



Socialist Republic of Vietnam

SOCIALIST REPUBLIC OF VIETNAM

Vietnam lies on the eastern seaboard of the Indochina Peninsula with a total area of 330,991 square kilometres. It borders China on the north and Laos and Cambodia to the west. To the East and South lies the South China Sea. Mountains and hills cover four-fifths of Vietnam's territory with the Truong Son range stretching over 1,400 km. Mount Fansipan (3,142m) is the highest peak in Southeast Asia. The population of Vietnam is more than 85 million with 54 ethnic groups. The official monetary unit is the Vietnamese dong (VND). The average US dollar/VND exchange rate stood at 17941 per US dollar on 31 December 2009.

STATE BANK OF VIETNAM

Primary Objective and Responsibility

The functions, powers, and responsibilities of the State Bank of Vietnam (SBV) are specified in the Law on the State Bank of Vietnam, 1997.

The purpose and functions of the SBV are as follows:

1. The State Bank of Vietnam (hereinafter referred to as the SBV) is the Governmental body and a central bank of the Socialist Republic of Vietnam.
2. SBV shall conduct the state's management over monetary and banking activities, is the issuing bank, the bank of credit institutions and the bank providing monetary services for the government.
3. The operations of the SBV are aimed at the stabilisation of the currency value, assuring safe banking activities and a secure system of credit organisations and facilitating the socio-economic development in conformity with socialist orientations.
4. SBV has full legal status and State-owned legal capital, with a Ha Noi based headquarters.

Policy-Making Body

The national monetary policy is a component of the State's economic financial policy, in which all banking activities are unanimously managed by the State. The Government formulates the national monetary policy and estimates the annual inflation rate to submit to the National Assembly for its decision; organising the implementation of the national monetary policy; determining the additional money supply to circulation every year, the purposes of using this amount of money and making periodic reports to the Standing Committee of the National Assembly. The Government also establishes the Consulting Council for the national monetary policy to advise the Government on matters relating to its duties and powers in relation to the monetary policy. The SBV shall, in implementing the national monetary policy, be responsible for presiding over the formulation of the national monetary policy project and the preparation of the annual plans for supplementation of money in circulation for submission to the Government, using instruments to implement the

the national monetary policy and put money into or withdraw it from circulation in accordance with market signals within the scope of money supply as approved by the Government and, reporting to the Government and the National Assembly on the results of the implementation of the national monetary policy.

Release of Policy Information

The SBV publishes the Annual Report which reviews the activities of the Bank in the reporting year and outlines the plan for the next year. The Report also covers information of monetary policy management.

Changes in monetary policy stance are also conveyed to the public via press releases, which are posted on the Bank's website at <http://www.sbv.gov.vn>

MONETARY POLICY IMPLEMENTATION

In 2008, the SBV continued its monetary tightening policy with priority given to curbing inflation while endeavouring to maintain sustainable economic growth as targeted by the Government.

In 2009, the SBV flexibly and proactively managed monetary policy based on market principles, ensure the stability of the value of the Dong to meet the growth target and curb inflation, and strictly control credit quality towards reducing the share of nonperforming loans. The management of the exchange rate took into account the interest rate, the consumption price index, and the overall situation of the balance of payments. Specifically, the monetary, credit, and exchange rate measures issued by State Bank in 2009 are:

- Reduce basic, refinancing, and discount rates down to 7% per annum, 7% per annum, and 5% per annum, respectively since February 2009 and maintain these rates to end of November 2009; Since December 2009, adjust these rates to 8% per annum, 8% per annum, and 6% per annum, respectively; issue interest rate arrangement mechanism of credit institutions for consumption loan, loan for issuance operation, credit card usage.
- Adjust the VND reserve requirement rate for demand deposit and less than 12 months deposit from 6% down to 3%, deposit more than 12 months from 2% down to 1%.
- Conduct open market and refinancing operations flexibly to control money supply, ensure soundness of payment system, and stabilise money market.
- Adjust the exchange rate corridor from $\pm 3\%$ to $\pm 5\%$ (on 24 March 2009) and adjust to $\pm 3\%$ (on 26 November 2009); the average exchange rate in the inter-bank market on 26 November 2009 increased to 17,961 VND. Meanwhile, the SBV had to intervene in the exchange market, increase information dissemination together with administrative penalties to reduce foreign exchange withholding.
- Implement all the interest rate support mechanisms for agricultural production simultaneously;
- Enhance banking supervision, review, and monitor to ensure the soundness of the banking system; focus on 4 key areas which are: interest support loans, foreign exchange management, prudential ratios compliance, and negotiable interest rate for consumption loans.

Policy Instruments To realise the national monetary policy, SBV applies instruments such as base interest rate, refinancing, exchange rates, reserve requirements, open market operations and others as decided by the Governor.

FINANCIAL STABILITY

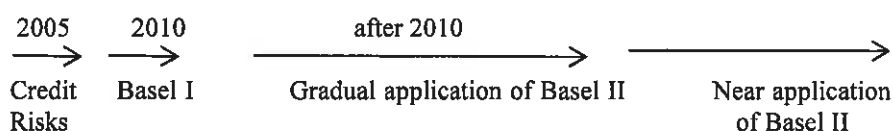
Authorities Responsible for Financial Stability The authorities responsible for financial stability and supervision of the financial sector in Vietnam are the SBV and the Ministry of Finance.

The SBV is responsible for financial supervision of credit institutions while the insurance and securities companies are supervised by the Ministry of Finance.

Strategy for Supervision and Monitoring of Financial Stability The SBV is currently in the transitional phase from complementary to risk-based supervision. The former approach has shortcomings and is not very appropriate because the operations of credit institutions have become more diversified and risky. With international support, the SBV has completed its Off-site Supervision Renovation Project which will be implemented after due approval from the Governor. Accordingly, the risk-based approach under CAMELS will be applied and cover the key issues, namely (i) micro-supervision on individual credit institutions; (ii) macro-supervision on the whole system; and, (iii) early warning system.

Plan and Progress for the Implementation of Basel II The banking supervision development orientation is “To establish a banking safety operations supervision body which is a department or unit under the SBV. To gradually build up a general financial supervision body from 2010 onwards”. Meanwhile, the coverage, measures and procedures of banking supervision and monitoring is actively reformed in accordance with the development of IT and banking technology by applying the key principles on effective banking supervision of the Basel Committee as well as international standards on banking supervision (Basel I), toward applying basic principles and standards of Basel II from 2010 onwards.

The expected progress on the implementation of Basel II are as follows:



**CURRENT
MONETARY
OFFICIALS**
(as of 31 December
2009)

Governor Mr. Nguyen Van Giau

**Deputy
Governors** Mr. Tran Minh Tuan
Mr. Nguyen Van Binh
Mr. Dang Thanh Binh
Mr. Nguyen Dong Tien
Mr. Nguyen Toan Thang

MINISTRY OF FINANCE

Minister Mr. Vu Van Ninh

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