



EXCHANGE RATE POLICY OF VIETNAM

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Vietnamese currency: Vietnam dong (VND)





We also have coins.

But people don't really like using them cause their inconvenience (easily being lost...)

State Bank of Vietnam (SBV) is in charge of conducting monetary policy



Overview of exchange rate regime

1. Hard peg

- Regime with no separate legal tender – incl. another currency as legal tender (formal dollarization) and currency union
- Currency board

2. Intermediate regimes

- Conventional fixed peg against a single currency or a basket of currencies
- Pegged exchange rates within horizontal bands
- Crawling pegs
- Crawling bands

3. Floating regimes

- Managed floating with no predetermined path for exchange rate
- Independent floating



Exchange rate arrangements in Vietnam

- Before March 1989: A multiple exchange rate system (*with three-tier exchange rate system*), fixed exchange rate policy
- Three-tier ER system: official ER for foreign trading, non-trading ER and internal ER used in business relations between banks and other domestic business entities.
- These rates were also used in state budgeting in regard to foreign aid mainly coming from the former Council for Mutual Economic Assistance (CMEA) and the former Soviet Union using the Transfer Ruble.

Before March 1989...

- ERs were set by the government at fixed levels based on economic and granting agreements between the government of Vietnam and other related countries
 - This led to high trade deficit and the large difference in the official and parallel exchange rate.
- ⇒ caused problems for the government budget promoted illegal activities in the black market.



Mar 1989 - Feb 1999:

VND has been pegged to the USD with several discrete realignments.

The multi-tier ER system was unified into a single official ER (OER) set by the State Bank of Vietnam (SBV).

The OER was adjustable in principle, based on inflation rates, interest rates, balance of payment (BOP) stance and the ER in the parallel/free foreign exchange market; based on



Commercial banks were allowed to set exchange rates for their own transactions within a band of 5% (*this band change according to economic situation*)

Table 1: Exchange rate bands for transactions between commercial banks and their clients

| Time period | Exchange rate band |
|-------------------------|-----------------------------------------------------------------|
| From Jul 94 to Oct 94 | Spot Rate Max=Official Rate+0.1% Spot Rate Min=Official Rate |
| From Nov 94 to Nov 96 | Spot Rate=Official Rate±0.5% |
| From Dec 96 to Feb 97 | Spot Rate=Official Rate±1% |
| From Mar 97 to Oct 97 | Spot Rate=Official Rate±5% |
| From Nov 97 to Aug 98 | Spot Rate Max=Official Rate±10% |
| From Sept 98 to Feb 99 | Spot Rate Max=Official Rate±7% |
| From Mar 99 to Jul 02 | Spot Rate=Interbank average exchange rate±0.1% |
| From Aug 02 to Dec 2006 | Spot Rate=Interbank average exchange rate±0.25% |
| From Dec 06 to Dec 07 | Spot rate=Interbank average exchange rate±0.5% |

Source : State Bank of Vietnam [2007]



- Establish some facilities: two transaction floors (hanoi-HCMC), inter-bank FE market
- The official ERs followed the rates of free market but were still at levels that overvalued the VND



- *ER policy played an important role on controlling inflation, attracting FDI, and encouraging domestic currency deposits*