

## **Unstable Prices Continue after Kim Jong II's Death**

After the death of Kim Jong II, the shaky political situation has destabilized prices in North Korea. The price of rice is reported to have doubled recently. Immediately following the news of Kim Jong II's death, travel between China and North Korea and the gathering of people were strictly prohibited. In addition, markets in certain areas were temporarily closed. The price insecurity and closure of markets are adding to the dissatisfaction of the people. Merchants are selling food items secretly in black markets.

Recently in North Hamgyong Province and North Korean cities that border China, the price of one kilogram of rice has exceeded 5,000 KPW. The price of rice that sold for 4,000 KPW at the end of November has risen by 1,000 KPW in less than a month. The Chinese yuan–North Korean won exchange rate has also changed, from 700 KPW to 800 KPW in Haesan and Musan, and to 1,000 KPW in Hoeryong. With continuous escalation of prices with the stronger regulations and crackdowns being enforced, the voices of discontent seem to be growing. Rumors are quickly spreading that the price will continue to rise, adding further confusion for the people. After the failed currency reform, confidence in the North Korean currency continued to decline, leading to the soaring of the Chinese yuan, which consequently caused the price of rice to rise.

While the rice supply in the markets has remained relatively steady, the price continued to rise from the rising value of the yuan. Among the North Koreans, the yuan has become the currency of choice for trading and for private hoarding. An increasing number of people are buying rice to store.

Even the North Korean authorities are believed to be buying foreign currency, mostly USD and CNY from domestic trading companies at a higher exchange rate. Recently, North Korea is exchanging foreign currency brought in by domestic trade companies with its domestic currency at a much higher rate through the Foreign Trade Bank of Korea.

It is speculated that this is being done in effort to accumulate enough foreign currency necessary to carry out various events in 2012, including the completion of the construction of 100,000 housing units in Pyongyang.

As the confidence for the North Korean currency declines, the US dollar and Chinese yuan seem to be the preferred currency in the markets. Similarly, most trading companies are choosing to keep foreign currency for operating funds.

This is not the first time that North Korean government has attempted to obtain hard currency through its domestic trading companies and money brokers. Whenever the government took such measures to attain foreign currency, exchange rates would soar, which consequently caused prices to rise and affected the lives of its people negatively. The cause of the recent inflation is also blamed on the recent government measure to obtain more hard currency.

The DPRK government is forcing businesses and trading companies to deposit all the foreign currency earned in the trade bank. However, most companies prefer to hold on to their foreign reserves in cash to avoid complex deposit and withdrawal processes. They also seem to be using private money brokers to exchange money. Recognizing this, North Korean authorities have been cracking down on such illegal “private money exchangers” every year.