

**CENTRAL INSTITUTE FOR ECONOMIC MANAGEMENT
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**FISCAL AND MONETARY POLICY FOR STABILIZING MACRO-ECONOMY
AND STRENGTHENING THE ECONOMIC GROWTH IN VIETNAM**

(SUMMARY)*

Fiscal and monetary policy are two important tools in managing and adjusting the macro-economy. They have different purposes. Fiscal policy refers to the revenues of state budget, financial funds and the expenditure undertaken by the government annually. The expenditure includes regular expenditure, development investment, supplement for national reserves, payment of internal and external debts. Monetary policy is one of the tools used by a central bank to control the money supply and money circulation in order to attain the objectives of macroeconomic policy.

Sometimes, the fiscal policy implementation may badly affect the monetary policy implementation, and vice versa. The inconsistent coordination between fiscal and monetary policy during implementing will cause contradictions, breaking the market rule and negatively affecting the sustainable growth. Therefore, in the short-term, these two policies should be coordinated to achieve objectives of each policy orderly. In the long-term, they should be combined together to ensure the balance their objectives, accompanied with the sustainable economic growth and inflation restraint.

In detailed, if the fiscal policy implementation is considered and timely coordinated with monetary policy, the attained objectives of fiscal policy will be acted as “buffer step” for implementing monetary policy. With the purposes of increasing budget revenues, reducing regular expenditure, controlling basic construction investment, etc. fiscal policy aims at balancing the state budget revenue and expenditure and then stabilizing monetary, controlling inflation and deflation in the short-term and long-term. Similarly, the close coordination with fiscal policy when implementing monetary policy will create condition for increasing the state budget, reducing budget deficit, etc.

I. Overview of the implementation of fiscal and monetary policy in 2009

Based on internal weaknesses of the economy and of the economic management, and the impacts of global financial crisis and economic recession, in the end of 2008 and the early 2009, there were many unbright forecasts for Vietnam’s economy in 2009. One expert

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forecasted that Vietnam would fall in the circle of crisis, a series of banks and enterprises would be bankrupted, the economy would be recessed with minus growth rate, FDI, international tourists, balance of payment would reduce significantly, etc.

This forecast based on the economic situation in 2008 when the economy had to face with both internal shortcomings and two extremes “ice” and “fire”. “Ice” means the ice over the world financial market and “fire” means the extremely fluctuations in the world prices of foodstuffs, energy and metal. The rapid increases in oil price in the early 2008 made the economy confront with high inflation pressure; therefore, the government changed its objectives from economic growth to inflation controlling. Soon after 15th September 2008 – time of the global financial crisis and economic recession started, the world market heavily affected on many economic sectors in Vietnam. Again, the purposes and economic policy had to be changed, from inflation controlling to economic recession prevention and investment and consumption stimulation. When the economic growth had bottomed out in Q1/2009, the objective of “the maintenance and recovery of growth rate” was added to the objective of “economic recession prevention”. Since the early December 2009, in order to prevent the high inflation return, macroeconomic stability and inflation prevention have been given prominence to.

Accompanied with the changes in objectives, the government has actively and flexibly adjusted marco-economic policy, including the fiscal and monetary policy. The fiscal and monetary policy implementation, from tightened to loosened with flexibility and caution, had remarkable contributed to the economic performance in 2009.

1. Main happenings in implementing fiscal policy in 2009

Since the end of 2008, in order to stop the declined economic growth rate, stabilize the macro-economy and ensure the social security, the government has implemented economic stimulus package. To meet this package’s requirements and to implement the loosened fiscal policy, since the early 2009, many measures have been applied, including:

- Measures on taxation, consisting of exemption, reduction, stretch and repay of individual income tax, business income tax, and of value added tax.
- Measures on strengthening development investment made by the public sector to compensate for the decline in the private investment and in the foreign investment, concentrating in transportation infrastructure, energy, agriculture, rural, health, education and houses for students and the poor. Ministry of Finance (MOF) made advanced payment for important projects. Ministries, provinces reviewed and readjusted their plans, restructured their investment projects.
- Measures on increasing expenditure for social security, aiming at supporting for the poor, supporting for the protection and prevention of natural calamities, diseases, etc.

- In addition, the government has actively steered the implementation of many measures to limit the shortage of budget revenues. All government levels, tariff and custom offices in particular, have applied different measures to anti-tax evasion and make full use of other potential revenue sources to compensate for tax exemption and reduction.

2. Main happenings in implementing monetary policy in 2009

Given the context of economic recession prevention, macroeconomic stabilization, investment and consumption stimulation, inflation controlling, foreign exchange rate stabilization and export strengthening, the government applied the loosened monetary policy with caution and flexibility to support the liquidity and create conditions for credit institutions to expand their credit effectively. Policy measures are, as follows:

- Providing interest rate subsidies: Firms and individuals in business and manufacturing has gotten interest rate assistance of 4% per annum for the short-term loan contracts. Since April 2009, this package has been expanded to medium and long-term loan contracts and simultaneously supported for loans to purchase machineries, equipments, materials for agricultural productions and for constructing houses in rural areas.
- Adjusting and maintaining the interest rate at rational level since February 2009 in order to reduce the lending interest rate level and to strengthen the mobilization sources to meet the credit expansion of the economy; thereby, the prime interest rate in VND was adjusted from 8.5% to 7% per annum, refinancing rate and discount rate were also reduced from 9.5% to 7% per year and from 7.5% to 5% per year, respectively. Since December 2009, all the aforementioned interest rates have readjusted 1% additional to response the new conditions of the economy.
- Reducing the compulsory reserve ratio for savings in VND from 5% to 3% (less than 12 month term) effective in March 2009; from 2% to 1% (12 month and longer term) in January 2009. Simultaneously, interest rate of compulsory treasury decreased from 8.5% to 1.2% per year;
- Managing the open market operations flexibly, focusing on offering valuable papers with suitable term and interest rate in order to control the availability of capital of credit institutions, increase the capital supply and support for institutions to ensure the liquidity and stabilize the interest rate in the inter-bank market.
- Executing the foreign currency swap with commercial banks in order to support capital in VND, reduce the imbalance between capital source and uses in both VND and foreign currency in commercial banks, and supplement foreign currency for commercial banks to intervene the foreign exchange market when necessary.

- Widening the exchange rate margin for USD/VND from +3% to +5% on 14th March 2009 and controlling the average inter-bank interest rate in accordance with the market signal and the objectives of export stimulation and import limitations.
- Implementing synchronously credit controlling measures, including restructuring debt payment terms, adjusting interest rate of signed contracts to the current interest rate, adjusting loan structure, giving capital priority to production, exports, closely controlling capital for non-production areas, such as real estate, consumption, etc.

3. General assessment on the fiscal and monetary policy implementation

The implementation of loosened fiscal policy had brought into full play. In 2009, total of state budget expenditure was more than VND 530 trillion, 8.5% higher than the forecast, accounting for 31.7% of GDP; in which, expenditure for development investment increased by 20.1%, accounting for 25.4% of total budget expenditure, expenditure for debt payment and assistance was 10.2% higher than the forecast and regular expenditure accounted for approximately 20% of GDP; in particular, expenditure for social security reached nearly VND 22.5 trillion, increased by 50% compared to 2008. Albeit the tax exemption, reduction and stretch, total of state budget revenues still attained VND 390 trillion, reaching 100.2% of the estimation.

Meanwhile, the implementation of loosened monetary policy had also brought many satisfactory results. Total payment means increased by 28.7% and total credit for the economy increased by 37.7% compared to 2008. As a result, many enterprises had more favourable conditions to access capital with low interest rate; thereby, reducing the production costs, maintaining and expanding their production and business, creating more jobs for labour.

Clearly, the implementation of loosened fiscal and monetary policy had affected the Vietnam's stock market. In the first 3 months of 2009, the market declined when the VN Index hit the bottom of 235.5 point (reduce by 25% compared the early of the year). Since QII/2009, together with the recovery of the economy, the stock market had recovered and contributed to capital mobilization from both domestic and foreign sources. In the final months of 2009, the stock market witnessed the declined adjustment after the fiscal and monetary policy had tightened signals with more caution. This is assessed as necessary adjustment for the new development stage.

Notably, in 2009, the coordination between fiscal and monetary policy had positively stimulated the economy. In the first 6 months, fiscal measures, including the increase in public expenditure, social subsidy, tax exemption, reduction and stretch, accompanied with the loosened credit had stimulated demand rather rapidly; in the 6 final months, the short-term credit interest rate assistance helped enterprises significantly recover. Although

only 20% of the enterprises operating under Law on Enterprise had accessed the short-term loan interest rate assistance, its effects still spread over the economy.

Particularly, the year 2009 witnessed the effective coordination between fiscal and monetary policy in controlling inflation. It was different from the “sudden” adjusted monetary policy in previous years. The “sudden” adjusted monetary policy did not bring the expected results because of rigid fiscal policy. While implementing the tightened credit policy to withdraw a huge quantity of money out of the circulation – a reason for soaring inflation, the fiscal policy still applied the large expenditure. On the contrary, when the monetary policy “opened” in haste to encourage enterprises and the market to growth, the fiscal policy still closed, making the low absorption of supplied money. Recently, well coordination between fiscal and monetary policy indicates that the government has applied inflation prevention measures orderly.

The year 2009 also witnessed the positive coordination between MOF and State Bank of Vietnam (SBV) in governing and implementing policy measures, such as in designing and issuing regulation on interest rate assistance, in issuing government bonds, in sharing information and in considering the different effects of policy measures, etc.

As a result, the implementation of these policies had contributed to the economic growth rate. Making compared to the same term of 2008, the growth rate of the first quarter of 2009 was only 3.1%, the second, third and fourth quarter witnessed the growth rate of 4.5%, 5.76% and 6.8%, respectively. Totally, the economic growth rate reached the target of more than 5%. Vietnam’s economy was assessed to be overcome the crisis successfully.

Generally, in 2009, the acknowledged achievements was macroeconomic stability; inflation controlling, the state budget revenues and expenditure as planned; satisfactory results in social security, and the reduction in the poor household ratio, etc.

There, however, remains many shortcomings, including the budget deficit, foreign debts, trade deficit, current account deficit, etc. They make the macroeconomic imbalance worse. Moreover, the synchronous implementation of many targets set for 2009 had made pressures on governing fiscal and monetary policy. The loosened fiscal and monetary policy for the purpose of investment and consumption stimulus and economic growth badly affected macroeconomic stability. Sometimes, the coordination between fiscal and monetary policy was not well enough, affecting the beliefs of enterprises and the people.

In implementing the fiscal policy, the decentralization between the central and local budget is relative clear, but there were many problems in budget expenditure and revenue decentralization. The provincial budget was not publicly and transparently designed and distributed. As a consequence, in some provinces, the provincial people’s committees apportion expenditure wrongly, making loss and wastes. Furthermore, the budget

decentralization did not accompany with the improvement in cadre capability and was different among provinces, making difficult for monitoring and controlling.

Another notable point is that fiscal and monetary policy in 2009 and previous years had contributed to the extensive economic growth model. The rapid increase in investment and expenditure as well as total payment means have also contributed to GDP growth rate but its quality has slowly improved. It is considered as the worst point of the current development model.

These problems require a careful consideration when implementing fiscal and monetary policy in order to achieve the targets of 2010 and the next coming years.

II. Vietnam economic settings in 2010 and issues for fiscal and monetary policy

1. Vietnam economic settings in 2010

As assessed, in 2010, Vietnam has more favourable conditions than previous year, in which, there are three major advantages, as follows: (i) Vietnam has prevented the declined trend of GDP growth rate since the end of the first quarter of 2009 and the growth rate has remarkably recovered; (ii) Majority of enterprises have maintained their production and business, particularly, some enterprises have increased their scale and attained high growth rate even in the context of crisis; and (iii) The macro-economy becomes more stable. These factors are important foundations for many economic organizations and experts believe that Vietnam will gain a satisfactory economic growth rate in 2010, albeit still having worries of macroeconomic instability, especially inflation.

According to Goldman Sachs, Vietnam's economy will grow at 8.2% in 2010, export growth rate will be slowly recovered. Concerning the fiscal policy, part of Vietnam's expanded fiscal policy will be continued in 2010, the budget deficit will be at least 9% this year. Regarding the monetary policy, the loosened monetary policy is going to end because SBV applied tightening up policy such as hiking interest rates or reducing liquidity of monetary market to curb inflation in 2010. Goldman also pointed out some challenges Vietnam's economy has to face, including the upward trend of inflation and balance of payment situation.

Standard Chartered Bank argued that domestic demand, particularly domestic consumption will be a main factor of Vietnam's economic growth. The government policies will stimulate the development of infrastructure in 2010. Vietnam's export will be recovered slowly. The increase in the world price will support for export of Vietnam's agricultural commodities. Inflation rate will be 8.9% within 2010 and 10% in the end of 2010. In addition, the global economic recovery will positive affect the FDI and overseas remittance. It forecasted that Vietnam's FDI disbursement in 2010 will reach USD 12 billion, overseas remittance will attain USD 7.5 billion.

ADB predicted that Vietnam's economy will grow at 6.5% in 2010. This forecast bases on the positive results of policy measures made by the Government to limit the negative effects of global economic recession. However, ADB also warned the return of inflation. It suggested that the Government of Vietnam should keep the balance between the development stimulation through demand stimulus measures and macroeconomic stability monitoring.

While CitiBank forecasted that Vietnam's economic growth rate will be 6% in 2010, Credit Suisse argued that Vietnam has overcome the recession and GDP growth rate will be 8.5% in 2010. According to HSBC, inflation pressure will become a serious problem when prices of oil and foodstuff increase significantly and it is time for Vietnam to end the loosened fiscal and monetary policy. Thereby, HSBC predicted that in 2010, Vietnam's GDP growth rate will be 6.8% and inflation rate and prime interest rate will be 8% and 12%, respectively.

IMF suggested that if having the real improvement in balance of payment and belief of investors in local currency, Vietnam's economy may grow at 6% in 2010.

Some domestic organizations also have the same forecasts as international organizations. They highly evaluate the capacity of economic growth and also point out the challenges facing. National Center for Socio-Economic Information and Forecast (NCSEIF) presents two scenarios for Vietnam's economic growth (see Table below)

<i>Indicators</i>	<i>2009</i>	<i>Baseline scenario</i>	<i>High scenario</i>
GDP growth rate	5.32%	6.0%	6.5-7%
Increased rate of total investment	15.3%	5.0%	18%
Capital on GDP ratio	42.8%	38%	>41%
ICOR	8.12%	6.33%	6.31%
Export turnover	USD 56,6 bil.	USD 60 bil.	USD 60 bil.
- Increased rate	-9.7%	6%	6%
Import revenues	USD 68,8 bil.	USD 75.6 bil.	USD 80 bil.
- Increased rate	-14,7%	9.9%	16.5%
Trade deficit	USD 12.2 bil.	USD 15.6 bil.	USD 20 bil.
- on export revenues	21.6%	25.7%	33.3%
- on GDP	10.3%	Around 15%	Around 20%
Exchange rate (VND/USD)	VND 17,961	VND 19,700	VND 21,520
Dong devaluation		3-5%	10-15%
CPI	6.88%	7-8%	10-12%

Source: NCSEIF

According to NCSEIF, under the baseline scenario, all economic balance will be maintained, inflation will be at moderate level, allowing to limit the threat of macroeconomic instability. Under the high scenario, the economy may face some threats, such as trade deficit, current account and balance of payment deficit; strong fluctuation of foreign exchange rate; threat of re-inflation and two-digital inflation.

Considering some economic indicators proposed in the Socio-Economic development Plan for 2010 made by the Government (such as GDP growth rate at 6.5%; GDP per capita at USD 1,200; Total investment at 41% of GDP; Increased rate of export revenue at 6%; Budget deficit at 6.5% of GDP and CPI at 7%), there are some targets coinciding with the high scenario. This means that the government is pursuing patiently a relative positive scenario with relative high economic growth rate and low inflation

Although forecasts are optimistic, if carefully considering the economic settings in 2010, there remain many challenges, e.g. existing economic structure inadequacies; internal reasons of macroeconomic instability; shortcomings of extensive economic growth model. The economy has already “bottom out” of the recession but the growth rate has slowly recovered and has been affected by the fluctuation of the world market. Many enterprises have restored their production and business but majority of SMEs still face many difficulties. The implementation of interest rate assistance package, the increases in credit debt and in state budget deficit have caused threats of re-inflation in the coming time. Furthermore, there have not any evaluation on the additional/ negative impacts of economic stimulus packages, particularly in controlling the short-term credit circulation, the threat of using credit for wrong purposes, creating pressure on inflation, etc.

In sum, there is a solid foundation for the belief in the recovery momentum of Vietnam’s economy in 2010. There, however, is a clear worry about macroeconomic instability, especially the return of inflation. The economic situation in the first quarter of 2010 illustrates this conclusion.

According to MPI, GDP growth rate in the first quarter was 5.83%, significant higher than 3.1% of the first quarter of 2009. However, there are the signals of macroeconomic instability such as inflation, trade and budget deficit, etc.

Assessment on the economic situation in the first quarter, many economic experts argue that the growth rate at nearly 6% is not unforeseeable because Vietnam’s growth capacity in the short-term is large. The most serious problem is inflation. At the monthly government meeting in March, the government appraised that there remains a signal of macroeconomic uncertainty and unhealthy; instable monetary market and high trade deficit, etc. The report on the economic situation in the first quarter of 2010 made by MPI also emphasizes that the CPI is rather high, requiring a synchronous measure to curb

inflation in the coming time. With CPI of 0.75% in March compared to February - the third consecutive increase month, it warns the high inflation in 2010. Many government members and economic experts assumed that the CPI of the first three months account for 50% of the CPI of the whole year; therefore, the CPI in 2010 will be more than 10%, higher than the target at less than 7% made by the government.

2. Some issues addressed for fiscal and monetary policy

Under the economic context in the early 2010, many economic experts argue that the implementation of the target of macroeconomic stability and inflation controlling will be more difficult than the implementation of the economic growth rate at 6.5%. This causes many challenges for fiscal and monetary policy.

In 2009, for attaining the GDP growth rate at 5.32%, the credit increased by nearly 38% and in the end of the year, total payment means increased by 25% compared to the beginning of the year. The differences between total payment means (M2) and the real GDP indicate that the production was not proportioned to the amount of money in circulation. Normally, the impacts of high credit increase will happen after 4 - 6 months. In other words, the impacts of high credit increases in 2009 will gradually expose in QII/2010, this means that these impacts will directly create pressures on total payment increase in the economy. This is the main reason of inflation in Vietnam. Simultaneously, the low social investment performance has continuously created pressure on loosening the credit conditions made by banks, making the threat of money boom in circulation as investment stimulus capital flow, directly increasing the inflation pressure. However, a tightened credit policy will reduce the growth motive power and the threat of macroeconomic instability.

Moreover, ensuring the debt payment at maturity and the healthy of credit debts have directly and indirectly affected the inflation situation in Vietnam. Also, in 2010, the increase in salary, the tightened trend in fiscal and monetary policy through increasing lending interest rate, abolishing financial obligation exemption for enterprises, increasing tax collection will make input costs increases, then, increasing prices of domestic goods and services.

In addition, the SBV issued Circular No. 03/2010/TT-NHNN on regulating VND 603 additional increase in inter-bank foreign exchange between USD and VND since 11th February 2010, increasing by 3.3% compared to one day before. This adjustment aims at reducing the negative pressure on foreign exchange rate differences between formal and free markets and adapting with the common exchange rate management mechanism in the world. In the long-term, this adjustment also contributes to reduce the foreign currency store and speculation, and then balancing the demand and supply of foreign currency, stimulating export and domestic production and controlling inflation. However, in the short-term, this adjustment may make the price of imported commodities and materials

increase, and then increasing production costs. As a consequence, pressure on inflation may increase.

In addition to the threat of inflation return, there are many dangers for macroeconomic stability, such as large budget deficit, increase in foreign debts, slow ODA disbursement, slow improvement in trade deficit, national balance of payment deficit. They are not small challenges for Vietnam's economy.

Basically, in order to reduce the pressure on budget deficit and high inflation, the fiscal policy in 2010 seems to be less open than 2009. However, the budget deficit at 6.5% of GDP decided by the National Assembly remains a high level compared to previous years (except for 2009). Surely, this number will cause pressure on inflation and national budget in 2010. Budget deficit is a worry in the medium and long-term. Therefore, the government should decide expenditure, approve public expenditure and investment list wisely and efficiently towards the target of sustainable economic development.

Foreign debts have heavily affected by the recent "strong" foreign exchange rate adjustment, making enterprises which have foreign debts more tension. Clearly, the local currency depreciation is not a good signal in foreign investors' eyes.

Another hard problem is the administrative procedures relating to ODA capital disbursement, especially in expanding projects slowly.

Hence, to attain the targets of higher economic growth rate and quality than 2009 and to ensure macroeconomic stability, including inflation rate at 7%, require the synchronous implementation of policies, especially fiscal and monetary policy.

Over time, there are some opinions on fiscal and monetary policy implementation. Many opinions worry that the space for both fiscal and monetary policy is not large. According to ADB, Vietnam's budget deficit was more than 9% of GDP in 2009 and forecasted that this number will be 10.2% in 2010. Such large budget deficit will make expenditure space restricted. In terms of monetary policy, the space for SBV to adjust policy is relative narrow. The restricted space for fiscal and monetary policy may indicate the end of extensive economic growth mode in Vietnam. This creates challenges for these two policies and other macroeconomic policies (namely investment policy, trade policy, etc.)

An issue attracting many discussions is to apply "loosened" or "tightened" policy. Many people argue that policy should toward rational tightened with flexibility and caution, suitable with the economic situation because to attain the targets of macroeconomic stability, inflation prevention and economic growth, the tightened policy must be flexible.

Another issue is the coordination between fiscal and monetary policy. If having good coordination between these two policies, more space for implementing policy purposes will be created. Thereby, the coordination between MOF and SBV in making and implementing policy should be improved.

III. Fiscal and monetary policy recommendations for stabilizing macro-economy, stimulating the economic growth in 2010 and next years

1. Short-term solutions

In the short-term, the center of the fiscal policy is to keep the budget mobilized level at around ¼ GDP, and to reduce and abolish the discrimination among economic sectors in fulfilling the budget contribution as well as expenditure.

The second priority is to reduce the budget deficit in order to balance the state budget in the long-term. The first and foremost is to limit the loosened fiscal policy gradually; and simultaneously, to promote the restructuring of the state budget expenditure by giving more priority to regular expenditure for administrative reform, etc. Tax reduction should be considered as situational measure. Reducing budget deficit through controlling import and export, limiting trade deficit should be paid more attention. Income, social security policies and other social development objectives should be concerned.

Moreover, debt management policy, including public and foreign debts should not make debt scale increase and the debt management should base on their usage efficiency.

If the fiscal policy is “neutral” in the short-term and aims at stimulating the restructuring of the economy in the medium and long-term, the monetary policy should be a crucial tool in stimulating the economic growth and ensuring macroeconomic stability. Two main characters of monetary policy – flexibility and market – should be brought into play the two objectives - economic growth and macroeconomic stability.

On the one hand, the increase in total credit has become a core in stimulating the economic growth meanwhile other financial channels for enterprises remain limited. In practice, the economic growth rate in Vietnam has organic relation with credit expansion. On the other hand, the macroeconomic stability, inflation particularly, also has dialectic relation with credit expansion. Therefore, the most importance is to direct credit capital to efficient economic sectors in the medium and long-term.

The interest rate policy should be applied flexibly and under the market mechanism. Prime interest rate, discount and refinance rate should be adjusted flexibly and combined with open market operations to ensure capital for the development of enterprises, to stop the “hot” growth threat and to curb inflation. In 2010, interest rate should be used as a decisive instrument for controlling total credit, banking credit market and inter-bank market in line with market principles.

There are some short-term measures, as follows:

- For the fiscal policy:

The first and foremost is to use the state budget efficiently and effectively in both development investment and regular expenditure; to increase state budget collections

compared to the estimation to reduce budget deficit; to concentrate sources for implementing social security policy.

For regular expenditure, to arrange the priorities in order to ensure the implementation of important political tasks, to improve efficiency of budget expenditure. Specially, to ensure macroeconomic stability and create conditions for the economic development and mobilize sources for budget expenditure and ensure national financial security, controlling loans for budget deficit compensation and the government bond issuance should be coordinated with governing money supply and interest rate policy.

To implement the market mechanism with the state management consistently. Local governments should coordinate actively with functional ministries/ agencies in managing prices, controlling prices of monopoly goods and services, ensuring the balance between supply and demand for goods, especially for essential consumer goods. To follow the world market price changes closely, update domestic and foreign information and provide accurate assessment and forecast in order to have measures and policy adjustments timely. MOF and Ministry of Industry and Trade should regularly exchange opinions with petrol enterprises to decide the time for price adjustment.

To stimulate the investment, production and business, MOF should revise policy to encourage all economic sectors to invest in production and business; improve the policy to harmonize the benefits of the state, enterprises and the people. To apply the public – private partnership (PPP) and BOT, BT and BTO, etc. in infrastructure constructions. To continue to mobilize capital via issuing bonds, strengthening the credit guarantee mechanism for SMEs which have feasible production and business projects; using effectively the government bonds resource in transport, irrigation, health, educational and rural infrastructure projects. Specially, to stimulate the development of financial and financial service markets; to speed up the equitization and restructure of SOEs; to develop the stock and capital markets.

- For the monetary policy:

To govern the monetary policy instruments actively with flexibility and caution in order to stabilize the monetary market, ensure the liquidity of credit institutions and the banking system; to control the growth rate of total payment means, credit debts in excess and to maintain the interest rate in line with the macro-economic situation.

To adjust the foreign exchange flexibly, based on the market signals but at relative stable level, contributing to stabilize the macro-economy, encourage export, limit import and support for sustainable development. To continue to improve the legal framework for foreign currency management and develop different tools in foreign currency market.

To steer credit institutions to restructure their asset and capital sources safely and sustainably. To concentrate investment in agricultural and rural development, economic infrastructure and export stimulation.

To watch for and monitor macroeconomic evolution, domestic and international financial and monetary market closely and timely in order to have suitable solutions. To strengthen the coordination among related ministries and agencies in governing monetary, fiscal and foreign management policies and other macro-economic policies to improve the effectiveness of monetary and inflation governing and controlling and stimulate the economic growth and stabilize the macro-economy.

SBV should coordinate with MPI, MOF and Ministry of Industry and Trade in making, analysing and forecasting the international payment balance; in revising and supplementing regulation on international payment balance management; in monitoring the foreign currency inflow and outflow exactly.

To improve the performance of banking inspection and monitoring; To apply the risk-based monitoring and inspection measures; concentrating on far-distance monitoring; improving the quality of inspectors.

To complete the drafts of Law on State Bank and Law on Credit Institutions to submit the National Assembly; to draft guiding documents soon after these two laws are approved. To review and revise monetary and banking operation regulations in line with the integration commitments and opening the financial markets.

To strengthen the information and propaganda in order to create the public consensus on the government and SBV's policy and measures in terms of monetary and banking operations. To stimulate the administrative reform to create favourable conditions for enterprises and the people access banking services.

2. Medium and long – term solutions

In order to achieve high and sustainable economic growth, the leading task is to change the growth model from extensive to intensive model with the growth quality improvement, in which, the basic measure is to restructure the economy. For this purpose, the government should design a comprehensive program on restructuring the economy, including fiscal and monetary policy.

- For fiscal policy:

+ To define the economic role of the government: The government should intervene the economy under the economic development strategy with clear priorities, in which, defining the prioritized areas is necessary.

+ To improve the performance and quality of public investment and expenditure: The government should adjust and restructure the public investment constructions by giving

more priorities for projects which are labour intensive and/ or encourage domestic production and export. Public investment projects should be reviewed with the caution by competent agencies; investigated by independent investment investigation agencies and publicized in order to ensure their effectiveness and feasibility. Public investment should be restructured by increasing the proportion of state investment in agricultural, rural, health and educational areas; establishing the PPP mechanism in technical infrastructure development investment.

Designing the public expenditure management mechanism in line with the economic development objectives. Completing the draft of Law on Public Investment. Strengthening the management, monitoring and auditing mechanism of the public investment projects. Strengthening the public investment management organization.

+ To encourage the development of private sector in order to increase the supply of goods and services, create jobs and increase the state budget revenue – the main objectives of the fiscal policy. Good business opportunities should be shared to all enterprises, regardless of economic sectors. Attracting more foreign investment projects. Requiring SOEs work under the market rule.

+ To define the comprehensive fiscal disciplines, including: the budget deficit on GDP and the accumulative budget deficit on GDP; the ratio of debts on GDP; total expenditure ceilings and expenditure ceiling for all areas and for each area; the compulsory expenditure or expenditure floor and non-compulsory expenditure; designing the national goal program under the strategy.

Revising the method of budget design and implementing the Medium-term expenditure framework (MTEF) under the clear rout. On 20th June 2008, MOF issued Circular No. 58/2008/TT-BTC on guiding 6 ministries (namely MOF, MPI, Ministry of Education and Training, Ministry of Health, Ministry of Agriculture and Rural Development and Ministry of Transportation) and 3 provinces (namely Ha Noi, Binh Duong and Vinh Long) to conduct the pilot of designing the medium-term financial plan and medium-term expenditure plan during 2009-2011. In the coming time, this pilot should be assessed carefully before expanding to the whole country.

- For monetary policy

In medium and long term, the monetary policy should be focused on the following issues

+ SBV should clearly define the objectives and framework of monetary policy in line with each development stage. Recently, some monetary operations are still out of control of SBV. Therefore, SBV should strengthen its capacity to control the money in line with international practices. Establishing the necessary conditions for the year 2012 to implement the monetary policy to control the interest rate. After 2015, when the monetary market has developed and the financial liberalization has strengthened, SBV should apply

the inflation-oriented monetary policy frame to improve the effectiveness and transparency in governing the monetary policy and to meet the integration commitments.

+ To strengthen SBV's capacity in governing monetary policy. The first and foremost is to strengthen training and re-training for staffs to grasp the macroeconomic knowledge of the market economy and to attract more talents. SBV must take its responsibility for their policies, thereby, SBV should issue regulation on responsibilities of SBV in governing monetary policy, publicizing information; information release methods and mechanism.

+ To design the transmission mechanism of monetary policy via different channels, defining the impacts of policy via different channels and then selecting the most sensitive channel to govern the monetary policy.

Developing the monetary market is a decisive measure for improving the affecting mechanism of monetary policy. In addition to the improvement of legal environment, market monitoring capacity and unfair playing field creation, the market members should be strengthened, helping them to respond timely with the loosened or tightened monetary policy. Developing the inter-bank market, SBV should establish the interest rate governing mechanism and open market operations to encourage commercial banks to borrow each other before accessing the SBV's capital sources, develop the inter-banking payment system, etc.

+ To improve information system to support the econometric forecast analysis to connect all ministries, agencies together. General Office of Statistics become national data store accessed by all ministries/ agencies. SBV and MOF should establish the regular and close relationship in exchanging information, in governing fiscal and monetary policy.

+ To create favourable conditions in implementing monetary policy: Improving the legal framework for banking operations and monetary policy implementation by revising Law on State Bank and Law on Credit Institutions. Continuing to improve the legal framework for the financial market operate smoothly, creating conditions for transactions on the market comply with the market principles, limiting the intervention by the state. Ensuring the suitability of the objectives and measures of the macroeconomic policy.

To establish a cautious monitoring and management system to ensure the stability of the financial system.

- Implementing the synchronous coordination between fiscal and monetary policy

+ To strengthen the effective coordination between fiscal and monetary policy, monetary policy making and implementation should ensure to maintain the stability of the macro-economy; developing the banking system to support the rapid economic development, thereby, increasing revenue sources and capital mobilization to compensate the budget deficit.

The government should create conditions for SBV to be independent in governing monetary policy. SBV should continue to innovate the monetary policy governing tools by focusing on using indirect tools. SBV should not directly interfere operations of commercial banks and credit institutions, it should indirectly intervene by central bank operations on the monetary market.

In terms of fiscal policy, the budget revenues and expenditure should ensure the stability of the economy, politics, and the sustainable economic development, create foundations for implementing monetary policy effectively, for controlling inflation and developing monetary market. Budget revenues and expenditure should close with monetary stability principles. The implementation of these two policies should coordinate for the common benefits of the economy.

The government should stimulate the tax system, revise the current tax laws to increase budget revenue and reduce expenditure.

+ To design the continuous and regular relationship between MOF and SBV in making and implementing fiscal and monetary policy. Establishing the information provision mechanism between SBV and other ministries and agencies in order to control the money supply in the economy. MOF should provide SBV the information about total fund in cash in the State Treasury in order to manage the total payment means, etc.

SBV and MOF should coordinate together in designing and implementing annual fiscal and monetary policy based on the targets of inflation, GDP and predicted balance of payment. Procedures and timetable for coordination should be clarified (monthly, quarterly or annually).

MOF should coordinate with SBV in making the state budget estimation, defining the scale of deficit, demand for financial support, domestic borrowing capital and in considering foreign borrowing. MOF should regulate the frequency of government bond auctions, bond interest rate which are issued via SBV in line with the money supply estimation. MOF should provide the government bond issuance plan to SBV yearly. After that, MOF and SBV exchange together and decide the volume, interest rate and time for issuance.

The effective coordination need not only the role of SBV, but also other ministries and agencies under the direction of the government.