



## Tokyo Fiscal Forum 2017

# Recent experiences for fiscal policy under uncertainties and demographic changes in Viet Nam

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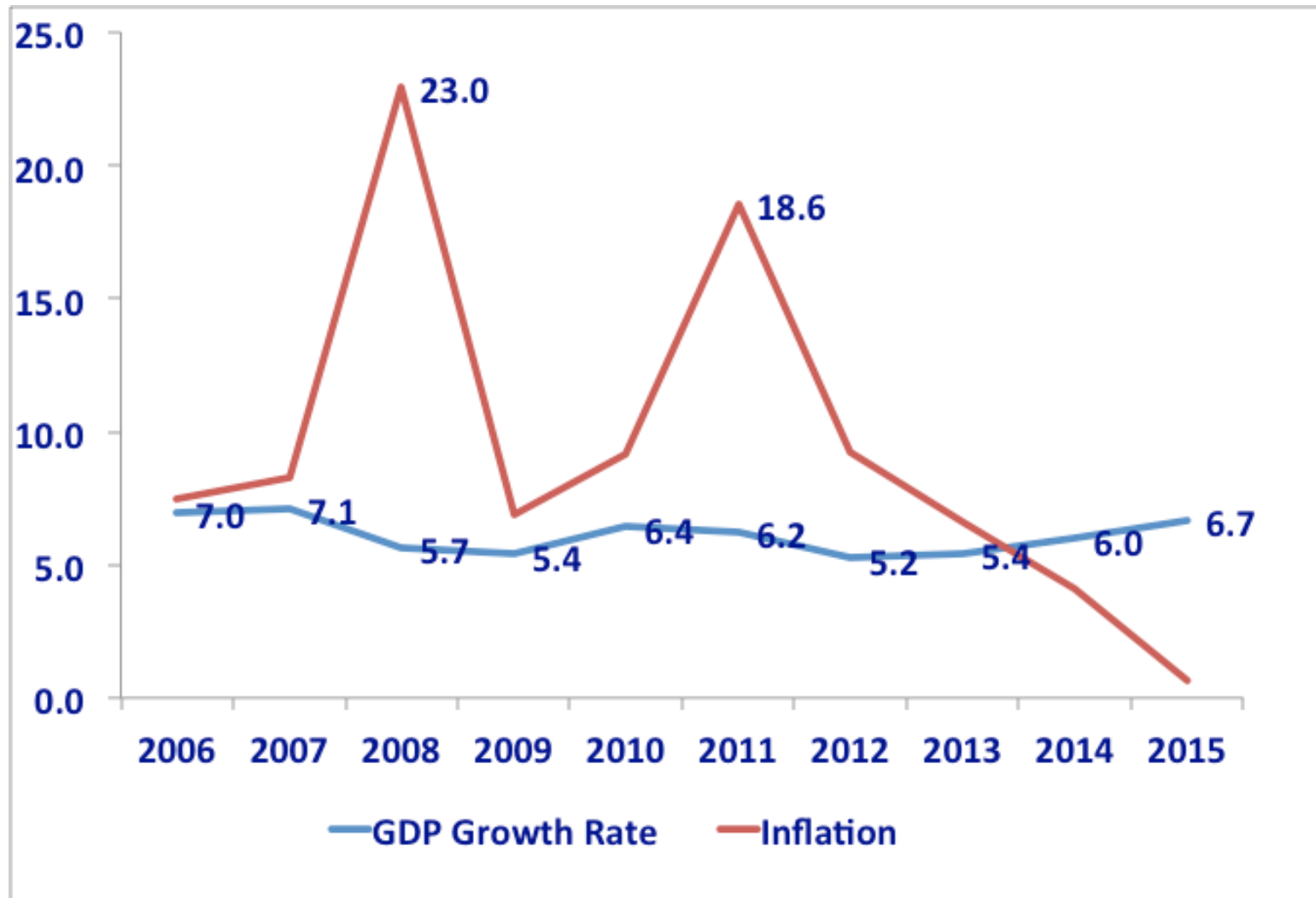
# Outline

- **An overview of the Vietnamese economy**
  - ❑ GDP growth rate
  - ❑ export, import
  - ❑ FDI
  - ❑ exchange rate , inflation
  - ❑ industrial structure
- **Fiscal Policy: Recent Trends and Challenges**
- **Demographical changes in Vietnam, Social Insurance Schemes and related to the aging issue**
- **Demographic changes and Implications for Fiscal Policy**

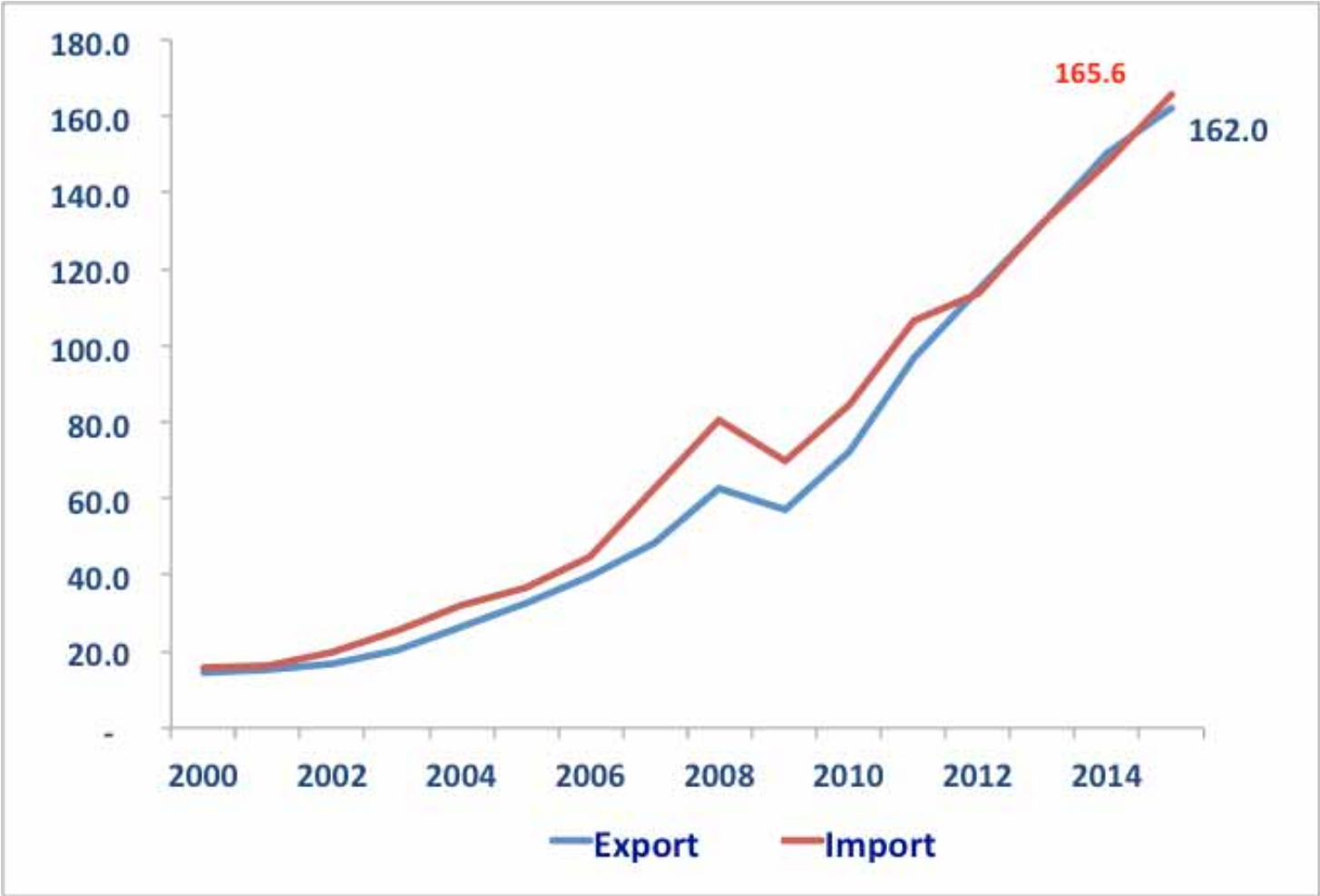
# Vietnamese economy: An overview

- Vietnam has been enjoying a quite high economic growth in the last 10 years ( 6.5% average per annum)
- Foreign Direct Investment and Exports are two important growth driving forces. (Japan is important both in terms of trade and investment)
- The country has experienced some episodes of macroeconomic turbulences due to stock market bubble, public investment over-spending and mismanagement (2006-2008; 2010) when inflation was very high ( 20 percent)
- Significant changes took place in government budget: both trends and composition of revenues and spending
- Fiscal imbalances and debt burden could be a serious problem in the future. A quasi-fixed exchange rate regime may make the problem worse

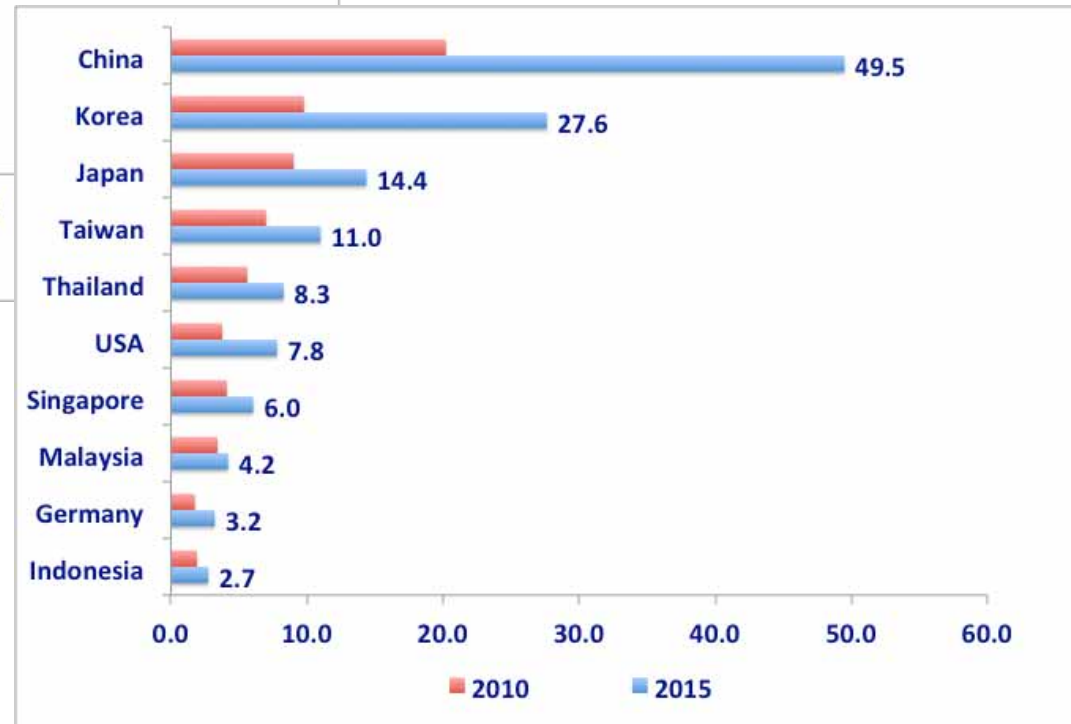
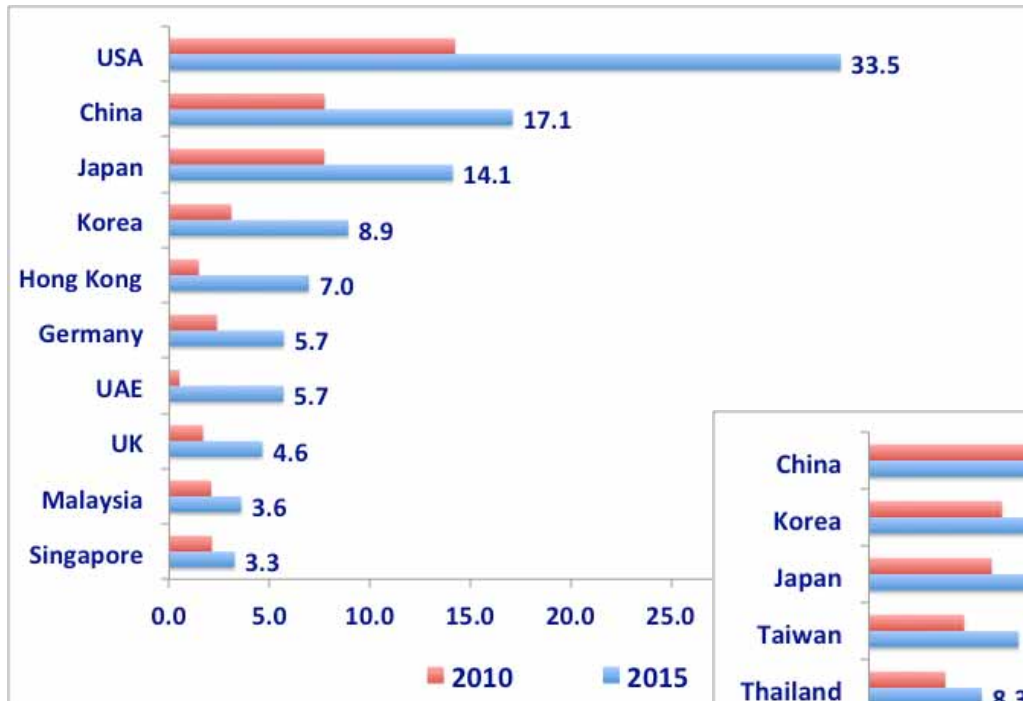
# GDP Growth Rate and Inflation 2006- 2015



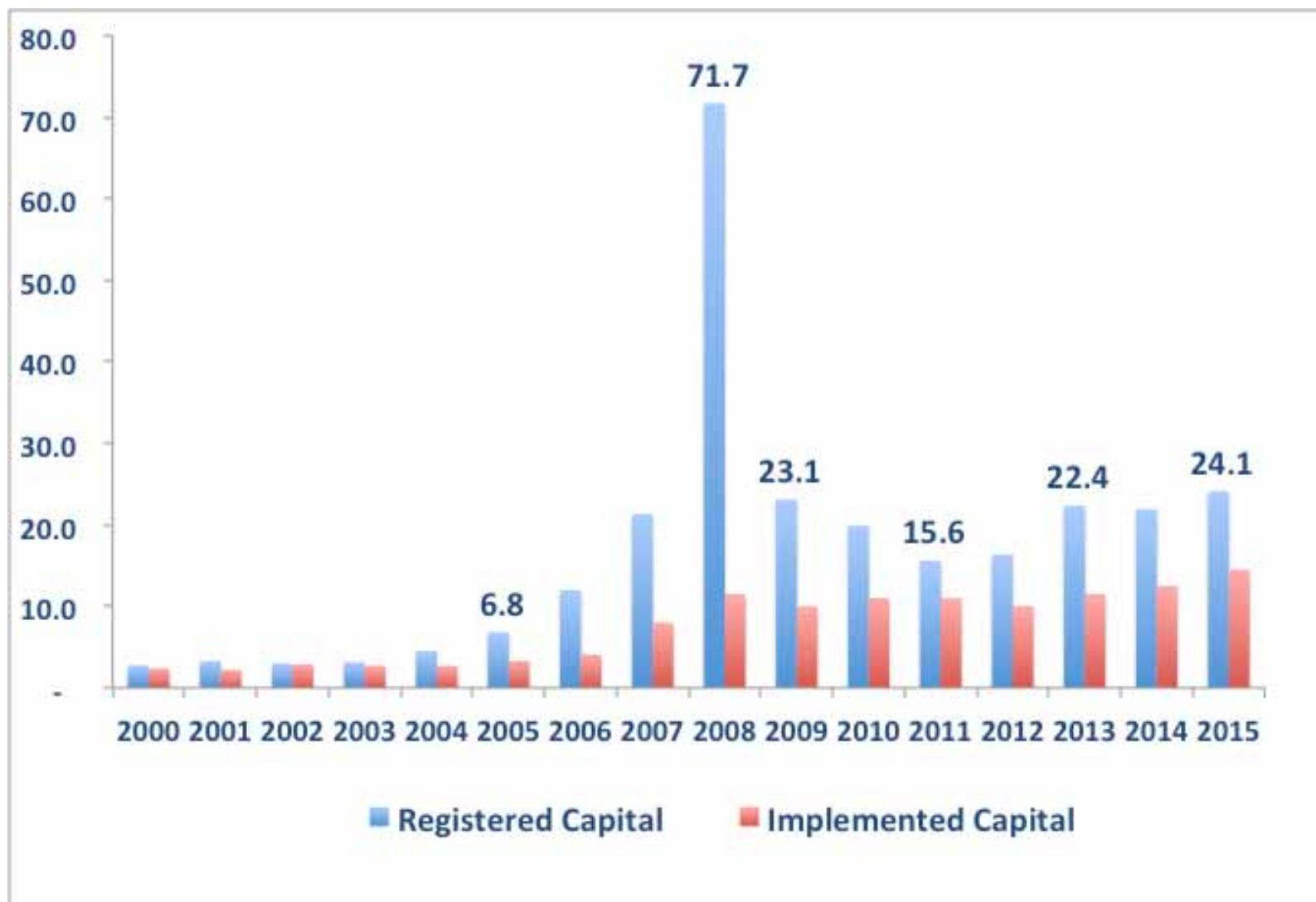
# Vietnam external trade 2000- 2015



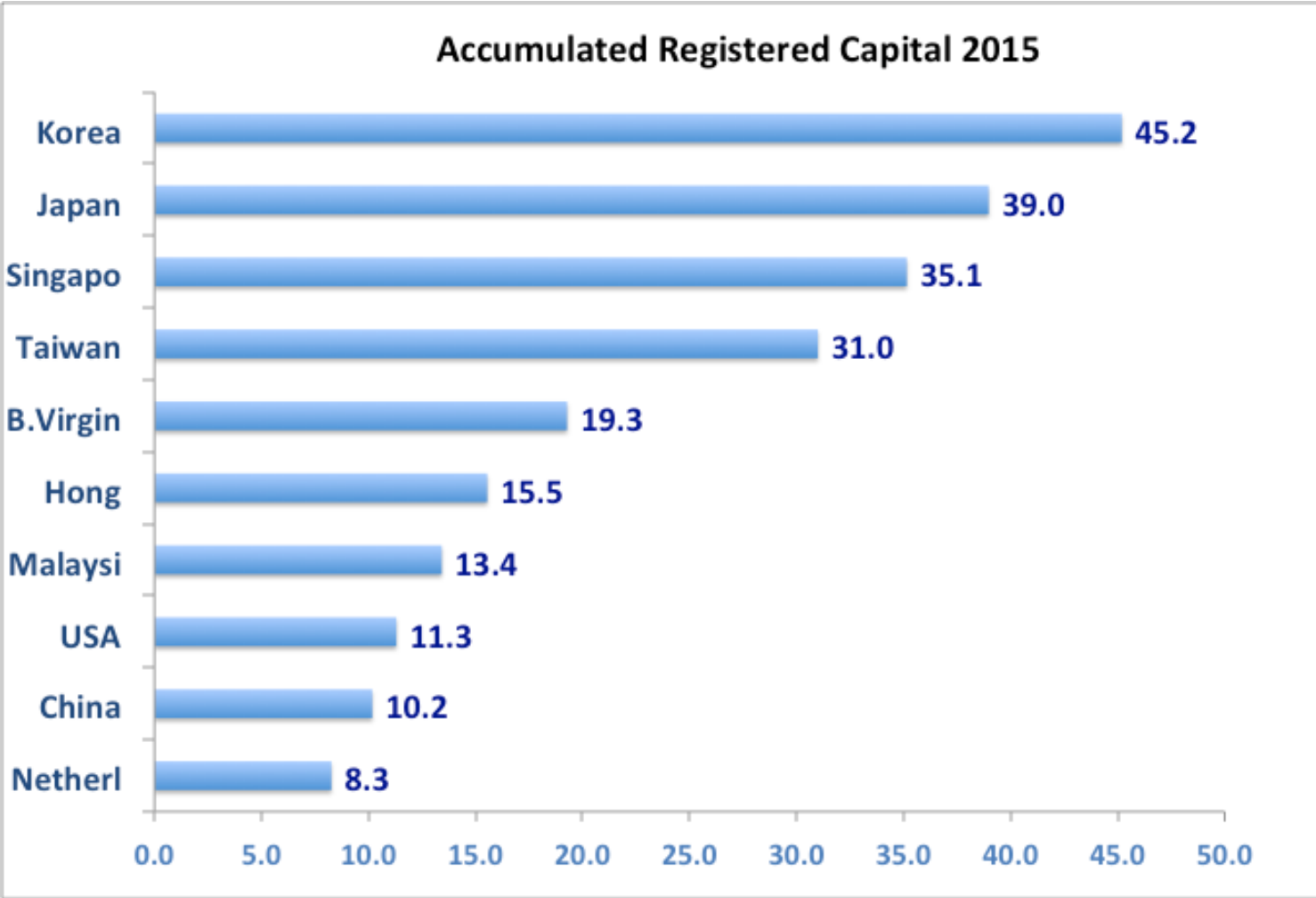
# Topten trading partners 2015



# Vietnam FDI inflows 2000- 2015



# FDI Accumulated Registered Capital 2015: Top ten





# Fiscal Policy: Recent Trends and Challenges

- New State Budget Law 2015 governs fiscal policy
- Significant changes in both expenditure and revenues trends and compositions took place in the last decades
- Budget deficits persistent and became a serious concern so is the related debt problem
- Public investment and public administration reforms are crucial to improve fiscal stance

## Vietnam Fiscal Policy: Recent Trends and Key issues

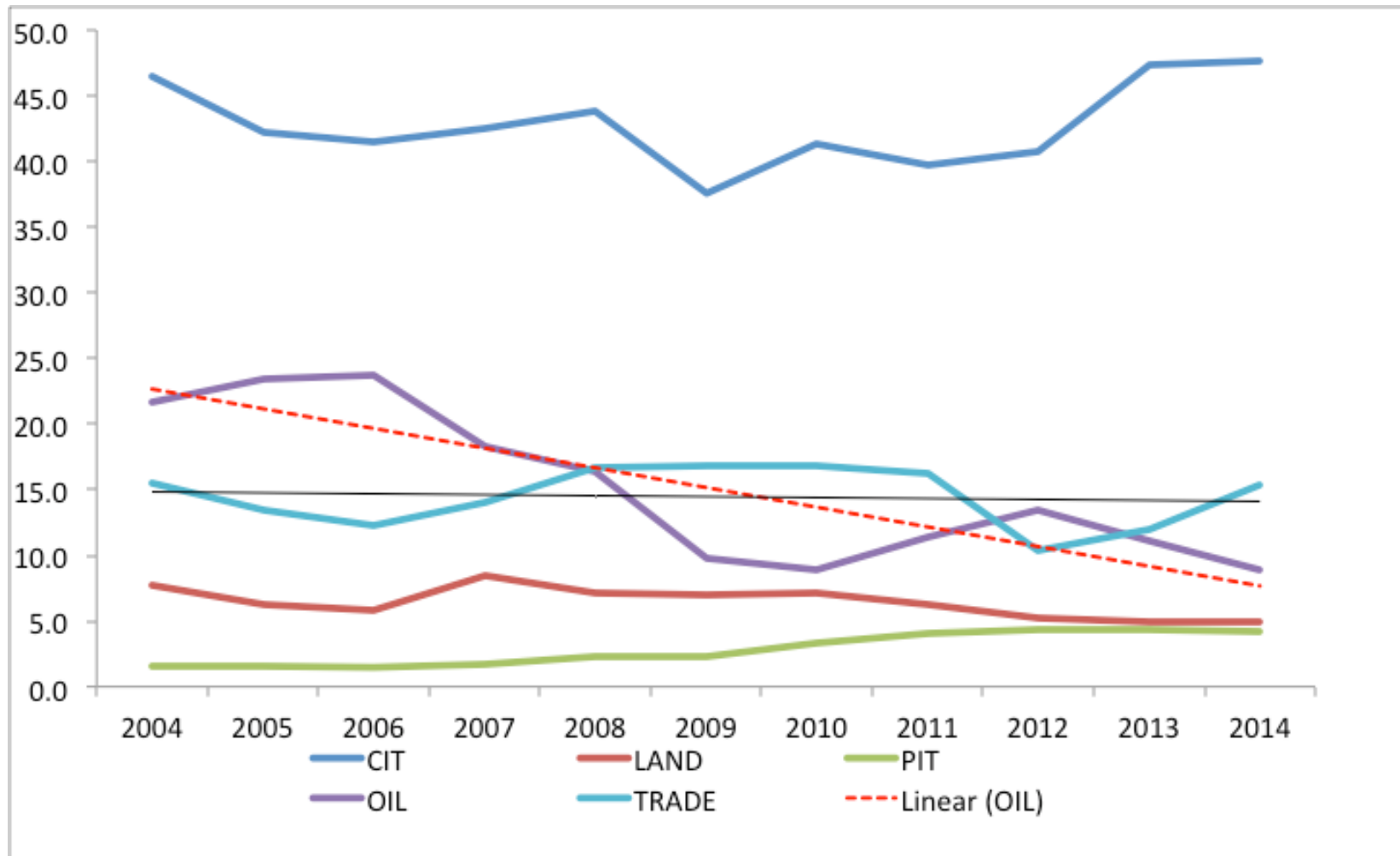
### STATE BUDGET TEMPLATE: REVENUE SIDE

code	Item	Planned/Projected	Implemented/Actual
<b>A</b>	<b>Revenues plan approved by the NA</b>		
<b>I</b>	<b><i>Domestic revenues (excluding oil revenues)</i></b>	●	●
1	SOE	●	●
2	FDI	●	●
3	Private Sector	●	●
4	Personal Income Tax (PIT)	●	●
5	Land-related revenues	●	●
6	Other	●	●
<b>II</b>	<b><i>Oil revenues</i></b>	●	●
<b>III</b>	<b><i>Revenues from external trade</i></b>	●	●
1	Tariffs, duties	●	●
2	VAT on import	●	●
<b>IV</b>	<b><i>Grants</i></b>	●	●
	SUBTOTAL	●	●
<b>B</b>	<b>Revenues from the financial Reserve Fund</b>		●
<b>C</b>	<b>Carry-forward from the previous year receipts</b>		●
<b>D</b>	<b>Net local budget transfer</b>		●
<b>E</b>	<b>On-lendings</b>		●
	GRAND TOTAL		●

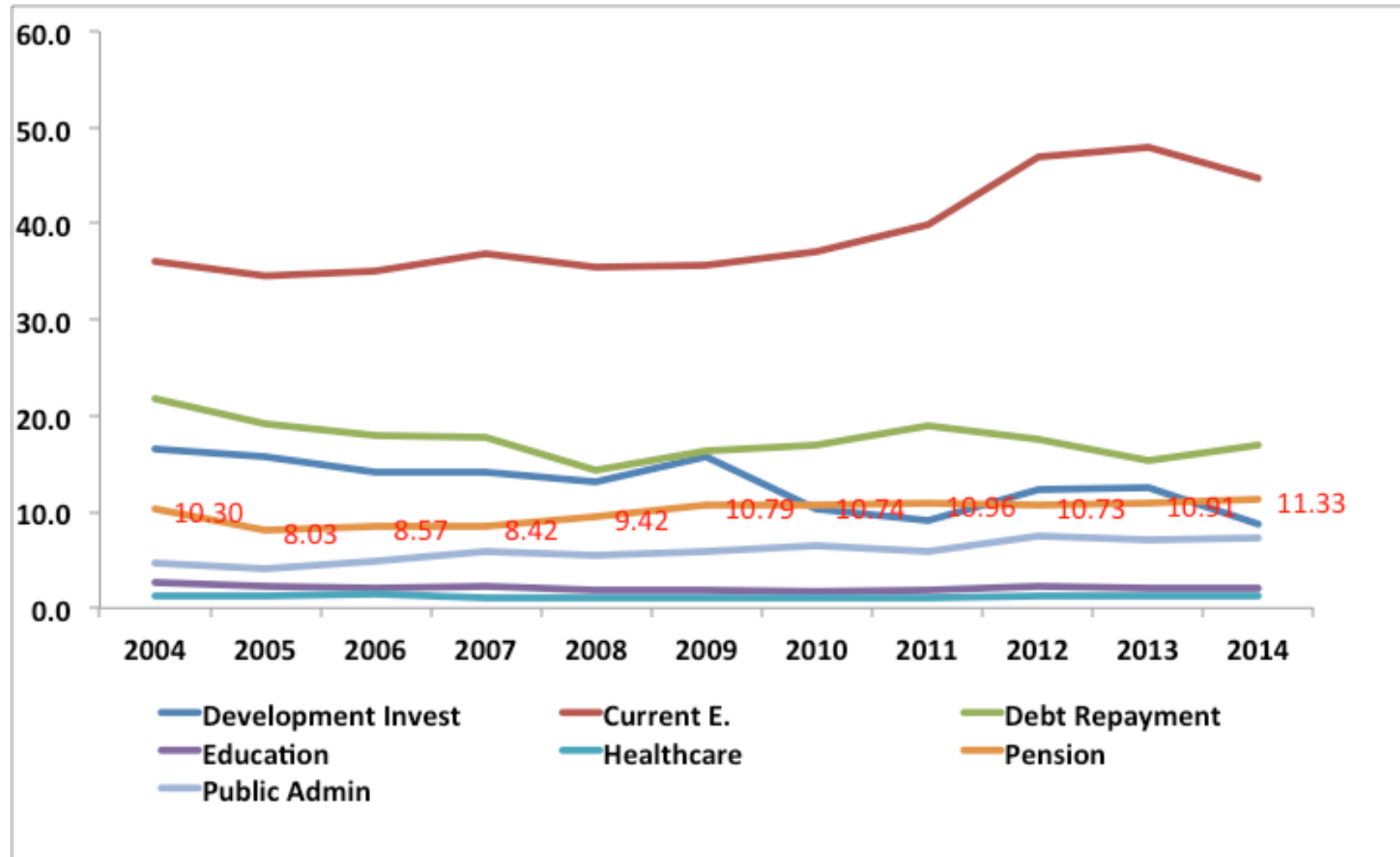
## STATE BUDGET TEMPLATE: EXPENDITURE SIDE

code	Item	Planned/Projected	Implemented/Actual
<b>A</b>	<b>EXPENDITURES BY THE NATIONAL ASSEMBLYS PLAN</b>	●	●
<b>I</b>	<b><i>Development investment expenditures</i></b>	●	●
1	Capital Expenditure	●	●
2	Credit subsidies	●	●
3	Subsidies to SOE and exports	●	●
4	Other	●	●
<b>II</b>	<b><i>Debt Repayments</i></b>	●	●
1	Domestic	●	●
2	External	●	●
<b>III</b>	<b>Current Expenditures</b>	●	●
1	Education	●	●
2	Healthcare	●	●
3	Pension and Social Security	●	●
4	Administrative Spendings	●	●
5	Others	●	●
<b>IV</b>	<b><i>Subsidies for Petrol trading enterprises</i></b>	●	●
<b>V</b>	<b><i>Staffs streamline expenditure</i></b>	●	●
	Contingency	●	●
	<b>SUBTOTAL</b>	●	●
B	Carry-forward to the next year		●
C	Off-balanced spendings		●
D	On-lendings		●
	<b>GRAND TOTAL</b>		●

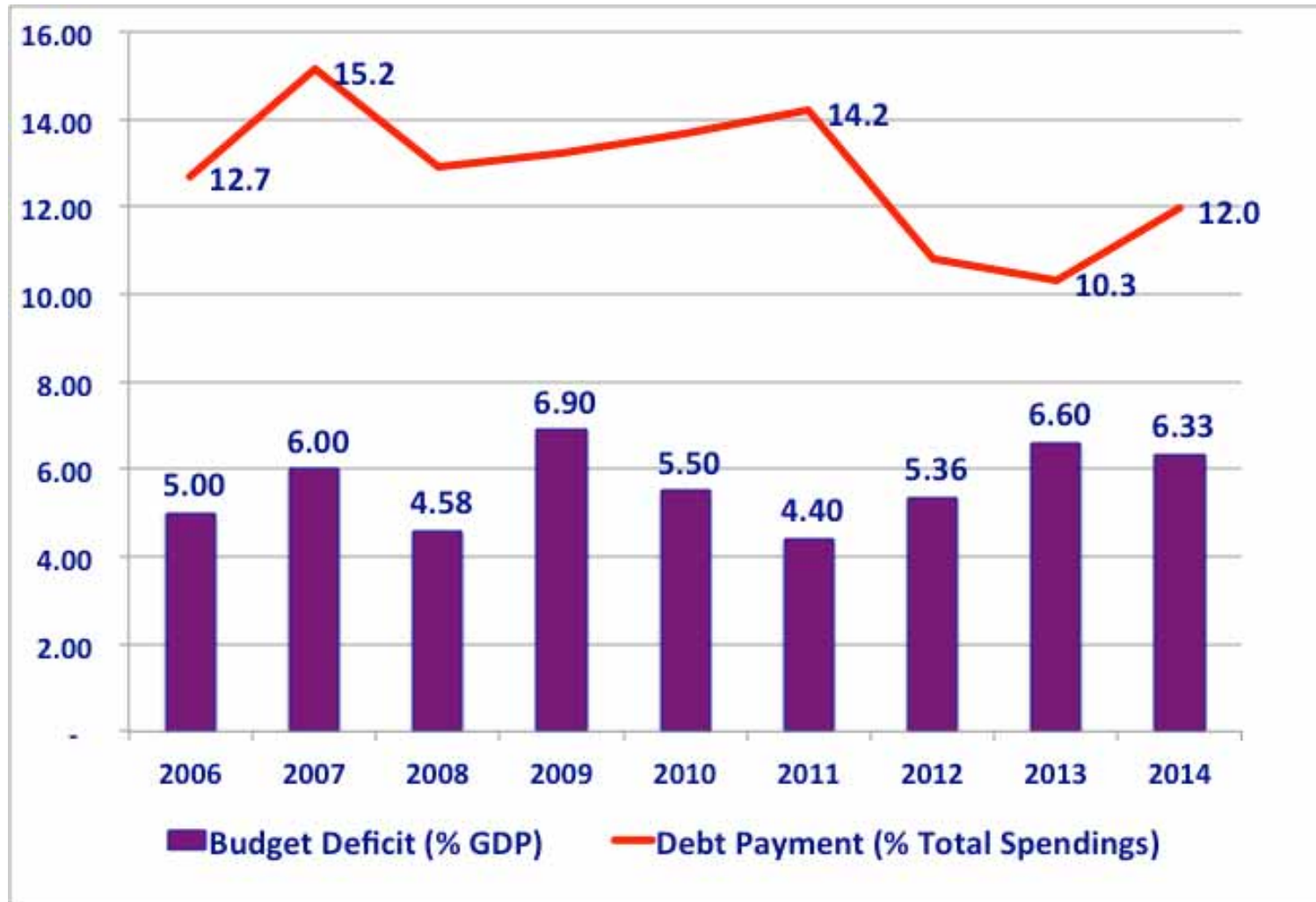
# Government Revenue Composition, 2004-2014



# Government Spending Composition, 2004-2014



# Budget Deficit and Debt Repayment, 2006-2014



# **Fiscal Uncertainty and Challenges**

- **Significant change in composition of both expenditure and revenues.**
- **Serious mismatch between projected/planned budget and actual implemented spending and revenue: serious issue of fiscal discipline/administration, implementation and planning**

# Expenditure components: Coefficient of variation

<b>Item</b>	<b>Projected</b>	<b>Actual</b>
<b>Total expenditure</b>	<b>0.416</b>	<b>0.483</b>
<b>Development Investment</b>	<b>0.282</b>	<b>0.380</b>
<b>Debt Repayment</b>	<b>0.486</b>	<b>0.451</b>
<b>Current Expenditure</b>	<b>0.547</b>	<b>0.587</b>
<b>Pensions and Social Security</b>	<b>0.445</b>	<b>0.553</b>
<b>Public Administration</b>	<b>0.503</b>	<b>0.540</b>
<b>Education</b>	<b>0.501</b>	<b>0.658</b>
<b>Healthcare</b>	<b>0.405</b>	<b>0.487</b>

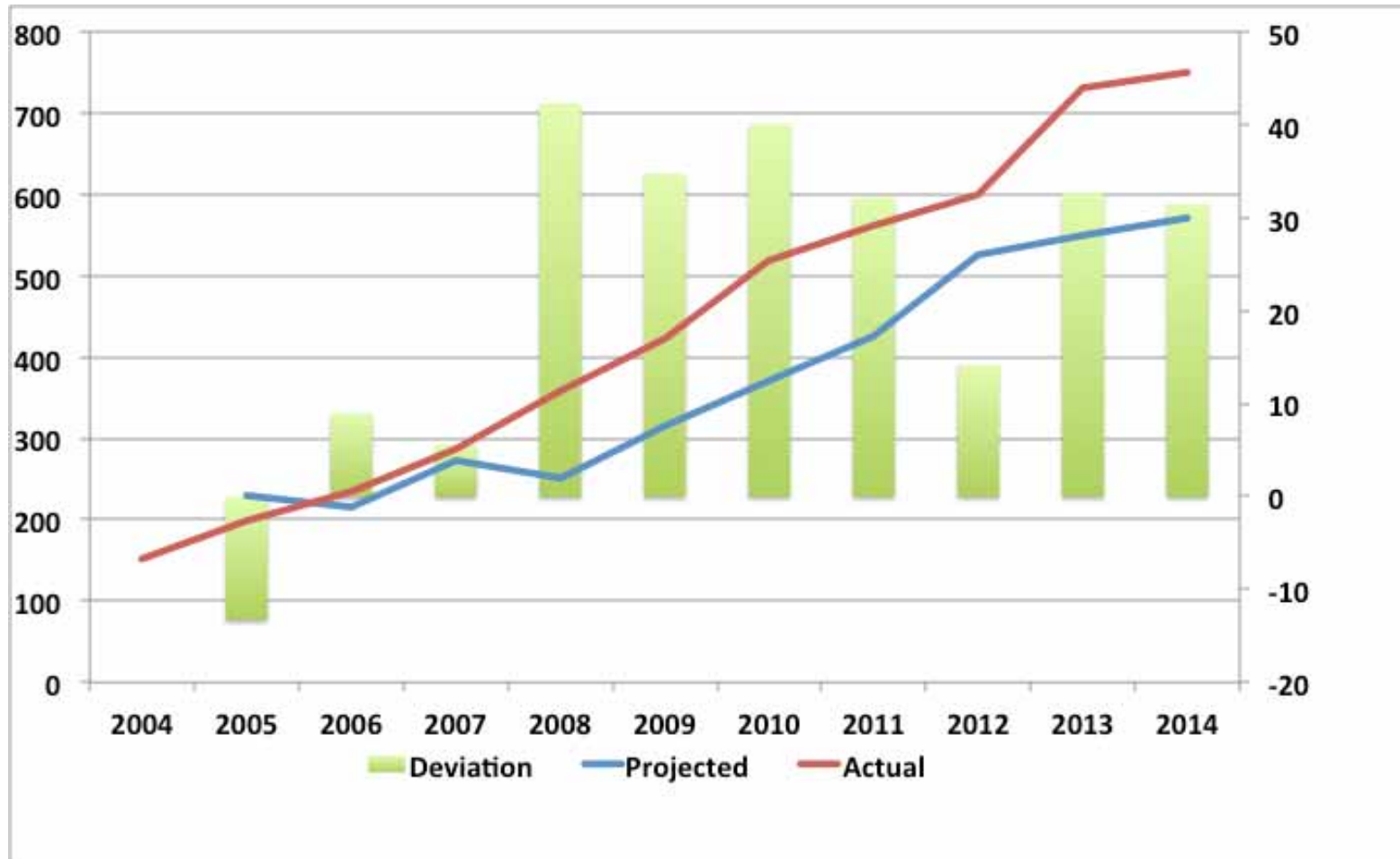


## Expenditure components: Coefficient of variation

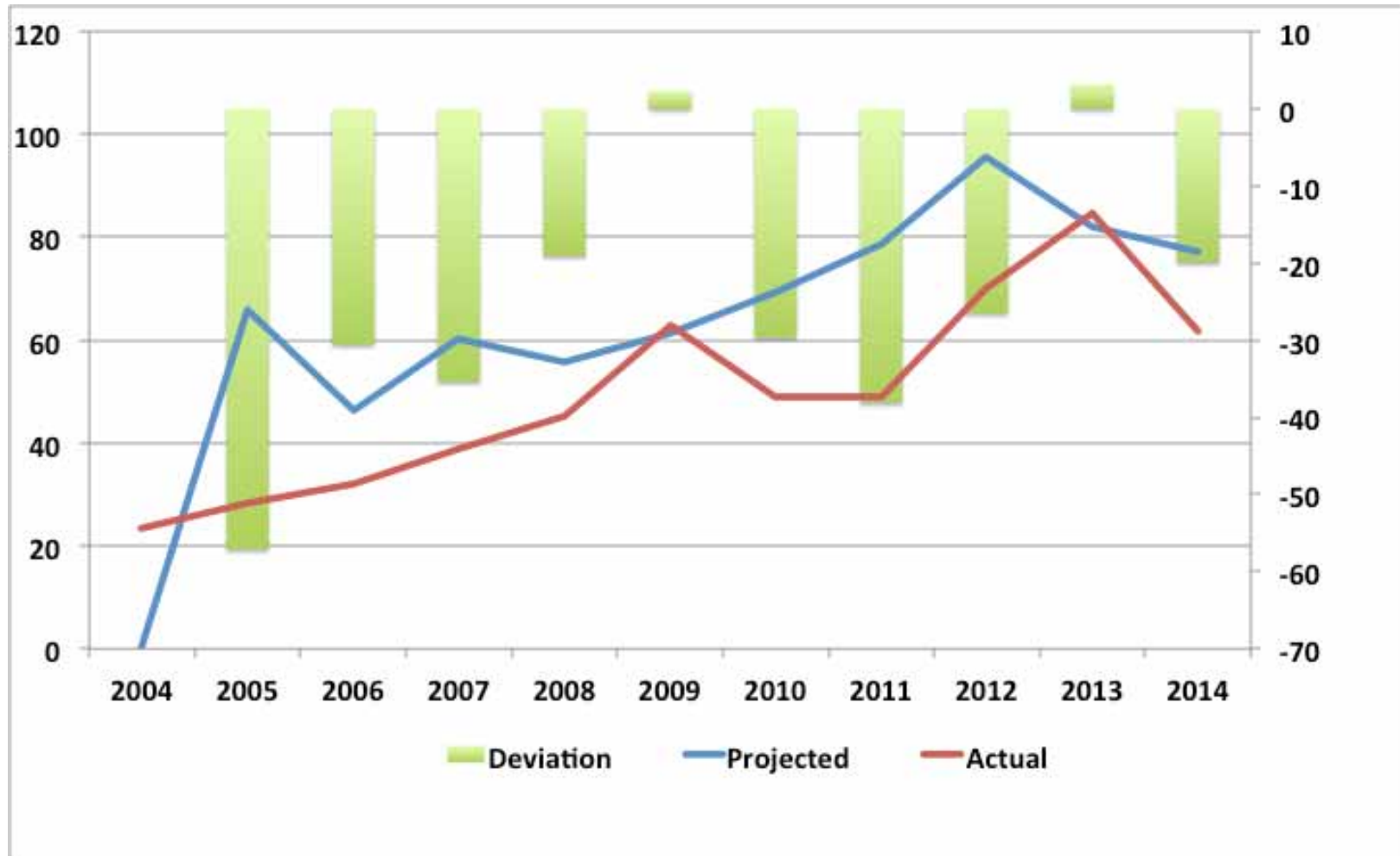
Item	Projected	Actual
CIT	0.651	0.531
Land taxes	0.532	0.398
Oil revenues	0.307	0.314
Trade taxes	0.505	0.496
SOE taxex	0.641	0.584
FDI Taxes	0.673	0.624
Private sector Taxes	0.664	0.625
Revenues	0.559	0.592

# Mismatch between project and actual budget:

## Total expenditure

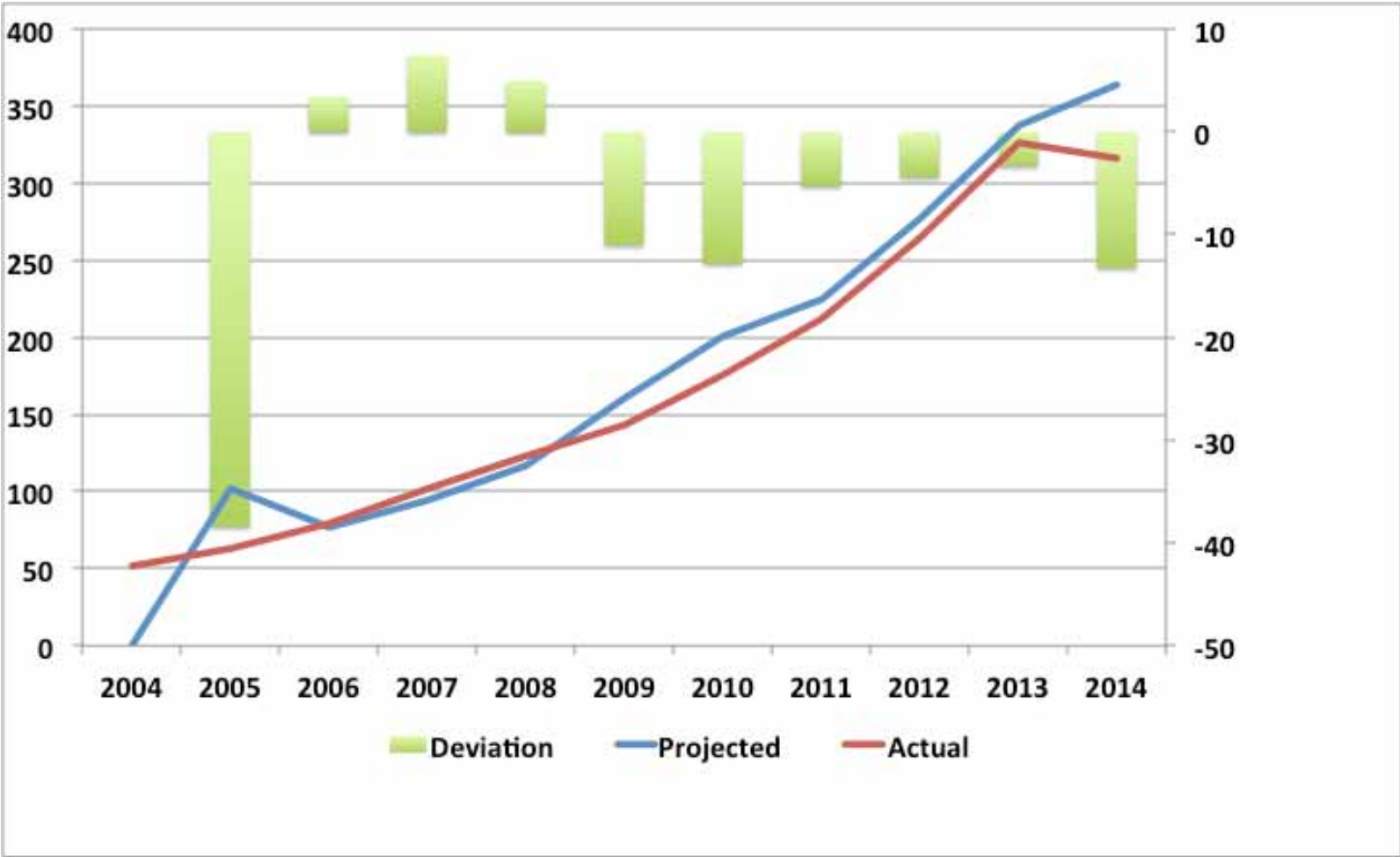


# Mismatch between project and actual budget: **Development Investment**

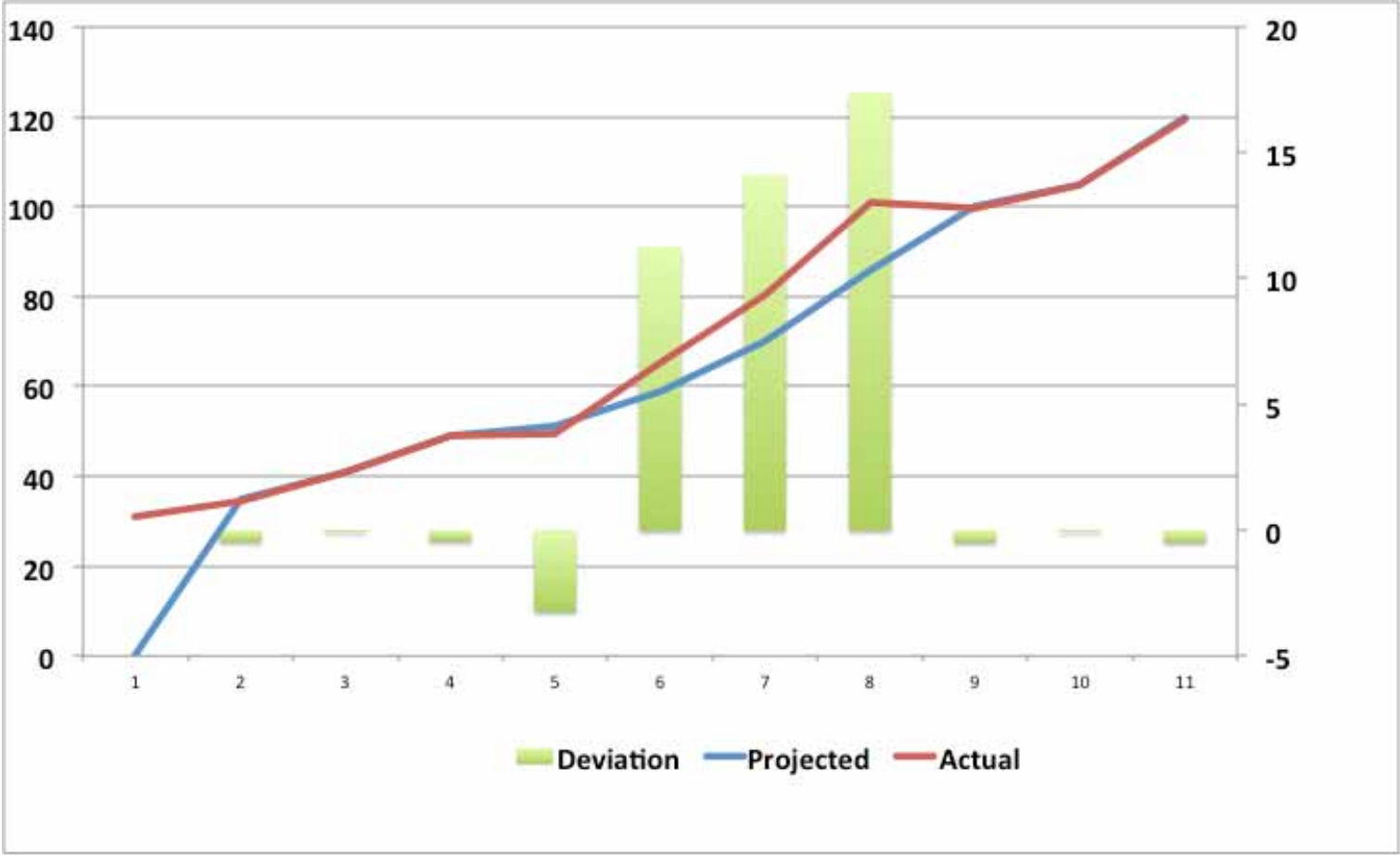


# Mismatch between project and actual budget:

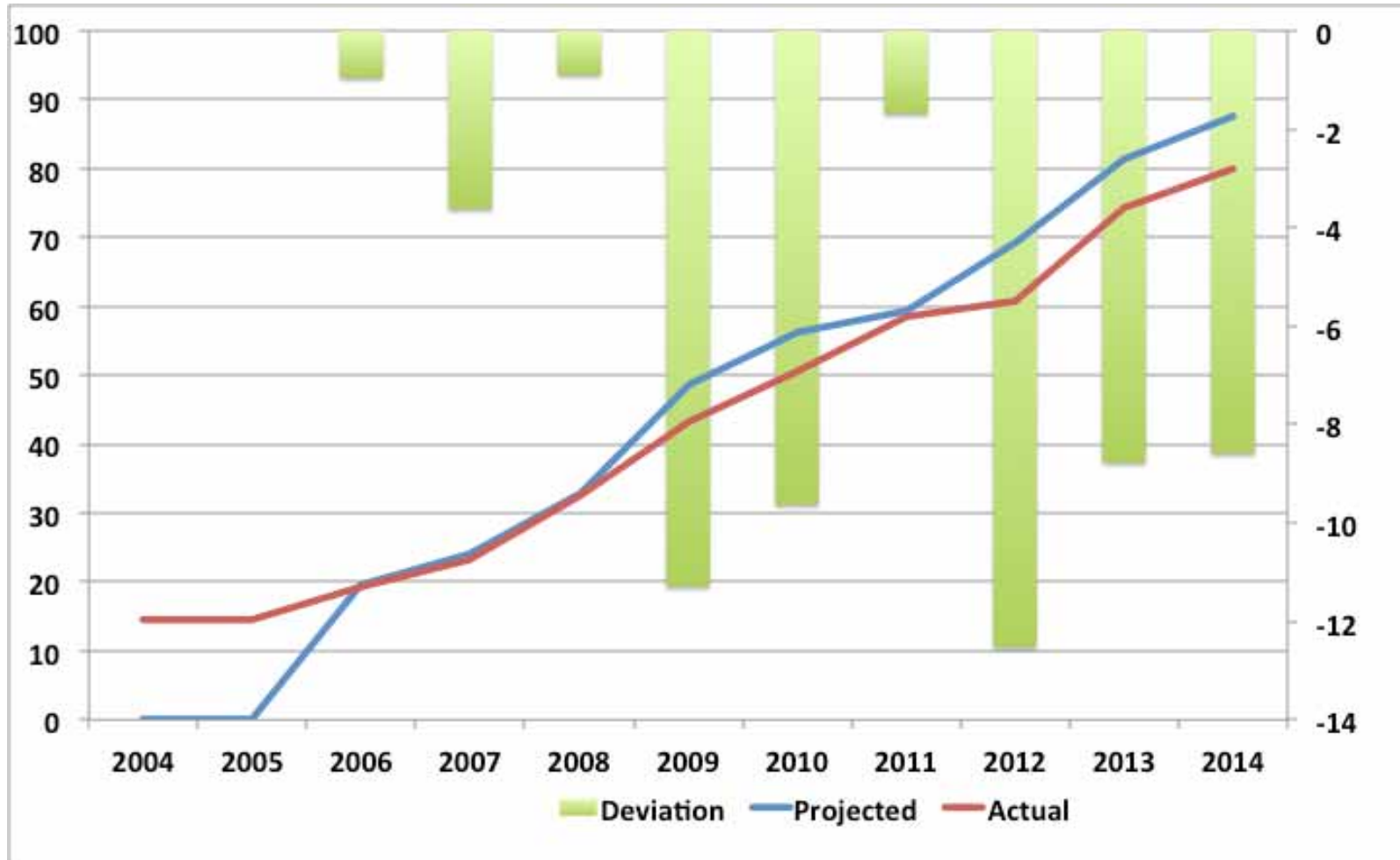
## Current Expenditure



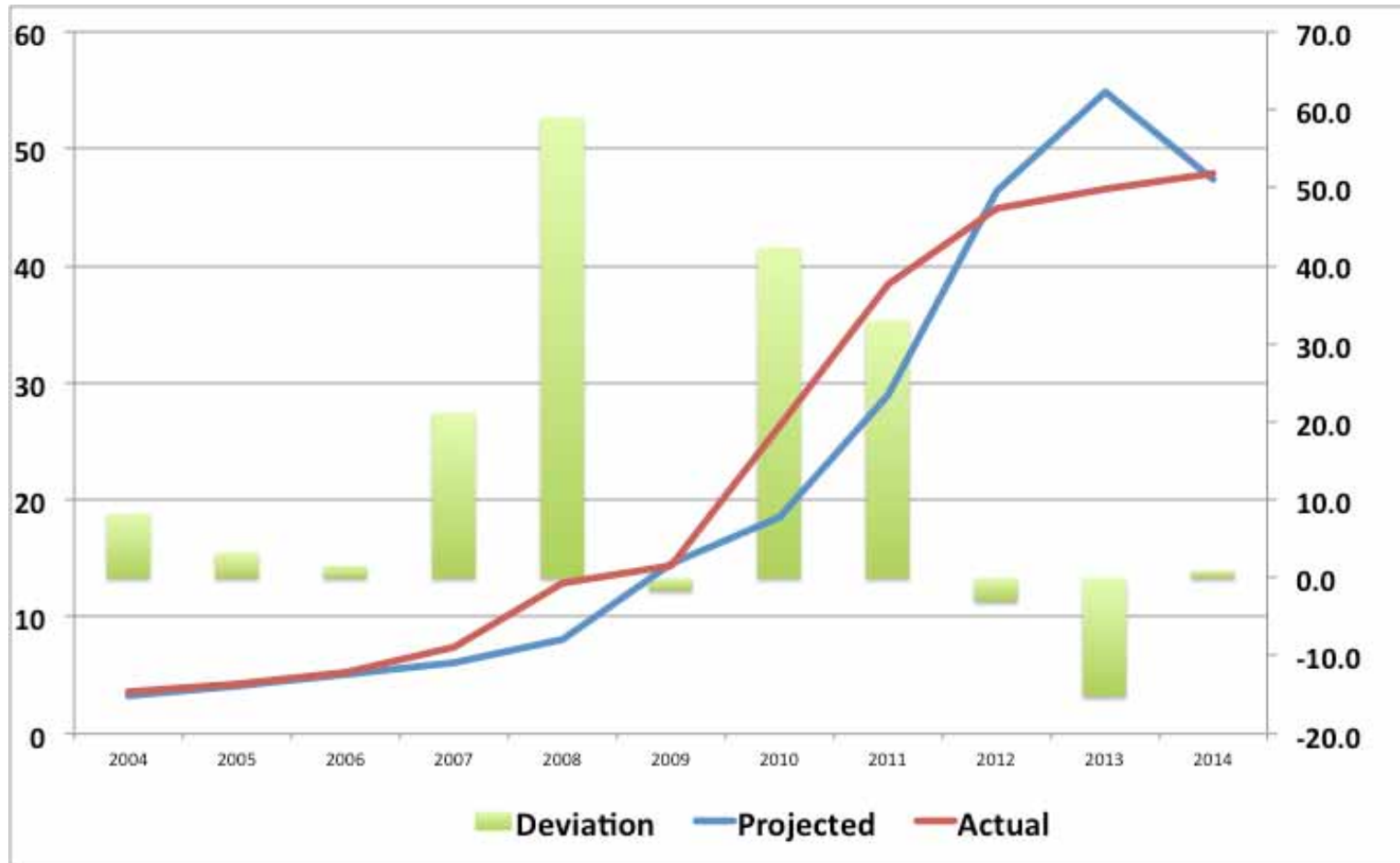
# Mismatch between project and actual budget: **Debt Repayment**



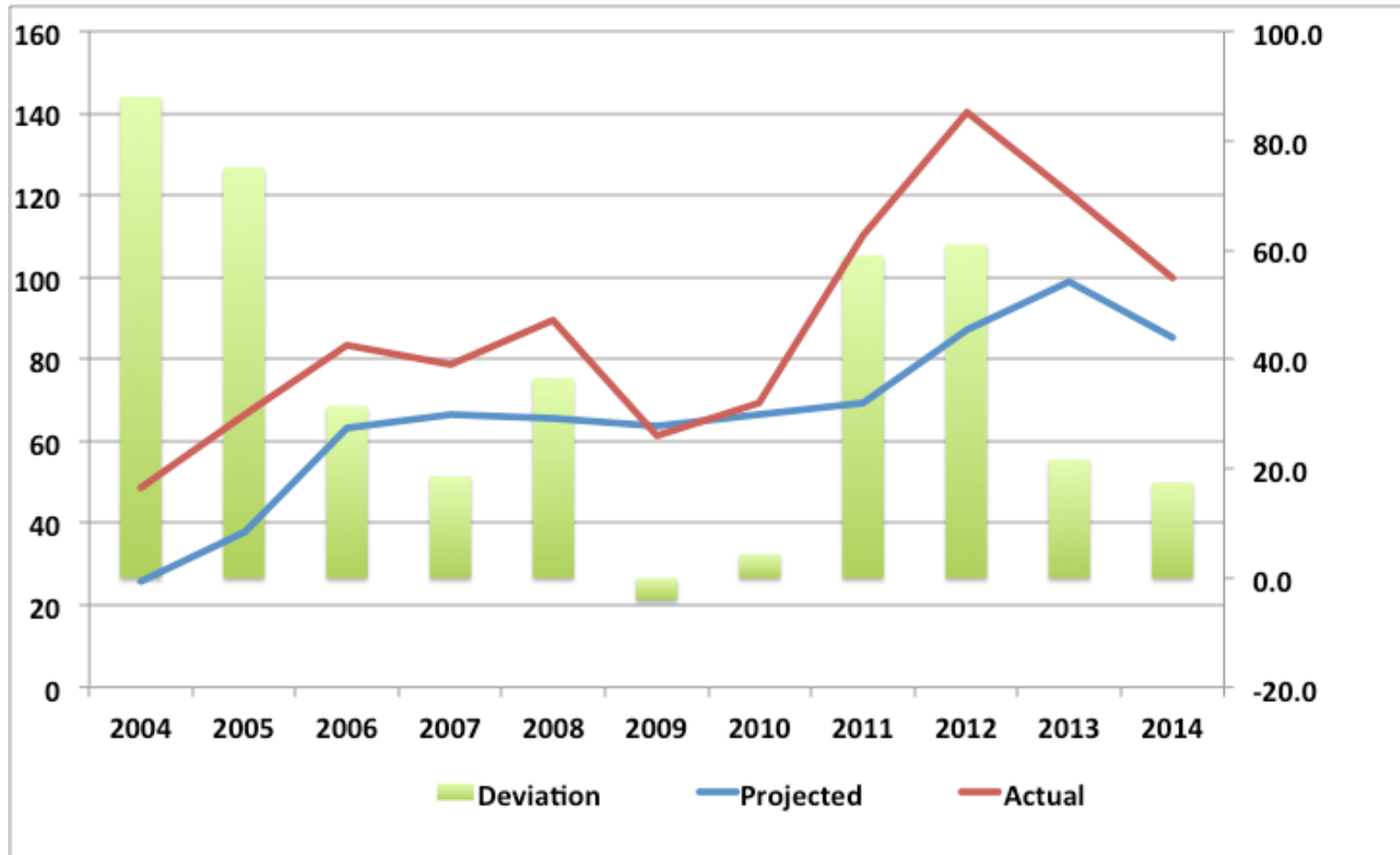
# Mismatch between project and actual budget: Pensions and Social Security



# Mismatch between project and actual budget: **Personal Income Taxes**

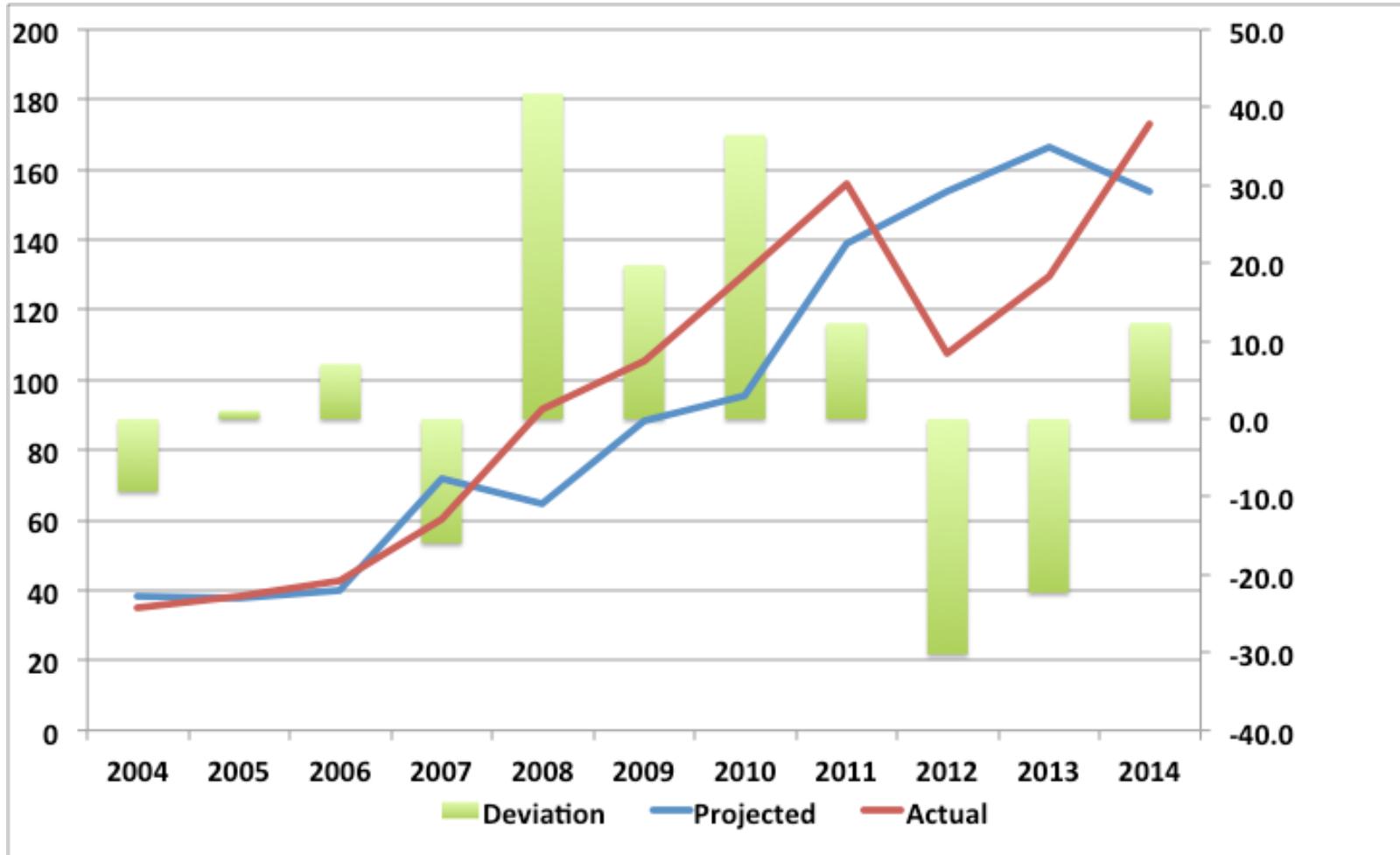


# Mismatch between project and actual budget: Oil revenues





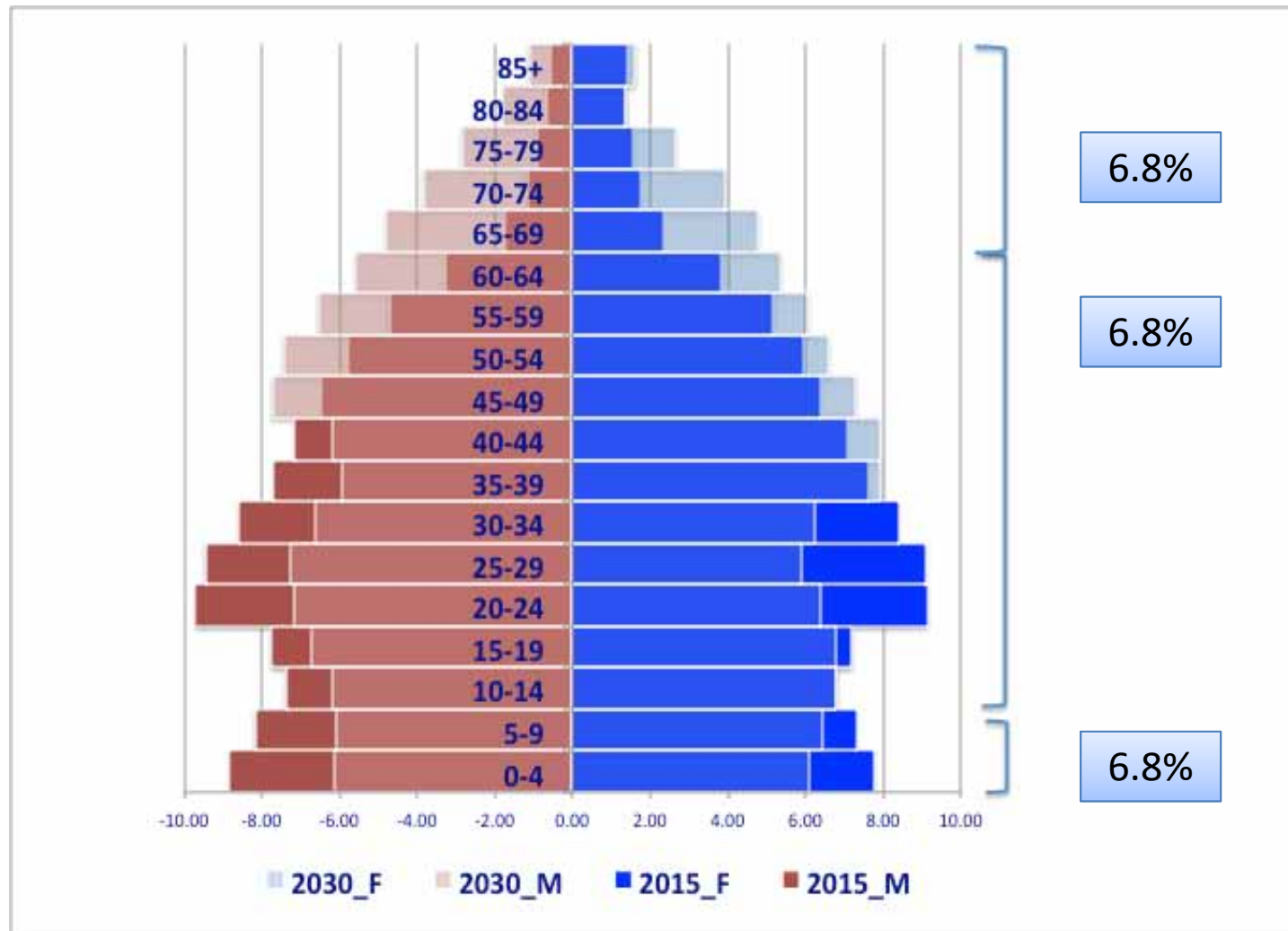
# Mismatch between project and actual budget: **External Trade Taxes**



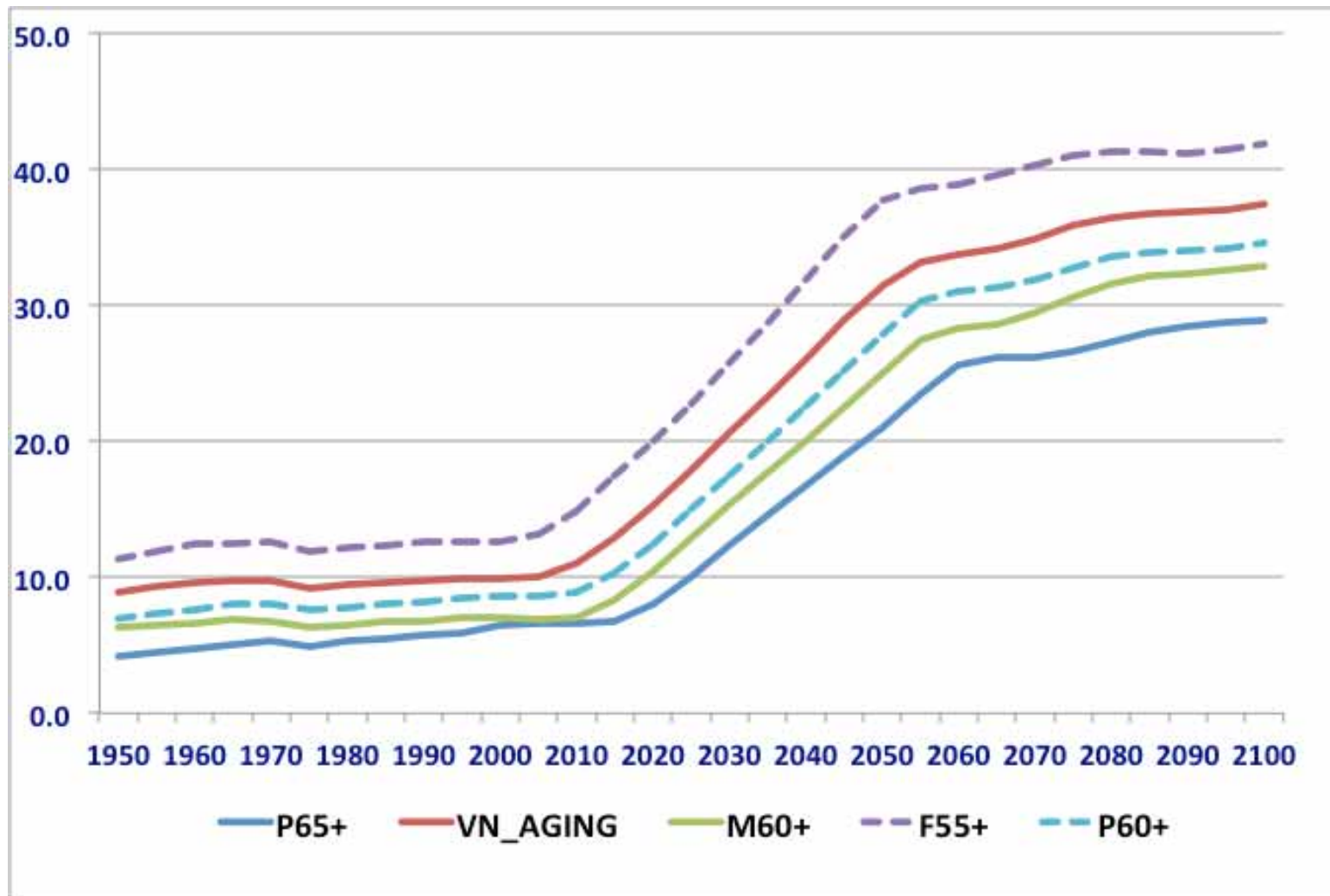
# **Demographical changes in Vietnam: Aging Population Problem?**

- **Vietnam Population is relative young**
- **But Aging Population could become a problem in the future. By the Vietnamese definition of 'elderly' aging comes much sooner (by 20 years) compared to the international definition (65+)**

# Population Pyramith Vietnam 2015,2030

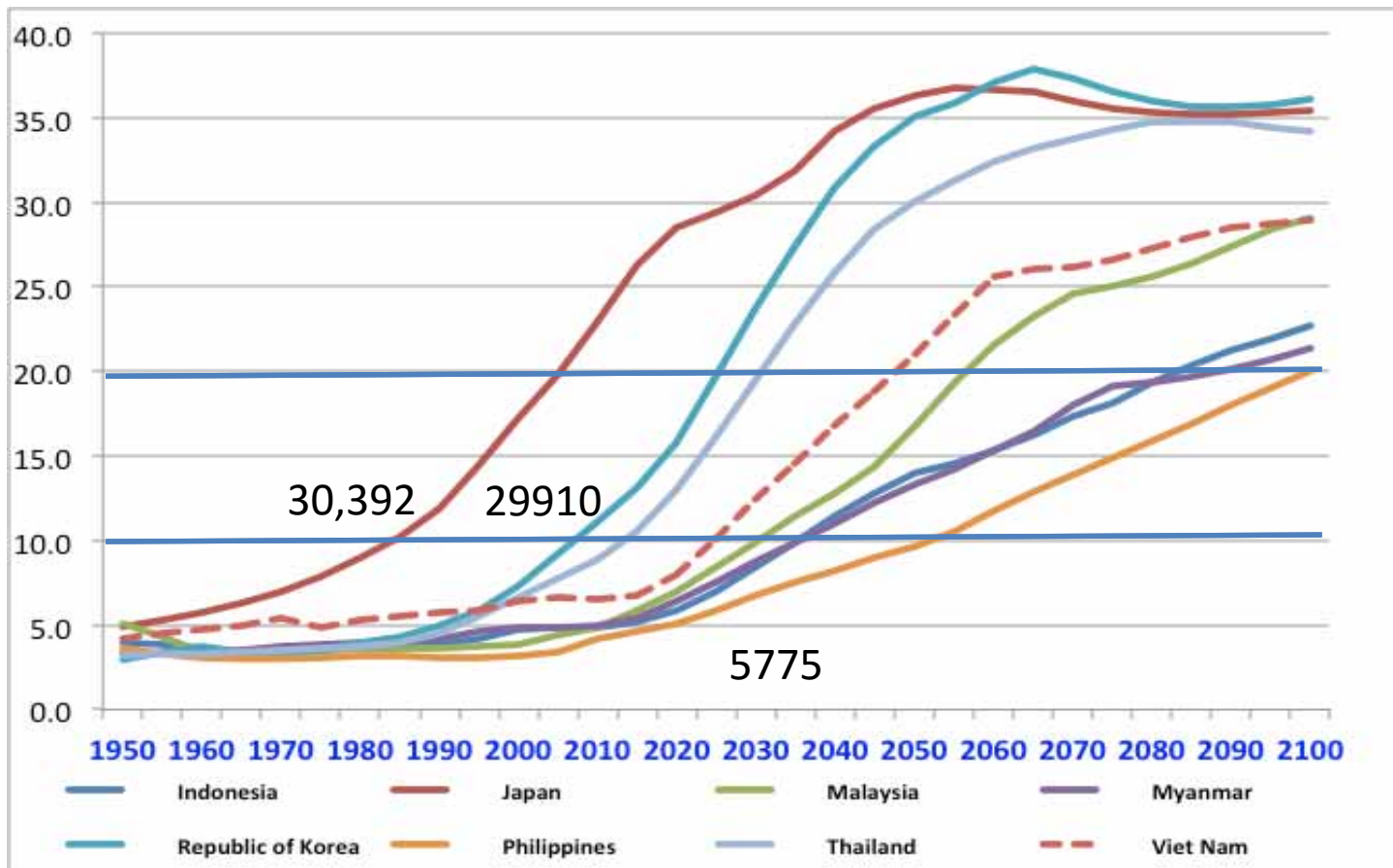


# AGING TRENDS



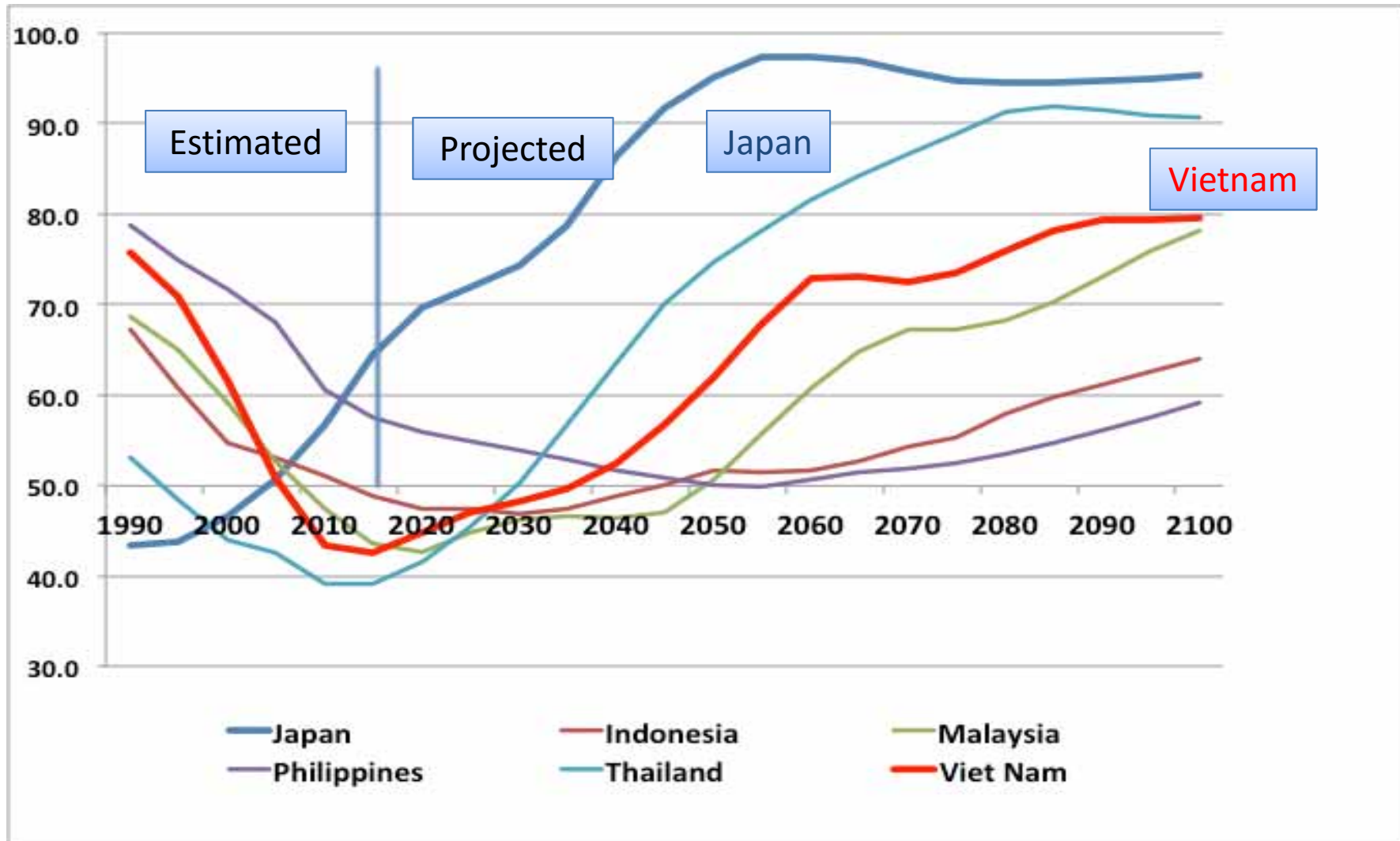
United Nations, Department of Economic and Social Affairs, Population Division (2015). World Population Prospects: The 2015 Revision,

# AGING TRENDS

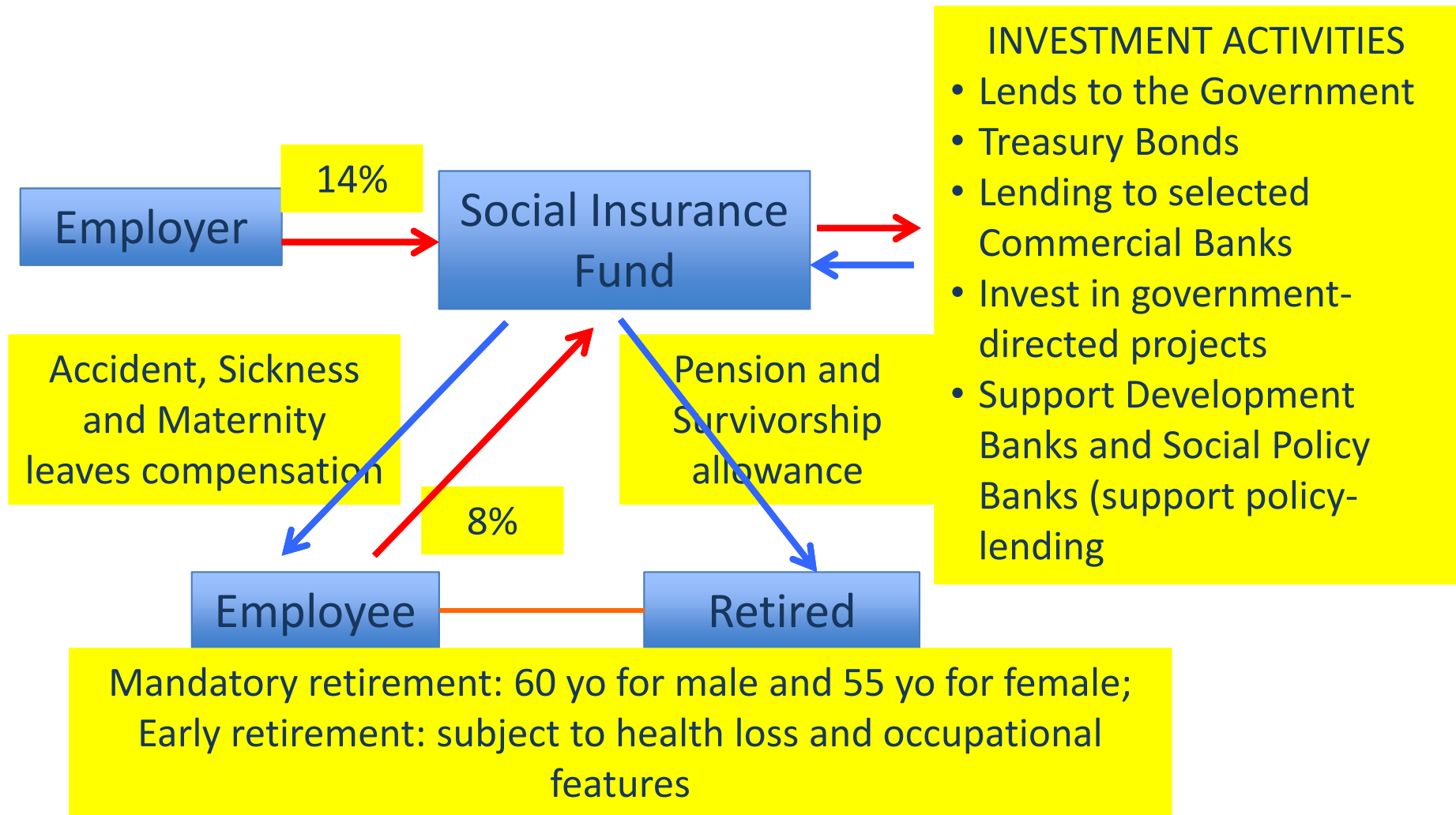


United Nations, Department of Economic and Social Affairs, Population Division (2015). World Population Prospects: The 2015 Revision,

# Dependency Ratio, Vietnam and Japan and selected countries in the region, 1990-2100



# SOCIAL INSURANCE SCHEMES, RETIREMENT AND PENSION ALLOWANCE



# **SOCIAL INSURANCE SCHEMES, RETIREMENT AND PENSION ALLOWANCE: INSTITUTIONAL ASPECT**

**Institutionalized in Social Insurance Law 2014**

**Complicated eligibility criteria**

**Complicated pension payment schedules: Pension allowance depends on**

- Duration of SIF contribution payment**
- Historical SIF contribution and salary records**
- Gender-specific ( will be phase out by 2020)**

**Complicated compliance from employers perspective**

**Wide-spread payment delay or avoidance**



## Balance of Social Insurance Fund (SIF)

	2007	2008	2009	2010	2011	2012	2015
<b>Compulsory SIF</b>							
<i>Receipts (VND billion)</i>	23,755	30,939	37,488	49,549	62,009	78,133	145,054
<i>Expenses(VND billion)</i>	14,465	21,360	28,419	35,163	44,237	59,043	
<i>Expense-Receipt Ratio</i>	61%	69%	76%	71%	71%	76%	
<b>Pension Fund</b>							
<i>Receipts(VND billion)</i>	19,004	24,752	29,990	40,540	50,735	65,111	
<i>Expenses(VND billion)</i>	12,244	18,236	24,522	30,940	38,397	50,339	
<i>Expense-Receipt Ratio</i>	64%	74%	82%	76%	76%	77%	
<i>Exchange rate (VND'000/USD)</i>	16.7	17	18	19.2	20.5	21	22

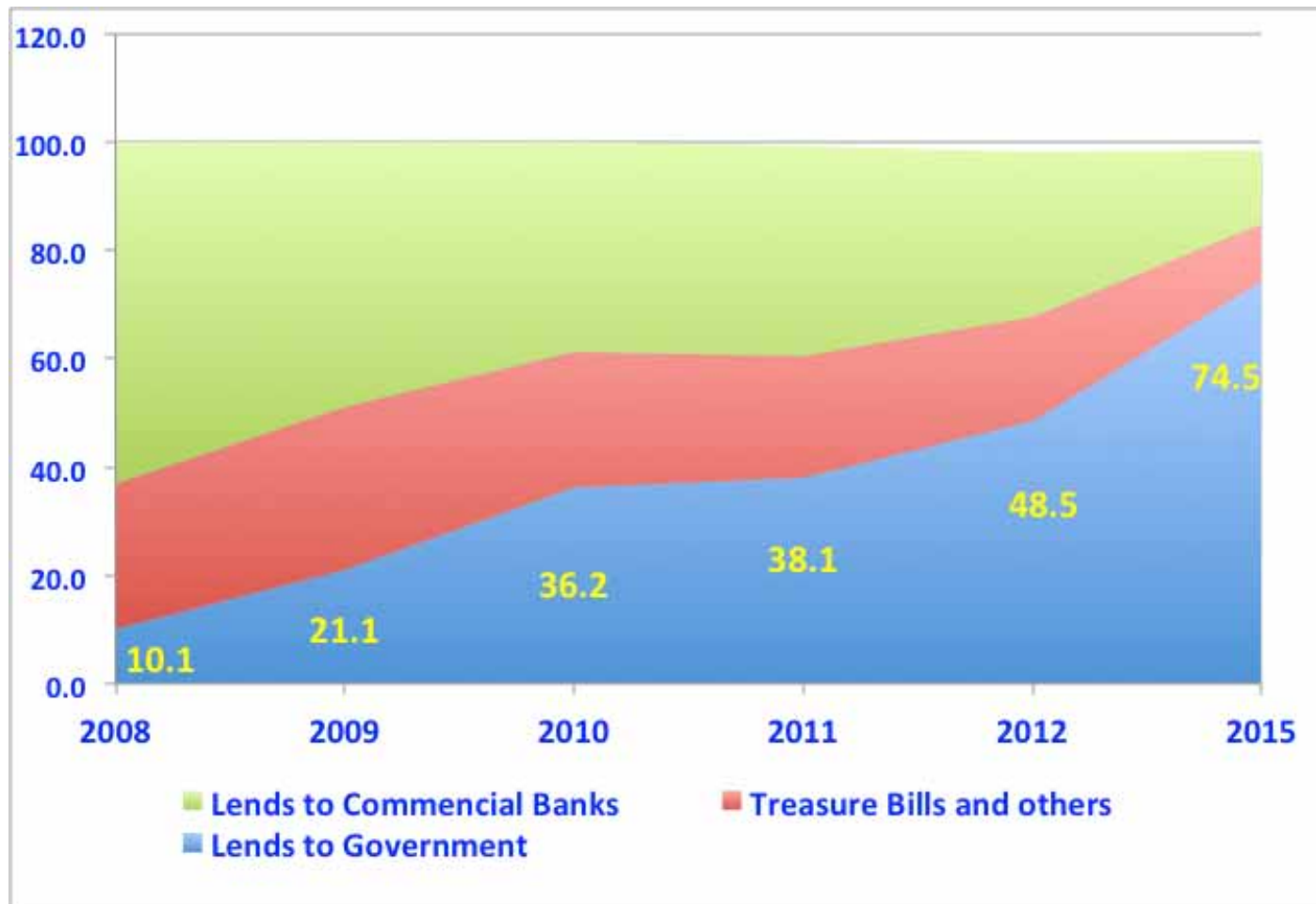
Source: Vietnam Social Insurance

## **Social Insurance Fund (SIF) Investment Portfolio 2008-2015 (VND billion)**

	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2015</b>
<b>Lends to Government</b>	<b>8.5</b>	<b>20.0</b>	<b>50.0</b>	<b>69.0</b>	<b>106.0</b>	<b>324.0</b>
<b>Treasure Bills and others</b>	<b>22.5</b>	<b>28.5</b>	<b>34.5</b>	<b>40.5</b>	<b>42.5</b>	<b>45.5</b>
<b>Lends to Commercial Banks</b>	<b>52.8</b>	<b>46.5</b>	<b>53.5</b>	<b>70.0</b>	<b>66.5</b>	<b>59.6</b>
<b>Government Project (Lai Chau hydropower)</b>				<b>1.5</b>	<b>3.7</b>	<b>6.0</b>
<b>TOTAL</b>	<b>83.8</b>	<b>95.0</b>	<b>138.0</b>	<b>181.0</b>	<b>218.7</b>	<b>435.1</b>
<b>Imputed interest rate (%)</b>	<b>11.8</b>	<b>9.4</b>	<b>9.1</b>	<b>9.8</b>	<b>10.0</b>	<b>8.5</b>

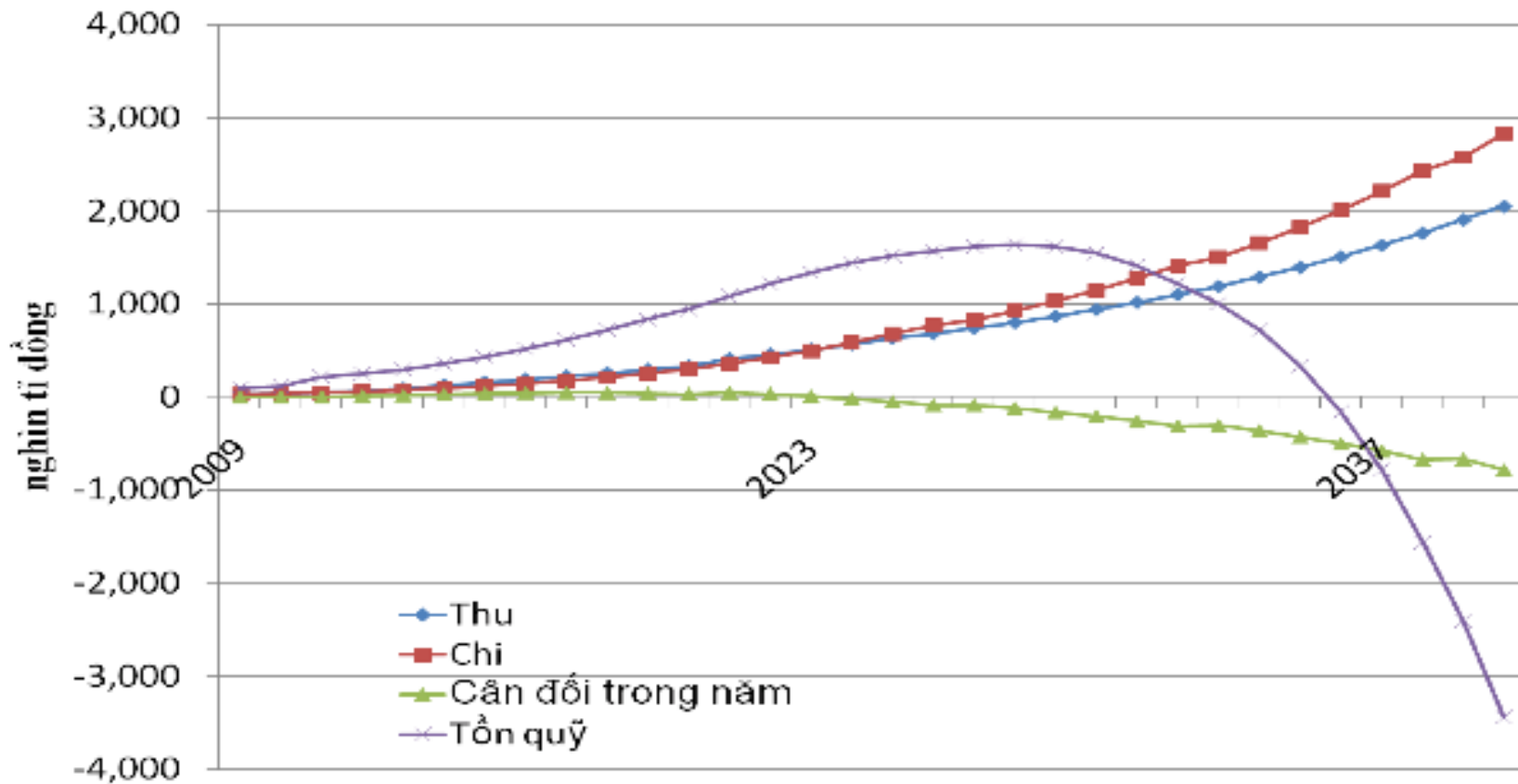
*Source:* Vietnam Social Insurance

# Social Insurance Fund (SIF) Investment Portfolio Composition 2008-2015 (%)



Source: Vietnam Social Insurance

# Social Insurance Fund (SIF) Sustainability Projections



Source: Vietnam Social Insurance

# **Social Insurance Fund (SIF) Sustainability: Implications for the Future**

- **Serious concerns about the sustainability of the Fund**
- **Some options have been proposed but not convincing : increase retirement age; changing pension allowance formula, increase SI contribution premium**
- **SIF management issue**

# **Social Insurance Fund (SIF) Sustainability: Implications for the Future**

## **Links between Aging Population, Fiscal Policy and Fiscal Uncertainty**

**Aging Population puts more burden on already distressed  
government finance:**

- **Pressure to pay more SIF contribution because of raising SI premium**
- **More spendings due to increased life of expectancy, therefore longer period of getting SI benefit**
- **Raising costs of healthcare and services**

# **Social Insurance Fund (SIF) Sustainability: What needs to be done**

- **Improve efficiency of public investment and public administration reforms**
- **Improve health services**
- **Better management of Social Insurance Fund**
- **Streamlining dispersed existing social support programs**
- **Encouraging later retirement and better administration of Social Insurance Program**