Vietnam's Borrowing and Using Foreign Debts

by Dr. PHAN THỊ BÍCH NGUYỆT

The trend of financial globalization and liberalization helps boost up capital flows into developing countries and allocate them more effectively than savings and investments over the world. However, if there are no safe valves of legislation on interest rate management, loan supervision, and risk hedging funds especially for private credit and short-term capital, the ineffective capital controlling mechanism will aggravate dangers of financial crisis when investors withdraw their money concurrently and unexpectedly. The process of financial liberalization and opening the capital market has encouraged debts in foreign currency because of lower interest rates and risks. Although private lending must be guaranteed by the Government or banks, the Government is not able to control foreign debts of the private sector because it lacks information, so it may face financial risks. In addition, the Government's debts will fall into insolvency if they are not well managed and thus spark off financial crisis. Foreign debts are sometimes misused for illegal interests of individuals, for example, state businesses' debts used for importing equipment which is bought at a price of brand new one but very obsolete and outdated. Therefore, the Government has to repay loan interests but a part of loan drops into individual pockets in the country because these individuals have colluded with the seller of equipment. This increases actual costs of lending. According to a survey of the ADB in 2005 on Transparency International Corruption Index of regional countries, Vietnam got 2.5, Thailand 3.2, and Malaysia 4.8. And until now, in the eyes of creditors, Vietnam's using debts has some problems and the Government will take specific measures to secure safe corridor for its debt recovery.

At present, there are many problems with borrowing and using foreign debts, and the Government should examined the following:

First, there is no a benchmark system to evaluate the limit of foreign loan safety as compared to macroeconomic balance in accordance with Vietnam's characteristics. A problem in evaluating Vietnam's foreign loan safety when using the World Bank's foreign loan index is the difference in foreign loan classification. Based on Vietnam's reality, national foreign debts include debts owed by the Government and domestic businesses while the World Bank divides foreign debts into two kinds, one of the public sector and another of the private sector. As a result, the Vietnam cannot apply the World Bank's criteria mechanically, but has to build its own benchmark in accordance with the country's characteristics.

Second, the country has not yet built the benchmark system to assess the efficiency of using debts, especially for ODA-funded projects. The assessment of the efficiency of using debts is not carried out from project formulation to development and finalization, and it is not done regularly and continuously.

Third, over the past years, the Government has focused mainly on the amount of ODA but not given importance to the project efficiency. At present, some projects are facing troubles in recovering money for debt repayment. The Government pays only attention to first stages of the process of project management, but does not implement adequate supervision on the project operations management and assess actual efficacy of projects using foreign debts.

Fourth, there is no highest level agency to coordinate and supervise closely foreign debt safety as well as the relations between foreign debts and other macroeconomic factors (economic growth, export-import, balance of payment, foreign currency reserve...).

Fifth, the professional skill of officials in charge of managing foreign debts in ministries, sectors, project management units and businesses remains too weak. The assignment and coordination between ministries, sectors, in foreign debt management (Ministries of Planning and Investment, of Finance, banks...) is not close and less effective.

In addition, the Government has not yet:

- built a systemic and comprehensive strategy and policy for borrowing debts;
- identified an appropriate structure and format to mobilize debts on the basis of securing debt repayment and avoiding repayment burden on the national treasury; and
- implement good measures to settle bankruptcy of debtors due to separation of lending from repaying debts.

At present, the task of foreign debt control has been institutionalized just by a Government decree but not by a law. The existence of many concurrent documents on debt control causes so much overlapping and lacks coherence.

The information system of foreign debt control has not yet been established with sufficient regulations, especially for debts of businesses.

In short, Vietnam's borrowing foreign debts is now a current affair. Economic crises, which broke out continuously in developing countries in recent years, especially in Argentina in early 2002, are ringing alarm about risks of using foreign debts. Vietnam is now on the process of renovation and integration in the global economy, many of its policies have to change properly. At the same time, it is required to take effective measures to assure the security in borrowing foreign debts. This is just an urgent requirement for sustainable economic development.■