

Evaluation of the Law on Public Debt Management of Vietnam and some Policy Implications

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INTRODUCTION

In Vietnam, the scale of public debt tends to increase dramatically and has approached the limit set by the National Assembly. This fact indicates the need to enhance the effectiveness of public debt management. Meanwhile, the Law on Public Debt Management in 2009, after eight years of implementation, has revealed some shortcomings that need to be amended and supplemented to better fit international practices and the public debt situation in Vietnam. In such context, the draft revision of the Law on Public Debt Management has been developed and is expected to be passed at the fourth session of the 14th National Assembly in October - November this year.

In general, the draft revision has been elaborately developed and has surmounted many limitations of the current law. However, there are still some controversial issues that need to be taken into consideration such as the need for prompt and comprehensive update of data on public debt, the scope of public debt, the safety threshold for public debt, and whether or not to centralize the public debt management in a single agency, namely the Ministry of Finance.

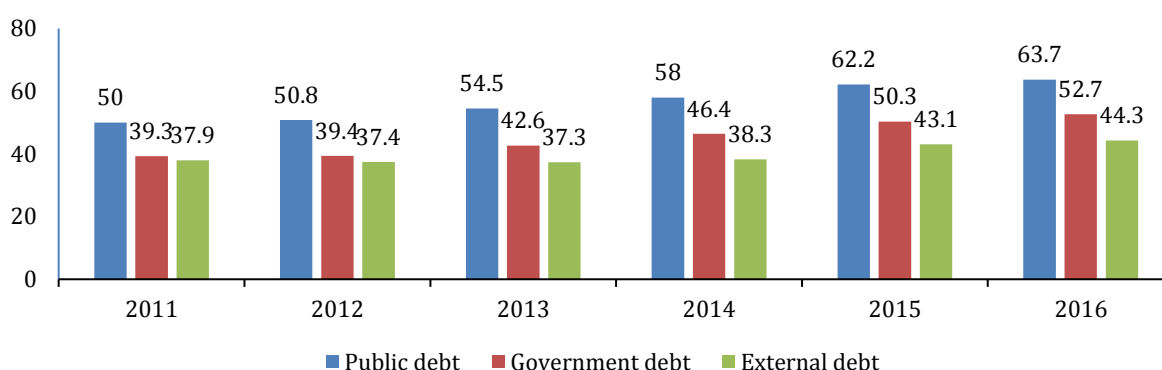
This paper consists of three main parts. In the first section, we analyze the current situation of public debt and public debt management in Vietnam, focusing on providing sharp discussion on the draft revision of the Law on Public Debt Management; Next, we investigate the experiences of countries around the world and also study the recommendations made by international organizations and experts, focusing on key aspects of the draft law; Finally, some recommendations for the Revised Law on Public Debt Management are proposed.

THE CURRENT SITUATION OF PUBLIC DEBT AND PUBLIC DEBT MANAGEMENT IN VIET NAM

The current situation of public debt

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.

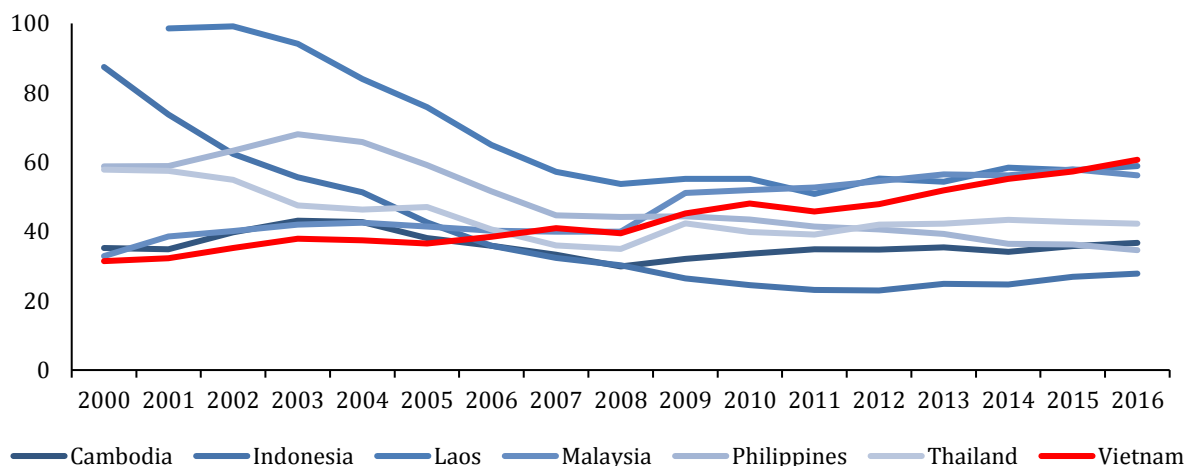
Figure 1: Public debt, government debt, and external debt as percentage (%) of GDP in Vietnam, 2011-2016



Source: National Institute for Finance (2017)

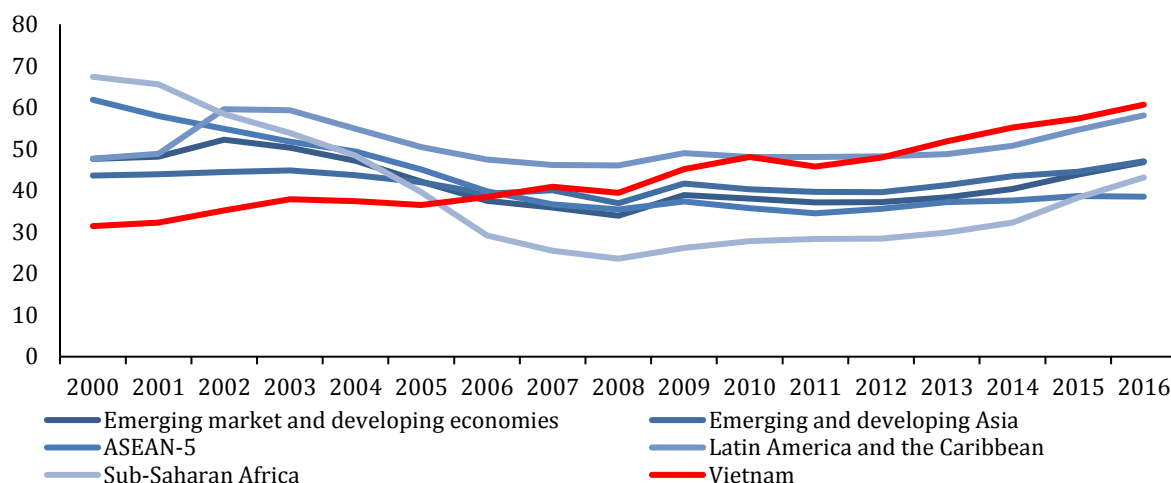
The statistics in Figure 1 show that the public debt-to-GDP ratio of Vietnam has recently been on an upward trend, particularly since 2011. Specifically, within 05 years from 2011 to 2015, this ratio had increased by about 12.2 percentage points, from 50% to 62.2%. As estimated, public debt has risen to 63.7% of GDP by the end of 2016. With a continuous debt growth rate of around 5% per annum as in the period of 2011-2016, the public debt ceiling of 65% of GDP set by the National Assembly is likely to be broken in the near future.

Figure 2: The public debt-to-GDP ratio (%) of Vietnam and some selected countries in the region, 2000-2016



Source: IMF (2017a)

Figure 3: The public debt-to-GDP ratio (%) of Vietnam and some emerging/developing country groups in the world, 2000-2016

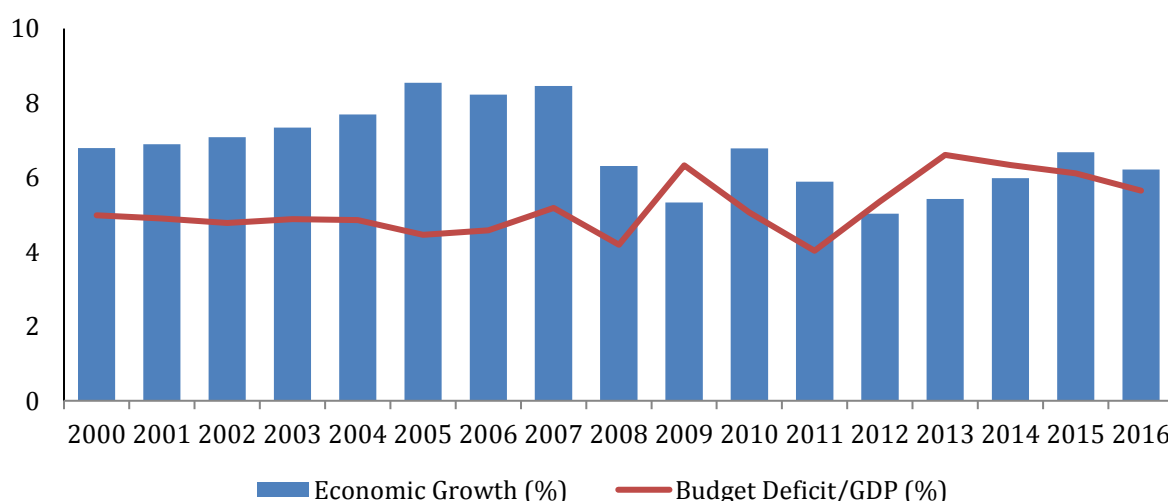


Source: IMF (2017a)

Similarly, from 2011 to 2016, the government debt-to-GDP ratio of Vietnam rose from 39.3% to 52.7%, coming very close to the limit of 54% set by the National Assembly³ (see Figure 1).

In addition, according to statistics of IMF (2017a), in the period 2000-2005, the public debt-to-GDP ratio of Vietnam was still the lowest among ASEAN member states as well as emerging and developing countries in the world, yet thereafter this rate has significantly increased, making Vietnam become the country having the highest ratio of public debt-to-GDP in the chart in 2016 with the estimated rate of up to 60.7% (see Figure 2 and Figure 3).

Figure 4: Economic growth rate and budget deficit as percentage of GDP, 2000-2016

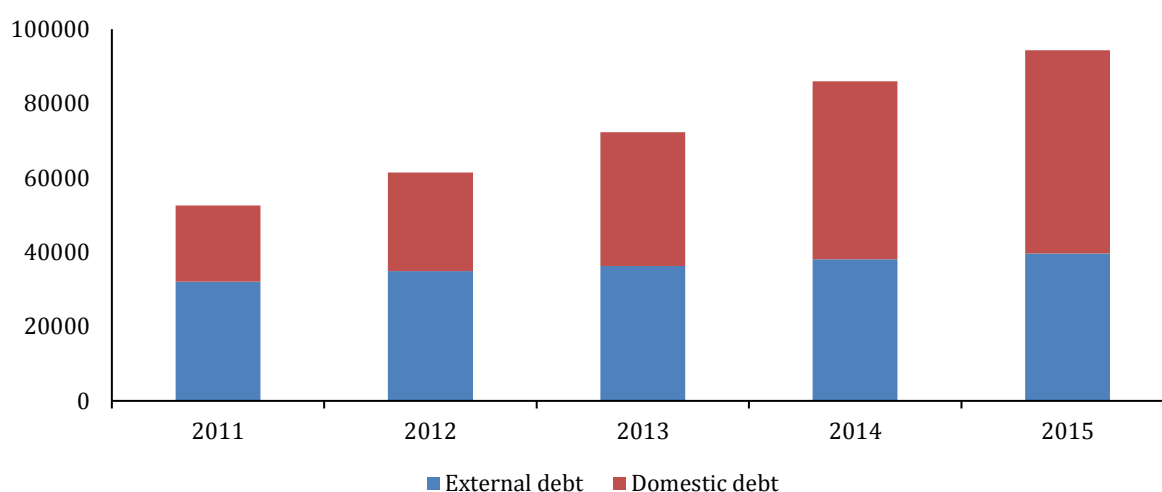


Source: CEIC Database

³ According to Resolution No. 25/2016/QH14 of the National Assembly dated November 11th 2016, annual public debt, government debt and external debt shall not be permitted to exceed 65%, 54% and 50% of GDP, respectively.

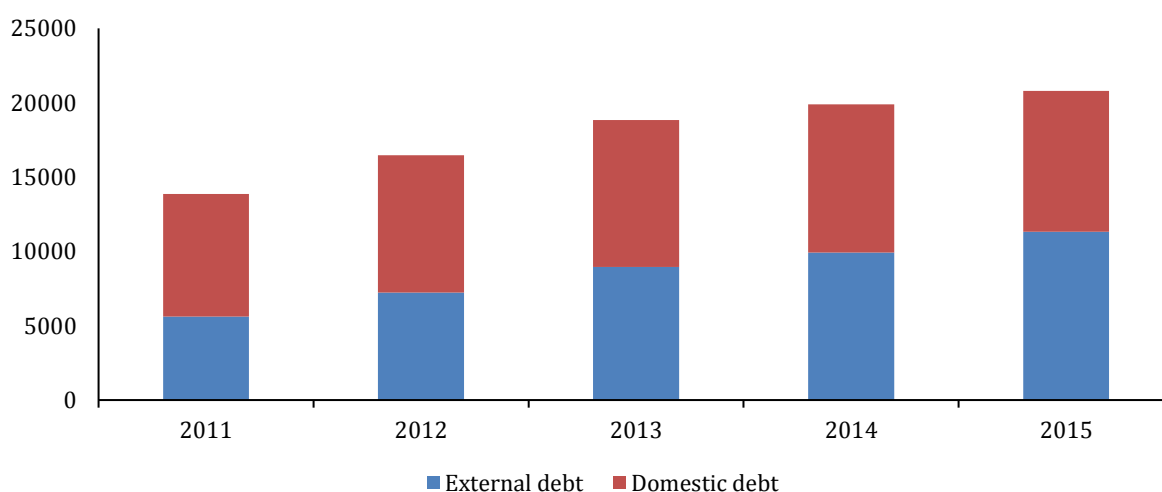
High and interminable budget deficit (see Figure 4), which is partly due to the ineffectiveness of loan utilization, particularly in the state sector, poses significant challenges to the control of public debt in the allowable limit. In addition, the budget deficit has put pressure on the source of debt repayments in the state budget, leading to the growing issue of refinancing. According to the medium-term debt management program for the period 2016-2018 approved by the Prime Minister at the end of April, the amount of loan borrowed for principal repayment reached VND132.4 trillion in 2016 and increases to about VND 144 trillion in 2017⁴.

Figure 5: Outstanding government debts, 2011-2015 (US\$ million)



Source: Bulletin No. 5 on Public Debt, Ministry of Finance (2017a)

Figure 6: Outstanding government-guaranteed debt, 2011-2015 (US\$ million)



Source: Bulletin No. 5 on Public Debt, Ministry of Finance (2017a)

⁴ According to Decision No. 544/QĐ-TTg of the Prime Minister dated April 20th, 2017 on the approval of the 2016-2018 medium-term debt management programme.

Regarding external debt, the external debt-to-GDP ratio grew at a slower pace, from 37.9% in 2011 to 44.3% in 2016. In the government debt structure, the portion of foreign loans also declined from 61.1% to 41% in the period 2011-2016 (National Institute for Finance, 2017). This situation indicates a tendency of reducing the dependence on foreign debt, as it often comes with exchange rate risks, especially given the recent volatility in value of the three main currencies in the sovereign debt portfolio of Vietnam including USD, JPY, and EUR (see Figure 5).

However, it is noteworthy that the share of external debt in the structure of government-guaranteed debt has continuously grown, from 40.5% in 2011 to 54.4% in 2015 (see Figure 6), showing the risks of loan guarantees of the Government.

Additionally, the interest rate risk is on the rise, leading to the considerable increase in the capital mobilization costs of the Government. Due to the growing portion of domestic debt in the debt structure and the extended terms of Government bonds (in order to reduce the debt repayment pressure on the Government in the short term), bond interest rate will be under pressure to rise.

Meanwhile, although foreign debt has lower interest rate risks compared to domestic debt, the facts that Vietnam has become a middle-income country in 2009 and the economy has been showing clear risks have increased the interest rate risks on foreign debts.

Specifically, the proportion of floating-rate loans in total outstanding external debt of the Government has increased from 7% to 11% during the period of 2010-2015 (National Institute for Finance, 2017). Furthermore, according to the Ministry of Finance, it is expected that from this July, Vietnam will no longer be eligible for ODA loans from the World Bank (WB), and then from other development partners. Vietnam will have to switch to borrowing mainly preferential loans, toward borrowing all the loans with market conditions.

With the current rise of the scale and risks of public debt, public debt management is one of the most concerned issue to policymakers, academics as well as the public in Vietnam. In the next section, we carry out a detailed analysis of the current state of public debt management in Vietnam, with the particular focus on the Draft Revision of the Law on Public Debt Management which is currently under discussion.

The current situation of public debt management

Prior to 2009, the Law on Public Debt Management was not issued. The highest legal documents on domestic debt management were Ordinance No. 12/1999/PL-UBTVQH10 dated April 27th, 1999 of the National Assembly Standing Committee on the issuance of national construction bonds and Decree No. 141/2003/ND-CP of the Government on the issuance of government bonds, government-guaranteed bonds, and local government bonds. For external debt management, the highest legal documents included Decree No. 134/2005/ND-CP dated November 1st, 2005 of the Government promulgating the Regulation on the management of foreign loans and repayments, and Decree No. 131/2006/ND-CP dated November 9th, 2006 of the Government issuing the Regulation on the management and utilization of Official Development Assistance (Ministry of Finance, 2009).

In order to enhance the legality, consistency, comprehensiveness, efficiency, and transparency of public debt management, the Law on Public Debt Management was promulgated in 2009 and has made important and positive contributions to the process of mobilizing, using and managing loan funds as well as the assurance of full and on-time repayments. However, besides the achievements, after eight years of implementation, there are still some limitations in the Law on Public Debt Management which need to be amended and supplemented to make the Law become more in line with international practices and the real public debt situation in Vietnam.

Therefore, the Draft Revision of the Law on Management of Public Debt has been prepared since 2015 on the basis of reviewing the law implementation process and opinions on the current Law collected from related ministries, agencies, and localities as well as financial - credit institutions and enterprises. It will be amended to comply with international practices and recommendations of international organizations.

For a specific and detailed analysis of the Draft Revision, we have compared the Draft with the current Law on Public Debt Management issued in 2009, in which we focused on some noticeable aspects and gave comments and discussions on each of them (see Table 1). The focal analyzed contents include: (i) Providing, reporting on and publicizing information on public debts; Public debt audit; (ii) The scope of public debt; (iii) Debt safety indicators; The medium-term debt management program and plan for borrowings and repayments of debts; (iv) Tasks, powers, and responsibilities of state agencies in public debt management; (v) Risk management of public debt; Management of the onlending of the Government's foreign loans; and Granting and management of government guarantee. The Draft used in this analysis is the latest version of the seventh Draft which has been submitted to the Standing Committee of the National Assembly for comments at the 13th session in August 2017, and is still in the process of discussing and receiving comments.⁵

⁵ Source:

http://duthaoonline.quochoi.vn/DuThao/Lists/DT_DUTHAO_LUAT/View_Detail.aspx?ItemID=333&LanID=1405&TabIndex=1 (Accessed on November 2nd, 2017)

Table 1: Comparison between the current Law on Public Debt Management (2009) and the Draft Revision of the law and some authors' opinions and discussions on the Draft Law

Contents	Law on Public Debt Management (2009)	Draft Revision of the Law on Public Debt Management	Authors' opinions and discussion
Provide, report on, and publicize information on public debts	<p><i>Article 43. Establishment of a database on public debts</i></p> <p>1. The Ministry of Finance shall act as the key agency in establishing and uniformly managing a database on public debts.</p> <p>2. The Government shall detail the supply of information on public debts and mechanisms to provide, report on and publicize information on public debts.</p>	<p><i>Article 62. Statistics and establishment of a national database on public debts</i></p> <p>1. The public debt statistics must be honest, objective, accurate, complete, and timely; not overlapping or inconsistent; public, transparent, and comparative in accordance with the law.</p> <p>2. Applying information technology in public debt management to reach the target and fulfill the task of state management of public debts; prioritizing the research and application of advanced debt management tools and models in accordance with international standards and practices and in line with socio-economic development conditions in each period.</p> <p>3. The Ministry of Finance shall take the responsibility in building and managing a database on public debts; enhancing the application of information technology in public debt management.</p>	<p>The Draft Law has adjusted and supplemented some points on providing, reporting on, and publicizing information on public debts; however, there still exist some limitations such as:</p> <ul style="list-style-type: none"> - Regarding the contents of the information published, the statistical data regulated by the

Contents	Law on Public Debt Management (2009)	Draft Revision of the Law on Public Debt Management	Authors' opinions and discussion
	<p>Article 44. Reporting on public debts</p> <p>1. Annually or at the request of the National Assembly and agencies of the National Assembly, the Ministry of Finance shall review and submit to the Government for further reporting to the National Assembly and its agencies on public debt information, including:</p> <p>a/ Implementation of borrowing plans, guarantee and annual debt payment, including borrowed amounts under agreements, withdrawn capital amounts, values of issue and guarantee, debt payment amounts, debit balance and ratio of debts to the GDP;</p> <p>b/ Implementation of programs and projects using the Government's loans and government-guaranteed loans;</p> <p>c/ Borrowing and debt payment by provincial-level People's Committees;</p> <p>d/ Other related information.</p>	<p>Article 63. Reporting on public debts</p> <p>1. Annually or upon request, the Government shall report to the National Assembly, the National Assembly Standing Committee and the President on public debts, including:</p> <p>a) The public debt situation and the implementation of public debt security indicators, including data on the outstanding debts, debt structure, current status evaluation, forecast, and management solutions to ensure the public debt safety;</p> <p>b) The implementation of the plan on borrowings and debt repayments of the Government, local governments and the annual Government guarantee limit;</p> <p>c) The situation of negotiating, signing, and ratifying international treaties on public debts;</p> <p>d) The situation of onlending, provision and management of Government guarantee, including data related to onlending projects and Government</p>	<p>Law have not reflected all aspects of the public debt situation, especially the aspect of purposes/usage of the loans. Specific statistics on the proportion of loans to cover budget deficit, loans for development investment, or loans for onlending have not yet been provided and publicized.</p> <p>- It is necessary to provide the specific format for</p>

Contents	Law on Public Debt Management (2009)	Draft Revision of the Law on Public Debt Management	Authors' opinions and discussion
		<p>guarantees which have difficulties in repayment and the accumulative debt repayment fund must pay the debt;</p> <p>e) The management and use of the accumulation fund for debt repayment, including the opening balance, receipts and collections, expenses arising in the period and the closing balance;</p> <p>f) The implementation of resolutions on public debts issued by the National Assembly and the National Assembly Standing Committee;</p> <p>g) Other related information.</p>	<p>statistical reports on public debt, the deadlines for publicizing information, and the update level of the published data. These regulations may be specified in sub-law documents, but it is advisable to include some specific rules in the Law, eg. the quarter of the year in which information has to be released, etc.)</p> <p>- Consider calculating the present value of</p>
	<p><i>Article 47. Publicity of public debts</i></p> <p>1. The Ministry of Finance shall publicize information on public debts.</p> <p>2. Information on public debts to be publicized covers total debit balance, structures of the Government's domestic and foreign loans, government-guaranteed debts, debts of local administrations, statistics on</p>	<p><i>Article 64. Publicity of public debts</i></p> <p>1. Debt indicators and public debt figures to be publicized include:</p> <p>a) Government debt, in which foreign debt is listed by lender; debt instruments of the Government listed by mobilization method.</p> <p>b) Local government debt includes local government bonds, ODA loans, Government preferential loans,</p>	

Contents	Law on Public Debt Management (2009)	Draft Revision of the Law on Public Debt Management	Authors' opinions and discussion
	<p>actually received loans and annual debt payment and norms to control government debts, public debts and national foreign debts.</p> <p>3. The Ministry of Finance shall regularly publicize public debt information under law.</p>	<p>State Treasury loans, and other loans.</p> <p>c) Government-guaranteed debts include the Government's projected debt liability (outstanding government-guaranteed debts).</p> <p>2. The authority to publicize debt information is provided as follows:</p> <p>a) The Minister of Finance shall inform on public debt;</p> <p>b) Ministers, heads of the ministerial-level agencies or agencies under the Government shall publicize the information on the use of loan capital, debt repayment, and the outstanding debts in the fields under their charge;</p> <p>c) Chairmen of provincial-level People's Committee shall make public the information on local government debt.</p> <p>3. Information publicity channels:</p> <p>a) The websites of the Ministry of Finance and other related ministries, agencies, and localities;</p> <p>b) Press conferences, press releases;</p> <p>c) Public debt bulletins.</p>	<p>public debt in accordance with GDP of the preceding year to avoid the uncertainty of current year's GDP estimate, thereby increasing the accuracy of public debt indicators and, at the same time, ease the pressure on the government to raise the growth rate <i>in current year</i>.</p>

Contents	Law on Public Debt Management (2009)	Draft Revision of the Law on Public Debt Management	Authors' opinions and discussion
Public debt audit	<p><i>Article 5. Principles for public debt management</i></p> <p>5. To ensure publicity and transparency in the raising, allocation and use of loans, debt payment and public debt management. Programs and projects using loans of the Government or local administrations are subject to audit by the State Audit or an independent audit institution.</p>	<p><i>Article 61. Public debt audit</i></p> <p>1. The State Audit shall audit the management of public debts and activities related to the mobilization, allocation, and use of loan capital and debt repayment; reporting on and publicizing audit results in accordance with the Law on State Audit.</p> <p>2. The programme or project owners shall have to sign auditing contracts with independent auditing enterprises to audit the annual financial statements and the finished investment capital finalized reports (by the end of the programme or project) in accordance with the legal regulations on audit.</p>	<p>We approve of the Draft Law. The tasks and responsibilities of audit agencies have already been clearly indicated.</p>
The scope of public debt	<p><i>Article 1. Scope of regulation</i></p> <p>2. Public debts under this Law comprise:</p> <p>a/ Government debts;</p> <p>b/ Government-guaranteed debts;</p> <p>c/ Debts of local administrations.</p>	<p><i>Article 1. Scope of regulation</i></p> <p>2. Public debt stipulated in this Law includes: Government debt; Government-guaranteed debt; debt of local governments.</p>	<p>The scope of public debt has been remained unchanged in the Draft Law in comparison with the current law.</p> <p>Some argue that</p>

Contents	Law on Public Debt Management (2009)	Draft Revision of the Law on Public Debt Management	Authors' opinions and discussion
			<p>several items should also be included in public debt such as the self-borrowing and self-repayment debts of SOEs and debts of public non-business units.</p> <p>However, we approve of the current law as well as the Draft Law because in principle, the Government does not have any obligation to bear direct liability for these debts, as regulated in other legal documents on</p>

Contents	Law on Public Debt Management (2009)	Draft Revision of the Law on Public Debt Management	Authors' opinions and discussion
			<p>the tasks and roles of SOEs.</p> <p>Nonetheless, there should be mechanisms to strengthen the monitoring, supervision, management, assessment, and control of potential risks of SOEs' self-borrowing and self-repayment debts (both pre-audit and post-audit); minimizing the number of cases that the budget has to be used to pay SOEs' debts when they go bankrupt.</p>

Contents	Law on Public Debt Management (2009)	Draft Revision of the Law on Public Debt Management	Authors' opinions and discussion
Debt safety indicators	<p><i>Article 7. Tasks and powers of the National Assembly</i></p> <p>1. To decide on debt safety norms in five-year socio-economic development plans, including:</p> <p>a/ Public debts against GDP;</p> <p>b/ National foreign debts against GDP;</p> <p>c/ Payment of government debts against total state budget revenues;</p> <p>d/ Payment of national foreign debts against total export value.</p>	<p><i>Article 24. Public debt safety indicators</i></p> <p>2. Public debt safety indicators include:</p> <p>a) Public debt-to-Gross Domestic Product ratio;</p> <p>b) Government debt-to-Gross Domestic Product ratio;</p> <p>c) The ratio of direct debt service of the Government (excluding onlending) to total budget revenue per annum.</p>	<p>The Draft Law has removed the foreign debt safety indicators in the 2009 Law.</p> <p>As far as we are concerned, however, it is necessary to add indicators reflecting the solvency of foreign debts such as the ratio of foreign debts to foreign exchange reserves or total export value and indicators reflecting the liquidity of foreign</p>

Contents	Law on Public Debt Management (2009)	Draft Revision of the Law on Public Debt Management	Authors' opinions and discussion
			debts such as the ratio of short-term foreign debts or foreign debt service to foreign exchange reserves.
The medium-term debt management program and plan for borrowings and repayments of debts	The current law integrates tools of strategies and plans in Chapter II (Tasks and powers of the National Assembly, the Government, other state agencies and responsibilities of organizations and individuals in public debt management), albeit without specific regulations.	<p><i>Article 25. Five-year plan on borrowing and repayment of public debt</i></p> <p>1. The five-year plan for borrowings and repayments of public debt aims to identify public debt safety indicators, targets, orientations, and solutions for public debt management in accordance with the five-year socio-economic development plan and the five-year financial plan.</p> <p>2. The main reported contents of the five-year debt borrowing and repayment plan include:</p> <p>a) The implementation of targets, orientations, and solutions on the borrowing and repayment of public debts in the previous five-year period, including the borrowing and repayment of</p>	- We approve of the Draft Law. These documents are necessary to make the Government become more proactive and these are in line with international practices as well as recommendations of international financial institutions.

Contents	Law on Public Debt Management (2009)	Draft Revision of the Law on Public Debt Management	Authors' opinions and discussion
		<p>Government debt; the provision and management of Government guarantees; the borrowing and repayment of local government debt; the evaluation of the achievements, limitations, causes, and lessons.</p> <p>b) Indicators and targets of public debt safety, orientations and solutions for public debt management in order to ensure the safety and sustainability of national finance and the macroeconomic stability in the next five years.</p> <p>c) The total borrowed amount of the Government in the next five years, including loans for offsetting central budget deficits; loans for principal repayment; loans for onlending;</p> <p>d) The structure of the Government loans includes Government bonds issued in the domestic capital market; ODA loans, foreign preferential loans; Government bonds issued in the international capital market; bonds for national construction; other domestic and foreign loans;</p>	<p>- It is necessary to supplement and specify the targets and the report contents of the Debt Strategy, the Five-Year Plan for Borrowings and Repayments of Debts, the Medium-Term Debt Management Program in 03 years, and the Annual Plan for Borrowings of Debts.</p>

Contents	Law on Public Debt Management (2009)	Draft Revision of the Law on Public Debt Management	Authors' opinions and discussion
		<p>e) The obligation to repay the principal, interests, and charges of the Government, including direct debt repayment and onlending debt repayment obligation;</p> <p>f) The total Government guarantees for the next five years, including guarantees for enterprises to implement investment projects, guarantees for the State policy bank to conduct the state credit programme;</p> <p>g) The total loans and debt repayment of local governments over the next five years, including loans for offsetting local budget deficits, loans for principal repayment; obligation to pay the principal, interests and charges of local governments.</p> <p><i>Article 26. Medium-term debt management programme</i></p> <p>1. The medium-term debt management programme is made on a rolling basis for a period of 03 years in association with the three-year financial - state budget plan.</p>	

Contents	Law on Public Debt Management (2009)	Draft Revision of the Law on Public Debt Management	Authors' opinions and discussion
		<p>2. The medium-term debt management programme includes the Government's medium-term debt management programme and the local governments' medium-term debt management programmes.</p> <p>3. The main contents of the medium-term debt management programme include:</p> <p>a) Evaluating the implementation of the medium-term debt management programme in the previous period;</p> <p>b) Current status of debt structure, costs of capital mobilization and possible risks of the current debt portfolio;</p> <p>c) Forecasting the situation in domestic and international capital markets; the possibility and structure of the sources of domestic and foreign loans; borrowing and debt repayment prospects and plans; costs of capital mobilization; potential risks in the next two years;</p> <p>d) Solutions.</p>	

Contents	Law on Public Debt Management (2009)	Draft Revision of the Law on Public Debt Management	Authors' opinions and discussion
		<p><i>Article 27. Borrowing and debt repayment plans of the Government, local governments and the annual Government guarantee limits</i></p> <p>1. Annual borrowing and debt repayment plan of the Government:</p> <p>a) The Government's annual plan for borrowings and repaying debts is made to specify the five-year plan on borrowing and public debt repayment, performing the approved tasks on finance, budget and public investment in the plan year.</p> <p>b) The contents of the Government's annual plan on borrowing and repaying debts include loans for offsetting central budget deficits, repayment of the principal, onlending, and debt restructuring; direct repayment obligations, repayment of re-lending loans; the structure of loan sources and identification of sources for repayment.</p> <p>2. Annual borrowing and repayment plans of local governments:</p> <p>a) Local governments' annual plans on borrowing</p>	

Contents	Law on Public Debt Management (2009)	Draft Revision of the Law on Public Debt Management	Authors' opinions and discussion
		<p>and repaying debts are made to specify the five-year plan on borrowing and public debt repayment, performing the approved tasks on finance, budget and public investment in the plan year.</p> <p>b) The contents of local governments' annual borrowing and debt repayment plans include loans for offsetting local budget deficits, repayment of principal; obligations of local governments to pay principal and interests; the structure of loan sources and identification of sources for repayment.</p>	
Tasks, powers, and responsibilities of state agencies in public debt management	<p><i>Article 10. Tasks and powers of the Ministry of Finance</i></p> <p>1. To assist the Government in performing the unified state management of public debts.</p> <p>2. To assume the prime responsibility for setting objectives and orientations for loan raising and use and public debt management in each five-year period; formulating medium-term debt management programs;</p>	<p><i>Article 14. Tasks and powers of the Ministry of Finance</i></p> <p>1. To assist the Government in conducting the unified state management of public debts.</p> <p>2. To draft and submit to the Government bills of law, resolutions and ordinances on public debt management.</p> <p>3. To establish and submit to the Government for submission to the National Assembly the five-year</p>	<p>- The current Law and the Draft Law still present overlapping functions and responsibilities, for example, those of the Ministry of Finance and the Ministry of Planning and Investment in negotiating and</p>

Contents	Law on Public Debt Management (2009)	Draft Revision of the Law on Public Debt Management	Authors' opinions and discussion
	<p>and establishing systems of indicators to monitor government debts, public debts, national foreign debts and the Government's detailed annual borrowing and debt payment plans and submit them to competent authorities for approval.</p> <p>3. To implement public debt limits, foreign commercial loan limits and government guarantee.</p> <p>4. To negotiate and sign foreign loan agreements as assigned by the Government.</p> <p>5. To act as the official representative of borrowers for foreign loans taken in the name of the State and the Government, except loans which the State Bank of Vietnam is authorized to negotiate and sign; to conduct government debt-related transactions.</p> <p>6. To negotiate and sign government guarantee agreements; to act as the official representative of the guarantor for</p>	<p>plan on borrowing and repayment of public debts; the total amount of borrowed and paid debts in the annual state budget plan; ODA loans, foreign preferential loans for onlending and annual government guarantee limits; the source of funds for debt repayment in case the accumulated fund for debt repayment fails to ensure sources for repayment.</p> <p>4. To formulate and submit to the Government:</p> <p>a) Medium-term debt management programme;</p> <p>b) The list of programmes and projects prioritized to be considered for Government guarantee provision in a 5-year period;</p> <p>c) Government guarantee provision for each programme and project;</p> <p>d) Onlending from the ODA loans, foreign preferential loans of the Government;</p> <p>e) The scheme on the issuance of government bonds to the international capital market;</p> <p>f) The scheme on restructuring the domestic debts and external debts of the Government;</p>	<p>managing the ODA and other preferential loans; lack of unity as various stages such as budget balancing, negotiating, signing, debt allocating, using, and repaying are separated and not closely linked to responsibilities; besides, the requirements of administrative reform towards streamlined, effective and efficient apparatus have not been met. The decentralized management will make it difficult to track, report, finalize, and, in particular,</p>

Contents	Law on Public Debt Management (2009)	Draft Revision of the Law on Public Debt Management	Authors' opinions and discussion
	<p>government-guaranteed loans.</p> <p>7. To assume the prime responsibility for formulating schemes to issue the Government's international bonds and submit them to the Government for approval.</p> <p>8. To assume the prime responsibility for formulating schemes on issuance of government bonds to raise funds for domestic works and investment projects and schemes to raise and plans to use foreign commercial loans and submit them to the Prime Minister for approval.</p> <p>9. To issue domestic and international government bonds under approved plans or schemes.</p> <p>10. To borrow loans from lawful domestic financial sources to offset temporary deficits of the central budget.</p> <p>11. To manage the Government's loans, covering:</p>	<p>g) The issuance of national construction bonds;</p> <p>h) Schemes on ownership transfer and conversion, debt charge-off or cancellation; measures and penalties in case the beneficiaries of government guarantee face difficulties in debt repayment;</p> <p>i) The use of the accumulated debt repayment fund to handle risks on onlending and government guarantee.</p> <p>5. To design, submit to the Prime Minister and implement the detailed plan on the Government's borrowing and debt repayment, the Government guarantee limit and the annual local governments' borrowing and debt repayment plans; plans for debt redemption and debt rescheduling schemes to deal with the risks of public debt portfolio.</p> <p>6. To promulgate or submit to competent authorities to promulgate legal documents related to the management of public debts, management of onlending charges and guarantee the management of public debts under the provisions of this Law.</p>	<p>determine the liabilities for loan borrowing, repayment and evaluation of the efficiency of loan usage.</p> <p>Based on world best practices, we believe that the authority to manage debt should be confined to a single agency, namely the Ministry of Finance, or a unit under the Ministry of Finance.</p> <p>- The current Law as well as the Draft Law only cover contents of the tasks of relevant agencies, organizations, and</p>

Contents	Law on Public Debt Management (2009)	Draft Revision of the Law on Public Debt Management	Authors' opinions and discussion
	<p>a/ To formulate and promulgate regulations on financial management of loans;</p> <p>b/ To allocate the Government's loans to investment programs and projects and other targets already approved by competent authorities; to guide and organize the onlending of the Government's foreign loans.</p> <p>12. To evaluate dossiers of request for government guarantee, schemes to issue government-guaranteed domestic and international bonds of enterprises and financial and credit institutions and submit them to the Prime Minister for decision on provision and management of government guarantee.</p> <p>13. To fulfill the Government's debt payment liability and the guarantor's obligations for government-guaranteed loans.</p> <p>14. To manage public debts portfolios, to analyze sustainable debts and control risks;</p>	<p>7. To hold the negotiation and signing of domestic loan deals of the Government; to assume the prime responsibility for negotiating and concluding specific agreements on ODA loans and foreign preferential loans (except for international treaties specified in Clause 1 of Article 16); to issue Government bonds in the international capital market.</p> <p>8. To manage Government debts; to formulate and promulgate financial management mechanisms for loans; to assume the prime responsibility for determining the domestic financial mechanism of ODA loans, foreign preferential loans and submit them to the Prime Minister for decision.</p> <p>9. To allocate the Government's loans for investment programmes, projects and for realizing other targets already approved by competent authorities; to manage, guide and perform the onlending of foreign loans of the Government; to provide and manage the Government guarantee; to</p>	<p>individuals, but do not provide specific regulations on their responsibilities for performing these assigned tasks, and especially, lack specific sanctions in case of ineffective implementation or violation.</p> <p>- Notably, the 2009 Law stipulates that the organizations and individuals concerned must be responsible before the law for their performance of assigned tasks and</p>

Contents	Law on Public Debt Management (2009)	Draft Revision of the Law on Public Debt Management	Authors' opinions and discussion
	<p>to propose or submit to the Prime Minister for approval and implement schemes to handle debts and restructure debts and debt portfolios.</p> <p>15. To manage the accumulation fund for debt payment.</p> <p>16. To establish and manage a database on public debts; to sum up, report and publicize information on public debts.</p> <p>17. To assume the prime responsibility for. and coordinate with onlending agencies and other concerned agencies in. setting specific onlending conditions for programs and projects using foreign loans under law.</p> <p>18. To authorize financial and credit institutions to provide onlending for or sign onlending agreements with sub-borrowers when the Ministry of Finance is the direct onlending provider.</p>	<p>conduct the debt repayment obligation of the Government and the obligation of the guarantor for the loans guaranteed by the Government.</p> <p>10. To manage the accumulated fund for debt repayment; to manage and deal with the risks in the public debt portfolio; to monitor, evaluate and analyze the sustainability of public debts.</p> <p>11. To carry out the accounting and statistic tasks on public debts; to uniform the management of information systems, databases, to report and publicize the information on public debts in accordance with legal regulations.</p> <p>12. To monitor, inspect, examine and evaluate the use of the Government's loans; the borrowing and repayment of the debt guaranteed by the Government; the borrowing and repayment performed by local governments.</p> <p>13. To perform other tasks related to public debt management as assigned by the Government.</p>	<p>powers, and violations shall be dealt with according to the law, depending on the nature and extent of the violations (Article 17). However, in the Draft Law, this content has been amended, and the parties no longer have to bear responsibility before the law.</p> <p>As far as we are concerned, this provision in the curent law should be kept unchanged.</p>

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	<p>19. To monitor, inspect, examine and evaluate the use of loans of or guaranteed by the Government; to borrow loans for and pay debts of local administrations; to manage and recover onlending loans under regulations on authorization of onlending and onlending agreements.</p> <p>20. To coordinate with the State Bank of Vietnam in raising domestic funds, ensuring effective administration of monetary-credit policies.</p> <p>21. To coordinate with the Ministry of Planning and Investment in formulating and submitting to the Prime Minister for approval a list of ODA fund requests before a framework agreement on ODA loans or project list agreement is signed.</p> <p>22. To report on the use of loans and management of public debts to competent authorities annually or at request.</p>	<p><i>Article 15. Tasks, powers and responsibilities of the Ministry of Planning and Investment</i></p> <p>1. To assume the prime responsibility for, and coordinate with the Ministry of Finance and concerned agencies in, proposing the use of loans for public investment in the balance of total development investment, to assure the acceptable state budget deficits and public debt safety indicators approved by the National Assembly.</p> <p>2. To be accountable to the Government for the state management of ODA loans, foreign preferential loans; to act as a coordinator for the campaigning and signing of framework agreements, to coordinate, manage and use ODA and foreign preferential loans.</p> <p>3. To cooperate with the Ministry of Finance in establishing the five-year plan on borrowing and debt repayment; the medium-term debt management programme and the Government's annual plan on borrowing and debt repayment.</p>	

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	<p><i>Article 11. Tasks and powers of the Ministry of Planning and Investment</i></p> <ol style="list-style-type: none"> 1. To assume the prime responsibility for making ODA fund request lists as assigned by the Government. 2. To raise and coordinate ODA funds and assume the prime responsibility for negotiating and signing framework treaties on ODA loans as assigned or authorized by the Prime Minister. 3. To monitor and conduct post-evaluation of the Government's ODA-funded programs and projects. 4. To coordinate with the Ministry of Finance in: <ul style="list-style-type: none"> a/ Setting objectives and orientations for loan raising and use and public debt management in each five-year period; and formulating medium-term debt management programs and detailed annual borrowing and debt payment plans of the Government; 	<p><i>Article 16. Tasks, powers and responsibilities of the State Bank of Vietnam</i></p> <ol style="list-style-type: none"> 1. To assume the prime responsibility for, and coordinate with the Ministry of Finance and concerned agencies in, preparing contents for and performing the negotiation and concluding of treaties with international monetary and financial organizations in which the State Bank of Vietnam and is the official representative of the borrower. 2. To provide the Ministry of Finance information on activities and financial status of credit institutions involved in the onlending of the Government's foreign loans. 3. To cooperate with the Ministry of Finance in establishing the five-year plan for borrowing and debt repayment; the medium-term debt management programme. 	

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	<p>b/ Establishing a system of indicators to oversee government debts, public debts and national foreign debts;</p> <p>c/ Formulating schemes to issue international bonds of the Government;</p> <p>d/ Formulating schemes to issue domestic central work bonds and schemes to raise and use foreign commercial loans;</p> <p>e/ Balancing ODA funds in annual state budget estimates for programs and projects.</p> <p>Article 12. Tasks and powers of the State Bank of Vietnam</p> <p>1. To assume the prime responsibility for, and coordinate with the Ministry of Finance and other concerned agencies in, preparing contents of, negotiating and signing treaties with international financial and monetary institutions which the State Bank of Vietnam represents and acts as the official representative of borrowers in these treaties</p>		

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	<p>under the assignment or authorization of the President or the Government.</p> <p>2. To evaluate schemes to borrow the Government's foreign commercial loans under credit programs and limits and government-guaranteed commercial loans of financial and credit institutions.</p> <p>3. To guide and organize the registration of government-guaranteed foreign loans of enterprises and financial and credit institutions.</p> <p>4. To coordinate with the Ministry of Finance in:</p> <p>a/ Setting objectives and orientations for loan raising and use and public debt management in each five-year period; and formulating medium-term debt management programs and detailed annual borrowing and debt payment plans of the Government;</p> <p>b/ Establishing a system of indicators to</p>		

Contents	Law on Public Debt Management (2009)	Draft Revision of the Law on Public Debt Management	Authors' opinions and discussion
	<p>oversee government debts, public debts and national foreign debts;</p> <p>c/ Formulating the Government's schemes to raise domestic and foreign funds associated with administration of monetary-credit policies.</p> <p><i>Article 17. Responsibilities of organizations and individuals deciding on lending, onlending, guarantee and evaluation, and other concerned organizations and individuals</i></p> <p>1. Organizations and individuals that decide on the lending, onlending, guarantee and evaluation and other concerned organizations and individuals shall, within the ambit of their tasks and powers, take responsibility before law for their performance of assigned tasks and vested powers under the law on public debt management.</p>		

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	2. Organizations and individuals that take advantage of their assigned tasks and vested powers to commit prohibited acts in state management of public debts shall, depending on the nature and severity of their violation, be handled under law.		
Risk management of public debt		<p><i>Article 58. Risk management of public debt</i></p> <p>3. Risk prevention measures include:</p> <p>a) Onlending under the form in which the onlending agencies are subject to all credit risks;</p> <p>b) Providing the loan security, management of mortgaged assets for loans for onlending purposes and Government guarantee;</p> <p>c) Requesting the guaranteed subjects and subjects entitled to borrow the government's foreign loans to buy credit risk insurance;</p> <p>d) Performing proactive risk prevention activities including debt repurchase, debt swap, using derivatives and other operations.</p>	We approve of the Draft Law in the supplementary regulations on risk management of public debt.

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		<p>4. Risk management measures include:</p> <p>a) Restructuring debt to change the conditions of the debt; restructuring a part or all of the debts in the current debt portfolio through measures of the debt's ownership transfer or conversion; repurchasing debts, selling debts; conducting the interest rate swaps, foreign currency swaps and other forms of debt restructuring.</p> <p>b) Using the accumulation fund for debt repayment to handle the risks arising from the onlending of the Government's foreign loans and the Government guarantees;</p> <p>c) Measures for debt rescheduling, debt charge-off, debt cancellation and other risk handling methods under the legal regulations.</p> <p>7. Subjects eligible for onlending and guarantee shall allocate reserves for handling risks in accordance with the provisions of the law; establish the plan and select appropriate risk-treatment tools to prevent and handle risks; subject to the inspection, examination and supervision of</p>	

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		competent authorities. <i>Article 42. Credit risk management of onlending</i> <i>Article 50. Risk management of Government guarantee</i>	
Management of the onlending of the Government's foreign loans	<i>Article 23. Onlending agencies and onlending beneficiaries</i> 2. Onlending beneficiaries include: a/ Financial and credit institutions borrowing loans for further lending to users under credit programs or credit components of programs and projects using foreign loans; b/ Enterprises borrowing loans for investment in programs and projects capable of recovering part of or all the loans; c/ Provincial-level People's Committees borrowing loans for investment in sociohy;economic development within the local budget spending task.	<i>Article 36. Onlending beneficiaries and onlending agencies</i> 1. Onlending beneficiaries of the Government's foreign loans include: a) Enterprises and public non-business units; b) Provincial-level People's Committees.	The draft has provided regulations to strengthen the control of the onlending of the Government's foreign loans.

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	<p><i>Article 24. Conditions on eligibility for onlending</i></p> <p>1. Conditions of financial and credit institutions:</p> <p>a/ Having programs or projects permitted by competent authorities to use loans and such use is approved by foreign lenders;</p> <p>b/ Guaranteeing solvency under evaluated financial schemes under law;</p> <p>c/ Reaching the capital safety ratio under government regulations, except for policy banks of the State, for cases of borrowing the Government's foreign commercial loans.</p> <p>2. Conditions of enterprises:</p> <p>a/ Having programs or projects in line with national socio-economic development orientations, being permitted by competent authorities to use loans, having completed investment procedures under the investment law and other relevant laws and being approved by foreign lenders;</p>	<p><i>Article 40. Conditions on eligibility for onlending</i></p> <p>1. Enterprises must meet the following conditions:</p> <p>a) Having investment projects approved by competent authorities for the use of loans, in which the investment procedures have been completed in accordance with the law;</p> <p>b) Having feasible financial plans appraised by competent authorities in accordance with the law;</p> <p>c) Having operated for at least three (03) years; having the debt-to-equity ratio of no more than three (03) times according to the financial statement of the most recent year by the year of appraisal; not suffering losses in the most recent three (3) years except for the losses due to the implementation of policies approved by the competent authorities; having no overdue debts to financial and credit institutions by the time of the request for onlending; having no overdue debt related to the borrowing of the Government's</p>	

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	<p>b/ Being capable of implementing projects, guaranteeing solvency under evaluated financial schemes under law;</p> <p>c/ Ensuring that project owners possess at least 20% of the total investment capital, for cases of borrowing the Government's foreign commercial loans. For important national projects and works of urgency and particular significance to national socio-economic development for which enterprises fail to meet the condition on owner capital, the Prime Minister may consider and decide to waive this condition on a case-by-case basis;</p> <p>d/ Having a healthy financial status, making no losses over the last three years, except losses incurred from the policy implementation; at the time of request for onlending, owing no overdue debts to financial and credit institutions; having no overdue debts related to loans borrowed from the Government's foreign loans and the state budget. For an enterprise which has operated for less than three years, commitment on payment of borrowed funds</p>	<p>foreign loans and Government-guaranteed loans.</p> <p>d) Guaranteeing the loans in accordance with the law.</p> <p>2. Public non-business units must meet the following conditions:</p> <p>a) Assuring the current expenditures and investment expenditures, taking the responsibility for the efficiency of the use of the loans and debt repayment in accordance with the law;</p> <p>b) Having investment projects approved by competent authorities for the use of loans, in which investment procedures have been completed in accordance with the law;</p> <p>c) Having feasible financial plans appraised by the competent authorities in accordance with the law.</p> <p>d) Guaranteeing the loans in accordance with the law.</p> <p>3. Provincial-level People's Committees must fully meet the following conditions:</p>	

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	<p>by the owner or parent company is required; e/ Providing security for borrowed loans under law.</p> <p>3. Conditions of provincial-level People's Committees:</p> <p>a/ Being permitted by competent authorities to borrow the Government's foreign loans;</p> <p>b/ Having socio-economic development investment projects within the local budget spending task which have completed investment procedures under the investment law and other relevant laws;</p> <p>c/ Local budgets capable of paying debts.</p>	<p>a) Being permitted by the competent authorities to borrow the Government's foreign loans;</p> <p>b) Having socio-economic development investment programmes, projects or projects with capital contributions from local budgets under the form of public-private partnership, under the spending tasks of the local budgets or under the local medium-term public investment plans, approved by competent authorities, in which investment procedures have been completed in accordance with the law;</p> <p>c) Having no onlending loan from the foreign loans of the Government which is overdue for more than 180 days;</p> <p>d) The local budget's outstanding debts at the time of consideration for on-lending shall not exceed the local budget's outstanding debts under the law on the state budget;</p> <p>e) Committing to pay the debt fully and on-time by the local budgets.</p>	

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Granting and management of government guarantee	<p><i>Article 32. Beneficiaries of government guarantee</i></p> <p>1. Enterprises implementing programs and projects under Article 33 of this Law.</p> <p>2. Policy banks of the State and financial and credit institutions implementing the State's target credit programs.</p> <p><i>Article 33. Programs and projects to be considered for government guarantee</i></p> <p>1. Investment programs and projects in which investment is decided by the National Assembly or the Prime Minister.</p> <p>2. Programs and projects applying high technologies and projects in energy, mineral exploitation and processing, or export production or provision of export services in conformity with national socio-economic development orientations.</p> <p>3. Programs and projects in the domains or</p>	<p><i>Article 44. The guarantors, the guarantee providing and managing agencies, the beneficiaries and subjects eligible for the consideration of Government guarantee</i></p> <p>3. Subjects eligible for the consideration of Government guarantee include:</p> <p>a) Enterprises having investment projects to be approved by the National Assembly, the Government and the Prime Minister in accordance with the Law on Investment and the Law on Public Investment.</p> <p>b) State policy banks which conduct state policy credit programmes.</p> <p>4. Guaranteed subjects include enterprises and state policy banks which are guaranteed by the Government to borrow the loans, including legal transferees from the guaranteed subjects that are accepted by the guarantors.</p>	<p>- The draft has provided regulations aiming at restricting the management of granting government guarantees; In addition, the law has been amended to comply with the Law on State Budget of 2015, the Law on Public Investment, and the Law on Organizing Local Government.</p> <p>- It is advisable to minimize the government guarantee of debt and increase the publicity and transparency of</p>

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	<p>localities eligible for state investment incentives under the investment law and other relevant laws.</p> <p>4. Programs and projects funded with commercial loans associated with ODA funds in the form of syndicated credit.</p>		government guarantee.
	<p><i>Article 34. Conditions for obtaining government guarantee</i></p> <p>1. Conditions for programs and projects to obtain government guarantee:</p> <p>a/ Having completed investment procedures under the investment law and other relevant laws;</p> <p>b/ Having a borrowing or bond issuance scheme and a scheme on use of loans and debt payment evaluated by the Ministry of Finance and approved by the Prime Minister.</p> <p>2. Conditions for borrowers and bond issuers to obtain government guarantee:</p> <p>a/ Ensuring that at least 20% of the total</p>	<p><i>Article 46. Conditions for Government guarantee provision</i></p> <p>1. Enterprises must fully meet the following conditions to be provided with Government guarantee:</p> <p>a) Having the legal status, being lawfully established in Vietnam and having operated for at least three (03) years.</p> <p>b) Not suffering losses for the last three (03) consecutive years, except for the losses due to the implementation of policies approved by competent authorities; having no overdue debts to financial and credit institutions and overdue debt related to</p>	

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	<p>investment capital is own capital, for enterprises implementing investment projects. Reaching the capital safety ratio under government regulations, for financial and credit institutions other than policy banks of the State;</p> <p>b/ Having a healthy financial status, making no losses in the last three years, except losses incurred from the policy implementation; at the time of requesting guarantee, owing no overdue debts to financial and credit institutions; and having no overdue debts related to guaranteed loans, loans borrowed from the Government's foreign loans and the state budget. For an enterprise or financial or credit institution which has operated for less than full three years, commitment on payment of guaranteed loans by the owner or parent company is required;</p> <p>c/ Observing remedies applied by the guarantee grantor;</p>	<p>the Government-guaranteed debts by the time of the request for guarantee provision; having the debt-to-equity ratio of no more than three (03) times according to the financial statement of the most recent year by the year of appraisal for Government guarantee provision.</p> <p>c) Having the Government guarantee provision policy passed by the competent authorities and being included in the approved list of prioritized projects for the Government guarantee provision in the period of 05 years.</p> <p>d) Having completed the investment procedures in accordance with the Law on Investment and other relevant legal regulations.</p> <p>e) Having financial plans appraised by the Ministry of Finance and approved by the Government.</p> <p>f) Having at least 20% of the total investment of the project coming from equity. Equity must be allocated in accordance with the progress of the project.</p>	

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	<p>d/ Having a credit rating accepted by the international market which must not be one level lower than the national credit rating, for cases of international bond issuance;</p> <p>e/ Committing no violations of regulations on public debt management in the last three years counting from the time of requesting guarantee;</p> <p>f/ For key projects and works and major projects of urgency and particular importance to national socio-economic development, if enterprises fail to meet the condition on owner capital, the Prime Minister may consider and decide to waive this condition on a case-by-case basis.</p> <p>3. Conditions for foreign loans and issue of international bonds to obtain government guarantee:</p> <p>a/ The foreign loan under a loan agreement is valued at USD 50 million equivalent or higher, the value of issued international</p>	<p>2. State policy banks which are provided with Government guarantees must fully meet the following conditions:</p> <p>a) Being a state policy bank established under the provisions of the law, having the function of capital mobilization for lending according to the charter promulgated by competent authorities;</p> <p>b) Having already been approved by the competent authorities for Government guarantee provision as a part of the State's policy credit programme, which is included in the five-year Government guarantee limit set by the National Assembly;</p> <p>c) Government-guaranteed debts shall be used for the implementation of the State's policy credit programmes according to the Government's regulations.</p> <p>3. In cases enterprises issue Government-guaranteed bonds, in addition to the conditions specified in Clause 1 of this Article, enterprises must meet the following conditions:</p>	

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	<p>bonds is USD 100 million equivalent or higher and within the Government's annual commercial loan limits and foreign borrowing guarantee, except loans specified in Clause 4. Article 33 of this Law; the debt payment time is at least 10 years and borrowing or issuance conditions conform with market conditions and international practice;</p> <p>b/ The domestic loan or domestic bonds in a foreign currency is/are valued at USD 30 million equivalent or higher, the debt payment time is at least 5 years; the loan or bonds in local currency is/are valued at VND 500 billion or higher, the debt payment time is minimum 1 year.</p>	<p>a) Having bond issuance schemes in accordance with the provisions of the law on securities and relevant documents;</p> <p>b) In cases the enterprise issues bonds to the international capital market, the enterprises must have the credit rating accepted by the international market, but this rating is not more than one level lower than the national credit rating.</p>	
		<p><i>Article 27. The annual plan on borrowing and debt repayment of the Government, local governments and Government guarantee limits</i></p>	

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		<p>3. Annual Government guarantee limit:</p> <p>a) The annual Government guarantee limit shall be determined on the principle that the growth rate of the outstanding Government-guaranteed debts does not exceed the growth rate of the gross domestic product of the previous year and the Government guarantee limit set by the National Assembly for the 5-year period.</p> <p>b) Annually, based on the demand and capability to mobilize the loans, the beneficiaries of guarantee and subjects eligible for consideration of guarantee provision shall make reports on the Government guarantee for each project, in which clarifying the opening debt balance, overdue debt which need to be repayed within the year; new borrowed amount arising in the year, and the closing debt balance, and send the reports to the Ministry of Finance for the determination of the Government guarantee limit in the plan year.</p>	

Source: Law on Public Debt Management (2009) and the Draft Revision of Law on Public Debt Management

It can be seen that the Draft Revision has been designed in details. Many limitations of the current Law have been improved. However, there are still some controversial issues which need to be reviewed as follows:

The first issue to be addressed is the transparent, systematic and up-to-date features of statistical figures on public debts. The timely, accurate and thorough publicity of information not only plays an important role in monitoring, researching, analyzing and evaluating the status of borrowing and repayment of public debt, but also sets the foundation for the forecasting process and the development of strategies, policies and plans to effectively manage public debts. The requirement on the transparency of information is stipulated in both international standards and legal normative documents of Vietnam, namely the Decree No. 79/2010/ND-CP of the Government on the public debt management and Decision No. 232/2006/QĐ-TTg of the Prime Minister on the promulgation of regulations on collecting, reporting on, exchanging, and publicizing the information on external debts; yet the achievements have not met all the requirements.

Specifically, the only official source of information on public debts in Vietnam is the public debt and external debt bulletins compiled by the Ministry of Finance. However, the figures publicized in the latest public debt bulletin so far (Public Debt Bulletin No. 5, issued in 2017) have just been updated to the year 2015, while the latest external debt bulletin (External Debt Bulletin No.7, issued in 2011) has just reported on the debt status of 2010. Currently, the most transparent and up-to-date debt safety indicator is the public debt-to-GDP ratio, yet using only this indicator is not sufficient to assess the repayment ability and the sustainability of public debts, not to mention that it depends heavily on an estimated figure which is the current year's GDP.

On the other hand, regarding the content of publicized information, the indicators regulated in the current Law as well as the Draft Revision have not reflected all aspects of the public debt situation, particularly the plans of using borrowed funds. Meanwhile, specific figures on the proportions of loans to offset the budget deficit, loans for development investment or loans for on-lending have not yet been collected and publicized.

Another issue which attracts great attention of the public opinion is the scope of regulation of the Law. Many suggest that the scope of public debt in Vietnam is currently incomplete and the largest potential risk to Vietnam's public debts may not arise from the loans recorded.

According to current accounting practices, the loans which are self-borrowed and self-repayed by SOEs or public non-business units, i.e. not the State's guaranteed loans or onlending, are not included in public debts. However, it is noticeable that most SOEs, especially those responsible for managing assets which may have impacts on the national security, play a significant role in the local or industrial scale, and thus affecting the whole economy. Therefore, if these businesses face the risk of bankruptcy, the state may have to

intervene. Bad debts of SOEs which might need to be funded by the state budget are threats to the sustainability of public debts.

Thirdly, regarding public debt management tools, the current public debt ceiling is 65% of GDP, but this level has not been clarified in terms of principles, criterias and calculation methods. In addition, in the context that the Government debt had exceeded the threshold of 50% of GDP, the government debt ceiling was also lifted by the National Assembly from 50% to 54% of GDP in 2016 without any specific explanation.

Fourthly, one of the most concerned issues at the present time is whether the public debt management focal points should be unified into a single agency, namely the Ministry of Finance.

According to the current Law and the Draft Revision, the process of establishing the borrowing plan, negotiating, allocating, managing, using and repaying debts in Vietnam is currently being assigned to three agencies including the Ministry of Finance, the Ministry of Planning and Investment and the State Bank of Vietnam. Specifically, the Ministry of Finance shall take the responsibility in "helping the Government unify the management of public debts", playing the leading role in negotiating and concluding specific loan agreements (except for agreements with international financial institutions, which are in charge of the State Bank of Vietnam); the Ministry of Planning and Investment shall assume the prime responsibility for unifying the management of ODA loans, including the mobilization, coordination, negotiation and signing of framework agreements on ODA and preferential loans; the State Bank of Vietnam (SBV) shall take the leading role in negotiating ODA agreements with international financial institutions (including the World Bank (WB), the Asian Development Bank (ADB), the International Monetary Fund (IMF), etc).

This shows a fact that many issues still remain, including the overlapping in functions and tasks (for example, those of the Ministry of Finance and the Ministry of Planning and Investment in the mobilization and management of ODA and preferential loans); the lack of uniformity due to the shortage of connection among the tasks of budget balance, negotiation, signing, debt allocation, use, and repayment (for instance, the management and allocation of funds of the Ministry of Planning and Investment are not in line with the borrowing plan, leading to the slow disbursement which has lasted for many years). Besides, the requirements of administrative reform in the streamlined, effective, and efficient direction have not been met. According to Mr. Nguyen Duc Hai, Chairman of the Finance and Budget Committee of the National Assembly, "the regulation that many agencies jointly play the responsibility as the focal points of public debt management will not improve the situation of dispersed management and ineffective cooperation. This led to difficulties in monitoring, reporting, finalizing and data collecting, especially in the determination of the borrowing and debt repayment accountability and the assessment of the effectiveness of loan utilization".

However, in the latest meeting to discuss the amendment of the Law on Public Debt Management on August 17th, 2017, the Government still proposed to maintain the current tasks, powers and responsibilities of the Ministry of Finance, the Ministry of Planning and Investment and the State Bank of Vietnam, as an adjustment will lead to the amendment of relevant laws and affect the stability of the state apparatus.

From the aforementioned issues, in the next section, we conduct an analysis of international experiences on the aspects of the scope of public debt, public debt management tools (including debt safety indicators and short-term and medium-term debt management strategies) and public debt management models, thereby providing policy recommendations for Vietnam.

INTERNATIONAL EXPERIENCES IN PUBLIC DEBT MANAGEMENT

Definition of public debt

At present, there are various definitions of public debt, depending on the different viewpoints and different social, economic, political characteristics of different 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).

In Vietnam, according to the Law on Public Debt Management (2009) and the Draft Revision of the Law on Public Debt Management, "public debt includes government debt, government-guaranteed debt and local government debt." As can be seen, this concept has been relatively broad, reasonable and close to international practices.

Regarding the controversial issues related to the addition to the public debt of some items such as self-borrowed and self-repaid loans of SOEs and debts of public non-business units, in principle, the State has no obligation to take the responsibility for these debts. If a SOE is

unable to repay its loans, it must carry out bankruptcy procedures and be dissolved in accordance with the law. As a result, the inclusion of these items in public debt is unnecessary. Furthermore, if the total debts of these sectors are taken into account, the public debt-to-GDP ratio will be inflated, seriously affecting the level of national financial security. In fact, only a few countries in the world put these items into public debt, such as Thailand or Macedonia.

Besides, according to the IMF (2015), the debt of SOEs or public non-business units, which can borrow without Government guarantee and pose little risk to the fiscal status of the government, should not be included in public debt, as the inclusion may limit the operation of these units and potentially curb the investment. The decision of whether or not to include loans of a SOE in public debt should be based on the its risk to the fiscal situation. Two binding criteria to identify a business with high risks include: (i) its activities are almost entirely funded by the state budget (quasi-fiscal activities) and (ii) it has operates with negative operating balances. In addition, other relevant indicators should also be considered, including the management independence of SOEs, ties with the government, the frequency of auditing, the activities of publicizing annual report on comprehensive operations and the protection of shareholders' interests, the sustainability and financial indicators, and other risk factors.

Therefore, in our viewpoint, it is not necessary to adjust the scope of public debt accounting in Vietnam at the present as well as in the Draft Revision,. Yet, due to the concern that the Government may have to repay non-statutory debts, there should be a mechanism for strengthening the monitoring, management, evaluation and control of potential risks of SOEs' seff-borrowed and self-repaid debts (both pre-audit and post-audit) and minimizing the number of cases of using the national budget to repay the loans of bankrupt SOEs and simultaneously tightening the provision of Government guarantee for the loans of businesses.

Debt management tools

Indicators of public debt safety

According to international practices, the system of debt safety indicators usually consists of four indicators: (i) public debt-to-GDP ratio, (ii) government debt-to-GDP ratio, (iii) the ratio of debt service to total budget revenues, and (iv) the ratio of foreign debt to foreign exchange reserves or total export value. These indicators are divided into two groups reflecting the solvency and liquidity, respectively.

Solvency reflects the repayment capacity and is measured based on the size of the debt as percentage of GDP, total export value or total budget revenue. In particular, GDP reflects the overall resources of the economy, while exports provide the information on the amount of foreign currency that can be used for debt repayment, and budget revenues reflect the government's ability to generate financial resources. Given that Vietnam's export value is heavily dependent on imported raw materials and machinery, the use of total export value as

a measure of the capacity to repay foreign debts may result in inaccurate information. Meanwhile, the ratio of public debt to budget revenue reflects the government's solvency on public debt, and it is particularly important for countries with unreliable GDP statistics such as Vietnam.

Liquidity reflects Vietnam's ability to quickly repay external debts, and is often measured by the ratio of short-term debt and debt service to foreign reserves (of which, debt service includes annual repayments of principal and interests, reflecting the resources spent in each year to fulfill the debt service).

It can be seen that the Law on Public Debt Management of Vietnam includes almost all of the aforementioned criteria in the section of debt safety indicators (Clause 1, Article 7, Chapter II). However, in the Draft Revision, the indicators of external debt safety in the 2009 Law has been removed. In our opinion, it is necessary to add indicators reflecting the ability to repay external debt such as the ratio of foreign debt to foreign reserves or total export value and the foreign debt liquidity such as the ratio of short-term debt or external debt service to foreign reserves.

In addition, it is necessary to update and publicize these indicators to facilitate the process of monitoring, evaluating and effectively managing public debt in Vietnam. The delay in publicizing statistics is partly due to the lag of GDP figures when debt figures are already available. Therefore, we propose to calculate the current value of public debt as percentage of the previous year's GDP, thereby significantly reducing the uncertainty of the estimated figures of the current year's GDP.

On the other hand, most countries have set limits or ceiling on public debt to strengthen financial discipline and ensure the sustainability of public debt. However, there have not been any common standard on safe levels of public debt indicators for countries in the world.

In 2005, the IMF and the WB jointly developed the debt sustainability assessments (DSAs) for low-income countries, and then the debt sustainability framework (DSF) for these countries was reviewed by the IMF and put forward in April 2016 in order to recommend low-income countries to borrow loans based on their repayment capacity and taking into account the specific scene of each country. In addition, this framework also provides guidance for decisions on lending and funding of lenders and official sponsors to ensure that the resources for low-income countries are provided in accordance with the long-term sustainability of debt as well as the progress toward their Millennium Development Goals (MDGs). The framework also acts as an "early warning system" of potential risks of debt so that timely actions can be taken. However, it should be noted that this framework is only applied for foreign debts rather than overall public debts.

According to the IMF (2017b), among low-income countries, those have better policy and institutional framework will be able to maintain a higher level of debt. Thus, DSF divides the

country into three groups corresponding to the strong, medium and weak policy environment based on the World Bank's Country Policy and Institutional Assessment (CPIA), and set the thresholds for debt as shown in Table 2.

Table 2: Recommended thresholds of external debt by the IMF and WB (%)

	Current value of debt as percentage of			Debt service as percentage of	
	Exports	GDP	Budget revenue	Exports	Budget revenue
Weak policy	100	30	200	15	25
Medium policy	150	40	250	20	30
Strong policy	200	50	300	25	35

Source: IMF (2017b).

Also, Monetary unions often set the ceiling on debt as a binding fiscal rule for member states. Typical examples include the public debt ceiling rate of 60% of GDP applied for eurozone countries (under the Maastricht Treaty) or for members of the Eastern Caribbean Currency Union, or the rate of 70% for member states of the West African Economic and Monetary Union (WAEMU) and the Economic Community of Central African States (CEMAC).

The determination of the public debt ceiling for a country is usually based on factors such as the debt situation, macroeconomic status, fiscal and monetary policies, demand for development investment, credit rating of that country as well as recommendations from the IMF/WB or experiences of similar economies.

In theory, there are several proposed methods to determine the maximum level of public debt/external debt.

In particular, Saxegaard (2014) refers to an approach that uses a simple accounting equation to calculate the debt value corresponding to the current discounted value of the expected primary budget surplus (excluding debt service) expected in the future of a country. This method can be demonstrated as follows:

$$d^* = \sum_{i=0}^{\infty} \frac{(T_t - G_t)}{(1+i)^t} \quad (1)$$

Of which, d^* is the maximum value of the debt-to-GDP ratio consistent with the public sector solvency; T_t and G_t are the government revenue-to-GDP ratio and non-interest government expenditure-to-GDP ratio in period t , respectively; and i is the discount rate defined as $r - g$ where r is the real interest rate and g is the real growth rate of GDP. Using this approach and the assumption of the importance of primary surpluses in the past to the future, IMF (2003) calculates a average debt ceiling of 75% of GDP for industrial economies and 25% of GDP for emerging markets.

A variant of this approach proposed by Mendoza and Oviedo (2009) calculates the maximum level of debt a country can service, taking into account the uncertainty of future revenues as well as the government's ability to adjust the fiscal policy in response to shocks, based on the following equation:

$$d^* = \frac{T_{min} - G_{min}}{r - g} \quad (2)$$

In which, d^* is the maximum level of debt that the country can service, and T_{min} and G_{min} are the minimum government revenue-to-GDP and non-interest government expenditure-to-GDP ratios, respectively.

In fact, different countries apply various forms of public debt ceiling, such as the constitutional ceiling, the statutory ceiling, the annual ceiling set by the Parliament/Congress or the ceiling under the decision of the Minister of Finance.

Some countries apply the *constitutional ceiling*, i.e. the level of public debt ceiling specified in the Constitution. In this case, the debt ceiling is fixed and therefore it is lack of flexibility; any changes will lead to the amendment of provisions of the Constitution. Hungary is one of the countries applying the constitutional ceiling, with a debt ceiling of 50% of GDP under the 2012 Constitution/Fundamental Law (Ministry of Finance, 2017b). Noticeably, the country's public debt threshold is calculated by the present value of debt as percentage of the previous year's GDP, thus significantly limiting the uncertainty of the present year's GDP estimate.

Returning to forms of public debt ceiling regulation, in the legal system of some other countries (such as Jamaica⁶), the debt ceiling is regulated in the law on public debt, the law on fiscal liability, or the law on budget/public finance management. It is called the *statutory ceiling*. Compared to the constitutional ceiling, this type is more flexible.

Meanwhile, in many countries such as Japan, New Zealand, Spain, Moldova, Canada, Argentina or Brazil, the *Parliament* has the power to set the public debt ceiling based on budget approval (Ministry of Finance, 2017b). This ceiling is adjusted annually depending on the economic situation and the balance of budget revenues and expenditures of these nations each year.

In the United States, the debt limits only allow the government to pay for existing legal obligations that were previously committed, rather than allowing new commitments. Since 1960, the *US Congress* has increased, extended and revised the definition of debt limit 78 times. The most recent change was in February 2014, and the debt ceiling approved by the US House of Representatives was US\$17.2 trillion. In India, in the announcement of the medium-

⁶ According to Jamaica's Financial Administration and Audit Act, <http://moj.gov.jm/sites/default/files/laws/The%20Financial%20Administration%20and%20Audit%20Act.pdf>

term fiscal policy in 2015, the federal government's target for outstanding debts was 44.7% of GDP for the 2016-2017 period and 23.8% of GDP for the 2017-2018 period (Ministry of Finance, 2017b).

In addition, countries with more flexible legal systems may authorize *ministers of finance* to set a periodic public debt ceiling, such as the UK under the Fiscal Responsibility Act 2010⁷.

Besides, some countries also have strict regulations that require agencies to report or to make timely adjustments when public debt reaches or nearly reaches the ceiling. Poland imposed stringent requirements on public expenditures when public debt exceeded 43%, 48% and 50% of GDP, although these levels were still far away from the allowed ceiling in the Constitution (60% of GDP). Similarly, also with the ceiling of 60% of GDP, the Slovak Republic requires the Minister of Finance to explain when the debt ratio reaches 50% and 55% of GDP and freezes the spending when the public debt-to-GDP ratio hits the levels of 55% and 57% (Ministry of Finance, 2017b).

Short-term and medium-term debt management strategies

Debt strategy is the way to formulate debt portfolio structure over time to ensure the risk management and make the tradeoff between costs and risks.

According to WB (2014), the Medium Term Debt Strategy (MTDS) is a plan to achieve longer-term debt management objectives with a focus on the risk management of the current debt portfolio. It is set up to manage the risk in terms of exchange rates, terms, interest rates, assuring the satisfaction of the demand for capital mobilization, reflecting the Government's will in the tradeoff between risks and costs and building up the desired debt structure in the debt portfolio of the government.

Contents of the medium-term debt management strategy include: (i) analysis of market risks (including the risks in terms of exchange rates, interest rates, refinancing) and historical background of the debt portfolio; (ii) forecasts of the future debt management environment, including fiscal forecasts, debt forecasts, interest rate and exchange rate assumptions, restrictions of the portfolio selection; (iii) baseline analysis and recommendations on debt management strategies; (iv) presentation of debt management practices in the domestic market; and (v) policy and operational recommendations for debt management in the strategic/plan period (Ministry of Finance, 2017b).

In fact, many countries around the world have applied medium-term debt management strategies and obtained positive results.

The public debt management strategy of Poland is developed within a four-year time frame. It is prepared by the Ministry of Finance, approved by the Government, and reviewed and adjusted annually. The strategy aims at three main objectives: (i) minimizing repayment costs

⁷ Fiscal Responsibility Act 2010, http://www.legislation.gov.uk/ukpga/2010/3/pdfs/ukpga_20100003_en.pdf

by optimizing debt management tools; (ii) limiting risks in terms of exchange rates, interest rates and credit; and (iii) facilitating the management of state budget liquidity. Additionally, in the country's debt management strategy for the 2015-2018 period, the targeted public debt-to-GDP ratio was 47.4% by the end of 2015 and this ratio will fall to 43.9% by the end of 2018 (Ministry of Finance of the Republic of Poland, 2014). Currently, Poland is one of thirteen countries which can ensure the government debt ratio below the EU ceiling of 60% of GDP.

The medium-term debt strategy of Bulgaria, another European country, is built in a three-year time frame. It was also drafted by the Ministry of Finance and passed by the Government. The main objective of the strategy is to assess and mitigate risks in order to ensure the stability of the debt structure as well as the resources to finance the budget deficit and the repayment of national debt service. Thanks to these strategies, Bulgaria's public debt fell significantly in the period 2003-2008. Currently, Bulgaria is one of the countries having the lowest public debt ratio in Europe (Ministry of Finance, 2017b).

China's debt strategy focuses on managing the structure of various types of debt and the debt term structure. In particular, regarding the debt term management strategy, the average term of Chinese government bonds increased sharply from 4.34 and 5.32 years in 2004 and 2005, respectively, to 8 years by 2008 (Ministry of Finance, 2017b).

Meanwhile, Thailand's public debt management strategy focuses on: (i) ensuring the sustainability of public debt by setting limits on the debt-to-GDP, budget for repayment-to-total budget and investment-to-total budget ratios; (ii) building a public debt management plan with specific timelines; and (iii) developing the domestic bond market. Thanks to this strategy, Thailand's public debt always remains at a safe level of less than 50% of GDP and the Thai bond market is strongly facilitated (Ministry of Finance, 2017b).

Moreover, the development of the annual borrowing plans plays a very important role in meeting overall capital mobilization needs for the coming year in accordance with the objectives set in the medium-term debt strategy and to increase the efficiency of debt borrowing and use.

In the short-term management strategy, targets are usually set up within a one-year time frame based on the actual and forecasted budget deficit, expected disbursement of ODA, and consultations with such relevant bodies such as the State Bank of Vietnam and the Ministry of Planning and Investment. This plan should focus on tools such as bond issuance to improve the cost-risk characteristics of debt following the orientation in the medium-term debt strategy.

Many countries have adopted very effective short-term management strategies, of which Brazil is a good example. In Brazil, the short-term strategy presents in detail the forms of securities to be issued to pay for public debt, focusing on the assessment of market risks and refinancing situation, and simultaneously offering measures to mitigate risks and costs. Brazil's short-term strategy is highly consistent with its medium- and long-term debt strategies (Silva et al., 2010).

Organizational structure for public debt management

Regarding the organization of public debt management, generally, for the legislature (the National Assembly), the best practice points out that it should focus on approving the overall framework and monitoring, specifically, assigning and authorizing law enforcement authorities to borrow loans and introducing general regulations on performing the authority over debt management as well as overseeing the public debt management by approving annual budget settlement. The approval role of the legislature in the transaction level (approval of government loans) should be minimized to increase flexibility and reduce the transaction time and costs.

For example, in Austria, the Czech Republic, Ghana or Moldova, the legislature is allowed to directly approve every loan transaction (Awadzi, 2015). This ensures that the Minister will not carry out any loan transaction until they are passed by the Congress. Although it helps improve the transparency and efficiency of public debt risk management, it could lead to an increase in administrative procedures and transaction costs for debt management agencies, and the lack of flexibility when uncertainties arise in the domestic and foreign capital markets.

Meanwhile, although not giving approval for every loan transaction, the Belize legislature was allowed to pass large government loans of approximately 10 billion BZD (Awadzi, 2015). In Bosnia, the Congress takes the responsibility in approving external loans (Awadzi, 2015). This not only preserves the transparency and efficiency of public debt risk management but also reduces unnecessary and cumbersome administrative procedures.

At the executive level, the monitoring role of the Government and the Prime Minister in debt management is also important through the approval of the debt strategy and the review of debt reports before they are submitted to the National Assembly.

In particular, good practice in the world indicates that the regulatory framework should include the regulations that the authority of debt management belongs only to a single agency, usually a unit under the Ministry of Finance. That agency will act on behalf of the Government and comply with the legal framework and the rule of law. This specialized unit is called the Debt Management Office (DMO), which helps reduce the number of focal management agencies, overcome the dispersion and improve the coordination in debt management.

The unification of public debt management will reduce the overall risk of the debt portfolio, decreasing debt costs (as debt can be issued in larger volume, the liquidity will be increased), facilitating more efficient debt management (thanks to the coordination and trade-off in the management of domestic and external debts, short-term and long-term debts), allowing the utilization of the advantages of economies of scale, reducing the number of staffs involved in debt management, and providing thorough and consistent information on public debt,

facilitating the processes of audit, assessment and reporting, and enhancing the investors' confidence in public debt.

According to Awadzi (2015), „Ideally, the legal framework should also require the involvement of the DMO in all technical analyses leading to borrowing and lending decisions, as well as those related to the creation of contingent liabilities. It should also mandate the DMO to prepare the MTDS and annual borrowing plans, as well as maintain records of all debt liabilities and exposures under contingent liabilities to facilitate reporting by the Minister.”

As a result, more and more countries are switching to the single office/agency model to unify the management of public debts.

DMOs are usually organized in four forms, namely the DMO as a unit of the Ministry of Finance, the DMO as an independent unit under the Ministry of Finance, the DMO as a unit of the central bank and the DMO operating in the form of an independent company owned by the government.

- *DMO as a unit under the Ministry of Finance* (as in Italy, Greece, Cyprus, Japan, Malaysia, the Philippines, Colombia, Jamaica ...) *or another governmental body* (as in Spain)

In Poland, for example, the Department of Public Debt Management under the Ministry of Finance has direct responsibility for the management of public debt. Specifically, the Polish Department of Public Debt Management takes the accountability for: (i) planning and implementing the public debt management strategy with a 4-year time frame; (ii) issuing regulations on public debt classification principles; (iii) preparing annual debt reports as well as providing information and reporting on public debt; (iv) controlling and managing debts to ensure the principle of public debt ceiling; (v) conducting the borrowing, repayment and restructuring of debt under the debt management strategy (Ministry of Finance, 2017b).

Meanwhile, in Indonesia, the organizational model of the DMO under the Ministry of Finance is composed of three divisions: the Front Office, the Middle Office, and the Back Office. The Front Office is divided into the Directorate of Government Debt Securities, the Directorate of Shariah Financing, the Directorate of Loans and Grants and the Directorate of Government Guarantee Management and Infrastructure Financing; The Middle Office includes the Directorate of Financing Strategy and Portfolio and the Directorate of State's Financial Risk Management; and the Back Office is the Directorate of Evaluation, Accounting, and Settlement⁸.

⁸ According to the presentation of the Director of Strategy and Financing Portfolio under the Department of Budget Financing and Risk Management, the Ministry of Finance of the Republic of Indonesia at the workshop on the Law on Debt Management (amended) organized on August 1st, 2017 in Vinh Phuc Province.

The establishment of the DMO helps Indonesia formulate medium-term and long-term debt management strategies; strengthening the efficiency in debt management; enhancing the debt data consolidation; assisting the government's debt management objectives in improving the debt situation; raising the national credit rating in most major rating agencies; effectively managing the primary market for government securities; better managing the debt portfolio and risks, establishing risk committees to monitor market movements and the impacts on the Government debt market, setting up monitoring systems and legal framework for managing contingent liabilities; supporting the cooperation in debt management to cope with market fluctuations; and reducing the administrative procedures in financing the budget.

In addition, most countries have regulated that the debt management authority is assigned to a single debt management office and allowed the Minister of Finance to represent the Government in compliance with regulations and guidelines prescribed in the law. However, in some countries such as Albania, other ministers may assist the Minister of Finance in debt management. In the case of Albania, the Minister of Foreign Affairs was assigned to conclude the loan deals under international agreements. In the case of Bosnia, the loans negotiated by the Ministry of Finance and the Treasury have to be ratified by ministers (Ministry of Finance, 2017b).

- DMO as an independent unit under the Ministry of Finance (as in Australia, New Zealand, the Netherlands, the United Kingdom, Belgium, France, Thailand)

In the UK, the DMO was established in June 1997, with the task of directly managing and taking the responsibility for government transactions in debt and cash markets. In particular, the Director of the DMO in the UK is accountable to the Minister of Finance for debt and cash management decisions as well as the handling of other arising issues. The DMO of the UK plays an important role in reducing long-term financial costs, reviewing risks, and monitoring operations and transactions to minimize operational risks. Despite being under the Ministry of Finance, the DMO is under the management of the Minister and authorized to make decisions on actions regarding debt and cash flow issues as well as dealing with daily arising issues (Ministry of Finance, 2017b).

Meanwhile, the DMO of Thailand has the following functions and tasks: (i) To propose policies and implement the public debt management plan as well as to issue and manage public debts (ii) To ensure effective management and control of the debt service of the public sector annually; (iii) To guide, monitor and evaluate public debt management activities; (iv) To develop and implement capital mobilization plans; closely coordinate with the credit rating agencies to analyze the national credit rating; (v) To formulate a fully integrated public debt database as well as an early warning system for risks; (vi) To develop the domestic bond market (Ministry of Finance, 2017b).

- *DMO under the central bank* (as in Denmark, India, Myanmar, Pakistan, etc.)

For example, in Denmark, public debt is managed by the DMO under the Danish National Bank (Danmarks Nationalbank). The structure of this DMO also includes the front office, middle office, and back office. The clear division of tasks and procedures helps reduce operational risks and ensure a transparent distribution of responsibilities. The structure of the Danmarks Nationalbank simplifies the interaction between public debt policy, monetary policy, and financial stability (Danmarks Nationalbank, 2014).

This is in line with the IMF's recommendations, particularly the Stockholm principle (presented at the 10th annual meeting of the IMF, co-organized by the IMF and the Swedish National Debt Office (SNDØ) on policy and organizational issues in public debt management). The effective debt management requires the objectives, rationale, strategies, conducting methods and results to be informed clearly and timely. Specifically, the middle office develops public debt policies and prepares reports on borrowing strategies and risk management; the front office is responsible for implementing public debt policies within the monthly guideline framework of the middle office; while the back office makes payments related to public debts.

- *Debt management office operating under the form of an independent company owned by the government* (as in Germany, Hungary, ...)

The Finance Agency of the Federal Republic of Germany is the central service provider for the Germany's borrowing and public debt management. It was established in 2000, wholly-owned by the German government and represented by the Federal Ministry of Finance. The responsibilities of this Finance Agency include services in connection with the issuance of German Government securities, the borrowing, the use of derivative financial instruments and the execution of money market transactions (borrowings and lendings) to balance the Federal Republic of Germany's account at the Deutsche Bundesbank (Financial Agency of the Federal Republic of Germany, 2017).

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 that context, the draft revision of the Law on Public Debt Management was developed in order to supplement, adjust, and overcome the limitations of the current law.

Besides its advantages, we, however, have pointed out some controversial issues in the Draft Law, namely the need for prompt and comprehensive update of data on public debt, the scope of public debt, the public debt management tools (including the indicators of public debt safety and the short-term and medium-term public debt management strategies), the safety threshold for public debt, and the centralization of public debt management.

Consequently, we have conducted research and synthesized the experiences in public debt management of countries around the world and, at the same time, analyzed the recommendations of international financial institutions as well as experts, concentrating on the following contents: (i) the scope of public debt, in particular whether or not to include the debts of SOEs or public non-business units in public debt; (ii) indicators of public debt safety and limits on these indicators; (iii) short-term and medium-term debt management strategies; and (iv) organizational models for public debt management, focusing on four models that centralize the debt management authority in a single specialized agency.

The Revised Public Debt Management Law has been developed and is currently in the process of consultation and finalization; afterwards, it is expected to be approved at the fourth session of the 14th National Assembly in October - November this year. In such context, based on the current situation of public debt and public debt management in Vietnam as well as international experiences and recommendations as analyzed above, we propose some recommendations for the draft revision of the Public Debt Management Law as follows:

First, it is necessary to ensure the Law on Public Debt Management is in harmony with the Law on State Budget (promulgated in 2015, effective 2017) and the Law on Public Investment (promulgated in 2014, effective 2015) and to ensure the close link between this law and the Law on Enterprises (including SOEs) as well as the Law on the State Bank of Vietnam.

Second, it is necessary to improve the collection, management, and disclosure of information on public debt towards increasing the publicity, transparency, systematicity, 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.

Regarding the contents of the information disclosed, it is necessary to add indicators reflecting the solvency of foreign debts such as the ratio of foreign debts to foreign exchange reserves or total export value and indicators reflecting the liquidity of foreign debts such as the ratio of short-term foreign debts or foreign debt service to foreign exchange reserves. In addition, the provision of indicators on the usage of the loans should be taken into consideration to increase the efficiency of the management and allocation of loans.

Third, it is not necessary to adjust the scope of public debt defined in the current law as well as in the draft revision of the Law on Public Debt Management. Nonetheless, there should be mechanisms to strengthen the monitoring, supervision, management, assessment, and control of potential risks of SOEs' self-borrowing and self-repayment debts (both pre-audit and post-audit); minimizing the number of cases that the budget has to be used to pay SOEs' debts when they go bankrupt, in addition to setting stricter regulations on the government's guarantee of enterprises' debts.

Fourth, in terms of public debt safety indicators, since the debt-to-GDP ratio is heavily dependent on GDP statistics, which leads to difficulties in the assessment process, it is necessary to enhance promote the publicity and timely update of public debt indicators calculated based on total budget revenue and foreign exchange reserves. At the same time, we recommend considering calculating the present value of debt in accordance to GDP of the previous year as Hungary's experience, which was reflected in the Constitution/Fundamental Law of Hungary in 2012, with the purpose of avoiding the uncertainty of the current year's GDP estimates, thus increasing the accuracy of the public debt indicators and reducing the pressure on the government to raise growth rates.

In addition, a reasonable debt limit or ceiling should be set with clear explanations of the principles, criteria, and methods of calculation based on theories and international experiences as discussed in Section 2.2.1. of this paper, in order to intensify the financial discipline and ensure the sustainability of public debt.

Fifth, it is necessary to supplement and specify the targets and contents of the Debt Strategy, the Five-Year Plan for Borrowings and Repayments of Debts, the Medium-Term Debt Management Program in 03 years, and the Annual Plan for Borrowings of Debts.

The contents of the medium-term debt management strategy should include an analysis of the forms of risk in the market and the historical context of the debt portfolio; a forecast on the future debt management environment; an analysis of the basis of designing and recommendations on the debt management strategies; a description of debt management methods in the domestic market to achieve the desired debt structure and minimize costs and risks, ensuring the resources to finance a budget deficit and debt service; and provide policy and professional recommendations for debt management during the period of the strategy/plan.

In terms of debt management methods, based on international experiences, focus should be on measures such as increasing the liquidity and effectiveness of the domestic bond market, structuring different debt types and debt terms, establishing reasonable limits for debt safety indicators...

In addition, as Vietnam no longer has access to many ODA and preferential loans, it is highly significant to classify regulations on the management of government loans based on sources of financing to ensure stricter and more effective management. In particular, the limit to the maximum amount of loans in five years in the medium-term debt strategy should be clearly defined, in addition to setting the limits on total government guarantees and the total loans and debt repayments of local governments.

Based on this medium-term debt strategy, develop appropriate annual plans for borrowings and repayments of debts.

Sixth, international best practices suggest that the regulatory framework should determine that the debt management authority belongs only to one agency, usually a unit under the Ministry of Finance, in order to mitigate the dispersion and enhance the coordination in debt management. Specifically, this agency will be responsible for the explanation of public debt from negotiating, borrowing, debt usage managing to debt repayment planning, thereby increasing the consistency and efficiency in debt management, thus streamlining the administrative procedures and facilitating staff cuts.

Accordingly, this agency needs to perform the following major tasks: (i) Planning and implementing the strategy for borrowings and repayments of debts; (ii) Preparing annual debt reports, developing a fully integrated and comprehensive database on public debt; (iii) Controlling and managing debts; (iv) Managing risks with precautionary and early warning measures; (v) Implementing and controlling the debt borrowing, repayment, and restructuring operations according to the debt management strategy; (vi) Guiding, monitoring, and evaluating public debt management activities; and (vi) Developing the domestic bond market.

In addition, it is necessary to specify the responsibilities of competent agencies, units, and individuals and stakeholders in the entire process of mobilizing, evaluating, and approving the policies of borrowing, debt allocation, and debt usage management and determine the sources of and responsibility for debt repayment in order to ensure the debt repayment capacity of the country.

Finally, 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.

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Disclosure appendix

Author's Certification

The following author who are primarily responsible for this report, certify that the opinion on the subject or issues and/or any other views or forecasts expressed herein accurately reflect their personal views and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendations or views contained in this research report: Nguyễn Đức Thành, Nguyễn Hồng Ngọc (VEPR Macroeconomic Research Team).

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Additional disclosures

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