

Vietnam's Budget and Finance in 2011 and Orientations for 2012

VƯƠNG ĐÌNH HUỆ*

ABSTRACT

Achievements of the 2011 budget and finance tasks have contributed a lot to inflation curb, macroeconomic stabilization, social welfare, hunger eradication and poverty alleviation, etc. Yet the year 2012 might witness more difficulties, requiring us to be active and determined to fulfill budget and finance tasks in particular and socioeconomic targets in general in order to lay a solid foundation for the successful completion of the five-year plan (2011-2015) and the ten-year strategy (2011-2020).

Keywords: Budget, finance, macroeconomic stability, social welfare

1. EVALUATING THE 2011 BUDGET AND FINANCE ACTIVITIES

Implementation of the 2011 budget and finance tasks took place with a lot of hardships and challenges. Under the circumstance, the government, via Decree 02/NQ-CP dated Jan. 9, 2011 on implementation of socioeconomic development plan and the draft of national budget 2011 and Decree 11/NQ-CP dated Feb. 24, 2011 on measures to curb inflation, ensure macroeconomic stability and maintain social welfare, has identified vital administrative targets such as inflation control, macroeconomic stabilization, and social welfare, and simultaneously worked out action plans. Under the leadership of the VCP, the flexible and swift actions of the government, and the utmost attempts of the political system and all citizens, Vietnam's economy step by step regained its health. Vital balances have been maintained; industrial productions and construction have been gradually recovered and on the rise; the service sector has also witnessed a continuous and fast growth; and the 2011 GDP growth was estimated at 6% while inflation rate at 18% and export turnover at 31.6% (compared with the planned target of 10%). The socio-political situation was stable; social welfare was improved; and the decrease in poverty rate was estimated at 2%.

In the current plight, the aforementioned achievements are thanks to significant and positive contributions of the budget and financial planning sector. Budget and financial policies have been seriously implemented under the direction of the VCP and the Government in order to curb inflation and maintain macroeconomic stability and social welfare.

Here are some striking achievements.

Firstly, budget expenditures and incomes are administered tightly, actively, and effectively.

- *State budget incomes:*

Even though the economy faced a lot of difficulties last year, many positive results were achieved thanks to improvements in tax policies, service fees, tax-collection management, fighting against tax evasions and price transferring, especially to businesses with foreign direct investments (FDIs), and disposing of outstanding land-use debts and tax arrears. The 2011 budget income increased 13.4%

*Professor, Doctor of Philosophy, Member of VCP Central Committee and Minister of Finance

Email: tapchitaichinh.btc@gmail.com

comparing to the expectation and almost 20.6% comparing to 2010; the budget income mobilization rate equaled 20.3% of the GDP. Incomes from crude oil, foreign trade, direct taxes, etc. were higher than planned targets, enabling to reduce overspend, pay debts, and transfer funds for the fiscal year 2012, contributing to disinflation, maintaining macroeconomic stability, and improving social security.

In order to reduce difficulties upon production and public daily life, the Ministry of Finance asked the government and the National Assembly for exempting, reducing or deferring tax payments for the small and medium-sized enterprises, labor-intensive companies, individuals, and family businesses at the service of workers of industrial zones.

- State budget expenditures:

To implement the Decree 11/NQ-CP, the Ministry of Finance decided to tighten the 2011 state budget expenditure and enhance performance of public investment, temporarily cease purchasing automobiles, stationeries, save 10% of regular spending, inspect and rearrange investments supported by the state budget and government bonds.

Overall, central and local authorities have followed provisions on budget expenditures; savings of 10% of regular spending reached VND3,857 billion; purchase of assets was ceased as directed; public investments were rearranged; and some measures to repair damages caused by natural disasters and strengthen national defense and security were carried out. In terms of governance, thanks to the contingency reserves and budget income surplus, it is possible to prevent and overcome consequences of natural disasters and epidemics, and implement policies on social welfare.

State budget overspend reached 4.9% of GDP (i.e. 0.4 percentage point lower than the planned target), providing VND15,000 billion for payment of national debts. Accordingly, up to Dec. 31, 2011, the ratio of public debts to GDP was reduced to 54.6%. This level is within safety limit for national finance, which facilitated efforts to stabilize the economy and reduce the inflation.

Secondly, a careful coordination of price policies and managements has help curb inflation.

Facing the 2011 macroeconomic fluctuations, the Ministry of Finance actively collaborated with the SBV to suggest and implement measures to combine harmoniously fiscal and monetary policies. Right at the outset of the year, together with measures to tighten public expenditures, reduce budget overspend and public investments, the tight monetary policy was administered via reduction in the growth rate planned for bank credit and total liquidity, stricter control over exchange rate and forex balance, etc. Accordingly, the total liquidity in 2011 is expected to rise 12% comparing to the same period last year; and the total outstanding loan rose by 12% - a very low level comparing to corresponding period in 2010 and previous years. The combination of fiscal and monetary policies helped curb inflation.

Moreover, in order to accomplish market-oriented targets and manipulate inflation, the Ministry of Finance adjusted prices of gasoline, oil, electricity, and coal, etc., to alleviate budget subsidies. Simultaneously, the ministry also collaborates with other ministries and local authorities to implement regulations on prices of valorized commodities. Field researches show that provinces and enterprises have implemented properly price administration and employed valorization modes, thereby maintaining the supply-demand balance and reducing pressures on price. Such measures have reduced rises in the CPI since May and only increased 18% yearly since December 2010.

Thirdly, resources for social welfare were secured.

The Ministry of Finance in collaboration with other ministries and provincial governments promptly ensured resources for execution of policies on social welfare such as health insurance programs for the poor and under-sixes, scholarship for students of ethnic minorities, accidental supports for the poor and low-income persons (i.e. VND250,000 per capita for low-waged workers, social insurance dependants, and old revolutionaries; and VND250,000 per household for poor households), electric subsidies for poor households, directing uses of the 10% saving on regular spending for social welfare, transferring over VND3,000 billion and some 65,000 tonnes of rice from the national contingency reserve to provinces damaged by natural disasters or epidemics. These achievements have reduced the poverty proportion 2%.

Achievements in the 2011 budget and finance tasks prove that financial mechanisms and policies were correctly promulgated and congruent with the general perspective of Resolutions of the Politburo, the National Assembly and the Government as well. Ministry of Finance directed carefully and promptly the implementation of these measures, thereby helping maintain macroeconomic stability, complete the given budget and finance tasks, and successfully perform policies on social welfare, hunger eradication and poverty alleviation.

2. ORIENTATIONS FOR THE 2012 BUDGET AND FINANCE POLICIES

It is predicted that the world economy in 2012 will face more difficulties as the public debt crisis in developed countries shows no sign of improvement. Meanwhile, the economic growth of many economies remains low, forcing governments to loosen fiscal and monetary policies. In Vietnam, even though the macroeconomic stability has been secured, the national economy has suffered interior setbacks such as high inflation rate; poor quality of economic growth; shortcomings in the market mechanism, human resource quality, socioeconomic structure, and complicated conditions of natural disasters and epidemics.

Given the present situation and predictions, Vietnam's government has defined its comprehensive goals in 2012 as follows: prioritize inflation curb; maintain the macroeconomic stability, keep economic growth at a rational rate based on new growth model and economic restructuring; enhance the quality, effectiveness and competitiveness; ensure social benefits and welfare; improve the living standards; maintain the political stability, consolidate the national defense, maintain security, social safety and order; and enhance the effectiveness of diplomatic relations and international integration.

Grasping thoroughly the 2012 comprehensive goals of the government, the Ministry of Finance has addressed its 2012 budget and finance targets as follows: Actively estimate the 2012 national budget; prioritize inflation control and macroeconomic stability; restructure the national budget in the direction of human development, salary reform, and social welfare; consolidate the national defense and national financial security in the new context, and promote the economic restructuring.

The keynote mission in 2012 and following years is to carry out the economic restructuring as defined in the 3rd Conference of the Politburo of term XI including the restructuring of public investment, enterprises, and the financial system. The development of plan and process of the restructuring must be in line with the economic context and progress.

In order to successfully fulfill the 2012 budget and finance tasks, the Ministry of Finance will concentrate on the following keynote tasks.

Firstly, concentrate on inflation curb and macroeconomic stability, maintain an appropriate growth rate, keep tightening fiscal policies and combine harmoniously fiscal and monetary policies; control the growth of total liquidity and credit; actively govern the interest rate and keep the exchange rate in line with market signs.

Collect the income tax fairly and honestly and in accordance with applicable laws. Implement the Law on Environmental Protection and Law of Tax on Land Use for Non-agricultural Purpose which comes into effect as of Jan. 1, 2012. Direct and inspect strictly the collection of income tax, minimize tax loss or tax arrears, especially receivables relating to land use, natural resources, trade frauds, fraudulent tax declaration via transfer pricing, etc.; renew ways of propagating and consulting tax law for everyone, especially tax payers so that they are well aware of and abide by the tax law. Attempt to gain higher budget incomes than the planned target to reduce budget deficit to 4.8% of GDP as planned.

Secondly, adjust the structure of budget expenditures in the direction of prioritizing human development, reforming salary scales, and implementing policies on social welfare, reducing the share of public investment in development projects in the budget expenditure.

Seriously carry out measures to enhance the effectiveness of public investment in development projects from national budget, government bonds and preferential credit. Because the public investment allocated for 2012 and the 2012-2015 period is lower than requested, it is required that ministries and provincial governments should rearrange the order of priorities, restructure investment projects by prioritize keynote projects relating to infrastructure, agricultural-rural development, social welfare, national defense; counterbalance capital for ODA projects; concentrate on urgent projects that can be soon completed and brought into operation. Projects which have been realized but cannot be included in the list of priorities should be halted, postponed, restructured, or transferred to other investors. For preferential loans, the list of entities enjoying such loans should be reviewed to make it suitable to the economic restructuring. Loans for the poor, students, and ethnic minorities should be maintained to realize social welfare targets.

Thirdly, promote the reform and restructuring of state-owned enterprises, especially state-owned corporations and groups. In this task, implement synchronously following solutions: Develop and promulgate criteria for classifying state-owned enterprises to define ownership of equity of these enterprises; restructure, equitize, lease or liquidate poor-performance state-owned enterprises; restructure groups and corporations intensively; develop an appropriate growth model; request state-owned enterprises that invest in out-sector fields to develop a divestment route; enhance the competence in enterprise management; improve the inspection and manipulation of the government over state-owned enterprises, and detach the government's administrative role from its ownership in such enterprises; expand rights and obligations of representatives of enterprise owners; develop and perfect the state-owned enterprise inspection system; eradicate prerogatives of state-owned enterprises, including privileges to access credit sources, bank guarantee, market, etc. to create a level playing field for all enterprises.

Fourthly, implement effectively Conclusion 37-TB/TW dated May 26, 2011 by the Politburo regarding renovating the operation of public agencies, promoting public participation in certain public services. Introduce and promulgate mechanisms and policies to gradually make the price level of public services (i.e. education and healthcare) in line with the market mechanism and connected with financial autonomy; calculate accurately service costs to mobilize resources from people with high demand; support beneficiaries of preferential policies and the poor, guarantee social equality; encouraging public participation along with improvements in state control; enhance the quality of public services so that public agencies can increase their incomes, thereby securing funds for salary for civil servants when the salary reform is carried out.

Fifthly, implement synchronously the market price mechanism under the state control; eradicate step by step subsidies and price support for certain kind of consumers. In 2012, allow prices of petrol, gasoline, electricity, coal, and some fees on use of infrastructural services to be determined by market mechanism to attract private investments in socioeconomic infrastructure and encourage the effective and economical use of resources; inspect, perfect, direct and administer synchronously regulations on price administration, especially quoting price in VND; analyze, predict and closely observe the market upheavals to take timely measures to adjust the supply-demand relation and maintain market stability.

Sixthly, develop a specific plan for restructuring the stock market, including the followings: restructuring commodities, developing a system of investing organizations, encouraging foreign investors to have long-term investment plans in Vietnam; developing a credit rating system; perfecting mechanisms for transactions, clearing house, and disclosing; restructuring stock trading, fund management companies, securities depository and registration and payment; establishing a collaboration with both local and foreign administrators to ensure the healthy operation of the stock market, banking system and insurance business.

Encourage insurers to expand its distribution channels; launch new insurance products, especially those related to healthcare, education, retirement, agriculture, credit, etc.; consolidate and develop the supply of accounting and auditing services; and guarantee a level playing field for all accounting and auditing firms.

Seventhly, enhance the administrative role of the government via campaigns against extravagancy and corruption; expedite the administrative reform; increase regular inspections to ensure the financial disciplines; develop a project on salary reform in the period 2012-2020 in the direction of renovating the salary scale and incentives for better performance among civil servants; modify and perfect financial penalties concerning violations of regulations on the use of national budget income; publicize budget expenditures and public investments, especially investments from the budget, governmental bonds and state-owned enterprises.

The year 2012 is a crucial milestone in the development of Vietnam with many difficulties, challenges, and opportunity. To successfully complete budget and finance tasks in particular and socioeconomic ones in general in 2012 is a difficult duty. However, with a utmost determination of the political system, efforts of both central and local governments, unanimity of the community of businesspersons and the public, the entire financial sector will try its best to successfully fulfill the 2012

tasks, and thereby laying a solid foundation for achievement of the five-year socioeconomic targets (2011-2015) and the ten-year strategy (2011-2020)■

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