

Original Article

Analysis of Vietnam's Monetary Policy During the Period 2016 – 2022

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Received Date: 09 October 2023 Revised Date: 22 October 2023 Accepted Date: 24 October 2023 Published Date: 26 October 2023

Abstract: The article examines Vietnam's monetary policy during the period 2016 – 2022. The period 2016 - 2022 is a period of many changes in the domestic and world economy. Analyzing monetary policy plays an important role in managing and regulating macroeconomic indicators to ensure the goal of macroeconomic stability set by the National Assembly. Using qualitative research methods by analyzing and describing data collected from the State Bank of Vietnam, International Financial Statistics (IFS) and the General Statistics Office (GSO), the study analyzes the current State of Vietnam's monetary policy management, the current situation of applying monetary policy tools in the period 2016 - 2022. At the same time, the article points out the role of monetary policy in the current State of Vietnam's macroeconomy in the period 2016 - 2022 by analyzing the situation of (1) Investment, (2) Personal spending, (3) Government expenditure, (4) Net export turnover; prices and output through gross domestic product (GDP) and price index (CPI). Based on that basis, the research team proposes some policy implications for monetary policy management to ensure the goal of macroeconomic stability set by the National Assembly.

Keywords: Monetary policy, Vietnam, period 2016 – 2022.

I. RAISING THE ISSUES

Ensuring and maintaining macroeconomic stability is one of the top priority goals of the government's macroeconomic policies. Monetary policy is the totality of methods by the Central Bank through its activities affect shifts in interest rates and the money supply, which will impact the final objective of monetary policy, which is inflation, economic growth and jobs, in order to realize the country's socio-economic goals in a certain period of time. National governments always consider monetary policy as one of the most important economic policies to ensure economic stability and promote economic growth and development. Developing countries are still in the process of transition, and the financial system structure is still at the initial stage of development, containing many risk factors. While the level of dependence between countries is increasing, and the global economy always has unpredictable fluctuations. As the domestic and foreign financial markets become more integrated, the impact of monetary policy on the economy is increasingly complex, and the administration of monetary policy by the Central Bank becomes more and more difficult. Research on what monetary policy is for in the economy is always in question.

The period 2016-2022 is a period of complex fluctuations for the world economy. Protectionism escalated, leading to tensions between major countries. The COVID-19 pandemic broke out in early 2020 and spread worldwide, negatively impacting the global economy, including Vietnam. Along with that, the Russia-Ukraine war broke out in the global supply chain, affecting financial and currency markets. The international monetary market is full of instability, and the monetary policy of major countries has reversed from normalization to easing in an "unprecedented" way. These things have had a significant impact on the currency circulation of an export-based growth country like Vietnam. To resolve those pressures, monetary policy plays an extremely important role. Monetary policy is one of the most significant policies in the State's collection of macroeconomic regulation since it has a direct impact on the area of monetary flow. Therefore, the research team carried out the "*Analysis of Vietnam's monetary policy during the period 2016-2022*". The research focuses on analyzing the theoretical basis, the status of monetary policy application and the role in the current State of Vietnam's economy in the period 2016-2022 through analyzing and describing secondary data compiled from the State Bank of Vietnam (International Financial Statistics) IFS, (General Statistics Office) GSO. The study answers the question: What is the status of monetary policy application in Vietnam? What is the role of monetary policy in the current State of Vietnam's economy in the period 2016 - 2022? Thereby, the research team proposed several discussions and policy implications in the application of monetary policy instruments.



II. THEORETICAL BASIS OF MONETARY POLICY

A) Definition

Provided that other factors remain constant, if the amount of currency in circulation changes, the representative value of a monetary unit will, therefore, change. Leading to changes in commodity prices, asset values, and income will change. By changing monetary variables, the Central Bank can direct certain fluctuations in the country's life and economic activities according to certain goals, essentially implementing monetary policy. There are many views on monetary policy from management organizations.

According to the Fed: "The Federal Reserve carries out a country's monetary policy by controlling immediate interest rates and affecting the cost and availability of financing in the economy. Interest rates are directly impacted by monetary policy, while wealth, exchange rates, and stock prices are indirectly impacted. Monetary policy influences the US economy's consumption, investment, output, employment, and inflation through various mechanisms".

According to the State Bank of Vietnam: "National monetary policy refers to monetary decisions made by capable state institutions at the national level. These decisions may involve the use of public policies, instruments, and measures to accomplish the aims of maintaining the value of the currency as reflected by inflation goals.". (State Bank Law 2010 – Clause 1, Article 3).

According to F.S. Mishkin (1990): "One type of macroeconomic policy is monetary policy, whereby the central bank uses its instruments to manage and control the money supply to affect the fundamental objectives of the economy. High job opportunities, economic growth, price stability, interest rate stability, financial sector strength, and foreign exchange rate stability are all ultimately attained on that premise."

Vu Xuan Dung (2012): "National monetary policy is a combination of methods by which the Central Bank, through its activities, affects the amount of money in circulation, in order to realize the country's socio-economic goals in a certain period of time".

Nguyen Van Tien (2010): "Monetary policy is a macroeconomic policy. Through its tools, the Central Bank proactively changes the money supply or interest rates (target interbank interest rate) to achieve socio-economic goals."

B) Goals of Monetary Policy

a. The controlling inflation and stabilizing the value of money goal.

Central banks have the power to affect changes in the value of a nation's currency through monetary policy. Two factors determine the value of a stable currency: the currency's domestic buying power (measured by the price index for domestic goods and services) and its overseas spending power (measured by the exchange rate of the national currency relative to other currencies). Monetary policy intended to stabilize the worth of currency doesn't automatically mean that inflation is at zero because inflation and recession cannot be eliminated at the same time. If inflation returns to zero, the economy will sink deeper into recession, and the economy will not be able to develop. In conditions of a stagnant economy, maintaining adequate inflation control—typically in the single digits—will promote economic expansion once more.

b. The goal of economic expansion

Every government constantly aims for economic growth while preparing its macroeconomic policies. Maintaining the expansion rate, and in particular maintaining the value of the local currency, is crucial since it demonstrates the public's confidence in the government.

c. The goal is to create jobs and reduce the unemployment rate goal.

Either a broad or restrictive strategy will directly affect how well social resources are used, how big businesses and output are, and how much jobless there is in the economy as a whole. Therefore, monetary policy always aims to ensure employment and unemployment rates.

d. The stabilizing the exchange market goal

With the increasing importance of exchange rates in international trade, exchange rate stability has become a desirable goal of monetary policy. Exchange rates affect the competitiveness of domestic goods and services compared to foreign ones. In addition, stabilizing exchange rates makes it easier for businesses and individuals exchanging goods with foreign countries to plan.

e. The stabilizing the interest rate market goal

Interest rate fluctuations have the potential to undermine economic stability and complicate preparing for the future. Interest rate fluctuations have an impact on people's savings and spending habits, as well as on businesses' capacity to grow their operations.

f. The stabilizing the financial market goal

A financial crisis can reduce the ability of financial markets to create capital bridges for people with opportunities to invest in production, thereby reducing the scale of economic activity. Thus, one of the Central Bank's main objectives is to prevent financial crises and build a more secure financial system.

C) Types of Monetary Policy

The expansionary policy: A policy that increases the money supply to the economy, thereby reducing interest rates and expanding investment, providing capital to industries to develop production and business, and increasing aggregate demand and the value of national output.

The contractionary policy: A policy that limits (or reduces growth) the amount of money supplied to the economy.

D) Tools of Monetary Policy**a. The direct tools**

Interest rate control tool: The Central Bank regulates specific lending interest rates (or including deposits) or fluctuation ranges or regulates upper ceilings and lower floors of interest rates for commercial banks when mobilizing and lending to the economy. This tool is often chosen by the Central Bank when the Central Bank cannot control market interest rates through market means or when choosing long-term interest rates as the policy target.

Credit line tool: The Central Bank regulates credit growth according to the size of each commercial bank's operations. This tool is applicable when the transmission mechanism is uncertain.

Indicated credit: The Central Bank assigns its credit capital to specific areas in the economy through commercial banks; this credit does not need to be mortgaged at the Central Bank.

b. Indirect tools

Required reserves: Required reserves are the amount of money that commercial banks must maintain on deposit accounts at the Central Bank, determined on the basis of the required reserve ratio and the total deposit balance of commercial banks for a specified period of time. By altering the money multiplier, modifications to reserve requirements have an impact on the money supply:

$$\begin{aligned}rb \uparrow &\rightarrow rr \uparrow \rightarrow mM \downarrow \rightarrow MS \downarrow \\rb \downarrow &\rightarrow rr \downarrow \rightarrow mM \uparrow \rightarrow MS \uparrow\end{aligned}$$

Open market operations: What open market activities are the central bank's purchasing and selling of short-term financial securities, primarily Treasury bills, to alter the amount of money in circulation. The Central Bank influences changes in the base currency through OMO operations by buying or selling securities:

$$\begin{aligned}\text{Central Bank buys securities} &\rightarrow B \uparrow \rightarrow MS \uparrow \\ \text{Central Bank sells securities} &\rightarrow B \downarrow \rightarrow MS \downarrow\end{aligned}$$

Discount interest rate (iCK): The interest rate that the Central Bank applies when lending money to commercial banks. The Central Bank increases or decreases the refinancing rate and discount rate depending on the goal of monetary policy: expansionary or contractionary:

Impact through the base amount of money:

$$\begin{aligned}iCK \uparrow &\rightarrow B \downarrow \rightarrow MS \downarrow \\ iCK \downarrow &\rightarrow B \uparrow \rightarrow MS \uparrow\end{aligned}$$

Impact through the currency multiplier:

$$\begin{aligned}iCK \uparrow &\rightarrow rr \uparrow \rightarrow mM \downarrow \rightarrow MS \downarrow \\ iCK \downarrow &\rightarrow rr \downarrow \rightarrow mM \uparrow \rightarrow MS \uparrow\end{aligned}$$

E) Impact of Monetary Policy on the Economy

The mechanism of monetary policy is the process of how variations in the money supply (MS) are made and transformed to look into shifts in prices, employment, and production (Nguyen Van Dan, 2009).

Using monetary policy to stabilize the economy, the central bank must change the level of money supply (MS) to contribute to changing total spending (AE), thereby changing aggregate demand in the economy (AD), output, prices and employment rates in the economy.

The situation in which the economy has $Y < Y^$:*

The economy fell into recession, and wanting to escape the recession, the Central Bank implemented an expansionary policy (increased MS) with measures such as Buying government bonds, reducing the required reserve ratio, reducing discount interest rates... When MS increases, interest rates will decrease, which in turn will stimulate consumption, investment, and net exports. Total spending in the economy increases, aggregate demand increases, increasing output and employment in the economy (Nguyen Van Dan, 2009)

Figure 1: Impact Of Monetary Policy On The Economy

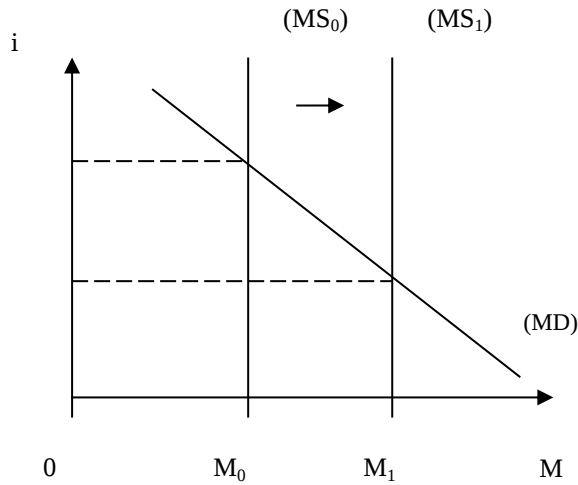


Figure: 1a

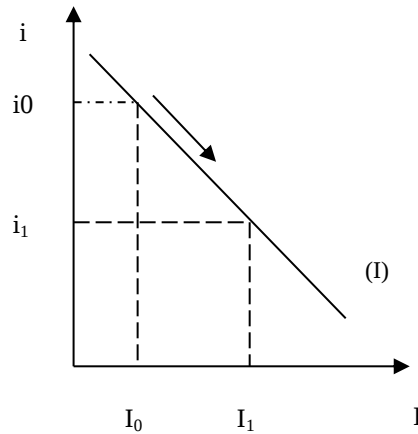


Figure: 1b

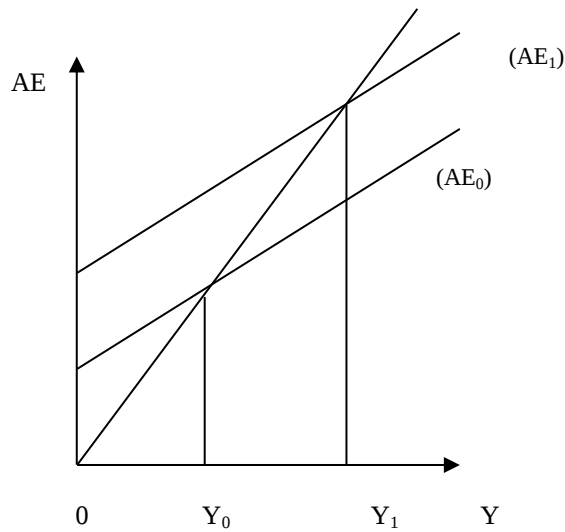


Figure: 1c

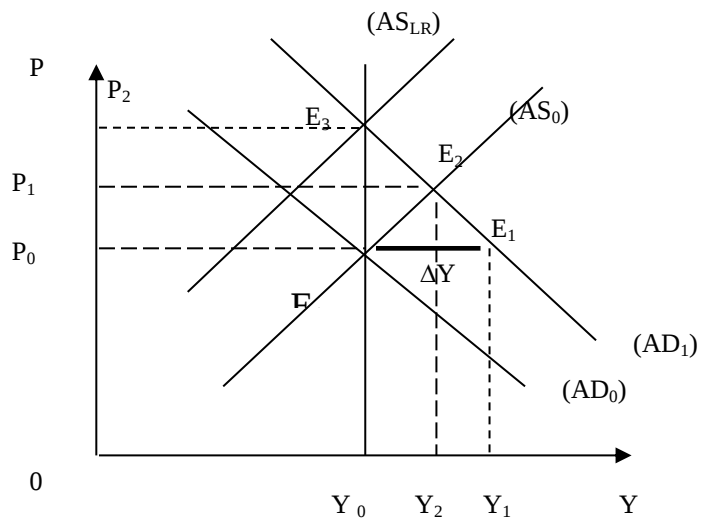


Figure: 1d

The situation in which the economy has $Y > Y^$:*

The economy at this time was under pressure from high inflation. To fight inflation, the Central Bank implemented a contractionary policy (reduced MS), using measures such as Selling government bonds, increasing the required reserve ratio, and increasing discount interest rates. When MS falls, interest rates increase in the money market. An increase in interest rates stifles investment and reduces factors sensitive to interest rates, reducing total spending in the economy, reducing aggregate demand, reducing output and reducing inflationary pressure (Nguyen Van Dan, 2009).

This process can be summarized as follows:

$$\begin{aligned} MS \uparrow &\rightarrow i \downarrow \rightarrow (C, I, NX) \uparrow \rightarrow AD \uparrow \rightarrow GDP_r \uparrow \text{ \& } P \uparrow u \downarrow \\ MS \downarrow &\rightarrow i \uparrow \rightarrow (C, I, NX) \downarrow \rightarrow AD \downarrow \rightarrow GDP_r \downarrow \text{ \& } P \downarrow u \uparrow \end{aligned}$$

When the Central Bank implements an expansionary policy, the money supply increases from $MS_0 \rightarrow MS_1$ and, then interest rates will decrease from $i_0 \rightarrow i_1$ (Figure 1a). Lower interest rates will stimulate businesses to purchase equipment and factories. Therefore, the total expected investment of the economy increases from $I_0 \rightarrow I_1$ (Figure 1b). In addition, the equilibrium interest rate in the money market decreases, leading to an expansion of consumption capacity and an increase in net exports (NX). **u:** Unemployment rate in the economy

According to the Keynesian intersection model, total spending in the economy increases from $AE_0 \rightarrow AE_1$, and the equilibrium quantity will increase from $Y_0 \rightarrow Y_1$ (Figure 1c). According to AS-AD model, there will be a rightward shift in

the aggregate demand curve by some distance $\Delta Y = Y_1 - Y_0$. Short-run equilibrium output will rise to Y_2 due to the impact of price rises to P_1 . Long-run equilibrium output will return Y_0 as prices continue to rise to price levels P_2 (Figure 1d). Therefore, over time, expansive monetary policy will result in higher prices, and restrictive monetary policy will result in lower prices.

III. ANALYSIS OF VIETNAM'S MONETARY POLICY DURING THE PERIOD 2016 – 2022

A) Overview of Vietnam's Economic Situation During the Period 2016 - 2022

The period 2016 - 2022 is the period when Vietnam's economy experiences many fluctuations from the domestic economy and impacts from the global economy. Domestically, the implementation of economic restructuring and growth model innovation has achieved many positive and important results, basically completing the set goals. Growth quality has been improved, the orientation of the financial system has changed for the better, labor productivity has gotten better, and more money is being raised for development investments; Management of bad debt and public debt has made much progress, and capital use efficiency has been improved; Legal institutions, economics, investment and business environment, and competitiveness rankings have been significantly improved. The scale, potential, and competitiveness of the economy have been significantly increased, thereby creating a favorable premise for innovations and breakthroughs in economic growth in the next period. Economic growth has gradually improved, reaching a decent increase in recent years, particularly in light of the intricate COVID-19 pandemic that has an impact on every sphere of socio-economic existence. Of this, the average in the period 2016-2020 reached 6.01% (greater compared to the 5.91%/year average for the years 2011 to 2015) (General Statistics Office, 2020). In 2021, the growth rate tends to decline and only reaches 2.58%. However, Vietnam is still one of the very few countries maintaining positive growth in the world. Inflation continues to be controlled: In the 2016-2020 period, inflation decreased from 7.65% in the 2011-2015 period to 3.14%; Corresponding average core inflation decreased from 5.15% to 1.81%. In 2021, inflation will still be maintained at a low level and only increase by 1.84% over the same period in 2020, reaching the set target (the National Assembly assigned a target of 4%); Core inflation only increased by 0.81% (Minh, T.T.H & Tung, N.V, 2022). Besides, Vietnam's economy is also affected by global economics and finance. Typically, in 2022, the Russia-Ukraine war disrupts the global supply chain, increasing global inflationary pressure. Although Vietnam is under pressure from economic fluctuations around the world, the Vietnamese economy is basically stable in inflation and macroeconomics.

B) Overview of Vietnam's monetary policy period 2016 – 2022

a. Period 2016 – 2019

The world financial and monetary market is experiencing complicated developments as the US Federal Reserve (FED) and many central banks in other countries and regions move to increase interest rates. Under such circumstances, the State Bank of Vietnam flexibly implements monetary policy to maintain stability and lower interest rates when circumstances are favorable to boost business and production operations. It does this by closely monitoring events in both domestic and international markets. Accordingly, after keeping operating interest rates unchanged in 2016, in the period 2017 - 2019, the State Bank of Vietnam adjusted operating interest rates by 0.5%/year, down 0.2 - 0.5%/year ceiling interest rates for deposits for terms under 6 months, reducing 1.0%/year ceiling of short-term loan interest rates for priority sectors (Ha, PT, 2023); Incorporate regulation, quickly address credit institutions' liquidity demands, and uphold suitable international market interest rates; Direct credit providers to assess and evaluate borrowers' ability to repay money at a fair interest rate in order to increase the availability of capital for individuals and enterprises; Accelerate the progress of bad debt handling to have resources to continue reducing lending interest rates.

b. Period 2020 – 2022

The interest rate management has not only responded promptly to epidemic developments to help overcome difficulties for the economy but has also been flexibly adjusted in accordance with domestic and international inflation developments to contribute to controlling inflation and stabilize the macroeconomy. The State Bank of Vietnam lowered operational interest rates by three times in 2020, for a total drop of 1.5 to 2%/year, immediately following the start of the COVID-19 pandemic. (one of the countries with large interest rate reductions in the region) to lower the cost for financial institutions to obtain capital through the State Bank, enabling credit institutions to lower the interest rates on loans they provide to the economy; Direct credit institutions to focus on lowering lending interest rates while minimizing operating expenses. In 2021 and the first 8 months of 2022, although world interest rates increased, the State Bank still maintained the operating interest rates, which facilitates inexpensive capital access for financial institutions from the State Bank, thereby having conditions to lower interest rates on loans in order to aid clients in regaining production and profitability; Give credit institutions instructions to cut operating expenses so they can keep lowering lending rates of interest and help people and companies get through difficult times. Thanks to that, in the context of rising world interest rates, the average interest rate for loans of the credit institution system declined by 1% annually in 2020 and then by 0.8% annually in 2021. (Ha, PT, 2023).

However, in the context of high global inflation, the FED has adjusted its target interest rate 6 times to 3.75 - 4%/year and is forecast to continue to increase in 2023, causing the USD to appreciate strongly, increasing demands on interest rates in the country and exchange rates, creating the impact of inflation (Hong Anh, 2023). The State Bank of Vietnam has adjusted interest rates in response to rapidly rising global interest rates and local inflationary pressure in order to keep deploying measures that will help control inflation, stabilize the macro economy, and ensure the security of the banking system.

C) Current Status of Applying Vietnam's Monetary Policy Tools in the Period 2016 - 2022

a. The direct tools

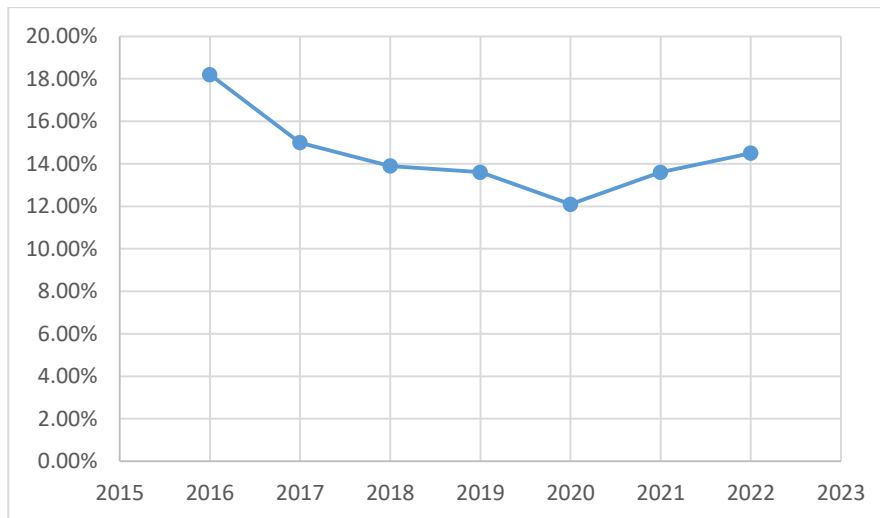
Credit line tool: The credit line is an administrative management tool that somewhat limits competition fairness. During the period from 2011 - 2016, in order to control banks in credit granting activities to the economy, ensuring the goal of maintaining macroeconomic stability and curbing inflation, the State Bank of Vietnam used credit limit tools in operating monetary policy.

The State Bank of Vietnam has developed credit orientation and growth management targets in accordance with macroeconomic balances, meeting capital needs in the economy focused on manufacturing and commercial areas and priority areas, tightly managing dangerous areas, and related to increasing credit quality.

In the period 2016-2022, the State Bank will continue to maintain stable credit limits and manage credit according to the motto of expansion coupled with safety. On average, credit increased by 15%/year; in 2020, credit increased by 12.13%. In 2021, credit growth will reach 13.60%, increasing gradually over the years and reaching 14.50% in 2022.

Figure 2. Vietnam's credit growth during the period 2016 – 2022

Unit: % per year



Source: General Statistics Office

b. Control interest rates

Currently, the State Bank still applies regulations on deposit interest rate ceilings and maximum interest rates for VND deposits made by businesses (except from financial institutions and overseas bank branches) and staff members at those locations according to the provisions of Circular No. 07/2014/TT-NHNN dated March 17, 2014, as follows: (1) Demand deposits with terms shorter than one month are subject to a maximum interest rate of one percent per year; (2) 5.5% annually is the highest interest rate that can be applied to deposits with durations ranging from one month to less than six months; The People's Credit Fund and Microfinance Institutions specifically apply the maximum interest rate for term deposits from 1 month to less than 6 months at 6.0%/year (Anh, N.T.V, 2017).

Since January 1, 2017, the 2015 Civil Code stipulates that if the parties agree upon interest rates, they cannot be higher than 20% annually of the loan amount, except other relevant laws apply other regulations. In case the agreed-upon interest rate is higher 20%/year, the excess interest rate will not be effective.

c. The indirect tools

Open market operations: During the period 2016 – 2022, OMO operations continue to be operated very flexibly by the State Bank and closely follow developments in the currency market and macroeconomic developments to ensure monetary regulation according to set goals.

Thus, the OMO operation has been flexibly managed by the State Bank, closely following developments in capital supply and demand of credit institutions and playing an increasingly important role in regulating currency and interest rates to achieve operating goals. Monetary policy is flexible in each period. It can be said that this is one of the new steps in innovating monetary policy management in the direction of shifting from direct management tools to indirect tools.

d. Operating interest rate tool

In order to control monetary policy and avoid usury, the State Bank of Vietnam publishes interest rates for refinancing their basic interest rates and other purposes. The State Bank of Vietnam oversees the rate of interest stabilization technique that applies to relationships between credit institutions and their clients and all other credit relationships in the event of exceptional currency market movements.

Refinancing and rediscount interest rates are specifically regulated depending on the operating goals of the monetary policy. If inflation is too high, the refinancing interest rate and rediscount interest rate are set in an upward trend to limit the money supply and control inflation. If the economy is in recession, this interest rate is adjusted downward to stimulate economic growth.

The State Bank has created an interest rate management framework whereby the refinancing interest rate is considered the ceiling interest rate, the rediscount interest rate is the floor interest rate of the interbank market, and the leading interest rate is the open market interest rate. During the period 2016 - 2022, the State Bank has operated these operating interest rates very flexibly from time to time. Specifically, the refinancing interest rate is gradually adjusted to decrease from 6.28% in 2017 to 4% in 2020, remaining stable until 2022. The State Bank of Vietnam increased the refinancing interest rate to 5% in September and 6% in October. Regarding the rediscount interest rate, the State Bank of Vietnam has adjusted the rediscount interest rate gradually over the years in the period 2016 - 2022, from 4.25% in 2017 to 2.5% in September 2020, then maintained stable until 2022; the rediscount interest rate increases to 3.5% in September 2022 and 4.5% in October 2022. The cause is a result of the negative impact of the Covid 19 pandemic, along with the Russia-Ukraine war that has impacted the global financial market. In the context of high global inflation, the FED has adjusted its target interest rate 6 times to 3.75 - 4%/year and is forecast to continue to increase in 2023; the USD has appreciated sharply, putting greater strain on exchange and interest rates domestically, which puts stress on inflation should keep deploying actions in unison that will help limit inflation, stabilize the macro economy, and protect the financial system, the State Bank of Vietnam has adjusted to increase interest rates of world interest rates increased rapidly and domestic inflationary pressure increased (Thang, D.M, 2023).

Table 1. Developments Of The State Bank's Operating Interest Rates During The Period 2016 – 2022

Unit: %/year

Time of application	Refinancing interest rate	Rediscount interest rate
01/07/2017	6.28	4.25
01/09/2019	6.00	4.00
01/03/2020	5.00	3.50
01/05/2020	4.00	3.00
01/09/2020	4.00	2.50
01/10/2020	4.00	2.50
23/09/2022	5.00	3.50
25/10/2022	6.00	4.50

Source: Compiled from the State Bank of Vietnam

e. Required reserves.

Required reserves are the sum of money lent to carry out monetary policy at the federal level, and organizations must make deposits at the State Bank. The State Bank of Vietnam regulates the required reserve ratio to implement the national monetary policy for each kind of credit institution and deposit type at a credit institution. Interest payments on necessary reserve deposits and deposits over needed reserves for each kind of deposit a credit organization makes are governed by State Bank regulations.

In 2016-2022, the required reserve ratio of credit institutions for VND deposits was fixed at 3% and unchanged (State Bank of Vietnam, 2022). For rural banks, the required reserve ratio for VND deposits in 2016-2018 is 1%, increasing to 3% in 2018-2022 (State Bank of Vietnam, 2022). The necessary ratio of reserves is kept at 8% for deposits on demand and

deposits with terms of less than 12 months, 6% for deposits with maturities of more than 12 months, and 1% for deposits from financial organizations overseas for deposits made in foreign currencies. The necessary ratio of reserves is kept at 8% for deposits on demand and deposits with terms of less than 12 months, 6% for deposits with maturities of more than 12 months, and 1% for deposits from financial institutions overseas for deposits made in foreign currencies. (State Bank of Vietnam, 2022).

f. Exchange rates

The supply and demand of foreign currency on the market, as well as government regulation, determine the Vietnam Dong's exchange rate. The State Bank sets the exchange rate regime, the exchange rate management system, and exchange rate announcements.

When the State Bank of Vietnam changes the official exchange rate or trade group, this will impact net exports, which will, in turn, impact domestic demand. This affects the price of imported goods, and both channels will have an impact on inflation and economic growth.

In the period 2016-2022, the State Bank implemented a new exchange rate management method according to the daily fluctuating central exchange rate mechanism, closely following market developments and the goal of macroeconomic stability. Active, flexible and proactive exchange rate management combined with reasonable liquidity regulation solutions. To stabilize the market and the economy, lower the intervention's sales rate and prepare to sell foreign exchange. In particular, the difference in the current exchange rate between VND and USD is modified from $\pm 3\%$ to $\pm 5\%$ (State Bank of Vietnam, 2022). The State Bank said that it would keep a careful eye on changes in market conditions, synchronize its monetary policy instruments, and be prepared to sell foreign exchange in order to take action and balance the market. The State Bank claims that starting in 2022, the US Federal Reserve (Fed) and a lot of the biggest banks will move quickly to tighten their monetary policy, raise operating interest rates, and interfere with the global supply chain due to the ongoing dispute between Russia and Ukraine. Additionally, the price of commodities and fuel is on the rise, and price inflation is out of control in many countries, which will cause significant fluctuations in domestic and international markets (Huan, NH & Vu, NM, 2023). On October 17, 2022, the State Bank of Vietnam issued Decision No. 1747/QD-NHNN governing the current exchange rates among Vietnamese Dong and foreign currencies of licensed credit institutions to actively respond to unpredictability advances in the global marketplace and keep tightening monetary policy and boost interest rates by the Federal Reserve and central banks around the globe.

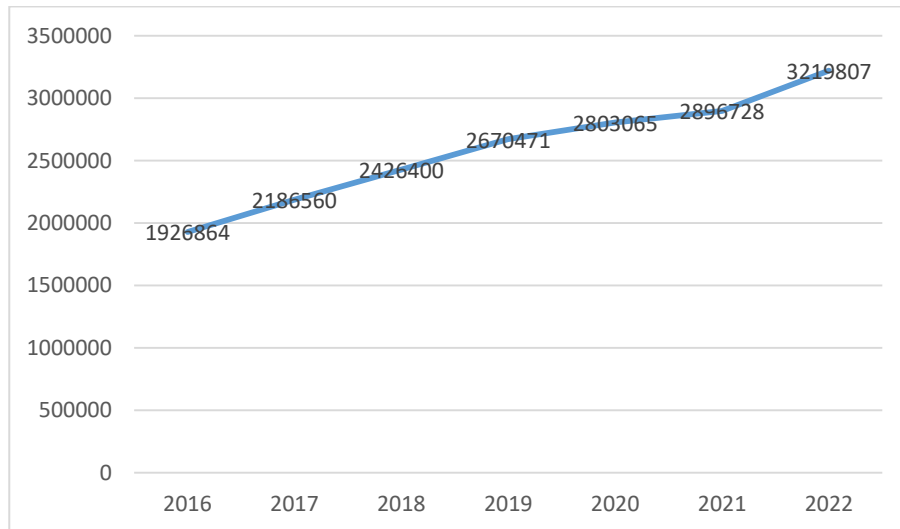
IV. THE ROLE OF MONETARY POLICY IN VIETNAM'S ECONOMY IN THE PERIOD 2016 – 2022

A) Aggregate Demand

a. Domestic investment

Figure 3: Total Domestic Investment During the Period 2016 – 2022

Unit: Billion VND



Source: General Statistics Office

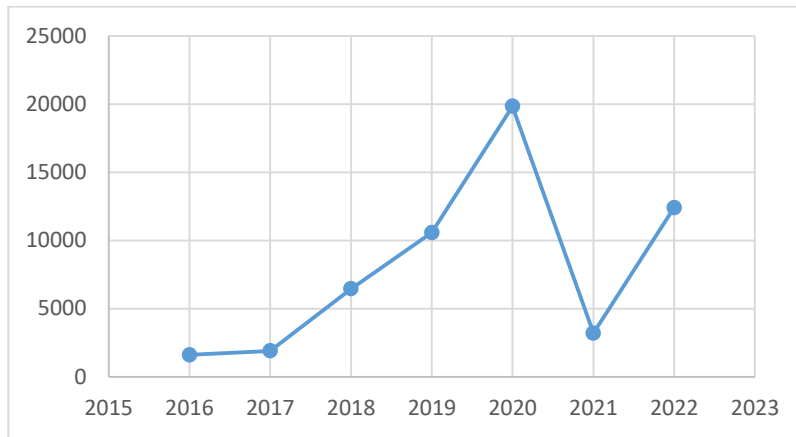
The period 2016 - 2022 shows an increasing trend in total domestic investment. Specifically, in 2016, total domestic investment reached 192686.4 billion VND, and the investment growth rate reached an average of 11.5%/year in the period 2016 - 2019, reaching 280306.5 billion VND in 2020 (General Statistics Office, 2020). However, entering the 2020 - 2021

period, the COVID-19 pandemic and the Russia-Ukraine war negatively impacted the economy. Although there was a serious decrease compared to the same period last year, investment growth in the country is at a positive level, which proves that the State Bank of Vietnam implements a flexible monetary policy consistent with macroeconomic developments. Entering 2022, the economy recovered after the epidemic, and domestic investment increased to 3219807 billion VND, an increase of 11.15% compared to 2021 (General Statistics Office, 2022). Thus, monetary policy has an impact on domestic investment during the research period.

b. Net Exports

Figure 4. Vietnam's net export turnover during the period 2016 – 2022

Unit: Million USD



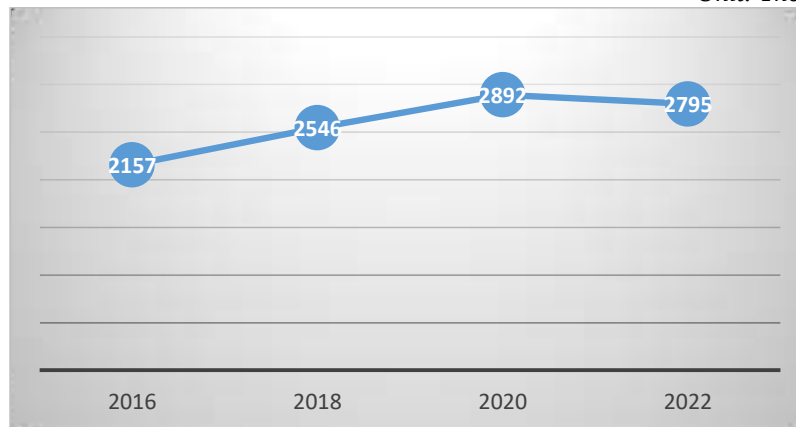
Source: General Statistics Office

Figure 4 shows that net exports increased over the years, peaking in 2020 and experiencing a serious decline in 2021. Specifically, in 2016, Vietnam's net exports reached 1602.4 million USD, increasing steadily over the years and reaching 19837.9 million USD in 2020, an increase of 12.38 times compared to 2016. It can be seen that net exports increased impressively since Vietnam achieved a trade surplus until 2020. Entering 2021, the COVID-19 epidemic has had a significant impact on economic activity, as have Vietnam's net exports have declined seriously, but the trade balance is still in surplus. The economy enters the recovery phase, and net exports increase and reach 12,402.3 million USD in 2022. This shows that the monetary policy period 2016-2022 has been closely combined with fiscal policy and is operated proactively and flexibly, contributing to the stabilization of the macroeconomy.

c. Personal Spending

Figure 5: Average spending/person/month during the period 2016 – 2022

Unit: Thousand VND/ person/ month



Source: General Statistics Office

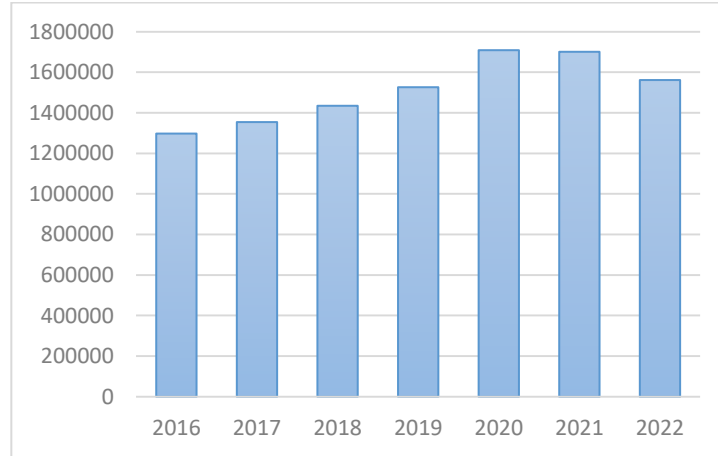
Personal spending in the period 2016 - 2022 also shows an increasing trend over the years. Specifically, in 2016, the average monthly spending per capita was 2,157 thousand VND/person/month. Spending increased gradually over the years, reaching 2,892 thousand VND/person/month. However, since 2020, the global epidemic of COVID-19 has had a

detrimental impact on the world overall and Vietnam specifically. During the Russia-Ukraine war, personal spending decreased to 2,795 thousand VND/person/month, for It is seen that people tend to tighten spending in response to fluctuations in the domestic and world economy.

d. Government Spending

Figure 6: Government spending during the period 2016 - 2022

Unit: Billion VND



Source: General Statistics Office

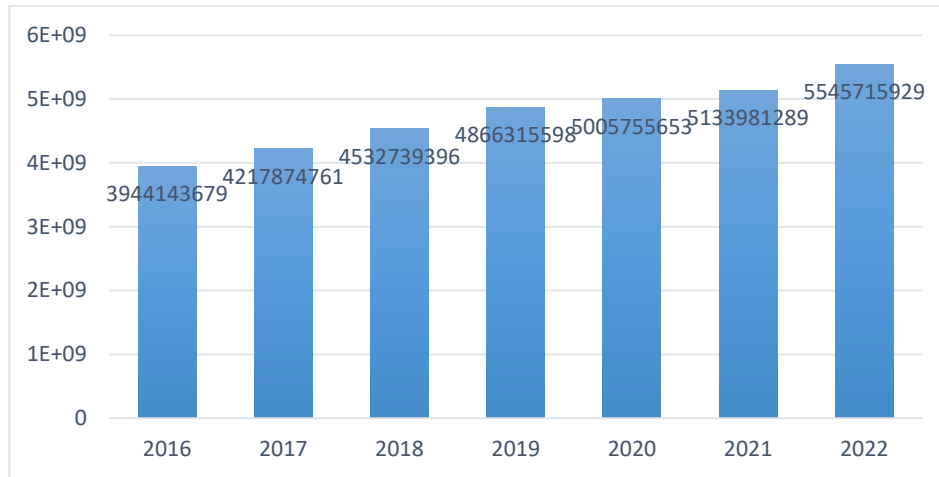
Government spending tended to increase during the study period. However, unlike other components of aggregate demand, government spending tends to increase more strongly during the COVID-19 outbreak. The reason is that during the epidemic period, the government spends more on medical equipment, machinery, and support policies. Entering 2022, when the economy recovers, government spending Government coverage decreased compared to the previous period but generally remained stable compared to the period 2016 - 2019.

B) Output and Prices

a. GDP (criteria representing national output)

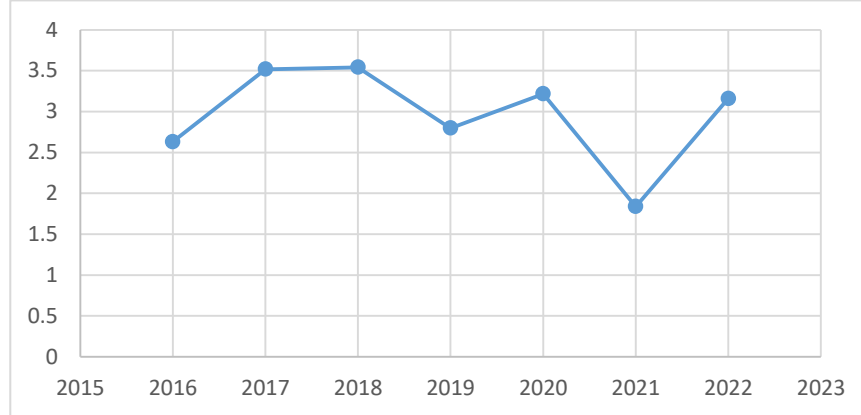
Figure 7: Vietnam's Gross Domestic Product (GDP) During the Period 2016 – 2022

Unit: Million USD



Source: Compiled from IFS, General Statistics Office

The period 2016 - 2022 shows an increasing trend in GDP. In 2016, Vietnam's real gross domestic product reached 39,444,143,679 million USD; GDP tended to increase rapidly in the period 2016 - 2019, an average of 7.3%/year. However, in the period 2020 - 2021, the economy slowed down due to the adverse effects of the pandemic. Although in the world, large economies such as the US and Europe have negative growth rates, Vietnam is a country that maintains negative economic growth. However, its GDP has decreased compared to the previous period. After the pandemic, the economy returned to a normalized state, and the economy entered a recovery phase; GDP tended to increase rapidly in 2022, reaching 55,457,15,929 million USD, an increase of 8.1% compared to the previous year.

b. Price Index and Inflation Rate (Criteria Representing Prices)**Figure 8: Consumer price index CPI (2010=100) of Vietnam during the period 2016 - 2022**

Source: Compiled from IFS, General Statistics Office

The average consumer price index (CPI) in this period is 163,517, an increase of 2.73% compared to the previous period. However, the inflation rate in 2019 was the lowest in the previous 3 years; specifically, in 2018, the inflation rate was 3.54%, and in 2017, it was 3.53% (International Financial Statistics, 2022). Entering 2020, the world economy in general and Vietnam in particular are negatively impacted by the COVID-19 pandemic. The average CPI in 2020 increased by 3.23%, and the inflation rate increased compared to the previous year (International Financial Statistics, 2022). The reason CPI increased in 2020 is due to the increase in prices of essential food items during the complicated Covid pandemic. However, the inflation rate in 2020 is still controlled as set by the National Assembly. In 2021, as worldwide rates of inflation rise, the cost of input materials for manufacturing activity rises. According to the General Statistics Office (2021), domestic gasoline prices increased by 31.74% compared to the previous year, causing the overall CPI to increase by 1.14%. Yet, Vietnam's average CPI in 2021 climbed by 1.84% over the year before, which was a decrease from the previous 6 years and meeting the National Assembly's inflation objective.

2022 marks the recovery of the economy after the pandemic. However, because of the influence of the Russia-Ukraine war, as well as the volatile financial market, the average CPI Consumer Price Index in 2022 is 177.31, an increase of 3.16% compared to the general CPI in 2021 (General Statistics Office, 2022). Thus, the monetary policy for the period 2016 - 2022 is adjusted flexibly in accordance with macroeconomic developments and ensures the inflation target below 4% set by the National Assembly.

C) Evaluating Vietnam's Monetary Policy During the Period 2016 – 2022

The State Bank has operated monetary policy proactively and flexibly, closely following market developments at each time to provide appropriate and timely operating solutions, positively contributing to achieving the country's important macroeconomic goals. Economic growth recovered impressively at over 8%, the highest in the past 10 years, while overall inflation was well controlled at 3.2%, and major macroeconomic balances of the economy were stabilized. These encouraging results cannot come from the administration of a single policy but are the result of the government's drastic, methodical, scientific, and practical direction and administration, as well as coordination between ministries and branches, between monetary policy, fiscal policy, price management policies and other macroeconomic policies. Many international organizations also highly appreciate the State Bank's monetary policy management. Reputable international credit rating organizations Moody's and S&P have raised the national credit rating for Vietnam, strengthening the confidence of investors, businesses and people in the environment and medium-sized economic prospects of the country (Thang, D.M, 2023).

V. SOME EXCHANGES, DISCUSSIONS, AND POLICY IMPLICATIONS

The period 2016 - 2022 shows the role of monetary policy in the economy in the face of economic and financial fluctuations in the world in general and Vietnam in particular. Although certain achievements have been achieved, difficulties and challenges still exist in the world context as well as within the economy. It is forecasted that 2023 will continue to be a difficult year in macroeconomic management in general and the administration of monetary policy especially. In the world, global economic growth is slowing down, and many central banks are expected to maintain high interest rates through 2023 to continue bringing inflation to the target level; world commodity prices, especially oil prices, still have many potential risks of strong fluctuations due to changes in policies of the Organization of the Petroleum Exporting Countries (OPEC) and the reopening of the Chinese economy. Domestically, the problem of policy choices appears again when economic growth is

expected to be affected by weak world demand while inflationary pressure has increased since the beginning of the year. To successfully carry out the political tasks assigned by the Party and State, the State Bank's mission is to maintain the macroeconomic environment, manage inflation, and promote moderate economic growth needs to continue to deeply grasp the government's direction, steadfastness, bravery, and initiative in operating monetary policy, in accordance with world and domestic economic developments, focusing on a number of key issues as follows:

First, closely monitor macroeconomic developments in domestic and world currency markets as a basis to promptly propose flexible, cautious and synchronous Monetary policy instruments that work in tandem with fiscal management and other macroeconomic policies to keep the currency's value stable, contributing to macroeconomic stability, controlling inflation and promoting growth economy with the set goals because using monetary policy to achieve the entire goal is impossible, there needs to be a close combination of other macro policies.

Second, perfect banking legal institutions create a synchronous legal basis, ensure the financial system's security, and strengthen the application of international commitments in the banking sector. Proactively examine, alter, and supplement processes, policies, and legal requirements governing banking operations. This creates favorable conditions for businesses, individuals and the economy to recover after the pandemic and respond to the fluctuation of the world's monetary and financial markets.

Third, persistently implement anti-dollarization solutions and handle the gold market in accordance with Decree No. 24/2012/ND-CP, ensuring and maintaining sustainable stability in the gold market and limiting the impacts of gold prices on the stability of exchange rates and foreign exchange markets.

Fourth, implement lending solutions to control credit scale at a reasonable level while improving credit quality, creating favorable conditions in accessing bank capital, and contributing to promoting production and business and the economic recovery process. Implement solutions to support credit institutions in expanding lending effectively, focusing on priority areas, and continuing to remove difficulties for affected customers.

Fifth, strengthen Monitoring and oversight of financial organization operations, particularly in high-risk areas; Closely supervise and direct Credit card companies to conduct restructuring projects connected with authorized bad debt treatment strategies severely and efficiently; actively deploy solutions to control and limit bad debts from arising. Coordinate with ministries, branches, and localities to promptly remove difficulties and obstacles in applying solutions to handle bad debts according to Resolution No. 42/2017/QH14 on pilot handling of bad debts.

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