

# Public Debt Strategy in Vietnam: Issues Posed for Period 2021-2030

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**Abstract:** *Public debt, external debt, and public debt management are among ardently debated topics on national and global forums. The paper analyzes the implementation of the Vietnam's Public Debt Strategy for the period of 2011-2020, based on which suggestions for the development of the 2021-2030 Public Debt Strategy are introduced, including: (i) improving the quality of strategy-making and planning processes as well as the legal framework for coordination and monitoring of strategy and plan implementation; (ii) developing a complete process for management of public debt, foreign debt, and fiscal and monetary policies; (iii) indicating further the distinctions between local and central government debts; (iv) assessing risk tolerance during the stage of strategy formulation; and (v) enhancing statistical capability, providing quality information associated with public debt management, and defining evidently the category of public debt for management purposes.*

**Keywords:** Public Debt, Public Debt Strategy, State Budget, Management, Vietnam

## 1. Introduction

Public debt is the debt borrowed by state agencies from holders at home or abroad to cover expenditures and to contribute to the performance of their functions and tasks as prescribed by law. The principal and interest of these loans must be repaid when due, so the government will have to collect increased taxes to compensate. Thus, the nature of public debt is to decide the time for taxation, today or tomorrow, and to tax this generation or the next generation. Public debt, in term of sources, consists

of internal and external debts, which are own respectively by domestic or foreign creditors.

Public debt management, according to the International Monetary Fund (IMF) and the World Bank (WB), is the whole process of planning and implementation of the government's debt management strategy that aims to mobilize the required capital amount at the lowest cost within the medium to long terms and consistent with a level of risk prudence (IMF, 2014). Effective management of public debt is very critical

to economic development in every country. Ineffective management of debt can put a country in financial difficulties or even into a debt crisis.

Vietnam in recent years has achieved significant results in public debt management for the implementation of socio-economic development tasks. The legal framework for public debt management has been gradually improved, contributing to the mobilization of a large amount of funding for development investment. The allocation and use of loans are also efficient and serve the right purposes. Nevertheless, the loan mobilization has been separated from the approved strategies and plans, resulting in low and passive enforcement while there are no sanctions to ensure the compliance in management of public debt (Truong Hung Long, 2018).

Vietnam is now in its development process of the 2021-2030 Socio-economic Development Strategy and the 2021-2025 Socio-economic Development Plan. The article thus provides an analysis of the implementation of the 2011-2020 Public Debt Strategy, by reviewing the major policies carried out by the government and the results of public debt management together with existing problems and causes, in order to clarify the questions raised for the construction of the 2021-2030 Public Debt Strategy.

## **2. Instruments for public debt strategy**

As public debt includes short- and long-term debts, the government must build a comprehensive and complete system of policies and strategies for public debt management and link them with other national plans and strategies. The instruments for public debt strategy are identified in Hoang Ngoc Au (2018) as follows:

*Long-term public debt strategy:* The strategy sets out the goals, directions, solutions, and policies for public debt management which are built within the framework of the national financial strategy and in line with the country's 5-year socio-economic development plan and 10-year socio-economic development strategy. Main contents of the long-term public debt strategy include an assessment of the public debt situation and management in the previous period; objectives and orientations for the mobilization, the use and management of loans; management solutions and policies to ensure the mobilization of funding, the efficient use of funding, financial security, and implementation plans.

*Medium-term public debt management program:* The program provides details of the long-term public debt strategy for the nearest 3-year period in accordance with the government's policy framework for economy, finance, and medium-term budget plan. Key contents of the program include objectives, tasks and solutions for the mobilization and use of loans and debt payment; policies and mechanisms for debt management in the 3-year period in order to realize the safety indicators defined by the National Assembly.

*Government's annual plan for borrowings and repayments:* The plan provides details of government's loans and repayments, including: (i) the plan for domestic borrowings that consists of the fund-raising plans for the state budget and for development investments; (ii) the plan for foreign borrowings, including official development assistance (ODA) loans, concessional loans, and commercial loans, which are listed by foreign creditors; (iii)

the repayment plan detailed by creditors with specifications for principal and interest repayments and for repayments of internal and external debts.

*Public debt management policies:* They are policies and legal documents that form the legal framework for public debt management, orientations for goal setting and loan mobilization and spending. Such policies help define clearly the functions, tasks, and authority of agencies in charge of public debt management to increase the effectiveness of their performance and avoid overlap. At the same time, the criteria for public debt monitoring and public debt management assessment are also promulgated to promote the transparent inspection and supervision of public debt management.

*Public debt monitoring indicators:* They are indicators for debt safety through which debt ceiling is set and approved by the National Assembly. These indicators include: public debt to gross domestic product (GDP); government debt to GDP; government's direct loan repayment obligations (excluding on-lending) to the total annual state budget revenues; national external debt to GDP; national loan repayment obligation to the total exports of goods and services.

### 3. Vietnam's 2011-2020 Public Debt Strategy

The long-term strategy on public debt in 2011-2020 was issued with the Prime Minister's Decision 958/QĐ-TTg dated July 27, 2012. This Decision also introduced the National Public Debt and External Debt Strategy in 2011-2020 and vision to 2030 as well as the safety indicators for public and external debts. Those indicators are specified as follows:

(i) Public debt by 2020 shall not exceed 65% of GDP, of which government debt and external debt shall not exceed 55% and 50% of GDP respectively; (ii) Government's direct loan repayment obligations (on-lending excluded) to the total annual state budget revenues should be less than 25% of the export value of goods and services; (iii) The annual ratio of foreign exchange reserves to the total short-term external debt shall be higher than 200%.

Accordingly, the safety indicators as of the end of 2019 shows that Vietnam's public debt was maintained within the safety threshold. Public debt was below 55% of GDP, government debt less than 48.5% of GDP (of which internal debt and external debt accounted for 62.3% and 37.7% of GDP respectively) (MOF, 2020). The country's external debt was about

**Table 1. Public debt monitoring indicators for 2010-2019 (%)**

Year	Public debt to GDP	Government debt to GDP	National external debt to GDP
2010	56.3	44.6	42.2
2011	54.9	43.2	41.5
2012	50.8	39.4	37.4
2013	54.5	42.6	37.4
2014	58.0	42.6	37.4
2015	61.0	49.2	42.0
2016	63.6	52.6	44.7
2017	62.5	51.8	45.2
2018	58.4	50.0	46.0
2019 <sup>1</sup>	56.1	49.2	45.8
Vision to 2030	60.0	50.0	45.0

*Source:* Authors' synthesis from MOF's 2019 Public Debt Newsletters.

<sup>1</sup> Estimated debt until December 31, 2019 in "Report on public debt in 2019 and estimations for 2020" (GoV, 2019).

45.8% of GDP, contributing to ensuring the national financial security (Table 1). Meanwhile, internal debt was mainly the government bonds with improvements in payment term, deposit costs, and the structure of investors. The remaining term of the government bonds in 2019 was 7.4 years, 1.4 years higher than that in 2016, and the average interest rate went down from 6.7% per year in 2016 to 4.5% per year in 2019 (MOF, 2020). As for external debt, there were mostly ODA loans and concessional loans from bilateral and multilateral donors with long loan terms and preferential interest rates. Debt ratios to GDP were maintained within the safety thresholds approved by the National Assembly and continued their downward trend since 2018. It is due largely to a good balance of the state budget, resulting in a cut in the government's required amount to be mobilized to offset the deficit for development investment.

In years of the period 2011-2020, the Prime Minister approved three medium-term loan management programs, namely: (i) Decision 527/QĐ-TTg dated April 23, 2009 on approval of Medium-term external debt management program in 2009-2012; (ii) Decision 689/QĐ-TTg dated May 4, 2013 on approval of Medium-term public debt management program in 2013-2015; (iii) Decision 544/QĐ-TTg dated April 20, 2017 on approval of Medium-term public debt management program in 2016-2018. These documents have specified the long-term debt strategy for each period of three to five years in accordance with the government's economic and financial policy framework and medium-term budget goals. The Ministry of Finance (MOF) in 2019 had submitted to the

Prime Minister for approval of the 2019-2021 medium-term debt management program, the government's borrowing and repayment plans, and the loan ceilings set for 2019.

In the first 9 months of 2019, the government through domestic bond issuance had borrowed VND 160,991.5 billion (52.5% of the year's target) with an average issuing term of 9 months for an average bond term of 13.51 years. In the same period, the disbursement of ODA and concessional loans was USD 1,416 million, approximately VND 32,737 billion (of which around USD 1,021 million for allocation and USD 396 million for on-lending). While the approved quantity for on-lending in 2019 was VND 43,402 billion, the estimated disbursement for on-lending for the whole of 2019 year was VND 30,377 billion (70% of the target), of which VND 12,122 billion (40%) to local governments and VND 18,255 billion (60%) to enterprises and public non-business entities. As for debt repayment obligations accumulated in the first 9 months of 2019, the amount paid by the government was VND 237,470 billion (71.3% of the planned target), of which VND 196,281 billion and VND 41,189 billion paid to domestic and foreign creditors respectively (GoV, 2019).

Besides, the government's detailed plans of borrowings and repayments have been concerned of and improved every year. However, there remains inconsistency in the information released in the plans which did not fully reflect the real situation of the state budget and the government's debts and debt repayment capacity, resulting in difficulties in providing an accurate assessment.

The public debt management strategies, plans, and policies for the 2011-2020 period have contributed significantly to the implementation of the country's socio-economic development tasks. The public debt policies have been gradually developed and completed over the time towards approaching international practices and more efficient and effective management of public debt. Many decrees by the government and decisions of the Prime Minister have been issued for strengthening the management of national public debt and external debt. The government has directed the studies for development and the implementation of public debt management tools and submitted to the National Assembly for approval of the national targets until the end of 2018 for public debt, government debt and external debt. The Prime Minister's approval of long-term debt strategy and medium-term debt management programs together with the government's detailed repayment plan, indicators for sustainability assessment of public debt and orientations for public borrowings and repayments have contributed to the early realization of guidelines and solutions for public debt management.

Nevertheless, Vietnam's legal framework for public debt management in the 2011-2020 period exposed also inadequacies. *Firstly*, the overlaps in the scopes of public debts do not either reflect their true natures or international practices, leading to unclear definition of targets and tools for an active management. *Secondly*, there was an absence of the medium-term plans for public investment and finance in 2011-2020. The main instrument was the annual plans with regular adjustments, making the medium-term management of public debt

impractical. *Thirdly*, Vietnam's medium-term debt management program covers a wide range of issues rather relevant to monetary policy and public expenditure than public debt. Meanwhile, it left out the analysis and assessment of funding sources, debt structure, and mobilization scenarios associated with costs and risks to be in line with international standards. *Fourthly*, there were no regular updates for the database on public debt while the reporting regime had not been fully complied, resulting in time-consuming and low-quality reports, particularly for the debt owed by enterprises with the guarantee of the central and local governments (Hoang Ngoc Au, 2018).

Both institutional and manpower causes attributes to the abovementioned shortcomings in public debt management. *Firstly*, although Vietnam has been internally integrated in finance for more than 10 years, its legal framework for the sector and for public debt management are slowly adapted to international practices. An unstandardized legal framework as such could be a detriment to the loan negotiations since loan agreements with foreign creditors often follow the provisions of international treaties (Hoang Ngoc Au, 2018). *Secondly*, the shortage of qualified staff is the main cause for limitations in dealing complicated public debt operations where market knowledge and skills for information processing and analysis are highly required. It should be mentioned also professional ethical standards of public debt managers to avoid operational risks in public debt management.

#### **4. Questions raised for the 2021-2030 Public Debt Strategy**

Three fundamental elements are required in building a debt strategy: cost/risk analysis,

impact assessment of macroeconomic environment, and assessment of debt market development. On that basis, a debt strategy is developed following international standards with adjustments to fit the Vietnamese conditions. The following issues need to be considered in the development process of the 2021-2030 Public Debt Strategy:

*Firstly*, improving the quality of strategies and plans, sanctions, as well as mechanisms for coordination, monitoring, and implementation of strategies and plans should be taken care of. Another focus is the development and approval of long- and medium-term and annual public debt programs for reports to the National Assembly. Specifically, strict management of public debt is required in the coming period. New loans in particular must be accompanied with impact assessment right in the policy approval stage. Public debt should only be employed for vital projects under contracts for the use of public loans and with no adjustment to increase the total investment capital. In addition, more rigorous requirements for loan guarantee should be applied towards not expanding the list of guaranteed borrowers and better control of loans guaranteed by the central government.

It is necessary to consider the establishment of a National Public Debt Policy Council for the making of periodical loan policy and strategy. Public debt strategy needs to be attached with the socio-economic development strategy, macroeconomic indicators, and state budget revenues and expenditures with the approval of the National Assembly. If the public debt strategy submitted by the government is passed by a National Assembly resolution

for every 5-year term, its legal effect would be more significant (Dao Van Hung, 2016). A standardized process is essential for the formulation of debt strategy. It should be built based on the guidelines of international organizations as well as successful practices of other developing countries and includes the scale of speed of debt growth, structures of interest rates, debt terms, debt currency, and debt repayment capacity.

*Secondly*, a complete process and mechanisms for coordination in management of public debt, external debt, as well as fiscal and monetary policies are required. Since July 2017, Vietnam is not eligible for subsidized credits through the WB's International Development Association (IDA) programs. Borrowings of the country has gradually shifted from low-cost ODA to less concessional loans and commercial loans with market costs. The interest rates have increased from a preferential level to nearly a market level. In low-income countries, governments often borrow ODA loans at preferential interest rates to offset budget deficits and to on-lend to the private sector. Criteria and institutions for public and external debts could be unified. However, in countries with access to capital markets, the private sector can borrow the world market. Changes in public debt and external debt management are necessary to avoid overlaps and to meet the goals of each individual loan.

Concerning external loans without government guarantees, central banks often assume responsibility to manage and supervise the loans following the principles of self-borrowing and self-repayment. Countries do not set ceiling for external loans of the private sector but apply management tools to particular

types of businesses and organizations instead. For example, Indonesia requires non-financial businesses to use derivative instruments on short-term external loans and to apply requirements of minimum liquidity ratios and credit ratings (Bank Indonesia, 2014). Meanwhile, India sets different USD ceilings for foreign loans by firm and by sector. Excessive loans need to be approved by the Central Bank of India (Reddy, 2000).

*Thirdly*, distinctions between central and local government debts need to be defined more explicitly for management decentralization and the increase of local responsibility in debt management and liability. It requires accordingly the formulation of criteria for classification of local debts in order to filter out non-public debt (to avoid overlapping count) and those that are not loans in nature (e.g., advances from the land fund or from the central budget). In order to do so, it is necessary to separate debts between public organizations and agencies and between budget levels in the state budget system as prescribed in the 2015 Law on State Budget. This is to facilitate the information and data collection for the review, report, and publication of the country's public debts while, at the same time, avoiding the duplication of debt counts and inflation of the size of public debt. The enforcement of the Law on Public Debt Management (in 2009 and 2017) and its guiding documents have created flexible mechanisms to encourage ministries, sectors, localities, and businesses to increase mobilized funding from domestic and foreign sources for public investment and for synchronous development of infrastructure. In comparison with the

2009 Law on Public Debt Management, the 2017 Law regulates more strictly the management of local government debts with clear definition of responsibilities and borrowing and repaying conditions for local governments. The consistency of this 2017 Law with other relevant laws, such as the 2014 Law on Public Investment and the 2015 Law on State Budget, is also ensured.

*Fourthly*, it is critical to assess risk tolerance in the strategy development process. The government's risk tolerance may change over time depending on the size of the government's debt portfolio and its vulnerability to economic and financial shocks. The debt strategy thus includes various options, including options for maturity term, loan currency, conditions associated with interest rates, and so forth. Besides, there should be a strategy for atypical public debts as they can result in financial liability or existing debts under certain conditions. If atypical public debt is not properly structured and monitored, the government's control would likely cause shocks that increase public debt rapidly. Moreover, both qualitative and quantitative impact assessments of macroeconomic factors on public debt should be carried out. *Fifthly*, the quality of statistics and information for public debt management must be improved together with clear definitions in the category of public debt for management purposes. Contingencies also need to be added to the category of public debt. Contingencies could be either the debts arising in the operation of the state budget (e.g., construction outstanding debts of the local and central state budget, debts for value-added tax refund, or subsidies for interest rate

difference) or government-guaranteed/on-lent loans that are uncollectible. In both cases, the source of payment cannot be arranged and the government must borrow to repay such debts (i.e., already existing debts). According to the IMF and the WB (2020), government-guaranteed loans do not fall within the category of public debt and, therefore, are treated as contingencies and recorded as memo items. Government-guaranteed loans are only considered public debt when the guaranteed borrowers do not pay their loans on time and, in fact, this is not always the case. The category of public debts should provide evident definitions of the State Bank's debts, self-borrowing and self-payment debts, and payables of state-owned enterprises (SOEs). In addition, contingent liabilities (atypical debts), such as SOEs debts, bailout debts, debts from bankruptcy of credit institutions, expenses of disaster recovery, are highly potential risks to public debt sustainability also.

### Conclusion

The public debt strategy is one among critical tools for macroeconomic management. The implementation of this strategy in the 2011-2020 period has initially helped set out goals, orientations, solutions and policies for public debt management in Vietnam. The public debt strategy, within the framework of the national financial strategy, needs to be developed in line with the country's 5-year socio-economic development plan and 10-year socio-economic development strategy. Nevertheless, the actual implementation of the 2011-2020 Public Debt Strategy has exposed inadequacies of the legal framework for public debt management, which related to category

of public debt, public debt database and information system, and other management related issues. In order to develop a good strategy and implement it effectively in 2021-2030, Vietnam should continue its focus on the funding mobilization from safeguarded sources, improvement of statistical quality, distinction between central and local public debts, as well as assessment of risk tolerance against economic shocks □

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