At present, the use of instruments of monetary policy, in spite of recent progress, fails to cope effectively with changes in market prices because these instruments haven't been developed and manipulated well enough.

TO PERFECT INSTRUMENTS FOR IMPLEMENTING THE MONETARY POLICY IN VIETNAM

by MEcon. NGUYỄN THỊ THÚY VÂN

1. Open- market operations

These operations involve the purchase and sale of short bonds (government securities, T-bills, deposit certificates, etc.) through which the central bank can regulate the money supply. These operations, in developed countries, are considered as the most effective tools for implementing the monetary policy. In Vietnam, however, these operations haven't been put in use, so we want to present here some suggestions:

- The Government had better encourage the sale of short bonds by the General Treasury, local governments, central bank and companies (in VND or hard currencies) to commercial banks.

- To facilitate the open-market operations and the purchase and sale of short bonds by the central bank, the Government should prepare the legal infrastructure for the issue and trade in short bonds.

2. Reserve requirement

Required reserve is the amount of money that banks must keep in the form of cash and other liquid assets as a percentage of deposits. According to international practice, this reserve may be in bank's own vaults or on deposit with the central bank. According to rules set by the SBV, the real required reserve of banking institutions is based on the institution's average deposit with the SBV. The value of bank's cash in hand plus short bonds isn't included in the amount from which the required reserve is formed if the bank, by deposit multiplier effect, doesn't create total deposit or credit bigger than the value of cash and short bonds held by the bank. The following are our suggestions:

- Besides the bank's deposit with the central bank, the bank should keep a required reserve from the value of cash and short bonds it holds (on July 7, 1999, the SBV Governor made the Decision 135/1998/QĐ-NHNN changing the reserve requirement to 10% of total time deposit of under 12- month term).

To facilitate the banking service, the required reserve was reduced from 10% to 7% as from March 1, 1999 and on June 1, 1999, the SBV Governor decided to make more adjustments to the required reserve: 0% for deposits of 12-month term or longer and 6% for deposits of shorter terms with commercial banks in cities, branches of foreign banks, joint venture banks and finance companies, and 4% for deposits with banking institutions in rural areas.

3. Discount rate

This is the interest rate that the central bank charges banks for loans, using eligible papers as collateral. It is a tool for regulating banks' supply of credit. In Vietnam, the SBV Governor issued Decision 190/1999/QĐ-NHNN on May 29, 1999 reducing the discount rate from 1% to 0.85% a month in order to encourage commercial banks to get loans in VND from the SBV if need be (interest rate on loans in hard currencies isn't changed). In my opinion, the SBV had better introduce commercial papers and accept these papers as collateral because it is a common form of financial instrument in market economies. In Vietnam, there are preconditions for a law or ordinance on commercial papers, we hope that the National Assembly will soon issue this law to develop the finance market.■