

THE ROLE OF FISCAL POLICY IN ECONOMIC STABILITY AND DEVELOPMENT: THE CONTEXT OF VIETNAM

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ABSTRACT

This paper examines the role of fiscal policy in stabilizing and developing the economy of Vietnam. The study clarifies the basic concepts of fiscal policy and analyzes the current policy tools, including public expenditure, taxation, tax exemptions, and government bond financing. Budgetary revenue-expenditure data, fiscal deficits, and public debt are used to evaluate the current state of fiscal management in Vietnam, highlighting issues such as slow public investment disbursement and the unsustainable structure of revenue sources. Based on this, the paper proposes solutions to improve budget management effectiveness, enhance transparency, and coordinate fiscal and monetary policies, contributing to macroeconomic stability and sustainable growth.

Keyword: Fiscal policy, state budget, stability, economic development, Vietnam.

1. INTRODUCTION

In the context of a global economy subject to significant volatility, influenced by numerous large-scale shocks such as the COVID-19 pandemic, inflation fluctuations, public debt pressures, and geopolitical factors, the role of fiscal policy has become increasingly important in stabilizing and developing national economies. For Vietnam – an economy undergoing rapid transformation and deeply integrating into the global economy – fiscal policy is not only a macroeconomic tool for controlling inflation and maintaining budget balance but also a driving force for growth, supporting businesses, ensuring social welfare, and guiding sustainable development.

In recent years, particularly from the post-COVID-19 recovery phase to the economic development plan for the 2021–2025 period and orientations toward 2045, Vietnam's fiscal policy has been adjusted flexibly and strategically to adapt to the new context. This necessitates a comprehensive evaluation of the concepts, roles, current situation, and future solutions to enhance fiscal policy effectiveness.

2. CONCEPT OF FISCAL POLICY

Fiscal policy is one of the essential tools for the state in managing the macroeconomy. It includes decisions regarding government revenue (taxes, fees, levies, etc.) and expenditure (public

investment, social welfare, recurrent spending, etc.) aimed at influencing aggregate demand, stabilizing the economy, and achieving sustainable development goals. This policy can be expansionary (increasing expenditure, reducing taxes during economic downturns) or contractionary (reducing expenditure, increasing taxes when the economy is overheated).

At its core, fiscal policy has two primary functions:

1. **Macroeconomic Stability:** Adjusting aggregate demand, controlling inflation, and mitigating economic cycle fluctuations.
2. **Long-term Economic Development:** Promoting public investment, improving infrastructure, supporting the business sector, and ensuring social welfare.

In economic theory, fiscal policy is divided into **automatic stabilizers** (which automatically adjust based on the economic cycle, such as income taxes or unemployment benefits) and **discretionary policy** (decided by authorities, such as tax exemptions or economic stimulus packages). Both components play a crucial role in stabilizing the economy during periods of instability and integration.

3. THE ROLE OF FISCAL POLICY

3.1. Macroeconomic Stability

One of the most prominent roles of fiscal policy is to stabilize the macroeconomy. During periods of economic contraction, fiscal policy can be counter-cyclical, meaning it increases public spending and/or reduces taxes to offset the decline in aggregate demand and prevent deeper recessions. Conversely, during periods of overheating growth, taxes can be increased or spending reduced to control inflation.

In the context of Vietnam's post-pandemic recovery, flexible fiscal policies have played an essential role in supporting economic recovery, assisting businesses and individuals in overcoming difficulties, and stabilizing the macroeconomic environment. Experts suggest that the flexibility of fiscal policy, with a focus on support, has helped mitigate the negative impacts of economic shocks and fostered sustainable growth in 2024–2025.

3.2. Promoting Growth and Investment

Fiscal policy plays a critical role in activating growth drivers, particularly through public investment in infrastructure, education, and energy. Increasing funding for major infrastructure projects has a ripple effect on production and business activities, enhancing the economy's competitiveness.

For instance, Vietnam's public investment plan in recent years has been maintained at a high level to promote the implementation of strategic, long-term infrastructure projects. This is one of the key fiscal tools aimed at achieving rapid, sustainable growth while addressing infrastructure bottlenecks.

3.3. Supporting Businesses and Social Welfare

Fiscal policy is also a vital tool for supporting the business sector, especially during challenging times. Measures such as tax exemptions, reductions, and deferrals for businesses and citizens have been implemented in recent years to sustain production and business activities, reduce costs, and support employment. In addition, social welfare spending—such as healthcare, education, and unemployment support—helps maintain social stability and serves as a foundation for sustainable development.

3.4. Controlling Public Debt and Budget Balance

Public debt management is a critical aspect of fiscal policy to ensure macroeconomic stability and national financial sustainability. Vietnam has maintained a relatively safe level of public debt (below the statutory ceiling) in recent years, which provides fiscal space for future policy flexibility while ensuring the broader economic balance.

4. CURRENT FISCAL POLICY IN VIETNAM

4.1. Prudent Expansionary Fiscal Policy

In recent years, the Vietnamese government has implemented a prudent expansionary fiscal policy, focusing on supporting economic growth while ensuring fiscal efficiency. For example, according to Official Dispatch No. 159/CD-TTg, fiscal policy has been adjusted to meet the economy's capital needs, control inflation, ensure major balances, and increase state budget revenue.

4.2. Tax Exemptions, Reductions, and Extensions

Tax exemptions, reductions, and extensions for businesses and individuals have been key fiscal tools used to support production and business activities, reduce costs for businesses, and stimulate economic recovery after the pandemic. These policies have helped alleviate the financial burden on various sectors of the economy during difficult periods.

4.3. Public Investment and Development Expenditure

Vietnam has maintained high levels of public investment to develop strategic infrastructure, laying the foundation for long-term sustainable growth. Fostering public investment disbursement, with a focus on key projects, has become a central aspect of fiscal policy to create a ripple effect throughout the economy.

4.4. Restructuring Tax Revenue Sources

Restructuring revenue sources toward sustainability, broadening the tax base, and enhancing revenue collection efficiency have been key focuses of current fiscal policy. This is necessary to ensure stable financial resources for economic development in the medium and long term.

5. THE STATE OF FISCAL POLICY IN VIETNAM

5.1. Budget Revenue and Expenditure Situation

- **Revenue:** According to estimates from the Ministry of Finance, total state budget revenue in 2024 exceeded projections by approximately 19.1%, reaching more than 2.02 trillion VND (~79.2 billion USD), a significant increase compared to the previous year, reflecting a positive recovery after the pandemic. In the first 9 months of 2025, revenue is estimated at ~1.9 trillion VND, up 27.9% from the same period, and reaching about 96% of the year's plan.
- **Expenditure:** Total budget expenditure is projected to increase by about 19%, reaching approximately 3.06 trillion VND in 2025, with development investment accounting for over 1 trillion VND (an increase of ~30% compared to the previous plan). Recurrent expenditures are tightly controlled, with priority given to key projects.

5.2. Budget Balance and Deficit

Despite the expansionary fiscal spending, the budget balance has been relatively well managed:

- In 2024, the budget deficit is estimated at 3.4% of GDP, lower than the initial plan and within the limits set by the National Assembly. For 2025, the deficit is projected to be 3.6–3.8% of GDP, considered “reasonable” in the context of prioritizing public investment and stimulating growth while maintaining fiscal stability.

5.3. Public Debt Management and Fiscal Space

Public debt management is a focal point of fiscal policy to ensure national financial safety:

- The public debt ratio remains below the ceiling set by the National Assembly at 60% of GDP, standing at around 36–37% by the end of 2024–2025. Government debt accounts for about 33–35% of GDP, still far below the permissible ceiling. The ratio of direct debt servicing to budget revenue is about 20–21%, lower than the safety threshold, helping to reduce debt servicing pressures.

6. EVALUATION OF FISCAL POLICY

6.1. Achievements

Fiscal policy has played a significant role in supporting economic recovery post-pandemic, contributing to macroeconomic stability and fostering growth.

- The public debt ratio has been maintained at a relatively safe level, ensuring fiscal space for stimulus policies.
- Fiscal support packages and tax exemptions have alleviated the difficulties of businesses and citizens, helping to sustain production, business activities, and employment.

6.2. Challenges

Despite the successes in fiscal policy implementation, Vietnam still faces several challenges:

- Slow disbursement of public investment, impacting the growth stimulation effect and public investment's contribution to GDP.
- The revenue structure remains heavily dependent on resource revenues and trade taxes, posing risks in the face of global trade fluctuations.
- Optimizing spending on long-term development goals such as healthcare, education, labor skills, and digital transformation remains a significant challenge.

7. FISCAL SOLUTIONS FOR STABILITY AND DEVELOPMENT IN VIETNAM

7.1. Enhance Fiscal Flexibility and Timeliness

Fiscal policy needs to be adjusted promptly in response to economic cycles to effectively cope with major fluctuations. There is a need to develop more sensitive **automatic fiscal tools** to respond quickly without overly relying on extraordinary policy decisions.

7.2. Improve Public Investment Efficiency

Streamlining procedures, enhancing the quality of project preparation, and accelerating public investment disbursement, focusing on projects with significant ripple effects and prioritizing

strategic sectors such as infrastructure, digital transformation, healthcare, and education, should be emphasized.

7.3. Expand the Tax Base and Improve Collection Efficiency

There should be continued efforts to **restructure revenue sources sustainably**, expand the tax base, modernize the tax collection system, minimize revenue leakage, and apply digital technologies in revenue management.

7.4. Strengthen Policy Coordination

Close coordination between fiscal and monetary policies, as well as foreign and trade policies, should be strengthened to create coherence and overall efficiency in economic management.

7.5. Promote Institutional and Transparency Reforms

Further institutional reforms in fiscal policy should be made—providing clearer regulations on budget expenditures, enhancing transparency in public financial management, improving accountability, and strengthening societal oversight.

8. CONCLUSION

Fiscal policy is an essential macroeconomic management tool, playing a central role in stabilizing the economy, stimulating growth, supporting businesses, and ensuring social welfare. For Vietnam, amidst deep integration and exposure to global economic fluctuations, fiscal policy has been and continues to be crucial in guiding sustainable development and overcoming significant challenges.

While achieving many positive outcomes, the current fiscal policy also faces challenges in terms of public investment efficiency, revenue structure reforms, and policy coordination. Therefore, solutions to enhance fiscal policy effectiveness in the future are crucial to ensuring that Vietnam's economy remains stable, flexible, and develops sustainably in the long term.

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