Ensuring growth and stability

INTERVIEW WITH H.E. DINH TIEN DUNG

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DINH TIEN DUNG served as head of the State Audit of Vietnam before being appointed Minister of Finance in 2013. A native of Ninh Binh province in the Red River Delta, he holds an MA in Economics and Laws. He began his career in the construction industry before joining the Ministry of Construction. He subsequently served as Party Secretary of Ninh Binh province before joining the State Audit and then the Ministry of Finance.

What measures are being taken by the Ministry of Finance to promote economic growth while maintaining the stability of the Vietnamese economy?

In 2017 and the first half of 2018 the socio-economic situation of Vietnam improved while macroeconomic stability was been maintained. GDP growth in the first half of 2018 was over 7 per cent – a higher level than the same period last year. However, the country still faces international unpredictability in finance, trade and investment, and domestic challenges such as natural disasters and sluggish economic restructuring. In this context, the Ministry of Finance, in accordance with directives from the National Assembly and the Government will continue to implement the following eight major solutions:

First, to further improve the performance of financial institutions and implement policies to encourage increased production, investment and enhance national competitiveness. At the same time we wish to accelerate administrative reform, particularly in the areas of taxation and customs.

Second, to implement a disciplined fiscal policy to achieve growth and control inflation. This includes budget and revenue management, measures to reduce tax evasion, and strengthen the management and oversight of the off-budget state funds.

Third, to accelerate measures in state budget restructuring and public debt management to ensure sustainable national finances. We will strictly control the state budget deficit within the range of 3.7 per cent of GDP as set by the National Assembly.

Fourth, to closely monitor world market price fluctuations, especially the price of crude oil and essential goods and services so as to keep the inflation rate within the target range. We will continue economic management in accordance with market mechanisms while maintaining state control over the price of some essential goods.

Fifth, to promote measures for the development and synchronous restructuring of the capital, stock and insurance markets.

Sixth, to accelerate the process of SOE restructuring with an emphasis on institutional improvement and intensifying supervision and auditing capabilities to avoid losses of state capital during the reorganisation and divestment of SOEs.

Seventh, to modernise public service delivery units and their service charges, moving from direct state budget support to sustainability and at the same time streamlining the organisation and staffing to promote greater efficiency.

Eighth, to diversify the country's international cooperation partners. We will continue negotiations of free trade agreements and implement the schedule of tariff reductions agreed within signed FTAs.

What channels does the Ministry of Finance use to increase state budget revenues?

Currently, Vietnam is undertaking a process of restructuring the economy. Vietnam's economy is also increasingly integrating into the world economy and becoming more open. This process not only brings positive impacts, but also challenges, especially the decrease of revenues from import-export activities as a result of our tariff reduction commitments.

To respond to the above, the National Assembly approved a five-year national financial plan for 2016-2020 with important policy decisions on revenue, expenditure, and the balancing of the state budget and public debt. It requires the improvement of the revenue policy in combination with the restructuring of state budget revenues covering all revenue sources, expanding the revenue base, especially new revenue sources, in line with best international practices. We wish to increase the proportion of domestic revenue and ensure a reasonable proportion of direct and indirect taxes. In implementing the resolution of the National Assembly, the Ministry of Finance has been implementing the following major solutions for the development of state budget revenue sources:

First, the state budget focuses on promoting economic growth, improving the business environment, creating favourable conditions for production and the business activities of companies, thereby creating solid revenues for the state. As a result, Vietnam has risen up international competitiveness rankings to 14th place, ranking 4th among ASEAN countries. An online tax declaration system has been implemented in all localities, attracting nearly 100 per cent of registered companies with 95.8 per cent of companies now paying tax electronically.

Second, we are striving to increase domestic revenues to offset the decrease of revenues from import/export activities and natural resources due to the implementation of international integration commitments.

Third, we are improving the quality and efficiency of tax collection to cover new revenue sources and implementing electronic tax management. This will prevent revenue losses, transfer pricing, smuggling, trade fraud, tax evasion and strengthen tax arrears handling.

Thanks to the solutions mentioned above, state budget revenue in 2016 and 2017 exceeded estimates (9.3 per cent and 6.3 per cent respectively). The state budget mobilisation is 25.2 per cent of GDP, of which taxes and fees are 21.3 per cent which meets the target set by the National Assembly. Average domestic revenue reached 80-81 per cent of the total state budget revenue and budget revenue is growing (at 10.9 per cent in 2016 and 16.4 per cent in 2017).

How is the Ministry of Finance managing the increase in public debt caused by the global economic headwinds?

The Ministry of Finance has taken several measures to control public debt:

First, the Ministry of Finance has prepared for the Government a law for submission to the National Assembly on Public Debt Management. This law strengthens risk management measures to manage the public debt in an active and sustainable manner.

Second, the Ministry of Finance has kept government loans within the parameters of the state budget estimates decided by the National Assembly, and the annual limit of loans decided by the Prime Minister. Debt management is implemented by strictly controlling government loan guarantees by setting limits for the issuance of annual and medium-term guarantees, and maximum guarantees for each project as well.

Third, by increasing the proportion of domestic debt in the government debt portfolio and reducing the proportion of foreign debt to reduce exchange rate risks. With regard to domestic debt, the proportion of long-term bond issuance will be increased, simultaneously, diversifying the structure of government bond investors.

Fourth, the repayment of the government's debt is well-managed and timely, preventing the occurrence of overdue debt that might affect obligations and contributing to a solid sovereign credit rating.

Fifth, the Ministry of Finance regularly assesses the safety norms of public debt, working closely with the International Monetary Fund to develop debt safety criteria and medium-term debt sustainability.

Finally, timely disclosure and transparency on public debt and government debt has gradually approached international standards.

Thanks to the implementation of the above measures, public borrowing has gradually reduced from 18.4 per cent annually during the period 2011-2015 to 9.7 per cent annually during 2016-2017. Total public debt fell from 63.8 per cent of GDP to 61.4 per cent of GDP while government debt reduced from 52.8 per cent GDP to 51.8 per cent of GDP in 2017. Domestic loans increased from 40 per cent of total loans to the Government in 2011 to around 60 per cent by the end of 2017. In 2018, Moody's raised the credit rating of Vietnam from B1 to Ba3, with a stable outlook and Fitch Ratings upgraded Vietnam's rating from BB- to BB with a stable outlook.

Vietnam is focusing on developing infrastructure. What role is the Ministry of Finance playing in attracting capital investment to this vital area?

The Ministry of Finance works closely with the Ministry of Planning and Investment in issuing legal documents with regard to the Law on Public Investment in the form of public-private partnership (PPP), especially PPP projects management. The private sector has been attracted to invest in large scale infrastructure projects such as the national highway upgrade and expansion project in the form of Build-Operate-Transfers (BOTs).

At the same time, improving the legal framework for the development of the capital market is a priority. At the end of 2017, the size of the financial market was 107.8 per cent of GDP, of which the bond market accounted for 37.5 per cent of GDP. The operation of the capital market has gradually met the demand for medium and long-term capital mobilisation by the government, local authorities and enterprises, especially for infrastructure development.

With the deterioration of the global economy and the rise of anti-globalisation, how do you assess the prospects for economic growth in Vietnam?

In recent years, the world economy has faced unpredictable events. Changes in regulatory policies in many countries and increasing trade protection have many impacts on economies in the region, including Vietnam. However, thanks to the efforts and determination of the entire political system, ministries and the business community, the Vietnamese economy has achieved good results. Economic growth has improved in most sectors. In 2017, the economic growth rate of Vietnam reached 6.8 per cent. In the first 6 months of 2018, the growth rate was 7 per cent of which the industry and construction sectors increased by 9 per cent, the service sector by 6.9 per cent, and agriculture, forestry and fishery sector by 3.9 per cent. FDI reached US$16.2 billion, while exports kept increasing and the trade balance maintained a surplus.

Vietnam will maintain its economic growth target of 6.5-7 per cent in 2019-2020 thanks to continuous macroeconomic stability. The economy will benefit from the reform measures. F

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