

Monetary policy and banking activities management measures to support labour market development

The State Bank of Vietnam

General assessment of Vietnam's labour market

Labour is an important input to the production process along with capital and total factor productivity (TPF). High-quality labour is a decisive factor in improving labour productivity, economic growth and the development level of each country. As for central banks, labour market indicators are one of the important bases of monetary policy decision-making. For the labour market to develop in balance with other markets, central banks need to focus on aspects revolving around workers as the core target with a view to: (i) stabilising the economy, creating a favourable environment for production and business activities, developing the economy, creating more jobs, increasing labour demand, expanding the labour market, and controlling inflation at a reasonable level and in line with wages; (ii) training, improving skills for employees, improving labour quality and social labour productivity; and (iii) taking care of workers' lives, creating a safe living environment and motivating employees to work harder.

According to the 2021 Statistical Yearbook, the total population of Vietnam in 2021 was 98.5 million people; in which the labour force size (including people aged 15 and over) had reached 50.56 million; and the number of employed workers had reached 49.07 million people. Over the past two years, due to the impact of the Covid-19 pandemic, the labour market has been adversely affected as follows: (i) the employed labour force in 2021 decreased by 4.5 million people compared with 2020, and by 5.59 million people compared with 2019; (ii) there has been a large movement of workers from urban to rural areas and from major economic centres to the provinces, and a change in the structure of employment such that labour forces decreased in the industrial and services sectors, and increased in the agricultural sector; and (iii) the underemployment and unemployment rates have risen, wages and incomes have decreased, and workers' have faced many difficulties.

At present, the labour market has tended to recover but has not yet returned to pre-pandemic levels. The number of employed workers reached 50.5 million in the third quarter of 2022, higher than the 2021 level (49.07 million) but remained considerably lower than the 2019 level (54.66 million).

Solutions for managing monetary policy and banking activities to support and develop the labour market

In order to support and develop the labour market, in recent years, the State Bank of Vietnam (SBV) has consistently managed monetary policy to achieve the goals of inflation control and macroeconomic stability. It has contributed to creating a stable

macroeconomic environment to facilitate the expansion of production and other business activities by enterprises, and the creation of jobs. The SBV has implemented programmes and policies to support, train and improve skills for workers, and to support those experiencing difficulties in the complex context of the Covid-19 pandemic.

First, the SBV managed monetary policy in a proactive, flexible and cautious manner, and in close coordination with fiscal and other macroeconomic policies. This was with the objectives of achieving macroeconomic stability, inflation control and economic growth support, and thereby expanding the labour market. In particular, the SBV: (i) reduced interest rates in 2020, and stabilised them from 2021 and throughout the first nine months of 2022 in the context of huge pressure on Vietnam to hike interest rates in 2022 both domestically and internationally (there were a total of 308 interest rate hikes by central banks globally); (ii) managed the exchange rate policy in a flexible manner, in line with market movements to ensure the macroeconomic stability; (iii) ensured safe and effective credit extension along with credit quality improvement, thus supporting capital for production and business activities – as of 31 October 2022, credit had increased by 11.62% in the year to date¹ (in 2021 it increased 8.72% year to date). Besides, in order to mitigate the impact of Covid -19, debt restructuring, interest rate exemptions and reductions without changing debt categories for businesses and households were introduced. As of end-September 2022, the accumulated amount of debt restructured without changing debt categories was VND 722,447 billion from 1,090,733 customers, and the outstanding balance was VND 95,184 billion. Further, the accumulated amount of interest rate and fee exemption and reduction, without changing debt categories, reached VND 92,425 billion from 561,989 customers – the outstanding balance was VND 14,733 billion.

As a result, the economy recovered and economic growth in the first nine months of 2022 reached 8.83%, the highest increase for nine months between 2011 and 2022. The growth rate in the third quarter alone was 13.67%. In the first ten months of 2022, there were 125,800 newly registered businesses – a 34.3% increase in the number of businesses and an 18% increase in the number of employees, year on year. These data show that the labour market has expanded compared with the previous period, along with the recovery of the economy.

Second, the consistent implementation of monetary policy management solutions to inflation control has contributed to the economy's low and stable inflation in recent years, supporting the living standards of workers, and minimising pressure to increase wages due to the impact of rising commodity prices and the cost of living for workers. The consumer price index average in the past four years has been below the 4% target assigned by the National Assembly. In the first ten months of 2022, it increased by 2.89% amid rising commodity prices and soaring inflation in many countries, which was a clear indicator of positive results for the monetary policy management solutions of the SBV.

Third, the Vietnam Bank for Social Policy (VBSP) has implemented many lending programmes to support job creation, improve workers' skills and buy social housing.

¹ In which, VND credit increased by 12.26% year to date and foreign currency credit increased by 0.66% year to date.

These include a lending programme for employees participating in labour exporting, creating more jobs for Vietnamese workers in the foreign labour market. As of 30 September 2022, the total outstanding loans for labour export (to support workers to improve their skills and foreign languages) reached VND 740.2 billion, with more than 13,600 customers with outstanding debt. There is also a student lending programme that has been active since its initial implementation in 2007, helping students to cover tuition fees and living expenses, support training, improve skills and improve labour quality. As of 30 September 2022, the total outstanding loan amount was approximately VND 9,878.7 billion with 259,844 students benefitting. The outstanding balance in respect of lending for the purpose of creating jobs stood at VND 54,073.1 billion, as of 30 September 2022, with nearly 1.21 million customers. Meanwhile, social housing lending with a preferential interest rate of 4.8% per annum – in accordance with Decree 100/2015 – supports workers with houses. As of 30 September 2022, the outstanding balance in respect of this programme had reached VND 9,147.1 billion, with almost 25,700 customers.

Solutions contributed to stabilising and developing the labour market, supporting rapid and sustainable economic recovery and development

First, continuing to protect people's health has been a primary concern. Measures included maintaining a high vaccination rate to prevent new variants of the Covid-19 pandemic and always being on guard against other diseases. Authorities have also implemented solutions to improve the welfare of workers, – especially in metropolises, industrial zones and export processing zones – in order to limit the number of workers fleeing big cities. This has avoided a labour shortage in the formal sector that would have put pressure on businesses.

Second, a focus on supporting and creating jobs for employees has yielded results. Policies to improve training and sustainable labour development have improved skills and labour productivity. Meanwhile, policies to incentivise work and productivity have been implemented (including improved salaries, bonuses and changes to office cultures). And there has been an increase in labour market connectivity through "job exchanges" in the public sector.

Third, with regard to long-term solutions, it is necessary to have a strategy for the education and training of workers at all levels of education. It is also important to pay attention to the healthcare of mothers and children, combined with improving nutrition, in order to create a future generations of workers possessed of good health, physical strength and high-quality skills to improve and enhance labour productivity for rapid and sustainable development.

Fourth, regarding monetary policy and banking activities, there are several areas of focus. These include continuing to manage monetary policy tools in a cautious, flexible and uniform manner, and in coordination with fiscal and other macroeconomic policies. The goals of monetary and banking activities include macroeconomic stabilisation, inflation control, creating a favourable business environment for people and enterprises, helping to expand the labour market,

improving jobs and ensuring a good quality of life for workers. The SBV, together with the system of credit institutions, continues to implement solutions to support the labour market according to the government's programmes.

In Vietnam, in the context that labour as well as other markets has not fully developed, the market structure has not been synchronised enough; there have remained limitations in the labour statistics that do not have full reflection of other macroeconomic developments and balances. Therefore, the application of labour market indicators to monetary policy decision-making, despite being considered by the SBV, has not yet been implemented.