Aus4Reform Program

AUS4REFORM PROGRAM

MACROECONOMIC REPORT
SECOND QUARTER OF 2018

INTRODUCTION

Vietnam economy entered the second quarter with immense inspiration and expectations. Improved business environments, economic structuring along with the sustained priority on macroeconomic stability during previous quarters have, more or less, strengthened market confidence. However, some doubts persisted on the socio-economic statistics for Q4/2017 and Q1/2018, especially on the quality of growth and inflation pressure. Risks of economic downturn were mentioned, mostly concerns on growth cycle and unpredictability of US-China trade tension.

This Macroeconomic Report serves several objectives, including: (i) to review macroeconomic developments and policy changes in Q2 and the first 6 months of 2018 with evidence-based analysis and perspectives of experts/Central Institute for Economic Management; (ii) to update the macroeconomic outlook for 2018; (iii) to analyze in depth the selected economic issues with quantitative and/or qualitative findings; and (iv) to make recommendations on economic reforms (including institutional reforms) and on macroeconomic policies toward the end of 2018 and beyond.

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

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The Report was jointly prepared by the CIEM and Aus4Reform-funded consultants. The Team is led by Dr. Nguyen Dinh Cung, with contributions by Dr. Vo Tri Thanh, Nguyen Anh Duong, Pham Duc Trung, Dr. Nguyen Manh Hai, Tran Binh Minh, Dinh Thu Hang, and Pham Thien Hoang. The consultants who have provided inputs and data include Le Tat Phuong and Nguyen Thi Linh Huong.

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

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ABBREVIATIONS

ADB	Asian Development Bank
AEC	ASEAN Economic Community
AFF	Agriculture-Fishery-Forestry
ASEAN	Association of Southeast Asian Nations
CIEM	Central Institute for Economic Management
CPI	Consumer Price Index
CPTPP	Comprehensive and Progressive Trans-Pacific Partnership
DVA	Domestic value added
DB	Doing Business
ECB	European Central Bank
EU	European Union
FDI	Foreign Direct Investment
FED	Federal Reserve
FTA	Free Trade Agreement
GB	Government Bond
GDP	Gross Domestic Product
GSO	General Statistic Office
HNX	Hanoi Stock Exchange
HSBC	The Hong Kong and Shanghai Banking Corporation
IFS	International Financial Statistics
IIF	The Institute of International Finance
IIP	Index of Industrial Production
IMF	International Monetary Fund
IP	Industrial Park
IR4.0	Industrial Revolution 4.0
JPY	Japanese Yen
M2	Total liquidity
MOF	Ministry of Finance
MOIT	Ministry of Industry and Trade
MoM	Month on month
MPI	Ministry of Planning and Investment
M&A	Merger and Acquisition
NCIF	National Centre for Socio-Economic Information and Forecast
NPL	Non-performing loan
OECD	Organization for Economic Co-operation and Development
PMI	Purchasing Managers Index

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

EXECUTIVE SUMMARY

1. Increasing uncertainty has been reflected in the global economy forecast. IMF projected the global growth rate of 3.9% in 2018 though the downside risk remains mounting in the next 2 years in the context of signals of slowing down in major countries, rising trade collision and geopolitics tension.

2. The US economy enjoyed stable growth; FED raised interest rate by 0.25 percentage point in June 2018. The Eurozone slowed down; also faced with trade tension from the US. The tightened monetary policy was unchanged as the ECB believed the regional economy remains strong enough to respond to risks. Japan's economy experienced negative growth rate in Q1 after quarters of stable growth. Chinese economy is estimated to decelerate since Q2 in the context of rising US-China trade tension and PBoC showed signals for further depreciation of the CNY.

3. The global financial market exhibited significant and widespread volatility. The world commodity price increased slightly. FDI attraction to advanced and transitional economies reduced drastically. FDI inflow to developing economies remained stable, in particular in Asia. Trade tension and collision among major economies has been rising. International economic integration progressed modestly.

4. The Government was determined to sustain macroeconomic stability and continuing to build, to finalize regulatory institutions and administrative reforms and to improve business environment. Curbing inflation was more focused; however, efforts sometimes still shown its "administrative" and "drastic". The Government and Ministries also discussed and assessed the uncertainty of international and regional economic environment, especially the US-China trade tensions, the movement of interest by Fed.

5. The 2016-2020 economic restructuring plan continued its implementation of focused contents. The process of SOE restructuring was slowly implemented. The implementation of investment restructuring, with focus on public investment encountered some difficulties. Non-performing loans were solved more efficiently, the lending interest rate was stable. Business environment reform under Resolution 19-2018 continued to emphasize. National Strategy on the IR4.0 to 2020, with a vision to 2030 has been actively working on. The process of international economic integration showed some movements with the finalization of regulatory review under EVFTA, and more active preparation for approval of CPTPP. The biggest obstacle was to seek recognition by partners of Vietnam as market economy.

6. The reform and policy responses during the first 6 months of 2018 still showed some limitations, including (i) inadequate incentivization of enforcement; (ii) some proposals and policies affected the cost of production for enterprises, which were somewhat inconsistent with the priority of macroeconomic stability; and (iii) communication in some cases was slow and/or not even.

7. In the first 6 months of 2018, GDP grew by 7.08%, showing less pressure on management for the last 6 months in attaining the growth target for 2018. Final consumption increase firmly, contributing significantly to GDP growth. Vietnam's economy has still been expansion period of growth cycle. The AFF sector experienced clear recovery, with growth rate of 3.99% in Q2 and 3.93% in the first 6 months of 2018; however, challenges still remained, especially with the holding of yellow cards for Vietnamese sea products by EU and China was likely to increase the quality requirements for Vietnamese agricultural products. Growth of industry and construction reached 8.46% in Q2, with the brightness of high growth rate of manufacturing sub-sector and less dependence on mining. The value-added of service sector attained 7.3% - the highest YoY rate since 2010.

8. Newly registered enterprises went up by 12.6% and total registered capital increased by 25.2% in Q2/2018, however, the number of inactive enterprises was also at high rate (30.0%). For the first 6 months of 2018, newly registered enterprises and total registered capital was up by 5.3% and 8.9% respectively. Manufacturing enterprises had positive assessment of production and business, in spite of certain factors affecting production and business.

9. By 1 July 2018, total economically active labor force was 55.1 million people, an increase of 594 thousand people. Labor structure shifted toward reducing the share of labor in AFF. Although labor force increased, challenges still remained for improving productivity and take good opportunities of IR4.0.

10. CPI increased by 0.61% in June relative to that in May; average CPI was up by 3.29%. Core inflation was stable at low level. Inflation pressure in Q2 was mainly attributed to “cost-push factors”, and remained concern due to exchange rate movements in major countries and increasing uncertainty of foreign investment.

11. At the end of June, VND-denominated deposit rate remained stable and below the ceiling imposed by the SBV. USD-denominated deposit rate for individuals and organizations was kept unchanged at 0% per annum. SBV made no adjustment on the ceiling of USD-denominated deposit rate as well as no public announcement on this issue despite of popular recommendations on raising the ceiling of USD-denominated deposit rate.

12. Outstanding credit grew by about 4.17% in Q2, being affected by such factors as: (i) strict control over credit to potentially risky sectors/industries by the SBV; (ii) prudent credit management in order to minimize inflation pressure and create more space to response to the risk of economic slowdown in the ending quarters; and (iii) slow restructuring of commercial banks and reduction of NPL.

13. Total liquidity (by 20 June 2018) increased by 3.8% in Q2 and by 7.96% in the first 6 months. The foreign exchange market volatilized more significantly. The central exchange rate of VND/USD kept upward trend. The securities market was more volatile in Q2. The adjustment of the central exchange rate enhanced flexibility for the movement of exchange rate in the market in the context of the

USD appreciation. Some recommendations were in favour of devaluing the VND; however, with current situation, exchange rate adjustment should be considered as a component in the overall policy coordination, aiming at strengthening economic resilience of the economy and maintaining macroeconomic stability. Priority of exchange rate management, thus, should focus on a flexible instead of a rigid target.

14. Gross investment in Q2 was estimated to reach VND 417.5 trillion, increasing by 11%. For the first six months, gross investment was approximately VND 747.6 trillion, up 10.1%. The investment to GDP ratio reached 33.6%. Investment disbursement was higher in all investment categories. Total registered capital reached USD 12.3 billion in Q2, up by 6.9%. Implemented capital attained USD 4.5 billion, increasing by 10%.

15. Exports in Q2 were estimated at USD 58.6 billion, an increase of 9.7%. In overall, exports in the first 6 months reached an estimated USD 113.93 billion, up 16.3%; of which FDI still held an important role. Imports in Q2 reached USD 58 billion, up by 5.4%. For the first 6 months of 2018, the import turnover was estimated at USD 110.8 billion, up by 9.6%. The trade balance registered a surplus of USD 671 million in Q2 and nearly USD 3.4 billion in the first 6 months of 2018.

16. With high trade openness (more than 185% of GDP), Vietnam’s imports and exports may be affected substantially given the complexity of escalations in the US-China trade tension. In this context, the calmness, flexibility, and pragmatism in Vietnam's responses - to both address export challenges in the short term and to engage in and strengthen benefits gained through multilateral trade regimes - is critically important.

17. Budget revenues reached VND 343.2 trillion in Q2, or 27.6% of GDP. For the first 6 months of 2018, budget revenues amounted to VND 651.7 trillion, equal to 49.4% of the planned figures. Budget expenditures amounted to VND 359.2 trillion, equivalent to 28.9% of GDP in Q2. By 30 June 2018, budget expenditures were VND 649.2 trillion, or 42.6% of the planned figures. Government bond issuance, more or less, showed more flexibly. In spite of the narrowing gap between budget revenues and expenditures in the first half of 2018, the efficiency of fiscal policy remained a question.

18. YoY economic growth in 2018 is projected at 6.71%. Export growth may reach 12.11%. Trade surplus is projected at USD 1.2 billion. Average CPI in 2018 will increase by approximately 3.93%.

19. Macroeconomic development in the last 6 months may be subjected to several factors. The US-China trade tension is highly unpredictable. Geopolitical disputes still exist in some regions, especially in Asia-Pacific. Interest rate hike in the US may be more uncertain. The finalized preparation for ratifying some free trade agreements may have positive impacts on foreign investment inflows to Vietnam. To that extent, Vietnam's macroeconomic performance depends significantly on how to enhance economic growth, to controls prices, to

effectively improve the business environment, and to deal with bottlenecks of the growth model (such as SOEs, public investments, financial institutions).

20. The Report provided analysis on opportunities and risks for sharing economic model in Vietnam. Currently, there have emerged some new types of sharing economy, including online transportation, room-sharing and peer-to-peer lending services in Vietnam. Benefits from sharing economy include (i) economization of resources via the modest use of asset throughout its life-cycle; (ii) reduction of transaction costs; and (iii) contribution to promoting technology development in general and information technology in particular. In addition, the development of sharing economy raises some risks such as new relationships in the market, conflict of interest between buyers and sellers, unfair competition, and fulfillment of financial obligations. The report identified policy related to business registration, payment mechanism, regulations on information, e-commerce, taxation and supervision.

21. The Report also pointed out essential requirements for the establishment of Committee for State capital management at enterprises, and emphasized the some actions must be done in coming time, including (i) developing "big data", informatics and technological infrastructure and adaptation of digital economy to operate the function of state ownership at enterprises; (ii) clarifying mechanism of supervision of the Committee; (iii) concentrating ownership rights associated with higher accountability; and (iv) applying supervision methods and tools in line with good practices on SOE governance.

22. The Report confirmed that the first half of 2018 witnessed significant socio-economic achievements. The economic growth momentum has been maintained in parallel with improvements in the business environment and confidence of domestic and foreign investors. However, concerns persisted, namely with (i) modest improvement of growth quality; (ii) significant inflation pressure; (iii) capacity to maintain impetus of microeconomic reforms in general and business environment reform in particular.

23. The US – China trade tension is a significant challenge for management capacity and economic restructuring process of Vietnam in the context of international economic integration. Policy options and scenarios should be seriously considered while management should be implemented prudently to avoid negative impacts on confidence of investors. It is necessary to utilize a flexible management with the priority to macroeconomic stabilization that is based on the combination of various policy instruments instead of solely relying on significant adjustment of a certain one. For this reason, the perspective of "mercantilism" may be inappropriate in the short run. At the same time, Vietnam should continue to support multilateral or plurilateral trade cooperation mechanism because being inclined to bilateral trade with a specific major partner will not bring about benefits for any small economies, even in the short run.

24. Vietnam is accelerating approach to the IR4.0 with unprecedented developments and scope of impacts, consequently, there is no room for

“conservative” approach. Nevertheless, divergence between the US and China regarding the policy on technological transfer of China requires Vietnam to have a more thorough and flexible view on promoting technological transfer from foreign investors.

25. This report re-emphasizes the message of giving continued priority to strengthening microeconomic foundations and reforming economic institutions for a more friendly approach to innovation and environment, accompanied with effective responses to risks of considerably changing international economic environment. Accordingly, the Report provides some recommendations on continued reforms of microeconomic foundations together with macroeconomic measures and other measures.

I. ECONOMIC CONTEXT IN QUARTER 2 AND FIRST HALF OF 2018

1. Regional and global economic context

1. Increasing uncertainty has been reflected in recent global economic forecasts. The International Monetary Fund (IMF) projected the world economic growth rate of 3.9% in 2018 though the downside risk persists in the next 2 years due to slowing down in major economies, rising trade collision and geo-political tension.

Table 1: Global economic prospects

Unit: %

	2018	*2019*	*Difference**	
			2018	*2019*
World GDP (growth rate, %)	3.9	3.9	0.0	0.0
Advanced economies	2.4	2.2	-0.1	0.0
The US	*2.9*	*2.7*	*0.0*	*0.0*
Japan	*1.0*	*0.9*	*-0.2*	*0.0*
Eurozone	*2.2*	*1.9*	*-0.2*	*-0.1*
Emerging and developing economies	4.9	5.1	0.0	0.0
Emerging and developing economies in Asia	6.5	6.5	0.0	-0.1
China	*6.6*	*6.4*	*0.0*	*0.0*
ASEAN-5	*5.3*	*5.3*	*0.0*	*-0.1*
World trade volume (growth rate, %)	4.8	4.5	-0.3	-0.2
Non-fuel commodity price in US dollar (growth, %)	6.0	0.5	0.4	0.0

Source: IMF (July 2018).

Note: * Difference between the forecasts for 2018 and 2019 in comparison to those in April 2018.

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

2. The US economy enjoyed stable growth: GDP growth rate attained 2.0% in Q1/2018[1], unemployment was low (3.8% in May 2018)[2], inflation increased by 2.8% in May 2018 as expected. FED raised interest rate by 0.25 percentage point in June 2018. The USD index increased more significantly since April, reached 94.64 at the end of June, which was up by 5.0% in comparison to that in the end of Q1 and grew by 2.7% in relative to the end of 2017. Trade deficit with China remained considerable (USD 152.2 billion in the first 5 months in 2018 and USD 375.6 billion in 2017), thus further strengthened the determination to reduce the trade gap with China.

3. The Eurozone slowed down: GDP grew at slower pace of 0.4% in Q1/2018 (in relative to the rate of 0.7% in the last 5-consecutive quarters). The PMI index decreased continuously since the beginning of the year (attaining 55 point in June 2018). Consumer confidence was at the lowest level since October 2017 (reached -0.5 point in June). The EU faced with not only divergence regarding common issues (for instance, the refugee crisis) but also (both direct and indirect) trade tension with the EU. The tightened monetary policy was

[1] The third estimation (June 28, 2018).

[2] The lowest level since April 2000.

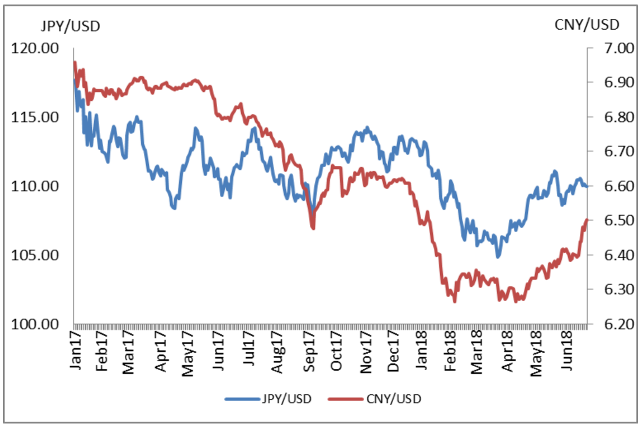
unchanged[3] as the European Central Bank (ECB) believed the regional economy remains strong enough to respond to risks.

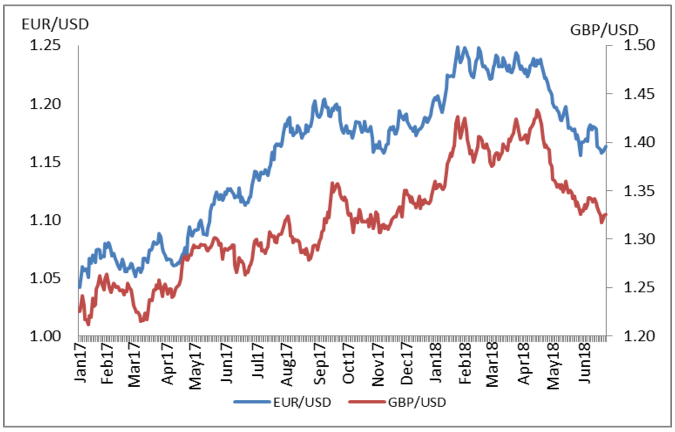
4. Japan's economy experienced negative growth rate in Q1 (-0.6%) after quarters of stable growth. High inflation and modest wage expansion has affected investor confidence and consumer spending. The PMI index took the downward trend since the beginning of the year (53.1 point in June). Demand for Japan's exports may recover in Q2/2018 thanks to more robust economic activities of its major trading partners. Meanwhile, labour market dynamism and constructions to serve the Tokyo 2020 Summer Olympics will boost domestic demand.

5. Chinese economy is estimated to decelerate since Q2. Economic growth rate is projected at high level in Q2 (6.7%), exports expanded significantly (12.6% in May 2018). However, the PMI index decreased since March, and continuously remained at low level in Q2. The CNY exchange rate hit the trough since the beginning of the year, and is expected to further depreciate in the context of rising US-China trade tension and the People's Bank of China (PBoC) showed signals of letting CNY depreciate.

6. The global financial market exhibited significant and widespread volatility, which was mainly attributed to rising trade collision between the US and major economies. At the end of the June 25 session, the US stock market witnessed the largest drop in the last 2 months[4]. Within 2 weeks prior to June 22, the stock markets in Asia lost USD 1.6 trillion in value[5]. In the first 6 months of the year, USD 19 billion was withdrawn from 6 markets in Asia, including India, Indonesia, Thailand, South Korea, Taiwan and the Philippines[6].

Figure 1: Movement of some major currencies against USD, 2017-2018





[3] The scale of the massive bond-buying program will decrease from EUR 30 billion per month to EUR 15 billion per month, starting from October to December 2018, and will come to an end afterward.

[4] At the end of the June 25 session, the Dow Jones dropped by 1.33%, standing at 24,252.8 point; the S&P 500 index decreased by 1.37%, attaining 2,717.07 points. The Nasdaq plunged by 20.9% to 7,352.01 points. The VIX index rocketed to the highest level in the last 1 month, reflecting concerns of the Wall Street. FAANG, stocks of the biggest technology companies, exhibited dramatic drops: Facebook stock – by 2.7%; Amazon.com – by 3.1%; Netflix –by 6.5%, and Alphabet – by 2.6%.

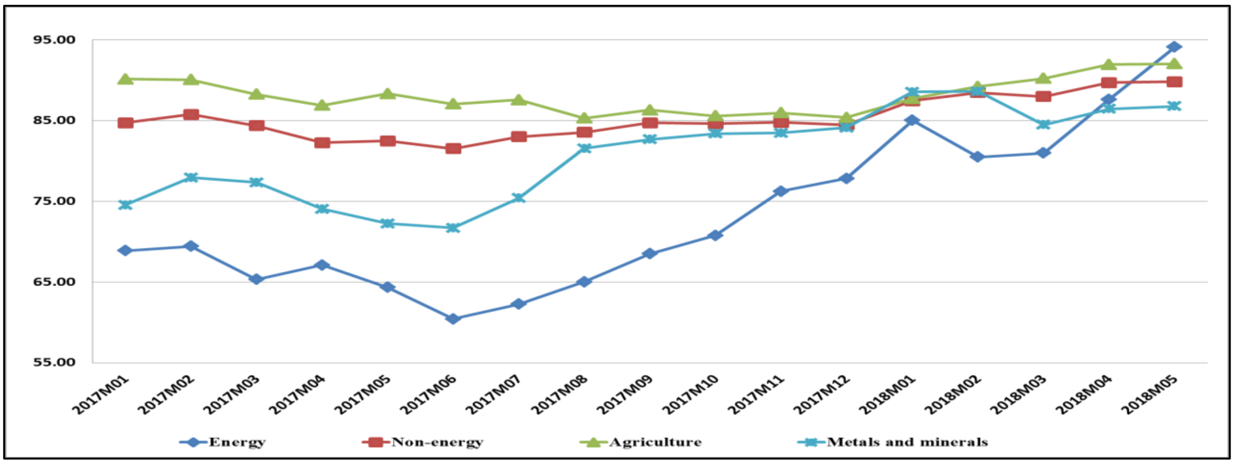
[5] Source: https://www.bloomberg.com/news/articles/2018-06-22/as-stocks-lose-2-1-trillion-asia-markets-bear-brunt-of-selloff

[6] Source: https://www.bloomberg.com/news/articles/2018-06-18/emerging-asia-hit-by-biggest-foreign-investor-exodus-since-2008

Source: The US's Federal Reserve.

7. The world commodity price increased slightly. The global oil price fluctuated continuously and took the upward trend. The WTI oil price was up by about 23% since the beginning of the year, which was mainly attributed to such factors as: (i) tension in the Middle East region; (ii) higher consumption demand; and (iii) higher supply risks.[7] The world gold price went down dramatically[8], given the likely further interest rate hike by FED and the more obvious tendency to seek USD as the shelter from the concern of trade war.

Figure 2: Commodity price index, 2017-2018



Source: WB, Commodity Price Database (June 2018).

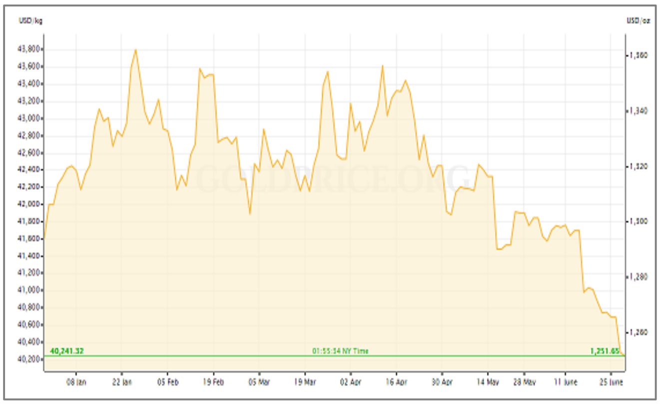
8. FDI attraction to advanced and transitional economies reduced drastically in 2017 (dropping by 37% and 27%, respectively). FDI inflows to developing economies remained stable, particularly in Asia (33% of global FDI). The global FDI is projected to increase by 10% in 2018 thanks to the expectation of GDP growth, trade growth, upward trend of commodity prices, adjustment of industrial and investment policies in many economies, etc. However, geopolitical tension, trade collision among major economies, etc. may intensify uncertainties of the global FDI flows.

9. Trade tension and collision among major economies has been rising. The US officially announced the list of imported goods from China being exposed to the additional tariffs of 25 percentage points, starting from July 6, 2018; and threatened to expand the list if China takes retaliatory measures. In response, China imposed 25% additional tariffs on 659 goods with corresponding value. Trade tension between the US and the EU and Canada has not eased. Oxford Economics estimated that trade tension may result in a drop by 4% of world trade and a reduction by 0.4 percentage point of the world GDP growth.

[7] Oil production output of Venezuela may continue to decrease, the US's crude oil reserve dropped significantly, some drilling rigs in the US and oil fields in Canada shut down, etc.

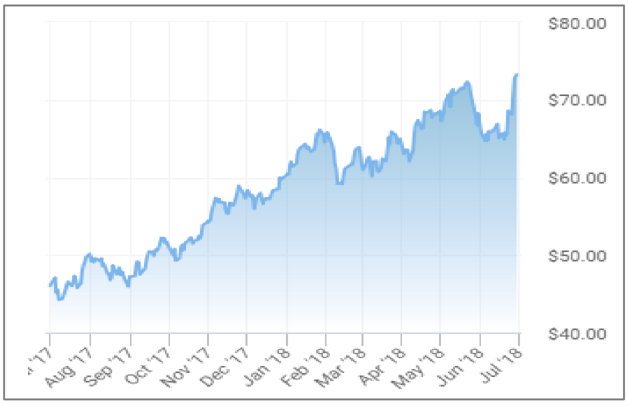
[8] Closing the session on June 29, 2018, gold price was USD 1,251.59 per ounce, dropped by 8.1% in comparison to the peak attained on January 25, 2018.

Figure 3: Gold price, 2018



Source: https://goldprice.org/

Figure 4: WTI crude oil price, 2017-2018



Source: https://oilprice.com

10. International economic integration progressed modestly. Ratification of the Comprehensive and Progressive Trans Pacific Partnership (CPTPP) has accelerated in many member economies: Mexico and Singapore ratified the Agreement (on April 24 and July 19, respectively); Japan enacted the law to ratify CPTPP on June 29; Canada kicked off the ratification process. Negotiation of the Regional Comprehensive Economic Partnership (RCEP) is expected to achieve significant progress by the end of 2018 after the Statement of the 5th RCEP Intercessional Ministerial Meeting held on July 1-2, 2018. The re-negotiation of the North America Free Trade Agreement (NAFTA) was yet to conclude in May as previously expected.

2. Domestic economic context

11. In Q2/2018, the Government was consistent with macroeconomic stability and continuing to build, to finalize regulatory institutions and administrative reforms and to improve business environment. Curbing inflation, especially on goods managed by the State, was more likely; however, efforts were at times still "administrative"[9] and "drastic".

12. The Government and Ministries also discussed and assessed the uncertainty of international and regional economic environment, especially the US-China trade tensions, interest rate hike by Fed, etc. Resolutions of regular meetings in Q2/2018 highlighted the requirement on reviewing and updating quarterly growth scenarios by sector and industries, and to propose specific tasks and solutions for achieving growth target and controlling inflation.

13. The 2016-2020 economic restructuring plan continued to be implemented in key areas. However, the process of SOE restructuring was slowly implemented. The efficiency of SOEs' production and business were not improved significantly, and not corresponding with SOEs' holdings. The model of corporate governance was slowly reformed, which fails to meet international standards and practices. The share of state capital held by joint-stock

[9] In response to pressure of increasing infaltion in the second half of 2018, the Government decided not to raise electrictity tariff in 2018, to use stabilization fund for petroleum to control inflation and to consider the time and degree of adjusting healthcare and education services, for ensuring inflation of less than 4%.

companies was high, the quality of equitization and divestment was not as expected. Restructuring of some ineffective investment projects hardly made progress.

14. The implementation of investment restructuring, with focus on public investment[10] encountered some difficulties. There existed gap between the Vietnam quality of public investment management and international good practices, particularly in the formulation, appraisal, selection and making priority of investment projects. The waste, loss, not spending accurately, not enough allocation of capital and quality of construction works were not solved thoroughly.

15. The restructuring of financial market and solutions on non-performing loans were more efficient, the lending interest rate was stable. Credit was transferred to production industries, and more control was shown for risky industries. The State Bank of Vietnam (SBV) continued its solutions on supplementing foreign reserves when market conditions were favorable; and doing more research on management access to e-money, virtual currency; enhancing the application of technology in finance (fintech).

16. Regarding business environment reform, Resolution 19-2018 (issued on 15 May 2018) emphasized/supplemented 190 tasks, including 22 general tasks and 168 specific tasks for ministries, agencies and localities, which required the drastically efforts and immediate embarkation on implementing the Resolution, and sound and comprehensive reforms in terms of scale and intensity in all areas.

    - By the end of June 2018, 21 ministries, agencies and 31 provinces and central cities have worked out Action Plan for implementing Resolution 19-2018.
    - On the reform of business conditions, 738 business conditions over more than 5,700 business conditions were actually removed, and amended or simplified. On average, the proposed business conditions subject to removal and amendment was 54%, of which 36% was proposed to be abolished.

17. Some important regulations and laws was approved, passed and enforced during Q2/2018, including:

    - The National Assembly approved 7 Laws, including: Law on Defense; (amended) Competition Law; Law on Network Security; Law on Denunciations; Law amending and supplementing some articles of Law on Physical Training and Sports; Law on Measurement and Mapping;

[10] Including share of state investment accounts for 31-34% of total social investment; annual disbursement rate of public investment is over 90%; share of state-owned capital accounts for about 10-11% of GDP; improving the quality of public investment to ASEAN-4; attracting and using efficiently resources for investment development, focusing on key industries and sectors of the economy and onmajor projects which have wide-spread effects and facilitate socio-economic development of the whole country; making breakthrough in attracting domestic and foreign private investment under the form of PPP; and ensuring the hamonization among regions.

Law amending and supplementing some articles of Laws related to Planning Law.

- The (amended) Competition Law has widened the scope of regulation for anti-competitive behaviors and economic concentration affecting or restricting competition in Vietnam; changed the approach to control anti-competitive behavior; abuse of dominant market position, monopoly position, economic concentration and unfair competitive practices.
- The (amended) Law on Public Debt Management came into force since 1 July 2018. The Government issued Decree No. 92/2018/ND-CP dated 26 June, 2018 on the establishment, management and use of Accumulated Fund for debt settlement to deal with the risks of re-lending and government guarantee. However, some contents still need further guidance, including public debt management, regulations on the mobilization and use of ODA and foreign loans, etc.

18. The Ministry of Planning and Investment has been actively working on the National Strategy on the Fourth Industrial Revolution (IR4.0) to 2020, vision to 2030. Accordingly, IR4.0 will promote the institutional adjustments, especially state management mindset for better compatibility with new issues of big data, artificial intelligence, blockchain technology, etc. The human factor, especially the linkage of science and technology staffs for IR4.0 has attracted more attention.

19. Notwithstanding limited dissemination of information, the process of international economic integration showed some progress. Together with efforts to elevate partners' support for EVFTA ratification, the regulatory review process has been accelerated and just finalized. Preparation for CPTPP approval was more active. The biggest obstacle appeared to be with seeking recognition of Vietnam as a market economy by major partners.

20. The reform and policy responses during the first 6 months of 2018 still showed some limitations. *First*, enforcement needs further incentivization. Labor productivity and quality were more frequently mentioned, however, new and specific aspects hardly showed up in policies and enforcement mechanism. Political will on reforming business environment has been slowly transmitted to operational level. Despite the consensus on reducing unnecessary barriers and business conditions, the border line between "necessary" and "unnecessary" were not clearly defined. *Second*, some proposals and policies affected the cost of production for enterprises, which were somewhat inconsistent with the priority of macroeconomic stability. The roadmap for increasing minimum wage seemed rigid, which did not help alleviate the burden on business costs. *Third*, information dissemination in some cases (for example, movements of exchange rate, stock market, etc.) was slow and/or uneven. Dissemination of information sometimes lacked neutrality, focusing more on just one side of the issue (such as restrictions of FDI attraction, etc.).

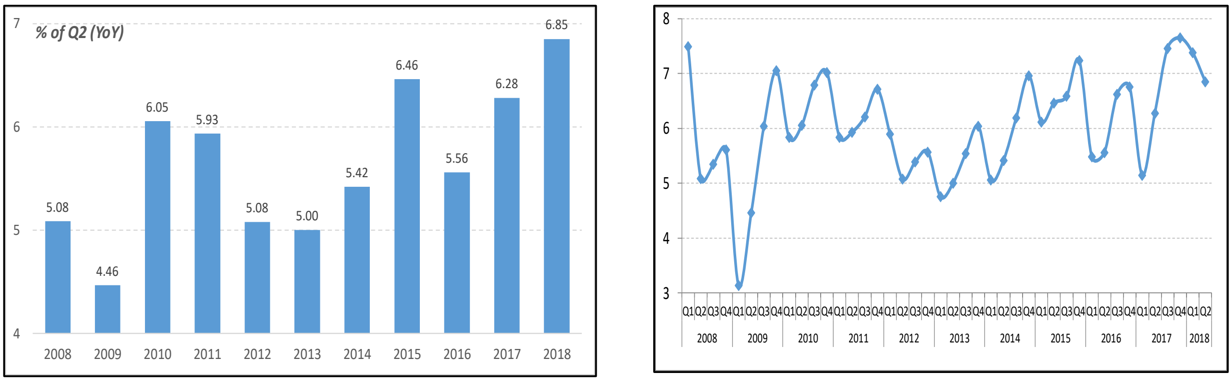
II. MACROECONOMIC PERFORMANCE AND OUTLOOK

1. *Macroeconomic performance in Q2 and first 6 months of 2018*

1.1. Real economy

21. GDP growth attained 6.85%[11] in Q2/2018. Albeit being lower than that of Q1 (7.38%), it was the highest rate of second quarters since 2008. In the first 6 months of 2018, GDP grew by 7.08%, at the highest for first 6 months since 2011. This result eased pressure on the conduct of macroeconomic policy for the last 6 months in attaining the overall growth target for 2018 (from 6.5-6.7%).

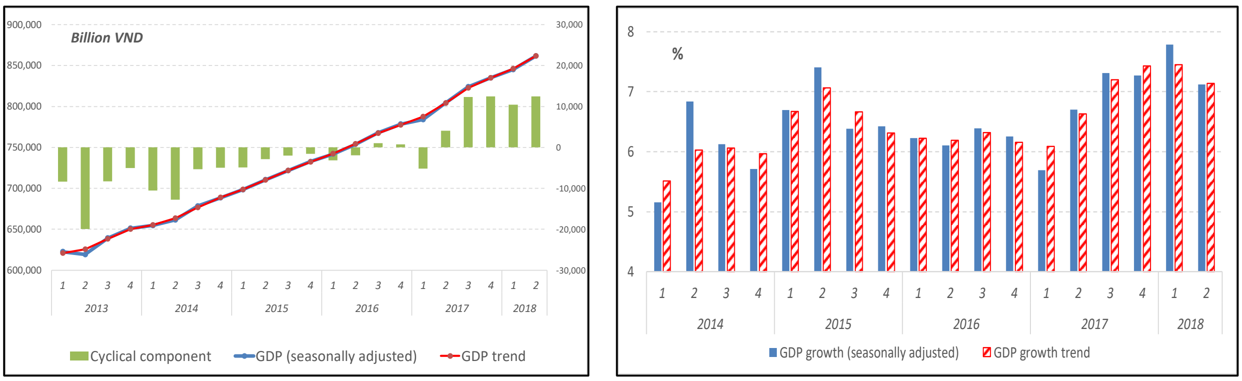
Figure 5: GDP growth rate (%)



Source: General Statistics Office (GSO).

22. Vietnam's economy is still in the expansion phase of growth cycle. Real (seasonally adjusted) GDP was still above trend. GDP growth is yet to exhibit signs of "overheating", reflected by the actual figure not exceeding trend of GDP growth rate in two consecutive quarters.

Figure 6: GDP growth movement



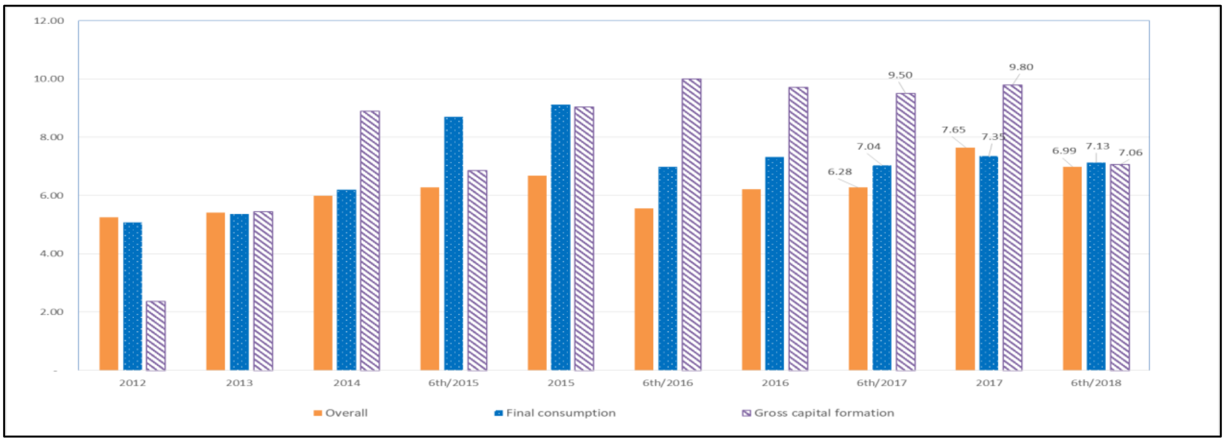
Source: GSO.

23. Final consumption and gross capital formation exhibited similar growth rates. Final consumption continued its solid growth, reaching 7.13% and still

[11] In Section II, growth was year-on-year basis, except otherwise stated. This result was calculated on the basis of GDP growth of Q1 was 7.38% (which was different from the updated data of 7.45% for Q1 in June 2018).

contributing significantly to GDP growth in the first 6 months. However, the pace of gross capital formation has slowed down (Figure 7).

Figure 7: Growth rates of gross capital formation and final consumption to GDP

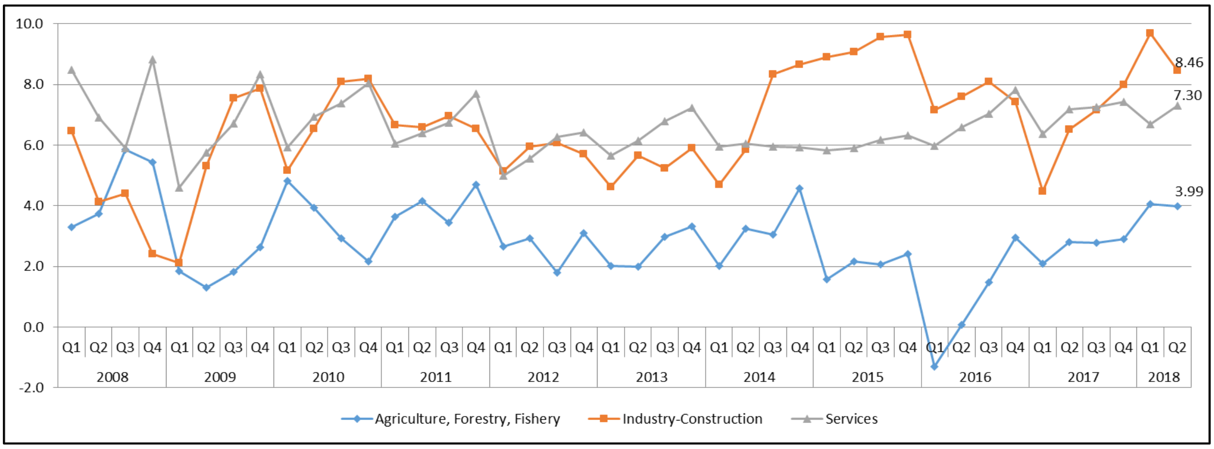


Source: GSO.

24. The agriculture-forestry and fishery (AFF) sector experienced clear recovery, with growth rate of 3.99% in Q2 and 3.93% in the first 6 months of 2018[12]. Major reasons included (i) stabilization of livestock industry after the crisis of pork price since 2017; and (ii) more efficient restructuring of production, associated with removing barriers, more effective response to non-tariff measures in trading partners, and enhancing exports of agricultural products[13]. However, challenges still remained, especially with the holding of yellow cards for Vietnamese sea products by EU and China was likely to increase the quality requirements for Vietnamese agricultural products.

Figure 8: GDP growth by sector, 2012-Q2/2018

Unit: %



Source: GSO.

25. Growth of industry and construction reached 8.46% in Q2, higher than the

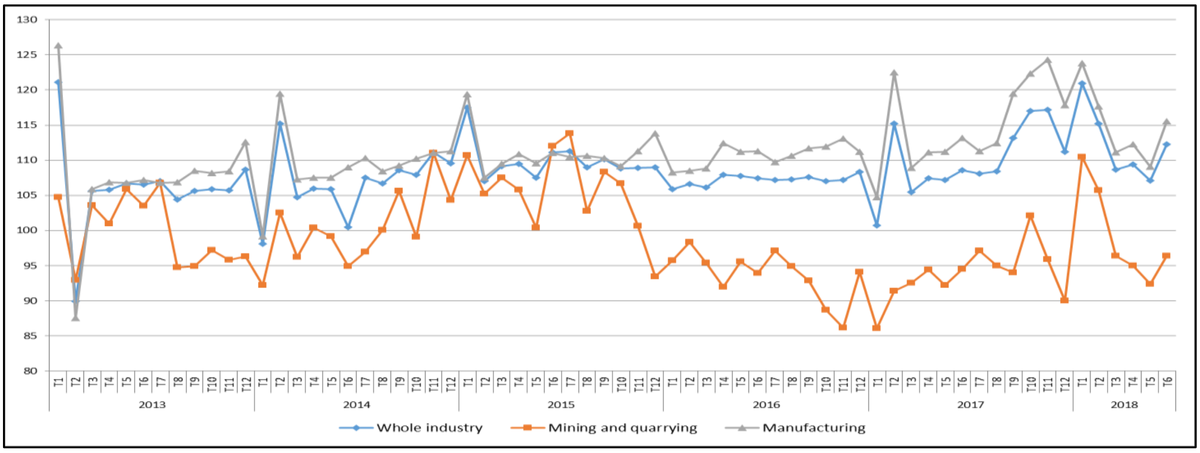
[12] The (YoY) growth rate of this sector was 3.13% in 2012; 2.06% in 2013; 2.90 in 2014; 2.22% in 2015; 0.18% in 2016; 2.75 in 2017 and 3.93% in 2018

[13] According to the data of General Department of Custom, the growth rate of AFF sector was relatively high in almost products, such as export of sea products amounted at USD 4.0 billion, increasing by 11.3%; vegetables attained USD 2.0 billion, up by 19.3% and rice reached USD 1.8%, up by 38.9%.

corresponding figures for Q2s of 2016-2017[14] (Figure 8). In the first 6 months of 2018, the value-added of this sector rose by 9.07%, with the brightness of high growth rate of manufacturing sector (up by 13.02% - at the highest since the last 7 years).

26. The Index of Industrial Production (IIP) went up by 12.3% in June and 10.5% in the first 6 months of 2018 (Figure 9), much higher than corresponding figure for first half of 2017 (7%). In contrast with high growth rate, IIP of the manufacturing sub-sector improved slowly, even at lower rate of 7.1% in May 2018 – at the lowest since the last 4 years. Particularly, the mining sub-sector went down by 1.3%, mostly attributed to reduction of exploitation of crude oil natural gas, in spite of upward trend of oil price.

Figure 9: Index of Industrial Production, 2013-June 2018



Source: GSO.

27. Purchasing Manger Index (PMI) of manufacturing sub-sector was high in Q2/2018, even peaking at 55.7 in June[15] (Figure 10). Particularly in June, the export orders were significantly increased, customer's demand improved remarkably, job creation was at faster pace. Moreover, efforts on economic restructuring, improvement of business environment continued to enhance the confidence of manufacturing firms.

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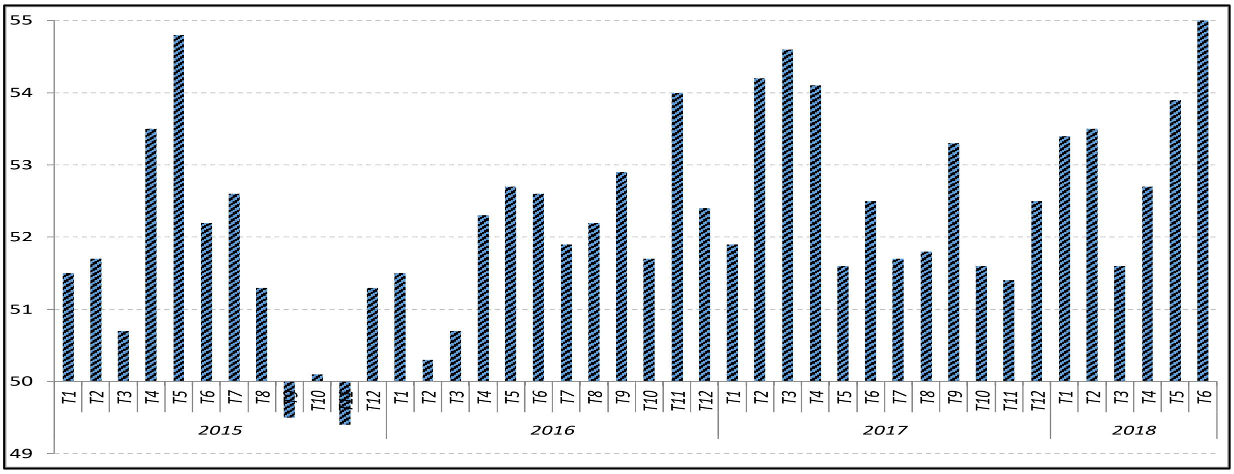
[14] Growth rate of industry and construction was 7.61% in Q2/2016 and 6.51% in Q2/2017.

[15] The second highest ranking since the survey started, only following the highest record in March 2011.

Figure 10: Purchasing Manager Index, 2015-June 2018

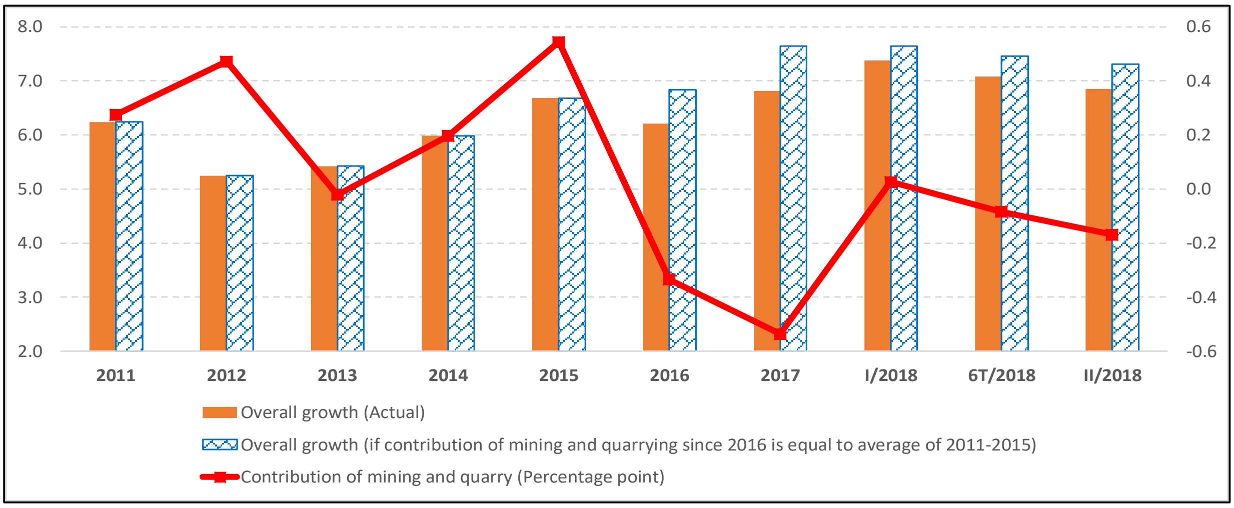


Source: Markit, HSBC.

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

28. GDP growth became less dependent on the mining and quarrying sub-sector. Since the beginning of 2016, the mining and quarrying sub-sector experienced negative growth, lowering overall growth rate. Assuming the contribution (in percentage point) since 2016 of mining and quarrying were equal to the average of 2011-2015, GDP growth would have been at higher rate. In contrast, the manufacturing sub-sector contributed 2.32 percentage points to overall growth in the first 6 months, which was similar to that of 2017 (2.33 percentage points) and far beyond the average of 2011-2016 (1.43 percentage points)

Figure 11: Contribution of mining sub-sector to overall GDP, 2011-2018 (%)



Source: Authors' calculation from GSO's data.

Note: Contribution of mining sub-sector (percentage points) was shown in the right axis.

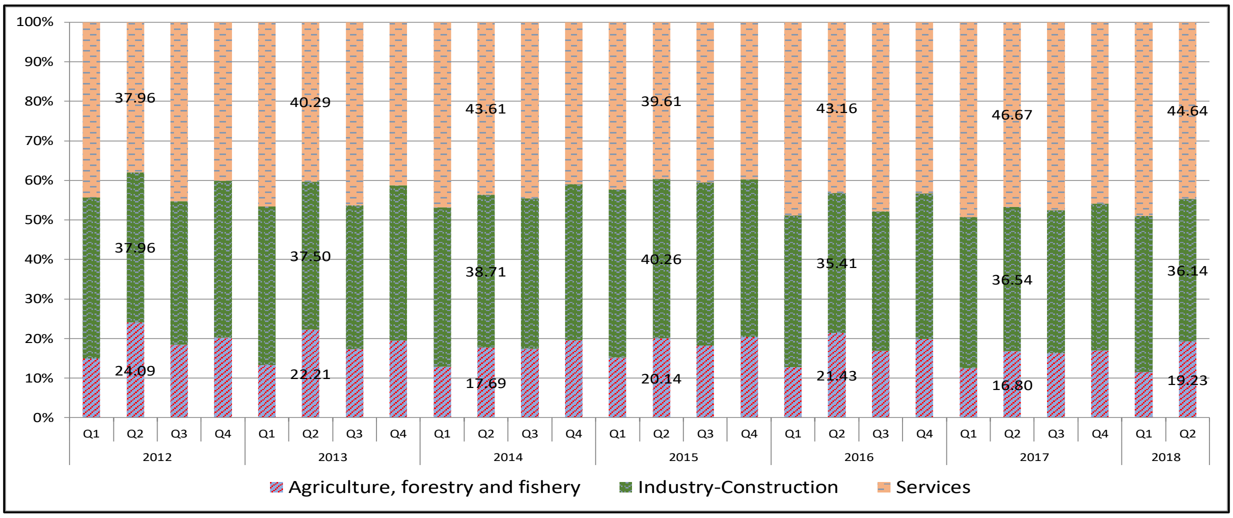
29. The value-added of service sector attained 7.3% in Q2/2018 –the highest YoY rate since 2010. For the first 6 months, service sector grew by 6.9%. Some sub-sector experienced high growth and positively contributed to overall growth such as wholesale and retail trade (up by 8.21%), finance, banking and insurance (up by 7.58%). Real estate market showed robust growth of 4.12%, which was assessed as remarkable achievement and upgrading to "semi-

transparent" group[16]. Tourism industry experienced strong growth of international visitors of 27%[17], with China and Korea as largest market, mostly attributed to (i) more attention on tourism promotion; (ii) the enforcement of Law on Tourism since 1 January 2018; (iii) extension of visa exemption for 5 Western European countries; and (iv) the piloting of Chinese self-driven passenger car in Ha Long until 31 December 2018.

30. Economic structure changed slightly. With higher growth, the share of AFF increased slightly (YoY), while the share of service sector went down. The share of industry - construction showed almost no change in Q2/2018 (Figure 12).[18]

Figure 12: Quarterly GDP structure, 2012-Q2/2018

Unit: %



Source: GSO.

31. 38.086 enterprises were newly registered in Q2/2018, with total registered capital of VND 370.5 trillion, up by 12.6% and 25.2% respectively. However, the number of inactive enterprises (including those registering inactive status or temporally stopping before closing tax code or without registration) was approximate ½ of newly registered ones and increased by 30.0% (Figure 14). Basically, factors affecting most to production and business included modest competitiveness of domestic products (59.4%) and low demand of domestic market (46.2%) (Figure 13).

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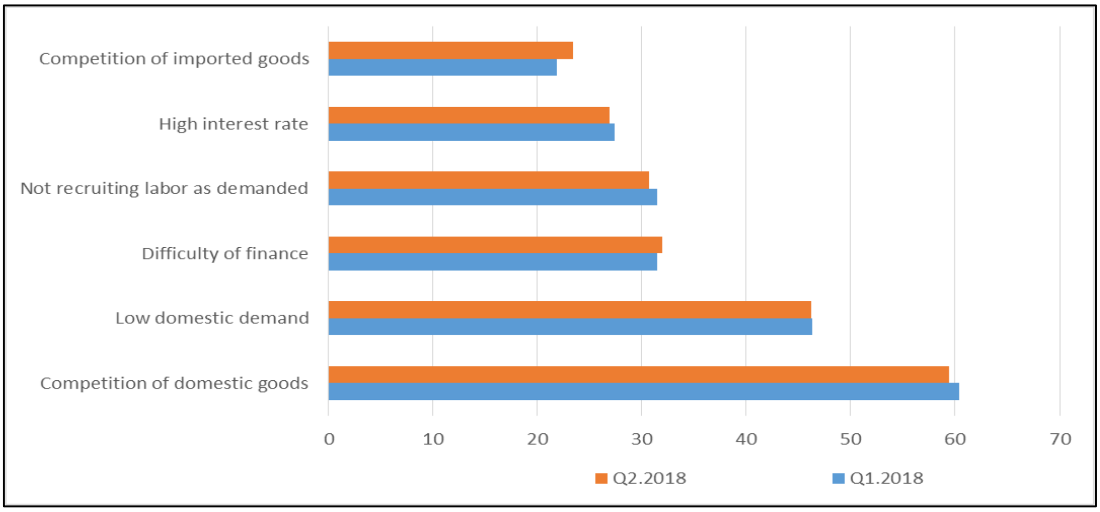
[16] Report on Real Estate Transparency Index of Southeast Asia.

[17] Although it has not sustainable, the downward trend of international visitors was seen in May and June. The international visitors went down by 13.5% as compared to previous month.

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

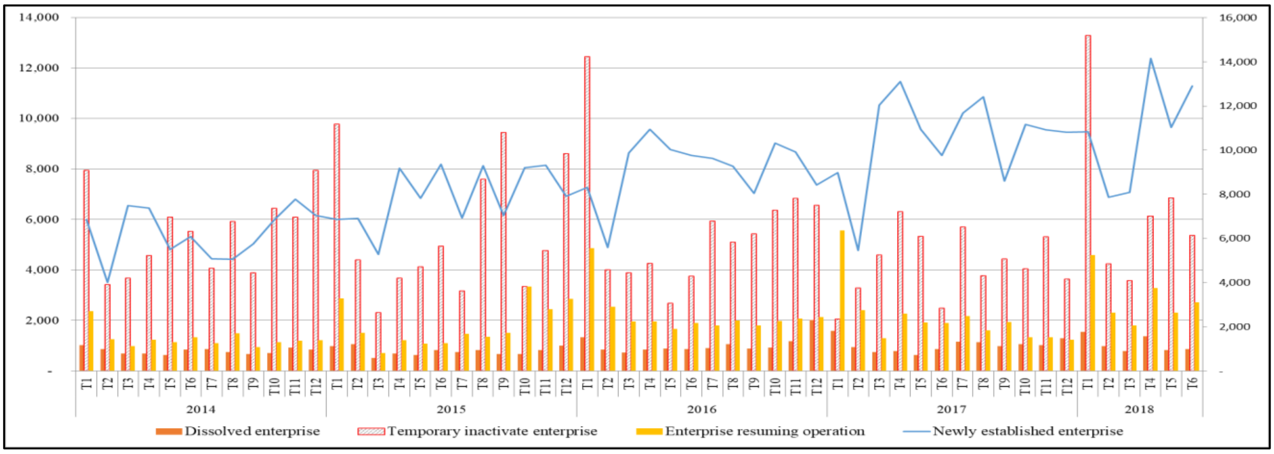
Figure 13: Factors affecting production and business



Source: GSO.

32. For the first 6 months of 2018, there were 64,531 newly registered enterprises, with total registered capital of VND 649 trillion, increasing by 5.3% and 8.9% respectively (Figure 14). In addition, the number of enterprises resuming operations was 16,449, up by 7%. However, average capital of newly registered enterprises only went up 3.4%, slower than the rate of 2017 (26.2%).

Figure 14: Selected indicators of enterprises' performance, January 2014 - June 2018



Source: Busisness Registration Agency, MPI.

33. Manufacturing enterprises had positive assessment of production and business. Some 82.6% of enterprises assessed better or stable production and business condition in Q2 than in Q1. Another 55.5% of enterprises thought that business tendency would be better in Q3 (Figure 15 and Figure 16). Component indicators such as production quantities, number of orders showed upward trend, meanwhile inventory of final products, materials; cost of production and labor usage of manufacturing enterprises were on decreasing and stable tendency.

Figure 15: Business tendency (Q2/2018 compared to Q1/2018)

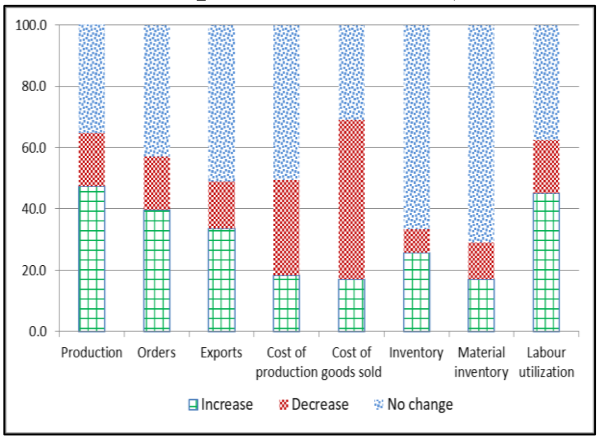
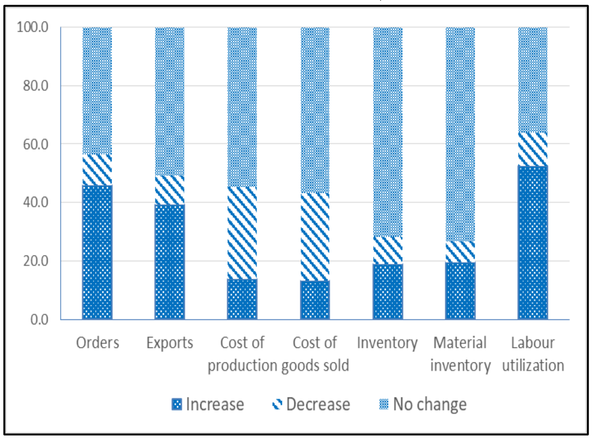


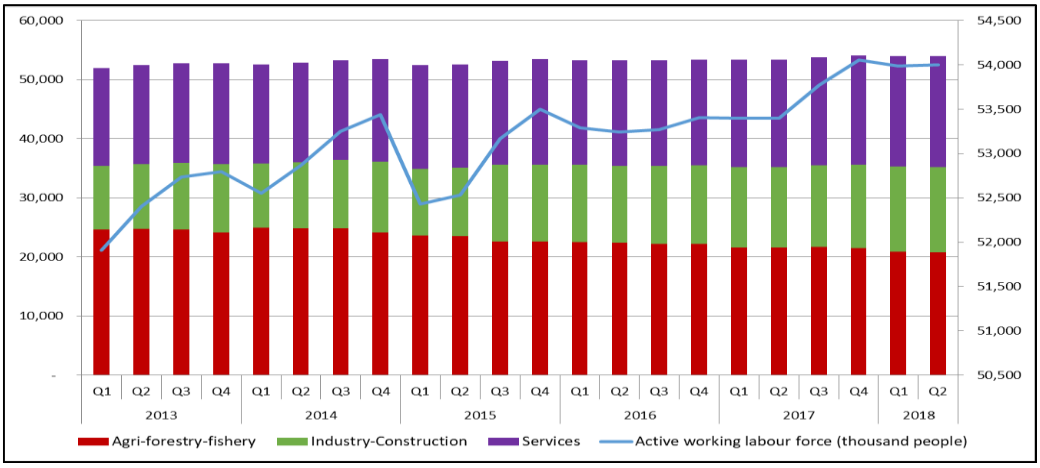
Figure 16: Business tendency (forecast for Q3/2018)



Source: GSO.

34. By 1 July 2018, total economically active labor force was 55.1 million people, an increase of 594 thousand people on YoY basis, of which male labor accounted for 52.2%, female labor accounted for 47.8%. Labor structure shifted toward reducing the share of labor in AFF (to 38.5%). The share of labor in industry - construction and service sector accounted for 26.7% and 34.8%, respectively (Figure 17).

Figure 17: Economically active labor force by economic sector, 2013-Q2/2018



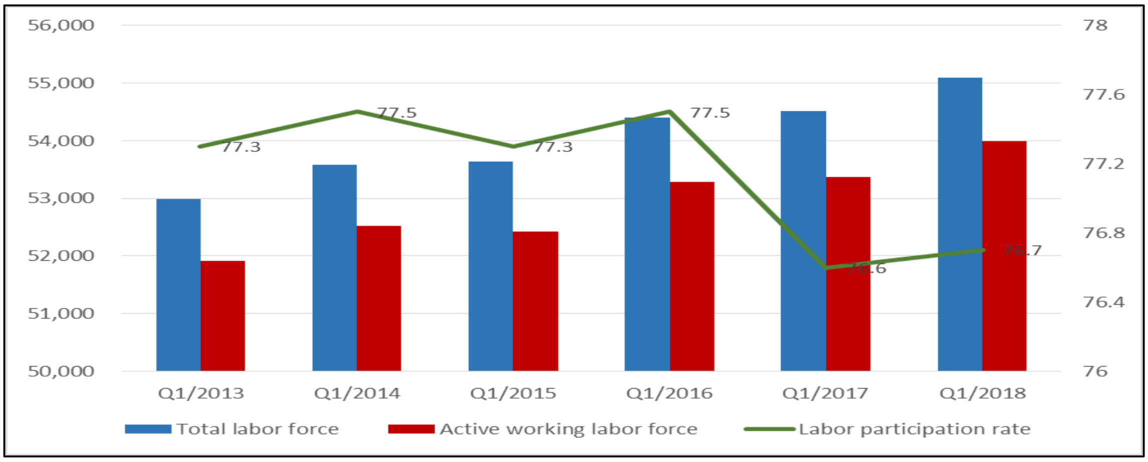
Source: GSO.

Note: Active working labor force is in the right-hand side axis.

35. Labor participation rate experienced decreasing trend (Figure 18). Labor participation rate of male laborers was always higher than that of female laborers. Although the absolute value of labor force increased[19], limitations still remained, including low rate of trained laborers, shortage of skilled workers, existing gap between education and training and actual demand for recruitment. These were challenges against improving productivity and taking advantages of IR4.0.

[19] Currently, Vietnam ranked third in ASEAN in terms of labor force.

Figure 18: Selected indicators of labor and employment



Source: GSO.

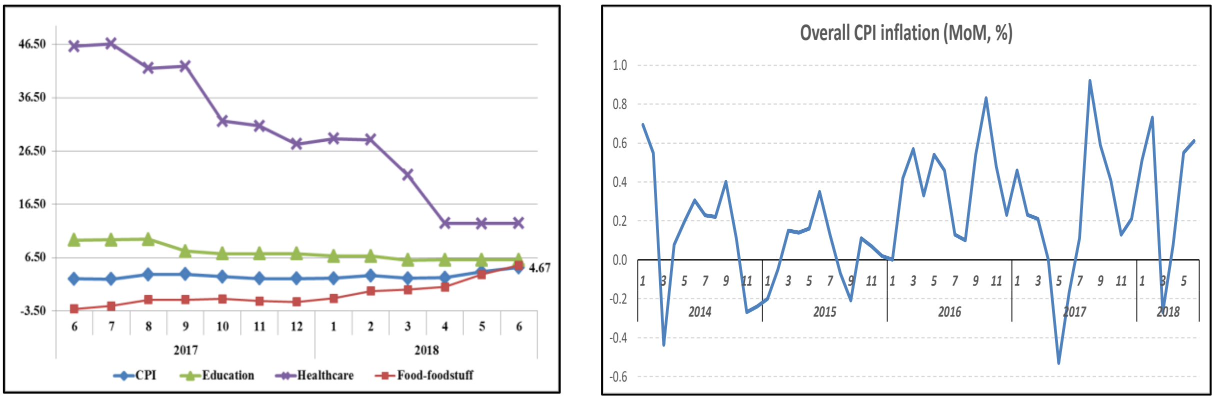
36. The report on "Role of women in the development of enterprises" published by Navigos recently showed no evidence of gender discrimination in recruitment for most surveyed firms. In some enterprises, women were paid more attention on joining management team. However, Navigos survey also revealed that female leaders were facing invisible barriers of society, firms and even their families, including (i) being compared and unequal assessed compared to male leaders; (ii) lack of support and understanding from their families; and (iii) bearing social prejudices against their role in the family.

1.2. Inflation

37. The Consumer Price Index (CPI) increased by 0.61% in June in relative to that in May, and by 4.67% (YoY).[20] In general, the monthly price increase was more volatile in the period of 2016-June 2018 (Figure 19). In the first 6 months, the average CPI was up by 3.29% (YoY).

38. The average core inflation was stable at low level, attaining 1.35% in the first 6 months, the lowest in recent years.[21] Inflation in the first 6 months was exposed to very modest pressure from monetary factor or aggregated demand.

Figure 19: YoY CPI



Source: GSO.

[20] The average CPI in June in previous years: 1.00% in 2015, 2.0% in 2016; 2.54% in 2017.

[21] The average YoY core inflation in the first 6 months in previous years: 5.07% in 2013; 3.57% in 2014; 2.25% in 2015; 1.8% in 2016; and 1.52% in 2017

39. Inflation pressure in Q2 was mainly attributed to "cost-push factors", in particular: (i) lagged impacts of the upward adjustment of electricity price at the end of 2017; (ii) upward adjustment of state-controlled prices of goods and services (healthcare, education), the increase of regional minimum wage in 2018; (iii) changes of the world oil price affecting domestic price (which was up by 13.95% in the first 6 months).[22] As a result, manufacturing and business costs have been rising considerably, for instance the average air transport cost rose by 11.07%, price of construction materials were up by 6.49% in the first 6 months.

40. Inflation pressure in the ending months remains a concern. The world oil price and commodity price may increase though hardly predictable. Exchange rate moves in major countries, in particular the US and China, will affect commodity prices. Risks will be amplified given increasing uncertainty of foreign capital flows in the context of the rising US – China trade tension. Internally, inflation will be exposed to the potential increase of regional minimum wage (in 2019) and adjustment of State-controlled price of goods and services by the ending of the year (if there remains space in relative to inflation target for 2018). As a note, responding to current inflation pressure is relatively similar to that in 2008 (despite difference in terms of scale) due to the risk of economic slowdown imposed by external factors.

1.3. Monetary movement

41. At the end of June, VND-denominated deposit rate (shorter than 6 months) remained stable and below the ceiling imposed by the State Bank of Vietnam (SBV, Table 2). Deposit rates of other terms were almost unchanged, and adjustments were witnessed in only a few commercial banks. This was attributed to such factors as: (i) sizeable liquidity in the commercial banking system; (ii) priority on controlling inflation; and (iii) stable credit growth and issuance of government bonds.

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

Unit: % per annum

	Demand	**Shorter than 6 months**	**6-12 months**	**Longer than 12 months**
End of March 2017	0.8-1.0	4.5-5.4	5.4-6.5	6.4-7.2
End of December 2017	0.8-1.0	4.3-5.5	5.3-6.5	6.5-7.3
End of March 2018	0.6-1.0	4.3-5.5	5.3-6.5	6.5-7.3
End of June 2018	0.6-1.0	4.3-5.5	5.3-6.5	6.5-7.3

Source: SBV.

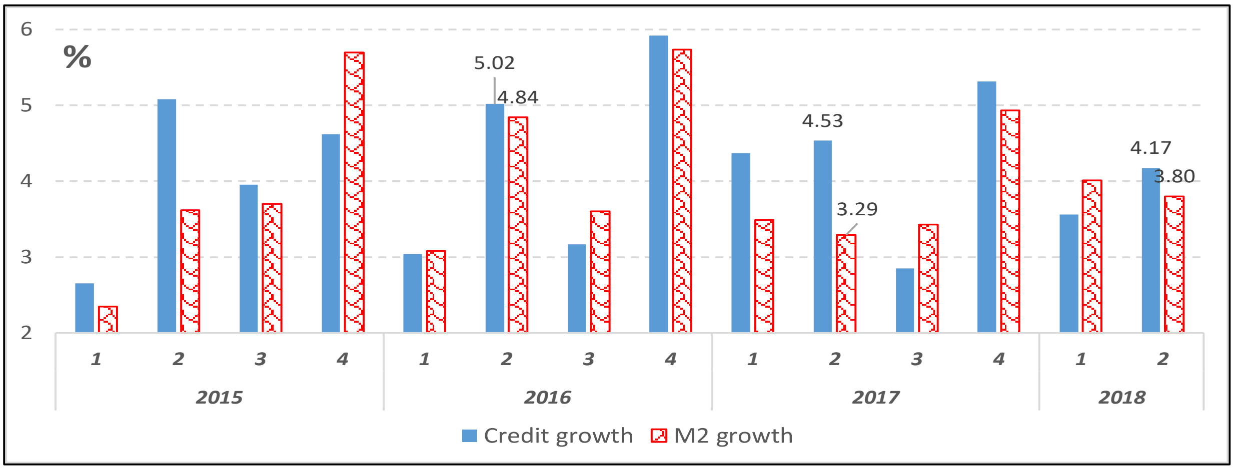
[22] In the first 6 months, oil and petrol prices were adjusted upward 5 times, adjusted downward twice. In overall, in comparison to December 2017, gasoline A95 price increased by VND 1,890 per litter (9.7%), diesel: VND 2,300 per litter (15.17%), kerosene: VND 2,440 per litter (17.93%), gasoline E5: VND 1,370 per litter (7.51%).

42. USD-denominated deposit rate for individuals and organizations was kept unchanged at 0% per annum. The SBV made no adjustment on the ceiling of USD-denominated deposit rate as well as no public announcement on this issue despite popular recommendations on raising the ceiling of USD-denominated deposit rate (in particular around times of interest rate hike in the US and more significant volatility of the VND/USD exchange rate in June).

43. Both VND-denominated and USD-denominated lending rates were relatively stable in Q2. No message or policy direction on reducing lending rates has been delivered. Explanations on factors impeding attempts to lower lending rates seem inadequate. "Crowding-out" effects of government bond issuance on lending rates have been limited. However, lending rates are still under pressure due to the interest rate hike in the US.

44. Outstanding credit grew by about 4.17% in Q2 (compared to the end of Q1), which was outpaced the growth rate of Q1 (3.56%) but remained below the figure of Q2/2017 (4.53%). (Figure 20). At the end of June, outstanding credit increased by 7.88% relative to the end of 2017. Credit growth in Q2 was affected by such factors as: (i) control over credit to potentially risky sectors/industries by the SBV; (ii) prudent credit management in order to minimize inflation pressure and create more space to response to the risk of economic slowdown in the ending quarters of 2018; and (iii) slowdown in the restructuring of commercial banks and reduction of non-performing loans (NPL).

Figure 20: Credit and M2 growth rate, 2015-II/2018

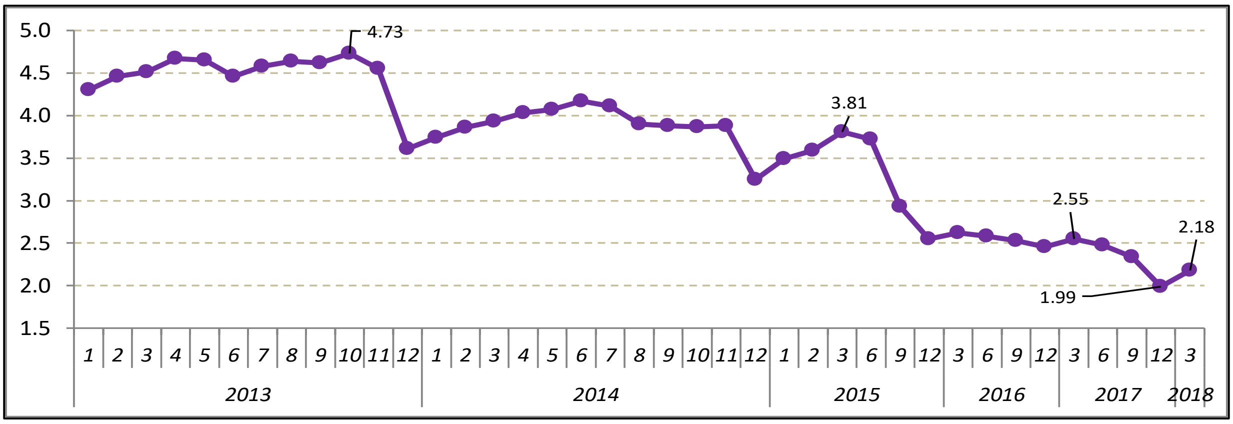


Source: Authors compilation from various sources.

45. The NPLs exhibited insignificant improvement. By the end of March, the NPL ratio slightly increased to 2.18% (compared to 1.99% in the end of 2017) (Figure 21). The purchase, selling and reduction of NPLs improved modestly due to: (i) limited authority of commercial banks to take full responsibility in auctioning collaterals (commercial banks only have rights to collect collaterals in accordance with the Resolution No. 42) and the enforcement of tribunals' verdicts; and (ii) the control over credit to real estate sector which has somehow restricted resources for the settlement of secured assets.

Figure 21: NPL ratio of credit institutions, 2013-3/2018

Unit: %

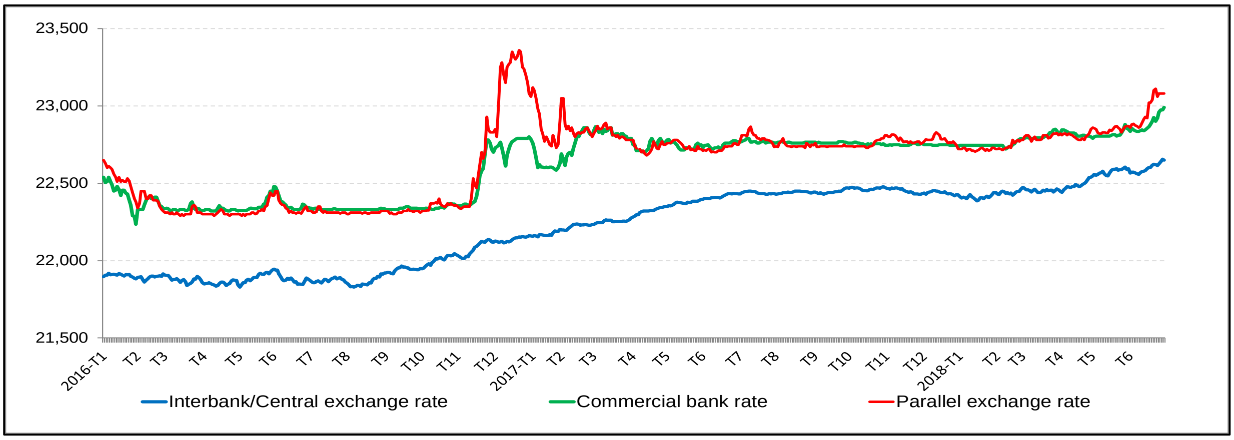


Source: SBV.

46. By June 20, 2018, total liquidity (M2) increased by 3.8% in Q2 (in comparison to the end of Q1) and by 7.96% relative to the end of 2017. Overall, M2 growth rate in the first 6 months outpaced that in the corresponding period of 2017 (Figure 20). This was attributed to: (i) higher supply of VND to purchase foreign currencies;[23] (ii) the expansion of deposits of the State Treasury at commercial banks in the context of slow disbursement of public investment.

47. The foreign exchange market volatilized more significantly in Q2. The central VND/USD exchange rate took the upward trend in the quarter: increase by 0.25%, 0.36% and 0.24% in April, May and June, respectively (MoM). In Q2, the central exchange rate rose by 0.85% relative to Q1 and over by 1.00% in comparison with the end of 2017.

Figure 22: The movement of VND/USD exchange rate



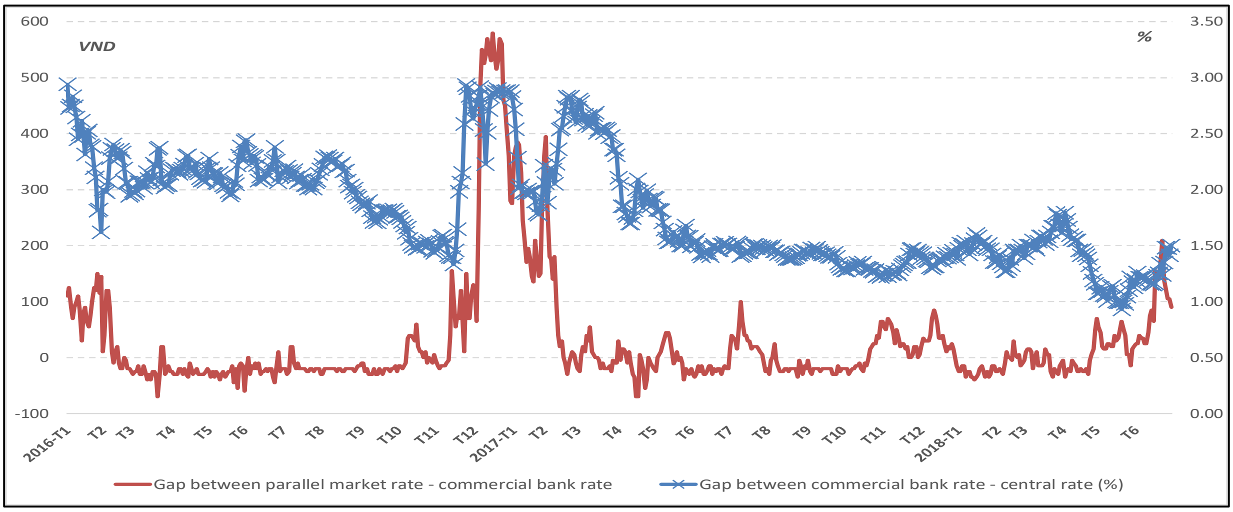
Source: CIEM.

48. The increase of central exchange rate in April and May outpaced that in June, while the exchange rate fluctuated most considerably in June. Since the end of May, the gap between exchange rate in the parallel market and at commercial banks expanded almost continuously in June, even attaining 210 dong at certain points of time. The difference between the central exchange rate and that in commercial banks was relatively modest in Q2 and far below the ceiling of 3%

[23] Net supply was estimated to reach VND 210 trillion in the first 6 months.

despite the upward trend in May-June. The adjustment of the central exchange rate, thus, created for flexibility for the movement of exchange rate in the market in the context of the USD appreciation. Meanwhile, by the end of June, the SBV did not have to intervene exchange rate by selling foreign currencies.

Figure 23: Some indicators of exchange rate movement, 2016-II/2018



Source: CIEM.

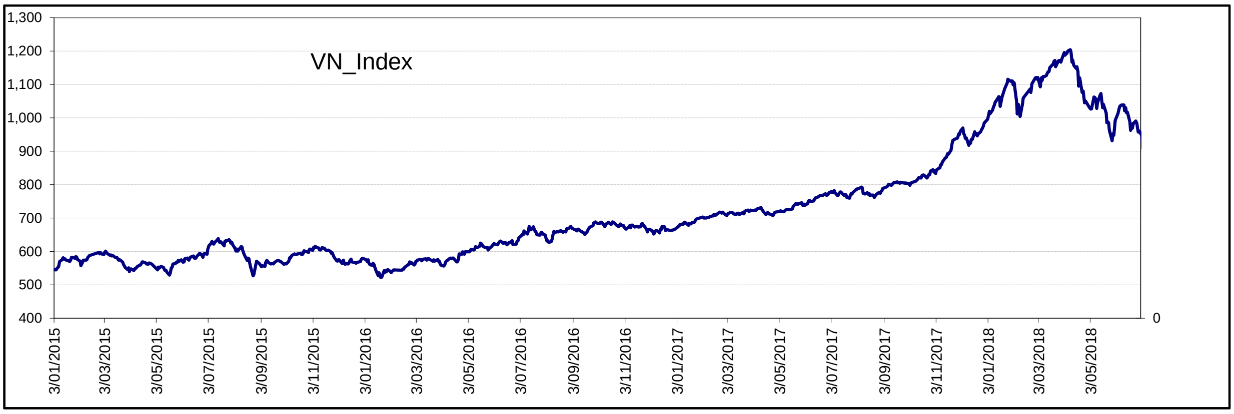
Note: The gap between exchange rate in the parallel market and that in commercial banks is indicated in the left axis; the gap between the central exchange rate and that in commercial banks is indicated in the right axis.

49. The stock exchange market fluctuated more dramatically in the first half of the year (Figure 24). Until April, VN-Index took the upward trend and reached the peak of 1204.33 on April 9 (despite the significant drop in early February). After that, VN-Index followed the downward trend, and stood at only 960.78 in the end of June, which decreased by 20.22% in comparison to the peak on April 9, and by 2.38% in relative to the end of 2017. This was attributed to: (i) excessive and rapid responses of investors - though the capital withdrawal was only witnessed in the stock market instead of actual outflow from the country - in the context of rising US – China trade tension and the tendency of capital outflows from emerging markets; (ii) interest rate hikes by FED casted the pressure of USD appreciation in Q2;[24] (iii) stricter control of the SBV over credit activities and credit restriction to potentially risky areas;[25] and (iv) rising costs of materials and fuels for production.

[24] In the end of June, the USD index increased by 4.98% in comparison to in March 2018.

[25] By early June 2018, credit for stock exchange sector decreased by 3.92% in relative to that in the end of 2017. Source: http://www.sggp.org.vn/siet-cho-vay-dau-tu-bat-dong-san-532661.html

Figure 24: VN-Index, 2015-2018



Source: BSC.

50. Volatility of many major currencies given rising US – China trade tension raised concerns and put forth recommendations on devaluing the VND. However, taken into consideration the current situation, exchange rate adjustment should be considered only as a component in the overall policy coordination, aiming at strengthening economic resilience of the economy and maintaining macroeconomic stability. Priority of exchange rate management, thus, should focus on a flexible instead of a rigid target. Opinions and recommendations on raising the VND/USD exchange rate only saw the adjustment of the CNY exchange rate in China as a separate event, without due consideration of practical knowledge on trading activities and the foreign exchange market. Relying solely on devaluing exchange rate to respond to unfavorable impacts on trade is inappropriate because:

- Current trade uncertainties arise from issues regarding the real economy in the US and China, which are impossible to solve in the short run. To that extent, utilizing monetary measure to handle real economic issues will not lead to sustainable outcome.

- As a note, exchange rate is overshooting in almost all cases[26] before re-adjustment. Consequently, rapid adjustments in response to CNY movement may intensify uncertainties of monetary policy management in general and exchange rate management in particular. In this context, investors may over-react and USD-denominated assets are considered as the most secured assets, which further reinforce pressure on the depreciation of VND.

- Exchange rate adjustment does not always help strengthen the competitiveness of Vietnamese goods. Truong Dinh Tuyen et. al. (2011), Vo Tri Thanh and Nguyen Anh Duong (2015) found that exchange rate adjustment only promotes exports if macroeconomic stability is sustained, while meeting such a pre-condition is a significant challenge to Vietnam. Since 1994, China has been quite successful in maintaining the competitiveness of Chinese goods. The Real Effective Exchange Rate (REER) of China was up by 101.4% in the period of 1994-July 2015, indicating that Chinese goods became cheaper in comparison to

[26] English words: Overshooting.

international goods despite appreciation by 42.2% of CNY against USD in the corresponding period. In the meanwhile, VND depreciated by 49.9% against the USD, but the price of Vietnamese goods increased by more than 27% in relative to the price of international goods (in terms of REER).

- Exported goods of Vietnam heavily depend on imported input from China.[27] The depreciation of CNY initially made imported input from China become cheaper (converted into VND). Thanks to the decline of input cost (from imported ones), Vietnamese goods may not become less competitive than Chinese ones in the third market.
- Prices of many commodities take the upward trend in the international market. If VND is devalued even by only 2-3%, Vietnam may face with "imported inflation" in parallel with the risk of economic slowdown, which had occurred in the 2008-2009 period.

1.4. Investment

51. Gross investment in Q2 was estimated to reach VND 417.5 trillion, increasing by 11%. The overall figure for the first six months, gross investment was approximately VND 747.6 trillion, up 10.1%. In real terms, gross investment grew by 7.1%. The investment to GDP ratio reached 33.6% in Q2, higher than in Q1 and same period of 2014-2017.
52. Investment disbursement in Q2 was higher than that in Q1 in all investment categories in absolute term. In overall, the non-state sector enjoyed the highest investment rate of 17.5% in the first half of 2018, which is 2.6 percentage points higher than figure for corresponding period of 2017. On the contrary, both the state sector and the FDI sector witnessed slower investment growth rates, reducing by 2.2 and 1.1 percentage points respectively.
53. Impressive investment growth in the non-state sector (compared with other sectors) was attributed to a great deal of continual and relentless efforts in improving business environment over the years, particularly with a series of Resolution 19 and Resolution 35 on enterprise development. In addition, interest and inflation rates were kept relatively stable, thus consolidating investor and business confidence in their investment decisions.

Table 3: Gross investment, current price

Unit: trillion dong

	Q1/2018	Q2/2018	6 months of 2018	Growth rate (%)
TOTAL	**330.1**	**417.5**	**747.6**	**10.1**
1. State investment	***103.2***	***146.6***	***249.8***	***3.1***
+ State budget investment	49.3	74.9	124.2	9.4
+ Government bonds	5.9	10.8	16.7	90.9
+ State credit	7.6	11.7	19.3	-23.4

[27] Reference: Macroeconomic Report – Second quarter of 2015 of CIEM.

	Q1/2018	Q2/2018	6 months of 2018	Growth rate (%)
+ Borrowings from other sources (by the State sector)	20.7	26.6	47.3	-10.9
+ Investment by SOEs (Equity)	14.8	16.8	31.6	-7.9
+ Others	4.9	5.8	10.7	55.1
2. Non-state investment	***139.1***	***169.3***	***308.4***	***17.5***
3. FDI	***87.8***	***101.6***	***189.4***	***8.5***

Source: GSO.

54. Disbursement of government bonds in the first 6 months increased by 90% (YoY). The efforts to accelerate public investment disbursement in line with Government's direction and management reflected in Resolution 01/NQ-CP have helped to improve the disbursement situation. In addition to maintaining close collaboration with ministries and relevant agencies, the MPI issued the Official Letter No. 1375/BKHDT-TH dated March 9, 2018 on accelerating implementation and disbursement of the 2018's public investment plans. The legal framework to promote public investment disbursement was proposed, notably including the request of removal of the regulation stipulated at Article 76, the Law on Public Investment[28], extension of disbursement to the following year, and proposed amendment of Article 46, Decree 77/2015/ND-CP towards enhancing autonomy of ministries, branches and localities and reducing reporting and review procedures.

55. In general, disbursement of public investment was relatively slow compared with the plan. In addition to legal obstacles, the slow disbursement was attributed to the fact that many ministries, branches, localities, and investors had not undertaken bold measures to accelerate project implementation. Some ministries and branches even cited slow disbursement progress to recommend a "fast-track approach" of shortening project implementation procedures while lacking justification of adequate project quality assurance.

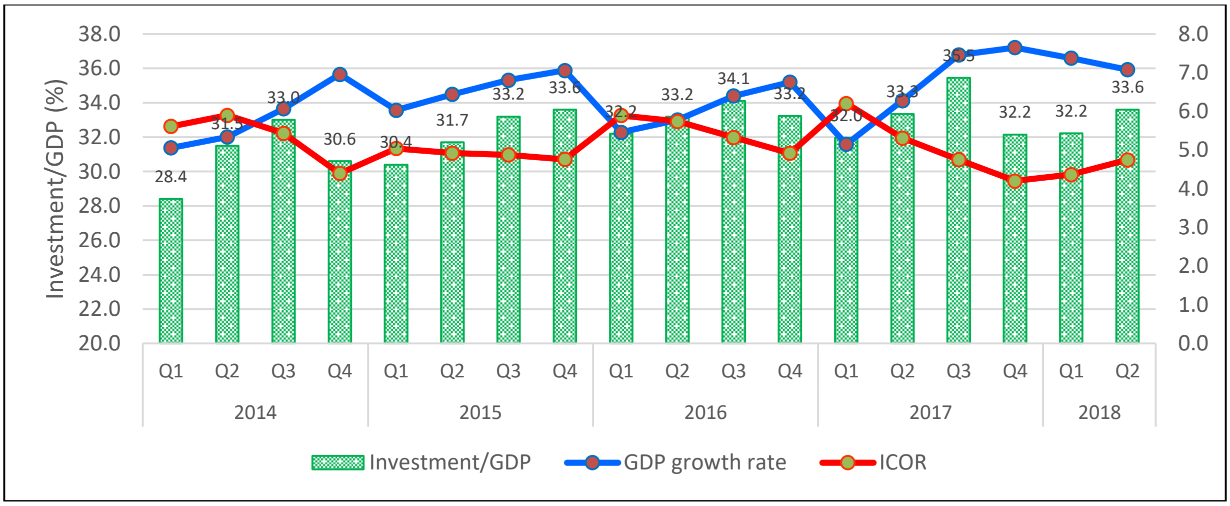
56. The ICOR has somewhat improved compared to previous years (Figure 25). Continued efforts to promote private investment and ensure public investment disciplines have gradually been effective. However, the level of ICOR's improvement needs further examination given that recent improvements ***may*** be technically associated with slow public investment disbursement. Furthermore, management disciplines, procedures of planning, appraisal, and implementation of public investment projects still exhibited many loopholes and shortcomings. It is not rare[29] to see public investment projects originally

[28] Except for cases decided by the Government for extension of time for implementation and disbursement and accompanied by specific conditions.

[29] For example, the project of dredging and building embankments for protection of Sao Khe River landscape (Ninh Binh province) increased capital from VND 72 billion to VND 2,595 billion; the Day river dredging project (also in Ninh Binh province) increased capital from VND 2,078 billion to VND 9,720 billion (increased by VND 7,000 billion). Source: http://cafef.vn/giai-ngan-von-dau-tu-cong-cham-do-so-trach-nhiem-20180618070609028.chn

proposed with small sizes of budget requirement for easy approval which then sought increase in funding.

Figure 25: Investment scale and efficiency (%)



Source: Authors' calculation using GSO data.

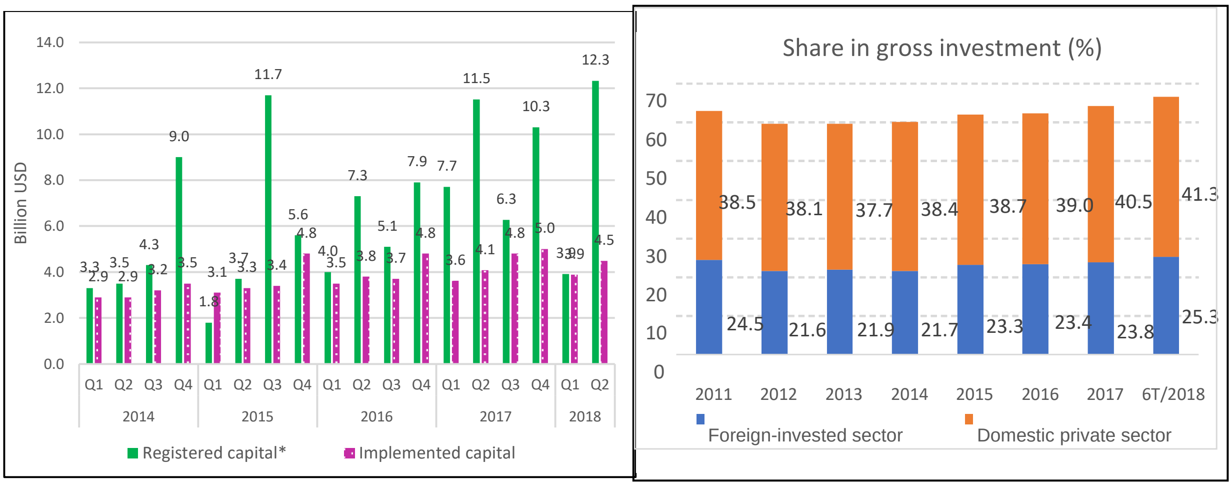
Note: Investment/GDP is shown in the left-hand axis; GDP growth rate and ICOR are shown on the right-hand axis

57. The modality of "exchanging land for infrastructure" under the form of BT (build-transfer) in urban areas also incorporates various problems about transparency and efficiency, potentially causing substantial losses to the state budget. The State Audit Report shows that most BT projects selected investors by direct contract mechanism: 5/5 projects in Hanoi, 3/4 projects in Da Nang, 2/2 projects in Bac Ninh, 2/2 in Ha Nam, 3/3 in Thai Binh and 1/1 in Thanh Hoa. Moreover, the issue of faulty and careless appraisal and approval of BT projects remained, which led to increased investments of projects, affecting the calculation and arrangements of land allocations and land pricing.

58. The capital utilization efficiency of SOEs presents another concern, although rarely mentioned in recent times. The handling of big projects with large losses - such as those under MOIT's authority - was slower than expected. The preparations relating to personnel, functions and duties for the Committee for State Capital Management at Enterprises - although are under the final stage – did not complete in Q2. Furthermore, the state capital divestment, especially in large SOEs, did not show any improvement in Q2.

59. In term of FDI attraction, total registered capital reached USD 12.3 billion in Q2, up 6.9%. Implemented capital attained USD 4.5 billion, increasing by 10%. In H1/2018, total registered capital reached USD 16.2 billion, down 15.6%. However, implemented FDI inflows showed a positive improvement with a growth rate of 8.7%, reaching USD 8.4 billion, 3.2 percentage points higher than in the first half of 2017 (Figure 26).

Figure 26: FDI inflows to Vietnam



Source: Authors' calculation using GSO data.

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

60. Out of 17 industries and sectors with FDI in the first half of 2018, the manufacturing sector attracted most FDI inflows with total registered capital of USD 7.91 billion, accounting for 38.9%. The real estate sector ranked second with corresponding figures of USD 5.54 billion and 27.3%.

61. Among 87 countries and territories with investment projects in Vietnam, Japan ranked first with total registered capital of USD 6.47 billion (31.8%); South Korea followed with USD 5.06 billion of registered capital (24.9%); and the third place was Singapore with USD 2.39 billion (11.8%).

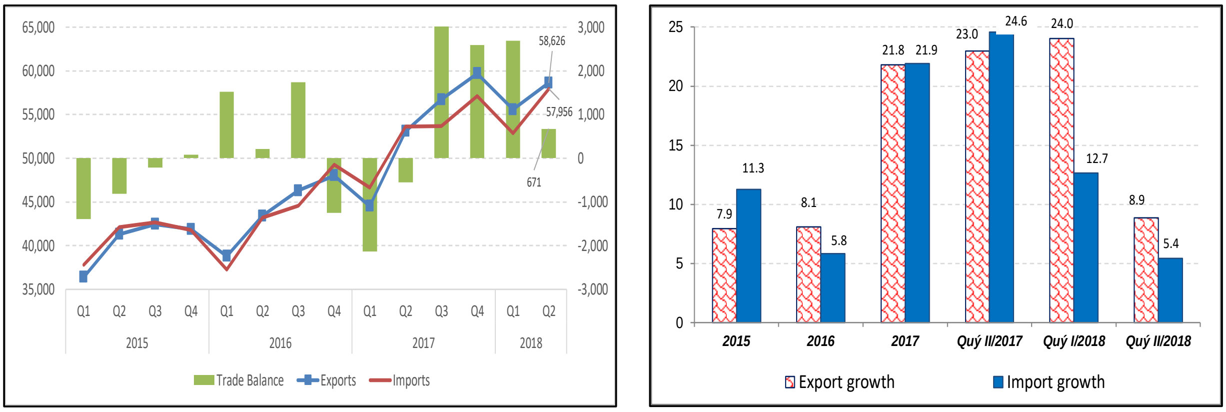
62. The significant decline in registered FDI in the first 6 months of 2018 could be attributed to number of reasons, including: (i) added uncertainty by the rising US-China trade tensions; (ii) a general global trend of withdrawing of or ceasing investment in emerging markets; and (iii) smaller advantage of cheap labor source – but slowly-improved labor productivity - for investors. Particularly, the issues of labor productivity and quality are becoming increasingly urgent amid the context of Vietnam's study over opportunities and challenges of IR4.0 and consideration of adjusting the FDI strategy. However, technology transfer requirements need thorough consideration to balance the country's development aspirations and to avoid the risk of being investigated by its partners (as in the case of the US imposing additional tariffs on Chinese imports following its investigation on the technology transfer requirements of China).

1.5. Trade

63. Exports in Q2 were estimated at USD 58.6 billion, increasing by 9.7%. This export growth decelerated considerably compared with Q1 (Figure 27). Total exports in the first 6 months reached USD 113.93 billion, up 16.3% (Figure 27). The growth rate in the first 6 months remained slightly higher than that of the same period in 2015-2016 but was 2.4 percentage points lower than the first half of 2017. Excluding the price factor, the export turnover in the first 6 months grew by 15.5%.

Figure 27: Exports, Imports and Trade Balance, 2015- Q2/2018

Unit: USD million

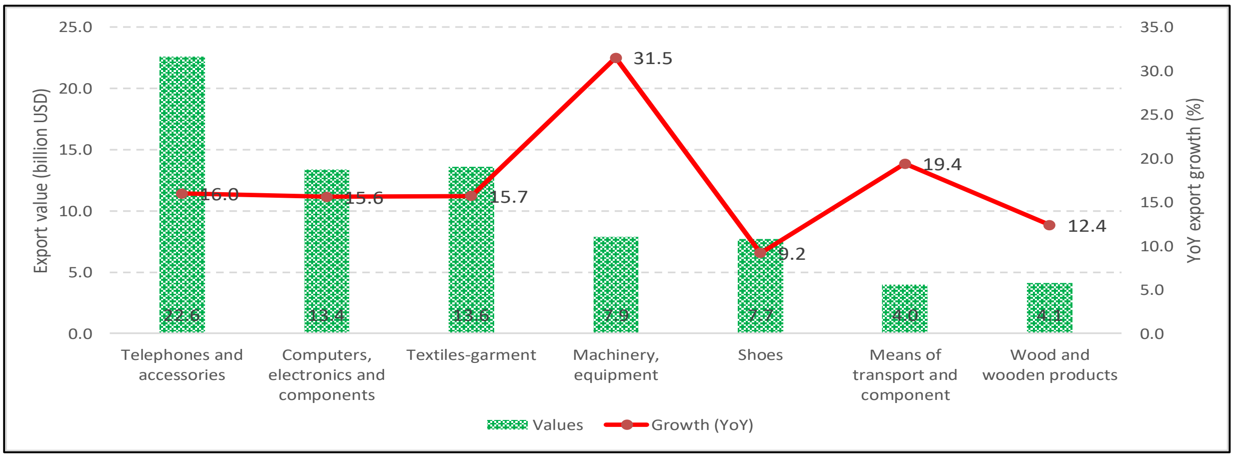


Source: General Department of Customs, GSO

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

64. In the first 6 months of 2018, exports of the FDI sector increased by 15.7% (YoY), contributing 11.1 percentage points to the overall export growth rate. The domestic sector achieved an export growth rate of 17.7%, contributing 5.2 percentage points to the overall figure. Although export growth of the domestic sector outpaced the overall export growth in the first 6 months, concerns about the dependence of exports on the FDI sector remain prevalent. More importantly, the resilience of the economy to external shocks may be affected if these shocks induce/interact with the inward/outward foreign investment into Vietnam.

Figure 28: Some key export items in the first 6 months of 2018



Source: GSO.

65. In term of key export item, in the first 6 month of 2018, Vietnam had 20 items with individual export values of over USD 1 billion, accounting for 85.6% of total export turnover. A number of key products continued performing well with positive YoY growth (Figure 28). Three groups of commodities with export turnover of over USD 10 billion include: (i) Telephones and components: USD 22.5 billion, up 15.4%; (ii) Electronics, computers and

components reached USD 13.5 billion, up 15.7%; and (iii) Textiles and garments gained USD 13.4 billion, increasing by13.8%.

66. Regarding export market, export activities in the first 6 months still concentrated in six major markets (Table 4). Exports to South Korea and China increased most rapidly, reaching 30.3% and 27.7% respectively. China, the EU and South Korea were the three largest contributors to the overall export growth (16.5%), accounting for 3.7, 2.4 and 2 percentage points respectively (Table 4).

Table 4: Export growth by partner in the first 6 months

Unit: USD billion

	6 months/ 2017	6 months/ 2018	Growth rate (%)	Percentage point contribution to export growth
EU	18.2	20.5	12.6	2.4
ASEAN	10.4	12.2	17.3	1.8
Japan	8.0	9.0	12.5	1.0
South Korea	6.6	8.6	30.3	2.0
China	13	16.6	27.7	3.7
USA	19.6	21.5	9.7	1.9

Source: GSO.

67. Imports in Q2 reached USD 58 billion, up by 5.4%. For the first 6 months of 2018, the import turnover was estimated at USD 110.8 billion, rising by 9.6%. Excluding the price factor, the import growth rate in the first 6 months was 8.4%. The domestic business sector had import growth rate of 12.7%, contributing 5.1 percentage points to the overall import growth rate. The corresponding figures for the FDI were 7.5% and 4.5 percentage points, respectively.

68. Vietnam's imports in the first 6 months of 2018 were largely sourced from the six key trading partners (Table 5). In which, China, Korea, ASEAN were the three largest sources of imports to Vietnam. China alone contributed up to 3.9 percentage points to the overall import growth rate.

Table 5: Import growth by partner

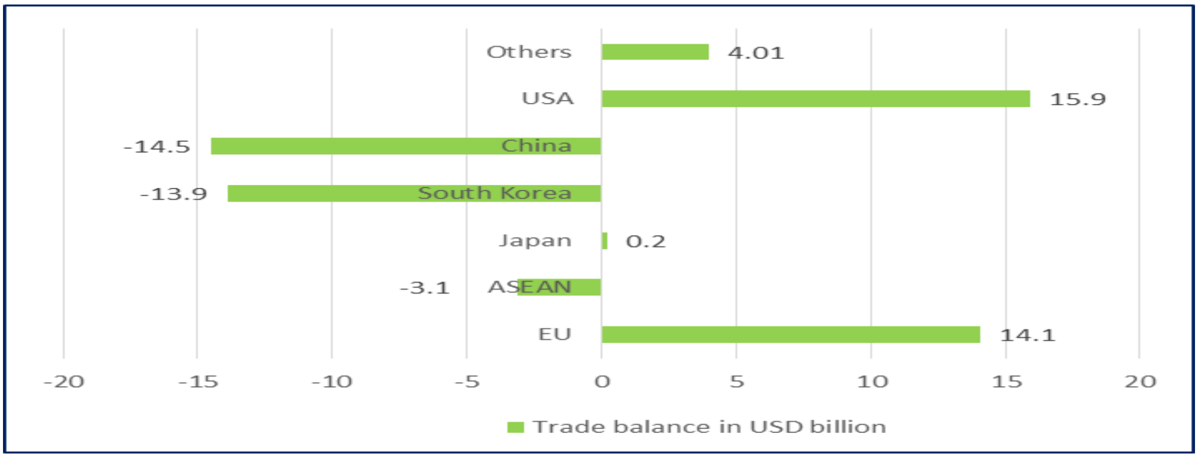
Unit: USD billion

	6 months/ 2017	6 months/ 2018	Growth rate (%)	Percentage point contribution to import growth
EU	5.8	6.4	10.3	0.6
ASEAN	13.6	15.3	12.5	1.7
Japan	7.7	8.8	14.3	1.1
South Korea	22.5	22.5	0.0	0.0
China	27.1	31.1	14.8	3.9
USA	4.8	5.6	16.7	0.8

Source: GSO.

69. The trade balance registered a surplus of USD 671 million in Q2 and nearly USD 3.4 billion in the first 6 months of 2018. Contrary to some concerns from time to time during Q2, trade deficit only occurred in May (USD 815 million). Vietnam quickly returned to trade surplus in June (USD 799 million). The trade deficit in Q2 remained to be seen in the domestic business sector, reaching USD 11.7 billion, up 0.2%. Meanwhile, the FDI sector recorded a surplus of USD 15.1 billion, up 72.1%. Among the key trading partners, Vietnam only attained the trade surplus in three markets, including the United States, the EU and Japan. Vietnam still suffered large trade deficits with China and South Korea (Figure 29).

Figure 29: Trade balance by partner in the first 6 months of 2018



Source: GSO.

70. Overall, the two-way trade structure by commodity groups has positively shifted over the years (Table 6). Exports have shifted towards higher shares of manufacturing goods and smaller shares of agricultural, forestry and fishery products, in which the latter category shrank from 20% to around 13% in 2017 and in the first 6 months of 2018. The import structure has also showed signs of improvement towards increasing shares of machinery and equipment import and reducing shares of fuels and raw materials.

Table 6: Export and import turnover by commodity groups

Unit: %

	2012	2014	2015	2016	2017	6M/ 2018
Export						
Manufacturing	80.03	82.88	85.47	85.73	86.81	86.74
Agriculture, forestry and fishery	19.97	17.12	14.53	14.27	13.19	13.26
Import						
Machinery, equipment and accessory	35.09	38.12	43.24	41.44	43.20	40.47
Fuels and raw materials	55.85	53.01	47.89	49.69	48.18	51.17
Consumer goods	8.97	8.80	8.82	8.87	8.62	8.36

Source: GSO.

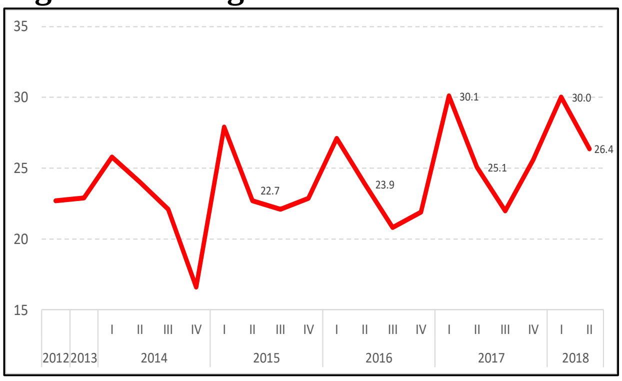
71. With high trade openness (total trade value exceeded 185% GDP), Vietnam’s imports and exports may be affected substantially via different channels given the rising US-China trade tension. The direct impacts of the US’s imposition of additional tariffs by 25 percentage points on Chinese imports worth USD 34 billion since July 6, 2018 may be quite limited. The reason is that the goods subject to additional duties are relatively-specialized machinery/equipment and technologies which are difficult to shift to Vietnam to avoid taxes. The indirect impacts, however, are quite unpredictable because overly quick and excessive reactions of investors in the financial markets may affect the exchange rate and capital flows into and out of Vietnam and even interact with changes in Vietnam’s capital market.

72. In the medium and long term, potential impacts on Vietnam's trade will also depend on the magnitude and evolution of the US-China trade war. The US’ imposition of tariffs on July 6, 2018 is just one of the very first moves. The US’ next move will depend on China's responses (in fact, the US listed Chinese goods worth USD 200 billion for consideration of additional tariffs, the move came after China imposed retaliatory tariffs on US goods). Accordingly, there exists a likely possibility that China's commodities subject to additional US tariff will shift to other markets to compete with Vietnamese exports, or to shift to Vietnam. Another potential case is that China's use of technical barriers to restrict its imports of Vietnamese goods. Opportunities, albeit limited and accompanied by difficulties, remain if Vietnam could capital flows diverging from China and/or selectively import appropriate Chinese technology products with better competitive prices. In that circumstance, the calmness, flexibility, and pragmatism in Vietnam's responses - to both address export challenges in the short term and to engage in and strengthen benefits gained through multilateral/plurilateral trade regimes - is critically important.

1.6. Budget revenues and expenditures

73. Budget revenues reached VND 343.2 trillion in Q2, or 27.6% of GDP (Figure 30). Of which, domestic revenues attained VND 270.3 trillion, or 24.6% of the planned figures for 2018. Revenues from crude oil amounted to VND 16.3 trillion, or 45.4% of the planned figures. Revenues from exports and imports were VND 50.0 trillion, or 31.4% of the planned figures for 2018.

Figure 30: Budget revenues to GDP ratio



Source: Authors’ calculation.

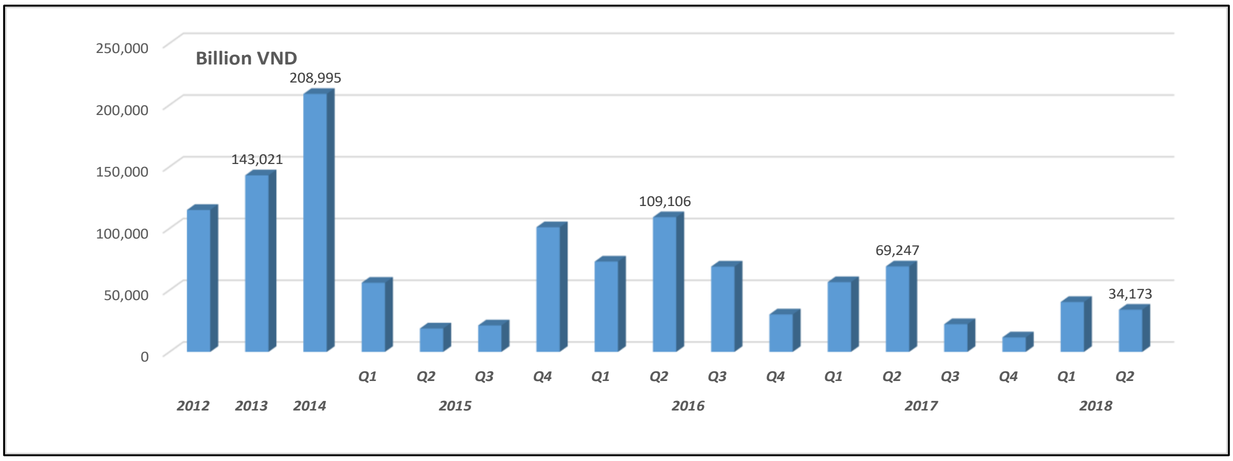
74. For the first 6 months of 2018, budget revenues amounted to VND 651.7 trillion, equal to 49.4% of the planned figures for 2018. Of which, domestic revenues attained VND 523.5 trillion, accounting for 47.6%; revenues from exports and imports reached VND 98.2 trillion, accounting for 54.7%.

75. In Q2/2018, budget expenditures amounted to VND 359.2 trillion, equivalent to 28.9% of GDP. Of which recurrent expenditures attained VND 264.5 trillion, accounting for 73.6% of total expenditures in Q2; expenditures for development investment were VND 94.7 trillion, making up a share of 26.4%.

76. By 30 June 2018, budget expenditures were VND 649.2 trillion, or 42.6% of the planned figures for 2018. Of which, expenditures for development investment only attained VND 130.0 trillion, or 32.5% of planned figures; recurrent expenditures reached VND 519.2 trillion, or 47.6% of planned figures.

77. Government bond issuance was more flexible. Total value of government bonds issued in Q2 was VND 34.2 trillion, only equivalent to 52.5% of planned figures for this quarter. For the first 6 months of 2018, total value of government bonds amounted to VND 74.6 trillion, or 37.3% of annual planned figures.

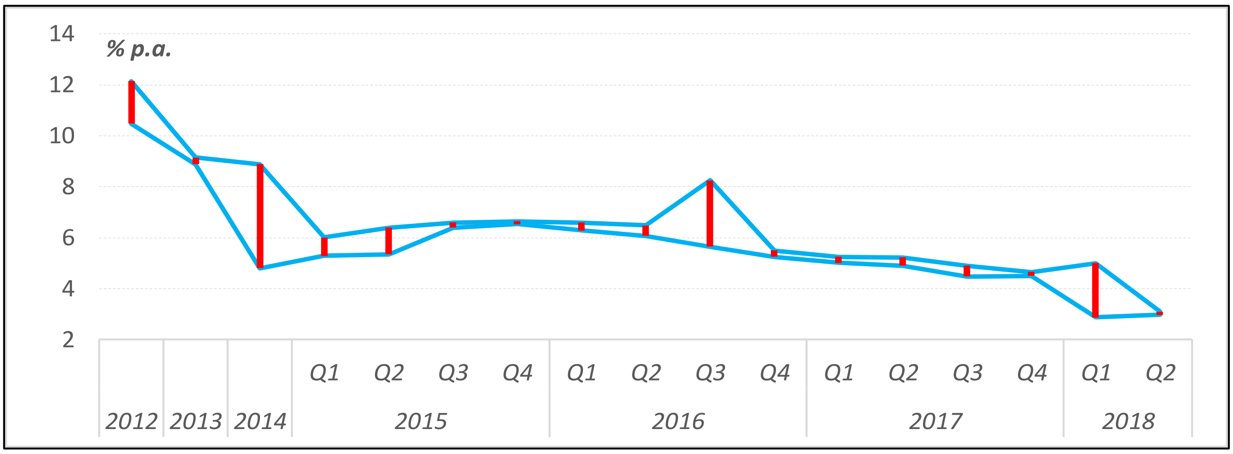
Figure 31: Government bond issuance, 2012-Q2/2018 (trillion dong)



Source: HNX.

78. Flexibility in issuance of government bonds, more or less, helped ease pressure on interest rate on government bonds. In Q2/2018, the interest rate for successful bids of government bonds (for 5-year terms to maturity) ranged from 2.97%-3.1%/p.a. The range of interest rate for successful bids of government bonds was narrowed, and significantly lower than the ceiling rate in Q1 (2.87%-5%/p.a). The rate of successful bids was only 20.5% in Q2, implying that: (i) sizeable liquidity of banking system; (ii) more selective and effective bond issuance in terms of interest rate for successful bids. It also raised concerns on the cheapest sources of funds acquired by the State sector, rather than by private one.

Figure 32: Interest rate on successful bods of Government bonds with 5-year terms to maturity (%/p.a)



Source: HNX.

79. In spite of the smaller gap between budget revenues and expenditures in the first half of 2018, the efficiency of fiscal policy remained a question. Budget revenues still sought to finance pre-determined budget expenditures, rather than being driven by the active cuts of budget revenues. Budget expenditures grew slowly, mainly due to slow disbursement rather than active economization of current expenditures. In addition, slow disbursement of investment was not attributed to lack of resources, but largely to inadequate capacity in complying with disciplines of public investment strictly. Moreover, the conduct of fiscal policy was swifter toward increasing taxes, while being slower on reducing taxes and recurrent expenditures, despite a lot of responses, even pressure from relevant Resolutions. Lack of flexibility and accountability in proposal of increasing taxes could impose more burden, thereby affecting the resilience of business - in the context that economic downturn affected by US-China trade tension has not been excluded.

2. Macroeconomic outlook

80. A forecast scenario is specified for Vietnam in 2018, basing on assessment of global economic outlook by international organizations, economic movement in the first 6 months, as well as the possibility of employing domestic economic policies. GDP growth in partner countries is projected at 3.8% in 2018[30]. US inflation may reach 2.7%.[31] Export prices of agricultural products may grow by 4.9%.[32] Export prices of crude oil may grow by 35.1%.[33] For Vietnam, the central VND/USD exchange rate is increased by 3%. Total liquidity increases by 16.3%. Outstanding credit increases by 16.3%. Import prices increases by 2.5%. Population increases by 1.08%/year and employment by 0.86%. The export volume of crude oil is assumed the same as in 2017. REER is assumed

[30] According to EIU forecast (20 June 2018). Source: https://gfs.eiu.com/Article.aspx?articleType=gef&articleId=1866848570&secID=0 [Accessed on 30/6/2018].
[31] OECD forecast. Source: https://data.oecd.org/price/inflation-forecast.htm [Accessed on 30/6/2018].
[32] EIU forecast (on 20 June 2018).
[33] EIU forecast (on 20 June 2018).

to decrease by 1%. On the balance of payments, Government and (net) private transfers are assumed to decrease by 10% and 5% respectively. The implemented capital of FDI (including both Vietnam and foreign side) increases by 5%. Investment from State budget will be supplemented VND 400,000 billion. The Government will not increase the state-managed commodities in the second half of 2018.

Table 7: Projection of macroeconomic indicators, 2018

Unit: %

GDP growth rate (YoY)	6.71
Inflation (average CPI)	3.93
Export growth	12.11
Trade balance *(bil. USD)*	1.2

Source: CIEM's projection from its macroeconometric model.

81. Economic growth in 2018 is projected at 6.71% (Table 7). Export growth may reach 12.11%. Trade surplus is projected at USD 1.2 billion. Average CPI in 2018 will increase by approximately 3.93%.

82. Macroeconomic development in the last 6 months of 2018 may be subjected to several factors. *First,* US-China trade tension continues with high unpredictability, as the United States and China may or may not reach an agreement to reduce bilateral trade imbalances prior to US elections. It should be noted that US has also increased trade tension with a number of allies such as EU, Canada, etc. *Second,* geopolitical disputes still exist in some regions, especially in Asia-Pacific. *Third,* interest rate hike in the US may be more uncertain, as trade tension may have effects on inflation. *Fourth,* the finalization of ratifying some free trade agreements may have positive impacts on foreign investment inflows to Vietnam. To that extent, Vietnam's macroeconomic performance depends significantly on how to enhance economic growth, to controls prices, to effectively improve the business environment, and to deal with bottlenecks of the growth paradigm (such as SOEs, public investments, financial institutions).

III. SELECTED ECONOMIC ISSUES

1. *Model of sharing economy in Vietnam: Opportunities, risks and policy implications*

Concept of sharing economy in Vietnam

83. Sharing economy has been referred to recently, in spite of its long history. However, sharing economy has been mentioned nowadays with some new characteristics due to the technological advancement. Definitions of sharing economy vary; in other words, there is no common definition of sharing economy for all cases or countries.

84. A popular definition of sharing economy was known as "an economic system in which assets or services are shared between private individuals, either free or for a fee, typically by means of the Internet"[34]. In broad sense, sharing economy is closely linked with collaborative economy and even does not necessarily involve Internet or digital technology.

85. To a lesser extent which has been often conceived recently, sharing economy associated with the using of online internet tools, new and advanced technology application and this is also the reason for speedy spread of the services. Ordering or peer-to-peer economic sharing has usually implemented via independent third party using the platform delivered through a website or a mobile application. Thus, *today's sharing economy is often characterized by cross-border services*.

86. The nature of sharing economy is a new business model where taking advantages of digital technology (i.e. internet), thereby saving transaction costs and accessing to a large number of customers through digitalized platforms. The model of sharing economy is, essentially, the application of technology to business, in which consumers tend to access or to use the products or services without possessing that product or service. Parties involved in sharing economy include: (i) service providers are individuals, registered business households and enterprises; (ii) platform providers (intermediary): with the expansion of technology, there has been an emerging model of linking service users with service providers via mobile applications; and (iii) customers or service users.

87. In Vietnam, although there has not yet been any consensus on the concept of sharing economy, current understanding is narrower in the sense that sharing economy is a new business model of peer-to-peer business, taking advantage of digital technology development and saving transaction costs via digital platforms. With such understanding, the business purposes and use of digital platforms are emphasized. In another dimension, sharing economy is "widened" and is not being limited by originally "sharing" meanings, which include not only sharing assets and services due to inadequate use of capacity, but also those invested for this new type of business. The combination of

[34] Oxford dictionary.

"broader" and "narrower" understanding should be unified in Vietnam and in accordance with current international concept.

Opportunity and risk of sharing economy

88. In Vietnam, information on sharing economy has been still limited, especially almost no official statistics on this new business model. Currently, there have emerged some new types of sharing economy, including online transportation, room-sharing and peer-to-peer lending services. In addition, some other sharing services have been established such as travel services, co-working space, car sharing, human resource sharing or other services sharing.

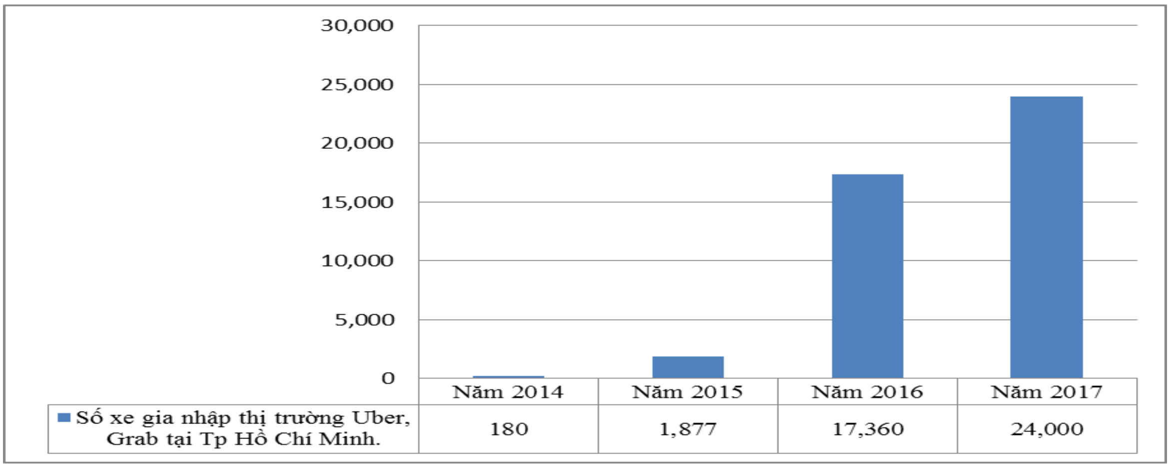
89. *For online transportation:* Currently, transportation has been considered the most rapidly developed industry with regards to sharing economy, which started from the piloting Project of "Implementing the application of technology on supporting the management and linkage of contracted passenger transportation" (Grab Car) under Official Letter No. 1850/TTg-KTN of the Prime Minister on 19 October 2015. By 2017, according to statistics of Ministry of Transport[35], there are 866 transport business units (firms, cooperatives) with 36,809 vehicles in the nationwide; of which, there are 506 transportation business units, 3 software providers, 21,601 vehicles in Ho Chi Minh City; and 354 transportation business units, 7 software providers, 15,046 vehicles in Hanoi; 4 transport business units, 2 software providers, 62 vehicles participating; 2 software providers (also transport business units) and 100 vehicles participating in pilot project.

90. Currently, there has not been any specific statistical agency units in charge of collecting statistical figures of number of vehicles, market growth and expansion of technological taxi. Preliminary statistics of Ho Chi Minh City Department of Transport revealed that, in 2017, there were about 25,000 electronically contracted under-9-seat vehicles with granted badges; of which, more than 24,000 joined Uber and Grab's network (Cafebiz.vn, 2017). The number of vehicles entering Ho Chi Minh City market is reflected in Figure 33.

91. Thus, the growth of electronically contracted cars under sharing business model has been accelerated in Ho Chi Minh City. The number of vehicles increased by nearly 10 times in 2015 and 2016 as compared to that of previous years. The growth of 2017 was at 38.2% (YoY).

[35] Reported at the summary conference on implementation of piloting the application of technology on management and linkage of contracted passenger transport (under Decision 24/QD-BGTVT of Ministry of Transport).

Figure 33: Number of cars entering Uber, Grab network in Ho Chi Minh City



Source: Compilation from http://cafebiz.vn/so-luong-xe-uber-va-grab-cham-muc-50000-chiec-gan-gap-doi-taxi-tai-ha-noi-va-tphcm-20171013112242118.chn

92. *For room-sharing services*: This is relatively new type of service, enabling the connection between service users and available room-owners via online booking applications, typically through the platforms provided by Airbnb, Expedia, gotadi, etc. Despite the on-going nature of this service, there has been no official statistics by authorized agencies on accurate figures of rooms as well as managerial mechanism. As an estimate, some 6,500 are rooms available on Airbnb in Vietnam by June 2017[36] and many on other application. Basically, those offering application platforms are start-up firms operated through the model of connecting people who need to rent a room with those who have rooms for rent both domestically and internationally through the online mobile application similar to Uber/Grab. All payments are made through an intermediary application, using credit card and being charged a certain fee for both the reservator and the host. The fee for the host is 3% of the total booking amount and the booking fee for customer is around 6-12%. Such fees will be charged and displayed during the using of service. They also ensure the lower room rate applied to this mechanism than the booking rate via traditional channels (Nhu Binh, 2017).

93. For peer-to-peer lending (P2P)[37] services: This business model uses online services to connect between investors and borrowing individuals and/or firms. The P2P platform enables people to borrow from investors without any intermediary. It is completely different approach to traditional model, connecting borrowers with lenders through online platforms along with advanced financial technology systems. In Vietnam, P2P started in 2016 and

[36] According to Mr. Kenneth Atkinson – Executive Chairman of Grant Thorton Vietnam Ltd.

[37] Internationally, the model of P2P was firstly appeared in the UK (Zopa, Funding Circles), then spreading out to some other countries like the US ((Lending Club, Prosper, SoFi, OnDeck, Avant) and China (Lufax, JimuBox, Dianrong, PPdai, Renrendai). According the statistics by Prime Meridian Capital Management and China News in 2015, P2P market attained USD 18 billion in the US and USD 150 billion in China in terms of transaction scale. PricewaterhouseCoopers forecasts the scale will be accelerated to USD 150 billion by 2025.

there are, currently, about ten companies such as huydong.com, Tima, SHA, Mobivi, vaymuon.vn, etc.

94. *Other services:* Some other services of sharing economy have appeared in Vietnam, including: (i) providing platform, enabling users to set-up Vietnam tour to provide for tourists around the world (Triip.me); food and beverage services, labor and consumption goods; (ii) providing phone application that connects users with service providers such as electronic repairs, construction, etc. (Rada); and (iii) the emergence of crowd funding.

95. Sharing services have quickly proliferated in terms of pace, yet they are spontaneous and the government has not yet had proper policies to accommodate this kind of service. Transport service has attracted more attention with piloting project, however, the transportation policies themselves have not yet been consistent that need further improvement.

96. ***The initially important benefit of sharing economy*** is the economization of resources via the maximal use of asset throughout its life-cycle. Individual vehicles are used for service to Uber, Grab, Lyft, etc. to save the resources of property. Another example is the rental of agricultural equipment using Trringo platform by Indian automaker Mahindra & Mahindra that allows farmers to rent agricultural machineries and equipment via phone call, contributing to the prosperity of rural areas. Only 15% of 120 million Indian farmers can afford to own agricultural mechanical equipment. Thus, the mentioned platform has enabled other farmers to utilize agricultural machineries at a much lower cost (Wallenstein J. & Shelat U., 2017). At the same time, with the utilization of assets, machineries, equipment, and saving resources, sharing economic activities also have positive impacts on environment through the reduction of greenhouse gas emissions and waste to the environment. In Vietnam, many private cars have been involved in providing services to Uber, Grab and other technology taxi firms, and real estate owners also joined the online rental hubs, including Airbnb. With such activities, idle and not-fully-used assets have been introduced to market and increasing the supply.

97. The second benefit of sharing economy is reduction of transaction costs, especially via online platforms, where buyers and sellers quickly find each other. During this process, there is no barriers for connection, and a reduction of intermediate steps and intermediary demand connections, where direct interaction between buyers and sellers takes place. The parties involved in sharing activities will not spend time finding other partners, so as to save negotiating time and making deals, thus, enhancing the competitiveness among suppliers in terms of time, price and quality of products or services. Finally, consumers can have better benefits and the economy experiences more productivity gains. Vietnam’s consumers have benefited from sharing economy because of lower prices for these products and services. Increasing of supply in the market through participating in the industry as well as competitive pressure has forced enterprises to provide services at lower prices (regardless of traditional business or sharing business).

98. *The third basic benefit of sharing economy globally as well as in Vietnam* is to contribute to promoting technology development in general and information technology in particular. This is attributed to the increasing demand of sharing economy itself and the rapid and efficient use and analysis of customer big data as critical "demand" for information technology development. Goods and products should also be improved to contribute for the the promotion of production technologies for better quality, designs and models since consumers can appraise all information quickly and can compare the quality of products better. As being a new pattern of doing business, which enables customers and service providers to connect with each other, thereby increasing sales and increasing revenues (taxes) for the State. On another hand, regulators can capture more sharing activities thanks to technology.

99. ***On the contrary, the development of sharing economy also raises some risks*** to economic and social development. These manifestations have also emerged in Vietnam, causing certain confusion in management, administration, and business behaviors. It can be listed as follows:

- Sharing economy gives rise to new relationships in the market: Since the emergence of third party as basis, economic contracting in sharing economy involved at least three parties in economic contracts instead of two parties as usual. The regulatory framework defining responsibilities of each party in this contractual relationship needs to change and supplement. This is also one of the reasons that countries in the world (even developed countries) need to adjust their legal system in response to new context of sharing economy. In Vietnam, this tri-partite responsibility is under debate and needs to be addressed at the soonest.

- Risk of conflict of interest between buyers and sellers: This potential risk needs more attention to ensure the interests of both buyer (consumer) and seller (service provider). In spite of having fuller information about each other, the verification of information and direct contact is less in sharing activities, thus there will be potential risks if it is not addressed properly by specific and effective regulations. The matters of insurance, safety of parties including service provider and service user/customer is also more intense.

- Risk of unfair competition: Conflict of interest between enterprises under sharing model and enterprises under traditional model will appear. Most of conflict is harsh unless there are good governing policies as a role of "arbitrator" to resolve. Without comprehensive policies, the issue of unfair competition with traditional businesses is a major risk. The recent complaints of taxi associations against technology taxi businesses in large cities and provinces recently are strong evidence to this risk. In the opposite direction, the technology taxi business also needs to be treated in an environment of fair competition to further develop their business. To other extent, technology taxi business also need to have equal treatment in a fair competitive market for further development.

- Risk of fulfillment of financial obligations: Tax collection and financial obligations arising from service activities, measurement and integration into national accounts are basic issues. Disputes over the tax liability of cross-country platforms, especially taxation of transnational service providers, double tax avoidance have happened and there is no common pattern for solving the mentioned problems. A typical example is dispute between the Ho Chi Minh Department of Finance and Uber B.V in identifying tax payable by the company for operation in Vietnam territory[38].

Policy issues and solutions

100. With the emergence of sharing economy, more efforts have been made with current state management for catching up, however, shortcomings still exist. The current status of state management related to sharing economy can be observed from the followings:

- *Regarding registration of operation*: Legally, sharing service providers such as transportation, room rental, lenders must comply with provisions of law on business registration such as the Law on Enterprises (2014), Investment Law (2014), Cooperative Law (2012), etc. and other specialized laws such as the Tourist Law (2017), the Housing Act (2014), the Law on Credit Institutions (2010 and amendment in 2017), the Road Transportation Law (2008). In addition, the mentioned types of business are mostly conditional business, which need to comply with corresponding business conditions.
- *Payment mechanism (via credit card)* will be made through intermediary connection, the providers and service users will have to pay a certain fee for the intermediary. However, depending on the classification of platforms, whether it is centralized, decentralized or mixed, fees are different.
- Thus, all mechanisms of these activities are working via network environment, they are also governed by provisions on information, e-commerce such as Law on Trade (2005); E-transaction Law (2005); Law on Information Technology (2006) and other guiding documents.
- *On the taxation and monitoring, supervision of sharing services*: In principle, tax policies and tax administration for sharing activities have been issued. However, complex classification of business lines for sharing economy makes difficulty for tax authorities to determine tax obligation of parties, especially for beyond-the-border platforms.

101. There should be consistent viewpoint in dealing with the afore-mentioned issues, so as to have appropriate measures for new type of sharing business. Of which, most important viewpoints, implications include:

- Whether or not, the rapid development of sharing economy is inevitable and consistent with the development trend of advanced technology, especially

[38] Ho Chi Minh Tax Authority decided toto collect VND 66.68 billion from Uber B.V. After some controversies, Uber B.V has paid over VND 13 billion and the remaining VND53.3 billion has been being collected, but Uber B.V has submit a lawsuit against the case.

digital economy. Sharing models have positive impacts on the economy, therefore, supporting and adaptation to the new trend should be needed in the rapid development of digital technology in the world if Vietnam is to avoid being left behind.

- Sharing economy, with digital platform, is new business model; it is not a separate or single part of the economy. Therefore, separate policy should not be necessary and supplemented policies are more preferable to apply for the whole economy.
- It is essential to create a level playing field between sharing firms and traditional enterprises, between domestic and foreign enterprises. However, to take advantage of sharing economic model, the state should have some policies to promote the mentioned model in accordance with relaxing traditional business conditions. Regulatory requirements should be in the direction of lowering market entrance and start-up conditions to improve competition, and to more favorable business conditions for encouraging the participants.
- More detailed policies should be employed for improving management capacity of related agencies, particularly in the context of IR4.0 so as to meet the requirements of management and to encourage new model of business like sharing economy and cooperative economy.
- One of the important aspects in state management is the ensuring of monitoring, supervision and information safety, and ensuring the authority in network space. More regulations are needed to further enforcement of this task in the rapid evolution of sharing economy. In other words, Vietnam should follow international commitments of open market access for services (of which, internet) and on e-commerce for encouraging the platform-based business for both domestic and foreign enterprises.
- State agencies, sectoral associations, and other mass organizations should have effective coordination in raising awareness of different parties, including state, enterprises, and people in sharing economy on the importance, related regulations and responsibilities in practices.

2. Committee for State capital management at enterprises: Requirements and policy recommendations

Establishment of Committee for State capital management at enterprises

102. On 3 February 2018, the Government issued Resolution No. 09/NQ-CP on the establishment of Committee for State capital management at enterprises (hereinafter referred to as the Committee) which is a government-affiliated agency and acts as a representative owner of wholly state-owned enterprises and of the government’s stakes in joint stock companies and limited liability companies with two or more members in accordance with the law.

103. The Committee is expected to be an agency acting as the owner’s representative in 19 corporations and company groups transferred from Ministry of Industry and Trade (06 enterprises), Ministry of Agriculture and

Rural Development (05 enterprises), Ministry of Transport (05 enterprises) and Ministry of Information and Communication (02 enterprises). The total book value of State capital at 19 enterprises in which the Committee acts as the owner's representative is over VND 820 thousand billion while the total value of assets is nearly VND 1.5 million billion, equivalent to nearly 50% of value of State capital and assets in SOE sector.

104. Because the value of State assets under the management of the Committee is very huge, the real efficiency of this new model has been especially paid much public opinion. However, some doubts about the organization, operation and accountability of the Committee still exist.

105. These doubts on the Committee's operation are based on some reasons. If there is no change in the way of implementing assigned tasks and no effective solution to improve responsibilities and management efficiency compared with the current owner's representative model, the establishment of the Committee will not achieve the pre-determined objectives.

106. This context shows that the establishment of the Committee is only a first step towards an operation process of a new management model. It is important to build and implement measures to renew the operational mechanism so that the Committee can operate better, more efficiently and responsibly than the current owner's representative model.

Things to do

Building "Big Data" and an information technology infrastructure system and applying digital economy in performing functions of the owner's representative

107. Data and information has become the most important resource in business management. Modern technology infrastructure and information system is an useful tool that helps make management decisions in a more accurate and faster manner with higher quality and efficiency.

108. However, inadequate information on SOEs in particular and on management and use of state capital invested into production and business in Vietnam in general has been a long-lasting issue. Up until now, there has been no unified, sufficient and updated database on State capital and assets as well as a full list of enterprises with State capital as owner's equity at national level and in each field under management of each State agency acting as the owner's representative[39].

109. Consequently, State agencies acting as owner's representative have insufficient information for supervision and early warning functions and for policy

[39] Studying and making comparison between annual reports by the Government submitted to the National Assembly from 2011 up to now and reports and publications published by relevant state agencies such as GSO shows that data on State capital and asset invested in production and business is still not consistent. Data from different sources vary widely, especially data on multi-owner enterprises with the State capital stake accounting for more than 50% of the legal capital. Meanwhile, information on enterprises with the State capital stake accounting for less than 50% of the legal capital is often not available.

responses in an appropriate and prompt manner. Concerning the objective of ensuring the interest of the State owner, insufficient, inaccurate and outdated information on management and use of state capital in all enterprises can lead to inefficiency in using, exploiting and even wasting a huge resource of the State, especially at multi-owner enterprises.

110. Accordingly, the first and foremost thing the Committee must do is to build a database system on affiliated enterprises which contains sufficient, diversified and necessary information to serve its management function and an appropriate technology infrastructure system which contains algorithm tools to analyze data, including using artificial intelligence, in doing forecasts and making decisions.

111. One technical solution is to build and operate an management information center and supervise each investment portfolio, especially through an online management information system (MIS) with connection to each affiliated enterprise; automatically assess and compare enterprises' financial ratios and performance efficiency with the planed ones and financial resources so that the Committee can frequently supervise and warn enterprises and those who are representatives at enterprises.

112. All factors such as business plan, objectives and missions, capital resource, performance efficiency and progress of projects must be supervised based on a database with data collected from enterprises; thus, supervision can be done in a more frequent, transparent and efficient manner.

113. At the same time, it is necessary to operate and "digitalize" a system in order to measure and assess performance indicators assigned to enterprises. Based on that, bonus and sanction mechanism can be applied to each enterprise and each manager assigned or authorized by the Committee.

114. In addition, it is necessary to build a team of analysts and experts with appropriate qualification and ability to help the Committee make prompt and suitable decisions, first and foremost analyses, warnings and prevention of State capital loss risks and inefficient projects.

115. At the economy level, it is required to build a national database on all enterprises with State capital equity which connects to enterprise databases of the Committee and other agencies acting as State owner's representative and the database must be frequently and constantly updated. Information contents on enterprises must at least consist of information on enterprise name, structure of capital equity, State capital, name of agency acting as the owner's representative and basic financial indicators of each enterprise which are extracted from enterprises' balance sheets and statement of comprehensive income.

Clarifying mechanism of supervision of the Committee

116. The current law system on the supervision over enterprises by agencies acting as the owner's representative is relatively sufficient. However, specific regulations on supervision of agencies acting as owner's representative in

implementing missions of managing State capital invested in business activities are lacked.

117. Some ministries have been assigned to manage State capital worth hundreds of trillion dong at corporations and company groups but their management efficiency, responsibilities in increasing the value of State capital and responsibilities in supervising, monitoring and inspecting enterprises, etc. have not been frequently reviewed, assessed and publicly announced.

118. In fact, it is unclear which agency is be the focal unit to review and assess the efficiency of State capital management of ministries, People's Committees, except for some thematic inspection visits or audits by The State Audit or the Government Inspectorate which are not frequently organized and focus more on law compliance. Usage of assessment or rating services provided by intermediary organizations has not been widespread deployed and applied.

119. Due to lack of an effective - efficient, frequent and continuous supervision and assessment mechanism applied for agencies acting as the owner's representative, there is no pressure to force them (currently being ministries, provincial-level People's Committees) to manage State capital in a better and more efficient manner. Especially, it is more difficult to identify responsibilities in cases of State asset losses invested in enterprises.

120. Therefore, in the upcoming process of building and finalizing institutions, it is necessary to pay a lot of attention to the issuance of law regulations that provide detailed guidance on mechanism of supervising and assessing operation of the Committee (as well as other agencies acting as the owner's representative) through following principles and requirements:

- Concerning the subject of supervision, with tasks and responsibilities as stipulated in Law No. 69/2014/QH13 and current laws, Ministry of Finance is the focal agency that helps the Government organize supervision of implementing rights and responsibilities of the Committee.

- Supervision contents include supervision of implementation of assigned goals and missions; of organization of the implementation of right, liabilities and responsibilities over state-owned enterprises and State capital at joint-stock companies, limited liability company with two or more members as well as other supervision contents as required by law.

- To assess the performance of the Committee, the Government needs to assign the Commission specific indicators to be fulfilled annually and in medium-term. The assessment criteria include level of fulfilling indicators on financial efficiency, social efficiency and goals of State capital investment; level of fulfilling planned goals, routine of restructuring, reorganizing and renovating affiliated enterprises; legitimacy and appropriateness and carefulness of decisions made by the Committee in the reporting period.

- The Committee is responsible for sufficient, accurate and prompt information declaration on its web portal, publications and other mass media about its goals, tasks and responsibilities and performance results; decisions issued under the rights and responsibilities of the agency acting as the owner's representative in the reporting period; results of restructuring, reorganizing and renovating state-owned enterprises, enterprises with State capital stakes; compiled financial data on State capital efficiency in the affiliated enterprises, etc.

Concentrating ownership right associated with higher accountability

121. If the current mechanism on agency acting as the owner's representative is applied, it is difficult to make clear the responsibility of the Committee on efficiency of State capital management. Although the Law No. 69/2014/QH13 taking effect since the middle of 2015 has clear regulations on authority of agencies acting as the owner's representative, a dispersion of responsibilities in management and supervision during the deployment process still exists. As a result, no agency has sufficient authority and ability to monitor and assess enterprises in a sufficient, efficient and comprehensive manner[40]. Supervision of enterprises has been splitted in to many different supervision contents according to relevant field under management of involved ministries. Meanwhile, responsibility of cooperation among agencies acting as the owner's representative and relevant ministries is not clear, especially in assignment of accountability for supervision contents under management of engaged ministries.

122. The overlap in supervision according to function of ownership and investigation and inspection according to function of state management as well as loose cooperation and insufficient information sharing among relevant agencies not only put pressure on enterprises but also reduce the supervision efficiency and effectiveness of the State owner.

123. Thus, design of regulations on operational mechanism of the Committee in the coming time must ensure the principle of concentrating authorities and responsibilities in implementing the function of the owner's representative under regulations of Law on Management and Use of State capital invested in to production and business at enterprises. The Committee can consult relevant ministries but it must be fully and finally responsible for management and supervision of enterprises and State capital stakes at enterprises under its management, first and foremost in order to ensure the efficiency, preservation and increase of State capital value invested in enterprises. Regulations should be issued to identify responsibilities of the Committee in approving projects and business plans that are not efficient, cause losses and State assets losses.

124. In details, law regulations should be in place to force the Committee to fulfill following responsibilities:

[40] The Decree issuing the Charter of important corporations and company groups still details authorities of relevant ministries (Ministry of Finance, Ministry of Planning and Investment; Ministry of Home Affairs, Ministry of Labours, Invalids and Social Affairs) in line with ones of agency acting as the owner's representative.

- Ensuring efficiency, preservation and development of State capital invested in enterprises under its management.
- Being responsible to the Government, the Prime Minister and the law for any State capital and asset waste and loss at enterprises.
- Complying with law regulations on investment, management and use of State capital at enterprises. Ensuring that investment, management and use of State capital at enterprises be compatible with socio-economic development strategies and plans and sectoral development master plans. Not directly intervening enterprises' production and business activities and enterprise managers' management and governance.
- Ensuring transparency and openness in investment, management and use of State capital at enterprises.
- Submitting periodical or on-demand reports on its mission and task fulfillment to the Government and the Prime Minister according to the provisions of law.
- Preparing and sending reports to authorized State management agencies in order to serve supervision, inspection and investigation activities over the Committee.
- Publicly disclosing information on investment and management of State capital at enterprises in which the Committee acts as the owner's representative; elaborating and publicly announcing annual reports on performance results of state-owned enterprises and enterprises with State capital stake where the Committee acts as the owner's representative.
- Explaining and answering questions by authorized State management agencies on investment, management and use of State capital at enterprises according to assignment of the Government and the Prime Minister.

Applying supervision methods and tools in line with good practices on state-owned enterprise governance

125. The design of operational mechanism of the Commission must overcome shortcomings of the current owner's representative model in aspects of efficiency, effectiveness and ways to manage and supervise enterprises.

126. In reality, due to limitations on human resource, resources, especially information resource, supervision by ministries and provincial People's Committees mainly focus on reviewing and assessing reports sent by enterprises (biannually and annually), not implementing periodically and continuously monitoring, investigation and assessment. This supervision way is too administrative and is non-compliant with requirements of management, investment and business of State capital.

127. To perform well its rights and responsibilities, the Committee must carry out management and supervision activities frequently and continuously as well as apply following supervision tools:

128. *First*, in the stage of assigning tasks to an enterprise and the person acting as a representative of State capital stake, the Committee must be proactive in building indicators and norms which need to be fulfilled by the enterprise. Doing methodical and careful studies on enterprises' capacity, including making comparison with other enterprises in the same sector/field in order to specify appropriate goals.

- In addition to assigned indicators under the provisions of law, there must be indicators and criteria to assess particular results and efficiency of each enterprise in aspects of productivity, export revenue, level of technology renovation, etc.
- Quantifying indicators on capital preservation and development capital and indicators on assessment of compliance with mechanisms, policies and laws.
- Indicators must be assessed based on different weights and importance of each type of enterprise, specific goals and missions of enterprise, especially for ones with public-utility activities.

129. *Second*, the Committee must monitor, supervise and assess enterprises frequently and continuously by using an electronic information system combined with a periodical report mechanism as regulated; and apply form of digital financial reports. Concerning supervision contents, beside ones specified according to provisions in the Law No. 69/2014/QH13, the Committee must frequently and continuously monitor, supervise and assess the enterprises' implementation of the Committee's decisions, especially the practical situation of capital mobilization plans, investment and construction projects, purchase and sale of fixed assets, enterprises' investment projects and offshore investment projects approved by the Committee.

130. *Third*, it must urge and require enterprises to improve transparency of information disclosure. Applying sanctions to agencies, organizations and individuals in case of not fully and seriously performing requirements of information declaration in order to increase the enforcement efficiency.

131. *Fourth*, the Committee must increase its risk management in supervision activities based on principles: Upon detecting that enterprises potentially face with risks, the Committee must promptly send warnings to enterprises. Directing enterprises to deploy prompt measures to prevent and remedy risks and shortcomings; applying correcting and violation-handling measures; reporting to the Prime Minister cases of violations according to provisions of law.

132. To fulfill this requirement, it must invest in and operate an online warning information system connecting with its information supervision system; apply good tools according to international practices into risk management activities such as using KRI indicator sets, risk rating scale, risk map, etc..

133. The Committee must be cautious in evaluating and approving capital mobilization plans under its authority as the owner's representative. Cooperating with guarantee granting agencies and other State agencies to

evaluate and approve capital borrowing projects and engaging in all phrases of the negotiation process of foreign capital borrowing agreements with guarantee by the Government.

134. The Committee is responsible for urging and strictly supervising enterprises in implementing their obligations committed with creditors and relevant parties; closely monitoring financial situation of enterprises in order to ensure their financial indicators are within tolerance limits and they can arrange funds for debt repayment; sending prompt warnings on enterprises' financial risks and ability to repay debts.

135. Concerning law provisions, there must be clear regulations as follows:

- In cases that losses are caused by incautiousness during process of capital mobilization plans evaluation and approval, capital borrowing negotiation or no measure is deployed to prevent and warn risks, the head of the Committee (and head of other agencies acting as owner's representative) must be disciplined or be examined for penal liabilities depending on the nature and seriousness of their violations in line with regulations.
- Applying risk management standards to SOEs similar to ones on risk management and information declaration applied to listed companies.
- Assignment of tasks to an enterprise or a person acting as a representative must link the responsibilities of Board of Management or Members' Council with the overall management of financial risks of the enterprise.
- Requiring SOEs to publicly disclose information on risk management regulation on their web portals and annually send reports on its risk management situation.

IV. RECOMMENDATIONS

136. The first half of 2018 witnessed significant socio-economic achievements. The economic growth momentum has been maintained in parallel with improvements in the business environment and confidence of domestic and foreign investors. Economic growth in the first 6 months did not rely on monetary expansion. The trade balance remained in surplus. Economic growth has not induced cyclical inflation pressure thanks to modest impacts from monetary and fiscal expansion. In comparison to previous crisis, Vietnam has been more experienced and calm in responding to adverse shocks from external economic developments.

137. However, concerns persisted. *First,* growth quality exhibits modest improvement. The expectation on increasing mining activity to support economic growth has been arising, taken into consideration of the forecast of higher world price of oil. *Second,* inflation pressure is significant due to expectation on impacts of such factors as higher environmental protection fee levied on petrol and oil, possible increase of regional minimum wage in 2019, room for further increase of prices of State-controlled goods and services (if inflation is far below the target by the end of the year). Responses to impacts of the risk of economic slowdown arising from external shocks, thus, also face with the pressure of domestic inflation, which is similar to the situation in the 2008-2009 period despite considerable differences in terms of both scale and scope. *Third,* capacity to maintain impetus of microeconomic reforms in general and business environment reform in particular remains questionable. Disseminating determination on implementing reforms from leaders of many ministries, line ministries to officials at working levels is relatively slow. Some ministries, line ministries want to focus on growth management scenarios at macro level; but fail to acknowledge/remember that reducing business conditions is an integral part of those scenarios.

138. The US – China trade tension poses a significant challenge for management capacity and economic restructuring process of Vietnam in the context of international economic integration. Being considered as the biggest trade war in the history, however, recent developments indicated that both China and the US remain at the very beginning stages. Given rising trade tensions between the US and China and major markets, the world GDP growth rate is expected to fall by 0.4 percentage point, leading to massive impacts on trade, investment, exchange rate, interest rate, employment, etc. in many economies, in particular those with high levels of openness.[41] Policy options and scenarios should be seriously considered while management should be implemented prudently to avoid negative impacts on confidence of investors. It is necessary to utilize a flexible management with the priority to macroeconomic stabilization that is based on the combination of various policy instruments instead of solely relying on significant adjustment of a certain one. For this reason, the perspective of “mercantilism” may be inappropriate in the short run. At the

[41] Theo Oxford Economics.

same time, Vietnam should continue to support multilateral or plurilateral trade cooperation mechanism because being inclined to bilateral trade with a specific major partner will not bring about benefits for any small economies, even in the short run.

139. Vietnam is accelerating approach to the IR4.0. Arguments on opportunities and advantages of Vietnam have been growing, which are unable to fully offset concerns of failures of the economy, in particular taking into consideration experience in promoting innovation, creativeness and quality of the human resources previously. This fact urges Vietnam to find rapid, proactive approach, even being prepared to cope with failures in order to be able to grasp opportunity to get advanced. The IR4.0 has the unprecedented developments and scope of impacts, consequently, there is no room for “reserved” approach. Nevertheless, divergence between the US and China regarding the policy on technological transfer of China requires Vietnam to have a more thorough and flexible view on promoting technological transfer from foreign investors.

140. This report re-emphasizes the message of giving continued priority to strengthening microeconomic foundations and reforming economic institutions for a more friendly approach to innovation and environment, accompanied with effective responses to risks of rapidly changing international economic environment. Accordingly, the Report provides some recommendations on continued reforms of microeconomic foundations together with macroeconomic measures and other measures.

1. *Recommendations on further reforms of microeconomic foundations*

141. Further concretize and implement Resolutions of the Party Central Committee on renewal of economic growth paradigm and effective implementation of the international economic integration and private sector development; the reform of wage policy for officials, civil servants, armed forces and laborers in enterprises; reform of social insurance.

142. Continue to provide instructions and organize effective implementation of basic Laws of market economy institutions such as the Civil Code; (amended) Law on promulgation of legal normative documents; (amended) State Budget Law; Law on Public Debt Management; (amended) Competition Law; Law on Cybersecurity; etc.

143. Promptly complete and promulgate new laws relating to markets and sectors, including the Law on Special Administrative Units; Law on Crop Production; Law on Livestock Production; etc.

144. Continue assigning priority to business environment reforms toward facilitating production and business activities in line with a series of Resolutions No. 19.

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

- Continue comprehensive reforms of regulations on business conditions in order to facilitate production and business activities of enterprises in accordance with international practices and requirements of international economic integration.

145. Proactively engage in exchanging and cooperating with partners to strengthen supports to and revitalize the progress of international economic integration; seeking support from partners in recognizing Vietnam's full market economy status. Seriously review the progress in seeking recognition by members of Vietnam's market economy status, so as to thoroughly acknowledge issues for further and potential improvements.

146. Continue reviewing commitments under concluded, signed or pending FTAs and international treaties of Vietnam in order to make relevant attempts on regulatory improvements.

    - Further review and develop a roadmap to gradually reduce discriminatory and differential treatments (e.g., access to land and credit, Government procurement, etc.) that may affect competitive neutrality between SOEs and the private sector.
    - Strengthen institutional and technical capacity of the Trade Remedies Authority of Vietnam (TRAV). Enhance the partnership between TRAV and the business community.
    - Examine harmonization and international regulatory cooperation to improve capacity and make appropriate adjustments not contrary to commitments.
    - Frequently consult the business community, laborers and other social groups to facilitate appropriate preparations for implementing FTAs and other international treaties.

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

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

2. Recommendations on macroeconomic policies

149. Pay appropriate attention to evaluate cyclical economic growth and risks from external environment in the second half of the year. Reaffirm the priority to macroeconomic stability, flexibly utilize macroeconomic policies to respond to unfavorable developments of the regional and international economy.

    - Continue closely monitor the US – China trade tensions and responses of major trade – investment partners; examine and evaluate impacts and potential responses according to difference detailed scenarios (in the second half of 2018 and in 2019, in particular whether the US and China reach an agreement on trade negotiation; whether trade tension continue in 2019 or just prior to the mid-term election in the US; whether capital outflows from China will be partly directed to Vietnam; etc.);

150. Accelerate economic and sectoral restructuring, focusing on quality improvements in order to strengthen economic resilience of the economy in respond to unpredictable developments of the international trade and the global economy.

* *Monetary policy:*

151. Develop the national strategy on financial inclusion, making it easier for citizens and enterprises to access to finance and reduce unlawful credit.

152. Pay more appropriate attention to digital finance (including both digital bank and digital stock exchange) in order to identify suitable responses and management solutions; improve legal management framework in the context of increasingly complicated development of virtual currencies and digital money in association with unforeseeable impacts.

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

154. Continue to put highest priority on the restructuring of commercial banks and improvement of the quality of NPLs. Review competitive behaviors of commercial banks, especially with regards to weak commercial banks in order to avoid distortions of interest rates.

155. Prudently manage monetary policy and direct policy on supporting the stabilization of inflation and the financial market; maintaining reasonable liquidity and monitoring credits for real estate sector.

156. Periodically disseminate information on exchange rate management to the market. Ensure clear and neutral communication on evaluations and recommendations related to exchange rate policies. Avoid setting "hard" targets for exchange rate management. Avoid setting “rigid” targets for exchange rate management.

    - Closely monitor movements of exchange rates of USD, CNY, EUR and prices of essential commodities in the international market in order to flexibly and cautiously manage exchange rate, aiming at mitigating impacts on inflation and macroeconomic environment of Vietnam.

157. Flexibly manage liquidity of commercial banks to support credit activities, issuance of Government bonds, prevention and response to volatility of indirect investment flows and remittances (particularly around times of interest rate adjustments by FED and rising US – China trade tension).

** Fiscal policy:*

158. Ensure strict discipline of state budget expenditures to fulfil state budget deficit target for 2018. Leave appropriate flexibility for the issuance of government bonds, without adhering rigidly to the government bond issuance plan for 2018 at all costs.

159. Consider refraining from expanding more or increasing taxes and fees on petrol so as to leverage benefits and supports for business – manufacturing activities of the private sector. Strictly evaluate impacts of proposed amendment of tax laws in the association with explanation on the direction of the restructuring of state budget expenditures. Accelerate the reduction of budget deficit through increasing budget revenue by preventing losses of revenues.

160. Accelerate the reduction of current expenditure associated with significant reduction of the number of public servants. Continue experimenting and popularizing the model of outsourcing with regard to services which do not need to be paid using the State payrolls.

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

162. Promptly develop and promulgate feasible, detailed and easily-measured criteria to evaluate the efficiency of public investment projects, especially those using government bonds.

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

** Trade policy*

164. Improve management capacity of competition, anti-subsidy, anti-dumping, trade dispute settlement and market control; together with providing relevant legal supports for enterprises.

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

166. Diversify export markets (especially potential markets such as Russia, Middle East, China, etc.) through promoting linkages among enterprises, information dissemination and exchange, consultation on regulations and policies, etc. Facilitate trading across borders, infrastructure for logistics services, etc. Integrate more specialized procedures into the National Single Window.

167. Proactively engage in cooperation with partners (in particular the US). Require foreign affairs and trade representatives abroad to actively and quickly make decision on trade relation with partners in order to timely inform and response

to protection measures imposed by trading partners. Accelerate advocacy for the ratification by the National Assembly and preparation for CPTPP and EVFTA.

* *Price and wage policies*

168. Price adjustment plan for state-controlled goods and services should be implemented in a transparent, prudent, flexible and evidence-based manner. Improve competition in and publish and monitor cost structures of those markets. Avoid the thinking of intensifying price adjustment at the end of the year.

169. Consider, decide against raising regional minimum wage in 2019.

* *Investment policy*

170. Strengthen public investment discipline, strictly mitigate “out-of-process” proposals to accelerate the disbursement of public investment. Address barriers to accelerate the allocation and disbursement of public investment, avoid disbursement tension in the end of the year that may result in passive responses to implement development targets and impacts on investment efficiency.

171. Enhance monitoring and evaluating investment flows (in particular indirect investment via the stock exchange) to control the risk of “hot money”, high-leverage business and the contagion effects.

172. Encourage foreign investors with commercial presence in Vietnam.

173. Promptly review FDI attractions in Vietnam in the last 30 years; conduct researches, consultations with experts and business community to make appropriate adjustment on the FDI strategy in the new context.

174. Examine strategies and measures to promote technological transfer from foreign firms that comply with international practices and commitments and be associated with consensus of foreign investors.

3. Other related recommendations

175. Continue strengthening macroeconomic coordination, especially towards development of scenarios to cope with reversal of capital inflows, economic slowdown in partner countries and possibility of increased trade retaliation at the global level.

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

177. Prepare and develop the outline of the 2021-2030 socio-economic development strategy to submit to various levels and consult with peoples and enterprises.

178. Evaluate and summary experience in selling state capital in big enterprises, listed SOEs, selecting strategic investors and related issues (tax settlement, communication, competition assessment, etc.) in order to make appropriate policy adjustments./.

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APPENDIX: MACROECONOMIC STATISTICS

	Unit	2015				2016				2017				2018	
		I	*II*	*III*	*IV*	*I*	*II*	*III*	*IV*	*I*	*II*	*III*	*IV*	*I*	*II*
GDP growth															
Overall	%	6.0	6.5	6.8	7.0	5.5	5.6	6.6	6.8	5.2	6.3	7.5	7.7	7.4	6.8
Trade															
Growth rate of exports	%	8.8	10.6	9.2	4.4	6.6	4.9	8.4	13.0	14.9	22.3	22.5	24.3	24.0	8.9
- FDI sector	*%*	*18.7*	*21.5*	*22.0*	*9.6*	*10.8*	*7.4*	*15.4*	*25.6*	*14.6*	*25.0*	*23.7*	*26.8*	*27.1*	*6.3*
Growth rate of imports	%	20.1	14.2	11.6	3.7	-4.0	2.2	4.9	15.5	25.2	24.2	20.5	15.9	12.7	5.4
- FDI sector	*%*	*27.1*	*20.3*	*18.4*	*1.7*	*-4.5*	*0.0*	*6.7*	*18.9*	*24.0*	*32.2*	*30.2*	*8.8*	*13.6*	*2.2*
Exports/GDP	%	96.3	92.8	87.0	69.7	99.8	92.4	87.8	73.1	106.2	105.4	100.0	79.9	121.3	106.4
Money															
M2 growth (YoY)	%	2.4	3.6	3.7	5.7	3.1	4.8	3.6	5.7	3.5	3.3	3.4	4.9	4.0	3.8
Credit growth (YoY)	%	2.7	5.1	4.0	4.6	3.0	5.0	3.2	5.9	4.4	4.5	2.9	5.3	3.6	4.2
Interbank/central VND/USD exchange rate (average)	Dong	21446	21593	21773	21890	21890	21876	21891	22074	22219	22371	22442	22451	22434	22555
Investment															
Investment/GDP	%	30.4	31.7	33.2	33.6	32.2	33.2	33.5	33.2	32.2	33.2	35.5	32.2	32.2	33.6
Implemented FDI	Bil. USD	3.1	3.3	3.4	4.8	3.5	3.8	3.7	4.8	3.5	3.8	5.2	5.0	5.8	4.5
Other indicators															
Inflation (YoY)	%	0.9	1.0	0.0	0.6	1.7	2.4	3.3	4.7	4.7	2.5	3.4	2.6	2.7	4.7
State budget deficit/GDP	%	4.6	6.4	3.9	8.6	5.5	3.7	5.7	6.9	0.4	1.4	3.3	6.7	-1.8	1.3
Current account	Bil. USD	-1.3	0.7	0.5	1.1	2.6	2.2	3.5	0.2	-1.1	0.3	4.3	3.0	3.9	-
Balance of payments	Bil. USD	2.7	0.6	-6.6	-2.7	3.5	3.2	3.0	-1.2	1.4	1.0	2.3	7.7	7.3	-

Source: Author's compilation.