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# The Impact Of State Budget Revenue On Economic Growth

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## **Abstract**

*The study of the impact of state budget revenue on economic growth has an important role in evaluating state budget revenue effectiveness. The article evaluates the state budget revenue and tests the impact of state budget revenues on Vietnam's economic growth. With data collected for Vietnam from 1990 to 2019. The research variables are state budget revenue and Exchange rate, net domestic investment growth with the stationary test, and Autoregression distribution lag regression (ARDL). The ARDL model analysis results show that in the short-term, state budget revenue and exchange rate have a negative impact on the economic growth of Vietnam. In the long-term, state budget revenue and net domestic investment growth have a positive impact on economic growth, while the exchange rate does not affect economic growth. From these research results, the author also gives some policy implications based on state budget revenue, exchange rate, and net domestic investment growth to promote Vietnam's economic development sustainably.*

**Keywords:** *budget revenue, economic growth, state budget revenue, Vietnam*

## **1. INTRODUCTION:**

In Vietnam, according to the Law on State Budget (2015), state budget revenues include: (1) All revenues from taxes and fees; (2) All charges collected from service activities performed by state agencies, in case of contracting operating expenses, they may be deducted; charges collected from service activities paid to the state budget by public non-business units and state enterprises by law; (3) Non-refundable aid of governments, organizations, and individuals overseas to the Government of Vietnam and local governments; (4) Other revenues as prescribed by law.

Although the global trade context continues to decline in recent years, the estimation and implementation of the state budget in Vietnam have achieved positive results. In 2019, the estimated state budget revenue reached 1,549.5 trillion VND, exceeding 138.2 trillion VND (+ 9.79%) of the estimate, an increase of 8.7% compared to the implementation in 2018. Notably, the State budget revenue structure continues to change towards a more sustainable direction, the proportion of domestic revenue increases gradually, from about 68% on average in the 2011-2015 period to above 82% in 2019; The dimension of crude oil revenue

decreased gradually, from an average of about 13% in the 2011-2015 period to about 3.6% in 2019. On import and export, this activity's balance revenue had decreased from 18.2% on average in 2011-2015 to 13.9% in 2019. As a result, economic growth in 2019 will reach 7.02%, and this is the second consecutive year that Vietnam's growth has been over 7% since 2011, with the average consumer price index remaining at around 4%. To achieve the growth target in the coming years, the approved state budget balanced revenue estimate is 1,512.3 trillion VND, with the domestic revenue increasing by nearly 3% compared to the 2019 estimate.

However, developing a reasonable fiscal policy requires a thorough and scientific understanding of the relationship between state budget revenue and economic growth, from which it can be clearly determined. Reasonable revenue tissue and structure to achieve specific socio-economic development goals. The increasing scale of revenues puts pressure on implementation but tax adjustments or other components also directly influence household savings decisions, labor supply, and decision making. Investing in companies' human resources for production, job creation, R&D, and investor selection of savings channels (Johansson, 2008).

Both theory and empirical evidence recommend that a change in income taxes or taxes on property or consumption can either promote or inhibit growth (Barrios and Schaechter, 2008). Analyzing data from many countries over the period 1990-1997, Lee and Gordon (2005) show that a 10% reduction in corporate income tax can increase annual economic growth by 1% to 2%. In contrast, according to Afonso and Furceri (2010), the size and volatility of indirect taxes and social contributions have a significant negative effect on the growth of OECD countries and the European Union. Meanwhile, most domestic studies only focus on economic growth as a determinant of the size of state budget revenue or the impact of public expenditure on economic growth. Still, there is no single study in-depth analysis of the impact of revenue activities, on revenue size and structure, on the socio-economic development indicators

The issue of ensuring socio-economic development resources, contributing to promoting fast and sustainable economic growth, has always been one of the State's top concerns in Vietnam. However, the mobilization of resources, especially state budget resources for socio-economic development goals, still poses several problems that need to be solved, originating from many reasons: (i) The development of the economy. There are still many challenges such as national competitiveness improves slowly and seems unsustainable, the decline in skills, institutions, infrastructure, innovation capacity; (ii) The issue of mobilizing budget resources for sustainable development is still facing many difficulties.

Thus, derived from the arising practice as well as the development orientation of socio-economic goals and the issue of ensuring budget resources to meet those socio-economic goals, Vietnam must mobilize resources is to determine an appropriate scale of budget mobilization, promote the role of revenue sources, taxes, ensure the rationality of revenue structure and the sustainability of state budget revenue is essential.

## 2. LITERATURE REVIEW

The state budget is a centralized financial fund of the state used to operate the apparatus and finance development projects. According to the State Budget Law (2002), the state budget is all revenues and expenditures of the state in the budget estimate that have been decided by the competent state agency and made in one year to ensure the implementation of the functions and duties of the state (State Budget Law, 2002). The state engages in the production and supply of public goods and services, promotes commercial activities, prints cash circulating in the country, and introduces fair competition protection and anti-poisoning laws (Abiola and Asiweh, 2012). The decision to collect or spend the budget is an important part of each government's fiscal policy overall economic, political, and social activity, with the ultimate goal of maximizing welfare for all citizenship (OECD, 2008). To perform this function, the government requires many financial resources, thereby setting the revenues (taxes and non-taxes) contributed by citizens to form a centralized monetary fund. And this activity is known as state budget revenue. In Vietnam, from a legal perspective, state budget revenues include amounts mobilized by the state into the state budget to satisfy the spending needs of the state, without being bound by the liability to repay the applicant directly. According to the current State Budget Law, state budget revenues include taxes, fees, and charges, revenue from state economic activities, contributions from organizations and individuals, aid, and other revenues as provided for by law.

State budget revenues can be classified into taxes and non-tax (Illyas and Siddiqi, 2010). Taxes are the first and most important component of government revenue. Tax is a compulsory payment to the state as required by law for legal entities and natural persons based on non-refundable direct. Taxes raised by the government are used to provide the general good of all in public welfare co-operation, without guaranteeing any direct benefits to the taxpayer. In other words, tax reflects the processes of income redistribution in society, presents the financial relationships between the state and legal entities and natural persons, and is the state's basic tool for the harmonious settlement of economic interests. The government collects taxes directly or indirectly: Direct taxes include corporate tax, personal income tax, capital interest tax, and property tax. Indirect taxes include customs duties, central excise tax, value-added tax (VAT), and service tax (Chaudhry and Munir, 2010). Non-tax revenue includes government revenues from sources other than taxes such as fees, profits from public enterprise business, contributions, grants

Many studies have tested the relationship between state budget revenue and economic growth. Research shows that there is a positive effect of budget revenue on economic growth (Iulia Roşoiu, 2015). Also, research shows a two-way causal relationship between economic growth and government expenditure but a one-way causal relationship between tax collection and government spending. Furthermore, there is no causal relationship between economic growth and tax revenues (Gurdal et al., 2020). Therefore, for a developing country like Vietnam, it is necessary to have specific studies to evaluate the efficiency and impact of state budget revenue on economic growth.

### **3. CURRENT STATE OF STATE BUDGET REVENUE AND ECONOMIC GROWTH IN VIETNAM FROM 1990 TO 2019**

#### ***3.1. Mobilizing taxes, fees, and charges into the state budget***

With the improvement of the institutional system and legal framework, the budget collection policy is built in the right direction of tax and fee system reform, ensuring equity and expanding the revenue base, thereby motivating reasonable and timely resources for the state budget.

First, the scale of state budget revenue is increasingly expanding, better reaching the needs of state budget spending, contributing to promoting economic development, ensuring social security, and creating jobs.

Total state budget revenue averaged 26.34% of GDP in the 2006-2010 period (the planned target is 20-21% of GDP) and an average of 23.56% of GDP in the 2011-2015 period (the planned target is 23 - 24% of GDP) In the period of 04 years 2016 - 2019, the total state budget revenue averaged 25.32% of GDP and in absolute terms, the total state budget revenue realized was well above the estimate decided by the National Assembly ( in 2016 exceeded about 93 trillion VND; in 2017 exceeded about 81 trillion VND; in 2018 exceeded 105 trillion VND<sup>1</sup>, in 2019 was estimated to exceed 138.2 trillion VND<sup>2</sup>).

Total revenue from taxes, fees, and charges averaged 23.63% of GDP in the 2006-2010 period, and averaged 21.7% of GDP in the 2011-2015 period (planned target is 22-23% of GDP). In the 4 years 2016-2019, the total revenue from taxes, fees and charges averaged about 22.4% of GDP (the target for the whole period 2016-2020 is 21-22% of GDP). Specifically, in 2016, mobilization into the state budget is estimated at 24.6% of GDP, of which mobilization of taxes, fees, and charges is estimated at 22.15% of GDP. In 2017, mobilization into the state budget is estimated at 25.8% of GDP, of which mobilization of taxes, fees, and charges is estimated at 23.1% of GDP. In 2018, mobilization to the state budget is estimated at 25.67% of GDP, of which taxes, fees and charges are estimated at 22.82% of GDP. In 2019, mobilization into the state budget is estimated at 25.17% of GDP, of which mobilization from taxes, fees and charges is estimated at 21.68% of GDP. The average annual growth rate of tax, fee and fee revenues reached about 12.06% in the period 2011-2015. On average, in the four years of 2016-2019, the growth rate of tax, fee and fee collection will reach 9.89% / year. This is a decent growth when the economy still facing many difficulties.

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<sup>1</sup> Figures for 2018 are second estimates.

<sup>2</sup> The data for 2019 are the number of industry conference reports of the Ministry of Finance

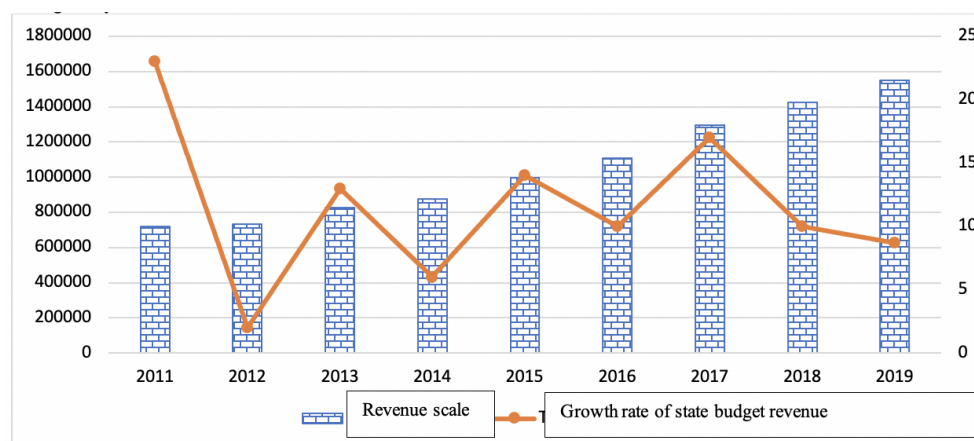


Figure 1. Revenue scale (billion VND) and growth rate of state budget revenue in the period 2011-2019 (%)

Source: Calculated according to data from the Ministry of Finance

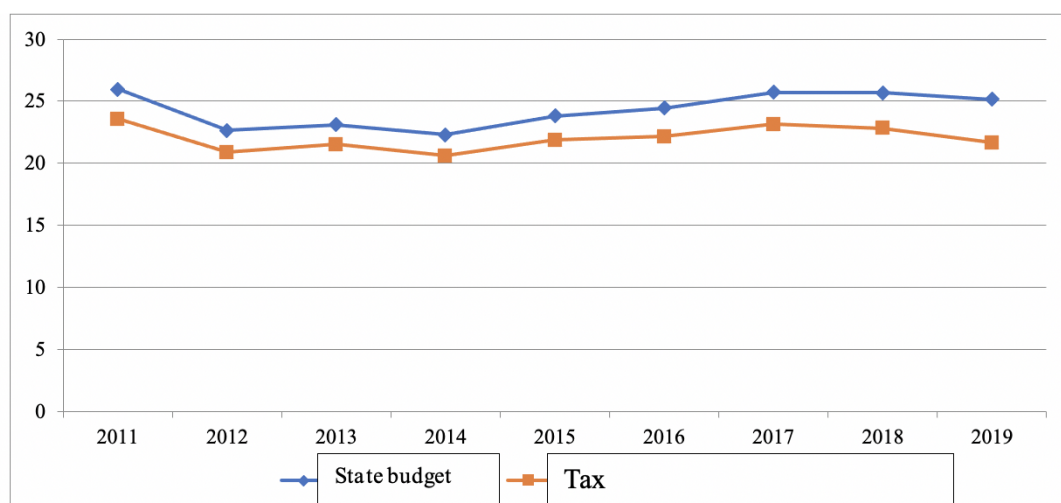


Figure 2 Size of state budget revenue (% GDP)

Source: Calculated according to data from the Ministry of Finance

Second, the state budget revenue structure has shifted towards a more sustainable direction: increasing the proportion of domestic revenue, gradually reducing the dependence on income from mineral resources (crude oil), and revenue from import-export activities. The proportion of domestic revenue (excluding crude oil) in total state budget revenue has increased from an average of 57.8% in 2006-2010 to 67.5% in 2011-2015 and to 81.04. % for the period 2016-2019. In 2015, the proportion of domestic revenue (excluding crude oil) in total state budget revenue reached 75.1% (the target is over 70%), by 2019 it will increase to over 82% (meanwhile it is targeted to reach over 80% of the total state budget revenue by 2020), this is quite an impressive result when it is forecasted that the abilities will exceed the planned targets. The proportion of domestic revenue compared to total state budget revenue increased continuously over the years in the period 2011-2019 largely thanks to the high revenues from the production and business sector. The proportion of revenue from the business sector in the

total domestic revenue from production and business accounts for an average of about 76%, of which revenue from the SOE sector still values for the largest proportion of the total domestic revenue, at average about 34.5%, revenue from the foreign-invested sector accounts for an average of 21.1% of total domestic revenue, revenue from non-state-owned enterprises accounts for 21% of total domestic revenue on average. It can be seen that, thanks to the implementation of tax incentives, production and business activities of enterprises are more favorable, thereby indirectly contributing back to the state budget.

The share of crude oil revenue in the four years 2016-2019 decreased to about 4% of the total state budget revenue, compared with the average of 13.4% in the 2011-2015 period and 19.96% in the 2006-2010 period. Oil revenue declined due to low crude oil prices and efforts to restructure the economy through reducing dependence on natural resources, including crude oil. The proportion of balance revenue from import-export activities over total state budget revenue decreased from 20.06% in the 2006-2010 period to 17.7% in the 2011-2015 period and about 14.5% in the 2016-2019 period. The proportion of revenue from export and import activities in recent years has decreased because Vietnam has accelerated international economic integration and implemented tariff reduction according to the plan.

### ***3.2. Limited performance of state budget revenue***

Although the size of budget revenue has annual growth and the state budget structure has shifted towards a more sustainable direction, certain limitations still exist. Specifically:

First, the growth rate of total state budget revenue tends to slow down. If the growth rate of total state budget revenue in the 2006-2010 period reaches an average of 21.21% per year, in the period 2011-2015, the growth rate will be only 11.38% / year, and to the period 2016-2019, it is 11.6% / year. The growth rate of domestic revenue (excluding revenue from crude oil) also tends to slow down, if in the period 2006-2010, the average domestic revenue growth rate is 25.93% / year, then in 2011-2015, the average rate is about 15% / year, in the 4 years of 2016-2019, the average rate is about 14.23% / year. The growth rate of revenue from taxes, fees, and charges in the 2006-2010 period averaged about 20.6% / year. But in the period 2011-2015, it reached an average of about 12.06% / year. And in 2016-2019 averaged about 9.89% / year. Compared with the target in the Tax System Reform Strategy to 2020 that in the period 2011-2015, the average annual growth rate of tax, fee, and fee revenues is 16-18% per year. Implementation is not reaching the target.

Second, although Vietnam is gradually reducing its dependence on crude oil revenues and income from import and export activities, in the context of deep international economic integration, oil prices fluctuate. Therefore, crude oil revenue is difficult to predict (increase/decrease erratically), creating pressure on the sustainable resource mobilization for the state budget. On the other hand, the proportion of revenue from export and import activities is still high, nearly 14.5% of total state budget revenue. Revenue from crude oil remains at about 4% of total state budget revenue in the 2016-2019 period.

Third, the structure of domestic revenue has not ensured sustainability. It has not followed up with international mobilization trends. Revenue efficiency is still limited while not creating a driving force to support the private sector's development. (Revenue from the SOE sector still



accounts for a large proportion of the total state budget revenue compared with revenues from the FDI sector or the non-state enterprise sector).

Fourth, the tax revenue structure does not have a reasonable balance between direct taxes and indirect taxes. Currently, the state budget revenue from taxes is relying on indirect taxes such as VAT. The level of mobilization from VAT is quite high (in the 2011-2015 period, it averaged about 25.78% of the total state budget revenue. The period 2016-2018 averaged about 24.8% of the total state budget revenue). Revenue is reduced from some other revenues, such as revenue from import taxes and crude oil revenues. Meanwhile, the level of incentives from corporate income tax (excluding crude oil) compared to the level of mobilization from VAT is much lower (in the period 2011-2015, about 16.1% of total state budget revenue and in 2016-2019 period about 14.5% of total state budget revenue) due to the reduction of corporate income tax rates to compete with other countries in the region. This has reduced the progressivity of the Vietnamese tax system. However, the possibility of continuing to increase the level of mobilization from these taxes is minimal as the revenue scale has approached the threshold, hindering the recovery and growth of the economy, straightforward taxes, such as corporate income tax.

In recent years, although the tax revenue structure is being improved positively, the proportion of indirect taxes plays an increasingly important role in mobilizing resources for the state budget. It also shows that the tax system is more burdensome for low-income earners. Compared with the target in the Tax System Reform Strategy for the period 2011-2020 as “Period 2016-2020: rate of mobilization of state budget revenue and the rate of mobilization from taxes, fees, and charges to GDP in the level is reasonable to reduce tax incentives per unit of goods and services to encourage competition and accumulate capital for production and business”, the incentive level from indirect taxes is too high.

Fifth, for direct taxes, except for corporate income tax, the income from other income taxes is still very modest. The ratio of personal income tax revenue to total state budget revenue is currently about 6.6% in the 2016-2019 period.

Vietnam has not had a Law on Property Tax. Still, there are several taxes look like, such as property tax such as agricultural land use tax, non-agricultural land use tax ... with revenues accounting for about 0.2% of total revenue from taxes, fees, and charges in the period 2011-2015 and 0.12% in the period 2016-2019 (equivalent to 0.04% of GDP and 0.03% of GDP, respectively). Meanwhile, in other countries around the world, the real estate tax revenue accounted for a much higher proportion in the period 2012-2017 (Philippines: on average about 0.4% of GDP, 2.2% of total tax revenue; Indonesia: average about 0.23% of GDP, 1.85% of total tax revenue; Singapore: average about 1.03% of GDP, 7.63% of total tax revenue; Thailand: the average of about 0.2 % GDP, 1.21% of total tax revenue; in OECD countries: average 1.1% of GDP and 5.58% of total tax revenue ...). The reason is: the scope of taxable objects is narrower than international practice; The taxable price is based on the land price list for the land use purpose regulated by the Provincial People's Committee and is stable over a 5-year cycle, lacking flexibility; The tax rate is still low, no progressive tax rates apply, and a higher tax rate is applicable to land without buildings or houses or abandoned

land. The budget revenue from agricultural land use tax is meager and almost negligible due to the policy of exempting and reducing agricultural land use tax.

#### 4. METHOD

##### 4.1 Research model

Based on research objectives and previous studies, the research presents ARDL research model with key variables such as GDP growth and State budget revenue (Gurdal et al. 2020; Roşoiu, 2015) and control variables including Net domestic investment growth references Adams (2009) and exchange rate references from Rodrik (2008). The model is presented as follows:

$$\Delta GDPG_t = \alpha + \beta \sum_{i=1}^k \Delta EXR GDPG_{t-i} + \rho \sum_{j=1}^n \Delta RVE_{t-j} + \varphi \sum_{i=1}^n \Delta GDIG_{t-i} + \gamma \sum_{j=1}^k \Delta EXR_{t-j} + \omega RVE_t + \delta GDIG_t + \theta EXR_t + \varepsilon_t$$

The variables are descriptions in table 1

Table 1 Define variables

Variable name	Content	Reference
GDPG	GDP growth (% over the same period);	Gurdal et al (2020); Roşoiu (2015)
REV	State budget revenue	Gurdal et al (2020); Roşoiu (2015)
GDIG	Net domestic investment growth (% for the same period)	Adams (2009)
EXR	Exchange rate (VND / USD, end of the period)	Rodrik (2008)

##### 4.2 Stationary test

With time-series data, to ensure reliable data and no spurious regression occurrence, stationarity testing should be applied to research variables (Gujarati, 2003; Nguyen, 2014; Pham & Pham, 2020; Ho, 2020). The most commonly used stationary test is the Augmented Dickey-Fuller test, which will be implemented in this study.

##### 4.3 Regression

The stationary variables will be included in the ARDL model analysis to consider the short-term and long-term relationship of the variables to economic growth. The automatic optimization of the optimal latency applied on the STATA 15 software will reduce the step of finding the optimal delay. After running the ARDL model, the ARDL model's sustainability tests, such as Pesaran, Shin, and Smith bounds test, will be performed.



## 5. RESULTS

### 5.1 Description

Data are collected on the world bank report and the Ministry of Finance of Vietnam from 1990 to 2019. The mean of REV value is 16.36, of which the largest is 31.3, and the smallest is 1.81. The results show that the mean of GDPG for the whole period was 7.01, of which the largest was 9.54 and the smallest was 4.77. The mean of GDIG at 9.68, with the largest being 26.8 and the smallest being -6.84. The mean of EXRG was 3.01, the biggest was 13, and the smallest was -0.33. The details of the variables are described in table 1.

Table 2 Descriptive

Variable	Obs	Mean	Std. Dev.	Min	Max
GDPG	26	7.01	1.28	4.77	9.54
GDIG	26	9.68	6.07	-6.84	26.8
EXRG	26	3.01	3.42	-0.33	13
REV	26	16.36	8.4	1.81	31.3

### 5.2 Stationary test

The variables in the model are mixed stationary. Variables such as GDPG, GDIG, and REV stationary at I (0), while EXRG is stationary at I (1). With this feature, the use of the ARDL method is suitable.

Table 3 Stationary test

Variable name	ADF-stats	p-value
GDPG	-3.896	0.0123
GDIG	-4.057	0.0073
EXRG	-3.336	0.0605
REV	-5.045	0.0002
<b>First difference</b>		
EXRG	-5.332	0.0000

After the stationary test for the variables was performed, the ARDL model was implemented and obtained the following results:

Table 4 ARDL model

	$\Delta$ GDPG	Beta	Std. Err.	t	p-value
<b>ADJ</b>					
	$GDPG_{t-1}$	-0.664	0.126	-5.290	0.000
<b>Long -run</b>					
	REV	0.080	0.027	3.010	0.009
	GDIG	0.126	0.036	3.530	0.003
	EXRG	0.012	0.109	0.110	0.914
<b>Short-run</b>					
	$\Delta$ GDPG <sub>t-1</sub>	0.303	0.150	2.020	0.061
	$\Delta$ REV	-0.046	0.015	-3.120	0.007

	$\Delta REV_{t-1}$	-0.012	0.009	-1.280	0.219
	$\Delta EXRG$	0.001	0.056	0.010	0.992
	$\Delta EXRG_{t-1}$	-0.091	0.042	-2.170	0.046
	_cons	2.858	0.821	3.480	0.003
Pesaran, Shin, and Smith bounds test			<0.00		

The chosen ARDL model is ARDL (2,2,0,2) with  $R^2$ -adjusted = 0.7049. Include: The coefficient of the error adjustment component,  $ADJ = -.664 < 0$  is statistically significant. This coefficient indicates the time required for the relationship to adjust to equilibrium. In addition,  $ADJ$  coefficient  $< 0$  also shows that the model is a convergent and co-integration relationship exists between chains. The results of the Bound test according to Pesaran, Shin, and Smith (2001) at the end of the result table also show that exists a co-integration relationship in the model. Thus, the use of the ARDL model is determined to be appropriate.

When the change in total budget revenue, exchange rate, or domestic investment affects the economic concentration and leaves this relationship out of equilibrium, it will be 0.66 years for the relationship to return to equilibrium.

In the long run, changes in total budget revenues and net domestic investment growth have a positive effect on economic concentration. This result shows that state budget revenues and net domestic investment growth help adjust the economy to develop in a long-term strategy. Good budget revenue and net domestic investment growth policy will bring advantages for economic growth when the state has a budget for Vietnam's investment and development. However, there is no evidence to show that changes in the exchange rate affect economic concentration in the long term. It can see that the exchange rate is a factor that does not help the economy to develop in the long term. A strategy based on exchange rate adjustment does not bring positive results for the economy in the long term.

In the short term, the economic concentration in the previous year promotes the current economic concentration. However, the increase in the total budget revenue of the previous year and the change in the increasing exchange rate (unstable) have a negative impact on the current economic concentration. This result indicates ineffectiveness in state budget revenue has led to a negative impact of the budget revenue on Vietnam's economic growth in recent years.

## 6. CONCLUSION

The negative impact of state budget revenue on economic growth in the short-term and the positive impact of budget revenue on economic growth in the long-term show that the need to change state budget revenue in the short term is positively impacting the economy. Simultaneously, the positive effects of state budget revenue on economic growth in the long-term help policies that focus on state budget revenue bring importance and significance to economic development. To reach resources for sustainable and inclusive development in the context of a decreasing number of revenue sources, especially revenues from international trade, it is necessary to synchronously implement solutions to consolidate revenue sources, building a sustainable state budget revenue structure, specifically:

Synchronous tax policy system reform, maintaining a competitive tax policy system, supporting growth with reasonable tax rates, wide tax base, line with the reform trend taxes in the region and around the world; ensure transparency, openness, and neutrality of the tax system. Research to adjust the corporate income tax rate for SMEs at a lower rate than the normal tax rate to implement the Law on SME support, contributing to promoting the development of the SME sector, while encouraging households and individuals to experience business model shifted to enterprises, thereby helping to expand the tax base.

Establish a more reasonable state budget revenue between indirect taxes and direct taxes. Study to expand the subjects of special consumption tax for goods and services that discourage production and consumption. At the same time, research has policies to mobilize the budget from potential revenue sources such as property taxes, revenues related to natural resources, and state assets to have more economic restructuring resources, and implementation of state budget restructuring; mechanisms to deal with problems related to tax base erosion (such as participating in the BEPS initiative).

Reviewing to simplify tax incentives, ensuring the implementation of preferential policies is selective and associated with industry and field development orientations; evaluate tax incentives' effectiveness before promulgation (such as establishing a mechanism to collect information so that tax authorities have conditions to develop tax expense reports).

Strengthening tax administration efficiency, strengthening tax authorities' capacity to deal with issues related to anti-tax losses, strictly managing tax refunds, ensuring the right subjects, books, and laws of the State, focusing on handling and collecting tax arrears.

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