

The Impact of Temporary Fiscal Policies on Listed Companies in Vietnam



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ABSTRACT: This research examines the impact of temporary fiscal policies on the financial performance and market dynamics of firms listed on Vietnam's stock exchanges. By utilizing panel data spanning from 2018 to 2023, the study applies econometric methods, specifically a fixed-effects regression model, to explore the connections between fiscal stimulus measures—such as tax benefits and government subsidies—and corporate indicators, including profitability, stock price fluctuations, and investment behavior. The results demonstrate that temporary fiscal policies positively influence corporate profitability, stabilize market dynamics, and promote reinvestment, with export-oriented industries and larger firms benefiting the most. These findings provide evidence-based insights for policymakers to optimize fiscal interventions and ensure sustainable economic growth in emerging markets like Vietnam.

KEYWORDS: fiscal policy, corporate performance, profitability, stock market stability, investment behavior, Vietnam, fixed-effects model, emerging markets

1. INTRODUCTION

Fiscal policy has long been recognized as a fundamental tool in stabilizing economies and promoting corporate sustainability, particularly in emerging markets such as Vietnam. In recent years, global economic disruptions, including the COVID-19 pandemic and supply chain crises, have severely tested traditional growth paradigms. To counter these challenges, governments worldwide have implemented temporary fiscal measures—such as tax deferrals, subsidies, and increased public spending—to support businesses, safeguard economic stability, and foster recovery. Vietnam, with its export-driven economy and heavy reliance on foreign direct investment, exemplifies both the resilience and vulnerabilities of emerging markets in the face of such disruptions. Temporary fiscal policies have proven crucial in mitigating external shocks, enabling businesses to maintain operations, safeguard employment, and sustain profitability.

Despite their critical role, the long-term effectiveness of these fiscal measures remains an open question, particularly regarding their influence on corporate performance and market behavior. While substantial literature has analyzed fiscal policy impacts in emerging markets, much of the focus has been on macroeconomic outcomes or sector-level trends. This leaves a significant gap in understanding firm-specific dynamics, particularly in Vietnam, where corporate performance is shaped by unique structural and governance challenges. To address this gap, this study provides a granular, data-driven assessment of the relationship between temporary fiscal measures and corporate outcomes in Vietnam. Specifically, it focuses on three key dimensions of corporate performance: profitability, market stability, and investment behavior. The objectives of this research are as follows:

- To quantify the impact of temporary fiscal policies on corporate profitability by analyzing Return on Assets (ROA), the study examines how tax incentives and subsidies influence the financial efficiency of Vietnamese firms.
- To evaluate the effect of fiscal policies on stock market performance by using stock price volatility as an indicator, the research explores whether these measures enhance investor confidence and stabilize market dynamics.
- To assess the implications of fiscal policies for corporate investment behavior by investigating changes in investment rates, the study seeks to determine whether fiscal measures encourage reinvestment and support long-term corporate growth.

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This study utilizes panel data from 150 companies listed on the Ho Chi Minh Stock Exchange (HOSE) and Hanoi Stock Exchange (HNX) during the 2018–2023 period. Through the application of a fixed-effects regression model, it disentangles the influence of fiscal policies from other firm-specific variables, delivering robust and reliable findings. By exploring key questions such as “*In what ways do fiscal measures influence corporate profitability?*” and “*Which industries gain the most from these interventions?*”, the research adds to the broader discussion on economic resilience and corporate governance in emerging markets.

Given Vietnam's rapid economic growth and deepening integration into global markets, examining the intricate effects of fiscal policies on corporate performance is both timely and crucial. This study seeks to offer actionable insights for policymakers, supporting the formulation of more effective and equitable fiscal measures. By aligning short-term stabilization goals with long-term growth strategies, such policies can foster sustainable development and strengthen the resilience of Vietnam's corporate sector.

2. LITERATURE REVIEW

Fiscal policy is a critical instrument for stabilizing economies, particularly during periods of crisis in emerging markets where external shocks and structural vulnerabilities are prevalent. Auerbach and Gorodnichenko (2012) highlighted the dynamic effects of fiscal measures on economic activities, emphasizing that their effectiveness depends on economic conditions and policy design. Similarly, Perotti (2014) noted that countercyclical fiscal interventions, such as tax breaks and subsidies, yield the highest benefits when targeted at highly responsive sectors or firms. These foundational studies underscore the importance of tailoring fiscal policies to specific economic contexts to maximize their impact.

Vietnam's economy, characterized by its export-driven nature and reliance on foreign investment, has drawn attention to the role of fiscal policies in mitigating economic shocks. Nguyen et al. (2011) explored fiscal policy interventions in Vietnam and found that tax incentives boosted short-term profitability but had limited long-term impact due to inefficiencies in corporate governance and market structures. Abdullah, H., Yien, L. C., & Khan, M. A. (2019) further emphasized Vietnam as a case study within ASEAN-5 countries, demonstrating that aggressive fiscal measures, such as tax deferrals and increased public spending, enhanced corporate resilience during downturns but failed to address deeper structural challenges.

Different industries exhibit varying levels of responsiveness to fiscal interventions. Ponnusamy, S. (2022) demonstrated that export-oriented sectors are particularly sensitive to fiscal measures due to their reliance on global trade. Nguyen (2023) highlights that fiscal policies, particularly public investment and tax incentives, significantly boost economic growth and support export-oriented businesses by improving infrastructure and reducing input costs. However, SMEs struggle to access these benefits due to limited managerial capacity and transparency issues in policy implementation, exacerbating economic inequalities between large firms and smaller enterprises.

Firm-specific characteristics also shape the effectiveness of fiscal policies. Busom, Corchuelo, and Martínez-Ros (2014) identified firm size as a key determinant, with larger firms deriving greater benefits from tax incentives and subsidies due to their scale and access to resources. Conversely, SMEs often face barriers to accessing fiscal support, limiting their ability to leverage such measures for growth. Mohamed, Y., & Mnguu, Y. O. (2014) argued that fiscal policies in developing economies can exacerbate inequalities when implementation lacks transparency or inclusivity, further disadvantaging SMEs.

The risk of fiscal measures disproportionately favoring larger firms over SMEs has been widely discussed. Dutta and Roy (2021) warned that fiscal policies often prioritize larger firms, creating inequities that hinder balanced growth. Malla, M. H., & Pathranarakul, P. (2022) echoed these concerns in their analysis of developing countries, highlighting the importance of fiscal inclusivity to ensure equitable benefits across firm sizes. These studies emphasize the need for fiscal policies that mitigate disparities and promote balanced economic development. Despite these advancements, several gaps remain in literature. Most studies focus on short-term impacts, leaving the long-term consequences of fiscal interventions underexplored. Additionally, the interplay between fiscal and monetary policies in shaping corporate outcomes is seldom examined, particularly in the context of emerging economies. There is also limited research on sector-specific dynamics, with existing studies often overlooking industries such as utilities and services, which may respond differently to fiscal measures. Addressing these gaps requires more granular, longitudinal studies that integrate cross-sectoral and firm-level analyses.

Overall, literature underscores the importance of context-sensitive fiscal policies that account for the unique characteristics of emerging markets. While existing research provides valuable insights into the immediate benefits of fiscal interventions, it also highlights the need for structural reforms and policy innovations to achieve sustainable growth and equitable development.

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3. METHODOLOGY

This study utilizes a fixed-effects panel regression model to evaluate the impact of temporary fiscal policies on corporate performance. The fixed-effects model is selected due to its ability to control for unobserved, time-invariant characteristics specific to each firm, such as governance structures or market positioning, that could bias the results. The appropriateness of the fixed-effects model over the random-effects model was confirmed using the Hausman test, which indicated that the fixed-effects approach provides consistent and unbiased estimates. The fixed-effects model is particularly useful for this study as it focuses on variations within firms over time, allowing the analysis to isolate the effects of fiscal policies from other static firm-level factors. This approach aligns with prior research (Auerbach & Gorodnichenko, 2012) emphasizing the importance of accounting for firm-specific heterogeneity in evaluating policy impacts.

The fixed-effects regression model is specified as follows:

$$Y_{it} = \beta_0 + \beta_1 FPI_{it} + \beta_2 Size_{it} + \beta_3 Leverage_{it} + \beta_4 Industry_{it} + \mu_i + \epsilon_{it}$$

Where:

Y_{it} : Dependent variable for firm i at time t , which includes:

Return on Assets (ROA): A measure of profitability, calculated as net income divided by total assets.

Stock Price Volatility: Represents market stability, calculated as the standard deviation of daily stock returns.

Investment Rate: Measures reinvestment behavior, calculated as capital expenditures divided by total assets.

FPI_{it} : Fiscal Policy Index for firm i at time t , quantifying the intensity of fiscal policy measures such as tax incentives and subsidies.

$Size_{it}$: Firm size, measured as the natural logarithm of total assets, to control for scale effects.

$Leverage_{it}$: Leverage ratio, calculated as total debt divided by total assets, reflecting financial constraints.

$Industry_{it}$: Dummy variable representing whether the firm belongs to an export-driven or domestic-focused sector.

μ_i : Firm-specific fixed effects accounting for unobserved heterogeneity.

ϵ_{it} : Error term, assumed to be independently and identically distributed.

The model includes control variables to ensure that the relationship between fiscal policies and performance is not confounded by firm size, leverage, or industry-specific factors.

Dependent Variables: ROA (Reflects profitability and operational efficiency); Stock Price Volatility (Indicates market stability, with lower volatility suggesting increased investor confidence); Investment Rate (Captures firms' willingness to reinvest, reflecting fiscal policy effectiveness).

Independent Variable: Fiscal Policy Index (FPI)

Control Variables: Firm Size; Leverage; Industry Classification

The dataset includes financial and market data for 150 firms listed during 2018–2023.

The study collected secondary data from the annual financial reports of 150 listed companies in Vietnam from 2018 to 2023, resulting in a total of 941 observations. The dataset excludes firms that failed to maintain consistent financial disclosures throughout the study period and those operating in specific service industries, such as real estate companies, insurance firms, banks, securities companies, or investment funds.

Table 1. Summary of variables in the model

Variables	Type of Variable	Definition	Previous Research
ROA (Return on Assets)	Dependent Variable	Net income divided by total assets, measuring firm profitability and operational efficiency.	Auerbach & Gorodnichenko (2012);
Stock Price Volatility	Dependent Variable	Standard deviation of daily stock returns, reflecting market stability.	Black (1976); Schwert (1989)
Investment Rate	Dependent Variable	Capital expenditures divided by total assets, indicating firm reinvestment behavior.	Fazzari, Hubbard, & Petersen (1988); Aghion et al. (2010)
Fiscal Policy Index (FPI)	Independent Variable	Composite index capturing tax incentives and subsidies' intensity affecting firms.	Auerbach & Gorodnichenko (2012)
Firm Size	Control Variable	Natural logarithm of total assets, controlling for scale effects.	Rajan & Zingales (1995);

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Leverage	Control Variable	Total debt divided by total assets, reflecting financial constraints.	Modigliani & Miller (1958); Myers (1977)
Industry Classification	Control Variable (Dummy)	Dummy variable (1 = Export-driven, 0 = Domestic-focused), controlling for industry-specific effects.	Hsieh & Klenow (2009);

Source: Author's own collection

4. RESULTS AND DISCUSSION

Table 2 presents the descriptive statistics of the study sample, which includes 941 observations. The average return on assets (ROA) during the study period is 1.49%, indicating a relatively low profitability level among publicly listed companies.

Table 2. Descriptive statistics

Variables	Observations	Mean	Standard Deviation	Minimum	Maximum
ROA	941	1.49	1.96	0.25	47.76
Stock Price Volatility	941	0.66	0.18	0.012	1.04
Investment Rate	941	0.18	1.18	-0.95	25.87
Fiscal Policy Index (FPI)	941	0.6	0.05	0.1	1.0
Firm Size	941	27.21	1.37	23.88	31.08
Leverage	941	1.37	0.15	0.03	4.5
Industry Classification	941	0.5	0.25	0.0	1.0

Source: Author's Calculation

The ROA ranges from 0.26% to 47.77%, reflecting significant differences in operational performance among firms. This suggests that while some companies exhibit strong profitability, others face financial difficulties and may even operate inefficiently or incur losses. Similarly, stock price volatility has an average value of 0.66%, with a minimum of 0.012% and a maximum of 1.04%. This variation highlights notable differences in market stability across companies. Some firms experience minimal stock price fluctuations, whereas others exhibit higher risk levels, potentially influenced by macroeconomic and microeconomic factors in the stock market. The average investment rate is 0.18%, with values ranging from -0.95% to 25.87%. This result indicates that while some companies demonstrate strong expansion and reinvestment capabilities, others have extremely low or even negative investment rates, suggesting that they may be downsizing or facing financial constraints.

Table 3. Key Findings from Regression Analysis

Indicator	Effect of Fiscal Policies
Profitability (ROA)	A 1% increase in fiscal incentives leads to a 0.8% rise in ROA.
Stock Volatility	Temporary fiscal policies reduce stock price volatility by an average of 5%.
Investment Rate	Investment rates grew by 1.2% following policy implementation.

Source: Author's Calculation

The results of Table 3 reveal the relationship between the effectiveness of temporary fiscal policies and corporate performance. Through three key indicators—return on assets (ROA), stock price volatility, and investment rate—this study clarifies the mechanisms by which fiscal policies influence the stability and growth of listed firms during the 2018–2023 period. One of the most significant findings is the positive relationship between fiscal incentives and corporate profitability. Specifically, a 1% increase in fiscal incentives leads to an average 0.8% increase in ROA. This suggests that firms respond favorably to tax reductions, subsidies, and other financial support from the government. When the tax burden is reduced, firms can retain more profits, which can be reinvested into business operations or used to optimize financial strategies. Furthermore, with increased liquidity, firms have the capacity to expand production, enhance operational efficiency, and improve profitability. However, a key concern is whether this effect can be sustained in the long term or if it is merely a short-term impact driven by temporary fiscal interventions.

Additionally, the regression results indicate that fiscal policies contribute to market stabilization by reducing stock price volatility by an average of 5%. This finding reflects investors' confidence in government support, particularly in times of economic uncertainty. Temporary fiscal measures help mitigate systemic risks while simultaneously increasing expectations for corporate performance, leading to less volatile stock prices. A stable and transparent investment environment also plays a crucial role in attracting capital flows, particularly from long-term investors seeking firms with sustainable growth potential. However, the

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degree of market stability may vary across different business groups. Firms with strong financial foundations may be better positioned to leverage fiscal support, whereas smaller firms or those with weaker capital structures may still face higher levels of risk.

Another crucial impact of fiscal policies is the increase in corporate investment rates, with an average growth of 1.2% following policy implementation. This suggests that firms receiving fiscal incentives tend to reinvest in fixed assets, research and development (R&D), or business expansion (Đạt, 2021). Fiscal policies thus serve as catalysts for firms to go beyond short-term cash flow management and focus on long-term growth strategies.

Table 4. Descriptive Statistics by Industry

Industry	Average ROA Increase (%)	Sensitivity to Policies (High/Medium/Low)
Export-driven	2.5	High
Domestic-focused	1.0	Medium
Other sectors	0.5	Low

Source: Author's Calculation

The results indicate that export-driven industries experience the highest average increase in ROA (2.5%), highlighting their strong dependence on fiscal measures to mitigate external economic shocks (Table 4). In contrast, domestic-focused industries exhibit a more moderate ROA increase (1.0%), suggesting a medium level of sensitivity to fiscal interventions. Meanwhile, other sectors record only a 0.5% increase in ROA, indicating the lowest degree of responsiveness to fiscal measures. These findings emphasize that fiscal policies do not exert a uniform effect across industries and that a differentiated, sector-specific approach is necessary to maximize the effectiveness of temporary fiscal measures. According to Auerbach & Gorodnichenko (2012), export-oriented firms are particularly vulnerable to global economic fluctuations due to their reliance on international demand. As a result, fiscal support mechanisms, such as export tax incentives and financial subsidies, are instrumental in sustaining their competitiveness.

Conversely, domestic-oriented industries demonstrate a moderate response to fiscal policies. This can be attributed to domestic fiscal instruments such as corporate tax reductions and credit support, which directly influence operational and production costs but are less affected by international market fluctuations. The findings of Fazzari, Hubbard & Petersen (1988) suggest that domestic firms tend to adjust more effectively to internal economic conditions, which accounts for their moderate sensitivity to fiscal measures.

Finally, industries categorized as "other sectors" exhibit the lowest increase in ROA (0.5%) and the least sensitivity to fiscal policies. This outcome suggests that certain industries derive minimal direct benefits from fiscal interventions or operate within structures that do not rely heavily on government incentives. Ramey & Shapiro (1998) argue that firms engaged in high value-added industries, which require limited government financial support, generally display weaker responses to temporary fiscal measures.

The findings of this study underscore the importance of tailoring fiscal policies to sector-specific dynamics to enhance policy efficiency. A one-size-fits-all approach may not yield optimal outcomes, as industries exhibit varying degrees of reliance on fiscal interventions. Consequently, fiscal policies should be designed with a targeted strategy that accounts for sectoral differences, ensuring that resources are allocated effectively to maximize economic stability and growth.

Table 5. Regression Results with Control Variables

Variable	Coefficient (β)	Standard Error	p-value	Interpretation
Fiscal Policy Incentives	0.8	0.15	0.001	Positive impact on ROA.
Firm Size	0.3	0.10	0.005	Larger firms benefit more from fiscal policies.
Leverage	-0.2	0.12	0.07	Negative impact, but marginal significance.
Export-oriented Industry	1.2	0.18	0.000	Strong sensitivity to fiscal measures.

Source: Author's Calculation

The findings from Table 5 indicate that fiscal policy incentives exert a statistically significant and positive impact on corporate profitability (ROA), with an estimated coefficient of $\beta = 0.8$ and a p-value of 0.001. Larger firms benefit more from fiscal policies ($\beta = 0.3$, $p = 0.005$), which can be attributed to their greater capital reserves and superior access to financial resources, allowing them to leverage fiscal incentives more effectively. Conversely, high financial leverage negatively affects ROA ($\beta = -0.2$), although this effect is only marginally significant ($p = 0.07$). This finding underscores that firms with high debt levels may face greater financial risk, thereby diminishing the effectiveness of fiscal policies in enhancing profitability.

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Notably, export-oriented firms exhibit the highest sensitivity to fiscal interventions ($\beta = 1.2$, $p = 0.000$), reinforcing the critical role of temporary fiscal policies in supporting firms engaged in international trade. These results align with prior research, such as Auerbach & Gorodnichenko (2012), which suggests that export-oriented firms are more vulnerable to global economic fluctuations and, consequently, derive substantial benefits from temporary fiscal stimulus measures. These findings emphasize that the impact of fiscal policies is not uniformly distributed across firms but rather contingent upon firm size, industry classification, and financial leverage. The design of fiscal support policies should carefully consider these factors to maximize effectiveness and ensure targeted assistance, optimizing both short-term stabilization and long-term economic resilience.

Table 6. Financial Metrics Before and After Fiscal Policies

Metric	Before Policy (2018–2020)	After Policy (2021–2023)	Change (%)	Significance (p-value)
Average ROA (%)	5.2	6.0	+15.38	0.02
Stock Volatility (%)	12.5	10.3	-17.6	0.01
Investment Rate (%)	8.4	9.5	+13.1	0.03

Source: Author's Calculation

The timeframe is divided into two main periods: 2018–2020, representing the pre-policy phase, and 2021–2023, the post-policy implementation period. The results from Table 6 indicate significant improvements in corporate profitability, market stability, and investment rates across these two phases. Specifically, the average return on assets (ROA) increased from 5.2% to 6.0%, reflecting a 15.38% growth ($p = 0.02$), which suggests that temporary fiscal policies have played a crucial role in helping firms sustain and enhance operational efficiency. Moreover, stock price volatility declined from 12.5% to 10.3%, corresponding to a 17.6% reduction ($p = 0.01$), demonstrating the positive impact of fiscal measures in stabilizing the market and mitigating investment risks. Additionally, the investment rate rose from 8.4% to 9.5%, marking a 13.1% increase ($p = 0.03$), signaling that firms have begun expanding production and reinvesting at a higher rate after leveraging fiscal incentives.

These findings further confirm that fiscal policies play a crucial role in supporting businesses during economic downturns, fostering investment, and enhancing financial performance. This conclusion is consistent with prior studies, including Blanchard & Perotti (2002) and De Schoemaker (2014), which emphasize that fiscal interventions can generate strong stimulus effects on corporate profitability and investment activities, particularly during periods of economic distress.

Table 7. Sub-group Analysis by Company Characteristics

Group	Average ROA Increase (%)	Stock Volatility Change (%)	Investment Growth (%)
Large Firms	+1.0	-8.0	+2.0
SMEs	+0.5	-3.0	+0.8
Export-oriented Sector	+2.5	-12.0	+3.0
Domestic-focused Sector	+0.8	-5.0	+1.5

Source: Author's Calculation

The heterogeneous effects of temporary fiscal policies across different types of enterprises are clearly illustrated in Table 7. The substantial disparities in return on assets (ROA), stock price volatility, and investment growth rates highlight the varying degrees of sensitivity among firms, depending on their size and market orientation. The findings reveal that large firms experience an average ROA increase of 1.0%, a reduction in stock price volatility by 8.0%, and an investment growth rate of 2.0%. In contrast, small and medium-sized enterprises (SMEs) show a lower ROA increase of 0.5%, a smaller decrease in stock volatility (3.0%), and more modest investment growth of 0.8%. These results confirm that large firms leverage fiscal policies more effectively, whereas SMEs face challenges in fully benefiting from fiscal stimulus measures.

Extensive research has established that large enterprises have superior access to credit, are better positioned to raise capital in financial markets, and possess efficient management systems to capitalize on government support programs. Fazzari, Hubbard, and Petersen (1988) emphasized that larger firms are less financially constrained, allowing them to increase investment when fiscal policies create a favorable economic environment. Furthermore, larger firms tend to maintain more stable financial structures, enhancing their resilience to market fluctuations. Demsetz & Lehn (1985) and Happ (2016) demonstrated that firms with greater scale enjoy advantages in risk management and can adjust financial strategies more flexibly in response to external economic shocks. In contrast, SMEs are more vulnerable to financial distress due to their limited resources, smaller scale, and weaker capacity to withstand economic downturns.

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Export-oriented firms exhibit a significantly higher average ROA increase of 2.5%, compared to domestically focused firms, which record a lower 0.8% increase. Additionally, export-driven firms experience the largest reduction in stock price volatility (-12.0%) and the highest investment growth rate (+3.0%), whereas domestic firms report a more moderate reduction in stock volatility (5.0%) and investment growth (1.5%). This divergence can be attributed to the heightened sensitivity of export-oriented enterprises to external factors, particularly global market fluctuations. When facing global economic shocks, exporting firms are more reliant on fiscal policy interventions to sustain operations and drive growth.

Conversely, domestic firms are less exposed to external shocks and tend to adjust more flexibly to domestic economic conditions. Giroud and Mueller (2010) provided empirical evidence showing that domestically focused firms exhibit lower responsiveness to fiscal interventions, as they are more influenced by monetary policy, domestic consumption trends, and sector-specific regulatory support. This explains why ROA improvements are less pronounced for domestic firms compared to their export-driven counterparts.

5. CONCLUSION AND POLICY IMPLICATIONS

This study confirms the significant positive effects of temporary fiscal policies on corporate performance in Vietnam, particularly in enhancing profitability, stabilizing market behavior, and fostering reinvestment. The findings reveal that export-oriented industries and larger firms benefit disproportionately from such policies, emphasizing the need for tailored fiscal measures that address the specific characteristics and requirements of different industries and firm sizes. However, the study also highlights several challenges associated with an over-reliance on fiscal stimuli. These include risks of market distortion, where fiscal interventions may inadvertently favor larger firms over SMEs, leading to competitive imbalances. Unequal access to fiscal benefits further exacerbates this disparity, limiting the growth potential of smaller firms. Additionally, frequent reliance on fiscal policies raises concerns about long-term fiscal sustainability, particularly in the context of public debt accumulation and reduced policy flexibility during future crises.

To ensure balanced and sustainable growth, fiscal policies must be complemented by targeted structural reforms. These should include improving corporate governance practices to enhance transparency and accountability, streamlining procedures to make fiscal support more accessible for SMEs, and fostering an inclusive economic environment that mitigates inequalities. For future research, exploring the long-term consequences of fiscal measures on corporate behavior and economic sustainability would be particularly valuable. Additionally, sector-specific analyses could provide nuanced insights into how fiscal policies impact industries differently, helping policymakers design interventions that address the unique challenges of each sector. Such studies would contribute to more targeted and effective policymaking in emerging markets like Vietnam, ultimately supporting sustainable economic development.

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