

2. The Challenges of Carry-over Expenditures in Vietnam's Fiscal Management ⁷⁹

1. According to the State Budget Law, the government (both central and local) is permitted to carry-over expenditure that has not been implemented in the current fiscal year, to the following year. The purpose of government carry-over expenditure to subsequent years is to ensure sufficient state budget funds are available to continue incomplete or partially implemented expenditure tasks and assignments, without imposing additional pressure on the following year's budget ⁸⁰. According to Vietnam's budget regulations, "carry-over expenditure" not only refers to undisbursed spending, but also includes the salary reform fund provision ⁸¹. However, information on the amount of carry-over expenditure only becomes available 18 months after the fiscal year ends, creating challenges in assessing the actual budget performance accurately and timely. Additionally, the detailed breakdown of carry-over items only become available starting in the 2022 final settlement.

Table A2.1. Carry-over Expenditure in Vietnam's Budget System (For example: 2022 Budget Performance)

Items	Original Budget	1st Estimate	2nd Estimate	Final Settlement (FS)
Revenue from the 2022 original budget	R	R ^{1st}	R ^{2nd}	R ^{FS}
Carried-over Revenue from previous year (2021)				Y
Expenditure	E	E ^{1st} = E ^a + E ^{co}	E ^{2nd} = E ^a + E ^{co}	E ^{FS} = E ^a + T + E ^{co}
- Actual expenditure from the 2022 budget		E ^a	E ^a	E ^a
- Carry-over expenditure from 2022 Budget to the following year (2023)		E ^{co}	E ^{co}	E ^{co}
- Carried-over expenditure from 2021 Budget that are disbursed in 2022				T
Fiscal Balance for 2022	R - E	R ^{1st} - E ^{1st}	R ^{2nd} - E ^{2nd}	(R ^{FS} + Y) - E ^{FS}

Source: Vietnam MOF, AMRO staff compilation

Note: This classification is used by the authorities in their budget performance reporting, which is different from AMRO's approach. In AMRO, the fiscal balance is calculated by $R^{FS} - (E^a + T)$, which is in line with the IMF Government Financial Statistics Manual.

2. In the original annual budget submitted to the National Assembly, the government sets the state revenue and expenditure without incorporating carry-over expenditure from the previous year that will be disbursed. The fiscal deficit is only based on the revenue and expenditures under the current year's budget. In October, the government announces the budget performance for the first 9 months of the ongoing fiscal year, including projections for the whole fiscal year (called the 1st estimate). Five months after the fiscal year ends, the government reports the preliminary assessment on last year's budget performance (called as the 2nd estimate) to the National Assembly. The budget performance in the first and second estimate excludes the disbursement of expenditure carried over from the previous year, but includes undisbursed expenditure that will potentially be carried over to the following year. Nevertheless, the final settlement of the budget performance (released by 18 months after the fiscal year ending) will include not only carried-over expenditure from the previous year, but also the expenditure carried -over to the following year. According to the State Budget Law, the same amount of carry-over expenditures from the previous year will be recorded as carried-over revenue in the following year's budget. The carried-over revenue

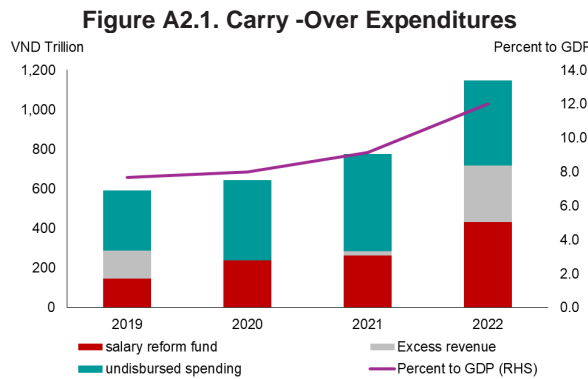
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⁸⁰ Not all the carried-over expenditure from the previous year is disbursed in the current year. The actual disbursement of expenditure that is carried over from the previous year is recorded as a part of the expenditure in the final settlement of the current year's budget, which is released 18 months of the fiscal year ending.

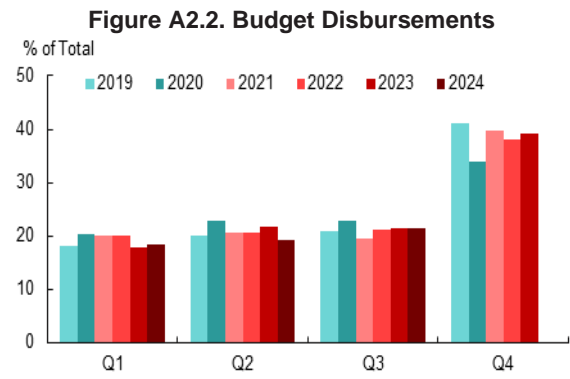
⁸¹ According to Article 64, Clause 3 and Clause 4 in the Law of State Budget, six types of expenditures are permitted to be carried over to subsequent years: incomplete development investment expenditure, equipment purchases with contracts signed before December 31, accumulated salary reform fund, undisbursed operational spending of public service and regulatory agencies, additional spending allocated after September 30, and expenditures related to Research and Development. The government has allocated portions of the budget (excess revenue and savings in the incremental of recurrent expenditure) towards the salary reform fund, which have been carried over to the following years to support the government officials' salary reform program in the future. Additionally, the rest of excess revenue will be carried over to the next year to be used for other purpose (such as new investment projects), subject to approval from the Standing Committee of National Assembly.

represents the additional cash available generated from the expenditure carried over from the previous year.

3. The carry-over expenditure has trended upward over the years, rising from 4.2 percent of GDP in 2013 to 12 percent in 2022. The expenditure carried over from 2022 to 2023 amounted to VND1,146.7 trillion (Figure A2.1), with the accumulated salary reform fund accounting for the largest share (38 percent), followed by undisbursed expenditure from the previous year. In the 2022 final settlement, the amount of capital expenditure carried over to 2023 reached 52 percent of the 2022 budget allocation.



Source: Vietnam MOF, AMRO staff estimation



Source: Vietnam MOF, AMRO staff estimation

4. The government’s inability to execute the budget in a timely manner has driven the increasing trend of carry-over expenditure. Slow budget disbursement has been a significant challenge over the years. In the last three years, the actual execution rate for total expenditure has been less than 80 percent of the budget on average, with capital expenditure even worse at under 65 percent. At the end of September 2024, only 59.3 percent of total budget expenditure had been disbursed. Despite the 30 percent salary increase for public sector employees in July 2024, the total expenditure disbursement increased only by 1.4 percent compared to the same period a year earlier. Capital expenditure disbursement was particularly low at just 47.3 percent of the budget until the end of September 2024.⁸² The disbursement of government spending is concentrated in the last quarter, excluding the undisbursed spendings that are carried-over to subsequent year (Figure A2.2). According to the State Budget Law, the budget for investment projects must be disbursed no later than January 31 of the following year. If not, it must either be cancelled or considered to be carried over to the next fiscal year.

5. Persistent structural challenges have hindered the progress of infrastructure development and thereby delayed the disbursement of capital expenditure over the years. First, infrastructure projects have often faced delays in site clearance due to differences of views over land price compensation. Contractors have also sought to wait for the implementation of the newly amended Land Law, enacted in August 2024, although the detailed decrees are still under development. This new law is expected to raise land price compensation, increasing the total investment amounts required for the projects. Second, the insufficient availability of raw materials⁸³ creates additional challenges in completing the projects. Third, executing agencies have not been proactive, especially as project guidelines can be interpreted

⁸² Only 15 ministries and central agencies (of 44 ministries and central agencies) and 37 local governments (of 63 local governments) had capital expenditure disbursement rates above the national average. Some ministries disbursed less than 10 percent of their capital expenditure budget, such as the Ministry of Science and Technology, which saw disbursement rate of just 5.5 percent.

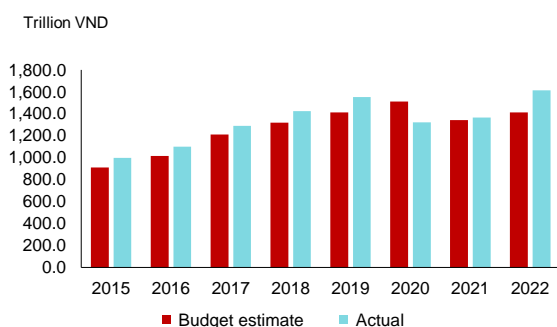
⁸³ This was not only during the Covid-19 pandemic, as the challenges have persisted until the time of writing. For example, since the Eastern Expressway project was started, a severe shortage of sand for roadbed construction in some provinces has significantly impacted the construction progress. Additionally, for some other projects, the increase in the prices of raw materials has led to difficulties in finding enough supply of materials, as the initial budget estimates have not been able to cover the price increases.

differently by stakeholders. Fourth, requirements associated with Official Development Assistance funding, including site clearance procedures, design appraisal, and bidding process, often create challenges in the implementation of externally funded projects. Lastly, the approval of the budget plan close to the start of the fiscal year has also contributed to project delays. Subordinate agencies and local authorities frequently need to adjust project budgets, postponing the selection of contractors and procurement. Although the State Budget Law permits capital expenditure to be carried over for only one year, in some special cases, it can be extended for multiple years upon approvals of the National Assembly⁸⁴.

6. The government has been accumulating funds for the salary reform fund to support policy measures related to salary adjustments for government officials. Since 2018, the government has committed to implement a comprehensive salary reform by establishing a new salary structure applicable universally to public officers. However, the implementation of a new salary structure has been delayed due to COVID-19, and it is still under discussion. In anticipation of the implementation of the salary reform, the government has established a salary reform fund, which is mainly funded from the accumulation of higher-than-budgeted revenue. The central and local government have to transfer 40 percent and 70 percent of the revenue that is higher-than-budgeted, to the salary reform fund. Additionally, if there is an increase in the budget allocation for recurrent expenditure as compared to the previous year’s budget (excluding salary and wage expenditure), both central and local government have to allocate 10 percent of the increase in budget allocation for the salary reform fund. The accumulated salary reform fund reached VND560 trillion by the end of 2023.⁸⁵ The 30 percent increase in the basic salary of public officials in 2024 has been financed both from the budget for 2024 and the salary reform fund.

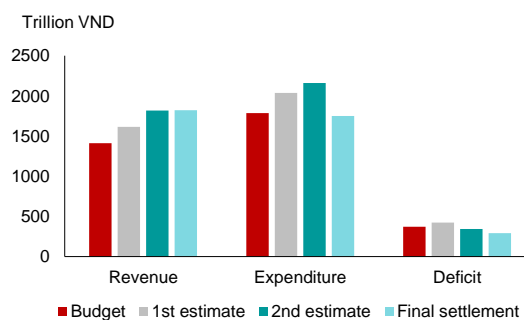
7. Revenue projections have consistently been underestimated, which has also contributed to the increasing carry-over expenditures. Since 2015, actual revenue has consistently exceeded budget estimates, for example, by 17 percent and 28 percent in 2021 and 2022 respectively. The only exception was in 2020, when actual revenue reached 98.1 percent of the budget target (Figure A2.3). As mandated by the State Budget Law, all the extra revenue is carried over to the following year for specific purposes, such as for the salary reform fund or for development projects⁸⁶.

Figure A2.3. Revenue performance



Source: Vietnam MOF, AMRO staff compilation

Figure A2.4. Discrepancy in 2022 Budget performance



Source: Vietnam MOF, AMRO staff compilation

⁸⁴ The extension of central government spending for more than one year must be approved by the National Assembly, as it is not currently stipulated in the State Budget Law.

⁸⁵ In July 2024, the government implemented the 30 percent increase in civil servants’ basic salary, requiring a budget of VND226 trillion; of which VND152 trillion was financed by the salary reform fund, while VND74 trillion came from the allocated 2024 budget.

⁸⁶ According to the State Budget Law, after the fiscal year ends, the government has to make a plan on the use of extra revenue and seek approval from the Standing Committee of National Assembly. The plan including on how much will be used for salary reform fund and other purposes (including for financing new investment projects). The Standing Committee will make a decision/approval and report it to the National Assembly (for information only).

8. Consistently rising carry-over expenditure each year could negatively impact the quality of budget planning. Information on actual carry-over expenditures is only available in the final settlement of the budget, released up to 18 months after a fiscal year ends. The final budget settlement often differs significantly from the preliminary assessments announced in the five months after the fiscal year ends. This delay and discrepancy create challenges in accurately assessing the fiscal stance, which makes it difficult for policymakers to conduct effective evaluations of the economic impact of government policies. Additionally, it results in the accumulation of large amounts of cash in the state treasury that remain undisbursed but could have been used for development of the economy. This reduces the efficiency of public resources.

9. The government needs to address carry-over expenditure, particularly that resulting from inefficient execution of budget spending. The disbursement of budget allocation can be improved by ensuring that multi-year budget allocations for infrastructure projects are implemented according to schedule. Public investment projects should be implemented according to planned timelines to reduce carry-over capital expenditure.⁸⁷ Moreover, improving the accuracy of revenue forecasting is also necessary⁸⁸. Strengthening coordination among relevant stakeholders is crucial, especially in fostering a shared commitment to infrastructure development.⁸⁹ The government should also enhance supervision and consultation mechanisms, as well as provide clearer guidance to subordinate agencies to quickly resolve challenges. Shortening the final budget settlement period can contribute significantly to better budget evaluation and planning as well. Lastly, the government should implement comprehensive salary reform in a timely manner.

⁸⁷ This effort can be done by strictly monitoring on the disbursement progress of each project. Additionally, urgent implementation of the new Land Law to address bottlenecks in site clearance and land acquisition could help to accelerate the progress of investment project construction

⁸⁸ Minimizing the deviation between the estimated and actual revenue can reduce the carry-over expenditure because the excess revenue will be a part of the carry-over expenditure to the following year, according to the State Budget Law.

⁸⁹ On September 2024, the government has established 7 Working Groups aims to expedite annual budget disbursement of public investment projects both in central and local government levels. It is strictly important to ensure the effectiveness of this WGs on addressing structural challenges hindering slow disbursement in public investment project.