FINANCIAL POLICY IN MACROECONOMIC ADJUSTMENT AND OPERATION OF VIETNAMESE BUSINESSES IN 2011

by Dr. NGUYỄN NGỌC TUYẾN
Vice - Director of Institute of Finance Research

1. Financial policy and some comments

A financial policy is deemed as a powerful tool for adjusting the economy and participation of players in this economy game. Therefore, governments, in practice, must depend on their socioeconomic conditions in such a certain period to adopt appropriate financial policies with a view to managing and orienting the whole economy.

Vietnam, over the past two decades of transition and development, has been step by step transiting to the market economy. Market rules are taking their place and affect sharply the economy as well as corporate operations. Thus, in order to restrict unfavorable impacts of objective economic rules and orient the economy towards certain targets, Vietnam's government is not directly intervening into the operation of firms but indirectly adjust the whole economy by means of policies, especially instruments of financial policy.

Besides, Vietnam, in the context of full integration into the world economy, not only has enjoyed chances to develop its economy but also suffered from bad impacts from the world economy. This is to say, financial instruments, more than ever, must be employed at service of aims of socioeconomic development.

Many people usually take it for granted that financial policies have a broad scope and diverse content. However, the important points of financial policies, in general terms, include mobilization of capital, budget income and expenditure, and budget deficit. These policies have a direct and profound impact on the whole economy in general and each business in particular.

In order to estimate objectively effect of financial policies on Vietnamese businesses and the economy as a whole, it is firstly needed to reach a unanimous agreement on comments on financial policies thus far.

Theoretically and practically speaking, there is no absolutely effective policy indeed. A new policy, when adopted, definitely bears unexpected adverse impacts. On this account, the government must investigate and evaluate policy impacts so as to work out the optimal solutions; and simultaneously adopt measures to minimize unexpected impacts.

Financial policies are one of powerful tools utilized by the government, mainly to adjust the economic activities at a macro level and implement targets of socioeconomic development in certain stages. Their impacts on the whole economy and each business occur in parallel. This may be proven that financial policies, especially loose ones, are to give impetus to economic development, and simultaneously facilitate the development of businesses. Nonetheless, a new policy, when adopted, sometimes does not benefit equally both the whole economy and individual enterprises, even though main targets are attained. In this case, benefits of the majority must be the first priority.

Policies are worked out and promulgated by the government. These policies, besides based on scientific evidences, practical aspects and facts, are also affected by subjective viewpoints of policy makers. For this reason, when a policy is brought to reality, such the subjectivity shall impinge on the execution of policy.

The socialism-oriented market economy initiated in Vietnam from the 1990s has entailed a series of reforms and a deluge of policies which have met relatively requirements of macroeconomic control, established legal infrastructure for firms to operate, and paved the way for international cooperation with developed countries in the world. Nonetheless, Vietnam's policy system, in general terms, has not slotted the place and needs perfecting from time to time. Besides, polices after promulgation are not consistent, and fail to generate cooperation between fields and governmental agencies. This is to state that the role of adjusting the economy at the macro economic level and facilitating the operation of businesses is still restricted.

Over the past few years, Vietnam's financial policies just concentrate on several of key aims such as pushing the development and economic stability. These policies, in essence, are also to facilitate the operation of businesses. However, it is inevitable that their unfavorable impacts, besides tremendous achievements, have been generating biases in the business climate.

2. The 2010 financial policy and the trends for 2011

The 2010 marks the end of 2001-2010 socioeconomic and financial strategies, affirms that Vietnam has managed to weather the recession and is the turning point for a new stage. Therefore, the economic process and implementation of the 2010 financial polices are extremely significant to orientation of 2011 financial polices.

In 2009, in order to weather the recession, the government injected a stimulus package by means of tax exemption and reduction, tax moratorium, and low-interest loans for companies. The loose financial policy helped Vietnam come safely through this difficult period and regain the health of economy quickly. Enterprises are also financed to avoid going bankrupt.

The 2009 stimulus package seemed to pave the way for the 2010 economic development. According to a governmental report dated October 2010, the GDP increased 6.52% in the first three quarters of 2010, from 5.83% in the first quarter up to 6.4% in second quarter and 7.18% in the third one. The 2010 GDP is estimated to reach approximately 6.7%, exceeding the threshold of 6.5% as required by the National Assembly. The 2010 export turnover is on the up and up and estimated at US$468 billion, increasing by 19.1% compared to the 2009 and three-fold as much as required. In which, the export turnover of foreign-invested sector (not including crude oil) earns US$31.2 billion, making up 46.2% of the gross export turnover and increasing by 29% compared to the 2009. The state budget income is expected to exceed about 12.7% compared with the planned target. They are good signals and striking achievements of the whole economy.

However, in addition to above-mentioned points, Vietnam also has to cope with risks and instability of the economy such as trade deficit (estimated around US$13.5 billion and accounting for 19.8% of the total export turnover), budget deficit (around 6%), an enormous deficit in balance of payments, high inflation (expected over 10%; this rate in November 2010 reached 9.58%).

Besides, the world economy also has profound impacts on Vietnam's economic development. IMF foresees the world economic growth could reach 4.3% in 2011, 6.8% for the Asian economy and 5.5% for AESAN-5. This will be a favorable condition for Vietnam. Yet, the world economy in general and Vietnam's one in particular, in 2011, also has to face certain difficulties, especially the risk of worldwide public debt crises; inflation of many countries may hit a high; foreign investments could go down; costs of materials and commodities jump up, and etc.

To tackle these problems, Vietnam has defined its aims of economic development for the year 2011 including: ensuring macroeconomic stability; controlling inflation; reaching a high growth in combination with structural reforms; enhancing the productivity, quality and competitiveness; ensuring social welfare and securities; improving living standards; securing national defense and sociopolitical stability; and tightening diplomatic relationships and integrating deeper into the world economy. To do so, the 2011 fiscal polices must be stricter and tighter.

Besides, financial policies have a rapport with policies of other fields, especially monetary policies, so as to undertake crucial aims of curbing inflation, stabilizing and developing the economy. Accordingly, the government can firstly adjust the economic structure in order that enterprises can enjoy a better business climate. However, for such the policies to work effectively, the point is that the government and businesses must get together to work out and execute such the policies in such the sensitive period of the 2011■