Vietnam’s inflation

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Vietnam's government is set to raise electricity prices by 15% on Tuesday, at a time when the population is already struggling with a soaring cost of living. Last week the Vietnamese government also raised the retail prices of oil products by as much as 24%. In February, inflation hit a two-year high of 12. 31%. Analysts say despite the government's measures to tighten monetary policy, price pressures are likely to continue. " The increases in energy, electricity and petroleum indicate that we are going to see inflation get a little worse despite the shift in government policy," said Christian de Guzman of Moody's Investor Group.

Overheating For years the Vietnamese government has kept a loose interest rate policy and subsidized lending in order to boost growth. The government expects the economy to expand as much as 7. 5%, up from 6. 8% in 2010. But the cost of that rapid pace is that the economy has started to show signs of overheating. Credit rating agencies cut the country's sovereign-credit rating last year. Inflation fears have also caused a sell-off in Vietnamese markets. Vietnam's benchmark stock index has slid 6. 7% in the past year. The Vietnamese government was focused on growth at all costs," said Mr de Guzman. " By the middle of last year they had already reached their inflation target but then they continued to pursue other macroeconomic policy targets like credit growth and gross domestic product growth," he said. Fighting inflation But since the beginning of this year, the government seems to have shifted its policies towards stabilizing prices. Last week the Vietnamese government announced a set of measures to curb inflation.

Electricity prices have been raised in an effort to reduce budget spending The central bank recently raised the cost of borrowing. It increased the benchmark refinance rate by 2 percentage points from 9% to 11%. The government has also vowed to reduce government debt. To that effect, it cut the budget-deficit target to less than 5% of gross domestic product, from 5. 3%. Reducing government spending on subsidies for fuel and electricity are also part of that plan. " In order to stave off inflation, they want to cut back on subsidies.

It does alleviate some of the pressure on the budget," said Mr de Guzman. Dong devaluation The other major strain on the Vietnamese economy is the currency. The central bank devalued the dong against the US dollar by 8. 5%. It is the latest in a series of devaluations the government has implemented to reduce the risk of a shortfall in foreign currency reserves. However, that will lead to higher import costs, which in turn, could again increase inflationary pressures.