THE WALL STREET JOURNAL. ONLINE

November 28, 2007

Inflation May Pressure Vietnam Over Its Currency

By STEPHEN WRIGHT
November 28, 2007

BANGKOK -- Vietnam's consumer-price index rose at its fastest pace in three years in November, adding to pressure on the government to allow its currency, the dong, to strengthen.

Preliminary government figures released yesterday showed that the consumer-price index rose 10% from a year earlier, driven by higher food, construction and fuel prices. In October, the inflation gauge rose 9.3% from a year earlier.

Analysts said the latest spike puts in jeopardy the government's goal of keeping inflation below the real economic growth rate and may signal the beginning of the end for the long-term policy of a weak currency. The government forecasts the economy to grow 8.5% this year.

Inflation that gets out of hand is one of the main threats to Vietnam's rising prosperity and the credibility of its Communist Party government, which aims to lift living standards through free-market policies while maintaining absolute political control.

"It seems to us that inflation hasn't peaked yet and the pressure on the authorities to tighten policy, probably through the exchange rate, will only intensify," HSBC economist Prakriti Sofat said.

Retail banking in Vietnam is undeveloped and few Vietnamese take out bank loans or use credit cards, making interest rates and credit controls less effective than the exchange rate for managing inflation. The State Bank of Vietnam's ability to control liquidity via the money markets is also constrained by their lack of development.

To stimulate exports, Vietnam has for several years targeted an annual 1% depreciation of the dong against the dollar. Early this year, the dong rallied after the central bank widened the currency's daily trading band but it quickly resumed a depreciating trend.

Still, economists believe a slight appreciation of the dong since September reflects a growing recognition of the importance of keeping inflation in check.

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