PUBLIC FINANCE AND ECONOMIC THRIVING

by LÊ TIẾN HÙNG

In recent years Vietnamese public finance have been managed in the principle of balancing the national budget, restricting expenditures and capital granted to establishment of big state-owned enterprises (SOEs). Most of SOEs or production projects were restrained in the field of infrastructure, power and water supply, transport. The Government did not decide on setting up big firms to boost industrialization, modernization such as producing autos, computers, Honda motorbikes, etc. In combination with the policies on low exchange rate - causing import to increase faster than export; limitation on credit offered to enterprises and State agencies; high interest rates; Vietnamese public finance was built on the basis of balancing revenues and expenditures, curbing inflation and stabilizing prices.

The above mentioned policies have allowed national fast development from 1991 to 1995. However, since May 1996 some new events have taken shape such as negative price indexes in four successive months (it had never occured in Vietnam before). Then prices inched up on the occasion of Christmas and New Lunar Year, but price indexes were still negative in March, April, and May 1997 although the State Bank increased the exchange rate by around VNĐ500/US$1. The opinions that prices would rocket when the State Bank lifted the exchange rate were proven wrong. The price index rose only one percent in the first half of this year, this is a lowest rate so far. Along with drop in prices, some unusual events occured and prolonged from May 1996 to July 1997: GDP rose by only 9.1% against 9.5% and 9.3% in 1995 and 1996 respectively; purchasing power went down drastically, commodity glut soared, especially cement, steel, paper; prices of cashew nut, rice, cassava fell, causing great losses to farmers. The price of chicken may be an indication of purchasing power. So its decline showed a drop in purchasing power. Prices of land, houses also went down. Many HCMC-based big firms such as Epco, Minh Phụng, District 3 Export Garment Company, District 3 General Materials Company have gone bankcrupt. The number of tourists and investment projects saw a downward tendency. The farmers in the Mekong Delta did not feel happy although they enjoyed a bumper crop due to low prices. This have produced bad effects on the summer-autumn crop, the next crop may yield less than that of last year...

The Party and the Government have kept watch on this situation and the Government Office announced measures to overcome the difficulties and resume the growth rate. For example, in export, the Government does not permit importation of finished motorbikes, cement, paper and steel which domestic production can meet the demand and limit auto imports. The State Bank has allowed SOEs to take out loans from State banks without asking for mortgage provided that they have good effective business plans. The exchange rate has been raised. Bank interest rates were reduced, to around 1%/month at present. In early July, the Government Office informed measures to boost development as follows:

- Reduce import duty for electronic spare parts; help enterprises produce fans, bikes, electronic and home appliances;
- Fight against smuggling more actively: request localities to stop illegal importation;
- Increase purchasing power;
- Grant capital soon to the projects of capital construction, infrastructure, Vietnamese firms building ODA projects;
- Assign capital to some projects of transport, irrigation;
- Encourage investments in underdeveloped areas such as central highlands, deltas of Hồng and Cửu Long rivers;
- Allocate capital to farmers and enterprises;
- Provide funds to offshore fishing programs.

These measures

showed the Government's determination to resume the growth rate.

We would like to make some suggestions about the policy on public finance:

In the danger of inflation, the public finance policy targets to control inflation, so to limit expenditures, bank loans and reduce investments in building plants are necessary measures. However, that aim has been already reached. Thus, the Government should apply Keynes theory to use budget deficit for increasing investment, purchasing power and settling glut of commodities.

For example, the steel and cement sectors are suffering glut of products. If operating at full capacity, Vietnam can turn out 10 million tonnes of cement and 1.7 million tonnes of steel in 1997. But in reality, the production can hardly exceed 7 million tonnes of cement and 1 million tonne of steel, because more than 200,000 tonnes of steel and some 500,000 tonnes of cement are currently stockpiled. The firms have reduced production because demand for cement and steel tends to recession in 1996 and 1997 and as a result, inventory rose and prices slumped. To stop importing steel (items can be domestically made) and cement can handle only around 400,000 tonnes of steel and 1 million tonne of cement, but Vietnamese output may far exceed this amount.

The slow sales of steel and cement and not high prices not only affect steel and cement output, but also reduce investments in these sectors, and have bad effects on the speed of industrialization, modernization. On the other hand, if they are sold slowly at low prices, the output of cement and steel can reach only 7 million tonnes of cement and 1 million tonnes of steel in 1997 and can hardly reach 30 million tonnes of cement and 10 million tonnes of steel by 2005 as planned, on the contrary if they are fast sold at high prices, the plants' capacity will be fully operated and the plan for 2005 will be fulfilled because investments in the two sectors will be boosted.

To reach these targets, we cannot depend on private construction which boomed from 1991 to 1995 because prices of house and land rocketed and investments in hotel construction soared. In 1996-1997, the house and land prices have dropped around 30%, so the pace of building was slow. We should not expect rise in hotel construction, because there is now a surplus of accomodation supply and a drop in the number of tourists in 1997 as compared with 1996. As such, the Government should build houses and apartment buildings to sell them to workers by installments, as well as steel and cement-consuming projects such as ports, industrial parks...with the State Bank's advance and budget deficit.

In fact, some millions of tonnes of cement and one million tonnes of steel cannot meet the demand of Vietnam's fast development. But in comparison with profitable investments in construction, the supply apparently far exceeds the demand. Although at present prices of cement and steel go down, but if the Government uses the State Bank's advance to build houses, ports, industrial parks, then we will see a shortage of cement, steel.

The Government should alter its policies in line with the change in situation. When the inflation tends to increase, a policy to curb inflation is needed, but in case the deflation occured, the public finance should use budget deficit and great investment projects to raise the demand and purchasing power as well as create jobs. In addition to building houses, to deal with the glut of cement and steel, the Government should intensify the establishment of plants producing auto and motorbike components, air conditioners, computers. These industries have good effects on the speed of industrialization, modernization, so when the private sector does not have enough capital and technique to implement these projects, the Government should do this business to industrialize, modernize the country.

At the same time, when the public finance policy has shifted from curbing inflation to controlling deflation, the policies on banking and money should target to control deflation, for example, the Government will take out loans to implement great investment projects, lift the exchange rate, reduce imports, especially goods already made in Vietnam, lower lending interest rates and so on.

The public finance, banking and money are not constant, they change month by month in accordance with inflation or deflation, recession or thriving. As such, we believe the country can reach the GDP growth rate of between 12% and 13% per year if the policies on public finance, banking and money are rectified in line with the change in national economic indicators. The Government should not use policies which were proved good for inflation control to settle the current deflationary stage■