CHAPTER 6
CONCLUSION AND POLICY IMPLICATIONS

6.1 Summary of the study

The stock market was established with the aim of mobilizing funds and allocating capital resource of the whole economy as mentioned in previous sections. The first objective of the study concludes that there exists rational bubble in the Vietnamese stock market, and investors were informed that existed, but they did not want to stop their trading or to withdraw funds from the stock market, because they could be compensated from the soaring stock prices which could be higher than their losses if bubbles burst. Besides the common belief of the increase period to period in stock prices, another reason that could affect directly the stock prices: the fooling trade, which was affected by some investors (i.e. the foreign investors' trading was led domestic investors as followers, or some key staff would like to increase their shares in their company making a trend of buying that share…), that behavior was explained as the main reason for sudden change of the stock prices (in both situations of increase and decline).

The Vietnamese stock market is an emerging market; it still is imperfect; and speculation is unavoidable. But, if it is found that bubbles exist, the government should formulate a suitable policy to dampen down the fever if the bubbles look like getting out of control and help maintain investor confidence in the Vietnamese economy. It is most important that the government make the stock market more transparent and enact strict regulations to control illegal trading, ”inside trading” or pushing speculators who spread rumors for their own financial gain.

The second objective of the study which analyzes the impact among stock returns and monetary policy in the Vietnamese stock market (and including the prediction of the movement of stock returns in case of affecting from monetary policy).

The study has employed a VAR system to analyze the impact on stock returns and monetary policy due to the unknown structure of the impact and the appearance of each variable in the system, in which the study divided into two models with different kind of interest rate, basic interest rate which is decided by the State Bank of Vietnam and announced monthly; the other is monthly lending interest rate which is adjusted based on the basic interest rate with the ceiling to 150% of basic interest rate, but this kind of interest rate is also decided by other monetary policy such as reserve rate, outstanding debt and money supply, in some cases, the State Bank of Vietnam keeps the stable basic interest rate, but they require commercial banks to increase the reserve rate and reduce the money supply, it could push up the lending interest rate to reach the ceiling.

The study found that the lending interest rate is better explainable for forecasting the stock returns than the basic interest rate as the result of Granger causality test, the test shown that stock returns could be forecasted by using the past information of some variables which are controlled by the State Bank of Vietnam (inflation, exchange rate or lending interest rate, indirectly control) and the impact of stock returns to monetary policy appears from the forecast in the change of exchange rate (stock returns has no Granger causality other variables, lending interest rate and inflation). The analyses of impulse and response of the stock returns illustrate that the monetary policy has a small contribution into the innovations of stock returns and the shocks from monetary policy to stock returns mostly affect stronger in the second month when the own shock of stock returns reduces. And the misspecification makes the innovations of stock returns which have a small part of contribution from monetary policy variables almost depends on its own innovations, it also proves that the policy has a delay effect on the stock market in Vietnam. This situation also happens in the case of the shock of the stock returns affects to the change of exchange rate; the result illustrated the State Bank of Vietnam's behavior to the movement of stock prices; although the stock returns could be impacted directly by other monetary policy, but the State Bank of Vietnam only employed the currency exchange rate to control the movement of stock returns.

6.2 Policy Implication

Due to the existence of bubbles and the impact of the shocks from monetary policy has a delay effect on the stock returns. To prick the rational bubbles (or control the speculation from investors), the State Bank of Vietnam should not devalue the domestic currency; the stronger currency will be a suitable tool to calm down the fever, because the change of exchange rate has the largest effect to stock returns in the second period; if the domestic currency is stronger, it could be affected to the export goods and affected to the listed corporations; but it could support to slow down the increase of stock prices instantly and control the overvalue of listed shares in the bourse; Moreover, the inflation is an option for SBV to prick the speculative rational bubbles in the stock market; but this tool will hurt the economy seriously if the SBV cannot control it perfectly, the domestic currency will be loss its value and the foreign investors' confidence to the Vietnamese economy will be reduced, although there is a trade-off between economic growth with the inflation and the SBV always keeps the high inflation for many years, but this instrument tool cannot employ for the long term.

Since the lending interest rate has positive effect in the first two months; then the negative effect is too small in comparison to the positive effect, that makes more seriously if the State Bank of Vietnam would like to employ it to prick the bubbles as they did in the past; and in case of the falling stock prices (burst), a relaxed lending interest rate could be applied to avoid of a credit crunch, since investors will try to quit as soon as possible if the lending interest rate is higher.

6.3 Limitations of the study and suggestion for further study

Although the two objectives of the study have been performed smoothly, but the study cannot apply other kinds of test to detect the irrational bubbles, due to the lack of data, and the explained variables for the monetary policy cannot capture all of instrument policy which is mostly employed by the State Bank of Vietnam, the study would like to have some suggestions for the further studies:

Firstly, the fluctuation in the Vietnamese stock market during 2006-2008 was led by the fads/crowded trend. Researches about investors' behavior could provide more scenarios in the Vietnamese stock market and the irrational bubbles could be considered carefully which will give more information to policy makers to issue the suitable policy for the operation of the stock market.

Secondly, the study employed the aggregate index from the stock market; it is suitable for the current situation of the Vietnamese stock market, a new and imperfect market which is lacking of data. To make a clearly conclusion about the bubbles, both in rational and irrational as the previous statement, the other test could be applied to measure the size of bubbles and its impact to investors' decision are more credible.

Thirdly, the impact of monetary policy via some variables cannot explain enough about the involvement of the State Bank of Vietnam, *as argued above*, the State Bank of Vietnam employs other instruments to control the movement of the stock market and those instruments are not in the same effects, the lack of monetary variables, especially the credit growth, money supply or interbanking interest rate etc. should make a better analysis about this impact.

Fourthly, some other substituted markets (such as gold and real estate markets) could have more effect to the movement of stock prices, investors will seek the more profitable market to invest their money, if there is a fall in the stock market, they will withdraw and move to other market and so on.

The combination of study for above conditions will provide more information for investors and other institutions; and it also supports the policy makers to have a better solution.