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MATERIAL MONETARY POLICIES OF THE CENTRAL BANK IN THE CIRCUMSTANCES OF COVID 19

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***Abstract*: The covid pandemic has had a strong impact on countries and Vietnam. Economic stability is Vietnam's goal. To achieve that goal, the State Bank is in charge of planning and implementing monetary policy. In this material, the author points out the impact of the covid epidemic on the economy and the central bank's monetary policy in the context that the covid epidemic has been taking place very strongly.**

***Keywords:* monetary policy, central bank, covid-19 epidemic.**

1. INTRODUCTION

The current Covid-19 epidemic is posing unprecedented challenges and enormous difficulties to the entire world economy in general and Vietnam's economy in particular. Basic commodity prices are forecasted to remain high, inflation risks, financial instability tend to increase, central banks around the world tend to withdraw easing measures earlier than expected ants. Economic stability is considered an important strategic goal of our Party and State. In that context, the State Bank of Vietnam still operates a stable monetary policy with the main orientation to support the economic recovery momentum in the context of the complicated development of the epidemic, realizing the dual goals of the Government. "Fighting the epidemic, while ensuring economic development". The State Bank has operated a proactive, flexible and prudent monetary policy, in close coordination with fiscal policy and other macroeconomic policies in order to control inflation and stabilize the macro-economy, currency and foreign exchange markets, supporting economic recovery in the face of complicated developments of the Covid-19 epidemic.

2. CONTENT

1. Central bank monetary policies

Monetary policy is an important part of the National Financial Policy. The State Bank of Vietnam acts as the Central Bank and is responsible for implementing the National monetary policy.

Monetary policy refers to the actions taken by a country's central bank to control the money supply in order to achieve macroeconomic objectives in order to promote sustainable economic growth.

The objective of monetary policy includes 2 levels of objectives, namely the ultimate goal and the operating objective of monetary policy. The ultimate goal of monetary policy includes the goal of stability and growth. Operating objectives are monetary variables that have a strong impact in a certain direction on the ultimate goal of monetary policy.

2. Central bank monetary policies

2.1. The status of monetary policies of the Central Bank

In Resolution No. 124/2020/QH14 dated 11/11/2020 on the socio-economic development plan for 2021, the State Bank has defined the 2021 monetary policy as follows:

"1. General objectives and tasks: To operate monetary policy proactively, flexibly, closely coordinate with fiscal policy and other macroeconomic policies in order to control inflation in line with the average 2021 target about 4%, supporting macroeconomic stability, contributing to the recovery of economic growth, maintaining stability in the currency and foreign exchange markets.

2. Specific tasks: To closely follow macroeconomic, monetary, and domestic and international developments of the Covid-19 epidemic to proactively and synchronously administer appropriate tools and solutions to stabilize the market, currency and foreign exchange markets, control the growth rate of total means of payment and credit according to the proposed orientation. Flexible management of open market operations in line with market developments, supporting the stability of the currency market. Operating interest rates in line with the macro balance, inflation, market movements and monetary policy objectives, facilitating the reduction of capital costs for people, businesses and the economy. Managing the exchange rate flexibly, in line with the situation of domestic and foreign markets, macro balances, currency and monetary policy objectives; increase State foreign exchange reserves when market conditions are favorable. Refinancing credit institutions to support liquidity, lend according to programs and fields approved by the Government and Prime Minister, and assist in handling bad debts. Credit management according to oriented targets, associated with improving credit quality, handling bad debts. Notify and periodically review, consider and adjust credit growth targets for each credit institution on the basis of its operations, financial capacity and healthy credit growth, especially in the fields of prioritized; in which priority is given to credit institutions to reduce lending interest rates. Directing credit institutions to grow credit safely and effectively, focusing credit on production areas and priority fields according to the Government's policy. Strictly control credit in potentially risky fields such as real estate, securities, BOT projects, BT traffic; strengthen risk management for loans to serve life needs and consumer credit. Creating favorable conditions for businesses and people to access bank credit capital, contributing to limiting black credit. Support and create conditions for the Social Policy Bank to well implement preferential credit programs and policies under the direction of the Government and the Prime Minister. Synchronously deploying solutions to remove difficulties for the Bank. customers affected by the Covid-19 epidemic; assist in overcoming consequences of natural disasters and epidemics."

With specific results:

On May 13, 2020, the State Bank of Vietnam reduced a series of interest rates, of which the refinancing rate was cut from 5.00% to 4.50%. The move comes after substantial monetary easing in March, bringing the total refinancing rate cuts so far this year to 150 basis points. This decision is intended to support a thriving economy due to recent negative economic data; In April 2020, the manufacturing, retail and export PMIs fell sharply while the number of visitors was almost nonexistent. Low inflation, loose monetary stance of neighboring countries in the region and stable currency have prompted the State Bank to decide to cut interest rates. The bank was cautious when it said that it would "actively and flexibly implement monetary policy solutions to control inflation, stabilize the macro-economy, ensure liquidity and operational safety of the banking system, credit institutions, supporting economic growth". Therefore, further cuts are possible in the near term, especially if downside risks to growth materialize. When private investment is not sensitive to interest rates, the effectiveness of monetary policy will be low and regulate private investment, indirectly affecting aggregate demand, regulating the macro economy. When interest rates increase, the cost of inputs (capital) of enterprises increases, causing output prices to continue to rise, and inflation is not controlled. So monetary policy will be less effective. Monetary policy will be ineffective if the government is not committed to controlling the printing of more money. When the government wants to control inflation by using tight monetary policy. At this time, under pressure to cover the budget deficit, the government can print more money. That will have the opposite effect of tight monetary policy. The use of expansionary monetary policy can cause interest rates to fall too low, making individuals reluctant to deposit money in banks and decide to hold cash. At this time, the commercial banking system will lack lending capital, making private investment unable to expand, reducing the effectiveness of the policy.

2.2. Factors affecting the monetary policies of the Central Bank

Monetary policy in the macro economy will be affected by many related factors. Below are some of the factors that influence monetary policy.

Competition and diversification of the financial market: Accordingly, if a financial market is less competitive and the market share is mainly concentrated in one large bank, the ability to regulate monetary policy will also be affected certain influences. In addition, the development of other markets such as securities, insurance, derivatives markets, etc. also create influences on the impact of monetary policy. The more factors affecting money supply outside of bank credit, the more limited the impact of monetary policy will be.

Financial Status of Individuals, Households, and Businesses: The financial status of individuals, households, or businesses affects monetary policy in three ways:

The impact of monetary policy on consumption and investment behavior of individuals and businesses will depend on the extent to which these costs are financed through the financial system.

The impact of monetary policy on asset prices such as stocks, real estate, etc. will depend on the structure of financial investment portfolios of individuals and businesses.

The initial financial position of individuals and businesses also affects the impact of monetary policy on decisions made. Therefore, in countries where consumption and investment are mainly based on saving or reinvesting from profits, the impact of monetary policy will be more limited than in countries dependent on credit capital. .

Foreign exchange policy: In terms of liberalization of capital transactions, the effectiveness of monetary policy will be influenced by foreign exchange policy and the substitutability of domestic and foreign assets. Therefore, when the substitution is stable, all monetary policy actions will be neutralized through the movement of capital flows. Increasing access to capital from abroad will also help businesses become less dependent on domestic credit, thereby reducing the impact of monetary policy on aggregate demand.

Dollarization status in the financial market: In the financial market, dollarization is common and it poses many challenges to the formulation and administration of monetary policy from the general statistics The amount of money, the identification of targets… The dollarization of cash will limit the ability to measure the money supply in the economy. In particular, when there exists the dollarization of both assets and liabilities, it will lead to risks due to term imbalance and currency difference.

Due to the Covid-19 epidemic that broke out from the end of 2019 until now, it has spread globally and shows no sign of ending. The impact of the epidemic on the global economy is enormous when the world's largest economies all recorded negative growth. In order to limit the negative impacts of the epidemic on the economy, the central bank quickly introduced strong policies, such as lowering interest rates, providing liquidity support for commercial banks, even is support for private enterprises…

2.3. Impact of the Covid-19 epidemic on the economy and some monetary policies of the Central Bank of Vietnam

The central bank's monetary policy has performed well in supporting the economy. The outbreak of the covid-19 epidemic is a shock of unprecedented scale and nature. The spread of the disease is a 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 default 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 pandemic on the world financial markets is now enormous. Asset-backed securities and mortgages have frozen in many countries. The commercial paper market has faced many difficulties in markets such as the US, Canada and the euro area due to high risks of non-payment. Equity market faces many difficulties and fluctuations in most asset classes.

So far, Vietnam is one of the few countries that has well controlled the Covid-19 epidemic. When the epidemic occurred, the economy was affected by the state bank, which quickly took solutions to support the money market.

On August 6, 2020, the State Bank of Vietnam 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.

Covid-19 has not only negatively impacted service industries such as tourism, aviation, restaurants, hotels, import and export..., but also spread to industrial and agricultural fields. Specifically, the service sector in the first 6 months of 2020 only grew by 0.57% with the total retail sales of consumer goods and services decreasing by 5.3% over the same period last year (after excluding the retail sales factor price). For industry and construction, the growth rate was only 2.98%, of which industry increased by 2.71%. This figure of the agricultural sector is only 1.19%. Exports, one of Vietnam's key growth drivers in recent times, also declined by 1.1% in the first half of 2020.

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The current covid-19 pandemic is posing unprecedented challenges and enormous difficulties to the entire economy. Over the past time, the Government has taken resolute and correct steps to curb the spread of the Covid-19 pandemic. That is a very proud achievement. However, in order to win the pandemic on both health and economic fronts, right now, besides limiting the epidemic, it is necessary to have reasonable policies.

3. Policy orientation to implement the central bank's monetary policy

3.1. General orientation to implement the central bank's monetary policies

On the basis of implementing the objectives of the National Assembly and the Government on the socio-economic development plan in 2021, the State Bank will continue to administer monetary policy in accordance with the direction of Directive 01/CT-NHNN; proactively and flexibly on the basis of closely monitoring macroeconomic and market developments and forecasts, controlling inflation according to the average target of about 4% by 2021, supporting macroeconomic stability, promoting promote economic recovery, ensure liquidity, and maintain stability in the currency and foreign exchange markets. Specifically:

Firstly, continue to operate monetary policy flexibly in accordance with the management of macro balance, inflation, market movements and monetary policy objectives; facilitate the reduction of capital costs for people, businesses and the economy. Currently, Vietnam's average lending interest rate is lower than the average interest rate of ASEAN+4, which is one of the positive indicators in recent times. As of the end of March 2021, inflation and CPI increased low, growth did not meet expectations but there are still positive signs, credit balance is on a positive trend with an increase of 2.04 % (the same period last year was 1.3%). Therefore, the management of interest rate policy in the coming time is still from the perspective of creating stability and maintaining this stability for both deposit and lending interest rates. However, it is necessary to be alert to signs of impact of the world economy or some other areas, including the movement of capital flows from the money market to the bond market, capital market or capital market, stock market, real estate market... to administer a reasonable interest rate policy.

Secondly, closely follow the macroeconomic, monetary, epidemic situation in the country and internationally to manage credit in accordance with the oriented targets, associated with improving credit quality, focusing on production fields, priority fields; Strictly control credit for potentially risky fields such as real estate, BOT projects, BT traffic, securities; Continue to deploy synchronously solutions to remove difficulties for customers affected by the Covid-19 epidemic and solutions to remove credit difficulties for people and businesses damaged by natural disasters and epidemics. disease to restore production and business; Direct credit institutions to continue creating favorable conditions for people and businesses to access credit, meet people's lawful needs, and contribute to limiting black credit; Strengthen coordination with localities to promote banking-enterprise connection programs; Promote the implementation of tasks of the banking sector in the National Target Program on building new rural areas, sustainable poverty reduction, and developing ethnic minority areas...

Third, develop and submit to competent authorities for promulgation and organize the implementation of the Scheme on restructuring the system of credit institutions associated with bad debt settlement in the 2021-2025 period; Strengthen direct work with credit institutions to direct the handling of bad debts, develop scenarios to control and handle bad debts. Directing credit institutions to strengthen credit quality control; Make adequate provision for risks in accordance with the law; Actively implement measures to control and limit bad debts arising in order to bring the bad debt ratio on the balance sheet to a safe level. To closely coordinate with ministries, branches and localities to deal with difficulties and obstacles in the process of implementing Resolution No. 42/2017/QH14 on handling bad debts of credit institutions.

Fourth, continue to improve the legal framework to meet the requirements of new business models and products and services based on technology, focusing on building and completing a new Decree on non-payment of payments. using cash and guiding circulars; Research and draft a decree on a controlled trial mechanism for fintech in the banking sector; Submitting to the Prime Minister for promulgation the Project on development of non-cash payment for the period of 2021-2025 and coordinating to implement synchronously the solutions mentioned in the Scheme; Coordinating with relevant ministries and sectors in piloting the use of telecommunications accounts to pay for goods and services of small value; Supporting digital transformation in the banking industry to help banks and payment intermediaries provide safe, secure and convenient payment products and services to meet the increasing demands of customers, goods in the digital age; Continue to promote financial communication and education to contribute to promoting non-cash payment and financial inclusion...

3.2. Specific policies to implement the central bank's monetary policies

Firstly, monetary policy in the present time will be less effective. When the epidemic persists, some specific needs will disappear, accordingly, businesses that serve those needs will not return, even if interest rates are reduced, they will not create motivation for businesses, loans for production and business investment. In other words, for most businesses, the interest rate factor does not necessarily determine investment behavior or business expansion at the moment. Therefore, the credit support policy should focus on the group of businesses that are little or not affected, or have an effective transformation direction.

At the same time, the institutional environment and industry policies need to be improved. For the credit package, it is necessary to amend Circular 01 soon in the direction of expanding the beneficiaries and extending the time to restructure the debt group until the end of 2021, when the epidemic may have ended, while the potential of enterprises is still limited. , the bank was more stable. The bad debt of the banking industry is closely related to Circular 01, the amendment of Circular 01 allows the debt group to remain unchanged until it determines the bad debt ratio of the industry. If the debt group is not allowed to remain the same, then bad debt will surely increase dramatically and cause a shock to the system.

Second, in the process of policy implementation, support policies need to be clear and transparent about procedures as well as beneficiaries of policy packages. It is necessary to minimize the hassles of procedures and the process of accessing support packages, especially the financial proofing procedure. In addition, the following risks should be kept in mind:

- Institutional risks slow down the progress of money injection to stimulate consumption and investment;

- The risk of corruption and fear of accountability may reduce the effectiveness and efficiency of the stimulus package;

- Risk of deviating from the target, support policies need to be directed at the right target and hit the target.

3. CONCLUSION

The COVID-19 pandemic has caused great and profound impacts all over the world, including Vietnam. Due to the impact of the pandemic, many economic activities have been halted or reduced, negatively affecting state budget revenue. In order to realize a sustainable, balanced and comprehensive recovery, the central bank of Vietnam continues to pursue a stable, flexible and tight monetary policies, combined with fiscal policies to ensure stability, macroeconomic and growth targets in the medium and long term.

The monetary policy solutions combined with the central bank's fiscal policies that we have been applying to overcome the covid-19 pandemic have proven correct, with the goal of economic recovery, macro level of the whole country, ensuring and implementing social security policies for the people.

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