COVID-19 POLICY RESPONSE NOTES FOR VIETNAM

JUNE 2020
Preface

“You can count on your trusted friends in difficult time”. This saying symbolizes Vietnam and the World Bank Group’s long-lasting partnership over the past 25 years, which grows even stronger during difficult times in Vietnam or in the global economy. This has been verified once more during the COVID-19 crisis.

Today, Vietnam’s timely and evidence-based response has led to tremendous success in containing the COVID-19 outbreak, with just over 300 positive cases and no deaths. The enviable success story has been applauded across the globe, and the country’s experience has been recently shared by Prime Minister Nguyen Xuan Phuc at the 73rd World Health Assembly organized on May 18-19, 2020.

Vietnam’s successful management of COVID-19 has also been extended to the economy – so much that Vietnam is now projected to be one of the few world’s fastest growing countries in 2020.

Since the beginning of the COVID-19 pandemic, the World Bank has shared a series of five policy notes with Vietnamese policymakers. These just-in-time notes have supported the Government in its efforts to monitor the current crisis and helped it sequentially to formulate policy responses from the health crisis management through stimulating the recovery of the economy. These notes built on expertise from around the globe, including Hanoi, Washington, DC and beyond. The diagnostics and recommendations stem from the deep dialogue that our experts have fostered with government officials and other stakeholders in Vietnam over the years. They also benefited from expertise based on successes and lessons learned in other countries.

I am pleased to share the five policy notes in this booklet, which gives an overall picture of the World Bank’s analysis of the impacts of COVID-19 on Vietnam. You will find that the sequencing of the notes follows the evolution of the pandemic crisis. The first note proposes an early assessment of the pandemic on the economy, while the second develops a comprehensive strategy to cope with the crisis over time. The third note focuses on the fiscal package that was announced in early April, with the ambition to alleviate the financial burden of the crisis on the most vulnerable businesses and people. The fourth and fifth notes include suggestions on how to jumpstart the economy in the post-COVID-19 period, as well as ideas to take advantage of the epidemic to reshape the economy through “no-regret” policies.

While the future is hard to predict, I believe that the world will look very different in the post-COVID-19 era. Yet, I am convinced that Vietnam will be able to leverage the emerging opportunities that are the silver lining of the crisis, and thereby being stronger and more determined in its ambition to become a high-income economy in the future. The country has already engaged in a number of reforms that should help it to increase its footprint in the global economy, to develop further a digital economy, and to improve its resilience to future pandemics, climate change and other related shocks. I hope that the success of Vietnam in moving ahead of the curve can inspire other countries that are now struggling under the COVID-19 crisis.

Ousmane Dione
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COVID-19 POLICY RESPONSE NOTE #1

Economic costs associated to the coronavirus epidemic for Vietnam

February 2020
A preliminary note on the economic costs associated to the coronavirus epidemic for Vietnam

The short-term impact of coronavirus outbreak (i.e., 2019-nCov) on Vietnam’s economy could be significant, as high 6-10 percent of monthly output, but short-lived if the outbreak is rapidly contained. While the recent measures by the Government to limit the mobility of people, goods, and services with China will help to prevent the outbreak from spreading to Vietnam, they come with some economic costs. Tourism and electronics trade are the most vulnerable, with one-third of foreign tourists are from China and with over $3 billion per month of bilateral trade between the two countries. The direct costs to contain the epidemic remains relatively small but could increase rapidly if the outbreak spreads within Vietnam, restrictions on mobility are sustained over time and if people behavior amplifies the initial negative impacts. Lessons from experience of recent pandemic show that while the negative costs could be high, the economy tends to recover rapidly once the outbreak is contained. The estimates presented here are highly dependent on assumptions regarding the magnitude and the duration of the epidemic and should be considered as preliminary.

1. The magnitude of the outbreak and government’s policy responses

The Government of Vietnam has acted quickly to the announcement of the coronavirus outbreak in China. The Prime Minister has declared the outbreak an epidemic in Vietnam and established a nCoV National Steering Committee chaired by a Deputy Prime Minister. As of February 11, 2020, Vietnam has confirmed that 15 people have been infected and 547 people are under quarantine (no death). The government has ordered the health ministry to supervise and detect infection early, monitor border crossings, airports, and seaports, particularly for passengers coming from affected areas. Vietnam’s airports have been ordered to deploy additional personnel and coordinate with local health agencies to deploy body temperature scanning equipment as well as a screening of passengers.

Vietnam has taken several preventive steps to stop the outbreak from reaching its border. The civil aviation authority has suspended all flights to mainland China from February 1. It has stopped issuing visas for Chinese tourists and foreigners who have been in China in the past 14 days. Several border gates between Vietnam and China in the northern province of Lang Son were initially closed but then reopened to trade. Similarly, the aviation authorities imposed and then lifted the ban for travelers from Hong Kong, Macau and Taiwan after one day. The Ministry of Labor, Invalids, and Social Affairs has discouraged businesses not to bring back Chinese and other foreign workers who have traveled to coronavirus-affected locations. Meanwhile, 61 out of 63 provinces have closed schools and colleges/universities until the end of February 9. These include institutions in main urban centers such as Hanoi, Ho Chi Minh City, Da Nang and Can Tho.

1 This note was prepared by Jacques Morisset under the guidance of Deepak Mitra, with inputs from Keiko Inoue, Duc Minh Pham, Viet Tuan Dinh; Quang Hong Doan; Brian G. Mtonya, Anh Thuy Nguyen; Ngan Hong Nguyen; Caryn Bredenkamp; Dilip Parajuli; Netsanet Walelign; Mukesh Chawla; Rocio Schmuni; and Anh Thi Quynh.

2 The statistics were reported by MoH as of February 11, 2020 and will be updated with arrival of new information.
2. An assessment of the economic impact of the outbreak on Vietnam

The economic impact of the coronavirus outbreak remains highly tentative. The magnitude of the impact of the 2019-nCoV on the Vietnamese economy will depend on the duration and severity of the outbreak as well as the Government’s policy response. As in previous episodes, it will also be greatly influenced by behavioral responses from households and firms, which could intensify the short-term economic impacts. Given the uncertainty, our baseline scenario assumes that the outbreak will be contained in China by the end of March, with limited contagion in Vietnam. This scenario corresponds to the current one adopted by the Vietnamese authorities (the so-called scenario 2, as defined by the Ministry of Health) even if, at this point in time, one cannot discard a faster containment of the outbreak in China or, alternatively, a longer propagation in Vietnam (scenarios 3, 4 for the Ministry of Health).³

The economic costs associated to the coronavirus outbreak are classified into two groups. First, they arise from the preventive measures taken by the Vietnamese authorities to restrict the mobility of people, goods and services with China. Second, they are linked to the management of the epidemic outbreak on the home front and the associated measures to contain it.

2.1 The costs associated with the measures to contain the contagious effects from China

A slowdown in China due to coronavirus outbreak is expected to have a marginal impact on the Vietnamese economy, as the expected decline in GDP growth in 2020 would only be a 0.13-X percentage points even in the worst-case scenario envisioned by the WBG team in China. Vietnam shares a border of more than 1,200 km with China, where the epidemic originated. One can therefore expect spillovers from China onto Vietnam due to the numerous and diversified linkages between these two economies. The impact of a slowdown in China’s GDP growth on Vietnam economic growth can be roughly quantified by using the recent cross-regional elasticities calculated by the IMF,⁴ and by assuming that China’s GDP growth could decline between 0.2-1 percentage points depending on the gravity of the crisis in 2020.⁵ Accordingly, everything else equal, a 1 percent growth slowdown in China would lead to a decline in Vietnam’s economic activity by 0.13-X percentage points. The impact of the current outbreak should therefore remain relatively limited in Vietnam even in the scenario where the Chinese authorities would be slow to contain the outbreak.

However, the above estimates do not account for the preventive measures adopted by the Vietnamese authorities to restrict the mobility of persons, goods and services with China.⁶ Because China accounts for approximately one-third of tourism revenue (Figure 1.1) and almost a quarter of Vietnam trade flows (Table 1.1), the recently announced ban on all visitors coming from China and the suspension of several transport routes (notably by air) will have effects over and above the direct effect of a slowdown in China’s economy.

³ The MoH has adopted the following scenario 1 - there is (are) imported case(s); scenario 2 - there is secondary infected case; scenario 3 - there are more than 20 infected cases in the country and scenario 4 - there is widespread infection in the community with over 1,000 cases.
⁵ World Bank, Coronavirus Outbreak: Recent Developments, Economic Impacts, and Policy Options for China, February 4.
⁶ Such approach was followed by the Financial Times is often cited article, Coronavirus will hit global growth.
The most direct and immediate negative impact is on tourism, which accounts for approximately $30 billion revenue per year for Vietnam. To illustrate, if the 5.8 million Chinese tourists are prohibited to enter the country (assuming that without a visa, nobody can enter the country) for a month, this could represent a loss of approximately $750 million. A back to envelop calculation indicates that this cost might increase to $1 billion per month if the number of other visitors will decline by 10 percent (many tour operators have already suspended part of the operations in East Asia). The loss would jump up to $1.6 billion per month by considering the multiplier effect associated to a decline in tourism activity on other economic sectors.

Beyond tourism, other goods will be negatively affected by the (temporary) closing of transport corridors between China and Vietnam. To illustrate the magnitude of the possible impact, a decline by 50 percent in both merchandise exports and imports between the two countries could reduce Vietnam’s trade by approximately $5 billion per month. A full stop of all bilateral rated would reduce trade flows by almost $10 billion per month. According to the Vietnamese authorities, a fifty percent reduction in bilateral trade for a 2-month period could impact the national GDP by about 0.8 percent of GDP.

Official trade statistics from the General Department of Vietnam Customs indicate that the decline in bilateral trade between China and Vietnam will be concentrated in a few products, mainly electronics and to a lesser extent textile apparels and food. Table 1.2 indicates that the main export items to China are computers, phone, vegetables, and textile, while the main imports products are machinery, computers, fabrics and phones. The most exposed sectors are electronics and textile (fabrics) due to their integration in regional and global value chains. For example, the risk of disruption appears high for the 3C electronics industry that depends heavily on parts imported from China by air and report limited inventories as the industry is built to respond to just-in-time variations in demand. The textile apparels sector is also vulnerable due to its high dependence on...
imported input from China, estimated close to 50 percent by a recent study in Vietnam. While the share of agriculture products remains relatively small, it still represents about 10 percent of Vietnam’s exports toward China. This figure can underestimate the magnitude of the trade as a large fraction of these exchanges are not reported in official figures. A decline in these exports could disproportionately affect farmers in bordering regions.

Sustained mobility restrictions could also affect FDI flows between the two countries. By the end of 2019, total committed Chinese FDI was estimated at around US$16.3 billion and accounts for 4.6 percent of total accumulated FDI to Vietnam (20 percent if Hong Kong SAR, China, and Taiwan, China, are added). Chinese contractors are also heavily involved in civil works in several important infrastructure projects in Vietnam, mainly in power and transport sector. The travel ban could reduce the activity of these firms as they employ Chinese employees, who might be unable to come back to Vietnam after the end-of-new year holidays. By contrast, over the long run, several foreign investors could be encouraged to move their production from China to Vietnam - reinforcing the trend observed over the past few years, to avoid future disruption as China has been the epicenter of several epidemic over the past few years.

The restrictions on return of Chinese workers to Vietnam could also negatively impact economic activities. According to official figures, there were 91,500 Chinese nationals who had permission to work in the country before Tet even if this number could be far from reality as many of Chinese are employed in non-registered businesses. The port city of Haiphong, a rising manufacturing hub in northeastern Vietnam, has already acted shortly by asking companies to stop thousands of workers from China possibly returning from the Spring Festival holiday.

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7 For more details, see Capital economics, the supply-chain disruption from the coronavirus, 5 February 2020.
8 For more details, see the website of the General Department of Vietnam Customs.
9 Savills Vietnam published its white paper on Vietnam’s industrial real estate for the first half of 2019, listing large corporations moving from China to Vietnam, including aerospace manufacturer Hanwha Aero Engines Co., Ltd. from South Korea, automotive components manufacturer Yokowo from Japan and garment and textile producer Huafu Industrial Co., Ltd. from Hong Kong. Besides, two other groups have moved, namely AirPods manufacturer Goertek (to a factory in Bac Ninh), and electronics – TV manufacturer TCL (moved to Binh Duong).
10 The official number of Vietnamese workers in China is very small, only 194 are reported in mainland China. Figures are also low in Macau (401) and Hong Kong: 100 (2 female). The only exception is Taiwan (54,480 people).
### Table 1.2: Bilateral trade between Vietnam and China, top ten products, 2019

<table>
<thead>
<tr>
<th>Exports to China</th>
<th>Billion $</th>
<th>%</th>
<th>Imports from China</th>
<th>Billion $</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>41.4</td>
<td>100%</td>
<td>Total</td>
<td>75.4</td>
<td>100%</td>
</tr>
<tr>
<td>1 Computer and electronic products</td>
<td>9.5</td>
<td>23%</td>
<td>Machinery and equipment</td>
<td>14.9</td>
<td>20%</td>
</tr>
<tr>
<td>2 Phone and parts</td>
<td>8.3</td>
<td>20%</td>
<td>Computer and electronics</td>
<td>12.1</td>
<td>16%</td>
</tr>
<tr>
<td>3 Vegetable</td>
<td>2.4</td>
<td>6%</td>
<td>Fabrics</td>
<td>7.7</td>
<td>10%</td>
</tr>
<tr>
<td>4 Fiber and yarns</td>
<td>2.4</td>
<td>6%</td>
<td>Phones, parts and accessories</td>
<td>7.6</td>
<td>10%</td>
</tr>
<tr>
<td>5 Footwear</td>
<td>1.8</td>
<td>4%</td>
<td>Other imports</td>
<td>4.0</td>
<td>5%</td>
</tr>
<tr>
<td>6 Garment and clothing</td>
<td>1.6</td>
<td>4%</td>
<td>Iron and steel</td>
<td>3.3</td>
<td>4%</td>
</tr>
<tr>
<td>7 Machinery and equipment</td>
<td>1.6</td>
<td>4%</td>
<td>Plastic products</td>
<td>2.7</td>
<td>4%</td>
</tr>
<tr>
<td>8 Rubber</td>
<td>1.5</td>
<td>4%</td>
<td>Garment and leather material</td>
<td>2.5</td>
<td>3%</td>
</tr>
<tr>
<td>9 Cameras</td>
<td>1.5</td>
<td>4%</td>
<td>Steel products</td>
<td>1.9</td>
<td>3%</td>
</tr>
<tr>
<td>10 Seafood</td>
<td>1.2</td>
<td>3%</td>
<td>Other ordinary metal</td>
<td>1.6</td>
<td>2%</td>
</tr>
</tbody>
</table>

The negative spillover effect through the financial market contagion can be significant as well. In China, the Hang Seng equity index has declined by about 8 percent since January 20, with the travel and entertainment stocks hit the hardest, mirroring the expected economic impact of the outbreak. Other equity markets in East Asia have weakened as well, including in Vietnam with the HCMC stock index down by almost 10 percent since January 31.

### 2.2 The costs associated to the management of the epidemic on the home front

Two categories of economic costs can be considered on the home front. The first one is associated to the treatment of infected patients, while the second includes the prevention measures to reduce the risk of contagion within the country.

Regarding the first category, the costs appear limited as there are only a limited number of reported cases in Vietnam but could increase rapidly if the infected cases rise over time. The cost of treatment is estimated at around VND40 million by the MoH, but other costs could emerge. As an outbreak grows, new facilities may need to be constructed to manage additional infectious cases; this, along with increasing demand for consumables (medical supplies, personal protective equipment, and drugs) can greatly increase health system expenditures. The cost of upgrading existing facilities could reach about VND 748 billion (US$32 million) in case of 20-1000 infected cases in Vietnam (scenario 3) and VND1,110 billion ($43 billion) in case of a major outbreak (over 1000 thousand infected cases). As a result, the MOH has already requested additional budget for an amount VND 597.7 billion to supplement its available resources. These estimates do not include additional expenses that could arise at the provincial level and from other Ministries such as the police and the militaries. At peak of severe pandemic, the existing health system could become under pressure as health care workers might be increasingly unable to report for duty because they are ill themselves, need to care for ill family members, need to care for children because of school closures, or are afraid (Falcone and Detty 2015; U.S. Homeland Security Council 2006).
The economic costs associated to preventive measures within the country can vary greatly. At a minimum, they include early-phase public health efforts to contain or limit outbreaks (such as tracing contacts, implementing quarantines, and isolating infectious cases) entail significant human resource and staffing costs (Achonu, Laporte, and Gardam 2005). Fear induced behavioral changes reduce labor force participation over and above the pandemic’s direct morbidity and mortality effects and constrict local and regional trade. Measures that decreased person-to-person contact, including social distancing, quarantine, and school closures, had the greatest cost because they cause the largest amount of economic disruption. During the SARS’ outbreak, the economic impact was largely transmitted through behavioral responses to the outbreak which reduced aggregate demand and disrupted supply (Brahmblatt and Dutta, 2008). The slowdown was relatively broad-based but most pronounced in services, particularly transport, accommodation and catering. Services involving face-to-face interaction are most heavily affected by the demand shock. Along these lines, the temporary closure of most schools in Vietnam could lead to productivity losses through absenteeism among caretakers of school-age children. A recent study on the cost of absenteeism in the UK due to school closure estimated that the labor productivity loss could reach, with a greater impact in sectors such as education and health where the number of female workers is relatively elevated.11

3. Conclusion, risks and further actions

The economic costs associated to the outbreak could be high for Vietnam. Our preliminary analysis suggests that these costs could reach 6-10 percent of monthly output, which would be in line with experience from pandemic episodes (e.g. 2003 SARS) in the region. These costs would be the combination from the expected loss in revenues from tourism (around 5-6 percent), from the decline in traded goods (about 1-2 percent), and the costs associated to curative and preventive measures within the country (about 2 percent). These costs would be short lived as the economy recovers relatively quickly once the outbreak is contained in couple of months. For this reason, assuming that the outbreak will be limited in Vietnam and globally contained by end of March, the total effect on the Vietnamese economy should not exceed 0.5-1 percent of GDP during the year 2020 in line with the simulations shared lately by the MPI.

To mitigate these costs, the Government of Vietnam needs to take a number of actions. The Government response to the outbreak has been timely and evidence-based. It has already accelerated the implementation of prevention measures using existing health security funds that were available in case of epidemic outbreaks. The Ministry of Health has requested an additional budget allocation of around $25 million. The MPI is preparing a policy package, including the consideration of a fiscal stimulus (including interest rate subsidy and tax breaks) to support the SMEs affected by the outbreak and protect the most exposed sectors, including tourism and electronics, following the recent example of South Korea.12 It has also opened cross borders roads to merchandise trade after two or three days of uncertainty. Over the longer-run, Vietnam should act to improve its level of national-level epidemic preparedness, which suffers from major weaknesses,

11 Smith and others 2009.
12 Korean Local reports that Government pledges 400 billion won ($334 million) to support exporters potentially facing troubles due to the outbreak of the new coronavirus in China.
including: (i) limitation to effectively plan and allocate funding; (ii) lack of integration of disease surveillance by geographical area; (iii) limited information on coordination, funding sources, and outcomes; (iv) failure to consider other sectors such as agriculture and tourism; limited understanding at central level of the actual workload and budget in subordinate units. Importantly – private sector involvement should be encouraged, both in terms of financing and implementation.

13 For more details, see World Bank’s Health Security Financing Assessment, 2019.
COVID-19 POLICY RESPONSE NOTE #2

Vietnam: Potential policy responses to the COVID-19 epidemic

March 2020
Because of the growing economic costs associated with the coronavirus epidemic, many Governments announced a set of new policy measures aimed at mitigating the potential impacts. This note aims to support the Vietnamese Government in its effort to design and implement the most cost-effective package of policy responses. Based on lessons from international experience and on our existing dialogue with the authorities, the recommendation is to adopt a three-step strategy. The first step would focus on supporting the most affected sectors through the combination of targeted tax and financial measures as well as assistance to the most vulnerable firms and employees. The second step would complement the above measures through the accelerated implementation of the public investment program, which will become more effective on the aggregate demand when most restrictions on people’s mobility will have been removed. The third step is to take opportunity of the current crisis, by encouraging priority reforms in the development of a digital economy and the further integration of the Vietnamese economy in global value chains by taking advantage of the diversification needs by multinationals that may want to go away from China.

1. Background

The economic costs associated with the corona epidemic are projected to be large worldwide. After almost two months since the outbreak became public in the center of China, the magnitude of the epidemic appears to have declined in China but increased in other countries, pushing many governments to adopt measures aimed at restricting the mobility of persons both domestically and internationally. Since early February, the number of infected people has remained relatively stable in Vietnam, but the Government has banned visitors from China and suspended major transport gateways between these two countries. More recently, restrictions on visitors from the Republic of Korea, Italy, and Iran have been applied, while most schools have been closed since the outbreak intensified.

In one recent note (dated February 14, 2020), we demonstrate the indirect costs arising from the projected decline in economic growth in China and, increasingly in other countries, as well as from restrictive mobility measures adopted by the Government that are expected to impact significantly on Vietnam’s GDP growth in the coming months. Estimates vary greatly depending on the length of the crisis and the magnitude of the expected recovery, but recent simulations carried out by the World Bank, the IMF and the Government suggest a decline in the annual growth rate of around 1 percent of GDP during 2020. The rule of thumb is that the economy will lose about 0.5 percentage of GDP growth for every month of crisis, but this loss could increase if the current crisis spreads to the global economy as projected by recent developments. At this stage, it is forecasted that Vietnam’s GDP growth could be in the range of 5.5-6.0 percent – the lowest point since the 2008 financial crisis - with a sharp decline in the short run that will be followed by a recovery.
as experienced in other health crisis episodes. The costs are also expected to be concentrated in a few vulnerable sectors, including tourism, transport and increasingly electronics and textile/garment exposed to possible disruptions in global value chains.

To mitigate the economic costs associated with the current epidemic crisis, several governments have already adopted a series of policy measures. The most visible package has been the one designed by the Chinese Government, but other countries have followed including Hong Kong SAR, Cambodia and Malaysia (See Annex A for a summary). In all these response packages, the focus has been on the supply side of the economy, mostly to support cash-constrained firms in most vulnerable sectors such as hospitality and transport through a combination of actions aimed at easing their payments including lower debt service and tax obligations (see Annex A.2 and A.3 for a summary of actions in China and Cambodia). At this stage, however, the Vietnamese Government has not yet announced such an action plan, while the costs associated to the coronavirus are not expected to be marginal. The Government has focused its attention on controlling the potential expansion of the epidemic, with apparent success, by stepping up controls and monitoring (for more details, see note of February 14).

2. A sequencing strategy for Vietnam

The objective of this short note is to support the Government in its effort to minimize the economic costs associated with the coronavirus epidemic. While the design of policy measures should be done with the goal to support both the supply and demand sides of the economy, the initial focus should be on the supply side (the most affected sectors) because measures aimed at stimulating the demand would remain greatly ineffective as long as people and goods are constrained to move freely. For this reason, we advocate for a sequenced strategy that would limit the fiscal costs of the proposed measures over time. While the Government appears to have some fiscal space (after the successful fiscal consolidation realized since 2016), excessive spending or untargeted tax breaks would send the wrong signals to the private sector that may react by adopting an even more prudent behavior and so consume and invest less.

The proposed sequenced approach can be separated into three steps. The first is to support the most affected sectors through a combination of tax break or deferrals, credit easing, and safety nets. The second step would be to implement a series of measures that will stimulate the aggregate demand, especially through accelerating disbursement of the public investment program. The third and last step is to focus on structural reforms that will both reduce the country’s vulnerability to such shocks and help it to accelerate its transition toward an upper middle and high-income economy over the next few decades.

Step 1: Short term measures on most affected sectors

Tax policy:

As the ongoing coronavirus outbreak is threatening to stall economic growth, countries are taking actions to soften the impact on their economies, including tax reliefs to affected industries and businesses (see Annex A for details). The following table provides a quick assessment of potential tax instruments that the Government could consider to relief the most affected sectors.
Table 2.1: A typology of tax related instruments to relief most affected sectors

<table>
<thead>
<tr>
<th>Tax measures</th>
<th>Likelihood of positive impact on businesses</th>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>VAT zero-rated</td>
<td>Low: as export sectors are already subject to VAT zero-rated. For travel, hotel, restaurant sectors, low demand is due to travel restrictions, not because of high prices</td>
<td>Reduce the pressure on cash flow for businesses</td>
<td>Break the integrity of the VAT net, and making it harder for tax administration; Negative impact on revenue collection</td>
</tr>
<tr>
<td>CIT exemption or rebates</td>
<td>Low: as for the services sector, the main issue is the health concerns that reduce demand; for manufacturing industries, the main problem is the disruptions in the value chain. Besides, as affected businesses do not generate much profit or even make losses during this period, they won’t be able to benefit from the CIT exemptions.</td>
<td>The legislative process to grant CIT exemptions or rebates takes time</td>
<td></td>
</tr>
<tr>
<td>Deferrals of tax payments, including social security contributions</td>
<td>High: affected businesses are now struggling to maintain operations while not generating much revenue. At the same time, and the payment due date for 2019 CIT is coming up soon. Cash flow is a crucial concern.</td>
<td>Relatively easy to implement. Legal provision is already in place to allow tax authorities to take this action immediately.</td>
<td>Temporary cash flow issue for government budget</td>
</tr>
<tr>
<td>Reassessment of the presumptive tax obligations for small businesses affected</td>
<td>High: under the presumptive tax regime, household businesses pay turnover-based taxes, which were determined by tax authorities in Dec 2019, before the outbreak happened. Affected household businesses are currently paying more taxes than they should have.</td>
<td>Legal provision is already in place to allow tax authorities to review and reassess the deemed turnovers of the affected businesses. The number of affected businesses is high. The reduction of the deemed turnovers (and subsequently the tax obligation) this group of taxpayers could boost the &quot;moral&quot; of the small business community.</td>
<td>Negative impact on revenue collection. However, the actual impact will be minimal, given the total tax revenue contribution from the presumptive taxpayer segment is around 3 percent of total tax revenue only. More workload for tax authorities. Opportunities for wrong doings/negotiations.</td>
</tr>
</tbody>
</table>

15 This refers to VAT zero rated instead of VAT exemption. In the case of VAT exemption, final consumers do not pay VAT on the goods and services purchased. However, businesses will not be able to deduct input VAT, and hence end up bearing all the VAT burden. With the VAT zero rated, final consumers do not pay VAT on purchases, but businesses are able to deduct input VAT.
Recommendation: From the assessment above, given the budget constraints, it is suggested that Vietnam can consider introducing deferrals of tax and social contributions payments for affected businesses and reducing the turnovers of the affected household businesses under the presumptive tax regime. The advantage of these measures is that they can be implemented immediately and would have little impact on revenue collection.

Financial policies

Beyond taxes, a variety of measures can be used to reduce credit repayment or reduce the cost of temporary credit to most affected firms/sectors. In close coordination with commercial banks, the State Bank of Vietnam (SBV) has already taken a series of actions to implement Resolution 11/NQ-CP assigning the SBV to “guide credit institutions to restructure loans, reduce lending rates, maintain the same risk category for restructured loans, grant new loans in order to support businesses and individuals in coping with COVID-19”. On February 24, 2020 the SBV issued Decision 1117/NHNN-TD guiding credit institutions in more detail regarding these measures. Specifically, the credit institutions are expected to proactively monitor and assess the possible losses and impact on existing borrowers as a result of COVID-19 in order to appropriately restructure loans, reduce/waive lending rates while temporarily maintaining the same risk category for restructured loans for the loans with repayment due in the period January 23– March 31, 2020. The Decision stresses that such initiatives should be subject to requests from borrowers and the credit institutions’ own assessment of the losses and impact, as well as the credit worthiness of the borrowers following such support. The credit institutions are to report to the SBV on the results of the initiatives on 15 and 31 March 2020 respectively.

Credit institutions have taken the guidance from the SBV seriously, as shown by the widespread reduction in lending rates, typically in the range of 1-5 percent, targeting borrowers in fragile sectors since early February 2020. Many banks announced specific lending programs for businesses/individuals impacted by COVID-19.

Recommendation: The banking regulator, SBV, has been proactive in supporting Vietnamese businesses/individuals in a timely manner from the economic effects of COVID-19. Further measures such as specialized lines of credit, targeting impacted sectors (such as SME’s) in the event of a prolonged COVID-19 epidemic, can be considered. It will be important though, that SBV continues to monitor the impact to financial intermediation and ensure that that the initiative is well targeted so that the support reaches the most affected.

Social assistance policies

To mitigate the potential detrimental impacts, some neighboring governments have implemented policies to assist affected individuals. These policies include proactive employment support, social insurance measures to stabilize employment, and social assistance support to the poor and vulnerable to mitigate the shocks caused by such disruptions. The instruments can vary from direct cash support to affected beneficiaries to increasing benefit level of existing SA policies by: i) exempting or deferring social insurance contributions (including unemployment insurance (UI) schemes) for a period; ii) easing conditions to receive UI benefits and/or simplify benefit processing steps for those affected or have lost their jobs; iii) using UI funds to provide wage and job subsidies to enterprises to stabilize employment, with a focus on SMEs; and iv) using UI funds to provide public employment and online learning and training services (see Box 2.1).
Box 2.1: Social programs to reduce the impact of the Coronavirus by selected sample of East Asian countries

In China, the government extended the coverage of Dibao and temporary assistance programs, simplified the application and approval process, and increased the benefit level to cover families who were affected by the epidemic.

In Indonesia, the government has proposed to increase the benefit of the food assistance program by 33 percent (from Rs 150,000 to Rs 200,000) for 6 months starting in March in anticipation of the impact of COVID-19 on the economy. The aim is to stimulate consumption of the poorest 20-30 percent of the population.

Considering the negative impact on the tourism industry, the Malaysian Government is set to give a one-off payment of RM600 (US$144) each to taxi drivers, tourist bus drivers, tourist guides, and registered trishaw drivers. As a sign of appreciation to those in the frontline of efforts to curb the spread of COVID-19, medical doctors and other medical personnel in public institutions who are directly involved in the containment efforts will be eligible for a monthly critical allowance of RM400 (US$96), while immigration and related staff will receive RM200 (US$48) retroactively from February 2020 until the end of the outbreak.

Hong Kong SAR (China) will hand out cash to adult permanent residents, to help boost spending and ease the financial burden. As part of the annual budget, $10,000 HK dollars ($1,280) will be provided to about seven million people over the age of 18, with the aim to boost local consumption and relieve people’s financial burden. Authorities will also lower public housing rent and there will be rebates for salary and property taxes.

Recommendation: Vietnam has an unemployment insurance scheme in place that could potentially be used in soften employment-related shocks associated with the COVID-19 outbreak. However, measures will need to be put in place to overcome the scheme’s drawbacks such as limited coverage, lengthy application procedures, and low take-up of vocational training. On the other hand, the strengths of the scheme include UI fund surpluses. Table 2.2 provides potential options based on international experience.

Table 2.2. Some potential options for using Unemployment Insurance (UI) scheme in Vietnam

<table>
<thead>
<tr>
<th>Coverage</th>
<th>Vietnam</th>
<th>Potential options</th>
<th>Potential impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Employees</td>
<td>Expand eligibility</td>
<td>Wider UI coverage</td>
<td></td>
</tr>
<tr>
<td>Self-employed</td>
<td>Not covered</td>
<td>Make eligible</td>
<td>Wider UI coverage</td>
</tr>
<tr>
<td>Conditions</td>
<td>Minimum employment</td>
<td>Reduce minimum employment requirement</td>
<td>Wider UI coverage</td>
</tr>
<tr>
<td>Financing</td>
<td>Worker</td>
<td>1% Relax contribution</td>
<td>Transfer to all employees (depends on compliance)</td>
</tr>
<tr>
<td></td>
<td>Employer</td>
<td>1% Relax contribution</td>
<td>Stimulate demand (depends on compliance)</td>
</tr>
<tr>
<td></td>
<td>Government</td>
<td>1%</td>
<td></td>
</tr>
<tr>
<td>Benefits</td>
<td>Vietnam</td>
<td>Potential options</td>
<td>Potential impact</td>
</tr>
<tr>
<td>--------------------------</td>
<td>---------</td>
<td>--------------------------------------------</td>
<td>--------------------</td>
</tr>
<tr>
<td>Replacement rate (% of wage)</td>
<td>60%</td>
<td>Increase replacement rate; provide one-time payment</td>
<td>Larger transfer</td>
</tr>
<tr>
<td>Duration</td>
<td>3-12 months</td>
<td>Increase duration</td>
<td>Longer transfer</td>
</tr>
<tr>
<td>Other benefits</td>
<td>Health insurance, vocational training support, job search support</td>
<td>Ramp up other benefits</td>
<td>Increased employment</td>
</tr>
</tbody>
</table>

**Step 2: Stimulate aggregate demand**

Several countries have introduced fiscal measures to compensate for the negative effects of the coronavirus crisis on their aggregate demand, which appears more effective than monetary policy in the short run. While the magnitude of the fiscal package has varied significantly across countries (see Annex A for a description), it should account for the existing fiscal space as an unexpected big increase in the fiscal risk could be counterproductive and could encourage consumers and investors to spend less as a precautionary measure. For this reason, we suggest that the Vietnamese authorities focus on implementing their existing investment program faster rather than spending more in new projects.

**Recommendation:** For Vietnam, the accelerated execution of the investment budget would be an effective policy instrument to stimulate the economy due to its weight in the Vietnamese economy, equivalent to about 8 percent of GDP, and the current low execution rate reported in recent years (around 65 percent).

To illustrate, if the Government was able to spend approximately 75 percent of the approved budget over the course of the year, the public investment rate would jump to 9.5 percent of GDP with a subsequent large impact on GDP growth through the existence of the simple Keynesian multiplier. This impact could be high enough to compensate for the potential loss of one percent of GDP, which is currently estimated on the Vietnamese economy in 2020. Implementing the investment program faster would nonetheless require specific actions from the Government, including:

1. Accelerating the allocation of capital investment budget (through MPI) to line ministries and provinces. The allocation can be adjusted within the year, with having the resources for the baseline of on-going projects allocated first (instead of waiting for the full allocation to be cleared). This could accelerate the implementation of project in key spending ministries that a large number of existing projects (such as the MOT).

2. Reviewing as early as possible the spending plans of line ministries and provinces and making timely decisions about reallocation of resources from slow- to fast-disbursed projects.

3. Allowing advance procurement for new projects to accelerate implementation.

4. Considering the exclusion of big investment projects funded by Government bonds from the application of Resolution 89 (2016).

**Special attention should be placed on ODA disbursements, which have been very slow in recent years.** While recent reforms, especially the adoption of the Public
Investment Law in June 2019, have helped address some of the existing bottlenecks, significant room for further improvement remains by ensuring consistency and clarity of roles and responsibilities of various agencies involved in ODA management through relevant revisions to Decree 16/132. The simplification and standardization of the annual budget allocation procedures would represent an important step forward by making the annual budget allocation (including all ODA fund and counterpart fund) available at the beginning of each fiscal year. We also recommend that MOF conducts the appraisal processes for on-lending activities only once during the project preparation. Finally, MOF can fully utilize e-disbursement, including the acceptance of e-supporting documents for most application reviews.

The Government can consider the adoption of programs aimed at supporting employment to complement the accelerated execution of public investment programs. Higher and better employment will secure labor income, which is the most direct way to influence consumption behavior of households in the medium term. Based on recent international experience, the authorities can (i) support firms to retain their existing employees or finding new employees by reducing the associated labor charges or hiring procedures (Cambodia, Malaysia, China); (ii) encourage employment opportunities through information and/or labor intensive projects such as in construction (China); and (iii) incentivize firms to provide training opportunities for workers on vulnerable sectors (Cambodia and Malaysia).

Step 3: Structural reforms

The current crisis has exacerbated the structural weaknesses of the Vietnamese economy. These can be addressed by accelerating the pace of reforms that have already been identified by the authorities in their development strategy. In other words, by providing a sense of urgency, the current crisis creates an opportunity to reduce Vietnam vulnerability to external shocks and strengthen its transformation toward a higher middle-income economy.

As an illustration, the emphasis is on the digitization of the economy and the integration of Vietnam into global value chains.

(i) Encouraging the development of the digital economy: Vietnam will risk lagging countries in the region in its effort to become a digital economy. The development of virtual activities would not only reduce transactions costs and generate efficiency gains across the economy but would also reduce the country's vulnerability to restrictions on the mobility of persons and goods. Such an effort would include:

- Investing more in systematic e-learning and education. The government of Vietnam has been able to contain the COVID-19 outbreak quite effectively by closing schools nation-wide in order to minimize large-scale contacts and possible spread of the virus. At the same time, this has led to discontinuity in learning in the whole country. Social communications platforms, such as Zalo and Viber, have been used by parents and teachers so homework could still be assigned to students. Yet, these platforms have been used mostly in urban settings with better connectivity and availability of smart devices, and much less in rural areas. More critically, they are not designed to be learning platforms for teachers and students. Thus, the reality is that students have homework but without being able to interact with their teachers to learn new things or revising
their homework. This is an opportunity for the government to make strategic investments for systematic e-learning and education in public schools, with platforms and innovative methods, to enable more online learning and teaching. Effective e-learning and education would improve the method of teaching in the current circumstances and form one critical building block for Vietnam to get dividends from a digital economy that it is striving for.

- **Encouraging e-commerce and e-payments to compensate growing barriers on physical mobility.** This would help ensure that households and businesses continue to receive food supplies, medicine and other goods and services. E-commerce is growing in Vietnam and is expected to grow from US$ 2.8 billion in 2018 to US$ 15 billion by 2025 (Google and Tamasek, 2018). As has been recently demonstrated in the case of China, where schools and offices were closed and people were required to stay in their homes, e-commerce has been vital, especially in the large urban areas such as Beijing to ensure that households and businesses have access to deliveries of vital goods and services while minimizing human to human contact. For e-commerce to function in such a situation, the use of cash (which requires access to physical ATMs or banks) would be limited and transactions would have to be through e-payments due to the need to limit human to human contact and the obvious limited access to cash through ATMs and banks (both of which would either be inaccessible or run out of money). Most e-commerce transactions in Vietnam are in cash (90%) as compared to 51% for Indonesia and 48% for Malaysia. Vietnam should accelerate the promotion and use of e-payments in e-commerce through regulatory reforms and encouraging innovation. Recent advancements in e-wallets and Fintech are encouraging but the adoption of e-payment platforms needs to be accelerated and promoted.

- **The development of a digital economy would need to be grounded by a data-enabled digital government:** Better data and information systems will enable government to issue timely and responsive decisions in times of outbreaks like this. Good data and information sharing will guide the government to where the pain-points are in the production chains, which sectors are being most affected by the outbreak and would need immediate government support, and how this support can best be delivered to minimize disruptions. Similarly, good interoperable information systems with time-stamps can also point to where the bottle-necks are in the whole decision-making processes, be they in public investment, disbursement, or public sector personnel management, etc. Up-to-date and reliable data can enable credible reforms that would unleash potentials to spur further growth in Vietnam, at times of crisis or not. It is of utmost urgency that the government bring data into the heart of its business model.

(ii) **Promoting FDI and integration in global value chains through potential reallocation from China:** The ongoing US-China trade tension has presented an opportunity for Vietnam to attract foreign firms that want to move their operations from China to countries such as Vietnam to access the US and global market. Anecdotal evidence suggests that a number of foreign firms have already started to move in this direction, especially
in the area of electronics manufacturing. FDI into Vietnam continues to grow, including equity investment in local firms. FDI from China, especially that which is newly committed, appears to be growing.

The current Coronavirus outbreak has exposed the growing reliance of global trade on supply chains that provide inputs from China. Being one of the most open economies in the world and very integrated into GVCs, Vietnam stands to be one of the most vulnerable countries that would be affected from supply chain disruptions.

Table 2.3: Import content of exports as a percent of total exports

<table>
<thead>
<tr>
<th>Country</th>
<th>2005</th>
<th>2015 (latest available year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vietnam</td>
<td>36.2</td>
<td>44.6</td>
</tr>
<tr>
<td>Thailand</td>
<td>38.6</td>
<td>33.7</td>
</tr>
<tr>
<td>Malaysia</td>
<td>45.3</td>
<td>37.1</td>
</tr>
<tr>
<td>Indonesia</td>
<td>18.5</td>
<td>13.0</td>
</tr>
<tr>
<td>China (People’s Republic of)</td>
<td>25.7</td>
<td>17.4</td>
</tr>
</tbody>
</table>

Source: OECD ICIO tables.

In the short term, the current disruption in the supply chain of inputs from China represents a threat to Vietnam’s economy due the reduced availability of inputs in factories. In the medium to longer term, this could be an opportunity for Vietnam to encourage GVCs to reduce and manage the risk of having their supply chains dependent on factories in China by positioning Vietnam as a competing FDI location for such input suppliers. This would require Vietnam to move from the present low skill assembly manufacturing to higher skilled value-added manufacturing. In order to achieve this, Vietnam needs to address a number of key constraints:

(a) Promote availability of skilled labor, especially vocational (welders, machinists etc.) levels through improved tertiary education;

(b) Encourage and provide incentives for greater levels of technology adoption, especially by SME’s.

(c) Continue to improve the business environment.

(d) Promote greater “servicification” in manufacturing. Application of services (research and development, design and embedded services, logistics) increasingly matter for manufacturing competitiveness and account for much of the value added in a product.
3. Summary and next steps

At the time when the coronavirus outbreak is extending to the world, the economic costs for the Vietnamese economy have been growing over time. While forecasts are difficult, the GDP growth rate expected to be achieved in 2020 has already been cut by 0.5-1 percentage point by most observers. Not only could the economy expand at its lowest rate since the 2008 financial crisis but specific sectors are feeling the pain, including tourism and transport and increasingly manufacturing.

Following a number of countries, especially in East Asia, the Government is considering policy options to mitigate the economic costs of the current health crisis. This note has proposed a menu of options based on a three-step sequencing approach: (i) targeted support to most affected firms and people in the short term through the combination of tax, financial and social assistance measures; (ii) the accelerated execution of the public investment program through the streamlining of approval processes as a way to compensate for the decline in aggregate demand in the medium-term; and (iii) increasing the pace of structural reforms aimed at promoting the development of the digital economy and at positioning better Vietnam in global value chains.

The authorities should closely monitor the evolution of the economic consequences of the epidemic in other countries. GDP growth rates have already been cut all over the world, in the magnitude of 0.5 percentage point globally, but the situation remains extremely fluid. Channels of transmission, though trade flows and financial markets volatility, are also likely to affect the stability in emerging economies. The Government should therefore remain ready to adjust its policy options over time.

Next step would be for the authorities to develop an action plan based on the sequencing approach advocated above. There would be a need to cost the proposed actions, notably their impact of the budget. Special attention should be given to the initial measures on the most affected firms/people that should be targeted by sectors and locations. Greater attention should also be given to small and medium firms that do not have the resources to absorb the shock. Ultimately, there would be a need for the Government to find the right balance between the need to stimulate the expansion of the economy and to maintain the fiscal deficit to a sustainable level.
COVID-19 POLICY RESPONSE NOTE #3

Stronger headwinds bring new challenges for the government

April 2020
**COVID-19 POLICY RESPONSE NOTES**

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**Stronger headwinds bring new challenges for the government**

- With rising global health and economic concerns, Vietnam economy is expected to be significantly affected, even though the COVID-19 health crisis has been so far contained, with only 240 cases of infected people and no registered death as of early April.

- The World Bank’s GDP growth forecast for Vietnam has been cut by half compared to pre-crisis projections, with new forecast at 3.0 percent in 2020.

- Both the fiscal and external accounts are expected to deteriorate, creating a fiscal financing gap of approximately $5 billion that will require new borrowings.

- The Government’s fiscal response—a combination of tax and social protection measures—is expected to attenuate the short-term economic costs associated to the COVID-19 pandemic, but the key challenges will be the rapid and effective implementation of the above measures and preparing the economy for the expected rebound when the health crisis is contained.

- Easing monetary and credit policies creates a welcome buffer to the affected businesses, but close monitoring is required as banks become increasingly exposed to the economic slowdown, affecting their asset quality, liability, and profitability over time.

- Potential areas for collaboration between the Government and the World Bank could include (i) macro and fiscal monitoring; (ii) implementation of social protection measures; and (iii) reforms to be implemented for optimizing the rebound of the economy.

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**1. Stronger headwinds will reduce growth and require additional financing**

**COVID-19 is a gigantic shock, devastating the society and the economy across the world often in mutually reinforcing ways.** Most countries are entering into recession and a recovery is not expected before the end of the third quarter of 2020, which should hopefully intensify over the course of 2021. Uncertainties are so large that both the health and financial consequences of the global outbreak are proving difficult to predict. All over the world, economists have been continuously revising their economic projections to better reflect the growing negative impact of the global pandemic, and the World Bank Group has been playing a critical role in this effort by providing much needed technical advice and financing.

Against this backdrop, the economic projections for Vietnam have been revised downward significantly. The COVID-19 outbreak has so far been contained in Vietnam through the combination of smart preventive measures and controls. GDP growth is projected to be only 3.0 percent in 2020, which is good by regional and international standards but the lowest expansion rate since 1986. Our new projection is lower than the 4.9 percent growth rate that was projected in the recently published the East Asian Economic Update.17 We still expect

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16 This note was prepared by Jacques Morisset with inputs from Alwaleed Alatabani, Nga Nguyet Nguyen, Viet Tuan Dinh, Obert Pimhidzai, Steffi Stallmeister, Dung Viet Do, and Viet Anh Nguyen; and under guidance from Ousmane Dione, Deepak Mishra, and Rinku Murgai.

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that the Vietnamese economy will recover relatively quickly and report a GDP growth rate of 6.8 percent in 2021. This assumes that the global health crisis will start phasing out by June/July 2020, followed by a gradual resumption in external demand in the country’s main trading partners.

Table 3.1: Summary of main economic indicators, 2018-2022

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019e</th>
<th>2020f</th>
<th>2021f</th>
<th>2022f</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP Growth</td>
<td>7.1</td>
<td>7.0</td>
<td>3.0</td>
<td>6.8</td>
<td>6.5</td>
</tr>
<tr>
<td>Consumer price index (% change, annual average)</td>
<td>3.5</td>
<td>2.8</td>
<td>3.5</td>
<td>3.6</td>
<td>3.5</td>
</tr>
<tr>
<td>Fiscal balance* (% GDP)</td>
<td>-4.4</td>
<td>-4.0</td>
<td>-5.8</td>
<td>-4.7</td>
<td>-4.0</td>
</tr>
<tr>
<td>Public and publicly guaranteed debt* (% GDP)</td>
<td>55.7</td>
<td>54.1</td>
<td>55.8</td>
<td>55.0</td>
<td>54.2</td>
</tr>
<tr>
<td>Foreign direct investment (Inflows, $US billion)</td>
<td>15.0</td>
<td>19.9</td>
<td>10.3</td>
<td>15.5</td>
<td>17.3</td>
</tr>
<tr>
<td>Current account balance (% GDP)</td>
<td>2.3</td>
<td>4.9</td>
<td>0.1</td>
<td>1.0</td>
<td>1.2</td>
</tr>
<tr>
<td>Reserves, including gold ($US billion)</td>
<td>55.5</td>
<td>78.5</td>
<td>78.2</td>
<td>87.0</td>
<td>97.4</td>
</tr>
<tr>
<td>Credit to the economy (% change, period-end)</td>
<td>12.7</td>
<td>12.9</td>
<td>7.0</td>
<td>12.0</td>
<td>12.0</td>
</tr>
</tbody>
</table>

Memo:

GDP (nominal, trillion dong) | 5,542 | 6,037 | 6,430 | 7,096 | 7,805

Source: GSO, MOF, SBV and World Bank projections

The reason for the downward adjustment in the growth rate is the stronger headwinds in both the global and local economies. By now, it is a foregone conclusion that the global economy will slip into a recession in 2020. The Conference Board consensus estimates from March 25 suggest a decline of US GDP in 2020 of 1.6-6 percent, with the odds rapidly moving to a worse scenario. The PMI for the Eurozone dropped from 51.6 in February to 31.4 in March – the largest decline since comparable data were first compiled in July 1998. The World Bank projects growth in the developing regions to slow to 0.9 percent in 2020, down from a forecast of 4.1 percent in the January Global Economic Prospects (GEP), with contractions in all regions of the world except East and South Asia. This global downturn will sharply reduce foreign demand for Vietnamese exports during this period. It could also disrupt global value chains in industries such as electronics and textile that account for about 2/3 of the country’s total exports. The tourism sector is at standstill with no foreign visitors allowed and heavy restrictions on international and domestic passenger travel. Concurrently, the local economy is being hit by more restrictive measures on the mobility of people, affecting businesses and households, lowering domestic consumption, especially since a State of Emergency was declared by the Prime Minister at end of March.

18 https://www.conference-board.org/data/usforecast.cfm
The first quarter results, just released, confirm the slowdown in the rate of expansion of the Vietnamese economy. Although the outbreak was only reported in China by mid-January and Vietnam started to implement restrictive measures in early February, the quarterly GDP growth rate was only 3.8 percent - the lowest expansion since 2009. While several sectors performed relatively well (such as manufacturing and construction), the service sector was severely hit, especially tourism and transport activities. The growth of retail commerce (a proxy for households’ consumption) was almost flat (up 1.5 percent in real term) compared to a 9.3 percent expansion during the first quarter of 2019. Total investment was also slightly down because of lower private investment (including FDI) even though it was only partly offset by higher public investment. Net exports, after a good performance in January and February, fell abruptly in March mainly as the result of lower earnings from tourism and transports (down by over 30 percent). Similarly, FDI commitment declined by almost 21 percent in the first quarter compared to a year ago.

The decline in the GDP growth rate will be accompanied by a deterioration in the fiscal and external accounts. On the external front, the balance of payments will suffer as a result of lower (net) exports, in particular services, and a decline in remittances as well as of FDI inflows. As a result, the current account surplus is likely to decline by approximately 5 percentage point of GDP—from 4.5 percent in 2019 to 0.1 percent in 2020 (Table 3.1). However, the resulting impact on the balance of payments should be limited with a marginal depletion of international reserves in 2020, which at $78 billion represents a strong buffer against growing pressure on the country’s external accounts.

The Government’s fiscal consolidation drive would be temporarily interrupted by the COVID-19 crisis. The overall fiscal deficit is expected to jump from 4.4 percent in 2019 to approximately 5.8 percent of GDP in 2020, mainly as the result of lower revenues from the expected slowdown in economic activity. We estimate, extrapolating from a recent study from the IMF on a large set of countries, that a substantial decline in economic activities due to a shock such as the current pandemic could reduce tax revenue by a factor of two – meaning that a 3.5 percent decline in GDP growth could lead to a 7 percent decrease in tax revenue or the equivalent of about 1.2 percent of GDP. This loss in revenue, should be added to the cost associated with the fiscal package under consideration by the authorities. We expect that the Government will return to its prudent fiscal policy in the aftermath of the global crisis, explaining why the overall fiscal deficit will decline to 4.7 and 4.0 percent of GDP in 2021 and 2022 respectively.

The projected increase in the fiscal deficit will create a fiscal financing gap of about $5 billion in 2020. Compared to the pre-crisis projections, the Government will need to secure an additional 1.8 percent of GDP in new funding, leading to an increase in the public debt to GDP ratio from 54.1 to 55.8 between 2019 and 2020. Because the Government will resume its consolidation effort in 2021, the debt trajectory should remain sustainable over the medium term.

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19 While fiscal data is still incomplete for Q1 2020, preliminary results are that the collection effort was good in January and February but fell significantly in March due to lower domestic activities and declining imports.
2. Fiscal package: what we know so far

To mitigate the significant health and economic shocks to the economy, the Government has taken a series of actions. Under crisis conditions, aggregate health, economic, and financial indicators race away from the pre-crisis normal to a peak level of distress, and then begin to ebb before slowly getting back to normal (which need not match the pre-crisis normal). What matters for policymakers is the peak of the half-cycle and its duration. The deeper the crisis (the taller the peak of the half-cycle), the more damaging it is from a long-term perspective. Clearly in the case of health, flattening the pandemic curve is important because it saves lives. For this reason, the Government has focused its initial effort on controlling the health dimension of the crisis by scaling up testing and controlling mobility. Over time, increased preventive measures were taken from the closure of schools in early February to the declaration of State of emergency by the Prime Minister at the end of March. Today, almost all international passenger flights have been cancelled and domestic mobility severely restricted. Due to Vietnam’s early action (including contact tracing) and extensive measures, it has been internationally recognized for the adequacy of its response that has translated into a limited number of infected cases (around 240 as of April 4) and no registered deaths.

A deep and prolonged economic recession, to the extent possible, must be avoided, as it can cause lasting damage. Economic cycles are a regular occurrence even in market economies. If the peak of the cycle is not excessively high, things get back to normal when the economy returns to its long-term trend. But deeper and more prolonged recessions have the potential to erode human capital and weaken institutions. As argued in our previous policy update, it is essential that the Government acts on a sequencing strategy to support most affected businesses and people in the short term and prepare early enough to reactivate the economy when the health crisis is phased out, hopefully in the next few months. Measures to accelerate the implementation of the existing public investment program and structural reforms to make the best use of digital technologies as well as to strengthen the level of resilience and preparedness of the health system for future pandemics could help to quicken the pace of recovery.

So far, the Government has prepared a series of fiscal measures to mitigate the impact on most affected businesses and people. – the first step of what should the comprehensive economic response. As presented in Annex B (Table B2), COVID-19 can affect wellbeing of citizens through three different channels: (i) health preventive and remedial measures; (ii) measures to restrict mobility; and (iii) trade disruptive measures. The resulting impact of these channels could be a combination of reduced output and higher prices. The WBG team has been interacting with the authorities on the content and the magnitude of their fiscal package to mitigate the impact of these channels. However, our assessment is based on information collected in early April, recognizing upfront that the policy response should evolve rapidly to adjust to changing conditions.

The initial mitigating measures have focused on two type of instruments: tax payment and social insurance deferrals, and direct financial assistance to employees and vulnerable households (see Tables B3 and B4 in Annex B for a full description). These instruments are well
alined with international practices as they aim at relaxing the cashflow constraint on most affected businesses and people. As discussed below, our preliminary assessment is that the proposed package is ambitious as it covers most formal firms operating in Vietnam by postponing their tax payments and uses various existing social programs to distribute extra cash to approximately 26 million vulnerable people and households’ businesses. It is also affordable, with an estimated cost of about one percent of GDP, that should remain within the boundaries of the fiscal framework discussed earlier. However, further improvements could be considered to better cover the informal sector. A major challenge will be to identify businesses and employees in the informal sector and to transfer them the extra money when most of them have no bank accounts and their mobility is restricted.

Relatively big package but affordable

When designing their response, governments are facing a trade-off between helping the most affected groups and respecting existing fiscal rules. We believe that the Government of Vietnam has found the right balance with the set of proposed measures that are estimated to cost around one percent of GDP. This cost will contribute to an increase in the fiscal deficit but should be affordable using a combination of contingent allocation and funds from the budget of central and local governments and additional borrowing. Most importantly, authoritative research on the 1918 pandemic suggests that regions that intervened earlier and with more determination experienced a relative increase in real economic activity after the pandemic subsided. Pandemics have large costs, but non-pharmaceutical interventions can lead to both better economic outcomes and lower mortality rates.22

The size of the fiscal package by the Vietnamese authorities would be on the low-side compared to other East Asian and developing countries. It would be within the range of the fiscal package recently adopted by Indonesia (0.8 percent of GDP), Myanmar (1 percent) as well as Argentina (1 percent), and higher than the ones adopted in South Africa (0.2 percent) and Japan (0.1 percent). However, it would be lower than the ones reported in Philippines (1.7 percent) and Thailand (3 percent) and distant to the ones announced in Brazil (over 2 percent of GDP) and far below the recently adopted packages in OCED countries such as USA and Australia (close to 10 percent of GDP). The authorities have proportioned their initial response to the size of the shock and to their available fiscal space but, as discussed later, should be ready to adjust their response in view of the evolving conditions in the future.

The bulk of the fiscal costs of the Vietnamese program will be linked to the measures of direct financial assistance to vulnerable firms and people (see Table B3 in Annex B). The total cost is estimated at around VND61.4 trillion or almost one percent of GDP. Around ¾ of this amount will be funded directly from the State budget (and accumulated reserves from the Unemployment Fund), while the remainder will be financed by the combination of social security payments deferrals and loans to affected households’ businesses. The budgetary responsibilities between central and local governments have already been defined following a set of rules that mainly depends on the financial capacity of each Province.

The fiscal cost associated with tax measures (described in Table B4) is limited even though the State Treasury may face liquidity challenges in the short term. Since most actions consist of the deferral of tax payments over the next few months, tax administration will recover their revenue before the end of the year. Under these conditions, the fiscal cost is simply the delay in payments that can be estimated in the range of around VND 3.6 trillion (US$ 190 m) assuming a discount rate of 3.6 percent (which is the interest rate on T-bonds today). However, because of the magnitude of deferrals, the Government will face a shortage of liquidity in the short term that will reach approximately VND 241.8 trillion (US$ 10.3 bn). This temporary gap will need to be filled by the use of contingent funds set aside in the budget every year (equivalent to 5 percent of the State budget) and, most likely complemented by short term borrowing.

**Broad coverage despite the challenge of the informal sector**

The proposed package is ambitious as it will cover almost all formal businesses operating in Vietnam and a relatively large number of vulnerable groups. It is estimated that the direct financial program will reach 26 million people or almost 30 percent of the country’s population. Measures include the standard actions to defer filing and payment of taxes and cut into social contributions by formal employees and employers. They also provide no- or low-interest loans to firms and targeted transfers to firms as well as pay a share of private wages directly to workers, with the objective to limit long term lay-offs. To broaden the coverage to vulnerable groups and informal workers, direct financial assistance will be offered over a three-month period.

By definition, all tax related measures are directed to enterprises and people that pay their financial obligations. These relief measures will be offered to almost all sectors of activities, but the notable exceptions are the telecommunication and construction sectors (See table B4). Qualified taxpayers will benefit from a combination of temporary tax relief on VAT, CIT, PIT and other smaller obligations such as land rental charges. While social security contributions are not per se taxes, their deferral will also alleviate cash flow pressures of beneficiaries. This measure will also reduce the cost of formal labor and so, hopefully, reduce the incentives for employers to lay-off their workers. Altogether, these measures will reduce the payment of tax obligations in the magnitude of VND 210,000 billion, alleviating temporarily the cash flows constraints of most firms in the country. In the longer term, to the extent that these obligations will be paid by the firms at the end of the grace period, their savings could be estimated around VND 15,000 billion (if they would have borrowed this money at a lending rate of 12 percent).

On top of tax and social insurance deferrals, the Government has designed social protection measures by using (i) special support (including wage subsidies) to registered firms to retain their workers; (ii) top-up financial support to beneficiaries of existing social programs; and (iii) monthly allowances to informal employees. The government’s response is well aligned to the one used by most countries to mitigate the short-term impact of the COVID-19 on most affected groups (Figure 3.1). The measures are briefly described below.
Registered firms will receive special financial support to retain their workers. Proposed measures include partial payments of wages to temporary lay-off workers, deferral of SI contributions, training, and subsidized loans to employees (measures # 7-10 in Table B3). According to the Government, the combination of these measures is expected to reach about 4-5 million beneficiaries or less than 10 percent of the total labor force as most workers have no contract or are in self-employment. The total amount of financial support per worker (equivalent to about VND 1.7 million (or $80) per month is also relatively low as it would represent only 40 percent of the median salary in the manufacturing sector. Retaining workers, even on a part time basis, will not only help maintain their income during the crisis but it will also help to speed up the reactivation of production when the demand will increase again.

Beyond formal businesses and workers, about 16.7 million vulnerable people will receive direct financial support through participation in existing assistance programs by providing additional benefits (‘top-ups’) on a temporary basis. The proposal will provide support to the poor, near-poor households, social assistance beneficiaries, and “merit” people. Most of these are currently beneficiaries of different assistance programs. Each poor household will get a monthly allowance of VND1 million (USD 43), near-poor households get VND 500,000 (USD 21) per month, while social protection beneficiaries and those with meritorious services would receive VND500,000 (USD 21) per month. Approximately 760,000 registered household businesses (who have annual revenue below VND100 million) will receive a monthly allowance of VND 500,000 ($21.5). These allowances would be provided over at least three months (until June).

23 This figure does not include the benefits associated to training and SI deferrals.
24 We assume that the median size of household is 4.6 members.
In a deliberate effort to broaden the coverage to the informal sector, the Government has included a monthly direct support to five million non-registered employees for at least a three months period. The total monthly allowance would be of VND 1.8 million ($51) per person. Such a measure is justified by the high-level of informality in sectors which are the most vulnerable to the COVID19 such as tourism, transport and retail trade (see Table 3.2). Many of these informal workers are also unlikely to receive support though the existing programs mentioned above as their databases are rather incomplete. However, it remains unclear how the Government calculated the number of beneficiaries in the range of 5 million people as no clear eligibility criteria has been yet shared. This figure is also unlikely to cover all informal workers affected by COVID-19 crisis. For example, the distress of the hotel sector could mean that 90 percent of its labor force could be temporary unemployed, including possibly up to 3.7 million informal employees. If the layoffs include half of the informal labor force in the logistics sector and retail commerce, the total number of affected workers will jump by an additional 7 million. In addition to the size of the informal sector beneficiaries, our most important concern is how to implement this measure as discussed below.

Table 3.2: Labor market in Vietnam, 2018 (%)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Wage, contract with SI</th>
<th>Wage no social insurance</th>
<th>Self-employment</th>
<th>Sector employment Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>0.3</td>
<td>4.1</td>
<td>35.3</td>
<td>39.7</td>
</tr>
<tr>
<td>Electronics</td>
<td>1.3</td>
<td>0.3</td>
<td>0.0</td>
<td>1.5</td>
</tr>
<tr>
<td>Textile and garments</td>
<td>4.5</td>
<td>1.4</td>
<td>0.8</td>
<td>6.6</td>
</tr>
<tr>
<td>Construction</td>
<td>0.5</td>
<td>7.0</td>
<td>0.4</td>
<td>8.0</td>
</tr>
<tr>
<td>Other industries</td>
<td>3.4</td>
<td>3.6</td>
<td>2.9</td>
<td>10.0</td>
</tr>
<tr>
<td>ICT, Finance, Real Es</td>
<td>1.2</td>
<td>0.3</td>
<td>0.5</td>
<td>2.0</td>
</tr>
<tr>
<td>Hotels and catering</td>
<td>0.4</td>
<td>1.2</td>
<td>2.8</td>
<td>4.3</td>
</tr>
<tr>
<td>Logistics</td>
<td>0.7</td>
<td>1.1</td>
<td>1.3</td>
<td>3.0</td>
</tr>
<tr>
<td>Health and education</td>
<td>3.7</td>
<td>0.8</td>
<td>0.2</td>
<td>4.7</td>
</tr>
<tr>
<td>Wholesale and retail</td>
<td>1.5</td>
<td>2.8</td>
<td>8.9</td>
<td>13.2</td>
</tr>
<tr>
<td>Public admin &amp; secure</td>
<td>2.6</td>
<td>0.8</td>
<td>0.1</td>
<td>3.5</td>
</tr>
<tr>
<td>Other services</td>
<td>0.8</td>
<td>1.5</td>
<td>1.2</td>
<td>3.5</td>
</tr>
<tr>
<td>Vietnam</td>
<td>20.7</td>
<td>24.9</td>
<td>54.4</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: WB Staff Estimates

A general concern is that the Government’s program may omit a few potential vulnerable groups. Among them are the elderly people who might not belong to any of the groups of beneficiaries identified by the authorities (a rough estimate is about half of total people aged over 65 years old). Not only aged people report generally low or no income, but they are also extremely exposed to the COVID-19 pandemic. The number of people 65 years and older in Vietnam is estimated to be at around 11 million in 2019. Some specific professions (tour operators, taxi drivers, etc.) will be more affected than others, which could benefit from special attention. For example,
in Singapore, taxi drivers and private-hire car drivers will receive relief payments of S$300 (USD210) per vehicle per month until the end of September.

**Implementation would be challenging especially for the informal sector**

The Government aimed at minimizing the transactions costs associated with the implementation of the different assistance programs. All related tax measures should be relatively easy to implement as deferral mechanisms are well known by the tax administration. Similarly, the allocation of direct payments to several groups will be realized through existing programs that have proved their relative efficacy through the network of government agencies in the country over the past few years. However, specific attention should be on monitoring and evaluation to reduce the risks of delays and leakages during the implementation of these programs under special circumstances as transactions are often on manual basis and it is hard to follow social distancing requirement during pandemic period.

The main challenge will be to provide financial assistance to millions of informal employees, including possibly street vendors and small farmers, who are currently not registered under any existing program. The authorities are facing a double problem that is, first, to identify/register them and, second, to transfer the cash to them. Many countries can rely on a comprehensive ID system and the use of digital payments through mobile phones. Unfortunately, Vietnam is lagging in these two areas. The Government will have to find alternative solutions, including by using existing databases such as MOLISA, VSS, and citizen ID databases as well as from mobile operators as currently experimented in other countries. The extension of pilot programs using mobile payments could also be accelerated. As done recently by Indonesia, Thailand, Philippines, and Argentina, voluntary e-registration programs can be launched through which the informal workers can registered themselves.

The authorities have then to check if the registered persons are not already included in other databases from the tax administration, social security or registered households’ businesses to avoid duplication of assistance. As a result of this screening process, in the Philippines, out of 18 million people who submitted on-line applications, two-third were automatically eliminated through checking across government databases.

**One common challenge to existing and new programs is to proceed with timely payments to beneficiaries when people cannot freely move because of containment measures.** As only 1 out of 3 Vietnamese own a bank account, the banking system is not a practical solution or can be considered only an incomplete solution. Today most transactions include manual cash payment that are both not transparent, inefficient, and not following social distancing principle during pandemics. Given the magnitude of targeted beneficiaries (approximately 15 million), it would be important to avoid congestion in banks and government offices as recently experienced in the streets of Argentina when thousands of pensioners and citizens who receive government welfare lined up outside banks.

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25 While Vietnam has well developed social programs for the extreme poor, there is relatively little assistance offered to other vulnerable groups, such as informal urban workers that are the most impacted by the COVID 19. It is therefore difficult to top up existing programs to reach them.

26 The Thai authorities in their second package have provided for a THB 5,000 (USD152) monthly payment for three months for around nine million workers not covered by the Social Security Fund. This involved rapid registration of millions of informal workers, which was achieved using a banking app, and leveraging Thailand’s strong national ID system.
to get their monthly payments. The long lines underscored some of the strains created by the coronavirus pandemic in countries in which less than half of the population has a bank account and e-payments through mobile phones are not yet possible.27

Because of the challenge to distribute monthly allowance to new beneficiaries under the current circumstances, some governments have opted to reduce the utility bills of poor customers. For example, Malaysia is providing a 15 to 50 percent discount, depending on consumption, on the electricity bill for households. The government of Indonesia announced full electricity subsidies for households using 450 Volt-Ampere (VA) connections and a 50 percent subsidy for those on 900VA connections between April and June. In the case of Vietnam, subsidizing the electricity bills of poor households might not be efficient as those account for an insignificant share of their monthly expenses (on average only 2 percent). However, such a measure could be considered for the mobile phone bills, which account for a larger share of their expenses.

3. Special focus: The impact of COVID-19 on the financial sector

Contrary to the 2009 global crisis, the current turmoil does not find its origin in the excesses of the financial sector. The global pandemic has affected the real economy, both the supply and demand sides, and financial policies have been seen as part of the solution than the source of current problems. In almost all countries, including in Vietnam, Central Banks have eased monetary and credit policies to rescue affected business and households. However, the financial sector is not immune to the current COVID-19 crisis as deterioration of business performance and household consumption will eventually hit the banking sector and the capital markets.

As of today, the outstanding credit to the economy is currently about VND8,251trn (US$350 bn), of which 54 percent is for businesses. Since the outbreak of COVID-19, outstanding loans decreased in most sectors of which the most significant were in services, trading, tourism and transportation. In the first 3 months, credit to the economy only increased by 0.68 percent, the lowest growth rate in the last 5 years. Credit growth in many commercial banks either stood still or declined due to low credit demand from both corporate and retail segments. On the consumer side, credit demand has also decreased in line with slower growth of retail sales of consumer goods and services that only increased by 4.7 percent YoY in the first two months and grew much slower than the same period in 2019 (at 12.1 percent).

Deposit growth (fund mobilization) of banks also increased slowly. Deposit growth and total money supply (M2) growth expanded for only 0.51 percent and 1.55 percent respectively (last year increased 1.72 percent and 2.54 percent) (Figure 3.2). Due to declining revenues, many businesses have resorted to withdrawing their bank deposits to cover operation costs. Consumer deposits are likely to decline because of lower monthly individual incomes when their employment is threatened and/or uncertain.

These negative trends occurred despite the supportive policy measures the State Bank of Vietnam (SBV) has issued. In March 2020, the SBV cut its benchmark rates by 50-100 points and reduced short-term deposit rates cap by 25-30 bps, and the short-term lending rates cap for priority

sectors by 50 bps; raised their remuneration rates on required VND reserves. The authorities announced a credit package totaling VND 250 trillion (about 4 percent of 2019 GDP) for the banking sector designed to support affected firms and households through restructuring loans of affected businesses and a reduction or waivers of interest rates and fees. These supportive policies have and will contribute to reduce temporary difficulties of firms facing cash flow issues and debt repayment challenges. They are mainly targeted to the formal sector, most notably large enterprises, as the credit allocation to small and medium firms has been marginal, albeit increasing, over the years. However, their implementation by banks will increase the pressure on their net interest margins (NIM) and, ultimately, reduce their overall profitability.

To the extent that the COVID-19 crisis is expected to last over the next few months, both credit and deposit growth are expected to expand at a slower pace in Q2 with the continued stagnation of business activities in most sectors. While most commercial banks appear well equipped to resist a temporary economic slowdown, they may start to face a decline in assets’ quality through higher non-performing loans in their portfolios if the crisis last longer. In addition, some might be more fragile due to their relatively high exposure to tourism and real estate that have considerably affected by the crisis. Some banks are also undercapitalized, therefore liming their resilience.

An ongoing concern is to ensure a degree of financial safety net for small businesses in affected sectors to avoid situations of illiquidity leading to insolvency of businesses. Liquidity in the banking system in Q1 remained stable due to slow credit growth, low interest rate levels in the interbank market and SBV’s net withdrawal via OMO or the issuance of treasury bills (SBV net withdrew VND94.96tn/US$3.98bn in February). Liquidity is expected to remain stable in Q2 due to low credit demand since the Lunar New Year and the abundant cash circulating in the banking system before the COVID-19 broke out. By the end of 2019, deposits grew in parallel with credit (13.6 percent) and total money supply (M2) grew faster (14.2 percent).

For the monetary authorities, it would be prudent and essential to plan for a situation where the economic effects of the pandemic continue beyond Q2. This may require continued and potentially more direct support to the banking sector. The longer this pandemic prevails, the more likely is the risk for the banking sector to be severely impacted and broader fiscal options would need to be considered. Structural weaknesses in the banking sector limit the available options for the SBV. For instance, relaxing banks’ capital buffers to improve liquidity, as has been done in several other countries, is not an option in Vietnam. Moreover, SBV will need to continue monitoring the liquidity situation and may have to pursue further expansionary monetary policies through lowering interest rates at least once more, reducing net withdrawals of VND from the market or consider liquidity injections to the economy to support banking system liquidity if the credit situation lasts longer and leads to a liquidity crisis for banks. Liquidity injections can include targeted interventions to support the banking sector such as policy loans, emergency loans and the implementation of banks’ supporting credit packages.

Finally, it will be important to assess the impact of the pandemic and the economic slowdown on businesses that have issued corporate bonds in the corporate bond market over the past 2 years. The potential effect on their revenues and capacity to honor coupon payments.
COVID-19 POLICY RESPONSE NOTES

Stronger headwinds bring new challenges for the government

4. Conclusion and next steps

The COVID-19 pandemic has already shaken Vietnam’s traditional resilience to external shocks. In 2020, the economy could see its expansion cut by half compared to pre-crisis projections, with increasing pressure on its external and fiscal balances. While the economic fundamentals remain strong, the government might have to find about $5 billion to finance its fiscal gap due to declining revenues and the implementation of a fiscal program that is required to attenuate the negative impact on businesses and households.

The proposed fiscal package under preparation by the authorities is ambitious, but affordable within the existing fiscal framework. This package will combine tax and financial support measures to both the formal and informal sectors. The emphasis is however mainly on formal businesses and workers. The main challenge that remains is how to cover informal employees, mainly street vendors and small farmers, who are neither well identified nor easy to reach through standard manual payment procedures.

The financial sector offers a solution to alleviate the cash flows problems faced by many businesses. Yet, close monitoring is required as banks will also likely suffer from lower profitability and higher exposure to delinquent loans if the crisis last longer than expected.

- The WBG stands ready to help the Government in its effort to mitigate the short-term impact of the COVID-19 crisis on the economy. Our team can share international best practices and organize technical assistance on specific topics to tackle and shorten the crisis as well to enhance Vietnam’s preparedness for future shocks upon request of the authorities. This collaboration could take place in at least four areas that are briefly described below.

- The first area of collaboration would be on economic monitoring as the country’s macroeconomic and fiscal projections will...
need to be regularly updated to the frequent changes in both the domestic and global arena. The WBG team can share timely information on other countries as well as on mega-trends emerging in trade, capital flows, and financial markets. The Bank could also collaborate in the task to collect timely and high frequency information. The COVID-19 has placed limitations on traditional face-to-face methods of data collection. The use of technology such as mobile and internet to gather data has been used in settings where traditional survey methods cannot be implemented. Our team has developed tools, some of which could be applied in Vietnam, such as rapid mobile surveys of firms/households and online-based tracking information that could include satellite data (e.g. nightlights), digital data (hotel bookings, mobility and transport data) and high-frequency administrative data (e.g. aviation data) to track economic activity, as well as prices of key commodities. Furthermore, we could support the tax administration to prepare and implement a compliance strategy that helps to fight against the increase in non-compliance behaviors resulted from the crisis, such as late/none filing, late/none payment, and increased tax arrears.

- The second area would be on the implementation of the proposed measures to protect the most affected groups. Our team could collaborate on the challenge to provide direct support to the informal sector by sharing experiences currently under implementation in other countries, including, in the region, such as Thailand, Indonesia, and Philippines that are facing the similar challenges. We could also explore how to expand the e-payment pilot of SA benefits in Cao Bang to other areas as currently envisioned by MOLISA. We could help update MOLISA’s registry of poor and near poor households, that is still incomplete despite of recent efforts. Finally, we could provide technical support in the monitoring of the programs to gather social sentiments from beneficiaries and communities as well as their coping strategies by using social media platforms through the Data Collaboratives agreements between the WBG and several social media/internet companies (e.g. using Facebook mobility data, Google, or Grab app data). The Iterative beneficiary monitoring (IBM) could be a valuable tool to be used as part of project supervision/program monitoring activities as it helps generate real-time feedback loops on implementation progress and potential implementation bottlenecks. It is already under use in over 80 projects at the World Bank.

- The third area of collaboration would be on the reforms that will be necessary to optimize the response of the economy when the health crisis will start to phase out in the next few months. As emphasized in our last policy note, these could include support to the government in its effort to simulate the aggregate domestic demand through an acceleration of the existing public investment programs. The proposed actions aim at accelerating the execution of capital expenditures through the digitalization of procedures and faster approval processes for priority spending. Because public works programs can generate temporary jobs and provide income support, existing public works can be adapted or new ones can be deployed and so stimulate the economy at the community level. Specific actions could be designed to enhance the response of customers in distressed sectors such as tourism and transport (using the specific

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28 For fuller details, see our second policy note: Vietnam: Potential policies responses to the COVID-19 epidemic, March 4, 2020; and our proposed framework for a potential Development Policy Operations that was shared with Minister of Finance and SBV Governor in letters from our Country Director in late March 2020.
expertise of IFC in these industries. Concurrently, there is an opportunity to expand the digital agenda by enhancing reforms to promote e-payments, e-learning, and e-governments. Indeed, this could be an opportunity for government to implement faster the recently approved Financial Inclusion Strategy. Another line of actions could be to support actions to further strengthen the preparedness and resilience of the health system to future epidemics.

**Up to the moment, the Government’s response has rightly focused on policies that are targeted to flatten the health, and corporate and financial distress curves.** They are crisis mitigation policies. How long a country can sustain these policies – at great fiscal and economic cost – depends on each country’s initial conditions, its capacity, buffers, the level of infection, and on its financing capacities. They clearly cannot last indefinitely. If needed, the WBG can provide financial assistance to the government. Beyond technical support in the above-mentioned areas, and in financing emergency health related actions, we can provide budget support through a series of Development Policy Operations (DPOs) for an amount that would be jointly determined but could exceed US$500 million for each operation. Such series will not only alleviate the possible budget pressure in the short to medium term but also provide foreign currency when the country’s balance of payment is expected to deteriorate and allow Vietnam to diversify sources of funding. Given the recent decline in interest rates on international markets, we believe that the cost of our lending will be competitive, especially in comparison to the issuances of bonds on the domestic market.
How to jumpstart the economy

Guiding principles for jumpstarting the economy

- **Better to do too much rather than too little, while prioritizing the vulnerable.** The cost of doing too much is the time value of money, which right now is negative given the low or even negative real interest rates. The cost of doing too little could potentially be enormous both in terms of immediate human suffering and a prolonged economic crisis that exceeds the one in the wake of the global financial crisis. In the context of doing more rather than less, the Government should err on the side of addressing the needs of vulnerable populations including the poor, women, people with disabilities, and youth. Another example is people in the Mekong region who are facing the worst saline intrusion in a decade, in addition to negative impacts of the pandemic.

- **The whole is bigger than the parts.** The combination of multiple interventions is likely to have the largest impact through the development of synergies. For example, public works could help provide income to local communities, provide necessary infrastructure and services, and boost aggregate demand simultaneously. Some of these programs could aim at restoring or cleaning tourism locations, contributing to the recovery of this sector.

- **Low-hanging fruits and fiscal responsibility.** The initial focus should be on reforms that can be most easily achieved as restoring trust will create a virtuous circle through which early positive results will reinforce the drive for reforms over time. At the same time, attention should be on reforms that are not fiscally expensive but likely to produce great benefits such as the development of digital payments that mainly requires changes in existing regulations.

COVID-19 has caused an unprecedented shock to the global economy. While Vietnam has shown resilience, the pandemic has resulted in a supply shock as regular work and supply chains are disrupted. It has also caused a demand shock as people cut back their consumption of several services and commodities, not only for restaurants and travel, but throughout the economy given their extreme uncertainties about their economic future. So far, the Government has been very effective in containing the pandemic with a limited number of cases and no registered deaths. The Government has also been active in providing immediate support to the most affected people and businesses through the easing of monetary and credit policies as well as the implementation of a series of fiscal measures.

**Hopefully the economy will withhold and start to rebound gradually.** But it won’t be easy to restart a modern interconnected global economy while the world awaits the arrival of a vaccine that has yet to be discovered. Recovery will begin when health officials can assure people that the new coronavirus has been contained and the mainstream availability of test kits, both to identify the infected and people with antibodies.

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29 This note was co-written by Keiko Inoue and Jacques Morisset, with inputs from Ahmed Eiweida, Rahul Kitchlu, Steffi Stallmeister, Alwaled Alatabani, Huong Thi Lan Tran, Lien Anh Pham, Viet Anh Nguyen, Brian Mtonya, Duc Minh Pham, Helle Buchhave, Harry Moroz, Nga Thi Nguyen, Indhira Santos, Achim Schmillen, Michael Weber, Hardwick Tchale, Lan Thi Thu Nguyen, Diji Behr, Binh Thang Cao, Anna Wielogorska, Cung Van Pham, Quang Hong Doan, Dung Viet Do, and Shigeyuki Sakaki. It benefitted from the guidance of Ousmane Dione and Kyle Kelhofer. The note is based on a series of background papers on: (i) government procedures, (ii) public investments, (iii) digital agenda, (iv) jobs and human capital, (v) tourism, (vi) agriculture and aquaculture, and (vii) transport. The background papers provide deeper analysis on each topic and are available upon request.
The good news is that the right response from the government, businesses, and individuals can contribute to a sharper, stronger, and more sustainable recovery. Ideally, this phase will target sectors and activities that create jobs and improve longer-term productivity and growth, such as infrastructure, innovation, health, and education. There will inevitably be tough decisions to make about whom to target for support, why, and how.

Recovering normal staffing levels, inventory, supply chains, revenues, and financing options will likely take companies time after weeks or even months of inactivity. So will implementing and harmonizing government policies designed to get the global economy humming again. The Government should start defining the fiscal stimulus package now and prepare a roadmap for the recovery phase since it takes times to organize a coordinated effort across government agencies and between the central and local governments as well as with the private sector. Some reforms might require legal changes that will have to be processed through the National Assembly. There are also many complementarities between current measures used to contain the health crisis and those that will help the recovery of the economy. And at same time, in this post COVID-19 outbreak global economy, there may be new or accelerating trends that Vietnam can leverage, including the reconfiguration of value chains by various multinationals that will be seeking to reduce their dependence on China and the development of new markets for food and manufacturing products that remain in high demand across the world while other supplier countries suffer from major disruption. These emerging opportunities will be discussed in the Policy note #5.

Concerted response is needed from the Government

The priority should be first and foremost to bring people back to work even if the Government has so far been active in protecting jobs through a series of targeted measures. According to the Vietnam Chamber of Commerce and Industry (VCCI), approximately 25 percent of its members have reduced their labor force or cut salaries, while about 60 percent adopted flexible or reduced hours and/ or training for their employees. Securing jobs is essential for economic and social reasons. Economically, it will stimulate both aggregate supply and demand. Socially, it will ensure cohesiveness and solidarity. To achieve this objective the government has several instruments at hand but will need to demonstrate fiscal responsibility and leadership. While more spending might be required, the authorities should do so in a way that will not compromise future generations by excessive borrowing. Decision makers will also need to explain trade-offs, notably through a smart communication strategy, to adequately manage expectations.

Within this context, this policy note proposes a menu of policy actions that the Government could consider for jumpstarting the recovery of the economy in the next few months. This menu covers four main areas, which are by order of presentation: (i) optimizing the use of public investment as a fiscal stimulus; (ii) making the most of the digital

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agenda by reducing transactions costs for both the government and businesses; (iii) protecting and creating jobs and boosting human capital; and (iv) supporting private sector activities with a focus on sectors most affected by COVID-19. The summary of our main recommendations is presented in the table below.

Table 4.1: Summary of main recommendations

<table>
<thead>
<tr>
<th>Intervention</th>
<th>Objective</th>
<th>Key considerations</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Area 1: Optimizing the use of public investment as a fiscal stimulus</td>
<td>Facilitate both large and small-scale community projects</td>
<td>Create direct and indirect jobs and improve infrastructure and service delivery</td>
<td>Republic of Korea devoted nearly 80% of its post 2008-09 crises response stimulus to clean energy and climate change</td>
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<td></td>
<td>Accelerate and improve development impact of large infrastructure projects in transport, energy, telecom, and water</td>
<td>Deploy “shovel ready” public works programs that target the unemployed or underemployed within vulnerable populations</td>
<td>Indonesia, the Philippines, Thailand, and Vietnam all allocated significant funds to small infrastructure programs in reaction to the 2008-2009 global economic crisis</td>
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<td></td>
<td>Provide soft skills and digital skills training to low-skilled workers</td>
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<td></td>
<td>Reform public investment management cycle</td>
<td>Enhance fiscal sustainability and allocative efficiency</td>
<td>The EU, Colombia, Canada issued several flexibilities under the public procurement framework</td>
</tr>
<tr>
<td></td>
<td>Accelerate implementation of PIM law</td>
<td>Expedite funds transfer and procurement processes</td>
<td>OECD countries created coordinated frameworks to develop public investment strategy and establish e-gov platforms for transparent project selection, appraisal, and implementation</td>
</tr>
<tr>
<td></td>
<td>Enhance capacity of local governments</td>
<td>Streamline ODA disbursement</td>
<td></td>
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<tr>
<td>Area 2: Making the most of the digital agenda</td>
<td>Accelerate operationalization of digital agenda</td>
<td>Reduce transaction costs while enhancing efficiency and transparency</td>
<td>African/Asian countries simplified e-KYC requirements</td>
</tr>
<tr>
<td></td>
<td>Scale up mobile phone e-payment to achieve financial inclusion</td>
<td>Enhance digital trade and logistics</td>
<td>China, EU use technology to improve tax filing and management</td>
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<tr>
<td></td>
<td>Enhance digital trade and logistics</td>
<td>Streamline business processes with digital platforms</td>
<td>UAE and UK use digital authentication processes</td>
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<tr>
<td></td>
<td>Improve government effectiveness through digital platforms and ID databases</td>
<td>COVID-19 Credentials Initiative proposes an “immunity passport”</td>
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</table>
## Area 3: Protecting and creating jobs and boosting human capital

<table>
<thead>
<tr>
<th>Intervention</th>
<th>Objective</th>
<th>Key considerations</th>
<th>Examples</th>
</tr>
</thead>
</table>
| Support targeted jobs retention and recovery | Protect and create jobs and minimize human capital loss, especially for vulnerable populations | - Protect vulnerable households through safety nets in the short run; also protect and create jobs and minimize income loss through wage subsidies  
- Deploy employment services and reskilling and upskilling programs to reconnect vulnerable unemployed workers to jobs  
- Stimulate employment demand in hard-hit sectors through support to firms  
- Enhance resilience of health and education service delivery  
- Target policies to the poor, disabled, women, and youth | Republic of Korea is providing retention subsidies of 66-90% of wages for 3 months  
China is providing transportation and employment services to internal migrants, using unemployment insurance funds to provide online training and expanding online recruitment and jobs guidance  
Both countries have also established guidelines for re-opening schools |

## Area 4: Supporting private sector with a focus on most affected sectors

<table>
<thead>
<tr>
<th>Intervention</th>
<th>Objective</th>
<th>Key considerations</th>
<th>Examples</th>
</tr>
</thead>
</table>
| Develop proactive strategy for reviving tourism and transport sectors | Stimulate demand for tourism services | - Focus first on reviving domestic travel, then international  
- Build a strong foundation through improved public health measures and real-time data of the sector  
- Improve quality of a selected tourism destinations in high demand through strategic investments  
- Enhance capacity of tourism operators to adjust to dynamic context | Singapore is providing public financing or supplies to enhance health measures of hotels  
Georgia focused on sustainable tourism, cultural heritage, and urban regeneration during its economic recovery after 2008-09 |
| Enhance resiliency of the transport sector while improving connectivity | Identify and then provide a comprehensive package of support to operators that are most affected while also likely to rebound  
- Reassure users by establishing public health and safety protocols  
- Leverage digital technologies to enhance efficiency  
- Continue to focus on investments that are responsive to climate change, energy efficiency, and disasters | The UK announced a series of financial support instruments for transport companies during the ongoing pandemic |
1. Area 1: Optimizing the use of public investment as a fiscal stimulus

The textbook response for boosting an economic recovery is for the Government to use a fiscal stimulus package to spend more, notably on capital investment projects. Not only can the authorities directly choose the projects that they want to implement but an increase in construction creates the typical Keynesian multiplier that is needed for the economy. In Vietnam, it is estimated that a 10 percent increase in the disbursement of public investment leads to a 0.6 percent increase in GDP growth.

The effectiveness of public works investment is magnified when the authorities do it in a way that guarantees fiscal sustainability and improves both allocative and financial efficiency. The Government aims to accelerate the execution of the approved Medium-Term Investment Plan (MTIP) for 2016-20 and its accompanied annual budget, which has been low in recent years, rather than launching new projects. This prudent approach should keep the fiscal deficit within the limit of the budgetary envelop approved by the National Assembly, therefore reassuring the markets while not crowding out a potential effort by the private sector to enhance private investment.

The focus should be therefore on allocative efficiency of public investment or making sure that the resources will be used on projects that will contribute the most to the economic recovery and job creation. In addition, the distribution of public investments should account for the urban-rural divide and prioritize the most affected locations such as the Mekong region, the poorest provinces, and the urban areas with high density populations. A new era of public investments provides an opportunity to incorporate principles of sustainable growth, such as climate resilience, more inclusive growth, gender equality, etc. as part of the core design.

The main recommendation is to use a combination of large and small-scale public works and community projects. The big projects present the advantages of creating direct and indirect jobs, and they will demonstrate the Government’s commitment to a broad audience. Ideally, the authorities should focus on big projects that address the challenge of national backbone connectivity as well as multi-modal transport network that will be at center of the post-COVID-19 agenda.

Public investments in large infrastructure projects such as the North-South Expressway and national highway development, the Ho Chi Minh City and Hanoi airports expansion, metro railways in Hanoi and Ho Chi Minh City and public transport/connectivity improvement around large ports such as Cai Mep-Thi Vai and Lach Huyen can have a multiplier effect and provide direct and indirect jobs, enhance the fundamental connectivity, and stimulate demand for local contractors and get the factories producing again. The overall effect would be to counterbalance the multiple social and economic impacts resulting from COVID-19. This would also entail providing appropriate investment support for upgrading the backbone IT/telecommunications network capabilities (scaling-up 4G/5G technologies) as well as expansion of network coverage at increased broadband speeds across lagging parts of the country. Over time, of course, attention will have to be given to energy and water/sanitation sectors through SOEs and partnership with the private sector (through the new Public Private Partnerships (PPP) Law under preparation) to address growing
concerns in terms of production, distribution, and sustainability on the environment. Projects could be designed to be sensitive to social distancing requirements.

The development of small-scale and community level projects, mostly through public works, should also be a priority for local authorities. Those have proved their usefulness in upgrading and maintaining infrastructure at the local level, especially given that local governments are responsible for almost 75 percent of public investments in Vietnam. These projects will improve the living conditions of citizens, productivity of micro and small enterprises, and also contribute to the tourism sector development and social protection agendas, as they will provide jobs to unemployed or underemployed workers, including those affected by the COVID-19 crisis.

Two elements are important to get right: good program design and early identification of “shovel-ready” public works. These public works could include: (i) spatial restoration, soil conservation, erosion reduction and climate mitigation/adaptation programs particularly in the Mekong Delta region, (ii) public health-focused service delivery at grassroot levels including increased access to COVID-19 testing so workers can confidently return to their jobs, (iii) disinfection of schools and health surveillance as students return to school, and (iv) targeted investment in municipal and resilience infrastructure and livability improvement which can also help improve tourist attraction (sanitation facilities, parks, public buildings). Training programs in soft skills and digital skills can be incorporated into public works projects to improve employability during recovery. Again, projects could be designed to be sensitive to social distancing requirements.

Concurrently, there is space for improving financial efficiency. As targeted public investment programs are identified, it will be critical to ensure that they receive sufficient and timely funding for expedited implementation. In other words, disbursement of public investment must be accelerated substantially to assure development impacts in the recovery period. Our recommendations span the public investment management cycle and include:

- Implement faster and more effectively the revised Public Investment Law, starting with the preparation of the next MTIP for 2021-25 with priority given to both national and sub-national projects referenced above. A systematic and agile mechanism to update the MTIP on an annual basis should be developed by the Government. The updating mechanism should allow for identifying and then cutting back funding for low performing/slow implementing projects, while giving allocations to high performers as well as new impactful investments that will have been approved for inclusion in the MTIP.

- Facilitate quicker transfer of funds to priority projects through streamlined budget reallocation and additional allocation to reflect project disbursement needs. The reallocation of capital budget both within and across level-1 spending units (ministries, provincial authorities) should be initiated as early as possible to give sufficient time for implementing agencies to disburse additional allocations within the fiscal year.

- Accelerate procurement by allowing for the undertaking of advanced procurement activities. This would allow executing agencies to prepare detailed bidding documents before final project approval and/or budget allocation. Projects that are already included in the MTIP should be eligible for accelerated procurement activities and should receive timely and sufficient budget to carry out
such preparatory activities. Advanced procurement prior to loan approvals/signing are particularly important for accelerating ODA-funded projects. A clear guideline on advanced procurement will be needed.

- For ODA funds that are on-lent, provide upfront guidance to local governments on the on-lending appraisal processes. It is also helpful to allow individual provinces participating in an ODA project to move ahead with on-lending procedures and to start disbursement should they become ready.

- Streamline ODA disbursements by ensuring consistency and clarity of roles and responsibilities of various agencies involved, and significantly streamlining and reducing the number of approval steps through delegation to lower levels of government to the extent possible. Electronic processing of disbursement procedures (including withdrawal applications) should be enhanced for improving efficiency.

2. Area 2: Making the most of the digital agenda

The recovery effort should minimize transaction costs and bureaucratic procedures. As other countries have done in response to the COVID-19 crisis, the Government could leverage the opportunity to modernize its information and communication systems, leading to more coordinated decision making and rapid implementation. It can build on its excellent management of the health crisis when the country has put its high penetration of mobile phones and internet to great use, alert notifications and reminders are regularly circulated by text messages, and there are mobile applications for universal declaration and to keep tabs on the pandemic's development.

Recent international experience has demonstrated that transactions costs could be effectively reduced by digitalization. Digital tools not only contribute to the reduction of delays for businesses, but they also increase good governance, accountability and transparency by limiting face to face interactions with government officials. Governments can also provide faster and more transparent services using e-Government platforms, which improve efficiency and reduce corruption opportunities.

While the Government has put the digitalization agenda at the center of its development strategy, progress has been unequal. The COVID-19 crisis offers a unique opportunity to accelerate its implementation as the associated benefits are even greater than before. The health crisis has demonstrated the importance for businesses to provide their employees with computing and video technology for both at office and home-based work arrangements. Video conferences are replacing shuttling back and forth between North and South in Vietnam, with enormous time savings and huge cutbacks in air pollution from jet engines. At the same time, educators at nearly every level are scrambling to replace classroom instruction with distance learning alternatives including online modalities. The Government has been constrained in its ambition to support affected informal businesses and households because of the
absence of e-payment mechanisms through mobile phones.

Digital technologies have already demonstrated themselves to be game changers in crises, supporting the health response (e.g. telemedicine); allowing firms to adapt to mobility restrictions (e.g. home-based work, mobile payments); helping SMEs survive the downturn (e.g. FinTech); delivering agricultural inputs (e.g. e-vouchers); providing more effective operation of social safety net programs (via mobile payments); and sustaining education efforts (e.g. education apps, online content). Mainstreaming and developing these digital technologies will in turn help boost the recovery while creating lasting efficiencies for both businesses and the government.

An effective set of actions mainly require strong commitment rather than financing from the Government as most of the IT infrastructure is already in place in Vietnam. Mobile operators already own most of the necessary technology that will allow Vietnam to leapfrog into the future. With strong Government commitment, Vietnam can:

• Achieve financial inclusion through a close collaboration with mobile phone operators and commercial banks to identify and create transactional accounts that will be able to receive cash payment. Decisions will also need to make clear whom will be authorized to support these payments and the modality for delivery (e.g. card activation).

• Enhance trade by the smart use of disruptive technologies to streamline processes through mobile registration and payments and blockchains for certification of origin and traceability of commodities. Several integrated information databases (e.g., Vietnam Trade Information Portal [VTIP] and Vietnam Logistics Statistical System [VLSS]) can be used to inform higher performing traders and logistical companies on recent trends and information when rules and regulations are changing rapidly in both Vietnam and its trading partners under the COVID-19 context.

• Streamline procedures faced by businesses through an online platform that allow for e-registration and e-payments over time. An immediate step would be to allow for a single combined registration of employees with the Department of Labor and the Social Insurance Fund through effective information exchange between the two agencies. Another is to link all agencies involved in starting a business through a single window, with a pilot in HCMC. Other measures could include streamlining the process for building permits and property registration through the use of integrated data platform and extend e-services (e-registration, e-filing, and e-payment) to household businesses and individual taxpayers.

• Improve Government effectiveness through online platforms and digital ID4D databases. One priority should be to complete the national citizen registry by quickly digitizing the registrations of the whole population, which has been reportedly been done in almost all 63 three provinces for some time, and verifying them. A quick verification process can be done by cross-referencing the citizen data with the existing national databases, such as the social insurance database and the passport one, to ensure highest possible accuracy of the citizen registry. Frequent surveys of firms and citizens on specific steps of doing business or life events of citizens could be conducted with a new platform that would link together the National eService Portal and the Government Information & Reporting System.
• Deploy digital technology and enhance partnerships with the private sector to improve continuity and quality of service delivery, including in health and education. Further details are in the next section.

3. Area 3: Protecting and creating jobs and boosting human capital

The negative impact of the COVID-19 outbreak on jobs has led to income loss for many households putting at risk their ability to make ends meet. MPI estimates that the COVID-19 outbreak could result in 1.5-2 million workers being furloughed and 250,000 becoming unemployed, and the number of people receiving unemployment benefits increased 9.1 percent in Q1 2020 compared with a year ago. The impacts are widespread, but are particularly deep in tourism, transportation/logistics, and export-oriented sectors where between 70 and 80 percent of firms have scaled back operations. These sectors alone make up 15 percent of all employment in Vietnam, and 15 percent of all employed women.

Frictions in labor markets mean that firing workers is easier than hiring them, so employment tends not to recover quickly after economic shocks. These frictions may be more severe in cases in which rural-to-urban migrants have moved home as a safety net after job loss and are no longer close to their former jobs or these jobs have disappeared altogether, which may have a disproportionate impact on women migrants formerly employed in factory jobs. Vietnam’s links to the global economy via trading relationships and global value chains mean that ongoing outbreaks and transmission control measures outside of Vietnam could delay recovery of employment in some industries even as others recover.

Beyond the immediate impacts on income, job loss can have negative consequences in the longer run. Unemployment can lead to lower earnings and worse labor market outcomes in part because people lose skills when they are out of work. These effects can be particularly severe for workers without access to safety nets who resort to more severe strategies to cope with income loss. In 2018, three-quarters of workers in Vietnam did not have access to benefits in the case of job loss. Women are at particular risk in this jobs environment since they are overrepresented in the types of low-paying, low-skilled jobs that are most likely to be lost due to the impacts of the COVID-19 outbreak. Women already spend two hours more than men on unpaid care, which has likely increased due to school closures. Male job loss is also associated with increased physical violence against women, which may be made even worse by quarantine and mobility restrictions.

Income loss is particularly challenging for households coping with the effects of social distancing. While the Government’s stringent social distancing measures have contained the pandemic, anecdotal evidence suggests a reduction in health seeking behavior and food insecurity may result in worsening health indicators overall. Vietnam has experienced one of the longest school closures, and the learning loss is compounded for children without sufficient access to technology or

32 https://en.vietnamplus.vn/unemployment-benefit-recipients-up-911-percent-in-q1/170606.vnp
a family environment that is able to support home schooling. Household financial fragility will likely result in increased instances of child labor and some children may never return to school even when they reopen. Therefore, enhancing income opportunities by improving access to jobs, particularly for the vulnerable, is a critical step towards minimizing the human capital loss due to COVID-19.

Actions to protect and create jobs, as well as to boost human capital, comprise of short and longer-term measures. In both cases, efforts will need to account for megatrends like the growth of the knowledge economy, automation, shifting trade patterns, and changes in how people work. Targeting policies to vulnerable groups including poor, low-skilled, or informal workers, migrants, women, young people, and the disabled can enhance their effectiveness. Effective policies for promoting jobs and boosting human capital include:

• In the short term, focus on protecting workers and households from income loss and protect jobs from being lost through business closures and downsizing. Provide wage subsidies to incentivize firms to retain and hire vulnerable workers. This support should be provided in line with the Law on Support to SMEs (2018), which calls for preferential support to women-owned businesses and/or businesses with female employees, and free training to employees from women-owned businesses on start-up and business administration skills.

• Once the outbreak is contained, while continued income support might be needed, shift to policymaking that connects the unemployed to jobs and facilitates employment creation in sectors where job growth is recovering more quickly by improving information flows and labor mobility. In particular, employment services should be provided to connect the vulnerable unemployed with jobs, e.g. through job matching assistance, labor market information, and job search subsides. Enhanced employment services could target migrant workers who need to reconnect with employers in primary and secondary cities. The Government can establish stronger partnerships with private sector providers of employment services, as well as introduce more flexibility in the legal framework to, for example, allow furloughed employees to work at second employers while the economy recovers.

• Provide training to develop the in-demand skills of vulnerable unemployed workers, e.g. by adjusting training to demand in sectors growing as the economy recovers and focusing on digital, socioemotional, advanced technical, and entrepreneurship skills. Subsidies in the form of vouchers could be provided to finance training and act as a wage subsidy to promote employment of specific groups (e.g. poor, low-skilled, informal, migrants, women, young, disabled) or start-up support for entrepreneurs.

• Support to firms to stimulate demand in hard-hit sectors, e.g. tourism, trade, transport. Liquidity support to firms should be targeted to ensure that SMEs are given equal footing for survival. Support can also include assistance to develop digital platforms and payment systems or to improve health and safety standards. Finally, microcredit institutions that combine credit with business training could be leveraged to reach microenterprises and household enterprises.

• During the crisis period, ensure safe continuity of priority health services, including critical care, vaccinations, and reproductive, maternal and child health. This includes continued efforts to reduce
stunting, particularly among ethnic minorities. Engaging the private sector to expand capacity effectively will be critical, particularly in mobilizing telemedicine and e-health. In the post-crisis period, Vietnam should continue to adopt a One Health approach and manage zoonotic transmission from animals to humans, upgrade disaster risk management systems, and adapt urban planning to facilitate disease control in anticipation of future outbreaks.

- Provide education remediation support to make up for learning loss while building a more resilient distance learning system across all levels of schooling in the longer term. The Government should enhance data on learning loss resulting from extended school closures, particularly among vulnerable student populations, by building on small scale rapid assessments conducted by partners. Also included in the crisis response should be engaging with the private sector to develop a mapping of education technology companies with distance learning delivery capacity, as well as developing evidence-based guidelines for a phased-in approach to re-opening/re-closing schools that prioritize public health concerns. In the medium term, the Government should create a foundation for a more agile education system including enhanced training for school administrators and teachers and provision of digital infrastructure at institutional (schools, universities, VET) and student-levels, while mitigating against negative impacts on the most vulnerable students.

4. Area 4: Supporting private sector activities with a focus on most affected sectors by COVID-19

To avoid persistent negative effects on the economy, it is critical to have viable and dynamic firms. Governments have a variety of tools to choose from to support firms, including financial solutions, grants and fee reductions, and cash transfers. As mobility restrictions are eased, policies should be refocused towards supporting growth-oriented enterprises, promoting reallocation of resources to more efficient companies, restructuring firms and avoiding measures that risk propping up zombie firms. In the early stages of recovery, many firms, including larger corporations and SMEs, may be facing the risk of insolvency. Moreover, the negative effects on credit markets, supply chains, and worker productivity will dissipate only gradually. There may be a change in consumer behavior, and some firms, especially SMEs, will need support to adjust business models to a different economic environment. The deterioration of firm’s balance sheets will affect financial sector decisions and will increase risk aversion parameters when extending new credit.

There are clear synergies between the recommended measures discussed above and the promotion of private sector activities during the recovery phase. For example, the acceleration of the investment program can benefit local firms through direct contracting and job creation. The implementation of the digital agenda aims to reduce transaction costs of private firms, especially the smallest ones, in their relationship with the Government. The development of mobile money would help household businesses and farmers that do not own a bank account, while the protection and creation of jobs will also help businesses through a reduction of their labor costs. Boosting human capital ensures a steady supply of productive workers to the private sector.
Bringing people back to work will require dynamic firms, especially in labor intensive sectors. It is worth underscoring that all sectors have not been equally affected by COVID-19. Some appear to have been relatively immune like the agriculture sector. Unfortunately, others have been harder hit, including the tourism and the transport sectors. For this reason, in addition to the cross-cutting measures discussed above, it would be useful to target these two sectors with a set of specific interventions.

**Tourism: thinking recovery in a gradual way**

The tourism sector was one of the most dynamic in Vietnam before COVID-19, expanding at a fast rate building on the country’s natural assets and competitive prices. As a result, this sector was estimated to employ about 4 percent of the county’s labor force in 2018, up from less than one percent a decade ago. This sector was also one of the biggest earners of foreign currency and accounted for 8 percent of the country’s GDP in 2018. However, it has been severely hit by COVID-19 with the number of foreign visitors falling from 1.9 million in January 2020 to just over 400,000 in March 2020. The occupancy rate in hotels dropped from 90 to 10 percent during this period.

The economic problems could persist well after the pandemic is contained. Health concerns may persist for months, discourage people from non-essential travel. Reassuring potential travelers by strengthening health measures (e.g., allocate resources to permit sanitary use of transport services, including provision of testing equipment under post-pandemic conditions; strict respect and enforcement of social distancing measures; medical certificates) is paramount. Without such confidence, most people would be reluctant to travel, except for imperative reasons. It would also not be realistic to expect intertemporal substitution – people making up for their missed opportunities to go to hotels/restaurants today by tapping extra heavily into the hospitality services industry next year. Furthermore, the Government will need to consider the impact on vulnerable workers in the tourism sector. Women account for 68.3 percent of the workforce in hospitality services and while recent ecotourism trends benefited women and ethnic minority communities in isolated areas, the contraction in the sector due to COVID-19 may reverse such gains.

For all these reasons, the Government must develop a proactive strategy through which the objective would be to first stimulate the domestic, then global, demand for tourism services. At the same time, it will need to ensure that there will be a sufficient number of hygienic and financially viable accommodations, tour operators, and other tourism support service providers to respond to the expected gradual increase in demand. The focus on rebuilding the domestic tourism market should initially focus on business related trips that are likely to rebound first. The restrictions on

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36 Overall, the Vietnamese agricultural sector has been insulated from the COVID-19 shock (with the exception of the aquaculture sub-sector with a decline of approximately 15 percent in exports during the first quarter but partly because of salinity damages in the Mekong Delta region). Prices have exhibited remarkable stability on both the local and international markets, suggesting a relatively low risk of value chain breakdowns in the near future, at least as perceived by markets. On the supply side, inventories are generally high due to good recent harvest (notably of rice) and the outlook for 2019/20 is positive with expected record production in paddy of over 45 million tons, equivalent to 28.2 million tons of milled rice. Nevertheless, close attention is warranted because any small disruption in this sector could greatly reverberate into the local economy as approximately four out of 10 Vietnamese are employed in agriculture.
international trips will remain in place, as countries will want to protect themselves from a second wave of infections. Thus, contrary to the SARS crisis, it is not expected that international travel will recover quickly to its pre-COVID-19 levels (as, for example, many multinationals have already informed their staff).

For domestic and international tourism to emerge even more robustly, it will be essential to improve knowledge of the sector by collecting high frequency data through pulse surveys and big data. The COVID-19 crisis has modified the needs of travelers and induced many behavioral changes. The authorities will need to assess, in close collaboration with private associations, the financial health of the sectors. This assessment should account for regional disparities and the characteristics of each operator (size, domestic/foreign, public/private, etc.). Efficient policymaking requires updated information on both the demand and supply of the sector.

Once these basic first steps are completed, a more aggressive approach can be elaborated to promote tourism destinations and products. Such an approach should combine actions to reduce prices, while other will improve quality. On pricing, the government can use standard instrument such as reduction of taxes. However, those savings are not always passed on to consumers and would reduce government revenues. It could be more effective to focus on the quality of products. This can be done through a promotion program such as the Ministry of Culture, Sport and Tourism's “Vietnamese people travel in Vietnam”. Destinations with lower density of people, such as remote localities, can be promoted. The Government can also enact guidelines that will ensure social distancing in communal transportation, hotels and restaurants. To build synergies with the community public work programs proposed earlier, the cleaning of tourist destinations can lead to an improvement in the quality of the experience, in line with the longer-term strategy to promote ecological tourism and encourage repeat tourists in Vietnam.

Equally important is that the branding and promotion strategy be accompanied by an effort to ensure that operators will have the capacity to deliver their services in the new environment. After months of inactivity, many operators (including transport companies) will be bankrupted or close to bankruptcy with a deterioration of their assets and few employees ready to return. The Government should envision support to help firms to restructure their debt profiles and address their liquidity challenges. This will prevent a surge in insolvency filings, value-destroying liquidations, and asset fire-sales, while helping to preserve employment. Lastly, the recovery of the tourism sector will require more than attractive locations and improved services. Potential travelers should have easier access to online information and digital booking tools. Travelers could also be incentivized by more flexible policies regarding cancellations or changing dates of their bookings. And, of course, their decisions will be greatly influenced by the availability and quality of transport services.

**Transport: close and urgent attention needed for distressed operators**

Transport activities account for about 2.8 percent of Vietnam’s GDP and employed approximately 3 percent of the labor force in 2019. Those relatively low figures mask the total contribution of this sector to the economy as connectivity is an essential element of the movement of people and goods. A good transport system generates productivity gains for firms and households.
by allowing them to use their resources more efficiently and allocate those resources toward the most productive activities. It also enables regional linkages within Vietnam and reaching out to global markets.

**COVID-19 has severely impacted transport activities in Vietnam.** The early decision to restrict the mobility of persons across borders, starting with China and then gradually expanding to other countries while also limiting domestic travel, has led to a severe adjustment of many firms operating in this sector. Even with relatively less stringent restrictions on freight and logistics, the demand for transportation of goods has decreased substantially due to the domestic economic slowdown, as well as the disruptions caused in the global value chains. However, there are some segments, such as urban deliveries of packaged food, dairy and personal care items, which have seen an increase in their activities.

The recovery of the sector is expected to be slow and will be influenced by both endogenous and exogenous factors. Among the endogenous factors will be the financial health of many operators after months of declining activities. Yet, as mentioned above, not all segments have been affected with the same intensity. For example, airline companies (98 percent of aircraft are grounded) and bus companies have been severely hit by restrictions on passenger travel. Taxi drivers have been at stand still in major urban centers even if some have reinvented themselves as home delivery couriers. By contrast, many logistical operators and freight operators have been less impacted as the volume of merchandise exports has been resilient in Vietnam.

To revitalize this sector, the first action by the Government should be to identify the most affected operators and then to ensure that they are in good enough financial health to resume gradually their activities. Support should be provided to alleviate their cash flow constraints through tax relief and debt restructuring so they can pay for salaries and inputs (such as gasoline). Some countries have been innovative by distributing vouchers to taxi and bus drivers. Storage companies, which are part of the transport value chain, could benefit from lower electricity bills. The authorities should direct their support toward operators that are encountering difficulties to maintain their assets, such as vehicles).

**New technologies can also be used by transport operators to reduce their costs and to adjust to the new behaviors by customers.** Transactions costs of moving merchandise can be cut by the use of e-orders and e-payments as well as of navigator systems. Due to remaining restrictions on restaurants, the delivery of food is expected to be on the rise, justifying a greater emphasis on these tools that favor just-in-time delivery of goods.

Resuming transport activities will also be determined by the demand of customers that is influenced by exogenous factors. The focus should remain in the first stage on transportation of merchandise. For passengers, like in the tourism sector, it would be important to reassure them by establishing specific protocols to safeguard health and safety and providing adequate measures and equipment to check, disinfect, and socially distance users (including effective communication for user awareness) and workers at public transport, airports and seaports, border gates, and warehouses. However, it should be recognized that the demand for transport is generally the by-product of the demand for goods and services by customers. This dependence is best illustrated by the tourism sector, as the demand for transport will increase only if people decide to travel. Similarly, if people consume less, they will order less products...
and so negatively the demand for transport services.

As discussed earlier, COVID-19 can be an opportunity to accelerate the implementation of the digital agenda and stimulate demand. Centralized data platforms can support customized responses in many ways. If a real time analysis of big data in the Commercial Vehicle Tracking System (CVTS) is enabled, the authorities can efficiently monitor and react to accidents, traffic jams, and to the continued volatility in demand and supply. Traffic Management Centers (TMCs) in major cities will allow dynamic adjustment in managing urban road traffic. A standardized Electronic Toll Collection (ETC) System for toll roads, and inter-operable electronic fare payment systems for Metros, BRT and buses would greatly improve user convenience and management efficiency, while removing human-to-human contact.

The longer-term agenda of reforms should not be forgotten in the effort to jumpstart the sector. The development of new transport infrastructure can be an effective instrument to create jobs in the short term, but those projects should be implemented with the objective to improve the environmental footprint. It would be important to ensure that investments in the recovery phase focus are climate change responsive, energy efficient, and disaster resilient. This would require accelerating investments in public transport systems, waterways, alternative highway routes, and secondary airports. The emphasis on multi-modal network supporting trade flows should also remain a priority, in particular those which can offer transport solutions to access international gateways and planning industrial parks and economic zones around high capacity transport nodes.

5. Next steps and World Bank support

Restarting the economy will require a concerted effort from the Government, in close coordination with the private sector and other stakeholders. Focused attention should be given to timing as containment and improved testing, and ultimately progress towards a vaccine for COVID-19 are foundational for the deployment of these general policy tools as part of the second phase of recovery. Most of the actions on aggregate demand are likely to be ineffective if people cannot move or are afraid to go back to work.

Moving ahead with a strong stimulus agenda will not only contribute to the economic recovery but it will also help the Government to make progress on several important reform agendas that will determine the country’s trajectory toward the longer-term objective of becoming a high-income economy by 2045. Three priority agendas can be incentivized within the COVID-19 context:

- The first is to embrace the disruptions in order to incentivize innovations and new behaviors to emerge stronger and better. A good example is the digital agenda, particularly in the Government’s efforts to push for technological solutions to include hard-to-reach people in its income support package and therefore enhance overall financial and safety net inclusion. Another is the repositioning of Vietnam in the context of shifting global value chains while building on its successful efforts to contain the COVID-19 pandemic to date. Vietnam is well positioned to assure shaky investors and multinationals who may be weary of weaker responses observed in other countries.
• The second is to continue to focus on inclusive growth by boosting human capital for vulnerable populations. COVID-19 is first and foremost a health crisis, and the Government’s proactive reaction demonstrates its relatively high level of pandemic preparedness. Yet the stringent social distancing measures required to contain the pandemic has compromised other critical health service delivery and the extended school closures has produced massive learning loss across all levels of education. Poor and ethnic minority populations have been hardest hit. Emerging stronger and better means fortifying equitable social service delivery now in anticipation of the next pandemic or major disruption.

• The third opportunity is to encourage strategic planning that is both agile and responsive to a dynamic national and global context. This entails continued efforts to lighten bureaucratic burdens and transaction costs for the Government, the private sector, and end-users. While the months ahead remain uncertain and the economic recovery may be slow, the Government can enhance its coordination mechanism, develop a phased-in plan for recovery, and identify short and longer-term instruments that can be deployed to jumpstart the economy.

The entire World Bank Group – World Bank, IFC, MIGA – stands ready to help.
COVID-19 POLICY RESPONSE NOTE #5

Don’t let a crisis go to waste - reshaping the economy through ‘no-regret’ policies

June 2020
Don’t let a crisis go to waste - reshaping the economy through ‘no-regret’ policies

Vietnam has the unique opportunity to take advantage of the COVID-19 crisis. While the future is hard to predict, most would agree that the world will look very different in the post coronavirus era. There will be a notable reshaping of global value chains. Similarly, the development of contact-free services, telemedicine, and e-commerce will accelerate requiring fast adaptation of existing digital systems. Lastly, the importance and value of human life will increase as more governments prioritize the inclusion of the wellbeing of future generation in policy making.

The ongoing transformation of the global economy provides the opportunity for Vietnam to take important policy actions and move faster toward its goal of becoming a high-income economy. We recommend five concrete pathways on which Vietnam can build on:

1. **Tapping into the new global trading system**: Vietnam can consolidate its existing footprint on the global economy by developing strategic alliances with other COVID-19 safe countries to boost bilateral movements of goods and people. It can also target industries that are considering diversifying their value chains away from neighboring countries by refocusing its promotion efforts.

2. **Promoting digital payments for a new business model**: COVID-19 has hastened the transition from a cash-based toward an electronic payment system. Such move can be accelerated by the entry of diverse providers into the digital financial services market. Concurrently, new regulations are needed to govern account opening and provision of low value transaction accounts as well as secure a more evolved role for third party payment service providers to interact with payment systems.

3. **Promoting telemedicine**: With ongoing momentum and with support from the highest level of leadership, telemedicine can be progressively mainstreamed in Vietnam’s health service delivery system. Since telemedicine need not be ‘high-tech’, inexpensive and simple technologies should also be prioritized in the short-term such as telephone consultations which are a cost-effective way of connecting health professionals to patients.

4. **Enhanced information sharing for increased resilience**: The COVID-19 crisis has proved to be a game changer in the use of data and information-sharing in Vietnam. The recent issuance of a broad regulation on digital data sharing and open data should be followed by the rapid adjustments of sector-specific regulations and practices. The objective should be here to generate more efficient and more responsible behaviors in health, land, environment and natural resources, trade, as well as public finance.

5. **Aiming for a low-carbon economy**: The disruption in the global energy demand and supply presents a unique opportunity to implement climate-smart policies and investments which are not only good for environment but also promote energy security and financial viability. Implementing demand moderation, supply diversification, and promoting low-carbon investments should be prioritized.

While these five opportunities are not exhaustive, they are worth pursuing as they will bring substantial gains to Vietnam, regardless of how the global economic recovery scenarios play-out. These policy actions should be pursued swiftly given that the window of opportunity for Vietnam will be relatively short as other countries emerge from the COVID-19 crisis in the coming months.
Global context: As of end-May, Vietnam is moving out of the COVID-19 health crisis with extraordinary results: the number of infected people is just over 300, with nearly 80 percent of them having recovered, and no registered deaths. After focusing on immediate health response, time has now come for Vietnam to ease the restrictions and to gradually reopen the economy. While the trade-off between saving human lives and economic costs is a cause of much debate worldwide, the Government’s decision seems justified by its success in controlling the pandemic while also dealing with the harsh realities associated with the lockdown of the economy. By easing controls, the Government aims at alleviating the financial burden on both businesses and people by jump-starting the recovery of economic activities. While a rapid (or V-shaped) recovery is possible, it is unlikely. The return to the pre-COVID-19 growth trajectory might take some time and efforts because the ‘new normal’ for people and businesses will be different. The speed of the recovery will also depend on what happens with Vietnam’s main trading partners. For all these reasons, the Government should do all what it can today, to stimulate the economy without endangering the country’s fiscal and debt sustainability in the longer-term.

In line with the World Bank’s last policy note which identified several actions to accelerate the economic recovery, this note aims at supporting the Government in its efforts by sharing new ideas on how Vietnam can leverage various emerging mega-trends from the global economy. By being ahead of the curve in the fight against the COVID-19, and building on its natural as well as comparative advantages, Vietnam has the opportunity to consolidate its recovery, as well as to mitigate the risks associated with the emerging world order. However, policymakers need to move fast as the window of opportunity would be relatively short. Several concrete and implementable ‘no-regret’ policy actions are being recommended to reshape the economy. These actions are worth doing now regardless of how the global economic recovery scenarios play out. They will enhance development outcomes by improving the competitiveness and resilience of Vietnam’s economy and help improve the country’s resilience to possible future waves of pandemics by encouraging the reallocation of resources toward sectors less prone to human contacts. These actions focus on areas such as: (i) repositioning Vietnam in new global value chains, (ii) supporting the boom in e-commerce by digital payments, (iii) expanding the delivery of contact-free health services, (iv) sharing information for improved resilience and for encouraging responsible behavior, and (v) aiming for a low-carbon development pathway.

This policy note presents description of some of the mega-trends and then explores how Vietnam can build on them not only to generate the much-needed economic gains during the recovery phase, but also to help implement a successful reform agenda in the longer term.

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1. What mega-trends are emerging from the COVID-19 pandemic?

COVID-19 has tipped the world economy into its most severe crisis since the Depression. While the full impact of the pandemic would be hard to predict, there is a consensus amongst experts that: (i) the world trade system will look different in the years ahead, (ii) social distancing will change the way we work and do business, and (iii) the value of life will become an explicit element of Government decisions. These factors will influence how countries and individuals manage risks and resilience in the future. Below is a brief discussion on these three mega-trends as they expect to influence Vietnam in both the short and longer terms. A word of caution would be useful as the intent is not to be exhaustive on complex and evolving issues but to suggest new directions to Vietnamese policymakers.

**Revisiting globalization:** The COVID-19 pandemic is causing the worst contraction in global trade in the post-war era and, so, has strengthened the hand of those who have long opposed economic openness between countries. On the face of it, all our current vulnerabilities seem rooted in globalization: disease transmission, economic interdependence, and medical procurement transcend boundaries. Even before the pandemic, the balance was tilting towards closed economies. The reemergence of protectionism might change the way multinationals and governments do business in the years ahead. The reshaping of global value chains and trade is envisioned for those who argue that the world have become too interdependent (e.g. relying on a few countries for medical equipment and being left helpless when supply chains break down). Workplace closures or transportation difficulties have caused interruptions to the delivery of intermediate goods, severely affecting production in manufacturing industries that practice lean inventory management. Many governments have become concerned about shortages of essential products from offshore sources. Such trend against globalization would reinforce the existing forces against international trade that have been linked to the automation of manufacturing and the growing environmental concerns associated to the excessive carbon footprint linked to international transport.

However, the impact of the pandemic on globalization might not be as straightforward as suggested above. Technology will continue to shrink physical distances and favor the delocalization of production, in countries that will be offering the best conditions to international businesses. Furthermore, ensuring a domestic capacity to produce what is needed, can be prohibitively expensive for many firms and governments, at least in the short term. There are also several alternative to reshoring activities to address security and strategic concerns for essential goods. In this environment, firms as well as countries have an incentive to reduce the risk exposure of supply chains over the medium-term by increasing the geographical diversity of their suppliers. Rather than producing a full line of everything from food and fuel to medical textiles to respirators at home, the best bet for states is to group together with trustworthy partner countries, in the expectation that whatever is produced in the larger bloc will always be accessible to all members. Sound government policies with respect to infrastructure investment, education, and public health could therefore encourage the efficient relocation of some production to a variety of countries and

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38 McKinsey Global Institute estimates that 60 percent of all jobs could see more than 30 percent of their key tasks automated, affecting 400 million to 800 million jobs around the world by 2030.
help firms manage the risks of transnational production. These trends may offer a unique opportunity for Vietnam.

**The rise of a contact-free economy:** With the increasing adoption of new technologies, it is becoming possible to imagine a world of business, from the factory floor to the individual consumer, in which human contact is minimized, but not eliminated. This move toward a contact-free society is not new but has been accelerated by the combination of social distancing policies and the rapid development of digital technologies during the pandemic. In three areas in particular, digital commerce, the delivery of services and home-based work, the pandemic could prove to be a decisive turning point. While e-commerce was already meaningfully and visibly eating into the sales of brick-and-mortar stores, what the coronavirus has done is to accelerate a change in shopping habits. According to Salesforce Global Shopping Index, between Q1 2019 and Q1 2020, retailers experienced a spike of 16 percent in digital traffic growth.39 Additionally, the average amount spent per visit grew by 4 percent. Social distancing and school closures (globally, over 1.2 billion children are out of the classroom) have also encouraged the move toward e-learning whereby teaching is undertaken remotely and on digital platforms.40

**The figures for telemedicine and virtual health are just as striking.** With a vaccine or treatment at least months away, patients and healthcare providers both have reason to expand virtual interactions. With this sudden shift away from the classrooms and doctor’s offices in many parts of the globe, some are wondering whether the adoption of online learning and telemedicine will continue to persist post-pandemic, and how such a shift would impact the worldwide education and health markets. Research suggests that online learning has been shown to increase retention of information, and take less time, meaning the changes coronavirus have caused might be here to stay. There are, however, challenges to overcome. Some students or patients without reliable internet access and/or technology struggle to participate in digital learning and to access telehealth services; this gap is seen across countries and between income brackets within countries. The pandemic has forced organizations into perhaps the most significant social experiment of the future of work in action, with work from home and social distancing policies radically changing the way we work and interact. But the impact on work is far more profound than just changing where people work, it is also fundamentally altering what work is performed and how we perform it. Companies have relied on automated services to allow workers to operate, monitor, and control systems remotely, thereby reducing the risk of human exposure to the virus and enabling operations to run smoothly without service disruptions.

**The value of life as a key element of decision making:** In times of high uncertainty (war, natural catastrophes, pandemics), the value of human life (current and future generations) increases, rebalancing priorities of governments, people and businesses to incorporate resilience in their decisions processes. We are all learning valuable lessons in resilience and human adaptability. We are learning how quickly humans can respond when faced with a common enemy, be it a novel virus or the well-established physics of climate change. A good way to illustrate how

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39 The Index captures the activity of more than 1 billion shoppers worldwide. https://public.tableau.com
40 Even before COVID-19, there was already high growth and adoption in education technology, with global investments reaching US$18.66 billion in 2019 and the overall market for online education projected to reach $350 Billion by 2025.
the pandemic has changed policymaking is to explain how social distancing policies have been justified by using the concept of the statistical value of life. This concept measures how much an individual or a society is willing to pay upfront to minimize the risk of death. According to a recent study, the statistical value of life is around $400,000 in Vietnam. If we assume that in case of non-interventions, the coronavirus would have killed around 200,000 people, or a crude mortality rate of 0.2 percent, the total losses would have been equivalent to $70 billion or almost 1/3 of current GDP. This simple calculation provides some sense of how much the Government has saved by taking early actions and savings life. By using this concept, economists have been able to calculate that the costs of taking early social distancing measures were generally much lower than the long-term costs associated to a situation with no government interventions.\textsuperscript{38} In the US, the use of social distancing measures has been justified as long as they don’t cost more than $6.1 trillion or 20 percent of GDP. Such approach was already utilized by environmental agencies but is now expected to become a more popular tool in other areas such as health crisis management and natural catastrophes.

2. How can Vietnam take advantage of these mega-trends?

Vietnam can take advantage of the three mega-trends (described above) by undertaking swift and concrete policy reforms. However, the window of opportunity will be short as many other countries would likely be planning on engaging in these areas. The ongoing crisis has caused a swing in the political economy which can create favorable conditions to undertake such reforms. There can be much support generated with a view of long-term benefits associated with reforms will be greater than the costs. However, this swing might only be temporary.

To identify ‘no-regret’ policy actions which the Government could quickly and opportunistically implement, the World Bank is presenting a proposed framework. This framework describes how the three mega-trends could be immersed within the Government’s main priorities in shaping a strong policy agenda. These priorities are:

(i) accelerating the country’s economic structural transformation by upgrading its production structure through diversification, added-value and innovation, and (ii) responding to the evolving domestic demand from the emerging middle-class and aging population that will be looking for new and sophisticated products and services such as: healthcare, quality post-secondary education, and better housing. Using this framework, the World Bank team has identified a set of opportunities (presented below). These are opportunities on which Vietnam can build on emerging mega-trends to accelerate the priorities of its policy agenda (Table 5.1).

\textsuperscript{41} The Macroeconomics of Epidemics by Martin S. Eichenbaum, Sergio Rebelo, and Mathias Trabandt, NBER Working Paper 26882.
Table 5.1: Summary of no-regret opportunities

<table>
<thead>
<tr>
<th>Structural transformation</th>
<th>Emerging new demand</th>
</tr>
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<tbody>
<tr>
<td>Revisiting globalization</td>
<td></td>
</tr>
<tr>
<td>• Reshaping global value chains (local/global)</td>
<td>• Promoting local production of imported high value fruits and vegetables (e.g. $2 billion of fruits are imported per year)</td>
</tr>
<tr>
<td>• Developing strategic partnerships with low-COVID-19 risk countries</td>
<td>• Encouraging Inward FDI for domestic market (services, consumer goods)</td>
</tr>
<tr>
<td>• Increasing exports of products in higher demand (rice, health equipment)</td>
<td></td>
</tr>
<tr>
<td>Contact-free economy</td>
<td></td>
</tr>
<tr>
<td>• Encouraging formalization of small businesses through ID4D programs</td>
<td>• Improving access to education by e-learning</td>
</tr>
<tr>
<td>• Developing digital payments (particularly G2P) and e-commerce</td>
<td>• Providing healthcare through the development of telemedicine</td>
</tr>
<tr>
<td>The value of life</td>
<td></td>
</tr>
<tr>
<td>• Greening production (e.g. carbon tax, domestic emission trading)</td>
<td>• Improving responsible behaviors by information sharing through digital tools</td>
</tr>
<tr>
<td>• Greening investment in energy and transport</td>
<td>• Developing risk sharing instruments (insurance) against shocks</td>
</tr>
</tbody>
</table>

Vietnam can exploit the emerging global mega-trends to push ahead its domestic agenda. Of course, this list is not exhaustive and should be illustrative of a wider range of possibilities. The proposed framework emphasizes the relationships between the mega trends and the domestic agenda, but it fails to account for potential synergies across opportunities. For example, encouraging the formalization of small businesses can help the development of linkages with larger enterprises and so their integration in global value chains. Similarly, improving e-learning, notably as part of upskilling and reskilling programs for the existing labor force, would enhance the delivery of the skills that are necessary to sustain the shift toward the proposed greening of production capacities. These synergies would make the proposed opportunities even more valuable. We believe that the above selection of priorities is straightforward as it is based on the country’s existing advantages and the recent changes induced by the COVID-19 crisis. To be most useful, a higher degree of granularity is necessary such that the recommendations can be implemented quickly. Within this vision, further analysis and recommended policy actions are presented for five selected focus areas of these identified opportunities. In each of these focus areas, the discussion is organized to respond to the following guiding questions: (i) what is the underlying mega-trend, (ii) why would it matter to Vietnam, (iii) why would it matter now, (iv) what could be done about it, and (v) what has been the international best practice in these areas?

**Area 1: Tapping into the new global trading system**

**Global context:** As explained earlier, COVID-19 has heightened negative attitudes towards globalization. In a joint effort to reduce the propagation of the pandemics, most countries have closed their borders and prevent people movements. The global
demand for many products has also declined, leading to an unprecedented fall in the prices of most commodities on international markets. As a result, the value of trade is predicted to plunge between 13 and 32 percent in 2020. The role of global value chains (GVCs) has also been increasingly questioned in view of their vulnerability to the combination of factory closures, border closures, and reduced demand. The high reliance on China in several strategic products (notably in food and medicine) has also been a concern for many governments. For these reasons, the reshaping of global value chains, notably away from China, offers a unique opportunity for Vietnam.

**Why does it matter for Vietnam?** Any change, even marginal, in the structure of world trade and investment is expected to impact heavily on the Vietnamese economy, which is one of the most open in the world. Vietnam does not only report a merchandise trade to GDP ratio close to 200 percent, but its economy is also highly dependent on international tourists and FDI. The country has also succeeded to position itself in various GVCs, notably in electronics and textile and clothing where the import content of exports was almost three times higher than the rates reported in Indonesia and China. Similarly, many industries in Vietnam are sourcing inputs that are then used by export companies located in other countries. A large fraction of the bilateral trade between Vietnam and China is explained by these intra-sectorial relationships.

**Why now?** Vietnam can move fast because it is further ahead of the COVID-19 curve compared to many of its competitors, including India and Indonesia. Factories are opening up again, and many workers are going back to work, revamping supply capacities in the tradable sectors and minimizing supply chain disruptions. Similarly, the successful containment of community infections has made the country relatively safe, opening the possibility for the gradual return of international visitors. The Government can build on these recent positive developments to launch a trade and investment strategy, which will complement the country’s traditional advantages of cheap labor and stability. International investors appear to have already reacted positively to Vietnam’s attraction as the value of registered FDI surged by 20 percent in April 2020 compared to a year ago. Moving fast is also justified from a business point of view as, many firms will aim at increasing their own resilience by increasing the geographical diversity of their suppliers. By its relative economic and political stability and its proximity to China, Vietnam offers a credible investment destination for firms that aim to rapidly substitute their production.

**What to do?** Vietnam can consider two strategic moves to strengthen its footprint on both trade and investments global markets. First, it can develop alliances with country partners that also appear COVID-19 safe and so boost bilateral movements of goods and people. As illustrated in Figure 1 below, several of Vietnam’s major trade partners are also highly ranked by the COVID-19 safety index, including China, South Korea and Japan. Others (like Germany, Australia and New Zealand) are safe but not trading extensively with Vietnam. The strategy for Vietnam, while prioritizing safety for Vietnamese citizens, should be to gradually open borders with these two groups of countries. To be effective, this gradual opening should be mutual between these countries, especially for key sectors such as high value agriculture exports, medical products (including PPEs) and tourism (similar to the tourism bubble that New Zealand and Australia are considering). Second, Vietnam can target industries that

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are considering diversifying their value chains (Vietnam is well placed as it was ranked at the second rank in terms of attractiveness for companies that aim at relocating from China). Beyond its traditional assets and its geographical proximity with China, it can also count on its successful management of the COVID-19 crisis as a prime foreign investment promotion tool. Vietnam’s privileged access to various markets due to its bilateral, regional and multilateral trading arrangements (such with the US, Korea, ASEAN, CP-TPP and the EV-FTA) open up trade opportunities to the largest markets in the world for companies relocating in the country. While a number of electronic companies have already started to move some production to Vietnam, additional opportunities may emerge in agro-processing and transformation building on Vietnam’s massive agricultural capacities. That said, Vietnam’s absorptive capacity is limited by its skilled labor force size and its complex cross-borders administrative procedures (ranked 104 out of 190 economies in trading across borders, 2020 Doing Business report). Improving these weaknesses will require an acceleration of current reforms on post-secondary education (e.g. vocational education and training), tackling current gender-based skills and occupational segregation, simplifying and streamlining further administrative procedures faced by businesses.

**Figure 5.1: COVID-19 safety rankings can be used to select trade partners**

Vietnam Exports (USD Billion) by Destination Country and COVID Safety Ranking

<table>
<thead>
<tr>
<th>Country</th>
<th>Exports (USD Billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>35.4</td>
</tr>
<tr>
<td>Japan</td>
<td>16.8</td>
</tr>
<tr>
<td>Singapore</td>
<td>2.9</td>
</tr>
<tr>
<td>New Zealand</td>
<td>0.5</td>
</tr>
<tr>
<td>Australia</td>
<td>3.3</td>
</tr>
<tr>
<td>Germany</td>
<td>6.4</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>7.6</td>
</tr>
</tbody>
</table>

Source: WITS trade data and DKG COVID-19 safety ranking

Note: (i) The COVID-19 Safety Ranking integrates four main parameters; quarantine efficiency, government management efficiency, emergency treatment readiness and monitoring and detection; (ii) the size of the bubble captures the amount of Vietnamese exports to the particular country (in billions of US dollars).
Table 5.2: Recommended actions to enhance trade and FDI

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Key considerations</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>New partnerships</td>
<td>• Promote bilateral agreements with other safe countries.</td>
<td>• South Korea: the customs administration has implemented several reforms to facilitate trade including the implementation of measures to facilitate the trade of critical supplies for both inbound and outbound cargoes. Customs Clearance Support Center facilitates the movement of critical raw materials. This includes critical supplies needed to restart factories. KCS temporarily implemented 24/7 support teams for emergency clearance of raw materials at several customs offices.</td>
</tr>
<tr>
<td>Increase Vietnam’s footprint in global trade</td>
<td>• Facilitate trade including (inbound and outbound) by Customs Clearance Support Center.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Use ASEAN and other FTA's such as CP-TPP as a platform for trade promotion.</td>
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</tr>
<tr>
<td></td>
<td>• Promote digital technology to reduce transaction costs, improve competitiveness, business continuity.</td>
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</tr>
<tr>
<td></td>
<td>• Promote contact-free business platforms: e-procedures, logistics, warehouse, promote digitally enabled tourism ecosystem businesses.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Promote quality and safety. This applies to tourism workers and visitors. Also important for supplying safe and quality food through development and enforcement of food safety regulations; and improve coordination between government authorities and exporters/producers for compliance with Sanitary and Phytosanitary (SPS) measures. Targeted information campaigns (including online) will be necessary.</td>
<td></td>
</tr>
<tr>
<td>New investments</td>
<td>• Target companies that are interested in diversifying supply chains</td>
<td></td>
</tr>
<tr>
<td>Attract new sources of quality FDI</td>
<td>• Launch a campaign with companies that have already expressed interest in locating in Vietnam.</td>
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<tr>
<td></td>
<td>• Establish a database for value chain mapping and regional specialization and establish high frequency information system to provide important policy making information.</td>
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<tr>
<td></td>
<td>• Identify skills demanded by companies/industries targeted for new investments and promote availability of in-demand skills, especially through vocational training and improved tertiary education that can also promote a gender diverse labor force.</td>
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</tr>
<tr>
<td></td>
<td>• Promote greater use of services in the manufacturing sector (e.g. for research and development, design and embedded services, logistics that increasingly matter for manufacturing competitiveness and account for much of the value added in a product).</td>
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<tr>
<td></td>
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<td></td>
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<tr>
<td></td>
<td>• Singapore’s Economic Development Board (EDB) offers investors financial advantages through long term shareholding to companies in high-growth technology sectors. It also focuses towards innovation-led industries such as biomedical cluster, information and technology, smart and sustainable technology (Internet of Things, AI, software automation and robotics) and selected industry clusters under Strategic Investment Program.</td>
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</table>
Area 2: Promoting digital payments for a new business model

Global context: The closures and social distancing triggered by the COVID-19 crisis have highlighted the potential of e-commerce and practical use of digital payments to instantly link sellers with buyers, lower transaction costs, and create new markets tailored to consumer demand, while minimizing physical contact. The pandemic has also highlighted how digital payments facilitates the availability and smooth provision of cash and non-cash payment services used by the most vulnerable individuals particularly for Government to Person (G2P) payments and remittances. Those trends have proven advantageous in countries that embraced digital financial services and has reduced the full economic impact of the pandemic on commerce and access to financial services.

Why does it matter for Vietnam? The Vietnamese economy continues to be heavily cash-based, with only a fraction of transactions conducted using electronic payments. According to the Global Findex survey, only 24 percent of adults in Vietnam had a debit card in 2017, compared with 43 percent in East Asia and Pacific countries overall. The disparity between ownership of debit cards and usage of those cards was also substantial; only 5 percent of adults that owned a debit card had used it to make payments within the previous year as of 2017. There is significant scope for growth in digital banking since Vietnam has a high rate of smartphone penetration and cost-effective internet and Wi-Fi access, but a remaining gap in existing regulations. Building an enabling payments eco-system is essential to help Vietnam promote digital payments and reach greater levels of financial inclusion by expanding coverage and outreach and promoting the entry of diverse providers into the digital financial services market and strengthening knowledge-sharing surrounding financial inclusion initiatives.

Why now? The COVID-19 pandemic hastens the need to transition away from a cash-based economy toward a system that encourages the use of electronic payment services, which are vital to increase efficiency, reduce costs, facilitate financial inclusion and reduce poverty. The Government and the SBV have been moving in that direction, notably under the necessity to deliver financial support to vulnerable people and businesses that do not owned a bank account or do not use electronic payments. The recent development of e-commerce (as a substitute to traditional shopping) has proved to be important for business resilience, including SMEs. Yet, many of them are restricted not by the lack of access to Internet but by the absence of secure cashless payment systems.

What to do? Facilitating enabling regulation related to branchless banking initiatives will help Vietnam achieve greater levels of financial inclusion by promoting the entry of diverse providers into the digital financial services market and strengthening knowledge-sharing around financial inclusion initiatives. This would however require enhancements to regulations governing account opening and provision of low value transaction accounts as well as a more evolved role for third party payment service providers to interact with payment systems and to allow for a more effective use of innovative technologies and the growth of the retail access networks. These steps will be essential to expand outreach to the under- and un-served segments of the population, including the majority of micro-entrepreneurs who are women, and to improve the usage and reduce the cost of payment services, including remittances. Most digital payments require an e-wallet with a bank that in turn requires a bank account. Given the current circumstances, it may be prudent to revisit the potential of
digital payments and expedite the process of developing the regulations to allow for non-bank agents to operate in the Vietnamese payments landscape. The growth in digital payments is an important component of the expanding digital economy, but it is also one of the enabling factors for growing other aspects of the digital economy like e-commerce.

Table 5.3: Recommended actions to promote digital payments

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Key considerations</th>
<th>Examples</th>
</tr>
</thead>
</table>
| Developing digital payments ecosystem            | • Strengthen digital ID to facilitate adoption of digital payments, to improve privacy, and to reduce fraud risks.  
• Strengthen consumer protection to build trust in digital payments.  
• Adopt standards and guidelines to complement innovations in disclosure and recourse.  
• Promote interoperability of services across service providers and points of service.  
• Expand the use and acceptance of e-payments; by promoting electronic payments to and from government and between businesses.  
• Create a regulatory and institutional framework for participation of third-party payment service providers in new payments infrastructure. | • Interoperability with Mobile Network Operators is common and prevalent in many countries. Increasingly QR codes as a form of payment are also gaining in popularity particularly in Asia. Regulatory authorities in Asia are pushing for standardization to support interoperability of payments systems across financial service providers. QR codes are two-dimensional machine-readable barcodes, used to facilitate mobile payments at the point-of-sale. |
| Facilitating e-commerce and financial inclusion  | • Enable e-KYC and tiered-KYC requirements for low risk accounts.  
• Establish regulated third-party payment initiation services through open architecture to new national Automated Clearing House (ACH) payment schemes.  
• Set up transparent and objective operational and organizational criteria for all potential companies.  
• Encourage small retailers and businesses to create an on-line presence and accepting digital payments and roll-out rural e-commerce demonstration programs.  
• Strengthen collaboration among ministries on data sharing with complementary cloud based digital services including (i) point of sale and sales management, (ii) accounting, (iii) ERP, and (iv) delivery and logistics.  
• Develop Supply Chain Finance through digital financing platforms that will help create a transparent database on transactions among suppliers and buyers. | • M-Pesa is a mobile phone-based money transfer and micro-finance service which was launched in Kenya in 2007 and has since expanded in several countries. M-Pesa allows users to deposit, withdraw, transfer money, pay for goods and services, access credit and savings all with a mobile phone. M-Pesa is an example of a branchless banking service that uses a network of banking agents. The service has successfully provided millions of people access to the formal financial system and for reducing crime in large cash-based societies. |
Area 3: Promoting telemedicine

Global context: As societies grow in wealth and go digital, people want better healthcare and expect it to go digital, too. With rising incomes, people increasingly aspire to enjoy long, healthy, and productive lives. As in other countries, rising expectations of a growing middle class in Vietnam have contributed to higher demand for better quality and more technologically sophisticated healthcare. Recent advancements in information and communication technology (ICT) have been the biggest drivers of telemedicine over the past decade. The transition from analogue to digital forms of communication, increased use of the Internet, and advances in computing power have created new possibilities for health service delivery. Common forms of telemedicine include telemonitoring of patients, sharing of information across providers, remote consultations (provider-to-provider) and virtual visits (patient-to-provider). A rapid drop in the cost of ICT has also led to increased availability and utilization, expanding the potential for telemedicine to be a game-changer in healthcare.

Why does it matter for Vietnam? Telemedicine presents an opportunity to increase access to good quality health care. Examples from developing countries have shown improvements in the quality and accessibility of medical care by allowing providers to evaluate, diagnose, treat, and provide follow-up care to patients from a distance, and enable remote access to tertiary care advice in underserved areas. In East Asia, for example, China extensively uses ICT for remote consultations between hospitals and primary care facilities, which a delegation from Vietnam viewed during a study tour in 2018. Telemedicine interventions should take equity into consideration, ensuring that it facilitates access to care for people and not only wealthy urbanites. Telemedicine also offers an opportunity to address the systemic challenge of lack of coordination and integration of care in Vietnam’s fragmented health service delivery system. Healthcare providers currently do not coordinate among one another on patient transfers and discharge, fragmented payment systems lead to conflicting incentives, and there is no information sharing across providers for follow up care. Electronic sharing of medical records facilitates coordination of care across providers. Telemedicine also allows patients to seek care at home or at lower level facilities with remote consultations with specialists at secondary or tertiary levels, which can improve quality of care. There are also potential cost-savings and economic benefits from telemedicine. Direct cost savings have been shown from teleradiology (transmission of CT images), avoidance of unnecessary patient transfers to higher levels, and phone consultations. Opportunity costs from time spent seeking care can also be reduced: studies suggest that a typical doctor’s visit takes 121 minutes, of which 37 are travel time, 84 at the clinic, with just 20 minutes of face-to-face physician time. Such cost-savings will also likely affect the existing gender time use gap, as females spend more time on unpaid care than male household members. As in other countries, women are also at risk of being victims of gender-based violence (GBV).

Why now? The COVID-19 pandemic has accelerated several trends that justify the uptake of telemedicine, including the growing use of digital tools and the demand for more sophisticated services by the aging and emerging middle class. The mainstreaming of telemedicine also offers the opportunity to reach out to isolated population in mountainous and lagging regions. implementation in the long term. In response to the COVID-19 pandemic, many countries have introduced or accelerated the use of telemedicine. While robust assessments of clinical-and cost-
effectiveness are not possible in real time, promising use cases have emerged for both COVID-19 and non-COVID-19 patients. “Forward triage” and nurse hotlines have enabled effective screening while protecting patients, clinicians, and the community from exposure; virtual visits using simple technology (phone or video calls) have enabled primary care physicians to continue seeing their patients. Telemedicine also has the potential to support continued health service delivery in this context where fewer people are seeking care for essential services (e.g. vaccination, antenatal care) for fear of going to health facilities. Telemedicine, coupled with care teams operating in shifts and designated spaces and protocols for managing suspected COVID-19 cases, could maximize the number of consultations (remote and face-to-face) and reduce instances of foregone care. Vietnam, too, has rapidly adopted telemedicine and online counseling to GBV survivors during COVID-19. Bluezone by Viettel covers a range of uses and supports contact tracing and alerts for COVID-19. The Government of Vietnam aims to extend the application across the country, to bring high quality health services to people regardless of their location, at a low cost. This rapid adoption of telemedicine comes after almost a decade of attempts to develop and standardize the use of ICT in Vietnam’s health system. COVID-19 thus presents a rare opportunity – with ongoing momentum and with support from the highest level of leadership – to roll out telemedicine more broadly and mainstreamed in the health service delivery system in the long term.

What to do? Of course, not all telemedicine needs to be “high-tech”: Vietnam could use inexpensive and simple technology, especially in the short term. Phone consultations are a cost-effective way of connecting health professionals to patients. Hospitals in Vietnam already conduct patient satisfaction surveys via phone after discharge. This can be expanded to include questions on patients’ well-being, simple follow-up medical advice, and case management. There may be inequities arising from a “digital divide” based on age, education, socioeconomic strata, and geography. User acceptance of and level of comfort with ICT may also limit the adoption of telemedicine. Effort will be needed to ensure that the elderly, lower-income households, and those in hard-to-reach areas can also benefit from telemedicine. Offering telemedicine in relevant languages would also be important to making it accessible to ethnic minorities. Global experience shows that there are several common factors for successful implementation of telemedicine. These include having the appropriate technological environment (reliable ICT infrastructure, interoperable systems); clear regulations and policies and organizational arrangements; a conducive economic environment (strong financial incentives and clear evidence on clinical and economic benefits); and the “human element” of telemedicine: user acceptance, competence, and confidence. In addition, when it comes to case-management and online service to GBV survivors, confidentiality and anonymity are important elements.
### Table 5.4: Recommended actions to promote telemedicine

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Key considerations</th>
<th>Examples</th>
</tr>
</thead>
</table>
| **Technological environment**  
Including reliable ICT infrastructure, interoperable systems | • Improve coverage of ICT infrastructure especially in hard-to-reach areas.  
• Introduce standards for interoperability of systems, consolidate existing data, and encourage a culture of data sharing. | • Thailand: Telemedicine program and ICT investments in rural hospitals.  
• Estonia: Consolidated online e-health record per citizen, accessible by providers and patients and interoperable with non-health databases.  
• Euro region: Unique patient ID, shared electronic health records.  
• India: Has established an e-health authority and national IT portal. |
| **Regulations and organizational environment**  
Establish clear regulations and policies; reorganize health service delivery network | • Review and revise regulations and policies, in particular on (i) data security, protection, and sharing, (ii) reimbursement, and (iii) responsibility for patients to ensure clear medical liability and continuity of care.  
• Consider new governance and management structures for organizing health care providers, including specifying new roles of providers and health workers, and developing tools for collaboration.  
• Encourage informal (and virtual) social support networks for GBV survivors and expand support to on-line counseling | • Euro region, US: Legislation on data protection and use  
• China medical alliances, Germany Gesundes Kinzigtal, Singapore Regional Health Systems: New governance structures or contracts for care networks; clearly defined roles for providers within network, use of multidisciplinary teams and integrated care pathways.  
• UK: Remote patient monitoring platforms coordinate care across different providers. |
| **Financial and economic incentives**  
Establish strong financial incentives and clear evidence on clinical and economic benefits | • Revise payment policies to create conducive financial arrangements for the adoption of telemedicine, so that the reduction in face-to-face service volume will not adversely affect providers’ revenue and income.  
• Establish measurement and evaluation methods to assess the effectiveness of the different technologies, clinical interventions, and improvements to patient outcomes from long term, routine use of telemedicine. | • US (selected states): Payment parity between telemedicine and face-to-face services.  
• UK: Selected e-health apps free of charge to patients, with negotiated reimbursement rates to providers.  
• Systematic reviews of existing evidence suggest significant scope for better measurement and evaluation, especially in developing countries. |
Don’t let a crisis go to waste – reshaping the economy through ‘no-regret’ policies

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Key considerations</th>
<th>Examples</th>
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<tbody>
<tr>
<td><strong>Human element</strong></td>
<td>Increase user acceptance of and level of comfort with ICT; Improve providers’ competence and confidence in ICT</td>
<td>Use simple technology (e.g. phone consultations) to mitigate potential ‘digital divide’ and offer services in relevant languages to ensure access to ethnic minorities and women, in particular.</td>
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<td>Train providers and run public awareness and education campaigns to boost acceptance and use.</td>
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<td>Vietnam’s hospitals conduct patient satisfaction surveys via phone. Expand scope to include follow-up consultations and case management.</td>
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**Area 4: Enhanced information sharing for increased resilience**

**Global context:** Over 90 percent of data that exists today has been created over the last two years. This data has become a source of comparative advantage for firms (seven out of the ten best-performing companies in the world are data-oriented) and for governments. International experience demonstrates that forward thinking governments are those that have made innovation possible by opening their own data and make them easier to share through the use of digital tools. These tools (data collaboratives, big data and artificial intelligence) have been increasingly applied to solve today’s challenges, from addressing climate change to public health and to job creation.

**Why does it matter for Vietnam?** International experience has shown that more open, inclusive, and data-sharing governments are not only more efficient but also more resilient and better able to adapt to shocks. Over the years, the Government of Vietnam has been quite effective in gathering data from different sources (government operations, households and firms’ surveys). The collected data also covers a broad range of areas from health, labor markets, pollution, public finance, public investments, contracting, corporate governance, or geospatial such as natural asset management, flood and risk information. While these data have been used with success by the authorities to design their policy strategies, many are not shared with the public. As a matter of fact, Vietnam was ranked 106 out of 178 countries by the most recent Open data Index. Limiting the widespread sharing of the data could be justified for security and privacy motives, but it also contributes to the deterioration of the quality of the collected data and to weaker accountability as results cannot be properly monitored and evaluated over time. The government can leave a strong legacy for the future now by publishing an increasing share of government information more proactively and boldly, including through digitization that largely reduce the transaction costs associated to this effort.

**Why now?** The COVID-19 crisis can serve as a catalyst for Vietnam to take bolder actions to place the use of data and information sharing in the heart of its recovery strategy. The successful containment of the Coronavirus outbreak has demonstrated that data sharing can be a powerful tool to design, implement, monitor, and evaluate the impact of policy actions on individual and collective behaviors. Vietnam has used a wide range of digital support to inform and track people during the crisis. Reliable and transparent information from the government
on the outbreak not only helped citizens to make concerted actions to contain the virus, but also enabled public authorities at different levels to flatten the curve. The government can certainly build on these gains by further opening government data in order to help strengthen management, improve market perceptions of risk, and increase accountability for service delivery in its post-COVID-19 recovery. Information disclosure in public and natural assets management could also enable the general public to complement regulatory monitoring and enforcement to improve performance of the industries or service delivery units.

**What to do?** Collecting and sharing data has proved to be a game changer during the COVID-crisis. The recent issuance of a broad regulation on digital data sharing and open data, amid the outbreak in early April, was a step forward in the right direction. It should be followed by the rapid adjustments of sector-specific regulations and practices, such as in health, land, environment and natural resources, trade, or public finance – tax administration - that are limiting the sharing of this invaluable information even among public entities. Ultimately, a whole-of-government data governance structure needs to be implemented to facilitate seamless data sharing across government agencies and with businesses and citizens. Moving toward this objective could be attained by (i) removing barriers to information accessibility in priority areas; (ii) developing government data platforms or easy-to-use portal with application programming interfaces (APIs) to automatically share data between computer systems; and (iii) improving privacy and security for users.

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<th>Objectives</th>
<th>Key considerations</th>
<th>Examples</th>
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<tbody>
<tr>
<td><strong>Regulations</strong></td>
<td>• Issue sector specific (for free) data sharing regulations and guidelines of critical datasets including in foundational registries (land, citizens, businesses), tax, public finance, health insurance, land, environment and natural assets, and geospatial data.</td>
<td>• South Korea: national data warehouse</td>
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<td>• China: Environment, pollution control, natural assets</td>
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<td>• Brazil: greater transparency in timber tracking is helping tackle illegal activities found in 70 percent of the timber operations.</td>
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Don’t let a crisis go to waste - reshaping the economy through ‘no-regret’ policies

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Key considerations</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Government Information</strong>&lt;br&gt;Develop whole-of-government data governance structure and data integration and interoperability</td>
<td>• Assign data custodians at the central, sector, and agency levels&lt;br&gt;• Develop a whole of government common IT platform&lt;br&gt;• Develop standards for sector-specific data collection and classification schemes with agreed data exchanges standards and exchange formats to enable updating, use and reuse of data&lt;br&gt;• Developing data exchange mechanisms - establishing APIs and portals for seamless data sharing</td>
<td>• Canada: Standards, OpenMaps&lt;br&gt;• Denmark: Datafordeler&lt;br&gt;• Switzerland: SwissTopo&lt;br&gt;• Indonesia: Geospatial Portal&lt;br&gt;• United States: O*NET</td>
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<tr>
<td><strong>Consumer rights</strong>&lt;br&gt;Improve privacy and security protection</td>
<td>• Issue regulations on privacy protection including anonymization&lt;br&gt;• Issue security standards and layer for access control and forgery prevention in digital transactions</td>
<td>• Singapore: SingPass Mobile App with sign-in security features&lt;br&gt;• Thailand Personal Data Protection Act&lt;br&gt;• Europe: General Data Protection Regulations</td>
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**Area 5: Aiming for a low-carbon economy**

**Global Context:** The COVID-19 pandemic and the ensuing lockdowns have created an intense demand shock in the global energy markets. While fluctuations in the market are common, the magnitude of the current demand reduction is the largest since the second world war. By the end of the year, demand for oil is expected to be down by 9-10 percent, for coal by 8-9 percent, for gas by 2-4 percent, and for electricity by 5-10 percent. Renewable energy is one of the few sources noticing an increase in demand of around 1-2 percent which also points to its economic and financial viability. Due to the supply-demand imbalance, the energy commodity prices have plummeted in the past months, on average, by 50 percent below pre-COVID-19 levels. In some cases, for instance, crude oil, the prices have fallen below theoretical limits (to negative) for the first time in modern history. Given that over two-thirds of the global energy system relies on fossil-fuels, the reduced consumption is having a dramatic impact on carbon-dioxide (CO2) emissions. The rate of decline of CO2 emissions has been the fastest in over one-hundred years and six-times larger than the previous record reduction of 0.4 Gt in 2009 caused by the global financial crisis. Countries across the world have noted the highly positive impact of the reduced pollution levels to human health and natural environments. The gains from reductions in rate of increase of CO2 emissions and local
air pollution will be short-lived unless they facilitate deeper and longer-term behavioral, business, and institutional changes. Furthermore, it is imperative to avoid an emissions ‘snapback’ similar to what occurred during the global financial crisis of 2008, when CO2 emissions from fossil fuel combustion and cement production grew 5.9% in 2010 (more than triple the decrease associated with the recession).

Why does it matter for Vietnam? The energy commodity price fluctuation is experienced differently by fuel exporting and importing nations. Fuel exporting nations are facing unprecedented current account deficits and are reducing fiscal programs while also having to respond to emergency spending needs for the pandemic. Vietnam, as a net energy importer (e.g. oil, gas, coal), has thus far fared well in this regard. Having managed the COVID-19 crisis better than many nations, Vietnam’s economy is on the path to recovery. The transport sector is slowly rebounding, industrial activity is resuming, and the year-to-year electricity consumption, which is fossil fuel intensive, is up by 4 percent in the first four months of 2020. Given the reliance of energy system on fossil-fuels, the instinct would be to expand consumption (liquid fuel and coal inventory at the end of March 2020 was 47 percent higher than the same period last year). Since Vietnam has largely eliminated fossil fuel subsidization mechanisms, by default, end consumers would benefit from lower pass-through prices (with allocation being made for the Fuel Stabilization Fund). However, as commodity prices rebound, this near-term financial benefit can have severe negative financial as well as economic impacts in the long-term with regards to human health, environment, and natural resources. In recent past, Vietnam has been the lower middle-income country with the highest average annual change (of about 3 percent) in losses from ambient pollution between 1995 and 2015.

Why now? It is anticipated that energy commodity supply will increasingly be throttled to respond to the demand shock and that the prices will rebound strongly within a year. Nearly 70 percent of Vietnam’s energy for core productive sectors, such as transport, electricity, industry, is derived from fossil fuels. At the current rate, energy imports will account for at least a quarter of all energy consumed in Vietnam by 2030. The vulnerability of Vietnam’s energy system to imported fossil-fuels will leave it exposed to financial risks (foreign exchange payments for imports), energy security risks (disruptions in imported supply), and environmental risks (increased GHG and air pollutant emissions) unless it seizes the current window of opportunity and undertakes urgent course corrections. The timing of these decisions is particularly relevant given the policy framework transition expected in the year 2020. Several landmark actions are being considered which could have a tremendous impact on the energy sector. For instance: the planned revision of the Vietnam’s Nationally Determined Commitments (NDCs) can increase ambition on CO2 emission reductions and put in place no regret policies and measures that can address air quality and climate action together, Social-Economic Development Plan (SEDP) which can connect the climate commitments to core economic policy, Power System Development Plan (PSDP 8) which can anchor renewable energy based generation, Vietnam’s National Energy Efficiency Plan (VNEEP) which can accelerate implementation of energy efficiency measures, as well as the proposed revisions to the Law on Environmental Protection, which would set a strong legal basis for climate action. As the energy demand for economy continues to rise, it will be imperative that investments in the COVID-19 recovery period do not lock-in
Vietnam on a fossil-fuel intensive pathway. This would help avoid potential stranded asset risks in the energy sector, given that long-term investments with lifetimes spanning up 50 years or even longer may not be economically viable much earlier than that. Taking a low-carbon orientation in investments (including stimulus measures which should not ignore environmental standards for fast-tracked implementation) can enhance competitiveness, more attractiveness of foreign direct investment, improved public health, and local quality of life. Additionally, supporting the development of a clean energy industry will also bring about short-term job creation benefits while also potentially building an internationally competitive manufacturing industry in Vietnam.

**What to do?** COVID-19 presents a unique opportunity to prioritize climate-smart investments. These investments not only provide long-term financial and environmental benefits, but also bring short-term and low-risk positive impacts on employment and economic activity. Three areas are discussed below: (i) demand moderation, (ii) supply diversification, and (iii) facilitating low carbon investments.

Scaling-up production-side and consumption-side energy efficiency effort is a low-hanging fruit. Following actions should be undertaken: (i) pushing for a shift towards greater use of public transport for passengers and of railways, waterways, and coastal shipping for freight; (ii) promoting e-mobility by switching from fossil-fuel driven vehicles to electric vehicles (especially where public transit is not feasible) must become a priority; (iii) making efforts to reduce transport demand through prudent use of telecommuting, e-commerce, and promotion of compact urban planning; (iv) strengthening regulatory frameworks to implement energy efficiency targets at sub-national and sector levels (e.g. power system loss reduction, industrial retrofitting, improved building codes, appliance standards, etc.); and (v) providing investment incentives (e.g. credit facilities, tax breaks) for firms and individuals together with targeted communication campaigns to support behavior change towards efficiency.

Electricity continues to become the primary fuel source of Vietnam’s modern economy. As such, switching from imported molecules to local electrons through aggressive utilization of abundant domestic renewable energy resources (e.g. solar and wind energy) can significantly reduce, and eventually eliminate, the reliance on fossil fuels. Given continued trend of reduced costs of renewable energy, rising environmental costs of fossil fuels, and the ongoing hurdles experiences in implementing new projects, the opportunity is now to reconsider plans for large-scale coal-fired power plants. Following actions should be undertaken: (i) revised sector plans (PSDP 8) should include ambitious targets for renewable energy as part of the generation mix, while also including all relevant technical requirements (e.g. for grid strengthening, battery storage) for enabling successful variable renewable energy integration; (ii) while private investment is essential and should be promoted, public investment in upgrading grid capacity to evacuate renewable energy needs to be prioritized; (iii) implementing transparent commercial framework for promoting private sector investment (e.g. reverse auctions and standardized agreements) can further reduce costs build investor confidence; (iv) distributed generation programs (e.g. rooftop solar systems) can reduce the pressure on the centralized grid supply; and (v) regional power trade with careful consideration of energy security (e.g. import of surplus hydropower from Laos and China) can facilitate utilization of low cost, low carbon energy.
Successful clean energy transition will require upfront financial support for long-term economic benefits. Following actions should be undertaken: (i) charging a carbon price on fossil fuels (not passing on all benefits directly to consumers) and using the proceeds for low-carbon investments, including in renewable energy and energy efficiency. Given the historically low prices as well as relatively low levels of fossil fuel consumption, this would be a timely opportunity. Adopting a well-designed carbon pricing instrument (e.g. carbon tax, cap and trade system) would make climate-smart investments more competitive and lead to a shift towards low-carbon forms of energy would be important. Such market-based approaches will provide an incentive for firms and consumers to find areas where lower-carbon technologies can substitute most easily without disrupting the uses where low-carbon alternatives are not close to being cost competitive. It would also incentivize innovation in those areas where alternatives are expensive; (ii) supporting private sector led financing (which can be enhanced with government guarantees or equity support) and launching green bonds can bolster investments; and (iii) establishing cost-reflective tariffs for electricity which enables long-term financial viability.

Table 5.6: Recommended actions to ‘flatten the carbon curve’:

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<th>Key considerations</th>
<th>Examples</th>
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<tr>
<td><strong>Demand moderation</strong></td>
<td>Reduce the energy intensity of the economy as Vietnam’s energy elasticity to the GDP is estimated to be about 2, which is one of the highest in the region and calls for significantly increased ambition</td>
<td>• Promote e-mobility, public transport, and other fossil-fuel demand reduction measures.</td>
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<td>• Scale-up investment in improved energy efficiency of supply as well as consumption of electricity.</td>
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<td>• Stricter energy efficiency standards for industry, appliances, vehicles while phasing down super climate pollutants (HCFCs and HFCs) used for space cooling, refrigeration and insulation.</td>
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<td>• China’s public bus electrification program is one of the largest in the world</td>
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<td>• USA’s energy efficiency stimulus resulted in double the energy cost savings</td>
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<td>• Hebei’s Pollution Prevention and Control Implementation Action Plan (China) focusing on reducing emissions in enterprises, household stoves and transport</td>
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<td>• Montreal Protocol support for HCFC phase-out and HFC phase-down</td>
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### Objectives

#### Supply diversity

Accelerate clean energy transition from imported molecules to local electrons through aggressive utilization of abundant domestic renewable energy resources (e.g. solar and wind energy)

<table>
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<th>Key considerations</th>
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<tbody>
<tr>
<td>• Improve planning and provide complementary public investment to ensure growth of domestic renewable energy.</td>
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<td>• Accelerate development of transparent and competitive commercial frameworks to attract private sector financing.</td>
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<td>• Identify and promote training in the skilled workforce needed to support this transition.</td>
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<tr>
<td>• India, China, UAE: energy from Solar PV has reached grid-parity in many countries</td>
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<tr>
<td>• Korea plans to shut half its coal power plants and nearly triple the share of renewable energy in electricity generation</td>
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#### Facilitating low-carbon investments

Support clean energy industry and innovation that will require upfront financial support for long-term economic benefits

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<th>Key considerations</th>
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<tr>
<td>• Implement a carbon price on fossil-fuels and use proceeds for low carbon investments.</td>
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<tr>
<td>• Adopt a well-designed carbon pricing instrument to provide incentives for low carbon innovations.</td>
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<tr>
<td>• Continue electricity tariff reforms and support development of market-based investment approach.</td>
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<tr>
<td>• Canada has successful reduced emissions using a carbon tax on fossil fuels</td>
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<tr>
<td>• EU, Japan (Tokyo and Saitama), USA (California) have used cap-and-trade schemes to incentivize GHG emission reductions targeting heavy emitting sectors</td>
</tr>
</tbody>
</table>
A.1. Hong Kong

Hong Kong announced its 2020/2021 fiscal budget deficit at an estimated HKD139.1bn, or 4.8% of GDP, largest since 2002. The budget included a mix of short term and long-term measures for households and enterprises to help the economy weather the multiple headwinds it currently faces. The most eye-catching announcement was the HKD10,000 cash hand out for all adult permanent residents which will cost roughly HKD71bn. The hand out aims to spur consumption for the retail sectors which have been hard hit by COVID-19 and local social incidents last year. With still ample fiscal reserves of over HKD1.1trn, the government has policy space to implement these countercyclical fiscal measures to help provide a cushion for growth.

Key measures of the budget: For Households and Individuals

- HKD10,000 cash hand out for permanent residents over 18 years old.
- Personal income tax cut of 100% for 2019/2020, up to a cap of HKD20k.
- Provide additional funding for retraining and employment programs.
- Additional allowance for social security recipients and one-month rental waiver for public housing rental tenants.
- Waiver of high school examination fee.

For Enterprises

- Provide 100% government guarantee for loans for SMEs up to HKD2mn.
- Profit tax cut of 100% for 2019/2020, up to a cap of HKD20k.
- Continue measures to help operations including subsidies for 75% of electricity charges (up to HKD5k per month) for four more months and 75% waiver of water and sewage charges for four more months.
- Waivers of government fees including business registration fees, company annual returns and rates for non-domestic properties for 2020/2021.
- Continue rental subsidies or rent reductions of 50% for certain businesses and for some government properties for six months.
- Additional support for hard hit industries such as construction (subsidies for contractors), transportation (pilot subsidy scheme, profits tax exemption for ship lessors) and tourism (increase fund for HK Tourism Board by HKD700mn).

Other key measures:

- Increase housing and land supply by implementing the Land Sharing Pilot Scheme, rezoning land for public housing projects, assessing brownfield sites, etc.
- Introduce pilot scheme for fixed rate mortgage loans with interest rates of 2.75%, 2.85%, and 2.95% for 10, 15 and 20 year loans.
• Waive stamp duties on stock transfers for ETFs created and redeemed in Hong Kong.
• Health Authority recurrent funding increased to HKD75bn to support health care services and population growth.
• Continue to diversify the economy by supporting innovation and technology by increase funding for Innovation and Technology Fund as well as Science and Technology parks of HKD2bn each.
• Support environmental goals such as by encouraging use and transition to electrical vehicles through subsiding EV infrastructure development.

A.2. Cambodia
An initial phase of policy priorities under the 2020 budget’s 3 percent of GDP fiscal stimulus covers:

Short-term policy priorities
• Measures supporting the hardest hit industries (tourism, garment and footwear) with tax relief and exemption from contributing to social security funds, providing laid-off workers with unemployment benefits (60 percent of salary) plus retraining and upskilling programs as well as job-finding services.
• Promote domestic tourism by launching campaigns to organize activities and events in Siem Reap Province, extend the validity of each ticket to Ankgor Wat complex, and improve international passenger routes
• Property registration tax exempt for purchase of a property below US$70,000.
• Measures to improve trade facilitation with an expansion of “the green lane” and post audit clearance which will reduce trade costs and underpinning more advanced logistics enhance the longer-term competitiveness.

Medium-term policy priorities
• Additional capital injection for the Rural Development Bank introduced to support agro-processing firms.
• The establishment of a new (state owned) SME Bank designed to support SMEs. The bank also provides co-financing and risk sharing with commercial banks (and microfinance institutions) that lend to SMEs to improve access to finance for domestic firms.
• Additional measures (to be introduced in April) include measures to improve competitiveness and productivity, trade facilitation, and ease of doing business, addressing actual challenges in key sectors and sub-sectors for the medium term such as agriculture, agroindustry, tourism and SMEs.

A.3. China
Short-term policy priorities
• While fighting the virus remains the priority, the policy focus has shifted toward relieving the economic impact of the outbreak and resuming production.
• A differentiated approach to disease control:
• High-risk regions will continue to focus on virus control. Hubei will block transportation until the end of March.
• Other regions are resuming transportation and production.
• Frontloaded policy stimulus, including accommodative monetary policy and fiscal support, to arrest the economic slowdown.
• Ensuring employment and consumer price stability and the livelihood of low-income households.
Medium-term policy priorities

- President Xi reiterates the need to reach the annual economic targets.
- Policy actions to enhance resilience against similar health shocks, including enhanced food safety, health surveillance and response and public communication systems.

Fiscal policies

- Targeted fiscal support to contain the spread of the virus (~0.1 percent of GDP).
- Increased local government bond issuance planned in 2020 Q1 (0.6 percent GDP higher than 2019Q1). Planned infrastructure investment in areas including medical equipment, 5G, and industrial internet.
- Tax breaks and subsidies and deferrals including cut in social insurance payment to ease near-term cashflow problems in the enterprise sector (significant but hard to quantify now):
  - Suppliers of major medical supplies for virus prevention and control enjoy pre-tax deductions when purchasing equipment to expand the scale of production;
  - Enterprises working in the transportation, life service and daily necessities delivery service sectors exempted from the value-added tax;
  - MOF introduced an interest subsidy scheme for new loans to companies that produce medical supplies which are earmarked for fighting the coronavirus
  - Companies partly exempted from the payment of pension, unemployment and work injury insurance

Monetary policies

- Sizeable liquidity injection through the repo market (~1.7 percent of GDP).
- A on-lending fund (0.3 percent of GDP) to support key manufacturers of medical supplies and daily necessities.
- Cut (both interbank and lending) policy rates (mostly by 10bps).

A.4. Malaysia

The stimulus package valued at RM20 billion is anchored on three strategies as follows:

- Strategy I: Mitigating impact of COVID-19;
- Strategy II: Spurring Rakyat centric economic growth; and

**Strategy I: Mitigating Impact of COVID-19**

The most immediate economic impact of COVID-19 has been the sharp decline in tourist arrivals throughout the region. Hotels, airlines, travel companies and more broadly the tourism-dependent retail industry have been badly affected.

To mitigate the impact, the Government will implement a three-pronged approach – first, to ease the cash flow of affected businesses, second, to assist affected individuals, and third, to stimulate demand for travel and tourism.

**Easing Cashflow.** To assist businesses most adversely affected, the Government proposes for a period of 6 months beginning from April until September 2020:

- First: To allow deferment of monthly income tax instalment payments for businesses in the tourism sector. In addition, companies affected by the COVID-19 to be allowed to revise their profit estimates for 2020 with respect to monthly income tax instalment payments without penalty;
- Second: To provide 15% discount in monthly electricity bills to hotels, travel agencies, airlines, shopping malls, conventions and exhibitions centres;
• Third: To exempt Human Resource Development Fund (HRDF) levies for hotels and travel related companies; and

• Fourth: To exempt the 6% service tax for hotels. However, this exemption will be made effective earlier, that is from March to August 2020.

The Government will also provide financing facilities for affected companies, as follows:

• First: Bank Negara Malaysia (BNM) will provide a Special Relief facility worth RM2 billion, particularly in the form of working capital for Small Medium Enterprises (SMEs) at an interest rate of 3.75%; and

• Second: Bank Simpanan Nasional (BSN) will allocate a RM200 million in microcredit facility offering an interest rate of 4% to affected businesses. In addition, the approval process for existing loan funds will be further streamlined such as Bank Pembangunan’s Tourism Infrastructure Fund of RM1.5 billion.

All banks are required to provide financial relief in the form of payment moratorium comprising restructuring and rescheduling loans for affected businesses and individuals. BNM is tasked to ensure that all financial institutions will assist all companies in need without exception.

In the spirit of shared responsibility to overcome current challenges, the Government calls on industry players to play their part – for hotels to offer discounts and shopping malls to reduce rentals to their tenants.

Malaysia Airport Holdings Berhad (MAHB) will provide rebates on rental for premises at the airport as well as landing and parking charges.

**Assistance for Affected Individuals.** The Government acknowledges lower tourist arrivals has negatively impacted those reliant on tourism. The Government will give a one-off payment of RM600 each to taxi drivers, tourist bus drivers, tourist guides and registered trishaw drivers.

As a sign of appreciation to those in the front line protecting Malaysia from the contagion, Government staff directly involved in the containment efforts will be eligible for a special monthly critical allowance of RM400 for medical doctors and other medical personnel, as well as RM200 for immigration and related front line staff commencing February 2020 until the end of pandemic.

To date, the Ministry of Health has committed RM150 million to purchase the relevant equipment, medicine and consumables in the effort to contain COVID-19 outbreak. The Government will provide the necessary resources to ensure COVID-19 disease is well managed.

**Human Capital Development.** The Government encourages employers to further invest in raising the productivity of human capital during this economic slowdown period. Towards this, the Government will provide double deduction on expenses incurred on approved tourism-related training. The Government will also provide up to RM100 million on a matching grant basis to HRDF to fund an additional 40,000 employees from the tourism and other affected sectors.

The Government will also provide RM50 million to subsidize short courses in digital skills and highly skilled courses. This incentive is expected to benefit 100,000 Malaysians.

The Malaysian workers retrenched can rely on the Employment Insurance System (EIS) with a current fund of RM1.1 billion. Furthermore, EIS will increase the claimable training cost from RM4,000 to RM6,000 for the affected sectors. A daily training allowance of RM30 per day will also be provided to trainees under EIS.
**Stimulate Tourism Sector.** To stimulate tourism industry, the Government will introduce initiatives as follows:

- **First:** personal income tax relief of up to RM1,000 on expenditure related to domestic tourism;
- **Second:** Malaysian will be eligible to digital vouchers for domestic tourism of up to RM100 per person for domestic flights, rails and hotel accommodations for all Malaysians. Additional matching grants for tourism promotion will be provided. An allocation of RM500 million is provided for the vouchers and tourism promotion; and
- **Third:** Relaxation of existing guidelines limiting use of hotels by Government agencies as part of mitigating the reduced demand.

**Strategy II: Catalyzing Rakyat Centric Economic Growth**

**Rakyat’s Assistance.** The effects of COVID-19 reverberate beyond the tourism industry. Malaysian businesses, especially exporters are affected by supply chain disruptions involving factories and ports in China.

Therefore, the Government will carry out immediate measures to boost local consumption growth to cushion the effect of negative external factors, while protecting local Malaysian jobs. These measures include:

- **First:** the minimum Employees Provident Fund (EPF) contribution by employees will be reduced by 4% from 11% to 7%, with effect from 1 April 2020 to 31 December 2020. This will potentially unlock up to RM10 billion worth of private consumption. Malaysian workers have the option to opt out from the scheme and maintain their contribution rate.
- **Second:** a payment of RM200 to all Bantuan Sara Hidup (BSH) recipients scheduled for May 2020 will be brought forward to March 2020.
- **Third:** an additional RM100 will be paid into the bank accounts of all BSH recipients in May 2020. Subsequently, an additional RM50 will be channeled in the form of e-tunai.

To enhance the income of rakyat and reduce cost of living, the Government will undertake the following initiatives:

- **First:** Agrofood facility of RM1 billion will be provided by BNM at an interest cost of 3.75% to promote food production activities to meet domestic and export demand.
- **Second:** M10 million allocation to FAMA to provide food storage facilities to help reduce food prices.
- **Third:** Grants of RM1,000 to 10,000 local entrepreneurs to promote sale of their products on e-commerce platforms.
- **Fourth:** Allocation of RM20 million to Malaysian Digital Economy Corporation (MDEC) for Perkhidmatan e-Dagang Setempat (PeDAS) program to transform Pusat Internet Desa into e-commerce hubs.

**Rural Stimulus.** The Government will allocate an additional RM2 billion for the immediate implementation of small infrastructure repair and upgrading projects nationwide especially in rural areas. To ensure that the projects are effectively implemented for the benefit of the rakyat, the allocations will be channeled in partnership with State Governments, local authorities, NGOs and local communities. The projects need to be implemented expeditiously in order to give positive impacts.
in stimulating economy. To expedite the implementation of all projects, the Ministry of Finance (MoF) will provide special relaxation on financial procedures for the year 2020 as follows:

• First: Increase procurement threshold value for balloting from RM50,000 to RM100,000 and for quotations from RM500,000 to RM800,000;
• Second: Ensure Ministries channel sufficient allocations to respective implementing agencies by first quarter of 2020. MoF will oversee the compliance to procurement schedule to ensure projects are undertaken on a timely basis.

**Strategy III: Promoting Quality Investments**

To bolster business confidence, the Government is committed to sustaining public investments and in particular, expedite in 2020, the tenders and implementation of development expenditure projects.

In addition, agencies and Government linked companies (GLCs) will also accelerate planned investment projects for 2020, including:

• First: Ministry of Energy, Science, Technology, Environment and Climate Change (MESTECC) will open for bids quota of 1,400MW for solar power generation. This is expected to involve RM5 billion of private investments and generate 25,000 jobs;
• Second: Malaysian Communications and Multimedia Commission (MCMC) will implement up to RM3 billion on works related to the National Fiberisation and Connectivity Plan (NFCP); and
• Third: GLCs such as TNB will invest RM13 billion in 2020, including accelerating projects such as LED street lights, transmission lines and rooftop solar installations.

To enhance greater national competitiveness, the Government will promote higher value-added private sector investments through:

• First: A Co-Investment fund of RM500 million to be co-invested and matched by private investors on a ratio of at least 1 to 3 which will make the total funds amount to RM2 billion for investment in early-stage and growth-stage Malaysian companies;
• Second: Waiving of the listing fees by Securities Commission and Bursa Malaysia for one year, for companies seeking listing on Leading Entrepreneur Accelerator Platform (LEAP) or Access, Certainty, Efficiency (ACE) markets, as well as companies with market capitalization of less than RM500 million seeking listing on the Main Market;
• Third: BNM will provide an SME Automation & Digitalization Facility of RM300 million at an interest cost of 3.75%;
• Fourth: The Government will provide accelerated capital allowances over a two-year period on expenses incurred on machinery and equipment including ICT;
• Fifth: The government will provide a tax deduction of up to RM300,000 on renovation and refurbishment cost; and
• Sixth: Import duty and sales tax exemption on importation or local purchase of machinery and equipment used in port operations for 3 years commencing 1 April 2020.
ANNEX B.

Table B1: MAIN ECONOMIC INDICATORS, 2016-2022

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019e</th>
<th>2020f</th>
<th>2021f</th>
<th>2022f</th>
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<tbody>
<tr>
<td><strong>Real economy</strong></td>
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<tr>
<td>Real GDP (% change)</td>
<td>6.2</td>
<td>6.8</td>
<td>7.1</td>
<td>7.0</td>
<td>3.0</td>
<td>6.8</td>
<td>6.5</td>
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<tr>
<td>Agriculture</td>
<td>1.4</td>
<td>2.9</td>
<td>3.8</td>
<td>2.0</td>
<td>0.8</td>
<td>2.0</td>
<td>2.0</td>
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<tr>
<td>Industry and construction</td>
<td>7.6</td>
<td>8.0</td>
<td>8.9</td>
<td>8.9</td>
<td>4.5</td>
<td>8.4</td>
<td>8.3</td>
</tr>
<tr>
<td>Services</td>
<td>7.0</td>
<td>7.4</td>
<td>7.0</td>
<td>7.3</td>
<td>2.0</td>
<td>7.0</td>
<td>6.5</td>
</tr>
<tr>
<td><strong>Prices</strong></td>
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<tr>
<td>Consumer price index (% change, annual average)</td>
<td>2.7</td>
<td>3.5</td>
<td>3.5</td>
<td>2.8</td>
<td>3.5</td>
<td>3.6</td>
<td>3.5</td>
</tr>
<tr>
<td>GDP deflator (% change)</td>
<td>1.1</td>
<td>4.1</td>
<td>3.4</td>
<td>1.8</td>
<td>3.4</td>
<td>3.3</td>
<td>3.2</td>
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<td><strong>Fiscal balance (% GDP)</strong></td>
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<tr>
<td>Total revenue and grants</td>
<td>24.0</td>
<td>24.5</td>
<td>24.5</td>
<td>24.1</td>
<td>22.6</td>
<td>23.6</td>
<td>24.1</td>
</tr>
<tr>
<td>Total expenditure (including off-budget items)</td>
<td>27.8</td>
<td>29.2</td>
<td>28.9</td>
<td>28.1</td>
<td>28.4</td>
<td>28.3</td>
<td>28.1</td>
</tr>
<tr>
<td>Fiscal balance (by GFS, IMF)</td>
<td>-3.9</td>
<td>-4.7</td>
<td>-4.4</td>
<td>-4.0</td>
<td>-5.8</td>
<td>-4.7</td>
<td>-4.0</td>
</tr>
<tr>
<td>Public and publicly guaranteed debt (by GFS, IMF)</td>
<td>59.6</td>
<td>58.3</td>
<td>55.7</td>
<td>54.1</td>
<td>55.8</td>
<td>55.0</td>
<td>54.2</td>
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<tr>
<td><strong>External Balance</strong></td>
<td></td>
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</tr>
<tr>
<td>Exports of goods (fob, % GDP)</td>
<td>87.7</td>
<td>97.6</td>
<td>100.9</td>
<td>101.8</td>
<td>99.8</td>
<td>100.9</td>
<td>102.6</td>
</tr>
<tr>
<td>Exports of goods (fob, % change)</td>
<td>9.0</td>
<td>21.8</td>
<td>13.3</td>
<td>8.4</td>
<td>2.3</td>
<td>9.4</td>
<td>9.7</td>
</tr>
<tr>
<td>Imports of goods, (cif, % GDP)</td>
<td>86.9</td>
<td>96.7</td>
<td>98.1</td>
<td>97.6</td>
<td>95.8</td>
<td>96.1</td>
<td>98.2</td>
</tr>
<tr>
<td>Imports of goods (cif, % change)</td>
<td>5.6</td>
<td>21.9</td>
<td>11.1</td>
<td>6.8</td>
<td>2.5</td>
<td>8.5</td>
<td>10.2</td>
</tr>
<tr>
<td>Foreign direct investment (Inflows, US billion)</td>
<td>11.6</td>
<td>13.6</td>
<td>15.0</td>
<td>19.9</td>
<td>10.3</td>
<td>15.5</td>
<td>17.3</td>
</tr>
<tr>
<td>Current account balance (% GDP)</td>
<td>0.3</td>
<td>-0.7</td>
<td>2.3</td>
<td>4.9</td>
<td>0.1</td>
<td>1.0</td>
<td>1.2</td>
</tr>
<tr>
<td>Reserves, including gold ($US billion)</td>
<td>36.9</td>
<td>49.4</td>
<td>55.5</td>
<td>78.5</td>
<td>78.2</td>
<td>87.0</td>
<td>97.4</td>
</tr>
<tr>
<td>Reserves (in months of imports)</td>
<td>2.5</td>
<td>2.8</td>
<td>2.8</td>
<td>3.7</td>
<td>3.6</td>
<td>3.7</td>
<td>3.8</td>
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<tr>
<td><strong>Financial Markets</strong></td>
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<tr>
<td>Credit to the economy (% change, period-end)</td>
<td>18.8</td>
<td>17.4</td>
<td>12.7</td>
<td>12.9</td>
<td>7.0</td>
<td>12.0</td>
<td>12.0</td>
</tr>
<tr>
<td>Short-term interest rate (3-M deposits, period-end)</td>
<td>4.9</td>
<td>5.5</td>
<td>5.5</td>
<td>5.5</td>
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<tr>
<td><strong>Memo:</strong></td>
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</tr>
<tr>
<td>GDP (nominal, trillion dong)</td>
<td>4,503</td>
<td>5,006</td>
<td>5,542</td>
<td>6,037</td>
<td>6,430</td>
<td>7,096</td>
<td>7,805</td>
</tr>
<tr>
<td>Table B2: Main channels of transmission on vulnerable groups</td>
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<tr>
<td></td>
<td><strong>Labor Income</strong></td>
<td><strong>Prices</strong></td>
<td><strong>Direct Costs</strong></td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>
| **TRADE** | Employment loss due to layoffs in export-oriented sectors or those with linkages to such sectors  
Supply chain disruptions and global demand shocks impacting on output/business  
Forgone income during temporary shut downs | Income reduction as prices decline due to supply and demand imbalances  
• Farmers affected by food price drops or input price spikes |  |
| **CONTAINMENT MEASURES** |  
Travel restrictions, containment measures causing work disruptions/suspension, reducing demand in some areas and causing demand spikes for others,  
Businesses owners (self-employed) in activities with restricted gatherings  
• Hotels & restaurants,  
• Arts & entertainment  
• Transport  
• Casual employees in economic sectors impacted social distancing measures – highly concentrated in  
• Construction  
• Wholesale & retail  
• Transport  
• Hotels & catering | Limited evidence of price spikes so far | Increased expenses  
• Protective consumables  
• Electricity & water consumption with longer stays at home |
| **INFECTION** | Forgone income to days not worked due to illness - So far limited due to contained infection in the country |  | Out-off pocket expenses for health care  
• Minimal due to greater health financial protection in Vietnam |
Table B3: List of social protection measures

<table>
<thead>
<tr>
<th></th>
<th>Number of beneficiaries</th>
<th>Level of support per beneficiary for 3 months</th>
<th>Cost (billion VND)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income support to vulnerable groups</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 Poor households</td>
<td>984,000</td>
<td>3,000,000</td>
<td>2,952</td>
</tr>
<tr>
<td>2 Near-poor households</td>
<td>1,260,000</td>
<td>1,500,000</td>
<td>1,890</td>
</tr>
<tr>
<td>3 Social assistance beneficiaries</td>
<td>4,315,000</td>
<td>1,500,000</td>
<td>6,473</td>
</tr>
<tr>
<td>4 Merit people, who had made</td>
<td>1,135,000</td>
<td>1,500,000</td>
<td>1,703</td>
</tr>
<tr>
<td>contribution during revolution and</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>wars time;</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>5 Informal sector employees being</td>
<td>5,000,000</td>
<td>3,000,000</td>
<td>15,000</td>
</tr>
<tr>
<td>affected)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6 Close down tax-registered household</td>
<td>760,000</td>
<td>3,000,000</td>
<td>2,280</td>
</tr>
<tr>
<td>businesses with annual income &lt;VND100</td>
<td></td>
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<tr>
<td>million</td>
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<tr>
<td><strong>Support to firms for employment retaining/restoring</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7 Contracted employees who were</td>
<td>1,000,000</td>
<td>5,400,000</td>
<td>5,400</td>
</tr>
<tr>
<td>laid off or temporary leave without</td>
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<tr>
<td>pay due to the direct impacts of the</td>
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<tr>
<td>COVID-19 pandemic, and not qualified</td>
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<tr>
<td>for unemployment insurance benefits</td>
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<tr>
<td>8 Deferring SI contribution to firms</td>
<td></td>
<td></td>
<td>6,500</td>
</tr>
<tr>
<td>with 50% employees on temporary leave</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9 Training support using UI fund (</td>
<td>1,000,000</td>
<td>3,000,000</td>
<td>3,000</td>
</tr>
<tr>
<td>persons)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10 Loan to firms with 0% interest for</td>
<td>3,000,000</td>
<td>5,400,000</td>
<td>16,200</td>
</tr>
<tr>
<td>max 12 months to pay for employees to</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>maintain jobs; (50% of min wage X 3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>months)) (persons)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>61,397</strong></td>
</tr>
<tr>
<td><strong>As % of GDP</strong></td>
<td></td>
<td></td>
<td><strong>0.982</strong></td>
</tr>
</tbody>
</table>
### Table B4: List of tax measures

<table>
<thead>
<tr>
<th>Taxpayers</th>
<th>Tax types</th>
<th>Measures</th>
<th>Eligibility criteria</th>
</tr>
</thead>
</table>
| **Corporate**      | VAT       | Deferral of domestic VAT payment for the filing period from March – June 2020.  
- For large businesses (monthly payment): by 5 months for each payment period  
- For SME (quarterly payment): new due date for first quarter VAT is September 30 and second quarter VAT is December 30 | 1. Agriculture, forestry and fishery.  
2. Manufacturing and processing of food; Weaving; Clothing; Shoes; Producing Rubber products; Electronics, computers; cars (except cars with 09 seats or less).  
3. Railway; Trucking; Water transport; Aviation; Warehousing and logistics activities.  
4. Accommodation and catering services.  
5. Travel agents, tour operators and tourism support services.  
7. Manufacturing and processing of leather, wooden, bamboo, paper, plastics, metal products, cars with 09 seats or less.  
8. Real estates, library and museum, recreation and entertainment activities.  
10. Financial institutions that provide support to the COVID-19 affected businesses. |
| **CIT**            |           | Deferral of CIT payments for (1) final CIT payment for 2019, (2) advance payments for first and second quarters by five months for each payment period |                                                                                      |
| **Pension fund payment** | | Deferral of pension fund payment for the filing period from March – December 2020 | Businesses that have >10% of the labor force impacted by COVID-19                      |
| **Unemployment fund payment** | | Deferral of unemployment fund payment for the filing period from March – December 2020 | All businesses                                                                       |
| **Household businesses** | Turnover based tax | Deferral of turnover based tax payment till December 15 | All household businesses that meet criteria 1-10 above.                               |
| **All businesses**  | Land rental charges | Deferral of land charges payment from May 31. New due date is October 31. | All businesses that meet criteria 1-10 above.                                         |