

Research Article

VIETNAM'S ECONOMY IN THE CONTEXT OF THE COVID-19 PANDEMIC: STATUS, POLICY RESPONSES AND PROSPECTS

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Received 05th November 2021; Accepted 07th December 2021; Published online 21th January 2022

ABSTRACT

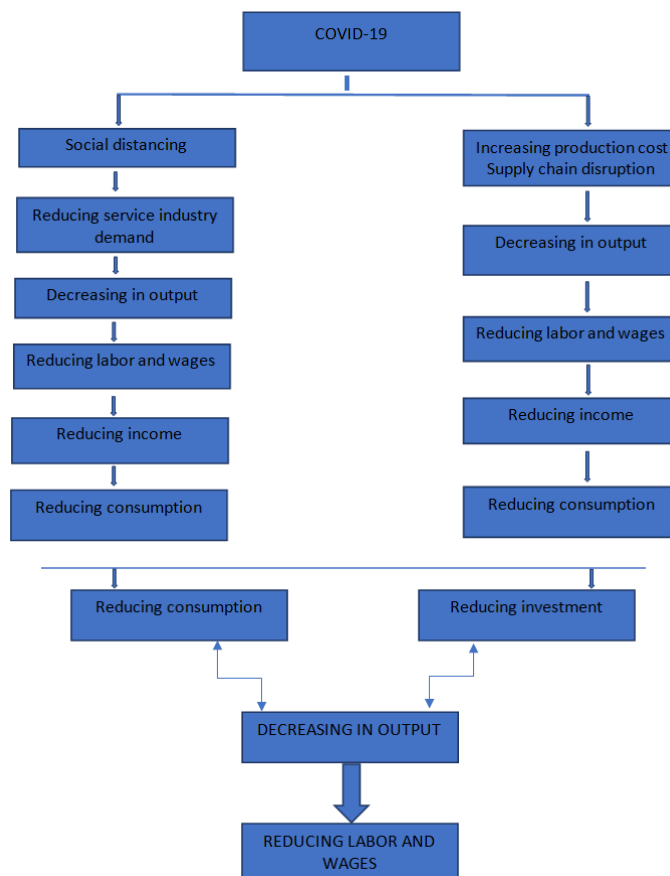
Since the Covid-19 pandemic broke out in early 2020, Vietnam has experienced four waves of disease. The ongoing fourth wave is the most serious and is being focused on by the Government, ministries, branches, and localities to stamp out the epidemic. Never since Doi Moi, Vietnam's economy has suffered such a strong shock. Most industries, regions, businesses, people and employees are negatively affected. The Government has implemented many solutions since 2020 to support economic actors (households, businesses, workers) to overcome difficulties caused by the pandemic. The initial policies have obtained favourable results and in the coming time, the economy's outlook depends significantly on the epidemic control efforts of the Government and ministries, branches, and localities.

Keywords: Covid-19 pandemic, impact on the economy, policy response.

THE STATUS AND IMPACT OF COVID-19 ON THE ECONOMY

Since the first Covid-19 virus infection was detected in Vietnam in January 2020, Vietnam has experienced four waves of the disease. The first wave of epidemics fell at the end of March 2020. Responding to this wave, on March 31, 2020, the Prime Minister issued Directive No. 16/CT-TTg on urgent measures to prevent and control the Covid-19 epidemic by implementing social isolation during 15 days from 00:00 on April 1, 2020, nationwide. With the measure of social isolation, the first wave of the epidemic was eliminated quickly. Therefore, on May 19, 2020, the Prime Minister announced that "Vietnam has entered a 'new normal state'" (Duc Tuan, 2020). However, the disease broke out again in July 2020, starting in Da Nang. During this Covid-19 epidemic, social distancing measures are no longer nationwide but more focused. It means that in any locality or area with the potential risk of disease outbreak and spread, that locality or area is more strictly controlled, while other localities and regions still usually operate. After the second wave of the Covid-19 epidemic ended, it seemed that Vietnam had completely extinguished the pandemic shock. However, in February 2021, the wave of Covid-19 broke out again, starting in Hai Duong (Quoc Vinh and Tran Nguyen, 2021). During this epidemic, the SARS-CoV-2 virus began to strongly attack industrial parks, directly affecting the Government's dual goals of fighting the epidemic and developing the economy. By the beginning of August 2021, southern provinces/cities were forced to implement social distancing under Directive 16, and many other provinces/cities also had to implement Directives 15, 16, or higher measures. This wave of epidemics is complicated, breaking out strongly in the southern provinces and cities and Hanoi, significantly affecting the dual goals set by the Government. When we compare the number of infections of the first three waves with the number of infections of the fourth wave, it can be seen that the fourth wave has a high level of danger. The economy returns to a 'new normal state'

quickly or slowly, economic growth is restored quickly or slowly, and the economic loss is more or less dependent on the ability to control this epidemic. With the four waves of Covid-19, the economy and each region have been affected differently. The Covid-19 pandemic affects the economy through two main channels (shown in Figure 1).

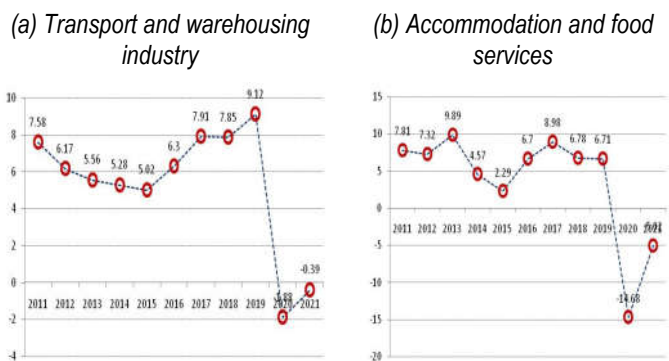


Source: Authors

Figure 1. The channel to transmit the impact of Covid-19 on the economy

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Firstly, the spread of the Covid-19 epidemic forced the Government to implement social distancing measures such as restricting foreigners entering the country, limiting or banning mass gatherings, etc. These measures will reduce the number of tourists, especially foreign visitors (ie, reduce demand in the tourism industry), thereby reducing the revenue of businesses in the industry, forcing businesses to lay off, reduce the number of employees and reduce the wages of workers in the tourism industry (and related industries). When workers' income decreases, consumption of goods and services will decrease. The tourism industry and "subsequent" industries such as transportation, restaurants, and hotels are mainly affected by this impact transmission channel. The sharp drop in the number of international tourists and tourism industry revenue due to social distancing measures seems to be evident (Hung Dat, 2021). Graph 1 shows the evolution of output growth in transportation, warehousing, and accommodation, and food services (industries closely related to the tourism industry). Graph 1 shows that these two industries' growth decreased sharply (negative growth) in 2020 and recovered in the first 6 months of 2021. Volume growth in the transportation and warehousing industry decreased from 9.12% in 2019 to -1.88% in 2020; Output growth in the accommodation and foodservice industry decreased from 6.71% in 2019 to -14.68% in 2020. However, the resurgence of the Covid-19 pandemic could have a big impact on the growth of these two industries in the third quarter and even the fourth quarter of 2021.

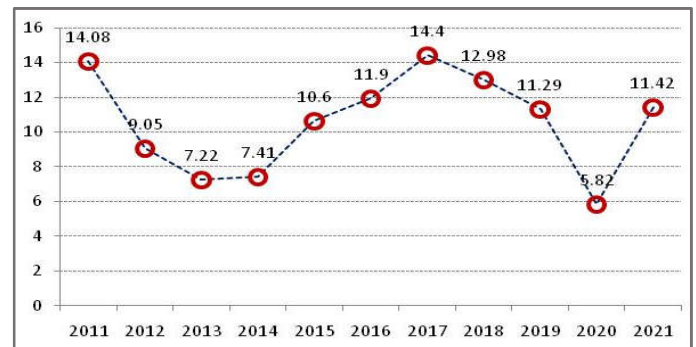


Note: The figures for 2021 are only updated to the growth of the first 6 months of 2021 compared to last year's same period.

Source: General Statistics Office of Vietnam

Figure 2. Growth of output in the period 2011–2021 (%)

Second, the Covid-19 pandemic increases the production costs of enterprises (VCCI and WBG, 2020). Enterprises are forced to equip workers with medical equipment to prevent disease. Along with that, supply chain disruptions also increase production costs (for example, businesses have to find alternative input materials) and reduce output (For example, most of Vietnam's automobile manufacturing/assembling enterprises had to announce the suspension of production during the first Covid-19 wave) (Công Trung, 2020). The decrease in production output forces businesses to cut labor and wages; it leads to a decrease in workers' incomes and a decrease in consumption. Graph 2 shows the evolution of output growth in the processing and manufacturing industry (The industry accounts for the most significant proportion of the total output of the industrial sector). Output growth in the processing and manufacturing industry decreased from 11.29% in 2019 to 5.82% in 2020 under the impact of the Covid-19 pandemic. However, in the first 6 months of 2021, output in the industry had a clear recovery, reaching 11.42%.

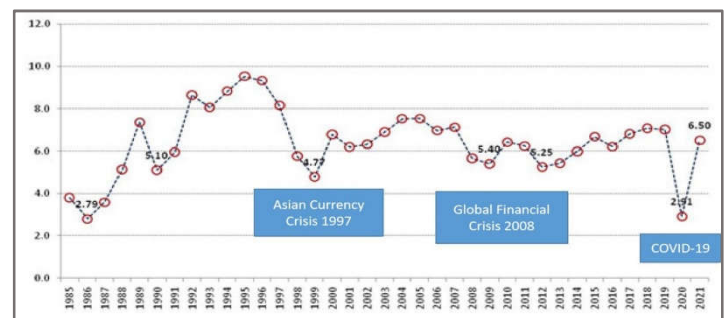


Source: General Statistics Office of Vietnam

Figure 3. Growth of output in the period 2011–2021 (%) 2. Output growth in the processing and manufacturing industry (%)

Note: The figures for 2021 are only updated to the growth of the first 6 months of 2021 compared to last year's same period.

The impact of Covid-19 on the economy can be seen through both of these transmission channels. However, the impact on the tourism, transportation, warehousing, accommodation, and catering industries is the largest, perhaps unprecedented since Doi Moi. Next is the impact of Covid-19 on the processing and manufacturing industry, but the severity is not equal to that of the tourism industry. The impact of Covid-19 on these two sectors causes a decline in consumption and investment in these two important industries, which leads to a decrease in output in the economy. In 2020, economic growth will only reach 2.91% below the set target and at the lowest level for the whole 35-year period since the time of Doi Moi. Graph 3 shows that except for 1986, Vietnam's economy has experienced the Asian financial and monetary crises (in 1997) and the global financial crisis (in 2008), but the growth rate is still higher than the growth rate in 2020 due to the impact of the Covid-19 epidemic. This shows that the Covid-19 shock has no precedent to the Vietnamese economy, and the impact of covid-19 is also the largest among modern shocks to the Vietnamese economy.



Source: General Statistics Office of Vietnam

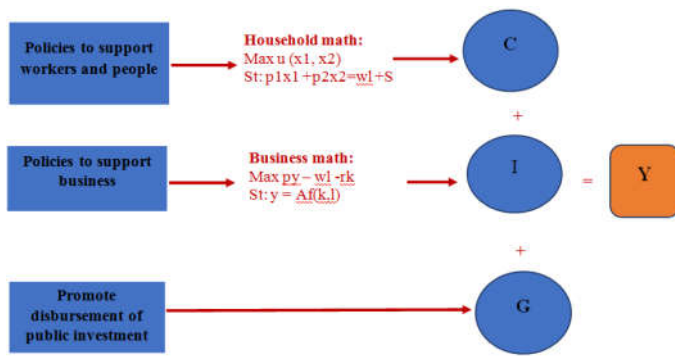
Note: Growth for 2021 is the target that the Government wants to achieve.

Figure 4. Growth of output in the period 2011–2021 (%) 2. Output growth in the processing and manufacturing industry (%) 3. Economic growth in the period 1986–2021 (%)

POLICY RESPONSIBILITIES AND SOME ASSESSMENTS

To deal with the negative effects of Covid-19 on the economy, from the beginning of 2020, the Government has implemented many policies including monetary policy and fiscal policy. These policies aim to partially offset the decrease in workers' income and the adverse effects on the production efficiency of enterprises. Firstly, the Government has implemented policies to support people in general and workers in particular to increase income. Employee's income includes salary ($wl - w$ is salary, l is the number of employees) and

savings or allowance (S). As shown in part 1 about the transmission channel of the impact of the Covid-19 epidemic on the economy, the Covid-19 shock reduces labor and/or wages, thereby reducing workers' incomes, reducing spending on goods and services (x_1, x_2 – represents two goods consumed). Reducing household spending will reduce production output in the economy and further reduce workers' incomes. To prevent this downward spiral, the Government has taken measures to increase the incomes of workers and people, reverse or at least slow down the decline in consumption and output.



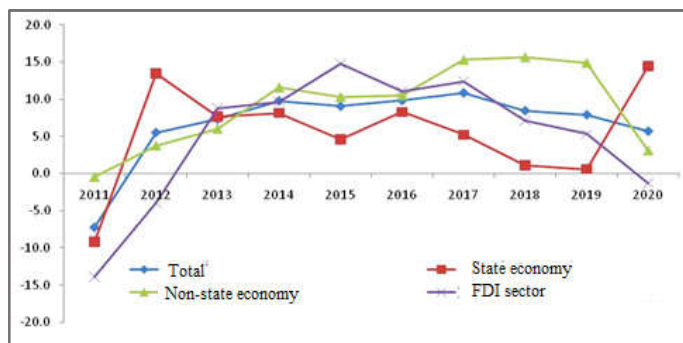
Source: Authors

Figure 5. Policy response to the Covid-19 epidemic shock

Government policies have supported people and workers, including increasing spending on implementing social security policies, supporting workers and disadvantaged groups. Forms of support include: (i) direct cash support for the target group subject to social policies; the target group is employees; business households and (ii) support employers to borrow to pay wages to stop working. The VND 62,000 billion package deployed in 2020 and the VND 26,000 billion package deployed in 2021 have been and are expected to increase or prevent the decline in income of people and employees. However, the implementation of the 62 trillion package has encountered many limitations. According to the assessment of the Minister of Labor - Invalids and Social Affairs, the limitations of this policy package are due to the time of researching and proposing support policies when the situation of the Covid-19 epidemic is complicated. Therefore, it is forecast that the number of affected objects is relatively large, and the support period is relatively long (expected April 3, May 5, June 2020). In addition, reviewing and making a list of approvals for workers and business households, especially workers without contracts and unemployed workers, faced many difficulties. There are many cases where employees work in enterprises but do not enter into labor contracts, do not guarantee conditions for consideration and support. The level of support is low, so many business households do not ask for it, so the number is much lower than originally expected. In addition, the policy to support the employer to borrow money to pay the employee's stoppage salary is the lowest compared to the original plan. Specifically, the Bank for Social Policies has lent 41.82 billion dong to 245 employers to pay severance pay for 11,276 employees, while the initial loan refinancing is expected to amount to 16,200 billion Vietnam dong (VietnamPlus, 2021). Moreover, the package of VND 62,000 billion does not include freelancers, who are greatly affected by the Covid-19 pandemic and social distancing measures. Second, policies aimed at minimizing the impact of Covid-19 on businesses by reducing their efficiency or productivity. The Covid-19 shock causes the efficiency of the business to decrease (symbol A in the equation in Figure 3), reducing the business's profit, thus reducing the need for labor and capital. Labor reduction will reduce workers' income (through wages or labor volume). The policies to support enterprises are aimed at increasing the production efficiency of enterprises, thereby increasing output, increasing the demand for

labor and capital of enterprises. The government's first policy to support businesses is to extend the deadline for paying taxes and land rents; cost deduction when determining corporate income taxable income for support and sponsorship expenditures of enterprises and organizations for Covid-19 epidemic prevention and control activities; reduce the collection of several fees in order to support and remove difficulties for those affected by the Covid-19 epidemic. As of June 25, 2021, 148.7 trillion VND has been exempted, reduced or extended; in which the extension of tax and land rent is VND 122.1 trillion and exemption from taxes, fees is VND 26.6 trillion. At the same time, the government temporarily suspended the payment of the retirement and survivorship fund and reduced the registration fee by 50% when registering domestically manufactured or assembled cars. These are the solutions in the fiscal policy group. In order to support businesses, the Government, especially the State Bank, has also implemented monetary policies such as restructuring debt repayment terms, exempting and reducing interest and fees, and keeping debt groups intact. According to a report by the Ministry of Planning and Investment on May 24, 2021, credit institutions have restructured the repayment term, keeping the debt group unchanged for 258,421 customers with outstanding loans of VND 342,440 billion; exempting, reducing, and lowering loan interest rates for 676,874 customers with outstanding loans of VND 1,291,047 billion; providing new loans to 480,165 customers with lower interest rates than before the epidemic (accumulated from January 23, 2020, until now) reaching VND 3,497,798 billion. In addition, as of May 23, 2021, the Bank for Social Policies has extended debt for 174,408 customers with the outstanding balance of VND 4,350 billion, new loans to 3,032,411 customers with an amount of VND 110,381 billion. Moreover, other policies include reducing electricity bills and delaying the time to pay union dues. These policies have reduced the negative impact of Covid-19 on the production and business activities of enterprises. However, businesses that evaluate the policies are not strong enough. The tax extension is not enough; it is necessary to reduce or exempt taxes for businesses to have enough positive effects to offset the adverse effects that businesses have to suffer. Alternatively, credit packages for businesses with 0 percent interest to pay wages to workers who have stopped working due to Covid-19 are also tricky to reach businesses due to procedural barriers. The package of VND 26,000 billion according to Resolution 68/NQ-CP of the Government dated July 1, 2021, on a number of policies to support employees and employers facing difficulties during the Covid-19 pandemic has just been implemented. This support package has learned from the previous support package and will remove many barriers for businesses to borrow capital and add self-employed subjects. In the context of complicated epidemic developments, consumption, and investment decline, public investment plays a crucial role. In 2020, when non-state investment and investment in the foreign-invested sector decrease sharply, public investment increases sharply; this helps prevent the decline in the total investment of the whole society. Graph 4 shows that the investment of non-state economic sector decreased from 14.9% in 2019 to 3.1% in 2020 while investment of foreign-invested sector decreased from 5.3% in 2019 to -1.3% in 2020, investment of state economic sector increased sharply (from 0.6% in 2019 to 14, 5% in 2020). This helps the growth of social investment capital decrease slightly from 7.9% in 2019 to 5.7% in 2020.

Figure 5. Policy response to the Covid-19 epidemic shock4. Investment growth of all economic sectors (%)

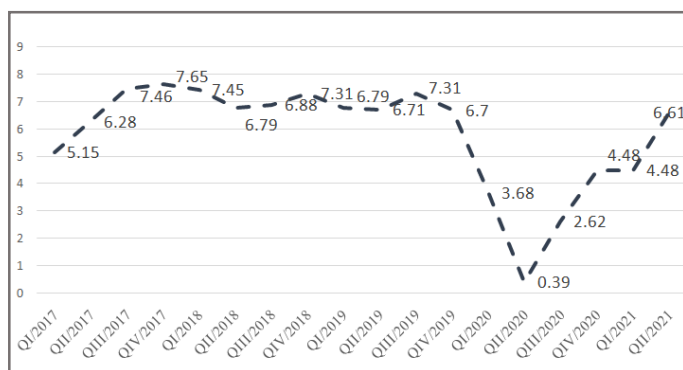


Source: General Statistics Office of Vietnam

However, in the first seven months of 2021, estimated investment disbursement reached more than 199 trillion dong, equaling 36.71% of the plan and lower than the same period last year (Hong Van, 2021). The slow disbursement of public investment, while the domestic economic sector is suffering from the increasingly strong shock of the Covid-19 pandemic. It will affect the total investment of the whole society and thus slow down the economy's recovery.

OUTLOOK AND SOME ISSUES

Although entering 2021 with the third wave of the Covid-19 pandemic, the outlook for the economy is relatively positive. Economic growth in the first quarter of 2021 reached 4.48% over the same period last year; economic growth in the second quarter of 2021 was even higher, reaching 6.61%. In addition, the graph below shows that the lowest growth occurred in the second quarter of 2020 when the Government implemented Directive 16 to implement social distancing nationwide (on March 31, 2020, on urgent measures to prevent and control the Covid-19 epidemic). Moreover, in the following quarters, economic growth recovered (in a V-shape), and economic growth in the second quarter of 2021 (the latest quarter for which data is available) has almost reached the level of the pre-pandemic period. For example, economic growth in the second quarter of 2021 was 6.61%, while economic growth in the second quarter of 2019 reached 6.71%.



Source: General Statistics Office of Vietnam

However, the Covid-19 pandemic has been breaking out violently since the end of April and the beginning of May until now (early August 2021) in the southern provinces and cities, Hanoi, and a number of other provinces and cities. These localities focus on the main production activities of the whole country and are the main driving force in the growth of the Vietnamese economy. Especially Ho Chi Minh City and many industrial zones in the Southeast and Southwest regions are seriously affected. Growth in the third and fourth quarters of 2021 and the recovery of economic growth will be more or less affected by the fourth wave of the Covid-19 epidemic with an unknown end date. In the context of the complicated development of Covid-19, there are some positive signals about the

outlook for the economy. First, significant economies in the world such as the US, EU, and China are recovering; these are the big markets of Vietnam to promote FDI investment and export to these big markets. Second, the vaccination campaign is being promoted globally and domestically. In the country, the Government is trying to promote vaccination to achieve herd immunity in 2021. The supply of vaccines is increasing enormously, so the possibility of reaching herd immunity in 2021 is very high, which will positively impact the psychology of consumers, investors, and production and business activities. Third, the packages and solutions to support businesses, people, and employees that have been deployed since the outbreak of the Covid-19 epidemic in 2020 gradually become effective. Relief packages and solutions have helped people and workers have more income, increased spending, reduce difficulties for businesses due to the impact of the Covid-19 epidemic. Although there are positive signals, the government is still facing the most significant problem right now: quickly controlling the spread of the disease with the lowest cost. Reasonable disease control is the most critical solution to help restore the economy, stabilize society and people's lives. The current situation is still extremely complicated, especially when the epidemic hits big and densely populated cities, where large production is concentrated in the country. In addition, the Government needs to take robust measures to promote disbursement of public investment by transferring capital from projects with slow disbursement to projects that need capital and are on good disbursement progress, attaching public responsibility with the task of disbursing public investment.

CONCLUSION

Covid-19 has negatively affected Vietnam's economy. With the rapid spread of Covid-19, the Vietnamese government has implemented prolonged social distancing. It has caused businesses to shut down or operate in moderation. That leads to a decrease in the business's revenue, and the business has to lay off or cut employees. Unemployed workers will lead to a decrease in the consumption of goods and services. In general, Covid-19 has affected both the supply and demand sides of the economy. Facing the negative impacts of Covid-19 on the economy, the government has taken many measures to respond, such as supporting people and workers through the implementation of social security policies. At the same time, the government implemented policies to minimize the impact of Covid-19 on businesses, such as extending tax payment time, land rent, tax reduction, etc. In addition, the government has actively implemented credit and monetary policies to support businesses through credit packages with low-interest rates, loosening credit capacity, etc. In addition, the government makes public investments for stimulating the economy.

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