LESSONS FROM DEVELOPED COUNTRIES FOR VIETNAM'S MONEY POLICY IN THE CURRENT CONTEXT

Than Thi Vi Linh

Lecturer in Banking Department - Banking Academy, Vietnam

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Abstract: In 2020, the world economy will experience complicated developments, trade tensions between major economies will increase, and the COVID-19 pandemic will have a negative impact on the global economy. The process of "normalizing" monetary policy of countries quickly reversed to easing, unprecedented large-scale fiscal stimulus programs did not save the global economy from sinking deeper into recession. the Great Depression of 1930 with the world economic growth falling deeply - 4.4% according to the October 2020 forecast of the International Monetary Fund. In order to limit the negative impacts of the epidemic on the economy, central banks of all countries quickly launched strong policies, such as cutting interest rates, providing liquidity support for commercial banks, etc. even support for private businesses. Although there are differences in the tools that central banks use, in general, monetary policy has played a good role in supporting the economy. On the basis of grasping the lessons of monetary policy, developed countries draw lessons for Vietnam to take the right steps in accordance with the new context.

Keywords: Monetary policy, lessons, developed countries, Vietnam

1. Make a problem

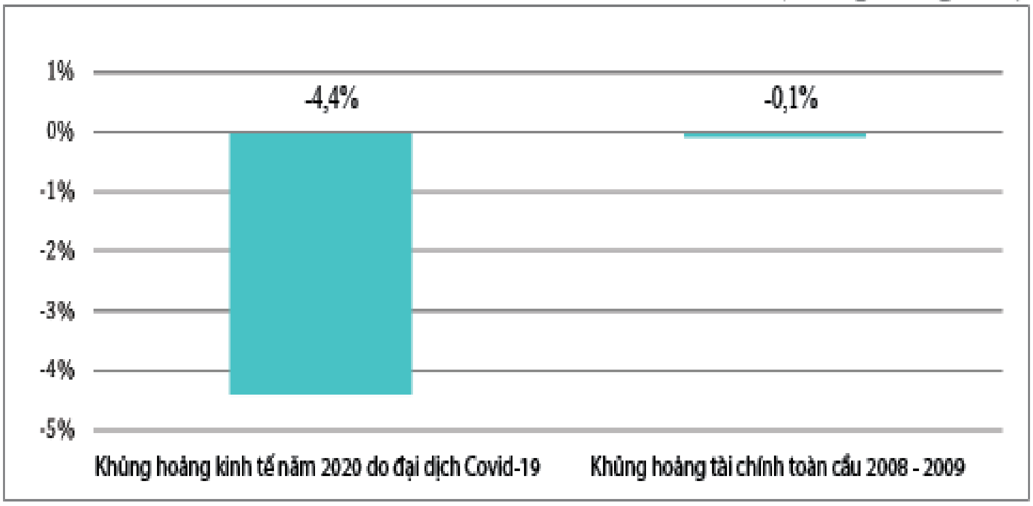
The outbreak of the Covid-19 epidemic is a shock of unprecedented scale and nature. The main solution taken so far to contain the spread of the disease is blockade and isolation on a global scale, which has led to the stagnation of economies. Workers' incomes decline, especially for seasonal workers, without a stable source of income, causing a serious decrease in the demand side for capital due to social distancing measures. This increases the risk of delinquency on mortgages and consumer loans. Businesses face the problem of declining production activities and reducing cash flow, especially in sectors such as automobiles, retail and tourism. Liquidity problems for households and businesses, coupled with increasing volatility, have negatively impacted the functioning of financial markets.

The impact of the epidemic on the world financial markets today is immense: Asset-backed securities and mortgages have been frozen in many countries; The commercial paper market has faced many difficulties in markets such as the US, Canada and the euro area (the group of member countries of the European Union that uses the euro as the official currency) due to increased risks of nonpayment; The equity market (Equity market) faces many difficulties and fluctuates in most asset classes; The US Treasury bond market experienced a sharp sell-off, leading to a spike in long-term interest rates (Schaleighf, Shin and Sushko (2020); the Japanese Government bond market (JGB) was under pressure. and sovereignty disparities are widespread in the euro area.

In addition, in 2020, the world will also face many important issues that will affect the shaping of the economic and political situation in the coming years, such as trade tensions between major countries continuing to increase (the United States and the United States). - China, China - India, China - Australia...), US presidential election, Brexit process... (Graph 1)

Đồ thị 1: Suy thoái kinh tế toàn cầu do đại dịch Covid-19 và khủng hoảng tài chính toàn cầu 2008 - 2009

(% tăng trưởng GDP)



Nguồn: IMF, Báo cáo cập nhật Triển vọng kinh tế toàn cầu, tháng 01/2021

With the negative volatility across the financial markets, central banks have reacted quickly and decisively, fulfilling their duties and roles, to keep the markets functioning properly. effective fiscal and monetary policy transmission. The article assesses the response of central banks in some developed countries such as the US, Japan, UK, Canada and the euro area. Besides, evaluate the response of the State Bank of Vietnam, to see the difference in crisis response between central banks of developing countries and central banks of developed countries.

2. Policy of central banks in some developed countries.

2.1. React quickly and decisively

The most important goal of central banks in the current period is to prevent an economic slowdown by ensuring the smooth functioning of the financial system and facilitating the flow of credit to households. and businesses.

Developed country central banks have performed their traditional role during the crisis as the lender of last resort to the financial sector. In addition to providing liquidity to the financial sector, during this crisis, central banks also provided liquidity to the private non-financial sector. From March to April 2020, the central banks of the developed countries mentioned above implemented a full range of crisis management policies. These central banks all offer new lending activities or expand existing asset trading or new asset trading programs. The Federal Reserve System (Fed), the central bank of Canada and the Bank of England (the central bank of the United Kingdom) also cut interest rates. In addition, on a smaller scale, the European Central Bank (ECB) and the Bank of Japan (Japan's central bank) through currency swaps with central banks. other central banks to provide their own currency to other countries.

Experiences gained from the 2007 - 2008 global financial crisis (Global Financial Crisis - GFC) have helped central banks come up with quick solutions. The policies were implemented in the period 2007-2015, taking only a few weeks to deploy the response to the pandemic. Traditional policy when there is a crisis, the first policy applied by central banks is to reduce the policy interest rate to reduce borrowing costs and support aggregate demand. Except in Japan and the euro area, where policy rates were already negative and fell to their lowest in less than a month, much faster than during the GFC period.

Lending operations were also quickly carried out by central banks. Short-term loans are made by central banks to assist banks with temporary liquidity shortages and to prevent market freezes. The Fed, the central bank of Canada, and the Bank of Japan have increased the number of repurchase transactions while extending the maturity of these transactions. The Fed also encourages the use of a discount window and intervenes frequently to reduce difficulties for key market participants, by providing loans secured by low-risk bonds. For money market funds, the Fed makes loans to depository institutions whose collateral is assets purchased from these funds. The Bank of England and the Bank of Canada enabled their Contingent Term Repo Facilities (CTRF) for the first time since their establishment in 2014 and 2015.

A fundamental feature of the central bank's crisis response policy is the widespread deployment of long-term lending measures to support credit to households and non-financial corporations. The Fed, the Bank of Japan and the Bank of England have established targeted lending programs designed to provide banks with funds with suitable maturities, with conditions for extending lending to businesses. medium and small. The Fed has reactivated the term lending service for collateralized securities, which was first used in late 2008 to support the issuance of asset-backed securities. In the euro area, the ECB increased the size of its target long-term refinancing operation by two-thirds and reduced costs. The ECB also offers additional pandemic emergency long-term refinancing operations to provide banks with long-term funds regardless of their lending model. Bank of Canada extends the duration of Repo loans up to 2 years.

Asset purchase programs also play an important role in crisis management policies, although the goals of central banks' programs vary. In the US, public sector asset purchases are instrumental in ensuring the smooth functioning of the US Treasury bond market and maintaining a role in the pricing of financial assets. Another purpose of asset purchase programs is to restore confidence and facilitate a recovery in aggregate demand when lockdowns are lifted. The Fed and Bank of Japan announced unlimited government bond purchases, while the Bank of Canada joined the asset purchase program for the first time. The ECB has expanded its current asset purchase program by pledging to purchase an additional 120 billion euros in private and public assets by the end of 2020. After this period the ECB launched a public and private asset purchase program 1.35 trillion euros under the so-called Pandemic Emergency Purchase Program (PEPP). The Fed and the central bank of Canada also implemented programs to buy assets issued by local governments for the first time.

The central banks also activated private sector asset purchase programs designed to support direct credit to non-financial firms. These central banks all scaled up or set up new programs to buy and sell commercial and corporate bonds, while the ECB added participants to be non-financial commercial organizations. The Fed first buys investment bonds and then buys depreciated bonds either directly or through exchange-traded funds (ETFs). The Bank of Japan quadrupled its purchases of commercial paper and corporate bonds, while the Bank of England announced that at least 10% of the £200 billion under its asset purchase scheme (APF) would be used to fund buy bonds.

Foreign exchange liquidity measures play an important role in easing tensions in the foreign exchange market. Increased dollar-denominated debt servicing obligations, coupled with the appreciation of the dollar, put dollar-denominated capital markets under intense pressure (Avdjiev, Eren and McGuire (2020). The Fed responded by reducing costs and dragging The Fed then relaunched the swaps with nine other countries, which had already joined swaps during the period, extending the maturity of swaps with other central banks. Another measure to help countries with USD difficulties that are not eligible to engage in swaps with the Fed is that the Fed allows these countries to borrow USD against collateral US treasury bills.

2.2. Provide credit to households and non-financial businesses

A prominent feature of the policy of central banks to deal with Covid-19 is the use of solutions to provide credit to households and non-financial businesses. The policies implemented are more direct and far-reaching than those implemented during the GFC period. Contrary to the GFC period, when central banks focused on supporting the financial sector, during this Covid-19 pandemic, central banks' policies focused on households and households enterprise. This difference partly reflects the different nature of the two crises. GFCs hit the financial markets first and then slowly spread to the manufacturing sector, negatively affecting confidence and tightening credit conditions for businesses and households. In contrast, during the Covid-19 pandemic due to isolation and blockade regulations, the manufacturing sector was first affected, then spread to the financial sector.

In this context, except for the central bank of Canada, other central banks have loan financing programs during the Covid-19 pandemic. The Fed with its Main Street lending program has provided loans to small and mediumsized businesses, which will lend to companies in good financial standing before the crisis with a term of up to 4 years. year. For the first time, the Fed and the central bank of Canada announced a program to buy and sell corporate bonds. Although some policies have not yet been implemented, the amount announced by the end of 2020 is much larger than during the GFC period. The Bank of Japan announced the purchase of 20 trillion yen in commercial papers and corporate bonds double the amount purchased in the GFC, while a similar program by the Bank of England is about 10 times larger. Overall, measures designed to provide credit to the non-financial private sector during the Covid-19 pandemic would increase the balance sheets of central banks by an average of about 6.3% of GDP, much higher compared to about 2.5% during the GFC period.

Lending emergency liquidity to banks is the traditional lending function of central banks that has, to date, been smaller in size than during the GFC period. If in November 2008, the Fed supported liquidity for banks up to 5.1% of GDP, then in March 2020, when the Covid-19 epidemic broke out, the Fed's liquidity support was only is 2.2% of GDP and continues to decline to date. In the Bank of Canada alone, liquidity support increased to about 6.4% of GDP.

2.3. The coordination of monetary policy and fiscal policy

The strong impact of the pandemic on the manufacturing sector has forced countries to implement both monetary and fiscal policies. Two important macro policies are implemented independently but complement each other (Alberola, Arslan, Cheng and Moessner 2020). Governments and finance ministries have supported the central bank through many different channels. In some cases, the government has financed new central bank policies. The US Treasury has supported various Fed programs totaling $454 billion ($195 billion disbursed), or 2.1% of GDP. The UK Treasury offers a 100% guarantee on the volume of commercial papers purchased by the Bank of England through the Covid corporate finance (CCFF) scheme. The government also extended guarantees for private non-financial sector loans. In some cases, when combined with policies to expand mortgage eligibility, these government guarantees indirectly support lending activities and help central banks extend credit use. For example, by expanding mortgage eligibility to include government-guaranteed loans, the ECB allows banks to provide loans that would otherwise not be eligible for loans. Overall, by addressing credit risk concerns, fiscal policy has supported monetary policy to support credit to the private non-financial sector.

In contrast, central banks indirectly support the government's expansionary fiscal policy. Interest rate cuts, lending and public asset purchases are all tools to support fiscal policy. These measures ensure large-scale issuance of government bonds without affecting the bond market.

3. Policy of the State Bank of Vietnam

3.1. Result

Vietnam has overcome difficulties to rise up strongly, successfully realizing the "dual goal" of preventing the COVID-19 pandemic while recovering and developing the economy. The macro foundation is stable, inflation is controlled major balances of the economy are ensured. Vietnam's economic growth is in the group of countries with the highest growth rate in the region and the world in the context of a serious world recession.

The above outstanding results have been the quiet contributions of the banking industry. Monetary and credit solutions to support the response to the above shocks have been proactively and promptly implemented by the State Bank, making an important contribution to controlling inflation, strengthening the macro foundation, maintaining a healthy business environment, supporting growth recovery momentum.

The State Bank synchronously and flexibly operates monetary policy tools to stabilize the market, control inflation and support the economy to cope with adverse impacts of shocks. Open market operations (buying/selling of bills) are flexibly operated to actively control currency and inflation, help reduce interest rates, contribute to growth, and ensure system liquidity. Simultaneously, synchronous coordination with the stabilization of the compulsory reserve ratio, refinancing of credit institutions according to the programs approved by the Government, the Prime Minister... has contributed to improving the efficiency, effectiveness of monetary policy in controlling money, not creating pressure to increase inflation, supporting stable exchange rate and market interest rate.

As a result, although the State's foreign exchange reserves increased to a record high, inflation was strictly controlled, on average in 11 months of 2020 reached 3.51%, below the 4% target of the National Assembly; average core inflation reached 2.43%, showing the effectiveness of flexible monetary policy management, making a positive contribution to reducing pressure on average inflation while still having room to support the economy economic. Stable inflation has created a solid foundation to maintain the confidence of the investment community in Vietnam's business environment, attracting FDI.

In 2020, the State Bank of Vietnam has reduced the operating interest rate by 1.5-2.0% per year, ready to support liquidity and create conditions for credit institutions to access low-cost capital from the bank. state goods; reduce 0.6-1.0%/year ceiling deposit interest rate in VND for terms of less than 6 months, reduce by 1.5%/year in VND short-term lending rate ceiling for priority areas to support reduction borrowing costs of businesses and people.

At the same time, direct credit institutions to actively balance their financial capacity to apply reasonable lending interest rates; thoroughly reduce operating costs, concentrate all resources to reduce deposit and lending rates to support and accompany businesses and people to overcome difficulties. Compared with other countries in the region, Vietnam is one of the countries with the strongest reduction in operating interest rates (Philippines: -2%; Thailand: -0.75%; Malaysia: -1.25%; Indonesia: -1.25%; India: -1.15%; China: -0.3%).

In addition, the state bank demonstrates flexible, safe and effective credit management, focusing on production and business, priority areas according to the Government's policy; creating favorable conditions for accessing credit capital for businesses and people, contributing to repel black credit; strictly control credit for potential risk areas... thereby controlling currency and inflation, supporting sustainable growth. Credit programs and policies to encourage the development of high-tech agriculture, clean agriculture, loans to reduce losses in agriculture, loans to support housing... achieved positive results, contributing to the recovery. sustainable growth and social security.

In the context of the COVID-19 pandemic, a series of customer support solutions, policy credit programs at the social policy bank, loans to support people and businesses to minimize negative impacts from the epidemic. The disease has been directed by the State Bank to deploy in a timely manner. As a result, although credit demand declined severely due to the impact of the COVID-19 epidemic, from September 2020 credit increased again, until December 10, 2020, credit of the whole system increased by 9.02% compared to the end of the year. 2019.
The State Bank also regulates and announces the central exchange rate, which fluctuates flexibly on a daily basis, in line with domestic and foreign markets, and balances the macro-economy, currency and monetary policy objectives; contribute to limiting speculation, hoarding foreign currency and absorbing shocks to the economy. At the same time, combined with reasonable liquidity regulation solutions, proactively communicating, adjusting buying/selling rates and willing to buy/sell foreign currencies with credit institutions to stabilize the market and macro-economy tissue.

The above positive results in terms of maintaining macro stability, monetary and financial markets, creating a favorable business environment, supporting to remove difficulties... have shown that the solutions of the banking industry are in the right direction, practical effects on businesses and people, contributing to the successful implementation of the "dual goals" and achievements of the country.

3.2. Existences and lessons learned for Vietnam

However, the world market fluctuated abnormally, especially the COVID-19 pandemic negatively affected the domestic economy and banking system, so credit growth was lower than expected; low economic growth (although few countries have positive growth); Inflation is still under unpredictable pressure from world prices, natural disasters, epidemics, increased bad debt pressure from the banking system due to the impact of the pandemic... are great challenges in the coming time.

So far, Vietnam is one of the few countries that has well controlled the Covid-19 epidemic. When the pandemic occurred, the economy was severely impacted and the state-owned banks quickly took measures to support the money market.

On August 6, the SBV further reduced some operating interest rates with an adjustment of 0.2 - 0.5% a year. This is the third time in 2020, the State Bank has reduced operating interest rates. Accordingly, interest rates applied to required reserve deposits and exceeding reserve requirements in VND decreased by 0.5 percentage points to 0.5% a year. In addition, the State Bank also stipulates the maximum interest rate for deposits in Vietnam Dong (VND) of organizations and individuals at credit institutions and foreign bank branches. for demand deposits and term deposits of less than 1 month, reduced from 0.8%/year to 0.5%/year; the maximum interest rate applicable to deposits with a term from 1 month to less than 6 months will be reduced from 5.0%/year to 4.75%/year; the maximum interest rate applicable to deposits with terms from 1 month to less than 6 months at People's Credit Funds and Microfinance Institutions will be reduced from 5.5%/year to 5.25%/year; interest rates on deposits with a term of 6 months or more are set by credit institutions on the basis of market capital supply - demand.

In addition to cutting operating interest rates, the State Bank also guides commercial banks to restructure loans, reduce interest rates, and postpone debt for customers facing difficulties due to the epidemic. On that basis, the commercial banking system has spent VND 300 trillion to lend at low interest rates and support 920,000 customers in the form of debt restructuring, postponement, exemption and reduction of interest rates. Financial institutions also reduce and waive fees.

Companies affected by Covid-19 are eligible for preferential loans from the Vietnam Bank for Social Policy (VBSP) to pay their workers who are temporarily laid off without interest. . Total loan value is estimated at VND 16.2 trillion (about 0.2% of GDP).

In addition, the State Bank of Vietnam has directed credit institutions to actively reduce bonuses and salaries, cut other operating costs, and adjust business plans in time (including not paying cash dividends). and use savings resources to reduce interest the state bank announced that it is willing to inject liquidity through refinancing windows for VBSP and other credit institutions to implement Government programs and help credit institutions deal with bad debts. The state bank has issued a circular to refinance VBSP up to VND16 trillion at 0% interest.

As soon as the pandemic occurred and there were signs of negative impact on the economy, the Government launched a financial support package worth VND 279 trillion (3.7% of GDP) to support the economy. Measures include deferred payment of value-added tax, corporate income tax and land rental fee for 5 months, and postponement of personal income tax payment until the end of the year (the amount of deferred payment is VND 180 trillion, equivalent to equivalent to 2.4% of GDP). The newly approved measures include postponing excise tax on domestically produced cars, reducing land rents, cutting or waiving various fees and charges, and cutting corporate income tax for micro and small businesses and increased personal income tax deductions.

Some other measures such as: Tax exemption for medical equipment; business registration fee reduction effective from February 25 (one-year tax exemption of business registration taxes for newly established household businesses; business registration tax exemption for the first 3 years for small businesses) small business); allows companies and workers to delay paying social insurance contributions (up to 12 months) without interest penalties (total late contributions are estimated at VND 9.5 trillion or 0.1% of GDP). The government has also implemented a direct cash subsidy of VND65 trillion for workers and households affected by the epidemic. More than 10% of the population is estimated to benefit from this program. The government is also pushing ahead with the target of disbursing 100% of public investment, worth VND 686 trillion or nearly 9% of GDP (of which VND 225 trillion was realized from previous years).

So far, the epidemic has not shown signs of ending in many parts of the world, including Viet Nam, it is too early to fully assess the negative impacts of the Covid-19 epidemic on the economy economy. However, with solutions on monetary policy and fiscal policy, the economy continued to grow at 3.82% in the first quarter and 0.36% in the second quarter of 2020. This is an increase growth in the context of the outbreak of the disease and many countries in the world recorded negative growth.

3.3. Orientation for operating monetary policy in 2021

With the achievements in 2020 and the busy work set for 2021, the management of monetary policy and banking activities requires closely following domestic and foreign developments to concretize the tasks. services and solutions to implement the 2021 Socio-Economic Development Plan of the National Assembly and the Government.

Accordingly, monetary policy management must be proactive and flexible, closely following macroeconomic and monetary developments, the situation of the COVID-19 epidemic, and closely coordinate with fiscal and economic policies. Other macro-economic activities in order to remove difficulties, support growth recovery in line with the objectives of controlling inflation, stabilizing the macro-economy, ensuring the safety of banking operations, increasing the State foreign exchange reserve when adjusting favorable market conditions. Manage reasonable credit growth in association with credit quality improvement, focus on production and business areas, priority areas, and strictly control credit for potential risk areas. Directing credit institutions to develop diversified banking products and services to meet the legitimate needs of businesses and people, contributing to promoting financial inclusion.

Following the guidelines of the National Assembly and the Government and developments in the macro-economy, domestic and foreign markets, in the first months of 2020, "The State Bank has operated proactive, flexible and prudent monetary policy. It is important to closely coordinate with fiscal policy and other macroeconomic policies to control inflation, stabilize the macro-economy, money and foreign exchange markets, and support economic recovery in the face of volatile economic conditions complexity of the Covid-19 epidemic".

4. Conclusion

It can be seen that the monetary policy of the State bank of Vietnam in the current situation is different from that of the central banks of developed countries. The policies of the State Bank of Vietnam are mainly indirect through traditional monetary policy tools and are administrative in nature such as cutting policy interest rates, directing and guiding commercial banks. Commerce implements support measures for businesses affected by the epidemic. Meanwhile, policies of state banks in developed countries, besides cutting policy interest rates, many policies are designed to provide liquidity directly to credit institutions or indirectly support them supporting businesses by accepting to buy and sell bonds issued by businesses.

Although there are differences in the tools to implement monetary policy, it can be seen that the monetary policies of central banks around the world are very effective in helping the economy to cope with the impacts of the pandemic negative effects caused by the Covid-19 pandemic.

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