Impacts of COVID-19 on Firms in Vietnam

COVID-19 Business Pulse Surveys
Report No. 1 September 2020

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Equitable Growth, Finance and Institutions, Finance, Competitiveness and Innovation Global Practice,
East Asia & Pacific Region

Vietnam in the “New Normal”

- Vietnam has reacted swiftly to COVID-19. A combination of early measures – targeted testing and tracking as well as innovative information campaigns – has proved to be highly effective.
- Domestic activities started to decline from January 2020 due to increasing social distancing and mobility restrictions.
- The country entered a national lockdown on April 1, 2020 for an initial period of 15 days, which was extended to 21 days in 12 higher-risk provinces and cities.
- There was a subsequent easing of mobility restrictions in May but cross-border entry into Vietnam is still largely restricted.
- In order to support firms and workers, the government introduced measures to defer VAT and corporate income tax (CIT) obligations, reduced CIT rates for small and micro firms, deferring contributions to the pension fund, and cash transfers to affected workers.
- GDP is expected to rebound in the second half of 2020 so that the economy will grow around 2.8 percent for the entire year.

Reference: World Bank (2020), *Taking Stock:* “What will be the new normal for Vietnam? The economic impact of COVID-19”.

How COVID-19 is affecting firms

COVID-19 shocks operate through many channels, but the magnitude and who is more affected is hard to predict.

The **COVID BPS survey** measures the impact of shocks on firms' sales and employment, their operations, expectations as well as their adjustment mechanisms and access to government support.

Lockdown effects
Public health measures require non-essential businesses to close

Temporary shock, targeting non-essential businesses, mostly in **retail**, **hotels/restaurants** (tourism) and **personal services**.

Demand shocks
Economic downturn drives down demand domestically and abroad

Broad-based shock. Will especially hit firms producing **durables**, **apparel/textiles** and those **reliant on export** (manufacturing & services – e.g. tourism).

Supply shocks
Decline in labor and intermediate inputs, global value chains disrupted

E.g., firms that **rely on imports** are affected.

Financial shocks
Opportunities for finance becoming further constrained

Deterioration in availability of credit while demand increases will affect access to finance

Uncertainty
Uncertainty is driving down investment and innovation

Responses by firms and government

Employment measures
Firms can adjust by tightening their labor force and wage bill

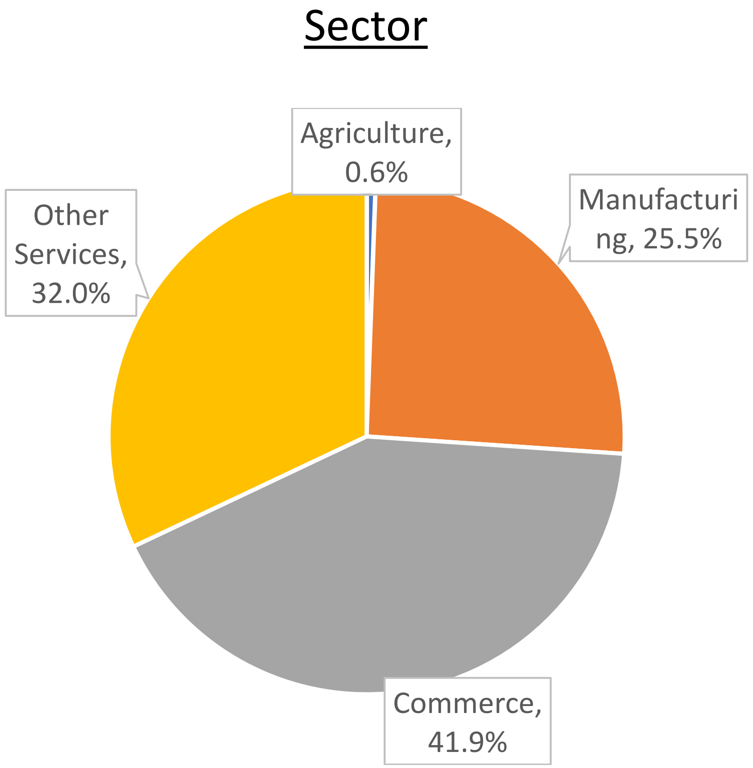
Digital Technology
Firms can adjust by adopting new digital technology and business models

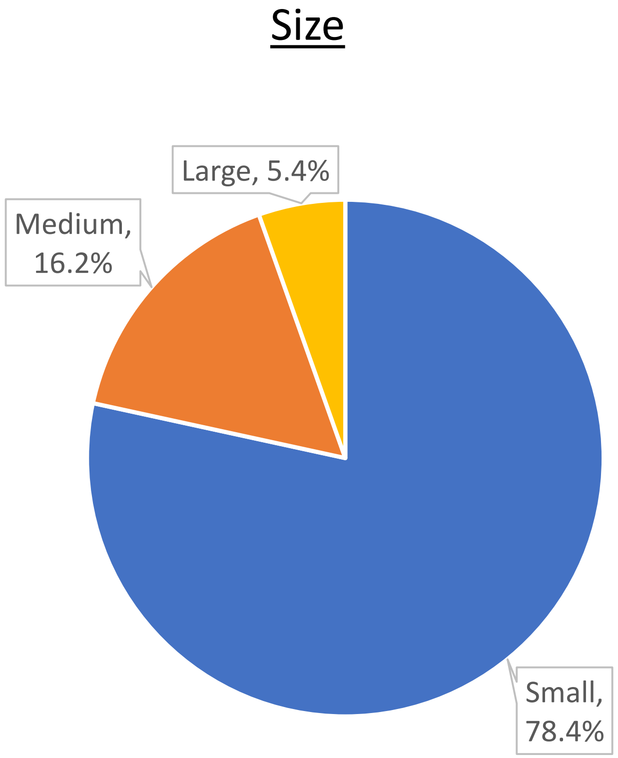
Government Support
Governments can provide fiscal support to firms facing negative shocks

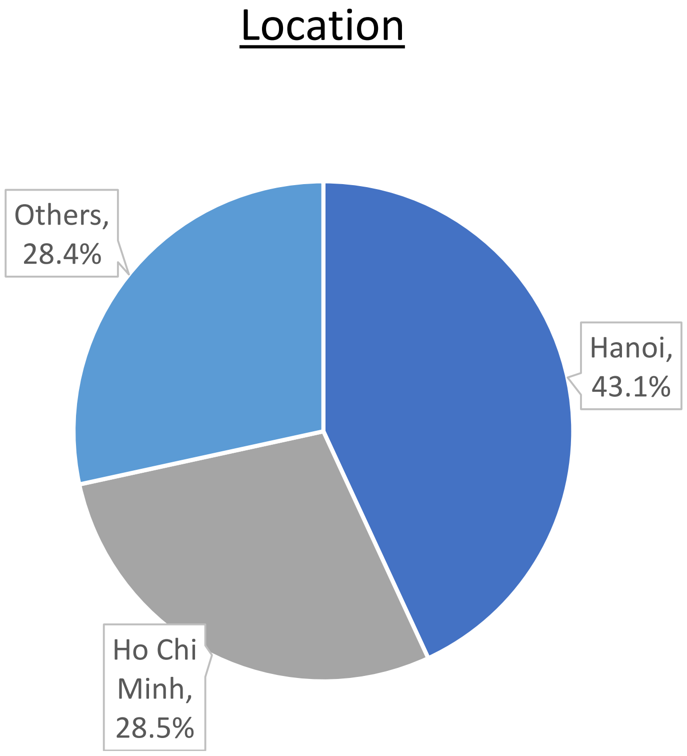
Vietnam Business Pulse Survey

- The World Bank, in collaboration with the General Statistics Office, conducted the first round of the Business Pulse Survey (BPS) in June 2020.
- The COVID-19 BPS is a rapid survey designed to measure the various channels of impact of COVID-19 on firms, firm adjustment strategies, and public policy responses.
- Firms were sampled randomly from the Technology Adoption Survey, which was recently implemented in February 2020.
- Collected responses from 500 firms across 15 provinces though a mix of phone and in-person interviews.
- Sample is representative at three different firm size categories and four broad sectors: agriculture, manufacturing, commerce (wholesale and retail), and all other services.

Sample Characteristics





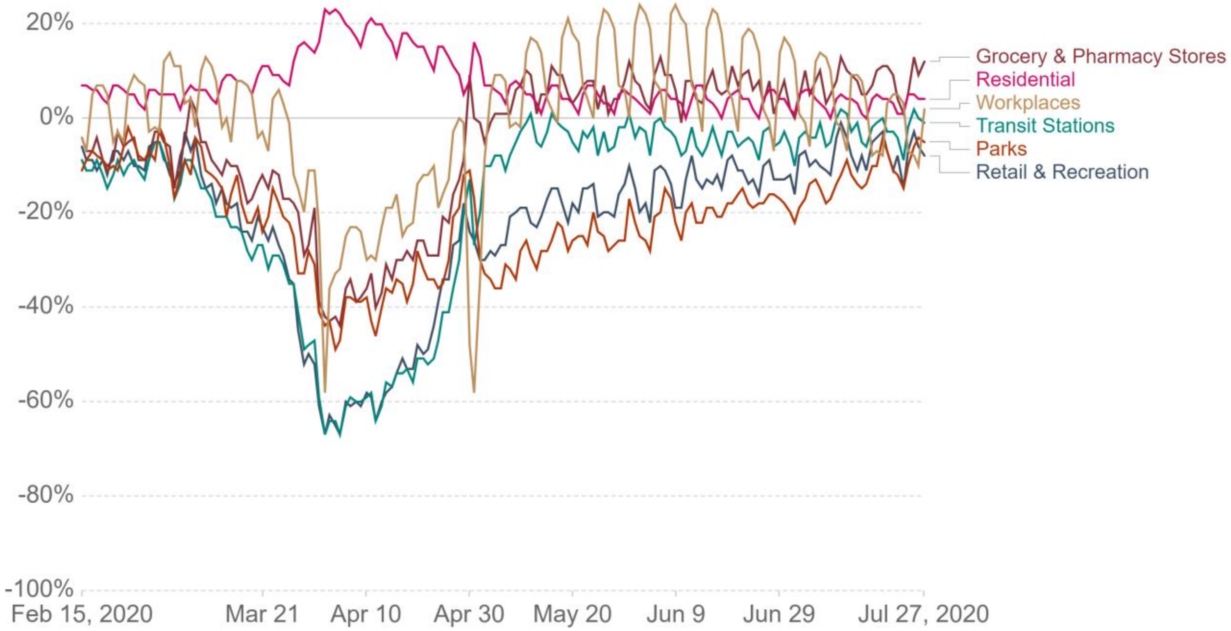


Note: Firm size categories are defined by the number of workers and as follows: small (5-19), medium (20-99) and large (>100). The Commerce sector includes wholesale and retail trade, and Other services sectors include all other services sector except wholesale and retail trade.

Control of the pandemic in Vietnam came at significant mobility restriction costs

How did the number of visitors change since the beginning of the pandemic?, Vietnam

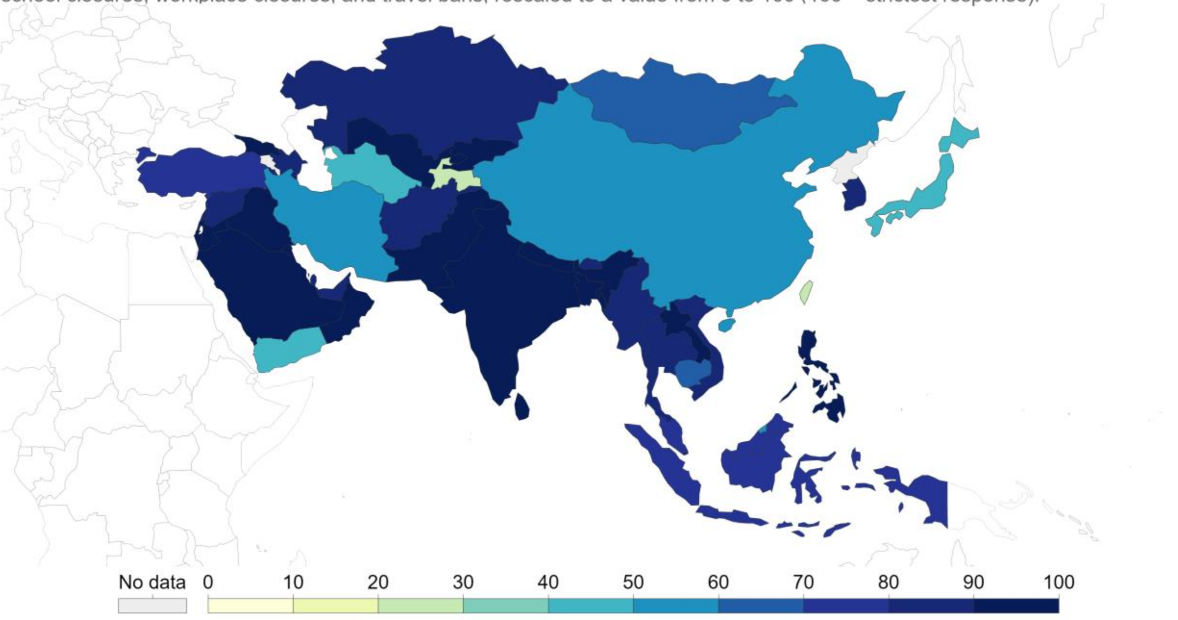
The data shows how visitors to (or time spent in) categorized places change compared to baseline days. A baseline day represents a normal value for that day of the week. The baseline day is the median value from the 5-week period from January 3rd to February 6th 2020.



Source: Google COVID-19 Community Mobility Trends – Last updated 30 July, 23:00 (London time) OurWorldInData.org/coronavirus • CC BY
Note: It's not recommended to compare levels across countries; local differences in categories could be misleading.

COVID-19: Government Response Stringency Index, Apr 15, 2020

The Government Response Stringency Index is a composite measure based on nine response indicators including school closures, workplace closures, and travel bans, rescaled to a value from 0 to 100 (100 = strictest response).



Source: Hale, Webster, Petherick, Phillips, and Kira (2020). Oxford COVID-19 Government Response Tracker – Last updated 30 July, 13:30 (London time)
Note: This index simply records the number and strictness of government policies, and should not be interpreted as 'scoring' the appropriateness or effectiveness of a country's response.
OurWorldInData.org/coronavirus • CC BY

Results highlights (1)

- **The lockdown had a temporary effect on the operational statuses of firms.** A substantial proportion of firms (about 1 in 2) were closed in April, either by government mandate or by choice. Over 80 percent of firms were open in June but approximately 20 percent of firms are only partially open or still closed.
- **Despite the easing of social distancing rules, demand stayed depressed, with 81 percent of firms still report a reduction in sales in June 2020 compared to last year.** Firms are affected simultaneously by multiple channels. More than half of surveyed firms were affected by a decrease in input availability. Alongside with falling demands, firms are facing liquidity constraints.
- **Despite these negative shocks, firms have chosen to retain their employees by using temporary measures.** Many firms chose to reduce working hours and wages, while some granted leave with and without pay. 15 percent of firms reported laying off workers, yet 10 percent of firms reported having more workers relative to the previous year.

Results highlights (2)

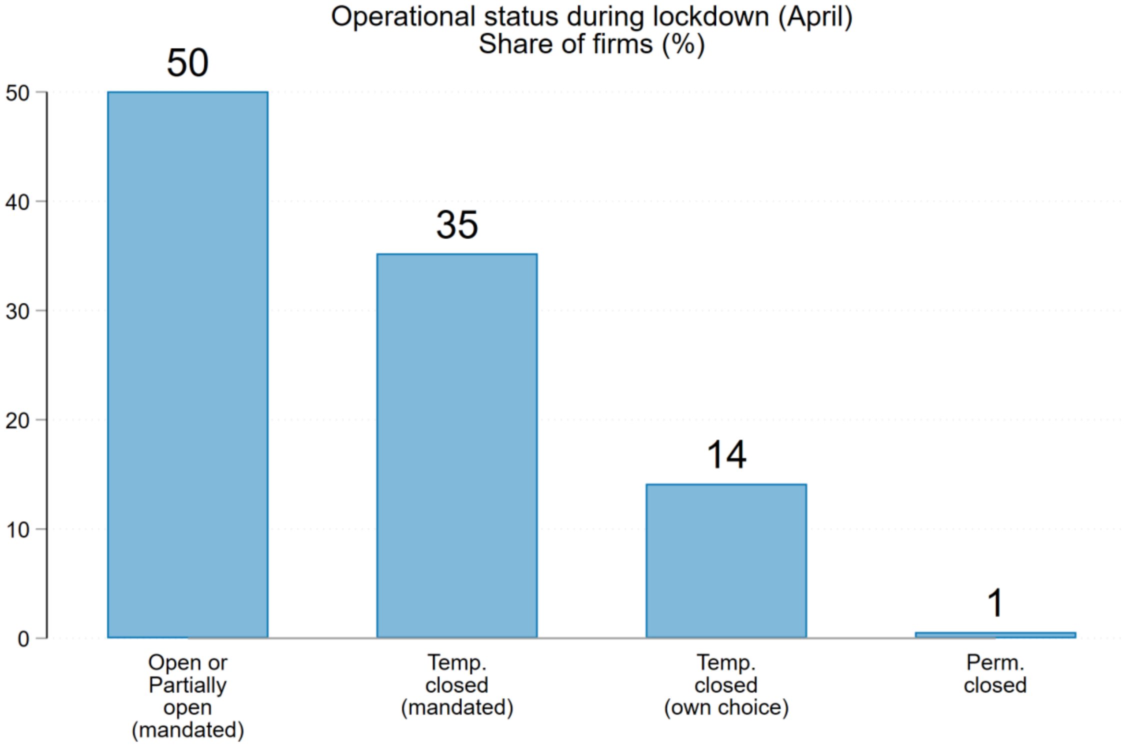
- **Many firms have turned to digital platforms to adapt to the negative shocks**, with a smaller proportion investing in digital solutions or repackaging their product mix. The update of digital platforms is higher among large firms, firms in Services sectors and those located in Hanoi.
- **On average, firms are expecting highly negative growth rates of -27 percent for sales and -20 percent for employment.** There is also very large uncertainty about these sales and employment growth, which can significantly reduce investment, employment, and future growth. The negative expectations suggest that business activities might stay depressed for a significant period.
- **Only 20-30 percent of small, medium and large firms accessed government support.** The two main reasons that prevent firms from accessing these support policies is because they were ineligible (45 percent of firms) and unaware of the support policies (34 percent of firms).

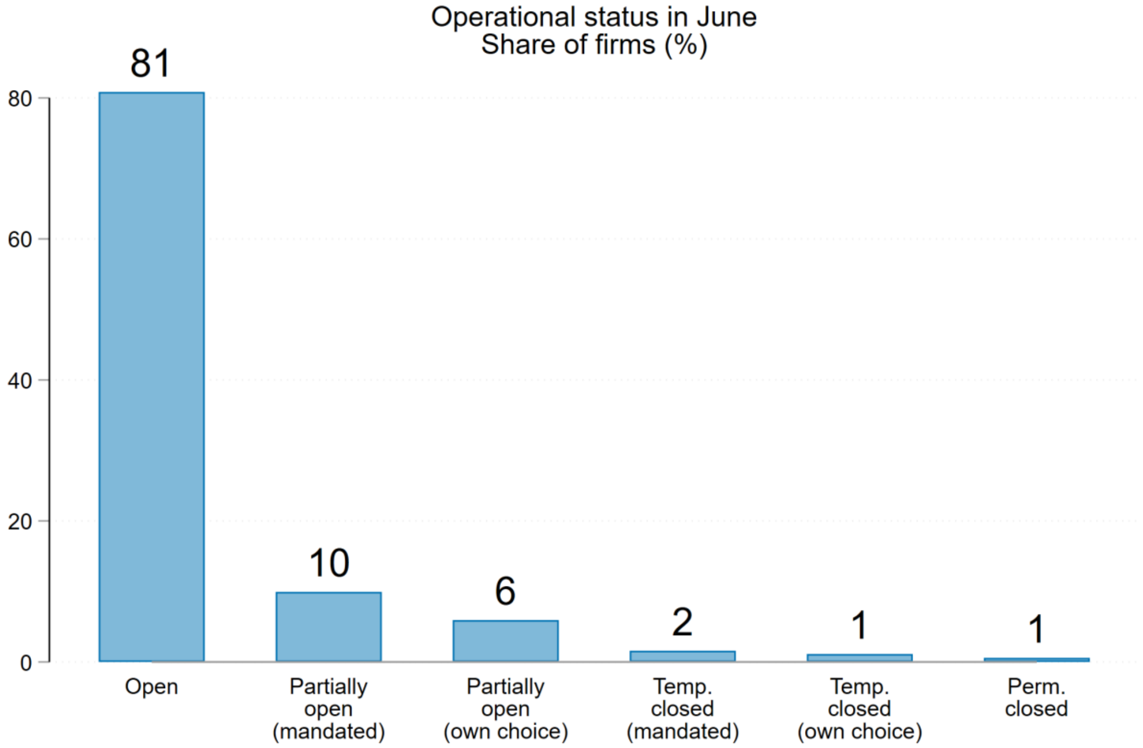
Impacts on firms

Lockdown and economic downturn can drive down demand domestically and abroad, disrupt input supply, and drive down liquidity

Lockdown and operations: the lockdown in April caused widespread but temporary closures

50 percent of firms were closed during the lockdown period. Many firms are now reopened. A small but significant share of firms remain partially open or closed in June.

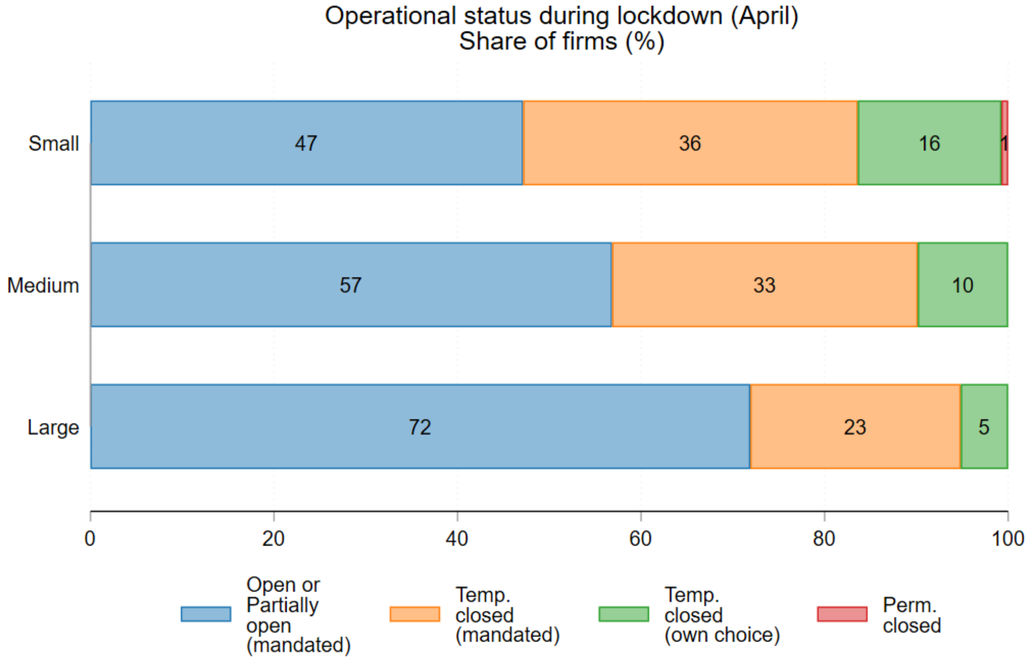


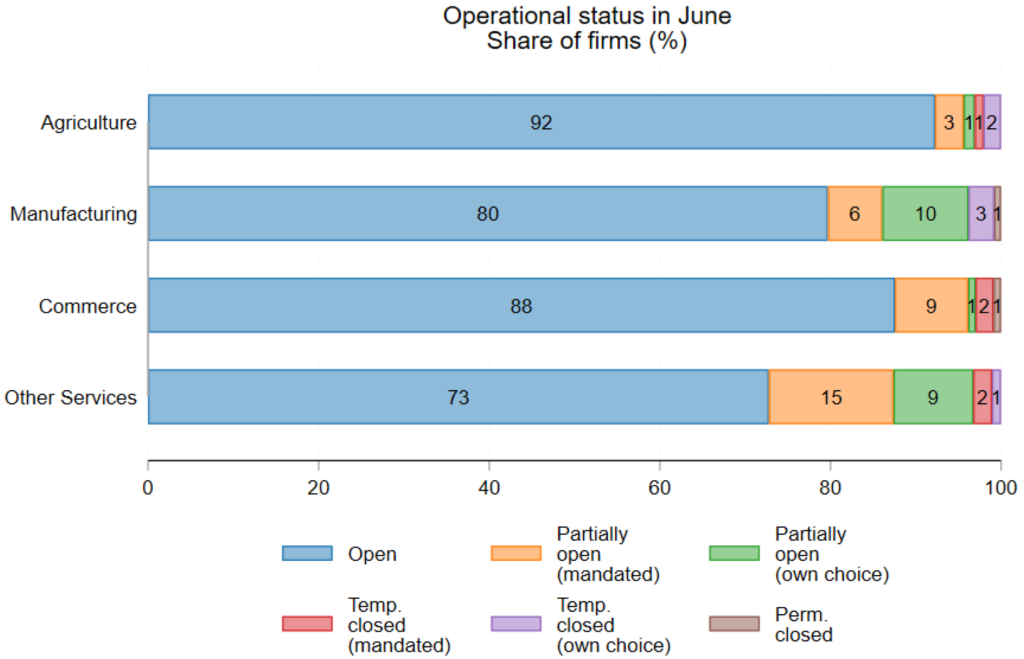


Note: Firms that are closed, including "permanently closed" are among survey respondents and do not take into account potential closures in the non-responding firms. Thus, this is likely a lower bound estimate, especially for permanent closures.

SMEs and service sectors were more affected

- 50 percent of small firms and just over 40 percent of medium firms were temporarily or permanently closed. In contrast, only about 30 percent of large firms closed during the lockdown month
- Services firms saw more closures while agriculture firms mostly stayed open, reflecting the regulations in place for different activities





More than 4 in 5 firms saw a reduction in sales during lockdown (April 2020) relative to the same period last year

81% of firms experienced a decrease in sales

13% of firms experienced no change

6% of firms had an increase in sales

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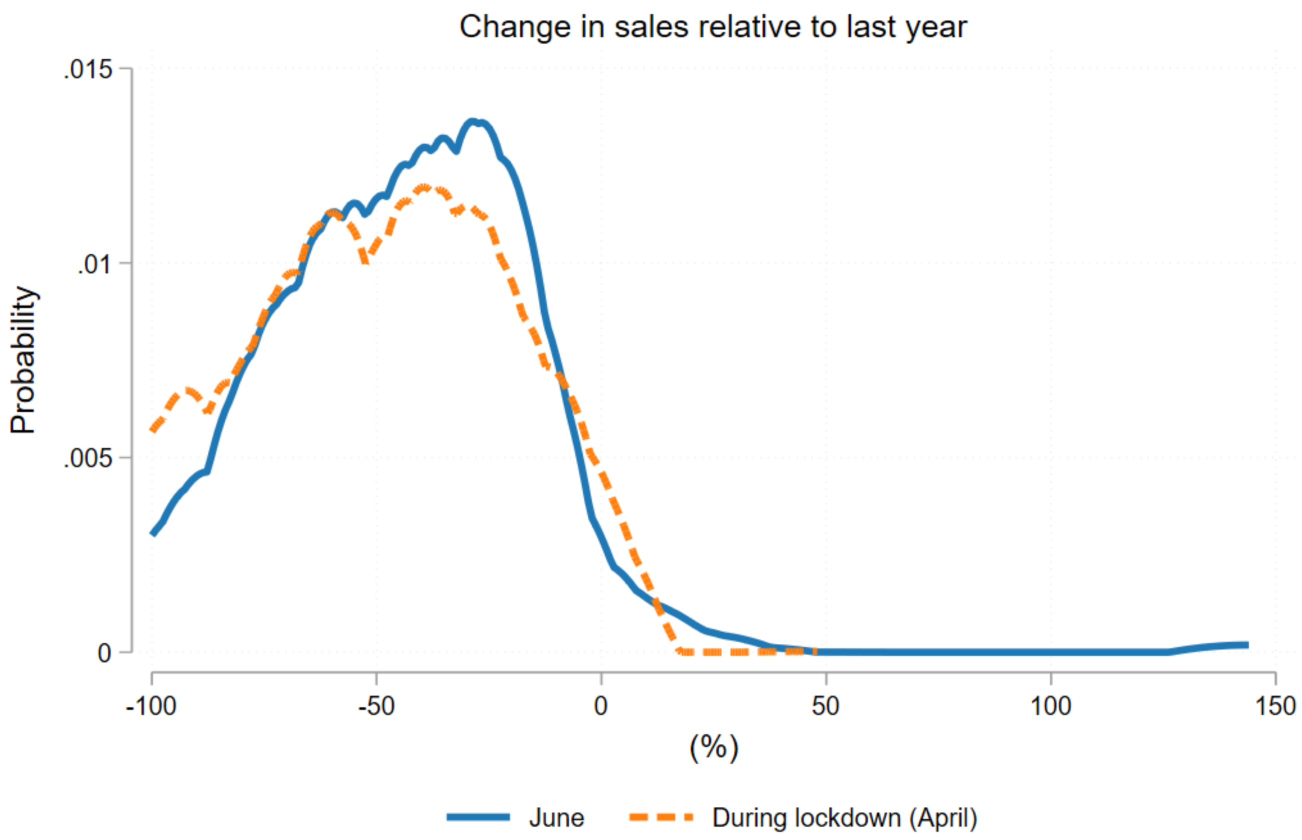
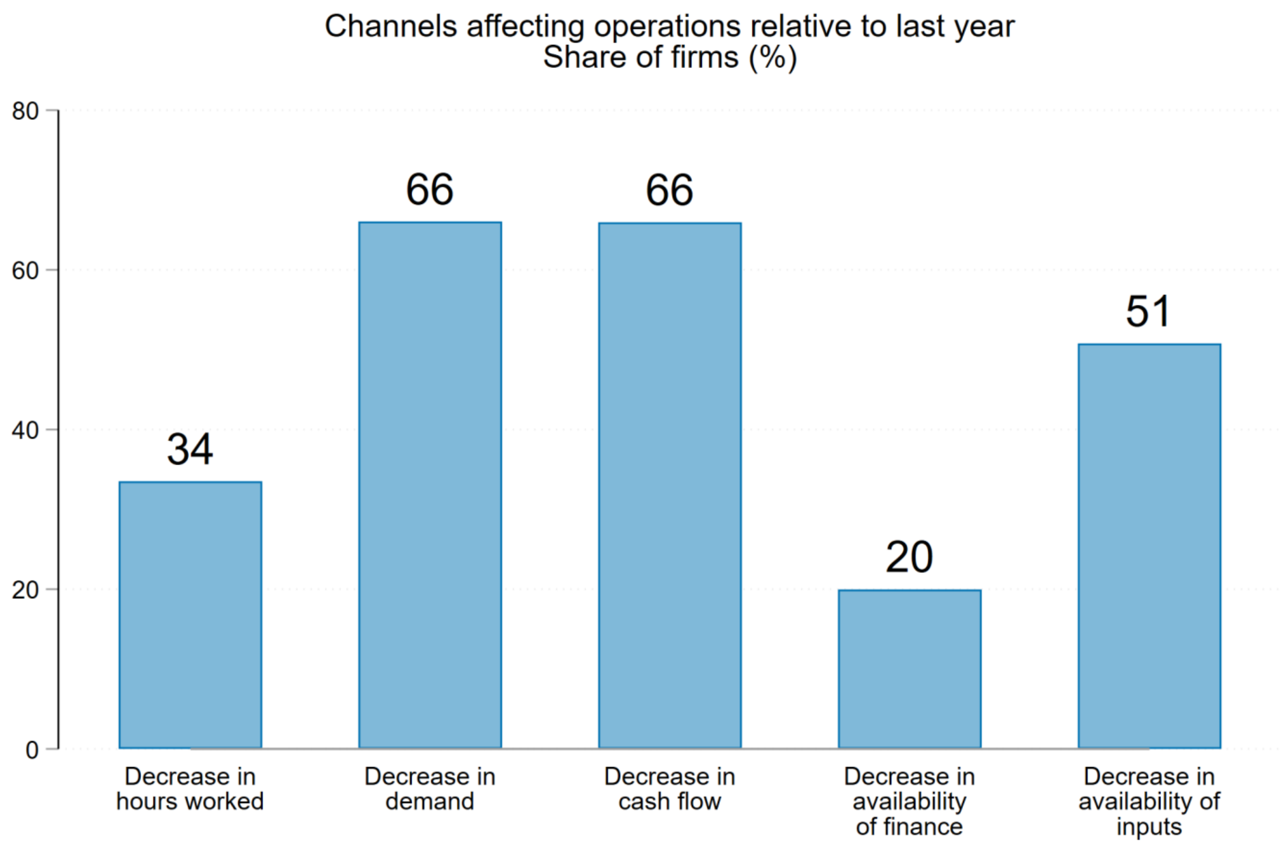
COVID-19 still has persistent negative impacts on sales in June 2020



- On average, sales decreases by 52% in April
- Although sales have recovered slightly in June, the vast majority of firms are still experiencing negative sales growth (-43%) compared to the same period last year.
- On average, revenue fell by almost 50 percent in April and just over 40 percent in June compared with the same period in the previous year

Firms continue to be affected by multiple shocks: falling demand and reduced cashflows are the most important

- About 2 in 3 firms reported being affected by decreases in demand and decreases in cashflow availability
- Just over 50 percent of firms reported a decrease in supply of intermediate inputs
- Firms in all sizes and sectors appear to be affected by these shocks similarly, with the exception of demand less affected for the agriculture sector



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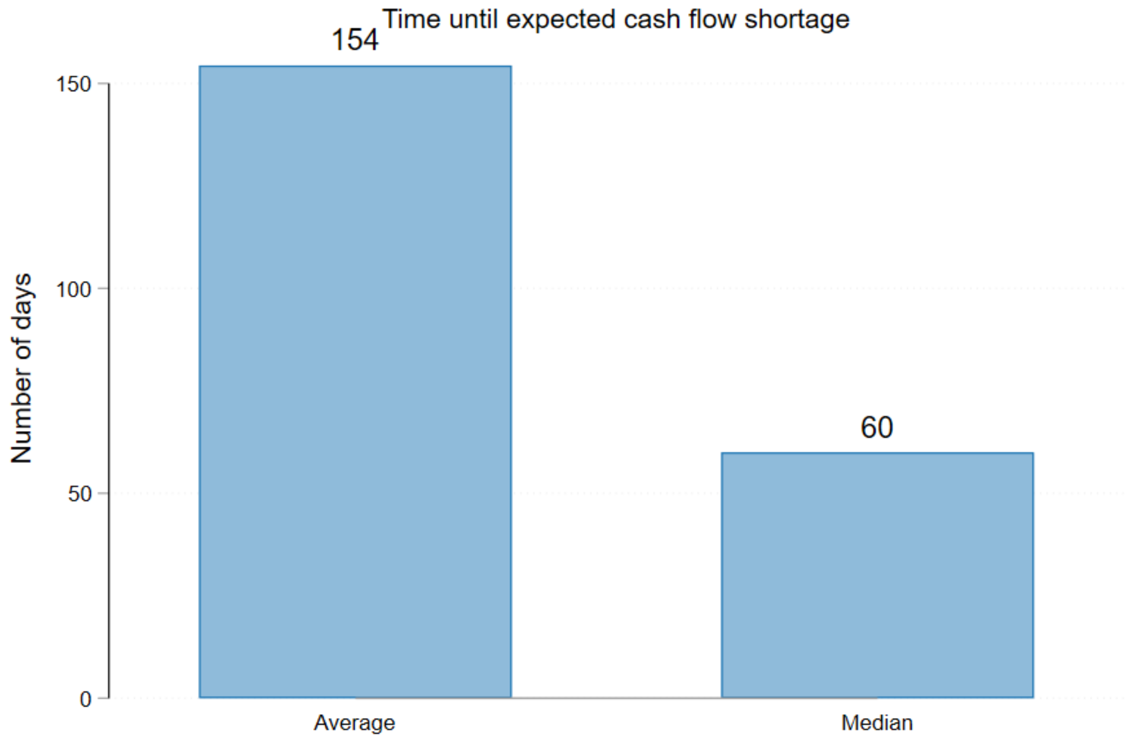
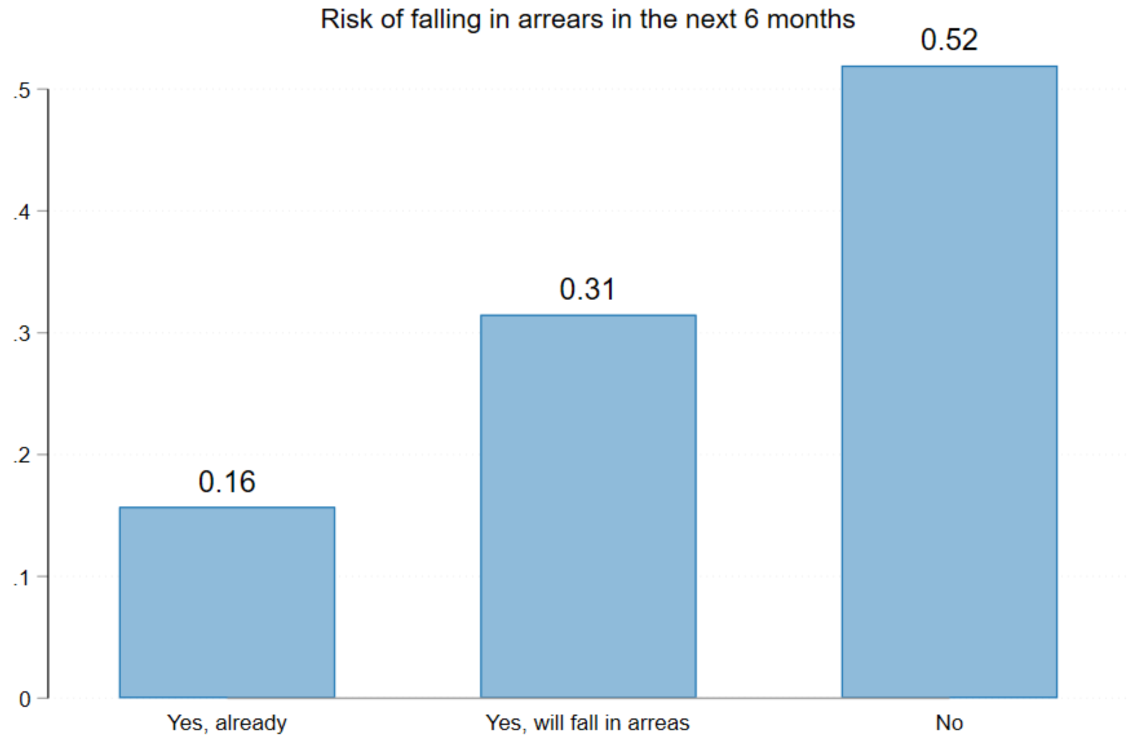
With reduced demand, liquidity shortages will become a pressing issue

- 50 percent of firms have less than 2 months of cashflow before facing shortages
- 16 percent of firms are already in arrears and 31 percent expect to fall in arrears within the next 6 months



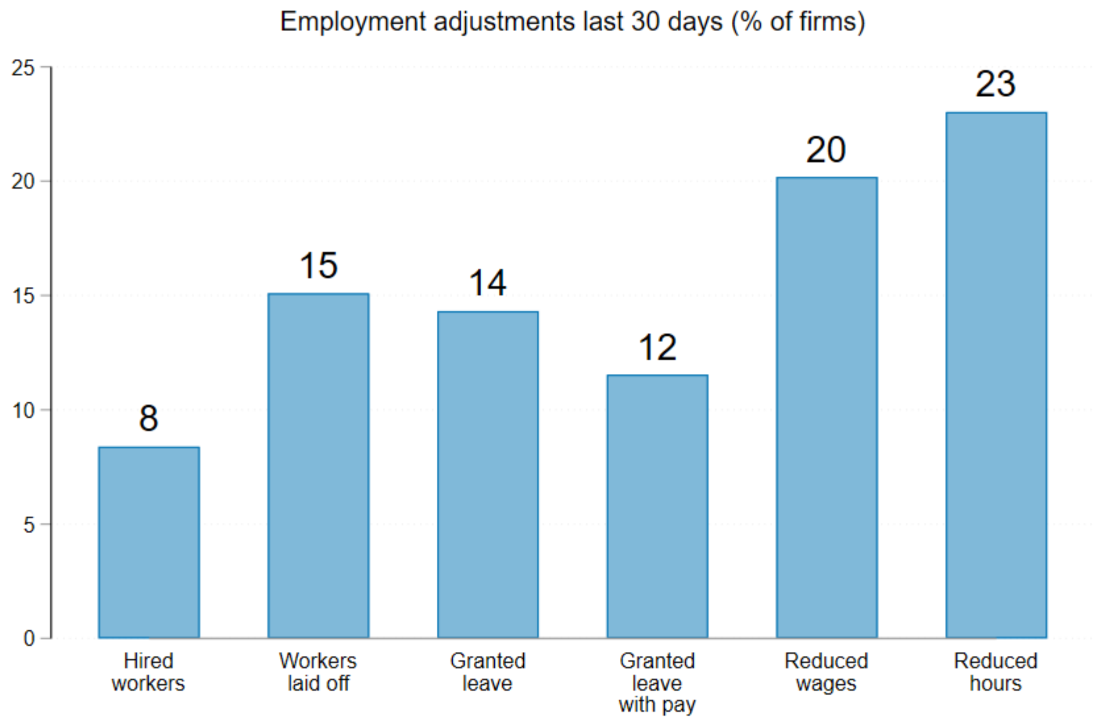


Employment measures

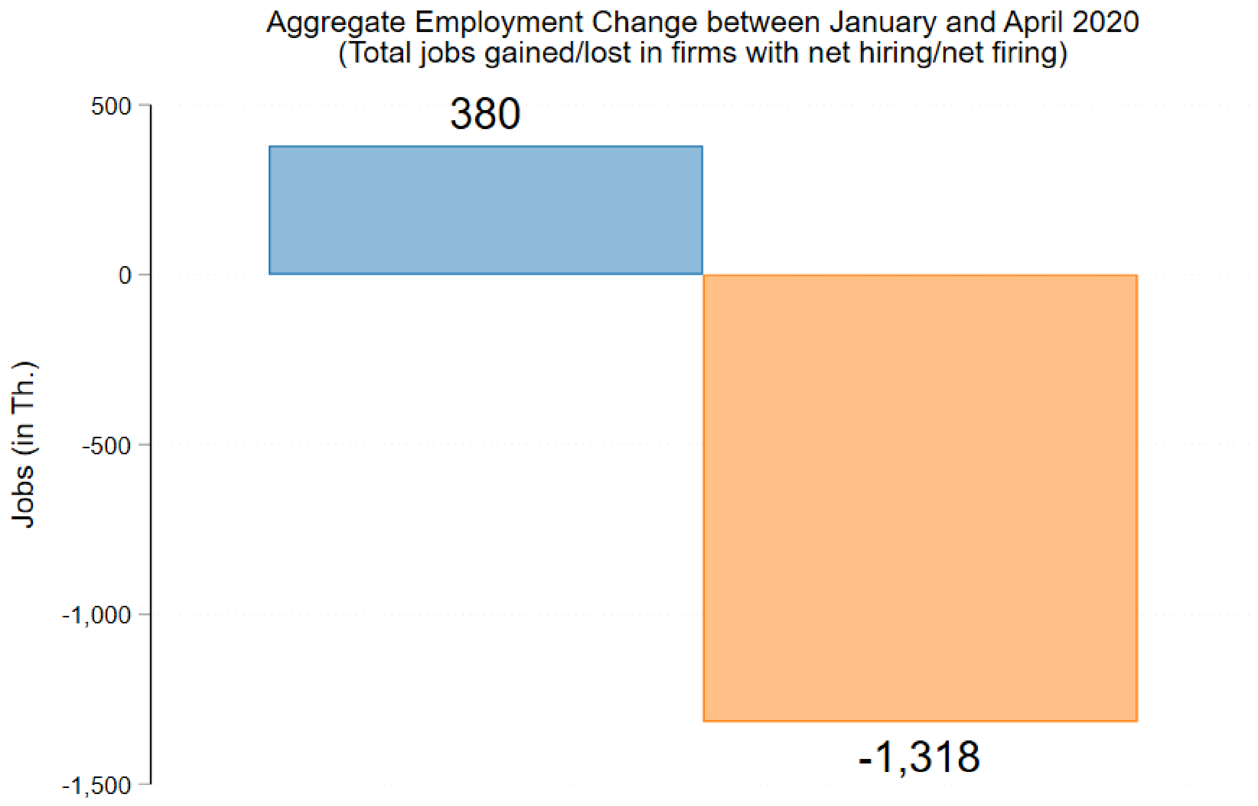
Firms can adjust by tightening their labor force and wage bill

The initial employment response has been dominated by cutting working hours and wages

- Despite facing falling revenue, around a fifth of firms have chosen to reduce working hours (23 percent) and/or wages (20 percent).
- Other firms either granted leave with pay (14 percent) or without pay (12 percent).
- While 15 percent of firms laid off workers, a small, but significant, portion of firms (8 percent) have also hired new workers.



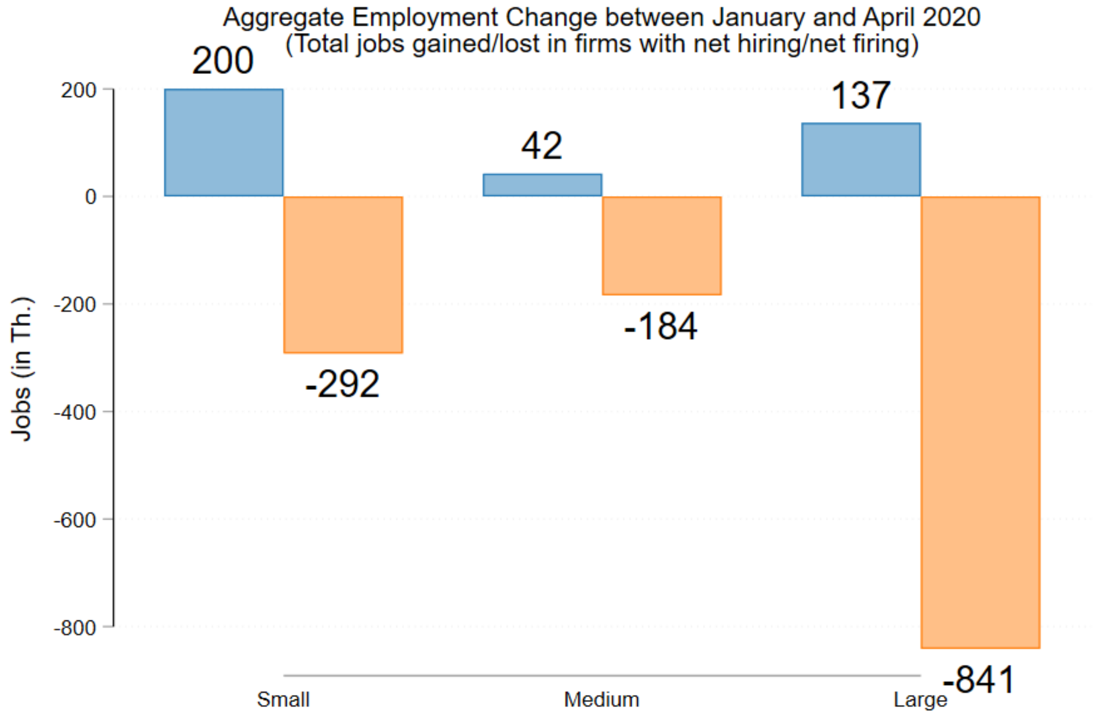
But the aggregate impact on employment has been extensive

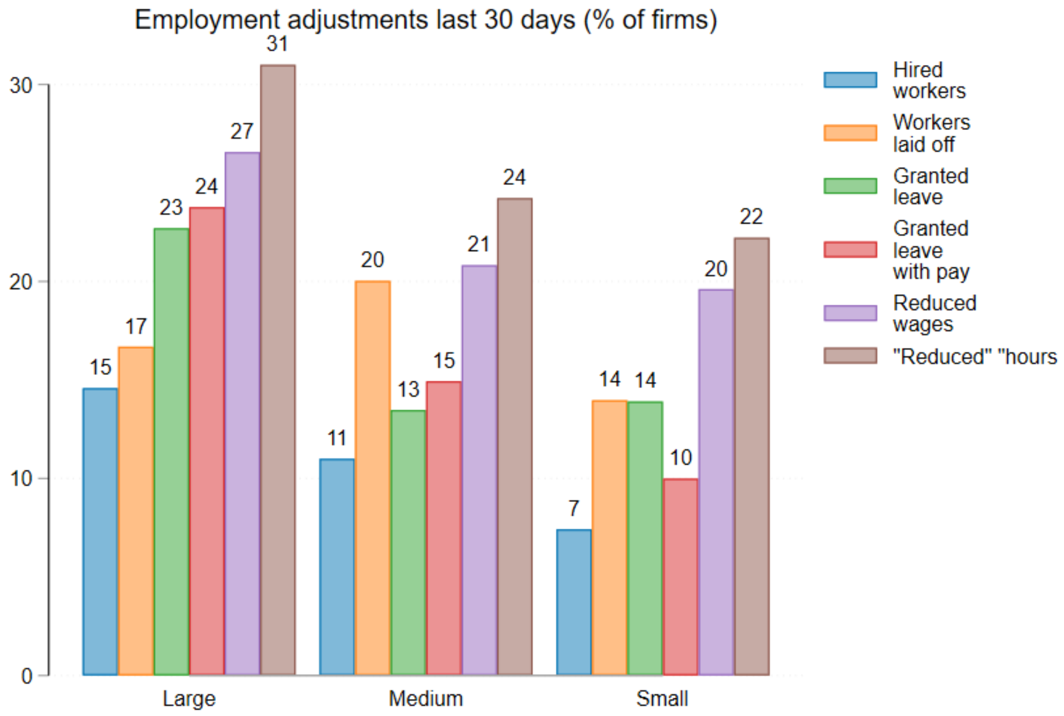


- The lockdown caused many firms to temporarily shutdown and reduce employment.
- Based on reported total employment between January 5 and April 15, it is estimated that there has been a million jobs losses among operating firms alone. The true employment loss is likely larger once due to closures and employment losses in micro and informal firms (which are not included in this survey) are taken into account.
- Some of these job losses may be temporary and reinstated once firms return to normal operational levels.

Employment measures are concentrated in large firms

- In aggregate, more than 70 percent net employment loss in April are due to employment changes in large firms
- As of June 2020, large firms are more likely than SMEs to have adjusted their workforce by granting leaves or reducing wages and working hours





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Uptake of Digital Technology

Firms can adjust by adopting new digital technology and business models

Firms turned to digital platforms to adapt to the COVID-19 pandemic

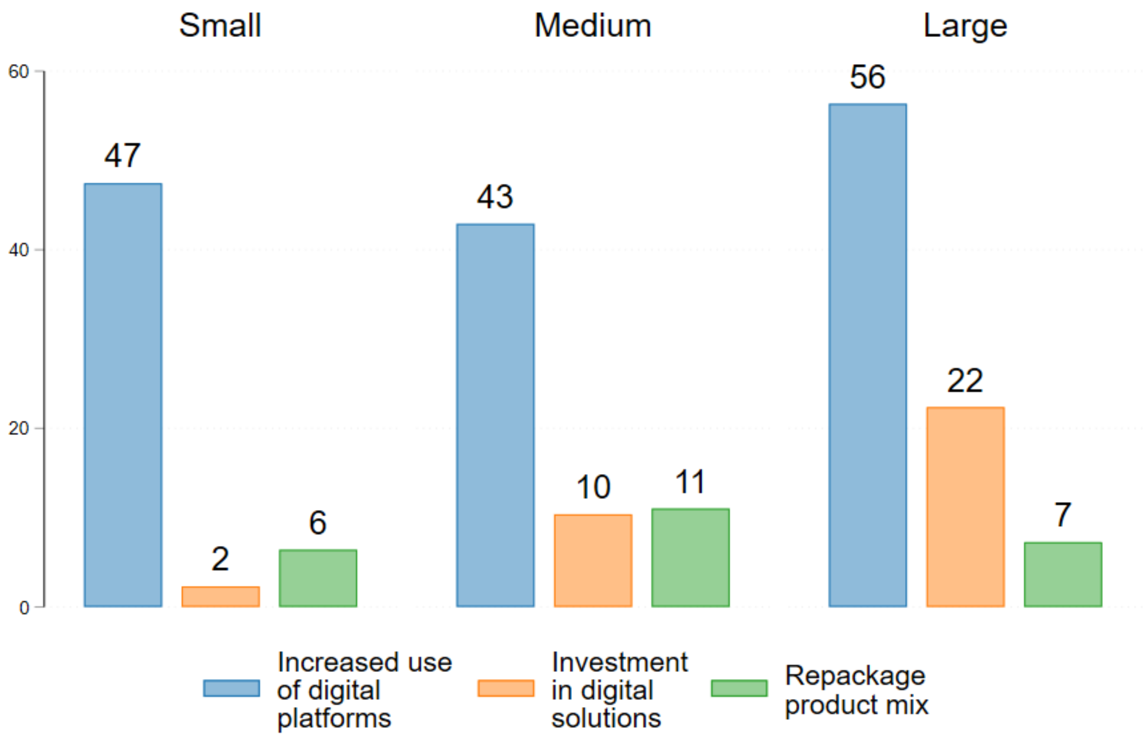
In response to the COVID pandemic,

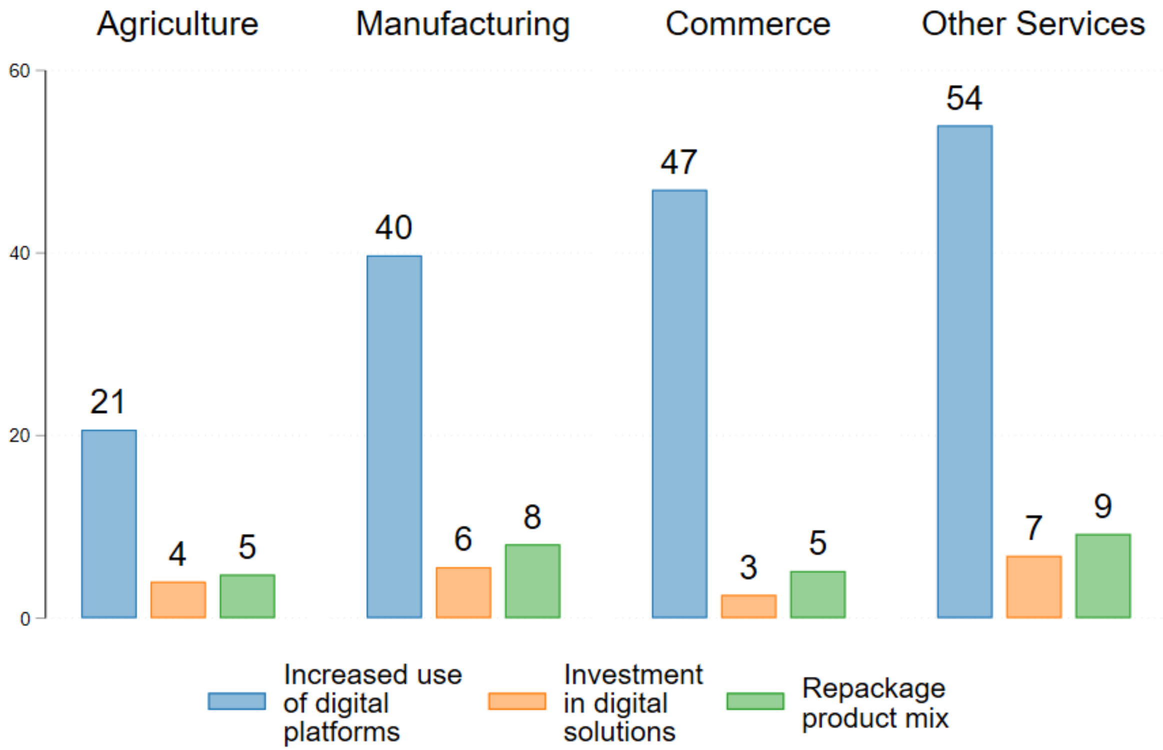
47% of firms increased their use of digital platforms

7% of firms invested in digital solutions

5% of firms repackaged their product mix

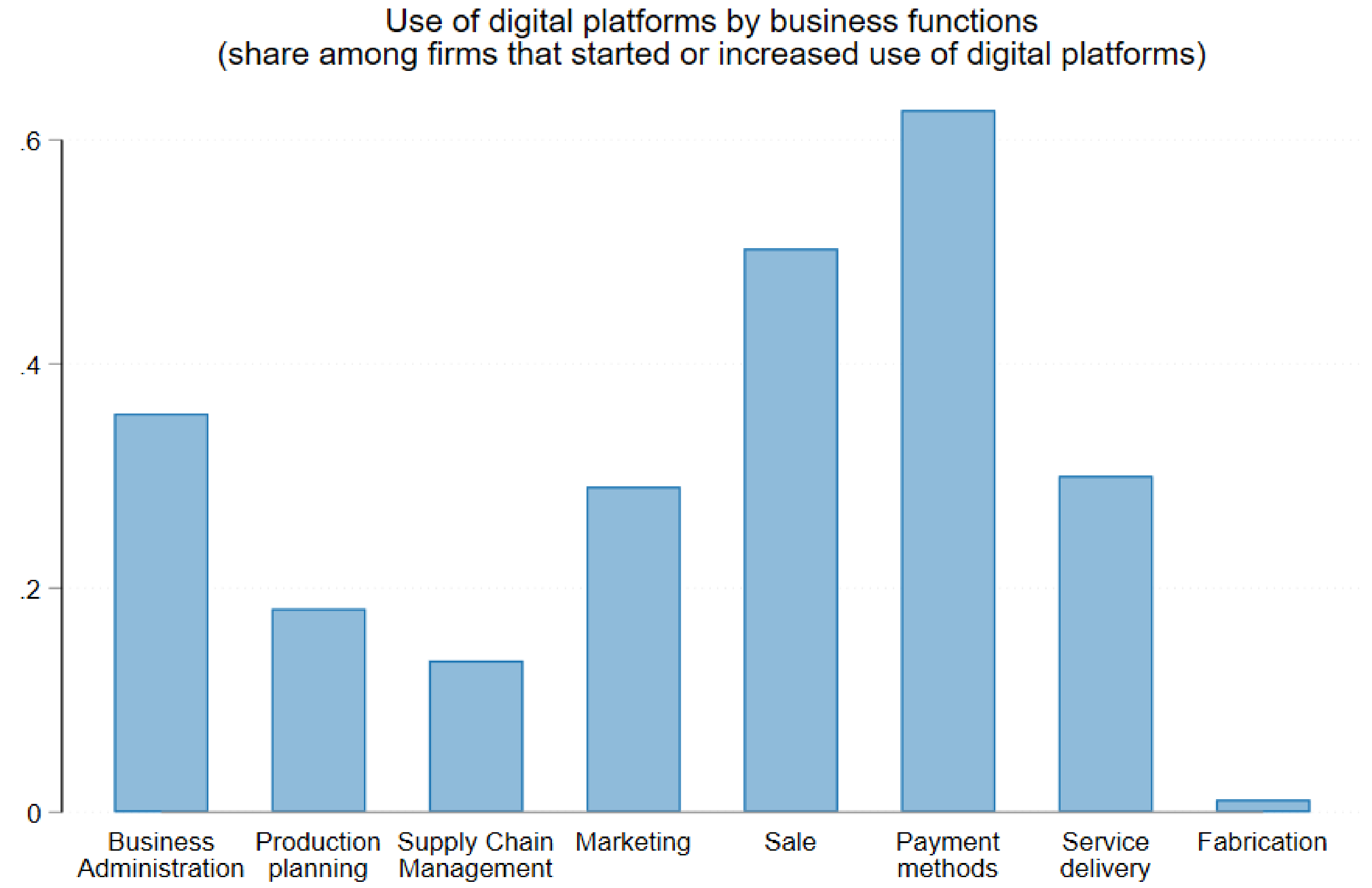
Uptake of digital platforms is higher among large firms and services firms





Digital adjustments are mostly in front-end functions

Most digital adjustments so far have focused on front-end functions such as sales and payment methods, which are likely less complex and cheaper to implement than changes in other business functions

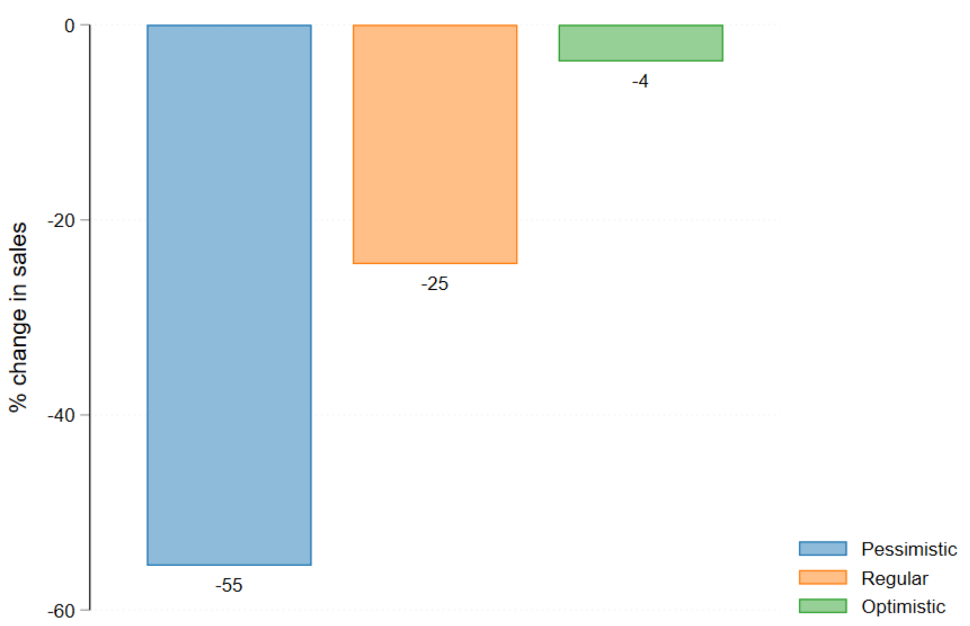


Uncertainty and business expectations

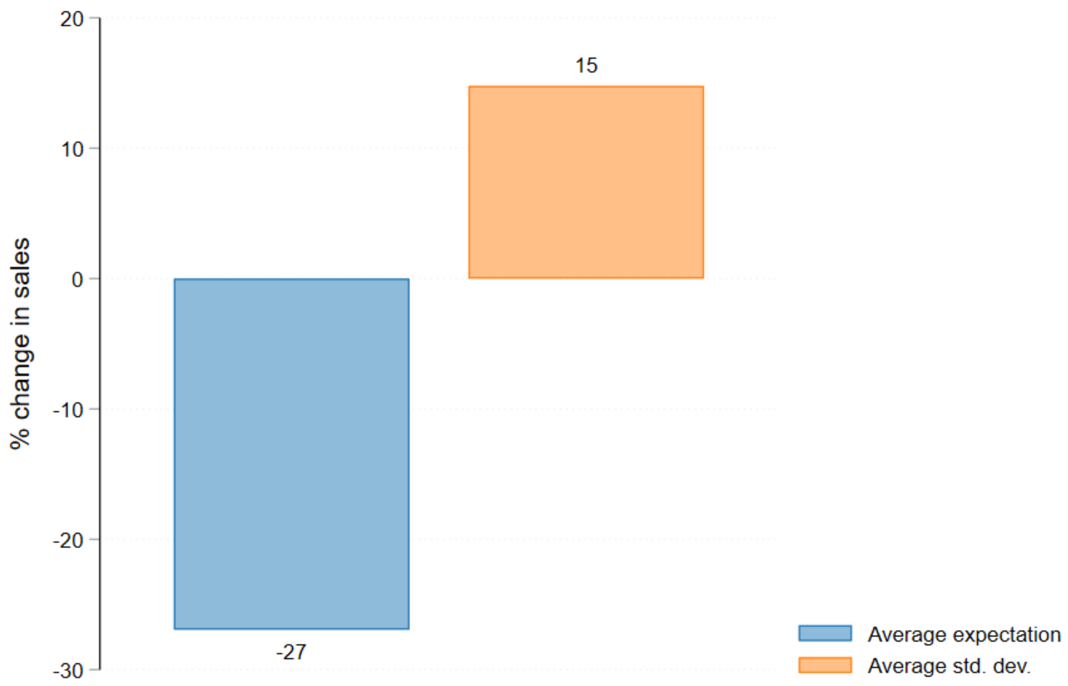
The pandemic creates uncertainty that can depress investments

Most firms expect negative sales growth in the next 6 months

On average, expectations of sales growth range from -55% to -4% depending on whether the firms believe the scenario will be optimistic, regular or pessimistic.



Taking into firm's assessment of the likelihood of different scenarios, the overall expected sales in the next 6 months is 27% lower than last year



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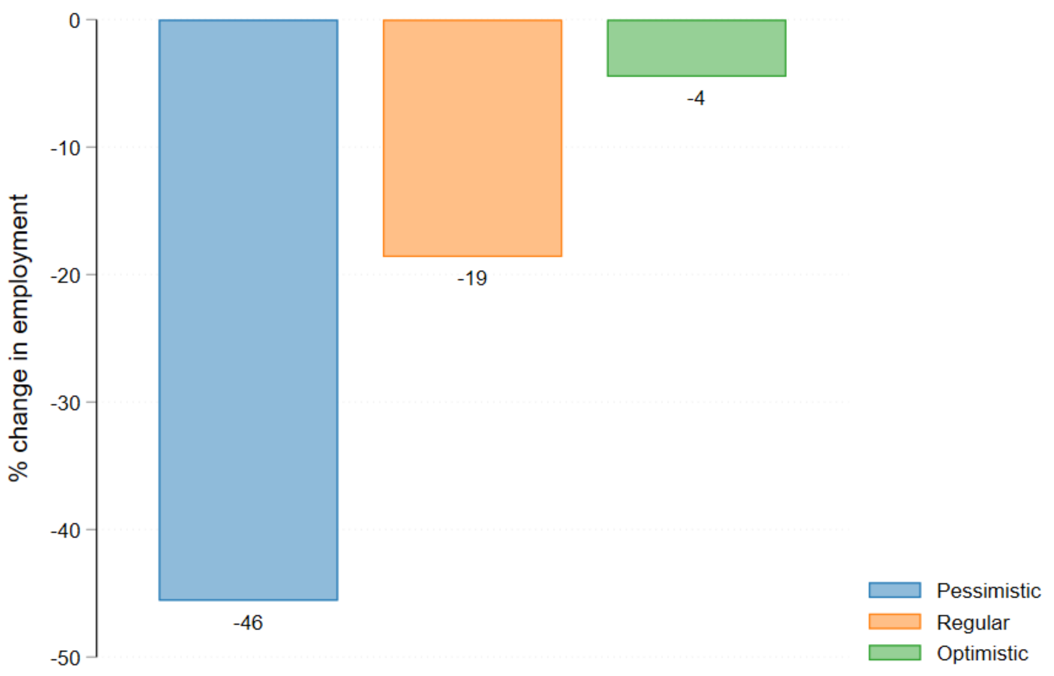
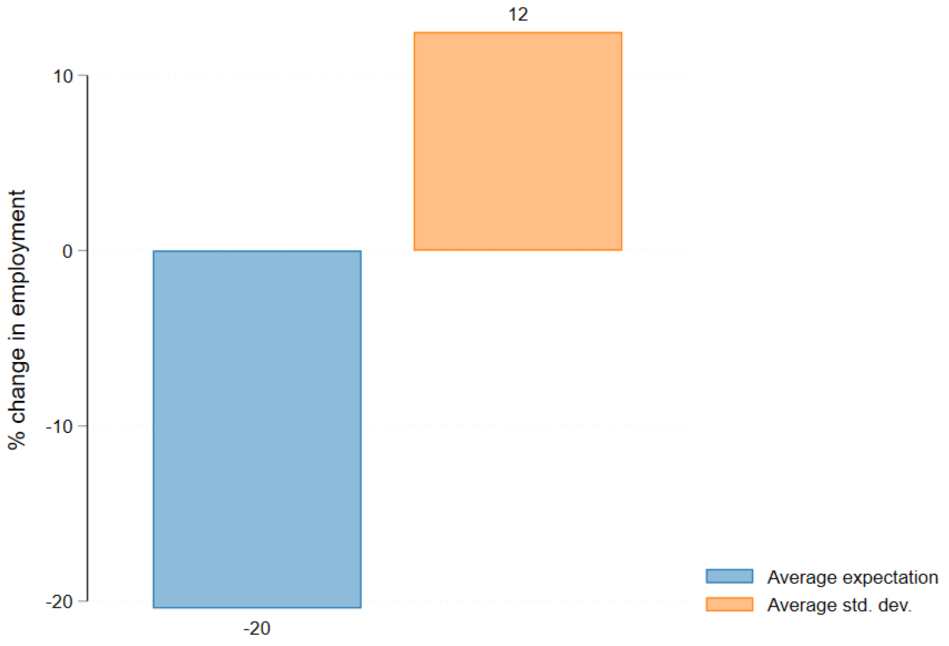
Employment expectations are similarly negative, but less severe than sales expectations

On average, expectations of sales growth range from -46% to -4% depending on whether the firms believe the scenario will be optimistic, regular or pessimistic.



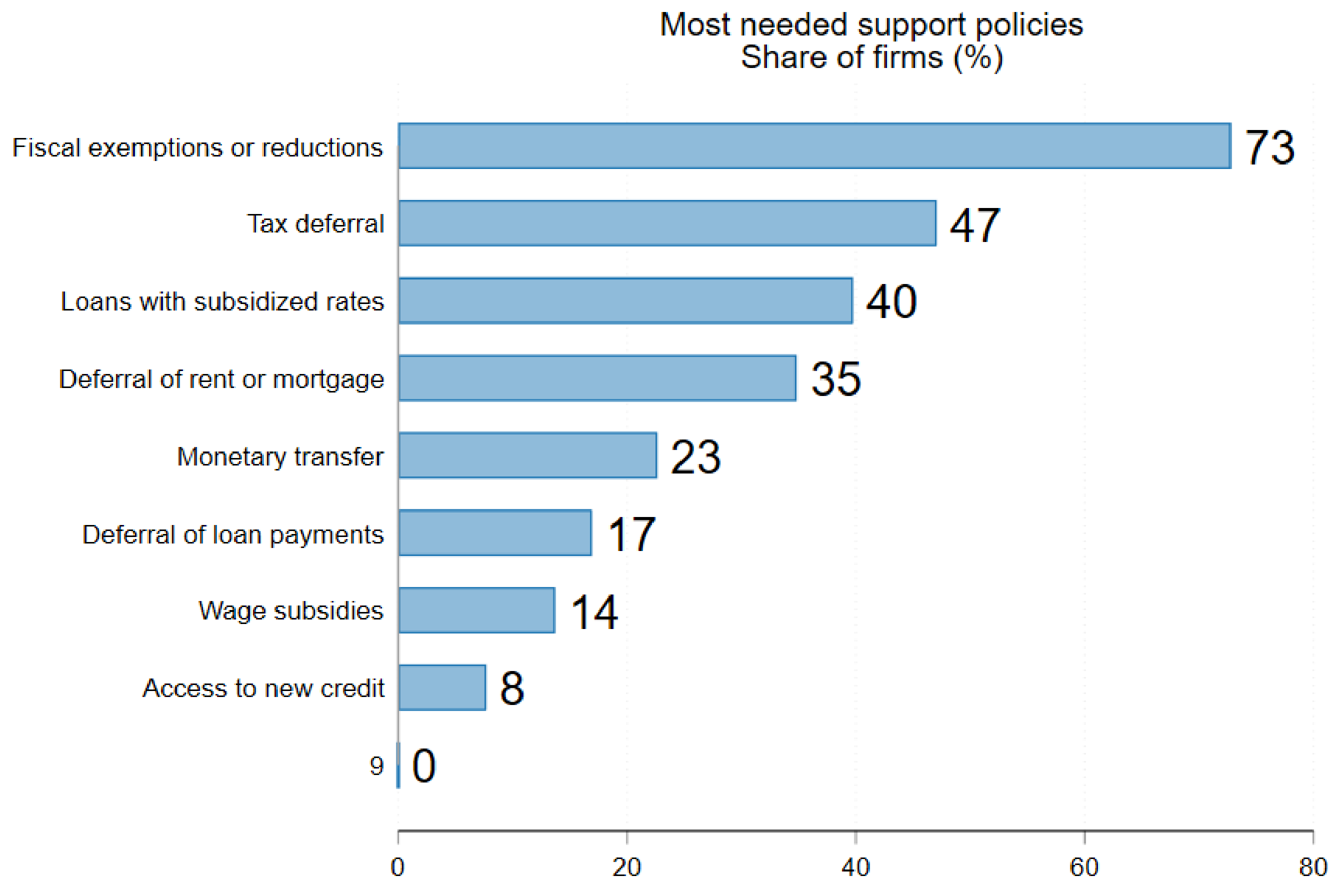
Taking into firm's assessment of the likelihood of different scenarios, the overall expected employment in the next 6 months is 20% lower than last year



Government Support

Governments can provide support to firms facing negative shocks

The top needed policy are…



- The top three needed support policies requested by firms are: fiscal exemptions (73% of firms), tax deferrals (47%) and loans with subsidized rates (40%).
- Less firms are interested in access to new credit or wage subsidies.

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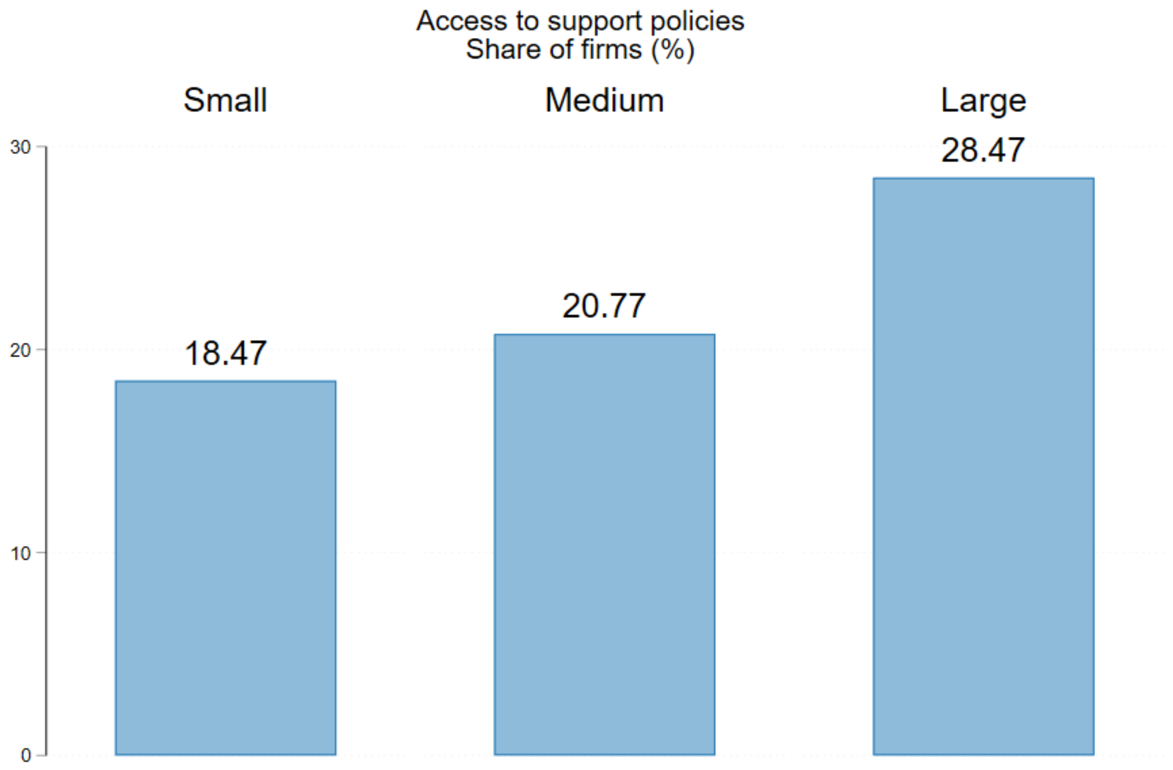
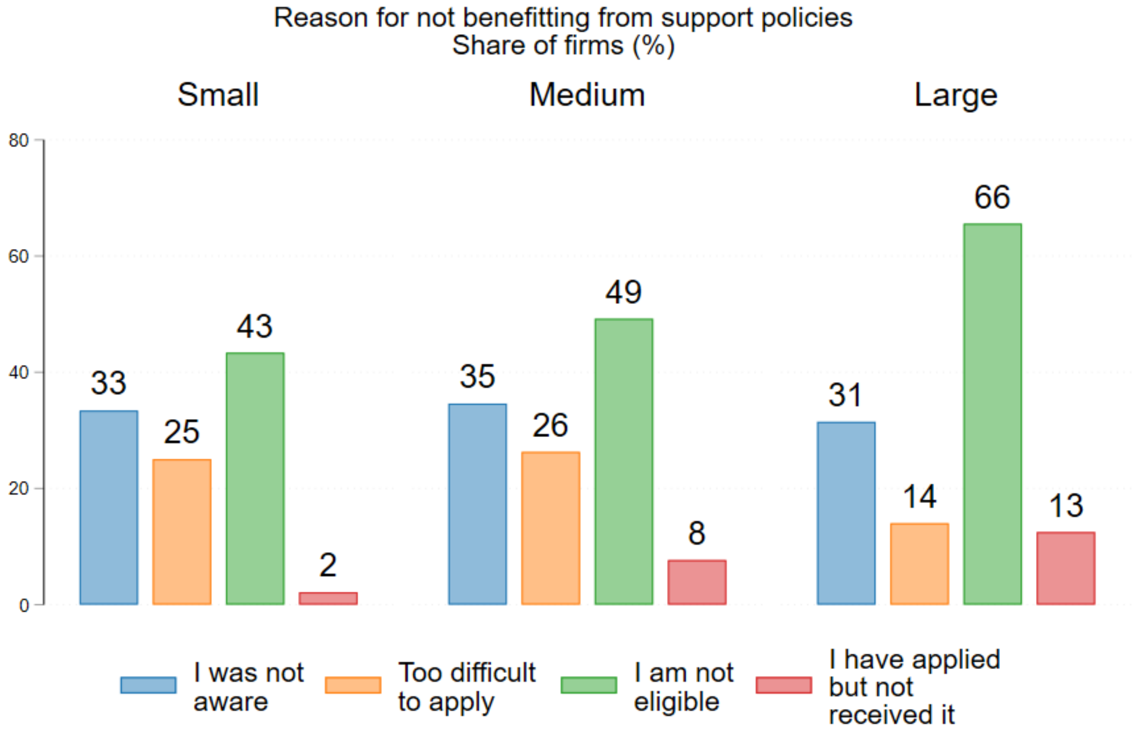
A small proportion of firms accessed government support policies

- 20-30 percent of small, medium and large-size firms accessed support policies
- Large firms were more likely to have received support as they can bear the administrative burden.



Lack of information and difficult procedures still constitute barriers to access government support

- The two main reasons that prevent firms from accessing these support policies is because they were ineligible and unaware of the support policies.
- Almost a quarter of SMEs also reported difficult procedures as a reason.
- Over 30% of firms, regardless of size, were unaware of the support policies.
- The eligibility criteria for the two main government support programs may have been too narrow to benefit firms.*



*Note: Government Decree No 41/2020/ND-CP allows firms to benefit from VAT and CIT deferrals depending on whether the firm is operating in some industries, produces certain key inputs, or is micro or small-sized. Resolution 42/NQ-CP provides firms with interest-free loans for salary payment if the firm has paid at least 50% of salary for worker suspension in April-June 2020.

Conclusions and Next Steps

Helping firms adjust to the "New Normal" (1)

- In the longer term, **efforts should focus on supporting firms adapt and recover to the "new normal"** through (i) adopting new technology and business models and (ii) more efficient government support.
- **The lockdown posed high temporary costs on businesses, which has lingered two months after the re-opening.** While many firms re-opened, 81 percent of firms still report a reduction in sales in June 2020 compared to last year. More than half of surveyed firms were affected by a decrease in input availability and are facing a deterioration of their cashflows.
- **Firms have resisted layoffs through reduced hours and/or wages and have turned to digital platforms** in response to the negative economic shocks. However, these short-term adjustments might prove insufficient as the pandemic continues to affect the global economy.

Helping firms adjust to the "New Normal" (2)

- **In order to facilitate technological upgrading and new ways to access customers**, firms will need additional support such as business development services, worker and manager training, and grant schemes. This is especially important for small and medium firms, who are less able to adjust to the changes.
- Concomitantly, while the government has introduced measures to support firms (such as fiscal exemptions, which firms find most useful), **access to support is still limited due to ineligibility, difficult procedures, and more importantly, a lack of information**. Future government support needs to recognize that this "new normal" is characterized by high uncertainty, which makes firms less willing to borrow and banks hesitant to lend.
- Firm support programs (such as loan and matching grant programs) will need to consider credit enhancement mechanisms such as risk sharing and guarantees to provide firms the needed financing to implement technological upgrading, new products development.
- The re-emergence of COVID-19 infections in July and potential re-imposition of social mobility restrictions can exacerbate liquidity constraints, increase uncertainty, and reinforce the need for more efficient support to firms to withstand any imminent economic shocks.

Implementation Plan of BPS Waves 2-5 in Vietnam

- Four more waves of the BPS will be implemented between August 2020 and May 2021. Wave 2 of the BPS will be rolled out in August-September 2020.
- These subsequent four rounds of BPS are financially supported by Australia Department of Foreign Affairs and Trade (DFAT).
- Additional analysis will also be performed on understanding impacts of technology in mitigating COVID impacts.
- A final report that summarizes and analyzes all five rounds of the BPS will be produced in May 2021.

Thank You

The slides were prepared by the World Bank team comprising of Shawn Tan and Trang Tran. The survey was implemented by Xavier Cirera and Trang Tran, supported by Tanay Balantrapu, Sarah Hebous, and Kyungmin Lee.

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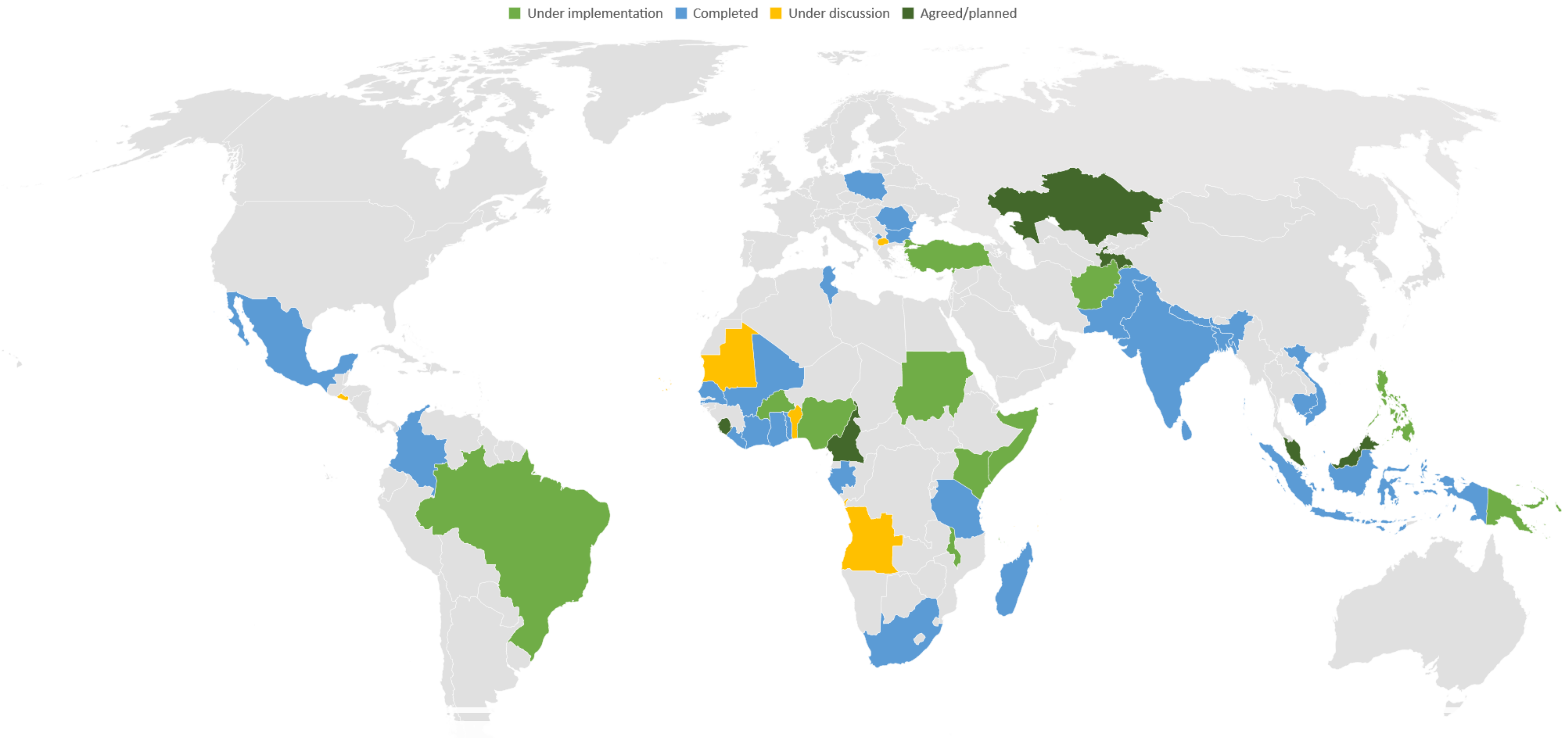

Covid-19 BPS around the world