Original Article

ECONOMIC GROWTH AND FINANCIAL SYSTEM: A STUDY ON THAT RELATIONSHIP IN VIETNAM

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Abstract

The financial system plays an important role in economic growth. However, the financial system is also an area affected by the evolution of growth. After nearly 30 years of renovation, Vietnam's economy has achieved remarkable achievements with an average growth rate of 6.5%, contributing to the rapid improvement of all aspects of social life. However, economic growth also puts pressure on the financial system to weaken, leading to risks of adverse fluctuations that negatively affect future growth goals if there are no appropriate solutions to ensure continued growth. realize the growth target, and at the same time strengthen the safety of the Vietnamese financial system.

Keywords: Economic growth, financial system, budget deficit.

1. INTRODUCTION

1. Financial system

Along with the development of the economy, the financial system is increasingly diversified and complex, but the most basic functions of the financial system are: (1) Creating a channel to connect savings of the household sector to the business sector and allocate investment funds to the manufacturing sector, (2) Financing the spending and investment needs of the economy, (3) At the same time, the system Financing helps to share the risk of investments between the household sector and businesses. Most generally, the national financial system is defined as the part that allocates financial resources in the modern economy [1].

Typically, the structure of a financial system consists of two basic parts:

Capital dens: A source of idle capital and also a place to receive capital to meet spending and investment needs. There are four basic capital hubs in the economy, namely: Government sector, household sector, corporate sector and foreign sector.

Capital conduction department: Is the transmission and coordination system between capital hubs, from the place of excess to the place of shortage. Normally, there are two channels of capital transmission: (1) direct channel: helping capital to move directly between capital hubs, the part that performs this function is the financial market; (2) indirect channel: performing the function of attracting idle capital from capital hubs and conducting search and allocating attracted capital to places in need of capital. The department that performs this function is the financial institutions.

- Capital dens: The part where financial resources are created, and also the place to attract back capital sources, but at different levels of scope, including: Corporate finance ; State budget; Residential finance (household finance) and other social organizations; External finance.

- Capital conduction department: The capital conduction department in the financial system performs the function of transferring capital between capital hubs in the system, including the financial market and intermediary financial institutions (institutions). .

2. Vietnam's economic growth and its effects on the national financial system

After nearly 30 years of renovation, Vietnam's economy has made comprehensive strides with remarkable achievements, bringing positive impacts, contributing to the rapid improvement of all aspects of social life. With efforts in implementing reasonable growth models and policies, Vietnam has continuously maintained positive growth for 30 years, with an average growth rate of 6.6%; higher than some countries in the region such as Malaysia is 6%, Thailand is 5.3%, South Korea is 6.1%... From one of the poorest countries in the world, Vietnam has joined the group of countries with high income. low middle income since 2010. Economic growth has helped reduce poverty in Vietnam significantly over the years. According to statistics of the World Bank, if in 1993, more than half of the population lived on less than 1.90 USD/day, now, the poverty rate has decreased to 3%. The proportion of the population living below the national poverty line (TDI-WB) decreased from nearly 60% in 1993 to 13.5% in 2014. Although, in the last years of this period, Vietnam's economy also The whole world is being hit hard by the economic crisis.

Besides the undeniable achievements, Vietnam's economic growth over the past time also has many shortcomings. Labor productivity in Vietnam is low and slow to improve. In recent years, Vietnam's labor productivity has tended to increase significantly, the average productivity growth rate in the period 2001 - 2010 reached about 4.8%/year, but with the current level of labor productivity , Vietnam is about 2.6 times worse than China's labor productivity and 4.3 times less than Thailand's. At the same time, Vietnam's national competitiveness is still weak. Despite achieving a relatively high growth rate in the past 10 years, global national competitiveness assessment and ranking reports show that Vietnam's competitiveness has not improved much in recent years. recently.

To obtain achievements in economic growth, the development of the financial system has promoted the role of capital circulation in the whole society, contributing to stimulating production and ensuring social security. At the same time, the economic growth process with wide-ranging policies and models also profoundly affects the development of Vietnam's financial system. Detail:

a. For capital channels

Growth models and policies over the past time, with solutions to stimulate investment and spending, play an important role in promoting the development of Vietnam's financial system, especially in terms of scale. Therefore, according to the World Bank's FSAP report, for a low-middle-income country, Vietnam's financial system is large, with total assets up to 200% of GDP in 2011. In which, the The banking sector including the Policy Bank dominates the financial system, with total assets equivalent to 183% of GDP and 92% of total assets of financial institutions. Economic growth has had a positive impact on the savings rate in the population, causing the total amount of deposits to increase significantly over the years.

Besides the positive effects, the growth model based on the increase in the amount of capital without paying attention to the quality and efficiency of capital use causes overinvestment effects. In the condition that the management of lending activities of commercial banks is still loose and the massive inflow of capital into areas not commensurate with production capacity will cause instability to the financial system. The main points are reflected in the following points:

+ Firstly, the capital structure is not properly allocated at credit institutions between short-term and long-term, between lending for investment in non-production and investment in production. Besides, credit institutions use short-term mobilized capital to finance medium and long-term projects.

+ Secondly, the bad debt situation in the banking system due to the low quality of capital use, the nascent commercial banking system, the weak financial supervision capacity and the lack of an effective supervision model makes the bad debt worse. complex developments.

+ Third, after Vietnam joined the WTO, the attractiveness of emerging markets has attracted capital flows into the Vietnamese financial system with undesirable consequences such as: Excessive investment, asset prices virtual increase… risk of financial bubble, the economy faces crisis risk.

+ Fourth, the effectiveness of financial supervision still has many shortcomings. In particular, the tools for modern financial supervision in our country have not been used and the current tools are outdated… Quantitative models are almost not applied for supervision.

b. For capital dens

* State budget sector

Along with the economic growth model and policies, especially the goal of ensuring the effectiveness of fiscal policy, the public financial management policy system continues to be innovated in many aspects. , gradually approach the common standards of international practices, including the management of state budget revenues and expenditures as well as issues related to ensuring national financial security and safety. Specifically: The budget collection system has been strongly reformed, contributing to reasonable mobilization of resources from the regions into the state budget.

However, Vietnam's economic growth model and policies over the past time have had a significant impact on the state budget. The budget deficit has tended to increase sharply since 2013 with a record deficit of $ 1,909.40 billion in 2015.

* Private financial sector

Besides the state budget sector, the private financial sector, including businesses and households, has also experienced significant development thanks to economic growth policies over the past time. The financial system that connects savings, consumption and investments is increasingly diversified, leading to strong growth in corporate and household finance. In 2008 and 2009, monetary policy and fiscal policy have partly removed the operating difficulties of enterprises.

In addition, supply-side policies aim to support the manufacturing sector and reduce government intervention such as encouraging research and development, enhancing competition and trade, equitizing SOEs, improving improve business environment...; In which, the development of the financial system has helped to improve the demand for the flow of savings and investment capital. The transparency of the financial system gradually reduces the number of inefficient enterprises, including state-owned enterprises. In addition, policies towards financial stability have increased the expectations of households as well as investors, thereby increasing consumption and private investment, promoting the development of the financial market.

The growth model based on quantity, especially the quantity of capital, also has negative consequences for the corporate finance sector. The growth model based on increasing the amount of capital and the growth policy based on aggregate demand, led to the over-expansion of the number and size of enterprises in the period 2000 - 2006. Capital demand increased plus the resonance of the spending multipliers and the money multipliers create a credit boom.

After the credit boom and bad debt generation, it was the debt withdrawal period. Previously heavily indebted enterprises could not borrow more debt, partly because bad debts could not be paid back to banks, and partly because there was no need to expand investment in the context of economic decline and demand of enterprises. weakened economy. High inventory makes it difficult to rotate capital of enterprises. This is partly causing cash flow congestion, making businesses unable to repay bank loans. Creating an imbalance between the growth of deposits and loans in the economy, this causes savings not to be transferred to investment but stagnate outside the cycle of the economy.

* International Financial Sector

The growth model based on investment capital and the advantage of abundant, cheap labor and raw resources has brought Vietnam comparative advantages in the process of international economic integration. Besides, policies to support production for businesses, as well as monetary and exchange rate policies, are used quite flexibly, providing opportunities to boost exports during the past time, reflected in the growth rate of the economy. growth of import-export turnover tends to be positive. Besides the development of foreign trade activities, the capital account liberalization process of Vietnam must be mentioned. In 2006, the issuance of the Ordinance on Foreign Exchange and Decree 160/2006/ND-CP marked an important milestone in the capital account liberalization process. Accordingly, capital transactions are gradually loosened, especially FDI and FPI inflows. Since then, except in 2007, due to the impact of the world financial market crashing due to the economic crisis, FDI inflows dropped sharply, remaining in the following years, the amount of FDI poured into Vietnam, although although there were quite erratic fluctuations, it still remained at a higher level than the previous period.

The capital-based growth model in the context of low domestic accumulation, inevitably leads to the need to attract external capital sources for growth, including foreign loans and investments. direct FDI. For external debt, debt volume tends to increase continuously throughout the study period. In the total foreign debt balance, the Government debt and the Government guaranteed debt (foreign public debt) account for a relatively large proportion (about 85-90% of the total foreign debt in the period before 2007). From 2007 until now, the proportion of foreign public debt has tended to decrease but still accounts for nearly 70% of the total foreign debt balance.

For foreign investment flows, although investment attraction policies and capital account liberalization trends in order to exploit foreign capital sources have led to a significant increase in FDI inflows in the period from 2006 to 2016. compared with the period 2000 - 2005. However, from 2007 to now, FDI movements have fluctuated quite complicatedly with a very large fluctuation band. Currently, FDI inflows tend to be procyclical, unsustainable and speculative: when the economy is growing, capital flows tend to flow strongly into the country and when the economy is in recession, capital flows out. The reversal trend of foreign capital flows not only affects the financial market, but also puts pressure on exchange rate fluctuations, causing exchange rate risks, adversely affecting the financial system nation.

Thus, in addition to the positive effects, the economic growth model over the past time has also put a lot of pressure on the Vietnamese financial system, including the capital conduction department and financial pressure on each individual. capital, causing financial instability, is the cause leading to the cracks and failures of the financial market in Vietnam, especially from 2007 until now, after we joined the WTO and was affected of the world economic crisis. Uncertainties in the financial system, in turn, will negatively affect growth targets. Therefore, developing a healthy financial system is an important requirement, contributing to improving the effectiveness of the Government's macro management, promoting economic growth, and ensuring social security.

In summary, economic growth over the past time has brought remarkable achievements to the development of financial - monetary activities in parallel with the development of production - business and consumption activities. The increase in the capital factor for growth and growth policies have contributed to building a vibrant Vietnamese financial system - gradually approaching the market and world standards, providing back support to the target. economic growth.

3. Some recommendations

To achieve the goal of sustainable growth, contributing to the promotion of financial development. At the same time, building a strong financial system to support growth can focus on the following policies:

- Improve the efficiency of using resources for growth: In the coming time, it is necessary to focus on effectively developing human resources and promoting technology development. These are two key factors for sustainable growth, especially in the context that the industrial revolution 4.0 is developing and spreading rapidly. It is necessary to focus the State's investment capital for S&T on key and priority fields; at the same time, promote the socialization of investment capital for scientific research and technological development activities in all economic sectors.

- Deploy the roadmap to liberalize capital transactions in a prudent and appropriate manner: Liberalizing capital transactions is a route in line with the trend of integration and globalization, and at the same time helps Vietnam access with foreign loans in many other forms when preferential loans are decreasing for us. However, capital transaction liberalization is like a double-edged sword, on the one hand, supporting the demand for foreign capital, contributing to economic growth, on the other hand, if steps are not prudent and safe, the economy will be affected. domestic economy can be damaged by unstable reversal of foreign capital flows, causing financial instability and economic crisis. Building an appropriate capital transaction liberalization roadmap is also a solution to help Vietnam take advantage of the benefits of foreign loans to support economic growth and reduce adverse impacts on the economy. stabilize the macro-economy, thereby contributing to ensuring sustainable external debt.

- Completely handle weak credit institutions, continue to implement solutions to reduce bad debts. Research and improve the operating mechanism for the asset management company of credit institutions. Strengthening inspection and examination of law observance of credit institutions, closely monitoring, essentially cross-ownership and cross-investment to promptly handle violations and prevent arising risks.

- Continue to promote investment socialization: Develop and implement specific projects and systems of policies to encourage private investment to develop gradually profitable socio-economic infrastructure. For public investment, specify the minimum value of projects and works that must call for investment from non-state actors. Research and complete forms of public-private partnership (PPP). Develop a project to use the capital obtained from the equitization of SOEs to invest in some urgent projects and works to reduce the burden of public debt. Completing the plan on reorganization and renewal of SOEs; perfecting the mechanism of State ownership representation. Review to determine a reasonable plan and roadmap for equitization of enterprises operating in the field of public interest, implement maximum socialization, and create favorable conditions for social enterprises to develop.

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