



RESTRUCTURING FOR A MORE COMPETITIVE VIETNAM

MACROECONOMIC REPORT

THIRD QUARTER 2015



Australian Government
Department of Foreign Affairs and Trade

INTRODUCTION

Vietnam's economy exhibited more robust improvement in the first 9 months of 2015. Growth recovery became sounder, interest rates and prices were more stable, and were accompanied by more rapid expansion of exports and investment. Vietnam adopted flexible and timely solutions to mitigate the adverse impacts of global and regional economic events in Q3. Together with its partners, Vietnam has substantively concluded negotiations of major Free Trade Agreements (FTAs) such as the EU-Vietnam FTA and the Trans-Pacific Partnership (PPP). However, progress in reforming microeconomic foundations failed to live up to expectations, particularly in improving the business environment, trade facilitation, restructuring of State-owned enterprises (SOEs). This slower pace might reverse the benefits to Vietnam from past reforms, whilst restraining the upgrading of firms' competitiveness and participation in global value chains.

The Macroeconomic Report for Q3 of 2015 serves several objectives, including: (i) to provide an update on macroeconomic developments and policy changes in Q3 and the first 9 months of 2015; (ii) to assess the macroeconomic outlook for Q4 of 2015; and (iii) to propose recommendations on macroeconomic policies in line with domestic reforms.

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All remaining errors, views and opinions presented in the Report are solely of the authors and may not necessary reflect those of RCV Project and/or CIEM.

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ABBREVIATIONS

AFF	Agriculture – Forestry and Fishery
ASEAN	Association of Southeast Asian Nations
CB	Commercial Bank
CPI	Consumer Price Index
ECB	European Central Bank
EPA	Economic Partnership Agreement
EU	European Union
FDI	Foreign Direct Investment
FED	Federal Reserve
FTA	Free Trade Agreement
GB	Government Bond
GDP	Gross Domestic Product
GSO	General Statistics Office
HNX	Hanoi Stock Exchange
HSBC	The Hong Kong and Shanghai Banking Corporation
IFS	International Financial Statistics
IIP	Index of Industrial Production
JETRO	Japan External Trade Organization
MoM	Month-on-month
M&A	Mergers and Acquisitions
OPEC	Organization of Petroleum Exporting Countries
PMI	Purchasing Managers Index
QoQ	Quarter-on-quarter
RCEP	Regional Comprehensive Economic Partnership
REER	Real Effective Exchange Rate
SB	State Budget
SBV	State Bank of Vietnam
SI	Social Insurance
SOE	State-owned Enterprise
TPP	Trans-Pacific Partnership
USD	US Dollar
VND	Vietnam Dong
WTO	World Trade Organization
YoY	Year-on-year

EXECUTIVE SUMMARY

1. Global economic recovery was slow and uneven during Q3/2015. The IMF lowered its projection for the global economy in 2015-2016, with a modest growth projected in advanced economies and a further slowdown in emerging economies. Growth in the United States accelerated in Q2/2015. Japan's economy continued its negative growth. Growth in the European Union exhibited signs of recovery. Macroeconomic fundamentals of China weakened more evidently.
2. Economic performance in Q3 was subject to numerous uncertainties and difficulties. Notably, the Syrian civil war and migration crisis undermined growth performance in the European Union. The global financial market, especially in Asia and emerging economies, was significantly volatile. Indirect flows of investment continued to move out of emerging markets. International commodity prices tended to decrease.
3. Vietnam made remarkable progress with economic and institutional reforms in 2014, focusing on simplifying, rationalizing, and reducing costs and procedures to related the production-business activities of enterprises. In the first 9 months of 2015, the Government, Ministries and ministerial-level agencies promulgated guiding documents to implement important laws. Resolution 19 was implemented and produced certain results. However, a range of under-law documents guiding the implementation of various Laws were behind schedule. The result from implementing Resolution 19 were uneven; there was not discernible improvement in some areas.
4. GDP grew by 6.81% in Q3 (YoY). If the pace of recovery continues in Q4, the growth rate for 2015 may be much higher than the target (6.2%). GDP growth in Q3 exceeded the medium-term trend, which marked a fundamental change compared to the two previous quarters. Consumption and investment induced robust expansion of aggregate demand.
5. The industry and construction sector continued to grow most rapidly. The value-added of this sector increased by 9.6% in the first 9 months (YoY). The Index of Industrial Production (IIP) rose by 9.8% in the same period. However, the growth of industrial sector lacks sustainability, as indicated by the continuous fall in the Purchasing Managers Index (PMI, especially in September). The share of industry-construction significantly increased compared to Q3 of 2014.
6. The value-added of agriculture-forestry and fishery (AFF) grew only by 2.1% in Q3 (YoY), showing insignificant improvement over previous quarters. The services sector grew by 6.2% in the first 9 months of 2015 (YoY).
7. The number of newly registered enterprises was 23,279 in Q3, with total registered capital of VND 138.5 trillion. The number of dissolved and inactive enterprises decreased by 0.96% and 9.4%, respectively (YoY).
8. The consumer price index (CPI) decreased by 0.07% and 0.21% (MoM) in August and September. Negative MoM inflation occurred in several product

categories in Q3. (YoY) Core inflation for the first 9 months was stable at 2.15%.

9. The VND-denominated deposit rate (for terms less than 6 months) was stable and below the ceiling imposed by the SBV. At the end of September, the SBV lowered the ceiling on USD-denominated deposits. The USD-denominated lending rate remained stable in Q3, and only dropped slightly for ordinary business and production loans of state-owned commercial banks.
10. Credit increased by about 2.7% in Q3 (compared to the end of Q2), equivalent to Q3 of 2014. Credit growth was slower in Q3 because of: (i) caution of commercial banks against credit extension prior to the deadline for reducing the NPL ratio to below 3%; (ii) concern about the possible hikes in the USD and VND-denominated interest rates as the FED might consider raising interest rates in September; and (iii) the slow implementation of some preferential credit schemes due to procedure-related issues.
11. NPLs continued to decline; by 30 September 2015, NPLs had dropped to below 3% in principle. In the first 9 months, Vietnam Assets Management Company (VAMC) bought VND 91.3 trillion of principal of NPLs, at the cost of nearly VND 81.2 trillion. The effectiveness of NPL settlement still poses a major concern for market participants.
12. Total liquidity grew by 2.67% in Q3 (QoQ), which was lower than that in Q3/2014 and Q2/2015. This could be attributed to: (i) capital withdrawal by foreign investment funds in August – under the expectation that FED would raise USD-denominated interest rates; (ii) the SBV has not loosened restrictions against commercial banks' purchase of Government bonds; (iii) transmission of price decreases in international market to the domestic market.
13. The VND/USD exchange rate exhibited more volatility in Q3. In early Q3, the VND/USD exchange rate was relatively stable in both commercial banks and the parallel market. In mid-August, the SBV continuously adjusted upward the trading band from +/-1% to +/-2% and +/-3%, and simultaneously raised interbank VND/USD exchange rate by 1%. Volatility of the VND/USD exchange rate was not caused by pressure from the trade deficit or capital outflows. Instead, the volatility could be attributed to two main reasons, namely: (i) (short-run) over-reaction of the financial market in response to the adjustment of CNY-exchange rate regime in China; and (ii) “information trap” due to excessive and repetitive arguments and recommendations related to the VND/USD exchange rate management that were published in the mass media.
14. BOP attained surplus of about USD 2.7 billion in Q1 and USD 555 million in Q2. Exports of goods grew at significantly faster pace relative to imports in Q2; thus, the current account was reversed compared to Q1.
15. Investment activities became more vivid in Q3. Gross investment increased by 8.5% (YoY) for the first 9 months, largely thanks to the FDI sector and private individuals and enterprises. The investment to GDP ratio reached 33.2% in Q3.

FDI attraction improved in Q3, with newly registered and supplemented capital of nearly USD 11.7 billion, 2.7 times higher than in Q3 of 2014, and 2.1 times higher than that of the first 6 months. Disbursement of FDI attained USD 3.4 billion in Q3, the peak after many quarters. Investment by the State sector increased slowly, notwithstanding higher disbursements in Q3 than in Q2.

16. Exports reached USD 42.2 billion in Q3, rising by 8.8% (YoY) - the lowest level of growth since 2010. Export structure hardly changed. Imports reached USD 43.4 billion, increasing by 12.6% (YoY) – slower compared to previous quarters. The adjustment of CNY exchange rate regime and China’s economic downturn in Q3 have yet to significantly affect Vietnam’s trade. The trade deficit was USD 0.9 billion in Q3, equivalent to 2.2% of exports.
17. Domestic trade grew steadily. Total retail sales of goods and services was estimated to be VND 802.4 trillion in Q3, up by 13.6% compared to Q3 of 2014 and was the highest YoY growth rate since the beginning of 2015.
18. Total budget revenues in Q3 reached VND 236.8 trillion, increasing by approximately 6.5% (YoY), equal to 26.0% of planned figure for 2015. The ratio of budget revenues to GDP amounted to 22.1% in Q3. Budget expenditure is estimated at VND 258.1 trillion in Q3, equal to 23.9% of the planned figure. The value of Government Bonds (GBs) reached VND 21.5 trillion in Q3, of which those issued in July accounted for 68.7%. The value of GBs issued in Q3 only grew by 13.1% compared to Q2, but declined by more than 60% on a YoY basis.
19. The forecast result shows that YoY economic growth in Q4/2015 can reach 6.83%; with whole 2015 growth of 6.61%. Export growth in Q4, and in 2015, is projected at 10.38%, and 9.66%, respectively. However, if GDP growth in partner countries increases faster and there is no hike in US interest rates, export growth for entire 2015 could reach 10%. The trade deficit is projected at USD 0.5 billion in Q4; with a cumulated deficit for 2015 of USD 4.6 billion. The CPI will increase by only 0.28% in Q4.
20. Macroeconomic developments in Q4 may be influenced by several factors, namely: (i) uncertainty in global economic recovery due to tensions and/or conflicts among big countries, while the FED left open the possibility of a USD interest rate hike in Q4; (ii) attempts by major economies to increase influence through various measures, especially cooperation in infrastructure development; (iii) diminished risk of "currency wars" among major economies which also reduces the motivation for cooperation to strengthen global financial-monetary stability; (iv) loosening of monetary policy and its interaction with fiscal policy which have substantial implications for production and business activities in Vietnam; and (v) the quality of business environment reforms in order to implement important laws that facilitate business activities (in accordance with Resolution 19) as well as to reduce discrimination and differences affecting competitive neutrality, which will affect business confidence and investment activities in both Q4 of 2015 and beyond.

21. The report includes in-depth analysis of SOEs equitization as in 2014-2015 plan. With the ambitious goal of equitizing 432 enterprises in 2014-2015, many efforts have been made to amend and supplement mechanisms and policies. However, by the end of August 2015, only 50% of targeted enterprises were equitized, contributing little to overall economic restructuring. The report also analyses subjective and objective reasons to equitization progress and the prospects of finalizing the 2014-2015 plan.
22. The economy witnessed positive changes in the first 9 months of 2015. However, Vietnam still encounters some issues related to microeconomic foundations, while the role of the State has not changed toward a market economy in Vietnam. The economic restructuring process and the shift of growth paradigm progressed more slowly than expected, leaving in place a range of inherent issues, namely high growth accompanied with a trade deficit, a lack of coordination/connection between domestic and foreign enterprises, and SOE reform and public investment reform. Macroeconomic management has been characterized by the dominance of fiscal policy over monetary policy, despite stricter regulation. Intermediate targets of macroeconomic policy lack clarity; accordingly, policy effectiveness relies heavily on the flexibility and the “manipulation” of relevant authorities.
23. Recent macroeconomic stability only constitutes a necessary condition to improve confidence in investment-business activities. Of similar importance are opportunities to strengthen and expand international economic integration and cooperation at various levels (multilateral, bilateral). Vietnam can hardly return to the trajectory of rapid economic growth without appropriate and more drastic efforts for microeconomic reforms. In this context, reforming microeconomic foundations and conducting macroeconomic policies should accommodate more relevant motivation to speeding up the implementation of Resolution 19 on tasks, key solutions for continuously improving business environment, and enhancing national competitiveness for stronger performance of business environment in the last quarter of 2015 and beyond. The Report concludes with specific recommendations on policy groups of monetary, fiscal, trade and price management.

I. ECONOMIC CONTEXT IN Q3

1. Regional and global economic context

24. Q3 of 2015 witnessed slow and uneven recovery in the world economy. The International Monetary Fund (IMF) lowered its projection for world economic growth in 2015-2016, with a modest figure for advanced economies and slowdown in emerging economies (Table 1). Growth in the United States accelerated in Q2/2015, showing a more robust recovery¹. Japan's GDP continued to contract², due to the slowdown in emerging economies and the impacts of regional monetary policies on export and domestic production. The growth of European area somehow recovered, albeit at slow pace.³

Table 1: Economic outlook in some major economies

Unit: %

	2014	2015	2016	Difference *	
				2015	2016
World GDP (growth rate: %)	3.4	3.1	3.6	- 0.2	- 0.2
Developed countries	1.8	2.0	2.2	- 0.1	- 0.2
USA	2.4	2.6	2.8	0.1	- 0.2
Japan	-0.1	0.6	1.0	- 0.2	- 0.2
Euro	0.9	1.5	1.6	0.0	- 0.1
Developing and emerging countries	4.6	4.0	4.5	- 0.2	- 0.2
Developing Asia	6.8	6.5	6.4	- 0.1	0.0
China	7.3	6.8	6.3	0.0	0.0
ASEAN-5	4.6	4.6	4.9	0.0	0.0
World trade (growth rate: %)	3.3	3.2	4.1	-0.9	-0.3
Non-fuel price (% increase, USD)	-4.0	-16.9	-5.1	-1.3	-3.4

Source: International Monetary Fund (October 2015).

Note: * Between forecasts as of October 2015 compared to those as of July 2015.

ASEAN-5 includes Indonesia, Malaysia, Philippines, Vietnam and Thailand.

25. The macroeconomic conditions of China appeared to deteriorate. Growth stagnated, possibly reaching 6.8% in Q3 (the lowest level since 2009). Exports

¹ The statement announced by US Department of Commerce on 27 August 2015 showed that economic growth was adjusted to 3.7% (YoY) in Q2/2015 (higher than 2.3% of the previous report), increasing by 0.6 percentage point compared to Q1/2015.

² On 8 September 2015, the Cabinet Office of Japan announced the inflation-adjusted economic growth in Q2 of -0.3% (compared to Q1) and of -1.2% (YoY).

³ GDP growth in Q2/2015 attained 0.4%; PMI was 52.3 in August, the unemployment rate in July was 10.9%; inflation in August was 0.1%; export growth was 12% (YoY).

increased rapidly in September (YoY growth of 15.9%), but subject to concern about over-invoicing.⁴ Investors' confidence was undermined.⁵

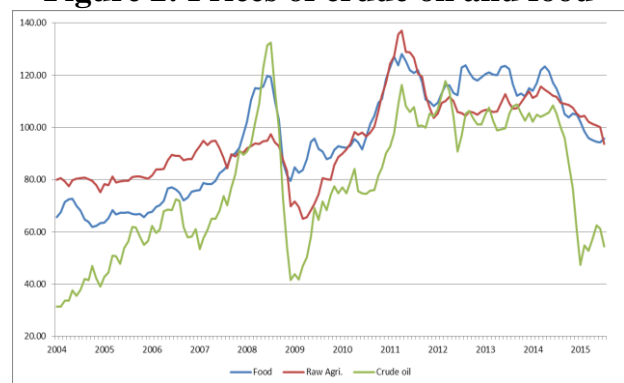
26. Economic performance in Q3 was impacted by major uncertainties and difficulties. Notably, the Syrian civil war and migration crisis had adverse effects on economic growth of the European Union. The global financial market, especially in Asia and emerging markets, became increasingly volatile. The Euromoney survey showed that China's risk score fell 1.5 points in Q3/2015 (to below 60 out of 100), Brazil's score exhibited a similar decrease.⁶ Increasing financial volatility was caused by: (i) uncertainty over Fed's decision with interest rate (on 17 September); (ii) China's adjustment of the Renminbi exchange rate regime;⁷ (iii) China's economic difficulties; and (iv) related changes of indirect investment to developing and emerging economies.
27. Due to economic-financial uncertainty, indirect investment continued to fly out of emerging markets. Net outflows of capital from emerging markets reached USD 17 billion from mid-July to mid-August, accounting for 50% of the figure since the beginning of 2015 (USD 29.4 billion). The European stock market was among the major destinations, with capital inflows of USD 83.5 billion.
28. The international commodity prices continued a declining trend in Q3. Only in August, energy prices fell by 5.1%; agricultural prices by 14.2%; food prices by 16.8%; raw materials by 8.2%; and metal by 28.9%.⁸ This fall was largely due to the drastic increase of commodity supply, accompanied by the appreciation of USD (Figure 2).

Figure 1: International gold price



Source: Goldprice.org

Figure 2: Prices of crude oil and food



Source: International Financial Statistics (IFS).

29. The negotiation of high-quality FTAs progressed in Q3. Notably, the negotiation of Trans-Pacific Partnership (TPP) was substantially concluded in

⁴ <http://blogs.ft.com/beyond-brics/2014/10/13/china-heads-for-q3-gdp-slump-despite-export-surge/>

⁵ <http://www.cnbc.com/2015/09/30/reuters-america-china-cbank-survey-business-confidence-falls-in-q3-vs-q2.html>

⁶ <http://www.euromoney.com/Article/3496065/ECR-survey-results-Q3-2015-dominated-by-Chinas-jitters-Brazilian-crisis-and-EM-capital-shock.html>

⁷ Within 3 days after China's adjustment of exchange rate scheme, the rate of RMB/USD depreciated up to 4.6%.

⁸ World Bank (September 2015).

early October, after major slowdowns, and lack of consensus and doubts in August-September. Preparations for the establishment of ASEAN Economic Community (AEC) by the end of 2015 has reached its final stage. The negotiation of Regional Comprehensive Economic Partnership (RCEP) could have important conclusion in the October-round in Busan, as some non-TPP members want to re-establish their advantage in East Asia.

2. New laws related to business environment: Initial results

30. Vietnam attained remarkable results in reforming economic institutions in 2014, focusing on simplifying, rationalizing, reducing cost and administrative procedures related to production-business activities. New big laws were passed in 2014, some of which were of high quality and sought to strengthen market-economy institutions. The year 2015 thus witnessed continued interest of the business community in sustaining the momentum for reforming business environment, aiming at facilitating trade and business activities.
31. The Government issued Resolution No. 59/NQ-CP on the implementation of (amended) Enterprise Law and (amended) Investment Law, and had some initial results as follows:
 - a. The (amended) Enterprise Law was issued on 26 November 2014 and came into effect on 1 July 2015. To implement this law, 6 Decrees, 8 Decisions by the Prime Minister, and 2 Decisions by the Ministry of Information and Communication were issued. The Ministry of Planning and Investment had guidance of business registration in accordance with the (amended) Enterprise Law prior to official under-law documents.
 - b. The (amended) Investment Law was issued on 26 November 2014 and took effect since 1 July 2015. By mid-October, 7 Decrees, 8 Decisions by the Prime Minister were passed under this Law.
 - c. At the end of September 2015, the Task Force of (amended) Enterprise Law and (amended) Investment Law was established. Important tasks of the Task Force include: (i) Reviewing regulations related to investment and business activities, thereby proposing amended and/or added solutions to better realize the reforms under Enterprise Law and Investment Law; (ii) Assisting the Prime Minister in supervising and monitoring the implementation of regulations on conditional investment and business activities.
32. In the first 9 months, the Government and line Ministries, agencies had promulgated guiding documents to the implementation of the 2 amended laws of 6 taxation laws including Law on Corporate Income Tax, Law on Personal Income Tax, Law on Value-Added Tax, Law on Special Sales Tax, Natural Resource Tax Law, and Tax Management Law.
33. However, the large number of laws issued in 2014 increased the workloads related to their guiding regulations. Consequently, some guiding documents were not issued by the planned schedule. Although the Prime Minister requested

Ministries and ministerial-level agencies to issue or to submit pending documents by 15 September 2015, progress remained sluggish.

- a) The number of pending documents was 80, increasing by 46 compared to Q3/2014. 43 documents - most of which were circulars and inter-ministerial circulars - were still under research and drafting process. Even some guiding documents for the Enterprise Law and the Investment Law are still pending.
 - b) According to the Ministry of Justice, the main reasons were lack of determination, supervision and priority, and inadequate resources for preparing guiding documents.
34. After 6 months of issuing Resolution 19, some policy recommendations were implemented and had some initial results as follows.
- a) Comprehensive reform of regulation on business conditions: From the review and classification of business conditions, there were 6,475 business conditions of different levels in correspondent with 267 business areas. Of which, 3,299 conditions were stipulated under 170 Circulars and Decisions of various Ministries. According to the (amended) Investment Law, these 3,299 conditions would be automatically nullified from 1 July 2016. Following that result, the Government issued Resolution No. 59/NQ-CP requiring ministries, ministerial-level agencies and provinces to review and assess the legal regulation on business and investment conditions, and to propose recommendations.
 - b) Comprehensive reform of sectoral management of trade and administrative reforms related to trade: Some ministries (such as Ministry of Finance, Ministry of Industry and Trade, Ministry of Transport, Ministry of Agriculture and Rural Development, and Ministry of Science and Technology) attempted to reform the procedures and sectoral management. Some reforms of customs procedures were widely appreciated by enterprises, including e-customs, priority schemes for enterprises, etc.
 - c) Progress was also made in reforming were tax management areas such as tax registration, tax declaration, tax payment, tax exemption and reduction and tax refund, etc.
 - d) The process of social insurance was remarkably simplified, with the abolition of 50 fields in all forms and declarations; repealing 16 required documents in procedures; and reducing 50 procedures. Information technology has been officially applied in social insurance sector.
 - e) In 2014 and 2015, the Electricity of Vietnam group conducted a set of measures for improving access to electricity, including reviewing, amending all procedures on electricity business, internal decentralization, deploying package services, etc.

35. The implementation of Resolution 19 is, however, far from problem-free. Reports were not submitted frequently and adequately in accordance with the Resolution. Some areas have not shown material improvement, such as resolving insolvency, enforcing contracts, dealing with permits, and registering properties. Even in the areas with recognized improvements (such as paying taxes, trading across borders, etc.), enterprises still encountered certain issues (such as time needed for tax refunds, monitoring procedures in import-export activities, etc.).

II. MACROECONOMIC PERFORMANCE AND OUTLOOK

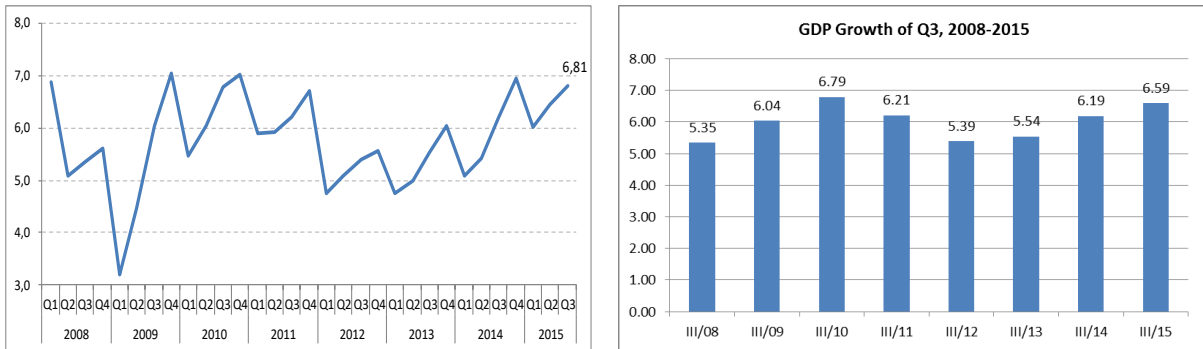
1. Macroeconomic performance in Q3

1.1. Real economy

36. Economic growth recovery became more robust. GDP grew by 6.81% in Q3.⁹ During the first 9 months of 2015, GDP growth rate reached 6.5%. During 2008-2015, this growth rate was only lower than the 2010 YoY growth rate. Building on this pace of recovery, the growth figure for 2015 may be significantly higher than target (6.2%).

Figure 3: GDP growth rate

Unit: %

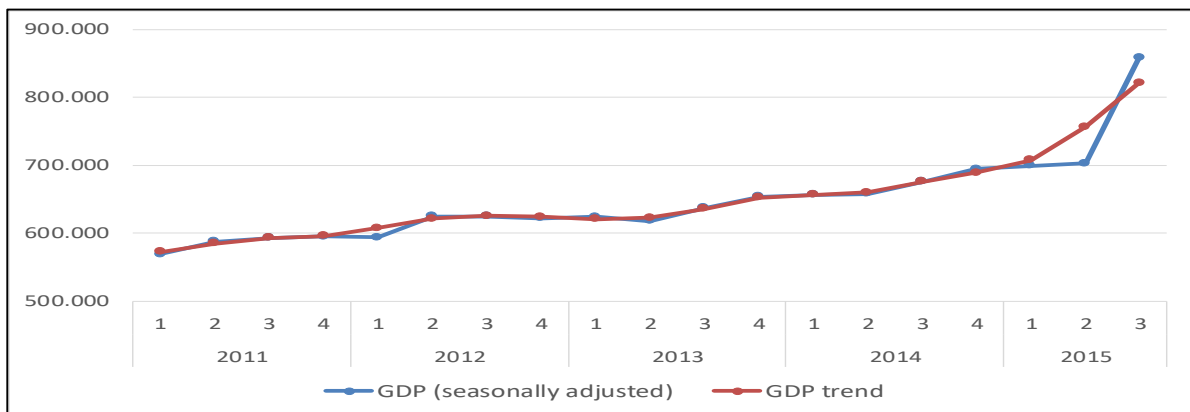


Source: General Statistics Office (GSO).

37. Excluding seasonal variations, GDP growth in Q3 exceeded the medium-term trend (Figure 4). This was a remarkable change compared to the two previous quarters.¹⁰ Notably, medium-term trend was much improved in Q3, possibly due to: (i) increases in investment and consumption; and (ii) positive outcomes from deeper economic reforms since early 2015. If the economic reforms continue in the coming quarters, achieving the growth rate of above 7% is highly probable.

Figure 4: Quarterly GDP compared to trend, 2011-2015

Unit: billion VND



Source: Authors' calculation from GSO data.

⁹ In this section, growth figures were on YoY basis, unless otherwise specified.

¹⁰ However, it needs clearer proof on the sustainability of GDP in coming quarters.

38. Consumption and investment were key to the expansion of aggregate demand. During the first 9 months, final consumption increased by 9.1%, contributing 7.3 percentage points to GDP growth; gross capital formation grew by 8.1%, contributing 2.62 percentage points. Growth of final consumption and gross capital formation induced an increase in imports, while net imports of goods and services caused overall GDP growth to decrease by 3.4 percentage points. This GDP structure by final expenditure was quite similar to the period of 2006-2010 (Table 2).

Table 2: Contribution of capital formation, final consumption and trade balance of goods and services to economic growth

Unit: Percentage point

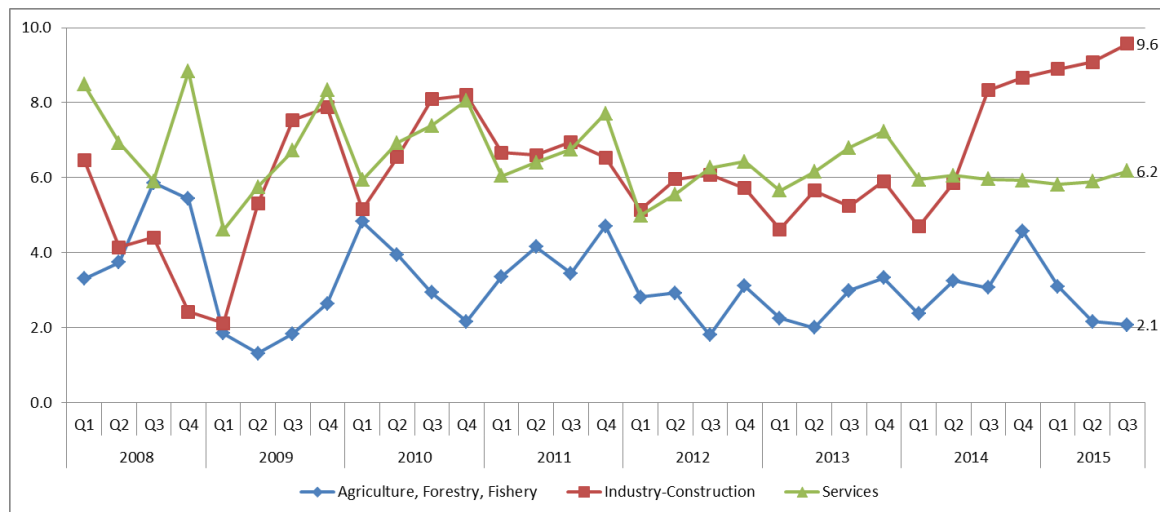
	2006	2007	2008	2009	2010	First 6 months of 2015	First 9 months of 2015
Gross capital formation	3.31	7.83	2.17	1.50	3.58	2.25	2.62
Final consumption	5.25	6.80	5.49	1.94	6.06	7.74	7.31
Trade balance of goods and services	-0.44	-9.95	-2.32	2.10	-0.52	-3.71	-3.43

Source: GSO.

39. The industry and construction sector continued to be the main driver of economic growth. The value-added of this sector rose by 9.6% in the first 9 months of 2015, much faster than those of agriculture-forestry and fishery, and service sector (Figure 6). Meanwhile, the production and distribution of electricity, gas, steam and air conditioners, and manufacturing sector maintained high growth rates of 11.3% and 10.2%, respectively. In Q3 of 2015, the value added of industry-construction grew by 10.4%, faster than in Q1 (8.4%) and Q2 (9.7%). Value added of construction grew by 9% in the first 9 months of 2015.

Figure 5: GDP growth by sector

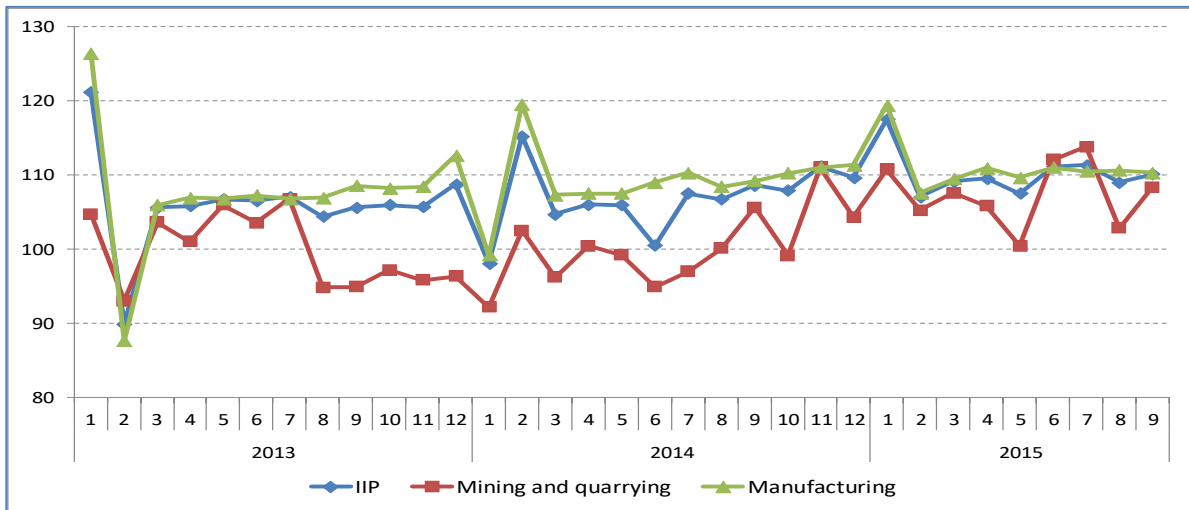
Unit: %



Source: GSO.

40. The Index of Industrial Production (IIP) rose by 9.8% in the first 9 months. Improvement took place in all the 4 sub-sectors, including: (i) production and distribution of electricity; (ii) manufacturing; (iii) mining and quarrying; and (iv) water supply, waste management and treatment. IIP growth was stable in Q2 and Q3 for industry as a whole and for manufacturing in particular. IIP of mining and quarrying exhibited changeable growth pattern, and only accelerated in quarter-end months (Figure 6).

Figure 6: Index of Industrial Production, January 2013-September 2015



Source: GSO.

41. The higher growth of industrial production was attributed to: (i) buoyant investment and consumption demand;¹¹ (ii) decreasing of material and input prices¹². However, the growth of industry sector was restrained by: (i) the falling of export prices of selected goods¹³; (ii) competitive pressure when some East Asia countries devalued their currencies; (iii) concerns (particularly in labor-intensive industries) about some policy changes (such as a hike in the minimum wage, restraint of foreign currency loans, etc.); and (iv) a lack of details, clarity and feasibility in guidelines for medium and long-term industrial development.¹⁴ Towards the end of Q3, PMI was on the downward trend, even falling below 50 in September (Figure 7).

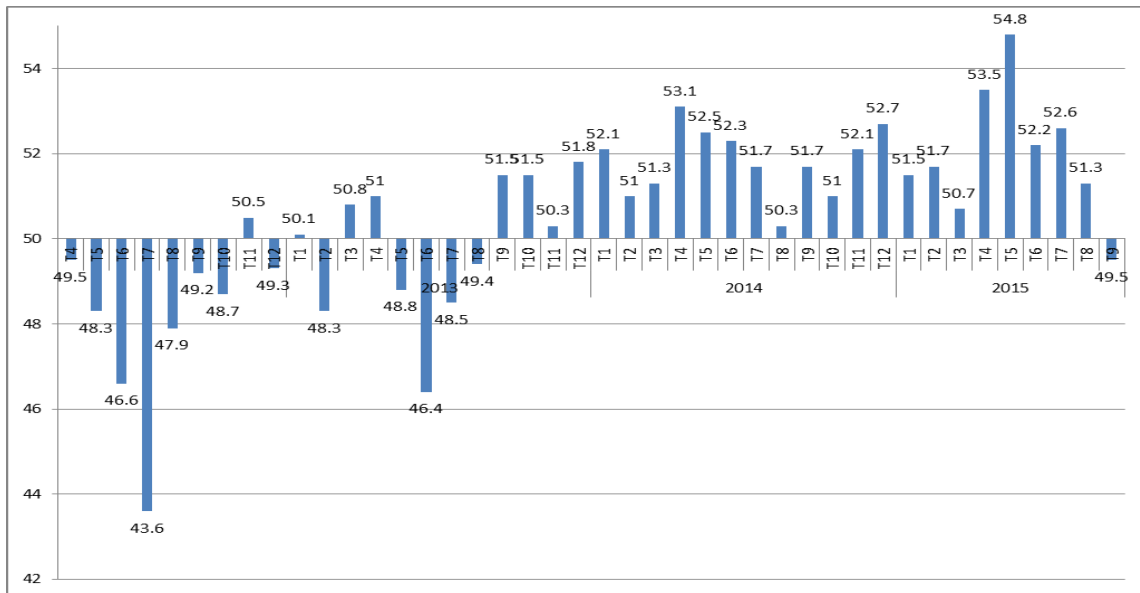
¹¹ Sale of manufacturing grew by 13.2% (YoY) in the last 8 months (the figure for electronics, computers and optical products is 85.7%). Use of labour in manufacturing industry rose by 1.3% in September (compared to August).

¹² For example, transportation prices fell by 6.88% in the first 9 months and 5.07% in Q3 (as compared to Q2); import prices of materials for textile, garments and footwear decreased by 2.74% in Q3 (after going up by 0.11% and 0.85% in Q1 and Q2, respectively), etc.

¹³ Export price of fuel and minerals went down by 2.39% in Q3 (compared to Q2), export prices of computers, electronics, telephones and parts fell by 2.35%.

¹⁴ Despite the amendment of Strategy and Master Plan on industrial development, as well as the drafting of Socio-Economic Report in submission to the 13th National Party Congress.

Figure 7: Purchasing Managers Index, 2012-2015



Source: Markit, HSBC.

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

42. The value added of agriculture-forestry and fishery (AFF) exhibited slow growth rate of only 2.1% in Q3, reflecting immaterial improvement over previous quarters. Agriculture faced major difficulties, including: (i) adverse impacts of weather changes; (ii) increase of selected input prices¹⁵; (iii) fall of output prices (producer price index of agriculture and fishery reduced by 2.28% and 4.42% respectively in Q3 as compared to Q2).¹⁶
43. The services sector grew by 6.2% in the first 9 months of 2015, reflecting hardly any improvement over the first 3 months, or first 6 months, of 2015. Some sub-sectors experienced high growth, such as wholesale and retail trade (by 8.4%), banking, finance and insurance (by 6.7%). Real estate activities showed some recovery (YoY growth of 2.9%). However, tourism faced continued difficulties as international tourists contracted further (by 5.8%).
44. Rapid growth is accompanied by a larger share of industry in Q3 (41.2%), indicating a significant increase compared to the same period of 2014 (38.4%). The share of AFF increased slightly, attaining 18.2% in Q3 compared to that of 17.4% in 2014. The services sector accounted for 40.6% of GDP in Q3, lower than the figure of 44.6% in 2014 (Figure 8).¹⁷

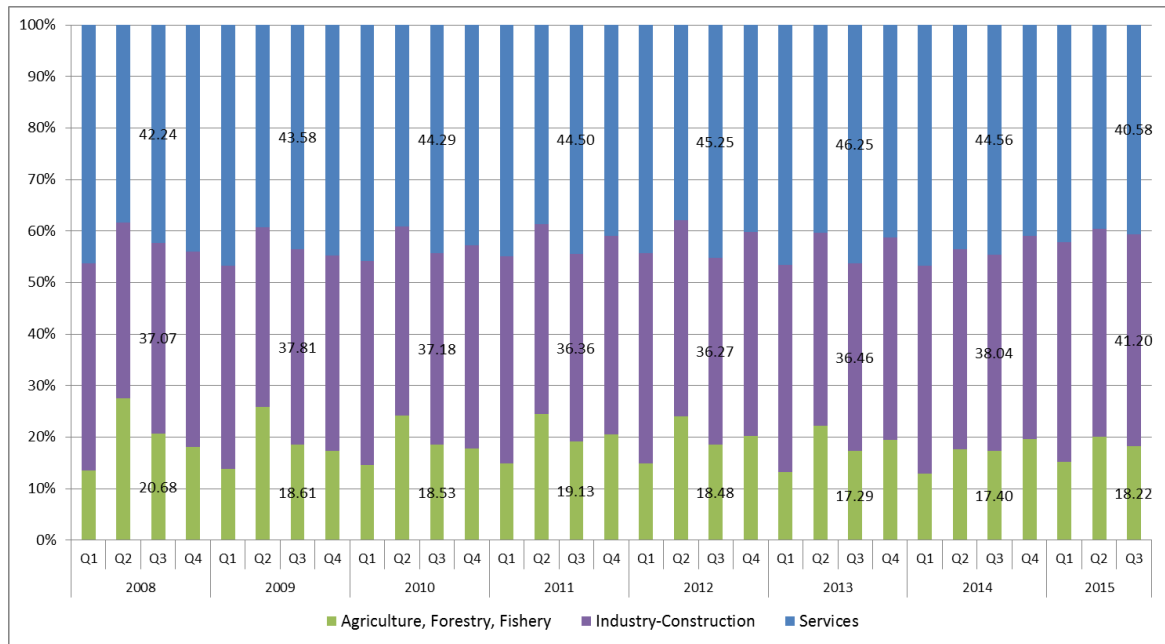
¹⁵ Import price of fertilizers (in USD) alone increased by 1.99% in Q3 (compared to Q2).

¹⁶ For example, export prices of fishery and vegetables went down by 2.02% and 4.8% respectively in Q3 (compared to Q2).

¹⁷ In this section, the shares of various sectors do not incorporate the allocation of production taxes less production subsidies.

Figure 8: GDP structure, Q1/2008-Q2/2015

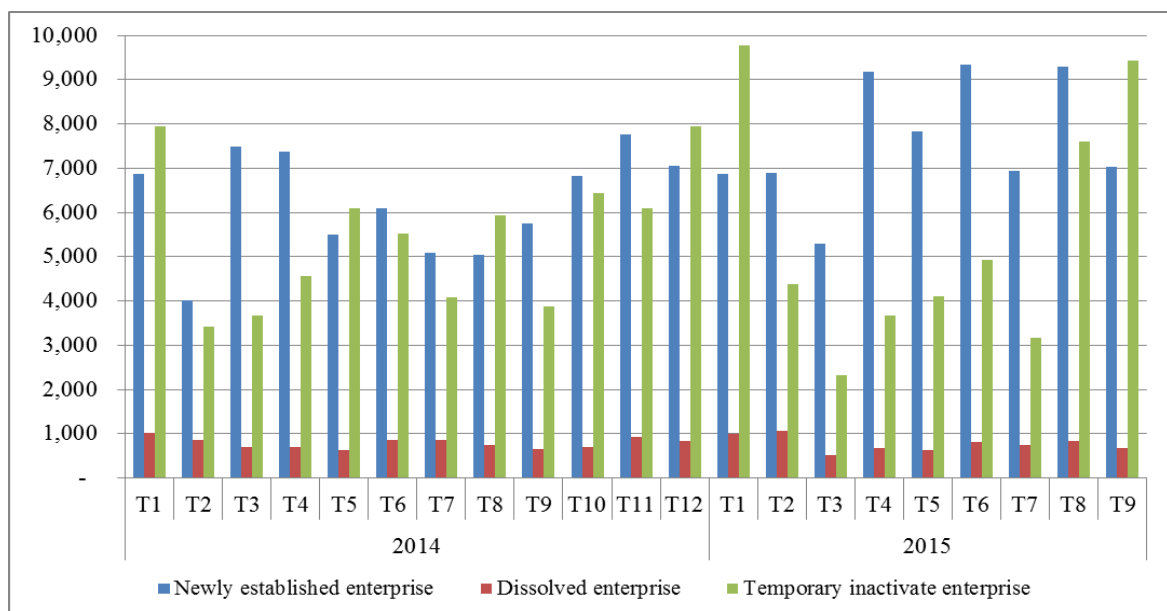
Unit: %



Source: GSO.

45. 23,279 enterprises were newly registered in Q3, with total registered capital of VND 138.5 trillion. For the first 9 months of 2015, the country had 68,347 newly registered enterprises (up by 28.5%), with total registered capital of VND 420.9 trillion (up by 21.7%). In Q3, the number of dissolved and inactive enterprises (including those registering inactive status or stopping temporarily before closing tax code or without registration) decreased by 0.96% and 9.4% respectively (Figure 9).

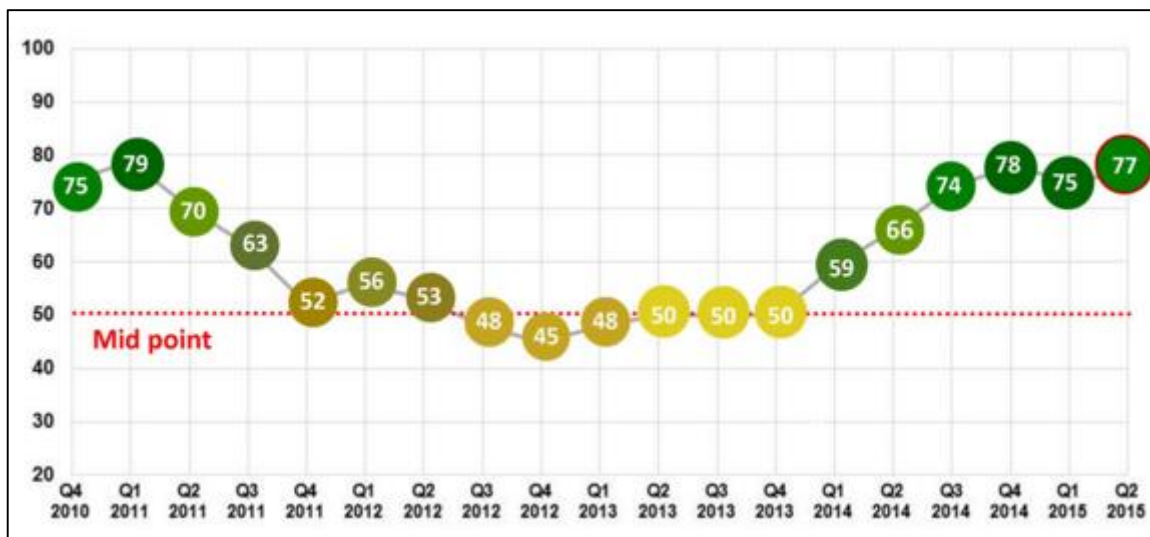
Figure 9: Selected indicators of enterprises' performance, January 2014-September 2015



Source: Business Registration Agency, MPI.

46. In the first 9 months of 2015, total added capital of enterprises amounted to VND 608.9 trillion. Estimated number of jobs in newly registered enterprises was 999.3 thousand in the first 9 months of 2015, increasing by 25.7% (YoY).
47. Business confidence was clearly improved in Q3. A survey by GSO showed that 36.6% of enterprises had positive assessment and 43.5% of enterprises thought that production and business was stable. Another 46.8% of surveyed enterprises believed that economic prospects were better in Q4, than in Q3; while 38.8% assessed that production and business would be equally stable. Foreign enterprises also had positive view on Vietnam's business environment (for example, the business climate index based on European enterprises' perception increased in Q3).

Figure 10: Business climate index by European enterprises' perception in Vietnam



Source: Eurocham in Vietnam.

1.2. Inflation

48. The consumer price index (CPI) decreased continuously by 0.07% and 0.21% (MoM) in August and September, respectively. The CPI in September dropped by 0.15% compared to June. In the first 9 months, the CPI only increased by 0.74% (YoY) and by 0.4% in relation to that at the end of 2014. YoY inflation remains stable in Q3 (Figure 11). Core inflation in the first 9 months fluctuated around 2.15% (YoY).
49. Price decreases occurred in a range of product categories in Q3. Price of food and foodstuff dropped by 0.78% in Q3 (compared to Q2). Because petrol price was adjusted downward continuously in Q3,¹⁸ price of transport services decreased by 3.17% and 5.07% in September and Q3, respectively. The

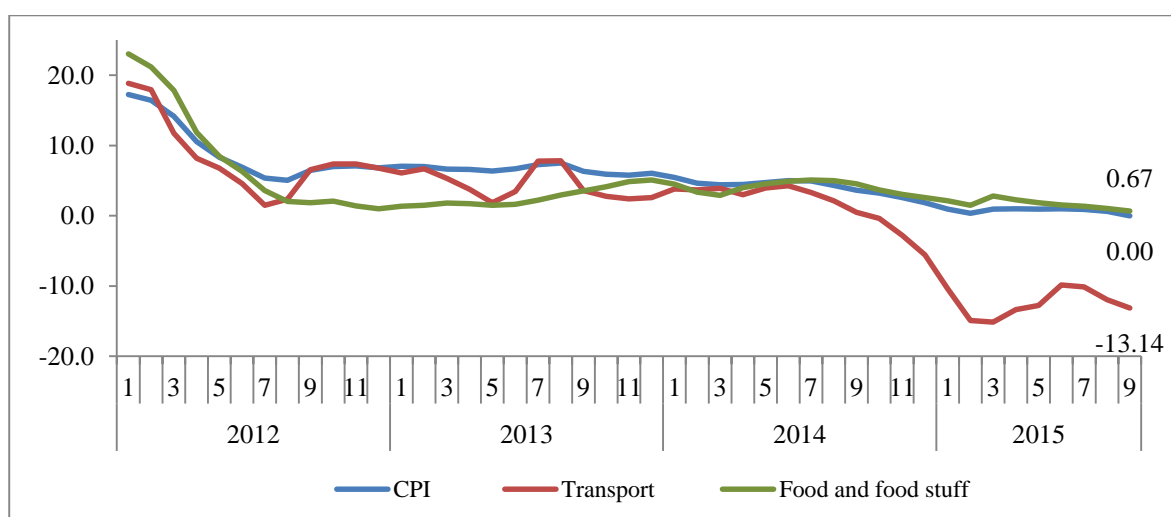
¹⁸ Since the beginning of 2015, the price of petrol and oil was adjusted downward 7 times and upward 6 times. In Q3, petrol price decreased for 4 consecutive times (on 4/7, 20/7, 4/8, 19/8 and 3/9), increased once in 18/9, and continued to be adjusted upward in 4/10.

corresponding falls in price of housing and construction materials were by 0.68% and 0.92%.

50. Health and education price indices increased significantly in Q3. The price index of health services increased by 0.5% and 0.66% in September and Q3, respectively. This could be attributed to the scheduled upward adjustment of health service fees in some provinces.¹⁹ Price of education services rose even more rapidly, by 1.34% and 2.27% in September and Q3, respectively; which was mainly driven by: (i) higher demand for study materials prior to the new school year; and (ii) increased school fees in a number of provinces.

Figure 11: YoY Inflation, 2012-2015

Unit: %



Source: GSO, YoY growth rate.

51. Relatively low inflation in Q3 could be attributed to factors, including: (i) falls in various commodity prices in the international market; (ii) easing of inflationary expectations; (iii) prudent management of total liquidity, while fiscal dominance appeared to be less material; and (iv) the Government paid more attention to stabilizing inflation²⁰. The adjustment in the VND/USD exchange rate in August is yet to have a significant impact on macroeconomic stability and inflation.
52. Inflation risks remain, albeit being partially and associated with medium and long-run policies. The factors that may increase inflation risk in the medium and long-run include: (i) accumulated pressure of budget deficit and public debt; (ii) higher trade deficit accompanying economic growth recovery, while economic restructuring progressed more slowly than planned; (iii) inadequate transparency and accountability of price adjustment mechanisms of some goods

¹⁹ Inter-ministerial circular No. 04/2012/TTLT-BYT-BTC dated 29/2/2012.

²⁰ This was an important change since August 2015, because the Government seemed to have focused only achieving lower inflation than targeted level.

and services;²¹ and (iv) increased salaries for social and political objectives, rather than being based on productivity enhancement.

1.3. Monetary development

53. VND-denominated deposit rate (for terms shorter than 6 months) was stable and below the ceiling imposed by the State Bank of Vietnam (SBV, Table 3). Actual VND-denominated deposit rates in Q3 were almost unchanged compared to previous quarters (for all terms). The main reasons include: (i) relatively stable liquidity of commercial banks; (ii) the SBV's continued restraint over purchase of Government bonds by commercial banks, which reduced demand for deposits; (iii) smaller pressures on interest rates during the period from August-mid September after the SBV adjusted VND/USD exchange rate in August; (iv) that the Fed did not raise USD-denominated interest rate in the mid-September meeting; (v) that depositors expected no significant profit from other investment channels (for example gold, real estate)²². Low inflation statistics are yet to help reduce interest rates.

Table 3: VND-denominated deposit rates of commercial banks

Unit: % per annum

	Demand deposit	Term deposit (< 6 months)	Term deposit (6-12 months)	Term deposit (> 12 months)
End of September 2014	0.8-1.0	5.0-6.0	6.0-7.5	7.5-8.1
End of December 2014	0.8-1.0	5.0-5.5	5.7-6.8	6.8-7.5
End of March 2015	0.8-1.0	4.5-5.4	5.4-6.5	6.4-7.2
End of September 2015	0.8-1.0	4.5-5.4	5.4-6.5	6.4-7.2

Source: SBV.

54. In the end of September, the SBV lowered the ceiling on USD-denominated deposits.²³ Accordingly, (i) the deposit rate for economic entities (except foreign credit institutions and banking branches) is 0% per annum; (ii) the maximum deposit rate for individuals is 0.25% per annum. Previously, the USD-denominated deposit rates imposed on individuals and economic entities were 0.75% per annum and 0.25% per annum, respectively.

²¹ Consequently, prices were raised relatively rapidly and/or easily, while being more rigid on the way down.

²² In fact, housing and construction material prices decreased continuously in Q3.

²³ Decision No. 1938/QĐ-NHNN dated 25 September 2015 regulating maximum USD-denominated deposit rate of economic entities and individuals at credit institutions, and foreign banking branches in accordance with Circular No. 06/2014/TT-NHNN dated 17 March 2014.

55. USD-denominated lending rate remained stable in Q3 (Table 4). This was mainly attributed to the restriction of foreign-currency-denominated credit (only for specific groups).²⁴ The adjustment of the VND/USD exchange rate in August also eased pressure on the USD-denominated lending rate in Vietnam, which would otherwise materialize in the context of interest rate uncertainty in the US.
56. In Q3, the VND-denominated lending rate at State-owned commercial banks for ordinary business and production activities declined slightly. Lending rate remained stable for other loans and/or terms of more than 1 year. Lending rate hardly decreased in Q3 due to: (i) competition from Government bond rate; (ii) reluctance of some commercial banks to lower lending rate (including that of existing loans), partially induced by the penalty on debt repayment before maturity;²⁵ and (iii) pressure from the possible interest rate hike by FED²⁶.

Table 4: Popular lending interest rate of commercial banks, September 2015

Unit: % per annum

	Types	Short term	Medium and long-term
State-owned commercial banks	VND - Ordinary business and production	6.8-8.8 (7.0-8.8)	9.3-10.5 (9.3-10.5)
	- Agriculture, rural development, export, SMEs, supporting industries, high-tech enterprises	6.0-7.0 (6.0-7.0)	9.0-10.0 (9.0-10.0)
	USD:	3.0-4.5 (3.0-4.5)	5.5-6.5 (5.5-6.5)
Joint-stock commercial banks	VND - Ordinary business and production	7.8-9.0 (7.8-9.0)	10.0-11.0 (10.0-11.0)
	- Agriculture, rural development, export, SMEs, supporting industries, high-tech enterprises	7.0 (7.0)	10.0-10.5 (10.0-10.5)
	USD:	4.5-5.5 (4.5-5.5)	6.0-6.7 (6.0-6.7)

²⁴ According to Circular No. 43/2014/TT-NHNN (25 December 2014), foreign-currency loans are provided for such purposes as (i) Short-term lending for wholesale importer of petrol and oil that were granted import quota for 2015 by MOIT in order to pay for foreign partners in case borrowers do not have or cannot earn enough foreign-currency income from business and production activities to pay for their borrowings; (ii) Short-term lending to implement export-oriented business and production plans that borrowers can earn enough foreign-currency income from exports to pay off their borrowings; (iii) Short, medium and long-term lending to pay for imported value of goods and services to foreign partners if borrowers can earn enough foreign-currency income from business and production activities to pay off their borrowings; (iv) Borrowings for important outward FDI projects that are approved by the National Assembly, the Government or the Prime Minister and received investment license from the Ministry of Planning and Investment.

²⁵ This issue was discussed in the Macroeconomic Report for Q1/2015.

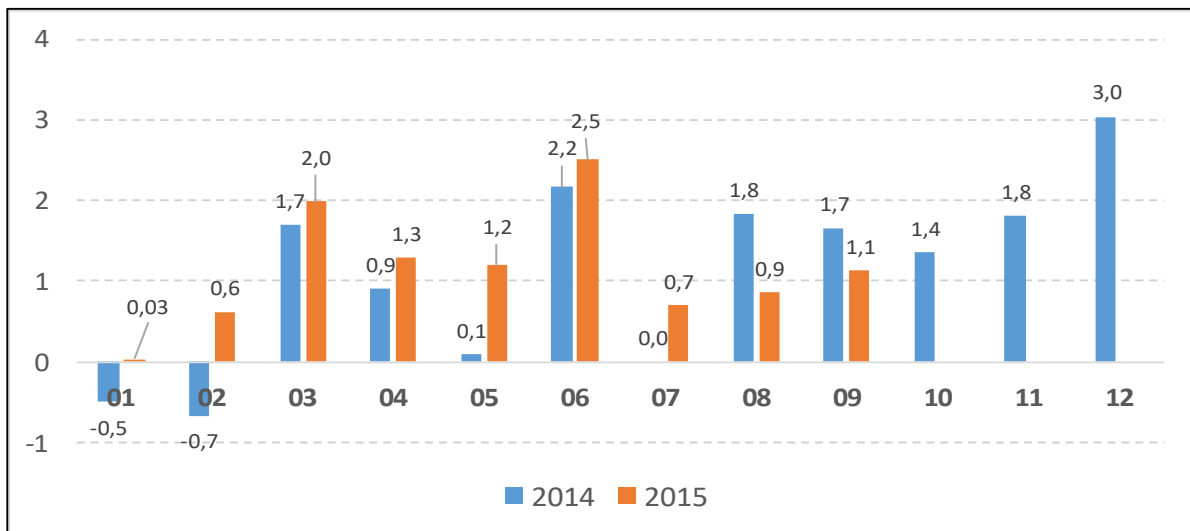
²⁶ “Impossible trinity”: It is impossible to implement pegged exchange rate, free capital flows, and independent monetary policy (related to interest rate management) at the same time due to interest rate parity.

Source: SBV.

Note: Figures in brackets are lending rates as of June 2015.

57. Outstanding credit increased by about 2.7% in Q3 (compared to the end of Q2). MoM credit growth in Q3 was relatively more stable than in Q3 2014 (Figure 12). However, pace of credit expansion in Q3 was slower than in Q2 (5.1%), Q3 2014 (YoY, 3.15%), and only slightly outpaced the figure in Q1 (2.65%).
58. Deceleration of outstanding credit in Q3 was because of: (i) caution of commercial banks against extending loans ahead of the prescheduled deadline for reducing NPL ratio (to below 3% by 30 September 2015); (ii) concern about possible rises in USD and VND-denominated interest rates as the FED might consider raising interest rate in September; (iii) slow disbursement of some preferential credit packages due to procedure-related issues (e.g., preferential credit in accordance with Decree No. 67/ND-CP on fishery development).

Figure 12: MoM credit growth, 2014-2015

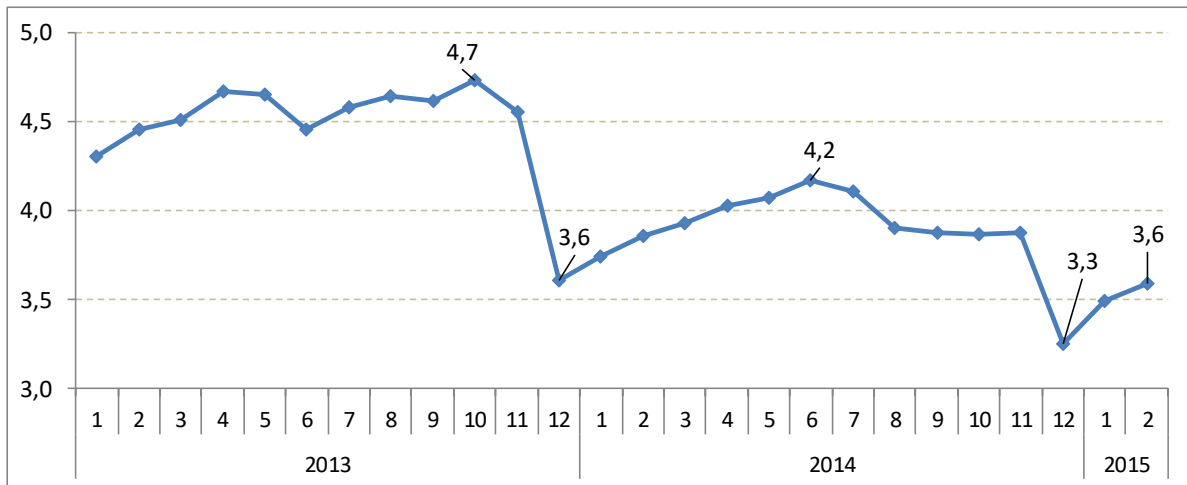


Source: Authors' compilation from various sources.

59. The SBV statistics showed the declining trend in the NPL ratio. By the end of February, the NPL ratio reported by credit institutions stood at 3.6% (Figure 13). By 30 September 2015, this figure had dropped to below 3%. In the first 9 months, Vietnam Assets Management Company (VAMC) bought VND 91.3 trillion of principal of NPLs at the cost of nearly VND 81.2 trillion (which already exceeds the target for 2015 of VND 80 trillion).
60. The effectiveness of NPL settlement poses a major concern for market participants. Despite NPL purchases, VAMC only collected more than VND 9.8 trillion from debt collection, selling debts and collateral assets. VAMC was set up as one of the key institutions for resolving NPLs; yet it still lacks institutional capacity, and human and financial resources. The market for debt assets, meanwhile, is far from being fully established.

Figure 13: NPL ratio of credit institutions, 2013-2015

Unit: %

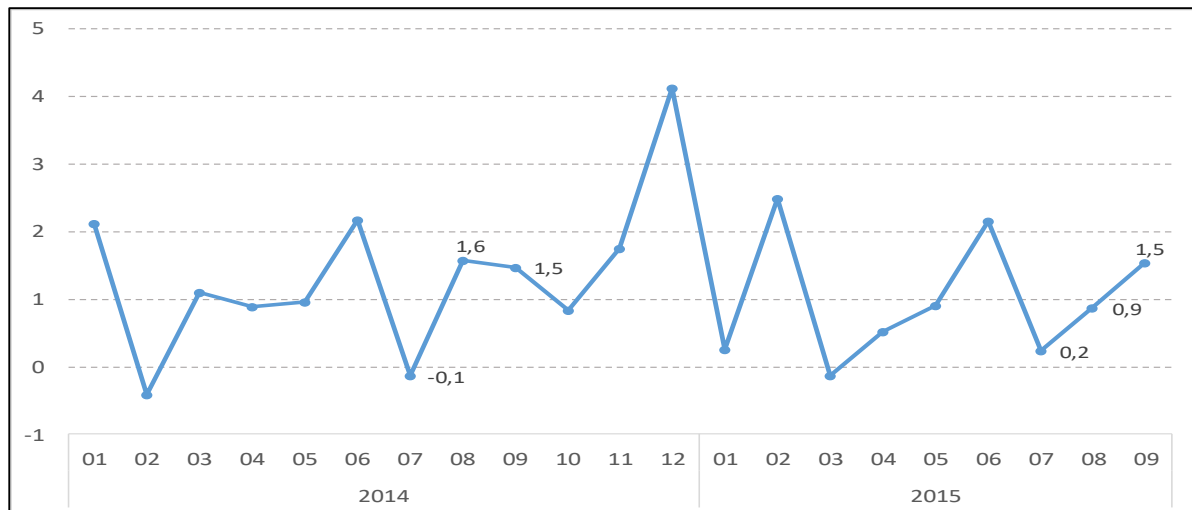


Source: SBV.

61. Total liquidity grew by 2.67% in Q3 (compared to Q2), which was below the figure of Q3/2014 (2.94%) and Q2/2015 (3.62%). By the end of September, total liquidity was nearly 8.8% higher than at the end of 2014. Slow growth rate of total liquidity in Q3 could be attributed to: (i) the capital withdrawal by foreign investment funds in August – with the expectation that FED would raise USD-denominated interest rates; (ii) the SBV has not loosened requirements to allow commercial banks to increase their purchases of Government bonds; (iii) pressure of reducing prices in the international market has been transmitted to the domestic market.

Figure 14: Growth rate of total liquidity, 2014-2015

Unit: %



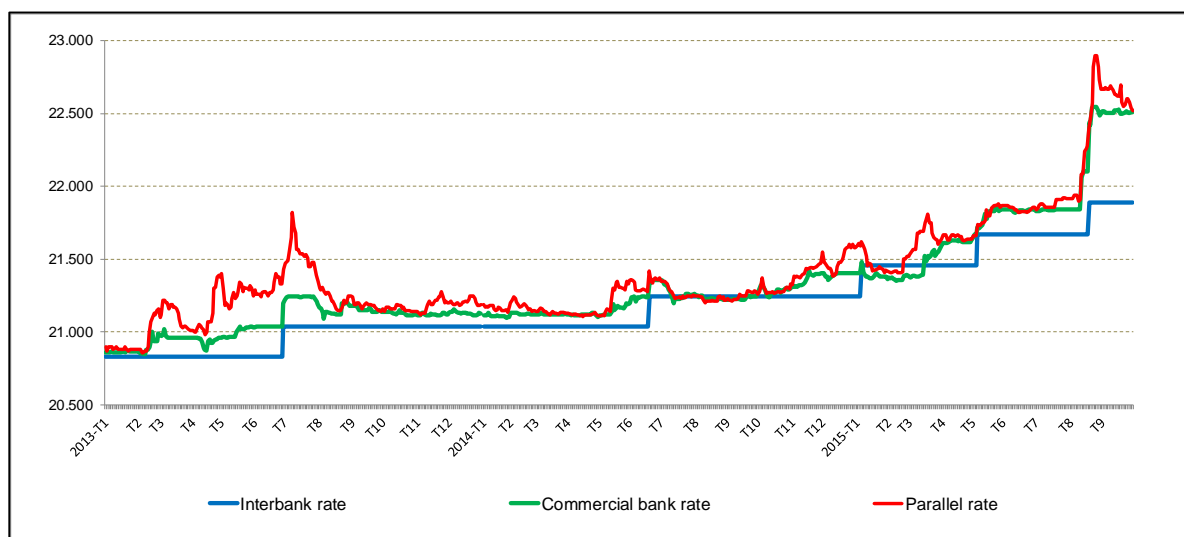
Source: Author's compilation from various sources.

62. The VND/USD exchange rate became more volatile in Q3 (Figure 15). From early July to early August, the VND/USD exchange rate was relatively stable in both commercial banks and the parallel market. In mid-August, the SBV

continuously widened the trading band from +/- 1% to +/-2%²⁷ and +/-3%²⁸, and simultaneously raised the interbank VND/USD exchange rate by 1%²⁹. This period also witnessed major turbulence in the international and regional financial markets, especially after China adjusted its exchange rate regime. Because most transactions were with the VND/USD exchange rate almost close to the permitted ceiling, the VND/USD exchange rate effectively increased by about 3% in August. Since late August, the VND/USD exchange rate in the parallel market went down continuously, albeit still higher than the commercial bank rate. Only in late September did the VND/USD exchange rate in both parallel market and commercial banks fall to below the permitted ceiling.

63. The volatility of the VND/USD exchange rate in the second half of August resulted from factors other than trade deficit or capital outflows. In fact, such volatility could be attributed to two main reasons: (i) over-reaction (in the short-run) of the financial markets in response to the adjustment of exchange rate regime in China; and (ii) “information trap” from excessively intense and repetitive arguments and recommendations that were published in mass media related to the VND/USD exchange rate regime.

Figure 15: Movement of VND/USD exchange rate, 2013- September 2015



Source: VNDirect.

- a) Many countries (especially in Asia) reacted swiftly after China’s exchange rate adjustment in August.³⁰ It should be noted that in most circumstances, the exchange rates overshoot before adjusting to the equilibrium level. Consequently, too swift response after exchange rate adjustment in China may increase uncertainty over monetary policy in general and exchange rate policy in particular in many countries. In this context, investors overreacted

²⁷ On 12 August 2015.

²⁸ On 19 August 2015.

²⁹ On 19 August 2015.

³⁰ See Section I.1.

and USD-denominated assets were considered safe for hedging, which induced further depreciation of many currencies, including the VND.

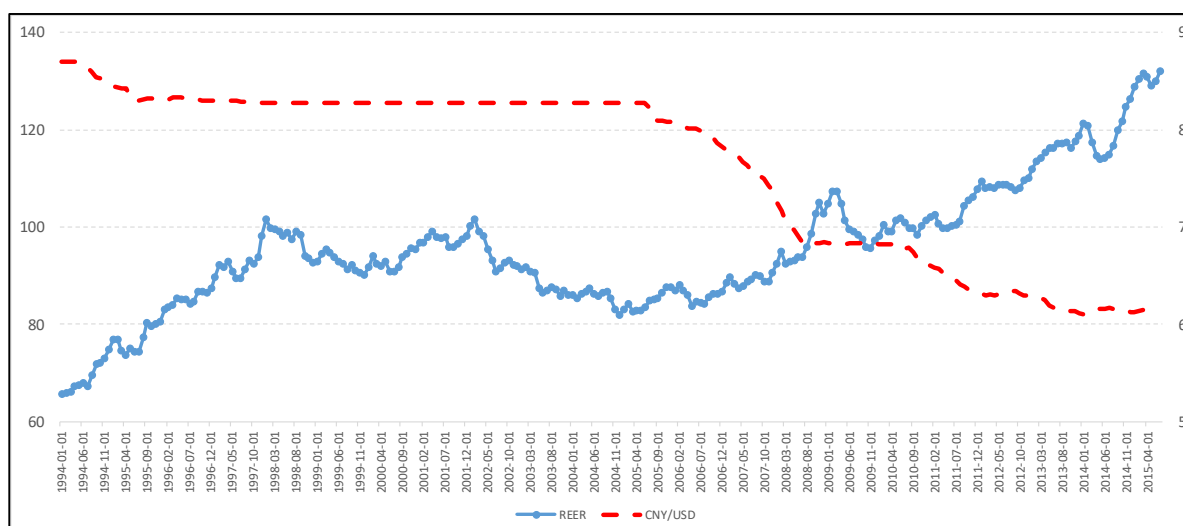
- b) The mass media and research community in Vietnam presented various reasons and arguments related to China's exchange rate adjustment, including: (i) economic hardship in China (especially macroeconomic fundamentals as well as failures in responding to capital withdrawals from the stock market in July); (ii) China's attempts to internationalize the Renminbi; (iii) the "beggar-thy-neighbor" policy; (iv) the risk of widening trade deficit of Vietnam with China; and (v) Vietnamese products will be less competitive compared to those of China in the third market. In response to Chinese adjustment of exchange rate regime, especially based on responses of various Asian countries, a number of recommendations were made in August to urge Vietnam quickly and significantly adjust VND/USD exchange rate upward. The high frequency of those arguments and recommendations significantly altered market expectation, intensifying pressure on the management of VND/USD exchange rate.

64. If investors had been more calm and there had been fewer information disturbances, the SBV might have been able to stabilize the exchange rate or only adjust VND/USD exchange rate upward of 1% (via widening trading band or adjusting interbank exchange rate). More fundamentally, the opinions and recommendations advocating an increase in the VND/USD exchange rate only considered the adjustment of CNY exchange rate as a separate event, without a full understanding of the actual trade and foreign exchange market.

- a) *On the argument that Vietnam should increase the VND/USD exchange rate to strengthen its competitiveness over Chinese products in bilateral trade:* Since 1994, China has been successful in maintaining its product competitiveness. Real effective exchange rate (REER) of China went up by more than 101.4% during the period from 1994 to July 2015, indicating that Chinese products became cheaper in comparison to foreign ones despite the parallel 42.2-percent appreciation of Renminbi against USD. In the same period, VND depreciated by 49.2% against USD, but the price of Vietnamese products increased by more than 27.0% relative to international products (based on Vietnam's REER). As an implication, a devaluation of the VND does not always help strengthen export competitiveness.
- b) *On the opinion that Vietnam should increase VND/USD exchange rate to strengthen competitiveness compared to Chinese products in third markets:* Vietnam's exported goods depend heavily on imported inputs from China.³¹ The devaluation of Chinese Renminbi against USD also made imported inputs from China cheaper (converted into VND). Due to cheaper (imported) input costs, Vietnam's products may not lose competitiveness against Chinese ones in third markets.

³¹ See Macroeconomic Report for Q2 of 2015 of CIEM.

Figure 16: REER and nominal exchange rate of Renminbi (against USD), January 1994-July 2015



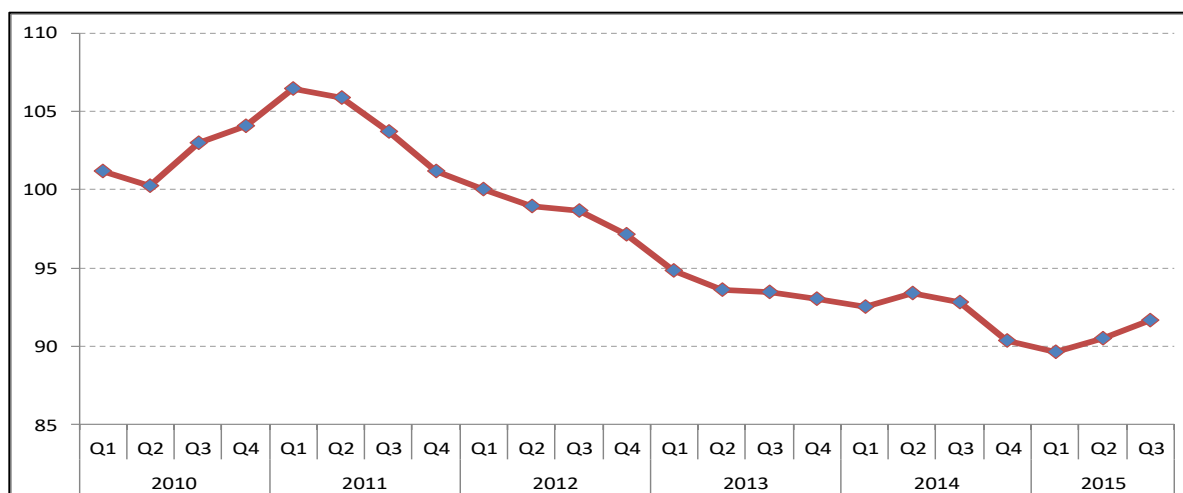
Source: Authors' compilations from various sources.

Note: The CNY/USD exchange rate is presented in the right axis; REER is presented in the left axis.

- c) There was another recommendation that Vietnam should increase VND/USD exchange rate at faster pace than China. However, this recommendation completely neglected adverse impacts of such increase on the macroeconomic situation. Notably, an increase in the VND/USD exchange rate may only help improve exports and the trade balance if that increase does not erode macroeconomic instability.³²
65. More importantly, due to overreaction of investors and “information trap” in Q3, the SBV **had** to focus on stabilizing the foreign exchange market, via such measures as: (i) consideration of policy options related to exchange rate, interest rate, foreign-currency-denominated loans, etc.; (ii) dissemination of information on exchange rate policy, foreign exchange market, etc. Consequently, the most fundamental tasks of restructuring commercial banks and resolving NPLs were distant from their top policy priorities.
66. The REER of Vietnam increased by 1.26% and 1.41% in Q3 and in the first 9 months, respectively (Figure 17). Consequently, changes in the VND/USD exchange rate in August have not yet weakened macroeconomic stability, but have strengthened the competitiveness of Vietnamese goods relative to foreign ones.

³² See Vo Tri Thanh and Nguyen Anh Duong (2015); Truong Dinh Tuyen et. al. (2011).

Figure 17: Real Effective Exchange Rate (REER)



Source: Authors' calculation.

Note: Q1/2012=100. The REER is calculated using trade data with 20 largest trade partners and CPI statistics; Data for Q3/2015 is estimated; a higher REER implies that Vietnam's goods are relatively cheaper relative to foreign ones.

Table 5: Balance of Payment (BOP), Q1-Q2/2015

Unit: Million USD

	Q1	Q2
A. Current Account	-1,022	1,267
Goods (net)	155	2,107
Services (net)	-730	-1,080
Investment income (primary, net)	-2,337	-1,809
Current transfers (secondary, net)	1,938	2,049
B. Capital Account	0	0
Current Account + Capital Account	-1,022	1,267
C. Financial Account	3,760	1,758
Direct investment (net)	1,974	2,118
Indirect investment (net)	-53	160
Other investment (net)	1,839	-520
D. Errors and omissions	-76	-2,470
E. Overall balance	2,662	555
F. Reserve and related items	-2,662	-555

Source: SBV.

67. Considerable reversals were witnessed in the balance of payment (BOP) in the first two quarters of 2015. The BOP's surplus attained about USD 2.7 billion and USD 555 million in Q1 and Q2, respectively. Exports of goods grew at significantly faster pace relative to imports in Q2 (compared to Q1); thus, the current account was reversed in Q2. However, other investment (net) of the

financial account dropped sharply in Q2 (in relation to Q1), which could be attributed to changes of: (i) money and deposits of credit institutions; and (ii) payment for principals of the private sector. As a note, the value of errors and omissions were quite large in Q2, and was not allocated into other classifications.

1.4. Investment

68. Investment activities proliferated in Q3. Gross investment increased by 8.5% (YoY) for the first 9 months. Rapid expansion of investment was mostly by foreign-invested enterprises (rising by 10.1%) and private individuals and enterprises (by 8.8%). Both sectors disbursed investment more rapidly in Q3 (compared to Q2, Table 6).
69. Investment by State-owned enterprises (SOEs) slowed, despite higher disbursement in Q3 as compared to Q2. Investment from the State Budget constituted the largest item in the first 9 months, albeit YoY growth was only 4.1%. Disbursement of government bonds (GB) had the slowest YoY growth for the first 9 months (only 2.4%) and equal to the planned figure. The main reasons for slow GB disbursement are: (i) modest room for issuing GB given high public debt ratio and required terms of over 5 years; (ii) SBV's technical restriction of investing in GB by commercial banks; and (iii) unfavorable conditions for issuing GB to international markets.

Table 6: Gross investment, current prices

Unit: trillion VND

	2015 plan	Q2/2015	Q3/2015	First 9 months of 2015	Growth rate (%)
TOTAL	1,343	302.6	360.87	909.5	8.5
State budget investment	203	55	60.5	153.1	4.1
Government bonds	85	15.9	17.4	43.5	2.4
State credit	60	14.3	16.1	41.5	5.1
Borrowings from other sources (of the state sector)	90	18.1	24.1	57.6	13.6
Investment by SOEs (Equity)	90	15.9	17.5	45.7	13.1
Investment by individuals and private sector	520	108.6	146.8	345.1	8.8
FDI	290	69.7	72.1	209.0	10.1
<i>Foreign partners</i>	203	48.8	50.5	146.3	9.8
<i>Vietnamese partners</i>	87	20.9	21.6	62.7	10.6
Other sources	25	4.5	6.3	14.0	25.0

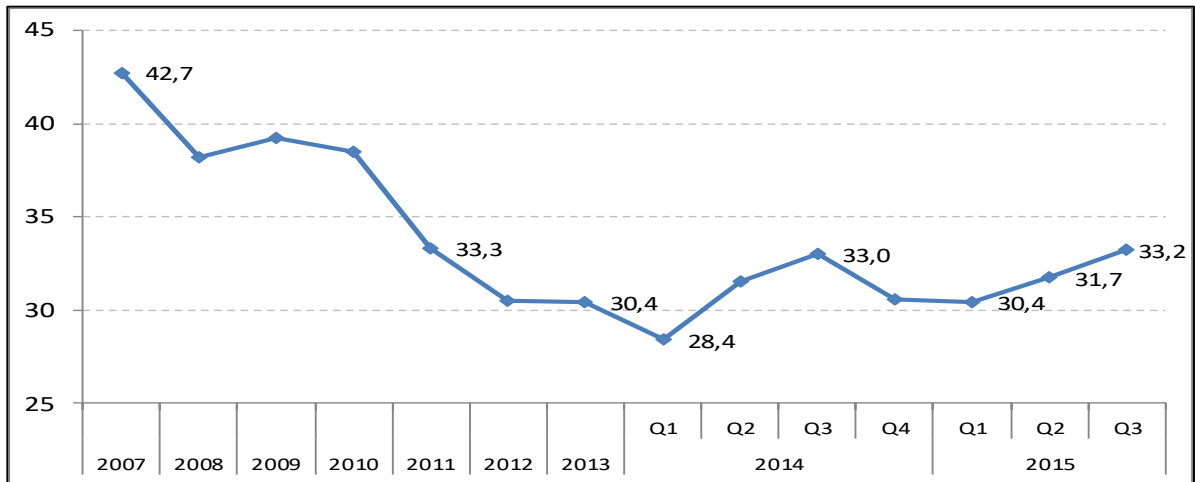
Source: GSO.

Note: Since CPI of the first 9 months was equal to YoY rate of 2014, growth rate at current prices was approximately equal to growth rate at constant prices.

70. The investment to GDP ratio was 33.2% in Q3, higher than previous quarters of 2015 and Q3 of 2014 (Figure 18). For the first 9 months, the investment to GDP ratio was 31.9%, slightly higher than the same period of 2014 (31.2%). While the investment ratio hardly increased, there was significant contribution by individuals, private and FDI sector. If this trend prevails in the forthcoming years, economic growth will be improved and sustained.

Figure 18: Investment to GDP ratio

Unit: %

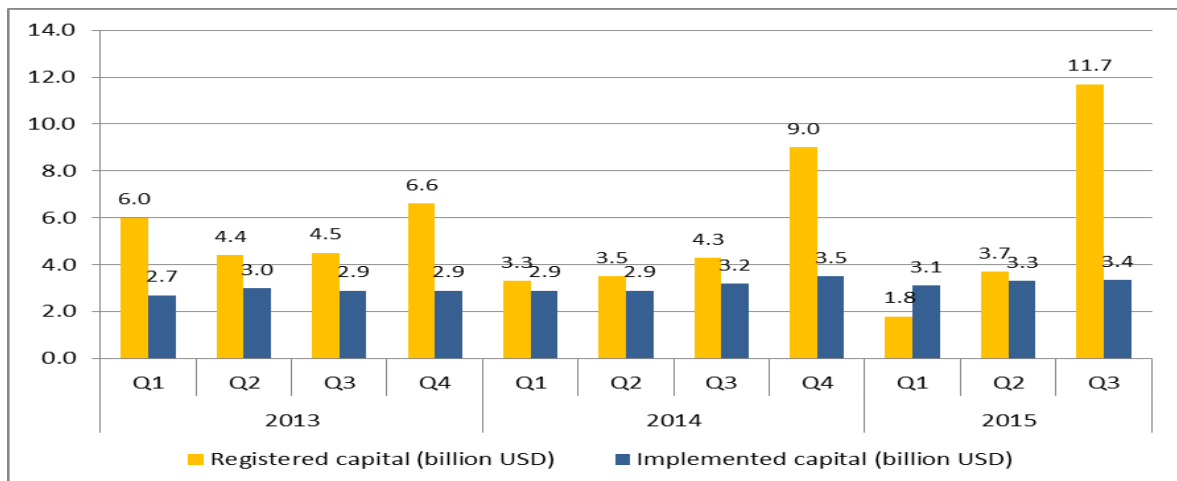


Source: GSO.

71. Foreign direct investment (FDI) attraction yields good outcomes in Q3. Newly registered and supplemented capital reached nearly USD 11.7 billion, 2.7 times higher than Q3 of 2014, and 2.1 times higher than the first 6 months of 2015. This is the peak volume of registered capital since 2013 (Figure 19). Newly registered and supplemented capital was concentrated in some big projects (Box 1). Overall, newly registered and supplemented capital reached USD 17.16 billion in the first 9 months, showing a YoY growth of 53.4%.

Figure 19: FDI attraction to Vietnam

Unit: Billion USD



Source: GSO.

72. FDI inflows largely came to manufacturing sector, with total registered capital of USD 7.2 billion and USD 11.4 billion in Q3 and the first 9 months respectively. In Q3, manufacturing industries accounted for 61.6% of total registered capital, following by production and distribution of electricity, gas, steam and air-conditioners (21.3%) and real estate sector (11.5%).
73. Korea topped the list of biggest investors in Vietnam in Q3, with newly registered and supplemented capital of USD 4.2 billion, accounting for 36.2% of FDI inflows to Vietnam. Malaysia ranked second with total capital of USD 2.4 billion, accounting for 20.9%.

Box 1: Newly registered and supplemented capital of big projects in Q3

- Duyen Hai 2 Thermal Power Plant Project in Tra Vinh province invested by Janakuasa Sdn. Bhd-Malaysia, with total capital of USD 2.4 billion to design, construct, operate and transfer a coal-fired power plant of 1,200 MW (including two turbines with designing capacity of 600 MW each).

- Samsung Display Vietnam Project supplemented USD 3 billion; this project was licensed in 2014 with total initial outlay of USD 1 billion in Yen Phong 1 Industrial Park of Bac Ninh, with the objective of producing, assembling, manufacturing and selling screen facilities.

- Empire City Joint-venture Limited Liability Company between local firms, Tien Phuoc Real Estate Joint-Stock Company and Tran Thai Real Estate Limited Liability Company, and Denver Power Ltd-UK, invested in real estate industry in Ho Chi Minh City. Total registered capital of the project is USD 1.2 billion.

Source: Ministry of Planning and Investment.

74. FDI disbursement continued to increase (Figure 19). In Q3, FDI disbursement reached USD 3.4 billion, the peak after many quarters. Disbursement ratio of foreign partners was relatively stable (approximate 70%). Overall, for the first 9 months of 2015, implemented FDI reached USD 9.65 billion, increasing by 8.4% (YoY). The stable growth of implemented FDI helped add important resources for production and business activities in Vietnam.
75. Increase of private and FDI investment in Q3 was induced by: (i) prospects of robust economic recovery in Vietnam; (ii) efforts to improve business environment and open up domestic market (including real estate market) in the first 9 months; (iii) more rapid credit growth in Q3,³³ in the context of less crowding-out effects of public investment; and (iv) preparation ahead of upcoming FTA (such as FTA with Korean and EU, or TPP, etc.).³⁴

1.5. Trade

76. Exports attained USD 42.2 billion in Q3, 8.8% higher than that in 2014 (YoY). Exports in Q3 grew at slower pace relative to Q1 and Q2/2015 (Figure 20).

³³ See more in section 1.3.

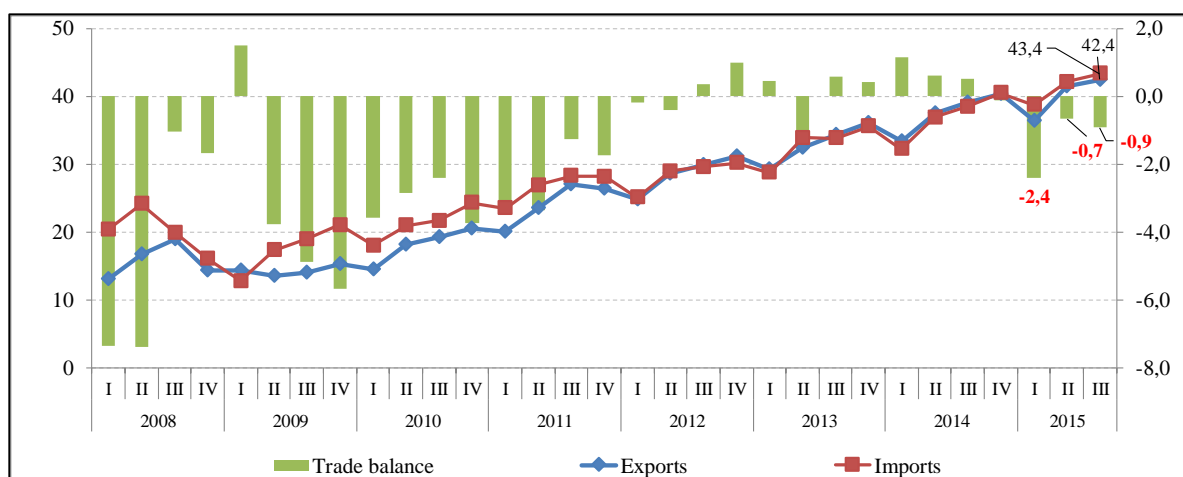
³⁴ Investment from Russia went up only by USD 1.5 million in Q3 (in spite of having FTA with Eurasian Economic Union).

Export growth rate in Q3 of 2015 was lower than the corresponding figures for Q3 of 2010-2014³⁵. For the first 9 months of 2015, exports reached USD 120.2 billion, increasing by 9.2% (YoY), which is lower than the target for 2015 (about 10%).

77. Export structure hardly changed in the first 9 months. The list of products with large export value and high growth rate still has “traditional names”, such as electronics, computers and spare parts (USD 11.3 billion, increasing by 51.5% - YoY); telephones and components (USD 23.0 billion, 33%); garment and textiles (USD 17.0 billion, 10%), and; wood and wood products (USD 4.9 billion, 9.3%).
78. Slow export growth in Q3 could be attributed to key factors, including: (i) a drop in the export price (in USD) of many key products³⁶ due to the appreciation of the USD and more abundant supply in international markets; and (ii) sluggish demand in major export markets in the absence of sound economic recovery in those markets. Changes in the USD exchange rate against some currencies (including VND) in August did not yet affect Vietnam’s August and September exports.³⁷

Figure 20: Quarterly imports, exports and trade balance, 2008-2015

Unit: Billion USD



Source: General Department of Customs.

Note: Imports and exports are presented in the left axis; trade balance is presented in the right axis.

³⁵ Exports’ growth rate in Q3 and the first 9 months: 13.6% and 14.4% (2014); 14.8% and 15.2% (2013); 10.8% and 18.3% (2012); 40.5% and 36.3% (2011); 36.8% and 23.7% (2010).

³⁶ Export price index of minerals and materials declined by 2.39% in Q3 compared to in the previous quarter, of which that of coal, rice, fishery products, computers and spare parts went down by 1.98%, 7.46%, 2.02%, and 2.35%, respectively; etc.

³⁷ Most export contracts were signed before this time. However, some exporters had to reduce export price upon demand of their trading partners due to exchange rate fluctuation (for example, because of the depreciation of CNY, exporters of agricultural products to China had to lower export price compared the price set in the contract).

79. Imports amounted to USD 43.4 billion in Q3, increasing by 12.6% (YoY). Import growth significantly decelerated in Q3 compared to Q1 (20.1%) and Q2 (12.6%). In the first 9 months, imports reached USD 124.2 billion, representing an YoY growth of 15.6%. In the first 3 quarters of 2015, import growth always outpaced export growth.
80. Falls in international prices induced reduced growth in the value of imports for many product categories. Notably, import price index of materials and inputs dropped in Q3.³⁸ However, imports still increased rapidly in Q3 due to such reasons as: (i) recovery of domestic economic growth, especially investment and consumption demand, resulting in higher demand for consumer goods and inputs from imports;³⁹ (ii) underdevelopment of supporting industries, thus export enterprises (especially FDI ones) still depend heavily on imported inputs; and (iii) the appreciation of VND against many other currencies in early 2015 which made foreign goods become relatively cheaper.
81. Exports by domestic enterprises increased in Q3. Specifically, exports of this sector rose by 5.4% in Q3 instead of decreasing consecutively in Q1 and Q2 (by 7.3% and 6.8%, respectively). For this sector, import growth also outpaced export growth. Imports of capital goods and intermediate inputs for export-oriented production still accounted for the major share of total imports of domestic enterprises.
82. The switch in Renminbi exchange rate regime and China's economic downturn in Q3 are yet to materially affect Vietnam's trade. Imports from China reached USD 36.8 billion, increasing by 18.1% (YoY) in the first 9 months of 2015. The main reasons include: (i) competitiveness of China's REER;⁴⁰ and (ii) heavy dependence of Vietnamese enterprises (even large FDI firms) on imported inputs from China.⁴¹ Exports to China grew rapidly, attaining 12.5% in the first 9 months (though still lower than the 15.6% during the first 9 months of 2014).
83. The trade deficit amounted to USD 0.9 billion in Q3, equivalent to 2.2% of exports. The deficit was higher than in Q2 but lower than in Q1 (Figure 20). Overall, in the first 9 months, the accumulated trade deficit reached USD 4.0 billion, equivalent to 3.5% of exports. However, the pressure from the trade deficit on the VND/USD exchange rate is less than in previous years.⁴²

³⁸ Import price index of fuels decreased by 11.29% in Q3 (compared to Q2); while that of pesticide and materials; materials of garment, textiles and leather shoes; steels dropped by 2.67%; 2.74%; and 3.3%, respectively; etc.

³⁹ Imports of production materials was estimated at USD 113.5 billion in the first 9 months (or 91.4% of total imports).

⁴⁰ Converted to REER of CNY, the price of Chinese products were 0.7% and 3.6% cheaper than foreign ones in Q3 and the first 9 months.

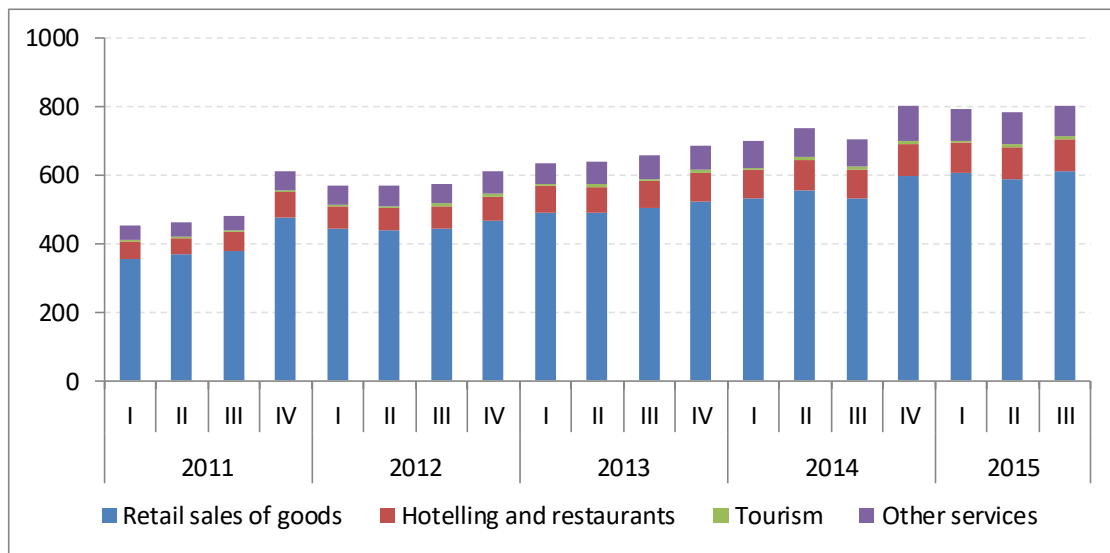
⁴¹ In addition to price competitiveness, inputs from China are able to meet the demand in terms of: (i) quantity; (ii) quality (relatively competitive); and (iii) timely supply. Accordingly, it is not easy to find a substitute source of inputs for Vietnamese enterprises.

⁴² Some internal import-export activities of FDI corporations of Vietnam do not accompanied with the actual foreign cash flows.

84. The substantial conclusion of TPP negotiations in Atlanta in October 2015 may considerably change the trade relations and structures of member countries, including Vietnam. Specifically, in the long run, Vietnam may enjoy benefits from such factors as: (i) increased trade with high-income and demanding economies; (ii) participation in the value chains with enterprises that possess managerial expertise and high technology;⁴³ and (iii) pressure on domestic reforms toward a more friendly, level and coherent investment-business environment.⁴⁴ However, the realization of TPP and its opportunities depends on: (i) the capacity and ratification process of member countries; (ii) progress with the Regional Comprehensive Economic Partnership (RCEP), which may counter TPP in East Asia; and (iii) readiness at both institutional and firm levels in member countries.
85. Domestic trade grew relatively well. Total retail sales of goods and services was estimated at VND 802.4 trillion in Q3, up by 13.6% (YoY), which was the highest growth rate since early 2015. Retail sales of goods, tourism services, and hoteling and restaurants grew more rapidly in Q3 than in Q2: retail sales of goods rose by 14.7% in Q3 (compared to 6% in Q2); tourism revenues by 13% in Q3 (after consecutive falls by 9.2% and 2.6% in Q1 and Q2, respectively).

Figure 21: Total retail sales of goods and services, 2011-2015

Unit: Trillion VND



Source: GSO.

86. More buoyant domestic trade in Q3 could be attributed to several reasons, including: (i) improved confidence of consumers and enterprises on economic prospect; (ii) lower prices of various products while CPI decreased in a long period, which affected inflation expectation of citizens and enterprises; (iii) stable deposit rates; (iv) purchasing power of VND increased in early 2015

⁴³ Including non-TPP enterprises invested in Vietnam.

⁴⁴ Benefits from tariff reduction in TPP countries are important, but could not be realized without the above mentioned factors.

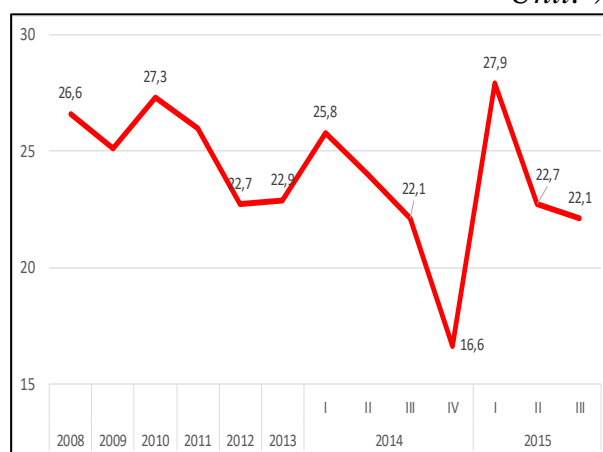
(because the VND/USD exchange rate fluctuated insignificantly and the USD appreciated against other currencies)⁴⁵.

1.6. Budget revenues and expenditures

87. Total budget revenues in Q3 reached VND 236.8 trillion, increasing by almost 6.5% (YoY). This amount is equal to 26.0% of planned figure for 2015. The ratio of budget revenues to GDP reached 22.1% in Q3, lower than Q1 and Q2 and similar to Q3 of 2014 (Figure 22). The pace of budget revenue collection has slowed down relative to the economic growth recovery.

Figure 22: Budget revenues to GDP ratio

Unit: %



Source: Authors' compilation.

88. In Q3, domestic revenues were VND 176.1 trillion, accounting for 74.4% of total budget revenues. This ratio has decreased compared to Q1 (76.6%), albeit higher than in Q2 (70.9%). On average of the first 9 months, domestic revenues account for 73.8% of total budget revenues. Revenues from trade contributed 18.1% of total budget revenues in both Q3, and in the first 9 months. This source of revenue fell by 10.8% (YoY), because: (i) many tariff lines were further phased out due to the commitment of Vietnam in its FTAs; and (ii) decreases in import prices⁴⁶. Revenue from crude oil in Q3 went down by 37.3% (YoY), largely because of declining crude oil prices. Revenues from selling houses and land-use fees continue to increase, accounting for 8.6% of domestic revenues in Q3.⁴⁷

89. Budget expenditure reached VND 258.1 trillion in Q3, equal to 23.9% of the planned figure. Budget expenditure in Q3 increased by nearly 1.0% (YoY) and by 4.8% compared to Q1, by was 4.5% smaller than in Q2. The slow growth of budget expenditure is due to: (i) the orientation to economize on budget expenditure; (ii) the large repayment of principal in Q3⁴⁸; and (iii) scarcity of resources that leads to slow disbursement of several items⁴⁹.

90. The value of newly issued GBs amounted to VND 21.5 trillion in Q3, of which those issued in July accounted for 68.7%. The value of GBs issued in Q3 only

⁴⁵ See Macroeconomic Reports for Q1 and Q2 by CIEM.

⁴⁶ See sub-Section 1.5.

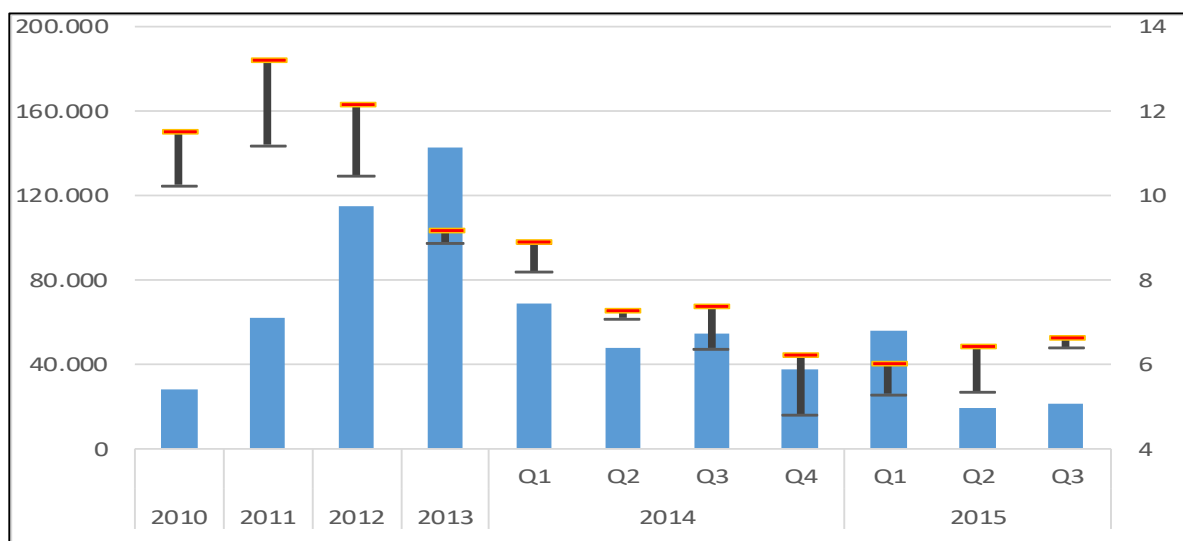
⁴⁷ In the first 9 months, this item already exceeded the planned figure for 2015 by 6.5%.

⁴⁸ Principal repayment was VND 20.6 trillion in Q3, equivalent to 31.7% of planned figure for 2015. Cumulated principal repayment in the first 9 months reached more than VND 54.2 trillion, equivalent to 83.3% of the planned figure for 2015.

⁴⁹ Development investment expenditure in Q3 and the first 9 months only reached 20.9% and 65.3%, respectively, of the planned figure for 2015.

grew by 13.1% compared to Q3, but declined more than 60% (YoY). Interest rates of successful bids in Q3 ranged between 6.39 – 6.60% p.a., slightly higher than Q2 (5.35-6.4 p.a., Figure 23).

Figure 23: Government Bond issuance, 2010-September 2015



Sources: HNX.

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

91. Similar to Q2, GB issuance in Q3 was limited because: (i) newly issued GBs must have at least 5 years to maturity as required by the National Assembly; (ii) SBV has not loosened conditions for commercial banks to purchase GBs. However, GBs in Q3 were of a small scale also because the interest rate is unattractive to commercial banks (interest rate for successful bids ranges from 6.28-7.55% p.a. for bonds with 5 year terms to maturity). As a possible underlying reason, the Government might want to control interest payment and/or already have other plans to mobilize capital.
92. The pressure in finding resources for government expenditure has fairly diminished, mainly because there are plans/methods to mobilize other legal resources. In Q3, the SBV has disbursed a short-term loan of VND 30 trillion to the State Budget (with the statutory requirement to repay within the fiscal year). In addition, an amount of USD 1 billion of GBs - issued in foreign currency to the Joint Stock Commercial Bank for Foreign Trade of Vietnam - was disbursed. This could be the initial basis for further issuances of GBs denominated in foreign currency in Vietnam. An alternative being considered is issuing GBs in foreign currency to international markets.
93. Current alternatives to mobilize funds for State Budget expenditure all have limitations. Issuing foreign-currency GBs in the domestic market could alter the balance of the foreign currency market at times of issuance, disbursement and maturity. A short-term loan of VND 30 trillion from SBV helped relieve pressure on the State Budget in Q3, yet such pressure could materialize again in

Q4 (especially before maturity). Various forms of borrowings only produce limited outcomes since public debt is close to the permitted ceiling.⁵⁰ Increases in State Budget revenues hardly fills the gap in resources for budget expenditure,⁵¹ whilst possibly adversely weakening domestic economic recovery. Most importantly, State Budget expenditure is yet to be strictly disciplined, leading to excessive and/or scattered and ineffective expenditure.

94. To achieve effective State Budget management in the long term, the roles of the Government and Ministries need thorough reviews. Under current functions, many Ministries closely associate their activities with public investment.⁵² This leads to excessive and dispersed delivery of public investment, notwithstanding very scarce Budget resources. Without a determination to cut State Budget expenditure (including public investment), tension will prevail, if not increase, in the conduct of fiscal policy in Q4/2015 and thereafter.

2. Macroeconomic Outlook

95. A forecast scenario is specified for Vietnam's economy in Q4/2015, in line with the context of global and domestic economic developments. GDP growth in partner countries is projected at 3.0%.⁵³ US inflation may reach 0.8%⁵⁴. Export prices of agricultural products may decline by 3%⁵⁵. The international crude oil price will remain unchanged compared to Q3. For Vietnam, the nominal VND/USD exchange rate may not be adjusted in Q4. Total liquidity increases approximately by 4%, and credit by 4%. Import price falls by 1%. Population grows by 0.26% and employment by 0.32%. The volume of exported crude oil is assumed to remain unchanged compared to the average of the first three quarters. The REER is assumed to increase by 1% in Q4. On the balance of payment, Government transfers remains unchanged, while private transfers (net) increase by 2% compared to Q3. Implemented FDI capital (including foreign and domestic capital) is equivalent to Q3 levels. Investment from the State Budget and GBs will be VND 60 trillion and VND 40 trillion, respectively.
96. The forecast result shows that YoY economic growth in Q4/2015 can reach 6.83% (Table 7). For 2015 as a whole, GDP growth is projected at 6.61%. Export growth is projected at 10.38% and 9.66% in Q4 and in 2015, respectively. However, if GDP in partner countries grows faster and there is no hike in US interest rates, export growth for 2015 could possibly reach 10%. The trade deficit is projected at USD 0.5 billion in Q4; the accumulative amount is USD 4.6 billion for the whole 2015. CPI will increase, but only by 0.28% in Q4.

⁵⁰ According to MOF, Vietnam's public debt could reach 62.3% GDP by the end of 2015. For more information: <http://dantri.com.vn/kinh-doanh/no-cong-du-kien-len-62-3-gdp-vao-cuoi-nam-2015-20150923084942891.htm> [17/10/2015]

⁵¹ Many revenue items are under the authority of the National Assembly and can hardly be adjusted in a short period of time.

⁵² Even strongly decentralized.

⁵³ According to IMF (2015), the projection of global GDP growth in Q4/2015 is at 3% (YoY)

⁵⁴ <http://projects.wsj.com/econforecast/#ind=cpi&r=10> [17/10/2015]

⁵⁵ From IMF projection (2015), the price decrease in 2015 is by 11.9%.

Table 7: Projection of macroeconomic indicators, Q4/2015 and whole 2015

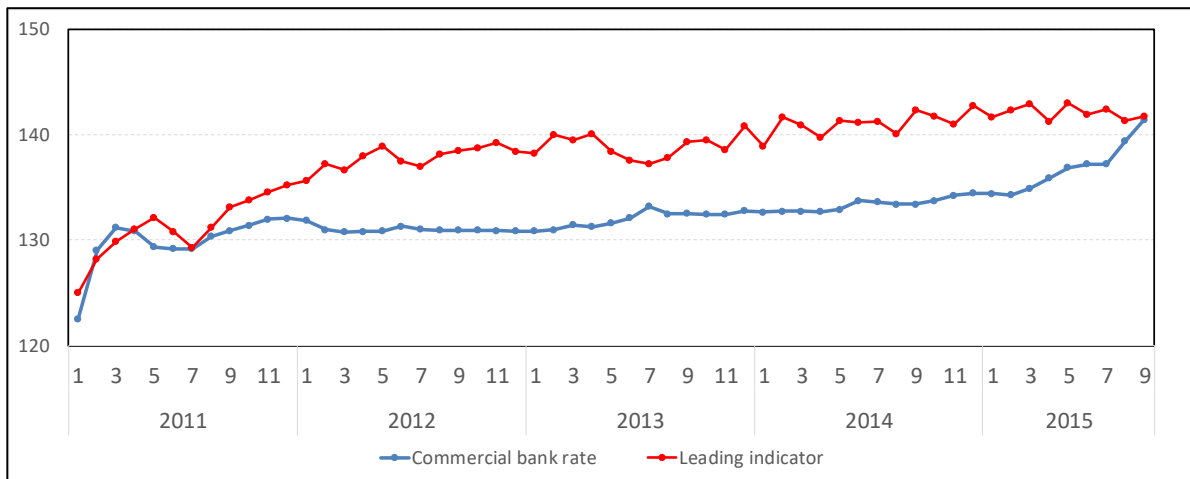
Unit: %

	Q4	2015
GDP growth rate (YoY)	6.83	6.61
Inflation (compared to Q3/2015)	0.28	0.68
Export growth (YoY)	10.38	9.66
Balance of Trade (<i>billion USD</i>)	-0.5	-4.5

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

97. The potential volatility of VND/USD exchange rate in the coming quarters deserves attention (Figure 24). CIEM's leading indicator of exchange rate⁵⁶ shows no substantial change (over 3%) in September 2015, implying that the exchange rate of commercial banks will probably be stable in Q4 (with a probability of 94.3%).

Figure 24: Leading indicator of exchange rate



Source: Authors' calculation.

98. Macroeconomic developments in Q4 are subject to several factors. *Firstly*, the recovery of the global economic growth remains uncertain. Tensions and/or conflicts among major countries may shadow global economic activities. The FED has still left open the possibility of raising USD interest rates in Q4; if that action is further delayed, Vietnam's capital flow and/or interest rates and/or VND/USD exchange rate will be under larger uncertainty. *Secondly*, the major economies continue to strengthen their influence through various measures, especially cooperation in infrastructure development (such as in East Asia). *Thirdly*, the risk of "currency wars" among major economies has diminished, but this also weakens the motivation for cross-country cooperation to strengthen global financial-monetary stability. *Fourthly*, easing of monetary policy and its interaction with fiscal policy will have substantive implications for production

⁵⁶ Monthly calculation based on component indicators of inflation, interest rate and trade deficit.

and business activities in Vietnam. In particular, technical and information handling during sensitive moments (such as when the US considers an interest rate hike, or when VND 30 trillion from the State Budget is repaid to the SBV). Finally, the quality of business environment reforms – in order to implement the important Laws (such as the revised laws on Enterprises and on Investment), to facilitate business operations (in accordance with Resolution 19), and to reduce discrimination and differences affecting competition - will significantly affect enterprises' confidence and investment in both Q4 and beyond.

III. OUTSTANDING ISSUE: SOE EQUITIZATION UNDER PLAN FOR 2014-2015

99. Equitization is the key solution to reform, restructure and improve the efficiency of SOEs in Vietnam. By September 2015, 4,300 enterprises and bodies of SOEs had transformed into joint stock companies.
100. On July 17th, 2012, the Prime Minister issued Decision No. 929/QĐ-TTg approving the Project “Restructuring SOEs, focusing on State-owned economic groups, corporations in the period of 2011-2015”. The Prime Minister requires ministries, sectors, localities, State-owned economic groups and corporations to approve the plan of arranging and reforming SOEs until 2015; and to identify sectors and areas that require post-equitization State ownership of more than 75%, of from 65% to 75%, of less than 65% (of chartered capital), or no State ownership. On that basis, in February 2014, the Council on Implementing Tasks to Restructure SOEs set the target of equitizing 432 enterprises in the two years 2014-2015.

Ambitious goal

101. Since 2007, SOE equitization progress has been sluggish, with inadequate results compared to plan. During 2007-2010, Vietnam only achieved 30% of equitization target. Vietnam equitized 12 SOEs in 2011, 13 SOEs in 2012 and 74 SOEs in 2014. Many ministries, sectors and localities, State-owned economic groups, corporations equitized no enterprises under their authority during this period.
102. With such a progress, in the context of economic downturn without robust recovery of the financial market, the target to equitize 432 enterprises in 2014 and 2015 (excluding more than 100 enterprises in the expanded plan)⁵⁷ has affirmed the Government’s determination to reform SOEs. Yet such a target is also considered both challenging and ambitious.

Implementation efforts

103. To speed up SOE equitization in the 2014-2015 period, many mechanisms and policies have been amended and supplemented. Decision No. 37/2014/QĐ-TTg of the Prime Minister stipulates the criteria, classification of SOEs with more enterprises for equitization, enterprises that the State does not need to hold controlling shares, and enterprises that the State do not need to hold any shares. The recent Decree of the Government on equitization,⁵⁸ which came into force on 15 January 2014, is expected to address key institutional bottlenecks, such as the valuation and debt settlement in SOE equitization.

⁵⁷ After reviewing the new criteria for SOE classification, the Steering Committee on Enterprise Reform and Development identified, in March 2015, 106 additional enterprises for equitization in 2015 and 109 more for the 2016-2020 period.

⁵⁸ Decree No. 189/2013/ND-CP amending and supplementing some articles of Decree No. 59/2011/ND-CP dated 18/7/2011 of the Government on transforming wholly State-owned enterprises into joint-stock company.

104. Resolution No. 15/NQ-CP dated 6/3/2014 - issued by the Government on solutions to speed up equitization and divestment of State capital in enterprises - requires ministries, line authorities, economic groups and corporations to speed up planning and equitization progress. In case equitization cannot be completed in accordance with plans, the Board of Members of State economic groups and corporations, the Board of Members and Chairmen of SOEs and the managers of enterprises are obliged to identify objective and subjective reasons, the responsibilities of related groups and individuals and report to the competent authorities for consideration and handling. Simultaneously, the Ministers, Heads of Ministerial-level agencies, Chairmen of People's Committees directly under the Central government shall be accountable to the Government, the Prime Minister for the delay, if any.
105. Pursuant to the Government Resolution, the Prime Minister issued Decision No. 51/2014/QD-TTg allowing SCIC to purchase IPO shares of equitized enterprises by advance negotiation and public auction of equitized enterprises; associating equitization with registration and listing for trading. According to the Decision, within 90 days from issuing the business registration certificate, the equitized enterprises must complete the procedures for public company registration and stock registration with the central securities depository at the Securities Depository Center and trading registration on UPCoM; equitized enterprises must submit dossiers to complete listing procedures at the stock exchanges if they meet all conditions for listing. Decision No. 51/2014/QD-TTg also require competent authorities to approve equitization plans, including registration of stock being traded and listed on the securities market.
106. In mid-2015, the Government released Resolution 40/NQ-CP addressing difficulties and obstacles in restructuring SOEs. For enterprises whose equitization plans have already been approved by competent authorities but have no opportunities to organize IPOs immediately, the shares sold to their employees and unions shall be equivalent to 60% of the starting price under equitization plan. If the market value of the long-term capital of the equitized enterprise in other enterprises is less than the book value, the market value should be recorded for long-term capital. Ministers and Chairmen of provincial People's Committees shall select consulting organizations and auction organizations to implement equitization procedures.
107. Under the directions of the Government, over the last 2 years, ministries, line authorities, economic groups, state corporations have seriously instructed and implemented strong measures. Many agencies adopted innovative measures in conformity with the law, and made numerous efforts to equitize enterprises under their authority like the Ministry of Industry and Trade, the Ministry of Agriculture and Rural Development, the Ministry of Construction and especially the Ministry of Transport.⁵⁹

⁵⁹ In 2014, 53 enterprises under the Ministry of Transport completed equitization process, accounting for 30% of equitized enterprises nationwide. In the first 6 months of 2014, Ministry of

Modest results and unsatisfactory progress

108. According to the Ministry of Finance, 143 enterprises were equitized in 2014 and 93 in the first 8 months of 2015. In the last 4 months of 2015, Vietnam thus needs to equitize 50% of enterprises according to the 2014-2015 plan. Completing equitization for such a large number of enterprises in the limited remaining time of the 2014-2015 period clearly poses a major challenge.
109. More broadly, SOE equitization over the last one and a half years has made no significant contribution to economic restructuring. Through 89 trading sessions on the Hanoi stock exchange (HNX) from the beginning of 2014 to August 2015, the number of sold shares accounts for 32% of the total shares under offer; the par value of shares was equivalent to only 21% of chartered capital, implying that SOE equitization is yet to be attractive to external investors, and the ratio of shares held by the State remains substantial. Consequently, equitization failed to help reallocate resources between SOEs and other businesses, and its impact on economic restructuring remains modest.
110. Delays in equitization are mainly due to difficulties in the financial markets, declines in the stock market, low stock demand and the oversupply shares of stock.
111. Apart from above objective reasons; subjective reasons significantly affect the result of equitization, such as:
- Equitization mechanisms and policies, notwithstanding high attention, still expose inadequacies. The valuation of enterprises - especially the valuation of trademark, brand, and the right for land leasing - encountered various difficulties. The starting price for auctioning shares is not adequately justified, often higher than market expectation; therefore, the proportion of auctioned shares was low. Thus, various enterprises could sell no shares, and had to re-auction or postpone their IPO. Upon issuance, the single type of ordinary shares failed to meet the diverse demands of investors - especially when the stock market was down - which slowed down equitization.
 - Weaknesses in implementation remained, though the Government, the Prime Minister, Heads of ministries and localities issued a range of firm requests. The progress of preparing, appraising and approving equitization plan lags behind schedule. Many agencies, organizations and businesses fell short of active implementation. Delays of equitization process were not punished, even though prior guidelines were already made explicit on this issue.
 - The high share of State-owned capital still exists in many equitization plans, making external investors hesitate to buy shares. Even in some cases that State ownership is unnecessary, controlling or positive shares are still popular.

Transport has successfully directed IPO for 7 enterprises, finishing all procedures to prepare equitizing the remaining SOEs according to the approved Scheme of restructuring SOEs. Besides, MOT has reported to the Prime Minister to approve equitization for 16 public service units including 10 schools, 2 hospitals and 4 road vehicle registration centers in 2015.

Seeking strategic investors is particularly difficult. Classifying SOEs into many categories in which the State shall hold 75%, 65%, 50% and below 50% of chartered capital is complicated, causing a concern about substantial control of the State after equitization.

- Institutionally, obstacles in equitizing enterprises since early 2014 were mainly addressed via directive documents. Legal documents on equitization were not promptly amended and supplemented in line with the drafting, the promulgation and implementation of the Enterprise Law and the Law on Managing and Using State Capital in Production and Business. Some 2 months after these laws came into force (as of July 1, 2015), guiding documents remained absent, including those regarding equitization (for example, regulations on classification of SOEs which helped identify those subject to equitization).

Box 2: Delay in SOE equitization

SOE restructuring makes slow progress. The number of enterprises that have to be restructured and equitized, and to divest the state capital in the last six months of the year is large. Some mechanisms, policies on restructuring and equitizing SOEs took too long to be issued. Supplementing and amending mechanisms and policies - in order to resolve difficulties arising from actual implementation – took too long; some agencies paid hardly any attention to address the difficulties and problems for enterprises so as to accelerate the SOEs restructuring process

Both objective and subjective reasons could be cited, but these shortcomings are mainly due to subjective reasons; especially, the responsibility of heads of agencies, units and enterprises for restructuring SOE were not identified clearly. Until now, only a handful of units like the Ministry of Transport, the People’s Committee of Ho Chi Minh city have successfully implemented equitization.

Source: Notice of the Government Office No.218/TB-VPCP dated July 9, 2015 about the Meeting on SOE restructuring in the first six months of 2015.

112. Another reason comes from the SOEs themselves. Profitability of buying SOE shares is no longer attractive to investors due to poor performance of the majority of SOEs⁶⁰, primarily in the highly competitive sectors like manufacturing, transport, construction, etc. Investors pay even less attention to public-service SOEs.
113. Among those SOEs equitized and making IPOs since 2014, only a modest number of enterprises had good business performances that were attractive to investors. Meanwhile, the majority of those SOEs belongs to the sectors encountering various difficulties such as transport, construction and a few local businesses.

⁶⁰ ROE of SOEs reached 15-17% p.a; however, the consolidated profit of the holding companies of four groups: PVN, Viettel, Post & Telecommunication, and Rubber industry already accounted for 70%, suggesting that the remaining SOEs largely achieved profit margin of under 10% p.a.

114. Weaknesses in SOE operating mechanism before equitization have slowly improved, but still cause concerns for many investors, especially foreign strategic investors:

- Governance of SOEs underwent slow improvement, while some governance issues prevail: The supervisory system is weak and insufficient to become instrumental for investors, citizens and society to promptly comprehend actual performance of SOEs in order to make appropriate and timely decisions to help enterprises to improve their operational efficiency. The monitoring mechanism lacks systems to warn about, and prevent, production and business risks. Information about SOEs in general and ownership policy of SOEs before and after equitization is not widely publicized in accordance with the regulations, making external investors hesitate to buy SOEs shares.
- While SOE operating mechanism of SOEs have improved over time, some aspects lack a sound market basis. SOEs have less independence in setting prices, making contracts and exercising own autonomy than other enterprises. The management regime does not sufficiently encourage better SOE performance. The accountability of the representatives State ownership rights - including the Board members and supervisors - is low. Accounting for expenses does not fully reflect uses of resources in accordance with market disciplines. Financial disciplines and hard budget constraints were violated in many SOEs. Most SOEs face no pressure to pay dividends, and only need to report profits. The cost of capital is below the market rate. Full accounting for opportunity costs rarely receives adequate attention.
- Some poorly performed SOEs - which should be dissolved or declared bankrupt - receive support to continue operations, and are even being listed for equitization.

Prospect for completing the 2014-2015 plan

115. Given its particular role and objectives in economic restructuring, SOE restructuring during 2014 – 2015 failed to sufficiently attract external investors and reallocate resources from the State to other sectors by the end of 2015. Thus, SOE restructuring may not substantially contribute to economic restructuring. It will be more practical if the above tasks are continued till the final stage of the Socio-economic Development Strategy for 2011-2020 and the Plan on Economic restructuring in line with shifting the growth paradigm towards improved quality, efficiency and competitiveness for 2013-2020.

116. The 2014-2015 equitization plan can hardly be completed in terms of number of restructured SOEs; however, a positive result could be achieved under more favorable conditions alongside suitable and timely policies in the context of preparing for the National Congress of the Communist Party of Vietnam.

117. From the experience with equitization since 1992, belief in successfully transforming more than 200 SOEs into joint-stock companies in a short period of time can be justified. From 2003 to 2006, Vietnam equitized nearly 2.700

enterprises, equivalent to 670 enterprises per year on average. At that time, beside the development of the stock market, reforming equitization mechanism significantly improved the implementation result. Such reforms include required information dissemination and transparency on market basis, resolution of closed equitization within enterprises, and the development of capital and stock markets.

118. From past experience, the number of enterprises finishing equitization usually increases dramatically towards the end of the year. In 2014, 143 SOEs were transformed into joint-stock companies, of which 48% completed the process in November and December.
119. The Government, the Prime minister and the Steering Committee on Enterprise Reform and Development, leaders of ministries and localities have recently acted more decisively to complete the equitization plan.
120. In Q3 and Q4 of 2015, significant reforms were made to the institutional and legal framework for SOEs in general, and equitization in particular. Ministries and line authorities actively and quickly completed the drafting process and submit various documents to the Government and the Prime Minister. Those documents include guidance for the Enterprise Law and Law on Managing and Using State Capital in Production and Business. Some draft documents aim to strengthen the legal basis to speed up equitization: Decree on information disclosure for SOE; Decree on investment of the state capital in enterprises and management and use of capital and assets in enterprises; and Decree on monitoring, evaluating the effectiveness of information disclosure to business activities. The Ministry of Planning and Investment has finished a draft of the Decision on amending and supplementing the criteria for classifying SOEs. Accordingly, the enterprises subject to equitization and divestment of the State capital have been expanded; the State does not need to hold all chartered capital in most holding companies of important economic groups and corporations.
121. Finally, implementation arrangements could speed up the equitization of SOEs. Eligible enterprises will conduct IPO in line with rules; enterprises not able to implement an IPO immediately can become joint-stock companies whose shareholders could be the State, SCIC, labour union, employees, strategic investors (if any) or other voluntary shareholders. Depending on the specific conditions in each enterprise, the State can hold a large amount of shares. In other words, SOEs could be quickly transformed into joint-stock companies in the absence of strict requirements for attracting external private investors.
122. The above overall context provides hope for positive result of equitization plan during the 2014-2015 period in terms of the number of transformed enterprises. With a view to improving market institutions and improving corporate governance, the transformation of SOEs into joint-stock companies presents an important intermediate step.
123. Nevertheless, equitization and restructuring of SOEs should be evaluated in terms of the contribution to economic restructuring and Vietnam's overall

development, rather than based on the number of transformed enterprises. Therefore, during the 2016-2020 period, Vietnam should adopt more fundamental solutions to improve SOE governance toward international standards and impose market discipline and financial discipline on SOEs; change the management mechanism of state owners, removing privileges and advantages of SOEs, and redefining the role of SOEs in market institutions to promote the private sector and ensure a suitable structure of SOEs in a market-oriented economy.

IV. RECOMMENDATIONS

124. The economy witnessed positive changes in the first 9 months in general and Q3 in particular. Economic growth recovery became more robust. Investment growth started to accelerate. Industrial production went up rapidly, accompanied by the higher added value. Business confidence has improved significantly. Notably, those improvements took place under an international context with immense difficulties and uncertainties. To a certain extent, Vietnam has appropriately pursued a flexible, appropriate and closely incorporated macroeconomic management scheme among different ministries and line ministries.
125. Vietnam still encounters some issues – albeit prolonged ones – in its reforms. Microeconomic foundations and the role of the State have not changed in line toward a market economy in Vietnam. The dependence on exports - given sluggish global economic growth and modest improvement of national export competitiveness – subjects Vietnam to a number of uncertainties. The economic restructuring process and shift of the growth paradigm have not progressed as expected; inherent issues still prevail, such as high growth accompanied with trade deficit, a lack of coordination/connection between domestic and foreign enterprises, SOE reform and public investment reform. Macroeconomic management has been characterized by the domination of fiscal policy over monetary policy, despite stricter regulation. Intermediate targets of macroeconomic policy exhibit ambiguity; accordingly, the policy effectiveness heavily relies on the flexibility and the “manipulation” of relevant authorities.
126. Recent macroeconomic stability only constitutes a necessary condition to improve confidence on the investment-business activities. Of similar importance are opportunities to strengthen and expand international economic integration and cooperation at various levels (multilateral, bilateral). Vietnam can hardly return to a trajectory of rapid economic growth without corresponding and more comprehensive efforts for micro level economic reforms. The preparation for the national Party Congress (which may take place in early 2016) partly crowds out efforts to consider and implement longer-term reforms. Nonetheless, the coming months are important moments to make top level commitments and policy decisions, aiming at a more comprehensive transformation of Vietnam’s economy.

1. Recommendations on further reforms of microeconomic foundations

127. Quickly issue formal legal documents guiding the implementation of (amended) Investment Law, (amended) Enterprise Law, etc. Concretize the guidelines for no restrictions on freedoms to do business (in areas that are not prohibited by laws) by removing unreasonable, unlawful business conditions; simplify other business conditions.
128. Motivate and accelerate the implementation of Resolution 19 on key tasks and measures to reform business environment and strengthen competitiveness in

2015-2016, and its related measures, in order to create momentum for stronger improvements in the business environment in Q4/2015 and beyond.

- a. During implementation, results need to be regularly evaluated, feasible intermediate tasks and targets outlined, and adjustments made if needed.
- b. Consider organizing special meetings to share experiences and good practices in ministries, line ministries, local authorities during implementations of key Resolution 19 tasks.
- c. The implementation of measures, particularly on business environment reforms, requires effective and transparent consultations with the public and relevant stakeholders.

129. Review commitments under concluded or pending FTAs and international treaties of Vietnam in order to make appropriate legal adjustments.

- a) Further review and develop a roadmap to reduce discrimination and differential treatments (e.g., access to land and credit, Government procurement, etc.) that affects competitive neutrality between SOEs and private sector.
- b) Examine requirements on international regulatory cooperation to enhance capacity and adjust regulations in line with commitments.
- c) Consult business community, laborers and other social groups to prepare for the implementation of FTAs and other international treaties.

2. Recommendations of macroeconomic policies in Q4

** Monetary policy*

130. Assign highest priority to fundamentally restructuring commercial banks and resolving NPLs. This process should produce remarkable improvements by mid-Q4.

131. Prudently implement monetary policy, aiming at stabilizing inflation (or core inflation) for a sufficiently long period, to strengthen business confidence in making long-run investment decisions.

132. Avoid any administrative push for interest rate reductions, because of material pressure from the possible interest rate hike by the FED in Q4.

133. Reduce preferential credit for selected sectors or provinces. Phase out discriminatory and differential interest rates to guarantee that credit will be allocated based on market mechanism and directed to the most suitable projects. Disbursement of preferential credit should be accompanied with strengthening monitoring and regulating capacity in order to minimize distortions.

134. Closely monitor fluctuations in USD-denominated deposits in the commercial banking system, and in the BOP, to make suitable adjustments. If USD-denominated interest rate face upward pressure, or if informal foreign-currency loans are large enough, consider raising USD-denominated deposit rates.

135. Flexibly manage liquidity of commercial banks in order to support credit activities, provide for and respond to volatility of indirect investment flows (particularly when FED considers to adjust interest rate), as well as mitigate adverse changes at time the Government repays the short-term loan to the SBV.
136. Efforts to restrain the participation of commercial banks in GB issuance will not be effective if fiscal policy remains dominant and, more fundamentally, if reducing state budget expenditures receives inadequate attention.
137. Consider amending the communication strategy on exchange rate management. Re-stating the priority to stabilize the VND/USD exchange rate remains important in Q4. Examine the possibility of regulating exchange rate targets at higher frequency (for example quarterly exchange rate targets; or the flexible combination of quarterly and annually exchange rate targets.). Promptly clarify the possibility of adjusting the exchange rate in early 2016.

** Fiscal policy*

138. Maintain the pace of collecting state budget revenue in Q4 in line with planned targets. Avoid excessive collection, advanced collection or unreasonable taxes and fees, despite the need to fulfill state budget collection targets in line with the 2015 plan .
139. Consider external borrowings, associated with a transparent and credible repayment plans, to finance state budget expenditure.
140. Seriously and substantially consider the requirements to reduce state budget expenditure and public investment in Q4/2015 and beyond.
141. Accelerate disbursement of proceeds from GBs for investment in order to increase efficiency and reduce capital costs for the state budget.
142. Fiscal policy should coordinate with monetary policy more actively to help mitigate adverse impacts of repaying VND 30 trillion to the SBV in late 2015. In the following years, coordination effort should not be restricted to specific measures or transactions; instead, it should be incorporated in information dissemination on fiscal programming, depending on specific circumstances.
143. Further simplify procedures and reduce time to pay taxes and refunds for enterprises.
144. Maintain the requirement to issue GBs with terms to maturity of at least 5 years, to ensure sufficient medium- and long-term credit for enterprises.
145. Develop and publicize transparent medium- and long-term plan to repay public debt, to strengthen confidence and improve the sustainability of public debt.
146. Consider controlling the state budget deficit with a ceiling of 4-4.5% of GDP in the near future (at least until 2020).

** Trade policy*

147. Strictly implement and effectively take advantage of signed and enforced FTAs. Consider participation in, negotiation of, and the level of commitments in new FTAs, in order to ensure sufficient policy space for developing domestic manufacturing industries, especially key industries.
148. Seriously analyze and closely assess impacts of exchange rate volatility on imports and exports, so as to appropriately and efficiently adjust exchange rate policy to more effectively induce exports, while maintaining macroeconomic stability.
149. Provide information on world prices of key import-export products, and the demand and supply of major markets, so as to actively respond to market changes. Strengthen information dissemination and propaganda about concluded and pending FTAs (especially rules of origin) to help improve enterprises' preparation and their capacity to take advantage of FTAs.
150. Trade promotion should simultaneously focus on: (i) promoting export associated with marketing, business connection, trademark development and protection, etc. and (ii) promoting imports of important inputs that Vietnam has not been able to produce (in sufficient quality and quantity) and which help utilize the rules of origin in FTAs.
151. Further simplify administrative procedures to more substantially and effectively import and export (including areas of taxes, customs, certificate of origin, etc.).
152. Implement strict and comprehensive measures on market management, anti-counterfeiting, and smuggling.

** Price and salary policies*

153. Strengthen the transparency of cost accounting, managing and regulating prices of some products whose prices are controlled by the State such as electricity, water supply, petroleum, etc. in order to avoid adverse impacts on inflationary expectations, thereby helping to stabilize inflation. Avoid raising prices of those products and services just to "take advantage" of low inflation.
154. Consider and promptly subsidizing electricity bill to poor households and targeted beneficiaries, in order to mitigate adverse impacts on these groups.
155. Promptly decide on the increase of minimum salary for all areas so that enterprises can adjust their business and production activities.

APPENDICES

Appendix 1: Policy adjustments till Q3/2015

No.	Policy changes until the end of September 2015	
1	Economic reform	<ul style="list-style-type: none"> - SOE reform <ul style="list-style-type: none"> ○ Enterprise Law No. 68/2014/QH13 dated 26/11/2014 (taking effect from 1/7/2015) ○ Law on Managing and Using State Capital in Production and Business, No. 69/2014/QH13 dated 26/11/2014 (taking effect from 1/7/2015) ○ Document No. 1821/NHNN-TTGSNH dated 25/3/2015 on withdrawing SOEs' capital in joint stock credit institutions ○ Resolution No. 40/NQ-CP dated 1/6/2015 on the regular meeting of the Government in May, identifying orientations to solve difficulties and challenges related to SOE equitization ○ Decree No. 60/2015/ND-CP dated 26/6/ 2015 on amending and supplementing a number of articles of the Decree No. 58/2012/ND-CP dated July 20, 2012 on stipulating in detail and guiding the implementation of a number of articles of the Securities Law and the Law on amending and supplementing a number of articles of Securities Law (taking effect from 1/9/2015) ○ Circular No. 129/2015/TT-BTC dated 24/8/2015 on guiding sequences and procedures for financial settlement to newly establish, reorganize and dissolve 1-member limited liability company owned by the State and 1 member limited liability company that is subsidiary of other 1 member limited liability company owned by the State (taking effect from 5/10/2015) ○ Decree No. 81/2015/ND-CP dated 18/9/2015 on information disclosure by SOEs (taking effect from 1/11/2015) ○ Decree on investing state capital to enterprises and managing, utilizing capital and assets in enterprises (draft) ○ Decree No. 87/2015/ND-CP dated 6/10/2015 on monitoring investment of state capital to enterprises; monitoring financial situation, evaluating operation results and publicizing financial condition of SOEs and state-invested enterprises (taking effect from 1/12/2015) ○ Measures to accelerate the transformation of SOEs to joint stock companies have been implemented: capable enterprises can conduct IPO in line with legal regulations; enterprises that are incapable of conducting IPO can be transformed to joint stock companies of which the State or State Capital Investment Corporation (SCIC), etc. are stakeholders. Depending on specific circumstances, the State can hold the major share.

		<ul style="list-style-type: none"> ○ Decision of the Prime Minister on regulating in details some contents related to SOEs reforms under Resolution No. 40/NQ-CP dated 01/6/2015 (Statement No. 81/TTr-BTC dated 19/6/2015) in order to deal with difficulties, challenges and accelerate SOEs reform. (Draft) ○ Decision on criteria and classification of SOEs for the period of 2016-2020 (Draft) ○ Circular on guiding the bundling auction of stock (Draft). - Restructuring of the banking system and credit institutions: <ul style="list-style-type: none"> ○ Since the beginning of 2015, the SBV has worked with banks to implement restructuring plan, and simultaneously instructed orientations to accelerate restructuring progress. ○ The SBV actively conducts M&As among credit institutions, associated with implementing measures to withdraw capital in financial companies, commercial banks of state groups and state corporations in line with Resolution No. 15/NQ-CP dated 6/3/2014, Decision No. 51/2014/QĐ-TTg dated 15/9/2014. Accordingly, several M&As have been completed, for example MHB to BIDV, PG Bank to Vietinbank. Other M&As have been approved in principle, for example Southern Bank to Sacombank, MDB to Maritime Bank. Besides, Maritime Bank was allowed to acquire Textile Finance Company (TFC), Techcombank acquired Vietnam Chemical Finance Company (VCFC), SHB acquired Vinaconex Viettel Finance Company (VVF), MB acquired Song Da Finance Company, etc. ○ In case of weak credit institutions, the SBV implemented compulsory intervention measures via acquisition and assigned state-owned commercial banks to participate in management and governance operations, for instance the case of Vietnam Construction Bank, Ocean Bank, PG Bank. ○ To keep implementing Decision No. 254/QĐ-TTg of the Government dated 1/3/2012 on approving the plan on restructuring credit institutions in the period of 2011-2015
2	Resolving NPLs	<ul style="list-style-type: none"> - Since the beginning of 2015, the SBV assigned targets of resolving NPLs for credit institutions, instructed VAMC to coordinate with credit institutions to accelerate NPL purchase and reduction in line with legal regulations; manage to reduce NPLs to 3% by the end of 2015 - Directive No. 02/CT-TTg dated 14/2/2015 on strengthening management of and improving efficiency of public investment - Decree No. 34/2015/ND-CP dated March 31, 2015 on amending a number of Articles of the Decree No. 53/2013/ND-CP dated May 18, 2013 on the establishment, organization and operation of Vietnam Asset Management Company (taking effect from 5/4/2015) - Circular No. 09/2015/TT-NHNN dated July 17, 2015 on debt purchase and sale by credit institutions, foreign banks' branches (taking effect from 1/9/2015)

		<ul style="list-style-type: none"> - Circular No. 11/2015/TT-NHNN dated August 23, 2015 providing guidelines on handling with loans of agriculture and forestry companies when restructuring, renovating according to the Decree No. 118/2014/ND-CP dated December 17, 2014 (taking effect from 5/10/2015) - Circular No. 14/2015/TT-NHNN dated August 28, 2015 on amending, supplementing a number of Circular No. 19/2013/TT-NHNN dated September 06, 2013 on providing the purchase, sale and handling of nonperforming loans by VAMC (taking effect from 15/10/2015) - Unified document No. 07/VBHN-NHNN dated 9/9/2015 regulating the purchase, sale and resolve of NPLs by VAMC - Decision No. 1860/QĐ-NHNN dated 15/9/2015 on correcting 14/2015/TT-NHNN dated August 28, 2015 on amending, supplementing a number of Circular No. 19/2013/TT-NHNN dated September 06, 2013 on providing the purchase, sale and handling of nonperforming loans by VAMC.
3	Stabilizing foreign exchange market	<ul style="list-style-type: none"> - After China adjusted its exchange rate regime, the SBV undertook prompt measures, aiming at stabilizing the market: <ul style="list-style-type: none"> o Interbank VND/USD exchange rate was adjusted upward by 1% on 19/8/2015; simultaneously trading band of exchange rate was expanded from +/-1% to +/-3% o On 28/9/2015, the SBV adjusted downward USD-denominated deposit rate of organizations to 0% per annum (from the rate of 0.25%); of individuals to 0.25% per annum (from the rate of 0.75% per annum) in order to extend the difference between VND-denominated deposit rate and USD-denominated deposit rate, aiming at maintaining the attractiveness of holding VND and thereby avoiding the conversion of capital flows into USD, which may put pressure on exchange rate (Decision No. 1938/QĐ-NHNN) - Circular No. 15/2015/TT-NHNN dated 02/10/2015 on guiding foreign exchange transactions of credit institutions that are permitted to engage in foreign exchange transactions
4	Restructuring public investment	<ul style="list-style-type: none"> - Law on Public Investment Management, No. 49/2014/QH13 dated 18/6/2014 (taking effect from 1/1/2015) and guiding decrees: <ul style="list-style-type: none"> o Decree No. 15/2015/ND-CP dated 14/2/2015 on investment in the form of public-private partnership (PPP) (taking effect from 10/4/2015) o Decree No. 77/2015/ND-CP dated 10/9/2015 on plan on medium-term and annual public investment (taking effect from 1/11/2015) o Decree No. 84/2015/ND-CP dated 30/9/2015 on investment monitoring and evaluation, which replaces Decree No. 113/2009/NĐ-CP (taking effect from 20/11/2015) o Decree No. 87/2015/ND-CP dated 6/10/2015 on monitoring investment of state capital to enterprises; monitoring financial situation, evaluating operation results and publicizing

		<p>financial condition of SOEs and state-invested enterprises (taking effect from 1/12/2015)</p> <ul style="list-style-type: none"> ○ Decree on managing Official Development Assistance capital (ODA) and preferential borrowings from foreign donors. (Draft) ○ Decree on key projects at national level (Draft) ○ Decree on guiding some articles of the Law on Public Investment (Draft) <p>- Decree No. 30/2015/ND-CP dated 17/3/2015 guiding the implementation of a number of Articles on selecting investor under the Law on Bidding (taking effect from 5/5/2015)</p> <p>- Decision No. 391/QĐ-TTg dated 27/3/2015 on approving the Government’s plan on borrowing and repayment of debts in 2015.</p> <p>- Directive No. 16/CT-TTg of the Prime Minister dated 8/7/2015 to further implement Resolution No. 13-NQ/TW dated 16/01/2012 of the 11th Central Committee on developing harmonized infrastructure system in order to basically turn Vietnam into a modernity-oriented industrial country by 2020.</p> <p>- Document No. 220/TB-VPCP of the Office of the Government to announce conclusion of the Deputy Prime Minister Hoang Trung Hai – Head of Steering Committee on investment in the form of public-private partnership at the 7th meeting of the Steering Committee</p> <p>- Document No. 1237/TTg-KTN of the Prime Minister dated 29/7/2015 on managing BOT projects</p> <p>- Circular No. 139/2015/TT-BTC dated 3/9/2015 to provide guidance on guarantee for foreign loans on-lent by the Government (taking effect from 1/11/2015)</p> <p>- Joint circular No. 07/2015/TTLT-BKHĐT-BTC dated 8/9/2015 to provide regulations on posting and disseminating information on bidding and selecting bidders over the internet (taking effect from 1/11/2015)</p> <p>- Resolution No. 62/NQ-CP dated 7/9/2015 on regular meeting of the Government in August 2015, which covers some contents on the plan on medium-term public investment for the period of 2016-2020</p>
5	<p>Implementing Resolution No. 19/NQ-CP dated 12/3/2015</p>	<p>- The MPI organized training workshops in a number of provinces and cities to strengthen knowledge on indicators mentioned in Resolution No. 19/NQ-CP</p> <p>- Decree No. 12/2015/ND-CP dated February 12, 2015 detailing the implementation of the Law on Amending and Supplementing a Number of Articles of the Tax Laws and amending and supplementing a number of articles of decrees on taxes</p> <p>- Ministries and line ministries have implemented various measures on administrative reforms related to taxes, customs procedures, etc.</p> <ul style="list-style-type: none"> ○ Circular No. 26/2015/TT-BTC dated February 27, 2015 guiding the value-added tax and tax

		<p>administration according to Decree No. 12/2015/ND-CP on detailing the implementation of for the Law on amending and supplementing some articles of Laws on Taxes, Decrees on taxations, and amending Circular No. 39/2014/TT-BTC on invoices for sales of goods and services.</p> <ul style="list-style-type: none"> ○ Decision No. 08/2015/QD-TTg dated March 09, 2015 on piloting e-transactions in conducting procedures for participating in social, health and unemployment insurance and requesting the grant of social insurance books and health insurance cards (taking effect from 1/5/2015) ○ Circular No. 38/2015/TT-BTC dated March 25, 2015 on regulating customs procedures, customs supervision and inspection, export tax, import tax, and tax administration applied to exported and imported goods (taking effect from 1/4/2015) ○ Document No. 991/KH-BHXH dated 26/3/2015 on implementing the plan on the application of information technology in conducting administrative procedures for social insurance ○ Document No. 993/KH-BHXH dated 27/3/2015 on implementing Decision No. 08/2015/QD-TTg on the application of electronic transactions in social insurance ○ Decision No. 4082/QD-BCT dated 24/4/2015 on pilot procedures for online issuance of Certificate of Origin ○ Decision No. 4099/QD-BCT dated 25/4/2015 on approving the List of enterprises eligible to participate in the pilot program of online issuance of certificate of origin ○ Circular No. 92/2015/TT-BTC dated June 15, 2015 to provide guidelines for vat and personal income tax incurred by residents doing business, amendments to some articles on personal income tax of the Law No. 71/2014/QH13 on the amendments to tax Laws and the Government's Decree No. 12/2015/ND-CP on detailing the implementation of the Law on amending and supplementing some articles of tax Laws and Decrees on taxation (taking effect from 30/7/2015) ○ Circular No. 96/2015/TT-BTC dated June 22, 2015 to provide guidelines for corporate income tax according to the Decree No. 12/2015/ND-CP dated February 12, 2015 on detailing the implementation of the Law on amending and supplementing a number of articles of the tax laws and amending and supplementing a number of articles of the decrees on taxes; amending a number of articles of the Circular No. 78/2014/TT-BTC dated June 18, 2014; Circular No. 119/2014/TT-BTC dated August 25, 2014 and the Circular No. 151/2014/TT-BTC dated October 10, 2014 (taking effect from 6/8/2015) ○ Decision No. 1209/QD-BTC dated 23/6/2015 on the pilot implementation of electronic invoice being authenticated by tax authorities.
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		<ul style="list-style-type: none"> ○ Resolution No. 59/NQ-CP dated 7/8/2015 on implementing the Enterprise Law and Investment Law ○ Decision No. 1966/QD-TCHQ dated 10/7/2015 on issuing customs procedures for exported and imported goods (taking effect from 15/8/2015) ○ Directive No. 18/CT-TTg dated 14/7/2015 on strengthening customs management and administrative reforms ○ Decision No. 1445/QD-TCT dated 6/8/2015 on issuing the pilot procedures to manage electronic invoice being authenticated by tax authorities ○ Circular No. 110/2015/TT-BTC dated 28/07/2015 guiding tax electronic transactions (taking effect from 10/9/2015) ○ Circular No. 28/2015/TT-BCT dated 21/8/2015 on regulating the pilot application of self-certified certificate of origin according to Asean Trade in Goods Agreement (ATIGA) ○ Decision No. 919/QD-BHXH dated 26/8/2015 on amending, supplementing some articles of Decision No. 01/QD-BHXH, Decision No. 1399/QĐ-BHXH and Decision No. 488/QĐ-BHXH ○ Decision No. 832/QD-EVN dated 1/9/2015 on amending, supplementing Procedures for electricity trading ○ Directive No. 24/CT-TTg dated 1/9/2015 on accelerating administrative reform in natural resources and environmental sector ○ Decision No. 8266/QD-BCT dated 10/8/2015 on approving detailed design of Vietnam's competitive electricity wholesale market
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Appendix 2: Macroeconomic statistics

	Unit	2010	2011	2012	2013				2014				2015		
					I	II	III	IV	I	II	III	IV	I	II	III
GDP growth															
Overall	%	6.4	6.2	5.2	4.8	5.0	5.5	6.0	5.0	5.4	6.4	6.8	6.0	6.5	6.8
Trade															
Growth rate of exports	%	26.5	34.2	18.2	17.5	13.6	14.8	15.6	12.2	15.7	13.6	11.6	8.8	10.6	8.8
- FDI sector	%	41.2	40.3	33.7	27.9	28.4	26.2	23.6	18.2	16.1	37.5	28.3	18.7	21.5	22.0
Growth rate of imports	%	21.3	25.8	6.6	14.8	17.0	14.2	18.0	10.4	10.5	14.0	13.7	20.1	14.2	12.6
- FDI sector	%	41.8	32.1	22.7	26.1	25.9	25.4	19.9	14.6	7.3	8.2	24.3	27.1	20.3	18.4
Exports/GDP	%	63.4	72.6	73.5	89.1	81.4	79.7	65.1	92.8	86.6	82.5	67.7	96.3	92.8	87.0
Money															
M2 growth (YoY)	%	33.3	12.1	18.5	3.8	3.4	2.8	7.7	2.8	4.1	2.9	5.3	2.1	3.6	2.7
Credit growth (YoY)	%	32.4	14.3	8.9	1.2	3.5	2.1	5.3	0.5	3.2	3.5	4.9	1.3	5.1	2.7
Interbank VND/USD exchange rate (average)	Dong	18630	20532	20828	20828	20831	21036	21036	21036	21063	21246	21246	21446	21593	21773
Investment															
Investment/GDP	%	38.5	33.3	30.5	29.6	29.6	33.8	33.2	28.4	31.5	33.0	30.6	30.4	31.7	33.2
Implemented FDI	Bil. USD	11.0	11.0	10.0	2.7	3.0	2.9	2.9	2.9	2.9	3.2	3.5	3.1	3.3	3.4
Other indicators															
Inflation (YoY)	%	11.8	18.1	6.8	6.6	6.7	6.3	6.0	4.4	5.0	3.6	1.8	0.9	1.0	0.4
State budget deficit/GDP	%	5.5	4.9	5.4	5.4	5.0	5.3	4.7	4.9	4.6	5.3	7.3	4.6	6.4	3.9
Current account	Bil. USD	-4.3	0.2	9.1	2.6	1.3	3.5	1.7	2.7	2.7	2.8	0.8	-1.0	1.2	-
Balance of payment	Bil. USD	-1.8	1.2	11.9	3.0	-3.3	-0.8	1.7	7.9	2.2	0.9	-2.6	2.7	0.6	-

Source: Authors' compilation.

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