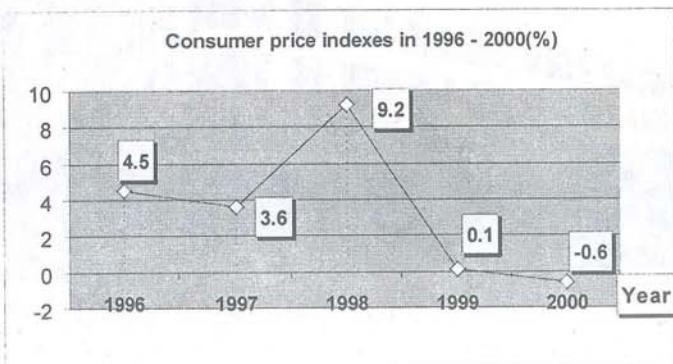
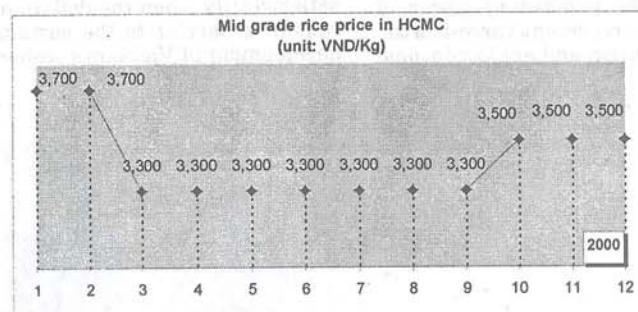
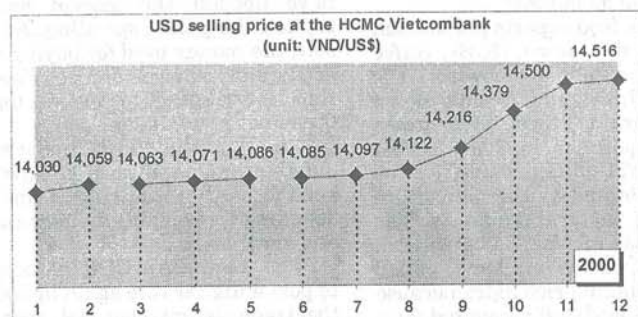
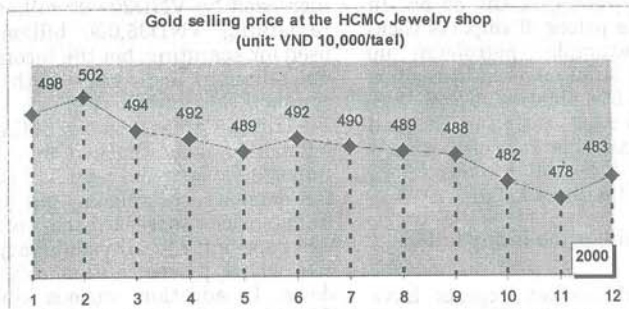


CONSUMER PRICE INDEX DECLINED IN 2000: WHY?

By Triều Đông



The national price index in the year 2000 was a negative for the first time. The figure in December rose slightly, only up 0.1% as compared with November, so it could not make up for the decline in the past months. However, the non-food items soared after a year, for example, house and building material up 4.7%, education up 4.1%, pharmaceuticals and health care up 3.6% and home appliances up 2.4%. Although the price index increased in the first months of the year, it fell in five consequent months. In the whole year, there were high figures in February (New Lunar Year Festival), 1.6% and November, 0.9% due to flood.

1. Prices of gold and US dollar

In 1999, the world prices of gold and local ones faced fevers because of the European Union's decision on halting the gold purchase. This year the gold prices went down early. The price of gold on December 28, 2000 plunged by VND150,000 per tael, or down 3% as compared with January 1, 2000.

The local forex market became hot since August 2000 when the US dollar price began soaring. The rise in August doubled the figure in July. In September, it achieved a record when rising by VND94/US\$, 9-10 times higher than the rise in previous months. From then until November, the dollar price tended to rocket, an average increase of VND140 per month. Crossing the threshold of VND14,500, it rose slowly with an increase of VND16/US\$ in the last month of the year.

The dollar price rocketed since the central bank boosted the inter-bank foreign exchange. Commercial banks constrained selling dollars to importers while their needs for payment were high. Furthermore, the dollar price faced a sharp rise in the world market. In the local free market it also jumped to VND14,750. Nevertheless, the market has been cool down after November and the price gap between commercial banks and free market, standing at only

VND80-100/US\$. On Dec 28, 2000, the selling price of US dollar at Vietcombank rose by VND486/US\$, or 3.46% as compared with January 1, 2000.

The interbank forex market has not yet seen vital signs. The number of buyers was much larger than that of the sellers. Commercial banks found hard to obtain foreign currency to meet the enterprises' demand. According to banking analysts, the Vietnam forex market does not lack foreign currency. Even though the year's trade deficit goes up to US\$800 million, earnings from overseas remittance, tourism, exported labor...are estimated at some US\$1.5 billion. The tension in forex supply and demand is attributed to shortcomings in the central bank's policies on foreign exchange and interest rates.

The interest rate of dollar in the international market kept rising, thus induced local banks to mobilize dollars from the public. As a result, the interest rate of deposits in foreign currency was equal to those in local one. This forced people to buy greenbacks in the free market and deposited them in banks; the local exporters retained their remaining amount of dollars after they sold 50% of their earnings to banks as regulated. The demand for greenback still soared when local importers borrowed Vietnamese *đồng* to buy dollars for due payment.

It is notable that the foreign currency sales between banks and enterprises are not in accordance with the central bank's regulated price. Their transaction pretends to respect the rule but the difference will be compensated in many forms. At present, the acceptable price on the market stands at VND14,580-14,600. All of the above facts show the pressure on forex supply and demand in 2000 could have been eased if the authorities had implemented flexible and proper measures to control the market, and make positive and effective interventions.

2. Prices of consumer goods

The Government has given supports to farmers but prices of agricultural products, especially cereal and coffee, saw a dramatical fall, causing detrimental impacts to farmers and the country's purchasing power. In 1999 and 2000, the food prices went down 15.7% while education increased 7.9%, pharmaceuticals and health care up 7.7%, house, building materials and other goods and serv-

ices up 7.2%, and home appliances up 5.8%.

The decline in consumer price index in 2000 is an extraordinary sign while the Government's measures of demand stipulation has been designed and implemented in nearly two years such as boosting construction of infrastructures, increasing wages, reducing taxes, encouraging domestic investments and so on. In addition, the prices of imports rocketed, for example, petroleum up 64.9%, steel billet up 34.2%, urea fertilizer up 23.5%, plastics up 26%, textile fiber up 9.3%, cotton up 3% and finally the exchange rate of Vietnamese *đồng* to U.S. dollar rising 3.4%, tripling the figure in 1999.

3. Why did the price index fall in 2000?

The local market experts have analyzed reasons for the price decline in 2000 as follows:

First, the food exports plummeted drastically: rice down 15.3%, coffee down 41%, cashew nut down 21.1%, tea down 7.8%, and peanut down 7.4%. Regarding these five items only, the export earnings has faced a loss of US\$571 million, equal to 8.5% of GDP generated by the agriculture sector. The natural calamity has caused a loss of VND5,000 billion. The decline, on the one hand, pulled down the general price index because the food and foodstuff accounted for a large percentage in the structure of items (61%). On the other hand, it worsened the purchasing power of farmers who represent three-fourths of the population and are low-income earners.

Second, as for supply and demand relation, the aggregate supply was higher than the aggregate demand in 2000. The country's GDP reached 6.7%, or increasing by VND44,200 billion on 1999. The trade deficit soared by VND11,200 billion. Therefore, the aggregate supply rose by VND55,000 billion. In the meantime, the gross development investment increased by VND20,000 billion, the remaining VND35,000 billion was used for spending, but the income did not climb in accordance with those commodities and services.

Third, a great quantity of the public money is earmarked for buying imports, houses and land, US dollars for deposits, petroleum, gas (these items' prices increased fast in 2000) and especially locally made motorcycles whose prices continuously went down. In addition, various kinds of Chinese motorbikes with low prices have flooded the market and attracted the public spending. As a result, the money used for buying other goods and services did not rise and thus contributed to the decline in consumer price index.

Finally, the Government's demand stimulus measures have not been focused on boosting income and spending power in the agriculture and rural areas.

The Vietnam's GDP is expected to post a higher rate again in 2001. If the trade deficit does not drop and the question how to promote the farmers' living standard is not solved satisfactorily, then the deflation will remain a barrier to the sustainable development of Vietnam's economy. ■

