

## **RESTRUCTURING THE STATE BUDGET TOWARDS FISCAL SUSTAINABILITY IN VIETNAM**

**Dr Nguyen Viet Loi, President  
National Institute for Finance  
Ministry of Finance, Vietnam**

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# 1. The necessity of state budget restructuring

The state budget restructuring has been set out since 2016 based on the current macroeconomic context and requirements of public finance management.

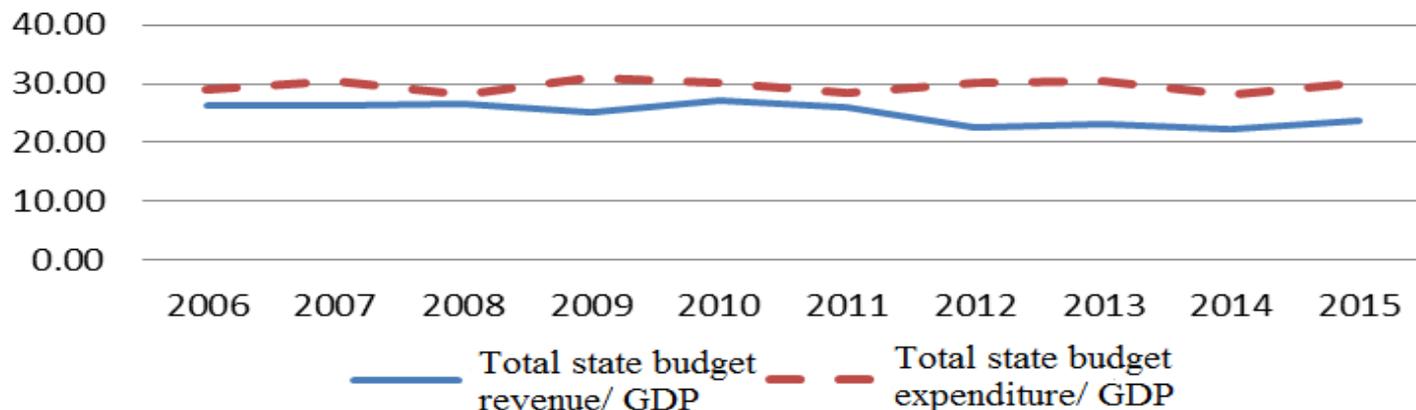
- **Firstly**, globalization and economic Integration, FTA commitments put pressure on state budget revenues
- **Secondly**, industry Revolution 4.0 and impacts on Vietnam's economy and public finance policies
- **Thirdly**, need for economic development of Vietnam
- **Fourthly**, pressure of shortcomings in public finance management and the state budget structure

# 1. The necessity of state budget restructuring (cont.)

## Pressure of public finance management and the state budget structure

- The revenue structure is unstable as the revenue sources mainly depend on revenues from oil and import – export taxes which accounted for 32% of the total revenue in the period of 2011-2015
- The proportion of the domestic revenue in the total revenue increased to 68% for 2011-2015 but the growth still remains slow. In terms of revenue structure by taxes, it has some positive changes but is not accordance with the development of services.

**Figure 1. The state budget revenue and expenditure of GDP (%)**



# 1. The necessity of state budget restructuring (cont.)

## Pressure of public finance management and the state budget structure

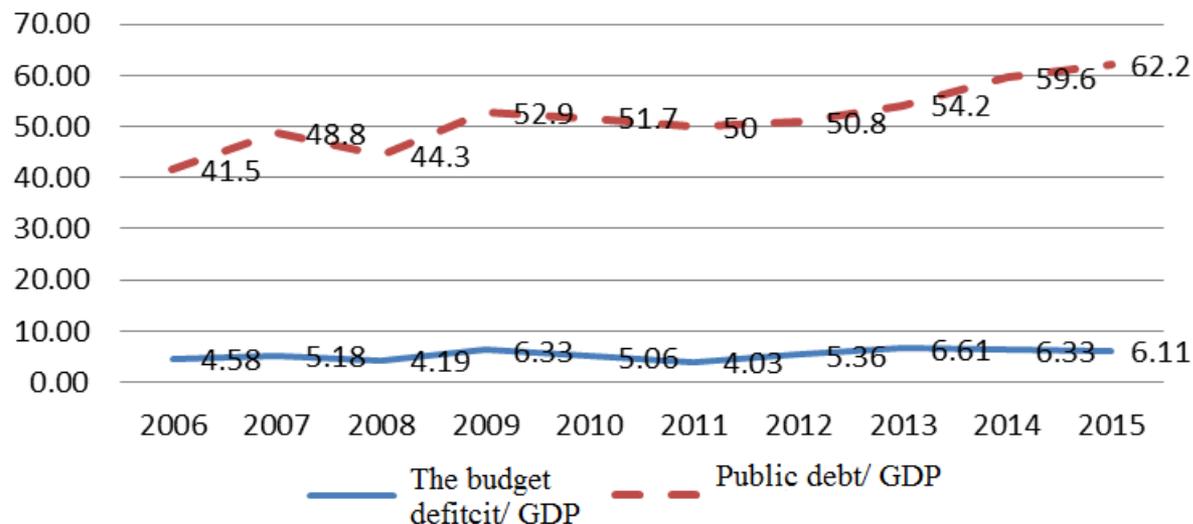
- The pressure from the state budget expenditure: The current expenditure takes a major proportion with more than 70% of the total state budget expenditure due to high pressure arising from the state management system and public service units and an increase of debt payment.
- At the same time, public investment does not reflect the leading role in attracting resources from the private and FDI sectors.

# 1. The necessity of state budget restructuring (cont.)

## Pressure of public finance management and the state budget structure

- The budget deficit is high and persistent; public debt significantly increases; it leads to high pressure on debt service.
- The investment demand for socio-economic development programs and projects has increased and public debt in Vietnam rise sharply from 52% to GDP in 2010 to 62% in 2015

Figure 2. The budget deficit and public debt to GDP (%)



## 2. Orientation of solutions and Outcomes

### Orientation of Solutions:

- Reviewing the tax system and improving the sustainability of state budget revenue in terms of scale and structure. Extending the tax base and gradually reducing the tax exemption and deduction
- Restructuring the state budget expenditure to ensure accordance with state budget revenue. For the investment expenditure, it should be efficiently allocated and used, prioritized the national important infrastructures
- Restructuring public debt towards maximizing the medium and long-term loans and minimize the short-term loans; prioritizing for debt payment.

# Outcomes

- The State budget revenue was stable and the proportion of stable revenue sources increasing.
- State budget expenditure initially dropped (to about 28% of GDP in 2017) and the proportion of expenditure on development investment increased.
- The state budget deficit fell to 3.4% in 2017, lower than 3.9% of the target and 5.7% of the average state budget deficit of the period 2011-2015.
- Public debt and government debt reduced to the threshold

## Vietnam's Fiscal indicators, 2011-2020

*Unit: % GDP*

<b>Period/Year</b>	<b>2011-2015</b>	<b>2016-2020</b>	<b>2016</b>	<b>2017</b>
State budget revenue/GDP	23	23.5	24.47	24.75
State budget expenditure/GDP	29	25-26	28	28
State budget deficit/GDP	5.6	<3.9	5.64	3.42
Public debt/ GDP	55.1	65	63.7	61.3

Source: Ministry of Finance

# Challenges forwards

- State budget revenue is relying on unsustainable sources, such as revenues from natural resources and minerals, land use fees, etc.
- State budget expenditure remains at high level. Current expenditures account for large proportion and it is difficult to cut down on it.
- Regarding public debt management, the mobilization and use of government loan are not effective in some investment projects

**Thank you for your attention!**