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FISCAL DECENTRALIZATION: THE CASE OF VIETNAM

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Abstract. This study analyzes fiscal decentralization in Vietnam from 2003 to 2023 by examining budget data for the central government and its 63 provinces. During this period, Vietnam underwent significant reforms to the State Budget Law, aiming to enhance local governments autonomy. The 2015 law marked a pivotal point, establishing a framework for decentralized budget management characterized by stability, transparency, and local initiative while maintaining central oversight. Consequently, Vietnam has made strides in decentralizing revenue and expenditure, diminishing reliance on central transfers. However, the process is not yet completed, as certain budgetary functions are still highly centralized. To have a comprehensive picture of fiscal decentralization, future research should expand the scope to assess fiscal decentralization within the context of administrative and political decentralization to gain a more comprehensive understanding of its true nature and impact.

Keywords: fiscal decentralization, central government, local government, transfers, public finance.

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Introduction

Fiscal decentralization has emerged as a global trend in recent decades. By granting greater financial and administrative autonomy to local governments, decentralization is believed to enhance the efficiency of public service delivery, thereby stimulating economic growth and development at the regional level (Ganaie et al., 2018). During the period from 1984 to 2022, there were nearly 500 high-quality publications on this topic, with the number of publications increasing significantly after the COVID-19 pandemic (Aliyuddi, 2023). Studies on fiscal decentralization focus on three key areas: economic dimension, fiscal dimension, and political dimension (Martínez-Vázquez et al., 2017). A significant portion of research on fiscal decentralization is dedicated to evaluating its impact on economic growth, while other studies examining the fiscal and political dimensions mainly focus on fiscal sustainability, budgetary efficiency, optimal size of public sector and the public sector governance (Martinez and McNab, 2003; Martinez et al., 2017). While the literature on this topic is growing, it still lags behind the more established fields of economics, econometrics, and finance in terms of publication volume (Aliyuddi, 2023). Several factors contribute to this phenomenon. Primarily, measurement of fiscal decentralization is not standardized due to the inconsistent definition and estimation methods (Martínez et al., 2017). Secondly, fiscal decentralization is associated with administrative and political decentralization, so it is difficult to estimate fiscal decentralization and related indicators accurately (Gemmell et al., 2013). Thirdly, in empirical research analyzing the nexus between fiscal decentralization and socioeconomic indicators, endogeneity is one of the major problems that weaken the research results (Bahl, 2019).

Consistent with global trends, in 1986 the Vietnam government implemented the Doi Moi (or Renovation) policy , and carried out comprehensive reforms with the expectation of higher living standards and better provision of public services. In the 1970s, Vietnam faced numerous challenges in socio-economic development, forcing the country to transition from a centrally planned, subsidized economy to a multi-sectoral market economy with socialist governance. Some notable policies of Doi Moi in 1986 included land reforms, trade and investment liberalization, and market-oriented reforms with the participation of the private sector. Doi Moi in 1986 marked a turning point in the history of Vietnam with remarkable achievements in terms of GDP growth, macroeconomic stabilization, export expansion, foreign direct investment attraction, and poverty reduction (Kien and Heo, 2008).

To support socio-economic development, Vietnam also carried out fiscal reforms with the adoption of the 1996 State Budget Law and its amendments in 2002 and 2015. The 2015 State Budget Law introduced "budget management decentralization", which clarifies the roles and powers of different government levels and budget units in managing state finances, aligning with broader socio-economic decentralization goals. According to international practices, fiscal decentralization is often considered to be based on 4 pillars, which are: (1) decentralization of budget revenues, (2) decentralization on budget expenditures, (3) budget transfers, and (4) local borrowings. However, previous research on fiscal decentralization in Vietnam often examines the first two or three pillars and omits the last one. Therefore, there is a significant research gap in examining all four dimensions of fiscal decentralization in Vietnam.

The remainder of this study is organized as follows: Literature review examines the content, role, measurements, global trends, international practices of fiscal decentralization in Vietnam. Section "Vietnam's decentralization progress: Where are localities?" explores Vietnam's fiscal decentralization mechanism and Vietnam's decentralization journey: achievements and challenges of local autonomy. Finally, the conclusion provides several key findings and policy insights in this area.

Literature review

What is fiscal decentralization?

Fiscal decentralization is the subtopic of public finance that relates to the structure and functions of various levels of government (Dziobek et al., 2011). While there are various interpretations of this concept, it generally boils down to two main approaches.

The roots of fiscal decentralization lie in the economic theories of Samuelson (1954, 1955), Arrow (1970), and Musgrave (1964). The government should actively address market failures, stabilize prices, create jobs, ensure equal income distribution, and promote macroeconomic stabilization (Bushashe and Bayiley, 2024). In a democratic setting, under the pressure of elections, the government strives to maximize social welfare through its oversight role (Miranda et al., 2024). However, this theory assumes a long-term state of political stability, a condition not always met (Oates, 2005). Fiscal decentralization, then, can be seen as a transfer of power and responsibility from the central government to lower levels, including local governments and organizations with relative independence from the public and private sectors (Litvack et al., 1999; Meguid, 2024).

Moving beyond just fiscal transfers, the second generation of theories views decentralization as a comprehensive reform encompassing fiscal, political, and administrative aspects. It builds on the foundations of the first generation but expands its assumptions to better reflect reality (Mookherjee, 2015). Notably, it acknowledges that political actors often prioritize their own interests over maximizing social welfare. This new perspective examines how different institutions, operating under imperfect information and government control, pursue their own goals under decentralization (Oates, 2005).

The second generation of theories also tackles issues such as moral hazard and free-riding between government levels (Vo, 2010). Crucially, the second generation sees decentralization as empowerment of local communities by empowered local governments (Bahl and Martinez, 2006). It is not just about shifting financial resources, but also about effective control and linking it to good governance and poverty reduction (Oates, 2005). This aligns with recent World Bank studies that emphasize the importance of transferring spending and revenue responsibilities from central to lower levels (Gopal, 2008; Danisewicz and Ongena, 2024). For local governments to thrive under decentralization, they need both increased local revenues and greater control over their budgets.

Fiscal decentralization empowers local governments to manage their own budgets, with the goal of achieving their specific socio-economic development goals (Oates, 2005). This involves two key pillars: transferring spending responsibilities and revenue sources from the central government to local levels. However, some empowered localities may struggle to maintain fiscal balance. To ensure basic public services for their citizens, the central government can provide budget transfers or loan guarantees (Gopal, 2008). In essence, fiscal decentralization rests on four pillars. (1) Decentralization of the budget spending responsibilities: Local governments gain control over how they allocate their budgets; (2) Decentralization of budget revenue sources: Local governments gain access to their own revenue streams, fostering accountability; (3) Budget transfer design: The central government provides financial assistance to ensure minimum public services in localities with limited resources; (4) Debt structure of local governments: Local governments may be allowed to borrow under specific conditions to finance essential projects (Figure 1). This approach aims to strike a balance between local autonomy and central government oversight, ultimately promoting efficient resource allocation and better public services for citizens (Martínez et al., 2017).

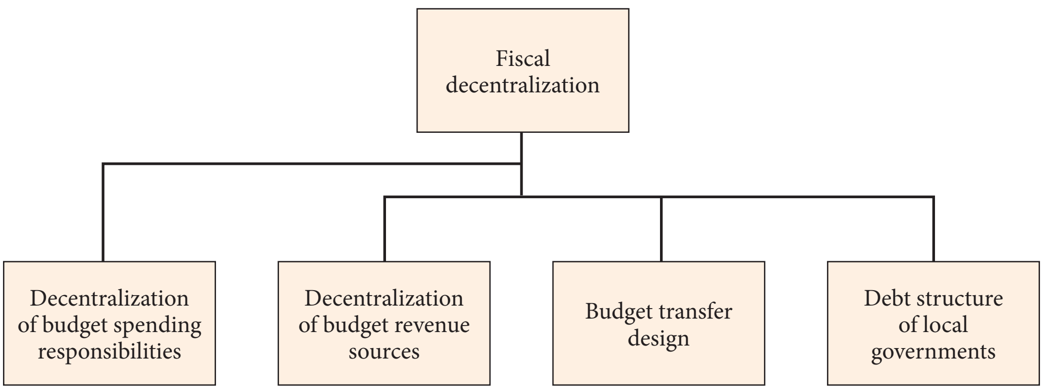


Figure 1: **Key pillars of Fiscal decentralization**

Source: Feruglio and Anderson, 2007; Gopal, 2008.

The role of fiscal decentralization

Fiscal decentralization, the devolution of financial resources and decision-making to lower levels of government, is widely recognized as a key driver of national development (Tiebout, 1956; Ebel and Yilmaz, 2002; Feruglio and Anderson, 2007). This approach empowers local governments, fostering competition among them to attract residents and businesses by lowering tax rates and offering better public goods and services (Tiebout, 1956). As a result, citizens have more choices in where to live and work, potentially stimulating local economic development. In the context of public financial management, fiscal decentralization is typically examined through two lenses: economic and political (Mookherjee, 2015; Martínez et al., 2017).

Economically, fiscal decentralization offers several benefits, including promoting stability, fairness, and efficiency (Musgrave, 1964; 1996). By allowing people to choose localities that best meet their needs for public goods and services, fiscal decentralization can help stabilize the macroeconomy. People who value specific services, such as strong education systems, will gravitate towards areas that prioritize. This can lead to a more balanced distribution of needs across localities (Martínez et al., 2017). Also, decentralization allows people with different preferences to choose where they live, ensuring a fairer distribution of public services based on individual needs. Local governments, due to their closer proximity to citizens, can often tailor services more effectively and reduce waste compared to a centralized approach (Yushkov, 2015). However, efficiency is not the sole economic goal. Transfers of funds from the central government to local governments can help stabilize the macroeconomy and address equity concerns (Smoke, 2015; Miranda et al., 2024).

Fiscal decentralization transcends economic benefits by fostering a closer relationship between citizens and their government (Martínez et al., 2017; Chygryn et al., 2018). When local governments manage their own budgets, they become directly accountable for how they spend tax dollars. This transparency empowers voters: if local services do not meet their needs, they can hold officials responsible through elections. Additionally, fiscal decentralization can encourage citizen participation in local governance due to the closer proximity of local authorities. This aligns with the perspective of Feruglio and Anderson (2007), who highlights two key political effects of decentralization. First, it improves accountability by giving citizens a direct voice in how their tax dollars are spent. Second, it can enhance government management efficiency. Local governments, being closer to the needs of their communities, can potentially tailor services more effectively and reduce bureaucratic waste compared to a centralized approach (Alonso et al., 2013). In essence, fiscal decentralization strengthens the connection between citizens and their government, fostering not only economic benefits but also a more responsive and accountable political system (Martínez et al., 2017).

Measurement of fiscal decentralization

Traditionally, measuring fiscal decentralization has focused on two key areas: where spending responsibilities lie and how revenue is generated. The most common approach uses ratios as local budget expenditure to total state expenditure or local budget revenue to total state revenue (Tiebout, 1956; Huther and Shah, 1998). However, these metrics have limitations. They do not fully capture the true autonomy of local governments. To address this, researchers have explored additional indicators and methods. One approach involves analyzing the composition of local revenue sources, which provides a clearer picture of a government's true control over its finances (Feruglio and Anderson, 2007; Blöchliger, 2013). Another method utilizes questionnaires to directly assess the level of autonomy in local budget spending (Blöchliger, 2013). By incorporating these additional elements, researchers can paint a more nuanced picture of fiscal decentralization. This approach goes beyond simply identifying who spends what and delves into the level of control local governments have over their financial resources. This allows for a more comprehensive understanding of how power is distributed and how local governments operate.

A major challenge in studying fiscal decentralization is the lack of consistent data and measurement methods. Traditional approaches based on budget revenue and expenditure ratios often fail to capture the nuances of local government autonomy (Dziobek et al., 2011; Ebel and Yilmaz, 2002; Feruglio and Anderson, 2007; Blöchliger, 2013). To address this, researchers rely on two main standardized datasets: the International Monetary Fund's Government Finance Statistics (GFS) and the OECD's Fiscal Decentralization Database. However, each dataset has its own strengths and weaknesses, making them suitable for different research questions. The GFS offers comprehensive internal fiscal data for individual countries (Lledó et al., 2018). However, it may not fully capture the intricacies of local government autonomy. The OECD's database, on the other hand, focuses specifically on fiscal decentralization. This provides a more targeted perspective, but the data might not be as widely available for all countries (Stossberg and Blöchliger, 2017). Moreover, each country has the internal dataset provided by the Ministry of Finance in government budget, in which clarifies the budget allocating for both the central government and the local governments. By understanding the limitations and strengths of these datasets, researchers can choose the most appropriate tools for their specific research goals.

Global trend of fiscal decentralization

The potential benefits of fiscal decentralization have driven a global trend in recent years (Chygryn et al., 2018). OECD countries have witnessed a rise in spending decentralization (Sacchi and Salotti, 2016; OECD, 2022). From 2011 to 2022, the average share of local government spending within total government spending reached 25.36%, showing a continuous upward trend. In 2022, countries as Australia (46.18%), Canada (46.96%), Denmark (64.3%), Finland (40.86%), Sweden (48.64%), and the United States (48.67%) displayed high levels of expenditure decentralization. Revenue decentralization also shows a similar trend. The average ratio of local government revenue to total state revenue reached 16.58% in 2022, increasing steadily throughout the period. Leading examples include Australia (43.72%), Canada (44.24%), Sweden (30.91%), Switzerland (30.73%), and the United States (43.19%). According to Zhao and He (2024), China serves as a typical example of fiscal decentralization trend, with the share of subnational government revenue increasing significantly from 46% (2010) to 51% (2020), and the share of subnational expenditures to general government expenditures increased from 52% (2010) to 65.7% (2020) China fiscal system has transitioned through three major reforms and several adjustments, which have improved China's fiscal capacity (Shen et al., 2012). As a result, China had a sustainable increase in total budget revenue, a simplified tax structure with fewer taxes and rates, and a transparent revenue-sharing mechanism between the central and local governments, contributing to its remarkable economic growth (Bahl, 2019). Compared to other countries, China has high share of local revenue and spending relative to the general government budget; however, its fiscal system still faces significant challenges. First, regarding revenue, the central government retains control over major taxes such as VAT, corporate income tax, and personal income tax. Local governments primarily rely on a share of these centrally collected taxes, which limits their autonomy. Second, in terms of expenditure responsibilities, China generally follows international practices. The central government prioritizes national defense, foreign affairs, macroeconomic control, and the promotion of economic growth while local authorities manage public services within their jurisdictions. However, China's expenditure decentralization faces two main problems: (1) lower-level governments, particularly districts and villages, are burdened with excessive spending demands; and (2) responsibility allocation remains unclear due to overlapping expenditures (Bahl, 2019).

Research on Vietnam's fiscal decentralization

Research on Vietnam fiscal decentralization often focuses on evaluating the national fiscal decentralization progress, the case studies of specific provinces or the impact of fiscal decentralization on socio-economic development. However, the number of studies on fiscal decentralization in Vietnam is limited due to the lag of budget data, the inconsistent measurements, and technical problems in econometrics.

Wescott (2003) and Fforde (2003) investigated the fiscal decentralization between the provincial and the district governments in case of Yen Bai, Tuyen Quang, Ho Chi Minh, Quang Ngai and Long An province in Vietnam. The results show that the effectiveness of fiscal decentralization depends on the capacity of provincial governments and that effective fiscal decentralization can reduce poverty head count at the provincial level. Beyond the scope of a province, Le Chi Mai (2016) examined the fiscal decentralization between the central and the provincial governments in Lang Son and Da Nang provinces. The author agreed that fiscal decentralization promoted efficiency in public sector and proposed some key recommendations for better implementation, which are: (1) the gradual allocation of fiscal autonomy to provincial governments to improve local fiscal autonomy, (2) the greater decentralization of expenditure budgets increasing spending budget decentralization to the provinces and delegating integration mechanism in budget implementation between the central and the provincial governments, and (3) building transparent mechanisms for balancing transfer to ensure equality between provinces.

Expanding the research scope to 63 provinces in Vietnam, Martinez (2004) indicated that fiscal decentralization is the suitable model for the Vietnamese fiscal system and in order to improve the fiscal capacity, Vietnam should clarify the revenue sources and spending responsibilities for each level of government, and improve fiscal autonomy, transparency, and accountability. Similarly, Bui Thi Mai Hoai (2009) evaluated the fiscal model in Vietnam based on the Tiebout model (Tiebout, 1956) and concluded that there was a major gap between the Tiebout model and the reality in Vietnam. The Vietnamese rarely migrate because of the poor quality of provincial public services and the provincial governments did not have enough authority to provide public services following the preferences of local people.

In 2010s, Nguyen (2009), Thon et al. (2010), … analyzed the impact of fiscal decentralization on different aspects of socio-economic development (Nguyen, 2009; Thon, Huong and Thuy, 2010; To Thien Hien, 2012, Cuong, 2013). Nguyen (2009) indicated that the decentralization of budget expenditures had a negative impact on economic growth in the period of 1997 and 2001 and a positive impact on economic growth in the period of 2002 and 2007. Cuong (2013) examined the fiscal decentralization progress in Vietnam after the implementation of the 2002 State Budget Law and proposed several solutions such as to allocate more revenue source and spending responsibility to provinces, adjust the sharing mechanism between the central and the local governments in case of special consumption tax and value added tax, speed up and improve the quality of all steps in budget cycle, increase the transparency, accountability, and fiscal discipline.

Recently, Oanh (2022) has indicated that Vietnam is accelerating the level of fiscal decentralization in both budget revenue and budget expenditure pillars and fiscal decentralization promotes economic growth in 63 provinces in Vietnam. In Vietnam, fiscal decentralization makes provincial governments compete with others in promulgating comparative tax policies and delivering public services above standards (Ngo T. Hai An, 2023). Basically, 63 provinces have improved budget autonomy on average by increasing local budget revenue including self-collected revenue and decreasing budget transfers from the central government; however, Vietnam still takes the central budget as the focus to guarantee equally standard public services. The central government is responsible for determining all tax bases and rates, while the local governments have the right to establish some types of retained revenues such as fees and charges (Cuong, 2013; Ngo T. Hai An, 2023). On the other hand, Thanh and Canh (2020) suggest that to capture the true picture, fiscal decentralization needs to be considered together with administrative decentralization and political decentralization.

Vietnam's decentralization progress: Where are localities now?

Fiscal decentralization mechanism in Vietnam

Vietnam's fiscal decentralization framework is outlined in the Law on the State Budget and is supported by decrees and regulations for smooth implementation. Since Doi Moi 1986, especially after the 1996 State Budget Law and its amendments of 2002 and 2015, the government has carried out comprehensive fiscal reforms with the expectation of better provision of public services.

The 2015 version notably introduced "budget management decentralization", which clarifies the roles and powers of different government levels and budget units in managing state finances, aligning with broader socio-economic decentralization goals. The 2015 State Budget Law has created a new legal framework for revenue sharing and fiscal intergovernmental transfers that make budget management more efficient. Through fiscal reform, Vietnam has decentralized and expanded the autonomies for provinces, which forms the basis for determining the priority order of programs and projects. Provincial governments are assigned the responsibilities to manage projects to support provincial development according to the general direction and objectives of the central government. The fiscal reform also creates more rights for municipal government in raising community development funds, social relief funds to improve the efficiency of public services.

Decentralization of budget spending responsibilities: Both central and local budgets have similar spending categories such as development investments, recurrent expenditures, and debt repayment. However, there are three distinct spending responsibilities that differentiate them from each other (the provision of aid, loans prescribed by law, and additional funding for central financial reserve fund) which are solely handled by the central budget. While sharing some types of spending tasks, the central and local budgets differ significantly in scope to avoid overlap. The central budget focuses on national-level tasks, including inter-regional, regional, ministerial, and government-affiliated expenses. Local budgets, on the other hand, prioritize local needs and manage expenditures of local agencies and units.

Decentralization of budget revenue: According to the 2015 State Budget Law, state budget revenue is divided into three parts: (1) revenues that are wholly retained by the central government budget; (2) revenues shared between the central government budget and local government budgets; and (3) revenues are wholly retained by local government budgets. The revenues shared between central and local governments are calculated on the ratio of revenue distribution (%). This rate, set in the central budget allocation resolution, varies from 0% to 100%. A higher rate means a greater share for local budgets, indicating they rely more on this revenue source. The distribution rate remains fixed during a budget stability period.

Budget transfer: Budget transfers from the central to local governments in Vietnam include balancing transfers and targeted transfers. Balancing transfers involves higher-level governments providing additional funds to lower-level governments to help them fulfill their assigned tasks and achieve budget stability. While these transfers are crucial for smooth operations, the goal is for lower-level governments to gradually increase their autonomy. Targeted transfers from higher-level budgets to lower-level budgets follow strict principles, criteria, and established allocation norms. These funds are primarily provided in four situations. First, when new policies or regulations are implemented by the higher level without being included in the initial budget estimates, additional funds are provided to support their rollout in the first year. Second, specific national programs, projects, or targets assigned to lower levels may require additional funding beyond their regular budgets. Third, the event of major natural disasters, catastrophes, or epidemics exceeding the lower-level government's ability to respond, supplementary funds are provided. Fourth, large critical programs or projects with significant impact on local socio-economic development may receive targeted funding support.

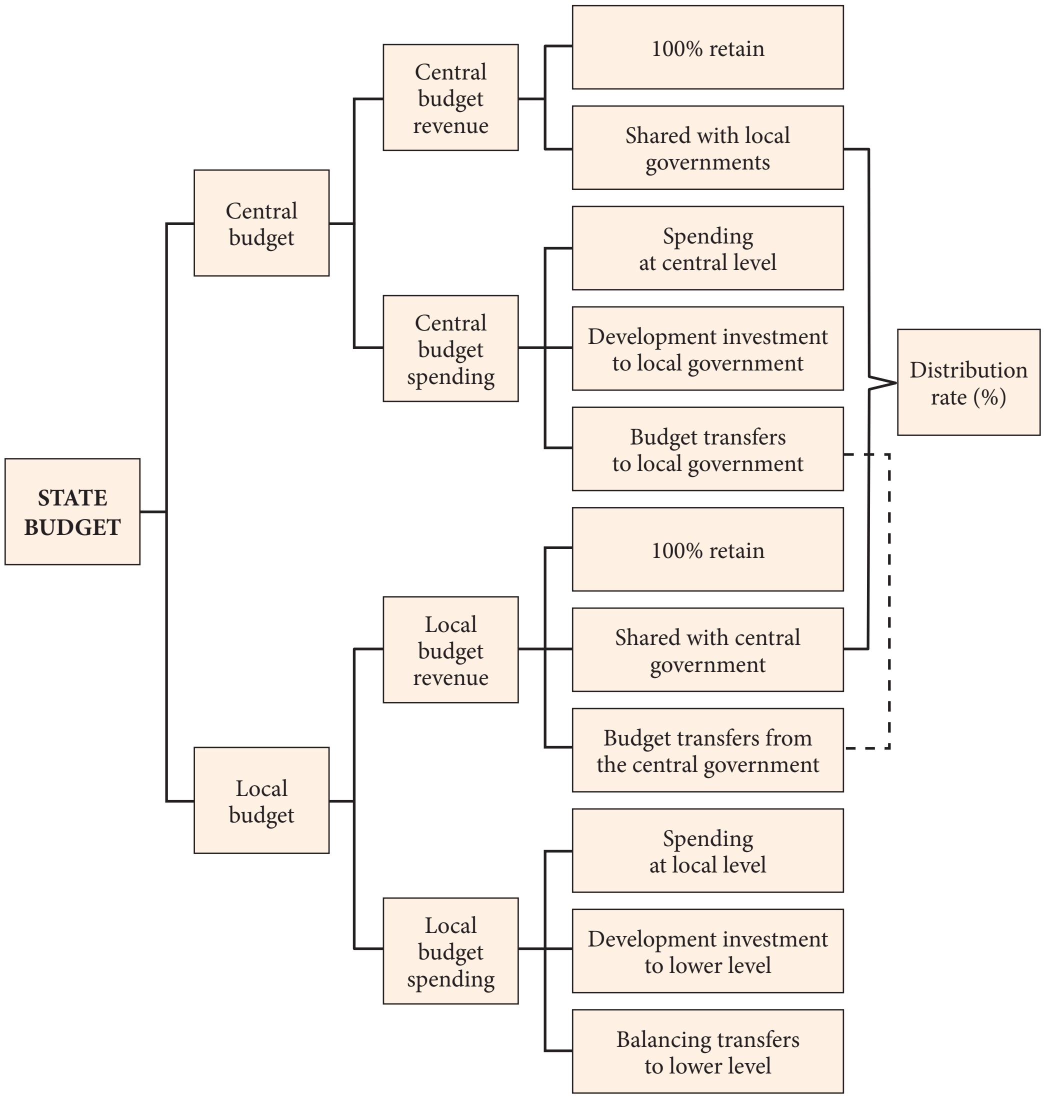


Figure 2: **Vietnam fiscal decentralization mechanism**

Source: The authors based on the 2015 State Budget Law.

Debt structure of local government: Local budget debt encompasses the total funds borrowed by the local government, including deficit financing and debt refinancing. The deficit financings are loans taken to cover budget shortfalls, strictly used for development investments to avoid further debt burdens. The provincial-level governments can overspend their budgets with strict rules applied. Particularly, overspent funds must be used for approved development projects included in the provincial People's Council's medium-term investment plan. Deficits can only be financed through domestic loans. All local budget deficits are consolidated with the national budget deficit and approved by the National Assembly. Local government debt limits are outlined in the 2015 State Budget Law.

Vietnam's decentralization journey: Achievements and challenges of local autonomy

Data description

Data for the period of 20 years from 2003 to 2023 are collected from the public information portal on Vietnam's State budget (https://ckns.mof.gov.vn), provided by the Ministry of Finance. However, the Vietnamese government has not yet officially approved the 2022 State Budget, as the budget process in Vietnam is usually delayed by three years. Hence, the study utilized budget settlement data for the period of 2003–2021 and budget plan data for the period of 2022–2023. In addition, the research will consider data on periods of budget stability and local budget regulation rates for the same period. This data will be sourced from resolutions issued by the National Assembly and local authorities.

Table 2

Data description

No	Data	Description
1	Total state revenue	Total state budget revenue, including central budget revenue and local budget revenue (including additional revenue from the central budget)
2	Total state expenditures	Total state budget expenditures, including central budget expenditures and local budget expenditures
3	Central revenue	State budget revenues are decentralized to the central level
4	Central expenditures	State budget expenditures belong to the spending tasks of the central level.
5	Local revenue	State budget revenues are decentralized to the local level
6	Local expenditures	State budget expenditures belong to the spending tasks of the local level
7	Budget transfers	State budget supplements from the central to local levels, including budget balancing transfers and targeted transfers
8	Borrowings	Total borrowings level of the State budget, including borrowings to offset the State budget deficit and borrowings to repay the principal debt of the State budget
9	Budget stability period	Stable period of percentage (%) of revenue division between budget levels and balanced additions from upper-level budgets to lower-level budgets for a period of 05 years, coinciding with the development plan period of socio-economic development for 05 years or according to the decision of the National Assembly.
10	Distribution rate	The revenue sharing ratio between the central and local levels

Source: Created by the author.

The study was conducted as descriptive research based on the second-generation theory of Fiscal federalism (Oates, 2005) and fiscal decentralization framework of the World Bank (Gopal, 2008) to investigate the progress of fiscal decentralization in Vietnam over 20 years. After collecting data from the database of Vietnamese Ministry of Finance, the raw data is processed to measure 4 dimensions of fiscal decentralization. Each dimension is measured by a set of indicators (Table 3).

Table 3

Indicators description

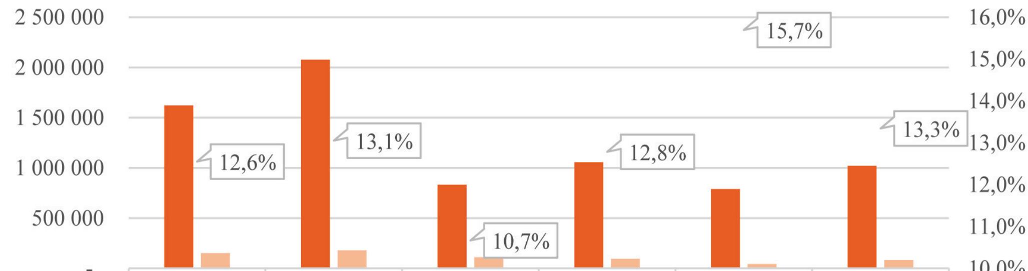
No	Dimensions	Measurements	Indicators
1	Decentralization of budget spending responsibilities	Ratio of budget expenditures at all levels to total state budget expenditures	$\frac{\text{Central expenditure}_n}{\text{Total state expenditure}_n} \times 100\%$
			$\text{Central expenditure growth rate}_n = \frac{\text{Central expenditure}_n - \text{Central expenditure}_{n-1}}{\text{Central expenditure}_{n-1}} \times 100\%$
			$\frac{\text{Local expenditure}_n}{\text{Total state expenditure}_n} \times 100\%$
			$\text{Local expenditure growth rate}_n = \frac{\text{Local expenditure}_n - \text{Local expenditure}_{n-1}}{\text{Local expenditure}_{n-1}} \times 100\%$
2	Decentralization of budget revenue sources	Ratio of budget revenue at all levels to total state budget revenues	$\frac{\text{Central revenue}_n}{\text{Total state revenue}_n} \times 100\%$
			$\text{Central revenue growth rate}_n = \frac{\text{Central revenue}_n - \text{Central revenue}_{n-1}}{\text{Central revenue}_{n-1}} \times 100\%$
			$\frac{\text{Local revenue}_n}{\text{Total state revenue}_n} \times 100\%$

No	Dimensions	Measurements	Indicators
2	Decentralization of budget revenue sources	Ratio of budget revenue at all levels to total state budget revenues	$\text{Local revenue growth rate}_n = \frac{\text{Local revenue}_n - \text{Local revenue}_{n-1}}{\text{Local revenue}_{n-1}} \times 100\%$
		Local governments revenue structure	$\frac{\text{Self-collected Local revenue}_n}{\text{Local Revenue}_n} \times 100\%$
			$\frac{\text{Budget Transfer}_n}{\text{Local Revenue}_n} \times 100\%$
			$\frac{\text{Others}_n}{\text{Local Revenue}_n} \times 100\%$
3	Budget transfers	Structure of intergovernmental budget transfers	$\text{Proportion of balancing transfers}_n = \frac{\text{Balancing transfers}_n}{\text{Budget transfers}_n} \times 100\%$
			$\text{Proportion of targeted transfers}_n = \frac{\text{Targeted transfers}_n}{\text{Budget transfers}_n} \times 100\%$
4	Debt structure	Ratio of local government debt	$\text{Ratio of local government debt}_n = \frac{\text{Local government debt}_n}{\text{Total state budget debts}_n} \times 100\%$
			$\frac{\text{Local government debt}_n}{\text{Local revenue}_n} \times 100\%$

Source: Created by the author.

Budget revenues and expenditures of the Vietnamese government

Between 2003 and 2023, Vietnam's State Budget Law underwent two revisions: the 2002 Law (implemented in 2004) and the 2015 Law (implemented in 2017). During this period, Vietnam's state budget had expanded significantly. Total revenue soared from 152,272 billion VND in 2003 to 1,620,744 billion VND in 2023, averaging a 12.6% annual increase. Expenditures followed suit, rising from 178,541 billion VND to 2,076,244 billion VND, at an average annual increase of 13.1% (Figure 2). Interestingly, local budgets grew faster than the central budget in terms of both revenue and expenditure. At the same administrative level, however, the central budget experienced lower revenue growth compared to expenditure, in contrast to local budgets. This trend indicates a shift in fiscal decentralization during the research period.



	Total State revenue	Total State expenditures	Central revenue	Central expenditures	Local revenue	Local expenditures
2023F	1 620 744	2 076 244	831 702	1 055 824	789 042	1 020 420
2003	152 272	178 541	109 528	95 189	42 744	83 352
Growth rate	12,6%	13,1%	10,7%	12,8%	15,7%	13,3%

2023F 2003 Growth rate

Figure 2: **Budget revenues and expenditures at all levels of government in Vietnam, billion VND**

Source: Authors' calculations based on a dataset of the Ministry of Finance (hereinafter, unless otherwise indicated).

Decentralization of budget spending responsibilities

Decentralization of spending responsibilities is often measured by the ratio of budget expenditures at all levels to total state budget expenditures (Huther and Shah, 1998; Dziobek et al., 2011; Ebel and Yilmaz, 2002; Feruglio and Anderson, 2007; Blöchliger, 2013).

This study examines the degree of decentralization in Vietnam, focusing on how spending responsibilities are distributed between central and local governments based on two key indicators: (1) the proportion of Local Budget Expenditure and (2) the proportion of Central Budget Expenditure. It is important to note that total state budget expenditure encompasses both central and local expenditures. Additionally, local budget expenditures include budget transfers from central to local government. Essentially, a higher proportion of local budget expenditure indicates a higher degree of decentralization, meaning the central government delegates more spending responsibilities to local authorities. This approach aligns with studies conducted by Ebel and Yilmaz (2002), Feruglio and Anderson (2007), and Blöchliger (2013). Between 2003 and 2023, there was a significant shift in decentralization to local governments in Vietnam. Local budget share increased from 36.8% of total state budget expenditure in 2003 to 49.1% in 2023, a 12.3 percentage points rise. Conversely, the central government's share decreased from 63.2% to 50.9%. Also, local budget expenditures still grew faster than central expenditures, suggesting a rising need for local spending (Figure 3). During the period of 2021–2023, the upward decentralization trend has slightly changed due to the economic recession, so the central government needs to take more prominent role in fiscal policy.

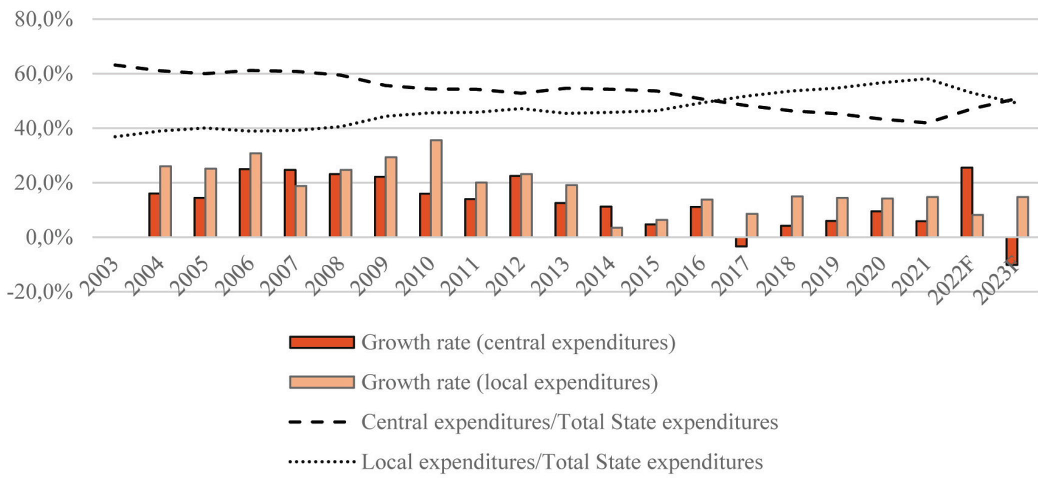


Figure 3: **Decentralization of budget spending responsibilities in Vietnam, %**

Decentralization of budget revenue

Revenue decentralization is often measured through component indicators: (1) total local budget revenue/total state budget revenue and (2) self-collected local budget/total local budget revenue (Huther and Shah, 1998; Dziobek et al., 2011; Ebel and Yilmaz, 2002; Feruglio and Anderson, 2007; Blöchliger, 2013).

The analysis of the ratio between the total revenue of local budgets and the total revenue of the state budget indicates a positive trend in Vietnam's fiscal decentralization. This proportion has notably increased from 28.1% in 2003 to 48.7% in 2023, while the central government's share has correspondingly decreased to 51.3%. A growing equilibrium between central and local revenue shares is evident. Moreover, the frequently observed faster growth of local budgets relative to central ones suggests enhanced financial autonomy for local governments. However, this metric presents limitations as it encompasses a mix of revenue sources, some of which are still under central control or have been transferred to local authorities. To provide a more accurate representation of true decentralization, researchers often utilize alternative indicators that isolate locally generated revenue. These include the ratio of "self-collected local budget revenue to total state budget revenue" and the ratio of "self-collected local budget revenue to total local budget revenue". These metrics provide a clearer picture of local governments' capacity to raise revenue independently (Figure 4).

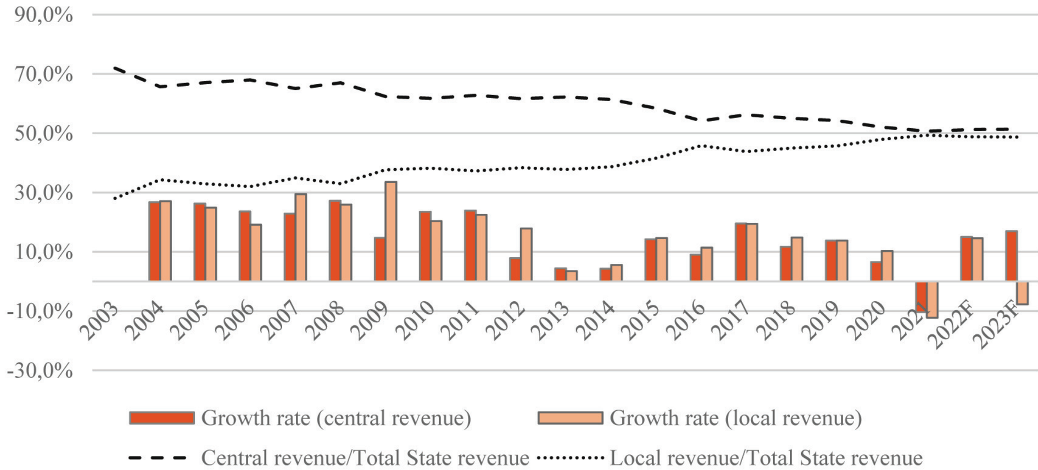


Figure 4: **Decentralization of budget revenue in Vietnam, %**

The second indicator, self-collected local budget/Total local budget revenue, reveals a diverse picture of local financial independence in Vietnam between 2003 and 2023. The self-collection rate hovered between 40% and 52%, averaging around 46%. Important peaks occurred in 2004 and 2016, coinciding with the preparation or implementation of new State Budget Laws. Notably, the 2016 peak was partly driven by a sharp drop in central government oil revenue, pushing local governments to collect more independently. However, the rate also dipped significantly in 2009, 2012, and 2020. These drops coincided with the global economic difficulties and the pandemic, prompting government tax cuts and reductions that impacted local self-collection. Interestingly, while the share of total local budget revenue in the overall state budget steadily increased, local self-collection fluctuated (Figure 5). This suggests that government policies significantly influence the composition of local revenue sources beyond the overall volume.

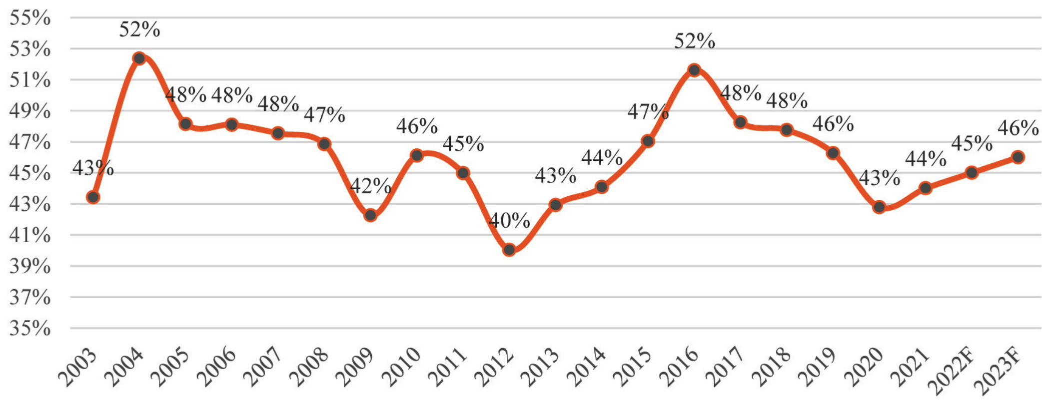


Figure 5: **Self-collected local budget/Total local budget revenue, %**

In Vietnam, the decentralization of budget revenue is also reflected in the ratio of revenue distribution, which remains fixed during a budget stability period. In Vietnam, this period typically lasts 3–5 years, aligned with the 5-year plans for the socio-economic development of each locality. However, actual circumstances may necessitate adjustments to the stabilization period (Table 3).

Table 3

Budget stability periods in Vietnam

No	Budget stabilization period according to the Resolution	Actual stability periods	Socio-economic development plans	Notes
1	2017–2020	2017–2021	2016–2020	Extends until 2021
2	2011–2015	2011–2016	2011–2015	Extends until 2016
3	2007–2010	2007–2010	2006–2010	
4	2004–2006	2004–2006	2001–2006	

While most Vietnamese localities (63 provinces/cities) maintained a 100% revenue distribution for local budget benefits between 2004 and 2021, a notable minority (11–17) operated with lower rates depending on their stage of development. Cities like Hanoi, Ho Chi Minh, Binh Duong, Da Nang, Dong Nai, Khanh Hoa, Quang Ninh, Vinh Phuc, and Bac Ninh generated significant local revenue and contributed a high proportion to the central budget (Table 4). Localities like Ninh Binh and Quang Ngai demonstrated progress in boosting their revenue sources and gradually reducing their reliance on the central budget through lower regulation rates. More provinces are adopting lower revenue distribution rates, suggesting improved local revenue generation that allows them to meet spending needs without relying on central transfers. This trend implies greater local autonomy in managing their budgets.

Table 4

Several provinces with the revenue redistribution rate less than 100% in Vietnam

No	Provinces	2004–2006	2007–2010	2011–2016	2017–2021	2022–2025
1	Ba Ria – Vung Tau	42	46	44	64	52
2	Bac Ninh	100	100	93	83	71
3	Binh Duong	44	40	40	36	33
5	Da Nang	95	90	85	68	83
6	Dong Nai	49	45	51	47	50
7	Hanoi	32	31	42	35	32
9	Hai Phong	96	90	88	78	76
10	Hung Yen	100	100	100	93	98

No	Provinces	2004–2006	2007–2010	2011–2016	2017–2021	2022–2025
11	Khanh Hoa	52	53	77	72	90
15	Quang Ngai	100	100	61	88	93
16	Quang Ninh	98	76	70	65	82
20	TP Ho Chi Minh	28	26	23	18	21
22	Vinh Phuc	86	67	60	53	66

Budget transfer

Vietnam's state budget transfers come in two forms: balancing transfers and targeted transfers. Balancing transfers are essentially financial injections from the central government to ensure that local budgets have enough funds to cover essential expenses and fulfill assigned tasks. This indicates a limited fiscal capacity in the recipient locality, as its own revenue sources cannot meet basic needs. Targeted transfers are specific allocations to support programs, projects, or tasks at the local level. They do not reflect the overall fiscal capacity but rather align with the central government's wider priorities. Therefore, only balancing transfers directly reflects a locality's fiscal capacity. A high and rising level of balancing transfers indicates a struggle to meet basic budget obligations, relying on central support.

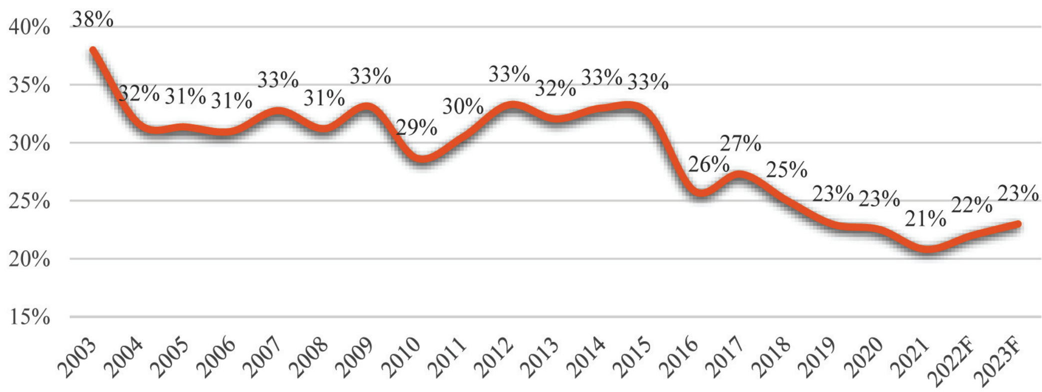


Figure 6: **Budget transfers from the central to local governments in Vietnam, %**

Between 2003 and 2023, Vietnam saw a significant decrease in reliance on central budget transfers for local governments. The share of these "transfers" in total local budgets dropped from 38% in 2003 to 23% in 2023, suggesting improved local fiscal capacity. However, the proportion of balancing transfers to total transfers has gradually increased, while the share of targeted transfers has decreased. By 2023, balancing transfers constituted 54% of all state budget transfers. This trend suggests a growing reliance by local governments on these transfers to cover their spending obligations. It highlights the potential gap between decentralized revenue sources and expenditure needs in Vietnam, indicating a need for further decentralization of revenue-generating authorities.

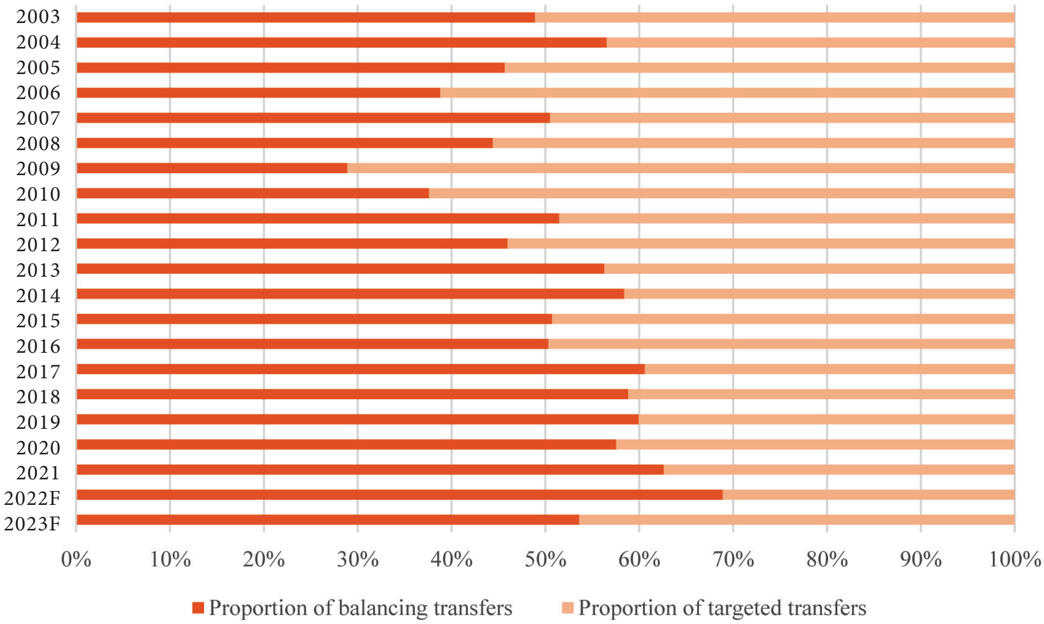


Figure 7: **Structure of intergovernmental budget transfers, %**

Debt structure of local government

Due to regulations implemented after the 2015 State Budget Law, comprehensive government debt data is available from 2017 onwards. This limits our analysis to the period from 2017 to 2023. During this period, total state budget debt increased significantly from 283,979.5 billion VND to 572,686.0 billion VND. This increase was primarily driven by the central government, whose debt climbed from 277,974.9 billion VND to 559,898.1 billion VND. Local government debt, in comparison, remained relatively low, growing from 6,004.6 billion VND to 6,410.9 billion VND. Central government debt consistently dominated the total budget debt, accounting for 96–98%, while local government debt remained around 2%-3.5% (Table 5).

Table 5

Government debt in Vietnam, billion VND

Year	Total state budget debt	Central budget debt	Local budget debt	Local budget debt/Local budget revenue	Local budget debt/Total state budget debt
2017	283,979	277,974	6,004	1.06%	2.1%
2018	284,806	279,490	5,315	0.83%	1.9%
2019	345,311	337,556	7,755	1.09%	2.2%
2020	436,059	420,657	15,402	2.13%	3.5%
2021	455,927	449,516	6,410	0.82%	1.4%
2022F	608,569	594,979	13,589	1.97%	2.2%
2023F	572,686	559,898	12,787	1.62%	2.2%

Additionally, the ratio of local debt to local budget revenue was within a manageable range of 0.82–2.13%, adhering to the debt ceiling regulations set by the 2015 State Budget Law. However, this ratio experienced a notable jump in 2020, reaching 2.13%. This was primarily due to a 98.6% increase in local government borrowing, driven by the economic challenges brought on by the COVID-19 pandemic, while local budget revenue, particularly from corporate and personal income taxes, saw a sharp decline. After that, the ratio of local debt to local budget revenue fluctuated slightly but remained under 2% in compliance with the 2015 State Budget Law.

Conclusions

This study analyzed all dimensions of fiscal decentralization in Vietnam over a 20-year period and came to several important conclusions. First, the decentralization of budget spending has increased dramatically, indicating more autonomy for local governments in public spending. Also, the local budget spending is growing faster than central spending, suggesting increasing local financial demands, even though central budgetary control remains dominant. Second, revenue decentralization, measured as the share of local budget revenue to total state budget revenue and the share of local self-collected revenue to local budget revenue have also increased slightly, indicating progress in budget revenue decentralization. However, the level of decentralized budget revenue is lower than the level of decentralized budget expenditures and significantly lower than the global trend. The self-collected rate is inconsistent, which implies that the Vietnamese government need to make greater effort to approach world standards in revenue decentralization in the future. Third, transfers from the central budget are steadily decreasing, which aligns with the observed growth in self-collection and surplus revenues. This trend suggests increasing local fiscal autonomy and reducing reliance on central support, reflecting a stronger state of fiscal decentralization in all dimensions. Fourth, local debts are strictly controlled by the central government, with the share of local budget debt under 3.5%, indicating low autonomy for local governments in financing their needs through borrowing. This represents a limitation in the debt structure dimension of Vietnam's fiscal decentralization. Fifth, an increasing number of provinces have adopted a lower rate of revenue distribution. This, on the surface, suggests improved local revenue; however, it implies the administrative control from the central government.

Over the past 20 years of innovation in the Law on the State budget, Vietnam has made steady progress in fiscal decentralization between the central government and 63 provincial governments. However, while Vietnam's revenue decentralization has increased and reliance on transfers has decreased, some aspects of decentralization remain concentrated at the central level. Specifically, the central government retains full authority to determine the tax rates and tax bases. Local budgets still struggle to cover their expenses, relying on 50% of their funding from central transfers and other sources. Additionally, strict controls limit local governments' ability to borrow, potentially hindering their financial flexibility. Furthermore, administrative regulation of local budget benefits and transfer ratios indicate a lack of full autonomy in resource allocation. Hence, Vietnam's fiscal decentralization requires further steps to empower local governments, through various mechanisms, such as increasing local revenue generation, enhancing borrowing flexibility, and decentralizing decision-making. Most importantly, to make sustainable and effective progress in fiscal decentralization, Vietnam needs to accelerate and improve the quality of all steps in the budget cycle and continue to increase transparency, accountability, and fiscal discipline. Beyond these achievements, the study acknowledges certain limitations that warrant further exploration. First, the current method of measuring decentralization expenditures does not fully capture the essence of fiscal autonomy granted to local governments. While certain revenue and expenditure responsibilities have been devolved to local authorities, the central government still retains ultimate control over the tax base and tax rates.

Local governments merely act as agents for the collection or disbursement of funds. Second, fiscal decentralization is inextricably linked to administrative and political decentralization. However, the study focuses solely on measuring and evaluating the degree of fiscal decentralization in Vietnam during the past period. This limitation is common to most studies on fiscal decentralization due to the scarcity of detailed data. Hence, future research should expand the scope to assess fiscal decentralization within the context of administrative and political decentralization to gain a more comprehensive understanding of its true nature and impact.

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