

## Unconventional Monetary Policy in Vietnam

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**ABSTRACT:** In The Context of Economic Integration and Increasing Financial Instability, The Application Of Unconventional Monetary policy (UMP) has become an essential approach for many central banks worldwide, including Vietnam. This study explores the theoretical foundation of unconventional monetary policy, its implementation in Vietnam, and its effectiveness in addressing economic challenges. Through case studies and data analysis, the paper evaluates key measures such as quantitative easing (QE), interest rate control, liquidity support programs, and yield curve control (YCC). Moreover, the paper highlights challenges and limitations in adopting UMP in Vietnam, particularly concerning financial market development and regulatory capacity. Finally, we propose policy recommendations to enhance the effectiveness of UMP in Vietnam's evolving financial landscape.

**KEYWORDS:** Unconventional monetary policy, Vietnam, quantitative easing, financial stability, monetary tools.

### 1. INTRODUCTION

Traditional monetary policy, primarily based on interest rate adjustments and money supply control, has been widely used by central banks worldwide to manage economic fluctuations. However, in periods of severe financial crises, economic downturns, and global uncertainties, traditional tools become less effective, necessitating the adoption of unconventional monetary policies (UMP).

Vietnam, as an emerging economy, has faced numerous economic challenges, including inflationary pressures, exchange rate volatility, and financial instability, especially during global financial crises and the COVID-19 pandemic. In response, the State Bank of Vietnam (SBV) has experimented with various unconventional monetary policy measures to stabilize the economy and support businesses.

This paper provides a comprehensive analysis of UMP in Vietnam, addressing the following key research questions:

- What are the theoretical foundations of unconventional monetary policy?
- How has Vietnam implemented UMP, and what are its outcomes?
- What are the challenges and future prospects for UMP in Vietnam?

### 2. THEORETICAL BACKGROUND OF UNCONVENTIONAL MONETARY POLICY

#### 2.1. Definition and Characteristics of Unconventional Monetary Policy

According to Mishkin (2019), unconventional monetary policy refers to non-standard measures adopted by central banks when traditional monetary policy tools are no

longer effective, particularly when interest rates are close to zero. These measures include:

- Quantitative easing (QE) – large-scale asset purchases by central banks to inject liquidity into financial markets.
- Negative interest rates – charging banks for holding excess reserves to encourage lending.
- Yield curve control (YCC) – targeting long-term interest rates to influence investment and borrowing costs.
- Forward guidance – providing clear communication about future monetary policy to influence market expectations.

#### 2.2. Unconventional Monetary Policy in Developing Economies

In developed countries such as the United States (Federal Reserve) and Japan (Bank of Japan), UMP has been extensively used during financial crises. However, in emerging economies like Vietnam, UMP adoption is more complex due to structural differences in financial markets, regulatory frameworks, and economic structures (Nguyen & Tran, 2020).

### 3. IMPLEMENTATION OF UNCONVENTIONAL MONETARY POLICY IN VIETNAM

#### 3.1. Vietnam's Economic Context and Monetary Policy Evolution

Vietnam has transitioned from a centralized economy to a market-oriented system, leading to significant financial liberalization. The SBV has traditionally used interest rate adjustments, reserve requirements, and open

market operations (OMO) to regulate the economy. However, in recent years, economic shocks such as:

- The 2008 global financial crisis
- The COVID-19 pandemic (2020-2022)
- The Russia-Ukraine war and global inflation concerns

have challenged traditional policy tools, prompting the SBV to adopt unconventional monetary policies.

### 3.2. Key Unconventional Monetary Policy Measures in Vietnam

Vietnam has undergone a significant economic transformation, shifting from a centrally planned system to a market-oriented economy, which has led to substantial financial liberalization. Traditionally, the State Bank of Vietnam has relied on conventional monetary tools such as interest rate adjustments, reserve requirements, and open market operations to manage economic stability. However, in response to global financial crises, economic downturns, and recent shocks like the covid-19 pandemic, traditional monetary tools have proven insufficient, prompting the State Bank of Vietnam to explore unconventional monetary policy.

One key measure has been liquidity support programs, particularly during the covid-19 pandemic. The State Bank of Vietnam introduced credit restructuring and interest rate subsidies, benefiting over 600,000 businesses with total restructured loans exceeding 3.5 quadrillion VND by the end of 2021. Additionally, the central bank maintained historically low interest rates, with the refinancing rate reduced to 4.0 percent and the discount rate to 2.5 percent in 2020 to support economic recovery.

While Vietnam has not fully adopted large-scale quantitative easing like advanced economies, the State Bank of Vietnam has engaged in targeted government bond purchases. As of 2022, the central bank held approximately 420 trillion VND in government bonds, contributing to financial market stability. Another approach has been yield curve control, where the central bank has intervened to keep long-term government bond yields stable at around 3.0 percent to 3.5 percent, ensuring favorable borrowing costs for businesses and households.

Vietnam has also actively managed exchange rate volatility through foreign exchange interventions. In 2022, the State Bank of Vietnam sold over 20 billion USD in foreign reserves to stabilize the VND amid global inflationary pressures and a strengthening US dollar. This intervention helped limit the depreciation of the VND to around 3 percent against the US dollar, compared to more severe fluctuations in other emerging economies.

Despite these efforts, unconventional monetary policy in Vietnam remains constrained by the underdeveloped financial market, regulatory challenges, and inflationary risks. With inflation reaching 3.8 percent in 2023, concerns about excessive liquidity persist. As Vietnam continues integrating into the global economy, refining and

expanding unconventional monetary policy tools, while ensuring financial stability, will be crucial for long-term sustainable growth.

### 4. CHALLENGES AND LIMITATIONS OF UNCONVENTIONAL MONETARY POLICY IN VIETNAM

To enhance the effectiveness of unconventional monetary policy in Vietnam, several key strategies should be implemented.

First, strengthening financial market infrastructure is essential. Vietnam needs to develop a more robust bond market, expand secondary trading platforms, and introduce financial derivatives to improve the efficiency of quantitative easing and yield curve control. Additionally, risk management frameworks for financial institutions should be enhanced to ensure market stability.

Second, improving policy coordination between monetary and fiscal authorities is crucial. The State Bank of Vietnam should align its policies with government fiscal measures to avoid excessive inflationary pressures while ensuring sustainable economic growth. Effective communication strategies, such as forward guidance, should also be adopted to align market expectations with monetary policy decisions.

Third, increasing the central bank's independence and transparency will play a vital role in boosting investor confidence and ensuring policy effectiveness. Granting greater autonomy to the State Bank of Vietnam will enable more flexible and timely monetary interventions without political influence.

Fourth, developing a data-driven policy framework is necessary for better decision-making. Investing in economic forecasting models and improving data collection on inflation, interest rates, and financial market trends will help policymakers evaluate the impact of unconventional monetary policy more accurately.

Lastly, addressing structural economic challenges, such as improving financial literacy and increasing banking sector resilience, will support the long-term success of unconventional monetary measures. By implementing these strategies, Vietnam can enhance the effectiveness of its monetary policy framework and ensure financial stability in the face of global economic uncertainties.

### 5. POLICY RECOMMENDATIONS FOR VIETNAM'S UNCONVENTIONAL MONETARY POLICY

To improve the effectiveness of unconventional monetary policy in Vietnam, several key measures should be implemented.

First, the financial market infrastructure needs to be strengthened by developing a more robust bond market, improving secondary trading platforms, and expanding financial instruments to enhance the effectiveness of quantitative easing and yield curve control. Additionally,

regulatory frameworks should be refined to improve risk management and increase financial market stability.

Second, better coordination between monetary and fiscal policies is essential to prevent inflationary risks and ensure economic stability. The State Bank of Vietnam should enhance communication strategies such as forward guidance to align market expectations and maintain investor confidence.

Third, increasing the central bank’s independence and transparency will enable more flexible and efficient policy interventions. Granting the State Bank of Vietnam greater autonomy in decision-making can help reduce political influence and improve policy responsiveness.

Fourth, a data-driven policy framework should be developed by investing in advanced economic forecasting models and improving data collection on inflation, interest rates, and financial market trends. This will allow policymakers to evaluate the long-term impact of unconventional monetary policy more accurately.

Lastly, addressing structural challenges such as financial literacy, banking sector resilience, and digital transformation will support the sustainable development of Vietnam’s financial system. By implementing these measures, Vietnam can strengthen its monetary policy framework, enhance economic stability, and better navigate global financial uncertainties.

## 6. CONCLUSION

Unconventional monetary policy has played an increasingly important role in stabilizing Vietnam’s financial

system amid global economic challenges. The implementation of liquidity support programs, targeted bond purchases, exchange rate interventions, and interest rate adjustments has helped mitigate economic downturns, particularly during the covid-19 pandemic. However, these measures remain limited in scale due to Vietnam’s underdeveloped financial market, inflationary pressures, and regulatory constraints. While the State Bank of Vietnam has made significant progress in adopting unconventional monetary tools, challenges such as maintaining financial stability, improving policy coordination, and strengthening institutional capacity still persist. Moving forward, refining and expanding these policies will be essential to ensuring long-term economic resilience. Future research should focus on assessing the long-term impact of unconventional monetary policy in Vietnam and drawing lessons from international experiences to enhance the country’s monetary policy framework.

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