Vietnam Adds to Dong Intervention With Plan to Cut Dollar Rates
2013-06-18 08:06:45.827 GMT

By Bloomberg News

June 18 (Bloomberg) -- Vietnam looks set to ratchet up intervention in the foreign-exchange market to stem losses in the dong and promote greater use of the currency.

The State Bank of Vietnam is considering lowering the maximum interest rate that lenders can offer on dollar deposits to curb demand for the U.S. currency, Nguyen Thu Ha, deputy head of monetary policy at the central bank, said in a telephone interview in Hanoi today. She said no timeframe has been set.

The cap will be cut “sharply,” news website VnExpress reported yesterday, citing central bank Governor Nguyen Van Binh.

The move comes as Asian policy makers seek to temper declines in their currencies amid concern a reduction in U.S. monetary easing will spur capital outflows, putting pressure on inflation as exchange rates weaken.

The State Bank intervened “with reasonable volume” to slow a slide in the dong fueled by increasing dollar demand from importers, according to a statement on its website yesterday. The local currency tested the upper limit in which it’s allowed to trade for a second day.

“This would show the State Bank is concerned about dong deposit rates and is trying to make dollars less attractive in order to encourage people to shift into dong,” said Fiachra MacCana, managing director of Ho Chi Minh City Securities Corp.

“That could make dong deposits relatively more attractive and ease pressure on the dong without the State Bank having to actually adjust the reference rate.”

Black Market

The central bank caps rates on dollar deposits for individuals at 2 percent, compared with 7.5 percent for the dong.

The government has embarked on an “anti-dollarization” program to reduce the use of the greenback and cut black market trading.

The dong was little changed at 21,036 per dollar as of 1:26 p.m. in Hanoi, matching the low reached on six of the last seven trading days, data compiled by Bloomberg show. That’s 0.99 percent weaker than the central bank’s reference rate of 20,828, which has remained unchanged since Dec. 26, 2011. The currency is allowed to trade as much as 1 percent on either side of it.

Still, the dong is faring better than some of its regional counterparts this quarter. The currency dropped 0.5 percent, a fraction of the 5.5 percent loss in the Philippine peso and a 4.9 percent decline in the Thai baht. Indonesia’s rupiah is down 2.6 percent and Malaysia’s ringgit 2 percent.

Weaker black market rates for the currency can drive up costs for any importers who have to source dollars using unofficial prices. A dollar was buying as much as 21,300 dong last week and 21,155 yesterday, according to separate research notes from Ho Chi Minh City Securities.

Vietnam’s trade deficit widened for a fourth month in May to reach $1.2 billion, from $936 million in April. It posted a surplus for eight months through January.

‘Harmoniously Manage’

Government borrowing costs have increased over the last week, while stocks have plunged. The yield on five-year bonds climbed 48 basis points, or 0.48 percentage point, to 7.8 percent since April 7, data compiled by Bloomberg show. It touched 7.23 percent on June 6, the lowest level since June 2007.

The VN Index of shares fell 0.2 percent today, adding to yesterday's 2.1 percent drop that was the worst since April.
It's still up 20 percent this year.

For the rest of 2013, the State Bank of Vietnam will "closely watch" currency movements and balance of payment figures "to harmoniously manage the dong's exchange rate and interest rates in a manner that will encourage dong holdings and limit shifting to U.S. dollar holdings," the central bank said in a statement yesterday on its website.

The State Bank may also "get into the market" again in the second half of 2013 "in a timely manner and flexibly manage money supply channels to control cash flow," it said.

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