

IMF Representative: VAMC Has Been A Step In The Right Direction

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According to Mr. Sanjay Kalra, IMF Representative, operationalization of the VAMC has been a step in the right direction. VAMC has purchased NPLs from banks, however his pace needs to be accelerated.

In an interview by Banking Times, Mr. Sanjay Kalra said growth is improving gradually, underpinned by robust exports and foreign direct investment while domestic activity remains subdued. However, growth is below its previous trend, and the economy is exposed to spillovers from downside external shocks. Domestic vulnerabilities also exist, including banking sector difficulties and inefficiency in several state-owned enterprises (SOEs), both of which are restraining activity. Public and publicly guaranteed debt has risen to a level that requires attention.

According to IMF's assessment, monetary policy has contributed positively to macroeconomics stability in recent months. Does the IMF still hold this view and in the context of current inflation is the current accommodative monetary policy stance still appropriate?

Over the course of almost two years now, headline inflation has been within single digits. Core inflation has declined and wage pressures also appear to be benign for now. With this, the State Bank of Vietnam (SBV) has reduced policy rates and there is now ample liquidity in the banking sector. As a result, overnight interbank rates have been low and the government bond yields have declined. However, easier monetary conditions have not translated yet into credit growth. Given these developments and prospects, the current accommodative monetary stance is appropriate. Going forward also, maintaining such a stance is appropriate as long as inflationary pressures remain absent.

What do you think about the progress of resolving NPLs?

Several steps have been taken by the government over the course of the last year to advance banking sector reforms, including operationalization of the VAMC and restructuring efforts at several commercial banks.

Operationalization of the VAMC has been a step in the right direction. The VAMC has purchased NPLs from banks but his pace need to be accelerated. Moreover, the process of resolution of these NPLs is still in initial stages. To move this process forward quickly, the VAMC needs greater authority over the disposition of collateral and legal impediments to disposition of collateral in the distressed asset market need to be resolved.

The VAMC would also need to expand its staff capacity and skills to process NPLs that enter the distressed assets market. Such a market in turn needs enough buyer and sellers to be

functional, and may need external participation and expertise. Significant legal hurdles remain for the transfer of loan titles and collateral which impede NPL resolution.

However, even as improved liquidity has given the banking system much needed breathing space, several key problems remain. Asset quality remains under pressure from weak domestic activity and recent years' sharp decline in real estate prices, and profitability is low. Full implementation of tighter loan classification has been postponed to 2015. Banks have an extended period to provision against NPLs sold to the VAMC.

To be successful, reforms need to address these and other problems comprehensively.

Have you seen any progress in SOE reform and your suggestions about the steps that need to be taken for promoting SOE reforms to achieve the targets which has been set?

SOE reform is progressing slowly, including through restructuring plans, amendments to the legal framework, divestment from noncore areas, and equitization. To improve the legal framework, the government has issued regulations to enhance SOEs' financial reporting and transparency, improve internal controls by clarifying agency responsibilities, and improve corporate governance. To facilitate equitization, enterprises can now sell assets below book value with the approval of the government, and several have had IPOs.

However, implementation remains a challenge, in part due to capacity constraints. Oversight of SOEs by government agencies is fragmented, and the focus on partial equitization risks diverting attention away from operational reforms to enhance efficiency.

Public disclosure of SOEs' financial condition should be enhanced with timely publication based on international accounting practices. Expanding the scope of divestment beyond noncore areas would improve efficiency and level the playing field for the private sector, particularly if it were accompanied by external management expertise. Capacity at various ministries could be enhanced, and restructuring costs should be estimated to quantify fiscal implications.