

The State Budget Act came into effect on Jan.1,1997, was a newly-made law dealing with national budget matters. To provincial governments, the State Budget Act plays an important role in helping them control budget income and employ it effectively to industrialize the economy and improve people's living standard.

In foreign countries, all national revenue and expenditure are reflected in the yearly Finance Act. In Vietnam, in the transition from the centrally planned economy to the market economy under the government management, expenditure on the needs of the country need not to be covered by the Treasury only. So the task of classifying expenditures reasonably is of great importance to the socio-economic development, the budgetary control and to the budget income as well.

According to the State Budget Act, main expenditures of provincial budget include:

- Regular expenditure
- Expenditure on development investment (capital expenditure)
- Debt repayment
- Contribution to reserves
- Subsidies to subordinate authorities

This classification has really facilitated the budgetary control and made government spending more accurate and reasonable.

Regular expenditure is the main one in provincial budget ensuring normal operation of local governments in all fields (both defense and nondefense). The orientation for changes in regular expenditure is to keep it lower than regular income with a view to increasing expenditure on development. Local budget has to cover all local expenditure and the aim is to become independent from grant-in-aid. Local expenditure must comply with regulations set forth by the Government. In the long run, expenditure from provincial budget will be reduced, a better part of provincial budget income will be transferred to the Treasury to spend on national programs under common regulations. Regular expenditure will be made stable and reduced by practising economy and downsizing the administrative machinery.

In the plan for regular expenditure, priorities must be given to expenditure on health care, education, cultural and social activities, scientific researches and application of new technologies. These matters haven't received proper attention from provincial governments for years with the result that scientific and

technical achievements have been introduced slowly to provincial economy. These expenditures could be considered as expenditures on development which could bring about increases in provincial budget income.

In the near future, the following two problems have to be dealt with in making budget plan at provincial level:

- There is absolutely no excuse for reducing expenditures on education and scientific researches.

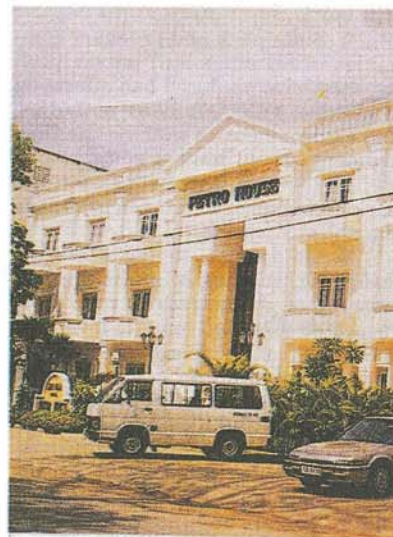
- Besides an open mechanism allowing all economic sectors to take part in this field, from 0.5% to 1% of provincial budget income could be spent on this field by many ways, such as financing or carrying out researches on subjects which will affect the local socio-economic development.

The minimum level of these expenditures is set but there will be no limit on their maximum level. This practice will allow provincial authorities to develop education and scientific study to the best of their ability. This strategy will help to develop human resources which are much needed for the development of local economies and thereby increasing provincial budget income.

As for expenditure on development, in the first stage of develop-

Vietnam.

In realizing the State Budget Act, proper attention must be paid to the idea of mobilizing different sources of finance to develop production and infrastructure. At provincial level, capital needed for investment could come from budget, the public, loans supplied by the public or foreign parties, foreign investment and aid, etc. The problem needed to be considered here is whether provincial gov-



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ment in our country, this expenditure is of the greatest importance. Provincial authorities had better treat it as the best way to industrialize and modernize local economies. In the past, this expenditure was small because the regular expenditure is always on the increase.

According to the State Budget Act, all expenditures at provincial level are determined by provincial budget income. But in the multi-sector economy, local governments can adopt right policies to encourage all economic sectors to make investment besides investments from provincial budget. This method is of great value to such an under-developed country as

ernments are allowed to get loans directly from foreign financial institutions or not.

Other expenditures (debt repayment, contribution to reserves, subsidies to subordinate authorities...) are of lesser important because they represent a small percentage in provincial budget expenditure.

The State Budget Act came into effect in 1997, to use provincial budget expenditure effectively is a decisive factor in enforcing this act with a view to altering the public finance mechanism on the way to industrialization and modernization■