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MACROECONOMIC REPORT FOURTH QUARTER AND 2017

INTRODUCTION

The year 2017 witnessed new efforts to implement major guidelines on reforming economic paradigm, restructuring the economy and effective international economic integration. Those efforts have become more substantive, after various previous solutions which lacked both depth and determination failed to significantly improve quality of growth by 2016. Diminishing external motivations for reforms, such as from the new-generation FTAs, made way for unilateral and bolder actions by the Government and line ministries to foster market foundations and entrepreneurship. In line with strengthening macroeconomic stability and enhancing fiscal/monetary policy space, additional efforts targeted business facilitation and reducing unnecessary regulatory burdens. Contribution of management and institutional reforms to socio-economic achievements in 2017 was thus remarkable .

This Macroeconomic Report serves several objectives, including: (i) to update macroeconomic developments and policy changes in Q4 and 2017 with evidence-based analysis and perspectives of experts/Central Institute for Economic Management; (ii) to assess the macroeconomic outlook for 2018; (iii) to cover selected economic issues based on quantitative and/or qualitative assessment; and (iv) to propose recommendations on economic reforms (including institutional reforms) and on policy solutions for macroeconomics management in 2018.

During the preparation and finalization of this Report, the authors have received many valuable comments of various experts from CIEM, and other Ministries and agencies.

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All remaining errors, views and opinions presented in the Report are solely of the authors and may not necessary reflecting those of Aus4Reform Program and/or CIEM.

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ABBREVIATIONS

ADB	Asian Development Bank
AEC	ASEAN Economic Community
AFF	Agriculture-Fishery-Forestry
ASEAN	Association of Southeast Asian Nations
CIEM	Central Institute for Economic Management
CPI	Consumer Price Index
CPTPP	Comprehensive and Progressive Trans-Pacific Partnership
DVA	Domestic value added
DB	Doing Business
ECB	European Central Bank
EU	European Union
FDI	Foreign Direct Investment
FED	Federal Reserve
FTA	Free Trade Agreement
GB	Government Bond
GDP	Gross Domestic Product
GSO	General Statistic Office
HNX	Hanoi Stock Exchange
HSBC	The Hong Long and Shanghai Banking Corporation
IFS	International Financial Statistics
IIF	The Institute of International Finance
IIP	Index of Industrial Production
IMF	International Monetary Fund
IP	Industrial Park
JPY	Japanese Yen
M2	Total liquidity
MOF	Ministry of Finance
MOIT	Ministry of Industry and Trade
MoM	Month on month
MPI	Ministry of Planning and Investment
M&A	Merger and Acquisition
NCIF	National Centre for Socio-Economic Information and Forecast
NPL	Non-performing loan
OECD	Organization for Economic Co-operation and Development
PMI	Purchasing Managers Index
QoQ	Quarter on quarter

RCEP	Regional Comprehensive Economic Partnership
REER	Real Effective Exchange Rate
SBV	State Bank of Vietnam
SCIC	State Capital Investment Corporation
SOE	State-owned Enterprise
TPP	Trans-Pacific Partnership
TTIP	Trans-Atlantic Trade and Investment Partnership
USD	US Dollar
VEPI	Vietnam Economic Performance Index
VEPR	Vietnam Institute for Economic and Policy Research
VND	Vietnam Dong
WB	World Bank

EXECUTIVE SUMMARY

1. The world economy witnessed an uninterrupted recovery in 2017 despite prior forecast of uncertainties. The World Bank (WB) estimates global economic growth of 3.0% in 2017 and produces a forecast of 3.1% for 2018. Economic growth rebounded in many countries and regions, in particular the US, Japan, Europe and emerging countries in Asia. Risks to economic growth and trade remain significant, particularly due to trade and geo-politic collisions among major economies. The 4th Industrial Revolution increases the risk of widening income inequality among nations, since the developed countries are advancing more rapidly on the basis of strong financial and technological capacity.

2. Domestically, the Government has consistently focused on improving the business and investment environment in order to mobilize development resources, and addressing constraints on production and business. In addition, the Government remains determined in ensuring macroeconomic stability in order to create favorable environment for institutional reforms at the micro level.

3. Institutional reforms in Vietnam have shown some limitations. *First*, the awareness of competition and market economy is still deficient and even sidetracked. *Second*, the transmission of reforms has been slow between different government levels. *Third*, some state agencies still attempted to preserve their role and interest in reforms, resulting in difficulties for restructuring public investment. *Finally*, public-private partnerships in institutional reforms lacked sustainability.

4. GDP grew by 7.65% in Q4 and 6.81% in 2017, surpassing many forecasts and the set target. Efforts to reform overall economic institutions in general and business environment in particular have played important role for the recovery of growth in Q3 and Q4. Quality of growth has somewhat improved in terms of capital efficiency, export and quality of credit. GDP growth exceeded its potential in Q2-Q4. Growth in consumption and investment had major contributions to overall growth.

5. Industry and construction attained highest growth rate at 7.85%. IIP rose by 9.4% in 2017. Particularly, manufacturing sub-sector grew by 20% in some last months. Confidence of manufacturing sub-sector has been improved

6. AFF showed more robust recovery in 2017, growing by 2.9%, mostly attributed to (i) progress in restructuring, applications of scientific and technological advancement, mechanization; (ii) better exploitation of major products and the attempt to adapt to specific markets; and (iii) efforts of reducing costs and related policies to food hygiene and safety. The service sector continued its steady growth, attaining 7.4% in 2017. Real estate and tourism both experienced relatively high growth. There was slightly change of economic structure.

7. The year 2017 witnessed a record of newly registered enterprises, increasing by 15.2%, with average registered capital of VND 10.2 billion, up by 26.2%. Although manufacturing enterprises had a positive assessment of production and business, the soundness of enterprises has not yet been improved: the number of dissolved or inactive enterprises exceeded the number of enterprises resuming operations.
8. Total economically active labor force was 54.0 million people in Q4/2017, up by 1.13%. The overall unemployment rate reduced to 2.24%. Unemployment rate among university graduates remained a concern, due to: (i) the number of graduates exceeding market demand as enterprises applied new technology on production and management; and (ii) modest adaptability of new graduates. Labor productivity (at current prices) attained VND 93.2 million per labor in 2017. The gap of labor productivity between Vietnam and other countries is widening.
9. The average CPI increased by 3.53% in 2017; The average core inflation took the downward trend and stood at low level of 1.41% in 2017, mainly attributed to: (i) insignificant increase of world price; (ii) reasonable and close management of state-controlled prices of essential goods and services; and (iii) effective management of foreign capital inflows to Vietnam to simultaneously stabilize exchange rate and control total liquidity.
10. VND-denominated deposit rates were relatively stable in the first 9 months and only increased slightly in Q4. SBV has not considered the removal of deposit rate ceiling. USD-denominated deposit rates were kept unchanged at 0% per annum for all terms. USD-denominated lending rates remained stable in Q4, and only decreased slightly for some medium- and long term-loans of state-owned commercial banks and lending of joint-stock commercial banks.
11. Outstanding credit grew by 5.3% in Q4 (compared to the end of Q3), being affected by such factors as: (i) reduction of government bond issuance; (ii) increase of disbursement to real estates; (iii) improved confidence of both foreign and domestic investors; (iv) the promulgation of Resolution No. 42, leading to more positive attitude of commercial banks to reduce NPLs and offer more relaxed lending conditions; and (v) extension of foreign currency loans by SBV, strengthening confidence of relevant beneficiaries in the context of increasing interest rate in the international markets. Credit growth rate was estimated to attain 18.17% in 2017.
12. The central VND/USD exchange rate was on upward trend in the first 9 months and downward trend in Q4. In 2017, the central VND/USD exchange rate increased by 1.71%, offering more room for commercial banks to flexibly respond to uncertainties of the international market (if any). The foreign exchange market did not witness any major temporary hoardings.
13. Gross investment increased by 10.8% in Q4 and by 12.1% in 2017. Investment structure shifted further towards smaller share of the State sector and higher shares of individuals and private sector and FDI. However, this figure reflected no efforts of state authorities to actively reduce “crowding-out effect” of State

investment on private investment. Instead, investment from the state budget increased by only 7.2% in 2017 due to limited financing capability. Meanwhile, disbursement of government bonds and investment credits were slower than planned, partly due to limited capability to meet requirements and procedures.

14. In 2017, exports reached over USD 214.0 billion, increasing by 21.2%. Main reasons included (i) robust recovery of global trade amid faster global economic growth; (ii) increase of export price (in USD) while VND/USD exchange rate were relatively stable; (iii) efforts to exploit key markets and products; and (iv) simplification of administrative procedures related to import and export. Import turnover increased by nearly 20.8%. Some of top import commodities were important inputs to major export products, including electronics, computers and components, telephones and parts, fabrics, etc. It led to concerns about the dependence of exports on imported inputs, while the role of domestic firms in the export value chain has been limited.

15. Budget revenues reached VND 439.9 trillion in Q4, or 26.2% of GDP. In 2017, budget revenue attained VND 1.28 trillion, 5.9% higher than the planned target and up by 16.5% (YoY). However, the surplus was mostly attributed to land use fees. Underlying the difficulties of budget revenues in 2017 were: (i) insignificant increase of import prices; (ii) reduction of imports for not-yet-phased-out tariffs items; and (iii) existence of tax losses. Budget deficit was estimated at VND 178 trillion, equivalent to 3.48% of GDP, partly due to slow disbursement of development investment from state budget. To that extent, restructuring of public investment has not produced desirable effect, whilst resulting in a waste of resources.

16. YoY economic growth in 2018 is projected at 6.58%. Export growth may reach 9.4%. Trade surplus is projected at USD 1.1 billion. Average CPI in 2018 will increase by approximately 3.74%.

17. The Report updates general assessment on business environment on 2017 and analyzes some challenges to further improvement of business environment. The Report also confirms that important sets of indicators on business environment and competitiveness were upgraded in terms of both score and ranking, which was recognized by international organizations. However, the achievements are less sustainable as there still remain barriers for business environment, preventing the production and business of enterprises.

18. In addition, the Report also analyzed the necessity and related contents of specialized mechanism for growth-driving economic regions, including (i) outstanding public borrowings; (ii) targeted supplementary fund from the Central budget; (iii) special mechanism on domestic development investment; and (iv) decentralization of budget.

19. Vietnam has entered the year 2018 with some hopes and confidence. The impressive socio-economic performance in 2017 helped consolidate public confidence in the reforms of economic institutions in general and of business environment in particular. The lessons learned from 2017 also highlight the vital importance of maintaining a stable macroeconomic environment and

continuing institutional reforms. Easing credits may help boost business activities in the short-term, but it could also push the economy back to a vicious cycle of NPLs, hinder productivity growth, and reduce policy space for macroeconomic management should adverse shocks occur. Given this context, accelerating and deepening micro reforms is the only option.

20. Effective implementation of the international economic integration process remains an important priority for Vietnam. However, the benefits of integration can hardly be realized if Vietnam is not granted the full market economy status. In this regard, advocating partners to recognize Vietnam with the full market economy status is important, but it would be even more meaningful if Vietnam’s market economy foundations are truly respected and strengthened. Uncertainties of international economic integration, on the contrary, seem to be a good opportunity for Vietnam to again prove its decisive will for reforms.

21. Macroeconomic developments in 2018 may be influenced by several factors, specifically: (i) world economic recovery remains more or less uncertain; (ii) multilateral trade liberalization faces many challenges due to protectionism, and bilateral trade approach is becoming more common; trade retaliations between major economies can be complex; (iii) Vietnam may have to prevent the risk of reversing foreign capital flows, resulting in pressure on exchange rates and balance of payments; (iv) Vietnam may lag further behind in terms of technology if it fails to take advantage of opportunity and to handle challenges from Industrial Revolution 4.0; and (v) economic resilience to adverse macroeconomic shocks depends mainly on the monetary policy space, determination of Vietnam's response, and coping measures in specific scenarios.

22. The Report re-emphasizes the message of giving continued priority to strengthening microeconomic foundations and reforming economic institutions for a modern market economy. In this line, the Report has made a series of recommendations on reforming microeconomic foundations, macroeconomic policies and some related policies.

I. ECONOMIC CONTEXT IN Q4 AND 2017

1. Regional and global economic context

1. The world economy witnessed an uninterrupted recovery in 2017 despite prior forecast of uncertainties. The World Bank (WB) estimates global economic growth of 3.0% in 2017 and produces a forecast of 3.1% for 2018. Economic growth rebounded in many countries and regions, in particular the US, Japan, Europe and emerging countries in the Asia. Risks to economic growth and trade remain significant, particularly due to trade and geo-politic collisions among major economies. The 4th Industrial Revolution increases the risk of widening income inequality among nations, since the developed countries are advancing more rapidly on the basis of strong financial and technological capacity.

Table 1: Global economic prospects

Unit: %

	2017	*2018*	*Difference**	
			2017	*2018*
World GDP (growth rate, %)	3.0	3.1	0.3	0.2
Developed economies	2.3	2.2	0.4	0.4
United States	*2.3*	*2.5*	0.2	0.3
Japan	*1.7*	*1.3*	0.2	0.3
Eurozone	*2.4*	*2.1*	0.7	0.6
Developing and emerging economies	4.3	4.5	0.2	0.0
China	*6.8*	*6.4*	0.3	0.1
India	*6.7*	*7.3*	-0.5	-0.2
World trade (growth rate, %)	4.3	4.0	0.3	0.2
Non-fuel price (% increase, USD)	4.9	0.6	0.9	-0.1

Source: WB (January 2018).

Note: * Difference between the forecasts for 2017 and 2018 in comparison to those in June 2017.

2. The US economy enjoyed more robust recovery. GDP growth rate attained 3.2% in Q3/2017[1] (the second estimate), higher than the initial estimate of 3%.[2] Unemployment rate hit 4.1% in November, the lowest level in the last 17 years. Inflation pressure and robust growth recovery induced the Federal Reserve (FED) to raise interest rates, most recently on December 14, 2017 (by 0.25 percentage point). However, the trade policy adjustment - toward rebalancing bilateral trade between the US and its trading partners – cast further uncertainties on the multilateral trading system, in particular for developing countries in the value chain (like Vietnam).

3. Japan's economy grew by 0.3% in Q3/2017, the 7th consecutive quarters with positive economic growth rate. This growth rate was mainly attributed by

[1] In this report, growth rate is YoY growth rate (unless otherwise specified).
[2] Source: Bureau of Economic Analysis (https://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm)

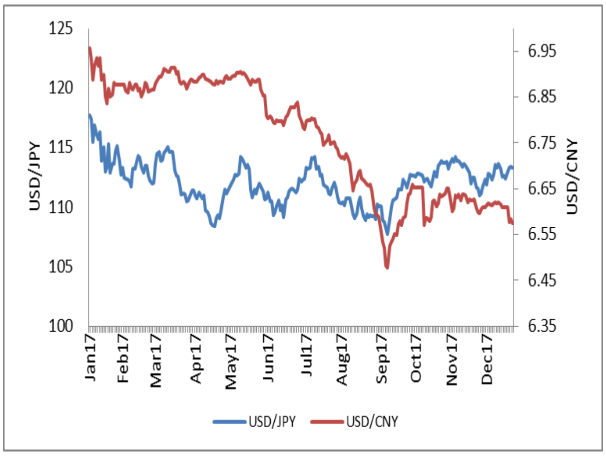
considerable expansion of exports and investment. Inflation remained below the target of 1%. The Bank of Japan (BoJ) continued to ease monetary policy (both qualitatively and quantitatively)[3] to promote more robust economic recovery as well as to achieve the inflation target of 2% in 2019.

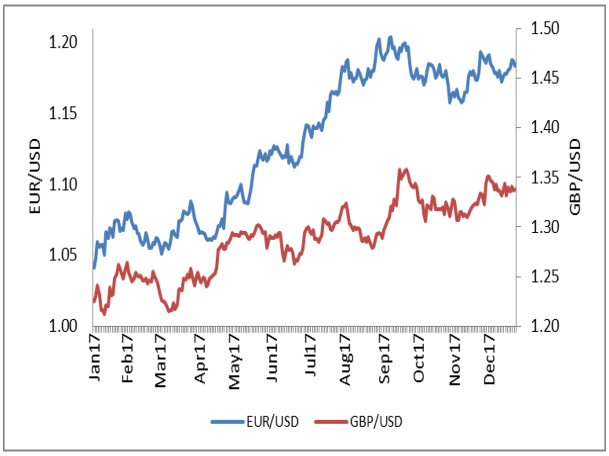
4. Industrial production and exports exhibited relatively fast growth in China. GDP growth rate is estimated to reach 6.8% in 2017, outpacing the target of 6.5%. Under the pressure of structural reforms, China retained prudent monetary policy and active fiscal policy to improve asset quality, fend off debt risk and support stable liquidity of the economy.

5. GDP growth rates of both EU28 and the Eurozone were stable at relatively high level, both attaining 2.6% in Q3/2017.[4] This result reflects the improvement of exports, domestic demand and investment thanks to low interest rate of the European Central Bank (ECB). Nevertheless, slow establishment of new government in Germany may challenge efforts to promote economic growth and economic integration in the Europe.

6. The USD continued to depreciate, by 1.03% in Q4 and by 9.87% in 2017.[5] This was mainly attributed to a number of factors, namely impacts of typhoons on the US economy, tightening monetary policy of the ECB, tension in the Korean peninsula, etc. The concern about the US monetary policy aiming at a weak USD also induced depreciation of the USD.

Figure 1: Movement of some major currencies to USD in 2016-2017





Source: The US's Federal Reserve (https://www.federalreserve.gov).

7. World price was less volatile in 2017. The amplitude of gold price was narrower than in 2016, despite upward trend. The international oil price became more stable as the OPEC attempted to control supply.[6] The recovery of world oil price, however, faced with the pressure of increasing shale oil production in the US and geopolitical tension in some regions.

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[3] The QQE program of Japan is JPY 80 trillion per annum (about USD 795 billion).

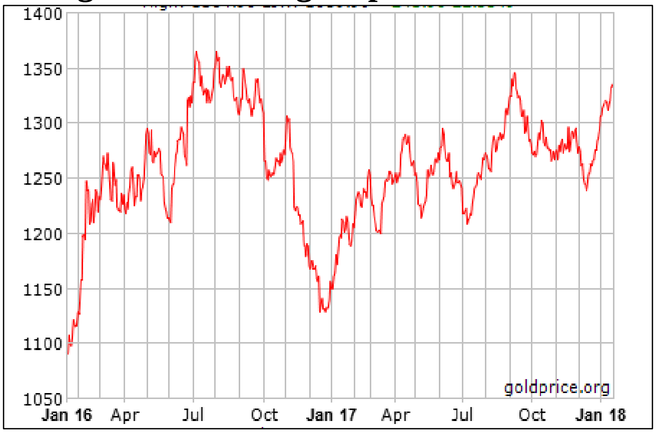
[4] Source: http://ec.europa.eu/eurostat/documents/2995521/8515977/2-07122017-AP-EN.pdf/0ef3dfff-dcfb-4377-aa46-f55569c5b29a

[5] At the end of 2017, the USD index stood at 92.12.

[6] At the meeting on November 30, 2017, the Organization of Petrol Export Countries (OPEC) committed to cut down production output by 1.8 million barrels per day till the end of 2018.

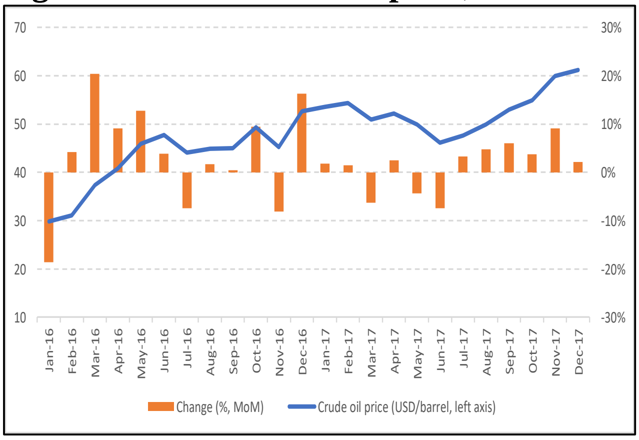
8. Global investment was estimated to growth by 4.3% in 2017, which was double that in 2016.[7] Various emerging economies in Asia and South America witnessed significant expansion of indirect investment in stocks and shares. The main reasons included: (i) positive growth prospects of these regions; and (ii) market diversion due to concerns of Brexit negotiation and policy adjustments in the US.

Figure 2: World gold price, 2016-2017



Source: Goldprice.org

Figure 3: World crude oil price, 2016-2017



Source: Indexmundi.

9. The year 2017 also witnessed significant obstacles to international economic integration, particularly in the Asia-Pacific region. Uncertainties and challenges have been amplified after the US withdrew from the Trans Pacific Partnership agreement (TPP) and shifted its focus on bilateral commercial issues. The 11 remaining members of TPP had to continue negotiations, even after reaching an agreement in November 2017 in order to save the TPP under the new title – the Comprehensive and Progressive Trans Pacific Partnership (CPTPP). The Regional Comprehensive Economic Partnership (RCEP) was yet to conclude due to remaining disagreements among engaged parties. Progress with multilateral trading system will heavily depends on "coordinating" economies such as Japan, Australia, New Zealand, etc.

2. Domestic economic context

10. In 2017, the Government has consistently focused on improving the business and investment environment in order to mobilize development resources, and addressing constraints on production and business.[8] Notably:

a. The implementation of Resolution 19/NQ-CP in 2017, following a series of Resolution 19 since 2014, induced major changes in many areas, particularly paying taxes, getting electricity.[9]

b. The Prime Minister has promulgated Directive No. 24/CT-TTg dated 2 June 2017, requesting Ministries, agencies and local authorities to focus on

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[7] WB (2017). Investment by newly-emerging and developing economies is forecasted to increase by 5.4% in 2017 and 2018; while the figures by developed countries are 2.8% and 3.5%, respectively (compared with 1.5% in 2016).

[8] See more in Resolution 01/NQ-CP on key tasks and solutions for executing the socio-economic development plan and state budget plan in 2017.

[9] More detailed analysis can be found in Section 3.1.

promoting sectoral and industrial solutions to achieve the growth target (retained at 6.7%, accompanied by specific growth targets for each sector and key industries).

c. The line ministries and agencies have consulted and acted more intensively to review and reduce unnecessary administrative procedures. Notably, the Ministry of Industry and Trade (MOIT) introduced a plan to phase out a major proportion of administrative procedures under its authority.[10]

d. State-owned enterprises (SOEs) reform has made some progress, especially in terms of: (i) reviewing and approving the establishment of state capital management agencies in business groups and large SOEs; (ii) selling significant portion of state capital in large SOEs (such as Vinamilk, Sabeco, which has not been offered for many years despite investors' interest).

11. In general, these solutions in 2017 exhibited depth and determination at work. Policy debates and consultations have touched more deeply on technical issues within specific industries (such as food hygiene and safety, specialized inspection in import/export, etc.). More importantly, these solutions have more or less surpassed the vested interests in the concerned sectors. To that extent, the 2017 achievements are of great significance and provide momentum for more profound changes of investment and business environment in the upcoming years.

12. In another aspect, the Government remains determined in ensuring macroeconomic stability in order to create favorable environment for institutional reforms at the micro level. Resolution 42 of the National Assembly has made way for addressing non-performing loans (NPLs) of commercial banks. Price control (of electricity, health care) has been more strictly managed by the State. Foreign (both direct and indirect) investment flows were closely monitored and managed so as to improve foreign exchange reserves, whilst stabilizing exchange rates and total liquidity. In particular, monetary and fiscal policies have not been relaxed, despite concerns of low GDP growth in the first quarters. Accordingly, the Government refrained from policy attempts to stimulate aggregate demand, while more or less built up macroeconomic policy space in response to future adverse shocks (if any).

13. In 2017, the National Assembly approved 18 Laws, including some important laws such as Law on Small and Medium-Sized Enterprises (SMEs), Foreign Trade Administration Law, Law on Public Debt Management, and Law on Planning. In addition, a number of important Resolutions have been issued, including Resolution 11-NQ/TW on further improvement of socialist-oriented market economy institutions, Resolution 10-NQ/TW on development of private sector.

[10] Officially amended by Decree 08/2018/ND-CP dated 15 January 2018 on the amendment of related decrees on business and investment conditions under the management of MoIT.

Box 1: Selected targets of Resolution 10-NQ/TW

- The number of enterprises will be at least 1 million by 2020, 1.5 million by 2025 and 2 million by 2030.
- The share of private sector's contribution to GDP increases to about 50% in 2020, 55% in 2025, and 60-65% in 2030.
- The average growth of labor productivity in 2016 – 2025 will be 4-5% per year. Narrowing the gap of technology, quality of human resources and competitiveness of private sector as compared to the leading ASEAN-4; private enterprises will be able to participate in regional and global production networks.

14. Significant institutional and business environment changes in 2017 have been internationally recognized.[11] Three groups of indicators on business environment have improved in terms of both score and ranking, including:

    a. Competitiveness ranking increased by 5 positions as compared to 2016 (from 60th out of 138 ranked economies to 55th out of 137 ranked economies);

    b. Business environment ranked 68th out of 190, up by 14 positions. This improvement was most impressive in the past decade;

    c. Innovation Index improved by 12 positions, attaining 47th out of 127 - the highest ranking ever. Vietnam has ranked 1st among low middle-income countries (from 3rd rank in 2016).

    d. Credit rating agencies (Moody's and Fitch) have lifted Vietnam's rating from Stable to Positive.

15. The above-mentioned changes further affirmed that resources are no key to institutional reforms and economic development. From experiences in recent years, Vietnam has never been in shortage of resources for economic growth, but only lacked willingness and determination to marketize such resources, accompanied by policies for improving allocative and utilization efficiency. To that extent, efforts and changes of investment and business environment were more meaningful to business community and the people - who are more concerned about their direct costs and benefits than arid figures of growth and total investment, etc.

16. International economic integration still exhibits uncertainties; however, Vietnam has adjusted its approach. On one hand, Vietnam fulfills its international commitments, particularly under WTO Trade Facilitation Agreement.[12] On the other hand, Vietnam has been more proactive in cooperating with its partners to revive and accelerate negotiation of international treaties. In particular, Vietnam has played an important role in cooperating with Japan and nine other partners to enliven TPP (transformed into CPTPP). Nevertheless, pressure of new agreements on domestic reforms has diminished compared to the years of 2014-2015. Thus, international

[11] Detailed analysis can be found in Section III.
[12] Entry into force in February 2017.

economic integration may and should no longer be the driver of Vietnam's economic reforms in 2017 and beyond.

17. Institutional reforms in Vietnam have shown some limitations. *First*, the awareness of competition and market economy is still deficient and even sidetracked, especially in terms of using reasonable technical barriers for domestic protection, selecting partners in selling state shares, regulations affecting competition, etc. *Second*, the transmission of reforms has been slow between different government levels. Meetings were too numerous and time-consuming, while they could have been replaced by more practical actions at the local levels. *Third*, some state agencies still attempted to preserve their role and interest in reforms, resulting in difficulties for restructuring public investment. Numerous efforts and voices towards lifting public debt ceiling has been made, instead of acknowledging the opportunity for further marketizing economic sectors. *Finally*, public-private partnerships in institutional reforms lacked sustainability, even loosened while the state apparatus reforms are entering important phases.

II. MACROECONOMIC PERFORMANCE AND OUTLOOK

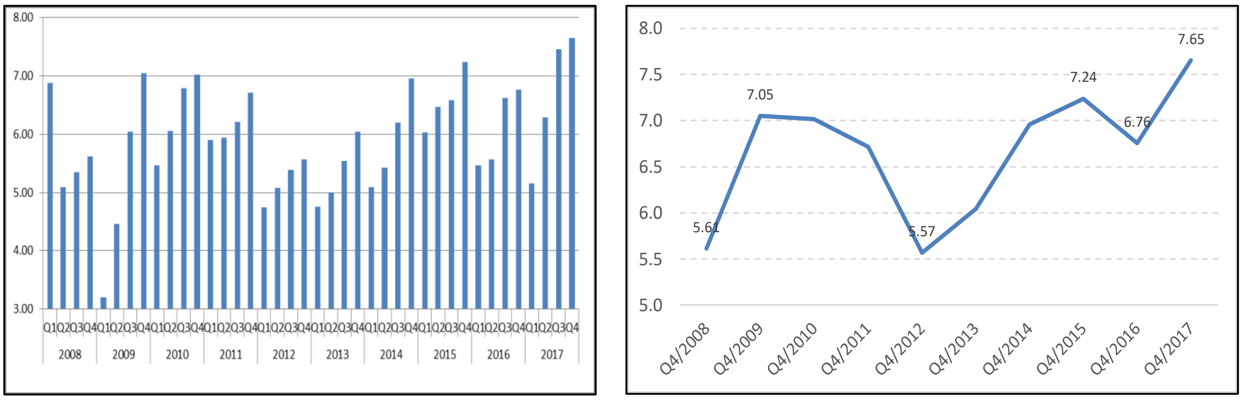
1. *Macroeconomic performance in Q4 and 2017*

1.1. Real economy

18. Economic growth in 2017 reached 6.81%, surpassing many forecasts and the set target (6.7%). This growth rate was the highest for the last 10 years, thanks to high growth of Q4 (7.65%) (Figure 4). The overall growth performance for 2017 is even more impressive, given the relatively low figure for Q1.

Figure 4: GDP growth rate

Unit: %



Source: General Statistics Office (GSO).

19. Rapid recovery has also led to concerns about the quality of growth data. However, it is not easy to find an alternative index which reflects similar coverage and comprehensiveness for verifying GDP growth. For example, based on Vietnam Economic Performance Index (VEPI), Vietnam Institute for Economic and Policy Research (VEPR) showed that economic growth in 2017 may not be as high as the figure announced by GSO. However, VEPI and GDP seem to *differ in terms of technical nature*.[13] In addition, relying on several groups of indicators may help to simplify the calculations, but VEPI can hardly attain the *comprehensiveness* as GDP. More importantly, most of VEPI components[14] reflect total output. Therefore, VEPI *may not reflect in a timely manner* the change of value added content and/or private entrepreneurship - especially in the context of both and comprehensive institutional reforms.

20. Meaningful efforts to reform economic institutions in general and business environment in particular have played an important role in inducing growth recovery in Q3 and Q4. Data showed that economic growth and TFP growth are driven by economic institutional reform (Figure 5). For example, if regulatory quality[15] increased by 1%, the TFP growth rate could increase by 1.41 percentage points. To that extent, excessive caution to growth figures may actually lead to institutional reforms being under-estimated. In turn, that

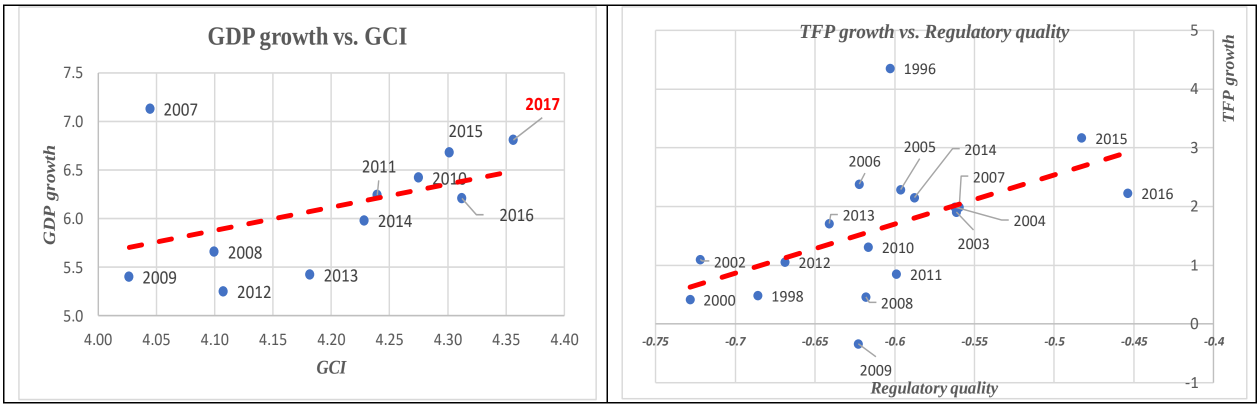
[13] GDP is a type of Paasche index, accordingly, the calculation involves variation of ***current*** product structure. Meanwhile, VEPI seems to be Laspeyres-type index, with fixed shares for its components over time. See more at: https://en.wikipedia.org/wiki/Price_index.

[14] Electricity output, export and import value, credit growth and IIP.

[15] According to World Bank's Worldwide Governance Index.

underestimation may undermine the momentum for future economic reforms – the room for which remains plentiful.

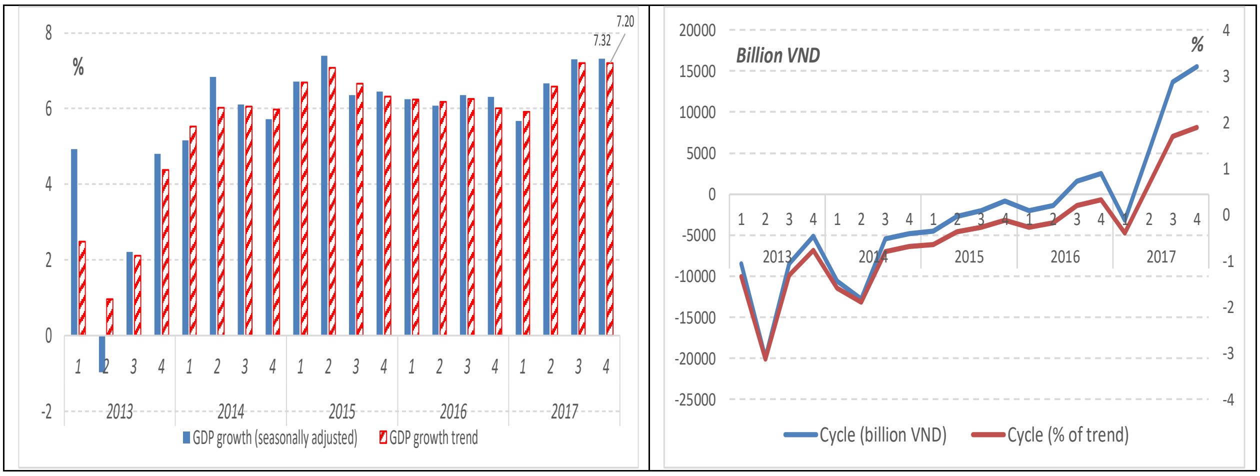
Figure 5: Role of institutional reforms for Vietnam's economic growth



Source: GDO growth from GSO; TFP growth from Vietnam National Productivity Institute and Dinh Hien Minh et al (2009); Regulatory quality from Worldwide Governance Index Database of WB.

21. Technical analysis showed that GDP growth exceeded its potential in Q2-Q4. Potential growth in 2017 has improved compared to 2016. However, the sizeable gap between actual and potential growth in Q4 (up to 1.9%) requires stronger focus on improving growth potential through microeconomic reforms.

Figure 6: GDP growth movement compared to trend and cycle

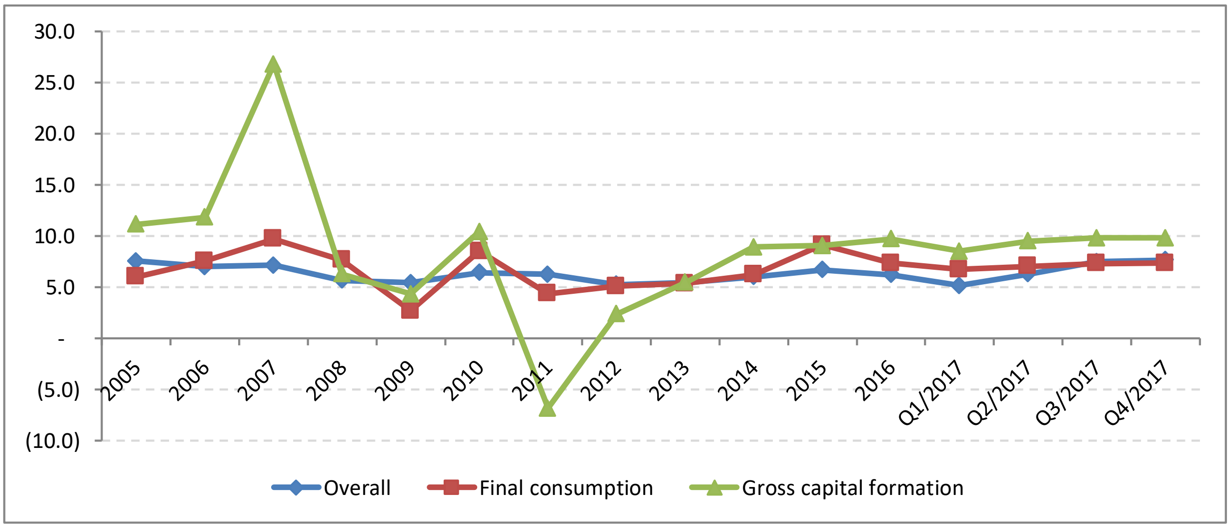


Source: Authors' calculations.

22. On the demand side, expansion of consumption and investment had major contributions to overall economic growth in Q4 and 2017. Final consumption grew by 7.35%, contributing 5.52 percentage points (of which final household consumption contributed 5.04 percentage points); gross capital formation increased by 9.8%, contributing 3.30 percentage points (Figure 7). Trade balance of goods and services had smaller impact on aggregate demand than in previous years, since merchandise trade was in surplus[16].

[16] See more in Section II.5.

Figure 7: Contributions of gross capital formation and final consumption to GDP growth

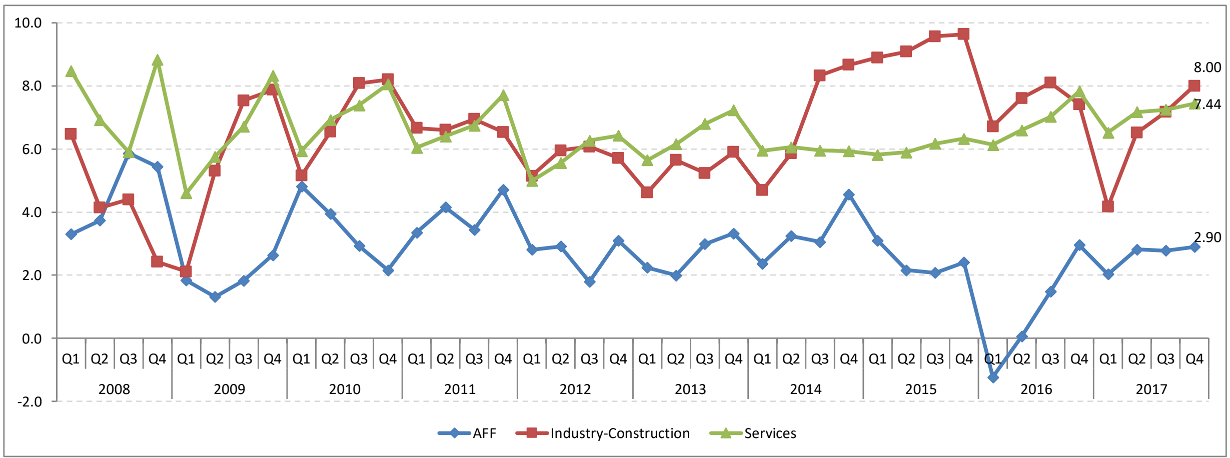


Source: GSO.

23. By sector, industry and construction attained highest growth rate. Value-added of this sector went up by 7.85%[17] in 2017, higher than the rate of 7.06% in 2016 (Figure 8). The Index of Industrial Production (IIP) rose by 9.4% in 2017[18], higher than the growth of 2015-2016 (Figure 9). Notably, manufacturing sub-sector grew by 14.4% - the highest since the last 7 years and partially compensated for the negative growth of mining and quarrying sub-sector (decreasing by 7.1%)[19]. IIP of manufacturing increased by up to 20% towards the end of 2017[20]. If this pattern is sustained, economic growth will be less dependent on exploiting natural resources.

Figure 8: GDP growth by sector

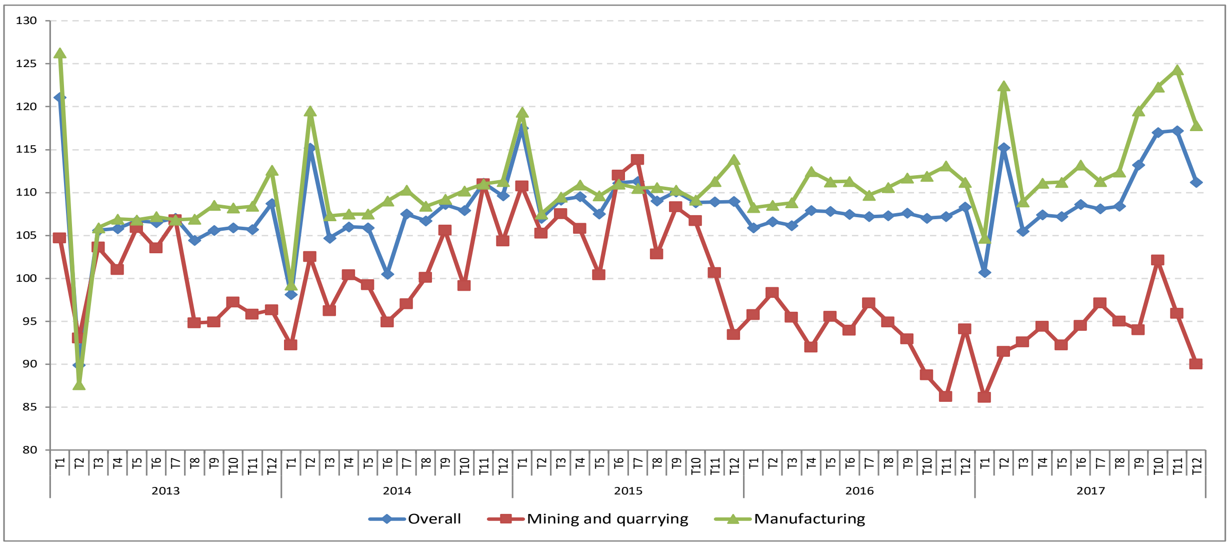
Unit: %



Source: GSO.

[17] Industry and construction increased by 4.17% in Q1; 6.51% in Q2; 7.17% in Q3 and 8.00% in Q4.
[18] QoQ growth was 7.4% in Q1; 7.1% in Q2; 7.1% in Q3; and 8.2% in Q4.
[19] Mainly due to a reduction of output: crude oil output fell down by 1.6 million tons compared to previous year; coal output was only at 38 million tons, decreasing by more than 180 thousand tons.
[20] In October and November 2017, IIP of manufacturing sub-sector increased by 22.3% and 24.3%, respectively.

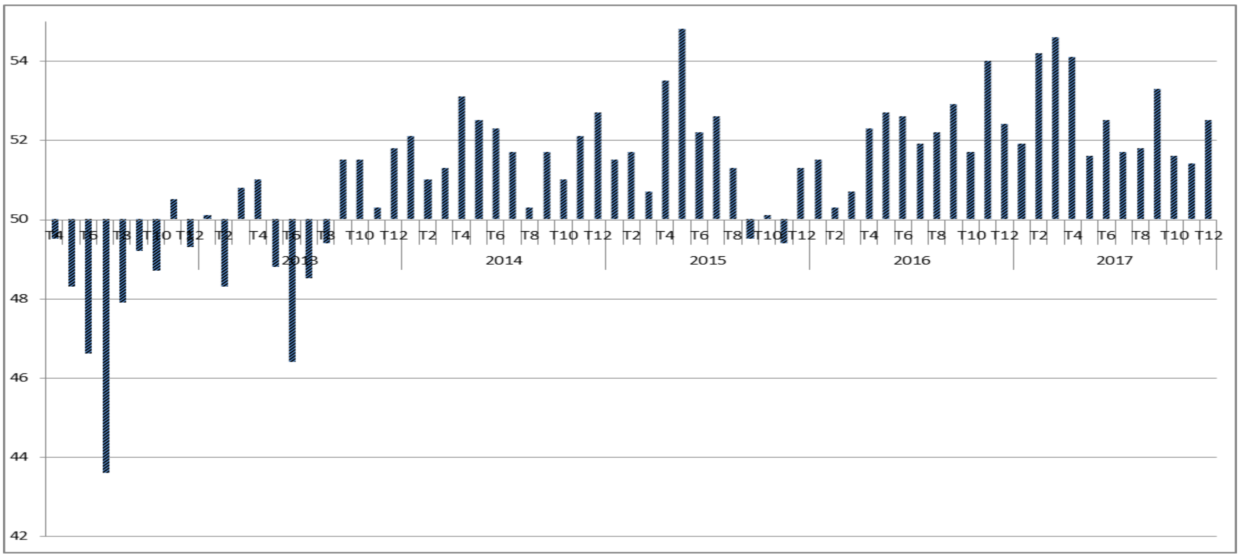
Figure 9: Index of Industrial Production, 2013-2017



Source: GSO.

24. Purchasing Managers Index (PMI) of manufacturing sub-sector remained relatively good[21] (Figure 10). Confidence of manufacturing sub-sector has improved, mostly due to (i) material improvement of business environment and efforts to reduce unnecessary burden for business community; (ii) strong export demand coupled with world economic recovery; and (iii) relative stability of price and interest.

Figure 10: Purchasing Managers Index, 2012-2017



Source: Markit, HSBC.

Note: PMI=50 means no month-on-month change.

25. Agriculture-forestry and fishery (AFF) showed more robust recovery in 2017, after experiencing some difficulties in 2016. Value-added of this sector grew by 2.9%. Fishery sub-sector rose most rapidly, by 5.54%. These results were mainly attributed to progress in economic restructuring, applications of scientific and technological advancement, mechanization, better exploitation of

[21] PMI was high (53.3) in September and slightly reduced in October and November, at 51.6 and 51.4 respectively.

major products, attempt to adapt to specific markets, and efforts to reduce costs and related policies to food hygiene and safety.

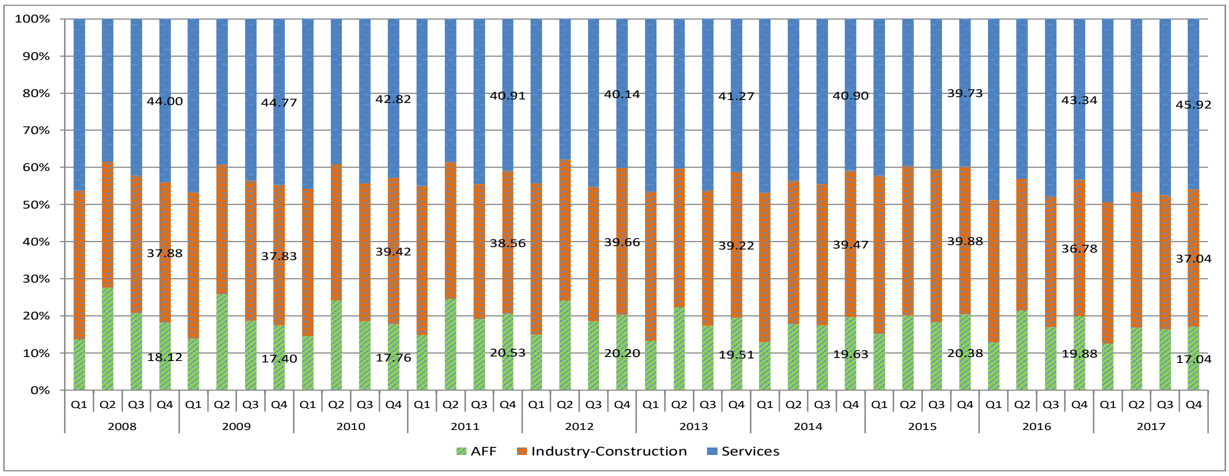
26. The services sector continued its steady growth, attaining 7.4% in 2017. Some sub-sectors experienced high growth for the last five years, such as wholesale and retail trade, accommodation and catering services, finance, banking and insurance, real estate and tourism. Notably, the number of international visitors to Vietnam hit a new record of nearly 13 million, increasing by 29.1%. The main reasons included the improvement of tourist environment, promoting destination brands, and advertising efforts during APEC activities in 2017.

27. Real estate market continued to grow, up by 4.07% in 2017. The real estate market witnessed: (i) significant increase of FDI inflows (accounting for 8.5% of total registered capital), (ii) improved liquidity, (iii) increases of M&A, and (iv) relaxed policies allowing foreigners to trade and to transfer real estate in special economic zones; and (v) amendments of certain provisions in the Land Law.

28. The economic structure only changed slightly. In spite of improved growth, the share of AFF decreased, only accounted for 17.04% in Q4/2017 compared to that of 19.88% in 2016. The shares of industry and construction, and services sector slightly increased (Figure 11).[22]

Figure 11: Quarterly GDP structure, 2008-2017

Unit: %

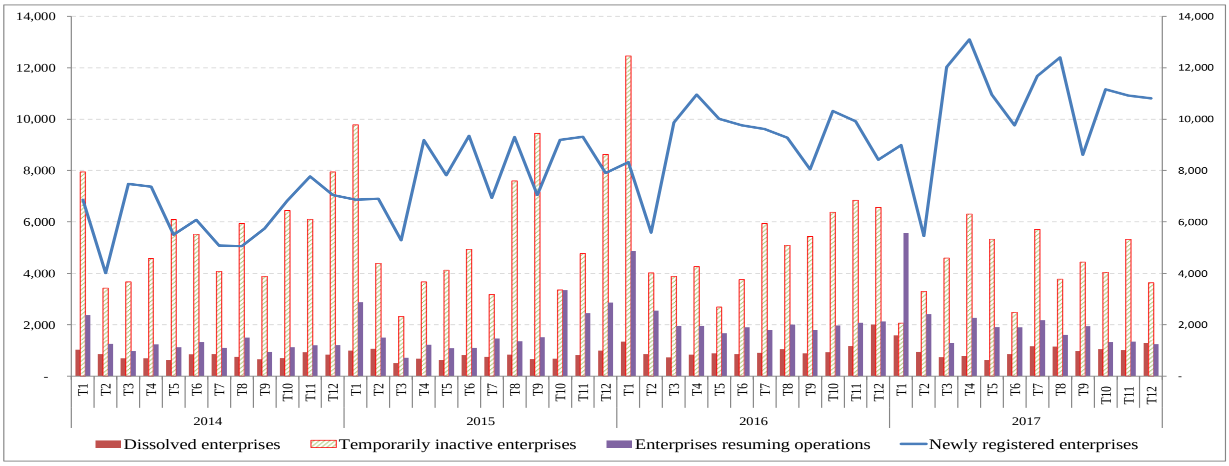


Source: GSO.

29. The year 2017 witnessed a record of newly registered enterprises, reaching 126,859 enterprises, up by 15.2%. Average registered capital per newly registered enterprise was VND 10.2 billion, increasing by 26.2%. However, the majority of new enterprises had less than VND 10 billion of capital (more than 90%). The health of enterprises has not yet been improved: the number of dissolved or inactive enterprises exceeded the number of enterprises resuming operations (Figure 12).

[22] In this analysis, the shares of sectors do not take into account the distribution of products taxes less subsidies on production.

Figure 12: Selected indicators of enterprises' performance, January 2014-December 2017



Source: Busisness Registration Agency, MPI.

30. Manufacturing enterprises had positive assessment of production and business. Some 81.3% of enterprises assessed better or stable production and business condition in Q4 compared to Q3. In addition, 48.2% of enterprises thought that business tendency would be better, and another 35.7% of enterprises expected stable production and business in Q1/2018 (Figure 13 and Figure 14).

Figure 13: Business tendency (Q4/2017 compared to Q3/2017)

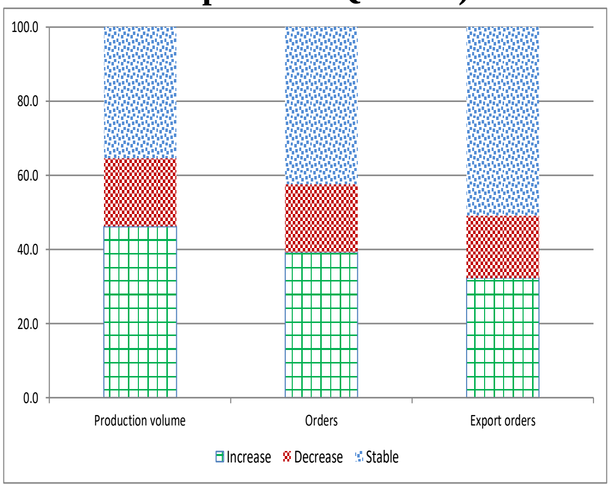
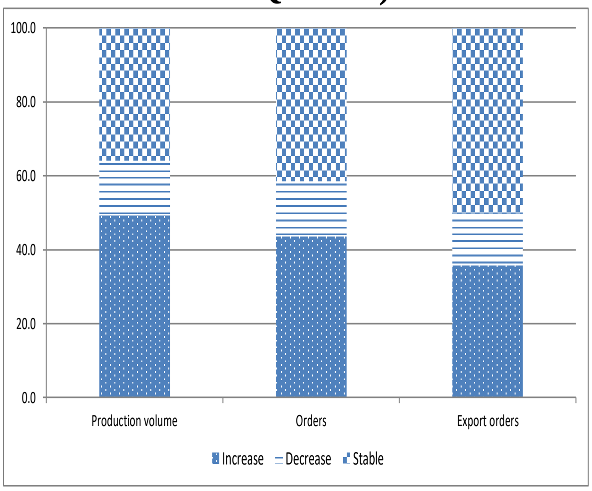


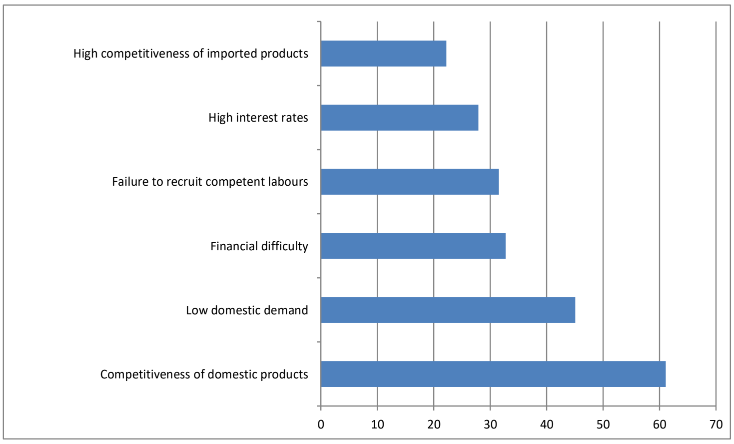
Figure 14: Business tendency (forecast for Q1/2018)



Source: GSO.

31. In Q4, production and business still faced some difficulties due to competitiveness of domestic products (61.1%); low demand of domestic market (45.1%). Other factors such as financial difficulties, failure to recruit competent labor, high interest rates and competitiveness of imported products also had certain impacts on production and business. (Figure 15).

Figure 15: **Factors affecting production and business**



Source: GSO.

32. Total economically active labor force was 54.0 million people in Q4, up by 1.13%. By economic sector, the share of labor in AFF sector decreased to 40.0% (from 41.5% in Q4/2016), while the share of labor in industry – construction increased from 25.0% in Q4/2016 to 25.9% in Q4/2017 (Figure 16).

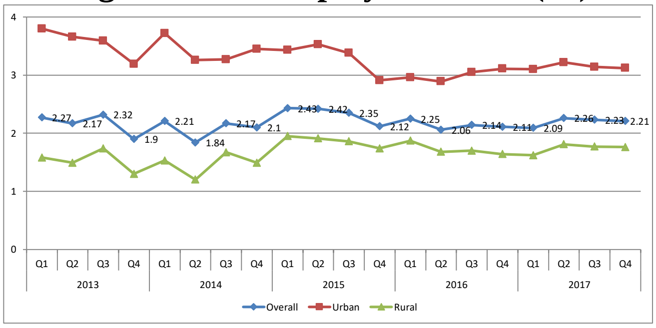
Figure 16. Economically active labor force by economic sector, 2013-2017

Unit: thousand people

Source: GSO.

33. The overall unemployment rate fell to 2.24% in 2017.[23] However, the unemployment rate of both rural and urban areas slightly increased towards the end of 2017 (compared to 2016)[24]. Unemployment rate among university graduates remained a concern (being 4.51% in Q3/2017). It could be attributed to (i) the number of graduates exceeding market demand as enterprises applied new technology on production and management; and (ii) modest adaptability of new graduates.

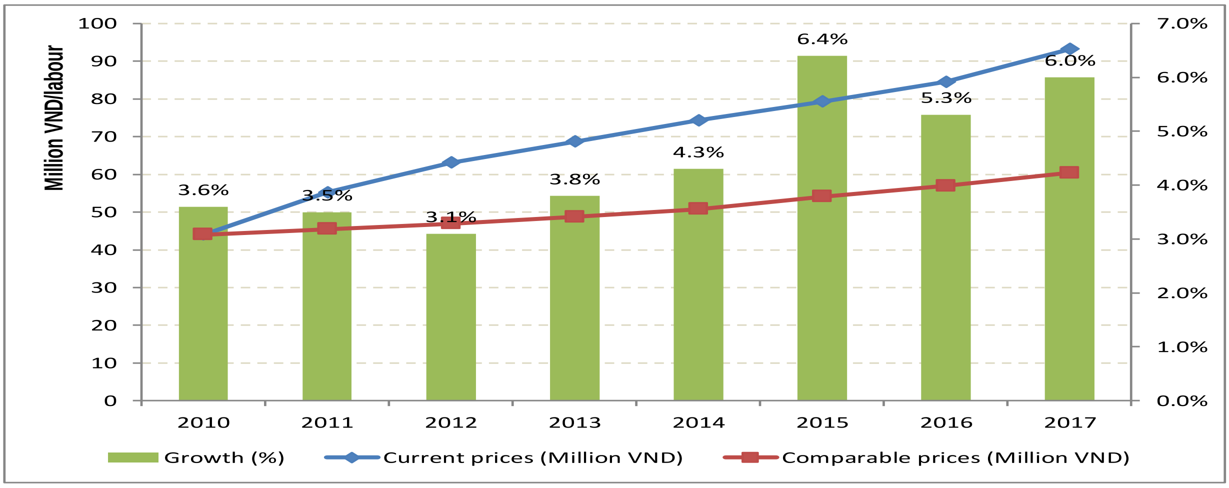
Figure 17: Unemployment rate (%)



Source: GSO.

34. Labor productivity (at current prices) attained VND 93.2 million per labor in 2017[25] (equivalent to USD 4,159 USD per labor), up by 6%. However, Vietnam's labor productivity is still lower than many countries in the region. It was only USD 9,894 in 2016 (by 2011 PPP), equivalent to 7.0% of Singapore; 17.6% of Malaysia; 36.5% of Thailand; 42.3% of Indonesia; 56.7% of the Philippines and 87.4% of Laos. Moreover, the gap is widening. Thus, institutional reforms have not yet affected labor market, without improving quality of human resources.

Figure 18: Labor productivity



Source: GSO.

35. Quality of growth has somewhat improved. The incremental capital-output ratio (ICOR) was 4.9 in 2017, slightly lower than 2016 (5.3).[26] Contributions of TFP to GDP growth attained 30.5% (higher than the figure of 28.5% in 2016 and average level of 25.8% in 2011-2015).

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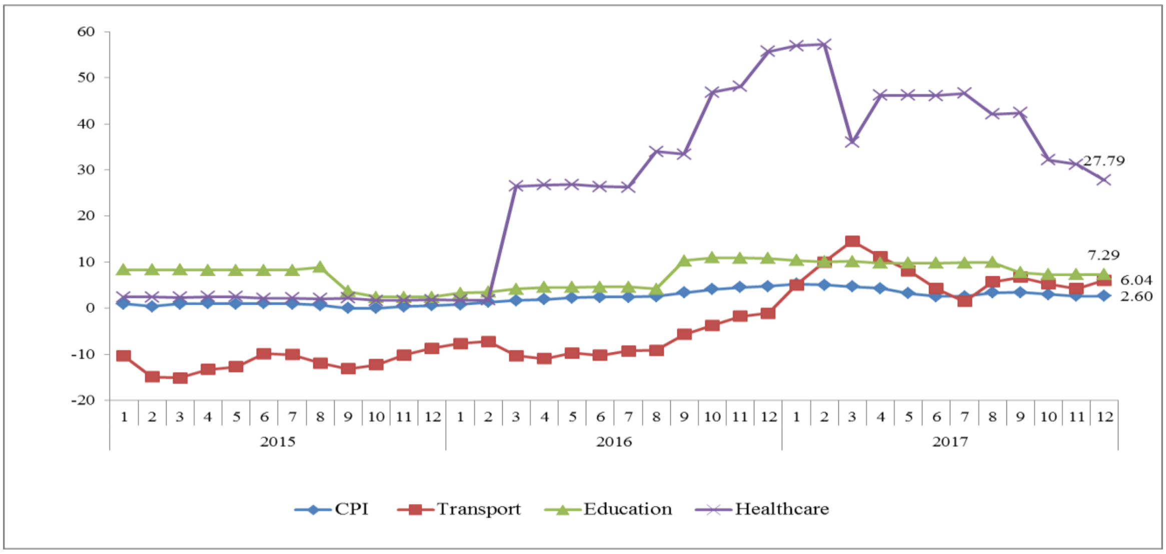
[23] It was 2.33% in 2015 and 2.30 in 2016.
[24] It was 3.37% in 2015 and 3.23% in 2016
[25] At current prices.
[26] GSO's data.

1.2. Inflation

36. The average Consumer Price Index (CPI) increased by 3.53% in 2017, which was below the target (4%). The average core inflation took the downward trend and stood at 1.41% in 2017 (below the target of 1.6-1.8%). This was mainly attributed to: (i) insignificant increase of world price;[27] (ii) reasonable and close management of state-controlled prices of essential goods and services; and (iii) effective management of foreign capital inflows to Vietnam to simultaneously stabilize exchange rate and control total liquidity[28].

Figure 19: YoY CPI, 2015-2017 (%)

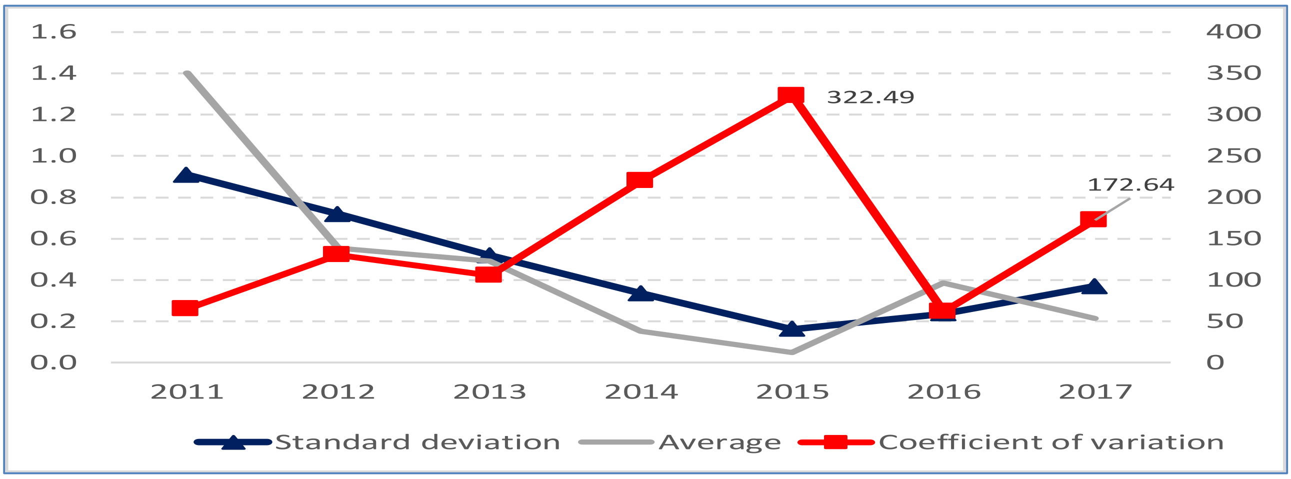


Source: GSO.

37. YoY CPI-based inflation decreased almost continuously in 2017 (Figure 19). However, the average of monthly MoM inflation was smaller in 2017 than in 2016 (Figure 20). The variation of monthly CPI – measured by the standard deviation – slightly increased in 2017 from that in 2016. In general, inflation in 2017 was considerably more stable than in the period of 2011-2012.

Figure 20: Patterns of MoM inflation, 2011-2017

Unit: %



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27 Import price of goods rose by only 1.87% in 2017.

28 Contradict to the situation in 2007-2008 (see CIEM 2013 for reference).

Source: Authors' calculation using statistics of the GSO.

Note: The coefficient of variation (standard deviations divided by the average, %) is showed in the right axis.

38. Unlike previous years, the upward adjustment of state-controlled prices of goods and services was not rigid in 2017. Instead, the adjustment was considered and decided based on actual price movement and price forecasts for the whole year. Consequently, the adjustment was almost rejected in the early months of 2017 (due to relatively high inflation pressure), but the decision was made quickly in the ending months (as inflation was significantly below the target). The business community and citizens, on the one hand, could not benefit from low inflation. On the other hand, the upward adjustment of prices was not justified on the ground of improved productivity of sectors/industries subject to price control by the State.

1.3. Monetary movement

39. VND-denominated deposit rates were relatively stable in the first 9 months and only increased slightly in Q4 (Table 2). The State Bank of Vietnam (SBV) has not considered the removal of deposit rate ceiling. The upward adjustment of deposit rates was implemented in some weak commercial banks.

Table 2: Popular VND-denominated deposit rate of commercial banks

Unit: % per annum

	Demand	Shorter than 6 months	6-12 months	Longer than 12 months
End of December 2014	0.8-1.0	5.0-5.5	5.7-6.8	6.8-7.5
End of December 2016	0.8-1.0	4.5-5.4	5.4-6.5	6.4-7.2
End of September 2017	0.8-1.0	4.5-5.4	5.4-6.5	6.4-7.2
End of December 2017	0.8-1.0	4.3-5.5	5.3-6.5	6.5-7.3

Source: SBV.

40. In Q4, VND-denominated lending rates were almost unchanged (Table 3). Some state-owned commercial banks announced the reduction of lending rates, yet such reduction was not popularized, even in 5 prioritized areas. This was mainly attributed to such factors as: (i) no lifting of credit growth target by the SBV; (ii) pressure from the interest rate hike of FED[29]; and (iii) higher credit demand towards the end of 2017.

Table 3: Popular lending rates of commercial banks, September – December 2017

Unit: % per annum

	Types	Short term	Medium, long term

[29] "Impossible trinity": It is impossible to simultaneously achieve exchange rate peg, free flow of capital, and independent monetary policy (related to interest rate management) due to interest rate parity.

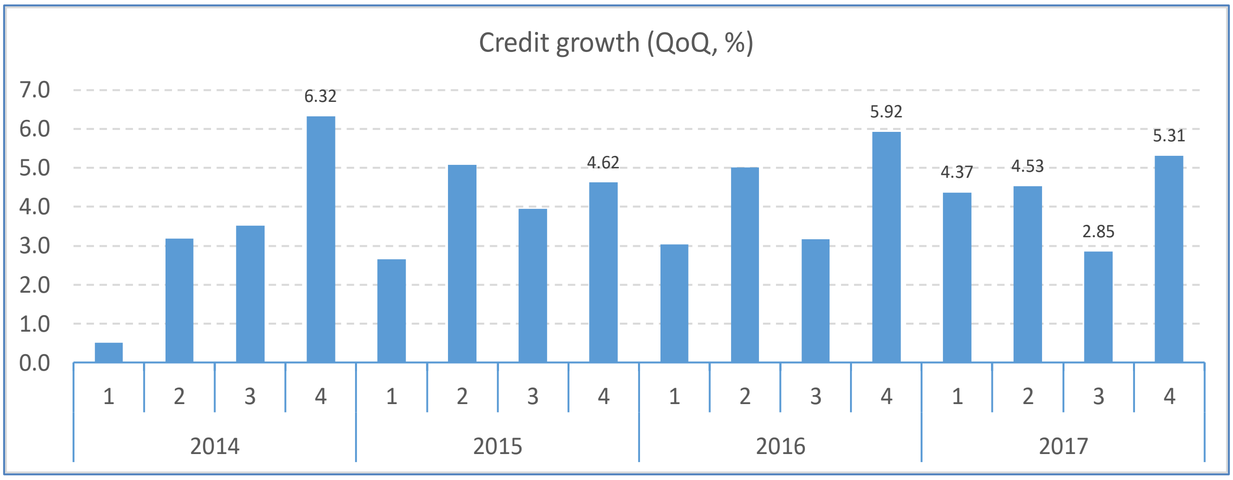
State-owned commercial banks	VND - Ordinary business and production	6.8-8.5 *(6.8-8.5)*	9.3-10.3 *(9.3-10.3)*
	- Agriculture, rural development, export, SMEs, supporting industries, high-tech enterprises	6.0-6.5 *(6.0-6.5)*	9.0-10.0 *(9.0-10.0)*
	USD:	2.8-4.2 *(2.8-4.2)*	4.6-6.0 *(4.7-6.0)*
Joint stock commercial banks	VND: - Ordinary business and production	7.8-9.0 *(7.8-9.0)*	10.0-11.0 *(10.0-11.0)*
	- Agriculture, rural development, export, SMEs, supporting industries, high-tech enterprises	6.5 *(6.5)*	10.0-10.5 *(10.0-10.5)*
	USD:	4.0-4.7 *(4.0-4.7)*	5.0-6.0 *(5.0-6.0)*

Source: SBV.

Note: The figures in brackets are lending rates as of September 2017.

41. USD-denominated deposit rates were kept unchanged at 0% per annum for all terms. USD-denominated lending rates remained stable in Q4, and only decreased slightly for some medium- and long term-loans of state-owned commercial banks and lending of joint-stock commercial banks (Table 3). Modest decrease of USD-denominated rates was due to: (i) foreign currency loans only to some restricted clienteles; (ii) exposure of USD-denominated liquidity in commercial banks to various factors (interest rate hike in the US; the purchase of foreign currency by the SBV to increase foreign exchange reserves, etc.) and (iii) provisions for exchange rate fluctuations by commercial banks, particularly towards the end of 2017.

Figure 21: Credit growth, 2014-2017



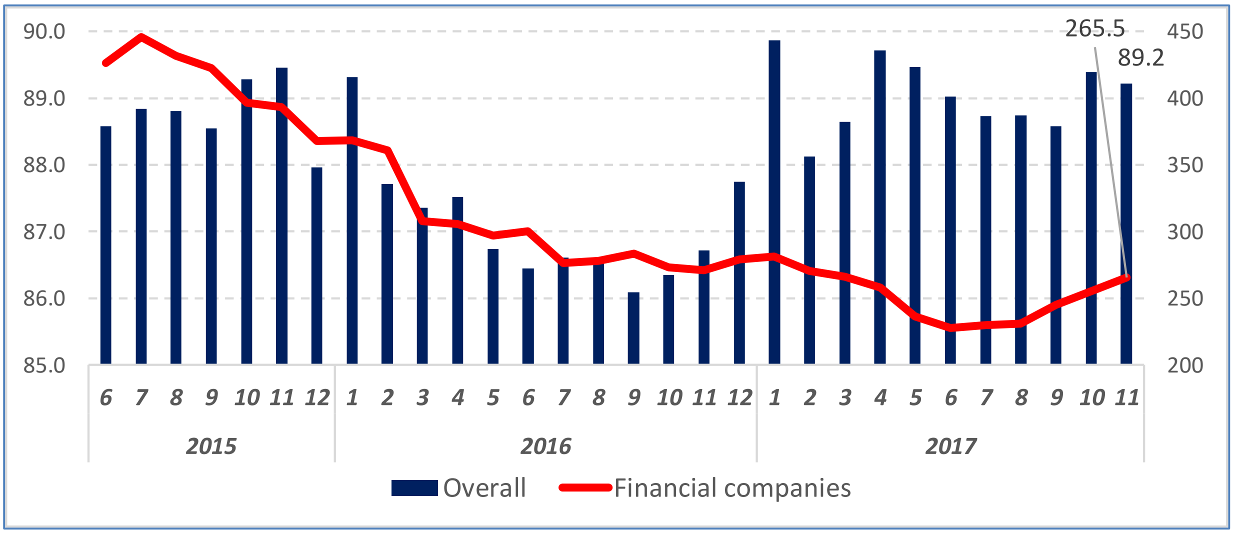
Source: Compilation from various sources.

42. Outstanding credit grew by 5.3% in Q4 (compared to the end of Q3). The growth rate in December alone was 2.5% (compared to the end of November). In general, credit growth rate was relatively balanced across quarters (Figure 21). Credit growth rate was estimated to attain 18.17% in 2017. As the SBV kept the credit growth target unchanged and strictly controlled credits, the

ratios of credit to deposit of the overall credit system and of the financial companies were below those of previous years (Figure 22).

43. Credit growth in Q4 was affected by such factors as: (i) reduction of government bond issuance, creating more room for commercial banks to lend; (ii) increase of disbursement for real estates;[30] (iii) improved confidence of both foreign and domestic investors; (iv) the promulgation of Resolution No. 42[31] by the National Assembly has led to more positive attitude of commercial banks to reduce NPLs and offer more relaxed lending conditions; and (v) extension of foreign currency loans by SBV, strengthening confidence of relevant beneficiaries in the context of increasing interest rate in the international markets.

Figure 22: Ratio of credit to deposit (%)



Source: SBV.

Note: Statistics of financial companies are showed in the right axis.

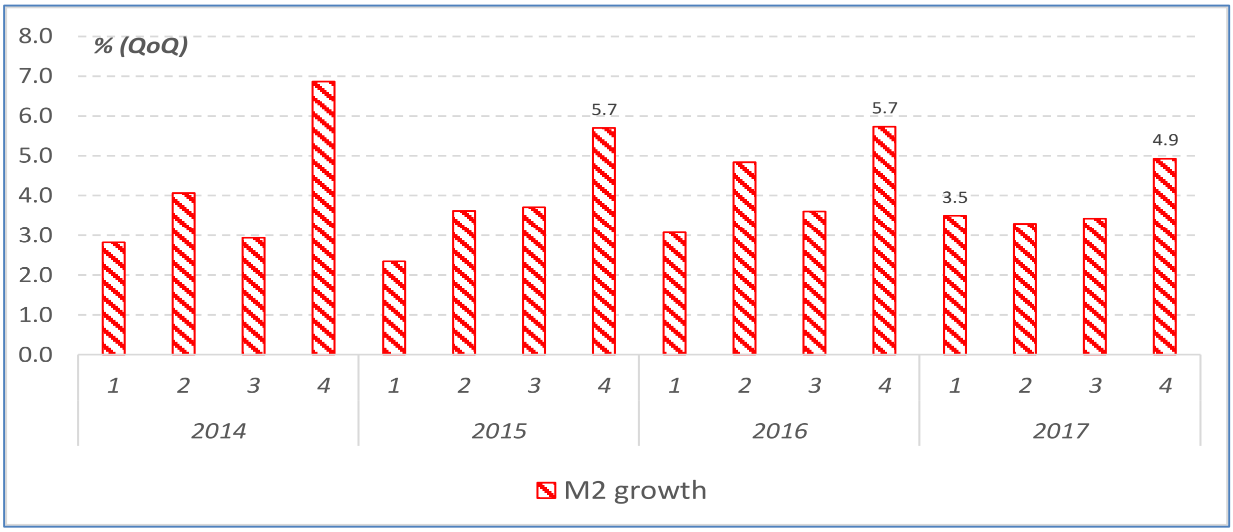
44. Some challenges to credit management in Q4 in particular and in 2017 in general persists. *First*, pressure from international financial market prevails as the US intervened more significantly and more directly to bilateral trade with partners and raised interest rate. *Second*, foreign currency credit loans at relatively fast pace, widening the gap with foreign currency deposits at certain times. *Third*, proposals by some experts and institutions on relaxing credit growth target (to promote economic growth) created significant pressure for management authority. *Finally*, public concerns about statistics quality – as GDP grew at faster pace while credit growth was similar to that in 2016 – may induce the enthusiasm of the SBV to improve credit quality.

45. Total liquidity (M2) increased by 4.9% in Q4 (compared to the end of Q3, Figure 23), which outpaced previous quarters of 2017 but remained below Q4s of 2014-2016. By the end of December, total liquidity was up by nearly 16.0%. As foreign investment grew considerably, the SBV effectively purchased

[30] Outstanding credit for construction as of October 2017 increased by 24.3% - highest level across sectors.
[31] Entry into force on August 15, 2017.

foreign currencies and sterilized such purchases - in order to expand foreign exchange reserves and lessen pressure on M2. In this context, inflation was exposed to insignificant pressure from monetary management, as reflected by the decreasing core inflation over the years.[32]

Figure 23: M2 growth rate, 2014-2017



Source: Authors' compilation.

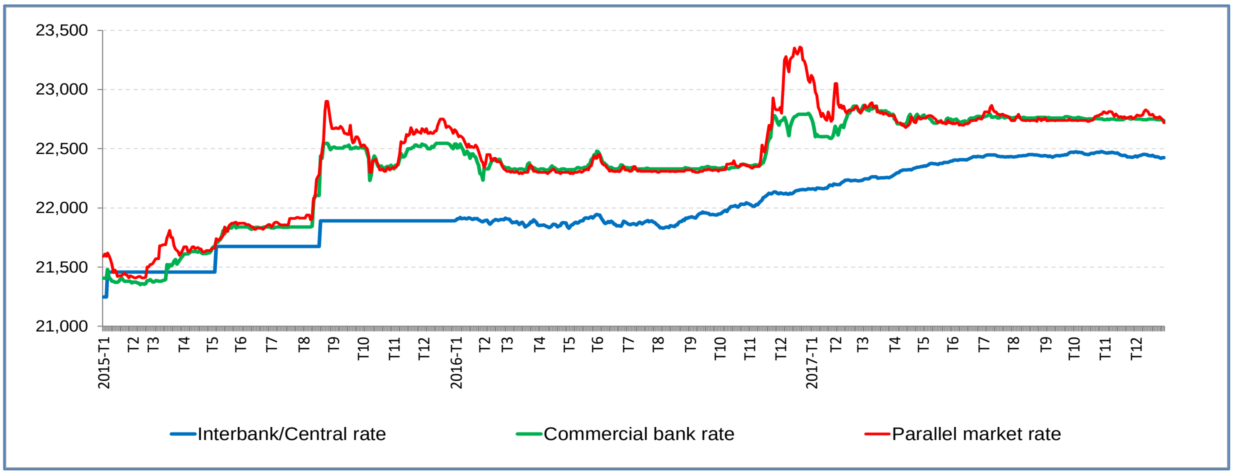
46. In the first 9 months of 2017, the VND/USD exchange rate was relatively stable (Figure 24). Around the time of interest rate hike by FED, the SBV flexibly adjusted foreign currency demand and supply in the market, accompanying with appropriate information dissemination on management direction. In particular, the central VND/USD exchange rate was slightly increased to offer more room for commercial banks to flexibly respond to volatility of the international market (if any).[33] Unlike previous years, the market did not witness any major temporary hoardings.

47. In Q4, the central VND/USD exchange rate was 22,451, up by 1.71% (YoY). Unlike the increasing trend till September, the central rate took the downward trend in Q4 (Figure 24). Meanwhile, the VND/USD exchange rates of both commercial banks and the parallel market were stable in the second half of 2017. The VND/USD in the parallel market only exceeded that of commercial banks in some short periods, but was quickly stabilized.

[32] See the Section on Inflation.

[33] Note that at the beginning of 2017, the international and domestic markets were forecasted to be subject to ample uncertainties.

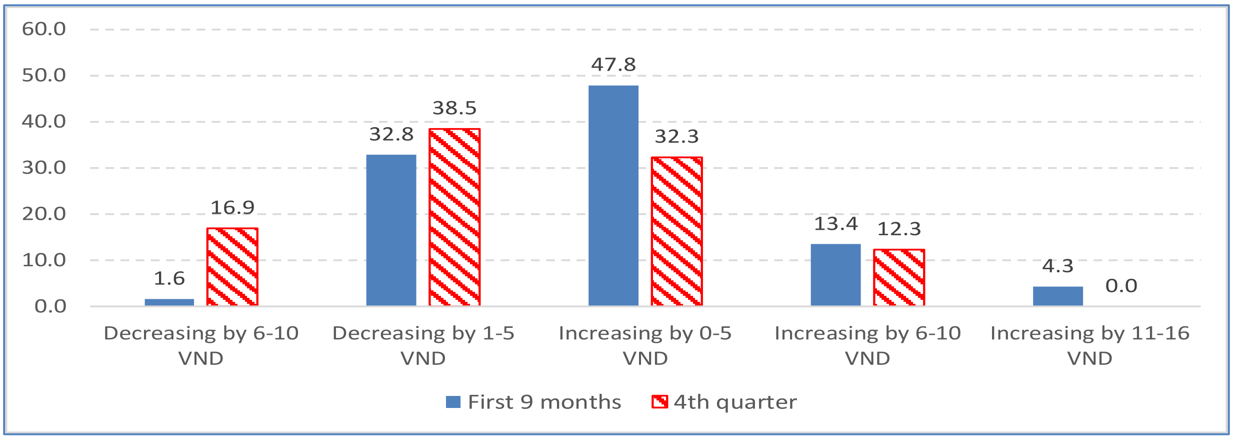
Figure 24: VND/USD exchange rate, 2015-2017



Source: VNDirect.

48. The management of foreign exchange rate benefited from favorable conditions. First, the trade balance was reversed since August, thereby easing foreign currency demand. Foreign investment inflows increased significantly while the State divested capital from major SOEs and listed some efficient SOEs in the stock market. Remittance continued to surge, being hardly affected by the interest rate hikes by FED.[34] Consequently, foreign exchange reserves increased continuously and attained almost USD 52 billion at the end of 2017. In 2017, the net purchase of foreign currency by the SBV was about USD 13 billion. Meanwhile, the major partners made no significant interventions into exchange rates of major currencies, thereby creating favorable conditions to stabilize exchange rate.

Figure 25: Daily changes of central VND/USD exchange rate



Source: Authors' compilation.

1.4. Investment

49. Gross investment in Q4 was estimated to reach VND 539.2 trillion, rising by 10.8%. The overall figure for 2017 attained VND 1667.4 trillion, up by 12.1% (Table 4). In real terms, investment increased by 8.3%. The investment to GDP

[34] WB estimated remittance at USD 13.8 billion in 2017.

ratio reached 33.2% in Q4 and 33.3% in 2017, showing a modest increase from 2016 (33%), albeit significantly higher than in the period 2011-2015 (31.7%).

Table 4: Gross investment, current prices

Unit: Trillion VND

	Q4/2017	2017	Growth rate (%)
Total	**539.2**	**1,667.4**	**12.1**
State investment			
State budget investment	97.8	290.5	7.2
Government bonds	11.0	25.4	-33.4
State credit	18.5	60.2	-8.8
Borrowings from other sources (by the State sector)	38.8	124.6	27.3
Investment by SOEs (Equity)	24.7	79.6	12.6
Investment by individuals and private sector	*224.5*	*676.3*	*16.8*
FDI	*119.7*	*396.2*	*12.8*
Other sources	*4.2*	*14.6*	*4.3*

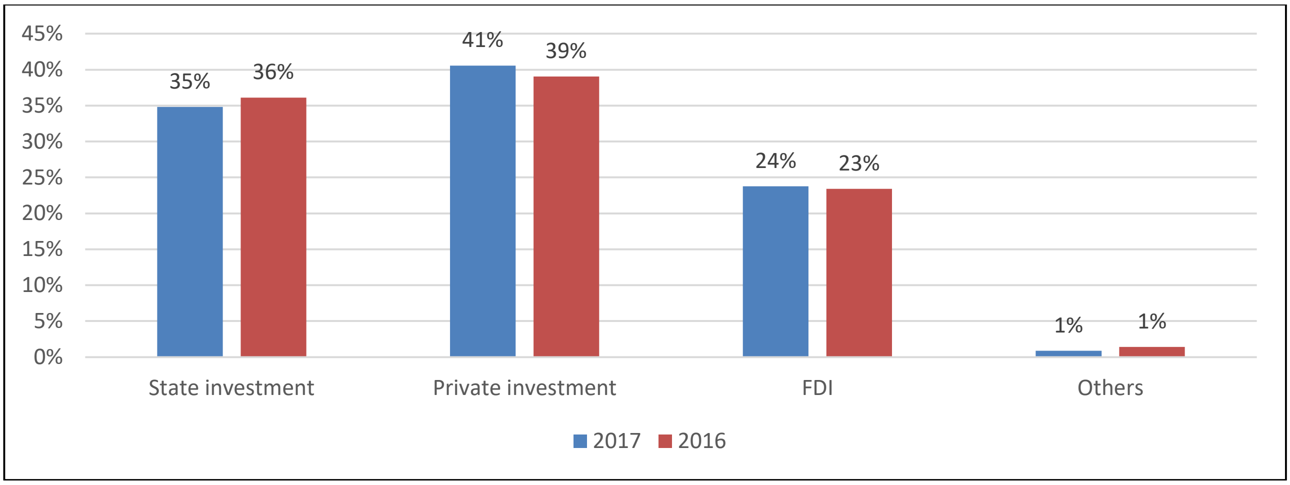
Source: GSO.

50. In 2017, investment structure shifted further towards smaller share of the State sector and higher shares of individuals and private sector and FDI. The state sector accounted for 34.8% of total investment, lower than in 2016 (37.6%) and the period 2011-2015 (39.1%). However, this figure reflected no efforts of state authorities to actively reduce "crowding-out effect" of State investment on private investment. Instead, investment from the state budget increased by only 7.2% in 2017 due to limited financing capability. Furthermore, disbursement of government bonds and investment credits was slower than planned, partly due to limited capability to meet requirements and procedures.

51. Disbursement of government bonds in Q4 increased significantly from Q1 but was just equivalent to that in Q4 of 2016. Total disbursement of government bonds in 2017 dropped by one third. In addition to inherent causes related to compensation and site clearance, slow disbursement of government bonds was arguably attributed to the tightening of project implementation procedures in accordance with the Law on Public Investment, the Law on Bidding, and the Land Law. Furthermore, the reduced decentralization in project design approval as stipulated in the new Law on Construction resulted in longer time for completing project procedures.

52. Private investment went up most rapidly, by 16.8% in 2017. This growth was the record level since 2011, and much higher than in 2016 (9.7%). Investors remain optimistic about Vietnam's growth outlook. These achievements could be attributed to the following: (i) efforts to reduce business requirements/conditions and unnecessary regulatory burden on businesses; (ii) Vietnam's export growth recovery; and (iii) improved access to credits thanks to progress in handling of NPLs by credit institutions.

Figure 26: Sources of investment (%)



Source: GSO.

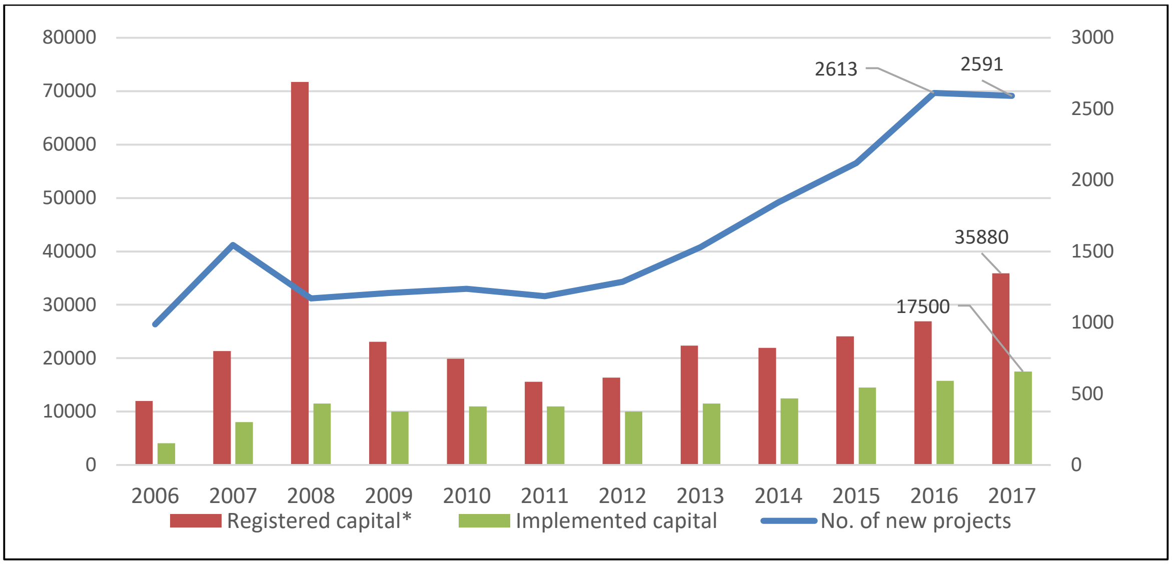
53. The year 2017 also witnessed impressive performance in attracting FDI. As of December 20, 2017, total registered capital of foreign investors reached USD 35.88 billion, increasing by 44.4%. Total implemented capital reached USD 17.5 billion, up by 10.8%. More importantly, disbursed capital still implies a stable increase following records established in the 2015-2016 period (Figure 27).

54. Prior to 2017, numerous experts were cautious of the possible decrease in FDI inflows as Vietnam's new-generation FTAs faced delays in negotiation and/or entry into force. Throughout the year, the process of trade and investment liberalization actually encountered various obstacles, both internationally and regionally. In that context, the FDI inflows attained even greater importance. At the same time, this achievement also demonstrates that Vietnam's reforms of business environment and improved competitiveness proved meaningful to foreign investors.

55. By country/territory, Japan claimed back the position of largest investor in Vietnam. In 2017, Japanese investors registered a total amount of USD 9.11 billion, accounting for 25.4% of total registered capital; followed by South Korea with registered capital of USD 8.49 billion, accounting for 23.7%. Singapore maintained the third place with corresponding figures of USD 5.3 billion and 14.8%.

Figure 27: FDI inflows to Vietnam

Unit: Million USD



Source: GSO.

Note: (*) Including adjusted capital for licensed projects and capital for buying shares.

56. Of the 19 industries and sectors with FDI capital, the manufacturing sector remained the most attractive with the registered capital of USD 15.87 billion, accounting for 44.2%. Electricity, gas, steam and air conditioning supply ranked second with USD 8.37 billion, accounting for 23.3%. The real estate business stood at the third place with corresponding figures of USD 3.05 billion and 8.5%.

57. As one noteworthy case, the Thai investor - ThaiBev - bought 53.59% of shares of Saigon Beer - Alcohol - Beverage Corporation (Sabeco - a SOE). From a national business viewpoint, one may question whether domestic enterprises or investors should be prioritized in buying such shares (especially regarding big brands). However, apart from technical aspects, the questioned prioritization may not be reasonable or ineffective. *First*, divesting SOEs should be based on market principles. If domestic investors are capable and foresee opportunities in the future, they can buy a brand even after it is sold to foreign investors. *Second*, selling to local businesses may pose another concern about underpricing or even the problem of "cronyism". *Third*, domestic enterprises outside the industry may not be capable of acquiring Sabeco, while those in the sector may not be eligible for such acquisition due to concern about economic concentration.

58. Investment activities also reveal significant limitations in 2017. On the one hand, inadequacies in infrastructure via PPP have become more apparent and pervasive in the second half of 2017, particularly in the forms of BOT and BT. Notable legal loopholes can be seen in regulations allowing direct contracting (for both BOT and BT) and land conversion for infrastructure (BT). On the other hand, FDI - albeit on a large scale - has not yet produced significant spillover effects to domestic businesses. This issue is even more noticeable as

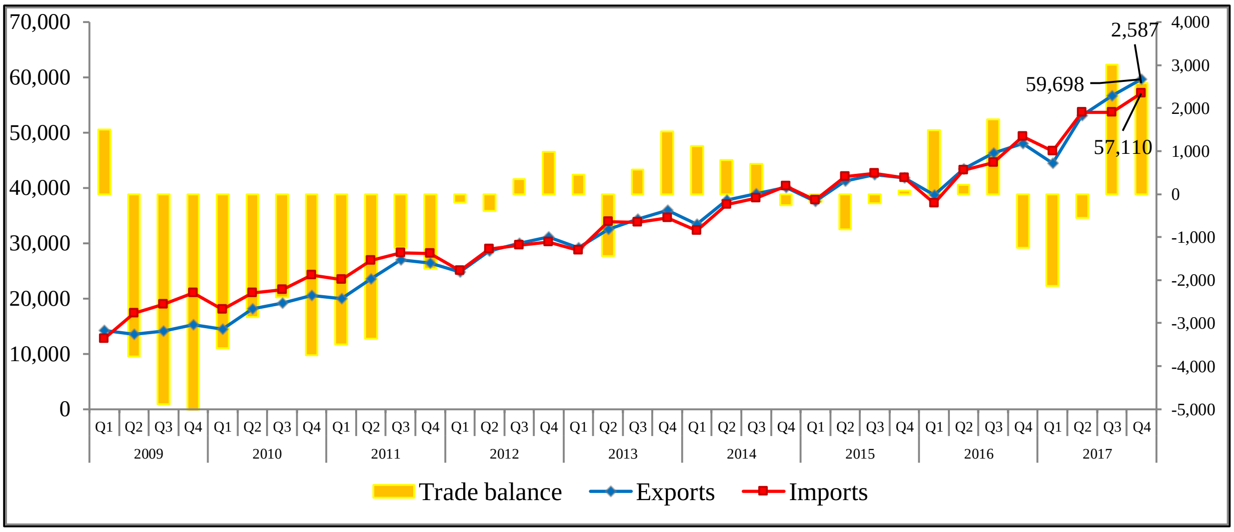
numerous domestic private firms arguably received less incentive than FDI firms in the same geographical area[35].

1.5. Trade

59. Exports attained USD 59.7 billion in Q4, increasing by 24.3% (YoY) (Figure 28). FDI sector accounted for USD 43.1 billion, increasing by 26.8% (YoY), contributing 19 percentage points to overall export growth. Domestic enterprises exported USD 16.6 billion of merchandise, up by 18.3%, contributing 5.3 percentage points to overall export growth.

Figure 28: Exports, Imports and Trade Balance, 2009-2017

Unit: Million USD



Source: Authors' calculation.

Note: Exports and imports are shown in the left-hand axis and trade balance is shown on the right-hand axis.

60. In 2017, exports reached over USD 214.0 billion, increasing by 21.2%, and exceeding the target in 2017 (of 6-7%) and significantly higher than the rate of 9.0% in 2016. Main reasons included: (i) robust recovery of global trade amid faster global economic growth; (ii) increase of export price (in USD)[36] while VND/USD exchange rate were relatively stable; (iii) efforts to exploit key markets and products; and (iv) simplification of administrative procedures related to import and export.

61. The FDI sector remained key driver of exports in 2017. Exports (including crude oil) by these enterprises reached USD 152.2 billion, increasing by 22.9%. Domestic sector exported USD 61.8 billion, up by 17.3%. The contribution of FDI and domestic enterprises to overall export growth were 16 percentage points and 5.2 percentage points, respectively.

62. Manufacturing continued to account for the lion share of exports. Of which, telephones and components attained the highest value in Q4 (USD 13.7 billion), up by 56.2%. The five commodity groups (textiles and garments;

[35] According to a survey conducted by VCCI (2017).

[36] On average, export price in 2017 was 2.93% higher than in 2016.

footwear; electronics; computers and components; telephones and components; and other machinery and spare parts) altogether accounted for 58.3% of total exports, contributing nearly 13.9 percentage points to overall export growth (Table 5). However, those five commodity groups were largely based on processing and assembling with low value-added content for Vietnam.

Table 5: Export growth by product category in 2017

Unit: thousand USD

	2016	*2017*	*Change*	*Export growth (%)*	*Percentage point*
Total export	**176,580,787**	**214,019,118**	**37,438,332**	**21.20**	**21.20**
Of which					
Textiles and garments	23,824,879	26,038,447	2,213,568	9.29	1.25
Footwear	12,998,123	14,651,849	1,653,726	12.72	0.94
Electronics, computers and components	18,956,938	25,942,093	6,985,154	36.85	3.96
Telephones and components	34,315,568	45,272,412	10,956,844	31.93	6.21
Other machinery and spare parts	10,112,693	12,770,361	2,657,668	26.28	1.51

Source: General Department of Customs and GSO.

63. In 2017, Vietnam had 30 markets with individual export turnover of over USD 1 billion, of which, four markets had export turnover of over USD 10 billion. The US remained the biggest export market of Vietnam; however, there was a sign of slowing down: export growth to this market reached 8.2% in 2017, lower than those of 2015 and 2016 (17.0% and 14.5%, respectively). Exports to China rose most rapidly (by 61.5%), contributing 7.6 percentage points to overall export growth (Table 6). Export growth to ASEAN accelerated again, reaching 24.2% in 2017 (compared to the decrease by 4.1% in 2016).

Table 6: Export growth by partner in 2017

Unit: thousand USD

	2016	**2017**	**Δ**	**Export growth (%)**	**Percentage point**
Total export	**176,580,787**	**214,019,118**	**37,438,332**	**21.20**	**21.20**
Of which					
EU27	29,104,110	32,913,459	3,809,349	13.09	2.16
ASEAN	17,449,167	21,680,273	4,231,105	24.25	2.40
China	21,960,058	35,462,686	13,502,628	61.49	7.65
USA	38,449,679	41,607,546	3,157,867	8.21	1.79

Source: General Department of Customs.

64. Imports were USD 57.1 billion in Q4, up by 15.9% (Figure 28). In 2017, import turnover was estimated at USD 211.1 billion, increasing by nearly 20.8%. Of which, imports of domestic sector attained USD 84.7 billion, growing by 17.1%; imports of foreign invested sector reached USD 126.4

billion, an increase by 23.4%. Excluding the price factor, import grew by 17.7% in 2017.

65. By product, imports of production means and inputs amounted to USD 192.9 billion, up by 21.1% and accounting for 91.4% of total imports. Import value of top five import commodity groups accounted for more than 50% (Table 7). Notably, some of them were important inputs to major export products, including electronics, computers and components, telephones and parts, fabrics, etc. It led to concerns about the dependence of exports on imported inputs, while the role of domestic firms in the export value chain has been limited.

Table 7: Import growth by product category, 2017

Unit: thousand USD

	2016	*2017*	*Change*	*Import growth (%)*	*Percentage point*
Total import	**174,803,800**	**211,103,668**	**36,299,869**	**20.77**	**20.77**
Of which					
Fabric	10,483,274	11,366,187	882,913	8.42	0.51
Iron and Steel	8,051,788	9,012,526	960,738	11.93	0.55
Electronics, computers and components	27,892,397	37,706,113	9,813,717	35.18	5.61
Telephones and components	10,560,213	16,327,312	5,767,099	54.61	3.30
Machinery and spare parts	28,542,507	33,673,227	5,130,719	17.98	2.94

Source: General Department of Customs and GSO.

66. Thanks to linkages in the export value chain, Asia was still the largest source of imports for Vietnam, accounting for 81.8% of total imports in 2017 (Table 8). China was at the single largest supplier of goods to Vietnam with imports of USD 58.2 billion, albeit slower growth compared to previous years: import growth from China was only 10.2% in 2017, much lower than in 2016 (32.6%). Meanwhile, import growth was the fastest from Korea, up by 45.3%, contributing 8.3 percentage points to import growth.

Table 8: Import growth by partner in 2017

Unit: thousand USD

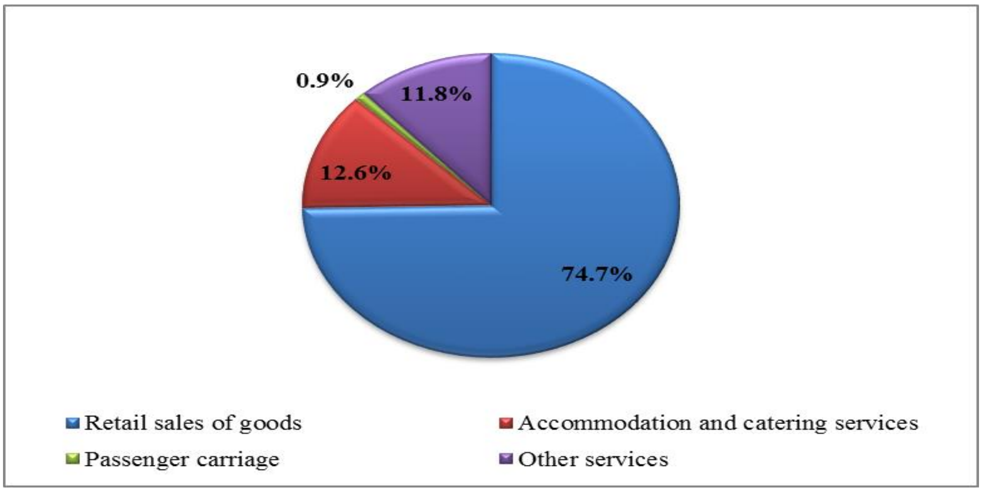
	2016	***2017***	***Change***	***Import growth (%)***	***Percentage point***
Total import	**174,803,780**	**211,103,668**	**36,230,869**	**20.77**	**20.77**
Of which					
ASEAN	24,063,157	28,021,436	3,958,281	16.45	2.26
China	50,018,803	58,228,606	8,209,803	16.41	4.70
Japan	15,064,045	16,592,325	1,528,280	10.15	0.87
Korea	32,162,946	46,734,425	14,571,479	45.31	8.34

Source: General Department of Customs.

67. Trade surplus was estimated at USD 2.6 billion in Q4 and over USD 2.9 billion in 2017 (Figure 28). Domestic sector experienced trade deficit of USD 22.9 billion, while FDI sector had trade surplus of USD 25.8 billion in 2017. Notably, trade balance reversed from accumulated deficit of USD 2.5 billion at the end of July to a surplus of USD 842 million at the end of August. This reversal was mainly attributed to changes in import and export orders and inventory management in three major industries (computers, electronics and components; telephones and components; other machinery and spare parts). As a policy question, one may wonder if Vietnam would diversify its export structure so as to reduce dependence on the three mentioned industries, or whether trade policy should explicitly target major enterprises in those industries?

68. In 2017, total retail sales of goods and services amounted to VND 3,934.2 trillion, up by 10.9%. Excluding the price factor, the growth rate was 9.46%, higher than in 2016 (8.33%).

Figure 29: Retail sales of goods and services by activity in 2017 (%)



Source: GSO.

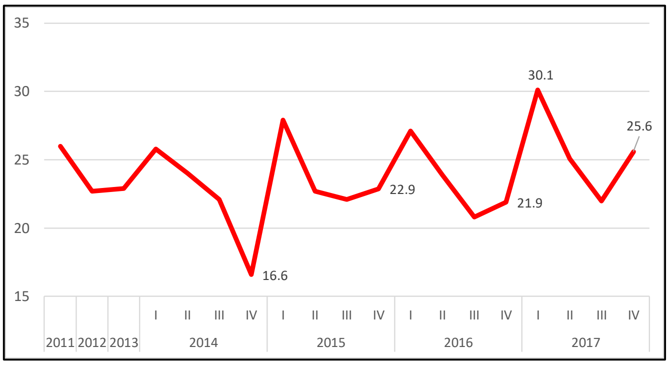
69. Retail sales of goods accounted for the largest proportion (74.7%), and increased by 10.9%. Retail sales of accommodation and catering services in 2017 were estimated at VND 494.7 trillion, a share of 12.6% and up by 11.9%. Such performance was mainly due to increase in the number of tourists (both domestic and international). Revenues from other services attained VND 466.3 trillion, or 11.8% of total and up by 9.7% (YoY) (Figure 29).

1.6. Budget revenues and expenditures

70. Budget revenues reached VND 439.9 trillion in Q4, or 26.2% of GDP (Figure 30). This amount was relatively high compared to Q3 (VND 279.6 trillion) and Q4 of 2016 (VND 320.7 trillion). Budget revenues in Q4 were equal to 34.3% of the planned figures for 2017.

Figure 30: Budget revenues to GDP ratio

Unit: %



Source: Authors' calculation.

71. In 2017, budget revenues attained VND 1.28 trillion, 5.9% higher than the planned target and up by 16.5% (YoY). However, according to the Ministry of Finance, the surplus was mostly attributed to land use fees. Budget revenues from foreign invested enterprises and private sector, despite their relatively high growth rates, still failed to meet the target because of overestimation (planned figures increased by 23.4% and 23.8% respectively compared to those of 2016).[37]

72. In similarity to 2015-2016, budget revenues tended to increase more rapidly toward the end of 2017. By mid-December, budget revenues were only equivalent to 91.1% of planned figure. Underlying the difficulties of budget revenues in 2017 were: (i) insignificant increase of import prices[38] (ii) reduction of imports for not-yet-phased-out tariffs items[39] and (iii) existence of tax losses.

73. Given difficulty in collecting budget revenues and the need for restructuring State budget, it is understandable that Ministry of Finance has drafted amendment of laws. However, the drafts were not coupled with dissemination of information and (significant) results on restructuring of budget expenditures, especially on recurrent expenditures. In addition, the draft laws left an impression of increasing tax obligations for people and business community, without justification for improving the quality of public services. Finally, the regulators have not been serious about handling tax losses, since it would otherwise reduce pressures/scope of tax policy amendments.

74. Budget deficit was estimated at VND 178 trillion, equivalent to 3.48% of GDP. The figure was lower than target set out by the National Assembly (3.5% of GDP). However, low budget deficit was partly due to slow disbursement of development investment from state budget which attained only 75.9% of

[37] http://thoibaotaichinhvietnam.vn/pages/nhip-song-tai-chinh/2017-12-29/nam-2017-thu-ngan-sach-uoc-vuot-du-toan-5-52090.aspx [Accessed on 10 January 2018]

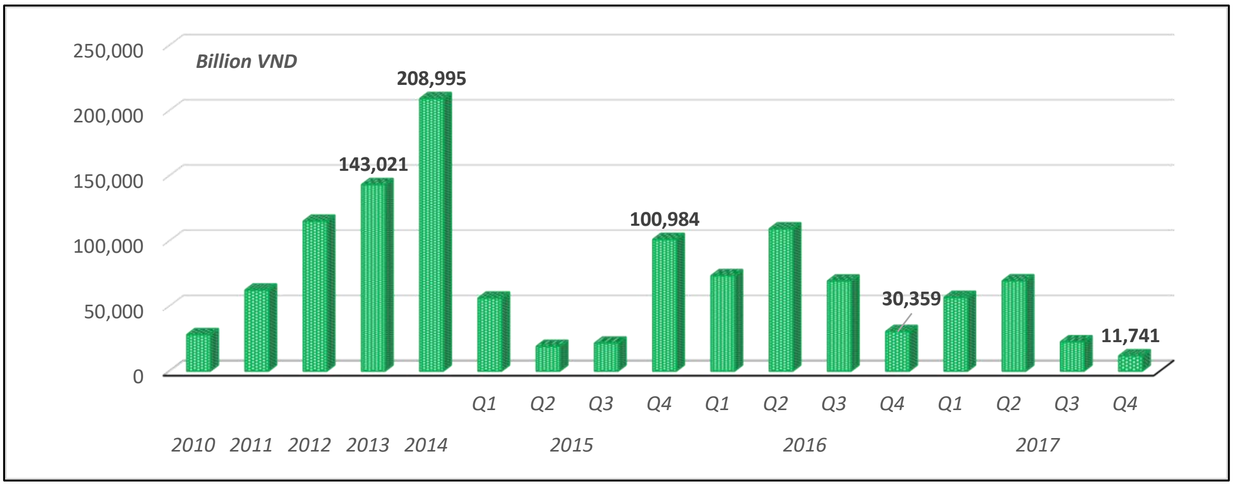
[38] On average, the import price index increased by 2.57% in 2017 compared to 2016.

[39] For example, imports of completely-built automobiles of all types dropped by 13.6% in quantity và and by 6.1% in value.

planned target.[40] To that extent, restructuring public investment has not produced desirable effect, whilst resulting in a waste of resources.

75. The value of newly issued government bonds amounted to VND 11.7 trillion in Q4. The figure was significantly lower than Q1-Q3, even equal to only 17.0% of Q2. In 2017, total value of newly issued government bonds was VND 159.9 trillion, decreasing by 43.2%. Average terms to maturity of government bonds reached 13.5 years in 2017, increasing by 4.8 years compared to 2016.

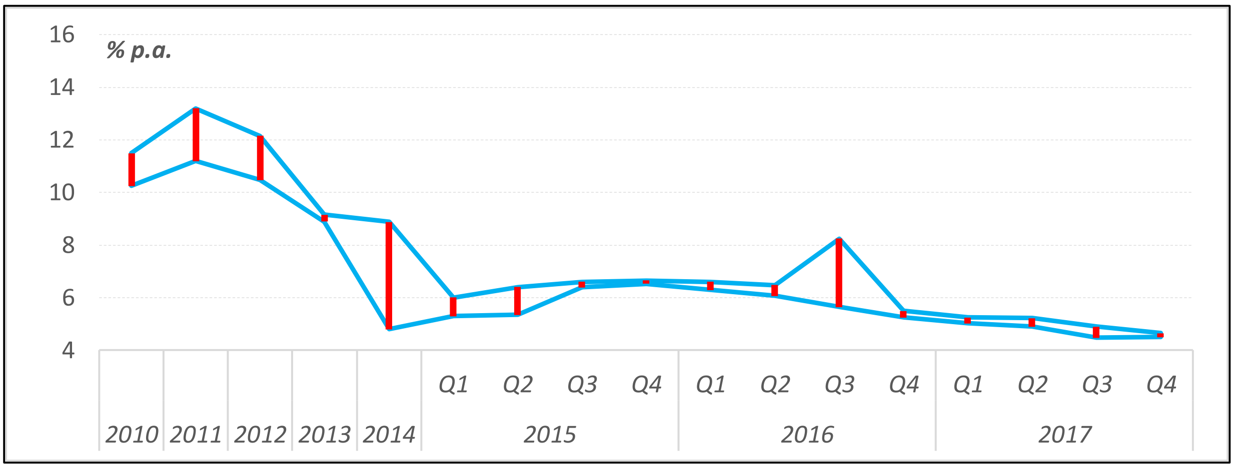
Figure 31: Government Bond issuance, 2010-2017



Source: HNX.

76. Interest rate on successful bids of (5-year) government bonds ranged between 4.5-4.65% p.a in Q4. This range was narrower and slightly decreased relative to Q3 (4.48-4.9% p.a) and Q4 of 2016 (5.25-5.5% p.a) (Figure 32). The smaller issuance value in Q4, to some extent, eased the pressure on the government bond interest rate and the liquidity of credit institutions.

Figure 32: Interest rate on 5-year Government bonds



Source: HNX.

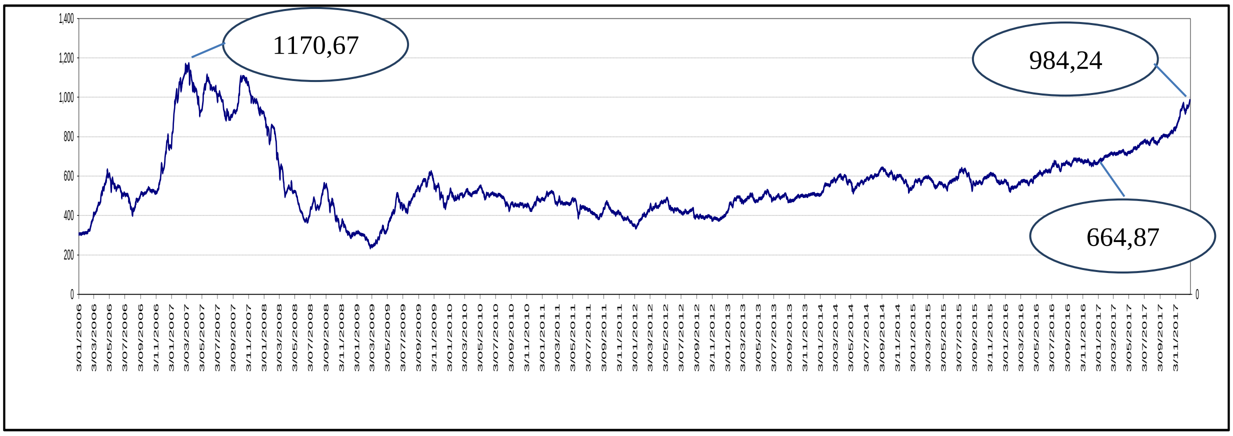
77. Government bond issuance in Q4 encountered less pressure, mostly due to: (i) relatively slow disbursement in 2017, and (ii) progress in restructuring terms to maturity in previous quarters. However, the scale of government bond issuance

[40] Although recurrent expenditures were approximate to planned figure (http://baodautu.vn/chot-so-thu-ngan-sach-nam-2017-vuot-du-toan-71000-ty-dong-d75365.html Accessed on 22 January 2018)

may not decrease in subsequent years if the Government still aims to enhance room for further borrowings (for example, through adding GDP from informal sector). At the same time, the crowding-out effect on private sector may not diminish, even when the budget deficit to GDP ratio decreases.

78. Vietnam's stock market underwent positive changes in 2017. VN-Index increased almost continuously, reaching 984.24 by the end of 2017 (48.0% higher than the end of 2016) and at the highest level in the last 10 years (Figure 33). Main reasons included: (i) attractiveness to foreign investors because of SOE divestments, initial public offerings of SOEs, and listing of big efficient firms; (ii) more stable interest rates and inflation; and (iii) lack of profitability in other investment channels such as gold, real estates.

Figure 33: VN-Index, 2006-2017



Source: Authors' compilation.

2. Macroeconomic Outlook

79. A forecast scenario is specified for Vietnam in "business as usual" conditions in 2018, in line with the expectation of the global economic recovery and domestic economic development. GDP growth in partner countries is projected at 3.1% in 2018[41]. US inflation may reach 2.1%[42]. Export prices of agricultural products may grow by 0.1%[43]. The international crude oil price may increase by 9.4% compared to the average export prices of 2017[44]. For Vietnam, the central VND/USD exchange rate is increased by 2%. Total liquidity increases by 16%. Outstanding credit increases by 17%. Import prices show no significant change. Population increases by 1.04% and employment by 1.4%. The export volume of crude oil is assumed the same as in 2017. REER is assumed to increase by 1%. On the balance of payments, Government transfers are assumed to be constant, while (net) private transfers increase by 10% compared to 2017. The implemented capital of FDI is assumed to be equal to that in 2017. Investment from State budget (including Government bonds) will

[41] WB forecast (January 2018).

[42] OECD forecast (2018). https://data.oecd.org/price/inflation-forecast.htm [Accessed on 22 January 2018].

[43] EIU forecast (January 2018).

[44] WB forecast (2018).

be VND 372,035.856 trillion. As an assumption, investment capital will be evenly disbursed throughout 2018.

80. YoY economic growth in 2018 is projected at 6.58% (Table 9). Export growth may reach 9.4%. Trade surplus is projected at USD 1.1 billion. Average CPI in 2018 will increase by approximately 3.74%.[45]

Table 9: Projection of macroeconomic indicators, 2018

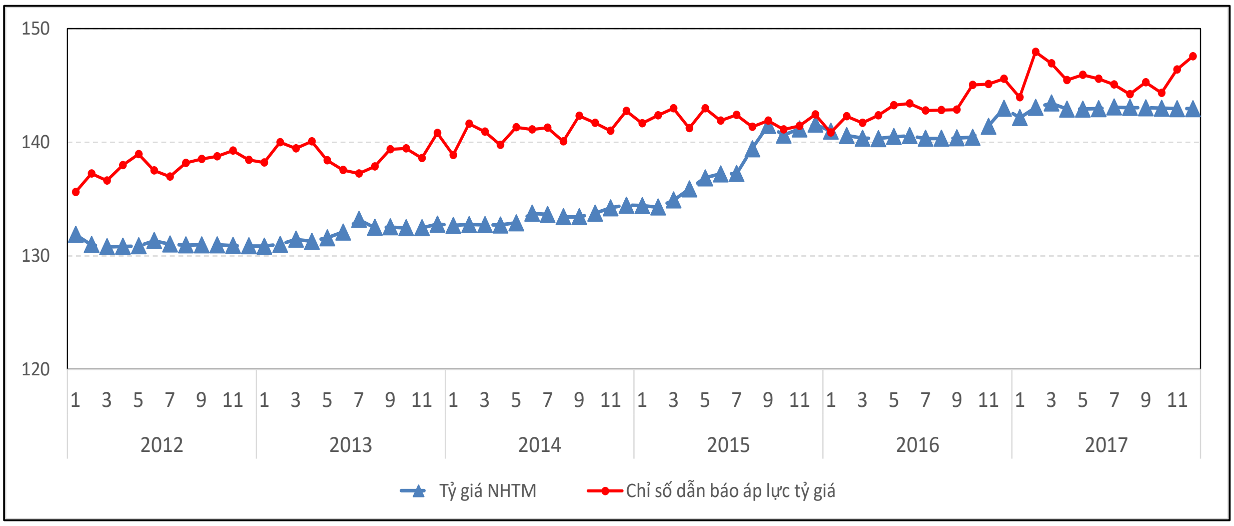
Unit: %

GDP growth rate (YoY)	6.58
Inflation	3.74
Export growth	9.4
Trade balance *(bil. USD)*	1.1

Source: CIEM's projection from its macroeconometric model.

81. Other important indicators concern the volatility of VND/USD exchange rate and pressure on the foreign exchange market (Figure 34). CIEM's leading indicator of exchange rate shows no substantial change (over 3%) at the most recent time, implying that the exchange rate of commercial banks will be stable in the first 6 months of 2018 (with a probability of 95.5%). Accordingly, REER will be favorable to Vietnam's export, if domestic inflation is controlled effectively.

Figure 34: Leading indicator of exchange rate



Source: CIEM's calculation.

82. Macroeconomic developments in 2018 may be subject to several factors. *First*, world economic recovery remains more or less uncertain. The main reason is that underlying momentum of structural reforms lacks robustness in major economies. *Second*, multilateral trade liberalization faces many challenges due to protectionism, and bilateral trade approach is becoming more common. Trade retaliations between major economies can be complex, which may have

[45] Since 2017, the target of inflation is based on average CPI in the year.

both direct[46] and indirect effect on Vietnam. *Third*, Vietnam may have to prevent the risk of reversing foreign capital flows, resulting in pressure on exchange rates and balance of payments. *Fourth*, Vietnam may lag further behind in terms of technology if it fails to take advantage of opportunity and to handle challenges from Industrial Revolution 4.0. *Finally*, economic resilience to adverse macroeconomic shocks depends mainly on the monetary policy space, determination of Vietnam's response, and coping measures in specific scenarios. The macro environment for institutional reform can only be stabilized if Vietnam has enough capacity and flexibility to deal with these aforementioned factors - instead of tying its hands for reaching "hard" target of growth.

[46] On 11 January, 2018, the US submitted to the World Trade Organization (WTO) a lawsuit of eight firms that, according to its view, should be registered as state-owned enterprises.

III. SELECTED ECONOMIC ISSUES

1. Challenges to further improving business environment

1.1. General assessment on business environment in 2017

83. In 2017, significant improvements in Vietnamese business environment have been recognized by international organizations. All 3 important sets of indicators on business environment and competitiveness were upgraded in terms of both score and ranking. Specifically:

   a. Vietnam's competitiveness increased by 5 positions in 2017 (to 55/137 economies from 60/138 economies in 2016). Improvements were made in the score of 5/12 pillars, and in the rankings of 6/12 pillars. Most indicators on efficiency enhancers (such as financial market, labor market, technological market, and market size) have improved (Table 10).

Table 10: Vietnam's competitiveness 2014 - 2017

	Competitiveness ranking	GCI 2014-2015 (144 economies)	GCI 2015-2016 (140 economies)	GCI 2016-2017 (138 economies)	GCI 2017-2018 (137 economies)	Change in 2017 comparing to 2016 (+ increase, - decrease)
	Competitiveness ranking	**68**	**56**	**60**	**55**	**5**
A.	***Subindex of basic requirements***	**79**	**72**	***73***	***75***	**-2**
1	Institutions	**92**	**85**	82	79	**3**
2	Infrastructure	**81**	**76**	79	79	**0**
3	Macroeconomic environment	**75**	**69**	77	77	**0**
4	Healthcare and primary education	**61**	**61**	65	67	**-2**
B.	***Subindex of efficiency enhancers***	**74**	**70**	***65***	***62***	**3**
5	Higher education and training	**96**	**95**	83	84	**-1**
6	Goods market efficiency	**78**	**83**	81	91	**-10**
7	Labor market efficiency	**49**	**52**	63	57	**6**
8	Financial market development	**90**	**84**	78	71	**7**
9	Technology readiness	**99**	**92**	92	79	**13**
10	Market size	**34**	**33**	32	31	**1**
C.	**Subindex of innovation and sophistication factors**	**98**	**88**	***84***	***84***	**0**
11	Business sophistication	**106**	**100**	96	100	**-4**
12	Innovation	**87**	**73**	73	71	**2**

Source: WEF.

b. Business environment ranks 68/190, increased by 14 positions compared to that of 2016. This is the most noticeable improvement in ranking over the last decade. Compared to the baseline of 2015, Vietnam's business environment ranking in 2017 increased by 23 positions (Table 11). Such a positive result stemmed from improved score of 8/10 pillars (no pillars had decrease in score), and improved rankings of 6/10 pillars. Of which, paying taxes (increasing by 61 positions) and getting electricity (increasing by 32 positions) are most significant improvements of business environment.

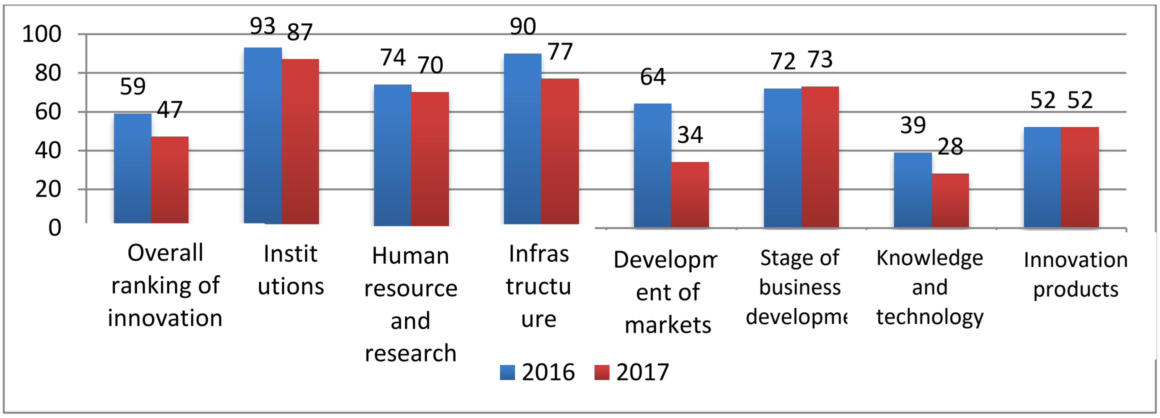
Table 11: Vietnam's doing business rankings, 2015-2017

No.	Doing business factors and numbers of indicators	DB2016 (189 economies)		DB2016 (adjusted ranking given DB2017)	DB2017 (190 economies)		Increased (+), decreased (-) ranking	DB2017 (adjusted ranking given DB2017)	DB2018 (190 economies)		Increased (+), decreased (-) ranking
		Score (DTF)	Ranking		Score (DTF)	Ranking			Score (DTF)	Ranking	
	Doing business	**62.10**	**90**	**91**	**63.83**	**82**	**9**	**65.08**	**67.93**	**68**	**14**
1	Starting a business	**81.25**	**119**	**111**	**81.76**	**121**	**-10**	**81.76**	**82.02**	**123**	**-2**
2	Dealing with construction permits	**82.21**	**12**	**21**	**78.89**	**24**	**-3**	**78.89**	**79.03**	**20**	**4**
3	Getting electricity	**63.34**	**108**	**101**	**69.11**	**96**	**5**	**72.23**	**78.69**	**64**	**32**
4	Registering property	**70.60**	**58**	**58**	**70.61**	**59**	**-1**	**70.61**	**70.61**	**63**	**-4**
5	Getting credit	**70.00**	**28**	**29**	**70.00**	**32**	**-3**	**70.00**	**75.00**	**29**	**3**
6	Protecting investors	**45.00**	**122**	**118**	**53.33**	**87**	**31**	**55.00**	**55.00**	**81**	**6**
7	Paying taxes	**45.41**	**168**	**178**	**49.39**	**167**	**11**	**57.99**	**72.77**	**86**	**81**
8	Trading across borders	**67.15**	**99**	**108**	**69.92**	**93**	**15**	**69.92**	**70.83**	**94**	**-1**
9	Enforcing contracts	**60.22**	**74**	**68**	**60.22**	**69**	**-1**	**59.29**	**60.22**	**66**	**3**
10	Resolving insolvency	**35.83**	**123**	**126**	**35.08**	**125**	**1**	**35.08**	**35.16**	**129**	**-4**

Source: WB.

c. Innovation improved by 12 positions, to 47 out of 127 economies (Figure 35: Improvement in Vietnam's innovation capacity rankingFigure 35). This is also the highest ranking that Vietnam has ever reached. Among low middle-income countries, Vietnam managed to rank first (from the third in 2016). In ASEAN, Vietnam has passed Thailand (ranked 51st). Such improvements resulted from regularly providing data to World Intellectual Property Organization in a timely basis.

Figure 35: Improvement in Vietnam's innovation capacity ranking



Source: Global Innovation Reports 2016, 2017.

d. In 2017, three independent credit rating organizations - namely Moody's, Standards and Poor's, and Fitch – carried out credit rating for Vietnam for 2016. So far, 2 out of the 3 organizations (including Moody's and Fitch) have lifted their ratings on Vietnam's outlook from Stable to Positive level.

84. The above progresses remain far from sustainable: in fact, several obstacles persist in term of doing business, causing difficulties to enterprises' production and business activities. Although the Government has numerous attempts to improve the business environment with views to facilitating business and complying with good international practices and FTAs, some factors and areas still saw no or limited reforms compared to other countries. Specifically:

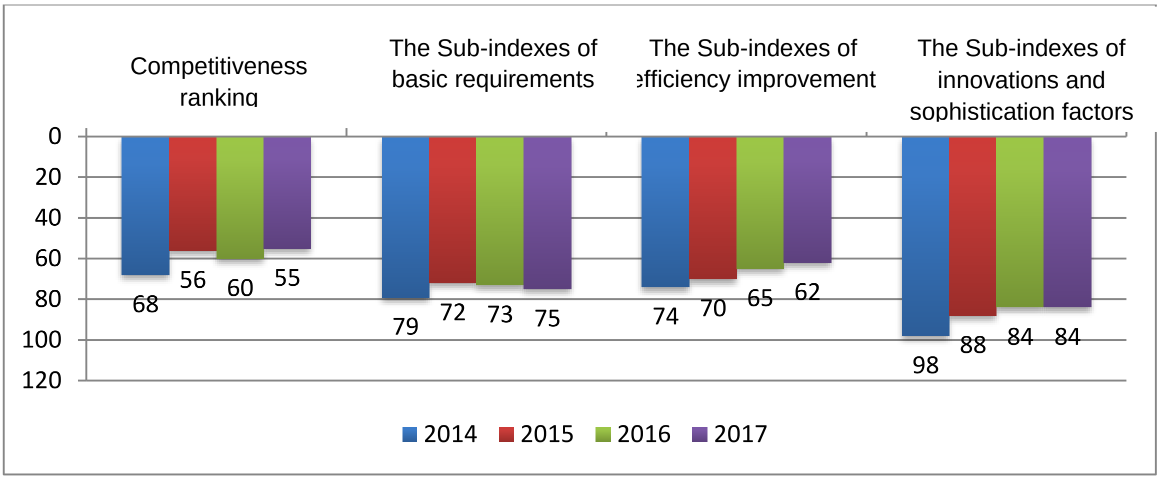
a. Goods market efficiency has not improved for many years, while most of its component indicators decreased. In particular, competition level (poor anti-monopoly policy enforcement, unfavorable business environment) and the quality of demand factors have weakened.

b. There have been limited improvements regarding infrastructure, education quality; business development level and technology innovation have experienced some but rather slow improvements.

c. Institutions pillar (potentially affecting business environment) have improved but only slowly, without addressing barriers to businesses.

d. Some Doing business indicators are at the bottom of the ranking by the WB (such as: starting business – rank 123th, resolving insolvency – ranking 129th). Moreover, indexes of property ownership and usage registration have not seen any reforms or improvements for many years.

Figure 36: Rankings of Vietnam's Competitiveness and sub-indices (2014-2017)



Source: Global Competitiveness Report 2014-2017.

85. In ASEAN, Vietnam ranks 6th and 5th in terms of competitiveness and doing business, respectively. Recent years (including 2017) witnessed more rapid and robust improvements of Indonesia, Brunei and Thailand than those of Vietnam. For instance: Thailand moved up by 20 positions, Indonesia by 19, and Brunei by 16. Given strong reform momentum in such countries, Vietnam will face more challenge in reaching the average of ASEAN 4 on Doing business indicators, ultimately requiring more meaningful efforts.

1.2. Some results of reforming business conditions and professional management in 2017

a. <u>Reforming regulations on business conditions</u>

86. Reforming regulations on business conditions - to accelerate competition and to encourage business development - has been a core priority of the Government in recent years. The Government has issued Resolution No. 83/NQ-CP dated 31/8/2017[47] and Resolution No. 98/NQ-CP dated 3/10/2017[48]. Accordingly, the Government assigned Ministries *"to continue reviewing, assessing, and proposing to remove at least 1/3 to 1/2 of existing business conditions relating to management and administration procedures which are preventing and challenging enterprises' investment and business activities*".

87. To fulfill the task, some Ministries have acted practically. By the end of 2017, 5 Ministries have reviewed and proposed plans to remove and revise business conditions. Specifically:

    a. MOIT was the first to conduct the review and propose plans for phasing out business conditions under their authority. On 20/9/2017, the Minister of Industries and Trade signed and issued Decision No. 3610a/QD-BCT providing plans for removing and simplifying investment and business

[47] Resolution No. 83/NQ-CP dated 31/8/2017 of the Government's special meeting on regulation legislation in August 2017.
[48] Resolution No. 98/NQ-CP dated 3/10/2017 introducing the Government's action plan on implementing Resolution No. 10-NQ/TW dated 03/6/2017 of the 5th Plenum of the XII Central Party Steering Committee on developing private economy to become an essential force of the socialism-oriented market economy.

conditions under the Ministry's authority during 2017 – 2018. Accordingly, 675 out of 1216 conditions (equivalent to 55 percent) on investment and business under the Ministry's authority are planned to be phased out. Then, the Government issued Decree 8/2018/ND-CP dated 15/01/2018 revising some Decrees related to business and investment conditions under MOIT's management authority.

b. The Ministry of Agriculture and Rural Development (MARD) followed. According to its plan, out of 345 business conditions under the Ministry's authority, 118 ones are planned to be removed, revised (of which, 65 conditions to be removed and 53 to be revised), accounting for 34.2 percent. MARD is currently preparing the draft Decree on revising some Decrees on business investment under their management authority.

c. The SBV proposed to maintain business conditions in banking sector due to more special characteristics of credit institutions than other sectors, and due to relatively high risk of banking activities.

d. The Ministry of Construction made decisive and practical efforts to reform business environment in general and business conditions in particular. Specifically, the Ministry has:

  - Proposed to remove 5 industries, professions which are not in the List of Conditional industries and professions under the Law No. 03/2016/QH14 on Amending, supplementing Article 6 and the Appendix 4 on the List of Conditional industries and professions under the Investment Law but subject to the Decrees drafted by the Ministry of Construction.
  - Proposed to abrogate 6 industries, professions in the List of Conditional industries and professions of the Law No. 03/2016/QH14, which fail to meet the criteria in Article 7 of the Law on Investment. However, according to its Appraising Report No. 360/BC-BTP dated 29/11/2017, the Ministry of Justice proposed to retain 02 industries[49]. Therefore, the Ministry of Construction proposed to abrogate 04 conditional business industries and professions, which then require other management approach.
  - Proposed to remove 89 conditions (41.3%); to simplify 94 (43.7%); and to retain 32 conditions (15%) out of 215 investment and business conditions under authority of the Ministry of Construction.
  - The presented proposals of removal are planned to be incorporated into the Law on revising, supplementing some articles in the Laws on Construction, Housing, Real Estate Business, and Urban Planning (with conditional investment and business industries, professions currently regulated by Laws)[50] and the draft Decree on revising, supplementing,

[49] Including: Residential apartment management service business, and the trading of white amiante products in Serpentine groups.

[50] Ministry of Construction has prepared a proposal profile on building the Law on Amending and supplementing some regulations of the Law on Construction, the Law on Housing, the Law on real

and removing some regulations on investment and business conditions under the authority of the Ministry of Construction (with conditional investment and business industries, professions regulated at Decrees). At present, this draft Decree has been submitted to the Government for issuance.

e. The Ministry of Information and Communication has reviewed business conditions, and proposed to remove or revise 51 business conditions (accounting for 16 percent). However, the concrete plan for revising business conditions remained absent.

f. The other 10 Ministries (including: Finance, Health, Culture – Sports – and Tourist, Education and training, Science and Technology, Natural resources and environment, Labor – Invalids and Social Affairs, Public Security, National Defense, and Justice) are reviewing and preparing recommendations on removing, revising business conditions under their management authority.

88. The review of business conditions by ministries have shown that:

a. The ministries are still puzzled with differentiating business conditions of industries and professions from professional management of products and commodities. Therefore, many professional management conditions of products and commodities have been institutionalized into business conditions.

b. Although the MPI, Public Security, Environmental, Labor – Invalids and Social Affairs, etc., are in charge of regulations on horizontal conditions (such as: business registration certificates; Fire prevention and fighting requirements; and requirements on environment and labor safety; etc.), these conditions are still regulated by other Ministries.

c. Unnecessary business conditions are still retained; or stipulated without sufficient clarity and details.

d. Among business conditions for recommended abolition or revision, half of them are subject to revision. Some revised conditions are just paraphrased, without actually facilitating business activities.

b. <u>Results of professional management reforms with export, import commodities</u>

89. In general, Ministries, departments have been fully aware of reform requirements regarding professional management and inspection. Some Ministries have provided concrete actions with these tasks. Thereby, enterprises' time spent on professional inspection procedures has been shortened. Developments on professional management, inspection have been recognized by business community, as follows:

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estate business, and the Law on urban planning, to send for comments from relevant Ministries, department at the document No. 2554/BXD-PC dated 27/10/2017, and to send for Ministry of Justice for appraisal at the document No. 2666/BXD-PC dated 08/11/2017.

a. Joint circular No. 110/2016/TTLT-BTC-BKHCN dated 30/6/2016 of the Ministry of Finance and the Ministry of Science and Technology permitting use of facsimile or image files to report the professional inspection results for customs clearance.

b. The MOIT issued Circular No. 23/2016/TT-BCT aborting formaldehyde tests of textile products.

c. The Ministry of Health removed shortcomings and difficulties for fishery processing enterprises in state management and food safety announcement with imported materials, additives, and packages for exported goods (pursuance to Resolution 103/NQ-CP dated 5/12/2016 of the Government).

d. The MOIT issued Circular No. 36/2016/TT-BCT dated 28/12/2016 (come into enforcement from 10/2/2017)[51] on energy labeling, replacing Circular No. 07/2012/TT-BCT, and further facilitating enterprises. Particularly: (i) changing energy labeling from pre-customs clearance to post-customs clearance, before circulated in the markets; (ii) allowing enterprises to use the energy testing result once with each product model, with no limit of the test certificates' validity (while the previous Circular 07/2012/TT-BCT required enterprises to conduct the tests every 6 months).

e. The Ministry of Science and Technology issued Circular No. 02/2017/TT-BKHCN dated 31/3/2017 and Circular No. 07/2017/TT-BKHCN dated 16/6/2017 specifying conformity announcement basing on pre-clearance approach (checking before customs clearance), and post-clearance approach (checking after customs clearance) to provide a general legal framework for implementation by all Ministries, departments regarding products and goods quality management. Whereas, professional examinations with products and goods belonging to the authority of MOIT are set at post-customs clearance; only petroleum and liquid petro gas products are required to be tested before customs clearance.

f. Following recommendation of MOIT, it Circular 07/2017/TT-BKHCN of MOIT dated 16/6/2017, quality checks on steel products (apart from steel for making ferro-concrete) have been set at post-customs clearance test from 1/10/2017. On 21/9/2017, the MOIT issued Circular 18/2017/TT-BCT removing some articles in Joint Circular 58/2015/TTLT-BCT-BKHCN, changing imported steel quality management measures. Such regulations have created favorable conditions, reducing costs and risks for enterprises that produce and deal with these products.

g. The Ministry of Construction issued Circular No. 10/2017/TT-BXD on approving National Technical Standards for construction material products and goods, and guidance for conformity certification and announcement[52].

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[51] Circular 36/2016/TT-BCT dated 28/12/2016 on energy labeling for energy consuming vehicles and equipment under management authority of MOIT

[52] Replacing Circulars: No 15/2014/TT-BXD dated 15/9/2014 on the issuance of Vietnam Standard 16:2014/BXD for managing quality of construction material products and goods; No. 11/2009/TT-BXD dated 18/6/2009 regulating quality management with construction glass products and goods; No. 01/2010/TT-BXD dated 08/01/2010 regulating the quality management work with commercial clinker

Accordingly, construction material products and goods in the Category 2 are regulated by QCVN 16: 2017/BXD consisting of 6 product categories. Comparing to 10 product categories under Circular 15/2014/TT-BXD, many product categories which were previously found irrelevant and unreasonable have now been removed, such as: clinker, ceramic sanitary products, water-proofing materials and slit filling materials, and windows and doors.

h. Decree No. 108/2017/ND-CP dated 20/9/2017 on Managing fertilizes entered into force from the date of issuance (replacing Decree 202/2013/ND-CP) creating more favorable conditions for production, trading, importing and exporting different kinds of fertilizers. Accordingly, the Decree stipulates a single ministry in charge of state management with fertilizers, namely MARD (previously, MARD and MOIT jointly managed); enterprises are no longer required to apply for import permits of fertilizes which have been recognized for sale in Vietnam; the procedure of applying for certificate for free sale in Vietnam is just required to be fulfilled with the first imported consignment to Vietnam; organizations and individuals, both domestic ones and foreign ones (having business representatives in Vietnam) are able to subscribe fertilizers for certificates of free sale in Vietnam; while waiting for quality test results, goods are stored at the enterprises' warehouses for preservation.

i. Pursuance to Decree 113/2017/ND–CP providing detailed regulations and guidance for implementing the Law on Chemicals (replacing Decrees 108/2008/ND-CP and 26/2011/ND-CP), chemicals declaration has been carried out via a one-stop and auto-responding national Portal from 5/11/2017. With this change, chemical declaration confirmation procedures have experienced fundamental changes, in accordance with Government's guidance under Resolution 19.

90. In 2017, the Prime Minister's working group carried out inspections at many Ministries, departments, and localities on the implementation of tasks assigned by the Government, the Prime Minister, including the implementation of Resolution 19. The working group had a meeting with 10 professional management ministries: MOIT, Health, Agriculture and Rural Development, Transportations, Information and Communication; and carried out direct inspection in Hai Phong Port, etc., on issues relating to professional quality management and examination. After these inspections, the working group issued documents reporting conclusion of the Prime Minister on the inspection results, and mandating ministries to implement some core duties towards reforming and enhancing efficiency of this work.

91. Regarding food hygiene and safety inspection:

a. Over the last years, enterprises were mostly challenged by fulfilling food safety examination procedures as required by Decree No. 38/2012/ND-CP

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portland cement; No. 14/2010/TT-BXD dated 20/8/2010 regulating quality management with construction material products and goods of tilling.

dated 25/4/2012 guiding the implementation of the Law on Food Safety. Following the Government's instruction, the Ministry of Health has worked closely with the associations of food and foodstuff industries to conduct overall review and to draft Decree replacing Decree 38. According to the draft Decree submitted the Government for approval (in December 2017), many issues have satisfied Government's requirements and enterprises' expectations, such as: (i) allowing enterprises to announce their own products; (ii) reducing time and procedures of such announcement; (iii) changing fundamentally food safety control on imported foods (adding more exemptions from state examination of food safety; applying risk management in state examination of food safety; decentralizing to provincial professional state management agencies); (iv) revising regulation on food labeling towards facilitating business; (v) streamlining food safety management; (vi) providing clear mandates of state management responsibilities relating to food safety.

b. Regarding assignment of management responsibilities with food safety, the draft Decree replacing Decree 38 has overcome duplications and multi-layer management relating to food safety control. For instance:

- With facilities producing many different foods which are under management authorities of 2 or more than 2 professional agencies, the authorized management agency is the one in charge of the product accounting for the largest volume of the total company's production.
- With facilities trading many kinds of foods which are under management authorities of 2 or more than 2 professional agencies, they will be managed by the line authorities of Industries and Trade.
- With facilities both producing and trading many kinds of foods which are under management authorities of 2 or more than 2 state management agencies, these organizations or individuals may select a professional management agency to process related administrative procedures.

1.3. Some challenges to further improvement of business environment

92. According to WB's rating and ranking, some Doing business indicators of Vietnam remain low or have stayed the same for many years without any reforms, improvements, or such improvements are rather insignificant. For example:

a. Starting business indicator fell to 123rd, declining by 2 positions comparing to previous year position. To start business, enterprises have to fulfill 9 steps, taking 22 days (see Table 12). Reviewing results indicated dramatic room for improvement if there is close cooperation between business registration agencies and tax, banking, and insurance agencies, and in combination with providing public services and administrative procedures through online platforms. If there are proper combinations in resolving steps of administrative procedures and applying online public service provision, starting business will be shortened to 9.5 days and 8 procedures, thus, the ranking will move up by 40 – 50 positions.

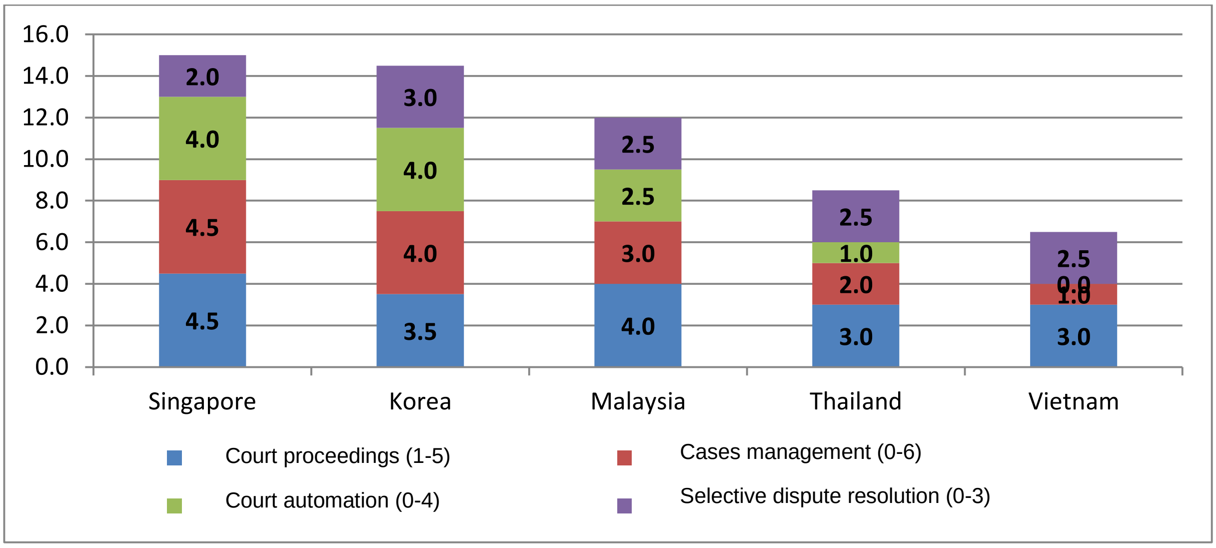
Table 12: Components of starting business indicator

	Indicator	2016	2017
	Starting business (ranking)	**121**	**123**
1	Number of procedures (male)	9	9
2	Time (male) (days)	24	22
3	Costs - male (percentage of average income per capita)	4.6	6.5
4	Number of procedures (female)	9	9
1	Time (female) (days)	24	22
2	Costs – female (percentage of average income per capita)	4.6	6.5
3	Requirement on minimum capital (percentage of income per capital)	0	0

Source: Doing Business 2017-2018.

b. The two indicators related to judicial agencies, namely enforcing contract and Resolving insolvency, only made slow improvements. Of which, Resolving insolvency indicator stayed in the low position of the ranking for many years. These are two important indicators to doing business, reflecting firms' confidence in the judicial system. Compared to other regional countries, the quality of judicial proceeding regulations related to enforcing contracts in Vietnam remains low, at 6.5 out of 18 points (Figure 37).

Figure 37: Comparing quality of judicial proceedings in enforcing contracts



Source: Doing Business 2018.

c. Noticeably, there have been no significant improvements with business insolvency resolution index for many years (5 years), the quality of legal regulations remains limited (7.5/16 points) and still stays at low position in the ranking (at 123 out of 190 economies in 2017). Although many new points have been introduced in the Law on Insolvency 2014 comparing to the previous version in 2004, getting closer to international practices (such as: regulations on guardians of assets, adopting declaration of insolvency with shortened procedures, etc.), but mostly focusing on insolvency resolution and hardly paying attention to business recovery for enterprises.

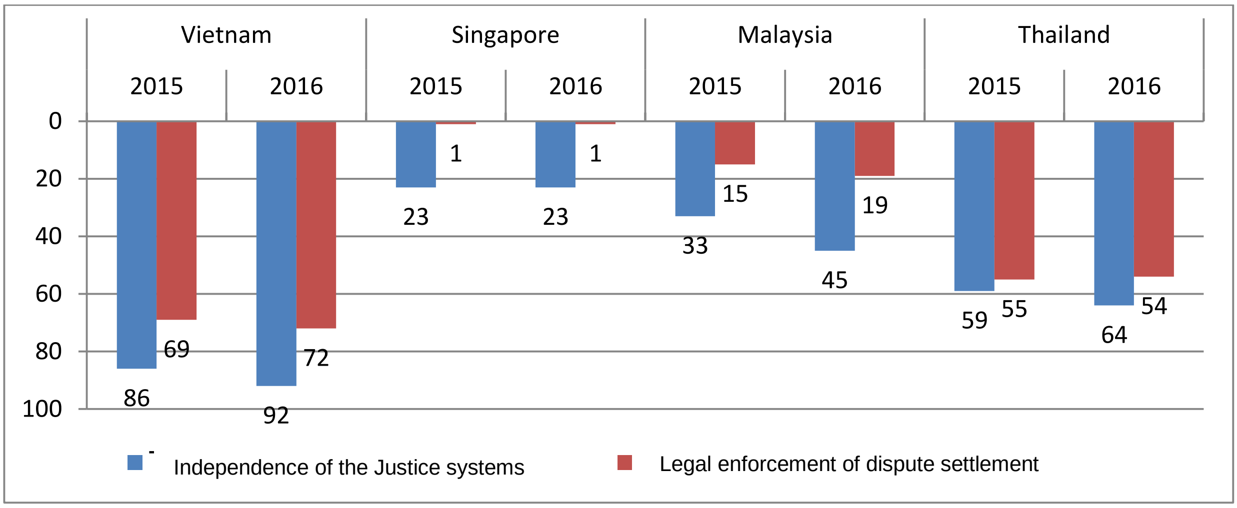
Table 13. Components of Resolving Insolvency

	Indicators	2015	2016	2017
	Resolving Business insolvency (ranking)	**123**	**125**	**123**
1	The rate of recovering business activities (cent/dollar)	20.1	21.6	21.8
2	Time (year)	5	5	5
3	Costs (percentage of firms' asset value)	15	14.5	14.5
4	Results (Firms retain their assets or selling asset gradually (0 gradually selling their assets, and 1 retaining their assets		0	0
5	Quality of legal framework on insolvency (0-16)	8	7.5	7.5

Source: Doing Business 2016-2018.

d. In the Doing Business Report, WB's assessment on judicial effectiveness in enforcing contracts and resolving insolvency in Vietnam is similar to other organizations (the rating of World Judicial Project for example). Accordingly, the rating of judicial independence index in Vietnam is by far lower than that of ASEAN 4 countries (Figure 38).

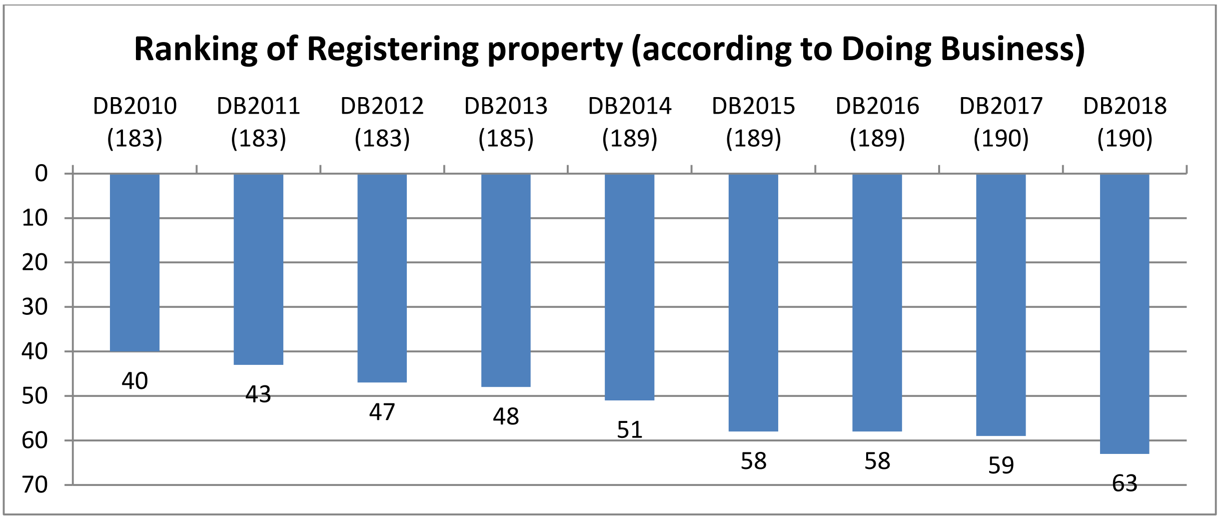
Figure 38: Comparing changes in Vietnam's ranking of judicial independence index and dispute resolution enforcement with other ASEAN countries



Source: The World Justice ranking project.

e. Over the past years, the WB has recognized no reforms in Vietnam in term of Registering property. Over 10 years, this indicator has continuously weakened (Figure 39**Error! Reference source not found.**).

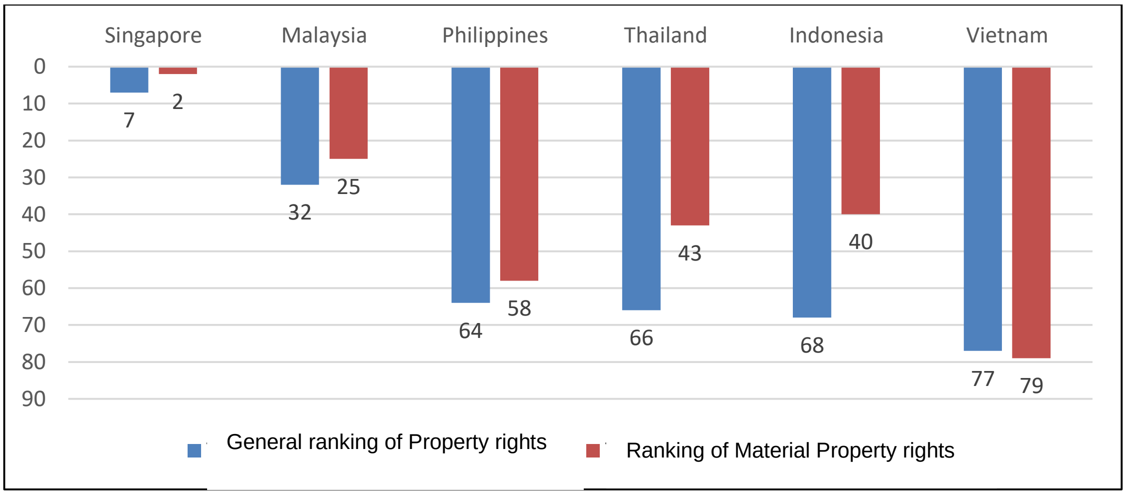
Figure 39: Ranking of Registering property



Source: Doing Business 2010-2018.

- Assessments by some international organizations, such as the World Economic Forum (in the Global Competitiveness report), Forbes magazines (in Doing Business rating), Property Rights Alliance (in the Property rights Index ranking) also show that both score and ranking of property rights in Vietnam are low and hardly improved. According to assessments by these organizations, property rights in Vietnam are ranked lower than in most of other regional countries (**Error! Reference source not found.**).

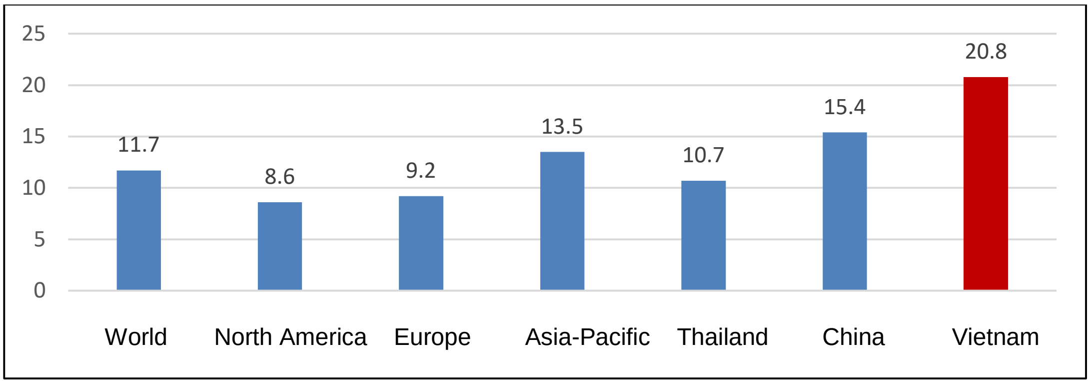
Figure 40: Rankings of property rights in Vietnam and other ASEAN countries



Source: Intellectual Property Rights Index 2017 (IPRI2017) of Property Rights Alliance.

f. Logistics costs in Vietnam remains high, thereby undermining the quality of business environment as well as business competitiveness (Figure 41).

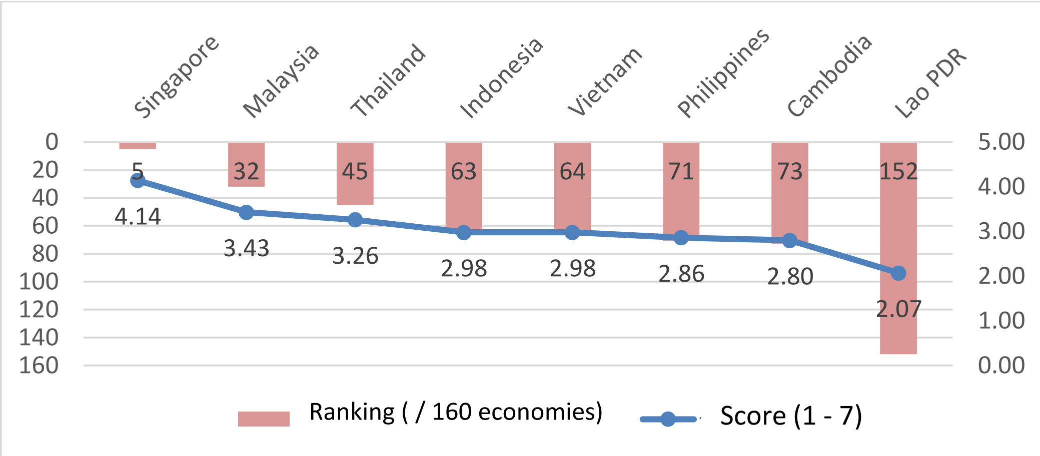
Figure 41: Comparing logistics costs (% GDP, 2016)



Source: Amstrong & Associates.

- The rating of Logistics Performance Index by the WB also indicates that the score and the ranking of Vietnam are by far lower than those of ASEAN 4 countries (Figure 42).

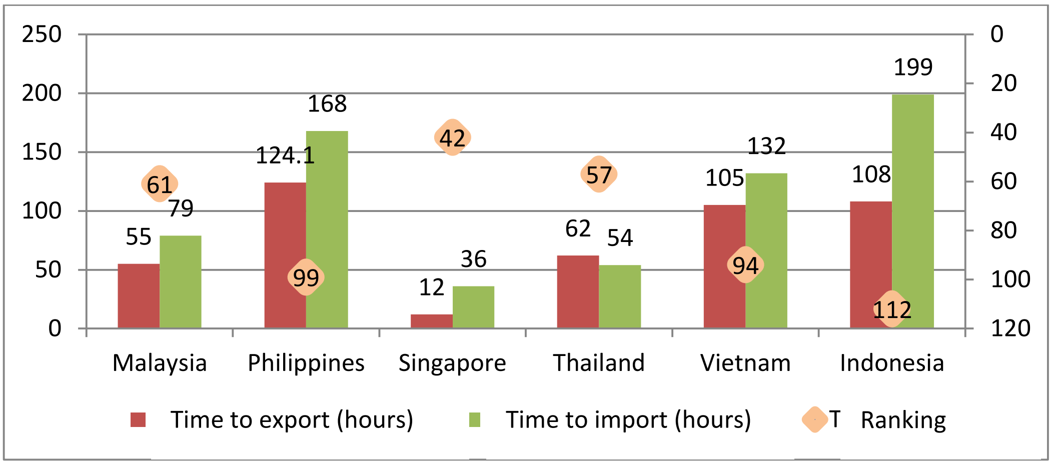
Figure 42: Logistics Performance Index of Vietnam and ASEAN



Source: Logistics performance index 2016 of WB.

g. In term of Trading across borders, in 2017, WB just recognized Vietnam's positive reforms in customs practices. Reforms of professional management and inspection have been carried out in some Ministries, but slowly and limited given Government's requirements and enterprises' expectation as well. Shortcomings and existing matters relating to professional management and inspections resulted in prolonged time spent on the fulfillment of cross-border transactions (**Error! Reference source not found.**), therefore, the facilitation of doing business has not improved as planned by the Government (reaching the average level of ASEAN 4 countries).

Figure 43: Rankings and time to complete crossborder transactions in Vietnam and other ASEAN countries



Source: Doing Business 2018.

93. Some shortcomings and existing problems in professional management and inspection include: (i) large number of documents regulating professional management and examination; (ii) virtually no effort to shorten the list of goods and products requiring quality check (Category 2); (iii) ample (and expanding) scope of products requiring professional examination; (iv) overlappings in professional management and examination; (v) relatively long (though shortened) time to fulfill professional management and examination, leading to many risks to enterprises (storage costs, administrative fines due to delays in customs clearance, and missing business opportunities, etc.); (vi) high costs of professional examination, particularly the expenses of energy saving tests, veterinary quarantine fees, and imported breeding food testing fees; (vii) absence of HS codes in the lists of goods required professional inspection provided by some ministries (not to mention the lists of already HS-coded products but still needing further review and recoding pursuant to Circular 65/2017/TT-BTC).

2. *Specialized mechanism for growth-driving economic regions and budget retention for investment restructuring*

94. To promote the nationwide economic development and fostering linkages and coordination in social-economic development among economic zones, the Government of Vietnam has selected some provinces and cities to form the national key economic regions. Since 2009, Vietnam has four key economic regions (the North, the Central, the South and the Mekong Delta) comprising 24 provinces, cities, which altogether make up nearly 27.5% of the country's natural area (approximately 90,770 km^2) and more than 51% of total population. The key economic regions serve as the impetus for fast economic growth and the driver for development of other provinces, creating growth momentum, economic efficiency and spillover effect as well as promoting potentials of each region.

95. Despite some important outcomes in promoting national socio-economic development, the key economic regions have yet to adequately fulfill their

roles. Despite high economic growth, the growth quality is still limited. The key economic regions have not generated strong boost for overall economic growth. They were yet to sufficiently drive the country's development, and to generate spillover effect to the neighboring localities. Besides, the key economic regions have yet to utilize their potential and advantages. Several reasons can explain such limitations, including the absence of a specialized mechanism for growth-driving economic regions. This section is to justify the necessity of having a specialized mechanism for growth-driving economic regions, focusing on some central cities and provinces of each region and the basic content of the current mechanism. In addition, this section considers the issue of retained revenues for reinvestment.

Rationale for specialized mechanism

96. Although there are mechanisms and policies to develop economic zones in general and key economic regions in particular, they are no more favorable than other regions because they are based on the horizontal policy framework, especially in fiscal aspect. Some policies are also inappropriate, "scattered" or insufficient to create competitive advantages for key economic regions, particularly the provinces and central cities being centers of the regions.

97. The absence of a specialized mechanism and policies for key economic regions has partially hindered the enhancement of their comparative advantages and the motivation and breakthrough in attracting investment and investors to foster strong growth momentum for those economic zones. Therefore, to support the leading provinces/cities of the key economic regions to perform their roles thoroughly, a specialized mechanism with superior characteristics is imperative. Such mechanism will allow the key economic regions to mobilize great resources for growth, resulting in the overall development for other provinces and the country as a whole.

98. At the discussion on 14/11/2017 regarding the Resolution on mechanisms and policies to develop Ho Chi Minh city, the National Assembly Chairwoman, Ms. Nguyen Thi Kim Ngan said that "if the economic growth "locomotives" and growth-driving economic regions develop at a slow pace, the following "carriages" will move slowly as a consequence."[53] Therefore, it is crucial to have a specialized mechanism with superior characteristics in comparison with other provinces to support the leading provinces/cities of the key economic regions to adequately perform their roles. This raises the need for a specialized mechanism for growth-driving economic regions, especially the mechanisms for investment management and financial-budget management.

Current specialized mechanism and some preliminary remarks

99. So far, a specialized mechanism is primarily expressed via the financial-budget mechanism specifically applied to municipalities. They are the economic growth "locomotives", the impetus for development in key economic regions

[53] See more in https://vov.vn/chinh-tri/quoc-hoi/tphcm-la-dau-tau-ma-di-cham-thi-cac-toa-cham-theo-695276.vov

responsible for promoting high economic growth, the advancement of key sectors and strengths of those regions.

100. In fact, since the State Budget Law 2002 (Article 75), the Government stipulates "*a number of particular finance-budget mechanisms for Hanoi capital, Ho Chi Minh City and report them to the National Assembly Standing Committee for comments before the implementation thereof and report thereon to the National Assembly at its nearest session*". As guideline for that stipulation, the Government issued two decrees in 2004 to regulate some specific finance-budget mechanism for Hanoi[54] and Ho Chi Minh City[55]. Also in 2004, the Prime Minister issued a decision on a number of favorable financial mechanisms for Hai Phong city[56]. In 2006, the Prime Minister issued two decisions on a number of favorable finance-budget mechanisms for Da Nang[57] and Can Tho[58].

101. The (amended) State Budget Law adopted by the National Assembly in 2015 (Article 74) further stipulates some "*special budget-finance policies applied to Ho Chi Minh city, some provinces and administrative – economic units; A report shall be submitted to Standing Committee of the National Assembly for opinions before promulgation and to the National Assembly at the nearest meeting*". The article also stipulates that "*Hanoi shall implement some special state budget-finance policies according to the Law on Capital city*". Accordingly, the Government issued a few Decrees regulating the special finance-budget mechanisms for Hanoi Capital[59], Ho Chi Minh city[60], Hai Phong city[61]. In addition, mechanisms for investment, finance-budget and decentralization of management are specifically stipulated for Da Nang city[62].

102. Some specific finance-budget mechanisms and policies for central municipalities includes:

First, municipalities are allowed to expand outstanding public borrowings

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[54] Decree 123/2004/ND-CP on 18th May 2004 stipulating some of specific financial-budgetary mechanisms for Hanoi as Capital city.

[55] Decree 124/2004/ND-CP on 18th May 2004 stipulating some of specific financial-budgetary mechanisms for Ho Chi Minh city. Later in 2014, the Government issued Decree 61/2014/ND-CP to amend and supplement a few articles of the Decree 124/2004/ND-CP on 18th May 2004 stipulating some of specific financial-budgetary mechanisms for Ho Chi Minh city.

[56] Decree 54/2004/QĐ-TTg on April 5th 2005 stipulating some of specific financial-budgetary mechanisms for Hai Phong city.

[57] Decree 13/2006/QĐ-TTg on January 16th 2006 stipulating some of specific financial-budgetary mechanisms for Da Nang city.

[58] Decree 42/2006/QĐ-TTg on February 16th 2006 stipulating some of specific financial-budgetary mechanisms for Can Tho city.

[59] Decree 63/2017/ND-CP stipulating some of specific financial-budgetary mechanisms for Hanoi as Capital city.

[60] Decree 48/2017/NĐ-CP dated April 24th 2017 stipulating some of specific financial-budgetary mechanisms for Ho Chi Minh city.

[61] Decree 89/2017/NĐ-CP dated July 29th 2017 stipulating some of specific financial-budgetary mechanisms for Hai Phong city.

[62] Decree 144/2016/NĐ-CP dated November 1st 2016 stipulating some of specific financial-budgetary mechanisms for Da Nang city.

103. For Hai Phong and Da Nang, the proportion of outstanding public borrowings (including domestic borrowings from issuance of municipal bonds, on-lendings from the Government and other domestic loans prescribed by the law) shall not exceed 40% of the local budget revenues that the city can retain (increasing by 10 percentage points compared to the State Budget Law 2015).

104. Meanwhile, Hanoi and Ho Chi Minh City are allowed to increase their outstanding public borrowings (including domestic borrowings from issuance of municipal bonds, on-lendings from the Government and other domestic loans prescribed by the law) to 70% of the local budget revenues that those cities can retain.

105. Decision 07/KL-TW dated September 28th 2016 of the Politburo assigns Can Tho city to coordinate with related Ministries and Agencies to develop and submit a preferential mechanisms and policies similar to Da Nang and Hai Phong city. According to the draft Decree regulating specific investment, finance-budget and decentralization of management mechanisms, Can Tho is allowed to increase its outstanding public borrowings up to 40% of the local budget revenues that the city can retain (similar to Hai Phong and Da Nang).

106. Lifting the ceiling on outstanding public borrowings in line with local budget revenues does not only ensure the cities' debt repayment ability but also supports them to mobilize capital and resources for important projects and economic-technical infrastructures.

Second, municipalities can receive supplemental fund from the Central government budget for specific targets.

107. In accordance with the current regulations, Hai Phong and Da Nang can receive additional fund from the Central government budget up to 70% of the increase in Central government budget revenues. Those extra amount comes from (i) the revenues allocated between central government budget and local government budget compared to the estimates (the remainder after the bonuses for revenue surplus are made according to the State Budget Law 2015) and from (ii) the revenues that are wholly retained by the central government budget as stipulated at point b, c, d, g, h, i, q, clause 1, Article 35 of the State Budget Law compared to the estimates. These revenues exclude the revenues not under responsibility of the municipality, revenues that do not accrue but are only recorded in the territories of Hai Phong and Da Nang, revenues that are approved by the competent authorities, revenues-expenditures records and revenues retained by the management units as prescribed by law. It should be noted that the supplemental fund shall not exceed the increase in local revenue collection (compared to the previous year) dedicated to the central government budget.

108. Under the current regulations, the bonuses and targeted supplemental fund for Hanoi can reach up to 100% the increase in central government budget revenues compared to the estimates allocated by the Prime Minister. However, that amount cannot surpass the increase in local revenue collection dedicated to the central government budget in comparison with the amount of the previous

year. Such increase comes from the revenues distributed between the central government budget and local government budget and revenues wholly retained by the central government budget as stipulated at point b, c, d, g, h, i, q, clause 1, Article 35 of the State Budget Law compared to the estimates allocated by the Prime Minister (excluding: the revenues not under responsibility of the municipality, revenues that do not accrue but are only recorded in the territories of Hanoi city, revenues that are approved by the competent authorities, revenues-expenditures records and revenues retained by the management units as prescribed by law).

109. For Ho Chi Minh City, if the revenues distributed between the central government budget and local budget surpasses the estimates allocated by the Prime Minister, Ho Chi Minh City will get 30% of that surplus as a bonus; however, that amount cannot exceed the increase in central budget revenues compared to revenues of the previous year. Besides, Ho Chi Minh city can annually receive targeted supplemental fund from the State budget at most 70% of the increase in revenues distributed between the central government budget and local budget compared to the amount allocated by the Prime Minister (the remainder after the bonus) and revenues wholly retained by the central government budget stipulated at point b, c, d, g, h, i, q, clause 1, Article 35 of the State Budget Law (excluding: the revenues not under responsibility of the municipality, revenues that do not arise but only recorded in the territories of Ho Chi Minh city, revenues that are approved by the competent authorities, revenues-expenditures records and revenues retained by the management units as prescribed by law). The supplemental fund shall not exceed the increase in local revenue collection (compared to the previous year) dedicated to the central government budget.

Third, municipalities can apply specific mechanism for domestic investment capital.

110. Hanoi and Ho Chi Minh City have specific mechanism for domestic development investment capital. In particular, if the capital needed for significant works and project of large investment scale under the management of the municipalities exceeds the city’s budget capability, the People’s Committee of that municipality can draft estimates and requests and submit them to the MPI and the Ministry of Finance. Then, those requests will be sent to the Government and discussed at the National Assembly to make a decision on the amount of fund that the State Budget can support that municipality in implementing those projects. In addition, in order to efficiently use the land fund under the municipality’s governance, the People’s Committee of the municipality can borrow from the city’s budget or funding resources for infrastructure construction adhering to the investment duty of the budget to organize auctions for land use rights. The money collected after the auction will be repaid to the city’s budget or the funding resources.

Fourth, the municipalities can apply decentralized and delegated power for budget decision making.

111. Hanoi and Ho Chi Minh City are entitled to the decentralization mechanism in budget determination. Specifically, the sources of revenues and expenditure tasks of the local budget are decentralized according to the State Budget Law. The People's Committee of Ho Chi Minh city/Hanoi shall submit their plan to the municipal People's Council to decide on the decentralization of revenue sources and expenditure tasks among different tiers of the city's administration (district, ward, township and commune) conforming to the State Budget Law and in line with the practical situation, the requirements for socio-economic development, national defense, security, social order and safety of the city. Moreover, according to the annual estimates assigned by the Prime Minister and guidelines of the Ministry of Finance, the People's Committee of Ho Chi Minh city/Hanoi reports to the municipal People's Council for decisions about: Estimates of the city's revenues and expenditures, revenues and expenditure tasks allocation for each agency or unit functioning under the city's budget. The supplementary fund from the city's budget must be in consonance with the requirement for the socio-development of the city. At the same time, it has to ensure the general direction of the State budget.

112. In response to the urgent need[63] for a specialized mechanism suitable for the development requirements of Ho Chi Minh city so as it can develop rapidly and sustainably and effectively perform its leading role in stimulating growth, creating spillover effect for the southern key economic region and contributing to the overall socio-economic development and State Budget in accordance with Resolution No. 16-NQ/TW dated August 10th 2012 of the Government and Conclusion No. 21-KL/TW dated October 24th 2017 of the Poliburo, the National Assembly issued Resolution No. 54/2017/QH14 concerning pilot implementation of special mechanism and policies for development of Ho Chi Minh city. The five domains of the pilot program include:

a. *Regarding land management*: The Resolution stipulates that the People's Council of Ho Chi Minh city can alter the purpose of crop land with the total area from 10 ha and above to match with the land use plan determined by the competent authorities.
b. *Regarding investment management*: The Resolution stipulates that the People's Council of Ho Chi Minh city shall decide on investment policies for Group A projects funded by the city's budget except for those

[63] According to Report No. 530/TTr-CP dated November 8th 2017 of the Government piloting specialized mechanisms and policies for Ho Chi Minh city, this city is the largest urban city of the State in terms of population (9.1% of the country's population) and the economic scale of 21.6% GDP (in 2016). Furthermore, Ho Chi Minh city contributes the most to the State Budget (approximately 28% of the State Budget). Ho Chi Minh city has higher economic growth compared to the country's average, affirming its leading position and its crucial role as the impetus for socio-economic development of the southern key economic region in particular and the entire country in general. However, Ho Chi Minh city has to deal with some challenges recently, specifically: (i) the city's infrastructure can no longer ensure rapid and sustainable development, is severely affected by climate change, flooding and serious environmental pollution problem; the need for investment in hospitals and schools is escalating; (ii) the ability to attract high-qualified scientists for technology advancement and modernization and competitiveness enhancement for the city's development strategy is limited; (iii) the city's competitiveness and FDI attraction in the last 10 years is lower than the national average (in the period of 2011-2015, FDI fell by 32% compared to the period of 2006-2010).

prescribed at point a, b, c and d, clause 1, Article 8 of the Public Investment Law[64].

c. *Regarding the finance-budget management*, the Resolution stipulates:

- The municipal People's Council shall make a proposal to the Government to consider and submit it to the Standing Committee of the National Assembly to implement the pilot program on increasing tax rate for commodities subjected to excise tax and environment protection tax in the area of the city. The increase in tax rate shall not exceed 25% of the current one.
- The Municipal People's Council can apply charges and fees not included in the Law on Fees and Charges within the city's area. The Municipal People's Council can raise fee and charge rates, which have already been decided by competent authorities, items prescribed in the Law on Fees and Charges.
- The city's budget can retain 100% the revenue surplus from above-mentioned policy readjustment to invest in its socio-economic infrastructure under the expenditure task of the city's budget. The increased amount shall not be used to determine the proportion for revenues distributed between the central government budget and the local budget.
- Based on the annual budget estimates approved by the National Assembly and assigned by the Prime Minister with consideration for the city's practical situation, the municipal People's Council then decides the budget estimates and distribution in line with orientation for budget restructuring, socio-economic development and other important areas according to the regulations of the National Assembly and the Government.
- Once the city's budget has sufficient fund for salary reform and social security policies for the entire budget stabilization period in accordance with the regulations of the competent authorities, the municipal People's Council can make decision on use of the remaining amount for socio-economic investment under its expenditure tasks. The municipal People's Council may allow the State administrative agencies, organizations and public service units to use the residual fund from salary reform for investment, procurement, spending on professional activities and extra allowances.
- Ho Chi Minh City is allowed to issue municipal bond, to borrow from domestic financial institutions, other domestic institutions and on-lending from Government's foreign loans with the total outstanding balance not surpassing 90% of the decentralized revenues that the city

[64] Including: Projects in areas with special monuments; Projects in geographical areas of importance to national defense and security according to the Law on National Defense and Security; Projects of national confidentiality related to national defense and security; Projects for toxic substances and explosives production.

can retain[65]. The annual borrowings and budget overspendings of the city is decided by the National Assembly conforming to the State Budget Law.

- On annual basis, the Government proposes to the Standing Committee of the National Assembly to determine the amount of targeted supplemental fund from the central government budget to Ho Chi Minh City's budget. The amount is equivalent to 70% of the surplus in distributed revenues between the central budget and the city's budget compared with the approved budget estimates (the remainder after bonuses for revenue surplus according to the Provision 4 Article 59 of the Law on State 83/2015/QH13) and the surplus in revenues wholly retained by the central government budget according to point b, c, d, g, h, i and q Provision 1 Article 35 of the Law on State 83/2015/QH13 compared with the approved budget estimates. The additional funding shall not exceed the increase in local revenue collection (compared to the previous year) dedicated to the central government budget.
- The city's budget can keep 50% of taxes on land use when selling public assets associated with assets on land according to the Law on Management and Use of Public Assets (after excluding reallocation and construction expenses at new location) by central agencies, organizations and units located in the city (except for national defense and security agencies). This source of revenue is dedicated to socio-economic infrastructure investment under the city's expenditure tasks.
- The city's budget is entitled to the proceeds from equitization and divestment of SOEs governed by the municipal People's Committee, and the proceeds from divestment of economic organizations represented by the municipal People's Committees. The sources of revenue as well as the city's budget are used to invest in the city's socio-economic infrastructure, including against–flooding projects.[66] The city's budget borrows all of the excess capital compared with the total investment amount (if any) of projects approved by the authority that have foreign capital.
- For approved significant infrastructure projects in the medium-term investment plan under the central government budget expenditure tasks and implemented within the city's area, the city is allowed to use its budget, other legal financial resources, borrowings within the scope of regulations, or mobilized funds under the public-private partnership (PPP) to complete those projects as soon as possible. The central government budget must reimburse the investment expenditure under its responsibility, which is already approved by the competent

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[65] This rate is 20% higher than that regulated in Decree No. 48/2017/ND-CP dated April 24th 2017 stipulating some specific financial-budgetary mechanisms for Ho Chi Minh city. This is a supreme mechanism, which is 20% higher than the mechanism applied for Hanoi and 50% higher than that for Hai Phong, Da Nang and Can Tho.

[66] The central budget didn't arrange VND 10.000 billion for the city to implement investment projects in the medium-term investment plan from 2016 to2020.

authorities, except for the interest payment in the current and following medium-term public investment plans.

d. *Regarding to the authorization mechanism*, the Resolution stipulates:

- The Chairman of the municipal People's Committee authorized the Chairman of People's Committees at district level to carry out a number of tasks for the municipal Chairman of People's Committee.
- The municipal People's Committee stipulates the duties and authority of the Chairman of People's Committees at district level concerning the empowerment of the communal Chairman of People' Committee to perform a number of tasks within the duties and authority of the Chairman of the district People's Committee. The Chairman of the district People's Committee shall not pass the tasks authorized to him by the Chairman of the municipal People's Committee to the lower level.
- The municipal People's Committee has the rights to adjust names, functions and tasks of specialized departments under the governance of the municipal People's Committees to suit the characteristics of the city.

e. *Regarding the income of cadres, officials and public servants under the administration of the City:* The Resolution stipulates that the municipal People's Council shall decide on the city's budget allocation for additional incomes for cadres, officials, public servants working in the State administrative agencies, political organizations, socio-political organizations and public non-business units under the management of the city based on their work efficiency in addition to the extra allowance prescribed by current policies on the financial autonomy mechanism for State administrative agencies and public non-business units. The extra incomes shall not exceed 1.8 times of the rank and position payroll. Payrolls for specialists, scientists and special talents of the city are determined by the municipal People's Council.

113. The specialized finance-budget mechanisms for municipalities and other special mechanisms piloted in Ho Chi Minh city may receive some comments as follows:

a. First and foremost, it must be affirmed that Ho Chi Minh City, Hanoi, Hai Phong, Da Nang and Can Tho are the centers of national key economic zones. Thus, they need specialized mechanisms to develop and motivate other adjacent localities to grow. Ho Chi Minh City needs supreme mechanisms to achieve breakthroughs because it is the leading economic hub of Vietnam.

b. Specific contents of the pilot mechanisms for Ho Chi Minh City and some specialized financial and budgetary policies for Ha Noi, Hai Phong, Da Nang and Can Tho are levers to maximize their potentials and advantages, boosting their development and creating spillover effect to other areas, thus contributing to the overall economic development of the regions and country. In fact, more than 10 years of implementing some specialized finance-budget mechanisms in Ho Chi Minh City and Hanoi as well as some preferential financial and budgetary policies in Hai Phong, Da Nang and Can Tho has resulted in many important achievements. For Hanoi and Ho Chi Minh city, the priorities in receiving Official Development Assistance (ODA), grants, the allocation norms for local budget expenditures, the level of mobilized capital for development, bonuses for surplus in revenues collection and reinvestment, etc., helped create a breakthrough for the cities' infrastructure investment, stimulated the development of the two cities, increased their budget revenues and capital construction expenditure and established a civilized and modern appearance for these two cities. For Hai Phong, Dang Nang and Can Tho, the State Budget prioritized the targeted supplementary fund, fund from government bond issuance, investment support from surplus in revenue collection and ODA to implement essential projects in their areas. Accordingly, the development investment expenditures of those cities increased remarkably. For example, in Can Tho, the total investment expenditure for the period of 2006-2016 was VND 25,182 billion, higher than that of Da Nang and Hai Phong.[67] Simultaneously, these cities also mobilized a large amount of capital for investment. Can Tho city alone mobilized VND 1.210 billion for developing socio-economic infrastructure from 2011 to 2015.

Retained revenues for local reinvestment:

114. The State Budget Law 2015 (Article 6) stipulates that the State Budget comprises of central government budget and local government budgets. Local government budget includes budgets of different tiers of local governments.

115. Each budget tier has revenue streams that it can wholly retain. The sources of revenue that the central government budget can keep 100% comprise VAT on import goods; export and import duties; special sales tax on imported goods; environmental tax on imported goods; natural resource tax; corporate income tax; non-refundable aids granted by foreign governments, international organizations, other organizations and foreign individuals to the Vietnamese Government; collected charges for service provided by central regulatory agencies. The sources of revenues that the local budget can keep 100% consist of severance tax (except for that on petroleum exploration and extraction), license tax, levies on agricultural land, levies on non-agricultural land, land levies (except for revenues from selling state-owned property, including collected levies on land associated to property under the management of central organizations and units), rent on lease of land and water surface, revenues from lease and sale of state-owned housing, registration fee, revenues from lottery, recovery of investment by local government budgets in business organization, etc. The revenues that the local budget can entirely retain are normally of small value. For instance, according to Resolution No. 50/2017/QH14 dated

[67] Draft report on draft Decree stipulates some specialized mechanisms of investment, finance, budget and management decentralization for Can Tho city (attached to the Official Letter No. 14185 / BTC-NSNN dated 23/11/2017 of the Ministry of Finance about getting opinions on constructing decree stipulating some special mechanism for Can Tho city).

14/11/2017 on the allocation of central government budget for 2018, the revenues that Ho Chi Minh city can keep 100% is VND 42,124 billion (accounting for nearly 11.2% of the local revenue collection); likewise Hanoi is VND 40,377 billion (16.9%), Hai Phong VND 7,043.7 billion (10.78%) and Da Nang VND 5,012 billion (19.37%), etc.

116. The central budget and local budgets share some revenues with the allocation ratio changed after each budget stabilization period[68] to suit the practical situation. According to the State Budget Law in 2015, budget revenues distributed between the central budget and local budgets include 5 main sources: VAT (excluding VAT on imported goods); Corporate income tax (excluding corporate income tax from operations of petroleum exploration and extraction); Personal income tax; Special sales tax (excluding special sales tax on imported goods); Environmental tax (excluding environmental tax on imported goods). The distribution and supplementation of budget between different levels is conducted on a basis to ensure equality, balanced development among the regions and localities. According to the National Assembly's Resolutions on the annual central budget allocation, the retention rates of the state budget revenue between local budgets the central budget for some localities are adjusted over time. Basically, the retention rate tends to decrease in Ho Chi Minh City, Hanoi, Da Nang, Hai Phong, etc. In comparison with the period of 2011-2016, during the budget stabilization period 2017-2020, the retention rates of 13 localities go down by 2-17%, including additional 3 new localities: Quang Nam, Hung Yen and Hai Duong. Two provinces have higher retention rates including Quang Ngai (from 61% to 88%) and Ba Ria Vung Tau (from 44% to 64%). Can Tho city maintains its retention rate at 91% because its budget revenues collection is of the slowest-increased group among 16 provinces/cities.

Table 14: Budget retention rates of 63 cities/provinces

No.	***Province/City***	***2008***	***2010***	***Budget stabilization period***		
				2011-2016	***2017-2020***	***% Change***
1	Hanoi	31	45	42	35	-7
2	HCMC	26	26	23	18	-5
3	Da Nang	90	90	85	68	-17
4	Hai Phong	90	90	88	78	-10
5	Can Tho	96	96	91	91	0
6	Binh Duong	40	40	40	36	-4
7	Ba Ria Vung Tau	46	46	44	64	+20
8	Dong Nai	45	45	51	53	+2
9	Vinh Phuc	67	67	60	53	-7
10	Quang Ninh	76	76	70	65	-5
11	Khanh Hoa	53	53	77	72	-5
12	Quang Ngai	100	100	61	88	+27
13	Bac Ninh	100	100	93	83	-10

[68] The local budget stabilization period is the stabilization of revenue distribution proportion between tiers of budget and the balance of the supplemental fund from the higher-tier budget to the lower-tier budget within 5 years, coinciding with the 5-year socio-economic development plan or the decision of the National Assembly (Clause 4 Article 4 of the State Budget Law, 2015).

14	Quang Nam	100	100	100	90	-10
15	Hung Yen	100	100	100	93	-7
16	Hai Duong	100	100	100	98	-2
	Others	100	100	100	100	0

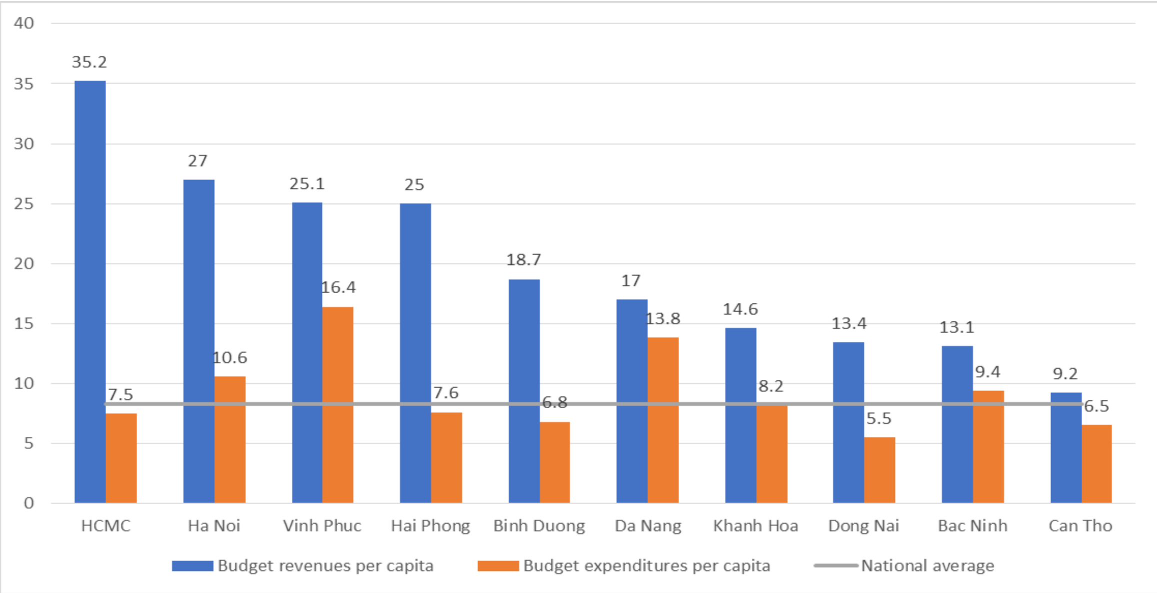
Source: Appendix attached to the Resolution No. 50/2017/QH14 dated November 14th,2017 of the National Assembly on the central budget allocation for 2018; Resolution No. 29/2016 /QH14 dated 14/11/2016 of the National Assembly on the central budget allocation for 2017; Resolution No. 53/2010 / QH12 dated 15/11/2010 of the National Assembly on the central budget allocation for 2011; Resolution No. 38/2009 / QH12 dated 13/11/2009 of the National Assembly on the central budget allocation for 2010; Resolution No. 09/2007 / QH12 dated 14/11/2007 of the National Assembly on the central budget allocation for 2008.

117. The reduction in local budget's retention rates and increase in remittance rates of some key provinces to the central budget having a large number of revenues is consistent with the State Budget Law 2015 and the Constitution in 2013. The aim is to ensure the pre-eminent role of the central budget and cumulate resources to assist poor localities. Moreover, because the level of economic concentration is too large in some centers and the development gap among provinces, cities, and regions is relatively big, the differences in the retention rates of the state budget revenue are significant, especially between Ho Chi Minh City and the remaining provinces.

118. However, the reduction in the retention rates of State budget revenues in order to increase the central budget and support poorer provinces can have some downsides. On one hand, the decrease in the retention rates will affect budget expenditures, especially those for public investment in these localities. On the other hand, the remaining localities can probably rely on subsidies from the central budget, resulting in inequality among localities.

119. According to Vu Thanh Tu Anh (2016), that rich provinces support poor provinces is a measure to enhance equity in theory. However, after supporting poor provinces, 6 out of 10 richer provinces had the level of budget expenditures per capita lower than the national average level (VND 8.3 million, expressed by the horizontal line). The levels of budget expenditures per capita of some provinces such as Dong Nai, Can Tho and Binh Duong are far below the average line. That raises a question about fairness for people in these provinces when their budget expenditures drop under the national average after sharing with other provinces to achieve equality in the country.

Figure 44: Budget revenues/expenditures per capita (million VND)



Source: Vu Thanh Tu Anh (2016).

120. For the localities that must send back portions of their budget revenues to the central budget and suffer decreasing local budget retention rates, their demand for reinvestment could be affected, especially in Ho Chi Minh City. Besides, the decrease in retention rates may lessen the motivation for contribution of these localities (such as Ho Chi Minh City and Ha Noi) to the state budget, and reduce their proactiveness in implementing socio-economic duties due to less resources.

121. For the provinces that receive supplementary fund from the State, it seems that the revenue reallocation of the central budget fosters dependence on the upper-level budget for these provinces. In fact, in many these localities, the targeted supplementary funds from the central budget far exceed the estimates of investment expenditures allocated from the local budget's balance. Since the central budget will transfer additional funds to cover the budget imbalance and targeted supplementary fund if the revenues of those localities are less than their expenditures, these provinces lack motivation for balancing their budget. Moreover, they will tend to increase their expenditures to avoid transferring parts of their revenues to the central budget. Because the sources of these provinces' expenditures and investments are from additional allocation from the central budget or essentially from the other provinces' budgets, their responsibility for budget management and use is very poor. In other words, when these localities get money from others' pockets to spend and invest without obligation to repay, they hardly care about the efficiency in spending and investment, causing inevitable loss and waste. Besides, the supervisory responsibilities of the People's Council and local people are not sufficient. (Dinh Thi Nga 2017).

122. Overall, to motivate large-revenue-scale localities to develop, nurture and contribute more revenues to the State Budget, their budget retention rate must be more reasonable and better meet their demand for reinvestment. Besides, there must be a mechanism requiring localities to use their resources

efficiently, especially those receiving additional balance from the central budget as a source of revenues to narrow the development gaps between provinces and regions.

IV. RECOMMENDATIONS

123. Vietnam has entered the year 2018 with some hopes and confidence. The relatively impressive socio-economic performance in 2017 helped consolidate public confidence in the reforms of economic institutions in general and of business environment in particular. The lessons learned from 2017 also highlight the vital importance of maintaining a stable macroeconomic environment and continued institutional reforms. Easing credits may help boost business activities in the short-term, but it could also push the economy back to a vicious cycle of NPLs, hinder productivity growth, and reduce policy space for macroeconomic management should adverse shocks occur. Given this context, accelerating and deepening microeconomic reforms is the only option.

124. Motivations for reforms have already materialized. Acknowledging initial progress is necessary. The policy framework for restructuring the economy, addressing State-market interactions, and promoting private sector development has been revised and updated. However, excessive satisfaction with outcomes of the past reforms will reduce, even reverse the interest and support of the business community. The identification of unnecessary procedures and costs for businesses will be less meaningful unless substantial timely actions are taken to significantly reduce such procedures and costs. In this respect, the trust of the business community and investors will be consolidated and transformed into concrete actions if only governments at all levels continue effective directions to further concretize reforms for enhanced microeconomic fundamentals, through more market-friendly behaviors and policies.

125. Effective implementation of the international economic integration process remains an important priority for Vietnam. The year 2018 will witness Vietnam's efforts in fulfilling many commitments under international economic integration, especially those related to the abolition of import duties on various important items. Furthermore, EVFTA can be approved and prepared for implementation. Accelerating the negotiation of important FTAs such as CPTPP and RCEP can help leverage development opportunities for the country. However, the benefits of integration can hardly be realized if Vietnam is not granted the full market economy status. In this regard, advocating partners to recognize Vietnam with the full market economy status is important, but it would be even more meaningful if Vietnam's market economy foundations are truly respected and strengthened. Uncertainties of international economic integration under the current context, on the contrary, seem to be a good opportunity for Vietnam to again prove its decisive will for reforms.

126. Major reform challenges in 2018 may not come from the external economic environment. Rather, risks may become imminent if economic management relies more on quantitative easing to attain rapid economic growth. Risks are even greater if the world economy is exposed to more adverse shocks. The best possible approach to handle these risks is to replicate and deepen momentum for institutional reforms, thus making these reforms become irreversible.

127. This Report re-emphasizes the message of giving continued priority to strengthening microeconomic foundations and reforming economic institutions for a modern market economy. Accordingly, the Report provides some recommendations for continued reforms of microeconomic foundations together with macroeconomic measures and other measures

1. Recommendations on further reforms of microeconomic foundations

128. Further concretize and implement Resolutions of the Party Central Committee on renewal of economic growth model and effective implementation of international economic integration and private sector development.

129. Accelerate the implementation of the National Assembly's Resolution on economic restructuring in the 2016-2020 period through improved guidance and coordination apparatus in association with raising awareness of ministries, line authorities and localities.

130. Continue guidance and organize effective implementation of basic laws of market economy institutions such as the Civil Code; (amended) Law on promulgation of legal normative documents; (amended) State Budget Law, etc.

131. Promptly complete and promulgate new laws relating to markets and sectors, including the (amended) Competition Law, the Law on Livestock Production, the Law on Crop Production, the Law on Special Administrative Units, etc.

132. Continue prioritizing business environment reforms towards facilitating production and business activities in line with a series of Resolutions No.19.

    a. Continue studying, discussing and identifying specific solutions to consolidate and improve the rankings of improved indicators; prevent falls in ranking and quickly improve rankings of remaining indicators. At the same time, continue studying and learning experiences from international best practices on improving business environment and competitiveness.

    b. Continue comprehensive reforms of regulations on business conditions/requirements in order to facilitate the production and business activities of enterprises in conformity with international practices and requirements of international economic integration.

133. Proactively engage in exchanging and cooperating with partners to strengthen supports to and revitalize the process of international economic integration; accelerate advocacy for partners to recognize Vietnam’s full market economy status.

134. Continue reviewing commitments under concluded, signed or pending FTAs and international treaties of Vietnam in order to make relevant attempts on legal framework internalization:

    a. Further review and develop a roadmap to reduce discriminatory and differential treatments (e.g., access to land and credit, Government procurement, etc.) that may affect competitive neutrality between SOEs and private sector;

b. Strengthen institutional and technical capacity of the Trade Remedies Authority of Vietnam (TRAV). Enhance the partnership between TRAV and the business community;

c. Examine and carry out harmonization requirements and legal cooperation to improve capacity and make appropriate adjustments not contrary to commitments; and

d. Consult the business community, laborers and other social groups to facilitate appropriate preparations for implementing FTAs and other international treaties.

135. State authorities should keep disseminating information on signed and pending FTAs of Vietnam to enterprises; support and instruct enterprises to participate in the integration process to ensure harmonized implementation of FTAs, especially strengthen businesses' responses to technical barriers erected by trading partners.

136. Acknowledge and encourage domestic enterprises' dynamism, creativity and innovation, for example: explore opportunities from FTAs; capacity to satisfy ROO requirements and participate in the value chain; capacity to learn and collaborate with foreign firms, etc.

2. *Recommendations of macroeconomic policies*

137. Develop scenarios, with the participation of relevant agencies, to cope with unfavorable shocks in the world market. Reaffirm the priority of macroeconomic stability, create more policy space for macroeconomic management, and do not loosen macroeconomic management at all costs in exchange for promoting economic growth.

* *Monetary policy*

138. Continue prioritizing the restructuring of commercial banks and improve the quality of NPLs.

139. Review competitive behaviors of commercial banks, especially with regard to weak commercial banks, in order to avoid distortion of interest rates.

140. Avoid requesting interest rate cuts through administrative orders/measures, thus creating more flexibility in dealing with unfavorable developments in the world financial market.

141. Consider abolishing preferential credit programs for some industries or localities. Preferential credit disbursements should be accompanied by improved supervisory and regulatory capacity to limit distortions. Ensure close monitoring and regular information on credits for the real estate sector and consumers.

142. Closely monitor the movements of USD-denominated deposits in the commercial banks system as well as via BOP in order to have appropriate adjustments and responses.

143. Regularly disseminate information on exchange rate management to the market. Ensure clear and neutral communication on evaluations and

recommendations related to exchange rate policies. Avoid setting "hard" targets for exchange rate management. Track and limit the holding of foreign currency in organizations and commercial banks.

144. Flexibly manage liquidity of commercial banks to support credit activities, issuance of Government bonds, prevention and response to volatility of indirect investment flows and remittances (particularly when FED adjusts interest rates).

* *Fiscal policy*

145. Strictly discipline state budget expenditures to fulfill state budget deficit target for 2018. Do not adjust the target of issuing bonds in 2018.

146. Consider to refrain from increasing taxes and fees on petrol to provide additional benefits and supports for the private sector in doing business. Strictly evaluate impacts of proposed amendment of tax laws associated with explanations on the direction of state budget expenditure restructuring.

147. Accelerate reduction of recurrent expenditures associated with significant reduction of the number of public servants. Continue experimenting and popularizing the model of outsourcing with regard to services which do not need to be paid using the State payroll.

148. Ensure strict discipline of fiscal and public investment management. Improve the efficiency of appraisal and coordination of investment projects in economic, environmental and social terms, which is a necessary requirement to 2020. Enhance the participation of stakeholders in monitoring and management of public investment projects.

149. Study and disclose the public debt reduction plan in medium and long term. Update orientations for attracting, managing and using ODA and preferential loans in the 2018-2020 period, with a vision for 2021-2025 in the direction of limiting foreign borrowing. Avoid the thinking of recalculating GDP to enlarge room for public borrowings.

150. Develop and promulgate feasible, detailed and easily-measured criteria to evaluate the efficiency of public investment projects, especially those using government guaranteed bonds.

151. Continue reducing the issuance of government bonds in relatively short terms, especially those with the terms of less than 5 years.

* *Trade policy*

152. Ensure harmonization of relevant commitments and technical requirements (especially with regard to rules of origin, regulations relating to agricultural products). Improve institutional regulations related to issues such as intellectual property, labor, environment, food hygiene and safety, etc., thus facilitating the negotiation and implementation of trade and investment agreements.

153. Collaborate with partners to sign mutual recognition agreements, publicize technical regulations and barriers to imports and exports, etc. Facilitate cross-border trade, improve infrastructure for logistics services, etc. Strengthen the

connection/integration of specialized procedures into the National Single Window System.

154. Strengthen the capacity of competition authority, anti-subsidy, anti-dumping, trade dispute resolution and market management, and provide legal support for businesses. Study and participate in relevant international conventions so as to help simplify procedures and paperwork for enterprises.

155. Continue reforms of business requirements and specialized licenses related to import and export activities in the direction of reducing unnecessary expenses for enterprises.

* *Price - wage policy*

156. Ensure transparency of the price adjustment plan for commodities regulated by the State. Improve competition, publicize and monitor the cost structure in markets of the above-mentioned commodities. Avoid the thinking of intensifying price adjustment at the end of the year.

157. Monitor and assess impacts of electricity price increases as well as fundamental solutions to enhance competition in the electricity market.

158. Consider not implementing the regional minimum wage increase roadmap for 2019 to reduce cost pressure for businesses.

* *FDI policy*

159. Promote FDI projects in a number of important fields and areas in line with Vietnam's development priorities. Ensure FDI policy to be closely associated with priorities of focused industrial development in line with fields and/or sectoral clusters depending on strengths and advantages of each area and locality.

160. Focus on promoting and attracting investment from multinational corporations and enterprises in related supporting industries. Provide timely information to help domestic enterprises prepare and establish/promote linkages with FDI firms.

161. Ensure efficient consultation with FDI enterprises on relevant policy adjustments (including minimum wage increase proposals), thereby mitigating possibility of being sued under international treaties.

162. Develop and ensure human resources, especially skilled workforce both in terms of technical and professional skills, to be active and ready to grasp and master transfers of science and technology as well as managerial and managerial skills.

163. Ensure that the implementation of FDI relies more on external funding sources (i.e., disbursement via BOP) rather than on domestic funding sources.

3. Other related recommendations

164. Continue strengthening macroeconomic coordination, especially towards development of scenarios to cope with reversal of capital inflows, economic

slowdown in partner countries and possibility of increased trade retaliation on global scale

165. Further enhance data quality and accountability, especially to ensure data consistency with regard to growth, production, investment and import- export. Institutionalize development of indicators on the economic cycle, inflation expectations, business confidence and consumer confidence./.

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APPENDIX: MACROECONOMIC STATISTICS

	Unit	*2014*				*2015*				*2016*				*2017*			
		I	*II*	*III*	*IV*	*I*	*II*	*III*	*IV*	*I*	*II*	*III*	*IV*	*I*	*II*	*III*	*IV*
GDP growth																	
Overall	%	5.0	5.4	6.4	6.8	6.0	6.5	6.8	7.0	5.5	5.6	6.6	6.8	5.2	6.3	7.5	7.7
Trade																	
Growth rate of exports	%	12.2	15.7	13.6	11.6	8.8	10.6	9.2	4.4	6.6	4.9	8.4	13.0	14.9	22.3	22.5	24.3
- FDI sector	*%*	*18.2*	*16.1*	*37.5*	*28.3*	*18.7*	*21.5*	*22.0*	*9.6*	*10.8*	*7.4*	*15.4*	*25.6*	*14.6*	*25.0*	*23.7*	*26.8*
Growth rate of imports	%	10.4	10.5	14.0	13.7	20.1	14.2	11.6	3.7	-4.0	2.2	4.9	15.5	25.2	24.2	20.5	15.9
- FDI sector	*%*	*14.6*	*7.3*	*8.2*	*24.3*	*27.1*	*20.3*	*18.4*	*1.7*	*-4.5*	*0.0*	*6.7*	*18.9*	*24.0*	*32.2*	*30.2*	*8.8*
Exports/GDP	%	92.8	86.6	82.5	67.7	96.3	92.8	87.0	69.7	99.8	92.4	87.8	73.1	106.2	105.4	100.0	79.9
Money																	
M2 growth (YoY)	%	2.8	4.1	2.9	6.9	2.4	3.6	3.7	5.7	3.1	4.8	3.6	5.7	3.5	3.3	3.4	4.9
Credit growth (YoY)	%	0.5	3.2	3.5	6.3	2.7	5.1	4.0	4.6	3.0	5.0	3.2	5.9	4.4	4.5	2.9	5.3
Interbank/central VND/USD exchange rate (average)	Dong	21036	21063	21246	21246	21446	21593	21773	21890	21890	21876	21891	22074	22219	22371	22442	22451
Investment																	
Investment/GDP	%	28.4	31.5	33.0	30.6	30.4	31.7	33.2	33.6	32.2	33.2	33.5	33.2	32.2	33.2	35.5	32.2
Implemented FDI	Bil. USD	2.9	2.9	3.2	3.5	3.1	3.3	3.4	4.8	3.5	3.8	3.7	4.8	3.5	3.8	5.2	5.0
Other indicators																	
Inflation (YoY)	%	4.4	5.0	3.6	1.8	0.9	1.0	0.0	0.6	1.7	2.4	3.3	4.7	4.7	2.5	3.4	2.6
State budget deficit/GDP	%	4.9	4.6	5.3	7.3	4.6	6.4	3.9	8.6	5.5	3.7	5.7	6.9	0.4	1.4	3.3	6.7
Current account	Bil. USD	2.7	2.7	2.8	0.8	-1.3	0.7	0.5	1.1	2.6	2.2	3.5	0.0	-1.1	4.3	4.3	-
Balance of payments	Bil. USD	7.9	2.2	0.9	-2.6	2.7	0.6	-6.6	-2.7	3.5	3.2	3.0	-	3.5	-		

Source: Authors' compilation.