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# Inflation Developments in Vietnam during a Period when the Economy had many Negative Factors

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**Abstract**
Inflation fears are returning globally. Businesses are struggling to fight the impact of rising prices of production input materials and services. Consumers also face increasing price pressure from housing prices, energy, transportation, and essential foods. The world economy is falling into a state of stagflation, along with the pressure to increase interest rates in major economies, which has and will have a significant impact on Vietnam. First of all, Vietnam's economy depends heavily on imported raw materials. The increase in energy and raw material prices and the increase in the value of the USD have a significant impact on production stability and increase the impact of cost-push inflation due to imported inflation. This creates a risk of import inflation due to the ongoing energy crisis and food price crisis in the world. For many Vietnamese people, the fear of high inflation is still very present. In the past three decades, Vietnam has witnessed hyperinflation, pushing up interest rates, causing people and businesses to fall into difficulties. Therefore, the fear of the return of inflation is always present in the subconscious. The article studies the theory of inflation, the causes of inflation, the current situation of inflation in Vietnam during the period of many negative impacts on the world economy in the period 2019-2023 and from there offers solutions. Measures to control inflation in the near future.

**Keywords:** Consumer Price Index, Core Inflation, General Inflation

## 1. Introduction

Inflation in Vietnam in the coming time will face many difficulties and challenges from domestic and world issues, including:
*External risks:* (i) Inflation pressure and world prices continue to impact the price level of domestic goods, typically goods not under State management; (ii) Unpredictable fluctuations in world petroleum prices and escalating conflict in Ukraine. The Russia-Ukraine conflict is still a cause of negative impact on Europe and low-income countries. In addition, China's energy demand increases when the economy operates normally, which will cause energy prices to increase. This puts additional pressure on low-income countries facing budget constraints to offset the impact of rising prices on households and businesses. In addition, as fuel prices rise, social unrest may increase, exacerbating global economic risks; (iii) Global macroeconomic instability increases, fiscal deficit increases; Many countries are experiencing rising levels of public debt due to the Covid-19 pandemic, lower growth and higher borrowing costs have exacerbated the vulnerabilities of these countries, especially those in need to repay debt in USD in the short term; (iv) The conflict in Ukraine and international sanctions are dividing the world economy into blocs and increasing geopolitical tensions. Increased geopolitical fragmentation leads to difficulties in capital flows, labor movements and international payments between countries, which can hinder multilateral cooperation in the global supply of goods. Bridge; (v) New and more dangerous Covid-19 variants may emerge. While existing Covid-19 vaccines remain effective in preventing severe disease, the risk of a new wave of vaccine resistance could lead to the reintroduction of containment measures. Blocking, affecting the prospect of full economic recovery.
*Domestic risks:* (i) Electricity prices are adjusted to increase (On February 3, 2023, the Prime Minister issued Decision No. 02/2023/QD-TTg on the price frame of the average retail electricity price) has increased production and consumption costs; (ii) Domestic supply may face difficulties as the manufacturing sector shows signs of slowing down (in December 2023, the industrial production index (IIP) decreased by 2.2%, the purchasing management index (PMI) at 47.7 points); (iii) Public service prices are adjusted according to the roadmap, typically the price of educational services at the end of the tuition exemption or reduction period is expected to increase in the new school year 2023 - 2024 according to the roadmap; (iv)

Declining foreign direct investment (FDI) flows and import-export growth can affect foreign exchange earnings and foreign exchange reserves.

However, there are still many factors supporting domestic inflation control such as the major balances of the economy continuing to ensure; Monetary policy is managed flexibly and cautiously with the goal of controlling inflation, ensuring macroeconomic stability, a stable foreign exchange market with exchange rates closely following actual fluctuations, ensuring relative price stability. local currency value; Positive fiscal policy space, contributing to solving difficulties and supporting domestic production, while creating conditions for monetary policy to cope with external shocks; The supply of essential goods is guaranteed, meeting domestic and export needs.

Therefore, in the context of the global economy being negatively affected by many factors, studying inflation developments in Vietnam during the period of economic recession and providing solutions is extremely necessary and necessary. Meaningful.

## 2. Research overview

### *Inflation concept*

The term "inflation" originally referred to increases in the amount of money in circulation, and some economists still use the word in this way. However, most economists now use the term "inflation" to refer to an increase in the price level. An increase in the money supply may be called monetary inflation, to distinguish it from an increase in prices, which may also be explicitly called 'price inflation'. Economists generally agree that in the long run, inflation is caused by an increase in the money supply.

In macroeconomics, inflation is a persistent increase in the general price level of goods and services over time and a loss of value of a currency. When the general price level rises, a unit of currency buys fewer goods and services than before, so inflation reflects a decline in purchasing power per unit of currency. When compared to other countries, inflation is the decrease in the value of one country's currency compared to the currencies of other countries. In the first sense, people understand that inflation of a currency affects the scope of a country's economy, and in the second sense, people understand that inflation of a currency affects the scope of the economy. Economy uses that currency. The scope of influence of these two components remains a controversial issue among macroeconomists.

### *Impact of inflation*

Inflation affects economies in a variety of positive and negative ways. The negative effects of inflation include an increase in the opportunity cost of hoarding money, and uncertainty about future inflation can discourage investment and saving decisions. If inflation grows fast enough, the scarcity of goods will cause consumers to start worrying about rising prices in the near future. The positive effects of inflation include minimizing unemployment based on price rigidities.

Economists often argue that high inflation rates are caused by an excessive money supply. Views on what determines low to moderate inflation rates are even more diverse. Low or moderate inflation is attributed to fluctuations in real demand for goods and services, or to changes in available supply, for example during scarcity. However, the consensus view is that the continuous maintenance of inflation in a certain period is due to the money supply being faster than the economic growth rate.

Since there can be many ways of measuring the price level, there can be many measures of price inflation. Most often, the term "inflation" refers to an increase in a broad price index that represents the overall price level for goods and services in the economy. The consumer price index (CPI), personal consumption expenditures price index (PCEPI), and GDP deflator are some examples of expanded price indices. However, "inflation" can also be used to describe an increase in price levels in a narrow set of assets, goods, or services in the economy, such as commodities (including food)., fuel, metals), tangible assets (such as real estate), financial assets (such as stocks, bonds), services (such as entertainment and healthcare), or labor. The CRB-Reuters Index (CCI), Producer Price Index and Employment Cost Index (ECI) are examples of narrow price indices used to measure price inflation in specific sectors of the economy. Economy. Core inflation is a measure of inflation for a subset of consumer prices excluding food and energy prices, which rise and fall more than other prices in the short term. The Federal Reserve is especially interested in the core inflation rate to get a better estimate of the overall future long-term inflation trend.

Other price indices widely used for calculating price inflation include:

- Producer price index (PPI) measures the average change in the price domestic producers receive for their output. This differs from the CPI in that price subsidies, profits and taxes can cause the amount received by producers to differ from what consumers pay. There is also often a delay between the increase in the PPI and any eventual increase in the CPI. The producer price index measures the pressure put on manufacturing due to their raw material costs. This can be "passed on" to consumers, or it can be absorbed by profits, or offset by increased productivity. In India and the United States, an older version of the PPI was called the Wholesale Price Index.
- Commodity price index, which measures the price of a selection of commodities. Currently, the commodity price index is weighted by the relative importance of the components for the "all-in" cost of a worker.
- Basic price index: Because food and oil prices can change rapidly due to changes in supply and demand conditions in food and oil markets, it can be difficult to detect long-term trends in levels price when these prices are included. So most statistical agencies also report a measure of 'core inflation', which removes the most volatile components (such as food and oil) from a broad price index such as the CPI. Because core inflation is less affected by short-term supply and demand conditions in specific markets, central banks rely on it to better measure the inflationary effects of monetary policy. Present.

### *Cause of inflation*

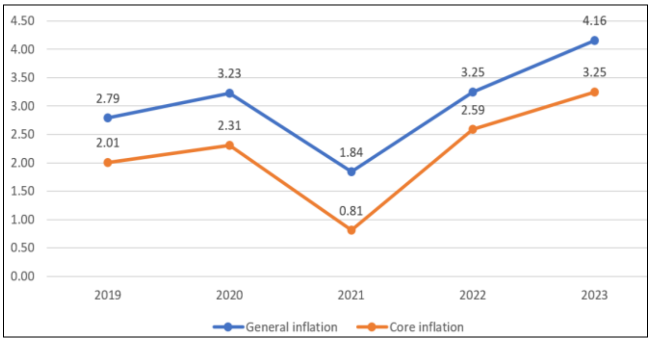
*Cost-push inflation*

In recent decades, the process of cooperation and development following the trend of globalization has helped the production and circulation of goods and services become more and more effective, contributing to reducing costs and reducing inflation worldwide. Global. But the covid pandemic and recent geopolitical conflicts have changed everything, causing the global economic machine to no

longer operate as efficiently as before.
The disruption of supply chains has occurred on a large scale at all stages from production, distribution to consumption. Serious supply bottlenecks and shortages occur in many different types of goods and services, driving up production and distribution costs. Cost-push inflation has been occurring globally at its most severe level in many years.
Cost-push inflation usually does not last long because the market economy is always able to adapt and balance itself. The lack of supply and rising prices will cause demand to shrink. On the supply side, large profit margins will simultaneously stimulate investment to expand capacity to meet the shortage and bring supply and demand into balance. When oil prices rise too high, increased transportation and energy costs also reduce demand and stimulate the search for alternative energy sources with more reasonable costs. High prices also make many oil fields profitable and feasible to exploit. Many countries have recently made plans to expand new oil supplies. The market will therefore soon reach equilibrium and overcome short-term supply shocks. 12- and 24-month Brent oil futures contracts are currently trading at prices of 95 and 87 USD/barrel.
Recent surveys of many other goods and services show that pressure on prices from global supply chain congestion has reached its peak and is starting to trend down as supply gradually resumes. Record high profit margins of many businesses benefiting from increased output prices are stimulating investment plans to expand capacity. More broadly, most goods from oil, iron and steel, basic materials and agricultural products... are highly cyclical and the world always goes between two states of shortage and surplus. After reaching its peak, prices will enter a decline cycle again.
From a global perspective, cost-push inflation is therefore gradually going through its most stressful period. With high prices for many goods and services, the possibility of further price increases will become increasingly limited as the supply chain gradually recovers and new sources of supply appear.
For each country, the ability to control the supply of important goods and services will also determine how strong inflationary pressure is. Vietnam's strength is its ability to autonomously produce and export many types of goods, agricultural products and basic food, accounting for a large weight in the CPI calculation basket. Therefore, the impact of global supply chain disruption on Vietnam's inflation index is lower than that of countries that rely heavily on imports.
*Demand-pull inflation*
When the money supply increases sharply, the economy grows hot, and demand increases rapidly beyond supply, causing prices to skyrocket. Coping with this risk requires central banks to strongly tighten monetary policy to restrain growth. Vietnam's two recent periods of high inflation in 2008 and 2011 were both due to this reason.
The most typical example of demand-pull inflation today in the world is the United States. To combat the unprecedented devastation of the pandemic, the US Federal Reserve (Fed) and the country's government have launched record-breaking monetary and fiscal stimulus packages. The US M2 money supply in 2020-2021 is more than 40%, the Fed's balance sheet more than doubled, to nine trillion US dollars. As a result, the US economy recovered very quickly to pre-pandemic levels, and the unemployment rate dropped to 3.6%.
The US economy is simultaneously experiencing both inflationary pressures: Cost-push and demand-pull, causing inflation to rise to a 40-year record. To deal with this risk, the Fed has declared war on inflation by raising operating interest rates and preparing for a roadmap to shrink its balance sheet from mid-year. When the executive changes policy, inflation will cool down in the US.
However, the world economic recovery is currently out of phase. Many Asian countries are still in a slow growth phase such as Japan, China, Indonesia... and also witness low and stable inflation. These are also countries that are maintaining loose monetary policies, in contrast to the Fed. The risk of demand-pull inflation is and will be very different between countries, depending on each country's position in the economic growth cycle. Since then, operating policies in each country have also changed to suit their own context.

## 3. Current situation of inflation in Vietnam in the period of 2019-2023

**Unit:** %




**Source:** General Statistics Office, 2019-2023

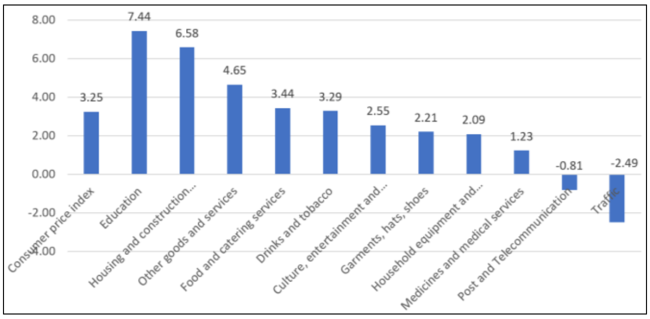
**Fig 1:** Inflation in Vietnam in the period 2019-2023

The average CPI in 2019 increased by 2.79% compared to the average in 2018, the market price level in 2019 increased during the Tet holiday, decreased slightly in March, then gradually increased in April and May, decreasing again in June. and gradually increase over the last months of the year.
The average CPI in 2020 increased by 3.23% compared to 2019, reaching the target of control under 4% set by the National Assembly. The increase in commodity groups included food, medical and educational equipment. Decreased commodity groups include gasoline, oil and gas, and tourism transportation.
The average CPI in 2021 increased by 1.84% compared to the previous year. The reason for this level is due to the complicated effects of the COVID-19 epidemic, causing people's consumer demand to decline sharply.
The CPI consumer price index in 2022 increases by 3.25% compared to 2021 in the context of world inflation continuing to rise, especially in Europe and the US, and some economies showing signs of recession and natural disasters. complicated developments. Petroleum products increased by 28%, food increased by 1.62%. Price movements of raw materials and raw materials in the world tend to decrease due to slowing global economic growth, besides the conflict between Russia and Ukraine is still quite tense. As China's economy recovers from the pandemic, it

will likely increase energy demand.

On average in 2023, CPI will increase by 4.16% compared to the end of last year. The National Assembly has set the goal of controlling inflation at below 5% (4.5%), GDP increasing by 6.5%, but perhaps, implementing the CPI target will not be easy. In 2023, the global economy will grow slowly, inflation will remain high, and the possibility of economic recession will become more obvious, causing the risk of political and social instability in some countries to increase.

**Unit:** %




**Source:** General Statistics Office, 2023

**Fig 2:** CPI increase/decrease rate in 2023/2022

Despite pressure to increase prices of many goods, inflation in Vietnam is still at 2.4% over the same period, among the countries with the lowest and most stable inflation in the world. From the perspective of both demand-pull and cost-push dynamics, Vietnam is still well controlling the factors that create inflation.

With the ability to be self-reliant in the production of many essential goods, foods and consumer goods, Vietnam is highly resilient to supply shocks. In the international market, supply chain congestion began to ease, prices of many goods stabilized and began to decrease by 10%-20% after the shock of the Russia-Ukraine conflict. At the same time, the Government's stance on monetary and fiscal policy management over the years has always focused on macroeconomic stability, avoiding the risk of overheating money supply, which will continue to help curb inflationary pressure due to demand. Pulled even when Vietnam's economy has recovered.

***Causes of rising inflation in Vietnam***

The increase in input costs causes cost-push inflation: Accordingly, in 2023, in addition to the increase in the economy's costs due to increased interest rates, the cost of raw materials and fuels used for production will also increase relatively. Compared to the same period, the freight price index in 2023 increased by 8.36% (air transport services increased by 35.84%), the price index of raw materials and fuels used for production increased by 6.79% (used for agricultural, forestry and fishery production increased by 9.9%, industry increased by 5.53%, construction increased by 6.96%).

Increased import prices of goods cause import inflation: In which, compared to the same period, the import price index increased by 8.56%; The import price index of many products has a very high increase (about 20 - 30%) compared to previous years such as petroleum, gas, animal feed, fertilizer, iron and steel. Along with that, the USD price index increased by about 2.1% over the same period, also contributing to the dual impact of imported goods prices on domestic goods prices through the exchange rate channel.

Prices of essential goods, including energy, food, etc., have increased compared to previous years, typically domestic gasoline prices increased by 28.01%, causing the overall CPI to increase by 1.01 points. %, food prices - food services increased by 2.55%, causing the general CPI to increase by 0.86 percentage points. Collectively, these two product groups account for nearly 60% of the total average CPI increase in 2022.

Credit growth increased rapidly, along with that, interest rates and exchange rates also increased higher than the previous year. By the end of 2023, the total outstanding credit balance of the entire economy reached 11.92 million billion VND, the credit growth rate reached 14.18%, higher than the same period in 2022 (13.61%). Rapid credit growth reflects higher credit demand due to increased consumer spending and boosted production, but it also puts pressure on inflation, with 12-month lending interest rates increasing from 8% to 9.5%. Also affects the production and business activities of enterprises.

The trend of tightening financial and monetary policies in countries: Vietnam has a large economic openness, the economy depends heavily on imported raw materials and fuels, therefore, economic activities are quite "sensitive" to global economic shocks. Typically, in 2023, the global economy faces great inflationary pressure and recession risks; Geopolitical tensions also make the supply of goods scarce, supply chains face many difficulties, and trade costs increase; In particular, many countries have implemented tightening monetary policies through increasing interest rates, causing pressure to increase exchange rates and domestic interest rates.

## 4. Solutions to control inflation in Vietnam

Price management and inflation control in the coming time need to continue to be proactive, closely follow and closely monitor fluctuations in the global economic and financial situation, especially commodity price fluctuations; Synchronously and effectively implement goals, tasks and solutions in Resolutions of the Party, National Assembly and Government. In particular, the following solutions should be noted:

Firstly, continue to maintain macroeconomic stability through close coordination between fiscal, monetary and price management policies to improve the effectiveness of price management and control inflation within the target range. In particular, focus is on: (i) Adjusting reasonable interest rate policies to support production and business recovery; (ii) Actively and flexibly manage exchange rates, ready to cope with pressures caused by tightening monetary policies and the decline in foreign investment flows, (iii) Stabilize market prices and Control inflation within the target threshold to control expected inflation.

Second, in the face of unpredictable risks and uncertainties in the global financial market, monetary policy needs to consider the balance between inflation targets, financial market stability and economic growth; In particular, it is necessary to be steadfast in the monetary policy management goal of "controlling inflation, stabilizing the macroeconomy, and supporting economic growth" but be flexible with priorities from time to time. In the immediate future, priority should be given to ensuring liquidity, maintaining stability and safety of the banking system, and stabilizing the foreign exchange market; strengthen monitoring and risk assessment mechanisms to promptly respond; Increase transparency of information and data on the financial market and banking sector to strengthen investors' confidence.

Third, closely monitor supply and demand developments and market prices of important and essential goods such as food, fuel, oil... to take appropriate management measures. Strengthen the work of synthesizing, analyzing and forecasting market prices; proactively analyze and evaluate the ability to meet consumer demand and domestic production of essential goods and materials to have timely countermeasures. At the same time, promote production and business development to increase the supply of goods to meet recovering consumer demand and serve exports.

Fourth, dependence on China - Vietnam's second largest export market and largest import source in the context of a prolonged blockade in this country has caused significant consequences for production activities. Vietnam's processing, manufacturing and export industry. Therefore, to limit these risks, it is necessary to diversify trading partners to mitigate risks in importing raw materials and fuel for production and ensure export growth is maintained. In the short term, businesses need to proactively calculate business plans to proactively build plans to reserve raw materials and proactively seek additional sources of supply. In addition, it is necessary to make good use of signed free trade agreements (FTAs), especially new generation FTAs such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Trade Agreement. Free trade between Vietnam - EU (EVFTA).

Fifth, consider and find ways to reduce trade costs through comprehensive reform packages to streamline trade processes and customs clearance requirements, and strengthen trade support infrastructure in water, enhancing competition in the domestic trade, logistics, retail and wholesale sectors; reduce costs of compliance with export and import standards. Besides, it is possible to take advantage of opportunities from FTAs to reduce tariffs and lower non-tariff barriers.

Sixth, in the long term, it is necessary to accelerate the transition to clean and renewable energy, enhance energy security and meet commitments under the climate change agenda.

## 5. Conclusion

The recently mentioned high inflation risk probably comes more from past hauntings than from convincing scientific grounds. It is that deep fear that helps us have the necessary caution, contributing to reducing the risk of high inflation. Vietnam has the most stable and solid macroeconomic foundation since opening up for integration. Instead of worrying too much about high inflation, we should focus on investment and production and business, making good use of the opportunities of a rapidly transforming Vietnam.

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