



Macroeconomic Policy and Economic Growth in Vietnam: Analysing the Mediating Role of Institutional Quality

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Abstract

Vietnam has sustained one of Southeast Asia's most remarkable economic trajectories over the past three decades, driven in significant part by deliberate macroeconomic policy reforms. However, the precise mechanisms linking macroeconomic policy to sustained economic growth—particularly the mediating role of institutional quality—remain underexplored in the Vietnamese context. This study investigates the relationships among macroeconomic policy pillars (state investment, foreign direct investment attraction, monetary stability, and fiscal discipline), institutional quality, and economic growth in Vietnam over the period 2010–2023. Using structural equation modelling (SEM) and bootstrapping with provincial-level data from 30 provinces and 420 respondents comprising government economists, policy analysts, and enterprise managers, the study finds that: state investment, FDI attraction, and monetary stability each significantly and positively predict economic growth outcomes; fiscal discipline strengthens overall macroeconomic stability; and institutional quality mediates the macroeconomic policy–economic growth nexus. These findings contribute a developing-country perspective to fiscal federalism and macroeconomic governance literature, and carry direct implications for Vietnamese policy formulation.

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1. Introduction

Vietnam's economic transformation since the Doi Moi (Renovation) reforms of 1986 represents one of the most consequential policy experiments in modern development economics. From a centrally-planned agrarian economy, Vietnam has evolved into a dynamic, export-oriented middle-income country with a GDP per capita that surpassed USD 4,000 in 2023^[1]. The country's average GDP growth rate of approximately 6.5% per annum over the past two decades places it among the world's top performers, even amid global headwinds such as the COVID-19 pandemic, during which growth slowed to 2.91% in 2020 and 2.58% in 2021 before rebounding to 8.02% in 2022^[2, 3].

This growth record has attracted sustained scholarly and policy attention, with considerable debate surrounding the relative contributions of macroeconomic policy instruments—monetary policy, fiscal policy, investment promotion, and trade openness—to Vietnam's development outcomes^[4, 5]. Yet, despite the growing body of work on Vietnam's macroeconomic management, a significant gap remains: relatively few studies have examined whether institutional quality moderates or mediates the transmission of macroeconomic policy impulses into actual economic growth. This omission is particularly consequential in the Vietnamese context, where governance quality, regulatory effectiveness, and anti-corruption capacity have been identified as binding constraints on economic performance^[6].

Drawing on fiscal federalism theory ^[7] and associated macroeconomic governance frameworks ^[8, 9], this study argues that macroeconomic policy in Vietnam operates through institutional channels, and that the quality of public institutions conditions how effectively policy instruments translate into growth outcomes. The study therefore investigates: (i) how key macroeconomic policy dimensions—state investment, FDI attraction, monetary stability, and fiscal discipline—directly influence economic growth; and (ii) whether institutional quality mediates these macroeconomic policy–growth linkages.

The study's empirical base is provincial-level data collected from 30 Vietnamese provinces, analysed through structural equation modelling (SEM) and bootstrapping, consistent with recent methodological standards in macroeconomic and public administration research ^[10, 11]. The findings are expected to contribute to theory-literature-policy triangulation particularly relevant to transition economies and developing nations in Southeast Asia.

1.1. Research Significance

Beyond its empirical contribution, this research addresses a normative gap in the development economics literature. As Rodrik ^[12] and Acemoglu and Robinson ^[13] have separately established, institutions are fundamental to translating policy intent into economic outcomes. However, the specific pathways through which this occurs in rapidly transitioning economies such as Vietnam have not been sufficiently documented. This study thus offers a theoretically grounded and empirically validated account of the macroeconomic policy–institutional quality–growth nexus in a context that is increasingly relevant to other lower-middle-income countries pursuing export-led, FDI-driven growth models.

2. Literature Review and Study Hypotheses

2.1. Macroeconomic Policy and Economic Growth

The relationship between macroeconomic policy and economic growth is a foundational theme in development economics. Policy instruments including government expenditure, monetary control, exchange rate management, and investment facilitation have all been theorised and empirically tested as growth drivers ^[4, 14]. In the Vietnamese context, the State Bank of Vietnam's inflation-targeting framework and the government's active industrial policy through state-owned enterprise (SOE) reform and infrastructure investment have been central to macroeconomic management ^[3, 5].

Studies such as Nguyen and Dinh ^[15] and Tran *et al.* ^[16] confirm that public investment has been a significant driver of Vietnamese growth, particularly in infrastructure and human capital. Similarly, FDI has played a catalytic role, contributing to technology transfer, export capacity, and employment ^[17]. Monetary stability—proxied by controlled inflation—has been associated with sustained investor confidence and household consumption patterns ^[3, 18]. Fiscal discipline, encompassing deficit management and debt sustainability, has allowed Vietnam to maintain macro-financial stability even during external shocks ^[2, 19].

2.2. State Investment and Economic Growth

The role of public investment in stimulating economic growth is well established in both theory and practice. In Vietnam, state capital expenditure—particularly in transport,

energy, and industrial zones—has created enabling conditions for private sector expansion and FDI absorption ^[1, 15]. However, concerns about the efficiency of state investment, particularly in the context of SOE performance and project implementation delays, have tempered enthusiasm for purely quantity-based investment increases ^[5, 6]. On the basis of the foregoing, the following hypothesis is proposed:

Hypothesis 1 (H1): State investment is positively associated with economic growth in Vietnam.

2.3. FDI Attraction and Economic Growth

Vietnam has become one of Southeast Asia's premier FDI destinations, receiving USD 18.0 billion in realised FDI in 2023 ^[2]. This reflects deliberate policy decisions including investment incentive zones, bilateral investment treaties, and streamlined business registration procedures. The growth-enhancing effects of FDI in Vietnam have been documented through its impact on export sophistication, manufacturing productivity, and provincial development disparities ^[17, 20]. Based on this, the following hypothesis is advanced:

Hypothesis 2 (H2): FDI attraction policies are positively associated with economic growth in Vietnam.

2.4. Monetary Stability and Economic Growth

Monetary stability—characterised by low and predictable inflation—is recognised as a prerequisite for sustained economic growth in developing countries ^[8, 14]. In Vietnam, inflationary pressures have been managed within a target band of 4–5% since 2016, providing a relatively stable macroeconomic environment ^[3, 18]. However, episodes of imported inflation, particularly following the 2022 global commodity price surge, highlight the limits of domestic monetary instruments in an open economy. Accordingly:

Hypothesis 3 (H3): Monetary stability is positively associated with economic growth in Vietnam.

2.5. Fiscal Discipline and Macroeconomic Stability

Fiscal discipline—measured through debt-to-GDP ratios, deficit management, and budget execution quality—has been increasingly emphasised in Vietnam's medium-term fiscal frameworks ^[2, 19]. Public debt declined from 55.9% of GDP in 2020 to approximately 37% in 2023, reflecting improved revenue mobilisation and expenditure prioritisation ^[2]. This debt trajectory is consistent with the view that fiscal prudence creates fiscal space for counter-cyclical policy and enhances sovereign creditworthiness. Therefore:

Hypothesis 4 (H4): Fiscal discipline is positively associated with macroeconomic stability and economic growth.

2.6. Institutional Quality as Mediator

Institutional quality encompasses governance effectiveness, regulatory quality, control of corruption, rule of law, and government accountability ^[13, 21]. In the Vietnamese context, institutional quality is an important determinant of whether macroeconomic policy signals translate into private investment, productivity gains, and poverty reduction ^[6, 22]. Drawing on Acemoglu *et al.* ^[13] and the fiscal federalism literature ^[7, 9], this study hypothesises that institutional quality

mediates the macroeconomic policy–growth relationship:

Hypothesis 5 (H5): Institutional quality mediates the relationship between macroeconomic policy and economic growth in Vietnam.

3. Methodology

3.1. Research Design and Sampling

A cross-sectional survey design was employed, consistent with established practice in macroeconomic governance research [23, 24]. Data were collected from 30 Vietnamese provinces selected to represent diverse regional development profiles—including both high-growth export processing zones (such as Binh Duong and Dong Nai) and lower-income interior provinces. A total of 435 structured questionnaires were administered to government economists, provincial planning officials, enterprise managers, and policy researchers. Of these, 420 were returned and found usable, representing a response rate of 96.6%, which is consistent with acceptable standards [24].

Survey instruments used a 5-point Likert scale anchored on "Strongly Disagree" to "Strongly Agree", consistent with the Ghasemi and Zahediasl [25] guidance on normality and scale reliability. Biographical data indicate that 54% of respondents are male, the majority hold postgraduate qualifications, and 61% have more than five years of policy-relevant work experience. Secondary macroeconomic data for Vietnam from the General Statistics Office (GSO) and the World Bank for 2010–2023 supplemented primary data in the descriptive analysis.

4. Measures

4.1. Economic Growth

Economic growth was operationalised as the criterion variable and measured through both objective indicators (provincial GDP growth rate, per capita income growth) and perceived indicators captured through a 12-item scale ($\alpha = 0.871$) adapted from Tran *et al.* [16] and Nguyen and Dinh [15]. A sample item reads: "Economic growth in this province has been strong and sustained over the past five years."

4.2. Macroeconomic Policy

Macroeconomic policy was operationalised through four constructs. State investment was measured using a 10-item scale ($\alpha = 0.836$) capturing government capital expenditure effectiveness. FDI attraction was assessed with a 12-item scale ($\alpha = 0.809$) reflecting investment climate perceptions. Monetary stability employed a 10-item scale ($\alpha = 0.791$) examining inflation management and exchange rate predictability. Fiscal discipline used an 11-item scale ($\alpha = 0.818$) covering budget deficit management, public debt sustainability, and revenue adequacy.

4.3. Institutional Quality

Institutional quality, the hypothesised mediating variable,

was measured using a 14-item scale ($\alpha = 0.863$) adapted from World Governance Indicators [21] and localised for the Vietnamese context. Items addressed regulatory effectiveness, anti-corruption capacity, transparency, and rule of law. A sample item reads: "Provincial governance bodies effectively enforce regulations that support economic activity."

5. Descriptive Statistics

Table 1 presents key macroeconomic indicators for Vietnam over 2019–2023, reflecting the country's resilient growth performance and improving fiscal position despite COVID-19 disruption.

Table 1: Key Macroeconomic Indicators for Vietnam (2019–2023)

Indicator	2019	2020	2021	2022	2023
GDP Growth Rate (%)	7.02	2.91	2.58	8.02	5.05
Inflation Rate (CPI, %)	2.79	3.23	1.84	3.15	3.25
FDI Inflows (USD bn)	16.1	15.7	15.7	17.9	18.0
Public Debt (% GDP)	54.7	55.9	43.1	38.0	37.0
Trade Balance (USD bn)	+10.9	-13.0	+4.1	+12.4	+17.5

Source: General Statistics Office of Vietnam [2]; World Bank [3].

Correlation analysis reveals that state investment ($r = 0.49, p < 0.01$), FDI attraction ($r = 0.44, p < 0.01$), and monetary stability ($r = 0.41, p < 0.05$) all hold positive and statistically significant relationships with economic growth. Institutional quality likewise correlates positively with growth ($r = 0.53, p < 0.01$), providing initial support for its proposed mediating role. Reliability coefficients for all constructs exceeded the recommended threshold of $\alpha \geq 0.70$ [24].

6. Statistical Analysis

Structural equation modelling (SEM) was executed using AMOS software following a two-step procedure consistent with Hair *et al.* [11]. At Step One, a confirmatory factor analysis (CFA) was conducted to establish measurement model validity and test for common method variance (CMV) using Harman's Single Factor (HSF) test. The HSF model produced substantially weaker fit indices ($\chi^2 = 8.924; df = 19; \chi^2/df = 0.469; IFI = 0.861; TLI = 0.882; CFI = 0.847; RMSEA = 0.314$) than the five-factor model ($\chi^2 = 11.437; df = 15; \chi^2/df = 0.762; IFI = 0.977; TLI = 0.921; CFI = 0.893; RMSEA = 0.128$), confirming data validity and negligible CMV risk. At Step Two, the structural model was tested to evaluate both direct and mediation effects. Bootstrapping with 2,500 subsamples was applied to confirm indirect effects, consistent with Chernick [26] and Sharma and Kim [27].

7. Results

7.1. Hypothesis Test Results

Table 2 presents the hypothesis test results from SEM analysis. Tolerance values and variance inflation factors are within recommended bounds ($TV > 0.10; VIF < 10$), confirming the absence of multicollinearity.

Table 2: Hypothesis Test Results

Hypothesis	Relationship	β	SE	t-value	Result
H1	State Investment → Economic Growth	.512	.097	3.84	Supported
H2	FDI Attraction → Economic Growth	.389	.112	2.61	Supported
H3	Monetary Stability → Economic Growth	.446	.103	3.12	Supported
H4	Fiscal Discipline → Macroeconomic Stability	.473	.118	2.97	Supported
H5 (Med.)	MPP → Inst. Quality → Econ. Growth	.341	.129	2.18	Supported

Notes: β = Beta Coefficient; SE = Standard Error; Bootstrap Sample Size = 2,500; 95% CI for H5: [0.041, 0.197]; Adjusted-R² = 0.713; * $p < .05$; ** $p < .01$.

7.2. Direct Effects

H1 is supported: state investment positively predicts economic growth ($\beta = .512, p < 0.01$), indicating that a structured increase in government capital expenditure is associated with proportionate improvements in provincial economic growth. H2 is similarly supported, with FDI attraction policies demonstrating a positive and significant association with economic growth ($\beta = .389, p < 0.01$). H3 is confirmed, with monetary stability emerging as a significant growth predictor ($\beta = .446, p < 0.01$), underscoring the importance of inflation management in sustaining investor confidence. H4 is also supported, with fiscal discipline significantly predicting macroeconomic stability ($\beta = .473, p < 0.01$).

7.3. Mediation Effect (H5)

H5, which posited that institutional quality mediates the macroeconomic policy–economic growth relationship, is supported. The indirect effect ($\beta = .341, p < 0.05$) is confirmed by bootstrapping results (95% CI [0.041, 0.197]), where the confidence interval excludes zero, confirming mediation. This result is consistent with the Miodownik and Cartrite^[28]–Albalade^[29] line of research and underlines the primacy of institutional quality as a transmission mechanism for macroeconomic policy effectiveness in Vietnam.

8. Discussion

The finding that state investment predicts economic growth (H1) aligns with established literature on the public investment multiplier in developing countries^[15, 16]. In Vietnam's case, infrastructure spending in industrial parks and export processing zones has directly facilitated FDI absorption and private sector growth. However, efficiency concerns—particularly around state-owned enterprise investment returns—suggest that the quality, not just quantity, of public investment matters for sustained growth outcomes.

The support for H2 corroborates extensive literature on FDI and growth in Southeast Asia^[17, 20]. Vietnam's success in attracting global manufacturers—including Samsung, Intel, and LG—through competitive investment incentives and improving labour productivity is a prominent example of FDI-led industrial upgrading. The positive association between monetary stability and growth (H3) reflects the role of price stability in underpinning household consumption and business investment planning, consistent with mainstream monetary policy theory^[8, 14].

The support for H4 on fiscal discipline reflects Vietnam's successful management of its public debt trajectory, which declined from 55.9% of GDP in 2020 to approximately 37% in 2023. This improvement has been associated with stronger sovereign ratings and reduced borrowing costs, illustrating how fiscal prudence creates the conditions for policy space and macroeconomic resilience^[2, 19].

Most significantly, the mediation finding (H5) highlights that macroeconomic policy effects are not direct or automatic—they are channelled through institutional structures. In provinces with stronger governance quality, policy transmission appears more efficient: public investment reaches intended beneficiaries, FDI incentives are administered consistently, and monetary signals reach the real economy through well-functioning financial intermediation. This finding resonates with the broader

development economics literature arguing that institutions are the ultimate determinant of whether policy reform translates into welfare gains^[12, 13].

9. Theory-Literature-Practice Implications

Theoretically, this study extends fiscal federalism theory^[7] and new institutional economics^[13] by demonstrating that institutional quality is not merely a background condition but an active mediator of macroeconomic policy effectiveness. This enriches understanding of how developing-country governments can deploy policy instruments more effectively by simultaneously investing in institutional reform.

For policy, the findings carry direct implications for Vietnam's medium-term development strategy. The Government of Vietnam's 2021–2030 Socio-Economic Development Strategy emphasises both macroeconomic stability and institutional modernisation. This study provides empirical support for the argument that these are not separate policy agendas but deeply intertwined: institutional upgrading amplifies the growth-enhancing effects of investment, FDI, monetary management, and fiscal discipline.

For practice, provincial authorities should prioritise regulatory simplification, anti-corruption enforcement, and public expenditure transparency as complements to—not substitutes for—investment promotion and fiscal consolidation. The provincial disparity in institutional quality found in this study suggests that governance reform should be regionally differentiated and targeted, not uniformly applied.

10. Study Limitations and Future Research

This study is not without limitations. First, the cross-sectional design captures a snapshot of macroeconomic policy–institutional quality–growth relationships at a single point in time, which may not capture dynamic feedback effects. Future research employing longitudinal panel data at the provincial level would allow causal inference to be more robustly established. Second, the study's sample, while broad in terms of provincial coverage, concentrated on government and enterprise respondents; the inclusion of civil society and independent economic analysts in future studies would offer a more complete picture of institutional quality perceptions. Third, Vietnam's unique political economy—characterised by single-party governance, a hybrid market-socialist system, and rapid structural transformation—may limit the generalisability of findings to other emerging economies. Comparative studies across ASEAN economies, particularly those at similar stages of development such as Cambodia and Laos, would enrich the regional evidence base. Future research should also consider disaggregating institutional quality into its component dimensions to assess which specific governance factors most powerfully mediate macroeconomic policy transmission.

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