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Master’s Degree of Public Financial Management

STRUCTURAL GAPS OF PUBLIC FINANCE IN VIETNAM

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Abstract

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The paper focuses on structural gap in public finance of Vietnam in long term from 1990 to 2010 and consequences of structural gaps in public finance - public debt crisis- in some developed countries. Public debt crisis has harmedly influenced to Eurozone including developed countries and to the most developed countries of the world such as United States of America, and Japan. Each country has its own reasons for public debt crisis; however, the principle of those crises is too high public expenditure leading to increase in budget deficit over long term – this called structural gaps of public finance. Available data shows that the ratio Public Debt/GDP in these countries increased over long time then rose sharply for several years right before the public debt crisis. Vietnam public debt has been increasing for the last five years as well. Analysis the secondary data of public finance of Vietnam from the credible sources in range from 1990 to 2011 combined with a survey about symptom of structural gaps of public finance in Vietnam manifests the evidence of structural gaps in public finance of Vietnam. This unbalance has become worse since 2005 when the public debt increases considerably, especially external debt. Growth rate of Vietnam is higher than average level of entire the world; however, the gains are fragile. That unsustainable circumstance is even exacerbated by high inflation and high public debt. The thesis recommends some solutions which the Government of Vietnam might apply to balance the government budget and improve its performance in the future.
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## Abbreviation

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<th>Description</th>
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</thead>
<tbody>
<tr>
<td>GDP</td>
<td>Gross Domestic Production</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>OECD</td>
<td>Organization for Economic Co-operation and Development</td>
</tr>
<tr>
<td>USA</td>
<td>United State of America</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>MOF</td>
<td>Ministry of Finance of Vietnam</td>
</tr>
<tr>
<td>GSO</td>
<td>General Statistic Office of Vietnam</td>
</tr>
<tr>
<td>CPI</td>
<td>Consumer Price Index</td>
</tr>
<tr>
<td>WB</td>
<td>World Bank</td>
</tr>
<tr>
<td>IPSAS</td>
<td>International Public Sector Accounting Standard</td>
</tr>
<tr>
<td>SOE</td>
<td>State Own Enterprise</td>
</tr>
<tr>
<td>VND</td>
<td>Vietnam Dong (currency of Vietnam)</td>
</tr>
</tbody>
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1. INTRODUCTION

Since early 2010, the Eurozone has been facing a major debt crisis. Public debt crisis started in Greece then reached to several countries in Europe. Public debt crisis has been lasting and it is not a problem of Europe only but a universal problem, even in very advanced countries such as Japan or United States. Obviously, public debt is not a matter of a country but it is a global matter. Any country can be in debt crisis if the governments do not realize early about public debt problem and do not have precise strategy about public debt. When a government's expenditures exceed its revenues, the situation is called deficit and this excess spending need to be financed through borrowing, likely from foreign governments. Public debt might be foreign debt or domestic debt; it might be central government debt or local government debt or the guaranteed debt by a government, it might be long term or short term, etc. Whatever it is, increase of public debt over years and the decrease of payment ability might lead to a crisis debt. This can be considered as consequence of increasing deficit of government budget in many years. According to Bailey (Bailey, 2003, p.179) the situation of a government in which public expenditure grows faster than revenues over the long time is called “structural gap” in public finance. A “structural gap” does not necessarily mean that public expenditure is too high or that tax revenues are too low, it indicates that expenditure is greater than can be sustained by income over an extended period of time (Ibid). Thus, structural gap in public finance happens when the growth rate of expenditure is faster than that of revenue.

Vietnam is not an exception to structural gaps. Vietnam is a developing country and it needs large capital to develop its economy, especially in construction of infrastructure. This is a sign which indicates that budget deficit has increased over years and the gap between growth rate of expenditure and that of revenue is larger over years too. These circumstances lead to idea of structural gap in Vietnam for last years. Thus, in my thesis, I would like to review debt crises in several developed countries and analyze whether the structural gap of public finance really exist in Vietnam. If it is there, then how Vietnamese government could learn the lessons from experience of debt problems in other countries as well as what kind of policies, which Vietnamese government should adopt to solve the problem with appropriate political conditions and economic mechanism of Vietnam in coming years.
In the context that many countries are dealing with public debt crisis and debt-GDP ratio of Vietnam has increased considerably for several years, an evaluation about public debt in relation with structural gaps of public finance is significant. Deeper Studies of structural gaps helps the government to predict when debt crisis might occur, it helps the policy makers to find the solutions, for balancing the national budget and improve its performance. This will lead to the sustained development of economy.

With the purpose of research, the thesis will include six parts. The part one is Introduction. The Part two will review the literature factors related to structural gaps of public finance such as the concepts, causes and consequences, solutions and other factors involved in public debt such as inflation, exchange rate, real income etc. The part three is: Research problem in which the main question of the paper is determined. Part four is: Research methodology as a methodology frame work for thesis. Part five is about structural gaps with case study of Vietnam. In this part, the study will focus on real situation in structural gaps over last few decades of Vietnam to find the trend if there is the problem of structural gaps. The task is to analyze the situation and find the solution to the balanced budget. The situation and reasons for public debt crisis in the developed countries are mentioned to, in this part. The sixth and the last part is Conclusion, in which I would sum up the study and give the comments, petitions.

2. THEORETICAL BACKGROUND

2.1. Theory about structural gap

There is a plentiful literature to assess the position of public finance or provide early warning signals of fiscal instability of government budget. Regarding the position of public finance, some approaches can be used such as sustainability of public finance, fiscal stress, fiscal stability, etc. However, it seems that these approaches mention the problem when it almost happens, but hardly mentions the process how it is created. In order to realize the process, it is necessary to annually monitor the governmental deficit and debt in a constant and strict way.

Structural gap is a category of Public Finance. Even though this is a significant matter of government budget, not many theories related to structural gap in public finance are available. It is important to study structural gap of public finance because when the government finds out any budgetary problems, they will be able to make timely decisions to prevent the bad consequences of the economy such as fiscal crisis, debt crisis, default, etc. These issues are presented clearly
and sufficiently in the book named “Strategic Public Finance” by Professor Stephen J. Bailey which conceptualises “structural gaps in public finance”. Thus, the thesis will mainly base on this theory and also refer to some other authors working in the domain of public financial management.

2.1.1 Concepts and Definitions

In process of development, it is obvious that the growth of any economy is measured by its annual increase of GDP. It is hoped that lower deficit and high surplus can help to boost the economic stability. The economists pay much attention to growth rate of GDP, GDP per capita and the lower rate of deficit or public debt, etc. These factors play important roles in measuring government budget. However, it is not enough to use only these factors to measure the “health” of an economy. It must be seen how the economy will develop, what direction the economy will get, what problems may occur in the development process and whether they are bad, what are the solution if yes, etc. With that perspective, studying of structural gap might solve that problem. According to Bailey, “A structural gap in public finance refers to a scenario whereby public expenditure grows faster than revenues over the long term” (Bailey, 2003, p.179).

Some concepts shown below need to be clearly understood:

- Public finance
- Public expenditure
- Public revenue

Public finance comprises any revenue or expenditure passing through state budgets, derived from whatever source and however spent (Bailey, 2003, p.3). From this approach, the most important feature to distinguish the public finance and private finance is whether the revenues or expenditures pass through the government budget or not. It does not matter which level of government budget they pass through, such as local, regional, central or federal government but they must be recorded in government accounts. Public finance is not only used for public sector but also for private sector, for example to subsidize the private transport system in a city in order to improve the transport system. Nevertheless, in principle, the purpose of using public finance is to serve the welfare of the society, not just a special group or class. This matter is related to citizen rights, and these rights are diverse depending on the political philosophy. However, with
limited or broad amount of citizen’s rights, the government is responsible to demand those rights by using public finance in order to provide the services. Thus, what are the elements of public sectors?

*Public Revenue*: In order to maintain the operation of government, it is required to have sources from where the budget is collected. IMF defines: “*All transactions that increase the net worth of the general government sector are classified as revenue*” (International Monetary Fund, 2001). For all the government, the main source is from taxes. However, there are other sources of public finance and they have significant contribution to budget, and sometimes they might considerably affect the balance of the government budget. Professor Bailey (Bailey, 2003, p. 132) presented these sources in details as follow:

**Table 1 Source of public finance**

<table>
<thead>
<tr>
<th>Source</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxes</td>
<td>Taxes are obligations that the individuals or property owners have to fulfil. Legislative authority ensures tax policies. There are many kinds of tax such as personal income tax, expenditure tax, corporate income tax, environmental tax, etc</td>
</tr>
<tr>
<td>Charges</td>
<td>Many countries use user-charge for public service, such as tuition, hospital fee, and ticket for public transport. These fees are used mostly to compensate the expenditure of their own operation. Charges are usually based on the willing of citizen to pay.</td>
</tr>
<tr>
<td>Privatization/sales</td>
<td>Government sell the assets which belong to collective possession such as land, buildings, equipments…</td>
</tr>
<tr>
<td>Borrowing</td>
<td>In case of lacking government budget, states usually borrow from domestic and foreign sources.</td>
</tr>
<tr>
<td>State lotteries</td>
<td>Most of countries use this kind of “special service” to raise source revenue.</td>
</tr>
</tbody>
</table>
Understanding the elements of public revenue leads to have precise view of scarce budget resource.

**Public expenditure:** Also in accordance with the definition of IMF, *all transactions that decrease the net worth of the general government sector are classified as expense* (International Monetary Fund, 2001). Here IMF uses the term “expense” as a decrease in net worth resulting from a transaction, in nature this concept is the same as expenditure or spending. Generally, public expenditure is categorized into current expenditure and capital expenditure. Current expenditure is periodic spending that are consumed and only last a limited period (a year), It is used to maintain the current performance of government. They are items used in the process of providing a goods and services. By contrast, capital expenditure is spending on assets. Capital expenditure (capital spending) is generally about physical assets with a useful life of more than one year (Davina, April 2009). It is important to distinguish these two types of spending because their performance’s results have different impacts on the economy. Capital expenditure has a long-lasting impact and helps provide a more efficient and productive economy. A new school, for instance, will be much more efficient and allow more pupils to attend for many years in the future. It has made useful effects on the economy in the long run. However, current expenditure does not have such a lasting impact. Once the money is spent, it is gone and the effect on the economy is simply a short-term one. Thus, in order to obtain a sustainable economic development, a government needs to allocate the resource rationally with the purpose of both maintaining the current activities of government and creating material facilities for society.

In the process of performance of budgeting, in most of the cases, the expenditure is bigger than revenue. This issue is improved in a research of structural gaps in public finance in the book

<table>
<thead>
<tr>
<th>Donations/Aid/Bequests</th>
<th>In the form of cash and/or physical assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payment in kind</td>
<td>In the form of physical assets instead of user-charges</td>
</tr>
<tr>
<td>Special assessments</td>
<td>Voluntary payment of extra taxes for specific improvements to property</td>
</tr>
</tbody>
</table>
Strategic Public Finance (Bailey, 2003). Among 30 countries which last over a long period from 1965 to 1999, he concluded that “a surplus of tax revenue over total government expenditure have been more the exception than the rule for most countries”. This means most of countries do not have enough resource to cover the demand of countries because taxes are the biggest source of government budget. In order to keep the budget balanced, the governments have to find other resources such as lottery, aid, sales of state assets and so on. However, most of the countries mobilize capital through borrowing from citizen in the form of issuing government bonds or government securities and call for borrowing from other countries.

The problem of borrowing is when the debt increases, though the productivity might increase, it cannot catch up with the increase of debt. This may cause government’s insolvency, debt crisis or even default. To prevent a worst case scenario, this risk should be paid more attention and early realized by all governments. Hence, the economists’ responsibility is to do more research on structural gap of public finance and provide authorities with warnings about the dangers to government budget and the economy. Doing this will help lay a stable foundation for the sustainable development of an economy.

Structural gap does not mean the value of budget deficit or budget surplus. It reflects the “structure” of budget, the proportion of the budget elements rather than their value. Therefore, the term ‘structural gap’ is value-free and it reflects the state of public finances in objective accounting terms (Bailey, 2003, p.179). When “structural gap”is mentioned, it does not mean to focus on how much budget deficit or government debt this year is, but consider the trend of the deficit/surplus proportion in comparison with GDP (GDP illustrates for production capacity of an economy) over the years.

To clearly understand structural gaps, it is advised to realize two cases, which do not show the “structural gaps”. The first case is when tax revenue is low or on the decrease. In the development process, a government needs to collect taxes at maximum level to provide sufficient resources for its performances. However, the tax rate cannot be so high; it should be reasonable to be accepted by taxpayers. If that condition is not satisfied, the taxpayers will probably find the way to evade taxes, causing tax revenue reduction.

Another reason might be, for example, when the government impose a new tax policy in a field which it wants to subsidies by reducing tax rate, and those activities might lead to tax
revenue decrease and stay at low level. However, this circumstance does not reflect the structural gap in public finance because in this case, the government has defined the situation and must have the suitable solutions to keep the budget balanced.

The second case is when public expenditure is too high (compared to previous years). In this case, if GDP increases at the same speed as expenditure, the economy is sufficient and strong enough to finance the governmental activities. This situation is possibly good for economy. Nevertheless, if the public expenditure rises considerably while GDP does not increase or increases insignificantly, there might be an indication for the risk for economy. That means when public expenditure is high, it is impossible to conclude that it is structural gap. In short, some cases do not manifest the structural gaps even though they might be unfavourable for economy.

Thus, when do the structural gaps occur? There are two main factors to ensure the structural gaps happen and these two factors coincide together. The first factor is that public expenditure grows faster than revenue. During a fiscal year, if revenue is bigger than expenditure then budget has surplus, vice versa, if revenue is less than expenditure then budget has deficit. That is the value of gap between expenditure and revenue. According to Bailey’s research, he collected data of budget from 30 OECD countries for a long period of time from 1965 to 1999. It is shown that the deficit or surplus might take places randomly but not in any order. It is obviously dangerous for the economies in which the deficit takes place most of the time and the deficit/GDP ratio is increasing. Even for an economy with surplus for years, if surplus/GDP ratio is decreasing over time, this is an indication of an economic hazard. In both circumstances, the gaps between public expenditure and revenue in structure of budget are getting bigger and bigger over the years. That is when the structural gaps occur. The second factor is time. Defining the structural gaps must consider the process in a long term. The period has to be long enough so that a trend manifests itself through analyzing large amount of data. The periods should be several decades or more (Bailey, 2003 p. 77). In fact, collecting data over the years is not very easy, especially when there were some big changes in socio-economy. To achieve a good analysis result, it is a need to collect enough data to show the trend, at least for a decade (Owsiak, 2010). Determining structural gap includes both those factors.

In summary, structural gap in public finance is a concept involves to the balance of government budget over long time. It is value-free; thus, to assess the structural gaps, do not use
the absolute value of public expenditure, revenue, tax, debt, etc. Structural gap does not mean too high public expenditure or too low tax revenue. Instead of those absolute values, it is necessary to use the ratio of them to GDP, which means to consider the gap in structure of public finance for decades.

2.1.2 Evidences of structural gaps

Because there is no single, unambiguous indicator of a structural gap in public finance and data may not be available over sufficiently long period time (Bailey, 2003, p.180), in order to prove the existence of structural gaps, we may use two kinds of indicators: financial indicators and non-financial indicators.

2.1.2.1 Financial indicators

In accordance with Bailey, 2003, in order to realize structural gaps in public finance, we could use a number of financial indicators, notably:

- The balance between tax revenue and expenditure over the long term
- Long term trend in the national debt/GDP ratio

The followings are the analyses of these indexes.

a. The balance between tax revenue and expenditure over the long term: As mentioned in part 2.1, public expenditure normally categorized into current expenditure and capital expenditure. The most different feature of these kinds of expenditure is their impacts on society and economy in the future. Thus, it is advised to consider the proportion of total expenditure, current expenditure as well as capital expenditure in comparison with GDP in order to obtain circumstance in general and in detail of each kind of expenditure. Based on this, the analysis should consider the ratios as follow:

- Deficit/surplus over GDP ratio

This indicator is calculated by total government expenditure minus total taxation per GDP. The first thing to do when defining the structural gaps is to calculate this ratio in order to find the trend in general. When this indicator is increasing in the long time, even though some years may have surplus or balance, there is a problem in structural gaps. However, this ratio is related to total expenditure without distinguishing between capital and current expenditure and may give
an exaggerated picture of structural gap. This is because capital expenditure could account for using a significant proportion of tax revenue (Bailey, 2003, p.184). Thus, to make good its shortcoming, another indicator regarding current expenditure is used, only in comparison with GDP.

- Total government current expenditure minus tax revenue in comparison with GDP

Current expenditure is the spending, which is to maintain the permanent and essential annual operations of a government. Hence, in some situations when the economy faces difficulties, this kind of expenditure should not be suspended because it serves for government’s functions. Meanwhile, capital expenditure (especially investment expenditure) can be delayed. In some respects, current expenditure seems “more indispensable” than capital expenditure in short term and medium term. Thus, the ratio of current expenditure minus tax revenue in comparison with GDP shows a more “essential” situation of structural gap than the ratio which involves total expenditure. If this ratio is on the increase over the long term, there is surely structural gap in public finance.

b. Long term trends in the national debt/GDP ratio

The prime indicator of sustainability of public finance is the trend in the national debt/GDP ratio. A rise in this ratio suggests that deficits have been used for wasteful infrastructural investments and/or to finance current expenditure (Bailey, 2003, p.192). In order to compensate for insufficiency of budget, most government chose the main solution of borrowing. The borrowing might be domestic or external. A golden rule accepted by most of economists is that borrowing should be used for capital expenditure only and a country should safely run a fiscal deficit equal to the capital spending of the government.

In case the borrowing is increasing but the GDP is also increasing at the same rate or higher rate, there is no need to worry about the situation because the economy has enough resource to pay for those debts. On the contrary, if borrowing is increasing whereas GDP is not increasing or increasing at a lower rate, then it is easy to identify a trend of reducing of solvency of the government. If the national debt/GDP ratio in the long term is increasing, it proves that the deficit/GDP is also increasing. As analyzed above, this is an evidence of structural gap in public finance.

This ratio indicates the relation between the public debt and borrowing with production capacity of economy. This ratio is important in analyzing the problem of structural gaps in order
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to prevent risk for economy. It is necessary to have a safe limit for this ratio to ensure a sustainable economy.

Thus, to find the evidences of emerging structural gaps in public finance might use some finance indicators. They involve to expenditure in general or current expenditure in particular as well as government debt in comparison with GDP in the long run. These indicators are calculated based on the data of budget so they are called financial indicators.

2.1.2.2 Non-financial indicators

Beside the financial indicator, non-financial indicators are used to prove the existence of structural gaps in public finance. The most obvious one is the “private affluence - public squalor syndrome”. This syndrome occurs when high levels of personal and corporate income and wealth are used by part of individuals and companies in society to finance the luxury goods and services in private sector whereas they are not willing to agree for higher taxes to finance better public service (Bailey, 2003 p. 204, 205). It is really a paradox in society. The poor public service is illustrated such as poor quality state schools, state hospitals, neglected public parks, under-funded public transport system and road network, deterioration of the environment, etc. In contrast, private sector ostentation is increasing, for example extremely high quality equipments and services (cars, mobile phone, golf), extremely high spending on restaurant meals, foreign holiday, health and beauty treatments, etc. The riches are unwilling to pay high tax whereas the government need to spend more in public service, this also leads to structural gaps in public finance. Thus, private affluence - public squalor is a popular non-financial evidence for structural gap in public finance.

In short, besides using the financial might look for the trend private affluence - public squalor to define the structural gap of public finance. However, the first and foremost evidence is the increasing of debt/GDP ratio and deficit/GDP ratio over long term.

2.1.3 Structural gaps in the public finance are the cause of concern

According to Bailey (Bailey, 2003 p.179, 180) there are some concerns, which are caused by structural gap and government should pay attention to. The existence of structural gap in public finance alarms the risk of an economy. Structural gaps are a concern of the economy and society because they may lead to some situations, as follows:
2.1.3.1 Rising levels of borrowing/debt leading to intergenerational inequity

Government debts, a consequence of structural gap, might lead to intergenerational inequity. “This is because future generation of taxpayers will ultimately have to repay public debt... this could be regarded as unethical” (Bailey, 2003, p.144). The argument of borrowing is that, the public money will be used to create foundation for future generation such as infrastructure and it will help the future generation develop economy and society. Thus, borrowing is essential. This argument probably is right if the borrowing is spent on capital expenditure and the public money is used efficiently (value for money). However, it is difficult to guarantee that public money will be used in the right way. Furthermore, if the government borrow for current expenditure and leave that borrowing for future, it is unacceptable because that can be seen as current generation “stoles” the money of future generation to compensate for expenses which they do not have enough money. However, irrespective of any resource or any purpose, the debt is a burden for future generations. The increase in borrowing leads to the bigger burden. This is intergeneration inequity and moral category. Thus, government should make sound decision in borrowing, and borrowing for current expenditure should be in short term only.

2.1.3.2 Governments borrowing beyond their capacity to repay debt

This means structural gap in public finance probably leads to debt crisis. Debt crisis is considered as sovereign defaults, large arrears, large IMF loans or distress events (Pescatori et al. 2004). With all these circumstances, it is obvious that the economy is in dangerous situation and it causes the economic crisis which may destroy the whole economy and society. Because of increasing deficit, the government will borrow for spending. The government debt is accumulated over years, the ability to settle debt of government decreases. As a result, financial markets becoming progressively less willing to continue lending to governments increasingly regarded as borrowing beyond their capacity to repay debt, thus risking default (Bailey, 2003, p.179).

However, it is obvious that borrowing is essential to develop economy. Importantly, government should set the safe limit for its debt (for domestic or external borrowing) as well as using the debt for what kind of expenditure (current or capital expenditure). The threshold depends on each country, however, government have to comply with the golden rule of public debt and to learn the lesson from other countries. When the government for some reasons cannot
control the debt and let it over the international threshold, it will be out of control and governments’ borrowing will hardly be repaid.

2.1.3.3. Reduced economic prosperity – higher interest rate and/or inflation

High levels of public sector borrowing may lead to higher interest rates, especially if governments have to compete with private sector for lenders’ fund (Bailey, 2003, p.169). Government has an advantage in comparison with private sector that is it has power, it can raise the tax base (if necessary) and it can base on the tax that it surely will obtain in future. Because of that argument, in competition with private sector in borrowing from funds, it might offer a higher interest rate in order to get the loan. The private sector might not get the loan and become “starved of fund for investment”. “Cost” is much greater than the direct financial cost, possibly reduced level of economic growth and so reduced incomes and wealth of future generations, particularly for the poorer groups. Hence, the interest rate increases in a competition and in respect of social welfare, this issue affects badly to economy.

Furthermore, alternatively, when the budget is in deficit, a government can print more money. This may result in inflation because the money supply rises faster than national economic output. This can simply be understood that, before and after printing the money, the output of society is the same. After printing the money, the price of a unit of output increases and with the same amount of money, people can buy less units of goods or service. The nature of this phenomenon is inflation. Inflation reduces the purchasing power of money and so crowds out purchases by private sector. In respect of interest of society, this issue affects badly to economy.

Thus, both increasing interest rate and inflation have negative impacts to economy. They can lead to reduced economic prosperity.

2.1.3.4. Negative feedback spiral

As presented in 2.3.3, structural gaps lead to crowding out of private sector investments. Consequently, it erodes tax base of the economy. The current level of taxation could be increased but this could have adverse impact on economic growth and therefore on the tax bases to which higher tax rates are applied (Bailey, 2009 p.185). As a spiral, the higher tax rate reduces the incentive of investment of private sector and this situation exacerbates the crowding out of private sector. This is a negative feedback spiral to the economy.
2.1.3.5. The structural gaps may result in increasingly unsustainable of public finance.

According to Bergmann, 2009, the deficit can be financed by using up the net assets or equity that has accumulated in boom years or by increasing debt. However, the main source to compensate for deficit for government is to borrow. These debts might lead to several effects as follows:

- The domestic borrowing lead to crowding out of private sector investments because a large amount of capital transfer for using of government for public purpose to support the economy. Besides that, the government has to pay interest for the debt, the higher debt mean higher interest payments. Interest payments reduce the potential for discretionary spending (Bergmann, 2009 p. 33).

- Second effect of debt to socioeconomics is transferring the burden to future generation. Regardless of domestic or overseas debt, if the debt is used for current spending of government, the next generation has to pay for present generation without any interest, it is not fair. If the debt is used for investment, it is probably acceptable because the effects of the investment last for many years later, means next generation might have interest from that investment. However, the debt legacy left by previous generations living beyond their means can lead to reduce levels of economic growth, which in turn reduce the income, and wealth of future generation (Bailey, 2003, p.180).

As a result, those effects of public debt - as an essential element of structural gaps - to socioeconomics will lead to increase unsustainability of public finance.

In brief, structural gaps may lead to several consequences that affect to socioeconomics at present and in future as well. Thus, early awareness of structural gap and strategic thinking of public finance will help government to make sound decision in borrowing and using the public money in accordance with 4Es theory.

2.1.4 Solutions to deal with structural gaps in public finance

Structural gaps in public finance may cause many consequences. Once realized that it has happened, government should have appropriate solution to prevent the bad situation that can take place to economy and society. In accordance with Bailey, 2003 p.218, once a structural gaps exits, and the most political acceptable policy response to eliminate it is likely to be:
Cut sharply the levels of capital expenditures

- Cut the borrowings/GDP ratio slowly to preserve services and jobs
- Seek to limit increase in public sector pay and staffing
- Hope for rapid economic growth

The first solution is to cut sharply the levels of capital expenditure. It is unreasonable to cut sharply both current and capital expenditure. Current expenditure as its function is to provide the public goods and services, these are current activities and the citizens need that provisions daily. The solution for current expenditure is to save the expenses (wages, salary, power ...). Nevertheless; this kind of expenditure cannot reduce to low, because the reduction of current spending leads to low quality of the public goods and services. This turns out to make structural gap in public finance more exacerbated in accordance with private effluence - public squalor syndrome. Meanwhile, the capital expenditure is used for assets of country such as investment in building the hospitals, schools, road system, etc. The process of this investment usually lasts for several years and more. In order to develop economy, this investment is essential in long term. However, when the government budget is in difficulties, delay the investment for these assets does not significantly affect current performance of government. The investment can be implemented in future. Thus, the solution of sharp cut of expenditure is the best solution to reduce government spending in short term.

The second solution is applied in circumstance that borrowing is used mainly for current expenditures. As analyzed above, the government cannot immediately cut the borrowings/GDP ratio because it leads to “shock” to society when all kind of public goods and services reduce significantly. The best solution in this case is to decrease the ratio slowly. This may take several years so that the citizens gradually get used to the new situation.

Seek to limit increase in public sector pay and staffing is the third solution to eliminate structural gaps. In general, administrative section of government is in trend of stretch out over time. Aware of this matter and limit the increase of scale of departments as well limit the pay for staff is a good solution to reduce public expenditure.

The fourth and last solution is mentioned in Bailey, 2003 is hope for rapid economic growth. Once the structural gaps happen, besides the solution of cutting and reducing the
expenditure, the most important thing that governments have to do is to find the solution to keep the economic development. Combination of all that kind of solutions perfectly gives hope of fast recovering of balance in structure of public finance and sustainable development of economy.

2.2. The link between Debt and Inflation

The cause of inflation can be external or internal (the internal matters of economy). In the short run, there are many factors affect inflation such as pull demand or push expenditure. However, most of the economists agree that, in the long run main cause of inflation is the monetary factor (John, 2011). How does the inflation affect the public debt and interest rate? These three factors influence to each other. Public debt is used to compensate for lacking of public expenditure; this borrowing is in principle used for investment only. In order to develop investment, government has to loose the fiscal and currency policy. Thus, speed of credit growth, fiscal deficit level and payment balance deficit increase. That leads to inflation at high rate. Besides that factor, the other factors such as corruption, inefficient investment, no focus in investment, and weak ability in project management… these reasons lead to public debt increase at high rate and inflation rate increases too. In order to restrain the high inflation, government use the monetary tightening policies, that means increase the interest rate. Thus, the public debt and investment, inflation, and interest rate have close relationship.

Depending on the inflation rate, inflation could have positive or negative effects to economy.

- Effects on income redistribution: In general, could say that inflation has two-side effects, means its effect is not distributed equally in the economy, while a part of society is harmfully effected with hidden costs then other part get the benefits from the decrease in the purchasing power of money. For example, with inflation, the workers, pensioners, farmers, lenders, depositors … who are paid at fixed rate of interest or at fixed number of salary, will lose purchasing power. They get a fixed amount of money, nevertheless, the prices increase because of the inflation so they only will be able to buy smaller amount of goods. Meanwhile, the borrowers will benefit because at due date they will have to pay only at a real rate which is lower stated rate (real rate = stated rate – inflation rate). The individuals or organizations with assets also benefit from price increasing because the prices of most kind of goods increase.
Effects on economic development and employment: Inflation has a positive effect, as it would allow labour markets to reach equilibrium faster. Furthermore, inflation at reasonable rate is better than deflation because the deflation cause the instability for whole economy and inefficiency for financial market. However, inflation has many negative effects: high or unpredictable inflation rates are harmful to an overall economy. In case the inflation rate is too high, it is easy to create unbalance in structure of the economy. That is because the entrepreneurs prefer to invest in production sectors, which has high price, short manufacturing cycle, and short time of capital return rather than in the sectors, which has a long manufacturing cycle and long time of capital return because there are lots of risk. In transaction, sharp price increase leads to speculation, artificial unbalance of economy, and create chaotic transaction. Inflation also creates the increase in foreign exchange and harm for import activities. High inflation rate and hyperinflation cause the crisis of debit system; many banks lose the payment ability. Hyperinflation reduces revenue of government budget since the production is stagnated. In sum, inflation affects to every sectors of socio-economy. The effects might be positive or negative and the government should apply the appropriate solutions and policies in order to restrain and control the inflation. The inflation should not be too high or too low (the rate depends on each country), neither minus (in case of deflation, the situation as in Japan at present), because in all those circumstance, the negative effects influence to economy considerably bigger than positive effects.

3. RESEARCH PROBLEM

3.1 Aim and Objectives

Aim of the study is to study structural gaps of public finance and public debt in Vietnam. Public debt has a close relation with structural gaps of public finance. Looking at the financial position of government budget, the problem that is easier to realize the situation is public debt but structural gaps. However, public debt is consequence of deficit, the deficit increase over long term in comparison with GDP is obviously the symptom of structural gaps in public finance. Once there is problem with public debt that means there is also a problem with structural gaps of public finance. Effects of public debt - as an essential element of structural gaps - to socio-economy lead to un-sustainability of public finance.
Since 2010, many countries in the world faced with public debt crisis, especially the countries in Eurozone. Some other developed countries such as USA, Japan also have to deal with public debt and its impact to economic development. The evidence of that impact is the growth rate of GDP of those countries reduces for last some years. This debt crisis can be considered crisis of the rich and developed countries. Vietnam is a developing country and its circumstances are different from all above developed countries. At present, the infrastructure of Vietnam is poor. Vietnam has to invest a massive amount of capital to construct infrastructure. This will contribute to economic growth and it is essential for Vietnam. Although Vietnam has to borrow from abroad, the public debt issue is not in “dangerous situation” as many other countries. However, if structural gaps occur, even thought the revenue increases fast, Vietnamese government will be unable to pay the debt and might be in a dangerous situation.

Thus, it needs to assess the balance of budget, find the reality of the structural gaps of public finance in Vietnam, assess their effects to economic development, find the opportunities to balance the budget and improve performance, etc. (Bailey, 2003).

In detail, the objectives of the thesis as bellow:

- Assess the balance of Vietnamese government budget over period 20+ years (1990 - 2011)
- Identify the trend of that balance; is the trend deficit year by year or something else?
- Why the balance is getting worse (or better)?
- If it’s getting worse, identify the problems (what are they)
- Assess the importance of each identified problem
- Rank them in order: most – less important
- Identify the policies and practices
- How to apply those policies and practices
- Consider whether the policies are successful
3.2 The main questions

With the aim and objectives above, the main question for this study is **How to balance the national budget of Vietnam and improve its performance?**

In order to answer that main question, the thesis will study the issues as:

- What is a structural gap of public finance: concepts, evidences of existence, consequences, solutions to remedy, etc?

- Real situation of Vietnam: what is the situation of public finance of Vietnam over last some decade?

- Analyze and find the solution to solve structural gaps in strategic ways.

The expected result of the study is to find out the solution to balance the budget of Vietnam in appropriate with political conditions and economic mechanism of Vietnam in next some years.

4. RESEARCH METHODOLOGY

4.1. Research design and research instruments

The first task of research design is to specify the target of the research that is what we want to find out. As analyzed in part 3.2, the things that the thesis wants to find out is whether the structural gap exists in public finance of Vietnam and how to fix the situation if it is bad. In order to understand the situation, it is essential to determine the best way to do it. To analyze the situation of public finance in accordance with the literature about structural gaps in public finance that is present in part two of this thesis, it is necessary to collect the data of revenue, total expenditure, current expenditure, capital expenditure, public debt, and GDP over long term in order to calculate the financial indicators. The data are numerical, procedure of the research is analysis those numerical data to explore the situation of structural gap in public finance of Vietnam, thus, research method applied in this research is quantitative method.

Data of public finance of Vietnam over last some decades are secondary data collected from Ministry of Finance, General Statistic Office and other credible government offices such as WB, OECD, IMF, etc. The credible sources are essential because the main disadvantage of secondary data is that with each transfer of information from one source to another, the information may be inadvertently or deliberately distorted (Welman et al. 1999). After collecting data, I will analyze
the data to find out if there is structural gap of public finance in Vietnam; if yes, which trend and how serious the situation is and suggesting the appropriate solutions to prevent the risk before it happens. Thus, in accordance with Kimberly, 2003, p.10, the applied research technique is content analysis. Content analysis is a summarizing, quantitative analysis of messages that relies on the scientific method and is not limited to types of variables that may be measured or the context in which the messages are created or presented. “Messages as the units of analysis, the units of data collection, or both” (Ibid). The unit of analysis is the element on which data are analyzed and for which findings are reported. Hence, the units of analysis of the research are the public finance of Vietnam over long term. These are also units of data collection as Kimberly said unit of data collection is the element on which each variable is measured (Kimberly, 2003). Put simply, the messages analyzed in this research are public finance of Vietnam over the long term. Procedure of analysis is the process of working with the numerical data (quantitative) of structural gap of public finance in Vietnam to summarize the details concerning that structural gap.

Besides using financial indicators to analyze the public financial position of Vietnam over the long term, the thesis also uses non-financial indicators - “private affluence _ public squalor syndrome” - to support for the conclusion of structural gaps in public finance in Vietnam. The symptoms of this syndrome are listed quite clearly in Bailey 2003, p. 205. A questionnaire is suitable to collect the opinion of the people about those phenomena in society. Furthermore, to answer the question how to improve the performance of public finance in Vietnam, the thesis has to answer what are the impacts of the fiscal policies that have been applying. In order to solve this matter, it is better to make a survey among the people who are working for considerably long time in the public finance to collect the information. Goal of the survey is to obtain the participant’s opinions about the phenomena in society and situation of public finance supporting for content analysis’ results. These opinions are non-numerical data. Thus, qualitative method is applied in this part of the research, and research instrument is questionnaire.

In short, the thesis has used both quantitative method and qualitative with research instruments are content analysis and questionnaire. This combination has resulted in more convincible findings as “it is advantageous to a researcher to combine methods to understand a concept being tested and explored” (Creswell, 1994, p.177)
4.2. Questionnaire and participants

The structure of the questionnaire which is presented in part 4.1 includes two parts:

Part one is designed base on the symptoms of private affluence – public squalor syndrome with paradox of social despoliation and private sector ostentation. The questions involve to this phenomena are quite straightforward.

The second part of questionnaire is focused on the fiscal policies, which are applying in public finance in Vietnam at present. This requires the interviewees have knowledge of public finance. Because of the limited time, it is reasonable to combine those two contents in a questionnaire and send to the participants who are in public finance sector.

Questionnaire is designed with closed-end questions sending via email and handing. In this case, the closed-end questions are ideal because they avoid the greater subjectivity and volatility of open-ended questions (Paul, 2011). Even though questionnaires with open-ended questions will get in-depth answers; the close-ended questions are given deliberately and covered all angles of the research.

Length of questionnaire is about six pages. It takes about 10 minutes answering entire survey because the respondents just need to check the choice without expressing by words. This time is sufficient not to make participants bored with answering. The questions are simple and easy to understand by applying Likert scale.

There are about 30 participants who are working in public finance (MOF, MPI, and other government offices) for considerably long time. Survey mode is email and handing. Estimated refused rate is low because the participants are in close working relationship with the researcher.

4.3. Data analysis

There are two part of data analysis. Firstly, analysis of secondary data collected from credible sources. These secondary numerical data are tabulated in accordance with the financial indicators, relevant graphs and figures to demonstrate the research results. Secondly, analysis of non-numerical data collected from survey. These data will be gathered, considered and analyzed to find out the portion of each kind of answers in the scale with target is to examine the accuracy of the quantitative research results.
5. STRUCTURAL GAP OF PUBLIC FINANCE IN VIETNAM AND SOLUTIONS TO BALANCE THE GOVERNMENT BUDGET

5.1. Structural gaps in public finance in case of Vietnam

5.1.1 General information about economy of Vietnam

Vietnam is a developing country with impressive growth rate of last decades. Data collected from General Statistic Office of Vietnam show that GDP per capita increased from $402 in 2001 to $1,169 in 2010 that led Vietnam to medium income country (Appendix 2). This is really a great achievement that Vietnam has been trying hard to get because the economy was almost destroyed after the Vietnam War of USA. Vietnam attained the freedom and unified in 1975. From 1975 to 1986, the economy was completely in exhausted under the institution of socialist. National assets are collective possession with the operation of only government companies. Co-operative method in production could not encourage individuals to raise labour productivity. Meanwhile, the demand of rebuilding country was extremely high. Thus, the budget was always in deficit; the revenue was not enough for current expenditure of government. Vietnam had to ask for aids from other countries as the main resource for performance of public finance. When socialist system collapsed, the support for economy did not exist; the Vietnamese Communist Party implemented a revolution and decided to renovate the economy. Since then, the economy of Vietnam has been growing with considerable rate. In recent years, Vietnam now becomes the second biggest rice exporter in the world following Thailand. The GDP growth rates were around 6% - 7% in the period of 10 years from 2000 to 2010.

In IMF Country Report No. 07/387 about Vietnam (International Monetary Fund, 2007), it said “Vietnam has recorded impressive economic performance in recent years. GDP has recorded the second-highest growth rate in Asia over the last decade, poverty has fallen from 58 percent in 1993 to less than 25 percent in 2006, and most social indicators have shown marked improvement”. It has been really a big achievement of Vietnam for last two decades. The public debt problem, however, is the most controversial matter of public finance in Vietnam for last some years. The data from the Ministry of Finance indicates the ratio of public debt per GDP of Vietnam has significantly risen especially the external debt from 2007 to 2011 in correspondence from 33.8% to 58.9% (estimated data for 2011). The inflation rate are considerably high in 2008 (22.97%) and 2011 (18.58%) (Source: GSO of Vietnam). All these issues proved that there are
problems with economy and public finance of Vietnam. A challenge for Vietnamese government is to find out the reasons and suggest solutions to deal with those problems.

As mentioned above, Vietnam has reformed the economy since 1986 from collective economy to market economy with socialist orientation. The economy is not perfect market economy because there are some elements that do not obey the rules of market economy. Those economic elements are government companies and individuals. The government companies are considered as core elements of economy. The government has distributed much capital into these kinds of company and guaranteed to lend capital. However, a big problem is they operate inefficiently. Another element of economy is individuals who live in self-supporting way. It means the economy of Vietnam is not totally a market economy. Thus, in calculating GDP or other indicators of economy, there must be the deviation.

For example the formula to calculate GDP (according to Vietnam General Statistics Office) is:

\[
GDP = C + G + I + NX
\]

Where

C: individual consumption
G: government consumption
I: sum up of investment
NX: trade balance (NX = X - M; X: export, M: import)

In process of calculating GDP, individual consumption is difficult to be accurate because the data do not reflect the real value of individual consumption. Therefore, in process of development, this problem should be solved in order to meet the demand of international rule and rules of the financial organizations.

Another example is calculating public debt of Vietnamese Government. In accordance with Law of public debt management 2009, public debt of Vietnam includes government debt, debt guaranteed by government and local government debt. With this approach, the public debt excludes the obligations that government has to pay, for example the pension in future. Thus, the
method of calculation of public debt does not reflect accurately an important portion, whereas, almost all developed countries, they take into account that factor in a strict standard.

In short, Vietnam is growing fast in development process, the growth rate of GDP maintains at high level. However, it makes no sense to compare Vietnam’s economic growth rate with its US or UK because those economies are in different phases of development. Beside that, calculating method of financial and economic indicators is not totally similar with that of international rule. Thus, analysing the GDP and public debt of Vietnam require an assessment the accuracy of data. On the other hand, accounting methodologies in Vietnam are different from those of advance countries; this is presented in next part.

5.1.2 Accounting methodologies in Vietnam vs. IPSAS

At present, the developed countries use an accounting standard for public sector; it is International Public Sector Accounting Standard (IPSAS). The objective of the IPSASB is to serve the public interest by developing high quality accounting standards for use by public sector entities around the world in the preparation of general purpose financial statements. This will enhance the quality and transparency of public sector financial reporting and strengthen public confidence in public sector financial management (International Public Sector Accounting Standards Board, 2007, p.2).

The governments have used IPSAS as a framework for reporting and accounting for financial statements. In accordance with it, financial statements of the public organizations and the consolidated financial statements of the Government have to follow strictly a unified pattern. The consolidated financial statements are unified from financial statement of the entire public organizations.

Vietnam has its own standard in which system of financial reports of public organizations meets the demand of government in controlling the government budget, complied with State budget law and financial policies. However, accounting standard of Vietnam has many differences in comparison with IPSAS. Here after there are several differences.

Firstly, is about system of financial statements and accounting method. The differences are shown in the Table 2 below.
Table 2 Vietnam Accounting Standard vs. IPSAS

<table>
<thead>
<tr>
<th>Content</th>
<th>IPSAS</th>
<th>Vietnam Accounting Standard</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. System of financial statements</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Components</td>
<td>Statement of financial position;</td>
<td>Balance Sheet accounts: in nature, it is a checking method of the account system, it does not reflect financial position, assets, source of capital as shown is Financial Position Statement</td>
</tr>
<tr>
<td></td>
<td>Statement of financial performance: reflex revenues and expenses in period time.</td>
<td>Review the situation of the settlement funds and used funds</td>
</tr>
<tr>
<td></td>
<td>Report on revenue and expenditure business activities and business activities</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Statement of changes in net assets/equity;</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cash flow statement;</td>
<td>There is no statement of cash flow.</td>
</tr>
<tr>
<td></td>
<td>Accounting policies and notes to the financial statements</td>
<td>Notes to the financial statements</td>
</tr>
<tr>
<td>2. Characters</td>
<td>- The public organizations work as clients of government, as economic units</td>
<td>- Public organizations work as enforced units.</td>
</tr>
<tr>
<td></td>
<td>- Define the surplus or deficit at the end of period</td>
<td>- Do not have to balance the revenue – expenditure.</td>
</tr>
<tr>
<td>II. Accounting Method</td>
<td>- Accrual basis</td>
<td>- Most in cash basis</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Only business activities in accrual basis</td>
</tr>
</tbody>
</table>
As shown in the above table, the differences between IPSAS and Vietnam Accounting Standard in system of financial statements and accounting method are quite significant. In order to reach the international standard, Vietnam needs to reform gradually budget management practices. In globalization, Vietnam has been gradually changing. For example, Decree No. 43/2006/ND-CP dated 25/4/2006 of the Government autonomy, self- responsible for performing the tasks, organizational structure, staffing and finance of public service units specified, that allow some types of public organization have rights to run likely the economic agents.

Secondly, the deference is shown in process of unify the final financial statements. IPSAS is built in the base of public finance of developed countries, which have public finance at high level. In accordance with IPSAS, the system of financial reports is use uniformly from the lowest level of budget - received agents to highest level – government budget. The state budget final reports of government is unified from all those of public organizations.

In Vietnam, all the levels of budget agents, except for government budget, build the financial reports in accordance with Vietnam standard of accounting with six tables as listed above. Nevertheless, the system of financial report of government budget is different with nine tables. Thus, the financial reports of public organizations are components to create state budget final accounts. Financial reports of public organizations do not use to consolidate the financial reports of Government. This problem does not permit the citizen to have enough information to examine, supervise, or assess the financial ability and performance of the nation in each fiscal year.

The gap between IPSAS and Vietnam standard of accounting is large. In the tendency of global integration, Vietnam needs to apply gradually IPSAS in accordance with conditions inside the nation. It helps Vietnam build a unified framework to reflect financial position, performance, deficit and surplus for every year. It is easy to compare the system of financial reports of Vietnam with those of other countries in the world by that standard.

5.1.3. State of Public Finance in Vietnam from 1990 to 2010

The data of National Accounts and State Budget were collected from Vietnam General Statistics Office and Ministry of Finance is shown in Appendix 1. Based on these data and the theory of structural gaps in public finance, in accordance with the objectives of this thesis, the issues will be analyzed hereafter.
5.1.3.1 Identify the trend of the balance

The first task is to specify the trend of balance of the budget and to identify the revenue and expenditure in general. The following table shows these figures over years from 1990 to 2011 (data for 2010 and 2011 are estimated by MOF and GSO of Vietnam).

Table 3. Revenue, Expenditure and Deficit/Surplus at current price of government budget of Vietnam from 1990 to 2011

<table>
<thead>
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</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>6,372</td>
<td>10,609</td>
<td>21,023</td>
<td>32,199</td>
<td>-</td>
<td>53,370</td>
<td>62,387</td>
<td>65,352</td>
<td>72,965</td>
<td>78,489</td>
<td>90,749</td>
</tr>
<tr>
<td>Expenditure</td>
<td>9,186</td>
<td>12,081</td>
<td>23,711</td>
<td>39,063</td>
<td>-</td>
<td>-</td>
<td>78,057</td>
<td>81,995</td>
<td>95,972</td>
<td>108,961</td>
<td></td>
</tr>
<tr>
<td>Deficit (+) /Surplus (-)</td>
<td>2,814</td>
<td>1,472</td>
<td>2,688</td>
<td>6,864</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>12,705</td>
<td>9,030</td>
<td>17,483</td>
<td>18,212</td>
</tr>
</tbody>
</table>

Table 3. (Continued)

<table>
<thead>
<tr>
<th>Year</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010E</th>
<th>2011E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>102,970</td>
<td>123,860</td>
<td>152,274</td>
<td>190,928</td>
<td>228,287</td>
<td>279,472</td>
<td>315,915</td>
<td>416,783</td>
<td>442,340</td>
<td>462,500</td>
<td>605,000</td>
</tr>
<tr>
<td>Expenditure</td>
<td>129,773</td>
<td>148,208</td>
<td>181,183</td>
<td>214,176</td>
<td>262,697</td>
<td>308,058</td>
<td>339,402</td>
<td>494,600</td>
<td>584,695</td>
<td>582,200</td>
<td>725,600</td>
</tr>
<tr>
<td>Deficit (+) /Surplus (-)</td>
<td>26,803</td>
<td>24,348</td>
<td>28,909</td>
<td>23,248</td>
<td>34,410</td>
<td>28,586</td>
<td>23,487</td>
<td>77,817</td>
<td>142,355</td>
<td>119,700</td>
<td>120,600</td>
</tr>
</tbody>
</table>

Source: MOF, GSO of Vietnam; data for 2010, 2011 are estimated
The table 3 shows that from 1990 to 2011, the public finance of Vietnamese government was absolutely in deficit. The range of data lacks the data of three years from 1994 to 1996. Figure 1 (bases on the data in table 3) presents a trend of increasing deficit over the long term (two decades). The trend moved upward but not significantly in the period of 17 years from 1990 to 2007. However, deficits sharply increased in 2008 and 2009. In 2010 and 2011, the trend changed when the deficit slightly reduced. Obviously, there is problem with public finance of Vietnamese government. In order to understand clearly about this situation, let see the financial indicators shown in Table 4.

Table 4. Financial indicators

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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Deficit/GDP</td>
<td>6.71%</td>
<td>1.92%</td>
<td>2.43%</td>
<td>4.89%</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>4.05%</td>
<td>2.50%</td>
<td>4.37%</td>
<td>4.12%</td>
</tr>
<tr>
<td>(Current expenditure - revenue)/GDP</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>-4.74%</td>
<td>5.56%</td>
<td>4.49%</td>
<td>5.18%</td>
<td>5.84%</td>
<td>2.58%</td>
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Table 4 (continued)

<table>
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<tr>
<th>Year</th>
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<th>2009</th>
<th>2010 E</th>
<th>2011E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deficit/GDP</td>
<td>5.57%</td>
<td>4.63%</td>
<td>4.71%</td>
<td>3.25%</td>
<td>4.10%</td>
<td>2.93%</td>
<td>2.05%</td>
<td>5.24%</td>
<td>8.58%</td>
<td>6.04%</td>
<td>4.90%</td>
</tr>
<tr>
<td>(Current expenditure - revenue)/GDP</td>
<td>-1.94%</td>
<td>-3.12%</td>
<td>-4.16%</td>
<td>-5.38%</td>
<td>-5.39%</td>
<td>-7.34%</td>
<td>-3.15%</td>
<td>-1.77%</td>
<td>-0.29%</td>
<td>-1.38%</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Vietnam General Statistic Office, Ministry of Finance and calculated by writer

The data in Table 4 is illustrated in Figure 2 and Figure 3 as below

Figure 2. Financial indicators of structural gap in public finance of Vietnam (1990 – 2011)
Figure 3. Convergence and Trend of Deficit/GDP

The Table 4 and Figure 2 show:

- Deficit/GDP ratio of public finance of Vietnam from 1990 to 2011 can be divided into three stages. From 1990 to 1993, this ratio had been reducing dramatically but experiencing the upward trend again in 1993. There is no data for period time 1994-1996. This ratio fluctuated around 4% even it went down to 2.05% in 2007. However, it increased unexpectedly in 2008 (5.24%) and 2009 (8.58%). This ratio in 2009, unbelievably, is over fourfold the ratio in 2007 (over two year only). Subsequently, it reduced sharply in 2010 and 2011. In general, the trend from 1998 to 2011 of this ratio is increasing. This is an indication of structural gaps in public finance of Vietnam. The trend of increase can be expressed more clearly in Figure 3.

- Current expenditure minus revenue/GDP ratio has the same trend with trend of Deficit/GDP ratio. This supports for the conclusion of existence of structural gaps in public finance of Vietnam. Besides, this ratio was minus over long term from 1995 to 2011 which means the current expenditure is always less than revenue. It proves that the borrowing of government is only for capital expenditure, thus the government of Vietnam ensured the golden rule of public debt.
Another financial indicator is the national Debt/GDP ratio. Due to problem with national secrecy, the data of public debt are available for a decade only. Table 5 presents the data of this ratio and the trend of the ratio is illustrated in Figure 4.

**Table 5. Public debt/GDP ratio**

<table>
<thead>
<tr>
<th>Year</th>
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<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt/GDP (%)</td>
<td>36.00</td>
<td>38.20</td>
<td>41.10</td>
<td>42.40</td>
<td>43.80</td>
<td>43.30</td>
<td>49.70</td>
<td>47.90</td>
<td>52.60</td>
<td>56.70</td>
<td>58.90</td>
</tr>
</tbody>
</table>

Source: Department of Debt Management and External Finance – MOF of Vietnam

**Figure 4. Graph of public debt/GDP over long term 2001 - 2011**

The Figure 4 shows an obvious increase of Debt/GDP ratio of Vietnam in the period time from 2001 to 2011. Looking at the graph, there are two phases of increase: from 2001 to 2006 and from 2007 to 2011. In the first phase, Debt/GDP ratio increased slightly (even it reduced marginally in 2006) from 36.0% in 2001 and reached 43.3% at the end of this period. Thus, this ratio rose 13.94% in this five-year period. However, it rose considerably (36.0%) in second five-
year phase. The ratio dramatically rose and got 49.7% at the end 2007, slightly decreased in 2008, then continued to rise considerably in last three years of this phase and reached 58.9% in 2011. This alarming increase is controversial issues for last years in Vietnam National Assembly [60]. Obviously, this is a unpleasant trend for Debt/GDP in Vietnam.

In summary, the analyses of three financial indicators of structural gaps in public finance in Vietnam have shown the trends of increasing for all three of these indictors, especially from 2008 until now (2011). These trends are alarming for public finance of Vietnam, even though debt/GDP ratios are much higher in many developed countries. They were over 150% in Greece and 120% in Italy, the former being on the point of defaulting on its debt repayments in early 2012 – See the Table 5.9. We need to find out its reasons so as to understand correctly the situation. The following sections will concentrate on the causes that created that bad situation of public finance in Vietnam for last years.

5.1.3.2 The reasons for balance of government budget is getting worse

The result of analyses in part 5.3.1 shows the balance of public finance of Vietnam is getting worse. This trend was especially not good in last some years even though the situation has not been out of control. However, the circumstance in that the ratios Debt/GDP, Deficit/GDP and Current expenditure minus Revenue/GDP rocketed since 2008 proves big problems with public finance of Vietnam. These circumstances are displayed by high inflation rate especially in 2008 (22.97%) and 2011 (18.13%). What are the reasons for this situation?

In the opinion of the economists, the causes for increasing unbalance of government budget included: a) Excessive public investment b) Insufficiency in public investment c) Increase of current expenditure and d) The corruption

The first cause for the unbalance is excessive public investment. The world is facing with recession and crisis since 2008, growth rate of world GPD went down for some years. In that context, growth rate of GDP of Vietnam reduced slightly for several years. Nevertheless, Vietnam has been wonderfully keeping the high growth rate of GDP since 2007 until now and higher than the medium level of the world (see Table 6 and Figure 5).
Table 6. Growth rate of GDP, Capital Expenditure/GDP of Vietnam from 2001 to 2011

<table>
<thead>
<tr>
<th>Year</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
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<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth rate of GDP (%)</td>
<td>6.89</td>
<td>7.08</td>
<td>7.34</td>
<td>7.79</td>
<td>8.44</td>
<td>8.23</td>
<td>8.46</td>
<td>6.31</td>
<td>5.32</td>
<td>6.78</td>
<td>5.89</td>
</tr>
</tbody>
</table>

Source: GSO of Vietnam

Figure 5. Growth rate of GDP of Vietnam vs. that of Entire the World and Capital Expenditure/GDP of Vietnam


However, the deficits of Vietnamese national budget grew faster than GDP and that trend has been increasing year after year. As analyzed in part 5.1.3.1, Vietnamese government borrowed from domestic and external owners, for almost capital expenditure in order to redeem the insufficiency. This is understandable for a developing country like Vietnam with the huge demand for investment and small saving rate, the borrowing is essential. In principle, spending
public money should be in correspondence with the productive capacity. The government should know about the financial position of national budget and that the source to pay the debt is the production that will be created in future. Hence, borrowing must base on the productive capacity of the economy to define the suitable level for expenditure in relative with revenue. However, Vietnam government kept a high speed of public investment while budget deficit is in the “alarming situation” induces high public debt for Vietnam (Ministry of Planning and Development of Vietnam, 2011). Even though the economy is in difficulty, the government maintained the speed of investment (Table 6). It is unreasonable to invest excessively while financial source is scarce. Even though a high capital expenditure/GDP ratio is not much a problem as a high current expenditure/GDP ratio because the former stimulates development through provision of infrastructure and so there should be increased prosperity in the future. Furthermore, due to the fact that saving rate is low, Vietnam government has to borrow the new loans to pay for old loans and interest; this is like a spiral to make debt increase considerably.

The bias in distribution the capital in enterprise sector: government companies and large private enterprises are priority in the allocation of the capital. A big problem in economy of Vietnam is that the government enterprises are considered as the most important economic sector. These enterprises hold a great amount of governmental capital while they operate extremely inefficiently. For example, Vinashin is a state-owned shipbuilding firm in Vietnam, has a great debt of $4.4 million in 2010; nevertheless, its debt is frozen and government of Vietnam continue to restructure and lend. This is a typical example of bias in distributing the capital in enterprise sector in Vietnam at present. This caused the loss of government budget, increase of expenditure, increase of the deficit and has been a result of unexpected high inflation rate in Vietnam for last several years.

This kind of spending public money is seen as a poor wants to spend like a rich. Hence, it is really a problem in performance of public finance of Vietnam and it caused the unbalance of structure of public finance over years. In the nutshell, overspending for development investment causes the unbalance of government budget of Vietnam and high rate of public debt as consequence.
The second reason for growing unbalance of government budget is inefficiency in public investment. The inefficiency is shown in unfocused investment and high investment rate. Firstly, government issued licenses for large projects without difficulty in all provinces of the country. For example, according to Vu Tuan Anh, (Ministry of Planning and Development of Vietnam, 2011), Vietnamese government issued licenses for 15 coastal economics zones with total area of 662 million hectares (2% of natural area of Vietnam). Estimated capital for those projects is $2,000 million (equal to entire capital for the whole country in next 50 years). Another example from Vu Tuan Anh is that the distances between maritime ports along the 600-kilometre coast in central of Vietnam are about 30 to 40 kilometres. As a result, these maritime ports run under capacity. This way of investment creates alarming waste in using public money. Secondly, investment rate for public projects is considerably high. For instance, Nguyen Xuan Thanh, Fulbright Economics Teaching Program (Quan, 2011), said that investment rate for a kilometre of four-lane road in Vietnam is $12.7 million whereas the average rate in the world for similar
kind of road is $8 million, in America is $5.6 million, even though only $1.0 million in China. Because the financial resource of government is insufficient, the government has to borrow money more than necessary level which is the catalyst of unexpected debt burden. Thus, insufficiency in public investment leads to waste for economy, unbalance macroeconomics and increase government debt.

The third reason for increasing unbalance of government budget is high current expenditure. Figure 6 below demonstrates the significant increase in absolute value as well as ratio of GDP. They rose sharply in 2008 and 2011 corresponding with the years at significantly high inflation rate and an alarming trend of current expending. Data in Table 4 show that (current expenditure – revenue)/GDP ratio rose considerably over long term 1990 – 2011. This ratio is always minus means Vietnam has not borrowed for current spending yet. Nevertheless, an alarming level - 0.29% in 2010 alerts a risk: if the trend of increasing continuous then Vietnam has to borrow for current expenditure and this situation - in opinion of most economists in the world - is very dangerous for economy.

Figure 7 illustrates the absolute value of current expenditure of public finance in Vietnam from 2000 to 2009. Most items of expenditures increased considerably from 2005, especially expense for education and training, pension and social relief, and general public administration. Budget for education and training was 20% of entire government budget in 2011; however, the quality of education is inadequate as compared to expenditure. Number of university and college students increased drastically but a large number cannot find a job after graduation because of low quality. Notwithstanding here, quality and ethic of teachers and professors are controversial issues in media for last decades, and others related problem (Dũng, 2011). Obviously, the government needs to have another strategy for education and training in which the expenditure maintain but getting the better performance. In another sector, pension and social relief have also risen considerably but critically because the government has to behave deservingly to the veteran and have appropriate policies for war victims; nevertheless, this expense should be in corresponding with general level in society. The next noticeable matter is spending for general public administration. The fact is that proportion of public staff who can work efficiently is not high, even redundant and deficient. Bloated bureaucracy is a problem that Vietnam government has to deal with in order to reduce the administration spending.
Figure 7. Absolute value of current expenditure over long term 2001 - 2009

Source: GSO of Vietnam

Beside those three elements of current expenditure, the others also increased with lower rates. Vietnam should accumulate the experience from the public debt crisis of European countries when most of them fell into debt crisis due to high current expenditure. Naturally, the increase in current expenditure in Vietnam (inefficiency in spending public money) is different from those countries (high social welfare) but the consequences are the same. It is when government borrows for current expenditure, the risk of public debt is potential. Hence, Vietnam
government should have dynamic strategies for stable development phases to get the target value for public money.

Last but not the least, one reason lead to the increase in the public expenditure is corruption. Transparency International in the Corruption Perceptions Index Result 2011 ranked Vietnam at position 122 out of 178 counties ranked in the world, and at position 23 out of 34 with high corruption assessment\(^1\). Meanwhile, in accordance with a research of IMF (Tanzi et al., 1997), based on analysing the experimental data from 1982 to 1995, Vietnam stood at 42 in total of 128 countries (depending on the year). The information has been gathered on corruption is enough to allow the formulation of several hypotheses about a symbiosis between high level corruption and specific aspects of public spending and revenue collection. Among those hypotheses, there are two reasons that involve directly to government’s expenditure and revenue that create increasing deficit, they are as below:

1) **Hypothesis 1.** Other things being equal, high corruption is associated with high public investment.

2) **Hypothesis 2.** Other things being equal, high corruption is associated with low government revenue.

Thus, the effects of corruption to budget are raising the public expenditure and reducing the public revenue, both of them result in increasing deficit. Corruption can reduce growth of economy by increasing public investment while reducing its productivity, by increasing public investment that is not adequately supported by non-wage expenditure on operation and maintenance, and by decreasing the government revenue needed to finance productive spending (ibid). Among the fields of economy, construction is the most influenced one. Dao Cong Tien, former Rector of Ho Chi Minh City Economics University, former members of the Government's strategic research board, said that many researches showed that the rate of loss in construction of public sector is 30% in Vietnam (Dao, 2010). This is not a small figure. Thus, corruption is a reason that makes the increasing public expenditure more serious.

In sum, there are four main reasons of increase in budget deficit and public debt - excessive public investment, inefficient capital expenditure, increasing current expenditure, and corruption.

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\(^1\) See [http://cpi.transparency.org/cpi2011/results/](http://cpi.transparency.org/cpi2011/results/)
These reasons do not exist independently but in a close relationship in which corruption dominates the others. All of them created alarming level of public expenditure and government budget deficit in Vietnam for last years. This makes the structural gap in public finance more serious. Defining accurately the potential reasons helps government make precise decisions to cope with problems with the hope of sustaining the development of Vietnam economy.

5.1.3.3 The problems with public finance in Vietnam

Public debt is the most noticeable issue in Vietnam with significant increase for last some years, especially when Government wanted to borrow money to invest in a high-speed train project along the country with total estimated capital was approximately $55.8 million\(^2\). This project was strongly disapproved by economists, people, and even many government officials because it will create a burden in debt for both current and future generation, whereas it mostly serve the high-income section in society. Therefore, the project was temporarily postponed. Table 5 presents the data of public debt and the trend is illustrated in Figure 4. A research of IMF indicated that threshold for government debt for emerging economy is 42.8 % (Baldacci et al., 2011). Obviously, public debt/GDP ratio of Vietnam has increased considerably for years and it passed this threshold in 2005. Public debt of Vietnam at present includes government debt and government-guaranteed debt. It excludes the potential debt such as pension in future, the social insurance which government has to pay for the labours or the spending that government possibly has to pay instead of low-income people for their government-guaranteed debt.

In order to have a persuasive look about a situation in which debt is over threshold might lead to a crisis debt; taking situation of EU countries as an example. Table 10 shows that the public debt of Greece, Ireland and Portugal had increased significantly since 2007, however, the debt levels are different from countries. Public debt of Greece was very high, over 100% of GDP since 1996 and last long until 2007, the public debt crisis happened. Portugal has public debt at medium level from 2001 to 2008 and its pubic debt suddenly rose in 2009. In contrast, Ireland has public debt at low level until 2007 (28.5%) for long term and it sharply rose to 49.1 % in 2009 and rocketed to 70.9% in 2010. All of them are developed countries having the threshold of public debt 70.9 % GDP (Baldacci et al., 2011). Taking into account all the factors mentioned,

\(^2\) In accordance with VnEconomy.vn at http://vneconomy.vn/20100304093054730P0C9920/duong-sat-cao-toe-bac-nam-can-tien-hanh-tu-nam-2012.htm
public debt crisis does not take place immediately when the public debt surpass the threshold, but when it increases annually with high rate or it rises extraordinarily, it is possibly in risk.

Table 7. Debt/GDP of EU countries in public debt crisis, of countries at risk of public debt crisis and of Vietnam from 1996 to 2009

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<td>Greece</td>
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<td>74.90</td>
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<td>107.60</td>
<td>119.00</td>
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<td>42.50</td>
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<td>48.10</td>
<td>57.90</td>
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<td>72.00</td>
<td>83.30</td>
<td>89.30</td>
<td>85.40</td>
<td>96.20</td>
<td>108.60</td>
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<td>96.80</td>
<td>84.70</td>
<td>78.90</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>36.00</td>
<td>38.20</td>
</tr>
</tbody>
</table>

Source: World Bank
Figure 8. Public Debt/GDP (%) of developed countries in public debt crisis

Figure 9. Public Debt/GDP (%) of developed countries face with risk of public debt crisis
According to The Economists newspaper, Vietnam has low level of public debt. It is impossible to look at this ratio to conclude completely about the situation but for reference only. The increasing of public debt of Vietnam is because of a) the excess public investment whereas growth rate of GDP reducing, b) inefficiency of public investment, and c) corruption. Furthermore, Vietnam is a developing country; it is in lower phase of development in comparison with other developed countries. Hence, it makes no sense to compare the level of risk only by debt/GDP ratio of Vietnam to that of USA, of Japan or of other EU countries. The most important problem with public debt of Vietnam is that it increased significantly since 2006 in circumstance of low efficiency of investment, low production capacity of economy, low social saving, and low living standard, etc. This situation possibly result in the consequences as analyzed in part 2.1.3: inequality and burden for future generation, Vietnam’s borrowing beyond capacity to pay debt, exacerbates the crowding out of private sector, and sustainability of public
finance. It is compulsory for Vietnam government to realize the problem of public debt in order to make the appropriate decisions in investment and apply the suitable fiscal policies.

A research of IMF shows that the threshold of General government gross debt/ GDP ratio for an emerging country as Vietnam is 42.8% (Baldacci et al., 2011, p.19). The data in Table 5 shows that this ratio of Vietnam exceeded this threshold in 2005 (43.8%) and reached the high rate 58.9% in 2011. In the opinion of economists, this level is not dangerous; nonetheless, if Vietnamese government keeps this rate, the situation will be reach swiftly in the risk.

In summary, the public finance of Vietnam faces with considerable high public debt especially external debt. Both of them are consequences of excess public investment, inefficiency of investment, high current expenditure, and corruption. In order to solve these problems, Government of Vietnam should apply short term and long term policies flexibly and fight with principal reason for these problems - corruption.

5.1.3.4 The consequence of structural gap in public finance in Vietnam from 2007 hitherto

The balance of Vietnamese budget is getting worse by four analyzed reasons above. The outstanding problems that public finance of Vietnam has been facing since 2007 are high inflation rate and public debt.

The most difficult matter that Vietnam has to cope with at present is high inflation. The Table 8 and Figure 11 below show the data of inflation in Vietnam since 1996 up to now.

Table 8. Inflation rate of Vietnam from 1996 to 2011

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</thead>
<tbody>
<tr>
<td>Inflation rate (%)</td>
<td>5.70</td>
<td>3.20</td>
<td>7.30</td>
<td>4.10</td>
<td>-1.70</td>
<td>-0.40</td>
<td>3.80</td>
<td>3.20</td>
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<tr>
<td>Year</td>
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<td>2008</td>
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<tr>
<td>Inflation rate (%)</td>
<td>7.71</td>
<td>8.29</td>
<td>7.48</td>
<td>8.30</td>
<td>22.97</td>
<td>6.88</td>
<td>9.19</td>
<td>18.58</td>
</tr>
</tbody>
</table>

Source: World Bank, GSO of Vietnam
The data show that inflation rate of Vietnam is considerably low from 1999 to 2003 (maximum is 4.1% in 1999), even though the deflation took place in two years 2000 and 2001. However, it increased in 2004 as twice as in 2003 and kept around 8% from 2004 to 2007. In this period, Vietnam attained high growth rate of economy (growth rate of GDP is above 8%, highest in process of development of Vietnam in period time 1990 - 2011). Nevertheless, inflation rate rocketed suddenly in 2008 and reached 22.97%, three times higher than that of 2007 and growth rate of GDP reduced to 6.38%. This might be the impacts of financial crisis in the world that originated from America’s bank system. In 2009, inflation rate reduced sharply to 6.88% (even lower than that of 2007), then it rose considerably in 2010 to 9.19% and rocketed again in 2011 to 18.58%. Undeniably, inflation is really a problem of economy of Vietnam in the term from 2007 to 2011. In fact, the inflation rate changed unexpectedly and extraordinarily in this period impacting considerably to economy and social life of Vietnam. The effects might be as follows:
Impacts of inflation to economy

High inflation rate in last several years, especially in 2008 and 2011, had the serious harmful effects to economy and social life. In accordance with Su, 2011, impacts of inflation are up to the predictability. If the government can predict precisely the inflation rate then the harmful effects might influence insignificantly to the economy by finding out sound and effective solutions. However, the forecast of inflation rate of Vietnam has failed in 2010 and 2011, the real rate was always much higher than the forecast. Thus, the fight against inflation in Vietnam was difficult. For last two years, inflation adversely affected the economy:

Influence in relocation of income and property

High inflation rate in 2010 and 2011 affected considerably to the quality of life. High inflation might bring good influences to people who own the assets and the borrowers because inflation reduces the real value of debt. It also caused “fiscal drag” meaning that people and businesses pay more tax as inflation reduces the real value of tax threshold. As a result, rising cash income become subject to greater tax payment and increasing tax revenue of the government. However, those influences displayed hazily in society. The most realizable influences are harmful effects to salaried employees, the lenders and the savers, farmers and household businesses. When the price of essential goods rises, living standard of citizens will be affected directly. CPI increased dizzily especially in foods and increase of salary is much lower than inflation rate result in putting people’s life in difficulty. Vietnamese government had the policy of increasing salary for employees; however, this annual change was low compared with the monthly increase of inflation rate. For instance, salary was constant from May 2010 to April 2011; CPI of April 2011 increased 17.51% in comparison with that of April 2011. Consequently, from May 2010 to April 2011, the salaried employees had to suffer a dizzy increase in price of goods, especially foods, essential goods. Hence, with the same amount of salary, the amount of goods that they could buy was significantly reduced by every month. On the other hand, the interest rate for bank deposit was lower than inflation rate, making the lenders and severs get smaller real amount of money just after week or month; in fact, they lost their property. For the
farmers and small businessperson, price change of goods was much higher than growth rate of agricultural production. For instance, CPI of 2007 increased 12.36% while growth rate of agricultural production was 3.41% and the price for inputs increased. In this sense, the life of farmers was destitute. In general, high inflation from 2008 to 2011 affected significantly to the life of denizens, especially salaried employees, farmers and small businesspersons.

Influences to economic development

When an economy is not in full employment, moderate inflation impulses the development of economy as it increases amount of money in circulation, supplemented capital for production, stimulated consumption of government and individuals. However, high inflation in Vietnam in last several years has affected harmfully to the economy. Even though the growth rates of GDP from 2008 to 2010 were not low, the rates were less than that of previous years (Table 6). High inflation is simultaneously with high interest rate for bank credit. The race between inflation and interest rate induced the small and medium-sized enterprises in difficulty and could not develop production. With high rate for bank credit, they could not get the profit, and the safe way is to stop the production and services of some enterprises. Even it was difficult for the companies to get a loan from the banks because the banks faced paucity of funds. This is a circle which made the production of society stagnated. The circumstance also leads to reducing the revenue of government budget.

Other impacts

High inflation in Vietnam last several year lead to devaluation of Viet Nam Dong (VND).

Table 9. Exchange Rate of VND in USD in 2011

<table>
<thead>
<tr>
<th>Month</th>
<th>Jan-11</th>
<th>Apr-11</th>
<th>Jul-11</th>
<th>Oct-11</th>
<th>Jan-12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exchange Rate of VND in USD</td>
<td>19,500</td>
<td>20,915</td>
<td>20,610</td>
<td>20,834</td>
<td>21,036</td>
</tr>
</tbody>
</table>

Source: Vietnam Commercial Bank

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3 (Farmers are a big labor proportion. In accordance with 2011 social-economic statistical data of GSO, rural population were 60.96 million, accounted for 69.4% of the total population; Labor proportion in the sector of agriculture, forestry and fishery is 48.0% in 2011)
From January 2011 to January 2012, VND reduced 7.88% value. This devaluation is harmful for imports, especially a country is always in excess of imports over exports. High inflation induced the bank system in “credit crisis”, declined funds in society, inefficient operation of bank system and emerged the M&A trend in banks. High inflation leads to erroneous result of economic calculation and difficulties for investment operation. It also makes Vietnam’s goods and services uncompetitive on domestic and world markets and so imports rise and exports fall. This reduces the growth of GDP and so is harmful to the economy. The excess supply of Vietnam’s currency (to pay for the excess of imports over exports) causes the depreciation of currency and high cost of imports on home markets and low cost of exports on overseas markets.

All things considered, high inflation impacted harmfully to all aspects of social life. This is a consequence of increasing structural gap in public of Vietnam in accordance with Bailey 2003 that structural gap in public finance may reduce economic prosperity – higher interest rate and/or inflation. It is essential for Vietnam government to have appropriate policies in preventing another consequence of structural gap - governments’ borrowing beyond their capacity to repay debt- before it occurs.

5.1.3.5 Identify the policies and practices that Vietnamese government has applied

High inflation and public debt are the problems of public finance of Vietnam at present. Among them, inflation is more pressing because it has been influencing all aspects of social and economic life. It reduces the life quality of almost all people in society. It stagnates the production leading to decreasing growth rate of GDP. It creates high interest rate that might be the reason for latent risk for economy. Hence, dealing with inflation is the most important mission of Vietnamese Government at present to stabilize the economy and society and create sound foundation for sustainable development of country. Government of Vietnam promulgated the resolutions in 2008 and 2011 in order to restrain the high inflation. Here after are the summarized contents.


- Apply tighten and prudent monetary policy
- Apply tighten fiscal policy, reduce public investment, reduce budget deficit, improve the efficiency of public spending

- Encourage exports; control imports strictly in order to restrain excess of imports over exports

- Other solutions: save energy, adjust price of electricity and gas. Combine appropriately with subsidy for poor household; reinforce ensuring social security, and intensify propaganda.

Government of Vietnam did have the appropriate and timely solutions to deal with the problems of economy. The results of applying these resolutions can be illustrated in the achievements that Vietnam obtained in 2008 and 2011 in Table 10 below:

**Table 10. Fiscal indicators of Vietnam from 2007 to 2011**

<table>
<thead>
<tr>
<th>Year</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth rate of GDP</td>
<td>8.46%</td>
<td>6.31%</td>
<td>5.32%</td>
<td>6.78%</td>
<td>5.89%</td>
</tr>
<tr>
<td>Deficit/GDP</td>
<td>2.05%</td>
<td>5.24%</td>
<td>8.58%</td>
<td>6.04%</td>
<td>4.90%</td>
</tr>
<tr>
<td>Capital expenditure/GDP</td>
<td>9.39%</td>
<td>8.39%</td>
<td>9.27%</td>
<td>7.15%</td>
<td>6.92%</td>
</tr>
<tr>
<td>Inflation</td>
<td>8.30%</td>
<td>22.97%</td>
<td>6.88%</td>
<td>9.19%</td>
<td>18.58%</td>
</tr>
<tr>
<td>Debt/GDP</td>
<td>49.70%</td>
<td>47.90%</td>
<td>52.60%</td>
<td>56.70%</td>
<td>58.90%</td>
</tr>
</tbody>
</table>

Source: World Bank, GSO of Vietnam, Economy.vn

- Growth rate of GDP reduced considerably in 2008 in the situation of financial crisis, debt crisis and recession in the world; however, it remained at high rate for last four years.

- Deficit/GDP even increased significantly in 2009, a year after applying Resolution 10, improved that public spending rose much higher than GDP. It seems the solutions of Resolution 10 were not strictly enforced. The strictness displayed in Capital expenditure/GDP also when this ratio rose in 2009. Fortunately, these ratios decreased in 2010 and especially in 2011, after applying Resolution 11.

- Debt/GDP is increasing over years. As analyzed in part 5.1.3.1, this is an indication of structural gap in Republic of Vietnam. This is alarming because the trend of public debt in Vietnam is annually rising irrespective of reducing of GDP, social saving, people’s life, etc. means the resource for paying debt reduced.
- The main target of the Resolutions is to restrain the high inflation. Inflation rate in 2009 reduced sharply in comparison with that of 2008, then increased considerably in 2010 and rocketed again in 2011. This trend seems that applying of Resolution 10 (in 2008) was not strictly followed and not long enough to get a stableness of monetary term. Hence, Government of Vietnam again had to promulgate the Resolution 11 (2011) in which indicated clearly the targets and methods to get the target. Applying Resolution 11 initially achieved the good result in curbing inflation (Table 11). It took effect in February 2011, inflation rate continued to rise from March and April (3.32% at is the highest level since March 2008)\(^4\). Fortunately, CPI decreased gradually to 0.36% in October and maintained at low level for last three months. People’s life is stable.

**Table 11. Monthly CPI of 2011**

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly CPI</td>
<td>1.74</td>
<td>2.09</td>
<td>2.17</td>
<td>3.32</td>
<td>2.21</td>
<td>1.09</td>
<td>1.17</td>
<td>0.93</td>
<td>0.82</td>
<td>0.36</td>
<td>0.39</td>
<td>0.53</td>
</tr>
</tbody>
</table>

Source: GSO of Vietnam

**Figure 12. Monthly CPI of Vietnam in 2011**

In order to have an objective overview of efficiency of Resolution 11, let see a taken stock of WB about Vietnam’s Recent Economic Development (The World Bank, 2012). Within the scope

of this thesis about structural gaps of public finance in Vietnam, assessments should be focused on are as below:

- **Implementation of Resolution 11 is starting to show results, with month-to-month inflation abating.**
- **Tight monetary policy has helped to contain credit and money supply growth.**
- **There has been some fiscal consolidation thanks to improved revenue collection, but there has been little effort on the expenditure side, which remains high.**
- **Greater focus is needed to improve the efficiency of public investment through better resource allocation, stronger incentives for improved management of infrastructure services at local government level, and provisions for property rights.**
- **Vietnam’s debt position has been historically strong but has deteriorated since the onset of the global crisis in late 2008.**

In short, applying the solutions to restrain the high inflation, stabilizing macroeconomics, and ensuring social security has achieved good results. However, the problem of structural gaps of public finance exists; Government of Vietnam should have drastic measures to get the balanced government budget.

### 5.1.4 Results

Apply the theory of structural gaps in public finance of Professor Stephen J. Bailey (Bailey, 2003), use the quantitative methodology in documentary analysis, the analysis of data of government budget of Vietnam from 1990 to 2011 within the scope of the thesis shows the findings as bellow:

- The trend of the balanced budget of Vietnam is deficit exist annually from 1990 until now even though the economy has been developing fast with high growth rate of GDP. This is understandable for a developing and poor country as Vietnam because it needs capital to build material and technological foundation for socio-economic development.

- The balance of government budget is getting worse: the deficit/GDP is getting bigger annually, especially from 2008 until now. This is an alarming indication of risk because the insufficiency is compensated by borrowing, increasing deficit leads to increasing borrowing.
- The budget deficit is because of expense for development. The revenue of government is sufficient for current expenditure of public finance. Thus, in case it is essential to cut the expenditure, it is not dangerous for annual activities of government.

- The biggest problem in Vietnam at present is high inflation for last five years, especially in 2008 and 2011. It rocketed then reduced, twice in five years. This situation improves unsustainability of Vietnam economy. Fortunately, Government of Vietnam applied timely solutions (fiscal and monetary solutions). The main fiscal solution is to cut the capital expenditure. These solutions obtained good result in curbing inflation. The monthly inflation reduced significantly in last months of 2011, people’s life is stable.

- Public debt is a problem of public finance in Vietnam. Public Debt/GDP ratio is bigger annually; especially from 2006 until now, it rose significantly. This trend created the concerns for economy of Vietnam, especially in situation of debt crisis in Europe.

- The causes of high inflation and public debt are high investment expenditure, insufficiency of public investment, and corruption. These causes exist in relationship with each other.

All the findings above are the evidences to conclude that the structural gaps exist in public finance in Vietnam and the trend is getting worse. Vietnamese government did apply the solutions to improve the situation and obtained the satisfactory results. However, there are many problems which invite Vietnamese government to apply more appropriate solutions on different phases of development and sustain growth steps.

5.1.5 Survey of Structural Gap

In accordance with part 4.1 of the thesis, a questionnaire is designed in Vietnamese includes two parts; the questions are close-ended questions. Part one includes the questions about the symptom of private affluence - public squalor syndrome; part two includes questions about the Resolution 11 of The Vietnamese National Assembly.

The participants are government officials who work for Ministry of Finance, Ministry of Planning and Investment, and financial official in other central and local government offices. The method of survey is by email and by correspondence. The number of recipients by email is 25 and the number of answers is 19. The number of recipients by correspondence is ten and the
number of answers is ten. Thus, the number of answers in total is 29. The questionnaire and the answers are presented in Appendix 2 of the thesis.

○ The result of the survey

- The participants: almost has been working in public finance sectors for more than 5 years, in which 31.3% of participants have been working in public finance sectors over 15 years. This proves that the participants have considerable experience in public finance.

- One hundred percent of respondents agreed that Vietnamese economy developed considerably and living standard of people improved significantly for last two decades. However, some people believe that living standard has not changed since 2000 up to now (13.79% of respondent).

- Beside the achievements, there are many signs of private affluence - public squalor syndrome:

  + One hundred percent of respondents believed that there is a gap between rich and poor in the society and most of them thought that this gap is big (86.21% of respondent).

  + The quality of public schools in city partly meets the demand of teaching and learning, but 93.1% of opinions is quality of public schools in countryside do not meet the demand of teaching and learning, even a lot of people (27.59% of respondent) thought the quality is very poor.

  + The public parks and entertainment places: low quality (51.72 % of respondent); and insufficient quantity (96.55% of respondent)

  + Supplying fresh water is sufficient (51.72% of respondent). However, the sewage system does not run well (86.21% of respondent)

  + Quantity of road increased significantly (86.21% of respondent); but capital investment for public transport system is low (55.18% of respondent), some others thought the investment level is high but inefficient (31.03 % of respondent)

  + Most of people believed that Government of Vietnam is interested in environment protection but the law is not drastic (96.55% of respondent)

  + The ostentation trend of affluent class in society is increasing as a popular tendency in society (72.42% of respondent)
+ The tendency of holiday spending in tourist centre for the work is increasing considerably (96.55% of respondent). Moreover, 100% of respondent believed that trend of going abroad for medical treatment is increasing.

- About Resolution 11 of Vietnam National Assembly

+ Implementation of Resolution 11 obtained the good results (96.55% of respondents) and 100% of respondents believed that Resolution is applauded in public opinion. One hundred percent of respondent thought that Government of Vietnam needs to continue applying the Resolution 11 in 2012.

+ The proportion of respondent votes for cutting both kinds of expenditure is 68.97%. Besides that, 100% of respondent thought it is essential to raise the efficiency of public investment.

+ Raising revenue by increased tax: 93.1% of respondent believed Government of Vietnam should not use this way.

○ How does it affect result of the analysis in State of Public Finance in Vietnam from 1990 to 2010?

The syndrome private affluence - public squalor is probably demonstrated by social despoliation existing alongside ostentatious private sector consumption (Bailey, 2003, p.205). This syndrome is a symptom of structural gaps of public finance. The result of survey indicated that the paradox exists evidently in the society. It strengthens the conclusion of analysis financial indicators in part 5.1.3 that imply structural gaps of public finance in Vietnam.

5.1.6 Limitations and conclusions about the degree of accuracy of research results

The result of survey reinforces the result of analysis about structural gaps of public finance in Vietnam. There are some limitations in collecting data, they are:

- Vietnam moved from planned economy to market economy since 1986. However, it is not a full market economy. Hence, the calculating of indicators is probably insufficient such as GDP (less than real). Moreover, calculation method of some factors is different from the method of other countries, especially developed countries; hence, it is inaccurate in comparison with countries.
- Data range is insufficient for all years from 1990 to 2011. Thus, somehow it is inaccurate in assessment of the situation.

However, assessing the structural gaps of public finance in Vietnam is not affected considerably by those limitations. In order to evaluate the structural gaps of public finance, we use the long-term trends of financial indicators such as Deficit/GDP, (Total government current expenditure minus tax revenue)/GDP and Debt/GDP. For first two indicators, the data is considerably sufficient. For the last indicator - Debt/GDP - even though there are insufficient data for over long term, the trends increased evidently for ten years since 2001. Those indicators were calculated by unified formulation for the whole period, thus, the comparison between years is logical. Additional, there are opinions that the public debt of Vietnam is less than real debt. Consequently, the data published in media shows the trend of increasing of public debt, the real situation is possibly worse. Furthermore, the result of analyzing the secondary data is fortified by the result of survey. The research findings, therefore, reflect clearly the structural gaps of public finance of Vietnam and the unexpected balance of government budget.

5.2 Structural gaps of public finance in Vietnam vs. those of other countries

5.2.1. An Illustrative Overview of the Debt Problems of Some Developed Countries

5.2.1.1. European countries

Since 2009, a public debt crisis started in Greece then reached to several countries in Europe. Public debt crisis has been lasting and it is not a problem of Europe only but a universal one. Greece has been at the centre of the Eurozone debt crisis. It has the highest level of public debt in the Eurozone, and one of the biggest budget deficits (Rebecca et al., 2011). Greek government took advantage of greater access to cheap credit to pay for government spending and offset low tax revenue. The government also borrowed to pay for imports from abroad, which were not able to offset by exports. Government budget and trade deficits dramatically rose during the 2000s. Fundamentals of borrowing that is the money should not be used for current expenditure. However, the Greece government, to offset the deficit of budget, did not obey this principle. Borrowed funds were not channelled into productive investments that would generate future growth, increase the competitiveness of the economy, and create new resources to repay the debt. Instead, the inflows of capital were used to fund current consumption that did not yield streams of revenue with which to repay the debt (Ibid). For example, the tax collection in Greece
is poor while the public expenditure is high, whereas the most important thing is Greece government still wants to maintain the welfare system for people at high level though the income of society is not enough to bear that level. The problems of old people and late average age to start work have induced the people at working age work to provide services and products for a large number of old people, this is consequence of “boom population” after world war.

The circumstance, which leads the Greece into public debt crisis, is the Greek government’s reliance on borrowing from international capital markets to pay for budget deficits and trade deficits left it vulnerable to shifts in investor confidence. If investors lost confidence in the Greek government’s ability or willingness to repay its debt, they would stop lending to the government or charge higher interest rates. Lack of access to new funds would make it difficult for the government to borrow to repay existing debt as it is due (called rolling over its debt), meaning that the government would have to implement austerity measures quickly or risk defaulting on its debt” (Rebecca et al., 2011).

The Eurozone leaders and the IMF announced the packages in loans to Greece at market-based interest rates with the aim of preventing a disordered Greek default, restoring debt sustainability in Greece, and preventing the spread of the crisis to other Eurozone countries and the global economy. However, to date, they have succeeded in the first objective, but have had limited success in the other (Rebecca et al., 2011).

However, there is a question why the situation in Greece became so serious and Greek Government did not realize that problem. The answer is, it did know but “it lied about its borrowing statistic” (Knight, 2011, December 7). In January 2010, an EU report condemns “severe irregularities” in Greek accounting procedures in which Greece’s budget deficit in 2009 is revised upwards to 12.7% then 13.6% from 3.7%, and more than four times the maximum allowed by EU rules. Thus, besides the fact of overspending, the debt crisis in Greece involves in transparency and accountability. The corruption perception index 2011 of Greece in accordance with Transparency International is 3.4, this means the corruption in Greece is high and transparency is very low. Evidently, the situation was soon realized and if the Greece government braved to face with it since when it had started, the debt crisis might not happen.

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5 See http://www.bbc.co.uk/news/business-13856580
Other European countries such as Ireland and Portugal have the same reason for public debt crisis with Greece, it is overspending the public money for social welfare and wage. However, corruption in these countries seems not a problem when their corruption perception index 2011 is high (7.5 for Ireland and 6.1 for Portugal). The bad situation of public finance in those two countries were partly solved after getting the bail out from northern European countries such as Finland, Germany, and IMF whereas the situation in Greece has not improved considerably. In order to receive the second bail out from Germany and other countries as well as financial organizations, it needs to implement immediately austerity measures. They are 15,000 public-sector job cuts, liberalization of labour laws, and lowering the minimum wage by 20% from 751 Euros a month to 600 Euros. The austerity leads to protest in society and affect significantly people’s life, but it is crucial, essential, and vital for Greece at present to get the second bailout. However, the bailout is palliative only. In the long term, to deal with serious unbalance of government budget and ease gradually problems with public debt, Greece government decided to apply the solutions to solve the fundamental elements of debt crisis. Solutions are increase of taxes, combating tax evasion, spending cuts (public sector wages, public sector jobs, social benefits and pensions, government department budgets, and public investment – most items are current expenditure), and privatizations. These solutions combined with fight against corruption in long term to help Greece recover and develop.

Debt crisis recently has reached to big economies of Europe: Spain and Italy.

Problem of high public debt of Italy is weak economy, bloated bureaucracy, and corruption (Knight, 2011, December 28 and Squires, 2011). Thus, even Italy was considerably “prudent” in borrowing (it has been used to “meet the principal and interest payment on its existing debts” (Knight, 2011, December 28), the country still faces the risk of public debt crisis. Its average annual economic growth rate is 0.75% over the past 15 years. This is considerably low in comparison with other developed countries. The reasons of low growth rate of GDP are poor regulation, vested business interests, ageing population, and weak investment. Furthermore, Italy succeeds a giant debt from 1990s. Thus, that growth rate of GDP is much lower than

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6 See http://cpi.transparency.org/cpi2011/results/
7 See http://www.bbc.co.uk/news/world-europe-17007761
interest rate of its debt (6.8% for 10-year debt) and the situation leads to a risk that government debt could grow more quickly than its capacity to support. Bloated bureaucracy with high wage for government staff result in increasing current expenditure (ibid). Corruption is a problem in Italy when that index of Italy in 2011 is 3.9. Corruption results in tax evasion and avoidance, high public spending, trend of maintaining high wage of civil servant, and investing in the projects with large investment, etc. Fight against corruption is always one of the hardest tasks for any government. In short term, Italy has applied an austerity in order to reduce deficit budget and create the trust in it for lenders so they will give Italy more loan. In long term, it is essential for Italy to renovate the public administration system, reduce significantly current expenditure, fight drastically against corruption, and impulse the development of economy.

Spain is another country that is facing with risk of public debt crisis even thought its public debt is much lower than many other countries. Different from other countries of Eurozone, reason for debt crisis of Spain, in accordance with analyses of researchers and economist, is housing bubble burst (Knight, 2011, December 7). Because of low interest rate from 1999, private investment in housing rose significantly. The country experienced a long boom, underpinned by housing bubble. In this period of boom, tax revenue increased considerably and wage rose to uncompetitive level. When the bubble burst, everything was upset. Householders cut their spending, fired the worker, and reduced investment. It resulted in increased unemployment and growth rate of GDP went down (around 1%)\(^9\). Thus, although the Spanish government has relatively little existing debts, it still has to “borrow like crazy to fill the gap left by the jump in unemployment benefits and collapse in tax revenue during the downturn”. In addition, “government may also have to provide lot of money to its banks, which are looking very exposed to the housing collapse thanks to all the mortgages they have lent”. Therefore, the principle reason for risk of public debt crisis in Spain is from private sector. This circumstance is similarly for Ireland. It is possibly the best solutions for Spain and Ireland in long term is to impulse their production so that growth rate of GDP rise sustainably.

5.2.1.2 Public debt in USA and Japan

Public debt also is a problem in USA at present. There is a resemblance between circumstances in Greece and USA. Both countries have to deal with old population and social

welfare system. US government has to face with remarkable increase in expenditure for pension and healthcare system. The fundamental reason is the aging population. Meanwhile, the cutting in those programs is not simple; it is like the tax increase, because the US government has to maintain those policies to ingratiate with the public. Besides that, public debt of USA also is a result of launching and carrying out the wars in other countries. The US government has to borrow money because it spends lot of money for army: America launched wars in other countries for its own purpose, such as Iraq, Libya, and Pakistan. Problem in public debt of USA is that it has risen dramatically for last some years. US government had to renovate the medical system to cut down the expenditure and raised the ceiling rate of debt. It seems public debt in USA has been solved.

At present, Japan faces public debt crisis. The public debt/GDP rate is at 174.4% in 2009 and has increased considerably since then, especially because of tsunami in March 2011. In the beginning of the 1990s, a prolonged banking crisis, sluggish growth, deflation and numerous stimulus plans drove its debt ratio up dramatically; it is still rising. The reason of increasing public debt in Japan probably is the stimulus of people’s spending, the reduction of tax revenue, high social welfare, and ageing people (Pham, 2011, October). There is another opinion that three factors, which can kindle a public debt crisis, include government bonds, deflation, and plodding economic growth though the global economy recovered (Ngan, 2010). All these reasons make Japan to face the risk of public debt. Hence, the reasons for debt crisis in Japan are high current expenditure and insufficient tax revenue. In addition, the public debt of Japan became more serious because of terrible tsunami disaster in March 2011. Government needs to mobilize a big amount of money timely and quickly to reconstruct country. Thus, the situation of public debt was more serious. In order to reduce public debt, apart from cut current spending, Japan government needs to increase sales tax, renovate the tax system, and follow the strategy “financial stability” (Pham, 2011, November). Sales tax increase approved by Japan’s cabinet in an attempt to control the soaring costs of public debts. The result of policy implementation will be answered in the near future.

In conclusion, even though the nature of debt is different from other countries, debt is always considered as a risk for every economy. This matter is a result of structural gaps.

10 See http://www.bbc.co.uk/news/business-17072206
Depending on the nature of budgetary problem and real situation of each economy, the governments apply appropriate solutions to keep the budget balance. It is essential for the governments to have judicious strategy and sound decisions to solve public debt problem.

5.2.2. Structural gaps of public finance in Vietnam vs. those of other countries

Based on the analysis of the nature of public debt in Vietnam (part 5.1) and in other developed countries (part 5.2.1), we can generalize the similarities and differences in the situation.

Vietnam and those countries are in diverse phases of development, thus the factors and elements of the risk of public debt crisis might be different. Presented below are the elements of public debt in Vietnam and those countries.

**Table 12. Elements of problem of structural gap in public debt of Vietnam vs. those of developed countries, which are facing with public debt in the period of 2008 - 2011**

<table>
<thead>
<tr>
<th>Vietnam</th>
<th>Other countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corruption, transparency, and accountability</td>
<td>Corruption, transparency, and accountability (Italy, Greece)</td>
</tr>
<tr>
<td>Increasing current expenditure</td>
<td>High current expenditure (Greece, Portugal, Italy USA, Japan)</td>
</tr>
<tr>
<td>Excessive public investment</td>
<td></td>
</tr>
<tr>
<td>Bubble housing lead to low tax revenue</td>
<td>Bubble housing lead to borrowing for current expenditure (unemployment benefit) and low tax revenue (Spain and Ireland)</td>
</tr>
<tr>
<td>High growth rate of GDP</td>
<td>Low growth rate of GDP (Italy, Japan, Portugal)</td>
</tr>
<tr>
<td>Inefficiency of public investment</td>
<td>Inefficiency of public investment (Italy, Portugal)</td>
</tr>
</tbody>
</table>
Thus, Vietnam and those countries share some similarities and differences in public debt.

*Corruption* is not only a problem in Vietnam but also in developed countries such as Italy, Greece. The elements of corruption possibly consist of:

- Tax evasion, tax avoidance: enterprises as well as individual will always try to evade and pay minimum tax that they have to and will look for various means to achieve the same. This leads to reduction in tax revenue.

- The tendency of high wage for civil servants lead to increasing current expenditure, causing the imbalance of government budget.

- Projects with large investments lead to inefficiency of public investments, public money flowing to “private pocket”.

Most of the countries agreed that transparency is the most useful method to fight against corruption. However, corruption is still a harsh problem in many countries, especially in developing countries, even though transparency and corruption seem to be mentioned by many governments in so many international conferences.

*Bubble housing* is a problem in Vietnam and even in developed countries. However, the causes and effects might be different. In Vietnam, because of high demand for house, the enterprises invest in housing even when the interest rate is high because it brings huge benefits. When price was too high and market became saturated, the enterprises could not sell the house, whereas they need money to pay the loan and interest, then the bubble burst. Nevertheless, the effect of bubble burst in Vietnam, in term of government budget, influencing tax revenue. Meanwhile, in Spain and Ireland, the enterprises invested in real estate because of the lure of low interest rate (*Knight, 2011, December 7*), it is considerably different from situation in Vietnam.
The effects of bubble burst in these countries are lower tax revenue (similar to Vietnam) and higher current expenditure when governments have to pay for “jump in unemployment benefits” (ibid). Hence, this phenomenon in anywhere makes the budget deficit more serious.

**Insufficiency in public investment**: this situation is the same in Vietnam and some developed countries. This is possibly because of many different reasons, depending on administrative mechanism. However, it might be because of corruption and the way of thinking that “everybody’s business is nobody’s business”.

**Bloated bureaucracy** is a problem in Vietnam and Italy. In Vietnam, the problem is the number of civil servant is high while the number of people who can work and work efficiently is low, the payment mechanism does not encourage people. Thus, governmental budget remains a large amount of money to maintain this system. This problem results in unnecessary high current expenditure.

**Excessive public investment** is a reason for structural gap of public finance in Vietnam (see part 5.1.3.2). It is different from collected developed countries because Vietnam is experiencing a different phase of development, Vietnam needs to construct infrastructure which is relevant and useful for next generations. However, it is advised not to rely on that reason to defend the excessive spending during the difficult period of economy. Vietnam government has to constrain that spending in an appropriate rate in order to ensure the stable development of economy.

**The sharpest contrast in structural gaps** between Vietnam and other developed countries is the cause of structural gaps in developed countries primarily due to very high current expenditure (as ratios of GDP) and relatively low tax revenue. Very high current expenditure is the direct reason for the danger of public debt crisis in all those developed countries. These countries are considered “heaven” for people because of high pension, social welfare is overly generous. Social welfare is seen as a broad system aiming to maintain the well-being of individuals within the society. It includes factors such as availability of essential social services, the quality of the environment, level of crime, as well as religious and spiritual aspects of life. In most developed countries, social welfare is mostly provided by government. In the developed countries, their infrastructure was invested in the past and the demand for infrastructure investment is much lower than in developing country. Thus, their revenues are used mostly for current expenditure, public goods and services are available at high level to support people’s lives. For some reasons,
when tax revenue reduced, the governments try to maintain social welfare at a high level (health care, education and cultural resources, housing, unemployment insurance, low-income support, pension, family policies, elderly and disabled care, social assistance, etc) and they borrow to offset in case tax revenue is insufficient. The combination of high social welfare and low tax revenue made public debt increase. The imbalance of government budget is more serious.

The situation in Vietnam is different from those developed countries. In Vietnam social welfare is at minimum level. Thus, although current expenditure increased, it is not a main reason for structural gap of public finance of Vietnam (see part 5.1.3.2). However, it is a potential risk. The government borrows money for investment. Because of unnecessary high cost of infrastructure programs, unnecessary high procurement costs, lack of provision for repairs, maintenance and upgrading over their lifetimes, and most importantly, corruption and the public money lost in a large number by waste and “stealing”. Thus, even though the growth rate of GDP is at high level (corresponding to development phase as a developing country), the structural gap in Vietnam’s public finance became more serious. The situation can only be solved when Vietnam government deal well with those problems in order to make Vietnam’s infrastructure programs achieve the 3Es of economy, efficiency and effectiveness.

In short, the reasons for structural gaps in Vietnam and in developed countries mentioned above are different. However, the effects are the same when public debt crises happen. Thus, it is better for every government to prevent it in advance. This requires the leaders of government have strategic thinking in order to propose timely solutions appropriate to the development phase, politic institution, real situation of public finance, etc. Even though the situation in Vietnam is not serious, Vietnam should implement solutions soon to reduce the unnecessary high costs and to fight against corruption in order to deal with emerging structural gap in public finance for a sustainable development.

5.3 Solutions to balance the government budget and improve the performance

The main question of the thesis is How to balance the national budget of Vietnam and improve its performance? Structural gaps in public finance of Vietnam displayed obviously by result of analyzing the data of budget. Fiscal indicators in period time from 1990 to 2011 as well as the symptoms of “private affluence - public squalor syndrome” - non-financial indicators prove the existence of structural gaps of public finance in Vietnam. Fundamental reason for
Structural gaps in public finance of Vietnam is high capital expenditure in portion of GDP. The immediate causes are public investment is high but the production capacity reduced, inefficient investment and corruption. Understanding well about the causes of problem helps proposing sound policies and solutions. Applying Resolution 11 in 2011 achieved good results to some extent; it demonstrates the accuracy of the solutions that Vietnam government applied. However, the problems with public finance of Vietnam still remain; it is essential to propose the strategic solutions to solve those problems in the long term for sustainable development of Vietnam. In principle, budget balance can be implemented by increasing public revenues or reducing the expenditures. At present, the most tangible way to increase public revenue is to raise tax; however, raising tax might lead to undermine the exports and investment (Beetsma et al., 2010). Furthermore, in accordance with the result of the survey, 93.1% of respondent believe Vietnamese Government should not use raising tax as a solution to increase public revenue in current situation of Vietnam (high inflation, stagnated production). Hence, it is advised to combine the theory of Professor Bailey (Bailey, 2003) about solutions to deal with structural gaps in public finance and the real situation in Vietnam, several solutions are put forward within the scope of this thesis.

5.3.1 Sharply cut down the level of capital expenditure

Cut down in capital expenditure is considered as the most appropriate way to reduce the budget deficit. Vietnamese Government budget has deficit for the last 20 years at various levels of each year. The government compensated those deficiencies by borrowing for development; namely to invest in material and technological foundation of Vietnam. In 2010, estimated public debt of Vietnam is 56.7% and external borrowing is about 42% GDP\textsuperscript{11} and these figures for 2011 are definitely higher than that of 2010. This is a concern for public finance of Vietnam because the growth rate of public debt rose alarmingly for the last 5 years (Table 5). It is possible that the harmful effects of increasing public debt presented in part 2.1.3 will take place when that increasing trend continues. Besides, it is suitable to cut sharply the capital expenditure more than the current expenditure (read part 2.1.4). Thus, the first solution to balance the government budget of Vietnam is to cut down the capital expenditure.

\footnote{See \url{http://www.mof.gov.vn/portal/pls/portal/docs/1380365.PDF} page 12.}
Vietnam government applied this solution from March 2011. New projects were halted to transfer the capital for transitional projects. In reality, the capital expenditure did not reduce in comparison with the planned figure. In some cases, this solution supply more capital for the transitional projects, which help to speed up the implementation of these projects and hence, put the projects into practice sooner. However, data from Ministry of Finance of Vietnam shows that investment expenditure in 2012 is estimated to increase by 18% in comparison with that in 2011 while the hopeful growth rate of GDP is 6% in 2012. The growth rate of public investment is much bigger than growth rate of GDP. Consequently, the deficit/GDP ratio is increasing in 2012 in comparison with that of 2011, and this trend may continue. The imbalance of budget will be more serious.

Thus, government needs to have the active steps in applying this solution. Some suggestions are as follow:

- Continue halting new projects in 2012. In the next few years, just start new projects, which are vital for society.
- Capital for transitional projects: the proportion of capital expenditure of GDP should maintain at the same level as 2011, and then gradually reduce in accordance with the growth rate of GDP. This action should be taken place in budgeting phase of budget cycle.
- Apply strict punishment for the violation.

5.3.2 Intensify saving in current expenditure

For current expenditure, it is inappropriate to cut capital expenditure sharply. The solution to this kind of spending is to save and prevent the waste. This solution is applying in budget performance for years in Vietnam. However, it is necessary to reinforce the implementation in order to raise the efficiency of using public money.

This solution is implemented annually in budget cycle. Ministry of Finance allocates the budget for government offices and reduces temporarily by 10% of current expenditure excluding wages and the other payment for personnel. At the last quarter of the year, Ministry of Finance balanced the government revenues, then decide whether to distribute that 10% for government offices or not. For example, before 2011, the government offices obtain that 10% at the end of the fiscal year; but in 2011, because of the difficulties of economy, public revenue was
insufficient, so that 10% was cut. This performance has been implemented since 2006. In nature, this is not totally a saving, because without that 10%, the government offices operate well. Nonetheless, this performance restrains the raising public spending to a certain degree. Thus, it is appropriate to continue this budget performance for next years.

Besides, Vietnam government systematically applies the policy of self-controlling the current budget for the government offices which have incomes. In 2002, Vietnam applied the Decree 10/2002/ND-CP (dated January 16, 2002) regarding self-controlling the current budget in several government offices which have incomes. After four years of application, based on the satisfactory result as well as the experience, Vietnam government did propose Decree 43/2006/ND-CP (dated April 25, 2006) regarding self-controlling for current budget and applied it since 2006 until now for increasing number of government offices. Therefore, it is understandable when Louise Ross (Ross, 2011, p.14) said “OECD recommends other countries, especially developing and transition countries, who are seeking to improve and simplify their regulatory frameworks, to study Vietnam’s experiences” and “Another perhaps unexpected facet of Vietnam’s reforms is its willingness to experiment with policy development. It’s pilot policies on a small scale, for example its budgetary management reforms and if they prove successful, applies them on a larger scale”. Decree 43 is one of pilot policy and it was successful. Thus, this policy should be continued in order to save the current expenditure and increase value for money of public money.

5.3.3 Increase efficiency of public investment

One of the causes of increasing budget deficit is insufficiency in public investment. Insufficiency is manifested at some facets (as analyzed in part 5.1.3.2): government issued licenses for large project without difficulty in all provinces of the country, investment rate for public projects is considerably high, State-owned enterprises obtain many special treatment but operate inefficiently. Thus, the policies that should be applied to increase the efficiency of public investment possibly are:

- Restructuring the State-owned Enterprises (SOE): During the last years, a series of SOE operated insufficiently, even fell in bankruptcy, and typically is Vinashin (2009). Some other
SOE were in bad debt and became a burden of the economy. Thus, restructuring the SOE helps Vietnam “return to a more sustainable macroeconomic environment while laying the foundations for greater efficiency to drive medium term growth” (The World Bank, 2011).

- Ministry of Planning and Investment inspects the transitional project, halts the projects which remains insufficient for long time.

- Evaluating predetermined programs and projects before, during and after implementation. The evaluation should be taken place by a third party apart from the Ministry of Planning and Investment. At present, many public projects are approved without evaluation but depending on the relationship between the government officials.

- Learning from other countries in order to recalculate the appropriate investment rate. It is unreasonable when the price for a kilometre of road in Vietnam is twofold of that in USA, twelvefold of that in China. There must be something wrong with this. Thus, in order to reduce the investment rate, it is a need to renovate the organizations responsible for this matter and change the mechanism. This is really an issue of governance, transparency and accountability.

In short, raising efficiency of public investment needs to combine some policies. The core factors of raising efficiency involve mechanism and renovation.

5.3.4 Intensify the fight against corruption

Inefficiency of public investment relates closely to corruption. Corruption creates the asking – giving mechanism in approving the projects. Corruption influences the high investment rate because that involves high commission. Corruption undercut the state’s ability to raise revenue. In short, corruption raises the public expenditure and reduces the tax revenue; it weakens the economy and worsens the imbalance of government budget. Hence, fighting against corruption is an important task of Vietnam government. However, this is a difficult task and Transparency International claimed “The index placed Vietnam the 112 with a score of 2.9 (out of 10), indicating that corruption remains a serious concern for the country with no significant change from last year in its perceived level of public sector corruption”13. Thus, this is a long-term fight

13 See http://www.transparency.org/regional_pages/asia_pacific/transparency_international_in_vietnam/activities/introducing_international_tools_to_fight_corruption_in_vietnam
and it needs the positive actions of government. Corruption is not just a problem in Vietnam but also in some developed countries such as Italy, Greece. There is a significant problem with corruption and tax fraud/evasion in Italy and Greece - now recognised as a significant cause of structural gaps in those two countries. Like Italy and Greece, Vietnam will have to address the issue before a crisis occurs.

5.3.5 Hope for rapid economic growth

In accordance with assessment of World Bank (The World Bank, 2012), Vietnam economy grows considerably during the recession and debt crisis in the world during the past few years. Those are proud achievements of Vietnam; however, those successes remain fragile. It is hoped that Vietnam would improve that growth rate of GDP in the period of recession and develop rapidly afterwards in order to make Vietnam become a dragon of Asia.

6. CONCLUSION

Public debt crisis has affected the European countries and some other developed countries such as America, Japan since 2009, staggered Eurozone, and created the recession in many economies. Borrowing is essential to compensate the budget deficit of the most countries in the world. However, how to use the public money in accordance with 4Es is a difficult task for governments. It depends on the political institution and government officials. When the spending of government exceeds the production capacity of economy, the increase in spending over time leads to the increase in borrowing, to a threshold at which the burden of payment exceed the capacity of economy, so the crisis obviously takes place. Once the crisis happens, the economy will come to standstill and go down, causing many problems for socio-economy. This situation occurred in Eurozone in 2009, typically the public debt crisis in Greece and it became serious in 2010. The public debt crisis then spread to Ireland and Portugal. It had bad influences on other Eurozone countries and illustrated by the growth rate of GDP of most countries in Eurozone, which is minus in 2009, 2008 and 2010\textsuperscript{14}. Meanwhile, other countries in Eurozone had to approve the bailout package for Greece, Ireland and Portugal in order to prevent the default in these countries. However, the effect of those bailouts seems limited. In order to solve the problems, the countries, which have public debt crisis, it is a must to define the root of matter and bravely face with difficulties by themselves rather than only wait for the aid from outside.

\textsuperscript{14} See \url{http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG}
These countries gradually have the move to face with difficult, such as the austerity policy of Greece. Naturally, this kind of policy met the fierce opposition of people; however, it is vital for stability of a country. Public debt crisis in Eurozone needs the long struggle from all the countries.

Theoretically, this public debt crisis can be prevented if the governments realize the situation, the risk and prevent it as soon as possible. Assumedly, other factors are perfect (for example transparency of government is high), then the trend of increasing public debt can be determined by monitoring the balance of government budget – looking for the evidence of structural gaps in public finance. It is a alarms for the risk of public finance. If the trend of imbalance is increasing, then the government should take timely and appropriate actions to deal with it. Obviously, the situation of each country is different, so they should have the suitable solutions for their own case. However, the basic principle is to reduce deficit by cutting the public spending, raising the tax revenue, and speeding up the economy.

In the context of the world recession in 2008, Vietnam – a developing country- obtained the achievement of keeping the high growth rate of economy. However, it also faced with problems that improve a weak public finance; they are high inflation, high interest rate and significant increase in public debt for the last 5 years. Besides, Transparency International appraised Vietnam as a country of heavy corruption. Those problems create unsustainable environment for development of economy. Inflation rate reached two-digital in 2008 and 2011. Higher credit interest rate causes the standstill in production and service of medium and small enterprises. State-owned enterprises obtain preferential treatments but benefits are very low; even though many enterprises always fail. Public debt, especially external debt increased constantly, significantly since 2005, raising more concern in society. All those problems are in close link with others. In order to solve those problems, it is a need to apply systematic solutions in long term. In short term, Vietnamese government did apply timely solutions to solve the problem; they worked well and restrained the inflation rate.

From the experiences of applying the policies recently in Vietnam, based on the theory about the balance the budget, at least for next several years, Vietnam should continue tightening fiscal solutions in order to balance the government budget. The main suggestion is to cut sharply the capital expenditure. The effect of this solution is obviously good for balancing the government
budget in case of Vietnam. This solution should be implemented strictly. However, in 2011, the result of applying this solution was not considerable because in essence, the total capital investment of government did not reduce, compared to estimated budget for this content. Thus, in order to make the solution produce good results, Vietnamese Government must implement this solution seriously. Besides, Vietnam should continue saving current expenditure, increasing efficiency in public investment and proving result of keeping high growth rate of GDP. Fighting against corruption is also an important task for Vietnam.

Within the scope of this thesis, I analyze the situation of public finance in Vietnam from 1990 to 2011 and find the evidence of emerging structural gaps of public finance of Vietnam. With the knowledge of public finance management, I provide with several solutions, which I believe suitable in Vietnam’s context at present in order to balance the budget of Vietnam. I hope that my findings and suggestions would be useful to some extent. Because of the limit of time, the research only provides with the main idea of solutions. In future, I hope that I will have chance to spend more time studying the solutions and their performance in order to make the best result in implementation that support a stable development of Vietnam’s economy.
References


### Appendix 1. Questionnaires and answers

#### Questionnaire and the answers

1. Does your job involve to public finance?
   - Yes: 29/29 (100%)
   - No

2. How long have you been working in this position?
   - Less than 5 years: 1/29 (3.5%)
   - 5 to 10 years: 10/29 (34.5%)
   - 11 to 15 years: 8/29 (27.5%)
   - 16 to 20 years: 9/29 (31.03%)
   - More than 20 years

3. In your opinion, how has Vietnamese economy been developing since 1990?
   - Go down
   - Keep the same situation
   - Fast developing: 26/29 (89.66%)
   - Considerable developing: 3/29 (10.34%)

4. In your opinion, has the living standard at present improved in comparison in 1990?
   - Yes: 29/29 (100%)
   - No

5. In concrete, in comparison with 2000, how does present living standard change?
   - Much lower
   - Lower but not considerable
   - The same: 4/29 (13.79%)
   - Higher but not considerable: 15/29 (51.72%)
   - Much higher: 10/29 (34.48%)

6. What is the gap between rich – poor in the society at present?
   - No gap
   - Small gap: 4/29 (13.79%)
   - Quite big gap: 2/29 (6.90%)
   - Big gap: 21/29 (72.41%)
   - Very big gap: 2/29 (6.90%)
7. What do you think about material for public school in cities?

<table>
<thead>
<tr>
<th>Rating</th>
<th>Count</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very poor for learning and teaching</td>
<td>6/29</td>
<td>20.69%</td>
</tr>
<tr>
<td>Poor for learning and teaching</td>
<td>23/29</td>
<td>79.31%</td>
</tr>
<tr>
<td>Meet the demand of learning and teaching</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Very comfortable for learning and teaching</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

8. What do you think about material for public school in countryside?

<table>
<thead>
<tr>
<th>Rating</th>
<th>Count</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very poor for learning and teaching</td>
<td>8/29</td>
<td>27.56%</td>
</tr>
<tr>
<td>Poor for learning and teaching</td>
<td>19/29</td>
<td>65.52%</td>
</tr>
<tr>
<td>Meet the demand of learning and teaching</td>
<td>2/29</td>
<td>6.90%</td>
</tr>
<tr>
<td>Very comfortable for learning and teaching</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

9. What is your opinion about quality of public parks or entertainment places?

<table>
<thead>
<tr>
<th>Rating</th>
<th>Count</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor, backward</td>
<td>15/29</td>
<td>51.72%</td>
</tr>
<tr>
<td>Not very poor</td>
<td>14/29</td>
<td>48.28%</td>
</tr>
<tr>
<td>Good</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wonderful</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

10. In your opinion, the quantity of public park in cities:

<table>
<thead>
<tr>
<th>Quantity</th>
<th>Count</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Too few</td>
<td>15/29</td>
<td>51.72%</td>
</tr>
<tr>
<td>Few</td>
<td>13/29</td>
<td>44.83%</td>
</tr>
<tr>
<td>Sufficient</td>
<td>1/29</td>
<td>3.45%</td>
</tr>
<tr>
<td>Many</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Too many</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

11. There is an opinion that low quality of public transport system (bus) is because of underfunding. In your opinion, the level of capital invested for public transport system in cities is:

<table>
<thead>
<tr>
<th>Investment Level</th>
<th>Count</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Too low</td>
<td>8/29</td>
<td>27.59%</td>
</tr>
<tr>
<td>Low</td>
<td>8/29</td>
<td>27.59%</td>
</tr>
<tr>
<td>Sufficient</td>
<td>2/29</td>
<td>6.90%</td>
</tr>
<tr>
<td>High, but low efficiency of investment</td>
<td>9/29</td>
<td>31.03%</td>
</tr>
<tr>
<td>Too high, but low efficiency of investment</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

12. In your opinion, is the supplying fresh water of government companies enough for daily essential demand of citizen?

<table>
<thead>
<tr>
<th>Rating</th>
<th>Count</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>14/29</td>
<td>48.28%</td>
</tr>
<tr>
<td>No</td>
<td>15/29</td>
<td>51.72%</td>
</tr>
</tbody>
</table>
13. In your place, does the sewage system run well in raining season?

<table>
<thead>
<tr>
<th>Option</th>
<th>Frequency (Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>4/29 (13.79%)</td>
</tr>
<tr>
<td>No</td>
<td>25/29 (86.21%)</td>
</tr>
</tbody>
</table>

14. Road system: At present, how has its quantity changed in comparison with 1990?

<table>
<thead>
<tr>
<th>Option</th>
<th>Frequency (Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased considerably</td>
<td>25/29 (%)</td>
</tr>
<tr>
<td>Increased slightly</td>
<td>4/29 (13.79%)</td>
</tr>
<tr>
<td>No change</td>
<td></td>
</tr>
<tr>
<td>Reduced</td>
<td></td>
</tr>
</tbody>
</table>

15. How does the government care about the environment operation?

<table>
<thead>
<tr>
<th>Option</th>
<th>Frequency (Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not interested in</td>
<td>1/29 (3.45%)</td>
</tr>
<tr>
<td>Interested in, but law is not strong enough</td>
<td>28/29 (96.55%)</td>
</tr>
<tr>
<td>Very interested in</td>
<td></td>
</tr>
</tbody>
</table>

16. How do you assess the civil security for citizens and companies?

<table>
<thead>
<tr>
<th>Option</th>
<th>Frequency (Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Absolutely safe</td>
<td>1/29 (3.45%)</td>
</tr>
<tr>
<td>Very safe</td>
<td>24/29 (82.76%)</td>
</tr>
<tr>
<td>Safe</td>
<td>4/29 (13.79%)</td>
</tr>
<tr>
<td>Insufficient security</td>
<td></td>
</tr>
<tr>
<td>Very insufficient security</td>
<td></td>
</tr>
</tbody>
</table>

17. In your opinion, what is the ostentation trend of affluent class in society (for example supreme luxury cars, household appliances, high-tech equipments…)?

<table>
<thead>
<tr>
<th>Option</th>
<th>Frequency (Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>No ostentation</td>
<td></td>
</tr>
<tr>
<td>Very little ostentation</td>
<td>8/29 (27.59%)</td>
</tr>
<tr>
<td>Increasing</td>
<td>19/29 (65.52%)</td>
</tr>
<tr>
<td>As popular tendency in society</td>
<td></td>
</tr>
</tbody>
</table>

18. What do you think about the leisure equipment built to professional standards and associated club membership at present?

<table>
<thead>
<tr>
<th>Option</th>
<th>Frequency (Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>No exist</td>
<td></td>
</tr>
<tr>
<td>Exist but very few</td>
<td>12/29 (41.34%)</td>
</tr>
<tr>
<td>Exist and increasing</td>
<td>5/29 (17.24%)</td>
</tr>
<tr>
<td>Other opinion</td>
<td>12/29 (41.38%)</td>
</tr>
</tbody>
</table>

19. In your opinion, what is the tendency of spending the holiday in tourist centres of the world at present in comparison with that of 2000?

<table>
<thead>
<tr>
<th>Option</th>
<th>Frequency (Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduced considerably</td>
<td>1/29 (3.45%)</td>
</tr>
</tbody>
</table>
Reduced
Not changed
Increased 25/29 (86.21%)
Much increased 3/29 (10.34%)

20. What do you think of trend of going abroad for medical treatment:

There is no trend
Increasing 29/29 (100%)

About Resolution No 11 of Vietnam National Assembly

1. Do you know about Resolution 11 of National Assembly about the solutions for inflation restraint, macroeconomic stability, and welfare guarantee?

Yes 29/29 (100%)
No

2. In your opinion, has the implementation of Resolution 11 obtained the good results?

Yes 28/29 (96.55%)
No 1/29 (3.45%)

3. In public opinion, is the cut of public expenditure applauded?

Yes 29/29 (100%)
No

4. Inflation rate at the end of 2011 is 18%. Target that Vietnamese Government planned for 2012 is under 10%. In your opinion, is it necessary to continue cutting down the public expenditure in 2012 to get the target?

Unnecessary
Necessary 25/29 (86.21%)
Extremely necessary 4/29 (13.79%)

5. In general, what kind of expenditure should be cut down?

Current expenditure 4/29 (13.79%)
Capital expenditure 5/29 (17.24%)
Both kinds above 20/29 (68.97%)

6. There is an opinion that government should raise the efficiency of investment besides cutting capital expenditure. How do you think about this opinion?
Extremely disagree
Disagree
Agree  8/29  (27.59%)
Totally agree  21/29  (72.41%)

7. Besides the solution of cutting public expenditure, some people think the Government might increase the taxes. Do you think the Government should apply this solution?

Yes  2/29  (6.90%)
No  27/29  (93.10%)
Appendix 2
Statistical data of National Accounts and State Budget of Vietnam in period time 1990 - 2011

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue</th>
<th>Expenditure</th>
<th>Deficit (+) /Surplus (-)</th>
<th>GDP at constant 1994 price</th>
<th>GDP at current price</th>
<th>GDP per capita</th>
<th>Deficit/GDP</th>
<th>Debt/GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>Expenditure</td>
<td>9.186</td>
<td>12.081</td>
<td>23.711</td>
<td>39.063</td>
<td>-</td>
<td>-</td>
<td>78.057</td>
</tr>
<tr>
<td></td>
<td>Current expenditure</td>
<td>42.510</td>
<td>47.259</td>
<td>51.267</td>
<td>54.247</td>
<td>55.120</td>
<td>79.337</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Capital expenditure</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>26.790</td>
<td>27.748</td>
<td>40.852</td>
</tr>
<tr>
<td>4</td>
<td>GDP</td>
<td>At constant 1994 price</td>
<td>131.968</td>
<td>139.634</td>
<td>151.782</td>
<td>164.043</td>
<td>178.534</td>
<td>195.567</td>
</tr>
<tr>
<td></td>
<td>Index ( % ; Previous year = 100)</td>
<td>105,09</td>
<td>105,81</td>
<td>108,70</td>
<td>108,08</td>
<td>108,83</td>
<td>109,54</td>
<td>109,34</td>
</tr>
<tr>
<td></td>
<td>Growth rate of GDP (at constant 1994 price)</td>
<td>5,09</td>
<td>5,81</td>
<td>8,70</td>
<td>8,08</td>
<td>8,83</td>
<td>9,54</td>
<td>9,34</td>
</tr>
<tr>
<td></td>
<td>At current price</td>
<td>41.955</td>
<td>76.707</td>
<td>110.532</td>
<td>140.258</td>
<td>178.534</td>
<td>228.892</td>
<td>272.036</td>
</tr>
<tr>
<td></td>
<td>GDP per capita</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Deficit/GDP</td>
<td>6.71%</td>
<td>1.92%</td>
<td>2.43%</td>
<td>4.89%</td>
<td>na</td>
<td>na</td>
<td>4.05%</td>
</tr>
<tr>
<td></td>
<td>Debt/GDP</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>na</td>
</tr>
</tbody>
</table>

Source: General Statistics Office, Ministry of Finance


### Appendix 2

**Statistical data of National Accounts and State Budget of Vietnam in period time 1990 - 2011 (continued)**

<table>
<thead>
<tr>
<th>Year</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Revenue</td>
<td>102.970</td>
<td>123.860</td>
<td>152.274</td>
<td>190.928</td>
<td>228.287</td>
<td>279.472</td>
<td>315.915</td>
<td>416.783</td>
<td>442.340</td>
<td>462.500</td>
</tr>
<tr>
<td>2</td>
<td>Expenditure</td>
<td>129.773</td>
<td>148.208</td>
<td>181.183</td>
<td>214.176</td>
<td>262.697</td>
<td>308.058</td>
<td>339.402</td>
<td>494.600</td>
<td>584.695</td>
<td>582.200</td>
</tr>
<tr>
<td></td>
<td>Current expenditure</td>
<td>93.634</td>
<td>107.468</td>
<td>126.753</td>
<td>152.430</td>
<td>189.855</td>
<td>226.980</td>
<td>231.962</td>
<td>369.936</td>
<td>413.064</td>
<td>456.700</td>
</tr>
<tr>
<td></td>
<td>Capital expenditure</td>
<td>36139</td>
<td>40.740</td>
<td>54.430</td>
<td>61.746</td>
<td>72.842</td>
<td>81.078</td>
<td>107.440</td>
<td>124.664</td>
<td>171.631</td>
<td>125.500</td>
</tr>
<tr>
<td>3</td>
<td>Deficit (+) /Surplus (-)</td>
<td>26.803</td>
<td>24.348</td>
<td>28.909</td>
<td>23.248</td>
<td>34.410</td>
<td>28.586</td>
<td>23.487</td>
<td>77.817</td>
<td>142.355</td>
<td>119.700</td>
</tr>
<tr>
<td></td>
<td>At constant 1994 price</td>
<td>106.89</td>
<td>107.08</td>
<td>107.34</td>
<td>107.79</td>
<td>108.44</td>
<td>108.23</td>
<td>108.46</td>
<td>106.31</td>
<td>105.32</td>
<td>106.78</td>
</tr>
<tr>
<td></td>
<td>Index (% ; Previous year = 100)</td>
<td>6.89</td>
<td>7.08</td>
<td>7.34</td>
<td>7.79</td>
<td>8.44</td>
<td>8.23</td>
<td>8.46</td>
<td>6.31</td>
<td>5.32</td>
<td>6.78</td>
</tr>
<tr>
<td></td>
<td>Growth rate of GDP (at constant 1994 price)</td>
<td>481.295</td>
<td>525.762</td>
<td>613.443</td>
<td>715.307</td>
<td>839.211</td>
<td>974.266</td>
<td>1.143.715</td>
<td>1.485.038</td>
<td>1.658.389</td>
<td>1.980.914</td>
</tr>
<tr>
<td>6</td>
<td>GDP per capita (USD)</td>
<td>-</td>
<td>440</td>
<td>492</td>
<td>553</td>
<td>642</td>
<td>730</td>
<td>843</td>
<td>1.052</td>
<td>1.064</td>
<td>1.169</td>
</tr>
<tr>
<td>7</td>
<td>Deficit/GDP</td>
<td>5.57%</td>
<td>4.63%</td>
<td>4.71%</td>
<td>3.25%</td>
<td>4.10%</td>
<td>2.93%</td>
<td>2.05%</td>
<td>5.24%</td>
<td>8.58%</td>
<td>6.04%</td>
</tr>
<tr>
<td>8</td>
<td>Debt/GDP</td>
<td>36.00</td>
<td>38.20</td>
<td>41.10</td>
<td>42.40</td>
<td>43.80</td>
<td>43.30</td>
<td>49.70</td>
<td>47.90</td>
<td>52.60</td>
<td>56.70</td>
</tr>
</tbody>
</table>

Source: General Statistics Office, Ministry of Finance