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TAKING STOCK

JULY 2020

WHAT WILL BE THE NEW NORMAL FOR VIETNAM?

The economic impact of COVID-19

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The economic impact of COVID-19

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ABBREVIATIONS

EU	European Union
GDP	gross domestic product
GSO	General Statistics Office
IMF	International Monetary Fund
MOF	Ministry of Finance
MOLISA	Ministry of Labor, Invalids, and Social Affairs
SBV	State Bank of Vietnam
SMEs	small and medium-sized enterprises
VAT	value-added tax
y/y	year-over-year


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KEY MESSAGES

As of early July 2020, life in Hanoi appears to be back to normal or close to what it used to be before the COVID-19 pandemic. Traffic jams, construction noise, and people sipping a cup of tea or coffee can all be seen again in the streets of the capital city. The return of these familiar scenes is an obvious tribute to the government's policy that has helped contain the virus and contributed to saving human lives. Today, most social distancing measures have been lifted, explaining the observed recovery of many domestic activities.

However, this rapid return to normality may prove to be illusory. Several economic and financial indicators have not yet bounced back to their precrisis levels, including the gross domestic product (GDP) growth rate that, at 1.8 percent in the first semester of 2020, was approximately 5 percentage points lower than its historical trajectory during recent years. The pandemic has also left indelible scars, especially on people and businesses that were the least prepared for such a shock. A closer look at the streets of Hanoi reveals that some hotels and shops remain closed, while others have simply disappeared. This report argues that Vietnam should not envision a return to the old normal, but rather should define what will be the new normal as the pandemic has changed in so many ways how people live, work, and communicate.

The new normal for Vietnam will depend on many factors, but it will be to a large extent shaped by the way the government manages the exit of the COVID-19 pandemic. Because the country will operate in a world with a great deal of domestic and international uncertainty for the foreseeable future, new drivers of growth will be required, including a new role for fiscal policy. Yet, by being ahead of the curve, Vietnam has a unique opportunity to increase its footprint in the world economy and to push ahead with its agenda of reforms so it can accelerate its quest to become a high-income economy in the foreseeable future.

COVID-19 has plunged the planet into a deep recession

The global economy has entered into its worst recession in recent decades. Global GDP is expected to decline by 5.2 percent in 2020 as the result of the COVID-19 pandemic and the associated measures taken to contain it over time. Today, it is estimated that over half a million people have already died from the coronavirus, and 10 million have been infected worldwide – and these figures are mounting every day.

Not only is the world facing its worst recession, but almost all countries are expected to be negatively affected by the impact of the pandemic. With the exception of East Asia, all regions will report negative GDP growth rates in 2020. Similarly, only 57 out of 191 countries are expected to increase their GDP from 2019 to 2020, down from 171 a year ago.

If the pandemic is gradually controlled, the global economy will expand again by an average of 4 percent in 2021. Yet, big uncertainties remain; not only might new waves of coronavirus arise in the absence of an effective and generalized vaccine, but unpredictable economic, political, and social changes may also occur in the aftermath of a shock as severe as COVID-19. If history is a good predictor of the future, the organization of the world in the coming years will most certainly look different from the way it looks today.

Vietnam's economy has been hurt but remains resilient

COVID-19 is a health shock that has forced governments around the world to make hard choices between saving lives and economic restrictions. While many countries hesitated in their decision process, Vietnam reacted quickly and boldly. The combination of early measures – targeted testing and tracking as well as innovative information campaigns – has proved to be highly effective. Despite being located next to the original epicenter of the pandemic, Vietnam has beaten the odds since there has been zero community-driven infection since mid-April and no deaths so far while the world awaits the arrival of a vaccine that has yet to be discovered.

Vietnam's economy has been hurt by the pandemic as the GDP growth rate recorded in the first semester of 2020 was the lowest of the three last decades. Yet, it has remained one of the most dynamic economies in the world. This economic resilience can be explained by two factors. First, from February to April, the foreign sector was the driving force as merchandise (net) exports continued to grow at the exceptional rate of above 10 percent per month (year-over-year). During this first phase, domestic activities declined due to increasing social distancing and mobility restrictions, which culminated in the almost complete national lockdown in April. Second, from May to the present, domestic activities rebounded when the authorities started to ease most mobility restrictions; as an example, manufacturing production surged by over 30 percent in the last two months. Meanwhile, the foreign sector has started to lose steam, due to weaker demand by Vietnam's main trading partners. Concurrently, foreign direct investment inflows and remittances from Vietnamese living abroad have also shown signs of weakness.

If, overall, the economy has been resilient, many Individual businesses and people have been exposed to the harsh realities of the pandemic. Using a combination of several information sources, including from the Ministry of Labor, sector economic data, phone surveys, and big data, the following four takeaways have been identified:

- While many households and businesses have been affected by COVID-19, most of the impact has been temporary and is decreasing over time.
- Family businesses (over 90 percent of total firms operating in Vietnam) have been affected more than wage earners but exhibited a high degree of flexibly by rebounding quickly in the last two months.
- There are significant variations in terms of impact across and within sectors of activities, with tourism and transport services as well as exporting manufacturing activities the most affected, while farming has been relatively isolated.
- Location matters as both the impact of the lockdown and the easing of restrictions have had differential impacts by region. The northern provinces were most affected by social distancing measures, while the central region recovered faster than others.

Aware of the financial distress caused by the pandemic, the government has been quick to use monetary and fiscal tools to help the most vulnerable businesses and people, including by tax relief and direct financial support, which have been relatively well implemented since early April. The Vietnamese policy response also relied on a combination of foresight and pragmatism. Thanks to the accumulation of significant cash-flow reserves due to its prudent fiscal management before the crisis, the authorities were able to respond immediately both at the central and local levels, without additional domestic or external borrowing. There has been no sense of panic. To counterbalance the projected slowdown in global trade, the authorities have also reacted quickly by instructing that logistical costs of exporters be reduced, while cutting red tape, reducing fees, and streamlining procedures in customs and in main transport hubs.

While it might be too early to assess Vietnam's performance in its fight against COVID-19, the health benefits have been evident. Using the statistical value of life, these gains can be estimated at around US$15 billion, which would be significantly higher than the loss in GDP that have occurred so far or even forecasted for 2020. The success of the strategy is further corroborated by the high degree of satisfaction expressed by Vietnamese citizens in their government's actions, as over 90 percent in a recent survey reported being satisfied.

Positive short- to medium-term outlook with great uncertainties

Although the Vietnamese economy suffered from COVID-19 in the first semester of 2020, prospects remain positive for both the short and medium term. Assuming a gradual improvement in the world economy, GDP should rebound in the second semester of 2020 so that the economy will grow around 2.8 percent for the entire year. It should further expand by 6.8 percent in 2021 (baseline scenario). With less favorable external conditions, the economy will expand by only 1.5 percent in 2020 and 4.5 percent in 2021 (downside scenario). Regardless of scenario, Vietnam is expected to remain one of the fastest-growing economies in the world in 2020.

The main challenge for Vietnam will be to find new drivers that will support the expected recovery in the short to medium term. Over the past decade, the Vietnamese economy mainly relied on the rapid expansion of its exports and of local consumption. These two drivers are not expected to return to their precrisis levels in the immediate future given the continued uncertainties in the domestic and international context.

To accelerate the short-term recovery of the economy in the aftermath of the COVID-19 crisis, the government should act on three complementary lines of actions. The first will be to consider removing mobility restrictions on domestic to international travel, starting with other COVID-19 safe countries. The objective would be to enhance tourism activities, which account for about 10 percent of GDP in Vietnam. Such action will also be important to attract potential investors and technical experts. It will, however, require careful monitoring as opening the economy should not be done to the endangerment of the health benefits that have accrued so far.

The second line of action is to accelerate the execution of the public investment program. While spending faster and better can be an effective tool to jump start the recovery through its multiplier effect on jobs and the economy, it will require significant improvements in financial management, as explained in the report. The focus should be on priority projects but also on decentralized public works programs that are generally effective to create direct and indirect jobs for vulnerable people in affected areas.

The third line of action is to support the private sector, especially the businesses that have been temporarily affected by the crisis. However, this must be done with caution because not all businesses have been equally affected by the crisis. Some targeting to the most affected sectors or firms will be necessary to avoid a waste of public resources. It might also be pointless to help businesses that are unlikely to survive the COVID-19 crisis due to changes in the production and consumption structure of the economy. In that case, it would be preferable to assist those entrepreneurs or workers to convert to more productive activities.

Looking ahead, Vietnam's economic outlook is not immune to risks. The speed of the recovery will be influenced by the health and economic conditions in the rest of the world. The foreign sector, which has been the traditional driver of growth, is unlikely to run at full speed soon (especially if cross-border passenger travel remains restricted). Capital inflows and remittances could also decline further than anticipated in a depressed environment. There are also several domestic risks that will require attention, notably those associated to fiscal and monetary policies. While the government should act decisively to jump start the recovery, such support should be short-lived and well targeted to reduce the risk of excessive borrowing over time.

Similarly, the easing of monetary and credit conditions by the State Bank of Vietnam (SBV) could result in a spike in inflation. The extension of credit by commercial banks to businesses in difficulty will most probably increase the proportion of delinquent loans in their portfolios and, potentially, lead to significant losses. Overall, these risks are manageable considering the relatively good health of the public and financial sectors at the beginning of the crisis, but they will require close monitoring by the authorities.

Transforming the crisis into an opportunity

Almost all cultures have integrated the concept that opportunities may arise from a crisis. In China, it is embedded in the graphology of the world "crises" that contains two signs, including one capturing opportunity. In the Western world, this duality was best expressed by the quote attributed to Albert Einstein who said that "in the midst of every crisis, lies a great opportunity."

The COVID-19 crisis has offered a unique opportunity for Vietnam. The country can build on several megatrends to consolidate its footprint in the global economy and to enhance its policy reform agenda, notably by improving services delivery through digitalization. The greater attention given to human life should also help generate the much-needed changes in individual and collective behaviors toward the more responsible management of the country's natural resources.

Among the biggest challenges for Vietnam will be to prevent the surge of inequalities as the impact of COVID-19 appears diverse across businesses and people. Indeed, some sectors have been more affected by restrictions, while others have emerged stronger from the lockdown. Many white-collar employees whose jobs can be done from home have received full pay, while low-wage, frontline workers have seen their earnings fall and unemployment rise.

These differentiated impacts not only have an influence in the short term, but they can also shape future patterns in the job market and the way businesses operate in Vietnam. In the last few decades, Vietnam has been successful in almost eradicating extreme poverty by creating industrial jobs and sharing the fruits of growth. Looking ahead, these gains will need to be preserved by ensuring that Vietnamese will continue to have access to productive jobs by upgrading and adapting their skills to the new demand from enterprises. The government should also design and implement a fair and effective redistributive policy, notably through reform of the tax system, which has become even more pressing in the new post-COVID-19 era.


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INTRODUCTION

COVID-19 has spread around the planet, killing hundreds of thousands of people and sending billions into lockdown, as health services struggle to cope. Yet, as of early July 2020, Vietnam is privileged to belong to a small club of countries that have reported zero deaths caused by the pandemic. This result is even more impressive considering that the country is located next to China (the epicenter of the pandemic) and is one of the most open economies in the world, hosting almost 20 million international visitors every year. The extraordinary management of the health crisis by the government, through the combination of bold and decisive actions as well as smart testing and tracking, has received deserved attention from local and international media even though the country remains at risk of new COVID-19 waves as recently reported in other countries in the world.[1]

The objective of this edition of Taking Stock is to discuss to what extent the COVID-19 pandemic has affected the Vietnamese economy. While a close correlation should be expected between health and economic gains, this link is not automatic, as a country could report few COVID-19 cases but face serious economic damage because of restrictions and a heavy dependence, for example, on tourism and remittances.[2] In Vietnam, while the government's strategy has provided great health benefits, it has come with economic costs, since GDP growth dropped by more than 5 percentage points in the first semester of the year compared to precrisis projections. Furthermore, recent estimates by the government indicate that as many as 30 million workers, or over half of the labor force, could have been affected by the crisis. The following set of questions are therefore examined in the report:

- What has been the impact of the COVID-19 pandemic on Vietnam's economy during the recent months?
- What have been the main channels of transmission of the COVID-19 crisis on the domestic economy and who have been the main financial victims?
- To what extent has the health strategy followed by the government, with bold and rapid social distancing measures, been justified from an economic point of view?
- What are the short- to medium-term prospects for the Vietnamese economy and what kind of policies could accelerate the economic recovery in the post COVID-19 era?

1 Vietnam's success in controlling the pandemic has been praised by most international media; see, for example, CNN at https://www.google.com/amp/s/amp.cnn.com/cnn/2020/05/29/asia/coronavirus-vietnam-intl-hnk/index.html.

2 For a discussion on the difference between the health and economic crisis brought on by the COVID-19 pandemic at the international level, see Noy et al. (2020.)

We find that the Vietnamese economy has shown considerable resilience to the COVID crisis – much better than most countries in the world. However, the road to recovery can still be bumpy due to the remaining and large uncertainties in both the domestic and global environment. The impact of the crisis has also not been uniform, raising inequalities across sectors and among people. The government has a key role to play as the COVID-19 crisis offers a unique opportunity to strengthen its policy reforms agenda and so propel Vietnam toward its goal of becoming a high-income economy in the future.

The report has four sections. The first sets the stage by briefly describing how the COVID-19 pandemic has changed the world economy, building on the World Bank's June 2020 *Global Economic Prospects* report. The second section emphasizes how Vietnam has not only managed the health crisis exceptionally well but has also coped with the economic consequences. The third section discusses what the short- to medium-term prospects are for the Vietnamese economy, exploring how to jump start and maintain the recovery in a weak and uncertain global environment. The fourth and last section examines how Vietnam can build on various megatrends emerging in the global economy to accelerate the implementation of its policy agenda and become a high-income economy in the longer term.

COVID-19 IN THE WORLD

On December 31, 2019, Chinese health officials informed the World Health Organization (WHO) about a cluster of 41 patients with a mysterious pneumonia. Most were connected to the Huanan Seafood Wholesale market, a wet market in the city of Wuhan. This was the beginning of what was subsequently labeled the COVID-19 pandemic. Seven months later, it is estimated that approximately 550,000 people have died and 10 million cases have been confirmed in more than 200 countries worldwide.[3] While this pandemic has already been more deadly than the 2003 SARS coronavirus and the 2009 and 2010 swine flu pandemics together, the number of deaths has not yet reached the figures reported during the 1957–58 Asian flu or the Hong Kong flu pandemics, when an estimated 1 million people died each time.

The impact of COVID-19 has been particularly brutal on the global economy due to the combination of health and preventive measures taken to control the pandemic. The stricter the public health measures, the bigger will be the short-term blow to the economy, even if history has demonstrated that the countries that expend the greatest effort to control a pandemic are the most likely to recover quicker in the medium to longer term.[4] The mandating of lockdowns and physical distancing by most high-income countries has saved lives, but also explains why these economies have already reported an average contraction of almost 1 percent in the first quarter of the year and that has most certainly aggravated during the second quarter. These countries have faced lower domestic consumption and investment, as well as restricted labor supply and local production. It also explains why the economic crisis has become global, even in countries weakly affected by the health crisis, through the cross-border spillovers that have also disrupted financial and commodity markets, global trade, supply chains, travel, and tourism. Financial markets have been extremely volatile, reflecting exceptionally high uncertainty and the worsening outlook.

While the ultimate outcome of the coronavirus on the world economy is still uncertain, the global outlook is somber for 2020.[5] The baseline forecast by the World Bank envisions a 5.2 percent contraction in global GDP in 2020 – the deepest global recession in eight decades (table 1). Per capita incomes in the vast majority of emerging and developing economies are expected to shrink this year. The global recession would be deeper if bringing the pandemic under control took longer than expected, or if financial stress triggered cascading defaults. Beyond its short-term impact, deep recessions triggered by the pandemic are likely to leave lasting scars through multiple channels, including lower investment, erosion of the human capital of the unemployed, and a retreat from global trade and supply linkages. These effects may well lower potential growth and labor productivity in the longer term. If the pandemic does not lead to lasting damage to financial systems, growth is expected to rebound in 2021. Under the baseline scenario, COVID-19 will push 71 million people into extreme poverty, measured at the international poverty line of US$1.90 per day. With the downside scenario, this increases to 100 million people.[6]

3 Source: John Hopkins University COVID-19 dashboard; https://coronavirus.jhu.edu/map.html.

4 Correa, Luc, and Verner 2020.

5 The global figures presented in this section are based on the World Bank's June 2020 edition of Global Economic Prospects (World Bank 2020a); https://www.worldbank.org/en/publication/global-economic-prospects.

6 For details, see Mahler et al. (2020).

The global contraction affects all countries covered by the World Bank's forecast. As of early July, the prediction is that there will be only 57 countries with a positive GDP growth in 2020, down from 171 in 2019. Almost all regions will be in negative territory, with a more pronounced decline in the Euro Area (-9.1 percent) followed by the United States (-6.9 percent) and emerging markets (-2.1). East Asia will still grow but only by 0.5 percent – or 5.5 percentage points lower than the rate achieved by the region in 2019.

Most countries have provided large-scale macroeconomic support to alleviate the economic blow, which has contributed to a recent stabilization in the financial markets. Central banks in advanced economies have cut policy rates and taken other far-reaching steps to provide liquidity and to maintain investor confidence. In many developing countries, central banks have also eased monetary policy. The fiscal policy support that has been announced already far exceeds that enacted during the 2008–09 global financial crisis.

Policy makers face unprecedented challenges from the health, macroeconomic, and social effects of the pandemic as they need to reaffirm credible commitment to sustainable policies and undertake the necessary reforms to buttress long-term growth prospects. To limit the harm, it is important to secure core public services, maintain a private sector, and get money directly to people. This will allow a quicker return to business creation and sustainable development after the pandemic has passed. During this mitigation period, countries should focus on targeted support to households and essential public and private sector services, and remain vigilant to counter potential financial disruptions. During the recovery period, countries will need to calibrate the withdrawal of public support and should be attentive to broader development challenges. In addition, a comprehensive reform drive is needed to reduce the adverse impact of the pandemic on long-term growth prospects by improving governance and business environments and expanding investment in education and public health. For these actions, global coordination and cooperation will be critical.

Table 1. GDP growth by region, 2017–21

	2017	2018	2019e	2020f	2021f	% point differences from January 2020 projections 2020f	2021f
World	**3.3**	**3.0**	**2.4**	**-5.2**	**4.2**	**-7.7**	**1.6**
Advanced economies	**2.5**	**2.1**	**1.6**	**-7.0**	**3.9**	**-8.4**	**2.4**
United States	2.4	2.9	2.3	-6.1	4.0	-7.9	2.3
Euro Area	2.5	1.9	1.2	-9.1	4.5	-10.1	3.2
Japan	2.2	0.3	0.7	-6.1	2.5	-6.8	1.9
Emerging market and developing economies	4.5	4.3	3.5	-2.5	4.6	-6.6	0.3
Commodity-exporting EMDEs	2.2	2.1	1.5	-4.8	3.1	-7.4	0.2
Other EMDEs	6.1	5.7	4.8	-1.1	5.5	-6.2	0.3
Other EMDEs excluding China	5.4	4.8	3.2	-3.6	3.6	-7.6	-0.8
East Asia and Pacific	6.5	6.3	5.9	0.5	6.6	-5.2	1.0
China	6.8	6.6	6.1	1.0	6.9	-4.9	1.1
Indonesia	5.1	5.2	5.0	0.0	4.8	-5.1	-0.4
Thailand	4.1	4.2	2.4	-5.0	4.1	-7.7	1.3
Europe and Central Asia	4.1	3.3	2.2	-4.7	3.6	-7.3	0.7
Russia	1.8	2.5	1.3	-6.0	2.7	-7.6	0.9
Turkey	7.5	2.8	0.9	-3.8	5.0	-6.8	1.0
Poland	4.9	5.3	4.1	-4.2	2.8	-7.8	-0.5
Latin America and the Caribbean	1.9	1.7	0.8	-7.2	2.8	-9.0	0.4
Brazil	1.3	1.3	1.1	-8.0	2.2	-10.0	-0.3
Mexico	2.1	2.2	-0.3	-7.5	3.0	-8.7	1.2
Argentina	2.7	-2.5	-2.2	-7.3	2.1	-6.0	0.7
Middle East and North Africa	1.1	0.9	-0.2	-4.2	2.3	-6.6	-0.4
Saudi Arabia	-0.7	2.4	0.3	-3.8	2.5	-5.7	0.3
Iran	3.8	-4.7	-8.2	-5.3	2.1	-5.3	1.1
Egypt	4.2	5.3	5.6	3.0	2.1	-2.8	-3.9
South Asia	6.5	6.5	4.7	-2.7	2.8	-8.2	-3.1
India	7.0	6.1	4.2	-3.2	3.1	-9.0	-3.0
Pakistan	5.2	5.5	1.9	-2.6	-0.2	-5.0	-3.2
Bangladesh	7.3	7.9	8.2	1.6	1.0	-5.6	-6.3
Sub-Saharan Africa	2.6	2.6	2.2	-2.8	3.1	-5.8	0.0
Nigeria	0.8	1.9	2.2	-3.2	1.7	-5.3	-0.4
South Africa	1.4	0.8	0.2	-7.1	2.9	-8.0	1.6
Angola	-0.1	-2.0	-0.9	-4.0	3.1	-5.5	0.7
Memorandum items:							
Real GDP							
High-income countries	2.4	2.2	1.7	-6.8	3.8	-8.3	2.3
Developing countries	4.8	4.4	3.7	-2.4	4.7	-6.7	0.2
Low-income countries	5.4	5.8	5.0	1.0	4.6	-4.4	-0.9
BRICS	5.3	5.3	4.7	-1.7	5.3	-6.6	0.4
World (2010 PPP weights)	3.9	3.6	2.9	-4.1	4.3	-7.3	1.0
World trade volume	5.9	4.0	0.8	-13.4	5.3	-15.3	2.8
Commodity prices							
Oil price	23.3	29.4	-10.2	-47.9	18.8	-42.5	16.9
Non-energy commodity price index	5.5	1.8	-4.2	-5.9	3.0	-6.0	1.3

Source: Global Economic Prospects, June 2020, World Bank.

THE IMPACT OF COVID-19 ON THE VIETNAMESE ECONOMY

In the gloomy world of COVID-19, Vietnam appears as an exception, as it has so far managed the pandemic with great success. This achievement has been well covered by local and international media and many international organizations, including the World Bank.[7] Table 2 provides a timeline of the main actions undertaken by the government since the beginning of the outbreak in late January.

The economic consequences of the COVID-19 pandemic on the Vietnamese economy have received less attention. Here, again, Vietnam has performed well in comparison to the rest of the world as demonstrated by the following takeaways:

- GDP has continued to expand during the first six months of 2020, albeit at a slower pace than in the recent past.
- Inflation has been contained despite the easing of monetary conditions by the SBV, which has led to the expansion of credit by commercial banks to businesses.
- The country has been able to cope with the impact of COVID-19 on its external accounts by maintaining a trade surplus and attracting a relatively large amount of foreign direct investment (FDI) inflows even though exports have contracted in recent months.
- While the fiscal accounts have deteriorated due to lower revenue, the government was able to absorb the shock, thanks to the accumulation of reserves and the use of contingent funds, limiting the use of new borrowing.

The economy has nonetheless been hit by the COVID-19 crisis as the GDP growth rate of 1.8 percent reported for the first semester of 2020 was the lowest of the past three decades (figure 1). This rate also represented a 5-percentage point cut compared with the growth trajectory reported by Vietnam in recent years. The breakdown by sectors indicates that the agroforestry-fisheries sector recorded a growth rate of 1.2 percent and contributed 11.9 percent to the overall economic growth (figure 2), the industrial sector expanded by 3.0 percent (equivalent to a contribution of 73.1 percent, while the services sector grew by only 0.6 percent (or a contribution of 15.0 percent). Compared to the recent historical average, the major negative impact was concentrated on services (its contribution was 6.3 percentage points lower than last year), while the agriculture sector was relatively isolated, with its contribution to GDP growth constant over time.

7 See, for example, https://blogs.worldbank.org/health/containing-coronavirus-covid-19-lessons-vietnam.

Table 2. Timeline of Vietnam's actions in the battle against COVID-19

Date	Key developments and government actions
Jan 7, 2020	New virus identified, named 2019-nCoV (then COVID-19)
Jan 16, 2020	Ministry of Health issued Decision No. 125/QD-BYT stipulating guidelines for diagnosis and treatment of acute pneumonia caused by the coronavirus
Jan 23, 2020	Vietnam confirmed its first case. Health declaration compulsory for incoming travelers from China after Chinese tourist tested positive in Ho Chi Minh City
Jan 23, 2020	Vietnam cancelled all flights to and from Wuhan, China
Jan 29, 2020	First Vietnamese confirmed with COVID-19 who returned to Vietnam from Wuhan
Jan 30, 2020	Government's steering committee (headed by Deputy Prime Minister) for COVID-19 combat set up
Feb 1, 2020	Government declared COVID-19 epidemic in Vietnam
Feb 2, 2020	14-day quarantine applied for all incoming travelers from virus-affected areas
Feb 6, 2020	All schools delayed reopening after Tet holidays
Mar 7, 2020	Medical declaration mandatory for all incoming travelers
Mar 11, 2020	The World Health Organization (WHO) declared COVID-19 a pandemic
Mar 17, 2020	State Bank of Vietnam cut policy rate by 100 basis points
Mar 18, 2020	Vietnam suspended granting entry visas to foreign visitors
Mar 21, 2020	14-day quarantine applied for all incoming travelers
Mar 21, 2020	Vietnam suspended all international flights except special and chartered flights
Mar 22, 2020	Vietnam confirmed 100th case
Mar 23, 2020	Vietnam suspended rice exports for food security reasons
Mar 30, 2020	Vietnam confirmed 200th case and closed border with Lao PDR and Cambodia
Mar 31, 2020	Government imposed social distancing (lockdown) nationwide
Apr 8, 2020	Government issued Resolution 41 to defer tax payments for firms and individuals
Apr 9, 2020	Government issued Resolution 42 to support vulnerable people, households, and small businesses
Apr 23, 2020	Government eased social distancing but continued cross-border entry restrictions
May 1, 2020	Government resumed rice exports
May 11, 2020	All schools reopened and most economic and social activities resumed nationwide
May 12, 2020	State Bank of Vietnam cut policy rate by 50 basis points
May 14, 2020	Vietnam confirmed 300th case
July 21, 2020	Vietnam confirmed 396 infected cases of which 360 cases have been discharged. All new cases in the last 96 days come from Vietnamese repatriated from abroad and foreigners arrived in Vietnam. No deaths so far!

Source: World Bank.

The relative resilience of the Vietnamese economy can be explained by two successive phases (figure 3). The first one was characterized by the good performance of the external sector. Between January and mid-April, the value of merchandise exports increased on average by 13 percent per month, which was in line with the country's historical performance. Meanwhile, domestic activities were negatively affected by the gradual implementation of mobility and social distancing measures, especially in April, when the industrial production index and retail sales declined by approximately 20 percent each. The second phase, which started with the easing of social distancing at the end of April, witnessed the rebound of domestic manufacturing production – up by over 30 percent between April and June. By contrast, the value of merchandise exports contracted by 9 percent per month between April and June. In other words, while the Vietnamese economy has been used to running on two engines of growth in recent years, the foreign and domestic sectors have not functioned together, but rather sequentially, since the beginning of the COVID-19 crisis.

The slowdown in economic activity reflects to a large extent the decline in the expansion of domestic demand during the first semester. At a time of great uncertainty, businesses and households face cash-flow constraints and limit their investment and consumption plans. The nominal growth of total investment slowed to 3.4 percent in the first half 2020 from 10.2 percent in the same period last year. Private investment expansion decelerated from 16.5 percent to only 4.6 percent as many businesses have started to face cash flow constraints and uncertainties. The state, however, accelerated the execution of its investment projects, which grew by 7.4 percent in the first half of the year against 2.8 percent during the same period in 2019. The proxy for household consumption – domestic retail sales – declined by 2.9 percent per month (year-over-year [y/y]) in the second quarter of 2020, after growing by only 7.9 percent per month during the first quarter, while the average expansion rate was over 12 percent in 2019.

As the result of the slower expansion of aggregate demand, the inflation rate declined to 3.2 percent in June 2020, down from 6.4 percent in January 2020 (figure 4). Food prices, after a significant hike at the end of 2019, have not increased anymore but remained high due to the persistent shortage of pork (due to swine fever) and the relatively elevated price of rice on international markets. The recent rebound of oil prices also contributed to the upward trend of the Consumer Price Index observed in May and June.

The decline of headline inflation since the beginning of 2020 has allowed the SBV to gradually ease its monetary policy and mitigate the impact of the COVID-19 crisis (see next section for a description). These efforts have helped maintain credit expansion at 8.5 percent (y/y) during the first semester (figure 5). While this rate is significantly lower than in recent years, it was more than four times faster than GDP growth, indicating that commercial banks have extended credit to firms despite the uncertainties in the economy. The banking system remains stable and still profitable, but uncertainty and risks of increased default could increase financial sector stress over time. These risks can be exacerbated by the legacy of nonperforming loans and the undercapitalization of several banks (at end-May 2020, only 18 of 45 banks reported a Capital Adequacy Ratio in line with the Basel II requirements). With falling demand, firms and individuals might find it increasingly difficult to meet their debt service obligations. The SBV estimated that about 23 percent of total outstanding loans of the entire banking sector could be exposed to the default risks associated with COVID-19. To mitigate potential risks, the SBV has granted flexibility to banks on provisioning requirements for loans restructured due to the pandemic and extending flexibility to borrowers on loan terms based on individual circumstances arising from the crisis.

Recent trends in Vietnam's economy

Figure 1. Vietnam's economic activity has slowed amid the COVID-19 pandemic...

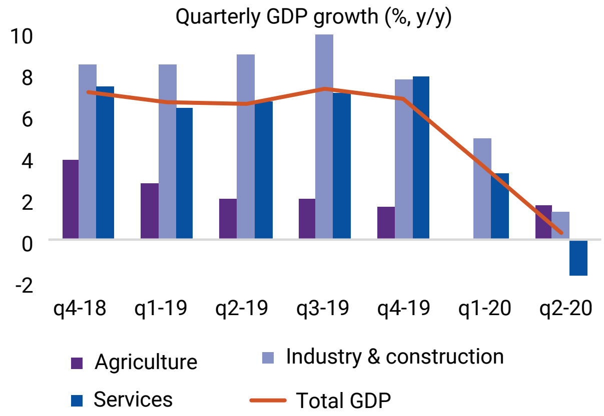


Figure 2. ...weighed down by lower services, while agricultural output remained resilient

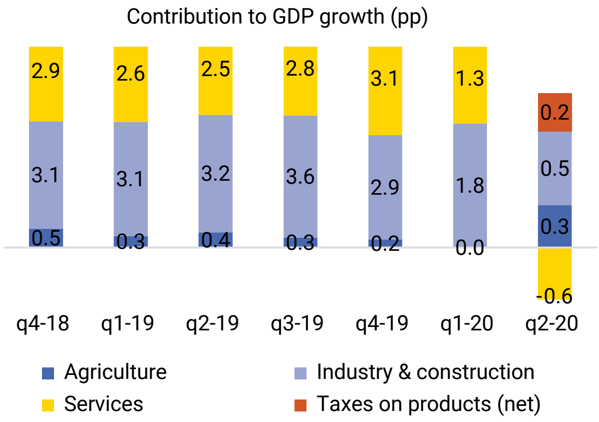


Figure 3. External sector growth is slowing while domestic activities are rebounding

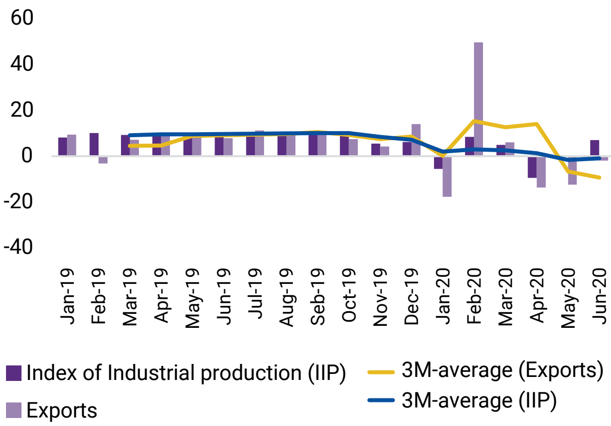


Figure 4. Inflation is decreasing but food prices are on the rise

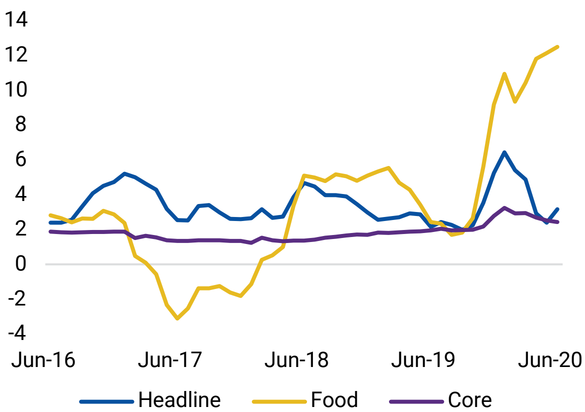


Figure 5. Credit expansion is decreasing...

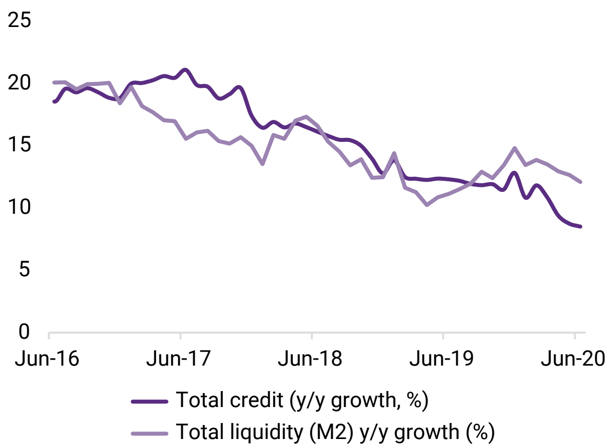
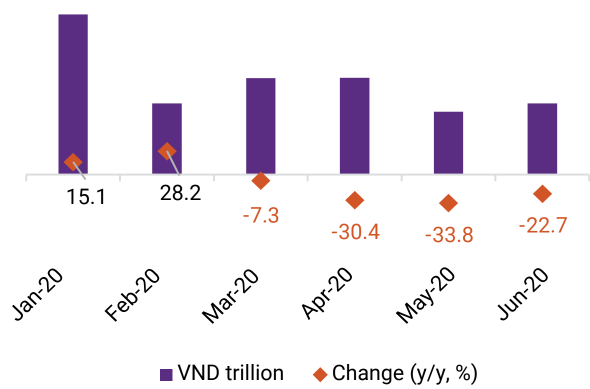


Figure 6. ...while revenue collection is falling quickly



Source: GSO, SBV, and MOF.

On the external front, after three successive years of improvements, the balance of payments has certainly deteriorated, although the authorities have not yet released the level of reserves held by the SBV since the end of March 2020. However, the external pressure should have been limited as in recent months the country was able to improve its trade balance (reporting a surplus of US$4 billion in the first half of 2020). The capital account has also been resilient since (disbursed) FDI inflows decreased by only 5 percent over the past six months compared with the same period a year ago. The main sources of concern arise from the balances of services and of income, due to lower receipts from tourism and remittances; however, the magnitude of these deteriorations is not yet known with precision. The good news is that the level of international reserves held by the SBV was substantial at the end of March (over US$80 billion), and the value of the local currency has been relatively stable in recent months, offering significant buffers to absorb the impact of an external shock to the balance of payments (figures 7 and 8).

Vietnam's trade balance improved during the first semester of the year because merchandise imports declined faster than exports. The value of Vietnam's total exports declined by 1.1 percent in the first six months of 2020 compared to an increase of 7.2 percent during the same period last year (figure 9). With the exception of computers and parts, all manufacturing exports decreased over the first semester, including garments and smart phones, which were down by over 20 percent and 8.4 percent, respectively. Agricultural exports were resilient due to the high price of rice on international markets even if seafood declined by over 8 percent. In terms of destination markets, Vietnam was able to sustain exports to the United States (up by 10.3 percent) and China (up by 17 percent) but faced weaker demand from Japan (down by 2.3 percent), the European Union (down by 8.8 percent), and other Association of Southeast Asian Nation countries (down by 14.2 percent) (figure 10). Concurrently, the value of merchandise imports contracted by 3 percent (y/y) during the first six months of 2020, compared to an expansion of 8.9 percent in the same period of 2019 (figure 11). This decrease was driven by a slower demand for imported fuel, material, and intermediate goods. Such a decline is partly linked to the slowdown in exports, as a great share of imported inputs are purchased by FDI firms. Finally, imports of consumer goods fells by nearly 10 percent (y/y), reflecting the decline in demand by households.

Vietnam remained an attractive location for foreign investors as (committed) FDI inflow reached close to US$16 billion between January and June 2020 (figure 12). Yet, these inflows were 15 percent lower than during the same period in 2019, which is line with the 20 to 30 percent decline in global capital flows in 2020 projected by the United Nations Conference on Trade and Development (UNCTAD). Among 18 sectors receiving foreign capital, the manufacturing industry attracted the most, at more than US$8 billion, or 51.1 percent of the total, followed by electricity production and distribution (US$3.9 billion, or 25.2 percent), wholesale and retail (US$1.1 billion), and real estate (nearly US$850 million). The largest investors were Singapore (US$5.4 billion, equivalent to 34.7 percent of the total), Thailand (US$1.6 billion, 10.1 percent), and China (US$1.6 billion, 10.1 percent).

Recent trends in Vietnam's external sector

Figure 7. The level of international reserves increased up to end-March 2010…

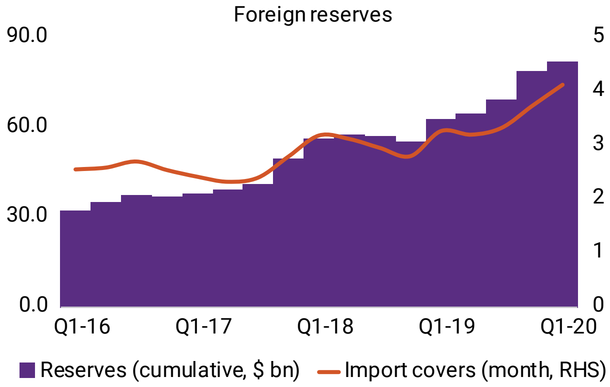


Figure 8. …while the exchange has remained stable in recent months (Dong per US$)

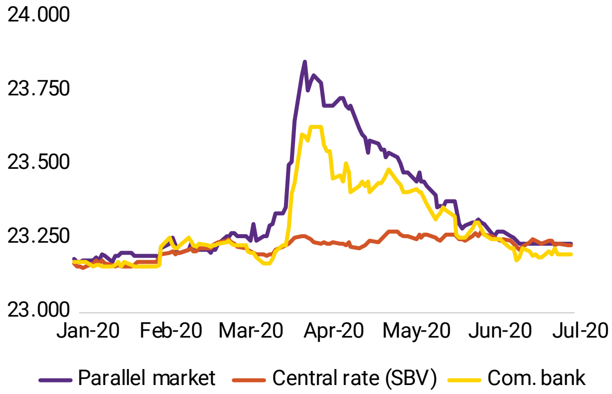


Figure 9. Most export categories declined except for computers and rice (%, y/y)

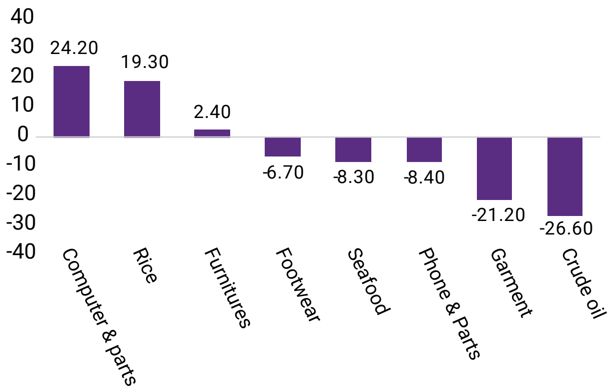


Figure 10. …while foreign demand weakened, with the exception of China and the U.S. (%, y/y)

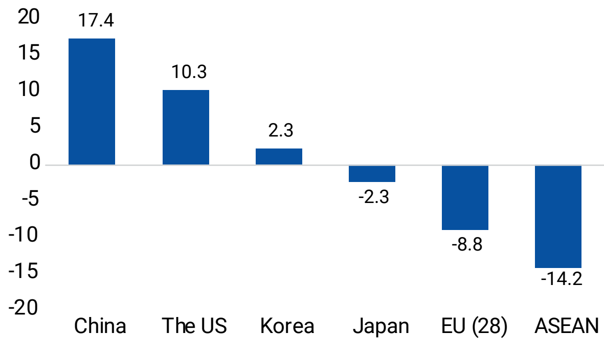


Figure 11. Imports contracted (%, y/y)

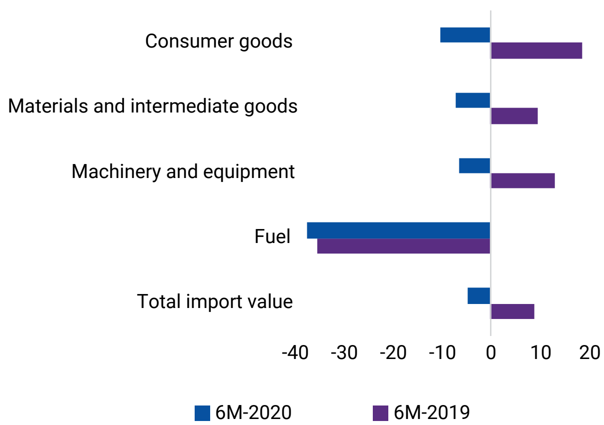
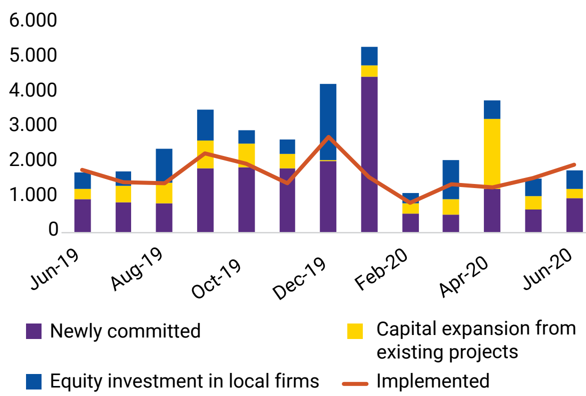


Figure 12. FDI inflows (U.S. million, commitment)

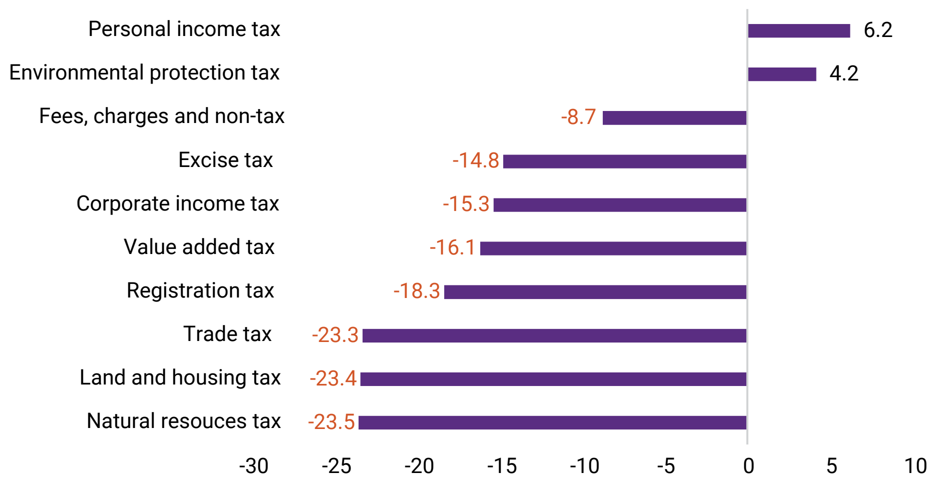


Source: GSO, SBV, and Vietnam Customs office.

After three years of fiscal consolidation that helped to build significant buffers, the government has been able to cope with the COVID-19 shock. The prudent fiscal policy followed by the authorities in the past few years has created some fiscal space and led to the accumulation of substantial cash reserves of about US$8 billion at the end of 2019. As a result, the government had no pressing need to borrow from either the domestic or international markets in recent months, in sharp contrast to what has been observed in most countries in the world. In the first six months of 2020, the Ministry of Finance issued 96.1 trillion dong (about US$4.3 billion) of T-bonds with an average maturity of 14.1 years and an average annual coupon rate of 3 percent, which is approximately 14 percent lower than in 2019. The government has not borrowed on the international market or requested budget support from its traditional partners.

However, the negative fiscal impact associated to the COVID-19 crisis should increase in the next few months due to the combination of two trends. First, on the revenue side, the decline in tax collection was generalized to almost all taxes and accelerated in the second quarter, when the government collected only 76 percent of the amount recorded during the same period a year ago (figures 6 and 13). Such decline was explained by the slowdown in economic activity and the implementation of tax deferral measures that are expected to continue to the end of the year. The reported increase in the personal income tax was concentrated in the first quarter, when the authorities collected the tax returns from 2019, which was a very good year for many individuals. Furthermore, in its effort to alleviate the financial burden on the private sector, the government has further reduced the corporate income tax for small and medium-sized enterprises, which may cost the budget an additional US$1 billion in the remainder of 2020.

Figure 13. Fall in almost all tax revenue, during the first semester (%, y/y)



Source: MOF.

Second, on the spending side, total expenditure rose by an estimated 9.5 percent between the first six months of 2019 and 2020. This increase is the combination of COVID-19-related expenses and the greater effort to accelerate the disbursement of the public investment program.[8] Such effort, which has already led to a 19 percent increase in disbursed investment between the first six months of 2019 and 2020, is expected to be strengthened in the coming months. It will be only partly compensated by savings on travel and other recurrent expenditures.

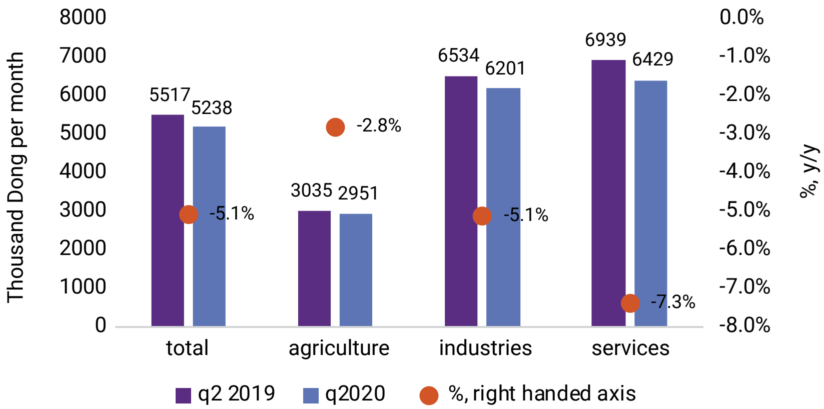
8 COVID-19-related spending was estimated to amount to 15.3 trillion dong of which 4.1 trillion dong was spent on pandemic protection and prevention (testing, quarantine, devices, and equipment) and 11.3 trillion dong disbursed to support vulnerable people, households, workers, and firm (about 18 percent of the 62.1 trillion dong package of Resolution 42).

Who have been the most economically affected by the COVID-19 crisis?

Beyond the macroeconomic impact of COVID-19, the pandemic has affected many businesses and people in Vietnam. If almost everyone has been affected at one point in time, it seems that the negative effects have been generally temporary due to the rebound of the domestic economy since the end of April. Most family businesses – which account for the vast majority of firms operating in Vietnam – lost money during the lockdown but were able to recover quickly because of their accumulate savings, operating flexibility and resilience. However, the impact of COVID-19 on businesses and workers varies greatly across sectors and locations.

Because it is relatively difficult to assess the magnitude of such impacts with precision and in real time, four complementary sources of information have been used in this report. The first source is the Ministry of Labor, Invalids and Social Affairs (MOLISA), which has communicated that approximately 8 million Vietnamese workers have lost their jobs at one point in time in the last few months, while another 17 million had to cut their working hours or income. The urban unemployment rate also jumped by 33 percent, reaching almost 4.5 percent at the end of the second quarter, and the number of businesses closures reached almost 30,000 between January and June, which is one-third higher than recorded a year ago.[9] Concurrently, the Government estimates that the average monthly revenue by worker declined by about 5 percent between the second quarter of 2019 and the same period in 2020, with a proportionally bigger impact on services (-7.3 percent) and industries (-5.1 percent) than on agriculture (-2.9 percent) (figure 14). The magnitude of the decline appears to be linked negatively to the worker's level of education and has been bigger for employers and informal workers than for wage employees.[10] While these figures are relatively low by international standards, they are highly unusual for an economy that has been used to full employment over the past 25 years.[11]

Figure 14: Average monthly income per person fell in the second quarter of 2020



Source: GSO.

The second source is the recent household survey conducted by the World Bank in partnership with the Government Statistical Office during the second half of June. The main results are summarized in box 1. They indicate that approximately three-quarters of households have reported an income loss at one time

9 In addition to unemployment, it is estimated that approximately that 1.2 million persons have abandoned the job market, with a higher proportion of women, in comparison to the second quarter of 2019.

10 For fuller details, https://www.gso.gov.vn/default_en.aspx?tabid=768&ItemID=19678

11 As a comparison, the percentage of workers expected to be laid off in Europe can be as high as 30 percent during social distancing, which is about twice as high as in Vietman (see Bircan, Koczan, and Plekhanov 2020).

since February, mainly caused by a job loss (25 percent) and a reduction in earnings from wages or family business (37 percent) (see figure 15). An interesting finding is that family businesses, while more affected than wage workers, have been quick to recover in the last two months. They have been both resilient and flexible because they have limited fixed costs as most of them do not pay rent and use only family members as employees. Once the social distancing restrictions were lifted, they were able to restart their activities almost immediately. These businesses account for over 90 percent of enterprises operating in Vietnam today.[12]

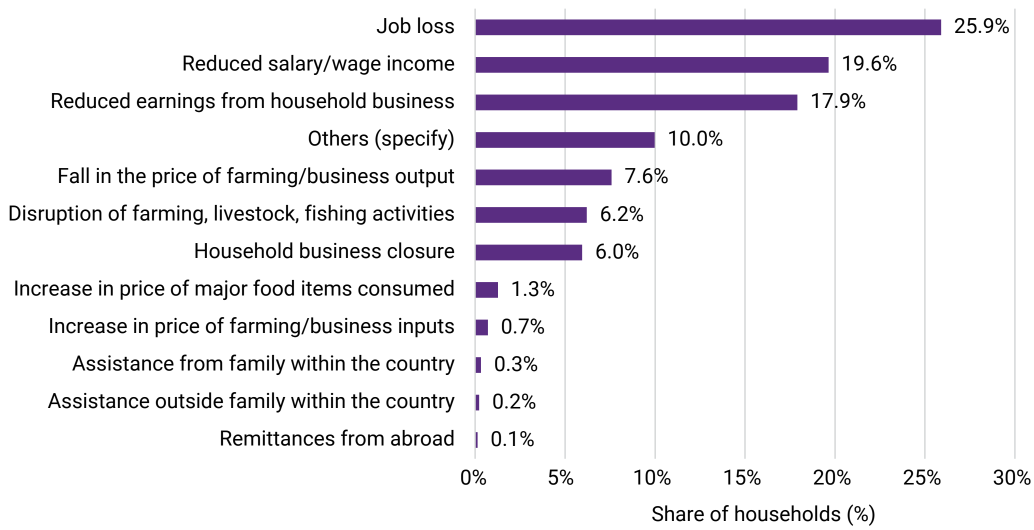
Box 1. The pulse of the COVID-19 crisis as indicated by households in Vietnam

1. While most households have been affected by the COVID crisis, the negative impact has been decreasing over time
    - About 75% of households experienced a reduction in income at one point in time since February
    - Only 17% of respondents were affected negatively by a shock over the past month.
2. Higher income loss for family businesses than for wage workers
    - About 32% of family businesses have reported lower income in June compared to February
    - Only 13% of heads of households who are wage earners had a lower income in June than in February.
3. But this impact is likely to be temporary
    - Only 2.3% of heads of households who worked in February were not working in June
    - Among those still employed in wage jobs, 92% were working normally and with full normal payment by June
    - Only 4.3% of family businesses had closed temporarily or permanently.
4. Business as usual for most farms
    - 90% of households in farming activities were able to operate normally by June
    - Approximately 60% of farms were able to increase the value of their sales of rice in recent months.
5. Little change in jobs and health services capital but remaining concerns on food security
    - Only 6% of heads of households who are working now had a different job in February
    - Less than 5% who visited a hospital in the last 30 days could not access medical treatment that they sought
    - About 36% of households in rural areas are worried about not having enough food in the last 30 days compared to 25% of households in urban areas.
6. While most households have followed the rules of social distancing
    - Less than 25% of respondents attended gatherings of 10 people or more
    - Almost no one went to the grocery store more than once a day, and 60% went zero to 2 times a week
    - Over 70% of households that had travel plans since March cancelled them.

12 World Bank 2020b.

The third source of information is the sectoral economic data, which show that the resulting impact associated to the pandemic on firms and the labor market varies greatly across activities. Services have been the most vulnerable to social distancing measures and border closures. The tourism sector is estimated to be losing about US$1 billion per month even if the rebound in domestic tourism during May and June partially compensated those losses. The passenger transport industry has also suffered financially, with the national airline (Vietnam Airlines) reporting a loss of US$110 million in the first quarter of the year. By contrast, some subsectors – communication and health – have increased their activities since the beginning of the crisis. Several niches have also emerged, including the acceleration of e-commerce, which was already on the rise in Vietnam over the past few years.

Figure 15. Reasons for reduction in household income

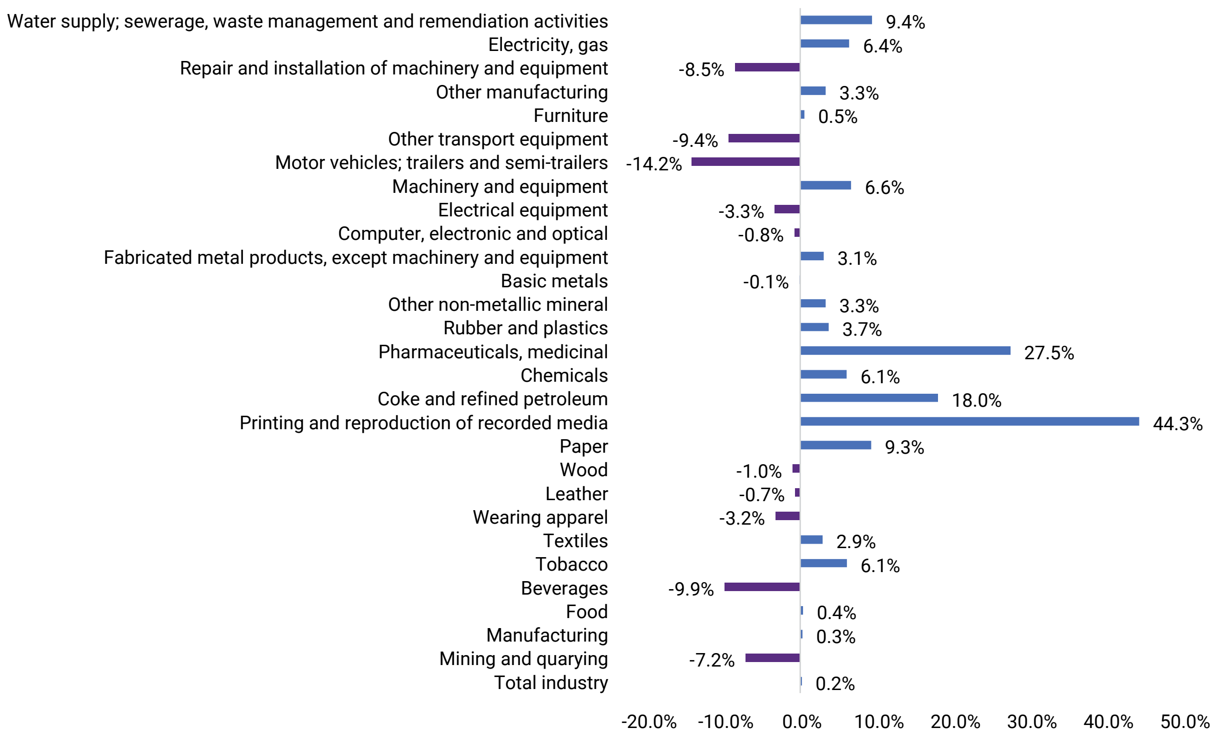


Source: Mobile Household Survey, June 2020.

Most agricultural activities have been little exposed to the COVID-19 crisis in Vietnam as reflected by the increase in the value of production during the first semester (up by almost 2 percent in the second quarter of 2020). In the survey, 90 percent of the respondents in farming activities were operating normally by mid-June. Farm activities have been less exposed to social distancing measures than non-farm activities, and there has been little disruption in cargo transport both within the country and within global markets. Furthermore, rice – the country's main crop – has seen its price rising by about 20 percent on international markets, thereby boosting the revenue of many rural households. However, fishery exports have been hit by the decline in foreign demand, down by 16 percent in May, which was followed by a subsequent contraction of US$626 million in June.

In the industry, the impact of the pandemic has varied significantly across subsectors of activity (figure 16). While this sector recorded an average growth of 0.2 percent during the first six months, the production of the automobile industry contracted by 14 percent. By contrast, the printing and recording media industry posted a 44 percent output increase. Several manufacturing exporters have started to report financial difficulties, despite the support received by the government through the easing of loans conditions and temporary tax relief (see details in next section).

Figure 16. Variation in activity of the industrial sector, first semester 2020 (y/y)



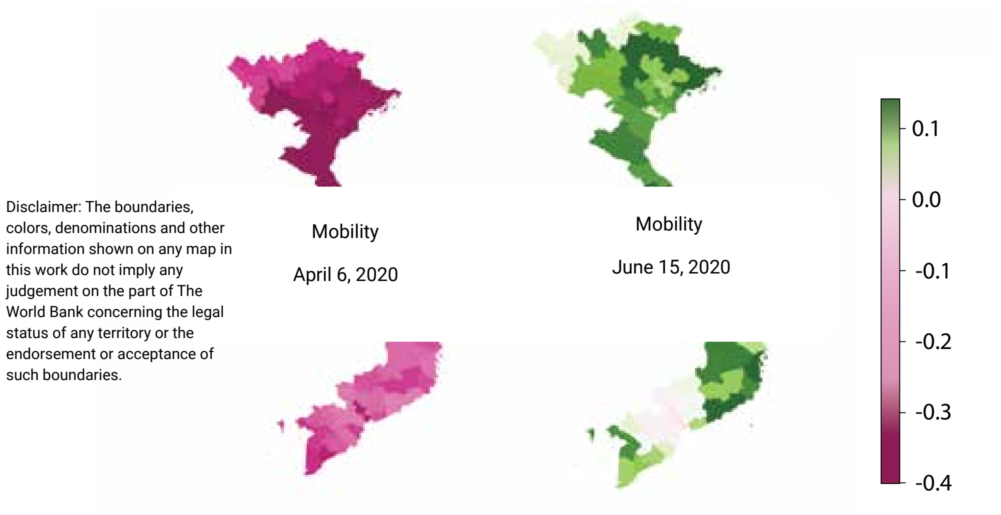
Source: Government of Vietnam.

The fourth and last source of information is human mobility big data captured by computer use. By analyzing where people have connected on social media, it is possible to detect where the social distancing and mobility restriction measures had the greatest impact on people in Vietnam. This information is useful as it allows us to differentiate the COVID-19 impact by region when traditional data such as regional national accounts are not available or only with a considerable lag. This analysis was conducted by comparing the situation in the middle of the lockdown (April 6) and the situation two months later (June 15), when most domestic restrictions had been lifted by the authorities. It appears that significant variations exist across regions as the impact associated with the lockdown was most severe in the North of the country, in Ho Chi Minh City, and some part of the Mekong Delta (the darkest red on the left side of figures 17). By contrast, the recovery was more uniform even if it was less vibrant in the Ho Chi Minh City region than in northern provinces.

What has been the government's response so far?

As in most countries, Vietnamese authorities have used monetary and fiscal tools to support most affected people and businesses. The SBV adopted a series of measures to encourage banks to extend credit to businesses, including successive cuts in its major rates (refinance, repurchase, and discount) and specific directives. However, monetary policy has limited impact in an environment where real interest rates are already very low. In Vietnam, its effectiveness is even further restricted by the small proportion of businesses and households that have access to bank credit or that even own an account in a financial institution.

Figure 17. Regional variations in people mobility (% change compared to baseline)



Source: COVID-19 Observatory.
Note: People mobility is measured by change in number of Bing tiles (600m x 600m) visited per day, relative to a baseline established around January 15. The scale is between -1 and 1.

The government on April 8 adopted a fiscal package to mitigate the COVID-19 impact on businesses and people. In line with standard practices, it relied on two main types of instruments: tax payment and social insurance deferrals, and direct financial assistance to employees and vulnerable households (see table 3 for a full description of social protection measures).[13] The overall package was ambitious as it covers most formal firms operating in Vietnam by postponing their fiscal obligations, and approximately 26 million people through a menu of cash transfer programs. Overall, the package is expected to cost about 1 percent of GDP for the remainder of the year, which is relatively low by international and regional standards but in line with the magnitude of the fiscal response observed in low- and low middle-income countries.

The implementation of the fiscal package has moved forward but at uneven speed. On the one hand, the government has been quick to introduce tax relief and to top up existing social protection programs. By the end of June, tax authorities processed nearly 150,000 tax and land-use fee relief applications extending an amount of 43 trillion dong (US$1.85 billion) in credit for firms and business households. At the end of June, the Ministry of Finance reported that approximately 18 percent of the 62.2 trillion dong social protection package had been spent, especially by toping up existing programs (the first four lines of action in table 3).

On the other hand, the government has faced the challenge of reaching out to the informal sector due to the need to identify potential beneficiaries and transfer the extra money to them when most have no bank account. Over the past few months, the government has nonetheless advanced on these two fronts. It has asked local governments to collect information on potential vulnerable groups, which is now compiled in a national database. It has also advanced its agenda to transfer money by adopting new regulations on the development of a new e-payment system, including through non-banking institutions. According to the World Bank June 2020 Mobile Household Survey, mentioned earlier, an estimated 6.5 million households received COVID-19 financial assistance from the government by mid-June, equivalent to approximately 22 million individual beneficiaries.

13 For more details on the fiscal package, see World Bank (2020b).

Table 3. List of social protection measures

		Number of beneficiaries	Level of support per beneficiary for 3 months	Cost (billion dong)
Income support to vulnerable groups				
1	Poor households	984,000	3,000,000	2,952
2	Near-poor households	1,260,000	1,500,000	1,890
3	Social assistance beneficiaries	4,315,000	1,500,000	6,473
4	Merit people, who had made contributions during revolution and wars times	1,135,000	1,500,000	1,703
5	Informal sector employees affected	5,000,000	3,000,000	15,000
6	Closed tax-registered household businesses with annual income <100 million dong	760,000	3,000,000	2,280
Support to firms for employment retaining/restoring				
7	Contracted employees who were laid off or on temporary leave without pay due to the direct impacts of the COVID-19 pandemic, and not qualified for unemployment insurance benefits	1,000,000	5,400,000	5,400
8	Deferring social insurance contribution to firms with 50% employees on temporary leave			6,500
9	Training support using unemployment insurance fund (persons)	1,000,000	3,000,000	3,000
10	Loans to firms with 0% interest for maximum of 12 months to pay for employees to maintain jobs; (50% of minimum wage X 3 months) (persons)	3,000,000	5,400,000	16,200
	Total			**61,397**
	As % of GDP			0.982

Source: MOLISA.

The Vietnamese government's response to COVID-19 has been a combination of foresight and pragmatism. This can be illustrated by the three examples described in box 2. They show that the government could rely on enough financial resources to design an adequate fiscal package and to push for reforms to mitigate the impact on exporting businesses and to enhance the development of the digital economy.

Box 2. Three examples of how the government has combined pragmatism and foresight in its COVID-19 response

1. *Fiscal management:* The government was ready to face COVID-19, as it had accumulated significant cash-flow reserves, thanks to its prudent fiscal management before the crisis. In addition, in line with its own standard fiscal rule, the country has set aside 5 percent of its 2020 budget as contingency funds to be used in case of catastrophe. As a result, the government was able to respond immediately to the crisis at both the central and local levels, without additional domestic and external borrowing. There has been no sense of panic.

2. *Trade and logistics:* The slowdown in global trade, which the World Trade Organization has projected to be in the range of 15 to 30 percent in 2020, has been a main area of concern for Vietnam. As it is one of the most open economies in the world, the authorities have reacted quickly to reduce logistical costs facing exporters and gave instructions to cut red tape, reduce fees, and streamline procedures in customs and in main transport hubs.

3. *Digital response:* While Vietnam is known for its dynamic export sector, its digital development has been lagging. In response to the COVID-19 crisis, the authorities have now embarked on a series of reforms, including the intensive use of digital tools to fight the pandemic. As mentioned, the authorities are now considering the introduction of digital money through a new e-payment system to reach the two-thirds of the population who still lack access to bank accounts, and they have accelerated their effort to become a digitalized government. Over the past few months, the use of e-administrative procedures has jumped since, as of end of June, 725 services were provided on the National Public Service Portal, which is a 90-fold increase since it debuted in December 2019, and a 4.5-fold increase since March 2020. Compared to the first quarter, the number of accounts on the portal more than doubled to over 179,600, while the number of visits also doubled to over 46.6 million, or about 7.7 million visits each month.

The government's response is justified by the statistical value of life

Attaching a price to human life will make some readers uncomfortable and might even strike some as offensive. However, the comparison between saving human lives and economic losses was at the center of the policy dilemma faced by most governments in the world when responding to the COVID-19 shock. For example, if it was worth spending several billion dollars per person to prevent deaths, many governments would run out of money in a day.

A ballpark estimate, including for Vietnam, can be provided by using the concept of the statistical value of human life, which measures how much an individual or a society is willing to pay upfront to minimize the risk of death. Measuring this value is not easy, but it has been recently estimated at around US$400,000 for Vietnam. [14] While it is equally hard to predict the number of deaths that would have occurred in the absence of any intervention, the model used by the Imperial College estimates that the crude mortality rate associated to COVID-19 in the absence of any governmental interventions is in the range of 0.04 percent.[15] Applying this number to Vietnam allows us to extrapolate that the government program has saved approximately 40,000 lives, equivalent to about US$15 billion. These gains appear higher than the economic losses that have been reported so far, at around US$6 billion (which is proxied by the difference between the current and precrisis GDP growth rate reported in the first semester).[16]

14 For fuller details, see Viscusi and Masterman (2017.)

15 See Imperial College (2020). In this study, the population at risk of being infected in the absence of any intervention is estimated on average at 4 percent, with a subsequent fatality rate of about 1 percent. This would translate into a crude mortality rate of 0.04 percent.

16 In reality, the economic losses will be less important because GDP growth was also likely to decline in the zero-intervention scenario.

This comparison, while suggestive, should be interpreted with caution, as the value for the crude mortality rate and the statistical value of life can vary significantly by country and over time. It also captures only the short-term effects associated to the pandemic and the measures adopted to contain it. It is, however, supported by two additional findings.[17] First, several empirical studies have demonstrated that a country that applies early interventions is more likely to recover and return to its longer-term growth trajectory. To put it simply, in the longer term, the trade-off between savings lives and economic costs does not exist. Second, this result is certainly corroborated by the Vietnamese people, who in the large majority have approved of the government's response to the pandemic.[18]

17 These calculations are indicative as they do not account for various indirect and dynamic effects. For fuller details, see Eichenbaum, Rebelo, and Trabandt (2020).

18 A survey conducted at the end of May found that 88 percent of Vietnamese thought the COVID-19 situation was improving, and 97 percent trusted the government's handling of the epidemic (https://www.google.com/amp/s/ampe.vnexpress.net/news/news/vietnamese-have-great-confidence-in-covid-19-recovery-survey-4103560.html).

SHORT- AND MEDIUM-TERM ECONOMIC PROSPECTS

Vietnam's short- to medium-term economic prospects will depend as much as on the speed of recovery of the local economy as on the evolution of the pandemic in the rest of the world. As discussed below, the GDP growth rate could reach 2.8 percent in 2020 and 6.7 percent in 2021 with favorable domestic and international conditions. These projections are, however, subject to great uncertainties and, most likely, will require a shift in how the government is conducting its fiscal policy so it can efficiently support the economic recovery.

In the search of new drivers to jump start the recovery

Up to the beginning of 2020, Vietnam's economic expansion was driven by the combination of foreign demand and local consumption. These two drivers accounted for over 75 percent of GDP growth during 2016–19 as captured by the rapid expansion of exports and private consumption.[19] Looking ahead, these two drivers are unlikely to immediately bounce back to their precrisis level. Foreign demand should remain weak as many countries in the world remain affected by the COVID-19 pandemic, contributing to the slower expansion of merchandise exports and tourism activities. Concurrently, the domestic rebound immediately observed after the removal of most social distancing measures is expected to be short-lived. The majority of local businesses and households may adopt prudent investment and consumption plans. Such risk-averse behavior must be expected in the context of the remaining uncertainties in both the global and domestic contexts.

Because the return to the pre-COVID-19 growth trajectory might take some time, the government should do all it can today to stimulate the economy in the next few months without endangering the country's fiscal and debt sustainability in the longer term. Such advice is not unique to Vietnam as it has been recommended by several prominent economists worldwide, including by former International Monetary Fund Chief Economist Oliver Blanchard, who recently stated that "as lockdowns are lifted, governments must shift policies toward supporting the recovery and design measures that will limit the pain of adjustment while preserving productive jobs and firms."[20]

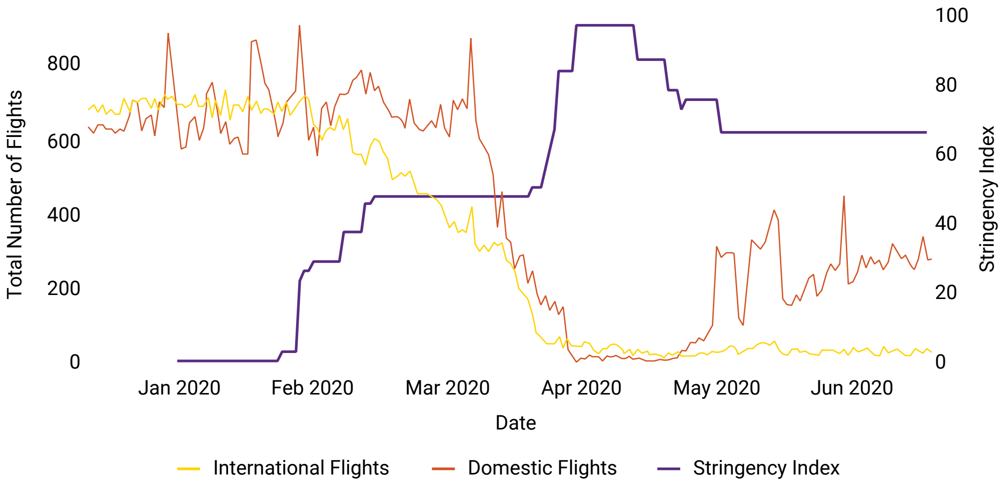
Within this vision, policy makers in Vietnam should consider three lines of action. The first one should be to continue the gradual easing of social distancing and mobility restriction measures. The stringency index (measuring the severity of the above measures) has decreased in Vietnam and translated into the

19 For more details, see World Bank (2020a).

20 Blanchard, Philippon, and Pisani-Ferry 2020.

recent surge in domestic flights (see figure 18). The next challenge is to gradually reopen the country to international visitors while finding the best solution to the health and economic needs. Opening the borders will help boost the tourism sector, which accounts for almost 10 percent of Vietnam's GDP, and allows business visitors to come when the country aims at attracting further FDI. The government may consider actively seeking agreements with countries that are "safe" for mutually agreed travel arrangements and/or consider a plan to allow and attract high-end tourists who can afford expensive commercial/chartered flights, and all expenses relating to preventive health measures and/or quarantine after entering Vietnam.[21]

Figure 18. Recent trends in international and domestic flights and policy stringency index for Vietnam



Source: COVID-19 Observatory.

The second line of action should focus on fiscal policy, which is the conventional instrument for stimulating economic recovery in the immediate future. For Vietnam, such a policy would not necessarily mean to spend more, but rather to accelerate the execution of the already approved investment budget. To illustrate, if the government was able to increase the execution rate of the approved budget in 2020 from 65 to 75 percent, the ratio of public investment over GDP would rise by 1.5 percentage points of GDP, directly injecting around US$4 billion into the local economy.[22] This would nonetheless require specific actions from the government to improve the management of the public investment program.

As detailed in a recent World Bank policy note, there are a number of actions that the authorities can undertake to improve the efficiency of public investment, including in the short term.[23] They can accelerate the transfers from the capital investment budget to line ministries and provinces, which suffer from significant delays. This could also be achieved by (i) setting targets and holding respective leaders accountable; (ii) quickly reviewing all portfolios at all levels to find fast-disbursing projects, then providing incentives for them to disburse further; and (iii) giving due attention to large infrastructure projects by resolving land clearance/settlement and procurement including through the provision of advance funds for preparation of procurement and safeguard plans. Special attention should be placed on Official Development Assistance disbursements, which have been stubbornly slow in recent years. Equally important would be to encourage

21 The authorities could refer to a dashboard of three big data that could help them monitor the situation in almost real time and select the optimal set of countries, with a focus on those that are also relatively COVID-19 safe. For more detail, see Kaiser, Krishnan, and Morisset (2020).

22 The acceleration of the execution of the investment program applies not only to the current budget but also to the backlog of projects that have accumulated in recent years. Although these unspent funds are all earmarked to specific investments, they are also fungible and could be used to substitute new borrowings by the government.

23 See World Bank 2020c.

the extension of public works programs at the decentralized levels, which would not only stimulate the local demand but also provide jobs to vulnerable groups in targeted sectors and locations.

The third line of action should support the rebound of the private sector, but the authorities should, be selective and not provide additional resources to all businesses. As reported earlier, not all businesses have been evenly affected by the COVID-19 crisis. Some were little exposed to social distancing measures, such as those operating in rural areas. Many were able to rebound relatively quickly since the end of April when the government removed most of the restrictions on domestic mobility. This is especially true for small and informal businesses that had the flexibility to reopen their doors and so respond to the increase in local demand; retail sales surged by 10 percent in May and June. Others, mostly large formal enterprises, already benefit from flexible loans provided by banks and from the tax relief measures implemented as part of the fiscal package adopted in early April. The government should therefore devote greater attention to whom it should provide financial assistance; otherwise, there is a risk of wasting scarce public resources and sending the wrong signals to the markets.

After identifying the businesses that are facing prolonged difficulties due to the COVID-19 crisis, the government should consider helping those that are expected to remain viable and to rebound quickly. The rationale for public intervention is to keep them in position to contribute to the economic recovery by making sure they have enough human and financial resources to respond to the increase in domestic demand. To avoid persistent negative effects on economies and workers, it is critical that viable firms do not exit and that financial institutions continue to provide access to credit and working capital for businesses in a sustainable manner.[24] In Vietnam, the government must think how to best support businesses in at least the two following sectors:

- ***Tourism sector:*** The tourism sector contributed to 7.9 percent of GDP and directly employed 750,000 workers in 2017. The ban on foreign tourists (up to 18 million in 2019) and the March-April restrictions on passenger domestic transports have greatly impacted this sector. While the easing of domestic restrictions led to the partial rebound of domestic tourism in May and June, it has not compensated for all the losses faced by this sector. Today, many of the firms operating in this sector are still in financial disarray.
- ***Manufacturing exporting sector:*** While this sector has on average rebounded over the past two months, exporting industries are vulnerable to the weak foreign demand. In fact, with the exception of computers and parts, all categories have contracted over the past six months, with this negative trend accelerating over time. [25]

Governments have a variety of tools to support firms. They can use fiscal solutions such as temporary tax breaks and deferrals, grants and fee reductions, and eligible direct cash transfers to small and medium-sized enterprises (SMEs) with a good credit history and ability to pay back; one-time grants to sizable informal businesses that decide to formalize; a special relief facility in working capital loans for SMEs with an annual capped interest rate for a limited period; tourism solidarity funds that promote specific destinations by the tourism board; travel discount vouchers in coordination with airlines, resorts, and hotels; and income tax relief to individuals for expenses incurred for domestic tourism. Vietnam has already been moving on this front, notably through a series of measures taken by the Ministry of Finance and the State Bank of Vietnam

24 The elimination of jobs in a pandemic is inefficient because of the interaction of these two ingredients. For fuller details, see Cespedes, Chang, and Velasco (2020).

25 For example, Taiwanese footwear maker (Pouyuen Vietnam), the largest employer in Ho Chi Minh City, let 2,786 workers go as the COVID-19 pandemic hit new orders. Another city company, Hue Phuong Footwear, cut its labor force of 4,600 by half. Woodworth Wooden Industries Vietnam also laid off 2,000 workers.

to ease the liquidity crunch and credit conditions and by the fiscal packages announced by the government in early April. Arguably, however, more needs to be done.

In helping the private sector, the government should also encourage the reallocation of resources away from businesses that are not expected to rebound quickly toward more profitable activities. As in Singapore, taxi drivers could be incentivized to convert to delivering merchandise or online orders, the volume of which has grown dramatically during the pandemic. Similarly, the development of secure digital platforms can be encouraged so that telemedicine can develop, and brick-and-mortar shops can open their business online. On the external front, the government can help businesses that want to move their activities toward markets that are expected to open faster, creating new synergies and opportunities. Vietnam should consider "corona-free trials" for the resumption of travel and tourism with countries such as the Republic of Korea, Australia, and New Zealand.

Baseline scenario for 2020–22

Building on these three lines of policy actions, Vietnam could rebound relatively quickly to the pre-COVID-19 level. The baseline scenario – without a big second wave of coronavirus infections in Vietnam and gradual control of the pandemic globally – projects that GDP growth will reach 2.8 percent in 2020 (table 4). Such rate assumes that the economy will rebound by 3.5 percent in the second semester after recording only 1.8 percent during the first six months. This rebound, will be driven by the combination of domestic private and public demand, thanks to the countercyclical fiscal policy followed by the government that is expected to accelerate in the next few months. While the projected rate of 2.8 percent will be the lowest achieved by Vietnam over the past 35 years, it will ensure that Vietnam remains one the fastest-growing economies in the world – ranked fifth according to the *Global Economic Prospects* latest projections, behind a small group of African countries. During 2021–22, the Vietnamese economy is expected to return gradually to its historical GDP expansion of approximately 6 to 7 percent per year, as foreign demand should pick up in the main industrial countries. Over the next few years, Vietnam is expected to continue to benefit from trade and investment diversions thanks to its adhesion to various global and regional agreements, including the EU-Vietnam Free Trade Agreement (EVFTA) in June 2020.

Most financial variables will remain under control in 2020, especially the inflation rate, which is expected to remain under 4 percent during 2020–22. The SBV should adjust monetary expansion to the expected growth rate of the economy to contain potential pressure on domestic prices over time. Food and energy prices – two important items in the Consumer Price Index – should not see large increases in the absence of disruption in their supply chains or deterioration in climatic conditions.

On the external front, the current account balance should deteriorate temporarily due to lower receipts from tourism and remittances in 2020. Vietnam's export growth should decline significantly but should be accompanied by a similar (or even faster) reduction in imports as both variables are closely correlated in Vietnam. The level of FDI inflows is projected to drop in 2020 given the uncertainties in the world economy, but should return to recent levels afterward, partly reflecting the growing interest of foreign investors in the domestic market and their willingness to diversify their activities away from China.

Table 4. Selected economic indicators, Vietnam, 2017–22

	2017	2018	2019e	2020f	2021f	2022f
GDP growth (%)	6.8	7.1	7.0	2.8	6.8	6.5
Consumer Price Index (average, %)	3.5	3.5	2.0	3.9	3.7	3.6
Current account balance (% of GDP)	-0.7	2.3	8.9	0.1	1.0	1.2
Fiscal balance (% of GDP)	-4.7	-4.4	-4.0	-6.0	-4.8	-4.0
Public debt (% GDP)	58.2	55.7	54.1	56.1	55.4	54.1

Source: GSO, IMF, MOF, SBV, and World Bank.

The fiscal deficit should temporarily worsen due to the slowdown of the economy and the government's policy response to the COVID-19 crisis. It should reach approximately 6 percent of GDP in 2020 before returning to 4 to 5 percent levels in subsequent years, when the authorities will be able to return to their commitment of prudent and sustainable fiscal policy. The deterioration should be temporary, as revenue should pick up again when the economy gradually rebounds in the next few years. Stimulus spending should also decline gradually as the result of the expected economic recovery in 2021 and 2022.

In line with the expected short-term deterioration in the public deficit, public debt should increase from 54.1 to 56.1 percent of GDP between 2019 and 2020. This increase will be relatively limited because the government should be able to rely on its accumulated reserves to compensate for declining revenues and to finance additional spending. Subsequently, the government should return to its fiscal consolidation effort that will return the public debt-to-GDP ratio to the range of 55 percent during 2021–22. As in recent years, the government should rely on a combination of domestic and external borrowing to manage the risks associated to both the exchange rate and interest rate.

Managing risks

However, the baseline scenario is subject to several exogenous and endogenous risks. The Vietnamese economy – due to its high degree of openness to the world – is highly sensitive to global events. To reflect this uncertainty, a downside scenario was created in which the global recovery will be slower than assumed above. In that scenario, GDP growth in Vietnam is projected to reach only 1.5 percent in 2020. Of course, the projected rate is highly sensitive to assumptions so should be viewed as an illustration of Vietnam's exposure to the global economy. In the downside scenario, the deterioration of the balance of payments will also be larger as the decline in (net) exports and in capital inflows will be bigger than in the baseline scenario.

There are also several endogenous risks that will require close monitoring by the authorities. COVID-19 is still around, as demonstrated by the resurgence of cases in Australia, China, and Germany, countries that have been quite effective in fighting the first wave of the pandemic. Additional risks are to a large extent linked to the policies that the government will follow in the near future. First, while a smart and countercyclical fiscal policy is needed, it will have to be conducted with caution. The government can finance a temporary increase in the fiscal deficit, as discussed earlier, but should do it within the fiscal space to maintain fiscal and debt sustainability over time. In case of slower-than-expected recovery, policy makers could be tempted to spend too fast, especially in the months preceding the next Party Congress scheduled in early 2021, endangering fiscal and debt sustainability in the longer term.

Second, the monetary policy followed by the SBV can lead to unintended effects in the medium term. According to the theory of money velocity, the quantity of money and the level of prices are correlated over a long period of time. If the SBV were to continue its accommodative monetary policy in the future, this could lead to a significant increase in prices. However, in the short term, the impact on inflation should be limited due to the decline in the velocity of transactions at times of crises.[26] Another effect of the easing of lending conditions is that some banks may see a deterioration of their results, through an increase in the share of delinquent loans in their portfolios. Real-time data are hard to obtain, but recent estimates indicate that the asset quality of several banks has been threatened amid diminishing corporate earnings over the past few months. By mid-2020, a quarter of the national loan book had been reportedly impacted by COVID-19, and some potentially became nonperforming loans. While the systemic risk of a financial crisis appears relatively small, several banks may be vulnerable, especially those exposed to sector-distressed loans, lower earnings, and insufficient capital.

26 For details, see Anderson, Bordo, and Duca (2017).

MAIN OPPORTUNITIES – NO-REGRET POLICIES FOR VIETNAM[27]

By being ahead of the curve in the fight against COVID-19, and building on its natural as well as comparative advantages, Vietnam can not only consolidate its recovery but also boost its longer-term agenda of structural reforms. 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.

One area of predicted changes is trade globalization. Even before the pandemic, the balance was tilting toward protectionism, and COVID-19 has certainly strengthened this sentiment by causing the worst contraction in global trade in the postwar era. On the face of it, all current vulnerabilities seem rooted in globalization: disease transmission and economic interdependence transcend boundaries. The reemergence of protectionism might therefore change the way multinationals and governments do business in the years ahead by reshaping global value chains. Many governments have become concerned about shortages of essential products from offshore sources. However, the impact of the pandemic on globalization might not be as straightforward as suggested by the above call for further protectionism. It might be counterbalanced by technology that will continue to shrink physical distances and favor the delocalization of production. Furthermore, ensuring domestic capacity to produce what is needed can be prohibitively expensive, at least in the short term. Therefore, the appropriate response for many firms could be to increase the geographic diversity of their suppliers and to join with trustworthy partners, in the expectation that whatever is produced in the larger bloc will always be accessible to all members. This emerging trend may offer a unique opportunity for Vietnam.

The second area of expected change is in the development of contact-free services and e-commerce. Today, even more than before COVID-19, 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. While e-commerce was already meaningfully and visibly eating into the sales of brick-and-mortar stores, it has accelerated sharply in recent months, worldwide and in Vietnam. Social distancing and school closures have also encouraged the move toward e-learning whereby teaching is undertaken remotely and on digital platforms.[28] The figures for telemedicine and virtual health are just as striking. With this sudden shift away from classrooms

27 This section draws on World Bank (2020d).

28 Even before COVID-19, there was already high growth and adoption of education technology, with global investments reaching US$18.66 billion in 2019 and the overall market for online education projected to reach US$350 billion by 2025.

and doctors' offices, the adoption of online learning and telemedicine will certainly continue to persist in the post-pandemic era. The pandemic has forced organizations into perhaps the most significant social experiment on the future of work by pushing home-based work to unexpected and unprecedented levels. The impact of such a shift might be far more profound than just changing where people work as it is also fundamentally altering what work is performed and how we perform it.

The last area of change is about the importance and value of human life. 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 decision processes. With the COVID-19 crisis, humans have demonstrated their capacity to respond when faced with a common enemy, be it a novel virus or the well-established physics of climate change.

The above ongoing transformation of the global economy provides the opportunity for Vietnam to take important policy actions and move more quickly toward its goal of becoming a high-income economy. To identify these "no-regret" policy actions, the authorities can explore how the three megatrends could be integrated into the government's main priorities. 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 health care, quality postsecondary education, and better housing. Using this framework, a set of opportunities is presented in table 5.

Table 5. Summary of no-regret opportunities

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

Vietnam can exploit the emerging global megatrends 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 megatrends 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 into 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 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, five selected focus areas of these identified opportunities have been analyzed in greater detail by the World Bank.[29] The main findings are the following:

1. **Tapping into the new global trading system:** Vietnam can consolidate its existing footprint in the global economy by developing strategic alliances with other COVID-19 safe countries to boost its 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 largely cash-based transactions 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 securing a more evolved role for third-party payment service providers to interact with payment systems and achieve broader efficiencies in trading goods and services.
3. **Promoting telemedicine** (and other contact-free services in education). 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 broad regulations on digital data sharing and open data should be followed by the rapid adjustments of sector-specific regulations and practices. The objective should be to generate more efficient and more responsible behaviors in health, land, environment and natural resources, trade, and 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 the environment but also promote energy security and financial viability. Implementing demand moderation and supply diversification, and promoting low-carbon investments, should be prioritized.

These five opportunities 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.

29 See World Bank 2020d.

WHAT WILL BE THE NEW NORMAL FOR VIETNAM?

A few weeks ago, the *Financial Times* wrote that, "even as countries tentatively start to emerge from the Covid-19 lockdown, life will not spring back to how it was pre-crisis until there is a vaccine. Organizations and individuals must adapt to another 'new normal.'"[30] For Vietnam, this new normal may come a little bit earlier than for other countries as it is moving more quickly out of the crisis after controlling the pandemic. While the future remains hard to predict, businesses and people are likely to remain partially restricted in their movements, especially across borders. The foreign demand for Vietnamese products, including tourism services, should hardly return to its precrisis level given the remaining uncertainties. The fear of a resurgence of the pandemic will also certainly affect domestic demand as many private operators will postpone their investment and consumption plans so they can keep their savings to absorb a future shock. In this new equilibrium, where Vietnam's two traditional engines of growth are unlikely to run at full speed, the state will have to become the new catalyst for growth and give further attention to the possible emergence of new inequalities.

The state should make a deliberate effort to support the recovery of the economy. This means, first and above all, to spend better and, perhaps, temporarily, using the fiscal space built over the past three years. The authorities should accelerate the execution of their investment program by not only removing the main administrative bottlenecks surrounding several large projects but also by stimulating public works at the local level. The government should also provide smart assistance to the private sector, especially for businesses operating in distressed sectors such as transport and tourism. The state should also accelerate the implementation of its reform agenda as the emergence of megatrends in the global economy offers a unique opportunity for Vietnam to move more quickly toward its goal to become a high-income economy. The country can increase its footprint in the global economy and enhance the provision of better-quality services through digitalization and contact-free delivery. The shift in the use of information can also generate much-needed changes in individual and collective behavior toward the more careful management of the country's natural resources and beauty for future generations.

In the new normal, close attention should be given by the government to rising inequalities. Indeed, COVID-19 has not been fair as its impact has been significantly different on businesses and people, creating and reinforcing existing inequalities. The results from recent surveys and sectoral data reveal that some sectors have recovered faster than others from the crisis, with essential and outdoor work such as farming and construction coming back first, while many hotels and tourism resorts are still working at

30 https://www.ft.com/content/e90fa942-809f-11ea-82f6-150830b3b99a.

a low capacity. In the job market, many white-collar employees whose jobs can done at home have been paid, while others have lost all their savings. These differentiated impacts will not only influence the short term but also shape the future of the country's labor market and the way firms operate. Over the past few decades, Vietnam has done a great job reducing extreme poverty by creating millions of productive jobs, mainly in manufacturing, and in sharing the fruits of its rapid growth. Looking ahead, these gains will need to be preserved by adapting the labor force skills to the new demands from firms. The state may also rethink its social protection policy, notably by reforming the existing tax system, so it can help secure jobs and income to the most vulnerable groups and manage the emergence of future inequalities. These reforms should be at the center of Vietnam's policy agenda so that Vietnam continues to be one of the most dynamic and inclusive economies in the world.

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