

In the first two months of 2004, the market for gold and foreign exchange, after a short period of stability, experienced wide fluctuations. The gold price on the world market rose from US\$417 per troy ounce in the first week of the years to US\$430 in the second one. On Feb. 5, 2004, before the G7 meeting, the gold price fell drastically to US\$396 and suddenly rose to US\$418 when the meeting wore on. On Feb. 20, 2004, it fell again to US\$398.

on both international and domestic markets rose by 22%, which led to fluctuations so wide that the SBV had to employ its instruments to stabilize the market at times.

In early December 2003, the price of U.S. dollar on the free market rose to VND16,500 at times when the gold price on the world market became higher, and especially when the SBV issued notes of five different denominations that are bigger than the old ones. At that time, many people tried to make

sary information on time to save the public from panic caused by rumors.

In February, the dollar started to regain its strength on the world market. On Feb. 21, one euro equaled US\$1.25 and a dollar equaled 109 Japanese yen, lower than the rates offered at the beginning of the year (1 EUR = US\$1.27 and 1US\$ = JPY107.) From early 2003 till now, the dollar fell by 22.6% compared with the euro, 13% with the yen and over 10% with other Asian currencies. Meanwhile, the

nam's import. Of course, financial authorities should push ahead with finding measures to deal with the US\$5.1-billion balance of payments deficit. Apparently, the official exchange rate of the VND to the dollar has stopped being different from the unofficial rate, and the supply has met the market demand for foreign exchange in spite of the great trade gap in recent years. The convergence of official and unofficial rates might come from the fact that the interest on bank loan in the

On Recent Fluctuations in Prices of Gold and Foreign Exchange

by ANH KHUÊ



On the domestic market, the gold price also rose from VND7,900,000 per tael to 8,120,000 and then fell to 7,750,000. At present, it varies between VND7,850,000 and 7,900,000. Fluctuations in the gold price have been familiar to the public for the past two years when the price kept rising. In 2003 alone, the gold price

profit from this fluctuation by mortgaging gold to banks for loans in the VND used for buying more gold and repeating the process. Of course, appropriate measures taken by the SVB could stabilize the market quickly but a precious lesson must be learnt: The SBV and related bodies must give explanation and other neces-

price of the dollar on the domestic market experienced no fall. On the contrary, it rose by 1.56%. This means that the VND lost some 24% of its value compared with the euro and 11% compared with other Asian currencies, which made Vietnamese exports more competitive on the world market and somehow reduced Viet-

dollar was too low (some 1.5% a year on savings accounts) in comparison with that on loans in the VND (8% a year on 12-month savings accounts). The difference of 6% is rather high if we take the fast rise of the dollar against the VND into account. If the rise in the exchange rate doesn't exceed 5% and the interest rate on loans

in the dollar isn't higher than 3%, people will keep converting the dollar into the VND. Wide difference between interest rates and surplus of disposable capital in commercial banks are also signs of decline in the interest rate on loans in the VND.

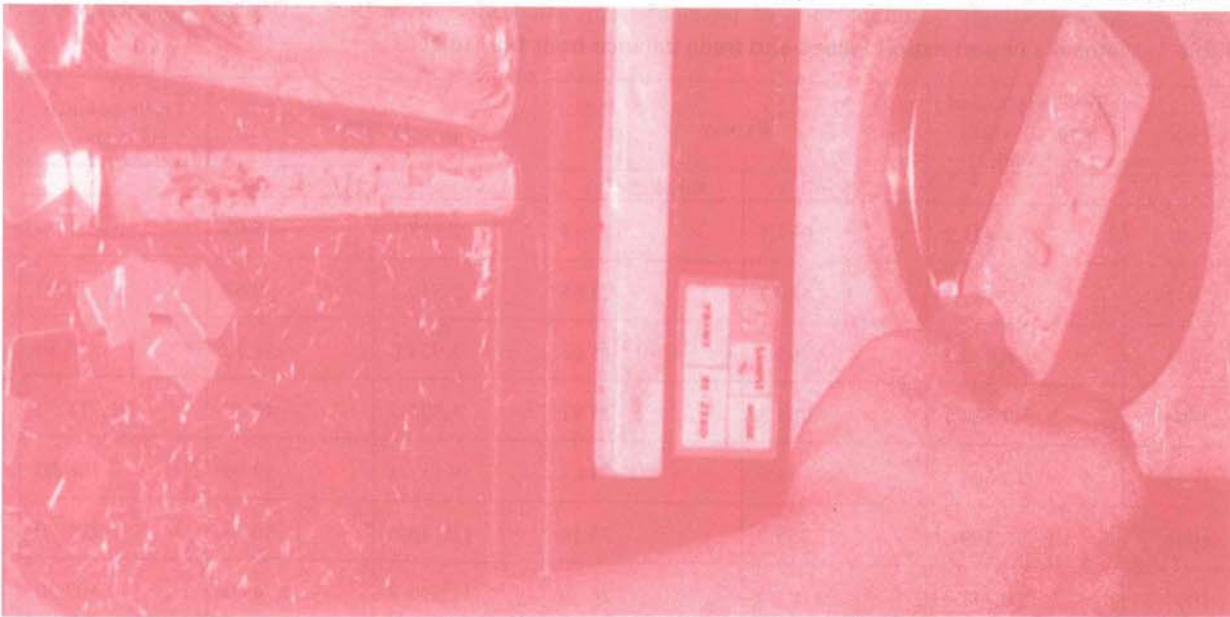
But why didn't the interest rate on the VND loan fall, and if any, it only fell slightly? This is a problem for the SBV and commercial banks. In addition, it's worth noting that the deposit in foreign exchange in 2003 rose only

demand for foreign exchange, the demand is not long lasting, and all commercial banks will have to sell more foreign exchange to help companies repay debts when due, and this demand will be of long and medium terms. This means that the market for foreign exchange is affected greatly by the interest rate on the VND loan.

What are interest rates considered as low or high? If we take into account the inflation rate of 4%-5% set by the National Assembly for 2004 and an interest of

future exchange rate requires exact and technical instruments that could notice immediately any changes and fluctuations in the market. At present, these instruments in Vietnamese market aren't sophisticated enough because the market is perhaps too stable. May companies don't need precautions against risk, such as forward operation, because the spot exchange is too stable? Everybody knows that the stability is necessary but it must be suitable to signs from the

process, and keep a balance between real risks and potential profits. Wide fluctuations in the gold price, rising or falling US\$15 or 20 a day at times, have caused a lot of trouble and difficulties for both investors and small savers. An insurance service and a fund used for supplying cash to commercial banks could be very useful and necessary as a precaution against risks. At present, no insurance company or commercial bank agrees to insure deposits in gold although the option opera-



by 3.4% while the total loan in foreign exchange rose by 34%. This fact showed that the public tended to change foreign exchange into the domestic currency. Commercial banks had to keep large sums of the domestic currency to meet this demand. The sum they bought, however, hardly met the demand by importers because the export value couldn't stand comparison with the import value. Fortunately, the immigrant remittance in 2003 reached US\$2.6 billion, which helped stabilize the market for foreign exchange. Although rises in the total loan in foreign exchange helped reduce the

2% or 3% a year for depositors, a nominal interest rate of 7-8% a year on the VND loan is reasonable enough. If this rate is lower and the rate on the dollar loan rises again, the foreign exchange market will see the supply and demand moving in opposite directions. The exchange rate ceiling may be broken and start to fall.

To convert from one currency to another and market's steps toward a balanced exchange rate is a natural reaction. What is important is how to make everybody feel sure about the relative stability of the foreign exchange market. To measure their confidence and expectation of

market. In the process of integrating into the world market, financial authorities must create favorable conditions for the monetary and foreign exchange markets to integrate into the world market. Selecting appropriate policies to direct developments of the market must be the most important objective, but safety and efficiency of the market should be ensured.

Changes in the gold and foreign exchange market force the financial authorities to beef up and perfect necessary instruments in order to protect companies and individuals against unpredictable risks in the international integration

tion has been used in the world market for this purpose for decades.

As for the exchange rate, maintaining the stability is a must, but a higher objective is to determine what macroeconomic targets this stability should aim at. When the world market experiences wide fluctuation, the monetary policy must be adjusted accordingly, and it's the foreign exchange market that determines these adjustments. It's about time the SBV studied and introduced the forward operation and experimented the option operation for transactions in the VND as well. ■