

Business Confidence Index: A Reflection of Business Sentiment in Viet Nam

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Abstract

With the reform embarked in the late 1980s, the economy of Vietnam has been increasingly integrated to the regional and global economy. Given rapid globalization developments in the world economy have had significant impacts on Vietnam's economy and Vietnamese enterprises. Hence, it is essential to build a set of indicators which would serve the macroeconomic management and business operation purposes. Among such indicators, the early "warning indicators" are particularly important because they anticipate events that are likely going to happen to the economy.

The paper presents the framework for building indices of business confidence and analyzes the current and future prospects of the Vietnamese economy for two major industries, the 'manufacturing industry' and the 'commerce and services'. The study reveals that businesses in Vietnam have faced difficulties due to a fall in demand for goods and services, decrease in profits and revenue, and limited capacity utilization. Businesses in the 'manufacturing' have been more optimistic than the 'commerce and services' in many aspects, including general economic conditions, employment and finances. The findings pertain to the policies promoting technical upgrading, access to finance and penetrating external markets to maintain competitiveness of the domestic firms and boost business confidence in the country.

1. Introduction

Vietnam is a small and open country whose economy is exposed to the

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world's economic developments. Vietnamese enterprises have been more and more participated in the global production network. The prospect of economic development, such as economic growth; economic stagnation; economic recession or economic crisis; can be identified using a set of appropriate economic indicators. Given the frequent (sometime unpredictable) changes of the global and domestic economy, it is essential to build a set of indicators to serve not only the Government for macroeconomic management purposes, but also the domestic enterprises to meet their business operation purposes. Among such indicators, the early “warning indicators” are particularly important because they anticipate events that are likely going to happen to the economy.

Business Confidence index (BCI) is one of the most important early warning indicators. The BCI is calculated based on monthly and quarterly surveys on business conditions and business expectations of business executives and entrepreneurs (called Business Confidence Survey - BCS). The BCI is a short term early warning system to forecast the trend of the economy, in which *the diffusion index* of business confidence is one of the most important indicators that anticipates development in the immediate future. In addition, from a Business Confidence Survey (BCS), a Present Business Situation Index (PBSI), which reflects the present business situation of enterprises, can be calculated.

These surveys, also known as business opinion or business climate surveys, ask firm managers about the current situation of their business and about their plans and expectations for the near future. The survey results would not only help identify the business environment for firm owners, but also be used to analyze and formulate the macro- and micro-economic policies and strategies, and evaluate the economy's health and the relationship between business environment and the financial sector. In other words, the BCI would anticipate the perception of the business community on the future prospects, future plans on capital investment and employment of corporations, expectations on the power of prices and the impacts of price on demand (which is closely related to the price elasticity of demand), and the evaluation of various industries on the future business prospects of firms. Furthermore, this indicator would also help international investors and multinational enterprises' executives have a general picture on Vietnam's business activities in the

coming months so that they could make the suitable decisions on their investment and business activities in/with Vietnam.

The main objectives of this paper are (i) to present the construction of the Present Business Situation Indices (PBSIs) and the Business Tendency Indices (BTIs) by means of a Business Tendency Survey in Vietnam; and (ii) to apply these indices to analyze the current and future prospects of the Vietnamese economy for two major industry groups: the ‘manufacturing industry’ and the ‘commerce and services’. These indices of the present situation and future tendencies are essential for the Vietnamese government to effectively manage the national economy and formulate sound policies, and for the private sectors to supervise their business activities.

The remaining of the paper is organized as follows. Session 2 describes the business confidence survey in terms of the sampling, scope, scale and timing. The framework and methodology for constructing indices of business confidence and the processing of the results are presented in Section 3. Applying the indices of business confidence, Session 4 discusses business sentiment and confidence in Vietnam, with an emphasis on the ‘manufacturing industry’ and the ‘commerce and services industry.’ Session 5 provides major conclusions and some policy implications for the public and private sectors.

2. Framework of Business Confidence Survey

The Business Confidence Index is very popular in many countries, including East Asian Countries, OECD member countries and non-OECD member countries. The implementation of the BCS has become more standardized, as the OECD has developed a system of harmonized business tendency surveys (the same as BCS), which have been applied in many transition countries in Europe and adopted by many other economies (OECD, 2003; Ronny Nilsson, 2000). Vietnam, without exception, also uses the OECD method for building the BCIs and PBSIs.

2.1 Sample selection

The sample selection was implemented in the following three stages:

Stage 1: As there was no data on GDP by province, three representative provinces/cities with the largest shares of net business and production revenue of

firms and the largest number of firms were selected in each of the three main regions (the North, the Central and the South), namely Hanoi city, Danang city and Ho Chi Minh city. The total net production and business revenue of firms in these three cities were used to calculate the share of the net production and business revenue of each city to the total revenue. Based on these shares, the number of surveyed firms in each city was identified.

Stage 2: The GDP of the ‘manufacturing industry’ and ‘commerce and services industry’ were calculated (with 3 activities including ‘wholesale and retail trade and repair of motor vehicles and motorcycles’; ‘transportation and storage’; and ‘accommodation and food service’ activities). Next, the share of GDP of each industry to this total GDP was calculated in order to identify the number of surveyed firms in each industry. For the ‘commerce and services industry’, the number of surveyed firms in each sub-industry was calculated based on the share of GDP of each sub-industry to total GDP of the industry. For the ‘manufacturing industry’, because there was no data on GDP for each sub-industry (with 4 activities including ‘manufacture of food products’; ‘manufacture of textiles’, ‘manufacture of wearing apparel’, ‘manufacture of leather and related products’; ‘manufacture of computer’, ‘electronic and optical products’; and others), the data on industrial production value of each sub-industry was used to calculate the share of each sub-industry to the total production value of the industry. Then, based on these shares, the number of surveyed firms in each sub-industry was identified.

Stage 3: The firms in each sub-industry of these two industries were grouped into different scale levels. For each scale group, the firms were selected randomly.

Based on the selected sectors mentioned above, the survey was conducted in terms of a random sample by stratifying the universe (population) into three groups that have similar variance with regard to the key variables covered in the survey. Strata are defined in terms of the size of firms and the kinds of activities in which they are engaged. According to the experience of OECD countries, about 30 reporting units are sufficient to obtain an acceptable level of precision for each stratum for which data are to be published. In practice, this is a maximum as a few very large firms for which two or three responses might suffice when dominating some kinds of activity (OECD, 2003, p.22). Therefore, the sample has been selected ensuring two

basic principles as follows:

- (1) The surveys target business executives and entrepreneurs from all scales, including micro, small, medium and large firms¹; and
- (2) The number of surveyed firms was 840.

2.2 The scope, space and time, and scale of the survey

The survey aimed at evaluating the business situation of firms, which includes evaluation on production situation; demand; quantities of production and export orders; prospect of production and commodity prices; plans on future capital investment of firms; plans on employment; expectations on prices; and some others.

Other than the tested survey location, we selected three biggest cities and provinces as representative of the three main regions of the country, namely Hanoi, Danang and Ho Chi Minh City. The survey was conducted in a period of nine months from April 2012 to December 2012.

Table 1: Number of firms surveyed by locality and industry

Locality/Industry	Manufacturing	Commerce and services	Total
Bac Giang	25	32	57
Hanoi	154	155	309
Da Nang	14	23	37
Ho Chi Minh	294	213	507
Total	487	423	910

In fact, 910 firms were surveyed instead of the initial number of 840, because when the survey was conducted, the business areas of selected firms had changed, and hence, more firms were added to the sampling in order to gather necessary information. The survey consists of a questionnaire survey of 910 firms in Bac Giang province (the area where the test survey of 57 firms was conducted), Hanoi Capital, Danang City and Ho Chi Minh City (Table 1).

Each industry was divided into sub-industries, and each sub-industry was further divided by scales. Table 2 describes the firms in the ‘manufacturing industry’

in BCS classified into three main sub-industries. These are the three important sub-industries in terms of their contribution to economic growth and their roles in measuring participation of Vietnamese firms in global supply chains. Based on the contribution and importance of these sub-industries, the survey focused on these sub-industries as indicated in the table. The total number of surveyed firms is of 487, grouped by scales. 58 firms among them have changed their business areas. In this table, the number of firms are also grouped into sub-industries and then classified by scales to calculate the sample probability and the weights for each scale group in each sub-industry.

Table 2: Population and sampling size of the manufacturing classified by industry and stratified scales

Scale of firms	Labor scale (persons)	Manufacture of food products		Manufacture of textiles, wearing apparel and wearing apparel		Manufacture of computer, electronic and optical products		The remainder (others)		Total
		# of firms in universe	# of firms in sample	# of firms in universe	# of firms in sample	# of firms in universe	# of firms in sample	# of firms in universe	# of firms in sample	
Large	500-...	232	14	712	65	71	16	689	75	170
	300-499	149	5	330	24	28	2	670	34	65
Medium	200-299	142	4	278	6	26	0	792	10	20
Small	500-199	887	8	1,442	20	105	3	4,729	68	99
	10-49	1,863	10	2,288	16	150	5	12,773	40	71
Micro	<10	1,824	0	2,031	3	234	1	14,157	0	4
Total			41		134		27		227	429

Source: Authors' calculation

In the 'commerce and services industry', 423 firms in the sub-industries (including 'retail and wholesale trade, repair and maintenance of automobiles, motorbikes and other motor vehicles'; 'transport and storage'; and 'accommodation and food service activities') were surveyed (Table 3). These are the sub-industries that would clearly reflect the domestic macroeconomic situation, such as total flows of goods and services; tourism; and transport; and are the sub-industries with large contribution to GDP. Table 3 also includes information on the population in the individual sub-industries. This data was used to calculate the sample probability by scale groups and to calculate the weights for firms by each scale group in each sub-

industry.

Table 3: Population and sample size of ‘commerce and services industry’ by sub-industries and scales

Scale of firms	Labor scale (persons)	Wholesale and retail trade; repair of motor vehicles and motorcycles		Transportation and storage		Accommodation and food service activities		Total
		# of firms in universe	# of firms in the sample	# of firms in universe	# of firms in the sample	# of firms in universe	# of firms in the sample	
Large	500-...	109	14	101	12	32	12	38
	300-499	120	12	98	1	40	1	14
Medium	200-299	204	13	127	0	58	0	13
Small	500-199	2,485	53	1,051	4	521	5	62
	10-49	24,418	153	5,749	23	3,200	29	205
Micro	<10	85,979	24	8,120	3	6,408	2	29
Total			269		43		49	361

Source: Authors' calculation

3. Framework and Methodology for Business Confidence Analysis

3.1 Indicators of business confidence

The BCI intends to find out a general idea about the economic conditions of businesses. For the ‘manufacturing industry’, the Business Confidence Indicators consist of ‘general domestic economic situation’ (situation and expectation within 6 months); ‘business situation’; ‘order books’ (total and export); ‘goods demand’; ‘stocks of finished goods’; ‘financial situation’; ‘access to credit’; ‘production’; ‘selling prices’; ‘sales’; ‘input prices or expenditure on input’; ‘profit after tax’; ‘payment delayed by client’; ‘investment in fixed capital formation’ (situation and expectation within 6 months); and ‘total number of employees’. The Business Confidence Indicators of the ‘commerce and services industry’ include: ‘general domestic economic situation’ (situation and expectation within 6 months); ‘business situation’; ‘stocks of finished goods’; ‘financial situation’; ‘access to credit’; ‘demand on goods and services’; ‘competition ability’; ‘order books’; ‘sales’; ‘profit after tax’; ‘selling prices of goods and services’; and ‘total number of employees’.

A questionnaire, which was designed to compute the impression of the business community in terms of the indicators mentioned above, could be used for forecasting about the next quarter and accessing the quarter surveyed comparing

with the previous quarter of the same year as well as the corresponding quarter of the previous year².

From a quarterly survey, two sets of indices are calculated: (i) the set of indices derived from present quarter data which is called Present Business Status Indices (PBSI) of each component as well as a diffusion index; and (ii) the set of indices derived from the assessment of the sample firms based on the anticipation of business conditions in the following quarter(s), which is called the Business Confidence Indices (BCI) and a diffusion index of business confidence as well.

3.2 Method for processing the survey results

The method used in this survey is borrowed from OECD (2003) and described in this section. First, the basic results for a question of the multiple-choice type are obtained in the form of three or more percentage according to the number of reply opinions. It is customary to convert this information into a single number. Weighting is the next step in processing the results. In aggregating qualitative data the weighting system is somewhat more complicated than in the case of quantitative data. BCS results are normally converted into a single number. One of the most common ways is to use “Balances” (also called “Net-Balances”).

Three reply options: in most BCSs respondents have three reply options, such as *up; same; down; or above normal; normal; below normal*. For convenience we denote *up/above normal* by (+), *same/normal* by (=) and *down/below normal* by (-).

The first step is to convert the numbers of answers to each of the three reply options into percentage. For instance, if there are 200 respondents and 40 have replied (+), 60 (=) and 100 (-), in percentage terms these would become 20%, 30% and 50%, respectively. The net balance is then calculated by subtracting the (+) percentage from the (-) percentage, i.e. $20 - 50 = -30$.

Four-plus reply options: if respondents are offered more than three choices – such as *much better; better; same; worse; much worse* – balances are calculated in the same way as in the three option case. The only difference is that **the five options** are assigned weights such as 1; 0.5; 0; -0.5; -1 going from much better to much worse. In practice, four or more reply options are used mainly in consumer surveys.

It is worth noting that in the calculation of balances the (=) replies are

discarded. Experience in the OECD countries has shown that this loss of information is unimportant for most uses of BCI data. For cyclical analysis, the use of the balance is both practical and entirely adequate. However, for a given balance, the changes in the percentage of (=) replies can be interpreted as indicating changes in the degree of uncertainty among respondents. If it is desired to retain this information for uses, one possibility is to show the percentage of (=) replies either alongside or below the balance.

The balance of each question is calculated using the following formula:

$$B_{ks} = \sum_{i=1}^{n_{ks}} (1/f_{iks} \times x_{iks}) / \sum_{i=1}^{n_{ks}} (1/f_{iks}) \quad (1)$$

where: B_{ks} = the balance of each question of firms in size group s within industries k ; f_{iks} = the sampling probability for firm i in industry k belonging to size group s , and x_{iks} = +1, 0 or -1 depending on the answer given by firm i belonging to the size group s for its activity in industry k .

when each report unit is given a weight according to its size, the estimates of the balances (B_{ks}) from the sample will be:

$$B_{ks} = \sum_{i=1}^{n_{ks}} (1/f_{iks} \times w_{iks} \times x_{iks}) / \sum_{i=1}^{n_{ks}} (1/f_{iks} \times w_{iks}) \quad (2)$$

$$B_k = \sum^s (w_{ks} \times B_{ks}) / \sum^s w_{ks} \quad (3)$$

$$\text{where: } w_{ks} = \sum_{i=1}^{n_{ks}} (1/f_{iks} \times w_{iks}) \quad (4)$$

$$B = \sum^k (w_k \times B_k) / \sum^k w_k \quad (5)$$

$$\text{where } w_k = \sum^s w_{ks} \quad (6)$$

Only estimates containing individual weights for the report units (w_i values) are labelled weighted estimates in this paper.

In summary, it is recommended that formulas (2), (3) and (5) be used for estimating the balances. If the w_{ks} values (total value added or employment in size group s of industry k) and/or the w_k values (total value added or employment in industry k) are known from other sources, these values should be used for weighting rather the estimates of them derived from the sample.

4. Business Confidence and Business Sentiment in Vietnam

Based on the data on the firms in the sample and the population of each scale group of each sub-industry, the sample probability f_i was identified. In the next stage, the adjusting factor to adjust to the population level was identified based on the sample probability f_i . This is a factor to adjust the answers to the population level. However, in this stage, the scale weights of firm had not been considered. If this were the end of the calculation process, the set of calculated BCIs would be imprecise and were not able to reflect the importance of large firms, because the answers from large scale firms always had larger weights than those of small scale firms. Therefore, the adjusting weights to adjust to the population level needed to be calculated based on the adjusting factors and firm's scales (usually measured by the number of labor in the surveyed firms). The questionnaires were designed to collect two pieces of information that would become the weights of scale, including the total number of labor in the firm in 2011 and the firm revenue in 2011 at current prices. However, the data on revenue was collected poorly because this was a sensitive issue and firms were not ready to provide this data. In addition, some firms did not fill in the information on the number of laborers; hence, a direct follow up by telephone with those firms was necessary to obtain this information.

Based on the calculated adjusting weights (to adjust to the population level), the answers were adjusted with these weights. In order to calculate the BCI for each answer, the answers need to be transformed into the number with values of 1, 0, and -1, which are equivalent the set of answers "good", "normal" and "bad", or "better", "unchanged" and "worse", etc. In general, the positive answer has the value of +1; the answer "unchanged" the value of 0, and the negative answer the value of -1.

Regarding the questions with five answer options recommended by OECD, such as the question on the firm situation, the answers "very good" and "good" are changed into the value +1; the answer "normal" into the value 0; and the answers "bad" and "very bad" into the value -1. Also, typically for the questions on the inventory stocks of finished products of firms; the average input costs for one unit of product of firms; the level of payment delay by customers; etc., the values applied to each answer were in a reverse order. For example, the answers "better" and "increase" were reversed into the value of -1 and vice versa. After these stages, the business

tendency index was calculated for each issue of the firms in each sub-industry. These BCIs would reflect the representativeness of the firms in each sub-industry.

To form a basis for the calculation of the set of BCIs by two large industries surveyed, it is essential to calculate the weights of each sub-industry based on the value-added or GDP of each sub-industry. With respect to the sub-industries in ‘commerce and services industry’, as the data on GDP of these industries are available in the statistical yearbooks, these data would be used as the *weight* for all calculations of BCIs for this industry. On the other hand, as the data on the value-added of these sub-industries were not available for the sub-industries in ‘manufacturing industry’, we opted to use the share of industrial production value of these sub-industries for the calculation. This indicator was multiplied by the value-added of the ‘manufacturing industry’ to calculate the value-added of the sub-industries, and these values were used as the weights for all calculations of BCIs in the ‘manufacturing industry’. The calculations of sample weights, scale weights and sub-industry weights reflect the representativeness of the firms in the scale groups of the sub-industries and in the two large industries (i.e. the ‘commerce and services industry’ and the ‘manufacturing industry’) in the survey.

4.1 Recent business tendency in Vietnam

Based on the survey data and the selected calculation method, the sets of PBSI and BCI for the firms in Vietnam were calculated for the issues related to the current situation, as well as the prospect of the economy and of the firms in the sub-industries and the industries concerned. Derived from the definition on the BCS, the components of the PBSI and BCI would include most of the content of the survey and the qualitative answers, which would eventually be transformed into the quantitative answers aligned with OECD regulations and would be used to calculate the diffusion index of PBSIs and BCIs for the two industries under study.

The general result shows the quantitative evaluation of firms on the present business situation and the business tendency on the economy through the sets of PBSIs and BCIs of individual components. The indices clearly illustrate the present business situation and the firms’ confidence on the economy, the business situation and specific issues of the sub-industries in ‘commerce and services industry’ and

‘manufacturing industry’ and of the two industries at a more aggregate level. The PBSI and BCI reflect the present business situation (of the third quarter of 2012 as compared to the second quarter of 2012) and the business confidence of firms for the next quarter and/or the next six months, and are classified into three groups as below:

- ・ $-100 \leq \text{PBSI or BCI} < 0$ means that the present business situation or the business tendency of the firms was *not good/negative/bad*.
- ・ $\text{PBSI or BCI} = 0$ implies that the current business situation or the business tendency of the firms was *normal*.
- ・ $0 < \text{PBSI or BCI} \leq 100$ means that the current business situation or the business tendency of the firms was *good/positive*.

The sets of PBSIs and BCIs and the combined set of PBSIs and BCIs describe the picture on the present business situation (of the third quarter when the survey was done as compared to the second quarter of 2012) and describe the business tendency of the firms on the prospects of the economy and their business activities. By observing these indices, the policy makers, business community and researchers are able to see the present/current business situation of firms in the economy and forecast the economic prospects for the next quarter and/or the next six months. Hence, the diffusion index of BCI and the sets of BCIs are viewed as the leading indicators or the early warning indicators, which present reliable information on economic developments and the business situation of firms in the next quarter and/or the next six months.

4.2 Business confidence in commerce and services

Table 4 shows that the current business situation of firms in the ‘commerce and services industry’ in the third quarter of 2012 was bad/worse as compared to that of the second quarter of 2012 with the combined PBSI at -23 . The decrease of the combined PBSI of the ‘commerce and services industry’ in the third quarter came from the decrease of most indicators used to calculate this index (11 out of 12 component indicators). This showed that the present business situation of the third

quarter of 2012 in Vietnam was very pessimistic.

Table 4: PBSI and BCI indices of the Commerce and services

STT	Surveyed contents	PBSI Index	BCI Index
1	General domestic economic situation *	- 51	19
2	Business situation	- 36	21
3	Stocks of finished goods	- 6	2
4	Financing situation	- 8	33
5	Access to credit	- 32	21
6	Demand on products	- 20	25
7	Competition ability	2	25
8	Order books, total	- 30	16
9	Sales	- 32	33
10	Profit after tax	- 38	20
11	Payment delayed by client	- 13	
12	Selling prices of goods and services	- 9	10
13	Total number of employees		- 9
Diffusion Index		- 23	18

Source: Author's calculation from survey data

Note: The symbol '*' indicates the situation and expectation within six month

The component indicators that were worst off in the third quarter include: domestic economic situation (- 51), after-tax profits (- 38), business situation of firms (- 36), revenue and access to credit (- 32), orders (- 30), etc. Only the PBSI for the component 'competitiveness of firm' improved in the context of crisis (+2). Among 11 components with PBSI < 0, six components had PBSI < - 20. This shows that the economic situation in the third quarter of 2012 was gloomy. Although the firms' inventory stock was seen as a serious problem at that time, the survey results revealed that the inventory of finished products of the surveyed firms in the 'commerce and services industry' industry was not very serious. The PBSI of this component indicator was at - 6 as compared to the balance level of 0. The most surprising feature is the financial situation of firms. Although the recent evaluation from the relevant authorities showed that the corporate financial situation had been increasingly strongly problematic, the survey results on the situation of firms in the 'commerce and services industry' revealed a less severe problem, as this indicator

decreased to -8 in the third quarter. Among the 12 components, the domestic economic situation was evaluated to be the worst indicator with PBSI at -51 , followed by the business situation of firms with PBSI at -36 . It can be seen clearly that the demand and orders for the products in the 'commerce and services industry' were relatively weak with PBSI at -20 and -30 , respectively. Access to credit was also not in a good position with PBSI at -32 . Many firms accepted to reduce their goods and services' prices to improve their competitiveness. The survey showed that in the crisis period, firms with unplanned business activities would eventually go bankrupt or close their business, while those with clear business plans and strategies had the opportunities to restructure their organization and improve their competitiveness.

In contrast to the evaluations of firms on the current business situation in the third quarter of 2012, the business confidence of firms in the next quarter (the fourth quarter) (Table 4, Column 3) and/or the next six months was strongly improved. The combined diffusion index of BCI of the 'commerce and services industry' industry increased to $+18$. The improvement in this business confidence came from the improvement of almost every component indicators (11 out of 12 components have $BCI > 0$). This showed that, at the time of survey, the firms in 'commerce and services industry' had a strong confidence on the Government's macroeconomic stabilization policies in the coming time, and on the international and domestic economic recovery. This helped improve their confidence on the corporate financial situation as their access to credit might be improved and facilitated. The firms were confident that demand and orders for their products would increase, which would push up the prices of goods and services, and this in turn would help improve their profits and revenue. The clearest sign of improved business confidence of firms was the strong increase of finished product inventory stock as this component indicator increased from -6 in the third quarter to $+2$ in the fourth quarter. This showed that the firms in the 'commerce and services industry' believed that inventory stock would not be a problem for them.

Table 4 shows some optimism of firm owners in the 'commerce and services industry' about the world and domestic economic recovery. Their business confidence for the fourth quarter and/or the next six months increased strongly as compared to the third quarter. The results of the fourth quarter showed that BCIs of most

components, except total labor, were positive and much higher than those of the third quarter. This showed that the business tendency of firms in the 'commerce and services industry' on the macroeconomic prospect and business prospect was very positive. The firms' tendency on the macroeconomic prospect in the next six months as compared to the previous six months (second quarter and third quarter) was much improved, with the BCI increasing from -51 to +19. This improvement of BCI implied that the domestic economic prospect for the next six months would be much better than the previous six months, particularly based on the Government policies on interest rates, bad debt treatment and macroeconomic stabilization.

The business prospect of the firms in the 'commerce and services industry' was also improved strongly, with the strong improvement of the BCI for the next six months to +21 as compared to the PBSI of the third quarter at -36. This was in line with the general business tendency of firms as they were confident in the improvement of most components such as corporate financial situation, access to credit, demand for products, orders, inventory stock of finished products, prices of goods and services, and pre-tax profits, with the BCIs of all these components being positive. However, firm owners were worried about increasing input costs, especially wages and salaries, as their expectations on labor recruitment was still negative with BCI at -9.

Table 5 shows that the present business situation of three sub-industries in the 'commerce and services industry', including 'retail and wholesale trade, repair and maintenance of automobiles, motorbikes and other motor vehicles' (mainly retail and wholesale trade, and hereafter called 'retail and wholesale trade'); 'transport and storage', and 'accommodation and food service activities'. The table also illustrates that the present business situation of all three industries was not bright with the combined PBSIs of three sub-industries being -16, -39 and -36, respectively. The present business situation of 'transport and storage' was the worst among them, and the situation of 'retail and wholesale trade' was relatively less severe than the other two sub-industries.

The set of PBSIs show that all firms in all sub-industries of the 'commerce and services industry' were pessimistic about the macroeconomic situation and the business situation. Especially, the firms in the 'transport and storage' sub-

industry with PBSIs of its components at -74 and -68 , respectively. However, some components, such as competitiveness; inventory stocks; demand for products; financial situation; among others, were less severe.

Table 5: PBSIs of the commerce and services for the second quarter 2012

STT	Surveyed contents	Commerce and services	Wholesale and retail trade	Transportation and storage	Accommodation and food service activities
1	General domestic economic situation	- 51	- 46	- 74	- 52
2	Business situation	- 36	- 22	- 68	- 62
3	Stocks of finished goods	- 6	- 10	- 11	12
4	Financing situation	- 8	- 4	- 19	- 13
5	Access to credit	- 32	- 25	- 39	- 49
6	Demand on products	- 20	- 11	- 43	- 36
7	Competitiveness	2	18	- 16	- 37
8	Order books,total	- 30	- 21	- 43	- 51
9	Sales	- 32	- 18	- 60	- 60
10	Profit after tax	- 38	- 28	- 68	- 52
11	Payment delayed by client	- 13	- 20	- 21	16
12	Selling prices of goods and services	- 9	0	- 6	- 45
	Diffusion Index	- 23	- 16	- 39	- 36

Source: Author's calculation from survey data

Observing the PBSI of the components of sub-industries 'accommodation and food service activities' reveals that two components, namely the 'inventory stocks' and the 'delay in customer payment', had $PBSI > 0$, which was at $+12$ and $+16$, respectively. Some difficulties could be seen in the two sub-industries 'retail and wholesale trade' and 'transport and storage' with PBSIs of these components of the former sub-industry at -20 and -21 , respectively, and PBSIs of the components of the later sub-industry at -10 and -11 , respectively. This was completely aligned with the real business situation of these sub-industries.

In the 'retail and wholesale trade', the present business situation for the components 'competitiveness' and 'prices of goods and services' was relatively good with the PBSIs at $+18$ and $+0$, respectively. The PBSIs of the other components were negative, which reflected the pessimistic business situation.

Regarding the business confidence of firms in the third quarter of 2012, Table 6 shows that the business tendency of firms in all three sub-industries was strongly improved, and firms in the ‘retail and wholesale trade’ sub-industry were very optimistic with BCI at +37. The business tendency of the two other sub-industries, i.e. ‘transport and storage’ and ‘accommodation and food service activities’, was also much improved, although the combined BCIs were still negative. The combined diffusion index of BCIs of these two sub-industries was -1 and -32, respectively, as compared to the diffusion index of PBSIs for the third quarter at -39 and -36 (Table 5), respectively.

Table 6: Weighted BCIs in Commerce and services for the third quarter 2012(future prospect)

STT	Components	Commerce and services	Wholesale and retail trade	Transportation and storage	Accommodation and food service activities
1	General domestic economic situation	19	35	- 6	- 20
2	Business situation	21	38	19	- 38
3	Stocks of finished goods	2	0	1	9
4	Financing situation	33	54	16	- 25
5	Access to credit	21	38	16	- 37
6	Demand on products	25	49	0	- 40
7	Competitiveness	25	42	19	- 31
8	Order books, total	16	36	- 3	- 38
9	Sales	33	57	17	- 38
10	Profit after tax	20	44	- 2	- 45
11	Selling prices of goods and servicest	10	24	4	- 34
12	Total number of employees	- 9	22	- 96	- 51
	Diffusion Index	18	37	- 1	- 32

Source: Author's calculation from survey data

Firms in the ‘retail and wholesale trade’ sub-industry were very optimistic about the general economic prospect and the business prospect of firms. The strong improvement of the combined BCI of this sub-industry came from the improvement of all components. The combined BCI of Transport and Storage sub-industry was much improved, although it was still low at -1. The worst component was ‘changes

in total labor' of this sub-industry, with BCI at -96 (very close to the lowest point of -100). Except the component 'total labor', the business tendency of firms in all other components were much improved, particularly the business situation (BCI at $+19$), inventory stock (BCI at $+1$), financial situation and access to credit (BCI= 16). The business tendency of firms in the 'accommodation and food service activities' sub-industry was improved slightly for the fourth quarter and/or the next six months as the combined BCI of this sub-industry was still stable at -32 as compared to the PBSI of -36 for the third quarter. The business tendency of firms in this sub-industry was relatively pessimistic because most components were still worse than the normal conditions.

4.3 Business confidence in the manufacturing

The combined PBSI and BCI or diffusion index of the 'manufacturing industry' as well as the sets of PBSIs and BCIs were calculated by the same methods, and there were no weights for both two sets of PBSIs and BCIs (Table 7).

The table shows that the present business situation of firms in the 'manufacturing industry' was better than of those in the 'commerce and services industry' with the diffusion index of PBSI of this industry group in the third quarter at -9 , much more higher than the value of -23 of the 'commerce and services industry'. However, the evaluation on the general economic situation of this industry was rather pessimistic with the PBSI of this industry at -46 . Firms were most pessimistic about the production input costs, because the prices of input increased frequently, particularly wages, electricity and oil, and this created huge difficulties for firms in production and business activities. In addition, the lower level of orders and weak domestic and external demand created difficulties for them and forced them to lower their prices to survive. Although the PBSI of the component "inventory stock" was negative at -7 , this level was not as bad as what had been indicated by the media.

A surprising result from this survey was that the PBSIs, such as corporate financial situation; general production; revenue and fixed assets, were positive. This implies that these components were in a relatively good situation. The financial situation of firms in this industry was relatively good with PBSI at $+10$ implying a strong improvement of the third quarter as compared to the second quarter. The

improvement of this indicator was associated with the improvement of fixed assets investment with PBSI at +20, and this showed that the expansion of investment in fixed assets during the last six months was rather good.

Table 7: PBSIs and BCIs of firms in the manufacturing

STT	Surveyed contents	PSBI Index	BCI Index
1	General domestic economic situation	- 46	34
2	Business situation	- 3	43
3	Order books, total	- 11	
4	Demand on products	- 9	
5	Order books, export market	- 12	
6	Foreign demand	- 10	
7	Stocks of finished goods	- 7	- 3
8	Financing situation	10	41
9	Access to credit	- 7	11
10	Production	8	44
11	Selling prices of finished goods		9
12	Sales	8	44
13	Expenditure on input/cost	- 54	- 35
14	Profit after tax	- 21	11
15	Payment delayed by client	- 15	
16	Fixed assets	20	18
17	Total number of employees	3	10
Diffusion Index		- 9	19

Source: Author's calculation from survey data

Expanded investment in fixed assets has brought about the improvement in the number of labor hired in the firms of this industry as compared to the second quarter with PBSI at +3. The probability to expand firms' investment in fixed assets would be increased if the demand for their goods and their profits increases. Also, the very high borrowing costs also hindered the investment plans of firms in the previous six months.

The total production/output of the aggregate 'manufacturing industry' was

evaluated to be positive in the third quarter as compared to the second quarter, with PBSI at +8. The business tendency of firms in this industry was evaluated to be very positive for the fourth quarter and/or the next six months with BCI>0 for most components (11 out of 12 components). Particularly, BCI was very high for the components, such as the general economic situation; the business situation of firms; the corporate financial situation; the general production; and the revenue of firm, which was ranging from +34 to +44. This showed that the business tendency of firms was very good. However, firms in this sub-industry were still pessimistic about the increasing input costs because this would bring about difficulties for firms' business activities. The prospect for expanding investment in fixed assets of firms in the next six month was good, and this would improve the prospect for increasing the total output of the industry. BCI of this component increased from +8 for the third quarter to +44 for the fourth quarter. Shortage of domestic demand, external demand and skilled labor and low sale prices were the key factors that would hinder firm output expansion. Moreover, the competition from imported goods was an important factor that hinders the output expansion capacity of the industry. This would point to a fact that Vietnam's imported goods were mainly semi-finished products, which would go through only one or several simple stages to be finished and then be consumed in the domestic market or exported (Luong, 2012b). For large scale firms, the shortage of skilled labor was not a problem, because they believed that the skilled labor needs to be trained at the job, and they did not expect that firms could hire high skilled labor trained by the market or by the current vocational training system. The small scale firms did not focus on training the workers because they feared that the workers would likely to leave their firms for other firms to look for a higher wages.

Regarding the present business situation (PBSI) by sub-industries in the 'manufacturing industry', Table 8 shows that PBSI was the highest for 'electronics, computers and optical products', at +4. The PBSI diffusion index was lowest for 'food processing' at -23, which showed that the present business situation of firms in this sub-industry was the most pessimistic. The second pessimistic sub-industry was 'textiles, garments, leathers and leather products' with PBSI diffusion index at -12. The business tendency of the 'others' or 'the remainder' sub-industry was also negative with PBSI diffusion index at -5, though it was still better than the general

situation of the aggregate ‘manufacturing industry’. Firms in all these four sub-industries had pessimistic evaluation on the ‘general economic situation’ and ‘input costs’ in the previous six months, with the PBSI decreased from -31 to -59 for the former sub-industry and from -40 to -64 for the latter case.

The PBSIs of 12 out of 16 components of the ‘electronics, computers and optical products’ sub-industry were positive (PBSI = +6). Although the domestic demand for products of this sub-industry decreased slightly, the external demand and total orders and export orders for products of this sub-industry were still optimistic. Firms in this sub-industry had the most positive financial situation with PBSI at +17. Investment in fixed assets still increased strongly, which made the general output of this sub-industry increase strongly with PBSI at +48. Increase in investment and output also helped push the demand for labor of this sub-industry. However, as in other sub-industries in the manufacturing, the input costs increased strongly in the third quarter as compared to the previous quarter, and firms in this sub-industry had a very pessimistic evaluation on this issue (PBSI = -40). The inventory stock of this sub-industry was at normal level with PBSI = 0.

Among the surveyed sub-industries of the ‘manufacturing industry’, the ‘food processing’ was the sub-industry with most pessimistic business situation with PBSI diffusion index equaling -23 . Up to 15 out of 16 components had PBSI < 0, and the most pessimistic component was input costs (-64), the general domestic economic situation (-59), profits (-42), the financial situation (-39), etc. However, this sub-industry still saw the expansion in labor and employment (+3).

Although the ‘textiles, garments, leathers and leather products’ had a negative business situation with PBSI diffusion index at -12 , the fixed assets investment in the previous months increased and the financial situation was good. The present business situation of the other sub-industries was better than the ‘textiles, garments, leathers and leather products’ sub-industry with the improvements of its components including business situation, general output situation, revenue and fixed investments as compared to the third quarter.

The inventory stock was a serious problem for the ‘food processing’ sub-industry but not a problem for the ‘electronics, computers and optical products’ sub-industry and not very severe for the other sub-industries in manufacturing. Thus, it

can be concluded that the inventory situation only appeared in some industries rather than all industries of the economy. Except for the ‘electronics, computers and optical products’ sub-industry, the total domestic and external demand for products of the ‘manufacturing industry’ decreased in the third quarter as compared to the second quarter. At the same time, a strong increase in input prices has lowered the profits of firms in the manufacturing in the third quarter strongly and this was reflected in the pessimistic evaluation of firms on this component with PBSI at -21 .

Table 8: Weighted PBSIs of the manufacturing

STT	Surveyed contents	Manufacturing	Manufacture of food product	Manufacture of textiles, wearing apparel and wearing apparel	Manufacture of computer, electronic and optical product	The remainder/others
1	General domestic economic situation	-46	-59	-42	-31	-43
2	Business situation	-3	-31	-9	6	7
3	Order books, total	-11	-20	-18	5	-7
4	Demand on products	-9	-14	-13	-8	-6
5	Order books, export market	-12	-19	-15	6	-11
6	Foreign demand	-10	-15	-18	8	-9
7	Stocks of finished goods	-7	-18	-1	0	-5
8	Financing situation	10	-39	18	17	24
9	Access to credit	-7	-7	-9	5	-7
10	Production	8	-10	-2	48	13
11	Sales	8	-11	3	4	16
12	Expenditure on input	-54	-64	-65	-40	-50
13	Profit after tax	-21	-42	-35	-2	-12
14	Payment delayed by client	-15	-21	-5	8	-17
15	Fixed assets	20	-25	23	34	33
16	Total number of employees	3	24	-3	12	-4
	Diffusion Index	-9	-23	-12	4	-5

Source: Author's calculation from survey data

Regarding the business prospect of firms in sub-industries of the ‘manufacturing industry’, Table 9 shows that in general the business confidence of firms in this industry increased strongly. While the combined PBSI of the third quarter was at -9 (Table 8, Column 1), the combined BCI diffusion index for the fourth quarter increased to $+19$. This showed that the business confidence of firms has improved. Firms in all sub-industries of the ‘manufacturing industry’ had positive tendency on

the general macroeconomic prospect for the next six months with high positive BCIs, from +26 for the ‘textiles, garments, leathers and leather products’ sub-industry to +64 for ‘electronics, computers and optical products’ sub-industry. The business tendency of firms on the business situation and prospect was also much better as reflected in the increase of BCI for the next six months ranging from +35 to +68. The business tendency of firms on the inventory stock was also improved strongly, particularly, the firms in the ‘electronics, computers and optical products’ sub-industry and ‘textiles, garments, leathers and leather products’ sub-industry with good prospect on finished product inventory with BCIs +13 and +6, respectively.

Table 9: Weighted BCIs of firms in manufacturing(future prospect)

STT	Surveyed contents	Manufacturing	Manufacture of food products	Manufacture of textiles, wearing apparel and wearing apparel	Manufacture of computer, electronic and optical products	The remainder/ others
1	General domestic economic situation	34	36	26	64	32
2	Business situation	43	65	37	68	35
3	Stocks of finished goods	-3	-13	6	13	-3
4	Financing situation	41	37	22	44	46
5	Access to credit	11	16	10	38	7
6	Production	44	48	30	52	45
7	Selling prices of finished goods	9	34	-9	14	4
8	Sales	44	75	27	45	37
9	Expenditure on input/cost	-35	-54	-41	-7	-29
10	Profit after tax	11	15	-12	18	14
11	Fixed assets *	18	9	18	-19	24
12	Total number of employees	10	19	21	14	4
	Diffusion Index	19	24	11	29	18

Source: Author's calculation from survey data

Note: The symbol "*" indicates the situation and expectation within six month

On the other hand, all sub-industries of the manufacturing were still pessimistic about the input costs. The increased input costs would have led to an increase in prices of finished products, while the domestic and external demand was still weak, and this affected the decision to expand fixed assets investment of firms in the ‘electronics, computers and optical products’ sub-industry (BCI at -19). Although the expectation on profits of firms in the ‘textiles, garments, leathers and

leather products' sub-industry was still negative with BCI at -12 , this was still an improvement as compared to the BCI of the third quarter at -35 and reflected the present business situation of firms in this sub-industry.

6. Conclusions and Implications from the Business Confidence Survey

6.1 Conclusions

Derived from the detailed discussions in Section 5, some major conclusions on the business tendency in Vietnam can be drawn as follows: First, the business and production situation of firms, particularly, those in the 'manufacturing industry' and 'commerce and services industry' have faced difficulties due to a fall in demand for goods and services, decrease in profits and revenue, limited capacity utilization (some firms used under 10% of the maximum capacity), and the like. Many firms faced with reduced revenue and profits and contraction in output, reduced their capacity utilization. The results of this survey were closely in line with the real situation and reflected the general difficulties for Vietnamese firms. This was clearly reflected through the pessimistic present business situation of firms with the diffusion index of PBSIs of the 'manufacturing industry' and 'commerce and services industry' at -9 and -23 , respectively (Table 8 and Table 5). However, the business tendency of firms in these two industries had improved strongly and this showed that firms in these two industries were relatively optimistic. The strong increase of the diffusion index of BCI resulted from improvement in most of the components of this index. Firms were relatively optimistic about the general economic and business situation because they were confident in the world and domestic economic recovery, which strongly improved the prospect for firms' business activities.

Second, firms in two industries – 'manufacturing industry' and 'commerce and services industry' – were pessimistic about the general domestic economic situation in the second half of 2012. Among the sub-industries of the 'commerce and services industry', the situation of the 'transport and storage' sub-industry was most pessimistic, followed by the 'accommodation and food service activities' sub-industry and the 'retail and wholesale trade' sub-industry. On the other hand, in the 'manufacturing industry', the situation of the 'food processing' sub-industry was most pessimistic. The business situation of firms in the two large industries was similarly

pessimistic. However, the business tendency of firms on the production and business prospect for the immediate future was relatively optimistic. Many firms believed that the macroeconomic situation and the business situation of firms would be improved in the near future. The optimism of firm owners originated from the expectation on the world and domestic economic recovery and the current Government's policy measures to reduce difficulties for firms in doing business.

Third, with respect to finance and employment, firms in the 'commerce and services industry' were generally less optimistic than those in the 'manufacturing industry.' Given the difficulties in production and business activities, many surveyed firms (27% of the surveyed firms) had to cut off their labor, while the share of firms which increased their labor was low (14.4%). The prospect for employment in the last part of 2012 was not very optimistic as most firms expected that they would not change the number of their labor in the fourth quarter, 20% expected to increase labor and 18% expected to reduce labor. Yet, the prospect in the economy is mixed, as the 'commerce and services industry' was more pessimistic, while the tendency on the expansion of labor in firms in the 'manufacturing industry' was very optimistic. The business confidence on the macroeconomic situation and on the world and domestic economic recovery in these two industries has improved in toward the end of 2012.

Fourth, the export orders (external demand) in the 'manufacturing industry' have decreased, which reflects the negative impacts of the global financial crisis and economic recession on the domestic economy, and illustrates the pessimism in this industry. This pessimism was mainly from the 'food processing' sub-industry and 'textiles, garments, leathers and leather products' sub-industry, while the tendency in the 'electronics, computers and optical products' has been quite optimistic.

Fifth, the prospect of investment in fixed assets of firms in the 'manufacturing industry' has been positive and improved toward the end of 2012, implying that the manufacturing activities still expanded in the study period. Limited expansion in investment in fixed assets has been attributed to insufficient increase in demand, high borrowing costs, lack of profits of reinvestment, and high costs of machinery and equipment.

Finally, the factors that hindered the capacity to expand the business activities

of firms in the ‘commerce and services industry’ includes insufficient demand, competition from firms in the same industry, inflation, high financing costs (interest rates), difficulties in access to credit. Indeed, high interest rates were the very important factor that prevented firms from doing or expanding business activities in the period under study.

6.2 Implications

The reasons for constraints in the production and business activities are mainly the changes in external and domestic macroeconomic conditions and domestic business environment. Firms are still confident about the business prospect for the future and ready to expand their investment and business activities, if the external conditions become more favorable. Hence, in order to solve the difficulties for firms, more attention should be paid to stimulating demand, both domestic and external demand for goods and services, and to increasing access to credit and reducing borrowing cost and other costs for firms. This can be achieved through various measures and policies, such as appropriately easing the monetary policy to increase access to credits for enterprises; stimulating domestic demand; and upgrading the quality of services sector.

Moreover, in order to stimulate the consumer demand, particularly to be competitive to imported goods and services, it is necessary for domestic firms to actively seek solutions to improve their competitiveness of the goods and services sectors. Areas of possible improvement include, but not limited to, upgrade in production technology via investment in modern technology; enhancement in marketing skills; improvement in quality of goods and services; and penetrating new export markets.

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Notes

- 1 Small and medium enterprises (SMEs) were identified based on the definition in Decree No. 56/2009/NĐ-CP dated 30/6/2009 of the Vietnamese Government on supporting small and medium sized firms, and based on the scale levels stipulated in the Statistical Yearbooks of the General Statistics Office.
- 2 The questionnaire, which was designed based on experience from Business Tendency Surveys of OECD countries and non-OECD countries, Thailand and China among others, in order to collect information on business confidence of firms (OECD, 2000)

