MANAGEMENT OF MONEY POLICY BY INTEREST RATE

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Abstract: *Monetary policy has always been a topic that has attracted much attention from scholars around the world. Recently, there have been many research projects related to the selection of operating objectives to enhance efficiency. and the effectiveness ofmonetary policy, thereby enhancing the role and ability of the Central Bank to intervene in the economy, finance and currency. Operating monetary policy through indirect tools such as interest rates is being applied step by step by the State Bank of Vietnam (SBV). The article uses statistical methods and analyzes the current situation of monetary policy and interest rate policy in Vietnam in recent years and makes some recommendations for the coming years.*

Keywords: *Monetary policy; State Bank of Vietnam; interest rates*

I. Introduction

In the past decades, the goal of controlling the currency and the ability to supply credit to the economy has partly been effective in controlling inflation at a moderate level. However, as a rule, when the market is growing, the link between monetary indicators and the ultimate goal of inflation and economic growth has become less effective, so central banks of developed countries (such as the US , UK, Germany, Japan...) and developing countries (such as Thailand, Malaysia...) have abandoned the volume target and switched to operating according to the price target (interest rate), and have achieved it. remarkable successes in maintaining low inflation and stabilizing economic growth. In addition, for countries pursuing the inflation targeting framework (LPMT) (such as Australia, Canada, Finland, New Zealand, Spain, Sweden, UK...), monetary policy makers use interest rates that are the key variable to achieve the inflation target..

For Vietnam, it can be seen that the monetary policy management of the State Bank of Vietnam so far has mainly pursued the volume target, specifically: (i) Before joining the WTO (2001-2006 period), the Bank's monetary policy management was The State Bank of Vietnam (SBV) basically follows the target of monetary volume and prioritizes the ultimate target for economic growth on the basis of the approval of the National Assembly every year (average about 7-8%/year), lack of perseverance in

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pursuing the goal of controlling inflation; (ii) In the 2007-2011 period, the SBV's monetary policy management continued to follow the volume target with the tendency to give priority to supporting economic growth and not having a long-term orientation and persisting with the goal of controlling inflation. However, in the context of Vietnam's deeper integration with the region and the world, the domestic economy is often affected by fluctuations in capital flows and prices in the international market, which limits the ability to control capital. control monetary targets of the State Bank. Although monetary policy management in this period has achieved success in promoting high economic growth, it has not been stable over the years, inflation has increased sharply, interest rates have increased, causing instability in the market. monetary, production and business activities faced difficulties, especially during the period of the global financial crisis (2008). (iii) Since the end of 2011, following the direction in Resolution No. 11/NQ-CP on solutions to mainly focus on controlling inflation, stabilizing the macro-economy, and ensuring social security, the State Bank has gradually tried Experience combining monetary policy management by volume and price (interest rates, exchange rates) through the announcement from the beginning of the year in Directive 01 of the State Bank on M2 growth orientation, credit, reducing deposit interest operating, lending and committing to the rate of exchange rate adjustment. The results show that monetary policy management solutions have shown initiative, flexibility and are suitable with the actual situation. Inflation fell sharply from double digits (18.13%) at the end of 2011 to 2.66% in 2016, marking the longest period of inflation stability in the past decade, making an important contribution to the growth of inflation. maintaining macroeconomic stability and supporting economic growth (up from 5.25% in 2012 to 6.21% in 2016).

(iv) From 2017 to now, in the context of the world and domestic economic recovery and advantages such as low inflation, high balance of international payments surplus, however, monetary policy management still faces difficulties such as stabilizing exchange rates while currencies in Vietnam's reference basket depreciate and fluctuate strongly, affecting competitiveness, while maintaining macroeconomic and financial stability when the vulnerability increases due to high economic openness. Accordingly, monetary policy management continues in the direction of synchronous and flexible coordination of monetary policy tools to control M2 and credit at an appropriate level, maintain stable core inflation, and at the same time pay more attention. to reasonable regulation of VND liquidity to stabilize the foreign currency market and exchange rate, leading to some times when short-term interest rates in the market showed signs of increasing or decreasing deeply (2016 - 6M/2018), while inflation remained stable at a low level. This shows that, up to now, the SBV's monetary policy management is not really clear and consistent according to the interest rate target.

On the basis of the successes achieved in the period 2011-2016 and the requirements set forth in the context of the domestic economy becoming increasingly integrated with the world and affected by external shocks, many international organizations Economic and experts have recommended that Vietnam completely switch to operating monetary policy based on interest rates rather than volume in order to control and maintain low inflation in the long term. Moreover, when the financial and monetary markets are increasingly developed and there are many unpredictable fluctuations, it requires more flexibility in operating monetary policy of the State Bank, minimizing administrative interventions to create favorable conditions for the market. The market developed in accordance with objective rules, becoming an effective capital supply channel, transmitting the impact of monetary policy and orienting market interest rates. At the same time, the recent monitoring of interest rate fluctuations shows that the reaction of the economy to changes in interest rates has been increasing a lot when the financial market develops higher, financial institutions and financial institutions have become more active. Credit institutions (CIs) also reacted faster and caught timely signals of interest rate management of the State Bank. On the other hand, in the context of the explosion of the industrial revolution 4.0 in all fields, along with the development and birth of new financial and banking services based on digital technology (Fintech). has the ability to replace the functions of money, making the link between monetary indicators and economic growth and inflation no longer tight, instead price signals (interest rates) will be key factors to help the central bank achieve monetary policy goals.

Based on the above assessments and based on the two key tasks in the management of monetary policy of the State Bank set out in the Strategy for Development of the Banking Industry in Vietnam to 2025, with orientation to 2030, issued in accordance with Decision 986 /QD-TTg dated August 8, 2018 of the Prime Minister: (i) Completing monetary policy framework towards the goal of controlling inflation, stabilizing the value of money, contributing to maintaining macroeconomic stability scale, creating conditions to improve the efficiency of capital mobilization and allocation in the economy, promoting sustainable economic growth; increasing the independence of the State Bank in operating monetary policy; (ii) "The monetary policy management gradually changed from money volume management to mainly price management; using indirect tools, gradually removing administrative measures on interest rates when conditions permit; continue to operate open market operations in the direction of being the main tool to regulate the available capital of credit institutions, in order to achieve monetary policy objectives in each period" shows that a specific study is needed on the transformation of credit institutions. to operate monetary policy according to the interest rate target in order to contribute to improving the efficiency and effectiveness of monetary policy implementation.

II. Theoretical foundations of monetary policy and interest rates

2.1. Monetary policy

Monetary policy is a term that refers to actions taken by the central bank to achieve macroeconomic objectives such as price stability, full employment and economic growth. economics…. Up to now, the concept of monetary policy has been approached mainly in two directions, based on the effect of monetary policy or the ultimate goal of monetary policy.

In Vietnam, the definition of monetary policy is also approached in the second way and concretized in Clause 1, Article 3 of Law No. 46 of the State Bank of Vietnam in 2010: "National monetary policy is monetary decisions at the national level. of a competent state agency, including deciding on the target of stabilizing the value of money expressed by the inflation target, deciding on the use of tools and measures to achieve the set target".

In order to build and operate a monetary policy framework in accordance with the specific conditions of a country, the prerequisite is to identify a monetary policy target system suitable to the actual situation of the economy and financial system. In principle, the central bank uses monetary policy tools to affect the variables of the operating target and observe the changes in the variables of the intermediate and final targets, then adjust the operational targets. move accordingly.

In order to implement monetary policy effectively, in addition to clearly selecting and defining monetary policy targets suitable to each stage of economic development, the Central Bank must also build a system of monetary policy tools and manage monetary policy. tools effectively to achieve the end goal. Currently, most countries use indirect monetary policy tools and in addition, the appearance of non-traditional tools in the period of economic and financial crisis.

The monetary policy transmission mechanism is the route or channels of influence through which the central bank can use monetary policy tools to change the monetary conditions in the market, thereby affecting the aggregate demand of the economy, leading to a change in monetary policy, change output, prices, and employment (the ultimate goal of monetary policy). Over the past decades, the central bank has had different channels to change aggregate demand and economic activity, including four main channels: the interest rate channel, the exchange rate channel, the credit channel, and the price effect on Other assets.

2.2. Operating monetary policy according to the target interest rate

Operating monetary policy according to the interest rate target is that the central bank sets operating targets as short-term interest rate variables (usually overnight interest rates, or up to 3 months) and intermediate targets are variables. medium and long-term interest rates (business interest rates of banks - deposit and lending rates), determine target interest rates (policy interest rates) and choose interest rate corridors, and at the same time approve monetary policy tools to influence the economy to help the central bank achieve monetary policy goals.

The Central Bank will change the base interest rate to affect all other business interest rates in the economy, specifically: When the Central Bank injects money (implements easing monetary policy) into the system through buying or selling securities on money markets (OMOs), then market interest rates will fall. Lowering deposit and lending interest rates will help stimulate productive investment activities in the economy due to cheaper borrowing costs. In contrast, when the central bank tightens monetary policy through the reduction of banks' reserves, market interest rates often increase, slowing the development of the economy because the cost of credit capital is more expensive.

The interest rate management mechanism is based on the following factors: (i) The central bank usually chooses the target interest rate as short-term interest rate (overnight, 1 week...);
(ii) Establish an interest rate corridor to manage market interest rates according to the target; (iii) Announce the target for the selected interest rate variable and explain when the market interest rate deviates from the target interest rate; (iv) Using appropriate tools in operating according to interest rate targets.

The shift to operating monetary policy according to the interest rate target will have more advantages, helping to enhance the function and sophistication of the development of the financial market as well as better signal transmission and transmission mechanism of monetary policy: (i) Monetary policy management activities aimed at stabilizing and adjusting short-term market interest rates according to the base interest rate to help reduce liquidity risks and assist banks in managing liquidity and prices. When short-term interest rates are stable, changes in the central bank's base rate will have a stronger impact on the pricing behavior of banks because they believe that changes in the interest rate structure will be sustained. Therefore, banks will react quickly to changes in the base interest rate on their deposit and lending rates, thereby helping to transmit monetary policy. (ii) Stable and predictable short-term interest rates More predictable, combined with effective communication of central bank policy will facilitate the development of the long-term stock market (especially the government securities market), strengthening the transmission mechanism along the yield curve. Long-term interest rates combined with actual and expected changes in the base rate will further enhance the transmission to banks' long-term deposit and lending rates and the impact on the stock market and Private sector.

III. Research methods

The article approaches the research problem on the basis of recognizing monetary policy management through operational goals, the intermediate target being interest rates, through the interest rate transmission mechanism and the impact of monetary policy tools to achieve this goal. final target.

- Traditional methods: such as descriptive statistics, synthesis and comparison to systematically summarize theoretical and experimental studies on issues related to monetary policy administration.

- Modern method: Using econometric models to assess the impact of transmission through monetary policy tools to operational goals, intermediate targets to achieve the final goal are macroeconomic variables. appropriate scale in each development stage of the domestic economy and financial system.

IV. Results and Discussion

Since 2012, in the condition that inflation is well controlled and maintained at a low level (below 4%), it has created conditions for the State Bank to gradually reduce operating interest rates, mainly TCV and interest rates. discount rate, with the appropriate level and dosage for each period (9 times of downward adjustment of operating interest rates with a total reduction of 8.5%/year in two years 2012-2013). From 2013 to July 2017, the SBV kept the operating interest rates stable due to low inflation and stable interest rates over the years. On 7/7/2017, the State Bank reduced the operating interest rates by 0.25%/year to support credit institutions to strive to reduce the interest rate level according to the Government's policy.

Notably, the State Bank has gradually loosened the ceiling regulation and gradually switched to operating interest rates according to market signals, ensuring compliance with international practices; market interest rate is stable, there is no unfair competition among credit institutions as before. Currently, the SBV only stipulates a ceiling of 1%/year for demand deposits with a term of less than 1 month and 5.5%/year for deposits with a term from 1 month to less than 6 months. At the same time, from the end of 2015, the ceiling interest rate on foreign currency deposits applied to organizations and individuals was reduced to 0%/year in order to implement the Government's anti-dollarization policy. Regarding the lending interest rate in VND, the interest rate mechanism agreed between the credit institution and the customer specified in the Law on Credit Institutions and Circular No. 39/2016/TT-NHNN dated December 30, 2016. In addition, for the priority sectors according to the Government's policy, the SBV stipulates the ceiling of short-term lending interest rates by 2-3% lower than the normal production and business sectors (currently at 6 5 years).

The more developed the financial market, the higher the pass-through of interest rates will be because: (i) changes in interest rates in the financial markets will directly affect the cost of raising capital of individuals and businesses. businesses and organizations to mobilize capital in the market; (ii) changes in financial asset prices due to changes in interest rates will affect the consumption or investment behavior of individuals or businesses. However, in fact, by the end of 2017, the size of Vietnam's financial market was much lower than that of other countries in the region with total financial market assets accounting for about 192% of GDP, while this index of the group of 5 ASEAN countries on average 318% GDP (Thailand 256 % GDP, Malaysia 436% GDP, Singapore 644% GDP). The Global Competitiveness Report ranks Vietnam's financial market development 84th out of 140 countries.

The construction and operation of an interbank interest rate corridor is an indispensable condition when switching from operating monetary policy by volume to operating by price. According to the IMF's Article 4 Delegation Report to Vietnam in 2016, the IMF also made comments and recommendations on the management of monetary policy of the State Bank, according to which, the SBV needs to build an interest rate corridor with the aim of creating a automatic mechanism for interbank interest rates to fluctuate within this range under the influence of market supply and demand as well as regulation of the State Bank, thereby contributing to improving the effectiveness of monetary policy.

Theoretically, when the central bank chooses the interest rate as the monetary policy target, it usually does not simultaneously choose the volume target, so the central bank will have to accept the upward or downward fluctuation of the money supply in order to maintain interest rates at target level.

V. Conclusion

As analyzed, the basic condition for the transition to operating monetary policy according to interest rate targets is that the central bank needs to be independent in terms of politics, monetary policy (targets and tools) and finance. Currently, according to the provisions of the Law on the State Bank of 2010, the State Bank is a ministerial-level agency directly under the Government, so it is not active enough to independently operate the national monetary policy. The management of monetary policy of the State Bank is still heavily dependent on the Government and ministerial-level agencies such as the Ministry of Finance, the Ministry of Planning and Investment, etc. Therefore, in the coming time, it is necessary to gradually strengthen the independence of the SBV.

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