

# BUDGET REFORM FOR INTERNATIONAL INTEGRATION

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According to WB experts, the greatest problems with the Vietnamese economy in the past decade were: (1) Widening gap between rich and poor; (2) slow reform in the public sector and banking system; and (3) poor public finance management. In the public finance, noticeable shortcomings are waste of public fund and embezzlement; and wrong investments. Waste of money in public works has become the greatest loss for the public fund and the greatest challenge to the financial authorities in the process of integrating into the world community.

The measure taken by the government in the coming years is to identify personal responsibility relating to all persons and/or organizations engaging in public works. The Government has also planned to issue two decrees on public invest-



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ment. The Ministry of Finance suggested four groups of solutions and 26 measures to increase the budget income and cut expenditure. In our opinion, these efforts are only shotgun solutions while we need more overall and radical ones.

According to IMF surveys, the key problem of economic recession in

many countries in the 1980s was failure to control the national budget. The situation was improved remarkably in the 1990s when these countries started the fiscal consolidation and made regular and consistent adjustments to their fiscal policy in long periods. The main solutions to this problem are stricter control over

national debt and cuts in the budget expenditure instead of heavier taxation. These solutions can help increase the gross investment. According to the IMF, cuts in personal savings could lead to economic growth on the condition that they are associated with more savings in the budget expenditure. This is also the common trend in many countries.

Vietnam had better follow this trend, that is, to reform the national budget by cutting the public expenditures. Both theories and practices show that the Government should work out carefully a program to cut expenditures and increase income in order to avoid undesirable effects. Most economists agree that a tight fiscal policy aiming at cuts in expenditure and increases in income always leads to long-term economic achievements although it may produce negative and short-term effects (such as higher unemployment rates and lower GDP as Keynesian economists pointed out.)

In present conditions in Vietnam, problems with the public finance require the government to stop intervening directly in state-owned companies and the economy as a whole. The shortest way to achieve this is to



reform the public sector and banking system by restructuring measures: privatizing, selling, or leasing the state-owned companies. In addition, the Government should pay more attention to the task of controlling the national debt. At present, the external debt of some US\$12 billion exerts great pressure on the budget expenditure. Of course, the best solution to this problem is to enhance the efficiency of investment.

We can't discuss the budget reform without mentioning the reform in the management mechanism. Foreign experience shows that the reform in management mechanism has helped many countries since 1999 reduce the budget deficit.

The mechanism reform aims at obtaining and maintaining the stability of the fiscal policy while ensuring a flexible mechanism that allows the fiscal policy to absorb economic shocks through an auto-stabilizing mechanism as expected by policy makers. Recent reforms in the fiscal mechanism in many countries include the three following fields:

*a. Official deficit and debt rules:*

At present, most countries consider the model in the euro-area bloc as a standard. The Maastricht Treaty allows a budget deficit of 3% of GDP for EU members and keeps the public debt under 40% of the GDP. Vietnam could accept these rules.

The Vietnamese budget income is about VND100,000 billion while the expenditure is some 20% or 30% higher. In the fiscal year of 2002, the deficit was kept below 5% of the GDP and external debt under 40% as required by the National Assembly. In the fiscal year of 2003, the budget income is estimated at VND123,000 billion and the expenditure at VND144,000 billion. This means that the deficit is acceptable. However, what makes us worry is the over-expenditure on certain items. In the fiscal year of 2001 for example, the over-expenditure on capital investment was 18% (VND36,000 billion over the planned budget of VND30,000 billion); and on grant-in-aid for communal authorities was 32%. The most alarming over-expenditure was on financing state-owned companies: it was some 800% in 2001 (VND1,585 billion over the planned 200 billion). This means that the budget reform must be associated with the reform in the public sector. In 1997, the British government adopted a golden rule that the national debt is used only for financing the capital spending. So we think

that the Vietnamese National Assembly had better introduce this golden rule to the budget reform being carried out in the coming year. This golden rule prevents the formation of funds for bonus and social welfare in state-owned companies. These funds are usually turned legally into self-earned capital of the companies and sometimes they are used for wrong purposes or allocated illegally to managers when the company is privatized.

*b. Limits on expenditures:*

The first rule is that all budget expenditures require a proper procedure. An over-expenditure on one item must be compensated for by a cut in another or an increase in taxation. In the coming years, the national budget must cover great expenditures on education, public health care, poverty alleviation and sustainable development, so the Government should control the budget strictly by cutting subsidies to state-owned companies and public services. One of the greatest challenges in 2003 is a pay rise for civil servants which requires from VND7,000 to 8,000 billion (compared with a demand for VND16,000 billion.) If the Government cuts other expenditures to meet this demand, the budget for education and human resource development will be affected first. The suitable solutions to this problem are to reform basically the public sector, socialize the education service and reduce unnecessary expenditures.

Reduction in expenditure also includes ways of controlling local budgets by allocating funds according to their plans instead of simply cutting budget expenditures. Allocation of fund according to the plan is different from the practice of allocating fund according to local budget income. This practice makes it difficult for the central budgetary authorities to control and supervise expenditures by local authorities. The allocation of fund according to the plan means more regular inspections for results of investment and expenditures from the public fund, that is, the same procedures applied when estimating the investment plans for state-owned companies.

The reduction in expenditure also means distinction between local and central budget incomes. Incomes from special consumption tax or high-earner income tax could be transferred to the local budget in order to encourage local authorities to collect tax and develop sources of income. This is a way to reduce indirectly expenditure from the central

budget and avoid the trouble of transferring the tax take to the central authorities who will allocate it to local governments later.

In recent years, the expenditure on administrative services has always exceeded the planned budget. To deal with this problem, the best way is to set limits on the administrative expenditures as what has been applied to HCMC recently.

*c. Transparency:*

Transparency of the budget means an effort to make budget expenditures and income publicly known, thereby forcing the government to be more careful about expenditures and preventing causes of inflation, one of important factors leading to macroeconomic instability in developing countries.

In Vietnam, we support the idea of transferring the state auditing body to the National Assembly. In the past, auditing reports submitted by the Government to the National Assembly were only for the eyes of certain persons (chairpersons of the NA Economic and Budgetary Committee for example) and most NA members and the public knew nothing about them. The transparency must be made a standard and a principle when the budget reform is carried out. The NA must control the state auditing committee or have its own one to review reports from ministries.

To ensure the transparency, the budget reform must establish who have rights to budget expenditures and incomes. At present, many chairpersons of people's committees at district level are ready to guarantee economic contracts while they aren't holders of accounts. When the contracts aren't realized properly or ended in failure, they tend to take money from the public fund to pay debts. These defects come directly from the lack of transparency.

In short, waste of public fund and wrong use of public investment that have become common in recent years are due to loopholes in the budget act. The coming budget reform must be based on international practices, which must be considered as a must. The NA must adjust the Budget Act, work out rules of estimating investment projects finance by the public fund, make the budget reports more transparent, and identify personal responsibility for waste and wrong use of budget income. This is an effort to make our country democratic as required by the socialist revolution. ■