

No. 319-TTg-KTTH

Hanoi, 3 March 2008

Re: Increasing measures to control inflation in year 2008.

**To: The State Bank of Vietnam;
The Ministry of Finance; The Ministry of Planning and Investment;
The Ministry of Industry and Trade; The Ministry of Construction;
And to: The State Securities Commission.**

Having considered the report dated 27 February 2008 of the National Advisory Council on Financial and Monetary Policies assessing the status of implementation of financial and monetary policies during the first two months of 2008 and [suggesting] solutions for executive operation within the next months; and after hearing the opinions of Deputy Prime Ministers and of relevant ministries, branches and other agencies which were expressed at the meeting of the Standing Committee of the Government on 28 February 2008, the Prime Minister of the Government provides the following opinion:

1. He agrees with the assessment of the current situation, the forecast of the future situation and a number of recommendations regarding solutions for executive implementation of financial and monetary policies as provided by the National Advisory Council in the above-mentioned report. The executive implementation of financial and monetary policies in the first two months of this year took place within the context of world price increases for fuel, raw materials and food supplies, which prices are continuing to increase, and in the context of the worsening economic situation in America and throughout the world which has had a major impact on the economy of Vietnam. Despite the measures for controlling prices and inflation which the Prime Minister gave right at the beginning of this year to ministries, branches and localities, the consumer price index in the first two months continued to grow to a high level (6.02%), which poses great challenges for achieving the objectives set for growth and for controlling inflation in the year 2008.
2. World market prices may well continue to increase for the rest of this year, which will again impact on inflation and on the socio-economic development of Vietnam. In order to achieve the general objectives of socio-economic planning for year 2008, the Prime Minister hereby requires ministries, branches and localities to focus and co-ordinate in properly implementing the following measures for controlling inflation and price increases, while also promoting manufacturing and ensuring macro-economic stability:
3. To continue to properly implement the tasks assigned in the instructions of the Prime Minister in Official Letter 75-TTg-KTTH dated 15 January 2008 on measures for controlling inflation and price increases in year 2008.
4. To improve the investment environment in order to raise sufficient capital to satisfy the requirements for growth, and at the same time to pay special attention to increasing the effectiveness of utilization of invested capital, particularly in the sector of public investment. To re-consider construction works and other projects for which capital has been stagnant for too long a period, projects for which the initial design is no longer appropriate or in which investment is no longer effective; and to postpone or extend [the period for implementation of] construction works which are no longer really essential.

5. To require ministries, branches and localities to closely co-ordinate in implementation of policies, particularly as between financial and monetary policies [on the one hand] and policies promoting development of manufacturing and ensuring macro-economic stability [on the other hand]. To take the initiative in continuing to actively implement the monetary policy very strictly; to executivevely operate the fiscal policy by tightening spending, by increasing the effectiveness of utilization of State budget funds and by restricting over-spending, alongside proper implementation of the policies on wages, on investment and on import and export and so forth, ensuring exact co-ordination and mutual assistance between ministries, branches and localities in order to achieve the maximum result.
6. To require the State Bank to announce and to provide capital assistance for commercial banks in order to ensure their solvency, and at the same time to consider an increase in compulsory reserve ratios; to continue to apply the policy of compulsory purchase of State Bank treasury bills as already announced, ensuring consistency with currency changes and the ability of credit institutions to bear these measures. To continue to implement the policy on positive¹ interest rates being market rates; to actively implement the monetary policy by effective use of open market instruments, compulsory reserves, discount interest rates, refinancing interest rates and basic interest rates, ensuring there is an appropriate relationship between the various types of interest rates for bonds, State Treasury bills and State Bank treasury bills. The Ministry of Finance should provide an early instruction to undertake remittance of the balance of deposits of the State Treasury at commercial banks back to the State Bank, in order to facilitate proper executive implementation of the monetary policy.
7. To continue to purchase foreign currency from investors, and to calculate and consider the priority order for the purchase of foreign currency from all relevant sellers. To conduct research into the issuance of Government bonds denominated in Vietnamese dong within Vietnam and of Government bonds denominated in foreign currency in order to restrict the current situation of dollarization within the economy, in order to attract available idle foreign currency, to reduce inflationary pressures and to either increase the national reserves or to conduct offshore investment. To continue executive implementation of the [policy on the] exchange rates as between the Vietnamese dong and the US dollar in particular and with other types of foreign currency in general, based on market demand and supply, with a forex trading band of plus or minus 2%.
8. To administer banking credit so as to maintain it at a maximum growth rate of 30% but at the same time satisfying the capital requirements for economic growth and for encouragement of agricultural and rural development. To increase control of, and to raise the quality of credit operations pursuant to international standards.
9. The solutions regarding financial, monetary and credit policies should continue to be implemented in order to facilitate the healthy development of the real property market. Measures against speculation should be applied by controlling credit and the tax policy, in association with necessary administrative measures. The Ministry of Construction should co-ordinate with the relevant ministries, branches and localities in order to adjust zoning, and to check the lists of investment and project works in order to increase the supply of real property available, and in order to create fairness and healthy development of the real property market. Banks should continue to provide loans to good projects and proper investments, but if they discover indications of speculation or of purchase for immediate resale, then they should recover their capital and deal strictly with the matter, in particular with any State owned enterprise which does not have the function of real property investment. There should be an increase in market supply in order to satisfy the housing demand and to develop urban zones, industrial zones and so forth.

¹ Allens Arthur Robinson footnote: The Vietnamese word "thuc duong" here means that the interest rate must be positive in the sense of higher than the inflation rate, otherwise it would be negative.

10. To complete the plan for development of the securities market on a stable and sustainable basis. To implement measures for the market to recover and develop, and not to decline. To create conditions to increase the supply of securities, without restricting companies from participating in making announcements and listing on the trading market. To continue equitization and initial public offerings of State owned enterprises, in particular of large corporations and enterprises. To continue to implement Decision 03 dated 1 February 2008 on control of lending for business in securities, and to widely disseminate the contents of this Decision in order to avoid creating the false impression that the State's policy is to narrow this market.
11. To research and make a submission to the Prime Minister regarding the possibility of permitting establishment of branches and 100% foreign owned fund management companies in Vietnam, aimed at managing investment funds which raise foreign capital in order to successfully attract foreign owned capital, increasing publicity, transparency and proper management of these operations, and ensuring that representative offices do not conduct business operations which is contrary to law.
12. To research and make a submission to the Government on regulations on the percentage of foreign investors' ownership of unlisted securities, ensuring the requirements for proper regulation, reducing risks, ensuring that this percentage is not higher than the percentage applicable to listed companies, and ensuring that it is consistent with rules stated in company charters.
13. To research and report to the Prime Minister regarding the possibility of permitting the State Capital Investment Corporation to purchase a number of classes of good shares, ensuring effectiveness and a high ability to make payment in necessary cases.
14. The establishment of any additional securities companies and shareholding commercial banks needs to be carefully controlled, ensuring that they satisfy all the stipulated conditions and criteria; and at the same time with any increase in the number of such securities companies and banks, conditions should be created to facilitate their becoming stable within a very short period, for their step by step growth and increase in financial capability and operational scope, in order to contribute to an increased market size.
15. First and foremost in the current conditions, we should concentrate on attracting foreign currency which currently exists within our country, and for the moment postpone the issuance of Government bonds overseas.
16. We should concentrate on developing and extending the export market, using our best endeavours to achieve an export market growth rate for the year of above 25%.
17. The Ministry of Industry and Trade and local people's committees should increase their control of the domestic market by fighting speculation and goods' price increases, abuse of inflation and abuse of monopoly positions to profit by infringing consumer rights. Research should be undertaken in order to apply appropriate measures to control prices of monopoly goods such as by fixing limits, by price registration, price notification, price declaration, and price listing and selling in accordance with listed prices.
18. The State Bank of Vietnam and the Ministries of Finance, of Industry and Trade, of Construction, of Planning and Investment and the State Securities Commission should regularly update and promptly supply [to others] information about finance, currencies and securities and about the measures taken by the Government to control inflation and price increases, to develop manufacturing and so forth, in order to create an official information channel for the citizens and to contribute to directing public opinion; and also to hold weekly briefings on the status of implementation of these measures and on economic growth.

19. The Ministry of Information and Communications should instruct mass media agencies to strictly coordinate with the relevant Government bodies to provide accurate information and to support State policies in this sensitive sector, avoiding false information which could incite or create social insecurity.

For the Prime Minister
Deputy Prime Minister

NGUYEN SINH HUNG