

The exchange rate is one of the government's means of managing the economy, it affects directly export business, balance of payments, market prices and many socio-economic activities. Before 1989, the exchange rate was fixed by the government and there was no foreign exchange market. The government fixed the exchange rate according to the principle of pricing of the centralized administrative machinery. It's far different from real value and market price of the VND. The source of supply of foreign exchange operated in the closed economy and under the old-fashioned management.

domestic investors anxious, and turn the balance of payments upside-down.

Moreover, when the exchange rate is increased, the imported goods will be dearer. Our imports are usually materials necessary for home industry such as petrol, steel and iron, machinery, cement, fertilizer, insecticide... and if their prices rise, the products of our industry will be high for home buyers and the price floor will be pushed up. This will be a chance of getting rich for speculators in foreign exchange, but will be a bad effect on the real income of the people.

The rise in the prices of foreign currencies will influence unfavorably on businesses which have foreign debts, will make our foreign debts (in-

change stabilization fund for trading directly with import-export companies. The demand for foreign currency usually exceeds supply, therefore the CSB often has to supply foreign currency in order to keep the price stable while its fund is limited.

- In many foreign countries, the amount of foreign currency supplied by the central banks is always kept secret, whereas in Vietnam, this couldn't be done.

- In two foreign exchange centers, many administrative measures are taken, such as limiting the need for buying or selling foreign currency of center's members (especially commercial banks), the amount supplied by the CSB only aims at reducing the market pressure, so commercial banks, one by one, ceased taking in transaction in these centers. In HCMC, the commercial banks considered their participation in foreign exchange center as an obligation they were put under to contribute foreign exchange (usually, in a trading session, commercial bank sold from US\$ 10,000 to 20,000). Therefore, these centers didn't achieve their planned target of becoming a place where transaction of business was mainly done by the commercial banks.

- Trading sessions were fixed periodically, so this made the participation of remote members more difficult and made the intervention of the CSB slow and ineffective.

Besides these problems, the exchange rate between the VND and China yuan wasn't received full attention from the CSB. The price of the VND expressed in terms of China yuan wasn't carried on the mass media or in the price list of branches of Bank for Foreign Trade. In frontier regions, the China yuan collected by exporters was sold to private traders, and some "money markets" appeared in Lạng Sơn, Móng Cái. The CSB hasn't intervened in the exchange rate between the VND and China yuan and the price of the China yuan was floated.

We hope that the CSB will take the said problems into account in order to make the exchange rate a means of encouraging exports and helping export companies develop. In our opinion, we should perfect the statute of foreign exchange centers, create conditions favorable for changing it into interbank foreign exchange market and forming foreign exchange market. As for trading in Northern borderland, the CSB should open foreign currency offices dealing with the China yuan and exchange rate between the VND and the China yuan until an official compact is exchanged between the two governments ♣

ABOUT EXCHANGE RATE IN VIETNAM

by Dr. NGUYỄN ĐẮC HÙNG

From March 1989 on, the government set up the adjustable exchange rate, it can be adjusted regularly to the market rate. Therefore the price of the VND came close to its real value in both domestic market and foreign trade. The price floor was formed reasonably and could encourage exports and limit uncared-for imports. In particular, last year, the well-adjusted exchange rate stopped the fever of US\$ price, helped control and slow down the inflation rate. However, many exporters recently said that the exchange rate was low and exports wasn't encouraged and many staple products of our country couldn't be exported in large quantities. Especially, the devaluated China yuan has helped Chinese products flood the Vietnam market and made many Vietnam industries come to a standstill.

As we know, the main targets of our monetary policy are to stabilize the value of the VND, encourage domestic investment and attract foreign investment. If the VND is devaluated, the inflation rate will increase, a run on banks will occur along with a run on gold and US\$ and create a fever. This situation will make both foreign and

cluding ODA loans, external debt and other loans from foreign commercial banks) heavier.

However, in adjusting the exchange rate in last few years, the Central State Bank (CSB) has only tried to keep it relatively stable, has paid attention to the supply and demand of foreign currency in the market and requirements of exporters, so the CSB has increased the exchange rate gradually, thereby avoiding price shock. The price of VND in mid-1994 was reduced to 10,950 per US\$ from 10,850 in early 1994 and 10,500 in early 1993. The adjustment by exchange stabilization fund was done mainly through two foreign exchange centers in HCMC and Hà Nội where a lot of commercial banks and export-import companies has taken part in foreign currency transaction. Many foreigners considered this as an appropriate approach to forming a real foreign exchange market in Vietnam.

There are some problems about the government's intervention in foreign currency market which should be taken into consideration:

- The CSB has acted as the commercial bank when it used the ex-