



INTERNATIONAL MONETARY FUND

Representative Office, Hanoi, Vietnam

July 2, 2012

Mr. Tomoyuki Kimura
Country Director
ADB Vietnam Resident Mission
23 Phan Chu Trinh Street
Hanoi, Vietnam

Dear Mr. Kimura:

I refer to Mr. Senga's letter of June 11 to Mr. Singh requesting an assessment letter for the ADB Proposed Program Loan and Technical Assistance Grant to Vietnam.

I have consulted with headquarters and they informed me that the IMF's statement at the 2012 Mid-Year Consultative Group meeting on June 4-5 can be used as an alternative to an assessment letter. Please find attached a copy of the statement.

With best regards,

A handwritten signature in black ink, which appears to read "Sanjay", is positioned above the printed name of the sender.

Sanjay Kalra
Resident Representative

cc. Mr. Singh
Mr. Miyazaki
Mr. Schipke



MID-YEAR CONSULTATIVE GROUP MEETING FOR VIETNAM
Quang Tri, June 4–5, 2012

Speaking Notes by Mr. Sanjay Kalra
Resident Representative

1. Excellencies, ambassadors, distinguished participants, ladies, and gentlemen. It is my great pleasure to represent the IMF at this mid-year Consultative Group Meeting.
2. **The Executive Board of the IMF concluded the annual Article IV Consultation discussion with Vietnam on May 25.** At the Board meeting, Executive Directors commended the authorities' policy efforts that have contributed to declining inflation, exchange rate stabilization, and a rebuilding of international reserves, and noted the authorities' determination to continue to pursue stability-oriented policies. They also noted, however, that vulnerabilities remain and emphasized the need to resist loosening policies prematurely and accelerate structural reforms.
3. **The economy has slowed as tighter macroeconomic policies have had an effect.** In 2012Q1, GDP fell (q/q, seasonally adjusted). Inflation slowed to 8.4 percent (y/y) in May, the first time in single digits since October 2010, despite increases in administered energy prices. Credit growth for 2011 undershot the SBV's target and turned negative in 2012Q1 (q/q). Net borrowing declined sharply in 2011, compared to 2010 and the amount budgeted, in part due to higher-than-anticipated inflation and oil prices and some rationalization of public investment. For 2011, the current account registered a surplus of \$200 million (0.2 percent of GDP) reflecting the slowdown. The exchange rate has been stable for the past several months. During the first months of 2012, international reserves rose rapidly, but the import cover is still low.
4. **Risks to the outlook for 2012 include a loss of market confidence in the government's policy orientation.** A possible sharper-than-anticipated slowdown in Asian economies in response to a weakening European economy, or severe financial sector turmoil in Europe with global spillovers, would adversely affect Vietnam's performance. On the domestic side, a rebound of liquidity problems in weak banks could lead to a loss of confidence in the dong and renewed inflation. Maintaining public confidence is critical, and to this end, government policies need to credibly prioritize stability and address weaknesses in the financial sector.

5. **The stance of macroeconomic policies is easing in 2012.** In March, the SBV announced that it would cut policy rates by a cumulative 400 bps in the course of 2012. The rates were subsequently cut on March 13, April 10, and May 28 by 100 bps each time. Also, the deposit and lending rate ceilings were lowered by 100 bps each time. While the three rate cuts came earlier than expected for most market participants, the pace of decline in inflation has also been faster than anticipated. On the fiscal side, IMF projections indicate a slight loosening of the fiscal stance in 2012, which will support output growth.

6. **Macroeconomic policies need to maintain a cautious stance to consolidate and build on recent stabilization gains.** Given risks to confidence, IMF Directors emphasized the importance of exercising caution in further policy rate cuts at the Board meeting. Priority needs to be given to containing inflation and rebuilding reserves further even if it means accepting somewhat slower growth in the short term. Fiscal policy also needs to continue to support macroeconomic stabilization. In this regard, room for critical expenditures, including to support inclusive growth, needs to be augmented through further rationalization of public investment and implementation of tax reforms to prepare for a medium-term decline in oil revenues.

7. **Both in the short and medium term, key sectors of the economy will need to be reformed to improve factor allocation and raise productivity growth.**

- In the financial sector, the SBV has contained the threat of small weak banks to the financial system, but a more forceful approach is needed. In addition to merging small weak banks, banks should recognize nonperforming loans, enhance the size and quality of their capital, and improve corporate governance. Insolvent banks should exit the system. Beyond that, gaps in the supervisory and bank resolution frameworks, and governance issues in banks, will need to be addressed.
- Far-reaching SOE restructuring to improve performance on a sustained basis is required to lower contingent fiscal risks, level the playing field in more sectors, boost the economy's productivity, and enable the sector to play the leading role envisaged for it by the government.

8. **The development of the Vietnamese economy has been remarkable, and its potential to deliver higher living standards for its people in the future is high.** To realize this potential, continued macroeconomic stability and structural reforms will be critical.

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With these remarks, I would like to thank the authorities once again for the opportunity to participate in this meeting. On behalf of the IMF, I would also like to reiterate our continued support for Vietnam. Thank you.