



# International Journal of Multidisciplinary Research and Growth Evaluation



International Journal of Multidisciplinary Research and Growth Evaluation

ISSN: 2582-7138

Received: 01-06-2021; Accepted: 16-06-2021

www.allmultidisciplinaryjournal.com

Volume 2; Issue 4; July-August 2021; Page No. 367-370

## Assessing the role and contribution of the Fiscal policy - Monetary policy combination in macroeconomic management: the case of Vietnam (2010 – 2020)

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### Abstract

In the period from 2011 to 2020, despite the complicated and unpredictable fluctuations of the world economic situation, especially the Covid 19 pandemic from December 2019 has become increasingly unpredictable and dangerous so far. However, Vietnam's economy has succeeded in overcoming instability and recovering GDP growth rate. Contributing to this result must be mentioned the role of fiscal policy and

monetary policy, in which the coordination between the two policies is increasingly focused and achieved more effectively. The study uses qualitative method and multivariable linear regression (MLR) to clarify the role of monetary policy and monetary policy in macroeconomic management.

**Keywords:** fiscal policy, monetary policy, macroeconomic management, Vietnam

### 1. Introduction

The financial crisis of 2007-2008 collapsed the economies of 24 countries around the world, including 18 developed economies. After the world economic crisis, the recovery was slower than expected, and public debt was serious in most countries. Facing this complicated situation, economies had applied many different policies to solve the situation, restoring, promoting and developing their economies. However, each policy has different effects, influences and results. In which, before 2009 it was estimated that more than 80% of economies could not control the economic growth target, until about 2019 according to statistics showing that nearly 60% of economies still had to accept the low economic growth rate. Vietnam country which due to the impact of the lack of foreign investment from the economies where were affected by the above crisis. Facing this difficult situation, a series of debates of financial specialists, economists, fiscal and monetary experts and the State Bank of Vietnam (SBV) had applied strong innovation and flexibility in the administration of Fiscal policy (FP) and monetary policy (MP). The result was to contribute significantly to removing and reversing difficulties caused by the crisis, gradually stabilizing the macro-economy, and gradually promoting and developing the economy. Thereby, it shows that the role of scientifically identifying, applying and flexing the FP and MP is the mission and task not only of the government, researchers, experts, financial policy makers, and monetary policy, but also the importance of the SVB. The object of this study is to clarify and deepen the role and contribution of the combination of FP and MP in macroeconomic management. The content of study has seven sections are Introduction is section 1, Literature review is section 2, Theoretical basis is section 3, section 4 will describe Methodology, section 5 is data source, section 6 is study results, and finally is discussion and conclusion in section 7.

### 2. Literature review

Monetary policy uncertainty affects the transmission of monetary policy shocks to long-run real and nominal yields. For a given monetary policy shock, the yield response will be more pronounced when the degree of monetary policy uncertainty is low. The degree of uncertainty about the direction of monetary policy affects the mission of monetary policy's transition to medium and long-term interest rates. The response of 5 and 10 year nominal and real yields is more pronounced when monetary policy uncertainty is lower than when it is high (Michiel De Pooter, Giovanni Favara, Michele Modugno *et al.*, 2021). An empirical study of the Japanese case. The macroeconomic effects of monetary policy; An adjusted monetary policy shock significantly reduces output and the inflation rate even below the effective lower bound. However, since short-term and long-term nominal interest rates are already close to zero, the magnitude of monetary policy shocks to macroeconomic variables is very modest (Ryoya Nagao, Yoshihiro Kondo, Yoshiyuki Nakazono, 2021). An increase in monetary policy uncertainty has a significant negative impact on bank leverage ratios in China, especially after quarter 4 2008. (Buben Fu, Daqing Luo, 2021). A corrective monetary policy shock results in an appreciation of the exchange rate during both conventional and extraordinary monetary

policy periods in the United States. During the period 2008–2012, when unconventional monetary policy was implemented, monetary policy shocks produced a larger negative impact on the exchange rate than in other periods. The maximum exchange rate appreciation occurs within 3–4 months in most of the time (Yang Yang, Jiqiang Zhang, 2021) [4]. "Monetary policy news shock" of the US is a shock that increases monetary policy expectations while keeping the policy rate unchanged, the impact of this shock on portfolio flows when the share of GDP is economically small overall but varies considerably across countries. The countries identified as the most affected also experienced greater capital inflows and outflows before and after the 2013 rampage, respectively. In addition, macroeconomic performance and external vulnerabilities have important body. However, financial openness does not seem to be related to the difference in capital flows over our sample period (Tatjana Dahlhaus, Garima Vasishtha, 2021) [5]. The relative ability of the inflation target and the target price level of monetary policy rules to mitigate inflation variability and business cycle volatility in a commodity exporting country to trade shocks. Supply and demand shocks to the global commodity market. The macroeconomic consequences of oil and non-petroleum commodities are different and affect the relative value of alternative monetary policy frameworks. Output arbitrage is available to central banks. When such shocks to trade conditions are common, price targeting is less than inflation targeting (Donald Coletti, René Lalonde, Paul Masson *et al.*, 2021) [6].

**3. Theoretical basis.**

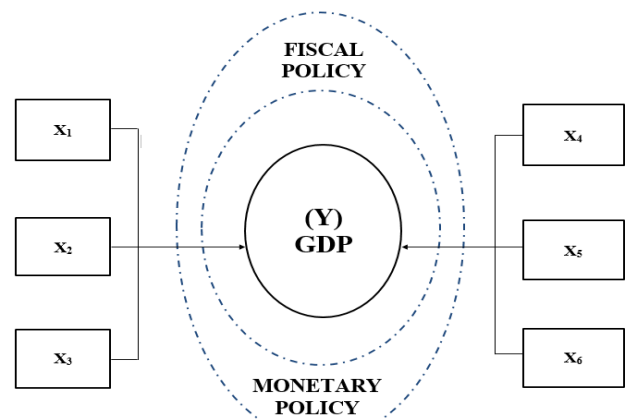
**3.1 Fiscal policy**

According to Tayyar Büyükbasaran, Cem Çebi, Erdal Yılmaz (2020) [7] that "Monetary and Fiscal policies are conducted by different public authorities which may have different objectives and concentrate on different aspects of providing macroeconomic stability, fiscal policy deals primarily with debt stabilization as well as output stabilization". As in study of Martin Larch, Eloïse Orseau, Wouter van der Wielen, (2021) [8] stated that "Rather than stabilising aggregate demand, discretionary fiscal policy tends to amplify cyclical fluctuations of output". Bingxin Wu (2021) supposed that "Fiscal policy has four elements: tax policy, the profits of state-owned enterprises, other revenues, and government expenditure policies. The state influences the level of the national output primarily by controlling tax revenue and expenditures, but the methods for doing each is different". As by Michael Melvin, Stefan Norrbin, in *International Money and Finance* (Ninth Edition) in 2017 presented "An expansionary fiscal policy caused by a tax cut or increased government spending will shift the IS curve to the right. Earlier it was shown that with fixed exchange rates, such a policy would result in a higher domestic income level. With flexible exchange rates, we will see that the story is much different".

**3.2 Monetary policy**

Monetary policy is the rational action of the money operator to change the quantity and availability or cost of money "interest" (G.K. Shaw). Monetary policy is the policy of the Central to control the money supply as a tool to achieve the objectives of the general economic policy (H.G. Johnson).

Monetary policy is the management of expanding or tightening the amount of money in circulation for the clear purpose to achieve the specific goals such as no unemployment (R.P. Kent). Monetary policy is defined as the arbitrary action taken by the operator to design the impact on the money supply, the cost of money (D.C. Rowan). Monetary policy as actions that affect the availability and cost of money and credit to achieve objectives selected by the National Assembly (US Federal Reserve). Monetary policy is the actions taken by the central bank using policy instruments to achieve policy objectives to get price stable (European Central Bank). National monetary policy is monetary decisions at the national level of competent state authorities, including goal decision to stabilize the value of money expressed by inflation indicators, deciding to use tools and measures to achieve the set goals (Law on State Bank of Vietnam, 2010).



**Fig 1**

**4. Methodology**

**4.1 Study model**

**4.2. Variables**

- X1: Official exchange rate (Vietnamese currency per US\$)
- X2: Deposit interest Rate (%)
- X3: Lending Interest Rate (%)
- X4: Real Interest Rate (%)
- X5: Interest rate spread (lending rate minus deposit rate, (%))
- X6: Inflation
- Y: GDP of Viet Nam

**4.3. Formula and Hypothesis.**

$Y = j_0 + j_1X_1 + j_2X_2 + j_3X_3 + j_4X_4 + j_5X_5 + j_6X_6 + u$   
 u is other factors such as institution, infrastructure, environment etc., that this paper does not analyze u.

$H_0: j_0 + j_1 + j_2 + j_3 + j_4 + j_5 + j_6 = 0$

$H_A: j_0 + j_1 + j_2 + j_3 + j_4 + j_5 + j_6 \neq 0$

$H_A > 0$ : X1, X2, X3, X4, X5, X6 impact on Y

$H_A < 0$ : X1, X2, X3, X4, X5, X6 do not impact on Y

Hypothesis:

- HX1: X1 impacts on Y.
- HX2: X2 impacts on Y.
- HX3: X3 impacts on Y.
- HX4: X4 impacts on Y.
- HX5: X5 impacts on Y.
- HX6: X6 impacts on Y.

**5. Data source**

Secondary data are from World Bank and the SBV.

6. Study results

Table 1: MLR results of relation between Y and X1, X2, X3, X4, X5, X6

Independent variables	R square (RS)	Adjusted R Square (ARS)	Significance F (SF)	Coefficients	Value of Coefficients (VC)	P-Value (PV)
X1, X2, X3, X4, X5, X6	0.968651823	0.737303645	0.002601429	j <sub>0</sub>	-3.0176E+11	0.08315289
				j <sub>1</sub>	24211849.41	0.00669706
				j <sub>2</sub>	-1.2066E+10	0.39704224
				j <sub>3</sub>	8581902185	0.5421261
				j <sub>4</sub>	-2823933200	0.59438451
				j <sub>5</sub>	0	#NUM!
				j <sub>6</sub>	-2377898190	#NUM!

RS = 0.968651823 (97%), ARS = 0.737303645 (74%),  $j_0 + j_1 + j_2 + j_3 + j_4 + j_5 + j_6 \neq 0$ , H<sub>0</sub> is rejected at the SF level is 0.002601429. it defines that the model built is suitable and strong statistical significance.

$j_1 = 24211849.41$ ,  $j_3 = 858190218$  which are  $> 0$ , the conclusion is X1 and X3 impact on Y

$j_2 = -1.2066E+10$ ,  $j_6 = -2377898190$  which are  $< 0$ , the conclusion is X2 and X6 do not impact on Y

$j_5 = 0$ , the conclusion is X5 do not impact on Y

7. Discussion and conclusion

**Fiscal Policy:** The SBV adjusted to support the investment, production and business such as continuing to lower the general corporate income tax rate to 20%. Exemption and reduction of use tax agricultural land to adjust a number of taxes in order to orient consumption and to exploit and use natural resources economically, reduce import tax rates to fulfill integration commitments. The average rate of mobilization and revenue into the state budget 2016-2018 reached 24.9% of GDP

**Monetary Policy:** Continuing to manage cautiously and flexibly according to the evolution of the economy. The SBV controlled the total means of payment and credit at a reasonable level, ensuring stable inflation, creating room for the Government to adjust the prices of state-managed goods. In which, interest rates are managed in line with macroeconomic developments, creating conditions for credit institutions to maintain a stable interest rate level. Credit is managed in the direction of safe and effective credit expansion, focusing on production and business, both controlling inflation and supporting economic growth at a reasonable rate.

The Co-ordination between Monetary policy and monetary policy

The first: Monetary policy maintains stable exchange rates and interest rates, thereby facilitating public debt management and government bond issuance; at the same time, restructuring credit institutions is not based on resources from the state budget, helping to reduce pressure on the state budget.

The second: The restructuring of the state budget is promoted towards fiscal sustainability. Thereby contributing to limiting pressure on interest rates and maintaining macroeconomic stability. The state budget deficit tends to decrease, the structure of budget revenue and expenditure changes towards a more sustainable direction.

The third: the coordination in the operation of the monetary policy and monetary policy is also reflected in the issuance of government bonds

Recommendations

**Fiscal policy:** continue restructuring the state budget, gradually reducing the state budget deficit. Continue to restructure public debt and strictly manage the increase of public debt as well as public debt risks. Ensuring risks related to public debt, government debt and national external debt and other risks related to public debt. Fiscal risk is managed and closely monitored.

**Monetary policy:** management should be flexible, closely following market movements, and persistent with the goal of stabilizing inflation; at the same time, promoting the restructuring of the credit institution system in association with bad debt settlement to help improve the efficiency of resource allocation in the economy towards sustainable development.

**Acknowledgement:** This research is funded by Van Lang University addressed 45 Nguyen Khac Nhu Street, Co Giang Ward, District 1, Hachiman City, Vietnam.

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