



Public finance and economic development: The case of Vietnam

South East Asia

Last updated: 24 Jan 97



- Before 1986 – planned economy
- Collectivization of farms, factories and economic capital was implemented, and millions of people were put to work in government programs.
- plagued with inefficiency and corruption in state programs, poor quality and underproduction and restrictions on economic activities and trade.
- Hyperinflation, food shortages
- Trade embargo from the United States and most of Europe after the Vietnam War. Trade partners of the Communist blocs eroded. Fall of USSR

- In 1986, the Sixth Party Congress introduced significant economic reforms with market economy elements as part of a broad economic reform package called "đổi mới" (*Renovation*)

- Shift to market economy → Private ownership in industries, commerce and agriculture.
- Vietnam achieved around 8% annual GDP growth from 1990 to 1997
- continued at around 7% from 2000 to 2005,
- world's second-fastest growing economy (after China)

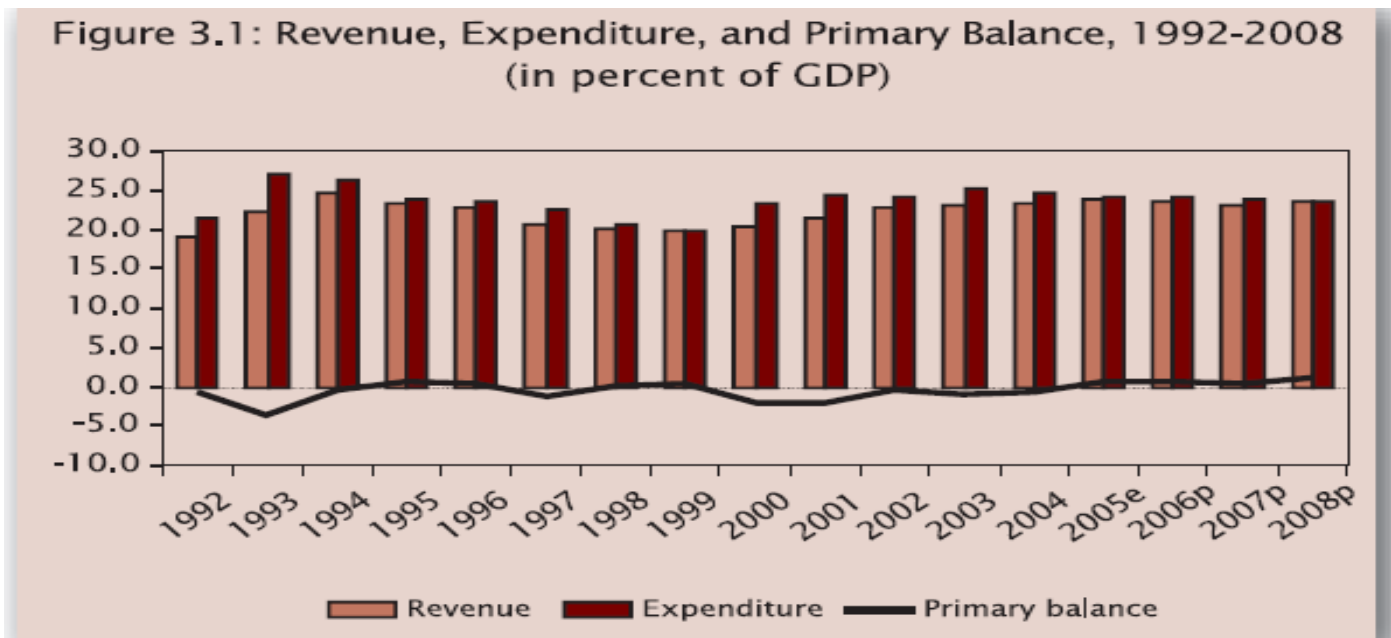
- Foreign investment grew threefold
- Domestic savings quintupled.
- Manufacturing, information technology and high-tech industries form a large and fast-growing part of the national economy.
- 3rd largest oil producer in Southeast Asia with output of 400,000 barrels per day
- Open economy: two-way trade is 160% of GDP,
- more than twice the ratio for China and over four times India's

Key Messages

- Prudent fiscal management is a key achievement during Vietnam's economic transition from command economy to market economy
- Rapid economic growth has been accompanied by positive fiscal developments
- Dynamic revenue collections and well managed expenditures
- Making room for the needed infrastructure investments within overall modest fiscal deficits

Public finance in Vietnam

- Before crisis, fiscal trends have been positive, both in terms of revenue collection and expenditure outturns



Sources: Ministry of Finance, International Monetary Fund (IMF), staff estimates (e) and projections (p)

Fiscal sustainability

- **Strengths**

- Fiscal prudence
- Small budget deficit
- Small stock of debt
- Positive fiscal trends
- Sustainable fiscal balance

- **Challenges / Threats**

- Off budget bond issuance
- Current expenditure arrears (transport, ARD)
- Monitoring and management of fiscal risks
- Implement Medium Term Fiscal Framework

Composition of public expenditure

- Progress / Strengths

- Increase in public investment by 16% average annual rate (98-03)
- Education / training
- Science and technology
- More budget transfers to poor provinces
- Capital expenditures increased by 40%

- Challenges

- Budget for infrastructure maintenance should keep pace with capital investment

Institutions for public expenditure management

- **Strengths**

- 2002 State Budget Law
- Clarify powers and responsibilities
- Strengthen decentralization
- Promote administrative reform
- Transparency and accountability in public finance

- **Challenges**

- Strengthen joint efforts by finance / planning / sector ministries / provinces for MTEF
- links b/w budget and performance indicators
- Pilot testing of MTEF
- Implement Treasury and Budget Mgt. Information System (TABMIS)

Financial accountability and transparency

- **Strengths**

- Significant steps to improve transparency and accountability
- Greater oversight by the National Assembly / People's Councils

- **Challenges**

- Independence of the State Audit of Vietnam
- Public access to audit reports
- Further rationalize audit / inspection functions

Decentralization to sub-national govt.

- **Strengths**

- Extensive decentralization program since 1992
- Increase budget to subnational govt. from 26% in 1992 to 48% in 2002
- 2002 budget law improved decentralization

- **Challenges**

- Strengthen capacity of sub-national govt. to manage increase budget
- Monitor fiscal decentralization especially poverty impact
- Formula driven equalization grant
- Strengthen conditional grants
- Strengthen rules on borrowing by sub-national govts.
- Inclusion of bond issuances by provincial govt.

Delegation to spending units

- **Strengths**

- Increased delegation to administrative and service delivery units

- **Challenges**

- Use of citizen report cards to monitor impacts of block grants
- Minimize flexibility by managers on salaries
- How to protect access by the poor on basic services

Public investment management

- **Strengths**

- Public investment has grown rapidly
- Capacity of MPI to manage strengthened through PIP
- Role of provinces in PI increasing

- **Challenges**

- PIP should evolve into a comprehensive screening / approval process
- Strategic review of roles of national and sub-national govts.
- MPI to strengthen capacity to guide, train, support, supervise implementers
- Investment planning manual and standards
- Balance capital & recurring costs

Public procurement management

- **Strengths**

- Public procurement increased from \$2B to \$4.9B (1999-2003)
- Strengthening of Department of Procurement at MPI
- Public procurement bulletin
- Standardized bid documents

- **Challenges**

- How to handle procurement complaints
- Finalize procurement law
- Capacity building for procurement, supervision and enforcement

Education sector expenditure

- **Strengths**

- Poverty reduction and economic growth driven by substantial investment in education
- Improved infrastructure
- Increased participation rates

- **Challenges**

- Need to further improve quality, equity and effectiveness
- Reduce user charge
- Improve teacher qualifications
- Improve classroom infrastructure in poor areas
- Tie teacher salaries to school performance

Transport sector expenditure

- **Strengths**

- Quality and extent of transport infra has improved (all but 220 communes connected to all weather roads)
- Size of vehicle fleet increase
- More efficient transport key role in export growth

- **Challenges**

- Need to balance capital expenditures and maintenance budget
- Capital expenditure should be sustainable
- How to improve private sector investment in infrastructure

Health sector expenditure

- **Strengths**

- Significant progress along with poverty reduction and growth
- National strategy to help the poor on health care costs (health insurance coverage)

- **Challenges**

- Equitable access by segments of poor population
- HIV/ SARS/ Avian flu
- Implementation of health insurance program for poor
- Means testing

Agriculture and rural development sector expenditure

- **Strengths**

- Market incentives → substantial growth in sector
- Supported by investments in education, health, infrastructure

- **Challenges**

- Balance capital and maintenance costs in irrigation (deferred maintenance / completion of projects)
- Increase budget for agri. R&D
- Reduce burden of agric. SOES on public budget

Quality of fiscal management: revenue side

- simplification of the tax system,
- modernization of tax administration, and
- broadening of the tax base to improve
- helped sustain dynamic revenue growth.

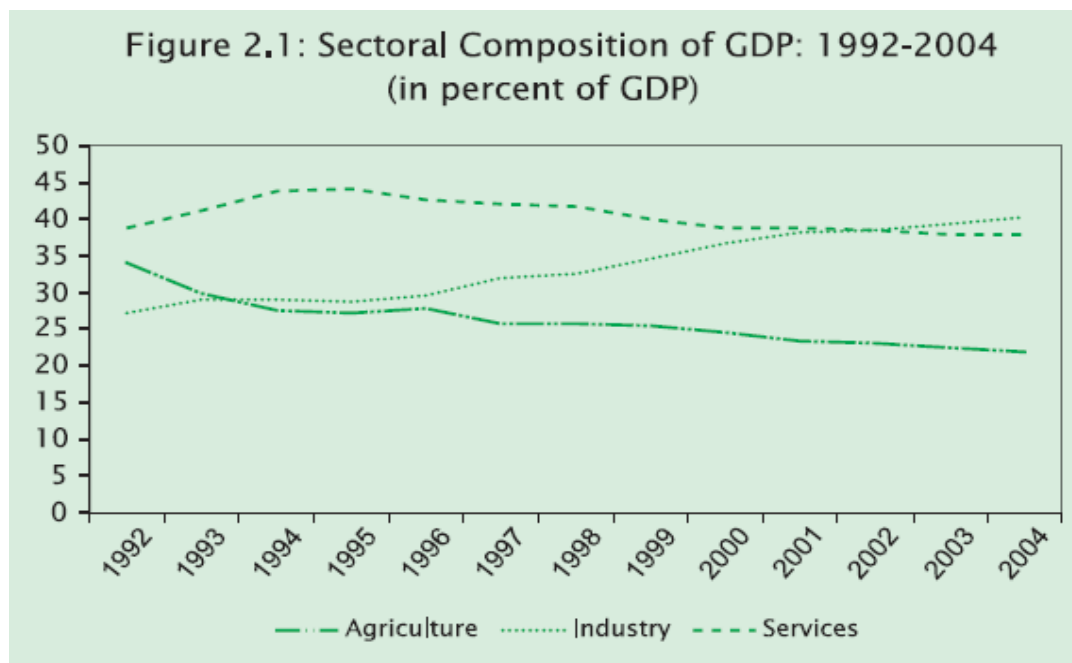
Quality of fiscal management: expenditure side

- promulgation of a budget law,
- implementation of a public expenditure review,
- formulation of a public investment program
- Corruption control (PMU 18)
- → improvements in the allocation and efficiency of public spending.

Public finance issues in Vietnam

- Fiscal risks: off-budget bond issuance and spending, the burden of transfers to SOEs;
- Tax policy: meeting the challenge of reducing tariff income; the volatility of the oil sector;
- Current expenditure arrears in the transport and agriculture sectors
- Expenditure policy: getting good value from development projects; pro-poor spending in education and health and achievements; socialisation and charging for services under Decree 10;

Public finance issues in Vietnam



Source: General Statistics Office (GSO)

Public finance issues in Vietnam

- Shares in total capital spending and total aggregate expenditure of education and training, and of science and technology have increased
- Successful efforts have been made to make the transfer of resources between provinces more pro-poor, resulting in an inter-provincial transfer and revenue sharing formula, which indeed benefits poorer provinces
- Operations and maintenance expenditure falling while capital expenditure (including major repairs) have increased
- Need to address imminent maintenance crisis, and strike a balance between capital and recurrent spending

Public finance issues in Vietnam

- Need to strengthen joint work between the Finance and Planning functions at every level.
- The Ministry of Planning and Investment (MPI) and the Ministry of Finance (MOF) should collaborate actively with sector ministries, and provinces in the preparation of Medium-Term Expenditure Frameworks (MTEFs), building on the experience, and success of sectoral pilots.

Public finance issues in Vietnam

- Government should further rationalize the roles and responsibilities of the audit and inspection functions, while appropriate monitoring measures should be implemented to ensure that fiscal transparency and reporting regulations are properly implemented at all levels of government, and by all spending units.

Public finance issues in Vietnam

- Increased delegation to spending units is one of the key developments in public expenditure management in Vietnam in recent years.

Public finance issues in Vietnam

- Finally, public investment management is a critical part of public expenditure management; in Vietnam, it is particularly critical to the extent that State Budget-financed investment has grown rapidly, and now constitutes about 40 percent of the total State Budget.