FABA Finance, Accounting and Business Analysis
Volume 1. Issue 2. July 2019
ISSN 2603-5324
http://faba.bg

Monetary Policy's Instruments in Vietnam: Basis and Evolution in A Difficult International Financial Context

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Info Articles

History Articles:
Submited 12 March 2019
Revised 30 April 2019
Accepted 1 July 2019

Keywords:
Monetary policy; Reserves Requirements; Interest rate; Open-market operations; Emerging market; Inflation targeting; Vietnam

Abstract

This work provides an overview of the evolution of monetary policy in Vietnam in the years following the changes in the Vietnamese economy in 20 years, through two periods with two financial crises (1997 Asian financial crisis and 2008 financial crisis). This work also includes a synthesis of the theoretical and empirical research of Vietnamese authors on the subject of monetary policy analysis in Vietnam. In addition, this study aims to understand the change in monetary policy in Vietnam, the socialist-oriented economy, lower middle-income emerging economy, through the adjustment of the instruments that have been developed by the Central Bank of Vietnam. In this period of study, analyses can show to what extent reforms can explain why monetary policy developments are intended not only to stabilize the macro-economy and ensure strong economic growth, but also to address one of the biggest problems in the Vietnamese economy, inflation.

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INTRODUCTION

After 40 years of reunification (the victory over the United States in 1975) and 30 years after the reforms (the *Doi Moi* policy - Renovation in 1986), Vietnam is considered a success story in the development process, with great achievements made in recent years, as well as great development potential in the future. Major organizations such as the United Nations (UN), the World Bank (WB), the Asian Development Bank (ADB) and also the American Financial Group Bloomberg have addressed this development. The progress made in recent years has been driven mainly by sustained economic reforms, integration into the global economy and an environment of macroeconomic stability.

After the period of hyperinflation (see Figure 1), since 1990, its GDP has been multiplied by about 3 times, the GDP growth rate per year has reached 5.7%. Since 2000, after learning from the experience of the slightly negative effects of the Asian financial crisis[1], the economy has seemed to be recovering with stable economic growth averaging 8% per year, a level that was surpassed only by China in Asia and continued to grow until the global economic crisis of 2008[2]. However, since 2007, and in particular the 2007-2008 Global Financial Crisis, Vietnam has been experiencing macroeconomic instability. The GDP growth rate has declined sharply while the inflation rate has reached double-digit values (Pham, 2016).

Recent studies have provided evidence that a malfunctioning monetary policy may have contributed to the slowdown in economic growth. The Vietnamese government and the central bank appear to have maintained traditional approaches to monetary policy management, although Vietnam's economy has become more open and better integrated into the global economy with Vietnam's accession to the WTO in 2007. Conceptual developments and further theoretical analysis can provide insights into the effectiveness of monetary policy management in dealing with external shocks.

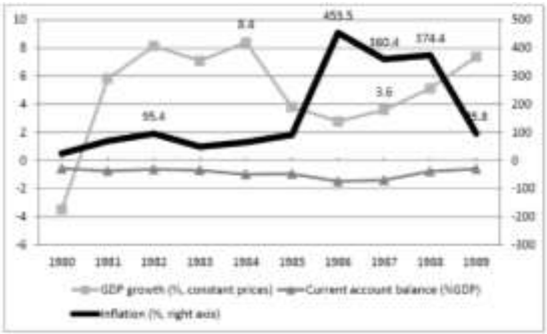

Figure 1. GDP Growth and Inflation in Vietnam in the period of hyperinflation (1980-1989)
Source : Pham, T. A. (2016), p. 12

In order to stabilize the macroeconomic situation and control inflation, the monetary policies of the Central Bank of Vietnam are adjusted, by instruments, according to the real financial situation on the market, in particular after the Asian crisis of 1997 and after the global financial crisis in 2008. In the context of developments in Vietnam's economic and financial sector, the results of the theoretical analyses presented in this paper are demonstrated on the basis of the reforms of the instruments based on the data in the two periods (1998 - 2007 and 2007 - 2018).

The rest of the document is organized as follows. Section 2 presents the literature review on the subject. Section 3 provides a brief overview of monetary policy in Vietnam. Section 4 describes the management of the financial instruments of the Central Bank of Vietnam over two different periods. Section 5concludes the document.

Review of the litterature

Monetary theories often focus on different factors and relevant policies will reflect the platforms of theory. To decide how the different policy instruments are used, regular policy makers must evaluate the time and effectiveness

[1] See Hochraich D. (1998), "Financial crisis and competitiveness in Asian countries, beyond the monetary crisis" in CERI studies, Fondation nationales des sciences politiques, Paris
[2] Pham, T. A. (2016), pg. 3

of economic policies through experimentation. The problem of monetary theories in the economy is often controversial. For example, some assumptions about the effects of monetary problems are based on real economic growth, while others attempt to reject it and do the opposite. In addition, the effectiveness of monetary and fiscal policy is the subject of a long debate. The conceptual foundations of monetary policy are often mentioned by: (1) Quantitative money theory[3], which shows that, in the long run, money supply does not depend on GDP, but on price changes or changes in the general price level. The arguments also show the importance of the speed of money supply growth. This theory can also be considered the first recognized theory of how monetary policies affect the general market price through changes in the money supply. (MV = *PV);* (2) Traditional Keynesian theory[4], the main argument of the theory is that employment is mainly determined by consumer demand. This is completely different from the arguments of the neoclassical school of economics where the price of labour is the key factor determining employment. Hicks (1937) and Hansen (1953) explained the effect of monetary adjustment in macroeconomic theory of Keynesian theory by the IS-LM model. This model is based on the relationship between interest rates and real output, showing the balance of the market for goods and services. The model is also used in money markets, but only when the economy is closed; (3) Mundell (1963) and Fleming (1962)[5] developed a model that could be used in an open economy. This model is also known as the IS-LM- BoP model. It is often used to describe the short-term relationship between nominal exchange rates, interest rates and output in an open (developing) economy. The Mundell-Fleming model is often remembered for the argument that an economy cannot simultaneously maintain an independent monetary policy with fixed exchange rates and free capital flows (Mundell-Fleming Trilemma); (4) Phillips' Curve[6], by British economic studies from 1861 to 1957, William Phillips (1958) found an inverse relationship between monetary wage changes and unemployment. Samuelson and Solow (1960) used Phillips' results to apply the relationship between the inflation rate and the unemployment rate to the United States. Samuelson and Solow argue that inflation and the unemployment rate are inversely related, constructing the famous Phillips curve, in order to argue that to consolidate employment, it is necessary to keep the inflation rate at its fair value. However, the recent Phillips curve is no longer very applicable because many studies have been conducted with data from different countries showing that there is no clear bidirectional impact between inflation and growth. In the 1990s, the Phillips curve also gave it an error through studies such as those by Barro (1995) and Fischer (1993), which show that inflation remains high while economic growth is low; (5) Monetarism[7], represented by

[3] See Fisher, I., & Brown, H. G. (1912), "The purchasingpower of money", 2006 édition, Cosimo Classics.

[4] See Keynes, J. M. (1936), "The General Theory of Employment, Interest, and Money", United Kingdom: Palgrave Macmillan.

[5] See Mundell, R. (1963), "Capital Mobility and Stabilization Policy under Fixed and Flexible Exchange Rates", The Canadian Journal of Economies and Political Science /Revue canadienne d'Economique et de Science politique, 29(4), 475-485.

See Fleming, M. (1962), "Domestic Financial Policies Under Fixed and Under Floating Exchange Rates" Staff Papers (Vol. 9, pp. 369-380), International Monetary Fund.

[6] Phillips, A. W. (1958), "The Relation between Unemployment and the Rate of Change of Money Wage Rates in the United Kingdom", 1861-1957, Economica, 25(100), 283-299.

[7] Cf. Friedman, M. (1948), "A Monetary and Fiscal Framework for Economic Stability", The American Economic Review, 38(3), 20.

Friedman, M. (1963), "Inflation: Causes and Consequences", Proquest/Csa Journal Division.

Milton Friedman, who praised the importance of monetary policy for fiscal policy. The arguments put forward in this school often argue that changes in money supply have a major influence on national production in the short term and on the general price level in the long term. Since then, money economists have often stressed that, in order to conduct monetary policy properly, it is necessary to control the money supply in circulation (Friedman, 1948).

Returning to the case study of monetary policies in the Vietnamese market, we can see that before the 2000s, there was a lot of theoretical and empirical research. However, these studies are more descriptive arguments by comparing past and current data and analyzing proposed economic objectives and prospects for Vietnam's future (Tran & Vuong, 2009). The study of monetary policy during this period is usually conducted by foreign economists such as Fforde et De Vylder (1996), Oudin (1999) or Riedel and Turley (1999). However, these studies do not deal in depth with the objectives of monetary policy, but most of them deal with issues related to Vietnam's macro economy. In particular, during this period, the Vietnamese economy was gradually moving from a subsidized to a market-oriented economy. Research analyses are often focused and developed on policy of *Doi Moi* (Renovation) and trade balance recommendations.

In the period following the 2000s, in particular Vietnam's accession to the WTO in 2007, in addition to the great benefits of economic openness and integration into the world economy, Vietnam also faced significant challenges and difficulties due to the global economic crisis. Vietnamese economic experts and policy makers have become considerably aware of the direct link between financial crises and monetary policy. As a result, more and more studies are focusing on central monetary policy issues, using not only theoretical arguments but also empirical models. However, the above studies have focused on specific monetary policy issues, but do not cover the overall objectives constructed in financial markets. In addition to the relationship between macroeconomic factors (such as economic growth), issues such as inflation rates, exchange rates or credit management are often the most important. There have been many analytical studies on the exchange rate problem. In Vuong and Ngo's study (2002), which focused on the period during and after the 1997 Asian financial crisis, the VAR model demonstrated that Vietnam's monetary value can be maintained by adopting a parallel exchange rate regime. Following the May study (2007), in the context of macroeconomics in times of global economic crisis, the author argued that Vietnam applies a flexible exchange rate regime instead of a fixed exchange rate regime. The author made the above argument after conducting a comprehensive study of the exchange rate regime using an optimal monetary theory. In addition, Nguyen, T. P. & Nguyen, D. T. (2009) also concluded that mismanagement of the exchange rate regime can lead to a decline in the efficiency of the exchange market in the economy. The problem of real exchange rate adjustment has also been the subject of empirical studies. Nguyen and Kalirajan (2006), exports can be stimulated and the balance of payments current account can be improved if the dong is devalued. Through his research, the author also shows that dong devaluation can reduce the real exchange rate in the short term. Maintaining the stability and competitiveness of real exchange rates is also central to the results of the study conducted by Le (2007).

In addition, many studies have been conducted on inflation as part of the analysis of monetary transmission channels in Vietnam. These analyses often focus on the causes and consequences of inflation on the economy. Studies often show that the cause of inflation is often explained by credit, studies also show that the money supply does not significantly affect inflation. Given the empirical results of the

Friedman, M. (2001), "One World, One Currency Options Politiques", Institute for Research on Public Policy.

IMF's research with a six-quarter delay[8], money supply growth explains only about 10% of the inflation rate and the effect will decrease over time. By researching Bhattacharya (2013), the results show that credit growth has a positive effect on inflation for the economy with a lag of more than a year (using data from 19992013), the study does not, however, show the relationship between inflation and money supply in Vietnam. Similarly, using quarterly data from 1996-2005, Le & Pfau (2009) showed that the cause of inflation does not come from M2 after the econometric model was applied. In addition, the results of the analysis during this period also showed that counterpart credit had a significant impact on the CPI. This study also shows that the government and the State Bank manage the injection of liquidity into the market through credit channels (analysis of variance with an eight-quarter lag), credit accounted for 23.08% of *output*'s shocks, while the money supply represented only 9.51%[9]. Camen (2006) also gave the same results. Thanks to the VAR model and the analysis of variance forecasts for the period 1996-2005, credit explains 18% of inflation, while the key rate plays no role[10]. In addition, Camen concluded that Vietnam's inflation rate was explained by both commodity prices and exchange rates. Similarly, the role of exchange rates on inflation is also important for Goujon, he explained in his research by analyzing the effects on the macro economy in the 1990s. The results of this study show that the inflation rate will increase by 1% when the exchange rate is depreciated by 2%. This suggests that, in order to control the inflation rate in Vietnam or to increase the money supply, the author proposed to control the exchange rate as well as money market prices. In their study, however, Vo et al. (2002) showed the opposite when they assumed that exchange rates and money supply changes had only a very small effect on inflation rates. The arguments in this study were then rejected in 2010 by the results of Nguyen, T. T. T. H. & Nguyen, D. T. The two authors showed the important impact of exchange rate depreciation on inflation rates, although they consider inflation to be a problem originating in the national economy.

In addition, studies on the analysis of the monetary policy framework were also conducted for the Vietnamese economy. Tran (2005), using the VAR model, presented the results and the relationship between the world price of gold and the price of gold in Vietnam by analyzing the growth of the money supply adjusted by the central bank in response to price and exchange rate changes in the money markets; this study also shows that, by controlling interest rates, the central bank can hardly control public demand for gold. In the study of the monetary policy transmission mechanism by V. H. Le and Pfau (2009), the role of credit channels and exchange rates is increasingly reinforced rather than the role of interest rates in Vietnam. A. T. P. Le (2007) showed that strict inflation targeting in the Vietnamese market is not necessary, as it places inflation targeting above other monetary policy targets.

After all, when analyzing the monetary framework, studies focus almost exclusively on a specific objective using econometric methods such as VAR or VECM models, but there is no generalized aggregation for all targets.

Overview of monetary policy in Vietnam

State Bank of Vietnam (SBV)

"The State Bank of Vietnam (below referred to as the State Bank) is a ministerial-level agency of the Government and the central bank of the Socialist Republic of Vietnam"[11]

After the Sixth Congress of the Communist Party of Vietnam, the economy

[8] See International Monetary Fund (2003) 'What drives inflation in Vietnam? A regional approach", IMF Country Report N° 06/422. In Vietnam: Selected Issues. Washington, DC, USA: International Monetary Fund

[9] See Le V. H., & Pfau, W. D. (2009), p. 175

[10] See Camen, U. (2006), p. 247

[11] Article 2. Position and functions of the State Bank of Vietnam, Law on the state bank of Vietnam, the national assembly, n° 46/2010/QH12

moved from a planned to a state-regulated market economy. We must resume the first step, the construction and reform of the operational organization of the banking system, which focused on monetary policy.

Since 1990, two banking ordinances have been adopted (SBV's Ordinance / Commercial Bank, Credit Union and Financial Corporation Ordinance), the country has followed the East Asian "developmental state" model with the transition of Vietnam's banking system from one level to two levels[12]. The objective is to promote and ensure sustainable economic development through structural changes in the production system and a high rate of economic growth (Le, 2007). It clearly defines the functions of government management for the SBV and the functional currency of credit institutions' activity (acclimatized to the market economy banking system).

In October 1998, two banking laws were replaced by two new ones: the Law on State Banking and the Law on Legal Credit Institutions. These two laws have contributed to the proper functioning of the banking system, which has become freer, more open and more compatible with major changes in the banking sector[13].In terms of many aspects of the organization and implementation of monetary policy in Vietnam, the power of the State Bank is quite limited. In general, important monetary decisions are governed by the National Assembly, the government and the National Monetary Policy Advisory Council. On the other hand, the State Bank must prepare an annual report on the activities to be carried out in the context of the implementation of monetary policy in the past, as well as suggestions for future economic development. The government, after receiving the report, may make changes and amendments in consultation with the National Monetary Policy Advisory Council, which is then transmitted to the National Assembly for final approval. The Congress will normally approve the forecasts according to different objectives, such as the State budget or the economic growth objective. After receiving final approval, the State Bank may conduct monetary policy activities related to the development of the financial market and may adapt accordingly; however, the Bank may report periodically to the govemment and the National Assembly (Camen, 2006; National Assembly of Vietnam, 1997). Consequently, from a legal point of view, the role of the State Bank is quite limited, while the government's intervention is quite strong in the implementation of monetary policy in Vietnam.

Before the real volatility of inflation, economic growth became difficult. To improve the operational effectiveness of macroeconomic policies, the Ministry of Finance and the State Bank of Vietnam (SBV) signed the Coordination and Information Exchange Regulation (29/2/2013). Subsequently, four government agencies, such as the Ministry of Planning and Investment and the State Bank, the Ministry of Finance and the Ministry of Industry and Trade also signed the Regulation on Coordination in Macroeconomic Management and Direction (12/01/2014).

Coordination between fiscal policy and monetary policy only arises when both policies are implemented by two independent organizations. In the case where one organization depends on the action of the other organization, or under the direction of another organization, it has the natural consequence that mutual coordination of organizations is necessary in the implementation of policies. In practice, in Vietnam, monetary policy was carried out by the central bank, which gradually became independent of the functioning of fiscal policy.

Monetary policy objectives in Vietnam

Monetary policy has been identified through the construction of a specific policy, price stability. On the other hand, they are credit policy (tools for mobilizing capital and

[12] Further analyses are mentioned in the article Lich sử Ngân hàng Nhà nước Viêt Nam (History of the Central Bank of Vietnam) on the official SBV website (see Bibliography)

[13] Law on the State Bank of Vietnam (1997)

extending loans to all economic sectors); central bank independence to overcome the "inflation bias" (Bordes, 2007), implementation of positive real interest rate policy, interest rate adjustments in line with inflation volatility; exchange rate policy and a number of other support tools.

In Vietnam, three monetary policy objectives are commonly set: inflation, economic growth and a balanced state budget. The process generally proceeds in the following order: (1) the government determines, implements and directs monetary policy and determines the amount of liquidity injected into the economic market; (2) the National Assembly oversees the implementation of monetary policy; and (3) the government has an obligation to report periodically on the progress of monetary policy.

In addition, other monetary policy objectives are also pursued by law. According to the 1998 Law on the State Bank of Vietnam, the SBV’s mission is to stabilize the value of the currency, ensure the security of the banking system and facilitate socio-economic development (Kovsted et al. 2002). Moreover, the relationship between nominal exchange rates and domestic prices is still closely linked (Le, 2007). The importance of this link is evident in the difficult period before the implementation of the *Doi Moi* policy in 1986. It was at this time that Vietnam faced hyperinflation and a sharp drop in the exchange rate on the financial market. Compared to many developing countries, Vietnam has always focused on the objective of curbing inflation through its experience with hyperinflation and public sensitivity to market price fluctuations. Subsequently, the Central Bank of Vietnam carries out more efficient operations, demonstrating the role of management through the promulgation and finalization of mechanisms, policies and administration of policies that work effectively. The innovative organization of the banking system has made a pact with science. The strengthening of the state commercial banking system, the development of international relations and construction regulations make it possible to set up and manage the credit institutions' system. Monetary policy construction and operation then becomes more comprehensive and efficient, helps to curb inflation, and gradually stabilizes the value of the *dong.*

In the early 2000s, Vietnam's economic growth increased significantly thanks to the implementation of an accommodative monetary policy and fiscal stimulus, but the Vietnamese government seems to have failed to achieve the economic growth target in this period. The average economic growth from 2001 to 2007 reached 6.94%. This ratio fell by 1.06 percentage points in the period 2008-2015. Meanwhile, the average inflation rate from 2008 to 2015 was 4.32 percentage points higher than the period from 2001 to 2007.

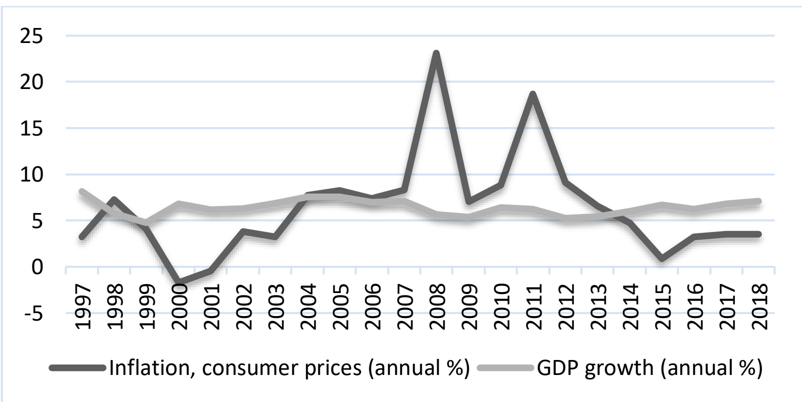

Figure 2. GDP Growth and Inflation in Vietnam (1997-2018)
Source: GSO, private calculations

Through the analysis of economic policies in Vietnam, the fact is that economic growth is the government's main objective (To et al., 2012). Normally, the State Bank is responsible for developing the monetary policies necessary to achieve the objectives set. In addition, the role of the State bank is to control nominal exchange rates, monitor liquidity pumping and provide credit to the economy. The State Bank's objectives are generally published each year at the same time as the government's economic objectives. For example, in 2017, the government set an economic growth target of 6.7% and an inflation target of less than 4%. At the same time, the State Bank has also set a target that the exchange rate should not increase by more than 2% and that the M2 should increase by only 3.9%. It can be seen that the role and objectives of the government and the Bank are often controversial, they can be discussed and analysed by Vietnamese economists to reflect conflicts and make recommendations for the future in terms of economic benefits (Pham, 2011).

In 2015, Vietnam's economy grew at a higher rate. The inflation plan has been kept at very low levels (in 2015, average annual inflation growth was 0.63% to 6.68%). This is the result of the economic governance efforts of government agencies. They have been working to repel the effects of the "shock" both inside and outside the economy over time, especially since the global financial crisis of 2007-2009.

According to GSO reports, Vietnam's GDP growth in 2018 was 7.08%, its highest level since 2008, while inflation remained below 4%. This result shows that the Vietnamese government has learned lessons, it partly reflects the synchronization achieved between the SBV and the Vietnamese government[14].

Management of monetary policy's instruments Period from 1998 to 2007

In this phase, the objective of monetary policy was to stabilize the macro-economy and ensure strong economic growth. Increasing the pace of development was the main objective of this phase. Macroeconomic objectives imply in a broader sense that the control of the target, economic stability, uneven growth over the year, and the inflation fluctuation ratio are not too high. The aim was to achieve the balance of payments from shortage to equilibrium and eventually to surplus. In particular, it was necessary to ensure a balanced budget, in particular, to increase revenues and reduce operating expenses in order to concentrate public investment.

The interest rate: this period is marked by a fundamental change in the management of interest rates, so that they can be adapted to the pace of Vietnam's economic reform. SBV managed the interest rate policy through a maximum interest rate cap under the loan term. Interest rate caps and the interest rate differential have been announced. Commercial banks applied some flexibility to adjust interest rates for loans and deposits that corresponded to the characteristics of capital and trade in particular. The interest rate mechanism made fundamental changes starting in May 2000.

Reserves requirements: under the reserve requirement for regulations issued under SBV Decisions No. 1991/1999 / QD-NHNN1 1997, the reserve requirement ratio for credit institutions has been decided (6% for short-term and demand deposits; 6% for medium and long-term deposits). Interest must also be paid for excess reserves, as well as penalties if credit institutions do not have the mandatory reserve account. These rules encourage credit institutions actively operating in the company's capital. They implement the stipulated required reserve, a consistent operational target for monetary policy.

Refinancing: through mortgage documents and mortgages in commercial banks' foreign currency deposits, the central bank carried out the short-term refinancing to compensate for the temporary payment difficulties of commercial banks. In 1998, the

[14] GSO Annual Report (2018)

refinancing interest rate can be adjusted from 1% to 1.1% per month. In 1999, when there was the interest rate reduction, the refinancing ceiling was lowered to 0.85% each month.

Open-market operations: these are carried out on 12 July 2000. The market opening date, chaired and inaugurated by the central bank on the occasion of the first session. Market tools are now functional, they are considered the most important tools of monetary policy, because they have more advantages than other tools. They allow the central bank to actively operate a flexible monetary policy. Consequently, the application of open-market has marked an important development in the management of the central bank's monetary policy, moving from the use of rigid administrative tools to flexible and more efficient tools.

The credit limit: giving the credit line will generate difficult factors for commercial banks. Although this tool has been applied since 1994, its impact on performance was only observed in the second quarter of 1998, but the central bank did not apply this tool as a routine tool in monetary policy management.

Period from 2007 to 2018

The economic context is more broadly and deeply integrated into the global economy, leading to faster trade development and the inflow of international capital more rapidly and intensely. Thus, the construction and operation of monetary policy becomes more complex and difficult. A flexible monetary policy is implemented through the adjustment of the tool.

More precisely[15]:

Interest rate: from May 2007 to June 2008, the central bank raised the key interest rate in order to absorb the excess liquidity caused by strong foreign capital inflows. In late 2008 and early 2009, when inflationary pressure eased, the central bank also reduced the policy rate to support economic growth.

Between 2009 and the first quarter of 2010, the central bank carried out the base rate mechanism under which banks set the deposit and lending rates to VND. It was not to exceed 150% of the base rate. In 2011, to adjust interest rates, the central bank gradually increased the operator in order to implement a restrictive and prudent monetary policy, but also to fight inflation.

In 2012, on the condition that inflation forecasts were on a downward trend, the interest rate tool was actively used. The downward trend had to be followed online by reducing inflation and inflation expectations. It was necessary to ensure that the real interest rate was positive, in order to prevent a further increase in inflation. Recently, due to the excess liquidity of commercial banks, from March 2014 to today, the refinancing rate is 6.5%, which is much lower compared to the 15% at the end of 2011 and the rediscount rate of 4.5%.

Reserves requirements: thanks to monetary policy, the refinancing rate has been better controlled, in line with the objectives and monetary developments of each period. In 2007, in order to neutralize excess liquidity in the banking system, alongside open market operations tools, the central bank raised the percentage of the reserve requirement ratio for commercial banks in mid-2007 and early 2008. At the end of 2008, the central bank lowered the RRC to reduce liquidity pressures for banks, which reduced funding costs and encouraged banks to raise capital and loans. In particular, the reserve requirement ratio for VND deposits declined rapidly from 11% in mid-2008 to 3% in the first quarter of 2009. It is still at 3% at the moment. The reserve requirement ratio for foreign currency deposits declined more slowly, from 11% between 2008 and 4% in 2010. Since September 2011 until today, it has been maintained at 6%.

Open-market operations: since July 2000, open-market operations have been constantly being developed. They have become a tool for currency regulation, mainly through SBV. Since 2007, the tendency of the foreign currency to circulate in Vietnam has increased, which can

[15] The data and number in the analyzes are taken from the annual reports of the Central Bank of Vietnam

cause the currency to devalue. The central bank increased foreign exchange reserves in order to stabilize the exchange rate. If in the period from 2008 to 2009, the deadline for long-term securities mainly offer 7 and 14 days. During the first 3 quarters of 2010, the 4% interest rate subsidy for short-term loans expires, so the central bank increased the purchase term by an additional 28 days to support banks' liquidity, allowing them to reduce market interest rates and continue to support economic growth.

The exchange rate: the exchange rate tool has been significantly adjusted to reflect as closely as possible the pace of supply and demand in the exchange market, as a basis for improving market regulation. In the period before 2011, the exchange rate was still under pressure and the foreign exchange market was unstable in January 2011. The central bank had revised the marginal rate to 9.3%, while there was a narrow negotiating margin between +3% and +1%. After that, the central bank implemented flexible market intervention to stabilize the exchange rate, which helped to reduce dollarization.

In 2012 - 2013, the central bank aims to control the increase in exchange rates within the limit of 2 to 3% per year with the aim of controlling the possibilities of a devaluation of the Vietnamese currency. Moreover, it has also created favorable conditions for companies active in the preparation and implementation of a business plan. In June 2013, thanks to SBV's operating practices, the exchange rate was only adjusted by 1%.

In September 2014, the central bank adjusts the exchange rate to only 1% and it will remain so until the end of the year. In 2015, due to the volatility of the global economy, the adjustment of the renminbi (yuan) exchange rate by China and the interest rate adjustment by the US Federal Reserve (FED) at the end of 2015, the volatility of exchange rate pressure in Vietnam was quite high. The SBV devalued the value of the VND three times in 2015 (January, May and August) with an adjustment of 1%. With the devaluation of the local currency in May 2015, due to the strong pressure due to the devaluation of the yuan, the State Bank of Vietnam adjusted the rate from +- 1% to +- 2% on 12/8 and from +- 3% on 19/8.

Other tools: after a long period of floating interest rates, the central bank reused the wear rate to limit its cap that could cause fluctuations in money market liquidity. The central bank set the cap at 12%/year in May 2008 and adjusted the cap to 14%/year from March 2008. This cap was lowered by the central bank when the inflation risk came under control. On 29 October 2014, in accordance with Decision No. 2173 / QD-NHNNN dated 28/10/2014, the SBV set out the provisions mobilizing the ceiling on demand deposits (from 1 to 6 months) at 5.5% and 1% for deposits of less than 1 month.

In addition, during this period, in order to help control credit growth and to contain inflation, the central bank asked commercial banks to control credit growth and associate it with credit quality. In addition, the central bank's monetary policy has actively collaborated with fiscal policy to attract capital by transferring about VND 50 trillion from central bank cash deposits. Since 2009, expansionary monetary policy measures have prevented the risk of recession. The central bank has put in place programs to support the interest rate at 4%, as indicated by the government for all loans, which has helped to eliminate difficulties for companies. In 2011, due to rising inflationary pressures, coupled with the tightening of traditional instruments, the central bank also used other measures to strictly control the currency, it increased the tightening effects for the 20% lower credit growth rate.

In 2012 and 2013, the central bank continued to monitor credit growth, but at a higher level of control than in the previous year. This shows that even if the central bank pursues an expansionary monetary policy, there is still some caution about the risk of excessive credit expansion. In 2014, the target set is the M2 have increased by about 16-18% and the annual rate of credit growth by 12-14%. In short, this was the last time that the central bank and the Ministry of Finance had to intervene through flexible policy tools and efforts to implement the government's macroeconomic objectives. However, macroeconomic objectives, including the objective of economic growth, are not always possible for many objective and subjective reasons.

CONCLUSION

After having applied changes in laws and principles by monetary authorities, monetary policy has become an indispensable tool in the macroeconomic operator, its role for the economy is becoming clearer and stronger.

Previously, monetary policy was not really a policy, now its content, tasks and objectives are clearly defined as successive stages of socio-economic reforms in Vietnam's economy progress. Although the Vietnamese economy is not yet fully a market economy, an appropriate monetary policy has been found to adapt to the country's conditions. This is reflected in the favorable macroeconomic indicators that Vietnam has achieved over 20 years and through creative adaptation to real situations.

It has been built a favorable regulatory environment, realized the role and motivation, premises of the legal environment in the innovation of monetary policy, currency system - credit - bank. With experiences, exploitations, capturing the reality signal, it was first set up the basic elements of the abandoned legal environment, from the birth of the two banking ordinances with the first law to regulate legal relations and commercial banks, the central bank has evolved its laws. A first law on credit institutions was adopted by Congress and became effective on 1/10/1998. In recent years, the introduction of the second law into banking practices has focused on a new legal framework.

Money and banking transactions have many remarkable achievements. A two-tier banking system is now in place, the central bank uses lenders of last resort, commercial banks control borrowing and carry out banking activities under the direction of the central bank. The autonomy of the company and the elimination of subsidies to banks are increasingly reducing operating costs, in order to enable companies to be more efficient. The bank has updated a large number of innovations, bringing new technology into operational management as well as the construction of a payment system through modern computer networks. This is considered a positive step towards transforming the quality of money and banking operations in Vietnam.

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