

## VIETNAM'S PUBLIC DEBT MANAGEMENT TODAY AND SOME SOLUTIONS

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*Policies on public debt management have become an important part in the fiscal system of a country. Crisis on European public debt management is an alarm for countries that are facing with this issue. Vietnam public debt management, majorly external debt, has significantly increased recently. The possibility of being in crisis will be extremely high if there is no proper management. The figure is estimated at 60-65% of Vietnam's GDP by 2015 and this debt amount might pass the safety level based on the international standards. The article has summarized and suggested some solutions to improve the public debt management for current period.*

According to the Clause 1. Article 2 in the Law on Public Debt Management, the public debt management comprises government debts, government – guaranteed debts and debts of local administrations. Public debt management can be considered as a part of macro – economic management, including planning, raising and using loans as well as loan payments for the economic growth, decreasing the poverty and maintaining the growth without difficulties in payment. Public debt management can not be separated with macroeconomic policy management, state budget management, foreign reserves and payment scale.

Public debt management is related to state offices, hence, its management content is diversified and complex and included both technical and mechanism perspective. The technical term focuses on the debt safety norms as scope, debt structure, monitoring and ensuring the ability to pay the loan in future. The mechanism perspective is related to making debt strategies, creating legal frame, allocate the mechanism, functions and responsibilities of management offices. These jobs are described as the below figure (see next page).

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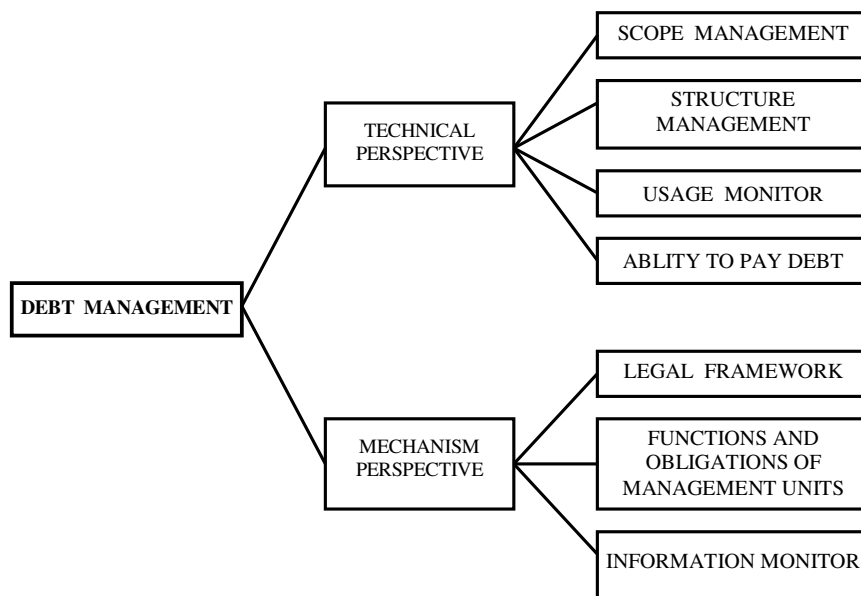
Vietnam issued Law on Public Debt Management in 2009 as a developing step in the international integration in this major. Loans from local and foreign sources are based on the law which facilitate for all investors. Currently, most of loan sources is official development assistance (ODA) and has become an important source in the progress of socio-economic development. In fact, the management of ODA and its usage are not efficiency: low rate of disbursement, decreasing level of incentives and issues related to loan payment. It could be the reason of public debt crisis which some countries are experiencing. Vietnam public debt has significantly increased mostly external debt in the period of 2001 to 2012. The crisis would happen without the proper management. Government estimated by 2015, Vietnam public debt would rise to 60 – 65% of GDP. Economic Committee of National Assembly (ECNA) pointed that this debt

level has exceeded the safety norm and should be cautiously used. Currently, Vietnam and state offices are doing researches to figure out suitable solutions which can control and improve the public debt management as well as promote the economic growth [See 5].

**I. Vietnam's Public Debt Management (2006-2012)**

*1. About the system of documents on public debt management in Vietnam*

For debts with foreign sources, the most powerful legal document is the Decree no. 134/2005/NĐ-CP, issuing regulations on control of foreign loans and loan repayments, and Decree 131/2006/NĐ-CP, issuing regulations on management and use of Official Development Assistance. According to these decrees, Prime Minister issued regulations to describe the processing of foreign loans management, for example, issuing and monitoring the government – guaranteed debts,



refinancing from loans, government's foreign aid, building a system of standards for evaluation, status control and informing debt details. In general, legal documents on foreign debt adjustment are

relatively completed and in – synced, and partly show the new viewpoints of State. They are suitable with the Law on National Budget 2002 and update modern definition and methodologies of debt management based on international standards.

For government debts and government – guaranteed debts, the most powerful legal document is Law on Public Debt Management issued by National Assembly in June 17<sup>th</sup> 2009, including loans operations, loan usage, loan repayments and processing of public debt management. Law on public debt management has solved many limitations, especially those related to the responsibilities of offices that are in charge of public debt management and usage such as National Assembly, Government, Ministry of Finance, Ministry of Investment and Planning, and State Bank of Vietnam.

## *2. About raising, allocating and using loans*

### *\* Using government bonds*

The latest figures provided by State Audit Office of Vietnam showed that government bonds has raised 155.332 billion dong and 534 millions USD as a compensation for budget deficit and expenditure on developing investment in 4 years (2006 – 2010); total amount of government bonds which has paid for the principal was 91,530 billion VND when the total interest amount was 33,544 billion VND. However, there are cases of using government bonds for wrong purposes.

Government bond issuance is to improve the implementation of the socio – economic targets and the living standards of public. Bond issuance, management and usage have obtained fundamental and important achievements in spite of bond issuance is a new operation which is facing with difficulties and complicated challenges in a low – developed local market; especially in 2008 and 2009, the national economy was affected by the global crisis and the economy went down. Ministry of Finance, and some related offices, however, issued government bonds then raised a remarkable amount of capital which can cover for the state budget deficits and expenditures on developing investments.

There are 1410 projects and research works completed and in used until August 31<sup>st</sup> 2010 in the report of Ministry of Planning and Investment. This figure is equivalent to 68% with significant projects as Hochiminh road project (1<sup>st</sup> period) with the length of 1,432 km, or highways as 4C, 4D so on.

### *\* Using ODA*

In recent years, ODA is mostly used for following targets: (1) agricultural and rural development (including agriculture, irrigation, forestry, and aquaculture together with hunger elimination and poverty alleviation); (2) construction of synchronous and modernity – oriented economic infrastructure ; (3) construction of social infrastructure (in health, education and training, population and growth, and some other fields); (4) protection of the

environment and natural resources; and (5) enhancement of institutional capacity and development of human resources; technology transfer and improvement of research and development capacity. The following fields are priority fields for ODA use:

- *Agricultural and rural development:* Total values of ODA projects and programs signed within period of 1993 to 2011 reached 7 billions USD, including big projects as Project on poverty reduction in Northern mountainous area, Project on agricultural infrastructure growth by public, Program on Water Resources in Cửu Long Delta, and some projects on agricultural growth tied with poverty reduction and somehow contributed a part in supporting poverty reduction activities and improving the public life in far regions, especially to access public services in medical, and education fields.

- *Energy and industry:* It is one of the fields using large amount of ODA with total expense for projects around 7,6 billions USD. The aim is to improve, upgrade and develop more new thermal power and hydropower plants with high capacity. These plants also can reform and develop the electricity transition network and national distribution for requirements of production and daily life. It is a valuable and meaningful capital in the first period of development when the demand on investing in the electricity network is not high because of big investment and taking long time for capital recovery.

- *Transportation and Posts and Telecommunications:* According to the Ministry of Planning and Investment, this is the sector which used ODA the most, total values of commitment signed during the period of 1994 to 2012 was 11 billions USD. Vietnam has recovered and started building roads, railways, airlines, maritime and local water transport. They are important economic infrastructure which helps to improve all industries, sectors, provinces including attracting more FDI.

- *In health, education and training, environment, science and technology:* They are prior sectors to attract and use ODA through programs and projects signed over the period, total value up to 5 billions USD. ODA is used for improving education and training in all levels. There are projects for training teachers, improving their ability to make plans and manage the education, provide scholarships for post – graduates courses. Lectures and offices could also be sent abroad for training in such fields as economy, science, technology and management.

Besides, more than 1 billions USD of ODA will be used for budget support through loans and Non – refundable Aid which is tied with policies of World Bank, Asian Development Bank, International Monetary Fund and some bilateral sponsors in following issues: support to implement economic policies in finance, monetary, banks, private sectors, governmental enterprises so on.

## II. Overall evaluation

### 1. Achievements in public debt management

In recent times, Vietnam's public debt management has achieved some remarkable improvement which has contributed to the sustainable growth of national economy as described below:

- Through using and borrowing loans, State and local authorities have raised a big amount of capital for investment as well as ensured the safety norms.
- Capital raised from domestic sources through issuing bonds and treasury bill has formed a local market for government bonds. It is an important factor to achieve a completed financial market. Listing and trading government bonds will increase the liquidity of market as well as developing the local capital market.
- In the public debt management. Legal documents are getting completed and basically reaching the international standards, especially external debt management. Government manages the government and national debt by assigning for certain responsible units.
- Local and foreign repayment of government debts are always processed fully and in time. There are no overdue debts as the previous years. The debt obligations of Vietnam have remarkably decreased through positive negotiation of handling old and foreign debts of Paris and London clubs.
- Vietnam has law on adjusting the differences of public debts which is vital to ensure the efficiency and synchronization in the management.

This can also avoid the separate management, lack of information and inefficiently collaboration between management offices in all levels and provinces. In addition, law on public debt management could be considered as a statement of Vietnam for all sponsors about the transparency in the management.

- The law itself has been a progress of regulating the synchronized rules by Government so that they can better manage the public debt from loans, supervise the loan usage and ensure the debt safety norms based on the Debt strategy in long term and Debt Management Scheme in middle term.

### 2. Some issues related to the public debt management

*Firstly, it is the limited understanding of public debt, as a result, incorrect evaluation of Vietnam's public debt.* In the law on public debt management issued in 2009, public debt contains three major types as government debts, debt of local administrations and government – guaranteed debts. These three types are determined as Government's direct loan repayments and follow the international rules.

*Secondly, there are no regulation on policies and strategies for Vietnam's public debt.* Currently, the law does not clearly describe policies of public debt and does not have any article mentioned to this issue. Public debt policy is one of the important lodestars which improve the efficiency of public debt management. Hence, it is necessary to have detailed regulations for it. Also, the

debt strategy is considered as a tool for management but there is not any part regulated about the strategy in the law.

*Thirdly, there is misunderstanding between government management and monitoring activities.* Management is reflected through the ability of allowing, prohibiting, and punishing. And monitoring could be understood as the evaluation, the analysis and the recommendations so it does not required the governmental factor. However, the function of monitoring is very important because it is the pre-condition and the tool to implement the government management effectively.

### **III. Some solutions to improve the public debt management in future**

#### *1. Complete the legal document and the mechanism of public debt management*

The issuance of Law on Public debt management is a big progress of Vietnam as a step to complete the law system. However, the law is only an overview and does not meet the management's requirements due to limited time for preparation and the complicated operations. The following concepts are required to be adjusted:

- Scope of adjustment: Law should take the government enterprises in order to ensure the synchronization.
- Management of loans repayments of Governmental offices: Public debt should be managed by one department. For example, Ministry of Finance should manage debt of WB, ADB instead of State Bank, including ODA capital.

- About the payment for loan capital: there is no regulations on delivering loans to borrowers, especially those belong to the local administration. How these loans should be handled when these people retire, or do not have ability to pay for the loan, or pay late. Who will be in charge of those loans and will the government agree with doing guarantee for them?

- About the government guarantee: there should be rules of the subject of guarantee which increase the efficiency of public debt. The law of responsibilities of offices/ individuals/ organizations, who are allowed to refinance the loans, should be added more about the duties and responsibilities of each subject, especially those are in charge of appraising the ability to implement and payment of borrowers.

#### *2. Solutions to complete the public debt management*

- Establish the committee of public debt management to increase the collaboration between ministries and sectors.

The efficient public debt management depends on forming a well and clearly legal framework. This will allow related offices to operate state's requirements better. The communication between relevant offices and departments are not enough to ensure the synchronization and update of debt statuses.

It is necessary to have an official mechanism at macro level for a better management as the target set up by

Government. State should organize a committee of public debt management with the participation of various ministries. This committee will meet the requirements of a collaborative mechanism which is monitored by National Assembly.

The representatives from ministries include Ministry of Finance, Ministry of Planning and Investment, State Bank of Vietnam, Government Office, and Ministry of Justice with Chairman as Prime Minister; This committee is a part of Government and members of committee will have equal rights and obligations in implement all decisions made by the committee.

- Improve the level of management

Human is always a key and deciding factor in all social and economical activities. Hence, the improvement of level of management has become urgent and essential for the process of policy making and monitoring. Public debt management's officers should have ability, including technical ability, to make statistic, classify, summarize, analyze, evaluate and estimate about all debt types. Government has plan of combining the loan and loan repayments in text books of universities teaching about economy, finance and banking. One of solutions to improve the training for officers could be assigning experts and officers to have lecture about practical issues, methodology of debt management, and to implement training programs for those who work on debt management in provinces.

- Build the database of public debt management

Techniques of debt analysis and evaluation have been applied worldwide and significantly grown up together with technology and information. Debt management asks for the correct figure and detailed analysis which are efficiently supported by technology and information. Many countries are using the public debt clock while information of public debt, provided by Ministry of Finance, is always lagged about 6 months in Vietnam. This will be a challenge for making policies and attracting the public's attention.

Consequently, functionalities of software, which Ministry of Finance is applying for public debt management, should be completed. Government needs to assign local People's Committee to monitor and collection information of public debt as well as set up a periodical report system of debt status for Ministry of Finance. However, not all provinces are able to apply technology at this moment due to their limited knowledge and high costs.

*3. Improve the efficiency of raising, allocating and using loans.*

A plan of attracting and using capitals, especially ODA capital, should be built so that the capitals from loans can be effectively used for socio – eco infrastructure construction, economic growth, hunger elimination and poverty alleviation. The separated and small investments or big investments in some certain provinces should be limited in

order to keep the balance for nation's sustainable growth. Moreover, projects need to be ensured of the quality and long term economic benefits. This will attract more local and foreign investors through issuing government bonds and local administration's bonds or some other tools of government.

The collaboration between ministries and provinces and investors is also essential for the high rate of disbursement and speeding up the project's implementation and reducing time of construction. This helps to save the grace period and improve the efficiency of using investment capital.

There are two rules of using loans effectively: do not use short term loans for long term investments, and do not use foreign commercial loans for projects which are able to directly recover capital or to pay the debts; proper checking and supervision are required for the process of using debts which are guaranteed by Government, especially those who directly use the capital as economic corporations, commercial banks, investment projects for infrastructure.

#### *4. Increase the transparency of public debt information*

Public seldom access the public debt bulletin gateway, especially debts of governmental enterprises, for details and information. Law of Vietnam on public debt (Clause 47) is basically completed and able to cover most of public debt issues but there are still some

differences from international law, for example, non – budgetary funds.

The transparency is a basic and popular rule in public debt management, especially fiscal year management, around the world. In 2007, the Manual on Fiscal Transparency issued by IMF has discussed about the international principles on this issue.

Fiscal transparency requires legislatures to clarify the debt and debt flow, including the government guarantee debt in annual reports of Government then release to public.

#### *5. Some other solutions*

*Ensure the sustainability of debts:* Tightly supervising and making payment on time; Creating a safety threshold and a suitable loan limit; Collecting, reporting and releasing standards of debt monitoring; Periodical or inconsistent report when there is any estimation of losing the safety debt level; Working with Government offices to have solutions to debt safety.

*Improve the risk management:* Building regulations on risk management in which all types of risk should be monitored, including: rate, interest rate, refinancing, liquidity, credit; operations; learning international experience of fee calculation for guarantee and loans which reflect the risk level of credit and market; Building standards of supervision and flexibly implement transactions for risk handling, including derivative transactions; Reports on analysis and evaluation.

*Improve the growth of local capital market:* Gradually increasing the percentage of cases which have handled the local risks in the Government's list; Building policies, documents and system applied for both primary and secondary market; Assigning market makers; Building programs for maintaining relationship with investors; Doing researches in order to raising local bonds step by step at the market rate. It means to rebuild the interest rate curve; positively implementing transactions related to buy or exchange debts.

*Improve the international relationship:* Improving the promotion the government bonds in international market. Setting up channels which update the news related to macro economy, public debt, foreign loans of the country; Updating news and market data from international financial information gateway; Learning the experience about management and policy making from international organizations or countries which are successful in debt management. Studying how to improve the national credit score index □

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