



Impacts of COVID-19 on Firms in Vietnam



COVID-19 Business Pulse Surveys
Report No. 4 November 2021

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COVID-19 in Vietnam: impact of the Delta-variant

- The 4th COVID wave in the country is considered to officially start on April 29th, 2021
 - This is the most devastating COVID surge in Vietnam since the beginning of the pandemic
 - The country's previous "zero-COVID" strategy that combined strict travel controls, tracing, and quarantine failed in the advance of the Delta variant
 - By the end of August, ten thousand people have died of COVID, compared to one thousand one month earlier
- By mid-November, the number of infections and deaths are 1.21 million and 24,882, respectively
- The country's economic hub of Ho Chi Minh City was the hardest hit
 - 452,722 cases
 - 17,307 deaths

Main findings from BPS Round 4 (1)

- Due to the impact of COVID surges and prolonged lockdown and social distancing measures, business suffered greatly across the board
 - Closure rates reached unprecedented levels
 - Hours of operations declined significantly
 - Sales are affected by unprecedented disruption in supply chains
 - Sales suffered the biggest drop since June 2020, especially in Ho Chi Minh City and Hanoi
- Taking advantage of the fact that data collection for Round 4 took place amidst rapid changes in lockdown policies, we found some encouraging signs for recovery
 - Businesses are gradually re-opening in Ho Chi Minh City between October and November
 - Expected sales recovered on a weekly basis nationwide
 - Especially in Ho Chi Minh City, business confidence became instantly healthier right after lockdown was lifted on October 1st

Main findings from BPS Round 4 (2)

- Despite mass closures and declines in sales, by Round 4, firms rely more heavily on employment adjustments along intensive margins only
 - The share of firms that fired workers did not increase between Round 3 and Round 4
 - Instead, firms turned to granting leaves of absences and reducing hours and wages – implying major impact on labor income
 - This result also support our finding from the earlier rounds that firms were already trimming their workforce
- With reduced hiring, net employment declined, reversing the trend in the previous rounds
- While the share of firms with immediate cashflow problems only increased slightly, there is a significant increase in the share of firms expecting payment issues
- A significant share of firms (7 percent) also expect to file for bankruptcy

Main findings from BPS Round 4 (3)

- Firms continue to rely on technology to adjust, with the share of workers working from home and online sales more than doubled compared to Jan 2020 in large cities
- Access to government support increases by close to 60 percent, driven largely by tax deferrals and reductions
- Vaccination is the springboard for recovery: firms with higher vaccination rates are more optimistic about future sales
- Vaccination rates are high in the major cities but remain below the threshold needed for community immunity in the other provinces
- Support for future lockdown is weak in Ho Chi Minh City and Hanoi but higher in other provinces

Policy Takeaways

- Complete vaccination is imperative
 - Impact has been severe but there are signs of optimism with increased vaccinations.
 - Fragmentation in COVID policies at the province level led to confusion and disruption in supply chains during Round 4. Support for further lockdowns remains relatively high in low-coverage areas, which may lead to future disruptions with new infection surges. Given Vietnam's geography, the closure of a few provinces is enough to lead to bottlenecks and congestion.
- Given the significant impact on employment/wages and high risk of non-payments and bankruptcy: continued government support is needed with
 - Simpler procedures to facilitate access
 - Increasing use of non-fiscal measures such as loans, guarantees – including those to support hiring and salary payment
 - Expand financial and consulting support for digital adoption such as e-commerce solutions, digital collaboration tools, supply chain management, etc.

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.

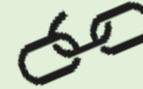
The **COVID BPS survey** is a rapid survey designed to measure the impact of shocks on firms' sales and employment, their operations, expectations as well as their adjustment mechanisms and access to government support.



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**.



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 decreases will affect access to finance



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).



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

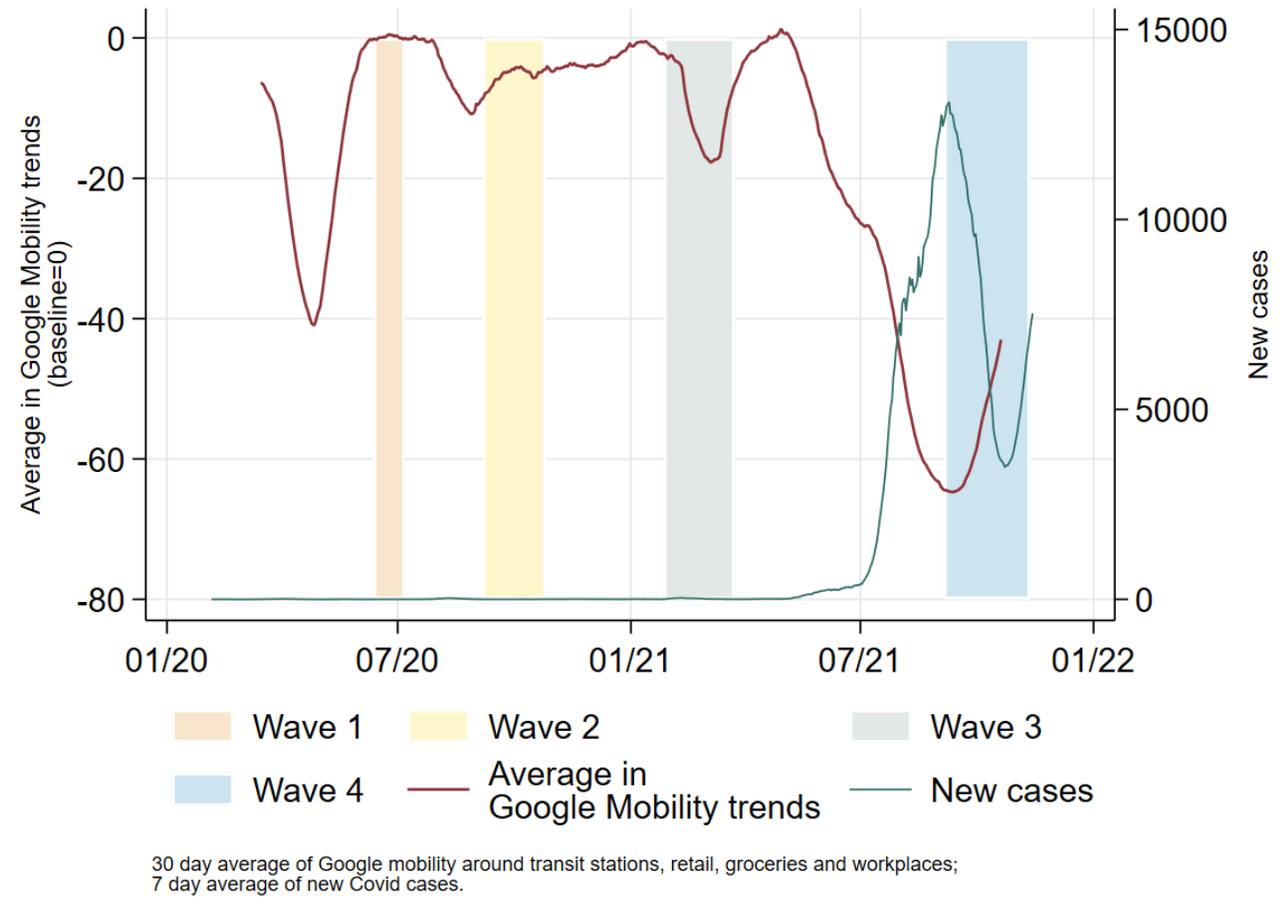
Government Support



Governments can provide fiscal support to firms facing negative shocks

The Vietnam Business Pulse Survey (BPS)

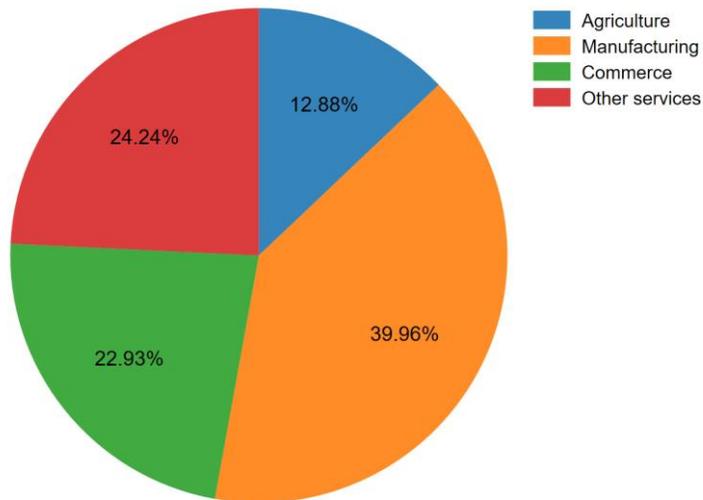
- The World Bank, in collaboration with the **General Statistics Office**, conducted the BPS in June 2020 (Round 1), September/October 2020 (Round 2), January 2021 (Round 3), and September-November 2021 (Round 4).
- Round 4 tracks results on key firm outcomes from the first 3 rounds; with a special focus on *vaccination* and *support of lockdown policies*
- Round 4 survey was implemented after a surge of infections and lockdowns.
 - The 4th COVID wave in the country is considered to officially start on April 29th, 2021
 - Ho Chi Minh City (HCMC):
 - Social distancing (Directive 15) started on May 31st
 - Lockdown (Directive 16) started on July 9th and ended on October 1st
 - Hanoi:
 - Lockdown (Directive 16) started on July 24th and ended on September 21st
 - Others:
 - Lockdown (Directive 16) started in 19 Southern provinces on July 19th, started to be relaxed in a few provinces on September 7th



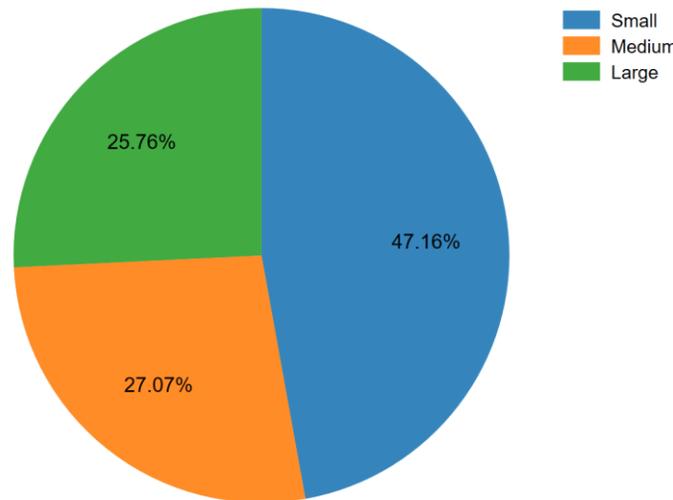
Sample Characteristics

- Firms were sampled randomly from the Technology Adoption Survey, recently implemented in February 2020.
- The sample is representative at three different firm size categories and four broad sectors: agriculture, manufacturing, commerce (wholesale and retail), and all other services.
- There are 458 firms in BPS Round 4 sample
 - By sector: Agriculture (62 firms), Manufacturing (198), Commerce (113), and Other Services (116)
 - By size: Small (250), Medium (120), and Large (119)
 - By location: Hanoi (145), HCMC (119), and Other (225)

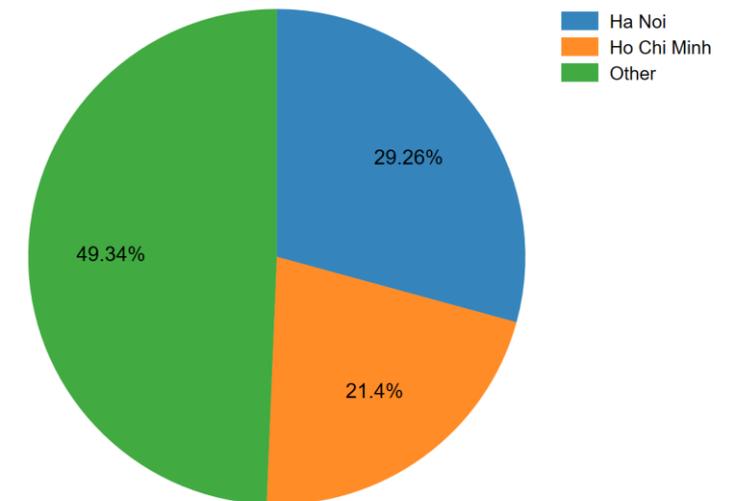
Sector



Size



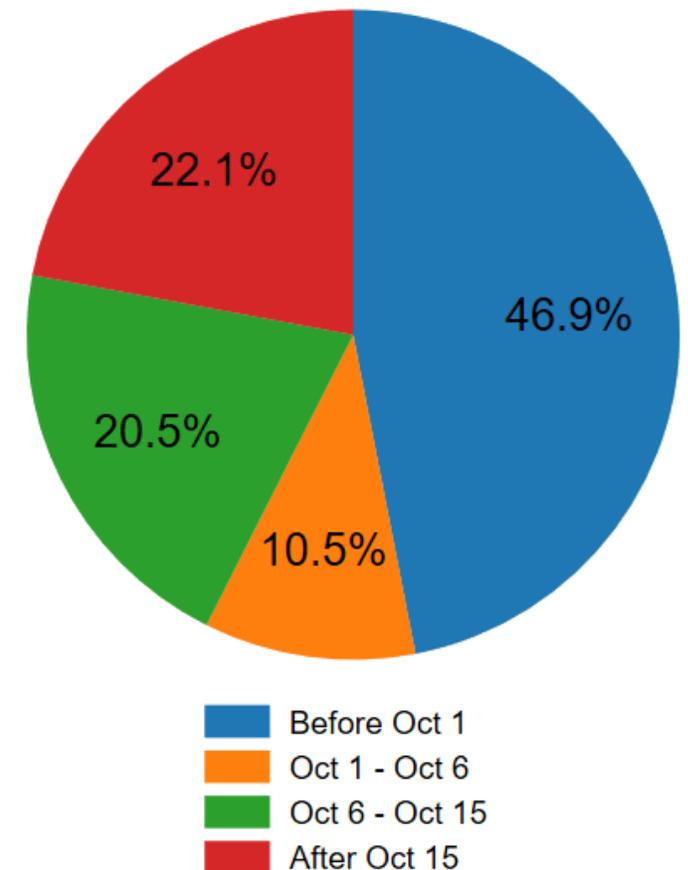
Location



Distinct features of BPS Round 4

- BPS Round 4 is distinct from the previous rounds in that it was implemented during an active COVID surge amidst rapid changes in lockdown and social distancing policies
 - This brought about multiple challenges to data collection and analyses
- Data collection
 - Widespread infections and prolonged mandated closures in HCMC demoralized firms, which led to low response rates
 - Panel retention rate:
 - 72 firms (out of 489 firms) dropped out of the survey between Round 3 and Round 4, 48 of which is in HCMC
 - 41 replacements were added to the final sample
- Data analyses
 - As the situation was dynamically changing, firms' responses (especially on questions regarding operational status, future business prospects and investment plans) are dependent on the interview dates
 - We account for this possibility by breaking down responses by important turning points in lockdown policies

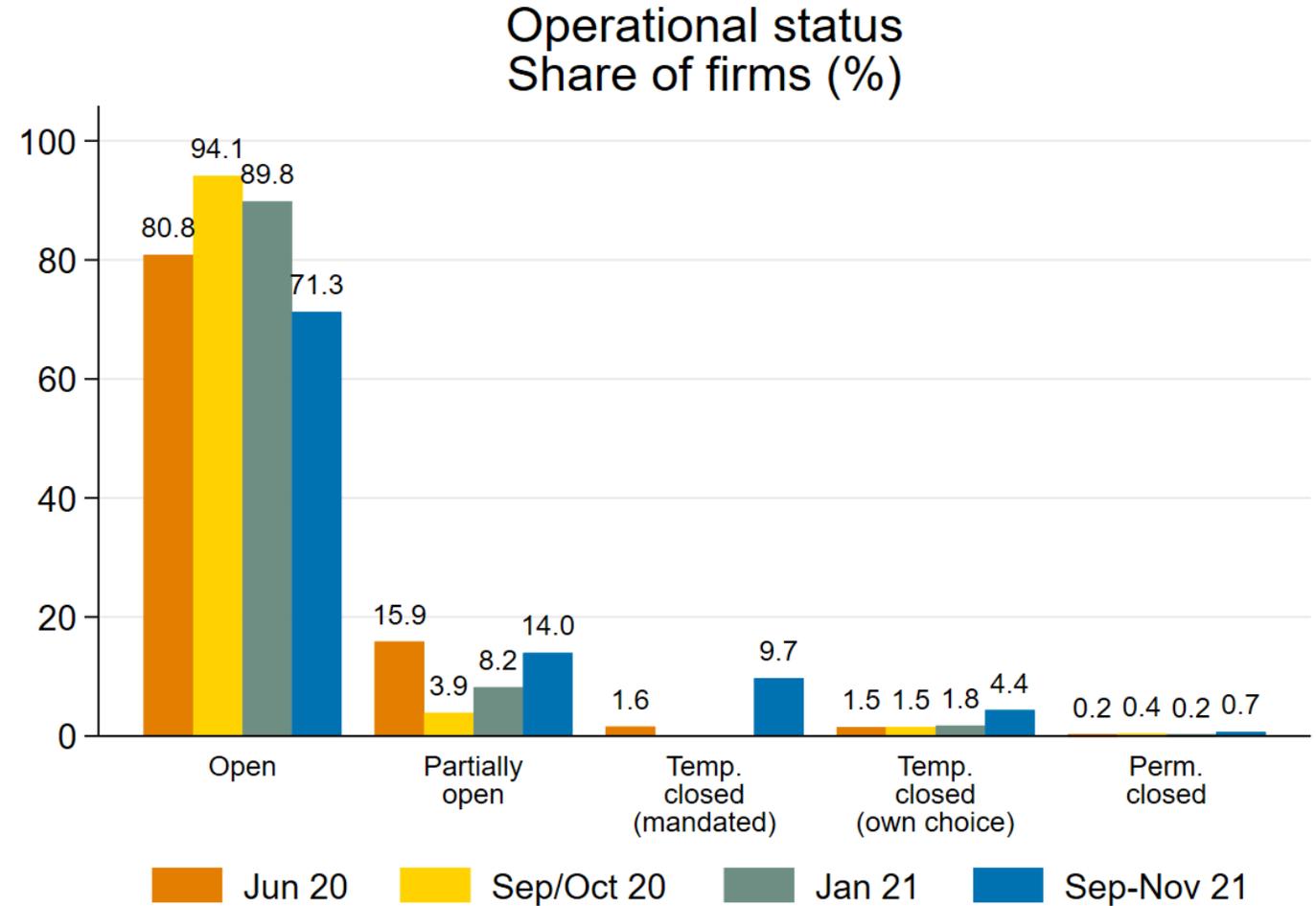
Almost half of firms were interviewed after lockdown was lifted in Ho Chi Minh City on October 1st



Firm survival and operations

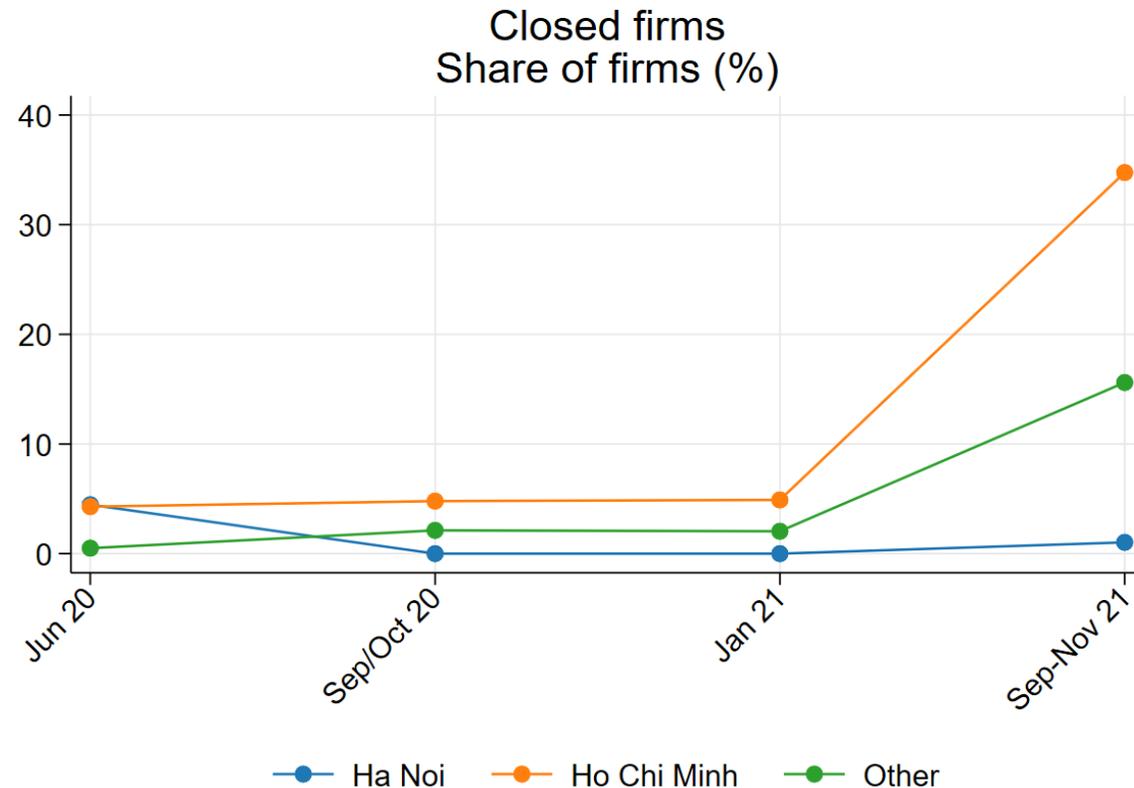
Mass closures in Round 4

- Only 71 percent of firms are fully open, compared to 90 percent in January
- More firms are temporarily closed, either by mandates or by choice



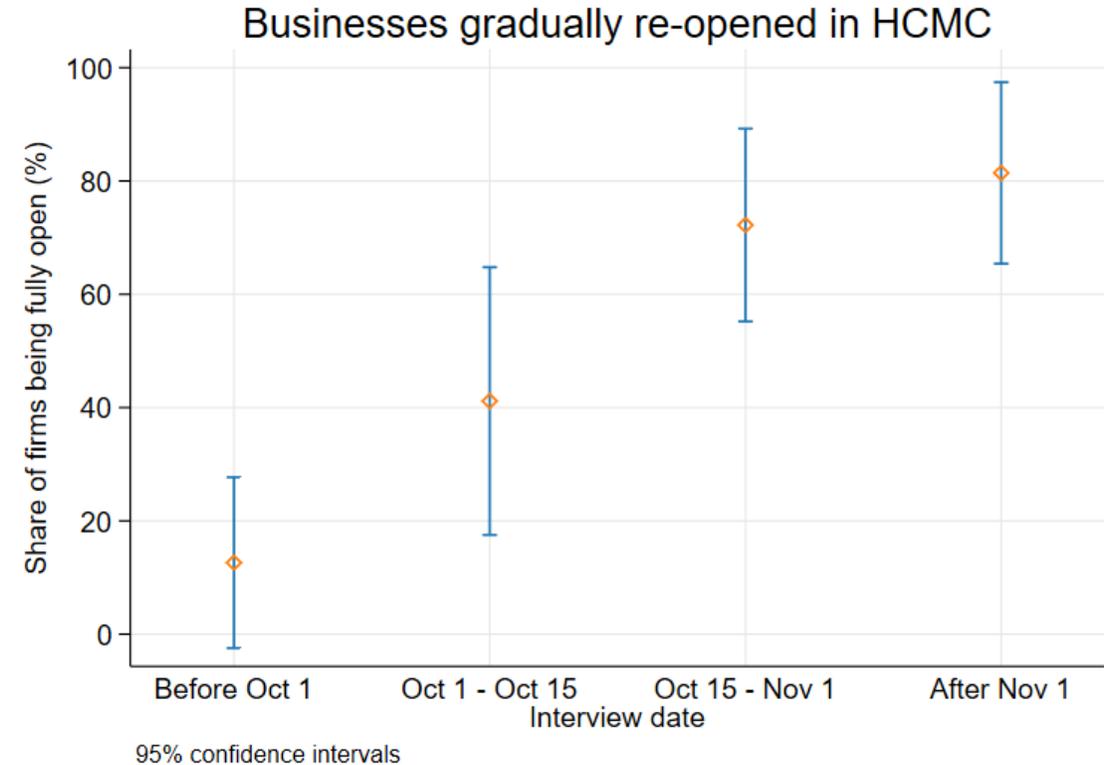
The increase in closures is driven by firms in HCMC

- While closure rates stayed similar across geographical regions in the first three BPS waves, it surged to 35 percent in HCMC in Round 4
- The relatively high closure rate in the “Other” category is driven by Southern provinces that were also under lockdowns
- The closure rate in Hanoi remained similar to its level in Round 3
 - Hanoi opened up again on September 21, two days before data collection started in the capital



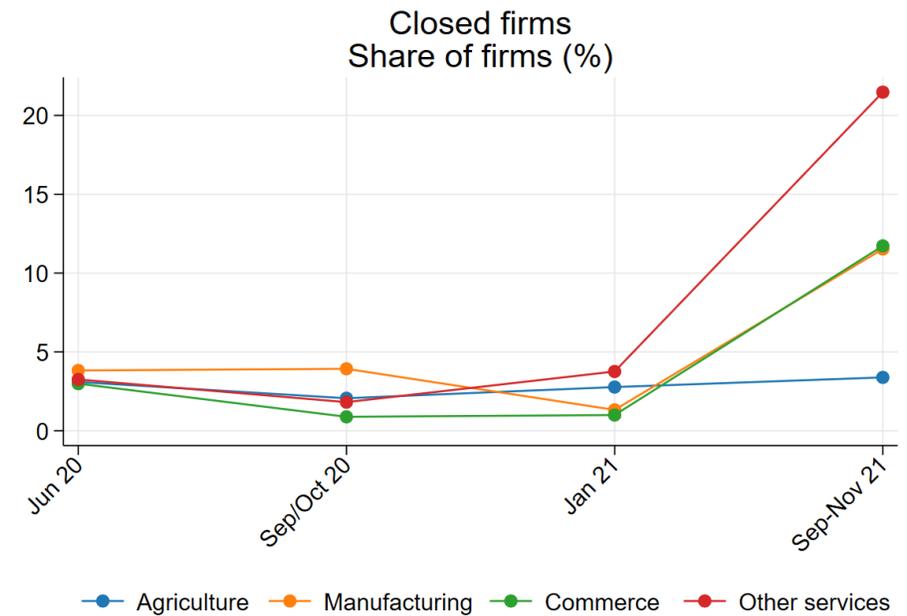
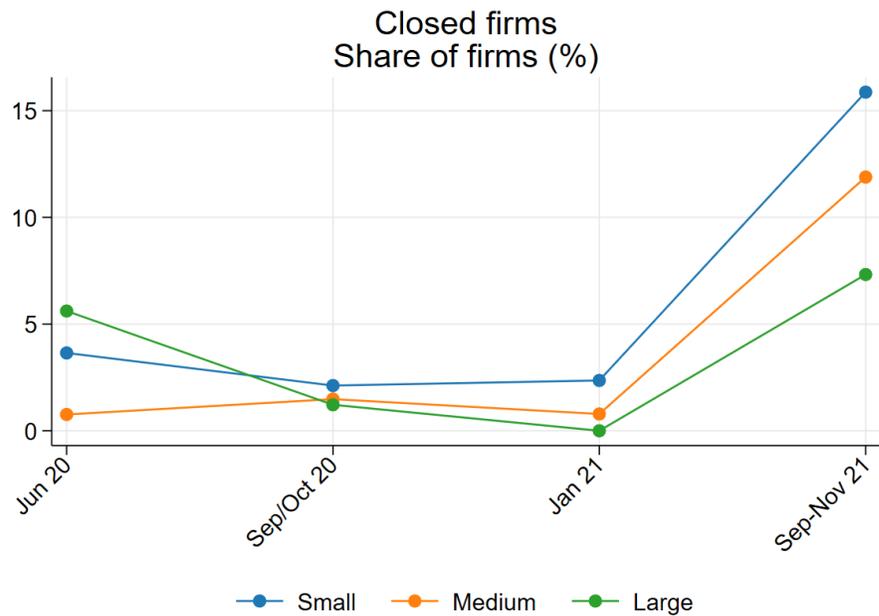
Steady, but incomplete, reopening after lift of lockdown in HCMC (October 1st)

- Since lockdown was lifted, businesses in Ho Chi Minh City have gradually re-opened
 - 81 percent are fully open among those interviewed after November 1st, compared to those interviewed before October 1st
 - Nonetheless, almost 20 percent of firms are still not fully operational even one month after the city opened up



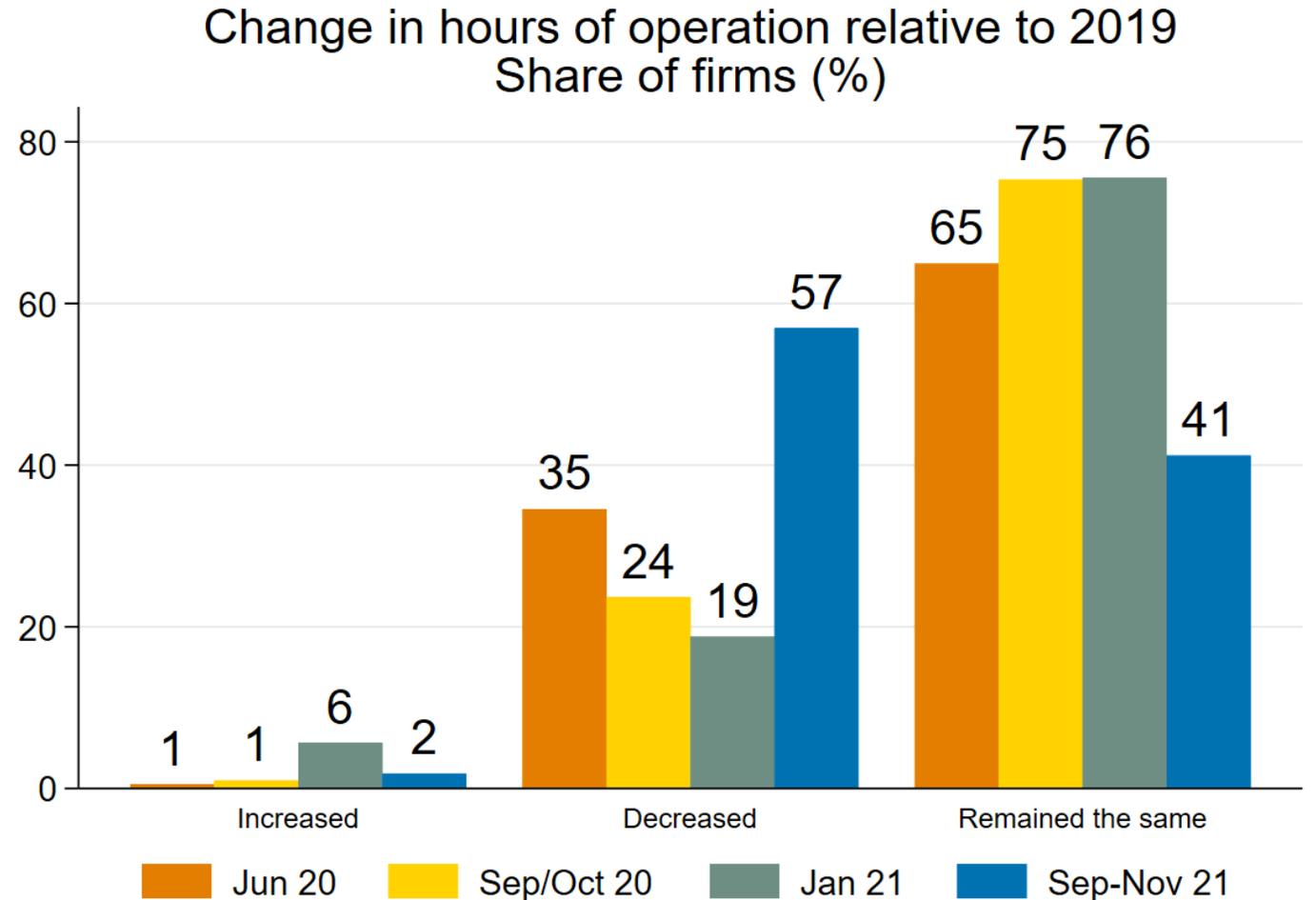
Higher closure among small firms and non-retail services

- Smaller firms are more likely to close their doors due to COVID surges and lockdowns
- The closure rates amongst firms in “Other services” (22 percent) are markedly higher than in other sectors



Unprecedented reduction in operation hours

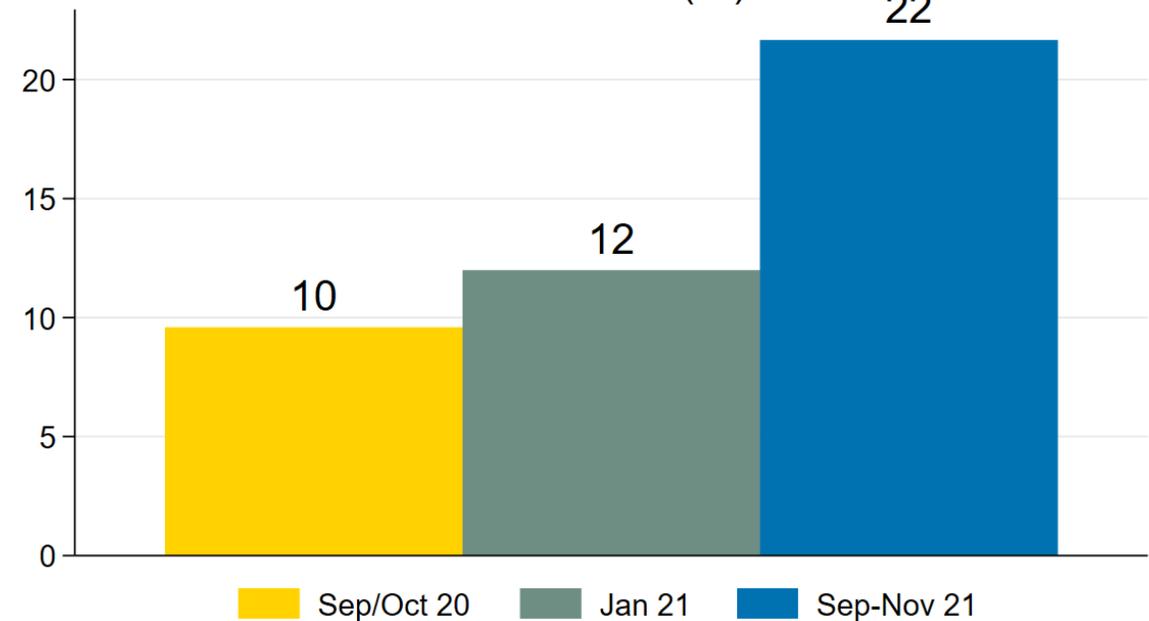
- Among firms that stayed open, hours of operation dropped significantly
 - 57 percent reported reduced hours, compared to the next highest level of 35 percent in June 2020



Unprecedented disruption in supply chains

- Up to 22 percent of interviewees reported difficulty fulfilling orders due to issues with suppliers and supply chains
 - This is double the rates reported in the previous rounds
 - In addition to forced closures at suppliers due to lockdowns and COVID infection, complicated travel restrictions imposed by provincial authorities contributed to delays in the supply chain

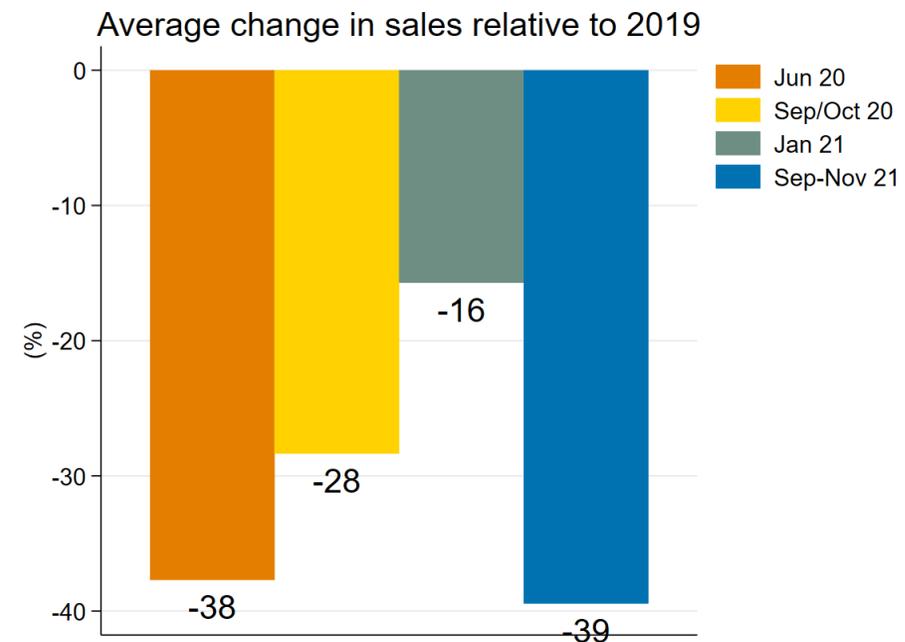
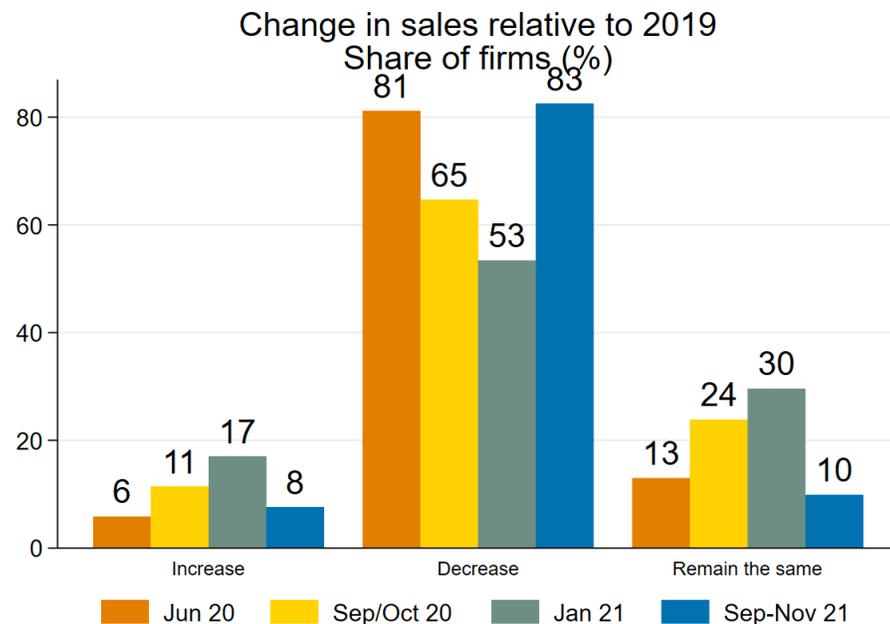
Difficulty fulfilling sales orders due to disruptions, delays or issues with suppliers or supply chain
Share of firms (%)



Impacts on Sales

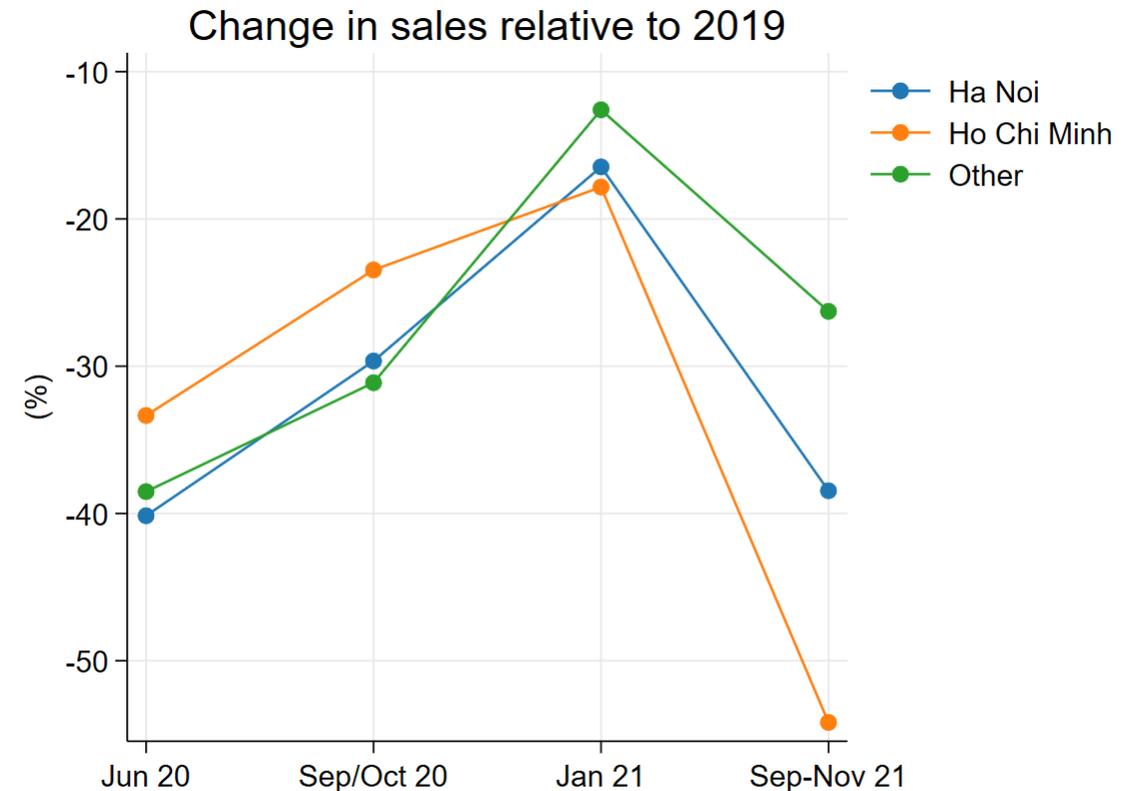
Sales suffered the biggest drop since June 2020

- 83 percent of firms reported declines in sales relative to 2019
- The average drop in sales is 39 percent, compared to only 16 percent in January



Declines in sales are the most severe in HCMC, followed by Hanoi

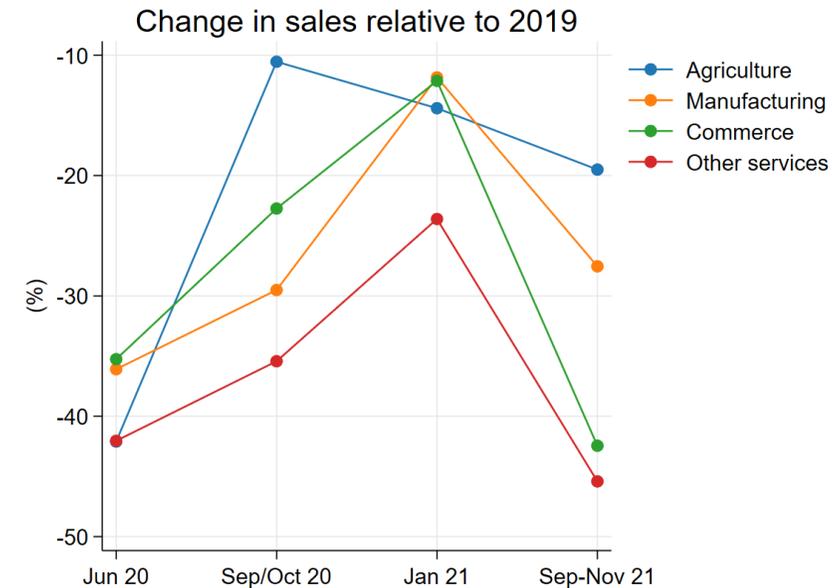
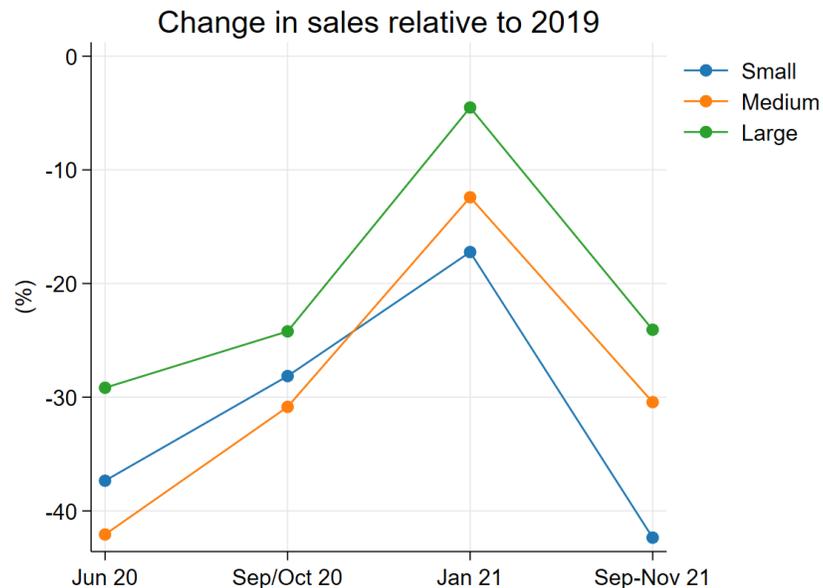
- The trend illustrates the distinct impact of COVID and lockdowns in the major cities
 - While sales trends closely tracked one another in the previous three rounds, there is a clear divergence in Round 4
 - Drops in sales averaged at more than 50 percent in HCMC and almost 40 percent in Hanoi



*Trends are robust to controlling for survey dates

The impact is more severe for small and services firms

- Previous BPS reports showed that small firms were the slowest to recover
 - When disaster struck in Round 4, it also hit small businesses the hardest
 - Sales decreased by more than 40 percent for this group, compared to 24 percent for large firms
- Unsurprisingly, COVID surges and lockdowns are worst for businesses in commerce and other service sectors
 - Firms in manufacturing and agriculture are less affected

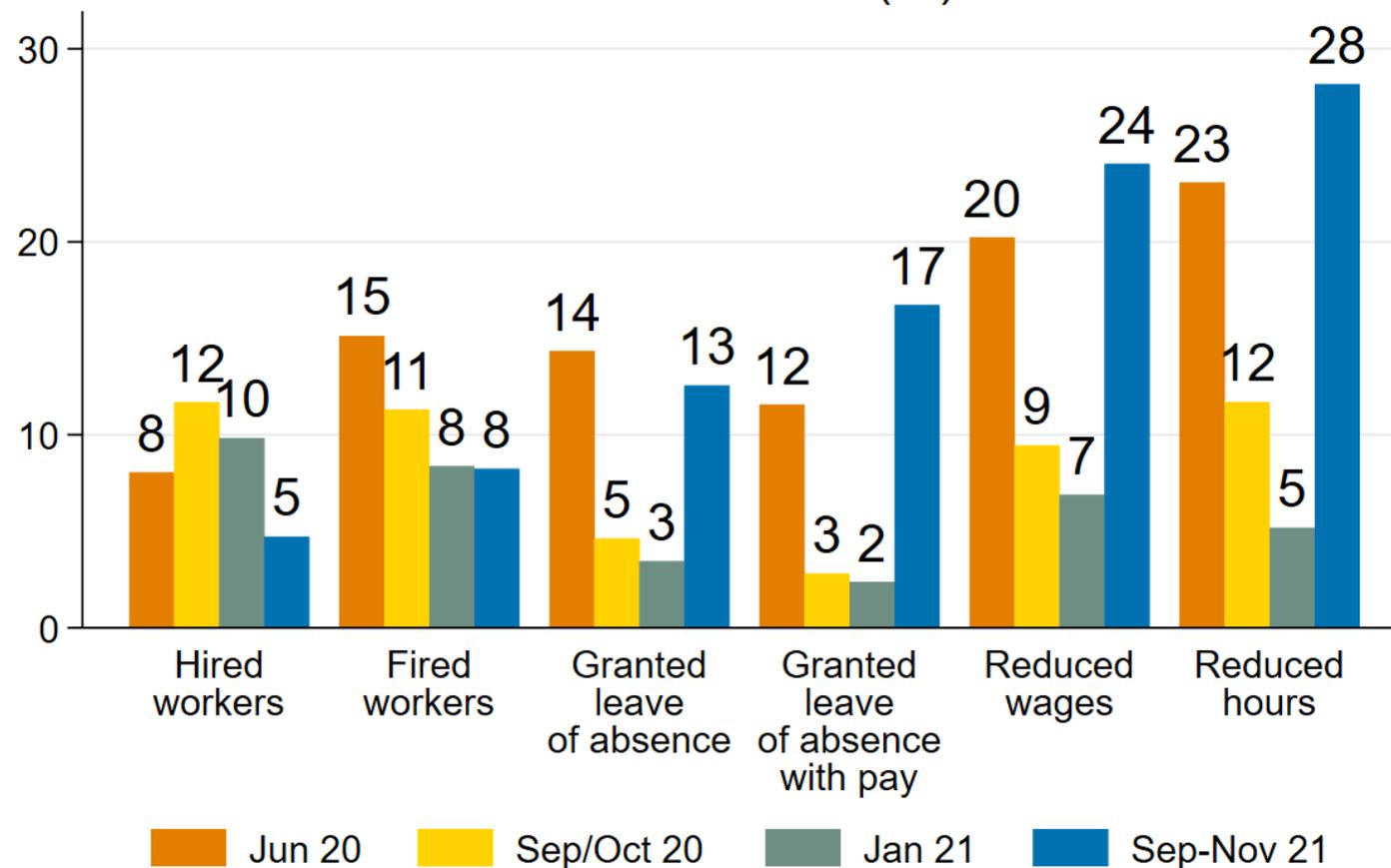


Impact on employment

Firms adjusted employment heavily along intensive margins

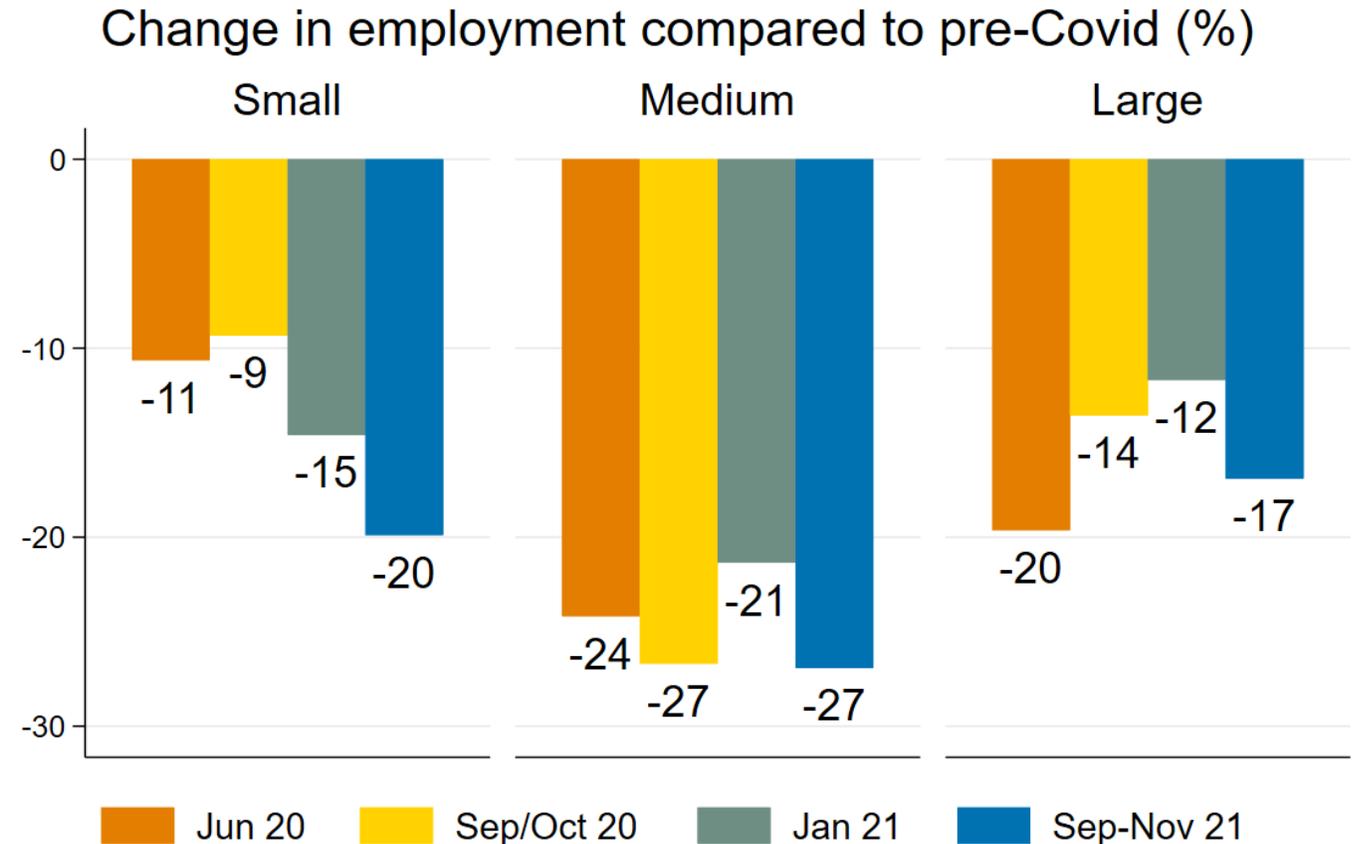
- Hiring reduced significantly but the share of firms that fired workers in Round 4 did not increase
 - This corroborates our finding in earlier rounds that firms have already trimmed their workforce to the core
- Instead, businesses relied more heavily on adjustments along the intensive margins
 - 30 percent granted unpaid leaves of absence, compared to three percent in January
 - 24 and 28 percent reduced wages and hours respectively
- These results imply major shock to labor income even if workers remain employed
 - This is consistent with the mass increase in early withdrawals of social insurance*

Employment adjustments
Share of firms (%)



Nevertheless, net employment further declined

- Up until Jan 2021, employment has started to improve for medium and large firms
- However, the trend in employment is reversed in Round 4 for medium and large firms and continues to decline for small firms
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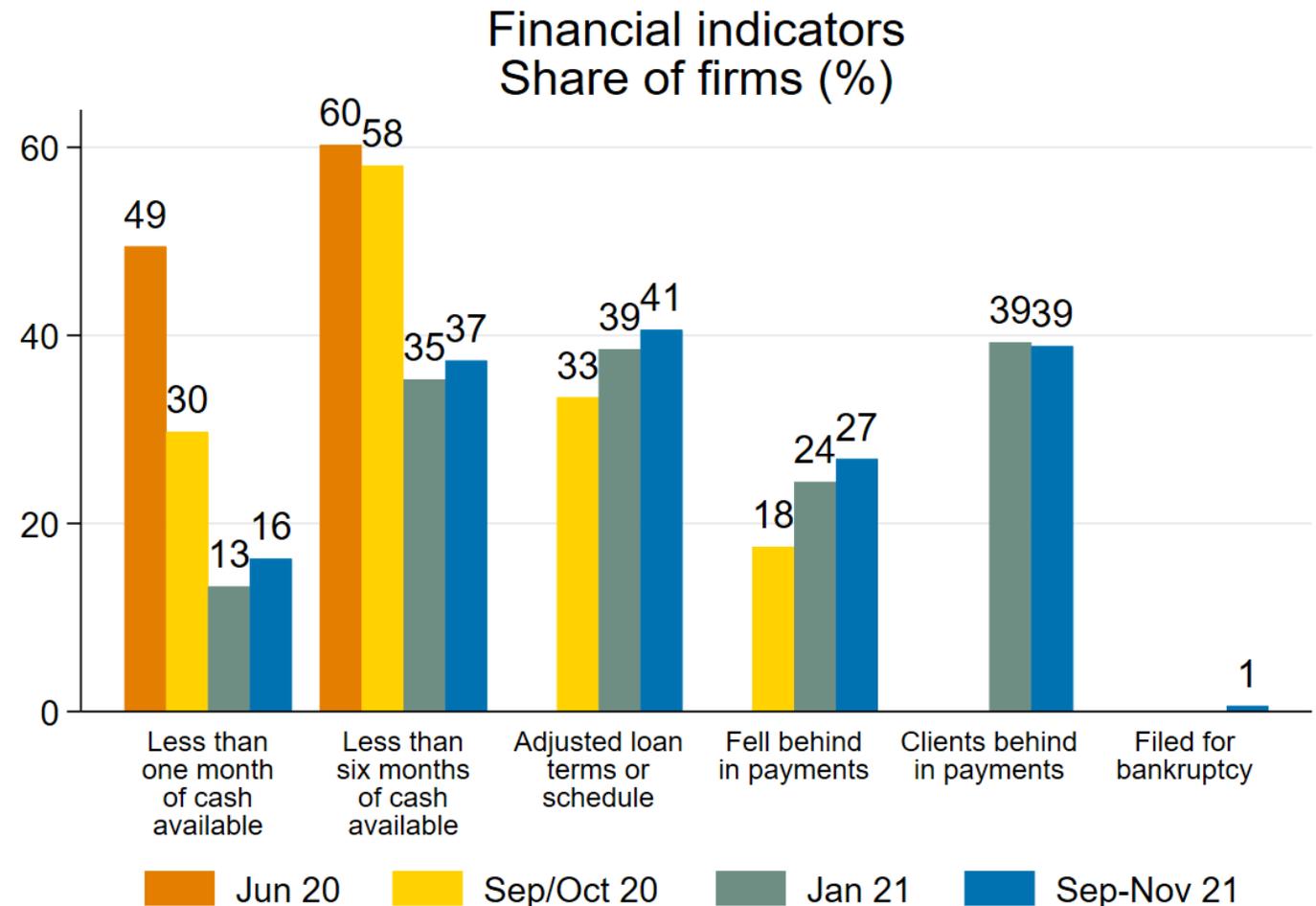


Change in employment is calculated as the difference in employment as a share of average employment over two periods. Group averages are weighted by survey weights and employment shares.

Impact on finance & liquidity  

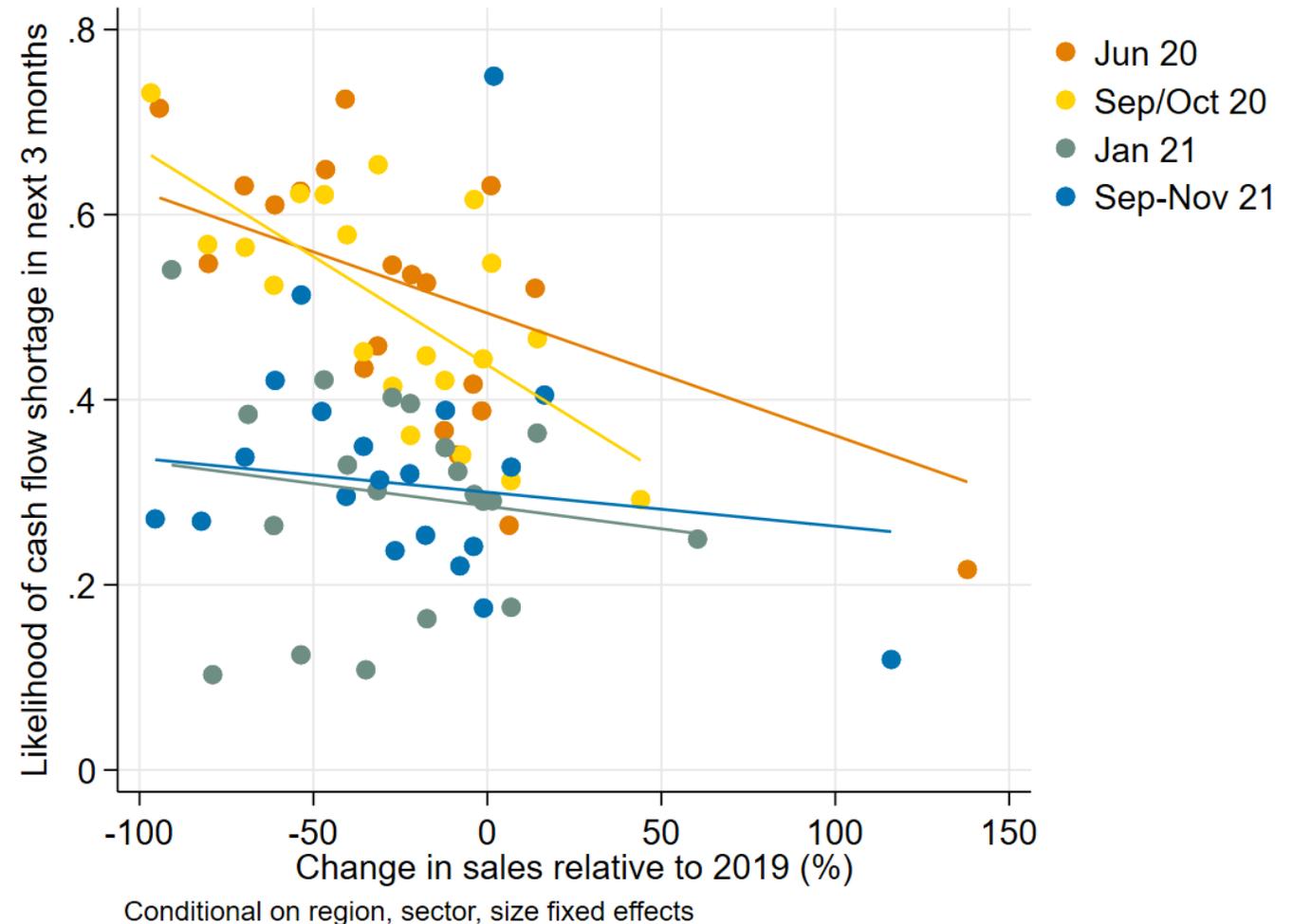
Firms' cashflow deteriorated slightly

- Despite mass closures and the precipitated drop in revenue, the share of firms having less than one month of cash available only increased slightly from Jan 2021, from 13 to 16 percent
- Similarly, 37 percent reported having less than 6 months of cash available, compared to 60 percent in Jun 2020
- However, the shares of firms that had to adjust loan terms or schedule and fell in arrears have steadily increased



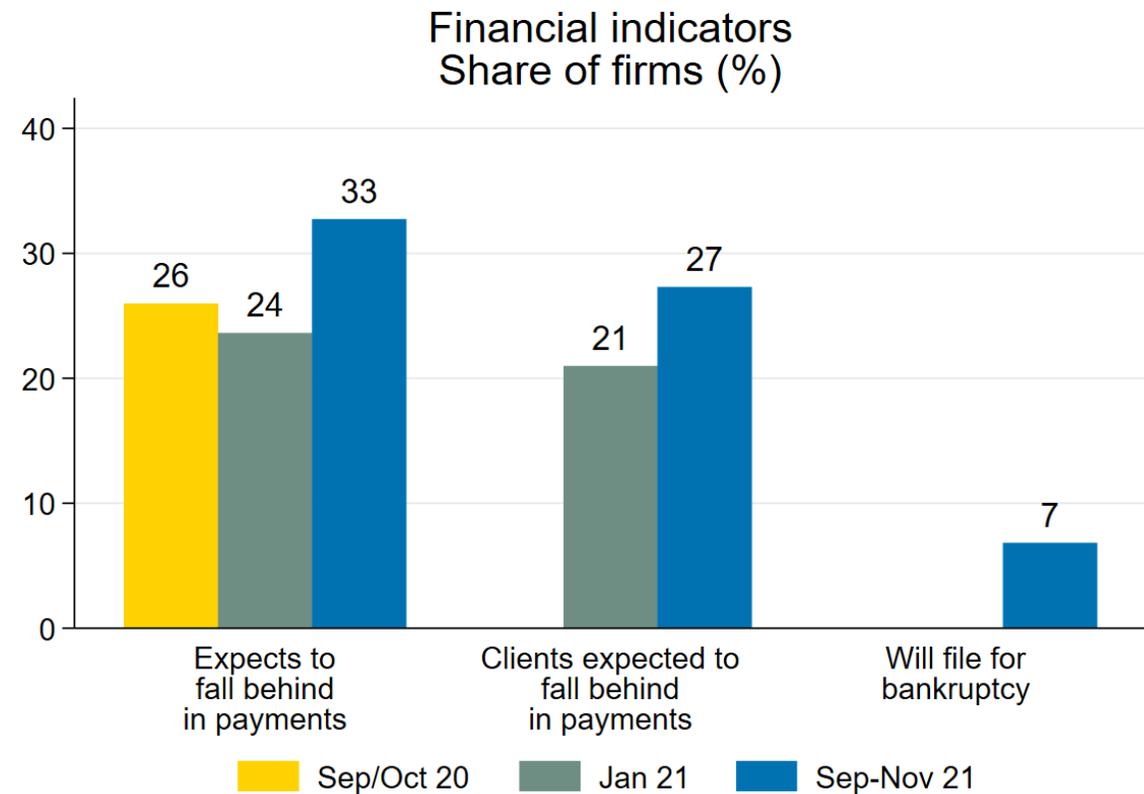
Cashflow is becoming less dependent on the shock to sales

- Generally, drops in sales a period of cashflow shortages
- Intriguingly, this relationship has weakened amongst Vietnamese businesses over the four BPS rounds
- This could potentially be attributed to a few factors
 - Firms' cautious adjustments as the pandemic progressed (increased reserves, reduced risky investments and expansions, etc.)
 - The effect of government support

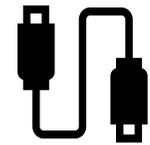


However, firms expect significant future payment issues & bankruptcy risk

- Although normalcy has resumed throughout the country, and no further large-scale lockdowns are expected, firms continue to expect future problems with clearing liabilities
 - The share of firms expecting to fall in arrears in the next six months increased to 33 percent from 24 percent in January
 - 27 percent of BPS respondents also expect delays in customers' payments to them in the next six months

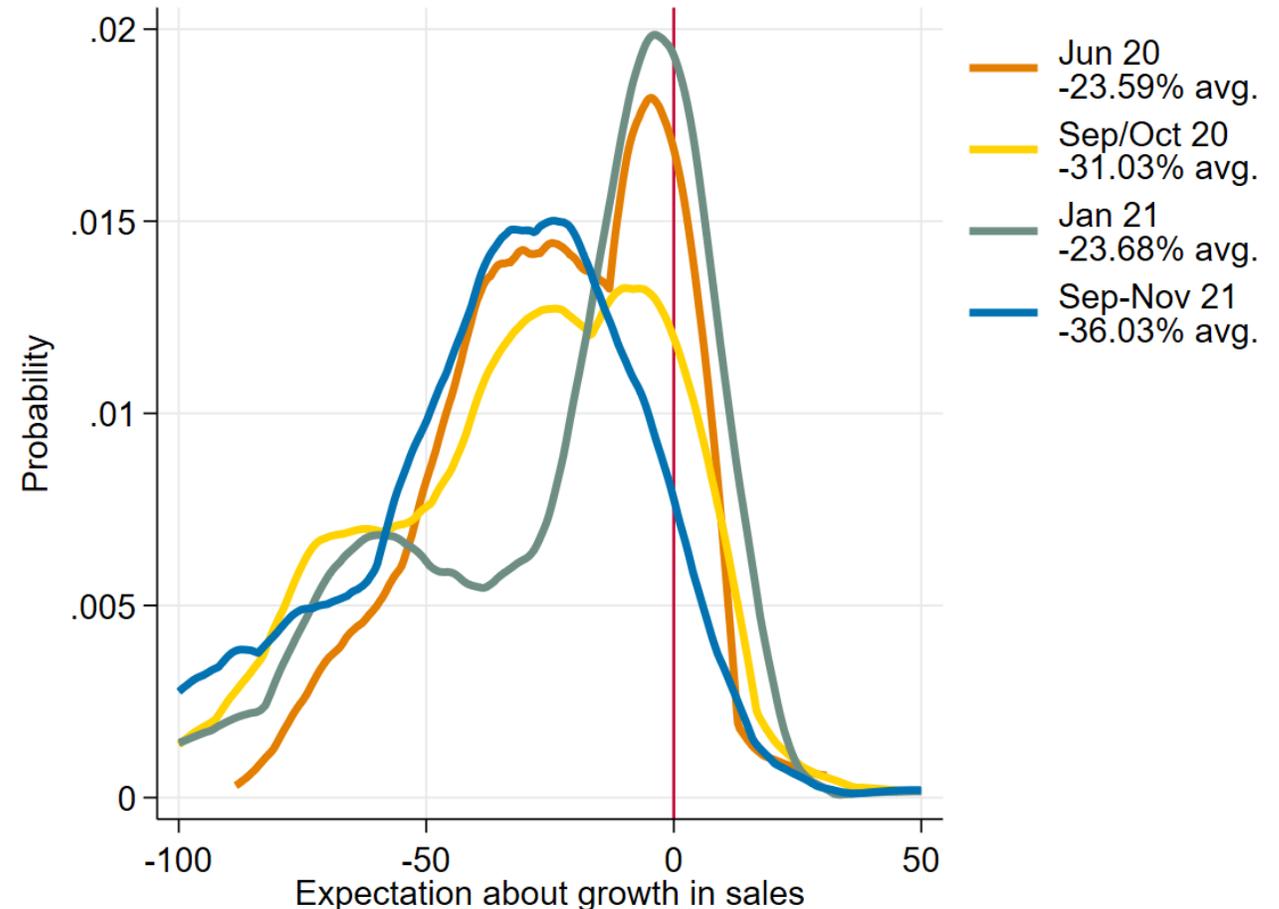


Expectations & uncertainty



Businesses became significantly more pessimistic about future sales prospects

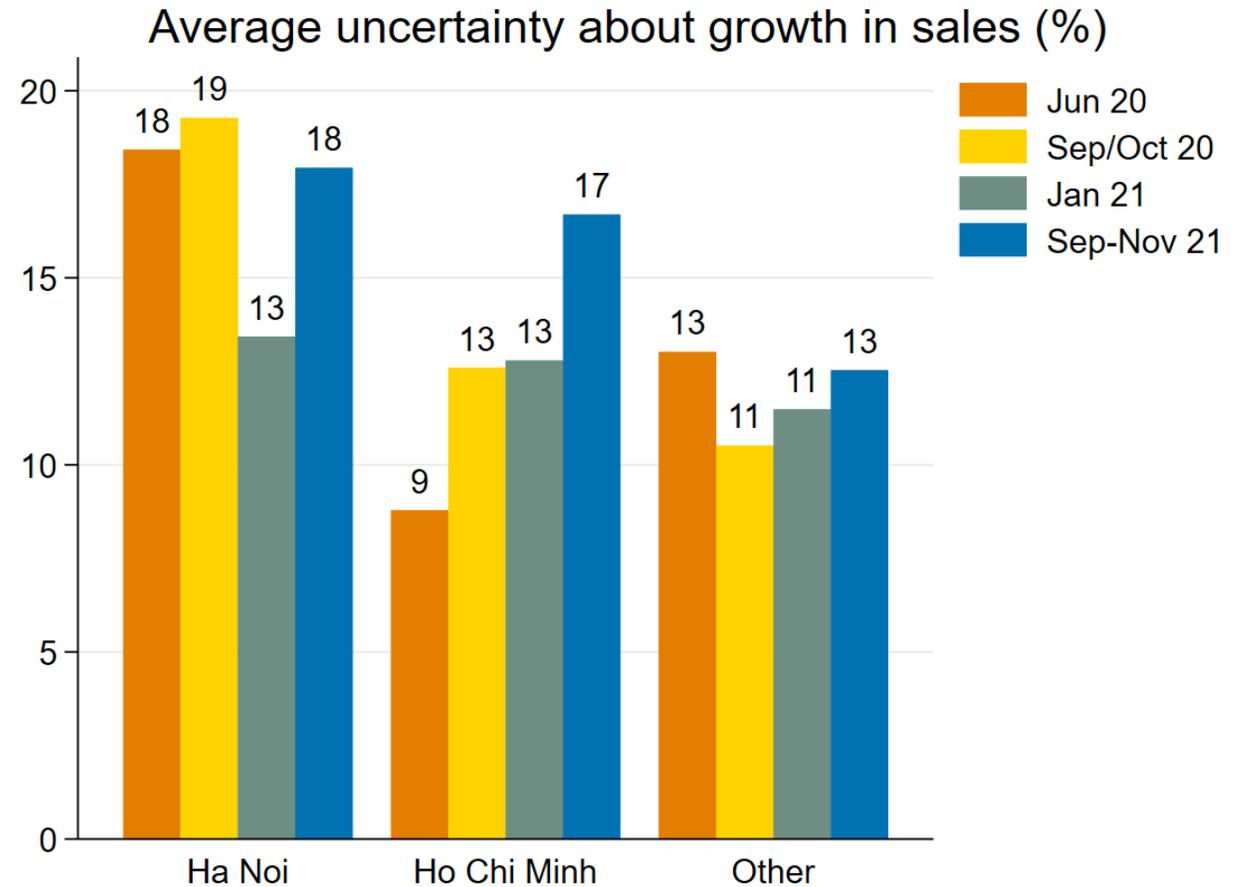
- Most firms expect negative sales growth in the next six months
- Average expected sales growth is 13 percentage point lower than in Jan 2021



Note: sales expectation is calculated as the average from firm's predicted sales growth in 3 scenarios: pessimistic, normal, optimistic

Firms have also become more uncertain, especially in Hanoi and HCMC

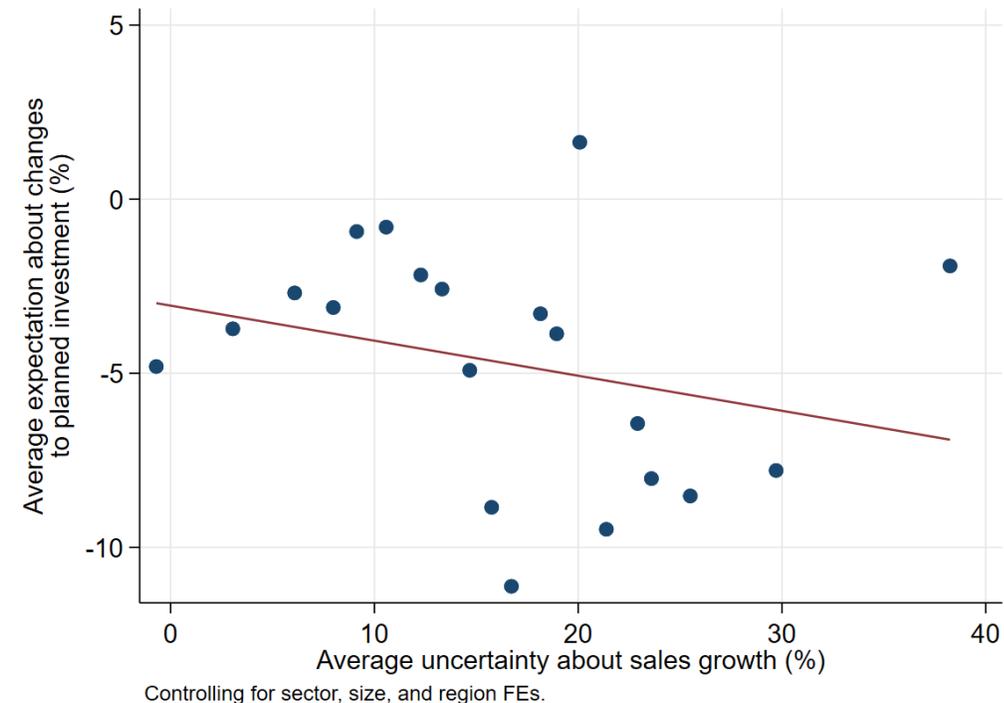
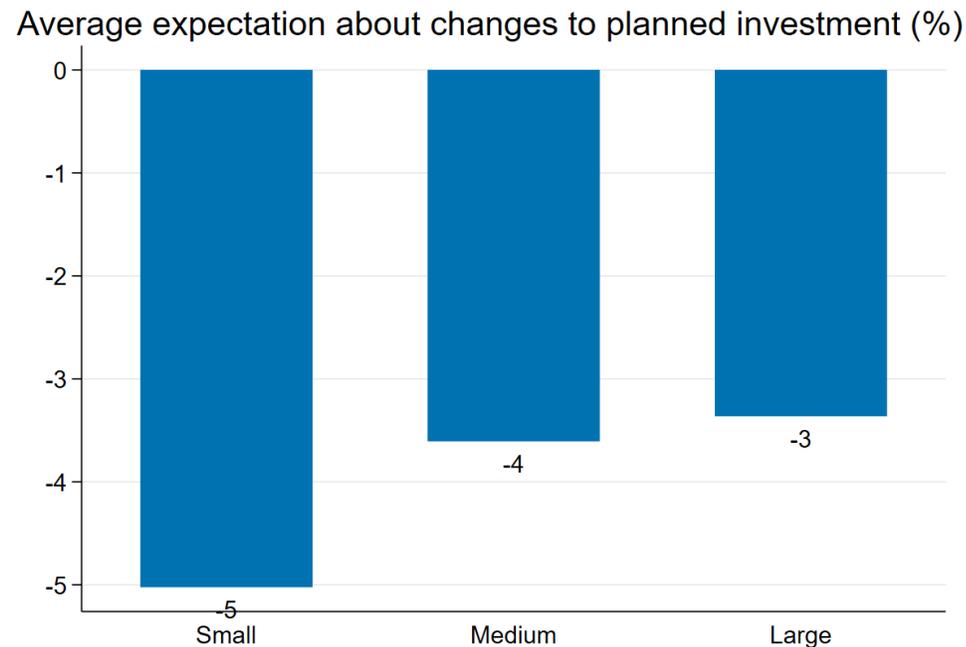
- Compared to Jan 2021, subjective uncertainty has increased significantly in Hanoi and HCMC



Note: uncertainty is measured as the standard deviations from firm's predicted sales growth in 3 scenarios: pessimistic, normal, optimistic

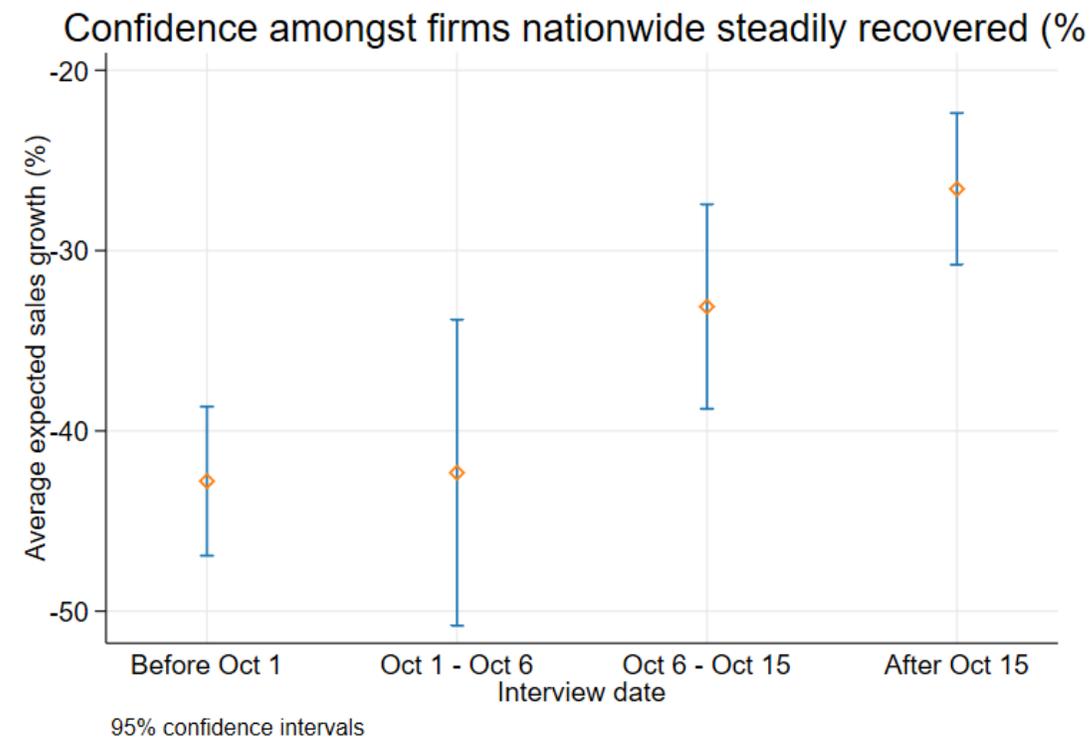
Increased uncertainty is a cause of concern for investment prospects

- Firms expected to reduce investments in the next six months
 - Being the group most negatively impacted, small firms also expect the largest reductions: 5 percent compared to 4 percent for medium and 3 percent for large firms
- Firms with higher uncertainty over sales growth also expect larger drops in future investments



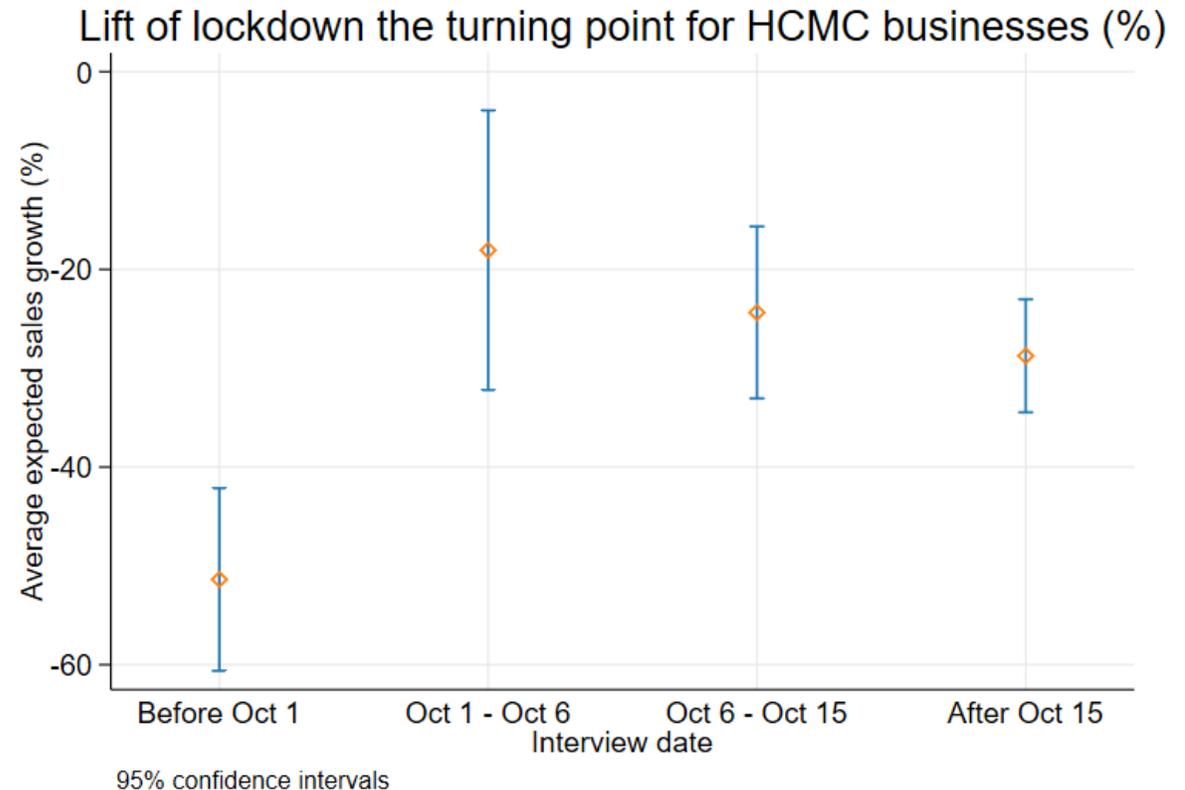
Nevertheless, a closer look reveals a healthier outlook over time

- As mentioned above, data collection for Round 4 took place amidst rapid changes in lockdown policies.
 - Therefore, firms that were interviewed after lockdown was lifted may have more positive outlook than those interviewed when all activities were frozen
 - To address this heterogeneity, we break down the sample by important milestones. Normalcy resumed in HCMC on October 1st.
- A more fine-grained analysis shows that confidence amongst firms nationwide steadily recovered over the course of Round 4
 - Businesses interviewed after October 15 reported much less negative expected sales compared to those interviewed before October 1. There is a large gap of almost 20 percent.



The lifting of lockdown was a turning point in HCMC

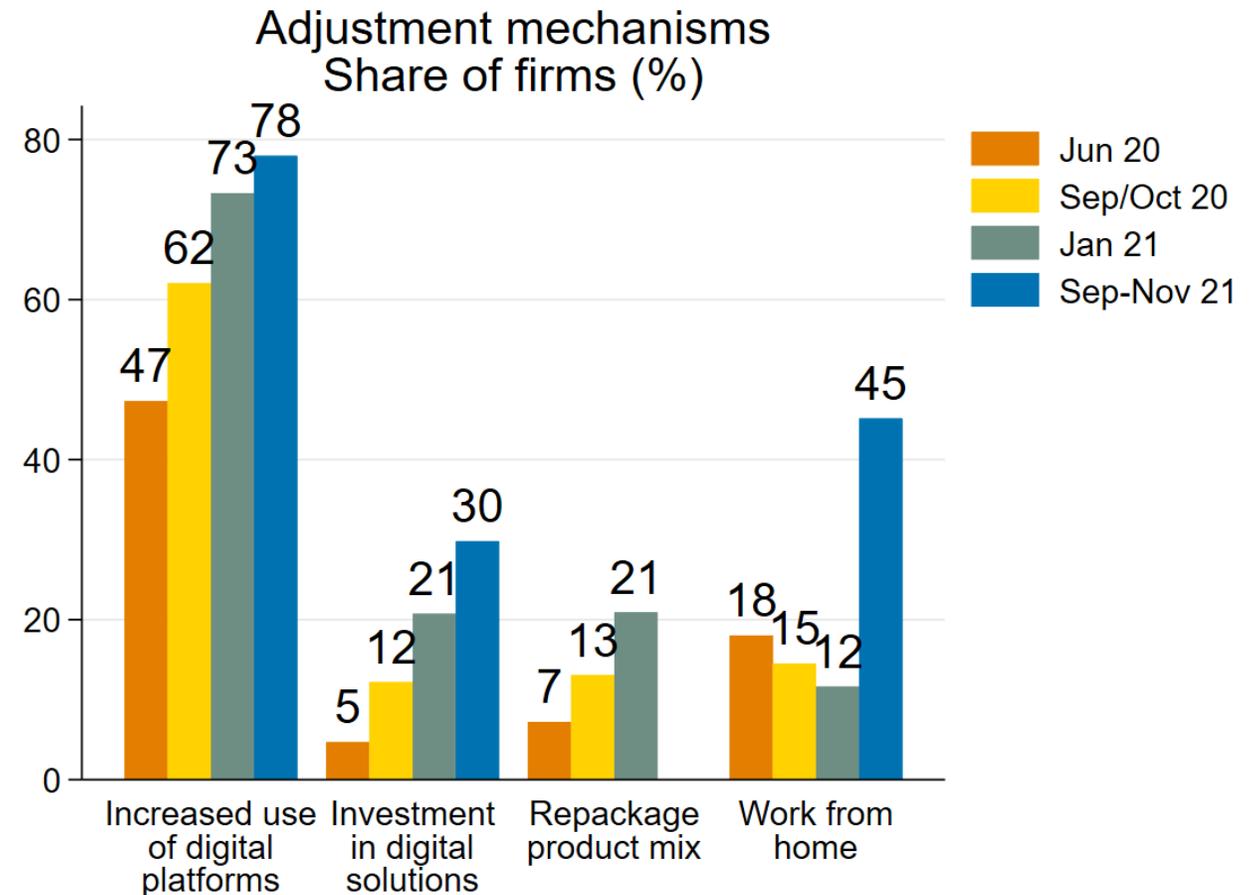
- Especially in HCMC, the lifting of lockdown immediately shifted firms' sentiment
 - Though still negative, expected sales increased by more than 30 percent, before remaining steady for the rest of data collection
 - This clearly shows the importance of October 1st as a watershed moment



Uptake of Digital Technology

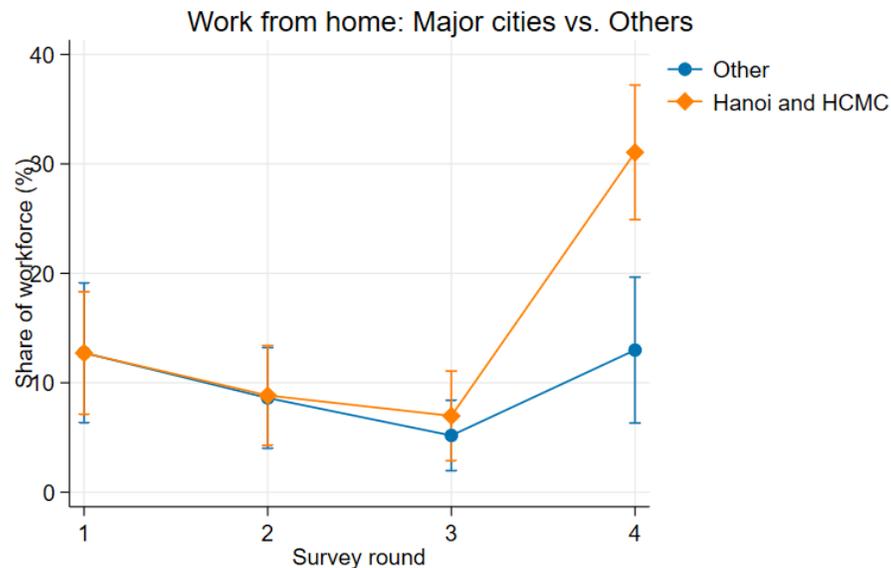
Work-from-home arrangements proliferated

- Over the course of the pandemic, the share of firms turning to digital solutions has steadily increased. By Round 4 of the BPS:
 - 78 of respondents have increased use of digital platforms
 - 30 percent have invested in digital solution
- Work-from-home arrangements became especially common in Round 4, driven by the duration and intensity of lockdowns



Firms in major cities turned to remote work and online sales

- Firms in Ho Chi Minh City and Hanoi were the quickest to adopt work-from-home arrangements and online sale platforms
- These adjustments were necessitated by prolonged lockdown and social distancing measures in these two cities
 - The trends only diverged in Round 4
 - This divergence is not driven by the higher share of retail and commerce businesses in the major cities. We controlled for sector fixed effects in the regressions.



Marginal effects from a regression of share of workforce working remotely on location, survey rounds and their interactions, controlling for size and sector FEs

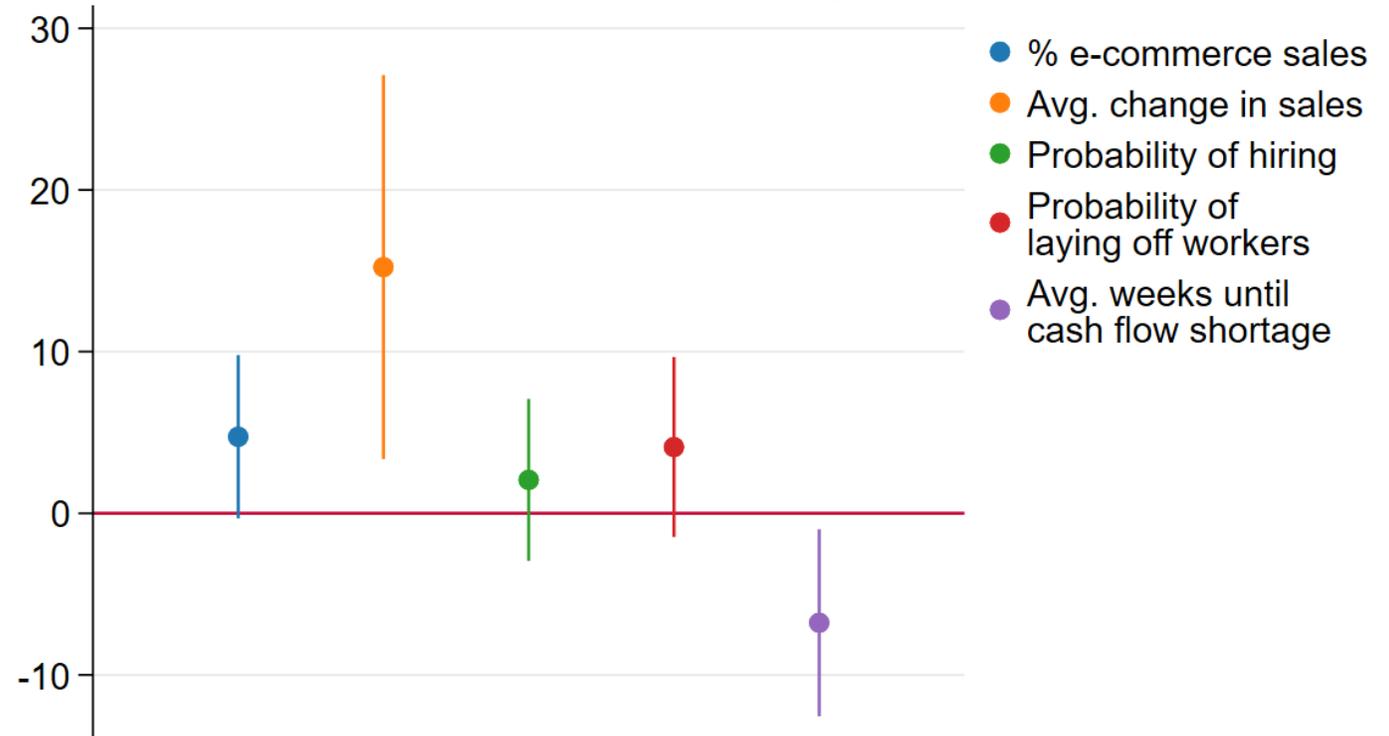


Marginal effects from a regression of share of sales using digital platforms, apps, or website on location, survey rounds and their interactions, controlling for size and sector FEs

Adopting digital platforms is associated with higher sales

- Adoption of digital solutions is associated with certain positive business outcomes
 - Firms adopting digital platforms have higher share of e-commerce sales and higher sales growth
 - However, these firms also have weaker cash flow situations

Effect of adopting digital platforms on firm performance during Sep-Nov 21



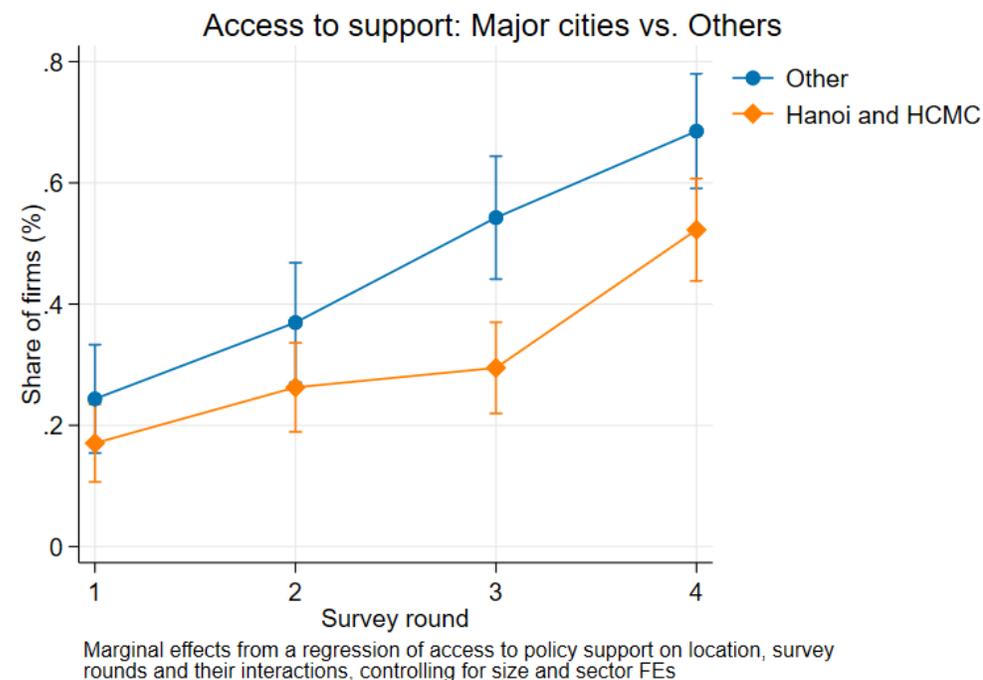
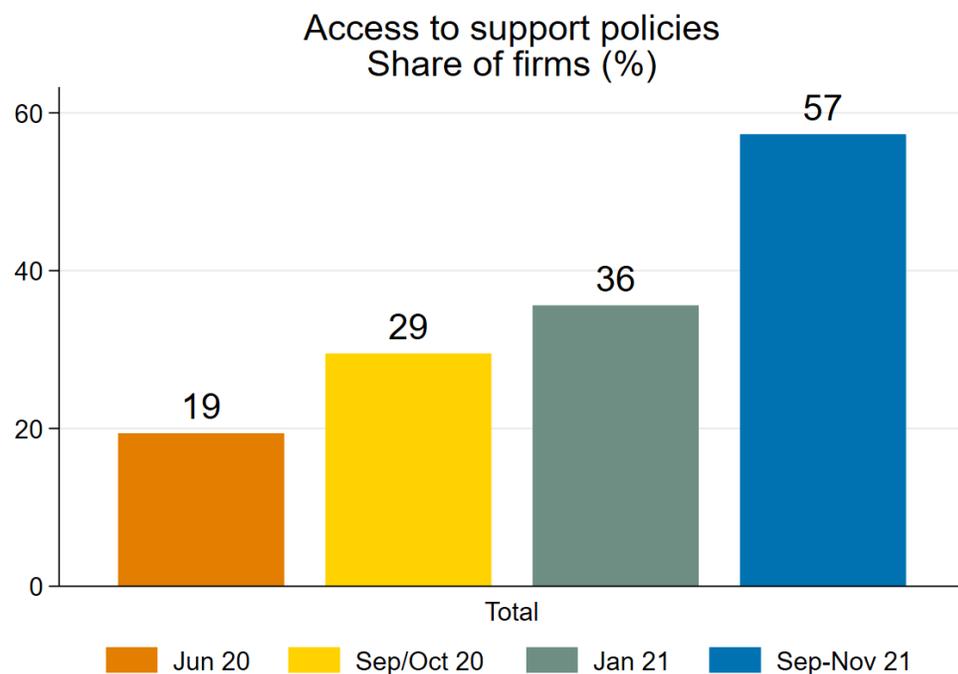
Coefficient estimates from regressing firm outcome on digital adoption, controlling for survey week and size, region, and sector FEs.

Policy responses



Access to support policies

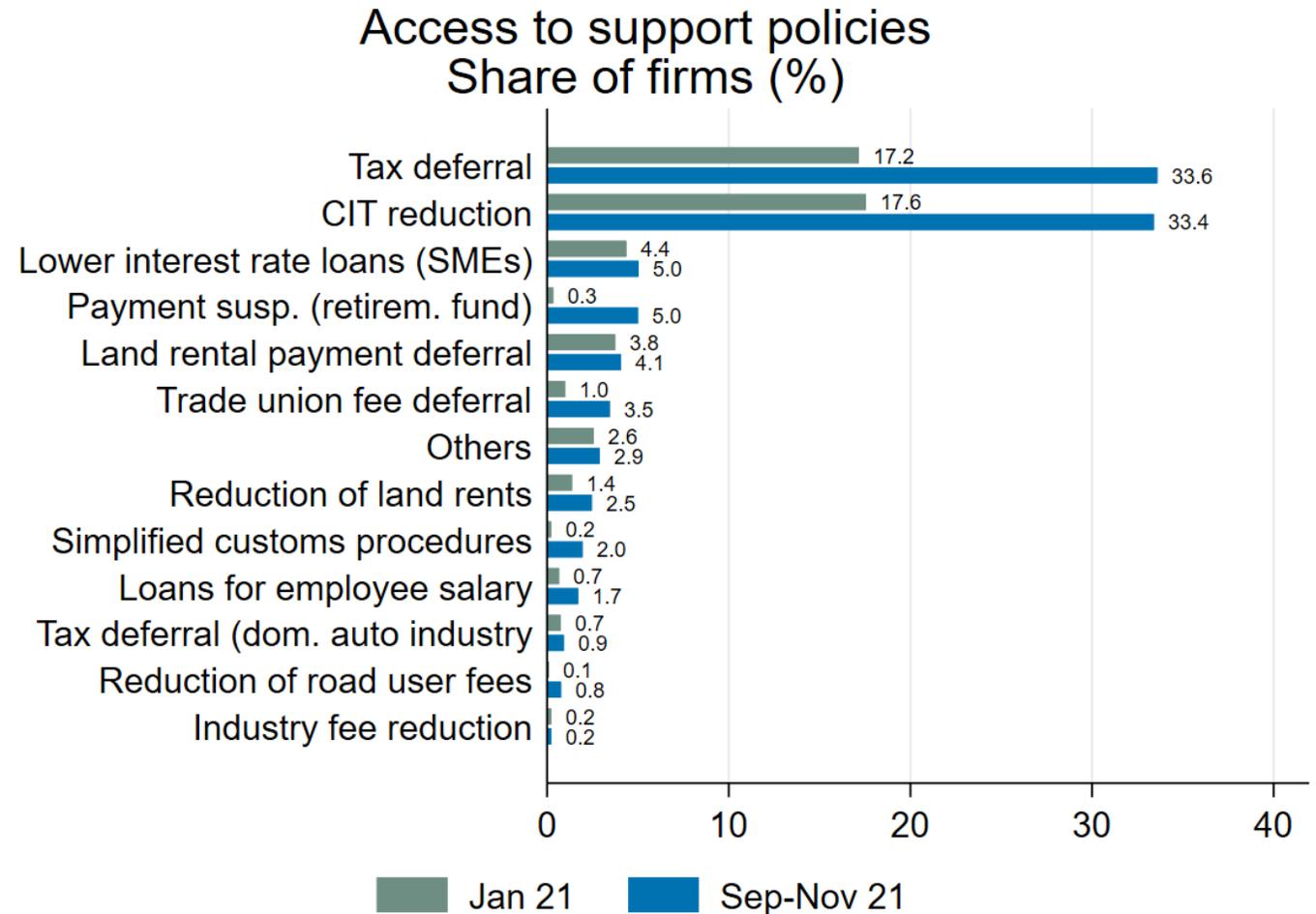
- By Round 4, around 57 percent of firms have already gained access to some kinds of government support
- The share of firms benefitting from support measures is lower in the major cities of HCMC and Hanoi



*Trends are robust to controlling for survey dates

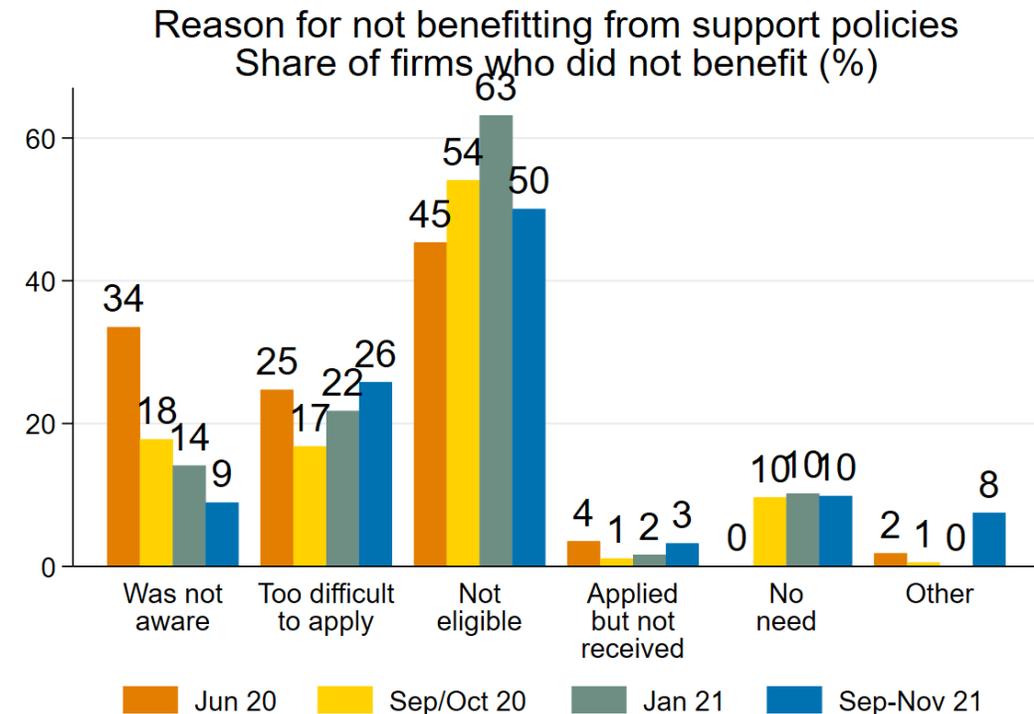
Increased support is driven by tax deferrals and reductions

- Access to credit remains low, including loans for employee salary



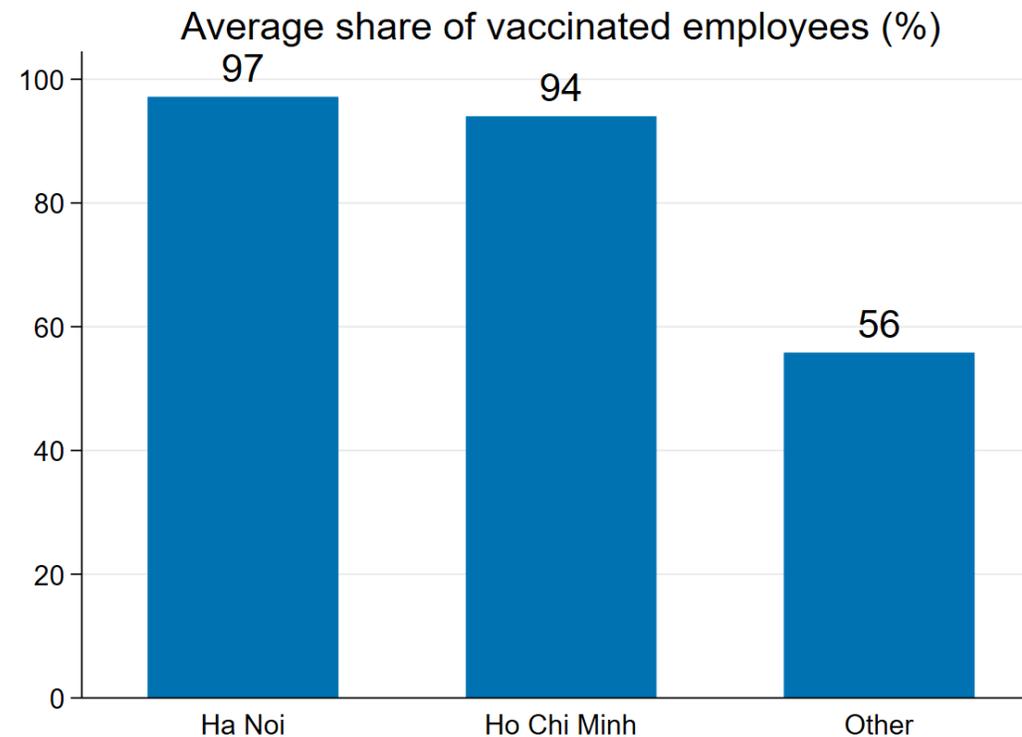
More firms are reporting problems with difficulties applying for support

- By Round 4, awareness of government policies is at a healthy level
 - Only nine percent of the unaided businesses reported unawareness of support policies as a reason not receiving support
- As more firms became in need of support in Round 4, complaints of difficult procedures also increased
 - 26 percent cited this as the reason they did not receive support



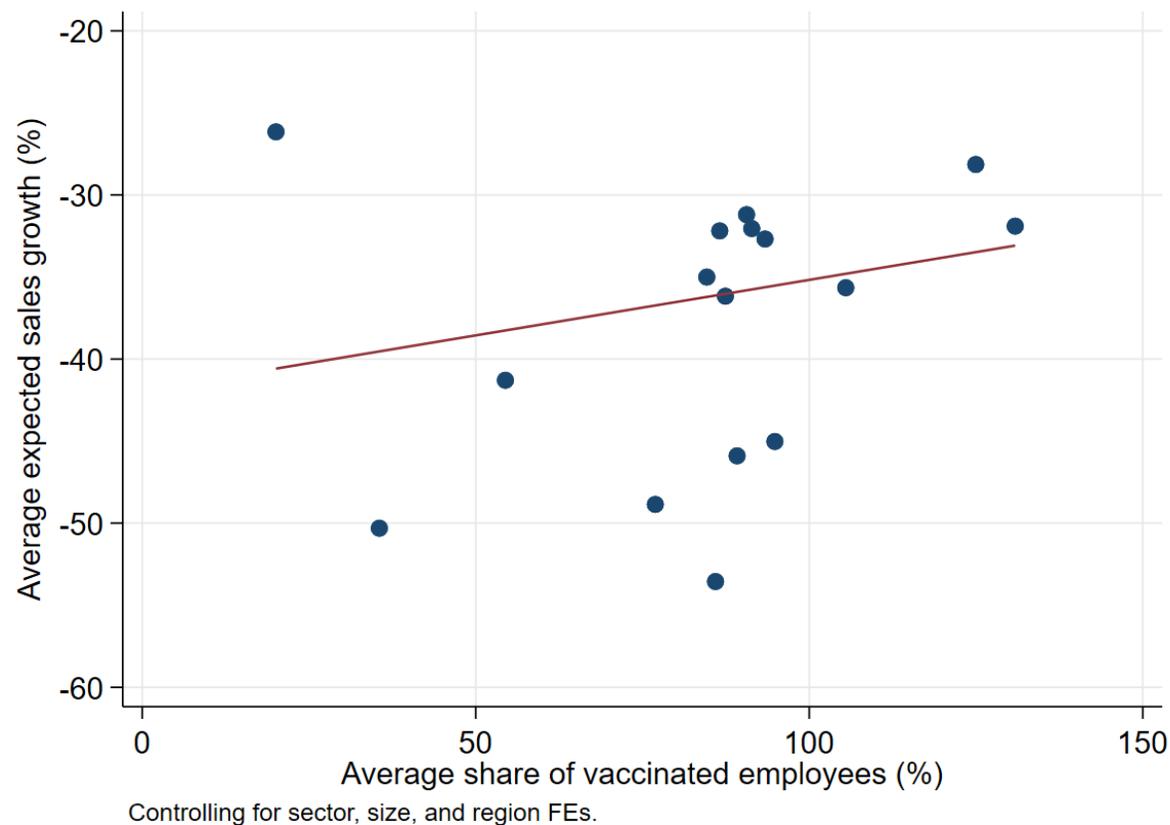
Vaccination rates are high in the major cities

- By Round 4's survey, vaccination rates have already reached high levels in the major cities
 - 97 percent in Hanoi and 94 percent in Ho Chi Minh City
 - Thanks to large-scale vaccination campaigns, first in HCMC and then Hanoi
- Vaccination rates are relatively low in other localities, at only 56 percent
 - This can be a problem for business confidence in these areas
 - Low vaccination rates elsewhere can also be a problem for businesses in HCMC and Hanoi, given potential disruptions in supply chains



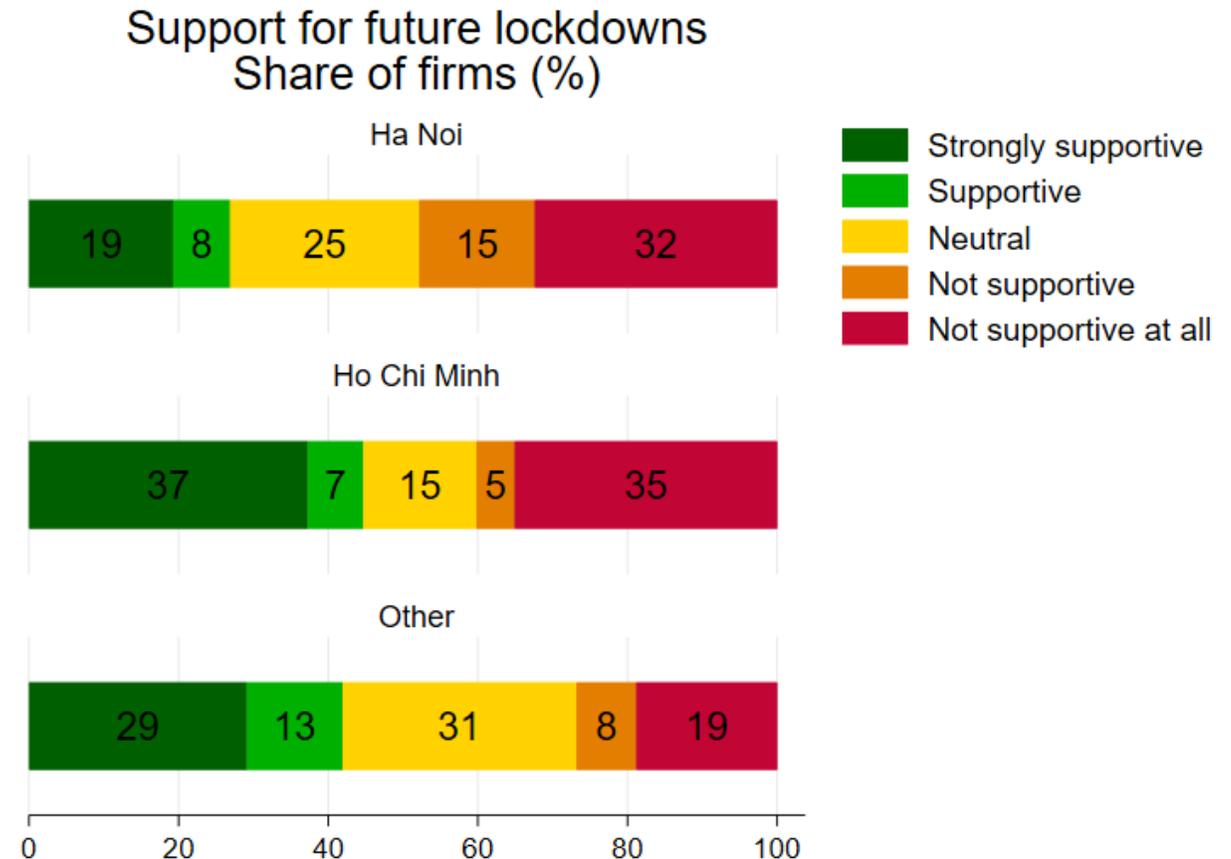
Vaccination is the springboard for recovery

- Firms with higher vaccination rates are more optimistic about future sales in the next six months



Future lockdowns will be unpopular, especially in HCMC and Hanoi

- Prolonged social distancing and lockdowns have clearly taken a toll on businesses
- Support for future lockdowns is low, especially in the major cities
 - The share of firms being unsupportive is 47 percent in Hanoi and 40 percent in HCMC
- Firms are less resistant in the other provinces
 - These areas were less affected by the July-September lockdowns
 - Low vaccination rates also contribute to a more cautious attitude





Thank You

The team is grateful to the Australian Government for financial support from the Australia-World Bank Group Strategic Partnership in Vietnam Phase 2 to implement the Vietnam BPS.

The slides were prepared by Trang Tran, Sarah Hebous, and Ngoc Phan, with comments from Marcin Piatkowski and Shawn Tan. Hoa Chau Nguyen provided excellent administrative support.