

## **Vietnam Dong devalues 3.25%**

On the 10<sup>th</sup> of February Vietnam's central bank announced a currency devaluation, it's second since November, reducing the exchange rate by more than 3% in an attempt to control trade deficit, helped by balancing the foreign exchange market.

Since the 10<sup>th</sup> December 2009 the State Bank of Vietnam has kept the Dong's mid-point reference at 17,941. As of the 11<sup>th</sup> February it was set at 18,544. This equates to a 3.25% depreciation, according to the IMF method of calculating currency devaluation.

The non-convertible Vietnamese currency is allowed to trade within a band of 3% on either side of the mid-point that the central bank sets daily. In unofficial markets it has traded beyond the weak end, indicating a lack of confidence and a dollar shortage.

The previous devaluation saw the dong devalued by more than 5%, and the band narrowed from 5% to 3%. At that time an interest rate rise was also announced to try and stabilise the market.

This recent devaluation is designed to help the balance of supply and demand of foreign exchange. It should increase the liquidity of foreign exchange in the market and help in controlling the trade deficit. The Dong has been under pressure for months because of this shortage of dollars in the system and a widespread lack of confidence in the currency, in part caused by a widening trade deficit and expectations of high inflation.