PUBLIC DEBT MANAGEMENT IN VIETNAM: ISSUES AND RECOMMENDATIONS

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Abstract: ***In Vietnam, public debt has recently been one of the issues attracting the most attention at economic forums. For a developing economy having low level of capital accumulation as Vietnam, debt can be seen as a necessary tool for capital funding, meeting investment demands and encouraging production. However, the excessive and incautious use of this financial source will turn debt into a burden for the budget in the future, which will threaten the sustainability of the economy. This research has put together great attempts to comprehensively assess the current situation of Vietnam's public debt management in the current period. On that basis, the article also analyzes the achievements and limitations of public debt management, from which a number of recommendations are proposed to help control the issue in Vietnam.***

• Keywords: *public debt management, economy, Vietnam.*

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Tóm tắt: *Tại Việt Nam, nợ công gần đây là một trong những vấn đề thu hút sự quan tâm nhất tại các diễn đàn kinh tế. Đối với một nền kinh tế đang phát triển, có mức tích lũy vốn thấp như Việt Nam, nợ có thể được coi là một công cụ cần thiết để cấp vốn, đáp ứng nhu cầu đầu tư và khuyến khích sản xuất. Tuy nhiên, việc sử dụng quá mức và thiếu thận trọng nguồn tài chính này sẽ biến nợ nần thành gánh nặng cho ngân sách trong tương lai, đe dọa sự bền vững của nền kinh tế. Nghiên cứu này đã tổng hợp những nỗ lực lớn nhằm đánh giá một cách toàn diện thực trạng quản lý nợ công của Việt Nam trong giai đoạn hiện nay. Trên cơ sở đó, bài báo cũng phân tích những thành tựu và hạn chế của công tác quản lý nợ công, từ đó đưa ra một số khuyến nghị nhằm giúp kiểm soát vấn đề này ở Việt Nam.*

• Từ khóa: *quản lý nợ công, kinh tế, Việt Nam.*

1. Overview of public debt management

Although public debt is understood clearly and intuitively to be the state's debt, the calculation method and scope of the public debt are rather different among countries. However, the most widely used and overarching definitions of public debt are those given by the WB and the IMF. According to the WB and the United Nations Conference on Trade and Development (UNCTAD), public debt is the debt of four stakeholder groups, including (1) the Government, central ministries and agencies, (2) local governments, (3) central banks, and (4) independent organizations of which the Government owns over 50% of equity or budgeting decisions must be approved by the Government or the Government is responsible for repaying their debt in case those institutions default.

Meanwhile, according to the IMF, public debt includes the debt of central and local governments. Specifically, central government debt includes debts of central bodies (such as ministries, agencies under the Government, the legislature, judiciary and the State President) and non-governmental units funded by the state budget (including those performing a specialized function of the Government in terms of health, education, social security, construction, etc. and being controlled and financed entirely by the central government) and social security funds (VEPR, 2015).

As defined in the Law on Public Debt Management in 2009, Viet Nam's public debt comprises Government debt, Government-guaranteed debt, and the debt of local governments. In which: (i) Government debt means a debt arising from a domestic or foreign loan which is signed or issued in the name of the State or the Government or a loan signed or issued by or under the authorization of the Ministry of Finance under law. Government debts do not include debts issued by the State Bank of Vietnam to implement monetary policies in each period; (ii) Government-guaranteed debt means a domestic or foreign loan borrowed by an enterprise or financial or credit institution under the Government's

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guarantee; (iii) Debt of local administration means a debt signed or issued by or under the authorization of the People's Committee of a province or centrally run city (below referred to as provincial-level People's Committee).

The main objective of public debt management is to ensure that the government's financing needs and its payment obligations are met at the lowest possible cost over the medium to long run, consistent with a prudent degree of risk. Prudent risk management to avoid dangerous debt structures and strategies (including monetary financing of the government's debt) is crucial, given the severe macroeconomic consequences of sovereign debt default, and the magnitude of the ensuing output losses.

2. Current situation of public debt management in Vietnam

The long-term strategy on public debt for the period 2011-2020 is reflected in the Prime Minister's Decision No. 958/QD-TTg dated 27/7/2012. This Decision approves the National Strategy on Public Debt and External Debt for the period 2011-2020 and a Vision to 2030. Accordingly, the safety indicators on the national public debt and external debt include: (i) Public debt by 2020 does not exceed 65% of GDP, of which the outstanding government debt does not exceed 55% of GDP and the country's external debt does not exceed 50% of GDP; (ii) The Government's direct debt repayment obligation (excluding on-lending) compared to the total annual state budget revenue is less than 25% of the export value of goods and services; (iii) The ratio of foreign exchange reserves to total annual short-term foreign debt balance is over 200%.

Figure 1: Indicators of Vietnam's public debt management in the 2015 - 2020 period

Indicators	Public debt to GDP (%)	Government debt to GDP (%)	Foreign debt to GDP (%)	The average issuing maturity of Government bonds (Year)
2015	61,0	49,2	42,0	6,9
2016	63,6	52,6	44,7	8,7
2017	62,5	51,8	45,2	12,7
2018	58,4	50,0	46,0	12,7
2019	56,1	49,2	45,8	13,4
2020	55,9	49,9	47,9	13,9

Source: Report of the Ministry of Finance

Compared with the above goals, the achievements of public debt management in Vietnam in recent years can be seen as follows:

Currently, the indicators showing the results of Vietnam's public debt management are still within a safe threshold. Public debt is currently at 55.9%; Government debt at 49.9% of GDP; thereby contributing to national financial security. Especially during this period, the structure of Vietnam's public debt has undergone a drastic change when the proportion of domestic debt tends to increase gradually over the years, reducing the proportion of foreign debt.

Domestic debt is mainly government bonds, which have been improved in terms of maturity, mobilization costs, and investor structure. The bond market in 2020 continued to grow well, meeting the demand for raising capital for the Government to invest in public investment projects and for corporates to expand production and business. The average issuing maturity of Government bonds was 13,9 percent in 2020, an increase of about 2,0 times compared to 2015 (6,9 years). While the average issuing maturity of government bonds reached a record high, the average issuing interest rate of government bonds continued to decrease. This phenomenon shows the efficiency of government bond issuance. In the period 2016-2020, the interest rate has decreased from 6.5%-8.0%/year for terms from 5 years to 30 years at the beginning of 2016 to about 1.2% -3.3%/year (at the end of October 2020), of which the 5-year to 30-year term has the lowest interest rate ever. The decrease in interest rates has created favorable conditions for the Government to increase debt in the domestic market, reduce foreign debt, thereby contributing to the restructuring of public debt in a sustainable way.

Foreign debt is still mainly ODA loans, preferential loans from bilateral and multilateral donors with long loan terms and preferential interest rates. The debt-to-GDP ratios remained within the safe thresholds permitted by the National Assembly and continued the downward trend of 2018 due to favorable developments in the state budget balance. This reduces the Government's need to mobilize capital to offset overspending for development investment.

The legal framework and policies on public debt management are gradually being improved. The efficiency of state management of public debt has been improved in the new situation. Law on Public Debt Management No. 20/2017/QH14 was approved by the National Assembly to institutionalize the Party and State's policy on safe, sustainable and effective public debt management.

The mobilization of a large amount of capital for the state budget and development investment has met the capital needs of the economy and contributed to the successful implementation of the five-year socio-economic development plan.

Limitations

However, public debt management in the 2015-2020 period also shows that Vietnam's public debt management still has many shortcomings.

Firstly, the scope of public debt is overlapping, not reflecting the true nature of each debt. The concept of public debt is still different from international practices, with clearly defined objectives and tools for proactive debt management.

Secondly, although the debt structure has changed, the characteristics of the Government debt portfolio are still potentially risky. While the domestic capital market has not yet developed, the cost-risk profile of the government debt portfolio tends to be less favorable than before and recognizes the dual challenge of more expensive foreign loans.

Thirdly, disbursement of public investment and official development assistance remains slow compared to the plan assigned by the government while the speed of economic recovery greatly depends on public investment, with its efficiency expected to contribute to Vietnam's rapid and sustainable growth.

Fourthly, the Government's direct debt repayment obligation compared to the total state budget revenue tends to increase rapidly. Over the past 5 years, the Government's direct debt repayment obligation compared to state budget revenue has fluctuated unevenly with a rapid increase at the end of the period. The main reason is that the domestic government bonds issued in the previous period to balance the state budget are due to pay the principal. On the other hand, the state budget revenue in 2020 decreased sharply due to the impact of the Covid-19 epidemic. It is estimated that the whole year state budget revenue decreased by 12.5% compared to the estimate.

Fifthly, the information and data system on public debt has not been updated regularly. The reporting regime has not been fully complied with the requirements and the quality is not high, especially for government-guaranteed corporate debt and local debt.

3. Conclusion and policy recommendations

The detailed analysis of the current public debt situation clearly indicates the increasing scale and risks of public debt in Vietnam. In order to improve the effectiveness of public debt management, and meet the requirements, goals in the coming time, it is necessary to continue to implement the following solutions.

(1) It is necessary to improve the collection, management, and disclosure of information on public debt towards increasing the publicity, transparency, systematicality, thoroughness, honesty, objectivity, accuracy, and timeliness. Specifically, the format for statistical reports on public debt, the deadlines for publicizing information, and the update level of the published data should be specified in order to facilitate the management and evaluation of public debt situation.

(2) With regard to the management of risks stemming from government-guaranteed debts, there should be a mechanism for monitoring and minimizing the number of cases that the budget has to be used to pay or guarantee SOEs' self-borrowing and self-repayment debts when these enterprises go bankrupt. Take measures to restrict debt guarantee and increase the publicity and transparency of government guarantee.

(3) It is necessary to mobilize, use and manage loan funds as well as the assurance of full and on-time repayments. Loans to balance the State budget must be strictly controlled, so as to secure the overspendings as set in the Strategy and gradually update the methods of calculating State budget overspending in line with international practices.

(4) The focus would be placed on raising capital from domestic sources first. If domestic sources were still significantly short of the demand for covering overspending for development investment and debt repayment, the Government would study the issuance of international bonds when the market conditions are favorable. Based on the disbursement of capital, the ministry would be flexible in using appropriate tools to raise domestic and foreign resources to meet the capital demand, including Government bond issuance, foreign concessional loans.

(5) Frameworks, institutions and policies on managing public debts, government debts and national foreign debts should be further perfected in order to secure stability and uniformity, meet requirements of the renovation, and create favorable conditions for the development of domestic capital markets and improve the access to international capital markets.

(6) The final solution that should be implemented is proactive debt restructuring towards sustainability, towards improving debt safety indicators and enhancing the sustainability of medium and long-term debt. At the same time, it is essential to strictly manage and control provisional debt obligations of the state budget; definitively handle the projects facing debt repayment difficulties of the previous period; strictly control new guarantees, ensure compliance with regulations and efficiency.

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