

# Research On The Impacts And Solutions To Control Inflation In Vietnam

Nguyen Tan Danh

Department of IT, FPT University, Vietnam E-mail: [nguyentandanh0774@gmail.com](mailto:nguyentandanh0774@gmail.com)

---

## ABSTRACT

In the era of a developing market economy and a lot of competition among national enterprises, inflation is a problem that the government, entrepreneurs and Vietnamese people are running out of. interest. Prolonged inflation greatly affects the lives of workers and low-income earners and affects the economic growth rate in Vietnam. Therefore, this article examines the positive and negative effects of inflation on the economy, people's well-being and the solutions that the government has been taking to control this situation, from which to Export some support methods. To do the research, the author collects statistical data on the Vietnamese economy, particularly the consumer price index in the years 2010 to present.

**Keywords:** influence, solution, inflation, Vietnam

---

## 1. INTRODUCTION

A moderately stable rate of monetary growth can provide a framework under which a country can experience less inflation and much growth. Inflation does not create complete stability, it does not create a social paradise, but it can contribute to stabilizing the social economy (Milton Friedman, 1970) [1]. Therefore, in countries with high economic openness like Vietnam, inflation stability is one of the prerequisites for ensuring the financial and monetary security of a country in the current economy market. The variation of this factor has a decisive effect not only on the costs, revenues and profits of enterprises, but also on the revenues and the state budget's ability to repay debts. When the state and enterprises change, a series of impacts on people's lives, especially on the lives of the poor, is low-income people and those whose main source of income including salaries and wages public and social welfare.

## 2. CONTENT OF RESEARCH

### 2.1 Consumer price index (CPI)

According to Laidler and Parkin, inflation is an increase in the general price of goods and services continuously for a certain period of time and causing a currency to lose its value more than before [2].

CPI - Consumer price index. An index that is updated monthly by the US Department of Labor Statistics and used to determine the rate of inflation and spending above fixed prices. The consumer price index reflects the average prices of products and services from representative groups or is called the average consumer "basket" of goods [3].

## **2.2 The current situation of inflation in Vietnam**

After the global economic crisis in 2008-2009, Vietnam and many other countries in the world simultaneously launched stimulus packages to recover the economy after the crisis, pushing up domestic and world prices to reach about 11.8% (2010) and 18.1% (2011) caused Vietnam to fall into high inflation.

In 2014, CPI inflation has stabilized, averaging 4.1% (the lowest level since 2003), thanks to a weakening in global food and energy prices.

The year 2016 is considered a success in controlling inflation in the condition that the prices of some essential goods rebound. Vietnam's inflation is only about 1-2%, so it is considered low inflation. The reason is that the economic growth has not shown signs of prosperity when the Agriculture sector is not favorable due to poor weather, the Khai Khong industry has suffered a decline in raw material prices in the world. However, thanks to low inflation, the State still has room to adjust prices of some goods managed by the State asymptotically according to market prices.

Year 2019 has been a successful year in controlling inflation in Vietnam. Indeed, the average CPI in 2019 only increased by 2.79% compared to that in 2018.

## **2.3 Research results and discussion**

When it comes to the effects of inflation, J.M. "The best way to get rid of the capitalist system," Keynes said, is to devalue money. Through a prolonged process of inflation, Governments can confiscate, secretly, unrecognizable part of their citizens' wealth "[4]. From this point of view, it can be seen that inflation can cause very negative effects, to the point of ruining a political institution. However, the reality shows that inflation does not always have negative impacts on the economy and for some countries, inflation also stimulates economic development.

### **2.3.1 The impact on businesses**

The start-up wave was formed and mobilized capital for the economy: In 2016, there were more than 110,000 newly established enterprises; in 2017, there were nearly 127 thousand enterprises; In 2018, there were more than 131,000 newly established enterprises, if including both newly registered capital and additional registered capital, in 2018 it is estimated that businesses supplementing the economy nearly 3.9 million billion VND [5] .

Normally, the interest is substantially similar to the cost that a borrower pays for using the lender's money. As inflation increases, in order to match the increase in prices, the cost of using someone else's money increases. Therefore, the banks' deposit rates have to increase and thus banks' lending rates also increase, while businesses need to borrow money from banks to maintain operations and expand production. . Therefore, once loans from banks become more expensive, costs will increase, affecting the business strategy of businesses, so businesses will be afraid to borrow. This can have a serious impact on a growing business because the business has to narrow its scope of operations and lead to a drop in profits. Once it is discovered by the market that the business will cut the investment cost growth or the profit is generated gradually because the cost of debt increases or the revenue falls due to the consumer, the share of the business will also be lower, the index on the stock exchange will also decrease.

### 2.3.2 The impact on people and employees

We all know that when inflation occurs, the value of a currency decreases, it will attract foreign investment as well as promote domestic tourism development, thereby creating jobs for people but at the same time the state will also will implement tightening monetary policy, ie increase lending interest rates. This means that the unemployment rate will also increase (table 1).

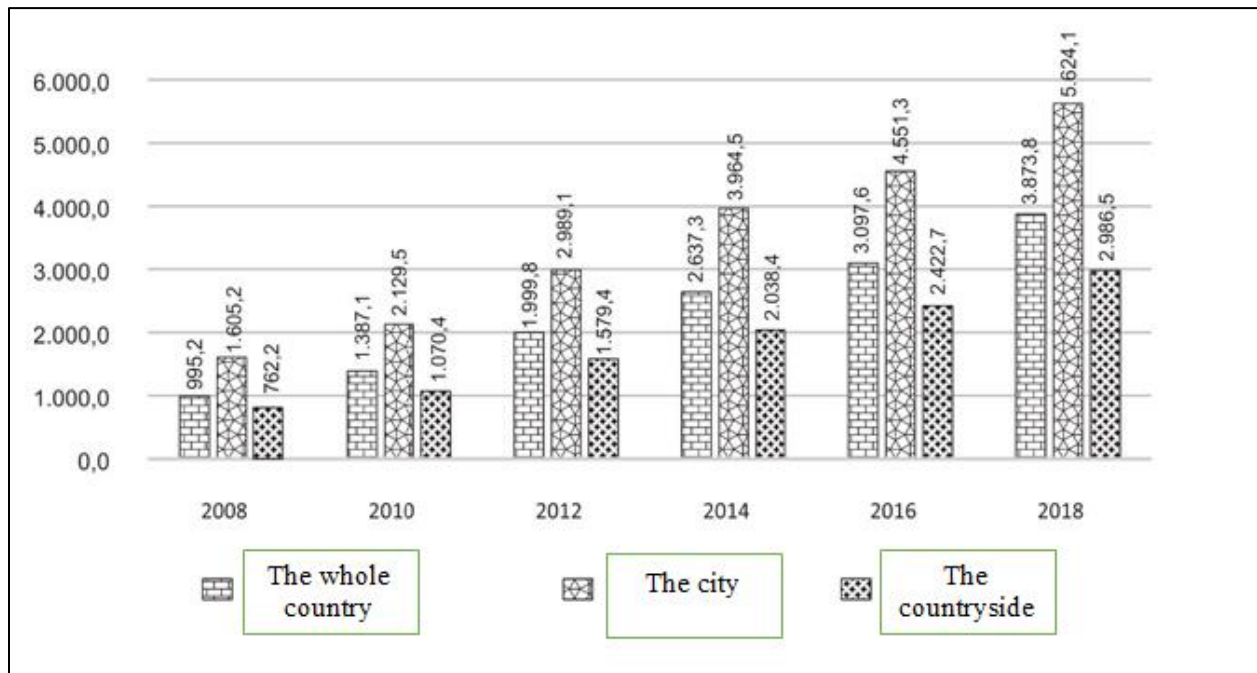
**Table 1.** Yearly inflation rate and employment rate

Year	Inflation rate (%)	Unemployment rate (%)
2019	2,8	2,01
2018	3,54	1,99
2017	3,52	2,05
2016	2,67	2,08
2015	0,63	2,13
2014	4,08	1,87
2013	6,59	1,98

2012	9,09	1,68
2011	18,68	1,88
2010	9,21	1,11

According to World Bank statistics, we can see that when inflation changes, the increase or decrease of the unemployment rate (equivalent to decrease or increase in the employment rate) only takes place in a short time. However, this only happened in the state of stable control in a state of low inflation as in 2016 to 2019. In the case of high inflation, fluctuations as much as 2010 - 2012 (up 9, 47% and then a decrease of 9.58%) will lead to unemployment proportional to the inflation rate increasing rather than decreasing [6].

The average income of the people has also gradually increased over the years (figure 1).



**Figure 1.** Average income per person per month

From the above figure, in general, it can be seen that the income of workers has increased, helping to reduce the poverty rate in the country. However, that nominal income growth has not kept pace with the soaring momentum of the price index, causing inflation to greatly affect the lives of workers and increase the vulnerability of the poor. In 2011, when inflation increased, the rate of poverty reduction narrowed (1%). Sustainable poverty reduction must implement synchronous solutions, in which special attention must be paid to curbing inflation, anticipating risks that may return inflation. If inflation

returns, the effectiveness of poverty reduction will decrease markedly. The lives of ethnic minorities have dramatically improved over time; The poverty rate among ethnic minorities has decreased from 66% to 59% between 2010 and 2012 [7].

Price increase volatility, especially food prices, agricultural products on the one hand will increase the income of food producers and exporters, but the reverse will increase consumer spending on food, especially the low-income population, who do not produce food. The increase in food and food prices will have the strongest impact on 20% of poor households (poor rural households have an average income of 400,000 VND / month and poor urban households 500,000 VND / month), by the ministry. This segment usually has a higher share of food expenditure in total living expenditure than other groups. 55.9% of the main expenditure of the poor is to buy food and food. Spending on education and health accounts for only 12.5%.

### **3. RECOMMENDATIONS**

The National Assembly has promulgated the Law on Price prescribing the rights and obligations of organizations and individuals in the price domain; State management and price regulation. According to the provisions of this Law, the government will stabilize prices in accordance with the principles of the market economy, disclose information on prices through the forms such as press conferences, posted on mass media ... to protect the rights and interests of market participants [8].

Set a steady target inflation index, thereby managing the set prices of specific items, especially gasoline, pork, essential commodities such as education, health, food, and foodstuffs. .

To propose scenarios to predict the development direction of inflation, from which to propose appropriate policies to promptly respond to the evolution of inflation [9].

Proactively and flexibly manage monetary policy instruments to control inflation, not subjective to inflation, stabilize the macro-economy and support economic growth at a reasonable level, ensuring safety of liquidity. accounts of credit institutions.

The State Bank of Vietnam manages interest rates and exchange rates in accordance with macroeconomic and monetary developments, especially inflation, ensuring the value of VND, continuing to overcome the dollarization, yellowing in the economy, reducing lending interest rates, harmonious balance between borrowers and depositors [10].

Applying measures to strictly control public spending from the state budget to ensure the stability of the state budget. Promulgating the State Budget Law (2015) with the addition of investment expenditures from bond issuance sources to the budget. This Law provides for the formulation, execution, audit, settlement and supervision of the state budget, tasks and powers of agencies, organizations, units and individuals related to the home budget sector.

#### **4. CONCLUSIONS**

In order to keep inflation low and maintain stability, the Government needs to continue to enforce a tight and flexible monetary policy since inflation shows signs of decline for at least 6 to 6 years. 7 months. Because government spending has a huge impact on the rise of the CPI, during a period of high inflation, the Government must always attach great importance to effective coordination between fiscal and monetary policies. Currently, Vietnam's economic growth is still heavily dependent on investment capital. Therefore, to be able to control inflation effectively, it is required that the fiscal - monetary policies of the Government have to react quickly and flexibly, avoiding the case when inflation increases to respond to the policy. The prolonged period of low inflation will cause great losses to the economy, especially to the production sector and deeply affect people's lives. The bad debt of the bank is also a factor affecting the capital mobilization of the bank, thereby making it necessary to print money to manage and then increase inflation. Therefore, it is necessary to tighten lending conditions as well as reduce interest rates to suit the current economic conditions to create conditions for businesses to refund.

#### **REFERENCES**

- [1] Milton, F & Charles A. E. Goodhart. (2003). Money, Inflation and the Constitutional Position of the Central Bank. London: Institute of Economic Affairs. 64-90.
- [2] Laidler, D & Parkin, M. (1975). Inflation: A Survey. The Economic Journal. 85 (340). 741-809.
- [3] Goujon, M. (2006). Fighting inflation in a dollarized economy: The case of Vietnam. Journal of comparative economics, 34(3), 564-581.
- [4] Hoi, H. T. (2020). Attractiveness of Online Marketing in the Age of Industry 4.0. In Proceedings of the 2020 The 6th International Conference on E-Business and Applications, 1-4.
- [5] Bhattacharya, R. (2014). Inflation dynamics and monetary policy transmission in Vietnam and emerging Asia. Journal of Asian Economics, 34, 16-26.
- [6] Kim, N. T., & Hirata, J. (2008). Current Inflation in Vietnam and Some Suggestions for Monetary Policy. Social System Studies, 17, 1-20.

- [7] Bui, T. N. (2019). Inflation and stock index: evidence from Vietnam. *Journal of Management Information and Decision Sciences*, 22(4), 408-414.
- [8] Hoang, T., & Thi, V. (2020). The impact of macroeconomic factors on the inflation in Vietnam. *Management Science Letters*, 10(2), 333-342.
- [9] Hoi, H. T. (2020). The Status of Using English at Work by Vietnamese Students after Graduating from University. *Universal Journal of Educational Research*, 8(11), 5318-5321.
- [10] Phuc, N. T., & Duc-Tho, N. (2009). Exchange rate policy in Vietnam, 1985-2008. *ASEAN Economic Bulletin*, 137-163.