

Monetary Policy Stance and Management

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Outline

- Fiscal policy
 - Budgetary operation by itself insufficient to reflect fiscal policy stance
 - It is not linked to monetary policy management
- Monetary policy
 - The SBV has been tightening to some extent
 - OMO has been expansionary
- Some evidence of demand pressures
 - Inflation in Vietnam picking up



Budgetary operation by itself does not fully capture the fiscal stance (..continued)

Vietnam: Government Operations, 2003-2005 1/ (In billions of VND)

	2003	2004	Plan 2005	HI 2005
<u>Total revenues and grants</u>	<u>157,056</u>	<u>180,397</u>	<u>183,000</u>	<u>98,501</u>
Taxes and Fees	144,822	163,884	170,240	90,876
Capital revenues	9,265	14,199	10,760	6,624
Grants	2,969	2,314	2,000	1,000
<u>Total exp. (exclude principal payment)</u>	<u>162,151</u>	<u>186,299</u>	<u>194,900</u>	<u>97,836</u>
Exp. on investment development	59,629	62,874	65,995	29,687
Current expenditure	102,522	123,425	128,905	68,149
Contingency			6,900	
<u>Deficit (classified by GFS)</u>	<u>-5,095</u>	<u>-5,902</u>	<u>-11,900</u>	<u>665</u>
<i>In percent of GDP</i>	<i>-0.8%</i>	<i>-0.8%</i>	<i>-1.5%</i>	<i>0.2%</i>
Balance brought forward	2,963	-6,123	6,000	0
Revenue	19,353	16,390	6,000	
Expenditure	16,390	22,513		
<i>Deficit including balance brought forward</i>	<i>-2,132</i>	<i>-12,025</i>	<i>-5,900</i>	<i>665</i>
<i>In percent of GDP</i>	<i>-0.3%</i>	<i>-1.7%</i>	<i>-0.7%</i>	<i>0.2%</i>

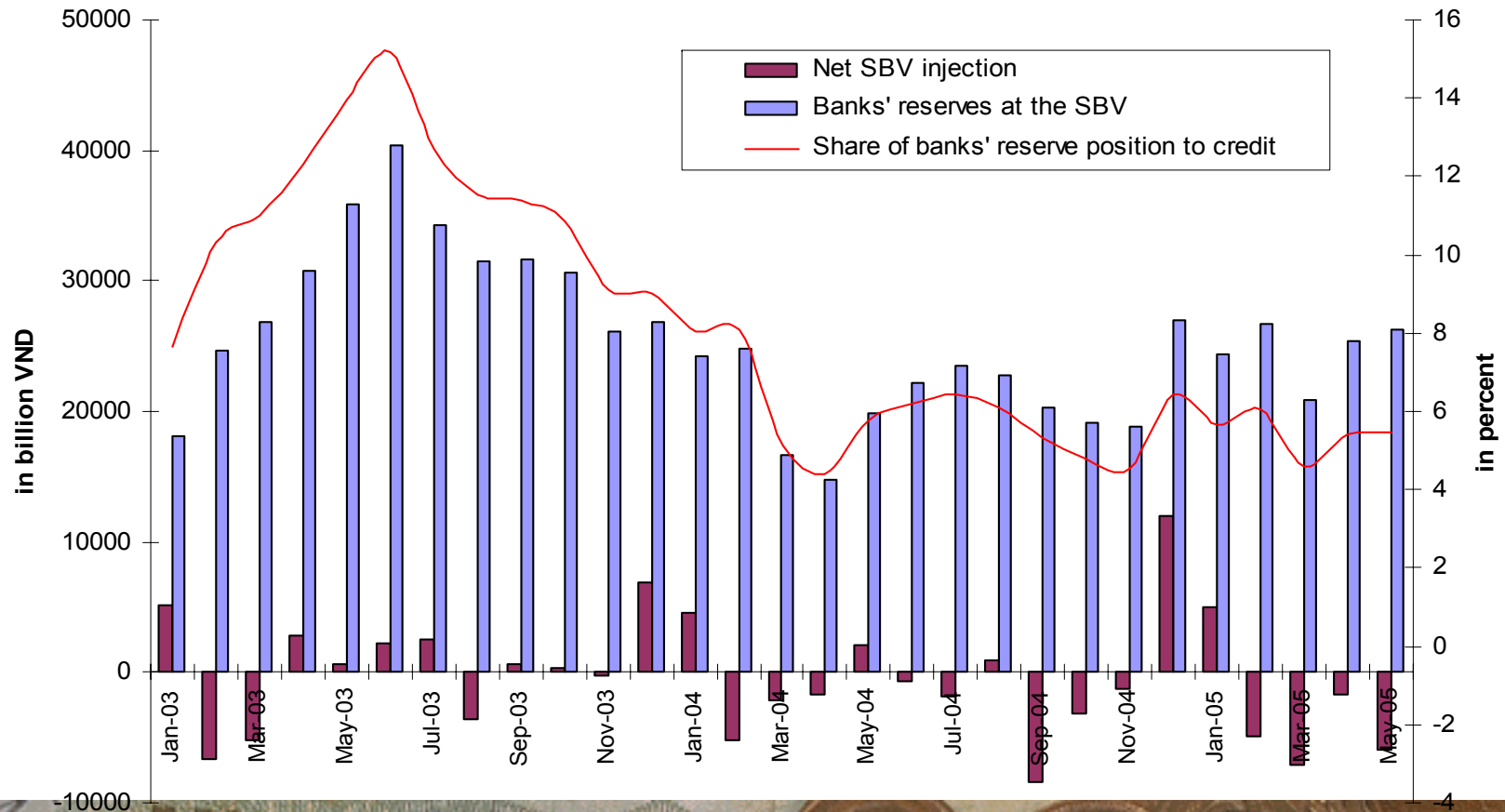
Is not coordinated with monetary policy

Vietnam: Government Operations, 2003-2005 1/				
(In billions of VND)				
			Plan	HI
	2003	2004	2005	2005
<u>Total financing (classified by GFS)</u>	<u>3,567</u>	<u>28,015</u>	<u>18,800</u>	<u>8,535</u>
Domestic non-bank financing	7,327	9,250	9,998	-2,789
Borrowing	22,895	27,450	33,250	9,545
Principal Repayments	15,568	18,200	23,252	12,334
Net domestic bank financing	-11,300	5,600		9,200
Adjusted for balance brought forward	-8,337	15,990	6,000	9,200
Financing abroad	4,577	2,775	2,802	2,124
In percent of GDP	0.7%	0.4%	0.3%	0.5%
Borrowing	7,041	7,300	7,500	4,000
Principal Repayments	2,464	4,525	4,698	1,876
Unidentified financing gap	1,435	15,990	12,900	9,199
Including onlending	-7,822	9,861	167	6,469
<i>In percent of GDP</i>	<i>-1.3%</i>	<i>1.4%</i>	<i>0.0%</i>	<i>1.6%</i>
Memorandum items:				
On lending	9,257	6,129	12,733	2,730
GDP	613,443	713,071	815,000	407,500

Source: Data provided by the authorities. 1/ Government presentation, adjusted for bank financing.

Monetary policy stance can not be considered in isolation

Commercial Banks' Reserve Position at the SBV and the SBV's Net Liquidity Injection, 2003-05



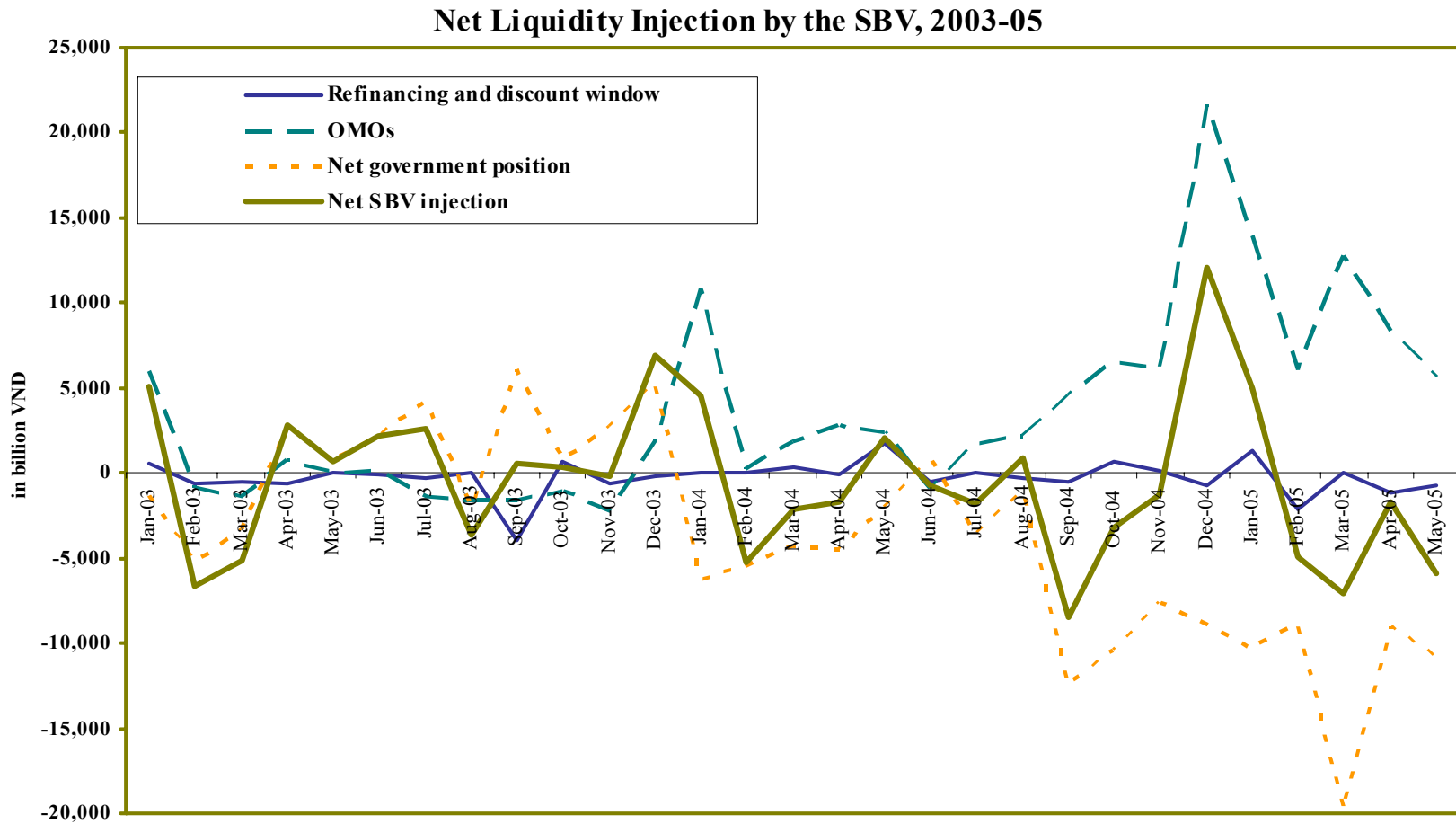
The SBV has been tightening the money market

SBV Balance Sheet, 2005 H1	
In USD millions	
NFA	919
NDA	-1205
Government	-988
Financial institutions	-218
OIN	-1
Reserve money	-287
Cash	-50
Banks	-237
of which in VND	-299

- Reserve money declined by USD290 million even though M2 rose by close to USD3.3 billion during 2005H1.
- Central bank withdrew USD220 million from banks.
- Foreign exchange purchase sterilized.

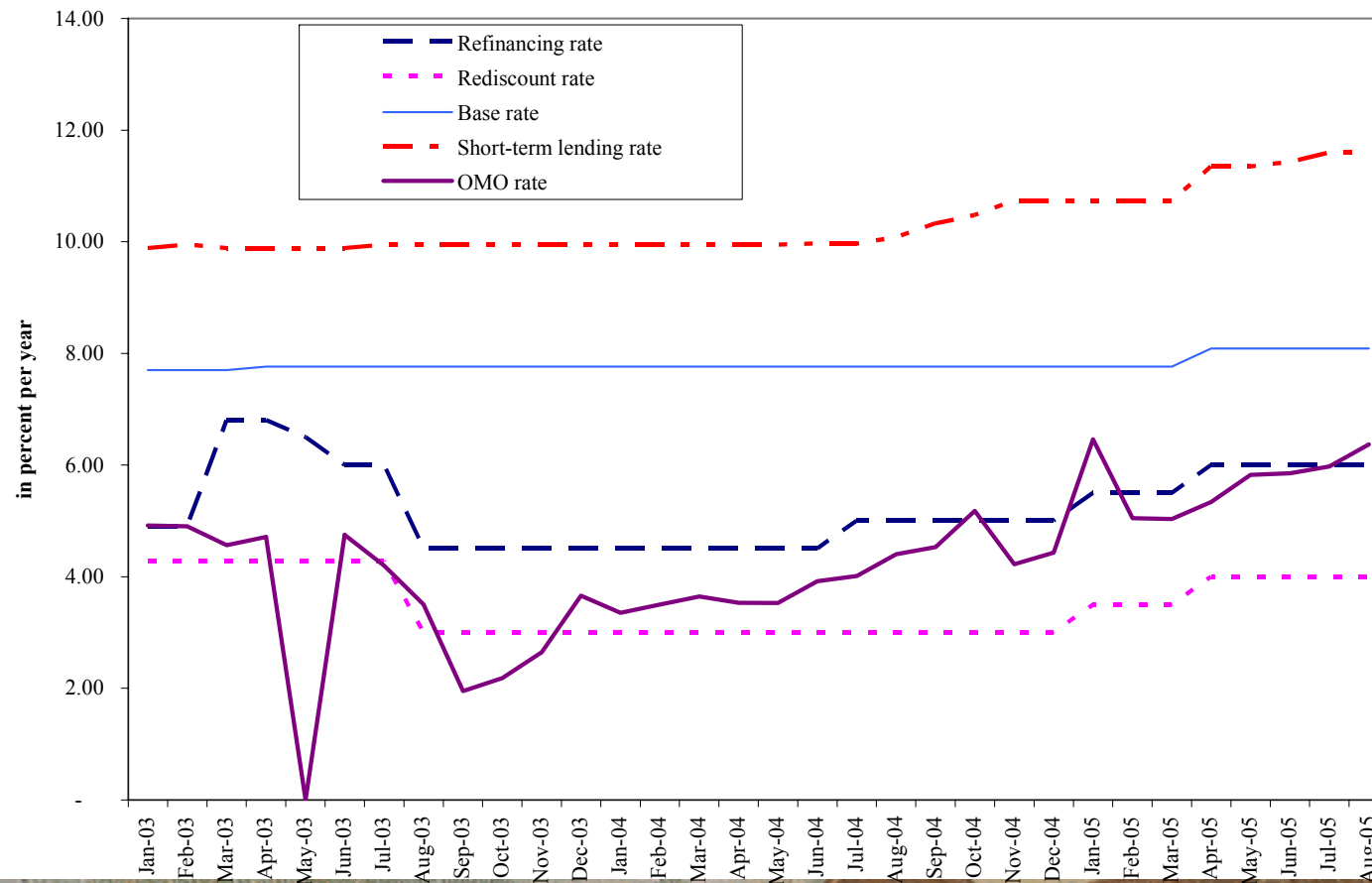


But OMO was expansionary

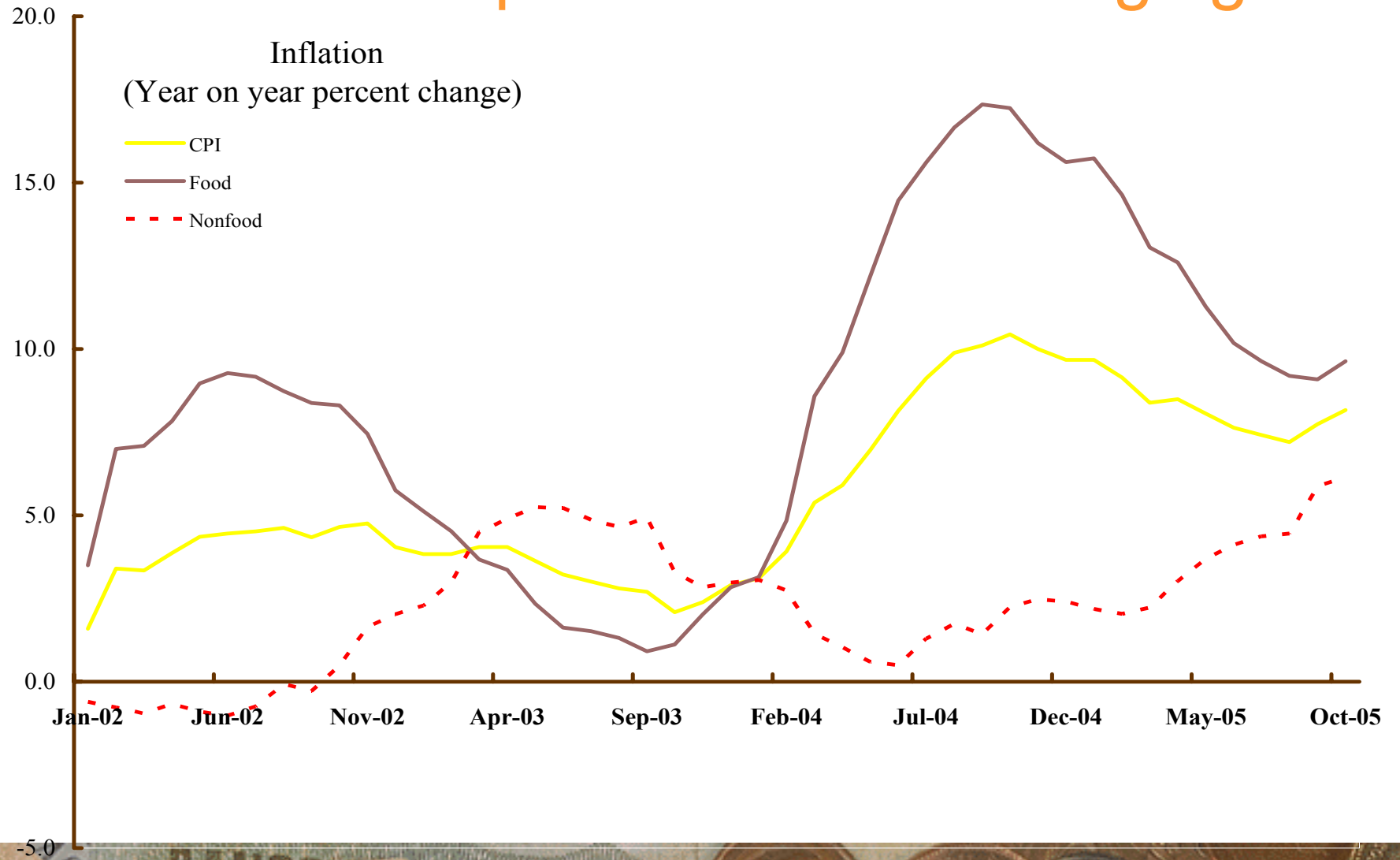


Policy rates reflect the rapid credit expansion and tightening market conditions

SBV Policy Rates Development, 2003-05



But demand pressures are emerging



Despite similar external oil price shock, Vietnam's inflation is by far the highest

Y-o-y monthly inflation in some selected Asian countries
Jan 2002- Aug 2005

