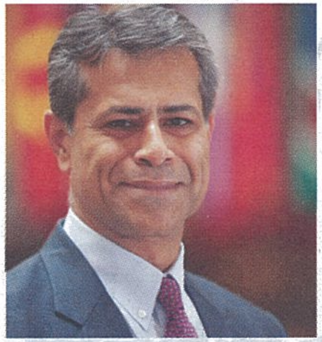
IMF representative hails recovery

Vietnam's economy is gradually recovering, and the International Monetary Fund (IMF) Resident Representative for Vietnam **Sanjay Kalra** spoke to *VIR*'s **Thanh Tung** about Vietnam's economic outlook.



Do you think that Vietnam's economy is bouncing back?

Real GDP growth is rising gradually, underpinned by robust exports and foreign direct investment. Domestic demand has also showed some recovery, thanks in part to higher capital formation. Consumption, the largest contributor to GDP, has also rebounded slightly. Over 2014's first and third quarters, growth was 5.6 per cent compared to the same period in 2013. For 2014, as a whole, we can expect growth to be around 5.75 per cent.

Inflation has remained in the single digits. The external current account remains in surplus and international reserves have increased.

Notwithstanding these favourable developments which solidified macroeconomic stability, the economy remains exposed to spillovers from downside external shocks. Domestic vulnerabilities also persist, including banking sector difficulties and inefficiency in several state-owned enterprises (SOEs). Both of these restrain activity. Also, public and publicly guaranteed debt has risen to a level that requires attention.

Recently Fitch Ratings upgraded Vietnam's long-term foreign and local currency issuer default ratings to 'BB-' from 'B+'. The outlook has been revised to "Stable" from "Positive". However, what are the biggest challenges facing the economy now?

Vietnam has achieved and maintained macroeconomic stability over the last three years. Several international rating agencies have recognised this achievement and, in recognition of this achievement, have upgraded Vietnam's sovereign rating.

A challenge, going forward, is to maintain this macroeconomic stability. At the same time, policymakers need to create conditions to raise the growth rate to its potential level, which is higher than the current growth rate. Domestic activity needs to make a bigger contribution to growth.

Vietnam's government has set a target of growing 6.2 per cent next year, with an inflation rate of about 5 per cent. Do you think that these targets are feasible?

There is certainly a potential for further growth in 2015. The extent to which this happens will depend on the momentum in domestic activity and external demand.

The pace of recovery in domestic activity will depend, in part, on the speed which household and corporate balance sheets can be repaired. These balance sheets are the counterparts of the bank balance sheets, which need to be repaired. In addition, the global price of rice has fallen which may be affecting rural household incomes and consumption. Investment is still weighed down by the slow recovery in real estate prices and growth prospects.

On the external front, global growth remains low and subject to uncertainties. This can weigh down on exports. At the same time, several regional developments such as the establishment of the ASEAN Economic Community and the impending conclusion of free trade agreements offer opportunities to Vietnamese exporters.

As regards inflation, there are several factors that will affect the inflation rate in 2015. First, with the current output gap, and the economy growing at a rate below its potential—the inflationary pressures will be muted. Second, the current exchange rate stability, if it can be maintained going forward, will help. Third, pressures from global oil and commodity prices are also expected to remain manageable given the slow pace of recovery in the global economy. With these factors, inflation can be expected to remain in the lower single digits in 2015.

What are the IMF's recommendations for the government to effectively restructure banks and SOEs?

Several steps have been taken to advance banking sector reforms, including the resolution of non-performing loans (NPLs). These steps include operationalisation of the Vietnam Asset Management Company (VAMC) and restructuring efforts at several commercial banks. The VAMC has purchased NPLs from banks but the pace needs 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 buyers and sellers to be functional, and may need external participation and expertise.

There is still a need for a clearly articulated and comprehensive bank resolution strategy. These plans should be based on thorough on-site bank examination which should reveal the true extent of NPLs and recapitalisation needs. The plans should differentiate between illiquid and insolvent banks, force existing shareholders to take losses before receiving new capital injections, and dispose of bad assets.

SOE reform implementation remains a challenge. Approved restructuring plans have not been made public, and implementation progress is uneven, particularly among some SOEs' subsidiaries. Oversight of SOEs by government agencies is fragmented. Public disclosure of SOEs' financial condition should be enhanced with timely publication based on international accounting practices. Expanding the scope of divestment beyond non-core 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. The focus on partial equitisation risks diverting attention away from operational reforms to enhance efficiency.■