Aus4Reform Program

AUS4REFORM PROGRAM

MACROECONOMIC REPORT
THIRD QUARTER 2018

INTRODUCTION

Vietnam entered Q3 with both expectations and concerns. High economic growth in previous quarters has eased the pressure on fulfilling the annual economic targets toward the last months of 2018. Export and FDI disbursement were at steady growth, stabilizing aggregate balances of the economy. However, recent context of global trade and market with drastic changes, particularly the increasing US-China trade tension and US interest policy, posed a lot of challenges to Vietnamin its management of exchange rates, interest rates trade policy, etc. Requirements to further enhance macroeconomic fundamentals were emphasized to create more policy space and improving economic resilience in a volatile world. Efforts to advocate, accelerate the ratification of major free trade agreements and encouraging the development of private sector were made simultaneously.

This Macroeconomic Report serves several objectives, including: (i) to review macroeconomic developments and policy changes in Q3 and the first 9 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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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
MOST	Ministry of Science and Technology
MoM	Month on month
MPI	Ministry of Planning and Investment
M&A	Merger and Acquisition
NCIF	National Centre for Socio-Economic Information and Forecast
NPL	Non-performing loan
OECD	Organization for Economic Co-operation and Development

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

EXECUTIVE SUMMARY

1. The world economy showed steady growth, but downside risks prevail. The IMF lowered global economic forecast for both 2018 and 2019 to 3.7%. Trade restriction, escalating trade tension among major economies, monetary policy normalization in major countries, etc. have resulted in the significant contraction of aggregated demand and demand for merchandise goods.Geopolitical instability in many areas remained unsolved.
2. The US economy maintained robust growth despite broader scope of imported products from China subject to additional import tariff. Japan resumed positive growth rate, mainly driven private consumption and investment. The Eurozone growth rate achieved 0.4% in Q2/2018; uncertainty of the Brexit negotiation, migration crisis, etc. cast doubt over the stability and growth of individual economies and the region as a whole. China economy showed signs of downturn.
3. Trade collision between the US and major economies, in particular China, is escalating. The USD continued to appreciate against major currencies. The world oil price rocketed in September, after the decrease in July-August. Excluding the upward trend of energy price, other key commodities saw their prices decrease since the beginning of this year. Negotiation of trade agreements between the US and its trading partners made progresses.
4. The Government has assessed the new economic context in Q3 and emplyed more flexible and prompt responses. The Government emphasized the priority of stabilizing macroeconomic situation toward the end of 2018, so as to create a stable and favorable environment for further improving the supply-sided reforms. In line with major direction on economic restructuring, the enhancement of institutional reforms, removal of administrative barriers, improvement of business environment and innovation and creativity in linkage with consideration and advocacy on coping scenarios of global trade-investment-financial volatility were in place. As a result, even in the escalation of US-China trade tension, investment and business environment was improved, confidence of both domestic and foreign enterprises was positive.
5. Vietnam has made further progress in preparing and implementing National Strategy on Industrial Revolution 4.0 to 2020 and vision to 2030. In Q3, Vietnam has little publicized information on international economic integration.
6. The reform and policy responses in Q3 still show some limitations, including (i) quality of economic restructuring was slowly improved; (ii) the amendment of tax policy was still rigid, which did not ease the pressure/expectation of domestic inflation for coordinating more effectively with monetary policy in responding to escalation of US-China trade tension; (iii) expectation in developing more selective FDI attraction strategy should be accompanied by detailed, delicate and appropriate solutions in the context of global uncertainty; and (iv) improvement of communication efficiency associated with perception,

policy analysis has been an important requirement so as to avoid disturbance of investor sentiment and financial market.

7. GDP growth attained 6.88% in Q3 and 6.98% for the first 9 months, higher than the same period of previous years. Pressure on attaining the growth target for Q4 was significantly eased. Nevertheless, Vietnam has not returned to high growth trajectory in 1990-2006.

8. The agriculture-forestry-fishery sector continued its solid recovery, attaining 3.46%, mostly attributed to stable price, expansion of export market, effectiveness of structural transformation and application of technological transfer and innovation. Growth of industry and construction was more robust, attaining 8.61%. GDP growth would be much higher, if contribution (by percentage point) of mining and quarrying sub-sector were similar to the average of 2011-2015. The value-added growth of service sector attained 6.87%, lower than Q3s of 2016-2017. Economic structure showed almost no change.

9. Uneven economic opportunity and resilience had significant impacts on performance of enteprises. The number of newly registered enterprises was 32,454, down by 0.7%. The number of inactive enterprises decreased by 28.6% as compared to that of Q2 but increasing by 69.6% (YoY). Manufacturing enterprises still had positive assessment of production and business in this quarter and the coming quarter.

10. Total economically active labor force was estimated at 55.4 million people, increasing by 551.5 thousand people (YoY). Labor structure shifted toward higher shares of industry-construction and service sectors, and decreasing share of AFF. Unemployment rate slightly decreased in Q3, amounting at 2.20%.

11. Q3 witnessed more complicated movements of the Consumer Price Index, down by 0.09% in July, and up by 0.45% and 0.59% in August and September respectively. The average CPI increased by 4.14% in Q3 and 3.57% in the first 9 months. Despite concerns about inflation risks in certain point in time, fulfilling the inflation target for 2018 (4%) is feasible. Core inflation was relatively stable at low level. In the first 9 months, inflation was under impacts of such factors as: (i) the increase of food-foodstuff price; (ii) the upward adjustment of public services price in schedule; (iii) the hike of world oil price; and (iv) inflationary expectation if the Government decides to raise minimum regional wage in 2019.

12. VND-denominated deposit rate of commercial banks increased at certain times in Q3, in particular for long-term deposits; meanwhile, the rates of on demand deposits and deposits with terms shorter than 12 months hardly varied. Deposit rate was affected by such factors as: (i) slower credit growth; (ii) adjustment of interbank interest rate to help ease pressure on VND/USD exchange rate; (iii) competition among commercial banks; and (iv) intensified inflationary pressure at certain times.

13. Outstanding credit, by September 28, grew by nearly 2.4% in comparison to the end of Q2 and by more than 10.4% in relative to the end of 2017. Main reasons included: (i) the SBV's priority to respond to impacts of escalating China-US trade tension; (ii) communication on gradually ceasing foreign currency loans; (iii) determination on strengthening market discipline (including the ratio of short-term deposits for medium-term and long-term loans); and (iv) no relaxation of controls over credits to specific areas (securities, real estate).

14. Total liquidity (M2) was estimated to increase by 8.74% compared to the end of 2017 and by 0.33% in relative to the end of Q2. Foreign exchange market showed more fluctuations. Selling rate of commercial banks was relatively stable until mid-July, then increased to the new level and was closer to the permitted ceiling. The exchange rate in parallel market always exceeded that of commercial banks. SBV effectively performed its management mandate. The price of Vietnamese goods tended to increase in relative to foreign goods.

15. Gross investment rose by 12.5% on YoY basis and 21.6% compared to Q2. Investment to GDP ratio was 35.9% in Q3 and 34% in the first 9 months respectively. Disbursement of government bonds increased by 89.1% in the first 9 months. The private sector was the largest contributor to investment with highest growth rate and share. Meanwhile, FDI experienced slower growth than the state and non-state sectors. Total registered FDI only attained USD 3.4 billion, down by 45.8%; however, implemented FDI was still on the rise, amounting at USD 4.9 billion, up by 2.1% YoY and 9.1% compared to Q2.

16. Exports were estimated at USD 65.3 billion in Q3, increasing by 15.1%. Export of FDI sector (including crude oil) attained USD 126.6 billion, up by 15.8%. Imports reached USD 62.3 billion, increasing by 16.1%. Imports of the domestic sector were estimated at USD 69.3 billion, up by 11.8%; the corresponding figures of FDI sector were USD 103.8 billion and 11.5% respectively. The trade balance registered a surplus of nearly USD 3 billion in Q3 and over USD 6.3 billion in the first 9 months.

17. Vietnam's trade is facing with intertwined challenges and opportunities, including (i) the retaliatory measures between US and China; (ii) investors from both the US and China possibly moving to Vietnam as an option of further developing their business, minimizing lost from trade tension; (iii) some of Vietnam's key export items possibly subjected to technical barriers in the US and China; (iv) more pressure from the "surge" of goods from China; and (v) more complex impacts on financial market.

18. Budget revenues attained VND 310.8 trillion in Q3, or 22.0% of GDP. For the first 9 months, budget revenues attained VND 962.5 trillion, equal to 73.0% of the planned figures for 2018. Budget expenditures amounted to VND 340.0 trillion in Q3, equivalent to 24.0% of GDP. The accumulated budget expenditures for the first 9 months were VND 989.3 trillion, or 65.9% of planned figures. Government bond issuance was more flexible, being in

cooperation with the priority of SBV on stabilizing VND/USD exchange rate over promoting credit growth.

19. Q3 witnessed positive conduct of fiscal policy: (i) the amendment of Tax Administration Law has acknowledged public comments towards better servingtax-payers; (ii) there was no significant change in the issuance of government bonds, easing the crowding-out effects on private sector and overall interest rate; (iii) fiscal policy administration was not "expeditious" towards loosening, but was instead coordinated with monetary policy to stabilize macroeconomic environment and to retain policy space for coping with future adverse events.

20. Economic growth in 2018 (updated) is projected at 6.88%. Export growth may reach 13.34%. Trade surplus is projected at USD 5.1 billion. Average CPI in 2018 will increase by approximately 3.97%.

21. The report analyzes the spillover effects of FDI on domestic enterprises through important channels such as effects through input-output interactions between FDI enterprises and domestic ones based on forward linkage and/or backward linkage; effect through technology diffusion and transfer between FDI enterprises and domestic ones; effect through learning and applying efficient management methods that lead to higher competitiveness; and effect through improving labors' qualification along with being trained or learning knowledge and skills from FDI enterprises. The report also identifies some reasons for limitations in technology transfer from FDI enterprises, including unfavorable environment for technology transfer; dispersal investment in science and technology, and lack of linkage between FDI enterprises and domestic ones. In such context, the report proposed certain policies related to incentive policies for technology transfer, tax incentives, polices on promoting R&D activities, promoting linkages and human resource development

22. The report also summarizes the mid-term assessment on the Plan on restructuring the economy in the 2016-2020 period, which emphasizes weaknesses in organizing the implementation of guidelines and policies on restructuring the economy and many indicators will be fulfilled on time. In addition, the report analyzes main shortcomings and challenges: (i) restructuring the economy has not gained strong progress in finalizing market economic institutions; (ii) growth paradigm has not shifted sustainably; and (iii) seemingly increasing dependence on foreign-invested economic sector. The report proposed some solutions to further restructure the economy in the 2019-2020 period, with focus on identifying priorities in restructuring the economy on the basis of strengthening macroeconomic stability and government facilitation.

23. The report contends that macroeconomic development in Q4 may be subjected to several factors. *First*, US-China trade tension continues with high unpredictability, as it depends on the negotiation (and its results, if any) between US and China, as well as the consistency of US policy after mid-term elections. *Second*, global financial market in general and emerging markets in

particular are more vulnerable to the increasing trend of protectionism and votality of capital inflows. *Third,* major economies have not publicly intervened directly into exchange rate policy. *Fourth*, the progress of negotiation/ratification of some new FTAs (RCEP, CPTPP, and EVFTA) may strengthen the investors' confidence to Vietnam. To that extent, commitments on macroeconomic stabilization and economic restructuring is crucial, yet not enough. Vietnam needs more on the ability to monitor the flow of capital and commodities into Vietnam, and a flexible and pragmatic approach in economic relation with key partners.

24. This report re-emphasizes the message of further strengthening microeconomic foundations and reforming economic institutions for a more friendly approach to innovation, together with effective risk mitigation in a rapidly changing international context. Accordingly, the Report provides some recommendations on further reforms of microeconomic foundations together with macroeconomic measures and other measures such as monetary policy, fiscal policy, price and wage policies, FDI policy.

I. ECONOMIC CONTEXT IN QUARTER 3 OF 2018

1. Regional and global economic context

1. The world economy showed steady growth,but downside risks prevail. The International Monetary Fund (IMF)lowered global economic forecasts for both 2018 and 2019 to 3.7%. Trade restriction, escalating trade tension among major economies, monetary policy normalization in major countries, etc. have resulted in the significant contraction of aggregate demand and demand for merchandise trade. Geopolitical instability in many areas remained unsolved.

Table 1: Global economic prospects

Unit: %

	2018	*2019*	*Difference**	
			2018	*2019*
World GDP (growth rate, %)	3.7	3.7	-0.2	-0.2
Advanced economies	2.4	2.1	0.0	-0.1
The U.S.	*2.9*	*2.5*	*0.0*	*-0,2*
Japan	*1.2*	*1.1*	*0.2*	*0,2*
Eurozone	*2.4*	*2.0*	*0.2*	*0,1*
Developing and emerging economies	4.9	4.7	0.0	-0.4
Developing and emerging economies in Asia	6.5	6.5	0.0	0.0
China	*6.6*	*6.2*	*0.0*	*-0.2*
ASEAN-5	*5.3*	*5.2*	*0.0*	*-0.1*
World trade (growth rate, %)	4.2	4.0	-0.6	-0.5
Non-fuel price (% increase, USD)	2.7	-0.7	-3.3	-1.2

Source: IMF (October 2018).

Note: Difference between the forecast for 2018 and 2019 in comparison to those in July 2018.

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

2. The US economy maintained robust growth despite broader scope of imported products from China subject to additional import tariff. GDP growth rate was 4.2% in Q2 (2nd adjustment) in comparison to the rate of 2.2% in Q1. Unemployment rate was at low level (stood at 3.7% in September, the lowest since 1969), manufacturing PMI attained high score[1] while the business confidence index exceeded market expectation[2]. The US economic growth is projected to be 3.1% in 2018, higher than in 2017 (2.2%).[3] Favorable economic development is the main reason for the Federal Reserve (FED) to raise interest rate by 0.25 percentage point in late September. FED may make an additional interest rate hike in Q4/2018. Direct impacts of trade tension with China and some major partners on the US economy remain modest, but the effect on business and investment activities in the medium term may be a significant concern.

[1] Attained 55.6 point in September 2018.

[2] 61.3 point in August and 59.6 point in September.

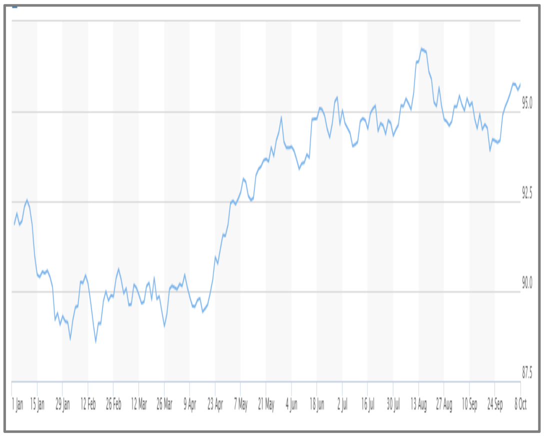
[3] Congressional Budget Office (CBO), Economic Outlook Report (August 2018).

3. Japan resumed positive growth rate, which reached 0.7% in Q2 instead of the negative growth of 0.2% in Q1. The positive growth was mainly driven by improved private consumption and investment. The Bank of Japan (BoJ) decided to continue loosening monetary policy. BoJ lowered inflation forecast to 1.1-1.3% for 2018 and 1.5-1.8% for 2019, which were remarkably below the target of 2%. However, the monetary policy may be adjusted in light of global financial market instability.
4. The Eurozone growth rate achieved 0.4% in Q2/2018, considerably below that in 2017 (0.7%). Export expansion was impressed (increased by 9.4% in July - YoY). Nevertheless, manufacturing PMI took the downward trend since the beginning of this year, attaining only 53.3 point in September; while the business confidence index decreased (by 1.22 points in August in relative to 1.63 points in January). Uncertainty of the Brexit negotiation, migration crisis, etc. cast doubt over the stability and growth of individual economies and the region as a whole.
5. China economy showed signs of downturn. Retail sales, industrial production, fixed asset investment, etc. attained positive growth in August[4] but at much slower pace in comparison to previous periods; the business confidence index decreased dramatically[5]; manufacturing PMI of September plunged to the lowest level in the last 16 months[6]. The stock market crash was attributed to combined effects of factors such as trade tension, loosening monetary policy, etc.[7] The CNY weakened (which was depreciated of about 9% against the USD since the late of March). China has smaller policy space to support the economy, taken into consideration of high debt ratio and the sensitivity of exchange rate. China's economic growth is projected at 6.5-6.6% in 2018 and down to 6.3% in 2019.
6. Trade collision between the US and major economies, in particular China, is escalating. On September 24, the US officially imposed additional tariff of 10% on Chinese imports worth USD 200 billion, and this additional tariff will be raised to 25% in early 2019 (after the two rounds of additional tariff on USD 50 billion of Chinese imports previously). China's responses included the imposition tariff of 5-10% on USD 60 billion of the US's imports; and simultaneously filed the case against the US to the WTO. Trade negotiation between the US and China ended with no progress despite significant efforts to resume the process. The US has issued warnings and simultaneously renegotiated trade deals with a number of partners (namely Japan, Canada, etc.).
7. The USD continued to appreciate against major currencies. However, the USD index fluctuated more significantly in Q3, unlike the obvious upward trend

[4] In August, retail sales increased by 9% (YoY), industrial production expanded by 6.1% (YoY), and investment in fixed assets went up by 5.3% (YoY).
[5] Attained only 50.8 points in September, the lowest level since February 2018
[6] Manufacturing PMI of China decreased continuously since April, and reached only 50 points in September 2018
[7] The Shanghai stock market lost 15.6% of market value since the beginning of the year.

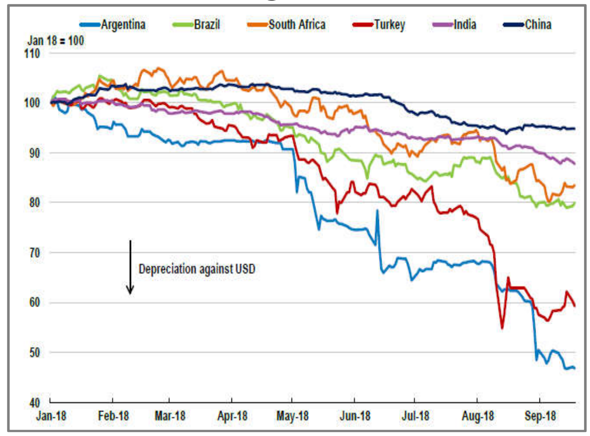
during April-June 2018.[8] Interest rate hike in the US, rising oil price, escalating trade tension and macroeconomic imbalances in many emerging economies (fiscal deficit, current account deficit, high foreign debt, etc.) have increased the risk of capital outflows and significant pressure on local currencies, in particular in Turkey, Argentina, Indonesia, India, China, the Philippines, etc.

Figure 1: USD Index, 2018



Source: https://www.marketwatch.com

Figure 2: Exchange rate of some currencies against USD, 2018



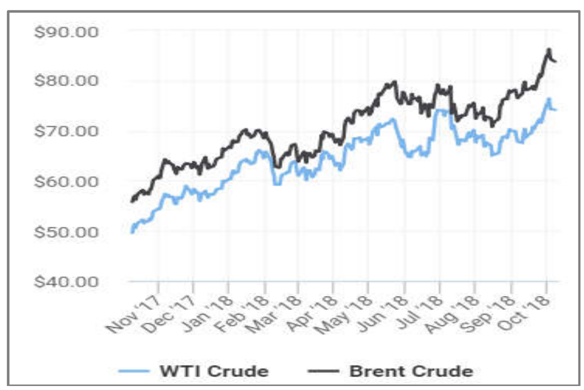
Source: OECD (September 2018).

8. After the decrease in July-August, the world oil price rocketed in September. The main reasons included decisions by OPEC and Russia against expanding oil supply; new sanctions by US on Iran; disrupted oil supply from Libya and Venezuela. Price of Brent crude oil is projected at USD 90 per barrel by the end of 2018 and over USD 100 per barrel by early 2019. Meanwhile, the international gold price decreased remarkably[9] (Figure 3 and Figure 4).

Figure 3: Gold price, 2017-2018

Source: https://goldprice.org/

Figure 4: Crude oil price, 2017-2018



Source: https://oilprice.com

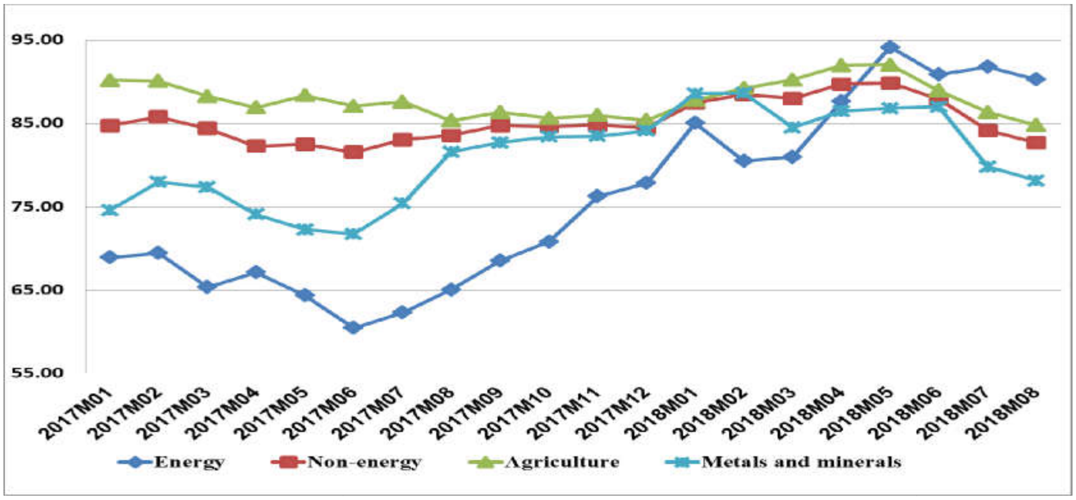
9. Excluding the upward trend of energy price (which was up by 6.1%), other key commodities saw their prices decrease since the beginning of this year (agriculture price index decreased by 3.4%; non-energy price index by 5.5%; metal and mineral price index by 11.8%). The WTO lowered forecast of world

[8] USD index peaked at 96.73 on August 14, which was up by 5.29% in comparison to the beginning of the year and by 9.19% in relative to the bottom of 2018 (on February 15, 2018)

[9] Hit a trough of 2018 in August (decreased by 13.7% compared to the peak in January, and by 9.96% since the beginning of the year).

trade growth to 3.9% in 2018.[10]

Figure 5: Commodity price index, 2017-2018



Source: WB, Monthly Commodity Price Database (September 2018).

10. Negotiation of trade agreements between the US and its trading partners saw progresses. Bilateral FTA between the South Korea and the US concluded.[11]. After 13 months of negotiation, on September 30, the US, Canada and Mexico agreed on the US-Mexico-Canada Trade Agreement (USMCA) in replacement for the North America FTA (NAFTA). Also in September, the South America Common Market (Mercosur) and South Korea officially launched negotiation of a common FTA. The ratification of the CPTPP was completed in Japan, Singapore and Mexico. Australian House of Representatives ratified the agreement, while the House of Senates has not yet made the decision.

2. *Domestic economic context*

11. The Government has assessed the new economic context in Q3. Although the economy experienced high growth in the first 6 months of 2018, risks persisted in Q3 when two major trading partners of Vietnam – US and China – escalated trade tension. Direct impacts on Vietnam's economy were modest; however, indirect impacts on exchange rates, investors' confidence in financial market, etc. required more flexible and prompt responses. In such context, macroeconomic management should pay more attention to similar context of 2008-2009: loosening macroeconomic policy may lead to higher inflationary pressure, but focusing exclusively on controlling inflation may magnify the risk of economic downturn.

12. The Government emphasized the priority of stabilizing macroeconomic situation toward the end of 2018, so as to create a stable and favorable environment for further improving the supply-sided reforms. In line with major direction on economic restructuring[12], the enhancement of institutional reforms,

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[10] Forecast announced on September 27, which was 0.5 percentage point below the figure in April 2018.
[11] Signed on September 24, and take effect since January 1, 2019.
[12] More details in section 3

removal of administrative barriers, improvement of business environment, and innovation and creativity in linkage with consideration and advocacy on variousscenarios of global trade-investment-financial volatility were in place. As a result, even during the escalation of US-China trade tension, investment and business environment was improved, confidence of both domestic and foreign enterprises was positive. In August, Fitch and Moody's upgraded Vietnam's credit rating from stable to positive. A report by the McKinsey Global Institute showed that Vietnam was among the 18 "outperforming" emerging economies, together with other 7 ASEAN members. The European community also confirmed their optimism in assessing the business environment in Q2/2018 and prospects for upcoming period.[13]

13. The Government issued Directive 20/CT-TTg dated 13 July 2018 on intensifying reforms of specialized inspection and removing, simplifying business conditions in order to speed up Ministries, agencies on timely submitting documents on removing and adjusting business conditions. Most Ministries have actively implemented the mentioned tasks, submitting draft Decrees on reduction and modification of business conditions on time and with substantial removal.[14]However, a preliminary assessment by the Ministry of Planning and Investment (MPI) showed that, by the end of September, the simplified business conditions only met 30% of the target. A number of shortcomings remained, namely:(i) modification of business conditions has only been via editing text or content which was not really simplification; (ii) inappropriate business conditions without meeting policy objectives, persisted[15]; (iii) some business conditions were under laws while the law amendment agenda was unclear; and (iv) some draft decrees aimed at reducing and amending business conditions actuallyincorporated new business conditions.[16]

14. There has been modest progress in reforming customs procedures and specialized management of export and import. The reforms of regulations on specialized management and inspection made some initial progress in some Ministries and selected sectors[17], but the progress is still below requirement and the efforts were uneven across ministries. Shortcomings in specialized management and inspection such as too many subjected items, overlapping management, no use of risk management principle, and significant cost related to specialized inspection were burdensome to enterprises.

[13] Results from Business Climate Index (BCI) by Eurocham announced recently showed that BCI attained 84 in Q2/2018, increasing by 6 compared to Q1/2018. Survey on macroeconomic expectation in the coming quarter showed that 57% of respondents picked "stability and improvement", 34% as "no change" and only 10% as "downturn".

[14] Of which, Decree 100/2018/ND-CP dated 16/7/2018 on the amendment, supplement and removal of some regulations on business conditions under the management of Ministry of Construction, with a reduction and simplification of 858 business conditions and Decree 08/2018/ND-CP amending some related Decrees on business conditions under the management of Ministry of Industry and Trade. Most recent was Decree 107/2018/ND-CP on rice trading.

[15] Such as regulations on training and certificate grant by management agencies or business conditions underlying the term of "under the regulations by line ministry".

[16] Draft Decree of Ministry of Transport.

[17] Such as healthcare, construction and natural resource and environment.

15. By the end of Q3/2018, 11 ministries and agencies have participated in the national single window mechanism with 68 administrative procedures. The number of procedures was still small compared to the commitments by ministries and agencies[18] (attaining 25% of the planned figure for 2018). Most ministries, agencies did not positively and actively apply information technology to connect to National Single Window Portal. At the same time, limited electronic procedures were fully connected[19] to the actual implementation of National Single Window scheme. Some other procedures were online, but submission of original paper documents or fees is still required; thus, enterprises were hesitant to implement as more times and process needed.

16. Slow disbursement of public investment remains a bottleneck to the economy[20]. Many ministries, agencies have not seriously prepared the progress reports. The slow disbursement was attributed not only to objective reasons such as mismatch in site clearance procedures, settlement and final payment of construction, etc.; but also to inadequate efforts of assigned agencies. Meanwhile, the explanation of amended Law on Public Investment towards either easing procedures and conditions or maintaining the same principles was unclear.

17. The restructuring of State-owned enterprises (SOEs) showed some improvements. By the end of August, the equitization plans of 19 SOEs were approved (equivalent to 86.2% over the same period of 2017); however, progress was still slow (19/85 SOEs) considering that these big corporations may lead to large proceedings for the State. The biggest obstacle in equitization process was the identification and approval of land of equitized SOE.

18. Vietnam has made further progress in preparing and implementing National Strategy on Industrial Revolution 4.0 (IR 4.0) to 2020 and vision to 2030. Some challenges were identified, including: (i) institutions, particularly inappropriate state management mindset to new issues of big data, artificial intelligence, blockchain technology, etc.; (ii) ensuring human factor, especially the science-technology personnels for IR 4.0 (1 million information technology employers by 2020); (iii) transformation of public sector governance and business-production; and (iv) developing the best digital ecosystem.

19. In Q3, Vietnam has little publicized information on international economic integration (CPTPP negotiation or preparation for the ratification of CPTPP, EVFTA).In practice, Directive 26/CT-TTg reconfirmed the orientation of improving efficiency and effectiveness of international economic integration, and implementinginternational economic integration (including attracting foreign investment) in close link with economic restructuring and transforming growth model.With such determination, Vietnam showed two new approaches

[18] According to the plan of connection, by end of 2018, 270 procedures will be connected and another 284 procedures by end of 2019.
[19] According to the target, there are 270 procedures by 2018 and 284 procedures by 2019
[20] Although being improved as compared to the same period of 2017, the disbursement rate was only 63% of the planned figures by end of Q3/2018, much lower than the target of 94-98%.

of: (i)more flexibility and pragmatism in its trade relation with US and China for minimizing direct impacts of trade tension between these two mega-trading partners; and (ii) international economic integration as a necessary condition, but not the main driver and guide for domestic economic institutional reforms.

20. The reforms and policy responses in Q3 still show some limitations.*First,* quality of economic restructuring was slowly improved. Maintaining momentum for business environment reforms was not easy, especially as more attention is paid to mitigating risks of trade and investment.*Second,*the amendment of tax policy was still rigid, which did not ease the pressure/expectation of domestic inflation for coordinating more effectively with monetary policy in responding to escalating US-China trade tension.*Third,*expectation in developing more selective FDI attraction strategy should be accompanied by detailed, delicate and appropriate solutions in the context of global uncertainty.*Fourth,* improvement of communication efficiency associated with perception, policy analysis is still an important requirement so as to avoid disturbance of investor sentiment and financial market.

II. MACROECONOMIC PERFORMANCE AND OUTLOOK

1. Macroeconomic performance in Q3/2018

1.1. <u>Real economy</u>

21. GDP growth attained 6.88% in Q3[21],higher than in Q2 but lower than in Q1. Concern about economic downturn across the quarters was relaxed.Albeit being lower than that of Q3/2017, the growth was higher than Q3s of previous years (Figure 6). For the first 9 months of 2018, GDP grew by 6.98%, the highest level since 2011. Pressure to attain the annual growth target was significantly eased in Q4.Nevertheless, GDP growth for the first 9 months was still lower than the average of 1990-2006 (Figure 7).

Figure 6:Quarterly GDP growth rate(%)

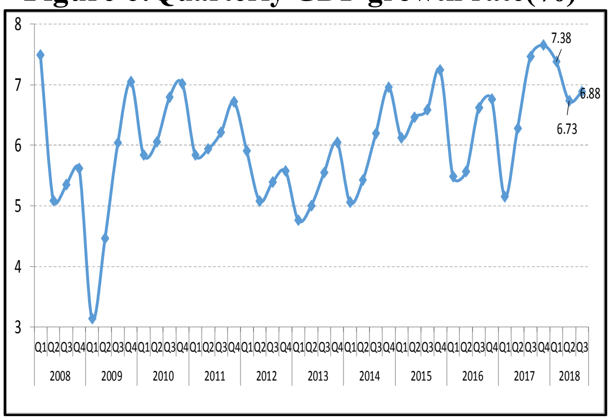
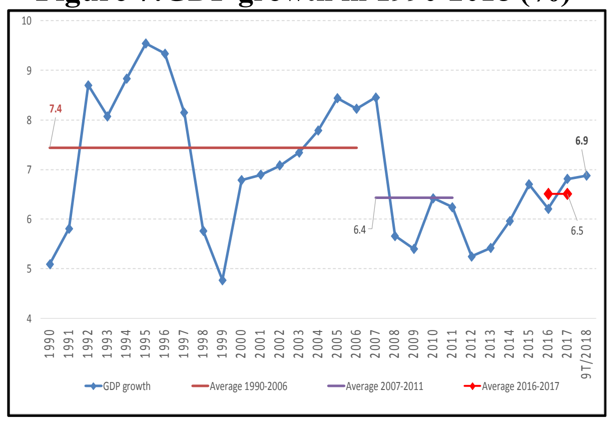


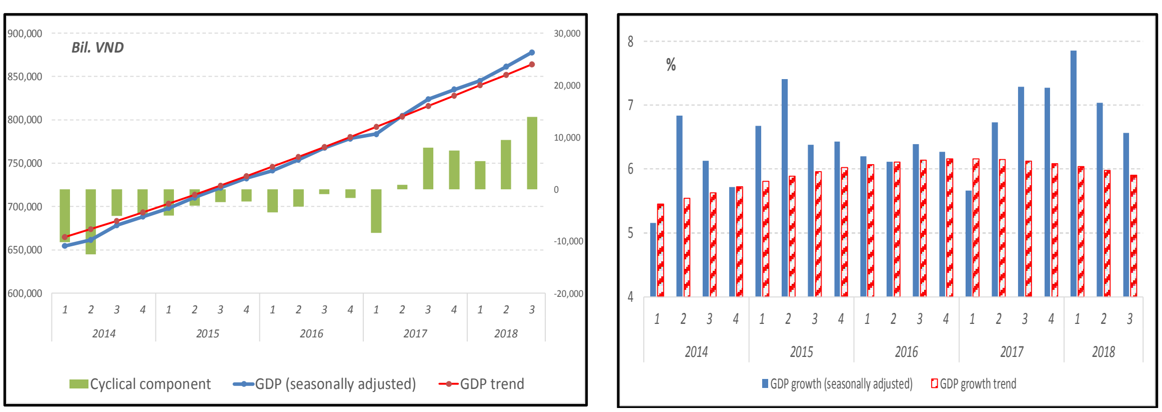
Figure 7:GDP growth in 1990-2018 (%)



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. Similarly, real (seasonally adjusted) GDP surpassed potential GDP growth, which shows downward trend in consecutive quarters.

Figure 8: GDP growth movement

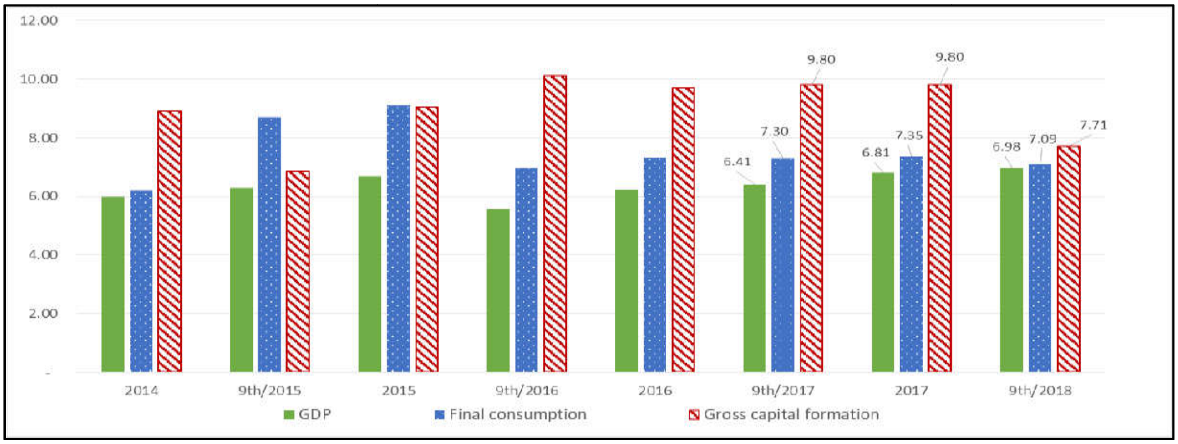


Source: Authors' compilation.

[21] 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).

23. On the expenditure side, both final consumption and gross capital formation grew slowly, attaining 7.09% and 7.71%respectively for the first 9 months of 2018.Notably, the pace of gross capital formation was at the lowest (Figure 9). The main reason was the slow growth of credit and disbursement of public investment.[22]

Figure 9: Growth rate of gross capital formation, final consumption and GDP (%)



Source: GSO.

24. The agriculture-forestry-fishery (AFF) sector continued its solid recovery, attaining 3.46%. Notably, fishery sub-sector grew at 6.37%.[23]In addition to stable price and expansion of export market, the structural transformation of agriculture showed its effectiveness and enhanced the production.A lot of activities for enhancing agricultural innovation and creativity;technologicalapplication and transfer were experienced in Q3.[24]

Figure 10: GDP growth by sector, 2014-Q3/2018 (%)

Source: GSO.

25. Growth of industry and construction was more robust. In Q3, industry and construction sector grew at 8.61%, higher than the same period of 2016-2017

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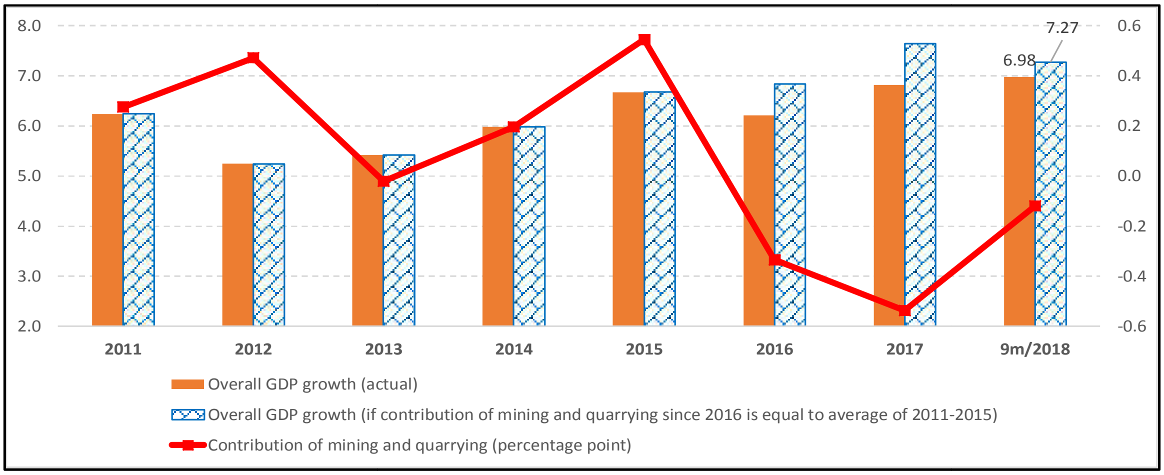
[22] More details in section 2.3 and 2.6.

[23] Valued-added of fishery sub-sector in the first 9 months of selected years: up by 3.46% in 2011; up by 4.06% in 2012; up by 2.95% in 2013; up by 6.15% in 2014; up by 2.11% in 2015; up by 1.81% in 2016; up by 5.48% in 2017; and up by 6.37% in 2018.

[24] ASEAN AFF Ministers' Meeting, forum on application and technology transfer in agriculture

(Figure 10).Notably, it was constrained by negative growth of mining and quarrying sub-sector; if contribution (by percentage point) of mining and quarrying sub-sector were similar to the average of 2011-2015, GDP growth would be much higher (Figure 11).The manufacturing sub-sector was at the highest growth of 12.1%in Q3 and 12.7% in the first 9 months of 2018.

Figure 11: GDP growth and contribution of mining sub-sector (%)

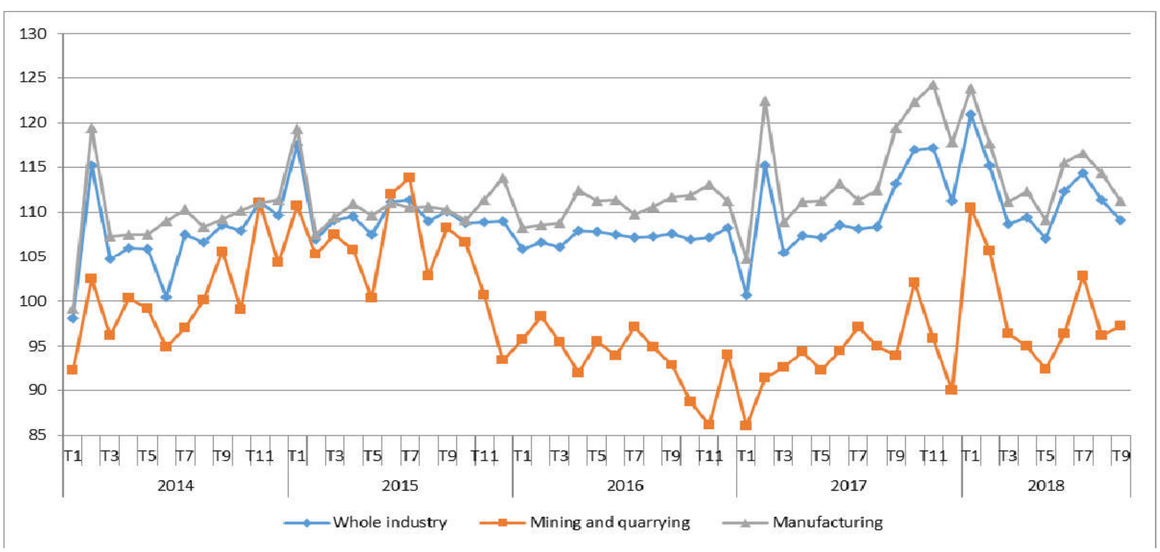


Source: Authors' compilation.

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

26. The Index of Industrial Production (IIP) also showed less dependence on mining(Figure 12). For the first 9 months of 2018, IIP grew by 10.6%, the fastest pace since 2012. After downward trend in the first 6 months, manufacturing sub-sector recovered, with IIP increasing by 13.2% in Q3. On the contrary, IIP of mining sub-sector decreased by 3.4% in Q3 and 2% in the first 9 months respectively.

Figure 12: Index of Industrial Production, 2014-T9/2018

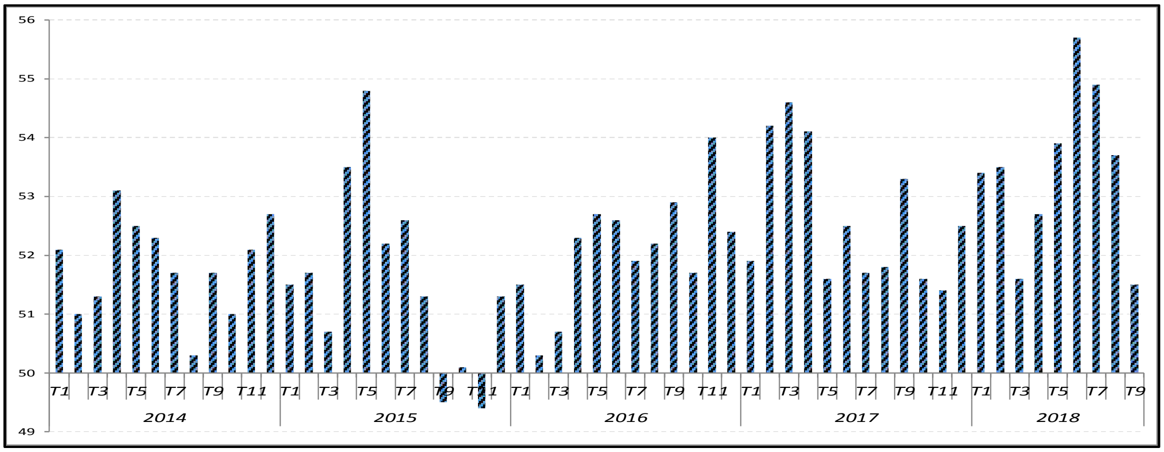


Source: GSO.

27. Purchasing Manager Index (PMI) decreased continuously in Q3, albeit being over 50(Figure 13).The momentum for production expansion was slow down.

The main reason was attributed to slower growth of domestic demand, while direct impacts of US-China trade war was ambiguous.[25]In such context, the message and recent outcomes of business environment improvements were instrumental in consolidating business confidence. For example, the Business Climate Index (BCI) in Q2 was 6 points higher than that of Q1.

Figure 13: Purchasing Manager Index, 2014-September 2018

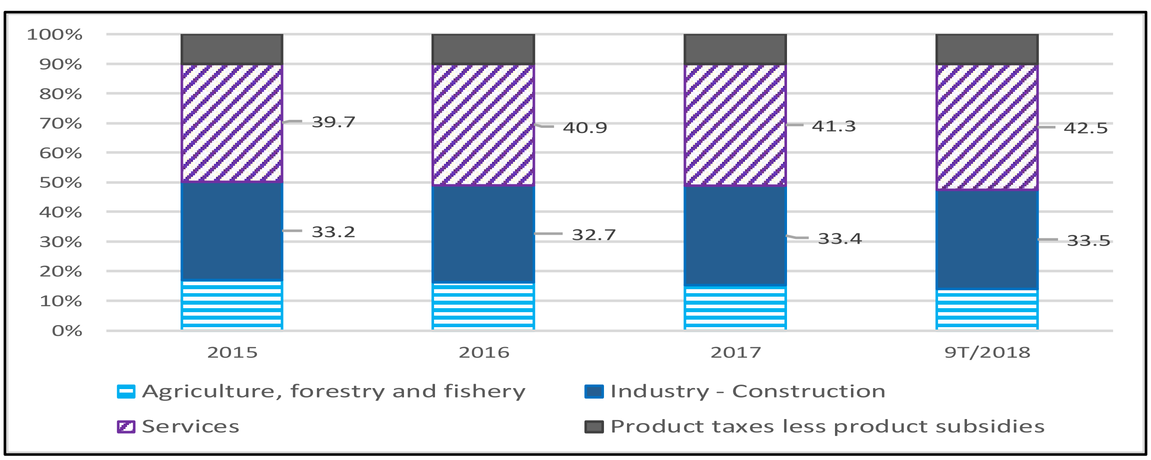


Source: Markit, HSBC.

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

28. The value-added growth of service sector attained 6.87% in Q3, lower than Q3s of 2016-2017. In the first 9 months, the service sector grew by 6.89%, slower than industry-construction. The two sub-sectors of wholesale and retail trade, repairs of automobiles, motorcycles and other vehicles; and finance, banking and insurance still attained rather high growth. However, the smaller number of international visitors in September has adversely affected growth of hotels and restaurants, only amounting to 5.89% (as compared to 9%in Q3/2017).

Figure 14: Quarterly GDP structure, 2015-9 months of 2018 (%)



Source: GSO.

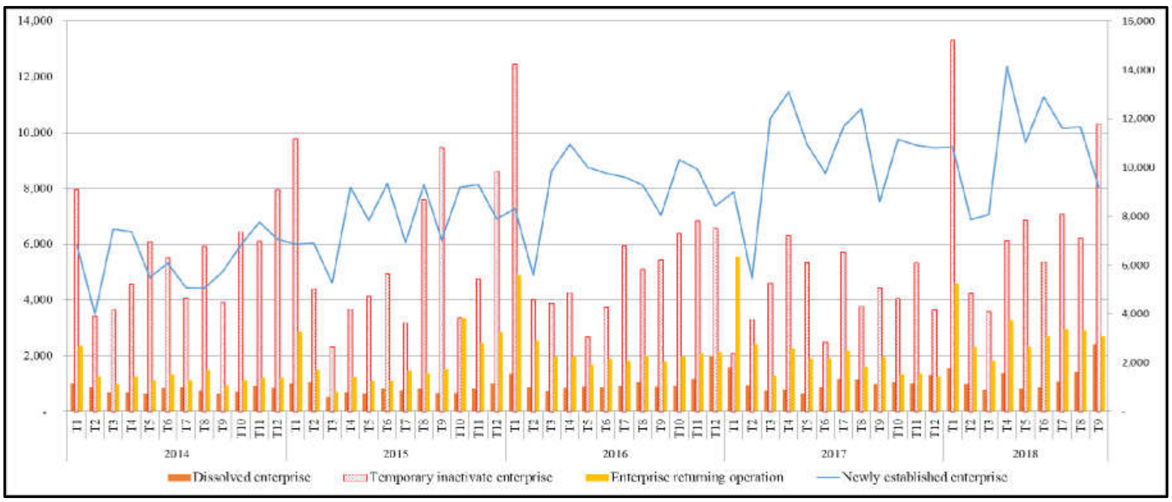
29. Economic structure showed almost no change. The most material change was in the higher share of service sector for the first 9 months. Meanwhile, the

[25] Export was at rather high growth (see more in Section 2.5).

share of industry-construction was almost no change (Figure 14).[26]Therefore, the increase of share of manufacturing-subsector could only partly off-set the reduction of share of mining and quarrying sub-sector.

30. Uneven economic opportunity and resilience had significant impacts on performance of enterprises, particularly private enterprises in Q3. The number of newly registered enterprises in Q3 was 32,454, down by 0.7%, with total registered capital of VND 314.4trillion, up by 2.6%. The number of inactive enterprises (including those registering inactive status or temporally stopping before closing tax code or without registration) was 23,601, decreasing by 28.6% compared to Q2 but increasing by 69.6% (YoY)(Figure 15). The number of dissolved enterprises was 4,907, up by 49.0%; most of them were small-sized (over 90%).

Figure 15: Selected indicators of enterprises' performance, January 2014-September 2018

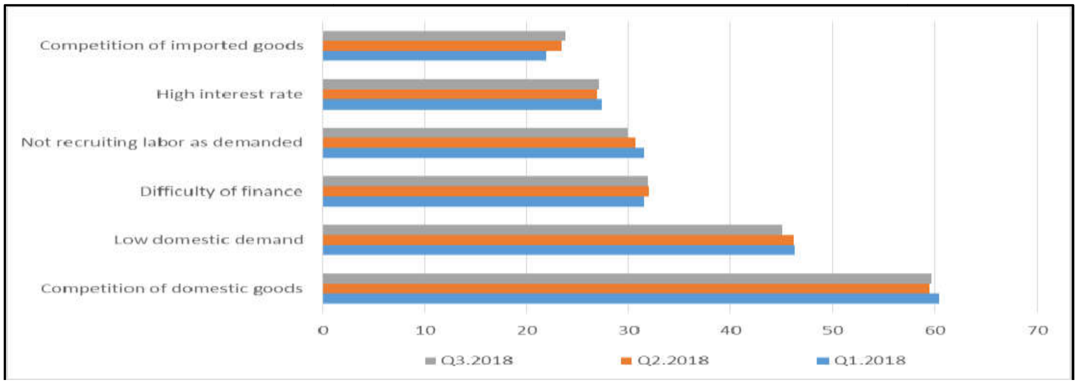


Source: Business Registration Agency, MPI.

31. The sub-sectors with many enterprises under difficulties or being inactive included wholesale and retail trade, repairs of automobiles, motorcycles and other vehicles (up by 24%), construction (15%) and manufacturing (up 20%). Similar to previous quarters, themost important determinants ofproduction and business were modest competitiveness of domestic products (59.6%), weak demand of domestic market (45.1%) and financial difficulties (31.9%) (Figure 16).

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

Figure 16: Factors affecting production and business



*Source:*GSO.

32. Manufacturing enterprises still had positive assessment of production and business in Q3 and Q4. Some 82.2% of enterprises assessed better or stable production and business condition in Q3 than in Q2. Another 52.7% of enterprises thought that business tendency would be better and 36.6% expected stability in Q4 (Figure 17andFigure 18). Component indicators such as production quantities, number of orders showed upward and stable trend.

Figure 17: Business tendency (Q3/2018compared to Q2/2018)

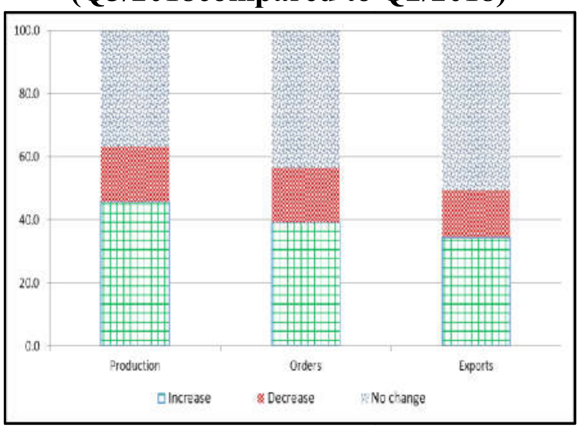
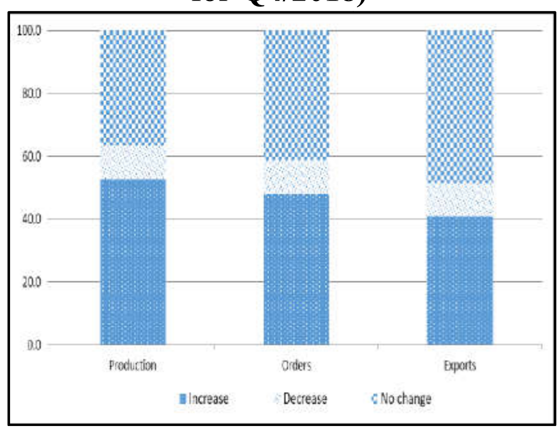


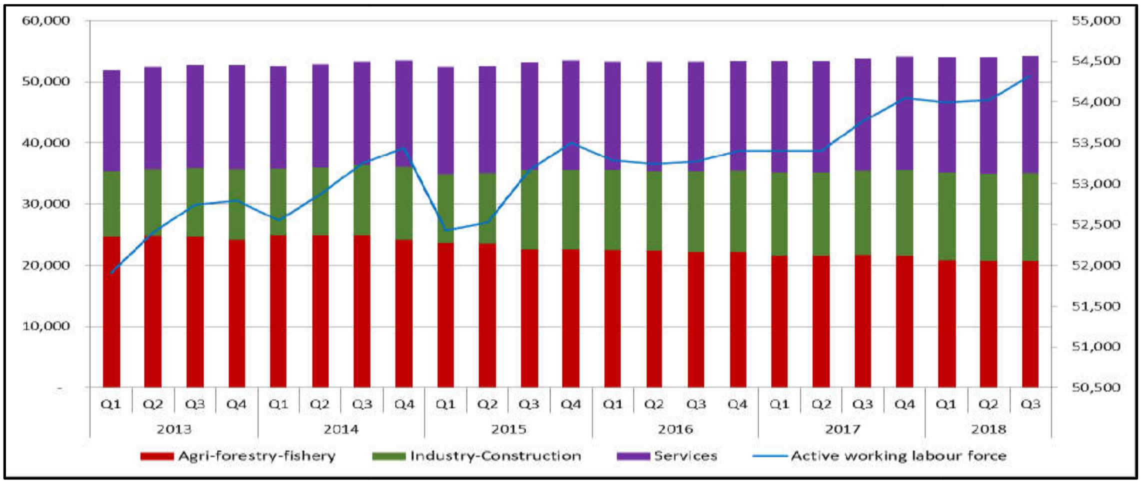
Figure 18: Business tendency (forecast for Q4/2018)



*Source:*GSO.

33. In Q3, total economically active labor force was estimated at 55.4 million people, increasing by 551.5 thousand people on YoY basis.Of which, male labors accounted for 52.3%, and female labors accounted for 47.7%. Labor structure shifted toward increasing the share of labor in industry-construction and service sectors, 26.6% and 35.3% respectively; while the share of labor in AFF decreased (to 38.1%)(Figure 19).

Figure 19:Economically active labor force by economic sector, 2013-Q3/2018

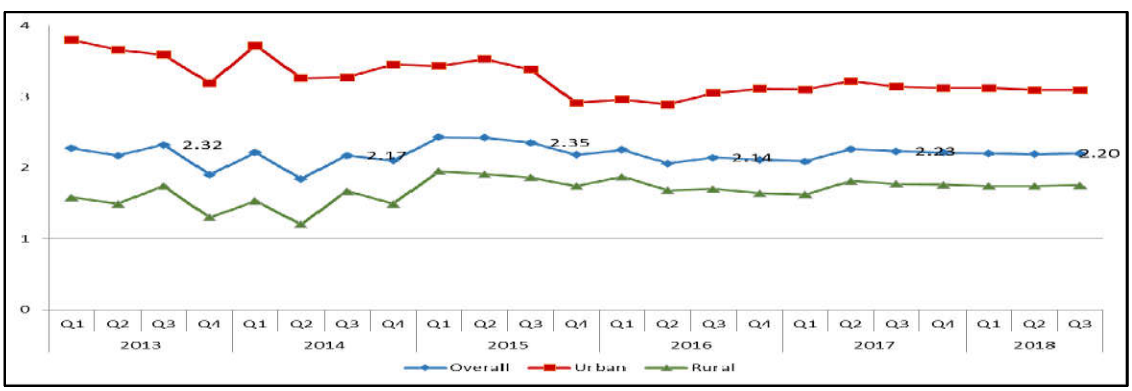


Source: GSO.

Note: Active working labor force was in the right axis.

34. Unemployment rate decreased slightly in Q3, reaching 2.20%. By region, urban unemployment rate was 3.09% and that of rural areas was 1.75% (Figure 20).While Vietnam is preparing workforce in response to IR 4.0, the World Bank confirmed that future employment of Vietnam would depend on "gears" of traditional sector, modern sectors, and workforce and labor market institutions. For each "gear", the most important things involved supporting the development of industries, balancing economic and employment; and the Government should pay more attention to business environment so as to facilitate the enhancement of innovation, attraction of high quality FDI, and ensuring the domestic enterprises to upgrade their positions in global and regional value chains.

Figure 20: Quarterly unemployment rate, 2013-Q3/2018

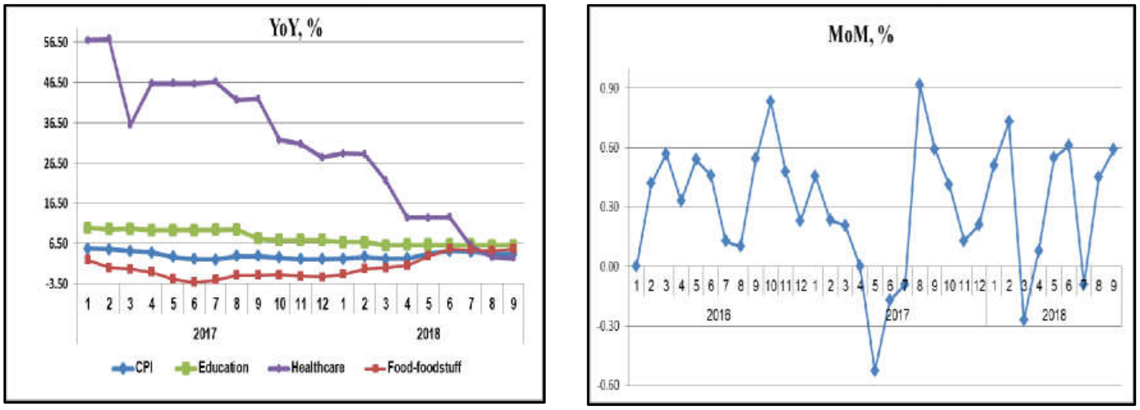


Source: GSO.

1.2. Inflation

35. Q3 witnessed more complicated movements of the Consumer Price Index (CPI). CPI was down by 0.09% in July, and up by 0.45% and 0.59% in August and September, respectively (MoM). The average CPI increased by 4.14% in Q3 and 3.57% in the first 9 months. Despite concerns about inflation risks at certain point in time, fulfilling the inflation target for 2018 (4%) is feasible.

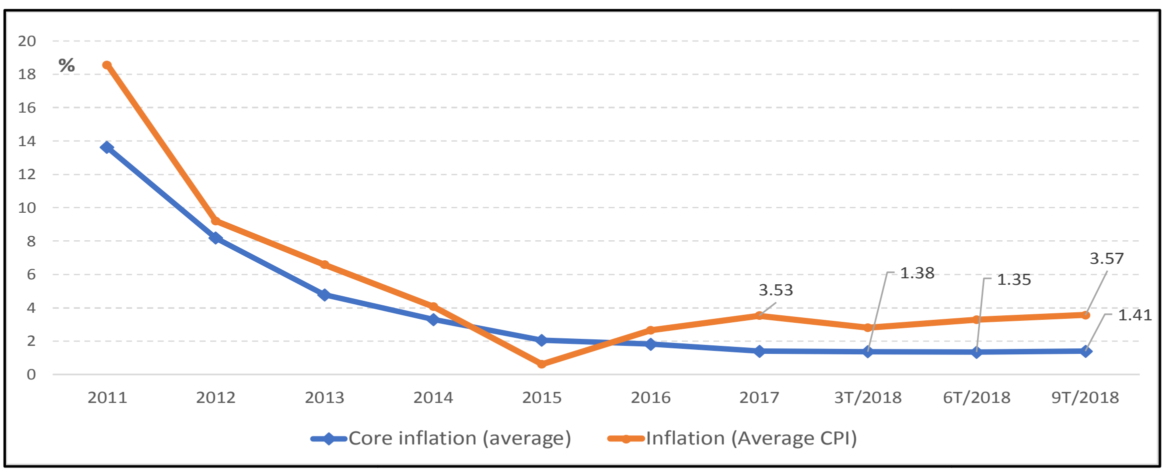
Figure 21: CPI-based inflation, 2017-2018



Source: GSO.

36. Core inflation was relatively stable at low level. In the first 9 months, the average core inflation stood at 1.41% (YoY), which was slightly higher than the average figures in the first 6 months and the first 3 months of the year. Thus, the conduct of monetary and credit policies has not exerted pressure on inflation.

Figure 22: Average core inflation and CPI



Source: GSO.

37. In the first 9 months, inflation was under impacts of such factors as: (i) the increase of food-foodstuff price, in particular since June (by September , food-foodstuff price was up by 4.96% compared to December 2017 and by 5.17% in relative to 2017 (YoY)); (ii) the upward adjustment of public services price in schedule (healthcare, education); (iii) the hike of world oil price, leading to adjustments of the domestic oil price[27]; and (iv) inflationary expectation if the Government decides to raise minimum regional wage in 2019. Meanwhile, despite challenges related to exchange rate management, the passthrough effect of international prices to domestic market was insignificant.[28]

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[27] Oil and petrol prices were adjusted upward twice consecutively in September (on September 6 and September 21), and most recently on October 6.
[28] In the first 9 months, the export price index and import price index increased by 1.02% and 1.38% on the average, respectively (YoY).

38. The upward adjustment of environmental protection taxes imposed on petrol and some materials, which will take effect on January 1, 2019,[29]has no immediate direct impacts on prices in 2018[30]. However, the adjustment exhibited some shortcomings. *First*, the adjustment was rather rigid, without adequate consideration of world oil price hike and the increase in budget revenue from crude oil. *Second,* justification of the usage of revenue from environmental protection taxes in particular and other sources of state budget[31] in general is insufficient and unreasonable. *Third,* the adjustment will lead to "cost-push" effect on inflation, thus narrow the monetary policy space for the management of exchange rate and interest rate in Q4/2018 and the early 2019. This issue becomes more critical as many forecasts agreed on significant impacts on CPI of domestic prices (the increase of food-foodstuff price in the ending months, the possibility of upward adjustment of minimum regional wage in 2019, etc.) or of external factors (the movement of world prices, trade collision and trade tension among major economies, monetary policy normalization in many economies, etc.).

1.3. Monetary movement

39. VND-denominated deposit rate of commercial banks increased at certain times in Q3, particularly for long-term deposits (longer than 12 months). VND-denominated deposit rate with terms longer than 12 months in Q3 increased on average by 0.4 percentage point compared to June 2018. Meanwhile, the rates on demand deposits and deposits with terms shorter than 12 months hardly varied.

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

Unit: % per annum

	Demand	**Shorter than 6 months**	**6 – 12 months**	**Longer than 12 months**
End of March 2016	0.8-1.0	4.5-5.4	5.4-6.5	6.4-7.2
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	4.3-5.3	5.3-6.5	6.5-7.1
End of September 2018	0.6-1.0	4.3-5.5	5.3-6.5	6.5-7.5

Source: Topbank.vn

[29] Environmental protection tax for petrol was adjusted to the ceiling of VND 4,000 per liter (the previous level was VND 3,000 per liter). The environmental tax imposed on diesel oil increased from VND 1,500 per liter to the ceiling of VND 2,000 per liter; of mazut and lubricant oil was up from VND 900 to the ceiling of VND 2,000 per liter; of kerosene increased from VND 300 to the ceiling of VND 1,000 per liter.

[30] According to the Government report, the impact is insignificant: The upward adjustment of environmental protection tax of petrol is expected to result in the increase of CPI by about 0.07%-0.09% (MOF's report submitted to the Standing Committee of the National Assembly in late September 2018).

[31] Including the explanation on the usage of revenue from the withdrawal of state capital in Sabeco: Limited information was revealed after 9 months of the withdrawal.

40. Deposit rate was affected by such factors as: (i) slower credit growth while the issuance of Government bond was behind the plan; (ii) adjustment of interbank interest rate to help ease pressure on VND/USD exchange rate; (iii) competition among commercial banks to prepare for rising credit demand in ending months of 2018 and early 2019 (when the regulation on reducing the ratio of short-term deposits used for medium-term and long-term loans takes effect); and (iv) intensified inflationary pressure – albeit insignificant – at certain times.

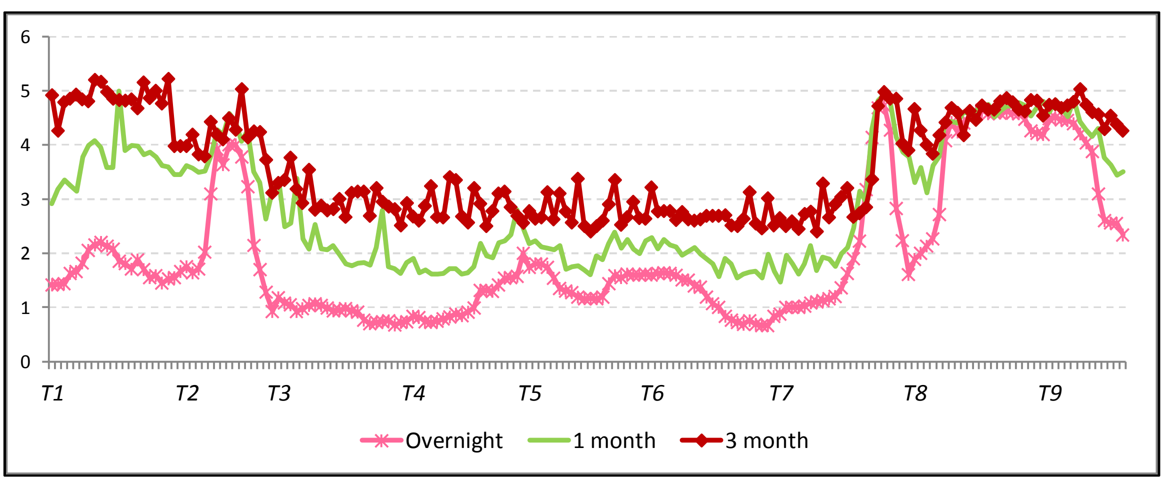
41. USD-denominated deposit rate of commercial banks was stable at 0% per annum for all terms. The gap between USD-denominated rate in the domestic and international markets was widened after FED's interest rate hike, which had in significant implications on investment capital flows and remittance. The ceiling on USD-denominated deposit rate was kept unchanged by the SBV, indicating the priority of de-dollarization in the economy.

42. Lending rates were under pressure to increase. According to the SBV's report, lending rates were almost unchanged in Q3: VND-denominated lending rates ranged from 6.0-9.0% per annum for short-term loans, 9.0-11% per annum for medium- and long-term ones; USD-denominated lending rates varied between 2.8-6.0% per annum; of which the rate for short-term loans were 2.8-4.7% per annum; for medium-term and long-term loans were 4.5-6.0% per annum. Nevertheless, some commercial banks had to raise lending rates in September due to limited liquidity and adjustment of credit policy for some areas (such as real estate and related categories).

43. Interbank interest rates took the significant upward trend in Q3. Over-night rate increased remarkably since mid-July, except downward adjustments at certain points of time. Interest rates for other terms fluctuated in similar directions. This was because the SBV actively raised interbank interest rates, aiming at widening the gap between VND-denominated rates and USD-denominated rates, thus alleviating pressure on exchange rate.

Figure 23: Interbank interest rates, 2018

Unit: % per annum

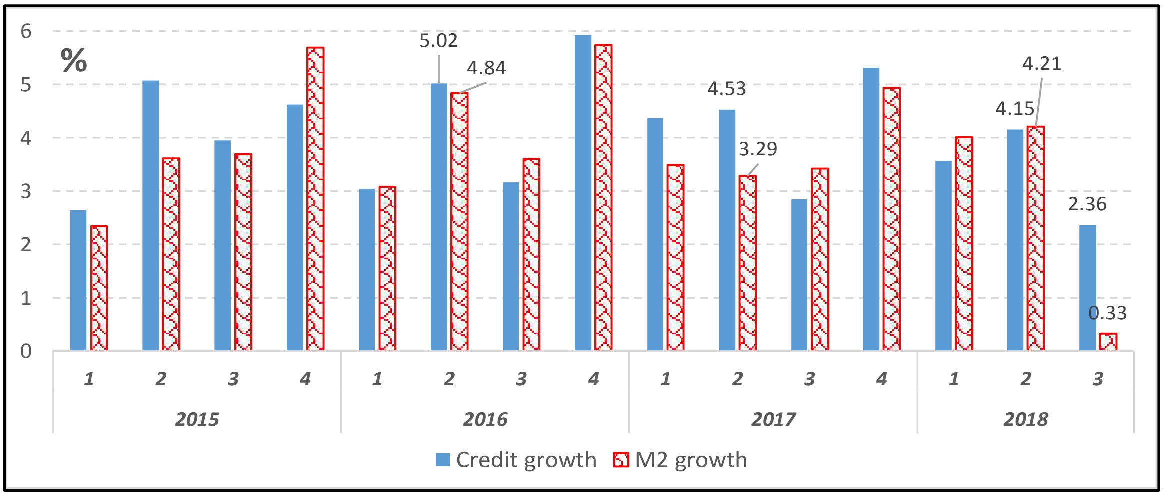


Source: SBV

44. By September 28, outstanding credit grew by nearly 2.4% in comparison to the end of Q2 and by more than 10.4% in relative to the end of 2017. Credit grew at slower pace in Q3 in comparison to Q1-Q2 of 2018 and Q3s of previous years (Figure 24). Main reasons included: (i) the SBV's priority to respond to impacts of escalating China-US trade tension instead of promoting credit disbursement; (ii) communication on gradually ceasing foreign currency loans; (iii) determination on strengthening market discipline, including prudent indicators of commercial banks (including the ratio of short-term deposits for medium-term and long-term loans);[32] and (iv) no relaxation of controls over credits to specific areas (securities, real estate).

Figure 24: Growth rates of outstanding credit and M2

Unit: %



Source: SBV.

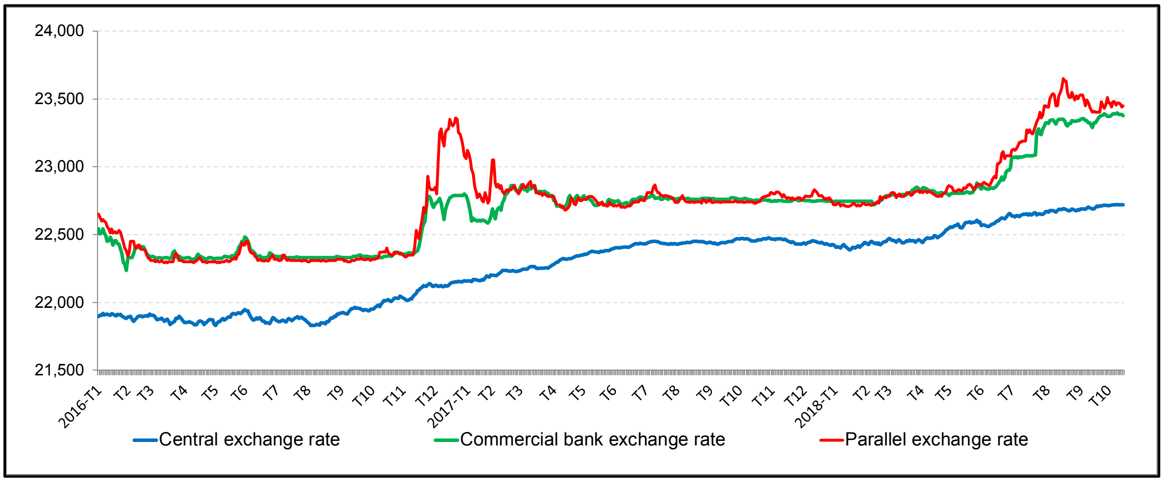
45. By September 20, total liquidity (M2) was estimated to increase by 8.74% compared to the end of 2017 and by 0.33% relative to the end of Q2. The increases were below those in Q3 of 2017 and Q1-Q2 of 2018. The SBV actively withdrew liquidity of the banking system to alleviate pressure on exchange rate. Concerns about impacts of M2 growth in previous quarters on inflation prevailed.[33] However, M2 management was appropriate to balance between the control of inflation[34] and prevention of downturn risks, while maintaining favorable condition for the issuance of Government bonds[35] in Q3.

46. Q3 witnessed more significant fluctuations of VND/USD exchange rate. Thanks to upward adjustment already made in the previous quarters, the central rate only increased by 0.28% in Q3 (compared to the end of Q2). Selling rate of commercial banks was relatively stable until mid-July, then increased to the new level and was closer to the permitted ceiling (Figure 25).[36] By the end of September, selling rate of commercial banks was up by 0.52% compared to that

[32] Including Circular 16/2018/TT-NHNN dated July 31, 2018 on amending and supplementing some articles of Circular 36/2014/TT-NHNN dated November 20, 2014.
[33] See Fitch's report released in October for more reference.
[34] In fact, core inflation was relatively stable.
[35] See section 2.6.
[36] After the SBV raised VND/USD selling rate for commercial banks on July 23.

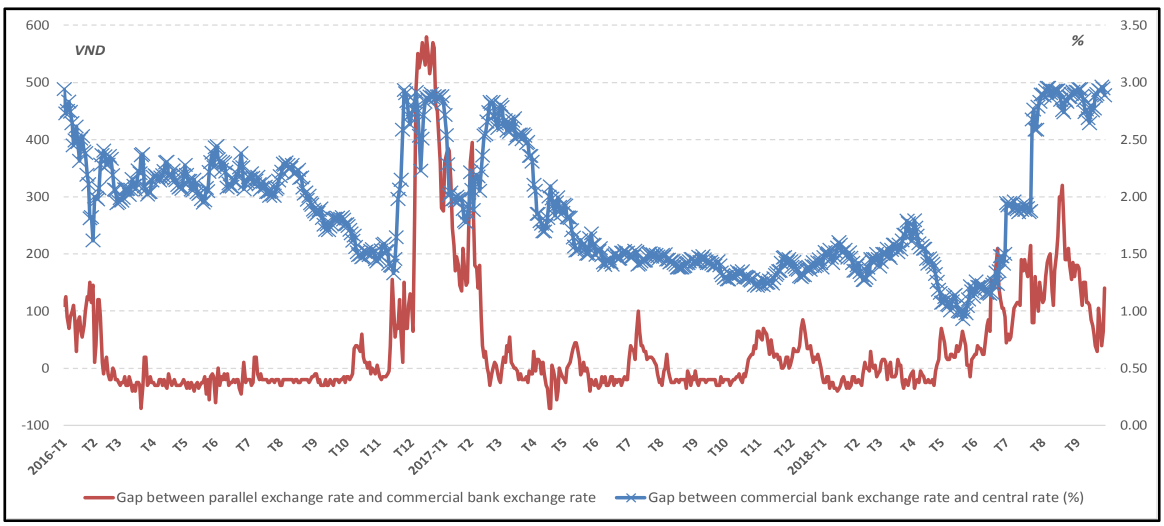
on July 23 and by 1.65% compared to the end of June. The exchange rate in parallel market always exceeded that of commercial banks, though the gap somehow decreased since mid-August (Figure 25 and Figure 26).

Figure 25: VND/USD exchange rate, 2016-2018



Source: CIEM's compilation.

Figure 26: Gap between exchange rates of commercial banks and central rate and in the parallel market



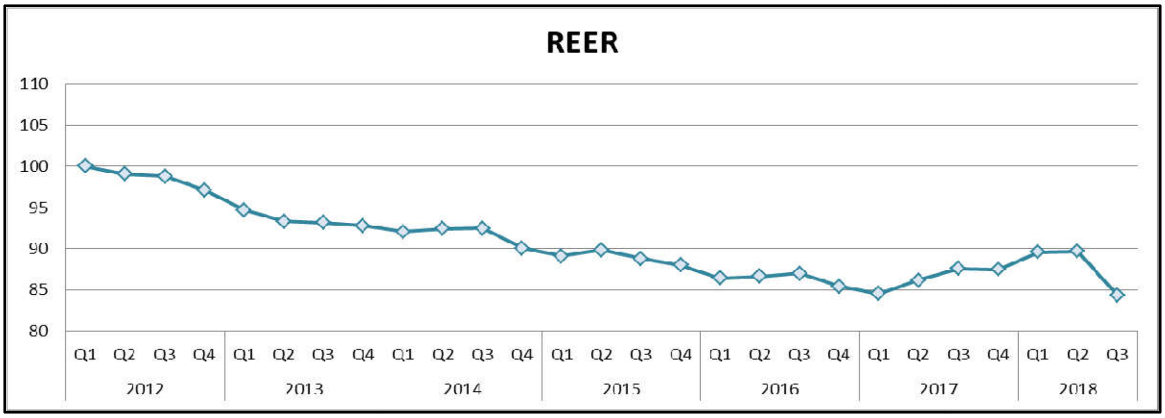
Source: CIEM's calculation.

47. Taken into consideration concerns on exchange rate risks prior to Q3, actual movement of exchange rate indicated that the SBV effectively performed its management mandate. This was mainly attributed to: (i) the SBV's priority to inflation control (including responses to exchange rate pressure) instead of promoting credit growth; (ii) effective communication on macroeconomic foundation and direction of exchange rate management (including the intention to cease foreign currency loans); and (iii) flexible coordination of available instruments (in particular interest rate) instead of solely relying on direct intervention on sale and purchase of foreign currencies. However, exchange rate management had some favorable conditions such as: (i) foreign

investors’continuing interest in Vietnam’s market, without signal of capital outflows; (ii) trade surplus at high level.

48. The price of Vietnamese goods tended to increase relative to foreign goods. Specifically, REER dropped by 3.7% in Q3 (YoY) and by 5.9% (QoQ). This was mainly attributed to the fact that domestic inflation outpaced that in international market. The actual situation reaffirmed the previous assessment of the CIEM: the increase of nominal VND/USD exchange rate is not necessarily accompanied by real depreciation and, thus, does not support export.

Figure 27: Real Effective Exchange Rate



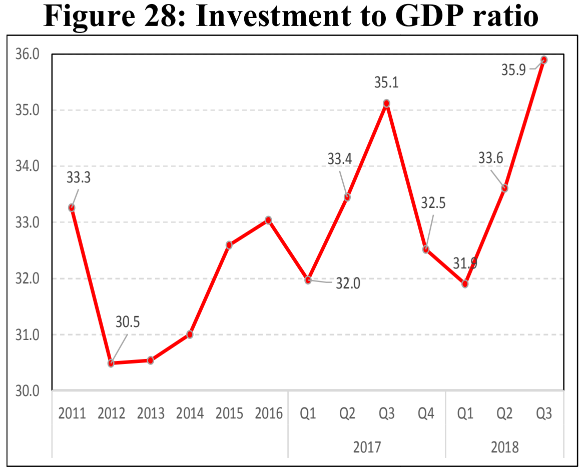
Source: Authors’ calculation.

Note: Q1/2012=100. REER is calculated based on trade data with the 20 biggest trading partners and CPI statistics. Data for Q3/2018 was estimated. A smaller value implies that Vietnamese goods are relatively more expensive than foreign ones.

1.4. Investment

49. Gross investment in Q3 (current prices) was estimated to reach VND 507.6 trillion, rising by 12.5% (YoY) and 21.6% compared to Q2. For the first 9 months of 2018, gross investment attained at VND 1,253.2 trillion, up by 10.9%. In real terms, gross investment grew by 7.1% in the first 9 months (Table 3). Investment to GDP ratio was 35.9% in Q3 and 34.0% in the first 9 months respectively.

Figure 28: Investment to GDP ratio



Source: GSO.

50. Q3 witnessed an upward trend in investment, all categories were higher than that in Q2. However, accumulated figures of the first 9 months showed uneven decrease/increase between investment categories on YoY basis (Table 3). Noticeably, disbursement of government bondsincreased by 89.1% in the first 9 months. The private sector was the largest contributor to investment with

highest growth rate and share. Meanwhile, FDI experienced slower growth than the state and non-state sectors.

Table 3: Gross investment, current prices

Unit: trillion dong

	Q2/2018	Q3/2018	9 months of 2018	Growth rate (%)
TOTAL	**415.5**	**507.6**	**1,253.2**	**10.9**
I. State investment				
+ State budget investment capital	75.2	90.0	214.5	11.8
+ Government bonds	10.3	13.4	29.6	89.1
+ State credit	10.2	13.5	31.3	-25.1
+ Borrowings from other sources (by the state sector)	26.4	31.3	78.4	-8.6
+ Investment by SOE (equity)	16.9	18.9	50.6	-7.8
+ Others	5.5	5.7	16.1	54.8
II. Non-state investment	***169.3***	***224.7***	***533.1***	***17.7***
III. FDI	***101.7***	***110.1***	***299.6***	***8.4***

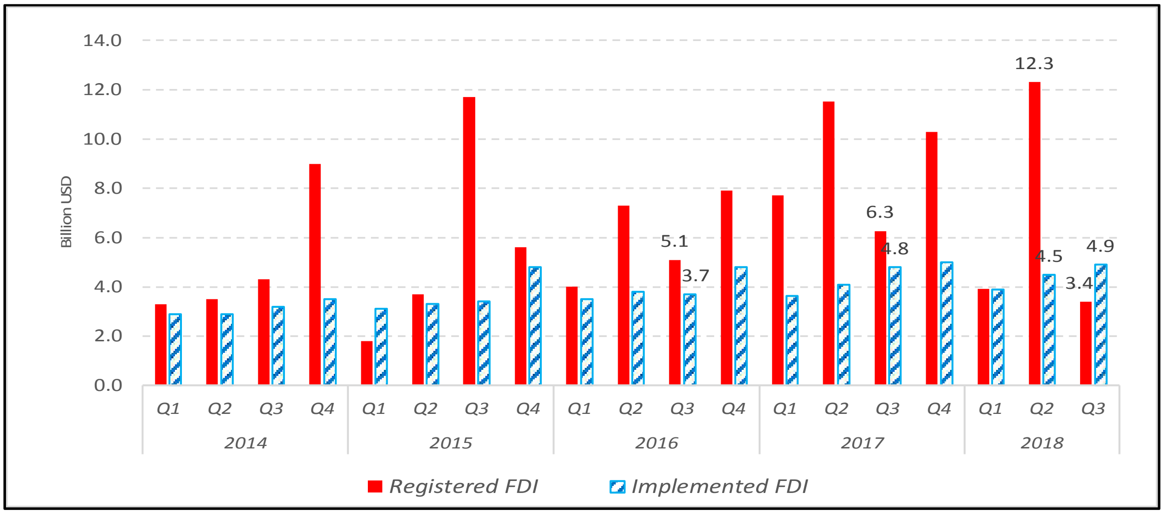
Source: GSO.

51. Investment expansion in the non-state sector was largely thanks to continuous efforts of business environment improvement recently, especially the series of Resolution 19 and Resolution 35 on enterprise development. Besides, Q3 witnessed two outstanding activities of the sector. *First,* some large private enterprises were more proactive to investment on key production and service sub-sectors (such as automobiles, airlines, etc.). *Second,* Vietnam's private enterprises quickly responded to and grasped opportunities arising from the US – China trade war for production and export.

52. After a long time of preparation, the Commission for Management of State Capital at enterprises finalized its functions, tasks and organizational structure. Expectation of a more neutrally competitive environment has initially been realized via separating the state's ownership and management functions of some SOEs. However, challenges still persisted, particularly in showcasing professionalism of the Commission, through prompt and meaningful progress right from initial stages.

53. Total registered FDI only attained USD 3.4 billion in Q3, down by 45.8% (YoY). However, implemented FDI was still on the rise, amounting to USD 4.9 billion, up by 2.1% (YoY) and by 9.1% compared to Q2. For the first 9 months, total registered FDI was USD 19.7 billion, decreasing by 7.7%. Meanwhile, implemented FDI was USD 13.25 billion, increasing by 6% (Figure 29). Capital flow reversals have not been evident in Vietnam, as happened in other regional economies.

Figure 29: FDI inflows to Vietnam



Source: GSO.

Note: Registered capital includes adjusted capital for licensed projects and capital for buying shares.

54. By industry and sector, manufacturing attracted most FDI inflows with total registered capital of USD 6.3 billion, accounting for 44.3%. Notably, real estate sector ranked second with corresponding figures of USD 5.0 billion and 35.1%.

55. By investment partner, Japan ranked first with total registered capital of USD 7.1 billion (36.0%), South Korea followed with USD 5.7 billion (28.9%) and the third place was Singapore with USD 3.7 billion (18.7%). Investment from China showed almost no change.

56. The results of last 30 years emphasized the importance and contribution of FDI. Apart from being the supplemented capital, FDI contributed to economic growth, development of high-quality sector, expansion of international market, increase of exports and participation in global value chain. Some FDI projects have transferred advanced technologies and management skills to domestic enterprises, thus improving technology and management level of the economy. Furthermore, FDI contributed to the strengthening of market economy institution, improvement of business environment and national position.

57. However, FDI attraction still showed some limitations, including: (i) inadequate linkage and weak spill-over effects from FDI to domestic sector; (ii) modest technology transfer from FDI to domestic sector; (iii) limited FDI attraction to prioritized sectors and from multi-national corporations; (iv) some signs of price transfer, tax evasion or violation of environment protection regulations; and (v) low efficiency of land use by some foreign invested projects.

58. To improve the efficiency of FDI attraction, it is necessary to deal with following challenges.[37]. *First*, national industrial policy has not yet been

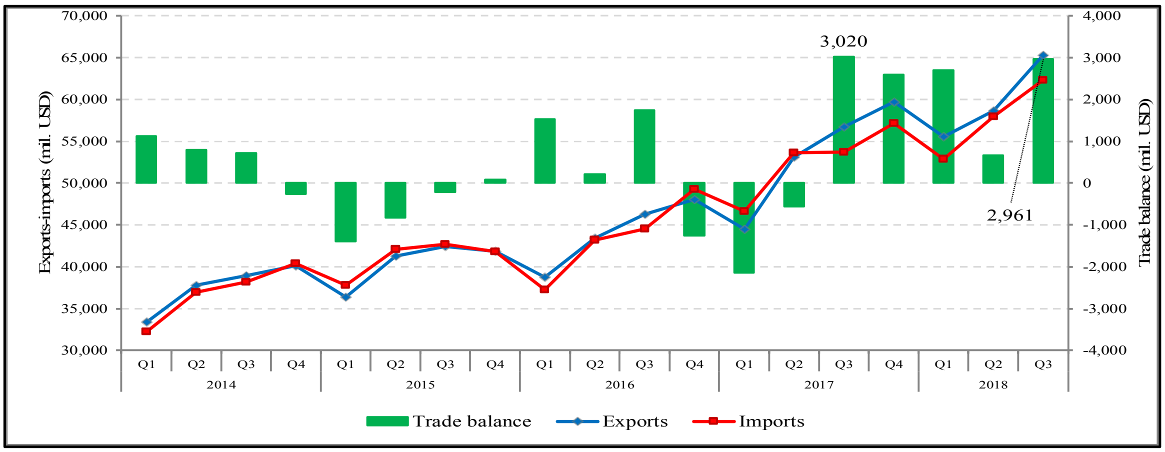
[37] More detailed on technology transfer and connectivity between FDI and domestic enterprises can be seen in section III.

detailed towards stable, consistent orientation and focused for investors, including foreign investors. *Second,* investment promotion seemed to distinguish between FDI and FII. *Third,* it is not easy to balance between investment facilitation and prevention of negative impacts (e.g. on environment and society) of foreign investment.

1.5. Trade

59. Exports were estimated at USD 65.3 billion in Q3, increasing by 15.1%. The export growth rate in Q3 was higher than that of Q2 (10.4%), but remarkably lower than the same period of 2017 (22.5%) (Figure 30). For the first 9 months, export turnover attained USD 179.5 billion, up by 15.8%. Excluding the price increase, export turnover grew by 14.6%.

Figure 30: Exports, imports and trade balance, 2015- Q3/2018



Source: General Department of Customs.

Note: Trade balance is shown in the right axis; imports and exports are shown in the leftaxis.

60. In term of key export item, in Q3, Vietnam had 12 items with individual export values of over USD 1 billion, accounting for 80% total export turnover. The largest category was telephones and components, withexport turnover of USD 14.1 billion, accounting for 21.6% of total exports, up by 17.5%. For the first 9 months, Vietnam had 26 items with individual export values of over USD 1 billion, accounting for 90.3% of total export values.

61. Exports in the first 9 months were largely to the 6 key markets (Table 4), which altogether accounted for 78.2% total export turnover. Exports to China and South Korea increased most rapidly, by29.9% and 26.1%, respectively. China, the USA and the EU were the three largest contributors to overall export growth, accounting for 4.28, 2.63 and 1.91 percentage points respectively.

Table 4: Export growth by partnerin the first 9 months

Unit: USD billion

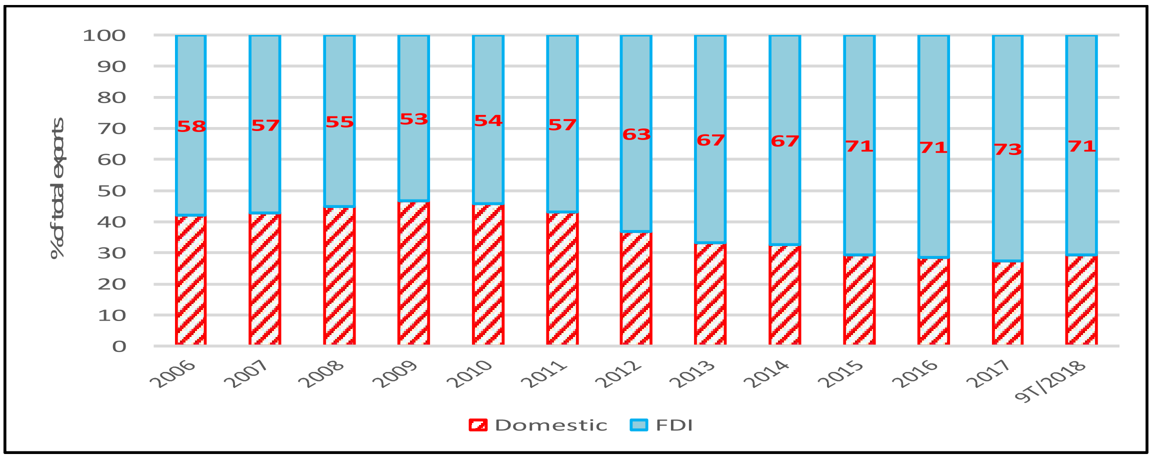
	9 months/2017	9 months/2018	Growth rate (%)	Percentage point contribution to export growth
EU	28.2	31.1	10.5	1.91
ASEAN	16.0	18.3	14.4	1.48

Japan	12.3	13.7	11.5	0.91
South Korea	10.7	13.5	26.1	1.80
China	22.2	28.8	29.9	4.28
The USA	30.9	35.0	13.2	2.63

Source: General Department of Customs.

62. In the first 9 months of 2018, export of FDI sector (including crude oil) attained USD 126.6 billion, up by 15.8% (YoY), contributing 11.1 percentage points to overall export growth rate (15.8%). According to Nguyen Anh Duong et al. (2018), during 1995-2016, an increase in implemented FDI of 1% caused export growth of domestic enterprises to increase by 0.15 percentage point in the short-term and 0.69 percentage point in the long-term. Nevertheless, domestic sector has not showed adequate improvement to contribute to export growth. The proportion of domestic sector in total exports contracted from 50% in 2000 to 29.4% in 2018 (Figure 31).

Figure 31: Export by economic sector (%)



Source: GSO.

63. Imports reached USD 62.3 billion in Q3 and USD 173.1 billion in the first 9 months, increasing by 16.1% and 11.6% respectively. For the first 9 months, imports of the domestic sector were estimated at USD 69.3 billion, up by 11.8%, contributing 4.7 percentage points to overall import growth (11.6%). The corresponding figures of FDI sector were USD 103.8 billion, 11.5% and 6.9 percentage points, respectively.

64. Vietnam's imports were largely sourced from the six key trading partners – altogether accounted for over 80% of total import values (Table 5). China contributed 3.46 percentage points to overall import growth in the first 9 months. Notably, import from the US went up by 36.9%. Particularly in Q3, Vietnam's imports from the US increased several times (YoY) especially milk and dairy products, soybean, cattle food and materials, etc. Still, Vietnam has not showed clear direction towards importing advanced technologies from the US though such imports would support future production capacity and rebalance trade relationship with the US.

Table 5: Import growth by partner

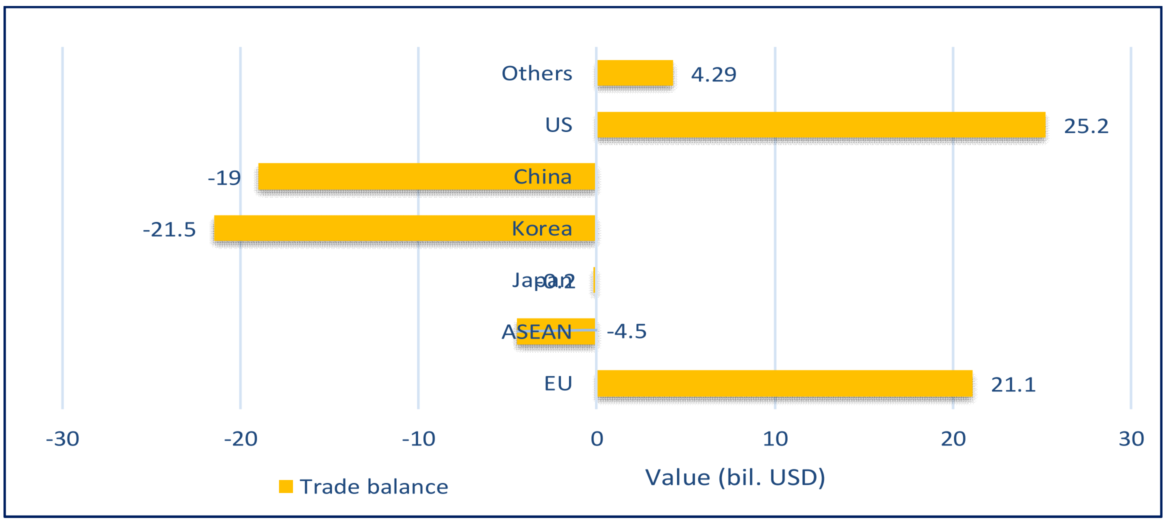
Unit: USD billion

	9 months/2017	9 months/2018	Growth rate (%)	Percentage point contribution to import growth
EU	9.0	10.0	11.3	0.65
ASEAN	20.5	23.2	13.2	1.75
Japan	12.1	13.9	14.6	1.14
Korea	34.5	35.1	1.6	0.36
China	41.9	47.3	12.8	3.46
The USA	7.0	9.6	36.9	1.66

Source: General Department of Customs.

65. The trade balance registered a surplus of nearly USD 3 billion in Q3 and over USD 6.3 billion in the first 9 months. Of which, domestic business sector experienced a deficit of USD 16.4 billion, up by 0.6%; foreign sector recorded a surplus of USD 22.7 billion, up by 40.7%. Among key trading partners, Vietnam only attained trade surplus with the US (USD 25.2 billion) and the EU (USD 21.1 billion) and suffered trade deficit with South Korea (USD 21.5 billion) and China (USD 19.0 billion) (Figure 32).

Figure 32: Trade balance by partner in the first 9 months of 2018



Source: General Department of Customs.

66. The US-China trade waris yet to reach its peak. In the upcoming time, Vietnam is facing with intertwined challenges and opportunities. *First,* the retaliatory measures between US and China may create more opportunities for third partners (including Vietnam) to enter and expand their markets for products subjected to tariffs in both countries. *Second*, investors from both the US and China may consider moving to Vietnam as an option of further developing their business, minimizing lost from trade tension. A selective and pragmatic approach - though not explicitly required- is prerequisite for Vietnam to take advantage of new investment inflows and appropriate technologies. *Third,* some of Vietnam's key export items may be subjected to technical barriers in

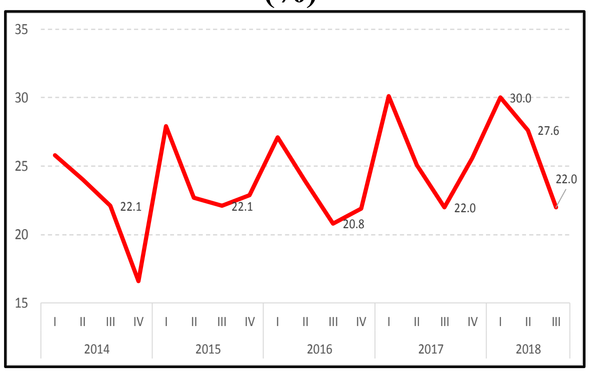
the US and China. *Fourth,* Vietnam might suffer from more pressure from the "surge" of goods from China. For example, monthly imports of cameras and electronic components from China rose from 65% to 118% from May to September compared to the same period of 2017. Some HS codes ***might*** be under the first list of the US's extra tariffs on China. *Fifth,* the impacts might be more complex on financial market caused by investors' strong and excessive reaction.

67. In such context, Vietnam should not and could not stand outside the trade-financial movements of the US and China. In addition to strengthening the resilience of economy to adverse external shocks, effectively diversifying export markets and products is a requirement. Diversification might entail some problems or loss related to supply, market access or commodity prices of certain markets/industries/periods. However, the direction is still meaningful at the aggregate level if it helps to maintain the momentum of export and accompanied by supporting policies for disadvantaged labors. In other words, the assessment of production and consumption for disadvantaged industries should avoid sole attribution to weakness of market warning/direction.

1.6. Budget revenues and expenditures

68. Budget revenues attained VND 310.8 trillion in Q3, or 22.0% of GDP (Figure 33). Of which, domestic revenues were estimated at VND 240.2 trillion, or 21.8% of planned figures. Revenues from crude oil amounted to VND 18.6 trillion, or 51.7% of planned figures. Revenues from exports-imports achieved VND 48.7 trillion, or 27.2% of the planned figures for 2018.

Figure 33: Budget revenues to GDP ratio (%)



Source: Authors' compilation.

69. For the first 9 months, budget revenues attained VND 962.5 trillion, equal to 73.0% of the planned figures for 2018. Of which, domestic revenues amounted to VND 763.6 trillion, or 69.5%; revenues from exports and imports were VND 146.9 trillion, accounting for 82.0%. Notably, revenues from crude oil surpassed the planned figures for 2018 by 34.0%; however, it has not been considered in making decision on increasing environmental protection tax on petroleum.

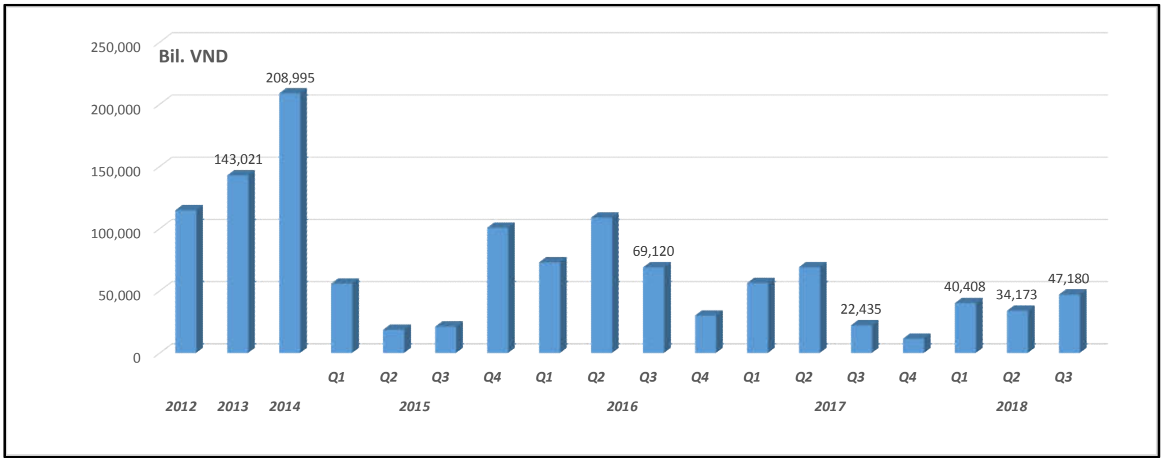
70. Budget expenditures amounted to VND 340.0 trillion in Q3, equivalent to 24.0% of GDP. Of which, recurrent expenditures were VND 266.5 trillion, accounting for 78.4% of total expenditures in Q3; expenditures for development investment only attained VND 73.5 trillion, making a share of 21.6%.

71. The accumulated budget expenditures for the first 9 months were VND 989.3 trillion, or 65.9% of planned figures. Of which, expenditures for development

investment only reached VND 203.6 trillion, or 50.9% of the planned figures; recurrent expenditures amounted to VND 785.7 trillion, or 69.9% of the planned figures. The pressure on disbursement of public investment in general and development investment in particular still remained substantial in Q4.

72. Government bond issuance was more flexible. Total value of government bonds issued in Q3 was VND 47.2 trillion, higher than in Q1-Q2 of 2018 and Q3 of 2017. This movement was in accordance with the priority of SBV on stabilizing VND/USD exchange rate over promoting credit growth. For the first 9 months, total value of government bonds amounted to VND 121.8 trillion, or 69.6% of planned figures for 2018.[38]

Figure 34: Government bonds issuance, 2012-Q3/2018 (billion dong)

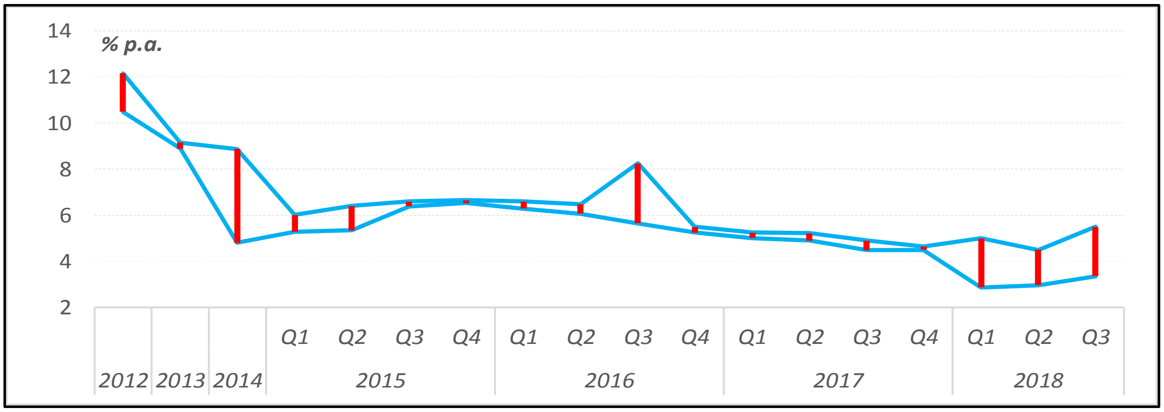


Source: HNX.

73. The range of interest rate on government bonds was wider in Q3. The interest rate for successful bids of government bonds (for 5-year terms to maturity) ranged from 3.37%-5.51%/p.a. The range of interest rate for successful bids of government bonds was widener, and significantly higher than the range of Q2 (2.97%-4.5%/p.a). The rate of successful bids was 27.9% in Q3, implying: (i) sizeable liquidity of banking system; (ii) more selective and effective bond issuance in terms of interest rate for successful bids.

[38] Since 1st October 2018, the issuance of government bonds was adjusted from VND 200 trillion to VND 175 trillion.

Figure 35: Interest rate on successful bids of Government bonds with 5-year terms to maturity (%/p.a)



Source: HNX.

74. Q3 witnessed positive change in the conduct of fiscal policy. *First,* the amendment of Tax Administration Law has acknowledged public comments towards better serving taxpayers, especially regarding the removal of the investigation function of tax authorities. *Second,* there was no significant change in the issuance of government bonds, easing the crowding-out effects on private sector and overall interest rate. *Third,* fiscal policy administration was not "expeditious" towards loosening, but was instead coordinated with monetary policy to stabilize macroeconomic environment and to retain policy space for coping with future adverse events.

75. Fiscal policy administration must consider some following issues in Q4. *First,* despite the adjustment of lowering the target for the issuance of government bonds in 2018 (from VND 200 trillion to VND 175 trillion), the Ministry of Finance has not clarified whether it is "hard" target or not. *Second,* the efficiency of government bond utilization has not been prioritized over the pace of disbursement; meanwhile, the media paid more attention to the opportunity cost of proceedings from government bonds being slowly disbursed. *Third,* the explanation on the use of budget revenues, especially with regards to specific purposes, has not been comprehensive and reasonable.

2. Macroeconomic outlook

76. A forecast scenario is updated for Vietnam in 2018, basing on assessment of global economic outlook by international organizations, economic movement in the first 9 months, as well as the possibility of employing domestic economic policies. GDP growth in partner countries is projected at 3.7% in 2018[39].US inflation may reach 2.3%.[40]Export prices of agricultural products may grow by

[39]According to IMF forecast (October 2018). Source: https://www.imf.org/en/Publications/WEO/Issues/2018/09/24/world-economic-outlook-october-2018[Accessed on 12/10/2018].

[40]According to IMF forecast (October 2018). Source: https://www.imf.org/en/Publications/WEO/Issues/2018/09/24/world-economic-outlook-october-2018[Accessed on 12/10/2018].

2.8%.[41]Export prices of crude oil may grow by 34.6%.[42] For Vietnam, the central VND/USD exchange rate is increased by 3%. Total liquidity increases by 13%. Outstanding credit increases by 15.22%. Import prices increases by 2.3%. Population increases by 1.08%/year and employment by 0.86%. The export volume of crude oil is assumed to be 30% lower than in 2017. REER is assumed to decrease by 2%. 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 prices of state-managed goods and services in Q4/2018.

Table 6: Updated forecasts of macroeconomic indicators, 2018

Unit: %

GDP growth	6.88
Inflation (average CPI)	3.97
Export growth	13.44
Trade balance*(bil. USD)*	5.1

*Source:*CIEM's projection from its macroeconometric model.

77. Economic growth in 2018 (updated) is projected at 6.88% (Table 6). Export growth may reach 13.34%. Trade surplus is projected at USD 5.1 billion. Average CPI in 2018 will increase by approximately 3.97%.

78. Macroeconomic development in Q4 may be subjected to several factors. *Frist,* US-China trade tension continues with high unpredictability, as it depends on the negotiation (and its outcomes, if any) between US and China, as well as the consistency of US policy after mid-term elections. *Second,* global financial market in general and emerging markets in particular are more vulnerable to the increasing trend of protectionism and votality of capital inflows. *Third,* major economies have not publicly intervened directly into exchange rate policy. *Fourth,* the progress of negotiation/ratification of some new FTAs (RCEP, CPTPP, EVFTA) may strengthen investors' confidence in Vietnam. To that extent, commitments on macroeconomic stabilization and economic restructuring are crucial, yet not enough. Vietnam needs more on the ability to monitor the flows of capital and commodities into Vietnam, and a flexible and pragmatic approach in economic relations with key partners.

[41] EIU forecast (on 19 September 2018).
[42] EIU forecast (on 19 September 2018).

III. SELECTED ECONOMIC ISSUES

1. FDI's spillover effect on domestic enterprises

79. After over 30 years of presence in Vietnam, FDI has been affirming its role as an important additional capital source for economic development, accounting for about 25% of total investment, greatly contributing to maintaining high rate of economic growth and accounting for about 19% GDP. In 2017, FDI sector's contribution was nearly USD 8 billion, accounting for 14.4% of total budget revenue. About 58% of registered FDI capital was concentrated in processing and manufacturing sector, generating 50% of industrial production value and contributing to the establishment and development of some key industries in the economy such as oil and gas, electronics and telecommunications. The accumulated implemented FDI capital up to the end of June 2018 is estimated to reach USD 180.7 billion, equivalent to about 56% of the total registered FDI capital.

80. Another important contribution of the FDI capital source is to create a technological spill-over effect and contribute to improved technology level through technology transfer as well as managerial skill transfer to Vietnamese people, creation of higher competitive pressure for domestic enterprises to renovate technology, ultimately helping raise labor productivity. This section focuses on analyzing the current status of technology renovation and transfer through FDI channel and shortcomings related to legal framework, especially policies that affect technology spill-over efficiency; on that basis, the section makes some policy recommendations.

Real situation of FDI's spillover effect on domestic enterprises

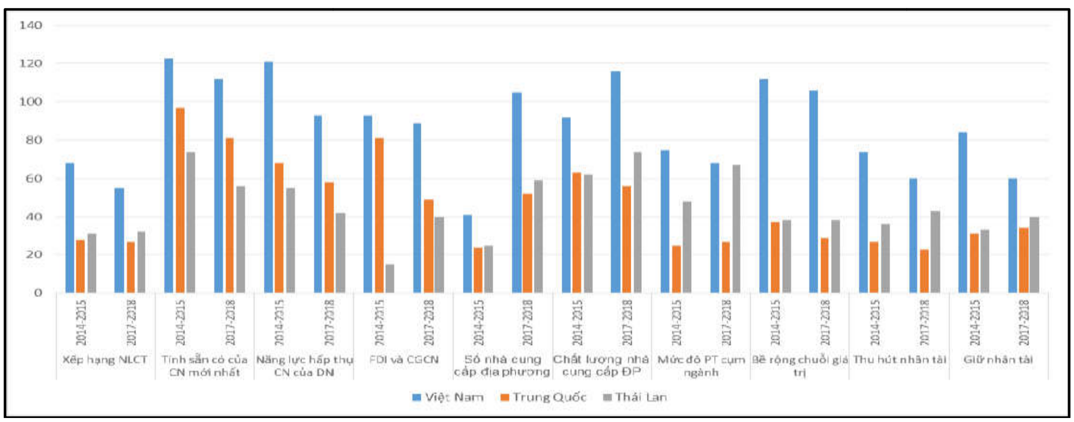
81. FDI's spill-over effect is often assessed by using 4 basic channels, including: (i) effect through input-output interactions between FDI enterprises and domestic ones based on forward linkage[43] and/or backward linkage[44]; (ii) effect through technology diffusion and transfer between FDI enterprises and domestic ones; (iii) effect through learning and applying efficient management methods that lead to higher competitiveness; and (iv) effect through improving labors' qualification along with being trained or learning knowledge and skills from FDI enterprises. Through any of the afore-mentioned channels, all FDI recipient countries want to raise the labor productivity of domestic enterprises and create spill-over effect through technology transfer. In reality, most developing countries have policies to encourage technology transfer from FDI sector to domestic one in order to improve technological capacity and competitiveness

82. According to some quantitative researches, FDI into Vietnam has created a positive spill-over effect on technology renovation and transfer, helping improve labor productivity of domestic enterprises (Carol et al, 2015; Nguyen Thi Tue Anh et al, 2015; Trinh Minh Tam 2016; Pham The Anh 2018).

[43] Forward linkage.
[44] Forward linkage.

However, the positive effect is still low. It is mostly due to improved competitiveness, learning, and purchase of machines along with technology transfer. Spill-over effect through domestic enterprises' engagement in production linkage and supply-chain is still weak. This is a basic reason that lead to shortcomings in taking advantage of spill-over effect from FDI sector. Furthermore, the reality shows that FDI projects mostly focus on assembling and processing activities with low localization ratio and low value added created in Vietnam. Despite large amount of FDI inflows with increased rate of disbursement, the number of domestic enterprises engaging in value-chains of FDI enterprises is small; as a result, technology spill-over effect from FDI enterprises to domestic ones is much lower than the potential and do not meet with the development demand of the country in the coming time. According to World Economic Forum (WEF), some of Vietnam's indicators on technology spill-over and transfer from FDI sector were improved during the 2014-2017 period. However, Vietnam's rank is still low compared with such countries in the region as China and Thailand. It is worrying that Vietnam is lagging behind in indicators such as quality of local suppliers, availability of latest technologies and domestic enterprises' capacity to absorb technology.

Figure 36: Comparison in some indicators on FDI spill-over effect



Source: WEF (2014, 2017).

83. FDI's spill-over effect in some sectors such as information technology - telecommunications, oil and gas, finance - banking, etc. is derived from rather rapid technological innovation of domestic enterprises. In other sectors, outdated technologies is currently a barrier to production linkage and spill-over effect absorption. According to Department of Science and Technology (Ministry of Industry and Trade - MoIT)[45], most domestic enterprises still use outdated technologies which are lagging behind about 2-3 generations compared with the world average level. Despite accounting for one-third of total number of enterprises, the industrial sector saw less than 20% of its enterprises having advanced technologies (mostly being FDI enterprises).

Current status of innovation, technology transfer and production linkage through FDI channel

[45] Source: http://congthuong.vn/thuc-day-doi-moi-chuyen-giao-cong-nghe-105468.html

84. Vietnam's rank in technology and creative renovation is still low despite some improvements. According to Global Competitiveness Report 2017-2018 of WEF, Vietnam ranks 55th out of 137 countries. Nevertheless, group of indicators showing long-lasting weaknesses of Vietnam with low ranks and small improvements in recent years include enterprises' creative innovation capacity (ranked 79th), quality of scientific researches (ranked 90th), availability of experts and engineers (ranked 78th), quantity and quality of local suppliers (ranked 105th and 116th respectively), and width of value-chain (ranked 106th).

85. A report on readiness for production base in the future published recently by WEF shows that out of 100 assessed countries, Vietnam belongs to a group of countries that are not ready for production base in the future: particularly factors like human resources development and technology creative renovation have low scores. In particular:

- Vietnam only ranked 70th out of 100 in terms of human resource, in which indicators on labors with high qualification and quality of universities ranked 81st/100 and 75th/100 respectively; and
- Vietnam only ranked 90th/100 in technology and creative renovation; in details, it ranked 92nd/100 in technology platform[46] and 77th/100 in creative capacity.

86. In South-East Asia, Vietnam ranks behind Malaysia (23/100 in technology and creative renovation and 21/100 in human resource), Thailand (41/100 in technology and creative renovation and 53/100 in human resource) and Philippines (59/100 in technology and creative renovation and 66/100 in human resource). Vietnam's rank is almost the same as Cambodia (ranked 83/100 and 86/100 respectively).

87. Pace of innovation presents another weakness of Vietnam. Global Competitiveness Index 2017-2018 shows that Vietnam's technological readiness was ranked 71/137, far behind Singapore (ranked 14/137) and Thailand (ranked 60/137). Of which, component indicators on Technology availability, Capacity to absorb technology at enterprise level and technology transfer from FDI enterprises were ranked 112nd, 93rd and 89th respectively. Imports of outdated, non-uniform and inefficient equipment and technologies still exist. According to the result of Survey "Technology and competitiveness in processing and manufacturing sector in the 2009-2012 period"[47], only about 11% of enterprises invested in development of new technologies. A survey by GSO (2014) also shows that the number of enterprises engaged in research and development (R&D) activities is modest (only accounting for 6.23%). This situation shows that Vietnam needs to build a favorable climate as well as new institutions and policies for the business community in order to push up the process of technology and creative renovation, thus promoting the transformation of growth model in Vietnam.

[46] Technology platform.

[47] Jointly implemented by GSO and Central Institute for Economic Management (CIEM).

88. A research by the World Bank (2017) also shows that Vietnamese enterprises, in comparison to ones in the region, are trying to improve products and production procedures but they rarely introduce new products with total new functions compared with existing products on the market. Many enterprises say that they have invested in R&D but the average ratio of expenditure in total revenue is still much lower than that of most South East Asia countries and only few enterprises in Vietnam invests in production know-hows with granted licenses/patents in order to implement creative renovation. About 23% of Vietnamese enterprises say they have introduced a new product or service or have made remarkable improvement in their products in the last three years. Meanwhile, the ratio is over 30% in Cambodia and Philippines; but the ratio is much lower in Thailand, Lao PDR and Malaysia (Figure 38). For new products introduced by Vietnamese enterprises, the most important characteristic is quality improvement. It is noted that product innovation in Vietnam often aims at cost reduction, not focusing on introduction of totally new functions (Figure 37).

Figure 37: Product innovation

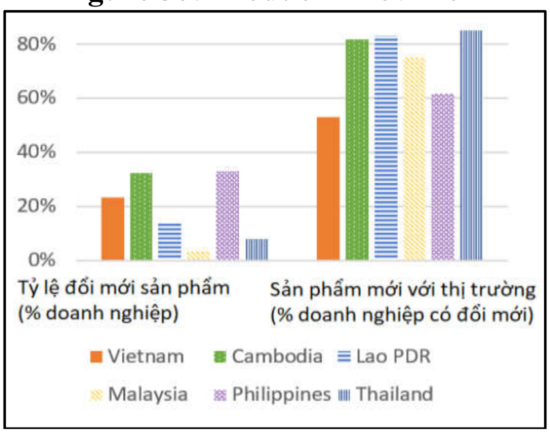
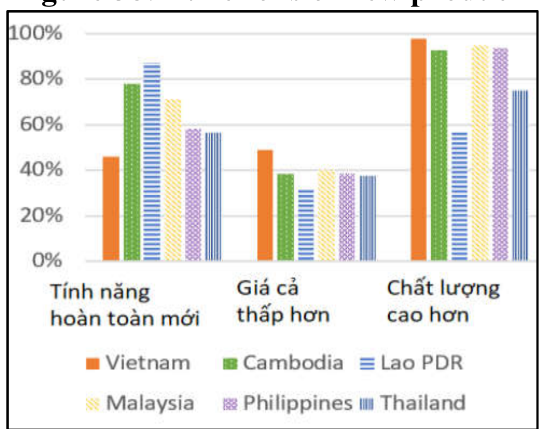


Figure 38: Functions of new product



Source: The World Bank (2017).

89. The number of technology transfer contracts in Vietnam is still limited. According to a report released by Ministry of Science and Technology[48], out of technology transfer contracts approved, 63% were implemented in industrial sector, 26% in agricultural product and food processing sector; and 11% in medicine and cosmetics sector. According to FDI Enterprises Association (2015), most of technology transfer contracts take the form of technology transferred from a parent company to its subsidiary companies operating in Vietnam. No contract implementation relates to technology transferred from a FDI enterprise to a domestic one. Survey on "Competitiveness and technology at enterprise level in Vietnam in the 2010-2014 period" by CIEM (2015) shows that about 80% of technology transfer activities occurs between domestic enterprises, only 20% are related to technology transfer from FDI enterprises to domestic ones (both in the same sector or in different sectors).

90. In reality, competitiveness of Vietnamese products in international markets is still limited because most technologies used in FDI projects have already been

48 Source: https://dotatest.vn/thuc-trang-va-giai-phap-chuyen-giao-cong-nghe-o-viet-nam/

used widely in the originating country. Advanced and modern technologies transferred into Vietnam accounts for a very low ratio. Results of many surveys on FDI enterprises show that various machines and technologies imported into Vietnam are not new ones or even have fully depreciated; and Vietnamese labors are only engaged in simple phases. As of now, only 5% of FDI enterprises has transferred high technology while 15% of transferred technologies are outdated ones which require simple labors. Overall, technology transfer from FDI sector to domestic enterprises is not compatible with its role and potential.

91. Following are some reasons for limitations in technology transfer from FDI enterprises:

- The fact that environment for technology transfer activities is not favorable; efficiency of implementing regulations on technology transfer is limited; and procedure on verifying technologies has many shortcomings has led to over-pricing of transferred technologies, causing both immediate and long-term losses for Vietnam.
- Development investment in science and technology is still dispersed, lack of focus; investment has not been attracted into R&D; thus, development investment does not contribute adequately to technological capacity improvement for domestic enterprises in order to improve linkage capacity with FDI enterprises.
- There has been no efficient approach as well as a comprehensive and long-term strategy for technology transfer from FDI enterprises.
- Vietnamese enterprises' ability to absorb technologies is still weak and technology gap has a negative impact on technology spill-over effect from FDI enterprises to domestic ones. Even though FDI enterprises' technology quality is relatively low, it is in general higher or equal to domestic advanced technologies. Meanwhile, the bigger technology gap is, the more limited efficiency of receiving, absorbing and copying new techniques and technologies is. As a result, in order to maximize positive impacts of FDI enterprises' technology spill-over effect, attention should be paid to measures to reduce technology gap between domestic enterprises and FDI ones.
- Vietnam still face with limitations in accessing high-quality FDI capital flows or counterparts holding source technologies. The ratio of counterparts coming from countries with source technologies is low. Up to the end of 2015, out of the total FDI registered capital in Vietnam, investors from countries holding source technologies like US, Japan, EU only account for a modest share of over 15% while other investors, mainly coming from the East Asia, account for nearly 75%.
- Lack of linkage between FDI enterprises and domestic ones. The World Bank (2017) assesses that Vietnamese small and medium-sized enterprises mainly belong to the third tier which join in producing simple material inputs with low value added. Vietnamese supporting industry is weak with

low localization rate. In the supply chain of Japanese enterprises, Vietnamese localization rate is much lower than other neighboring countries[49]. Japanese enterprises' localization rate in Vietnam was only 32.1% in 2015 while this rate in Malaysia was 36%, in Indonesia 40.5%, in Thailand 55.5% and in China 64.7%. Trade associations has not brought their role into play in connecting enterprises in order to create background for the development of supporting industry at a larger scale. In addition, linkage between enterprises in supporting industry with training and research institutions is loose, making it very difficult to form sectoral linkage clusters.

92. A joint study by MPI and World Bank (2018) shows that useful linkage between FDI enterprises and domestic ones is still loose, especially linkage with big and efficient corporations such as Samsung in order to supply goods for the world market. Most linkages between FDI enterprises and domestic ones are related to supply of inputs with low value added such as materials or packages. This report also presents a point of view that attention should be paid to the group of efficient FDI investors because of their potential in improving capacity of Vietnamese industry sector and pushing up the development of supporting industry sector with international competitiveness.

Some policy issues

93. Together with presence of FDI in the last over 30 years, legal framework for attracting FDI as well as improving FDI efficiency has been much improved by issuing many policies to push up FDI's spill-over effect. However, policies related to innovation and technology transfer as well as linkage between FDI enterprises and domestic ones still have many noteworthy shortcomings, including:

- *First*, incentive policies for technology transfer have been slowly implemented with inconsistent and low effective implementation, thus hindering and slowing technology transfer activities and FDI's spill-over effect. A good example is that according to Law on Foreign Investment 1987, technology transfer is considered as an important goal of policies on foreign investment. But until 1990, the first ordinance on technology transfer was issued. Some other examples are Decree No. 11/2005/ND-CP on technology transfer, Law on technology transfer 2006, Investment Laws in 2005 and 2014. Despite more preferences for technology transfer activities put forward, their effectiveness is not clear and their enforcement is weak. As a result, technology transfer has not received due attention by FDI enterprises.
- *Second*, the system of tax incentives and allowances for targeted FDI sectors and domains is not efficient. Based on common incentives for FDI attraction, some tax incentives have been issued by the Government in order to induce FDI by different criteria: location, economic sector, high tech

[49] Source: http://ndh.vn/ti-le-noi-dia-hoa-cua-cac-doanh-nghiep-nhat-tai-viet-nam-thua-thai-lan-kem-xa-trung-quoc-20160330100241548p145c153.news

zone; high tech sector, scientific researches for technology development, investment for development of specially important infrastructures, software production, education and training sector, environment, etc. In which, enterprises investing in high tech sector shall receive highest incentives (enterprise income tax rate of 10% in 15 years, tax exemption in the first 4 years and tax reduction of 50% in 9 subsequent years) if they satisfy criteria set by the Government. However, this policy has limited impacts on investment resource allocation. It is very hard to attract investment in areas facing difficult socio-economic conditions. Moreover, subjects prioritized in law documents have not been clearly defined so that tax incentives and allowances may not be used for the right subjects. As an example, the Law on Corporate Income Tax stipulates that tax incentives are applicable to "high tech sector such as electronics" but it has no clear definition of what high technology is, just based on the name of sector group. As a result, "electronic assembly" is also considered as a prioritized sector and receives incentives.

- *Third*, polices on promoting R&D activities has not been brought into play. Despite building, issuing and amending many legal documents in order to promote R&D activities[50], the efficiency is limited because of loose management mechanism and weak enforcement. Besides, operation mechanism of science and technology fund is not clearly defined, causing many difficulties for enterprises in accessing and preparing funds themselves; as a result, they are not eager to invest in R&D. There are also many reasons related to human resource, research documentation, laboratory, cooperation among research institutions, universities and enterprises, etc.
- *Fourth*, the system of policies on promoting linkages between enterprises inside and outside the country has various limitations. Although the Government has paid more attention to fostering linkages among enterprises inside and outside the country through linkage programs, regulations on localization rate, infrastructure development and policies on labor movement and human resource training, delays in building and implementing policies has caused many limitations. A visible problem is the lack of integration of preferential policies on attracting FDI into the policy of supporting industry development. FDI enterprises themselves also have to import parts, leading to increased cost. As a consequence, Vietnam is more and more dependent on imported inputs and become more exposed to shocks that can negatively affect its enterprises' prices and competitiveness.
- *Fifth*, policies on human resource development has not paid enough attention to the goal of creating linkages between FDI enterprises and domestic ones. Training activities focus too much on quantity, not quality.

[50] Law on Science and Technology 2000 that was amended in 2013 and 2014; decrees guiding the implementation of law such as Decree No. 08/2014 on establishment of science and technology institutions; Decree No. 95/2014 on investment and financial mechanism for science and technology activities, etc.

According to Vietnam Development Report2014, enterprises face with many difficulties in recruitment because applicants lack due skills or there is shortage of labors in some business sectors. Meanwhile the economy lacks high-level labors in many sectors such as design, personnel management, high-ranking enterprise leaders, lawyer, environmental science, information technology engineer, bio-technology, electronics, mechanic, etc., graduates mainly specialize in finance and banking, accounting or law, etc. Furthermore, Vietnam face with serious lack of qualified technical workers in order to increase productivity and competitiveness because most of high school graduates want to pursue tertiary education.

94. In some sectors, there have been some successful models on enterprise linkage with the engagement of multinational corporations but these models mostly focus on supplying material inputs and processing activities (Unilever Vietnam and Samsung Vietnam as typical ones). Also, these models are rare. The main reason is that domestic enterprises are unable to implement linkage programs. The depth of linkage and spill-over effect was not only constrainedby Vietnam's incompatible technology level but also depended upon business lines and business strategies of FDI enterprises operating in Vietnam. In addition, joint training and research programs between FDI enterprises and domestic training and research centers and universities is weak, while supporting mechanisms from the Government are inadequate.

Some solutions to enhance FDI's spill-over effect

95. The above-mentioned assessments show that Vietnam has acquired many encouraging outcomes in attracting FDI, thus creating a positive technology spill-over effect and increasing productivity of domestic enterprises. However, degree of spill-over effect is still low and not compatible with the potential and expectations of attracting FDI selectively and efficiently. Accordingly, two following basic policy solution groups should be considered for implementation:

First, implementing policy group on adjusting and finalizing FDI policy contents towards pushing up FDI's spill-over effect on domestic enterprises

- Reviewing FDI policies related to financial incentives, adjusting way of giving incentives and implementing policies in a comprehensive and consistent way all over the country. Following the principle of granting financial incentives in a selective, conditional and suitable manner. Financial incentives should be focused to avoid dispersion. Incentives should be stable for a certain term, based on specific criteria, with clear information on agencies approving incentives and transparency so that relevant parties can understand and implement in a consistent way all over the country. They should also be accompanied with performance requirements. On this basis, adjusting and specifying areas which are prioritized in attracting FDI with investment incentives. The two most important criteria to identify scope of attracting FDI are FDI's effects on: (i) increasing competitiveness of products; and (ii) having a positive spill-over effect on domestic enterprises and contributing to improved competitiveness of the whole economy.

- Adjusting policies on the development of industrial parks towards giving priority to sector industrial clusters, creating favorable conditions for production linkage between FDI enterprises and domestic ones, thus creating relationship on production supply among industrial parks and improving FDI efficiency. Supplementing the goal of developing these parks into sector industrial clusters and adjusting investment promotion goals with priority given to big investors with capacity and ability to cooperate with domestic enterprises as well as use inputs provided by domestic enterprises and vice versa. At the same time, focusing on implementing supporting policies on forming and developing science and technology enterprises, technology incubators and science and technology enterprises incubators in industry sector. Actively mobilizing investment capital sources; carrying out in-depth investment; using efficiently science and technology development funds of corporations and groups for science and technology activities.
- Noteworthy aspects of incentives in order to increase FDI's technology spill-over effect include: (i) For sectors/domains encouraged to attract FDI: In production sector, FDI should not be attracted into mining sectors. Sectors given incentives to attract FDI include: high-technology sectors compatible with development level of Vietnam; sectors using less energy and being environment friendly; safe food processing sector that use many domestic inputs; and supporting industries of which products are used for sectors given priority in attracting investment; (ii) Encouragement by activity: adjusting and focusing on attracting FDI for implementing R&D activities, technology transfer and vocational training activities. These activities are capital and knowledge-intensive and serve the transformation of growth model in line with economic structuring. As a result, projects with such activities should be given priority; (iii) Encouragement by product: priority should be paid to projects creating products with high value added, energy-saving products, environmental protection equipment, products that use many domestic inputs, capital and knowledge-intensive products (due to advantages of FDI sector compared with domestic one); and (iv) Encouragement by capacity of investor: In pursuit of set goal of adjusting FDI policy, it is very necessary to encourage and attract investors with sufficient capability instead of accepting all kinds of investors. It is noted that selection of investors with sufficient capability is compatible with implementation of sustainable foreign investment mechanism with economic, social and environmental "harmony".

Second, implementing group of solutions to help domestic enterprise join in value chains of FDI enterprises

- Giving supports in term of information and creating favorable conditions for cooperation between FDI enterprises and domestic ones as well as making greater use of enterprise associations and trade associations.

- Giving supports in improving technology capacity of domestic enterprises; thus, opening more opportunities for them to engage in production networks of FDI enterprises. Reviewing financial policies and non-financial policies that support enterprises in renovating existing technology in order to increase their ability in absorbing and applying more modern technologies; meeting new requirements and opening more opportunities for them to join in production linkages with FDI enterprises. Building centers for business and technology training as well as centers for giving technical supports for SMEs; building database of Vietnamese enterprises operating in domestic supporting industry and granting incentives for supporting industry (in term of capital, human resource development, information and opportunities of joining in product exhibitions).
- Researching and building criteria on "production linkage with domestic enterprises" in order to assess and consider projects as ones prioritized in attracting FDI. Therefore, projects with commitments on production linkage and technology transfer with domestic enterprises will receive more priorities. Horizontal linkage model with big FDI enterprises acting as a pillar will create spill-over effect (e.g. through regulations on technology transfer, mutual learning through buy and sell contracts, etc.) and attract domestic enterprises to engage in value chains (through both pull and push effects).
- Giving supports to improve human resource quality of enterprises. Reviewing and assessing capacity of vocational training units. Changing training programs with special priority given to sectors encouraged to develop and increasing time of practicing. Encouraging the application of 3-party linkage training model (enterprises - institutions and schools/universities - state management agencies) in order to train highly skilled human resources to meet with enterprises' requirements. Closely cooperating with foreign trusted training organizations and units in order to train qualified human resources. Building programs to support labors in obtaining international professional skill certificates. Encouraging and facilitating economic groups and enterprises inside and outside the country in actively engaging in the process of training technical labor force.

2. Mid-term assessment of the Plan on restructuring the economy in the 2016-2020 period

96. The Plan on restructuring the economy in the 2016-2020 period was issued by the National Assembly on 8 November 2016 in the Resolution 24/2016/QH14 which puts forward 5 pillars on restructuring the economy with 22 indicators to be fulfilled before 2020. After that, the Government issued Resolution No. 27/NQ-CP dated 21 February 2017 on the Government's action plan on restructuring the economy.

Current situation of implementing tasks on restructuring the economy and ability to fulfill set goals of restructuring the economy up to 2020

Weaknesses in organizing the implementation of guidelines and policies on restructuring the economy have been basically overcome

97. Assessing reasons for shortcomings related to restructuring the economy in the 2010-2015 period, the Resolution No. 14 of the National Assembly stresses that "*the organization of implementing guidelines and policies on restructuring the economy is still passive, slow and inefficient with lack of coordination among levels, branches and localities, partly due to local interest and term-based mindset*".The Government has drastically given directions to ministries, sectors and localities so that they can understand and implement guidelines and policies on restructuring the economy and renovating growth model; thus, most of shortcomings related to organization of implementation have been overcome.

98. The Government quickly issued Resolution No. 27, in which 16 big missions and polices with 120 specific tasks in order to push up the restructuring the economy and shifting growth paradigm have been assigned to ministries, sectors and localities for implementation. The Prime Minister has established National Steering Committee on restructuring the economy in associated with shifting growth paradigm, of which the Prime Minister acting as the Head, a Deputy Prime Minister acting as the first Deputy Head. This Committee's function is to give recommendations and coordinate with ministries, ministerial-level agencies, governmental-affiliated agencies and localities in implementing the economy restructuring and renovating growth model[51].

99. In general, ministries, sectors and localities has strictly implemented guidelines and policies on restructuring the economy and shifting growth paradigm. Most of 120 tasks have been implemented on time with results at several levels. According to a tentative assessment, 25.8% of the tasks has been fulfilled with clear results, 57.5% of the tasks are being implemented with initial results, and 16.7% of the tasks has been implemented but failed to meet with time requirements.

100. There have been positive changes in mindset with strong determination and specific actions in building and guiding the implementation of Plan on restructuring the economy. Policies and measures have focused on core issues of restructuring the economy; developing private sector; restructuring economic sectors. Drastic actions have been implemented along with close eyes on administrative procedure reform (reducing business conditions and specialized inspection).

Many indicators of restructuring the economy by 2020 will be fulfilled on time

101. Assessing the results of implementing 22 groups of targets set out in Resolution No. 24 for the 2016-2020 period shows that, in comparison with targets up to 2020, 9 indicators have been fulfilled; 8 indicators will be fulfilled; and 5 indicators requires solutions to be fulfilled (see Annex 3). As such, up to now, 77% of targets have been fulfilled or will be fulfilled.

[51]Decision No. 1668/QD-TTg dated 31 October 2017 on the establishment of National Steering Board on restructuring the economy and renovating growth model.

102. Out of the 5 groups of targets in Resolution No. 24, the 4 groups related to restructuring State budget and public investment, improving growth quality, restructuring credit institutions and financial markets have had positive results; as a result, set goals on restructuring by 2020 will be potentially fulfilled.

103. The fifth group of targets on restructuring SOEs and developing enterprises and cooperatives will be hardly reached without measures to accelerate the implementation process. On enterprise development, the goal of having 1 million enterprises by 2020 will be hardly reached, especially when enterprise development still faces with some potential risks and there is a sharp rise in the number of enterprises waiting for being dissolved and bankrupted during the first 9 months of 2018. On restructuring SOEs, up to July 2018, ministries, sectors and localities have just divested capital in 30 out of 316 enterprises which are planned for 2017 and 2018. In the coming time, capital divestment should be implemented prudentially, not only ensuring exact and sufficient calculation of state capital in SOEs but also in line with the context of improvingaggregate balances of the economy and regulating monetary policy in a flexible manner in order to control inflation. The plan on using capital divested from SOEs is not specific and do not focus on national important works which can motivate the economy.

104. Generally speaking, the process of restructuring the economy has closely followed guidelines mentioned in Resolution No. 05 and Resolution No. 24 of the Party and the National Assembly, respectively, not only focusing on solving promptly shortcomings of the previous period of restructuring the economy but also shifting gradually from growth paradigm relying on investment and export to another relying on both investment, export and domestic market.

105. However, organization and supervision on the implementation of missions on restructuring the economy in the coming phase should be continuously noticed and renovated in order to create countrywide spill-over effect related to institutional reform and restructuring the economy. Thus, ministries, sectors and localities must be more active and drastic in recommending and implementing policies on restructuring the economy to facilitate enterprises and people in doing investment and business activities.

Achievements and main shortcomings in implementing the Plan on restructuring the economy in the 2016-2020 period

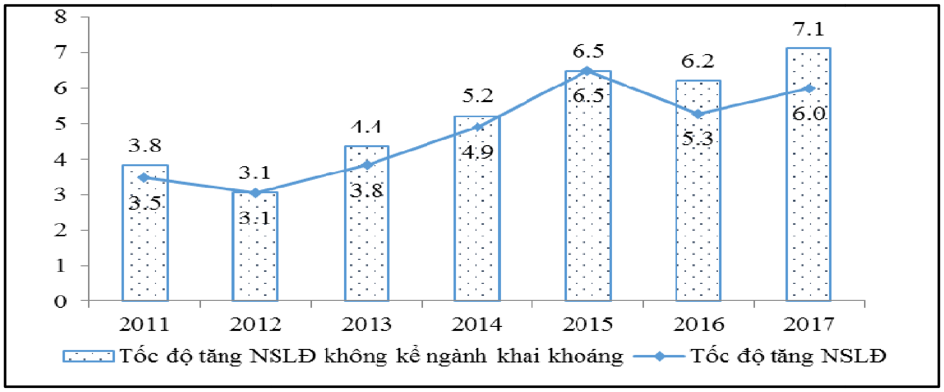
Main achievements

Growth paradigm has initially shifted positively

106. Growth paradigm has initially shifted positively, contributing to fulfilling the double goals of maintaining macro-economic stabilization, controlling inflation and promoting GDP growth, creating more space for ensuring social security, creating jobs, raising people’s income and life quality, solving urgent issues, strengthening national defense, and maintaining social safety and order.

107. Economic growth quality has been clearly improved. Labor productivity has witnessed remarkable improvement year by year. Vietnam has witnessed the highest rate of labor productivity growth in ASEAN[52]. On average, during the 2016-2018 period, labor productivity increased by 5.62%/year, higher than the rate of 4.3%/year in the 2011-2015 period; thus, the target has been reached (increased by over 5.5%).

Figure 39: Growth rate of labor productivity in the 2011-2017 period (%)



108. The economy has gradually shifted to a growth model with increasing contribution of Total Factor Productivity (TFP) growth to overall economic growth and improved investment efficiency. In the 2016-2018 period, contribution of TFP to economic growth has increased remarkably, reaching 42.18%, higher than the ratio of 33.58% in the 2011-2015 period and the set goal for the 2016-2020 period (contribution of TFP to economic growth reaching about 30-35%)[53]. Investment efficiency has improved with ICOR decreasing to 6.42 in 2016 and 6.11 in 2017. Thus, economic growth has been largely contributed by higher labor productivity and remarkably improved TFP.

109. Economic structure has changed towards increasingshare of processing and manufacturing industry and smaller share of mining industry. Since 2016, the share of processing and manufacturing industry in GDP has surpassed the share of agriculture-forestry-aquaculture sector; meanwhile, the share of mining and quarrying decreased sharply: the share of processing and manufacturing in GDP increased from an average of 14.6% in the 2011-2015 period to 16.2% in 2016, 17.4% in 2017 and 18.8% in the first 6 months of 2018; the share of mining and quarrying decreased from an average of 8.8% in the 2011-2015 period to 7.6% in 2016, 6.6% in 2017 and 6.0% in the first 6 months of 2018.

110. Energy consumption coefficient has been significantly improved; development of clean energy and renewable energy have been pushed up. Electricity loss ratio during the process of transmission and distribution in 2015 was 7.7%, much lower than the planned targets of 8% by 2015 and less than 8% in 2020.

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[52] In total, from 2008 to 2017, Vietnam's labor productivity in term of purchasing power parity of 2011 (PPP 2011) increased by 4% per annum on average, higher than the average rate of Singapore (0.9% p.a.); Malaysia (1.1% p.a.); Thailand (2.6% p.a.); Philippines (3.3% p.a.); and Indonesia (3.4% p.a.).

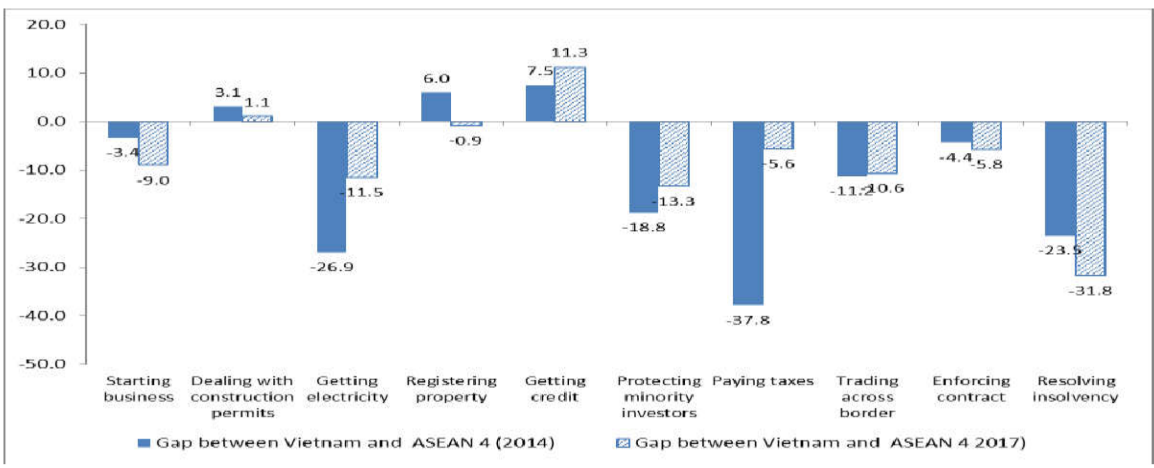
[53] Contribution of TFP reached 40.68% in 2016; 45.19% in 2017; and 40.23% in 2018 (estimated).

Economic growth potential has been strengthened with resilience to external shocks.

111. Vietnam's ranks in many important international ranking tables on business and investment climate have been improved.

- *Improved national credit rating.* Fitch's credit rating for Vietnam was increased from B+ in the 2011-2013 period to BB- in the 2014-2017 period and BB in the first half of 2018 and Moody's credit rating for Vietnam was increased from B2 in the 2012-2013 period to B1 in the 2014-2017 period and Ba3 in the first half of 2018.
- Vietnam's rank in business climate and national competitiveness has remarkably improved during the 2016-2018 period compared with the 2011-2015 period, helping narrow the gap on business climate between Vietnam and ASEAN -4 countries in many aspects such as starting a business, getting electricity, paying taxes. The score gap on WEF's Global Competitiveness Index (CGI) between Vietnam and average ASEAN-4 countries was reduced from 0.9 in 2014-2015 to 0.6 in 2017-2018.

Figure 40:Gap in Business Climate Index between Vietnam and ASEAN-4



Source: CIEM.

112. Financial soundness has been strengthened with improved resiliencetoexternal shocks. Controlled inflation; reduced pressure on public debt and annual debt payment; strengthened financial infrastructures; rapid developing private sector; and higher market confidence[54] have contributed to:

- Creating preconditions for higher economic growth. Average GDP growth rate is estimated to reach 6.62% in the 2016-2018 period and is forecast to reach about 6.70% during the 2016-2020 period.

[54] Inflation is contained under 4%; public debt ratio to GDP is reduced to 61.3% (or 58.5% if using IMF's data). Average maturity of Government bond increased from about 3 years (2012) to 13.8 years in 2017; ratio of non-performing loans reduced to 2.18%; ratio of capital supplied by capital market for the economy increased from 21.6% in 2012 to 33.4% in 2017 (Source: NFSC); PMI index increased sharply and reached around 52-52%, higher than the levels of 48.1% in 2012 and 51.5% in 2015; Moody's and Fitch Rating's credit ratings was raised by 2 levels since 2012

- Higher resilience of the economy to external shocks[55].The economy has been stable even in the recent context of strong depreciation of CNY and global financial volatility.[56]

Main shortcomings and challenges

113. *Restructuring the economy has not made strong progress in finalizing market economic institutions.* Improvement of business climate has mainly come from improvement in market entry conditions. Ecosystem for supporting and nurturing enterprises' development, especially private ones, has not gained much progress. Private sector, especially SMEs, is still at disadvantaged position during the process of allocating tangible resources compared to SOEs and FDI enterprises. Shortcomings related to land and asset right institutions including guaranteed transaction, dealing with collateral assets, bankruptcy procedures, etc. have been slowly handled. Land is a big bottle neck for agricultural development towards modernization. Improvement of institution quality in management of public investment has been slow, especially in supervising assets, ensuring transparency and managing PPP projects.[57] These are big barriers to the development of production forces.

114. *Growth model has not changed sustainably.* Higher labor productivity in recent times mainly comes from increase in capital intensity while contribution of TFP to labor productivity growth is still low and unsustainable. Resources, especially labor, capital and natural resources, have not been strongly shifted to areas and economic sectors with high labor productivity and efficiency.The economy continues to face with risk of falling into "middle income trap" and lagging behind in the context IR 4.0.

115. *Dependence on foreign-invested economic sector tends to increase.* The economy continues to have very high openness which is reflected by ratio of export and import/GDP. Investment capital of FDI sector accounted for 24% of total social investment capital in 2017; this sector accounted for about 71-72% of total export value in 2017, higher than the ratio of 68.5% in 2015[58].

Solutions to enhance restructuring the economy in the 2019-2020 period

Guidelines and orientations

116. Assessing impacts on the economy using quantitative method[59] shows that achieving targets on shifting resources and restructuring the economy will lead

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[55] Foreign exchange reserve reached about USD 63 billion by the end of April 2018, equivalent to 13 import weeks. It has increased remarkably in both absolute and proportional terms. Financial market has been strengthened and more sound; capital withdrawal from SOEs and banks' withdrawal of capital invested in stock market has been implemented more drastically; and stock companies have been re-organized.

[56] Up until now, CNY has been depreciated by about 10%; in the first 6 months of 2018, USD 19 billion of capital was withdrawn out of emerging Asia markets; however, Vietnam was only slightly affected.

[57] Source: CIEM.

[58] If excluding crude oil and electronics, growth rate of export value of domestic sector is higher, reflecting positive change of this sector.

[59] Using a structural macro-econometric model with data from 1990 to 2017. Detail results presented in Annex 3 of the synthesized report

to big progress in economic growth rate and growth quality of the economy in 2019-2020 and subsequent years.

117. In the 2019-2020 period, it is needed to continuously step up drastic and efficient implementation of policies and missions of restructuring the economy and changing growth model. It must be considered as the first priority in the issues of governance of the Government, ministries, sectors and localities. Fulfillment of targets on restructuring the economy will be the most important motivation for maintaining high and sustainable growth rate in the 2020-2025 period.

118. Based on viewpoints on restructuring the economy in the 2016-2020 as presented in Resolution No. 24 and current situation of restructuring the economy during the 2016-2018 period, main targets of restructuring the economy in the 2018-2020 period include:

- More robust macro-economic stability;
- Higher growth rate of labor productivity with innovation acting as a key driver of growth;
- Accelerating private sector's economic growth; increasing ratio of domestic economic sector in GDP; and reducing dependence on external market; and
- Letting market mechanism play a more important role in mobilizing, allocating and using resources for development, especially land, capital and labor resources.

Solutions to be implemented in the 2019-2020 period

Solutions on implementation organization

119. On the basis of Decision No. 1688/QD-TTg dated 31 October 2017 of the Prime Minister on the establishment of National Steering Committee on restructuring the economy and shifting growth paradigm, the Government will continue to closely and drastically monitor, speed up and guide the organization of implementing strongly and efficiently missions on restructuring the economy by ministries, sectors and localities. The Government has assigned the Ministry of Planning and Investment to build and submit Framework of indicators for supervising and assessing the process of restructuring the economy and renovating growth model in order to closely monitor, assess and guide this process.

Identifying priorities in restructuring the economy in the coming phase

120. On the basis of implementation progress and ability to fulfill goals on shifting growth paradigm and restructuring the economy up to 2020, the Government should urge, guide and push up the implementation of tasks and solutions on restructuring the economy stipulated in Resolution No. 05, Resolution No. 24 and Resolution No.27 of the Government. Of which, main tasks on restructuring the economy in 2019-2020 include:

- Continuously guiding and finalizing market economic institutions to facilitate the process of restructuring the economy.Studying and issuing policies to reduce burdens on people and enterprises, especially private ones. Studying and early issuing policies to reduce reasonably and strongly taxes and fees for enterprises, especially SMEs.

- Building efficient competitive markets based on two pillars: (i) More efficient resource distribution based on facilitating and supporting the development of domestic private sector; (ii) Institutional reform related to property rights with short-term focus on such aspects as: resolving insolvency, registering property; and dealing with banking collateral assets.
- Reviewing and finalizing laws on land management in order to encourage and facilitate land accumulation; developing market for land-use rights.
- Building development policies and identifying goals of increasing productivity and efficiency of industry, agriculture and service sectors.
- Finalizing institutions for public investment management to ensure efficiency in line with international practices with priority given to renewing ways of verifying, assessing and selecting investment projects. Concentrating public investment on key projects in association with priorities on restructuring the economy; paying highest priorities to developing infrastructures and strengthening position of regions acting as growth engines.
- Pushing up restructuring SOEs with concentration on equitization depth and speed and increasing level of management, publicity and transparency in managing SOEs.
- Pushing up restructuring credit institutions, dealing with NPLs, building capital market to ensure efficiency of financial intermediaries and balanced development of monetary market and capital market. Gradually reducing credit growth rate in line with GDP growth (credit growth rate reaching about 14-16% in 2020).
- Continuing to push up restructuring SOEs. Firmly guiding the implementation to reach the set goal of "current expenditure accounting for less than 64% of total budget expenditure"[60].
- Recommending and implementing solutions to push up restructuring the economy in the context of Industrial Revolution 4.0.

121. The Government's measures to strengthen stable economic base and facilitate the restructuring of the economy will be preconditions for afore-mentioned solution groups. Solutions include: Managing public debt towards ensuring safety and sustainability; governing actively and flexibly with effective coordination of monetary policy, fiscal policy and other policies, especially policies on regulating prices and fees managed by the State.

[60] Resolution No. 51/NQ-CP dated 19 June 2017.

IV. RECOMMENDATIONS

122. The first 9 months exhibited a clearer picture of the context of and socio-economic achievements in 2018. Economic growth did not decelerate over the quarters as initial concern. Aggregate balances of the economy are generally satisfactory. More importantly, Vietnam initially proved its capacity to respond to adverse shocks (related to exchange rate, interest rate, etc.) being transmitted from international market via international economic integration channels. These improvements are even more important, taken into consideration that the current context (domestic inflation pressure and the downturn risk of the global aggregate demand) is relatively similar to the end of Q3 and early Q4 of 2008 – though less worrisome.

123. The business environment showed some improvements which were highly recognized by business community, yet the improvements became less outstanding. The concern on losing momentum, even delaying business environment reforms, with the justification of focusing on macroeconomic stabilization and responses to adverse developments in the context of the China-US trade war, etc. should not be underestimated. Wiser and more pragmatic approach for the preparation for new FTAs is crucial, but inadequate perception on the role of these FTAs to accelerate institutional reforms may resulted in "the gap" between economic institutional reforms and international standards.

124. The China-US trade warmay still get more complicated. Effective responses to unfavorable impacts from the trade war in Q3 have strengthened business confidence on management capacity of the Government to certain extent. Though having benefited from many favorable factors in Q3, Vietnam cannot get complacent to reiterate the past responses in Q4. To update and seriously consider policy scenarios with the support from timely forecast/warnings remains an important foundation, which should be accompanied with "calmness" to avoid being excessively affected by overshooting in the financial market. To this extent, the mindset of "taking the role of the market" is virtually inappropriate, taken into consideration the vigorous entrepreneurship and flexibility of many enterprises recently despite unfavorable conditions in terms of export markets and exchange rate.

125. This report re-emphasizes the message of further strengthening microeconomic foundations and reforming economic institutions for a more friendly approach to innovation, together with effective risk mitigation in a rapidly changing international context. 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

126. Further concretize and implement Resolutions of the Party Central Committee on shifting economic growth paradigm and effective implementation of 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.

127. 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.

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

129. 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 rankings 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.

130. Proactively engage in exchanging and cooperating with partners to seek supports in ratifying new FTAs (CPTPP; EVFTA); on 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. Closely monitor and analyze new actions and attitudes of major economies to non-marketed economies to propose appropriate solutions.

131. 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 phase out 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.
    - Consider 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.

132. 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 by trading partners.

2. Recommendations on macroeconomic policies

133. Pay appropriate attention to evaluate cyclical pattern of economic growth and risks from external environment in Q4/2018 and in 2019. Reaffirm the priority to macroeconomic stabilization, flexibly utilize macroeconomic policies to respond to unfavorable developments of the regional and international economy.

   - Closely monitor the US – China trade warn and responses of major trade – investment partners; update studies and evaluate impacts and potential responses according to different detailed scenarios.

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

* *Monetary policy:*

135. Accelerate the promulgation of the national strategy on financial inclusion, making it easier for citizens and enterprises to access finance and reduce unlawful credit.

136. Examine and improve the policy framework for digital finance (including both digital bank and digital stock exchange) in order to identify suitable responses and management solutions for virtual money, e-money, digital money.

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

138. 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.

139. 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.

140. 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.

- 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.

141. 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:*

142. 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.

143. 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. Accelerate the reduction of budget deficit through increasing budget revenue by preventing losses of revenues.

144. Accelerate the reduction of recurrent 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 directly conducted by those under State payroll.

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

* *Trade policy*

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

147. 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.

148. Diversify export markets 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.

149. 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.

* *Price and wage policies*

150. 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. Disseminate information on not making price adjustment at the end of the year.
151. Consider, decide against raising regional minimum wage in 2019.

* *Investment policy*

152. 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.
153. Seriously re-examine the requirement on amending the Law on Public on Investment, in particular regulations and procedures deemed to affect the progress of public investment disbursement. Improve public investment appraisal and coordination – in terms of economic, environmental and social aspects – which is a crucial requirement till 2020. Promote the engagement of social groups in monitoring and supervising public investment projects.
154. Develop and promulgate feasible, detailed and measurable indicators to evaluate the efficiency of public investment projects, in particular those using government bond capital.
155. 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.
156. Concretize direction on FDI attraction in the new context. Encourage foreign investors with established presence in Vietnam.
157. 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

158. 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.
159. 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.
160. Prepare and develop the outline of the 2021-2030 socio-economic development strategy to submit to various levels and consult with peoples and enterprises.

161. Concretize the national industrial policy to provide fundamental guidelines for attracting investment from the private sector in general and from foreign investors in particular.

162. Evaluate and summarize experience in selling state capital in big enterprises, listed SOEs, selecting strategic investors and related issues (tax settlement, communication, competition assessment, etc.)./.

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APPENDIX

Appendix 1: Policy changes in the first 9 months of 2018

No.	Content	Policy changes until September 2018
1	Trade policy	*Trade policy supported integration and facilitated international trading activities.* 1. Directive 26 / CT-TTg 2018 accelerates international economic integration in a more efficient and effective way. Specifically: • Continue to strengthen integration, take advantage of globalization and industry 4.0 to create momentum for growth and economic development. • Integration is linked to innovation of growth model to enhance national competitiveness. • Capacity building for implementation of integration commitments. • Support enterprises in implementing commitments on international economic integration. 2. Decree No. 124/2018/ND-CP amending and supplementing a number of articles of Decree 63/2011 / ND-CP guiding the implementation of Commercial Arbitration Law. • Abolish some administrative procedures in the registration of arbitration centers and international representative offices. 3. Decision 1254/QD-TTg of the Prime Minister • Approving the ASEAN Single Window. Administrative procedures are implemented by the national one-stop shop. Commitment to implement the ASEAN roadmap. • Reform of specialized procedures and trade facilitation for the period 2018-2020. Ex-ante examinations shall be conducted only for goods affecting national security, social security, traditions and public health. Other goods are subjected to ex-post examination. 4. Official Letter 5329/TCHQ-TXNK 2018 introduces electronic tax and clearance system 24/7. 5. Decision 273 /QD-TCHQ promotes customs-business relations through information sharing and cooperation on common issues. *Trade policy paid more attention to using trade remedies and prevented goods affecting the environment, national security and social security.* 1. Official Letter 5528/TCHQ-TXNK on the application of self-defense and trade remedies on imported steel to Vietnam. 2. Directive 27/CT-TTg on urgent measures to enhance the management of import and use of discarded materials imported as raw materials for production. • To strengthen the verification of the certification of the entrusted units that import of discarded materials. Licensing only when the unit demonstrates the need and ability to use those materials. • To evaluate the domestic need to use discarded mat and make a list of discarded materials that are allowed to be imported and to prohibit materials that are likely to cause serious environmental pollution. Fast customs clearance for units that have enough certification.

		• To temporarily ban on the import - re-export - transit - transshipment of imported discarded materials. • To re-export containers taking advantage as importing discarded materials to ship waste and garbage into Vietnam. • To enhance research and development of trade remedies on discarded materials imported to Vietnam.
2	Investment policy	*Investment policy tried to attract FDI with more focus, prioritizing to remove difficulties for selected and licensed enterprises. In addition, online bidding selection was applied to save time on bidding submission and approval.* 1. Official Letter No. 8145/BKHDT-DTNN on guiding the development of the investment promotion program in 2018. • To Direct FDI attraction for industries that align with industry of 4.0, ICT, digital, nanotechnology, biotechnology, new materials and sustainable agriculture. • To focus on solving difficulties for enterprises which have been granted investment licenses and accelerates the disbursement procedure. • To regularly review the investment situation and report to the National Assembly. 2. Official Letter No. 7427/BKHDT-TTr on guiding the formulation of the plan for specialized inspection and investment in 2018. • Avoid overlapping in specialized inspections for licensed businesses. A company should not to be subjected to more than one inspection/examination. 3. Circular 04/2017/TT-BKHTT detailing the selection of contractors through the National Bidding Network. *In addition, investment policy paid more attention to the enhancement of public investment management capacity.* 1. Official Letter 1375/BKHDT-TH 2018 on the acceleration of the implementation and disbursement of public investment plan. • Complete the allocation of public investment plan 2018 allocated by the Prime Minister, promptly enter budget estimates for the Treasury and Budget Management Information System. • Directing investors to promptly complete the payment documents for projects to be recovered in advance in 2018 (before April 30, 2018); projects must pay construction arrears; Transition projects must be completed in 2018, especially for infrastructure projects damaged by natural disasters, important infrastructure projects (if the volume has been implemented). • Encourage investor to implement the project; accelerate compensation, site clearance, bidding; Remove difficulties and obstacles in order to speed up construction process. • Strengthen the inspection, examination and handling of violations when implementing public investment plan; clarify responsibilities and give penalties for individuals causing delays according regulations. To promptly replace cadres and civil servants who are stagnant, obstructing or failing to fulfill their tasks. • To expeditiously review and complete the procedures for investment of important projects, essential works of large scale having spillover effect, connection between regions, especially in key urban areas.
3	Fiscal policy; State budget management	*Reduce and simplify tax payment procedure to support enterprises.* 1. Consolidated document 09/VBHN-BTC 2018 providing guidlines on the implementation of the corporate income tax Law. • Reduce tax and give and tax incentives for agricultural product processing and agricultural technology. • Tax exemptions are applied to businesses whose 30% of their employees are disabled or belong to the vulnerable groups of the society.

		• Income tax exemptions are applied for vocational training for ethnic minorities, people with disabilities and disadvantaged children. • Reduce the average corporate tax rate from 22% to 20% from 2016. • 2-4 year tax exemption and 50% tax reduction in the next 5-9 years for enterprises implementing new investment projects. • Reduce 10% corporate income tax in 15 years for enterprises investing in disadvantageous areas, those who operating in the high-technology and environmentally friendly sectors, or those of supporting industries. • Reduce delayed tax payment penalty from 0.05% to 0.03% per day. • Allows enterprises to deduct up to 10% of their taxable income annually to set up a Research and Development Fund (R & D). 2. Decree No. 46/2014/ND-CP regulating the collection of land rents and water surface rents. • Exemption and reduction of land rent in 3 years for projects approved by competent authorities. Consider additional exemption for 11-15 years according to the investment area. 3. Circular No. 39/2018 TT-BTC amending Circular 38/2015/TT-BTC on import and export tax. • Reduce the number of documents and procedures required for import/export tax payment. 4. Decision No. 832 QD-BTC 2018 on proposals for reduction and simplification of business conditions managed by the Ministry of Finance. • To abolish business conditions for organizations which provide tax consultancy services under Points a and b, Clause 4, Article 20 of the Law on Tax Administration. *Enhance transparency in collecting and spending budget. Improve budget independence for local governments.* 1. Decision 2019/QD-BTC 2018 publicly announces budget estimates for 2018. 2. Circular No. 72/2018/TT-BTC promulgating the National Reserve Statistics System. The statistical system of the national reserve consists of 03 groups of indicators: • Forming national reserve resources, including the following criteria: Sources for national reserves; Total spending on national reserves purchased during the planning period; National Reserve Purchase Plan. • Managing national reserve resources: the number of national reserve goods; Value of national reserve goods; The quantity of national reserve goods entered in the period; The value of national reserve goods entered in the period ... • Use of national reserve resources: The quantity of national reserve goods exported in the period; Value of national reserve goods issued in the period; The volume of national reserve goods in the period compared to the volume of national reserve stocks at the end of the period ... 3. Official Letter 9737/BTC-NSNN 2018 regulates the performance of fiscal and local budgetary tasks in the last months of the year. • Manage and prevent loss of local revenue. Anti-fraud trade, transfer pricing. Reduce the tax debt to 5% of total state budget. • Promote local budget independence by: (i) self-balancing revenues and expenditures according to budget revenue; (ii) reduce central budget support for projects in the expenditure category of local budgets; (iii) reduce the spending of local budgets to the next fiscal year if the budget can not be balanced.
4	Monetary	*Monetary policy supported flexible exchange rate management and effectively controlled the quality of credit growth*

	policy; bad debt control and risk management of credit institutions	1. Directive 04/CT-NHNN 2018 continues to implement the key tasks and solutions of the banking industry in the last 6 months of 2018. • Stabilize the monetary market to help control inflation and stabilize the macro economy. • Strictly control over the quality of credit growth. Strictly control credit flows in risky areas such as real estate, securities, BOT and BT. • Flexible exchange rate management and foreign exchange management. Limiting dollarization and goldization. Control and gradually remove loans in foreign currency. • Focus on credit for a number of sectors, including agriculture. *The State Bank of Vietnam tried to better regulate the establishment and operation of credit institutions to limit and handle bad debts.* 1. Circular 17/2018/TT-NHNN amends the circulars on licensing, operation network and foreign exchange activities of credit institutions. • Changes in ownership conditions of founding shareholders of credit institutions. Founding shareholders must immediately own at least 50% of the charter capital of the credit institutions instead of 5-year duration as before. A founding shareholder being a legal entity must own at least 50% of the total shares of the founding shareholders. 2. Circular No. 16/2018/TT-NHNN amends the Circular 36/2014/TT-NHNN which regulates limits, safety ratios of banks. • The proportion of short-term capital used for medium- and long-term loans of commercial banks and branches of foreign banks decreased from 45% to 40% to reduce the maturity mismatch risk. • Maintain a minimum capital adequacy ratio (CAR) of 9% • The liquidity reserve ratio for commercial banks and foreign bank branches is 10%. 3. Circular No. 15/2018/TT-NHNN amends and supplements some articles of Circular 22/2016/TT-NHNN regulating the purchase of corporate bonds by foreign credit institutions and branches. • Require credit institutions to issue internal regulations to control the purchase of corporate bonds to conduct projects in potential high risk areas. This requirement is to limit credit to sectors that are at risk of generating bad debts. • Banks and foreign bank branches are prohibited from buying corporate bonds issued to restructure their debts. The above regulation aims to prevent the lending behavior to convert debt in general and to buy corporate bonds to convert debt in particular to cover bad debts of banks.
5	Price and inflation control	*The Ministry of Finance coordinated with other ministries and departments to control inflation below 4%. MOFs focused on stabilize prices of petroleum, medicine, medical services, educational services and transportation cost.* 1. Announcement No. 489/TB-BCĐHHG announcing the conclusion of Deputy Prime Minister Vuong Dinh Hue - Chairman of the Steering Committee for price control at the Steering Committee on price management dated July 10, 2018, Prices for the last months of 2018. • Review the regulations of specialized price management in accordance with Announcement No. 259/TB-BCĐHHG dated 30 March 2018 and Announcement No. 403/TB-BCĐHHG dated 22 June 2018 of the Chairman of the Steering Committee for price management. • Require the SBV to conduct a flexible and prudent monetary policy to stabilize exchange rates and keep core inflation at 1.6%

		in 2018. • Reducing the price of some essential commodities such as BOT road service, medicines for human and medical supplies. • Stabilize prices of some agricultural products (eg pork). Monitor market movements in order to promptly respond to unusual fluctuations. • Assign the Ministry of Industry and Trade to assume the prime responsibility for, and coordinate with the Ministry of Finance in, managing domestic petrol and oil prices according to regulations, appropriately deducting prices and appropriately using flexible price stabilization funds; In case of big fluctuations in petrol and oil prices, it is necessary to take into account the stop using price stabilization funds for a period of time. • Assign the Ministry of Education and Training to continue to actively collect information, calculate the registration of the local price increase route, allocate and control prices of educational services. • The Ministry of Transport will continue to review the costs related to operation and operation to strictly control road service charges for BOT projects. • Assign the Ministry of Health to open bidding for medicines and medical supplies in 2018 and 2019 implementation plan. • Assign localities to regularly monitor and evaluate the price situation to promptly handle arising problems. 2. Official Dispatch No. 6068/VPCP-KTTH of June 27, 2018 of the Government Office to speed up the construction process and submit to the Government a Decree amending and supplementing Decree No. 108/2015/ND-CP dated October 28, 2015 detailing and guiding the implementation of a number of articles of the Law on Special Consumption Tax and the Law Amending and Supplementing a Number of Articles of the Law on Special Consumption Tax. • Regulation on the increase of management fees for medical examination and treatment services. 3. Circular No. 15/2018/TT-BYT of May 30, 2018 of the Ministry of Health prescribes uniform medical examination and treatment costs for medical insurance between similar-ranked hospitals in the whole country. • To unify the prices of medical examination and treatment of medical insurance among hospitals of the same rank in the whole country. • Continuously review the curative care services to reduce the list of services, harmonizing the benefits of health insurance participants, health facilities and affordability of the health insurance fund.

Appendix 2: Macroeconomic statistics

	Unit	2015				2016				2017				2018		
		I	*II*	*III*	*IV*	*I*	*II*	*III*	*IV*	*I*	*II*	*III*	*IV*	*I*	*II*	*III*
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	6.7	6.9
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	24.8	10.4	15.1
- 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*	*16.0*
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	13.3	8.0	16.1
- 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*	*18.9*
Exports/GDP	%	96.3	92.8	87.0	69.7	99.8	92.4	87.8	73.1	106.2	105.4	98.5	80.9	121.2	106.4	104.7
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	4.2	0.33
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	2.4
Interbank/central VND/USD exchange rate (average)	Dong	21446	21593	21773	21890	21890	21876	21891	22074	22219	22371	22442	22451	22434	22555	22674
Investment																
Investment/GDP	%	30.4	31.7	33.2	33.6	32.2	33.2	33.5	33.2	32.0	33.4	35.1	32.5	31.9	33.6	35.9
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	4.9
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	4.0
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	2.1
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	1.2	-
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	1.2	-

Source: Authors' compilation.

Appendix 3: Current situation on the implementation of targets of economic restructuring under Resolution 24/2016/QH14 of the National Assembly

No.	*Target for 2016-2020*	*Current situation*	*Possibility of completion*
1	To gradually reduce the state budget deficit to less than 3.5% of GDP by 2020.	The state budget deficit in 2016 was 5.1% of GDP, 3.48% of GDP in 2017, and 3.7% in 2018 (estimated). Moody's forecasts that budget deficit fluctuates around 4% of GDP in the future.	Possibly completed
2	Annual public debt not exceeding 65% of GDP.	The public debt was 63.8% of GDP in 2016, 61.4% of GDP in 2017, and 61.4% of GDP in 2018 (estimated).	Completed
3	Government debt not exceeding 54% of GDP.	Government debt in 2016 was 52.7% of GDP, 51.8% of GDP in 2017 and 51.9% of GDP in 2018 (estimated).	Completed
4	National debt not exceeding 50% of GDP.	National debt is 44.3% of GDP in 2016, 49% of GDP in 2017 GDP, and 49.9% of GDP in (estimated) 2018.	Possibly completed
5	To improve the management quality of public investment institutions by ASEAN-4	Institutional quality of public investment management is still low as compared to international best practices. According to the IMF's institutional framework for public investment management (PIMA), the average of institutional quality of public investment management in Vietnam is 0.7 (1 is average, and 2 is the highest); some indicators have low scores such as project appraisal, project selection, uniformity and comprehensiveness of budget, and monitoring of public assets.	Solutions needed for enhancing the completion.
6	Share of state investment is about 31-34% of gross investment.	The share of state investment was 37.5% in 2016, 35.7% in 2017 and 33.5% in 2018 (estimated).	Completed
7	30-35% of total enterprises have innovation activities each year.	According to the MOST's statistics from 8,000 piloting enterprises, 61.6% of enterprises having innovation, of which large enterprises account for 68.8%, medium enterprises of 64%, and small enterprises of 58.5%.	Completed
8	Labour productivity growth over 5.5% annually.	Labour productivity was 5.31% in 2016, 6% in 2017 and 5.5% in 2018.	Possibly completed

9	The internal rate of productivity contributes over 60% to labor productivity growth in 2020.	There has not yet had official data for this indicator. According to the Institute for Economic and Policy Research (VEPR), the internal rate of productivity contributed 79.1% to labor productivity growth in 2012-2016.	Possibly completed
10	By 2020, the proportion of trained labor for over 3 months will be about 25%.	The share of trained labor for over 3 months with certification was 20.56% in 2016, 21.41% in 2017 and 23-23.5% in 2018 (estimated).	Possibly completed
11	The share of rural labour reduced to less than 40%.	The share of labour in agricultural sector was 41.9% in 2016, 40.2% in 2017 and 38.2% in 2018 (estimated).	Completed
12	Contribution of TFP to overall growth was 30-35% in 2016-2020.	Contribution of TFP to overall growth was 40.68% in 2016, 45.19 in 2017 and 40.23 in 2018 (estimated).	Completed
13	Narrowing down the gap of national competitiveness as compared to ASEAN-4.	The gap of score of National Competitive Index (by WEF) between Vietnam and average ASEAN-4 reduces from 0.7 percentage points in 2016-2017 to 0.6 percentage points in 2017-2018.	Completed
14	By 2020, the NPL of credit institutions reduces by less than 3%.	The NPLs, bad debt managed by VAMC and potential bad debts was 8.86% in 2016, and 6.67% by June/2018 (estimated by BIDV).	Possibly completed
15	To reduce the average domestic lending rate to be competitive against the rate of ASEAN-4.	According to IMF statistics, the average difference between the Vietnam and ASEAN-4's lending rate was less than 2 percentage points during January 2016-June 2017, but upward trend after that, and was 2.11 percentage points in Q1/2018.	Possibly completed
16	To improve the scale and efficiency of the stock market, government bond market, and corporate bond market.	- In 2017, total listed value on the stock market reached nearly VND 959 trillion, up by 30% á compared to that of 2016. - No large scale issuance of corporate bonds. - Average term of government bonds is 13.5 years (2016: 8.7 years); the successful bids of government bonds (for 10-year terms to maturity) is over 80%; - The interest rates for successful bids of government bonds (for all terms) decline from 0.6%-1.9% per annum. - Total assets of the insurance market by end of 2017 estimated at VND 302.935 billion (up by 23.44% as compared to 2016), total re-investment was VND 247.801 billion, up by 26.74 % as compared to 2016.	Possibly completed
17	By 2020, the stock market capitalization will be about 70% of GDP.	Capitalization of stock market increased from 43.2% of GDP in 2016 to 74.6% of GDP in 2017.	Completed

18	By 2020, outstanding of bond market will be 30% of GDP[61].	The total outstanding of bond market was 27.3% in 2016, 37.45% in 2017, and 39.38% in 2018 (estimated) .	Completed
19	Divestment of all state capital in enterprises of less than 50% of state ownership.	There is no official statistics on the scale of state capital in the sectors of less than 50% state ownership. According to the 2016 Enterprises Survey by GSO, business survey data for 2016, about 3,000 enterprises having state capital <50% in 2016.	Solutions needed for enhancing the completion.
20	To divest the state capital to the lowest level required for re-arranging and restructuring of investment.	According to Decision 1232/QĐ-TTg dated 17/8/2017, 316 enterprises are subject to divest in 2017 and 2018; however only 30 implemented by July 2018.	Solutions needed for enhancing the completion.
21	At least 1 million enterprises by 2020.	According to GSO, 279.360 active enterprises as of 31/12/2010, 505.067 as of 31/12/2016, and 561.064 as of 31/12/2017. By 8/2018, the active enterprises were 597.084 enterprises[62].	Solutions needed for enhancing the completion.
22	By 2020, 15,000 agricultural cooperatives and alliance will operate effectively.	According to a report by the Ministry of Agriculture and Rural Development, there were 11.688 agricultural cooperatives in 2017, 12,817 cooperatives and 39 unions of cooperatives by end of August 2018. Of which, effective cooperatives was 46.3% (5,411 cooperatives) in 2017.	Solutions needed for enhancing the completion.

Source: CIEM.

[61]Decision No. 1191/QD-TTg dated 14/8/2017 of Prime Ministerapproved the Roadmap for development of bond market during 2017-2020, vision to 2030, had increased this target to 45% of GDP by 2020.

[62] According to the data by Business Registration Agency, for the first eight months of 2018, the number of newly register enterprises were 87,448; returning to operation were 20,942; enterprises registering inactive status were 21,575; temporally stopping before closing tax code or without registration were 41,660; dissolved enterprises were 9,535. Therefore, the number of enterprises operating in the first eight months of 2018 is estimated at 36,020.