

## D/ DETAILED OUTLINE

### Question 1

#### **a. Government Budget Balance Analysis (200 words)**

- Begin by clearly stating the country you have been assigned to analyze
- Gather data on the government budget balances for the years 2021 and 2022. You can obtain this information from official government websites, central banks, or reputable economic databases.
- Calculate the government budget balance for each year by subtracting total government expenditures from total government revenues (Budget Balance = Total Revenues - Total Expenditures)
- Analyze the reasons behind the government budget surpluses or deficits for each year.
  - + Surpluses may result from:
    - Higher revenues (e.g., increased tax collection)
    - Lower expenditures (e.g., reduced government spending)
  - + Deficits may result from:
    - Lower revenues (e.g., economic downturn affecting tax revenues)
    - Higher expenditures (e.g., increased government spending during a crisis)

#### **Example:**

- The assigned country for this analysis is Germany.
- In 2021, Germany's government reported a budget surplus of €45 billion, while in 2022, it recorded a deficit of €30 billion (German Ministry of Finance n.d.)
- The government budget surplus in 2021 can be attributed to robust tax revenues, prudent fiscal management, and lower-than-expected expenditures due to pandemic-related relief programs ending.
- In contrast, the deficit in 2022 was primarily caused by increased public spending on infrastructure projects and social welfare programs aimed at stimulating economic recovery post-pandemic. Additionally, a dip in tax revenues due to economic challenges contributed to the deficit."

#### **b. Influence on Monetary Policy**

- You can consider the following point for your analysis
  - + Impact of Budget Surpluses on Monetary Policy:

- If the government runs surpluses, it can reduce its borrowing needs, potentially reducing demand for loans and putting downward pressure on interest rates.
  - Lower interest rates can stimulate investment and consumer spending, which may be a goal of monetary policy to spur economic growth.
  - The central bank might respond by adjusting its policy rates (e.g., lowering the benchmark interest rate) to support the government's economic objectives.
- + Impact of Budget Deficits on Monetary Policy:
- Large deficits can increase government borrowing, which may raise interest rates due to higher demand for loans, potentially crowding out private sector borrowing.
  - Higher interest rates can be a concern for controlling inflation, and the central bank may respond by tightening monetary policy (e.g., raising interest rates) to curb inflationary pressures.
  - The central bank's actions to stabilize inflation and manage interest rates can influence the broader economy.
- You should include real data about any indicators mentioned in your analysis and cite academic sources to support your statement

### **Example:**

- "Germany's budget surplus in 2021 led to reduced government borrowing, which, in turn, lowered demand for loans in financial markets. This decrease in demand put downward pressure on interest rates, prompting the central bank to consider lowering its policy rates to stimulate investment and economic growth.
- In contrast, the budget deficit in 2022 increased government borrowing needs, potentially raising interest rates due to higher demand for loans. The central bank may have responded by tightening monetary policy to control inflationary pressures and stabilize the economy.

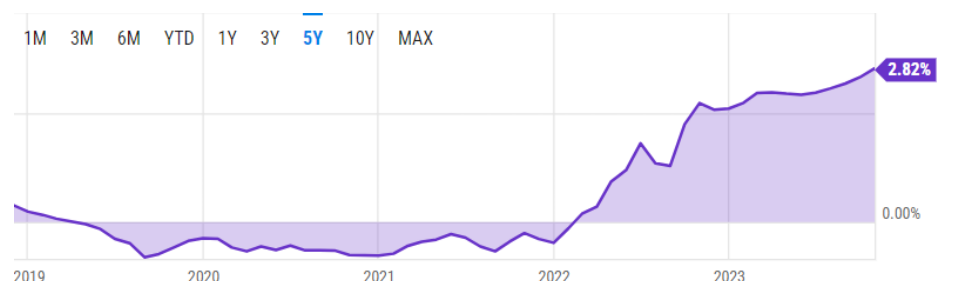


Figure: Germany's Interest Rate (2019-2023)

### **Conclusion on Question 1:**

- Summarize the main findings of your analysis, emphasizing the relationship between government budget balances and monetary policy in the last two years.

### **Example:**

In summary, Germany experienced a budget surplus in 2021 due to robust revenues and prudent fiscal management, while a deficit emerged in 2022 due to increased public spending and economic challenges. These budget balances influenced monetary policy, with surpluses potentially leading to lower interest rates to stimulate economic growth and deficits possibly resulting in tighter monetary policies to control inflation

### **Question 2:**

#### **a. Payment System Comparison**

- Discuss the payment systems of the two countries, focusing on key features, infrastructure, and methods.
- Explain how each country's payment system impacts its economy and financial stability.
- Provide data and statistics on payment system usage in both countries.

### **Example:**

- Country A boasts a sophisticated payment system characterized by electronic funds transfers, widespread credit card usage, and advanced online banking. In contrast, Vietnam relies heavily on cash transactions, but recent efforts have led to the expansion of digital payment methods.
- Country A's mature system enhances financial inclusion and efficiency, while Vietnam's evolving system shows potential for growth ([PwC n.d.](#)).
- The payment system's influence on economic stability is evident, as Country A enjoys reduced transaction costs and faster fund transfers, contributing to economic growth. Vietnam's ongoing digitization efforts aim to boost economic efficiency, although challenges remain ([Vietnam News 2023](#)).
  - + Infrastructure Development: Building a robust digital infrastructure is a significant challenge, particularly in rural and remote areas.
  - + Skill Gap: There is a need to upskill the workforce to match the demands of a digital economy.
  - + Cybersecurity Concerns: With increased digitization comes the risk of cyber threats, necessitating strong cybersecurity measures.
  - + Regulatory Framework: Developing a regulatory environment that supports digital innovation while protecting consumer and business interests is complex.

- + Digital Divide: Ensuring equitable access to digital resources across different socio-economic groups is crucial to avoid widening the digital divide.

### b. Treasury Bond Yields Analysis

- Collect and present data on 2-year and 10-year treasury bond yields for your assigned developed country and Vietnam in 2021 and 2022 (you may download data from Refinitiv Eikon or sources such as central banks' websites, Statista, IMF, World Bank, and OECD)
- Analyze the trends and differences in bond yields, considering factors like economic conditions, inflation, and central bank policies.
- Use academic references and economic theories to support your analysis.

#### Example:

- In 2021 and 2022, Country A's 2-year treasury bond yields remained stable at around 1.5%, reflecting a strong and stable economy. Conversely, Vietnam experienced more significant fluctuations, with yields ranging from 2% to 4% during the same period, primarily driven by emerging market volatility and inflation concerns.



**Figure :** Vietnam's 10 year bond yield ([Trading Economics n.d.](#))

- Country A's consistent yields are attractive to risk-averse investors seeking steady returns. However, Vietnam's higher potential returns may entice investors with a higher risk tolerance
- Economic theories suggest that yield differentials are influenced by inflation expectations, central bank policies, and global economic conditions, factors that explain the disparity between the two countries.

### **c. Differences in Treasury Rates**

- Explain the differences in treasury rates between the two countries. Discuss the reasons behind these disparities.
- Consider factors such as credit risk, foreign exchange rates, investor sentiment, and government policies.
- Utilize relevant academic literature and economic models to substantiate your explanations.

#### **Example:**

- The significant differences in treasury rates between Country A and Vietnam can be attributed to several factors.
  - + Country A enjoys lower perceived credit risk due to its stable economy and strong credit rating, resulting in lower yields. In contrast, Vietnam's emerging market status and inflation concerns lead to higher yields to compensate for the increased risk.
  - + Additionally, foreign exchange rate fluctuations and investor sentiment play a role in treasury rate disparities. Country A's yields are also influenced by the central bank's accommodative monetary policies, which aim to maintain economic stability.

### **d. Treasury Bond Investment Proposal**

- Based on the payment systems and the information collected, propose a type of treasury bond for your bank to invest in.
- Justify your recommendation by considering factors like risk tolerance, investment horizon, and expected returns.
- Include an analysis of the potential benefits and risks associated with the chosen treasury bond.

#### **Example:**

- Based on the analysis, we propose that the bank considers investing in 10-year treasury bonds from Country A.
- These bonds offer a balance between risk and return, providing stable yields driven by the country's economic stability. While Vietnam may offer higher potential returns, the increased risk associated with emerging markets and inflation volatility suggests a cautious approach.
- Investing in Country A's treasury bonds aligns with the bank's risk tolerance and long-term investment horizon.

### **e. Conclusion**

- Summarize the key findings of the report, including the payment system comparisons, treasury bond yield analysis, and investment proposal.
- Reinforce the significance of these findings for your bank's investment strategy.

### **Example:**

- In conclusion, the analysis of payment systems and treasury bond yields in Country A and Vietnam provides valuable insights for the bank's investment strategy.
- The payment system comparison highlights the varying stages of development in both countries, while the treasury yield analysis explains the disparities driven by economic stability and risk factors.
- Based on this analysis, we recommend a conservative approach with investments in 10-year treasury bonds from Country A, offering a balance of stability and returns.

## **E/ TIPS & TRICKS**

### **1. Research and Data Collection:**

- Start your research early and gather relevant data from reputable sources such as central banks, financial databases (e.g., Refinitiv Eikon), and international organizations (IMF, World Bank).
- Ensure the data you collect aligns with the years 2021 and 2022, and it's specific to your assigned country or countries (Vietnam and your assigned developed country).
- Use tables and charts to present data when it enhances the understanding of your analysis. Keep in mind that these should complement your text, not replace it.
- Ensure that tables and figures are appropriately labeled, with clear titles and sources cited.

### **2. Professionalism**

- Follow the provided structure and word count limits for each part of the report. Clear organization is essential for academic writing.
- Use headings and subheadings to break down your analysis into sections. Make sure your report is reader-friendly and easy to navigate.

### **3. Writing Tips**

- Write concisely and coherently. Avoid unnecessary jargon and ensure your writing is clear and understandable.
- Use proper grammar and punctuation. Proofread your work to eliminate spelling and grammatical errors.