VIETNAM'S POLICY RESPONSES TO THE FINANCIAL CRISIS

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Executive Summary

1. Vietnam's economy had already entered a period of macroeconomic instability when it was hit by the global financial crisis, causing the broader economic environment to deteriorate further.

2. Domestically, Vietnam's economy was negatively impacted by surging inflation and worsening twin deficits in both fiscal and current accounts in recent years.

3. Negative external shocks further exposed serious structural weaknesses in the economy. As domestic consumption weakens and export orders decrease, industrial production stagnates and unemployment increases rapidly. Consequently, Vietnam's economic growth in 2008 slowed down to 6.2%, the lowest in almost a decade.

4. On December 11, 2008, the Vietnamese government released several urgent measures to prevent a sharp economic downturn and ensure social stability.

5. Measures have been taken to support the small and medium enterprises (SME) in Vietnam and to gradually ease the monetary policy. In addition, the government launched an unemployment insurance scheme on January 1, 2009 to provide financial assistance to unemployed workers.

6. In particular, a stimulus package of US $6 billion was announced in December 2008. The package, amounting to 6.8% of GDP and considered very large by international standards, aims to revive the slowing economy with tax cuts, interest rate assistance, as well as spending on infrastructure, housing, schools and hospitals.

7. On January 23, 2009, the government decided to spend US $1 billion (VND 17 trillion) as the first phase of the stimulus package to subsidize loans interest

payment. It aims to ease the firms' financial difficulties, create new jobs, and increase domestic consumption.

8. However, with high levels of fiscal deficit, trade deficit and inflation, as well as decreasing oil revenues, there is limited room for maneuvering to promote aggregate demand.

9. More challenges are likely in 2009. The government will face a serious test of its capacity to manage the economy in the global downturn.

10. Overall, Vietnam's economic fundamentals remain relatively weak, with serious fiscal and trade deficit and low overall efficiency. The stimulus package, though relatively small compared to those of several other countries, demonstrated the government's determination to pull the economy out of the global turbulence.

11. Vietnam's capacity to ride out this period of difficulties depends crucially on its ability to bring back growth; maintaining long-term macroeconomic stability, however, is a challenge. The recovery is likely to be led by export growth once global demand resumes.

VIETNAM'S POLICY RESPONSES TO THE FINANCIAL CRISIS

LE Thi Thuy Van*

Vietnam's Economic Predicament: From Bad to Worse

1.1 Like many other open developing economies, Vietnam was inexorably engulfed by the global financial crisis. However, unlike others, Vietnam's economy had already entered a period of macroeconomic instability before it was affected by the global crisis. Vietnam's home-made turbulence is compounded by heightened volatility in the global economy.

1.2 Domestically, economic reforms and international integration have brought 22 years of development to Vietnam's economy, with average annual growth of 7.2%. The country has been hailed as a new emerging economy, particularly since its WTO accession in January 2007, which has seen a surge in Foreign Direct Investment (FDI) inflow, trade and above 8% headline economic growth in the period of 2005-2007[1]. However, the macroeconomic instability was apparent in Vietnam only after one year of its WTO accession. The economy has been suffering from twin deficits (fiscal and trade deficit), and surging inflation **(Figure 1).**

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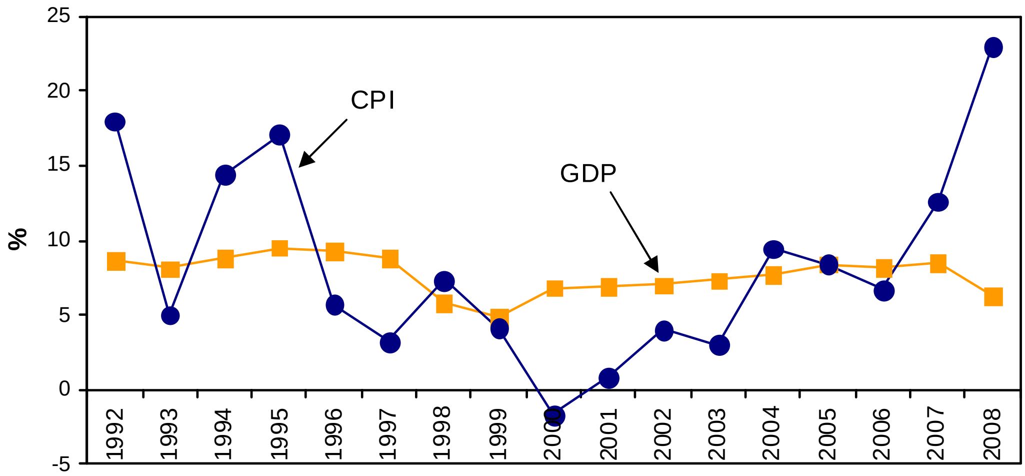
1 Vietnam's GDP growth: 8.4% (2005); 8.2% (2006); 8.5% (2007)

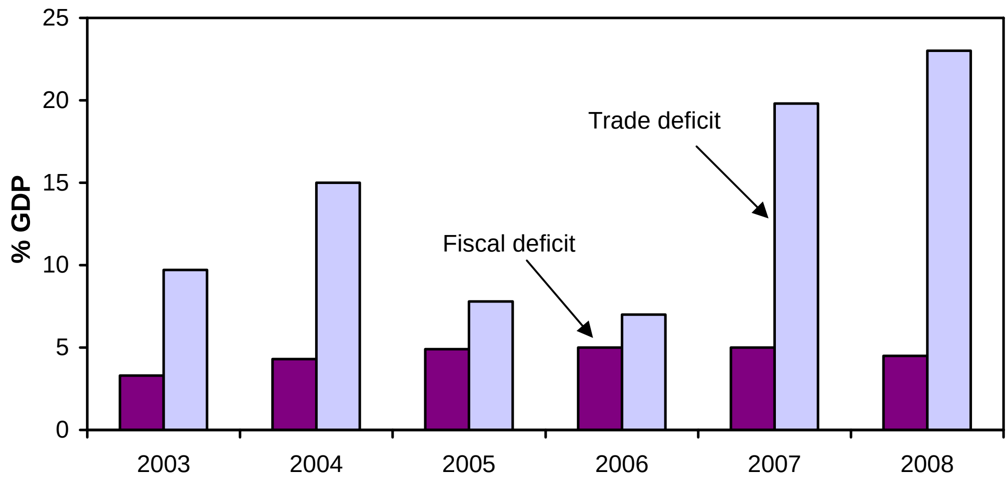
FIGURE 1 VIETNAM'S ECONOMIC GROWTH AND CPI, 1992 - 2008



Sources: IMF, General Statistics Office of Vietnam

1.3 Inflation has been in double digits since 2007 and peaking at 28% in August 2008. The fiscal deficit accounted for 4.5-5% GDP in 2008 while trade deficit reached US$17.5 billion (or over 20% of GDP), a level that signals vulnerability to a sudden drop in external demand **(Figure 2).** A high rate of investment combined with a sizeable fiscal deficit resulted in rapid growth in aggregate demand in the first half of 2008. Massive capital inflows generated asset price inflation, especially in real estate and land prices.

FIGURE 2 VIETNAM'S TWIN DEFICITS, 2003-2008



Source: IMF, General Statistics Office of Vietnam

1.4 The external shock from the global crisis has exposed serious structural weaknesses in Vietnam's economy[2]. Directly, Vietnam has so far not been affected by the global financial crisis due to its limited exposure to international financial markets. More than 50% of the banking sector is state-owned which has been a stabilizing factor amidst international financial instability. Nonetheless, Vietnam is affected indirectly through trade, FDI, and financial capital movement, which consequently affect employment and the overall economic growth.

1.5 Vietnamese exports have suffered the strongest negative impact. With economic problems in the US, EU and Japan, which together account for more than 60% of Vietnamese exports[3], Vietnam saw a significant decline in export revenues. Vietnam's export revenues fell 6.5% in November 2008 and a further 24% drop in January 2009 (year-on-year) **(Figure 3).** Orders for manufactured exports including garments,[4] footwear and furniture dropped quickly, while seafood[5] producers are also under pressure. The decline of orders has caused great difficulties for exporting companies, many of them are at risk of closing down.[6] Vietnamese exports' growth is forecasted to decline from 30% in 2008 to 13% in 2009[7].

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[2] One important reason for all domestic weaknesses in Vietnam is the low efficiency of investment, especially in public investment. Incremental Capital Output Ratio (ICOR) of Vietnam is significantly higher than those of other Asian countries (Korea, Taiwan, Indonesia), suggesting a lower efficiency of capital usage in Vietnam. Vietnam's ICOR is 4.6 on average, while economic growth was only 7.5% during the period of 2001-2008.

[3] In 2007, Vietnamese exports to US, EU, and Japan accounted for 26%, 19%, and 16% of total exports respectively.

[4] In the fourth quarter of 2008, orders from the US decreased 20% from a year earlier. In European markets, orders from France, Spain and Germany have also dropped steeply.

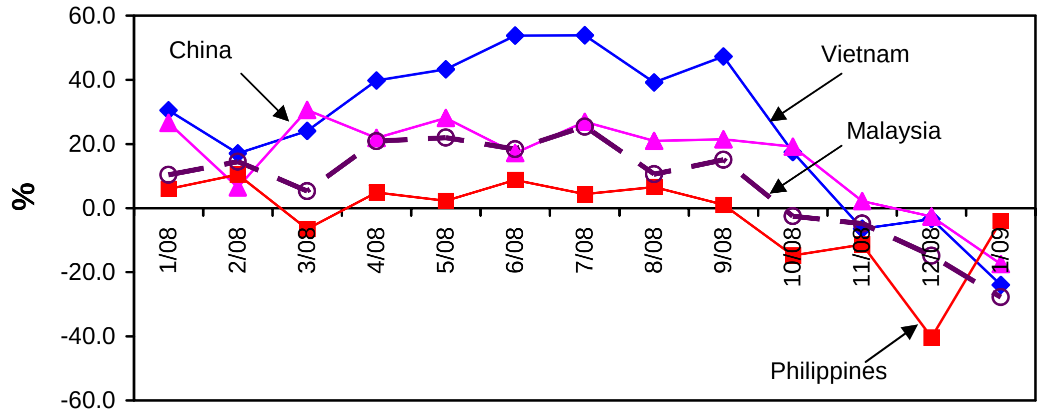
[5] The volume of Vietnam's aquaculture exports in November (2008) dropped to a 6-month record low of US$373.1 million, down 22% against October's. Frozen shrimp and catfish were the products that saw the sharpest declines in sales to US$35.221 million and US$55 million respectively. Vietnam's seafood exports are forecasted to fall by nearly a third in 2009.

[6] According to the management board of the Ho Chi Minh City Export Processing and Industrial Zones Authority (Hepza), 20 enterprises have admitted they are having problems and cannot guarantee employment for workers. The same situation can be seen in industrial zones in Ha Noi. The Thang Long Industrial Zone had laid off over 1,000 workers several months ago. In October 2008, Silver Star Footwear Company in Binh Tan District closed down, causing over 1,700 redundancies.

[7] Vietnam Ministry of Planning and Investment

FIGURE 3 EXPORT GROWTH OF VIETNAM AND OTHERS, Jan 2008 - Jan 2009

(Monthly, % Year-on-Year)



Sources: Vietnam Customs; China Ministry of Commerce; Malaysia External Trade Development Corporation (MATRADE); National Statistic Office of Philippines.

1.6 FDI is also affected considerably. The crisis has caused a lot of difficulties to multi-national corporations (MNCs), which resulted in a decrease of FDI inflows to many countries, including Vietnam. There is a much higher possibility of postponement, even cancellation, in the implementation and disbursement of FDI. Although registered FDI in Vietnam reached US$64 billion in 2008, there was only US$11.5 billion disbursed. Moreover, since the equity ratio in these FDI projects is only 28% on average (compared to 43% for the period of 1988-2007), the global credit crunch will result in project delays and cancellations.[8]

1.7 The financial crisis has also affected Vietnam's financial market and capital mobility indirectly. The domestic capital market slumped in 2008 as investor concern about the long term prospect of the global financial markets mounted. The stock market experienced its worst performance in its eight years of operation. Stock indices dived sharply in both Vietnam's southern and northern exchanges. The VN-Index slid 66.9% and the HASTC-Index lost 67.2% in 2008. Vietnam is likely to face more difficulties in mobilizing foreign portfolio investment. Foreign investors may realign their investment

[8] An international real estate group pulled out its US$10-billion project in Quang Nam province in 2008. It is likely that this group will also stop another equally big resort project in Phu Yen province.

strategy and restructure investment portfolio, including a possible capital withdrawal from Vietnam.

1.8 Unemployment has worsened. According to reports from 41 of the 63 provinces and cities of Vietnam as at February 28, 2009, 66,700[9] workers (out of 45 million workers) lost their jobs in 2008 with national unemployment rate of 4.65%. Thus, it is estimated that over 80,000 workers lost their jobs nationwide in 2008. The latest forecast of Vietnam Labor and Employment Agency[10] estimates the figure to hit 400,000 nationwide in 2009. Job cuts are rising especially in big cities[11] with industrial, processing and exporting zones. The situation may worsen in 2009 with an unemployment rate of 5% and at a projected economic growth of 6.5%. High unemployment has already affected domestic demand and consumers' sentiment in Vietnam, which are bearish in recent months.

1.9 Indeed, the financial crisis has affected Vietnam's economy severely. There are now more signs of economic decline as indicated by (i) weak domestic consumption; [12] (ii) declining CPI for three consecutive months; [13] (iii) production stagnation;[14] (iv) rapidly rising unemployment; and (v) decreasing export orders. Consequently, Vietnam's economic growth dipped from 8.48%

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9 There is a big difference between data sources of Vietnamese unemployment. This results from weakness in Vietnam's statistical system. Thus, the author suggests using unemployment data announced by the governing authority - Vietnam Labor and Employment Agency (Vietnam Ministry of Labour - Invalid and Social Affairs) as the most official data source.

10 Vietnam Labor and Employment Agency, February 25 2009.

11 Hanoi (10,000 workers losing jobs); Ho Chi Minh (19,000 workers losing jobs); Dong Nai (10,000 workers losing jobs) - According to Vietnam Labor and Employment Agency.

12 Sales of more conventional consumer goods have slumped as the fast-growing middle class has stopped spending. Sales of electronics shops were down in the 2009 Lunar New Year by as much as 50% compared with that of last year. Besides, sales of the carmakers' trade association tumbled by 68% year-on-year in January 2009. (Source: The Economist March 5th, 2009). Consumers will continue to tighten their belts and their purchasing power is expected to fall further.

13 According to the General Statistic Office of Vietnam, CPI fell by 0.68% in December, 2008 compared to previous month. CPI fell 0.76% in November and 0.19% in October, 2008. The frozen real estate market and a shrinking demand for construction have led to a fall of 2.36 percent in prices for properties and construction materials

14 Some industrial businesses which have great volumes of products in stock, such as steel ingots, building steel, cement, fertilizers, paper and chemical, will also enjoy interest rate cuts or exemptions from banks.

in 2007 to 6.23% in 2008; this was the lowest rate for Vietnam in almost a decade inspite of the fact that it may be considered as a decent rate when compared to other countries.

Government's policy responses to the crisis

2.1 In 2008, Vietnam's economy was confronted with two different sets of challenges. In the first half, Vietnam was combating a potential macroeconomic instability such as high inflation, a fragile financial system and surging twin deficits. In the second half, the country suffered external shocks from the global financial and economic crisis. The Vietnamese government had to make a swift shift in policy responses mid-way in the year.

2.2 On April 17, 2008, the Government released *Resolution No.10/2008/NQ-CP* [15] detailing measures to restrain inflation, stabilize macro economy and ensure social security and sustainable growth. The *Resolution* suggested 8 groups of solution, which focus especially on fiscal policy and monetary policy.

2.3 The government carried out a tight fiscal policy with different measures such as (i) cutting down public expenditure to further reduce budget deficit; (ii) reducing public investment, especially investments of state-owned groups and enterprises; and (iii) giving priority to investment in economic sectors. Inefficient public investment projects have been cancelled while new projects were postponed.[16]

2.4 The government also took decisive and consistent measures on monetary tightening to effectively control inflation and stabilize the macro-economy. The State Bank of Vietnam (SBV) increased benchmark interest rate on VND three times in the first half of 2008, boosting benchmark rate from 8.25% to

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[15] Resolution No. 10/2008/NQ-CP dated April 17th, 2008 of the Government.

[16] By May 2008, ministries, provinces and state economic groups had reportedly decided to postpone, delay or stop nearly 1000 projects, equivalent to 7.8% of the total investment budget. (http://www.eastasiaforum.org)

14% per annum on June 11, 2008[17]. Refinancing rate and discount rate were also raised to 15% and 13% per annum respectively**.** Credit growth was expected to be brought down to 30% in 2008 by different measures, including raising interest rates. Additionally, the exchange rate management was relaxed by widening the trading band for USD/VIVD from ±0.75% to ±1% on March 10 and further to ±2% on June 27. This aimed to promote export and reduce trade deficit.

2.5 The government's policies to stabilize the macro economy have generated visible results. In particular, the monetary policy has reduced inflation and trade deficit. However, the level of overall macroeconomic instability is still quite severe. In the second half of 2008, before the country could fully address its first set of problems, the economy was dealt another blow by the global financial crisis, including surging trade deficit since September 2008,[18] rising unemployment, weakening domestic demand and slow economic growth.

2.6 On December 11, 2008, the Vietnamese government released *Resolution 30/2008/NQ-CP on urgent measures* to deal with the economic recession, maintain economic growth and ensure social security.[19] The *Resolution* focuses on boosting production and businesses; strengthening exports; stimulating investment and consumption; guaranteeing social security, and endeavoring to achieve an economic growth of 6.5% in 2009. The measures are likely to be included in broad policy initiatives such as (i) expansionary fiscal policy; (ii) easing monetary policy; and (iii) social security policy.

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17 On February 1, 2008, the prime interest rate for VND was increased from 8.25% to 8.75%. On May 19, the prime rate for VND was raised from 8.75% to 12%. On June 11, the prime rate for VND went up from 12% to 14%.

18 A strong decrease in export has made the export revenue to dive to below US $5 billion level a month since October, 2008. Thus, trade deficit increased again from US$260 million (in September, 2008) to US$670 million (in October), US$433 million (November) and about US$600 million (in December, 2008).

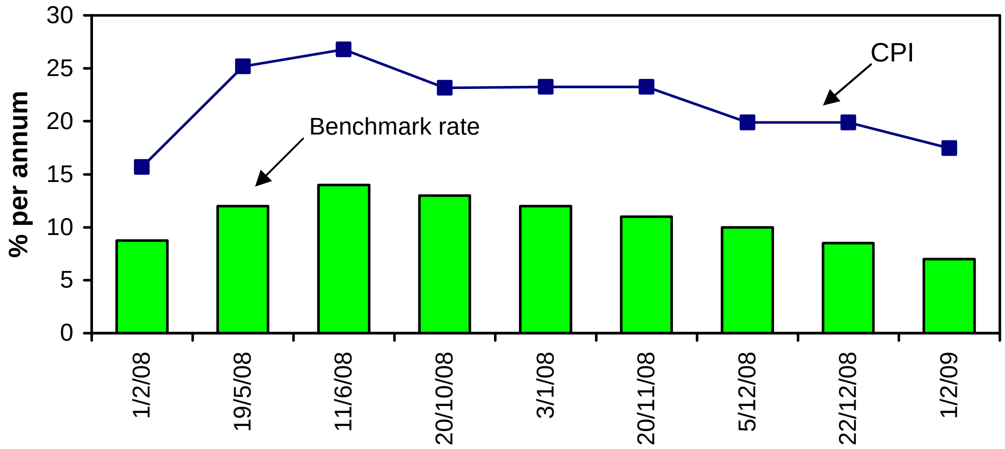
19 Resolution No. 30/2008/NQ-CP dated December 11, 2008

2.7 On fiscal policy, the government announced several measures to support SMEs in Vietnam. For example, SMEs[20] may benefit from (i) 30% Corporate Income Tax (CIT) payable deduction; (ii) an extension of up to 9 months for the deadline of submission of the tax payables of 2009; and (iii) a temporary refund of 90% input Value Added Tax (VAT) for exported goods without justifiable payment documents.

2.8 On monetary policy, since July 2008, Vietnam has gradually eased its monetary policy. From October 21, 2008 to January 23, 2009, SBV cut its benchmark interest rate six times from 14% to 7% per annum[21] **(Figure 4)**. The refinancing rate and discount rates were reduced to 8% and 6% per annum respectively. The reserve requirement level was also lowered by 1 percentage point for VND and 2 percentage points for foreign currencies. In addition, the exchange rate trading band of USD/VND has also been widened from ±2% to ±3% since November 7, 2008 to better reflect the changes in the supply and demand for foreign currencies.

FIGURE 4 CHANGES IN VIETNAM'S BENCHMARK INTEREST RATE

(Monthly, year-on-year)



Source: The State Bank of Vietnam

[20] The current regulations (Article 3 of Decree 90/2001/NĐ-CP dated November 23, 2001) provided the criteria of a SME including: (i) Either the registered capital is not more than VND10 billion (approximately US$600,000); (ii) Or the annual average number of employees is not more than 300 persons.

[21] The reduction has been applied from February 1, 2009.

2.9 On social security policy, the Vietnamese government decided to launch an unemployment insurance scheme with effect from January 1, 2009.[22] Accordingly, Vietnamese workers who signed contracts of at least one year with foreign, government or individual companies will be eligible for unemployment insurance, accounting for 60 percent of the average salary of the employee.[23] Additionally, on February 24, 2009, the Vietnamese government decided to provide interest-free loans to enterprises for paying salaries, social insurances and unemployment subsidies for their workers[24]. In particular, workers can ask the local governments[25] to pay their remaining salaries in case their companies go bankrupt and cannot pay their salaries in full. These measures are part of the government's efforts to deal with increasing unemployment in Vietnam due to the global crisis.

2.10 In addition to the abovementioned measures, in December 2008, the Vietnamese government has announced a **fiscal stimulus package** to compensate for the effects of the global economic recession. The total value of the stimulus package is about US$6 billion (VND 100 trillion),[26] accounting for 6.8% of the GDP. The package aims to revive the slowing economy by promoting consumption and investment including tax cuts and interest rate assistance for business, infrastructure, housing, schools and hospitals. Compared to other countries, the stimulus package of Vietnam is smaller in

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[22] *Decree No. 127/2008/ND-CP* on December 12, 2008, as effective from January 1, 2009

[23] Employees receiving unemployment insurance must satisfy 3 criteria: (i) paid unemployment insurance premiums for at least 12 months; (ii) registered with local relevant authorities their unemployment status; and (iii) failed to get a new job within 15 days of registering their unemployment status *(Decree No. 127/2008/NĐ-CP dated December 12, 2008).*Both employees and employers will contribute 1 percent of their monthly salary to a fund for unemployment insurance, and the state will do the same from the state budget.

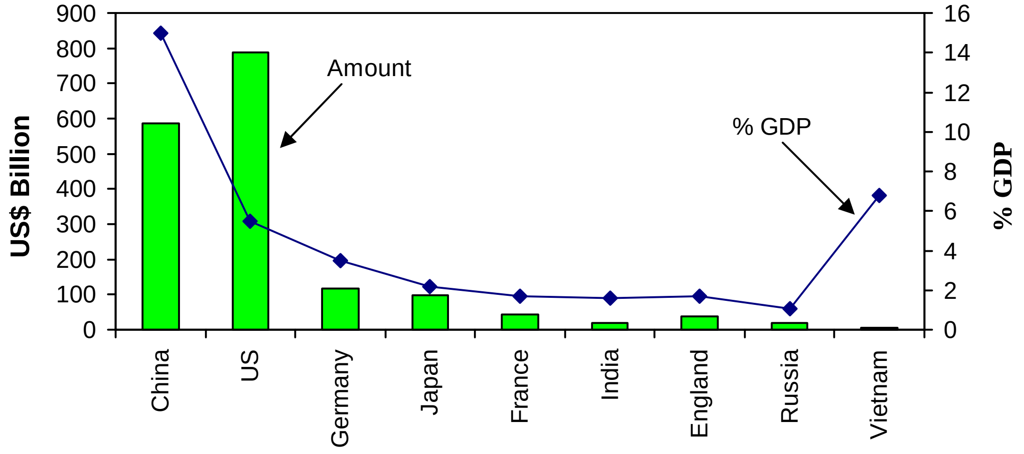
[24] Decision No 30/2009/QĐ-TTg dated February 24, 2009, promulgated by the Prime Minister. According to the Decision, enterprises eligible for loans include those that have to cut at least 30% of their workforce, as well as those who have to lay off 100 employees or more, due to financial difficulties. Companies owing employees their salaries can borrow an equal amount. The loans will be made by the Vietnam Bank for Investment and Development with a maximum duration of 12 months.

[25] In this case, local governments can use their local budget to pay salaries to the workers in bankrupt companies.

[26] According to the Ministry of Planning and Investment of Vietnam, the VND 100-trillion stimulus package will be mobilized from different funds: VND 17 trillion from National Reserve Fund, VND 22 trillion from budget of previous year, VND 30 trillion from international debt guarantee, VND 20 trillion from issuing government bonds, and 11 from other resources.

amount. However, it is bigger than most others (except for China) relative to the economy with a ratio of 6.8% of GDP **(Figure 5).**

FIGURE 5 FISCAL STIMULUS PACKAGES OF DIFFERENT COUNTRIES



Source: Economist Intelligence Unit

2.11 On January 23, 2009, the Vietnamese Government decided to use US$1 billion (VND 17 trillion) to subsidize loans' interest rates to boost the economy[27] as the first phase of the stimulus package. *Decision No. 131/QD-TTg*, (dated January 23, 2009) was issued by the Prime Minister to provide interest-rate subsidies. Under the *Decision*, short-term loan contracts with maximum duration of 8 months and signed and disbursed from February 1, 2009 to December 31, 2009 will get interest rate assistance of 4% per annum.[28] With the VND 17-trillion subsidy, Vietnam can inject VND 600 trillion (US$35 billion) into the economy within a year.[29] The package, which focuses on investment stimulus, is to ease the firms' difficulties, create new jobs and increase domestic consumption.

[27] This policy is part of the government's stimulus package in Resolution No. 30/2008/NQ-CP dated December 11, 2008 and Resolution No. 01/NQ-CP dated January 9, 2009.

[28] The interest-rate assistance is offered to firms in business and manufacturing sectors, and not to companies in services, education, social, health, cultural and financial sectors.

[29] The Vietnam Bank for Investment and Development, Asia Commercial Bank, Vietinbank, Sacombank, VIB Bank and Techcombank announced in early February, 2009 that they would allocate a combined amount of about US $17.6 billion as loans to firms under the program.

2.12 In theory, a government can use both monetary and fiscal policies to stimulate its economy. However, depending on the macroeconomic situations, the policy responses are different among countries. As shown in **Table 1**, countries differ in their fiscal balance. China ran a small fiscal surplus in 2008 and Thailand experienced a small fiscal deficit, while Malaysia and Vietnam suffered from large fiscal deficits. This means that while China has much room to boost their expenditure to stimulate domestic consumption, others (Vietnam, Malaysia and Thailand) should be very careful to do so. This may be the reason why Thailand only uses a stimulus package of 3.5% of GDP and Malaysia uses an even smaller package of 1% of GDP.

TABLE 1 A COMPARISON OF VIETNAM'S MACROECONOMIC INDICATORS WITH OTHER COUNTRIES

Indicators	China	Malaysia	Thailand	Vietnam
GDP growth 2008 (%)	9%	5.1%	3.4%	6.2%
Stimulus package (US$ billion)	586	1.9	8.7	6
Stimulus package (% GDP)	15%	1%	3.5%	6.8%
Budget Balance 2008 (% GDP)	0.2%	-5.4%	-1.4%	-4.5%
Current Account Balance 2008 (% GDP)	10.5%	10.6%	-1%	-13.7%
Foreign exchange reserves* (End of 2008) (US$ billion)	1950	91	111	23

Source: Economist Intelligence Unit
*: Various compilations by the author

2.13 In Vietnam, budget expenditure averaged at 32% of GDP in recent years. The high budget expenditure and low efficiency resulted in a large fiscal deficit of 4.5% of GDP in 2008. With high levels of fiscal deficit, trade deficit and inflation, and decreasing oil revenue, the room for maneuvering aggregate demand in Vietnam is likely to be limited. Therefore, Vietnam should be very careful if it uses a stimulus package of 6.8% of GDP as a policy response to the on-going global economic turmoil.

Effectiveness of the Policies

3.1 The International Monetary Fund (IMF) has forecasted that the world economy is facing a deep downturn in 2009. Global economic growth is projected to fall to 0.5% in 2009, the lowest rate since World War II. Growth in advanced economies is forecasted to contract by 2% in 2009 while emerging and developing economies' growth is expected to slow sharply to 3.3% in 2009. However, with efforts to ease credit strains as well as expansionary fiscal and monetary policies, the global economy is expected to experience a gradual recovery in 2010, with growth picking up to hit 3% **(Table 2).**

TABLE 2 WORLD GDP GROWTH AND FORECAST, 2007-2010 (% YEAR-ON-YEAR)

	2007	2008	2009*
World output	**5.2**	**3.4**	**-1 to -0.5**
Advanced economies	2.7	1.0	-3.5 to -3.0
United States	2.0	1.1	-2.6
Euro area	2.6	1.0	-3.2
Japan	2.4	-0.3	-5.8
Emerging and developing economies	8.3	6.3	1.5 to 2.5
China	13.0	9.0	6.7
India	9.3	7.3	5.1
Vietnam	**8.5**	**6.2**	**4.75**

Source: IMF, *World Economic Outlook Database,* March 18, 2009. (*:IMF Estimates)

3.2 Most international organizations forecast that Vietnam's economy will meet more difficulties in 2009-2010. The Vietnamese government has recently reduced its forecast of economic growth from 6.5% to 5% in 2009. Estimates by IMF, the World Bank and ADB have also been adjusted downwards.[30] **(Table 3)**

[30] As shown in Table 3, for 2008, among international organizations, IMF has forecast Vietnam's economy to hit GDP growth of 6.25% (almost the same as actual GDP of Vietnam of 6.23% in 2008) most accurately. Therefore, IMF's data are used to forecast Vietnam's economy in 2009.

3.3 The latest forecast of IMF (March 17, 2009) shows that Vietnam's economic growth will drop to 4.75% in 2009 as the government grapples with challenges including a large twin deficit and weakening banking and corporate sectors. Slower economic activity may heighten vulnerabilities in enterprises and the banking system in 2009. With commodity prices falling, inflation is expected to drop to single digit by the end of 2009. The government's budget deficit will widen in 2009 as it pushes through a large fiscal stimulus package. The current account deficit is projected to decline, with a decline in imports offsetting lower exports and private remittances, but the current account deficit will remain large (8% of GDP) in 2009. These pressures could be exacerbated if worsening global financial conditions further reduced foreign direct investment and other capital inflows.

TABLE 3 VIETNAM'S CURRENT GDP GROWTH AND FORECAST

	2008	**2009**
Actual	**6.2%**	**n.a**
Government of Vietnam	6.7%	5%*
International Organizations		
IMF	6.25%	4.75%*
World Bank	6.5%	5.5%*
Asian Development Bank	6.3%	4.5%*
Others		
BMI	6.0%	2.9%*
Citigroup	6.3%	5.2%
Deutsche Bank	6.1%	4.1%

Source: http://www.fetp.edu.vn, WB, IMF
*: Updated by March 31, 2009

3.4 Under these pressures, more problems lay ahead. First, the government will face a serious test of its capacity to manage the economy in the global downturn. Second, enterprises must try to survive the global economic turmoil by exploring untapped areas in both domestic and external markets, providing benefits to workers, and reducing production costs. Third, there are huge uncertainties in jobs and income, which lead to lower consumer confidence. Consequently, domestic demand will weaken.

3.5 Effectiveness of the policies is thus very important for Vietnam. On fiscal policy, the Vietnamese government should focus on controlling public investment and improving its efficiency. Public investment priorities should be reassessed, which means concentrating on projects that are crucial for growth and job creation. The management of public investment should be improved to ensure transparency, accountability and high efficiency. The fiscal deficit can thus be reduced giving Vietnam more space for fiscal stimulus and ensuring the effectiveness of its fiscal stimulus package.

3.6 On monetary policy, Vietnam should not lose control over credit and money supply growth as it is carrying out a loose monetary policy. Although inflation has slowed down, it has not been eliminated totally. Rapid credit growth will simply accelerate price inflation and draw in imports that Vietnam cannot finance at the moment. It is also likely to lead to asset bubbles rather than sustainable growth. Besides, the exchange rate policy should be made more flexible by widening trading band for the USD/VND exchange rate. It will help to depreciate the VND gradually and boost Vietnamese exports, thus narrowing the trade deficit.

3.7 On social security policy, the government would do well to provide more support for those most vulnerable in the global economic downturn. More measures need to be carried out to reduce unemployment, support retrenched workers, and provide subsidies for the poor in rural areas. The fiscal stimulus package should include measures dealing with social issues.

3.8 Vietnam's capacity to ride out this period of global economic turbulence depends crucially on its ability to bring back growth, though maintaining long-term macroeconomic stability is a challenge. Thus, restoring macroeconomic stability must be the primary concern of the government. Macroeconomic stability is important for Vietnam to restore consumer and investor confidence, and to stimulate consumption, especially when its US $1 billion package focuses on investment stimulus. Looking to the future, the recovery is also likely to be led by export growth once the global economic demand resumes.