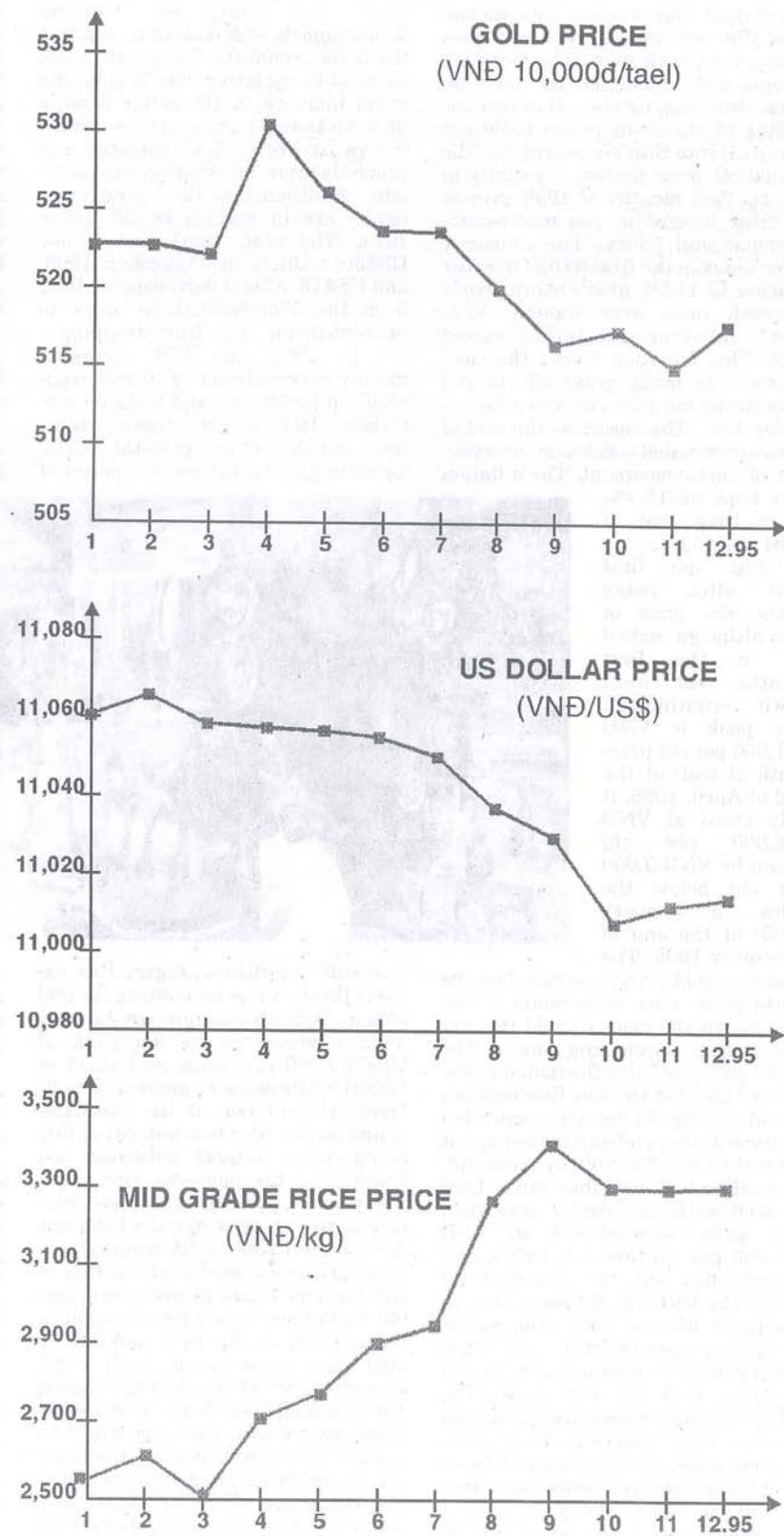


# MARKET IN 1995: SUCCESSES AND FAILURES IN MONETARY CONTROL

by KIỀU ANH



**S**o we passed the year 1995 with many nice impressions and memories. The economic growth has been maintained with high rate. Boosting foreign investment led the increase in demand step by step. However our feeling of unrest in prices could not vanished into thin air overnight. The periodical price fevers, especially in the six first months of 1996 gave us precious lessons in the macro-management and policy. The consumer price index in the first half of the year soaring to 11.5% made many people worried, some even forecast Vietnam's inflation rate would exceed 20%. This situation forced the Government to make great efforts and take strong measures to curb inflation under 15%. The result at the end of the year revealed successful intervention of the Government. The inflation was kept at 12.7%, lower than that of 1994 (14.4%).

For the first time after many years, the price of gold although inched up in the first months, but went down continually. The peak is VND 531,000 per chi (one-tenth of tael) at the end of April, 1995, it only stood at VND 518,000 per chi (down by VND 3,000 per chi below the price in January 1995) at the end of December 1995. The domestic gold price was based on the world price, once in a while it was lower than the price of gold imports due to poor purchasing power. The world gold price also fluctuated in the upward trend in the four first months, reaching US\$395 per troy ounce but afterwards dropped and inched up but not exceeding US\$390/troy ounce. Additionally speaking, since Jan 5, 1996 the gold market enjoyed a boom when gold price skyrocketed to VND 535,000 per chi (Jan 11, 1996), that means after only six days, it increased by VND 16,000 per chi (up by 3%) but it lowered later. The reason for the increase in gold price is the world gold price rose in a long period (reaching US\$ 401/troy ounce). The gold purchasing power was pushed up in those days, partly because of the interest rates of banks dropped. However the purchasing power also lowered in the following days.

The downward trend of US dollar price continued in the year. Many

reasons can be identified for this exchange rate shift. That is the Japanese yen and the German deutschmark appreciating against the dollar, domestic foreign currency demand being lower than supply, the rapid increase in US dollar flowing into Vietnam, hard currency remittances by overseas Vietnamese and proceeds from exportation and tourism. Additionally, the commercial banks are in surplus of US dollar stock. The State Bank had to buy US\$50 million in December 1995, and US\$16 million in November 1995 from the Vietcombank in order to prevent dollar price from dropping.

In 1995, the CPI increased mainly in cereals (up by 20.6%), food-stuff (up by 19.3%), and building materials (16.7%). The reason stems from the shift of prices in the world, for example, the increase in prices of



rice, coffee, fertilizer, sugar...Rice exports (broken rice accounting for 5%) sold at US\$248 per tonne in January 1995 skyrocketed to the peak of US\$350-360 per tonne and stood at US\$315-320/tonne at present. The illegal sales of rice at the Vietnam-China border also boosted. All of this along with natural calamity has heightened the domestic rice price. The price of pork also increased rapidly in the six first months but went down later. In July 1995, the skyrocketing price of animal food resulted in the farmers' sales of immature pigs (40-50 kg) due to loss in raising pigs. Sugar price in the first half of the year also remained at high level, amounting to VND 7,500/kg (August 1995), but afterwards the world sugar price went down, the large quantity of sugar imports flowed into the country, therefore its price dropped and at the beginning of 1996, sugar price was lower than that of January 1995 (down by 8.8%). Whereas the price of

Ông Tho milk soared (up by 19%).

In the year the price of petroleum increased in February and July 1995, by VND100 per liter each time. Paper price also skyrocketed due to imbalance of demand and supply and paper imports landing late. The VN's annual paper consumption currently reaches 250,000 tonnes, whereas home paper mills produce only 165,000 tonnes. The paper price in the world market has seen the upward trend in recent years. So if the Government limits the import of paper by increasing import duty rate and the home importers slowly buy paper, then there are price booms harmful to consumers and producing bad effects to the Government's inflation control.

An outstanding event in the year 1995 is the malignant fever of cement price. In recent years, the cement fever has become common at the beginning of building seasons (April and November) since Vietnam has to import some 1.5 million tonnes of cement annually. But the barriers in cement exportation are not enough to explain the cement price skyrocketing by three times in April and May 1995. Many projects at this time had to be suspended. The major reason for this

event is the loosening of management and responsibility in the Vietnam Cement Corporation which has to take charge of causing price boom.

The experience shows if there is not active intervention of the Government in tightly controlling the money circulation, securing the money supply to fit economic growth, strengthening goods circulation, adjusting timely tax policy, reducing loan interest rates to boost production, importing rapidly essential commodities, limiting national budget deficit...then inflation rate cannot be curbed effectively. It was said that the monopoly in goods distribution had also led to the market chaos.

The success in the inflation control and the energetic movement of the Government right at the beginning of 1996 made the people hope the threat of spiralling inflation and malignant fevers will be driven back as soon as they are just starting.