

Inflation is an increase in the money stock without a corresponding increase in goods and services supplied. If the stock of goods increases as fast as the money stock, the inflation will be controlled. Increasing investment and production output and improving product quality is the best way to fight against inflation, because this way is not only financially effective, but also a positive contribution to the industrialization of the country.

1. Experience from the past

In the 1980s, aid and loans from the former USSR estimated at one million rubles a year were put into big projects (Phả Lại, Hòa Bình and Trị An power plants; planting 150,000 ha of rubber; Bim Sơn cement plant; Thăng Long bridge, VietSov Petro Enterprise, etc.). Although we had to import machines and equipment from the USSR, but the construction and installation were carried out by Vietnamese workers with local materials and these services are paid in domestic currency, so the State Bank had to increase the money supply in order to realize these projects, with the result that the inflation rate in the 1980s was high, or even very high (this rate in 1986 was 96%, 1987: 500%, 1988: 308%, 1989: 25%).

Besides the increase in investment, as one of the causes of inflation, there were shortcomings in the policy on price-salary-money in 1985. However, the increase in investment is the main cause of the inflation in 1980s, because the above-mentioned projects were very big, they consumed a lot of money, materials and time as well (it took seven years for rubber tree to produce latex; up to 1993 Hòa Bình Power Plant could work at full capacity and created electricity surplus in the North).

Coming into operation, these projects have contributed enormously to the economic stabilization and inflation control. The Bim Sơn Cement Plant has produced over one million tonnes of cement. Without its output, the "cement fever" in the second quarter of 1995 would have been more serious. The VietSov Petro Enterprise at present brings in about 25% of foreign exchange income of the budget. The Hòa Bình Power Plant represented a large percentage in Vietnam electricity output. In other words, Vietnam economic situation tends to become stable now due to big projects of the 1980s and recent years.

Without these projects, the Vietnam economic situation at present would have no changes compared with the year after the Liberation

INFLATION CONTROL AND SHORT - AND MEDIUM-TERM PROJECTS

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Day. So, increasing investment is an effective way to fight against inflation, create new jobs and develop the economy.

There are, however, many defects in investment projects in the 1980s, such as: prolongation of project realization (Hòa Bình project took 10 years, for example), lack of a strategy aiming at producing high-tech or high-quality goods, small size of investment (annual imports of equipment didn't exceed 600 million rubles). Furthermore, these projects were invested by the Government while the national budget was deficient, so the State Bank had to increase the money supply and the inflationary pressure become bigger.

2. Investment, as a way of fighting against inflation

Learning the lesson of the past projects, we have taken many measures to increase the investment with a view to fighting against the inflation:

- Shortening the time of construction: the construction time planned for the North-South 500KV line has been reduced from four to two years. The gas pipeline from Bạch Hổ oilfield to HCMC was completed within one year and a half in spite of many technical troubles. The Phú Mỹ 2 Power Plant project is under construction with a view to coming into operation by the end of 1996, that is, its construction time is planned to be shortened remarkably.

- Mobilizing all sources of capital: the sum of foreign capital coming to Vietnam has become larger and larger. The total registered capital of foreign projects increased from US\$3.1 billion in 1993 to 3.7 billion in 1994. The government investment reached VNĐ5,898 billion in 1993 and 4,878 billion in 1994, much higher than the highest level of the 1980s (VNĐ2,719 billion).

The private investment has also increased considerably year after year. The maricultural business planned to export some US\$550 million worth of its products. The rice output of the Mekong Delta has increased fastly in recent years, so has

the cement output and coffee and cashew nut exportation. All these achievements were largely due to an increase in private investment.

- Producing high-quality products for both domestic consumption and export: Recently, many industries have tried hard to increase their output and export their products (garment, mariculture, etc.), many new factories were established, especially assembling ones (computer, TV set, automobile, motorbike, etc.). Many companies have made big investments (from some hundred thousand to some million dollars) in order to produce high-quality products (detergent, instant noodle, etc.).

Because of the permanent budget deficit, the government investment originated from bank loans, therefore this investment tends to increase the inflationary pressure. When all sources of capital are mobilized, this pressure will be reduced.

To invest in business with a view to increasing the output, producing high-quality goods and products for export is obviously an effective way to increase the amount of goods supplied, thereby fighting against the inflation and getting rid of the inflationary pressure of the increase in the money supply.

However, we can obtain greater achievements by taking some more macro- and micro-economic measures, such as:

+ Giving preferential tax rates to local products instead of to imported goods.

+ Carrying out the anti-smuggling program more aggressively.

+ Making the exchange rate favorable for local industries and products.

+ Encouraging importation of capital goods and technological renovations.

+ Firing impotent directors of state enterprises.

+ Merging small factories into a larger and more profitable one.

These measures could increase the effectiveness of the program for fighting against the inflation by developing short-term projects ■