

STIMULUS PACKAGE IN



2009 – 2010

An interview with Dr. TRẦN DU LỊCH
Member of the NA Economic Committee
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EDR: *Could you tell us about achievements and failures of the first stimulus package in 2009 that provided interest-subsidized loans of short, medium and long terms with a view to stopping the economic recession? What are lessons from this package?*

Dr. Trần Du Lịch (TDL): Since the fourth quarter of 2008, the Vietnamese economy had shown signs of deflation (CPI had a negative value) because of drastic falls in the market demand when the world economy experienced a steep recession. In its Resolution 30 dated Dec. 11, 2008, the central government introduced five groups of solutions (collectively called the stimulus package) in order to prevent further economic recession, regain macroeconomic stability and ensure the social welfare. The most notable was a looser monetary policy to stimulate investment and spending and provide companies with more credit. In the credit-related solution, there were three kinds of interest support aiming at different targets: (1) Short-term interest-subsidized loans where an interest rate of 4% was paid by the public fund according to Decision 131/TTg within eight months to help companies buy raw materials and cover wages for laborers; (2) Medium- and long-term interest-subsidized loans where an interest rate of 4% within 12 months was paid by the public fund according to decision 443/TTg for companies that want to replace their production lines on the condition that they should get disbursement before Dec. 31, 2009; and (3) Decision

497/TTg provided peasants with low-interest loans needed for their farm machinery and building materials. Of the three kinds of interest subsidies, only the first one produced favorable result. The two others had little realistic meaning. The short-term interest-subsidized loans helped increase the liquidity in the market and the aggregate demand; and created conditions for many companies to deal with shortage of working capital, thereby maintaining their operation and creating more jobs.

Besides positive effects, however, this solution distorted the market: credit supplied rose high (some 37% in 2009); interest-rate war between commercial banks; imbalance between supply and demand in the market for foreign exchange that made the dollar rise against the VND; and a danger of hyperinflation in 2010.

EDR: *The stimulus package was equal to some 10% of the GDP including four items: VND17,000 billion for interest-subsidized loan; 90,800 billion for public investment in development projects; 28,000 billion for tax exemption and cut; and 9,800 billion for social programs. What item was the most effective according to NA supervisors' reports? What causes do you considered as the most important to the results?*

TDL: The said stimulus package was related to various aspects of the fiscal and monetary policies while the results had overall effects that might change over time. In the first half of 2009, solutions related to the fiscal policy (increases in public expenditure and social allowance; and tax

exemption and cut) and the looser monetary policy stimulated the market demand quickly; and in the second half, the supply of short-term interest-subsidized loans helped companies recover remarkably. Although these loans were only supplied to some 20% of companies that operate according to the Companies Law, their effects were also felt by all sectors and industries under multiplying effect appropriate to Vietnamese conditions (According to the multiplier theory, when the marginal propensity to consume tends to rise, the carry-through effects of the public expenditure gets bigger). It is the factor that brought about good results of the stimulus package. Fairly speaking, however, quick recovery in 2009 was largely due to ability of companies to adjust and cope with difficulties during the recession period. This is really a precious advantage policy makers have to take into consideration when working out the plan for the post-recession period.

EDR: *In your opinion, who benefited most from the first stimulus package: industries, sectors, or banking system? Are transparency and openness ensured during the implementation of this program?*

TDL: The stimulus package offered by Resolutions 30 and 30a by the central government was carried out as from early 2009 with both social and economic objectives. It not only aimed at manufacturing and service sectors, but also agricultural and rural problems, therefore, many sectors and industries benefited from the package. By observing results of the program to supply of short-term interest-subsidized loans, however, we can see that main beneficiaries were manufacturers and producers, exporters and constructors. Regarding the economic sector, the private one was the biggest beneficiary (in HCMC for example, 83% of

short-term subsidized loan was supplied to non-public sectors). As for commercial banks, the program provided them with a double benefit: increases in their working capital and in the volume of credit supplied when the interest rate was much lower than the 2008 one.

Generally, by observing some banks and companies as beneficiaries of the program, I can conclude that the transparency and openness are acceptable and the program is carried out according to a strict procedure. One arising problem is the ability to control turnover of the capital within the credit term, which can make this source of capital deviate from its original purposes.

EDR: *What are differences between the Vietnamese stimulus program and the foreign ones during the recession period? What do you think about them?*

TDL: The first package in the world is the American TARP introduced in September 2008 and adjusted by the PPIP adopted by the Obama government in February 2009, and value of the stimulus packages amounted to US\$825 billion. Many countries also adopted similar approach to deal with the crisis: China offered a US\$586-billion package in September 2008 and introduced 10 groups of solutions in November 2008; Japan 275 billion; Russia 250 billion; Germany 81 billion; India 61 billion; the U.K. 30 billion; France 23 billion; and Thailand 8.7 billion. These packages may take various forms but their solutions could be divided into three groups: (1) Supplying more liquidity to the financial-banking sector in order to prevent widespread collapse (this solution is found in the U.S. and the euro area); (2) stimulating the spending by cutting the taxes and financing the spending in the private sector (this is carried out in most countries with results of dif-



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ferent levels); and (3) Supporting the companies to prevent contraction of production and increase in the unemployment rate.

By comparing these packages with the Vietnamese one, we see that they all have similar objectives but take different ways. The supply of interest-subsidized loan is very appropriate to conditions in Vietnam in the past two years.

EDR: *To employ the second package effectively and help companies to develop their businesses when the world economy starts to recover, what measures do you think to be taken by the government, banks and companies?*

TDL: It's worth noting that the apparent difference between Vietnam and other countries is that Vietnam has to regain its growth rate while struggling against the inflation. In my opinion, to achieve this goal, there must be a consistent combination between four instruments: fiscal policy, monetary policy, spending policy and foreign trade policy and they all aim at macroeconomic stability as the foremost target for 2010.

The most important problem after the recession period is to re-organize the domestic production with a view to moving from doing subcontracts to making our own goods that could find a foothold in the global value chain; that is, moving from a dependent economy to an inter-dependent one in the process of international integration in order to establish a position for Vietnam in the post-recession period when a struggle to change the world order at both international and regional scopes will take place. To deal with this problem, the Government should have a master plan to restructure the economy with a view to enhancing the competitiveness

with a clear roadmap and quantified goals, along with economic and financial policies that help achieve the planned goals. Such a plan should be soon in place and launched in 2010 in order to support and orient investment by companies in the period of economic recovery.

EDR: *What is your opinion about prospects for the Vietnamese economy and local companies in 2010?*

TDL: After crisis and recession, the world economy starts to recover and recent predictions about prospects for 2010 seem optimistic, especially the ones about Asian emerging economies. The biggest danger to the Vietnamese economy is the inflation caused by the unreasonable economic structure, the looser fiscal and monetary policies and some increases in the world market prices. If the Government tries its best to prevent this danger and give priority to the macroeconomic stability as affirmed by the PM new-year address, the Vietnamese economy in 2010 could gain a growth rate equal to the one in the period before recession, that is, higher than the target of 6.5%. In 2010, companies can also make the best use of policies to develop the domestic market and supply medium- and long-term interest-subsidized loans and restructure their organization, enhance their competitiveness and recover in a sustainable manner.

EDR: *Thank you very much. We wish you a new year of good health and success■*

