Special report

Government Intervention Policies in Vietnam and Regional Countries

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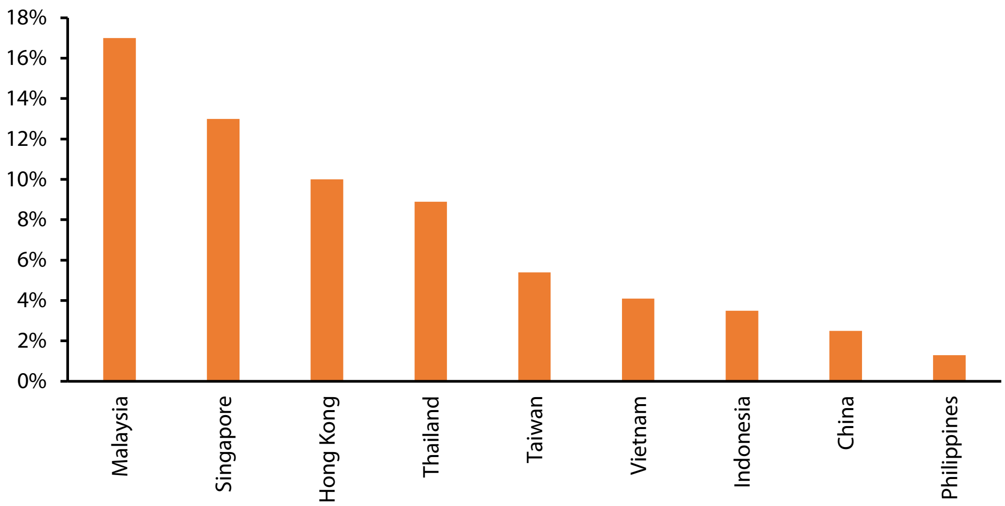
"Forced furlough" has become popular for the last four weeks as governments' implemented global lockdowns or social distancing. How fast economic activities resume depends on three main factors: 1) COVID-19 containment, 2) Government intervention policies, and 3) Recovery of global demand. The second factor is the focus of the report in which we compare Vietnam's intervention policies in 2008-2009 and the present; and current policies among regional countries. That intends to figure out Vietnamese officials' point of views, the benefit-takers, and the room for upcoming intervention. The assessment of the economic impact of such policies will be in the next report.

In our opinion, ***Vietnam's government has played an active role in flattening the curve and meticulously designed its intervention policies.*** Up to the end of April, the scale of the fiscal stimulus is estimated at VND 266 Tn, equivalent to 4.1% of GDP. Tax deferral will be 2.8% of GDP. Currently, the government has delivered indirect support to corporates such as deferral of tax, contribution to social security and pension funds in order to minimize unemployment. The direct support to corporates are not preferred by the government. Meanwhile, low-income household or informal labor, hard hit by the pandemic, are qualified to receive cash aids. They will likely spend all of it on domestically-manufactured goods, via the multiplier effect which should boost aggregate demand.

In addition, ***the government is keen to accelerate public investment disbursement*** via transforming PPP parts of the North-South expressway into public investment projects and extending the timeline of 2019's disbursements. ***We believe that those stimulus policies will significantly cover the losses of FDI and exports.***

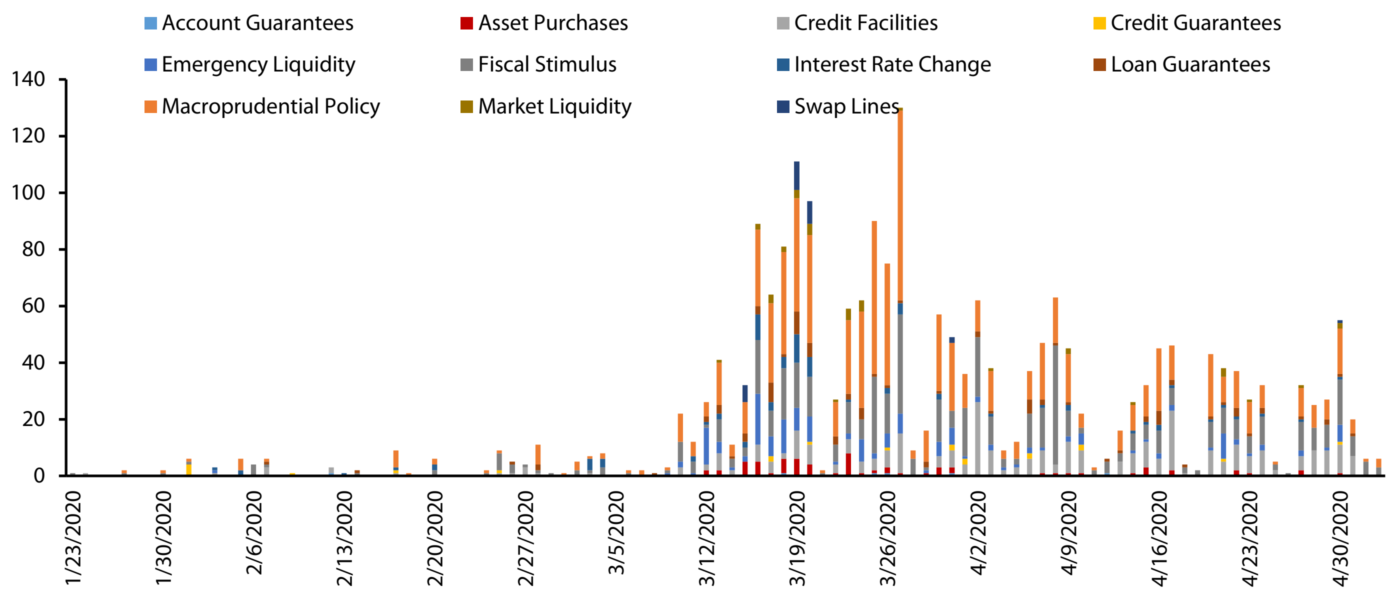
In general, the size and approach of the intervention policies are in parallel to Vietnam's economic and disease conditions. The benefit takers get hit by the COVID-19, high marginal propensity to consume, focus on domestic goods, and limit precautionary savings. When global economies are into recessions, keeping domestic consumption and jobs are the high priority of the government. In the base case scenario that Western countries start reopening in May, Vietnam's current policies are supportive to a remarkable rebound in 2H2020.

Figure 1: Fiscal stimulus/ GDP, as of 29th April, 2020



Source: IMF, RongViet Securities

Figure 2: Number of Government Intervention Policies in 2020



Source: Yale School of Management, RongViet Securities

Table 1: Policy actions in 2020

	Account Guarantees	Asset Purchases	Credit Facilities	Credit Guarantees	Emergency Liquidity	Fiscal Stimulus	Interest Rate Change	Loan Guarantees	Macro-prudential Policy	Market Liquidity	Swap Lines
India		x	x		x	x	x		x		
Indonesia				x		x	x		x	x	
Vietnam			x			x	x		x		
Philippines		x	x		x	x	x		x		
South Korea	x	x	x	x	x	x	x	x	x	x	x
Singapore			x		x	x	x		x		x
China			x	x	x	x	x	x	x		
Thailand		x	x			x	x		x	x	x
Malaysia			x			x	x		x		
US		x	x		x	x	x	x	x	x	x
UK		x	x		x	x	x	x	x	x	x
EU		x	x		x	x		x	x	x	x
Japan		x	x		x	x		x	x	x	x

Source: Yale School of Management, RongViet Securities

Explanation:

Policy Action Type	**Definitions**
Account Guarantees	Government guarantees the financial account balances of a fund or deposit-taking institution
Asset Purchases	Central bank programs to achieve monetary policy goals by purchasing securities and other assets
Credit Facilities	Government credit facilities for nonfinancial businesses
Credit Guarantees	Government guarantees of bonds and other debt issued by financial businesses
Emergency Liquidity	Government emergency programs aimed at restoring liquidity across the financial system
Fiscal Stimulus	Government attempts to increase economic activity by reducing taxes, increasing government spending, or both
Interest Rate Change	Monetary policy easing by the central bank
Loan Guarantees	Government loan guarantees to nonfinancial businesses
Macro-prudential Policy	Changes in supervisory rules that ease capital requirement, liquidity requirement, others for financial businesses
Market Liquidity	Government emergency programs aimed at restoring liquidity in a specific market
Swap Lines	Central bank lines providing liquidity in its home currency to overseas central banks

Compared with the Global Financial Crisis in 2008-2009, Vietnam's government is very careful about designing stimulus policies which must be compatible with the outbreak and intrinsic forces of Vietnam. Fiscal policy is the focus of the various released packages.

In term of citizens, the government directly delivers cash aids, valued at VND 36 Tn, equivalent to 0.6% of GDP. 20 million of people are expected to gain from that. They are categorized into five groups, including (i) the poor and near poor households; (ii) recipients of social protection program; (iii) workers who temporarily stopped working or have been on unpaid leave; (iv) unemployed workers without unemployment insurance, and self-employed workers; (v) households with monthly taxable revenue below VND 100 million/month that temporarily suspended business.

In addition, electricity bills have been cut down by 10% for three consecutive months. The current policies are significantly different to the past where the government decided to purchase rice, gasoline or support farmers to invest in farming machinery and build up housing, infrastructure in rural areas. In our point of view, the present policies are important to maintain domestic consumption in the pre- and post-social distancing. There is a high possibility that benefit takers will spend almost of the cash aids instead of saving.

In term of corporates, the government limits direct support. Instead of mimicking the previous policies that spent public budget on covering 4% interest on preferred loans, the state bank lowered its policy rates and asked commercial banks for cost savings in order to reduce lending rates, extending payment dues, and allowing debt restructuring. This is to minimize corruption and efficiently directing credit to the hard-hit sectors. Besides, Vietnam Bank for Social Policies' prefers loans and the government's deferral of taxes and contribution to social security funds which will help corporates reduce cash outflows, pay wages and refrain the firing workers.

In addition, the government is urgently accelerating public investment disbursement of key projects instead of upgrading rural infrastructure, school dormitories and district hospitals. Total amount is estimated at USD 30 Bn, which will definitely make big contribution to 2020's GDP growth and the long-term prospect. Recently, the government allowed to transform PPP parts of North-South projects into public investment projects. Their construction will begin in early Q3 2020 after the approval of the National Assembly in May. There are positive signals in Q1 2020 at which state investment capital will rise by 16.4% yoy. Transportation and healthcare sectors increased by 29.3% yoy and 30.7% yoy.

Meanwhile, the state bank is very careful about loosening monetary policy as the ratio of credit to GDP reached over 130%, among the highest in Asia. Now, the most noticeable policies are related to a rate cut of 50-100 bps and the Circular 01/2020/TT-NHNN which allows for debt restructuring and unchanged debt classifications for hard-hit companies.

Comparing with other regional countries, Vietnam is hesitant to ease financial regulations. In Malaysia, the central bank reduced its RRR by 100 bps. The central banks of Philippines, Indonesia and China did the same. Thailand's government guarantees 60-70% of loans to SMEs being affected by the pandemic and covers the first six months of interest. In order to stabilize banking system's liquidity, central banks have started purchasing G-bonds, increasing the duration for repo and reverse repo operations, as well as refinancing operations.

Table 2: Vietnam's Intervention Policies in 2008-2009 and 2020

Policy	Global Financial Crisis in 2008-2009	Coronavirus crisis in 2020
Fiscal policy	**Public spending:** Increase public investment disbursement in order to stimulate investment and reduce material stocks by • Suspend of advance payment recollection of 2009 • Extend 2008's public investment disbursement to June 2009 • Set advance payment of key infrastructure projects in 2010 and 2011 Issue G-bonds which was given to the transportation, irrigation, healthcare, and education. Accumulate national stock of rice and gasoline Support farmers to purchase machineries, coping with natural disasters,… **Tax cuts and deferrals** Defer taxes: • Defer 90% of VAT put on imported intermediate goods used for producing export goods • Defer tax collections for 180 days, applying to imported specialized machinery Cut taxes: • Cut corporate profit tax (CPT) by 30% in Q4 2008 and 2009 for SMEs in export-oriented industries • Cut 50% VAT put on export-import goods	**Public spending:** Accelerate public investment disbursement by pushing 2020's and previous years' projects Deliver USD 50 Mn from state savings to healthcare sector Support poor households' disposable income: • Give cash aids directly to hard-hit people for 3 months from April to June • Cut down electricity bills for households and businesses by 10% for 3 months **Tax cuts and deferrals** Defer taxes: • Defer VAT, CPT, PIT and land fees for 5 months for hit sectors • Defer contribution to pension fund, survivor fund for 12 months Cut taxes: • Exempt taxes put on imported healthcare machineries and equipment • Exempt registration fees for newly established companies.
Monetary and Macro-prudential policies	**SBV's decisions:** • Cut down policy rates from 14%/year to 7%/year • Cut down RRR, applied to VND deposit **The government covered 4% interest of loans:** • For working capitals and mid- and long-run investment • For purchasing farming machineries • For purchasing construction materials in rural areas	**SBV's decisions:** • Cut down policy rates by 50-100 bps • Allow for debt restructure and maintaining debt classification • Reduce banks' fees **Vietnam Bank of Social Policies:** • Offer preferred loans to help companies to pay wages • Propose of reducing interest payment of the poor and social policy beneficiaries
FX and Balance of Payments	Adjust FX's allowed fluctuation range, +/-0,75% (12/2007), +/-1% (03/2008), +/-2% (05/2008), +/-3% (11/2008), and +/-5% (03/2009)	Commit to intervene in the FX market in order to stabilize USDVND

Source: Vietnam's Government, RongViet Securities

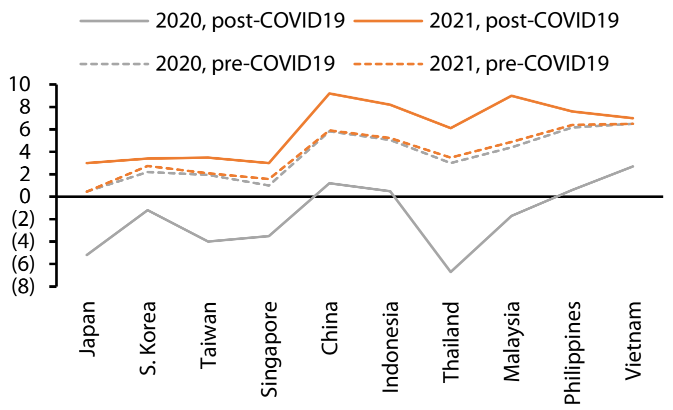
Table 3: Intervention Policies of Vietnam and Regional Countries in 2020

Policy	Vietnam	Thailand	Philippines	Malaysia	Indonesia	China
Fiscal policy	**Households:** • Cash transfers • Lower electricity bill	**Households:** • Cash transfers • Lower bills of water, electricity	**Households:** • Social protection for workers • Cash transfers	**Households:** • Cash transfers, electricity discounts • Temporary pay leave • Withdrawals from EPF	**Households:** • Cash transfers, food aid • Electricity subsidy • Expand unemployment benefits	**Households:** • Expand unemployment benefits
	Businesses: • Tax deferrals • Fee business registration cut • Defer contributions to funds of survivorship and pension • Wage subsidies to employers	**Businesses:** • Temporary tax and social security relief	**Businesses:** • Support to the tourism and agriculture sectors • Specialized microfinancing loans and loan restructuring	**Businesses:** • Temporary tax and social security relief • Wage subsidies to employers • Working capital loan guarantees • Grants for SMEs	**Businesses:** • Temporary tax and social security relief • Permanent reductions of the corporate income tax rate	**Businesses:** • Temporary tax and social security relief
	Others: • Health spending • Infrastructure spending	**Others:** • Health spending	**Others:** • Health spending	**Others:** • Health spending • Infrastructure spending	**Others:** • Health spending	**Others:** • Health spending • Increase munis's ceiling
Monetary and Macro-prudential policies	**Interest rate change:** • Policy rate cut by 50-100 bps	**Interest rate change:** • Policy rates cut by 50 bps	**Interest rate change:** Policy rates cut by 100 bps	**Interest rate change:** • Policy rates cut by 25 bps	**Interest rate change:** • Policy rates cut by 50 bps	**Interest rate change:** • Policy rates cut by 300 bps
	Macro-prudential policies: • Allow to restructure debts • Fee waivers for debt restructure • Interbank transfer fee cut	**Macro-prudential policies:** • Down contribution to FIDF • Loan payment holiday • Grace period extension • Debt restructuring fee cut	**Macro-prudential policies:** • Lower RRR • Relax requirements of asset cover • Easier access to rediscounting • Relax provisioning requirements	**Macro-prudential policies:** • Lower SRR • Relax calculation of SRR • Down the capital conservation buffer • Operate below the minimum LCR	**Macro-prudential policies:** • Lower RRR • Relax the additional demand deposit obligations • FX reserve requirement cut	**Macro-prudential policies:** • Reduce the provision coverage • Targeted RRR cuts • Delay of loan payments • Tolerance for higher NPLs
		Credit Facilities: • Soft loan programs for SMEs, individual working at home	**Credit Facilities:** • Sign loan agreements with IMF, WB, ADB	**Credit Facilities:** • Increase in the allocation of the Special Relief Facility and the All Economic Sectors	**Credit Guarantees:** • Scale up the national economic restructuring and recovery program	**Credit Facilities:** • Scale up the guarantee fund • Launch a relending program • Support corporate bond issuance • Relax reform of asset management
		Market liquidity: • Provide liquidity for mutual funds through commercial banks	**Emergency liquidity:** • Establish Repurchase Agreement with the National Government		**Market liquidity:** • Expand monetary operations • Extend G-bond repo tenor • Increase of FX swaps auction	**Emergency liquidity:** • Conduct reverse repo operations • Activate Medium-Term Lending Facility
		Asset purchases: • G-bond purchase program • Invest in quality corporate bonds	**Asset purchases:** • Buy government securities • Buy other qualified securities			**Credit Guarantees:** • Larger lending, discounting quota • Support FIs' bond issuance
		Swap lines: • Sign an additional currency swap				**Loan guarantees:** • Enhance the guarantee loan

Source: IMF, RongViet Securities

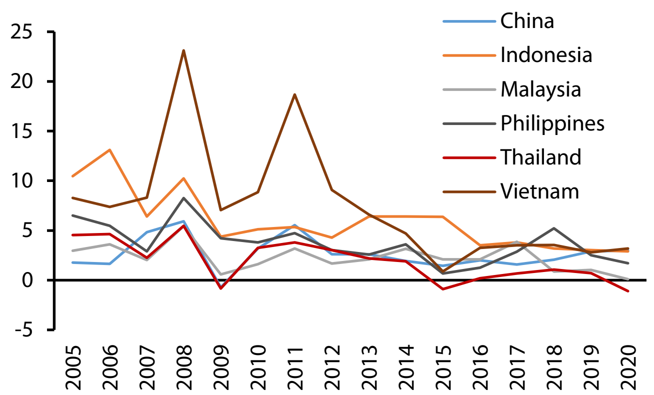
ECONOMIC INDICATORS OF VIETNAM AND REGIONAL COUNTRIES

GDP forecasts in the pre- post COVID19, % YoY



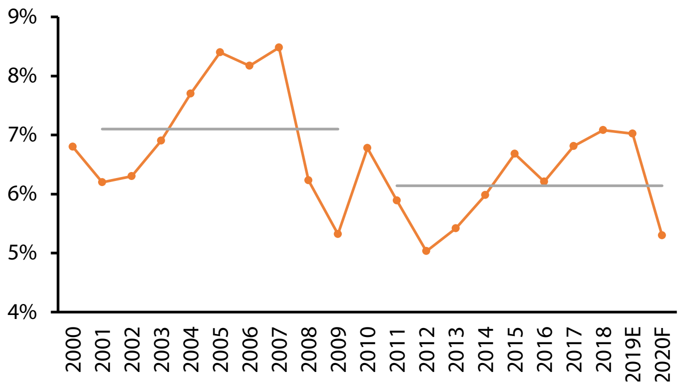
Source: IMF, RongViet Securities

Annual inflation, % YoY



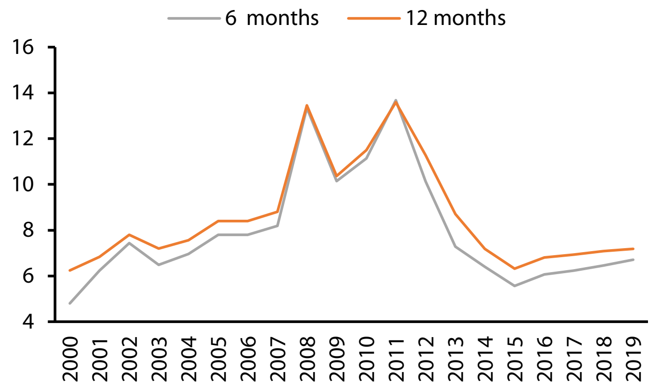
Source: IMF, WB, RongViet Securities

Vietnam's GDP growth, % YoY



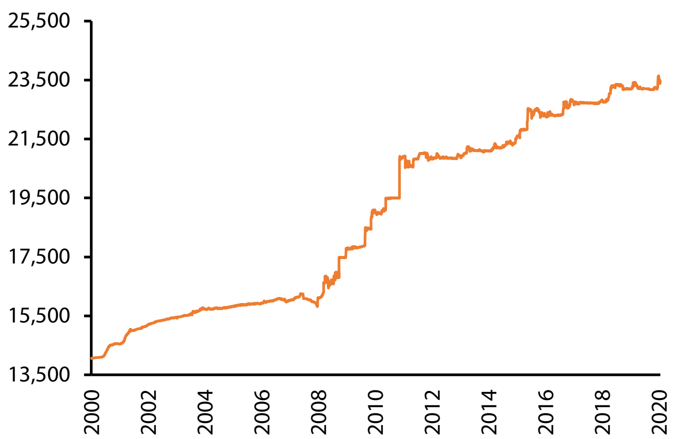
Source: GSO, RongViet Securities

Vietnam's deposit rates, %/year



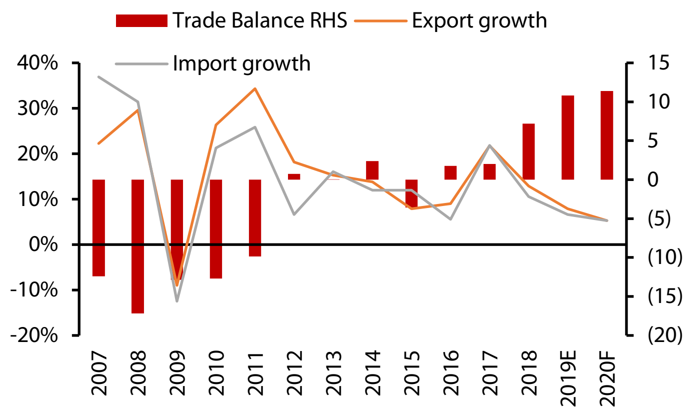
Source: GSO, RongViet Securities

USDVND exchange



Source: Bloomberg, RongViet Securities

Vietnam's trade balance, USD Bn



Source: Customs, RongViet Securities

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