

In recent years, the inflation rate has been reduced gradually and the growth rate has been rather high. These were results of the change from the subsidized economy to the market mechanism, and of the good management of the Government as well.

But the situation in the first six months has raised many issues in the macro-management of the Government. One of these issues is how to keep the inflation rate under 15% in this year. This target has become a challenge to the Government.

In the first half of 1995, the CPI increased by 11.5% in comparison with December 1994. This rate is higher than the rate planned for 1995

ices by 12.1%.

Prices of gold and the US dollar were stable and sometimes fluctuated lightly (the price of gold had no change in comparison with June 1994, decreased by 0.1% compared with last December, and 0.7% with May this year; price of the US dollar increased by 1.1% compared with last June, by 0.3% with last December and has been at a standstill since May 1995). This was a result of an encouraging effort of the banking business.

Thus, the inflation showed itself in the upward tendency of prices of goods, especially prices of rice and cement while other goods showed no considerable change in their prices.

The price of rice increased by

the direct result of shortcomings in the performance of the cement business (which is controlled by the Government) especially the performance of the Vietnam Cement Corporation. Bad decisions have led to dishonest speculation, produced bad effects on the socio-economic life, and contributed to the high inflation rate in the first half of 1995.

Thus, the high inflation rate in recent months which resulted from shortcomings in the task of controlling and stabilizing prices has led to many "fevers" or sudden changes in prices. If we could learn lessons of these fevers, we could avoid, or at least limit bad effects of each fever. Experience of developed countries

INFLATION CONTROL AND MACRO-MANAGEMENT OF THE GOVERNMENT



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(10%). For the second half of 1995, the inflation rate could be kept under 15% but it is really a difficult task, because the CPI in June 1995 has increased by 1% compared with May 1995.

There are some noticeable problems in the economic situation in the first half of this year:

- According to the Government, there has been good progress in the production, education and health caring services, diplomatic relations; and GDP has increased by 8.8% compared with the corresponding period last year.

But in the task of controlling the inflation, the CPI showed an upward tendency: In June, it increased by 19.5% compared with the same period last year (or 11.4% compared with last December). Prices of goods increased by 20.7% and prices of serv-

40% in June 1995 compared with last June, or 16.3% compared with last December.

The price of building materials (cement price particularly) increased by 21.7% in June compared with last June, or 18.1% compared with last December.

The Government has affirmed that sudden increases in prices of rice and cement (especially price of cement) revealed shortcomings in the performance of the Government's task of controlling market prices. It is a paradox that the price of rice increased while there were good harvests in many provinces, especially in Southern ones. This situation resulted from the rice-smuggling operation at the Northern frontier that made the price of rice skyrocket.

As for the fever of cement price in recent months, as we know, it was

showed that the Government played a decisive role in controlling and stabilizing prices, and inflation control was one of the most important tasks of the Government.

Naturally, success in controlling the inflation depends on many measures (financial-monetary policies, budget-control, national reserves, etc) but in many cases, it depends on how we control and stabilize prices. If we continue to let both the state and the people suffer fever after fever such as rice and cement ones recently, we can't think of having the ability to control the inflation.

Regarding the sudden increase in prices and inflation rate in recent months, the first thing we think of should be the role of the Government in macro-economic management ■