



# Time to act

**Mr. Changyong Rhee, Director of the Asia and Pacific Department at the International Monetary Fund, tells VET that liquidity conditions in the banking sector need to be addressed soon.**

■ **The IMF's World Economic Outlook** has indicated that Vietnam's GDP growth will be 6.0 per cent this year and 5.8 per cent in 2016. What do you think about the country's overall growth prospects?

I think we are focused on Vietnam having a growth rate over the next two years of 6.0 per cent and 5.8 per cent, which are very similar to last year's result. Vietnam saw very high growth decades ago but had a structural problem even before the global financial crisis, with non-performing loans (NPLs) and large investment and high leverage.

After that, Vietnam introduced structural reforms and made good progress, so the situation has been much better. But still, we think that Vietnam needs to address its NPL problem and the capital adequacy of the banking sector has much improved, but that's a kind of weakness. This is why Vietnam's growth rate is not actually picking up as before. And at the same time, as you know, Vietnam's economy is relying a great deal on exporting to advanced economies and also on exports to China, and the Chinese economy is slowing down.

Still, the fact that Vietnam's growth rate has improved recently and also maintained its current level is, I think, a good sign that past structural reform efforts have borne fruit. I think they have to

continue. But the structural problem of addressing liquidity conditions in the banking sector has to be addressed as soon as possible.

■ **What are your thoughts on public debt in Vietnam?**

Fiscal policy in Vietnam has been accommodated and public debt is, therefore, rising, and we have been consistently recommending that returning to a fiscal policy of consolidation is good for Vietnam. Raising revenues will be especially important for this consolidation while still being able to safeguard the priorities and social and capital expenditure. So this is an issue that Vietnam will address.

■ **What should be done to deal with public debt in Vietnam?**

I wouldn't give Vietnam's public debt a negative evaluation.

I think after the asset management company was set up, what has been done so far is, I think, a positive outcome. I would rather not say that it is really not working. I would say that it has worked, but not as fast as we desire. So the real issue is that there are two ways of disposing of NPLs. You can use a lot of public money and clean up a bank and then do a jump start.

But the disadvantage of that approach is that your public debt will increase in one shot quite significantly.

Given the large public debt problem, that may cause several other problems. If you do it gradually then there is a risk that if the external economic conditions worsen then actually you will not see much progress on NPLs, which, actually, is what we are observing at this moment.

So it's a matter of whether you take a gradual approach or a one-shot approach, depending on your public

debt situation and the willingness of the people. Because you will probably need to raise taxes to do this, so there is a tradeoff. It's a policy choice. So far, economic authorities have decided to take a gradual approach, but you may be able to accelerate the approach depending on whether the economy can afford more taxes to clean up these things, but that is a policy choice. ■

"Asian countries are expected to grow by 5.1 per cent in 2015 and 5.3 per cent in 2016, with Malaysia's slow growth because of declines in natural resources prices more than offset by a significant pick up elsewhere, notably in Thailand, the Philippines, and Myanmar, and to a lesser extent, Indonesia. Most frontier and developing economies in Asia and Pacific are expected to grow above 6 per cent in near time, but risks remain. Fiscal and current income imbalances are building in Laos, Myanmar, and Papua New Guinea. Public debt is still high and requires attention in Vietnam and Sri Lanka.

In some countries, a tightening bias may be warranted to enforce external stability. In Japan, quantitative easing will need to be supplemented with progress on structural reforms. Gradual fiscal consolidation would strengthen resilience where that is high, such as in Japan, India, Malaysia, and Vietnam. The decline in oil and food prices provides an opportunity to phase out subsidies to make room for infrastructure and social spending. Macro prudential policies should address financial stability risks, and foreign exchange intervention capacity and other challenges from aging and infrastructure gaps, structural reforms remain critical and specific policies are different by country. Asia is doing relatively well, and I think even at this spring meeting the news from Asia is much brighter than other regions. The outlook is for continuing global growth. I think that with efforts to strengthen resilience, Asia will remain a growth pole in the global economy.

The World Economic Outlook, released on April 14 in Washington D.C., projects that GDP in Vietnam in 2015 will be 6 per cent but will fall to 5.8 per cent in 2016. Global growth is forecast at 3.5 per cent in 2015 and 3.8 per cent in 2016."

**Mr. Changyong Rhee at the Press Briefing: Asia and Pacific Department, on April 17 in Washington D.C.**