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COUNTER-CYCLICAL FISCAL POLICY IN VIETNAM: THEORY, EVIDENCE AND POLICY RECOMMENDATION

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ABSTRACT

A sound fiscal policy could determine long-term development of a country. Developing countries normally pursue pro-cyclical fiscal policy while advanced ones have better conditions to adapt a more counter-cyclical one. In practice, a developing country may still succeed in implementing a counter-cyclical policy, and a pro-cyclical policy could result in a major failure even if it is executed by a developed country. Real situation in Vietnam uncovers that the country has not identified a clear fiscal stance in the last 30 years; although government expenditure seems to be expansionary most of the time, and budget deficit high is even in good time period. Structural problems of the economy have recently emerged, manifested in slowing economic growth, inflation volatility. It is potentially largely due to lack of a consistent fiscal policy. Implication is drawn that Vietnam should institutionalize a counter-cyclical fiscal policy.

Key words: *Fiscal policy, counter-cyclical, budget deficit, inflation, Vietnam*

1. Introduction

Vietnam began its economic reform (Đổi mới) since 1986, and has achieved a variety of remarked socio-economic results up to now. The country has entered the category of lower middle income countries, poverty rate is decreasing fast from over 50% in early 1990s to less than 10% today, and it also integrates strongly into the world economy. However, the economy is of obviously cyclicality in a sense that high economic growth rate in some years is followed by lower growth rate in some other years. This trend is accompanied with a number of high macroeconomic imbalances. The situation has become more serious when the country is seen under the perspectives of today global economic and political uncertainty.

One of the big imbalances mentioned above lies in budgetary policy or fiscal policy, in both revenue side or expenditure site, whose roots come from lacking a sound fiscal policy. Budget deficit has stayed around 5% GDP in number of years, which is considered as a high and unsustainable level for a developing country. But the way of how the deficit is made is more important. Maintaining a soft state budget system (eg. there are no bonds in terms of timing, quality, efficiency and personal responsibility of agents who use state budget resource) that leads to persistent budget deficit for many years, which is then translated into high level of public debt. There have already been suggestions, such as one by Pham The Anh (2011) that Vietnam have to keep its fiscal position balanced with commitment of the government to focus on macroeconomic stability rather and seeking growth, and a good way is to cut down the government spendings. However, such a recommendation only aims at short-term resolution while the state budget is so exhausted. The country need a more comprehensively visionary and strategic solution. This paper bears a target to point out the arguments and justifications of the needs for an completely new fiscal policy reform that Vietnam should consider to institutionalize a counter-cyclical fiscal policy. The rest the the paper is organized as follows. Part 2 presents a very brief concept of counter-cyclical fiscal policy; part 3 exhibits real situation of fiscal policy in Vietnam where characteristics, impacts of the policy is argued; and suggestions for policy adjustment is derived in part 4.

2. Fiscal policy and counter-cyclical fiscal policy

Fiscal policy involves managing and using state budget of a country, mostly through process of revenue collection and spending of the government. A fiscal policy may take promoting economic growth as primary goal, or it may also concentrate on macro-economic stabilization. There are several ways to classify a fiscal policy, and in this paper we intend to view a policy associating with cyclicality of the economy because it reflects a fiscal stance in a long period. Counter-cyclical fiscal policy is a popular concept within economics science; however, it could be misunderstood in some contexts, so it is worth of providing here a concise definition to use.

Based on Kaminsky, Reinhard and Vegh (2004), fiscal policy is counter-cyclical if it involves lower (or higher) government spending and higher (or lower) tax rate to be implemented in good times (or bad times). It is called counter-cyclical because such a fiscal policy tends to stabilize economic cycle, that is budget expenditure is contracted in good times and expanded in bad times to exert invert impacts on the cycle of the economy. In contrast, a policy is called pro-cyclical if it involves higher (or lower) government spending and lower (or higher) tax rate to be implemented in good times (or bad times). This type of policy tends to reinforce the cyclicality of the economy.

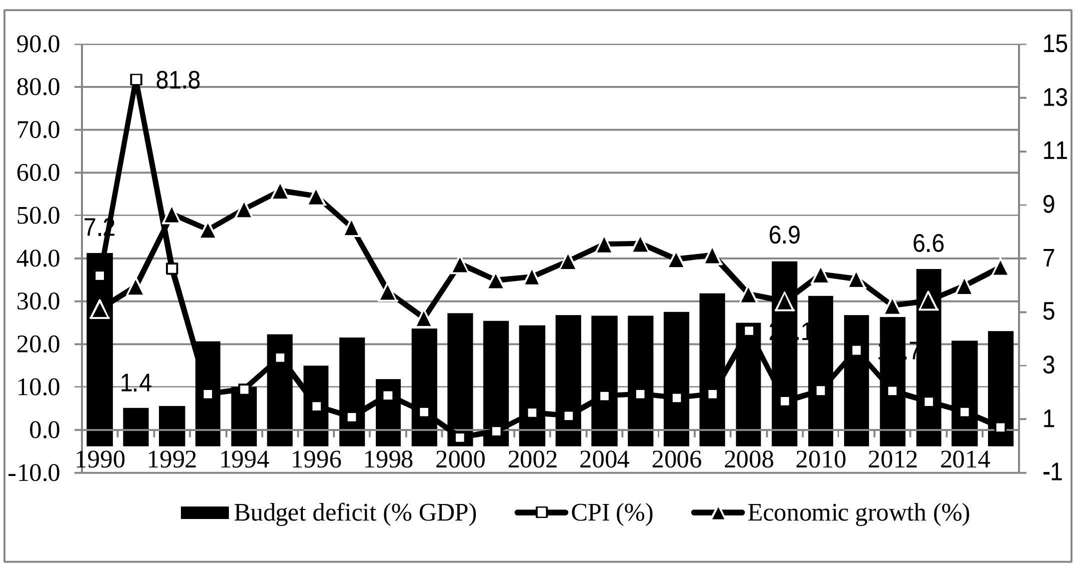
"Good times" and "bad times" are comparative concepts. One country may still be viewed as in bad times even if its GDP growth is higher than that of other countries, which are in their good times. Intuitively, good times and bad times could be identified with a simple way as follows. Consider GDP growth of a country in a long period, median growth rate will divide the period into two categories, those years with growth rate being higher (or lower) than median rate will be classified as good times (or bad times).

3. Real situations and impacts of fiscal policy in Vietnam,

3.1 Overview of fiscal policy in Vietnam

Leaving historical factors aside, subjective and objective causes rooted from development model and impacts of international economy, the most outstanding characteristics of fiscal policy in Vietnam is the high level of budget deficit in consecutive years. Budget deficit over 1986-1990 period was 7% on average (ADB, 2006), where it peaked in 1989 at 9.9% GDP. Decreases in 1991 and 1992 were only a beginning of the new rising trend of budget deficit (Figure 1). In fact, Vietnam seems to pursue an expansionary fiscal policy right in years the economy experiences high growth rates. More specifically, annual GDP growth rate over 2000-2007 on average is 7%, and annual budget deficit increases to 5% GDP, on average. This strengthens an argument that Vietnam government expands spending to boost economic growth rather to stabilize the economic cycle.

Hình 1: Tăng trưởng, thâm hụt ngân sách và lạm phát, 1990-2015



Source: Data collected by authors from database of World Development Indicator (World Bank), Key Economic Indicators (Asian Development Bank, 2006 to 2015); General Statistics Office of Vietnam.

Note: data for budget deficit was collected from ADB, and Ministry of Finance (Vietnam; data of CPI, GDP growth (1990-2013) was from World Bank database, and (2014-2015) from General Statics Office (Vietnam).

The next characteristics associated with fiscal policy in Vietnam involves rapid growing public debt as an inevitable consequence of persistent budget deficit. Taking 2001-2010 period only, public debt grew 21%/year on average, much higher than the growth rate of nominal GDP, 3.4%/year (Tổng cục Thống kê, 2011), which pushed the ratio of public debt over GDP to 56.3% from low level of 11.5% in the same period. To the end of 2013, public debt of the country was estimated around 54.2% GDP (Bộ Tài chính, 2014), still lower than threshold of 65% GDP - a level supposed to be safe for long-run development). However, the rate has been much higher than popular rate between ranges of 30-40% GDP of most of other developing countries.

Another big characteristics of fiscal policy in Vietnam lies in the imbalance and unsustainability in structure of budget revenue and expenditure of the government. As for revenue side, tax burden accounts for a large proportion (around 85%) out of total state budget revenue. The ratio of tax revenue as percentage of GDP in Vietnam is also very high in comparison to other regional countries (Table 1). Tax burden for period 2001-2011 is over 21% GDP, and in downtrend currently. The rate of 2014 is approximately 18.2% GDP. This outcome could partly be explained by the actions of the government to reduce tax mobilizing to support domestic business after the economy suffered from international economic downturn, especially global crisis in 2008 in USA and public debt crisis in Europe since 2010. It could also partly be due to commitments to reduce or remove tariffs stipulated in free trade agreements the country is binding with its partners. In the long-run, Vietnam is likely to continue integrating into very high or “luxury” integration agreements, such as TPP (Trans-Pacific Partnership), VKFTA (Vietnam-Korea Free Trade Agreement), or agreements with European Union, AEC (Asean Economic Community), it could be projected that the tax revenue (as percentage of GDP) would be more lower. Besides, the country faces difficulty in raising state budget from oil revenue because oil price in world market is currently predicted to continue to drop, or at least unlikely to rise, especially if the technologies to extract shale oil and gas in USA become more advanced. In this context, if others being equal, the budget balance could only be improved through reforming fiscal policy in a way that government strongly reduces spending.

Table 1: Tax revenue by countries in 2014 (% GDP)

Country	Tax revenue	Country	Tax revenue
Indonesia	10.9%	Thailand	15.3%
Malaysia	14.8%	China	18.7%
Philippines	13.6%	India	7.2%
Taipei*	8.0%	South Korea	13.8%
Japan*	10.5%	Singapore*	13.4%
Vietnam	***18.2%***	Hong Kong	15.7%
Source: Asian Development Bank (2015); Asteric mark indicates the data is updated to 2013 only.			

As for expenditure side, there are signals of instability. Proportion of recurrent expenditure of Vietnam is higher than that of many developing countries. The optimal size of public expenditure for developing countries falls in range of 15-20% GDP. According to Asian Development Bank (2011), Hong Kong, Taiwan, Indonesia and Singapore are those having smaller size of public expenditure, between 15-18% GDP. Whereas, the figure of Vietnam is much higher, exceeding 30% GDP in some years and still at high level though the trending is downward (Table 2).

Table 2: Public Expenditure in Vietnam 2000-2015

Năm	2000-2007	2008	2009	2010	2011	2012	2013	2014	2015
Total public expenditure (%GDP)	28	30.6	31.0	30.1	28.3	30.1	27.5	24.6	25.4
Recurrent expenditure (% Total public expenditure)	53	52.3	54.1	58.0	59.3	61.7	68.9	71.3	70
Public expenditure for development (% Total public expenditure)	29.9	27.5	32.3	28.2	26.4	27.5	20.4	15.8	15.2
Source: Authors' calculation from data collected from General Statistics of Vietnam									

Decomposing expenditure by its functions or goals, recurrent expenditure accounts for a major part and tends to move up. During 2000-2007, share of this component of expenditure is 53%, on average, out of total state budget expenditure, increasing to 58% by 2011. Estimates of recurrent expenditure today is 70% of total government spendings. Inversely, share of expenditure for development is decreasing significantly, from level of over 30 of total public expenditure in 2008 to just over 15% in 2014 and 2015. So, issues of fiscal policy in Vietnam are of the pattern the government use budget resources, and more importantly the consequences of such a pattern exposed to the economy.

3.2 Fiscal policy and economic growth

Budget deficit occurring in a number of consecutive years is a signal of potentially long-run instability of the economy. When expending consumption becomes a habit, it makes no differences it is a household, a body or a government, who could adjust the habit in way of reducing an abnormal consumption should an income shock rise. Retaining high level of budget deficit in good times means that when the economy enters bad time the government would not have much fiscal space to trigger against the slowing-down economic growth. To maintain or expend government spendings, there is no choice other than financed by additional borrowings of the government, which would then raise the deficit level. And this is the root of growing public debt, potentially coupled with macroeconomic volatility.

Vietnam once adapted expansionary fiscal policy to promote economic growth (Pham The Anh, 2013), while macroeconomic stabilization seems to be paid more attention just recent years. As shown in Table 2, most of government spendings is to maintain or widen administrative system. Government's borrowings to compensate for budget deficit is considered as addition to shortage of capital for public investment, but the nature of this debt is nothing different from borrowings to compensate for budget financed to recurrent expenditure. The difference, if any, is how this debt named or called. This reveals a paradox that while administrative reform is a both a goal and a breakthrough solution of the country for long-term development, including streamlining public administrative system, real situation is moving backward. Therefore, taking high level of budget deficit, rising public debt as proof that government is using state budget to support economic growth is irrational justification.

Some quantitative studies, such as ones by To Trung Thanh (2012), Tran and Nguyen (2014), or Su Dinh Thanh (2014), show that public expenditure could drive economic growth. Of total investment of the whole country, state sector accounts for a major proportion (Figure 2). Years after Asian financial crisis (2000-2006) is the period of high growth rate, public investment accounts for nearly 56%, and mainly concentrates in economic activity (Table 3). This reflects at least two facts.

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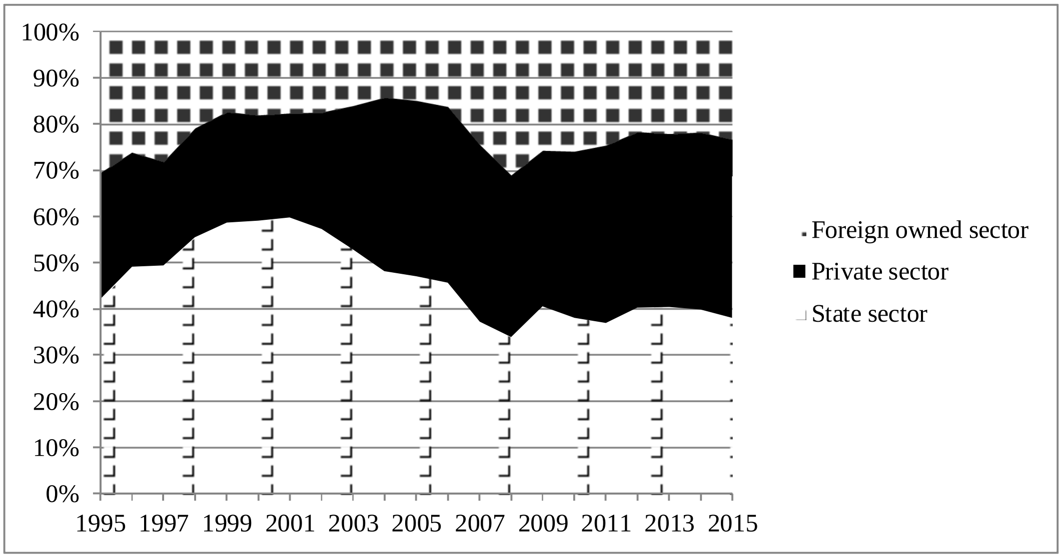
Figure 2: Total investment by types of ownership in Vietnam (1995-2015)



Source: Data collected by authors from General Statistics Office of Vietnam.
Note: Data of 2014 and 2015 is estimates

Firstly, the function of public investment should have been to produce and provide public goods in order to facilitate business environment, infrastructure, ability to absorb the updated technology of the economy, or to enhance national governance to make strong foundation for sustainable development, however, public investment in Vietnam has not performed this function in practice. Secondly, and as the consequences of this situation, state sector directly competes with non-state sectors for business opportunities. And in this game of not the same playing field, it is easy to predict the state sector would hold a lot of favorable conditions, including the scales of business due to financed by state budget, policy priority, especially those relating to credit market access, tax burden. So, it could also be expect that public investment crowd out private investment. Indeed, To Trung Thanh (2012) reckons that, on average, an increase by 1% in public investment could turn into a decrease by 0.48% in private investment, given that investment efficiency of state sector is much lower than private sector.

Table 3: Public investment by economic activities (1995-2011)

Year	1995-2000	2001-2005	2006-2010	2011
Economic activities	77.8%	78.6%	75.3%	78.3%
Social activities	15%	16.4%	15.7%	12.5%
Management activities	6.2%	5%	9%	9.2%
Source: Pho Thi Kim Chi et al. (2013).				

Some studies also conclude public investment in Vietnam does not exert positive impact on short-run economic growth, fiscal decentralization even has negative impact. Thus total effects of public expenditure towards economic growth is uncertain. According to Su Dinh Thanh (2013), highest thresholds of public expenditure and recurrent expenditure (as percentage of GDP) which would not do harm to economic growth in Vietnam are 20% and 19%, the level consistent with optimal thresholds as suggested for developing countries. Data shown in Table 2 uncovers that public expenditure of Vietnam has exceeded the optimal threshold in many years, whereas recurrent expenditure is in upward trend over level of 19% GDP. Therefore, the part of public expenditure higher than threshold 20% GDP in a long period could have practically constrained GDP growth. These arguments help to indicate that the target of using expansionary fiscal policy in the past years failed to push economic growth.

3.3 Fiscal policy and macroeconomic stabilization

The type of fiscal policy pursued in Vietnam is also a major cause of macroeconomic instability, manifested in inflation volatility, especially for the period 2007-2013. Normally, inflation is referred to a monetary phenomenon. This is not an exemption in Vietnam. However, monetary expansion itself is a solution to finance budget deficit of the government.

Retrospect of pre-reform period (before 1986), state budget was already in high deficit, largely offset by aid of Soviet Union and socialist bloc. The aid decreased in second half of 1980s, and Vietnam budget deficit was offset by government borrowing more, even issuing new money. This was the main cause of abnormally high inflation during period 1986-1990. From Figure 1, it could be seen that there is a strong correlation between rising trend of inflation (left axes) and growing trend of budget deficit (right axes). More specifically, high inflation occurs after a few years of high deficit, and inflation only declines following a few years of low deficit. For instance, inflation dropped quite lot in 1993 and 1994 after public expenditure was contracted to secure the lowest level of budget deficit in the last 3 decades. For the period after 2000 onwards, the economy experienced unusually high inflation in 2008 and 2011, and this also happened after a period of high budget deficit. Therefore, it could be judged that budget deficit potentially leads to economic volatility in the past years. Issuing new money to finance budget deficit seems not to exist after the year 2000. However, budget deficit still causes inflation through mechanism of increase money supply. Besides, another mechanism of generating inflation is through public investment.

Financing budget deficit by issuing government bonds (G-bonds) would directly or indirectly increase money supply. Theoretically, central bank may provide credit to the government through buying G-bonds, which makes money base arise. In Vietnam, more common situation, in practice, happens in a way that government issues G-bonds for commercial banks to bid. These banks take G-bonds they bought as collaterals to borrow from central bank and pay a rediscount interest rate, which increases money base, creates new money and causes inflation afterwards.

G-bonds market does not really exist in Vietnam before 2003 as depicted in Figure 3. By the end of 2002, market size was only equivalent to 2% GDP, rapidly increased to 16% by first quarter of 2008. In parallel, credit and money growth began to go up from 2000 to 2011, peaked in 2007 with credit growth of 53% year on year. Consequently, unexpectedly high inflation happened in 2008 and 2011. This argument provides a basis to assess that issuance of G-bonds to finance budget deficit bears certain roles in pushing growth of credit and money supply, which then causes inflation.

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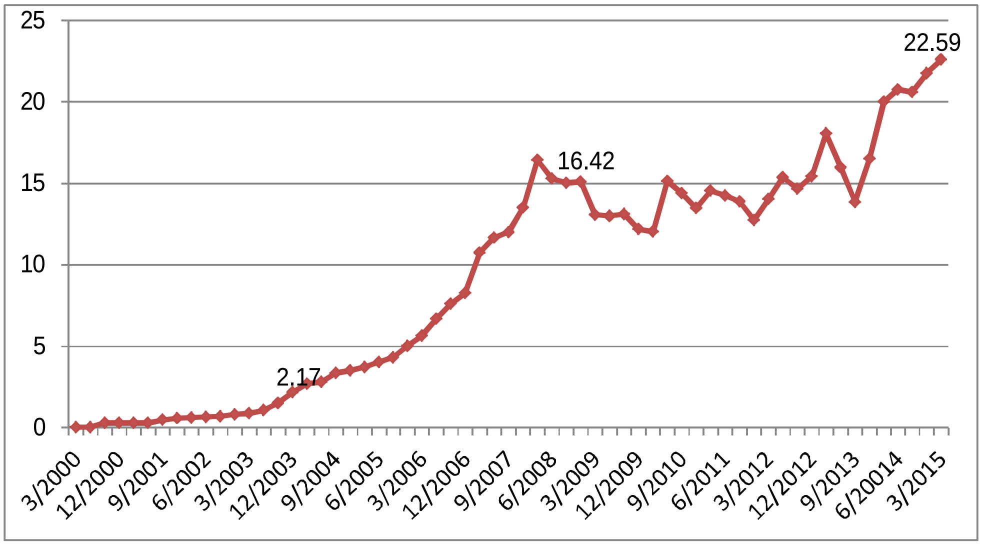
Figure 3: G-bond market size, 2000-2015 (% GDP)



Source: Asianbondonline, updated to 20/08/2015.

Note: G-bonds

As for the other mechanism, fiscal policy in Vietnam affects price level volatility through public investment. Before influenced by global crisis 2008-2009 in USA, Vietnam was already in a possibility of falling into a "mini" crisis of itself when signals of overheated growth appeared in 2007. As mentioned, credit and money supply peaked in that year, and foreign direct investment made a historical record in term of registered capital at over 71 billion USD. It means that, output of the economy could have exceeded the potential level in short-run, and production frontier could have reached optimal level. Under that context, pouring more money into investment would not be able to translate into additional output. Thus the government expanding public expenditure only pushed demand for goods, price going up was unavoidable.

A study by Bui Trinh and Nguyen Bich Lam (2014) would help to make the above argument more obvious. Accordingly, from 2007 onwards economic policy in Vietnam concentrates on demand side, mainly to boost aggregate demand. However, spillover of investment (both public and private investment) to production and income of period after 2007 comparing to previous period declines 17.1% and 5.6% respectively. This means that an amount equivalent to 17.1% of investment capital in the whole country has not been transformed into real production, but only stayed somewhere in the market, or that attributes to the purpose of speculation. This reflects wasteful investment, which explains why investment efficiency is low. And due to public investment holding a major share in total investment, wasteful investment derives largely from investment of state sector. Similarly, to earn an additional unit of income, investment in period after 2007 has to increase 5.6% more than previous period, which contributes to driving the production cost higher and results in pushing up price level.

Apart from effects to raise inflation, high import growth and trade deficit in many years are also an outcome influenced by trade deficit and high public debt. At a certain degree, trade deficit indicates that domestic supply side is weak and could not meet the domestic demand, and has to be offset by imports. Budget deficit is the direct result of government strengthening public expenditure, which raises total domestic consumption, therefore contributes into rising demand for imported goods, and leads to trade deficit. Furthermore, Vietnam domestic manufacturing sector depends largely on imported production factors, thus budget deficit and rising public debt only impacts trade deficit through increasing domestic demand for consumption, but also through demand for imported production inputs.

3.4 Fiscal policy and impacts on development of domestic enterprises

Arguments having drawn from above analysis pronounces practical evidence to show that public expenditure and investment in Vietnam neither helps to promote growth nor macroeconomic stabilization, and the bigger the government spendings is the more the country is wasting its resources. There are several typical examples of wasting large national resources for economic growth in Vietnam, for instance, only every 30-40km within a 600km of coastal line in the central area there is a seaport being constructed using state budget, but most of the ports does not operate at full capacity. Nevertheless, waste in public investment discussed in recently involves basic construction, which directly affects the business activities of enterprises participating into basic construction projects of the government. Basic construction accounts for a major proportion of total public investment, but weaknesses in management, supervision lead investment capital being scattered into a plethora of small projects in diversely geographical areas all over the country. Many of projects need additional capital to complete as designed due to inflation or prolonged progress; new projects emerged despite that fact that the old ones are not finished. As the result, arrear in basic construction investment in Vietnam are very common. By nature, the arrear is because of state budget not being able to mobilize enough fund to pay construction contractors. This not only exerted impact on enterprises, but on banking system as well. For example, at the end of 2011, arrear of the whole country was approximately 4.3 billion USD. Only in transportation sector, 200 construction projects had arrears, and at mid-2013 there were about 3.200 workers of 98 enterprises losing his or her job. Impacts on enterprises sector of fiscal policy in Vietnam could be justified more as follows.

First, arrears in basic construction investment led to intertwined debt and capital possession between enterprises who are chief contractor, sub-constructors, suppliers of goods and services involving in the projects. Therefore, handful of enterprises could not afford to duly pay to commercial banks the amount of principal and interest they borrowed to take part in the basic construction projects earlier. In next phase, commercial banks became less willing to engage into new credit agreements with enterprises due to risks that customers would default, or only provided new credit lines with much higher interest rate accompanied with much stricter terms and conditions. Finally, arrears in basic construction investment is one of the main cause to increased non-performing loan ratio in Vietnam banking system, pushing thousands of enterprises into the verge of bankruptcy or temporary shut-down. From social perspectives, because of arrears, enterprises could not pay full wage and salary for laborers, decreasing living standards of a certain proportion of population, which then made demand for consumption moving downward, affecting the development of consumer goods manufacturing sector. Furthermore, goals of basic construction projects are to improve the socio-economic infrastructure, but arrears mean that the projects could not be completed timely. So the enterprises, households are losing opportunities to use modern infrastructure. this is the opportunity cost of arrears.

Second, too much concentrated on economic activities of state sector does not create incentive to raise competitiveness among the economy. State sector not only competes with private sector in terms of business opportunities, but also opportunities to access credit market by issuing large amount of G-bonds for commercial banks. Enterprises in Vietnam, particularly since after 2007, are always in short of financial

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resource to make business venture. Around 95% enterprises in Vietnam are of small and medium size, having limited financial capability, but 70% of these face difficulty in accessing credit from formal financial institutions during 2007-2014 periods. Development in G-bonds market shows that the government has increased steadily the size of issuing G-bonds (Table 4). In Hanoi Stock Exchange (HNX), amount of successfully issued G-bonds in 2014 and 2015 is around 240 000 billion VND (somewhat close to 11 billion USD) or equivalent to amount of foreign direct investment annually disbursed since 2008 up to present. This amount of bank credit instead of seeking to serve private sector has gone into low efficient public investment projects.

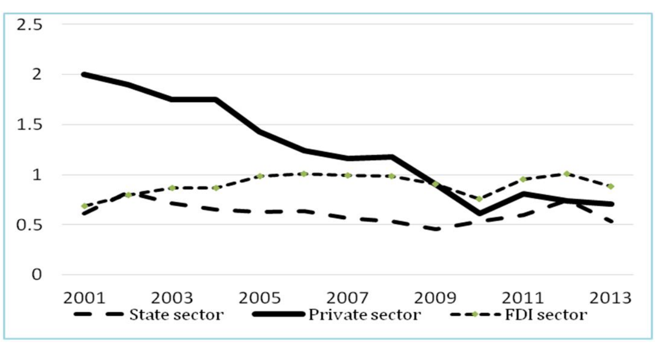
Table 4: Issuance of G-bonds over Hanoi Stock Exchange (billion VND)

Year	2009	2010	2011	2012	2013	2014	2015
Volume	2 599	28 317	81 715	167 589	194801	240 841	249 689

Source: Annual Report of Hanoi Stock Exchange 2014.

Like any financial market, source of credit in banking system in Vietnam basically comes from mobilizing savings and deposits of both households, enterprises, and government. In this sense, credit market size mirrors the size of financial resources in the economy that can be mobilized for investment activities. However, due to persistent budget deficit, government does not contribute into total savings of the country. And financing the deficit makes total savings lowering, or credit supply becomes smaller. Therefore, issuing G-bonds results in credit supply-demand nexus being less favorable to private sector. Another fact relating to G-bonds in Vietnam is that interest rate of the bonds is normally high and buying G-bonds is safe, so commercial banks prefer investing in G-bond to providing credit to risky projects of private enterprises. In other words, issuing bonds of government to financial budget deficit makes commercial banks unmotivated in seeking customers in the market to lend. Private enterprises become bears more and more difficulty in mobilizing fund for their business activities. Back to 2008 when the country began to enter the latest bad times over the past 3 decades, there were some times deposit interest rate in banking system amounted to 20%/year, whereas lending interest rate climbed up to nearly 30%/year. In years afterwards, common lending interest rate stayed over 10%/year. These were additional evidences to show that in bad times the way Vietnam government use state budget and financial budget deficit plays a significant role in squeezing credit market, directly and indirectly pushing private sector into an unfair credit competition. Under the circumstance, private enterprises to secure a credit line had to pay much higher interest rate. It also meant that financial costs of enterprises went up, their competitiveness, which was already low, became lowers (as illustrated in Figure 4).

Figure 4: Competitiveness of Vietnam enterprises



Source: Draft version of Vietnam 2035 Report (World Bank, 2015)

Retrospect of the whole past 30 years, period right after 1990 when the economy really opened together with the introduction of Law on Enterprise, fiscal policy in Vietnam had once occurred in a positive direction. Lower level of budget deficit in 1991 and 1992 was the direct results of government exercising policies to promote private sector. From 1990 to 1994, the government had cut largely subsidy and preferential loans to state-owned enterprises (SOEs). Those SOEs, who operated low efficiently leading to loss of state budget, were forced to liquidate, or re-organized for higher efficient. Number of SOEs dropped dramatically from 12 thousands to 6 thousands, and around 1.5 million workers were laid off or transferred to take other jobs (Fahey, 1995). This kind of pro-private policies made economic growth period 1991-1996 the highest in the last three decades. However, since after Asian financial crisis 1997-1998, fiscal policy in Vietnam has not been pursued in the manner like earlier in 1990s. Instead, public expenditure broadens successively, even in 2001-2007 when economic growth made strong recover. Since 2008 onwards, government continues loose fiscal policy, but most of the state budget is used to maintain or extend public administrative system as analyzed in previous part of the paper.

To sum up, Vietnam government has pursued an unclear pattern of fiscal policy in the past 30 years. In some periods, the policy has the goals of promoting private sector, but in other periods the policy is adjusted to generate growth, and recent period the policy seems to be focused on price level control. Vietnam is not facing a risk of a public debt crisis, at least in short-run, but analytical arguments in to this point in the paper shows that there have been big imbalances involving fiscal policy regulation in Vietnam. These imbalances originates from the way the government use state budget and the way it mobilized resource to finance budget deficit. The goals of the government when implementing fiscal policy has been to either drive economic growth or to stabilize macro-economic environment. But, in practice, neither of these two goals were achieved. So choosing a sound and consistent fiscal policy is very important to the development of Vietnam economy.

4. Recommendation of policy adjustment for Vietnam

To make the recommendation more robust, we recall experiences of choosing a right fiscal policy from a successful country - Chile, and choosing the wrong one - Greece. As for Chile, the country had institutionalized fiscal policy taking goal of macroeconomic stabilization as primary focus, where it targeted to have state budget surplus in good times. Chile also institutionalized the capacity of fiscal council or commission who have important voice over budget planning of the government. According to database of World Bank, budget surplus of Chile in 2004-2008 is big with accummulated number being around 41 billion USD. The country also experienced very high economic growth rate in this period. In 2009, Chile was affected by global financial crisis, it had negative economic growth rate, and its government had executed counter-cyclical fiscal policy by allowing budget deficit to level of 4.2% GDP without any obstacle in seeking funds. Right in 2010, its economy recovered at growth rate of 5.75%, equivalent to pre-crisis level. On the contrary, Greece officially dropped into a debt crisis since 2010 though the signals of crisis emerged long time before and no one could make sure how and when Greece would achieve again the growth rate of pre-2007 levels. The failure of Greece may have number of causes, but there has been a great consensus that this country had not pursued a right fiscal policy and public debt management policy. Greece experienced high budget deficit for many years, even in years of good times, and it did not also comply the rules set by EU (such as, the principles of budget deficit not exceeding 3% GDP or public debt not over 60% GDP).

So based on analysis of real situation in Vietnam, with reference to the success of Chile - a developing country like Vietnam when it began to adapt counter-cyclical fiscal policy, and the failure of Greece - an advanced country, we draw some core recommendation for fiscal policy adjust in the context of Vietnam as follows:

I. To erase the existing soft state budget system; instead to institutionalize, legislate an alternatively hard budget system in the State Budget Law, Law on Public Investment.
II. To institutionalize/legislate fiscal rules with central goal being to support and stabilize markets, macroeconomic stability. Laws relating to public expenditure or investment have to stipulate that financial source from state budget will not be used to generate economic growth as a fundamental objective of the government; public investment must be concentrate on projects that create spillover effects to private sector, and public investment will not focus on business or economic activities.
III. To institutionalize rule of balancing state budget under different circumstances as in Table 5 (level of 6.5% growth in GPD is median growth rate over 1990-2015).

Table 5: Proposed rule of budget balance management

Period with annual GDP growth	>7%	>=6,5% <7%	<6,5%
Budget balance	Minimum surplus of 0.5% GDP	Surplus or balanced	Deficit not exceeding 3% GDP

iv) To establish national fiscal advisory commission or council, independent from government, with memberships granted to reputable and experienced economic scientists and policy practitioners. The council or commission is responsible for projecting GDP growth trend, acceptable level of budget deficit in certain circumstances. The establishment of this agency should also be legalized in relating laws. The agency determines under which conditions the government could exercise a budget deficit exceeding 3% GDP. Option of the agency will be guideline for government to make annual budget planning, and The budget plan is not based on the opinions or conclusions of this agency will not be approved by the National Assembly

One interesting point should a counter-cyclical fiscal policy be institutionalized and put in practice is that the government (whether it has some purpose or not) projects high economic growth in some period (for example, to attract supports from the public or enterprises, or international investors), it would have to save more and more to make the budget balanced or surplus. And if the government projects lower GDP growth for some periods (for instance, to have reasons to increase public expenditure), and if the global and regional economic conditions are viewed good, it will reveal to some extent the weak governance of national administrative system, and there would be no suitable reason to raise public expenditure to maintain an poor-capacity government. So, this kind of fiscal policy would solve a “disease” called in Vietnam achievement obsession sickness (“bệnh thành tích”), which is a major root of corruption in the economy.

In conclusion, in this paper we have made efforts to figure out the big imbalances in economy of Vietnam derived from lacking a sound and consistent fiscal policy. If the country prolong the pattern of pursuing a fiscal policy just like in the last 30 years, it could be in a danger of falling into a future economic crisis not only involving in public debt issues. Reforming fiscal policy to make it a counter-cyclical policy with hard budget rules would be the golden key for Vietnam to transform current pattern of development.

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