Aus4Reform Program

AUS4REFORM PROGRAM

MACROECONOMIC REPORT

SECOND QUARTER AND FIRST 6 MONTHS OF 2019

INTRODUCTION

Quarter 2 of 2019 witnessed prompt and unpreditable fluctuations of international economic context, accompanied by domestic positive movements. Financial tightening in developed economies was invisible. From a relaxation ation thanks to the US's extension on a temporary suspension of tariff increase at the end of February , the US - China trade – technology tension flared up and become more complicated in May-June before a halt in the end of June. Domestically, despite relative high economic growth in the first quarter, the Prime Minister still drastically emphasized on remval of barriers for business and production since the beginning of Q2. More requirements on active monitoring, updating and forecasting of external movements were more often. The promulgation of legal documents for implementing CPTPP and lobbying of EVFTA has shown some new changes.

This macroeconomic report serves several objectives, including: (i) to update, and review macroeconomic development and policy changes in Q2 and the first 6 months ò 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 2019 and following years.

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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.

DR. NGUYEN DINH CUNG

President, Central Institute for Economic Management

National Director of Aus4Reform Program

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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

1. The global economy witnessed the growing risk of widespread economic recession in the first half of 2019. Financial tightening was invisible in Q2. Economic downturn was affected by trade tensions between the US and major economies, slower economic growth in big countries and increasing uncertainties in the international financial market.

2. The US economy maintained "solid" economic growth despite of unfaded uncertainties. GDP growth rate in Q1 attained 3.1% (2^{nd} estimation). There is growing concern of the recession risk for the US economy, in particular for the second half of 2019 while the US took a number of actions that reinforced trade tensions with major partners. China's economy obtained "reasonable" economic growth rate and retained driving forces for economic development; however, recession risk was reinforced. The eurozone was significantly affected by the world trade deterioration. Japan faced with tremendous difficulties of exports and production due to weak domestic and external demand. Both consumer confidence and business confidence were at low level.

3. The US – China trade tension escalated with complicated developments. After a relaxation thanks to the US's extension on a temporary suspension of tariff increase, the US - China trade – technology tension flared up and become more complicated in May-June before a halt in the end of June. Negative impacts on world trade have been visible. The global stock market experienced dramatic adjustments, notably capital withdrawal from developing countries to advanced ones.

4. Price of non-fuel commodity and agricultural products took the downward trend. The USD index took the downward trend in June, in particular after FED's signals on interest rate adjustments. The UNCTAD's forecast of the global investment growth rate of about 10% in 2019 in the context of growing risks, the declining rates of return on FDI, the adjustments international production structures.

5. Domestically, Government continued to execute drastically and synchronously solutions on removing difficulties and obstacles, supporting production and business, controling inflation, and stabilizing macroeconomics since the beginning of Q2. Requirements on monitoring, updating and forecasting of external movements were more often. The promulgation of regulatory documents for implementing CPTPP and seeking for signing of EVFTA showed up new changes.

6. The practical reforms and policy responses in the first 6 month of 2019 still exposed some shortcomings. *First,* enforcement needs further incentivization. Attention for reforms of business environment, 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

exitement with signing of EVFTA and EVIPA (eventhough being waited for appoval) 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 the agreement. *Third,* some enterprises and people showed extremely negative psychology for eliminating goods and inveestment from several countries and territories. In the context of slow improvement of policy accountability, it can have significant impacts on the consideration and adjustment of of some ministries and agencies. *Forth,* the information and statistics supporting execution and management of some ministries showed slow improvement for both quality/accuracy and timely.

7. GDP growth attained 6.71% in Q2/2019, slightly decreased as compared to the growth of Q1/2019 (6.82%). For the first 6 months of 2019, GDP increased by 6.76%, lower than the YoY rate of 2018, but higher than the rates of 2011-2017. This results has not showed large difference from the annual target of 2019. In general, Vietnam's growth rate was realtively higher than other countries in regions. Vietnam's economy has still been in the expansion phase of growth cycle; however, potential GDP growth showed a downward trend, reflecting a concern for enhancing quality of growth - particularly when Vietnam paid more attention for adversely negative impacts from external environment.

8. The agriculture-forestry-fishery sector increased at 2.19% in Q2 and 2.39% in the first 6 months, lower than the rates of 2017-2018, mostly attributed to: (i) impacts of global economic downturn on demand of agricultural products; (ii) increasingly application of technical barriers for imports of agricultural products from some importers, including China and CPTPP markets.

9. Growth of industry-construction was at 9.14% in Q2 and 8.93% for the first 6 months of 2019. Q2 recognized the positive growth rate of mining sub-sector, at 1.78% - for the first time after three consecutive decreasing years. The Index of Industrial Production increased by 9.7% in Q2 and 9.5% in the first 6 months. Purchasing Manager Index was at high pace. Manufacturing sub-sector contributed the most to economic growtn in the first 6 months. Despite being much expected in the context of IR4.0 and digital transformation, the information and communication sub-sector only contributed less than 0.1 percentage points to overall GDP. Service sector showed little change, only attained 6.85% in Q2 and 6.69% in the first 6 months.

10. The development of business community exhibited clearer picture. The development indicators showed up some imporvement as compared to previous quarter, up by 35.3% of number of newly registered enterprises and by 29.1% of registered capital. The number of inactive enterpries went down by 23.22% in Q2. Manufacturing enterprises had positive assessment of production and business, may be attributed to: (i) continuously improved business – investment environment; (ii) the enforcement of CPTPP and preparation for EVFTA; and

(iii) some investors recognized the increasing attractiveness of Vietnam under the context of US-China trade tension.

11. Employment exhibited improvement in Q2. Total labor force was estimated at 55.5 million people in Q2, up by 335.1 thousand people (YoY). For the first 6 months of 2019, this figure was 55.4 million people, increasing by 334 thousand people as compared to the same period of 2018. The overall unemployment rate was 1.98%. Vietnam has been in the “nascent” group of readiness, but potentially developed; thus, it is essential to effectively develop and implement active labor market policies, as well as vocational trainings and human resource management

12. The average CPI was up by 2.65% and 2.64% in Q2 and in the first half of 2019, respectively. Major affected factors included: (i) the increase of food-foodstull price index; adjustments of retailed oil price in the domestic market and impacts of rising environmental protection tariff for oil and petrol products; and (iii) impacts of increased electricity price since the end of March on Q2 CPI. YoY average core inflation in the first 3 months and first half of the year were considerably outpaced the figures in 2017-2018, warning for a more cautious approach to monetary policy management.

13. The relative stability of interest rates in Q2 somewhat reflected the efforts of State Bank of Vietnam in maintaining liquidity for commercial banks. By the end of Q2, outstanding credit rose 4.07% compared to Q1 and 7.33% compared to the end of 2018. The possibilty of loosening credit target for 2019 (14%) was quite low as: (i) credit-to-GDP ratio was already high; (ii) SBV needed to create enough pressure for commercial banks to enhance their capital adequacy, thus loosening credit target would make the current credit reward mechanism meaningless; and (iii) SBV has proved the efficiency (to economic growth) from the improvement of credit quality

14. The overall balance of payment reached a surplus of USD 6 billion in 2018 despite a defiit of USD 1.9 billion in Q4. The central exchange rate witnessed an upward trend in Q2, could be explained by SBV’s intention to create more room for exchange rate fluctuations in the context of uncertainties (such as the escalating tension in trade ward between US and China, the probability for Fed’s rate cut, etc). The real effective exchange rate in Q2 declined 1% compared to Q1 and 3% compared to the same period of last year.

15. Gross investment was estimated at VND 462.8 trillion, up by 11.2% in Q2 and VND 822.9 trillion, up by 10.3% in the first 6 months of 2019. The investment-to-GDP ratio was approximately 33.9% in Q2, and reached 33.1% in the first 6 months. The private sector still kept the top position in investment growth, at the two-digit growth. The structure of investment continued to shift towards reducing the proportion of investment from the state sector and increasing the portion of investment from the FDI sector and especially from the private sector. Total registered capital reached USD 7.6 billion in Q2 and USD 18.5 billion in the first 6 months of 2019, experiencing a reduction of 47% and 8.2% respectively compared to the same periods of previous year. However, the

implemented capital witnessed a growth rate of 8.7%, reaching USD 9.1 billion in the first half of 2019.

16. Exports were estimated at USD 63.86 billion, increasing by 9.3% in Q2, and reached USD 122.72 billion, up 7.3% in the first 6 months of 2019. Vietnam's exports increased slowly due to: (i) global trade decline, especially, in the context of the escalation of USA-China trade tension; (ii) the large export proportion of some key products still belonged to the FDI sector, while some large FDI companies had slower export growth rates than the previous years; and (iii) export of AFF products faced many difficulties in terms of prices and requirements of some import markets. Imports reached USD 65.31 billion, up by 12.9% in Q2 and estimated at USD 122.76 billion, rising by 10.5% in the first 6 months of 2019. Retail sales of goods accounted for the largest proportion, amounted to VND 1,823.6, accounting for 76.3%, an increase of 12.5%.

17. Total budget revenues of Q2 was estimated at VND 382 trillion, equivalent to 27% of the 2019 target. Total expenditures were estimated at VND 367 trillion in Q2, rising 1.92% compared to the same period in 2018 and equivalent to 22.5% of planned target in 2019. Government bond issuance in Q2 reached VND 35.6 trillion, equal to 17.8% of the target for 2019.

18. Economic growth in 2019 is projected at 6.82%. Export growth may reach 8.02%. Trade surplus is projected at USD 0.8 billion. Average CPI in 2018 will increase by approximately 3.38%.

19. The report summarized movement of US-China trade war and identified that trade tension between the US and China has been increasingly unpredictable. Movements and actions of both two countries has direct and indirect impacts on the world’s economy. Some scenerios and unpredectable movements may happen in the future, leading to different responses from other countries. Being an open, small country with deeper integration, Vietnam can not escape from being affected from the mentioned trade war

20. The report also evaluated some practical issues related to amendments of Enterprise Law and analyzed some fundamental orientation and channges of (i) simplifying market entry procedures; (ii) enhancing corporate governance standards based on international best practices and (iii) some solutions for adjustment of SOEs.

21. The report realized that the first half of 2019 witnessed many uncertainties of both world and domestic econnomy, including challenges of fulfilling socio-economic development targets. Policy administration and economic reforms of the country also showed bright signals, contributing to positive outcomes on economic development and macroeconomic stability. National position has more or less improved, But Vietnam has still retained a serious view on the country's socio-economic situation. The Government, Ministries and branches have regularly monitored, evaluated and forecasted the situation in the world and in the country, thereby updating and completing the domestic operating scenarios. Movements of foreign capital have continued to be monitored and

discussed at many levels, has not yet led to a restrictive policy that distinguishes partners. Compared to the period of 2008-2009, Vietnam now has more experience and calmer response to adverse impacts from world economic developments. More importantly, the requirements for business environment reforms are still taken into account and promoted in parallel with the process of coping with uncertainty of the global economic environment.

22. Macroeconomic developments in the last 6 months of 2019 may be subjected to several factors (i) the increasing risk of recession for US economy has been mentioned, eventhough it may not happen in the last 6 months of 2019; (ii) trade tension in the area is difficult to cool down*;* (iii) despite high expectations for ratifying EVFTA, Vietnam should also be aware that the EU is very busy with the trade agenda (related to Brexit, trade negotiations with the US); (iv) Vietnam's exports may face more trade remedies lawsuits, tax evasion investigations, fraud of origins originating, etc., not only in the US market.; and (v) the confrontation between new technologies and traditional management is becoming more complex, even in developed markets.

23. 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.

I. ECONOMIC CONTEXT IN Q2 AND FIRST 6 MONTHS OF 2019

1. Regional and global economic context

1. The global economy witnessed the growing risk of widespread economic recession in the first half of 2019. Financial tightening was invisible in Q2. Economic downturn was affected by trade tensions between the US and major economies, slower economic growth in big countries and increasing uncertainties in the international financial market. The WB (June 2019) cut its forecast of global GDP growth rate to 2.6% in 2019 (0.3 percentage point below the forecast in January 2019).

Table 1: Global economic prospects

Unit: %

	2019	*2020*	*Difference**	
			2019	*2020*
World GDP (growth rate, %)	2.6	2.7	-0.3	-0.1
Advanced economies	1.7	1.5	-0.3	-0.1
Japan	*2.5*	*1.7*	*0.0*	*0,0*
Japan	*0.8*	*0.7*	*-0.1*	*0,0*
Eurozone	*1.2*	*1.4*	*-0.4*	*-0,1*
Emerging and developing economies	4.0	4.6	-0.3	0.0
Asia – Pacific	5.9	5.9	-0.1	-0.1
China	*6.2*	*6.1*	*0.0*	*-0.1*
South Asia	6.9	7.0	-0.2	-0.1
India	*7.5*	*7.5*	*0.0*	*0.0*
World trade (growth rate, %)	2.6	3.1	-1.0	-0.4
Non-fuel commodity price in USD (growth, %)	-2.1	-0.1	-3.1	-1.3

Source: WB (June 2019).

*Note: *:* Difference in comparison with the forecasts for 2019 and 2020 in January 2019.

2. The US economy maintained "solid" economic growth despite of unfaded uncertainties. GDP growth rate in Q1 attained 3.1% (2nd estimation), that was outpaced the rate of 2.2% in Q4/2018[1]. The US's Leading Economic Index increased consecutively since February[2], unemployment rate kept unchanged at low level (3.6% in April and May), retail sales grew positively (increased by 3.1% in April). However, manufacturing PMI attained only 50.5 points in May (the lowest level since September 2019)[3]. There is growing concern of the recession risk for the US economy, in particular for the second half of 2019 while the US took a number of actions that reinforced trade tensions with major

[1] Bureau of Economic Analysis. Press release dated May 30, 2019.

[2] Conference Board's Leading Economic Index for the US increased by 0.2% in February, 0.3% in March and 0.2% in April, attaining 112.1 points (2016=100).

[3] YoY growth rate of industrial production output decreased continuously since the beginning of the year, obtained only 0.9% in April and slightly increased to 2% in May in comparison to the figure of 3.6% in January 2019.

partners (including China, Mexico, EU, Japan, etc.). FED expected inflation rate of 1.5% in 2019 instead of the previous forecast of 1.8% in March 2019. FED revealed signals of interest rate cut in the second half of 2019, which was independent from "short-run political interests".

3. The National Bureau of Statistics of China[4] argued that the economy obtained "reasonable" economic growth rate and retained driving forces for economic development. However, recession risk was reinforced. Manufacturing PMI was only 50.2 points in May (indicating signal of stagnant production), industrial production grew at the lowest rate in the last 17 years, new order index reduced drastically (48.9 points in May 2019), investment in fixed assets increased by only 5.6% in the first 5 months (0.5 percentage point below the figure in the previous month). In the mid-May, as context the US-China trade tension flared up, the CNY depreciated sharply against the USD as the CNY/USD exchange rate felt to below 6.9, considerably affecting investors' confidence. New policy initiatives were implemented by Chinese Government to deal with economic downturn such as opening up multiple bond market to mobilize capital for big projects or reaffirming the stabilization of the CNY.

4. The Eurozone was significantly affected by the world trade deterioration. Industrial production declined consecutively (by 0.2% in March and 0.7% in April), MoM retail sales was down by 0.3% in April – the first decrease since December 2018, manufacturing PMI kept at below 50-point-level since February (47.7 points in May), business confidence continued to degrade (was at 0.3 points in May, the lowest level since August 2016). Inflation rate remained at low level and continued to decrease (1.2% in May 2019 in relative to the rate of 1.7% in April 2019 and 2% in May 2018). The WB's forecast of GDP growth rate for the Eurozone was reduced to 1.2% in 2019 (Table 1).

5. Japan faced with tremendous difficulties of exports and production due to weak domestic and external demand. Both consumer confidence and business confidence were at low level[5], manufacturing PMI reduced to only 49.5 points in June 2019, industrial production declined continuously since February (4.3% and 1.1% in March and April, respectively). In the end of March 2019, Japan's National Diet approved the unprecedented budget of JPY 101 trillion (USD 920 billion) for the 2019 fiscal year with increased expenditure for welfare, public constructions and national defense. Bank of Japan (BOJ) retained short-run and long-run interests at extremely low rates. The WB cut down Japan's economic growth forecast in 2019 to only 0.8%.

6. The US – China trade tension escalated with complicated developments. After a relaxation thanks to the US's extension on a temporary suspension of tariff increase, the US - China trade – technology tension flared up and become more complicated in May-June before a halt in the end of June. Escalating tension between the two parties intensified actions heading for collisions or driving a wedge among allied powers. Negative impacts on the global economy, world

[4] Press release dated June 14, 2019.

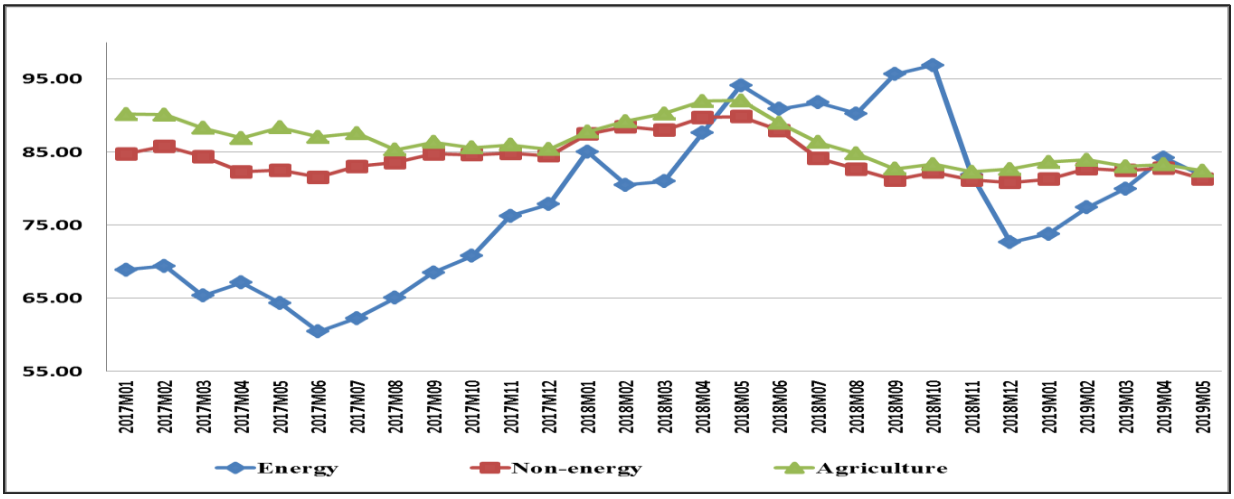
[5] Consumer confidence declined consecutively, attaining 39.4 points in May 2019 (the lowest level since February 2015); business confidence plunged to the bottom for the last 2 years (12 points).

trade and international investment have been visible. Albeit, upcoming movements of trade war remain risky and uncertainties, particularly in the context of significant trade deficit between US and China.[6]

7. The global stock market experienced dramatic adjustments, notably capital withdrawal from developing countries to advanced ones (the US, Western Europe). The global stock market crashed in May due to concerns over the trade war (the S&P 500 and Dow Jones declined by more than 6%, Nasdaq lost 7.9%). After a rebound in the first 3 weeks of June (the above-mentioned three indices was up by more than 7%),[7] the US stock market went down in the last week of June because of more cautious stance of FED on interest rate adjustments. Signals of loosening monetary policy of several economies and region (the US, EU, etc.) caused government bond yields of those economies falling to low rates.[8]

8. World trade was affected by negative impacts of escalating trade tensions between the US and some partners (China, EU, Mexico, etc.). The WTO's World Trade Outlook Indicator (WTOI) of May 2019 dropped to the lowest level since 2010 (96.3 points). The WB expected world trade growth of only 2.6% in 2019 (Table 1), albeit other important driving forces, including developments of geopolitical stance, international financial market and the US – China trade tension.

Figure 1: World commodity price index, 2017-2019



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

9. Price of non-fuel commodity and agricultural products took the downward trend (Figure 1). The fuel commodity price index increased dramatically in the beginning months, except a short fall in May. The world oil price volatile drastically, experienced a dramatic drop in the early June, but rebounded since

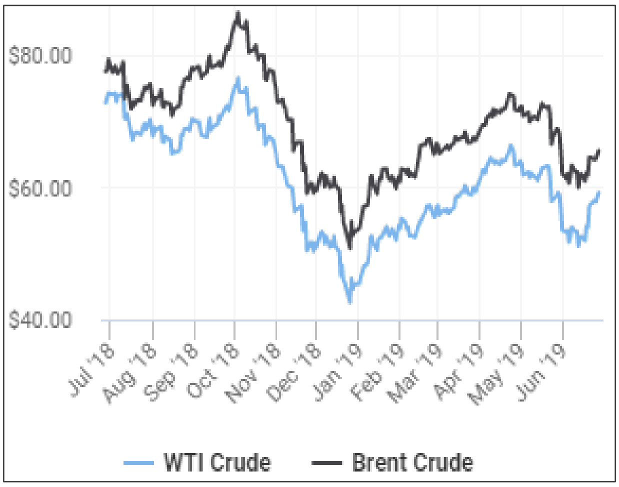
[6] More details will be discussed in Section Phần 3.1.
[7] Closing the transaction on June 19, the Down Jones increased by 350 points, S&P 500 was up by 1% to the new historical peak of 2,954 points; Nasdaq went up by 0.8% in relative to the previous transaction.
[8] The US's 10-year Treasury Constant Maturity rate was down to below 2% for the first time since November 2016, the UK's 10-year Government Bond plunged closely to the lowest level since the end of 2016, the Germany's government bond yield remained at negative rates, etc.

mid-June. This can be attributed to geopolitical tension in the Middle East between the US and Iran that would disrupt energy supply, information on a decline of crude oil inventory, boosted investor confidence thanks to potential resume of US – China trade talks. Gold price reached the peak of the last 6 years in June, exceeding USD 1,400 per ounce on June 21, following FED's signal of interest rate cuts.

Figure 2: Gold price, 2018-2019

Source: https://goldprice.org/

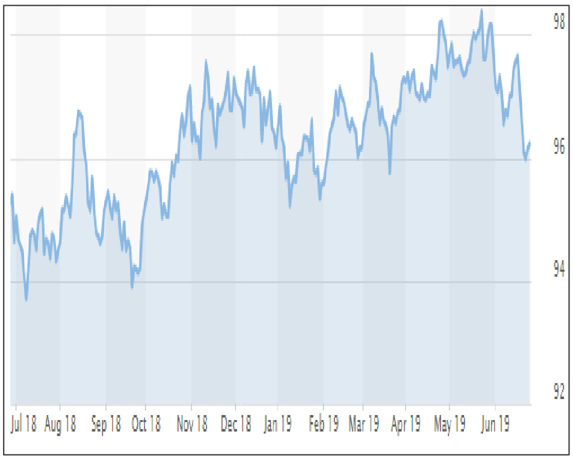
Figure 3: Crude oil price, 2018-2019



Source: https://oilprice.com

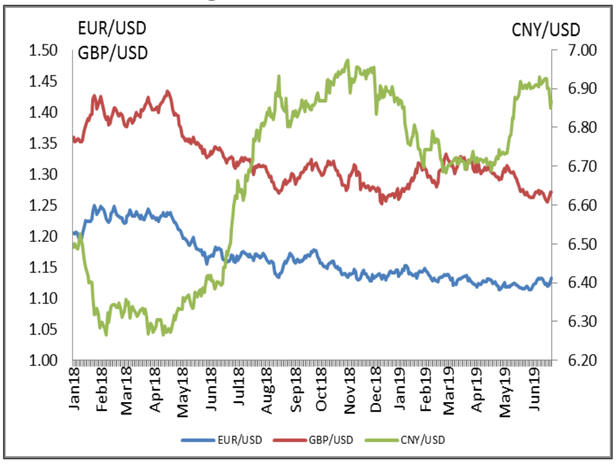
10. The USD appreciated significantly against the CNY, in particular in June. The CNY/USD exchange rate exceeded 6.92 at certain times, the lowest level since November 2018, depreciated by 2.94% in comparison to the rate in early May. Concerns of negative impacts of the US – China trade war on international financial market intensified. The USD index took the downward trend in June, in particular after FED's signals on interest rate adjustments (declined by 1.7% in the period of June 18-24).

Figure 4: USD Index, 2018-2019



Source: https://www.marketwatch.com

Figure 5: Movement of selected currencies against the USD, 2018-2019



Source: The US's Federal Reserve

11. UNCTAD (June 2019) reported a decline of 13% of the global FDI in comparison to the figure in 2017. The share of FDI inflows to developing countries increased (accounting for 54% of total FDI in relative to 46% in 2017), while the proportion of advanced economies dropped drastically (down

by 27% with only USD 557 billion, the smallest since 2004). Investment openness and facilitation policies denominated newly issues FDI-related policies (accounting for about 2/3 of newly-implemented FDI-related policies), including such measures as simplification of procedures, promotion of investment incentives, etc. In the meanwhile, the usage of investment restrictions or regulations increased significantly (accounting for 34% of new FDI-related measures in the period of November 2018 - February 2019 in comparison to the figure of 24% in the period of May – October 2018, the biggest share since 2003). These measures mainly reflected national security concerns about foreign ownership of critical infrastructures, core technologies, sensitive industries, etc. In 2018, M&A deals worth USD 153 billion were blocked for national security reasons.

12. The UNCTAD's forecast of the global investment growth rate of about 10% in 2019 (which was below the average growth rate in the last 10 years) in the context of growing risks (geopolitics, trade tensions among major economies, protectionism, etc.), the declining rates of return on FDI, the adjustments international production structures, etc.

Table 2: 2019 global FDI forecast

Unit: USD billion

	2016	***2017***	***2018***	***2019 forecast***
Global	**1,919**	**1,497**	**1,297**	**1,370-1,500**
Advanced economies	***1,198***	***759***	***557***	***640-720***
Europe	612	384	172	330
North America	508	302	291	310
Developing economies	***656***	***691***	***706***	***700-740***
Africa	46	41	46	52
Asia	473	493	512	530
Latin America and Caribbean	135	155	147	140
Transitional economies	***65***	***48***	***34***	***45-55***

Source: UNCTAD (2019).

2. Domestic economic context

13. The Government continued to execute drastically and synchronously solutions on removing difficulties and obstacles, supporting production and business, controling inflation, and stabilizing macroeconomics. Resolutions of Government meetings in Q2/2019 emphasized on: (i) enhancing the restructuring of the economy and selected industries and sectors, improving the quality of institutions and policies; (ii) further improving the investment and business environment, reducing unnecessary administrative procedures and business conditions that being troubles for enterprises, and faciltitating the pushing-up of production and business; (iii) actively seeking for momentum of growth; (iv) proactive monitoring, evaluating and forecasting external movements (from US-China trade war; geopolitical conflict; Fed interest rate execution, etc.) for appropriate and flexible solutions to create strong

foundation against external shocks; (v) finalizing new-generation FDI strategy, paying attention to increasing connectivity and technology transfer; (vi) taking advantages of opportunities from free trade agreements, especially CPTPP, diversifing export markets, reducing trade deficit; and (vii) promoting effective exploitation of opportunities from IR4.0, accelerating the progress of e-Government and transformation of digital economic model.

14. In Q2/2019, priority was continuously given to macroeconomic stability. Inflation was relatively low and safe compared to the annual target; however, the Government was seriously in perceiving potential inflation risks. Monetary policy still retained its necessary caution and flexibility. The policy space for monetary management (especially interest rates, exchange rates) continued to be strengthened. Dealing with foreign capital was carried out intrinsically. Fiscal policy was more positively coordinated with monetary policy, on the basis of restructuring state budget towards more sustainable. The adjustment of prices of goods (especially electricity fares) was taken into account and interprete frequently, in attachement with inspection and supervision.

15. Some important law and regulations was approved at the 7th session of 14th National Assembly, particularly Law on Public Investment (amendment), the amending and supplementing some articles of Insurance Law on Insurance Business, Intellectual Property Law (for the enforcement of CPTPP) and some other laws such as Law on Education (amendment), Law on Tax Mangement, etc. The National Assembly also ratified resolution approving the joining of International Labor Organization's Convention 98 on the Rights to organize and collective bargaining.[9] The approval of laws and ratification of joining Convention 98 enabled the implementation of relevant commitments under Comprehensive Partnership and Transpacific Progress Agreement (CPTPP) and ILO membership obligations; and preparing for the joining of EU-Vietnam Free Trade Agreement (EVFTA).

16. The Law on Public Investment (amended) contained some new adjustments. *First*, the definition of public investment was unified, resulting in the amendment of processes and procedures for public investment projects and plans, simplifying the process, and no distinguishing between different types of state budget sources. *Second*, it has clearly defined some tasks and types of projects with no requirements of having decision prior to implementation in order to remove formalities, duplication and save time and costs for preparation. *Third*, strong decentralization of rights to decide investment policies for provinces, ministries and agencies was regulated, increasing the proactiveness and appropriateness with certain local conditions. *Fourth*, it has also clearly defined the functions and mandates of relevant agencies on process and procedures of proposing ODA and/or concessional loans for certain projects and programs. These changes have been expected to better facilitate

[9] Inlcuding three major components of (i) protection of workers and trade union officers against employers' acts of discrimination at work; (ii) guarantees for workers' and employers' organizations to be free from interference or dominance from each other; and (iii) requirements of institutional and legal measures provided by the State to promote voluntarily collective.

the preparation of projects, improving the disbursement rate of public investment, ceasing from long-lasting and slow disbursement.

17. On 9 May, Fitch Ratings changed its outlook on Vietnam's from "stable" to "positive ". Vietnam's credit rating maintained at "BB". Main reasons for the lifting included improvement of economic management, which was evident in strengthening external buffers, falling government debt level,[10] high economic growth rate and stable inflation.

18. The Government continued to transform its working manner via the application of informatic technology to enhance the effectiveness and efficiency of management and execution. The e-cabinet system for meetings and managing documents was launched on 24 June 2019. The transmission, assignment and processing of documents through electronic management system in and between governmental agencies was more popularized.

19. The Government continued to promote the access to IR4.0 and digital economy through developing National Strategy on IR4.0, proposal for establishing "National Innovation Center", and proposal for national digital transformation According to UNDP's assessment, for optimistic scenario of "digital transformation", GDP growth increases by 1.1% per year, Vietnam implement basic transformation of almost industries and public services. However, potentially accompanied risks include cyber-attacks nationwide, increasing rural-urban inequality; replacement of job by automation. For the pessimistic "traditional" scenario, the digital transformation of Vietnam is at low level and information and communication technology is scattered, GDP growth increases only by 0.38% oer year. The potential risk include low labor productivity leading to reduction of national competitiveness and increasing poverty rate in society.

20. The role of the private economy were emphasized through messages, policies and consutltative forums. However, there still existed barriers, including (i) inadequate and incomplete institutional system; (ii) slowly and ineffectively imlemented policies on encouraging and supporting the private economy; (iii) overlapping and intransparent specialized management and inspection; and (iv) unreasonable barriers and costs for business investment. Some enterprises were not ready to apply 4.0 technology[11], even easy to be satisfied with simple way of manufacturing on imported inputs.

21. Vietnam increased consultation for preparing 2021-2030 socio-economic development strategy. Strategic orientation focused on enough fast growth to deal with falling behind; quality growth for ensuring sustainability (effective growth, green growth, and inclusive growth); sustainable social and environmental development; developing full, advanced and integrated market economic institution. Opportunities and challenges of Vietnam for

[10] From 53% of GDP in 2016 to 50.5% of GDP in the end of 2018.

[11] According to a survey by Ministry of Industry and Trade on the readiness for application of 4.0 technology in industrial enterprises, 82% of enterprises were at initial stage, meanwhile, 61% of enterprises were exteriors and 21% of enterprises started innial preparation.

implementing socio-economic development targets, to some extent, were realized.

22. Vietnam still showed more active efforts for international economic integration in Q2. The EU-Vietnam free trade agreement (EVFTA) and the EU-Vietnam Investment Protection Agreement (EVIPA) were signed on 30 June 2019. Vietnam has also participated in the negotiation of Regional Comprehensive Economic Partnership Agreement. The national position has improved significantly, reflected by: (i) being elected as non-permanent member of the United Nations Security Council for 2020-2021; (ii) contributing significantly to important forums such as APEC, ASEAN and G20; and (iii) relative attraction to foreign investment in the context of US-China trade war.

23. The practical reforms and policy responses in the first 6 month of 2019 still exposed some shortcomings. *First,* enforcement needs further incentivization. Attention for reforms of business environment, 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 the agreement. *Third,* some enterprises and people showed extremely negative psychology for eliminating goods and investment from several countries and territories. In the context of slow improvement of policy accountability, it can have significant impacts on the consideration and adjustment of some ministries and agencies. *Forth,* the information and statistics supporting execution and management of some ministries showed slow improvement for both quality/accuracy and timely.

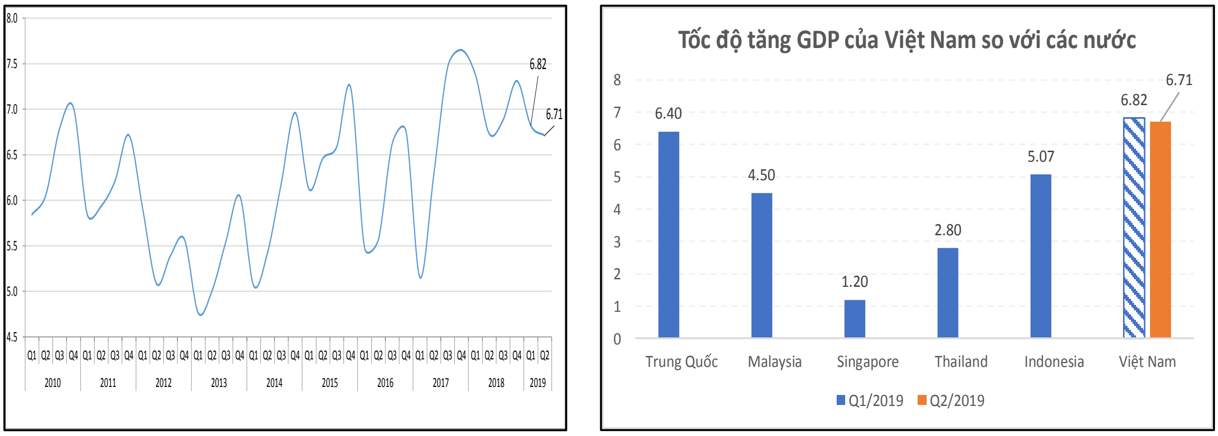
II. MACROECONOMIC PERFORMANCE AND OUTLOOK

1. *Macroeconomic performance in Q2 and first 6 months of 2019*

1.1. Real economy

24. GDP growth attained 6.71%[12] in Q2/2019, slightly decreased as compared to the growth of Q1/2019 (6.82%). For the first 6 months of 2019, GDP increased by 6.76%, lower than the YoY rate of 2018, but higher than the rates of 2011-2017. This results has not showed large difference from the annual target of 2019 (6.8%). In general, Vietnam's growth rate was relatively higher than other countries in regions (Figure 6).

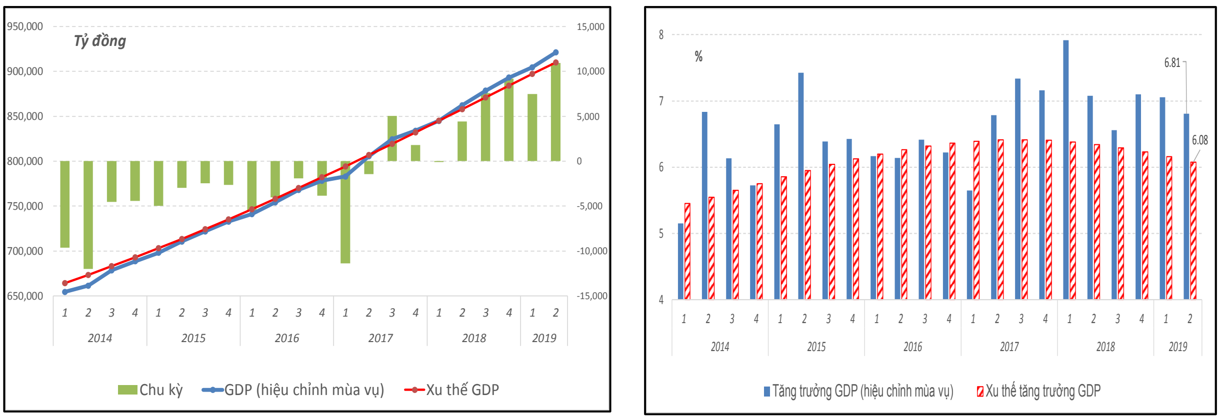
Figure 6: GDP growth rate (%)



Source: General Statistic Office (GSO).

25. Vietnam's economy has still been in the expansion phase of growth cycle. Real GDP (seasonally adjusted) in Q2 has been the 8th consecutive quarters that was above trend. However, potential GDP growth showed a downward trend. To some extent, it can be a concern for enhancing quality of growth – particularly when Vietnam paid more attention for adversely negative impacts from external environment.

Figure 7: GDP growth movement

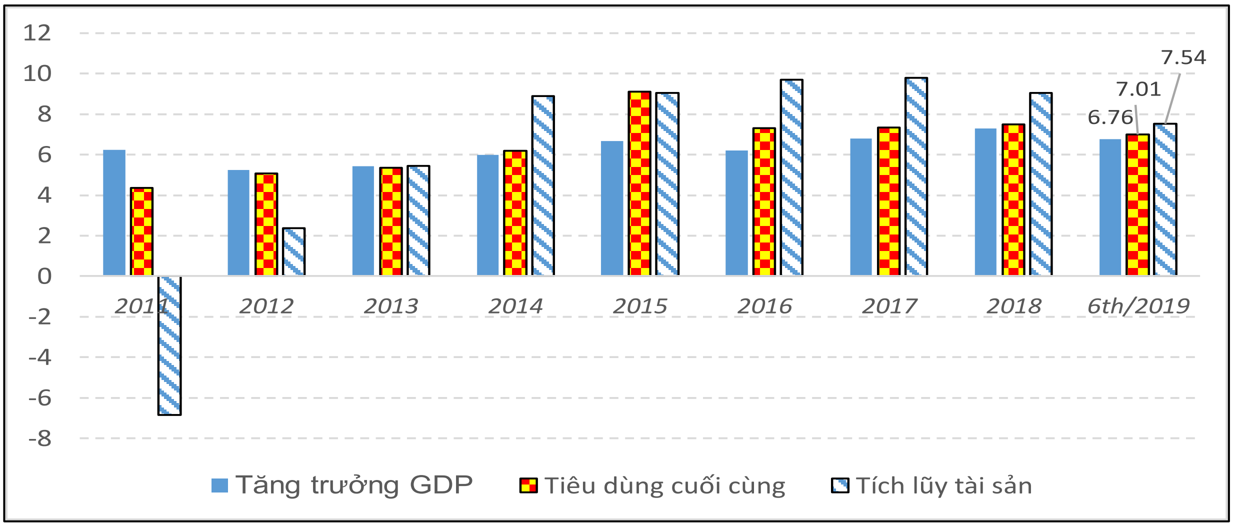


Source: Authors' compilation

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

26. Final consumption and gross capital formation were major contributors to GDP from expenditure side. (Figure 8). The growth of final consumption showed little change as compared to that of 2017-2018, in spite of high domestic demand.[13] However, gross capital formation grew slowly, mostly attributed to: (i) relatively low growth of credit, while unregulated credit experienced more control; (ii) no reduction of lending rate level; and (iii) decrease of external demand of Vietnam's exports.

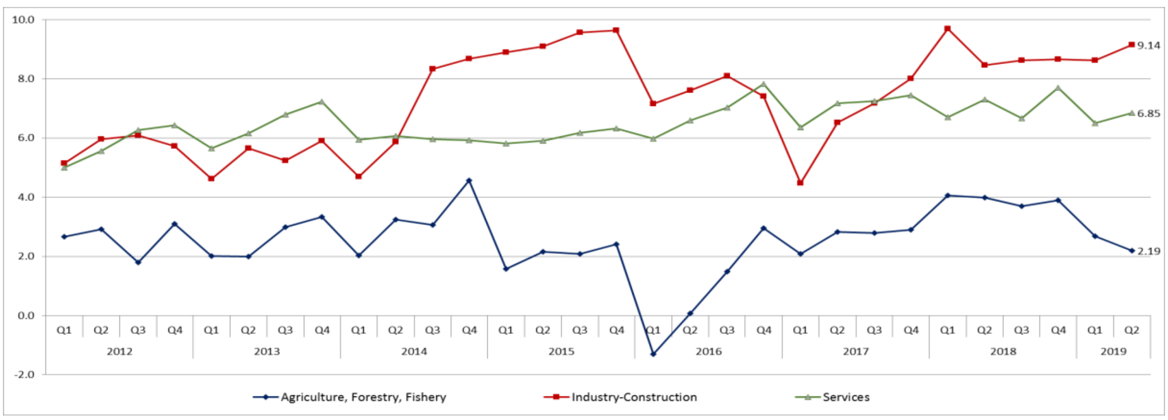
Figure 8: Growth rate of gross capital formation, final consumption and GDP



Source: GSO.

27. The agriculture-forestry-fishery (AFF) sector increased at 2.19% in Q2 and 2.39% in the first 6 months. This growth was lower than the rates of 2017-2018 (Figure 9). Main reasons included: (i) impacts of global economic downturn on demand of agricultural products; (ii) increasingly application of technical barriers for imports of agricultural products from some importers, including China and CPTPP markets; and (iii) long-lasting of African swine fever resulting in severe effect for husbandry. Fishery sub-sector experienced high growth of 6.45%-the highest rate for the last 9 years, thanks to high demand of consumption.

Figure 9: GDP growth by sector, 2012-Q2/2019

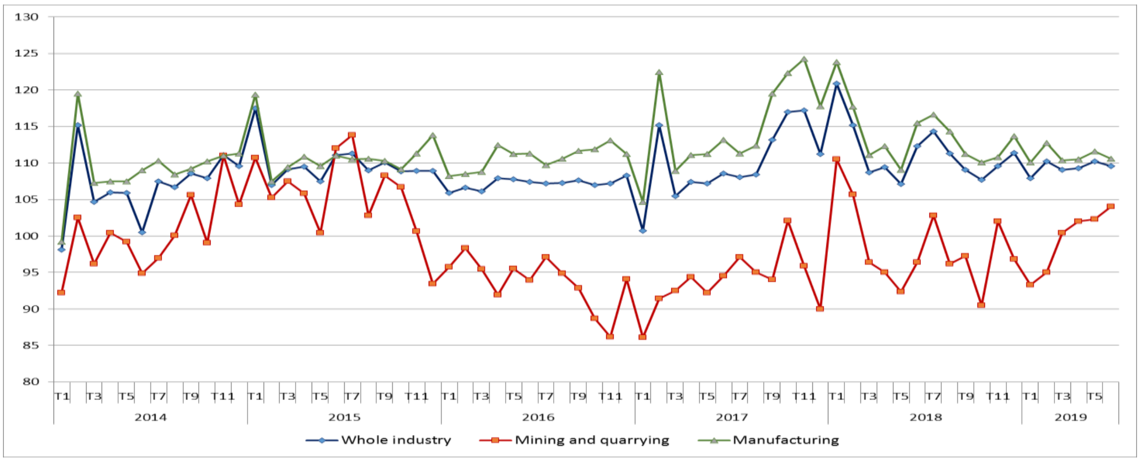


[13] Tổng mức bán lẻ hàng hóa và doanh thu dịch vụ tiêu dùng 6 tháng đầu năm đạt 409,8 nghìn tỷ đồng, tăng cao so với năm trước, ở mức 11,5%.

Source: GSO.

28. Growth of industry-construction was at 9.14% in Q2 (Figure 9). For the first 6 months of 2019, the value-added of the sector grew at 8.93%, contribution of 51.8% to the overall growth. Of which, manufacturing sub-sector went up by 11.18%[14]. For the first half of 2019, Vietnam has not face any difficulty in exporting to US market. Meanwhile, the country experienced an increase of investment flow to manufacturing from China. In addition, Q2 recognized the positive growth rate of mining sub-sector, at 1.78% - for the first time after three consecutive decreasing years. The exploitation of metal increased significantly, by 18.1%, off-setting the reduction of crude oil exploitation.

Figure 10: Index of Industrial Production, 2014-June/2019



Source: GSO.

29. The Index of Industrial Production (IIP) increased by 9.7% in Q2 and 9.5% in the first 6 months (Figure 10). Almost sub-sectors experienced high growth: manufacturing up by 10.7%; production and distribution of electricity up by 10.4%, and provision of water, management of waste and treatment of water up by 7.1%. IIP of the mining sub-sector also experienced positive growth of 2.9% (with the outstanding growth of exploitation of metal of 22.5%).

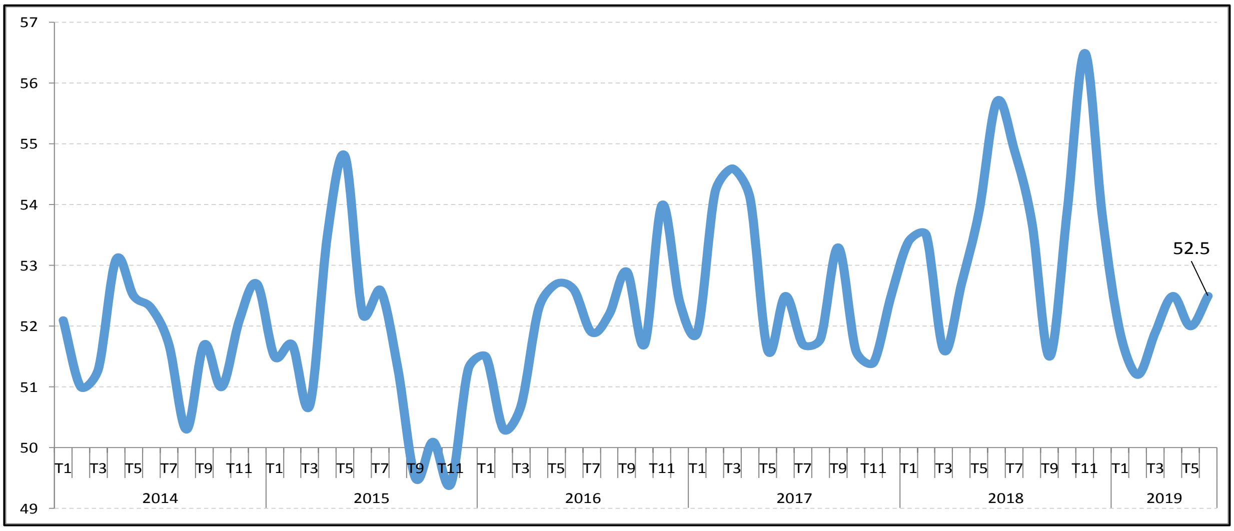
30. Purchasing Manager Index (PMI) was at high pace in Q2, maintaining at 52.5 in April and June, interjected by a slight reduction to 52 in May (Figure 11). To many evaluation, Vietnam has still exhibited the most advanced movement in Asia-Pacific (at the highest level of all ASEAN nations and only lower than India). Efforts on improving business environment and conditions continued to confirm its effectiveness and impacts on manufacturing, facilitating better performance of the industry.

31. The value-added of service sector showed little change, only attained 6.85% in Q2 and 6.69% in the first 6 months. The sub-sectors of wholesale and retail trade, accommodation and food services experienced lower pace of growth and contribution. In addition, slow increase of international visitors in the first 6

[14] Một số phân ngành có chỉ số sản xuất công nghiệp tăng trưởng cao nhất là sản xuất than cốc, sản phẩm dầu mỏ tinh chế (tăng 69,1%); sản xuất kim loại (tăng 40,1%) với sự quay trở lại hoạt động của nhà máy Lọc hóa dầu Nghi Sơn và và dự án thép Formosa.

months[15] have impacted on revenue of the industry. Other service industries still maintained significant contribution, particularly finance, banking and insurance increased by 8.04%; transportation, storages went up by 8.16%; and real estate grew by 4.13%.

Figure 11: Purchasing Manager Index, January 2014-June 2019

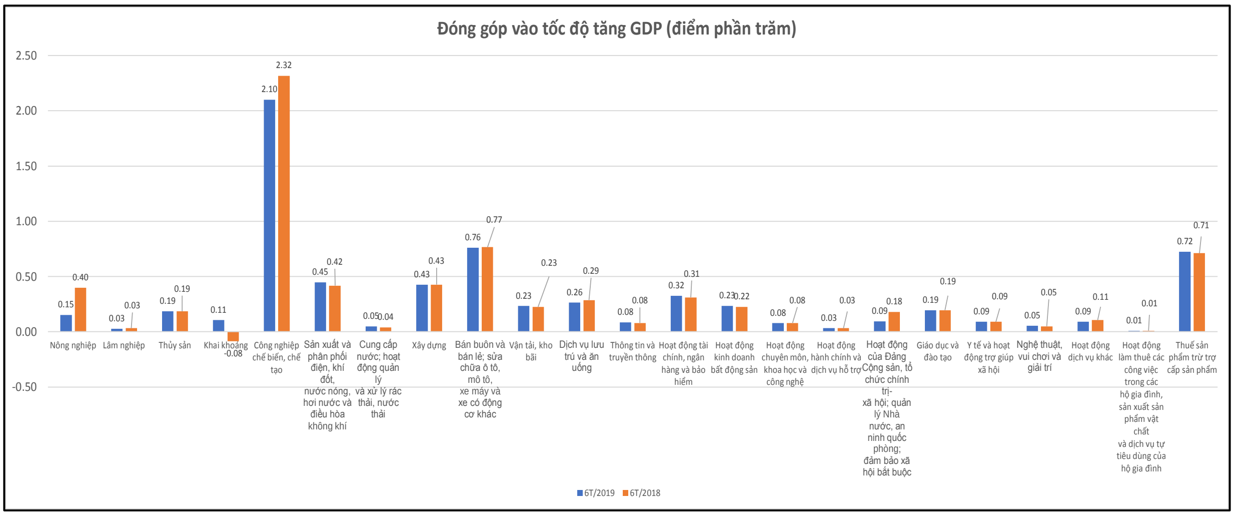


Source: Markit, HSBC.

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

32. The manufacturing sub-sector contributed the most to economic growth in the first 6 months. Of all the service sub-sectors, wholesale and retail trade, repair of motor vehicles and motorcycles contributed significantly for overall GDP growth. However, the contribution of agriculture and manufacturing sub-sector was sharply increased as compared to the same period of 2018. Notably, despite being much expected in the context of IR4.0 and digital transformation, the information and communication sub-sector only contributed less than 0.1 percentage points to overall GDP (Figure 12).

Figure 12: Contribution to overall GDP, percentage point



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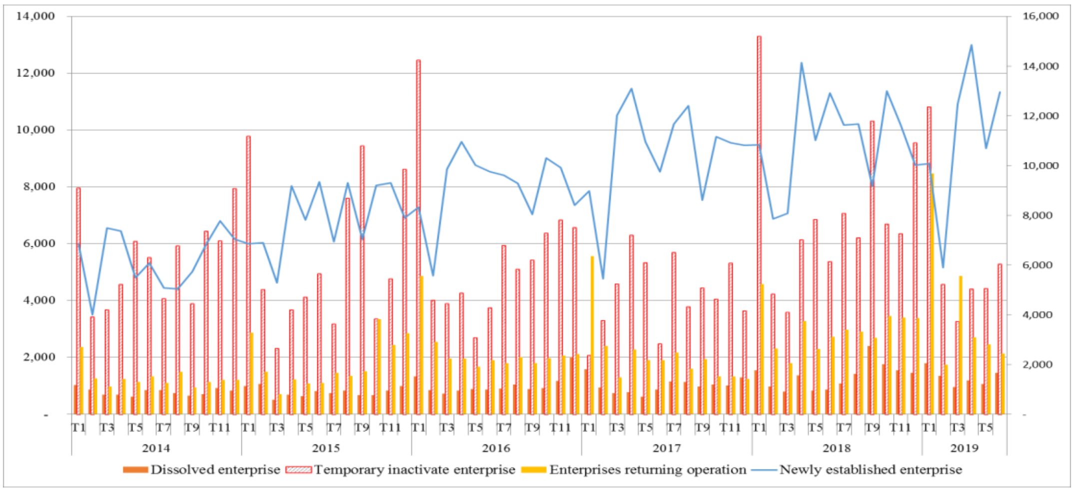
[15] Only increased at 7.5% as compared to the rate of 27.2% in 2018 and 30.2% in 2017.

Source: GSO.

33. The development of business community exhibited clearer picture. There were 38.5 thousand newly established enterprises, with total registered capital of VND 484.7 trillion, an increase of 2.0% and 30.8% respectively. The development indicators showed up some improvement as compared to previous quarter, up by 35.3% of number of newly registered enterprises and by 29.1% of registered capital. The number of inactive enterprise (including those registering inactive status or temporally stopping before closing tax code or without registration) went down by 23.22% in Q2 (Figure 13).

Figure 13: Selected indicators of enterprises' performance, January 2014-June 2019

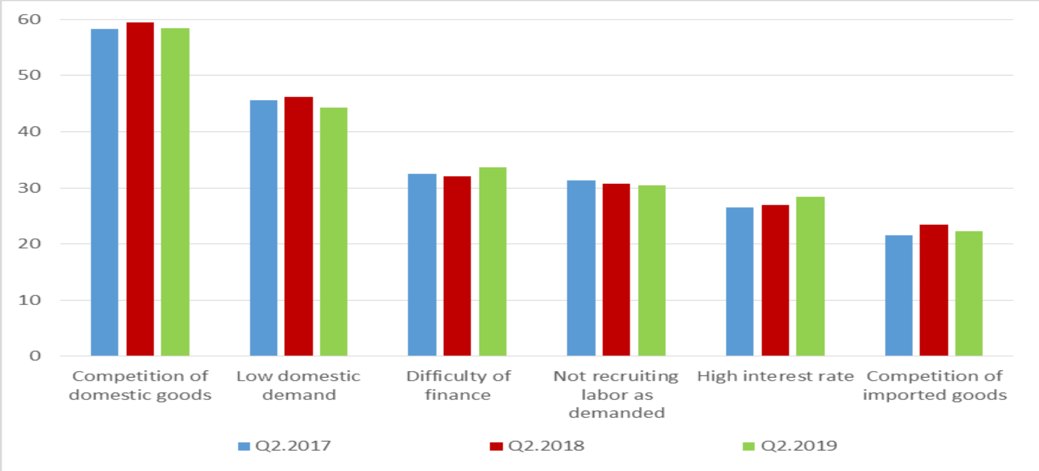


Source: GSO.

34. For the first 6 months, nearly 67 thousand enterprises were newly established with total registered capital of VND 860.2 trillion, increasing by 3.8% of number of enterprises and 32.5% of registered capital. In addition, some 21.6 thousand enterprises returned to operations. Total registered labor of newly established enterprises was aggregated at 649 thousand people, up by 2.6.

35. According to a survey by GSO, factors affecting production and business in Q2 included (i) modest competitiveness of domestic products (58.4%); (ii) weak demand of domestic market (44.3%); and (iii) financial difficulties (33.7%), not recruiting labor as demanded (30.5%), high interest rate (28.4%) and competition of imported goods (22.3%) (Figure 14).

Figure 14: Factors affecting production and business



Source: GSO.

36. Manufacturing enterprises had positive assessment of production and business in Q2. Business tendency survey of GSO found out that some 45.2% of enterprises assessed better production and business condition in Q2 than in Q1; 16.5% of enterprises assessed worse production and business conditions and 38.3% of enterprises thought that production and business conditions was stable. Forward looking, 82.6% of enterprises perceived stable and better production and business in Q3, while only 11.4% of enterprises had negative assessment (Figure 15 and Figure 16). Positive assessments may be attributed to: (i) continuously improved business – investment environment; (ii) the enforcement of CPTPP and preparation for EVFTA; and (iii) some investors recognized the increasing attractiveness of Vietnam under the context of US-China trade tension.

Figure 15: Business tendency (Q2/2019 compared to Q1/2019)

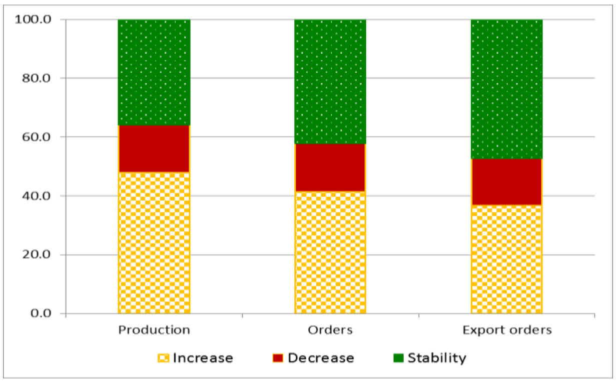
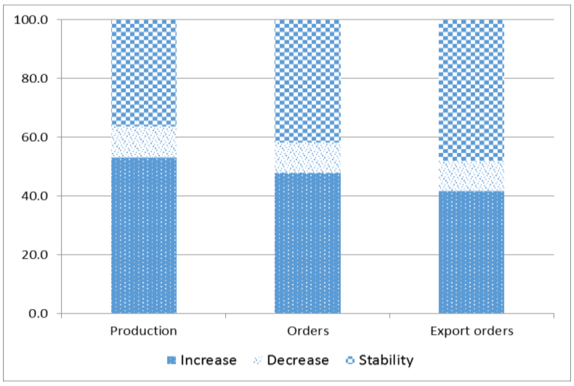


Figure 16: Business tendency (forecast for Q3/2019)



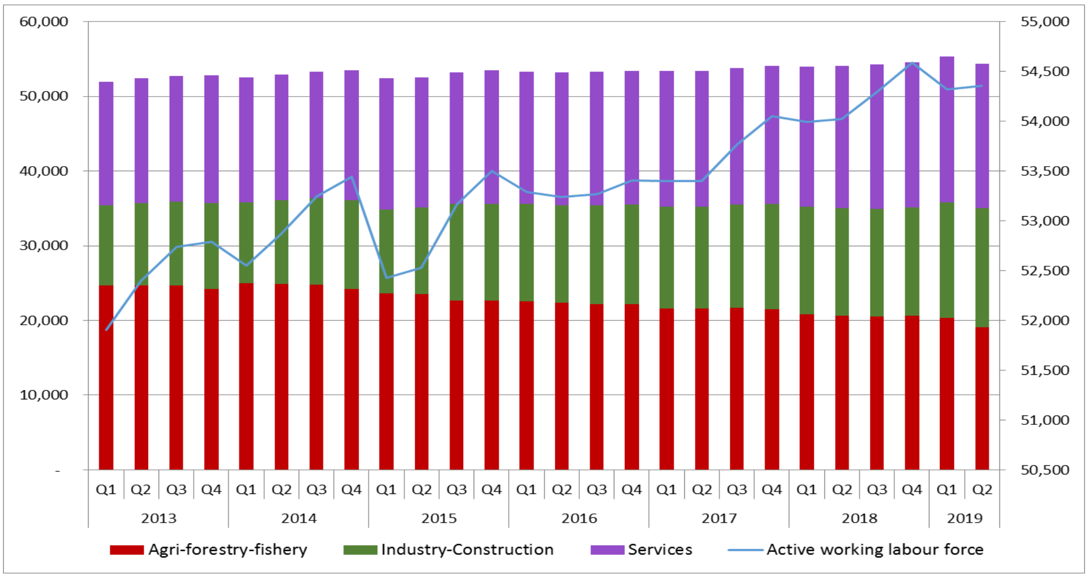
Source: GSO.

37. Employment exhibited improvement in Q2. Total labor force was estimated at 55.5 million people in Q2, up by 335.1 thousand people (YoY). For the first 6 months of 2019, this figure was 55.4 million people, increasing by 334 thousand people as compared to the same period of 2018. Total economically labor force in Q2 attained 54.4 million people, of which 35.1% (equivalent to 19.1 million people) working in the AFF sector, 29.3% (equivalent to 15.9

million people) working in the industry-construction and 35,6% (equivalent to 19.4 million people) working in the services sector (Figure 17).

38. Estimation by GSO showed slight decrease of labor participation rate (down by 0.1 percentage points) as compared to the same period of 2018. The overall unemployment rate was 1.98%; meanwhile, notably, the unemployment rate of young population (15-24 ages) was relatively high, at 6.53%, this figure was 10.16% in urban areas.

Figure 17: Economically active labor force by economic sector, Q1/2013-Q2/2019



Source: GSO.

Note: Active working labor force is shown on the right axis

39. IR4.0 may have effect on labor market via three aspects: unemployment, structure and quality of labor. Labor demand exhibits significant changes, low-cost and low-productivity labor would be replaced by knowledge workers and high quality labor. Unemployment may increase for unskilled workers and labor-intensive industries (such as textiles, processing) or those that can be replaced by automation and machinery (manufacturing – processing, assembling, etc.). The recent report on "Readiness for future production" published by the World Economic Forum shows that Vietnam has been in the "nascent" group, raking 70/100 countries in terms of human resources and 81/100 in terms of high skilled labor, and not yet ready for IR4.0. Accordingly, it is essential to effectively develop and implement active labor market policies, as well as vocational trainings and human resource management.

1.2. Inflation

40. In Q2, the Consumer Price Index (CPI) increased by 0.31% and 0.49% in April and May, respectively before slightly going down by 0.09% in June. The average CPI was up by 2.65% and 2.64% in Q2 and in the first half of 2019, respectively. Overall, inflation in Q2/2019 was significantly below the figure in 2017-2018.

41. The Q2/2019 CPI was affected by such factors as: (i) the increase of food-foodstuff price index, which was attributed to difficulties of the breeding

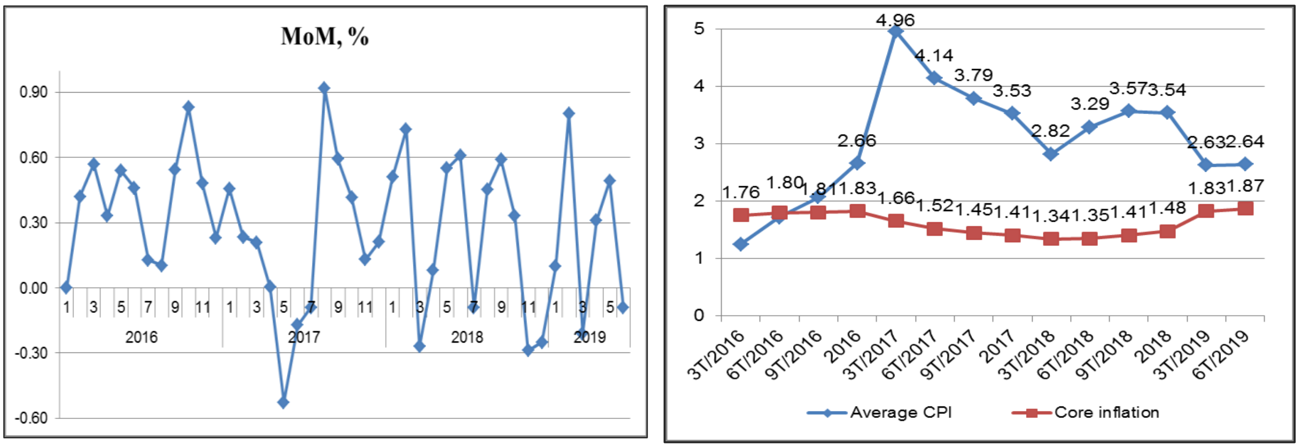
industry resulting from African swine fever (went up by 4.22% compared to the figure in 2018); (ii) adjustments of retailed oil price in the domestic market in the first 6 months (4 downward adjustments; 4 upward adjustments and 4 times remaining unchanged) and impacts of rising environmental protection tariff for oil and petrol products since January 1, 2019; and (iii) impacts of increased electricity price since the end of March on Q2 CPI.

42. The YoY average core inflation in the first half of 2019 was up by 1.87%. In general, monetary policy management created no inflation pressure. However, the fact that YoY average core inflation in the first 3 months and first half of the year were considerably outpaced the figures in 2017-2018, warning for a more cautious approach to monetary policy management.

43. In Q2, the CPI exposed to various impacts from the international market. The export price index of goods kept decreasing (went down by 0.27% and 0.36% in Q1 and Q2 (MoM), respectively). Overall export price index was up by 1.11% in Q2 and 2.77% in the first 6 months. In the meanwhile, the import price index rose slightly by 0.31% in Q1 in comparison to the figure of Q1 and Q2/2018, respectively. However, pressure of import and export price on CPI was insignificant.

Figure 18: Inflation, 2016-2019

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



Source: GSO.

44. In the coming time, inflation pressures include adjustments of state-controlled prices (tuition fee, healthcare services), minimum wage hike (up by 7.19% since July 1, 2019); unfavorable developments affecting domestic supply-demand (African swine fever, unusual weather conditions); uncertainties of world oil price resulting in adjustments of domestic oil and petrol prices as well as movement of the VND/USD exchange rate. Enterprises would suffer from difficulties in implementing the regional minimum wage increase schedule. However, it is likely that inflation target of below 4% (set by the Government) is feasible.

1.3. Monetary movement

45. By the end of June 2019, VND deposit rates ranged from 0.5-1%/year for demand deposits and terms of less than 1 month, 4.5-5.5%/per annum with

terms 1-6 months, 5.5-6.5%/p.a with terms of 6-12 months and 6.6-7.3%/p.a for terms of more than months. VND-denominated deposit rates were kept stable since the end of 2018.

46. VND-denominated lending rates were popular at 6.0-9.0%/p.a for short-term loans and 9.0-11.0%/p.a for medium and long-term loans. Lending rates have not changed since the beginning of 2019.

Table 3: VND-denominated deposit rates of commercial banks

Unit: %/p.a

	Demand deposit	< 6 months	6 – 12 months	> 12 months
End of March 2018	0.6-1.0	4.3-5.5	5.3-6.5	6.5-7.3
End of June 2018	0.6-1.0	4.3-5.3	5.3-6.5	6.5-7.1
End of December 2018	0.6-1.0	4.5-5.5	5.5-6.5	6.6-7.3
End of March 2019	0.5-1.0	4.5-5.5	5.5-6.5	6.6-7.3
End of June 2019	0.5-1.0	4.5-5.5	5.5-6.5	6.6-7.3

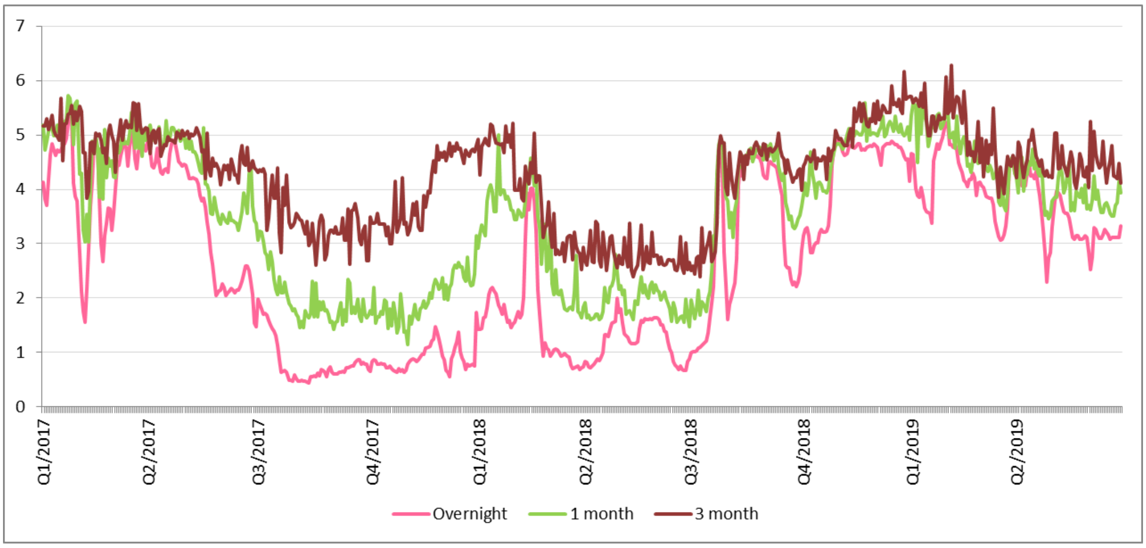
Source: State Bank of Vietnam (SBV).

47. The relative stability of interest rates in Q2 somewhat reflected the efforts of State Bank of Vietnam in maintaining liquidity for commercial banks. Some commercial banks had to compete on deposit rates to preserve their market shares. However, general interest rate level did not reduce while inflation was relatively low as compared to previous years, to a certain extent, resulting in effects on costs of business. The State Bank of Vietnam did not focus on reducing interest rates via administrative manner while its main priority was to stabilize exchange rates and to deal with uncertainties from the external economic environment. For example, that deposit rates rose has partially made VND relatively more attractive than USD, thereby curbing the demand for USD, reducing pressure for the forex market and stabilizing the VND/USD exchange rate.

48. USD denominated deposit rates were continued to be kept at 0%/p.a for both individuals and organizations' deposits to prevent dollarization. USD lending rates were popular at 2.8-6.0%/p.a, in which short-term lending rates were 2.8-4.7%/p.a and medium and long-term lending rates from 4.5-6.0%/p.a. The overall USD lending rate level in Q2 remained unchanged compared to Q1.

Figure 19: Interbank interest rates, Q1/2017 – Q2/2019

Unit: %/p.a



Source: SBV.

49. In general, interbank rates were kept stable in Q2 (Figure 19). However, interbank rates witnessed an upsurge in some specific moments such as mid-April, end of May and end of June, thereby reflecting the lack of liquidity for VND. Some possible causes affecting the movement of interbank rates were: (i) Some commercial banks increased their reserves to meet the required reserve ratio in the middle of April, making interbank rate rise; (ii) the action of transferring cash to the commercial banking system by the end of April by the State Treasury and (iii) credit rose faster in the second half of June.

50. By the end of Q2, outstanding credit rose 4.07% compared to Q1 and 7.33% compared to the end of 2018 (Figure 20). Noticeably, by 18th June, credit balance only increased 6.22% compared to the end of 2018. Hence, from 18th to 30th June, credit balance went up by 1.05%, which was rapid compared to the beginning months of 2010. Possible reasons were: (i) seasonal factor (the actual increase in the first 6 months of 2019 was equivalent to the same period of 2018 (7.82%)); and (ii) approval of higher credit target for banks that had met Basel II standard.[16] However, the chance of loosening overall credit target for 2019 (14%) was quite low as: (i) credit-to-GDP ratio was already high; (ii) SBV needed to create enough pressure to make commercial banks enhance their capital adequacy, thus loosening credit target would make the current credit reward mechanism meaningless; and (iii) SBV has proved the efficiency (to economic growth) from the improvement of credit quality.[17]

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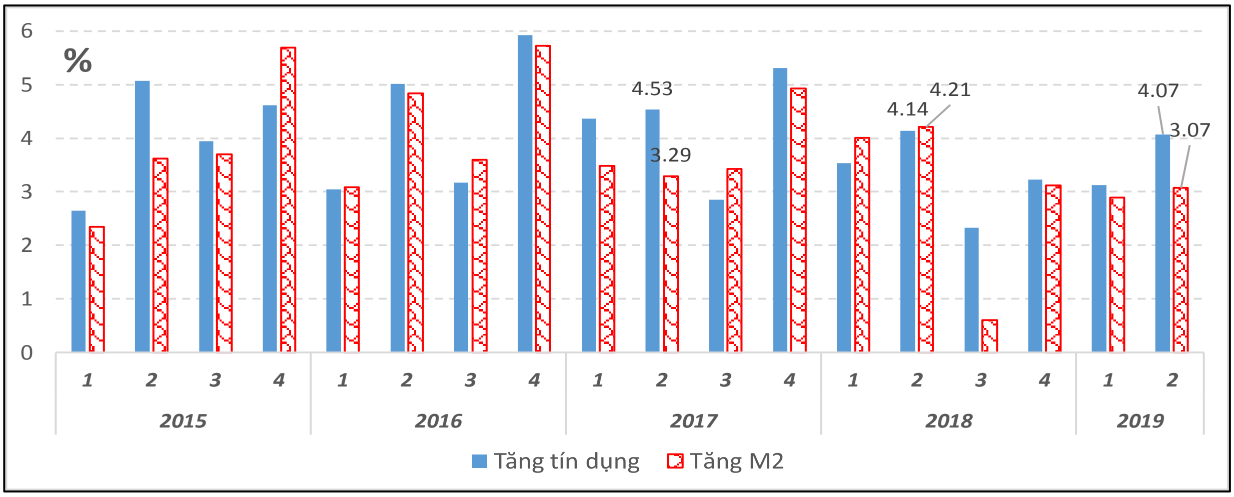
[16] See Can Van Luc (2019), Accessed at http://cafef.vn/vi-sao-tin-dung-tang-truong-than-toc-20190706113047531.chn [Accessed on 7th July 2019]

[17] The SBV has amended Circular 36 to tighten credit classified as consumer loans but are actually used to invest in the real estate market. Specifically, for home loans greater than 3 billion dong, the risk weighting has been increased to 150%, 3 times greater than that of the previous regulation. Accordingly, lending rates for home loans also went up and became less approachable for consumers. Furthermore, commercial banks must meet Basel II standard before 1st Jan 2020. Therefore, many

Figure 20: Growth rate of outstanding credit and M2 (% YoY)

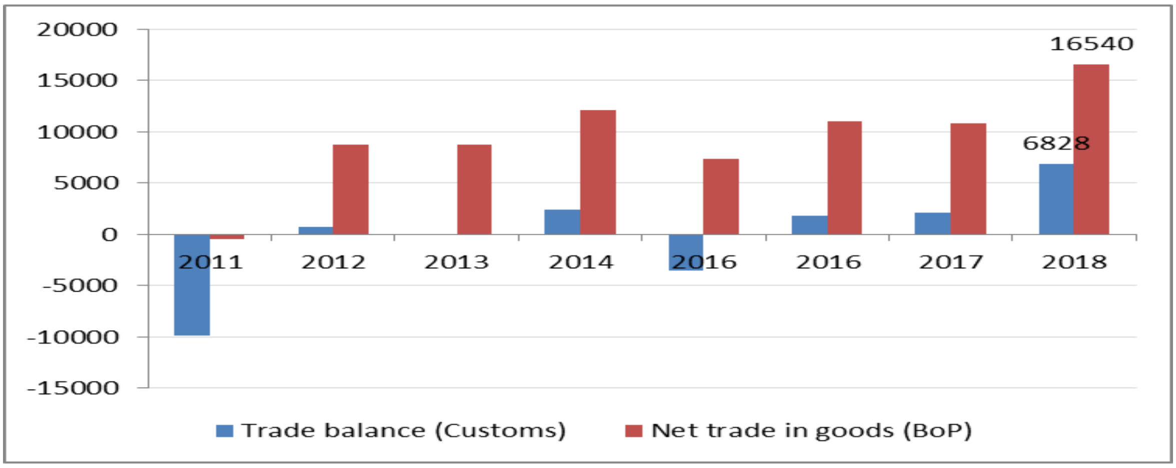


Source: GSO.

51. The overall balance of payment reached a surplus of USD 6 billion in 2018 despite a deficit of USD 1.9 billion in Q4. Trade surplus has contributed significantly to this result (Figure 21). However, trade surplus was not the phenomenon of 2018 or the US-China trade war in particular. It has shown a continuous improvement since Vietnam focused more on macroeconomic stabilization and restructuring since 2011.

Figure 21: Trade balance of Vietnam, 2011-2018

Unit: million USD



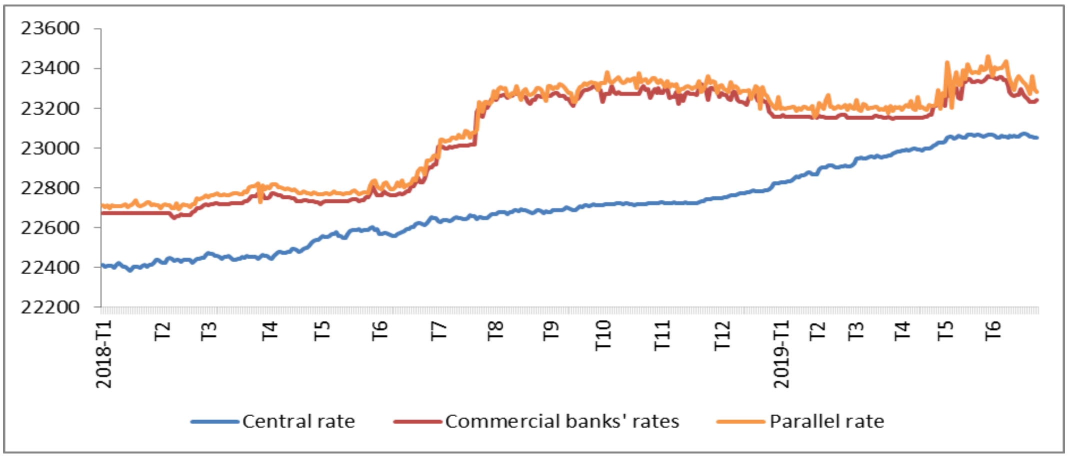
Source: SBV.

52. The central exchange rate witnessed an upward trend in Q2. The central rate moved around 22,976 VND/USD in the beginning of April to 23,065 VND/USD at the end of June. The central exchange rate at the end of Q2 rose 0.17% compared to the end of Q1, 1.06% compared to the end of 2018 and 1.84% compared to the same period of 2018. The upward movement of central exchange rate even when the forex market was quite stable in Q2 could be explained by SBV's intention to create more room for exchange rate

commercial banks would have to reduce their assets and loans to meet the CAR of 8% by the new standard.

fluctuations in the context of uncertainties (such as the escalating tension in trade ward between US and China,[18] the probability for Fed's rate cut, etc.)

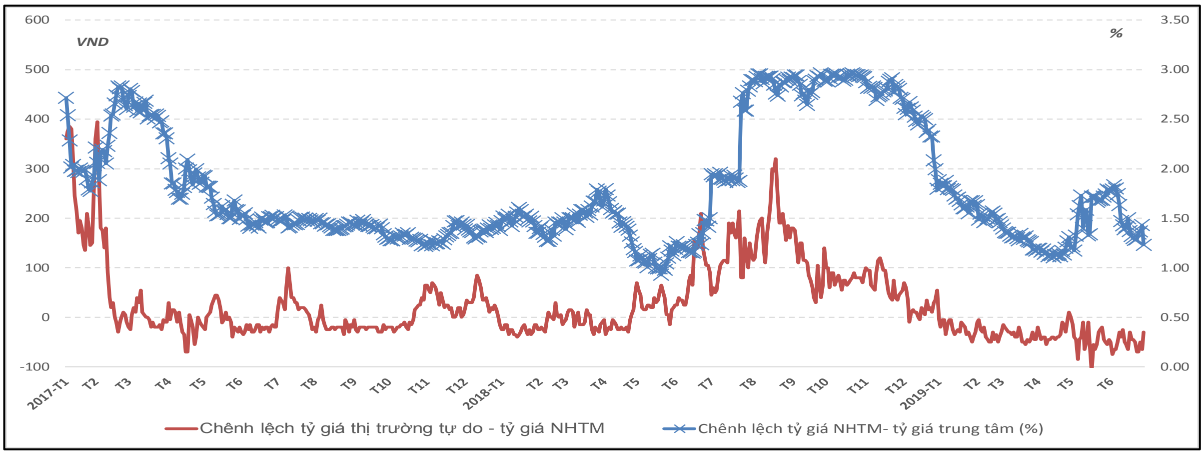
Figure 22: VND/USD exchange, 2017 – June, 2019



Source: CIEM's compilation.

53. VND/USD exchange rate rose from 23,250 VND/USD in the beginning of April to approximately 23,350 VND/USD in the end of June. However, commercial banks' exchange rates kept the upward movement and fluctuated quite strongly in May and in the first week of June, from 23,365 to 23,480. Still, the maximum difference between commercial banks' rates and the central exchange rate was only 1.83% (Figure 23). Remarkably, commercial banks' rates were higher and did not differ much from the parallel market rate in Q2. The causes were: (i) the effective management of SBV; (ii) the development of exchange rates of major currencies was complicated; and (iii) rising market's expectation for interest rate cut in the US.

Figure 23: Gap between exchange rates of commercial banks and central rate and in the parallel market



Source: CIEM's compilation.

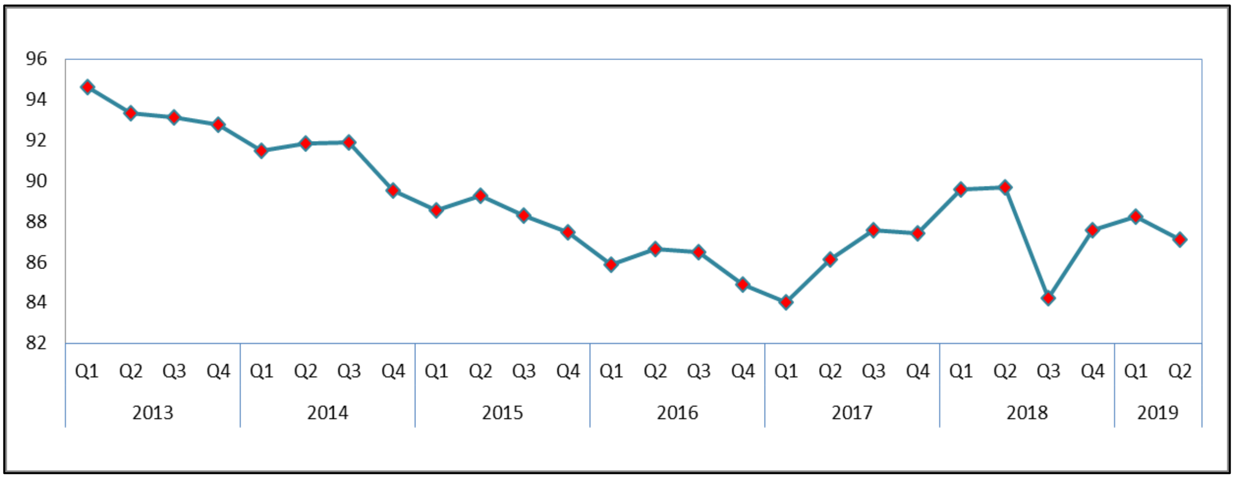
[18] After nearly 5 months, trade negotiation between the US and China failed in the beginning of May. The US officially raised tariff from 10% to 25% on imports from China, which worth USD 200 billion from May 10th and initiated additional tariffs on other USD 325 billion of imports from China. See more in Section III.1.

Note: The gap between exchange rates of commercial banks and central rate is presented on the right vertical axis.

54. The real effective exchange rate (REER) in Q2 declined 1% compared to Q1 and 3% compared to the same period of last year (Figure 24). This development implied that Vietnamese goods was relatively more expensive than goods from partner countries. The main reason was because the domestic inflation has risen faster than inflations of partner countries. Along with stabilizing the exchange rate, the result confirmed that Vietnam did not manipulate exchange rate to support its exports.

55. In May report, the US Department of Finance put Vietnam in its tracking list for countries that possibly committed currency manipulation. It should be noted that the report did not confirm that Vietnam has manipulated its currency. However, such action of the USA has surprised many Vietnamese agencies, especially in the context: (i) The US seemed to pay more attention to the US-China trade war; (ii) Vietnam and the US regularly discussed economic and trade issues of mutual interest; and (iii) Vietnam was considered to have a relatively small scale among countries having high trade surplus with the US. Although the US applied published and justified criteria[19], their action perhaps showed the direct consequences of many policy recommendations to devaluate VND in recent years. In addition to the justification to the US, The State Bank of Vietnam has had positive communication activities, which acknowledged the report of the US Department of Finance and reaffirmed that Vietnam did not advocate for VND devaluation to support exports.

Figure 24: Real Effective Exchange Rate (REER)



Source: Authors' calculation

Note: Q1/2012=100. REER is calculated based on trade data with 20 biggest trading partners and CPI statistics; Data for Q2/2019 was estimated. A smaller value implies that Vietnamese goods are relatively more expensive than foreign ones

[19] 3 criteria: (i) having trade surplus with the US of at least USD 20 billion, (ii) having current account surplus equal to 2% GDP and (3) having persistent and one-side intervention when net purchases of foreign currency are conducted repeatedly and total at least 2 percent of an economy's GDP over a 6-month period. The first 2 criteria are considered applicable for Vietnam's case.

1.4. Investment

56. Gross investment in Q2 was estimated at VND 462.8 trillion, up by 11.2%. In the first 6 months of 2019, gross investment was estimated at VND 822.9 trillion, up 10.3% (Table 4). At constant prices of 2010, gross investment increased by 7.2%. The investment-to-GDP ratio in Q2 was approximately 33.9% (slightly more than 0.5 percentage points compared to the average for the period of 2016-2018), and reached 33.1% in the first 6 months.

Table 4: Gross investment at current prices

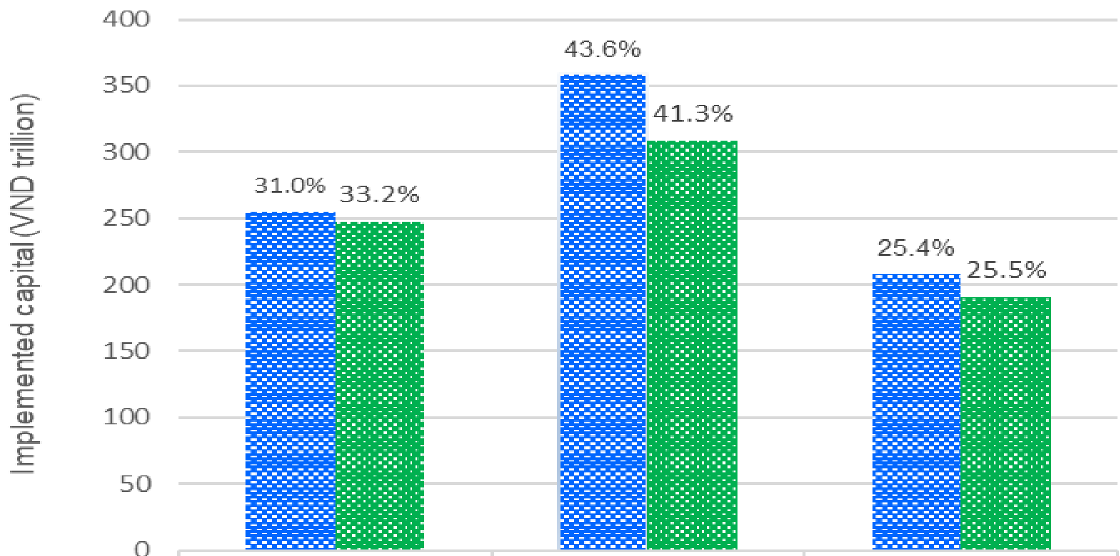
Unit: VND trillion

No.	*Categories*	*Q1 2019*	*Q2 2019*	*1H 2019*	*Changes in Q2 2019 (%)*	*Change in 1H 2019 (%)*
	Gross investment	**360.1**	**462.8**	**822.9**	**11.2**	**10.3**
I	***State investment***	***106.0***	***149.1***	***255.0***	***3.3***	***2.1***
1	State budget investment	51.1	77.8	128.9	3.7	3.7
2	Government bonds	4.8	8.7	13.5	-10.9	-14.0
3	State credit	8.6	11.3	19.8	26.1	19.9
4	Borrowings from other sources (by the State sector)	20.6	26.1	46.7	-1.1	-0.9
5	Investment by SOEs (Equity)	14.2	16.4	30.7	-2.8	-3.3
6	Other sources	6.7	8.8	15.5	21.4	26.8
II	***Non-state investment***	***159.8***	***199.3***	***359.1***	***17.7***	***16.4***
III	***FDI***	***94.4***	***114.4***	***208.8***	***11.5***	***9.7***

Source: GSO.

57. The private sector still kept the top position in investment growth in the first 6 months of 2019, reaching 16.4%, accounting for 43.6% of total investment. However, the growth rate of this sector was 1.1 percentage points lower than the same period of 2018. The FDI sector achieved an investment growth rate of 9.7%, 1.2 percentage points higher than YoY rate. The structure of investment continued to shift towards reducing the proportion of investment from the state sector and increasing the portion of investment from the FDI sector and especially from the private sector. (Figure 25).

Figure 25: Investment capital by types of ownership



	State	Non-state	FDI
1H 2019	255.0	359.1	208.8
1H 2018	247.5	308.4	190.4

Source: GSO.

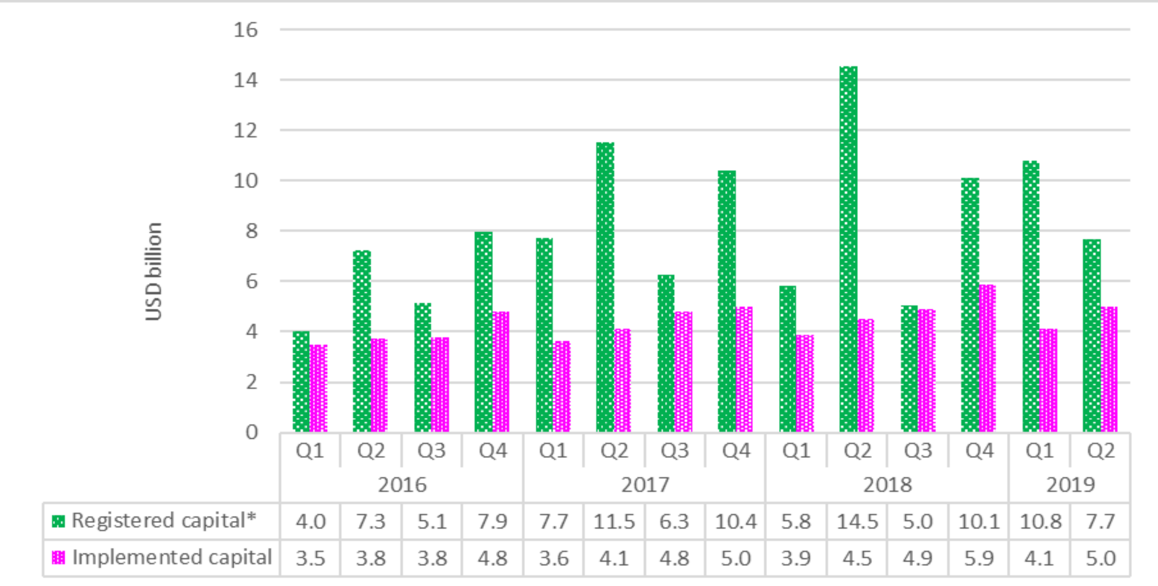
58. Investment growth of the domestic private sector and the FDI sector was mostly attributed by Vietnam's stable macro environment and continuous domestic reforms towards increasing transparency and facilitating startups and business expansion. Notably, the country has implemented CPTPP and prepared for EVFTA, thereby creating more opportunities to access to key export markets for domestic enterprises and foreign investors in Vietnam. Besides, many businesses, particularly foreign investors, were eager to increase their presence/investment to grasp opportunities in Vietnam - especially when Vietnam has been considered to be relatively beneficial amid the US-China trade war.

59. The disbursement of public investment in the first 6 months of 2019 reached about 80% of the plan. A recent report assessing the implementation of medium-term public investment plan showed that ministries, branches, and localities have not paid adequate attention to planning and as a result, failed to present demand-driven realistic proposals, leading to mismatching and inadequate estimation of disbursement needs for medium-term and annual public investment plans. Besides, the central and local authorities also spend a lot of time on the allocation of capital plans as well as the completion of investment procedures. Adjustments of annual public investment plans of ministries and localities need to go through various competent authorities for verification and consideration of approval, which are so time-consuming. In this regard, the revised Public Investment Law has been expected to help significantly address these obstacles.

60. FDI inflows continued to experience some notable developments in Q2 and first half of 2019. Total registered capital (including new registration, additional registration and capital contribution to buy shares of foreign investors) reached USD 7.6 billion in Q2 and USD 18.5 billion in the first 6

months of 2019, experiencing a reduction of 47% and 8.2% respectively compared to the same periods of previous year. However, the implemented capital witnessed a growth rate of 8.7%, reaching USD 9.1 billion in the first half of 2019. (Figure 26).

Figure 26: FDI attraction and disbursement



	2016				2017				2018				2019	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
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
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

Source: GSO.

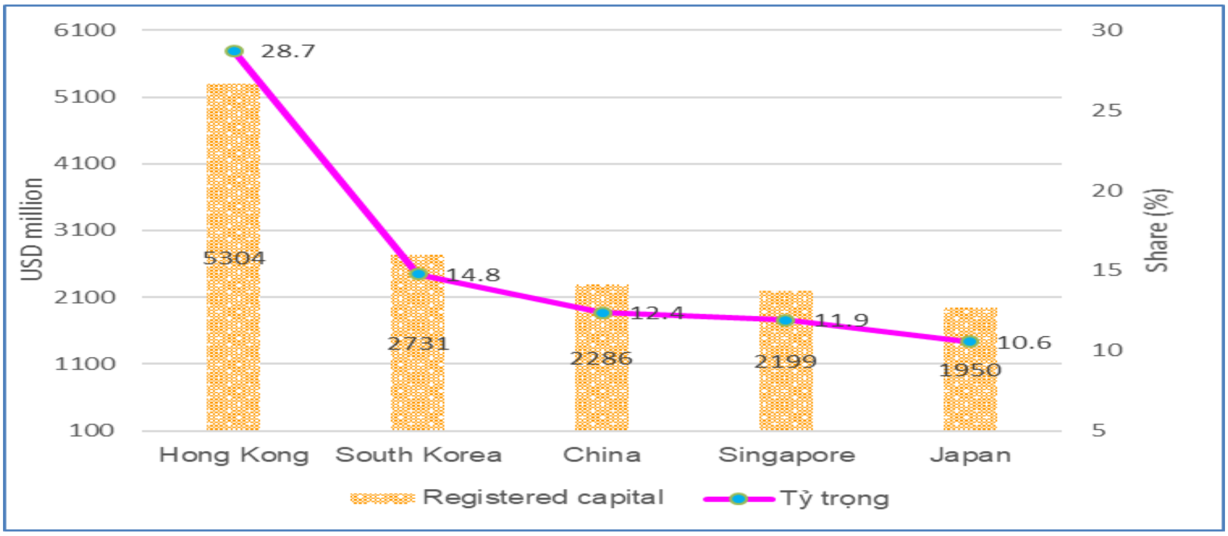
Note: (*) including capital sources of new registration, additional registration, and contributed capital to buy shares of foreign investors.

61. The reduction of registered capital in the first half of 2019 can be viewed from several angles. From external factors, the shift of investment to Vietnam needs a certain amount of time. Therefore, even if Vietnam has been considered to possess a (relative) advantage to attract foreign investment in the context of US-China trade war, figures of registered capital in the first 6 months of 2019 may not be fully reflected. Meanwhile, the implementation of CPTPP also had a somewhat similar impact in attracting foreign investment, especially regarding the diversion of investments from China to Vietnam. In terms of internal factors, Vietnam is still in the process of considering and perfecting its orientations to attract FDI inflows, and this process may make foreign investors more or less to be in the mood of 'wait and see.' It is worth noting that the prioritized selection of advanced and modern technology projects focusing on high-tech, environmentally friendly and less energy-consuming industries is proper, but this priority also requires more time and costs during the project appraisal process.

62. The countries and territories in Asia continued to be the largest suppliers of FDI inflows in the first half of 2019. Five leading positions in FDI attraction were Asian investors, accounting for 78.4% of the total registered capital. Regarding newly registered FDI inflows, China ranked first with USD 1.7 billion, accounting for 22.6%, while Hong Kong ranked fourth and accounted for 12.4%. In terms of capital contribution to buy shares of foreign investors, Hong Kong ranked first with USD 4 billion (49.6%), while China ranked fourth with USD

408.8 million (5%). Korea remained a prominent investor and ranked second in terms of the newly registered capital as well as of total registered capital (Figure 27).

Figure 27: FDI attraction by the top five investors



Source: MPI.

63. The shifts in FDI inflow associated with recent imports and exports, particularly in interaction with Vietnam's key trading and investment partners - the United States and China, presented Vietnam with several significant challenges. *First*, the unusual investment shifts from China - coupled with increased imports from China - may entail concerns about Vietnam as a "landing zone" for Chinese businesses to avoid tax measures and other measures imposed by the US. *Second*, these developments also exacerbate the competition and crowding-out effects of FDI firms on domestic enterprises - which have existed for many years. *Third*, given Vietnam's policy of no discrimination toward investment partners, the profound challenge is how to balance the requirement of screening investment projects with the reduction of unnecessary policy costs for investment activities. *Fourth*, the image of Chinese investments can only be improved with the presence of positive breakthroughs, producing results that are fast and inclusive enough, but realizing these expectations is not simple.

1.5. Trade

64. Exports in Q2 were estimated at USD 63.86 billion, increasing by 9.3% (Figure 28). Total export in the first 6 months reached USD 122.72 billion, up 7.3%. The growth rate in the first 6 months was much lower than that of the same period in 2017-2018[20]. However, exports in Q2 improved significantly compared to Q1[21].

65. Vietnam's exports increased slowly due to: (i) Global trade decline, especially, in the context of the escalation of USA-China trade tension; (ii) The large

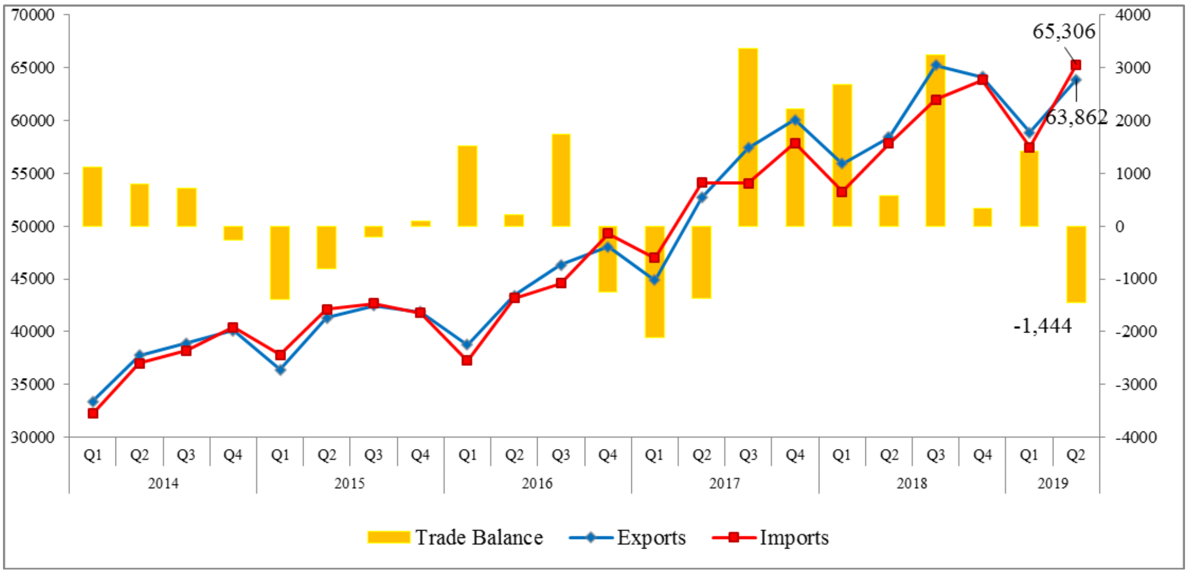
[20] Export growth rate in the first 6 months of the year: 19.4% in 2017, 16.4% in 2018.

[21] Specifically, exports in 2 months increased by 4.2%, 3 months by 5.3%, by 4 months by 6.5% and by 5 months by 6.7%.

export proportion of some key products still belonged to the FDI sector, while some large FDI companies had slower export growth rates than the previous years; and (iii) Export of AFF products faced many difficulties in terms of prices and requirements of some import markets (such as China, EU, Australia, etc.)

Figure 28: Export, Imports and Trade Balance, 2014- Q2/2019

Unit: Million USD

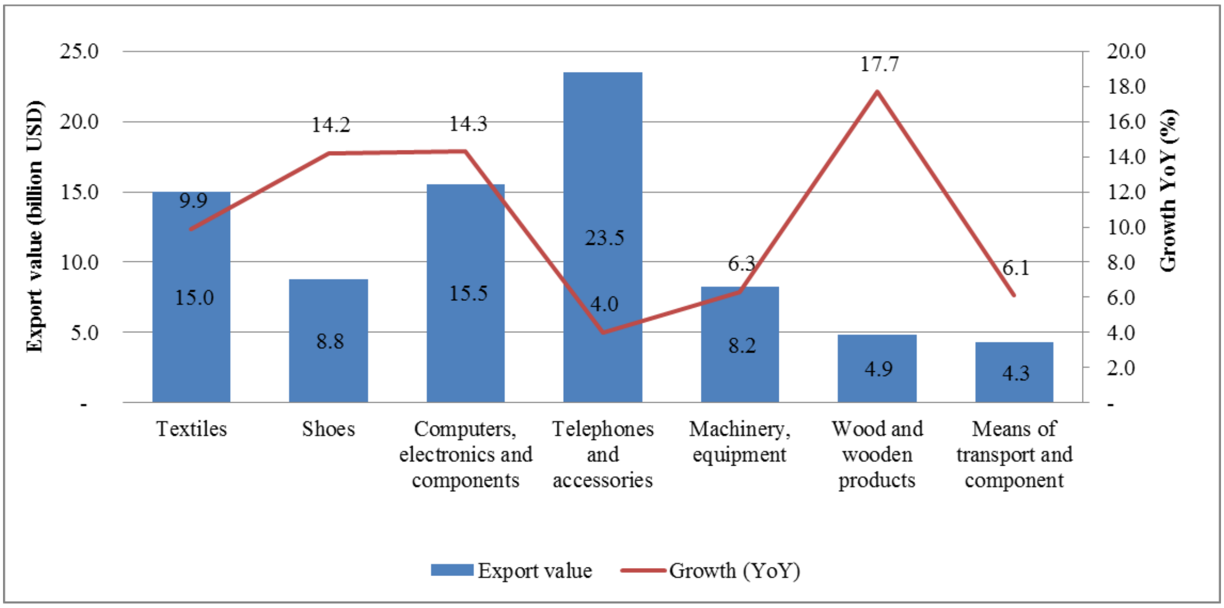


Source: GSO and General Department of Customs.

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

66. Exports of the domestic sector continued to achieve higher growth rates than the FDI sector. Specifically, in the first 6 months, domestic sector export reached USD 36.82 billion, up 10.8%, accounting for 30% of total export turnover; export of FDI sector (including crude oil) reached USD 85.90 billion, up 5.9%, accounting for 70%. Therefore, export growth of the domestic sector has been faster in the context of export decline of FDI enterprises. More specifically, this result might imply that domestic firms really had enough vitality, adaptability and ability to engage in export activity - when the crowding out effect from the FDI sector diminished.

Figure 29: Some key export items in the first 6 months of 2019



Source: GSO.

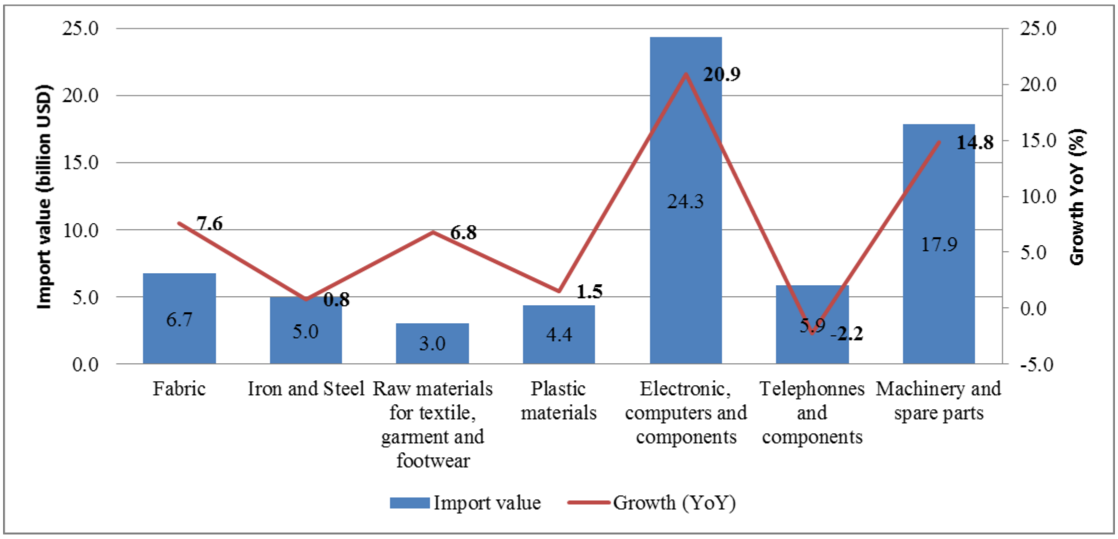
67. In the first 6 month of 2019, Viet Nam had 22 items with individual export values of over USD 1 billion, accounting for 86.9% of total export turnover. In general, most of key industrial products continued performing well with positive (Figure 29). Exports of telephones and accessories only increased by 4%: although exports to the USA increased to 91.7%, exports to major markets increased low or declined, especially in Europe (down 6.5 %) and China (down 45.6%)[22].

68. Exports of many main agricultural products fell sharply. Specifically, coffee export reached USD 1.6 billion, down 21.1% (volume decreased by 10.6%); cashew nuts reached 1.5 billion USD, down 11.8% (volume increased by 12.5%); rice reached 1.5 billion USD, decreased by 17.6% (volume decreased by 2.9%). Highlights for agricultural exports in the first 6 months of 2019 are vegetables and fruits with high export value of over USD 2 billion, up 5%. Fisheries product export reached USD 3.9 billion, down 0.8% and accounting for 3.2%.

69. Imports in Q2 reached USD 65.31 billion, up by 12.9% (Figure 30). For the first 6 months of 2019, the import turnover was estimated at USD 122.76 billion, rising by 10.5%. Domestic imports reached 52.54 billion USD, up 14.4%, contributing 5.96 percentage points to the overall import growth rate. Imports of FDI sector reached 70.22 billion USD, up 7.8%, contributing 4.56 percentage points to the overall import growth rate.

[22] The figures of the China General Statistics Office until the end of May 2019, the Chinese telephone market is saturated, plus the market share of Apple and Samsung has been taken by Chinese suppliers as the main reason for the decline. The smart phone market in Europe is forecast to increase only 1.4% this year

Figure 30: Some key import items in the first 6 months of 2019



Source: GSO.

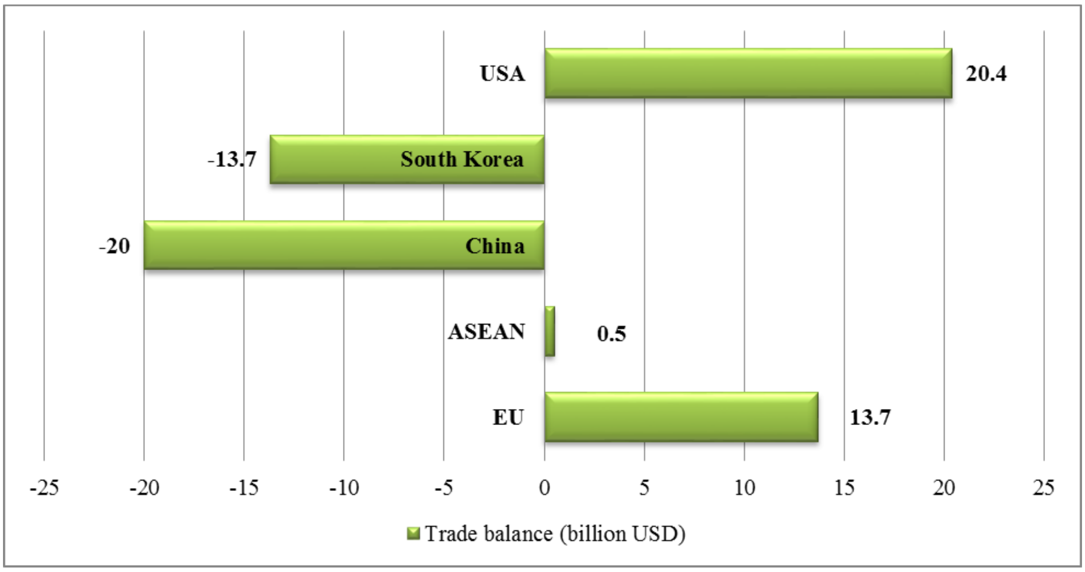
70. By product, imports in the first 6 months mainly focused on production means and inputs amounted to USD 112.3 billion, up by 10.1% and accounting for 91.4% of total import turnover. Of which, imports of crude oil and coal rapidly increased to supply for oil refining and coal thermal projects (crude oil reached 2.2 billion USD, up by 262%; coal reached more than 2 billion USD, up by 68.7%). Imports of machinery, computers, equipment and spare parts grew rapidly by 20.9% (reaching USD 2.4 billion). Accordingly, the import structure also reflected quite closely the trend of Vietnam’s investment and exports. In that respect, Vietnam has still participated - if not mentioned more broadly - into global and regional value chains. However, more detailed assessment still needed to consider whether the import structure limits Vietnam's ability to improve its position in the global and regional value chains.

71. In the first 6 month of 2019, the USA remained the largest export market of Viet Nam, accounting for 22.4%. China ranked third in Vietnam's export market list, reaching USD 16.8 billion, up only 1%. However, China is also the largest source of imports with a turnover of USD 36.8 billion, up by 21.8%. This raises concerns about a trade diversion from the USA to Vietnam for Chinese exports[23].

72. In the first 6 months, Vietnam suffered a trade deficit of USD 34 million. Trade deficit mainly comes from domestic sector, at USD 15.72 billion; while FDI sector (including crude oil) had trade surplus of USD 15.68 billion. Among the ten largest trading partners, Vietnam's trade balance only reached a surplus with 3 markets. In which, Vietnam gained a trade surplus of USD 20.4 billion with the USA; USD 13.7 billion with the EU and over USD 900 million with Japan. In contrast, Vietnam suffered the largest trade deficit with China (USD 20 billion), followed by South Korea (USD 13.7 billion) (Figure 31**Error! Reference source not found.**).

[23] Further analyzed in section III.1.

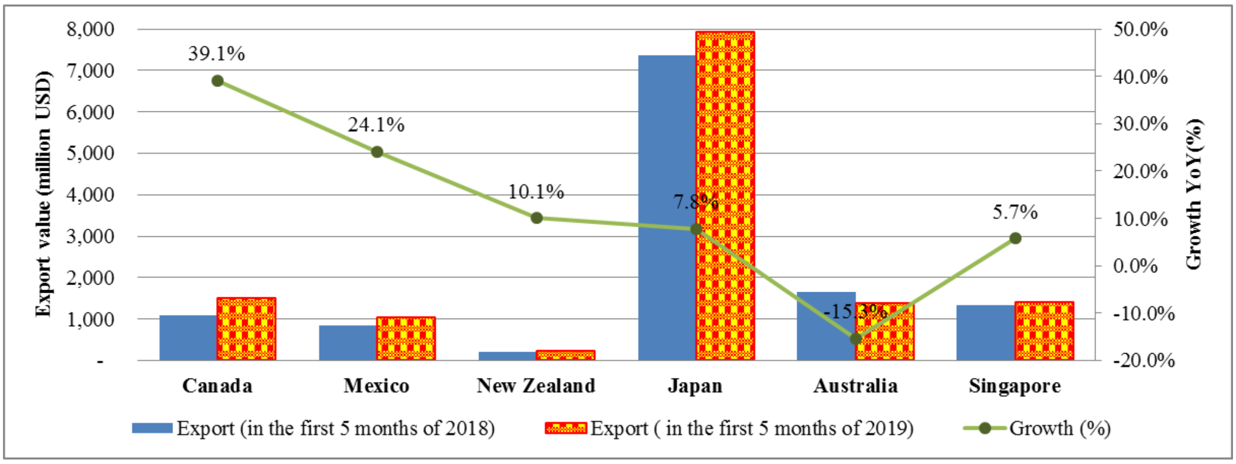
Figure 31: Trade balance by partner in the first 6 months of 2019



Source: GSO.

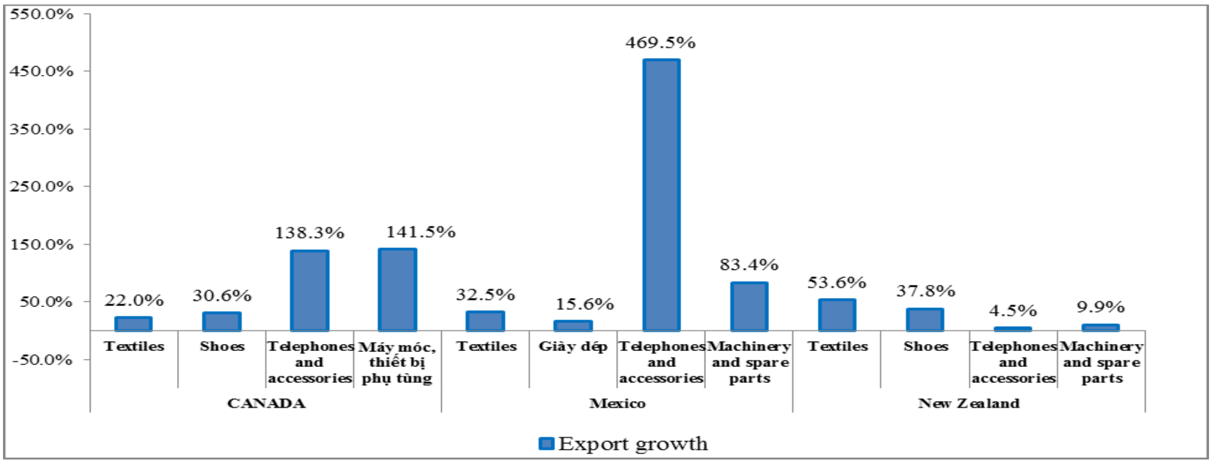
73. Since the official enforcement of CPTPP, some initial results have been recognized. *First*, Viet Nam's export turnover to CPTPP markets almost increased except Australia (Figure 32). *Second*, Viet Nam has initially taken advantage of CPTPP to exploit new markets (Canada and Mexico), thereby diversifying export activities and gradually reducing the level of vulnerability in the context of the complicated USA-China trade war. *Third*, the main export items of Vietnam (textiles, footwear, telephones and components; machinery and equipment, etc.) into new markets in the CPTPP almost increased (Figure 33), demonstrating the capacity to take advantage of certain incentives from the CPTPP agreement of enterprises.

Figure 32: Exports to CPTPP markets



Source: General Department of Customs.

Figure 33: Export growth of some items to CPTPP markets



Source: General Department of Customs.

74. The EU-Vietnam Free Trade Agreement (EVFTA) was signed on June 30, 2019, in Ha Noi. After being approved for enforcement, EVFTA can increase opportunities for Viet Nam to diversify export markets and commodities, through: (i) the highest level of tariff reduction commitments for Viet Nam compared to the signed FTAs[24]; (ii) Rules of origin in EVFTA are more extensive than CPTPP thanks to flexible commitments on cumulative rules of origin[25]; (iii) diversifying options at different requirements, roadmaps and benefits - under different FTAs - for Vietnamese exporters at all levels of competitiveness; and (iv) the EU support and capacity building for Vietnam in specific trade-related areas. However, assessing the advantages that EVFTA brings to Vietnam compared to other ASEAN countries - in accessing the EU market - is too early. In fact, the EU completed FTA with Singapore and is also negotiating FTAs with some other ASEAN countries. The possibility that the EU will have a FTA with ASEAN in the future isn't also excluded. Therefore, optimism about the prospects and role of EVFTA in Vietnam's international economic integration process is necessary, but it is important to avoid over-emphasis on EVFTA's impact figures and ignoring the Agreement's interaction with other existing FTAs.

75. Taking advantage of FTAs, improving the competitiveness of Vietnamese goods is an essential requirement. However, for many years, a seemingly simple concept like "Vietnamese goods" has hardly been defined accurately and scientifically. Not to overstate, the perception of the concept of "Vietnamese goods" is also roughly, lacking in clarity as how we look at product quality requirements in Viet Nam. To the extent that imported goods are fraudulent Vietnamese origin and labels aren't new issues. In the context of USA-China trade war, the USA actions imposed on fraudulent goods

[24] For Vietnam, the EU will eliminate 85.6% of the tariff lines, equivalent to 70.3% of Vietnam's exports to this market, as soon as the agreement enters into force. Over the next seven years, the EU will eliminate duties on 99.7% of Vietnam's exports while the remaining 0.3% will enjoy zero tariffs within the quotas set for them. After 10 years, the tariff elimination level is about 98.3% of tariff lines (accounting for 99.8% of import turnover)

[25] Raw materials from countries having FTA agreements with both Vietnam and the EU are considered to meet origin conditions to enjoy tariff preferences under the EVFTA agreement.

originating from Vietnam and the accompanying consequences require agencies to be more serious about "Vietnamese goods" and related regulations and sanctions.

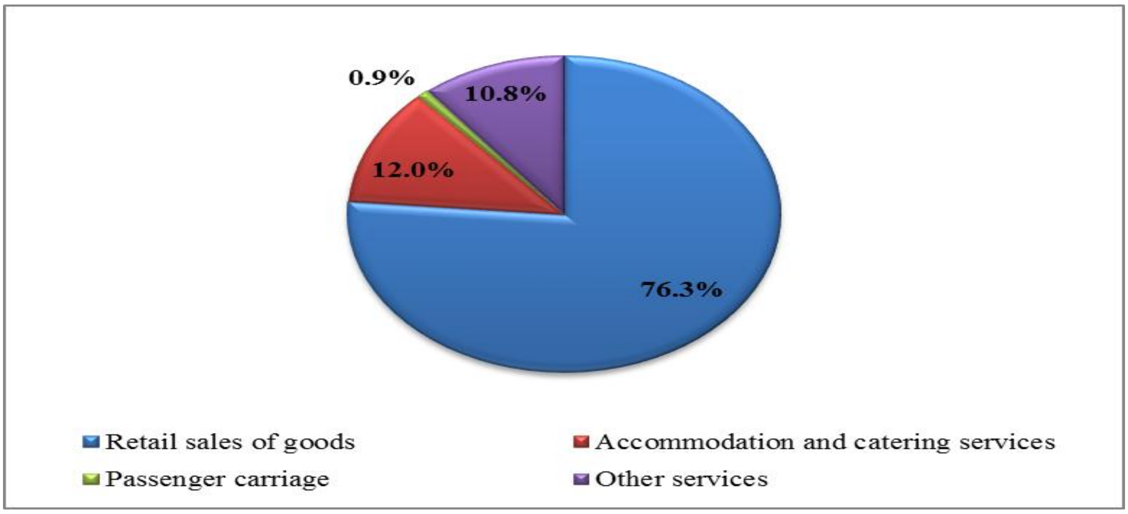
76. It is not simple to recognize and implement real actions (if not to say it must be urgent). Approaching the definition of Vietnamese goods in the simplest way is that the business owner is Vietnamese, but cannot solve the existing problems and risks. The approach of origin rules in Viet Nam's FTAs is another acceptable option - but the majority of Vietnamese exported products - including those of some large private enterprises that have just joined manufacturing – can't be satisfied[26]. In addition, focusing on inspections and checking for origin fraud - if not well organized – can increase business costs, thereby reducing, even reversing, achievements in improving the business environment, cutting costs for businesses in previous years. In this regard, Vietnamese agencies may need a "softer" approach, associated with personal responsibility and more public-private dialogue in assessing the risk of fraud origin, and participating in explanations, even guaranteeing for businesses with the US

77. Regarding domestic trade, total retail sales of goods and services (at current prices) amounted to VND 2,391.1 trillion in the first 6 months, up by 11.5% (YoY). Excluding the price factor, the growth rate was 8.7%, higher than in 2018 (8.6%).

78. Retail sales of goods accounted for the largest proportion, amounted to VND 1,823.6, accounting for 76.3%, an increase of 12.5% (YoY) (**Error! Reference source not found.**). However, the growing presence of foreign-owned retail outlets is also accompanied by the possibility of increasing foreign goods presence in these retail outlets. Viet Nam has been and will be facing greater challenges in ensuring the distribution channels for domestic production of goods - especially for small and medium enterprises, small-scale producers - to the domestic market.

[26] The practical report up to 2018 shows that the proportion of export products that benefit from preferential treatment in FTAs (including meeting the rules of origin) is quite small. Refer to data in VCCI (2018)

Figure 34: Retail sales of goods and services by activity in the first 6 months 2019 (%)



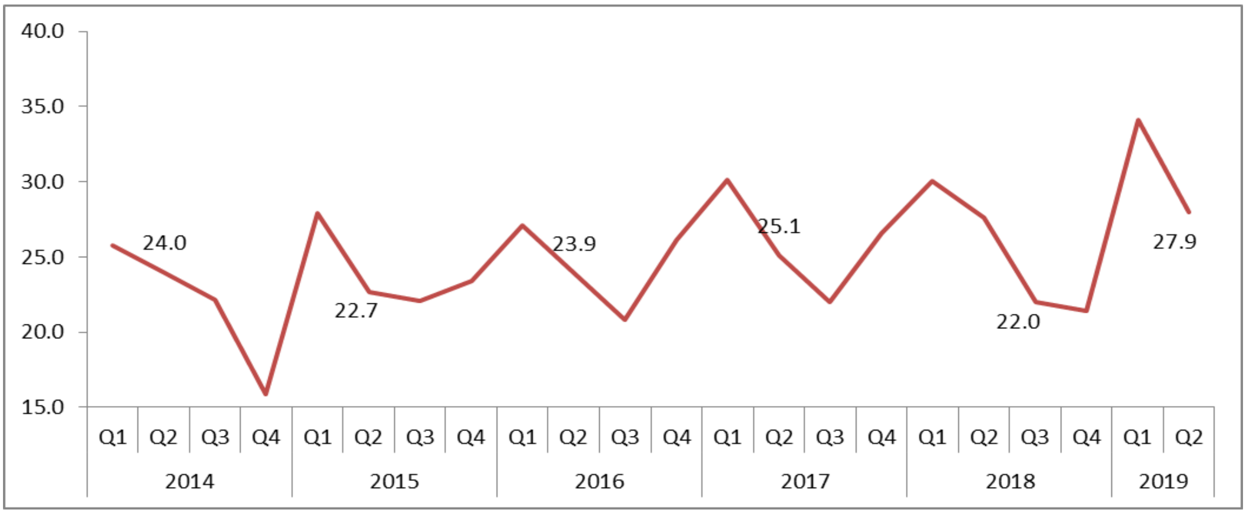
Source: GSO.

1.6. Budget revenues and expenditures

79. Total budget revenues of Q2 was estimated at VND 382 trillion[27], equivalent to 27% of the 2019 target. The revenues were equal to 27.9% of GDP at current prices. Beget revenues rose 9.17% compared to that of the same period of 2018.

Figure 35: Budget revenues to GDP

Unit: %



Source: Ministry of Finance and GSO

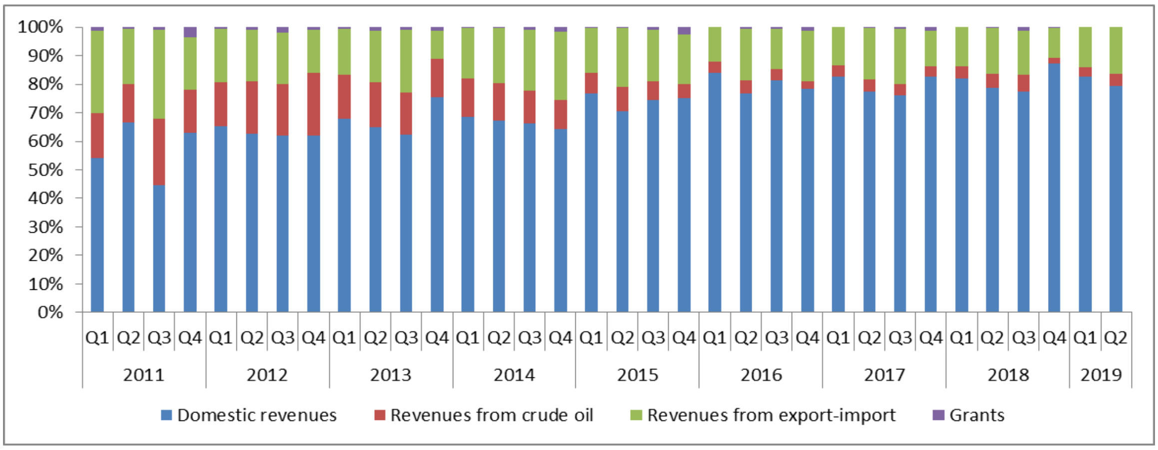
80. Regarding the structure of revenues in Q2, domestic revenues reached VND 303.1 trillion (increasing 9.38%), revenues from crude oil attained VND 16.9 trillion (3.68%) and revenues from export and import were VND 62 trillion (10.32%). The shares of three mentioned types of revenues in total budget revenues were 79.3%, 4.4% and 16.3%, respectively. Overall, revenues from crude oil remained stable and low from 2016 to Q2/2019. Notably, the

[27] Data updated til 15th June 2019 (GSO)

proportion of revenues from exports and imports rose in the first 2 quarters, which could possibly affected the cost of export-import firms and growth rates of export and import in the first 6 months.

Figure 36: Structure of State budget revenues

Unit: %



Source: Ministry of Finance and GSO

81. For the first 6 months, total revenues were estimated at VND 660.6 trillion, equal to 46.8% of planned target for 2019. In which, domestic revenues were VND 524.8 trillion (equal to 44.7% of the target), revenues from crude oil VND 26.1 trillion (58.4%) and revenues from export and import VND 109 trillion (57.6%). It should be noted that domestic revenues had the lowest collection rate compared to the 2019 target. Moreover, it was not sustainable. Among the items of domestic revenues, only land rents achieved more than 50% of the target (55.5%).

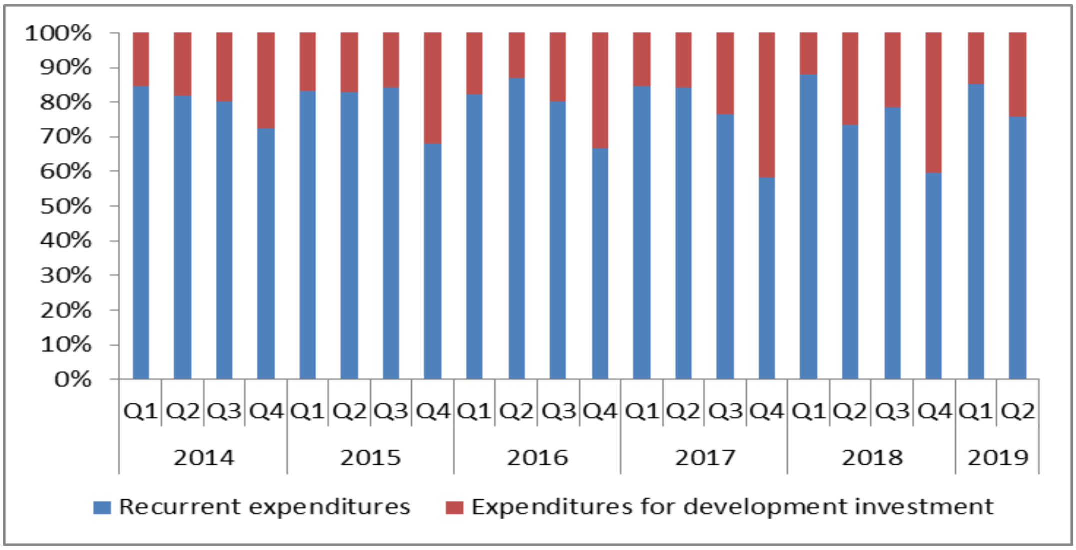
82. Total expenditures were estimated at VND 367 trillion in Q2[28], rising 1.92% compared to the same period in 2018. The expenditures in Q2 were equivalent to 22.5% of planned target in 2019. In which, recurrent expenditures attained VND 248.4 trillion, increasing 6.61%, equivalent to 21.2%. Due to slow disbursement, the growth rate of expenditures for development investment decreased compared to that of the same period in 2018. Specifically, expenditures for development investment achieved VND 78.6 trillion in Q2, reducing 16% compared to Q2/2018. Interest payment was estimated at VND 28.2 trillion, falling 9.03%. The decline in the proportion of recurrent revenues is thus unclear (Figure 37).

83. For the first 6 months, total budget expenditures reached VND 612.5 trillion, equal to 37.5% of total plan target. In which, recurrent expenditures attained VND 441.1 trillion, increasing 6.03% and equaled to 44.1% of the target. Expenditures for development investment reached 113.1 trillion dong, rising 0.9% and equaled to 26.1% of the target. Interest payment achieved VND 55.9 trillion, equivalent to 44.7% of the target.

[28] Data updated till 15th June, 2019 (GSO)

Figure 37: Structure of State budget expenditures

Unit: %

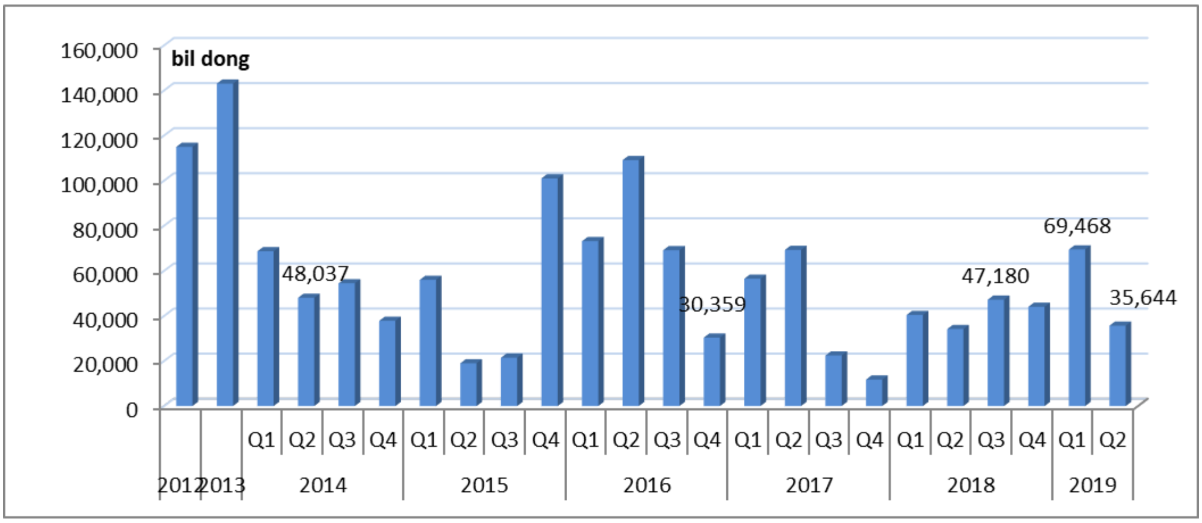


Source: Ministry of Finance and GSO

84. Government bond issuance (GBs) in Q2 reached VND 35.6 trillion, equivalent to the amount issued in Q2/2016 but lower than the corresponding figures of Q2/2016 and Q2/2017. The amount of GBs issuance in Q2 was equal to 17.8% of the target for 2019 (VND 200 trillion). By the end of June, the total GBs issuance attained VND 105.1 trillion, equivalent to 52.6% of the planned figures.

Figure 38: Government bonds issuance, 2012-2019

Unit: billion dong



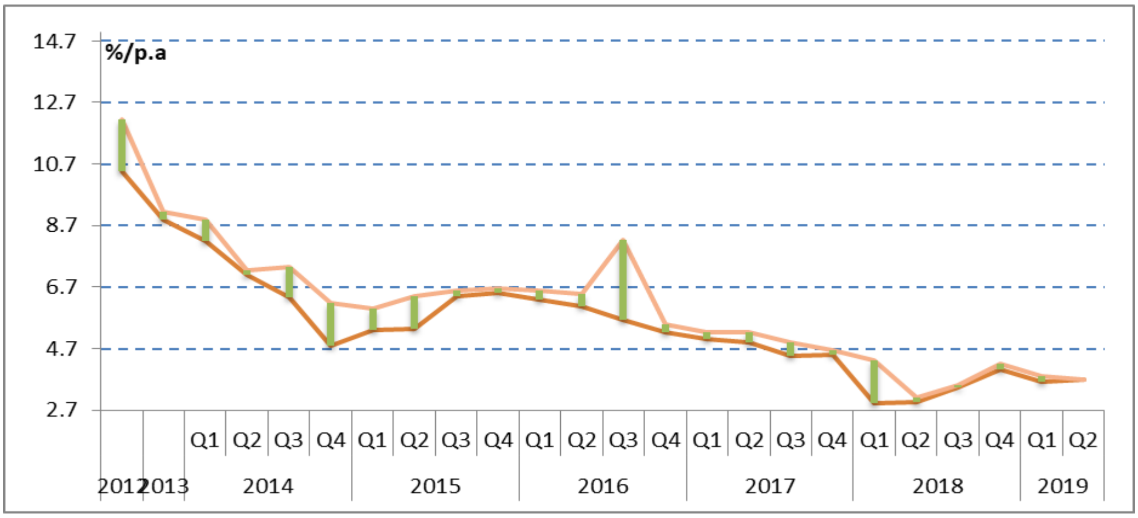
Source: HNX

85. Interest rate on successful bids of GBs (5 years term to maturity) was 3.7%. Compared to Q1, the interest range was kept similar (3.62% - 3.82%/p.a). The total value of GBs issuance in Q2 was lower than that of the same period of preceding years. However, it could be considered as a relatively good coordination between monetary and fiscal policies in the context of volatile

exchange rate in Q2 and commercial banks maintaining good liquidity to keep interest rate stable.

Figure 1: Interest rate on successful bids of Government bonds with 5-year terms to maturity

Unit: %/p.a



Source: HNX.

86. By value of successful bids, 15-year and 10-year GBs occupied the largest shares of 37.5% and 34.09%, respectively. Short-term GBs like 5-year or 7-year GBs took small proportions (0.3% and 0.56%, respectively). The issuance of longer term GBs by the Government helped relieve debt repayment pressure for the state budget. Therefore, the state could utilize fund from GBs issuance to serve long-term investment objectives. However, this intention was partially affected by the slow disbursement of the public investment. In this regard, the coordination of policies to ensure the amount of GBs issuance should not be considered a great achievement because if the private sector could approach that long-term capital, they might have brought greater socio-economic efficiency.

2. *Macroeconomic outlook*

87. A forecast scenario is updated for Vietnam in 2019, basing on assessment of global economic recovery and domestic economic movement. The development of forecast scenario is based on assessment of organizations on world economic outlook, movements of domestic economy in the first 6 months, as well as the possibility of employing policy instruments in the country. Accordingly, GDP growth in partner countries is projected at 2.6% in 2019.[29] US inflation may reach 1.5%.[30] Export prices of agricultural products may reduce by 4.3%.[31] Export prices of crude oil may reduce by 4.4%.[32] For

[29] According to WB's forecast (June 2019).

[30] Source: https://knoema.com/kyaewad/us-inflation-forecast-2019-2020-and-up-to-2060-data-and-charts [Accessed on 31 March 2019].

[31] EIU forecast (on 19 June 2019).

[32] EIU forecast (on 19 June 2019)

Vietnam, the central VND/USD exchange rate is increased by 1.2%. Total liquidity increases by 12%. Outstanding credit increases by 14.0%. Import prices increases by 2%. Population increases by 1.08%/year and employment by 0.86%. The export volume of crude oil is assumed to reduce by 6.5% as compared to that of 2018.[33] REER is assumed to decrease by 1%. On the balance of payments, Government and (net) private transfers are assumed to decrease by 10% and increase by 5% respectively. The implemented capital of FDI (including both Vietnam and foreign side) increases by 5%. Investment from State budget will be supplemented VND 423.9 billion.

Table 5: Projection of macroeconomic indicators in 2019

Unit: %

GDP growth	6.88
Inflation (average CPI)	3.71
Export growth	9.02
Trade balance *(bil. USD)*	3.1

Source: CIEM's projection from its macroeconometric model.

88. Economic growth in 2019 is projected at 6.82% (Table 5**Error! Reference source not found.**). Export growth may reach 8.02%. Trade surplus is projected at USD 0.8 billion. Average CPI in 2018 will increase by approximately 3.38%.

89. Macroeconomic developments in the last 6 months of 2019 may be subjected to several factors. *First*, the increasing risk of recession for US economy has been mentioned, even though it may not happen in the last 6 months of 2019.The financial tightening in the US has been replaced by the prevention of economic downturn: Fed has quickly left open the possibility of lowering interest rates, in spite of stating not to raise interest rate at the end of Q1. The relaxation of policy may lead to a devaluation of domestic currency in some countries. *Second*, trade tension in the area is difficult to cool down. US-China trade-technology war is still unpredictable and complicated, and not excluding some turning points in the second half of 2019.[34] Japan - Korea trade confrontation may have more direct and faster impacts on Vietnam. *Third*, despite high expectations for ratifying EVFTA, Vietnam should also be aware that the EU is very busy with the trade agenda (related to Brexit, trade negotiations with the US). *Forth*, Vietnam's exports may face more trade remedies lawsuits, tax evasion investigations, fraud of origins originating, etc., not only in the US market. *Fifth*, the confrontation between new technologies and traditional management is becoming more complex, even in developed markets. The case of Libra can be typical example recently. It can be resulted in more caution for Vietnam to access new technologies, especially in the banking and finance sector.

[33] Source: https://baomoi.com/pvn-giam-san-luong-khai-thac-dau-tho-nam-2019/c/29318384.epi [Accessed on 20 January 2019]

[34] See more in Section III.1.

III. SELECTED ECONOMIC ISSUES

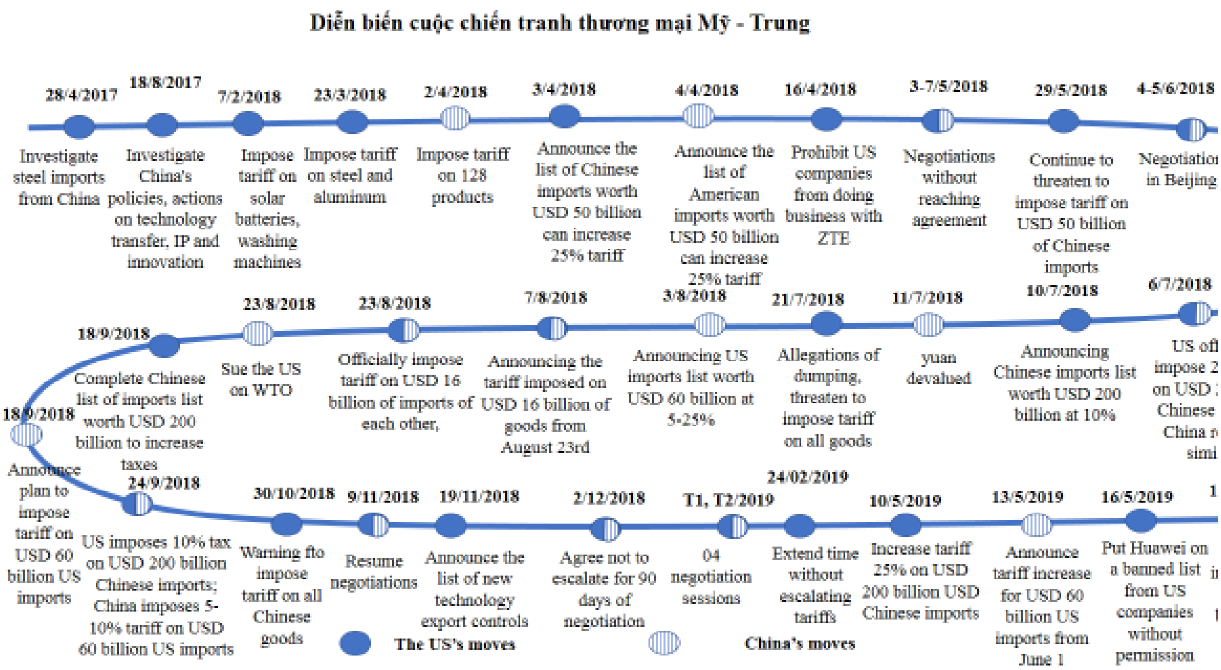
1. *The US-China Trade War: Movements and perspectives*

90. Trade tension between the US and China has been increasingly unpredictable. Movements and actions of both two countries has direct and indirect impacts on the world's economy. Some scenarios and unpredictable movements may happen in the future, leading to different responses from other countries. Being an open, small country with deeper integration, Vietnam cannot escape from being affected from the mentioned trade war.

Timeline and movement

91. During the presidential election in May 2016, Mr. Donald Trump emphasized on the priority of addressing the US trade deficit with China. In April 2017, the United States Trade Representative (USTR) started investigating the threat of imported steel and aluminum products to national security. By August 2017, USTR continued to investigate the regulations, policies and behavior of the Chinese Government related to technology transfer, intellectual property and innovation.

Figure 39: Timeline of the US-China Trade War



Source: Compilation from Academy of Policy and Development and revised by CIEM.

92. In March 2018, US imposed a 25% tariff on all steel imports (except from Argentina, Australia, Brazil, and South Korea) and 10% tariff on all aluminum imports (except from Argentina and Australia). A week later, China imposed tariff ranging 15-25% on 128 US products (worth about USD 3 billion).

93. In June 2018, US-China tensions continuously increased, and negotiations did not reach an agreement. The trade war officially began in 7/2018 by US's imposition of additional 25% import tariff on USD 34 billion of Chinese

imports. In response, China also imposed an additional tariff by 25% on US imports worth USD 34 billion.

94. In August 2018, the US imposed 25% additional tariff on USD 16 billion worth of imports from China. China implemented retaliatory by imposing 25% tariffs on USD 16 billion worth of imports from US. China also officially complained with WTO against the United States for imposition of imported tariffs on solar panels.

95. In September 2018, the US imposed an additional tariff of 10% on Chinese imports worth USD 200 billion (and will be increased to 25% by January 1, 2019). China also imposed tariff of 5-10% on USD 60 billion imports from the US.

96. At the G20 Summit on 2 December 2018, the US and China agreed to suspend the escalation of tariffs for the trade negotiation for 90 days. After some meetings, by the end of February 2019, Mr. Donald Trump extended a deadline to raise tariffs and continued negotiation in order to have a trade agreement.

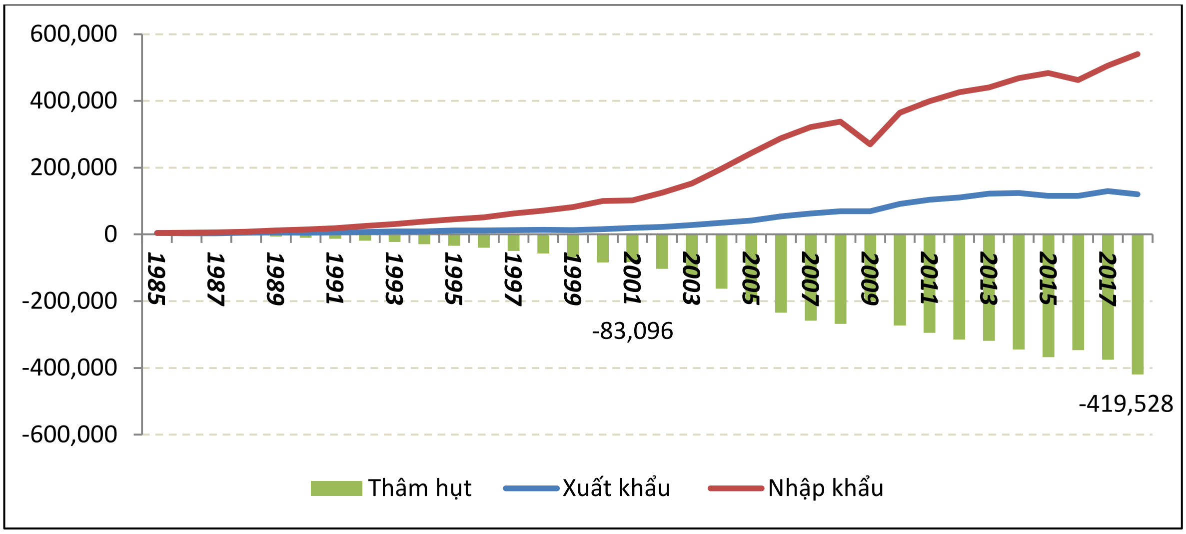
97. In May 2019, the US-China trade war increased because negotiations failed to reach agreement. The US increased additional tariffs from 10% to 25% on Chinese imports worth USD 200 billion. Huawei, China’s major technology company was banned from purchasing from US companies. In response, China announced that it would increase additional tariffs of from 10-25% on US imports worth USD 60 billion by specific groups (officially implemented from June 1, 2019). China also announced “unreliable entities” list. In early June 2019, China released a white paper on economic relationship with the US.

98. At the G20 Summit on 29 June 2019 in Japan, these two big countries agreed to suspend the escalation of tariffs. The US promised to relax the ban on Huawei, in return China will import a large volume of US agricultural products. The trade negotiations will be restarted without specific deadline.

Major reasons

99. The trade war between the US and China could be attributed to number of reasons. The most direct reason is the desire to reduce US trade deficit. President Trump has been focusing on the trade deficit during his presidency in order to “Make America great again”. The United States has constantly escalated trade tension with many countries, including long-standing allies (such as the EU, Japan, and South Korea) or neighbors (such as Canada and Mexico) to reduce trade deficit through new trade agreements, of which prolonged and increasing trade deficit for China is particularly concerned. Notably, the US trade deficit with China has increased faster since China joined the WTO (from USD 83 billion in 2001 to USD 419 billion in 2018). The U.S. trade deficit in 2018 reached 621 billion USD, of which the trade deficit with China accounted for 67.4%.

Figure 40: The U.S. trade deficit with China, 1985-2018



Source: United Census Bureau.

100. The problems of multilateral trading system in recent years have, more or less, led to US's viewpoint mentioned above. Doha Development Agenda has been almost unchanged. Multilateral or plurilateral forums such as WTO, United Nations, APEC, G20, G7, etc. have had difficulty in reaching agreement. The role of multilateral institutions and regulations of compulsory international trade (especially WTO) is somewhat declining. The common statement of the G7 summit in 7/2018 addressed the "Modernize the WTO" towards more equitable. Trade cooperation organizations and forums (such as ASEM, ASEAN, etc.) has announced to support the multilateral trading system, however, new actions and commitments to reform, strengthen the WTO's role has been limited. The WTO has not handled the important trade-related issues such as food security, climate change, or global trade imbalance. Notably, the global trade imbalance (between developed and developing countries) is one of the root causes leading to global financial crisis in 2008-2009, however global trade rebalancing has not been implemented in the later period.

101. The US's viewpoint mentioned above has faced strong opposition from China. Many other export-based countries may have same problem and disagree with US despite without announcement. The basis for this opinion includes: (i) The US has not taken into account trade and service, which has been advantages of the US and had surplus with China;[35] and (ii) importing input materials has been very important to produce for consumption and export, which is consistent with the development of global and regional value chains.

102. Moreover, the US supposes that bilateral trade surplus of China has benefited from unfair business conditions with the protection of Chinese government. The US evaluates: (i) China does not have market economy; (ii) Chinese economic system is incompatible with WTO; and (iii) China is no longer eligible to have special and differential incentives in WTO. WTO has not had

[35] In general, goods and services trade deficit of China with the US is smaller after removing services trade deficit of about USD 48.5 billion in 2018. Source: China's white paper on tade negotiation with the US (June 2019)

ruling yet to favor China in being recognized automatically as a "market economy". The US hoped that WTO could "shape up" China under the common rules when allowed the accession of China. However, during President Trump's tenure, requiring China to implement common rules of WTO becomes more difficult.

103. Another reason for US-China trade war is disagreement in developing, sharing and benefiting from intellectual property. The US supposes Chinese companies have theft of intellectual property due to weak capacity of Chinese legal system in protecting intellectual property rights and requires China to amend many relevant laws. Moreover, according to the US, Beijing has supported this behavior implicitly by forcing foreign enterprises to transfer technology, share knowledge and experience if they want to do business in China. On the contrary, in the white paper of June 2019, China argued that its level of interest and enforcement of intellectual property regulations is recognized by the world.

104. The difference in economic development mindset of two countries may also be the root cause of the trade war. Americans consider democracy and human rights as the most basic values and the US wants to impose American model of democracy and human rights. As mentioned above, the US believes that China does not have market economy, the economic system is inappropriate with the WTO's common principles and ineligible for special and differential treatment (SDT). However, another opinion argues this cause is too simple and general, even incorrect because trade war is not a solution for existing disputes. However, both the US and China believe that reforming WTO is necessary, despite of no specific orientation.

105. The most common and mentioned reason is that the US wants to curb the rise of China, especially the economy. With rapid development, China has expanded its influence around the world. According to 2017 data, although China ranked behind the US in term of nominal GDP, GDP at purchasing power parity (PPP, Table 6) was higher than the US. These two countries also take turns as the world's No. 1 and No. 2 in term of export or import. China' GDP is forecasted to overcome the US by 2028.[36] The hypothesis of this cause seems reasonable because: (i) this forecast also shows that India may become the second largest economy by 2050, and the US may have trade tension with India; and (ii) the US has introduced a number of initiatives that are supposed to compete/curb China, such as "Free and Open Indo-Pacific strategy", the Asia Reassurance Initiative Act (ARIA), etc.

Table 6: Comparison of economic scale between US and China in 2017

	Economic scale				*Export*		*Import*	
	Nominal GDP (billion USD)	*Ranking*	*GDP by PPP (billion USD)*	*Ranking*	*Billion USD*	*Ranking*	*Billion USD*	*Ranking*
US	20.400	1	19.420	2	1.576	2	2.352	1

[36] https://www.pwc.com/gx/en/issues/the-economy/assets/world-in-2050-february-2015.pdf [Accessed on 1/6/2017].

China	14.100	2	2.3190	1	2.157	1	1.731	2

Source: World Data Book 2017 – USA.

106. In addition, other causes may contribute to the current US-China trade war such as political, military, defense, new world order, etc. Within this report's framework, these reasons are not considered.

Possibility of US-China trade war movements

107. Both the US and China have space to continually escalate trade wars. The US leaves open possibility of raising additional tariff, imposing tariffs on all imports of China. Notable, the United States may relax the restrictions for Chinese large companies, however it still has some conditions that the US may proactively pressure/control (for Huawei, the US also only allows the purchase of products "which do not affect national security"). The US may also increasingly build and promote mechanisms to pressure its partners if its partners want to enhance economic-trade cooperation with non-market economies. The US may also increase bilateral cooperation with some countries to gradually reduce China's influence. For example, the US talks with Brazil (BRICS member), if Brazil stops receiving SDT, the US will support Brazil to join OECD.[37]

108. On the contrary, although the possibility of imposing tariff is more limited, China may cause economic and trade losses to the US by other tools, such as exchange rate policy, change in scale/structure of foreign exchange reserves, punishment of US companies, ban on rare soil exports, stop buying crude oil, etc. Despite different message, China does not want to use the non-tariff measures mentioned above because: (i) China seems to want to be the "victim" of the trade war and not actively escalating stress or responding beyond US's move; and (ii) the use of any tool makes China reduce the "remaining advantages" in negotiations with the US. Meanwhile, China can make decisions faster without having to follow the process or requiring stringent information transparency like in the US, etc.

109. China may not be afraid of prolonged trade tension. China may suppose that the agreement with the US, if any, would not stop trade tension, but would create an unfavorable precedent for later negotiations. In addition, many opinions believe that the economic downturn and investment capital flow diverted from China are inevitable (due to rising labor costs, reforming structure slowly, etc.), even there is no trade war. Therefore, the economic downturn may be blamed on trade war, instead of the internal problems of China's economy.

110. With these considerations, following moves of this tension still contain many risks and uncertainties. Notably, the US still suffered a large trade deficit with China, at USD 137.1 billion in the first 5 months of 2019, decreased 10.5% over the same period in 2018.[38] Besides, two countries may have many indirect

[37] https://riotimesonline.com/brazil-news/rio-politics/brazil-agrees-to-surrender-special-wto-status-for-oecd-entry/ [Accessed on 12/6/2019].
[38] https://www.census.gov/foreign-trade/balance/c5700.html [Accessed on 11/7/2019].

moves. Besides, cyber-attack can affect economic, commercial and non-economic sectors of both countries, while control and traceability has not been easy.

111. It may have some scenarios on the upcoming movements of the US-China trade war. *__The 1st scenario__* is that both the US and China make concessions and reach a trade agreement based on basically ending the previous requirements without new problem. The basis for this scenario is that trade war has left a large economic implication. The results of trade negotiations between the two countries, if any, could be more beneficial to the US in the short term. Notably, if tariffs are escalated without deadline as current, China may face more difficult. Trade agreement can be reached at the first half of 2020. However, even this result is uncertain and not simple, especially in the context of large trade deficit between the US and China.

112. *__The second scenario__* is that one of the two countries may make concessions and the trade war end before 2020. However, this scenario is hard to happen, because neither the US nor China seems to have absolute advantage in the current trade-technology war. President Trump may have the advantages to continue until 2020, if necessary. Therefore, the US will hardly make concessions. The US also has more "advantages". On the contrary, China has large market with many American businesses, therefore the US also has to gain significant losses.

113. *__The last scenario__* is that the US and Chinese trade war continue to escalate for a long time and cannot reach a common agreement. This is the most undesirable scenario, but it cannot be removed at this time. Notable, the causes of trade wars - as analyzed above - are not simple to be solved quickly.

114. For all scenarios, it will be quite hard to end US-China trade war in a short time. Actions and threats of these two super economies for each other may continue and strongly affect world economy. The impact may be greater and/or more complex if the financial market is considered because investors sometimes has quick and overreact leading to affect their investment decisions.

115. The trade war between the US - China could lead to actions and policy adjustments in other countries. Accordingly, the impact on each economy cannot be limited to trade-investment relations between this economy with the US and China. As a small economy and at the level of deep integration with both the US and China, it is hard for Vietnam to avoid the implications of the US-China trade war.

Impacts of the US-China trade war on Vietnam

116. Vietnam is considered a beneficiary country in relative sense and has some significant opportunities in this trade war. However, these assessments are limited on the tariff measures of the US and China. The additional tariff barriers imposed by the US and China for each other may increase export opportunities for third countries, including Vietnam. Increasing uncertain in the context of trade war may also make major multinational companies move some of or all their manufacturing facilities in China to other countries, such as

Vietnam. For many years, Vietnam wants to participate more deeply in the regional and global value chain, however, Vietnamese enterprises have not had necessary competitiveness and opportunities. The US - China trade war can create an important opportunity for Vietnam to participate more deeply in these value chains.

117. Vietnam also faces many risks and disadvantages. Due to difficult output, Chinese goods can be moved to the Vietnamese market, and compete with Vietnamese products in other third markets. If the control is ineffective, more Chinese shipments can “use Vietnamese origin” to export to the US and vice versa. It is not easy for Vietnam to attract FDI, because Vietnam should not and cannot distinguish investment by partners. The screening of suitable investment projects for Vietnam's socio-economic development priorities is not easy, in which capacity to absorb capital flows has not been mentioned (due to limited labor and implications with macroeconomic stability, etc.). Being considered as relative benefiting country from the trade war, Vietnam also faces disadvantage of being monitored. The US and China may carry out actions and policies affecting Vietnam's exports to these countries. The risk will be greater if Vietnam does not maintain dialogue, information and experiences sharing with other major economies (such as Japan, EU, Australia, etc.) on assessment, forecasting and response policy to the US-China trade war.

118. The developments show that Vietnam has taken advantage of opportunities and handled some challenges from the trade war. Economic and export growth rate are still relatively high. Implemented FDI increased steadily. Exchange rates has controlled well, thereby contributing to significantly handle adverse impacts from the external economy to the macroeconomic environment. Vietnam still explains regularly to the US, builds and strengthens the belief for the American business community in general and the business community in particular.

119. There are some reasons to explain why FDI flows move from China to Vietnam but not other countries in the region. *Firstly,* the investment and business environment of Vietnam is not the most competitive, however, has the fastest improvement (in a relative sense). Secondly, Vietnamese leaders commit to improve the business environment and stabilize politic in order to strengthen the confidence of the business community on these commitments. *Thirdly,* Vietnam has many FTAs, therefore, there are many options for businesses at different levels in the value chain. With this perspective, Vietnam should not consider recent changes only as a temporary benefit from the trade war but should be calmer and more consistent with its reforms. Notably, the FDI flow leaves China is a trend that has been going on for many years (due to rising labor costs, Chinese plus one strategy, etc.), and the trade war with the US only contributed to promote that trend.

120. However, Vietnam also suffered some adverse impacts from the US-China trade war. Vietnamese exports to China reached USD 13.6 billion in the first 5 months of 2019, down 1.5% over the same period in 2018. This increase is significantly lower than in 2018 (16.56%). The exports having largest reduction

to China in the first 5 months of 2019 were phones and components (USD 837 million, equivalent to 45.6%), and rice (USD 338 million, equivalent to 75.2 %). Some commodities increased significantly, such as crude oil (USD 145 million, rise 64.1%), computers, electronic products and components (USD 118 million, 3.8%), and fiber, textile fibers type (USD 118 million, 13.5%). On one hand, foreign investors decrease production in China, leading to reduce demand for imports from Vietnam. Besides, the Yuan depreciated against the USD also made Vietnamese goods become less competitive in price compared to Chinese goods. On the other hand, China also increased the standards and regulations applying to imported goods, including Vietnamese imports. Some additional technical barriers have been applied by China for agricultural products imported from Vietnam. The root cause may be that China restricts imports in the context of commercial warfare, some of its exports are for domestic consumption; or China makes it difficult for Vietnamese goods because it believes that Vietnam wants to limit the situation of Chinese goods "using Vietnamese origin" to export to a third country.

121. Meanwhile, it does not exclude the possibility that Chinese goods will increase the fraud of Vietnamese origin to export to the US. In fact, since 2018, the United States has paid attention, investigating Chinese goods evading taxes through Vietnam. If useful moves of Vietnam towards goods origin are lacked, US may increase actions soon.

122. Import and export data may also raise concerns about the impact of trade diversion. Although exports to China decreased slightly (1.5%) in the first 5 months of 2019, Vietnam increased exports to the US by about USD 5.1 billion (equivalent to 28.9%) in the same period. Vietnam's imports from China also increased by more than USD 5.04 billion (equivalent to 20.3%). However, Vietnam should continue to monitor and study this trend further.

123. Significant FDI inflows into Vietnam are contributed capital, purchased shares, especially from Hong Kong and China (see Part II.1.4). This raises concerns about the benefits from these investment flows, because investors can "avoid influence" in Vietnam in the context of trade war. On the other hand, the implementation of the ASEAN-Hong Kong Free Trade Agreement from June 2019 may create conditions for capital contribution, purchasing shares from Hong Kong into Vietnam, if without the adequate measures and screening policy.

Some policy potions for Vietnam

124. The impact of the US-China trade war on Vietnam has been unclear due to high depend on the possible complicated developments as well as the reaction of the countries. Vietnam can hardly evaluate the outcome of the trade war and set a rigid response policy. Instead, it is necessary for Vietnam to:

- Proactively build and update scenarios to cope with the developments of the US-China trade war. Vietnamese policies and regulations should be reviewed in order to ensure appropriate tools and policy space to orient imported goods and respond to adverse fluctuations in the world market.

- Collaborate with "middle power" countries to share information, assessments and experiences of responding policies of these countries towards the complex developments of the US-China trade war and continuing to advocate for free trade and the multilateral trading system.
- Research and implement solutions to balance trade with the US. Notably, removing the situation that foreign goods fraud Vietnam origin for export to the US may also contribute to a more balanced orientation than bilateral trade. Besides, the open dialogue with the US on the origin of goods and the orientation for Vietnamese enterprises will be more meaningful than the suspicion, an administrative check for most Vietnamese export enterprises.
- Discuss frequently and directly with China to remove barriers for Vietnam's exports. Complete the statistical information system, avoiding major differences between data imported from China (published by Vietnam) and data exported to Vietnam (published by China).
- Complete and concretize standards for foreign investors into Vietnam, in line with the socio-economic development priorities. Do not discriminate against investment partners from different countries.
- Be more cautious for communication about the US-China trade war, opportunities and challenges for Vietnam. Avoid to inflate or falsify the nature of problems and difficulties in trade and investment cooperation with specific partners.
- Continue to reform a more fair, convenient and competitive investment and business environment. Continuously contact and strengthen the confidence of foreign investors.

2. Amendment of Enterprise Law: Some practical issues

Context and objectives of amending Enterprise Law

125. Over the last 4 years of enforcement, the Enterprise Law No. 68/2014/QH13 (hereinafter referred to as Enterprise Law) has shown positive impacts on creating a favorable and equal business environment; promoting the establishment, development and expansion of businesses; contributing to growth and dealing with social problems. In 2018, there were 131,275 newly established enterprises with a registered capital of VND 1,478,101 billion, increasing by 1.75 times of enterprises (74,842 enterprises) and 3.4 times of registered capital (VND 432,286 billion)[39] as compared to 2014. According to World Bank's assessment, starting a business increased to 104 (as compared to 125 in 2014; decreasing from 10 to 8 procedures, and from 34 to 17 days); regulations on protecting shareholders and investors improved significantly, ranked 89/190 (as compared to 117 in 2014, and 169 in 2013).

126. Nevertheless, up on the adjustment and requirements of business practices, and compared with international best practices, particularly corporate governance, protection of legitimate interests of small shareholders and investors,

[39] Source: Business Registration Agency, Ministry of Planning and Investment

development trends of M&A, etc, there has been space for amending the Enterprise Law for better reforming the establishment of businesses and promoting production and business.

127. This amendment of Enterprise Law has not only aimed at resolving the shortcomings during the enforcement, including unclear and not specified terms; but also for bigger goals of making businesses as cheaper, safer tool for investors; thus, enhancing the attraction and mobilization of all resources and investment to production and business, specifically:

- Continue to facilitate the establishment of enterprises; to reduce costs and time for starting business.
- More facilitating, reduction of costs for corporate governance and restructuring of enterprise.
- Improving the effective protection of legitimate rights and interests of investors, shareholders and members of enterprises. Developing legal framework on organization and corporate governance to achieve good practices and popularity in the region and global.

128. The amendment of Enterprise Law is considered to improve the quality of business environment in accordance with objectives set out by the Government, i.e. attaining the average of ASEAN-4 and towards good practices of institutional framework popularized in the region and international.

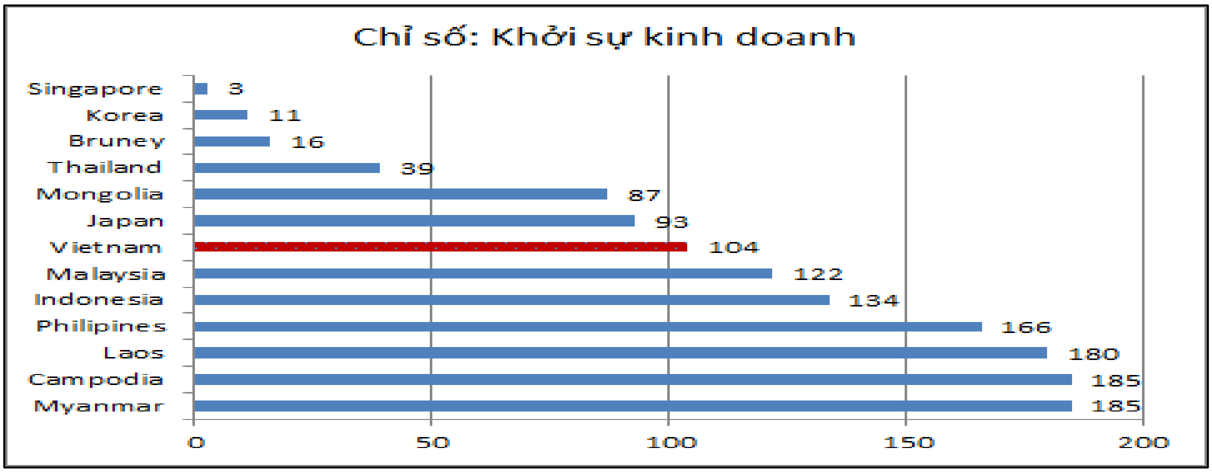
Orientation and basic amendment

129. With such above-mentioned objectives, the amendment of Enterprise Law focuses on five basic groups of issues, including: simplifying market entry; improving corporate governance in accordance with good international practices; facilitating the restructuring and M&A of enterprises; improving the performance and monitoring of SOEs and other issues.

<u>Simplification of market entry</u>

130. Current regulations on and process and procedures of market entry in Vietnam shows some limitations and shortcomings. In fact, it is more costly, time-consuming and complicated for establishing a business and starting a business in Vietnam as compared to international and regional practices. According to 2019 World Bank Report, the country ranked 104/190 countries for the criteria of starting a business (Figure 41).

Figure 41: Comparison of starting a business in selected countries



Source: World Bank.

131. More specifically, if starting a business is measured by number of procedures and time, it includes 8 procedures and about 17 working days, excluding holidays and waiting times (Table 1). These procedures are regulated in various different Laws, including Enterprise Law, Labor Code, Insurance Law, Law on Credit Institutions, Law on Tax Management, etc. Only under the provisions of Enterprise Law, there are 5 administrative procedures need to be completed in order to start business, including: (i) registration at the business registration agency, (ii) making stamp at designated seal-making establishment, (iii) notification of stamp to business registration agency, (iv) opening an account and notification of account information to business registration agency, and (v) publicizing the content of business registration.

Table 7: Details of procedures and completion days

No.	***Procedure***	***Stipulating document***	***No. of completion days***
1.	Registration with Business Registration Agency and publicizing the content of business registration	Enterprise Law	5
2.	Making stamp	Enterprise Law	1
3.	Notification of stamp to business registration agency	Enterprise Law	1
4.	Opening a bank account	Law on Credit Institutions Law on Tax Management Enterprise Law	1
5.	Purchasing or self-printing VAT receipt	Law on Tax Management	10
6.	Paying excise tax	Law on Tax Management	1
7.	Registration of labor with Department of Labor, Invalids and Social Affairs	Labor Code	1

8.	Registration of insurance to social insurance agency	Law on Social Insurance	1
	Total		**17**

Source: World Bank.

132. There has been plenty of policy space for the reforms and simplification of procedures for market entry. Resolution 02/2019/NQ-CP has set out targets of strongly improving the business environment, increasing rapidly the number of newly established enterprises; reducing the rate of dissolved or suspended enterprises; reducing input costs, opportunity costs, informal costs for enterprises and people; attaining the target of ASEAN-4 for business environment and national competitiveness. At the same time, Resolution 02 specifically requires the increasing of country's ranking to 15-20 levels of business environment (up by 5-7 position in 2019), and increasing the ranking of Starting a business to 20-25 positions (at least 5 positions in 2019).

133. The amendment of Enterprise Law should meet the above mentioned targets. Thus, the revised Enterprise Law aims at the following amendments:

Elimination of unnecessary administrative procedures, no state management targets

134. It should be emphasized that, in order to have comprehensive implementation and thorough reforms of market entry procedures as mentioned above, requirements have not only for amendment of Enterprise Law, but also other laws as listed in Table 7 above. Within the scope of revised Enterprise Law, it is expected to remove unnecessary administrative procedures, including:

- The procedure for reporting changes of managers (Article 12); procedure of notifying sample of stamp (Article 44);
- Requirement that business registration agency must periodically send business registration information and changes of business registration to other competent state agencies of the same level, People's Committees at district level - where head office of enterprises located (Item 1, Article 34 and Item 4, Article 46). Main reason for this elimination were attributed to current business registration information has been published on national portal on business registration (https://dangkykinhdoanh.org.vn), which can be easy to access for every organization and individual. Therefore, it is not necessary to submit business registration information periodically to People's Committees at district level as additional costs incurred. Instead of passively receiving information, People's Committees at district level can actively look up necessary information periodically for their management purposes.

Removal of interference by the state on enterprise's stamps

135. The reforms of making and using stamps of enterprises has been fundamental change of 2014 Enterprise Law; which shifting from being granted stamps by public security agency to self-employed mechanism. According to 2014 Enterprise Law, the formality and number of seals are decided by the

enterprise. The enterprises are responsible for managing, using and keeping the seal. They must only notify the sample of seal to business registration agency for publishing it on national portal for business registration. However, the existing method of managing business seal has remained obstacles and difficulties for enterprises. The Enterprise Law (revised) is expected to have full reforms of enterprise's seal towards eliminating all administrative procedures related to seals. Specifically, it is recommended to remove the notification of sample of seal as well as the regulations on seals in Enterprise Law. Accordingly, the making and employing of seals will be entirely decided by enterprise which then specified in its Charter or operating regulations, depending on the objectives and demand of enterprises.

136. The mentioned reform has not only reduced and simplified administrative procedures and costs for enterprises, but also had other positive effects. Internal disputes have been prolonged and, in some cases, cannot be solved thoroughly as the seal is occupied by one party. It have had impacts not only on both sides, but also on disruption of business performance, affecting the rights of workers. The "abusement" of seal, to some extent, may lead to less feasible since the parties ignore researching and understanding the competency of partner in signing the contract, just based on sealing. Thorough reform of seal, empowering enterprises in deciding the use of seals will help minimize the consequences arisen from existing operations.

Simplification of dossiers and documents for business registration

137. Under the provisions of Enterprise Law (in Articles 21, 22 and 23), the founder of enterprise must include the charter when submitting for business registration. However, in reality, the charter of enterprises submitted to business registration agency is not meaningful for the purpose of state management because important information of operations, corporate governance included in the charter also specify in the proposal for business registration as well as other documents such as list of members, shareholders and founders of the firm. Moreover, the requirement of submitting a Charter when registering a business have not showed up any clear target of state management since it is not required for the enterprise to report any changes or replacement. On the contrary, business registration agency also spend lots of money to store and preserve Charters submitted by enterprises. Simultaneously, it also creates difficulty in submitting online as the electronic size of Charter is large.

138. The Enterprise Law (revised) is expected to eliminate the requirement of submitting Charter when registering for a business as it does not have any meaning of state management. The storage of Charter will be compliance with current regulations on storing of documents for enterprises

Unification of business registration

139. Under existing regulations, registration for a business is classified into 3 types based on different process, procedures and in-charge agencies. For the first (a lion share) type, enterprises submit the application at provincial business

registration agency, based on process, procedures and documents stipulated in Enterprise Law. For the second type, enterprise apply for a business license at a specialized state management agency; then it starts registering a business based on process, procedures and documents stipulated in Enterprise Law (for example, bank). For the third type (only a small percent), enterprises register at line management agencies instead of registering at business registration agency based on process, procedures and documents stipulated in related specialized law. For example, enterprises of asset auction register for a business at Department of Justice based on Property Auction Law, lawful enterprises register at Department of Justice based on Law on Lawyers.

140. The spread and difference of business registration procedures above-mentioned has created barriers, difficulties and more cost for related enterprises, particularly for restructuring or expansion of business. One enterprise registers under Enterprise Law may be subject to dissolvent and establish new enterprise if it wants to shift to a totally new field of business, which is required to registered via specialized agency – for example, Department of Justice, Department of Finance. Consequences, in addition to related administrative costs, enterprise may experience disruption of business, not taking advantage of trademarks, and vision developed previously.

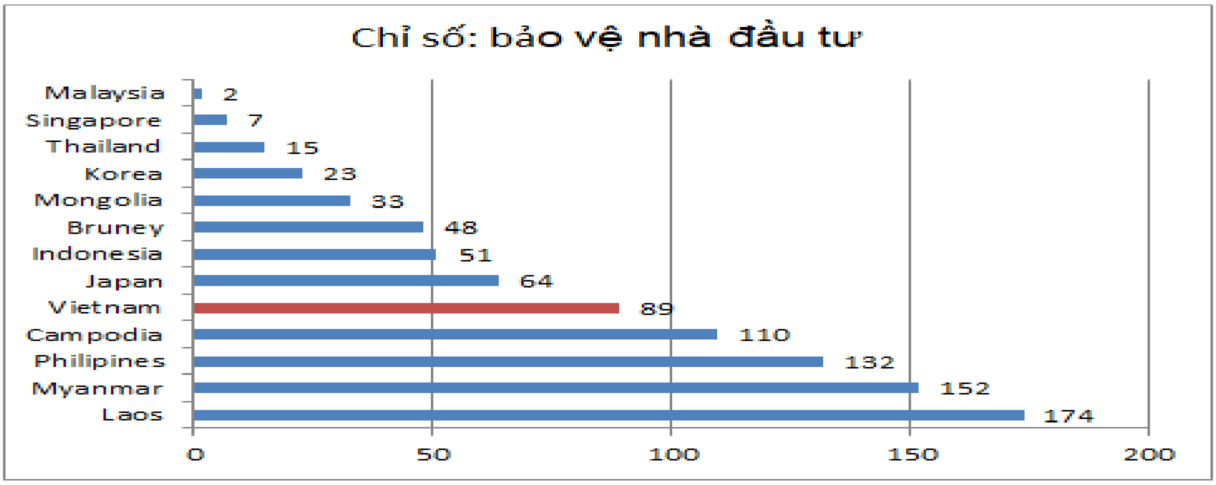
141. Thus, the Enterprise Law (revised) is expected to unify procedures of business registration for all types of firms; the licensing will be conducted by specialized agency for overcoming the mentioned obstacles.

<u>Increasing the corporate governance standards based on best international practices</u>

142. Good corporate governance contributes significantly for enterprise to be a safe business tool and attracts and mobilizes more investment. One important aspect of corporate governance is protection of shareholders, especially minority shareholders. Fundamental principle of protecting shareholders can be interpreted as ensuring their equitable treatment and legitimate rights and benefits.

143. As compared to 2004 Enterprise Law, the 2014 Enterprise Law has created a breakthrough for this aspects. Accordingly, the regulation of protection of shareholders, investors has improved significantly, current ranking of 89 over 190 countries (as compared to the ranking of 117 in 2014, ranking of 169 in 2013). However, Vietnam’s ranking has been far below the ranking of other countries in the region – Indonesia – the most similar country (ranking of 51); Thailand (ranking of 15), Singapore (ranking of 7) and Malaysia (ranking of 2) (Figure 42).

Figure 42: Comparison of protection of investors in selected countries



Source: World Bank.

144. According to good practices on corporate governance,[40] two basic indicators (including of 6 sub-indicators), are used for measuring or assessing the legal framework of protecting shareholders in general and corporate governance in particular, including:

- Indicator of anti-conflict of interest, comprising of 3 sub-indicators: (i) disclosure of related party transactions; (ii) compensation of managers in related party transactions; and (iii) easiness for shareholders to sue enterprise's managers, including right to access to information, the ability to collect evidence from enterprise during the process of shareholders suing the managers.

- Indicator of rights of shareholders, including of 3 sub-indicators: (i) rights of shareholders in making important decision; (ii) regulation of protecting shareholders, avoiding the concentration of power to Board of Directors; and (iii) transparency, for example remuneration of managers, audit and financial statements, v.v.

145. Of all the 6 sub-indicators, Vietnam's two sub-indicators are assessed weak, including those of anti-conflict of interest, namely: (ii) responsibility of managers' compensation in transaction with related party (4/10 score), (iii) the easiness for shareholders to sue enterprise's managers, including right to access to information, the ability to collect evidence from enterprise during the process of shareholders suing the managers (2/10 score)[41].

146. In assessing the current provision of Enterprise Law based on above-mentioned indicators, some provisions has not yet facilitate the employment of rights for shareholders, creating "invisible" barriers for shareholders in protecting their legitimate rights or being abused by major shareholders, causing damage to them. Key limitations and shortcomings of Enterprise Law included:

- *Difficulties for shareholders, group of shareholders in exercising their rights of participation in important decision of the firms.* For example,

[40] Báo cáo kinh doanh hàng năm.
[41] Based on World Bank's assessment in Doing Business in 2019.

Enterprise Law (Item 2 Article 114, Item 4 Article 149) stipulates that shareholders must posses at least 10% of shares and in 6 consecutive months to nominate candidates to the Board of Directors (BOD); must have shares for at least 1 consecutive year to have the right to request BOD to suspend the implementation of the resolution caused damage to the company. These regulations have limited the rights of shareholders, especially in the case of business mergers and acquisitions; many shareholders, after purchasing a huge amount of shares, have difficulty in exercising their rights to restructure the company, re-establish the management and administration apparatus, improve corporate governance; even more difficult to prevent the company from carrying out activities that damage for company and shareholders

- *Difficulties for shareholders to initiating lawsuits against managers when carrying out transactions causing damage to the company.* Major shortcomings include not having the right to access relevant information on the transaction of firms and related party. The Enterprise Law does not stipulate the provision of suing managers or provide relevant information for suing. The responsibility of proofing is placed on shareholders' obligations to sue based on process and procedures regulated under civil law, etc.

147. Thus, amendment and supplement of Enterprise Law (revised) includes:

Expanding the right of access to information for shareholders, increasing the easiness for shareholders to sue managers

148. As mentioned above, important target of amending Enterprise Law towards expanding the rights of shareholders, facilitating the exercising of rights and protecting their rights; improving the responsibility of members of BOD and managers. The Enterprise Law (revised) is expected to have fundamental changes to improve transparency, expand access to information for shareholders, including:

- Reducing requirements and conditions for shareholders to exercise their rights in nominating, convening the general meeting of shareholders, etc.; reducing the share ownership (from 10% to 1%); eliminating the condition of "possessing shares for at least 6 months". This amendment will empower larger shareholders rather existing regulations
- Supplementing the right for shareholder to require court and arbitration to assess to necessary information of enterprise, making it easier in exercising the right to sue managers when violating their responsibilities.

More facilitation for shareholders to attend meetings and exercise voting right

149. Current provisions of Enterprise Law (e.g. Item 1 of Article 140) are quite rigid and inappropriate with practical requirements of shareholders; as a result, affecting the rights and interests of shareholders. For example, shareholders cannot appoint 2 or more representatives to attend meeting and support the shareholders themselves. Therefore, the Enterprise Law (revised) will focus on authorized regime to attend meetings to ensure shareholders have the best

option of authorization to protect their legitimate rights and interests; to remove regulations abused by enterprises to limit the right to attend meeting of shareholders, such as removal of the regulation that shareholders can only use the designated form for appointing authorized representatives issued by enterprises; instead, they have the right to perform authorization in appropriate manner in accordance with Civil Code; which is seen to better protect shareholders' interests.

For SOEs

150. Resolution of 5th Central Committee of the 12th Central Party Congress on continuing to restructure, innovate and improve the efficiency of SOEs stated "*SOEs are those 100% of charter capital or dominated capital owned by the State;organized and operated in the form of a joint stock company or limited liability company*". At the same time, the Resolution of 5th Central Committee pointed out objectives and principles of restructuring, innovating and improving the efficiency of SOEs, including "*SOEs operate under market mechanism, taking economic efficiency as major criteria for assessment, autonomy, self-responsibility, equal competition with enterprises of other economic sectors in accordance with law. Ensuring publicity, transparency and accountability of SOEs* ”

151. The spirit of this Resolution can be interpreted that SOEs are classified into two categories, including: (1) enterprises where 100% of charter capital held by the State, and (2) enterprises where the State does not hold 100% of charter capital but hold dominant shares. For each type of SOE, appropriate management and monitoring will be required, aiming at improvement of economic efficiency, publicity, transparency and accountability; but ensuring the operation based on market mechanism and equality with enterprises of other economic sectors.

152. Pprovisions under 2014 Enterprise Law on SOEs have also shown up the afore-mentioned spirit, i.e. following the market principles and equality among economic sectors. According to Enterprise Law, enterprises owned by the State are classified into two different categories, from which being applied appropriate regulations and management, namely: (i) enterprises with 100% of charter capital owned by the State, known as SOEs, and (ii) enterprises owned by the State, including enterprises where the state owns over 50% of charter capital.

- For enterprises with 100% owned by the State, regulations on organization and management structure under the form of one member limited liability companies shall be applied, regulated separately in Chapter IV of Enterprise Law, with stricter requirements of management rather than the same type established by private investors in Section 2, Chapter II. For enterprises where the State owns 100% of charter capital, the State exercises rights and obligations as the owner of enterprise.
- For enterprises owned by the State, organizational structure will be under the form of limited liability companies (Section 2, Chapter II) or joint-stock

companies (Chapter III), according to general regulations, regardless of whether ownership is private or state. Accordingly, the state exercises rights and obligations as a member or a shareholder of the company, which is equal to other members or shareholders. In case of enterprises with more than 50% of state ownership, more stringent regulations are applied, particularly on administrative organization (compared to similar enterprises) to prevent conflicts of interest or abuse of powers by managers[42].

153. Thus, basically, the provisions of 2014 Enterprise Law has reflected the spirit of Resolution of 5th Central Committee of the 12th Central Party Congress on continuing to restructure, innovate and improve the efficiency of SOEs; however, not yet comprehensively, including:

- According to Item 8 Article 4 of the Enterprise Law, the definition of SOEs only includes enterprises with 100% of charter capital owned by the state; no regulations defining types of enterprise that dominant shares or contributed capital held by State.
- Regulations on organizational structure for enterprises where dominant shares or contributed capital held by State should be revised for amendment or supplement to ensure objectives stated in the afore-mentioned Resolution of improving economic efficiency, ensuring publicity, transparency and accountability of enterprises, including both 100%-owned by the state and over 50% of charter capital owned by the state

154. First of all, it is necessary to understand that institutionalizing the spirit and content of afore-mentioned Resolution not only modifies the provisions of Enterprise Law, but also revises and adjusts other relevant legal provisions. Basic amendments of Enterprise Law is expected to:

Specify the definition of SOE

155. Instead of having general definition of SOEs, the Enterprise Law (revised) is expected to add an article on SOEs, towards clear and detailed definition of SOEs where State owns 100% of charter capital or SOEs where dominant shares owned by the State. Criteria for ownership of "dominant shares, contributed capital" in the definition of SOEs is determined by having from over 51% of charter capital owned by the State or total voting rights.

156. The identification of 'dominant' criteria based on ownership of over 51% of the charter capital or voting rights is appropriate, that ensures that the proactively dominant ownership of State in making most of decision, based on the following reasons:

- Under the provisions of Enterprise Law, common decisions of enterprises are passed if being approved by more than 51% of the shareholders or voting rights

[42] Ví dụ khoản 2 Điều 152 Luật doanh nghiệp quy định: "2. Công ty cổ phần do Nhà nước nắm giữ trên 50% tổng số phiếu biểu quyết thì Chủ tịch Hội đồng quản trị không được kiêm Giám đốc hoặc Tổng giám đốc."

- Moderate impact on the concern of members, private shareholders when thinking that enterprises with majority capital contribution and shares owned by private shareholders are still being considered as SOE and controlled by the State. It may lead to potential difficulties and obstacles in corporate governance, adversely affecting the process of SOE restructuring.

157. In addition, the implementation of this option will not resulted in any disorder, and not require fundamental revision of SOE regulations as current regulatory and monitoring system is classified based on similar criteria.

Finalizing the regulations on supervision, and enhancing corporate governance for enterprises dominated by the state

158. For enterprises where 100% of charter capital owned by the State, regulations on management and organization are stipulated under Chapter IV of Enterprise Law. For enterprises with dominant shares or contributed capital of the State, depending on the legal form, corresponding regulations on organization and management will be applied. If it is under the form of limited company, the provisions are in Section 1 Chapter III (limited liability company with 2 or more members); and if it is under the form of joint stock company, Chapter V will be applied

159. However, for limited liability company or joint-stock company with dominant shares held by the State, additional provisions will be applied on:

    - The anti-conflict of interest: restraining related persons in the family to take important management positions a firm or same business group. For example: adding up standards and conditions of professionalism and experience of directors, expanding those people related to directors, including brother, brother-in-law, son-in-law, daughter-in-law (Article 65); supplementing standards and conditions of professionalism and experience of BOD, directors (supplementing Item 5 Article 157)

    - Anti-concentration of power and position in a single individual while representing of capital and holding important managerial positions at the same time.

    - Controlling transactions between firms and related parties (such as enterprises of acquaintance or "backyards" for usurping the interest of enterprise and state. For example, adding up Article 65a on Board of Control, where clearer provisions of approving transaction contract with related parties are specified (Article 67); or transparency and disclosure of information under Article 72a.

160. This revision of Enterprise Law is also expected by social community to create stronger institutional changes that will be enough for create a boost for sustainable business development and, ultimately, economic development. With such proposed amendments and supplements analyzed above, Enterprise Law (revised) continues to facilitate market entry, protect business freedom; and a stronger emphasis of developing a safer business environment, enhancing better corporate governance in accordance with international best practices and standards to build advanced, sustainable and competitive business community.

IV. RECOMMENDATIONS

161. The first half of 2019 witnessed many uncertainties of both world and domestic economy, including challenges of fulfilling socio-economic development targets. Policy administration and economic reforms of the country also showed many bright spots, contributing to positive outcomes on economic development and macroeconomic stability. National position has more or less improved, But Vietnam has still retained a serious view on the country's socio-economic situation. The Government, Ministries and branches have regularly monitored, evaluated and forecasted the situation in the world and in the country, thereby updating and completing the domestic operating scenarios. Movements of foreign capital have continued to be monitored and discussed at many levels, has not yet led to a restrictive policy that distinguishes partners. Compared to the period of 2008-2009, Vietnam now has more experience and calmer response to adverse impacts from world economic developments. More importantly, the requirements for business environment reforms are still taken into account and promoted in parallel with the process of coping with uncertainty of the global economic environment.

162. Vietnam is getting closer to a new period of socio-economic development strategy. The preparation of orientation for the socio-economic development strategy has been positively taken place. Vietnam currently has/participates in a number of long-term reports and studies, with vision to 2035 or even 2040. In particular, the development and consolidation of microeconomic foundation is still a thorough requirement, despite different expression of wording. However, when facing with some important economic and trade issues in the short term which attracting the attention of the people, the management agency seemed to still have the motivation to return to the "most convenient" way for them. Without breaking up with these practices, the demand for innovation and economic institutional reform can hardly be concretized in the new Socio-Economic Development Strategy.

163. EVFTA and EVIPA agreements have been signed and awaiting approval. After some bumping in the process of concluding these two agreements, Vietnam has the right to expect new opportunities and positive impacts on the economy in the coming time. However, these Agreements all have high requirements in which, *among other requirements*, Vietnam have to make more substantial efforts to institutional reforms and enforcement conditions. The slow preparation of some contents for CPTPP implementation is a lesson to be avoided for EVFTA and EVIPA. The business community cannot be satisfied if the benefits from EVFTA and EVIPA are only at a potential level, even if the potential benefits are reflected in the increase macroeconomics indicators, which could be even tens of percent according to the Assessment Report on potential impacts of these Agreements. It should be noted that the business community needs not only a "multi-FTA economy", but an open, competitive and low-cost economy more.

164. 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.

1. Recommendations on further reforms of microeconomic foundation

165. 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; the reform of wage policy for officials, civil servants, armed forces and laborers in enterprises; reform of social insurance.

166. 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

167. Research and timely adjust the Enterprise Law and Investment Law to overcome practical shortcomings and limitations.

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

    - Continue studying, discussing and identifying specific solutions to consolidate and improve rankings of improved indicators; prevent falls in rankings and quickly improve rankings of remaining indicators. At the same time, continue studying and learning experience from international best practices on improving business environment and competitiveness.
    - Continue comprehensive reforms of regulations on business conditions in order to facilitate production and business activities of enterprises in accordance with international practices and requirements of international economic integration.

169. Promulgate the National Strategy on the Fourth Industrial Revolution. Identify, issue policy framework and prepare necessary conditions to promote digital transformation in Vietnam.

170. Research, identify and consult on strategic economic orientations for 2021-2030.

171. 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.

172. 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

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

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

2. *Recommendations on macroeconomic policies*

174. 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).
175. Accelerate economic and sectoral restructuring, focusing on quality improvements in order to strengthen economic resilience of the economy in response to unpredictable developments of the international trade and the global economy.
176. 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, publish list of SOEs delaying the equitization, divestment and listing, associated with personal responsibility to have serious and effective solutions.

* *Monetary policy:*

177. Continue to execute proactive, flexibly, prudent and synchronous monetary policies in order to stabilize the market, contributing to macroeconomic stability and inflation control.
178. Mange exchange rates in accordance with market movements, macroeconomic balance and objectives of monetary policy. Communicate on not devaluating the VND to support exports. Consider restricting communication on buying foreign exchange to strengthen national foreign exchange reserves. 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.

179. 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

180. 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.

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

182. Clearly define the scope of "unlawful credit" to have solutions on avoiding equating "unlawful credit" and "informal credit", thus, constraint creativity in banking and financial sector and meet the demand of non-bank capital for business.

183. Control credit scale in accordance with the orientation of improving credit quality, facilitating access to credit. Consider to delay the roadmap of reducing foreign currency credits to support businesses.

184. Study, issue regulations for more open foreign exchange management for funds and enterprises investing in innovation..

* *Fiscal policy:*

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

186. 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.

187. 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*

188. 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).

189. 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 (without using SPS/TBT barriers for important imports from the US; the possibility of reducing import demand from the US, etc.).

190. 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.

191. Improve management capacity of competition, anti-subsidy, anti-dumping, trade dispute settlement and market control, together with providing legal support for enterprises.

192. 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*

193. 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.

194. Study, consider the time and degree of adjusting prices of some state-managed commodities to avoid pressure on inflation.

195. Research and consider not to increase minimum regional wage in 2020.

* *Investment policy*

196. 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.

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

198. Examine 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.

3. Other related recommendations

199. Finalize the system of statistic indicators related to informal sector, digital economy and trade and services.

200. Research, review and avoid significant difference between import statistics from China (issued by General Department of Customs) and export statistics to Vietnam (issued by China)./.

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APPENDIX 1: POLICY CHANGES IN THE FIRST 6 MONTHS OF 2019

<table>
<tr><th>No</th><th>Content</th><th>Policy adjustment until the end of June 2016</th></tr>
<tr><td></td><td>Some main macroeconomic management orientations</td><td>The main tasks in the second quarter of 2019 are shown in Directive 09 / CT-TTg dated April 1, 2019 on solutions to solve difficulties in production and business activities, ensuring the first half and all year 2019 growth targets. Specifically::
• Promoting institutional construction and improvement: Researching, amending and completing the system of legal documents, ensuring to overcome the current shortcomings, maximally facilitate the operation of enterprises .
• Strongly improving the business investment environment, substantially reducing business conditions, reforming administrative procedures, removing bottlenecks of business and production activities, making development motivation for enterprises
• Focusing on solving difficulties in production, speeding up implementation, disbursing of large-scale industrial projects, ensuring 100% disbursement of public investment in 2019
• Implementing synchronous solutions to develop the domestic market and boost export growth
• Strongly developing tourism, contributing to the development of many manufacturing and service sectors
• Organizing national conferences on removing difficulties and promoting growth</td></tr>
<tr><td></td><td>Trade and economic integration policies

Focus: Actively implementing and taking advantage of opportunities from international trade agreements</td><td>1. Directive 09 / CT-TTg dated April 1, 2019 on solutions to solve difficulties in production and business activities, ensuring the first half and all year 2019 growth targets.
• Reorganizing the domestic market,
• Strengthening activities to connect Vietnamese agricultural and aquatic product exporters to enterprises with Chinese import demand through border gates, especially for Vietnamese products that have advantages with great demand from China, such as fruits, seafood, rice, coffee ...
• Diversifying and expanding agricultural export markets
• Strengthening strict management of imported timber to take advantage of the benefits of tariff reductions when Vietnam joins the CPTPP Agreement.
• Developing a scheme to handle international trade disputes, especially taking advantage of opportunities, shortcomings and challenges due to the impact of the US-China trade war; promoting the export of Vietnamese goods with advantages that China is subject to high taxes
• Accelerating the progress of synchronous implementation of solutions to boost the domestic market in combination with expanding and boosting exports, especially agricultural exports, increasing the competitiveness of exported products, taking advantage of opportunities from new generation trade</td></tr>
</table>

		agreements (CPTPP, EVFTA ...). Controlling temporary import, re-export activities, rules of origin, avoiding issues of "borrowing" to export to a third country. • Implementing the Implementation Plan of the CPTPP Agreement, building support programs, improving competitiveness and participating in global value chains for businesses, giving priority to small and medium enterprises to take advantage of the opportunities of free trade agreements • Effectively implementing solutions to ensure supply and demand balance, especially for essential goods; researching and building a database on supply and demand of essential goods to serve the operation of market management work; directing and actively implementing the Market Stabilization Program; administering the price of goods managed by the State in order to contribute to ensuring the inflation control target (average CPI is below 4%). 2. Decision 409 / QD-BKHDT dated April 4, 2019 on the Implementation Plan of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) • Requirements: - Complying and fully, effectively implementing Vietnam's commitments and obligations when participating in the CPTPP Agreement and requirements in the National Assembly's Resolution No. 72/2018 / QH14 of November 12, 2018, approving the Comprehensive and Progressive Partnership Agreement across the Pacific and Decision No. 121 / QD-TTg dated 24/01/2019 that the Prime Minister approved the Implementation Plan of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership; - Combining and integrating the implementation of the CPTPP Agreement with tasks of implementing socio-economic development plans and perfecting mechanisms and policies on business investment - Implementing the Agreement promptly, practically, effectively and economically • Main activities: Propagating and disseminating information on the Agreement, answering questions and guiding the implementation of the Agreement's commitments. - Developing a Decree guiding the implementation of the international agreement on bidding as a basis to guide the implementation of the Government's commitment to open the procurement market to contractors from CPTPP members, as stipulated in Law on Promulgation of Legal Documents; continuing reviewing, proposing to amend, supplement, abolish or promulgate new legal documents in the field of planning and investment (if any) to ensure consistency and synchronization with the Agreement’s commitments. - The relevant agencies from ministries and branches coordinate to research on: Measures and mechanisms

		to encourage FDI enterprises to connect with domestic enterprises, contributing to the formation and development of supply chains; planning to restructure the economy to adapt to the integration process and effectively exploit the opportunities from the CPTPP Agreement and free trade agreements that Vietnam has signed and joined; Quantitatively assessmenting the effects of the CPTPP Agreement on production and service sectors, thereby proposing specific measures to improve competitiveness for these sectors; Enhancing economic forecasting and early warning work in the trade field to take necessary adaptation measures in the context of volatile international trade relations. 3. Circular 07/2019 / TT-BCT dated April 19, 2019 regulating the export of textiles and garments to Mexico under the Comprehensive and Progressive Agreement for Trans-Pacific Partnership 4. Decision 506 / QD-TTg dated 4 May 2019 on approving additional list of tasks to implement the International Convention on Maritime Search and Rescue in 1979 (SAR Convention 79) by Decision 06/2009 / QD-TTg period 2019-2025. 5. Decision 876 / QD-BTC dated 27/5/2019 on the Plan for implementing solutions to improve the ranking of Cross-border Trade Transactions of Vietnam in the period of 2019-2021. • Objective: Striving to increase the index of cross-border trade transactions by 2021 by 10-15 levels compared to 2018; In 2019, strive to increase 3-5 levels compared to 2018 • Detail goals: *In terms of time*: Time under the responsibility of customs authorities only accounts for 11% for imported goods, 4% for exports in the total time of import and export activities across borders; Time is under the responsibility of the unloading and storing unit at the port and logistic accounts for 28% for imported goods and 50% for exported goods; Time for compliance with documents for specialized inspection (time for preparing import and export dossiers) and compliance time at border gates for non-customs agencies (inspection time and inspection report)) accounting for 61% of imported goods; 46% for export goods. *In terms of costs*: Costs related to customs inspection and customs brokerage fees only account for 11% for imported goods and 10% for exports in the total import and export costs across the border; Cost of loading and unloading, storage at ports and logistic costs account for 64% for imported goods, 63% for export goods; Cost of implementing procedures for compliance with specialized inspection (cost of preparing import and export dossiers) and quality inspection costs account for 25% for imported goods, 27% for export goods. 6. Decision 1230 / QD-BCT dated May 13, 2019 on the application of measures combating evasive action to trade remedy measures for wire and rolled steel products imported into Vietnam

		7. Decision 1480 / QD-BCT dated May 29, 2019 on the application of temporary anti-dumping duties on some aluminum products originating from China. 8. Decision 684 / QD-TTg dated June 4, 2019 amending Decision 1899 / QD-TTg on establishing the National Steering Committee on ASEAN Single Window, National Single Window and trade facilitation. • Supplementing functions and duties of the Committee is to assist the Government and the Prime Minister in managing and coordinating activities of relevant ministries and agencies in improving policies and solutions to develop high quality logistics services, meeting the needs of developing and competitiveness improving of the economy. • Adding content on organization, personnel apparatus, functions and duties of the standing agencies 9. Decision 1711 / QD-BCT dated June 18, 2019 on the application of temporary anti-dumping duty on flat rolled and non-alloyed steel or alloyed steel, plated or not plated steel, painted and originated from China and Korea. 10. Decree 57/2019 / ND-CP dated 26/6/2019 on the Preferential Export Tariffs, Special Preferential Import Tariffs for the Implementation of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership in 2019-2022 period • Imported goods are subject to special preferential import tariffs that are imported into Vietnam from member countries of the CPTPP Agreement, including: Mexico, Japan, Singapore, New Zealand, Canada and Australia • The following items are entitled to the import tax rate of 0%: Live animal group (Code 01.01) including horses, donkeys, mules that are purebred for multiplication and other types; Live animals of cattle and buffalo (Code 01.02) include cattle, purebred buffalo for breeding and other types; Purebred sheep and goats for breeding and other types (Code 01.04); Live poultry, including chickens of the type Gallus domesticus, ducks, geese, turkeys and pheasants (Code 01.05); Other animals (Code 01.06) include mammals, birds and insects. • For used cars of headings 87.02, 87.03, 87.04 imported in tariff quotas for the implementation of the CPTPP Agreement, preferential import tariffs, in particular, are mixed tax rates including: Tax rate (%) and the absolute tax rate of used cars specified in the List of goods and special preferential import duties at the time of registration of customs declarations 11. Signing of Free Trade Agreement (EVFTA) and Investment Protection Agreement (IPA) between Vietnam and the European Union (EU) on June 30, 2019 • With Vietnam's exports, as soon as the Agreement comes into effect, the EU will abolish import duties for nearly 86% of tariff lines and more than 99% of tariff lines will be removed after 7 years, equivalent

		to 99.7% of the total Vietnam's export turnover to 28 EU member countries. 0.3% of the remaining export turnover, EU committed to provide Vietnam with tariff quotas with import tax rate in the quota of 0% • Vietnam also committed to immediately eliminate 48.5% of tariff lines for EU goods. After 7 years, the number of tax lines to be removed increased to 91.8%, equivalent to 97.1% of export turnover. After 10 years, the level of tariff elimination is about 98.3% of the tariff lines (accounting for 99.8% of import turnover). About 1.7% of the remaining tariff lines of the EU, Vietnam will apply a roadmap to abolish import duties longer than 10 years or apply tariff quotas under WTO commitments • The IPA Agreement will replace the bilateral investment agreements that 21 EU member states have signed with Vietnam, implementing a new legal framework to ensure the prevention of conflicts of interest and enhance transparency.
	Investment and business environment improvement policies *Focus: increasing supervision and transparency of public investment, improving investment from socialized capital.* *For the business environment: continue the reduction of administrative procedures and facilitating single wondow, supporting SMEs*	1. Directive 09 / CT-TTg dated April 1, 2019 on solutions to solve difficulties in production and business activities, ensuring the first half and all year 2019 growth targets. • Expeditiously review and abolish, under the authorities, plans on investment in specific product and service development. Assessing the level of change and the intrinsic impact on enterprises of reforms, abolishing and simplifying regulations on business conditions implemented by ministries and branches in 2018. • Improve operational efficiency of the National one-stop, ASEAN one stop mechanisms • Developing science and technology market, focusing on promoting technology transfer from advanced countries in the world to domestic enterprises, giving priority to high technology projects and projects that are environmentally friendly, has the potential to spread or link with domestic enterprises to join the global value chain. • Expanding the market, improving the capacity of industrial enterprises to support and strengthen the linkage between enterprises producing complete products and enterprises producing supporting industrial products. • Researching solutions to gradually reduce the rate of processing and assembling, increase the rate of manufacturing industrial products to support, encourage and create conditions for enterprises to participate in technology innovation programs. • Researching to promote the following 03 groups of FDI projects: (i) Large-scale projects that are carrying out procedures to increase investment capital; (ii) Promoting disbursement of some new projects or capital increased projects in 2019 (iii) Promoting new investment projects; supporting to create conditions for Samsung to increase investment capital for the project in Bac Ninh • Ensuring planned credit growth, meeting capital needs for production and business activities, focusing on

		credit growth for priority areas; Strictly controling credit for potential risk areas. 2. Decision 800 / QD-BCT dated April 3, 2019 on the Action Plan on improving the index of electricity access to implement Resolution 02 / NQ-CP • Raising the index ranking of electricity access by 2021 to 5-7 grades, 2019 from 3-5 grades 3. Decree 39/2019 / ND-CP dated 10/5/2019 on organization and operation of Small and Medium Enterprise Development Fund • The Small and Medium Enterprise Development Fund is a non-budget state financial fund, operating for non-profit purposes, established by the Prime Minister. The Fund operates under the model of one-member state-owned limited liability company with 100% charter capital. The minimum charter capital of the Fund is VND 2,000 billion due to the state budget allocated from development investment sources. The Fund carries out direct lending, indirect lending, financing, and capacity building support.. • The operational objective is to improve the competitiveness of small and medium enterprises, contributing to income generation, job creation for workers; Creating capital to support and develop small and medium enterprises; Improving the efficiency of state capital management to support small and medium enterprises. 4. Circular 19/2019 / TT-BGTVT dated May 23, 2019 guiding the investment sector and the content of the feasibility study report of investment projects in the form of public-private partnerships in the field of transport 5. Directive 03 / CT-BKHĐT dated May 24, 2019 on reorganizing the bidding work, enhancing the effectiveness and efficiency and repelling negative conditions and violations in bidding • The Ministry of Planning and Investment also requires ministries, branches, localities and economic groups to carry out the online bidding roadmap in accordance with the provisions of law; ensuring the wide online bidding rate in 2019 reaches 50% of the number of bidding packages and 15% of the total value of bidding packages. 6. Decision 1500 / QD-TCHQ dated 24/5/2019 on the Index of monitoring and evaluating administrative reform results of the General Department of Customs 7. Resolution 35 / NQ-CP dated June 4, 2019 on strengthening mobilization of social resources for investment in education and training development in the period of 2019-2025 • Objective: Promoting mobilization of social resources, promoting the development of non-public educational institutions at the rate of 8.75% of establishments and 8.9% of learners by 2020 and times turns of 13.5% and 16% in 2025 • Main solutions: Completing institutions, improving investment environment; Promoting autonomy for

		public educational institutions; Strengthening conditions for quality assurance and education quality accreditation; Strengthening information and communication work. 8. Decision 789 / QD-BLĐTBXH dated 06/06/2019 announcing the List of conditions for business investment and the List of specialized inspection goods under the management of the Ministry of Labor, War Invalids and Social Affairs. 9. Decision 703 / QD-TTg dated June 7, 2019 on approving the Scheme "Building a competitive transport market in the direction of developing multimodal transport, connecting between different forms of transport, focus on applying information technology to minimize transportation costs to facilitate the circulation and distribution of goods and services of businesses" • Objective: To build a transport market with healthy competition, promoting the strengths of each mode of transport and developing multi-modal transportation; applying advanced transport technologies to facilitate goods circulation, reducing the logistics costs of the economy in the context of integration, improving national competitiveness. • Main solutions: Completing the system of legal documents; Priority should be given to the development of large and modern infrastructures, which are pervasive: upgrading Tan Son Nhat international airport, building Long Thanh international airport and the eastern North-South expressway, a number of important section of high-speed railway on the North-South axis. Upgrading and improving infrastructure for inland waterway container transport and logistics services in Hai Phong, Hanoi, Ho Chi Minh City and Can Tho. Prioritizing the development of multimodal transport on the main transport corridors, especially the North-South corridor and corridors connecting with international gateway ports. Facilitating transit transport and cross-border transportation. Continuing to implement bilateral and multilateral agreements on aviation, maritime, road, rail and inland waterways, to facilitate cross-border and inter-national transportation of people and goods with multimodal transport within ASEAN. In the immediate future, focusing on developing transport between Vietnam and neighboring Laos, Cambodia, Thailand, Myanmar and China. Promoting transport development on East-West economic corridor and Southern corridor. 10. Decree 55/2019 / ND-CP dated 24/6/2019 on legal support for small and medium enterprises • Accordingly, when providing legal support for small and medium enterprises, agencies and organizations based on resources and support programs to decide support in the following order of priority: - Small and medium enterprises owned by women, businesses use more female workers

		- Small and medium enterprises use 30% of the total number of employees who are disabled - Small and medium enterprises submiting documents to meet the conditions of support first, will be supported first.
	Monetary policy and governance of credit institutions *Focus: Operating monetary policy prudently and flexibly. Organization and operational structure of banking inspection and supervision agencies. Managing, controlling and preventing "unlawful credit".*	1. Directive 09 / CT-TTg dated April 1, 2019 on solutions to solve difficulties in production and business activities, ensuring the first half and all year 2019 growth targets. • The State Bank has to ensured credit growth according to the set plan, meeting the capital demand for production and business activities, focusing on credit growth for priority areas, strictly controlling credit for the potential areas of risk. 2. Decision 355 / QD-TTg dated April 1, 2019 on preferential lending rates of Vietnam Bank for Social Policies in accordance with Decree 100/2015 / ND-CP on the development and management of communal houses. • The preferential lending interest rate of Vietnam Bank for Social Policies applies to loans in 2019 to buy or hire to buy social houses; build or renovate and repair houses to live in accordance with the provisions of Decree 100/2015 / ND-CP dated October 20, 2015 of the Government on social housing development and management is 4.8% / year. Overdue debt interest rate is calculated at 130% the lending rate. 3. Directive 12 / CT-TTg dated April 25, 2019 on strengthening prevention and fighting against crimes and law violations related to "black credit" activities" • Temporarily stop providing telecommunications services or recovering telecom numbers for users who texted, posted, advertised "black credit", peer loans, and online loans that do not conform to regulations under the law. Proactively reviewing and recovering garbage SIM; strengthening the management of advertising content in newspapers, network environment, publications and integrated ads on post and telecommunications products and services… • Tightening the management of granting certificates of eligibility for security for pawn services, debt collection service businesses; providing information of businesses for investigation of related criminal cases… • Diversifying types of loans, banking products and services; developing financial companies and microfinance institutions covering all regions with quick and convenient procedures, meeting the legitimate loan demand for people's life and consumption, contributing to preventing "black credit". 4. Decree 43/2019 / ND-CP dated 17/05/2019 amending Decree 26/2014 / ND-CP on organization and operation of Banking Inspection and Supervision 5. Circular 30/2019 / TT-BTC dated May 28, 2019 guiding the registration, depository, listing, trading and payment of government debt instruments including Government-guaranteed bonds issued by Policy

		Bank and local government bonds. 6. Decision 20/2019 / QD-TTg dated 12/6/2019 regulating the functions, tasks, powers and organizational structure of the Banking Inspection and Supervision Agency under the State Bank of Vietnam
	Fiscal policy and Budget management *Focus: Remove difficulties, accelerate the implementation of public investment disbursement. Strengthening the coordinating role of the State Capital Management Committee at enterprises.*	1. *Directive 09 / CT-TTg dated April 1, 2019 on solutions to solve difficulties in production and business activities, ensuring the first half and all year 2019 growth targets* • Focusing on removing difficulties in production, speeding up the disbursement of large-scale industrial projects, ensuring 100% disbursement of public investment in 2019 • Strengthening coordination between the Commission for the Managenment of State Capital at Enterprises and managing ministries in developing annual business and production plans of enterprises to ensure their strategies and plans consistent with the National sector development plannings, and strategies. 2. Decision 611 / QD-BTC dated April 5, 2019 announced the plan to monitor state investment in enterprises in 2018. 3. Decision 17/2019 / QD-TTg dated April 8, 2019 on a number of bidding packages, procurement contents to maintain regular operation, that are applied the form of contractor selection in special cases as prescribed in Article 26 Bidding Law 4. Decree 32/2019 / ND-CP dated April 10, 2019 regulating the assignment, ordering or bidding for the provision of public products and services using the state budget from regular expenditure sources • Prescribing 04 types of public services using state budget funds to order, specifically: Printing of money and valuable papers, producing coins, printing and casting gold bars; Services to ensure maritime safety and coastal information; Managing and maintaining railway infrastructure; Services using ports and stations. • Regulating the use of the State budget to carry out bidding or ordering with the following services: Management and maintenance of road infrastructure, road operation and exploitation services; Management and maintenance of inland waterways; Service of park management, planting and management of ornamental plants, ornamental flowers, sidewalks, streets, separators, roundabouts; Urban lighting services… • Regulations on funding for the task of providing public services using the State budget can be adjusted in the following cases: The State changes the salary mechanism and policies; superior management agencies adjust the assigned tasks with the cause of changing the quantity, volume of implementation or other objective causes. 5. Circular 21/2019 / TT-BTC dated 11 April 2019 guiding the first sale of shares and state capital transfers by the book making method

		6. Circular 08/2019 / TT-BKHĐT dated 17 May 2019 guiding the norms for planning activities 7. Decision 972 / QD-BGTVT dated May 21, 2019 publicizing the 2019 budget estimation of the Ministry of Transport 8. Decision 767 / QD-TTg dated June 21, 2019 on the plan of medium-term investment in Government bond capital in the period of 2016-2020 of the Ministry of Transport and Phu Yen province; adjusting the medium-term investment plan of Government bonds in the period of 2016-2020 from 10% reserve sources in localities 9. Directive 16 / CT-TTg dated 25/6/2019 on developing the Socio-Economic Development Plan and State Budget Estimation in 2020 • The Prime Minister assigns and directs ministries, branches and localities to develop socio-economic development plans and state budget estimates in 2020 10. Directive 17 / CT-TTg dated 27/6/2019 on building 05-year financial plan for the period of 2021-2025 • The Prime Minister assigns, directs ministries, branches and localities to formulate five-year financial plans for the 2021-2025 period
	Policy on price and inflation control	1. Notice 364 / TB-BCĐĐHG dated April 19, 2019 announcing the conclusions of Deputy Prime Minister Vuong Dinh Hue - Head of the Price Steering Committee at the meeting of the Steering Committee on price management on March 28, 2019. • The ministries, branches and localities continue to take the initiative in implementing the executive measures to resolutely implement the target of controlling the average CPI in 2019 at the level of 3.3 - 3.9% according to the price management scenario that was set off from the beginning of the year • The State Bank of Vietnam operates a flexible monetary policy, working closely with fiscal policy to ensure inflation control. Controling total credit in terms of structure and credit quality; At the same time, synchronous implementing measures to stabilize exchange rates and interest rates; striving for basic inflation control in about 1.8%. • The Ministry of Agriculture and Rural Development closely monitors market price movements of agricultural products, coordinating with the Ministry of Industry and Trade to balance the supply and demand of essential agricultural products to stabilize the market • The Ministry of Industry and Trade presides and coordinates with the Ministry of Finance to administer domestic petroleum prices in line with world price movements in combination with the setting up and use of petroleum price stabilization fund to ensure a room for market stabilization. The Ministry of Industry and Trade cooperates with the General Statistics Office to monitor and assess the indirect impact of electricity price adjustment; strengthening information, propaganda, publicity and transparency.

		• The Ministry of Construction continues to closely monitor the supply and demand developments, market prices of construction materials and real estate market to have appropriate macro-regulatory measures 2. Circular 17/2019 / TT-BGTVT dated May 3, 2019 on the price framework for passenger transport services on domestic routes.

APPENDIX 2: MACROECONOMIC STATISTICS

	Unit	2016				2017				2018				2019	
		I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II
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
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	5.3	9.3
- *FDI sector*	*%*	*10.8*	*7.4*	*15.4*	*25.6*	*14.6*	*25.0*	*23.7*	*26.8*	*27.1*	*6.3*	*16.0*	*3.8*	*3.1*	*5.9*
Growth rate of imports	%	-4,0	2.2	4.9	15.5	25.2	24.2	20.5	15.9	13.3	8.0	16.1	9.8	7.9	12.9
- *FDI sector*	*%*	*-4,5*	*0.0*	*6.7*	*18.9*	*24.0*	*32.2*	*30.2*	*8.8*	*13.6*	*2.2*	*18.9*	*8.9*	*4.7*	*7.8*
Exports/GDP	%	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
Money															
M2 growth (YoY)	%	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	3.1
Credit growth (YoY)	%	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	4.1
Interbank/central VND/USD exchange rate (average)	Dong	21890	21876	21891	22074	22219	22371	22442	22451	22434	22555	22674	22742	22902	23037
Investment															
Investment/GDP	%	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
Implemented FDI	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
Other indicators															
Inflation (YoY)	%	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
State budget deficit/GDP	%	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	-
Current account	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	-
Balance of payments	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	-

Source: Authors' compilation.