

Improving the Sustainability of Vietnam State Budget

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Abstract – The State budget has played an extremely important role in all socio-economic activities, national security, defense and foreign affairs of the country, in which, sustainable budget has occupied a key position to ensure the sustainability and security of the public finance sector. Therefore, it is able to decide the sustainability of the whole social economy. Stepping into the 2016-2021 period, many predictions about the internal and external economic situation indicate that revenue and expenditure activities of the State budget in Vietnam has been difficult, the trend of State budget deficit remains high and lasting, public debt having high potential risks will adversely impact on stability and sustainability of the State budget. The following article using comparative synthesis method will present the State budget situation in general and the situation of the sustainability of revenues and expenditures in particular. Thereby, the directions and solutions to enhance the sustainability of Vietnam’s State budget could be suggested.

Keywords – State Budget, Sustainability, Budget Collection, Budget Expenditure, Enhance.

I. THE SUSTAINABILITY OF STATE BUDGET

The term of "State budget sustainability" was mentioned during the debt crisis in 1980s. It becomes more common recently because of the public debt crisis in European countries. Sustainable State budget could be understood as a situation where the State budget could be handled in the midterm and the public debt is not threatening the national macro economy (Kopits, 2013). However, in order to ensure the sustainability, the State not only needs to focus on the public debt but also examines all the factors which could influence the State incomes and expenditures. Therefore, the sustainable State budget should be the situation that all the incomes and expenditures of the State is controlled actively plus the State can ensure the completion of all financial duties that was committed (Hou, 2013). In fact, guaranteeing a sustainable budget is very important to the safety of the macro economy. The unstable economic situation in many countries was started from the unsustainable public finance which is caused by the imbalance in State budget.

II. THE SUSTAINABLE INCOME AND EXPENDITURE IN STATE BUDGET

The income of State budget has a critical position in the whole economy sustainability (Helpman, Razin, & Sadka, 1988). The sustainable income should be based on the business, production and consumption activities of the economy (Sun & D. Lynch, 2017). Moreover, the collecting system needs to guarantee the balance between indirect taxes (on consumption) and direct taxes (on income) and

taxes on properties. In recent years, the trend in many nations is focusing on consumption taxes, especially the value added tax (VAT). The sustainability of incomes from consumption taxes is much better than income taxes. This transition in tax system is also a result of international integration process in which the barriers on the flows of funds and labor are gradually lowering (Walker, 2006). In this era, countries have to continuously reduce both corporate and personal income taxes to ensure the competitiveness of investment environment. On the other hand, the income of the State should limit the reliance on the revenues that have exogenous factors as well as irregular revenues. These irregular revenues from capital or natural resources need appropriate regulations on using, especially the use of these revenues on recurrent expenditures has to be minimized.

A suitable scale of State expenditures could significantly ensure a sustainable State budget. In addition, another requirement is harmonious expenditure structure. In which, the recurrent expenditures have to be fulfilled by regular collections (the "Golden rule" in budget balance). The use of one-off revenues or limited revenues such as collections from properties or natural resources on recurrent expenses could create huge risks on the State budget. These types of revenues contain big variation and limitation while the recurrent expenditures is very difficult to reduce during fluctuated situations (Schiavo-Campo, 2017). These negative situations could lead to the reduction of State budget.

III. THE RECENT STATE BUDGET BALANCE IN VIETNAM

Since the start of economic transformation in 1990s, Vietnam's economy has had many extensive changes. The law systems and policy mechanism has well supported a developing multi-component economy. Moreover, the public financial management system of Vietnam has reformed deeply and step by step been more compatible with international qualifications (Vo, 2013). The positive transition of the State budget balance could be shown as follow:

Figure 1. State budget balance (2011-2016)

Year	2011	2012	2013	2014	2015
State budget income	962,982	1,038,451	1,084,064	1,130,609	911,100
State budget expenditure	1,034,244	1,170,924	1,277,710	1,339,489	1,147,100
State budget overspending	112,034	173,815	236,769	249,362	226,000

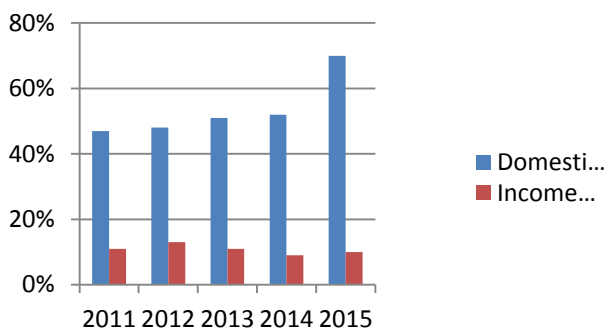
Source: Vietnam Ministry of Finance (2011-2015)

A. Situation of State budget income

The strong reformation of the State budget income system in recent years has expanded the scale and positively changed the revenue structure. According to Vietnam Ministry of Finance, the budget income scale of 2011-2015 period is double the 2006-2010 period and four times more than 2001-2005 period. The total revenue of 2015 has increased by over 1.55 times compared to 2010 and 3.26 times compared to 2006. In which, taxes and fees have become the main sources of income for the State budget. During the 2011-2015 period, because of the stimulus policies which discouraged the tax incentives on corporate and personal income taxes, the mobilization of State budget was decreased compared to previous period (about 22.67% GDP) (MOF, 2011-2016).

Not only the scale of the State budget collection was changed but also its structure. The revenue structure has been more sustainable by reducing its reliance on selling assets, natural resources and import taxes while increasing the portion of income from domestic production and consumption. Specifically, the State revenue structure is positively changing (as Figure 1). Domestic income proportion (Reflect the domestic incentives) has been increased from 59% (2006-2010) to 68% (2011-2015). In 2015, this proportion took 74% of State budget income (over-targets by 4%). Meanwhile, the income proportion from selling crude oil has been decreased from 25.3% in 2001 to 11.76% in 2010 and 10.2% in 2015. The contribution of import taxes also has been depreciated from 13.91% in 2001 to 8.47% in 2010 and 7.76% in 2015. Moreover, the budget from land rights has been reduced after several years of increase. This proportion was 8.75% in 2007 before reaching about 4%-5% in recent years (MOF, 2011-2016).

Figure 2. State budget income structure (2011-2015)



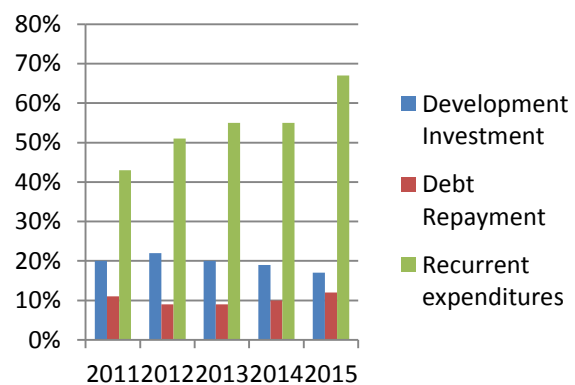
Source: Vietnam Ministry of Finance (2011-2015)

B. Situation of State budget expenditures

Thanks to the improvement in the State budget income, Vietnam Government has enjoyed some advantages in fulfilling the demand for public expenses. The total amount of public expenditures in 2011-2015 equals about 28.4% GDP while it was 29% in 2001-2010. In the expenditure structure, Vietnam has actively prioritized the investment for some important sector such as science development,

technology, education and training, poverty reduction activities, ensuring Social Security. This structure has become more and more reasonable (Figure 2). The recurrent expenditure in 2011-15 was about 65% of total expenses, increased by 10% compared to 2006-2010 period. This escalation caused by changes in salary system, increasing Social Security, paying for public debt and issuing government bonds (Truong, 2014). The proportion in government spending of investment has escalated from 25.9% in 1991-2000 period to 30.0% in 2001-2010 period. In the last 5 years, this proportion has been started reducing but still remains at over 22.5%. This number has not included the amount of Government Bonds issued in the last 5 years (MOF, 2011-2016).

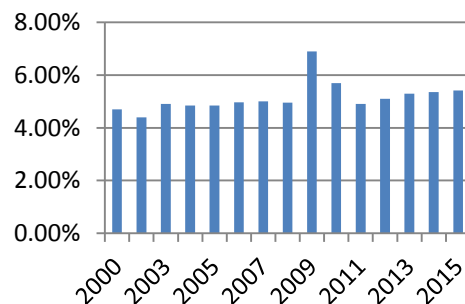
Figure 3. State budget expenditure structure (2011-2015)



Source: Vietnam Ministry of Finance (2011-2015)

Generally, the situation in 2011-2015 period and 2015 particularly shows some positive signs. The acceleration of the State expenditures is not high as expected. Hence, we can be optimistic that the control of investment expenses and the restructure of public expenses has brought up some first achievement. However, the budget overspending is still increasing in recent years as below table:

Figure 4. State budget expenditure overspending over GDP (2000-2015)



Source: Vietnam Ministry of Finance (2000-2015)

The budget overspending rate of 2015 is below 5% of GDP but still higher than 4.9% average of 2006-2010. At the end of 2015, the public debt is about 61.3% of GDP, government debt is about 48.9% of GDP while the foreign debt is 41.5% of GDP. This ratio is considered as acceptable according to Vietnam Government. However, from 2011 to

2015, the outstanding public debt has increased by 7% because of the demand for infrastructure investment. Moreover, the loan and interest repayment requirement is gradually increasing from the average of 3.8% of GDP in 2006-2010 to 7.7% in 2015. This forced the government to plan to issue about 3 billion USD international bond (debt swap) (MOF, 2011-2016).

C. Situation of the sustainability of State budget

Firstly, the State budget income has enjoyed relatively high growth rate in several years. This motivated higher public expenditures and new expenses policies. However, it is expected that the State budget income would start to even decrease in next few years (over GDP) while the expenditure scale and pressure from recurrent expenditures are still relatively high. For instance, the total income of State budget in 2015 increased by 1.55 times compared to 2010 but the total expenses even escalated by 1.77 times accordingly. Especially, the recurrent expenditures have increased by 2.04 times during 2010-2015 but the income from taxes, fees and charges has been pushed up by only 1.65 times (included financial sources from crude oil). This trend created many challenges on holding the balance of State budget in recent years and prevent the reduction of budget overspending.

Secondly, the State budget income structure is not balanced between different sources such as income taxes, consumption taxes and property taxes. The income from taxes mainly relied on value-added taxes, corporate income taxes while the contribution personal income taxes and real estate taxes has been very limited. For example, the personal income taxes only equaled 1.22% GDP in 2014 and 1.14% GDP in 2015 (MOF, 2011-2016). Furthermore, this decrease trend has been started since 2011 (1.38% GDP) while the income and living standards of Vietnamese people are continuously improved in these years.

In recent years, the tax incentives for value-added taxes and corporate income taxes has gradually increased and offset the depreciation of import taxes and income from crude oil. However, the tax incentives on these sectors are very closed to the maximum threshold. Moreover, the income from import taxes is also expected to decrease when Vietnam has to (MOF, 2011-2016) follow their commitment in bilateral and multilateral Free Trade Agreement (FTA). Another significant problem is that the government is heavily relying on Non-renewable revenues such as selling crude oil, selling land rights and real estates. In 2015, this source still occupied over 17% the total income of the State budget. These non-renewable revenues is considered as highly variable, highly affected by exogenous factors and hard to predict (MOF, 2011-2016).

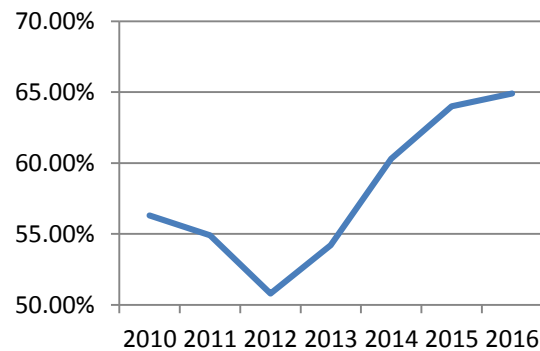
Thirdly, the recurrent budget surplus of Vietnam has been tending to decrease because the recurrent income from taxes and fees has not adequate scale of expansion compared to this scale of recurrent expenditures. This leads to many difficulties in maintaining the sustainability of the State budget in midterm and long-term. In 2006, the recurrent budget surplus (counted as the different between the income from taxes plus fees and the recurrent expenditures) was about 8.7% GDP. This number is reduced to 6.84% in 2010 and 2.15% in 2014. This leads to

the depreciation in accumulation of the State budget for investment.

The expansion of recurrent expenditures is one of the main reasons for the reduction in budget surplus. The recurrent expenditures have increased gradually from 15.2% GDP in 2006 to 17.5% GDP in 2010 and 18.6% GDP in 2014. Meanwhile, the recurrent income from taxes, fees (included income from crude oil) tended to decrease from 23.9% GDP in 2006 to about 20.5% in 2014 according to the Report of Ministry of Finance (MOF, 2011-2016).

Fourthly, State budget overspending has been high for a long time. Only in 2010 and 2011, the budget overspending over GDP was lower than previous period. Since 2012, it started becoming higher again. The budget overspending reached 6.6% GDP in 2013, 6.33% in 2014 and about 5% in 2015. According to MOF, the average budget overspending was about 5.5% GDP in 2011-2015 (higher than expectation) while it was 5.07% in 2006-2010. This led to the escalation of public debt in Vietnam in the last few years (according to Figure 5)

Figure 5. Public debt over GDP (2010-2016)



Source: Vietnam Ministry of Finance (2010-2016)

Fifthly, all public debt indicators of Vietnam are under limitations but the debt development still raised many concerns for the government (Truong, 2014). In recent years, the combination of continuous budget overspending and large amount of issued government bonds (not being counted in budget balance) has grown the public debt significantly. The debt repayment of the State in 2015 was increased by 1.69 times compared to 2010 and accelerated in higher rate compared to State budget income (1.55 times). According to the Report of government, the public debt in 2015 equaled 64% GDP and reached the peak with 64.9% in 2016. Until 2020, it is expected to drop to 60.2% GDP with 46.6% government debt (cannot be over 55% GDP). The direct repayment rate of the government over total State budget income is about 20% (cannot be over 25%) (MOF, 2011-2016). The difficulties on repayment debt of some projects and loans guaranteed by the government are "signs" of inappropriate use of resources. This might lead to negative impacts on the sustainability of the State budget in long term.

IV. SOLUTION TO IMPROVE THE SUSTAINABILITY OF VIETNAM STATE BUDGET IN THE MEXT PERIOD

A. Orientation to ensure the sustainability of the State budget

In the next few years, Vietnam might have to face some risks in terms of State budget sustainability and public finance security. Therefore, appropriate and timely orientation for this situation is very important (Hou, 2013). At the moment, the income from natural resources, land rights, and import taxes tends to decrease. Hence, the tax system has to be re-organized with the purpose of reasonably maximizing the income from current sources. Moreover, it is necessary to research and apply new source of State income in accordance to international routine. All of the related ministries and authorities need to cooperate to improve the investment environment beside changing the policies of value-added tax, corporate income taxes, import taxes to encourage investments from both enterprises and individuals. The domestic businesses have to be protected and supported following the international commitments. This method can improve the sustainability in business development which leads to reducing the reliance of State budget on selling crude oil and natural resources... The proportion of domestic sources in State budget income should be over 80% in 2020 and the restructuring and privatizing process of State owned enterprises should be finished in 2018.

At the same time, the State expenditure system also has to be restructured and consolidated. The system has to be in accordance to midterm and long-term development plans. For example, the recurrent expenditures should be lower by 10% compared to 2015 while the investment for development should be increased by 20% (MOF, 2011-2016). Moreover, the public debt repayment plan has to be ensured.

B. Solutions

1) Sustainable income structure

First of all, the tax system should be continuously enhanced (Walker, 2006). Each tax policy has to be focus on ensuring the equality, effectiveness and transparency of the whole system. They should follow the principles of:

- Increasing the tax collection by expanding the scope and number of tax payer
- Gradually decreasing the number of business and individuals that are subjected to tax exemption
- Simplifying and improving the tax collection management system
- Encouraging the potential income such as real estate taxes, individual income taxes and collection from natural resources in terms of contribution to State budget

Secondly, following the trend of globalization, the reduction of corporate income taxes is reasonable (Vo, 2013). However, the sustainability of the State budget requires the neutral point of view on this kind of policies. The State has to review the incentives for enterprises beside apply in more appropriate management system. The management system has to restrict transfer pricing and

regulations related to associated transactions alongside with enhancing management of e-commerce transactions.

Thirdly, in order to consolidate the fiscal capacity of the government in the context of reducing income from crude oil, import and export taxes; the role of consumption taxes in the tax system has to be escalated. The common value-added taxes need to be increase gradually with a consistent plan in mid and long term. This escalation will focus on the discouraged products such as wine, beer and cigarettes. Vietnam is one of the countries that highest rate of consumption on these products all over the world but the tax burden on them is not as high as other nations.

Fourthly, the influence of real estate taxes should be increase in accordance to international based. This policy can control the added value from land (the added part is not caused by the land users). The local government will use this resource to invest on infrastructure development while helping to restructure the State budget income. This process also promotes fiscal decentralization towards strengthening the financial capacity of local authorities, especially in urban areas. In fact, the State has been in charged of investing on infrastructure that leads to the increasing value of nearby real estates. However, without an appropriate mechanism to control the added value, the State cannot be shared this amount of income.

Last but not least, the State should pay attention to the spread of budgetary resources and make fundamental changes in management and usage of income from fees and charges. Especially, the fees and charges that have relatively large scope similar to taxes such as registration fees for real estates, lands, cars should be changed and considered as transaction taxes which are applied in other nations.

2) Sustainable expenditure structure

The first thing needs to be focus is the synergy between the expenses and the budget mobilization (Schiavo-Campo, 2017). This will avoid expanding the expenditures without locating guaranteed income sources. The State should specifically point out the prioritized expenses to focus their resources in accordance to the economy's development plans. Determining this "priority order" in terms of allocating resources should play a core role in advancing the fiscal principles and ensuring the sustainability of State budget. Furthermore, a new advanced mechanism for budget (Brussee, 2008) estimation and allocation is surely required. The budget estimation and allocation should be based on results and performance to motivate the autonomy in each unit that is receiving State budget. The heads of these units should be responsible for using the allocated budget while the government should enhance the mechanism and criteria to identify, control and evaluate the efficiency of budget usages.

In order to improve the efficiency of State budget expenditures, the government should restructure the spending mission for each sector. For example, the investment for development should be increased both the contribution of State budget and other external sources including foreign investment. The State also has to motivate the participation of private sector in infrastructure development by transferring the period exploiting and

managing rights. This method will reduce the burden for infrastructure development capital of the State budget. In addition, minimizing the recurrent expenditures is also very important to enhance the sustainability of the State budget.

3) *Reduction in State budget overspending*

It is necessary to have a plan to gradually reduce the overspending. This plan should include a clear political commitment and ensure the discipline in implementation. Moreover, it also has to be balanced between encouraging economic development and ensuring a "healthy" fiscal system. The State income should be prioritized to reduce overspending or prepay debts. Moreover, the calculation of overspending needs to be accordance to international regulations (Brussee, 2008). At the moment, the reported overspending data of the government do not fully reflect because many expenses is not counted in the budget balance.

Last but not least, the public debt should be restructured in the spirit of using mid-term and long-term loans with reasonable interest rates; the current loans should be negotiated to lengthen the period and reduce the period interest payment burden. All of the public debts have to be managed and controlled by an authorized authority.

V. CONCLUSION

In recent years, Vietnam is facing certain risks in terms of sustainability of the State budget. Therefore, the government needs to ensure the balance in both income and expense and reduce the reliance on uncertain source of income and the expansion of recurrent expenditures. In order to reach the budget surplus, the State budget expenditure structure needs to be reformed in accordance with long-term development plans, especially minimizing the budget overspending.

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