Aus4Reform Program

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MACROECONOMIC REPORT FORTH QUARTER AND 2018

INTRODUCTION

Vietnam has entered 2018 with a lot of different expectation. The acknowledged socio-economic movements in 2017 enabled more expectations on impressive results in 2018. However, the Government also recognized some challenges to the economy, from concerns about cyclical risks to uncertainty in the context of escalating US-China trade conflict. These expectations and recognition have, more or less, set fundamental foundation for more flexible, prudential measures and more effective coordination. In spite of not being at the top priority, efforts on enhancement of economic institutions and business environment, promotion of innovation and creation have been deepened. Therefore, the economy was initially sustained, significantly improvement of economic resilience during complicated and unpredictable fluctuations in global and regional context.

This Macroeconomic Report serves several objectives, including: (i) to update and review macroeconomic developments and policy changes in Q4 and 2018 with evidence-based analysis and perspectives of experts/Central Institute for Economic Management; (ii) to update the macroeconomic outlook for 2019; (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 in 2019.

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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ABBREVIATION

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

EXECUTVE SUMMARY

1. The global economic expansion weakened in 2018 in the context of escalating downside risks and uncertainties. Protectionism, tightening financial conditions in major economies, the international financial market has fluctuated at significant amplitude, strategic tension among major economies casted shadow over the global economy. International organizations such as the IMF, WB, OECD, etc. reduced forecast of the global economic growth in the medium term.
2. The U.S. economy showed steady growth. The GDP growth rate attained 3.4% in Q3. The risk of recession in the US in the medium-term remains existed, GDP growth is forecasted to be decelerated since the second half of 2019. China's economic growth rate decelerated to 6.5% in Q3/2018 and will likely further decrease in Q4/2018 and 2019. Japan reduced the forecast of GDP growth for the 2018 fiscal year to 0.9%, mainly attributed to damages caused by series of earthquakes and storms. Economic growth of EU countries decelerated as industrial production expanded at low space, business activity and export were stagnant, public debt was at high levels in many member economies, uncertainty of the Brexit and social instability.
3. U.S. and China agreed on a temporary hold on escalating trade tension; however tension may be intensified between the two countries. The international financial market fluctuated in certain times and many markets witnessed downward adjustment. The USD continued to appreciate against major currencies. World commodity prices volatized significantly. International economic integration showed modest progress in the context of uncertainty in the Asia-Pacific region.
4. Major risks of the world economy in 2019 include: (i) escalating uncertainties of economic - security and strategic geographic conflicts between the US and China despite of the 90-day-temporary hold on trade war; (ii) tightening financial conditions in major economies and risk of capital outflows from emerging and developing markets; (iii) socio-economic instability in Europe, in particular Brexit; and (iv) geopolitical tension in various countries and areas.
5. Vietnam entered 2018 with a mixture of opportunities and challenges. The reform process maintained and strengthened for many years has significantly enhanced the confidence of business community. The rapid movements of the Industrial Revolution 4.0 has brought more opportunities for Vietnam to catch up with developed economies. The escalation of US-China trade tension has also brought opportunities of accessing external market and resources for Vietnam. However, Vietnam has still faced some challenged, particularly of improving productivity and quality of labor, coping with external adverse shocks, and addressing the risk of cyclical downward growth.
6. The Government still emphasized its determination on stabilization of macroeconomics, facilitating favorable conditions for long-term stability. Therefore, policy environment and economy has been relatively stable for

institutional reform at micro level. Along with major orientations of economic restructuring, the Government showed more focus on institutional reform, removal of difficulties, administrative reform, and improvement of business environment, innovation and creation. The policy execution has been more flexible and policy coordination/priority has been more practical and effective. More importantly, management mechanism has not been in a hurry, and more concentrating on a specific instruments, but more proactive for the reinforcement of policy gaps and reliability on executing scenarios.

7. Most of ministries and agencies have finalized the formulation of Decrees on business conditions which were approved by the Government. Particularly, unnecessary, inappropriate and unclear business conditions have been removed; shortening time requirements; reducing the numbers of requirements; removal and simplification of conditions on business location and facilities. However, some ministries and agencies have been delaying the enforcement for certain areas. The restructuring the economy has been slow and faced some difficulties. With regards to the restructuring of public investment, there has not been much improvement of shortcomings in terms of administrative procedures such as inefficient allocation, waste and loss of funding, low quality of construction. The most notable achievement of SOE restructuring was the formulation of relevant regulatory framework and strict management. Regarding the restructuring of credit institutions, some systematic and long-term weaknesses such as resolving non-performing loan and inefficient commercial banks have not been clearly identified.

8. The economic management in 2018 still showed a number of difficulties and challenges, including: (i) the slow transformation of growth model and not fully taking advantage of resources for development; (ii) the slow and perplexed restructuring of some sectors and areas, due to shortage of directions on key sectors; (iii) in adequate development of supporting industry for further participation into the production network and global value chain; (iv) private sector, especially small and medium enterprises, are also under pressure from many areas of the business and investment environment as well as pressure to implement the target of state budget revenues in 2018; and (v) no further changes in mobilizing partners to recognize Vietnam as a market economy.

9. GDP grew by 7.31% in Q4, lower than that of 2017, but higher than the growth of Q2-Q3. GDP growth attained 7.08% in 2018, the highest rate since 2008. Vietnam’s economy has been in the expansion phase of growth cycle for the sixth consecutive quarter. Industry and construction played a leading role for ensuring stable economic growth, attaining highest growth rate of 8.65% in Q4 and 8.85% in 2018. The overall IIP increased by 9.4% in Q4 and 10.2% in 2018. Purchasing Managers Index (PMI) of manufacturing sector remained high in Q4, at the leading among ASEAN. The agriculture-forestry-fisher (AFF) experienced impressive growth in 2018, up by 3.76%. The service sector continued its steady growth, attaining 7.69% in Q4 and 7.03% in 2018. Economic structure was slightly changed.

10. Performance of enterprises showed some improvements in Q4, newly registered enterprises was up by 6.81%, total registered capital increased by 63.68%. Efforts on improving business environment, reducing unnecessary burdens and removing business conditions were proofs of enhancing health for enterprises.

11. Total economically active labor force was 54.58 million people in Q4; of which 37.7% in AFF, 26.7% in industry-construction and 35.6% in service sector. Overall unemployment rate was at 2.20% for 2018. The quality of growth, to some extent, was improved.

12. The average CPI was up by 3.65% in Q4 and by 3.54% in 2018, attaining the target set by the National Assembly. Key factors affected CPI in 2018 included: (i) increased price of food-foodstuff; (ii) adjustment of domestic oil price due to changes of the international price; and (iii) high lending rates

13. VND-denominated deposit rate of commercial banks increased in Q4, mostly affected by factors including (i) expectation of some commercial banks on raising deposit rates to meet the credit demand in ending months of 2018; (ii) competition among commercial banks to prepare credit for the beginning months of 2019 and Tet festival; (iii) pressure from regulation on reducing short-term deposits for medium-term and long-term loans, taking effect since 1st September; and (iv) interest rate hike of FED in December 2018. Some commercial banks raised VND-denominated lending rates from 0.5 to 1 percentage points in various terms due to the pressure from raising deposit rates and tighter credit room

14. Outstanding credit grew approximately 3.25% in Q4, mostly attributed to (i) commercial banks having capital were not allowed to increase credit growth; (ii) SBV controlled credit flows to risky sectors. Total liquidity (M2) rose almost 3.2% in Q4; by the end of December, M2 grew nearly 12.5% compared to the end of 2017. Overall, SBV managed M2 flexibly, in line with the movements of foreign capital flows, the liquidity demand of commercial banks as well as issuance of government bonds.

15. VND/USD central exchange rate was remarkably adjusted upward in Q4, rose 0.49% compared to the end of Q3 and 1.78% compared to the end of 2017. Foreign exchange market showed cooling signs in Q4; main reasons include: (i) more stable USD index as compared to previous months; (ii) positive expectations from FDI disbursement and trade surplus. Different from 2017, Vietnam's stock market witnessed upward and downward movement throughout 2018.

16. Gross investment was estimated at VND 606.9 trillion (up by 12.5%) in Q4 and reached VND 1856.6 trillion (up by 11.2%) in 2018. The ratio of investment to GDP were 32.8% and 33.5% respectively, significantly higher than that of the 2011-2015 period. FDI disbursement increased sharply, attaining 14.5% in Q4. The FDI disbursement in 2018 reached a record of USD 19.1 billion, up by 9.1%. The investment efficiency of the economy in recent years has shown

some signs of improvement, though not very obvious. ICOR decreased from 6.11 in 2017 to 5.97 in 2018.

17. Exports attained USD 64.02 billion in Q4, increasing by 6.5%. In 2018, exports reached over USD 243.48 billion, increasing by 13.2%, and exceeding the target of 2018. The structure of export products continues to shift towards reducing exports of raw materials, increasing exports of manufacturing and industrial products. Imports were USD 63.5 billion in Q4, up by 9.8%. In 2018, import turnover was estimated at USD 236.7 billion, increasing by 11.1%. Trade surplus was estimated at USD 0.47 billion in Q4 and over USD 6.8 billion in 2018. The prolonged US – China trade tension might have intensive impacts on global growth and trade, spreading the protectionism wave to other markets; Vietnam's major export products to the US such as textiles, footwear, telephones may encounter more restrictive trade measures.

18. Budget revenues reached over VND 460 trillion in Q4, or 24.8% GDP. In 2018, budget revenues attained VND 1.42 thousand trillion, nearly 7.8% higher than the planned figures and up by 10.4% (YoY). In comparison with 2015 – 2017, accumulating budget revenues at the end of the year were no longer exist. Solutions on collecting tax arrears were implemented diversely and aggressively. Budget deficit was estimated at 3.6% GDP. The value of newly issued government bonds amounted to over VND 44.0 trillion in Q4, and 165.8 trillion in 2018, increasing by 3.7%.

19. Fiscal management in 2018 witnessed the most positive achievement of not "hurrying" towards loosening, and still aiming to its coordination with monetary policy to enhance macroeconomic stability, while maintaining space for responding to further adverse developments.

20. YoY economic growth in 2019 is projected at 6.93%. Export growth may reach 9.4%. Trade surplus is projected at USD 2.04 billion. Average CPI in 2019 will increase by approximately 3.88%.

21. The report analyzed impacts of IR 4.0 and Vietnam’s readiness to join IR 4.0. It concluded that Vietnam had a great interest in participating in IR 4.0. Fast or slow participation will determine the pace of economic restructuring, transforming the growth model to achieve higher productivity, better competitiveness and greater levels of prosperity.

22. The report also assessed the outcomes, unfinished missions after 5-years implementation of Resolution 19 and new requirements in the context of rapidly changing in order to adapt to requirements of a new production base in line with IR 4.0. Accordingly, in addition to maintaining the target of improving business climate in line with international practices and developing sectors that Vietnam has comparative advantages, the Government should pay attention to enhancing factors such as technologies, creative innovation, human resource quality and public service quality.

23. From the analysis of efficiency of investment in 2011-2016 by economic sectors, the report provided reasons for modest contribution of private sector to

GDP. At the same time, using the income method in calculating production surplus of economic sectors, the report identified that contribution of the private sector was at the lowest and recommended that in line with administrative reforms, judicial reform should be a focus for improving business environment in the coming time.

24. Vietnam overcame 2018 with relatively significant socio-economic achievements. Economic growth continued to recover at high level. The macroeconomic environment continued to be stable: inflation was controlled, trade balance hit a record of surplus, state budget deficit was reasonable, public debt witnessed downward trend without associated inflationary pressures. More importantly, the macroeconomic foundation continued to be strengthened, policy space for both monetary and fiscal management was maintained even in the context of Vietnam's economy was considered to face external shocks and risk of periodical growth downturn. As a result, Vietnam still has favorable conditions to conduct more fundamental reforms to economic institutions and business environment.

25. Vietnam entered 2019 with expectations of opportunities and challenges. The confidence of domestic and foreign business community continues to increase after the Government's commitments on reforms as well as effective ability of Government in responding to adverse external shocks. Mega-FTAs (CPTPP, EVFTA, RCEP) and IR 4.0 can create additional momentum for reforms and access to external resources (skills, technology, capital). However, Vietnam needs to address fundamental challenges of institutional quality, infrastructure and human resources. Strategic competition between the US and China continues, forcing Vietnam to have careful consideration in participating in initiatives led by the two countries. Even economic, trade and investment activities may face uncertainties, especially in the first half of 2019, mostly attributed to the risk of economic downturn in major economies.

26. 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 solutions and other measures in 2019.

I. ECONOMIC CONTEXT IN Q4 AND 2018

1. Regional and global economic context

1. The global economic expansion weakened in 2018 in the context of escalating downside risks and uncertainties. Protectionism, tightening financial conditions in major economies, the international financial market has fluctuated at significant amplitude, strategic tension among major economies casted shadow over the global economy. International organizations such as the International Monetary Fund (IMF), the World Bank (WB), the Organization for Economic Cooperation and Development (OECD), etc. reduced forecast of the global economic growth in the medium term.

Table 1: The global economic prospects

Unit: %

		Estimate	*Forecast*			*Changes compared to the forecast in June 2018*		
	2017	2018	2019	2020	2021	2018	2019	2020
World	**3.1**	**3.0**	**2.9**	**2.8**	**2.8**	**-0.1**	**-0.1**	**-0.1**
Advanced economies	**2.3**	**2.2**	**2.0**	**1.6**	**1.5**	**0.0**	**0.0**	**-0.1**
United States	2.2	2.9	2.5	1.7	1.6	0.2	0.0	-0.3
Euro Area	2.4	1.9	1.6	1.5	1.3	-0.2	-0.1	0.0
Japan	1.9	0.8	0.9	0.7	0.6	-0.2	0.1	0.2
Emerging market and developing economies	**4.3**	**4.2**	**4.2**	**4.5**	**4.6**	**-0.3**	**-0.5**	**-0.2**
East Asia and Pacific	6.6	6.3	6.0	6.0	5.8	0.0	-0.1	0.0
China	6.9	6.5	6.2	6.2	6.0	0.0	-0.1	0.0
India	6.7	7.3	7.5	7.5	7.5	0.0	0.0	0.0
World trade volume	5.4	3.8	3.6	3.5	3.4	-0.5	-0.6	-0.5
Commodity prices								
Oil price	23.3	30.7	-2.9	0.0	0.0	-1.9	-1.5	-0.1
Non-energy commodity price index	5.3	1.7	1.0	1.2	1.2	-3.4	0.8	0.7

Source: WB (January 2019)

2. The U.S. economy showed steady growth. The GDP growth rate attained 3.4% in Q3 (third adjustment, which was 0.1 percentage point below the second adjustment). Unemployment rate stood at 3.7% in September-November, and slightly increased to 3.9% in December. FED made the decision on an interest rate hike in December – the 4th executive times in 2018. FED also delivered a message on less interest rate hikes in the coming year. High interest rate, weakened global demand and policy uncertainty (trade, monetary, financial policy) may have impacts on investment while domestic consumption remains an important support for economic growth. The US's GDP growth is forecasted to be decelerated since the second half of 2019, attaining 2.9% in both 2018-2019 and 2.2% in 2020.[1] The risk of recession in the US in the medium-term

[1] Source: Conference Board (December 2018).

remains existed.[2]

3. China's economic growth rate decelerated to 6.5% in Q3/2018[3], and will likely further decrease in Q4/2018 and 2019. Manufacturing output declined drastically, retail sales dropped continuously since May while business confident weakened, new orders reduced at low levels.[4] The darkening situation prevails despite of stimulus measures to support to economy by the Government, including reduction of required reserve ratio[5], tariff cuts, and the acceleration of infrastructure projects.[6] "Weakening" global demand and tariff measures imposed by the US on Chinese goods significantly affected exports of the country. GDP growth rate of China is estimated to reach 6.5% in 2018 (0.4 percentage point below the figure of 2017) and 6.2% in 2019.[7]

4. Japan reduced the forecast of GDP growth for the 2018 fiscal year to 0.9% (compared to the July's forecast of 1.5%). This was mainly attributed to damages caused by series of earthquakes and storms that resulted in the negative GDP growth rate in Q3. Consequently, the growth forecast for the 2019 fiscal year was cut down to 1.3% in relative to the July's forecast of 1.5%. Main driving forces of economic expansion include growing domestic and individual consumption thanks to the Government's policy to fight against negative impacts of the raising consumption tax[8], improved labor market and higher income.[9]

5. Economic growth of EU countries decelerated as industrial production expanded at low space, business activity and export were stagnant due to the appreciation of the EUR and reduction of global demand, public debt was at high levels in many member economies, uncertainty of the Brexit and social instability. Germany experienced economic downturn in Q3, the first time since 2015; the manufacturing PMI of the whole region decreased continuously.[10] The downturn trend is expected to retain in the next few years as deep divisions regarding such issues as populism, migration crisis, conflicts among social groups, etc. are unable to be settled down soon. Inflation remained low, core

[2] The Leading Economic Index (LEI) of the Conference Board indicated the downturn risk since the second half of 2019. Blackrock predicted the probability of recession in the US of 19%, 38% and 54% in 2019, 2020, 2021, respectively

[3] The lowest since the 2008 global financial crisis.

[4] Retail sales increased by only 0.51% in November compared to that in October, the lowest pace in the last 6 months. Industrial production grew at 5.4% in November (YoY), the lowest since January-February 2016. New order index attained 49.7 points in December 2018, reflecting the continuous reduction from 53.8 points of May 2018.

[5] In 2018, China reduced required reserve ratio for 4 consecutive times. On January 5, PBOC cut down the RRR by additional 1 percentage point, the first time in 2019 (took effect since January 15) and is expected to have further 2-3 RRR reductions in 2019. The current RRR is 14.5% for major banks and 12.5% for smaller-sized ones.

[6] On December 19, PBOC implemented a new lending instrument called Targeted Medium-term Lending Facility (TMLF) in order to guarantee stable long-term capital sources for small private enterprises. The maximum maturity of TMLF is 3 years with the annual interest rate of 3.15%, which is below the interest rate of the current Medium-term Lending Facility (MLF).

[7] Source: WB (January 2019).

[8] Consumption tax will be raised to 10%, which will take effect since October 2019.

[9] Source: Japan Cabinet Office (December 2018).

[10] Manufacturing PMI attained 51.5 points in December 2018 compared to 59.6 points in January 2018.

inflation retained at about 1%, and the European Central Bank (ECB) will pursue negative interest rate at least till the mid-2019.

6. Leaders of the U.S. and China agreed on a temporary hold on escalating trade tension. Accordingly, the U.S. postponed a scheduled additional tariff increase of 25% on USD 200 billion of Chinese goods[11], and China has been given 90 days to negotiate and implement concessional policies upon requirements of the U.S. Trade negotiation between the two countries resumed in January 2019, *"setting foundation to resolve concerns of both sides"*. However, uncertainty casts over further developments of the trade war as the main reason of the collision may go beyond trade-related issue. Tension between the two countries may be intensified as retaliatory measures (mainly import duty) implemented prior to January 1, 2019 remained in effective and recent developments that are indirectly related to trade (for instance additional mechanism to reinforce pressure on China via the third party; the arrest of Huawei's Chief Financial Official, etc.).

7. The international financial market fluctuated in certain times and many markets witnessed downward adjustment. Trade war, FED's interest rate hikes and political instability in the EU were main reason for market crashes in 2018. Compared to the beginning of the year, by December 28, Shanghai Index dropped by 25.52%; MSCI World Index[12] decreased by 11.06%; S&P 500 and Down Jones was down by 7.79% and 7.1%, respectively. FAANG stocks were down drastically, attaining the drop of 27.08% in relative to the peak of June in the New York Stock Market. In the coming time, strategic economic collision among major economies will likely not only limit to trade issues but also expand to other aspects of the financial market. In the meanwhile, investors have rapid and excessive responses in the international financial market.

8. The USD continued to appreciate against major currencies, the USD index attained 96.17 points by the end of 2018, which increased by 4.4% compared to the figure in the end of 2017 and by 1.07% compared to the end of Q3/2018. In contrast to the clear upward trend in April-June 2018, the USD index fluctuated within a narrower band in Q4. In the meanwhile, increased interest rate in the USD, raising oil price, the US-China trade war and macroeconomic imbalance in various emerging markets (fiscal deficit, current account deficit, high public debt, etc.) intensify the risk of excessive withdrawal of capital and pressure on domestic currencies in those countries, in particular Turkey, Argentina, Indonesia, India, China, the Philippines, etc.[13]

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[11] Which was scheduled to take effect on January 1, 2019.

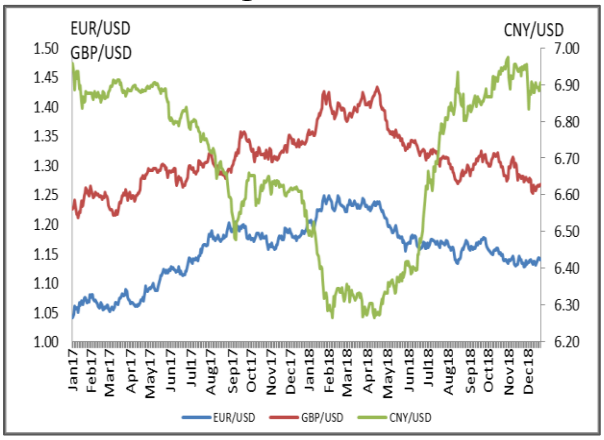
[12] The MSCI world index monitors performance of 23 advanced stock exchange markets in the world, including Canada, the US, Austria, Denmark, Finland, France, Germany, Ireland, Netherland, Norway, Portugal, Spain, Sweden, the UK, Australia, Japan, Hong Kong, New Zealand and Singapore.

[13] In 2018, depreciation of major currencies against the USD was: CNY depreciated by 6.3%; GBP - by 6.7%; EUR – by 5.4%; ARS – by 107%; TRY – by 61%; BRL – by 22%; ZAR – by 15%; INR – by 14%; RUB – by 14%; IDR – by 10%; etc.

Figure 1: USD Index, 2018

Source: https://www.marketwatch.com

Figure 2: Exchange rate of major currencies against the USD, 2018



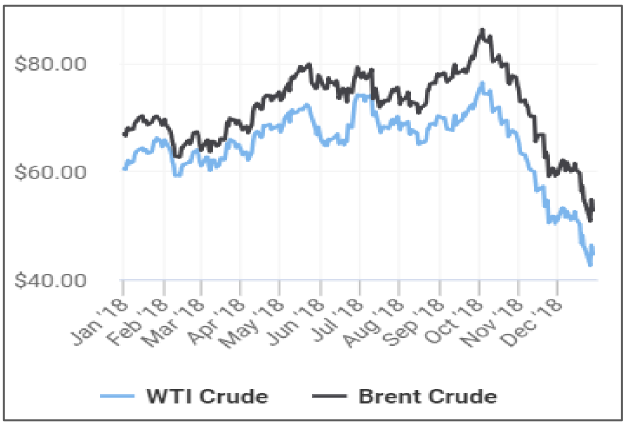
Source: FED

9. World commodity prices volatized significantly. Oil price plunged in Q4, decreased by about 39% in the end of 2018 compared to the peak in October and by 25% since the beginning of the year.[14] The average oil price in 2018 was USD 69 per barrel, up by 32% compared to that in 2017. Concerns of the global economic downturn, excessive supply[15], policy adjustment of the US's sanctions on Iran[16] exert pressure on oil price. Gold price gained increasing momentum in the ending months (up by 8.8% compared to the lowest level of 2018 and by 4.9% in December). This was mainly attributed to investors' preference over the USD or Treasury bond. Gold price is estimated to be at low level in 2019 due to interest rate hikes and appreciation of the USD.

Figure 3: Gold price, 2017-2018

Source: https://goldprice.org/

Figure 4: Crude oil price, 2017-2018



Source: https://oilprice.com

10. In the first 6 months of 2018, the global FDI reduced by 41% (YoY), which mainly attributed to large repatriations by the US parent companies of accumulated foreign earnings from their affiliates abroad following tax reforms.[17] However, M&A sales were relatively stable (down by only 1%) while greenfield investments were flourished (up by 42%). Developing

[14] Closing price of the transaction on December 28, WTI crude was USD 45.33 per barrel.
[15] By the end of December, crude oil reserve of the US increased by 6.9 million barrels.
[16] Since the beginning of October, the US allowed 8 countries and territories import oil from Iran for 6 months.
[17] UNCTAD (2018).

economies remained attractive destinations for FDI (accounting for 66% of total global FDI), of which Asia attracted the largest share (47% of total FDI).

Figure 5: Global FDI flows and growth rates

Unit: Billion USD, %

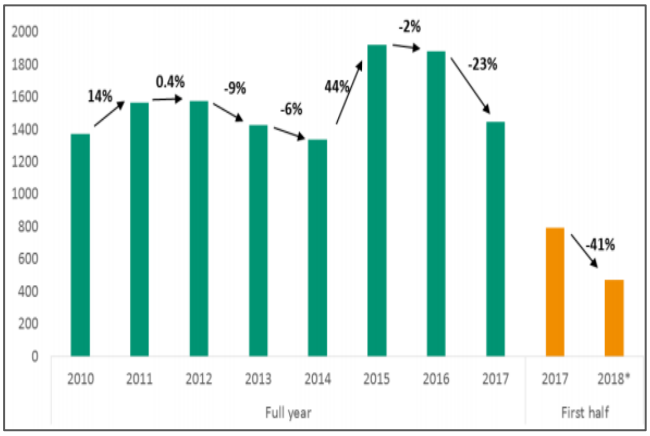
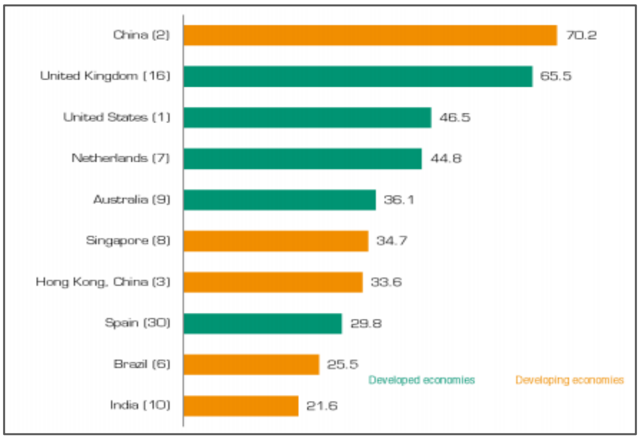


Figure 6: Top 10 host economies of FDI inflows in the first half of 2018

Unit: Billion USD



Source: UNCTAD (10/2018).

11. International economic integration showed modest progress in the context of uncertainty in the Asia-Pacific region. The CPTPP signed in March 2018 and will take effect since December 30, 2018. Leaders of ASEAN+6 reaffirmed determination to conclude RCEP negotiation in 2019. For the first time, however, the 2018 APEC Summit failed to agree on a final joint statement. The US participated in and/or led other FTAs, which to certain extent indicated the tendency of allocating benefits to the US that contrast to FTA spirit of promoting international economic integration.

12. Major risks of the world economy in 2019 include: (i) escalating uncertainties of economic - security and strategic geographic conflicts between the US and China despite of the 90-day-temporary hold on trade war; (ii) tightening financial conditions in major economies and risk of capital outflows from emerging and developing markets; (iii) socio-economic instability in Europe, in particular Brexit; and (iv) geopolitical tension in various countries and areas.

2. Domestic economic context

13. Vietnam entered 2018 with a mixture of opportunities and challenges. The reform process maintained and strengthened for many years has significantly enhanced the confidence of business community. The rapid movements of the Industrial Revolution 4.0 has brought more opportunities for Vietnam to catch up with developed economies. The escalation of US-China trade tension has also brought opportunities of accessing external market and resources for Vietnam. However, Vietnam has still faced some challenged, particularly of improving productivity and quality of labor, coping with external adverse shocks, and addressing the risk of cyclical downward growth.

14. Given such opportunities and challenges, the Government still emphasized its determination on stabilization of macroeconomics, facilitating favorable conditions for long-term stability. Therefore, policy environment and economy

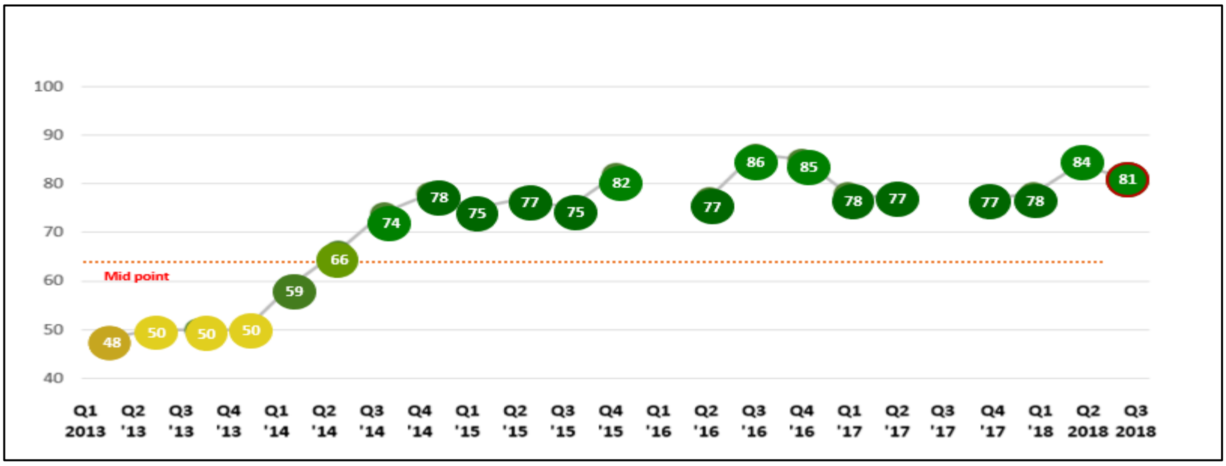
has been relatively stable for institutional reform at micro level. Along with major orientations of economic restructuring, the Government showed more focus on institutional reform, removal of difficulties, administrative reform, improvement of business environment, innovation and creation. The policy execution has been more flexible and policy coordination/priority has been more practical and effective. More importantly, management mechanism has not been in a hurry, and more concentrating on a specific instruments, but more proactive for the reinforcement of policy gaps and reliability on executing scenarios.

15. Thus, in spite of global uncertainties, highly votality of the global financial market due to escalating US-China trade tension, Vietnam's investment and business environment has been improved, the confidence of both domestic and international business community has been positive. (Figure 7).

Box 1: Four major directions in 2019

- Improving internal capacity and resilience of the economy. Enhancing macroeconomic foundation; maintaining and paving the way for growth engines; improving productivity, efficiency and competitiveness of the economy. To drastically implement strategic breakthroughs, to restructure the economy, to adjust the growth model, to improve growth quality; to promote the application of science, technology, innovation, start-up; and to promote effectively the Industrial Revolution 4.0.
- Building a discipline, integrity, active and serviced bodies so as to creating a favorable investment and business environment for firms and people. More focus on finalizing institutional reforms, improving the quality of developing and enforcing regulation and law. Tightening administrative and public disciplines, creating motivation and pressure of responsibility for institutions, individuals, particularly for leaders. Paying more attention to administrative reform, building e-Government associated with organizational arrangement towards effective and efficient apparatus. Innovating and enhancing the effectiveness of judicial activities.
- To develop comprehensively and harmonizedly cultural and social aspects and to well-prepare Vietnamese people for meeting the requirements of sustainable development; to promote the patriotic emulation movement, celebrating the 50th anniversary of President Ho Chi Minh's testament, gradually improving the people's living standard; to strengthen resource management, environmental protection, disaster prevention, and responsiveness to climate change. To enhance national defense and security, to soundly protect the independence, sovereignty, unity and territory of the country; to ensure political security and social safety; to promote foreign affairs and international integration; to maintain a peaceful and stable environment for the development and enhancement of country's position in the international arena
- To actively and proactively prepare Party Congresses at all levels towards the 13^{th} National Party Congress; to focus on reviewing and developing 10-year socio-economic development strategy for the period of 2021-2030, 5-year socio-economic development plan for the period 2021 – 2025.

Figure 7: Eurocham's Business Climate Index



Source: Eurocham.

16. In general, policy measures are more intensive and drastic, to some extent, to overcome local interests of some sectors and agencies. In that context, the results achieved by the end of 2018 continued to be driving force for further adjustment of investment and business environment in consequence years. The Resolution 01/NQ-CP on key tasks and solutions to implement the socio-economic development plan and estimation of state budget for 2019 has emphasized the spirit of "discipline, integrity, action, creation, breakthrough and effective", with the main task of strengthening macroeconomic fundamentals, controlling inflation and ensuring major balances of the economy (Box 1). The Government also issued Resolution 02/NQ-CP on the continual performance of main tasks and solutions to improve business environment, enhancing national competitiveness in 2019 and orientations to 2021

17. In 2018, the National Assembly approved a total of 16 Law proposals, including some important Laws such as Competition Law, Law on Network Security. The drafting laws have been publicly and responsibly discussed, which taken into account contradictory comments, such as the draft Law on Special Administrative-Economic Zone, draft (amended) Law on Tax Administration, etc. In addition, a number of important resolutions was promulgated, especially the resolution approving Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and its related documents.

18. From an institutional and regulatory perspective, CPTPP experienced high-standard commitments, requiring significant changes for Vietnam, the economy would need to open more freely, under its commitments, to its partners and fully enforcement of institutional and rule obligations. Given the taking effect from January 2019, CPTPP will enable the relaxation of taxes on agricultural and industrial products, loosen regulations on investment and enhance the intellectual property rights; boosting economic growth of Vietnam and changing export market structure in a more balanced manner. At the same time, requirement of domestic reforms become more urgent and challenges are divided into two groups, firstly, competition will be more complex and severe

even in domestic market; secondly, some requirements and conditions related to business will be more rigorous, and compliance cost may be higher.

19. The year 2018 also witnessed important efforts of Vietnam's international economic integration. Vietnam and EU announced the finalization of regulatory revision of EVFTA Agreement and agreed upon all contents of Investment Protection Agreement separated from EVFTA for the conclusion of this agreement. In October 2018, the European Commission (EC) also agreed to submit EVFTA to European Council for officially approval of signing EVFTA and submission to European Parliament for ratification at the beginning of 2019. Besides, Vietnam also successfully signed a new trade agreement with Cuba and free trade negotiations with Israel and the EFTA showed new progress.

20. In 2018, most of ministries and agencies have finalized the formulation of Decrees on business conditions which were approved by the Government. Particularly, unnecessary, inappropriate and unclear business conditions have been removed; shortening time requirements; reducing the numbers of requirements; removal and simplification of conditions on business location and facilities. However, some ministries and agencies have been delaying the enforcement for certain areas, resulted in: (i) unequal level of business environment improvement, low perception of enterprises on improvement; (ii) existing barriers to business conditions; (iii) limited reforms on regulations of specialized management and inspection, and the existence of overlapping management, non-risk management, resulting in huge cost for specialized inspection, etc; leading to a number of obstacles for production and business activities; and (iv) low technology application and implementation of electronic transactions.

21. The restructuring the economy has been slow and faced some difficulties. Recent reports by the Ministry of Planning and Investment showed that the completion (or expected to complete) rate was 77% by Q4/2018, including 9 completed indicators, 8 possibly completed indicators and 5 indicators need more measurements to complete. However, the enforcement process and restructuring speed of major areas have still been limited.

22. With regards to the restructuring of public investment, there has not been much improvement of shortcomings in terms of administrative procedures such as inefficient allocation, waste and loss of funding, low quality of construction; PPP investment projects were not attracted foreign capital and depended on credit capital, which has been beyond the target of infrastructure development, the outstanding debt in construction has not yet been resolved.

23. The most notable achievement of SOE restructuring was the formulation of relevant regulatory framework and strict management. The State Capital Management Committee has finalized its functions and tasks. However, the progress of restructuring of SOEs has been slow as compared to plan. By December 24, 2018, there were only 15/84 equitization plans being approved by authorized agencies. The divestment of state capital was still limited as there has been no specific plan on the use of capital; the restructuring of ineffective

investment projects was also at low pace. Although the plan on resolving 12 inefficient projects has been issued, there has been lack of resources and enforcement mechanisms.

24. Regarding the restructuring of credit institutions, 51 plans were approved, the financial capacity of credit institutions and corporate governance has been gradually improved. However, some systematic and long-term weaknesses such as resolving non-performing loan and inefficient commercial banks have not been clearly identified.

25. Vietnam, to some extent, has shown new mindset on transforming of growth model. Requirements on improving productivity and quality of labor has still been emphasized. Those requirements have been acknowledged under the context of the Industrial Revolution 4.0 and digital economy. In that respect, requirement for Vietnam was not only to improve hard infrastructure but also to develop various 21^{st}-century fundamentals of infrastructure in association with the data-based development model and innovative strength as well as promoting IR4.0.

26. The economic management in 2018 still showed a number of difficulties and challenges, including: (i) the slow transformation of growth model and not fully taking advantage of resources for development; (ii) the slow and perplexed restructuring of some sectors and areas, due to shortage of directions on key sectors; (iii) in adequate development of supporting industry for further participation into the production network and global value chain; (iv) private sector, especially small and medium enterprises, are also under pressure from many areas of the business and investment environment as well as pressure to implement the target of state budget revenues in 2018; and (v) no further changes in mobilizing partners to recognize Vietnam as a market economy.

II. MACROECONOMIC PERFORMANCE AND PROSPECTS

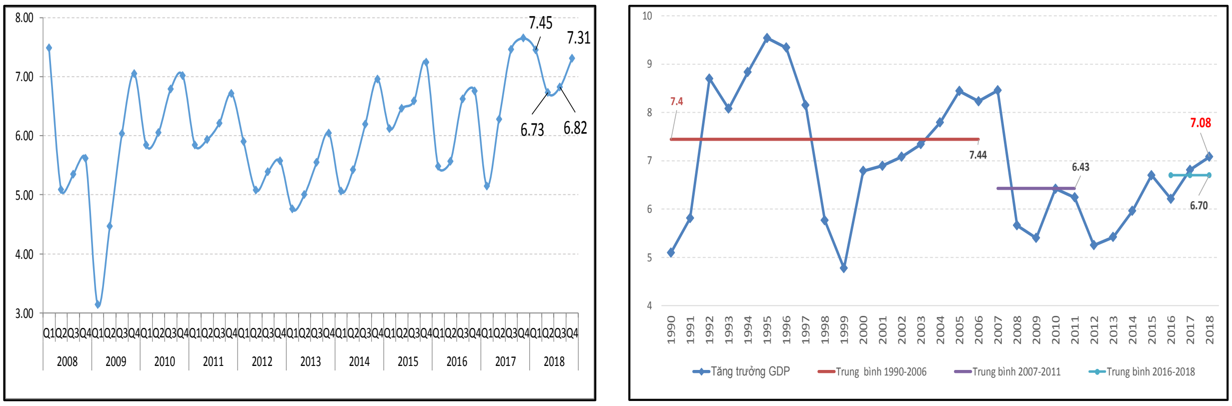
1. *Macroeconomic performance in Q4 and 2018*

1.1. Real economy

27. GDP grew by 7.31% in Q4,[18] lower than that of 2017, but higher than the growth of Q2-Q3. The correlation of quarters' growth rates was not much different from previous years – contrary to previous forecast on the possibility of declining growth over quarters. GDP growth attained 7.08% in 2018, the highest rate since 2008. This growth rate was also close to the average of 1990-2006 (Figure 8).

Figure 8: GDP growth

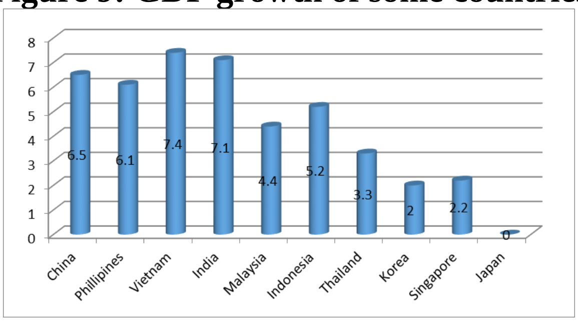
Unit: %



Source: General Statistic Office (GSO).

28. Compared to other countries in Asia, Vietnam's GDP growth rate in Q4 was at the highest. Vietnam was considered to be less negatively affected by trade conflicts between major countries/partner in ASEAN.

Figure 9: GDP growth of some countries



Source: Tradingeconomics.com

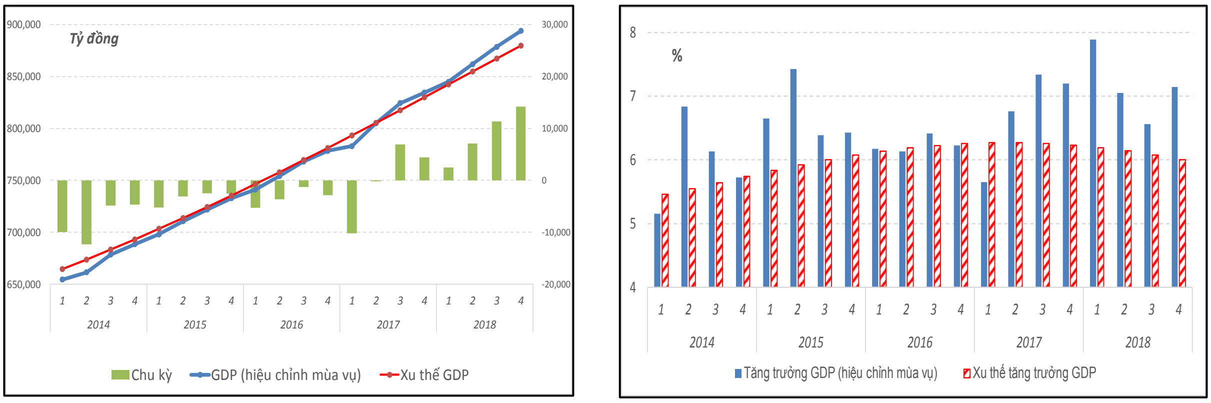
Note: Data for Q3 for countries, except Vietnam.

29. Significant efforts to reform economic institutions in general and business environment in particular have played an important role in inducing growth recovery in 2018. Notably, the determination of removing unnecessary business conditions enabled time-saving and reducing informal costs for enterprises. In addition, the quality of growth with regards to Total Factor Productivity (TFP) was much improved. In 2018, TFP contributed 43.50% to overall GDP growth, leading to an average contribution of 43.29% in 2016-2018, much higher than the average of 33.58% in 2011-2015.

[18] In Section II, growth was year-on-year basis, except otherwise stated.

30. Vietnam's economy has been in the expansion phase of growth cycle for the sixth consecutive quarter. Real (seasonally adjusted) GDP was still above trend. Similarly, real (seasonally adjusted) surpassed potential GDP growth, which shows downward trend in 8th consecutive quarters. It can be a question for maintaining sustainable growth in the coming time.

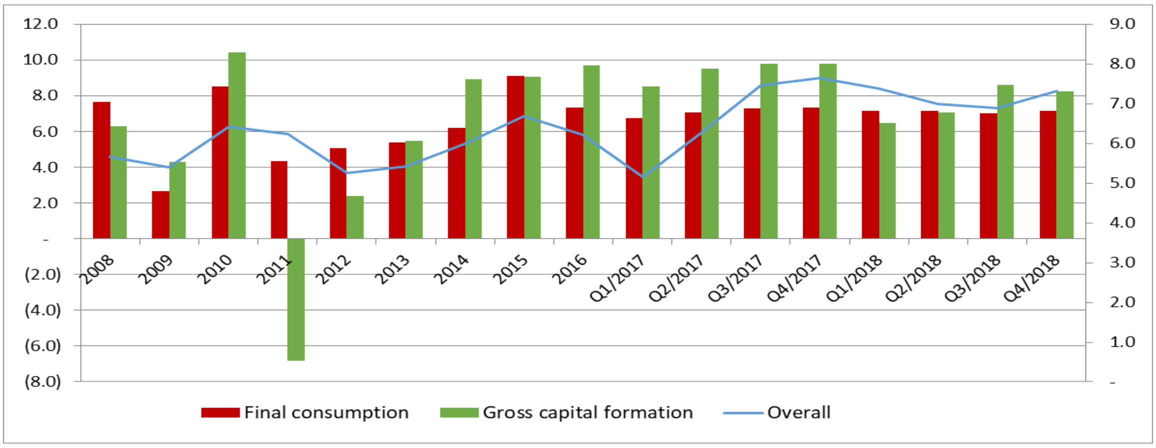
Figure 10: GDP growth cycle movement



Source: Authors' calculation.

31. On the demand side, final consumption was at high rate, increasing by 7.17% in 2018. Main reason was attributed to: (i) quite stable inflation rate for long time, strengthening the consumption confidence[19]; (ii) not-yet-limited credit for consumption; and (iii) increasing competition in e-commerce. Gross capital formation was also improved, up by 8.22%. However, contributions of final consumption and gross capital formation to overall GDP decreased, only 2.79 and 5.31 percentage points respectively. In contrast, merchandise trade was at high surplus, reducing the trade balances of goods and services.[20]

Figure 11: Growth of gross capital formation and final consumption



Source: GSO.

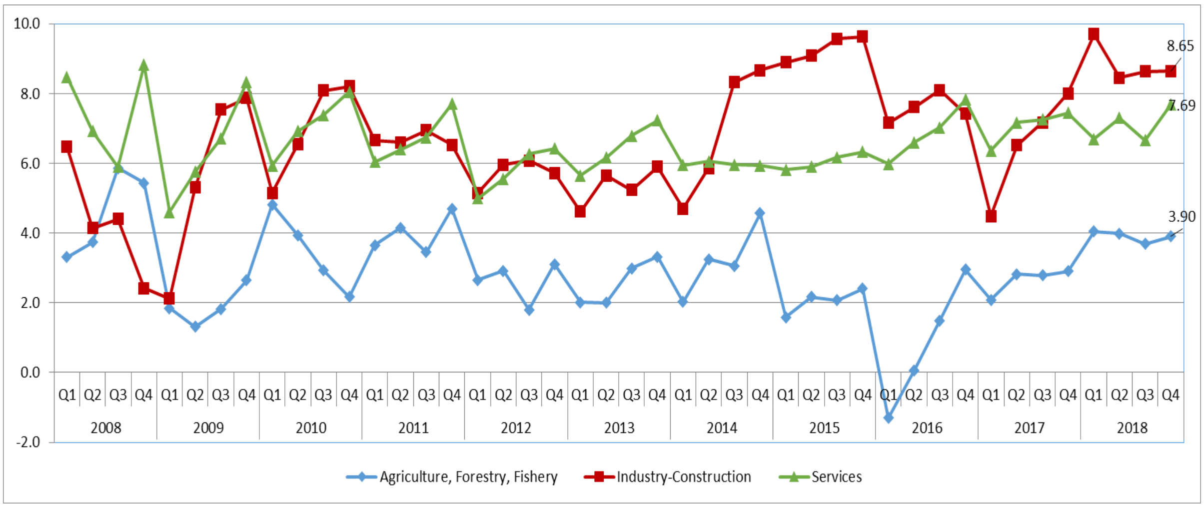
19 In Q3/2018, Vietnam's consumer confidence index hit record level, helping Vietnam rise to the second position in the consumer confidence benchmark globally. Source: https://www.nielsen.com/vn/vi/insights/2018/consumer-confidence-index-q3-2018-vietnam.html [Accessed in 9 January 2019].

20 Exports of goods and services increased by 14.27%; imports of goods and services increased by 12.81%. Trade balance of goods and services often wtinessed negative contribution of GDP growth of Vietnam.

32. By sector, industry and construction played a leading role for ensuring stable economic growth, attaining highest growth rate of 8.65% in Q4 and 8.85% in 2018 (Figure 12). The manufacturing sub-sector went up to 12.98%, lower than the YoY rate of 2017, but much higher than the rates of 2012-2016.[21] Mining sub-sector still experienced negative growth (reducing by 3.11%); however, the redution was considerably narrowed as compared to the decrease of 7.1% for previous year.

Figure 12: GDP growth by sector

Unit: %



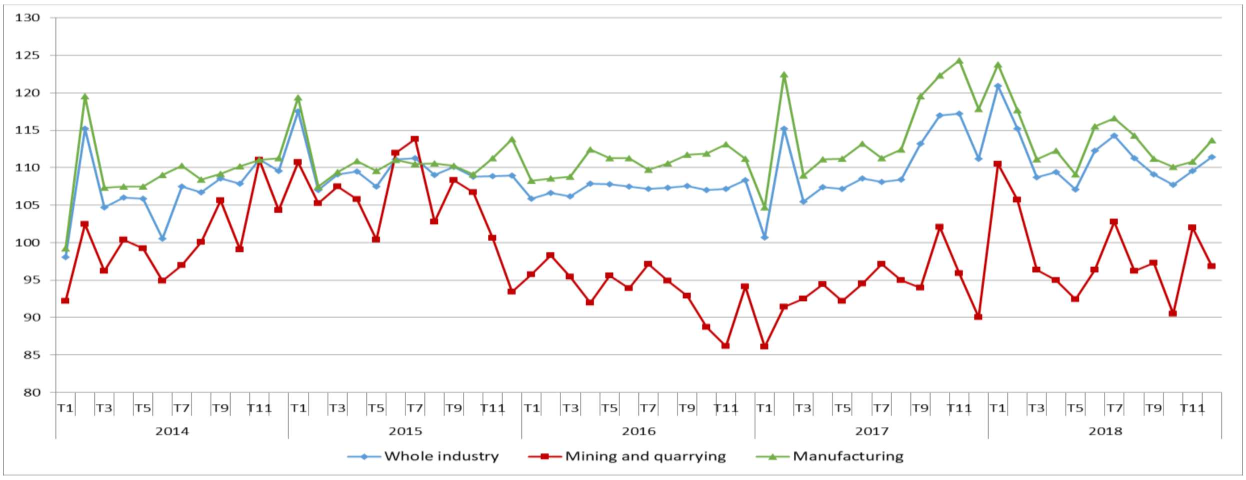
Source: GSO.

33. The overall Index of Industrial Production (IIP) increased by 9.4% in Q4. IIP was up by 10.2% in 2018, lower than that of 2017 (11.3%) and higher than same period of 2015-2016 (Figure 13). Manufacturing sub-sector grew by 11.1% in Q4, a slow-down as compared to previous quarter (up by 13.1%). IIP of mining and quarrying sub-sector rose by 2% in November, but did not compensate for the negative growth of nearly 10% in October. Overall, IIP reduced by 2%, of which crude oil exploitation was down up to 11.3%[22].

[21] Value-added of manufacturing sub-sector of some selected years: up by 9.05% in 2012; up by 7.22% in 2013; up by 7.41% in 2014; up by 10.60% in 2015; up by 11.90% in 2016; up by 14.40% in 2017; and up by 12.98% in 2018.

[22] Exploitation plan of crude oil was set at 11.31 million tons in 2018, lower than the exploited figure of 2017 (13.56 million tons).

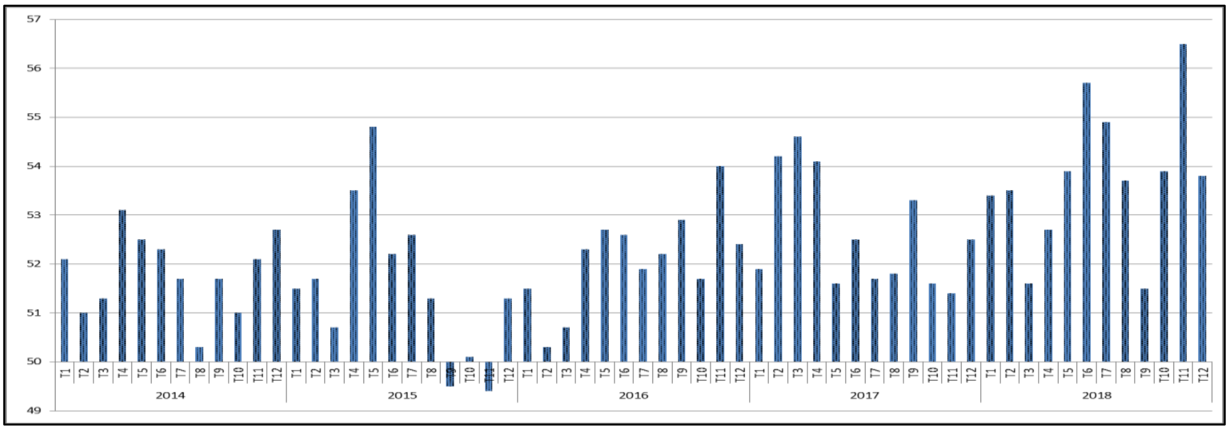
Figure 13: Index of Industrial Production, 2013-2018



Source: GSO.

34. Purchasing Managers Index (PMI) of manufacturing sector remained high[23] in Q4, at the leading among ASEAN[24] (Figure 14). The confidence of production industries continued to improve, mostly attributed to (i) initial effects of solutions on improving business environment and removing unnecessary burdens for business community in some recent years; (ii) more experienced in exploiting export market for enterprises, even in the escalation of US-China trade tension; and (iii) relative stability of price and interest rate.

Figure 14: Purchasing Managers Index, 2014-2018



Source: Markit, HSBC.

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

35. The agriculture-forestry-fisher (AFF) experienced impressive growth in 2018: value-added of the sector was up by 3.90% in Q4 and 3.76% in 2018. In addition to favorable weather conditions and reasonable prices, this result was mostly attributed to (i) efficiency of structural transformation, shifting towards increasing the share of high value-added industries, particularly in agriculture and fishery plantation; (ii) agricultural export surpassed planned figures and

[23] PMI was at 53.9 in October; sharply increased to 56.5 in November and reduced to 53.8 in December.
[24] PMI was high in September (53.3), and decreasing in October and November, at 51.6 and 51.4 respectively.

ranked second in Southeast Asia, leading to the expansion of consumption market; and (iii) improvement of domestic production and consumption.

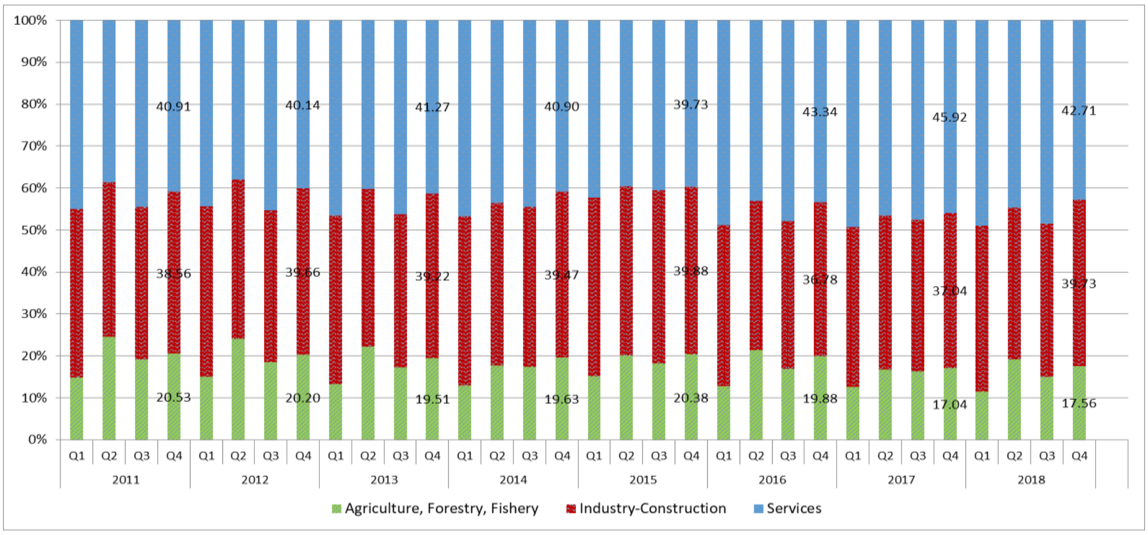
36. The service sector continued its steady growth, attaining 7.69% in Q4 and 7.03% in 2018. Wholesale and retail trade was significantly contributed to the overall growth of the sector (with the highest growth of 8.51% since 2015). Tourism, accommodation and catering services experienced positive signals (international tourist was at high record of 15.5 million visitors, increasing by nearly 20% and the revenues of travel tourism grew by 14,1% as compared to that of 2017). Finance, banking and insurance rose by 8.21% - the highest rate since 2009.

37. The real estate market was still in the restructuring process, up by 4.33% in 2018. FDI inflows increased sharply as compared to 2017 (accounting for 18.7% of total registered capital, and 3rd ranking for FDI attraction). Inventory of real estate was decreasing, however the "mismatch" of demand and supply still existed for some certain segments. Factors related to real estate bubbles have not yet revealed as concerns from the beginning of the years.

38. Economic structure was slightly changed. With improvement of growth, the share of AFF slightly increased to 17.56% in Q4, shares of industry-construction was up from 37.04% in Q4/2017 to 39.73% and service sector went down to 42.71% (Figure 15).[25]

Figure 15: Quarterly GDP structure, 2011-2018

Unit: %



Source: GSO.

39. Performance of enterprises showed some improvements in Q4, with 34,664 newly registered enterprises, up by 6.81%. Total registered capital attained VND 514.69 billion, increasing by 63.68%. Efforts on improving business environment, reducing unnecessary burdens and removing business conditions were proofs of enhancing health for enterprises. The number of dissolved and

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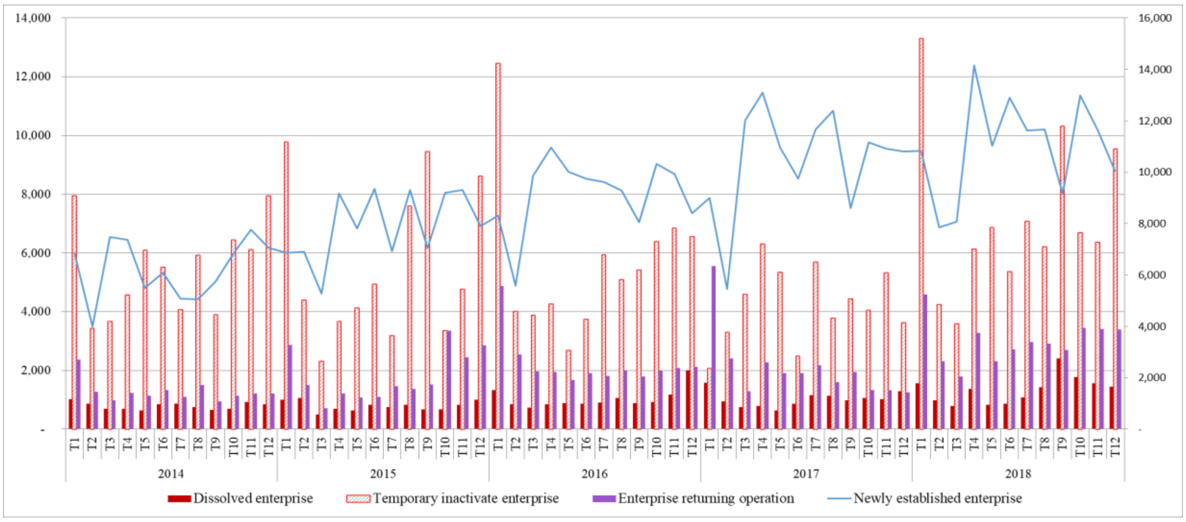
[25] This analysis excludes the allocation of product taxes less subsidies on production in calculating the shares of sectors.

inactive enterprises reduced as compared to previous year, at 2.63% and 4.32% respectively (Figure 16).

Figure 16: Selected indicators of enterprises' performance, January 2014-December 2018



Source: Business Registration Agency, MPI.

40. Survey on business tendency of manufacturing sub-sector showed that some 44.7% of enterprises assessed better production and business conditions in Q4 than in Q3; another 16.9% of enterprises faced difficulties and some 38.4% of enterprises assessed stabilty. For Q1/2019, some 47.3% of enterprises expected better tendency; another 14.9% more difficult and 37.8% stability (Figure 17). Meanwhile, FDI sector was at the most optimistic when 88.3% of enterprises assesed better or stable production and business condition in Q1/2019 than Q4/2018; this figure was 83.2 % và 84.0% for state and non-state sector respectively

Figure 17: Business tendency

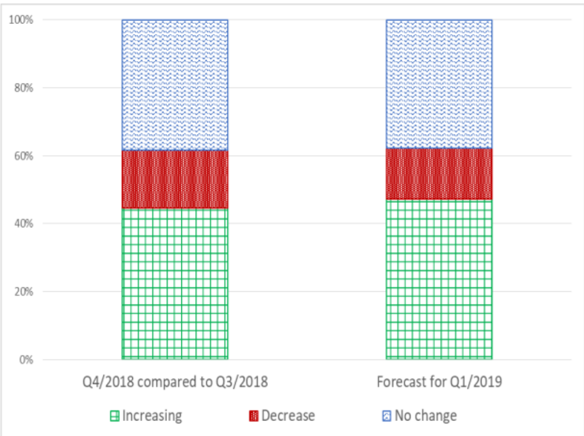
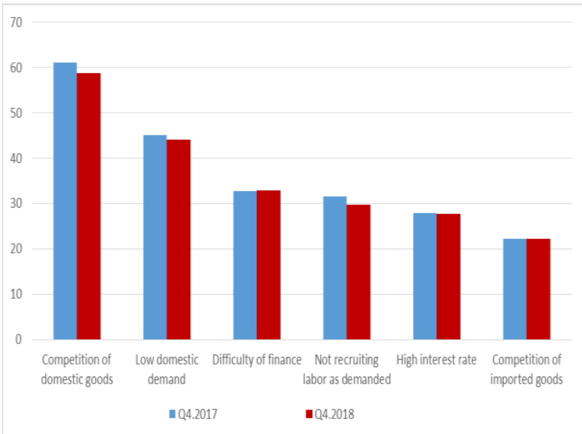


Figure 18: Factors affecting production and business

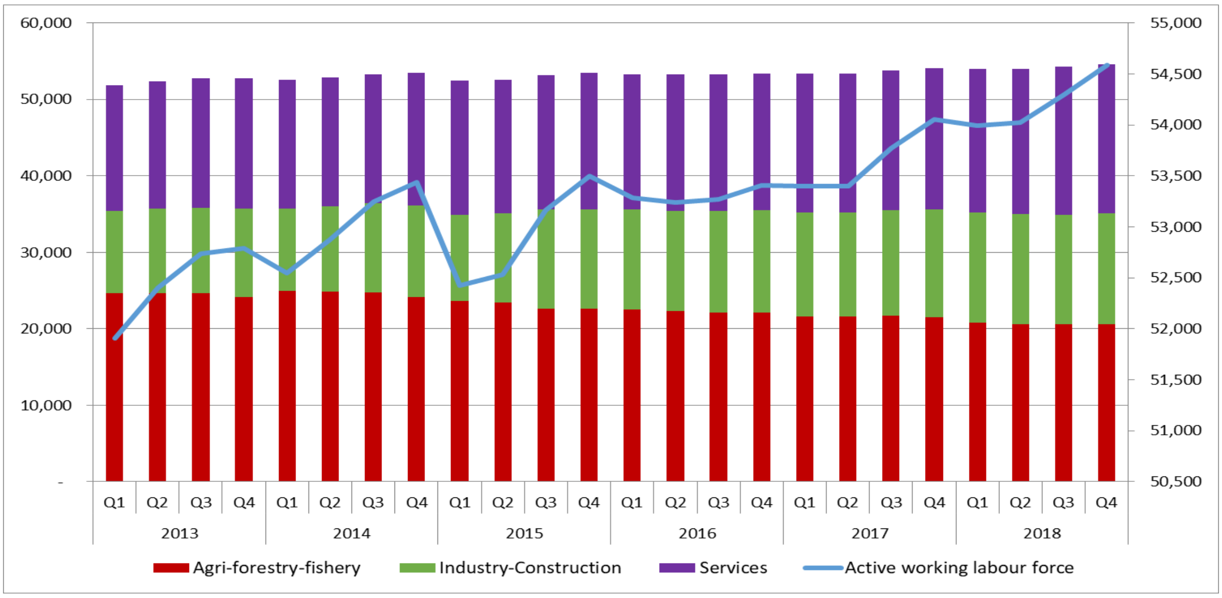


Source: GSO.

41. Production and business still faced difficulties with regards to major factors of competitiveness of domestic products (58.7%); weak demand of domestic market (44.0%). Other factors affecting production and business included financial difficulties, not recruiting labor as demanded, high interest rate and competition of imported goods (Figure 18).

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

Unit: thousand people

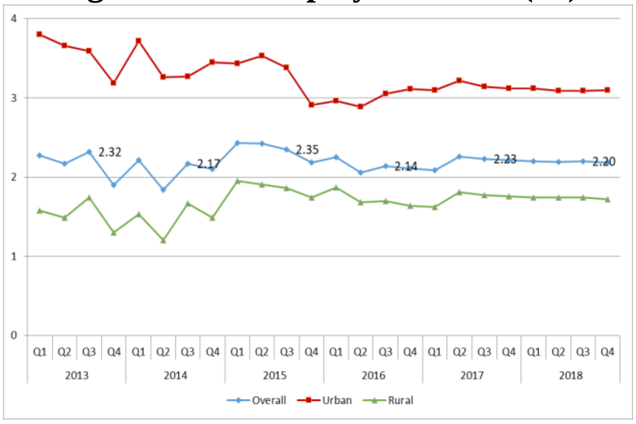


Source: GSO.

42. Total economically active labor force was 54.58 million people in Q4, comprising of 20.6 million people in AFF, accounting for 37.7%; 14.6 million people in industry-construction, or 26,7%; and 19.4 million people, or 35.6%. Overall, total economically active labor force was 54.3 million people in 2018, increasing by 3.1% (YoY) (Figure 19).

43. Overall unemployment rate showed almost no change in 2018, slightly decreased to 2.18% in Q4 and at 2.20% for 2018.[26] Unemployment rates of skilled labor, including college and above, were improved and fell to 3.82%; meanwhile unemployment of primary skill labor slightly increased both in terms of quantity and ratio.

Figure 20: Unemployment rate (%)

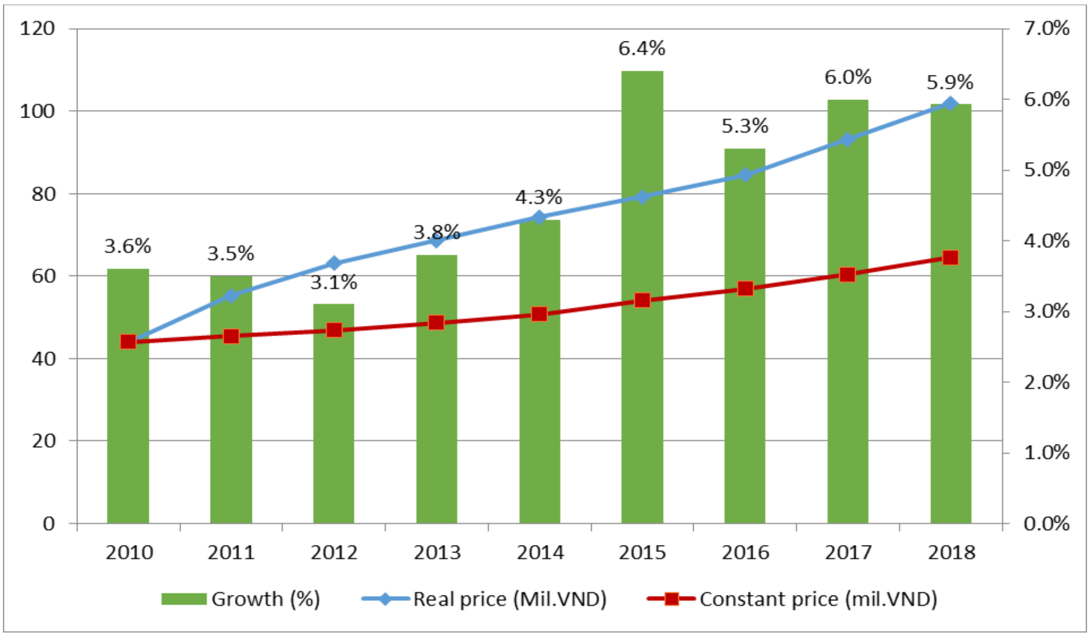


Source: GSO.

44. The quality of growth, to some extent, was improved. TFP’s contribution to overall GDP attained 43.5% (higher than the figure of 39.5% in 2017 and the average of 32.2% in 2011-2017). Labor productivity (at current prices) estimated at VND 102.36 million in 2018, up by 9.8% as compared to VND 93.2 million in 2017 and increasing by 38.1% as compared to VND 74.1 million in 2011-2017. With regards to 2010 constant price, the figure was VND 64.6 million/labor (Figure 21). Efficiency of capital shown by ICOR was 5.97 (lower than the figure of 6.11 in 2017).

[26] It was 2.33% in 2015; 2.30% in 2016 and 2.24% in 2017.

Figure 21: Labor productivity, 2010-2018



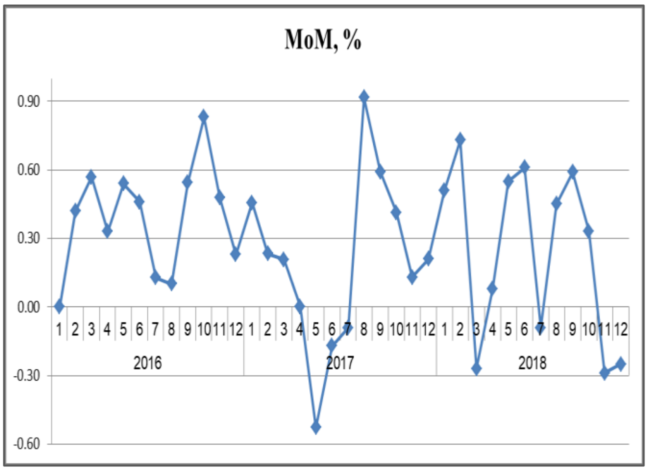
Source: GSO.

1.2. Inflation

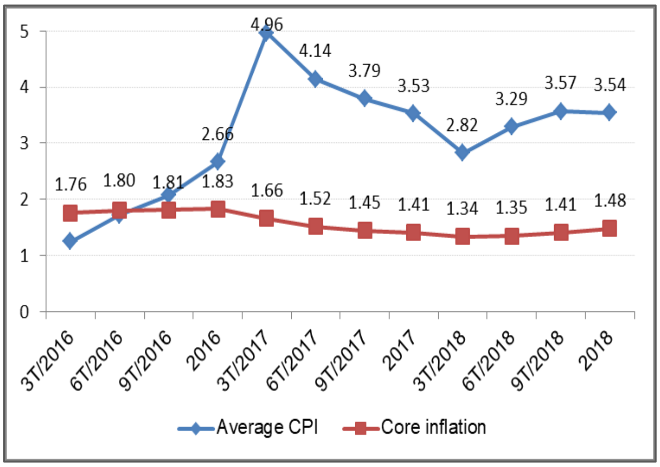
45. The Consumer Price Index (CPI) increased by 0.33% in October (MoM), and then reduced by 0.29% and 0.25% in November and December, respectively. The average CPI was up by 3.65% in Q4, lower pace in relative to the figure of Q3 (increased by 4.35%). On the average, CPI increased by 3.54% in 2018, attaining the target set by the National Assembly (below 4%)

Figure 22: Inflation, 2016-2018

(a) MoM inflation



(b) Core inflation and average CPI



Source: GSO

46. Core inflation remained relatively stable at low levels. On the average, core inflation stood at 1.48% in 2018 (YoY), increased at low and stable pace over time. This indicated that the management of monetary policy and credit did not intensify pressure on inflation.

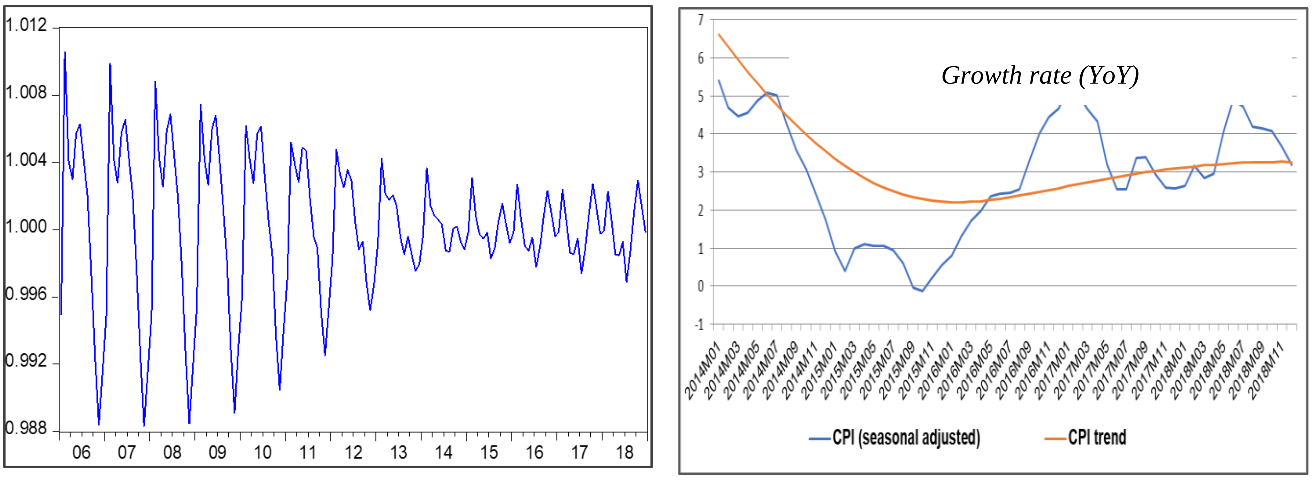
47. Key factors affected CPI in 2018 included: (i) increased price of food-foodstuff; (ii) adjustment of domestic oil price due to changes of the

international price[27]; and (iii) high lending rates thus enterprises were unable to reduce capital cost. In the meanwhile, though the global financial conditions changed considerably, price transmission of international to domestic markets was modest as the average indices of import price and export price increased insignificantly.[28]

48. Noteworthy, prices of some State-controlled goods were not adjusted in 2018. There was proposal on taking advantage of available room for inflation management to adjust prices of some goods (for instance electricity) in order to relieve inflation pressure in coming years. However, price adjustments should accompany with the improvement of effectiveness and productivity – which was unobvious in the past years.

49. The decomposition of CPI by seasonal factor and trend indicated that CPI took the upward trend, but was relatively stable at the range of 3-4%. Impacts of seasonal factor on CPI remained existed, but changes over months were smaller in the period of 2015-2018 compared to the previous period.

Figure 23: Decomposition of CPI by seasonal factor and trend



Source: Authors' calculation using GSO statistics

50. The inflation target of 2019 (about 4%) is feasible and more flexible in relative to the target of 2018 (below 4%), laid on assessment of uncertainties for economic management and inflation in the coming time. In the Resolution No. 01/NQ-CP dated January 1, 2019, the Government set the inflation target of "below 4%". Favorable factors for controlling inflation in 2019 include: (i) stable and more sustainable inflation expectation; (ii) lower macroeconomic risks; (iii) strict management of the Government aiming at stabilizing and balancing supply-demand of essential goods; close coordination among ministries and line ministries on price adjustment of State-controlled goods and services (electricity, healthcare, education) in order to prevent negative impacts

[27] Since November 2018, the domestic petrol price was adjusted downward for 6 consecutive times (on October 22, November 6, November 21, December 6, December 21 and January 1, 2019); environment protection tax imposed on petrol was raised to the ceiling rate and will take effect from January 1, 2019, but did not have impact on petrol price thanks to the usage of the petrol price stabilization fund upon instruction by the Government.

[28] In 2018, the average import price index and export price index increased by 0.9% and 1.08% respectively (YoY).

on inflation expectation and to control inflation in comply with targeted objective.

51. However, requirement to adjust regional minimum wage and price of State-controlled goods and services is critical; while external factors (such as international prices, trade tension and collision among major economies, monetary normalization in various countries, etc.) likely create rapid and significant impacts on the economy in the context of deeper and broader integration of Vietnam into the regional and global economy. To that extent, it is critical to minimize administrative approach to inflation control (instruction on postponing upward adjustment of electricity price, controlling upward adjustment of petrol and oil, revising schedule of raising healthcare fees at certain times, etc.).

1.3. Monetary movement

52. VND-denominated deposit rate of commercial banks increased in Q4. The upward trend was visible for deposits with terms of 6 months, 6 to 12 months and over 12 months. Meanwhile, demand deposit rate remained stable.

53. Deposit rate was affected by factors including: (i) expectation of some commercial banks on raising deposit rates to meet the credit demand in ending months of 2018; (ii) competition among commercial banks to prepare credit for the beginning months of 2019 and Tet festival; (iii) pressure from regulation on reducing short-term deposits for medium-term and long-term loans, taking effect since 1st September, resulting in adjustment of long-term deposit rates of commercial banks to restructure their capital; and (iv) interest rate hike of FED in December 2018, forcing commercial banks to raise deposit rates to make VND more appealing.

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 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	6.5-7.3
End of September 2018	0.6-1.0	4.3-5.5	5.3-6.5	6.5-7.3
End of December 2018	0.6-1.0	4.5-5.5	5.5-6.5	6.6-7.3

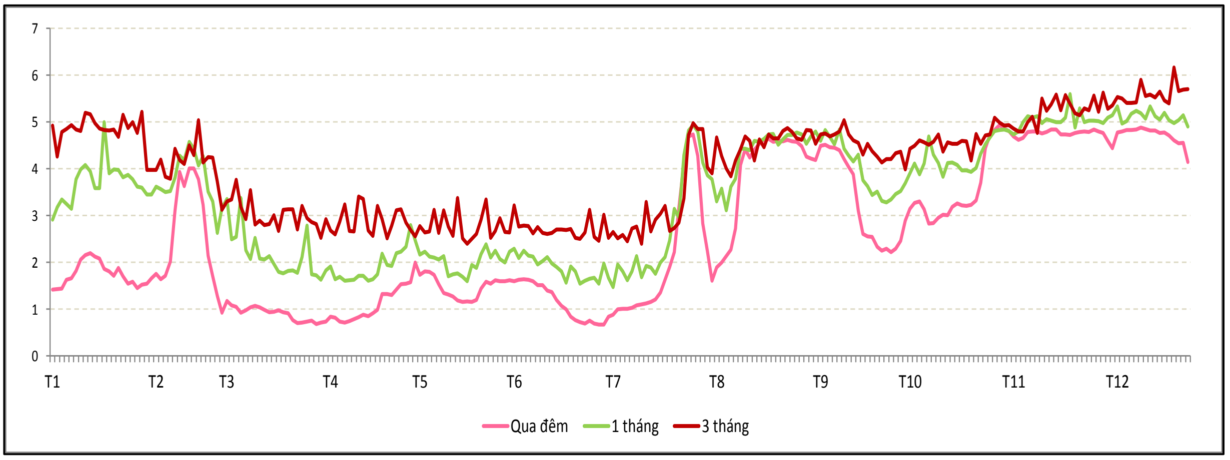
Source: SBV.

54. In Q4, some commercial banks raised VND-denominated lending rates from 0.5 to 1 percentage points in various terms due to the pressure from raising deposit rates and tighter credit room. VND-denominated lending rates in Q4 prevailed around 6-9% per annum for short-term loans and 9-11% per annum for medium and long-term loans. USD-denominated lending rates prevailed at 2.8-6.0% per annum, in which rates for short-terms loans were 2.8-4.7% per annum and medium and long-term loan rates were 4.5-6.0% per annum.

55. Interbank rates increased in Q4. Overnight rates rose sharply from mid-October to mid-December then slightly decreased. Interbank rates of other terms witnessed the same pattern. Different from Q3 when SBV proactively increased interbank rate to relieve pressure on exchange rate, the increase of interbank rates along with SBV's cash injection in Q4 indicated limited liquidity among commercial banks.

Figure 24: Interbank interest rates, 2018

Unit: % per annum

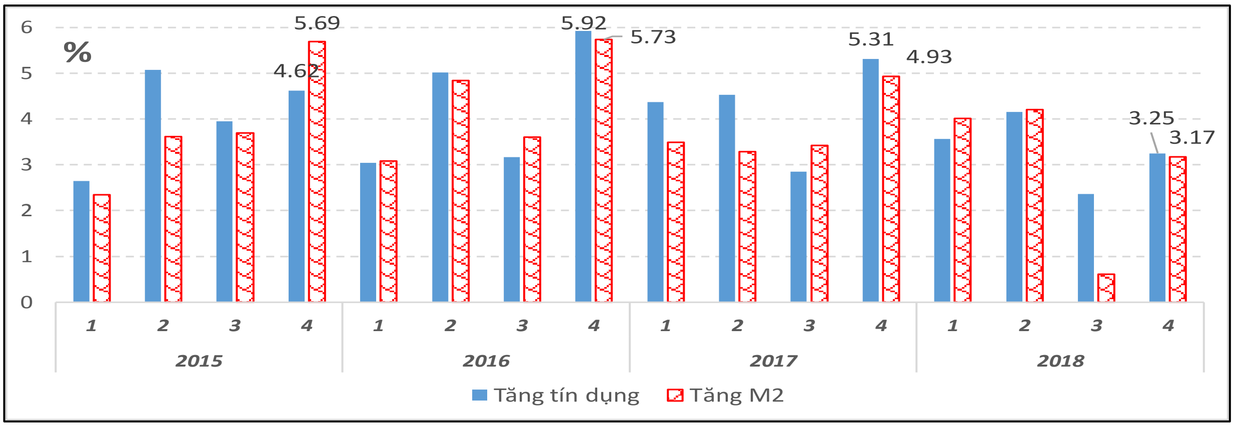


Source: SBV.

56. Outstanding credit grew approximately 3.25% in Q4 (compared to Q3). Overall, credit growth in 2018 was well balanced among 4 quarters and at slower pace compared to 2017 (Figure 25). Credit growth in 2018 was estimated at 14%. This figure was much less than the corresponding result of 2017 (18.17%) and less than 2018 target (around 17%).

57. Main reasons for slow credit growth in Q4 were: (i) commercial banks that had capital were not allowed to increase their credit growth; (ii) SBV controlled credit flows to risky sectors (securities, real estates). In the context of external uncertainties and the priority to control inflation, it is necessary not to relax credit growth for commercial banks. Furthermore, SBV announced its roadmap to reduce USD-nominated credit, thus continued to decrease dollarization.

Figure 25: Growth rates of outstanding credit and M2 (%)



Source: Compilation from various sources.

58. Credit performance in Q4 and 2018 witnessed some difficulties. First, monetary policy normalization in major economies created more pressure on foreign capital and exchange rate, thus limiting the ability to reduce interest rates in Vietnam. Second, slow capital increase in some commercial banks affected capital adequacy criteria and credit supply capacity. Third, difficulties and limitations in bank loans caused many businesses and individuals to rely more on informal credit institutions despite their higher interest rates than commercial banks' rates.

59. Technology platform-based lending became more prevalent in 2018. By the end of 2018, Vietnam had 76 and 41 institutions providing internet and mobile payment service, respectively.[29] By the end of December 2018, the interbank e-payment system completed 137.5 million transactions with total value of 73 quadrillion dong, equivalent to 13 times of GDP. In the first 9 months of 2018, total mobile transactions reached 122 million, with total value of approximately 1.1 quadrillion dong, increasing almost 30% by volume and 126% by value compared to 2017.[30]

60. Total liquidity (M2) rose almost 3.2% in Q4 (compared to Q3, Figure 25). The increase was slower than previous years, however noticeably higher than Q3. By the end of December, M2 grew nearly 12.5% compared to the end of 2017. Overall, SBV managed M2 flexibly, in line with the movements of foreign capital flows, the liquidity demand of commercial banks and GB issuance. Hence, the impact on inflation was not substantial; core inflation tended to decrease in 2018.[31]

61. VND/USD central exchange rate was remarkably adjusted upward in Q4. The central rate at the end of Q4 rose 0.49% compared to the end of Q3 and 1.78% compared to the end of 2017. Noticeably, exchange rate adjustment was not meant to follow market movement but to create room for commercial banks' rates. By the end of Q3, the gap between commercial banks' rates and central rates fell to 1.8%, much lower than the gap of 3% prolonged from the end of July to the end of October.

62. Foreign exchange market showed cooling signs in Q4. Exchange rate on parallel market continued to fall and did not differ from commercial banks' rates. Commercial banks' rates also decreased amid November and December. Main reasons include: (i) more stable USD index as compared to previous months; (ii) positive expectations from FDI disbursement and trade surplus; Along with good exchange rate management in Q3, the forex market in 2018 generally was not much disturbed. This could be one of the reasons for SBV to continue reduce foreign currency credit.

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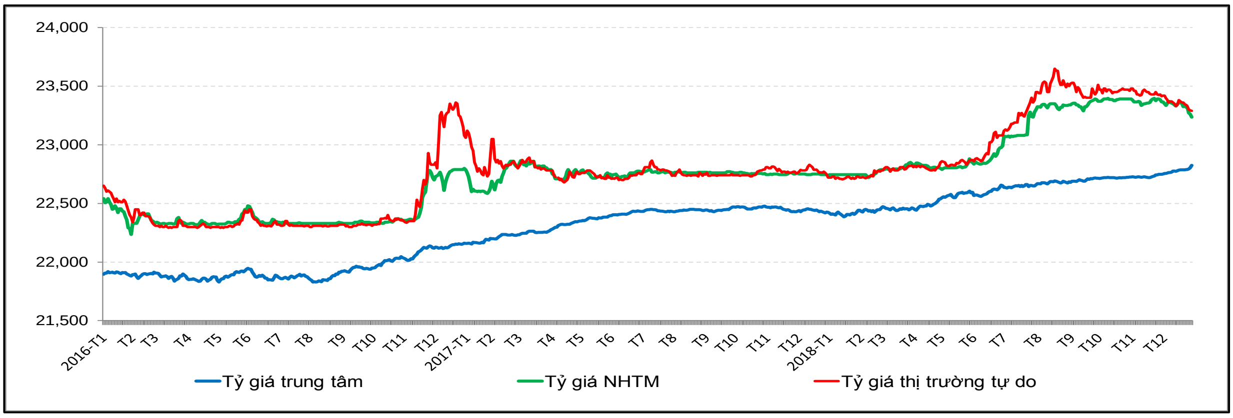
[29] Source: http://cafef.vn/tang-truong-tin-dung-nam-2018-dat-14-no-xau-xuong-duoi-2-20190107094855182.chn [Accessed on 10 January 2019]

[30] Source: https://anninhthudo.vn/kinh-doanh/giao-dich-ngan-hang-dien-tu-tang-manh-trong-nam-2018/795859.antd [Accessed on 10 January 2019]

[31] See more in Inlfation section

Figure 26: VND/USD exchange rate, 2016-2018

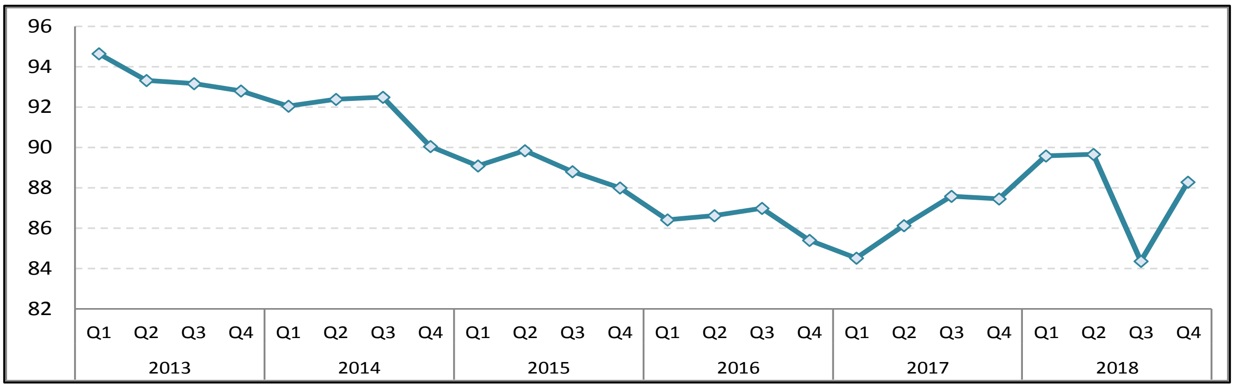


Source: CIEM's compilation.

63. Communication related to exchange rates revealed both strengths and weaknesses in Q4. To a certain extent, that SBV published less of its exchange rate management orientation in Q3 and Q4, which was different to 2017, created more flexibility in coping with uncertainties from international market. However, biased reporting and comments on Circular 19 or the sanction on unlicensed forex purchase in Can Tho somewhat affected market view on SBV's scheme to protect VND value.

64. REER in Q4 rose 4.6% compared to Q3 and 0.9% (YoY). This indicated that Vietnam's exports were relatively cheaper than that of partner countries. This happened because inflation of partner countries accelerated faster than Vietnam's inflation. The movement was in contrast to Q3. The result implies that inflation control and VND stabilization mostly contributed to export promotion.

Figure 27: REER



Source: Authors' calculation.

Note: Q1/2012=100. REER is calculated based on trade data with 20 biggest trading partners and CPI statistics; Data for Q4/2018 was estimated. A smaller value implies that Vietnamese goods are relatively more expensive than foreign ones.

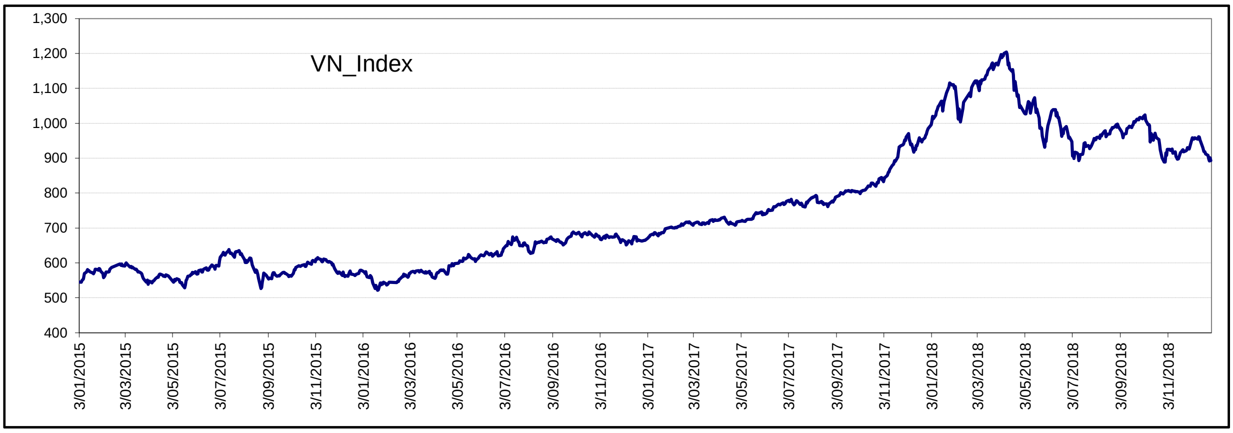
65. In Q4, FED hiked interest rates to 2.25-2.5%. This was the 4th increase in 2018 and 9th since FED began its monetary policy normalization after the 2008 global financial crisis. US interest rate increase may affect foreign investment in Vietnam. This impact contrasted with Vietnam's expectation to attract more FDI in the context of US-China trade war escalation. In such context, Vietnam

should be more cautious and avoid the mentality of devaluating VND to promote export.[32]

66. SBV did not publish details about foreign reserves data. According to the National Financial Supervisory Commission, in December 2018, Vietnam's foreign reserves were approximately equivalent to 12 weeks of import. This amount could be lower than the data published in June 2018 (USD 63.5 billion). However, the buffer for Vietnam's policy from foreign reserves was still substantial. *First*, FDI disbursement and trade surplus were quite solid. *Second*, some experts argued that the reserves assessment based on the number of import weeks was not adequate in current context because 90% of Vietnam's imports were machinery and inputs for production and export of FDI enterprises (which did not always involve with forex transactions). *Third*, SBV has used more flexible instruments other than central exchange rate to effectively respond to forex market shocks.

67. Different from 2017, Vietnam's stock market witnessed upward and downward movement throughout 2018. From the peak of over 1,200 in April, VN-index declined sharply to 892.54 by the end of 2018 (fell 9.32% compared to the end of 2017 and 25.89% from the peak in April) (Figure 28). Statistics showed that there were 7 sessions in 2018 when VN-index decreased more than 3%, in which one session witnessed a drop of more than 5%. Main reasons were: (i) credit was restricted to risky sectors; (ii) uncertainties from the external economic environment (especially the continuous of US interest rates and the escalating US-China trade war); and (iii) interest rates were under upward pressure, especially in the ending months of 2018.

Figure 28: VN-Index, 2015-2018



Source: Authors' compilation.

1.4. Investment

68. Gross investment in Q4 was estimated at VND 606.9 trillion, increasing by 12.5%. The total investment in 2018 reached VND 1856.6 trillion, increasing 11.2% (Table 3). Excluding the price factor, the 2018 investment increased by 7.2%. The ratio of investment to GDP reached 32.8% in Q4 and 33.5% for the

[32] See more in CIEM's Macro economic report Q3/2018

whole year, showing a slight increase compared to 2017 (33.3%), albeit significantly higher than that of the 2011-2015 period (31.7%).

Table 3: Investment in Q4 and 2018 at current prices

Unit: VND trillion

	Q4	2018	Changes compared to 2017 (%)
Total investment	**606.9**	**1856.6**	**11.2**
State investment sources			
State budget investment	110.4	324.9	12.5
Government bonds	13.4	40.8	47.0
State credit	10.4	35.8	-39.5
Borrowings from other sources (by the State sector)	38.7	117.3	-5.9
Investment by SOEs (Equity)	21.9	70.9	-10.9
Investment by individuals and private sector	*269.2*	*803.3*	*18.5*
FDI	*133.4*	*434.2*	*9.6*
Other sources	*9.5*	*29.4*	*81.5*

Source: GSO.

69. There remained inadequacies and obstacles in the implementation and disbursement of public investment capital, particularly with regard to regulations on investment procedures in implementing the Law on Public Investment. Therefore, the disbursement of public investment capital in Q4 and in 2018 was though higher than the same periods in 2017 but did not meet the assigned capital plan.

Figure 29: Share of investment by source (%)

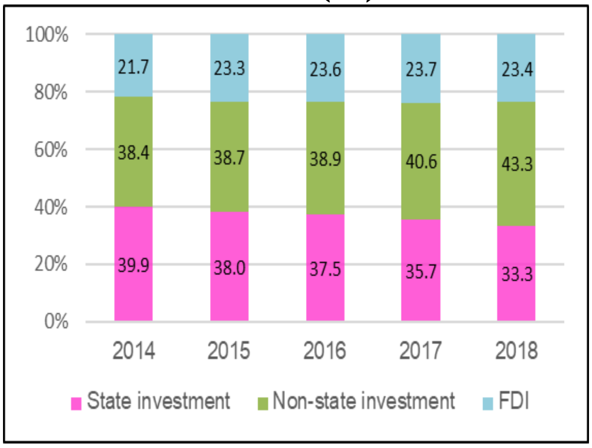
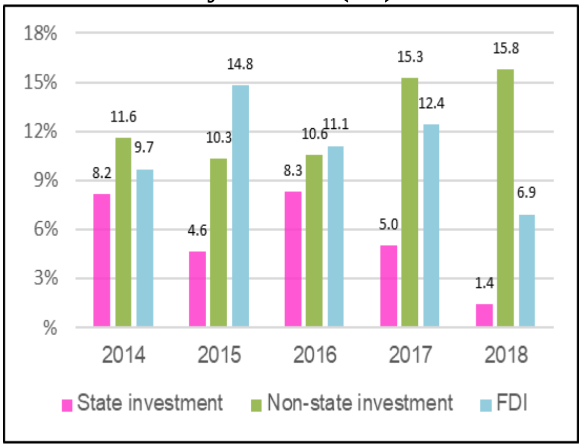


Figure 30: Growth rate of investment by source (%)



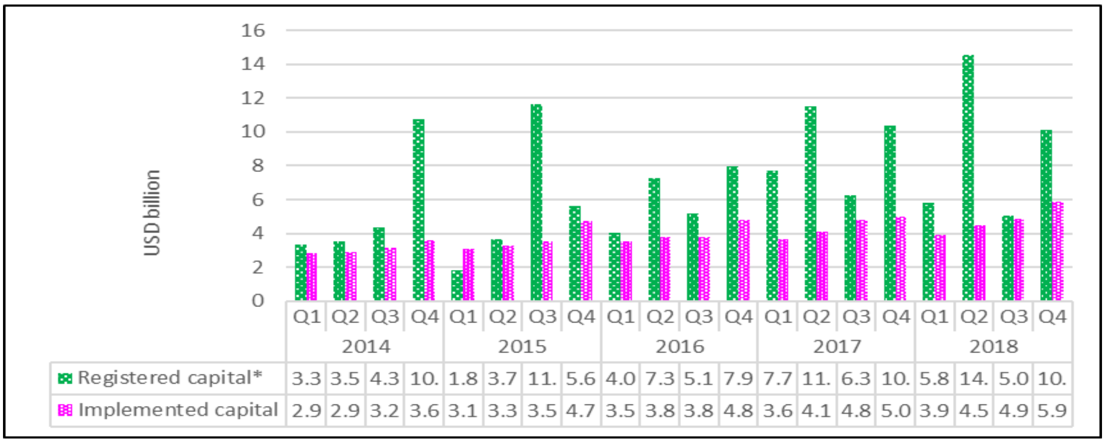
Source: GSO.

70. The structure of investment sources shifted further in 2018. Investment from the state sector continued to decline. The growth rate of investment from the state sector reduced from 8.2% in 2016 to 5% in 2017 and further down to 1.4% in 2018 (Figure 30). The share of the state sector in total investment

decreased by 2.4 percentage points in 2018. The private economic sector has played an increasingly important role in investment activities. The share of private capital in total investment increased from the average of 38.3% in the period of 2011-2015 to 40.6% in 2017 and 43.3% in 2018 (Figure 30).

Figure 31: FDI inflows to Vietnam

Unit: USD billion



Source: GSO.

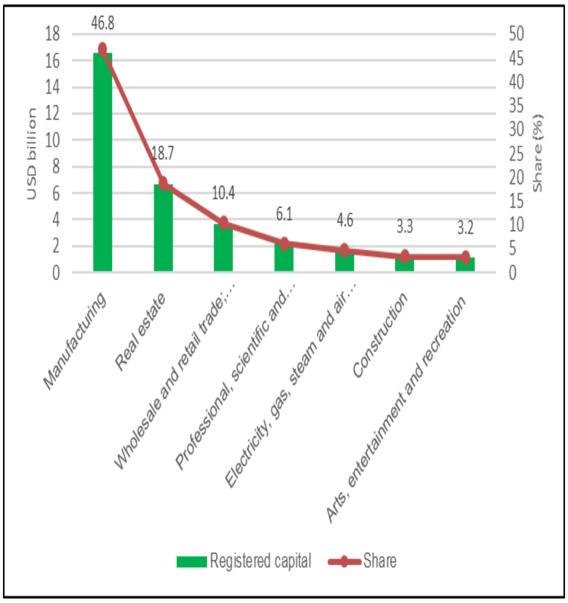
Note: (*) Including newly registered capital, supplemented capital, contributed capital and share purchase of foreign investors

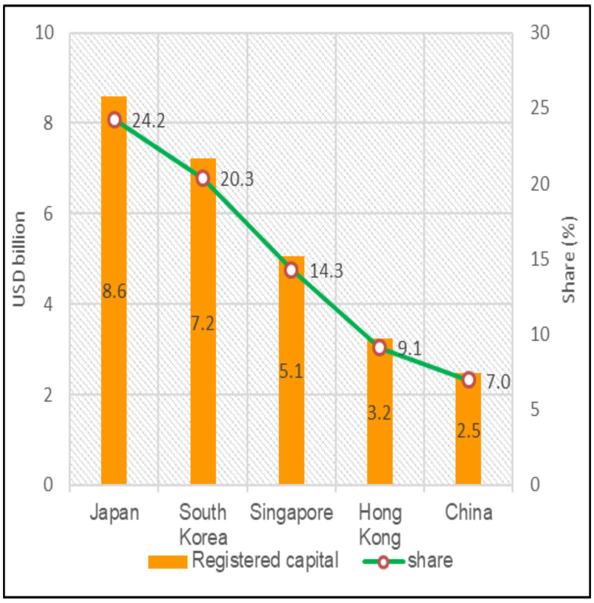
71. The FDI disbursement increased sharply, attaining 14.5% in Q4. The FDI disbursement in 2018 reached a record high of USD 19.1 billion, up by 9.1% (Figure 31), whereas the FDI commitment witnessed a modest reduction in Q4 and 2018 as a whole. Although FDI attraction in term of the scale of registered FDI is no longer a top priority, Vietnam still needs to pay due attention to the "psychological developments" of foreign investors - both potential and present investors - to work out appropriate solutions. This is particularly urgent in the context of complicated and unpredictable developments of the US-China Trade War, as well as considering the possibility of shifting investment back to the home country of investors supported by digital transformation, customization, automation, combined with artificial intelligence that allows replacing cheap unskilled workers with increasingly optimized human-machine options

72. In 2018, there were 7 industries and sectors attracting over USD 1 billion USD each of registered FDI, accounting for 93% of total registered capital. In which, the manufacturing sector sustained the leading position with USD16.6 billion USD of committed capital, accounting for 46.8% (Figure 32). However, the incoming FDI flows still focused on labor-intensive industries and/or processing and assembly activities, and relied on imported materials, so Vietnam's gain in value added remained low.

Figure 32: Registered capital by industries

Figure 33: Registered capital by countries/territories





Source: GSO.

73. Out of 76 countries and territories having investment projects in Vietnam in 2018, the top 5 countries and territories in committed capital were all in Asia, accounting for 74.5% of total registered capital[33] (Figure 33). The cumulative registered FDI until 20/12/2018 showed that 8 out of 10 leading investors come from Asian countries, and the remaining 2 countries and territories (The British Virgin Islands and the Netherlands) are often considered "tax haven" of foreign investors.

74. The M&A market in Vietnam witnessed roughly 4350 M&A deals totaling nearly USD 49 billion in the past decade (2009-2018). With the introduction of open funds and derivative securities products, activities on the M&A market have increasingly been occurred in numerous diverse forms. In addition, the dynamic development of the private sector, the stable macroeconomic context and the Government's commitment of continued enhancement of the business environment, are the driving forces pushing the participation of investors through M&A activities in Vietnam. Many major M&A deals were executed in 2017-2018 (Table 4).

75. Notable changes in the draft Law on Securities allowing foreigners to be major shareholders in companies whose operations deemed to have no significant impacts to the national security are expected to create new growth drivers for Vietnam's capital market. The proposed Government's move to remove restrictions on foreign ownership cap in enterprises (the current ceiling limit of 49%) is expected to create a big "push" for booming development of M&A deals, thus boosting GDP growth. M&A deals are forecast to focus on areas such as pharmaceuticals, banking, real estate, consumer goods, retails and real estates.

[33] Including contributed capital and purchase of shares

Table 4. Some major M&A deals executed in 2017-2018

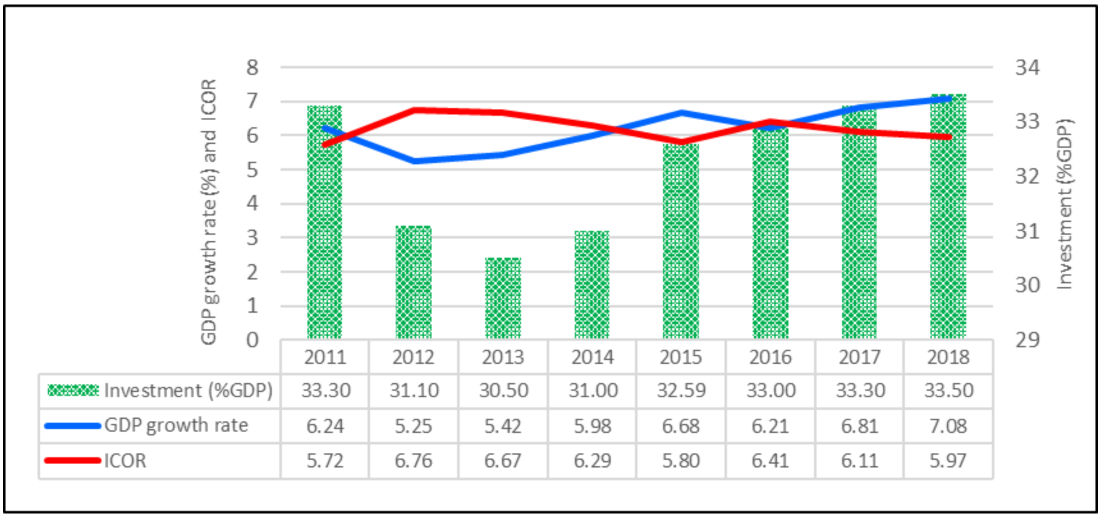
Unit: USD million

Buyer	Seller	Holding rate	Deal value
Thaibev	Sabeco	54%	5000
GIC Privated Limited	Vinhomes	5.74%	1300
Warburg Pincus	Techcombank	n/a	370
JC&C	Vinamilk	3%	319
KKR	Masan	10%	250
ShinhanBank	ANZ	100%	240
ShinhanBank Vietnam	Prudential Finance	100%	150
GIC Privated Limited	Techcombank	n/a	100

Source: Authors' compilation[34]

76. Vietnam's investment abroad (newly-registered and supplemented capital) in 2018 reached USD 432.2 million USD. By sector, the financial and banking sector accounted for the largest proportion (24.5%), followed by the wholesale and retail trade; repair of motor vehicles and motorcycles (19.2%); the agriculture, forestry and fisheries (12.1%); and the manufacturing sector (12%). In 2018, Vietnam invested in 38 countries and territories, mostly Laos (18.9%), Australia (12.8%) and the United States (12.3%). According to VCCI, Vietnamese businesses investing abroad shared their experience of the risks that may be encountered such as differences in the legal system, culture, customs of indigenous people, etc.

Figure 34: Investment efficiency



Source: GSO.

77. The investment efficiency of the economy in recent years has shown some signs of improvement, though not very obvious. The incremental capital output ratio (ICOR) decreased from 6.42 in 2016 to 6.11 in 2017 and 5.97 in 2018

[34] Compiled from https://tinnhanhchungkhoan.vn/mua-ban-sap-nhap/ma-2018-ky-nguyen-moi-ky-vong-moi-238139.html; and https://vietnambiz.vn/infographic-nhung-thuong-vu-ma-dinh-dam-nam-2017-70736.html

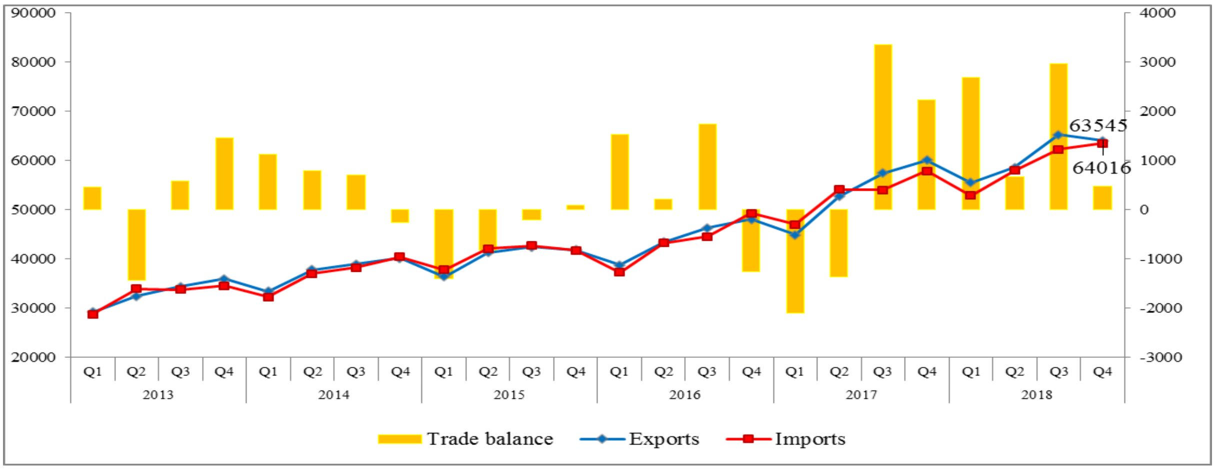
(Figure 34). On average, the ICOR in the period of 2016-2018 reached 6.17, slightly lower than the level in the period of 2011 – 2015 (6.25).

1.5. Trade

78. Exports attained USD 64.02 billion in Q4, increasing by 6.5% (YoY) (Figure 35). In 2018, exports reached over USD 243.48 billion, increasing by 13.2%, and exceeding the target of 2018 (8-10%). This growth was even more impressive in the context of increasing uncertain of commercial activity in the world and region.

Figure 35: Exports, Imports and Trade Balance, 2013-2018

Unit: Million USD



Source: Authors' calculation.

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

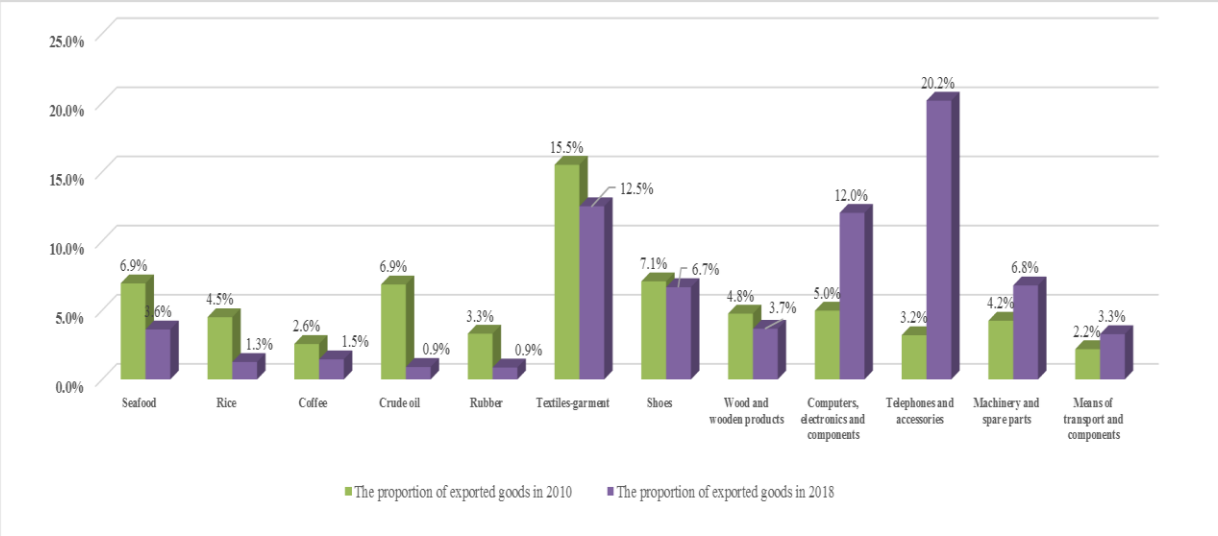
79. FDI sector exported USD 171.5 billion in 2018, increasing by 12.4%, contributing 8.8 percentage points to overall export growth. Domestic sector exported USD 71.95 billion, up by 15%, contributing 4.4 percentage points to overall export growth. The export proportion of the domestic sector decreased from 53% in 2010 to 29.6% in 2018.

80. The structure of export products continues to shift towards reducing exports of raw materials, increasing exports of manufacturing and industrial products. The proportion of manufacturing and processing products with high export value such as computers, telephones, electronics and components increased from 8.2% in 2010 to 32.2% in 2018. Correspondingly, the export proportion of raw materials fell sharply, particularly crude oil exports fell from nearly 7% in 2010 to 0.9% in 2018 (Figure 35)

81. In 2018, exports of AFF reached more than USD 40 billion, ranking 2nd in ASEAN and 15th in the world, and appeared in 180 countries and territories. However, trading partners have increasingly set out strict technical standards

for imported agricultural products.[35] Besides, the biggest challenge has been the application of technology in agriculture.[36]

Figure 36: The proportion of exported goods in 2010 and 2018



Source: General Department of Customs.

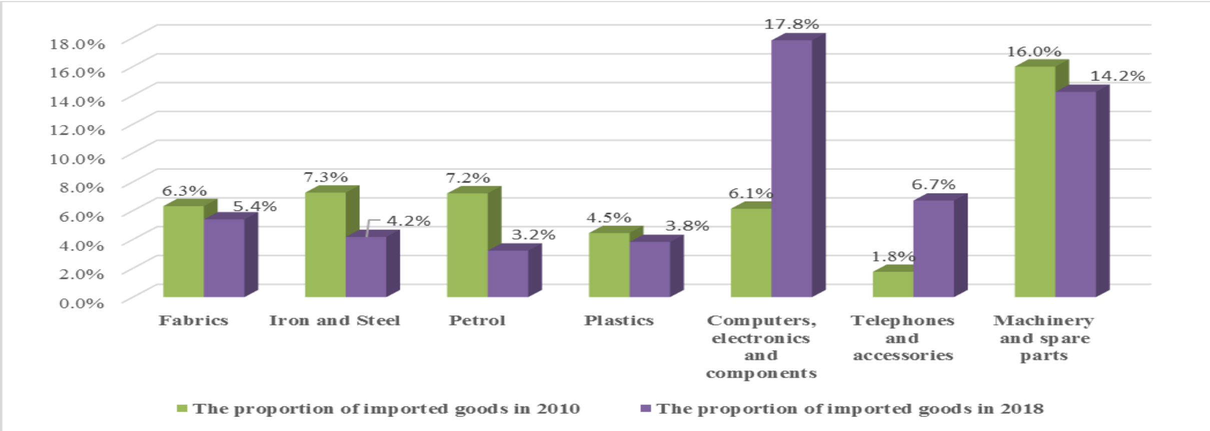
82. By partners, Vietnam's exports to traditional markets achieved double-digit growth rates in 2018. The US remained the biggest export market of Vietnam, reaching USD 47.5 billion, increasing by 14.3%. Other main export markets such as the EU (USD 42 billion, up to 9.5%), China (USD 41.2 billion, up by 16.6%), ASEAN (USD 24.7 billion, up by 13.9%). Exports to Korea rose most rapidly (by 22.9%), but lower than that of 2017 (of 29.9%).

83. Imports were USD 63.5 billion in Q4, up by 9.8%. In 2018, import turnover was estimated at USD 236.7 billion, increasing by 11.1% (Figure 35). Of which, imports of domestic sector attained USD 95.1 billion, up by 11.6%, imports of foreign invested sector reached USD 141.7 billion, an increase by 10.8%. Excluding the price factor, import grew by 9.5% in 2018.

[35] The Vietnamese seafood exports has faced "yellow card" warning by the European Commission and has been subject to anti-dumping duties by the US. Japan and South Korea regularly review and adjust regulations on food safety and increase the inspection frequencies of imported agricultural and fishery products.

[36] Currently, Vietnam has more than 40 high-tech agricultural zones approved by the Government and the Ministry of Agriculture and Rural Development, but there are many problems when they come into operation. It is very difficult to change the perception of some producers and farmers.

Figure 37: The proportion of imported goods in 2010 and 2018



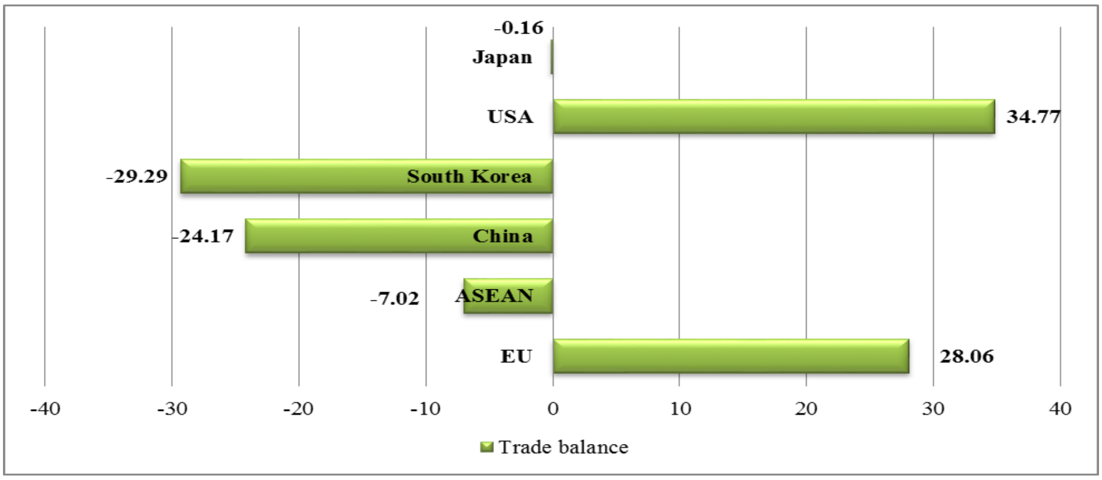
Source: General Department of Customs.

84. The share of imported inputs for technology sectors (electronics, computers, telephones) increased from 7.8% in 2010 to 24.6% in 2018 (Figure 37). This practice continued to raise questions about the capacity of Vietnamese enterprises to participate and benefit from the global value chain.

85. By partners, China continued to be the largest supplier of goods to Vietnam with imports of USD 65.4 billion, up by 11.7% in 2018. Meanwhile, import growth was the fastest from the USA, reaching 12.8 billion USD, up 36.4%, of which feeding stuffs and raw materials increased to 157.6%. Imports from Korea increased slightly by 1.1%, reached 47.5 billion USD.

Figure 38: Trade balance by partner in 2018

Unit: Billion USD



Source: General Department of Customs.

86. Trade surplus was estimated at USD 0.47 billion in Q4 and over USD 6.8 billion in 2018 (Figure 35). The trade surplus reached a record in 2018, contrary to most previous predictions. However, this achievement was less impressive because the domestic sector experienced trade deficit of USD 23.06 billion, while FDI sector had trade surplus of USD 29.9 billion ((including crude oil).

87. Vietnam's e-commerce market grew rapidly. Business-to-consumer (B2C) e-commerce models grew at an average rate of 20% annually over the past 5

years. Popular Online shopping sites are social networks, e-commerce trading floor and mobile applications. Delivery and payment methods are relatively flexible, but cash on delivery (COD) is still the most popular. However, e-commerce businesses still need more time to build customer trust. In general, the activities of business-to-business (B2B) e-commerce models aren't really effective, tend to slow down.

88. The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) entered into force for Vietnam on January 14, 2019 and the EU-Vietnam Free Trade Agreement (EVFTA) is expected to be ratified in 2019, creating new momentum to adjust Vietnam's trade structure. The utilization rates from Vietnam's FTAs have been significantly improved and quite stable[37], but the tariff utilization rates from ASEAN+ agreements tended to slow down and decrease[38]. However, the utilization from FTAs was mainly focused on FDI enterprises, with advantages of scale and resources as well as understanding the export market standards.

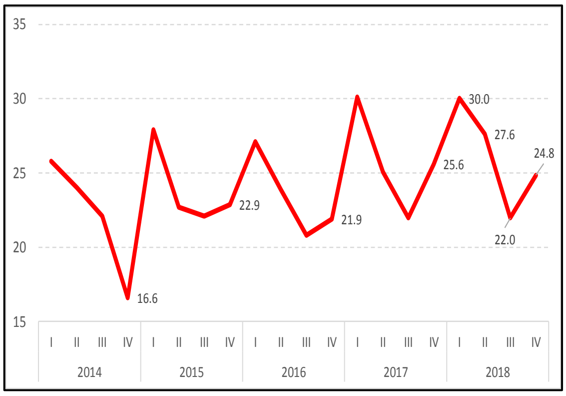
89. The prolonged US – China trade tension might have intensive impacts on global growth and trade, spreading the protectionism wave to other markets. The strengthening of bilateral negotiation by US with many economies can be taken into careful consideration. It cannot be excluded the possibility of unilateral application of reducing trade deficit by raising tariffs and technical barriers on imported goods for all trading partners, especially with large surplus trading partners, including Viet Nam. Vietnam's major export products to the US such as textiles, footwear, telephones, etc. may encounter more restrictive trade measures. Viet Nam also faces the risks of taking origin of Vietnam by Chinese enterprises to avoid US tariffs.

1.6. Budget revenues and expenditures

90. Budget revenues reached over VND 460 trillion in Q4, or 24.8% GDP (Figure 39). This amount increased by more than 48% compared to Q3 (VND 310 trillion) and increased by 4.6% compared to Q4/2017 (approximately VND 440 trillion). Budget revenues in Q4 were equal to 34.89% of the planned figures for 2018.

Figure 39: Budget revenues to GDP ratio

Unit: %



Source: Authors' calculation.

37 According to WTO-VCCI's report (2018), the total export turnover taking advantage of tariff preferences under the FTA reached 33.4 billion USD, accounting for 34% of total export turnover to FTA-signed markets in 2017, and 26% increase compared to 2016

38 For specific markets, the preferential utilization rate of Vietnamese enterprises when exporting to China under ACFTA has decreased from 31% (in 2016) to 26% (in 2017), to Korea under AKFTA also decreased from 56 % (in 2016) to 51% (in 2017), and to ASEAN slowed to 30%.

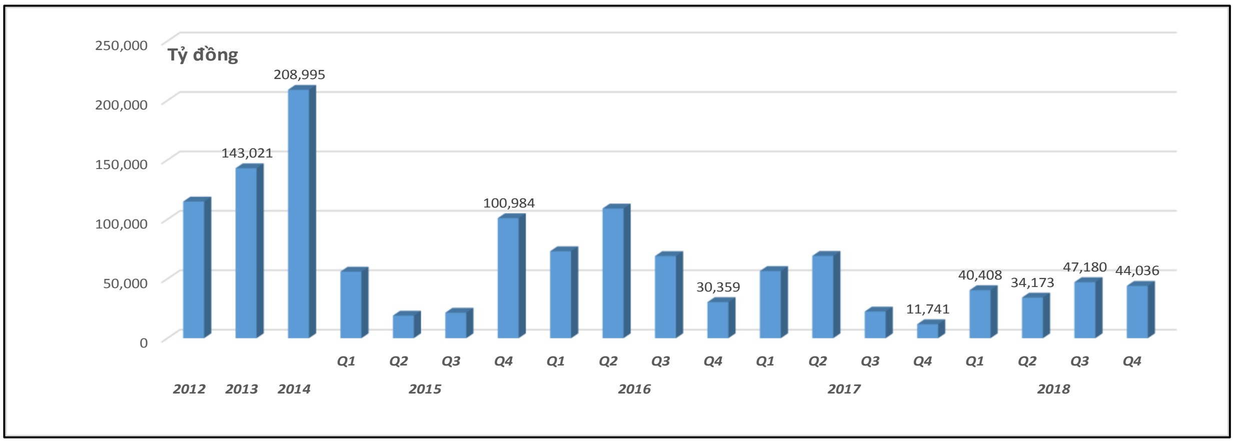
91. In 2018, budget revenues attained VND 1.42 thousand trillion, nearly 7.8% higher than the planned figures and up by 10.4% (YoY). In comparison with 2015 – 2017, accumulating budget revenues at the end of the year were no longer exist. By mid-December 2018, budget revenues reached 96.5% of the planned figures (compared to 91.1% of the mid-December, 2017).

92. Solutions on collecting tax arrears were implemented diversely and aggressively. Tax authorities have issued over 5.2 million notices of tax debt, nearly 46,000 decisions of tax debt enforcement with a total amount of nearly VND 30.1 trillion, information disclosure of over 5,600 enterprises owing taxes with a total amount of nearly VND 8.5 trillion[39]. However, tax arrears was still quite challenging. By 31st December, 2018, the total tax arrears amounted at VND 75,805 billion, of which recoverable debt accounted for 51.8%, down by 5.7% as compared to the same period of 2017.

93. Budget deficit was estimated at 3.6% GDP. This figure was lower than the planned figure approved by National Assembly (3.7% GDP). Public debt was only 61% of GDP. However, budget expenditures were not significantly saved, disbursement of investment from the state budget was only 92.3% of the annual plan. In the meantime, the efficiency of investment from state budget continues to be questioned.

94. The value of newly issued government bonds amounted to over VND 44.0 trillion in Q4. This figure was similar to the first three quarters, and higher than that of the same period of 2016-2017. In 2018, total value of newly issued government bonds was 165.8 trillion, increasing by 3.7%. Total value of newly issued government bonds in 2018 was still lower than the planned target, in spite of downward adjustment of planned figures in October 2018 (from VND 200 trillion to VND 175 trillion).

Figure 40: Government bond issuance, 2012-2018



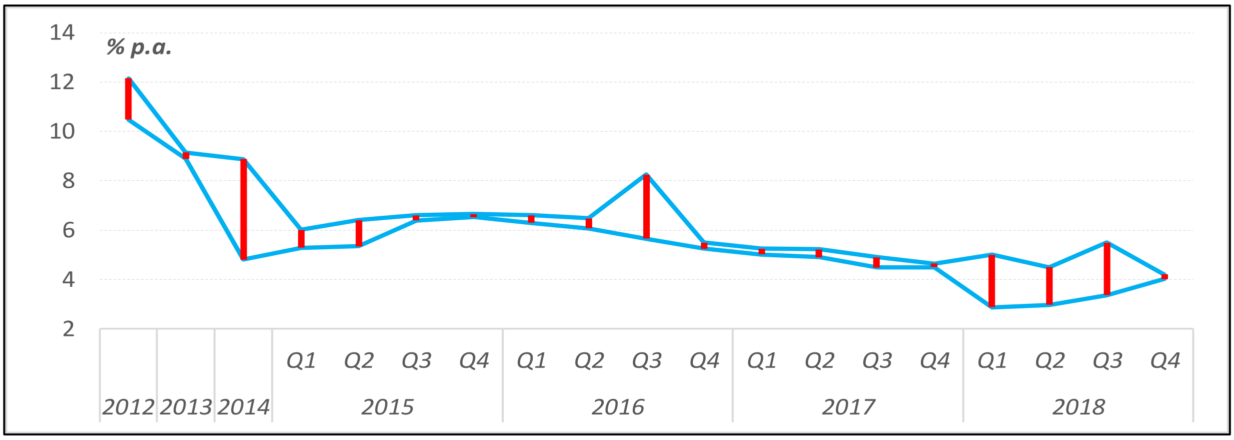
Source: HNX.

95. Interest rate on successful bids of (5-year) government bonds ranged between 4.02-4.2%/ p.a in Q4. This range was more narrow than that of Q3 (3.37-5.5%/ p.a) and Q4/2017 (4.5-4.65%/ p.a) (Figure 40). Maintaining the similar scale of

[39] Source: https://baotintuc.vn/thi-truong-tai-chinh/nam-2018-nganh-thue-thu-hoi-no-dong-hon-32000-ty-dong-20190110110517043.htm [Accessed on 11 January 2019]

issuance in Q4 showed a coordination with monetary management (in the context of tightening credit disbursement), thereby avoiding the pressure on liquidity of credit institutions.

Figure 41: Interest rate on 5-year Government bonds



Source: HNX.

96. Fiscal management in 2018 witnessed the most positive achievement of not "hurrying" towards loosening, and still aiming to its coordination with monetary policy to enhance macroeconomic stability, while maintaining space for responding to further adverse developments. However, the fiscal management also revealed some limitations, including: (i) manifesting “the performance" in trying to achieve and surpass planned figures of budget revenues; (ii) the efficiency of using government bonds was not at higher pace than disbursement schedule, while the media seemed to focus more on opportunity cost of resources from issuing government bonds with slow disbursement; and (iii) explanations on the use of budget revenues, especially taxes associated with specific objectives, were not adequate and reasonable.

2. *Macroeconomic outlook*

97. A forecast scenario is specified for Vietnam in “business as usual” conditions in 2019, in line with the expectation of the global economic recovery and domestic economic development. GDP growth in partner countries is projected at 2.9% in 2019[40]. US inflation may reach 2.44%[41]. Export prices of agricultural products may grow by 0.2%[42]. The international crude oil price may decrease by 2.9% compared to the average export prices of 2018[43]. For Vietnam, the central VND/USD exchange rate is increased by 2%. Total liquidity increases by 12.5%. Outstanding credit increases by 14%. Import prices show no significant change. Population increases by 1.04% and employment by 1.4%. The export volume of crude oil is assumed the same as in 2018. REER is assumed to increase by 1%. On the balance of payments, Government transfers are assumed to be constant, while (net) private transfers

[40] WB forecast (January 2019).

[41] Statista forecast (2019). https://www.statista.com/statistics/244983/projected-inflation-rate-in-the-united-states/ [Assessed on 12 January 2019]

[42] EIU forecast (December 2018).

[43] WB forecast (January 2019).

increase by 5% compared to 2018. The implemented capital of FDI is assumed to be equal to that in 2018. Investment from State budget (including Government bonds) will be VND 400 trillion. As an assumption, investment capital will be evenly disbursed throughout 2019.

98. YoY economic growth in 2019 is projected at 6.93% (Table 5). Export growth may reach 9.4%. Trade surplus is projected at USD 2.04 billion. Average CPI in 2019 will increase by approximately 3.88%.

Table 5: Projection of macroeconomic indicators, 2019

Unit: %

GDP growth rate (YoY)	6.93
Inflation	3.88
Export growth	8.79
Trade balance *(bil. USD)*	2.04

Source: CIEM's projection from its macroeconometric model.

99. Macroeconomic developments on 2019 may be subject to several factors. *First*, US-China trade tension continues with high unpredictability, as it depends on the negotiation (and its outcomes, if any) between US and China. Vietnam should not be too optimistic on the possibility of reaching to US-China trade agreement, as both sides are aware that power competition between them is not only about trade. China itself understands that concessions to the US are not enough to end trade war, and also understand that concessions to the US are not enough to retain foreign investors. *Second*, the risk of downward/recession in key economies may have effects on demand of Vietnam's exports. In this context, Vietnam's exports may face more technical barriers in foreign markets. Third, the implementation of CPTPP, the progress of ratification of EVFTA and the possibility of concluding RCEP negotiations may create more attraction for foreign investors to Vietnam. *Fourth*, commitments of macroeconomic stability on the basis of appropriate and timely assessment is important to have flexible executing solutions. *Fifth,* the business community continues to expect more efforts of economic restructuring and improvement of business environment of the Government.

III. SELECTED ECOCONOMIC ISSUES

1. *Industrial revolution 4.0: Impacts and policy orientation*

1.1. Overview of the forth Industrial Revolution

<u>Concept</u>

100. Industrial Revolution was a popular term from the 19th century when British economic historian Arnold Toynbee used to describe the economic development of England in the period 1760-1840. Since then, the term Industrial Revolution has often used to describe major, fundamental changes in production and economic development of Western countries in the 18th and 19th centuries. In 2016, the term Fourth Industrial Revolution (or Industrial Revolution 4.0-IR 4.0) was popularized by Professor Klaus Schwab (2016). The concept of IR 4.0 by Professor Schwab was a concept developed from a Germany's concept of Industry 4.0, which was first introduced in 2011 at Hannover Conference (GTAI 2014). Currently, the term IR 4.0 and Industry 4.0 are sometimes used interchangeably. However, the concept of IR 4.0 has a broader connotation than that of Industry 4.0.

101. Industry 4.0, from the German point of view, is the concept that refers to the evolution of technology from embedded systems (using PLC) to the Cyber-Physical System (CPS), connecting embedded systems with intelligent manufacturing processes (GTAI 2014). Thus, Industry 4.0 mainly refers to new technology applied in manufacturing industries, in factories and processes and stages related to manufacturing.

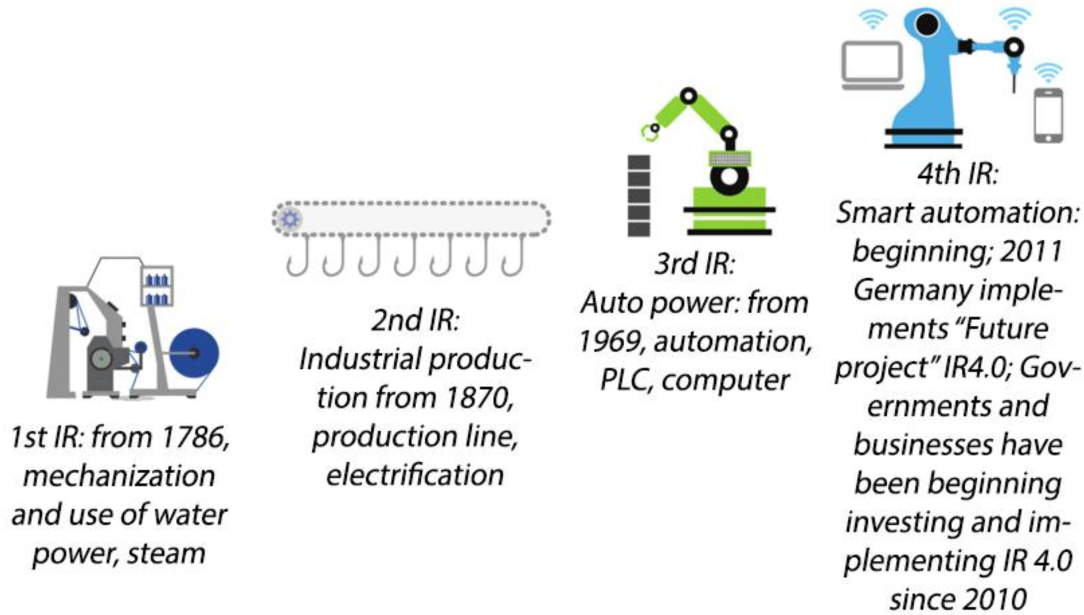
102. According to Professor Klaus Schwab (2016), IR 4.0 has a much wider range, beyond smart, connected systems and machines. IR 4.0 refers to a series of technological breakthroughs. These technologies include, but not all: Artificial Intelligence (AI); 3D printing; Virtual Reality/Augmented Reality (VR/AR); Internet of Things (IoT), Blockchain; Cloud computing; Big data; New materials (graphene, bio-plastic). These technologies converge, integrate and create tremendous changes. Thus, IR 4.0 is a broader concept, used to refer to the application of new technologies in all aspects of socio-economic.

103. To clarify the concept of IR 4.0 as a characteristic of the present era, people often describe and compare it with previous industrial revolutions. Figure 42 depicts industrial revolutions from the first to the fourth with starting dates and technological characteristics. Accordingly, characteristics of IR 4.0 is different from previous revolutions in that machines are connected to the internet and have higher automation capabilities. Connecting all things (machines, tools and products), data collection, data analysis (especially artificial intelligence) have created this high level of automation.

104. It should be emphasized that like other industrial revolutions, technologies and production methods are not mutually exclusive but coexist. The process of upgrading and changing technology from low to high level takes place at

different speeds depending on the awareness, needs and actions of the subjects using technology. In fact, a business, a factory can apply new technology to each stage, each of its own workshops without having to completely remove old technologies as soon as new technologies emerge. Germany is a leader in IR 4.0 and many businesses have successfully applied the technology of IR 4.0. However, many German factories still use the old generation technology with human participation in many stages[44].

Figure 42: Diagram depicting industrial revolutions so far



Source: Deloite, "Industry 4.0 and manufacturing ecosystems" (Deloitte 2018)

Characteristics of IR 4.0

105. *First*, IR 4.0 has a very fast rate of propagation at the exponential level. The speed of rapid spread is due to the global internet connection and the characteristics of new technologies that are built on the basis of information technology. IR 4.0 has brought many new business models and these models are popular in the world very quickly. Uber was founded in 2009 and in less than 10 years the company has appeared in nearly 600 cities in over 60 countries, with sales reaching USD 2.8 billion in second quarter of 2018.[45] Airbnb has grown and appeared in 191 countries, 65,000 cities, and revenues of over USD 1 billion in the third quarter of 2018 in just 10 years.[46]

106. *Second*, IR 4.0 has a wide range of impacts because technologies 4.0 can provide solutions for all aspects of human life, from politics to economy, culture and the environment. In manufacturing, IR 4.0 is available in all fields of production and business, from agriculture to industry and

[44] The research group of the Central Institute for Economic Management has surveyed some major automotive parts manufacturing factories in Germany and found that including a manufacturing plant for Posche automakers also Use both modern robots and ordinary workers in assembling auto parts.
[45] According to Businessofapps.com, see http://www.businessofapps.com/data/uber-statistics/
[46] According to Techrunch technology site, https://techcrunch.com/2018/11/16/airbnb-q3-2018-revenue/

services. Politically, artificial intelligence technology and data analysis are creating concerns about the ability to intervene in the electoral process, choosing of leadership; and blockchain technology can also help reduce election fraud. In economics, Internet technologies (IoT), Big Data (big data) and Artificial Intelligence (AI), Cloud Computing are changing the face of economic sectors, create new business opportunities and transform old business models. New technology also helps people solve environmental problems and develop better. The health and education sectors are all changing in the direction of benefiting from new technologies.[47]

107. *Third*, IR 4.0 creates systematic changes in countries, between countries, sectors and businesses. Physical systems will be gradually shifted to physical-digital hybrid systems. Supply chains and value chains will have big changes when labor costs are gradually no longer an important factor in international division of labor[48]. Changes brought about by IR 4.0 may often create a disturbance and social economic turmoil. However, those changes are inevitable. The history of human society is closely linked to technology development and technology application.

Economic potential of IR 4.0

108. IR 4.0 has the potential to bring tremendous economic benefits. IR 4.0 brings economic benefits through channels such as:

    a. *First,* IR 4.0 creates business models that do not require much capital to procure and own expensive systems of machines, houses and factories. Many companies have grown to large scale and are highly priced but do not need to build many factories. Uber is a transport service company but does not own any transportation, or has but very few. Similarly, Airbnb is the company that offers the most rooms but does not own a hotel. Currently Uber's market value is 76 billion dollars after Toyota's $ 500 million investment, Airbnb's $ 31 billion (Trefis Team and Great Speculations 2018). In general, IR 4.0 helps create business models with very small marginal costs and is not constrained by diminishing returns to scale.[49]

    b. *Second*, IR 4.0 helps cut business costs, improve productivity. Technologies 4.0 help organizations and businesses have more efficient, lower-cost solutions by optimizing inputs, optimizing system maintenance costs, reducing manufacturing errors and serve the needs of customers better. In manufacturing, it is estimated that if IR 4.0 is fully deployed, businesses can reduce costs by 25-40%, depending on the sub-sector.

[47] IBM Watson's cancer diagnosis software is helping hospitals treat cancer better. Many educational software on mobile internet platforms, such as ELSA (learning English), are enabling people to study better, with more flexible time and lower costs.
[48] Robot costs are declining rapidly (UNCTAD 2007) .
[49] Klaus Schwab, 2016, "The Fourth Industrial Revolution", p. 14.

c. *Third*, IR 4.0 also provides opportunities for businesses to develop new products and services. John Deere, a traditional company that previously focused on selling tractors, has now expanded to sell seamless productivity optimization services to farmers using the 4th IR technology. General Electrics of the United States has transformed strongly from a machinery manufacturing company into a company that provides many smart manufacturing technology solutions, medical technology and technology for many other industries (Twentyman 2015).

1.2. Impacts of IR 4.0 on Vietnam

109. The Central Institute for Economic Management conducted a quantitative study to estimate the economic benefits that IR 4.0 could bring to the Vietnamese economy. This study shows that by 2030, participation in IR 4.0 can help Vietnam's GDP increase from USD 28.5 to 63 billion, depending on the level of technology application of enterprises, equivalent to the increase from 7-16% of GDP in 2030 (compared to the scenario of not implementing IR 4.0). IR 4.0 will change the employment structure of the economy but it will make more 2.9-2.7 million jobs. Labor productivity by GDP/labor will increase by USD 315-640.

110. In terms of economic sectors, the current major economic sectors of Vietnam will benefit greatly. BDy 2030, the added value of manufacturing would be USD 7-14 billion, the traditional agricultural sector would be USD 4.9 billion, the financial sector would get USD 3.5 billion, and the media would get USD 2.5 billion (up by 77% compared to the absence of IR 4.0), the electricity supply industry would be about USD 4.2 billion, the water supply, wastewater treatment and garbage disposal sectors would be about USD 0.4 billion. The public administration sector would also save about USD 0.6 billion thanks to the application of new technologies. Other industries also benefited significantly from IR 4.0.

111. IR 4.0 will help Vietnam to develop new economic sectors and these industries will be important drivers for Vietnam’s growth in the future. It is forecasted that these industries would account for 30% of the additional revenue in 2030.[50] These sectors would be both drivers and facilitators for other economic sectors to have higher productivity and competitiveness.

112. IR 4.0 will change the job structure. Therefore, IR 4.0 has the potential to cause income inequality in the population when a part of low-skilled, unskilled workers will lose their jobs or have to do low-productivity jobs in the informal sector without social security. However, IR 4.0 will also help the Government to have better tools and resources in developing and implementing social policies, minimizing adverse impacts of implementing IR 4.0.

[50] Forecast of revenue of these industries in 2030 are: E-commerce: 40 billion USD; AI: 420 million USD; Data analysis: $ 730 million; Cloud computing: 2.2 billion USD; Calling technology vehicles: 2.2 billion USD; Fintech: 1.5 billion USD; Smart agriculture: US $ 1.7 billion.

113. On the environment, IR 4.0 could bring many solutions for more efficient, greener production, helping to minimize adverse impacts on the environment. IR 4.0 also helps governments at all levels to have better solutions for urban management, to better solve development problems such as traffic congestion, environmental pollution, population management, etc. Vietnam, like many developing countries, can exploit new technologies to address development, social and environmental issues.

1.3. Vietnam's readiness to join IR 4.0

114. Overall, although the level of production and technological capacity of Vietnam is still low, Vietnam has many good conditions to implement IR 4.0. As a low-middle income economy, Vietnam's industrial development level is limited. However, this does not prevent Vietnam from participating in IR 4.0 because technologies can be upgraded according to each stage, and old and new technologies can coexist and complement each other.

115. According to the evaluation of the 2018 World Economic Forum Readiness for the Future Background (WEF, 2018), Vietnam is ranked among the First Nations group, at 53/100 economies. However, when assessing specific aspects of economic readiness, in addition to weaknesses, we can see many strengths for Vietnam to promote when participating in IR 4.0, including:

    d. *First*, Vietnam has a large population size with nearly 100 million people. More importantly, Vietnam has a young population, 67% of the population uses the Internet, 57% of the population is actively using social networking and 73% of the population has a mobile phone. Vietnamese people have a positive attitude towards technology. 61% of Vietnamese people believe that new technologies bring more opportunities than risks.[51]

    e. *Second*, Vietnam has a solid 4G technology base with a mobile phone subscription rate of 139 subscribers per 100 people, much higher than the regional and the world average.[52] Vietnam has a wide-ranging fiber-optic network throughout the country and Vietnam's wired broadband market has grown rapidly and steadily over the past few years.[53] Although Vietnam's internet infrastructure is not enough to meet the needs of industry 4.0, it has a solid foundation for developing and meeting the needs of the economy in the future. While internet is growing fast and the demand for internet use in IR 4.0 will be huge, cyber security in Vietnam is a weakness that needs to be quickly overcome.[54]

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[51] According to the Vietnam Digital Landscape report of We Are Social (2018) .

[52] Lower than Singapore's but higher than China's and Korea's and many other countries'.

[53] Mobile broadband internet use doubled from 5.3% in 2012 to 11.2% in 2017.

[54] The World Economic Forum evaluated Vietnam's commitment to cybersecurity, which is low, at ranking 90/100.

f. *Third,* Vietnam's scientific and technological innovation capacity is still modest compared to the world.[55] Like many other developing countries, Vietnamese enterprises have not yet applied or developed many products and services on technological foundation of the IR 4.0. Vietnam's creative entrepreneurial ecosystem is still small and fragmented, lacking the necessary infrastructure for creative start-ups; not yet having a fully integrated business support system to support logistics, workers' lives, and one-stop public services. However, in recent years, there have appeared many factors that constitute an innovation ecosystem that follows the direction of IR 4.0, with more participation from foreign firms.[56] Some of Vietnam's innovative start-up companies have created a number of highly-regarded, advanced technology products.[57] In addition, many large Vietnamese companies have achieved regional technological level, such as FPT, CMC, NextTech, and VNG. Big corporations from traditional sectors are shifting their investment to 4.0 technologies to catch up with the world trend, such as Viettel, VNPT, and Vingroup. Some big technology companies of the world have been choosing Vietnam as a production base in their global supply chain strategy. These are important prerequisites for technological capacity for Vietnam to join IR 4.0.

g. *Fourth*, Vietnam has a young, well-trained workforce, especially in the field of information technology - the foundation of IR 4.0. This labor force is highly appreciated by many technology companies in the world, which is an important factor for many Vietnamese IT enterprises to develop, and many foreign technology enterprises have also invested and set up Research and Development (R&D) facilities in Vietnam.[58] However, Vietnam still lacks of technology engineers, especially in highly qualified engineers and management capacity, to meet the development of current and future technology companies.[59] Meanwhile, training institutions are slowly changing to meet market demand in both quantity and quality. At the general level, many skills needed for IR 4.0, especially IT, have not been properly trained.

[55] According to the World Economic Forum's 2010 4.0 Global Competitiveness Report, Vietnam ranked 84/100 in terms of R&D investment (% of GDP), ranking 74/100 in terms of quantity of scientific publications divided by GDP (PPP USD), ranked 73/100 on patent applications.
[56] Examples include Softbank, IDG Ventures, Monk's Hill, SeedCom, 500 Startups, etc.
[57] Got It, for example, in education, Holistics in data management services and MoMo in Fintech.
[58] Examples include Grab, Samsung, ABB, Bosch. Qualcomm is also considering establishing an R&D center in Vietnam.
[59] VietnamWorks online service company estimates that Vietnam lacks about 78,000 IT employees every year and by 2020 there will be a shortage of 500,000 IT staff, ie a lack of 78% of market demand.

h. *Fifth,* in general, institutional system and regulation of business in Vietnam has not yet completed, there are many points that are inconsistent with the changing and creative needs of IR 4.0. However, Vietnam's institutional system and economic laws are improving rapidly thanks to the Government's continuous reform efforts. Strong and friendly efforts on reform, with new technologies, new business models are a prerequisite to encourage enterprises to invest and participate into IR 4.0, thereby reaping economic benefits from this industrial revolution.

116. In summary, on the basis of perception on nature of technological development process and the experience of implementing IR 4.0 over the world and the internal economic-technological factors of Vietnam, it can be concluded that Vietnam has a great interest in participating in IR 4.0. Fast or slow participation will determine the pace of economic restructuring, transforming the growth model to achieve higher productivity, better competitiveness and greater levels of prosperity.

1.4. Some viewpoints and policy directions on IR 4.0

Viewpoint

117. Based on the impact assessment of IR 4.0 and reference to international experience, in order for Vietnam to participate and benefit from IR 4.0, some viewpoints on IR 4.0 should be identified as follows:

a. IR 4.0 is a great opportunity for Vietnam to quickly improve its competitiveness, growth quality and escape the lagging situation. Taking advantage of the IR 4.0 is the shortest path to bring Vietnam to become modern and prosperous. IR 4.0 is an opportunity for Vietnam to become a modern industrial country in the shortest time. Therefore, it is necessary to focus resources to implement IR 4.0

b. In order for Vietnam to successfully implement IR 4.0, it is necessary to have a positive outlook on technology and innovation, considering technology and innovation as an opportunity to solve development issues. Therefore, it is necessary to create the best conditions to encourage technology and creativity.

c. Positive, proactive participation in IR 4.0 is the key solution for implementing the policy of restructuring, innovating growth models and socio-economic development strategies.

d. Institutional reform, finalization of institution of socialist-oriented market economy, transforming the government apparatus to e-government both in management thinking and management tools are preconditions to implement IR 4.0 in Vietnam.

e. International cooperation with countries, technology centers, advanced technology enterprises, leading scientists and intellectuals of overseas

Vietnamese are important ways for Vietnam to implement IR 4.0; enlisting the top wisdom of humanity will help Vietnam advance faster and further.

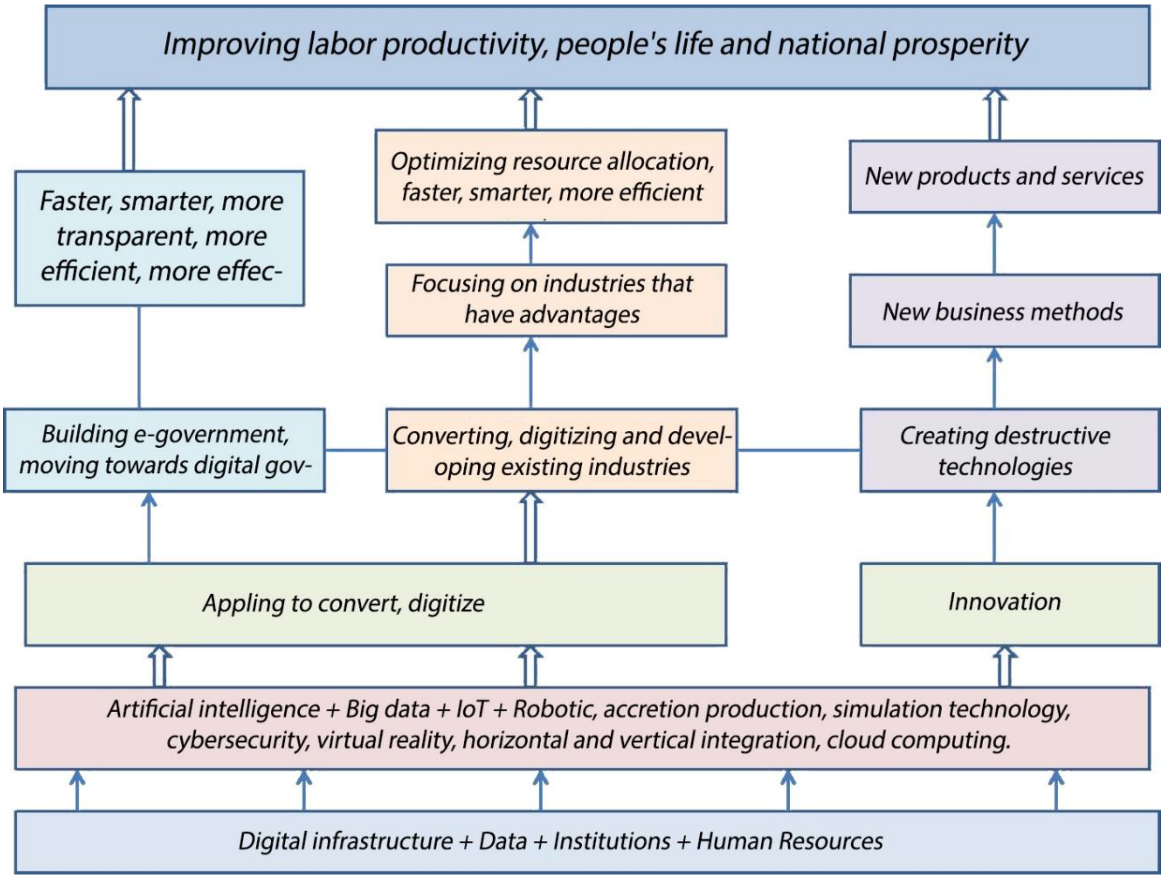
f. Implementing IR 4.0 is a process, with focus, in accordance with the level of economic development and demand of the country. However, the State should take initiative and drastically transform state governance and build the institutional and technical foundations for the implementation of IR 4.0.

Orientation

Building the foundation for IR 4.0

118. In order to help Vietnam soon join, implement IR 4.0, Vietnam needs to build the necessary platforms (Figure 43). These fundamental elements will underpin the development of 4.0 technologies. These platforms include four basic elements: institutions; connection infrastructure; data; and human resources. These factors have been drawn from academic studies and policy-making practices of many countries

Figure 43: Diagram describing the policy orientation of IR 4.0



Source: Central Institute for Economic Management.

119. Specifically, the policy orientation to create the foundation for IR 4.0 includes:

a. Institution: the investment and business environment is the decisive factor in implementing IR 4.0. Institutional environment plays an important role in deciding investment of enterprises and individuals for applying or developing technology. For IR 4.0, institutions are even more important because technologies 4.0 bring about new business models, creating a gap difference between institutions, state management and business practices. Specifically, the institutional system should be reformed in the direction of: (i) Institutional and administrative procedures reforms; promoting business environment improvement, especially in industries with potential to implement IR 4.0 such as processing, manufacturing, agriculture, finance, logistics, health, education; simplifying administrative procedures and business conditions on a digital basis; thoroughly use information technology in state management of economy; (ii) Developing institutions for new business models: Reviewing, amending and supplementing institutions and legal regulations for industries with many new business models, such as e-commerce, sharing economy, financial technologies, digital banking technology; quickly build experimental institutional frameworks for new business models that are potentially causing significant disturbance; (iii) Institutional reforms to attract investment in technology: reviewing and amending institutions on venture investment, angel investment in the direction of maximizing the convenience of capital mobilization and share purchase activities, purchase and sale of technology enterprises; and (iv) Finalizing the institution of intellectual property protection and investing resources for enforcement of intellectual property protection laws: facilitating the registration of intellectual property rights for new technologies, new business model with faster procedures; investing in building an intellectual property management information system; investing in activities of enforcing the law on protection of intellectual property rights.

b. Connectivity: Currently, countries are racing to develop 5G mobile network to create a connection platform for industrial internet and Vietnam should not be slow in this race. Expanding and improving the quality of high-speed fiber optic internet network is also an important need. In addition, it is necessary to have policies to encourage organizations, businesses and individuals to use fixed and mobile internet services so that technologies and business models can soon come to life.

c. Data: In IR 4.0, data is considered the most important input. Therefore, Vietnam needs to formulate policies on developing, protecting and exploiting data quickly. It is necessary to focus on investment with different sources, innovating how to quickly build 6 national databases regulated under Decision 714/QD-TTg dated May 22, 2015 and other necessary databases. Besides, it is necessary to develop policies and institutions for the management, connection, sharing and commercialization of national databases; ensuring data safety, protecting personal data, and facilitating organizations and individuals to exploit data for economic purposes. There is a need to build institutions for data collection, ownership, and sharing so that enterprises and people can cooperate in business models with more data, minimizing related data conflicts; both ensuring the rights of individuals and ensuring the right to commercialize data.

d. Manpower: is always the most important factor. It is necessary to have a skilled workforce suitable for both operating new technologies and new systems, and being able to do research and development of technology. Therefore, it is necessary to (i) Apply innovative solutions[60] to increase the number of IT training programs, especially in cyber security, data analysis, artificial intelligence, communication and entertainment, modeling, automation, and learning; to adjust curriculum and shortening training time of a number of specialized technical university programs; to focus on intensive skills training, associated with market demand; to build multi-disciplinary college and university training programs to train general skills including digital-manufacturing-administration; (ii) Develop training new skills programs for workers in appropriate forms, providing workers with digital skills to prepare for the process of production and job transformation; the State should have policies to support enterprises and workers to participate in these training programs; (iii) Adjust the general education program towards improving English and computers skills, increasing the time for STEM subjects to prepare human resources for IR 4.0 in the future.

Promote transformation of state governance and production

120. It is necessary to have policies to both promote the transformation of socio-economic activities by digitizing and promoting innovation activities so that Vietnam can improve indigenous technological capacities and develop its technologies. The policy to promote transformation and digitalization should be aimed at supporting enterprises and organizations that understand the benefits of technology and develop plans for application of new technologies. Here, both the public sector and the business sector could benefit from technology application. Therefore, it is necessary to promote technology application and transformation in both areas.

121. Transformation of state governance: in support of the implementation of IR 4.0 in the corporate sector and other parts of society, it is necessary to renew state governance. To do this, some policy orientations are required as follows:

a. Quickly developing a new, comprehensive and unified e-government architecture framework in the whole government agency system, in line with the requirements of advanced e-government, geared to the government of digital; creating common IT platforms from the central to

[60] Some innovative solutions to encourage use are online training (e-Learning), training at enterprises under programs approved by competent authorities, etc.

local levels, ensuring compatible and smooth operation throughout the country.

b. Reviewing, amending and supplementing regulations on state management in all areas on e-government platform; cutting down, minimizing types of papers, direct contact requirements between state agencies and organizations and individuals; providing online public service level 4 as soon as possible.

c. Investing, developing information technology applications for state management (GovTech) and providing public services[61] https://translate.googleusercontent.com/translate_f - _ftn18to reduce public administration costs and improve the quality of service for people and enterprises.[62]

d. Building a common socio-economic information system for the Government; digitizing, connecting and sharing management data of ministries, agencies and localities to improve the quality of state management activities.

e. Developing policies and laws on sharing and exploiting databases between state agencies, organizations and individuals; while ensuring security, information security and protection of personal data.

f. Improving the cyber security capacity of state agencies by investing and exploiting the strength of the community through state-business cooperation forms and using skilled volunteers that have suitable power.

g. Advocating and raising awareness among officials and civil servants about the importance of IR 4.0 for the development of the country; thoroughly grasping the spirit of innovation, innovating management methods so that Vietnam can successfully implement IR 4.0.

h. Training, providing officials and civil servants with necessary skills to perform their tasks in the digital environment.

i. Training, providing ministries, civil servants with thinking, knowledge and skills of economic management in the context of rapidly changing business models and technology under the impact of IR 4.0.

122. The above transformation solutions will bring direct benefits to the state by reducing costs and improving the quality of public services; at the same time, transforming the state sector will help create a favorable institutional

[61] For example, automatic law answering software (AI chatbot), intelligent urban management software, applications to receive and handle people's petitions, medical and educational management applications , bidding, etc.

[62] A report by the British Government showed that changing the way of providing some public services from manual to online helped the British Government save £ 1.7-1.8 billion (UK). Government Digital Service 2013) .

environment for businesses in terms of technological research, innovation and investment.

123. Promoting production transition and restructuring the economy with technology 4.0: To promote and support enterprises to apply new technologies, convert production to achieve higher productivity, some policies is needed following below directions

   a. Advocating, introducing and demonstrating new technologies for enterprises to understand the benefits and costs of technologies.

   b. Reviewing and revising policies, legal regulations on encouraging R&D investment and technology transfer for enterprises in the direction of eliminating administrative procedures related to the use of science and technology development funds in enterprises[63]; partially financed by the state for R&D projects with the participation of enterprises and scientific technological experts.

   c. Using state-owned science and technology development funds, SMEs supporting funds to partially finance human resource training and consultancy on technology of SMEs through payment vouchers for training and consultancy activities selected by the enterprises.

   d. Developing technology consulting organizations; developing guidelines for assessing technological capacities and building technological transition roadmap for enterprises[64].

   e. Depending on the economic development at each stage, on the basis of assessing the importance to the economy and the potential benefits of IR 4.0, selecting a number of priority sectors to support technology transformation; in the coming time, priority shall be given to following sectors: agriculture, information and communication technology, logistics, health, education, finance and banking.

   f. Developing technology transfer roadmap for selected industries; supporting and guiding enterprises in selected industries to evaluate technology capacity and investment and transformation plans for enterprises.

   g. Prioritizing capital for R&D projects and new technology transfer in selected industries.

124. Promoting innovation and technology development: Vietnam should not just import external technology solutions. Technology transfer from abroad can

[63] These funds are largely business assets, the state tax only accounts for about 20%. Corporate shareholders know how to manage their own assets. For state-owned enterprises, it is necessary to assess the results of investment decisions and apply administrative discipline (far away, transfer of work) to business leaders. The application of criminal measures makes state-owned enterprises do not invest in R&D because it is a risky but necessary operation to improve the technological level and competitiveness of businesses and economies.

[64] Singapore has the Smart Industry Readiness Index built on the Reference Architecture Model for Industry 4.0 (Reference Architectural Model for Industry 4.0) of Germany (https: // www.edb.gov.sg/en/news-and-resources/news/advanced-manufacturing-release.html).

benefit Vietnam greatly. However, international experience shows that no economy can successfully industrialize and become prosperous without being mastered in technology. During the IR 4.0, investment in technology development was even more important due to the speed of IR 4.0 and the high level of globalization of this era. If Vietnam does not quickly build technological capacity and competitiveness in some new technology areas, the country will be difficult to participate in new value chains being formed in the world. Therefore, it is necessary to have policy orientations for Vietnam to build technology capacity and master technology, including:

a. Building a number of innovation centers at the advanced level of the world: (i) investing and encouraging private sector to participate in the creation of innovation centers followed best models in the world to have an innovative startup ecosystem, to promote R&D, develop new products and services on the basis of 4.0 technologies; replicate successful models to localities across the country; (ii) attracting the participation of leading domestic and foreign technology companies, venture capitalists, angel investors to cooperate with innovation centers to support start-up businesses to develop and quickly commercialize new ideas, inventions and business models; (iii) The state participates and cooperates with private investment funds to invest in selected and supported start-up projects; (iv) Promulgating special mechanisms, policies and laws for innovation centers so that enterprises can join, research, develop products and exit, if any, in the most convenient way.

b. Building a network of leading technology experts to support the development of domestic advanced technologies: (i) Gathering, linking leading Vietnamese and world technology experts, connecting them with enterprises, domestic research institutions and technology communities to support domestic innovation, attracting foreign investment into Vietnam in the industrial sector 4.0; (ii) Budget allocating for joint research and technology transfer projects between research institutions and domestic enterprises with leading technology experts; assigning the right to select projects to a group of domestic and foreign experts; simplifying procedures, funding decision processes to encourage experts to participate in these projects; (iii) Organizing annual meeting activities, exchanging expertise and gathering expert opinions on economic and technological development policies.

c. Renovating the public science and technology system: (i) Restructuring public research and teaching institutions in the field of science and technology, towards modern and effective research centers, with abundant financial and human resources, operating under the market mechanism, referring to some advanced countries' experience; (ii) Prioritizing budget for science and technology investment for 4.0 technology sector with a higher budget allocation; (iii) Innovating ways and models of research funding to increase investment efficiency; establishing independent review boards, with the participation of technology experts, domestic and international technology business leaders; applying the best international practices on the process and procedures for considering and approving research and project disbursement; (iv) Promoting international cooperation and international preferential financial resources to establish advanced research facilities in specific technology areas of IR 4.0; applying forms of governance and administration of those establishments according to international practices; assessing, selecting and using talents domestically and internationally according to practical and effective evaluation criteria (KPI); (v) State-owned enterprises should promote the leading role in developing science and technology capacity; formulating strategies and plans for investment in science and technology development and application; proposing new policies to facilitate their research and development activities.

d. Prioritizing investment, developing some typical technologies of IR 4.0: (i) Applying the highest preferential treatment of tax policy for enterprises providing products and services using priority technologies , including IoT, Artificial Intelligence (AI) and Data Analysis, Blockchain; (ii) Government agencies at all levels, public service providers should allocate budget and order enterprises to provide state and business management solutions that use specific technologies of IR 4.0; organizing competitions to provide priority technological solutions for state management activities; (iii) Researching and revising tax policies and business licenses in industries that use priority technologies to ensure that domestic enterprises do not face more difficulties than foreign enterprises when providing their products or services in the Vietnamese market; (iv) Attracting investment from leading technology enterprises in the world, creating cohesion between Vietnamese enterprises and research institutions with the global science and technology market, supply chains and advanced science and technology centers over the world.

125. IR 4.0 is taking place throughout the world with different speeds and scales. Each country's proactive and drastically degree will determine the level of success in transforming growth, industrialization, and achieving sustainable prosperity. Previously, due to historical circumstances, Vietnam had slowed down in the previous three IRs. IR 4.0 is currently the best opportunity for Vietnam. Vietnam has a much better condition than before to build technological capacity, successfully implement the industrialization and modernization and bring prosperity to the country.

126. Benefits are huge but challenges are not small. In order to achieve outstanding results, successfully implement IR 4.0, it is necessary to have outstanding

determination and drastic solutions. IR 4.0 requires a comprehensive system of solutions and the participation of both state and society. In addition, a significant resource should be invested to develop and implement policies to reap the great and long-term benefits of IR 4.0

2. *5-year implementation of Resolution No. 19: Outcomes, unfinished missions and new requirements*

Achieved outcomes

127. Improving business climate and enhancing competitiveness have been priorities of the Government in recent years. The Government has deployed many activities, notably issuing 5 Resolutions No. 19 on improving business climate since 2014. During 5 years of implementing Resolutions No. 19, business climate and competitiveness of the whole country have been much improved, receiving recognition from international organizations and high appreciation from the business community. The business community does have more confidence in and expectations of the Government's reform efforts. Targeted indicator sets all have higher scores or rankings; as a result, Vietnam's business climate has been positively improved. Vietnam's approach on improving business climate has been considered as a good reference for countries in the regions (for example Indonesia) and shared at many international events. The following part will analyze some remarkable outcomes on improved business climate and competitiveness after 5 years of implementing Resolution No. 19.

<u>The situation of implementing Resolution No. 19.</u>

128. Resolution No. 19 was issued for the first time on 18 March 2014. Looking back on the 5-year implementation, it can be said that there have been many efforts to create positive changes, especially in the last 3 years. In 2014, only Ministry of Finance (area of tax and customs), Electricity of Vietnam (area of electricity access) and Ho Chi Minh City was pioneers in implementing the Resolution. From 2016, ministries, sectors and localities have involved much more broadly and actively and gained clear outcomes. Some problems and difficulties of enterprises have been solved, creating more confidence and enthusiasms for enterprises. The following part will summarize efforts made by ministries, sectors and localities and the achieved outcomes:

    a. From 2014, Ministry of Finance's strong reforms (related to regulations and procedures on tax payment, customs, especially application of electronic transaction procedures) have actually facilitated enterprises' activities, being in line with international practices and ensuring state management requirements. Based on the reform experiences of MoF, since 2015, Vietnam Social Security has made bold steps in changing method of managing social insurance revenue and expenditure, shifting from complicated procedures into applying electronic transactions or using post services. Especially, Vietnam Social Security has invested in technology solutions in order to manage efficiently and detect promptly violations in collecting and spending social insurance, health insurance and unemployment insurance funds. Along with these reforms, time for enterprises to pay social insurance contribution has been reduced by 188 hours (from 335 hours to 147 hours/year). Accordingly, Vietnam's rank in Tax and Social security contribution payment Index has been much improved during the last 5 years (from 173 in 2014 to 131 in 2018).

b. Since 2015, many solutions have been done by Electricity of Vietnam to reduce procedures and time in access to electricity for people and enterprises along with improving quality and stability of electricity source; applying technology solutions in electricity saving management; and applying electronic transaction procedures. Thank to these solutions, after 5 years, Vietnam's rank in Getting Electricity Index has been improved very much (increasing from a very low starting point of 135/189 in 2014 to 37/190 in 2018. Thus, Vietnam has belonged to Top 40 of this index.

c. In 2015 and subsequent years, the State Bank of Vietnam has reformed regulations in order to better protect borrowers and lenders' rights as well as secured creditors' rights. Besides, it has actively finalized credit information system and improved information access ability. As a result, Vietnam's rank in Getting Credit index has been much improved (ranked 32/190 in 2018, higher than in 2014 - ranked 36).[65]

d. In 2015, Ministry of Agriculture and Rural Development reformed regulations and simplified procedures and dossier contents on phytosanitary. However, other areas under state management by Ministry of Agriculture and Rural Development (MARD) are slowly improved with limited outcomes, especially in sectors of animal quarantine and quality inspection of livestock feeds.

e. Ministry of Industry and Trade (MoIT) implemented chemicals declaration through electronic system at National single-window portal in 2017, reformed procedure on energy labeling in 2016, and reduced business conditions in trading gas and trading exported rice in 2018. These positive reforms have been highly appreciated by business community.

f. Especially, Ministry of Health (MoH) is recognized as a good example in reforming specialized management and inspection: building Decree No. 15/2018/ND-CP dated 2 February 2018 to replace Decree No. 38/2012/ND-CP on managing food safety. Accordingly, risk management is applied in food safety area with a strong shift into post-inspection, helping reduce time and cost of enterprises by 90%.

i. Provinces such as Quang Ninh, Dong Thap, Bac Ninh, Ho Chi Minh City and Hanoi, etc. have always found initiatives or solutions to create favorable business climate and increase their local competitiveness. Typical initiatives implemented in localities such as surveying and evaluating competitiveness at department level (in Quang Ninh province);

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[65] It is noted that room for improving indexes with high rankings is smaller than ones with low and medium rankings.

Biz Cafe model (in Dong Thap province); dialogue with enterprises; integration of formalities (in Ho Chi Minh City); application of enterprise electronic card (in Thua Thien Hue province); etc. have been studied and scaled up in many localities.

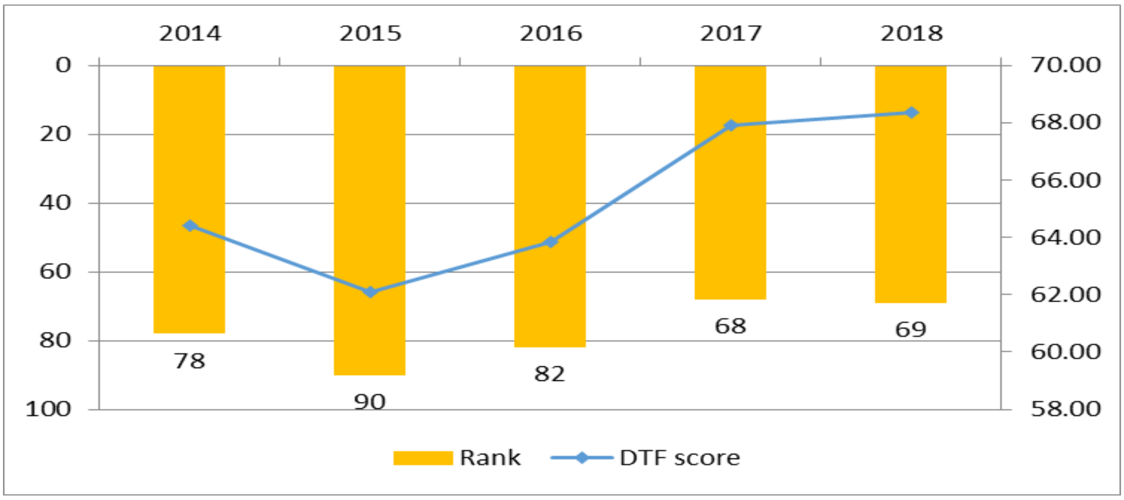
129. According to Provincial Competitive Index (PCI) 2017 published by Viet Nam Chamber of Commerce and Industry in March 2018, the 2017 scores have reached the highest level in 13 years of doing surveys. This is a positive change on quality of management and governance in localities. Improvement is clear compared with previous phases and does have positive impacts on enterprises' business operations. It is noticeable that provinces and cities actively engaging in implementing Resolution No. 19 are also ones with better improvement of provincial competitiveness (typically, Quang Ninh, Dong Thap, etc.). Of which, Quang Ninh province is a very good example with many reform initiatives that link business climate improvement as required in Resolution No. 19 with improvement of quality of management and governance. As a result, Quang Ninh gains 1st position in PCI 2017 ranking.

130. PCI 2017 result shows that reforms by ministries and agencies have been put in place at local level. For example, time for access to electricity and time of electricity supply discontinuation have been reduced sharply; informal cost or corruption have been much reduced; and there have been many positive changes in handling administrative procedures.

<u>Concerning business climate ranking by the World Bank</u>

131. With the Government's determination and firm, continuous and prompt directions on improving business climate and increasing national competitiveness as well as active engagement of some ministries, agencies and localities, Vietnam's score and position in Doing Business ranking by the World Bank have been much improved. Since 2015, Vietnam's score on business climate has been continually improved.[66]

Figure 44: Vietnam's business climate rank and score (2014-2018)



[66] Doing Business Report issued by the World Bank use data of the previous year so that reforms made in 2014 would be recognized in 2015. The data published by the World Bank in 2014 was year 2013's data. As a result, outcomes of implementing reforms in accordance with Resolution No. 19 (from 2014) would be recognized in Doing Business Report (from 2015).

Source: Doing Business 2015-2019.

132. Figure 45 shows that 6/10 of Vietnam's business climate indexes is improved in 2018 compared to those in 2014, including: indexes of Getting electricity (increasing 108 ranks), Tax and social security contribution payment (increasing 42 ranks), Investor Protection (increasing 28 ranks), Starting a Business (increasing 21 ranks), Getting Credit (increasing 4 ranks), Dealing with construction permits (increasing 1 rank).

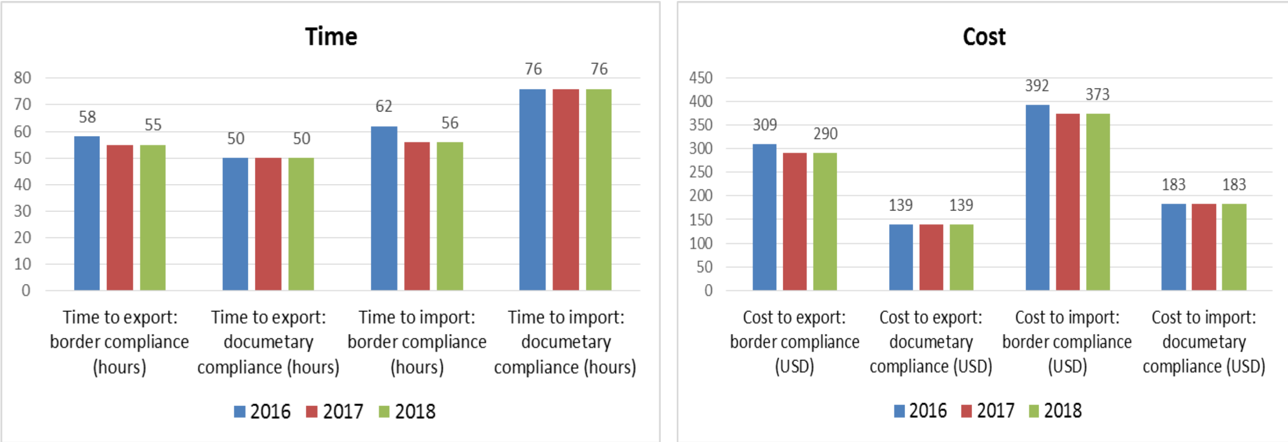
Figure 45: Vietnam's ranks in business climate index (2014-2018)

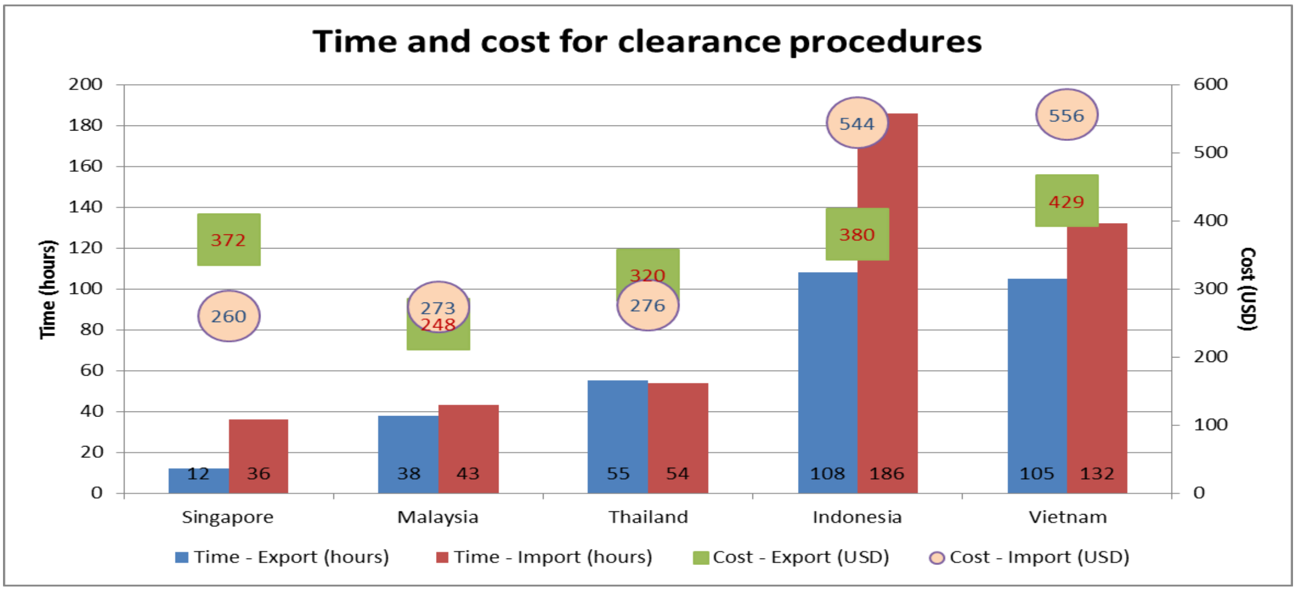
Source: Doing Business 2015-2019.

133. As for Trading across borders Index, due to a change in the approach/calculation (from 2016), Vietnam's position has decreased by 25

ranks compared with 2014. However, if compared to its position in 2016 (applying the same approach), Vietnam's position has decreased by only 7 ranks.

Reforms on customs procedures and specialized management and inspection have been recognized with reduced time and cost for cargo clearance (Figure 46: Time and cost for implementing cargo clearance procedures (2016-2018)

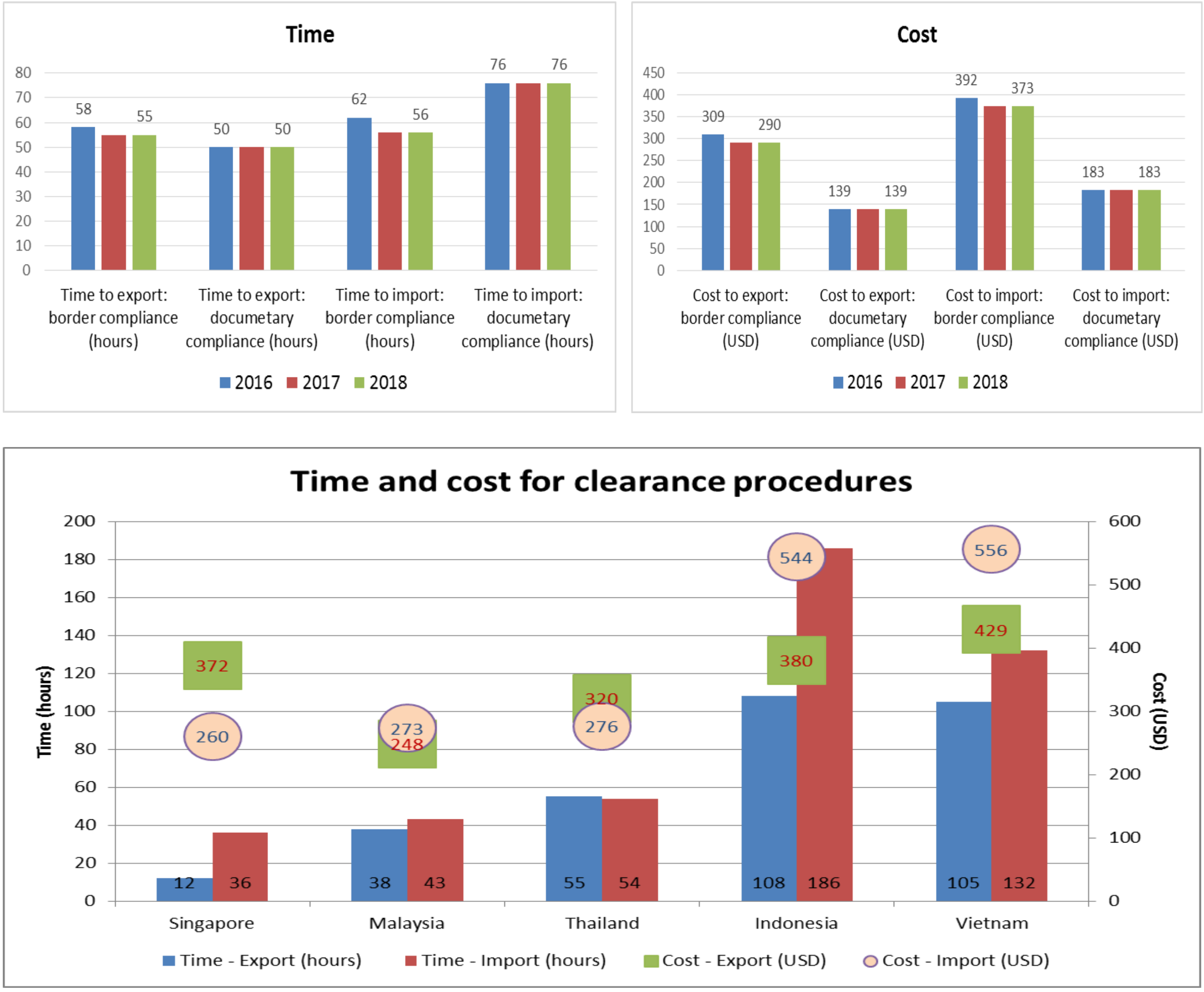




Source: Doing Business 2017-2019.

134.). However, due to slow efforts and limited reform outcomes compared with other countries, Vietnam's rank in this index has decreased. In reality, barriers in specialized management, especially in animal quarantine and quality inspection are main reasons for long cargo clearance time. Compared with other countries in ASEAN area, Vietnam's time and cost for cargo clearance is longer and bigger. Time for clearance in Vietnam is 2 times longer than in Thailand, 3 times longer than in Malaysia and much longer than in Singapore. Cost for implementing clearance procedures for imported goods in Vietnam is similar to that in Indonesia, but 2 times higher than in Thailand, Malaysia and Singapore.

Figure 46: Time and cost for implementing cargo clearance procedures (2016-2018)

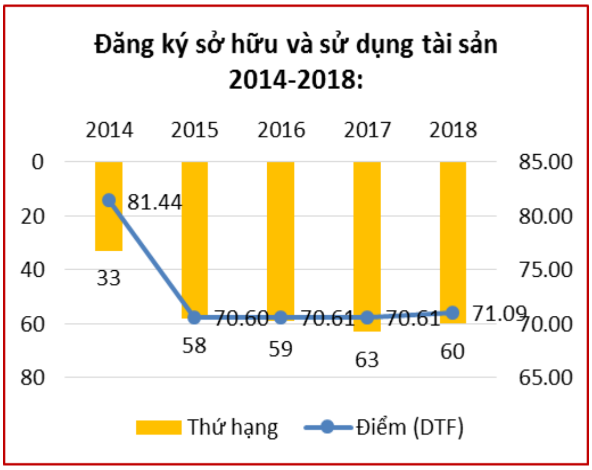


Source: Doing Business 2017-2019.

135. Concerning Registering property Index[67] (under state management of Ministry of Natural Resources and Environment), no reform has been made for years, thus Vietnam's rank has decreased over the years. Only in 2018, Vietnam's rank is improved due to a reduction of time for implementing transfer procedures (form 57.5 days to 53.5 days). After 5 years, Vietnam's position in this index has decreased by 27 ranks (from 33 to 60) (Figure 47)

[67] Property transfer procedure (with granted certificate for using land and assets on land), not applied for newly registered property.

Figure 47: Score, rank, time and cost for implementing registering and using property (2016-2018)

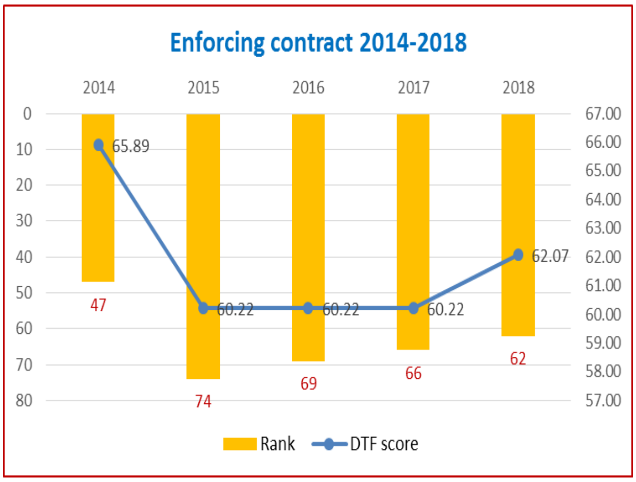


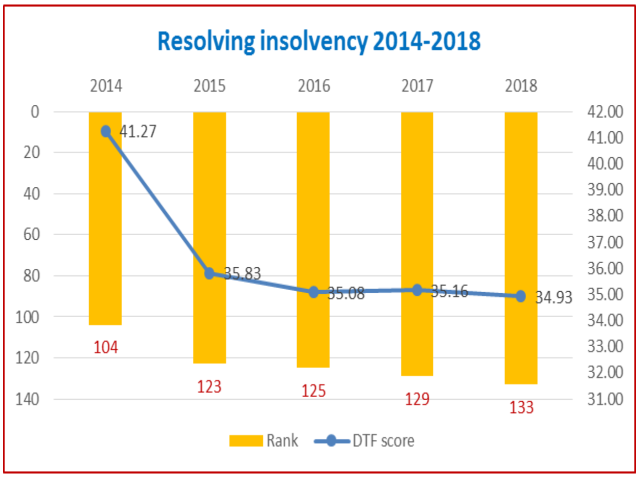
Registering and using property	2016	2017	2018
Rank	**59**	**63**	**60**
Number of procedures	5	5	5
Time (days)	57.5	57.5	53.5
Cost (% of property value)	0.6	0.6	0.6
Quality of land regulations (0-30)	14	14	14

Source: Doing Business 2015-2019.

136. Two (02) indexes in judicial area (falling under the responsibility of the Court) have been slowly improved for years. The World Bank recognized some new points in Insolvency Law 2014 (regulations on simplifying procedures for liquidation and reorganization of an enterprise; adjusting regulations on invalidated transactions; setting up regulations on asset management officers and enterprises engaging in managing and liquidating assets). In addition, the World Bank appreciates some positive points of Vietnam's Court system such as disclosure of court judgment and random allocation for hearing a case. However, in reality, implementation of Insolvency Law has revealed many contradictions and shortcomings. Random allocation for hearing a case has been mostly implemented on documents, not automated and dependent on court leaders' decisions. As a result, after 5 years, Vietnam's position in Contract Dispute Resolution index has decreased by 15 ranks (from 47/189 in 2014 to 62/190 in 2018); Enterprise insolvency resolution has decreased by 29 ranks (from 104/189 in 2014 to 133/190 in 2018, belonging to the bottom group in the ranking table) (Figure 48).

Figure 48: Vietnam's score and rank in two indexes in judicial area (2016-2018)





Source: Doing Business 2015-2019.

137. According to Doing Business Report 2019 by the World Bank, Indonesia and Vietnam are two countries having the highest number of implemented reforms in the last 16 years: each country has implemented 42 reforms. Of which, in the last 5 years of implementing Resolution No. 19, Vietnam's 18 reforms have been recognized (Table 6). Notably, Vietnam's reforms in recent years related to tax and social security contribution payment, getting electricity and access to credit information have been continuously recognized by the World Bank. This is in conformity with assessment and analysis on engagement by ministries and agencies as mentioned above.

Table 6: Vietnam's reform outcomes recognized by the World Bank in Doing Business Report (2015-2019)

Year	Recognized business climate reforms		Regulations hindering business climate	
	Area	**Number**	**Area**	**Number**
2014	- Access to credit (setting up a credit information center) - Tax and social security contribution payment (corporate income tax reduction)	2		
2015	- Starting a business (reducing time for company seal engraved and registered) - Getting electricity (reducing time for and increasing efficiency in getting an electricity connection, and eliminating procedures in working with Fire Fighters Prevention Department). - Getting credit (improving credit information system and ensuring secured creditors' right). - Tax and social security contribution payment (reducing corporate income tax and reducing time and number of tax payment). - Resolving Insolvency (some new points of Insolvency Law: simplifying procedures for liquidating and restoring enterprises; adjusting regulations on invalidated transactions; supplementing regulations on asset management officers, enterprises engaging in managing and liquidating assets.	5		
2016	- Investor Protection (increasing minority shareholders' rights; increasing requirement for transparency) - Tax and social security contribution payment (simplifying procedures, reducing dossier contents, and eliminating environmental protection fee) - Trading across borders (reforming customs procedures and specialized management and inspection)	3	- Starting a business (requirement for verifying company seal sample before using it creates more difficulties for enterprises).	1
2017	- Getting electricity (applying efficient electricity management system - SCADA). - Getting credit (expanding coverage of assets used as collateral) - Tax and social security contribution payment (applying electronic transaction in social security contribution payment and limiting cash in tax refund) - Trading across borders (reforming customs procedures and cargo clearance) - Contract dispute resolution (applying voluntary	5		

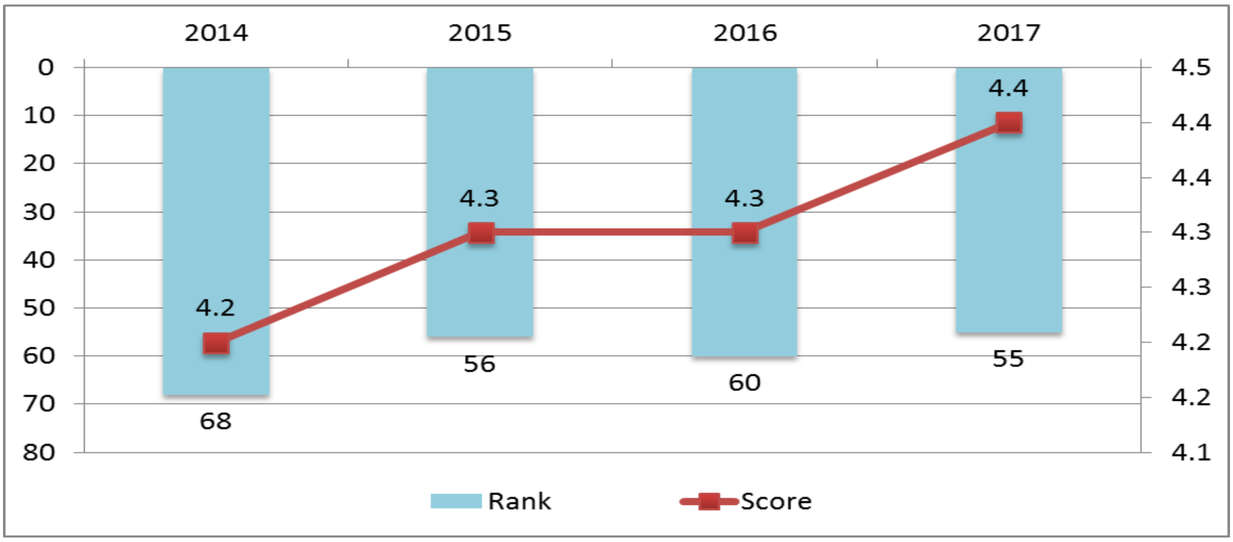
	conciliation)			
2018	- Starting a business (applying online procedures and reducing fee) - Tax and social security contribution payment (applying online procedures; combining excise tax payment and VAT tax payment; and reducing rate of unemployment insurance contribution) - Contract dispute resolution (disclosure of court judgment)	3		
	TOTAL	**18**		**1**

Source: The World Bank.

Concerning Global Competitiveness ranking

138. From 2014 to 2017, Vietnam's national competitiveness rank is different but its national competitiveness score has been continuously improved. In details, in 2017, 5/12 main indexes had higher scores and 6/12 main indexes had higher ranks (with 32/144 component indexes having higher scores and higher ranks, 24/114 component indexes having higher ranks with unchanged scores or having higher scores with unchanged ranks). This indicates that despite of continuous reforms, Vietnam's improvement in the many areas remains limited or unsustainable.

Figure 49: Vietnam's rank and score in National Competitiveness 2014-2017



Source: Report on Global Competitiveness of World Economic Forum (2014-2017)

139. In the context of rapidly changing technologies, political polarization and faint economic recovery, the World Economic Forum (WEF) has changed its way to assess and rank global competitiveness, paying attention to factors that push up

long-term growth and increase income of people. With a new approach, this index has a new name of Global Competitiveness Index 4.0 (GCI 4.0). In 2017, WEF still assessed and ranked global competitiveness but supplemented Global competitiveness index 4.0 as a reference. In 2018, WEF officially applies this new method and publishes its Global Competitiveness Report 2018 with assessment and ranking based on Global competitiveness Index 4.0. Due to different approaches, ranking in Global Competitiveness 4.0 cannot be compared with ranking in previous Global Competitiveness.

140. According to WEF's ranking in 2018, Vietnam’s position in Competitiveness index 4.0 decreases 4 ranks (from 74 to 77); however, Vietnam’s absolute score is 0.2 point higher with 4/12 pillars having higher scores. It is noticeable that 7/12 pillars have lower scores: score on Skills is 1.5 point lower (decreasing from 55.8 to 54.3); score on Institutions is 1.2 point lower (decreasing from 50.7 to 49.5); scores on Infrastructure, Product market Efficiency and Financial system Efficiency are 0.6 point lower for each; score on Innovation Capacity is 0.5 point lower, and score on Business dynamism is 0.3 point lower. This result shows that motivations for innovation to catch up with 4.0 trends are still inefficient. Administrative procedures being heavy barriers; lower score of entrepreneur culture, low level of transaction and diversification, and limited level of commercialization still remain.

141. Vietnam’s rank is lower compared with most ASEAN countries and only higher than Lao PDR and Cambodia. In 2018, Vietnam, Lao PDR and Cambodia’s ranks are lower while other ASEAN countries all witness improvement in ranks. Notably, the Philippines has an improvement of up to 12 ranks. It can be said that Vietnam is lagging behind other ASEAN countries as for Competitiveness 4.0. To catch up with other regional peers, development process needs to be pushed up towards 4.0 trends with a concentration on finalizing institutions and improving business climate; applying IT broadly, including in public administrative sector; improving efficiencies of markets (especially product market which has a very low score - ranked 102); and applying mechanisms to encourage and bolster creativeness and business dynamism instead of the thinking of creating barriers for management.

<u>Concerning Vietnam’s rank in Innovation</u>

142. In 2018, Vietnam is ranked at 45/126 economies in Innovation index published by WIPO, increasing 02 ranks compared with 2017. In the last 5 years, Vietnam’s ranks in innovation pillars have been continuously improved. In the group of low-medium income countries (30 countries), Vietnam is ranked at 2nd.

143. Vietnam’s position in Innovation Index increase 26 ranks in 2018 compared with its position in 2014 with higher ranks in 6/7 component indexes (see Table 2). In details, Vietnam increases 43 ranks in Institutions (from 121/143 to 78/126); 23 ranks in Human capital and research (from 89 to 66); 21 ranks in Infrastructure (from 99 to 78); 59 ranks in Market sophistication (from 92 to 33); 14 ranks in Knowledge and Technology outputs (from 49 to 35); and 12 ranks in Creative outputs (from 58 to 46).

144. Only one component index (Business sophistication) decreases 7 ranks in 2018 compared with its position in 2014. Component factors of business sophistication include: Knowledge workers; Innovative linkages and Knowledge absorption.

Table 7: Vietnam's rank in Innovation Index (2014-2018)

	2014	**2015**	**2016**	**2017**	**2018**	**Improved rank after 5 years (2018 compared with 2014)**
Input indexes group	**100**	**78**	**79**	**71**	**65**	**35**
1. Institutions	121	101	93	87	78	**43**
2. Human capital and research	89	78	74	70	66	**23**
3. Infrastructure	99	88	90	77	78	**21**
4. Market sophistication	92	67	64	34	33	**59**
5. Business sophistication	59	40	72	73	66	**-7**
Output indexes group	**47**	**39**	**42**	**38**	**41**	**6**
6. Knowledge and Technology outputs	49	28	39	28	35	**14**
7. Creative outputs	58	62	52	52	46	**12**
General rank	**71**	**52**	**59**	**47**	**45**	**26**

Source: WIPO (2014-2018)

145. Furthermore, based on the relationship between income level (GDP per capita) and Innovation capacity (score), WIPO thinks that Vietnam has much better innovation result compared with its development level (GDP).

Concerning cutting and reducing business conditions

146. In 2018, most of ministries and agencies have finished elaborating decrees on business conditions which have been approved by the Government. In details, some unnecessary, inappropriate and unclear business conditions have been eliminated; time requirement has been shortened; volume requirement has been reduced; location and infrastructure business conditions have been eliminated or simplified; etc. For example, Ministry of Information and Communications has cut business conditions in printing sector; Ministry of Construction has simplified business conditions in construction management sector (such as reducing business conditions on human resource and time).

147. According to reports released by ministries, at least 50% of business conditions have been eliminated, reaching the planned target as directed in the Resolution. However, it is necessary to continue to review and assess quality of the eliminated business conditions. Based on that, recommendations should be made to eliminate unnecessary, inappropriate and inefficient business conditions or simplifying business conditions to create a favorable climate for enterprises' business activities.

Some shortcomings and limitations

148. Up to now, in general, ministries, sectors and localities all have a clear understanding of requirements on reforming business climate in line with Resolution No. 19 and they have been engaging more actively and creatively. As mentioned above, engagement by ministries, sectors and localities is uneven, thus the outcomes achieved are different. Nevertheless, enterprises have more and more confidence and expectation in implementing targets and the Government's solutions on improving business climate.

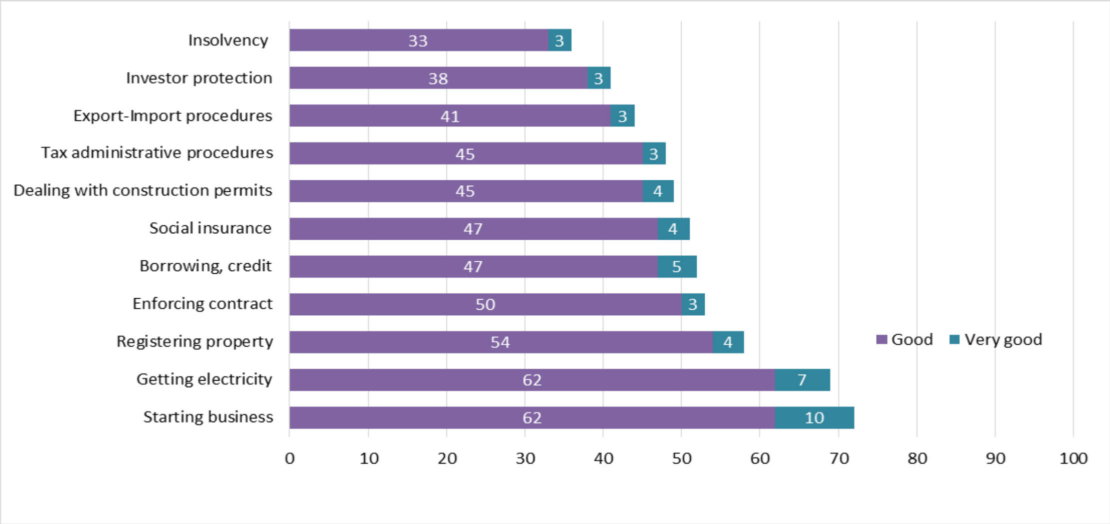
149. However, in some sectors, the implementation by some ministries, sectors and localities remains slow or inefficient in reality, for example slow changes and many business conditions in education sector; many difficulties in inspecting quality and minimum energy efficiency for imported and exported goods, leading to waste of money and time and causing cost and risks for enterprises; etc. According to opinions from business community, reforms made by ministries, sectors and localities have been realized but they are still be slowly implemented, insufficient and uneven among sectors; some reforms even are not realistic or just on documents.

150. Following are some problems that need to be improved and barriers and limitations of business climate hindering the development of enterprises that need to be removed.

Business climate improvement level is uneven and improvement does not meet with requirement.

151. According to a survey report released by Viet Nam Chamber of Commerce and Industry on the outcome of implementing Resolution No. 19, over 50% of surveyed enterprises think that improvement of 6 business climate indicators is Good or Very good. These indicators include: Starting a business, Access to electricity, Registering asset, Contract dispute resolution, Access to credit and Social insurance. Meanwhile, the remaining indicators are slowly improved or below enterprises' expectation (accounting for less than 50%) (Figure 50). This result is similar with assessment on business climate by the World Bank in 2018. It once again shows uneven engagement of ministries and agencies and different outcomes among sectors.

Figure 50: Ratio of enterprises of which assessment on improvement in sectors as defined in the Resolution No. 19 is Good or Very good



Source: VCCI (2018).

<u>There remain business conditions as barriers</u>

152. Reforming regulations on business conditions in order to push up competition and encourage enterprises' development is a key priority of the Government in recent years. Reform contents have been defined in many documents such as Resolution No. 19/NQ-CP (in 2016-2018 years); Resolution No. 83/NQ-CP dated 31 August 2017; Resolution No. 98/NQ-CP dated 03 October 2017; Resolution No. 01/NQ-CP dated 01 January 2018; Directive No. 20/CT-TTg dated 13 July 2018; and many directive documents. Accordingly, the Prime Minister has assigned ministries to cut and reduce 50% of business conditions and 50% of goods in the list subject to specialized inspection under state management of ministries and agencies.

153. By the end of November 2018, most of decrees adjusting and supplementing decrees on business conditions have been issued. In some areas, draft decrees have been made but not issued yet, for example in sectors of transportation (5/9 decrees), health care, and banking (SBV). Therefore, ministries and agencies should hasten implementation progress.

154. Besides, quality of cutting and reducing business conditions in reality has not met with the requirement of reducing 50% business conditions. Some cut or reduced business conditions do not really create more favorable conditions for enterprises. For example, some cut business conditions are integrated into technical standards; some business conditions are modified to avoid attention but their nature is not changed; some modified business conditions do cause more difficulties for enterprises; many regulations still remains unclear, unforeseen or have potential risks for enterprises; practice certificates granted by public authorities exist in most areas (especially in construction sector); or regulations on business conditions is expanded in dossiers. Due to limited quality of cutting and reducing business conditions, it is necessary to continue to review and reassess in order to build more practical reduction plans.

<u>Concerning specialized management and inspection</u>

155. Reforming regulations on specialized management and inspection has just achieved some initial results in some ministries and in some sectors (such as health care, industry and trade (formaldehyde test or chemical declaration), construction, natural resources and environment, agriculture and rural development (phyto-sanitary)). The achievements are still low compared with requirement and engagement by ministries is still uneven. Problems in specialized management and inspection such as many lists of goods, overlap management, not-risk-based management, big cost for specialized inspection, etc. are still causing many difficulties and are barriers to enterprises' production and business activities.

156. There is a large number of legal documents regulating specialized management and inspection. According to statistics by customs agency (up to April 2018), there are 337 legal documents on specialized management and inspection. Number of specialized management documents for exported and imported goods is large, causing difficulties for enterprises and customs agency in monitoring, updating and applying regulations. Some regulations are even contradictory or overlap with each other.

157. Despite of some positive changes in specialized management and inspection, number of reforms is few and implementation is slow. Indicators for reforming specialized management have been clearly stated in Resolutions No. 19 (in 2015, 2016, 2017 and 2018) (such as management based on risk assessment and enterprises' compliance with laws; shifting from clearance phase to post-clearance phase; transparency on list of goods subject to specialized inspection; applying electronic procedures; and applying international practices). However, most of specialized managing ministries have not paid enough attention to comprehensively reforming these contents.

158. In addition, coverage of goods subject to specialized inspection remains large, including more than 78,000 goods at the moment. In many cases, compared with laws, circulars and decisions issued by some ministries tend to broaden list of goods subject to specialized inspection (for example in sector of animal quarantine or checking quality of imported goods).

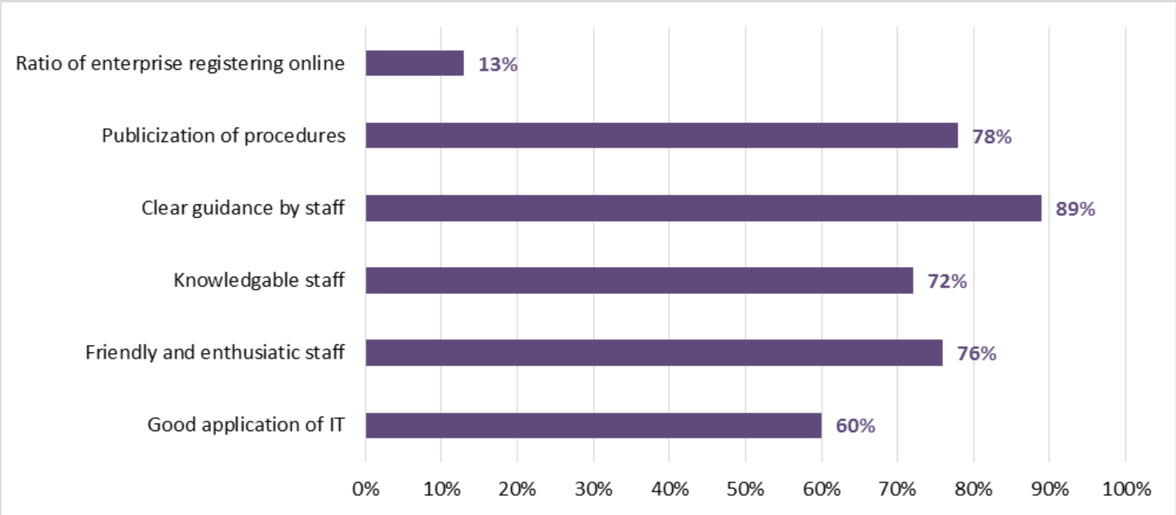
159. Despite of some improvement, time and cost for fulfilling procedures in specialized management and inspection remain long and big, causing many risks for enterprises (warehousing cost, administrative penalty for late clearance, miss of business opportunities, etc.). In addition, cost of specialized inspection is very large and negatively affects enterprises' business efficiency, working against the Prime Minister's direction on "reducing costs for enterprises".

160. It can be said that reforming specialized management and inspection remains slow and insufficient compared with the Government's directions and does not meet with the expectation of business community. According to a survey result by VCCI (2018) that collects enterprises' opinions on efficiency of implementing contents defined in Resolution No. 19, only 43% of surveyed enterprises said that there are positive changes in export and import sector.

Concerning application of IT and implementation of electronic transactions

161. Generally speaking, application of IT and implementation of electronic transactions remain low. According to a Quarter III/2018 Report released by Ministry of Information and Communications, for online public services at level 3, 4 provided by ministries and ministerial-level agencies, ratio of services receiving online dossiers is 33.41% in the quarter; and this ratio is only 10.84% for online public services at level 3, 4 provided by provinces and cities. This data is rather similar to a survey result published by VCCI (2018) which shows that only 13% of enterprises use online dossiers. Low ratio of applying electronic transactions is mainly due to low quality of data links, insufficient functions, low stability of systems, shortcomings in dealing with inquiries on website interface and requirement of submitting both online and hard copy dossiers.

Figure 51: Survey result of applying IT in dealing with administrative procedures



Source: VCCI (2018).

162. Theoretically, national single-window portal is a mechanism to facilitate online transactions and create efficient linkages. By the end of 2018, 11 ministries and agencies have connected to national single-window mechanism with about 140 administrative procedures provided. According to ministries' connection plans, there would be about 270 administrative procedures by the end of 2018 and 284 administrative procedures by the end of 2019. As such, the number of administrative procedures provided on the portal is low compared with the planned one (only reaching 50% of the planned target).

163. The reality of operating national single-window mechanism shows that only a few procedures is fully electronically connected (according to a recent survey, only one procedure on Chemicals declaration under management of by Ministry of Industry and Trade meet with the requirement). A few procedures can be done online but still requires enterprises to directly submit some original copies or pay fee. Most of connected procedures can be done online or manually (submitting hard copies). This method of management makes enterprises unwilling to implement procedures online because it costs them more jobs or time.

164. Besides, the software system sometimes does not work properly, leading to difficulties for enterprises in fulfilling online procedures. Furthermore, because VNACCS/VSIC system of customs agency has not been connected to National single window mechanism, despite of results available in the portal, in many cases, enterprises have to submit dossiers and results directly to customs agencies. This reduces the efficiency of doing online procedures when connecting to National single-window portal.

Experience lessons and some recommendations

165. On the basis of implementation of Resolution No. 19 and relevant resolutions on improving business climate and enhancing national competitiveness from 2014 up to now, some experiences lessons can be drawn as follows:

   a. *First*, the Resolution has identified clear, detailed and measurable targets. On par with these targets, policy solutions and detailed activities have been assigned properly to ministries, agencies and localities with identified time framework for fulfillment.

   b. *Second*, the Government and the Prime Minister have issued continuous, consistent and prompt directions, putting strong and continuous administrative pressures on ministers and heads of relevant units and agencies. In sectors with direct guidance from the Prime Minister, achieved outcomes are clearer and better with cutting and simplifying business conditions and specialized inspection being typical examples.

   c. *Third*, there are independent and frequent surveillance and assessment from associations and business community; monthly and periodic reports on the achieved outcomes, especially on jobs that are unfinished or slowly implemented as well as arising issues; and the Prime Minister's prompt appreciation, commendation, direction or criticism based on the performance results.

   d. *Forth*, in sectors and localities where ministers and chairmen of provincial People's Committee have clear perception on issues to be done, actively and frequently give guidance to the affiliated units, especially ones that bear direct responsibilities, make strong and determined commitments on implementing renovations with no aiming to protect their local interests as well as frequently monitor and require reports on implementation progress, outcomes and arising issues, achieved outcomes seem to be clearer and better than those in other sectors and localities.

   e. *Fifth*, there are active engagement and responses from business associations, especially in reporting problems and difficulties they are facing with or unreasonable or irrational issues, etc. related to relevant legal documents. The contingent of reporters and communication agencies all over the country also has actively taken part in the process.

166. In the context that the world is changing rapidly in order to adapt to requirements of a new production base in line with the IR 4.0, the Government must put forward new requirements in reforming business climate and

enhancing national competitiveness. Accordingly, in addition to maintaining the target of improving business climate in line with international practices (like the approach of the World Bank) and developing sectors that Vietnam has comparative advantages, the Government should pay attention to enhancing factors such as technologies, creative innovation, human resource quality and public service quality, etc. Over the period 2019-2021, two key priorities to be done in order to adapt to new production base include: (i) Promoting non-cash payment and provision of online public services at level 4, including building and operating National public service portal; (ii) Developing innovative ecosystem to support and encourage enterprises' start-up activities.

167. Identification of key issues to be improved in order to support enterprises' development can be based on some ranking tables as below:

a. Doing Business ranking published by the World Bank;

b. Global Competitiveness Index 4.0 published by WEF;

c. Readiness for the Future of Production Assessment published by WEF;

d. Global Innovation Index published by WIPO;

e. Logistics Performance Index published by the World Bank;

f. E-Government Development Index published by the UN;

j. Travel & Tourism Competitiveness Index published by WEF.

3. Private sector in the economy

Investment efficiency by economic sectors in 2011 - 2016

168. From 2010 to 2017, Vietnam's GDP achieved a relatively high growth rate, with an average growth of about 6% per annum. However, by ownership, GDP growth seemed not substantial and not significant enough to assess the health of economy. Some hundreds of trillion dongs of self-buying and self-using housing were measured in GDP, which raised the scale of GDP; however, in fact, it was records as credit for the asset side and debit for liabilities at the same time. Therefore, no one benefited from this amount. Budget expenditures was included in GDP, resulting in higher growth for state-sector as compared to average growth of the economy for long time (7.2% compared to 6.1%), as GDP calculation in Vietnam also included interest payment for bank loan. Therefore, it did not have much meaning for calculating investment efficiency from GDP indicator. It would be clearer from the production side of the economy or enterprises.

169. Calculations from annual enterprise survey show that capital-output ratios were increasing. In 2011, the country needed 1.44 dong of capital to create 1 dong of net revenue, and by 2016, it needed 1.73 dong of capital to create 1 dong of net revenue. Thus, the efficiency decreased by about 20%. Especially in the domestic production sector-including SOEs and non-state sector, efficiency of capital was also declining. In 2011, SOEs needed 1.8 dong of capital to create 1 dong of net revenue, but in 2018 this ratio increased to 2.91 dong. By three categories of ownership, only FDI sector experienced the increase of

efficiency, In 2011, this sector needed 1.17 dong of capital for 1 dong of net revenue, and in 2016 this ratio was 1.05 dong. During 2011 - 2016, in order to increase one unit of net revenue, SOEs needed an increase of 19.3 dong of capital. This was an alarming of investment efficiency of state-sector, mostly attributed to the lost and waste of capital, the investment in inefficient projects which not increase value-added during the production cycles, and construction of unnecessary public and welfare facilities, etc. Of all three economic sectors, FDI sector witnessed the most effective use of capital, the ratio was about 1-1 (One dong increase of capital created one dong increase of revenue).

Table 8: Relationship between capital and net revenue

	Capital-output ratio			
	SOEs	*Non- state*	*FDI*	*Overall*
2011	1.80	1.37	1.17	1.44
2012	1.85	1.37	1.12	1.44
2013	2.07	1.46	1.19	1.54
2014	2.23	1.44	1.14	1.54
2015	2.72	1.46	1.07	1.58
2016	2.91	1.72	1.05	1.73
ICOR	19.3	2.2	1.0	2.14

Source: GSO.

Note: Non-state sector includes private enterprises under Enterprise Law.

170. However, according to enterprise surveys, in the period of 2011-2016, FDI sector had earnings before taxes of 181%, higher than that of the domestic non-state sector. This figure has been declared to the tax administration agency, meaning that retained earnings (after deducting the costs of imported raw materials, materials, and machinery for over-valuating (price transferring) and reducing earnings to avoid corporate income tax) may be higher. Meanwhile, taxes and other payment to state budget of FDI sector were only equivalent to 81% of the non-state sector. Of which, payment to state budget of FDI sector included both direct and indirect taxes, which was not contributed by FDI sector; in fact, it was the contribution of Vietnamese people to state budget through consuming the products of FDI sector. Tax payment, excluding indirect taxes, of FDI sector to state budget was only 51% of that of non-state sector.

171. Table 8 shows that FDI sector experienced the highest average growth of profit during 2011 - 2016 (25.5%) compared to two other domestic economic sectors, i.e. SOEs (21%) and non-state sector (17.4%). Meanwhile, average growth rate of total tax payment of FDI was only 8.6% (compared to 21% of non-state sector), especially average growth rate of corporate income tax of FDI was even lower, only 7.5% (compared to 21% of non-state sector).

172. It is questionable on whether FDI sector with less investment, higher profit and lower tax payment than domestic sector a paradox of more incentives for attracting FDI but not much benefit for the country. Some people argued that FDI sector has created numerous employment. Statistic figures have shown that

by 2016, total number of employees in FDI sector was about 40% of that of non-state sector and there were almost no technology transfer. Labor of FDI sector accounted for the lowest share and has been gradually decreased. The share of labor in non-state sector went up from 61% in 2011 to 79% in 2016, while the figure for FDI sector fell from 23% in 2011 to 9% in 2016. Thus, a question raised on the preferential treatment for FDI sector. And why domestic firms and local people have to pay taxes for FDI and to increase profits for them? Why public land were used as incentives for offering FDI sector and back-up enterprises? The "why" questions have been raised many times, however, no answer was satisfactory.

Table 9: Growth of selected indicators by ownership (%)

	Average revenue growth rate, 2011-2016	**Average profit growth rate, 2011-2016**	**Average tax payment, 2011-2016**	**Average direct tax growth rate, 2011-2016**	**Average capital growth rate, 2011-2016**
SOEs	18.62	20.81	8.60	9.60	11.48
Non-state	11.89	17.44	20.73	20.86	17.07
FDI	18.62	25.47	8.60	7.50	16.28

Source: GSO

Note: Non-state sector includes private enterprises under Enterprise Law.

173. Table 10 shows that in 2016, FDI sector had the lowest share of tax payment as compared to two other domestic sectors, particularly, corporate income tax of FDI sector accounted for 19% as compared to the figure of 38% of non-state sector.

Table 10: Share of tax payment by economic sector in 2016

	Total tax/Revenue from taxes, fees	***Direct tax/Revenue from taxes, fees***	***Total tax/Total state budget revenue***	***Total direct tax/Total state budget revenue***
SOEs	27.96	24.36	25.18	21.94
Non-state	43.82	41.64	39.47	37.50
FDI	25.29	**21.41**	22.78	**19.28**

Source: GSO

174. In order to assess the health of economy, it is also necessary to study the debt of whole economy. During 2011-2016, growth of liabilities at current prices amounted to 15% per year while average growth in gross value added (GVA) of the economy at current prices was only 10.1% per year. Notably, liabilities of non-state sector increased quickly (16.2%), while average growth of value-added of this sector was only about 9.5% per year in the same period. Figures for SOEs were 15% and 10% respectively. FDI sectors witnessed high average growth of liabilities (16.4% per annum), in spite of high average growth of value-added (14% per annum). However, it should be noted on the creditors of FDI sector, whether domestic or foreign debts; and the percentages of domestic debt and foreign debt?

Table 11: Growth of liabilities and gross value-added (at current price)

Unit: %

	Average growth of liabilities, 2011-2016	Average growth of GVA, 2011-2016
Total	*14.87*	*10.13*
SOEs	12.37	9.98
Non-state	16.19	9.46
FDI	16.41	13.97

Source: GSO.

Why domestic enterprises experienced low contribution to GDP?

175. Statistics show that over the last 10 years, the growth of value-added of private sector was only 7-8%. It raised some doubts on the reality of this figure, also a concern by economic experts and policy makers. So what are underlying problems?

Table 12: GDP structure by ownership, 2005-2017

Ownership	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**
State	37.62	36.69	35.35	35.07	34.72	29.34	29.01	29.39	29.01	28.73	28.69	28.81	28.63
Non- state	47.22	47.24	47.69	47.50	47.97	42.96	43.87	44.62	43.52	43.33	43.22	42.56	41.74
Collective	*6.65*	*6.39*	*6.10*	*5.91*	*5.80*	*3.99*	*3.98*	*4.00*	*4.03*	*4.04*	*4.01*	*3.92*	*3.76*
Private	*8.51*	*8.98*	*9.69*	*10.23*	*10.46*	*6.90*	*7.34*	*7.97*	*7.78*	*7.79*	*7.88*	*8.21*	*8.64*
Household	*32.06*	*31.87*	*31.90*	*31.36*	*31.71*	*32.07*	*32.55*	*32.65*	*31.71*	*31.50*	*31.33*	*30.43*	*29.34*
FDI sector	15.16	16.07	16.96	17.43	17.31	15.15	15.66	16.04	17.36	17.89	18.07	18.59	19.63
Products taxes less subsidies on production	-	-	-	-	-	12.55	11.46	9.95	10.11	10.05	10.02	10.04	10.00

Source: GSO

176. From the information collected by statistic agencies, it is a possibility that data is withdrawn either from survey or finalized statements of tax authorities. However, in practice, most of enterprises maintains 2 to 3 accounting system, one for tax authorities, one for internal accounting and one for the bank used whenever they borrow. Figures are different in each accounting system, normally, data for internal accounting is quite larger than that of the finalized statements. One possible reason attributed to this distortion can be the underground economy.

177. Over the past years, growth of value-added has been similar growth of production of the whole industry in general and manufacturing industry in particular, despite the difference of input and output price index and production efficiency. According to new calculation approach of GSO, growth of gross output of manufacturing was 15.5% for the first 6 months of 2018, while growth of added-value was lower (13.02%). It is quite reasonable with an increase of 2% for output price and 4% for input price index. For previous approach, GDP growth would be some percentage points higher for the first six months of 2018, although there was no meaning for such GDP increase.

178. For the first six months of 2018, the share of production output of two big FDI corporation (i.e. Samsung and Formosa) accounted for nearly 30% of total production output of manufacturing sub-sector. Therefore, Vietnam's growth has depended heavily on FDI sector. According to an estimation by Vu Quang Viet, in 2017, this sector could transfer amount of USD 12 billion of profits back their home countries, while the amount appeared in balance of payment in 2017 was USD 10.3 billion. The ownership payments (via dividends) was likely as high as trade surplus of FDI. Thus, FDI sector with less investment, higher profit and lower tax payment as compared to domestic sector can be a paradox of more incentives for attracting foreign investment and not adequate benefits for the economy?

179. According to the 2017 Economic Establishments Census, for enterprises and cooperatives section, GSO has calculated average figures and revealed that taxes and other budgetary payment of SOEs and FDI sector were at the highest. When looking at specific figures, average growth of net revenue of SOEs and FDI sector was 19% in 2011-2016, while this figure was only 12% for non-state sector. FDI sector witnessed the highest growth of earnings before taxes in the same period (25.5%), followed by SOEs sector (21%) and non-state sector (only 17 %).

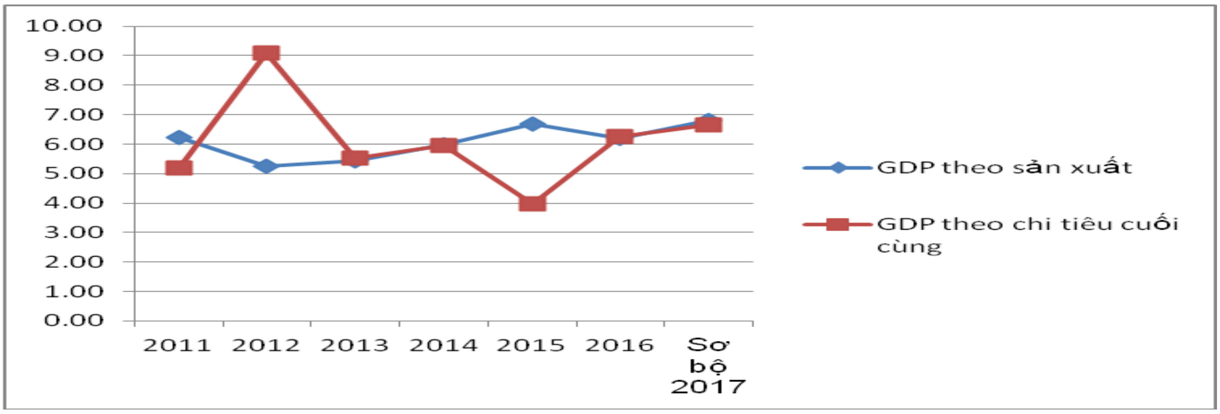
180. Growth of contribution to state budget of non-state sector was at the highest (20.7%) in the same period, while that of SOEs and FDI sector was only 8.6%, in spite of impressive growth of net revenue and profit. It should be noted that, payment to state budget comprises of direct and indirect taxes paid by consumers via enterprises. Thus, if only actual payment to state budget (i.e. direct taxes) was taken into account, growth of non-state sector was 20.9% in 2011-2016, and that of FDI sector was only 7.5%. FDI sector was good in terms of growth of profits and net revenue but not much contributed to state budget, as compared to non-state sector.

Estimating production surplus of economic sectors by income method

181. Basically, GSO calculated GDP using production method and considered it as official figures, then allocated to final demands (including final consumption of households, final expenditure of Government, gross capital formation and net exports of goods and services). However, in several years, there was significant difference of GDP growth from production approach and expenditure (aggregation of elements of final demand) as errors existed, especially for 2012 and 2015 (Figure 52). Normally, in developed countries, GDP can be calculated by three independent approached and using RAS method[68] for I/O or SUT table for harmonization to have one final GDP figure.

[68] RAS is an acronym for the name of economist Richard Stone who gave the idea of balancing the production and expenditure matrix, which is described by Trinh and Phong (2013) and applied in some developed countries, especially Swedish.

Figure 52: GDP Growth calculation using production method and final consumption method



Source: GSO.

182. So far, GSO has not yet calculated and published GDP figures using income method except for years of making I/O table. Based on 2012 I/O table and Enterprise Surveys up to 2016, the research team tries to calculate GDP and total value added at basic price using income method for 2018. In which operating surplus is divided, by ownership, into SOEs, FDI sector, and non-state sector (including private enterprises, households, and collectives). The calculation shows that income from labor increased by about 2% and income from capital decreased by an equivalent amount. This reflects the fact that the economy is increasingly capital intensive; besides, as the increase of minimum wage is higher than that of productivity, and by looking at statistics, labor productivity of some sectors such as electricity, real estate and mining and quarrying was 20 times higher than overall productivity of the economy, the sectors funded by the state budget also witnessed an increase of average labor productivity. It shows unreasonable increase in value-added value of these industries or in employee's income or operating surplus. It also proves that the increase of income from labor was not derived from productivity. Thus, the economy was both labor intensive and capital intensive?

183. With an estimation from enterprise survey, surplus of non-state sector (including private enterprises, households and cooperatives) accounted for 5.8% of the total value-added, 5.14% of total GDP and 26.4% of total income from capital; these figures of non-state sector were the lowest among other economic sectors by ownership (i.e. SOEs and FDI sector, Table 13).

Table 13: Estimation of 2018 GDP using income method

	Amount (VND Bil.)	*Share in GVA (%)*	*Share in GDP (%)*	*Share in income from capital (%)*
GDP	5,513,500		100	
GVA at basic price	4,884,961	100.0		
Net taxes on products	628,539		11.4	
Income of labor	3,810,270	78.0	69.11	
Income from capital	1,074,691	22.0	19.49	

In which:		0	-	
SOEs	*297,542*	*6.1*	*5.4*	*27.7*
FDI	*493,572*	*10.1*	*8.95*	*45.9*
Private enterprises	*281,336*	*5.8*	*5.1*	*26.2*
Cooperatives	*2,241*	*0.05*	*0.04*	*0.21*

Source: Estimation from 2012 I/O table, 2016 enterprises survey 2016 and VHLSS, income of households is estimated from SNA as income of labor.

184. According to the Resolution of 12th National Party Congress, private sector is identified as important driving force for the development of the country. It is a progress of awareness, and is in accordance with practical requirements when SOEs is shrinking, FDI sector is growing, and the economy is facing increasingly fierce competition during comprehensive integration process. However, to turn it into reality is a significant challenge.

185. To encourage investors, the state needs to ensure not only favorable but also safe business environment. One of the most concerns of business community is the weakness of legal institutions that protect legitimate rights and interests of enterprises in doing businesses. Delaying and miscarriage of justice; criminalization of economic relations and low enforcement of court decisions; the phenomenon of not recognizing and canceling the rulings arbitrarily, etc. are bad signals of business environment. Therefore, in line with administrative reforms, judicial reform should be a focus for improving business environment in the coming time.

186. Together with the increase of labor costs, cost of capital of the domestic private sector is also a big concern. Vietnamese enterprises are relying too much on short-term capital of banks and the real interest rates of loans are too high in comparison with other economies, limiting the competitiveness of enterprises. In the context of large-scale issuance of government bonds, the lending interest rates are difficult to reduce, leading to more barriers for private sector.

187. The afore-mentioned difficulties have significant effects on private enterprises, and not yet mentioned on discrimination, corruption, administrative barriers, and especially the "cronyism business" trend are besieging righteous private enterprises. The State plays a significant role in anti-corruption in the private sector, through creating business environment and regulatory provisions to ensure transparency and feasibility for fair competition, and not relying individual relationships or protection.

188. The Insurance Law is also a big barrier for private enterprises, making more difficult for them. Comparing the contribution rate before and after the amendment of law, it shows that, the smaller the enterprise, the more effects they have from the Law. For example, if an enterprise has earnings before taxes over net revenue of 20%, it will be deduct 5% for earnings before taxes under amended Insurance Law; the deduction of 7% will be applies for enterprise having earnings before taxes over net revenue of 15% and 11% for enterprises having earnings before taxes over net revenue of 10%. Thus, will SMEs become micro ad small enterprise with the application of law? On the other

hand, for individuals, their monthly income will reduce by 3.5%; and if the average life expectancy of Vietnamese people is 73.4, the average salary is VND 4.2 million and VND-denominated deposit interest rate of 7.5% per year, the insurance participants will lose by 12% compared to their total payment.

IV. RECOMMENDATIONS

189. Vietnam overcame 2018 with relatively significant socio-economic achievements. Economic growth continued to recover at high level. The macroeconomic environment continued to be stable: inflation was controlled, trade balance hit a record of surplus, state budget deficit was reasonable, public debt witnessed downward trend without associated inflationary pressures. More importantly, the macroeconomic foundation continued to be strengthened, policy space for both monetary and fiscal management was maintained even in the context of Vietnam's economy was considered to face external shocks and risk of periodical growth downturn. As a result, Vietnam still has favorable conditions to conduct more fundamental reforms to economic institutions and business environment.

190. The socio-economic results in 2018 showed some important lessons. *First*, the identification, assessment and forecasting of socio-economic issues should be carried out regularly, promptly, and accurately in order to propose focused, flexible and practical policy measures. *Second*, Vietnam cannot separate microeconomic reforms from maintaining macroeconomic stability and responding to external shocks. *Third*, communication should be carried out in a reasonable, balanced and effective manner to both stabilize market sentiment and provide orientation for business community to have necessary preparation and adjustment of strategies. *Final*, the Government may have concerns about risks, adverse impacts from external shocks, and desire to support business community. However, it is essential for the Government to create a stable, safe and cost-cutting business environment, instead of "doing it" for enterprises. In such context, the partnership between the Government and business community needs to be renewed, with the reactiveness of the Government.

191. Vietnam entered 2019 with expectations of opportunities and challenges. The confidence of domestic and foreign business community continues to increase after the Government's commitments on reforms as well as effective ability of Government in responding to adverse external shocks. Mega-FTAs (CPTPP, EVFTA, RCEP) and IR 4.0 can create additional momentum for reforms and access to external resources (skills, technology, capital). However, Vietnam needs to address fundamental challenges of institutional quality, infrastructure and human resources. Strategic competition between the US and China continues, forcing Vietnam to have careful consideration in participating in initiatives led by the two countries. Even economic, trade and investment activities may face uncertainties, especially in the first half of 2019, mostly attributed to the risk of economic downturn in major economies.

192. 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 in 2019.

1. Recommendations on further reforms of microeconomic foundations

193. 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.

194. 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 Cyber security; etc. Quickly assess the implementation to propose necessary adjustments, if any.

195. 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.

196. Continue assigning priority to business environment reforms toward facilitating production and business activities in line with Resolutions 02/NQ-CP in 2019.

    - 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

197. Issue the National Strategy for Industrial Revolution 4.0. Identify, promulgate policy framework and prepare necessary conditions to promote digital transformation in Vietnam.

198. Study, identify and consult on strategic economic orientations for the period of 2021-2030.

199. Proactively engage in exchanging and cooperating with partners for effective implementation of CPTPP; seek supports in ratifying EVFTA; and quickly finalization basic negotiation of RCEP. Lobby the recognition of Vietnam’s full market economy status. Closely monitor and analyze new actions and attitudes of major economies to non-marketed economies to propose appropriate solutions.

200. Promulgate amendment of some Laws to implement CPTPP. Continue to review 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.

201. 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

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

    - Not expect too much on the scenario of US-China trade agreement; prepare for ongoing escalation to have appropriate responses.

203. 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:*

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

205. 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.

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

207. 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.

208. Prudently manage monetary policy and direct policy on supporting the stabilization of inflation and the financial market; maintaining reasonable liquidity and monitoring credits for risky sector (real estate, securities,…). Thoroughly assess the current situation of consumer credit for appropriate policies and regulations.

209. 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.

210. 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.

** Fiscal policy:*

211. Ensure strict discipline of state budget expenditures to fulfil state budget deficit target for 2019 and to reduce pressure on state budget revenues.

212. Promptly promulgate Plan on issuance of government bonds, based on assessing the capacity, opportunity costs of issuing government bonds and coordinating with monetary policies. Avoid the issuance of a large-scale plan and scale-down as adjustment.

213. 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.

214. 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.

** Trade policy*

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

216. 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.

217. 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.

218. Reassess policy measures on ensuring effective implementation of international economic integration in the new context (IR 4.0, increasing of protectionism, etc.). 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.

219. Should not be favor of any key partners, but pay more attention to fundamental issues (i.e. promoting cooperation in digital economy, digital commerce, etc.) and pragmatic thinking (taking strategic benefits, not only benefits of enterprise, as enterprise allow the "entrance" of one country's products into other country, it would be bad for the whole economy).

* *Price and wage policies*

220. Price adjustment plan for state-controlled goods and services should be implemented in a transparent, prudent, flexible and evidence-based manner. Improve competition, publicize and monitor cost structures of those markets. Disseminate information on not making price adjustment at the end of the year

* *Investment policy*

221. 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.

222. 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.

223. Develop and promulgate feasible, detailed and measurable indicators to evaluate the efficiency of public investment projects, in particular those using government bond capital.

224. 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.

225. Concretize direction on FDI attraction in the new context. Encourage foreign investors with established presence in Vietnam.

226. 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

227. 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.

228. 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.

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

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

231. 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

No.	Content	Policy changes until December 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 2736 /QD-TCHQ promotes customs-business relations through information sharing and cooperation on common issues. 6.Decree 130/2018 ND-CP provides detailed guidelines for the implementation of the Law on Digital Signatures and Digital Signature Certification Service , effective from November 15, 2018. • Time for verifying and granting digital signature authentication is shortened to 50 days from the date of receipt of a valid licensing dossier instead of the previous 60 days. • In order to be provided with a public digital signature certification service, the organization must meet the following conditions: (i) Have a license to provide public digital signature certification services issued by the Ministry of Information and Communications. ; (ii) have a digital certificate issued by the National Digital Certification Authority. • Public signature certification service providers are agreed to have the license term of 10 years; digital certificates issued to organizations providing public digital signature certification are effective for 5 years .

		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. Circular 41/2018/TT-BCT dated November 6, 2018 prescribes the list of waste suspended for temporary import, re-export or merchanting trade business. • This list includes 27 scraps, including: Gypsum; Granulated slag from the industry of iron or steel refining; Recovered paper or cover type; Silk waste; Refined or coarse wool or animal hair; Cotton waste; Broken glass and other waste and scrap glass ... • This Circular is in effect from December 20, 2018 to December 31, 2019, scrap shipments that had gone through customs procedures for temporary import and border-gate transfer before December 20, 2018 shall continue to be re-exported and border-gate transferred. *Trade policy paid more attention to using trade remedies and prevented goods affecting the environment, national security and social security.* 1. Circular 39/2018 /TT-BCT, issued by the Ministry of Industry and Trade on October 30, 2018 and being in effect from December 14, 2018, prescribes inspection and verification of origin of exported goods at production establishments export. • The competent authority of the importing country proposes to inspect and verify at the production establishment when the results of the inspection of documents and certificates of origin are not enough to determine the origin of goods or when there are reasons to suspect fraud of goods; • Domestic authorities and organizations conduct inspection, verification, risk management and anti-fraud of goods origin; • Other domestic authorities recommend coordination when there are reasons to suspect or detect signs of fraud in goods origin. 2. Decree 141/2018 / ND-CP is issued by the Government on 8 October 2018 and is effective from November 25, 2018.

		• A fine of VND 80-100 million is applied to organizations that commit one of the following illegal multi-level selling acts: (i) Requesting other people to deposit or pay a certain amount of money to be signed multi-level sales contract; (ii) Requesting others to buy a certain amount of goods in order to sign a multi-level sale contract; (iii) Allowing multi-level sales participants to receive money or other economic benefits from introducing others to participate in multi-level sales activities but not from the purchase and sale of goods of the referred person. ... • A fine of 2 times the above penalty level if the violation is committed in more than 2 provinces, cities. •
2	Investment policy	*Adjusting the medium and long-term investment plan for the period 2016-2020 on the basis of ensuring the ability to balance the investment capital of the state budget every year, keeping the overspending rate and public debt safety norms.* 1. Resolution 71/2018/ QH14 dated 12/11/2018 • Adjusting the total foreign capital level in the medium-term public investment plan for the period 2016-2020 from VND 300.000 billion to a maximum of VND 360.000 billion; at the same time, reducing the corresponding domestic loans to meet disbursement requirements for projects using foreign capital. • Adjusting capital sources for national important projects worth VND 10.000 billion (from VND 80.000 billion to VND 70,000 billion). • Allowing localities to allocate annual public investment plans in local budget balances on the basis of actual collection capacity, ensuring no increase in the overspending rate of the annual local budget, deployment summarized at the end of the mid-term public investment plan for the period 2016-2020. • Using VND 10.000 billion from reducing capital for important national projects to prioritize projects strengthening critical dyke systems, handle river and coastal erosion, prevent, avoid and overcome the consequences of natural disasters and emergency population relocation from areas where the risk of flash floods, landslides and landslides occurs. The remainder is used to pay for the clearance debt of some projects that are under the central budget and support the clearance of some urgent projects that need to be deployed immediately. *Improve the efficiency of public investment and promote public investment disbursement, strengthen public investment management capacity* 1. Decree No. 120/2018 / ND-CP amending and supplementing a number of articles of Decree 77/2015 / ND-CP on medium and long-term public investment plans, Decree 136/2015 / ND-CP on guiding the implementation of a number of articles of the Law on Public Investment and Decree 161/2016 / ND-CP on specific mechanisms for management of construction investment with a number of projects under national target programs in the period of 2016 - 2020. • Newly started projects must be approved by competent authorities on October 31 of the previous year in the plan year, "except for emergency projects, projects using state budget reserves. , increase revenue, state budget surplus and other cases decided by the Prime Minister. 2. Official Letter 1375 / BKHĐT-TH in 2018 Accelerate the implementation and disbursement of public investment capital plans. • Completing the allocation of all of the 2018 public investment plan capital allocated by the Prime Minister,

		expeditiously entering estimates for projects on the budget management and treasury information system. • Directing investors to promptly complete payment documents for projects that must be recovered in advance in 2018 (striving to complete payment for these projects before April 30, 2018), the projects must payment of debts for capital construction; transition projects, completed in 2018, especially infrastructure projects damaged by natural disasters and important infrastructure projects (if any volume is already implemented). • Strengthening the direction of investors to implement the project, speeding up the progress of compensation, site clearance, bidding; actively remove difficulties and obstacles to speed up the construction progress. • Strengthening the inspection, examination and handling of violations in the process of implementing public investment plans, clarifying responsibilities and strictly handling according to the provisions of law for individuals causing delays. in capital allocation and capital payment. Timely replacing cadres and civil servants who are stagnant, obstructing and not fulfilling their tasks. Expeditiously review and complete investment procedures for important projects, essential projects with large scale, pervasive, connecting regions, especially infrastructure in key areas, big city. *Investment policy focuses on attracting more focused FDI, prioritizing solving difficulties for selected businesses and investment licensing. At the same time, the application of online bidding option will save time for submission and approval of bids.* 1. Official Letter No. 8145 / BKHDT-DTNN on guiding the development of the Investment Promotion Program in 2018 • Orientation of attracting FDI to industries that embrace industry trends 4.0, ICT, digital, nano-technology, biotechnology, new materials and sustainable agriculture. • Focusing on solving difficulties for enterprises that have been granted investment licenses, boosting disbursement. • Regularly review the investment situation and report to the National Assembly. 2. Official Letter No. 7427/BKHDT-TTr on guiding the elaboration of inspection and inspection plans for the 2018 Planning and Investment. • Avoid overlapping in specialized inspection for enterprises licensed to invest. Do not let the inspection and inspection situation occur more than 01 time for enterprises. 1. 3. Circular 04/2017/TT-BKHDT providing detailed regulations on selection of contractors through the National Bidding Network.
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 1297/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 policy; bad debt	*Monetary policy supported flexible exchange rate management and effectively controlled the quality of credit growth*

	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. 4. Circular 23/2018 / TT-NHNN of the State Bank effective from November 1, 2018, there are 7 cases to revoke licenses of people's credit funds, including: (i) Self-funds pray for dissolution when being able to pay off all debts and other property obligations; (ii) The Fund's application file for fraudulent information to qualify for a license; (iii) The Fund operates in contravention of the contents prescribed in the license; (iv) The Fund seriously violates regulations on safety limits and ratios in operation; (v) The Fund does not implement or fails to fully implement the decision of the State Bank branch to ensure safety in banking operations; (vi) The fund is divided, merged, consolidated, bankrupt; (vii) The Fund has expired or does not apply for extension, but it is not approved by the State Bank branch. 5. On September 11, 2018, the Government issued Decree 117/2018 / ND-CP, effective from November 1, 2018,

		providing relatively strict regulations on the protection of confidentiality and customer information at banks. Specifically: • The Bank is only allowed to provide customer information in two cases: Other organizations and individuals have the right to request the provision of customer information specified in the Law, Law and Resolution of the National Assembly; Approved by the customer. • The Bank may not provide customer authentication information (secret key, biometric data, access password ...) to any agency, organization or individual, except where approved Customer's agreement in writing or in other forms as agreed with the customer. • Agencies, organizations and individuals may only request banks to provide customer information in accordance with the intended purpose, content, scope, authority or when approved by customers and must be responsible on requesting information ... *Strictly control activities of lending to overseas of credit institutions* 1. Circular 36/2018/TT-NHNN dated 25/12/2018 of the State Bank of Vietnam on lending activities for offshore investment of credit institutions and foreign bank branches for guests. • • This Circular specifies conditions for borrowing capital to invest abroad, including: (i) Customer is a legal entity with civil legal capacity; if the customer is an individual, he / she must be at least 18 years of age and have full civil act capacity; (ii) Customers have had 2 consecutive years without bad debts up to the time of loan application; (iii) Customers have been granted an offshore investment registration certificate and their investment activity is approved or licensed by the competent authority of the investment recipient country; (iv) Customers' projects and plans for offshore investment are evaluated by credit institutions as feasible and customers are able to repay credit institutions, (v) The amount granted is agreed between credit institutions and customers, but not more than 70% of the customers' offshore investment.
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***	***IV***
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	7.3
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	6.5
- 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*	*3.8*
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	9.8
- 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*	*8.9*
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	80.8
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	0.6	3.2
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	3.3
Interbank/central VND/USD exchange rate (average)	dong	21446	21593	21773	21890	21890	21876	21891	22074	22219	22371	22442	22451	22434	22555	22674	22742
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	32.8
Implemented FDI	bn USD	3.1	3.3	3.4	4.8a	3.5	3.8	3.7	4.8	3.5	3.8	5.2	5.0	5.8	4.5	4.9	5.9
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	3.0
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	bn 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 payment	bn 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.