RESTRUCTURING THE STATE BUDGET TOWARDS FISCAL SUSTAINABILITY IN 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 (%)  

Source: data collected by the NIF
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 (%)](image)

Source: MoF
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**

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<tr>
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<tbody>
<tr>
<td>State budget revenue/GDP</td>
<td>23</td>
<td>23.5</td>
<td>24.47</td>
<td>24.75</td>
</tr>
<tr>
<td>State budget expenditure/GDP</td>
<td>29</td>
<td>25-26</td>
<td>28</td>
<td>28</td>
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<tr>
<td>State budget deficit/GDP</td>
<td>5.6</td>
<td>&lt;3.9</td>
<td>5.64</td>
<td>3.42</td>
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<tr>
<td>Public debt/ GDP</td>
<td>55.1</td>
<td>65</td>
<td>63.7</td>
<td>61.3</td>
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*Unit: % GDP*

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!