

THE 2010 MONETARY POLICY AND ORIENTATIONS FOR THE YEAR

2011



by Dr. NGUYỄN VĂN GIÀU
Member of VCP Central Committee,
SBV Governor

1. The 2010 monetary policy: stabilizing the economy, boosting the economic growth and curbing high inflation

The world economy, in 2010, regained its health unequally amongst parts of the world. The expected growth rate, mainly due to stimuli from newly-emerging and developing economies, has increased from -0.6% in the previous year to 4.8% in 2010. The world commercial health, from the point of 11% below zero in 2009, also jumped to 11.4%; and capital flows poured into emerging markets increased from US\$234.8bn up to US\$339.6bn. However, inflation rate and prices of essential goods has itched kind of higher due to the recovery of global economy and impacts of economic stimulating measures. The world finance market also has swung complicatedly due to Greece's debt crisis. The fact that the USA and several of Asian countries are on the verge of monetary war with a view to competing in international commercial edges has unfavorably impinged on the world economic recovery.

In pursuant to the Decree No.03/NQ-CP dated Jan.15, 2010 regarding solutions to instruction and execution of socioeconomic development plan, and calculating the 2010 State budget; and given the Decree No.18/NQ-CP dated Apr.06, 2010 concerning solutions to macroeconomic stabilization, inflation control and the target of economic growth of 6.5%; the State Bank has administered monetary policies both flexibly and severely so as to stabilize the economy, curb inflation and reach

the high growth rate of 6.7%. Basically, promulgated solutions are in compliance with governmental directives.

Firstly, monetary policies are administered flexibly so as to secure an appropriate money supply, thereby stabilizing the money market and ensuring a total liquidity suitable for the domestic economic development. Interest rates of all kinds are also flexibly adjusted to suit the demand for disposable capital of banking institutions. Besides, to finance enterprises by means of recapitalization loans is also undertaken in order to secure the liquidity and capital flows for the sake of agriculture and rural areas as per the Decree No.41/2010/ND-CP dated Apr.12, 2010.

Secondly, the interest rate adjusted in a flexible manner appropriate to fluctuations in market as well as governmental guidelines has enabled banking institutions to improve their practice of lending and borrowing. Interest rates were maintained stably in the first ten months of 2010 and have been adjusted up to one percentage point since November 5, namely, base rate and recapitalization interest rate amounting to 9% per annum, rediscount rate reaching 7% per annum, etc. Since April 2010, negotiated interest rate regime has come into effect. The maximum interest rate of US dollar deposits in banking institutions was fixed at one percent per annum, thereby reducing the difference between borrowing rates on deposits in the VND and foreign exchange. Besides, the SBV also shook hand with the Vietnam Banks Association to inspect and check the execution of negotiated interest rate regime so as to reach a complete unanimity on lending and borrowing rates.

Thirdly, the subsidized interest rate of two percentage points was implemented for the sake of medium- and long-term loans, which were used for business investments, acquisition of agricultural facilities, and building materials for housing development plans in rural areas. In addition, provisions on execution of programs to supply loans at the subsidized interest rate were always amended and promulgated so as to meet directives of the Prime Minister.

Fourthly, the SBV kept playing its role in managing the exchange rate and forex market with a view to reducing the trade deficit. The balance of international payments was also improved by adjusting interbank average rate by 5.52% to a rate of VND18,932 to the US dollar, fighting against the hoard of foreign currencies for profiteering, and intervening into the sale of foreign currencies to importers of necessities. Besides, the SBV imposed exchange surrender requirements on seven state-owned groups/corporations as well as the maximum borrowing rate of one percent per annum on deposits in foreign exchange by enterprises with banking institutions; and simultaneously collaborated with the Ministry of Industry and Trade as well as related bodies to tackle difficulties in banking practices relating to foreign trade, thereby controlling the trade deficit and eliminating the need to hold foreign exchange.

Fifthly, measures to stabilize the gold market as well as to inspect the implementation of regulations and directives of the Prime Minister on trade in gold were taken simultaneously, that is, guiding the closure of gold exchange and permitting some enterprises and commercial banks to import raw gold properly in terms of quantity and time. Commercial banks were also requested to lower the borrowing rate on deposits in gold. Lending and borrowing in gold by banking institutions was restricted as per the Circular No.22/2010/TT-NHNN dated Oct. 29, 2010.

Sixthly, banking institutions were directed to expand credit in parallel with stringent control of loan quality so as to support the agricultural and rural section, exportation as well as small- and medium-sized enterprises. The SBV also kept on regulating credits supplied to non-manufacturing section.

Seventhly, the SBV took various measures to stabilize and secure the safety of banking system; required banking institutions to restructure their assets and capital flows in a safe and sound way; kept a close watch on the money market and operations of commercial banks; promulgated the Circular No.13/2010/TT-NHNN dated May 20,

2010 and the Circular No.19/2010/TT-NHNN dated Sept. 17, 2010 stipulating the safety ratios for the operation of commercial banks; and required banking institutions to ensure the chartered capital as per the Decree No.141/2006/NĐ-CP dated Nov. 22, 2006.

Eighthly, to sufficiently and punctually communicate solutions to the implementation of monetary policy and banking practice as per Prime Minister's directives is also attended to a great extent. The implementation of monetary policy is in parallel with the control of fiscal policy and others, taking it as vital factors of administering the monetary policies and banking operation.

Thanks to the synchronous and effective execution of the above-mentioned solutions, the implementation of monetary policy and the operation of banking system secured major economic balances. The economic life was step by step improved and expected to gain a growth rate of 6.7% and inflation was under control.

In addition to achievements attained, to execute solutions to implementation of monetary policy in the context of complicated fluctuations in the world economy and the domestic one is also a challenge to the SBV, which put it under a lot of pressures. For instances:

- Inflation tended to go up due to the recovery of domestic economy and fluctuations in the world prices. Thus, even though the 2010 CPI has been kept in the one-digit level, it would be difficult to keep it below 7% as requested by the Vietnam's National Assembly. Vietnam's high inflation rate mainly resulted from an unsuitable economic structure, poor competitiveness, unfavorable infrastructure, low-qualified human resource, ineffective use of capital flows, and a high openness of the economy, which led to the poor ability to resist and adapt to the foreign market fluctuations. They are force majeure to macroeconomic policies.

- Trade deficit was still at a high level due to slow changes in the economic structure and complicated fluctuations of the world economy. It increased the openness of the economy (2009: 150% of GDP). The economy was affected by upheavals of the world market, causing the foreign-currency

reserve to plummet, and impeding the administration of monetary policy, interest rate and exchange rate. For this reason, to reduce the trade deficit and balance the trade balance is the urgent need that forces related authorities to carry out synchronous and immediate solutions to implementation of macro-economic policies, improvement in investment and development of the domestic market.

- While the exchange rate was administered flexibly, its pressure on the economy is kind of high, which is due to the prolonged and high trade deficit and unfavorable balance of payments on current account. The foreign currency supply based mainly on surplus of balance of capital fluctuated and depended too much on the health of world economy. The dollarization was widespread, increasing the tendency to hold foreign currency and restricting the supply of foreign currency to the official market; and more importantly, the unreliable and unofficial source of information usually caused the profiteering and psychological trauma. Therefore, in order to stably control the exchange rate, it is necessary to stabilize the economy at a macro level, reduce trade deficit in the hope of a trade balance, step by step overcome the dollarization, and pay sufficient attention to the propagation.

- The interest rates in the money market were affected sharply by inflation, the supply and demand for capital through banks, the national budget, the stock market and fluctuations in interest and exchange rates on the world market. Under the conditions of macro-economic instability and high inflation as well as the onward demand for capital flows, the interest rate must be adjusted in an effort to serve macro-economic stability, inflation control and economic growth.

- The capital market was not transparent enough. The allocation of resources was not rational. The capitalization rate was still low compared to other countries within the region and the capital mobilization rate for the domestic economy was poor; which put a high pressure on banking institutions and the administration of monetary policies.

2. Orientations for the 2011 monetary policy

The health of 2011 world economy, as predicted by IMF, will recover slowly, around 4.2% compared to 4.8% of the previous year, and unequally between different regions and fields. The world economy keeps facing latent risks such as high public debts, budget deficit, inflation, increase in prices of raw materials, and record high unemployment rate in some countries. Besides, the finance and money markets are confronted with complicated upheavals when the US and several of Asian countries are racing for depreciation of their currencies. Developed countries, especially the US and Japan, continue to execute stimulus packages. These factors increase the risks and economic instability; and thus affect profoundly the import and export, fiscal and monetary policies of countries.

The above-mentioned things have also put high pressure on the domestic macroeconomic stability, especially inflation curb and trade deficit reduction. In its eighth session, Vietnam's National Assembly has approved economic targets for the year 2011, including, the economic growth reaching approximately 7 to 7.5 percent, CPI not exceeding 7% and trade deficit not exceeding 18% of the export turnover; the gross investments in development equaling some 40% of GDP, and ratio of the budget deficit to GDP being around 5.3%. On this basis, the SBV has defined targets, duties and core solutions in 2011 as follows:

- Monetary policy is administered flexibly and thoroughly on the ground of market rules so as to control strictly the total liquidity and increase the growth of credit by 21 to 24 percent in comparison with the previous year. Monetary regulations and the operation of banks are ceaselessly perfected with a view to securing the safe operation of banking institutions, and improving the SBV control over banks.

- Guidelines on Law of State Bank of Vietnam and the Banking Institutions Law continue to be worked out, amended, modified and promulgated. Laws on money and banking operation should be perfected in order to suit international conventions and practices and Vietnam's conditions, es-

pecially provisions on exchange control.

Tasks of analyzing and predicting changes in domestic and foreign finance-money markets should be improved to pave the way for suitable policies and solutions to the control over banking operations.

- Monetary policies are administered to meet goals of keeping the increase in total liquidity and credit growth at 21 to 24 percent. Adjustments to the interest rate must be appropriate to changes in the supply of and demand for capital and facilitate the economic development. Banking institutions are encouraged to expand their business to rural areas with a view to making the credit growth in agricultural sector higher than the national average. The exchange rate is adjusted to fit the supply of and demand for foreign currency, thereby enhancing the market liquidity, pushing the export up and curbing trade deficit. Bodies involved must collaborate to strictly control the market, especially the forex one and blur the dollarization in the economy.

- The SBV keeps asserting its competence in predicting and warning imminent risks of banking operation; renovates modes of inspection in a hope of enhancing its control over the monetary market and insuring the safe and sound operation of banking system; making the banking system more compliant with international conventions and practices; and simultaneously making operations of banking institutions more open and transparent.

- The SBV shall set up and implement effectively the project of noncash payment for the period 2011-2015 so as to reduce the cash flows and step by step alter the traditional habit of payment; improve the propagation of policies and solutions to administration of monetary policy; and beef up the administrative reform, especially the control over administrative procedures■

