

## CHAPTER 5

### SUMMARY AND CONCLUSION

Significant changes and policy renovation have been undertaken by the authorities in the past years, including putting greater emphasis on the role of the monetary policy. More up-to-date data on money, banking, nominal interest rates, rate of inflation and balance of payments would help to evaluate the direction of impact.

Monetary policy was not effective in the past for more than one reason. It was not used in co-ordination with other policies - particularly fiscal policy and pricing policy - in preparing annual economic plans.

In Vietnam monetary policy only consisted until recently, of a set of cash plans to support the budget and other public sector operations. The Central Bank had little control on monetary operations. Fiscal policy in fact became the primary source of economic imbalance and instability characterized by high rates of inflation.

The inelastic tax structure, wage and subsidy policy, irrational pricing policy and growing cash deficit in the budget has reduced the effectiveness of monetary policy as the Central Bank continued to feed cash to meet the gap. Such endogenous money supply growth weakened monetary control.

The banking sector was operating on a very narrow segment on the economy, and for a long time it operated on

the basis of negative interest rates. There was hardly any mobilization of deposits to match credit expansion by the banking system. The credit system was also segmented - subsidized institutional credit were given entirely to the state organizations while there was parallel informal market with very high rates of interest for the non-state organizations and private enterprises. The Central Bank had no monetary instruments to influence the money market. It was also not possible for the Central Bank to adjust money supply through the operations of the balance of payments accounts because of meager international reserves.

The objective of monetary policy have to be defined first. Trade off (and complementarities) between inflation, employment and growth, have to be carefully considered.

The prerequisites for functioning of monetary policies have to be put in place - institutions with clearly defined functions and authority, a broad based banking system, an autonomous Central Bank, a well-defined framework for government's fiscal operation and freedom of transaction in goods and services.

Whether a "minimum package" or a "comprehensive plan of action" is undertaken for accelerating economic restructuring, monetary policy has to be complemented and supported by other policies. The basic elements for such a programme appear to have been appropriately defined by the authorities at the Fifth Session of the National Assembly in

June 1989.

The authorities have to continue the policy of positive interest rate as already introduced, until the inflationary psychology and expectation are reasonably eliminated. This will help to improve the ratio of time deposit in the banking system and thereby reduce the velocity of money. It will also help to cut the size of the parallel informal market significantly and reduce the costs of private producers.

Expansion of bank branch in the rural areas and agricultural credit will lead to gradual monetization of the economy and reduce the velocity of circulation.

In the interest of equity, credit facilities have to be increased for the agriculture sector, co-operatives, small scale industries and private enterprises engaged in production of goods and services. Credit needs have to be appraised carefully and credit norms established for different sectors, to avoid and discourage hoarding and inventory build-up.

Recovery of bank credit in time, avoidance of bad debts, and avoidance of inter-agency debts in the state sector, should receive the attention of the Central Bank and of the Government. Necessary legislation for ensuing prompt and timely repayment of bank credit deserves high priority.

In a situation of continued high inflation and chronic balance of payments deficit, exchange rate policy should be kept under constant review to keep exports competitive.

Strengthening of control on foreign exchange transaction and better collection of data and statistics in this area will be necessary for the external sector to complement monetary policy.

To bring down the rate of inflation the Central Bank has adhered to traditional demand management policies, such as reduction of fiscal deficit and severe credit restraint including high interest rate. The short term impact of pursuing such a tight monetary policy will be contradictory as already reported in the papers. This is unavoidable if expenditure has to meet resources, and if foundations of long term growth have to be strengthened. But the long run potential growth of the economy will be damaged unless the fiscal policy is directed towards maintaining essential capital expenditure.

If foreign savings and foreign assistance are not available in reasonable quantum to a low income country facing such problems as Vietnam, then appropriate fiscal and monetary policies will necessarily have to be those of self-restraint. All available indications are that for Vietnam, it will be difficult to avoid this in reality. In such a situation consumption will have to be restrained. Public savings and national savings will have to be stepped up to provide resources for investment in the public sector, and through the banking system in the private sector. Monetary policy will have to be used for allocating resources more



rationally.

Since instability was initially created through unrestrained fiscal operations of Government, stability and growth will need to be restored largely through the fiscal policy. Monetary policy will be unable, by itself, to correct the situation.

In order to monitor the impact of monetary policy, collection of data and statistics on money supply, credit, deposit structure, foreign exchange transactions and on the budget have to be undertaken on a regular and systematic basis for analysis and research.

The Central Bank as the monetary authority has to develop the financial infrastructure to promote institutionalization of savings and investments. Commercial banks have to acquire the expertise for the development of the savings in the productive sectors on the basis of declared priority and norms of credit appraisal.

The Central Bank has to regulate as well as guide the commercial banks to play their role in development. To avoid mismatching of funding and lending, differentiation of different groups of banks - such as ordinary commercial banks and long term credit banks, would be needed instead of separating them by sectoral functions.

In the period of transition, the Central Bank may have to rely on some quantitative and direct control, for example, to avoid excessive variability of interest rates. Similarly,

the Central Bank will have to cautiously apply credit ceilings and selective credit control measures in the period of transition.

The goal is to reinforce the control of money circulation, attract idle money from the population, speed up the velocity of money and expand the forms of non-cash payment so as to meet the requirements of production and business.

The following concrete issues should be solved satisfactorily for the purpose of ~~de~~veloping organized economy:

(a) To ensure the necessary capital and ready cash for primary units to improve their production and business efficiency.

(b) To readjust bank credit interest rates to make them conformable to the different branches of production and meeting the capital needs of production and business units. The State Banks should apply a new set of interest rate policy, savings, deposits and borrowing, ensuring that inflation is reduced and encouraging time deposits with higher interest rates.

(c) To create more favourable conditions for the expansion of foreign trade in order to encourage hard currency remittances by overseas Vietnamese and foreigners, attracting the hard currencies now floating on the market or being held up in foreign trade enterprises. The Government

should also allow banks to apply an exchange rate corresponding to the real market prices on a periodical basis.

(d) The foreign trade banks should be allowed to engage in foreign currency transactions. At the same time, transactions in gold, silver and precious stones should be expanded to economic sectors outside the state sector.

(e) Equity banks, such as the export-import banks and the industrial-commercial banks, local private banks should be established in some localities on an experimental basis.

In monetary and banking circulation epoch, money has minimal self value but its role in the economic social life is very important. With the functions of exchange, payment and value reserve, money is employed in economic exchange and represented all the social goods. With money, several actions of production and business may be allowed. Money stimulates the production and the social equality. But, otherwise, when the money value is not stabilized, the positive role of money and money circulation becomes negative and its bad effect is impossible to prevent for the socio-economic and political development of country. That is why the monetary policy has a very important role in macro economy policy as the monetary effects influence deeply the change of the economic-social structure.

With the experience of the other nations, the monetary policy in Vietnam is to slowly abolish the administrative

means in order to establish the mechanism of open market. The most important condition is to establish the economic conditions necessary to apply the policy in harmony with the macro economy.

# APPENDIX TABLES

Table 1:.

## VIETNAM: MAJOR ECONOMIC INDICATORS

		1985	1986	1987	1988	1989	1990	1991	1992	1993
Population	Million		61.1	62.5	63.7	64.4	65.7	67.7	69.1	70.9
GDP	%change	5.6	3.3	2.6	8.0	5.1	6.0	8.3	7.5	8.1
Per Capital GDP	%change		1.2	0.4	3.7	4.4	2.7	9.7	6.4	5.7
GD Savings	%of GDP					0.2	2.1	4.8	6.9	n.a
GR Investment	%of GDP	12.8	10.3	8.8	8.9	8.6	11.5	11.6	12.0	12.7
Money supply	%change					121.1	59.5	83.5	17.4	n.a
Inflation Rate	%	91.6	487	316.7	301.9	76.0	67.1	67.5	17.5	5.2
Exports	%change	20.5	20	13.9	15.1	82.9	19	14.6	22.6	17.5
Imports	%change	4.3	17.8	16.5	19	-6.2	3.8	-11	15.5	29.9
Current Account										
Balance	US\$Mill	-891	1423	1360	1542	1101	200	83	210	170
External Debt										
Outstanding	US\$Mill	6.74	7.65	10.7	12.99	14	14.6	15.3	15.4	16.8
Debt-Services										
Ratio	%						5.5	5.6	7.5	8.0
Exchange Rate	D:US\$					4000	5200	9750	11500	10750

Sources : - Vietnam Statistical Year Book, 1994.  
 - MIER 1994 National Outlook Conference.  
 - Economic Intelligence Unit 1991.

Table 2:

VIETNAM: GROWTH RATE OF SOME MAJOR GENERAL INDICATORS

Unit: %

	1981-1985	1986-1990	1991-1995 (forecast)	1996-2000 forecast
GDP	7.3	4.8	4.5	7.0
NI	6.4	3.9	4.5	7.0
Agricultural output	5.3	3.5	3.7	4.3
Industrial output	9.5	6.2	5.3	9.7
Export billion US\$			15	30
Consumption			3.5 - 4.1	5.0-6.0
Accumulation			10 - 15	16-20
Investment billion US\$			10.5	34.5

Sources : - *Vietnam Statistical Year Book, 1994.*  
- *Vietnam Socio-Economic Forecasts for 1990s, 1991.*

Table 3.

## SOME MAJOR GENERAL INDICATORS

	1990	1991	1992	1993	1994
1. Growth GNP (%)	5.7	5.4	8.3	7.5	8.5
2. Increase of money supply (%)	+59.5	+83.5	+17.4	+19.0	+21.0
3. Inflation rate (%)	67.1	67.5	17.5	5.2	14.0
4. Interest rate (percent per month)	2.0	3.5	1.9	1.4	1.4
Savings	2.4	4.0	2.5	1.8	1.8
Loans					
5. Exchange rate of the Dong against US\$ (previous year's level 100)	5,200 +30	9,750 +87.5	11,500 +17.9	10,750 -6.6	11,000 +2.3

Source: Statistics by the State Bank of Vietnam

Table 4:

## RETAIL PRICE INDEX OF CONSUMER GOODS AND SERVICES

Unit : %

	1986	1987	1988	1989	1990	1991	1992	1993
Previous month=100								
Month								
1			118.3	107.4	102.9	113.2	104.4	101.7
2			114.0	109.2	103.8	108.7	105.5	101.9
3			128.4	105.4	101.9	100.5	100.5	99.5
4			123.8	103.5	102.5	102.2	100.9	99.8
5			127.6	99.8	102.6	103.0	101.3	101.5
6			116.8	97.1	102.1	101.7	100.1	99.7
7			109.6	98.5	103.6	102.5	100.3	9.8
8			107.5	100.2	105.7	103.4	100.3	100.5
9			106.5	101.6	104.3	103.7	100.0	99.9
10			108.0	102.5	106.1	102.8	99.8	99.7
11			108.3	102.6	107.9	105.6	102.0	100.0
12			105.3	103.0	108.8	106.1	101.4	101.2
Monthly average					104.4	104.4	101.4	100.4
Year average	587.2	416.7	401.9	176.0	167.1	167.5	117.5	1052

Sources : - Vietnam Statistical Year Book, 1994.  
 - Vietnam Socio-Economic Forecasts for 1990s,  
 1991.



Table 5.

## INFLATION RATE, 1988 - 1993 (per cent)

	1988	1989	1990	1991	1992	1993
Month						
1	18.3	7.4	2.9	13.2	4.4	1.7
2	14.0	9.2	3.8	8.7	5.5	1.9
3	28.4	5.4	1.9	0.5	0.5	-0.5
4	23.8	3.3	2.5	2.2	0.9	-0.2
5	27.6	-0.2	2.6	3.0	1.3	1.5
6	16.8	-2.9	2.1	1.7	0.1	-0.3
7	9.6	-1.5	4.0	2.5	0.3	-0.2
8	7.5	0.2	6.0	3.4	0.3	0.5
9	6.5	1.6	5.6	3.7	0.0	0.1
10	8.0	2.5	4.2	2.8	-0.2	-0.3
11	8.3	2.6	3.6	5.6	2.0	0.0
12	5.3	3.0	2.8	6.1	1.4	1.2
Year	301.9	76.0	67.1	76.5	17.5	5.2

Source: States statistical Office

Table 6:

## VIETNAM FOREIGN TRADE TURNOVER

Billion USD

Year	Exports	Imports	Trade balance
1981	352.4	1325.2	-972.8
1982	387.0	1320.1	-933.1
1983	463.6	1323.0	-859.4
1984	493.3	1488.3	-995.0
1985	594.7	1552.4	-957.4
1986	677.8	1829.3	-1151.5
1987	723.9	2132.5	-1408.6
1988	833.5	2539.5	-1706.0
1989	1524.6	2383.7	-859.1
1990	1815.0	2474.0	-659.0
1991	2081.7	2198.7	-117.0
1992	2552.0	2540.0	12.0
1993	3000.0	3300.0	-300.0
1994	3600.0	4500.0	-900.0

Sources : - *Vietnam Statistical Year Book, 1994.*

- *Annual Report of Ministry of Trade, 1994.*

- *Institute of Economic and Technological Research on Trade.*

Table 7:

GROSS DOMESTIC PRODUCTS (GDP)  
by Kind of Economic Activities  
(at 1989 price)

Billion Dongs

	1991	1992	1993
<b>Total</b>	<b>31286</b>	<b>33991</b>	<b>36735</b>
<b>Goods</b>	<b>19429</b>	<b>21374</b>	<b>22958</b>
Industry	6042	6925	7766
Construction	1186	1317	1558
Agriculture	11894	12751	13235
Forestry			
Others	370	381	399
<b>Services</b>	<b>11794</b>	<b>12617</b>	<b>13777</b>
Transport, Postal Service, Tele- communication	792	842	897
Trade, Material Supply	3654	3877	4109
Finance, Banking Insurance	448	496	578
State Management, Science, Education, Health, Sport.	2841	3040	3322
Housing, Tourist, Hotel, Repair of Personal Consumer Goods	4059	4362	4871

Source: GOS of Vietnam, July 1994.

Table 8:

**STRUCTURE OF GROSS DOMESTIC PRODUCTS (GDP)**  
**by Kind of Economic Activities**  
*(at 1989 price)*

Per cent

	1991	1992	1993
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Goods</b>	<b>63.30</b>	<b>62.88</b>	<b>62.50</b>
Industry	19.31	20.37	21.14
Construction	3.79	3.87	4.24
Agriculture	38.0 0	37.51	36.02
Forestry			
Others	1.2	1.13	1.10
<b>Services</b>	<b>36.70</b>	<b>37.12</b>	<b>37.50</b>
Transport, Postal Service, Tele- communication	2.53	2.48	2.44
Trade, Material Supply	11.68	11.40	11.18
Finance, Banking Insurance	1.42	1.46	1.57
State Management, Science, Education, Health, Sport.	9.10	8.94	9.05
Housing, Tourist, Hotel, Repair of Personal Consumer Goods	12.97	12.84	13.26

Source: GOS of Vietnam, July 1994

GROSS DOMESTIC PRODUCTS (GDP)  
by Kind of Economic Activities  
(at current price)

	1991	1992	1993
<b>Total</b>	<b>76707</b>	<b>110535</b>	<b>136571</b>
<b>Goods</b>	<b>49310</b>	<b>67648</b>	<b>80268</b>
Industry	15193	23965	29371
Construction	3059	6179	9423
Agriculture	30314	36468	39998
Forestry			
Others	744	1045	1476
<b>Services</b>	<b>27397</b>	<b>42887</b>	<b>56303</b>
Transport, Postal Service, Tele- communication	2860	4662	6036
Trade, Material Supply	9742	15281	17549
Finance, Banking Insurance	1108	1167	2318
State Management, Science, Education, Health, Sport.	6807	9718	14402
Housing, Tourist, Hotel, Repair of Personal Consumer Goods	6880	11659	15998

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Table 10:

STRUCTURE OF GROSS DOMESTIC PRODUCTS (GDP)  
By Kind of Economic Activities  
(at current price)

	Per cent		
	1991	1992	1993
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Goods</b>	<b>63.4</b>	<b>61.2</b>	<b>58.8</b>
Industry	19.8	21.7	21.5
Construction	4.0	5.6	6.9
Agriculture			
Forestry	39.5	33.9	29.3
Others	1.0	0.9	1.1
<b>Services</b>	<b>35.7</b>	<b>38.8</b>	<b>41.2</b>
Transport, Postal Service, Tele- communication	3.7	4.2	4.4
Trade, Material Supply	12.7	13.8	12.8
Finance, Banking Insurance	1.4	1.4	1.7
State Management, Science, Education, Health, Sport.	8.9	8.8	10.6
Housing, Tourist, Hotel, Repair of Personal Consumer Goods	9.0	10.6	11.7

Source: GOS of Vietnam, July 1994.