

THE MANAGEMENT OF PUBLIC EXPENDITURES IN RELATION TO TAX REFORM IN VIETNAM

by VŨ HỒNG ĐỨC

Table 1: Vietnam's expenditure components from 1992 to 2001

Year	GDP (VND bil.)	Total expenditure	Economic expenditure	Human capital expenditure	Education	Health	Public services
1992	110,535	23.40%	1.36%	4.53%	1.36%	1.00%	2.18%
1993	136,571	28.60%	2.19%	5.71%	2.12%	1.24%	2.34%
1994	170,258	27.40%	1.88%	5.59%	2.18%	1.12%	2.29%
1995	228,840	24.10%	1.75%	5.60%	2.06%	1.05%	2.49%
1996	258,609	23.60%	1.54%	5.40%	2.02%	1.03%	2.35%
1997	313,624	24.80%	1.44%	5.53%	2.30%	0.96%	2.27%
1998	361,016	21.90%	1.33%	4.86%	2.14%	0.86%	1.86%
1999	399,942	22.40%	1.21%	4.51%	2.02%	0.78%	1.71%
2000	444,139	25.50%	1.26%	4.81%	2.49%	0.86%	1.46%
2001	484,492	25.40%	1.27%	4.53%	2.38%	0.81%	1.33%

Source: Various IMF country reports *International Financial Statistics Yearbooks*, 1996, 1998, 2000 & 2002, the IMF Compiled by author

1. Characteristics of public expenditure in Vietnam

Whatever differences there may be between governments, in the regime of socialism or capitalism, there are usually two main areas to spend public money in the process of economic development. And, Vietnam is no exception. The first area is public expenditure on economic services. This area consists of many different categories and all of them are related to create a better foundation for economic development. This

type of expenditure today is expected to produce higher output for the country in the future. This type of spending is known as expenditure for investment and development. Most of the expenditures are involved in agriculture, forestry and rural development, transport and communication, trade and industry, power and energy, and so on.

Besides expenditures on investment and development, public money also goes to community services areas for the purpose of improving living stan-

dards. This type of public expenditure may be classified as spending for current consumption, although it may also contribute to economic growth by improving the productivity of the labor force. So, this type of spending can be called human capital expenditure. It is important to note that such spending reflects one of the main goals of economic development for any nation in the world because, for whatever reason, the results of economic development must benefit all citizens of the community.

Some typical human capital expenditures are those on education, health, public services such as law and social security, government apparatus, pension, welfare, and so on.

From the figures in Table 1, for the whole research period (1992 - 2001), Vietnam has had a much larger amount of spending on human capital than that on economic services. This can be understood since Vietnam is a developing economy, the government has still considered spending on human capital services to

Table 2: Revenues of the state budget in Vietnam and other ASEAN countries from 1992 to 2001 (% GDP)

Year	Vietnam	Laos	Cambodia	Myanmar	Philippines*	Indonesia	Malaysia	Thailand	Singapore
1992	19.00			8.29	17.96	18.61	26.56	17.70	29.10
1993	22.30			7.58	17.66	18.18	25.57	17.78	30.60
1994	24.70			6.78	20.60	17.49	24.80	18.10	33.00
1995	23.30		8.50	6.52	19.66	16.78	23.40	18.69	33.10
1996	22.90	14.70	9.00	6.70	19.87	15.40	23.30	18.98	33.10
1997	20.80	15.10	9.60	6.80	20.33	15.86	23.50	18.40	35.10
1998	20.20	16.60	8.90	8.00	17.65	13.25	20.00	16.36	36.00
1999	19.80	17.00	11.50	7.20	15.96	19.38	19.70	16.11	32.39
2000	21.10	17.70	12.10	5.50	15.18	19.01	18.30	15.41	32.51
2001	18.90		12.40		15.42				

meet current and urgent needs of its citizens in the forms of education, health and other services as its priority in the process of economic development.

2. Difficulties in balancing the state budget in Vietnam

In general, the condition of a state budget of any nation in the world is defined by the difference between the government's revenues (almost coming from taxes) and government expenditure. If total revenues are greater than or equal to total expenditures, it is understood that the government's state budget is in a good condition. However, on the other side, the government is in a budget deficit. In order to finance the deficit, there are several methods that the government can implement. The first one is that the government issues money. The other op-

tion the government can choose to finance its deficit is to borrow.

It is important that whatever methods the government uses to finance its deficit, financing today's consumption by borrowing

is generally seen as imprudent since it reduces the resources available for consumption tomorrow. It is obvious that the state budget of Vietnam has experienced persistent deficit. This circumstance is a

real hindrance for the government in managing the process of economic development.

3. Some possible solutions for long-term stability for the state budget in Vietnam in the future

The Tables 2.3 and 4 reveal that in terms of government expenditure and revenue, there are three facts about the Vietnamese economy:

(i) Total government revenues from taxes as a percentage of GDP are relatively high and this ratio is high compared with other ASEAN economies.

(ii) Total government expenditures as a percentage of GDP are also very high in comparison with other ASEAN economies.

(i) Unlike the other ASEAN economies in the study, Vietnam is the only economy that has experienced persistent



Table 3: Government expenditures in Vietnam and other ASEAN countries from 1992 to 2001 (% GDP)

Year	Vietnam	Laos	Cambodia	Myanmar	Philippines*	Indonesia	Malaysia	Thailand	Singapore
1992	23.40			11.12	19.65	18.48	30.93	14.86	17.96
1993	28.60			9.91	18.47	16.67	30.80	15.72	15.15
1994	27.40			10.16	18.31	16.19	22.80	16.13	15.25
1995	24.10		15.90	10.73	17.93	14.68	21.75	15.83	14.67
1996	23.60	21.90	17.30	9.70	18.46	14.64	22.22	16.42	17.05
1997	24.80	23.60	13.80	8.70	19.23	17.99	20.95	20.18	19.89
1998	21.90	20.60	14.90	4.50	19.08	18.22	21.48	22.70	22.61
1999	22.40	22.20	15.90	5.60	19.54	20.13	23.84	25.15	22.11
2000	25.50	22.90	17.80		19.22		19.23	17.18	20.71
2001	25.40		18.20		19.39				

Table 4: Budget deficits in Vietnam and other ASEAN countries from 1992 to 2001 (% GDP)

Year	Vietnam	Laos	Cambodia	Myanmar	Philippines*	Indonesia	Malaysia	Thailand	Singapore
1992	-3.62			-2.83	-1.18	-0.39	-0.82	2.83	11.78
1993	-5.56			-2.15	-1.48	0.61	0.21	2.09	13.79
1994	-1.94			-3.33	1.07	0.94	2.26	1.61	12.06
1995	-0.04		-7.40	-4.12	0.58	2.22	0.84	3.22	13.43
1996	-0.15	-7.20	-8.30	-3.16	0.29	1.16	0.72	0.94	14.66
1997	-3.06	-8.50	-4.20	-1.83	0.06	-0.67	2.35	-0.32	9.69
1998	-1.02	-4.00	-6.00	0.51	-1.87	-2.95	-1.76	-2.79	16.72
1999	-2.00	-5.20	-4.40	-0.07	-3.75	-1.14	-3.17	-3.34	10.26
2000	-3.85	-5.20	-5.70		-4.12			-2.21	11.38
2001	-5.76		-5.80		-4.04				

Notes *: The percentages were calculated based on the values of GNP

Source: *International Financial Statistics Yearbooks* 1996, 1998, 2000, 2002 of IMF and author's calculations

budget deficits over a long period.

In addition, there is no significant pattern for government revenue and government expenditures, relative to other macroeconomic indicators such as GDP per capita, total direct taxes and so on. It is therefore important to note that any solution given must be in accordance with a broad view for the economy as a whole.

a. On the expenditure side

As a matter of fact, in most economies, an increase in public expenditure over time seems unavoidable and, to some extent, acceptable. It is however noted that public expenditures should be strictly controlled to avoid negative effects on the economy. In the case of Vietnam, there will definitely be an increase in public expenditure from the government due to expected economic development in the future.

In practice, if the public expenditure is restrained, it will be difficult for the government to fulfil its responsibilities to the economy, as well as to the society. However, in Vietnam, with its limited taxing power, it is no surprise

that strict control on public spending is essential and important. From my point of view, there are some possible and crucial points the government should carefully consider:

- There should be a clear strategy for economic development of the economy. To be effective and efficient, this strategy should be based on current conditions of the economy, as well as on the circumstance of the world economy and possible forecasts. In that sense, it is easier for the government

to plan its public expenditures and avoid unnecessary changes in policy due to careless preparation.

- Priorities should be given to areas which can become pioneers to push the economy up and encourage other areas to develop as well.

- There should be a shift of public expenditures from unproductive activities into productive ones to reduce the pressure on the state budget deficit.

- The government should control the expendi-

ture of public funds by clearly regulating the power to spend public money for each administrative region and setting the limits.

- Reports of public spending should be carefully and regularly checked to be certain that public money has gone to the areas to which it was allocated. In that sense, corruption and bureaucracy can be reduced as much as possible.

b. On the revenue side

In terms of total government revenues from taxes, Vietnamese taxpayers are currently facing a heavy pressure. In the circumstance that the state budget is always in deficit, any suggestion for cutting taxes for whatever reason, from my point of view, is not feasible.

It is however necessary to realize that there should be a shift of importance, in terms of revenue from taxes, from indirect taxes to direct taxes as an indispensable part of the process of economic development. In that sense, the role of direct taxes, such as personal income tax and corporate income tax, must increase in the total government revenue from taxes. In addition, one more important feature of the tax system of Vietnam is that Vietnam is currently depending heavily on revenue from import duties whereas this source of revenues will definitely drop sharply in the near future when Vietnam fully implements its international commitments on cutting tariff and non-tariff barriers with ASEAN, and other regional and international institutions.

To overcome the above mentioned challenges, the Vietnamese government should definitely carry out some urgent and crucial tasks to be certain that its revenue from taxes will stabilize in the next period in the face of changes in the economy. ■

