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Rising Debt of the Developed World and Implications for Developing Countries

by

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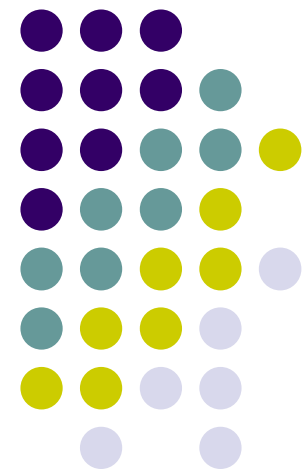
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The views expressed are those of the author and do not necessarily reflect the views of UNCTAD

An Overview of Public Debt Management in Vietnam

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1. Legal framework, scope, objectives, principles and instruments of public debt management in Vietnam



Legal framework

- Law on Public Debt Management (29/2009/QH12)
- Guidance Decrees:
 - Decree on Public Debt Management Operations
 - Decree on On-lending of Government's External Borrowings
 - Decree on Government's Guarantee Issuance and Management
 - Decree on Issuance of Government Bonds, Local Government Bonds, Government Guaranteed Bonds
 - Decree on External Borrowing and Debt-Service Management in the form of Self-Borrowing, Self-Repayment
 - Prime Minister's Decisions
- Guidance Circulars
 - Circular on the calculation method of monitoring indicators and supervision of public debt and national external debt
 - Circular on report templates and information disclosure of public debt and national external debt



Scope and objectives of public debt management in Vietnam

Scope:

- *Government debt,*
- *Government guaranteed debt*
- *Local Government debt,*

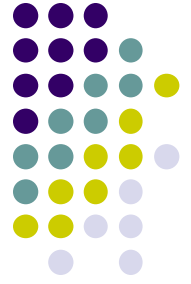
Objectives:

- To meet the demand of capital for development investment
- To make adequate and timely debt repayment
- To ensure low costs of borrowing
- To ensure controllable risks

Management Principles



- Unified management at State level
- Assurance of sustainable and threshold indicators
- Assurance of borrowing and capital usage efficiency
- Complete fulfillment of payment obligations
- Disclosure, transparency



Public debt management instruments

The Government unitedly manages over public debt via the following instruments:

- Long-term Public Debt Strategy
- Medium-term debt management programs
- Government's detailed annual borrowing and debt service plan (including annual external commercial borrowing ceiling)
- Threshold indicators



Long-term Public Debt Strategy

- *Major contents:*
 - Assessment on current public debt of Vietnam
 - Objectives and directions for mobilization and fund usage
 - Debt management solutions, policies
- *Organization for implementation:*
 - In the process of submitting to appropriate authorities for approval of the Public Debt and National External Debt Strategy for the period from 2011 to 2020 and with the vision to 2030
 - Developing 11 specific plans for implementation (after the Strategy is approved)

Medium-term debt management programs



- Basis:
 - Long-term Public Debt Strategy
 - Medium-Term Fiscal Framework
 - Approved threshold for the period
- Major contents:
 - Objectives, tasks
 - Three-year borrowing mobilization, use and repayment (with details of each year)
 - Measures/Solutions
- Organization for implementation:
 - Ministry of Finance already developed the 2010-2012 medium-term debt management program
 - Progress: after the National Assembly approves the Public Debt and National External Debt Strategy for the period from 2011 to 2020 and with the vision to 2030, the 2012-2014 medium-term debt management program will be updated and developed

System of monitoring indicators of public debt and national external debt

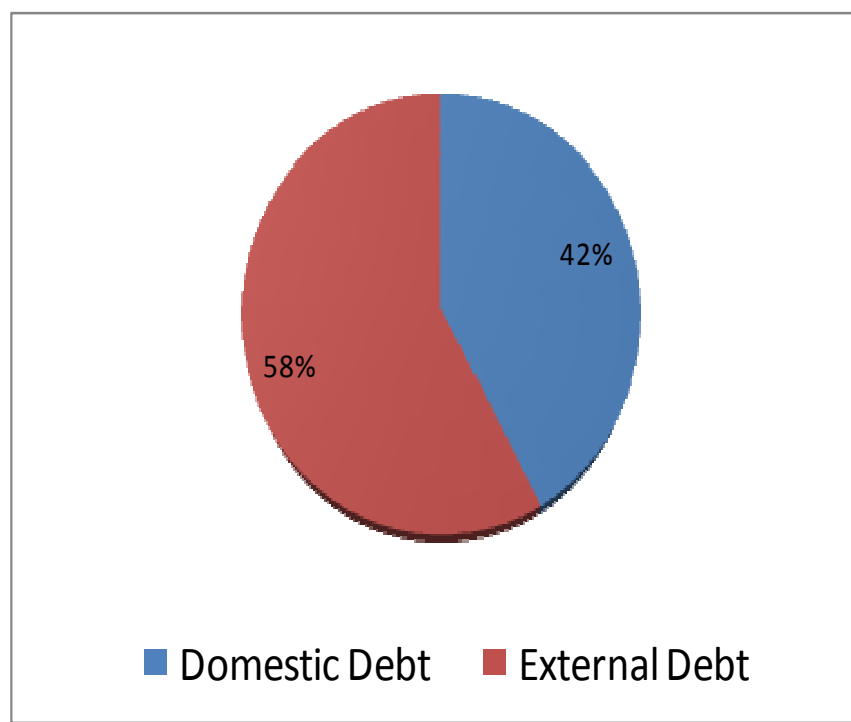
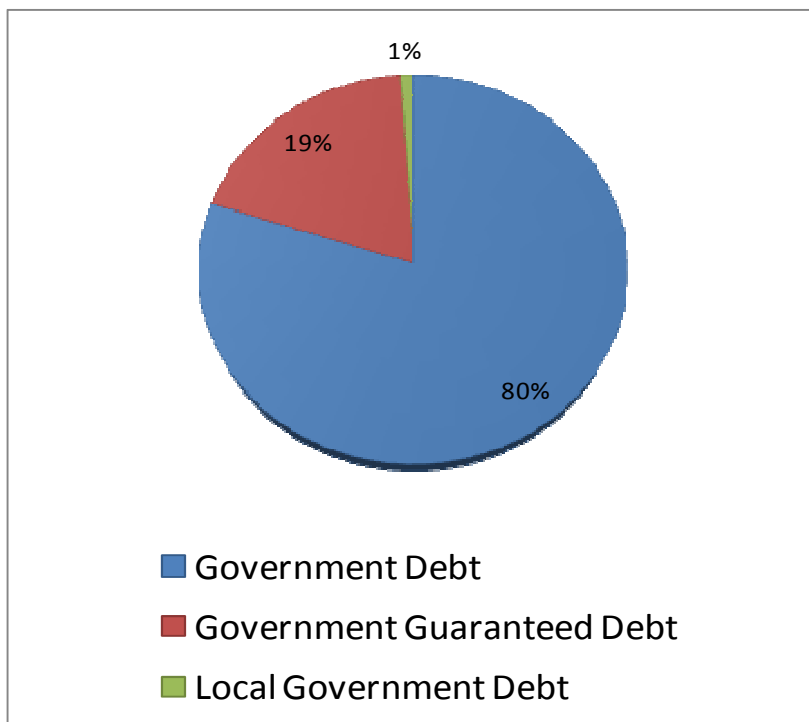


- Monitoring indicators of public debt and national external debt:
 - Public debt/GDP
 - External debt/GDP
 - National external debt service/Total export turnover
 - Government debt/GDP
 - Government debt/State budget revenue
 - Government contingent liabilities/State budget revenue
 - Ceilings for external commercial borrowing and Government's external guarantees



2. Current status of public debt in Vietnam

Public debt outstanding of Vietnam as of 31/12/2010



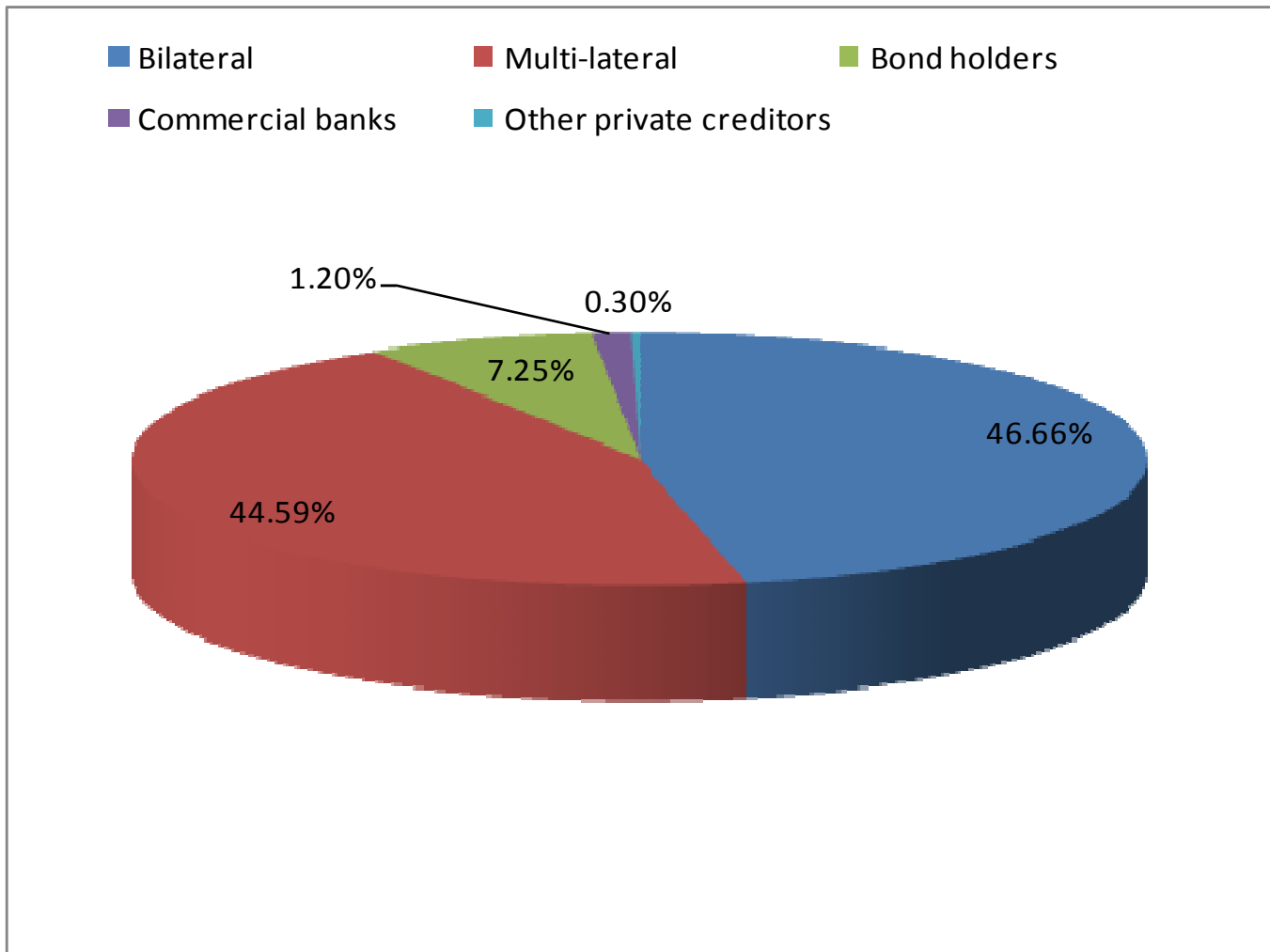


Debt indicators

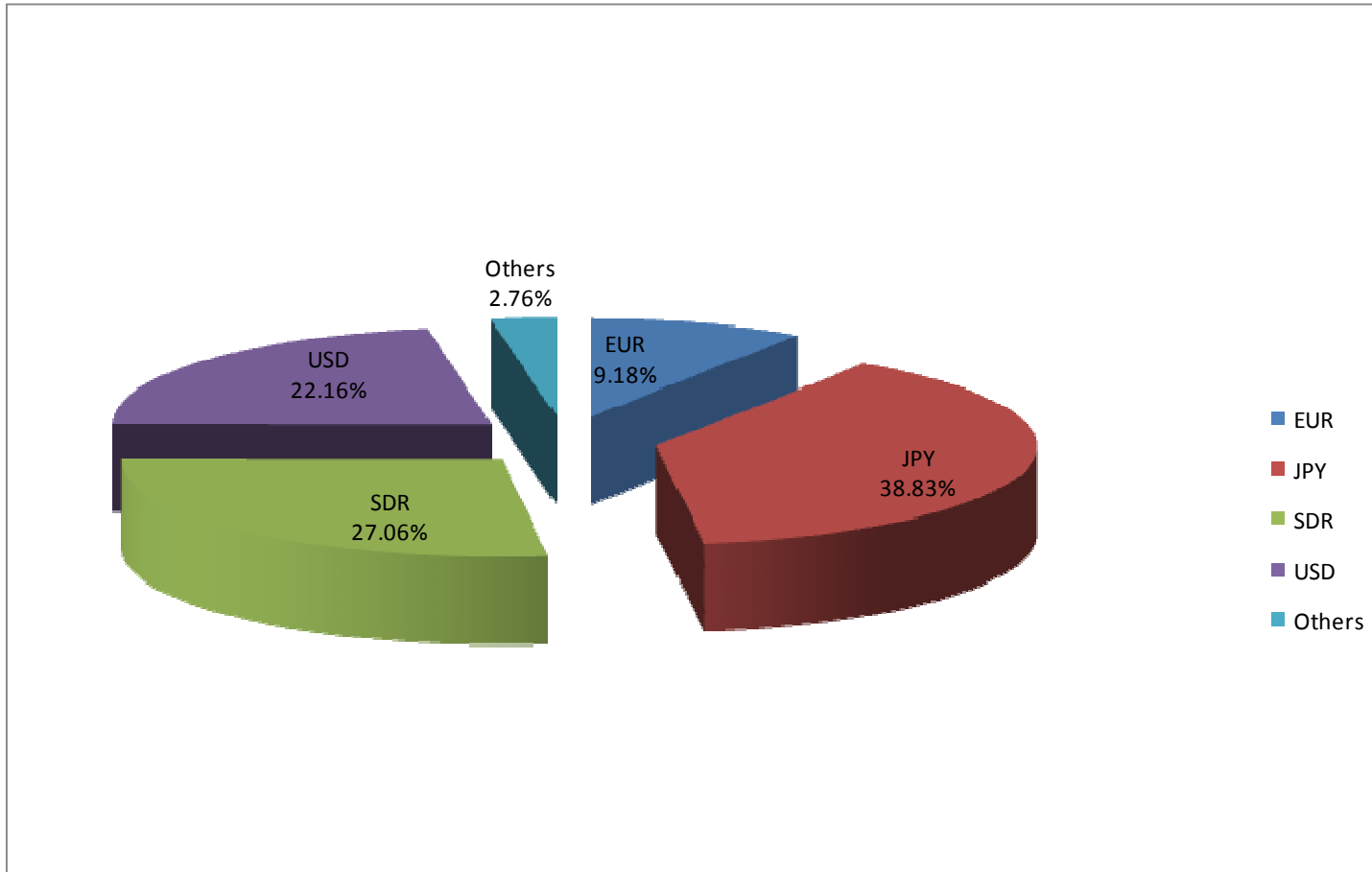
(Source: Ministry of Finance)

	Debt indicators as at 31/12/2010	Prime Minister's regulations
1. Public debt/GDP	57.3%	NA
- <i>Government debt/GDP</i>	45.7%	≤ 50%
- <i>Government guaranteed debt/GDP</i>	11.3%	
- <i>Local Government debt/GDP</i>	0.3%	
2. National external debt/GDP	42.2%	≤ 50%
3. Government debt service liabilities/State budget revenue (including domestic and external debts)	15%	≤ 30%
4. Long and medium-term external debt service liabilities/export turnover	3.4%	≤ 25%

Government external debt outstanding by Creditor type as of 31/12/2010



Government external debt outstanding by currency composition as of 31/12/2010





Achievements

- Met the demand for capital supplementation for development investment and State budget financing.
 - *Government borrowings account for about 17% of the total investment capital of the society*
 - *State budget deficit at about 5% GDP*
- Within given threshold
- Government external borrowings mostly have long term, fixed interest rate and high level of concessional.
- Diversified borrowing currency structure
- Under-control debt service liabilities
- Decreasing tendency of external debt in the Government debt structure
- More and more various and flexible ways of capital mobilization
- More and more perfect institution and policies
- Better and better debt management towards international practices



Basic shortcomings

- Domestic capital mobilization still has difficulties due to limited development of the domestic bond market.
- ODA mobilization is still in passive manner. A lot of ODA loans is associated with ties which increase input costs.
- Borrowing distribution is still spread. Capital mobilization and use should be closer to debt safety thresholds.
- Efficiency of borrowings is not high and is not under close monitoring and management.
- Debt threshold are under control but several market risks should be measured more exactly; credit risks have not yet been reflected in on-lending fees and Government guarantee fees.
- Early warning mechanism is still limited.
- Management power of different agencies is overlapping; staff capacities should be improved.



3. New challenges and solutions in the coming time



New challenges

- The demand for development investment and budget financing require further increase of domestic and external borrowings.
- Vietnam has been within middle income countries so ODA ratio will be gradually lessened while commercial borrowings will increase.
- Public debt crisis in Europe, the US and the global economic decline cause higher public debt and more costs for capital mobilization.
- The international financial market still has implicit changes in interest rate and exchange rate among currencies which bring back both opportunities and challenges.



Orientations for debt management

- Effective macro-economic management, increase of budget revenue, export and reserves of foreign currencies.
- Continuous perfection of the legal system.
- Development and application of debt management instruments.
- Strengthening of effective monitoring on the use of borrowing.
- Improvement of risk management.
- Maintenance and development of the domestic bond market.
- Improvement of information update, disclosure and transparency.
- Strengthen of the organization structure, rational and effective decentralization among the Government, ministries and branches in debt management.



Specific solutions

- Continuous perfection of debt management instruments, medium-term debt management programs and annual borrowing and debt service plans to enhance the efficiency of borrowing mobilization and use.
- Borrowing mobilization and use meeting the objectives and principles of debt management.
- Development of the list of projects using financial sources provided by the Government bonds, Government on-lending and guarantees.
- Strengthening of market monitoring and forecasts.
- Assurance of debt safety and sustainability through development of appropriate debt thresholds and borrowing limits.
- Collection, reporting and disclosure of debt safety monitoring indicators.



Specific solutions ... *(continued)*

- ***Strengthening of risk management***
 - Development of risk management regulations for exchange rate risk, interest risk, refunding risk, credit risk.
 - Flexible conduction of risk treatment transactions (prevention and derivative transactions)
 - Adequate reporting of analysis, assessments
- ***Strengthening of the domestic capital market***
 - Gradually and rationally increase of domestic debt ratio in the Government debt portfolio
 - Development of market creators/founders
- ***Development of interest curve for Government bonds***
- ***Effective conduction of debt buy-back and swap transactions***



Specific solutions ... *(continued)*

- ***Development of a debt management office according to the international practices:***
 - Perfection of operation regulations.
 - Staff's capacity building.
 - Procurement of advanced equipment and tools for debt recording; cost and risk calculation; debt sustainable assessment; instruments for market update and monitoring.
 - Strengthening of internal audit, monitoring of operational risks, self-assessment of management as compared to international standards (for example: DeMPA of the World Bank)
- ***Step-by-step improvement of public debt information update, disclosure and transparency***
- ***Promotion of international cooperation and research to gradually improve the country's sovereign rating.***



Thank you!