National Economics University

Japan International Cooperation Agency

# ASSESSMENT OF POLICIES TO COPE WITH COVID-19 AND RECOMMENDATIONS

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# ASSESSMENT OF POLICIES TO COPE WITH COVID-19 AND RECOMMENDATIONS

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Every opinion made in the report belong to the authors individually and we take full responsibility if there is any mistake.

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# POLICIES TO OVERCOME THE IMPACTS OF THE COVID-19 PANDEMIC TO RECOVER AND DEVELOP THE ECONOMY

*The current COVID-19 pandemic is posing unprecedented challenges as well as immense obstacles for the entire economy. In the recent months, the Government took decisive and appropriate steps to curb the spread of the pandemic and has achieved remarkable results. However, to be able to overcome the pandemic on both the health and economic frontiers, beside limiting the advance of the virus, it is necessary to have policies aiming to: (i) strengthen the resistance of the economy; (ii) sufficiently prepare for the scenario of a prolonged pandemic; and thereby (iii) improve the potential for a swift recovery as soon as the pandemic is contained, preventing the economy from falling into recession.*

*The National Economics University, in collaboration with JICA, conducted a policy study on the responses of the Government to COVID-19. This report focuses on evaluating the current situation and the impacts of COVID-19 on the economy and businesses, on analyzing the effectiveness of the policies that the Government has used during the pandemic. On this basis, the report will propose policy recommendations for the next stages of the recovery and development process.*

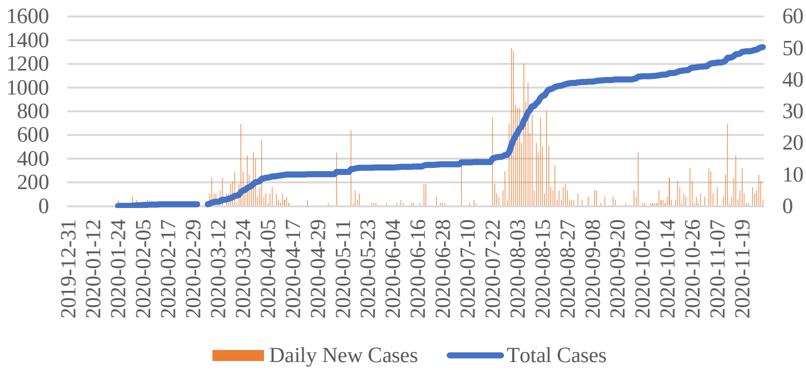
*The report consists of three main parts. The first part evaluates the impacts of the COVID-19 pandemic on the economy in the context of Vietnam through the assessment of economic growth, manufacturing production and spending factors. This section also investigates the effects of the pandemic on the business sector employing a survey conducted in Hanoi, Ho Chi Minh City and Thanh Hoa. The second part reviews the effectiveness of the government's responses to COVID-19 in 2020. In this part, there are reviews for the fiscal policy group, the monetary policy group and reviews from the perspective of affecting enterprises. The final part of the report proposes general guide for policies, short-term monetary and fiscal measures; as well as long-term recommendations to overcome the challenges of the pandemic, to achieve swift recovery and sustainable development.*

## 1. Impact of the COVID-19 pandemic to the Vietnam economy

### *1.1. The background of the COVID-19 pandemic in Vietnam*

The COVID-19 pandemic originated from China, which is the neighbor country in the North of Vietnam. Due to the geographical proximity and the vibrant activities of travelling and trade between the two countries, Vietnam was not able to avoid the impacts of the spread of the virus. The first case of COVID-19 was recorded in Vietnam on January 23, 2020 (which made Vietnam one of the first countries outside Mainland China to report a COVID-19 infection). However, due to the timely and decisive responses from the Vietnam Government, the pandemic was relatively under control in Vietnam. As a result, Vietnam significantly reduced the damage of the virus from both the health and economic perspective, especially when compared with the neighboring countries facing the same circumstances.

**Figure 1: Total number of cases and daily new cases of COVID-19 in Vietnam**




*Source: ourworldindata.com*

The development of the COVID-19 pandemic in Vietnam could be briefly divided into four main phases:

- Phase 1: Since the first case was registered on January 23. In this period, Vietnam recorded 16 cases of the disease, all directly related to Wuhan, China. All the cases were completely cured with no casualty.

- Phase 2: Since the 17th case was registered on March 6. At this point of time, the pandemic had spread all over the world, infection sources then included multiple countries from Europe and America. The number of people who were infected or suspected to be infected increased sharply, which required drastic measures from the State. From March 22, the Vietnam Government suspended entry for all foreigners, and at the same time required returning Vietnamese from oversea to spend 14 days in concentrated quarantine. From April 1, all of Vietnam conducted social isolation for a period of 15 days.

- Phase 3: Since the 416th case was registered in Da Nang, marking the end of the 100-day period without an infection case in the community. In this phase, Vietnam recorded the first deaths caused by COVID-19, which mainly included patients with serious underlying diseases in the Da Nang Hospital cluster.

As of November 29, 2020, according to data from the Ministry of Health, Vietnam recorded 1341 infections and 35 deaths, of which 1179 had been cured of the disease and only 124 cases were still being treated. Vietnam was undergoing a period of three months without any infection case in the community. Commercial airline routes to Vietnam from Japan and South Korea were resumed after 6 months of suspension. The outlook for an effective vaccine has become more positive as several countries have begun large-scale human trials. On the same day, Vietnam recorded the 1342nd patient, which is a community transmission case in Ho Chi Minh City. However, with timely and strict quarantine measures, the situation was efficiently managed.

**Table 1: Timeline of the COVID-19 pandemic in Vietnam**

| Date | Development |
|---|---|
| **23/1** | **Vietnam recorded the first cases of COVID-19 who were Chinese tourists.** |
| 29/1 | Vietnam recorded the first case of COVID-19 who was Vietnamese returning from Chinese. |
| **6/3** | **Hanoi recorded the first case of COVID-19 that originated from Europe.** |
| 18/3 | Vietnam decided to suspend granting visas for foreigners entering Vietnam. |
| 21/3 | Vietnam suspended entry for foreigners entering Vietnam. |
| 1/4 | Vietnam started implementing social distancing within 15 days across the whole country. |
| **25/7** | **The Ministry of Health announced the 416$^{th}$ case in Da Nang but could not trace the source of infection.** |
| 28/7 | 11 patients were recorded in Da Nang. Da Nang City started implementing social distancing. |
| 31/7 | Vietnam recorded the first death from COVID-19. |
| 5/9 | Da Nang relaxed the social distancing measure. |
| 15/9 | Vietnam officially resumed a number of international commercial flights. |

*Source: Authors' compilation*

### *1.2. The impact of COVID-19 on the whole economy*

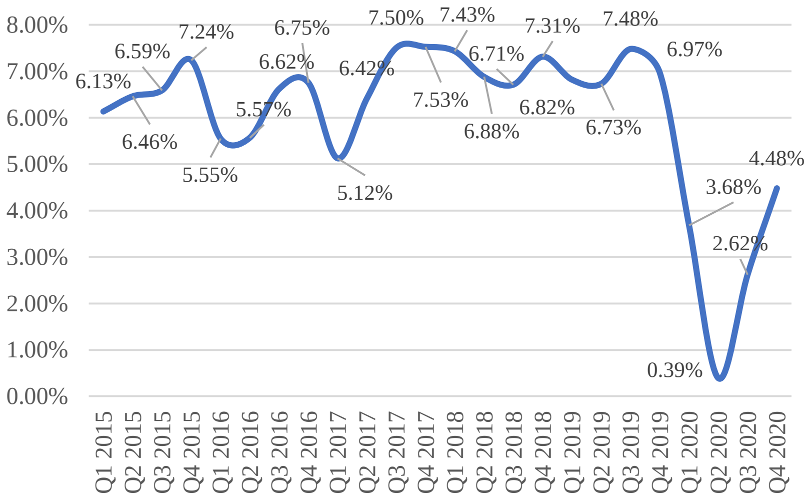
*The real sector*

a) Economic growth

Developments of the COVID-19 pandemic have a strong influence on the prospect of economic growth for Vietnam in the short and medium term. In Vietnam, 2020 has been the year when the country had to face serious natural disasters with heavy damage including several storms and floods in the Central region during the second half of the year. Despite all the difficulties, Vietnam's economic growth rate was significantly higher than the average of the region as well as of the world. This could be observed through data on quarterly GDP growth in 2020, and through the fact that the Vietnam government and many international organizations had to continuously revise the growth forecast for 2020 and 2021 during the past few months.

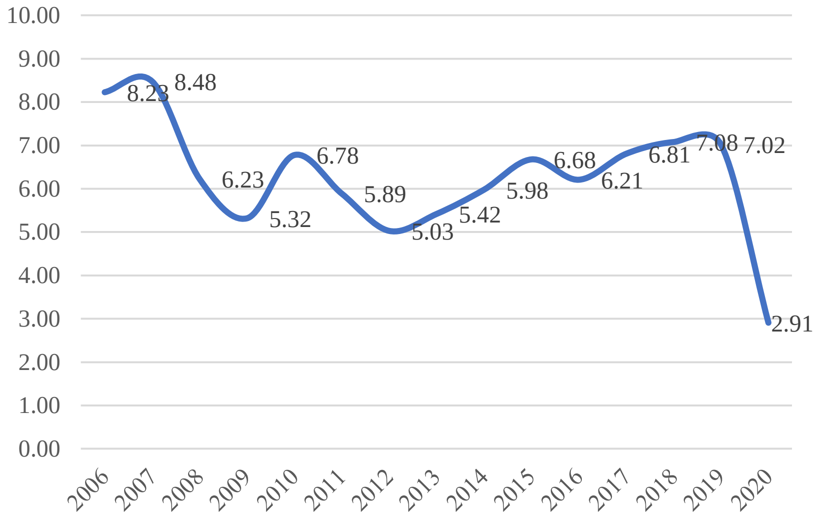
According to the General Statistics Office (GSO), Vietnam's real GDP increased by 2.91% in 2020 (in which the first quarter growth was 3.68%; the second quarter growth was 0.39%; the third quarter was 2.62% and the fourth quarter was 4.48%) which was the lowest growth rate during the past decade (2011-2020).

**Figure 2. Quarterly GDP growth rate (y-o-y)**




*Source: General Statistics Office*

**Figure 3. Annually GDP growth**



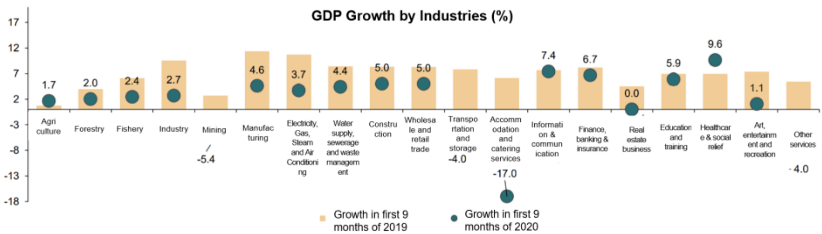

*Source: General Statistics Office*

b) Industries

Agriculture, forestry and fishery had a 2.68% growth rate in 2020 (which is a remarkable achievement compared to the growth of 0.61% in 2019); industry and construction grew by 3.98% (compared to 8.9% in 2019), service grew by 2.34% (compared to 8.3% in 2019).

Categorized by the industries, according to the GSO (2020), during the first nine months of 2020, almost all of the industries experienced a sharp decrease in growth compared to previous years, several industries even had negative growth rates, including Accommodations, food and beverage (down 17%), Mining (down 5.4%), Transportation and storage (down 4%) and Other services (down 4%). However, in some industries, the impacts were milder and bore potential for growth during the pandemic, including Health (up 9.6%), Information and Communication (up 7.4%) and Finance, Banking and Insurance (up 6.7%).

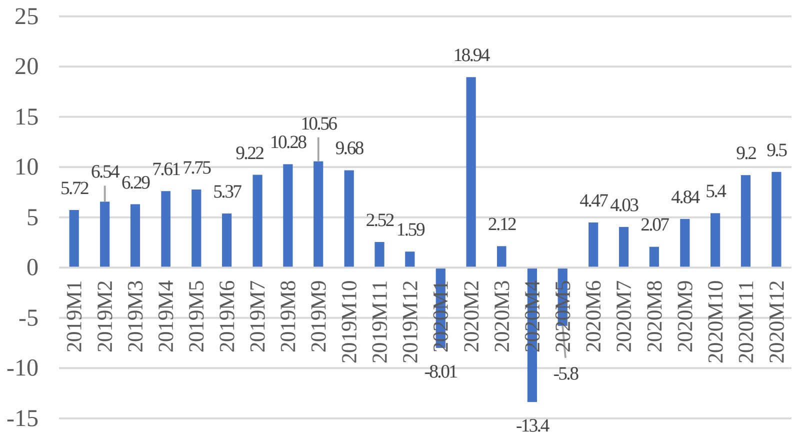
### Figure 4. GDP growth by industries




*Source: General Statistics Office*

At the same time, industrial production possessed a lower growth rate compared to 2019. The index of Industrial Production (IIP) only increased by 3.1% during the first 11 months compared to the same period last year. This is a relatively low increase compared to the relative rate of 9.3% in 2019, as the impact of the pandemic disrupted the international supply chain.

### Figure 5: Changes in the Index of Industrial Production (IIP) compared to the same month of the previous year




*Source: General Statistics Office*

Manufacturing industries, especially those that had significant contribution to Vietnam's export turnover and economic growth, including textiles, footwear, electronics, and automobile assembly were all damaged by COVID-19. These industries were deeply integrated in the global value chain, as their inputs were mainly imported from China and South Korea, while the outputs were mainly exported to the US and Europe.

Raw materials imported from China accounted for roughly 30% of Vietnam's total import turnover. Of which, the largest components were input materials for manufacturing, machinery, and equipment. Specifically, the value of imported technology, machinery and electronic equipment, phone and phone components from China accounted for 34.16%, 38.62% and 29.80% of the total import turnovers in 2019, respectively. Vietnam imported computers and electronics components from Korea, with market share of nearly 25%.

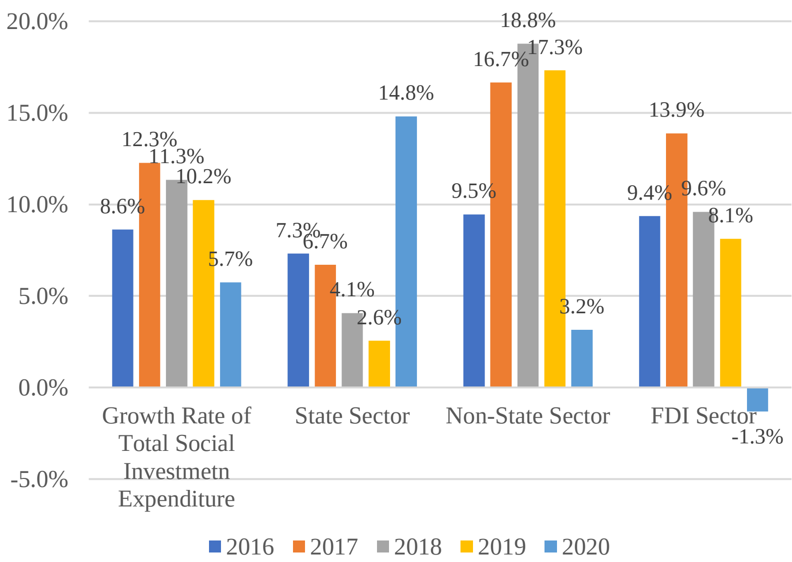
The production slowdown in China and Korea, in tandem with the restricted trade between Vietnam and the two countries in the first few months of the year when the COVID-19 pandemic broke out, interrupted the production process in the value chain. In addition, the upstream of the value chain that Vietnam participated in which is the US and Europe were also severely affected by COVID-19, making it difficult to export to these markets, leading to a decline in the export value. Thus, both the upstream and downstream of the value chain were heavily hit by the pandemic.

Currently, the severity of the COVID-19 pandemic was gradually controlled in China and Korea, as they had passed the peak of the pandemic. Therefore, the supply of imported raw materials, electronic components, and accessories for the manufacturing industries in Vietnam started to recover. The current and near-future challenge for the country was to find the markets that consume the outputs from the processing and manufacturing industries, while the pandemic situation in the US and Europe was predicted to be complicated.

c) Expenditure

In 2020, the total social investment expenditure at the current price was estimated at 2,164.5 trillion VND, up 5.7% over the same period in 2019 and equal to 34.4% of GDP. Of which, 33.7% were from the state sector, 44.9% were from the non-state sector and 22.4% are from the FDI sector. The growth rate of the non-state and the FDI sectors were significantly slower compared to the previous year (increase of 3.1% and decrease of 1.3%, respectively), clearly reflecting the impact of COVID-19 on the 2 non-state sectors. Accordingly, the government had to increase the scale and the intensity of state investment to compensate, with the growth rate of the State sector reaching 14.5% (compared to the growth rate of 2.6% in 2019).

**Figure 6: Growth rate of total social investment expenditure**




*Source: General Statistics Office*

According to the GSO’s report for the first 9 months of the year, based on the expenditure method, final consumption increased by 1.06% in 2020 (compared with 7.23% in 2019), capital accumulation increased by 4.12% (compared with 8.28% in 2019). Accordingly, final consumption grew relatively slowly and was no longer the main driver of economic growth, due to a decline in personal income and uncertainty about the future, which caused consumers to be more cautious, reducing current consumption and increasing savings.

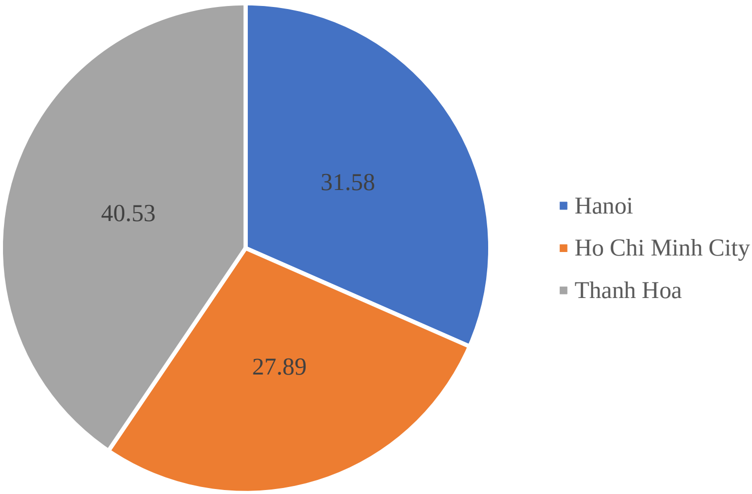
d) Business sector

<u>Sample description</u>

To evaluate the effectiveness of the policies implemented to assist the business sector, the research team conducted a survey on three provinces/cities: Hanoi, Ho Chi Minh City and Thanh Hoa, in which, Hanoi and Ho Chi Minh City were deliberately selected while Thanh Hoa was a randomly chosen province from the Central Region. The selected enterprises were from six industries that were: (1) Logistic; (2) Tourism, Accommodations, Food and Beverage; (3) Textiles and Garment; (4) Real Estate; (5) Finance, Banking and Insurance and (6) Information Technology. The research team divided the industries in the economy into three groups of two industries each based on how severe these industries were impacted by the pandemic. Accordingly, the industries that were severely affected by COVID-19 included Logistic and Tourism, Accommodations, Food and Beverage. The industries that were moderately affected by COVID-19 included Textiles and Garment and Real Estate. The industries that were given advantages by the presence of COVID-19 included Finance, Banking and Insurance and Information Technology. The survey method was direct information collection, by which the staff of the GSO came to the businesses to ask the question and record the relevant information.

The total number of firms in the sample was 380. In terms of location, 40.53% were from Thanh Hoa, 31.58% were from Hanoi and 27.89% were from Ho Chi Minh City.

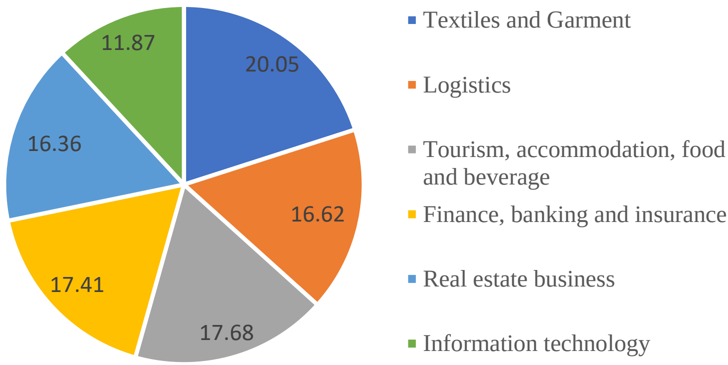
**Figure 7: The structure of the surveyed sample by locations (%)**




*Sources: Results from survey conducted by NEU team, 2020*

The selected firms were from 6 industries with relatively equal proportions: 17.68% of the firms were in Tourism, Accommodations, Food and Beverage; 16.2% were in Logistics – these industries were expected to be most heavily impacted by COVID-19; 20.05% were in Textiles and Garment and 16.36% were from Real Estate – these industries were expected to be only moderately affected by COVID-19; 17.41% were in Finance, Banking and Insurance and 11.87% were in Information Technology – these industries were considered to have relatively favorable situation during the pandemic.

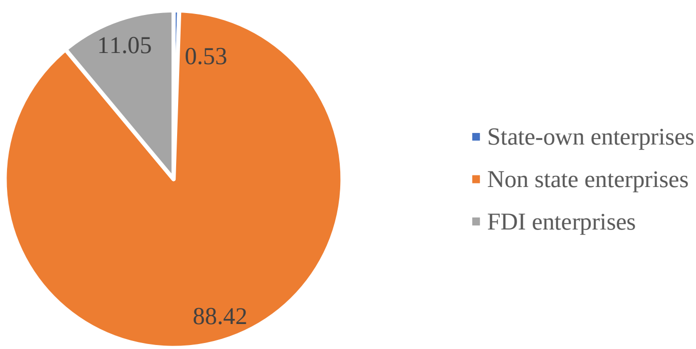
**Figure 8: The structure of the surveyed sample by industries (%)**




*Sources: Results from survey conducted by NEU team, 2020*

In terms of the business sectors, the majority of the surveyed sample were non-state enterprises (accounting for 88.42% of the sample), followed by FDI enterprises (11.05%) and only 0.53% of the sample were state-owned enterprises.

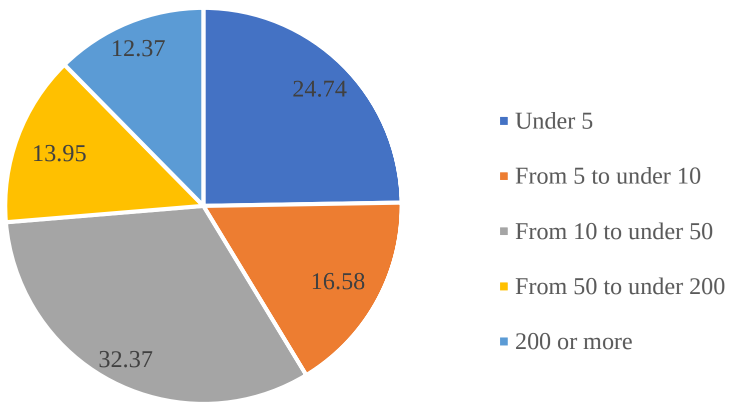
**Figure 9: The structure of the surveyed sample by business sectors (%)**




*Sources: Results from survey conducted by NEU team, 2020*

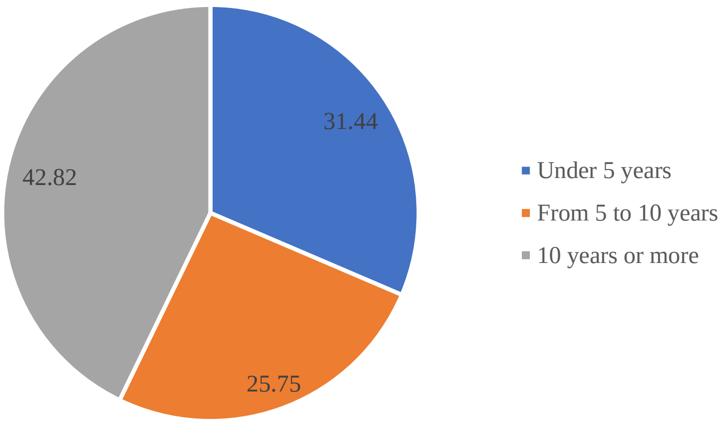
In terms of the surveyed enterprises' size, the largest proportion of the sample is small and micro enterprises with less than 50 employees (Decree 39/2018/ND-CP), that accounts for 73.69%; of which, firms with less than 5 employees account for 24.74%; from 5 to less than 10 employees account for 16.58%; medium sized enterprises (with 50 to less than 200 employees) account for 13.25% and large sized enterprises (with more than 200 employees) account for 12.37%.

**Figure 10: The structure of the surveyed sample by firm size**




*Sources: Results from survey conducted by NEU team, 2020*

**Figure 11: The structure of the surveyed sample by firm age**

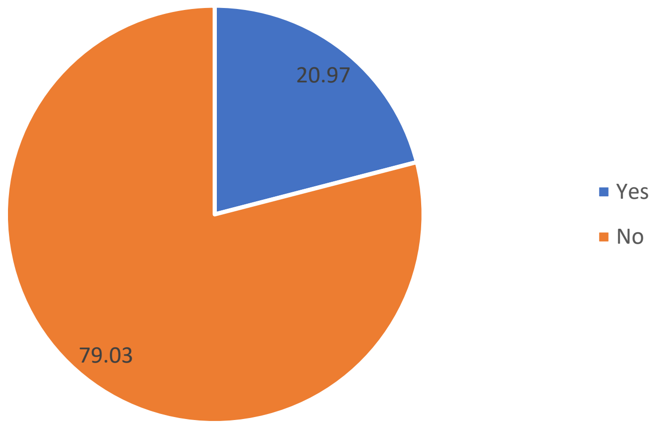



*Sources: Results from survey conducted by NEU team, 2020*

In terms of time in operation, 42.82% of surveyed firms had been operating for 5 to less than 10 years; 31.44% of enterprises had been operating for less than 5 years and 25.75% of the firms had ages greater than 10 years.

In the sample, only 20.97% of the enterprises had export or import activities and 79.03% of the enterprises did not participate in the international trade.

**Figure 12: The structure of the surveyed sample by export and import activities**




*Sources: Results from survey conducted by NEU team, 2020*

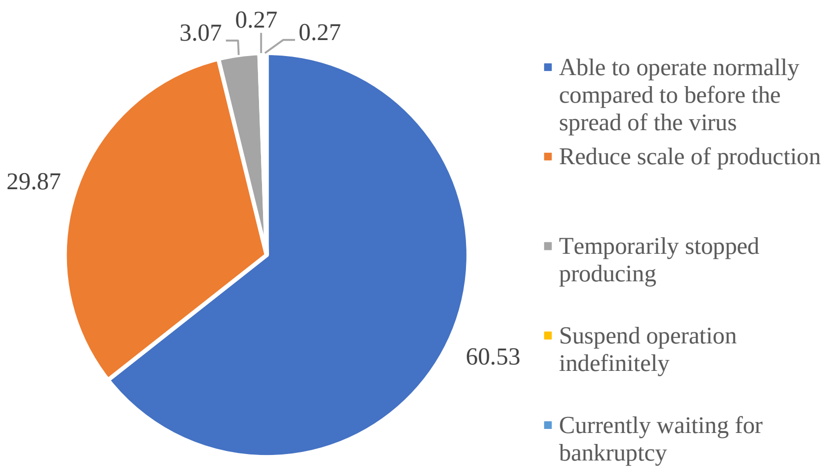
<u>The impact of COVID-19 on enterprises</u>

According to the General Statistics Office, in 2020, there are 134.9 thousand newly registered enterprises with 1043 thousand registered employees, making a decrease of 2.3% in the number of enterprises and a decrease of 16.9% in the number of employees compared to 2019. Additionally, there are 101.7 thousand enterprises that temporarily suspended their operation or were currently waiting for bankruptcy, posing an increase of 13.9% compared to the previous year. The number of available jobs decreased significantly due to the impact of the pandemic. By the end of the second quarter, the number of working laborers decreased by 2.4 million compared to the previous quarter. The general unemployment rate is at 2.26%, 0.27 percentage point higher compared to the same period last year. The unemployment rate at working ages in urban areas reached 4.46% (the highest since 2011) (GSO, 2020).

The results of the survey clearly display these impacts. In the sample, 0.27% of the firms were currently filing for bankruptcy; 0.27% suspended operation indefinitely; 3.07% temporarily stopped producing; 29.87% of business reduced the scale of production; while 60.53% of businesses were still able to operate normally compared to before the spread of the virus.

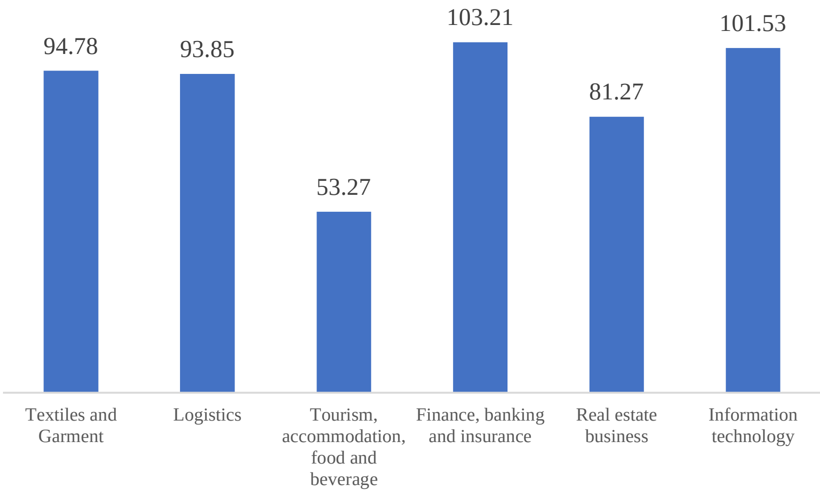
The majority of the surveyed firms had to cut the size of their labor force, of which the most severely affected are businesses in Tourism, Accommodations, Food and Beverage, whose number of employees on September 1, 2020 was only equal to 53.27% compared to the average of 2019 (meaning these businesses had to cut 46.73% of their labor force in 2020). However, in the industries of Finance, Banking and Insurance and Information Technology, the number of employees on September 1, 2020 increased compared to the average of 2019.

**Figure 13 – Situation of the impact of COVID-19 to the performance of businesses (%)**




*Sources: Results from survey conducted by NEU team, 2020*

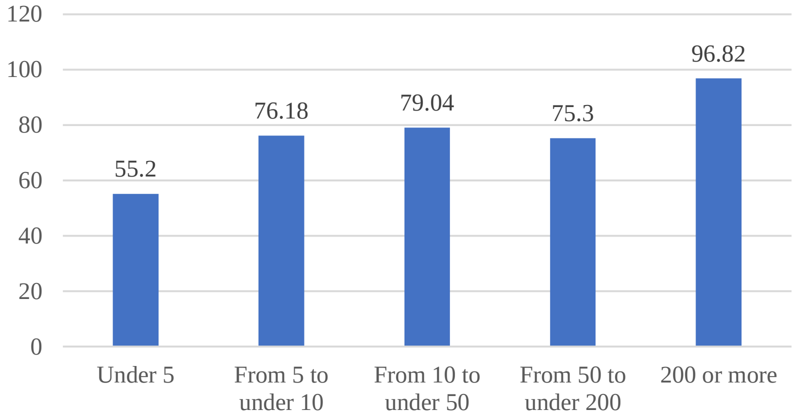
**Figure 14 – Number of employees at Sep 1, 2020 compared to the average of 2019, by industries (%)**




*Sources: Results from survey conducted by NEU team, 2020*

Comparing the impact in terms of size, it could be observed that the smaller business is, the higher proportion of labor force that they had to cut, micro-sized enterprises (with less than 5 employees) had to cut 44.80% of their labor force compared to the average of 2019, while large businesses (with more than 200 employees) had to cut only 3.18%.

**Figure 15 – Number of employees at Sep 1, 2020 compared to the average of 2019, by firm size (%)**




*Sources: Results from survey conducted by NEU team, 2020*

*The external sector*

**Figure 16: Exports, Imports, and the Trade Balance of Vietnam**

*Unit: million USD*


*Source: General Statistics Office*

Import and export turnover were heavily impacted during the first months of the year due to the difficulties that partner countries had to face. The demand for exports of Vietnam reduced leading to a decrease in the signing of new export orders. The growth rate of export turnover fell sharply in the second quarter but showed some signs of recovery in the third quarter. Export turnover in 2020 was estimated at 281.5 billion USD, up by 6.5% over 2019. The growth rate in the second half of the year was relatively optimistic, considering the fact that in the first 7 months, export turnover was at only 145.8 billion USD, up by 0.2% over the same period. Although the target of exporting 300 billion USD in 2020 could not be reached, there were also a number of export items with good short-term prospects, including food and medical equipment.

Import turnover of goods in 2020 was estimated at 262.4 billion USD, up by 3.6% over 2019. The growth rate in the second half of the year was also relatively optimistic, considering the fact that in the first 7 months, import turnover was at only 139.3 billion USD, down by 2.9% over the same period.

Trade balance of goods in 2020 was estimated to be a record 19.1 billion USD surplus (in 2019, trade surplus was 9.9 billion USD). However, this development mainly came from the fall of import turnover. This was a worrying sign as many manufacturing industries in Vietnam depended heavily on imported raw materials. For services alone, Vietnam had a trade deficit of 8.16 billion USD, which equaled to 149.2% of the service export turnover.

In the situation of foreign investment, realized FDI in 2020 was estimated at nearly 20 billion USD, down by 2% over the same period last year. As of December 20, 2020, there were 2,523 newly licensed projects, down by 35%; newly registered capital was 14.6 billion, down by 12.5%. The main reason for the fall is the bleak economic situation in the countries that invest, where businesses were facing many difficulties that led to fewer investment and expansion. Global

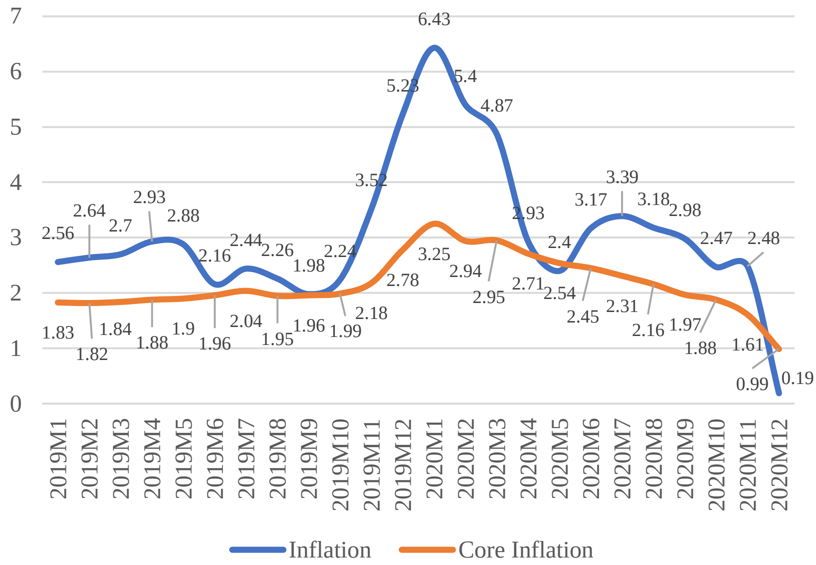
FDI flows decreased significantly, which severely impacted FDI inflows to Vietnam. However, it is forecasted that FDI inflows to Vietnam would increase in the post pandemic period due the trend of shifting production out of China.

Regarding the foreign exchange reserves, due to the record trade surplus number, supply increased in the foreign exchange markets. During the first 9 months of 2020, the State bank of Vietnam purchased 14 billion USD, supplying the market with more than 300 trillion VND, increased the foreign exchange reserves of Vietnam from 78 billion USD at the end of 2019 to a record of 92 billion USD at the end of August 2020 (in July 2020 alone, the State Bank of Vietnam purchased about 9 billion USD and did not implement any sterilization intervention). It is expected that Vietnam's reserves would reach a record of 100 billion VND at the end of the year.

*The financial sector*

Regarding the inflation situation, on average in 2020, CPI increased by 3.23% than the average of 2019 while core inflation increased by 2.31% on average. There was a significant increase in the price of food, while the price of gasoline decreased due to the low price of fuels in the world markets. Freights rates and the prices of goods and services in the cultural, entertainment and tourism groups also decreased.

**Figure 17: The development of inflation and core inflation in the economy (over the same period last year) (%)**




*Sources: General Statistics Office*

Regarding the movement of the exchange rates, the USD price index in December 2020 was down by 0.23% over the last month; up 0.09% over December 2019, and the average of 2020 was down by 0.02% compared to the average of 2019. The price of USD in the world markets also experienced a slight decrease when the spread of the virus still showed no signs of slowdown in the US.

Although the pandemic seriously impacted many industries, the effect on Financial Services industries is still moderately limited and showed both positive and negative signs. For commercial banks, incentives from the SBV as well as assistance from the government for businesses and individuals have significantly limited the losses in banks' balance sheets and bottom line (PwC, 2020).

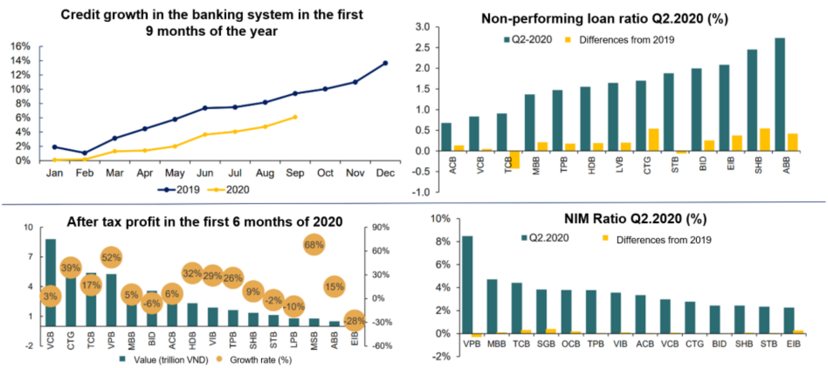
Credit growth rate accelerating in the first 3 quarters of 2020 put pressure on the banks to expand lending in the last months of the year. The profits of commercial banks remained at a relatively good level in the 2nd quarter, however the risk of bad debt significantly increased. According to SBV, credit growth rate of 2020 in the banking system was at 10.14%, much lower than the growth rate of 12.14% over the same period last year and was the lowest rate in the last 7 years. Deposit growth was 12.87%, significantly higher than the credit growth rate, the excess liquidity on the banking system put commercial banks under pressure to reduce the deposit rates. Total means of payment increased by 12.56% compared to the end of 2019 (the increase in 2019 was 12.1%).

The expansionary monetary policy remained in effect, which created excess liquidity over the banking system, the interbank market rate was at the lower level in 15 years (at approximately 0% since the end of the second quarter). The amendments to Circular 22/2019/TT-NHNN postponed the deadline for commercial banks to meet the ratio of short-term capital for medium- and long-term loans of 37% from April 1 to October 1, 2021 (6-month extension) also helped ease the pressure on commercial banks' operation. The State Bank consecutively reduced the commanding interest rates three times with a total reduction of 1.5%-2%/year.

Most commercial banks were able to maintain the NIM ratio ranging from 2% to 4.7% in the second quarter. This success is in part due to the reduction in operating cost, which helps improve the bottom line. Accordingly, the cost to income ratio (CIR) decreased to 36.7% in the second quarter of 2020, the lowest level since the first quarter of 2017. At the same time, it was also because of the Government's measures to allow for the rescheduling of debt repayment terms, interest reduction and exemption for borrowers who were affected by the pandemic. It was expected that NIM might decrease in the near future due to the transfer of Treasure Deposit from the commercial banks to the SBV (the total amount of withdrawn from Vietcombank, Vietinbank and BIDV amounted to 189000 billion VND) and the commercial banks reduced the lending rates following directions of the government.

In almost all commercial banks at the end of June 2020, the NPL ratio tends to increase compared to the end of 2019. However, the figures might not accurately reflect the quality of commercial banks' assets because some debts from borrowers that were affected by COVID-19 (according to Circular 01/2020/TT-NHNN) was not regrouped. According to SBV (2020), the ratio of bad and potentially risky debts in the balance sheet was estimated to be 4.48% in August 2020.

**Figure 18. Some indicators on Vietnam banking system**




*Source: Compiled from commercial bank financial statements.*

According to PwC (2020), the Banking and financial services industry would be most impacted by second-order effects. In particular, the quality of credit would be deteriorated in the future, while the interest rate would remain low as the effects of the pandemic gradually unfolded across the economy over the new few years. The COVID-19 pandemic severely impacted the financial capacity of both individual and corporate customers. Over the past few months, with the timely and effective assistance from the Government, the banking system did not face significant negative effects compared to the rest of the economy. However, there were concerns that the damage to the system was only delayed to the near future.

The challenges that the banking sector would face included: (1) A decline in the quality of asses in the banking system, (2) The interest rates would remain at a low level due to the loosening monetary policy and the excess liquidity in the banking system and (3) The capital absorbing capacity of the economy would remain low in the remaining months of 2020. Until December 21, 2020, the credit growth rate of the economy was only at 10.14% (compared to the growth rate of 12.14% over the same period in 2019).

*The Government budget sector*

a) Regarding the Government budget revenue

In the situation of Government budget revenue, the estimated revenue from the State budget balance in 2020 was 1,512.3 trillion VND. For the first 9 months of the year, the total State budget revenue was 975.3 trillion VND, which equal to 64.5% of the planned budget (excluding the tax and rental extended due to Decree No. 41/2020/ND-CP and Decree No.109/2020/ND-CP). If these tax and rental were included, the 9-month revenue was at 68% of the estimate, down by 11.5% over the same period in 2019. According to the Ministry of Finance, the COVID-19 pandemic seriously affected production and consumption over the whole economy, which then led to lower revenue for the State budget in 2020. Throughout 2020, the State budget revenue was estimated to be 1,323.1 trillion VND, down by 189.2 trillion VND compared to the planned budget. That is, the central budget revenue was down by about 126.5 trillion and the provincial budget revenue was down by about 62.7 trillion VND compared to the planned budget (Ministry of Finance, 2020). It could be observed that after several years of exceeding planned budget revenue, the State budget could potentially be down by 12.5% in 2020.

**Table 2: Summary of the Government budget revenue**

| Year | Planned Budget Revenue (billion VND) | Budget Revenue | Differences between Planned and Realized Budget Revenue | |
|---|---|---|---|---|
| | | | Absolute value | % |
| 2014 | 782.700 | 877.697 | 94.997 | 12,1 |
| 2015 | 921.100 | 998.217 | 77.117 | 8.4 |
| 2016 | 1.019.200 | 1.107.381 | 92.881 | 9,2 |
| 2017 | 1.212.180 | 1.293.627 | 81.447 | 6,7 |
| 2018 | 1.319.200 | 1.431.662 | 112.462 | 8,5 |
| 2020 (est.) | 1.512.300 | 1.323.100 | -189.200 | -12,5 |

*Source: Ministry of Finance*

b) Regarding the Government budget expenditure

Regarding Government budget expenditure, the estimated expenditure from the State budget balance in 2020 was 1,747.1 trillion VND. For the first 9 months of the year, the total State budget expenditure was estimated at 1,113.7 trillion VND, which equaled 63.7% of the planned budget. As of September 23, 2020, the State budget had expended 17.49 trillion VND on pandemic prevention and control, as well as assistance to people impacted by the COVID-19 pandemic, of which: 4.92 trillion VND was for the implementation of the special measures in preventing the pandemic according to Government's Resolution No. 37/NQ-CP and Decision No. 437/QD-TTg of the Prime Minister (the central budget expended 3.92 trillion to support the Ministry of Health, the Ministry of Defense and the Ministry of Public Security as well as 27 provinces; while the provincial government expended 1 trillion VND). Additionally, 12.57 trillion VND was expended to support 12.65 million people affected by the pandemic under the Government's Resolution No. 42/NQ-CP and Decision No. 15/2020/QD-TTg by the Prime Minister). Also, 16.2

thousand tons of rice from the national reserve had been provided to aid the people who were affected by natural disasters (Ministry of Finances, 2020).

**Table 3: Summary of the Government budget expenditure**

| Year | Planned Budget Expenditure (billion VND) | Realized Budget Revenue | Differences between Planned and Realized Budget Expenditure | |
|---|---|---|---|---|
| | | | Absolute value | % |
| 2014 | 1.006.700 | 1.103.983 | 97.283 | 9,7 |
| 2015 | 1.147.100 | 1.265.625 | 118.525 | 10,3 |
| 2016 | 1.273.200 | 1.295.061 | 21.628 | 1,7 |
| 2017 | 1.390.480 | 1.355.034 | -35.446 | -2,5 |
| 2018 | 1.523.200 | 1.435.435 | -87.765 | -5,8 |
| 2020 (estimated) | 1.747.100 | 1.642.500 | -104.600 | -6,0 |

*Source: Ministry of Finance*

c) Regarding the Government budget deficit

The Ministry of Finance estimated that the Government budget deficit in 2020 was 234.8 trillion VND, or 3.44% of GDP, of which the central budget deficit was 217.8 trillion VND, the provincial budget deficit was 17 trillion VND. With the impact of the Covid-19 pandemic, the state budget deficit for the whole year of 2020 was estimated at 319.4 trillion VND, which equaled 4.99% of GDP (Ministry of Finance, 2020).

**Table 4: Summary of the Government Budget deficit**

| Year | Estimated Deficit | | Realized Deficit | | Differences between Estimated and Realized Deficit | |
|---|---|---|---|---|---|---|
| | Absolute Value | % GDP | Absolute Value | % GDP | Absolute Value | Change in % GDP |
| 2014 | 224.000 | 5,3 | 249.362 | 6,33 | 25.362 | 1,03 |
| 2015 | 226.000 | 5,0 | 263.135 | 6,82 | 37.135 | 1,82 |
| 2016 | 254.000 | 4,95 | 248.728 | 4,85 | -5.505 | -0,1 |
| 2017 | 178.300 | 3,5 | 136.962 | 2,74 | -41.338 | -0,76 |
| 2018 | 204.000 | 3,7 | 153.110 | 2,8 | -50.890 | -0,9 |
| 2020 (est.) | 234.800 | 3,44 | 319.400 | 4,99 | 84.600 | 1,55 |

*Source: Ministry of Finance*

## 2. Effectiveness Evaluations of Government policy responses to COVID-19

### *2.1. Effectiveness of policy responses to COVID-19*

***<u>Fiscal Policies</u>***

*a) Enterprise support policies*

***Extension of deadlines for tax payment and land rental fee to the business activities significantly influenced by COVID-19 was issued by the government on 8$^{th}$ April 2020 in Decree No. 41/2020/ND-CP***. According to this policy, roughly 740,000 active enterprises (accounting for 98% of total enterprises) and most of the suspending business households were applicable for extension of tax payment and land rental charges with an expected investment of the support package of 180 billion VND.

Up to August 31, 2020, tax authorities had received 184,906 requests for extension of tax payment and land rental fees and the total investment was 66,392.9 billion VND. Before that, up to 28th July, there were 119,119 requests (accounting for about 17% of 700,000 active enterprises). Therefore, the number of enterprises that accessed and benefited from this policy was unremarkable.

There are several reasons to explain the fact that this policy did not reach to influence subjects:

i) Due to the short duration of the extension of tax payment, land rental charges and fees, few enterprises accessed and earned benefits from it.

ii) Due to COVID-19, many production and business activities did not carry out, which leads to the fact that not many enterprises incurred tax, especially micro and small enterprises.

iii) Many micro and small enterprises completed tax payment for 2019 in the first quarter of 2020, therefore, those enterprises did not request an extension. In terms of land rental fees, many enterprises paid at once, so they did not request any extension either.

***The policy that reduces 15% land rental fees in 2020 was issued by the Government according to Decision 22/2020/QD-TTg on August 10, 2020***. Accordingly, applied subjects are over-15-day-suspension-due-to-COVID-19 enterprises, institutions, households and individuals, which rented lands directly from the Government according to Decision or Contract made by state agencies under yearly payment form. Beneficiaries are individuals and institutions having direct-renting-land contracts with the government or state agencies, excluding individuals or institutions with non-state-owned contracts.

***The policy that cuts corporate income tax in 2020 by 30% for enterprises, co-operative society, other institutions with total revenue under 200 billion VND*** was issued by Resolution 116/2020/QH14 on

June 19, 2020 and detailed implementation under Decree 114/2020/ND-CP on September 25, 2020. The beneficiaries of this tax reduction and exemption policy were profitable enterprises, referring to enterprises that were not significantly influenced by the COVID-19. Therefore, the benefits from these policies failed to focus on the enterprises that were severely affected by the pandemic, the tax incentives in this case were unnecessary, waste of limited resources, and then created inequality among the businesses, which might worsen business environment.

*b) Increasing public investment capital policy*

***Accelerating the public investment disbursement*** is an important solution of the government to promote economic growth in 2020. A total approved public investment from the government budget in 2020 was nearly 700 thousand billion VND, as 2.2 times more than the one in 2019 (312 thousand billion VND), which includes 470.6 thousand billion VND in government budget estimation in 2020 and 225,2 thousand billion transferring from 2019. The determination and consistency of the government in boosting public investment capital disbursement can be presented in a vast amount of documents: i) Resolution No. 84/NQ-CP on 29$^{th}$ May 2020 regarding the tasks and solutions to remove difficulties in production and business activities, and accelerate the disbursement of public investment capital; ii) Official dispatches No. 622/TTg-KTTH and 623/TTg-KTTH on 26$^{th}$ May 2020 to head of ministerial agencies, leaders of provinces consider accelerating public investment disbursement as a key task in 2020; Announcement No. 242/TB-VPCP on 18$^{th}$ July 2020 guiding ministries, central and local authorities and agencies to drastically implement solutions to accelerating public investment disbursement.

As a result, the total investment of the first nine months of 2020 increased by 4.8% as compared to the same period in 2019. This is the lowest increase level during the period of 2016 – 2020 due to negative effects of COVID-19 pandemic on all production and business activities. However, the realized capital growth rate from the government budget in both September and the first nine months reached the highest rate in the period of 2016-2020. Until the end of September 2020, total investment (in current price) was estimated about 1,445.4 thousand billion VND, an increase by 4.8% comparing to the same period last year or 34.7% of GDP, including State-owned area was 484.8 thousand billion VND, accounted for 33.5% total investment and increased by 13.4% comparing to the same period from the last year; non-state-owned area was 641.5 thousand billion VND, equal to 44,4% of GDP  and increased by 2,8%; foreign investment area was 319.1 thousand billion VND, equal to 22.1% and decreased by 2,5%.

However, there were difficulties in disbursing investment capital:

i) The biggest challenge in implementing public investments is clearance compensation with difficulties in prices, compensation solutions.

ii) Investors, project management board and contractors were afraid of carrying out the capital settlement procedures many times, so they mainly dispersed capital at the end of the year.

iii) Projects using ODA, preferential loans from foreign donors suffered the serious consequences from the pandemic since most activities were linked to foreign factors, including imports of machinery and equipment, mobilizing foreign experts, workers and contractors. The above factors had seriously affected the implementation progress of most ODA projects.

To solve the aforementioned difficulties, since the end of July 2020, the Government has organized 07 missions at ministries and localities to urge and remove difficulties and problems in disbursing public investment capital.

*c) Supporting social security policy*

***According to Resolution No. 42/NQ-CP on 9$^{th}$ April 2020 and Decision No. 15/2020/QD-TTg, social security policy provided the guides for assistance and implementation of policies to support people facing difficulties caused by the COVID-19 pandemic, respectively.*** Accordingly, about 62,000 billion VND would be disbursed for roughly 20 million workers who were postponed, lost their jobs due to the impact of the pandemic.

Up to mid-August 2020, about 16 million people from different groups of workers had received support, with the total disbursement amounting to just over 17 thousand billion VND (approximately 19%). However, the people who received support were mostly from the group of workers belonging to the insured sector, workers who have merit, and poor households. Meanwhile, workers that were significantly affected are freelance ones, and workers in the informal sector having no accessibility to this support. The implementation of direct support policies had faced a big barrier because there is no database to manage information about beneficiaries, leading to the complicated application-for-support procedure, bringing inconvenience to people.

Regarding the policy to support the employees, the number of beneficiaries was rather small. Specifically, the number of employees who have to delay the implementation of the labor contracts, employees who had to take unpaid leave that receive the assistance was about 15,909 people while the initial estimate was 1 million people. Additionally, according to a report from the Bank for Social Policies and information on the National Public Service Portal, currently there have been no disbursement record of corporate lending to pay affected employees, while the initial estimation was 16,000 billion VND with 3 million employees being supported. The number of individual and household businesses with taxable revenue under 100 million VND/year that were affected by the pandemic, which was reported by the People's Committee at the commune level to the Department of Taxation to receive support, was only 30,964 household while the initial estimation was 760 thousand.

The reasons for the low number of beneficiaries of the policy compared to the initial expectation are:

i) The government imposed strict regulations through Resolution 42/NQ-CP and Decision 15/2020/QD-TTg to ensure that the support went to the most affected people with severely reduced income, to avoid policy rent-seeking and wasting resources. Therefore, the initial criteria and conditions were strict, especially the issue of raising corporate social responsibility, the government encouraged enterprises to retain employees, to avoid mass layoffs, to work together to overcome the difficulties at the beginning of the pandemic within the capability to balance the budget.

ii) On the enterprises' side, when they prepared the application to receive support, they had to prove their financial capability, which made them worry of the impacts on their production and business activities, which in turns discouraged enterprises from taking the initiative of applying for support. On the other hand, due to the fact that some financial statements are very complicated, the procedures of application appraisal and approval from the state agencies still faced many difficulties and showed many inconsistencies in implementation.

iii) In addition, many enterprises could not prove that they had no revenue or financial resources to pay their employees. The reason was that while there were difficulties in new orders or input materials, the enterprises could still maintain production, albeit with a much lower number of employees.

iv) On the side of the employees, many employees temporarily postponed their labor contracts or took unpaid leave without any support because they were not eligible or did not meet all the requirements to receive support. These employees included:

employees working at public and non-public non-business establishment, educational and vocational training institutions, cooperatives, non-business organizations… that was not covered under Resolution 42/NQ-CP and Decision 15/2020/QD-TTg.

v) For individual and household businesses, partly because these household only suspended their production in a short period, while the local authorities were relatively strict in approving applications; partly because in Clause 2, Article 3 of Decision 15/20/QD-TTg, the condition for households to receive support was to having suspended business from April 1st, 2020 according to record in the Decision the Province's People Committee to implement the Prime Minister's Decision 15/20/QD-TTg dated March 27th, 2020. Therefore, the number of businesses that were covered by the policies was heavily limited.

***Monetary policy***

*a) Interest rate policy*

In order to keep up with macroeconomic situation and international financial markets and dealing with the negative impact of the COVID-19 at the same time, the State Bank had proactively and continuously reduced the operating interest rates to remove difficulties for production and business activities, liquidity support for credit institutions, reducing the cost of borrowing capital of businesses and households.

As of October 20, 2020, the State Bank had adjusted the operating rate four times since December 2019, and it was the third time in 2020 (2 previous adjustments were in March and May). There were reductions by 0.5 percentage points of all kinds of operating rates. The rediscount rate is currently at 2.5% per year, the refinancing rate is 4.0% per year.

According to the report on the socio-economic situation of the first 9 months of the year announced by the General Statistics Office, the deposit interest rate in VND is set at 0.1 - 0.2 annualized percentage for demand deposits and deposits with terms of less than 1 month. Interest rates for term deposits from 1 month to less than 6 months also decreased to 3.7% - 4.1% a year; from 6 months to less than 12 months is 4.4% - 6.4% a year. For terms of 12 months or more, the deposit interest rate also dropped to 6.0% -7.1% a year. The highest deposit interest rate of some banks with state-owned capital was only 5.5% - 6% per year. The maximum short-term lending interest rate in VND for some popular industries and fields was 5.0% per year.

Total credit balance as of November 17, 2020 reached 8,790 thousand billion VND, increased by 10.28% as compared to the same period. Demand for credit increased rather weakly, although interest rates declined deeply. However, credit growth rate tended to improve in the third quarter of the year compared to the first two quarters of the year. Meanwhile, capital raising, though decreasing, is still much higher than credit growth. Total means of payment in the first 9 months of the year increased by 7.74% compared to the end of 2019.

The solution to decline interest rates in the current situation has not really brought effectiveness to stimulate capital for production and business activities because most enterprises' inputs and outputs were simultaneously affected. Some demands have almost completely disappeared due to the pandemic effects. In addition, the interest rate reduction is only applied to new loans, while the demand for loans of businesses is low or businesses do not meet all standards for loan access, such as collateral, financial image or good business plan. Many enterprises had overdue debts at banks, so they cannot take new loans.

The effect of recent interest rate cuts on the economy became more insignificant. In fact, the deposit and lending rates in market 1 (the market between banks, residents and businesses) have decreased since the beginning of the year, when the banking system has always been in a state of money surplus, mainly due to the low credit growth. Therefore, if we consider the reducing interest rate of the market 1 as the target, the recent reduction in the executive interest rate did not have much impact on the absorption of loans in the economy. The main reason is that credit growth has been low and prolonged, even in the context of declining interest rates, partly showing that the demands for loans were not high, or the banks’ concerns about the bad debts.

*b) Debt term restructure, loan interest exemption / reduction to support enterprises policy*

The Government has issued Circular No. 01/2020/TT-NHNN on 13th March 2020 for debt term restructure, loan interest exemption/reduction to enterprises that were affected by the pandemic. Under this Circular, credit institutions and foreign bank branches maintained the same debt group as classified under the State Bank's regulations at the latest time before January 23, 2020 for debt term restructure, loan interest exemption/reduction.

The implementation results show that, according to information from the State Bank, as of November 9, 2020, credit institutions had rescheduled the repayment period according to Circular No. 01/2020 / TT-NHNN for 272,183 customers with 341.9 thousand billion Dong in debt; and at the same time, had exempted, reduced and lowered interest rates for 552,725 customers with outstanding loans of more than 931 thousand billion Dong; New loans with preferential interest rates with accumulated sales from January 23 reached nearly 2,017.8 thousand billion VND for 356,385 customers. The on-balance sheet NPL ratio had exceeded 2%, and this figure was expected to increase after the rescheduling of debts in implementation of Circular 01 ends at the end of 2020.

This policy is considered as an effective measure to control bad debts during this period. Not transferring overdue debt and keeping the debt group not only helped banks avoid making provisions for credit risks, but also did not have to withdraw accrued interests that have arisen, as well as continued to arise from this loan, but not yet obtained. Another positive point of this regulation is that unlike non-performing loans arising in the previous period - stemming from the real estate market, where real estate projects were inflated in value - current loans with a potential of turning into the bad debts because of the pandemic, in which most customers had real production and trading activities, with collateral as factories and goods. Previously, real estate loans often had the risk of valuing collateral excessively to their real value, leading to difficulties in handling due to a deep fall in the value of the property or not enough value compared with the original loan value, even lack of legal basis, causing the bank to lose capital. The collateral, factories and goods, on the other hand have more precise real valuation value. These assets can also be easier to resell to partners, enterprises who are in the fields of production and trade. With an abundant customer database, as well as a wide range of relationships, banks can support struggling businesses that want to get out of the industry by introducing to customers and partners, who have intentions to purchase and expand into new businesses, especially in the current context that many businesses are taking the opportunity to seek acquisitions and mergers. This solution not only helps customers overcome difficulties but also helps the banks collect debt.

However, the difficulty of this policy was that only disbursements before January 23, 2020 had debt classification results according to the State Bank's regulations at the latest time before January 23, 2020. Circular 01 did not apply to outstanding loans disbursed after January 23, 2020. Keeping the same group of debts could prevent the non-performing loans ratio from being fully reflected in the financial statements of credit institutions.

*c) Credit support policy from banking industry*

The State Bank had issued documents (Notice No. 35 / TB-NHNN dated 7/2/2020, Document 479 / NHNN-VP dated January 3, 2020, 541 / NHNN-TD dated February 4 / 2020, 1117 / NHNN-TD dated February 24, 2020, 1425 / NHNN-TDCNKT dated March 6, 2020) directed banks to balance their own capital sources, save operating costs in order to restructure debt, exempt / reduce loan interests, payment fees and consider new lending for production and business of enterprises and households; regularly monitor and evaluate the situation of borrowers to promptly and effectively implement support measures; stabilizing deposit and lending interest rates; promptly responding to people's payment needs.

Credit support package of commercial banks, worth 250,000 trillion VND, according to which, banks were committed to implementing credit support packages with per-year interest rates that are lower than 2% than the time before COVID-19. By October 2020, the amount of capital that banks committed to participate in this credit support package reached more than 600,000 billion VND, much higher than the 250,000 billion VND set out in Directive No. 11 / CT-TTg by the Prime Minister. As of September 14, 2020, all banks had: i) Restructured repayment terms for more than 272 thousand customers with outstanding loans of more than 321 trillion VND; ii) Exemption and reduction, of interest rates for nearly 485,000 customers with outstanding loans of 1.18 million billion; iii) New loans with preferential interest rates with accumulated sales from January 23, 2020 reaching 16,000 billion VND for more than 310,000 customers. The interest rates were lower than the time before COVID-19 by 0.5-2.5% per year.

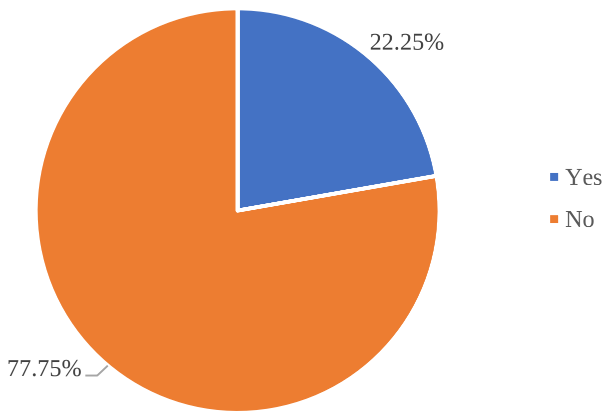
Support package from the Social Policy Bank was worth 16,000 trillion VND. Accordingly, on September 22, 2020, the bank extended the debt to 162 thousand customers with outstanding loans of about 4,067 billion VND, adjusted repayment term for more than 75.2 thousand customers with outstanding loan balance of nearly 1,600 billion VND, issued new loans to more than 1.4 million customers with outstanding loans of over 55 trillion VND. The bank had also announced a package of 16,000 billion VND at 0% interest rate to pay salary for stopped employees due to the COVID-19. However, no enterprise had so far received these loans.

The credit support policy for businesses affected by COVID-19 currently show many shortcomings in the implementation stage when businesses who want to access this support must meet complicated procedures with large costs, including making audit reports, assessing damages, self-proving liquidity and solvency after debt restructuring. With these procedures, the group of small and medium enterprises – who need this assistance the most, could face a multiple of difficulties in accessing the policy.

### *2.2. Evaluation of supporting policies from enterprises*

In order to help businesses cope with the difficulties created by the COVID-19 epidemic, the Government had introduced a range of policies to support those affected by COVID-19. However, based on the data of the surveyed firms, only 22.25% of businesses received support.

**Figure 19 - The percentage of firms receiving government support (%)**

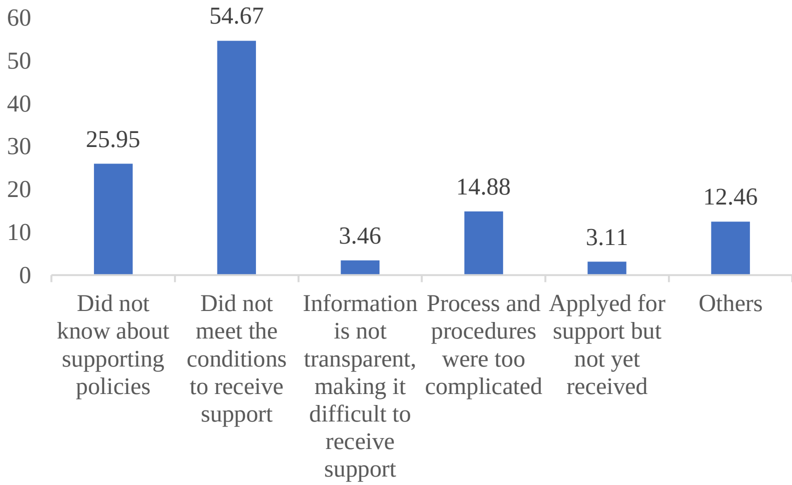



*Sources: Results from survey conducted by NEU team, 2020*

Among the reasons to explain why businesses did not receive support, 54.67% of businesses believed that they did not meet the conditions to receive support; up to 25.95% of enterprises did not know about supporting policies, 14.88% of enterprises agreed that the supporting process and procedures were too complicated, so businesses did not want to access support.

The proportion of large enterprises that receive the support was at 34.04%, which is significantly larger than the proportion of medium, small and micro sized enterprises. The main reason that these large enterprises did not receive support was that they failed to meet the condition of the policies (68.97%), not because had insufficient information.

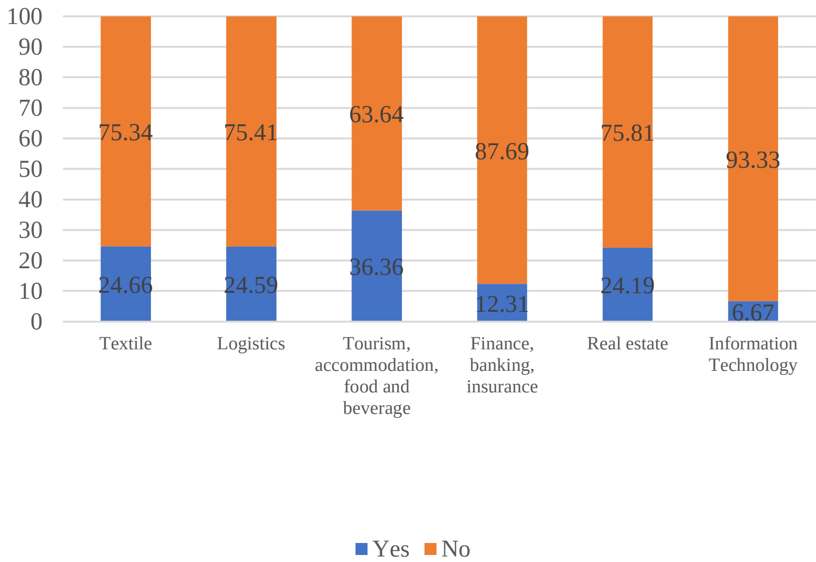
**Figure 20 - Reasons for not receiving support from the Government (%)**




*Sources: Results from survey conducted by NEU team, 2020*

Out of 22.25% of businesses supported, the industry that benefited from support the most were those in the tourism, accommodation, food and beverage sector (36.36%), followed by textile (24.66%), logistics (24.59%) and real estate (24.19%). The rest of the industry had received a lower rate of support than the general average, of which the lowest was the technology industry (only 6.67% of businesses were supported).

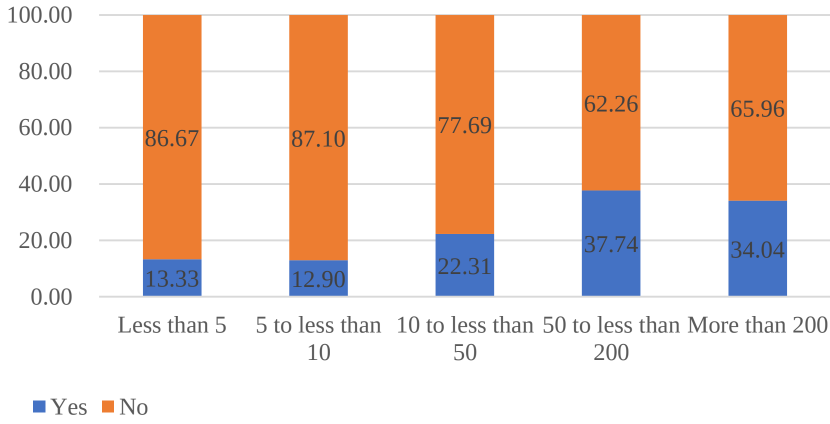
**Figure 21 - The percentage of firms receiving support from the Government by industries (%)**




*Sources: Results from survey conducted by NEU team, 2020*

In terms of firm size, the medium and large enterprises received a lot of support. In particular, 37.73% of firms that received support were the small and medium-sized firms (with the size of from 50 to less than 200 employees), while large enterprises (with more than 200 employees) accounted for 34.04%. However, for businesses with less than 10 employees, this figure was only roughly 13%.

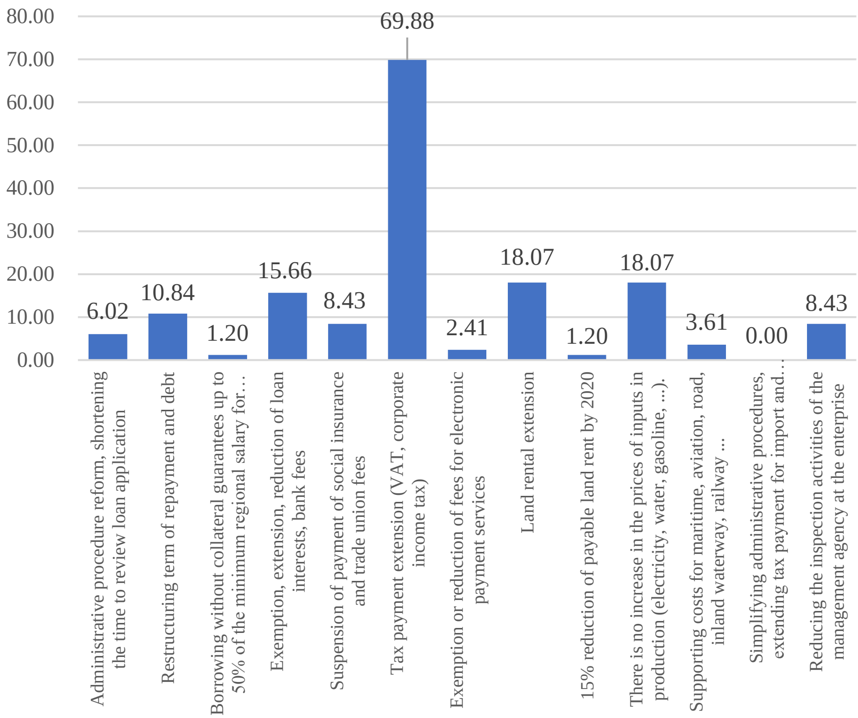
**Figure 22 - The percentage of firms receiving support from the Government by business size (%)**




*Sources: Results from survey conducted by NEU team, 2020*

For the types of support policies, the tax payment extension (VAT, corporate income tax) had the highest rate (69.88%), followed by land rental extension and policies related to not increasing the input prices in production (electricity, water, gasoline, ...) during the presence of Covid-19, accounting for 18.07%. However, no firm received support from the policy associated with simplifying administrative procedures, extending tax payment for import and export activities - possibly because the proportion of firms with export activities in the sample was very small.

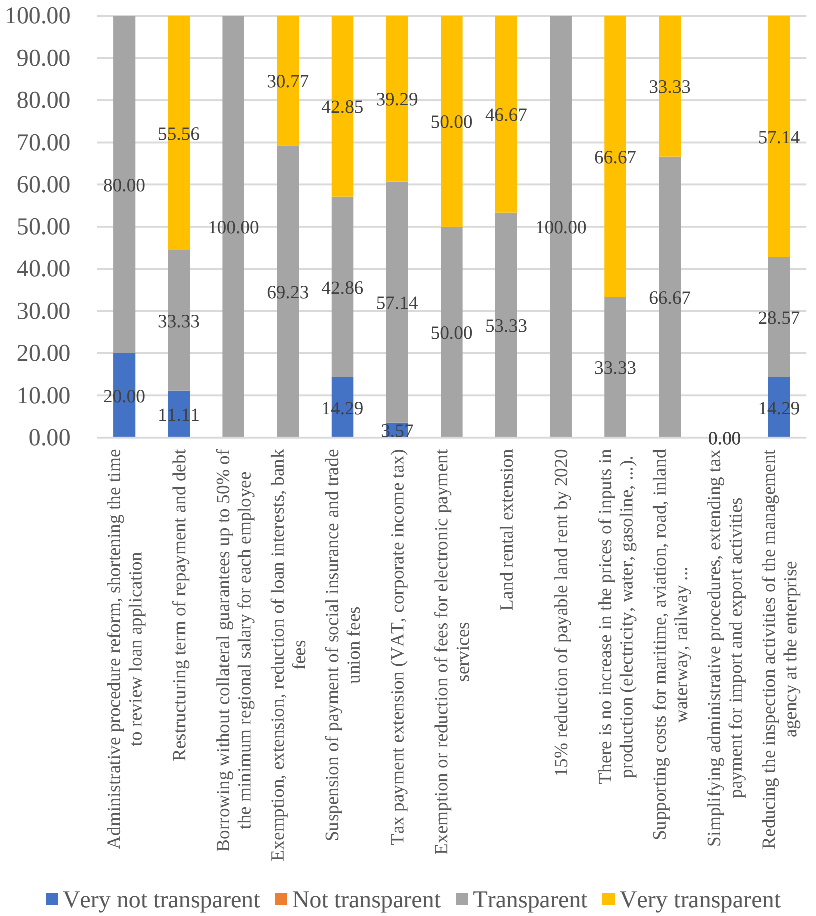
**Figure 23 - The percentage of firms of receiving support from the Government by types of policies (%)**




*Sources: Results from survey conducted by NEU team, 2020*

Basically, when evaluating the transparency of supporting policies, businesses, in general, thought that policies were transparent, but there were a number of particular policies such as: administrative procedure reform, shortening the time to review loan application; restructuring term of repayment and debt; suspension of payment of social insurance and trade union fees; reducing the inspection activities of the management agency at the enterprise, which roughly 15% enterprises believed that these policies lack transparency.

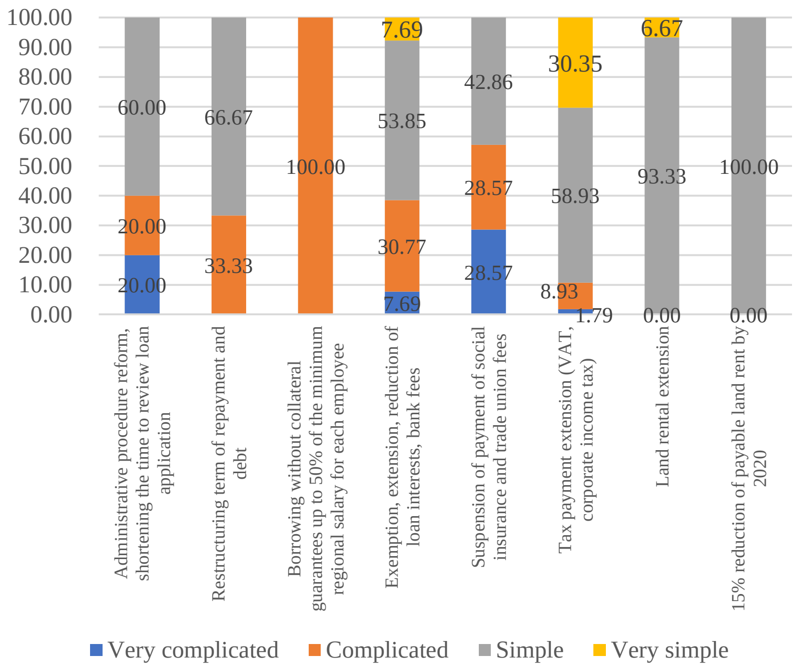
**Figure 24 - The situation of information about support policy packages (%)**




*Sources: Results from survey conducted by NEU team, 2020*

Regarding the procedures applying for support, most businesses thought that the procedures were simple such as land rental extension; 15%-reduction in rental land fees in 2020. However, there were high proportions of firms that believed the procedures of other policies were still complicated, especially borrowing without collateral guarantees up to 50% of the minimum regional salary for each employee (100 % of enterprises said that the procedure was complicated).

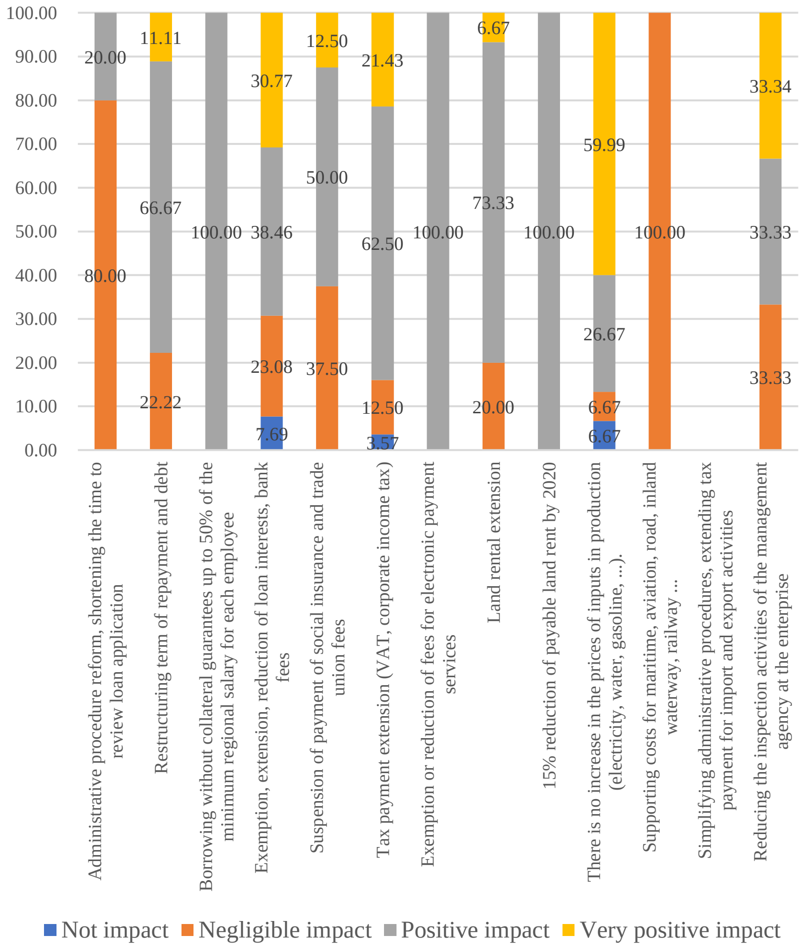
**Figure 25 - Feedback from businesses on support policy packages (%)**




*Sources: Results from survey conducted by NEU team, 2020*

Regarding assessing the impacts of the support policies on enterprises, enterprises basically believed that the supporting policies had a positive impact, especially an exemption or reduction of fees for electronic payment services; borrowing without collateral guarantees up to 50% of the minimum regional salary for each employee; 15%-reduction of rental land fees in 2020. All enterprises thought that there was a positive impact. However, for a number of other policies, businesses said that policies had a negligible impact, especially the policy of supporting logistics costs for maritime, aviation, road, inland waterway, railway; or administrative procedure reform, shortening the time to review loan applications…

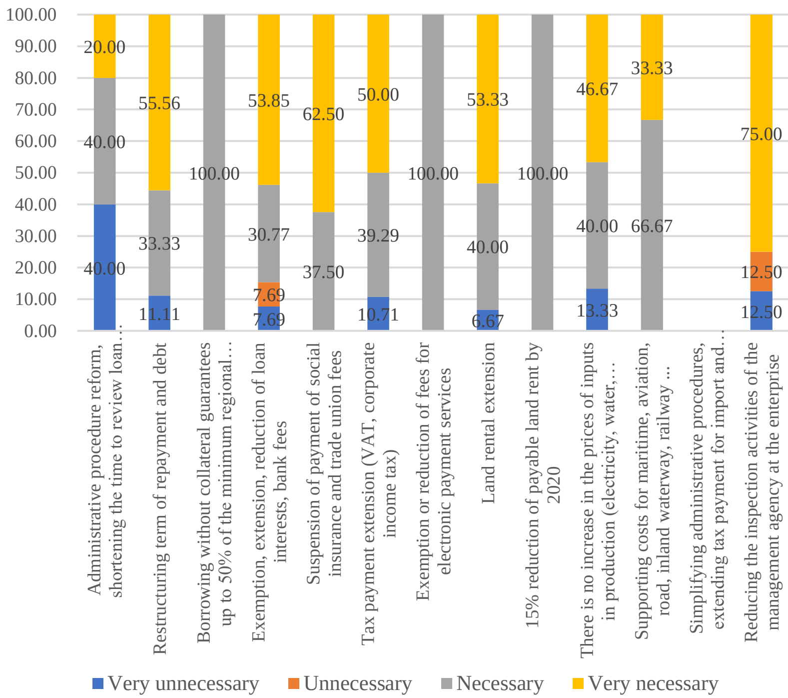
**Figure 26 - Firms' opinion about the impact of the support policy packages(%)**




*a. Sources: Results from survey conducted by NEU team, 2020* *b. Business sector's expectations for the second support package*

Most businesses believed that it was necessary to have the next support package from the Government, especially policies such as: Borrowing without collateral guarantees up to 50% of the minimum regional salary for each employee; Exemption or reduction of fees for electronic payment services; 15% reduction of payable land rent by 2020; Suspension of payment of social insurance and trade union fees; Supporting costs of maritime logistics, aviation, road, inland waterways, railways….

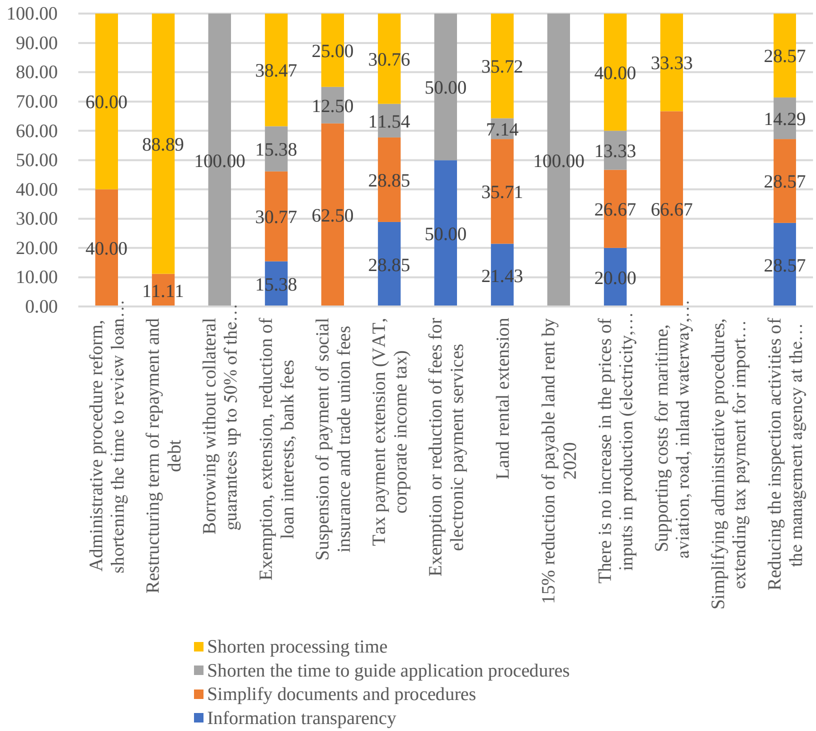
**Figure 27 - Firms' expectations for the second supportive policy packages (%)**




*Sources: Results from survey conducted by NEU team, 2020*

Regarding the opinions about the order of priority factors when implementing the second support package, the answer depended on the type of policy. For example, the enterprise suggested shortening the time for approval if the government implemented the policy of borrowing without collateral guarantees up to 50% of the minimum regional salary for each employee. Regarding the policy of 15%-reduction of rental land fees in 2020, enterprises prioritized the simplification of documents, procedures, …

**Figure 28 – Firms' opinion about the necessary improvements in the second support policy packages (%)**




*Sources: Results from survey conducted by NEU team, 2020*

## 3. Policy recommendations

### *3.1. Policy orientation*

Due to the impact of the pandemic, many economic activities were stalled or declined, causing negative influence on state budget revenues while the need for spending on disease prevention and recovery increased. Due to lengthy fiscal deficits, coupled with monetary policy bound to inflation and exchange rate targets, Vietnam cannot pursue macro policies in the same way as other big countries in the world. Large-scale monetary easing can lead to a devaluation of the domestic currency, cause the investment environment to become riskier, and delay the inflows of foreign investment into Vietnam. Therefore, in order to implement policies to support epidemics and natural disasters, in the coming time, the Government should take measures to mobilize financial resources in the following descending order of priority: (i) cut regular spending is at least 10%, especially non-urgent or unnecessary cost including seminars, conferences, business trips…; (ii) take advantage of concessional loans (with no interest or very low interest), if any, from international organizations with the aim of preventing and overcoming consequences of epidemics and natural disasters; (iii) issue Government bonds at low interest rates under the current liquidity-surplus financial system. Raising capital through government bonds should be used moderately to ensure easy access to capital by the private sector, especially in the post-epidemic period.

The principle that needs to be maintained when making policies is to always maintain macroeconomic stability. Regardless of how long the epidemic lasts, many businesses may continue to go bankrupt, the Government still needs to ensure macroeconomic stability. It is necessary to keep inflation and interest rates low, exchange rates stable, public investment properly implemented and well monitored so that in the post-pandemic period, the economy may recover quickly. Otherwise, it will take many next years to resolve non-pandemic-related problems, and the economy will stagnate for a long time like the post-crisis period of 2007-2008.

### *3.2. Specific solutions*

**Fiscal policy**

*The policies to support businesses* should continue to be implemented in a more focused and realistic manner, directed to the right recipients and closely following the needs of the business. It is necessary to select and classify occupations to support, based on quick survey and assessment of the impact of COVID-19 epidemic on specific industries, and occupations, with clear conditions and criteria. Regarding the selection of sectors and industries to prioritize support, based on assessing the impact of the COVID-19 pandemic on industries in the first 8 months of 2020, we suggest the following industries are negatively affected in descending order, namely: tourism; carriage; textiles and garments, leather and footwear; retail; educations. Meanwhile, some industries still see decent growth opportunities (information technology, e-commerce…). Therefore, there is a need to avoid the phenomenon of policy-exploitation and moral hazard. Regarding the conditions/ criteria required for the business to receive support, the Government can base on some main criteria, including: (i) the pervasiveness (positive impact on other sectors and fields), (ii) labor (creating more jobs), (iii) capable of adopting clean energy and technology, (iv) resilience and ability to recover after the pandemic.

For tax policy, it can be seen that the impact of current tax deferral packages and land tax is very small. It is necessary to allow the extension of the tax, land rental delay and extension (in the short term, the end of 2020 or the end of quarter 2.2021) so that enterprises can reduce expenses.

The Government should consider support in VAT reduction for businesses because of the wide scope of this tax regulation. Pay-ability of this tax does not require firms to be profitable like the case of corporate income tax. This tax is incurred immediately upon the provision of goods and services. VAT reduction should focus on services such as hotel accommodation, travel, transportation, and transportation of epidemic prevention equipment ... The authority should also consider immediately refund of input VAT for exporting firms within 3 days from the date of receiving complete records. For investment projects that are subject to tax inspection first, tax refund later, shorten the refund consideration time from 40 days to 20 days.

For businesses directly involved in the production of COVID-19 epidemic protective equipment (such as gloves, or protective clothing), and prevention equipment, it is possible for enterprises to deduct the full cost of fixed assets (incurred when expanding production scale) into reasonable cost to reduce corporate income tax. Foreign companies that expand their investment in the country should receive tax support including a tax reduction of 30% for three years. Extend the loss transfer period from 5 years to 8 years. Exemption of import tax on imported goods for anti-pandemic service or for input materials in production of goods that helps prevent and control COVID-19.

It is necessary to review the corporate income tax reduction policy because the majority (98% of the number of enterprises) of the enterprises are facing difficulties or facing bankruptcy due to cost burden, thus support in the form of corporate income tax reduction is not suitable for them. Only 2% of firms that are temporarily unaffected by COVID-19 benefit from this policy. Corporate income tax reduction is an improper support method that wastes resources, and at the same time creates inequality in the business community and worsens the business environment. Tax extension/reduction should only be applied to Value Added Tax, with a much wider range of beneficiaries.

*Public investment* is still the main platform for economic growth in the coming time. While the demand from spending from the business sector and the people has declined sharply, the State needs to play a major role in increasing spending. Therefore, promoting public investment spending plays a very important role. It is necessary to have the close supervision of the National Assembly to avoid negative consequences and moral risks. Promoting public investment should not be a spread, hasty, uncontrolled increase in public spending. Vietnam should only accelerate projects, especially key national projects, that have been approved and have already been allocated capital for implementation. Dividing these projects into multiple bidding packages and scattered implementation in many localities (in the cases of the central projects like the North-South Highway project) so that many businesses and many localities can reach them, could create better spillover effect and thus can also be considered as a special solution while ensuring efficiency.

In addition, problems related to the disbursement of ODA capital should be considered and solved. Beside the impact of COVID-19, other causes for the slow progress of the ODA projects were the administrative procedures, the laws and regulations of Vietnam. For example, the requirement for collaterals at 120% of the loan amount for the partners of the project as prescribed in Decree 97/2019/ND-CP should be reconsidered, as this term might be a burden and hinder the implementation of the projects. A review of the administrative procedures and a field survey should be conducted to properly identify and remove the obstacles to reduce the burden for the implementers of the projects. Especially in the area of human resource development such as education/vocational schools, it is ideal that the conditions such as collaterals could be exempted since human capitals are the basis for development of the country.

*Social security policies* such as unemployment insurance payments, job suspension assistance, subsidies for the poor, and for people who have lost their livelihoods, need to be given first priority in terms of resources allocation and rapid implementation, especially if pandemic reappears in the country. Support policies need to cover vulnerable groups - low-skilled workers and informal sector workers as they account for a large percentage of the labor force, are vulnerable, severely affected by the pandemic and are the highest rate of income decline in case the economy falls into recession. The support must be deployed quickly, neatly, to the right people, and via many different channels (in which, pay much attention to the application of information technology such as: Mobile money service, e-wallet ...) to ensure such humanity policies soon come into effect.

Regarding voluntary insurance, the government should allow enterprises to use the unemployment insurance fund in training the employees during the period of production reduction and suspension, in order to improve the qualifications of the employees, as well as reduce the recruitment cost when the economy and the enterprises return to normal. At the same time, the employees, although temporarily unemployed, should be allowed to continue participating in social insurance, thereby being guaranteed the benefits of unemployment insurance and insurance on occupational accident and disease.

*Reform fiscal policies towards sustainability and growth support***.** Specifically, reform the tax system to reduce the tax burden, and create a stable and balanced budget revenue should be considered as the dominant point of view. At the same time, restructure state budget expenditures in the direction of stabilizing and increasing the efficiency of development investment - only allocating budget capital for projects that are really needed, and highly effective; strictly control public investment to avoid spreading investment, waste, loss and corruption. Public debt management must also ensure the principles of publicity, transparency, discipline, and should be put under strict supervision to ensure effective use of public budget and investment should be evaluated according to outputs, in accordance with international practices and standards.

**Monetary policy**

Monetary policy, particularly interest rate tools, at present, will be less effective. When the pandemic persists, some specific needs will disappear, and businesses that serve those needs will not return. Even if interest rates drop, it will not create incentives for those businesses to borrow capital for investment in production and operation. In other words, for most businesses, the interest rate factor does not necessarily determine investment behavior or business expansion at this time. Therefore, the credit support policy should focus on the group of businesses that are less or unaffected, or those that have effective transformation directions. At the same time, the sector policy and institutional environment needs to be improved. For the credit package, it is necessary to make immediate amend to Circular 01 in the direction of expanding the beneficiaries and extending the time for restructuring the debt group until the end of 2021, when the pandemic may have ended, and the potential of the businesses and the banks get more solid. Bad debt of the banking industry is closely related to Circular 01. Bad debt ratio of the banking industry will be determined by the period until when debt groups are allowed to remain unchanged, following amendments to be made to Circular 01. If we do not allow the debt group to remain, bad debt will inevitably increase dramatically and cause a shock to the system.

During the policy implementation process, the supporting policies need to be clear and transparent about the procedures as well as the beneficiaries of the policy packages. There is a need to minimize procedural complications and processes required to access support packages, especially financial proof. In addition, some of the following risks should be noted: i) institution risks which slow down the money injection for stimulating consumption and investment; ii) the risk of corruption and a fear of accountability can undermine the effectiveness and efficiency of the stimulus package; iii) the risk of deviating from the target, the supportive policies need to be directed to the right and correct target.

### 3.3. Long-term solutions

In addition to short-term reactive solutions in response to COVID-19, the Government needs to implement long-term solutions to prepare the basic conditions for long-term, post-pandemic development.

*First, innovating the growth model in the direction of technology - innovating, taking a risk-taking mindset and encouraging entrepreneurship.*

Industry 4.0 is in place, bringing great opportunities and challenges to Vietnam. This is the time when the creative capacity needs to be demonstrated in the right role that matches with the world's general trend: building a developed country based on Science & Technology, building on innovation rather than relying on capital, resources, and labor at present. Industry 4.0 creates a technology breakthrough, fundamentally changes the production method which combines real and virtual systems; breaks the physical limitations of the development process; and may create an unprecedented rapid and strong growth rate in terms of economic, social, and environmental aspects globally, regionally, and nationally. Therefore, the policy of innovating the growth model should gradually shift to a reliance on technology and innovation.

The transformation of growth models based on creativity and technological innovation takes place in the context of a volatile world, creating opportunities for development, and introducing many new challenges, which require novel and creative mental models, with strong commitments and drastic and unified direction from central to local levels. In addition, there must be strong reforms in market institutions to expand the space and create new motivation for the efficient mobilization and utilization of all resources and to encourage and create conditions for all strata of the people to participate in the process of national innovation and development.

In order to shift to an innovation-based growth model, Vietnam needs to build a policy foundation for innovation. However, risk is naturally inherent in the activities of scientific research and innovation. Innovation is the willingness to do something new and take risks from that new one. Taking risks requires persistence to reach your long-term goals, deciding on the option to invest heavily in research and development. Not knowing how to accept newness, unwillingness to take risks and lack persistence put an end to innovation. Therefore, there is a need to develop a risk-taking mindset and encourage entrepreneurship in order to facilitate innovation.

*Second, utilize and exploit the advantages of the latecomers, increase the use of high technology through direct import, licensing, product subscription from abroad, promote research and development towards enhancing creative start-ups and foster technology transfer from FDI*

In addition to increasing investment and capital accumulation (including monetary capital and human capital), in order to catch up with other countries in the region, Vietnam should take advantage of latecomers, focusing on acquiring and absorbing technology instead of inventing new ones.

Choosing a path towards new technology invention should only be made when human capital and other favorable conditions are adequately accumulated. As a latecomer in the process of economic development, having learnt a lot from the failures and successes of other countries, in the process of industrialization and modernization, Vietnam needs to thoroughly take advantage of its latecomer's advantages, focusing mainly on selecting and creating a space for priority economic sectors and business development on par with regional level, and capable of competing in international market. This requires policies to encourage and promote the formation of large, multi-ownership economic groups operating in the high-tech sector, capable of creating spillover effects within the industry and to the entire economy. economy. The development experience of emerging industrial countries shows that technology corporations have the ability to raise the level of national technology development if they receive appropriate support from government policies, including Large-scale venture capital funds.

The COVID-19 pandemic clearly revealed the fragility of the global supply chain. Therefore, in order to effectively transfer technology from the FDI sector, it is necessary to have policies to further attract the entire supply chain, including all the supporting industries to Vietnam. Vietnam should attract not only the large enterprises, but also their partners to participate in the production process. Accordingly, Vietnam should consider a unified corporate incentive for all companies in the supply chain, especially for high tech industries and qualified companies (for example companies with investment exceeding a certain level).

*Third, continue institution's perfection; building a tectonic, development-oriented, integrity state which acts through the balance of power in the State apparatus and resolving interest relations in accordance with the market economy conditions, respect and protect equality among economic sectors, implement decentralization of management together with budget decentralization, and reduce and improve the entire political system.*

Institutional improvement, building a tectonic, developing and integrity government are a strategic breakthrough for Vietnam in the next 10 years. This becomes even more urgent when the traditional drivers for growth seem to have been tapped to the limit. The process of building a tectonic, development-bound, integrity and action-oriented state requires the following basic solutions:

i) Balance power within the state apparatus and resolve interest relations in accordance with the market economic conditions. Clearly define the leadership role of the Party and the management role of the State. Shifting the role of the State from controlling to effectively regulating and supporting role, with the main function of serving the people and businesses. Strengthen accountability and implementation of publicity and transparency in the operations of State agencies.

ii) Respect and protect equality among all economic sectors, private ownership rights and property rights. Complete the legal framework system to ensure the right of people and businesses to access information. Expand participation of businesses and citizens in the process of state policy making and implementation through social organizations representing interests.

iii) Implement decentralization between central and local government, between levels of local government in conjunction with budget decentralization to ensure the coherence between the assigned tasks and financial resources. Pilot and institutionalize a modern urban government model to maximize the use of particular revenue sources in urban areas for the purpose of urbanization.

iv) Strengthen the capacity, streamline and consolidate the political organization system and the administrative apparatus at all levels. Effectively control authority, promote accountability and public ethics. Develop and strictly enforce strong enough sanctions to identify, prevent and resolve acts of authoritarianism and monopoly, ask-give mechanism, and group benefits, to repel corruption, in order to consolidate confidence of investors, businesses and the whole society.

*Fourth, develop innovative, dynamic and creative private sectors; ensure equal business institutions for private enterprises; protect the legitimate interests of investors, create an investment environment and capital investment opportunities; strengthen* *technical assistance to improve technology and governance capacity; and perform association with FDI enterprises.*

In order for the private sector to be the engine of growth in current very weak conditions, it is necessary to focus on the following key points:

i) Ensure equal business institutions for private enterprises. What needs to be renewed is: policies must be in place to limit the privileges of SOEs to ensure a fair business environment. In particular, policies should focus on respecting the business rights and property rights of private firms.

ii) Swiftly implement the process of "untie" for private firms. According to the Government's Resolution 19/2016 / NQ-CP, it is necessary to improve the business investment environment, create favorable conditions for business investment activities and protect legitimate interests of investors, absolutely avoid placing barriers, and unreasonable investment and business conditions that hinder the operation of private firms, thoroughly grasp and strictly follow the principle of the tectonic, building on enterprises as the driving force to boost the economy. Accordingly, ministries, branches and localities have been "assigned with roles" with specific tasks from reviewing to eliminating legal barriers, cumbersome "asking and giving" administrative procedures to the construction of financial mechanisms, to open up capital support for businesses.

iii) Remove difficulties for private enterprises, small and medium enterprises through policies to create an investment environment and opportunities to invest capital.

- Regarding the investment environment: domestic enterprises, especially small and medium-sized enterprises, continue to need, to a greater degree, priority policies for credit capital to effectively promote production and business, creating conditions for credit institutions to expand credit in parallel with credit safety and quality, ensuring capital supply for the economy. Policies to diversify forms of lending and loan products, simplify loan and payment procedures, should go hand in hand with credit safety and quality, as well as capital assurance for businesses. Procedures related to business registration, land lease, business establishment, tax policies, etc. should be given more priority to small and medium enterprises. It is necessary to have a reasonable tax policy towards "nurturing source of revenue" for small and medium enterprises to ensure that these businesses are not subjected to overwhelming tax burden while they are not ready to bear up.

- Regarding capital investment opportunities: it is necessary to support private enterprises, small and medium-sized enterprises in the process of production and business activities such as: providing information on markets and commodity lines, on regulations and barriers of export markets, introducing customers and suppliers, organizing more direct dialogues between businesses and local authorities to promptly remove problems and difficulties for businesses in the production and operation process, organizing meeting to provide introduction and specific instructions on business management operations, etc.

iv) Strengthen technical assistance to remove difficulties in capabilities, qualifications and technology, and in governance capacity for private enterprises, small and medium enterprises. Ministries and branches should regularly provide information about markets and commodity lines, about regulations and barriers of target export markets, strengthen the organization of direct dialogues between businesses and the city government in order to promptly remove obstacles and difficulties for businesses in the process of production and operation activities, help businesses to have a correct, full and scientific understanding of appropriate business strategy directions, of business management skills, and provide support in investing in renovating equipment and enhancing skills of managers and workers of small and medium enterprises.

v) Link FDI enterprises with the private sector, small and medium enterprises.

- Coordinate or may require FDI enterprises, when preparing projects for investment licenses, to prepare the chain profile and publish potential components to local businesses. In addition to attracting FDI projects of the Government, domestic enterprises need to actively invest in appropriate technologies, choose a suitable development roadmap to proactively link with the right partners and get ready to receive production components that utilize comparative advantage and yield higher added value.

- Develop plans to implement the support of FDI enterprises, firstly, in enhancing the capacity of domestic enterprises, especially human capacity who can undertake high-tech activities, with high technology absorptive capability.

- The State creates a favorable mechanism to develop supporting industries for the manufacturing and processing industries. This is the key to joining the global value chain in industry, as well as the key for domestic business - FDI business linkages when the new FDI wave flows into Vietnam after re-orientations of macro economy.

- Develop incentive policies (if possible, legalize into conditions) for FDI enterprises to transfer processing work and supplies of components to domestic firms. These incentive policies can emphasize land policy, tax incentives, and interest rate policies for products created from such cooperative activities.

- In order to attract FDI enterprises to invest in the production of high value-added and high-quality products in Vietnam, thereby gradually transferring technology to domestic enterprises, there should be financial support as well as tax incentive to companies that invest in these industries. These policies should contribute to promoting investment in developing markets such as automobiles, as car manufacturers are currently hesitant to make large investments due to the limit of current market demand.

- For the development of supporting industries, consulting from the government for SMEs is also an important factor. According to the SME Supporting Law No. 04/2017/QH14, one of the measures to support SME is to provide them with information support, advice and legal assistance. Ministries and ministerial-level agencies should build a network of consultants. SMEs are exempted from or have reduced consulting fees when using services from this network. However, currently this measure has not been fully implemented. The quality of the consultants should be strengthened as they are one of the key human resources needed to improve the management capability of SMEs.

*Fifth, develop high-quality human resources through comprehensive reform of the education system, renovating the training program towards increasing practice; development of multi-skill competency; strengthening connection between training institutions and the market and encouraging large enterprises to invest in education through public-private partnerships.*

Industry 4.0 will create increasingly fierce competition among businesses, and among economies; and human resources will become the decisive factor. To develop quality human resources, it is necessary to implement the following solutions:

i) It is necessary to reevaluate the results of the 2011-2020 Human Resources Development Strategy to identify the remaining bottlenecks, and from there develop a new strategy based on the assessment as well as the current demand of the market for human resources. Criticisms and other inputs from the private sector should also be noted and considered in drafting the new strategy.

ii) Comprehensively reform the formal education system from high school to university, shifting from the traditional passive receptive mode to modern model which respects and encourage critical thinking and problem-solving skills. Moving from focusing only on morality education in general to combining morality education with the best promotion of individual potentials. Moving from the concept that knowledge equals competency to the consideration of knowledge as the one important component of competency.

iii) Reform the formal education and training system towards increasing practice and vocational training to meet the requirements of the labor market in the context of international integration. Provide information and expand opportunities for career specialization at the high school level to supply early career orientation for students so that they can select careers and study levels that match their abilities and conditions. Improve the quality of career orientation and vocational training, helping young people to have more job opportunities and higher incomes. Training programs in the vocational training institutions should be reviewed, revised and supplemented so that the students can acquire the most updated and market-oriented knowledge and skills. Opportunities for skill enhancement and lifelong learning in formal as well as informal environments should be provided to citizens of all ages in Vietnam so that they successfully adapt to the quickly changing demand of the market.

iv) Develop employees' capabilities in the direction of enhancing multiple skills to enable them to adapt to different conditions and job requirements. At the same time, the multi-skill nature of employees will also make innovation and application of new technology easier.

v) Strengthen the link between university and college training institutions with the market, creating the "Enterprise University" model to improve the practicality of training programs, while promoting the establishment of within-in-enterprise training facilities to share common resources and shorten the transfer time from knowledge and skills to real life practice.

vi) Encourage enterprises, especially large enterprises and multinational corporations, to increase investment in national human resource development through public-private partnerships. Create favorable environments and conditions to attract talented and experienced foreign teachers and scientists and overseas Vietnamese to participate in human resource training in Vietnam.

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