

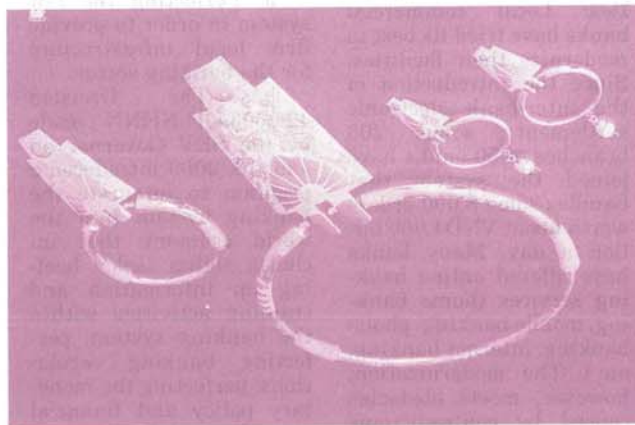
Bộ nữ trang
HOA TÌNH YÊU

The gold price in Vietnam has been stable for a long time. This stability originates from various reasons but the main ones are: (1) Prices of the dollar and gold had no wide fluctuation; (2) The official exchange rate of the VND had no considerable changes; and (3) the supply of, and demand for gold on the world market had no differences. In 2002, the gold price in Vietnam stayed at some VND5 billion a tael. It started to rise in 2003 and reached somewhere between VND7.8 and 7.9 million in December, which caused a lot of troubles for the real estate market and compensation payments made when infrastructure projects were built, and lead to wide fluctuations on the free market.

Increases in the prices of gold and real estates didn't help the GDP to rise, which includes mainly transfer of money between sellers and buyers on the free market, but they produced bad effects on the life of the working class. Changes in the gold price and falls in the price of the dollar encouraged the public to buy gold as a means of storing value. At

Measures to Deal with Rises in the Gold Price on Vietnamese Market

by NGUYỄN VĂN HÀ



present, it's hard to predict when it comes to a stable level when the new Lunar Year is around the corner. Although rises in the gold price has no effects on the production be-

cause it has long stopped acting as a principal means of storing value and repaying debt, it still affects certain businesses and sectors. If there is no suitable policy, especially

the exchange control, and good measures to stabilize the value of the domestic currency, bad effects caused by rises in the gold price and falls in the dollar price are unpredictable.

To keep these prices under control, it's necessary to find out causes of changes and measures to deal with them. In my opinion, recent increases in the gold price originate from the following causes.

1. External causes

When Vietnam is trying to integrate into the world market, all external fluctuations will somewhat affect its economy. Gold and the dollar – as the most sensitive commodities – have important im-

pacts in Vietnam because they are used as a means of exchanging and repaying on the financial market. These impacts reflect themselves in the following facts.

- Fast increase in the price of gold on the world market, from US\$280 – 300 a troy ounce to over US\$400, certainly has great effects on the exchange rate of the VND to the dollar; the supply and demand on the gold market and mindset of the public. All of these elements determine the gold price on the domestic market.

- The dollar fell against other hard currencies. For example, the exchange rate of the dollar fell from US\$0.8 to 1.223 to the euro in the last months of 2003. And as a result, financial investors tended to buy more stable currencies and

gold, which made the demand for gold increase and exceed the market supply.

- According to many news agencies, the Malaysian government has planned to put gold coins in circulation in order to reduce its dependency on the dollar and avoid negative effects caused by such crises as the 1997 one. This means that Malaysia increases its import of gold, which made the gold price in the region rise considerably.

- When the dollar fell, all banks - especially the Asian ones - started to buy gold as a replacement for the dollar in their reserves, which contributed to the rise in the gold price.

- Oil exporters from the Middle East decided to buy gold instead of the dollar with revenues from oil when they realized that the dollar was falling on the world financial market.

- Before the Lunar New Year, Chinese and Vietnamese peoples have the habit of buying gold to use it as presents and a means of storing value for fear of possible falls in the domestic currencies.

2. Internal causes

Many causes have direct effects on the gold

market in Vietnam, such as:

- Because of small gold reserves, the central bank has no ability to sell gold in large quantities, thereby balancing the supply and demand and stabilizing the gold price.

- Gold has long been used as a means of payment on the market for real estate in Vietnam. When this market enjoyed a boom caused by recent reforms in the regulations about land ownership and transfer of the land use right, and by development of new cities and residential areas, the demand for gold rose remarkably.

- When the gold price rose, the public, especially small investors, tended to buy gold to keep their wealth from falling for fear of further falls. In addition, the central bank decided to introduce notes of new denominations when the Lunar New Year is coming, which made the public think of a depreciation of the domestic currency is happening and they started buying gold. Other psychological factors also affected the decision to buy gold by the public during the last months of the year.

In fact, it's hard to lower the gold price once it rose. The most feasible so-

lution is to control its rises and make it stay at a reasonable level. This requires suitable measures and it's the central banks is responsible for doing so.

3. Measures to control rises in the gold price in Vietnam

- The monetary policy and exchange control must be developed according to the policy to integrate Vietnam into the world market by allowing a wider band around the official rate of exchange and beefing up the state control over flows of foreign exchange. At the same time, the central bank must increase its gold reserves with a view to preparing for sudden changes in the gold price on both domestic and international markets.

- The central bank had better stabilize the domestic currency and try its best to make it convertible within the regional market at first, and then outside the regional market, especially in developed countries. To achieve this aim, the government should adopt consistent financial and economic policies and must consider this as an effort to stabilize the VND.

- Strong measures must be taken quickly to control the purchase of the dollar

from the free market for profit when the gold price fluctuated, and encourage the public to stop buying and storing gold in order to reduce tension on the market. To achieve this aim, the central bank must buy and sell foreign exchange at official rates with everybody according to their wish and increase its gold reserves in preparation for possibly sudden changes.

- The central bank must find out measure to reassure the public when they felt anxious about the issue of new notes, especially the VND500,000 one; and deal with other psychological factors that affect the trade in gold among them.

- Financial and administrative measures should be taken to intervene in the market for real estate with a view to changing the habit of using gold as a means of payment because it is one of elements that affect greatly the socioeconomic life.

- The most important and overall measure is to stimulate the economic growth incessantly because the stable development can make the domestic currency replace the gold as a means of repaying debts and storing the value. ■

