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Vietnam Devalues Its Currency

By [JAMES HOOKWAY](#) in Hanoi and [ALEX FRANGOS](#) in Hong Kong

Vietnam devalued its currency, the dong, by roughly 5% against the U.S. dollar, while also increasing interest rates in a bid to damp rising inflation.

The country's central bank raised its benchmark interest rate by one percentage point to 8%, effective Dec. 1.

Wednesday's devaluation -- Vietnam's third since June 2008 -- reflects strains on the economy caused in part by aggressive stimulus spending and low foreign reserves. It also highlights differences between Vietnam and its regional neighbors.

Vietnam is one of the only economies in Asia with both a fiscal budget deficit and a current-account deficit, a combination that puts pressure on the dong to weaken. Except for China, the region, along with other emerging markets such as Brazil, has seen its currencies strengthen this year as countries attract inflows of foreign capital.

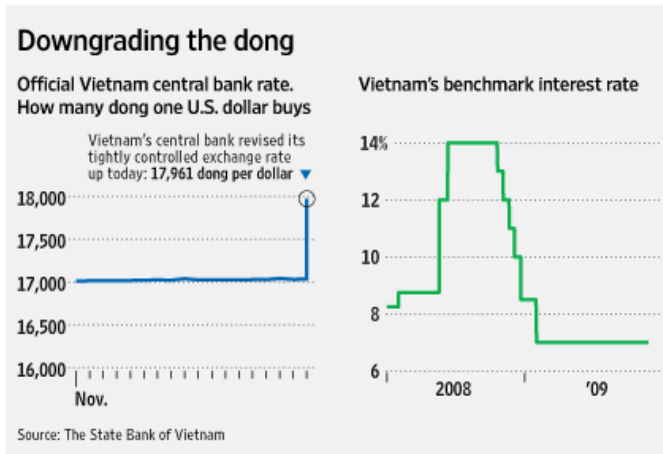
It isn't clear how deeply the latest devaluation affects the rest of Asia. In theory, other trade-dependent nations in the region could potentially see their exports undercut by cheaper Vietnamese competitors, especially as currencies such as Thailand's baht and Malaysia's ringgit continue to appreciate, said Tim Condon, head of Asian research at ING in Singapore. Already, regional officials are complaining about the effect on their exports as their currencies rise against China's yuan, which remains steady against the dollar.

Thai Finance Minister Korn Chatikavanij said in a telephone interview that Thailand might see "a marginal impact" on its textiles and garments industries following Vietnam's devaluation, but the government doesn't anticipate a specific problem. "Vietnam has done this before, but it didn't really impact our export growth overall," Mr. Korn said.

The World Bank expects Vietnam's gross domestic product to climb a respectable 5.5% this year, compared with 6.2% in 2008. But the country's trade deficit continues to widen and dollar sales aimed at stabilizing the dong have shrunk foreign reserves to \$16.5 billion compared with \$22 billion at the start of the year, according to analysts' estimates.

By contrast, Vietnam's regional neighbors, such as China, Korea and Thailand all have added substantially to foreign-exchange reserves this year.

Last month, Vietnam's Finance Ministry warned the country likely would be unable to limit its trade deficit to its target of \$10 billion in 2009 after hitting \$8.7 billion in the first 10 months of the year.



To keep growth expanding this year, the government has pumped billions of dollars into its economy through subsidized loans and infrastructure spending. Economists say that has stirred inflationary fears and further eroded confidence in the dong, leading to hoarding of dollars and gold.

"This time our solution is to strongly intervene," State Bank of Vietnam Governor Nguyen Van Giau said.

Early indications show the government moves were helping to stabilize the dong. Black-market

traders in Hanoi reacted with relief, as if they had been braced for a much more sweeping devaluation some time in the future. After the devaluation plan was announced, black markets in Hanoi were offering dollars for 19,500 dong, compared with 19,700 before the central bank made its announcement.

That compares with the official midpoint trading rate of 17,034 dong to the dollar on Wednesday, which will be set at 17,961 dong on Thursday following the devaluation.

Credit-rating firms also reacted positively. "When all is said and done, macroeconomic stability and prudent policies are better for an economy in the long run than short-sighted efforts to generate an unsustainably high rate of growth," said Tom Byrne, a sovereign regional credit analyst with Moody's in Singapore.

Vietnam is likely to boost interest rates further to contain any inflationary surge coming from the devaluation. Robert Prior-Wandesforde, chief Asian economist at HSBC in Singapore, expects to see interest rates reaching 11% by the end of next year.

—Ditas Lopez in Singapore and Nguyen Pham Muoi in Hanoi contributed to this article.

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