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Introduction

When following the efforts for stabilization in the contemporary world, we still notice failures in most cases. Here, the most spectacular cases are those of Argentina and Brazil which - in spite of several attempts - are still involved in very intense inflationary processes. Also, in many other countries, several rounds were needed to finally achieve some elements of success. And success should not be announced too early. An evaluation of effectiveness of stabilization programs also requires an analysis of costs borne by the economy in other sectors, on assumption - in most cases correct - that fighting inflation is the primary goal.

Apart from the cases of Yugoslavia and Poland where, as yet by no means sufficient evidence is available to judge the effectiveness of the adopted stabilization policies (although in the case of Yugoslavia the direct effects measured by inflation rate reduction as well as by the scale of the accompanying social costs in the shape of recession and reduction in real incomes after four months of 1990 are evidently better in comparison with Poland), in five cases only - namely in Bolivia, Chile, Israel, Mexico and Viet Nam - a relative success of the stabilization policy can be recognized. Each of these cases is different but all of them have some common elements which result both from the nature of inflation as such (see Kołodko, 1987) and from the essence of stabilization processes (Inflation, 1989). Chile is being quoted as an example of the most costly therapy. The sharpest shock therapy was applied in Bolivia. Israel's case is considered to be the most successful one of the achieved at the lowest cost. And, if external financing sources and the recession scale are left out of account, Mexico should be mentioned. Whereas Viet Nam's experience is the least known. Yet it is interesting enough to deserve special attention. There are several reasons for it.

First, the Vietnamese stabilization can be evaluated as successfully implemented, since the country has managed to reduce the inflation rate from about 400 percent yearly in the course of the three preceding years to about 2-3 percent monthly for a year already, and that in avoiding recession, this being a unique achievement.

Second, the Vietnamese stabilization is being implemented in the environment of an

economy with dominating state and cooperative ownership, hence it is, in a certain sense, even more comparable to the Polish economy (in spite of the very low development level) than that of other countries of approximately the same development level (e.g. Argentina) but with substantially different institutional and structural environment.

Thirds, the stabilization policy in Vietnam must be perceived against a broader background of institutional transformations (systemic reforms) and structural changes, since all these phenomena and processes are coupled by a feed-back relation.

Fourth, as opposed to the Latin American and Israeli stabilizations (and, to a large extent, Yugoslav stabilization too), in Poland's and Viet Nam's cases only (and this will soon regard Nicaragua and some other socialist or post-socialist countries) the stabilization policy has, at the same time, to solve two fundamental problems: on the one hand, a repressed inflation along with the accompanying shortages must be eliminated (in Viet Nam, this goal has been achieved with great success) and, on the other hand, inflation has to be reduced to a controlled low level.

Fifth, what is extremely important in the light of some theoretical propositions and political declarations, Viet Nam's case assumes special importance in the debate on shock therapy (so-called "cold turkey") (cf. Gordon, 1990, p.322-355) versus graduality. Viet Nam's case testifies it is not absolutely true that the shock therapy of the "all-or-nothing" or "now-or-never" type can be the only effective one. What's more - and this results from this study - under certain circumstances it is possible and reasonable to combine the shock approach in some sectors with graduality in others.

The Vietnamese experience - extremely interesting in itself - permits also to draw many conclusions of theoretical character as well as some recommendations for economic policies. Moreover, we think that many practical conclusions may be drawn for Poland and some other countries. The attempt to look at the recent Vietnamese inflation and stabilization from the above point of view has imposed the method adopted by the authors of this study for the analysis and presentation of its results.

In the first chapter of the paper, institutional, structural and political sources of inflationary processes and their development in the 80ties are discussed.

In the second chapter, basic assumption, instruments and objectives as well the implementation of the stabilization program being carried out with particular acceleration since March 1989 are characterized. Here, in the first place, we consider one after another the key problems of: 1) budgetary policy; 2) monetary policy; 3) policy with respect to gold; 4) exchange rate policy; 5) prices; and 6) wages.

The third chapter contains an analysis and evaluation of the stabilization program effects on the real sphere (material production, employment and unemployment, household consumption, external trade). In its concluding part, official forecasts for 1990 are also

presented.

In the fourth chapter, an evaluation of the program - both from the point of view of the correctness of its theoretical assumptions in respect to sensitive elements of its structure and to the correctness of specific solutions accompanying its implementation - is presented.

Finally, the fifth - and the last - chapter contains some comparative elements, especially conclusions for the Polish economy, and more exactly, for the further implementation of the Polish stabilization program. Because there is no doubt that the Vietnamese stabilization, in general, deserves a positive evaluation. This fact is the more noteworthy as the stabilization is carried out without support by international financial institutions. So, we think it may be well to study this program carefully and to draw from it conclusions which will be presented in this paper.

1. BACKGROUND AND PROGRESS OF INFLATION IN THE EIGHTIES

The causes of inflation in Vietnam are of multilayer nature. They result, among others, from the structural features of one of the world's poorest economies (national per-capita income was about USD 130 in 1988). It is characterized by the dominant share of agriculture in both production and employment (about 50 percent of the national income and over 70 percent of the workforce) and relatively little significant share of the industry (about 30 percent of the national income and 20 percent of the workforce)^v. Both the agriculture and industry show underdevelopment symptoms typical of these sectors in countries on a very low economic development level. They are, to a large extent, under-invested just like the country's general infrastructure.

Limited potential possibilities on the supply side, with a relatively high birth-rate and the country's involvement in a war lasting for nearly 30 years, imposed narrow limits on the dynamics of the domestic demand compatible with the maintenance of economic equilibrium without a considerable external financial aid. Such aid which, up to 1975, was given largely in the shape of not repayable grants (amounting - for both parts of Viet Nam - to about USD 2 billion yearly) and the utilization of reserves stemming from these grants permitted, still in the 1975-1981 period, partially to close the gap between the domestic supply and demand.

The relatively low effectiveness of the utilization of the external aid over a long period was caused by the Vietnamese economic management methods fraught with many negative features typical of the central planning system and not differing from analogous features in other countries with a similar system, while sometimes assuming extreme forms due to the

^v Somewhat more than a half of the industrial production comes from state enterprises; their share in creating the national income makes about 18 percent and their share in total employment - about 10 percent.

exceptional poverty of the Vietnamese economy and population.

From among the above-mentioned features, the following ones are to be pointed out: relatively high investments in heavy industry at the expense of consumer goods production; lack of market mechanisms and the use of centrally planned command and distribution system resulting in distorted overall price relations including the exchange and interest rates; discrimination of the non-state-owned sector; and, finally, a widely developed, inherent in the system in question, redistributive role of the state budget with a relatively broad extent of price subventions, subsidies to enterprises and corrective accounts (subventions and surcharges) in external trade.

This, by assumption, broad redistributive role of the budgetary policy in the Vietnamese economy hit a barrier in the shape of a huge gap between the high level of expenditure to be financed from the state budget and relatively low budgetary revenues, the latter being highly insusceptible to growth. One of the basic factors contributing to the chronic character of the relatively very deep budget deficit was the weakness of the Vietnamese tax system.

The decidedly dominating share of receipts from profits of state enterprises in the state budget revenues, combined with a rather insignificant role of the state-owned industry sector measured by its share in national income creation, must by its very nature limit the potential sources of budget revenues. Possibilities to mobilize revenues from the remaining economy sectors seem to be very limited. The scale of social poverty has not, as yet, permitted - like in other countries on a similar development level - a regular taxation of incomes of physical persons and in the turnover sphere there have been no appropriate institutional and organizational structures to secure a certain minimum effectiveness of consumption taxes. And a deep under-development of external trade (measured by the share of the external trade in the domestic product or national income) also did not create advantageous conditions for augmenting the revenues from specific kinds of turnover taxes, a solution to which countries on little advanced economic development level had often resorted.

Hence, the chronic and deep state budget deficit seems to be the most characteristic feature of the Vietnamese inflation. The importance of this deficit for both the character and the progress of inflationary processes is to be evaluated from the point of view of the causes of inflationary phenomena as well as their effects especially in the late eighties.

The basic source for financing the budget deficit consisted - apart from foreign loans - in non-interest-bearing loans from the central bank. In the eighties, the share of these loans in the financing of the state budget was considerable and growing.

The budget deficit (especially in 1986, 1987, 1988) was being steadily deepened by increasing inflationary processes with cumulative effects (so-called Oliver-Tanzi effect) (Tanzi, 1977). A growing role in the state budget expenditure was played, beside subsidies and subventions, by the public sector wages. At the same time, beginning with 1985, a gradual

increase in current expenditure at the expense of declining share of investments in the total budget expenditure took place.

Successive price and wage adjustments undertaken by the government in 1981, 1985 and 1987 (in 1985, combined with money denomination in 1:10 scale) were linked to price rises which, in 1987 and 1988, were accompanied by an almost twofold increase in subventions (measured by their share in budget expenditure).

Simultaneously, beginning with 1981, processes typical of other centrally planned economies in the course of reform, namely: severe shortages combined with open inflation (co-called "shortageflation") made appearance.

The practically unlimited financing of state budget deficits by "empty" money emission constituted an element of passive monetary policy, typical of countries with centrally planned, command-system economy as well as of those with some modified variants of this system. Money emission to cover the ever growing part of expenditure excess over budget revenues brought about a decline in the purchasing power of money and, in consequence, a growing lack of confidence in the domestic currency². This decline was accompanied by a dynamic development of illegal transactions in which an important role was played by the US dollar with its black-market value considerably (fivefold) exceeding the value resulting from official exchange rates. At the same time, the US dollar and gold constituted the decidedly dominating form of savings accounts.

In spite of lack of formal indexation mechanisms, the black-market dollar exchange rate and the price of gold played, through their linkage to price level in illegal transactions, the role of the reference point in shaping the key nominal incomes and prices in many transactions, thereby contributing to the intensification of inflationary pressures in the economy. Additional factors were: bad crops in the agriculture caused by adverse weather conditions in 1986-1987 and substantial decrease in external financial aid.

The inflation rate in Viet Nam in successive years was very differentiated, as shown in table 1 and figure

Respective monthly data for last three years (1988-1990) are presented in table 2 and figure 2.

² Money emission in 1988 was 175.6 times more than in 1980; the purchasing power of 1 dong in 1988 was 0.03 of that in 1976.

Inflation rate in Viet Nam in 1957 - 1989

Years	Retail price index in the state market (in percents)	Mean monthly increase rate (in percents)
Before reforms		
1957 - 1960	100.7	
1961 - 1965	102.5	
1966 - 1970	102.3	
1971 - 1975	100.7	
1976 - 1980	121.2	
Beginning with the introduction of reforms		
1981 - 1985	174.2	4.7
1986	587.2	15.9
1987	416.3	12.6
1988	408.0	12.4
I - 1989	107.4	
II - 1989	109.2	1989 5.8
III - 1989	105.5	
IV - 1989	102.7	

Source: Choang Kong: Process inflacii i borba protiv inflacii vo Vietname, (a study of the Institute of Finance, Hanoi 1989 typescript, p.2)

2. STABILIZATION PROGRAM

Although mid-March 1989 is considered to have been the starting point of the essential part of the stabilization program, it's preliminary stage lasted since the latter half of 1988 and even dated back from as far as the beginning of 1987 i.e. from the formulation and the start of gradual implementation of solutions aimed at a comprehensive reform of the economy management (changes in the price system, more autonomy for state enterprises, changes in investment directions and extension of the scope of private sector activities). However, mid-1988 constituted the turning point as far as the adoption of a package of decisive anti-inflationary measures was concerned. At that time, among others, market prices for state purchases of agricultural products were introduced and a two-tier banking system was established. Since October, measures aiming at unification of the exchange rate in relation to convertible currencies were introduced.

Table 2

Monthly growth indices of retail prices of consumer goods and services (in percents)

Year		MONTHS												Average price rise index in the given year	Lag effects from the preceding year	Mean yearly price index in percents
		I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII			
1988	prec. month = 100	118.3	114.0	128.4	123.8	127.6	116.8	109.6	107.5	106.5	108.3	108.3	105.3			
	XII.87 = 100	118.3	134.9	173.2	214.4	273.5	319.5	350.2	376.4	400.9	433.0	468.9	493.8	313.1	130.3	408.0
1989	prec. month = 100	107.4	109.2	105.4	103.5	99.8	97.1	98.5	100.2	101.6	102.5	102.6	103.0			
	XII.88 = 100	107.4	117.3	123.6	127.9	127.7	124.0	122.1	122.4	124.3	127.4	130.7	134.7	124.1	157.7	195.8
	corresp. month = 100	448.3	429.4	352.5	294.7	230.5	191.6	172.2	160.5	153.1	145.3	137.7	134.7			
1990	prec. month = 100	102.9	103.8	103.1	102.0	102.0	102.0	102.0	102.0	102.0	102.0	102.0	102.0			
	XII.89 = 100	102.9	106.8	110.1	112.3	114.6	116.9	119.2	121.6	124.0	126.5	129.0	131.6	118.0	108.5	128.0
	corresp. month = 100	129.0	122.6	120.0	118.2	120.8	126.9	131.4	133.8	134.3	133.7	132.9	131.6			

Source: Data of the Ministry of Finance Viet Nam

Figure 1

Mean yearly price rise rate in 1981 - 1990

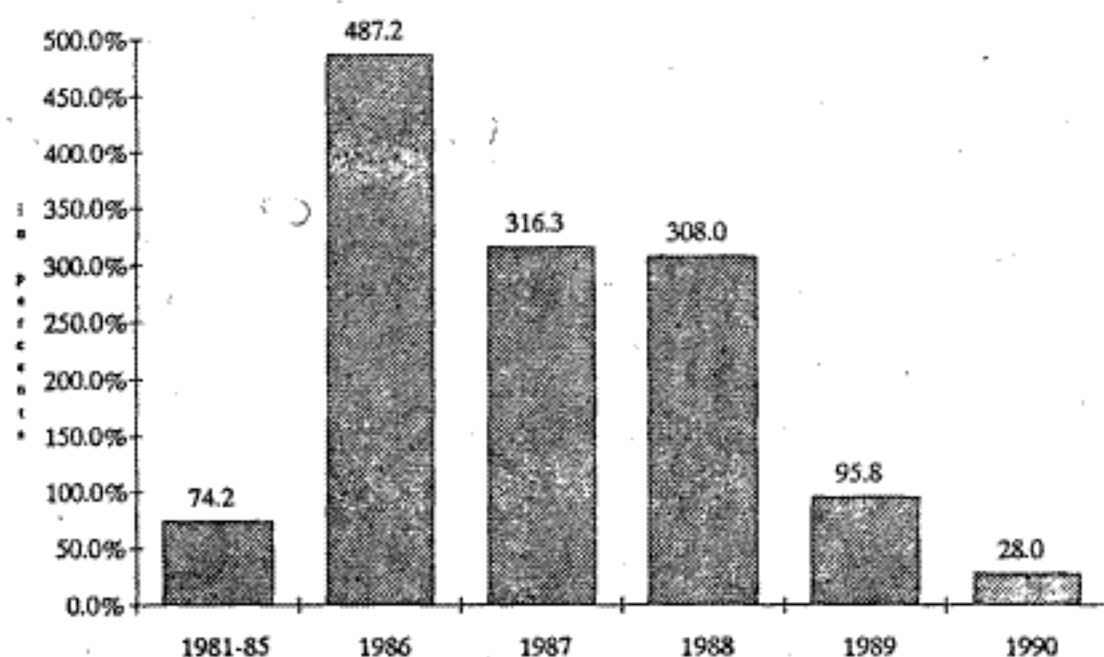
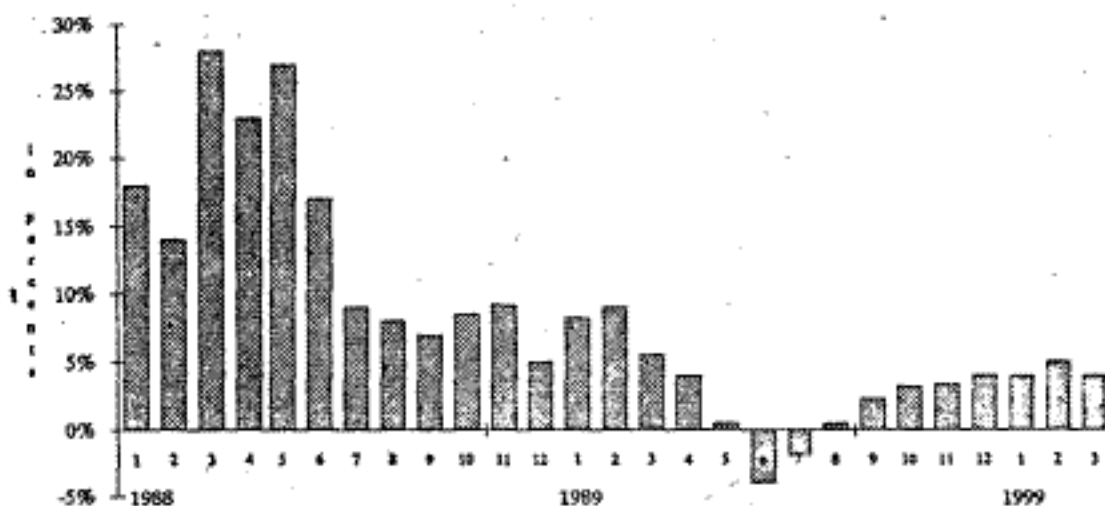


Figure 2

Monthly inflation rates
in the period from I.1988 till III.1990

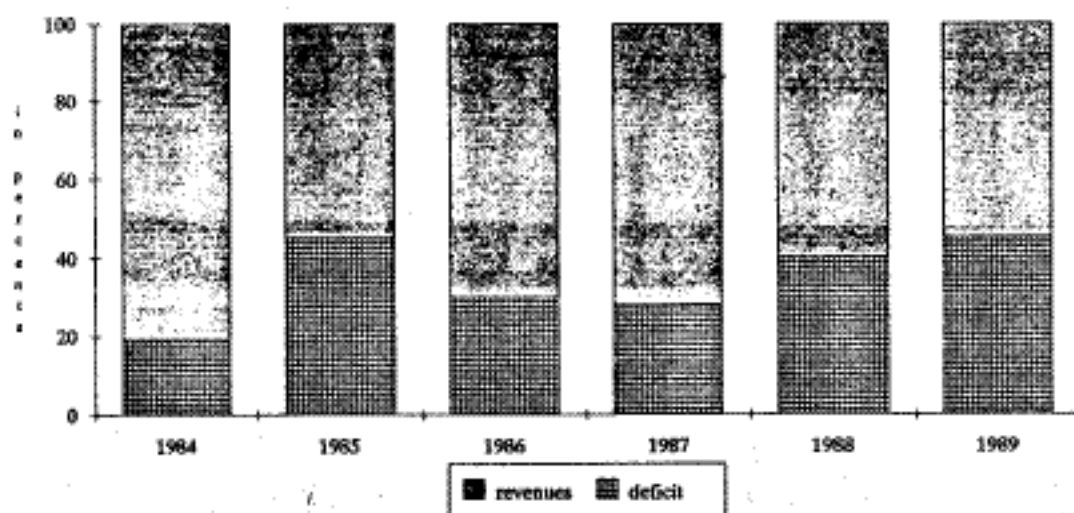
In september 1988, the State Council for Financial and Monetary Policy was set up as a consultative body for anti-inflationary purposes. Representatives of the Ministry of Finance, State Price Commission, State Planning Commission and Central Bank became the members of the Council and the Minister of Finance became it's chairman.

2.1. Budgetary policy

The core of the Vietnamese stabilization program did not consist in equilibrating the state budget nor even in a considerable reduction in the 1989 budget deficit³. The former solution had to be excluded in the light of the budget condition characterized in the preceding section. The latter seems to have been potentially feasible, although the solutions chosen at that time would have to consist in a dramatic reduction in budget expenditure because of the above-mentioned limitations appearing for a relatively short time on the revenue side. Although some possibilities with this respect existed as a result of the abolishment of all kinds of subsidies and subventions which, in 1988, had made about 30 percent of the total budget expenditure and 37.6 percent of current expenditure (see fig.3)⁴. However, as shown by data on the 1989 state budget (see figure 4), savings resulting from the abolishment of subsidies and subventions were to a large extent used to increase the budget expenditure for investments (from 20.5 percent of total expenditure in 1988 to 24.2 percent of total expenditure inclusive of debt repayment - or to 26.9 percent of total expenditure exclusive of these repayment - in 1989).

Figure 3

Budget structure in 1984 - 1989



³ As opposed to typical stabilization programs; cf. Kiguel, Liviatan, 1988 p.284-291.

⁴ The discontinuance of rice price subsidies brought about a corresponding expenditure growth wages in the public sector which partly absorbed the savings obtained through reduction in subsidy expenditure.

Table 3

State budget revenues and expenditures in 1984 - 1989, in millions of dong

	1984		1985		1986		1987		1988		1989	
	XX		XX		XX		XX		XX	preliminary data	XX	
TOTAL REVENUE	9414	100.0	18956	100.0	83648	100.0	379279	100.0	1617000	100.0	3428000	...
of which:												
- from state sector	6812	72.4	14688	77.6	60389	72.2	284802	75.1	971000	60.0
- from private and cooperative sectors	2014	21.4	3057	16.1	18330	21.9	67672	17.8	455000	28.1
- remaining revenues	588	6.2	1191	6.3	4929	5.9	26805	7.1	191000	11.8
TOTAL EXPENDITURE (inclusive of debt repayment)	11545		34610		120800		514937		2710000		6203000	
- repayment of external debt	100		2255		1098		2107		2600		620000	
of which: TOTAL EXPENDITURE (exclusive of debt repayment)	11445	100.0	32355	100.0	119702	100.0	512830	100.0	2684000	100.0	5583000	100.0
of which:												
- investments	2675	23.4	10700	33.1	33410	27.9	116104	22.6	549000	20.5	1500000	26.9
- current expenditure	8770	76.6	21655	66.9	86292	72.1	396726	77.4	2135000	79.5	4083000	73.1
- subsidies	3402		6112		18211		150914		812000			
- subsidies as percentage of current expenditure		38.8		28.2		21.1		38.0		38.0		...
DEFICIT: - exclusive of debt repayment	-2051		-13419		-36054		-133551		-1067000		-2155000	
- inclusive of debt repayment	-2131		-15674		-37152		-135658		-1093000		-2775000	
exclusive of debt repayment - as percentage of total expenditure		17.6		38.8		29.8		25.9		39.4		34.7
- as percentage of GDP		4.5		14.6		6.5		5.8		10.8		...
inclusive of debt repayment - as percentage of total expenditure		18.5		45.3		30.8		26.3		40.3		44.7
- as percentage of GDP		4.7		17.1		6.7		5.9		11.1		...
Sources of deficit financing:	2131	100.0	15674	100.0	13152	100.0	135658	100.0	1093000	100.0	2775000	100.0
- foreign loans	1526	71.6	6364	40.6	14246	38.3	43487	32.1	356000	32.6	1120000	40.4
- domestic sources	605	28.4	9310	59.4	22906	61.7	92171	67.9	737000	67.4	1655000	59.6

Source: Data of the Ministry of Finance of Viet Nam

The state budget deficit measured by its relation in total expenditure was slightly reduced in 1989 in comparison with 1988 (by 1.7 percentage point) and amounted to 38.6 percent (see table 3). For the sake of comparability of the 1989 data to previous years' data, deficit exclusive of foreign debt repayment must be taken into account, because it was in 1989 that debt repayment expenses became a significant item for the first time. They amounted to 13.2 percent of current expenditure, while in previous years (of which also in 1988) they fluctuated around 1 percent level (see fig. 5)

At the same time a trend appeared in the budget deficit financing policy to rely more than in previous years on domestic credit (net increase in foreign credits amounted to D 500 billion and its share in the deficit financing was 23.2 percent, this being a substantial change from the point of view of long-term effects of this financing).

To sum up, three elements showed up in Viet Nam's state budget in 1989 which could be positively evaluated, though of different short- and long-term importance. They were:

- though small, nevertheless tangible reduction of the deficit measured by its ratio to total budget expenditure;
- a well-marked increase in investment expenditure at the expense of current expenditure;
- repayment of a portion of the foreign debt of the state budget.

A more complete evaluation of the state budget condition from the point of view of its impact on Viet Nam's economic stabilization requires an analysis of the monetary and credit policy.

2.2. Monetary policy

The monetary policy has played a fundamental role in the package of stabilization policy measures being implemented in Viet Nam since mid-March 1989. It is of strongly restrictive nature. This regards very high real interest rates as well as other means of money supply control having been alternatively used since mid-1988 already. In the transition period, the basic rule distinguishing the money policy in Viet Nam from similar policies in typical economic stabilization programs of other countries has been the use of a positive real interest rate on cash deposits of the households and a positive real interest rate on loans for enterprises, however the latter being lower than the interest rate paid to households. The interest rate policy is also characterized by a relatively very high flexibility finding expression in its frequent adjustments both to monthly inflation rate changes and to the changing behaviour of households and enterprises.

Only two categories of households' bank deposits are used: sight deposits and three-month time deposits. Interest rates are set on a month's scale and interests on time deposits

Figure 4

Structure of budget expenditures in 1984 - 1989

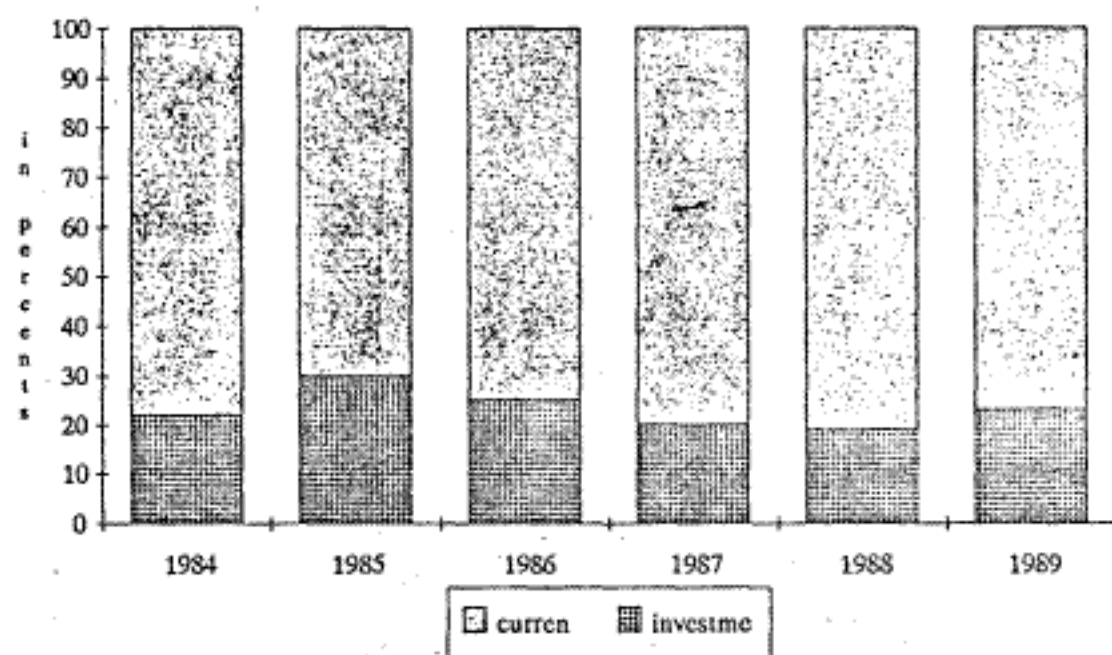
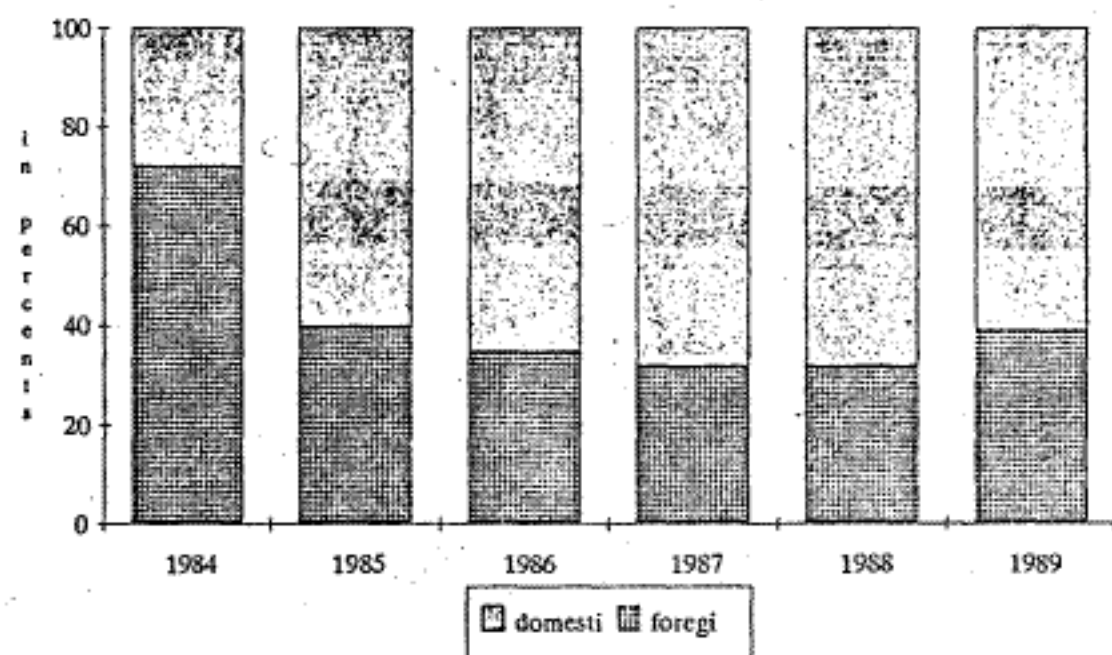


Figure 5

Structure of budget deficit financing in 1984 - 1989



are calculated by summing up the savings balance increments in successive months. Throughout the first year of the economic stabilization program, positive real interest rates were maintained on a relatively very high level.

The very high real interest rate on deposits has resulted in their huge inflow to savings banks.

The savings balance in these banks which, at the end of December 1988 amounted to about D 128 billion, augmented by about D 42 billion (up to D 170 billion) till March 15th 1989, and was almost doubled till April 30th 1989. The deposit dynamics remained very high throughout 1989 (the deposit increment during that year amounted to D 1,055 billion) and in the first quarter of 1990, with a steady trend towards well-marked change in the deposit structure in favour of time deposits. The development of the households' deposits in the period from March 1989 till March 21st 1990 is presented in table 5 as well as in figures 6 and 7.

Table 4

Interest rates on households' bank deposits

Period of interests rate validity	Interest rate level		Mean monthly inflation rate for the given period
	sight depos.	time depos.	
16.03 - 1.06.1989	9%	12%	2,4%
1.06 - 30.06.1989	7%	9%	-2,9%
1.07.1989 - 9.02.1990	5%	7%	1,7%
10.02 - 20.03.1990	4%	6%	3,1%
up to 20.03.1990	2,4%	4%	

Source: State Bank of Viet Nam

As underlined above, the most particular feature of the monetary policy in Viet Nam has been the use of a very high positive real interest rate on the households' bank deposits aimed at attracting money to savings banks. At the same time, a very high, though considerably lower than the former, interest rate on credits granted to enterprises has been used. The basic reason for adopting such a solution - by its very nature contrary to the philosophy of effective autonomous functioning of the banking system - lied in the clear intention to avoid blocking the economic activity by an excessive rise in credit cost (incapable of being absorbed at the given level of efficiency and given potential for its short-term increase).

Figure 6

Dynamics of households' deposits

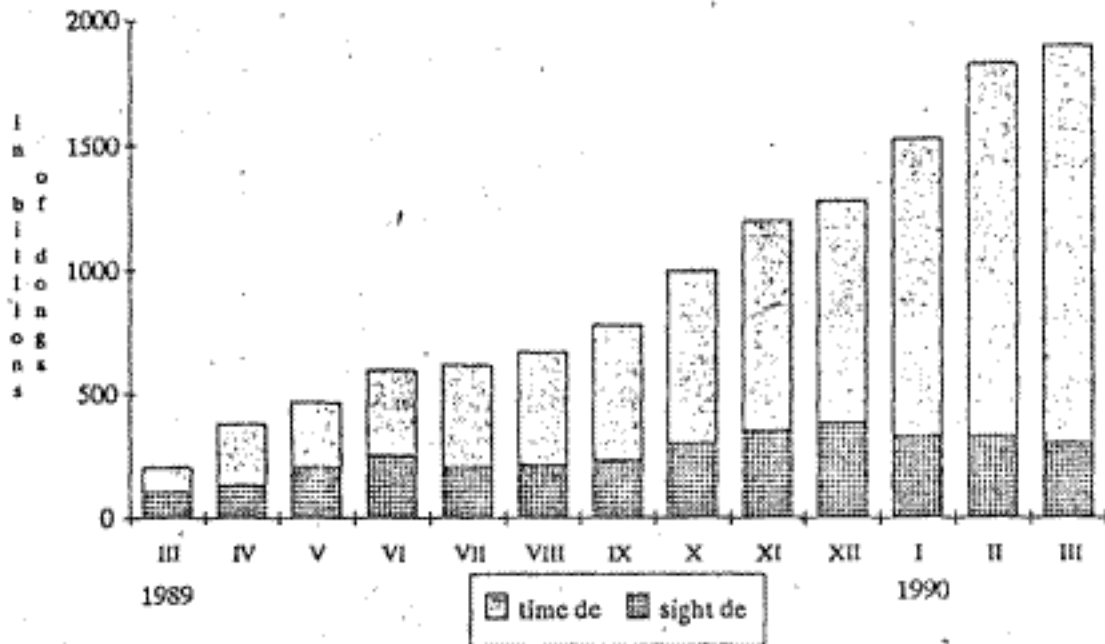


Figure 7

Structure of households' bank deposits

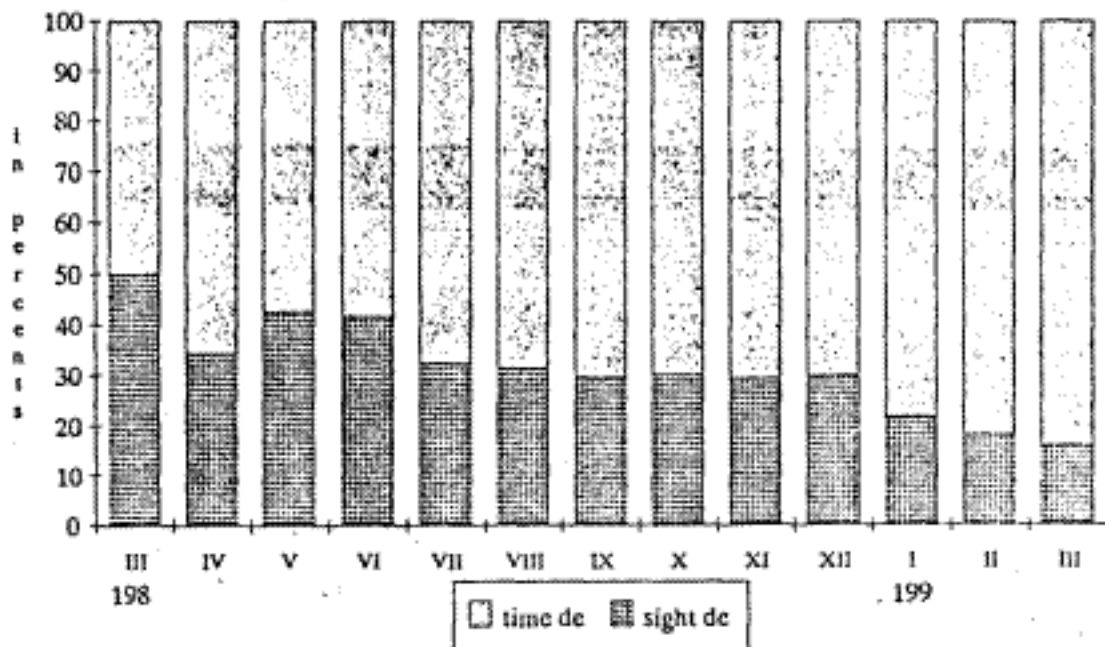


Table 5

Households' savings deposits

Month and year	Sight deposits			Time deposits			Total		
	in billions of dong	increment rate in relation to preceding month	share in total deposits (in percents)	in billions of dong	increment rate in relation to preceding month	share in total deposits (in percents)	in billions of dong	increment rate in relation to preceding month	real monthly increment rate
III 1989	95	...	54.0	81	...	46.0	176
IV	127	33.7	41.4	180	122.2	58.6	307	74.4	68.5
V	192	51.2	43.3	251	39.4	56.7	443	44.3	44.6
VI	236	22.9	42.2	323	28.7	57.8	559	26.2	30.0
VII	215	-8.9	37.9	352	9.0	62.1	567	1.4	3.0
VIII	223	3.7	34.5	423	20.2	65.5	646	13.9	13.7
IX	251	12.6	33.1	508	20.1	66.9	759	17.5	15.6
X	302	20.3	32.7	622	22.4	67.3	924	21.7	18.8
XI	329	8.9	30.8	738	18.6	69.2	1067	15.5	12.5
XII	335	1.8	28.3	848	14.9	71.7	1183	10.9	7.6
I 1990	300	-10.4	20.0	1200	41.5	80.0	1500	26.8	23.2
II	300	0.0	17.3	1430	19.2	82.7	1730	15.3	11.1
III	250	-16.7	13.2	1650	15.4	86.8	1900	9.8	6.5

Source: Data of the Ministry of Finance of Viet Nam. Authors' own calculations.

Value increment of a three-month time deposit of Dong 100
after one year (from March 16th 1989 till March 15th 1990)

	Deposit amount (in dong) (at the beginning of the period)	Interest (cumulated)	Real value increment
I. three-month period (16.03. - 15.06.1989)	100	34,5	28,7
II. three-month period (16.06. - 15.09.1989)	134,5	29,6	32,2
III. three-month period (16.09 - 15.12.1989)	164,1	34,5	25,2
IV. three-month period (16.12.1989 - 15.03.1990)	198,6	39,4	27,1
After one year	238,0	138,0	113,2

Source: Authors' own calculations.

From the point of view of its direct cost to the banking system, the consequence of such a policy has been a loss of profit from banking activity and the need for its subsidizing by the state budget.

According to estimates, the level of this subsidizing in 1989 amounted to about D 100 billions as far as development (investment) loans were concerned. In reality, this subsidizing level was higher, if lost state budget revenues from the otherwise possible profits of the banking sector were counted; however, a precondition of their obtention would have been an appropriate scale of lending activity.

The sources for covering the differences between interests paid on deposits and received on loans from the relatively low interest rate on sight-deposits of enterprises (which, practically, constituted the sole form of their deposits) as well as from non-interest-bearing current accounts of enterprises⁹. The basis for granting loans to enterprises has been, on the one hand, the banks' own capital, the current accounts of enterprises and their sight deposits and, on the other hand, the households' time deposits (85 percent) and sight deposits (15 percent), the ratio on these two parts of the lending basis being, as on March 22nd 1990, about 1:1.

The evaluation of the lending basis of the banking sector requires the additional information that a decidedly prevailing part of credits granted in 1989 were short-term current credits and the general criterion for setting the loan repayment date was the production cycle length of the given enterprise.

Although no direct control in the shape of fixed lending limits was formally used, the relatively high interest rates (see fig. 7) did not, in practice, constitute the only criterion of the enterprises' borrowing. Apart from the creditworthiness additionally taken into account by the banks in individual cases, there was another limiting factor, namely the required high liquidity of the banking sector regulated since mid-1989 by newly introduced instruments i.e. by rules on refinancing credits, obligatory minimum reserves and variably determined bank liquidity ratios.

The relative shortage of bank credits with interest rates determined by the central bank is testified by the fact that the enterprises frequently use credits in the shape of caution contracts between the bank director and the borrowing enterprise. For example, data for the Ho Chi Minh (Saigon) city and region show that, as a result of the lending rules adopted by the banks in this part of the country, two thirds of loans granted to enterprises are subject to interest rates set by central decisions, while one third - to contractual interest rates. In reality, the share of the latter has proved to be much higher. Moreover, there have been in the whole country cases of contracting much more expensive loans from cooperative banks and sometimes even directly from households.

⁹ Available data on interest rates on enterprises' deposits regard these interest rates for the period from 10.02.1990 till 20.03.1990 only. They amounted to: 1.2 percent on sight deposits and 2.4 percent on three-month deposits; and after March 20th 1990, they were set at 0.9 and 1.8 percent respectively.

Table 7

Interest rates on loans granted to enterprises

	1989			
	16.03 - 31.03	1.04 - 31.05	1.06 - 30.06	1.07 - 9.02.90
A. for preferential purposes				
investment	1.5% - 5.4%	5.95%	4.5%	3.3%
current	1.8% - 6.0%	6.0% - 6.1%	4.65% - 4.8%	3.51% - 3.57%
B. for ordinary purposes				
investment		6.18% - 6.33%	4.98% - 5.31%	3.63% - 3.87%
current		6.24% - 6.50%	5.1% - 5.5%	3.64% - 4.0%
C. outstanding loans				
investment	18%		8%	6%
current				
D. for special purposes				
investment	by 20% less in comparison with interest on ordinary loans	by 20% less in comparison with interest on ordinary loans	8%	2.1%
current				

Interest rates on loans granted to enterprises (continued)

	10.02 - 20.03.90	beginning with 20.03.90
Utilization purpose determined according to branch criterion	2.5% - 3.6%	depending on borrower groups (e.g. for production technology improvement - 1.8 percent; for food and agricultural product purchases - 2.0 percent; for mechanical industry - 2.4 percent; for industrial production (the remaining industry branches) - 2.7 percent; for commerce, exports and imports - 2.85 percent; for tourism and services - 3 percent. (currents credits: 2.1 - 3 percent) preferential credits for general building - 0.81 percent
outstanding	6%	5%

Source: Data of the State Bank of Viet Nam

Apart from the positive effects the solutions introducing lower interest rates on loans granted to enterprises exert from the point of view of enabling the latter a softer adjustment to difficult stabilization conditions, the importance of the adopted monetary policy for the macroeconomic relations can hardly be overestimated.

The dynamic increase in the households' deposits, in particular time deposits, has a very substantial significance for the evaluation of the stabilization program implementation in Viet Nam in 1989, since it has become one of the important sources for covering the credit emission by the domestic banking sector. Unfortunately, data on the development of money supply and its respective components both in the preceding period and since the start of the stabilization program is not available, so it is not possible to draw unequivocal conclusions as to the influence of the monetary policy changes on the considerable reduction in inflation rate. Therefore, conclusions must be limited to an attempt of formulating some hypotheses only.

The substantial increment in the household's bank deposits (by more than D 1 billion) in 1989 was accompanied by a certain increment in the enterprises' deposits in domestic currency as well of deposits of enterprises and households in US dollars. It results from the available data that the increment in the enterprises' deposits amounted to D 600 billion over the period from March 1989 till March 20th 1990. It is also known, that, in March 1990, the balance of deposits of both enterprises and households amounted to USD 350 million (whereof USD 320 million from enterprises and USD 30 million from private and foreign entities). This is, at the present official exchange rate of D 4,300 for one US dollar, equivalent to D 1,505 billion. A part of this balance corresponds, as may be supposed, to the increment in deposits during 1989.

On the other hand, the increment in loans from the domestic banking sector in 1989 amounted to D 1,400 billion for state-owned enterprises, cooperative and private sectors* jointly, along with an increase of D 1,655 billion in loans from the central bank to the state budget. Loans from the central bank to the state budget had a different weight since they brought about an increase in money supply, this not being indifferent with regard to inflationary processes.

On this occasion, two questions arise. First, why was at least a portion of the state budget deficit not financed with loans from commercial banks, since their lending capability in 1989 exceeded - as it seems from the above-mentioned data - the volume of loans really granted to the non-budgetary sector. Second, which were the factors that caused a radical reduction in the inflation rate, although the scale of financing the budget deficit with central bank loans was similar to that of the preceding year.

* As on 20.03.1990, the level of indebtedness of economic agents with the banking sector amounted to D 3,400 billion of which: state enterprises owed D 2,800 billion, the cooperative sector - D 300 billion, and the private sector - D 300 billion; the increment in loans granted between the beginning of 1990 and March 20th amounted to D 100 billion.

A partial answer to the first question can probably lie in the under-developed institutional structure of Viet Nam's banking sector, and that in spite of the fundamental reform undertaken with this regard in recent years. An additional justification lies, maybe, in the lack of appropriate forecasts at the start of the program as to the future development of bank deposits over the year and in the considerable degree of uncertainty which would be inherent in any attempt to estimate this value even approximately. In consequence, appropriate transmission was, so to say, missing between the potential lending action by commercial banks and the central bank loans to the state budget. An attempt to answer the second question is incomparably more difficult. Here, at least two essential problems having been discussed in connection with the theory and practice of other countries' stabilization programs must be referred to.

The first one regards serious controversies as to the possibility of a precise or even somewhat approximate estimation of the budget deficit amount in high-inflation countries. Apart from the frequent unavailability of reliable data, comparable over a longer period, as well as from methodological reasons, the problem consists in the fact that certain expenditure items are omitted in the budget, in particular those which create the so-called quasi-fiscal deficit of the central bank (Inflation, 1989). This is a kind of hidden (nowhere officially registered) public sector deficit which results, among others, from subsidizing different economy sectors through selectively granted central bank loans, from a part of external trade losses as well as from deferred debt repayments by the state budget.

The existence of this kind of quasi-fiscal central bank deficit till 1988 (and, maybe, to a certain extent, at present too seems very probable in the Vietnamese economy. The elimination of a part of this deficit (in 1989, among others, as a result of the changed lending policy with regard to state-owned enterprises and of a relatively high debt repayment) might have contributed to the inflation rate reduction.

The second problem regards the unequal influence exerted by budget deficit financing with central bank loans on the scale of inflationary processes in dependence on at least several essential factors³. They include - beside the evident change in the state budget to GDP ratio - among others, the ratio of the monetary basis (central bank money) to the GDP as well as the change in the real demand for money as a result of changes in inflation rate, real income and interest rates. The latter determine the scope of the "non-inflationary component of central bank money emission" or, more precisely, "non-inflationary component of the money basis increment as related to GDP level" (Dani Rodrik, 1989 p.11).

In Viet Nam's case, even if an unchanged budget-deficit-to-GDP ratio is assumed, it seems the remaining factors might have exerted a favourable influence toward inflation rate reduction. This regards both the probably augmented (in comparison with the preceding year) money-basis-to-GDP ratio and the increase in real demand for money, mainly as a result of the inflation rate reduction and the tangible increase in interest rates.

³ Cf.: Kiguel N.A., Leviatan N. (1988) p.282-284; Inflation (1989) p.11-20; Rodrik (1989) p. 10-15.

To sum up, beside the conclusion on the favourable influence of the monetary policy on microeconomic relations, a more general hypothesis can be taken as justified. By mobilizing a considerable increment in voluntary savings as well as by its favourable impact on demand for money, this policy might have contributed to a non-inflationary financing of a part of the budget deficit, this making an essential difference in comparison with previous years.

2.3. Policy with respect to gold and exchange rate policy

2.3.1. Policy with respect to gold

The policy with respect to gold plays a particular role in the Vietnamese economic stabilization program. This results from the peculiarity of the widespread Vietnamese tradition of hoarding gold as a specific safeguard of certain minimum financial standing and reserve for the future of almost every family. Meeting a defined households' demand for gold is of fundamental importance for the stabilization of the domestic price of gold and, indirectly of the foreign currency price as well as of other prices in the home market.

The revolutionary change in the gold policy in Viet Nam consisted in the abolishment of state monopoly in the gold trade (by virtue of a Council of Ministers decision of May 1988); this move was accompanied by acquisition of a considerable quantity of gold (estimated at 10-15 million tons) from abroad at the end of that year. The financing sources of this transaction were never published, although it can be supposed they were connected with anticipated rice export receipts for 1989 which exceeded USD 250 million; hence, any discussion on the real or alternative cost of this move can be hypothetical only. It is only known that the gold reserve has become an important part of the general state reserve and a kind of stabilization fund.

After the abolishment of the state's exclusive right to buy and sell gold which, after all, had not been profitable for the state and was accompanied by a large-scale illegal trade in gold at prices which, in peak inflation periods, reached Dong 4.4 million for one Far-Eastern ounce (37.5 g), thus almost twice as high (at black-market exchange rate) than the world market price, the official price practically unified with the free-market price was, beginning with May 1989, stabilized at a level more or less corresponding to the world price (see fig.8 and table 8).

Table 8

USD exchange rate and gold prices

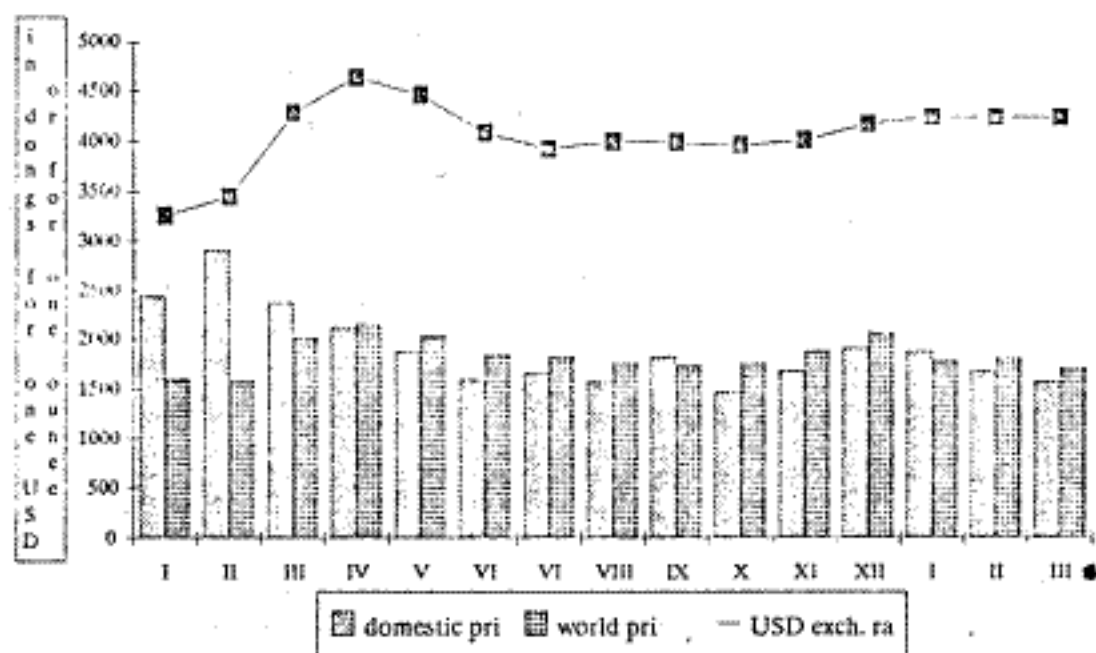
Period	Mean exchange rate dong/USD	Gold prices in thousands of dong				Domestic-to-world price relation	Domestic gold price to exchange rate relation
		world-market in USD for ounce*	domestic		world-market for ounce		
			for Vietn. ounce ^b	ounce*			
I 1989	3255	491	2948	2445	1598	153.0%	75.1%
II	3450	458	3515	2915	1560	184.5%	84.5%
III	4285	470	2875	2384	2014	188.4%	55.6%
IV	4643	464	2547	2112	2154	98.1%	45.5%
V	4466	455	2268	1881	2032	92.6%	42.1%
VI	4089	451	1924	1596	1844	86.5%	39.0%
VII	3927	463	2004	1662	1818	91.4%	42.3%
VIII	4000	440	1599	1575	1760	89.5%	39.4%
IX	3992	434	2196	1821	1732	105.1%	45.6%
X	3968	444	1780	1476	1761	83.8%	37.2%
XI	4017	468	2035	1688	1880	89.8%	42.0%
XII	4184	494	2303	1910	2067	92.4%	45.6%
I 1990	4250	420	2268	1881	1785	105.4%	44.3%
II	4250	426	2033	1686	1817	93.1%	39.7%
III	4250	404	1908	1582	1717	92.1%	37.2%

*ounce = 31.1 g

^bVietnamese ounce = 37.5 g

Figure 8

Dollar exchange rate and gold prices



At present, gold purchases and sales from and by the population take place within state, cooperative and private sectors. Essential sources of gold in the Vietnamese market are: gold resources in the population's possession, local gold output as well as gold imports which are free if carried out by state banks or require license if performed by non-bank agents. Individual persons can bring gold with them without restriction; exports by private persons are limited to 2 units*.

The government still attaches great importance to gold purchase and sale by the banks. They orientate the policy with this respect and play a substantial role in the sphere of gold market control. If necessary, state interference through banks in the shape of appropriate gold supply change is performed.

The policy with respect to gold is credited with great effectiveness in curbing the inflation. Operations aimed at stabilizing the gold price are hardly to be overestimated, given the importance of this price as a significant key to stabilization of prices in the Vietnamese economy. But it is worthwhile to emphasize the comprehensive character of stabilization policy measures having been used - in particular those of the monetary policy and policy with respect to gold. The introduction of very high positive real interest rates on the households' bank deposits in mid-March 1989 brought about, among others, a trend towards partial scale-out of gold resources by the population in order to make highly profitable money deposits in banks. This constituted one of the elements augmenting the gold supply in the domestic market. Thus, a previously non-existent form of substitution between locating one's resources in gold and in domestic currency has been created, this being by no means of considerable importance with regard to the recovery of confidence in domestic money.

Another link between the monetary policy and the policy with respect to gold are savings deposits in gold used in the Ho Chi Minh city and region in the first place, but in some other provinces of Viet Nam too. The households' deposits in gold are accepted by cooperative banks, while the state banks accept them in dong as equivalent of a defined part of an ounce of gold and these deposits constitute a kind of three-month time savings. The basic attribute of this form of savings the bank guarantee as to preservation of gold equivalency at the actual price (basing on price for one ounce). Interest paid by banks on gold-based deposits is set by banks at a level always somewhat lower than that on ordinary (not gold-based) deposits. Although the gold-based deposit form has not gained much popularity and plays a marginal role as to its share in the total value of the population's bank deposits, its role could possibly consist in the utilization of the psychological factor for stabilization purposes by creating, so to say, an atmosphere of guarantee, backed by the bank's authority, that there will not be any strong trend towards gold price rise. Because, otherwise, the bank having accepted gold-based deposits from the population would be

* A unit is equal to 37.5 g i.e. one Far-Eastern ounce.

liable to suffer serious losses. Finally, the policy with respect to gold is, under the stabilization program of the Vietnamese economy, a kind of specific platform and "anchor" for the exchange rate policy.

2.3.2. Exchange rate policy

The exchange rate policy is contained within the limits of generally applied stabilization program patterns (Aspects, 1987). The uniform exchange rate of dong in relation to US dollar introduced on March 13th 1989 (instead of differentiated exchange rates hitherto in-force: D 900 for one dollar for commercial transactions made under the plan and D 3,500 for non-commercial payments and commercial transactions made off the plan has been devaluated down to the black-market level i.e. D 4,500 for one US dollar. Preliminary step for this move was, beginning with October 1988, a gradual exchange rate devaluation for non-commercial payments and off-the-plan transactions (10.11.1988 - 2,600 D/USD; 10.12.1988 - 2,800 D/USD; 26.12.1988 - 3,000 D/USD; 16.1.1990 - 3,300 D/USD; 16.02.1990 - 3,500 D/USD).

The exchange rate system in-force is a floating rate controlled by the central bank; adjustments in the basic exchange rate level are made at irregular time intervals. Since the moment of exchange rate unification combined with the devaluation of March 1989, the rate was revaluated twice: on June 5th 1989 - up to D 4,200 for one dollar, and on June 22nd of the same year to the level of D 3,900 for one US dollar, and devaluated once - on February 2nd 1990 down to D 4,300 for one dollar.

An important reference point for monitoring the fluctuations of the exchange rate level and its changes is the value of the US dollar in free-market (non-bank) transactions. Generally speaking, in the light of the existing exchange rate system, the bank rate and the market (non-bank) rate show certain small temporary divergencies only (of a few percent order). Thus, the dong/US dollar exchange rate can be considered to be an equilibrium rate for private marginally profitable transactions.

The change of the exchange rate system is accompanied by a far reaching liberalization of foreign exchange regulation. Since April 1989, production enterprises are entitled to buy and sell foreign currencies; since 1990, compulsory resale of foreign currencies earned by such enterprises to the state has been abolished. A bank-controlled dollar turnover between enterprises has been permitted. Enterprises are also fully free to contract foreign loans. Dollar loans from domestic banks are granted with 15 percent annual interest rate.

Bank deposits of enterprises in foreign currencies bear interest. Also, foreign currency accounts for households are kept; the sole deposit form are sight deposits with annual interest rate of 5,5 percent. And there is no need to document the origin of resources being deposited on foreign currency accounts, except that the freedom of transferring or taking

them abroad is limited to those amounts only which have come from abroad. When travelling abroad, Vietnamese citizens have the right to buy in the bank the amount of 20 dollar only.

The success of the exchange rate policy as an element of the Vietnamese economic stabilization was certainly enabled by the above-described moves with respect to gold policy. The exchange rate in-force seems to be a rate which - approximately, of course - equalizes the world and domestic gold prices.

The susceptibility of the exchange rate level to stabilization, and even to diminishment of the dollar price in dong in the first program implementation phase, was undoubtedly fostered by the use of a high real positive interest rate on households deposits with a clear preference for domestic-currency deposits over dollar deposits. A certain temporary importance can also be attributed to dollar transfers to Viet Nam made by Vietnamese emigrants amounting to about USD 100 million yearly. This is a relatively high amount, given the total level of the countrys external settlements in convertible currencies.

Whereas it may seem striking that the relatively deep devaluation of dong in relation to dollar performed in mid-March was not reflected in a price level increase. Quite the reverse, after a relatively low, smaller than in January and February 1989, monthly inflation rates in March and April (amounting to 5.4 and 3.5 percent, respectively), a fall in the general retail price level lasting till August took place. It seems that this rather untypical development can be attributed to a number of factors.

These factors include, in the first place, a very low share of external trade, in particular that settled in convertible, currencies, in the countrys national income and domestic product. The role of the exchange rate (900 D/USD) used before March 1989 with respect to commercial transactions concluded under the plan probably was marginal only (since 1988, foreign trade decentralization and liberalization were gradually introduced and, in addition, preference was given to trade with COMECON countries settled in non-convertible currencies). Devaluation, as referred to the exchange rate of 3,500 D/USD previously in-force for non-commercial payments and off-the-plan commercial transactions, was less than 30 percent. And the gradual devaluation of this exchange rate since October 1988 could be partly absorbed by the price rise in the last months of that year and in the first two months of the following year.

Another factor, the influence of which could be of some importance for the effects of devaluation was the use of corrective accounts in the foreign trade. The abolishment of this subvention and surcharge system could have been reflected, among others, in a relatively insignificant rise, and even lack of change, in prices of a part of imported goods as well as of exportables. The increase in prices of imported goods, in particular of investment and procurement goods, could also be limited by the additional factor resulting from both the change in the general financial environment for enterprise activity, particularly tangible after March 1989, and external trade liberalization.

Under the new conditions a part of enterprises were not able to burden the customers with the augmented costs of goods produced by them. This especially regarded producers of goods manufactured with imported inputs. In their case, the barrier blocking such a possibility mainly consisted in the relatively easy access of their customers to relatively cheaper - given, in particular, the higher quality - foreign goods. Such hypothesis with regard to devaluation effects in Viet Nam is put forth by A. Wood who thinks they mainly consisted in a reduction in profits derived by the relatively few producers who previously (i.e. under conditions of import controls) had access to imports, and to a limited extent only had to do with an increase in prices of imported goods in the domestic market (Wood 1989).

As far as consumer goods were concerned, the free market in Viet Nam comprised, according to available estimates, about 40-45 percent of the total retail trade (Fforde, Vylder, 1988 p.71). Consumer goods imports paid in convertible currencies were undoubtedly concentrated just on this market and were performed at black-market dollar exchange rate down to which, approximately, the unified exchange rate of dong in relation to convertible currencies was devaluated in March.

An important element blocking the possibility to raise the prices of home-made consumer goods has been included in the stabilization program as a result of the implementation of the "outwardly open economy" policy assumed therein. Beside the new law on foreign investments and the export development program, it includes a far reaching liberalization of imports, in particular with regard to consumer goods for which a great demand exists and which can play an important role from the point of view of competition with home-made goods. In the Vietnamese economy, the policy of liberalization of consumer goods imports has a rather peculiar, so to say, double dimension. This "second" dimension results from a relatively significant role of the illegal and quasi-legal turnover with abroad. This turnover can not be easily fought because of the character of the Vietnamese frontier and the extremely primitive conditions under which a part of population engage themselves in contraband.

Although the duties and taxes on selected goods coming from imports (cigarettes, alcohol, beer, cosmetics) are relatively very high, the supply of these goods in the Vietnamese market is quite significant. So, it is difficult to find out whether the authorities really are consistent in their will to observe the adopted decisions but encounter fundamental obstacles in the shape of under-developed economy with an infrastructure leaving much to desire, or, may be, "accept" the existing state of affaires, considering it to be a partial, at least at short range and to a certain extent instrumental, solution to the situation with respect to the provision of the market with consumer goods.

In order to evaluate the exchange rate policy from the, point of view of Vietnams balance of payments in 1989, one must, go back to a short characteristic of the countrys turnover with abroad in the past. It was, above all, dominated by settlements in non-convertible currencies with COMECON countries. There was a chronic balance of a

payments deficit both in transfer rouble and convertible currency settlements. The balance of payments deficit was accompanied by growing external debt which, at the end of 1989, amounted to USD 2,398 million and SUR 10,291 million (of which about USD 1,500 million and SUR 300 million of outstanding debt).

In 1989 a positive trend appeared with respect to foreign trade settled in convertible currencies. The exports (USD 916 million) surplus over imports (USD 579 million) was USD 337 million (in 1988 the trade balance deficit amounted to USD 138 million; exports and imports amounted to USD 465 and 603 million, respectively). This surplus was mainly obtained owing to rice export - 1.4 million tons at average price of 200 USD/ton making USD 280 million. Due to the very favourable weather conditions, the exportable rice surplus amounted to 1.4 million of tons instead of the originally foreseen 0.5 million of tons.

2.4. Price and wage policy

2.4.1. Price policy

The price policy in Viet Nam up to 1989 was characterized by solutions generally used in economies with central planing system. Subsidies (sometimes very high and growing in the intensifed inflation period 1986-1988) to prices of essential procurement and consumer goods were widespread. This resulted in the relatively low prices of many investment and procurement goods for state-owned manufacturing enterprises as well as in low prices of a part of consumer goods (mainly foodstuffs) among which the official price of rice is to be mentioned in the first place. The low official prices went together with sometimes manyfold higher (in the case of rice - almost tenfold higher) market prices, while general shortages of goods offered at official prices were inseparably accompanied by different forms of their controlled distribution.

Beginning with 1989, the scope of the still remaining state interference in the pricing sphere has been very narrow. The basic category of prices are contractual prices; prices of a few groups of goods only are subject to state control which however, according to declarations of representatives of the Ministry of Finance, is not tantamount to being subsidized. This category of prices includes the prices of electric energy (raised threefold since February 1990), fuels, imported steel, imported fertilizers and a part of transport services (this regards the municipal transport services for commuters the cost of which is covered by respective enterprises).

The most important still unsolved problem in the subsidies sphere are the very high subventions to housing rents fixed by the state. At present, rental paid by the state sector

workers does not exceed about one percent of their wages. The remaining cost is, in the case of state-owned houses, covered by the state budget, whereas in the case of not individually owned non-state houses - by enterprises.

2.4.2. Wage policy

The wage policy sphere in Viet Nam is probably the most difficult to be evaluated. The impossibility of a reliable assessment of the wage level and its changes results from the extremely poor level and the specificity of data acquisition in this field by competent institutions, a considerable regional and sectoral differentiation of wages as well as from the difficulties in ascertaining the share of wages among other income sources of the Vietnamese population.

The governmental wage policy concerns the state-owned sector. With its 28-percent share in the national income creation (1988) this sector employs 28 million persons of which 3.149 million in the industry.

In Vietnam, as opposed to other once planned economies being at present reformed, no wage increase limiting system was introduced. This resulted, among others, from the specific way of remunerating the workers employed in the state-owned sector; the basic wage component consisted up to the end of 1988 of "coupons" entitling to monthly purchase of a defined quantity of rice at official price manifold (about tenfold) lower than the free-market price*. The fact that, under conditions of the extremely deep poverty and the shortage of this commodity of, basic importance for the populations alimentation, its consumption level became an elementary indicator of the standard of living changes, found its expression in the still now used method of measuring the changes in real wages by the number of kilograms of rice which could be bought by the nominal wage. It is just in this way that the fall in real wages, beginning with 1985, has been interpreted. Thus, the unofficial data obtained from investigations carried out by the Ministry of Finance show that real wages in the state sector in mid-1988 were equal to 50 percent in comparison with the level of nominal wages in 1985 (after a general price and wage regulation). The specific real wage change index expressed in the above way means that the quantity of rice which could be bought for a nominal wage was in mid-1988 by one half less than that of 1985.

As reference point in these comparisons, the officially fixed minimum wage (so-called departure point for wage determination) is adopted in the state sector. The level of this minimum wage which, till October 1988, amounted to D 200 was raised up to D 2,730 in that month. After this correction, the real wage in October amounted to 70 percent of the nominal

* Beside rice allowances, rationing of other foodstuffs was also used.

salary in the state administration and 80 percent of the nominal wage in the production sector (in comparison with 1985). Because of inflation, this index fell down to 56 percent till the end of 1988.

After a successive correction of the minimum wage up to D 22,500 made on January 1st 1990 and upon abolishment of the dual rice price (official and market prices) as well as of "coupons" entitling the workers of the state sector to buy their rice rations at official prices, the real wage in this sector amounted to 90 percent of the nominal one (in comparison with 1985)¹⁰. According to the same measurement method, nominal wages at the beginning of 1990 amounted to 80 percent in comparison with the beginning of 1989 and to about 70 percent in comparison with 1985. The minimum wage level in the state sector constituting the reference point for the above comparisons is of a very limited indicative value.

At the beginning of 1990, the average wage amounted to about D 40,000 in the state-owned industrial production sector and to a little less in the state administration sector. But, inclusive of the flexible part of wages in state enterprises, these wages attained the level of about D 70,000. An additional, hardly measurable wage element in the state sector are housing subventions having been discussed in more detail in the section regarding the price policy.

The above mentioned considerable income differentiation in the state companies sector becomes incomparably greater if the comparison scope is extended on the private sector and if, in addition, regional differences are taken into account. Thus, e.g. the wage of a "well" earning skilled worker employed in a private enterprise in the Ho Chi Minh region and city amounts to D 200-300 thousand. The level of these wages is considerably higher in this region than in the remaining parts of the country¹¹.

3. PROGRAM RESULTS IN THE REAL SPHERE IN 1989 AND FORECAST FOR 1990

In 1989, the real gross domestic product rose by 0.8 percent and the national income by 1.6 percent (in 1988, by 7.6 and 5.7 percent, respectively). The agricultural production grew by 9.4 percent. This index regards the total agricultural production converted to rice (according to rice prices); it was estimated at 21.4 million of tons whereof the actual rice production was 18.9 million of tons. From a country suffering from a chronic shortage of this commodity in satisfying the needs of domestic consumption, Viet Nam has become the

¹⁰ This index is to be interpreted as follows: in 1985, the minimum wage of D 220 was equivalent to about 50 kg of rice, whereas since January 1990 the minimum wage amounting to D 22,500 has been equivalent to about 45 kg of rice.

¹¹ According to an estimate of the regional Finance Department, real wages showed a slight increase in 1989.

world's third biggest (after USA and Thailand) rice exporter, with exportable supply surplus of 1.4 million of tons. This partly resulted from unexpectedly favourable weather conditions, but a decisive role was played by the modified pricing policy which consisted in the abolishment of the dual price system and in maintaining the state purchase prices paid to agricultural producers at a lower level than that of market prices. At the same time, the previously existing system of contractual agricultural product deliveries linked to the supply of in-advance defined fertilizer quantities was abandoned (the price of 1 kg of fertilizer corresponded to that of 2 kg of rice; now the ratio between these two prices is 1:1). Also, not unimportant from the point of view of its impact on the agricultural production volume was the trend to move away from collective ownership forms towards private ownership.

Another advantage of the abandonment of dual prices and "coupon" rice rations for state sector workers was the fact that reserves of this commodity previously kept by households, estimated at 50 kg on the average, were so to say "released" (now, they amount to about 10 kg per household).

The price of rice on the Vietnamese market remained unchanged between March 1989 and March 1990 at the level of D 500 for one kilogram. This fact, though advantageous from the point of view of the stabilization of domestic prices, is considered to be unfavourable for the farmers, since it is tantamount to a relative decline in their purchasing power in the light of the still persisting, certain increase in prices of other goods. The fact that the state does not have at its disposal a necessary reserve to purchase in due time rice production surpluses at prices high enough to encourage production is considered to be a negative aspect of the existing solution. These surpluses have been purchased by private tradesmen at too low prices. By the way, a similar situation exists with regard to other agricultural products such as vegetables and pork surpluses. Especially meaningful with this respect is the fact that, this year, in order to buy a pack of luxury cigarettes, (4,000 dong) a farmer must sell about 30 kg of vegetables. The necessity to establish a state reserve fund for the purchase of agricultural products at prices encouraging production is stressed by the authorities and recognized - along with the need for considerable investment expenditure - to be one of the most urgent problems to be solved in the sphere of the agricultural policy. It is worth noting that the relatively considerable increase in the purchasing power of farmers with their high share in the total employment has constituted a factor partially alleviating the effects of the stabilization program which has diminished the demand from people employed in the industrial production sector.

As opposed to the agriculture, a decline in industrial production estimated at 3 percent in real terms took place in, the whole country's scale in 1989. The volume of this decline was unequally distributed over different parts of the country. In the Ho Chi Minh region and city making a specific enclave from the point of view of industrialization (its share in the total production of consumer goods makes about 40 percent and is still higher in the exports of these goods), the share of private ownership and the implementation of relatively innovative

solutions in the financial system with a time advance in relation to similar solutions in the remaining parts of the country, the industrial production in 1989 (at 1982 prices) fell by almost 6 percent in comparison with the preceding year. Changes in production volume in relation to the expected one affected, to a different extent, the state enterprise sector and the non-state sector (cooperatives and private handicrafts). In the latter sector, a real production increase of 4.5 percent took place.

It is estimated that from among the industrial enterprises situated within the Ho Chi Minh city and region profitable enterprises make 20 percent only; 40 percent are near zero-profitability limit; whereas the remaining 40 percent are enterprises on the brink of bankruptcy. Some have been closed down, a part of them are running at 40-50 percent of their production capacity.

The III quarter of 1989 is considered to have been the most critical period from the point of view of the development of production processes. In the I quarter the production level was relatively normal, in the II quarter a stagnation appeared with a growing number of unemployed receiving 70 percent of their pay (this unemployment benefit level results from legal provisions existing since a long time in Vietnam). The above-mentioned stagnation combined with the increase in unemployment resulted from growing difficulties in the sale of products of a part of enterprises and, consequently, from their limited possibilities to acquire procurement materials.

According to preliminary estimates by the Ministry of Labour, in 1989 the so-called excess labour in the production sphere (inclusive of agriculture) amounted to 15-17 percent of the total employment and in the state administration - to 10-20 percent. In the 1990 budget, resources for unemployment relief have been provided.

Unprofitable state enterprises have been given a chance to be transformed into joint state-private enterprises (in the form of company or employees stock company), cooperatives, or to be leased to domestic or foreign private persons. In their case, the possibility to sell their movable and immovable assets has also been provided.

Prospects for 1990 are rather favourably assessed by representatives of the Vietnamese government. The mean monthly price rise rate is assumed to amount to 2 percent (in February, it was 3.8 percent in relation to January; for March a price rise rate of somewhat over 2.4 percent has been assumed). Agricultural production is foreseen to attain a level not lower than in 1989. In the industry, after a very difficult period in particular in the middle of the last year, a gradual recovery takes place. A part of enterprises still experience difficulties, but the share of those which have managed to improve the production quality and even to change their product line is quite considerable too. At present, real wages show stability after a slight fall in 1989.

In March, interest rates on households bank deposits were lowered once more. Nevertheless, savings deposits of the population continue to grow. The necessity to go over to the system of higher interest rates on bank loans than on savings is recognized.

4. EVALUATION OF THE PROGRAM

The most important feature of the Vietnamese stabilization program from the point of view of its results achieved in a short period is the suppression of inflation which, as distinct from almost all similar initiatives having been undertaken in other countries (with the sole exception of Israel) is not accompanied by economic recession but by a slight, to be sure, nevertheless positive trend in production. This resulted from several factors the importance of which is different from the point of view of evaluating the usefulness of the Vietnamese experiences for countries for which, like for Viet Nam at the beginning of 1989, the problem of a skillful combination of internal demand reduction with economic growth promotion is still open.

The first group of these factors includes the relatively high economic growth dynamics in 1988. Rather good results in agricultural and industrial production contributed to a certain fall in the inflation rate in the latter half of 1988. The unexpectedly favourable weather conditions in 1989, in turn, were conducive to good crops in the agriculture, in particular to high rice harvest with supply surplus for export.

The second group includes factors resulting from the specific structure of the Vietnamese economy. It consists, among others, in the relatively low share of industry in the domestic product and national income, especially of the state sector which is relatively the most susceptible to recessionary pressures of the stabilization policy as well as in the very low share of foreign trade, in particular of that which is settled in convertible currencies.

Finally, the third group of factors, the most important for the evaluation of program results, includes the character and sequence of solutions adopted within the framework of the Vietnamese stabilization policy package. In other words, these were the key elements of the program, while the two former factors groups constituted a certain supplement only and their influence was mainly reduced to modifying the scale of the effects achieved as a result of the choice and implementation of those elements.

It seems that the most important solution and, at the same time, giving the most characteristic feature to the Vietnamese stabilization program was the solution adopted in the field of monetary and credit policy which consisted in the introduction, since mid-March 1989, of high really positive interest rates on households' bank deposits as well as of high really positive, but considerably lower than the former, interest rates on loans granted to enterprises. The solution was introduced in a period of moderate inflation (one-digit inflation rate in monthly scale) and of a sustained descending trend in price rise rate beginning with the latter half of 1988 (with only a slight increase in the monthly rate in February 1989 up to 9.2 percent in comparison with the January rate of 7.4 percent; in March the inflation rate amounted to 5.4 percent only) (see table 2). At the same time, only two kinds of deposits i.e. sight deposits and three-month time deposits were admitted; this solution also

seems highly justified under conditions of an economy with a relatively (according to world standards) high inflation rate and not-so-far past when yearly inflation rate amounted to several hundred percents. The parallelly taken measures aimed at stabilizing the gold price in the domestic market at a level approximating the world price as well as at stabilizing the dollar exchange rate formed a kind of triad which stabilized the purchasing power of the domestic currency and restored confidence in it.

The policy of very high real positive interest rates on households' bank deposits, supplemented with gold and dollar price stabilization, became the source of accumulation of relatively very high voluntary savings of households in the bank. Their almost tenfold increment (reckoned together with interest) over the period from mid-March till the end of 1989 created, to a certain extent at least, an alternative to the need for having recourse to compulsory savings on macroeconomic scale. It seems that the Vietnamese approach to the economic stabilization program justifies the hypothesis that, in developing the program, microeconomic relations were adopted as the departure point, without trying to "force" this economy so to say in advance into a too tight - in relation to the given short-term possibilities - corset of macroeconomic equilibrium rigours. This undogmatic approach to stabilization policy which possibly resulted from the lack of obsessive insistence on full (down to zero) suppression of inflation even at the cost of deep recession, probably was largely justified in Viet Nam by the very deep chronic budget deficit and insignificant chances of its short-term reduction, among others in the light of the very weak tax system little susceptible to changes which might lead to an increase in budget revenues.

The unorthodox approach to the problem of state budget equilibration found its expression i.a. in the, unconventional for market conditions, policy of lower interest rates on loans, to enterprises than on households' bank deposits. This policy entailed relative losses for the banking system and, consequently, for the state budget, nevertheless its choice was motivated by the intention to avoid blocking the economic activity of enterprises (among others, the state-owned ones) which would, anyhow, find themselves in an incomparably more difficult environment than before the start of the stabilization program.

This environment was considerably worsened by the intensified competition from abroad, in particular with regard to manufactured consumer goods. However the import liberalization policy proved favourable from the point of view of both curbing the domestic price rise and stimulating a quality improvement or, sometimes, change in products lines of a part of domestic enterprises. The way of implementation of the "outward opening" of the Vietnamese economy must also be considered to be one of the strongest points of its stabilization policy.

Coming back to the problems of budgetary policy and state budget deficit in 1989, three positive elements, though of different short- and long-term weight for the stabilization processes, are to be noticed. These are: a small, to be sure, but still tangible reduction in the budget deficit measured by its ratio to total budget expenditure (here, the so-called basic

deficit i.e. exclusive of budget debt repayments is meant), an increase in investment expenditure at the expense of current expenditure as well as the repayment of a part of foreign debt of the state budget.

In particular, the second of the above mentioned elements corroborates once more the allegation that the goals hierarchy in this case has been untypical of the majority of stabilization programs implemented in other countries. The choice in favour of the reduction in budgetary expenditure in order to considerably diminish the budget deficit within a short time, gave way to an increase in investment expenditure, this being considered to be favourable from the point of view of long term improvement of the economic infrastructure. To be sure, such a treatment of the state budget deficit can raise objections as to the relatively "fragile" foundation of the stabilization considered in a longer perspective (Rodrik, 1989). Its rightness must be evaluated in dependence on development prospects of several basic elements which are of decisive importance for Viet Nam's stabilization process both in short and long run. They include, in the first place, maintaining of the high propensity of households for savings induced in 1989 (now estimated at about 20 percent of incomes) indispensable for securing a sufficiently high deposit increment in 1990 and, possibly, in the following years too. The sustained dynamic increase in deposits (mostly time deposits) in the first three months of 1990 seems to testify of considerable potential possibilities with this respect, although the reduction in real positive interest rates on the households' bank deposits beginning with the third decade of March 1990 can adversely influence the development of savings increments in the following months. Also, the relatively liberal wage policy can become a factor fostering an increase in the households' saving. Similarly, trends in shaping the enterprises' deposits, both in domestic and foreign currencies, are to be rather favourably evaluated. Another favourable element is the establishment of the state food reserve and the assignation of certain resources for purchasing agricultural surpluses from farmers; this is expected to exert a beneficial influence on the income level of people employed in agriculture and, consequently, on continuation of the high propensity for saving.

Another vital element determining the possibility to sustain the stabilization of the Vietnamese economy in the following years will be the scope of the foreign financial aid, since the fragility of the Vietnamese stabilization program (state budget and balance of payments deficits) consists in the first place in the absolute need for such aid. The budget deficit of D 2,730 billion foreseen for 1990 is expected to make 43 percent of total budget expenditure. (A relatively high foreign debt repayment has been foreseen in the budget). The basic deficit i.e. exclusive of foreign debt repayment is to be much less (D 1,870 billion) and will make 34.2 percent of total budget expenditure, this being a rather substantial reduction in comparison with 1989 (38.6 percent). To finance the budget deficit a loan from the central bank amounting to D 1,200 billion and foreign aid equivalent to D 1,530 billion (of which D 860 billion for debt repayment) have been foreseen. Expectations as to the increase in foreign aid regard Western countries in the first place (in recent years, Soviet Union was the main source

of this aid, but beginning with 1990 a considerable reduction in this aid has been foreseen) (Williams, 1988 p.110-11), including international institutions, among others the Asian Development Bank and International Monetary Fund. In IMF experts' opinion, results achieved in the stabilization of Viet Nam's economy can be recognized as justifying an application for loans from the Fund.

Among other elements exercising long-term influence on the success of the Vietnamese stabilization the following ones are to be mentioned: the tax system having been implemented since 1990 (Aspekty, 1990 p.16), the program for promoting foreign investments, the polishing-up of the banking system reform as well as the planned development of treasury bond system prepared in using French experts' advice. It is the sphere of economic turnover and settlements in convertible currencies that essential changes and establishment of foundations for the use of rational solutions are still needed.

5. CONCLUSIONS FOR THE POLISH ECONOMY

The above-presented analysis of assumptions, implementation and effects of the Vietnamese economy stabilization program and its evaluation permit to draw several apparently relevant conclusions for the implementation of the stabilization policy in Poland.

Restrictive monetary and credit policy makes an essential element of all stabilization programs, including the Vietnamese one too. The substance of such a policy resolves itself into the use of high real positive interest rates. But the exceptional success of this policy in Viet Nam was determined by a few elements. The high real positive interest rates were introduced in a period of descending moderate inflation trend (with one-digit monthly price rise rate), this fact permitting to accurately lay down the interest rate level estimated on the basis of inflationary expectations which proved largely consistent with facts. This had an important impact on stimulating the households' propensity for savings on a large scale. It was additionally fostered by the limitation of bank deposits to two categories only - sight deposits and three-month time deposits, this being reasonable under conditions of an economy with a relatively high monthly inflation rate (measured by world standards) and very high inflation in not so distant past. Moreover, the interest rate policy was characterized by a relatively very high flexibility.

The unconventional solution consisting in the likewise positive but considerably lower interest rates on loans granted to enterprises contributed to their protection, to a certain extent at least, from deep recession. In the Polish stabilization program being implemented since the beginning of 1990 the monetary and credit policy has not played a positive role in mobilizing voluntary savings of households but has become one of important causes of

financial difficulties for the great majority of enterprises. It seems that the lack of favourable effects with this respect resulted from several elements which distinguish the Polish solutions from those adopted in Viet Nam.

First of all, the interest rate, though relatively high in comparison with that in force at the end of 1989, considerably diverged, especially in January, from the real rate level. And it is not only a divergence between inflationary expectations and the real monthly inflation rate, i.e. a difference in interest rate estimation *ex ante* and *ex post*, that is meant here. The real interest rate in January was from the very beginning laid down at a negative level, and the almost twofold higher than expected monthly inflation rate only caused this negative level to assume a much higher absolute value. In this situation, the only motivation to deposit savings in domestic currency in the banks should be - and that in accordance with the adopted solutions - the relatively greater remunerativeness of locating money in domestic currency (even with a real negative interest rate) than in foreign currency. This could, at the very most, contribute to a partial shift of resources between these two categories of deposits on condition of an appropriate increase in confidence in domestic currency, but not to an increment in bank savings as a whole.

Secondly, the price rise in the last months of 1989 and the relatively slower increase in incomes brought about, at the same time, a considerable reduction in potential saving possibilities. Moreover, given the very severe formula of wage rise blocking in the early four months of 1990 with its unintended effects in the shape of a much deeper than assumed reduction in real wages as a result of the above-mentioned much higher than expected inflation rate in January and a well-marked sharpening of the tax system, the savings growth potential seems to be extremely modest.

As a result of the above-mentioned solutions the initial focus on compulsory savings to be achieved on macroeconomic scale (in the first place, in the shape of an equilibrated state budget under given conditions) has remained a predominant feature of the Polish stabilization program.

The extremely rigorous income policy combined with the strongly sharpened fiscal policy, in particular with respect to state-owned enterprises (in connection with the structure and high rate of the so-called "dividend") plus very high interest rates on loans jointly contributed to a very deep recession in the Polish economy which, so far, has been avoided in Viet Nam's case.

With all this, it would be difficult to unequivocally judge to what extent the favourable results of the Vietnamese stabilization program have been a consequence of the coherent, deliberated in detail, package of policy measures and to what extent they have been, at least partly, a matter of chance, since one can hardly help thinking that both the relatively liberal wage and income policy and the policy with respect to state budget revenues have resulted

from specific conditions prevailing in the Vietnamese economy and extremely unsusceptible to short-term change.

This however does not alter the fact that the results of this policy (or, in certain areas, of its lack) favoured the progress of stabilization processes.

It seems that in the context of the Vietnamese experience it is worthwhile to reconsider the problem of the extremely rigorous requirement, included in typical stabilization programs, to achieve state budget equilibrium within very short period with all the resulting consequences for microeconomic relations. In the case of the Polish economy this problem deserves the more consideration as, beginning with the latter half of 1989, the relatively deep state budget deficit was to a large extent the consequence and not the cause of the sharp inflation set in motion in that period by the adjustment changes in the price policy. Arguments for the priority of maintaining the budget sector equilibrium as a precondition for restoring a relatively stable internal equilibrium are, just like the objections put forward against such approach, well known and, consequently, do not need any detailed exposition.

From among the remaining solutions adopted in the Vietnamese economy stabilization program, the exchange rate policy and the accompanying solution with respect to foreign exchange and external trade policy are worth noticing. In the latter sphere, a special role falls to the import liberalization policy, in particular with respect to consumer goods, as an important and effective competition tool which, in the hitherto implemented Polish solutions, has been practically excluded by the use of high tariff walls.

In the exchange rate policy, beside important similarities, several differences can be noted, while the acknowledgement of a better or worse quality of the adopted solutions is to a large extent controversial, depending, in the first place, on their adequacy for the somewhat different conception of objectives they have to serve as well as for the environment in which they are functioning.

The most important conclusion of general character which arises when comparing the overall conception as well as selected elements of the Vietnamese and Polish economy stabilization programs is the relatively advantageous distribution of emphasis over different policy measures in the former case as opposed to the "classical", extremely rigorous approach adopted in the latter. Although it is still too early for an evaluation of long-term results of both programs, it seems that at least some elements of the Vietnamese stabilization program could be utilized in the further shaping of the Polish economy stabilization processes.

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