

Regulating the Capital Inflow while Implementing the Monetary Policy

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The capital inflow to Vietnam at present comes from the following sources:

- Financial investment in the stock market: These investments amounted to some US\$4.5 billion in the first three quarters of 2007.

- Immigrant remittance: According to an official estimate, the immigrant remittance to HCMC topped the US\$3-billion mark, not to mention the volume sent by illegal ways. The immigrant remittance sent to Vietnam rose from US\$4.0 billion in 2005 to 5.2 billion in 2006 and might amount to 6.0 billion in 2007. This rise is caused by investments in real estate and stocks by Vietnamese expatriates, and increases in the number of Vietnamese guest workers in foreign countries.

- Tourist receipts: The number of foreign visitors rose by 18.5% in the first three quarters of 2007.

- FDI and ODA: The FDI in 2006 amounted to US\$10.2 billion and reached US\$9.6 billion in the first three quarters of 2007.

The trade gap in 2007 is estimated at US\$9.0 billion. This means that the supply of foreign exchange is abundant and the balance of current accounts is active although no official statistics have been publicized so far.

Vietnam is trying its best to integrate into the world market, the increased capital inflow is an encouraging sign because it means more new jobs, higher personal income and foreign exchange reserve and better growth rate. It also forces authorities, especially the SBV, to find

flexible and effective ways of controlling the exchange rate and inflation.

Official statistics show that in the first half of 2007, the SBV bought over US\$7 billion but in fact, this figure should be much bigger. Because of sudden rises in the supply of the dollar, many experts are of the opinion that the SBV are forcing commercial banks to keep the dollar in their vaults. Some others think the VND is rising against the dollar causing bad effects on the export business because the SBV couldn't buy more foreign exchange.

In doing their business, commercial banks usually buy all foreign exchange offered by their traditional customers in order to retain good relationship. After buying they should sell it for fear of violating banking regulations set by the SBV and suffering losses caused by unfavorable changes in the exchange rate of the VNF to the dollar. When the demand for foreign exchange falls, commercial banks have to

sell it to the SBV as the last resort on the inter-bank market. Decision of the SBV to buy the foreign exchange depends on its reserves, the rate of supplying money to the market and its objectives in controlling the exchange rate. So the fact that the SBV is blamed for being slow to buy the dollar and forcing commercial banks to keep it back has its own logical basis. In addition, the increasing supply of foreign exchange leads to a paradoxical fact: the buying rate offered by a bank is equal to the its selling rate; and its rates are lower than one offered by the SBV and sometimes higher than the rates on the free market. The buying rate offered by most commercial banks at present is VND16,082 to the dollar while the selling rate varies between 16,084 and 16,085 only. They are only 0.19% higher than the rates offered last year. Exactly, the buying rate was VND16,055 and the selling rate was 16,057 to the dollar in October 2006. According to the



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General Bureau of Statistics, the exchange rate of the VND to the dollar rose by 1.5%.

But the VND has fell remarkably against other hard currencies in the first three quarters of 2007.

Facing such a situation, the Ministry of Finance has recently asked the SBV to purchase more dollars for reserve. But how much and for how long it will buy are still national secrets. Looking back at effects caused by the SBV purchase of dollars in the past

to 0.5%. Many studies have agreed that such a slight devaluation couldn't promote the export but it produced bad effects on the import because Vietnam is experiencing a wide trade gap. Moreover, the export business depends more on competitiveness of goods and services originating from technology and marketing than on a favorable exchange rate. Foreign experience shows that devaluating the domestic currency with a view to promoting the export will make

companies less active in improving their competitiveness. In my opinion, the SBV had better refrain from devaluating the VND and keep on purchasing the dollar in order

to maintain a stable exchange rate thereby ensuring a reasonable growth rate.

Secondly, the dollar has nearly been a legal tender in Vietnam, thus purchasing the dollar and supplying more domestic currency to the market is only an act of replacing means of exchange, which hardly causes

inflation. Past experience in Vietnam shows that increasing the money supply to reduce the volume of the dollar in circulation could not make prices of such goods as food, coffee, rubber, fuel, steel, fertilizer and chemicals rise remarkably. Their prices usually rise because of fluctuations on the world market. It's these goods whose role in the basket of goods is important that causes the CPI to rise in the first three quarters. the surplus of the dollar on the market is not the cause of the higher CPI. The authorities had better inform the public of their roles and effects in order to avoid unfavorable opinion about the purchase of the dollar.

Thirdly, the SBV had better keep on purchasing the dollar and increase the money supply when the inflow is still abundant. The surplus foreign exchange should be used productively, by investing in bills and bonds issued by foreign governments and major construction projects or repaying foreign debts for example. And as a result, the SBV can stop issuing government bonds at high interest rates on foreign stock exchanges as what was done in 2005. ■

Table 1: Rate of the VND to some hard currencies in the first 10 month of 2007

Currency	Jan. 1	Oct. 30	Change
VND/CAD	13,700	16,704	22%
VND/AUD	12,484	14,491	16%
VND/EUR	20,960	23,016	10%
VND/GBP	31,610	33,104	4.7%
VND/USD	16,060	16,084	0.15%

few months, we can see the following problems:

Firstly, in implementing the monetary policy, the SBV has wanted to devalue the VND slightly in order to encourage the export, but this move should be reviewed scientifically. Since the first months of the year, the dollar has fallen drastically against other hard currencies on the world market, including seven Asian currencies (Chinese, Singaporean, South Korean, Japanese, Taiwanese, Thai and Malaysian ones). The said decision made by the Ministry of Finance and the SBV is not appropriate to the common trend in the world market. According to the targets for the monetary policy publicized by the SBV in early 2007, the exchange rate will fall by 0.25% against the dollar in 2007 but the rate on the free market experienced almost no change up till now. The SBV has also informed of its plan to devalue the VND by some 1.0% this year, by the end of October, however, this target was officially reduced

