



INCREASED INSTABILITY AFTER CURRENCY REVALUATION IN NORTH KOREA

It has been reported that the currency exchange market has been unstable from the recent currency revaluation, causing increasing instability in the overall social and economic situation in North Korea.

According to the Korea Development Institute's "May 2010's Trend of North Korean Economy," the exchange rate that plummeted to 600 KPW/dollar has since increased to 1,000 KPW. Consequently, a kilogram of rice, which was 200 KPW, has now increased tremendously, doubling to 400 KPW.

The market exchange rate as well as the price of rice seemed to have stabilized after March but turned around to increase again in April. The rate of increase in the market exchange rate also has overtaken the rate of rice price, a contributing factor to the unstable economic situation.

Compared to the market exchange rate of early January of this year—which had increased 7.7 times—the price of rice has risen 4.3 times. Also, the standard deviation for the market exchange rate increase was 5.9 while for the price of rice was 2.8, indicating the range of fluctuation was greater for the exchange rate.

The KDI claimed, "The North Korean economy was in disarray initially from increased exchange rates resulting from the currency revaluation. The increase in rice prices was a response to the rise in market exchange rates." They also pointed out "the price fluctuations in North Korea reflected the changes in the exchange rate."

According to the KDI, the currency revaluation is directly influencing the confidence and demand of the North Korean won, and the market exchange rate is directly changing the market prices.

KDI also reported that "with the market exchange rate directly affecting the lives of average citizens, it could affect the entire North Korean society, creating instability." In addition, the rise in rice prices means that there will be an increase in the amount of



people unable to afford to buy food, which in turn could result in the destabilization of North Korean society.

The reason for the fluctuating exchange rate may be contributed to the economic agents losing faith in the currency.

“The desire to acquire more dollars has not changed from the recent currency denomination,” the KDI claimed, and the rise in prices of food and other areas of the market can be expected to continue to rise for the time being.