Changes in Opposite Directions on the Monetary Market

by TRẦN MẠNH KỲ

The banking sector has had a fever caused by three changes in different directions: commercial banks ran short the domestic currency; supply of foreign exchange increased; public opinion protested increases in the money supply as the main cause of inflation.

The three changes are closely interrelated. To meet the demand for the domestic currency when the supply of foreign exchange rose strongly, the SBV has to increase the money supply in order to buy the surplus foreign exchange, and this practice is protested because it led to higher inflation rate.

To nearer to the end of the year when the Lunar New Year is approaching, the bigger the inflow of foreign exchange from abroad. According to statistics reported by the New York Times, the immigrant remittance sent by Vietnamese expatriates[2] in 2006 amounted to US$6.82 billion, second only to the Philippines in Southeast Asia (US$14.8 billion). This volume equals 11.21% of the GDP, and this means that one Vietnamese expatriate sent US$3,398.42 in 2006. In Asia, Vietnam ranked fourth in terms of immigrant remittance, after India (US$24.5 billion); China (US$21.07 billion) and the Philippines. According to a rough estimate, the immigrant remittance in 2007 would topped the US$7.5-billion mark, much higher than the figure reported by the SBV and the Commission of Vietnamese Expatriate.

According to Nguyễn Hoàng Bắc, Director of the Canada-based Cavituors Trading Corp. specializing in export, import and transaction of immigrant remittance to Vietnam, this source of foreign exchange in 2007 might surpass US$10 billion. Mr. Nguyễn said around one million Vietnamese expatriates visit their home land every year, and the volume of foreign exchange they bring along was very big, while many others sent money to their relatives in Vietnam through NGOs.

When the year 2007 nears its end, joint stock commercial banks hastily issued shares and bonds to increase their legal capital as decided by the meeting of shareholders earlier. Shareholders who are foreigners or Vietnamese expatriates had to send money to Vietnam to fulfill their duties. Other groups pf expatriates sent money to their relatives as loans or investments in different bonds or real estates. Another source of foreign exchange comprises investments in stock exchanges in HCMC and Hà Nội. This flow of foreign exchange is so big that many investors from abroad have become strategic investors to local companies. Statistics show that foreign investors and mutual funds invested some US$5.0 billion in the stock exchanges in 2007. Some experts believed that this figure might amount to US$6.5 or 7.0 billion.

This volume of foreign exchange must be converted into the VND as required by law, but the SBV, as the last resort has been reluctant to buy foreign exchange in the last months of the year. For example, the Japanese Simotomo banking group has sent US$225 million to buy 15% of the legal capital of the Eximbank that has required the SBV to buy this sum of foreign exchange but received no answer so far.

Other sources of foreign exchange include direct foreign investment, ODA and tourist receipts. According to a rough estimate, the flow of foreign visitors to Vietnam in 2007 might rise by 17% compared with 2006. The FDI, up to the end of November 2007, topped the US$15-billion mark increasing by 38.04% as compared with the corresponding period last year and it is expected to reach US%19 billion by the year's end. The ODA disbursement was estimated at US$2.0 billion out of the total of US$4.45 billion committed, increasing by 10% over 2006. In 2008 the committed ODA is even higher – up to US$5.46 billion.

As for export revenue up to the end of November 2007, it reached US$54.11 billion increasing by 31.1% over the corresponding period last year. The trade gap equaled some US$9.0 billion for the whole year. In spite of a big trade gap, the balance of payments on current account is still in surplus because the supply is much bigger than the demand for foreign exchange. However, there is no official statistics of the balance of payments.

According to information from the Office of Government, the SBV in the first half of 2007 bought some US$9 billion to increase its foreign exchange reserve, that is, injected some VND144,000 into the market. Dr. Lê Xuân Nghĩa, at the workshop on the two Banking Laws held on Nov. 29, 2007 in SBV Rep Office in HCMC, said the SBV bought at least US$12 billion in 2007. Thus, the volume of domestic currency supplied to the market might amount to VND200,000 billion. This move by the SBV increased the foreign exchange reserve to some US$20 billion.

The SBV effort, however, couldn't reduce the gap between the supply of and demand for foreign exchange. Without its effort, the exchange might fall and commercial banks suffer the surplus of the dollar and shortage of the VND. The exchange rate was VND16,060 to the dollar at the beginning of 2007, VND16,086 in October and somewhere between VND16,036 and 16,038 in January 2008 falling by 0.1% compared with the rate at the early 2007 and much lower than the official rate of 16,125 publicized by the SBV. If the SBV keeps buying the dollar, it should increase the money supply causing the inflation to rise. Due to the shortage of the domestic currency, the inter-bank interest rate on overnight loans in the VND rose by 12% a year at times, or even 18% a year, much higher than the ordinary lending rate. By its open market operations, the SBV supplied some VND10,000 billion to commercial banks but this effort failed to reduce the shortage. At present, commercial banks have to take various measures to mobilize deposits in the VND, such as higher interest rate and better sale promotion with the result that the lending rate is higher making the danger of higher inflation rate more serious.

The above analyses show that implementing the monetary policy requires long-term, proactive and scientific strategies appropriate to international practices. Experience from surrounding countries such as the Philippines, Thailand and China are very useful because they usually face the same problems as Vietnam's but they could deal with them successfully, especially in forcing the domestic currency as the only legal tender. And as a result, all foreign visitors have to exchange their currencies for the domestic one.■

Inflation and Measures to Curb It

by Dr. NGUYỄN ĐÌNH LUẬN

Photo by Huỳnh Thơ

1. Causes

Inflation may come from different causes, or combination of various factors, not only monetary and simply economic ones. Realities show that the inflation takes place frequently because of social events or political and economic contradictions. During periods of economic stability, the inflation depends on public mentality. It's reasonable to adopt the term of "expected inflation." If groups or leading economic players expect some expected inflation, it may take place because they are ready to raise market prices to make for it causing an inflationary spiral. That is why the government always plays an important role in stabilizing the economic growth, building the public confidence and curbing the inflation. Its role is not to regulate directly the market prices but to create a stable and trustworthy environment for economic development, prevent internal contradictions and limit external effects, and particularly take necessary measures when the inflation appears.

Let's return to causes from fluctuations in prices. Numerical data of rises in the CPI show that, the rises in the CPI in Decembers in 2004 and 2005 were higher than the annual rise in the CPI compared with the corresponding period if previous year while everything took the opposite direction in 2006 – the annual rise in the CPI was higher than the rise in December as compared with the previous December.

In 2007, the CPI in September increased by 7.32% compared with the previous December and the CPI in the first nine months rose by 7.53% over the corresponding period in 2006. Patterns of changes in the CPI in the last quarters of the past few years allow us to predict that the CPI in December 2007 over the previous December may rise by 8.2% - 8.5%.

The rises in the CPI in the past few years come from many causes and some of them are the following:

a. Monetary cause: Some experts are of the opinion that the rises in the CPI in 2007 come