

ON THE TENDENCY TOWARDS REVALUATION OF THE VND

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On the occasion of the ephemeral fever of the dollar resulted from the fixed exchange rate control, we want to discuss here views on the exchange rate, and causes of the unreasonable exchange rate control which seems to be against the Government's policy to inch up the price of the

Thus, in reality, the State Bank gave subsidies to importers by supplying them with cheap US dollars.

The result was that the price of the dollar in 1993 decreased by 0.3% while the CPI rose by 5.2%. The US\$ price offered by state-run banks was reduced to a level lower than the market price. This intervention was criticized by economists and researchers because it discouraged the exportation, and in June 1994, the US dollar price offered by the State Bank was increased by 2% in a month in order to raise it to a level higher than the market price. In spite of this

At various workshops, nobody declared that he supported the tendency towards revaluation of the VND, but their arguments were always ambiguous. For example, when they said "no devaluation to the VND", this statement could be interpreted as "to revalue the VND" or "neither devaluation nor revaluation". But in fact, the VND has been revaluated for the last four years.

The market rate is what helps us see the difference between views on the exchange rate policy:

- To revalue the VND is to keep the official rate lower than the mar-



dollar against the VND.

In 1993, the tendency to revalue the VND made its appearance in two foreign exchange centers. The dollar price in these centers was always lower than the market price with the result that the demand always exceeded the supply. The representative of the State Bank, when the price of the dollar rose as nearly high as the market price, always informed that the State Bank would sell its stock of US dollars at this price (lower than the market price).

increase of 2%, the market price showed no fluctuation.

These facts show that reasonable changes in the US dollar price produced no bad effect on prices in general and on the exchange rates to be precise, but recently the dollar price has been lowered from VNĐ11,030 to 11,027 after the policy to inch up the US dollar price was informed by the Thời báo ngân hàng (Banking Times). I didn't know the opinion of the policy-maker who has lowered the US dollar price, but I know that this act was affected by the tendency towards revaluation of the VND.

This tendency towards revaluation of the VND is very conservative. It goes against the Government's policy to inch up the US dollar price (this policy was publicized at the conference of bankers held on Sep. 16 and 17, 1996). But to date, the US dollar price kept on decreasing. This conservative tendency showed itself at many workshops and in the press.

ket rate.

- Neither devaluation nor revaluation means keeping the official rate equal to the market rate.

- To make a slight devaluation is to keep the official rate higher than the market rate to an extent at which it makes no damage to the inflation control, that is, the official rate is higher than the market rate by 0.5% or 1%.

- To make a major devaluation is to set the official rate at a level much higher than the market rate, for example, some foreign experts have advised us to set the official rate at VNĐ18,000, or even 20,000, to a US dollar, or to devalue the VND by 65%-80%.

Those who support the revaluation of the VND usually argue that the devaluation will lead to inflation. Many readers have agreed to this argument, however, it's inexact both practically and theoretically. Firstly, this argument identifies a slight with a major devaluation thereby making

readers misled. A major devaluation can worsen the inflation because it makes prices of imported goods skyrocket and makes it more difficult for countries depending on importation. But a slight devaluation at 0.5% or 1%, can't increase the inflation from one-digit to two-digit level.

Realities show that in 1991, we suffered unwillingly a rise of 204% in the CPI leading to an inflation rate of 67% although the money supply increased by only 49% in that year. Exactly, a major devaluation only prevented us from lowering the inflation rate in comparison with 1990 (66.7%). In the next year, 1992, the inflation rate reduced to 17.5%. Thus, supporters of revaluation turn the inflation into a deadly danger in order to mislead readers. In 1994, Chinese Government once devaluated the domestic currency by 41% on the first day of the year. The inflation rate in that year reached 21.7% but it reduced to 17% in the next year (World Bank, World Economic Survey, 1996).

The strongest argument of these supporters is that the devaluation will increase the production cost because Vietnam has to import a lot of equipment and 80% of raw materials needed for the local industries, so the higher production cost will lead to a higher inflation rate. However, it's a too simple deduction because this isn't what was seen in reality. The cheap US dollar has failed to stabilize the price of fertilizers for the last few years. So we have to justify this argument by studying actual facts before we can come to a conclusion.

Moreover, will a low official rate certainly put the inflation well under control? By raising such a question, we can easily see that in the centrally planned economy, the Government has fixed a very low official rate (equal to one-tenth of the market rate only) and couldn't control the inflation and we had to suffer the hyperinflation.

Supporters of the revaluation refused to accept the fact than in the past four years the VNĐ was kept high compared with the US dollar but we couldn't keep prices of essential raw materials as low as the US dollar. The price of fertilizers is a good example of this failure.

The danger is that when they say "there is no devaluation" but in fact, we have revaluated the VNĐ incessantly. Scientifically, we should have said that "there is neither devaluation nor revaluation". Certainly, we must understand that the official rate is kept equal to the market rate (VNĐ 13,400 to a US dollar) based on the PPP theory, or the balance be-

tween foreign and domestic currencies in purchasing power.

The revaluation of the VNĐ in the past four years wasn't of benefit to the economy but its bad effects were verified not only in Vietnam but also in most countries. Thailand has kept the official rate stable since 1987 because it has kept the inflation rate equal to that of the US (184.15% compared with 183% in the period between 1979 and 1990), that is the official rate and the market rate was

from some ten millions of dollars in two decades before to 233,300 million baht in 1992, 225,270 million baht in 1994 and 233,979 million baht in 1995.

Contrarily, in the period 1978-1984, South Korean economy started to take off, a slight devaluation was made and the import surplus started to decrease and came to an end in 1982 as showed by the following table:

Table 3: South Korean foreign trade (billion won)

	1978	1979	1980	1981	1982	1983	1984
Export	6,152	7,287	10,633	14,475	15,976	18,963	23570
% increase		18.45%	45.92%	36.13%	10.37%	18.70%	24.29%
Import	7,264	9,844	13,541	17,796	17,730	20,318	24690
% increase		35.52%	37.56%	31.42%	-0.37%	14.60%	21.52%
Import surplus	-1,112	-2,557	-2,908	-3,321	-1,754	-1,355	-1120
% increase (or decrease)		129.95%	13.73%	14.20%	-47.18%	-22.75%	-17.34%
Won/US\$ rate	484	484	659	700	748	795	827
Market rate		426.86	484	724.06	732.16	733.13	719.09
Compared with 1978		100%	136%	144.6%	154.5%	164.2%	170.8%

Source: *International Financial Statistics* (IMF); vol. 38; April 1995

nearly equal. After 1990, the official rate became lower as showed in the following table:

Table 1: Exchange rate between the baht and the dollar:

Year	Baht/US dollar	Year	Baht/US dollar
1979	20.39	1988	25.24
1980	20.42	1989	25.69
1981	2.63	1990	25.29
1982	23.00	1991	25.28
1983	23.00	1992	25.52
1984	27.15	1993	25.54
1985	26.65	1994	25.90
1986	26.13	1995	25.09
1987	25.07		

When the import surplus decreased, the won-US\$ rate increased and the market rate, since 1983, has been lower than the official rate, that is, a slight devaluation has replaced the revaluation.

I think that we can verify different arguments by studying actual facts. Moreover, we had better not repeat opinions formed in 1993 when the situation has changed a lot in 1996. I think that it's the best way to find out solutions to the problem.

Table 2: Official and market rates

Year	Thailand inflation rate compared with		US inflation rate compared with		Official rate	Market rate
	the year before	1979	the year before	1979		
1990	5.87%	184.15%	5.40%	183.3%	25.29	25.80
1991	5.71%	194.67%	4.28%	192.0%	25.28	25.64
1992	4.00%	202.46%	3.00%	200.5%	25.52	25.53
1993	4.30%	211.16%	3.07%	208.7%	25.54	25.83
1994	4.60%	220.87%	2.50%	216.4%	25.90	26.06
1995	4.30%	230.37%	3.50%	228.6%	25.09	26.10

Source: *International Financial Statistics* (IMF)

Thus, when the baht was revaluated by 2% in 1990 and 4% in 1995, Thailand import surplus increased