

# REINFORCING THE ROLE OF STATE BUDGET IN THE MARKET ECONOMY

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**I**n our country, undertaking the renovation laid down in resolutions of the sixth and seventh Party congresses, the State has reformed activities of its budget since late 1980s. The process of this reform has initially changed the working mechanism of the State budget, meeting basic requirements in renewing, transforming the centrally planned economy into the multi-sector one operating in line with the market mechanism. Over the past four years (1991-1994), the reform of the State budget achieved considerable results as follows:

**a. Revenue of the budget:** the revenue went up sharply per year. The increase over the previous year was recorded as 92%, 88%, 90.5%, 92% in 1991, 1992, 1993 and 1994 respectively. The annual revenue from taxes occupied most of the total State income, such as 92%, 88%, 90.5%, 92% from 1991 to 1994.

In 1994 alone, the revenue from taxes represented 23.6% of GDP. It was a peak from 1975 until now.

**b. Expenditure of the budget:** In 1994 the total expenditure only accounted for 96.4% of the target passed by the National Assembly and rose by 32.7% over 1993. Therefore, the State budget deficit was much lower than the figure approved by the National Assembly. Although the capital source cannot be borrowed as expected, but by increasing revenue (around VNĐ2,000 billion) and reducing expenditure (some VNĐ1,400 billion), the State made up for 43% of the budget deficit as estimated.

**c. Economic adjustment and development:** The State budget has brought into play the effect of macro adjustment and helped promote production, expanded commodity circulation, strengthened exportation, encouraged foreign cooperation and investment.

- Annual GDP growth rate of Vietnam were 6.0%, 8.6%, 8.1% and 8.8% from 1991 to 1994. Thus the average rate was 7.8%-7.9% in the period 1991-1994 whereas it was barely 3% in 1986-1990.

- Food output continuously rose with a yearly increase of 1 million tonnes on average, from 18,379 million tonnes in 1986 to 23.5 million tonnes in 1993. This figure reached around 26 million tonnes in 1994.

- Industrial production increased by 13% annually on average.

- Export turnover went up by 20% per year.

- Up to July 5, 1994, 978 projects had been licenced with total registered investment capital of US\$8.742 billion.

- State enterprises have been rearranged with a view to achieving better business performance.

Year	1991	1992	1993	1994
1. Ratio of net profit to the capital (%)	4.2	4.3	5.2	
2. Ratio of payment to the budget to the turnover (%)	8.1	7.5	9.1	
3. Ratio of State-run economy to GDP (%)	36	39.6	42.9	43.6

- Non-State economic sectors boosted, making the economy more diversified and lively.

- After a long time of galloping, the inflation was curbed and driven back step by step from 1991, its rates were 67.5%, 67.5%, 17.5%, 5.3% in 1990-1993.

In 1994 alone the inflation rate amounted to 14.4%, stemming from the main causes as follows:

- Flood in the Mekong Delta, drought in the Central Vietnam and long-lasting storm in the North damaged agricultural production.

- Prices of many materials and raw materials and farming products roared in the world market.

- The economic structure is unreasonable.

- Some restrictions of financial and budgetary activi-



ties had bad effects on inflation (regular expenditure increased more quickly than expenditure on development investment. In particular, expenditure on salary rose by 1.5 times, changing supply-demand relation; the control over expenditure was still loose and there were still many negative activities and wastes...)

However, besides the attained achievements, it is a sad truth that the imbalance between revenue and expenditure of the State budget has never been surmounted before. This has many causes, but the main one is the budget source was used wastefully and suffered heavy losses.

In order to tackle the loss and waste of budget fund with a view to balancing revenue and expenditure of the budget, at the same time bringing into play the role of the State budget in stabilizing and developing the economy, as well as helping curb and drive back the inflation; in our opinion the State should show interest in and settle effectively the following matters:

1. Making, issuing and executing strictly the law of State budget throughout the country so as to create unification of mind and deed.

2. Enforcing obligations and rights of the network of State administrative bodies with the aim to surpass the situation of having power but taking no charge and vice versa.

3. Renewing devolution of State budget management to various levels in the following orientations:

- Securing the unification of the State budget system.
- Attaching the budget devolution to the transferring of power in the economy.

- Respecting the effectiveness of State management, showing complete impartiality in devolving economic management in general, the budget in particular with the aim to secure the highest result.

- Both guaranteeing the principle of concentrated democracy and making the best use of the locality's creativeness in managing the devolved budget.

To do this will overcome shortcomings of the current mechanism of devolution which is cutting the system of State budget fund into so many levels, making the Central Government unable to control, causing false difficulties and strains in budget management, passiveness in the State budget and so the State was so perplexed when settling contradiction between financial capability and demand for expenditure.

4. Keeping on reforming the tax system

- Applying the VAT as a replacement for turnover tax so as to avoid multiple taxation and expanding the objective which is subject to the ordinance on accounting and statistics with a view to creating favorable conditions for management and tax collection.

- Simplifying tax rates at reasonable level; ensuring easy calculation and collection; encouraging enterprises to invest in technological innovation; stimulating and supporting investment, pushing up savings; unifying the policy on encouraging foreign and domestic investment.

- Setting up taxes of personal and company income as substitutes for income tax for those earning highly and current profit tax.

- Making laws for all kinds of taxes, overcoming the situation that there are simultaneously law, ordinance and decree on taxes.

- Considering the issuance of the environment tax in order to reduce current pollution of ecological environment.

- Reforming fee and charge alongside tax suitably.

5. Restructuring State enterprises into two kinds:

- Non-profit enterprises but essential to the entire economy and people in such fields as: electricity, water,

post, railway, basic fuel, defense industry.

- Profitable enterprises in key economic fields with big investment capital, advanced technology; acting as leaders in the strategy of stabilizing and developing the economy.

6. Stepping up the equitization and diversification of ownership forms with the goal of mobilizing more capital for economic development.

7. Continuing to reform the mechanism for managing State enterprises in the orientation of creating the active position and encouraging concerns to turn out more and better products and strengthening the State role of supervision and inspection.

8. Keeping on eliminating subsidy of capital-price by suitable way.

9. Enhancing capital mobilization in any forms, at the same time making reasonable relation between saving and spending in the direction of securing the growth rate of saving is higher than that of spending and personal spending rises more slowly than that of society; restricting regular expenditure of the State budget.

10. Allocating reasonably and using effectively capital source from the budget for development in the orientation of:

- Investing selectively, paying attention to profound investment so as to raise the labor capacity, product quality and economic efficiency.

- Centering the capital on vital projects which soon bring in efficiency; besides chosen investment in building socio-economic infrastructure, focusing on establishing some major businesses, paying full attention to industrialization, modernization and rural economic development.

- Putting an end to scattered investment and construction at length which causes losses and wastes.

- Justifying the mechanism for managing budget fund and perfecting the credit mechanism for investment of capital construction; setting up the mechanism of "self-borrowing, self-repaying" in investment for development.

11. Reforming the finance in the State apparatus from the Central Government to commune authorities, securing the financial source for this machinery's effective activities alongside rearranging, simplifying and streamlining this apparatus.

12. Renewing the mechanism of allocating, using and managing the budget fund invested in science and technology.

13. Making reserves of the State and of the budget strong enough for the State's interference in the market when necessary.

14. Strengthening financial legislation in living; concurrently forming administrative and economic courts with a view to effectively penalizing violations which need not yet be brought to criminal court; settling disputes, complaints because the competent agency lacks impartiality and does not deal with them in compliance with law; reforming administrative procedure in the orientation of simplification but strictness and science.

15. Generally planning the training and retraining of economic army on the whole and financial staff in particular since they are principal force in the undertaking of renovation.

16. Raising the educational level of the people so that the whole society live and work in compliance with law; limiting corruption causing losses to the budget which stems mostly from not high intellectual level of the people.

The above mention is some principal contents necessarily provoking interest in the process of reforming the finance and budget. However, it should be stressed that this reform can be successfully finished only when it is closely combined with and attached to other reforms ■