PUBLIC DEBT MANAGEMENT WITH SUSTAINABLE ECONOMIC DEVELOPMENT IN VIETNAM

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Abstract: ***State budget deficits and public debt are perennial issues in many countries. In Vietnam, these deficits are addressed through borrowing from both domestic and international sources. Such borrowing is intended exclusively for development investment. Consequently, public debt is inherently linked with fiscal discipline and public investment. When managed effectively, public debt can provide additional resources to advance the country's socio-economic development in a timely, efficient, and sustainable manner. Conversely, poor management of public debt can pose risks such as future debt burdens, financial crises, and adverse effects on macroeconomic stability and sustainable socio-economic progress. This article examines various aspects of public debt and its management in relation to sustainable economic development in Vietnam during the period from 2018 to 2023.***

• Keywords: *public debt, sustainable development.*

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1. Public debt and the impact of public debt management on sustainable economic development

According to the World Bank and the International Monetary Fund, public debt broadly encompasses the debt obligations of the public sector, including those of the central government, local governments, the central bank, and independent organizations. Independent organizations are defined as entities whose operating capital is determined by the state budget or whose state ownership exceeds 50%; in the event of default by these organizations, the state is responsible for repaying the debt. More narrowly, public debt includes the debt obligations of the central government, local governments, and the debt of independent organizations that is guaranteed by the government. The definition of public debt varies by country, depending on economic and political institutions. In most countries, public debt management laws define public debt to include both government debt and debt guaranteed by the government.

In Vietnam, the Public Debt Management Law No. 20/2017/QH14 stipulates that public debt includes government debt, debt guaranteed by the government, and local government debt. Government debt refers to obligations arising from domestic and foreign loans contracted or issued in the name of the state or government. Debt guaranteed by the government pertains to loans taken by enterprises or state policy banks, with repayment guaranteed by the government. Local government debt consists of obligations incurred from loans obtained by provincial People's Committees. Government guarantees are formal commitments by the government to repay the principal and interest in the event that the borrower fails to meet their repayment obligations when due.

Public debt and its management have significant implications for sustainable economic development, both positive and negative. When public debt remains within fiscal discipline limits, is aligned with domestic and international contexts, and is allocated and utilized efficiently, it supports the sustainability of national finances and macroeconomic stability, thereby fostering growth and economic restructuring toward sustainable development. Conversely, public debt that exceeds fiscal discipline limits or is poorly allocated and managed poses risks that can undermine the sustainability of national finances, macroeconomic stability, growth, and sustainable economic development.

2. Some results of public debt management

First, the legal framework for public debt and its management has been enhanced to better align with Vietnam's specific conditions and international best practices. This advancement has been marked by key legislative measures including Resolution No. 07-NQ/TW dated November 18, 2016, from the Politburo, the Public Debt Management Law No. 20/2017/QH14, National Assembly Resolution No. 23/2021/QH15,

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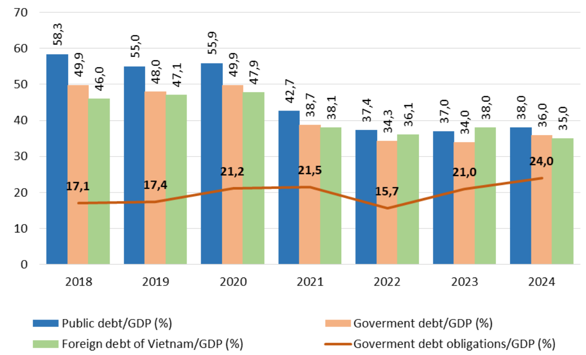
and Prime Minister's Decision No. 460/QĐ-TTg dated April 14, 2024, among others. Additionally, decrees guiding the implementation of the 2017 Public Debt Management Law have been issued comprehensively, reflecting Vietnam's unique context while adhering to international best practices. These include regulations on the issuance, registration, custody, listing, and trading of government debt instruments on the stock market, local government debt management, the re-lending of ODA loans and government concessional loans, management and use of ODA and concessional loans from foreign donors, government guarantees, and the management of the Debt Repayment Accumulation Fund. The legal framework also covers the centralization of public debt management, annual borrowing and debt repayment limits, the three-year debt management program, and public debt warning thresholds according to international standards. This framework has effectively institutionalized the Party and State's policies on public debt and its management, contributing positively to macroeconomic stability and sustainable economic development.

Second, the borrowing situation and public debt structure have undergone significant positive changes, which have contributed to ensuring the safety and sustainability of public debt, expanding fiscal policy space to respond to economic fluctuations, and promoting growth and sustainable economic development.

Borrowing and debt repayment plans have been periodically and seriously implemented by central and local agencies and promptly reported to the National Assembly every October. Local governments are responsible for assessing their needs, balancing resources, and planning the repayment of ODA and concessional foreign loans within their public investment plans and five-year financial plans. Local governments borrow foreign loans from the government at appropriate rates, in line with budget regulations during each three-year stability period and the five-year financial plan, sharing the repayment burden and maintaining public debt safety limits between central and local budgets. The repayment of government loans has been managed rigorously, with no overdue debt, thus avoiding breaches of commitments to investors and contributing to an improved national credit rating.

During the 2018-2023 period, public debt borrowing mobilized significant funds, totaling nearly VND 1,320 trillion from 2021 to 2023 alone, which represented almost 43% of the 2021-2025 plan. The central government borrowed approximately VND 1,280 trillion for socio-economic development programs and projects. This borrowing has positively impacted the development of the country's socio-economic infrastructure, particularly transport infrastructure, thereby increasing aggregate demand, attracting domestic and foreign investment, and fostering growth and economic restructuring toward sustainable development.

Chart 1. Public debt, foreign debt, government debt and government debt obligations in Vietnam from 2018 to 2024

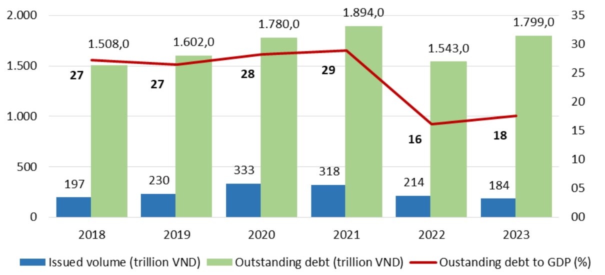


Source: Public Debt Bulletin No. 17 (January 2024) and data from the Ministry of Finance

The absolute public debt balance at the end of 2023 stood at approximately VND 4,000 trillion, reflecting a 17.34% increase compared to 2018. Despite this increase, public debt management has been conducted with strict prudence and has gradually undergone restructuring to ensure safety, sustainability, and efficiency. As a result, the ratio of public debt and government debt to GDP has shown a downward trend. Government debt obligations relative to state budget revenue remained within permissible limits. By the end of 2023, public debt was approximately 37% of GDP, and it is projected to reach about 38% of GDP in 2024, well below the 60% ceiling established by the National Assembly. Government debt at the end of 2023 was around 34% of GDP and is expected to be 36% of GDP in 2024, significantly lower than the 50% ceiling. In international comparisons, Vietnam's public debt ratio is considerably lower than the 2023 average for countries with a BB credit rating (52.8% of GDP) and those with a BBB rating (54.9% of GDP), despite Vietnam's credit rating being one notch below the BBB rating.

The structure of public debt has shifted positively. In 2023, domestic debt increased to approximately 71%, while foreign debt decreased to about 39% of government debt, thereby reducing exchange rate risks. Domestic debt is predominantly composed of long-term government bonds, which mitigates refinancing risks. By the end of 2023, the listed government bond debt balance on the market reached VND 1,799 trillion, representing a 16.58% increase compared to the end of 2022. The average issuance term of government bonds in 2023 was around 12.5 years, exceeding the target set by Resolution No. 23/2021/QH15 on the National Financial Plan and Public Debt Borrowing and Repayment Plan for the 2021-2025 period. The issuance interest rate for government bonds was carefully managed to align with monetary policy operations. In 2023, the average issuance interest rate for government bonds was around 3.3% per year, a decrease of 0.18 percentage points compared to 2022, despite global interest rates continuing to rise.

Chart 2. Government bond issuance in Vietnam from 2018 to 2023



Source: Compiled from Ministry of Finance data

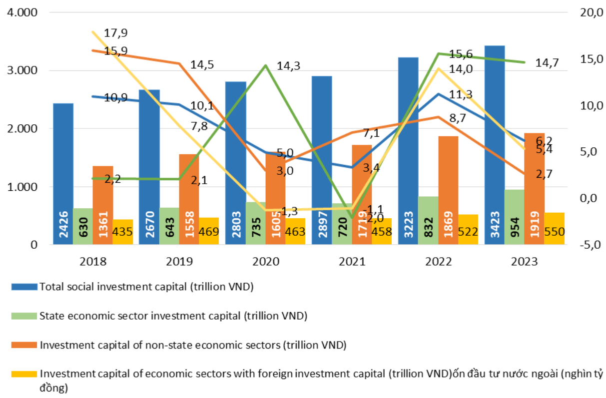
Government-guaranteed borrowing and debt repayment in 2023 adhered to approved limits, with total outstanding guarantees as of December 31, 2023, amounting to approximately VND 280 trillion, or about 2.7% of GDP, a reduction of VND 18 trillion from 2022. The structure of external debt also shifted, with self-borrowing and self-repayment by enterprises and credit institutions increasing from 61.4% in 2021 to 70.7% in 2023, while government and government-guaranteed foreign borrowing decreased from 38.6% in 2021 to 29.3% in 2023.

Third, management and use of public debt.

In Vietnam, borrowing by the government and provincial-level local governments is primarily used to address budget deficits for development investment and repayment of loan principal. The management and utilization of public debt are closely linked to investment in the state economic sector and public investment.

The total investment capital of the entire society increased by an average of 8.22% per year, with capital in the state economic sector growing by 10.29%. During the 2018-2023 period, the proportion of state economic sector investment in total social investment fluctuated between 24.08% and 27.87%. Public debt borrowing has been crucial in ensuring the availability of capital for public investment, particularly for investment in the state economic sector and socio-economic development, especially during the period affected by the COVID-19 pandemic and its aftermath.

Chart 3. State Economic Investment in Total Social Investment from 2018 to 2023



Source: Compiled from the 2023 Statistical Yearbook, Statistics Publishing House

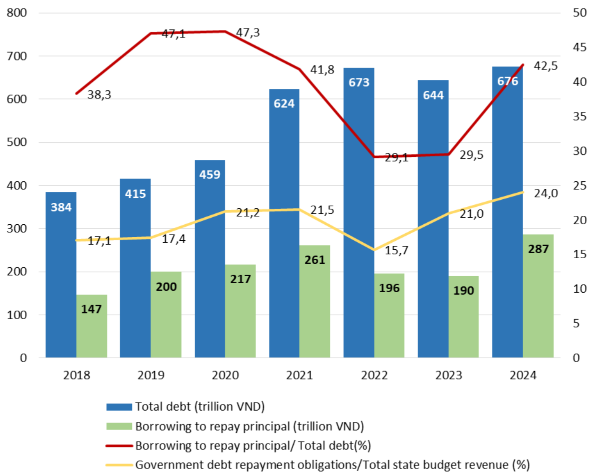
Throughout the 2018-2023 period, laws and policies related to the decentralization and management of public investment have been progressively refined. Responsibilities for investment decisions and project ownership have been clearly defined. Inspections and audits have been strengthened to ensure the effective use of investment funds from the state budget, government bonds, ODA, and state investment credits. The allocation of public investment capital has adhered to clear principles, criteria, and distribution standards, ensuring a balanced allocation of investment capital among ministries, central agencies, sectors, and fields. Central budget capital has been supplemented with targeted funding for localities, prioritizing investments in national target programs, major national projects, expressways, high-speed rail projects, urban rail projects, regional connectivity projects, and projects with inter-regional impacts that foster rapid and sustainable socio-economic development. This includes programs and projects related to national defense, security, justice, science and technology, innovation, digital infrastructure, education, high-quality workforce training, public health, and environmental protection.

As a result, public investment has had a positive impact by creating a spillover effect that stimulates investment in the non-state economic sector and foreign-invested sector. This has significantly contributed to promoting growth and sustainable economic development.

3. Some issues in public debt management

First, the government's direct debt obligations and borrowing for principal repayment are showing an upward trend, putting increasing pressure on the state budget. This creates challenges in balancing the need to ensure timely principal repayments while maintaining public debt safety. Additionally, it limits the fiscal space available for implementing fiscal policies aimed at stabilizing the macroeconomy, promoting growth, and achieving sustainable economic development.

Chart 4. Government debt obligations and principal repayment from 2018 to 2024 in Vietnam



Source: Compiled from public debt borrowing and repayment plans for the years 2018-2024

Second, the slow progress in project implementation and the low rate of public investment disbursement have adversely affected the effectiveness of public investment. This inefficiency leads to resource wastage and negatively impacts fiscal and monetary policies, macroeconomic stability, and efforts to promote sustainable economic growth and development.

Government and provincial-level local government borrowing is intended to cover budget deficits for development investment and principal repayment. The effectiveness of public investment is crucial for the optimal utilization of public debt funds. However, recent years have seen sluggish progress in project implementation and low disbursement rates for public investment. This has diminished the effectiveness of public investment, led to resource wastage, and reduced the positive spillover effects on growth and sustainable development.

Annual budget settlement data from 2018 to 2022 reveals significant budget carryovers, with public investment fund disbursement remaining very slow. Meanwhile, the budget has had to borrow to cover deficits and incur interest and commitment fees. The disbursement rate of the public investment plan as of January 31 of the following year was 73.41% in 2018, 70.80% in 2019, 82.8% in 2020, 76.78% in 2021, 83.50% in 2022, and 93.5% in 2023. Particularly, the disbursement of ODA and foreign concessional loans has been very slow, often failing to meet estimates. The cumulative disbursement of public investment funds was 32.85% of the plan in 2021 and 45.45% in 2022.

The slow disbursement of public investment funds is attributed to various objective and subjective factors, including: delays in the allocation of detailed capital plans by ministries and localities, difficulties in land clearance, lack of counterpart funds for compensation, delays and issues in bidding and contract execution, insufficient project preparation quality, issues with project adjustments and investment policy changes, lengthy design, appraisal, and approval procedures, and frequent project and loan agreement adjustments, with an average of about 20-30 projects or loan agreements processed annually.

Third, while public debt management in Vietnam is linked with fiscal and monetary policies, current practices predominantly focus on mobilizing concessional loans. International best practices in debt management, such as comprehensive monitoring and assessment of all loans and debt transactions according to risk parameters, risk monitoring of the entire government debt portfolio, integration of treasury management with public debt management, and the establishment of a shared database on public debt, have not been fully implemented.

4. Enhancing public debt management to promote sustainable economic growth and development by 2030

Firstly, enhance the institutional framework and policies on public debt management.

Continue to improve the regulatory framework and policies for public debt management. Promote proactive debt management tools and techniques to ensure the safety and sustainability of the national financial system.

Align budget management and public debt management closely with treasury management to improve the effectiveness of state financial resource management. Strictly oversee budget deficits and borrowing, ensuring that expenditures are directed toward development investments and that borrowing remains within repayment capacities.

Implement proactive debt management approaches based on international best practices. Develop soft warning indicators combined with hard limits appropriate for the level of socio-economic development to control public and private sector debt. Distinguish between the management of foreign debt in the public and private sectors and establish reasonable foreign debt ceilings within total public debt. Enhance risk management of government debt portfolios and balance the debt portfolio between domestic and foreign debt.

Create a database and apply statistical principles in line with international best practices. Utilize information technology in public debt management and proactively forecast and develop policy response plans for scenarios when debt indicators approach safety thresholds.

Secondly, mobilize funds for the state budget and development investments with reasonable costs and risks; improve the debt portfolio structure.

Explore a variety of domestic and international funding sources and borrowing methods with appropriate maturities to meet the government's long- and medium-term financial needs.

Develop a range of financial products and market instruments to cater to investor demand. Promote the issuance of green bonds to fund environmental protection projects supporting sustainable economic development.

Proactively issue and manage the government bond portfolio to ensure that its volume, structure, and maturity align with strategic objectives, debt management programs, and government borrowing and repayment plans.

Work closely with fiscal and monetary authorities to stabilize interest rates, supporting state budget mobilization and government bond market development.

Reform mechanisms for mobilizing official development assistance (ODA) and concessional foreign loans to fund key infrastructure projects with significant spillover effects that support regional and national socio-economic development. Prioritize long-term, low-interest loans with substantial grant components.

Thirdly, enhance the effectiveness of debt management and utilization, with a focus on debt repayment responsibility.

Ensure that debt funds are used exclusively for development investments, targeting national programs, key projects, and initiatives that enhance economic competitiveness and inter-regional connectivity.

Allocate sufficient resources for timely and complete debt repayment, aiming to gradually improve the national credit rating. Restructure debt to ensure sustainability and improve debt safety indicators. Rigorously manage and control government contingent liabilities.

Manage ODA and concessional loans from foreign donors in conjunction with public investment restructuring. Evaluate loans for economic efficiency, financial planning, and impact on medium-term investment plans, public debt indicators, budget, and repayment capacity. Focus foreign loans on key areas to maximize economic efficiency and support sustainable growth. Prioritize loans for projects with revenue recovery potential.

Fourthly, strictly control contingent liabilities.

Guarantee that there are sufficient sources for debt repayment covered by government guarantees. Manage guarantees within regulatory limits, prioritizing funding for key national projects. Control the growth rate of government guarantees to not exceed the GDP growth rate of the previous year. Prioritize infrastructure projects with spillover effects and revenue potential for loan repayment.

Fifthly, manage foreign debt of self-borrowing and self-repaying enterprises and credit institutions.

Strictly oversee the foreign debt of self-borrowing and self-repaying enterprises and credit institutions to ensure that national foreign debt indicators remain within permissible limits. Innovate management methods to fit the nature of short-term, medium-term, and long-term loans and associated risk levels. Enhance the institutional framework to apply measures for controlling foreign capital flows in accordance with international practices.

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