



The impact of Covid-19 on income, poverty and inequality in Vietnam

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Key messages

- **The impact of COVID-19 and related response measures on incomes has differed across economic sectors, with agricultural workers less affected, while those working in such sectors as transport and leisure have seen significant falls in their incomes.**
- **Female-headed households were relatively more affected (vs male-headed households) in terms of increased poverty rate and reduced "spending per capita".**
- **Vietnamese households that receive remittances from migrants tend to be female-headed or include more females. Such households were also likely to be more affected by the Covid-19 pandemic because of falling remittances.**
- **Government support for Covid-19 affected families is necessary to help them recover from the impact of the pandemic.**

The Covid-19 outbreak has had significant human and economic impacts for Vietnam, as it has for many other countries, with a large number of people having sunk down into extreme poverty. The Covid-19 pandemic slowed global GDP and increased global poverty, with the poorest countries feeling the greatest impact.

Vietnam's first detected case of Covid-19 was reported in Ho Chi Minh City on 23 January 2020, and infections spread quickly across the entire country. The Government restricted international travel, suspended visas for foreigners entering Vietnam, and closed all schools between February and April 2020.

Key sectors of Vietnam's economy have faced serious challenges, from trade to hospitality, and global lockdowns and economic slowdowns have affected vital sources of income for many families, such as the remittances sent home by international and internal migrants. Migrant families, in particular, may be severely affected by the Covid-19 pandemic.

Vietnam issued Resolution No. 42 to help employers and employees affected by Covid-19 – a financial package to help the economy recover and support businesses once the pandemic ends. This has targeted affected employees and employers, small household businesses, people with a record of service to the country, poor and near-poor households, and social protection beneficiaries.

Our study analyzes the impact of the pandemic and the response measures employed by the Government of Vietnam to protect the economy. The aim is to help policymakers understand the main factors that affect poverty and inequality as a result of the Covid-19 pandemic.

Methodology

The researchers have drawn on Vietnam's Households Living Standards Survey 2018, in combination with Labor Force Surveys 2018, 2019 and 2020, to simulate the impact of Covid-19 shocks (in 2020) on monthly income, income by economic sector, poverty and inequality. They have used a difference-in-difference approach, analyzing data on outcomes in the group that benefited from the Government's assistance package, and the group that did not, both before and after its implementation. The simulations were conducted using three different policy scenarios:

1. Status quo: Continued implementation of the Government's existing assistance package
2. Complementing the Government's assistance package with additional resources under a long-term plan.
3. Expanding the Government's assistance package in view of challenges arising from new COVID-19 wave.

Table 1: Evaluation of policy options

POLICY EVALUATION CRITERIA	Status quo: current assistance package	Current package with additional resources (long-term plan)	Expanded package to face challenges of new COVID wave
Effectiveness/efficiency	Yes	Yes	No
Unintended effects	No	No	Yes
Equity effects	Yes	Yes	Yes
Time considerations	Yes	Yes	No
Cost/Cost-benefit ratio	Benefits larger than costs	Benefits larger than costs	Unclear
Feasibility	Yes	Unclear	No
Acceptability	Yes	Yes	No

Key findings from assessing the impact of the COVID-19 pandemic on...

INCOMES

- The results show that the monthly income of workers decreased by 4.1% in 2020 as a result of the pandemic. Separating the impact of Covid-19 pandemic by quarters, we find that the incomes of workers were heavily affected in the second quarter, following the Government's implementation of the nationwide lockdown in April 2020. Specifically, monthly incomes fell by 4.9% in the first quarter, and by 7.5% and 4% in the second and fourth quarters, respectively.

INCOME BY ECONOMIC SECTOR

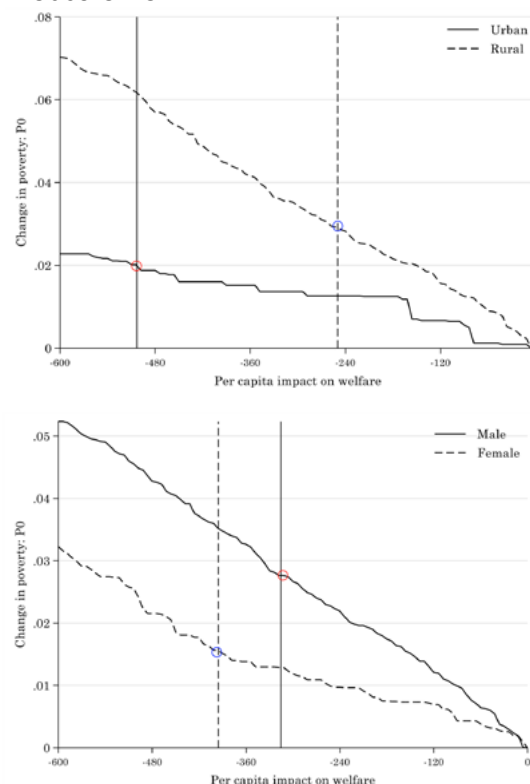
- The incomes of workers in agriculture were the least affected by the Covid-19 pandemic and lockdown measures. Indeed, we find evidence of a positive effect of the Covid-19 pandemic on the incomes of workers in agriculture in the third and fourth quarters of 2020.
- However, the incomes of workers in production, construction, trade, transport, restaurants, hotels, real estate, support services, education and recreation were heavily affected, particularly in the fourth quarter of 2020. The pandemic caused, for example, a decrease of income in trade by 11.4%, 14.4% and 48.9% in the first, second and fourth quarters of 2020, respectively.
- Likewise, the incomes of workers in restaurants and hotels declined by 11.6%, 16.6% and 30.1% in the first, second and fourth quarters of 2020, while the incomes of those working in transport were very severely affected in the fourth quarter.

POVERTY

The further the level of well-being of the non-poor from the poverty line, the lower their vulnerability-to-poverty headcount. **The curve of vulnerability to poverty (CPV)** indicates the extent of changes in poverty according to the negative impact or decrease in well-being experienced by every individual within its population. As shown in Figure 1:

- Rural households tend to be more vulnerable to poverty than urban households. However, in absolute terms, the negative impact of the Covid-19 pandemic was larger for urban households.
- Similarly, male headed households tend to be more vulnerable to poverty than those headed by females, but the extent of the impact of the pandemic on welfare was, on average, greater for female-headed households.

Figure 1: Change in poverty and poverty measurement



Key findings (continued from page 2)

INEQUALITY

- The simulation estimates of the Gini Index suggest a very slight increase (of 0.0018 points) in inequality, and a small decrease for households working in agriculture (0.0014 points) and living in rural areas.
- Urban households have seen a small increase (of 0.0052 points) in inequality.
- Households working in support services have experienced the largest increase in inequality (up by 0.0088 points), followed by households working in trade (up by 0.0087 points). The inequality faced by households working in the restaurant and hotel sectors, and in the health sector has increased by 0.0080 points and 0.0032 points, respectively.
- Male-headed households have experienced a fall in inequality, but there has been no increase in the equality of households headed by females.



Conclusions and policy recommendations

The simulation results show that poverty rates in female-headed households increased more than the rates for households headed by males as a result of the Covid-19 pandemic. Likewise, expenditure per capita in female-headed households decreased more than expenditure in male-headed households.

Households receiving remittances from migrants tend to be female-headed or have a greater female composition. Migrants from Vietnam are, in general, men, with women often staying behind to care for their families. Given that women are more likely to be the recipients of remittances, female-headed households would be more affected by the Covid-19 pandemic as remittances fell. The Government, therefore, needs to support migrant families.

In conclusion, the researchers find that scenarios 1 and 2 – either the continued disbursement of the social assistance package or the provision of this package plus additional resources – are more feasible than scenario 3, which would involve an expanded social assistance programme. The Government is now considering scenario 2 – social assistance plus additional resources. This would entail reductions in value-added tax and corporate income tax, job allowances and support for workers infected with Covid- 19.

This policy brief summarizes analysis from the project **PMMA-20581**, supported under the **Covid-19 Responses for Equity (CORE)** initiative. To find out more about the scientific research methods and findings, read the full **PEP working paper 2023-02**.



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