Abstract of Doctoral Dissertation
Public Debt Sustainability for Development in Vietnam

Doctoral Program in International Relations
Graduate School of International Relations
Ritsumeikan University
ファン　ティ　フォン　タオ
PHAM THI PHUONG THAO

Public debt and its impact on economic growth have been taken into consideration, not only by advanced countries but also by developing countries, especially after the Global Financial Crisis in 2008 and the European sovereign debt crisis in 2011. Although Vietnam has not faced public debt liquidity and solvency risks for the past two decades, the public debt-to-GDP ratio, which has been at its highest compared to other ASEAN countries recently, and persistent fiscal deficits over the years have risen great concerns about the long-term sustainability of the current public debt and fiscal position.

Empirical analyses on the public debt issues of Vietnam remain relatively limited. This research serves as a first attempt to comprehensively examine the effect of public debt on the economic growth of Vietnam throughout the periods of 1995-2018 and 2005-2018, while also simulating the public debt-to-GDP ratio for the next 10 years (2019-2028) in order to provide policy recommendations for Vietnam to achieve sustainable growth in the medium to long-term. Based on the Panel Generalized Method of Moments (GMM) estimation, which samples five ASEAN countries including Vietnam, the research results show that public debt has had a significant and positive effect on GDP growth over the past 23 years. This finding reflects the fact that accumulated debt is not oversized and government borrowing to finance increasing demands for public spending has a beneficial impact on the productivity growth of Vietnam. In addition, based on numerical simulations for tax revenue and government expenditure, the results suggest that the estimated public debt will be in the range of 55-63% of GDP by 2028, indicating that public debt in Vietnam will remain sustainable over the next decade.

It follows from this study that the Vietnamese government should undertake reforms with a focus on debt management to achieve sustainable development objectives. Specifically, the current priorities of the government are: (i) to keep the share of government bonds and short-term bonds owned by domestic financial institutions at a high level compared to that of foreign investors in order to reduce the risks of external borrowing, and (ii) to design a long-term plan to maintain fiscal stability, which helps the economy avoid negative fiscal shocks in the future. To this end, this study proposes two main recommendations as follows. First, avoiding the risk of a capital account crisis requires maintaining capital management and controls. Second, tax systems should be reformed to realize more progressive tax regimes in accordance with reducing heavy reliance on FDI, while increasing corporate income tax rate on domestic enterprises and raising personal

income tax rate on wealthy individuals in order to redistribute income and enhance long-term economic growth.