

The Government's economic reformation is considered as progressive because first of all it prevented promptly the escalation of prices in the late 1980s. Many people still remembers the collapse of the system of credit co-operatives caused by imperfect measures taken by the Government in the first days of the economic reformation with a view to fighting against the hyperinflation. Inflation, unemployment, development and crisis are inherent features of the market economy. In order to cope with these bad effects on various stages of development, Adam Smith has let the invisible hand control the market and the relation between supply and demand. And laissez-faire policy has existed for a long time in many Western countries. After the

and the government intervention became the inevitable with a wide variety of measures taken and ways of intervention.

From a centrally planned and underdeveloped economy, Vietnam has gone into the market economy and the inflation was the first and foremost challenge it had to face. Inflation, therefore, is considered as a ruler used for measuring the rightness of economic policies and the public's trust in the government's plans for economic development, because the height of the inflation rate and the government's ability to control it will influence directly the living condition of the public. So in Vietnam, with its economic reformation directed by the VCP, the inflation is not only an economic problem, but also a politically sensitive issue.

in 1989. In these two years, the inflation rate peaked at 400% and 492% (the highest rate in the 1980s). In 1990, foreign aid from Eastern European countries was cancelled, along with soft loans, preferential tariff and investment projects.

Together with economic reforms, the Government and the Party have expanded the diplomatic relations, opened the door to foreign countries with a view to accelerating socio-economic development. In April 1991, for the first time after the Liberation Day, the US Government suggested giving Vietnam US\$1 million worth of humanitarian aid. In December 1991, Singapore lifted the embargo against Vietnam and established the flight path connecting two countries. In April 1992, the new Constitution was passed by the National Assembly

Year	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995 (est.)
Inflation rate (%)	65	92	487	400	492	40	60	67	17	5	14	15
Growth rate (%)							5,0	5,8	8,4	8,1	8,8	9,1

Great Depression (1929 - 1933), however, the government intervention in the economy was taken into consideration and then, realized seriously because of the appearance of the Keynesian economics in the late 1930s. From then on, there's no purely market economy in the world,

The economic reformation started in 1986 with the program to produce food and foodstuff, goods for export and domestic consumption. The inflation rate in that year was 487%. In 1987, the Foreign Investment Law was approved by the National Assembly and came into effect

and the US Government lifted the trade embargo against Vietnam. In July 1992, Vietnam became an observer at ASEAN. In November 1992, the Japanese ODA aid for Vietnam was resumed. In February 1993, French President, Francois Mitterrand, paid a visit to Vietnam. He was

# THE INFLATION AND ECONOMIC REFORMATION IN VIETNAM

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the first leader of a Western power visiting Vietnam when the US embargo against Vietnam hadn't been lifted. In July 1993, the US Government ceased to raise objection to Vietnam's borrowing money from the international financial institutions. On July 15, 1993, the IMF resumed its relation with Vietnam, and on July 28, 1993, the ADB gave the first loan to Vietnam after 18 years of embargo. On February 1994, the US Government lifted the embargo against Vietnam. In July 1995, Vietnam joined ASEAN.

Changes in policies on economic sectors, price, investment, monetary system, foreign trade; the promulgation of new economic laws; and the improvements of Vietnam diplomatic relations have saved Vietnam from total collapse when aid from the former USSR and Eastern European countries was cut and these markets were closed to Vietnam. The inflation rate was reduced from nearly 500% in 1988 to 40% in 1989, 60% in 1990, 67% in 1991, 17% in 1992, 5% in 1993 and 14% in 1994. Vietnam's GDP has increased continuously in the past five years, from 5% in 1990 to 5.8% in 1991, 8.4% in 1992, 8.1% in 1993, 8.8% in 1994 and it's expected to reach 9% in 1995.

The year 1995 has an important meaning to the Vietnam economy. In this year, we can put an end to the period of looking for a way to save the country from crisis. It's also the time for us to review both achievements and failures in the past ten years of renovation, and to make plans for the future.

According to the General Department of Statistics, in the first six months of 1995, both agricultural and industrial production made good progress. There was a good harvest all over the country in winter - spring season, especially in Southern provinces. In this season, Vietnam produced 12.7 million tonnes of rice and equivalent (an increase of 90,000 tonnes compared with the same season last year). The industrial output increased by 13.5% compared with the same period last year (state owned industrial output increased by 13.1% and nonstate one by 14.2%). Export turnover was estimated at US\$2,200 million (an increase of 35.4%), while imports were worth about US\$2,270 million (increasing by 14.5% compared with the same period last year). The gross investment from foreign sources reached US\$3,522 million, a threefold increase in comparison with the same period last year. GDP increased by 8.8% compared with the same period last year.

Besides these achievements, there is a great challenge in these days: the danger of inflation is smouldering. The CPI usually increases in January and February because of a rise in consumer demand during the Tét festival and it will decrease in March.

In this year, however, prices had increased continuously in the first six months, came to a standstill in July and then, increased slightly in August. In January the CPI increased by 3.8%, 3.4% in February, 0.2% in March, 1% in April, 1.8% in May, 0.8% in June, 0.0% in July and 0.3% in August. In short, in the first six months of 1995, the CPI increased by 11% while the increase in the same period in 1993 was 4% and in 1994 was 7%. Thus this increase is higher than the expected level for this year (10%). The rise in prices in recent months is due to sudden upsurges in prices of food and foodstuff (19.3% compared with last December), and of cement. The rise in prices of food and foodstuff was influenced by the same rise in the world market for food, and the rise in prices of services and industrial goods.

This situation had bad effects on low-wage-earners. However, if this rise didn't turn into profits for food traders, it could become a dynamic that encourages the farmer to increase the output. As for the cement price, as we all know, the cause of this fever is not the loss of balance between supply and demand, but due to mistakes in macro-economic management.

The budget income collected in the first six months was low, accounting for only 39% of planned target for 1995, so was the budget expenditure,



accounting for only 40.5% of the planned target (the better part of the budget expenditure was on basic construction, of fixed investment, accounting for only 34% of the planned target). The relation between growth rate and inflation rate was given a lot of attention by policy-makers. In fact, some of them argue that we should keep the growth rate high and the inflation rate low, while other opinion maintains that we had better permit the inflation rate to increase to an acceptable level if we want to develop fast but there is also a strong argument for reduction of both inflation and growth rates.

The first opinion is ideal and so not likely to be achieved because a high growth rate requires big investments and high per capita income, with the result that the prices of goods and services will increase accordingly. In the past five years, the growth rate fluctuated between 6% and 8% while the inflation rate between 67% (the highest level) in 1991 and 5% (the lowest one) in 1993. A five-year period is not long enough for us to know that at what level the inflation rate will be acceptable if the growth rate fluctuates between 8% and 10% per year. Obviously, the level of 5% in 1993 can't be the norm and can't reflect the real situation of our economy. It may be too soon to affirm that we should limit the growth rate in order to control the inflation rate when our economy is changing favorably. Policy-makers will pay more attention to the growth rate when demands for investment, employment, expansion of foreign trade and production are on the increase. On the other hand, policy-makers will have an inclination to curb the inflation when growth rate of 11% or 12% is maintained for some decades and the inflation rate is pushed up to somewhere between 25% and 30%. According to some estimates, in the next five years, in order to achieve a growth rate of 9% to 11% we can accept an inflation rate of 11% to 16%. What we must do is to control prices and prevent false fevers from occurring by taking various administrative and economic measures.

Vietnam is the first nation that could develop its economy without aid from Western countries, as a foreign economist put it. However, don't forget that Vietnam's per capita GDP is at the lowest levels of the world, and some recent achievements are only our first steps on a long racetrack competing with other countries.