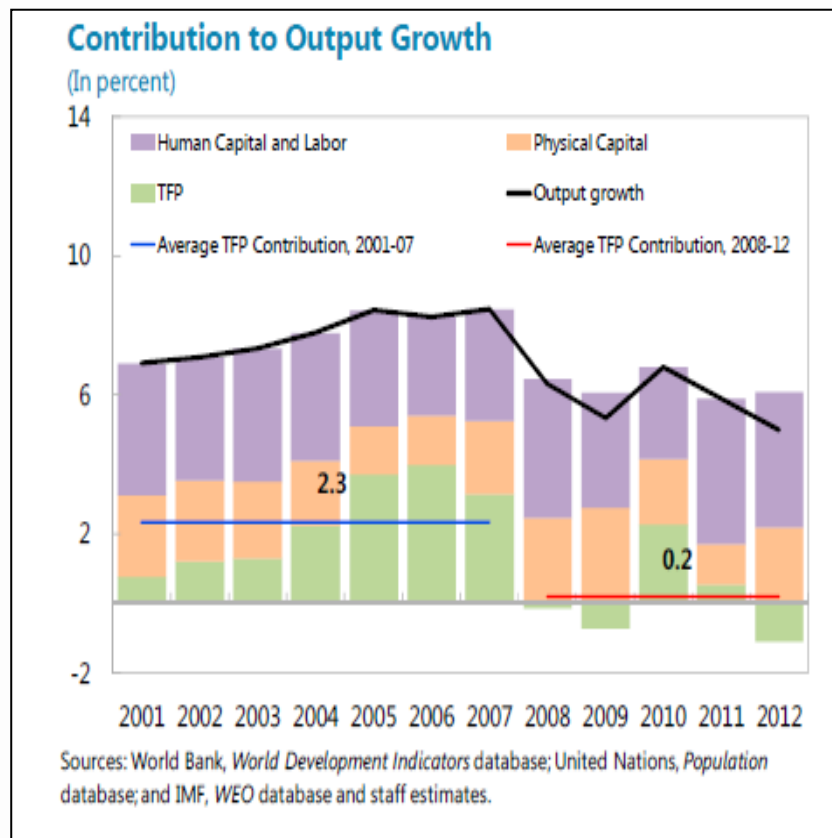
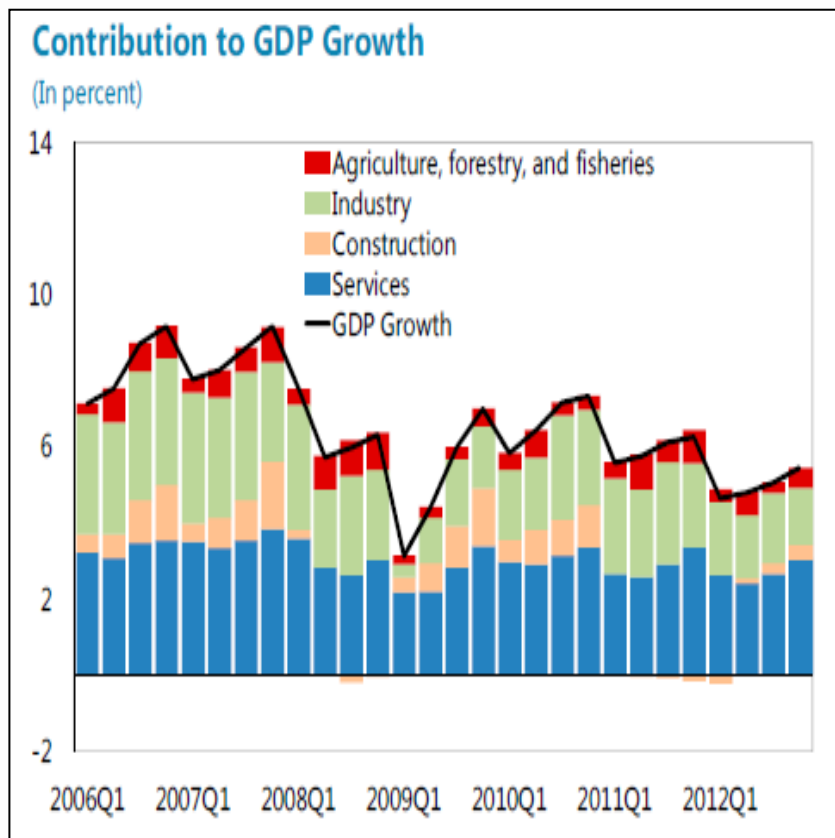
International Reserves

(Index, January 2009=100)





Vietnam: Growth

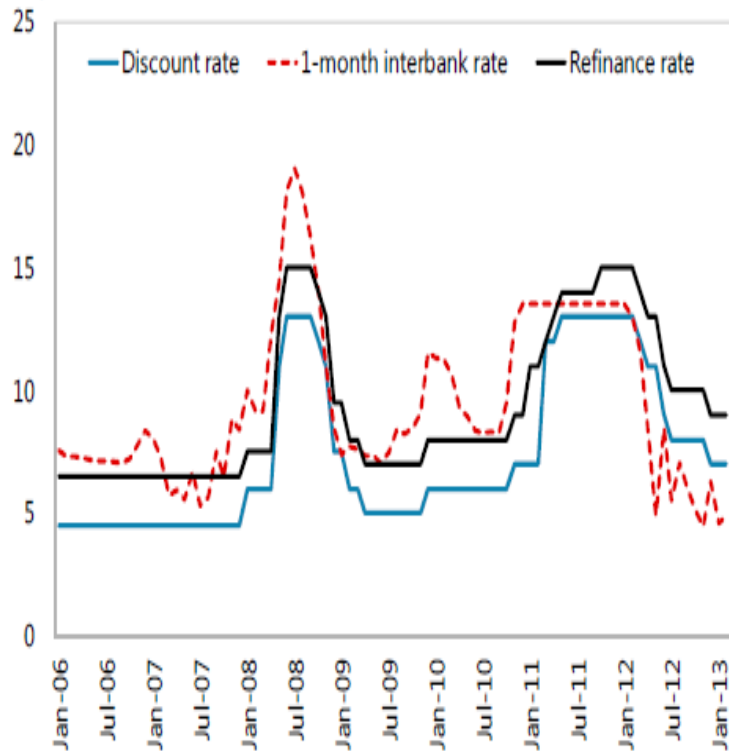




Vietnam: Macro-financial linkages

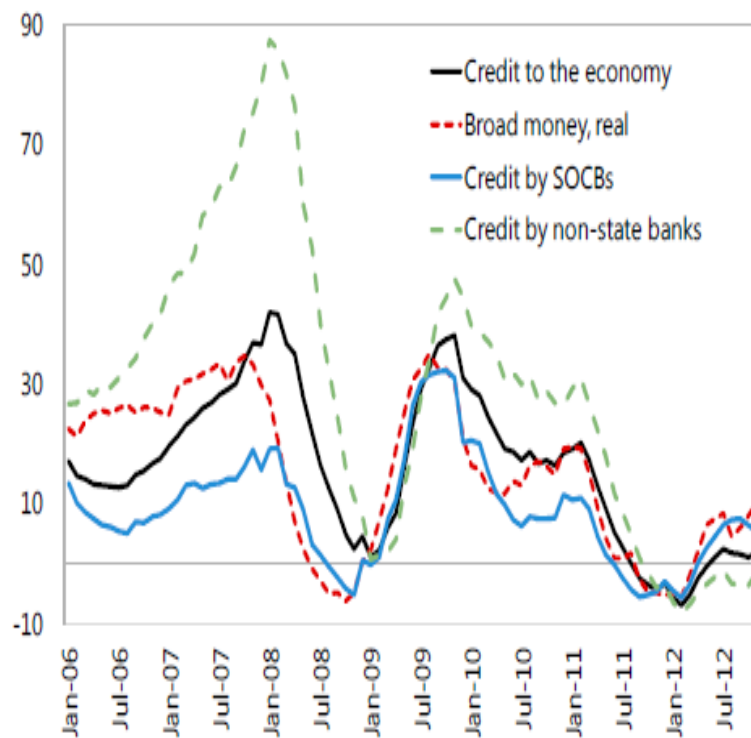
Policy Rates

(In percent)



Real Credit Growth

(Year-on-year percent change)





Structural reforms

- Banking sector
- SOEs
- Public investment



Banking sector

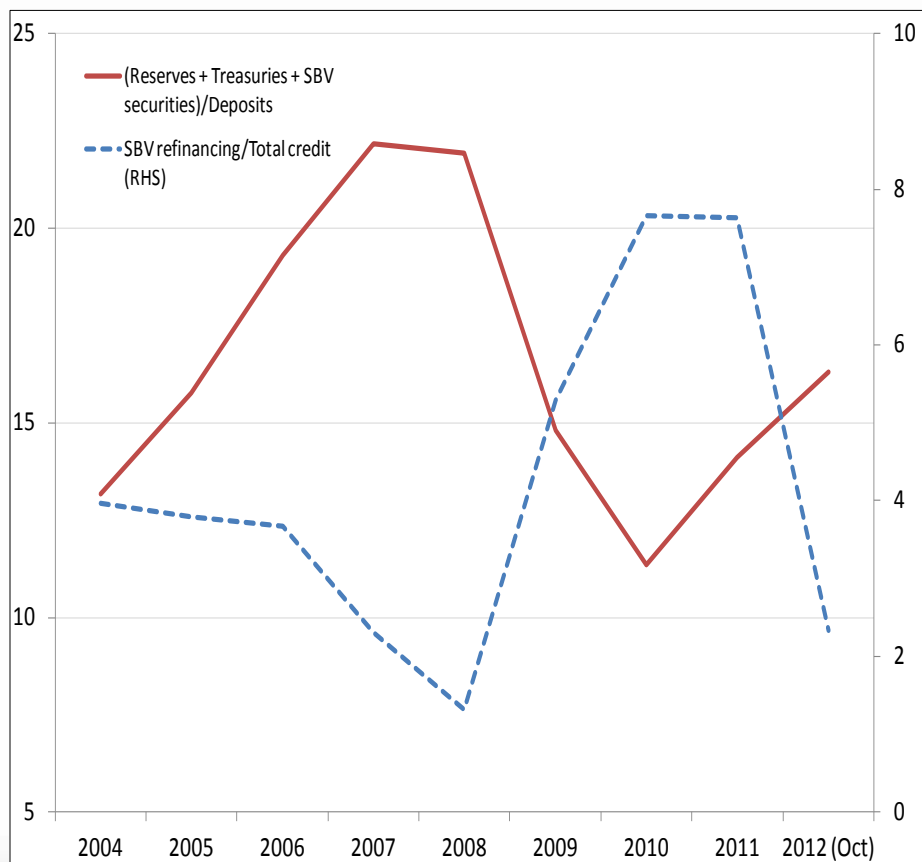
- Liquidity and solvency
- NPLs and AMC
- Fiscal cost of bank restructuring



Banking sector

Liquidity and solvency

Liquidity stress



NPLs and Bank Capital

- Banks have poor asset quality, high NPLs and low profitability; are underprovisioned and undercapitalized
- High degree of cross-ownership among banks, and between banks and enterprises, raises concerns about the risk of contagion
- SBV NPL ratio: 8.8 percent at end-Sept 2012; market estimates higher
- Given growth outlook and impending consolidation process, NPLs are likely to increase further
- Limited capacity to absorb shocks



Banking sector

Bank NPL resolution and recapitalization

- ✓ Progress in implementing existing plans has been slow
- ✓ Need clearly articulated and comprehensive strategy
- ✓ Special financial audits of large/systematically important banks to determine extent of recapitalization needs
- ✓ Operational audits basis for restructuring plans in SOCBs
- ✓ Resolution plans must: i) differentiate between illiquid/insolvent banks; ii) force existing private shareholders to take losses before receiving new capital injections; iii) dispose bad assets through banks/national AMC, and a high-level administrative process; iv) unwind operations of insolvent banks in an orderly manner and recapitalize to regulatory minimums.
- ✓ Clear, transparent budget financing of bank restructuring costs

Banking supervision

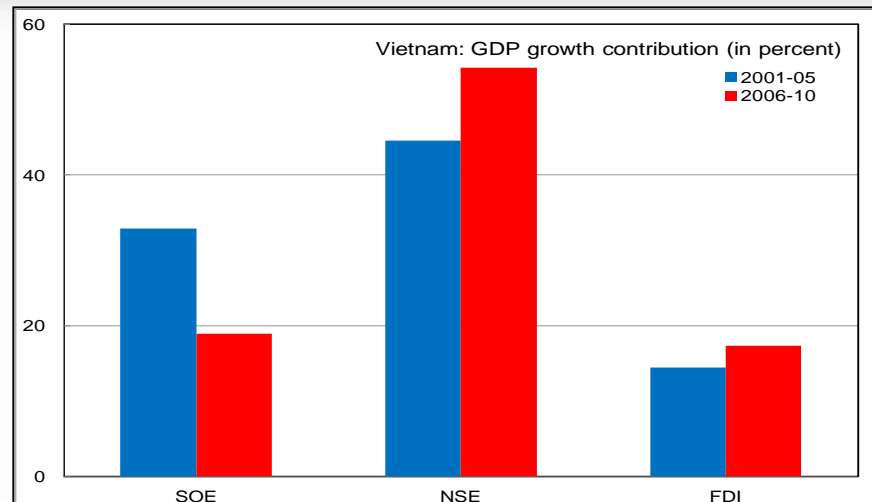
- ✓ Strengthen bank lending and risk management practices to prevent new NPLs
- ✓ Significantly enhance independence, authority, and technical capacity of the regulatory and supervisory framework



Structural reforms

State-owned enterprises

- Estimated to account for roughly 70% of total NPLs; more than 20% of SOEs that are solely owned by the state are loss-making or at a break-even point
- SOE reform strategy appears to focus on:
 - (i) keeping large, profitable SOEs with significant monopoly power/in strategic sectors in state hands; (ii) equitizing roughly half of the wholly SOEs; and (iii) consolidating/liquidating further 10%
- True financial state of SOEs remains publicly unknown
- Oversight of enterprises continues to be fragmented, with no single authority taking charge of overall reform plan



- Disclose audited financial statements of large SOEs
- Detail restructuring plans
- Eliminate coordination failure
- Estimate/recognize contingent liabilities
- Ensure transparency of fiscal costs to state budget



Structural reforms

Public investment

- Inefficiency
- Overextension
- Leakages



Thank you