Special Report on the Vietnamese Currency Situation

June 25, 2008

On his recent visit to America, Prime Minister Nguyen Tan Dung met with Alan Greenspan, the former chairman of the board of governors of the Federal Reserve Bank, once described as the “monetary magician of the US economy.” The former chairman of the Federal Reserve has acknowledged the stabilization package by the government of Vietnam and has responded that: “… By cutting down on budget expenditure, tightening credit management and trying to curb inflation, the Vietnamese Government was on track to stabilize the macro economy.” (Source: Vietnam News).

Indeed, there has been much media attention over the issue of how well the government of Vietnam will be able to manage the currency situation effectively. ``Vietnam is not in a currency crisis,'' Ping Chew, the Singapore-based head of Asian sovereign and corporate ratings at S&P revealed in an interview on June 17. ``There's definitely a bit of hot money that went in. But is it going to leave en masse like that which decimated Asia in 1997? I don't think so.'' (Source: Thanh Nien Daily).

Greg Terry, President of Morgan Stanley South East Asia, in an interview this month with Thoi Bao Kinh Te Vietnam (Vietnam Economic Times), confirms that Morgan Stanley is continuing to seek investment opportunities in Vietnam. His statement contrasts sharply from the views published by the global financial firm in a Vietnam report, which suggests that the country may witness the same things that happened to Thailand in the 1997 financial crisis. Mr. Terry clarified that the report shows the viewpoint of the analysts and in some cases, does not reflect the official viewpoint of the whole banking group. (Source: Thoi Bao Kinh Te).

The latest economic research released from Goldman Sachs confirms that Vietnam’s new policies are moving in the right direction. We believe the measures announced today should help Vietnam avoid being forced into a more disruptive crisis with a significant one-off devaluation in currency value in the near future. However, to address the current economic challenges and restore macro stability, the Vietnamese government will likely have to tighten the monetary policy further to rein in credit growth, implement more austere measures to cut fiscal expenditure as well as off-budget investment projects, and watch more closely the expenditures and investments by large state-owned enterprises to reduce overheating pressures and control inflation. (Source: Goldman Sachs Institutional Portal).

Additionally, David G. Fernandez, Chief Economist of JP Morgan Chase, thinks that the biggest problems now for Vietnam are the high inflation and trade deficit. However, he thinks that the problems will be settled by the end of 2008. (Source: Vietnam Chamber of Commerce and Industry).

The prime interest rate confirmed by the governor of the State Bank of Vietnam (SBV) is still set at 14%, CPI in June only increased by 2.14% and the foreign exchange trading bands has been relaxed to 2% on either side of the SBV official rate. (Source: State Bank of Vietnam).

In other news, the VN index has risen three consecutive days to close at 383.78. It would seem that Greenspan is still casting his magic on global markets.