ASEAN +3 MACROECONOMIC RESEARCH OFFICE

AMRO Country Fiscal Review

Vietnam

ASEAN+3 Macroeconomic Research Office (AMRO)

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Acknowledgments

1. AMRO Country Fiscal Review (CFR) report is to enhance AMRO's fiscal surveillance by deepening the understanding of fiscal institutions of member economies and identifying potential fiscal issues for AMRO's surveillance. This report also supports the AMRO country surveillance teams to discuss fiscal issues effectively with the member authorities and develop country-tailored fiscal policy recommendations, and helps the AMRO fiscal team develop fiscal institution database for cross-country analysis and consistent policy advice.

2. This CFR report on Vietnam is drafted on the basis of the CFR Visit to Vietnam from 1 to 7 March 2024, in tandem with the Interim Visit to Vietnam. The CFR mission team was led by Dr Seung Hyun (Luke) Hong, Group Head and Lead Economist, and member(s) included Dr Byunghoon Nam, Senior Economist. The Interim Visit team was led by Dr Sumio Ishikawa, Group Head and Lead Economist, and the country desk was Ms Wanwisa Vorranikulkij, Senior Economist. This AMRO CFR report was reviewed by the Ministry of Finance of Vietnam, and approved by Abdurohman, Deputy Director for Functional Surveillance and Research.

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Contents

Figures

Tables

Abbreviations

ACR	annual consultation report
ADB	Asia Development Bank
ADBI	Asia Development Bank Institute
ASEAN	Association of South-East Asian Nations
ASEAN+3	ASEAN plus China; Hong Kong, China; Japan; Korea
CFR	country fiscal review
CIT	corporate income tax
DOF	Department of Finance
DSA	debt sustainability analysis
EBF	extra-budgetary fund
EPT	environment protection tax
EUR	Euro
FDB	fiscal dashboard
FRF	financial reserve fund
FTA	free trade agreement
GDP	gross domestic product
GFS	government finance statistics
GFSM	government finance statistics manual
GMT	global minimum tax
HCM	Ho Chi Mihn City
HFIC	Ho Chi Minh City Finance and Investment State Owned Company
IIR	income inclusion rule
IMF	International Monetary Fund
ISF	Investment Support Fund
JPY	Japanese Yen
LDIF	Local Development Investment Fund
MDB	multilateral development bank
MNC	multinational corporation
MOF	Ministry of Finance
MPI	Ministry of Planning and Investment
NPL	nonperforming loan
NRT	natural resource tax
ODA	official development assistance
PIT	personal income tax
PPG	public and publicly guaranteed

PPP	public-private partnership
QDMTT	qualified domestic minimum top-up tax
R&D	research and development
SAO	State Audit Office
SBV	State Bank of Vietnam
SOE	state-owned enterprise
SST	special sales tax
TA	technical assistance
TABMIS	Treasury and Budget Management Information System
TIF	Treasury Idle Fund
USD	US dollar
VAT	value-added tax
VBSP	Vietnam Bank for Social Policies
VDB	Vietnam Development Bank
VND	Vietnamese dong
VSS	Vietnam Social Security
WB	World Bank

I. Fiscal Year and Coverage

1. **The fiscal year in Vietnam is from January 1 to December 31.**

2. **The state budget covers the central and local governments, excluding the Vietnam Social Security (VSS) fund and extra-budgetary state financial funds (EBFs).** The local budget includes the budgets of local authorities at all levels, including provinces, districts, communes, wards, and district towns. The EBFs are established by competent authorities and operated independently from the state budget, with their own revenue sources.

3. **VSS fund and other EBFs have substantial revenues and expenditures**. According to IMF (2019), EBF revenue was 7 percent of GDP, and expenditure was 5 percent of GDP in 2017. These EBFs include VSS fund and local development investment funds (LDIFs).

- The establishment and financial management of EBFs are the responsibility of line ministries and central/local agencies. Fiscal authorities, including the Ministry of Finance (MOF) and the Department of Finance (DOF) of provincial governments, provide them with advice on financial mechanisms and reporting.

- According to the Law on State Budget (Article 8), the state budget does not cover the operating costs of EBFs, but may support charter capital depending on the capacity of the state budget. EBFs should be financially independent, and the sources of revenue and expenditure should not coincide with those of the state budget. However, many EBFs depend on either the central or local budgets for their operational costs, except for some funds that can mobilize revenues from beneficiaries, such as health insurance and social insurance funds. Since the mid-2010s, the Prime Minister has oriented that EBFs should reveal their functions and responsibilities and that EBFs that are duplicated with the state budget should be abolished. Some EBFs have been abolished and merged, and few new EBFs have been established. Some LDIFs were converted into state-owned enterprises (SOEs) (e.g., Ho Chi Minh City Finance and Investment State Owned Company: HFIC).

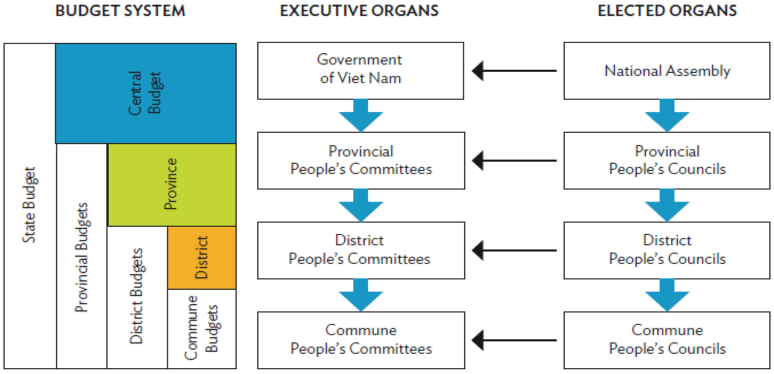
- According to the Law on State Budget (Article 47 and 65), the financial plan and statements of EBFs must be included in the budget and settlement documents. Specifically, the report on the implementation of the current year's financial plan and the formulation of the following year's financial plan of EBFs must be included in the state budget estimate and budget allocation plan submitted to the National Assembly. Furthermore, the financial statements of EBFs must be enclosed in the state budget statement, with an explanation and assessment of the result, as well as the efficiency of the performance of their tasks. As directed, the financial plans of EBFs are included in the state budget plan, and the settlements of EBFs are included in the final settlements of the state budget. However, for each EBF, only the aggregates of revenue (including transfers from the state budget) and expenditure are presented without detailed information on its revenue and spending items and the assessment of its performance. In addition, their financial statements have never been publicly available.

II. Fiscal Framework

A. Central and Local Fiscal System

4. **The state budget is managed as a decentralized system, in which the central government plays a leading role while promoting the proactive role and autonomy of local governments**. The budget system is a nested model with local budgets subordinate to the upper-tier budgets. The state budget comprises the central budget and the consolidated provincial-district-commune budgets. The National Assembly approves the state budget, including the central budget (with details by the ministry) and the aggregate revenue and expenditure for each provincial budget. The local budgets (at the district and commune levels) are submitted by the People's Committees to their respective People's Councils for approval and then reported to higher-level People's Committees for consolidation (Figure 1).

Figure 1. Fiscal Decentralization



Source: ADB (2016)

Revenue decentralization

5. **Revenue is shared between central and local governments**. Revenue collected is grouped into three categories: (i) revenue entirely retained by the central government; (ii) revenue entirely retained by local governments (own-source revenue); and (iii) revenue shared between the central and local governments (shared revenue) (Table 1). The own-source and shared revenue is based on the domicile of the taxpayer. Tax rates and bases are set by the central government.

Table 1. Three Categories of Revenue Collection

Category	Revenues
Revenue entirely retained by the central government	• Trade-related revenue (VAT on imported goods, export and import duties, excise tax on imported goods, environmental protection tax on imported goods) • Severance tax and CIT from petroleum exploration and extraction • Fees and charges, grants for central government
Revenue entirely retained by the local governments	• Tax on land and housing • Tax on transfer of land-use right, tax on the use of agriculture land, land rent, revenue from the lease and sale of state-owned houses • Severance tax from natural resources (excluding petroleum) • Business licensing and registration fee • Revenue from lottery • Fees and charges, grants for local governments
Revenue shared between the central and local governments	• VAT, excise tax, environmental protection tax (except for those on imported goods) • CIT (except for CIT from petroleum) • PIT

Source: Law on State Budget (Articles 35 and 37)

6. **For the shared revenue, the sharing ratios[1] are determined at the beginning of each fiscal stabilization period and fixed during the fiscal stabilization period[2]** (Law on State Budget, Article 9). The sharing ratios are determined based on revenue sources and spending needs, population, natural conditions, and socio-economic conditions of each province (Law on State Budget, Article 40). In practice, the DOF of each provincial government negotiates the sharing ratios with the MOF, in accordance with the 5-year socio-economic development plan and 5-year financial plan. Then, the sharing ratios for all provinces are proposed by the MOF and approved by the National Assembly.

- The fiscal stabilization period coincides with the 5-year socio-economic development plan but can be shortened to 3 years. However, due to the impact of the COVID-19 pandemic, the sharing ratios for the fiscal stabilization period 2017-2020 were extended to 2021, while being recalculated for 2022, and again for 2023-2024. According to the current sharing ratios, 18 wealthy provinces have the sharing ratios (Table 2), while 45 provinces retain all the revenue they collect (sharing ratio = 100 percent).

- The sharing ratios are uniform for all shared revenues.

- The provincial governments are allowed to design their own revenue assignments to districts and communes within their jurisdictions.

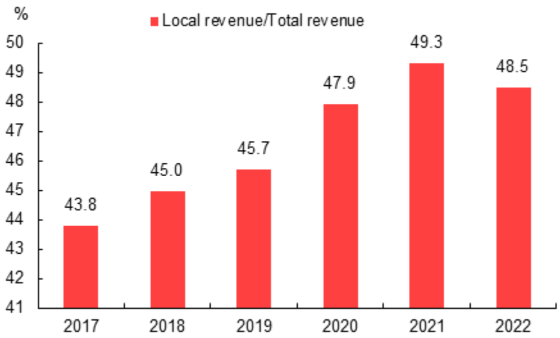
Table 2. Sharing Ratios of the Shared Revenue (percent)

	Ho Chi Minh	Hanoi	Binh Duong	Dong Nai	Quang Ninh	Baria-Vung Tau	Vinh Phuc	Bac Ninh	Hai Phong
Sharing rate	21	32	33	50	51	52	66	71	76
	Quang Nam	**Da Nang**	**Ninh Binh**	**Khanh Hoa**	**Quang Ngai**	**Long An**	**Thai Nguyen**	**Hai Duong**	**Hung Yen**
Sharing rate	82	83	89	90	93	95	96	98	98

Source: Ministry of Finance

7. **The share of local government revenue in total revenue has increased from around 30 percent in 2013 to almost 50 percent in 2022** (Figure 2). Own-source revenue has increased in many provinces as strong real estate markets have boosted land-related revenue, which comprises around 80 percent of own-source revenue. Also, the economic activities and revenue collection have been relatively strong in sectors other than petroleum and trade, which contribute mainly to central government revenue.

Figure 2. Share of Local Government Revenue in Total Revenue (2017 - 2022)



Source: Ministry of Finance; AMRO staff estimate

[1] The sharing ratios of revenue between central and local governments refers to the percentage (%) of total shared revenue that local governments are entitled to retain (Law on State Budget Article 4.24).

[2] The fiscal stabilization period refers to the 5-year period during which the sharing ratios of revenue between central and local governments, as well as the balancing transfers from the central government to local governments, remain stable. This period coincides with the 5-year socio-economic development plan or follow the decision of the National Assembly (Law on State Budget Article 4.23).

Expenditure decentralization

8. **Expenditure obligations are shared between central and local governments**, as stipulated in the Law of State Budget (Articles 36 and 38). The central government is responsible for defense, national reserve, and aid provision. The inter-regional investment projects are performed by the central government, while the investment projects within the region are performed by local governments. Most of the recurrent expenditures are performed both by central and local governments.

Table 3. Expenditure Obligations of Central and Local Governments

	Central Government	Local Government
Development Expenditure	• Investment in inter-regional projects • Investment in and support of capital for enterprises providing public services and products ordered by the State; central business organizations and financial institutions	• Investment in regional projects • Investment in and support of capital for enterprises providing public services and products ordered by the State; local business organizations and financial institutions
Recurrent Expenditure	• Defense • Social safety, security, and order • Education and vocational training; Science and technology; Healthcare, population, and families; Culture and information; Radio, television, and the press; Sports; Environmental protection; Economic activities; Administrative management expenditure	• Social safety, security, and order under the management of local governments • Education and vocational training; Science and technology; Healthcare, population, and families; Culture and information; Radio, television, and the press; Sports; Environmental protection; Economic activities; Administrative management expenditure
Other	• Expenditure on national reserve • Interest payment on central government debt • Provision of aid • Grant of loans • Funding for the central financial reserve fund • Expenditures of the central government budget carried over to the following year's budget • Balancing transfers and targeted transfers to local government budgets	• Interest payment on local government debt • Funding for local financial reserve funds. • Expenditures of local government budgets carried over to the following year's budget • Balancing transfers and targeted transfers to inferior government budgets

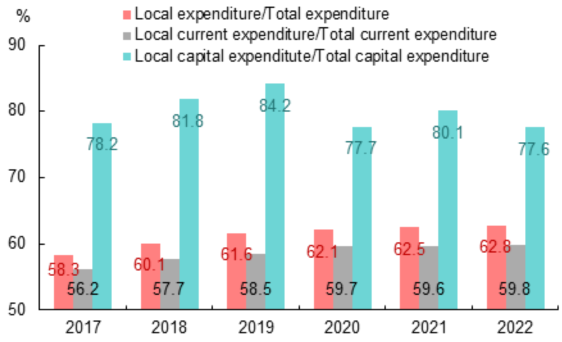
Source: Law on State Budget (Article 36 and 38)

9. **There is no specific relationship between revenue sources and expenditure items, except for a few cases**. In general, revenues from taxes, fees, charges, and other lawful collections must be fully consolidated into the state budget balance, based on the principle that they are not tied to specific expenditure obligations (Law of State Budget, Article 7). However, revenue from land use rights and lottery can be used only for capital expenditure. Carry-over revenue can be used only for the corresponding carry-over expenditure.

10. **The share of local government expenditure in total expenditure has increased from around 53 percent in 2013 to almost 63 percent in 2022** (Figure 3). Local governments have spent around 80 percent of total capital expenditure, and around 60 percent of total current expenditure, excluding interest payments.

- According to ADB (2016), the shares of education, health, and social welfare spent by local governments in 2013 were 90.9, 84.4, and 24.5 percent, respectively.

Figure 3. Share of Local Government Expenditure in Total Expenditure (2017 - 2022)



Source: Ministry of Finance; AMRO staff estimate

- Additionally, in lower-tier local governments, district spending constitutes more than 45 percent of total local spending. Lower-tier local governments are responsible for most of the recurrent expenditure in education (75 percent) and health sectors (60 percent). However, only 30 percent of capital expenditure is implemented by the lower-tier governments.

Intergovernmental Transfers

11. **Intergovernmental transfers aim to ensure the balance of local budget revenues and expenditures and to achieve national targets/objectives**. There are two types of transfer programs: (i) (unconditional) balancing transfers; and (iii) (conditional) targeted transfers.

12. **The balancing transfers are determined based on revenue sources and spending needs, population, natural conditions, socio-economic conditions, and geographic area of each province** (Law on State Budget, Article 40). The spending needs for capital and recurrent expenditures over the fiscal stabilization period are projected by 13 spending areas primarily influenced by population metrics and weighted sub-factors. After subtracting the projected decentralized revenue (including own-source and shared revenue) from the projected spending needs, the remaining amount is covered by the balancing transfers.

- The balancing transfers for each province are fixed at the beginning of the fiscal stability period. In the following years, the balancing transfer may increase, considering additional spending needs and the capacity of central budget (Law on State Budget, Article 9.7.b). In exceptional circumstances where spending needs sharply increase and/or revenue suddenly drops due to unforeseen factors, provinces may temporarily receive increased balancing transfers, subject to reassessment for subsequent years.

- The balancing transfers from province to district are determined by each province, considering the population, geographical location, and financial resources, as well as other socio-economic conditions.

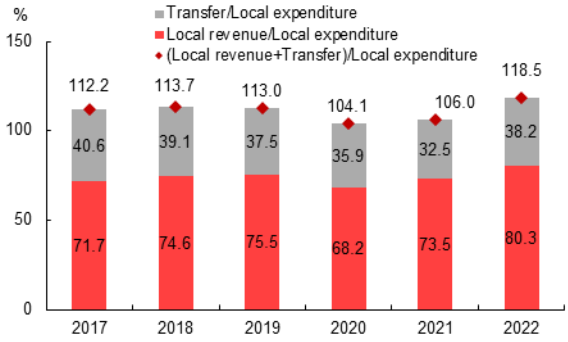
13. **The targeted transfers are conditional grants through which the central government aims to achieve socioeconomic development targets** (Law on State Budget, Article 40). There are two types of target programs: national target programs (NTPs) and other target transfers. Currently, there exist only the targeted transfers for NTPs.

- NTPs aim to accelerate progress toward national socioeconomic development objectives, including poverty reduction, education, health, livelihoods, rural development, culture, energy use, and climate change. Currently, there are three NTPs for the 2021-2025 period: (i) new rural area development; (ii) social development for ethnic minorities; and (iii) sustainable poverty reduction.

- Other target transfer programs cover objectives, including capital investment, infrastructure investment, and economic development programs in specific regions.

14. **Total transfers, including balancing and targeted transfers, accounted for about 40 percent of local expenditure in 2013, and 38 percent in 2022** (Figure 4). The sum of local government revenue (own-revenue and shared revenue) and transfers exceeded the local expenditure at the aggregate level. However, poorer provinces had less revenue sources to meet the spending needs (ADB, 2016).

Figure 4. Source of Revenue for Local Expenditure (2017 – 2022)



Source: Ministry of Finance; AMRO staff estimate

B. Organizational Framework

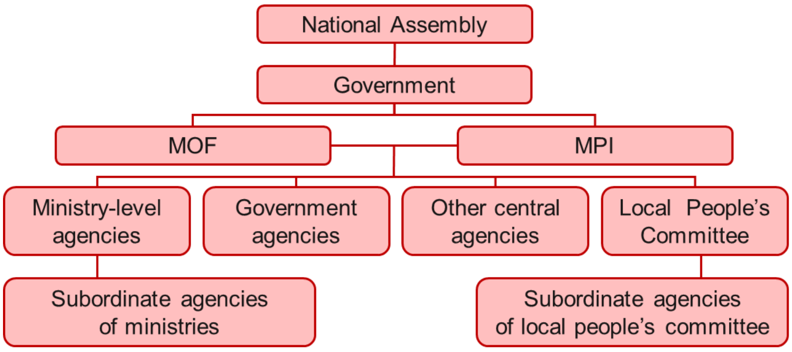
15. **While MOF leads the overall budget process and is responsible for recurrent expenditure, the MPI is responsible for capital expenditure (planning, budget preparation, and allocation).** MOF (MPI) establishes the principles, criteria, and limits on recurrent (capital) expenditure, and plans the allocation of recurrent (capital) expenditure in the central budget.

- Ministries and central agencies prepare their 5-year financial plan, 3-year state budget-finance plan, and annual budget, and submit them to the MOF and MPI.
- MOF prepares the 5-year financial plan, 3-year state budget-finance plan, and annual state budget, with cooperation with MPI and relevant ministries/agencies, and submits them to the Government.
- MOF organizes the execution of the state budget. It prepares the state budget settlements and submits them to the Government. It also examines state budget-financing regulations and carries out state budget-finance inspections.

16. **The Government submits the following to the National Assembly for its approval:** (i) law proposals (ii) 5-year financial plan, 3-year state budget-finance plan, and annual state budget; (iii) allocation of central budget and intergovernmental transfers; (iv) the sharing ratios of the shared revenue; (v) adjustments to the state budget, if necessary; (vi) state budget settlements. Based on the National Assembly's resolution on the state budget and allocation of the central budget, the Government assigns state budget revenue and expenditures to each ministry, ministerial agencies, government agencies, and other central agencies. The execution of the state budget is inspected by the Government and supervised by the National Assembly.

17. **The duties and entitlements of the People's Committees and the People's Councils for local budgets resemble those of the Government and the National Assembly for the state budget**.

Figure 5. Organizational Framework



Source: Law on State Budget; Ministry of Finance; AMRO staff illustration

C. Legal Framework

18. **While the Constitution of the Socialist Republic of Vietnam (2013) states the principles of the state budget, the Law on State Budget (2015) stipulates the details of the state budget, including its framework, structure, mandate, and process**.

- According to the Constitution (Article 55), the state budget must be used effectively, equally, publicly, transparently and legally. It clearly states that the state budget consists of central and local budgets, in which the central budget plays the leading role. It also stipulates the duties and entitlements of the National Assembly and the government regarding the state budget (Article 70 and 96).

- The Law of State Budget consists of seven chapters (see Appendix): general provisions; duties and entitlement of organizations in the state budget; sources of revenue and expenditures; formulation of state budget; execution of state budget; accounting, audit, and settlement of state budget; implementation.

19. **There is additional legislation related to the state budget.** The Law on Public Investment (2019) stipulates the state budget regarding public investment or capital expenditure of central and local budgets, and the Law on Public Debt Management (2017) covers the borrowing, use of loans, debt repayment and public debt management. Also, the social protection systems, including contributions and benefits, are stipulated in the relevant laws, such as Law on Social Insurance (2014), Law on Health Insurance (2014), Law on Employment (2013), and Law on Social Assistance (2014). For the tax policy, there are individual laws for major tax items, including corporate income tax (CIT), personal income tax (PIT), value-added tax (VAT), excise tax, and customs duties, as well as tax administration.

20. **The 5-year financial plan and the annual state budget are approved by the Resolutions of the National Assembly**.

D. Fiscal Rules

21. **Fiscal discipline/principles are stipulated in the Law on State Budget** (Article 7). The state budget is considered balanced if total revenue from taxes, fees, and charges is higher than total recurrent expenditure and the saving for development investment increases. That is, the budget deficit must be smaller than development expenditure to ensure a balanced budget, and the loans to finance the budget deficit may be used only for development expenditure, not recurrent expenditure. In addition, the local budget deficits are permitted only for investment projects under the medium-term public investment plan, approved by the Provincial People's Councils.

22. **The numerical fiscal targets for revenue, expenditure, budget deficit, and debt are set by the resolution for the 5-year financial plan** (Table 4).[3] The resolution specifies the floors for revenue as a percentage of GDP, while setting the floors for the share of capital expenditure and the ceilings for the share of recurrent expenditure. Budget deficit ceilings are also specified for state, central, and local budgets. The debt targets are set for the public and publicly guaranteed (PPG) debt, government debt, national external debt, and debt services. Additionally, the Public Debt Strategy 2030 envisages further reducing the external debt-to-GDP ratio to 45 percent by 2030.

23. **The local government debt ceilings are differentiated based on the revenue collection and financing capacity**. The provinces are categorized into three groups, based on whether their revenue (including own-source and shared revenue) can cover their recurrent expenditure. Although the Law on State Budget sets the debt ceilings for Hanoi and HCM at 60 percent of total revenue, the resolution approved by the National Assembly approved the special mechanism, allowing the debt ceilings for Hanoi and HCM to be 90 and 120 percent of total revenue, respectively.

Table 4. Fiscal Rules

Indicators and Thresholds		Legal Base
Revenue Rule	On average, during 2021-2025, • Total revenue ≥ 16% of GDP • Taxes and fees: 13-14% of GDP • Share of domestic revenue in total revenue: 85-86%	Resolution
Expenditure Rule	On average, during 2021-2025, • Share of capital expenditure: approximately 28% • Share of recurrent expenditure: approximately 62-63%	Resolution
	Spending on education and training ≥ 20 percent of total expenditure Spending on science and technology ≥ 2 percent of total expenditure	Law on Education PM Decision
Balance rule	On average, during 2021-2025, • State budget deficit ≤ 3.7% of GDP, central budget deficit ≤ 3.4% of GDP, local budget deficit ≤ 0.3% of GDP	Resolution
Debt rule	• Public and publicly guaranteed debt ≤ 60% of GDP (warning threshold: 55%) • Government debt ≤ 50% of GDP (warning threshold: 45%) • National external debt ≤ 50% of GDP (warning threshold: 45%) • Government debt service ≤ 25% of total revenue • National external debt service ≤ 25% of total export receipts	Resolution
Local government debt	• Hanoi and HCM – According to the Law on State Budget: 60% of total revenue – According to the special resolution: 90% for Hanoi and 120% for HCM • Provinces with revenue higher than recurrent expenditure: 30% of total revenue • Provinces with revenue lower than recurrent expenditure: 20% of total revenue	Law on State Budget, resolution

Source: Law on State Budget (Article 7); Resolution No.23/2021/QH15

[3] According to the IMF's fiscal rule dataset, the ceilings and floors for revenue, expenditure, budget deficits and debt are considered as the fiscal rules.

E. Medium-term Fiscal Framework

24. **The 5-year financial plan is established in line with the 5-year socio-economic development plan** (Law on State Budget, Article 17). It includes macroeconomic and fiscal targets, total revenue and expenditure (capital and recurrent expenditure), and government debt. It presents an overall picture of the fiscal situation for 5 years, as well as fundamental principles. It aims to achieve socio-economic development targets of the country, each sector, field, and area; efficiently use public financial resources over the medium term; and enhance transparency of the budget. The 5-year financial plans include national 5-year financial plan and provincial 5-year financial plans.

25. **The 3-year state budget-finance plan is formulated annually on a rolling basis for the budget year and the following two years** (Law on State budget, Article 43). It is made simultaneously with the annual budget, based on the 5-year financial plan. It contains the same information as the annual budget. The 3-year state budget-finance plans include national 3-year state budget-finance plan and provincial 3-year state budget-finance plans.

III. Fiscal Process

A. Budget Proposal and Approval

26. **The budget process is a combination of top-down and bottom-up approaches.** The Prime Minister issues instructions on formulating the state budget, followed by the issuance of a circular on formulating a capital expenditure plan by MPI and the issuance of a circular on formulating the state budget by MOF. Based on these circulars, ministry-level agencies, government agencies, other central agencies, and local People's Committees formulate their budget proposals or guide their subordinate agencies in formulating their respective budget proposals. After this top-down process, the budget proposals of subordinate agencies are reported to Ministries and local People's Committees, which send their budgets to MOF and MPI. With discussion between MOF and MPI, MOF synthesizes the state budget and submits it to the government, and the government sends it to the National Assembly for approval.

Table 5. Budget Cycle

	Central Budget	Local Budget
Prior to May 15	• Prime Minister issues an instruction on the preparation of the state budget	
Prior to June 1	• MOF issues a circular on the preparation of the state budget. • MPI issues a circular on the preparation of the socio-economic development and development investment plans	
June	• Ministries and central state agencies guide their subordinate agencies to prepare the state budget.	• Provincial People's Committees guide provincial departments, districts, and communes to prepare the state budget.
Jul	• Ministries and central state agencies prepare budget proposals and submit them to the Prime Minister through MOF (for recurrent expenditures) and MPI (for capital expenditures)	• Provincial departments, districts, and communes prepare budget proposals and submit them to the Provincial People's Committees through the DOF (for recurrent expenditures) and the DPI (for capital expenditures)
Aug	• Budget discussions between MOF and ministries take place	• Budget discussions between MOF and the Provincial People's Committees take place.
Prior to Sep 20	• Central government submits central and local budget proposals to the National Assembly, including (i) assessment of execution of current year's state budget; (ii) state budget estimates; (iii) 5-year financial plan (for the first year of the period); (iv) 3-year state budget-finance plan; (v) report on public debt; (vi) report on implementation and financial plans of EBFs; (v) report on tax exemption and reduction; and (vi) other documents.	
Prior to 15 Nov	• National Assembly approves the aggregate numbers of the State Budget (central and local budgets) and the Central Budget apportionment plan.	
Prior to 20 Nov	• Prime Minister assigns budget revenues and expenditures to each ministry and agency	• Prime Minister assigns aggregate budget revenues and expenditures to each province and centrally managed cities
Prior to 10 Dec		• Provincial People's Councils vote for the enactment of subnational budgets (provincial and district) and provincial budget apportionment plan
Prior to 20 Dec		• Subprovincial People's Councils vote for the enactment of subprovincial budgets (district and commune) and district budget apportionment plan
Prior to 31 Dec	• Ministries, ministerial agencies, government agencies, and other central government agencies assign budgets to respective subordinate agencies and units.	• Provincial or district People's Committees assign budgets to respective subordinate agencies and units

Source: Law on State Budget (Article 44 and 47)

B. Budget Execution and Cash Management

27. **Budgets allocated by the government and the People's Committee are allocated to budget-using units for execution** (Law on State Budget, Article 49). Finance authorities at the same level of government inspect the budget allocation to budget-using units and request corrections if incorrect allocation is found.

- Tax and customs authorities, state treasury, and budget-using units submit periodic reports to finance authorities at the same level on the execution of state budget revenues and expenditures. Then, local finance authorities submit periodic reports to the People's Committees at the same level, which submit their reports to upper-tier finance authorities. The provincial People's Committees submit periodic reports to the Ministry of Finance, which submit periodic reports on state budget revenue and expenditure to the government.

- The People's Committees and the government submit reports on the execution of state budget at the year-end meeting and assessment reports at the midyear meeting to the People's Councils at the same level and the National Assembly, respectively.

28. **Budget reserves and financial reserve funds** (Law on State Budget, Articles 10 and 11).

- **Two – four percent of total budget expenditure is set aside for the budget reserve at each level**. The budget reserves are used for unplanned expenditure on (i) prevention and recovery of natural disasters, response to epidemics, and famine relief; (ii) performance of crucial national defense and security tasks; and (iii) other urgent tasks under their responsibilities. The upper-tier governments can transfer their reserves to the subordinate governments if they cannot complete the aforementioned tasks after their reserves are used up.

- **The central and local governments have financial reserve funds (FRF)**. The FRFs are funded by (i) budget surpluses and (ii) other lawful revenue. FRFs are used for (i) short-term advance funding; (ii) unplanned emergency expenditure (mentioned above) for which the budget reserves are used up and still not sufficient. The amount used in a year must not exceed 70 percent of the opening balance of the fund. The balance of the FRF at each level of government must not exceed 25 percent of the annual budget expenditure.

29. **The budget can be adjusted to address revenue shortfalls and urgent spending needs** (Law on State Budget, Articles 52 and 53). The government can estimate overall budget adjustments and submit them to the National Assembly for approval, if (i) the revenue is expected to be lower than the estimated revenue approved by the National Assembly and some expenditure must be reduced; (ii) there are urgent requirements in terms of national defense and security, or adjustments are necessary due to some objective reasons. Budgets given to budget-using units are adjusted in case of overall budget adjustments and incorrect budget allocations. Budget adjustments must be done before November 15 of the budget year.

30. **Temporary funding** (Law on State Budget, Article 51). If the budget and budget allocation are not approved/decided by the National Assembly or the People's Councils by December 31, the finance authorities and State Treasury may provide temporary funding for making mandatory expenditures, including (i) wages; (ii) operating costs; (iii) intergovernmental transfers; (iv) maintenance of equipment; and (v) continuation of NTPs, projects of national importance, and urgent projects for recovery of disasters or epidemics. The maximum temporary funding must not exceed the average monthly expenditure of the previous year.

31. **Advance funding** (Law on State Budget, Article 57). Central government, provinces, and districts may receive advance funding from the following year's budget to execute important and urgent projects based on the medium-term investment plan approved by the government. The advance funding must not exceed 20 percent of investment on fundamental construction of the medium-term investment plan.

32. **Short-term funding** (Law on State Budget, Article 58). If the central government faces a temporary budget deficit, short-term funding may be provided by the central FRF. If the FRF cannot cover the deficit, the State Bank of Vietnam (SBV) can provide short-term lending to the central government. However, there has been no short-term borrowing from SBV since 2016 due to its complex procedure. If the provincial government faces a temporary budget deficit, short-term funding may be provided by local FRF and central FRF. The short-term funding must be returned within the budget year.

C. Settlement of Account

33. **The final settlement of the budget takes 18 months after the end of the budget year** (Table 6). The long settlement duration is mainly due to the nested budget system in Vietnam, as each level of government (commune, district, province, and central governments) should make the settlement and report to the upper-tier government. Also, minor adjustments for duplication, accounting errors and local government loans should be considered. Settling the spending is also complicated as the State Treasury and financial agencies should determine the carry-over. Meanwhile, the MOF announces the first settlement estimates in September of the current budget year, and the second settlement estimates in June of the following year.

Table 6. Settlement Cycle

<table>
<tr><th></th><th>Central Budget</th><th>Local Budget</th></tr>
<tr><td>By Jan 31 of the following year</td><td colspan="2">• Agencies, organizations, units, and individuals related to budget revenue and expenditure close accounting and make the budget settlements.</td></tr>
<tr><td>By Oct 1 of the following year</td><td>• Budget units of the central government and the provincial People's Committees submit their budget settlements to MOF and SAO.</td><td rowspan="2">• DOF at each level makes budget settlements and submits them to their People's Committees.
• District/commune People's Committees submit budget settlements to the district/commune People's Council and to DOF at the upper level.
• District/commune People's Councils approve budget settlements and submit them to commune/provincial People's Committees.
• Provincial People's Committees make budget settlements and submit them to the provincial People's Council for approval, at the same time, send a copy to the Ministry of Finance
• Provincial People's Councils approve budget settlements and submit them to MOF and SAO.</td></tr>
<tr><td>By Dec 31 of the following year</td><td></td></tr>
<tr><td>Within 14 months after the end of the budget year</td><td colspan="2">• MOF makes the state budget settlement and submits it to the Government and SAO.</td></tr>
<tr><td>Within 16 months after the end of the budget year</td><td colspan="2">• The Government submits the state budget settlement to the National Assembly.</td></tr>
<tr><td>Within 18 months after the end of the budget year</td><td colspan="2">• The National Assembly approves the state budget settlement.</td></tr>
</table>

Source: Law on State Budget (Article 64, 69 and 70)

34. **Carry over** (Law on State Budget, Article 64.3). Expenditures that are permitted to be carried over to the following year are (i) infrastructure investment not completed; (ii) equipment purchase with contracts signed before December 31; (iii) salary reform provisions; (iv) autonomous budgets of public service and regulatory agencies; (v) budget items authorized for additional spending after September 30; (vi) funding for R&D. The carry-over should be used for the same specific items and is valid only for one year.

- Capital expenditure was permitted to be carried over for up to two years until 2018, depending on conditions and rules stipulated in the Law on Public Investment. However, the Law on Public Investment amended in 2019 allows the carry-over for only up to one year. Current expenditure is permitted to be carried over for up to one year. Only some exceptional cases are allowed to carry over more than one year, such as three-years national projects.

- MOF and DOF do not keep a track record of individual carry-over items. They do not separately track and maintain the records of individual project approvals their disbursements. The carry-over budget is accumulated into a single item in the annual budget. As a result, the actual disbursement of capital expenditure is sometimes larger than the approved amount in each fiscal year because the disbursed amount is the sum of the carry-over projects and the current year projects.

35. **Increase in revenue or excess revenue (actual revenue collection higher than estimated revenue)** (Law on State Budget, Article 59.2). The increase in revenue is determined at the end of the budget year when closing accounting. It should be used to (i) reduce the deficit; (ii) increase debt service payment, including principal and interest; (iii) transfer to FRFs; (iv) contribute to the salary reform provisions; (v) implement some social security policies; (vi) increase expenditure on investment in some important projects. In practice, local governments allocate 70 percent of the increase in revenue to salary reform provisions, and 30 percent to principal and interest payments (in addition to the budgeted debt services) and key projects. The central government allocates 40 percent of the increase in revenue to salary reform provisions.

- A substantial increase in revenue due to a new source of revenue from a new project starting operation during the fiscal stability period should be transferred to central government. However, the increased revenue may be transferred back to local government to support investment in local infrastructure projects through targeted transfers (Law on State Budget, Article 9.7).

- If the revenue of the central government increases due to the increase in the shared revenue, bonuses up to 30 percent of the excess revenue retained by the central government can be provided to the relevant local governments, to incentivize the revenue collection.

36. **Surplus of central and local government budgets** (Law on State Budget, Article 72). The budget surplus is determined after the final settlement, 18 months after the end of the budget year. It should be used to repay principal and interest. If the surplus still remains, 50 percent of the remainder will be transferred to the FRF at the same level, while the other 50 percent will be transferred to the following year’s budget. If the FRF reaches the ceiling of 25 percent of the annual budget expenditure estimate, the remaining surplus will be included in the following year’s budget.

IV. Fiscal Structure

A. State Budget

37. **The state budget is presented in two different formats: one by the Law on State Budget and the other by the international standard** (Table 7).

Table 7. State Budget in 2022

Classification of Revenue based on the Law of State Budget (by sector)

	VND trn
Total revenue	1,412
Domestic revenue	1,177
Revenue from State-owned sector	154
Revenue from foreign invested sector	206
Revenue from non-State sector	253
PIT	118
Environmental protection tax	60
Fees and charges	69
Registration fee	33
Service fees and charges	36
Land and building related revenue	163
Agricultural land use tax	0
Non-agricultural land use tax	2
Land and water surface rent	25
Land use charge	135
Rent and sales of SOE	1
Lottery service income	34
Mineral&water extraction royalties	5
Other budgetary revenue	22
Revenue from public lands	1
Receipt of capital recovery, distribution of dividends, profits, after-tax profits, gains/loss of the State Bank	92
Oil revenue	28
Net revenue from trade activities	199
Revenue from import and export activities	352
VAT on imported goods	259
Export duty	7
Import duty	57
Excise tax on imported goods	27
Environmental protection tax on imported goods	1
VAT refund	0
Grants	8

Classification of Revenue based on the Law of State Budget (by type)

	VND trn
Total revenue	1,412
Revenue from taxes, fees and charges	1,123
Tax revenue	1,054
VAT	352
Excise	130
Environmental protection tax	61
CIT	244
PIT	118
Natural resource tax	21
Import and export duties	64
Agricultural land use tax	0
Non-agricultural land use tax	2
Lottery service income	34
Oil revenue	28
Fee and charge revenue	69
Registration fee	33
Service fees and charges	36
Non-tax, fee and charge revenue	281
Receipt of capital recovery, distribution of dividends, profits, after-tax profits, gains/loss of the State Bank	92
Land and water surface rent	25
Land use charge	135
Rent and sales of State-owned houses	1
Mineral&water extraction royalties	5
Other revenue	23
Grants	8

Classification of Revenue based on the international standard (GFSM 1986)

	VND trn
Total revenue	1,412
Current revenues	1,268
Taxes	1,087
CIT	263
PIT	118
Land and housing tax	2
Registration fee	33
VAT	352
Excise tax	103
Natural resource tax	29
Agricultural land-use tax	
Import&export duties, excise tax and environmental protection tax on imported goods	93
Environmental protection tax	60
Revenue from Lottery	34
Fees, charges and non-tax	181
Fees and charges	36
Land rents	25
Miscellaneous revenues	120
o/w SOE equitization proceeds	30
Capital revenues	136
Grants	8

Classification of Expenditure based on the Law of State Budget

	VND trn
Total expenditure	1,785
Investment and development expenditure	526
Interest	104
Grants	2
Recurrent expenditure	1,111
o/w Education and training	276
o/w Science and technology	12
Salary reform provision	1
Replenishment to financial reserve funds	0.1
Contingencies	39

Classification of Expenditure based on the international standard

	VND trn
Total expenditure	1,785
Current expenditure	1,219
Recurrent expenditure	1,115
o/w Education and training	276
o/w Science technology	12
Interest payment	104
Salary reform provision	1
Investment and development expenditures	526
Contingencies	39

Source: Ministry of Finance

- According to the Law on State Budget, revenue is classified by sector (domestic, oil, trade, grants), and by type (tax, fee and charge, nontax, grants). Expenditure is classified by economic nature (investment and development, interest, grants, recurrent, salary reforms, FRF, contingencies), by function, and by ministry/agency. The functional classification is provided for recurrent expenditure, but the information is incomplete. The central budget provides the functional classification of recurrent expenditure in 11 categories,[4] which covers about 50 percent of total recurrent expenditure, while the state budget provides the expenditure on education/training and science/technology.

- According to the international standard, revenue is classified by type (current (taxes, fees, charges, and nontax), capital, grants), and expenditure is classified by economic activity and function.

38. **Quarterly budget execution and the first/second settlement estimates are published in the same formats explained above.**

B. Final Settlement

39. **The budget balance in the final settlement encompasses not only budget operations but also off-budget transactions** (Table 8).

- **Expenditure carried over to the following year**. Expenditures that are permitted to be carried over to the following year according to the Law on State Budget (Article 64.3) are recorded in the final settlement of the current year (B-II in Table 8). The portion of these carried-over expenditures that is actually spent in the following year is recorded in the final settlement of that following year (included under B-I in Table 8).

- **Revenue carried over from the previous year**. To finance the expenditure carried over from the previous year, the revenue collected in the previous year is carried over to the current year. Consequently, the size of revenue carried over from the previous year appearing in the final settlement of year t corresponds to the size of expenditure carried over to the following year appearing in the final settlement of year t-1.

- **Collection from the FRFs**. FRFs are used for unplanned emergency expenditure on (i) prevention and recovery natural disasters, response to epidemics, and famine relief; (ii) performance of crucial national defense and security tasks; and (iii) other urgent tasks (Law on State Budget, Article 11).

- **Collection from local budget surplus of the previous year**. The budget surplus should be used to repay principal and interest. If the surplus still remains, 50 percent of the remainder will be transferred to the FRF at the same level, while the other 50 percent will be transferred to the following year's budget. If the financial reserve fund reaches 25 percent of the annual budget expenditure estimate, the remaining surplus will be included in the following year's budget (Law on State Budget, Article 72).

- **Local budget surplus of the current year.** Given that the local budget surplus should be transferred to the revenue in the following year, it is subtracted from the budget balance in the current year. However, "Local budget surplus of the current year" of year t is different

[4] These functions are (i) defense; (ii) social safety, security, and order; (iii) education and vocational training; (iv) science and technology; (v) healthcare, population, and families; (vi) culture and information; (vii) radio, television, and news service; (viii) sports; (ix) environmental protection; (x) economic affairs; (xi) operation of state administration and party.

from “Collection from local budget surplus of the previous year” of year t+1 because a part of the budget surplus is allocated to FRF.

- **Local governments payback from local governments to the central government**. This captures unused targeted transfers as well as refunds for incorrect use of budget.

40. **Meanwhile, the increase in revenue or excess revenue is recorded as a lump-sum expenditure item in the same year in the second settlement estimates** (which is announced in June of the following year). The increase in revenue is recognized after closing the account at the end of the budget year (or by January of the following year), but its specific use (e.g., salary reform provision, debt service payments) is not fully determined until the final settlement (which will be done within 18 months after the end of the budget year). Thus, this lump-sum expenditure item due to the increase in revenue will disappear in the final settlement by allocating it to the items that are actually used.

Table 8. Final Settlement in 2022

		Plan (VND trn)	Settlement (VND trn)		
			State	of which	
				Central	Local
A	Total state budget revenue		2,714	1,164	1,990
I	Revenue collection	1,413	1,820	938	883
1	Domestic revenue	1,178	1,448	565	883
2	Crude oil revenue	28	78	78	
3	Revenue from export-import	199	286	286	
4	Grant collection	8	8	8	
II	Revenue carried over from the previous year		776	206	570
III	Collection from the financial reserve fund		2		2
IV	Collection from local budget surplus of the previous year		115		115
V	Transfer from central government to local government	406			420
VI	Local governments payback to central government			20	
B	Total state budget expenditure		2,897	1,451	1,887
I	State budget expenditure	1,856	1,751	651	1,099
1	Investment and development expenditure	597	616	138	478
2	Interest payment	104	96	94	2
3	Grant	2	1	1	
4	Current expenditure	1,111	1,034	416	619
5	Replenishment to the financial reserve fund		2		2
6	Contingencies	39			
7	Salary reform provisions	1			
II	Expenditure carried over to the following year		1,147	379	767
III	Transfer from central government to local government	406		420	
IV	Local governments payback to central government				20
C	Budget deficit	442	293	287	6
D	Local government budget surplus				110
E	Principal payment	200	195	192	3
F	Total borrowing of state budget	642	488	479	9

Source: Ministry of Finance

41. **Off-budget items have important implications for cash management or government financing.** While revenue and expenditure from the budget operation imply actual collection and disbursement, respectively, off-budget items provide additional information for financing sources as well as financing needs.

- *Revenue carried over from the previous year* provides continued financing for the corresponding *expenditures carried over from the previous year*. On the other hand, a part of the revenue collected in the current year will also be transferred to the following year to finance the corresponding *expenditure carried over to the following year*. This portion cannot be used as a financing source in the current year.

- Expenditure disbursed in the current year includes *both expenditure* programs of *the current year* and *expenditure programs carried over from the previous years*. Both expenditure programs are actually spent in the current year.

- *Collection from FRF* and *collection from local budget surplus of the previous year minus local budget surplus of the current year* are used as additional financing sources.

- Thus, financing needs (excluding principal payment) should take into account these off-budget items in addition to the fiscal deficit from budget operation (Table 9).

Table 9. Financing Needs excluding principal payment

Unit: VND trn

	2017	2018	2019	2020	2021	2022
Revenue (A.I)	1,294	1,432	1,554	1,511	1,591	1,820
Revenue carried over from the previous year (A.II)	307	326	434	593	643	776
Collection from Financial Reserve Fund (A.III)	1	1	1	3	13	2
Collection from local budget surplus of the previous year Less local budget surplus of current year (A.IV - B.III)	-139	-43	-31	33	23	5
Expenditure (B.I)	1,355	1,435	1,527	1,710	1,708	1,751
Expenditure carried over to the following year (B.II)	326	434	593	643	776	1,147
Fiscal balance of budget operation (FB=A.1-B.1)	-61	-4	27	-202	-117	70
Fiscal balance by VMOF (C)	-137	-153	-161	-216	-214	-293
Breakdown						
Revenue (A.I)	1,294	1,432	1,554	1,508	1,591	1,820
Revenue used in the current year (A.I-1)	967	997	961	864	815	674
Revenue to be carried over to the following year (A.I-2 = B.II)	326	434	593	643	776	1,147
Expenditure (B.I)	1,355	1,435	1,527	1,710	1,708	1,751
Expenditure of current year programs (B.I-1)	967	1,109	1,093	1,117	1,065	974
Expenditure of previous year programs (B.I-2)	388	326	434	593	643	776
Financing needs, excluding principal payment						
Financing needs for fiscal deficit (-FB=B.1-A.1)	61	4	-27	202	117	-70
Additional net financing sources (AF)	-76	-149	-188	-15	-97	-363
+ Revenue carried over from the previous year (A.II)	388	326	434	593	643	776
- Revenue to be carried over to the following year (A.I-21)	-326	-434	-593	-643	-776	-1,147
+ Collection from Financial Reserve Fund (A.III)	1	1	1	3	13	2
+ Net collection from local budget surplus (A.IV - B.III)	-139	-43	-31	33	23	5
Financing needs (-FB-AF) = Fiscal deficit by VMOF (-C)	137	153	161	216	214	293

Source: Ministry of Finance; AMRO staff estimates

Note: Although expenditure programs can be carried over for multiple years in practice, only a one-year carry-over is assumed for simplicity.

C. IMF Government Finance Statistics

42. **IMF reclassifies the revenue based on GFSM 2014** (Table 10). (i) Receipts from the sale of state-owned houses are reclassified from revenue to capital receipt transaction, reducing revenue. (ii) Withdrawal of state budget capital invested in enterprises is reclassified from revenue to financial asset transaction, reducing revenue. (iii) Registration fee is reclassified from tax to nontax. (iv) Land use rights are reclassified from nontax to tax. (v) Mining and quarry royalties are reclassified from nontax to tax.

43. **IMF modifies the expenditure based on the GFSM 2014** (Table 10). Receipts from the sale of state-owned houses are reclassified from revenue to capital receipt transaction, reducing expenditure.

Table 10. State Budget Balance vs. IMF GFS

State Budget Balance
(GFSM 1986)

Unit: VND trn

	2017	2018	2019
Revenue	1,294	1,432	1,554
Current Revenue	1,158	1,273	1,391
Taxes	916	1,022	1,122
CIT	211	251	271
PIT	79	94	109
Land & Housing Tax	2	2	2
Registration fee	28	32	40
VAT	309	344	363
Excise Tax	85	96	107
Natural Resources Tax	33	38	37
Agricultural Land-Use Tax	0	0	0
Import & Export Tax	96	87	97
Environmental Protection Tax	45	47	63
Revenue from Lottery	28	29	34
Fees, Charges & Nontax	243	252	269
Fees & Charges	36	38	41
Land Rents	29	28	34
Miscellaneous Revenue	178	186	194
o/w SOE equitization proceeds	60	65	54
Capital Revenue	128	150	157
Land Use Right Assignment	125	148	154
Sales of State-owned houses	2	3	4
Grants	8	8	5
Expenditure	1,355	1,435	1,527
Current Expenditure	982	1,042	1,105
Interest Payment	98	107	107
Salary Reform Expenditure	7	NA	43
Investment & Development Expenditure	373	393	422
Contingencies	8	NA	NA
Fiscal balance	-61	-4	27

IMF GFS

Unit: VND trn

	2017	2018	2019
Revenue	1,231	1,364	1,496
Taxes	1,018	1,142	1,243
o/w Land use right	125	148	154
o/w mining and quarry royalties	4	5	7
Social contributions	0	0	0
Other revenue	206	214	248
o/w registration fee	28	32	40
Grants	8	8	5
Expense + Net acquisition of nonfin asset	1,353	1,433	1,523
Expense	982	1,042	1,105
o/w Interest	98	107	107
Net acquisition of nonfinancial assets	371	391	418
Net lending/borrowing	-121	-69	-27

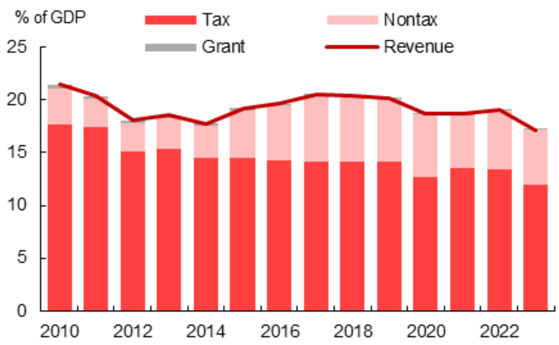
Source: Ministry of Finance; IMF GFS database

V. Revenue

A. Revenue Trend and Pattern

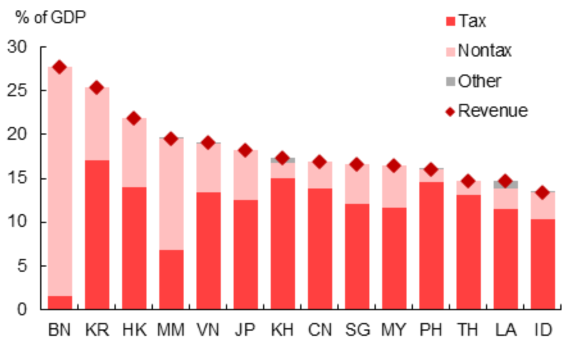
44. **Revenue as a percentage of GDP has declined from 21.5 percent in 2010 to 17.2 percent in 2023** (Figure 6). Tax revenue has continuously declined, while nontax revenue has fluctuated. As a percentage of GDP in FY2022, revenue was slightly higher than the average of ASEAN+3 member economies (Figure 7).

Figure 6. Revenue Collection in Vietnam



Source: MOF; AMRO staff estimates

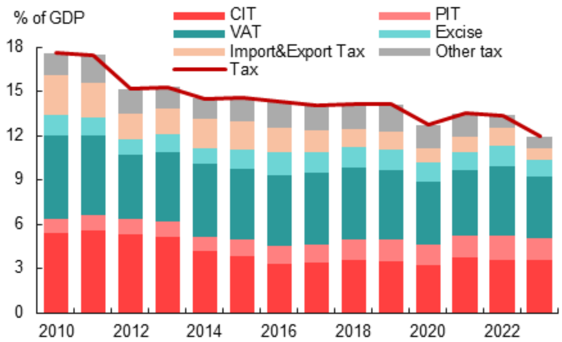
Figure 7. Revenue in ASEAN+3 Economies, FY2022



Source: National Authorities; AMRO staff estimates

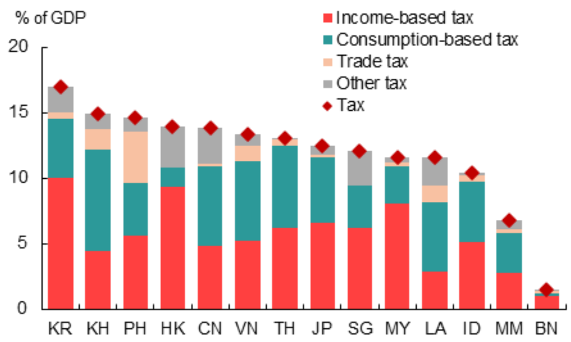
45. **Tax revenue as a percentage of GDP has declined, especially in 2020 and 2023** (Figure 8). Corporate income tax (CIT) and value-added tax (VAT) have declined by 1.9 and 1.5 percentage points of GDP since 2010, respectively, while personal income tax (PIT) has slightly increased as a percentage of GDP since 2010. Tax revenue as a percentage of GDP in FY2022 was relatively higher than other regional peers (Figure 9). Meanwhile, tax elasticity with respect to nominal GDP growth has also declined and remained below one (Figures 10 and 11).

Figure 8. Tax Revenue in Vietnam



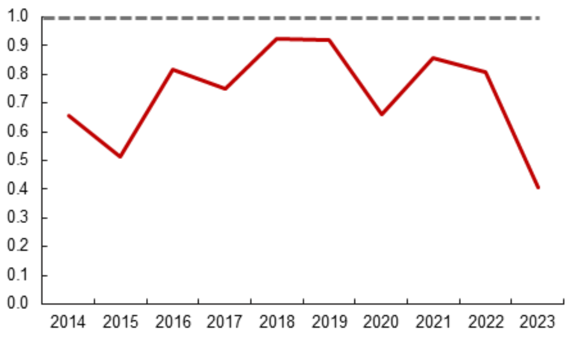
Source: MOF; AMRO staff estimates

Figure 9. Tax Revenue in ASEAN+3 Economies, FY2022



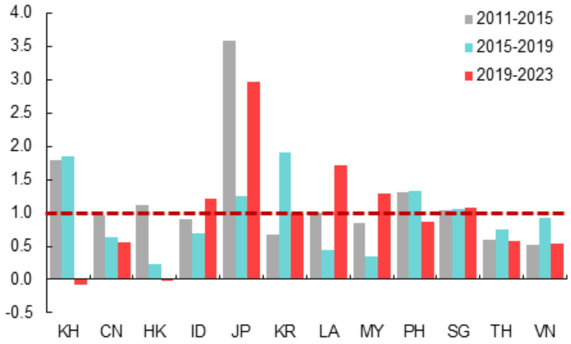
Source: National Authorities; AMRO staff estimates

Figure 10. Tax Elasticity in Vietnam



Source: MOF; AMRO staff estimates
Note: 1) Tax elasticity = Tax revenue growth / Nominal GDP growth; 2) Tax elasticity represents the 5-year moving average.

Figure 11. Tax Elasticity in ASEAN+3 Economies

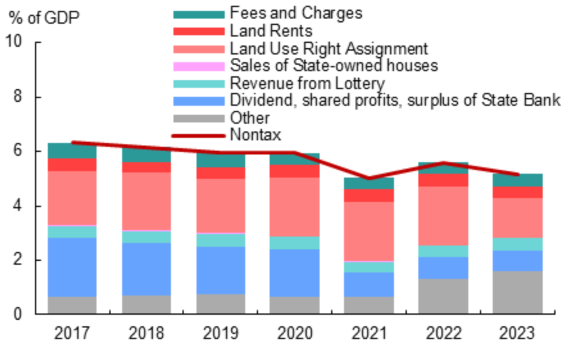


Source: National Authorities; AMRO staff estimates
Note: 1) Tax elasticity = Tax revenue growth / Nominal GDP growth; 2) Tax elasticity represents the 5-year average.

46. **Nontax revenue consists of 5.2-6.0 percent of GDP and 26.8-31.8 percent of total revenue in 2019-2023** (Figure 12). Land-related revenue (land use rights, land rent, sales of state-owned houses) consists of the largest portion, while the dividend, profit sharing from SOEs, and surplus from the State Banks have also been sizeable. In addition to fees and charges, revenue from lottery has regularly contributed to nontax revenue since 2017.

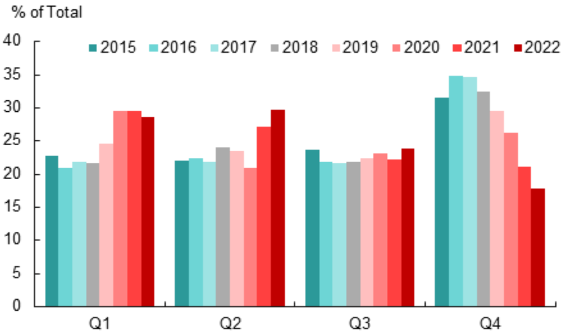
47. **The quarterly pattern of revenue collection has changed during the pandemic** (Figure 13). The share of revenue collected in Q1-Q2 has increased while the share collected in Q4 has declined.

Figure 12. Nontax Revenue in Vietnam



Source: MOF; AMRO staff estimates

Figure 13. Quarterly Pattern of Revenue Collection



Source: National Authorities; AMRO staff estimates

B. Tax System

48. **All taxes are imposed at the national level (no local taxes), although tax revenue collected is shared between central and local governments**. Taxpayers should pay tax based on their domicile.

49. **Corporate income tax (CIT)**. Enterprises established under the law of Vietnam are subject to CIT in Vietnam. Foreign enterprises with permanent establishments (PEs) in Vietnam shall pay tax on the taxable income earned in Vietnam and on the taxable income generated out of Vietnam and related to the operations of the PEs.[5]

[5] A PE is defined as "a fixed place of business through which a foreign enterprise carries out part or the whole of its business or production activities in Vietnam".

Table 11. CIT Rates and Administration

Tax rates	• Standard: 20% • Enterprises operating in the oil and gas industry: 25 – 50% • Enterprises engaging in prospecting, exploration, and exploitation of certain mineral resources: 32 – 50%
Tax payment	• Quarterly provisional CIT payment: no later than the 30th day of the following quarter, The total provisional CIT payment for 4 quarters must not be less than 80% of the total CIT liabilities for the year (any shortfall will be subject to late payment interest) • Final CIT payment and return: the last day of the 3rd month of the following year
Tax credits and exemptions/incentives	• Inbound investment incentives: encouraged sectors and locations, large projects • Tax holidays • Employment incentives • R&D fund

Source: PwC

50. **Personal income tax (PIT).** Tax residents are subject to Vietnamese PIT on their worldwide taxable income, wherever it is paid or received. Employment income is taxed at progressive tax rates. Non-employment income is taxed at a variety of different rates. Non-residents are subject to PIT at a flat tax rate on the income received from working in Vietnam/on Vietnam-related income in the tax year, and at various other rates on their non-employment income.

Table 12. PIT Rates and Administration

<table>
<tr><td>Tax rates</td><td>• Tax residents: Employment income
<table>
<tr><th>Annual taxable income (VND mn)</th><th>Monthly taxable income (VND mn)</th><th>PIT rate (%)</th></tr>
<tr><td>0 - 60</td><td>0 - 5</td><td>5</td></tr>
<tr><td>60 - 120</td><td>5 – 10</td><td>10</td></tr>
<tr><td>120 – 216</td><td>10 – 18</td><td>15</td></tr>
<tr><td>216 – 384</td><td>18 – 32</td><td>20</td></tr>
<tr><td>384 – 624</td><td>32 – 52</td><td>25</td></tr>
<tr><td>624 – 960</td><td>52 – 80</td><td>30</td></tr>
<tr><td>More than 960</td><td>More than 80</td><td>35</td></tr>
</table>
• Tax residents: Non-employment income (business income, interest (non-bank), dividends, sale of shares, capital gains, royalties, inheritances/gifts, etc.): 0.1 – 20%
• Tax non-residents: Employment income 20%
• Tax non-residents: Non-employment income: 0.1 – 10%</td></tr>
<tr><td>Tax payment</td><td>• Monthly/quarterly provisional PIT payment: no later than the 20th day of the following month or the 30th day of the following quarter
• Final PIT payment and return
– Employer PIT returns: the last day of the 3rd month of the following year
– Individual PIT returns: the last day of the 4th month of the following year</td></tr>
<tr><td>Tax deductions</td><td>• Exempt income: interest earned on deposits and life insurance policies, compensation paid under insurance policies, retirement pensions, transfer of properties between direct family members, inheritances/gifts between direct family members
• Deductions: Social, health, and unemployment insurance contributions; charitable contributions; personal allowances (self and dependent)</td></tr>
</table>

Source: PwC

51. **Value-added tax (VAT)**. VAT is applied to goods and services used for production, trading, and consumption in Vietnam (including goods and services imported to Vietnam), with certain exemptions. There are stipulated categories of VAT exemptions.

Table 13. VAT Rates and Administration

Tax rates	• Standard: 10% • Essential goods and services (water, teaching aids, books, unprocessed foodstuffs, medicine, medical equipment, husbandry feed, various agricultural products and services, technical/scientific services, rubber latex, sugar and its by-products, social housing, and certain cultural, artistic, and sports services/products): 5% • Exported goods/services: 0%
VAT exemptions	• Certain agricultural products • Goods/services provided by individuals with annual revenue of VND100 million or below • Imported/leased drilling rigs, airplanes, and ships that cannot be produced in Vietnam • Transfer of land use rights

	• Various financial services, securities activities, capital assignments, foreign currency trading, debt factoring, certain types of insurance • Medical services and elderly/disabled people care services, postal and telecommunications provided by the government, education, printing/publishing, public transportation, and export of unprocessed natural resources method must use e-invoices.
VAT declaration	• Taxpayers must file VAT returns on a monthly basis by the 20th day of the subsequent month or on a quarterly basis by the last day of the first month of the following quarter.
E-invoices	• From 1 July 2022 onwards, all businesses, economic organizations, business households, and individuals paying tax under the declaration method must use e-invoices.

Source: PwC

52. Special sales tax (SST). SST is a form of excise tax that applies to selected goods and services that are considered luxurious, harmful to health or the environment, or discouraged for production and consumptions. SST is charged to organizations and individuals engaged in the production and importation of these goods, and the provision of these services. Producers using SST-paid raw materials for SST-taxable goods are entitled to deduct the paid SST, with valid legal documentation, when determining their final SST at the production stage.

Table 14. SST Rates

Goods	Tax rates	Goods	Tax rates	Services	Tax rates
Tabacco products	75%	Aircraft, Yachts	20%	Dance halls	40%
Liquor	35%/65%	Gasoline	30%	Massage parlors and karaoke bars	30%
Beer	65%	Air conditioners with a capacity under 90,000 BTU	10%	Casinos and electronic gaming with prizes	35%
				Betting services	30%
Passenger vehicles with seats under 24	1-150%	Playing cards	40%	Golf business	20%
Motorcycles with engine capacity above 125cc	20%	Votive gilt papers and objects	70%	Lottery business	15%

Source: Law on Special Sales Tax

53. **Customs duties.** Customs duties generally comprise import duty and import VAT. Most goods imported into Vietnam are subject to import duty and import VAT, except those that meet the conditions for exemption, such as goods imported for the production of subsequently exported goods, and goods imported to form fixed assets of incentivized investment projects. In addition to import duty and import VAT, there are export duty, import special sales tax (SST), and environment protection tax.

- Import duty is computed on an ad valorem basis. Import duty rates are classified into three categories: ordinary rates, preferential rates, and special preferential rates. Preferential rates apply to imported goods from countries with the most-favored-nation (MFN or normal trade relations) status with Vietnam. Special preferential rates apply to imported goods from countries with a special preferential trade agreement (or free trade agreement, FTA) with Vietnam. Import VAT is applied to imported goods at a rate most commonly of 10 percent.

- Export duties are charged only for certain natural resources. Rates range from 0 to 40 percent.

54. **Natural resource tax (NRT).** NRT is payable by industries exploiting Vietnam's natural resources, including petroleum, minerals, natural gas, forest products, natural seafood, natural bird nests, and natural water. The tax rates vary depending on the natural resources being exploited, ranging from 1 to 40 percent. Crude oil, natural gas, and coal gas are taxed at progressive tax rates depending on the daily average production output.

55. **Environment protection tax (EPT).** EPT is an indirect tax that is applicable to the production and importation of certain goods deemed detrimental to the environment, the most

significant of which are petroleum and coal. The tax rates vary among the goods applied from VND 500/kg for restricted-use chemicals to VND 50,000/kg for plastic bags.

C. Tax Reform

56. Vietnam approved the tax system reform strategy through 2030. The strategy aims to (i) modernize the tax system in line with global practices; (ii) meet state budget collection targets from tax revenue by expanding the revenue base, ensuring the proportion of revenue from domestic sources, and exploiting taxes, fees, and charges collected from assets and natural resources; (iii) streamline administrative procedures and reduce private sector compliance costs by increasing the application of ICT in collecting tax and building database (Tables 15 and 16).

Table 15. Operational Targets of Tax Reform Strategy 2030

	By 2025	By 2030
Targets for revenue collection	• Revenue collection: not lower than 16% of GDP • Revenue from taxes & fees: about 13-14% of GDP • Domestic revenue: 85-86% of total revenue	• Revenue collection: about 16-17% of GDP • Revenue from taxes & fees: about 14-15% of GDP • Domestic revenue: 86-87% of total revenue
Targets for tax administration	• Taxpayers' satisfaction reaches at least 90%. • The rate of taxpayer support provided electronically is at least 70%. • The rate of taxpayers' tax refund, exemption, and reduction applications that are processed by tax authorities and returned on time is at least 98%. • The ratio of total tax debt as of December 31 does not exceed 8%. • Build an integrated, centralized information technology system that meets 100% of the needs for collecting, processing, storing, and exploiting data for tax management.	• Taxpayers' satisfaction reaches at least 95%. • The rate of tax declaration, tax payment, tax refund, tax exemption and reduction by electronic method for taxpayers who are businesses and organizations reach at least 98%; for individuals, it reaches at least 90%. • The rate of taxpayers' tax refund, exemption, and reduction applications that are processed by tax authorities and returned on time is at least 98%. • The ratio of total tax debt as of December 31 does not exceed 7%.

Source: MOF

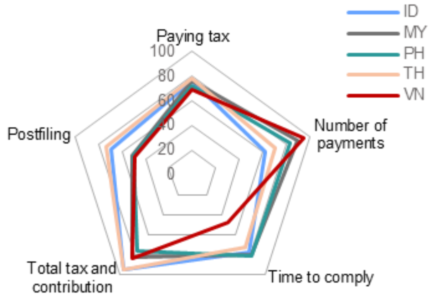
Table 16. Key Tax Policy and Administration Reform Measures

	Potential changes
VAT	• Expand the tax base by reducing the goods and services subject to exemptions or 5 percent VAT rate • Apply a single rate across all goods and services to simplify the tax structure • Review and adjust the turnover threshold that determines the application of the tax credit method • Research and plan for a potential increase in the VAT rate • Revise and streamline the VAT credits and refunds to enhance simplicity, transparency, and consistency
SST	• Review and adjust the list of goods and services subject to SST • Develop a roadmap to increase SST rates on products such as tobacco, alcohol, and automobiles • Study the application of a combination of ad valorem and unit taxation for certain goods and services
CIT	• Expand the tax base in accordance with the socio-economic situations and international practices • Scrutinize tax incentives and tax holidays for CIT for amending or discontinuing • Implement Anti-Base Erosion and Profit Shifting (BEPS) standards
PIT	• Expand the tax base by identifying additional income sources subject to PIT • Adjust the tax rates and thresholds in accordance with taxable income and the nature of each type of income • Simplify conditions in PIT finalization for both taxpayers and tax administration agencies
Customs Duties	• Reduce the number of import tax rates to simplify the tax schedule and facilitate compliance (from 32 rates to about 25 rates by 2025 and 20 rates by 2030) • Research and amend export and import tax policies to promote exports, encourage increased domestic value addition, limit exports of resources and raw minerals, and introduce incentive for key industries. • Research and amend regulations on goods exported and imported on the spot to improve oversight • Revise regulations on non-tariff zones to ensure consistency with legal frameworks and prevent trade fraud and tax evasion.
NRT	• Review and adjust NRT rates in accordance with the socio-economic situations and international practices, including increasing tax rates on certain natural resources • Expand the list of taxable natural resources
EPT	• Expand taxable subjects, adjusting environmental protection tax framework and rates
Tax administration	• Enhance the legal framework to ensure consistency, transparency, and fairness • Implement advanced IT systems and develop integrated IT solutions to streamline tax processes, reduce manual interventions, and provide electronic services to taxpayers • Capacity building of tax officials through professional training to enhance expertise and integrity • Simplify tax procedures to reduce compliance costs for businesses and individuals • Apply risk management principles to focus on audits and inspections on areas with higher risk • Enhance taxpayer services to encourage voluntary compliance • Align tax administration practices with international standards to manage cross-border transactions and prevent tax evasion

Source: MOF

- **According to the Ease of Doing Business 2020, Vietnam ranked 109th in the Paying Taxes indicators**. Sub-indicators indicate that tax payments require a long time and effort to comply, and post-filing (VAT refund, CIT audit) also takes a long time, while the number of payments and total tax contribution is better than or comparable to other regional peers (Figure 14).

Figure 14. Ease of Doing Business: Paying Tax



Source: World Bank, Ease of Doing Business 2020

57. **Global tax reforms**. Vietnam approved the Global Minimum Tax (GMT) on multinational corporations (MNCs) in November 2023, setting the effective rate at a minimum of 15 percent from January 2024. MOF estimates that the GMT will affect approximately 122 MNCs and generate VND14.6 trillion additional CIT revenue in 2024.

- Vietnam adopted (i) the Qualified Domestic Minimum Top-Up Tax (QDMTT) rule and (ii) the Income Inclusion Rule (IIR). The tax filing submission deadlines are 12 months after the year-end for QDMTT; and 18 months after the year-end for the first year in scope and 15 months for subsequent years for IIR.

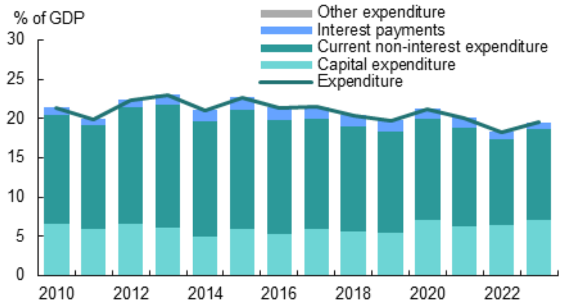
- Meanwhile, the government plans to establish the Investment Support Fund (ISF) by mobilizing the GMT revenue. The ISF would provide support to eligible taxpayers in the high-tech manufacturing sector.

VI. Expenditure

A. Expenditure Trend and Pattern

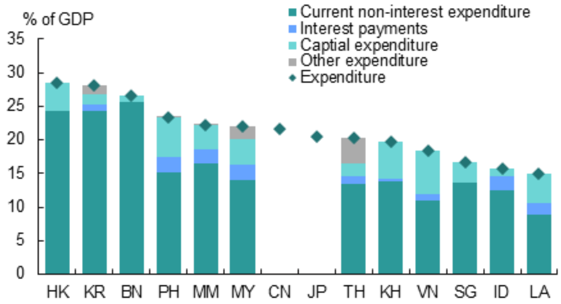
58. **Expenditure as a percentage of GDP has remained around 20 percent of GDP in the past decade** (Figure 15). Current expenditure, excluding interest payments, has trended down after peaking in 2013, while capital expenditure has gradually increased and remained at 6-7 percent of GDP. As a percentage of GDP in FY2022, the expenditure was relatively smaller than the regional peers. However, the capital expenditure was relatively larger.

Figure 15. Expenditure in Vietnam



Source: MOF; AMRO staff estimates

Figure 16. Expenditure in ASEAN+3 Economies, FY2022

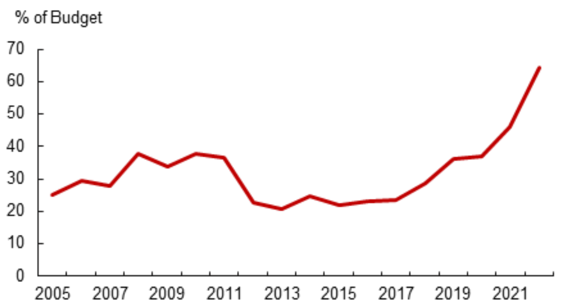


Source: National Authorities; AMRO staff estimates

59. **The share of carry-over expenditure declined until 2015 after peaking in 2008, but has increased again since 2016, reaching 64.3 percent in 2022** (Figure 17). In particular, the carry-over has increased substantially in the past few years. First, salary reform provisions since 2021 contributed to an increase in carry-over. The increase in revenue can be allocated to salary reform provisions of up to 40 percent for the central government and 70 percent for provincial governments. The salary reform provisions have been accumulated since 2021 and will be implemented in July 2024.[6] Second, the incomplete spending tasks have increased. Third, capital expenditures were permitted to be carried over up to 2 years until 2018.

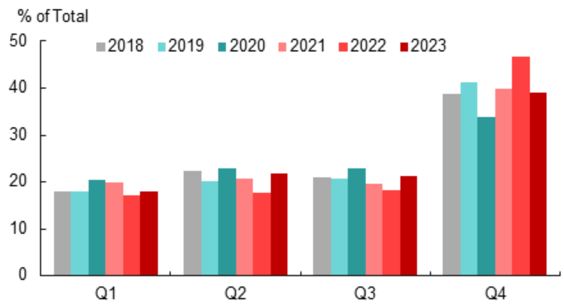
60. **Spending is concentrated in Q4, mainly due to the capital expenditure programs disbursed more than half in Q4** (Figure 18). Massive disbursement in Q4 has inevitably increased the share of carry-over expenditure.

Figure 17. Carry-over Expenditure



Sources: MOF; AMRO staff estimates

Figure 18. Quarterly Pattern of Expenditure



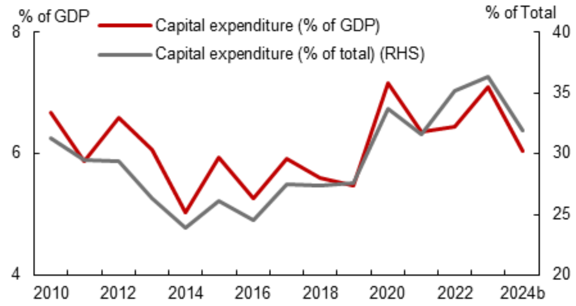
Sources: MOF; AMRO staff estimates

[6] According to the initial government plan, comprehensive salary reform was supposed to take place in 2021. However, due to the pandemic, the salary reform was delayed. Instead, the government accumulated salary reform provisions in the past three years. The actual salary increase will happen in July 2024 by using the accumulated funding sources.

B. Capital Expenditure

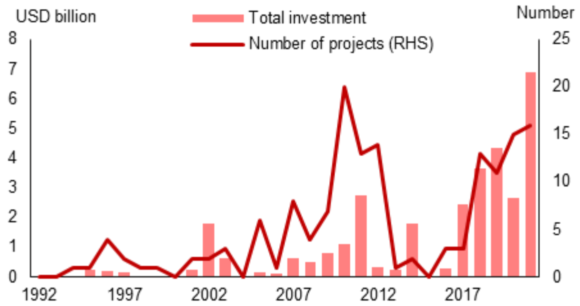
61. **Public capital expenditure in Vietnam has been higher than 6 percent of GDP and 30 percent of total expenditure since 2020** (Figure 19).[7] In addition to the public investment, the public-private partnership (PPP) has been actively used for infrastructure projects since the mid-2010s, especially for electricity sector (Figure 20). However, infrastructure investment and infrastructure per capita remained low, compared to regional peers (Figures 21-22)

Figure 19. Capital Expenditure in Vietnam



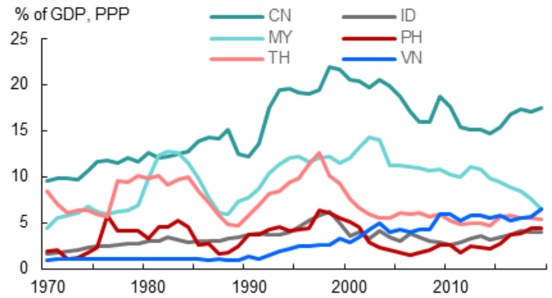
Source: MOF; AMRO staff estimates

Figure 20. PPP Projects in Vietnam



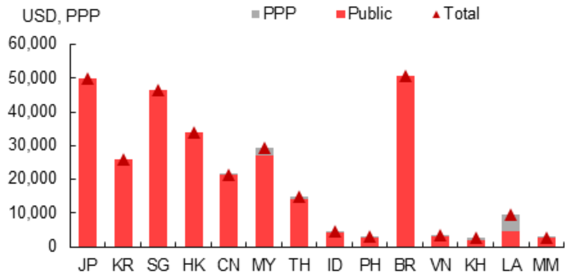
Sources: World Bank, Private Participation in Infrastructure (PPI)
Note: Total value of PPP investment is based on the commitments at contract signature or financial closure.

Figure 21. Infrastructure Investment: Selected ASEAN+3 Economies



Sources: IMF Investment and Capital Stock Database (ICSD); AMRO staff estimates

Figure 22. Infrastructure Stock per Capita: ASEAN+3 Economies

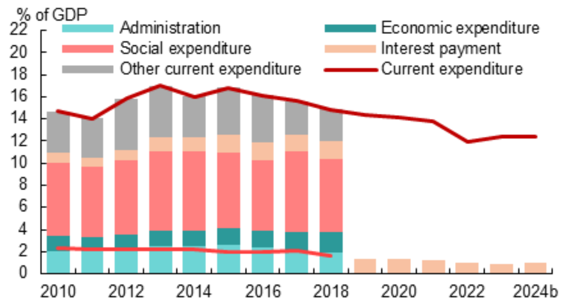


Sources: IMF ICSD; AMRO staff estimates
Note: Infrastructure stock per capita is as of 2019.

C. Current Expenditure

62. **Social expenditure comprises the largest share, including education and training, health, family plans, culture and information, telecommunication, and sports** (Figure 23). The functional classification of current expenditure has not been available since 2019, except for education and training, and science and technology.

Figure 23. Current Expenditure in Vietnam



Sources: MOF; AMRO staff estimates

[7] This Country Fiscal Review on Vietnam (version 2024) did not conduct in-depth analysis/study on the Law on Public Investment, mainly due to time and resource constraints. It is advised for the Vietnam team and the next CFR team explore more on the public investment management.

D. Financial Position of Vietnam Social Security

63. **Vietnam Social Security (VSS) operates social, health, and unemployment insurances**.

- **Compulsory social insurance includes sickness, maternity, work injury, occupational disease, retirement, and survivor benefits**. In addition, voluntary social insurance, applied to Vietnamese citizens aged 15 years or older, includes retirement and survivor benefits. As of 2021, 30.4 percent of the working-age population are insured by social insurance (Figure 24).

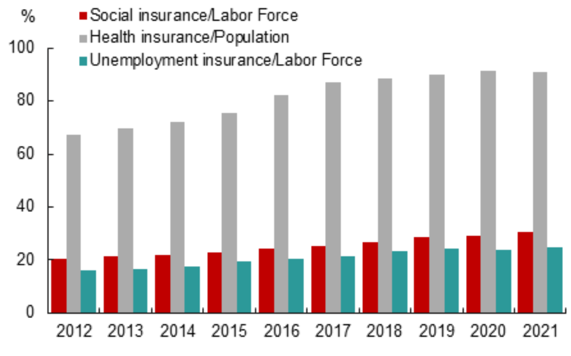
- **All Vietnamese citizens are obliged to participate in health insurance.** Health insurance is contributed by employees and employers, social insurance institutions, and the state budget. As of 2021, 91.0 percent of the total population is insured by health insurance (Figure 24).

- **Workers are obliged to participate in unemployment insurance** when working under indefinite-term labor contracts, definite-term labor contracts, seasonal labor contracts, or contracts for given jobs with a term of between full 3 months and under 12 months. As of 2021, 24.6 percent of the working-age population is insured by unemployment insurance (Figure 24).

64. **Financial position of VSS**. At the aggregate level, total revenue has been larger than total expenditure, resulting in a surplus (Figure 25). However, at each insurance level, health and unemployment insurance incurred a deficit in some years (Figure 26). The current pension fund remains sizable, with a significant balance of approximately VND1.194 trillion, in which retirement and death insurance benefit fund is about VND1.088 trillion. By 2038-2040, the VSS fund will turn to a deficit, suggesting a necessity for reforms. Although VSS frequently revises its financial projections, it has never publicized them.

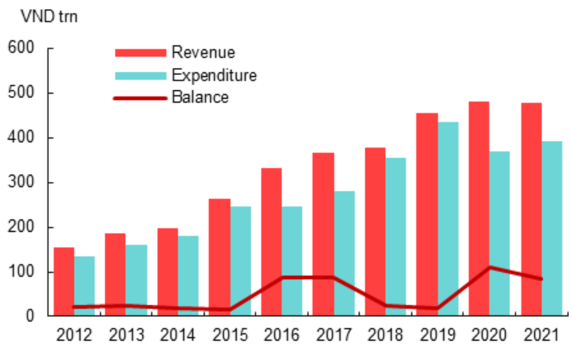
65. **Investment of VSS fund**. The investment portfolio includes government bonds, loans to the State budget, deposits at commercial banks, loans to VDB, VBSP, and investment projects. As of 2020, 86.8 percent was invested in government bonds. Total accumulated investment amounted to over VND900 trillion, and the average investment rate of return was 5.02 percent in 2020.

Figure 24. Share of Insured Persons



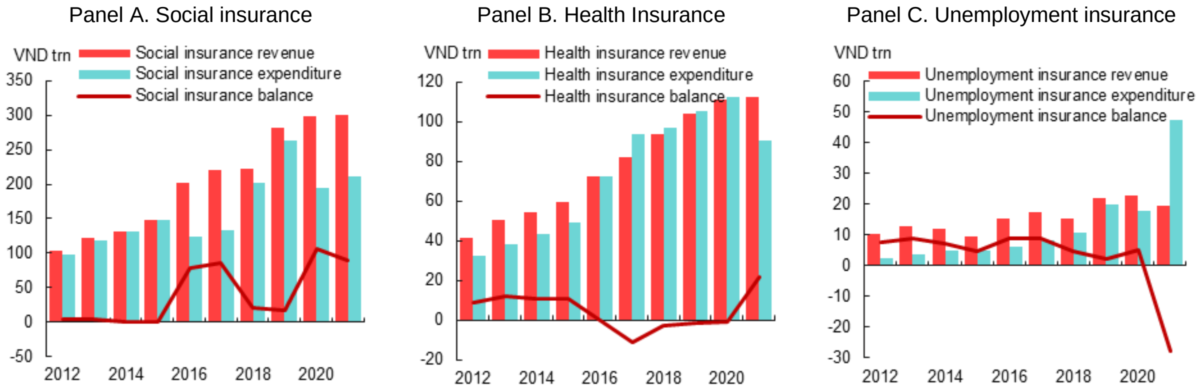
Sources: GSO

Figure 25. Financial Balance of VSS



Sources: GSO

Figure 26. Financial Balance of VSS for Each Insurance



Sources: GSO

66. **Amendment of social insurance**. The Law on Social Insurance was amended on June 29, 2024, and became effective on July 1, 2025. It aims to expand social insurance coverage, enhance benefits, strengthen fund sustainability, and improve social security in Vietnam.

- The social insurance coverage is expanded to the informal sector. The law extends compulsory social insurance to part-time workers and non-salaried business managers, aiming to include individuals in the informal sector who may have exited the system post-COVID-19.

- The law restricts lump-sum withdrawals to enhance fund sustainability and ensure future old-age income security. Employees participating in social insurance after July 1, 2025, are generally ineligible for lump-sum withdrawals, except under specific conditions such as reaching retirement age without sufficient contribution years, emigrating abroad, or suffering from certain severe diseases. Workers may withdraw up to 50% of their contributions but must continue contributing once reemployed. These measures address the issue observed between 2016 and 2020, where a significant number of participants withdrew prematurely, challenging the fund's long-term viability.

- The law introduces provisions to strengthen the management of the Social Insurance Fund, including expanding investment portfolios and methods to improve fund efficiency and sustainability. It also mandates regular reporting and actuarial projections to identify and mitigate risks, ensuring the fund's long-term stability.

- The required contribution period for pension eligibility is reduced from 20 to 15 years, facilitating earlier access to retirement benefits for participants.

- A new monthly old-age allowance is established for individuals who reach retirement age but lack sufficient contributions for a pension and opt against a lump-sum payment. This allowance includes health insurance and death benefits, providing ongoing support until beneficiaries qualify for the old-age social pension.

- The law proposes a comprehensive support system for low-income individuals and those near the poverty line by adjusting contribution support rates, aiming to offer varying levels of assistance to encourage broader participation among low-income groups.

VII. Public Debt

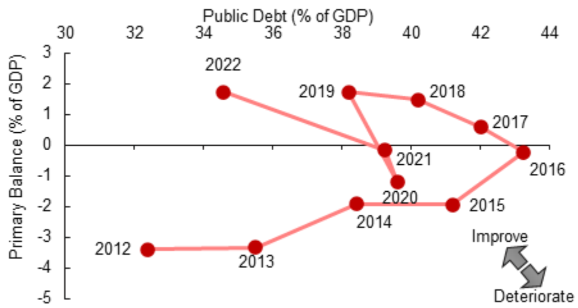
A. Government Debt

67. **The public debt ceilings are set by the resolution of the National Assembly on the 5-year financial plan**. According to the 5-year financial plan 2021-2025, the public debt ceiling is 60 percent of GDP, and the government debt ceiling is 50 percent of GDP. The external debt should not exceed 50 percent of GDP. Furthermore, the Public Debt Strategy 2030 envisages further reducing the national external debt-to-GDP ratio to 45 percent, while maintaining the ceilings on government debt.

68. **The government debt-to-GDP ratio has remained stable, despite the impact of the COVID-19 pandemic.** After having declined from 43.3 percent in 2016 to 38.2 percent in 2019, the debt-to-GDP ratio increased slightly in 2020. However, it declined in 2021 and 2022 (Figure 27).

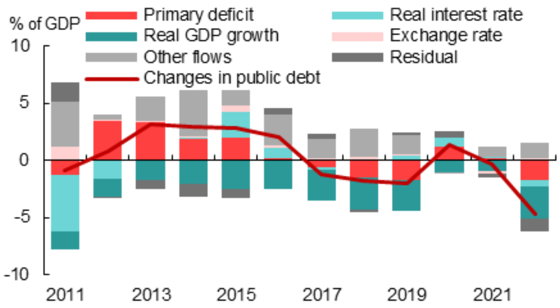
- The changes in primary deficit broadly coincided with the changes in the debt ratio, while real GDP growth continuously contributed to lowering the debt ratio (Figure 28).
- The contribution of other flows has been substantial due to sizeable carry-over, off-budget revenue, and overfinancing. In particular, the growing size of carry-over expenditure contributed to accumulating debt as the revenue to be carried over to the following year (corresponding to expenditure to be carried over to the following year) has been larger than the revenue carried over from the previous year. If the government implements the salary reform in July 2024 as planned, financed by the accumulated carry-overs, it is expected to contribute to reducing the debt ratio.

Figure 27. Primary Balance and Government Debt



Sources: MOF; AMRO staff estimates

Figure 28. Debt Dynamics

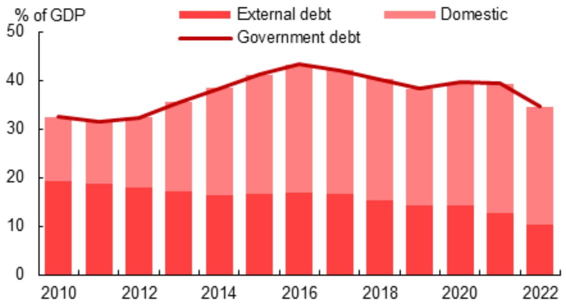


Sources: MOF; AMRO staff estimates

69. **The composition of the government debt has changed, relying more on domestic borrowing.** The government external debt declined from 19.4 percent of GDP in 2010 to 10.2 percent in 2022, as Vietnam graduated from the low-Income economy status in 2018, making concessional borrowing from multilateral development banks less accessible and favorable. On the other hand, the government domestic debt increased from 13.1 percent of GDP in 2010 to 24.5 percent in 2022 (Figure 29). The share of external government debt has declined from 59.6 percent in 2010 to 29.5 percent in 2022 (Figure 30).

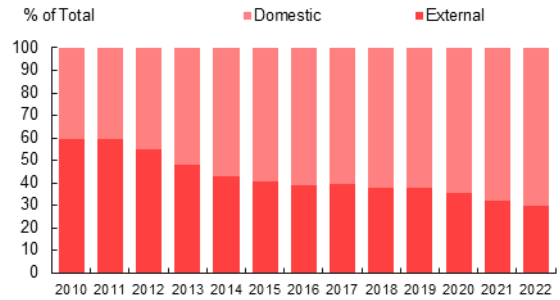
- **Government external debt**. Most external government debts are concessional /semi-concessional loans from MDBs and bilateral partners, mostly denominated in USD and JPY (Figure 31).
- **Government domestic debt**. Most domestic government debts are treasury bonds and the treasury's idle funds. The maturity of treasury bonds is concentrated in 10 and 15 years (Figure 32).

Figure 29. Government External and Domestic Debt



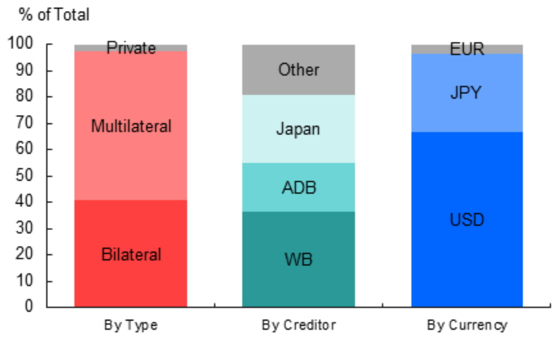
Sources: MOF; AMRO staff estimates

Figure 30. Share of Government External and Domestic Debt



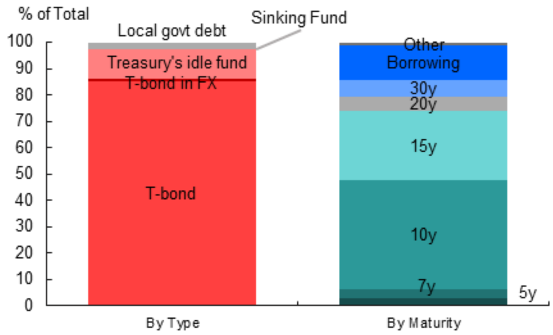
Sources: MOF; AMRO staff estimates

Figure 31. Government External Debt Profile



Sources: IMF; AMRO staff estimates
Note: External government debt profile is as of 2022.

Figure 32. Government Domestic Debt Profile



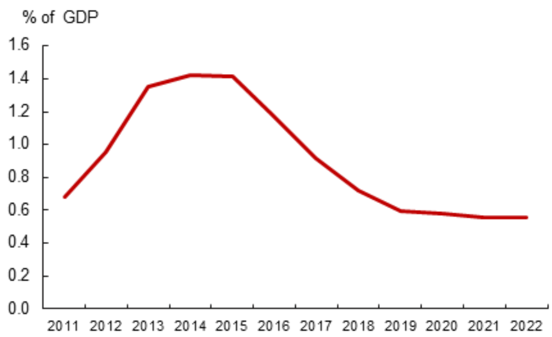
Sources: IMF; AMRO staff estimates
Note: Domestic government debt profile is as of 2022.

B. Local Government Debt

70. **The local government debt ceilings are differentiated based on the revenue collection and financing capacity**. According to the Law on State Budget (Article 7), the debt ceiling for poor provinces, where their revenues are lower than their recurrent expenditures, is 20 percent of the revenue retained by local governments (including both own-source and shared revenue); the debt ceiling for provinces where their revenues are higher than their recurrent expenditures is 30 percent; and the debt ceiling for HCM and Hanoi is 60 percent. However, the special resolution by the National Assembly approved the special mechanism for 9 provinces, allowing the debt ceiling to be 120 percent for HCM and 90 percent to Hanoi, and 60 – 70 percent for the other 7 provinces. The local government borrowings are permitted only for investment projects under the medium-term public investment plan, approved by the Provincial Peoples' Councils.

71. **The local government debt-to-GDP ratio has declined from 1.4 percent in 2015 to 0.6 percent in 2022** (Figure 33). The sources of local government borrowings are local government bonds, loans from commercial banks, borrowing from the State Treasury, borrowing from development banks (VDB, VSPB), and on-lending. The largest portion of the local government debt is on-lending, followed by local government bonds and loans from commercial banks.

Figure 33. Local Government Debt



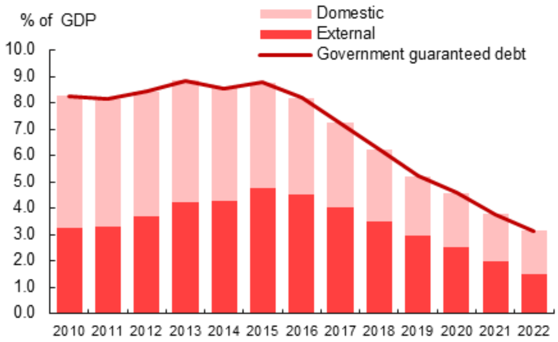
Sources: MOF; AMRO staff estimates

C. Government Guaranteed Debt and On-lending Debt

72. **The government-guaranteed debt has declined from 8.2 percent of GDP in 2010 to 3.1 percent in 2022** (Figure 34). As of end-2022, half of government-guaranteed debt is external debt, and the other half is domestic debt issued by VDB, VSPB, and other enterprises.

73. **The current size of the on-lending component is around VDN15-20 trillion (0.2 percent of GDP)**. Over the past four years, there has been no new on-lending to SOEs because they do not have any projects eligible for external financing.

Figure 34. Government Guaranteed Debt



Sources: MOF; IMF; AMRO staff estimates

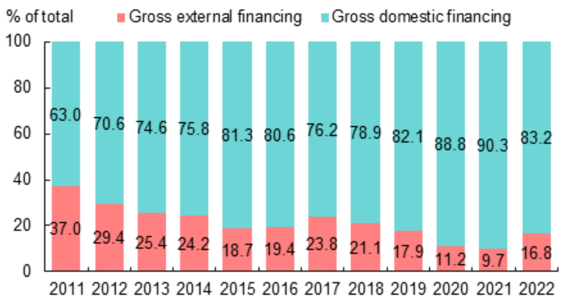
VIII. Government Financing

A. Gross Financing and Net Financing

74. **The government has reduced the share of external financing while increasing the share of domestic financing** (Figure 35). Net external financing has turned negative since 2020, implying net redemption, while net domestic financing has been positive (Figure 36). The shift to domestic financing reflects the development of domestic financial markets, the high costs of external financing, and the slow progress of infrastructure development.

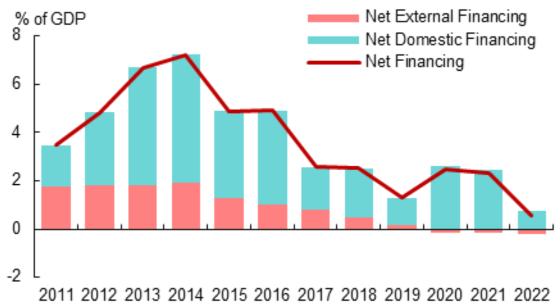
- The domestic government bond market has gradually developed. However, external financing by ODA from multilateral/bilateral counterparts will remain the main source of financing for infrastructure development over the medium term, given the still nascent domestic bond market.
- Vietnam graduated from the low-Income economy status in 2018, so lending rates offered by multilateral development banks have risen to the emerging market level.
- The slow progress of public investment projects is also attributed to delayed budget and Official Development Assistance (ODA) disbursement. The plan for external borrowing depends primarily on the progress of capital investment projects.

Figure 35. Composition of Gross Financing



Sources: MOF; AMRO staff estimates

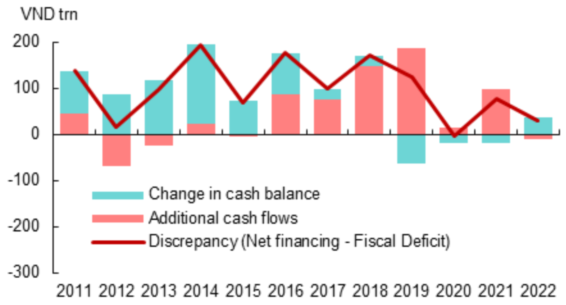
Figure 36. Net Financing



Sources: MOF; AMRO staff estimates
Note: Net financing = Disbursement - Amortization

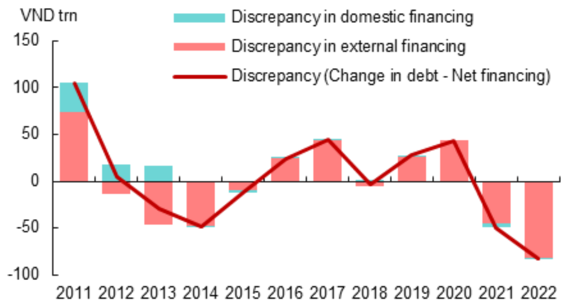
75. **The discrepancy between fiscal deficit and net financing, and between net financing and the changes in debt outstanding have been observed** (Figures 37 and 38). The discrepancy between fiscal deficit and net financing stems from the off-budget items (carry-over, collection from FRF, and local budget surplus) and the change in cash balance (over- or underfinancing). The discrepancy between net financing and the changes in debt outstanding may be due to the differences in recording timing and coverage. The debt data is recorded strictly by a calendar year (January 1- December 31), while state budget data is given an additional one month to reconcile the budget numbers between the previous and current years. In addition, the government debt also comprises on-lending activity for quasi-fiscal entities, such as public hospitals and schools, and state-owned enterprises (SOEs), which are not a part of the state budget.

Figure 37. Discrepancy Between Fiscal Deficit and Net Financing



Sources: MOF; AMRO staff estimates
Note: A positive gap implies net financing (disbursement – amortization) is greater than fiscal deficit.

Figure 38. Discrepancy Between Net Financing and the Changes in Debt Outstanding



Sources: MOF; AMRO staff estimates
Note: A positive gap implies the change in debt outstanding is greater than net financing (disbursement – amortization).

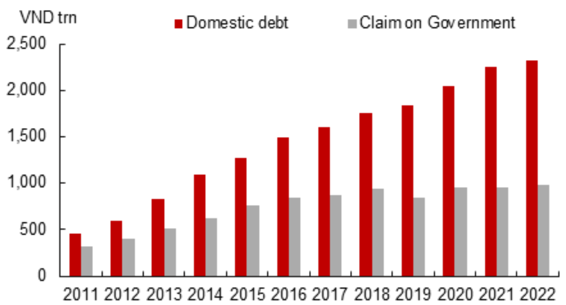
B. Domestic Government Bond Market

76. **Almost all government bonds are held by domestic investors.** VSS holds around 45 percent of the total outstanding government bonds. Local commercial banks hold around 40 percent, and the remaining amount is held by local insurance companies, deposit Insurance corporations, and pension funds (Figures 39 and 40). The government bonds held by foreign investors account for approximately 2.3 percent of the total.

- VSS must hold the government bond until maturity and is not allowed to participate in the secondary market. As the returns on VSS's investment portfolio have declined persistently, the government is considering expanding the list of eligible financial assets, that the VSS can invest in gradually.

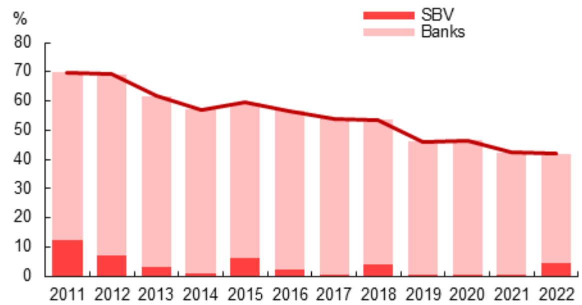
- Demand for government bonds by local commercial banks remains strong for a few reasons. First, commercial banks search for high returns but low risks, as current lending rates and money market rates decline and hover at low levels. Second, commercial banks can use government bonds as collaterals in the SBV's open market operations.

Figure 39. Government Domestic Debt and Claim on Government from Banks



Sources: MOF; IMF; AMRO staff estimates

Figure 40. Share of Government Domestic Debt Held by SBV and Banks



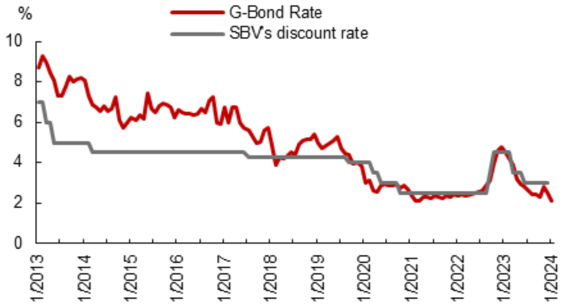
Sources: MOF; IMF; AMRO staff estimates

77. **The coupon for government bonds is set according to the MOF's Minimum Interest Rate Framework**. The interest rate of government bond issuance is determined by the State Treasury within the interest rate framework set by the MOF, considering local and global financial market development, local money market rates, interest rates of trading outstanding government bonds, and government financing needs. The official yield curve of the Vietnamese government bond remains absent. However, the Securities Market Development

Strategy 2030, approved by the Prime Minister, tasks the MOF to establish a benchmark yield curve for the government bond market, serving as a reference for the financial market.

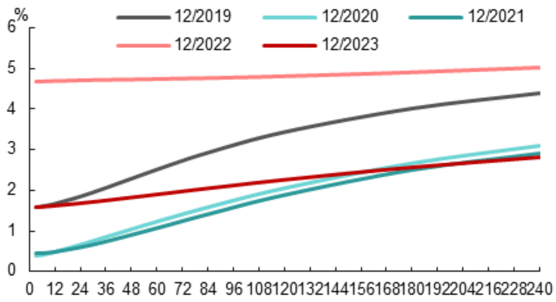
- The weighted average of the interest rate of government bond issuance has been trending down, with a spike in H2 2022 – H1 2023, in line with the SBV's regulatory interest rate (Figure 41). The sovereign yield curve, proxied by the spot rates of government bonds of different tenors in terms of remaining maturity, has flattened since 2022 (Figure 42).

Figure 41. Average Government Bond Issuance Rates and SBV's Discount Rates



Sources: Hanoi stock exchange; SBV

Figure 42. Sovereign Yield Curve



Sources: Hanoi stock exchange; SBV

78. **The current issuance tenures of government bonds are from five years onward**. The MOF does not issue treasury bills and shorter-term bonds as the State Treasury has stable liquidity and implements the public debt restructuring to extend maturities, thereby reducing short-term debt repayment pressure and borrowing costs. To determine tenors, the State Treasury solicits primary dealers' needs for specific maturities and looks at the repayment schedule of outstanding debt, to prevent a bunching of payments at a single point in time. In preparation for the yield curve construction, the National Assembly orders the government to issue long-term bonds of 5 years or longer, while allowing flexibility of issuing shorter-term bonds of less than 5 years, to meet funding needs and support the development of the government bond market.

C. Treasury Idle Fund

79. **Treasury Idle Fund (or Temporary Idle Fund, TIF) is operated by the State Treasury primarily to lend to the state budget to address temporary deficits and offset budget deficits**. It is also used to make term deposits at commercial banks for interest earning or used for repurchase agreements (repo) of government bonds. At the same time, it reduces borrowing costs of the central budget and supports the issuance of government bonds under unfavorable market conditions. The funding sources of the TIF include the budget reserves at all levels of the government, deposits from FRFs, and deposits from the budget. The size of the TIF is estimated to be VND800-900 trillion, according to the IMF.

D. Sinking Fund

80. **The sinking fund is established to ensure the repayment of the on-lent debt and repay the government-guaranteed loans in the case of default** (Law on Public Debt Management, Article 56). The sinking fund is financed by (i) debt repayment of on-lent loans; (ii) receipt from on-lent loan loss reserves; (iii) receipt from management of on-lent loans and government guarantees; (iv) debt repayment of loans lent from the fund; (v) receipt from debt portfolio management; (vi) interest on deposits and loans, and receipt from entrusted financial services; and (vii) other lawful revenues. The size of the sinking fund is currently around VND71 trillion. In terms of operation, the state budget pays the entire external debt obligations

on behalf of the government according to loan agreements each month. The sinking fund then reimburses the State budget by the 10th of the following month for on-lending portion. For reimbursement scheduled in December, the reimbursement must be completed before December 30. Authorized on-lending agencies, borrowing entities of external loans and guaranteed entities, including SOEs or local governments, usually repay their on-lent debt via the sinking fund.

IX. Financial Management Information System

81. **The Treasury and Budget Management Information System (TABMIS) was developed and put into operation in October 2012**. TABMIS aimed to replace the multiple-distributed treasury systems located throughout the country.

- Large commitments from the state budget are controlled and monitored through TABMIS.

- Aggregate data on government receipts and expenditures and cash and fund balances are available in TABMIS, enabling all treasury offices to reconcile accounting data with bank accounts daily, and reconcile payments with the spending units quarterly.

- TABMIS supports treasury offices and financial agencies in producing quarterly and annual budget execution reports and annual financial reports for management purposes.

- TABMIS issues payment instructions for state budget expenditures of agencies, institutions, and individuals with accounts maintained at the State Treasury (i.e., intertreasury payment system). Where no accounts are maintained with the State Treasury, local finance agencies enter approved appropriations and payment instructions in TABMIS before treasury offices can process payments using TABMIS through SBV or the four state-owned banks.

82. **The State Treasury has expanded the TABMIS system to meet the administrative reform requirements of the government and the Ministry of Finance.** TABMIS has been integrated with data from units using the budget, connecting with the MPI, tax authorities, and customs. Despite its connectivity, it is not yet fully digitalized, and information retrieval is not automatic. Furthermore, the current version of TABMIS is outdated, and vendors no longer support it. An upgrade is necessary to align with the financial market development strategy from 2020 to 2030.

Appendix I. Structure of Law on State Budget

Chapter I. General Provisions

Article 1. Scope

Article 2. Regulated entities

Article 3. Application of law

Article 4. Interpretation of terms

Article 5. Scope of state budget

Article 6. State budget system

Article 7. Rules for state budget balancing

Article 8. Rules for state budget management

Article 9. Rules for management of sources of revenue, obligatory expenditures, and relation between various levels of state budget

Article 10. State budget reserve

Article 11. Financial reserve funds

Article 12. Conditions for the State budget revenues and expenditures

Article 13. Accounting and statement of state budget revenue and expenditure

Article 14. Budget year

Article 15. Publishing of state budget

Article 16. Supervision of state budget by the public

Article 17. 5-year financial plan

Article 18. Prohibited acts

Chapter II. Duties, entitlements of regulatory agencies; Responsibility and obligations of organizations and individuals to state budget

Article 19. Duties and entitlements of the National Assembly

Article 20. Duties and entitlements of Standing Committee of the National Assembly

Article 21. Duties and entitlements of Budget–Finance Committee of the National Assembly

Article 22. Duties and entitlements of Nationalities Council and other Committees of the National Assembly

Article 23. Duties and entitlements of State Audit Office of Vietnam

Article 24. Duties and entitlements of the President

Article 25. Duties and entitlements of the government

Article 26. Duties and entitlements of the Ministry of Finance

Article 27. Duties and entitlements of the Ministry of Planning and Investment

Article 28. Duties and entitlements of the State bank of Vietnam

Article 29. Duties and entitlements of other Ministries, ministerial agencies, Governmental agencies, and other central regulatory agencies

Chapter III. Sources of Revenue and Obligatory Expenditures

Chapter IV. Making of State Budget Estimates

Chapter V. Execution of State Budget

Chapter VI. Accounting, Audit, and Statement of State Budget

Chapter VII. Implementation

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