LETTER OF DEVELOPMENT POLICY

29th April, 2014

H.E. Dr. Jim Yong Kim
President
The World Bank
Washington DC, 20433
The United States of America

Your Excellency Mr. President,

First of all, Vietnam Government would like to express our most sincere gratitude to you personally, the World Bank (WB) and the donor community for your support extended to Vietnam during recent years. The WB has proactively supported Vietnam reforms through ten Poverty Reduction Support Credits (PRSCs), totalling USD1.6 billion for 2001-2010 period, right then followed by a series of Economic Management and Competitiveness Credits (EMCC) which are of USD750 million commitment. The first EMCC has been successfully implemented. The Government highly appreciates the Bank for your policy dialogues, advices and financial assistance under EMCC1, which set out many reforms priorities for the establishment of the mid-term comprehensive reform framework on a variety of key policy areas: public investment management, state-owned enterprises (SOEs) management, banking sector, fiscal policy, public administration and accountability, business environment efficiency, equality and transparency etc. In recent difficult years, together with the Government’s high determination and great efforts, the EMCC1 success significantly contributed to the economy comprehensive restructuring, accelerated vigorously Government’s reforms, including banking sector reform and bad debt resolution. These achievements helped improve the economy efficiency and competitiveness and ensure a sustainable development.

However, many challenges and difficulties are lying ahead for Vietnam economy. Specifically, macroeconomy shows stability, gaining recovery momentum but in an unsustainable manner with fiscal deficit and potential high inflation resurgence and business difficulties. Non-performing loans have not radically resolved. Economic restructuring, economic growth model transformation, and the implementation of three strategic arrows though gained initial outcomes but under slow pace. Inherent limitations of Vietnam economy and drawbacks of economic growth accommodative policy in previous years have been exposed more apparently. The Government has to address to major issues such as reforms challenges, limited resources, pressure for short-term economic growth, socio-economic stability. In addition, global political and economic instability may impose negative impacts on the economy.
In 2013, despite numerous challenges and difficulties, thanks to comprehensive measures of the Government including flexible and efficient implementation of both fiscal and monetary policies, Vietnam socio-economy has acquired remarkable achievements in terms of macroeconomic stability and inflation containment. CPI plunged from 18.13% in 2011 respectively to 6.81% and 6.04% in 2012 and 2013, which was the record low level in the last 10 years. Economic growth which resumed its momentum in 2013 at a quarter-by-quarter accelerating pace, reached 5.42%, compared to that of 5.25% in 2012.

The average interest rate level decreased considerably and consistently with the improvement pace of macroeconomic fundamentals; foreign exchange and gold market were stable; foreign reserves more than doubled the level in 2011; export maintained its high growth momentum (15.4%) while trade balance and balance of payments were surplus. Confidence in Vietnamese Dong was strengthened, hence the dollarization and goldenization fell remarkably. Risk of financial system collapse was removed. Growth quality was increased with improved investment efficiency (ICOR fell from 6.7 in 2008-2010 period down to 5.53 in 2011-2013 period), productivity in 2013 rose by 10.1% as compared to that in 2010. FDI and ODA disbursements were improved. Social security was ensured.

Mr. President, having mentioned encouraging achievements above, the Government policy direction in 2014 is to consistently and determinedly pursue macroeconomic stabilization, inflation containment and ensure macroeconomic balances. Monetary policy is conducted in an active, flexible manner under close coordination with fiscal policy in order to untie business difficulties and promote economic growth at a reasonable level. The Government continues to improve quality, efficiency and competitiveness of the economy by pushing forward the implementation of three strategic arrows in connection with growth model transformation and economic restructuring as well as paying due attention to social security, social welfares and improving people’s living standards. One of key tasks in 2014 is to determinedly restructure SOE sector, focusing on their equitizations, including big economic corporations. This helps create a fair and competitive business environment, improve their performance efficiency, empower state-owned sector, stabilize macroeconomic conditions and restructure the economy. Government’s policy priorities in coming time include: (i) continuously developing comprehensively and streamlining monetary market, gradually reducing bad debts through credit institutions restructuring; (ii) effectively operating Vietnam Assets Management Company; (iii) unleashing business difficulties; (iv) focusing on key transportation, irrigation and hospital projects; (v) setting aside an appropriate public investment to PPP projects, ODA counterpart funds and land clearance; and (vi) strengthening state budget management, strictly monitoring public debt and SOEs’ non-performing loans.

In this context, EMCC2 is designed to be in line with EMCC1 and further realize policy commitments therein. EMCC2 key actions include: (i) strengthened policies for management of Non-Performing Loans; (ii) promoting the participation of foreign investors to domestic banks; (iii) adopting a medium-term debt management plan and starting to implement the Treasury Single Account; (iv) adopting regulations to implement the Anti-Corruption Law; (v) adopting Prime Ministerial Decisions on the restructuring of SEGs, including a commitment to divest high risk non-core businesses;
and (vi) adopting regulations on the disclosure of SOE information. Besides, the Government has shown our efforts in economic restructuring by bringing forward two policy actions from EMCC3 to EMCC2, including submission for National Assembly to adopt (i) A revised law on Value Added Tax and (ii) A new Law on Procurement number 43/2013/QH13. These two actions will accelerate the arrears clearance which have accumulated in the State Budget to the construction companies, as well as the debt to contractors whose operations have been adversely affected due to delayed payments. EMCC2 actions will help Vietnam: (i) strengthen financial sector governance and fiscal management to ensure macroeconomic stability; (ii) strengthen public administration, SOEs management and public investment management for a more transparency, efficiency and accountability in the public sector; and (iii) reduce administrative burden and strengthen tax and procurement policies for an enabling business environment in Vietnam.

Mr. President, to maintain the outcomes achieved and to set momentum for in-depth economic restructuring, we, therefore, request the Association’s financial assistance through this second EMCC, to help us implement the above-mentioned efforts and determinations. Besides, this program will provide valuable advisory support from the Association to our overall restructuring process and economic reform in Vietnam, as well as providing an important supporting voice from the international community to the Government’s reform direction and determination. We acknowledge many challenges ahead, however, we strongly believe that, with our internal resources as well as financial support from the Association, we will overcome these challenges and continuously make progress in carrying out the proposed reforms.

We look forward to the support and assistance from you and the Association.

Sincerely,

Nguyen Van Binh
Governor of the State Bank of Vietnam