



RESTRUCTURING FOR A MORE COMPETITIVE VIETNAM

MACROECONOMIC REPORT THIRD QUARTER 2016



Australian Government

INTRODUCTION

Vietnam's economy witnessed some improvements in Q3 as compared to the first 6 months of 2016. Economic growth was at higher pace, inflation and interest rate were under control, and export expansion outpaced other countries in the region. The Government has started restructuring economy, reforming economic growth model in order to improve medium and long-term competitiveness and productivity. The priority of economic integration was detailed in favor of effective implementation of international economic in associated with a series of free trade agreements (FTAs). However, efforts in reforming microeconomic foundation were yet to match expectations, particularly with regard to improvement of business environment, facilitation of trade and restructuring of State-owned Enterprises (SOEs), etc.

The Macroeconomic Report for Q3/2016 serves several objectives, namely: (i) to update macroeconomic development and policy changes in Q3 and the first nine months of 2016, with evidence-based analysis and perspectives of experts/Central Institute for Economic Management (CIEM); (ii) to assess the macroeconomic outlook for Q4 and 2016; (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 macroeconomic management in the last months of 2016 and beyond.

This Report benefits from the valuable feedback of many 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 RCV Project and/or CIEM.

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ARREVIATION

AEC	ASEAN Economic Community
AFF	Agriculture-Fishery-Forestry
ASEAN	Association of Southeast Asian Nations
CIEM	Central Institute for Economic Management
CNY	Chinese Yuan
CPI	Consumer Price Index
EU	European Union
FDI	Foreign Direct Investment
FED	Federal Reserve System
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GSO	General Statistic Office
IFS	International Financial Statistics
IIF	The Institute of International Finance
IIP	Index of Industrial Production
IMF	International Monetary Fund
JPY	Japanese Yen
M2	Total liquidity
MoF	Ministry of Finance
MOIT	Ministry of Industry and Trade
MPI	Ministry of Planning and Investment
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
SOE	State-owned Enterprises
TPP	Trans-Pacific Partnership
TTIP	Trans-Atlantic Trade and Investment Partnership
UNCTAD	United Nations Conference on Trade and Development
USD	US Dollar
VCA	Vietnam Competition Authority
VCC	Vietnam Competition Council

VND	Vietnam Dong
WB	World Bank
YoY	Year-on-year

EXECUTIVE SUMMARY

1. Global economic context, in general, still exhibits uncertainty; major economies continue under slow growth recovery and to face difficulties and uncertainties. In the US, revised estimate of GDP economic growth was higher, but still lower than Q2 of 2015. The Euro zone continued to grow slowly. The Japanese Government had postponed the increase of consumption tax and announced a plan on economic stimulus package. China's economy continued to decelerate and faced many challenges
2. The world financial market lacks buoyancy. Investors increased hedging via safe assets such as gold, government bonds instead of stocks and real estate. The USD maintained an upward trend compared to other major currencies.
3. The international economic integration had positive signs. The EU and US decided to resume negotiation of Transatlantic Trade and Investment Partnership (TTIP) in October after a long period of stagnation. The partner countries of TPP continued their efforts to promote the ratification in 2016. RCEP negotiation may be delayed to early 2017 due to slow progress of issues related to services.
4. After consolidation, the Government focused on building momentum for new economic policy. Policy measures and solutions in Q3 still aimed at priority in stabilizing macroeconomic fundamentals, facilitating microeconomic foundation and enhancing economic growth. Resolution 63/NQ-CP on July 22, 2016 has outlined the main tasks for 2016-2020 socio-economic development. The Government issued Resolution 60/NQ-CP on July 8, 2016 in order to accelerate the implementation and disbursement of public investment as planned. Ministries and agencies continued to review and complete legal framework for ensuring the consistency and uniform, to remove and resolve timely difficulties, barriers and obstacles for facilitating the disbursement and improving the effectiveness of public investment projects. However, the implementation of Resolution 19 and Resolution 35 was still slow. The finalization of regulatory documents for promoting business environment was slowly issued, albeit with modest quality.
5. GDP grew by 6.62% in Q3 (YoY), which was improved as compared to previous quarters. For the first 9 months, economic growth attained 5.95%; growth target for 2016 has become unattainable. The acceleration of capital formation and final consumption was significantly contributed to overall growth from demand side.
6. Industry-construction was the key momentum for economy, increased by 8.1% in Q3. The value-added of this sector rose by 7.29% for the first 9 months, significantly below the corresponding rate of 9.86% in 2015. PMI grew slowly in the first months of Q3, can be attributed mainly to: (i) maintaining of production growth in all months, and spurting in the last month of quarter; (ii) improved domestic business conditions at the end of the quarter; (iii) the expansion of job creation which contributed significantly to improve business and production activities.

7. AFF still faced difficulties, albeit signs of growth. The valued-added of AFF sector rose by 1.48% in Q3. AFF activities in Q3 were still constrained by: (i) drought and severe salinity in the South Central, Central Highlands, South East and Mekong River Delta area; and (ii) slowly improved aquaculture after severe environmental pollution in central provinces.
8. The value-added of services sector grew by 7.03%, which was at the highest rate since 2011, with large space for retail market development, and positive signs of real estate sector. Economic structure varied in Q3, as compares to previous quarters.
9. Newly registered enterprises grew by 15.77% and 19.2% in Q3 and in the first 9 months respectively. These movements can be attributed to: (i) improvement of business environment through measures by the Government; and (ii) improved confidence of business community and market. Manufacturing enterprises had positive assessment of production and business in Q3 as well as trend in Q4.
10. As of 1 October 2016, total labor force of the country was 54.44 million people, increasing by 0.31% on YoY basis. Labor structure by economic sector showed little change. Unemployment rate was 2.34% in Q3 and 2.29% in the first 9 months.
11. CPI increased rapidly in Q3. Overall, the CPI was up by 2.07% in the first 9 months of 2016. Core inflation remained stable at 1.81% in the first 9 months, pressure of total demand on CPI is moderate. However, there remain several pressures on the CPI, mainly induced by cost-push factors.
12. VND-denominated deposit rate (for term shorter than 6 months) was stable and below the ceiling imposed by the State Bank of Vietnam. The level of interest rates was almost unchanged since Q1/2015, mainly attributed to: (i) insignificant fluctuation of inflation; (ii) higher liquidity of the banking system as the SBV bought in more foreign currencies; and (iii) modest pressure from credit disbursement. VND-denominated and USD-denominated lending rates declined moderately in Q3. The room for further reduction of lending rates (both USD-denominated and VND-denominated) is limited.
13. Credit growth rate was expected to attain about 3.31% in Q3. The slow credit disbursement was induced by: (i) the prudence of commercial banks in the context of resolving NPLs, etc.; (ii) insignificant reduction of lending rates; (iii) modest improvement of SMEs' accession to credit; and (iv) slow recovery of economic growth. The reduction of NPLs improved modestly. Total liquidity (M2) was estimated to grow by 4.17% in Q3 and by 11.76% in the first 9 months.
14. The VND/USD exchange rate was relatively stable in Q3. The VND/USD central rate was flexibly adjusted downward and upward and unforeseeable. The foreign exchange market was exposed to little pressure in Q3. The Real Effective Exchange Rate went down by 0.6% in Q3, indicating that Vietnamese goods became more expensive than foreign ones, thus affecting export competitiveness.

15. Gross investment (current prices) was estimated to be VND 395 trillion in Q3, up by 9.6%. The investment/GDP ratio was 33.5% in Q3. The investment disbursement in Q3 from all sources also exceeded that in Q2. The main investment driving forces in the first 9 months of 2016 were the FDI sector, with the growth rate of 12.6%. FDI remained the driving force of investment growth rate of the economy, with both total newly registered capital and implemented capital being approximately USD 3.7 billion.
16. Export value attained USD 46.4 billion in Q3 (up by 9.2%) and USD 124.9 billion in the first 9 months (up by 6.6%), mostly contributed by the FDI sector. Import value reached USD 44.4 billion in Q3, up by 3.5%; of which FDI sector was amounted at USD 26.7 billion. For the first 9 months, imports were estimated at USD 124.8 billion, rising by 0.9%.
17. Total retail sales of goods and services increased by 9.9% in Q3 and 9.5% in the first 9 months. Retail sales of goods accounted for the largest part (75.97%), up by 10.0% (YoY).
18. Total budget revenues reached VND 241.5 trillion in Q3, up by 1.9%. Budget revenues to GDP ratio was 20.8% in Q3, lower than previous quarters and of Q3/2015. In the first 9 months, domestic revenues contributed 80.6% to total budget revenues. Budget expenditures attained VND 284.8 trillion in Q3, equal to 24.6% GDP and 23.4% of the planned figure. Rapid increase of budget expenditures was attributed to: (i) faster disbursement of development investment; (ii) lower rate of budget expenditures in same period of 2015.
19. The projection shows that GDP growth in Q4/2016 is 7.19%. GDP growth rate for 2016 is forecasted at 6.33%. Export growth rates in Q4 and 2016 are projected at 5.52% and 7.44%, respectively. Trade surplus is projected to reach USD 1.1 billion in Q4 and accumulate to USD 4.8 billion in 2016. CPI continues to increase, projected at 1.47% in Q4.
20. The report also provided in-depth analysis on the need for improving competition policy in Vietnam. Vietnam's Competition Law was promulgated in 2005. However, competition policy of Vietnam remains insufficient and ineffective, insufficient legal framework and inadequate enforcement, among which fair competition is the fundamental issue. The report outlined initial recommendations in order to establish a sound and effective market economy, including (i) Shifting the State's role in the market economy from direct intervention/control to support and indirect guidance and promoting sustainable growth; (ii) Amending Competition Law, aiming at clarifying legal regulations, reducing exemptions and intensifying sanctions in order to strengthen deterrence; (iii) Drastically implementing SOEs reforms, aiming at minimizing operation scope, improving governance effectiveness and competition; (iv) Facilitating institutional reform, business liberalization, market entry and competition; and (v) Improving both legal aspect and competitiveness of enterprises to fully comply with international commitments.

21. The economic situation in the first 9 months witnessed the mixture of achievements and challenges, efforts on promoting growth in the short term and addressing restructuring issues, as well as domestic reforms and integration. In this context, economic growth recovered slowly, accompanied by unsustainable growth of investment and exports. However, achievements of economic growth, exports and FDI attraction, etc. remained positive in a difficult and uncertain world. In fact, economic growth and the export expansion, etc. of Vietnam relatively outpaced that of other countries in the region and the world. To that extent, Vietnam is on the right track with flexible, appropriate management of macroeconomic policy and close cooperation among ministries and authorized agencies. The macroeconomic report for Q3/2016 detailed recommendations on this direction.

I. ECONOMIC CONTEXT IN Q3

1. Global and regional economic context

1. Global economic context, in general, still exhibited uncertainty. The major economies continue to show slow growth recovery and to face difficulties and uncertainties (such as Brexit, failed coup in Turkey, US presidential election, and China's debt, etc.). The International Monetary Fund (IMF) made no adjustment of growth forecasts for 2016 and 2017. Stimulus measures have been applied continuously, including lowering or negative interest rates, quantitative easing packages (QE), depreciation of domestic currencies for supporting export, etc.

Table 1: Economic outlook in some major economies

Unit: %

	2016	2017	Difference*	
			2016	2017
World GDP (growth rate: %)	3.1	3.4	0.0	0.0
Developed economies	1.6	1.8	-0.2	0.0
<i>United States</i>	1.6	2.2	-0.6	-0.3
<i>Japan</i>	0.5	0.6	0.2	0.5
<i>Euro zone</i>	1.7	1.5	0.1	0.1
Developing and emerging economies	4.2	4.6	0.1	0.0
Developing economies in Asia	6.5	6.3	0.1	0.0
<i>China</i>	6.6	6.2	0.0	0.0
World trade (growth rate, %)	2.3	3.8	-0.4	-0.1
Non-fuel price (% increase, USD)	-2.7	0.9	1.1	1.5

Source: IMF (October 2016).

Note: * *Difference between the forecasts in October 2016 compared with those in July 2016.

2. After the third estimate, US economic growth reached 1.4% in Q2, higher than the first two previous estimation, but still lower than the figure for Q2/2015 (2.3%).¹ Economic growth in the US was mainly attributed to private consumption and export, while investment and government consumption (both at federal and local government level) grew more slowly and had negative effects on GDP growth. Unemployment rate slightly increased in May, and stayed unchanged at 4.9% in June, July and August.² The PMI fell slightly in August, while the business confidence index dropped sharply to 49.4 in August, the lowest level since February 2016.³

¹ Source: Bureau of Economic Analysis (<http://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm>)

² Source: Bureau of Labor Statistics (<http://www.bls.gov/news.release/empsit.nr0.htm>)

³ US PMI was down to 52 in August after attaining 52.9 in July – the peak since the last 9 months. Business confidence index fell to 49.4 in August, after months of being continuously 50. Source: <http://www.tradingeconomics.com/united-states/indicators>

3. The Euro zone continued to grow slowly. The Bank of England, for the first time in 7 years, cut the prime rate from 0.5% down to 0.25%⁴ and passed a GBP 100 billion program to encourage business and consumption. The European Union (EU) was still concerned about its post-Brexit prospects, particularly after the withdrawal of application for EU membership by Switzerland on 3 August.
4. To promote economic growth, the Japanese Government postponed the increase of consumption tax till 2019, and announced a planned economic stimulus package of JPY 28,000 billion, focusing on infrastructure, tourism and export support. In early September, the Bank of Japan decided to extend its quantitative easing program. The focus of monetary policy was emphasized on controlling the bond yield curve (buying 10-year government bonds for bond yield curve to range between 0%), continued to increase monetary base (JPY 80 trillion) and the negative interest rate policy (-0.1%). However, the Japanese economy was still progressing slowly. GDP grew at modest pace in Q2 (at 0.2%, down from 2.0% in Q1). The appreciation of JPY resulted in continuous reduction of exports for 11 consecutive months (by 14% in July and 9.6% in August)⁵. Private consumption, which accounted for 60% of Japan's GDP, rose only 0.2% in Q2 (while it increased by 0.7% in Q1). Investment also fell for the second consecutive quarter.⁶ Industrial output fell by 4.2% in July, the lowest level since January 2015.
5. China's economy continued to decelerate, reaching 6.7% GDP growth in Q2 (similar to that of Q1, the lowest level since 2009). In August, though investment, industrial output and retail sales were higher than forecasted figures⁷, China still faced many challenges such as stagnant private investment and unfavorable weather conditions, which had seriously affected on production and business activities, weak demand of local currency, debt problems and the instability of financial systems, etc. China's total debt amounted to 255% of GDP⁸; the gap between credit growth and GDP reached 30.1 percentage points in Q1- an early warning signal of overheating of the financial system and the possibility of financial bubble burst in the next 2-3 years.⁹ Weak domestic demand led to a sharp decrease of import, and trade surplus was at its highest level in the last 8 months. Large outflow of capital¹⁰ was the major concern for China.

⁴ Applied in 5 August 2016.

⁵ Exports of Japan fell for 10 consecutive months, with the decrease by up to 14% in July.

⁶ Source: <http://www.bbc.com/news/business-37080852>

⁷ In August, private investment increased 6.3% (MoM); retail revenues were up by 10.6%; PMI was up from 49.9 of July to 50.4. (Source: <http://www.reuters.com/article/us-china-economy-pmi-factory-official-idUSKCN1173BA>)

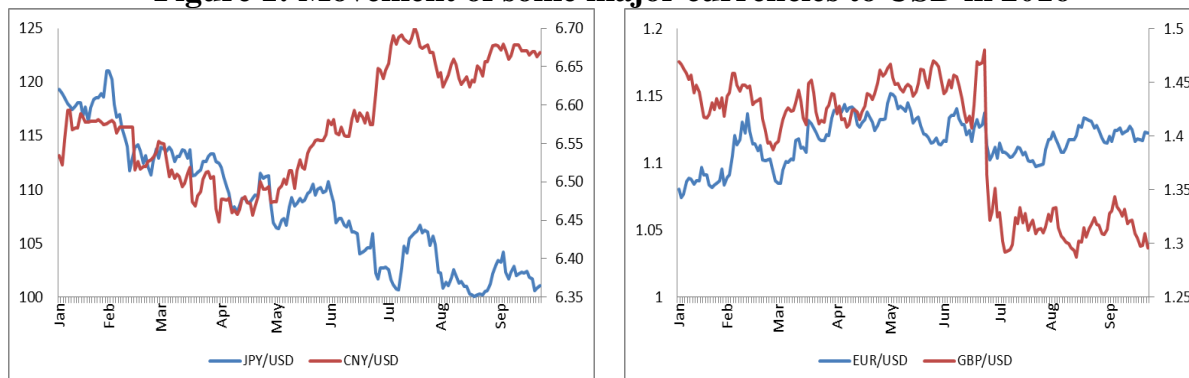
⁸ To a new announcement of Bank for International Settlements (BIS).

⁹ Source: <https://www.theguardian.com/business/2016/sep/18/central-bankers-group-bis-stark-warning-world-economy>

¹⁰ It was suggested that this capital flow was hidden under the form of consumption goods imported and spending abroad when travelling, etc.

6. The world financial market lacked buoyancy. Investors increased hedging by safe assets such as gold, government bonds instead of stocks and real estate. World gold prices tended to soar, even getting closer to the peak set in March 2014 (USD1.372/ounce). The USD maintained an upward trend compared to other major currencies (Figure 1).

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



Source: US Federal Reserve (<https://www.federalreserve.gov>).

7. The international economic integration had positive signs. The EU and US decided to resume negotiation of Transatlantic Trade and Investment Partnership (TTIP) in October after prolonged stagnation due to disagreements over "sensitive" issues such as investor protection, use of chemicals in food production, etc. as well as awaiting outcome of the US presidential election. The partner countries of the Trans-Pacific Partnership (TPP) continued their efforts to promote the ratification in 2016. At the meeting of Ministers responsible for trade of RCEP in early August, members reached an agreement on single tariff instead of three-tier tariff as proposed by India¹¹. However, RCEP negotiation may be delayed till early 2017 due to slow progress of issues related to services.¹²

2. Domestic economic context

8. After consolidation, the Government focused on building and providing momentum for new economic policy. The new government agreed: (i) to build a clean government; integrity, aggressive action, take the people and businesses as serving object, creating a favorable environment for investment and business; (ii) to focus on building a modern, professional public administration, taking national interests and serving the people as the highest target; (iii) to continue its improvement of institutions, laws, ensuring transparency,

¹¹ All partners will identically remove tariffs. For three-level tariff reduction, India is committed to eliminate 80% of tariff lines for ASEAN countries at the first level. Of which, 65% will take effect as soon as the implementation of agreement, and the remaining 15% will be carried out over a period of 10 years. In the second level, India removes 65% tariff lines for goods from South Korea and Japan, while the two partners were committed at a threshold of 80% for more than a decade. The third level involved partners that India has no FTA, in which India removes 42.5% tariff lines for China, Australia and New Zealand while their commitments were cutting down by 42.5%, 80% and 65% respectively.

¹² India was lobbying for RCEP in an uniform document instead of signing separate agreement on goods and services in ASEAN

- international integration; and (iv) to promote the reform of administrative procedures with tightened principles and disciplines, promoting democracy strongly associated with the rule of law.
9. Resolution 63/NQ-CP on July 22, 2016 has outlined the main tasks for 2016-2020 socio-economic development, including: (i) development of socialist-market oriented economy, creating environment and motivation for socio-economic development; (ii) stabilization of macroeconomic environment and key aggregates; (iii) promoting economic restructuring associated with renovating growth paradigm, improving productivity, efficiency and competitiveness of the economy; (iv) promoting breakthroughs in synchronized infrastructure for socio-economic development; (v) furthering improvement of investment and business environment, facilitating business community; (vi) developing economic zones, economic areas and maritime economy; (vii) mobilization and effective use of economic resources; (viii) improving human resources quality and strengthening scientific and technological potentials; (ix) cultural and social development, poverty alleviation and increasing people's living standards; (x) responding actively to climate change, disaster prevention, strengthening resource management and environmental protection.
 10. Despite contemporary economic performance, socio-economic targets for 2016 were not adjusted. Solutions and policy orientation in Q3 continued to prioritize macroeconomic stability to facilitate microeconomic reforms, thus promoting economic growth.
 11. The Government issued Resolution 60/NQ-CP on July 8, 2016 to accelerate the implementation and disbursement of public investment as planned. The resolution reflected serious and strong determination of the new Government in addressing obstacles in investment and construction procedures; inadequate guidance of documents; inappropriate land clearance and allocation of funding; etc. With this "inducement", disbursement of public investment, in July and August, was equal to 50% of the first 6 months.¹³ By the end of August, some ministries and agencies already disbursed more than 60% of planned capital for 2016.
 12. The ministries and agencies continued to review and complete legal framework for ensuring the consistency and uniform, to remove and resolve timely difficulties, barriers and obstacles for facilitating the disbursement and improving the effectiveness of public investment projects. Specifically, the Ministry of Planning and Investment issued Circular 12/2016/TT-BKH guiding the implementation of some articles of Decree 16/2016/ND-CP on the management and use of official development assistance (ODA) and preferential loans from foreign donors; completed a draft decree to the Government on a special mechanism for construction management of selected projects under national target program in 2016 - 2020. The Ministry of Finance continued to review and amend guidelines on expenditure control and

¹³ <http://thoibaotaichinhvietnam.vn/pages/nhip-song-tai-chinh/2016-09-19/thuc-hien-nghi-quyet-60-cua-chinh-phu-giai-ngan-von-dau-tu-da-khoi-sac-35780.aspx>

disbursement of state budget, government bonds towards more simplified procedures and compliance with the provisions of law.

13. In Q3/2016, the Government continued to directly handle the issues related to the production-business enterprises. Specifically, on 29 September 2016, the Government issued Decision 1880/QD-TTg guiding the compensation for those were directly damaged in the environmental incidents of Formosa industrial park. Under this Decision, 7 groups of people were identified as suffers of the events, including sea product exploitation, aquaculture, salt production, business activities along coastal lines, fishing logistics services, tourism services, coastal trade, acquisition and stockpiling of seafood.
14. The implementation of Resolution 19 and Resolution 35 was still slow. A number of ministries, agencies and localities have not enacted their action plans. Specifically, to a report by the Ministry of Planning and Investment, only 21/63 provinces have issued their action plans.
15. The finalization of regulatory documents for promoting business environment was slowly issued, albeit with modest quality. The Enterprise Law and Investment Law was enacted in late 2014; however, the review and development of guiding documents have been made recently. 86 documents under the forms of Decree, Decision were planned to pass; of which, 49 decrees guiding the business conditions under the Investment Law were planned to issue by 1 July 2016. So far, 41 out of 49 decrees were newly issued; the 8 remaining decrees related to sports; casino business; horse and dog racing; health and education services; and land regulations were enacted slowly.
16. The quality of issued documents was modest, reflected by (i) the limited transparency and inadequate consultation of the business community; (ii) the mere upgrade from Circular of the Decree; and (iii) the risk of enacted Decrees being inconsistent with laws.¹⁴
17. Pressure from integration hardly materialized on the economy in Q3/2016, mainly due to the delayed ratification and implementation of FTAs. This increased the challenge for achieving growth targets in the last months of 2016. More importantly, the lack of motivation to prepare for new-generation FTAs might slow down the reforms of domestic economy and business environment.

¹⁴ Although Investment Law provided a list of 267 conditional lines of business, but there appear at least one more conditional line of business, i.e. “Metrological forecast and warning under Article 54, 2015 Hydrometeorology Law”.

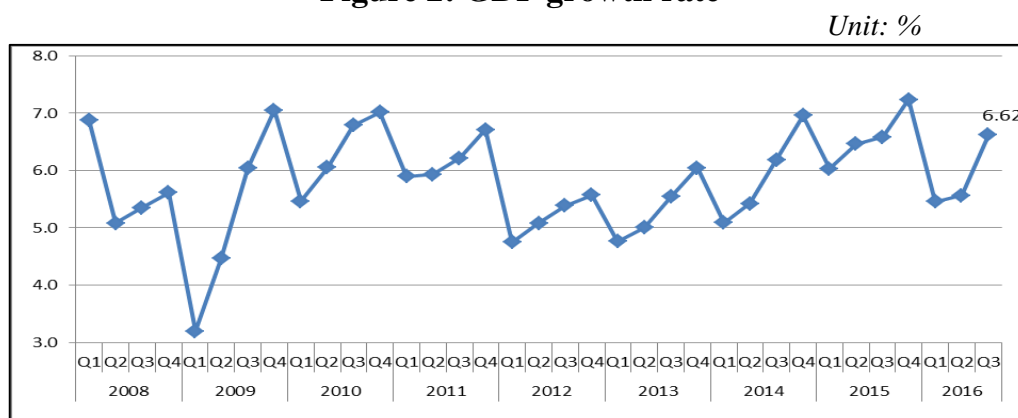
II. MACROECONOMIC PERFORMANCE AND OUTLOOK

1. Macroeconomic performance in Q3/2016

1.1. Real economy

18. GDP grew by 6.62% in Q3/2016 (YoY).¹⁵ Economic growth recovered from previous quarters and was higher than Q3s of 2011-2015. For the first 9 months, economic growth attained 5.95% (Figure 2). In order to achieve the growth target of 6.7% in 2016, GDP growth should reach at least 7.5% in Q4. Given this high figure, growth target for 2016 has become unattainable¹⁶.

Figure 2: GDP growth rate



Source: General Statistics Office (GSO).

19. From demand side, final consumption increased by 6.97% for the first 9 months, contributing 4.96 percentage points to overall growth (of which private final consumption contributed significantly, with 4.52 percentage points). Capital formation was up by 10.12%, contributing 2.87 percentage points. Acceleration of capital formation and final consumption significantly induced overall growth (Figure 3). The deficit of goods and services trade balance led to a decrease in the overall growth level by 1.90 percentage points.
20. Industry-construction was the key momentum for economy, increasing by 8.1% in Q3 (Figure 4). The rate was much higher than Q3s of 2010-2012, but still lower than in 2014-2015.¹⁷ The value-added of this sector rose by 7.29% for the first 9 months, significantly below the corresponding rate of 9.86% in 2015.

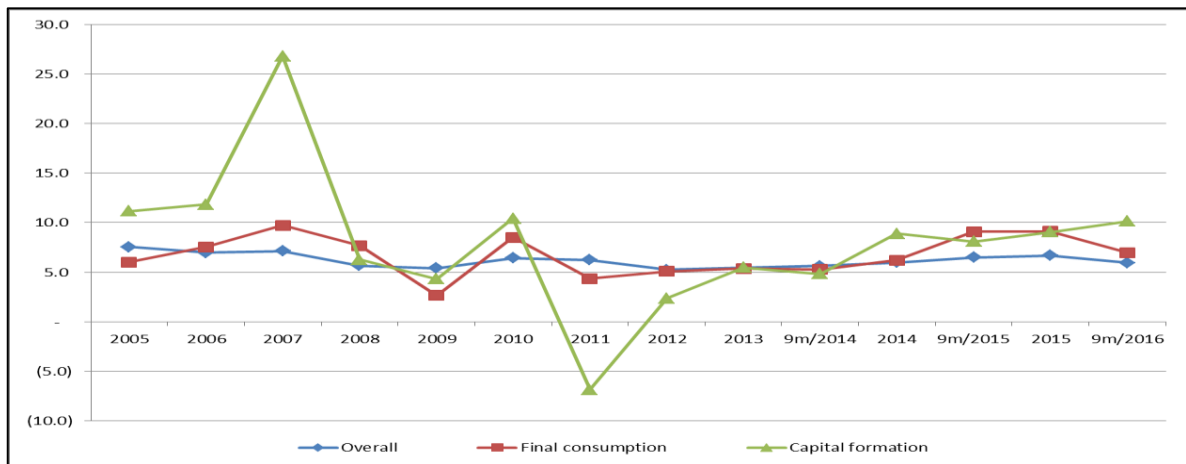
¹⁵ In Section II, growth was on year-on-year basis, except otherwise stated.

¹⁶ At the monthly Government meeting in September 2016, the Prime Minister emphasized on “enhancing economic growth, improving growth quality, sustainable development and highest efforts on attaining the 2016 targets of 6.3% to 6.5%”

¹⁷ The growth of industry-construction was 8.33% in Q3/2014 and 9.57% in Q3/2015.

Figure 3: Growth rates of gross capital formation and final consumption, 2005-9m/2016

Unit: %

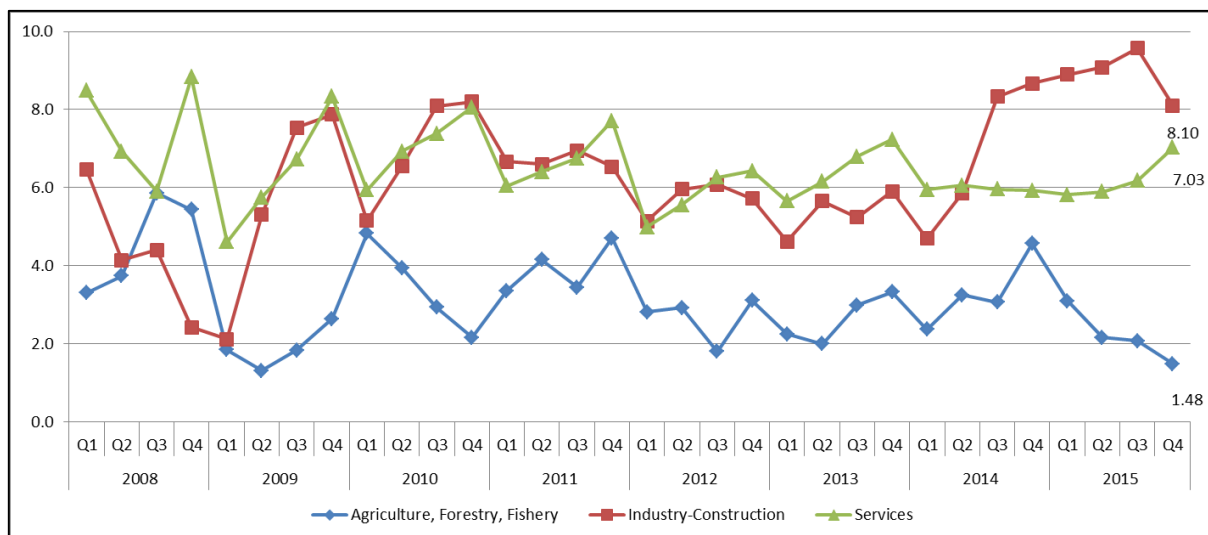


Source: GSO.

21. Mining and quarrying sub-sector continued its reduction (by 3.6%, YoY), leading to an overall slowdown of the industrial sector. The main reason was the decrease of crude oil exploitation, down by 7.8% in the first 9 months, notwithstanding higher oil prices in this quarter.

Figure 4: GDP growth by sector

Unit: %

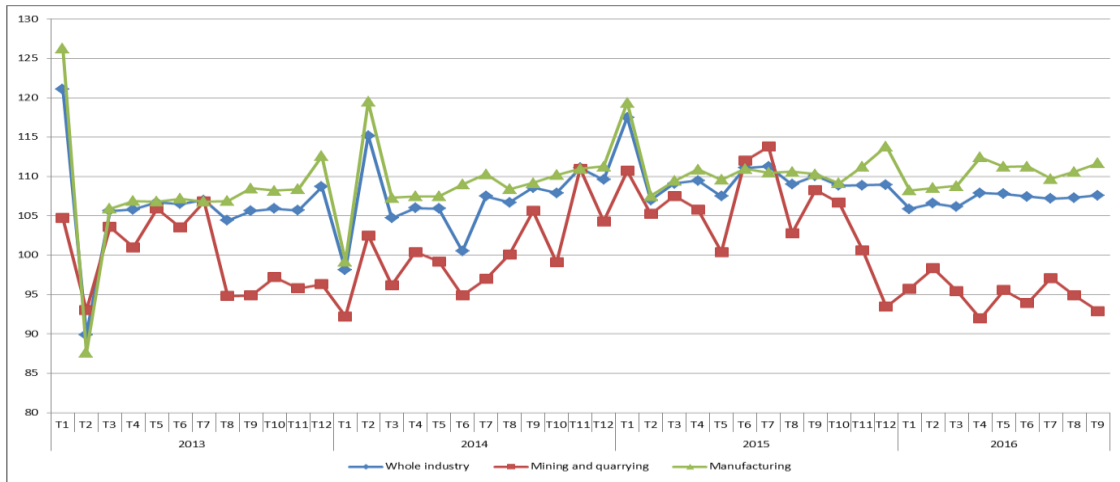


Source: GSO.

22. The manufacturing sub-sector increased by 11.22% in the first 9 months, 1.07 percentage points higher than the same period of 2015. However, the sub-sector also showed weaker strength when the Index of Industrial Production (IIP) was up by 7.4% in the first 9 months, significantly lower than the rate of 9.8% in 2015 (Figure 5).

Figure 5: Index of Industrial Production, January 2013- September 2016

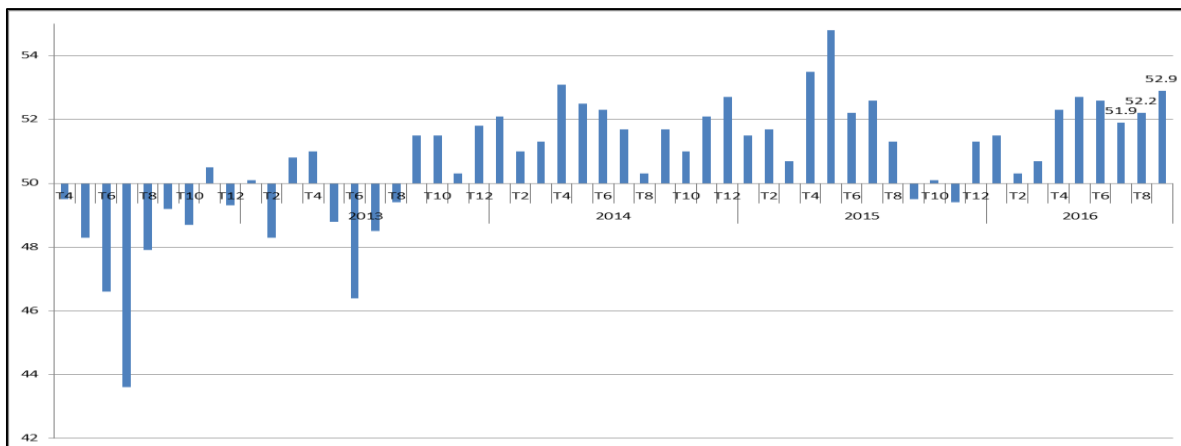
Unit: %



Source: GSO.

23. Sales of manufacturing sub-sector rose by 8.3% in the first 8 months, lower than the corresponding rate of 13.2% for 2015, showing a decreasing trend over quarters. The inventory index went up by 9% at 1 September 2016 (slightly lower than the YoY rate of 9.9% in 2015).
24. Purchasing Manager Index (PMI) grew slowly in the first months of Q3, which then showed an improving sign by the end of September 2016¹⁸ (Figure 6). This can be attributed mainly to: (i) maintaining of production growth in all months, and spurring in the last month of quarter; (ii) improved domestic business conditions at the end of the quarter; (iii) the expansion of job creation which contributed significantly to improve business and production activities. However, the HSBC’s report, the movement in Q3/2016 was almost repeated the same trend of last year.

Figure 6: Purchasing Manager Index, 2012-2016



Source: Markit, HSBC.

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

¹⁸ PMI attained 51.9 in July 2016; 52.2 in August 2016 and 52.9 in September 2016.

25. The agriculture-forestry-fishery (AFF) still faced difficulties, albeit initial signs of growth. The valued-added of AFF sector rose by 1.48% in Q3/2016, after being down by 1.23% in Q1/2016 and slightly up by 0.06% in Q2/2016. For the first 9 months of 2016, the value-added of AFF increased by 0.07%, much lower than previous years.¹⁹ AFF activities in Q3 were still constrained by: (i) drought and severe salinity in the South Central, Central Highlands, South East and Mekong River Delta area; and (ii) slowly improved aquaculture (including both raising and consumption of sea products) after severe environmental pollution in central provinces.
26. The value-added of services sector grew by 7.03%, which was at the highest rate since 2011²⁰. For the first 9 months, services sector growth attained 6.6%. Some sub-sectors experienced high growth, which contributed significantly to the overall growth in Q3/2016, including wholesale and retail trade (up by 8.15%); information and communication (up by 8.68%); finance, banking and insurance (up by 7.38%); education and training (up by 7.2%); healthcare and social assistance (up by 7.38%); arts, creation and entertainment (up by 7.2%).
27. According to the annual report by AT Kearney (USA), Vietnam continued to be in the top 30 attractive emerging retail markets to foreign investors, measured by the Global Retail Development Index (GRDI). Recently, there was 1 convenient store per 69,000 people in Vietnam, while the figure was 21,000 people in China, and 1,800 people in Korea. Along with the changing consumption habits, the space for retail market development is still large.²¹
28. The real estate sector continued to show positive signs, with the growth of 3.66%. Real estate market report by Jones Lang Lasalle (JLL) showed abundant supply of real estates in Q3/2016.²² The successful sale was 8,015 apartments, slightly increased as compared to Q2/2016. The sale of medium and affordable apartment was 52% and 37% respectively.
29. Economic structure varied in Q3, as compares to previous quarters.²³ The share of AFF fell to 16.89%, while services sector expanded to 47.85%, showing significantly increase on YoY basis. The figure for industry-construction experienced marginal change compared to Q2, but decreased to 35.25% from 39.88% in Q3/2015 (Figure 7).

¹⁹ Growth for the first 9 months of 2013, 2014 and 2015 was 2.7%; 3.5% and 2.1% respectively.

²⁰ The value-added growth of services sector in Q3 of some recent years: up by 6.75% in 2011; up by 6.26% in 2012, up by 6.80% in 2013; up by 6.0% in 2014 and 6.17% in 2015.

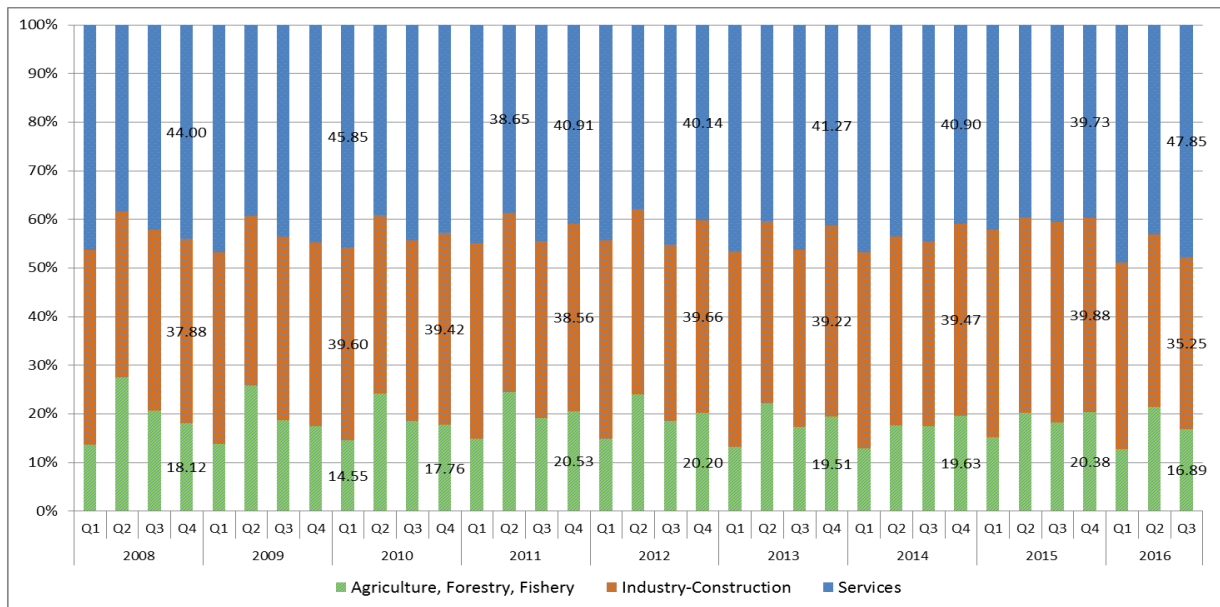
²¹ <http://www.moit.gov.vn/vn/tin-tuc/7626/du-dia-phet-trien-mo-hinh-ban-le-tai-viet-nam.aspx>

²² <http://batdongsan.com.vn/tin-thi-truong/thi-truong-nha-dat-cuoi-nam-gia-tiep-tuc-xu-huong-tang-ar80444>

²³ This analysis excludes the allocation of products taxes less subsidies on production in calculating the shares of sectors.

Figure 7: GDP structure, Q1/2008-Q2/2016

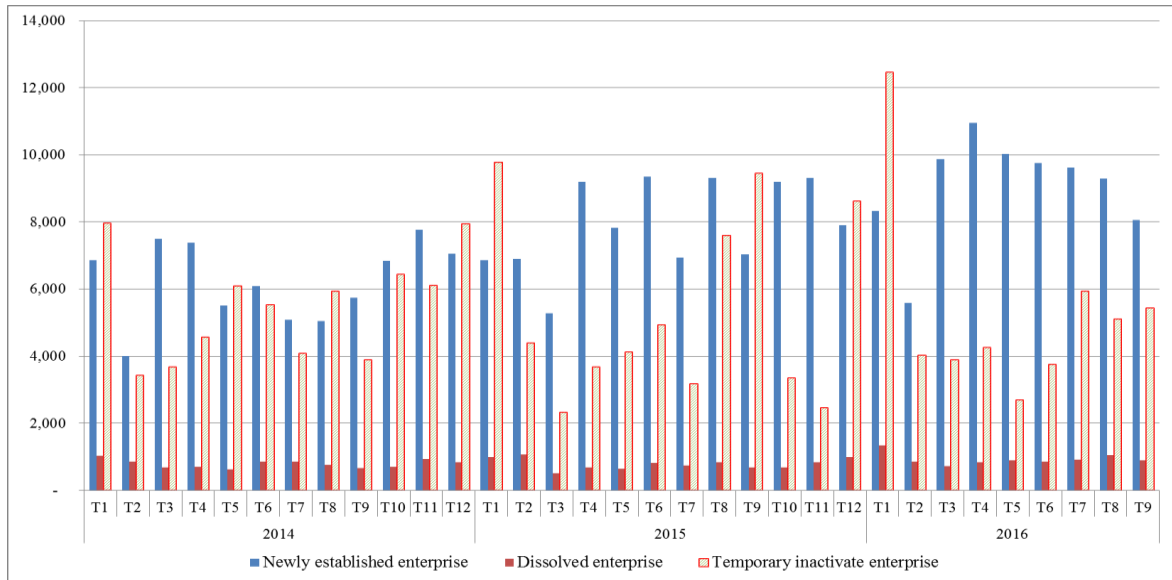
Unit: %



Source: GSO.

30. 26,950 enterprises were newly registered in Q3 (up by 15.77% on YoY basis), with total registered capital of VND 216.32trillion (up by 56.14% on YoY basis). The number of inactive enterprises (including those registering inactive status or temporarily stopping before closing tax code or without registration) fell by 18.58% in Q3/2016 (Figure 8). The number of dissolved enterprises increased by 26.79% on YoY basis.
31. For the first 9 months, there were 81,451 newly registered enterprises, with total registered capital of VND 644 trillion, increasing by 19.2% in terms of number of enterprises and by 49.5% in terms of registered capital. The average registered capital per enterprise was VND 7.7 billion in the first 9 months, up by 25.4% on YoY basis. These movements can be attributed to: (i) improvement of business environment through measures by the Government; and (ii) improved confidence of business community and market.

Figure 8: Selected indicators of enterprises' performance, January 2014-September 2016



Source: Business Registration Agency, MPI.

32. Manufacturing enterprises had positive assessment of production and business in Q3 as well as trend in Q4.

- a. 80.3% of enterprises experienced quite stable and better production and business prospect in Q3 compared to previous quarter (of which 38.8% of enterprises had better assessment and 41.5% of enterprises reported stable conditions), only 19.7% of enterprises faced difficulties (Figure 9).
- b. In Q4, production and business prospects would be much better, particularly for foreign-invested and state-owned enterprises. 85.6% reported stable and better production and business in Q4, of which 48.8% of enterprises indicated better prospects and 36.8% assessed stable conditions, 14.4% of enterprises forecasted more difficulty (Figure 10). In contrary with previous years, manufacturing enterprises expected stable and slightly increase of price of products and labor usage.

Figure 9: Business tendency (Q3/2016 as compared to Q2/2016)

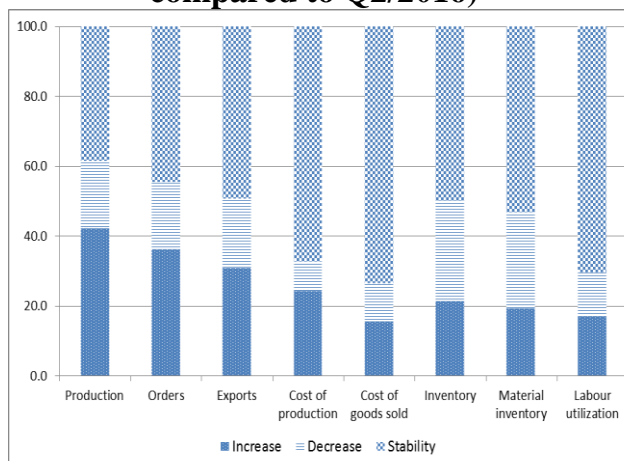
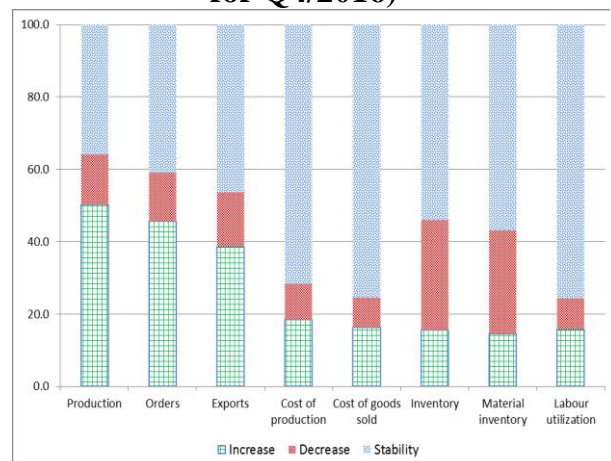


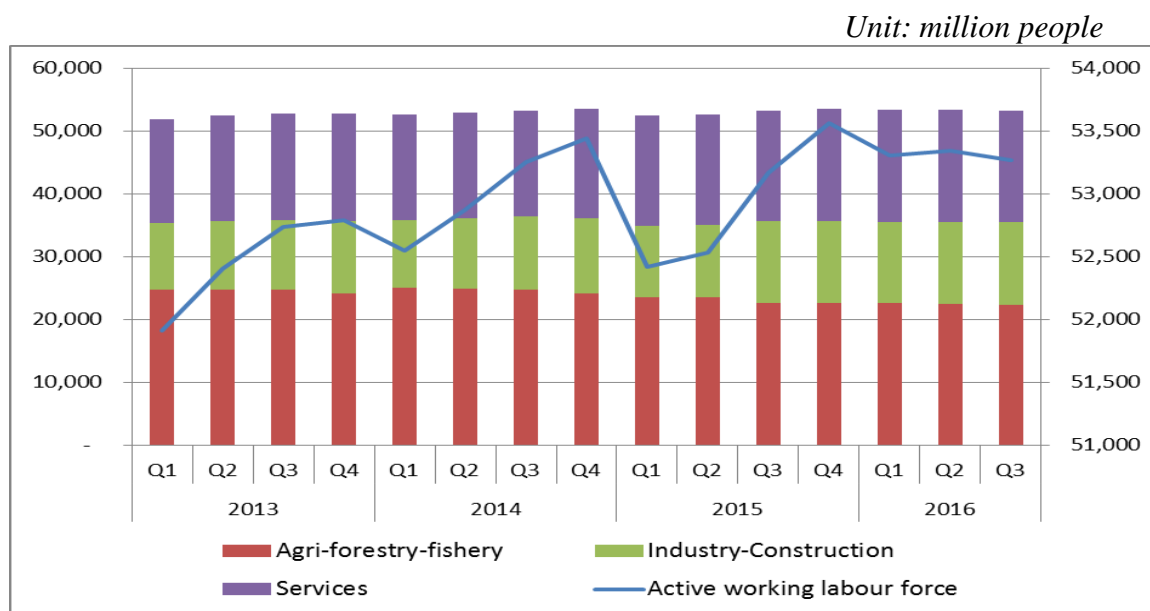
Figure 10: Business tendency (forecast for Q4/2016)



Source: GSO.

33. As of 1 October 2016, total labor force of the country was 54.44 million people, increasing by 122.7 thousand people, or 0.31% on YoY basis. By the end of September 2016, total economically active labor force was 53.27 million people, comprising of 22.32 million people working in the AFF, accounted for 41.9% of total economically active labor force, 13.16 million people in the industry-construction, a share of 24.7%; and 17.79 million people (33.4%) in the services sector (Figure 11).

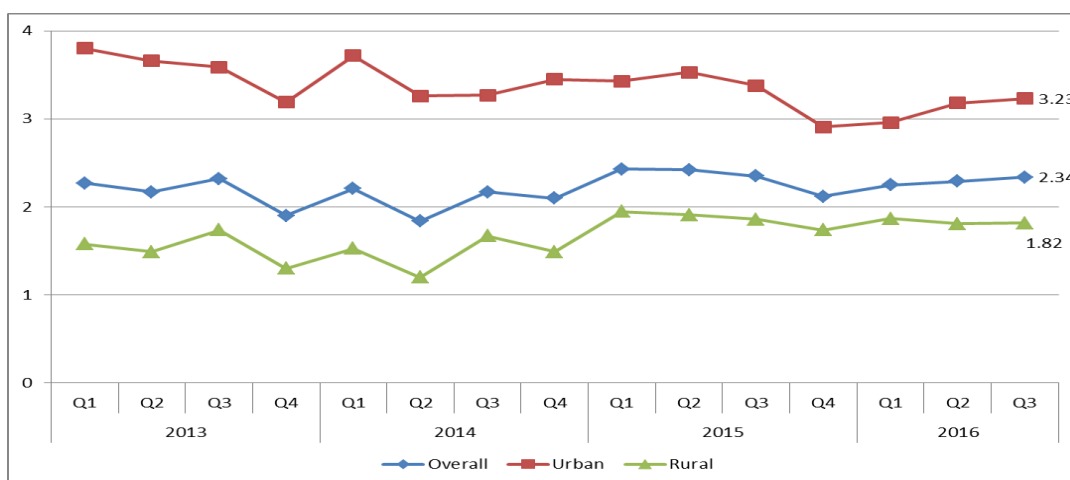
Figure 11: Economically active labor force by economic sector, January 2013-Q3/2016



Source: GSO.

34. Unemployment rate was 2.34% in Q3²⁴. For the first 9 months of 2016, the working-age unemployment rate was 2.29%, of which the urban figure was 3.23% and that of rural area was 1.82% (Figure 12). Although unemployment was on the increase, it was slightly lower than the YoY rate of 2015.

Figure 12: Unemployment rate (%)



Source: GSO.

²⁴ Unemployment rate was 2.25% in Q1/2016; and 2.29% in Q2 /2016.

35. In general, during the last 9 months, the macroeconomic environment was rather stable. The major economic aggregates were firmly balanced, and growth rate appeared to recover. On this basis, policy priorities was continued towards enhancing economic growth in Q4/2016 through the efforts and detailed solutions for facilitating and resolving barriers in production and business. The target growth for 2016 ranged from 6.3-6.5%. However, it is important to emphasize on improving productivity and competitiveness for growth, in line with improving microeconomic foundations in the medium and long-term.

1.2. Inflation

36. The Consumer Price Index (CPI) increased rapidly in Q3. CPI rose by 3.34% in September (YoY) and by 3.14% compared to the end of 2015. Overall, the CPI was up by 2.07% in the first 9 months of 2016 (YoY).
37. Core inflation remained stable at 1.81% in the first 9 months (YoY). This indicated that pressure of total demand on CPI is moderate (though consumer credit grew considerably by 21.4% in August compared to that in the end of 2015). Meanwhile, the rapid growth rate of the CPI in Q3 was mainly attributed to the increase of the state-controlled prices of goods and services, in particular healthcare and education services.
38. In Q3, moderate increase of international price of petrol lessened pressure on raising price of inputs. Nonetheless, the upward adjustment of domestic petrol price in August and September²⁵ (partly induced by changes of calculation method of special sales tax in accordance with Decree No. 100/2016/ND-CP²⁶) slightly reversed the decreasing trend after consecutive downward adjustment in July and August²⁷. The price index of healthcare services grew rapidly in the second consecutive quarter, increasing by 33.4% in September (YoY) (and by 22.02% in the first 9 months - YoY). Meanwhile, the growth rate of price index of education services in September was 10.3% (YoY) though the new school year just started recently.

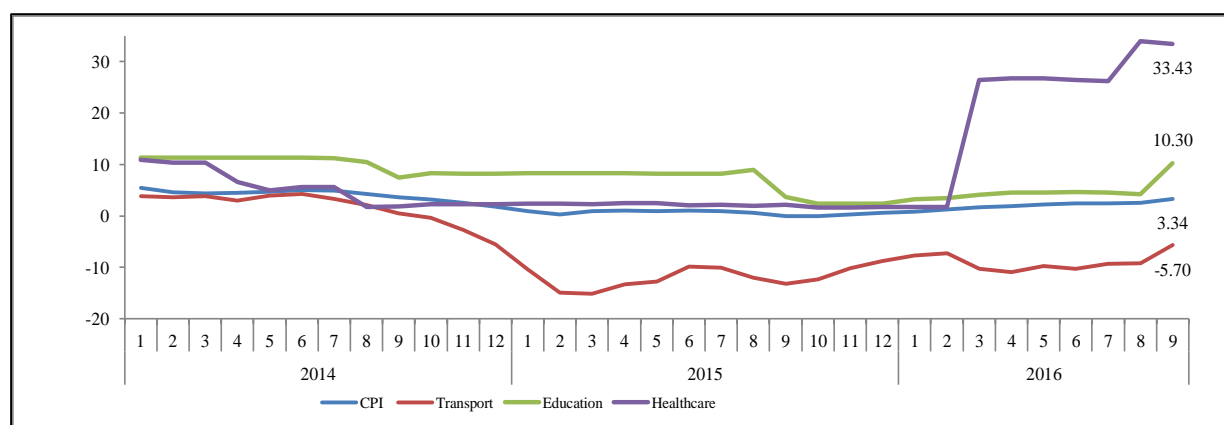
²⁵ Petrol price was adjusted upward for 3 consecutive times since August 19 (on August 19, September 5 and September 20)

²⁶ Decree No. 100/2016/ND-CP dated July 1, 2016 on detailizing and guiding the implementation of some provisions of the Law 106/2016/QH13 dated April 6, 2016 on amending, supplementing some articles of the Law on Added Value, the Law on Special Consumption Tax and the Law on Tax Management. As such, the Decree amended, supplemented 04 Decrees on tax, including Decree 209/2013/ND-CP, Decree 108/2015/ND-CP, Decree 83/2013/ND-CP, and Decree 129/2013/ND-CP.

²⁷ Since the end of June, the petrol price was adjusted downward 4 times consecutively (on June 20, July 5, July 20 and August 4) with total reduction of more than VDN 1,800 per litter

Figure 13: YoY inflation, 2014-2016

Unit: %



Source: GSO.

39. There remain several pressures on the CPI, mainly induced by such cost-push factors as: (i) the adjustment of price of some services (for instance healthcare) in Q3 and Q4, together with expectation of further price volatility in Q1/2017 (due to impacts of raising regional minimum wage); (ii) OPEC's commitment on reducing production may induce international oil price to increase, resulting in pressure to increase domestic price of petrol. Impact from demand-pull factors side is modest as the monetary policy has been regulated prudently. The CPI is expected to be within the target for the whole year (below 5%).

1.3. Monetary movement

At the end of September 2016, VND-denominated deposit rate (for term shorter than 6 months) was stable and below the ceiling imposed by the State Bank of Vietnam (SBV, Table 2: Popular VND-denominated deposit rates of commercial banks

40.). Accordingly, VND-denominated deposit rates were almost unchanged since Q1/2015, mainly attributed to: (i) insignificant fluctuation of inflation; (ii) higher liquidity of the banking system as the SBV bought in more foreign currencies; and (iii) modest pressure from credit disbursement.

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

Unit: %/ per annum

	Demand	Shorter than 6 months	6-12 months	Over 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 2015	0.8-1.0	4.5-5.4	5.4-6.5	6.4-7.2
End of March 2016	0.8-1.0	4.5-5.4	5.4-6.5	6.4-7.2
End of September 2016	0.8-1.0	4.5-5.4	5.4-6.5	6.4-7.2

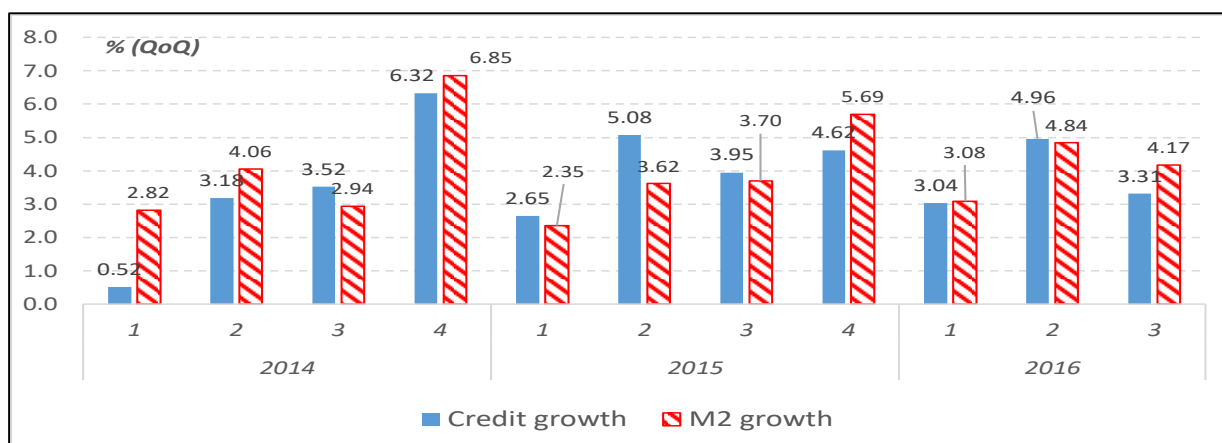
Source: SBV.

41. VND-denominated and USD-denominated lending rates declined moderately in Q3. State-owned commercial banks actively lowered lending rates while the

reduction imposed by joint-stock commercial banks was modest. The room for further reduction of lending rates (both USD-denominated and VND-denominated) is limited because: (i) credit for real estate was not restricted, leading to impacts on the liquidity of credit for production as well as lending rate base; (ii) Interest rate of Government bonds took the upward trend; and (ii) Resolving non-performing loans (NPLs) was slowly progressed. In Q3, commercial banks were exposed to modest pressure of interest rate hike in the US.

42. Credit growth attained about 3.31% in Q3 (compared to the end of Q2), which was below that in Q2 (4.96%) and in 2015 (3.95%, YoY). By the end of September, total outstanding credit increased by about 11.74% in relative to the figure for the end of 2015. The growth rate was far below the target for the whole year (18-20%). The slow credit disbursement was induced by the following factors: (i) the prudence of commercial banks in the context of resolving NPLs, etc.; (ii) insignificant reduction of lending rates; (iii) modest improvement of SMEs' accession to credit; and (iv) slow recovery of economic growth.

Figure 14: YoY growth rate of credit and M2, 2014-2016

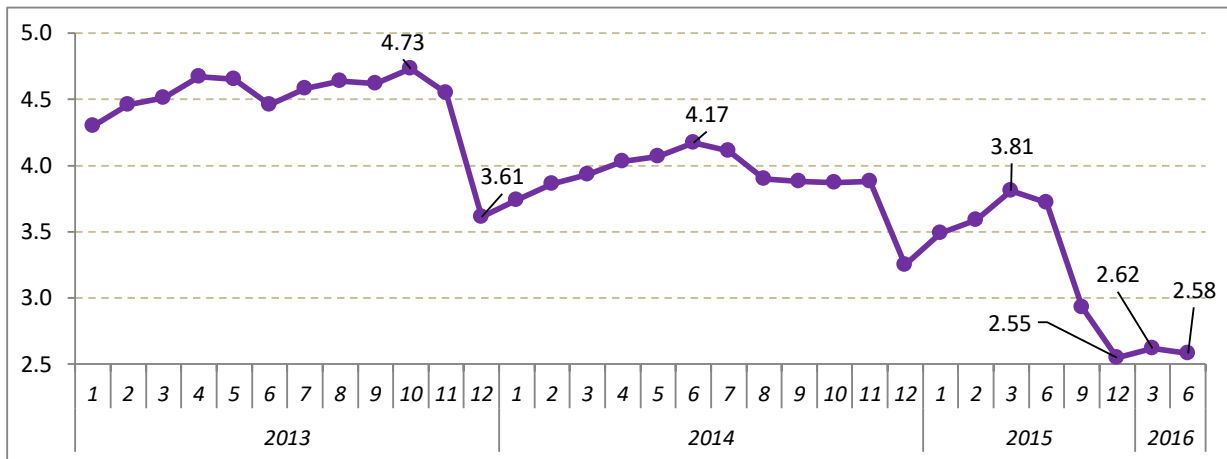


Source: Compilation from various sources.

43. The NPLs were improved only modestly. By the end of June, the NPL ratio decreased slightly to 2.58%, which was below the figure of 2.62% in the end of Q1 (**Error! Reference source not found.**). The purchase, selling and reduction of NPLs exerted insignificant improvement in Q3. Commercial banks are yet to develop plans to further address NPLs.

Figure 15: NPLs ratio of credit institutions, 2013-2016

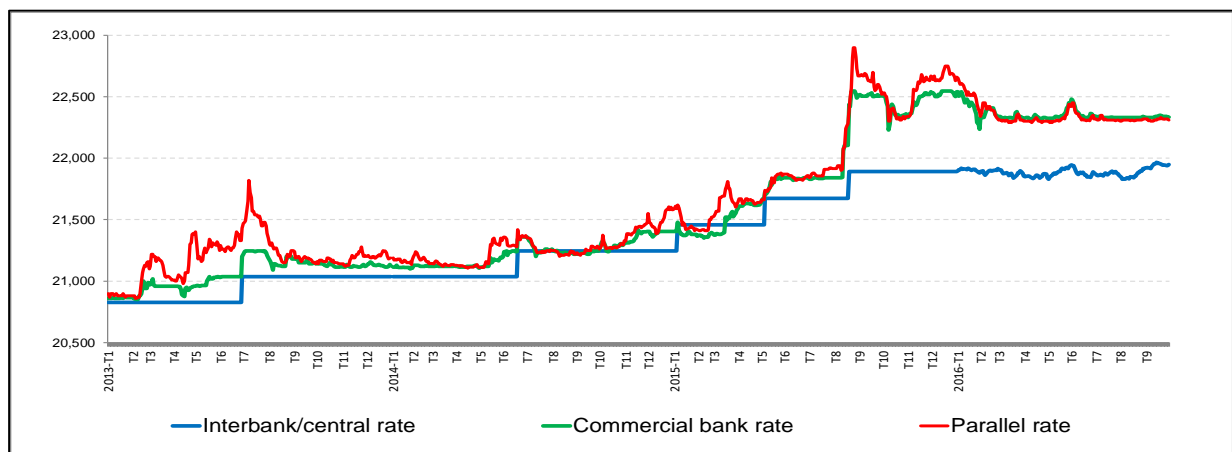
Unit: %



Source: SBV.

44. Total liquidity (M2) was estimated to grow by 4.17% in Q3 (compared to the end of Q2) and by 11.76% in the first 9 months (relative to the end of 2015). The YoY growth rates of M2 in each quarter of 2016 outpaced the corresponding quarterly figure for 2015 (**Error! Reference source not found.**). Total liquidity mainly served to support the issuance of government bonds and the purchase of foreign currencies to increase foreign reserves. However, impacts of M2 on inflation were unclear, which was reflected in stable core inflation at 1.81% in the first 9 months (the figure in the first 6 months was 1.80%).
45. The VND/USD exchange rate was relatively stable in Q3 (Figure 16). The VND/USD central rate was flexibly adjusted downward and upward and unforeseeable. In general, the central rate was stable, except the insignificant increase in the mid-September (prior to the US’s consideration about interest rate adjustment). The average VND/USD exchange rate was 21,891 in Q3, which was higher than in Q2 (21,875). The exchange rates in the parallel market and commercial banks fluctuated moderately and were below the permitted ceiling.

Figure 16: VND/USD exchange rate

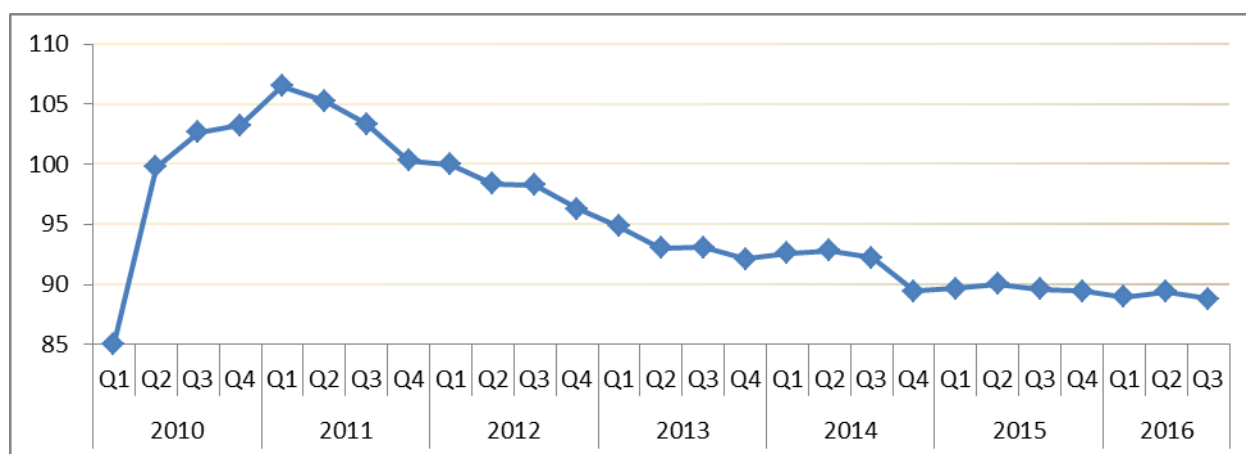


Source: Authors’ compilation.

46. The foreign exchange market was exposed to little pressure in Q3. The main reasons were: (i) trade surplus in the context of lower import demand of some

large FDI corporations and/or cheaper import price; (ii) insignificant fluctuation of the international financial market; (iii) the implementation of the central rate mechanism, which minimized the exchange rate management risks as cross exchange rates varied drastically and oppositely; and (iv) the flexible purchase of foreign currencies by the SBV.

Figure 17: Real Effective Exchange Rate (REER)



Source: Authors' calculation.

Note: Q1/2012=100. REER was calculated using trade data with 20 biggest trading partners and CPI statistics. Data for Q1/2016 was estimated; a smaller value implies that Vietnamese goods are relatively more expensive than foreign ones.

47. The Real Effective Exchange Rate (REER) went down by 0.6% in Q3 compared to Q2 and by 0.86% compared to Q3/2015. That is, Vietnamese goods became more expensive than foreign ones, thus affecting export competitiveness of Vietnam. The situation was more concerned in the context of slight decrease of price of production materials and stable nominal exchange rate. As such, high inflation was the main factor that undermined Vietnam's export competitiveness. To that extent, policy framework of export should rely on stabilizing inflation at low rate.

1.4. Investment

48. Gross investment (current prices) was estimated to be VND 395 trillion in Q3, up by 9.6%. In the first 9 months of 2016, the figure attained VND 1,006.9 trillion, which was equivalent to 33.1% of GDP and increased 9.6% (outpaced the rate of 8.5% in 2015 (YoY). In real terms, gross investment grew by 8.4% in the first 9 months.

Table 3: Gross investment, current prices

Unit: trillion VND

	Plan for 2016	Q2/2016	Q3/2016	The first 9 months of 2016	Growth rate of the first 9 months (YoY, %)
TOTAL	1,540	341.7	395.0	1,006.9	9.6

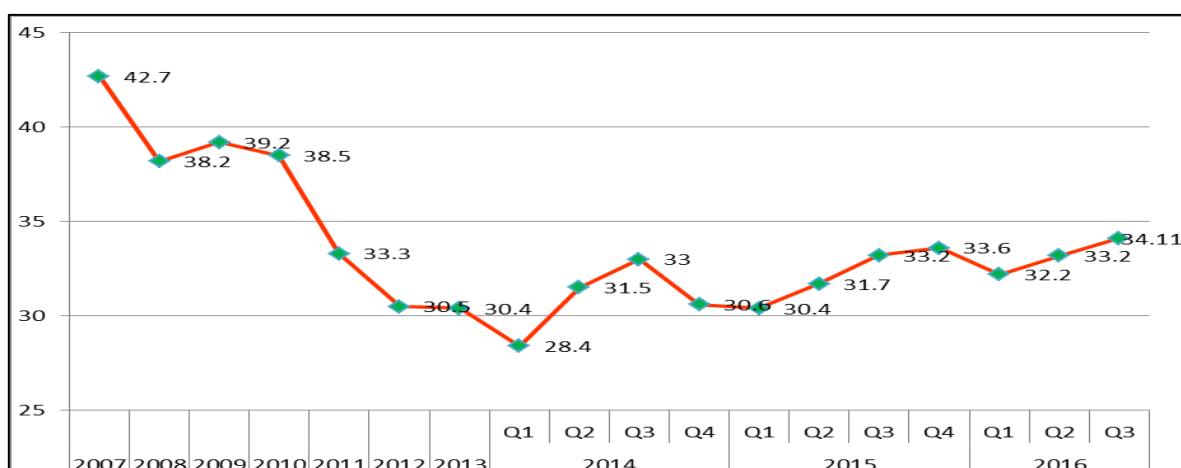
State budget investment	240	64.2	72.8	180.0	13.1
Government bonds	60	11.8	13.2	33.2	-18.2
State credit	75	14.9	17.6	45.1	5.6
Borrowings from other sources (by the State sector)	90	19.6	22.5	59.2	10.7
Investment by SOEs (equity)	70	16.4	18.8	48.1	8.1
Investment by individuals and private sector	620	128.2	161.5	387.7	10.1
FDI	360	81.7	83.2	240.4	12.6
Other sources	25	4.9	5.4	13.2	1.5

Source: GSO.

49. The investment over GDP ratio was 33.5% in Q3, higher than that in Q2/2016 and Q3s of 2014 and 2015 (Figure 18). Investment disbursement from all sources in Q3 also exceeded that in Q2. Similar to 2015, the main drivers in the first 9 months of 2016 were the FDI sector (accounting for 23.9% of total capital) and the non-state sector (contributed to 38.5% of total capital) with the growth rate of 12.6% and 10.1%, respectively.
50. Regarding investment by the public sector, though government bonds was down by more than 18% compared to that in 2015 (YoY), the disbursement of state budget investment increased by 13%, significantly outpaced the rate of 4.1% in 2015 (YoY). Rapid growth rate of disbursement of the state budget investment in Q3/2016 demonstrated initial positive signals of drastic instructions by the Government, which was reflected in the Resolution. 60/NQ-CP dated 8 July 2016 on key tasks and measures to speed up the implementation and disbursement of public investment plan for 2016.

Figure 18: Investment/GDP ratio

Unit: %



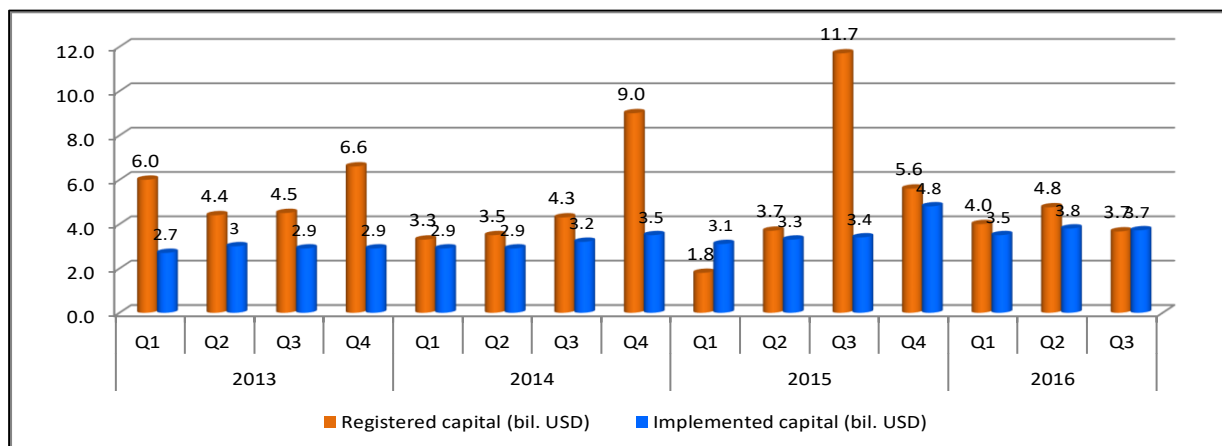
Source: GSO.

51. The disbursement of Government bonds showed improvement in Q3, but only attained 55% of the target for the whole year. Investment from Government bonds went down by 18.2% compared to 2015 (YoY). The slow disbursement

of Government bonds were attributed to both subjective and objective factors, among which the key ones were sluggish administrative reforms; delayed implementation of assigned tasks by authorized bodies at different levels; inadequate guidance to implement investment projects in local areas; incapability of contractors.

Figure 19: FDI attraction to Vietnam

Unit: Billion USD



Source: GSO.

52. FDI remained the driving force of overall investment growth. In Q3, there were 675 newly-licensed FDI projects with total newly registered capital of approximately USD 3.7 billion (Figure 19). For the first 9 months of 2016, total newly-registered and supplemented capital attained USD 16.43 billion, which was equivalent to 95.8% of that in 2015. Implemented FDI capital was estimated to reach USD 11.02 billion, increasing by 12.4%.
53. FDI from Asian region played important roles. Korea was the biggest FDI investor to Vietnam with the registered capital of USD 4,561 million (accounting for 40.9% of the total registered capital) and many large-scale projects of USD 300 million – USD 1.5 billion (Box 1). Singapore and Hong Kong took the 2nd and 3rd position with total registered capital of USD 1,251.1 million (11.2%) and USD 843.7 million (7.6%). The following investors were Taiwan (USD 801.9 million), China (USD 665.2 million) and Japan (USD 659.7 million).

Box 1: South Korea’s newly-licensed and large-scale projects in the first 9 months of 2016

- LG Display Hai Phong project, which was licensed on April 15, 2016 with total registered capital of USD 1.5 billion and invested by LG Display Co. Ltd. Main operations are to produce and process plastic OLED screen of mobile equipment such as mobile phones, intelligent watches, tablet, etc.

- LG Innotek Hai Phong project with total registered capital of USD 550 million by CLG Innotek Co. Ltd. to produce camera module in Hai Phong.

- Seoul Semiconductor Vina project with total registered capital of USD

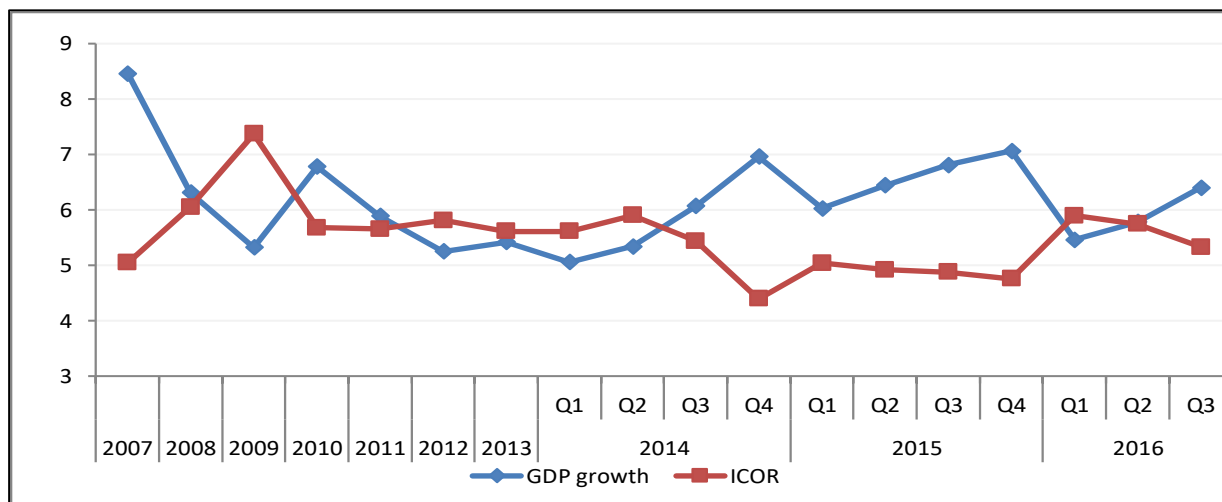
300 million by Korean investor in Hanam to research, develop, manufacture, assemble and process LED bulbs, LED package, semiconductors, LED components, LED modules.

Source: Ministry of Planning and Investment.

54. The manufacturing sector accounted for the largest share in total FDI attraction in the first 9 months with total registered capital of newly-licensed projects of USD 7,911 million, accounting for 70.8% of total newly-registered capital. FDI capital poured into real estate industry attained USD 979.4 million (8.8%); and the rest reached USD 2,274.2 million (20.4%).
55. In comparison to 2015, FDI development in the first 9 months witnessed some notable features. Foreign investors demonstrated “special” interests on manufacturing industries. Out of 19 industries/sectors to receive FDI, there were 767 newly-licensed projects and 608 supplemented ones. Total newly-registered and supplemented capital attained USD 12.15 billion in the first 9 months, accounting for 73.9% of the total, which outpaced the corresponding figure of 66.4% for 2015.
56. The individual – private households had important contribution to overall investment, with total capital of VND 387.7 trillion in the first 9 months, increasing by 10.1%. However, the disbursement was far below the target for the whole year (VND 620 trillion). The individual and private sector were exposed to difficulties in accessing to land, production ground and credit (due to the lack of collaterals or small value of collaterals). Moreover, though the institutions of SMEs support have significantly improved with the issuance of a number of policies, these policies remain unspecific and sloganizing, resulting in modest feasibility. The draft law on SMEs support is under the consultation process for improvement and adjustment.
57. Despite modest improvement, the expansion of investment by individual – private households and FDI were induced by several factors, including: (i) investor confidence on the increasingly improved business environment in Vietnam; and (ii) expectations of opportunities to promote exports of goods, take advantage of preferential treatments, in particular tariff preferential treatments and related conditions in line with commitments under signed or pending international integration agreements of Vietnam, namely the TPP, the FTA with the EU, AEC, etc.
58. Investment efficiency tended to improve in Q2 and Q3 of 2016 (Figure 20). ICOR decreased from approximately 6 in Q1 to 5.33 in Q3. However, the figure still exceeded that in 2015 (YoY). This indicated that improving investment efficiency, in particular public and state-budget investment remained critical with consideration to the relatively comprehensive legal framework of state management of investment. The Investment Law took effect since July 2015, yet the enforcement was inadequate with moderate effectiveness/expected impacts on capital allocation and implementation as

well as on addressing “ask-give” mechanism in implementing state-budget investment.

Figure 20: Investment efficiency



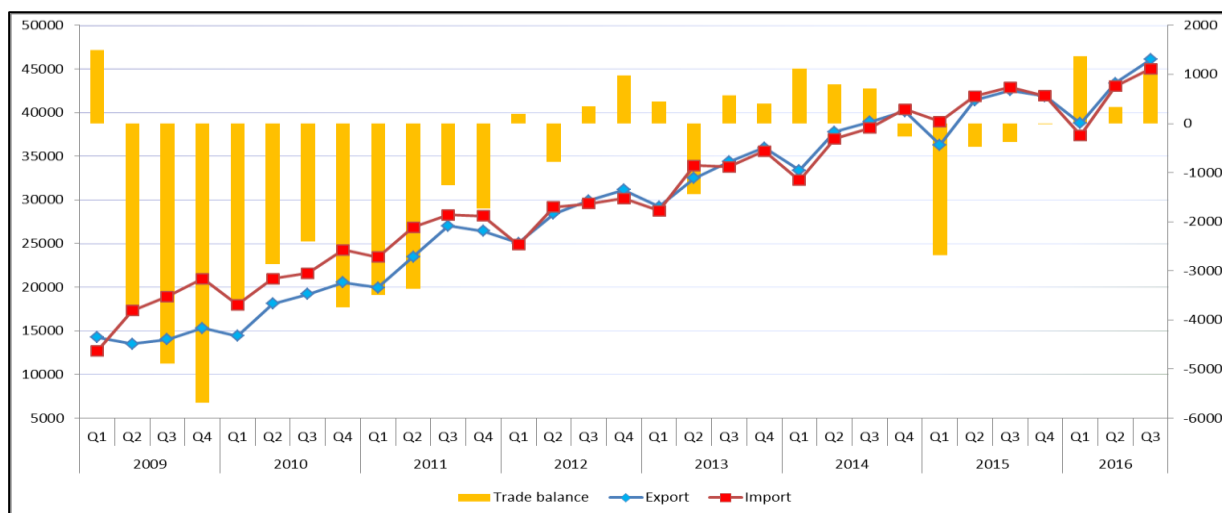
Source: GSO.

1.5. Trade

59. Export value in Q3 attained USD 46.4 billion, increasing by 9.2% on YoY basis (Figure 21). Export growth of FDI sector was 11.3%, contributing 7.7 percentage points to the overall growth. Exports of the domestic sector grew by 4.7% in Q3, contributing 1.5 percentage points to overall growth.

Figure 21: Exports, Imports and Trade Balance, 2009-2016

Unit: Million USD



Source: Authors' calculation.

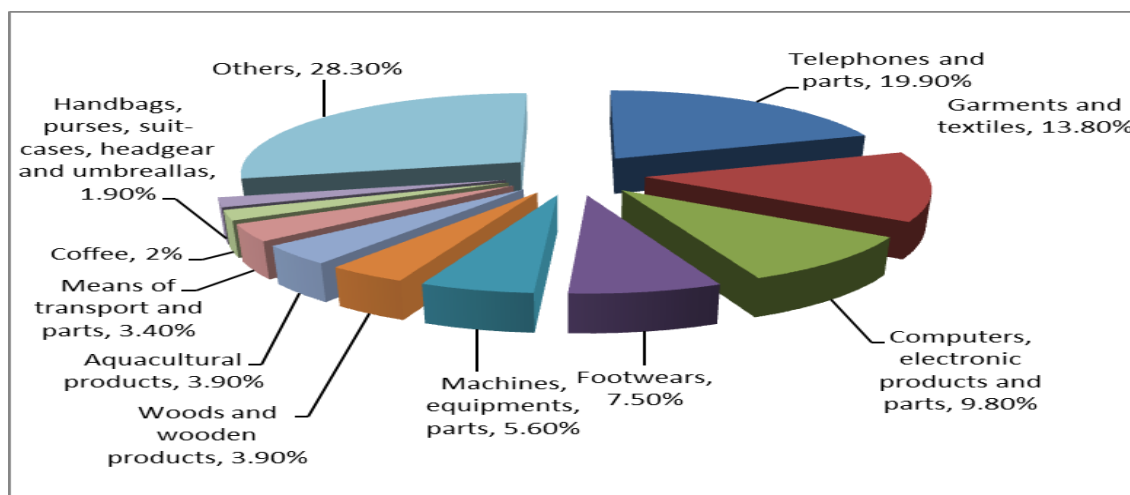
Note: Exports and imports are shown in the left-hand axis and trade balance is on the right-hand axis.

60. Q3 witnessed substantial YoY growth in export of agricultural products such as fruits and vegetables (45.7%), cashew nuts (48.6%), coffee (40.81%) and pepper (45.94%). Increase in export values of those agricultural products was induced by expansion of export volumes (the quantity of exported coffee and

pepper in the first 9 months rose by 39.6% and 33.6% respectively, YoY) and by upsurge of export price indexes (export price of cashew nuts in the first 9 months grew by 11.1% on YoY basis; export price of agricultural products in Q3 was up by 3.89% on average as compared to Q2/2016).

61. Total export value in the first 9 months attained USD 124.9 billion, up by 6.6% on YoY basis. Exports of FDI and domestic sectors were USD 89.9 billion and USD 38.6 billion, respectively. Major exported goods included telephones and parts (19.9%), garments and textiles (13.8%), footwears (7.5%) (Figure 22).

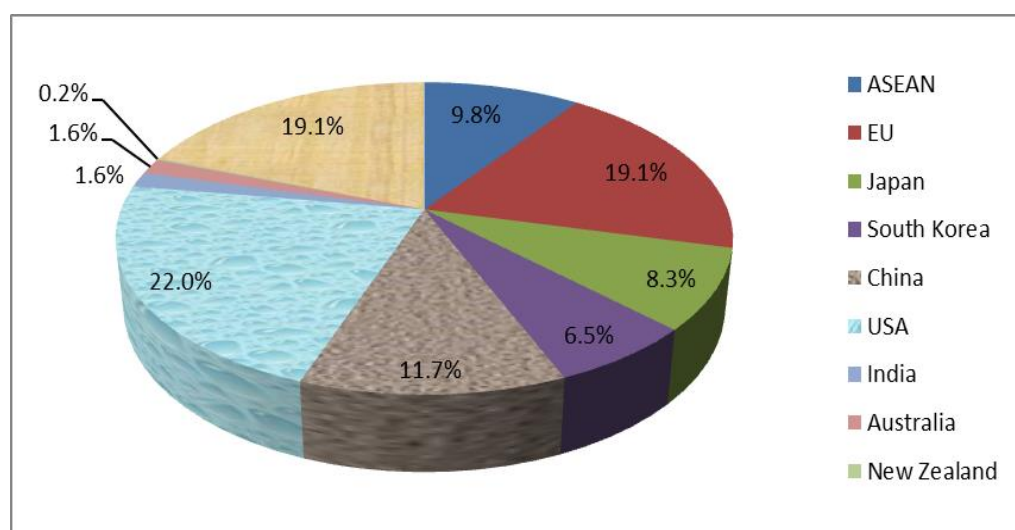
Figure 22: Structure of export in the first 9 months of 2016, (%)



Source: General Department of Customs.

62. The export structure hardly changed in Q3/2016. The USA continued to be Vietnam's largest export market (accounting for 22.2% of total export). The following positions were familiar markets such as EU (19.1%), China (11.7%) and ASEAN (9.8%) (Figure 24).

Figure 23: Exports to major trading partners, Q3/2016 (%)



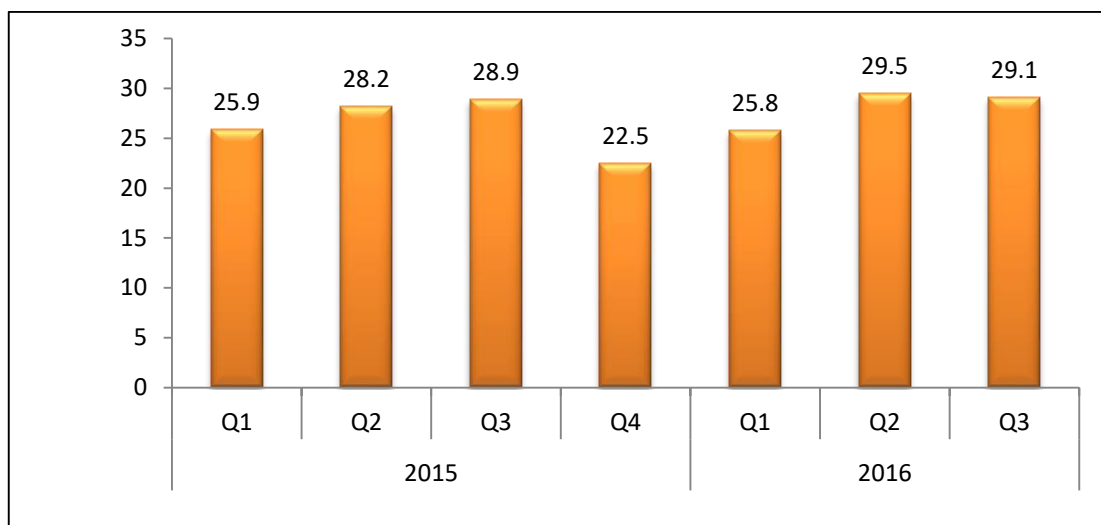
Source: General Department of Customs.

63. Total import value reached USD 44.4 billion in Q3 (Figure 21), up by 3.5% on YoY basis. Of which, imports of FDI sector was amounted at USD 26.7 billion,

increasing by 5.9% and contributing to 3.5 percentage points to overall growth. Imports of domestic sector attained USD 17.7 billion, increasing by 0.1%.

64. For the first 9 months, imports were estimated at USD 124.8 billion, rising by 0.9%. Of which, import value of domestic sector and FDI sector were USD 51.0 billion and USD 73.8 billion, respectively.

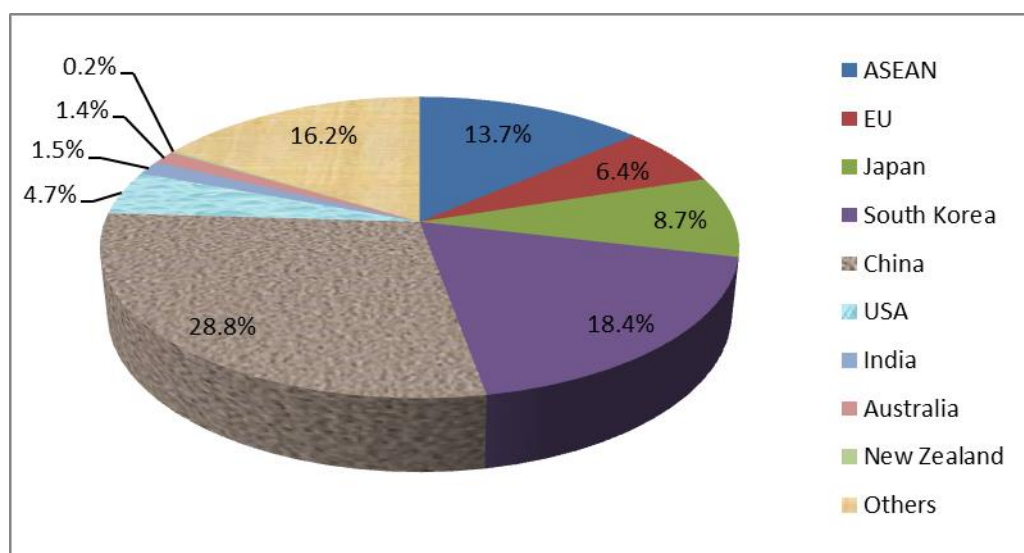
Figure 24: Imports of capital goods, Q3/2016 (Billion USD)



Source: General Department of Customs.

65. Capital goods continued to account for the lion's share of imports in Q3. Imports value of capital goods were estimated at USD 29.1 billion (Figure 24), increasing by 0.5% and accounting for 65.5% of total imports in Q3. Some products experienced relatively high growth, including chemicals and chemical products (6.4%), plastics and plastic products (10.4%), computer, electronic products, telephones and parts (12.9%). For the first 9 months, imports of capital goods attained USD 86.6 billion, accounting for 69.4% of total import value.

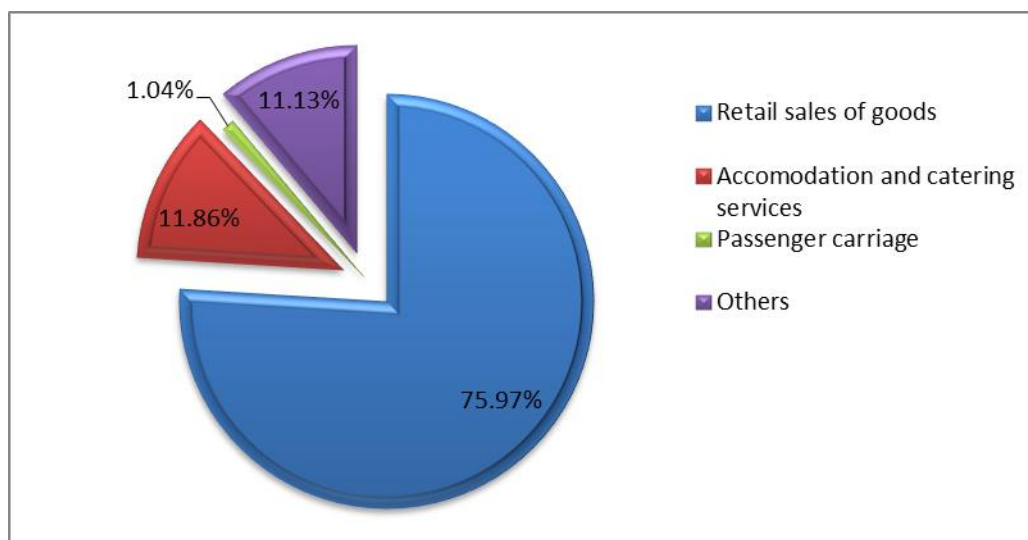
Figure 25: Imports from major trading partners, Q3/2016 (%)



Source: General Department of Customs.

66. There was little variation in import structure by trading partner in Q3. China continued to be the largest source of imports to Vietnam, with a share of 28.8%. Other important sources were South Korea (18.4%) and ASEAN (13.7%) (Figure 25).
67. A trade surplus of USD 2.02 billion was recorded in Q3 (Figure 21), equal to 4.3% of total exports. FDI sector and domestic sector contributed surpluses of USD 5.7 billion and USD 3.8 billion, respectively. Thus, the foreign exchange market and exchange rate management was under little pressure in Q3.

Figure 26: Retail sales of goods and services by activity, Q3/2016, (%)



Source: GSO.

68. Total retail sales of goods and services were estimated at VND 881.7 trillion in Q3, up by 9.9% on YoY basis. Retail sales of goods accounted for the largest part (75.97%), amounting to VND 669.8 trillion, up by 10.0% (YoY) (Figure 26).
69. For the first 9 months of 2016, total retail sales of goods and services attained VND 2,605.8 trillion, up by 9.5% (YoY). Retail sales of goods, accommodation and food and beverage services, tourism were estimated at 76.2%, 11.5% and 0.9%, respectively.

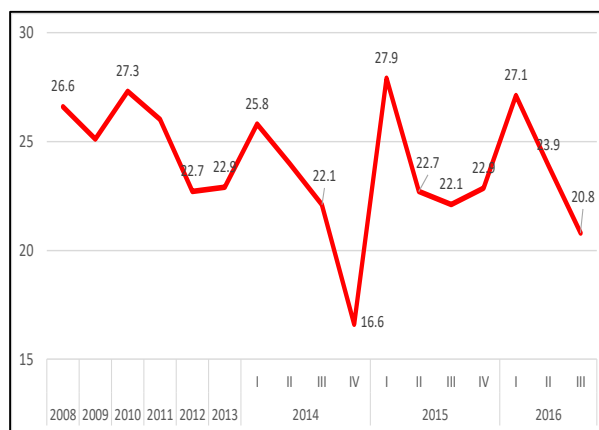
1.6. Budget revenues and expenditures

70. Total budget revenues

Figure 27: Budget revenues to GDP ratio

Unit: %

reached VND 241.5 trillion in Q3, up by 1.9% (YoY). The collected revenues Q3 were equivalent to 23.8% of planned figure for 2016. Budget revenues to GDP ratio was 20.8% in Q3, lower than previous quarters and of Q3/2015 (Figure 27). Budget revenues were growing slowly in the context of a lagging economic recovery.

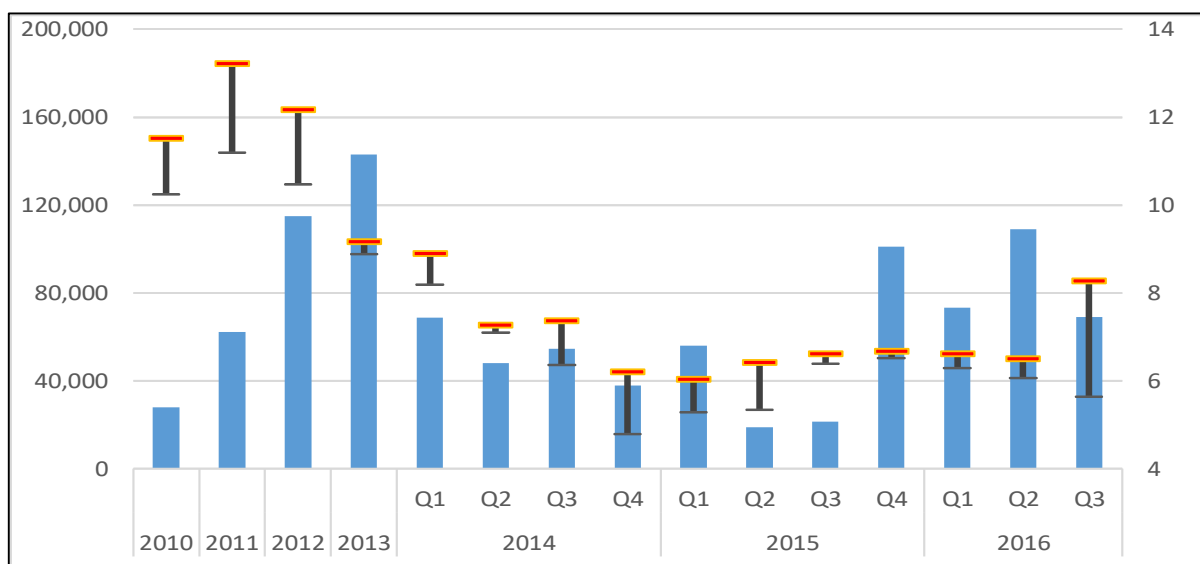


Source: Authors' calculation.

71. Domestic revenues amounted to VND 196.4 trillion in Q3, equivalent to 81.3% of total revenues. The share slightly increased as compared to the first half of 2016 (80.4%) and remarkably higher than figure for the corresponding period of 2015 (74.4%). In the first 9 months, domestic revenues contributed 80.6% to total budget revenues. Revenues from crude oil fell by 43.2% in Q3 (YoY), mostly induced by lower oil price. Meanwhile, revenues from exports and imports made up 14.0% and 14.7% to total budget revenues in Q3 and in the first 9 months, respectively. Revenues from exports and imports encountered difficulties, mostly attributed to: (i) phasing out of tariff under some new FTAs (especially VKFTA); and (ii) lower price of import.
72. Budget expenditures attained VND 284.8 trillion in Q3, equal to 24.6% GDP and 23.4% of the planned figure. Budget expenditures increased by 10.3% (YoY) in Q3, substantially higher than the rate of 4.1% in the first 6 months. The rapid increase of budget expenditures was explained by: (i) faster disbursement of development investment; (ii) lower budget expenditures in same period of 2015²⁸.
73. Value of newly issued Government bonds amounted to VND 69.1 trillion in Q3, which was 3 times higher than the same period of 2015 and fell by 36.6% as compared to Q2. Notably, the interest rate for successful bids of government bonds ranged widely from 5.64%-8.25% p.a in Q3 (5.35%-6.4% p.a, Figure 28).

²⁸ See more in CIEM's macroeconomic report for Q3/2015 (2015).

Figure 28: Government bond issuance, 2010-9/2016



Source: HNX.

Note: The column diagram demonstrates the value of Government bond issuance (billion dong), measured on the left vertical axis; The line graph demonstrates the interest rate of successful bids range (%/p.a., 5 year terms to maturity), referenced on the right axis.

74. An increase in government bond issuance in Q3 was induced by: (i) relative abundance of liquidity in the commercial bank system; (ii) lack of effort in controlling government bond rates. In fact, the issuance of government bonds in Q3 was largely influenced by more attractive rates for successful bids than expected by commercial banks.
75. Ensuring resources for budget expenditures and development investment in Q3 was no easy task. The main difficulty lied in infeasible plans/measures for mobilizing other legal resources (such as foreign currency borrowings from domestic; issuing sovereign bonds, etc.). The Government paid more attention to take stock of as well as measures for mobilize sources of funding for development investment. However, the approach was still based on the attraction and use of State resources, whereas the efficiency in using those resources was not directly addressed.

2. Macroeconomic Outlook

76. A forecast scenario is specified for Vietnam's economy in Q4, in line with the context of world's economy and domestic economic development. Accordingly, GDP growth in partner countries is projected at 3.1%²⁹. US inflation may reach 0.3%³⁰. Export prices of agricultural products may decline by 0.85%³¹. The international crude oil price may increase by 8.5% compared to Q3. For Vietnam, VND/USD (average) central exchange rate remains unchanged. Total liquidity grows by 5%. Outstanding credit rises by 7%

²⁹ According to IMF (2016), global GDP growth rate in 2016 is forecasted at 3.1%.

³⁰ <http://www.tradingeconomics.com/united-states/inflation-rate-mom> [25th of October, 2016]

³¹ <http://gfs.eiu.com/Article.aspx?articleType=cf&articleId=864722870&secId=0> [19th of October, 2016].

compared to the end of Q3. Import prices drop by 1%. Population is projected to increase 0.26% and employment by 0.32%. The export volume of crude oil is assumed to be the same as in Q3. REER is projected to increase by 1%. On the balance of payment, government transfer remains unchanged, whereas private (net) transfer rises by 2% compared to Q3. Implemented FDI (including domestic and foreign capital) is equivalent to Q3. Investment from State Budget and Government bonds are VND 60 trillion and VND 27.8 trillion, respectively.

77. The projection shows that GDP growth in Q4/2016 is 7.19% (Table 4). GDP growth rate for 2016 is forecasted at 6.33%. Export growth rates in Q4 and 2016 are projected at 5.52% and 7.44%, respectively. However, if GDP growth rate in partner countries increases faster and US does not increase interest rate, export growth rate for 2016 may reach approximately 7.7%. Trade surplus is projected to reach USD 1.1 billion in Q4 and accumulate to USD 4.8 billion in 2016. CPI continues to increased, projected at 1.47% in Q4.

Table 4: Projection of macroeconomic indicators, Q4 and 2016

Unit: %

	Q4	2016
GDP growth rate (YoY)	7.19	6.33
Inflation (compared to Q3/2016)	1.47	4.66
Export growth rate (YoY)	8.82	7.44
Trade balance (<i>billion USD</i>)	1.1	4.8

Source: CIEM's projection from macro-econometric model using quarterly data.

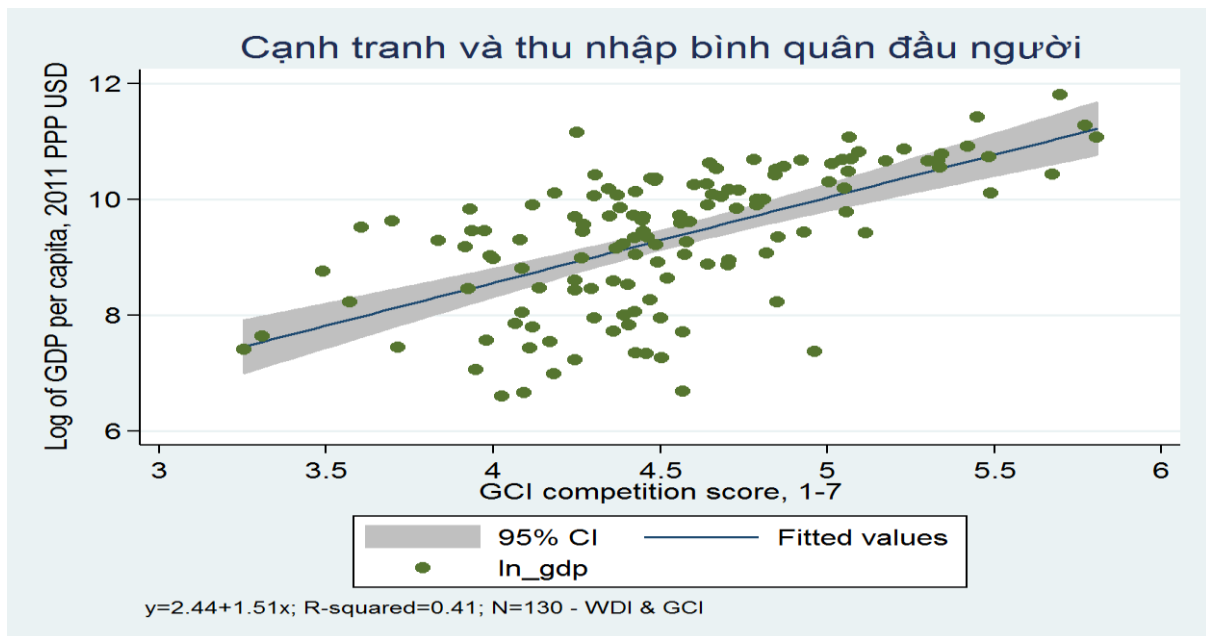
78. The macroeconomic environment in Q4 continues to be affected by a number of factors. *First*, the recovery of global economic development is still uncertain. FED has not yet decided on the possibility of raising USD interest rate in Q4. If it does not realized, capital flow and/or interest rate level and/or VND/USD exchange rate in Vietnam will face more uncertainties. *Second*, the slow approval of new generation FTAs and/or lack of breakthroughs in trade negotiation affect the growth of international trade in general. The tendency of trade protectionism and retaliation among large economies remains fairly complicated. *Finally*, the quality of efforts on business environment reforms-guidelines for the implementation of important laws (such as amended Enterprises Law and Investment Law, etc.) to facilitate business activities (under Resolution 19)- has considerable implication for enterprises' confidence and investment, not only in Q4/2016 but also in upcoming years.

III. SELECTED ECONOMIC ISSUE: IMPROVING COMPETITION POLICY AS AN URGENT NEED

Competition is the foundation of a modern market

79. Free competition is the premise for effective functioning of the market economy, the prerequisite for optimal performance, innovation and creativity of economies, and the driving force of the economy. Thanks to competition, inefficient enterprises will be replaced by more efficient ones. Enterprises will be motivated for innovation and creativity in order to improve productivity and come up with new production process and new products. In general, the role of competition to economic growth has been emphasized in various studies³². Figure 29 indicates the direct proportion between competition level³³ and income per capita of countries in the world.

Figure 29: Competition and income per capita



80. Sound competition will enable strong development and sufficient capacity of enterprises to compete in the international market (Goodwin and Pierola 2015). Some studies argued that competition-oriented reform will promote investment and job creativity in both reformed industries and downstream sectors that use inputs from reformed ones (Gal and Hijzen 2016). Competition also contributes to the reduction of poverty and income inequality through creating more job opportunities to SMEs, whose play important role in job creativity, thus opening more chances for the poor (Gegazo and Nyman 2016). Besides, competition also has positive impacts on reducing and stabilizing price of essential foodstuff and social inequality (Argent and Begazo 2015).

³² For example Voigt (2009), Kitzmuller and Licetti (2012), World Bank (2016)

³³ This is one of sub-indicators of the Global Competitiveness Index (GCI), which includes domestic and foreign competition indices. Each sub-indicator is composed of various sub-indices. More details can be found at <http://reports.weforum.org/global-competitiveness-report-2015-2016/competitiveness-rankings/>

81. In recent years, competition is one of the key issues in international trade. According to Laprevote, Frisch, and Can (2015), about 60% of total FTAs contained a separate chapter on competition in 1990, and the figure was up to nearly 90% now. Both the EVFTA and TPP emphasize specific provisions on responsibility of relevant parties to promote competitive business environment. The EVFTA clearly states that “Every enterprise, regardless of private or state-owned, should obey competition regulations as mentioned above...”. As such, promoting competition is a meaningful measure to facilitate domestic economic development, and simultaneously necessary for the compliance with and taking advantages of international commitments. Besides, strong liberalization commitments in services sectors and governmental procurement under the framework of the TPP and the EVFTA will increase domestic competition.
82. Vietnam’s Competition Law was promulgated in 2005. However, competition policy of Vietnam remains insufficient and ineffective. In practice, competition policy is a combination of legal regulations and enforcement mechanism to control monopoly, restrict unfair competition and market development policies, including legal regulations on market entry and other business activities, the State’s interventions to enable enterprises to compete in an equal playing field (World Bank 2016). Thus, a comprehensive competition policy is only composed of the Competition Law and enforcement mechanism. Instead, *it is the mindset of actively and constructively establishing a level playing field for enterprises of all economic ownerships, scales and industries so that resources of a nation will be used most efficiently, and innovation and creativity by enterprises will be induced.* This is the premise of sustainable development instead of natural resources or advantageous geographic locations.
83. After more than 30 years of developing the market economy, Vietnam has paid inadequate attention to developing and implementing policies and legal regulations on market disciplines, among which fair competition is the fundamental issue. The role of competition in economic legal framework has been inappropriately recognized. As the result, Vietnam’s policies and institutions fail to match demand of a modern and effective market economy.

Insufficient competition policies and weak enforcement

84. *First*, legal framework on competition is insufficient with inadequate enforcement, which fails to meet the demand of a fully-functioning and modern market economy as stated in the Resolution of the XII Party Congress. The existing Competition Law took effect in 2005, yet has insignificantly contributed to socio-economic development though it did help create the legal foundation for addressing anti-competitive behaviors that may cause damages to the economy³⁴. The main reasons include: (i) abundance of exemptions in the Competition Law, for instance the exemption of prohibition on anti-competitive agreement (Article 10) or exemption of prohibition on economic concentration (Article 19); (ii) lack of specific regulations on addressing

³⁴ A case study was the order to punish the abuse of monopolistic position of Vietnam Air Petrol Co. (Vinapco).

- behaviors of state agencies that fall under prohibition regulations on competition (Article 6); (iii) weak capacity of the enforcement mechanism.
85. Regarding the enforcement mechanism of competition regulations, Vietnam Competition Authority (VCA) is currently under the Ministry of Industry and Trade (MOIT) – which represents State ownership over a number of SOEs operating in various purely business areas, leading to many obstacles to the effective implementation of the Competition Law. VCA has faced with tremendous difficulties in inspecting and handling competition restraint agreements among some steel companies, including Vietnam Steel Corporation (VNSTEEL) – a corporation under the MOIT. Moreover, despite the shortage of capable personnel to handle inspections on competition restraint behaviors, VCA is assigned to be responsible for non-core functions of an competition enforcement authority, for instance inspecting and dealing with pyramid selling or warning anti-dumping claims in foreign markets. Another agency to be in charge of enforcing the Competition Law is Vietnam Competition Council (VCC). The VCC’s mandate is to settle the breaches of regulations under the Competition Law and apply sanctions. However, members of VCC are mainly ministerial officials without adequate expertise on economic or competition legal aspects³⁵. This questions the rationale of VCC’s sentences in order to promote/maintain a sound competitive market economy.

Lack of a level playing field among entities of all economic ownerships

86. *Second*, Vietnam is pursuing a “State-led” policy. This naturally results in preferential treatments for SOEs. Consequently, SOEs enjoy easier access to resources and are given more business rights, even monopolistic position. According to Vu Thanh Tu Anh (2014), SOEs accounted for the major share in total investment by enterprises. In the period of 2011-2013, the proportion of SOEs in total investment was 39.2%, exceeding that of the domestic private firms and FDI. The figure was significantly lower than the peak of 54.4% in the period of 1996-2000. SOEs have been taking monopolistic or dominant positions in most important sectors of the economy, namely petrol, electricity, coal mining, telecommunication, banking, etc. Besides, international negotiations tend to grant more favorable treatments to SOEs. The TPP agreement mentions many important exemptions on procurement of some state-owned corporations of Vietnam (for example Petro Vietnam).
87. More favorable treatments to SOEs at central and provincial levels by governmental agencies have resulted in unequal business environment. According to the 2013 PCI survey, 30% of surveyed private enterprises believed that provincial authorities’ preferential treatments to SOEs created obstacles to their business, in particular in the mining and construction industries. Study by Thang and Freeman (2009) indicated that the presence of SOEs crowded out credit to the private sector and more time to access to land.

³⁵ The list of VCC members can be found at: http://www.hoidongcanhtranh.gov.vn/?page=news&do=detail&category_id=2&id=41

88. Preferential treatments to FDI enterprises that negatively affected domestic private firms have been emphasized by many economic experts, including those related to land access, tariff reduction/exemption, less being subjected to inspections. FDI sector has received tariff reduction/exemption in a long period after beginning their investment projects in Vietnam while domestic firms have not³⁶. According to the 2013 PCI survey, 31.6% of surveyed private firms responded that provincial authorities' preferential treatments to FDI enterprises restrained their business performance.

A lot of barriers to business and competition restraints

89. *Third*, the business institutions in Vietnam have created many barriers to market entry in Vietnam, thus restraining competition. The 2014 Investment Law has contributed to significant progress of business liberalization. However, 267 business areas still require business license and licensing procedures are usually complicated and unnecessarily costly. Out of these regulations, many are unnecessary and unsatisfactory in meeting the criteria of community interests (risks of national security and social orders, etc.)³⁷.
90. In comparison with the OECD's competition checklist³⁸, business regulations of Vietnam appear to restrain competition. Specifically, the Government of Vietnam sets prices of some essential products (petrol, coal, land, etc.), introduces some regulations that are unfavorable to certain enterprises (for instance, using the software developed by the Directorate for Roads of Vietnam is the business condition of driving centers), restrain consumers' choice (mobile phone subscribers are not allowed to keep their current phone numbers if they change suppliers), etc. Thus, together with competition restraint behaviors of enterprises, many regulations have restrained competition despite its original motives of protecting consumers' rights or environment. State management is necessary, but excessive protection will result in unnecessary burden for the economy and restrain competition and induce opportunity of high and sustainable growth.

Competition restraint interventions of state authorities

91. Competition restraint behaviors of some state authorities have recently become more common. In 2015, the mass media reported that the People's Committee of Ky Anh district, Ha Tinh province required people's committees at communal level, towns, restaurants and hotels prefer Sai Gon beer. Also in 2015, the People's Committee of Hai Phong city issued a document to "ask" business entities in the locality to use Techcombank services³⁹. These behaviors

³⁶ Vnexpress.net, "Madam Pham Chi Lan: Vietnamese enterprises are subjected to unfavorable treatments", accessed on January 7, 2014 at <http://kinhdoanh.vnexpress.net/tin-tuc/doanh-nghiep/ba-pham-chi-lan-doanh-nghiep-viet-chiu-nhieu-thiet-thoi-2935889.html>

³⁷ For instance, the Law on Notarization requires the approval to change location of a notarization office within a same province (Article 24)

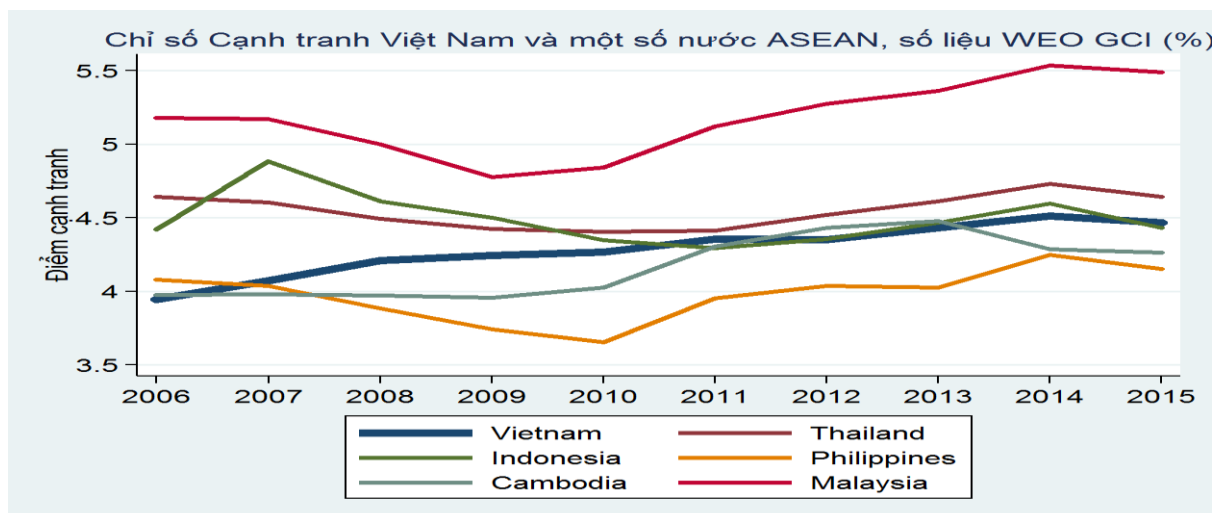
³⁸ This is OECD guidance for governmental officials to develop laws and regulations.

³⁹ Baogiaothong.vn, "Techcombank shows signals of breaching the Competition Law, dated August 21, 2015. Accessed at <http://www.baogiaothong.vn/techcombank-co-dau-hieu-vi-pham-luat-canh-tranh-d117372.html>

obviously breached the Competition Law, but was inappropriately addressed. The significant ratio of targeted bidding in government procurement is another signal of inadequate respect of competition. The ratio has been much higher in state-owned enterprises and corporation⁴⁰. Together with legal barriers to market entry, such behaviors indicated that barriers to competition were caused not only by self-interested corporations but also legal regulations and behaviors of state authorities.

92. Competitiveness of economies is calculated through WEF-conducted surveys with enterprises' executives⁴¹. Competitiveness is the sub-index of the Goods Market, Efficiency, which is one pillar of the Global Competitiveness Index (GCI). Vietnam's competitiveness index has improved in recent years thanks to reforms of business liberalization and international integration (Figure 30). However, Vietnam currently ranked 71/140 countries, which was much lower than Singapore (1/140), Malaysia (9/140) and Thailand (52/140), but higher than Indonesia and the Philippines.

Figure 30: Global Competitiveness Index of Vietnam and selected ASEAN nations



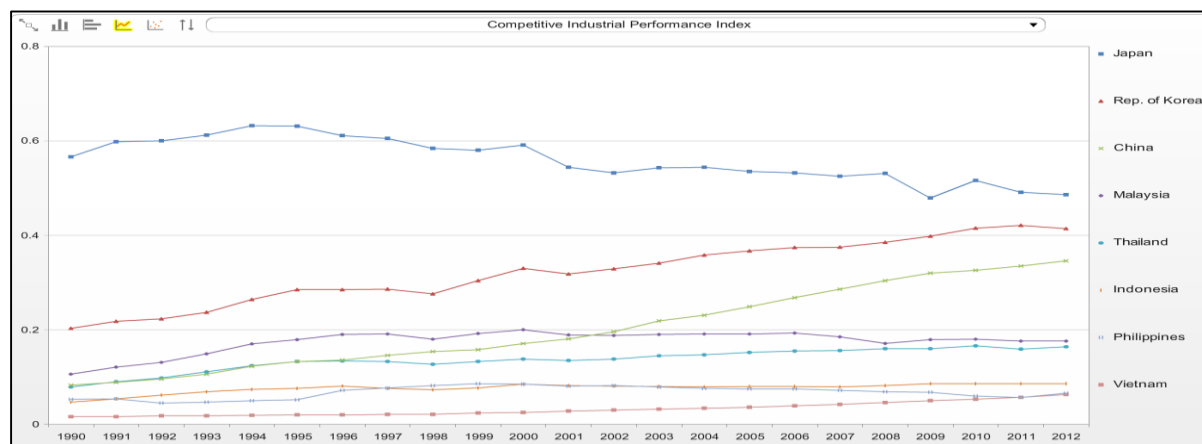
93. The lack of a comprehensive and effective competition policy resulted in a stagnant, inactive and less productive economy. This is demonstrated in various aspects, from low growth rate of productivity to low international competitiveness.
94. Concerning industrial competitiveness, Figure 31 shows that Vietnam's competitive industrial performance index was of the lowest among ASEAN nations. The score would be much lower without the contribution of the FDI sector. Without sound competition, the domestic enterprises are less motivated to improve production capacity/standards (the SOEs sector), whilst lacking room and resources to strengthen production capacity of domestic firms, particularly in manufacturing.

⁴⁰ Kinhtevadubao.vn, "Government Procurement in the TPP: The most challenging issue to Vietnam is transparency", dated 24 June 2016. Accessed at <http://kinhteivadubao.vn/chi-tiet/92-6172-mua-sam-cong-trong-tpp--thach-thuc-lon-nhat-voi-viet-nam-la-tinh-minh-bach-.html>

⁴¹ Executive Opinion Survey is conducted by the WEF annually with the participation of more than 10,000 executives.

95. The existence of a large-scaled SOEs sector and lack of motivations induced the maximization of benefits from trade liberalization. Study by Baccini et. al. (2015) revealed that Vietnam’s accession to the WTO led to the improvement of TFP of the enterprises in the private sector. However, the productivity of the SOE sector remained unchanged due to the reallocation of resources and the natural selection of winners. In other words, the absence of competition resulted in the non-existence of reallocation of resources. Consequently, productivity growth of the economy lags behind potential.

Figure 31: Competitive Industrial Performance Index of Vietnam and selected Asian countries, 2013



Source: UNIDO, <http://www.unido.org/data1/Statistics/Research/cip.html>

96. Promoting export is an important policy of Vietnam. Despite many preferential treatments, however, SOEs’ participation in export is modest. The situation can be partly attributed to the inappropriate competition in the sectors that are highly dominated by SOEs. According to Hiep and Nishijima (2009), the manufacturing enterprises under fiercer competition in Vietnam would export more. The result was consistent with other researches (see Goodwin and Pierola 2015 for more reference).

Recommendations

97. In order to establish a sound and effective market economy, the Government should develop a national competition policy with a comprehensive mindset of competition. Promoting competition is the pillar of the institution of the socialist-oriented market economy. Competition policy should include the Government’s policies/mindset of such issues as: the role of the State in the market economy; protection of sound competition (Competition Law); SOEs; market management (business license); and international integration⁴².
98. *First*, the State’s role in the market economy should shift from direct intervention/control to support and indirect guidance and promoting sustainable growth via establishing a competitive and equal business environment in order to encourage investment by the private sector. State agencies should not

⁴² In general, competition policy is usually accompanied with consumer protection. However, within the framework of the report, competition is the main focus.

interpret the norm of “decisive role of the State sector” as preferential treatments to SOEs and maintaining SOEs at all costs. In fact, many countries that have few SOEs but the “state economy” – that refers to the state’s policies and expenditures – still plays the decisive role that is strong enough to direct the market to achieve high growth and sound international competitiveness (for instance South Korea). Besides, the State should improve transparency in developing policies at all levels, aiming at restraining vested groups and negative impacts on competition in particular and development in general.

99. *Second*, the Competition Law should be amended, aiming at clarifying legal regulations, reducing exemptions and intensifying sanctions in order to strengthen deterrence. Competition restraint behaviors by state agencies are prohibited under the existing Competition Law; however, guidance documents were not issued by the Government though the Law has been in effective for more than 10 years. The sanction of 10% of revenue of the previous year is inappropriate, in particular in case of newly-established enterprises. Vietnam can develop a comprehensive competition policy with reference to competition policies of other advanced countries, but the implementation/enforcement is a challenging matter, even more than developing competition policy. Thus, the State should enhance capacity of the VCA and VCC to promote the enforcement/implementation of competition policies and regulations.
100. VCA should have an independent status and is not affected by political issues. Simultaneously, VCC should not be controlled in returning a verdict in competition claims related to SOEs or private firms with political relations. In the coming time, the Government will separate SOEs from management ministries, in particular MOIT, which is an opportunity for VCA and VCC to improve their independence. However, the Competition Law should include clear provisions in order to ensure that VCC and VCA will operate in compliance with the Law and deliver fair and effective sentences that enable a level business environment. At the same time, VCA and VCC should be authorized to require enterprises and state agencies to provide sufficient information for inspection/examination of competition restraint behaviors.
101. Regarding competency, VCA should be supplemented with more personnel with sufficient knowledge on economic and legal aspects in order to conduct market researches and timely address circumstances that may restrain competition. Moreover, with limited resources, VCA should focus on core mandates of a competition agency, which include addressing the abuse of monopolistic/dominant position, competition restraint agreements, etc. and provide guidance to state management agencies to develop legal regulations that are consistent with the orientation to promote competition and prevent competition restraint barriers.
102. *Third*, the Government should drastically implement SOEs reforms, aiming at minimizing operation scope, improving governance effectiveness and competition. Competition is the best way to promote sound development, competitiveness and leading position of SOEs. The State should reduce the

scope of the state investment based on strategic orientation of the State to the economy. As such, state investment should be withdrawn from pure economic, non-strategic and unnecessary sectors in order to create more room and more level environment for the private sector. In state-monopolistic sectors, such as electricity distribution, the State should facilitate business liberalization, allowing the participation of entities of all ownerships in order to promote competition. Concerning the remaining SOEs, the State should fully implement a good governance practices of a market economy, strictly comply with legal regulations and administrative and market disciplines, aiming at promote fair competition, creativity and innovation of the SOEs sector in particular and the whole economy in general. As such, the State should ensure competitive neutrality and unbiased treatments to SOEs during the formulation of legal policies and implementation of state management mandates. In the future, direct interventions to the economy through SOEs should be replaced by market-based tools, such as using national reserve to balance supply-demand, stabilizing price of essential products instead of maintaining ownerships of enterprises and highly economic concentration (for instance in the petrol industry).

103. *Fourth*, the State should facilitate institutional reform, business liberalization, market entry and competition. Specifically, legal regulations should be reviewed to reduce unconditional business areas and simplify licensing procedures of eligible business areas. Also, other regulations should be examined, including tax, labor, insurance, trade across borders, credit access, etc. to create the most favorable conditions for business so that enterprises can concentrate on improving competitiveness, thus facilitating the natural selection and creativity of enterprises. Strict implementation of Resolutions No. 19 over the last 3 years has been an important measure to enhance Vietnam's competitiveness.
104. *Fifth*, regarding international economic integration, Vietnam should be well prepared in both legal aspect and competitiveness of enterprises to fully comply with international commitments under recent FTAs (TPP, the EVFTA, VKFTA). This is critical measure to promote domestic competition. The combination of trade liberalization, international investment and domestic institutional reform will be driving forces for domestic firms to improve their competitiveness in both domestic and international markets. The delay of implementation of international commitments will restrain opportunities of the economy in the context of fierce competition in the global economy.

IV. RECOMMENDATIONS

105. The economic situation in the first 9 months witnessed the mixture of achievements and challenges, efforts on promoting growth in the short term and addressing restructuring issues, as well as domestic reforms and integration. In this context, economic growth recovered slowly, accompanied with unsustainable growth of investment and exports. However, achievements of economic growth, exports and FDI attraction, etc. remained positive in a difficult and unpredictable world. In fact, economic growth and the export expansion, etc. of Vietnam relatively outpaced that of other countries in the region and the world. To that extent, Vietnam is on the right track with flexible, appropriate management of macroeconomic policy and close cooperation among ministries and authorized agencies.
106. Vietnam remains exposed to several critical issues – which have been under long discussion – during the process of economic restructuring in particular and improving effectiveness in general. The improvement of microeconomic foundation and the role of the State were insufficient to promote quick transition toward a market economy in Vietnam. Economic reform and shift of economic paradigm have not progressed as expected. Meanwhile, chronic issues have not been appropriately addressed, including the linkage between high growth and trade deficit, inadequate connection between domestic and foreign firms, SOEs reform and public investment, etc. The new legal framework of the mobilization, allocation and utilization of resources – in which the State plays a more “neutral” and less “direct” role – was slowly developed. Moreover, macroeconomic policies aim at achieving abundant yet inconsistent objectives. Consequently, effectiveness of these policies mainly depends on the flexibility and “shift” of policy stances by authorized bodies at certain times.

1. Recommendations on further reforms of microeconomic foundations

107. Promptly concretize the directions for the implementation of the (amended) Law on Investment, (amended) Law on Enterprises, etc. Specify the mindset of prohibitions on not prohibiting business rights (with the absence of legal prohibitions) by removing outdated and illegitimate business conditions and simplifying remaining business conditions.
108. Facilitate the implementation of the Resolution No. 19 on key tasks and measures to further enhance business environment and competitiveness, the Resolution No. 35 on supporting enterprises and relevant solutions in order to gain momentums for more significant improvement of business environment in Q4/2016 and beyond.
109. Promptly review contents of FTA commitments and international treaties that Vietnam has negotiated, completed negotiations and signed in order to appropriately revise relevant legal documents.
110. Encourage the participation of the private sector in the formulation process of investment – business policies; promptly improve tax calculation methods that

are consistent with international practices and ensuring equality, public and transparency.

111. Review and improve the consistency of regulations and policies on finance (tax, fees and charges, etc.), money, credit, land, foreign exchange management to encourage and maximize the mobilization of capital from all economic sectors to prioritized industries/areas and restrict investment in areas/industries without encouragement.

2. Recommendations on macroeconomic policies in Q4

** Monetary policy*

112. Continue to assign the highest priority to fundamentally restructure commercial banks, focusing on resolving NPLs. This process should be fundamentally improved in the mid-Q4.
113. Monetary policy should be more prudent, focusing on stabilizing inflation (not only core inflation) in order to strengthen enterprises' confidence on making long-term investment decisions.
114. Avoid administrative interventions to reduce lending interest rate because spillover pressure of interest rate hike by FED remains obvious in Q4.
115. Closely monitor the movement of USD-denominated deposit in the commercial banking system as well as in the balance of payment in order to implement appropriate adjustments.
116. Flexibly regulate liquidity of the commercial banking system to support credit, prevent and respond to the fluctuation of indirect investment flows (in particular around times that FED considers an interest rate hike).
117. Restrictions of commercial banks' participation in Government bond bidding will not be meaningful if fiscal policy remains dominant and, more importantly, inappropriate attention is paid to the reduction of state budget expenditure.
118. Re-emphasize the objective of stabilizing VND/USD exchange rate in Q4 and 2017.

** Fiscal policy*

119. Retain the pace of state budget collection in Q4 in line with plan. Avoid excessive, advance or supplementary collection of taxes and fees without reasonable justification regardless of pressure on achieving the plan of state budget revenues for 2016.
120. Seriously and substantially consider the need of reducing state budget expenditure; unnecessary, ineffective or delayed public investments in Q4 and the following years.
121. Accelerate the disbursement of Government bonds to improve investment efficiency and reduce costs of the state budget.
122. Continue to simplify procedures, documents and time for tax payment and tax refund of enterprises.

123. Consider to restrict the issuance of Government bonds with terms to maturity of more than 10 years to ensure medium-term and long-term credit for enterprises.
124. Develop and publicize medium-term and long-term plans to repay public debts to consolidate confidence and enhance the sustainability of public debts.
125. Consider to impose the ceiling of 4% GDP on state budget deficit in the coming time (prior to 2020).

** Trade policy*

126. Continue to implement on-schedule and effectively take advantage of signed and effective FTAs. Consider to participate, negotiate and make decision on the scope/level of commitments under new FTAs, aiming at maintaining appropriate policy space for the further development of domestic industries, in particular key ones.
127. Examine, monitor and assess impacts of foreign exchange on import and export to reasonably adjust exchange rate in order to more effectively support import and export and simultaneously maintain macroeconomic stability.
128. Enhance information dissemination on international price of key products for exportation and importation and demand-supply of major markets to timely and proactively respond to changes of markets. Promote sharing information on signed and pending FTAs (in particular provisions on rules of origins) to enhance enterprises' preparation and capacity to take advantage of FTAs.
129. Trade promotion should focus on: (i) accelerating export in accompany with marketing, linkages among enterprises, brand name, etc.; and (ii) promoting imports of important inputs that Vietnam is unable to produce (both sufficient quantity and quality), and at the same time take advantage of RoO in FTAs.
130. Further simplify administrative procedures related to import and export more effectively (tax, customs, RoO certificates, etc.) to facilitate import and export.
131. Drastically implement market management measures to combat against counterfeits and smuggling.

** Other related recommendations*

132. Consider to introduce information strategy of food safety and sanitary, avoid excessive impression of dirty food and adverse impacts on production/competitiveness of agricultural sector in Vietnam.
133. Regularly consult foreign investors to have adequate understanding of actual situation, their needs and problems to be solved.
134. Continue to examine and improve statistical data to support macroeconomic management. Enhance the accountability of statistical data, in particular trade data.

135. Effective cooperation between fiscal and monetary policies requires a more active stance of the fiscal policy, particularly in terms of reducing expenditure and relaxing pressure on government bond issuance.
136. Promptly make decision on increasing regional minimum wage so that enterprises can actively implement reasonable actions to avoid passive manufacturing-business performance./.

APPENDICES

Appendix 1: Policy changes in Q3/2016

No.	Content	Policy changes until September 2016
1	Monetary policy	<p><i>Target: Stabilize interest rate at low level, stabilize exchange rate, stimulate economic growth and curb inflation</i></p> <ol style="list-style-type: none"> 1. Directive 04/CT-NHNN issued on May 27th 2016 on some measures to manage monetary policy and banking activities in the last months of 2016. <ul style="list-style-type: none"> • Content of the Directive: Continue with measures to untangle enterprises' difficulties in business activities without neglecting inflation. 2. 76/NQ-CP issued on September 3rd 2016 on the Government Regular meeting in August 2016.
2	Fiscal policy	<p><i>Target: Implement strict fiscal policy, tighten State Budget disciplines</i></p> <ol style="list-style-type: none"> 1. Resolution 63/NQ-CP issued on July 22nd 2016 by the Prime Minister on the issuance of the Government's Action Plan to implement the National Assembly's resolution on the Socio-economic development plan for 2016-2020. <ul style="list-style-type: none"> • Implement proactive and strict fiscal policy and tighten budget disciplines. Enhance capacity in tax management, avoiding losses, tax fraud and improve the efficiency in preventing transfer pricing. • Internally control State budget deficit in accordance with yearly estimates and allowed deficit amount in 5-year plan 2016-2020. • Restructure State budget revenues and expenditures. Increase domestic revenues and direct taxes in total budget revenues to enhance the stability of budget revenues. Proactive in balancing the State budget. • Restructure State budget expenditures to enhance efficiency. Gradually reduce regular expenditures. Make reasonable arrangements for development investment expenditures and make sure that amount is higher than State budget deficit. 2. Resolution 01/2016/NQ-CP issued on January 7th 2016 on major duties and measures in directing the implementation of the socio-economic development plan and State budget estimates in 2016. 3. Decision 1011/QD-TTg issued on September 3rd 2016 by the Prime Minister on the approval of Government's borrowing and debt payment plan and loan limits for 2016. Accordingly, the Prime Minister approved an amount of VND 452 trillion for the Government borrowing plan, including: <ul style="list-style-type: none"> • To balance budget deficit: VND 254 trillion; • To issue government bonds for investment: VND 60 trillion; • For ODA, concessional loans for re-lending: VND 43 trillion;

		<ul style="list-style-type: none"> • Borrow VND 95 trillion for rescheduling loans via government bonds, borrowing from Social Insurance and ODA. Approve Government’s debt payment plan for 2016 at VND 273.3 trillion. 4. Resolution 33/NQ-CP issued on May 9th 2016 on the Government’s regular meeting in April 2016: <ul style="list-style-type: none"> • To assign the Ministry of Finance to implement active and strict fiscal policy, preside and coordinate with the State Bank of Vietnam to determine the volume, timing and interest rates of Government bonds, ensuring macroeconomic balance and public debt security. Also, MOF is in charge of directing budget revenues collecting activities, expanding tax base, strengthening inspection against losses and transfer pricing, minimizing tax arrears and cutting back on regular expenditures. 5. Directive 21/CT-TTg by the Prime Minister on making Socio-economic development plan and State budget estimates for 2017, taking effect as of June 2nd 2016. <ul style="list-style-type: none"> • Set the target for budget revenues/GDP at 20-21% in 2017. Estimates for domestic revenues increase averagely at least 13-15% compared to the 2016 assessment. Estimates for revenues from export-import activities averagely increase at least 5-7% compared to 2016 assessment. • Investment expenditure from State Budget in 2017 must serve the Targets of the Socio-economic development plans for 2017 and for 2016-2020 and for 2010-2020. • Estimates for regular expenditure must be thrifty, associated with the downsizing and restructuring of the administrative apparatus in 2016-2020 according to Resolution No. 39-NQ/TW by the Political Bureau. Also, expenses for conventions, seminars, festivities, must be minimized. Reduce funding for oversea studies, researches and procurement of expensive automobiles and equipment.
3	Restructuring Commercial banks and handling bad debts	<p><i>Target: manage bad debts and commercial banks in line with international standards, regulate VAMC’s principles in buying and selling bad debts</i></p> <ol style="list-style-type: none"> 1. Circular 134/2016/TT-BTC dated September 8th 2016 by the MOF on issuing financial management regulation of VAMC. 2. Decree 69/2016/ND-CP dated July 1st 2016 regulating business conditions for debt trading services. 3. Circular 08/2016/TT-NHNN date June 16th 2016 by the State Bank of Vietnam on adjustment and supplement of Circular 19/2013/TT-NHNN issued on September 6th 2013 by the State bank governor on the regulations of dent trading. 4. Resolution 63/NQ-CP dated July 22nd 2016 by the Prime Minister enacting the Government’s Action Plan for the 5-year socio-economic plan for 2016-2020. <ul style="list-style-type: none"> • Continue to reform financial institutions associated with reducing bad debts, ensuring financial system security and banking management according to international standards and good practices.

		<p>5. Resolution 142/2016/QH13 enacted by the National Assembly on the 5-year socio-economic development plan, issued on April 12th 2016</p> <ul style="list-style-type: none"> • Continue to reform the financial market to ensure a reasonable structure of the money market, capital market and insurance market. Pay attention to quickly develop capital market and insurance market, develop a sound security market associated with restructuring money market activities to match with the new development period. Improve the efficiency of insurances; widely apply the agricultural production insurance. Continue to reform financial institutions, ensuring financial system security and banking management according to international standards and good practices.
4	Trade policy	<p><i>Target: Support export and the implementation of FTAs, market management, fight against smuggling and trade fraud</i></p> <ol style="list-style-type: none"> 1. Circular 21/2016/TT-BCT dated September 20th 2015, taking effect as of October 5th 2016 regulate the implementation of the Rules of Origin in Vietnam-EU FTA. 2. Decree 129/2016/ND-CP dated September 1st 2016 stipulating Vietnam's preferential import tariff to implement ASEAN Trade Agreement for 2016-2018. 3. Circular 16/2016/TT-BCT dated August 19th 2016, taking effect from October 5th 2016 to December 31st 2016 on the application of import quotas for tobacco materials and poultry eggs originated from members of Eurasian Economic Union in 2016. 4. Circular 11/2016/TT-BCT dated July 5th 2016, taking effect as of August 20th 2016 regulating the Commercial Law in details about the representative offices and branches of foreign merchandiser in Vietnam. 5. Resolution 63/NQ-CP dated July 22nd 2016 by the Prime Minister enacting the Government's Action Plan on the implementation of the National Assembly's resolution on the 5-year socio-economic development plan for 2016-2020. <ul style="list-style-type: none"> • Continue to promote the implementation of the Strategy for export for 2011-2020, oriented towards 2030. Focus on developing sources of exports. • Make the most of advantages and minimize adverse impacts of new generation FTAs. Effectively control trade deficit. Limit non-essential commodities in line with international commitments on tariff and technical barriers. • Propagate the information to enterprises so as they can take advantages of favorable conditions for market access and deeper tariff cut by trade partners to promote export and increase the efficiency of Vietnam's export to markets that Vietnam has FTAs with. 6. Decision 20/2016/QD-TTg dated May 11th 2016 by the Prime Minister on funding for activities against smuggling, trade frauds, counterfeits; paying management cost and processing confiscated assets based on the law against smuggling, trade frauds and counterfeits. 7. Decision 19/2016/QD-TTg dated May 6th 2016 by the Prime Minister on the Regulation of responsibilities and coordination among State managerial agencies in fighting with smuggling, trade frauds and counterfeits.

5	Improve business environment	<p><i>Target: Enhance institutions, mechanism and policy to improve business environment</i></p> <ol style="list-style-type: none"> 1. Directive 02/CT-BKHDT dated September 6th 2016 by the Ministry of Planning and Investment on strengthening advisory work of the Planning and Investment sector in implementing the Communist Party's 12th resolution, National Assembly's resolution and Government's resolution in implementing the socio-economic development plan for 2016 and 5-year plan for 2016-2020. 2. Decision 1619/QD-TTg dated August 16th 2016 by the Prime Minister issuing inspection plan for the implementation of Resolution 19-2016/NQ-CP dated April 28th 2016 issued by the Government on major missions and measures to improve business environment and national competitive capacity in 2016-2017, oriented towards 2020. 3. Resolution 71/NQ-CP on the Government's regular meeting in July 2016. <ul style="list-style-type: none"> • Ministries, sectors and localities give prominence to disciplines when complying with Government's guidance; focus on effectively implement measures and missions stated in Resolution 19-2016/NQ-CP in line with conducting Resolution 35/NQ-CP dated May 16th 2016 on supporting businesses; timely recognize and solve problems. Specifically, Ministries, sectors and localities must quickly solve problems, upgrade management, conduct specialized inspection on imported goods, and focus on urgent issues for enterprises as well as issues imposing as challenge for clearance time reduction according to the Resolution's target. • The Government Office coordinates with the Ministry of Planning and Investment to examine the implementation of Resolution 19-2016/NQ-CP of some Ministries, sectors and localities, focusing on those having many problems affecting the business environment, which draws attention of the business community and people.
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Appendix 2: Selected macroeconomic indicators

	Unit	2012	2013				2014				2015				2016		
			I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III
GDP growth																	
Overall GDP growth rate	%	5.2	4.8	5.0	5.5	6.0	5.0	5.4	6.4	6.8	6.0	6.5	6.8	7.0	5.5	5.6	6.6
Trade																	
Export growth rate	%	18.2	17.5	13.6	14.8	15.6	12.2	15.7	13.6	11.6	8.8	10.6	9.2	4.4	6.6	4.9	8.4
- FDI sector	%	33.7	27.9	28.4	26.2	23.6	18.2	16.1	37.5	28.3	18.7	21.5	22.0	9.6	10.8	7.4	15.4
Import growth rate	%	6.6	14.8	17.0	14.2	18.0	10.4	10.5	14.0	13.7	20.1	14.2	11.6	3.7	-4.0	2.2	4.9
- FDI sector	%	22.7	26.1	25.9	25.4	19.9	14.6	7.3	8.2	24.3	27.1	20.3	18.4	1.7	-4.5	0.0	6.7
Export /GDP	%	73.5	89.1	81.4	79.7	65.1	92.8	86.6	82.5	67.7	96.3	92.8	87.0	69.7	99.8	92.4	87.8
Money																	
M2 growth (YoY)	%	18.5	3.8	3.4	2.8	7.7	2.8	4.1	2.9	6.9	2.4	3.6	3.7	5.7	3.1	4.8	4.2
Credit growth (YoY)	%	8.9	1.2	3.5	2.1	5.3	0.5	3.2	3.5	6.3	2.7	5.1	4.0	4.6	3.0	5.0	3.3
Interbank VND/USD exchange rate (average)	Dong	20828	20828	20831	21036	21036	21036	21063	21246	21246	21446	21593	21773	21890	21890	21876	21891
Investment																	
Investment/GDP	%	30.5	29.6	29.6	33.8	33.2	28.4	31.5	33.0	30.6	30.4	31.7	33.2	33.6	32.2	33.2	33.5
Implemented FDI	Bil USD	10.0	2.7	3.0	2.9	2.9	2.9	2.9	3.2	3.5	3.1	3.3	3.4	4.8	3.5	3.8	3.7
Other																	
Inflation (YoY)	%	6.8	6.6	6.7	6.3	6.0	4.4	5.0	3.6	1.8	0.9	1.0	0.4	0.6	1.7	1.8	3.3
State budget deficit/GDP	%	5.4	5.4	5.0	5.3	4.7	4.9	4.6	5.3	7.3	4.6	6.4	3.9	8.6	5.5	3.7	5.7
Current account	Bil USD	9.1	2.6	1.3	3.5	1.7	2.7	2.7	2.8	0.8	-1.3	0.7	0.5	1.1	2.6	2.2	-
Balance of payment	Bil USD	11.9	3.0	-3.3	-0.8	1.7	7.9	2.2	0.9	-2.6	2.7	0.6	-6.6	-2.7	3.5	3.2	-

Source: Authors' compilation.