Aus4Reform Program

AUS4REFORM PROGRAM

MACROECONOMIC REPORT
THIRD QUARTER 2019

INTRODUCTION

Vietnam's economy witnessed increasing risks and instability of the world economy and global trade in Quarter 3, particularly potential concern about global economic downturn in 2020. Domestically, the enforcement of socio-economic targets encountered both favorable and uncertairn factors. In this context, the management and execution of economic policies and reforms revealed remarkable achievements, thus contributing positively to economic growth and macroeconomic stability.

This macroeconomic report serves several objectives, including: (i) to update, and review macroeconomic development and policy changes in Q3 and the first 9 months of 2019 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 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 last months of 2019 and following years.

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

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

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ABBREVIATIONS

ADB	Asian Development Bank
AEC	ASEAN Economic Community
AFF	Agriculture-Fishery-Forestry
ASEAN	Association of Southeast Asian Nations
BOJ	Bank of Japan
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
RoO	Rules of Origin
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
VEPR	Vietnam Institute for Economic and Policy Research
VND	Vietnam Dong
WEF	World Economic Forum
WB	World Bank
YoY	Year on Year

EXECUTIVE SUMMARY

- The global economy is coping with risks and uncertainties, including the possibility of economic crisis in 2020. Major threats for the world economic growth are growing trade conflicts among major economies, stagnancy of production in many countries, the possibility of no-deal Brexit, unfavourable conditions of the international financial market, and rising global debt levels. Many central banks cut down interest rates as part of an attempt to stimulus economic growth. Forecasts of world economic growth were downward adjusted
- The US economy slowdown deepened, attaining the growth rate of 2.0% in Q2/2019; FED cut interest rates in the context of intensified uncertainties in mid-September because of trade tension and world economic downturn. Risk of recession remained visible in US. China's economic downturn persisted. China implemented vigorous measures to stimulus economic growth, including cutting lending rates, lowering reserve requirement ratios, stimulation of domestic demand. Short-run economic growth rates of Japan were forecasted to be below potentials due to stagnancy of exports, sluggishness of fixed investment and uncertainties of impacts of new tax policy on private consumption. The Eurozone faced with many difficulties, main reasons include impacts of trade tension and uncertainties of Brexit, resulting in higher scale of production reduction, declined business and consumer confidence
- Trade conflicts among major economies have not lessened. The US – China trade war is considered the biggest threat to the global economic growth with significant impacts on investment, business and employment. The Word Bank's commodity price index showed the downward trend except for precious metals. The USD's appreciation against major currencies sustained.
- Domestically, the Government continued to execute consistently targets of macroeconomic management, controlling inflation and promoting growth. Movement of policies and management has been more focused on promoting economic growth, responding to external uncertainties, and requiring regular monitoring, analysis, and evaluation of domestic and foreign movement for dynamic and flexible responses. However, communication on controlling inflation has been less concerned. Consultative actions for developing the Socio-Economic Development Strategy for 2021-2030 and Socio-Economic Development Plan for 2021-2025 have been increased and took place positively. The international economic integration experienced some changes.
- The practical reforms and policy responses in Q3 still exposed some shortcomings and challenges. *First*, enforcement need further incentivization. Attention for reforms of business environment under Resolution 02/NQ-CP, to

some extent, showed less interest. Labor productivity and quality were more frequently mentioned, however, new and specific aspects hardly showed up in policies and enforcement mechanism. *Second*, efforts of international economic integration have not yet been transmitted into domestic policies and regulations. The excitement with signing of EVFTA and EVIPA (even though being waited for approval) was disseminated with somewhat extravagant and not yet accompanied by relevant preparation for economic and institutional reforms. The responses to enforcement of CPTPP was slow, in spite of the taking effect of this agreement. *Third*, some enterprises and people showed extremely negative psychology for eliminating goods and investment from several countries and territories. *Forth*, the information and statistics supporting execution and management of some ministries showed slow improvement for both quality/accuracy and timely. *Fifth*, the revision of a number of labor regulations has not reached to significant consensus, in spite of broader consultation.

- GDP growth attained 7.31% in Q3/2019, higher than two previous quarters and YoY rates, but lower than that of Q3/2017. The possiblity of attaining and surpassing the annual target (of 6.8%) was quite feasible. Vietnam's economy is still in the expansion phase of growth cycle, however, potential GDP still shows downward trend.
- The growth of AFF slowed down, attaining 1.53% in Q3 and 2.02% in the first 9 months, at the lowest rate since the last 3 years, mostly attributed to: (i) drought and climate change affecting productivity and quality; (ii) difficulties in agricultural products consumption market; (iii) not yet taking advantage of export opportunities from FTAs in which Vietnam participated; and (iv) long-lasting of African swine fever resulting in severe effect for husbandry.
- The industry-construction continued to be the momentum of the economy, grew at 10.05%, the highest since 2010. Notably, the mining sub-sector continued its positive growth of 4.50% in Q3 and 2.68% in the first 9 months. The Index of Industrial Production (IIP) was similar to the same rate of 2018, at 10.2%. The Purchasing Manager Index (PMI) continuosly decreased in Q3, albeilt over 50, the momentum growth of manufacturing sub-sector was slow down and decresed. The value-added of service sector reached 7.11% in Q3, higher than YoY growth. For the first 9 months of 2019, the service sector grew by 6.85%, contributing 42.6% perentage points to overall growth.
- The revision and reevaluation of GDP by GSO had certain effects on macro indicators, and raised certain concerns, including: (i) not yet represented internal change of macroeconomics; (ii) some ratios (budget deficit, debt/GDP, etc.) tends to decrease even though people's lives do not change and per capita ratios increase; (iii) the possibility to expand policy space for monetary intervention

when the ratios of credit to GDP, M2 to GDP decreases after re-evaluation; and (iv) not excluding the ability to re-evaluate and adjust (significantly) GDP in the future.

- Enterprise community exhibited more excitement for business. The number of newly registered enterprises in Q3 was up by 8.82%, with total registered capital of VND 430.39 trillion, up by 36.87%. Manufacturing enterprises still had positive assessment of production and business in Q3 and trend in Q4. Total labor force was estimated at 55.7 million people in Q3, increasing by 211.7 thousand people as compared to Q2/2019 and by 263.8 thousand people on YoY basis. However, up to 13.3% of young population were unemployed and not participated in training and working. This figure was a concern, paricularly when not fully taken the advantage of "golden population" during the preparation for catching up IR4.0.
- The enforcement of regulations on gender equality has made certain progress in mainstreaming gender equality into formulation of regulatory documents, trainings on gender equality; however, there were shortcomings of unmet targets under Resolution 11/NQ-TW and National Strategy on Gender equality during 2016-2020
- The Consumer Price Index increased gradually in Q3, CPI was up by 0.48% compared to that in Q2/2019 and by 2.23% in relative to Q3/2018. In the first 9 months of 2019, YoY growth rate of CPI attained 2.50%. Factors affected CPI include: (i) adjustments of prices of state-controlled commodities; (ii) domestic price of petrol was downward adjusted for 3-consecutive times; and (iii) the increase of food-foodstuff which can be partly attributed to the shortage of pork supply. Average core inflation was 1.91% in the first 9 months, implying that prudent management of monetary policy should be implemented seriously.
- The average deposit interest rates tended to increase in Q3, especially for deposits with terms of 6 to 12 months and over 12 months. Deposit rates for demand deposits were adjusted to reduce in some credit institutions. The trend was due to such factors as (i) activities of commercial banks in reducing the ratio of short-term capital to medium and long-term loans to meet capital adequacy requirements required by SBV; (ii) some commercial banks expected to increase mobilization to meet the demand for capital at the end of the year; (iii) competition for market shares of commercial banks in the capital market, primarily when some firms have issued bonds with high-interest rates of up to 12-13% per annum.
- The outstanding loans increased by nearly 1.8% as compared to the end of Q2 and 9.4% in relative to the end of 2018, at slower pace, mostly attributed to: (i) SBV's priority to controlling credit quality; (ii) preparations for the reduction

(aimed to termination) of foreign currency credit; (iii) determination to improve market discipline; and (iv) no relaxation of controls over credits to specific areas (securities, real estate). Total liquidity (M2) was estimated to increase by 8.58% in comparison to the end of 2018 and 1.37% in relative to the end of Q2. Q3 witnessed more stable VND/USD exchange rate than previous quarters of 2019 and same period of 2018.

- Gross investment (at current prices) was estimated at VND 556.5 trillion in Q3, rising by 10.5% YoY. For the first 9 months of 2019, gross investment attained at VND 1378.2 trillion, up by 10.3%. The investment to GDP ratio was 36.16% in Q3 34.3% for the first 9 months. The remarkable activities of investment performance in the first 9 months of 2019 was in the non-state sector, which experienced a growth rate of 16.9% in the first 9 months, accounting for 45.3% of total investment. The FDI sector witnessed an investment growth rate of 8.4%, total registered FDI reached USD 7.7 billion in Q3 and USD 26.2 billion in the first 9 months; the implemented FDI capital grew at 7.3%, reaching USD 14.2 billion.
- Exports in Q3 were estimated at USD 72.2 billion, increasing by 10.7% and reached USD 194.7 billion, up by 8,4% in the first 9 months. The domestic sector export reached USD 61.2 billion, up 15.9%, the FDI sector reached USD 133.4 billion, up 5.3%. Vietnam's export growth still increased slowly since facing some challenges including: (i) the decline of global trade in general; (ii) stronger competition for Vietnam's exported products because countries focused on developing the domestic market, establishing more sophisticated technical barriers and increasing trade protectionism; and (iii) the increase in cost of inputs such as electricity price, gasoline price, regional minimum wage.
- Imports in Q3 reached USD 66.8 billion, up by 7.7%. In the first 9 months of 2019, the import turnover was estimated at USD 187.5 billion, rising by 8.4%. Of which, imports of domestic sector attained USD 78.7 billion, increasing by 13.5%; imports of foreign invested sector reached USD 108.9 billion, increasing by 4.9%. Imports of production means and inputs still accounted for most of the total import value (91.4%); however, import of consumer products was faster, up by 13,3%. Total retail sales of goods and services amounted to VND 3,634.8 trillion in 9 months, up by 11.6%.
- Budget revenues reached VND 348.3 trillion in Q3, or 22.6% of GDP. For the first 9 months of 2019, budget revenues amounted to VND 1,093.8 trillion, equal to 77.5% of the planned figures. Budget expenditures amounted to VND 363.8 trillion, equivalent to 23.6 % of GDP. By 30 September 2019, budget expenditures were VND 1,030 trillion, or 63.1% of the planned figures. The issuance of government bonds continued to be flexible. Total value of

government bonds issued was 48.9 trillion in Q3, lower than in Q1/2019 but higher than in Q2/2019 and Q3/2018.

- Economic growth in 2019 (updated) is projected at 7.0% in 2019, then reduce to 6.7% in 2020. Export growth may reach 8.1% and 7.6% in 2019 and 2020 respectively. Trade surplus is projected at USD 4.2 billion in 2019, then at USD 2.3 billion in 2020. Average CPI in 2019 will increase by approximately 2,8%, then by 3.2% in 2020
- The report analyses difficulties from enforcement of Decree 31/2018/ND-CP regulating the functions, tasks, rights and organizational structure of the State Capital Management Committee in enterprises; including (i) problems regarding the competence to decide investment direction and procedures for approving investment projects of enterprise under the its authority; (ii) responsibility for handling incomplete projects when transferring to the Committee; (iii) assignment of public investment plans. These problems mainly derived from inconsistent awareness of the Committee's role, functions and duties; some regulatory provisions are still inappropriate, incomplete, and unclear; the apparatus, financial and human resources of the Committee have been newly established. On that basis, the report proposes some policy requirements for effective operation of the Commission, in accordance with its requirements and nature.
- The report also reassesses the implementation of growth targets, measures and quality of growth. On that basis, the report proposes some recommendations towards restructuring the economy and transforming growth model, enhancing resilience and reducing vulnerability of the economy towards overcoming the reliance on foreign invested capital, lack of connectivity, lack of rational complementarity between economic sectors and towards a more dynamic economy.
- Macroeconomic development in the coming period may be subjected to several factors such as (i) US-China trade tension continues with high unpredictability; (ii) global financial market in general and emerging markets in particular are more vulnerable; (iii) major economies have showed movement on interest rate and/or exchange rate policy; (iv) the progress of negotiation/ratification of some new FTAs (RCEP, CPTPP, EVFTA) may strengthen investors’ confidence in Vietnam. In such context, this report emphasizes the message of policy priorities on further improving microeconomic foundations, enhancing the resilience of economy and effectively addressing the risks in the volatile international economy. Accordingly, the Report provides some recommendations on microeconomic foundation reforms, in parallel with macroeconomic and some other measures.

- **ECONOMIC CONTEXT IN Q3 AND FIRST 9 MONTHS OF 2019**
  - ***Regional and global economic context***
  - The global economy is coping with risks and uncertainties, including the possibility of economic crisis in 2020. Major threats for the world economic growth are growing trade conflicts among major economies, stagnancy of production in many countries, the possibility of no-deal Brexit, unfavourable conditions of the international financial market, and rising global debt levels. Many central banks cut down interest rates as part of an attempt to stimulus economic growth. Forecasts of world economic growth were downward adjusted: OECD (September 2019) projected world economic growth rate of 2.9% in 2019 and 3.0% in 2020, which were significantly downward adjusted in comparison to the rate of 3.6% in 2018 and marked the two-consecutive years of reduction; UNCTAD (September 2019) projected the growth rate of only 2.3% in 2019; and the forecast by the IMF (October 2019) were only 3.0% in 2019 and 3.4% in 2020 (Table 1).

Table 1: World economic prospects

Unit: %

	2019	*2020*	*Difference**	
			2019	*2020*
World (growth rate: %)	3.0	3.4	-0.2	-0.1
Advanced economies	1.7	1.7	-0.2	0.0
United States	*2.1*	*-0.2*	*0.2*	*0,1*
Japan	*0.5*	*0.0*	*0.1*	*0,0*
Eurozone	*1.4*	*-0.1*	*-0.2*	*-0,2*
Developing and emerging economies	3.9	4.6	-0.2	-0.1
Developing and emerging economies in Asia	5.9	6.0	-0.3	-0.2
China	*5.8*	*-0.1*	*-0.2*	*-0,1*
ASEAN-5	*4.9*	*-0.2*	*-0.2*	*0,0*
World trade volume (growth rate, %)	1.1	3.2	-1.4	-0.5
Non-fuel price (%, in USD)	0.9	1.7	1.5	1.2

Source: International Monetary Fund (October 2019).

Note: * Difference between the forecasts for 2019 and 2020 with those in the report in July 2019.

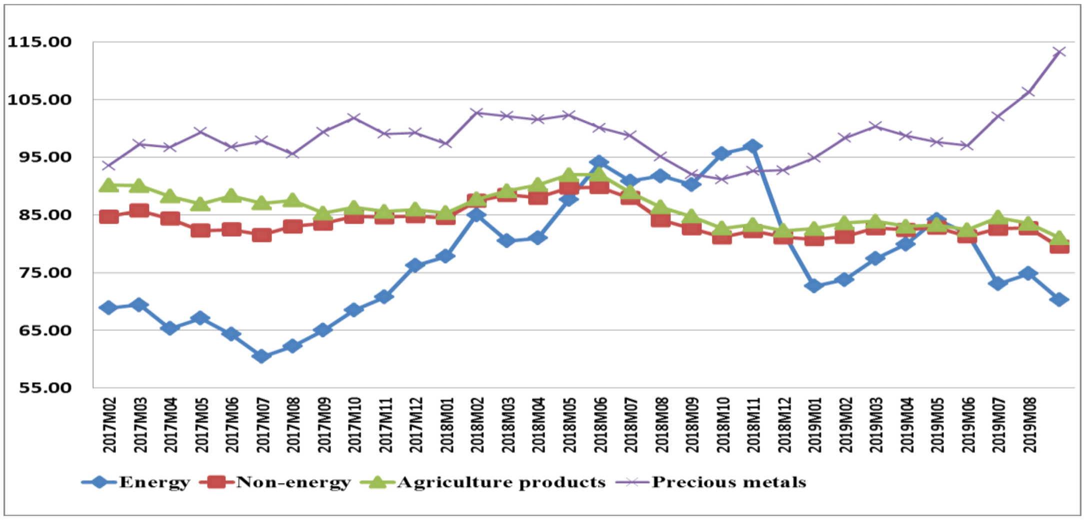
ASEAN-5 includes Indonesia, Malaysia, Thailand, the Philippines and Viet Nam.

- The US economy slowdown deepened, attaining the growth rate of 2.0% in Q2/2019 (3rd estimate), which was below the figure of 3.1% in Q1/2019 and 3.5 in Q3/2018. The PMI reached the highest level since April 2019 (51 points), retail sales increased at stable pace, construction permits were up by 7.7% in August 2019, the Leading Economic Index (LEI) showed upward trend or modest changes since June, etc. However, in mid-September, FED cut interest rates in the context of intensified uncertainties because of trade tension and world economic downturn. Risk of recession remained visible as survey result by Bloomberg (September 2019) showed that the possibility of recession in the next 12 months increased to 35% from only 20% by the end of last year.
- China's economic downturn persisted. Industrial production output was up by only 4.4% in August, the lowest in the last 17 years (the average growth rate in the 2013-2019 period was 7.38%), and significantly lagged behind the estimated figure of 5.2%. Manufacturing PMI was below 50 points since May (49.8 points in September), export orders decreased for 16-consecutive months till August, domestic consumption increased at slower pace than expected (growth rate was only 7.5% in August, the slowest pace since April and down consecutively in Q3). Trade surplus attained USD 34.83 billion in August, but export value decreased by 1%, in which exports to the US plunged by 16%. In this context, China implemented vigorous measures to stimulus economic growth, including cutting lending rates, lowering reserve requirement ratios, stimulation of domestic demand, etc. China "let-out" the CNY exchange rate to slip to the lowest in more than 10 years since early August (the CNY/USD exchange rate was maintained at more than 7 since August 5, reached the bottom of 7.1786 on September 3, depreciated by 4.6% from the beginning of this year). Nevertheless, there is a common opinion that the depreciation of the CNY hardly fully compensated losses of the country due to tariff hikes and the slowdown of world demand.
- Japan economic performance showed unfavourable signals. Exports decreased by 8.2% in August 2019, marking the 9-consecutive reductions in a row. The manufacturing PMI of September 2019 reached the bottom in the last 7 months (48.9 points); new export orders went down as well. Consumer confidence took the uninterrupted downward trend (37.1 points in August, the lowest since April 2014), intensifying the pressure on the enforcement of higher consumption tax, which will be enforced since October 2019. Short-run economic growth rates of Japan were forecasted to be below potentials due to stagnancy of exports, sluggishness of fixed investment and uncertainties of impacts of new tax policy on private consumption.
- The Eurozone faced with many difficulties: Germany's GDP grew at negative rate of -0.1% in Q2; GDP growth rate of the UK decreased by 0.2% in Q2 (the

first time since Q4/2012). The main reasons include impacts of trade tension and uncertainties of Brexit, resulting in higher scale of production reduction, declined business and consumer confidence. Industrial production output decreased for 9 consecutive months (growth rate was 2.4% and 2.0% in June and July, respectively), manufacturing PMI went down to 45.6 points in September 2019 from 47 of the previous month (the biggest decline since October 2012), business confidence was only -0.22 points (the lowest level since August 2013), retail sales plunged at fastest pace since the end of last year (decreased by 0.6%). Projection of economic growth of the Eurozone was downward revised to 1.4% in 2019 (Table 1).

- Trade conflicts among major economies have not lessened. The US – China trade war is considered the biggest threat to the global economic growth with significant impacts on investment, business and employment. ECB (September 2019) estimated that tariff hikes imposed by the US and China to the counterpart's goods would resulted in the -0.8% reduction of the world economic growth rate in 2020. Despite of some actions to ease the tension by both sides, the US – China trade war remain highly uncertain as the two countries' rigid stance and actions persisted ahead of the high-level trade negotiation supposed to be held in October 2019. More foreign enterprises are leaving China and shifting investment to other countries in the region (i.e. Thailand, Viet Nam, etc.) to avoid high tariffs imposed by the U.S. In the meanwhile, the Japan – South Korea trade tension is escalating, the two countries dropped each other from the respective preferential list of trusted trade partners. The US - EU were stuck in the negotiation on export of cars and spare parts, not to mention the Airbus subsidy dispute. The road to the US-Mexico-Canada Agreement (USMCA) ratification faces with obstacles. The rare positive signal was the conclusion of the US – Japan trade deal though at relatively modest scope.
- World trade is projected to slow down due to impacts of trade tensions, resulting in intensified trade protection and uncertainties of the global economy. The WTO's goods trade barometer (August 2019) was 95.7 points (the lowest since 2010), while the services trade barometer (September 2019) weakened, attaining only 98.4 points.
- The Word Bank's commodity price index (September 2019) showed the downward trend except for precious metals. World gold price rocketed, attaining the highest level of 1.550,30 USD/oz on September 4 (up by 21.3% since early of this year), slightly decreased in the next 2 weeks before rebounded during September 19-24.

Figure 1: World commodity price index, 2017-2019

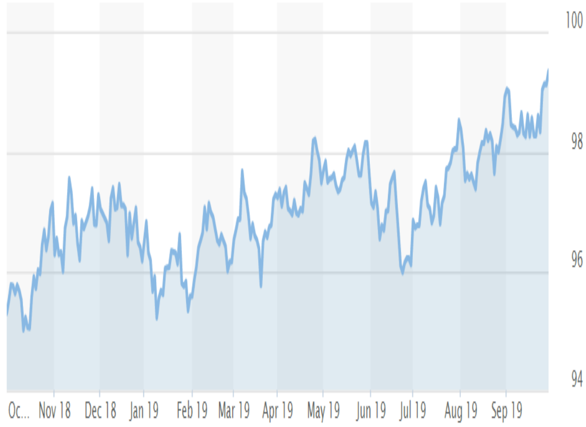


Source: World Bank's Commodity Price (September 2019).

- Attacks on oil processing facilities of Saudi Arabia raised concerns of supply interruption, resulting in escalating oil price in September (up by 14.2% in the first half of the month). However, oil price grew at slower pace in the ending of September thanks to efforts on maintaining oil supply. Most experts and organizations reserved cautious estimation of oil price in medium term. Oil price shock will further erode business and consumer confidence, which is inherently fragile due to the US – China trade war. An analysis by the IMF released in 2017 indicated that if oil price increases by 10%, world output will reduce by about 0.1% in two years.

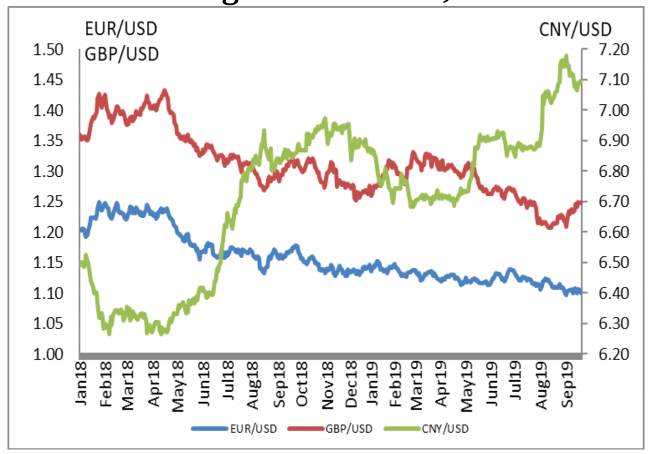
- The USD's appreciation against major currencies sustained. The USD index increased uninterruptedly and was close to 100 (attaining 99.35 on September 27, which was up by 2.6% in the last 3 months; by 3.32% and 4.27% in comparison to the figures in the beginning of this year and last year, respectively). In the first 9 months, the EUR depreciated by 4.6% against the USD. The CNY depreciated by 3.5% in the last 3 months, and the US officially labelled China a currency manipulator as the CNY/USD exchange rate cracked 7 on August 5 and kept staying at low levels in the last 2 months.

Figure 2: USD Index, 2018-2019



Source: https://www.marketwatch.com

Figure 3: Exchange rates of major currencies against the USD, 2018-2019



Source: The US's Federal Reserve.

- More attention has been paid on women engagement in digital economy. The 2019 APEC Economic Policy Report on Structural Reform and Digital Economy emphasized lower ratio of female labourers in digital economy in comparison to male, and digital economy may widen the gap. Besides, the proportion of women having smart phones is 26% less than that of men. Globally, the number of male ITC experts is 4 times higher than female. Female accounts for only 20% of leading position and 27% of jobs in the software industry and ITC services. According to OECD, only 0.5% female at the age of 15 wishes to become ITC expert, while the figure of male is 5%.

- ***Domestic economic context***

- Entering Q3, the Government continued to execute consistently targets of macroeconomic management, controlling inflation and promoting growth. Movement of policies and management has been more focused on promoting economic growth, responding to external uncertainties, and requiring regular monitoring, analysis, and evaluation of domestic and foreign movement for dynamic and flexible responses. However, communication on controlling inflation has been less concerned.

- Reforming priorities for improving business environment and enhancing national competitiveness have still been emphasized in Q3. By 30 September 2019, specific actions for reviewing and removing difficulties and barriers for business have been implemented, of which (i) Guiding documents for implementing indicators on improving business environment and enhancing national competitiveness have been issued by related ministries and agencies; however, only few trainings have been conducted; (ii) Updating the contents of Vietnam's business environment reform to be included in Doing Business 2020; (iii)

Removal and simplification of over 50% of business conditions; however, still exists business conditions creating difficulties for businesses and lacking of state management efficiency; (iv) Cutting substantially 50% of goods on the list subject to specialized management and inspection; however, it was slowly implemented and mainly shifted from pre-clearance to post-clearance, rather than reducing the number of items subjected to specialized inspection as required by the Government.

- The process of SOE equitisation and divestment has not showed much progress. Although the Government has issued Decision 26/2019/QD-TTg approving the list of enterprises to be equitized by the end of 2020, to a recent report of the Ministry of Finance, by Q2/2019, only 35/127 SOEs under the approved list has been equitized, equivalent to 28% of planned figure. The divestment under Decision 1232/QD-TTg showed little changes. By the end of September 2019, only 9 enterprises were subject to divest, amounting to VND 2,446 billion of state capital, contributing VND 4,673 billion to state budget. SOE restructuring has not significantly changed, with quite ambitious and challenging targets, especially in the context of slowdown and stagnant growth of world economy.
- The restructuring of public investment showed little movement. Disbursement of investment capital was estimated at VND 192.13 trillion in the first 9 months, equivalent to 45.17% of planned figures set out by National Assembly, of which disbursement of Government bonds and ODA were at the lowest, particularly for key projects experienced congestion of capital resuting in negative impacts such as increasing cost of interest for state budget; slowing down the disbursement of reciprocal capital of private sector; reducing motivation for mobilizing social investment capital; affecting economic growth; reducing reputation, etc. Main reason included inactive and positive enforcement of some minstries and agencies, and new regulations of bidding procedures prescribed by laws on bidding, construction, and land. Moreover, no effective mechanism has been in place for avoiding the thought of "fearing of responsibility rather than fearing of inefficiency". Accordingly, the Government has set a roadmap for promoting the disbursement of public investment through drastically breaking-off allocation plan to those "refuse" to disburse or to amend disbursement plan from behind-the-schedule projects to projects in need of capital and high disbursement progress, and from ministries, agencies and provinces with low disbursement rates to those with high demand and high disbursement rates.
- Policies and documents aiming at "catching up" IR4.0 have been developed and issued, including Resolution 52/NQ-TW of Poliburo on actively participating in IR4.0; establishing National Innovation Center; drafting Government’s Resolution on preferential mechanisms and outstanding institutions for National Innovation Center; or National Strategy on the Fourth Industrial Revolution in

Vietnam. The project on promoting the sharing economy has been finalized and approved by the Government under Decision 999/QD-TTg on 13 August 2019, with the targets of ensuring equal business environment among sharing-model and traditional business; ensure the rights, responsibilities and legitimate interests of parties in sharing economic model including service providers, end-users and platform enterprises; encouraging innovation, application of digital technology and development of digital economy.

- Thoughts of continuous reforms have been demonstrated under the revision of Enterprise Law and Investment Law. In the latest draft on amending and supplementing some articles of Enterprise Law, the Ministry of Planning and Investment proposed the amendment of 53 articles, removal of 2 articles and supplementing 7 articles to create more favorable conditions for establishment of firms; reducing costs and time for start-up. Key amendments include (i) adjusting the regulation of business registration; (ii) expanding the scope of limited liability company; (iii) amending relevant regulations on SOEs to specify enterprises with 100% of charter capital owned by the State; and (iv) supplementing regulations for joint stock companies and business households. In particular for business households, the Law will be amended in the direction of recognizing the existence of business households in addition to other legal forms, and consider them as appropriate form for small and micro businesses; not forcing administratively the transformation from business households to enterprises or removal of business households.
- For the amended Investment Law, there might be relative significant amendment of scope and supplements, including adjustment of 30 articles, supplementing 3 out of 76 in total articles of Investment Law. Notably, important amendments include (i) adjusting and supplementing some concepts, clarifying specific forms and nature of concepts in accordance with civil laws and international treaties, especially updating the new trends of IR4.0; (ii) abolishing 12 conditional business investment lines; revising 19 industries, professionals and supplementing 6 industries, professionals to comply with requirements and practice of state management for these industries, professionals and ensuring consistency with other related laws; (iii) decentralizing the approval of investment to provincial People's Committee and narrowing the scope of submission to the Government; (iv) more clear stipulation of investors' rights to implement and manage investment projects; and (v) applying “positive approach” for foreign investors, on the basis of listing not-yet-accessible industries, professionals and conditionally accessible industries, professionals. This revision is considered as an opportunity for deeper participation of investors in capital contribution and share purchase in Vietnam more clearly, transparently and safely.

- Consultative actions for developing the Socio-Economic Development Strategy for 2021-2030 and Socio-Economic Development Plan for 2021-2025 have been increased and took place positively. Vietnam had/participated in a number of long-term reports and studies with a vision to 2035 and even 2040. Recent assessments of transforming the growth model have identified certain improvements, yet not much changes in the growth model. Economic growth rate, the improvement of labor productivity, capital efficiency, ... have been still low compared to the requirements of narrowing the development gap and catching up with developed and high incomes countries. Socio-economic development strategy during 2021-2030 focuses on aspects of rapid growth to combat with the risk of falling behind; quality growth to ensure sustainability (efficient growth, green growth, and inclusive growth); social and environmental sustainability; building a full, modern and integrated market economy institution. Vietnam's opportunities and challenges during the implementation of its socio-economic development goals have more or less identified. Accordingly, orientations towards improving labor productivity and re-evaluating economic scale have actively been implemented.
- The international economic integration experienced some changes in Q3/2019. In addition to continuing efforts on promoting the Vietnam-EU Free Trade Agreement (EVFTA) and proactively implementing the CPTPP, the Regional Comprehensive Economic Partnership (RCEP) has come to final round of official negotiation in 2019. So far, RCEP negotiations have concluded many chapters such as economic cooperation, small and medium enterprises, customs procedures trade facilitation, and government procurement ... and significantly narrowing viewpoints among member states for important areas of trade in goods, trade in services, investment, intellectual property ... Over the last 6 years, RCEP has come to final stage which requires high political determination of member states to conclude their negotiations and efforts in seeking out creative and flexible solutions towards consistently handle outstanding issues. However, challenges and difficulties in determining the equilibrium of interests for participating members have still been opened and aimed at signing RCEP in 2020.
- The practical reforms and policy responses in Q3 still exposed some shortcomings and challenges. *First*, enforcement need further incentivization. Attention for reforms of business environment under Resolution 02/NQ-CP, to some extent, showed less interest. Labor productivity and quality were more frequently mentioned, however, new and specific aspects hardly showed up in policies and enforcement mechanism. *Second*, efforts of international economic integration have not yet been transmitted into domestic policies and regulations. The excitement with signing of EVFTA and EVIPA (even though being waited

for approval) was disseminated with somewhat extravagant and not yet accompanied by relevant preparation for economic and institutional reforms. The responses to enforcement of CPTPP was slow, in spite of the taking effect of this agreement. *Third*, some enterprises and people showed extremely negative psychology for eliminating goods and investment from several countries and territories. *Forth*, the information and statistics supporting execution and management of some ministries showed slow improvement for both quality/accuracy and timely. In the context of slow improvement policy explanation, it may have certain impacts on the consideration and adjustment of policies for some ministries, agencies. *Fifth*, the revision of a number of labor regulations has not reached to significant consensus, in spite of broader consultation.

- **MACROECONOMIC PERFORMANCE AND OUTLOOK**
  - ***Macroeconomic performance in Q3 of 2019***
    - *Real economy*

- GDP growth attained 7.31% in Q3/2019, higher than two previous quarters and YoY rates, but lower than that of Q3/2017. (Figure 4). Some organizations have raised Vietnam's economic forecast after the publication of official statistics. This growth was relatively high growth particularly in the context of slowing down in other nations. For the first 9 months of 2019, GDP attained 6.98%, equivalent to the same period of last year (Figure 5). The possibility of attaining and surpassing the annual target (of 6.8%) was quite feasible.

Figure 4: Quarterly GDP growth rate (%)

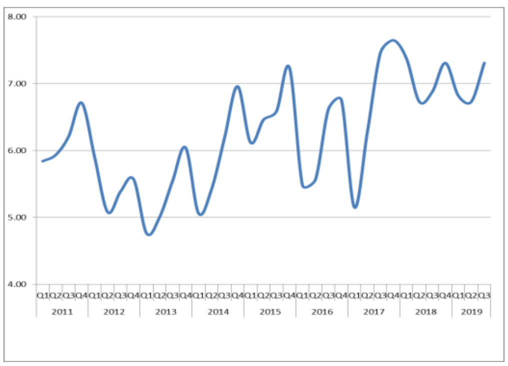
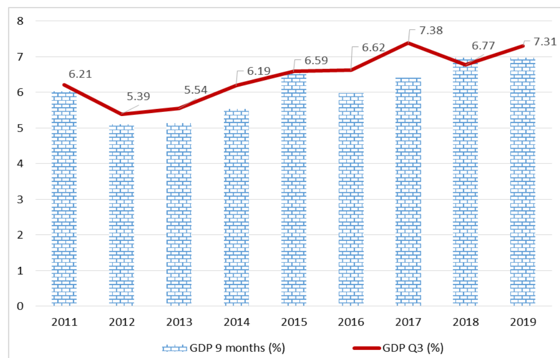


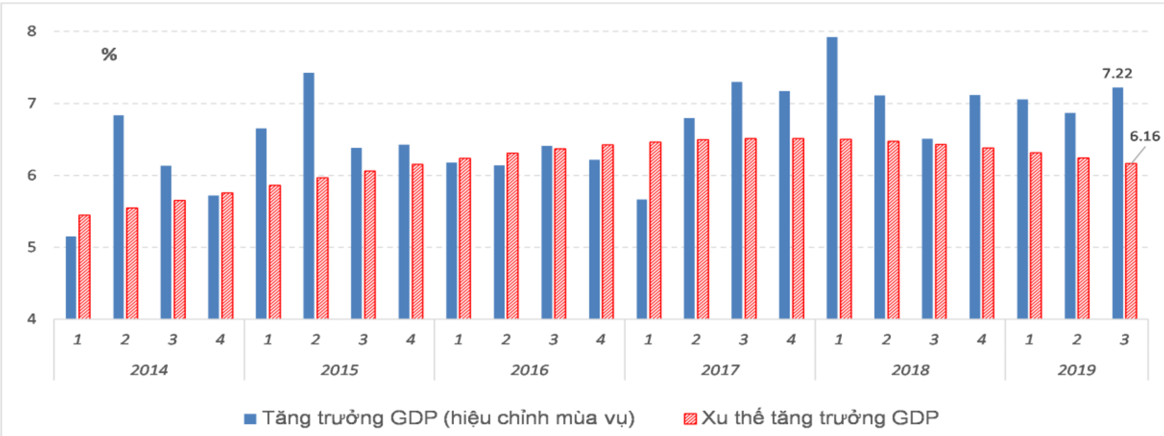
Figure 5: GDP growth in Q3s and first 9 months (%)



Source: General Statistic Office (GSO).

- Vietnam's economy is still in the expansion phase of growth cycle. Real (seasonally adjusted) GDP was still above trend. Q3 has been the 10th consecutive quarters that GDP surpassed potential GDP growth, which shows downward trend.

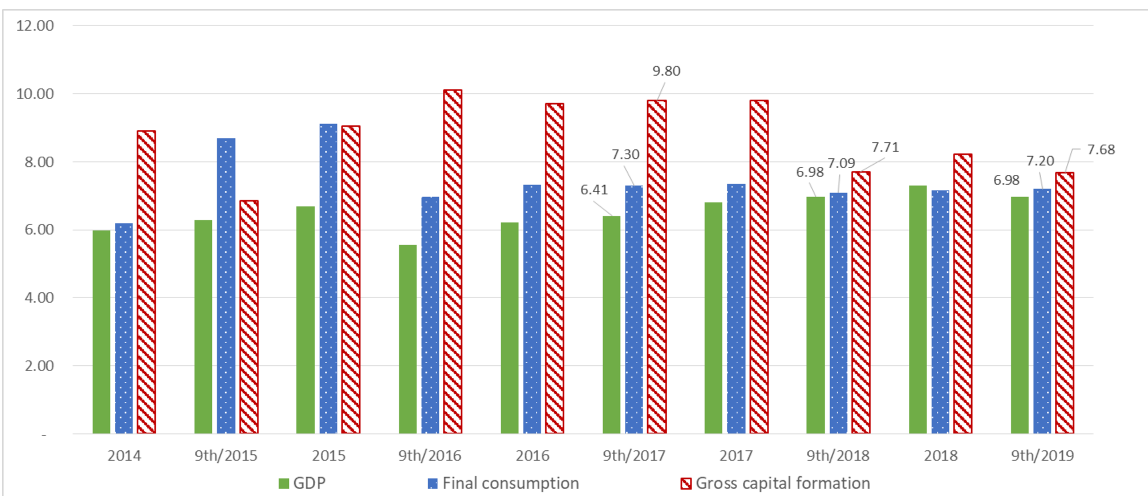
Figure 6: GDP growth movement



Source: Author's compilation.

- On the expenditure side, both final consumption and gross capital formation showed downward growth, attaining 7.20% and 7.68% respectively, lower than YoY rates. Notably, the pace of gross capital formation was at the lowest since 2015 (Figure 7), mostly attributed to slow growth of credit and disbursement of public investment. Accordingly, concerns on the improvement of potential growth in the future still existed.

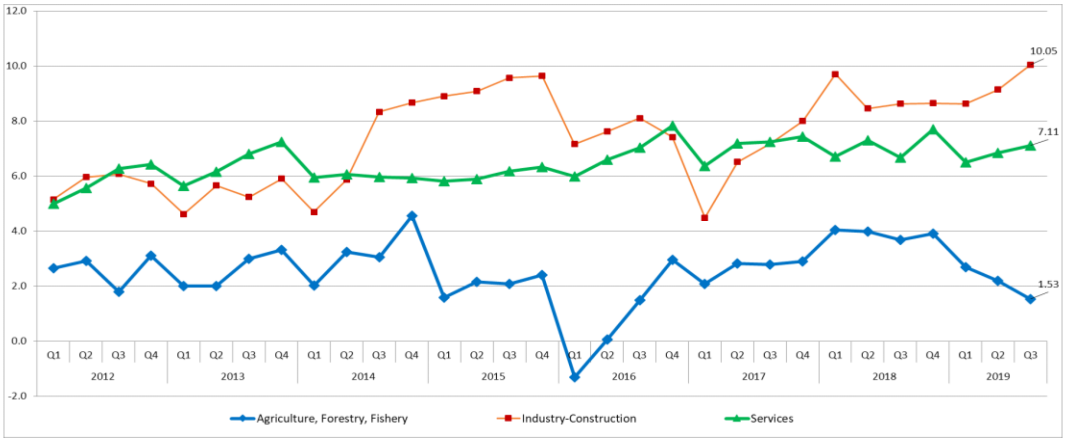
Figure 7: Growth rate of gross capital formation, final consumption and GDP (%)



Source: GSO.

- The growth of agriculture-forestry-fishery (AFF) slowed down, attaining 1.53% in Q3 and 2.02% in the first 9 months. This was the lowest rate since the last 3 years, mostly attributed to: (i) drought and climate change affecting productivity and quality; (ii) difficulties in agricultural products consumption market; (iii) not yet taking advantage of export opportunities from FTAs in which Vietnam participated; and (iv) long-lasting of African swine fever resulting in severe effect for husbandry. Only fishery subsector still experienced high growth rate of 6.12%, with significant increase of exploitation and production of aquaculture.

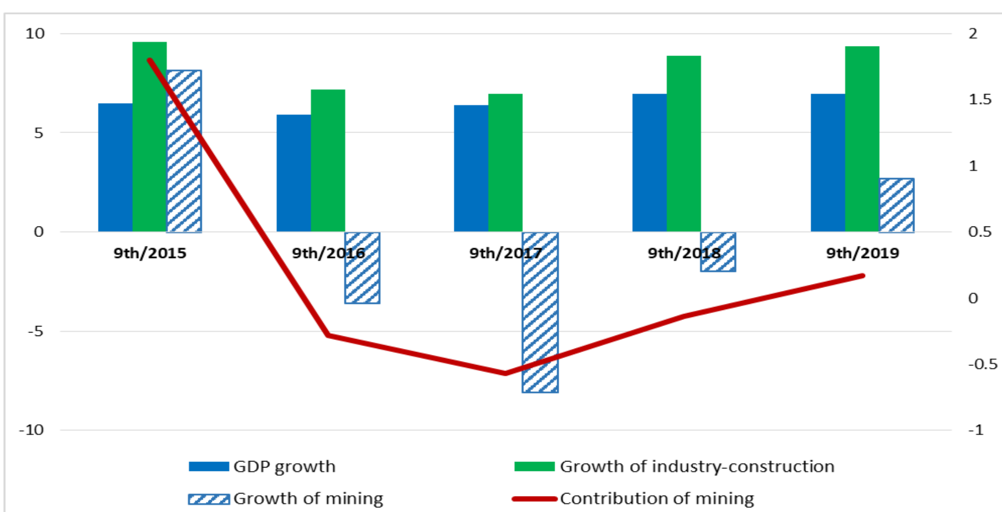
Figure 8: GDP growth by sector, 2012-Q3/2019 (%)



Source: GSO.

- The industry-construction continued to be the momentum of the economy, value-added grew at 10.05% in Q3-the highest since 2010. The manufacturing sub-sector attained 11.68% in Q3 and 11.37% in the first 9 months, contributing 2.42 percentage points to overall growth. Notably, the mining sub-sector continued its positive growth of 4.50% in Q3 and 2.68% in the first 9 months (after 3 consecutive years of decline). High exploitation of coal had off-set the reduction of crude oil exploitation (Figure 9). This can be a concern for the returning of mining-based growth model during previous period prior to 2016.

Figure 9: GDP growth and contribution of mining sub-sector (%)

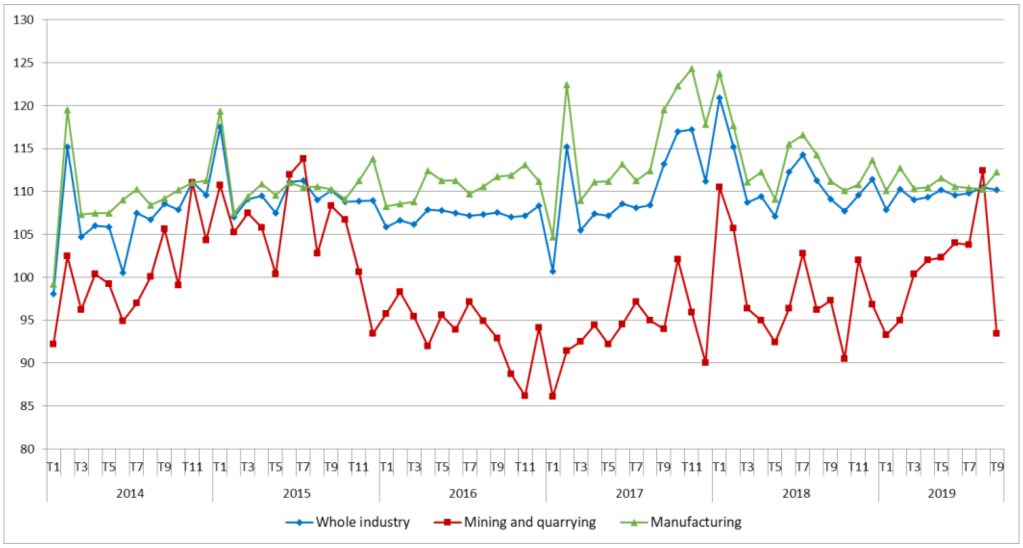


Source: GSO and authors' compilation.

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

- The Index of Industrial Production (IIP) was similar to the same rate of 2018, at 10.2%; of which IIP of the manufacturing sub-sector remained at high pace (10.8%). The IIP of mining sub-sector experienced similar growth of Q2 (at 2.8%), yet with sign of decline at the end of the quarter (Figure 10).

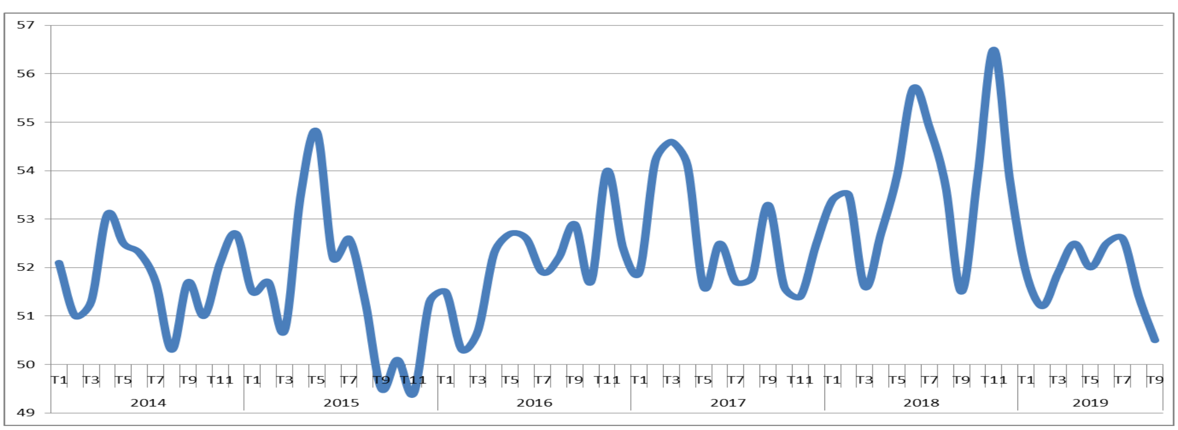
Figure 10: Index of Industrial Production, 2014-September 2019



Source: GSO.

- The Purchasing Manager Index (PMI) did not remained at high pace as compared to the second half of 2018, and continuously decreased in Q3, albeit over 50 (Figure 11). Thus, the momentum growth of manufacturing sub-sector was slow down and decreased. Main reasons might be attributed to (i) weak demand for inputs of production; (ii) slow increase of orders; and (iii) deceleration of global trade in the context of escalating US-China trade tension, negatively affecting the sector's production.

Figure 11: Purchasing Manager Index, 2014-September 2019

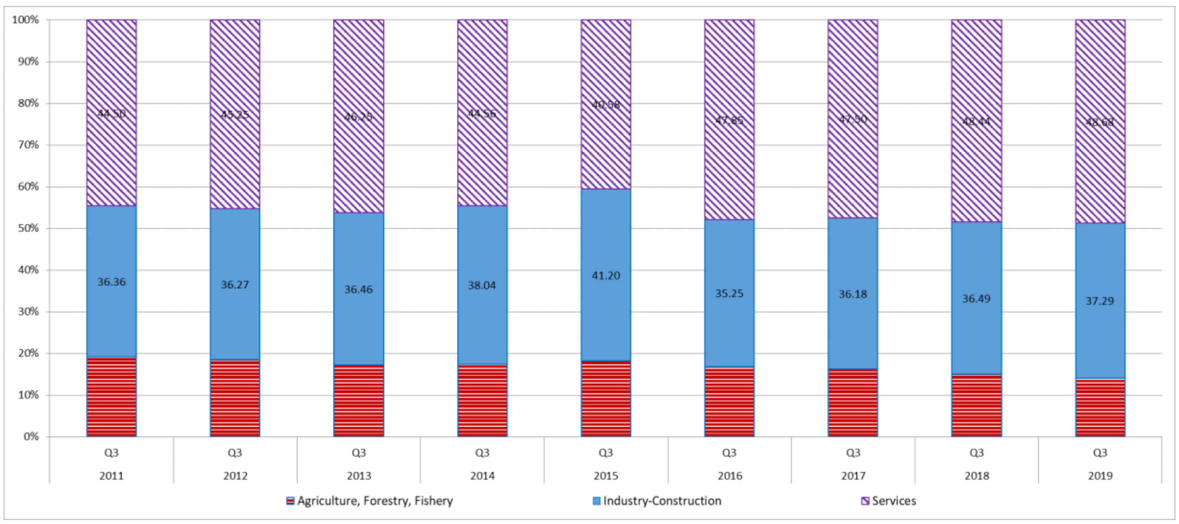


Source: Markit, HSBC.

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

- The value-added of service sector reached 7.11% in Q3, higher than YoY growth (at 6.66%). For the first 9 months of 2019, the service sector grew by 6.85%, contributing 42.6% percentage points to overall growth. Major sub-sector such as wholesale and retail trade, repairs of automobiles, motorcycles and other vehicles; finance, banking and insurance; and accommodation and catering services still attained rather high growth (above 8%). Notably, the number of international visitors in Q3/2019 was significantly increased as compared to two previous quarters (up by 17.8% as compared to 7.0% and 8.0% respectively of Q1 and Q2).

Figure 12: GDP structure in Q3s, 2010-2019 (%)



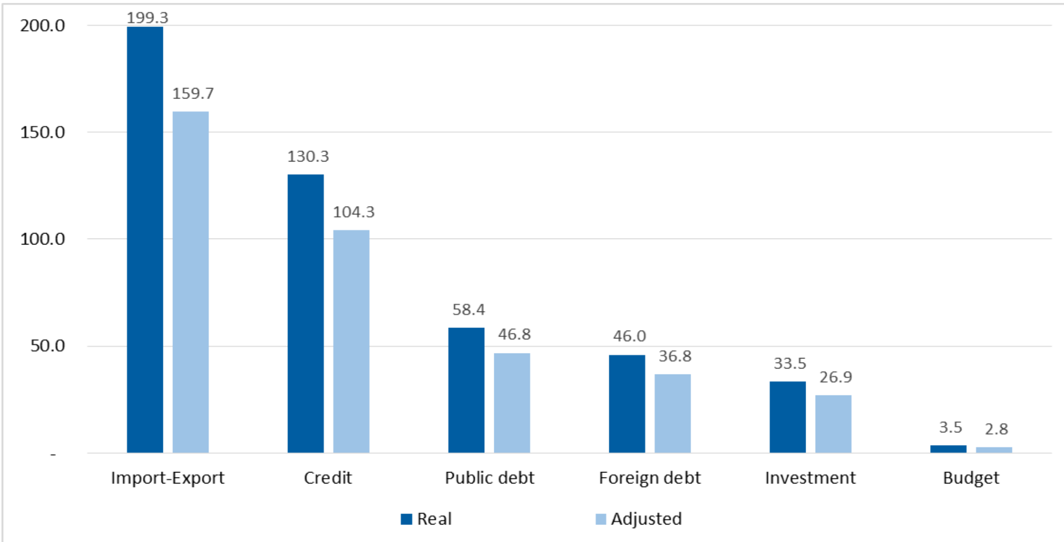
Source: GSO.

- Economic structure showed almost no change in Q3. The share of service sector experienced little changes, accounting for 48.68%. Positive growth of mining sub-sector enabled a slight increase of share of industry-construction to 37.29% (from 36.49% of the same period in 2018), meanwhile the AFF accounted for 14.03% (Figure 12).

- GSO has reviewed and re-evaluated GDP scale based on new approach, accordingly, GDP increased by 25.4% on average during 2010-2017. To GSO's approach, the changing the calculation had certain effects on macro indicators, including (i) creating a significant increase in total GDP and GDP per capita, resulting in some impacts on socio-economic development orientation in coming periods; (ii) not impacting on GDP targets under socio-economic development plans and strategies due to small changes in economic growth over years; (iii) changes in GDP structure as shares of industry-construction and service sector increased while share of AFF decreased; (iv) improving indicators of growth quality yet not much change; and (v) reflecting lower ratios for some indicators

(Figure 13), reflecting the possibility for expansion of budget and tax revenues, as well as public spending and debt.

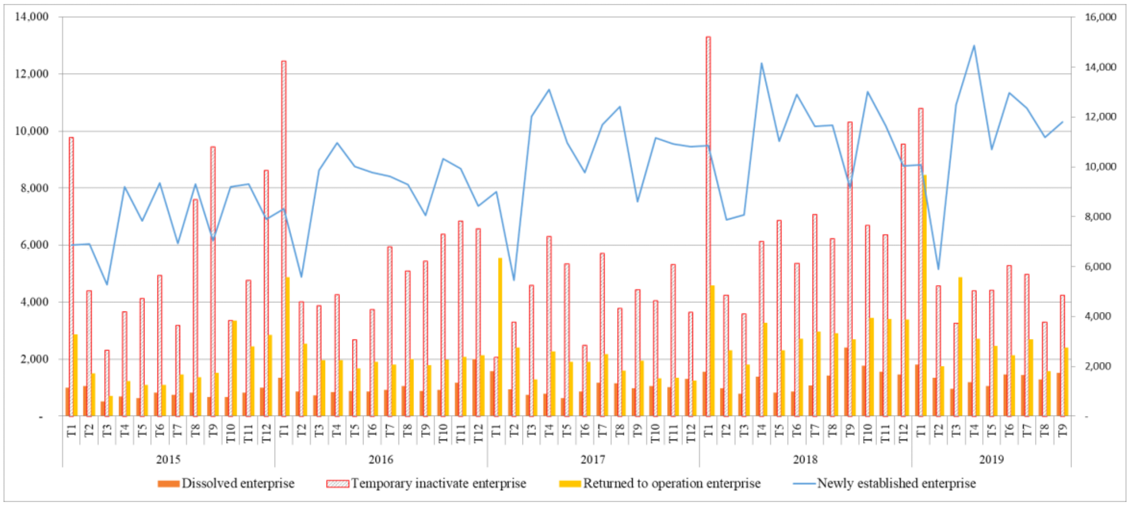
Figure 13: Selected macroeconomic indicators before and after the re-assessment of GDP (% GDP, 2018)



Source: Authors' compilation from GSO statistics.

- To other extent, the re-evaluation of GDP has also raised certain concerns, such as (i) the changing of GDP calculation has not represented internal change of macroeconomics; (ii) some ratios (budget deficit, debt/GDP, etc.) tends to decrease even though people's lives do not change and per capita ratios increase; (iii) the possibility to expand policy space for monetary intervention when the ratios of credit to GDP, M2 to GDP decreases after re-evaluation; and (iv) not excluding the ability to re-evaluate and adjust (significantly) GDP in the future, after major adjustments for 2012 (in 2013) and 2010-2017 (in 2019).

Figure 14: Selected indicators of enterprises' performance, January 2015-September 2019



Source: Business Registration Agency, MPI.

- Enterprise community exhibited more excitement for business. The number of newly registered enterprises in Q3 was 35,316, up by 8.82%, with total registered capital of VND 430.39 trillion, up by 36.87%. The number of dissolved and inactive enterprises (including those registering inactive status or temporally stopping before closing tax code or without registration) decreased by 13.39% and 47.01% respectively (Figure 14).

Figure 15: Selected indicators of performance for 9 months, 2014-2019

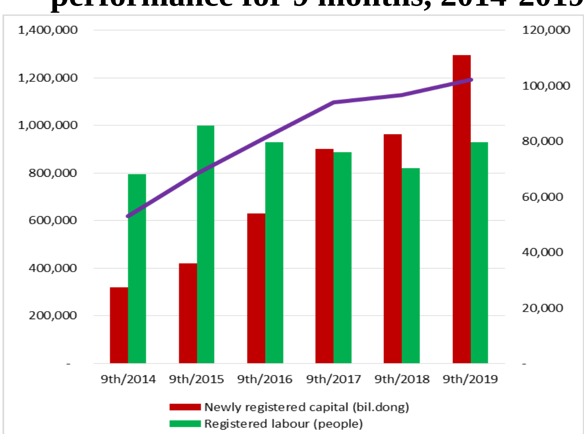
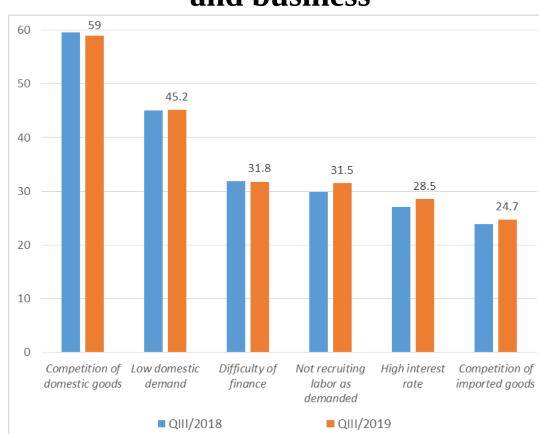


Figure 16: Factors affecting production and business



Source: GSO.

- For the first 9 months, there were nearly 102.3 thousand newly registered enterprises, with total registered capital of VND 1,290.8 trillion, up by 5.9% of number of enterprises and up by 34% of capital (Figure 15). Total registered labours of newly established enterprises were 929.8 thousand people in the first 9 months, up by 13.4%. Notably, of all 28.2 thousand inactivate enterprises, some 11.9 thousand enterprises was revoked business registration certificates under the annual standardized program since 2018, accounting for 42.2%. Similar to same period of last year, business community still recognized factors of competitiveness of domestic products (59.0%), weak demand of domestic market (45.2%) and financial difficulties (31.8%) as most affected to business and production (Figure 16).

- Manufacturing enterprises still had positive assessment of production and business in Q3 and Q4. Some 81.7% of enterprises assessed better or stable production and business condition in Q3 than in Q2. Another 52.1% of enterprises thought that business tendency would be better and 35.8% expected stability in Q4 (Figure 17 and Figure 18). Component indicators such as production quantities, number of orders showed upward and stable trend.

Figure 17: Business tendency (Q3/2019 compared to Q2/2019)

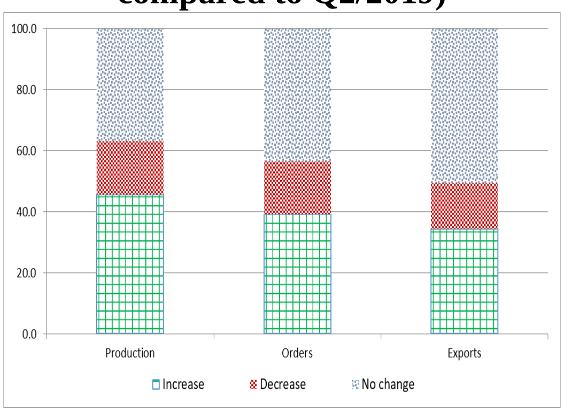
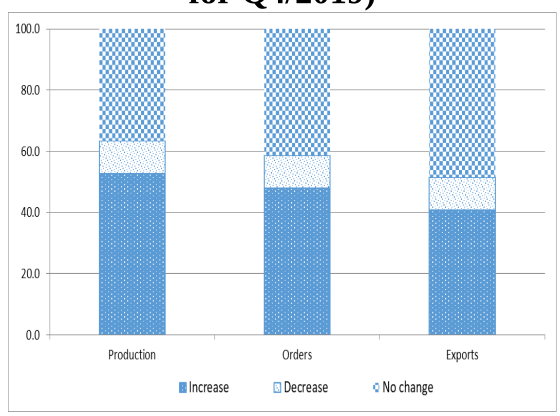


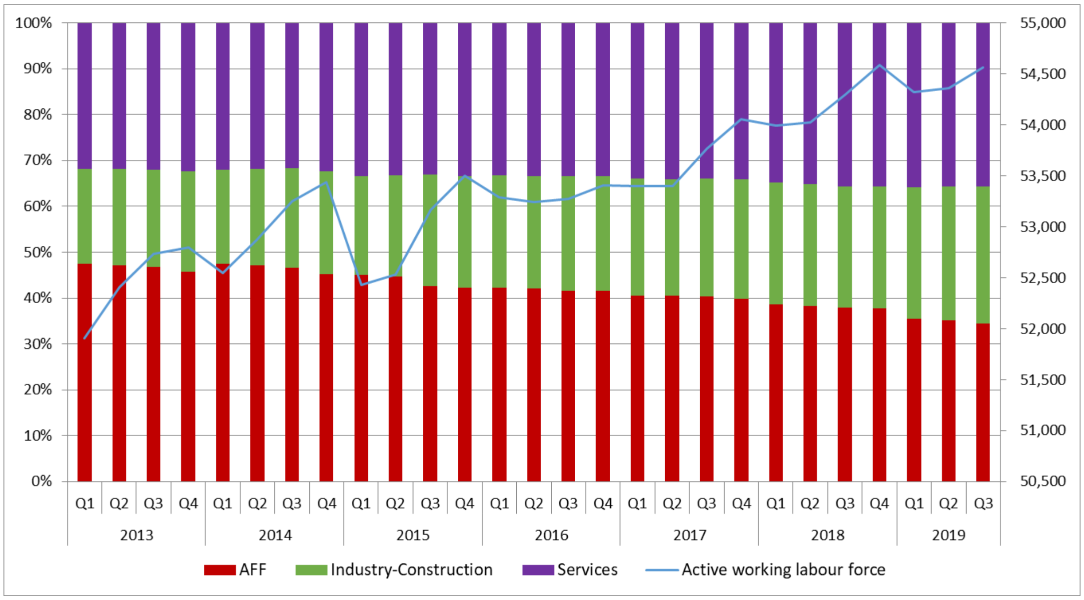
Figure 18: Business tendency (forecast for Q4/2019)



Source: GSO.

- Total labor force was estimated at 55.7 million people in Q3, increasing by 211.7 thousand people as compared to Q2/2019 and by 263.8 thousand people on YoY basis. Of which, male labors accounted for 52.2% and female labors accounted for 47.8%. With a total 54.6 million of economically active labors, 34.4% working in AFF sector, 29.9% in industry-construction and 35.7% in service sector (Figure 19). For the first 9 months of 2019, the figure was estimated at 54.4 million people, of which, AFF attracted 19.1 million people (35%, decreasing by 3.2 percentage points); industry-construction accounted for 15.9 million people (29.2%, increasing by 2.6 percentage points); and service sector of 19.4 million people (35.8%, up by 0.6 percentage points).

Figure 19: Economically active labor force by economic sector, 2013-Q3/2019

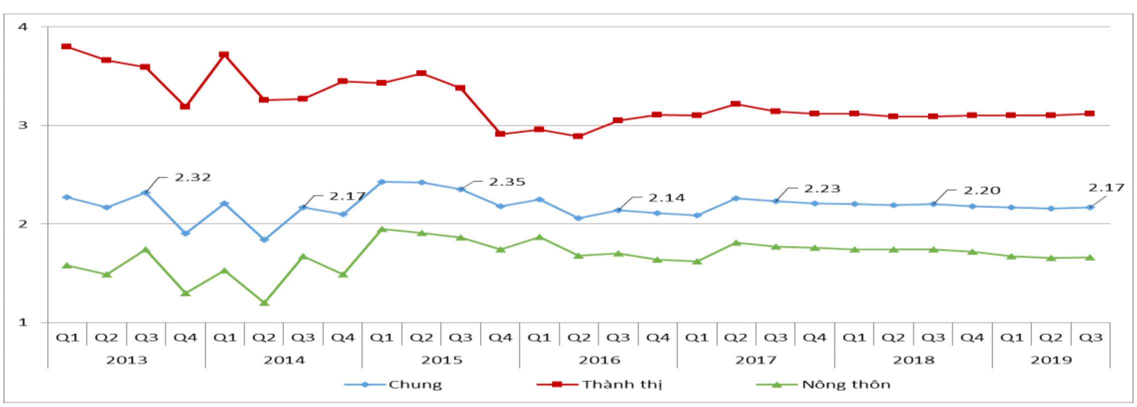


Source: GSO.

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

- Unemployment rate decreased slightly in Q3, at 2.17% (Figure 20). The GSO labour force survey showed that 13.3% of young population were unemployed and not participated in training and working. This figure was a concern, particularly when not fully taken the advantage of "golden population" during the preparation for catching up IR4.0. In addition, the unskilled labors still accounted for the largest share (33.2%) in Vietnam, reflecting a low qualification of human resources. Only 0.9% labors were "leaders at different levels and agencies", equivalent to 496.7 thousand people; of which share of male labor was 2.6 times higher than that of female labors. This figure should be taken into consideration for gender equality.

Figure 20: Quarterly unemployment rate, 2013-Q3/2019



Source: GSO.

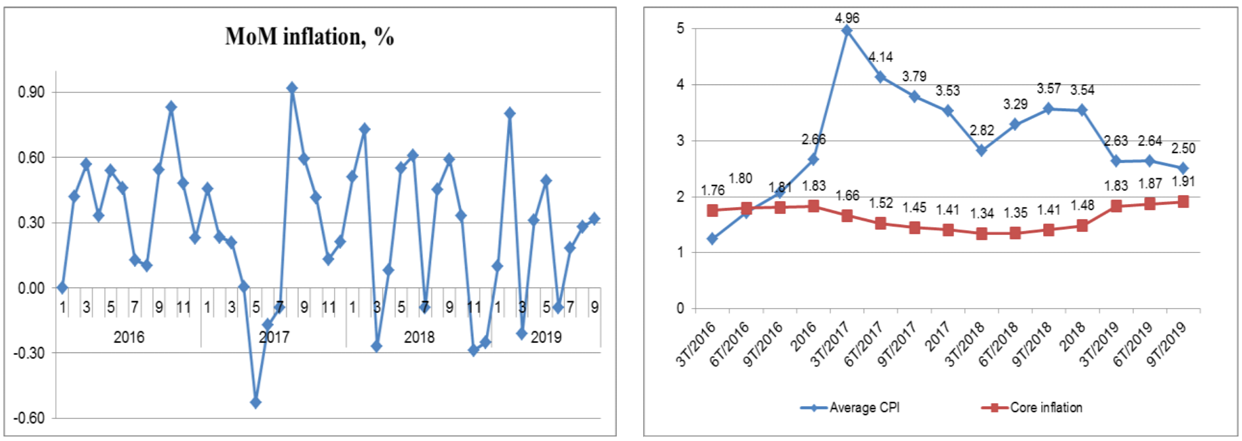
- The enforcement of regulations on gender equality has made certain progress in mainstreaming gender equality into formulation of regulatory documents, trainings on gender equality; however, there were shortcomings of unmet targets under Resolution 11/NQ-TW and National Strategy on Gender equality during 2016-2020, including the followings:
  - The target of "enhancing the participation of women in leadership and managerial position for gradual reduction of political gap": by end of 2018, the proportion of women in National Assembly was 27.2% and key female leaders accounted for 47%; however, the ratio of women's participation in politics was reduced under global ranking (99/149 nations).
  - The target of "the ratio of female-headed business attains 35% by 2020": this ratio was 26.95% by the end of 2018. However, women-managed enterprises ranked 6/57 nations (in 2018), Viet Nam has been the only one country in Asia among the top ten in the world and maintained the ranking of women's opportunities and participation (33/149 in 2018).
  - Delaying the issuance of List of national statistic indicators on gender development, resulting in the slow progress on monitoring and evaluation of criteria in National strategy on gender equality. By end of August 2019, the list of indicators has been promulgated, which included 78 criteria disaggregated by 6 groups, of which 25 indicators was regulated in 2015 Statistic Law, 29 indicators was regulated under the list of Viet Nam's sustainable development.
  - *Inflation*
- The Consumer Price Index (CPI) increased gradually in Q3 (MoM growth rate was 0.18%, 0.28% and 0.32%, respectively). In Q3/2019, CPI was up by 0.48% compared to that in Q2/2019 and by 2.23% in relative to Q3/2018. In the first 9 months of 2019, YoY growth rate of CPI attained 2.50% (the slowest pace in the last 3 years).
- CPI in Q3 and the first 9 months was affected by the following factors: (i) adjustments of prices of state-controlled commodities (electricity, healthcare, education); (ii) domestic price of petrol was downward adjusted for 3-consecutive times since August 16 while fluctuations of world oil price had not been reflected in domestic price (which is expected to be considerably upward adjusted after the meeting of price management board on October 1); and (iii) the increase of food-foodstuff which can be partly attributed to the shortage of pork supply since mid-June.
- Average core inflation was 1.91% in the first 9 months. In general, the management of monetary policy has not intensified pressure on inflation.

However, average core inflation in the first 3 months, 6 months and 9 months of 2019 were significantly outpaced those in 2016-2018, implying that prudent management of monetary policy should be implemented seriously.

- In Q3, export price index increased by 0.2% in comparison to Q2/2019 and by 2.54% in relation to Q3/2018. In the first 9 months, the index was up by 2.69%. In the meanwhile, the import price index was almost unchanged in Q3 compared to Q2; and grew by 0.39% in comparison to that in Q3/2018. Pressure from growing import and export prices on CPI was insignificant.

Figure 21: Inflation, 2016-2019

(a) MoM inflation ***(b) Core inflation and average CPI***



Source: GSO.

- Estimated inflation of 3.3%-3.9% in 2019 is feasible if there are no unexpected movements of prices of essential goods. Based on experience of the Government on inflation stabilization, the target of 4.0% in 2020 has created more room for flexible management in the context of highly risky and uncertain world economy.

  - *Monetary movement*

- The VND-denominated deposit rates at the end of September were popular at 0.2-1% per annum (p.a) for demand deposits and deposits with terms of less than 1 month; 4.5-5.5% p.a for deposits with terms from 1 month to less than 6 months; 5.5-6.8% p.a for deposits with terms of 6 months to less than 12 months; and 6.6-7.5% p.a for deposits with terms of 12 months or more. However, the trend of increasing local deposit rates in some banks was more evident in Q3, different from the fairly stable situation in the first two quarters.

- The prevailing VND-denominated lending rates were 6.0-9.0% p.a for short terms; 9.0-11% p.a for the medium and long terms. In general, the lending rate level has been stable since the beginning of 2019.

Table 2: Popular deposit interest rates in VND of commercial banks

	Demand	Under 6 months	6-12 months	Over 12 months
End of Dec. 2018	0.6-1.0	4.5-5.5	5.5-6.5	6.6-7.3
End of Mar. 2019	0.5-1.0	4.5-5.5	5.5-6.5	6.6-7.3
End of Jun. 2019	0.5-1.0	4.5-5.5	5.5-6.5	6.6-7.3
End of Sep. 2019	0.2-1.0	4.5-5.5	5.5-6.8	6.6-7.5

Source: State Bank of Viet Nam (SBV).

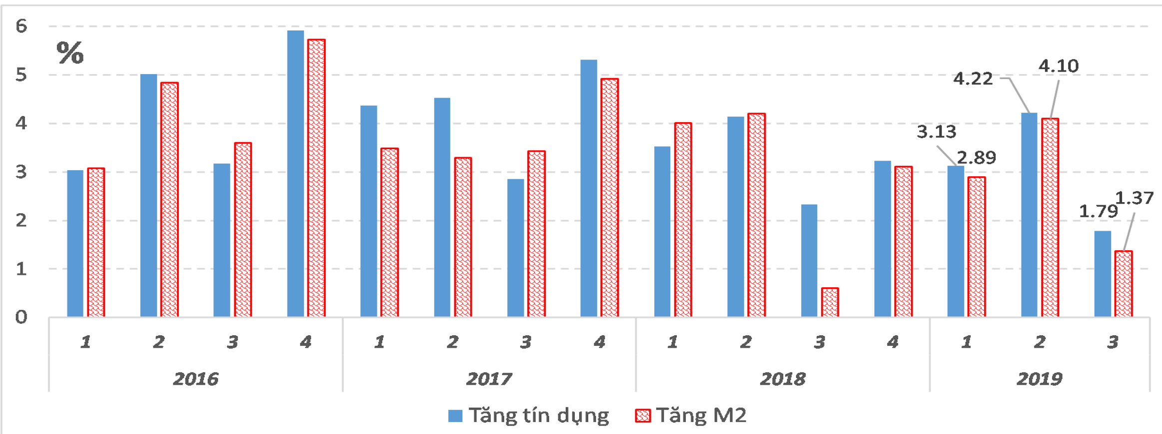
- The average deposit interest rates tended to increase in Q3, especially for deposits with terms of 6 to 12 months and over 12 months. Deposit rates for demand deposits were adjusted to reduce in some credit institutions. The trend was due to such factors as (i) activities of commercial banks in reducing the ratio of short-term capital to medium and long-term loans to meet capital adequacy requirements required by SBV; (ii) some commercial banks expected to increase mobilization to meet the demand for capital at the end of the year; (iii) competition for market shares of commercial banks in the capital market, primarily when some firms have issued bonds with high-interest rates of up to 12-13% p.a.
- The USD-denominated interest rate has been at 0% p.a for deposits of individuals and organizations. The USD-denominated lending interest rates were prevalent at 3.0-6.0% p.a, in which short-term lending interest rates were prevailing at 3.0-4.7% p.a; medium and long-term lending rates were at 4.5-6.0% p.a. The USD-denominated lending interest rates in Q3 increased slightly for short-term loans as compared to Q1 and Q2.
- The inter-bank interest rates fluctuated in Q3 (Figure 22). In particular, the inter-bank interest rates for term of 3 months were stable. The inter-bank interest rates for shorter terms (e.g., one month and overnight) continued its downward trend from Q2 before rising sharply at the end of August, peaking on August 28, and then decreasing continuously until the end of Q3. This fluctuation is associated with the time close to the national holiday of September 2, the liquidity of the banking system was more stressful, causing the inter-bank interest rates to rise. However, right after that short-term fluctuation, the inter-bank interest rates continued the downward trend - in line with the movements of the VND/USD exchange rate after the FED lowered interest rates.

Figure 22: Interbank interest rates in Q3/2019

Source: SBV.

- As of September 30, the outstanding loans increased by nearly 1.8% as compared to the end of Q2 and 9.4% in relative to the end of 2018. Credit growth in Q3 was slower than the first quarters of the year and same periods in previous years (Figure 23). Main reasons included: (i) SBV's priority to controlling credit quality; (ii) preparations for the reduction (aimed to termination) of foreign currency credit; (iii) determination to improve market discipline, including performance safety indicators of commercial banks; and (iv) no relaxation of controls over credits to specific areas (securities, real estate).

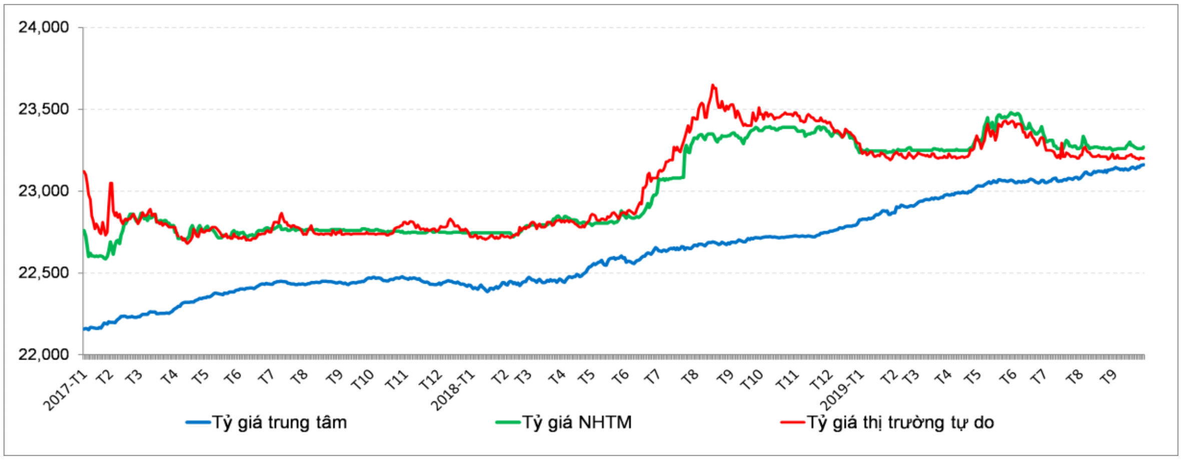
Figure 23: Growth rates of credit and M2 (%)



Source: SBV.

- As of September 24, total liquidity (M2) was estimated to increase by 8.58% in comparison to the end of 2018 and 1.37% in relative to the end of Q2. This increase is slower than the first quarters of the year, though higher than the same period in 2018. Concerns about the impact of M2 increase in previous quarters on inflation are quite evident. However, M2 remains flexible enough to balance inflation control and prevention of growth decline possibility while facilitating the issuance of government bonds in Q3. In this regard, the SBV has been quite successful in responding to the trend of increasing foreign capital inflows into Viet Nam.

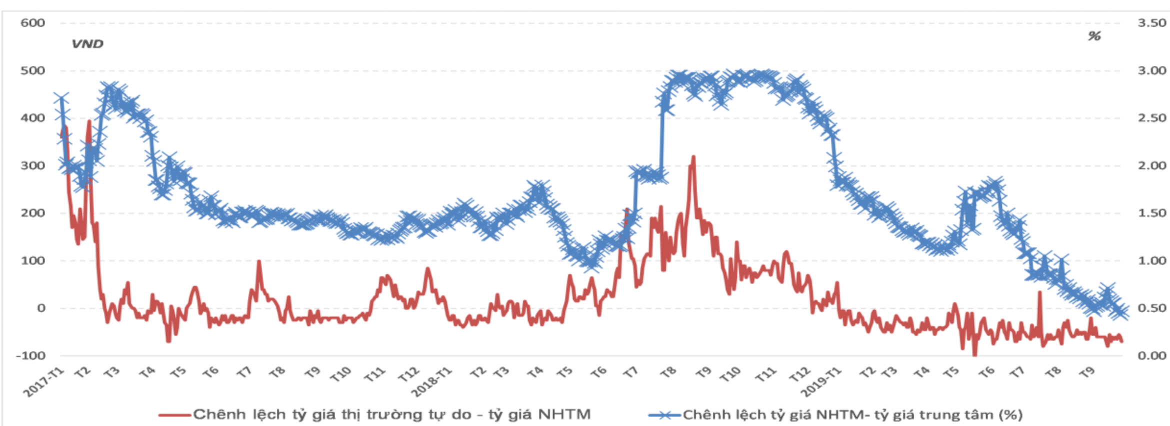
Figure 24: VND/USD exchange rate, 2016-2019



Source: CIEM's compilation.

- Q3 witnessed more stable VND/USD exchange rate than previous quarters of 2019 and same period of 2018. The central exchange rate increased by 0.41% in Q3 (compared to the end of Q2). The selling rate of commercial banks was quite stable throughout Q3 (Figure 25). By the end of September, the selling rate of commercial banks decreased by 0.34% compared to the end of Q2 and increased by 0.15% compared to the end of 2018. The exchange rate in parallel market was also stable and always lower than that of commercial banks (Figure 24 and Figure 25).

Figure 25: Gap between exchange rates of commercial banks and central rate and in the parallel market



Source: CIEM's compilation.

- Actual exchange rate movements imply that the SBV has effectively performed its executive role. Major reasons include: (i) SBV's continuous priority to prudential monetary management (including dealing with exchange rate pressure) and no priority to credit growth; (ii) effective communication on the direction of exchange rate management (including the orientation of ending foreign currency credit and not devaluating to support export growth); and (iii) more confidence of market actors in the management of the SBV. However, the exchange rate management enjoyed some advantages such as (i) interest of foreign investors in Viet Nam's market, and not yet indication of capital withdrawal; and (ii) high trade surplus.

- *Investment*

- Gross investment (at current prices) was estimated at VND 556.5 trillion in Q3, rising by 10.5% (YoY) (Table 3). For the first 9 months of 2019, gross investment attained at VND 1378.2 trillion, up by 10.3% (Table 3). At 2010 constant prices, total investment reached VND 1007.2 trillion, up 7.6% in the first 9 months. The investment to GDP ratio was 36.16% in Q3, an increase of about 1 percentage point as compared to YoY ratios in 2016-2018, and was 34.3% for the first 9 months.

Table 3: Gross investment, current prices

Unit: thousand dong

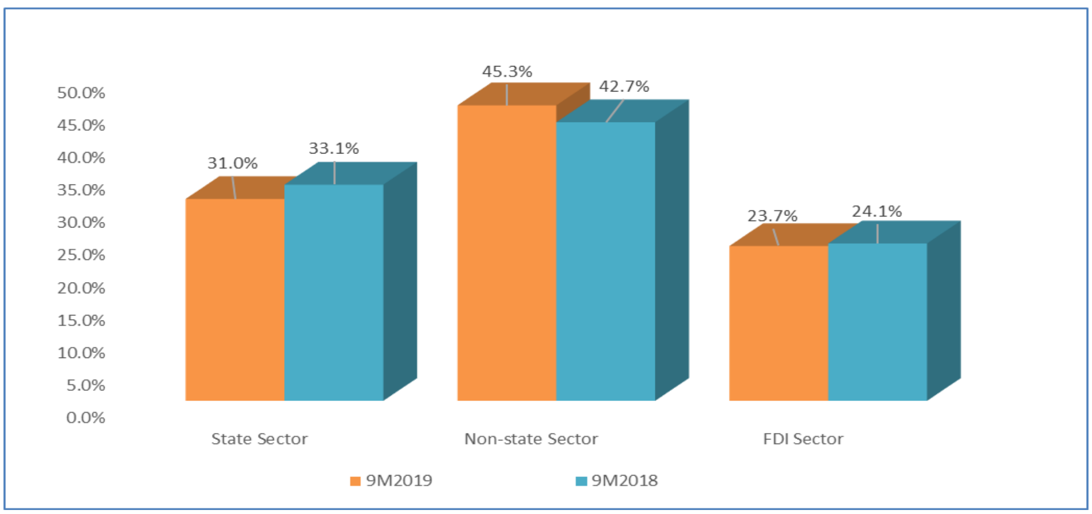
No.	Category	Q1	Q2	Q3	9 months	Growth rate in Q3 (%)	Growth rate in 9 months (%)
	Total	**360.1**	**461.7**	**556.5**	**1378.3**	**10.5**	**10.3**
I	***State investment***	***106.0***	***147.7***	***173.0***	***426.6***	***3.7***	***3.0***
1	State budget investment	51.1	77.3	95.6	224.0	6.9	4.8
2	Government bonds	4.8	8.7	9.9	23.4	-11.7	-13.1
3	State credit	8.6	10.9	11.4	30.8	22.6	19.3
4	Borrowings from other sources (by the State sector)	20.6	25.8	29.7	76.1	-5.7	-3.2
5	Investment by SOEs (Equity)	14.2	16.1	16.9	47.3	-2.3	-3.6
6	Other sources	6.7	8.9	9.5	25.1	17.3	23.5
II	***Non-state investment***	***159.8***	***199.6***	***265.2***	***624.6***	***17.5***	***16.9***
7	Investment of individuals and the private sector	159.8	199.6	265.2	624.6	17.5	16.9
III	***FDI***	***94.4***	***114.4***	***118.4***	***327.1***	***6.3***	***8.4***
8	FDI	94.4	114.4	118.4	327.1	6.3	8.4

Source: GSO.

- The amendment of Law on Public Investment approved at the 7th session of the 4th National Assembly shows an emphasis on streamlining processes and procedures, strengthening decentralization, and defining clear tasks and responsibilities of relevant stakeholders and heads of units. However, the disbursement of public investment, including government bond, remained very slow, only about VND 192 trillion in 9 months, equal to 45.17% of the planned figures of National Assembly and by 49.14% compared to the planned figures of Prime Minister (Thuy Hien, 2019). Delays in the disbursement of public investment remain inherent causes, particularly attributed to; (i) problems in compensation and clearance; (ii) delays in approving investment preparation projects; (iii) delays and limited capacity in design, construction, bidding, and contractor selection; and (iv) the coordination and direction in some ministries and localities have not been really active and serious enough, and lack of sanctions linking the responsibility of heads of units with reviewing and forcing the disbursement of public investment.

- The remarkable activities of investment performance in the first 9 months of 2019 was in the non-state sector, which experienced a growth rate of 16.9% in the first 9 months, accounting for 45.3% of total investment, up by 2.6 percentage points over the same period in 2018 (Figure 26).

Figure 26: Structure of investment by ownership

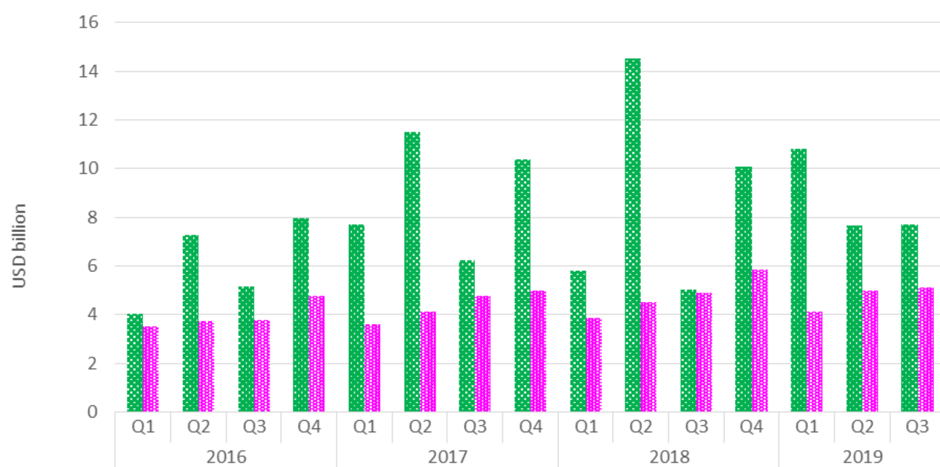


Source: GSO.

- Domestic private enterprises themselves constantly strive to meet competition requirements in the new context. Several infrastructure works, even at large scale, have been successfully undertaken by the private sector. Accordingly, the confidence in private enterprises in collaboration with the public sector to undertake and accomplish the task of infrastructure development - based on ensuring progress, efficiency, saving and on a healthy market basis - has increasingly strengthened. On the other hand, it is the dynamism, assertiveness, and adaptability of private enterprises that also determines the impressive export growth (up to 16.4%) of the domestic enterprise sector in the first nine months of the year despite various unfavorable information about export markets and exchange rates. Accordingly, these businesses also demonstrate that management thinking "doing instead of the market, thinking instead of the market" is proved to be less appropriate.

- The FDI sector witnessed an investment growth rate of 8.4% in the first 9 months, equivalent to the same period in 2018. Total registered FDI (including newly registered capital, supplemented and contributed capital, and share purchased by foreign investors) reached USD 7.7 billion in Q3 and USD 26.2 billion in the first 9 months, up 52.7% compared to Q3 and 3.1% compared to the first 9 months of 2018. The implemented FDI capital witnessed a growth rate of 7.3%, reaching USD 14.2 billion in the first 9 months. (Figure 27).

Figure 27: FDI inflows to Viet Nam



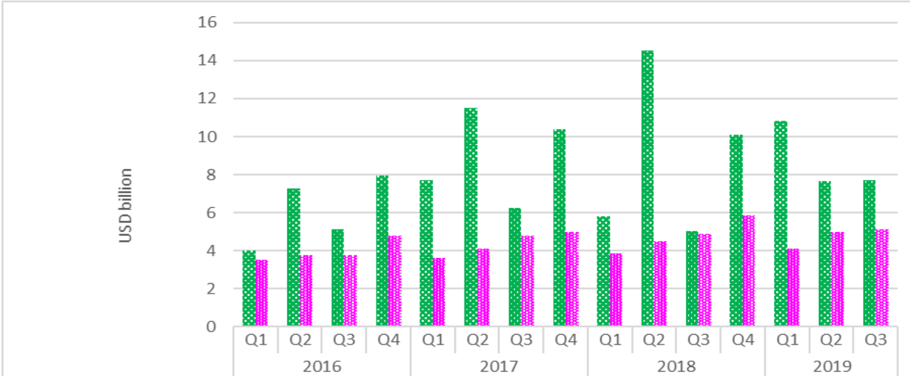
	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2	2019 Q3
Registered capital*	4.0	7.3	5.1	7.9	7.7	11.5	6.3	10.4	5.8	14.5	5.0	10.1	10.8	7.7	7.7
Implemented capital	3.5	3.8	3.8	4.8	3.6	4.1	4.8	5.0	3.9	4.5	4.9	5.9	4.1	5.0	5.1

Source: GSO.

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

- The FDI sector in the first 9 months of the year witnessed an investment growth rate of 8.4%, equivalent to the same period in 2018. Total registered FDI capital (including newly registered capital, additionally registered capital, and capital contribution and purchase of shares of foreign investors) reached USD 7.7 billion in Q3 and USD 26.2 billion in 9 months of the year, up 52.7% compared to Q3 and 3.1% compared to 9 months of 2018. The implemented FDI capital witnessed a growth rate of 7.3%, reaching USD 14.2 billion in 9 months of the year. (Figure 27).

Figure 27: Development of FDI attraction and disbursement



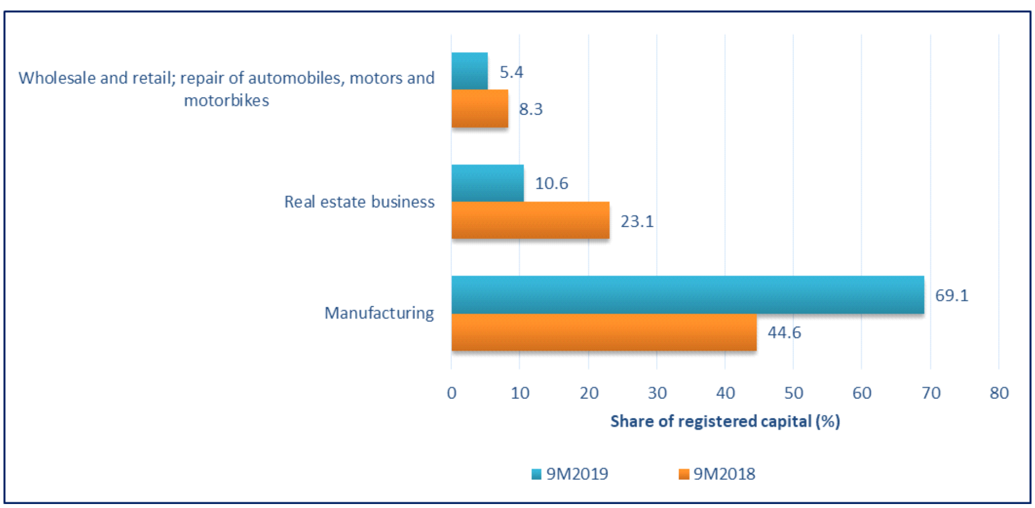
	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2	2019 Q3
Registered capital*	4.0	7.3	5.1	7.9	7.7	11.5	6.3	10.4	5.8	14.5	5.0	10.1	10.8	7.7	7.7
Implemented capital	3.5	3.8	3.8	4.8	3.6	4.1	4.8	5.0	3.9	4.5	4.9	5.9	4.1	5.0	5.1

Source: GSO.

Note: Registered FDI capital* including newly registered capital, additionally registered capital, and capital contribution and purchase of shares of foreign investors.

- The manufacturing sub-sector has attracted strong attention of foreign investors in the first 9 months. The newly registered capital increased by 60%, raising the share of registered FDI from 44.6% in 2018 to 69.1% in 2019, up by 24.5 percentage points. There was a sharp decline in investment in real estate and wholesale, retail, and repair of automobiles, motorcycles, and motorbikes (Figure 28). The investment shift in manufacturing has mostly been attributed: (i) continued efforts to reform and reduce business conditions; (ii) implementation of CPTPP and preparation for EVFTA; and (iii) foreign investors shifting away from Chinese market.

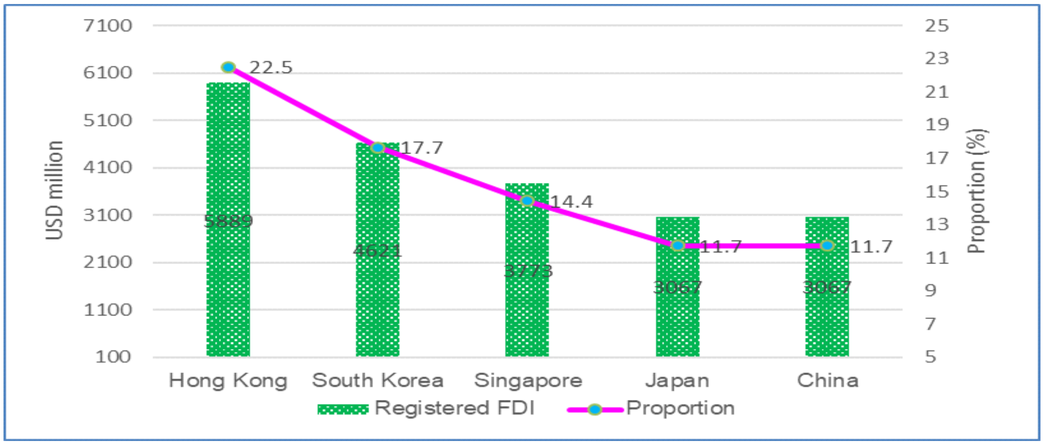
Figure 28. Shift in FDI attraction in major industries



Source: GSO.

- The first six leading positions in Vietnam's FDI attraction in the first 9 months were all from countries and territories in Asia, accounting for 78% of total registered capital. In particular, Hong Kong is on top with USD 5.88 billion, accounting for 22.5% of total registered capital. Registered capital from China reached USD 3.06 billion, accounting for 11.7% of total registered capital (Figure 29).

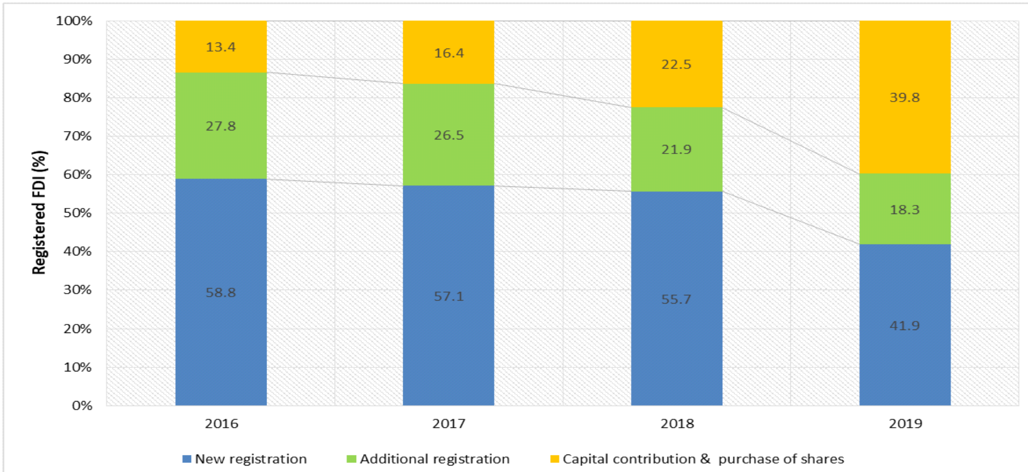
Figure 29: Registered FDI inflows by major partners



Source: MPI.

- The proportion of capital contribution and shares purchased in the first 9 months was 40%, significant increase in comparison to 13.4% in the same period in 2016 (Figure 30). The main reason is possibly due to the improved legal framework for M&A, which resulted in increasing transparency of information and strengthening investors' confidence in the expansion of international cooperation opportunities. However, this trend also needs thorough research to avoid the following implications and consequences: (i) the shifting from direct investment in new projects to purchase of shares to acquire existing domestic firms; and (ii) foreign investors only consider Vietnam as a "temporary shelter".

Figure 30. Movement of registered FDI inflows



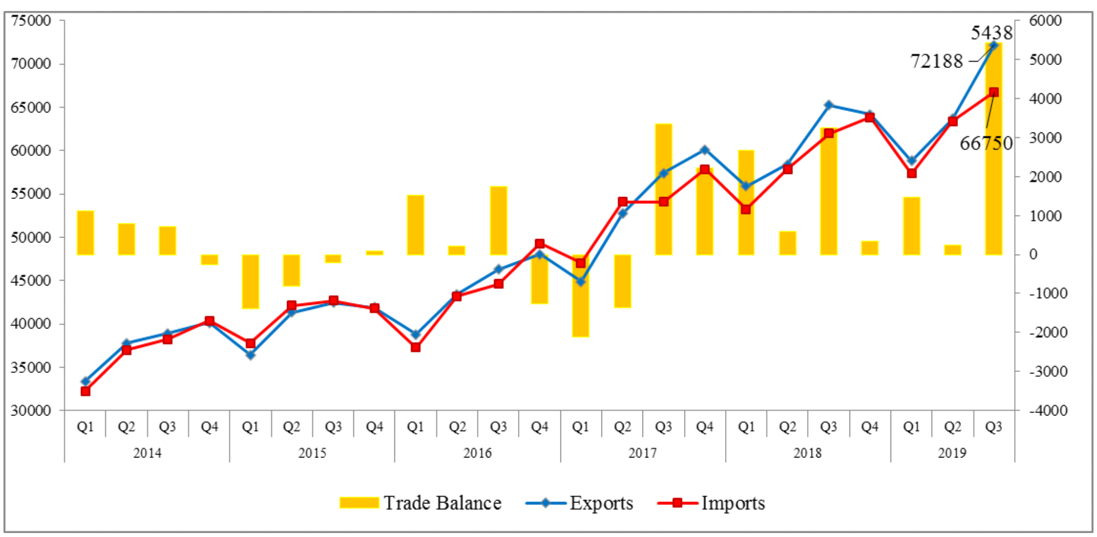
Source: MPI.

- *__Trade__*

- Exports in Q3 were estimated at USD 72.2 billion, increasing by 10.7% (Figure 31). Total exports in the first 9 months of 2019 reached USD 194.7 billion, up by 8,4% (YoY). The domestic sector export reached USD 61.2 billion, up 15.9%, contributing 4.7 percentage points to the overall export growth rate. Exports of the FDI sector (including crude oil) reached USD 133.4 billion, up 5.3%, contributing 3.7 percentage points to the overall figure.

Figure 31: Export, Imports and Trade Balance, 2014- Q3/2019

Unit: Million USD

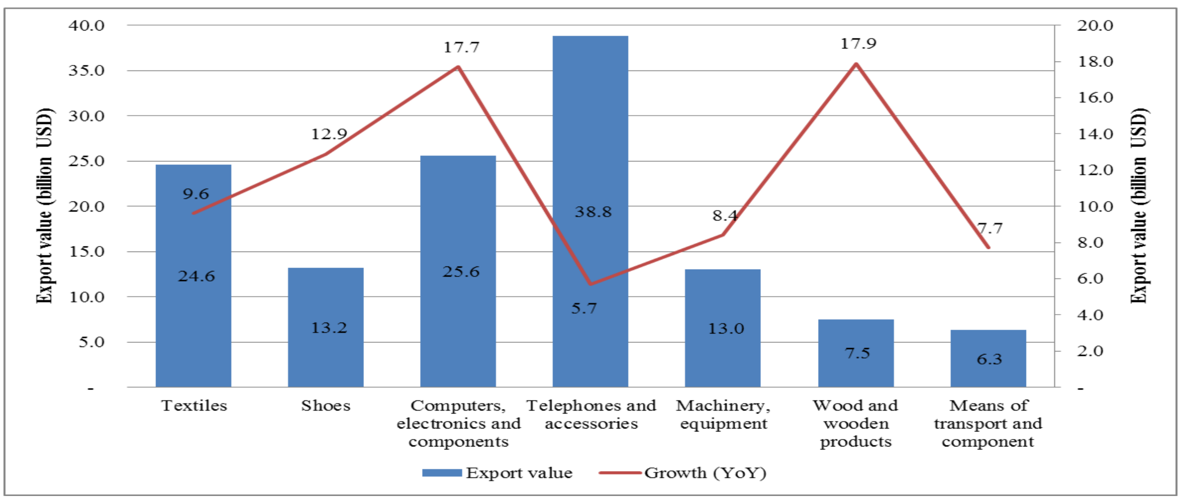


Source: GSO and General Department of Customs.

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

- Vietnam's export growth still increased slowly since facing some challenges including: (i) the decline of global trade. According to WTO report, it was estimated that in Q3/2019, the World Trade Outlook Indicator (WTOI) was at 95.7 points - the lowest level since March 2010; (ii) stronger competition for Vietnam's exported products because countries focused on developing the domestic market, establishing more sophisticated technical barriers and increasing trade protectionism; and (iii) the increase in cost of inputs such as electricity price, gasoline price, regional minimum wage.
- In the first 9 months of 2019, Vietnam had 28 items with indidual export values of over USD 1 billion, accounting for 90,8% of total export turnover. Telephones and components continued to attain the highest export value, reaching 38.8 billion USD, accounting for 19.9% of the total export turnover, but only up by 5.7% (YoY) (Figure 32). In general, FDI sector continued to account for the lion share of major product exports, accounting for 96,6% of telephones and component export, 90,1% of electronics, computers and component exports; 76,3% of footwear exports, 59% of textile exports.

Figure 32: Export growth by product category in 9 months of 2019



Source: GSO.

- Export growth of agriculture forestry and fishery almost decreased due to the lower average export price of many commodities in the first 9 months of 2019. Of which, fisheries product export reached USD 6.2 billion, down 2.1%; vegetables reached USD 2.8 billion, down 5.1%; cashew nuts reached USD 2.4 billion, down 5.3% (volume increased by 21.1%); rice reached USD 2.2 billion, decreased by 10.2% (volume increased by 3.7%), pepper reached USD 593 million, down 6.4% (volume increased by 21.1%).
- Regarding export market, export activities in the first 9 months of 2019 still concentrated in 6 major markets (Table 4). The US remained the biggest export

market of Vietnam with value of USD 44.7 billion, increasing by 27.6%, contributing 5.4 percentage points to the overall export growth rate. Except for a sharp increase in exports to the US, exports to other markets of Vietnam only increased slightly or decreased.

Table 4: Export growth by partners, 9 months of 2019

Unit: Billion USD

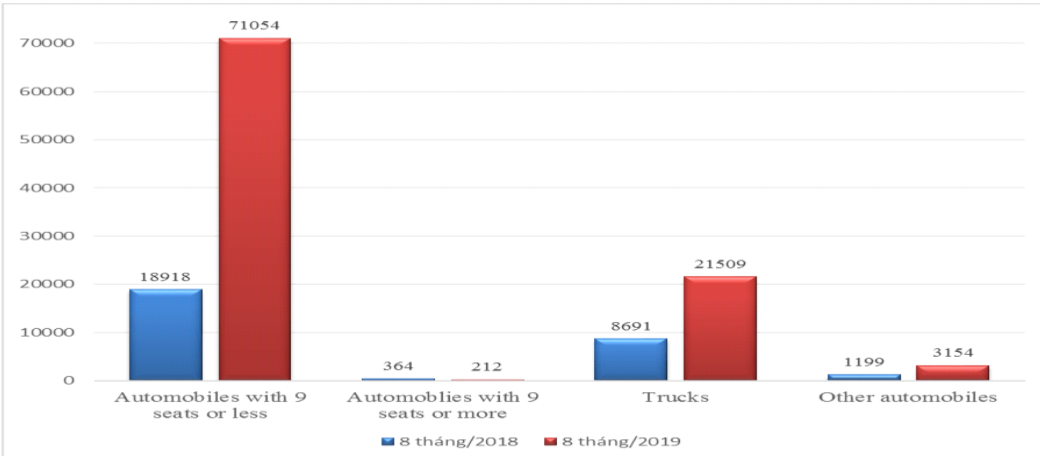
	9 months 2018	9 months 2019	Growth rate (%)	Contribution by percentage point
USA	35.00	44.65	27.56	5.37
EU	31.28	30.95	-1.08	-0.19
ASEAN	18.52	19.36	4.54	0.47
Japan	13.71	14.98	9.29	0.71
South Korea	13.46	14.80	9.90	0.74
China	28.84	28.25	-2.06	-0.33

Source: GSO.

- Imports in Q3 reached USD 66.8 billion, up by 7.7% (Figure 31). In the first 9 months of 2019, the import turnover was estimated at USD 187.5 billion, rising by 8.4%. Imports of domestic sector attained USD 78.7 billion, increasing by 13.5%, contributing 5.4 percentage points to overall import growth. Imports of foreign invested sector reached USD 108.9 billion, increasing by 4.9%, contributing 2.9 percentage points.
- By product, imports of production means and inputs still accounted for most of the total import value (91.4%), reaching USD 172.2 billion, up by 8.5%. However, The growth rate of import of consumer products was faster, up by 13,3%, reaching USD 16.2 billion. Notably, the import of automobiles increased sharply over 9 months of 2019, reaching 107,038 units, worth nearly USD 2.4 billion, up by 156.5% (YoY).

Figure 33: Imports of automobiles, 8 months of 2018 and 8 months of 2019

Unit: unit



Source: GSO.

- Viet Nam's imports were largely sourced from the six key trading partners (Table 5). In the first 9 months of 2019, China remained the largest source with the highest growth rate of Viet Nam's import, contributing 4.7 percentage points to the overall import growth. South Korea was recorded as Viet Nam's import market with the lowest growth rate of 0.14%, reaching USD 35.3 billion.

Table 5: Import growth by partner in 9 months of 2019

Unit: Billion USD

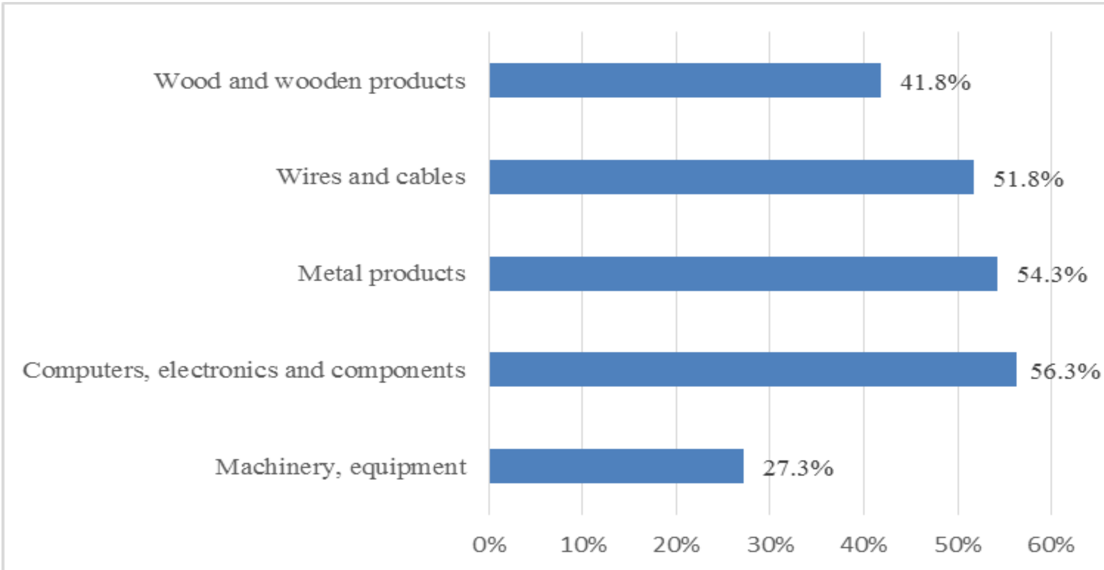
	9 months 2018	9 months 2019	Growth rate (%)	Contribution by percentage point
USA	9,54	10,69	11,98	0,66
EU	9,98	10,84	8,60	0,50
ASEAN	23,22	23,77	2,37	0,32
Japan	13,88	14,18	2,22	0,18
South Korea	35,06	35,30	0,67	0,14
China	47,26	55,43	17,28	4,72

Source: General Department of Customs.

- The trade balance registered a susplus of over USD 5.4 billion in Q3. In 9 months of 2019, Viet Nam had a trade surplus of USD 7.1 billion. Domestic sector incurred trade deficit of USD 17.4 billion, while FDI sector (including crude oil) had trade surplus of USD 24.6 billion. Among the key trading partners, Viet Nam gained trade surplus with the US (USD 34 billion, up by33.4%) and the EU (USD 20.1 billion, down by 5.6%), but suffered large trade deficits with

China (USD 27.2 billion, up by 47.6%) and South Korea (USD 20.5 billion, down by 5.1%).

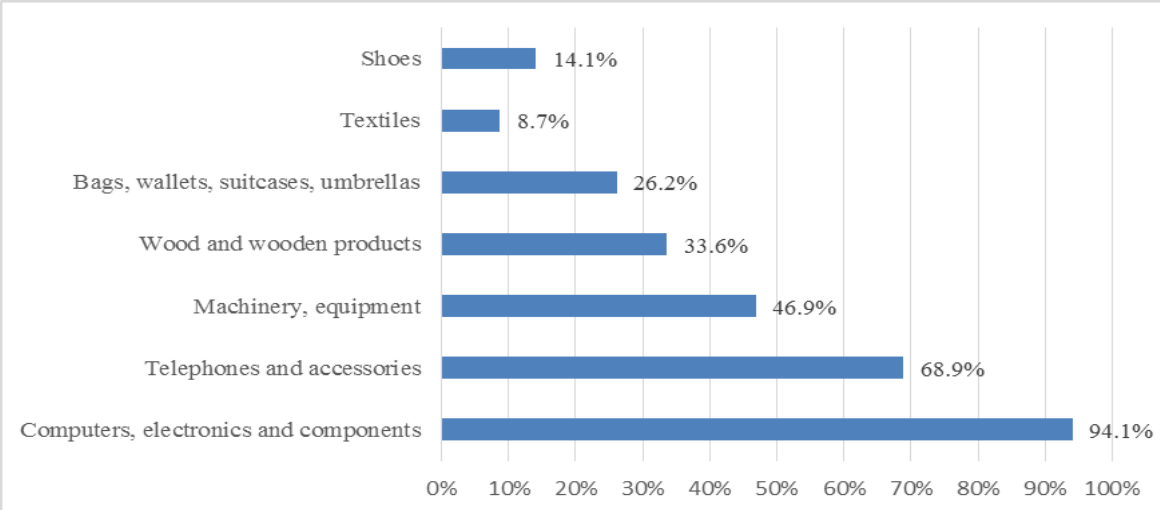
Figure 34: Import growth from China by product category, 9 months of 2019



Source: General Department of Customs.

- The U.S-China technological-trade war tends to be complicated and unpredictable. Its impact on Vietnam depends greatly on each scenario, assessment and reaction of the countries. However, analyzing the changes in Vietnam's import and export commodity structure with the US and China also partly reflects the impacts related to this war. For the Chinese side, the yuan has depreciated against the USD, making Vietnamese products less competitive in price against Chinese products. Besides, the investment wave from China to Vietnam has increased imports of machinery, equipment and input materials from this market (Figure 34).

Figure 35: Export growth to the US by product category, 9 months of 2019

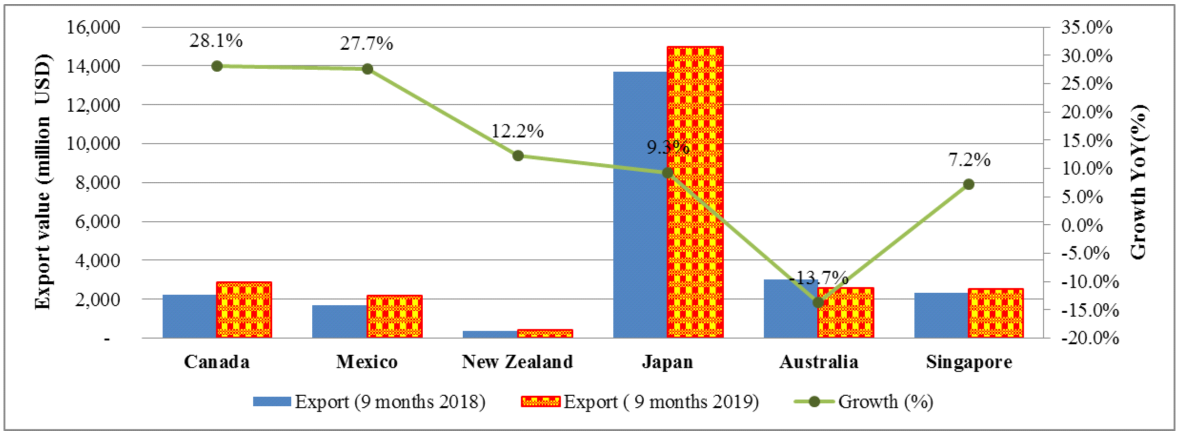


Source: General Department of Customs.

- For the US side, in the 9 months of 2019, Vietnam's exports to this market grew rapidly in computers, electronics and components (up by 94.1%), telephones and accessories (up by 68.9%), machinery and equipment (up by 46.9%). The slower growing export items were wood and wood products; bags, suitcases, hats. For items that are expected to benefit from the trend of moving factories out of China to avoid taxes, there has been no breakthrough in export growth such as textiles (up by 8.7%) and footwear (up by 14.1%) (Figure 35). This divergence in export growth might be due to the US tariff schedule for China. The 25% tariff rate on USD 250 billion worth of Chinese products, has been imposed on electronics and electrical appliances. Textiles, footwear haven't included in Chinese goods subject to U.S. tariffs.
- Compared to the US-China trade war, the increased tension between Japan and South Korea has brought more rapid and direct effects on Vietnam's exports. Typically, telephones and accessories accounted for 20% of total exports and depended largely on Samsung. In the absence of material supply to produce chips from Japan, South Korean Samsung factories in Vietnam were delayed, as replacement products from China, or Taiwan mightn't meet the same quality as Japanese materials. Therefore, when exporting these items have been affected, Vietnam's trade balance of goods has grown slowly.
- In the first 9 months of 2019, Vietnam's exports to 6 markets approved CPTPP reached nearly 25.5 million USD, accounting for 13.1% of the total export turnover, up by 9.1% (YoY). In particular, Vietnam's exports to these CPTPP markets experienced positive growth except Australia, with the strongest increase to Canada (28.1%) and Mexico (27.7%) (Figure 36). Meanwhile, Vietnam's

imports from these CPTPP markets decreased by 0.9% (YoY), equivalent to a decrease of USD 201 million.

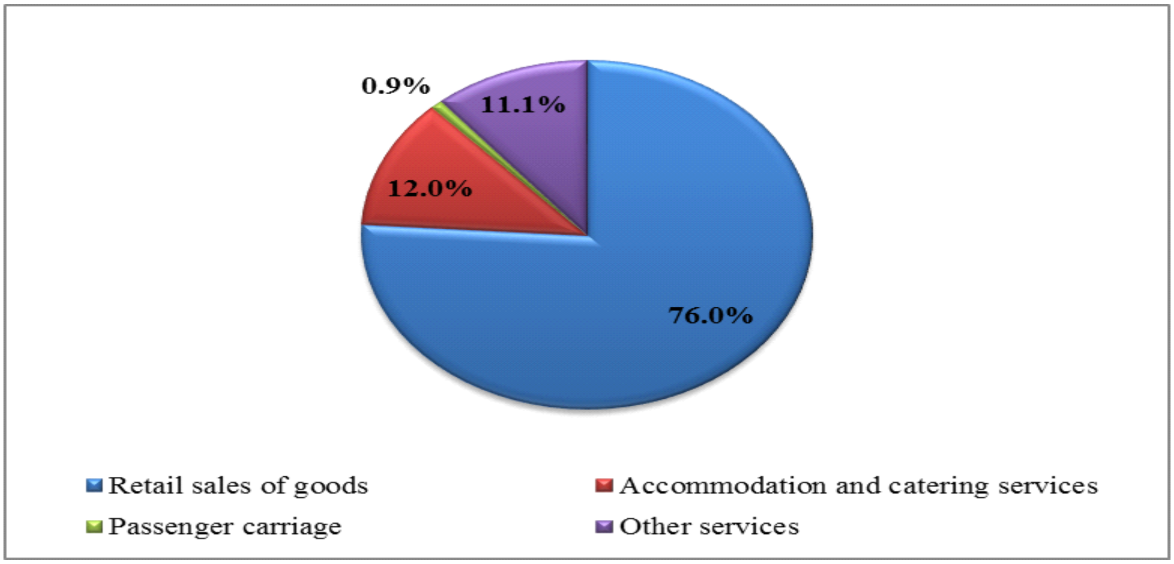
Figure 36: Exports to CPTPP markets



Source: General Department of Customs.

- Regarding domestic trade, total retail sales of goods and services (at current prices) amounted to VND 3,634.8 trillion in 9 months, up by 11.6% (YoY). Excluding the price factor, the growth rate was 9.2%. Retail sales of goods accounted for the largest proportion, amounted to VND 2,762.3 trillion, accounting for 76%, an increase of 12.6% (YoY) (Figure 37).

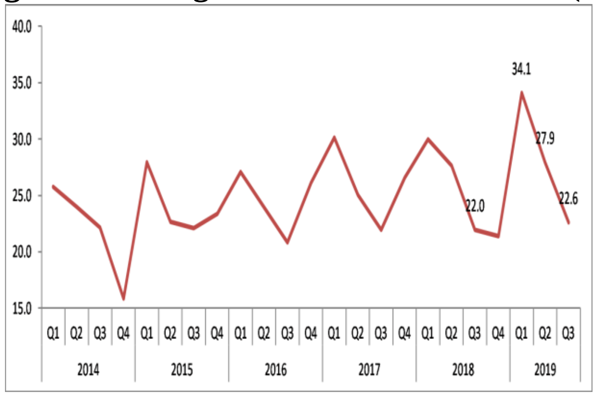
Figure 37: Retail sales of goods and services by activity, 9 months 2019 (%)



Source: GSO.

- *Budget revenues and expenditures*

Figure 38: Budget revenues to GDP ratio (%)



Source: Author's calculation

- Budget revenues reached VND 348.3 trillion in Q3, or 22.6% of GDP (Figure 38). Of which, domestic revenues attained VND 282.4 trillion, or 24.1% of the planned figures for 2019. Revenues from crude oil amounted to VND 13.5 trillion, or 30.3% of the planned figures. Revenues from exports and imports were VND 50.7 trillion, or 26.8% of the planned for 2019.

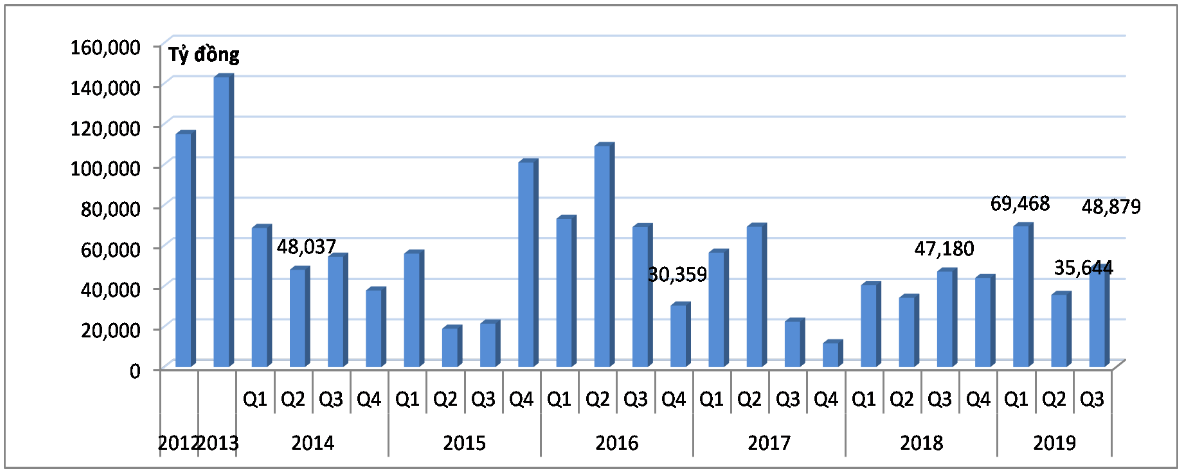
- For the first 9 months of 2019, budget revenues amounted to VND 1,093.8 trillion, equal to 77.5% of the planned figures for 2019. Of which, domestic revenues attained VND 882.4 trillion, , equal to 75.2% of the planned figures; revenues from exports and imports reached VND 163.9 trillion, equal to 86.6% of the planned figures. Notably, revenue from crude oil reached 98.3% of the planned figures for 2019.

- In Q3, budget expenditures amounted to VND 363.8 trillion, equivalent to 23.6 % of GDP. Of which, recurrent expenditures attained VND 290.7 trillion, accounting for 79.9% of total expenditures in Q3; expenditures for development investment only attained VND 73.1 trillion, making up a share of 20.1%.

- By 30 September 2019, budget expenditures were VND 1,030 trillion, or 63.1% of the planned figures for 2019. Of which, expenditures for development investment were VND 192.1 trillion, or 44.8% of planned figures, recurrent expenditures reached VND 837.8 trillion, or 71.6% of planned figures. There are many pressures on disbursement of public investment in general and development investment from the state budget in particular in Q4.

- The issuance of government bonds continued to be flexible. Total value of government bonds issued was 48.9 trillion in Q3. The figure was lower than in Q1/2019 but higher than in Q2/2019 and Q3/2018. This situation was quite appropriate in the context of low credit growth. For the first 9 months of 2019, total value of government bonds amounted to VND 154 trillion. By announcing the plan to issue government bonds at VND 55 trillion in Q4, the target for issuing government bonds in 2019 seems to be reduced (initially VND 260 trillion).

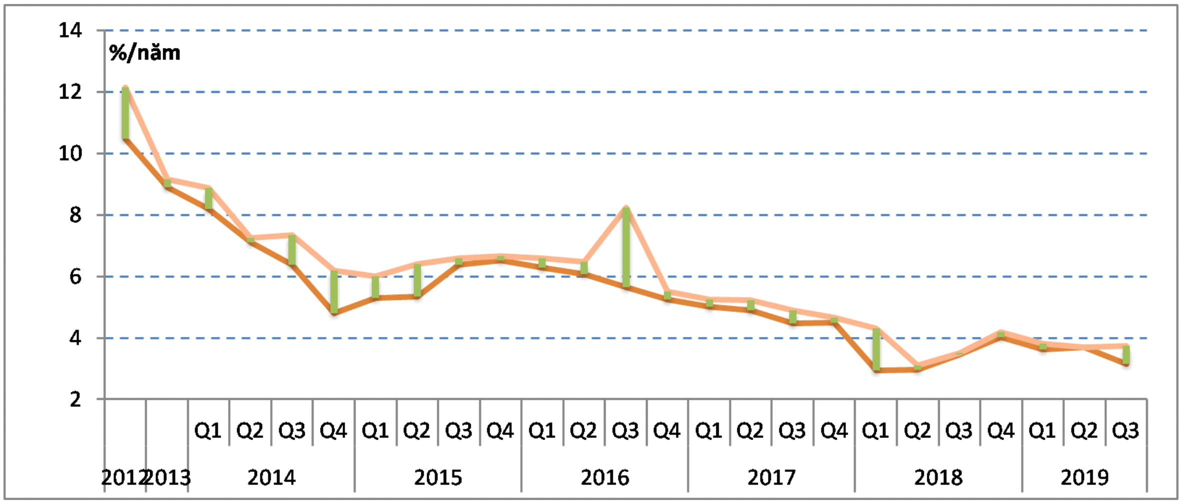
Figure 39: Government bond insurance, 2012-III/2019 (trillion dong)



Source: HNX.

- In Q3, The rage of interest rate for successful bids of government bonds fluctuated slightly. The interest rate for successful bids of government bonds (for 5-year terms to maturity) ranged from 3.15 – 3.75%/p.a. The rate of successful bids was only 24.8% in Q3, implying that: (i) sizeable liquidity of banking system; (ii) more selective and effective bond issuance in terms of interest rate for successful bids.

Figure 40: Interest rate on successful bids of government bonds with 5-year terms to maturity (%/p.a)



Source: HNX.

- ***Macroeconomic outlook***

- Import prices increases by 2.3%. Population increases by 1.08%/year and employment by 0.86%. The export volume of crude oil is assumed to be 30% lower than in 2017. REER is assumed to decrease by 2%. On the balance of payments, Government and (net) private transfers are assumed to decrease by 10% and 5% respectively. The implemented capital of FDI (including both Vietnam and foreign side) increases by 5%. Investment from State budget will be supplemented VND 400,000 billion. The Government will not increase prices of state-managed goods and services in Q4/2018.

- A forecast scenario is updated for Vietnam in 2019, basing on assessment of global economic outlook by international organizations, economic movement in the first 9 months, as well as the possibility of employing domestic economic policies. GDP growth in partner countries is projected at 3.0% in 2019 and 3.4% in 2020. US inflation may reach 1.9% and 2.0% respectively. Export prices of agricultural products may decrease by 5.7% in 2019 and grow by 0.5% in 2020. Export prices of crude oil may reduce by 9.8% in 2019 and 1.7% in 2020. For Vietnam, the central VND/USD exchange rate is increased by 1.5% in 2019 and 1% in 2020. Total liquidity increases by 13%. Outstanding credit increases by 14%. Import prices increases by 2.3%. Population increases by 1.08%/year and employment by 0.86%. The export volume of crude oil is assumed to be 6.5% lower than in 2019 and 5% lower in 2020. REER is assumed to decrease by 1%. On the balance of payments, Government and (net) private transfers are assumed to decrease by 10% and 5% respectively. Implemented FDI (including both foreign and Viet Nam side) grow by 5%. Investment from State budget will be supplemented VND 400,000 billion.

Table 6: Updated forecasts of macroeconomic indicators for 2019-2020

Unit: %

	2019	**2020**
GDP growth	7.0	6.7
Inflation (average CPI)	2.8	3.2
Export growth	8.1	7.6
Trade balance *(bil. USD)*	4.2	2.3

Source: CIEM's projection from its macroeconometric model.

- Economic growth in 2019 (updated) is projected at 7.0% in 2019, then reduce to 6.7% in 2020 (Table 6). Export growth may reach 8.1% and 7.6% in 2019 and 2020 respectively. Trade surplus is projected at USD 4.2 billion in 2019, then at USD 2.3 billion in 2020. Average CPI in 2019 will increase by approximately 2.8%, then by 3.2% in 2020.
- Macroeconomic development in Q4 may be subjected to several factors. *First*, US-China trade tension continues with high unpredictability, as it depends on the negotiation (and its outcomes, if any) between US and China. *Second*, global financial market in general and emerging markets in particular are more vulnerable to the increasing trend of protectionism and concerns on global economic downturns. *Third*, major economies like US and China have showed movement on interest rate and/or exchange rate policy, but not yet distinguish between economic stimulus or currency war. *Fourth*, the progress of negotiation/ratification of some new FTAs (RCEP, CPTPP, EVFTA) may strengthen investors' confidence in Vietnam.

- **SELECTED ECONOMIC ISSUES**

  - ***Committee for State Capital Management at enterprises: Difficulties and policy requirements after one-year's implementation of Decree 131/2018/ND-CP***

  - Committee for State capital management at enterprises (hereinafter referred to as the Committee) was established under the Government's Resolution 09/NQ-CP dated February 3rd, 2018, officially operated on September 29th, 2018 by Government's Decree 131/2018/ND-CP dated September 29, 2018 on functions, tasks, powers and organizational structure of the Commission.

    Main performance in the last one year:

    Establishing the apparatus, recruiting and completing the operating mechanism:

  - According to the scheme on establishment and Decree 131/2018/ND-CP, the Committee has 09 affiliated units with about 150 officials. The affiliated units was formed and put into operation. The Committee employed 50 targeted staffs in 2018. 50 additional targeted staffs will be recruited by the end of 2019

  - In 2019, the State Budget's expenditure plan for the Committee is 62.96 billion VND, according to the National Assembly's Resolution 73/2018/QH14.

  - By July 2019, the Committee issued 31 regulations, internal management regulations and 15 internal procedures and instructions; built a number of information technology systems and tested the connections to corporations as a basis for gradually modernizing the Committee's management activities, including a set of indicators and software for evaluating and monitoring financial situation and efficiency of the business

    Receiving rights of state owner's representatives from ministries

  - The Committee finalized the procedures to receive rights and responsibilities of the state owner's representatives of 19 economic groups and state groups and corporations from Ministry of Finance, Ministry of Industry and Trade, Ministry of Agriculture and Rural Development, Ministry of Transport, Ministry of Information and Communications. According to 2017 consolidated financial statements of 19 transferred groups and corporations, the total asset value was over VND 2.3 quadrillion, equity was nearly VND 1,004 quadrillion, the revenue reached VND 1.1 quadrillion and profit before tax was over VND 100 thousand trillion.

  - Within transferred rights and responsibilities, "*373 incomplete projects were submitted to the ministries, including the issues related to the planning and assigning officials, approving wages in 2018, investing and trading, etc ... at* *groups/corporations such as Oil and Gas, Electricity, Northern Food, Chemical, Mobifone Telecom. Among them, many complicated and difficult problems which have not been handled by Ministry for a long time, have to transfer to the Committee*".

- Since 9 July 2019, the Committee was handed over task of Government's Permanent Steering Committee and the assistant team of Steering Committee to handle 12 projects which are behind schedule and ineffective from the Ministry of Industry and Trade. Specifically, among 6 factories operating production and business but having losses, in which, there are 2 factories initially gain profits (DAP No. 1 – Hai Phong fertilizer plant, Viet Trung steel) and 4 factories have gradually stable operation. Among 3 projects which were shut down, 2 projects re-come into operation, 1 project is restarting. Among 3 incomplete projects, 1 project completes the re-valuation and prepares the submission to competent authorities for auction according to regulations, 02 other projects have not made positive development.

Implementing the responsibilities of the representative of the state owner in 19 groups and corporations.

- As an owner's representative agency, according to current regulations, the Committee has 11 rights/responsibilities for enterprises with 100% state capital and 7 rights/responsibilities for state capital in joint-stock companies, limited liability companies with two or more members. These rights and responsibilities focus on the following 5 groups: (i) Establishment, reorganization, ownership transfer, dissolution, bankruptcy, enterprises transfer; (ii) The charter, strategy and plan of the enterprise; (iii) Officials of the enterprise; (iv) Financial and investment activities of the enterprise; and (v) Monitoring, supervising and evaluating the operation of the enterprise.
- However, during the last one year, the Committee implemented only some rights and responsibilities, such as: approving 2019 production - business plans and assigning performance evaluation targets of Vietnam National Coal and Mineral Industries Group (TKV), Vietnam Electricity (EVN), Vietnam Oil and Gas Group (PVN), Vietnam Expressway Corporation (VEC); approving the 2019 agenda of VEC and TKV controllers; preparing a report on supervision results of state capital investment in enterprises in 2018, approving 2019 financial monitoring plan; approving a number of investment projects; assigning manager position of some groups and corporations according to authority, such as assigning Deputy General Directors to be a member of PVN's Board, etc.

Overview of the situation of enterprises before and after transferring to the Committee

- Comparing the financial indicators of December 31, 2018 with December 31, 2017 of 19 enterprises, 13 enterprises increased the equity, 12 businesses increased revenue and 11 enterprises increased profit before tax.

Table 7: Some consolidated financial indicator of 19 economic groups/corporations

Unit: thousand trillion

	2017	2018	Increase/Decrease
Total value of assets	2,304.4	2,327.2	+ 0.99 %
State equity	1,003.0	1,047.8	+ 4.47 %
Revenue	1,094.1	1,278.6	+ 16.86 %
Profit before tax	101.4	103.9	+ 2.47 %

Source: Consolidation from integrated reports of 19 economic groups/corporations.

Difficulties and shortcomings of enforcement

- According to the Committee's report, performing the function of representing the State capital owner faces problems of reviewing and approving the investment project of enterprises. On the contrary, some enterprises reflected that the processing and approval of investment projects submitted by enterprises has been slow, the coordination between related agencies has been not good, affecting the progress of the projects in particular and the production - business activities of enterprises in general.
- From the consolidation of opinions of the Committee and corporations, shortcomings mainly include the followings:

Approval of investment projects of enterprises under the competence of Committee

- A number of state-owned groups and corporations submitted applications to the Committee for approval of investment policies for a number of projects using non-budget state capital, belonging to Group A, with a capital of under VND 5,000 billion. (such as the 500 kv Van Phong –Vinh Tan transmission line project of Vietnam Electricity).
- These are often inter-provincial projects, requiring the concensus of related provinces, therefore, making decision on investment policies according to current regulations is difficult. The competent authority assigned the Committee to review and decide the investment policy for the specific projects which require to accelerate the progress (such as the 500 kV Van Phong –Vinh Tan transmission line project). However, procedure for Committee's decision on investment policy for these projects has faced some legal obstacles:

- *First,* according to Article 32 of the 2014 Law on Investment, the Provincial People's Committee decides the investment policy for projects which have investment capital of less than VND 5,000 billion; are allocated or leased land by the State without auction and tendering. The Law on Investment and the Law on Management and utilization of State Capital Invested in enterprises's manufacturing and business activities (Law No. 69) do not include provisions on assigning the authority to decide investment policies to the Committee's.
- *Second*, according to the provisions of Law on Investment, the provincial People's Committee where the investor requests for land allocation or land lease is the agency which decides the investment policy for the project. However, if the project is implemented in different provinces (such as electricity transmission line projects, etc.), it is impossible to determine which agency is competent to decide investment policy.
- *Third*, according to Law No. 69 and guiding Decrees (such as Decree 91/2015/ND-CP, Decree 131/2018/ND-CP, Decree 10/2019/ND-CP), the Committee approves and then Members' Council makes investment decision of project that worth more than 50% of the enterprise's equity recorded in the latest period's quarterly or annual financial statements and projects in Class-A or higher according the Law on Public Investment. However the contents, order and procedures for project approval of the Committee has not specified (as well as other representatives of ownership).

Responsibility on handling incomplete projects when transferring to the Committee

- Currently, some projects of EVN, Vinachem, VietnamAirlines, VEC, etc. transferred to the Committee have not handled completely, many outstanding complicated issues have not solved by Ministries before being transferred. The prolonged treatment will affect the efficiency of projects, production and business of the enterprises. Therefore, the Committee supposes that it is necessary to assign Ministries to continuously handle incomplete projects they are completed, accepted, and finalized.

Regarding the assignment of public investment capital plan

- The Committee was established in the mid-term of socio-economic development plan period 2016-2020, therefore, it was not listed as central agencies assigned the medium-term public investment plan in the mentioned period, leading to some obstacles in implementing the public investment projects of economic groups and corporations after they are transferred to the Committee. For example, VEC has approved to adjust the charter capital to 2019 of VND 72,602 billion, including VEC's current charter capital and additional capital from the state budget, ODA capital, preferential loans under the form of re-lending, which are converted into the form of direct investment by the State. However, because the 05 projects of VEC have not completed the financial restructuring procedure, therefore it has not had the basis to consider assets of VEC's projects ("national infrastructure" under the Law on management and utilization of public assets) as the State capital at VEC. This obstacle leads to difficulties in assigning the medium-term reciprocal capital plan in period of 2016 - 2020 and in 2019.

- It has been unclear on the authority to decide investment direction for investment projects in enterprises of the Committee. According to Article 17.4 of the Law on Public Investment, heads of Ministries and central agencies (including Chairman of the Committee) decide the investment direction for Class B and Class C projects using the state budget, national bond, government bond, investment from development credit of the State, investment from revenues retained but not yet included in state budget balance under their management and projects using ODA and foreign preferential loans (except for projects under the approval of Prime Minister on investment direction).
- It has also been unclear that whether the Committee or line minitries have the authority to decide investment policy for public investment projects of group B and group C, which was assigned to investors for preparing under the plan of line ministries or approved by authorized competency prior to transferring to the Committee. Some experts argue that line ministries are those decide investment orientation. Main reason may be attributed to the projects are under the authorization of line ministies, thus they can have the right to decide so as to have unified procedures during the project cycle. Other opinions show that the Committee is authorized the decision of investment orientation as regulated under Article 3.5 of Decree 131/2018/ND-CP.

Reasons for difficulties and shortcomings

First, the awareness on the Committee's role, functions and duties has not been unified

- The Committee is established to achieve the following objectives: (i) separating the function of state representative capital and state management, promoting the reforms of business environment and finalizing the market-economic institution; (ii) specializing the function of state representative of capital to improving the efficiency and responsibility of state capital management, improving the quality of SOE governance
- Decree 131/2018/ND-CP dated 29 September 2018 provides principles of assigning management responsibilities, accordingly, the Committee only performs the right of state ownership, and relevant line ministries are responsible for state management of transfered enterprises. However, under current regulatory documents, there still exist cross-cutting issues between ownership

rights and state management rights, leading to the confusion in the implementation of Committee’s rights and responsibilities and other relevant agencies, particularly for investment projects of enterprises.

- Specifically, according to the Law No. 69, the Committee - acting as the ownership representative, does not decide investment project of enterprises, and only “reviews and approves” investment, construction projects exceeding decentralized level. Meanwhile, the Law on Investment, Law on Construction, and Law on Public Investment stipulates the rights and responsibilities of the Committee and state agencies for enterprises’s investment. However, with regards to scope and subjects of legal documents, those rights and responsibilities perform mainly the function of state management on investment, public investment, construction investment, do not perform the functions of representative of state ownership in the enterprise. This inconsistent interpretation has resulted afore-mentioned problems.

Second, some regulations have been unreasonable, incomplete and unclear

- For example, the current regulations have been unclear and inconsistent with regards to competence to decide investment direction for projects not using public capital, including investment projects mobilized commercial loans by enterprises. Specifically
    - Article 24 of Law No. 69/2014/QH13 stipulates the ownership representative approves an investment project exceeding authorized value, but not yet stipulated the procedures for approval as well as capital source of the project.
    - Article 52 of Law on Construction stipulates that approver of investment projects decide to develop feasibility study report of investment projects that are not national key projects and/or Group-A projects (known as Project Approver – the Committee). He/she has the right to review and decide whether to apply investment direction procedure or not. This provision provides great autonomy to poject approver, however, in reality, it creates apprehensive and concern for asigning agencies and organizations, rresulting in slow progress, especially large-scale projects with up to thousands of billion VND (in spite of not under the list of Group A).
    - The Law on Investment only regulates projects with investment direction applroved by National Assembly, Prime Minister and provincial People’s Committees; and has not regulated authorization of investment direction of other agencies and organizations. Therefore, it has been said that under the Law on Investment, the Committee (as well as other ministries, ministerial-level agencies and government agencies) has no authority to decide investment direction for all projects not using public capital. On the other hand, for projects not being approved by National Assembly, the Prime

Minister and Provincial People's Committees, investors can decide to whether apply procedure on investment direction or not.

Third, difficulties and obstacles from the apparatus, resources and human resources of the Committee in the early stage of establishment and operation.

- To prepare the proposal of investment direction for programs and projects under the approval competence of National Assembly, Government, Prime Minister and public investment projects of groups B and groups C, the Committee assigns its affiliated divisions develop report proposing investment direction, feasibility study; assigns functional divisions to appraise or to establish appraisal council for having preliminary appraisal prior to officially submitting for evaluation by related stakehoders. Similarly, in the period of project investment decision according to the regulation of the Law on Public Investment and the Law on Construction, the Committee must have specialized agencies to appraise or participate in the evaluation of relevant contents of the Feasibility Study Report.
- Previously, when enterprises had not yet been transferred to the Committee, relevant ministries assigned agencies and specialized departments prepared documents and conducted preliminary appraisal of project, especially in the development and appraisal of technical design for construction projects required high expertise, such as the Ministry of Industry and Trade and the Ministry of Transport, etc.
- However, the current organizational structure of the Committee has not had units or divisions with sufficient resources, capacity and expertise to prepare project dossiers; units or divisions with specialized function for preliminary appraisal or appraisal of decentralized projects; resulting to confusion in enforcement of investment procedures and investment direction. In addition, it has been said that some officials transferred to the Committee from ministries and agencies have been inappropriate with the typical characteristics and professional requirements of the Committee, while there has not been any mechanism for recruitment professional staffs.

Requirement for policy adjustments

Organization and human resource

- Recent difficulties of the Committee have been warned since the negotiation and development of proposal on the Committee. Regarding human resources, it would be difficult and confused with specialized activities if only transferred officials from the state administrative agencies, not yet inappropriate.
- Therefore, it is necessary to study and report to competent authorities for consideration and permission to apply the mechanism of mobilizing leading experts and human resources in finance, capital and investment management

from the labor market in order to operate effectively, in accordance with the requirements and nature of both ownership representative and investor.

Competence and procedures to decide on policy and approval of projects with non-public investment capital and “self-borrowing and self-paying” projects of enterprises

- Acting as agency of ownership representative at the enterprises, the Committee is responsible for approving the project in accordance with authority, conditions and procedures specified in Law No. 69, Decree 91/2015/ND-CP, Decree 32/2018/ND-CP, Decree 131/2018/ND-CP and Decree 10/2019/ND-CP. If the project has a construction component, the feasibility study of the project is prepared in accordance with the Law on Construction.
- After being approved by the Committee, economic group and corporations (as investors) submit investment dossiers to registration agency in accordance with the current Law on Investment for appraisal and submit to competent agency for project direction of projects.
- For projects required investment direction approval of Provincial People’s Committee and implemented in some provinces, the investment registration agency of province where head office or executive office is located or expected to locate will lead the appraisal and submit to Provincial People’s Committee for deciding investment direction. During the appraisal process, investment registration agency consults with the local People’s Committee where land is used for construction.
- In order to comprehensively handle obtacles related to the approval of investment projects of state-owned groups and corporations, Ministry of Finance, Ministry of Construction and Ministry of Planning and Investment have developed regulations and specific giudances on some of the followings:
    - Promoting the amendment of Law on Investment to simplify procedures and clearly define the nature of "investment direction" from state management agency, which is only a form of approving enterprise’s investment proposal; narrowing the list of investment projects using non-state budget subjected to getting approval of investment direction.
    - Identifying procedures for approval of projects with and without construction components in compliance with funding sources; and clarifying the procedures of approving projects with construction components in each period of investment direction and investment decision.
    - Regulating guidances on contents and procedures for approving investment projects of ownership representative agency toward ensuring synchronization

and consistency with procedures of developing, approving feasibility study construction projects in accordance with reglations on construction

Responsibility for handling incomplete projects

- According to principles prescribed in Law 69, Decree 131/2018/ND-CP, Decree 10/2019/ND-CP, the Committee only performs the function of representing state capital ownership, and ministries continue performing state management of line sectors and industries, including management of investment projects not yet accounted as enterprise's assets. Therefore, in principle, ministries must continue performing state management of projects that have not yet been completed, settled, operated or accounted as enterprise's assets.
- Ministries should continue to handle public investment projects, ODA-funded projects under the process of preparation and decision, etc. or nearly completed projects in the process of payment, settlement and audit. For such projects, line ministries are responsible of management until the completion of evaluation and settlement. For other projects, the Committee performs the prescribed functions and tasks of ownership representative.
- To comprehensively handle afore-mentioned shortcomings, and to create a legal basis for management and exploitation of public assets (for example, highways under the authority of Ministry of Transport), Ministry of Finance should provide clear guidance on defining assets as national infrastructure under Item 1, Article 3 of Law on management and use of public property.

Regarding to assignment of public investment plan

- In the long term, it is necessary to emphasize the principle of relevant ministries decide investment direction for projects under their management or submit for approval of Prime Minister for projects under the authority of Prime Minister, Government and National Assembly. For projects under public investment programs and plans transferred to Committees from line minsistries, the approval authority is under the Committees for above-mentioned projects.
- Short-term solutions for a number of specific projects include: assigning the central budget investment plan in 2019 to transferred projects from economic groups and corporations to the Committee should comply with Resolution 50/NQ-CP dated July 15, 2019 of the Government. Accordingly, the assignment of central budget for investment plan in 2019 must comply with Law on Public Investment, Law on State Budget, Law on Railways, and regulations on the management and use of public property under following principles:
    - For projects using public capital invested by economic groups and corporations, if state invesment serves the purpose of establishing public assets and assigned to enterprises for management without forming state

capital in enterprises, the public investment plan for 2016-2020 and in 2019 will continuously be assigned to line ministries.

- For projects using public capital invested by economic groups and corporations, if state investment is to form state capital, those projects are directly assigned to corporations under the provisions of Law on State Budget. The mentioned economic groups and corporations have to report to the Committee and related agencies during the implementation.
- For Vietnam Railways Corporation (VRC), if projects employ public investment of VRC to form national railway infrastructure assets, the Ministry of Transport is assigned for the management of medium-term and 2019 public investment plan.
- For Airports Corporation of Vietnam (ACV), if projects use public investment assingned to ACV to form national aviation infrastructure assets, the Ministry of Transport is assigned for the management of medium-term and 2019 public investment plan.
- Not yet assigned foreign investment plan for projects by VEC in accordance with Resolution 71/2018/QH14 of National Assembly.

- ***Evaluation on growth targets, measures and quality***

Context and requirements for adjusting policy framework for socio-economic development and economic restructuring, transforming growth model.

- Since 2009, the world economy has been complicated; the global economic crisis had entirely negative impact on the world economy. World economic and trade growth plummeted; inflation increased, crude oil prices, raw material prices for manufacturing, food prices have also been on the rise in the global market.
- The adverse effects of global economic crisis and other external uncertainties and inherent prolonged limitations and weaknesses of the economy, of economic structure and growth model, of socio-economice management and administration, etc. have posed significant challenges to Vietnam’s economy than expected. Economic growth went down sharply, macroeconomic instability increased; prices, inflation, interest rates were higher than price index and enterprises’ rate of return; dollarization and use of gold for trading and payment were commonly increasing and more serious; exchange rate fluctuated considerably, gold price rocketed; foreign exchange reserves decreased; production and business operations faced more difficulties; the number of enterpises experienced loss, dissolution and bankrupt grew sharply compared to the past; the risk of instability in the system of credit institutions has become visible; quality of people’s lives, especially of laborers’, were degraded

- Therefore, some adjustments related to targets, policy direction and measures were implemented, including:
  - From initial implementation of Resolution of the 11th National Assembly Congress on 24 February 2011, the Government issued Resolution 11/NQ-CP on key solutions for controlling inflation, macroeconomic stability and ensuring social protection. Accordingly, the first priority was to curb inflation and stabilize macroeconomic; rapid and sustainable growth was no longer prioritized at the afore-mentioned period. Therefore, policy measures for socio-economic management and administration had some corresponding adjustment.
  - Subsequently, on 16 March 2011, the Politburo issued Conclusion 02-KL/TW on the socio-economic situation in 2011, which further reaffirmed the direction of inflation control and macroeconomic stability; transforming growth model and restructuring the economy; ensuring social protection. In particular, the top priority was to curb inflation; stabilize macroeconomic and ensure social protection; considering those as a short-term urgent tasks in 2011 and as important tasks over the next few years. In 2011 and the first few years of the 2011 - 2015 plan, it was not pressured to achieve higher GDP growth in 2011 than in 2010 to avoid high inflation, but instead creating a solid foundation for higher growth in the last years of 5-year plan.
  - Conclusion 10-KL/TW dated 18 October 2011 of the 3rd Congress of Central Party Committee (Session XI) on socio-economy, finance and state budget in 2006 - 2010 and 2011; socio-economic, financial and state budget development plans in 2011 - 2015 and 2012 continued to affirm that "in 2012 and the subsequent years,.. the top priority is curbing inflation, stabilizing macro-economy and ensuring social protection in associated with transforming growth model, restructuring the economy, creating a solid foundation for higher growth in the last years of 5-year plan". One of key policy measures identified in the Conclusion was to restructure the economy in association with transforming growth model towards improving quality, efficiency and competitiveness; it must be implemented synchronously in all sectors and industries, on a national scale and at grassroots level for years. By 2015, attention would be on the three most important areas of restructuring investment with focus on public investment, restructuring financial market with focus on restructuring th commercial banks and financial institutions, and restructuring of state-owned enterprises with focus on economic groups and corporations.
  - On 19 February 2013, the Prime Minister issued Decision 339/QD-TTg approving the master plan on economic restructuring in linkage with

transforming growth model towards improving quality, efficiency and competitiveness in the period of 2013-2020. The overall target was to basically form intensive economic growth model, ensure growth quality, improve efficiency and competitiveness of the economy by 2020. In addition to concentrating on macroeconomic stability and social protection, the Decision had identified specific objectives and solutions to implement the three targets of restructuring; and also the orientation for restructuring economic sectors, industries and regions.

- Along with comprehensive restructuring of the economy, the Prime Minister also issued a number of specialized restructuring decisions such as: Decision 929/QD-TTg dated July 17, 2012 approving the proposal on "Restructuring of state-owned enterprises, with focus on economic groups and corporations during 2011-2015", Decision 254/QD-TTg dated March 1, 2012, approving the proposal on "Restructuring the credit institutions during 2011-2015 "; Decision 899/QD-TTg dated June 10, 2013 approving the proposal on "Restructuring agricultural sector towards increasing added value and sustainable development", etc

- In summary, in response to the complexity of global and domestic economy, since the beginning of 2011, the Party, National Assembly and the Government promptly adjusted socio-economic development targets, especially growth targets, amended the focus of specific policies, orientations and policy measures. Macro policies were changed from easing to stimulate and promote growth into tightening with flexible adjustments to stabilize macro economy. Simultaneously, a series of programs and schemes were implemented to restructure the economy, associated with transforming growth model towards improving quality, efficiency and competitiveness. Naturally, these are reforms and micro adjustments of the economy in order to expand and improve the quality of supply side, thereby transforming the growth method, improving the quality of growth towards high, sustainable and balanced economic growth. The policy direction and amendment are appropriate, creating fundamental background for high and sustainable growth for subsequent years.

- However, the biggest and most remarkable achievement of 2011-2015 was to basically overcome macroeconomic instability; and to sustain macroeconomic stability firrmly. Economic growth recovered slowly and did not reach the target; restructuring the economy associated with chatransforming growth model had only achieved initial positive results; productivity, quality, efficiency and competitiveness were still low. The growth model was basically the same with slow development. Growth had still been largely relied on increasing invested capital and labors, not yet relying on increasing labor productivity, applying science and technology, renovating organization of production and business, shifting and reallocation of resources, etc.

Targets and schemes for restructuring economy, transforming growth model in 2016-2020

- The 12th National Party Congress continued to affirm the direction of sustaining macroeconomic stability, strengthening the economy's resilience, enhancing economic restructuring associated with transforming growth model, improving productivity, efficiency and competitiveness.
- Concretizing the afore-mentioned direction, (i) The Fourth Congress of Central Party Committee (Session XII) issued Resolution 05-NQ/TW dated 1 November 2016 on major direction and policies for continuing transform of growth model, improving growth quality, labor productivity and competitiveness of the economy; (ii) the Politburo issued Resolution 07-NQ/TW dated 18 November 2016 on direction and solutions to restructure state budget and public debt management for ensuring safe and sustainable national finance; (iii) the 14th National Assembly issued Resolution 24/2016/QH14 dated 8 November 2016 on economic restructuring plan in 2016-2020. Implementing the above resolutions of the Party and National Assembly, the Government promulgated Resolution 27/NQ-CP dated 21 February 2017 issuing Action Plan of the Government for implementing Resolution 05-NQ/TW dated 1 November 2016 of the Fourth Congress of Central Party Committee (Session XII) which focus on a number of major direction and policies for transforming growth model, improving quality of growth, labor productivity, competitiveness of the economy, and also Resolution 24/2016/QH14 dated 8 November 2016 of the National Assembly on the plan for restructuring economy in the 2016-2020 period (hereinafter referred to as Resolution 27).
- Resolution 27 had identified and concretized a series of targets for economic restructuring, transforming growth model, improving growth quality, labor productivity, and competitiveness of the economy in the period of 2016 - 2020. Specifically:
    - Continuing to enhance macroeconomic fundamentals; controlling inflation under 5% per annum; gradually reducing state budget deficit to below 3.5% of GDP by 2020
    - The ratio of public debt in 2016-2020 shall not exceed 65% of GDP, the government debt shall not exceed 54% of the GDP and the country's foreign debt shall not exceed 50% of GDP. By 2030, public debt will not exceed 60% of GDP, government debt will not exceed 50% of GDP, and the country's foreign debt will not exceed 45% of GDP

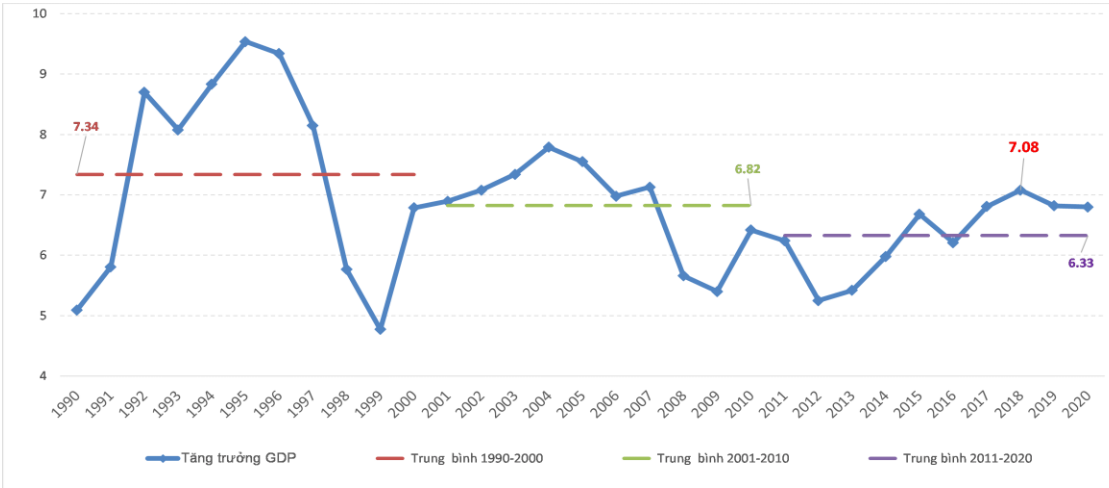
- Reducing non-performing loan ratio of the credit institutions system, bad debt sold to Vietnam Asset Management Company (VAMC) and classified bad debts to below 3% (excluding bad debts of weak commercial banks approved by the Government to handle separately). Reducing average domestic lending rate to be competitive with average lending rate of the most four developed ASEAN (ASEAN-4). Enhancing size and efficiency of stock market, government bond market, corporate bond market and insurance market. By 2020, the capitalization of stock market will reach 70% of GDP, the outstanding of bond market will reach 30% of GDP, and the insurance's revenue will reach at least 4% of GDP
- Divesting all state capital in enterprises not requiring more than 50% state owned, divesting state capital to the required level for industries restructured by the State. By 2020, there will be at least 1 million enterprises in operation, 15,000 effective agricultural cooperatives and unions in operation
- Improving quality institutional management of public investment to reach ASEAN-4 level. The proportion of state investment is about 31-34% of gross social investment
- In 2016-2020, about 30-35% of enterprises shall have innovative activities every year. Average labor productivity growth rate is higher than 5.5%; internal productivity growth rate will contribute over 60% to labor productivity increase by 2020.
- By 2020, the share of workers certified with 3-month-or-above training will reach 25%; the share of agricultural labour will fall below 40%.
- Contribution of total factor productivity (TFP) to average growth in the period 2016-2020 will be about 30-35%, narrowing the gap of national competitiveness with ASEAN-4

Evaluation of targets on growth, measures and quality

Regarding growth and growth structure

- Economic growth has gradually improved during 2011-2020, reaching relatively high rates in recent years. The average economic growth in 2011 - 2015 was only about 5.94% per annum; estimated that in the 2016-2020 period is estimated to reach approximately 6.74%, and 6.33 - 6.35% / year in the whold period of 2011-2020. Growth in 5 years of 2016-2020 has met the targets under economic restructuring proposal launched recently (from 6.5 to 7%), but not yet met targeted figures.

Figure 41: Average GDP growth, 1990-2018



Source: Authors' calculation.

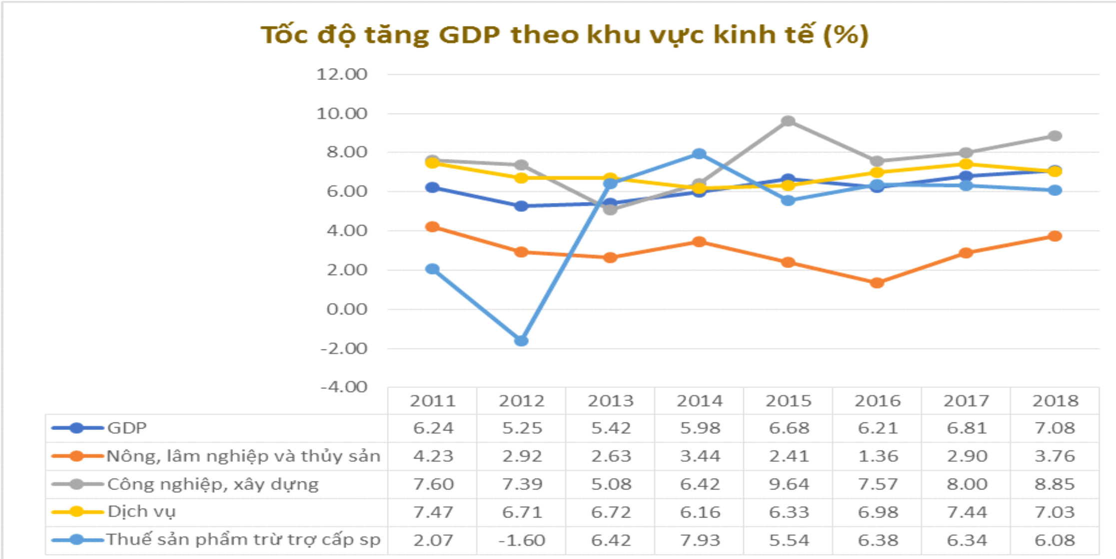
- However, GDP per capita in 2018 was 1.85 times higher than in 2011. Average GDP growth of 2016-2018 increased by nearly 0.8 percentage points compared to average of 2011-2015; of which, growth of service sector was 0.47 percentage points higher and that of industry was 0.92 percentage points higher; and that of AFF was 0.45 percentage point lower compared to that of 5 years ago.

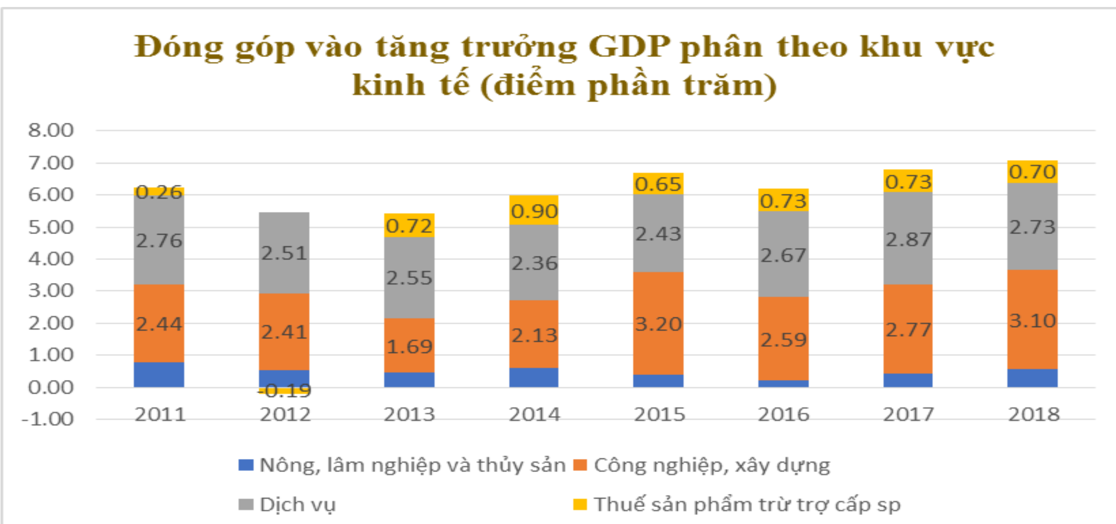
Figure 42: GDP per capita and periodical GDP growth, 2011 – 2018

Source: Authors' calculation.

- Industry-construction contributed an average of 2.37 percentage points and services contributed 2.52 percentage points to overall growth in 2011-2015. In 2016-2018, industry-construction contributed 2.82 percentage points and services contributed 2.76 percentage points. Thus, industry-construction has been the main driving force for GDP growth in three years of 2016-2018

Figure 43: Growth and contribution to GDP by economic sector, 2011 - 2018





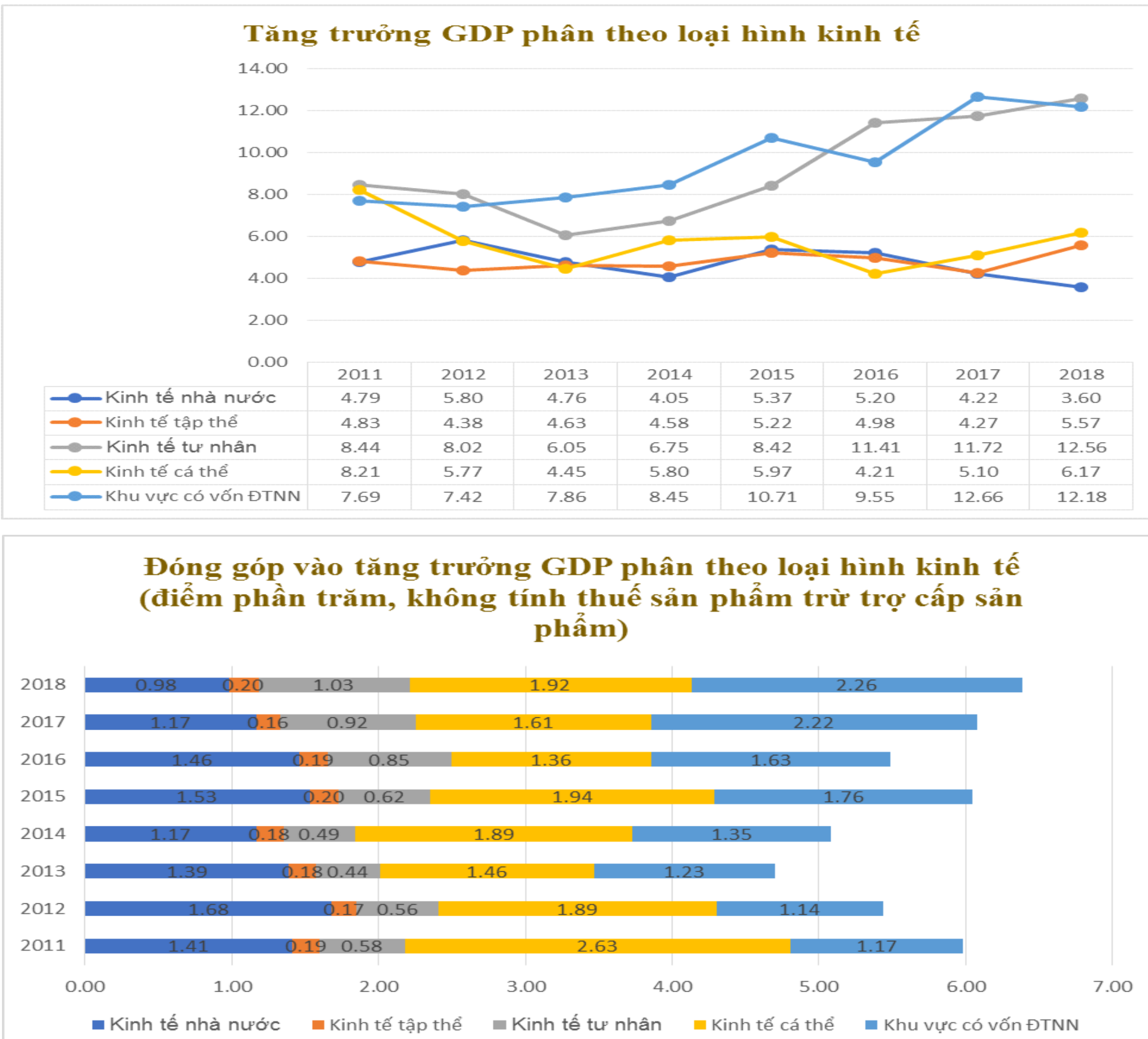
Source: Authors' calculation.

- With regards to structure of sector, 9 out of 23 sub-sectors have increased their contribution to overall economic growth from 2011 to 2018; of which, notably, manufacturing sub-sector has contributed 2.26 percentage points to economic growth (higher the figure of 1.86 percentage points in 2011). The increase in contribution of 8 remaining sub-sectors is negligible.

- By economic ownerships, the growth of state sector showed downward trend, from 4.79% in 2011 to 3.6% in 2018; with average of about 4.7% per annum. Meanwhile, private and foreign invested sector increased sharply, which have been the major driving forces of the economy. Private sector experienced average growth of over 9.1% per annum and about 12% per annum since 2016. Foreign invested sector increased by an average of 9.57% per annum, attaining over 11%

since 2015. In addition, growth of household sector decreased slightly from 8.21% in 2011 to 6.17% in 2018; with average of 5.7% per annum. The collective economy witnessed stable increase, with average of about 5% per annum. Thus, the domestic private and foreign-invested sector attained higher growth rates, which was much higher than overall rate of the economy; and these are driving forces of the strategic period.

Figure 44: Growth and contribution to GDP by economic ownership, 2011 – 2018



	2011	2012	2013	2014	2015	2016	2017	2018
Kinh tế nhà nước	4.79	5.80	4.76	4.05	5.37	5.20	4.22	3.60
Kinh tế tập thể	4.83	4.38	4.63	4.58	5.22	4.98	4.27	5.57
Kinh tế tư nhân	8.44	8.02	6.05	6.75	8.42	11.41	11.72	12.56
Kinh tế cá thể	8.21	5.77	4.45	5.80	5.97	4.21	5.10	6.17
Khu vực có vốn ĐTNN	7.69	7.42	7.86	8.45	10.71	9.55	12.66	12.18

Source: Authors' calculation.

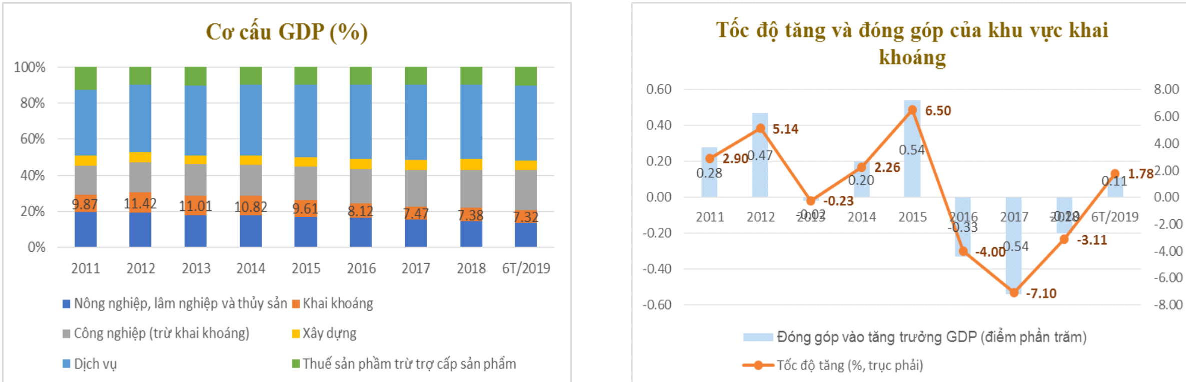
- However, in the long term, economic growth has gradually decreased. The average growth of 1991-2000 was 7.34%, 6.82% in 2001-2010 and around 6.35% in 2011-2020 period. Even when average growth in 2016 - 2020 has been at high (6.74%), it is still lower than average growth of 2001-2010. In summary, economic growth in 2011-2020 does not meet the planned figures and is gradually decreasing compared to previous periods. This is particularly concerning in the context of international competition and requirements to narrow the gap and catch up with development of regional and global advanced economies, and to become a high-income country in the next few decades

- The challenges for economic growth are clearly seen when put in international comparison. For example, Korea achieved an average annual GDP growth rate of 9.58% in 30 years (1960 - 1990) with growth rate of over 10% in 14 years and the highest growth rate reached 14.8% (in 1973); the economic size increased by 15.4 times at constant USD prices in 2010, by over 70 times at current prices. China in 30 years of reform and development (1977 - 2007) had the average annual GDP growth of 10.02%; the highest growth rate (in 1984) was 15.14%; another 15 years exeperienced GDP growth rate more than 10%. Economic size at constant USD prices increased by 17.13 times, by 30.75 times at current prices; GDP per capita in 2017 was at USD 8,117, which was 3.73 times higher than Vietnam, and USD 1,5531 on the purchasing power parity (PPP) level, which was 2.5 times higher than our country's average income. Japan and Taiwan (China) show the same development.

Regarding the transformation of growth

- One of the clear manifestations of transformation of growth could be seen in achieving the growth target without further exploitation of oil, coal and other minerals. Indeed, the growth of mining has decline continuosly from 2015 to 2017, after that, it bounced back but remained at -3.11% compared to -7.1% in 2017, and increased again by 1.7% in the first 6 months of 2019. As a result, the mining contributed negatively to GDP growth, from 0.54 percentage points in 2015 to -0.33 percentage points in 2016 and -0.54 percentage points in 2017, -3.11 percentage points in 2018 and recovered with 0.11 percentage points in the first 6 months of 2019. Thus, the decline of mining industry has not contributed to GDP growth and even slowed down GDP growth in 2016-2020. In other words, if mining maintained average growth rate of 2016-2020 at 3% as the last 5 years, which contributed 0.294 percentage points to growth, economic growth in 2016-2020 would definitely be higher than 7%.

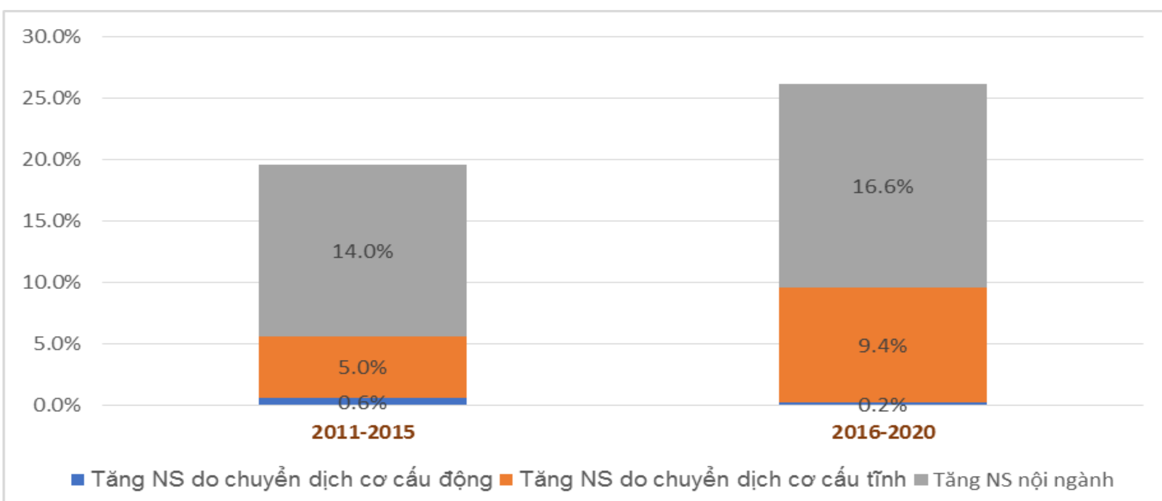
Figure 45: Contribution of mining to GDP, 2011 – 6 months/2019



Source: Authors' calculation.

- The next remarkable achievement of quality of growth in 2016-2020 is that growth has been relied more on increasing labor productivity, which is probably the most striking feature of transforming growth or growth quality in 2016-2020. Labor productivity in 2011-2015 increased by 19.6%, of which intra-industry increased by 14%, productivity of static structural shift increased by 5% and productivity of labor mobility increased by 0.6%. Labor productivity is estimated to increase by 26.2% in 2016- 2020; of which intra-industry labor productivity increased by 16.6%; productivity of industrial shift increased by 9.4%; productivity of labor mobility increased by 0.2%.

Figure 46: Movement of labor productivity in 2011 – 2020

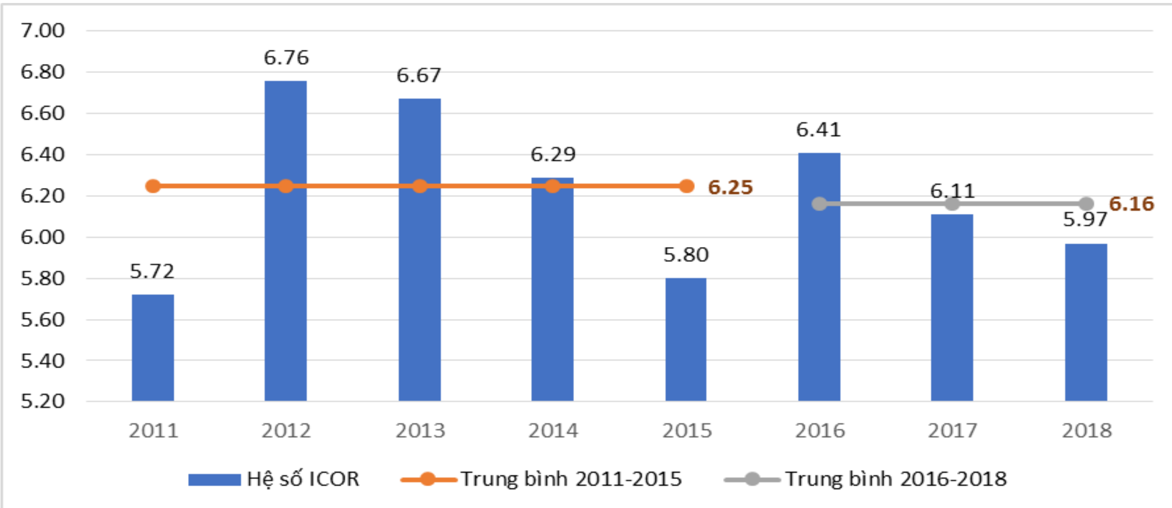


Source: Authors' calculation.

- Annual productivity growth rate has been much higher since 2015 than the previous years, and the contribution of static structural shift to productivity has also been much higher. This reality proves that there has been an allocation of resources from low-efficiency sectors to higher-efficiency ones. However, labor mobility has not much contributed and/or significant impact on productivity growth of the economy.

- Investment efficiency has improved, but not significantly. The Incremental Capital Output Ratio (ICOR) in 2011-2015, which was 6.25, decreased to 6.16 in 2016-2018 with the difference of only 0.19. Thus, the increase of capital investment is still a key determinant of economic growth.

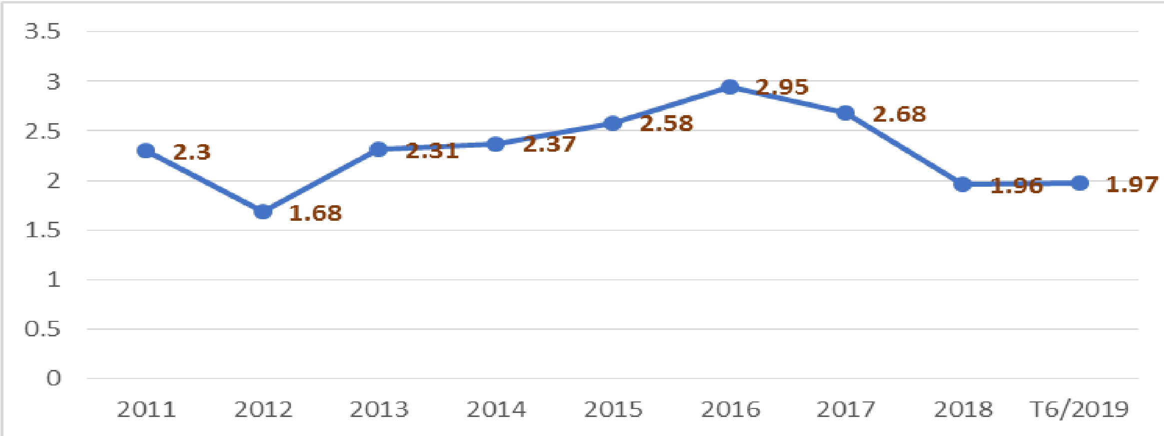
Figure 47: ICOR in 2011 – 2020



Source: Authors' calculation.

- Economic growth in 2011 - 2020 has significantly reduced the dependence on credit growth compared to 2006-2010. In the first 5 years (2011 - 2015), on average, an increase of 2,25 credit created an additional growth unit; the figure was 2.39 in the period from 2016 to June 2019. It can be said that the credit efficiency in the period 2016 - 2019 has been slightly lower than that of 2011-2015; therefore, economic growth has been relied more on credit growth rather than declining as usually reported in recent years.

Figure 48: Relation between credit growth and GDP in 2011 – 6 months/2019



Source: Authors' calculation.

Some recommendations for further restructuring the economy and transforming of growth model

- As afore mentioned, economic structure has been less dynamic and less balanced; and direction of restructuring should overcome these weaknesses. The recommendations or policy orientations innitiated from Resolution 11/NQ-CP of the Government in early 2011 remain valid and need to be maintained and implemented more energetically, more quickly and more comprehensively. Therefore, continuing to enhance and maintain macroeconomic stability, increasing resilience and reducing vulnerability of the economy are still indispensable requirements. On that basis, requirements include accelerating reforms, strongly restructuring the economy and gradually changing the growth model.
- The first imbalance that needs to overcome is that the economy is increasingly dependent, even significantly dependent on foreign-invested sectors, at all level from provinces, sectors to entire economy. Overcoming this imbalance does not mean limiting or constraining foreign investment, but it is to allow domestic private sector to develop at a much faster and more uniform pace; simultaneously, it is necessary to make SOEs become more autonomous, dynamic in accordance with market rules and continue to invest more for development, use resources more efficiently, be able to compete in the international market and make commensurate contributions from the use of resources for national economic development.
- The second weakness that needs to overcome is the fragmentation, lack of integrity, lack of appropriate complements among economic sectors, and at the same time, making the domestic economic sector more internationally focused

and expanding global business, etc. Apparently, this weakness must be overcome together with the process of addressing the above-mentioned imbalance.

- The next orientation in restructuring and transforming growth model is to make economic structure in particular and whole dynamic economy (towards both static and dynamic dynamics). The focus is on ensuring and realizing the basic rights of business investors. They have full rights to decide what to produce, where to produce, how much to produce and how to produce, and realize those rights given that market demand and supply are not distorted and inaccurate. However, in order to have a dynamic economy, the government's role is vital, which is to create opportunities and conditions for new industries, new products, new technologies, new processes, new methods, new business models, etc. to emerge and develop.

- **RECOMMENDATIONS**
  - ***Recommendations on further reforms of microeconomic foundation***
  - Further concretize and implement resolutions of Party Central Committee on shifting economic growth paradigm and effective implementation of international economic integration and private sector development; Industrial Revolution 4.0
  - 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 enforcement situation to propose necessary adjustments, if any
  - Timely adjust the Enterprise Law and Investment Law to overcome practical shortcomings and limitations.
  - Continue assigning priority to business environment reforms toward facilitating production and business activities in line with Resolutions 02/NQ-CP in 2019 (which can be updated for 2020).
  - Finalized, promulgate and detailize the National Strategy on the Fourth Industrial Revolution. Identify, issue policy framework and prepare necessary conditions to promote digital transformation in Vietnam.
  - Research, identify and consult on strategic economic orientations for 2021-2030
  - Proactively engage in exchanging and cooperating with partners to effectively implement CPTPP and seek supports in ratifying EVFTA and promptly finalize RCEP's negotiation. Continue to seek support on recognizing 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.
  - Finalize regulatory documents for implementing CPTPP and preparation for implementing EVFTA and EVIPA. Issue the amendment of selected laws for implementing CPTPP. Continue reviewing commitments under concluded, signed or pending FTAs and international treaties of Vietnam in order to make relevant attempts on regulatory improvements
  - 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

- ***Recommendations on macroeconomic policies***
- Reaffirm the priority of macroeconomic stability, create more space for macroeconomic execution, apply flexible macroeconomic policies to cope with adverse movements of global and regional economies (especially US-China trade-technology war).
- Accelerate economic and sectoral restructuring, strengthen economic resilience of the economy in response to unpredictable developments of the international trade and the global economy.
- Accelerate the process of restructuring, equitization and divestment of SOEs; formulate and issue specific plans on the use of capital from divestment of SOEs publicly and transparently, associated with personal responsibility to have serious and effective solutions.

** Monetary policy:*

- Continue to execute proactive, flexibly, prudent and synchronous monetary policies in order to stabilize the market, contributing to macroeconomic stability and inflation control.
- Mange exchange rates in accordance with market movements, macroeconomic balance and objectives of monetary policy. Communicate on not devaluating the VND to support exports. Closely monitor the exchange rate of USD, NDT, Euro as well as prices of some essential commodities in international market to flexibly and cautiously manage exchange rate, aiming at mitigating impacts on inflation and macroeconomic environment of Vietnam.
- Prudently manage interest rate in accordance with market signal and priority of monetary policy. Study the possibility of further reducing lending rates for priority areas
- 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.
- Control credit scale in accordance with the orientation of improving credit quality, facilitating access to credit.

** Fiscal policy:*

- Ensure strict discipline of state budget expenditures to fulfil state budget deficit target for 2019-2020 and reduce pressure for budget revenues.
- Consider refraining from expanding more or increasing taxes and fees 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.

- 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*

- Foreign affairs and trade representatives abroad (particularly in key trading markets) are given a mechanism and/or more proactive in promotion and capturing situation/actions of partners and some other necessary activities (instead of waiting for domestic comments).
- Study solutions for diversifying exports to the US market, to ensure sustainable export growth. Review regularly and seriously the origin of Vietnamese goods exported to the US, avoiding origin fraud. Consider the scenario of trading with the US.
- Continue the enhancement of solutions for removing difficulties for Vietnam exports to China. Closely monitoring the import from China to have prompt responses with the possibility of China's shifting to US or taking advantage of Vietnam origin in its trade war with the US.
- Improve management capacity of competition, anti-subsidy, anti-dumping, trade dispute settlement and market control, together with providing legal support for enterprises.
- 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.

* *Price and wage policy*

- Seriously re-assess the impacts of electricity fare adjustment on production, business and living of the people, inform actively, timely and transparently for enterprise and people to stabilize their mentality.
- Study, consider the time and degree of adjusting prices of some state-managed commodities to avoid pressure on inflation.

* *Investment policy*

- Enhance monitoring and evaluating of investment flows (in particular indirect investment via the stock exchange) to control the risk of "hot money", high-leverage business and the contagion effects.
- Concretize direction on FDI attraction in the new context. Encourage foreign investors with established presence in Vietnam
- Examine, promulagte strategies and measures to promote technological transfer from foreign firms that comply with international practices and commitments and be associated with concesus of foreign investors.
- ***Other related recommendations***
- Finalize the system of statistic indicators related to informal sector, gender development, digital economy and trade and services./.

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APPENDIX

Appendix 1: Some policy changes

No.	Content	Until the end of September 2019
1	Policies on trade and integration	• Decision 824 / QD-TTg of July 4, 2019, approving the Project "Strengthening state management of the evasion of trade remedies and origin fraud". Specific solutions: • Strengthening the state management of export, import and foreign

	Focus: Strengthening state management of evading trade remedies and origin fraud.	investment activities • Raising awareness and efficiency of implementation of the provisions of the law on trade remedies, origin and customs, combating evasion of trade remedies • Reviewing, developing, amending and supplementing legal documents on evading trade remedies and origin frauds. • Strictly preventing and handling acts of evading trade remedies and goods origin frauds • Decision 2024 / QD-BCT dated July 5, 2019 amending Decision 686 / QD-BCT on the application of official safeguard measures to DAP and MAP fertilizers • Removing the Armenian Kingdom (English name: Jordan) and the Kingdom of Morocco (English name: Morocco) from the list of developing countries / territories excluded Safeguard measures. • Circular 10/2019 / TT-BCT dated July 22, 2019, amending Circular 22/2016 / TT-BCT implementing the Rules of Origin of Goods in the ASEAN Trade in Goods Agreement • Amending some content on Specific Product Rules and Basic Conversion Criteria for textile products • Circular 12/2019 / TT-BCT dated 30 July 2019 providing for the rules of origin of goods in the Framework Agreement on comprehensive economic cooperation between the Association of Southeast Asian Nations and China. The main contents: • General provisions: Scope of regulation, subjects of application, and explanation of terms • Rules of origin: Goods of origin, goods of pure origin, goods of non-pure origin, formula for calculating RCV ... • Regulations on certification and inspection of goods origin: Process and procedures. • Circular 13/2019 / TT-BCT dated July 31, 2019 amending Circular 20/2014 / TT-BCT regulating the implementation of the Rules of Origin in the ASEAN-Korea Free Trade Agreement • Amending regulations on procedures for granting and checking C/O form AK of Vietnam • Decision 2700 / QD-BCT dated September 3, 2019 on the final review of safeguard measures for imported DAP and MAP fertilizers • Conducting a final review of the application of safeguard measures to DAP and MAP fertilizers under HS codes: 3105.10.20; 3105.10.90; 3105.20.00; 3105.30.00; 3105.40.00; 3105.

		51.00; 3105.59.00; 3105.90.00 imported to Vietnam • Decision 2703 / QD-BCT dated September 3, 2019 on the investigation into the application of anti-dumping measures on cold rolled steel products (cold pressed) in rolls or sheets originating from China. • Circular 62/2019 / TT-BTC dated 5 September 2019 amending Circular 38/2018 / TT-BTC regulating the determination of the origin of export and import goods
2	Policies on investment and business environment improvement *Focus: Contin uingly reducing administrative procedures and business conditions, creating favorable conditions for the development of industries, and taking advantage of opportunities from Industry 4.0*	• Resolution No. 53 / NQ-CP of July 17, 2019 on solutions to encourage and promote businesses to invest in agriculture effectively, safely and sustainably, in which the main tasks and solutions include: • Continuing to improve institutions and reform administrative procedures; drastically reducing barriers on business conditions in agriculture, creating an attraction for enterprises to invest in agriculture • Developing production, processing and consumption of agricultural products to meet market demands, development plans and strategies for agriculture • Innovating business support mechanism to promote market expansion, gradually take initiative in the market. • Completing credit policies for agricultural projects in the direction of supporting and encouraging investment in this sector. • Researching and appropriately adjusting tax policies to encourage businesses to invest in agriculture and ensure macroeconomic stability. • Completely developing policies to create favorable conditions for enterprises to access and apply modern and advanced scientific and technological research results in service of agricultural production and business; Maximizing the opportunities of industrial revolution 4.0 to develop agriculture effectively and sustainably • Perfecting the operation mechanism for the land use right market, creating a synchronous mechanism for the development of the agricultural land use rights market; urgently studying the pilot mechanism on land accumulation and concentration, ensuring the harmony of interests of the State, farmers and enterprises. • Developing and improving the quality of human resources for agricultural production and business activities. • Continuingly improving the effectiveness of state management in the spirit of "assisting government empower the market to

		decide”; improving the quality of agricultural business environment • Decision 2314 / QD-BCT dated July 31, 2019 on the plan to reduce the procedures and the list of items (including HS codes) to conduct specialized inspection under the management responsibility of the Ministry of Industry and Trade in the period of 2019 and orientation to 2021. The reduction criteria include: • Goods being input raw materials or intermediates, imported semi-finished products for food production establishments shall be based on the assessment and analysis of risks to food safety. • Goods are products, equipment and machinery that are under other management measures to ensure the purpose of state management and can replace the performance of specialized inspection in customs clearance. • Goods are products, equipment and machinery without national technical standards and regulations for specialized inspection in customs clearance procedures. • Circular 47/2019 / TT-BTC dated 5 August 2019 providing for rates, collection, remittance, management and use of enterprise information provision charges and enterprise registration fees • Organizations and individuals that register enterprises under Vietnamese law must pay enterprise registration fees; Organizations and individuals that use enterprise information provision services must pay enterprise information supply fee according to the tariff attached to this Circular. • Decision 999 / QD-TTg of August 12, 2019, approving the Scheme to promote the sharing economy model. Specific objectives: • Ensuring equal business environment among enterprises doing business according to the sharing economy model and traditional economy; • Ensuring the rights, responsibilities and legitimate interests of participants in the sharing economic model including service providers, service users and enterprises providing platforms; • Encouraging innovation, digital technology application and digital economy development. • Decision 25/2019 / QD-TTg dated August 13, 2019 amending Decision 35/2015 / QD-TTg amending Decision 02/2012 / QD-TTg on the list of essential goods and services that must be registered according to contract forms and general transaction conditions • Removing "life insurance" from the list of essential goods and services that must be registered according to contract forms and general transaction conditions, issued together with Decision No.

		02/2012 / QD-TTg • Resolution No. 63 / NQ-CP of August 26, 2019 on the expiring list of investment plannings on development of specific goods, services and products, fixing of volume and quantity of goods, services and products as prescribed in Point d, Clause 1, Article 59 of the Planning Law under the approval authority of the Prime Minister. • Promulgating a expiring list of plannings on development of specific goods, services and products, fixing the volume and quantity of goods, services and products to be consumed • Agencies are responsible for urgently reviewing business sectors with conditions to ensure synchronization with the expiring plans to create favorable conditions for enterprises' investment, production and business activities.
3	Monetary policies and governance of credit institutions *Focus: Adjusting the regulations on inspection, supervision and reporting of credit institutions, ensuring system security,*	• Circular 07/2019 / TT-NHNN dated July 3, 2019, providing for prudential limits and ratios in operations of Vietnam Development Bank, including: • Credit limit • Liquidity reserve ratio • The ratio of outstanding loans to the total mobilized capital • Circular 08/2019 / TT-NHNN dated July 4, 2019, amending Circular 03/2015 / TT-NHNN guiding the implementation of Decree 26/2014 / ND-CP on the organization and operation of Inspectors, supervisors in the banking industry. The amended contents include: • Assigning inspection responsibilities to the subjects of banking inspection • Assigning supervision responsibilities to the subjects of banking supervision • Information mode, reports • The relationship between the Banking Inspection and Supervision Agency with the State Bank • Application of other provisions in inspection activities • Decision 1550 / QD-NHNN dated July 19, 2019 announcing the administrative procedures to be abolished in the field of monetary activities carried out at the OSS Section under the management function of the State Bank of Vietnam. • Annuling procedures for requesting refinancing loans under the Prime Minister's Decision No. 540 / QD-TTg of April 16, 2014 on credit policies for shrimp and pangasius fish farmers. • Circular 11/2019 / TT-NHNN dated August 2, 2019, providing for

		special control for credit institutions. The main contents include: • The contents of special control, announcement and disclosure of special control, record of reduction of charter capital • Composition, structure, operational mechanism, tasks and powers of the special control board • Responsibilities of related units • Circular 13/2019 / TT-NHNN August 21, 2019 amending the Circular relating to the licensing, organization and operation of credit institutions and foreign bank branches. • Decision No. 1746 / QD-NHNN dated August 23, 2019 on announcing administrative procedures to be amended, supplemented, replaced in the field of banking establishment and operations carried out in the OSS section within the State Bank of Vietnam's management functions. • Annuling the publication of the administrative procedure code as follows: SBV-285 258, SBV-285 259, SBV-285 260, 285 261 SBV-published in Decision No. 1885 / QD-NHNN dated 01/10/2018 . • Circular 57/2019 / TT-BTC dated 26 August 2019, providing guidance on mechanisms for dealing with risks of credit guarantee funds for small and medium-sized enterprises. • Circular 14/2019 / TT-NHNN dated August 30, 2019, amending the Circular with regulations on the periodic reporting regime of the State Bank • Circular 58/2019 / TT-BTC dated 30 August 2019 providing for the management and use of accounts of the State Treasury opened at the State Bank of Vietnam and commercial banks.
4	Fiscal policies and budget management *Focus: Solving difficulties and speeding up the progress of disbursement of public investment capital. Focusing on the allocation*	• Decision 883 / QD-TTg of July 16, 2019 adjusting and assigning medium-term public investment plans for central budget capital in the 2016-2020 period and in 2019 for the projects in Appendix 1a and 1b attached to the Decree Decision 71/2018 / QH14. Specifically: • Adjustments in medium-term plans for foreign investment in the period 2016-2020 of ministries and sectors are attached in the attached Appendix. • Adjustment to increase medium-term public investment plan for the period 2016-2020 for projects in Annex 1a and 1b attached to the National Assembly's Resolution No. 71/2018 / QH14 for ministries, sectors and localities from internal adjusted source and 10% foreign reserve in ministries, branches and localities

	of capital to key projects. Improving the efficiency of disbursement of public investment.	• Adjustment to increase the medium-term investment plan for reciprocal capital in the 2016-2020 period for projects in Appendix 1a and 1b attached to the National Assembly's Resolution No. 71/2018 / QH14 from the reserve fund of 10% of the state budget national governments at ministries, branches and localities • Assigning medium-term public investment plans for the period 2016-2020 and 2019 for the projects in Annex 1a and 1b attached to the National Assembly's Resolution No. 71/2018 / QH14 to ministries, branches and localities • Directive 20 / CT-TTg of July 29, 2019 on the planning of medium-term public investment period 2021-2025. The main principles: • In order to gain the development objectives and orientations in the Socio-Economic Development Strategy, in the National socio-economic development plan for sectors, domains and localities, that have been approved. • Being consistent with the national 5-year financial plan for the period 2021 - 2025 • The allocation of public investment capital must comply with the principles, criteria and norms for allocation of public investment capital in the 2021 - 2025 period decided by competent authorities. • Identifying key tasks to be implemented in the period of 2021 - 2025 in accordance with the objectives of allocating public investment capital in the period of 2021 - 2025; Sorting the priority spending tasks; Focusing on allocating public investment capital to complete and accelerate the implementation of important programs and projects; Repaying advanced state budget capital and loans borrowed from local budgets as planned. • Not allocating capital for programs and projects that are not under public investments • Allocating capital from public investment plan for the period of 2021 - 2025 to pay off the outstanding debts of capital construction incurred before January 1, 2015. • Ensuring publicity, transparency and fairness in planning medium-term public investment. • Ensuring centralized and unified management on objectives, mechanisms and policies; decentralizing investment management in accordance with the law, creating autonomy for all levels and sectors and improving investment efficiency. • Decision 978 / QD-TTg dated August 5, 2019, adjusting the medium-term public investment plan for the period of 2016-2020 from the reserve of 10% of Government bond capital at the Ministry of Agriculture and Rural Development, according to attached

		appendix. • Decision No. 26/2019 / QD-TTg dated August 15, 2019, approving the List of enterprises to be equitized until the end of 2020, in the attached Appendix. • Decree No. 69/2019 / ND-CP of August 15, 2019, providing for the use of public assets to pay investors when implementing construction investment projects in the form of BT contracts. In particular, the implementation principles include: • Being complied with regulations and laws on management and use of public properties, land, state budget, investment and construction. The selection of investor to implement BT projects must be in the form of open bidding according to the law on bidding • The use of public assets to pay to investors implementing BT projects shall be implemented on the principle of parity, the value of BT projects is equivalent to the value of public assets paid; • The use of public assets paid to investors implementing BT projects must be summarized and reflected into the state budget according to the provisions of the law on state budget. • The delivery of public property to the investor for execution of a BT project shall be carried out either after the BT project is completed or performed concurrently in proportion to the construction work completed on schedule approved by competent state agencies. • Telegraph 1042 / CD-TTg dated 21 August 2019 on tasks and major solutions to accelerate the implementation and disbursement of the plan for public investment in 2019. Major tasks and solutions: • Ministries, branches and competent agencies synchronously perform the tasks and solutions set out in the Government's Resolution No. 70 / NQ-CP of August 3, 2017. • The Ministry of Planning and Investment shall coordinate with relevant agencies in reviewing and clarifying the causes, carry out the transfer within their competence, estimate total demand for public investment in 2020; ensure compliance with the actual disbursement capacity. • The Ministry of Finance shall direct units to ensure sources of payment for projects, shorten the time to control expenditures, ensure strict and compliant regulations, coordinate with investors in settling procedural problems, unify statistical data on disbursement of foreign capital and public the implementation situation and disbursement rate of ministries, central agencies and local agencies on the mass media. • The ministries, central agencies and localities shall prepare lists of key projects, assign leaders to monitor, urge and strictly comply with

		regulations on reporting on the implementation and disbursement of public invesment plans. • Circular 54/2019 / TT-BTC guiding the management and use of state budget funding to support small and medium-sized enterprises to use consulting services of the consultant network. • Circular 55/2019 / TT-BTC dated 21 August 2019 guiding the handover, receipt and handling of excluded debts and assets when transforming state-owned enterprises. • Directive 01 / CT-BTC dated August 29, 2019 on strengthening revenue collection, striving to fulfill the budget collection task and tax administration task in 2019. Main contents: • Strengthening the management and enforcement in tax debt collection to reduce tax arrears. • Strengthening the control of tax inspection and examination in units by week, month and quarter to urge the allocation of resources for inspection and examination, and work out solutions to complete the inspection plan in 2019 • Monitoring and updating promptly the operation situation of enterprises; especially large businesses. • Coordinating with land management agencies and local financial agencies to review the collection and payment of land use levies, land rents and water surface rents. Reporting promptly to the competent authorities for handling. • Strictly implementing the Prime Minister's instructions in Directive No. 31 / CT-TTg dated November 8, 2018 on reorganizing, strengthening discipline in the observance of the Law on State budget. • Decree 72/2019 / ND-CP dated August 30, 2019, amending Decree 37/2010 / ND-CP on formulation, evaluation, approval and management of urban planning and amending Decree 44/2015 / ND –CP on guidance in construction planning • Amending and supplementing a number of articles of Decree No. 37/2010 / ND-CP of April 7, 2010, on formulation, evaluation, approval and management of urban planning • Amending some articles of Decree No. 44/2015 / ND-CP dated May 6, 2015 detailizing a number of contents of construction planning • Decree 73/2019 / ND-CP dated September 5, 2019, regulates the management of investment in information technology application using state budget capital. Specifically: • Including: Information technology application projects funded by state budget capital expenditure for development; Information

		technology application activities use regular expenditures of state budget capital • Provisions on project management suitable to the nature and capital sources, project classification, investors, investment order and procedures. • Resolution 73 / NQ-CP dated September 23, 2019 on the action plan to implement Resolution 60/2018 / QH14 on continuing to improve and accelerate the implementation of policies and laws on management and use of state capital and assets in enterprises and on equitization of state enterprises. The main tasks and solutions include: • Perfecting the system of policies and mechanisms • Promoting the implementation of policies and laws on management and use of state capital and assets in enterprises and on equitization of state enterprises • Strengthening inspection, examination and responsibility handling • Implementing the synthesis and reporting • Decree 74/2019 / ND-CP dated September 23, 2019 amending Decree 61/2015 / ND-CP providing policies for job creation assistance and the National Fund for Employment • Amending some articles of Decree No. 61/2015 / ND-CP including: Loan level; Loan term; Loan guarantee conditions; Mobilizing capital to provide loans to support job creation, job maintenance and expansion; Mobilizing capital to provide loans to support workers working abroad under contracts
5	Policies on price control and inflation	• Decision 2617 / QD-BCT dated August 22 , 2019 on the average electricity wholesale price bracket of EVN for Electricity Corporations in 2019. • Approving the average electricity wholesale price bracket of EVN for Electricity Corporations in 2019 (exclusive of value-added tax)

Appendix 2: Macroeconomic statistics

	Unit	***2016***				***2017***				***2018***				***2019***		
		I	***II***	***III***	***IV***	***I***	***II***	***III***	***IV***	***I***	***II***	***III***	***IV***	***I***	***II***	***III***
GDP growth																

Overall	%	5.5	5.6	6.6	6.8	5.2	6.3	7.5	7.7	7.4	6.7	6.9	7.3	6.8	6.7	7.3
Trade																
Growth rate of exports	%	6.6	4.9	8.4	13.0	14.9	22.3	22.5	24.3	24.8	10.4	15.1	6.5	5.2	9.0	10.7
- *FDI sector*	%	-4.0	2.2	4.9	15.5	25.2	24.2	20.5	15.9	13.3	8.0	16.1	9.8	7.7	9.6	7.7
Growth rate of imports	%	99.8	92.4	87.8	73.1	106.2	105.4	98.5	80.9	121.2	106.4	104.7	80.8	120.6	107.6	122.7
- *FDI sector*																
Exports/GDP	%	3.1	4.8	3.6	5.7	3.5	3.3	3.4	4.9	4.0	4.2	0.6	3.1	2.9	4.1	1.4
Money	%	3.0	5.0	3.2	5.9	4.4	4.5	2.9	5.3	3.5	4.1	2.3	3.2	3.1	4.2	1.8
M2 growth (YoY)	Dong	21890	21876	21891	22074	22219	22371	22442	22451	22434	22555	22674	22742	22902	23037	23107
Credit growth (YoY)																
Interbank/central VND/USD exchange rate (average)	%	32.2	33.2	33.5	33.2	32.0	33.4	35.1	32.5	31.9	33.6	35.9	32.8	32.2	33.9	36.2
Investment	Bil. USD	3.5	3.8	3.7	4.8	3.5	3.8	5.2	5.0	5.8	4.5	4.9	5.9	4.1	5.0	5.1
Investment/GDP																
Implemented FDI	%	1.7	2.4	3.3	4.7	4.7	2.5	3.4	2.6	2.7	4.7	4.0	3.0	2.6	2.7	2.2
Other indicators	%	5.5	3.7	5.7	6.9	0.4	1.4	3.3	6.7	-1.8	1.3	2.1	8.9	-5.9	-1.0	1.0
Inflation (YoY)	Bil. USD	2.6	2.2	3.5	0.2	-1.1	0.3	4.3	3.0	3.9	0.5	3.0	-0.6	1.8	-0.1	-
State budget deficit/GDP	Bil. USD	3.5	3.2	3.0	-1.2	1.4	1.0	2.3	7.7	7.3	1.2	-0.5	-1.9	7.2	1.9	-

Source: Authors' compilation.