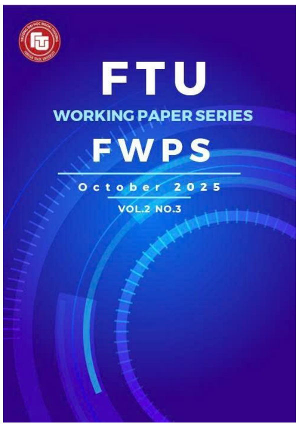

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ĐÁNH GIÁ TÁC ĐỘNG CỦA VIỆC GIẢM THUẾ GIÁ TRỊ GIA TĂNG GIAI ĐOẠN 2023 - 2025 ĐỐI VỚI HÀNH VI TIÊU DÙNG TẠI VIỆT NAM

Vũ Thị Phương Chi[1], Nguyễn Nam Dương, Đặng Ngọc Duy, Nguyễn Thị Bảo Linh

Sinh viên K61 CLC Kinh tế đối ngoại – Viện Kinh tế & Kinh doanh quốc tế

Trường Đại học Ngoại thương, Hà Nội, Việt Nam

Nguyễn Thu Hằng

Giảng viên Viện Kinh tế & Kinh doanh quốc tế

Trường Đại học Ngoại thương, Hà Nội, Việt Nam

Tóm tắt

Trong bối cảnh nền kinh tế toàn cầu vẫn còn nhiều biến động sau đại dịch COVID-19, Chính phủ Việt Nam đã thực hiện chính sách giảm thuế giá trị gia tăng (VAT) tạm thời từ 10% xuống 8% trong giai đoạn từ năm 2023 đến giữa năm 2025. Dựa trên lý thuyết kích thích tài khóa, chính sách này nhằm mục tiêu thúc đẩy tiêu dùng trong nước, giảm áp lực lạm phát và hỗ trợ phục hồi sản xuất kinh doanh. Nghiên cứu này đánh giá tác động đa chiều của chính sách giảm thuế VAT đối với hành vi tiêu dùng, hoạt động của doanh nghiệp và nguồn thu ngân sách nhà nước. Thông qua việc phân tích các xu hướng kinh tế vĩ mô và phản ứng theo

[1] Tác giả liên hệ, Email: k61.2212150042@ftu.edu.vn

từng ngành trong suốt quá trình thực hiện chính sách, nghiên cứu cho thấy tác động của chính sách là không đồng đều giữa các lĩnh vực, từ đó cung cấp một đánh giá toàn diện về hiệu quả và những hạn chế của chính sách. Trên cơ sở đó, nghiên cứu đưa ra một số khuyến nghị chính sách cho các nỗ lực cải cách thuế trong tương lai nhằm cân bằng giữa mục tiêu tăng trưởng kinh tế và tính bền vững tài khóa.

Từ khóa: thuế giá trị gia tăng, tiêu dùng, chính sách tài khóa, Việt Nam, hành vi người tiêu dùng

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EVALUATING THE EFFECTS OF THE 2023 - 2025 VAT CUTS ON CONSUMER BEHAVIOR IN VIETNAM

Abstract

In the context of ongoing global economic volatility following the COVID-19 pandemic, the Vietnamese government implemented a temporary reduction in the Value-Added Tax (VAT) from 10% to 8% during the period from 2023 to mid-2025. Grounded in fiscal stimulus theory, this policy aimed to stimulate domestic consumption, ease inflationary pressure, and support business recovery. This study assesses the multi-dimensional impacts of the VAT reduction policy on consumption behavior, business activity, and government revenue. By examining macroeconomic trends and sectoral responses over the course of the policy's implementation, the study indicates uneven impacts across sectors of the cut, therefore providing a comprehensive evaluation of the policy's effectiveness and limitations. Subsequently, the research offers several policy recommendations for future tax reform efforts that seek to balance economic growth objectives with fiscal sustainability.

Keywords: value-added tax, consumption, fiscal policy, Vietnam, consumer behavior

1. Introduction

Vietnam's decision to temporarily reduce the standard VAT rate from 10% to 8%, effective from the second half of 2023 through mid-2025, represents a strategic counter-cyclical fiscal intervention designed to support consumption and production amid lingering post-COVID-19 disruptions and global inflationary pressures. By lowering the indirect tax burden, the policy sought to stimulate consumption, support production, and safeguard fiscal health. However, the extent to which this policy achieved its objectives remains debated. This study aims to analyze the empirical effects of the VAT cut across key dimensions during the specified period and to derive practical insights for future fiscal policy formulation in Vietnam. By examining macroeconomic indicators and sectoral responses, this study adopts a multi-dimensional analytical approach to evaluate the policy's effectiveness.

2. Theoretical framework:

2.1. Overview of Value-Added Tax cuts in Vietnam

2.2.1. Value-Added Tax cuts in Vietnam

Value-Added Tax (VAT) is an indirect tax imposed on the value added at each stage of production and distribution and ultimately paid by the end consumer. Since replacing the sales tax in 1999, VAT has become a cornerstone of Vietnam's tax system and aligns the country's fiscal framework with international standards. Besides its role in revenue generation, VAT also influences consumption behavior and supports economic integration.

Vietnam adopts a multi-rate VAT structure with three rates: 0% for most exports, 5% for essential goods and services (such as clean water, medicines, and unprocessed agricultural products), and 10% as the standard rate for other goods and services. This tiered approach reflects the government's effort to balance revenue generation with social welfare objectives by reducing the tax burden on essential items.

VAT has played an increasingly important role in Vietnam's state budget. From 2011 to 2020, it accounted for about 24.4% of total state revenue, with VAT from domestic consumption contributing around 17% (Tuan, 2022). The share of indirect taxes, including VAT, has steadily increased, now making up over 60% of total tax revenue and around 11% of GDP. This trend reflects a strategic shift from direct to indirect taxation, aimed at broadening the tax base and stabilizing government revenues amid economic growth and integration.

Over the years, the VAT system has been refined through several legal reforms. The original VAT Law of 1997 was replaced by the 2008 Law No. 13/2008/QH, followed by key amendments in 2013, 2014, and 2016 to adapt to Vietnam's socioeconomic development and international commitments. These changes have enhanced the efficiency, coverage, and compliance of the VAT system, reinforcing its role as a vital fiscal policy instrument.

2.2.2. Recent VAT cuts in Vietnam: Context and significance

The global economic disruption caused by the COVID-19 pandemic severely affected Vietnam's economy, with supply chain interruptions, reduced consumer spending, and increased fiscal pressure. In response, the Vietnamese government adopted a series of fiscal stimulus measures, among which the temporary reduction of the standard VAT rate from 10% to 8% stands out as a major policy tool.

The COVID-19 pandemic caused widespread disruptions in Vietnam's economy, including supply chain interruptions, declining consumption, and fiscal strain. In response, the government implemented fiscal stimulus measures, notably the temporary VAT cut from 10% to 8%, introduced in early 2022 under Resolution No. 43/2022/QH15. This reduction, excluding sectors like telecommunications, finance, and real estate, aimed at stimulating domestic demand and helping businesses overcome liquidity challenges.

Initially intended as a short-term measure, the VAT cut has since been extended multiple times, with proposals to maintain the 8% rate until mid-2025 or beyond. Despite concerns about fiscal losses, estimated at VND121.74 trillion, the government has prioritized economic stimulation, particularly increasing consumer purchasing power, encouraging spending, and fostering economic growth over short-term revenue collection. The policy is seen as a counter-cyclical tool to enhance consumer purchasing power amid global inflation and recovery uncertainties.

Empirical studies, such as Hang and Nhung (2024), suggest that the VAT cut significantly impacted consumer behavior in Vietnam. Spending on daily necessities and durable goods increased, while non-essential categories saw less growth, indicating VAT cuts' role in reshaping consumption priorities and highlighting its differential effects across income groups and product categories..

Overall, the VAT reduction represents a strategic fiscal response to post-pandemic challenges. Beyond immediate economic relief, it raises broader questions for tax policy design, sectoral equity, and long-term fiscal sustainability in Vietnam's evolving market economy.

2.2. Consumer behavior theories

Understanding how consumers respond to changes in VAT policy requires a synthesis of both classical and behavioral economic theories. In the context of Vietnam's recent VAT cuts, two

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theoretical perspectives are especially salient: the price elasticity of demand and the modern doctrine of tax incidence, complemented by selected insights from behavioral economics.

The concept of price elasticity of demand explains how VAT reductions, under competitive market conditions, lower retail prices and stimulate demand, especially for goods with elastic demand like daily necessities and durable products. In the Vietnamese context, Hang and Nhung (2024) found that the VAT cut from 10% to 8% led to increased spending on daily necessities and durable goods. Conversely, spending on entertainment and non-essential services declined, indicating budget reallocation toward more essential categories in the wake of the policy change. These patterns directly explain the observed shifts in consumption patterns following the VAT reduction.

Complementing the price elasticity framework is the doctrine of tax incidence, which explores who ultimately bears the burden of a tax. Classical tax incidence theory posits that in markets where demand is relatively inelastic, the burden of indirect taxes like VAT falls primarily on consumers. Vietnam's VAT reduction, estimated to lower prices by approximately 1.82% (Thanh, 2019), disproportionately benefits low- and middle-income groups – those spending a larger share of income on VAT-affected items. Hang and Nhung's research (2024) confirms the strongest behavior shifts among these groups.

Behavioral economics adds nuance by highlighting psychological responses to temporary tax changes. The framing effect can make consumers perceive the VAT cut as a limited-time opportunity, prompting short-term purchase acceleration. Mental accounting suggests that perceived "savings" from the cut are treated as extra income, encouraging spending. In the case of Vietnam, Hang and Nhung (2024) found that consumer awareness of the VAT cut influenced short-term spending intentions, even when long-term plans remained stable.

The price elasticity of demand explains the immediate, category-specific changes in consumption; the doctrine of tax incidence clarifies who benefits most from the policy; and behavioral economics highlights the psychological channels through which policy design and communication can shape consumer responses. Taken together, the research provides a nuanced and robust explanation for the observed impact of VAT cuts on consumer behavior in Vietnam.

2.3. Effects of tax changes on consumption: Evidence from empirical studies:

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A substantial body of empirical research, both within Vietnam and internationally, has investigated how changes in tax policy, particularly indirect taxes like VAT, affect consumer behavior and overall consumption patterns. These studies collectively highlight that tax changes can lead to significant, and often heterogeneous, shifts in household spending and sectoral demand.

In Vietnam, Hang and Nhung (2024) surveyed 513 individuals from manufacturing, education, and finance sectors, spanning different income levels. Their analysis revealed that the VAT reduction significantly increased consumption of daily necessities and durable goods, while entertainment expenditures declined. This confirms the differentiated effects of VAT cuts on consumer behavior and purchasing power, providing valuable insights for policymakers aiming to stimulate demand and support economic recovery through fiscal measures. Additionally, the Vietnamese government has extended the 2% VAT reduction multiple times through mid-2025 to continue stimulating demand and supporting SMEs.

Internationally, numerous studies have examined the effects of VAT changes on consumption and welfare. Auerbach and Kotlikoff (1987) simulated tax reforms' impacts on consumer welfare across age groups, while Emran and Stiglitz (2002) incorporated informal sectors in developing countries to evaluate indirect tax reforms combining trade tax reductions with VAT increases, noting potential welfare losses when informal sectors evade taxation.

Country-specific analysis provide further insights. Bye et al. (2003) found that uniform VAT rates improve welfare in Norway, while Auziņš et al. (2008) showed that VAT reductions lower market prices and boost retail sales. Documented similar results in the UK during a temporary 2008 VAT cut, though price reductions partially reversed over time. Bánociová and Ťahlová (2018) confirmed VAT's significant role in food spending across the EU.

More recent research in Germany (Behringer, Dullien, and Gechert, 2021) found that while consumers recognized VAT-induced price cuts, few changed their purchasing habits, suggesting that direct transfers may be more effective in economic downturns. Collectively, these international studies employ a mix of econometric and computable general equilibrium models to assess VAT's economic and behavioral impacts, emphasizing the need for nuanced policy design that considers income heterogeneity, market structure, and consumer psychology.

While prior studies often emphasize macroeconomic trends, fewer have investigated how different consumer groups respond to temporary VAT policies in Vietnam. This study addresses that gap by providing a deeper exploration of understanding of household-level responses and consumption behavior within the context of VAT adjustments.

3. Research methodology

To achieve the objectives of this research, we employed a qualitative approach combining a narrative literature review with targeted case analyses to explore the impacts of Vietnam's 2023-2025 VAT reduction on consumer behavior. This methodology allows for a broader understanding of the policy's effects across various socioeconomic groups and industry sectors.

The data used are secondary and drawn from credible sources, including academic journals, government reports, consumer behavior surveys, industry publications, and media case studies. Case-specific insights, such as store-level behavioral shifts and corporate pricing strategies, help contextualize the observed patterns.

Our analysis applies thematic coding to synthesize key patterns from the data, focusing on shifts in spending behavior, sector-specific trends, and regional/income group disparities. This approach also captures behavioral responses and market structure dynamics affecting policy implementation.

While the methodology provides rich qualitative insights, it also has limitations. These include reliance on available data, limited representation from rural or informal sectors, and the short-term nature of the VAT policy. Moreover, the absence of primary micro-level data restricts the ability to conduct precise econometric forecasting. Nonetheless, the thematic analysis remains effective for generating actionable and context-sensitive policy recommendations.

4. Effects of 2023-2025 VAT Cuts on Consumer Behavior in Vietnam

4.1. Overview of Vietnam's VAT Reduction Policy (2023 - 2025)

Vietnam's VAT cut policy was first introduced on February 1, 2022, to support businesses and consumers during the post-COVID-19 economic recovery. Initially set as a temporary measure, the policy reduced the standard VAT rate from 10% to 8% for most goods and services, excluding sectors like telecommunications, IT, finance, insurance, securities, and real estate. In the first half of 2023, the policy was paused due to concerns over revenue loss and signs of macroeconomic stabilization. During this period, the government shifted its focus to fiscal consolidation. However, in response to weakening domestic demand and sluggish exports, the VAT cut was reinstated in the second half of 2023 as part of a renewed effort to stimulate consumption and production, ease cost burdens, and support job creation, in line with the economic context at that time.

Recognizing its positive impact, the government extended the VAT reduction multiple times, with the most recent being effective from January 1 to June 30, 2025, under Decree No. 180/2024/ND-CP for the consistent groups of goods and services as previous period. This extension aimed to sustain economic recovery momentum, promote domestic consumption and tourism, and ease financial pressures on both enterprises and households.

Figure 1. Groups of goods and services excluded from 2% VAT reduction

Source: Vietnam News Agency

4.2. Observed changes in consumer spending behavior in Vietnam

4.2.1. Budget restraint and saving prioritisation

In light of the uncertainty in the market, people tend to opt for a safer option, like saving. Over the past two years, citizens' deposits saw consistent growth despite prolonged declines in deposit interest rates. Total deposits from citizens at banks have hit a new all-time record of VND6.8 quadrillion by the end of July, according to the State Bank of Vietnam, increasing by 4.68% from the end of 2023. Regarding daily spending, Vietnamese were reported to regularly keep track of their personal finance, with an increase from 79% to 84%. NIQ's data (2024) also indicated that more people are holding back on their spending, with a jump from 63% to 75% year over year.

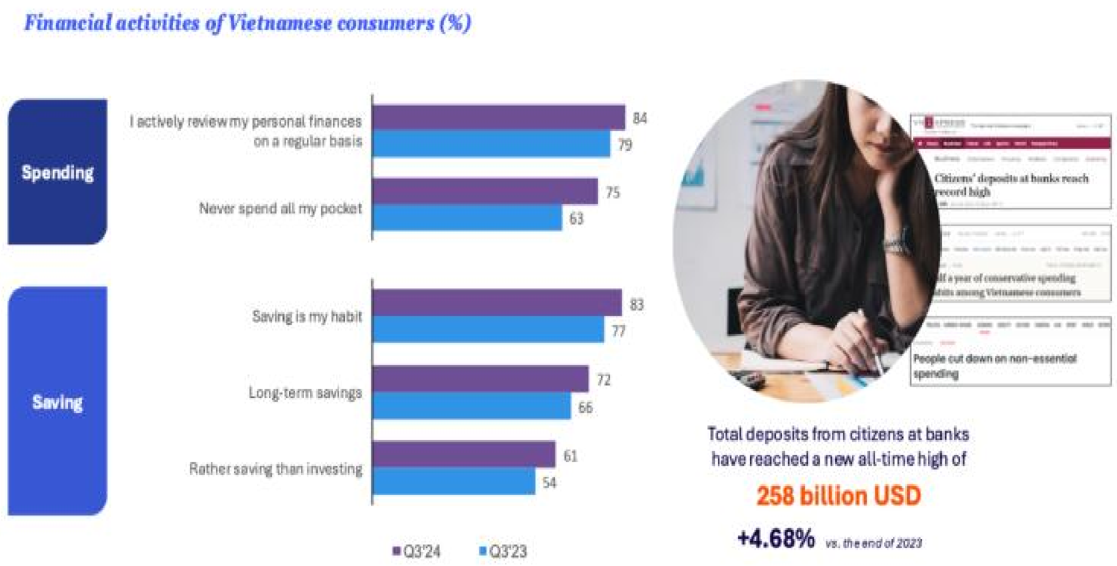

Figure 2. Comparison of financial activities of Vietnamese consumers between Q3 of 2023 and Q3 of 2024

Source: NIQ

4.2.2. Value consciousness and Price sensitiveness

One of the key features of customer behaviour is marked by the increase in caution and value consciousness (Cimigo, 2025). Stemming from the tight spending pattern post-pandemic, consumers' focus centered on value-based purchases and more discerning shopping choices.

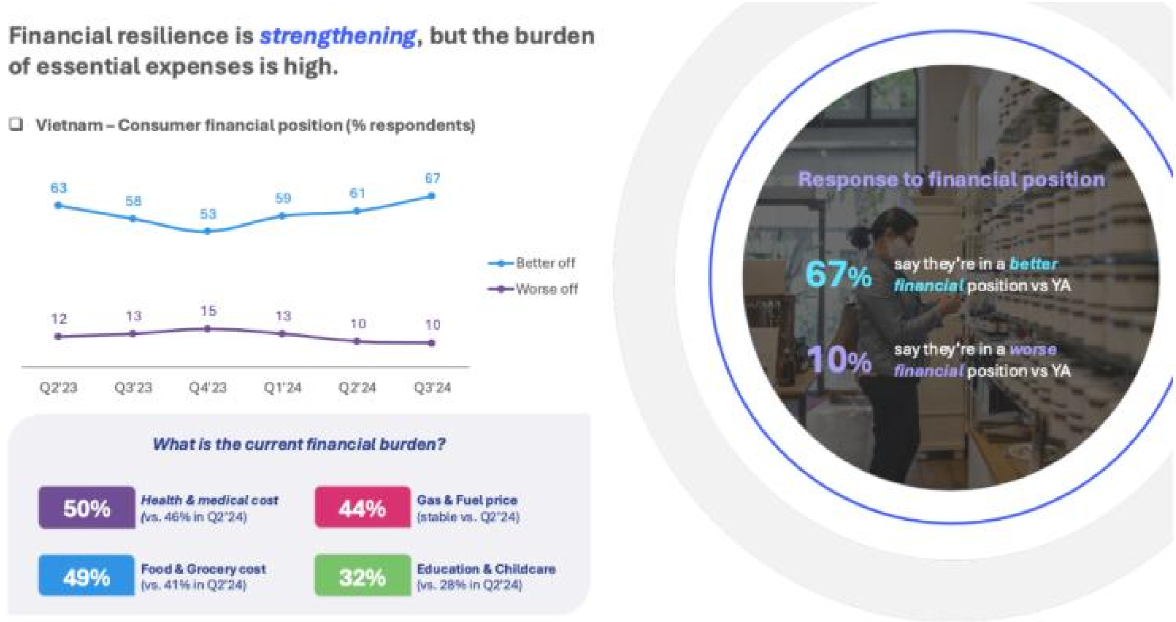

Figure 3. Consumer financial position in Vietnam

Source: NIQ

More than 90% of Vietnamese consumers are reported to be more conscious about price increases, inflation, gas shortages, coupled with higher fuel prices, and rising interest rates, expressing their fear about income and savings reduction (McKinsey & Company, 2023).

While the inflation rate was controlled at 3.6%, lower than initial projections, retail sales of goods and services showed modest growth. Retail sales of goods saw a slight increase of 1.1%, and combined goods and services sales rose by merely 2.3%. Such marginal growths presented caution in household spending and increasing tendency towards saving habits, with the savings rate climbing from 8.5% in 2019 to 10% in 2024 (Cimigo, 2025).

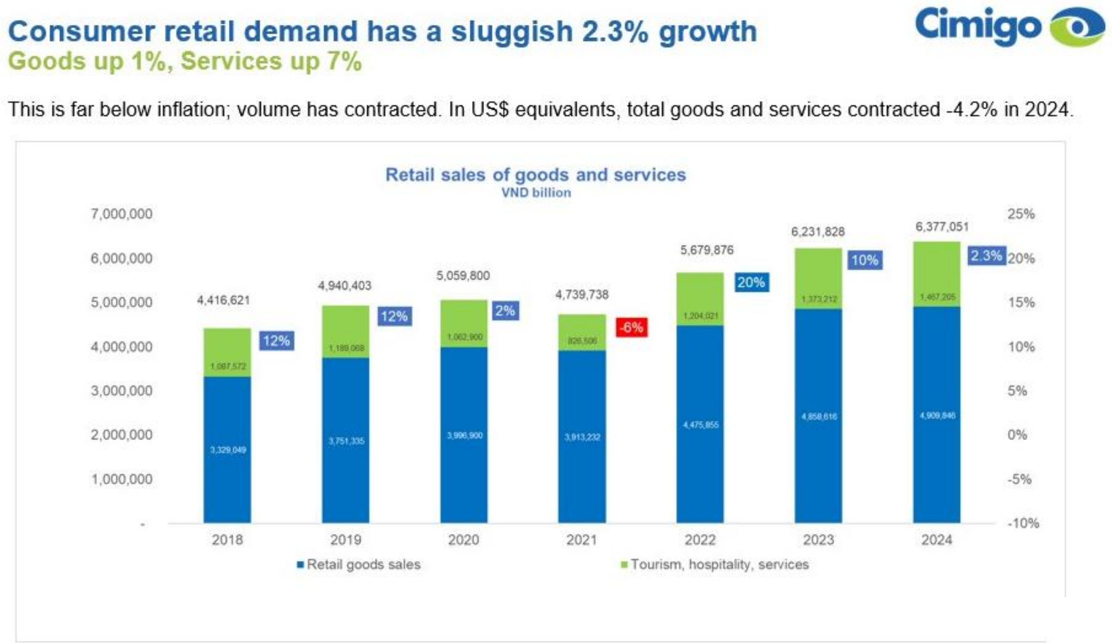

Figure 4. Retail sales of goods and services in Vietnam, 2018 - 2024

Source: Cimigo

Inflationary pressures also lead customers to become more price-sensitive. They actively seek products that strike a balance between price and quality (NIQ, 2024). In addition, NIQ's data indicates that promotions and deals play a pivotal role in influencing impulse buying decisions, with 85% of shoppers comparing prices before purchasing items, along with 78% expressing their willingness to pay extra for better quality.

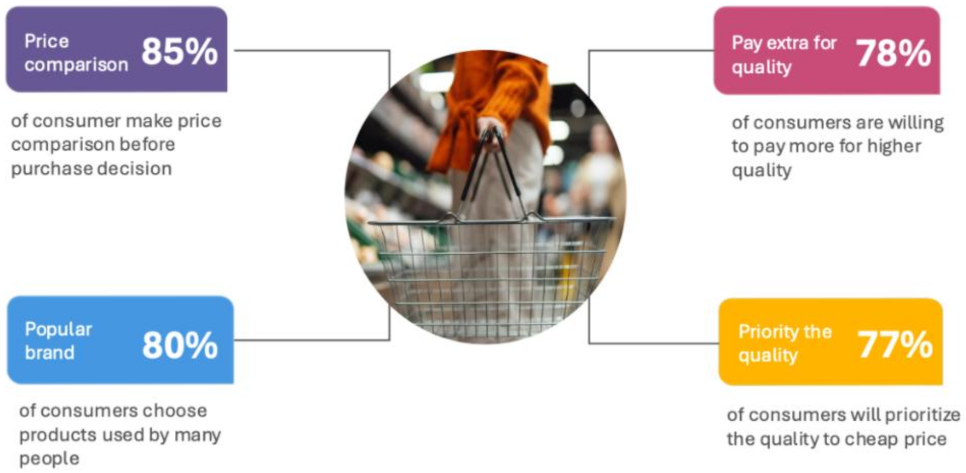

Figure 5. Shopping priorities of Vietnamese consumers

Source: NIQ

4.2.3. Spending Priorities: Essentials and Discretionary

Vietnamese consumers exhibit a growing tendency to steer away from premium products and seek value-based purchases, even for basic goods like milk (Cimigo, 2025). Their spending primarily focuses on essential items like education, food, and health care. Conversely, spending on non-essential and discretionary categories saw a decreased trajectory. This includes categories like luxury goods, entertainment products (books, movies), toys, and dining out. Data from NIQ (2024) showed that 49% of surveyed consumers were cutting down their spending on luxury items and unnecessary products, while 64% said they only buy the essentials they need.

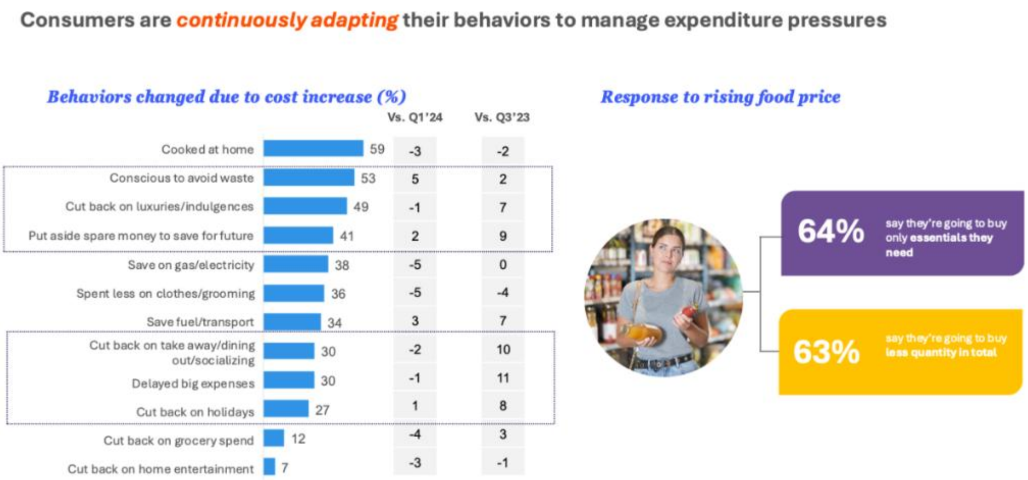

Figure 6. Consumers' behavior in response to expenditure pressures
Source: NIQ

However, there are discretionary segments that customers are willing to spend on high-end products, such as cosmetics, fashion, special healthcare products, and services. This is further demonstrated by a significant recovery in the automotive sector in 2024, with new passenger car sales increasing by 22% and motorbike sales by 14% year-on-year, contrasting sharply with the declines seen in 2023. This selective spending suggests consumers' strategic trade-offs, reducing expenditure in less critical areas to afford premium purchases in categories they deem important, potentially related to status, technology, or personal well-being.

4.3. Sector-specific effects of Vietnam's VAT reduction on consumer behavior

4.3.1. Fast-moving consumer goods (FMCG) and Essential goods

In 2024, Vietnam's total retail sales of consumer goods and services reached approximately VND6.4 quadrillion (around USD252 billion), up 9% year-over-year, according to the General Statistics Office. (GSO) The VAT cut significantly contributed to this growth by lowering prices of necessities, thus encouraging spending (VNS, 2024b). According to PwC's Asia-Pacific Consumer Insights, 63% of Vietnamese consumers planned to increase spending on essential goods, highlighting how affordability from the VAT cut shifted behavior toward necessity-driven consumption. (VNS, 2024a)

The impact was also evident in online spending. Vietnamese consumers spent an average of VND874 billion (around USD34.6 million) across five major e-commerce platforms in 2024, with FMCG sales gaining traction as lower VAT made online goods more affordable (Thong, 2025). Kantar's Vietnam FMCG Outlook 2024 observed contrasting growth tendencies in different segments (Kantar World Panel, 2024). Strong growth is shown in food and personal care segments, driven by demand for necessities, while the beverages sector saw modest gains despite growing interest in health-conscious options.

4.3.2. Retail and E-Commerce

The VAT cut played a pivotal role in Vietnam's retail and e-commerce expansion. In 2024, the e-commerce sector experienced significant growth, with revenue exceeding USD25 billion, marking a 20% climb from the prior year. This growth was partly due to VAT making online shopping more affordable, leading to heightened consumer confidence and increased spending, especially on everyday items (Dung, 2025). Data from the Vietnam E-commerce and Digital Economy Agency (iDEA) showed that the average transaction value rose by around 15% compared to 2023, indicating more frequent purchases and stronger consumer buying power.

Leading platforms (Shopee, Lazada, TikTok Shop, Tiki, and Sendo) together earned VND318.9 trillion (USD12.67 billion), up 37.36% from 2023. Product volume also surged by 50.76%, exceeding 3.4 million units sold (Huyen, 2025). According to iDEA, average spending per transaction rose by 15%, indicating higher purchasing frequency and value.

The VAT cut not only made goods cheaper but also altered shopping behavior. Consumers increasingly turned to e-commerce, drawn by convenience and tax savings. Behavioral economics explains this shift through the "price salience" effect - small price changes can significantly influence buying decisions (Chetty & Bruich, 2009). Promotions like "Buy 1 Get 1" deals and voucher-based offers on major e-commerce platforms grew 9% in 2024 (Huyen, 2025), while traffic jumped 17% in 2024 during national sale events like Online Friday and Tết. This reflects how consumers recalibrated their expected prices in response to tax changes and promotional cues, also known as the "reference price theory".

4.3.3. Geographic or demographic disparities

The Vietnamese government's decision to reduce the VAT from 10% to 8% has had varied impacts across different regions and demographic groups. While aimed at a nationwide consumption stimulus, the policy's impact was more pronounced in urban centers and among specific income groups.

Urban and rural consumer behavior

Cities such as Hanoi and Ho Chi Minh City have witnessed a high surge in consumer spending following the VAT cut. Retailers such as Co.opmart and Central Retail reported increased foot traffic and sales, boosted by VAT-related discounts and additional promotions (VietnamPlus, 2023). Urban consumers, with higher incomes and better access to supermarkets, especially well-supplied ones, benefited more from the policy, especially due to the broader product availability in formal retail channels.

In contrast, rural areas experienced a more muted response. Limited access to large retailers meant price reductions were less visible. Moreover, informal markets, where VAT is often not applied or enforced, diluted the policy's effect. Even with lower prices, rural households, being more price-sensitive and having limited disposable income, often did not experience absolute savings significant enough to alter their spending habits.

Income-Level Disparities

The VAT cut affected income groups differently, underscoring the importance of complementary measures to enhance policy inclusivity. Low-income households increased their spending on essentials but saw only modest overall changes due to limited disposable income. Middle-income groups also shifted slightly toward necessities, indicating a cautious response. High-income households were the most responsive in discretionary spending, reducing their share of essential expenditures while increasing purchases of services and premium goods.

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Income group	Year	Spending on Essentials	Spending on Non-Essential	Explanation
Low-income	2019	70.2%	29.8%	This group has already allocated most of their income to essential goods. After the cut, they may increase consumption of essential goods due to lower prices, but only modest overall changes were seen due to limited disposable income.
	2024	72%*	28%*	
Middle-income	2019	75.3%	24.7%	This group was affected by macroeconomic fluctuations but still had relatively strong purchasing power. They tended to reallocate spending from leisure and dining to education, food, and online savings.
	2024	77%	23%	
High-income	2019	39.1%	60.9%	This group was not significantly affected by VAT but took advantage of the cut to upgrade their consumption.
	2024	38%*	62%*	

Figure 7. Changes in spending by income group in Vietnam before and after the implementation of the VAT reduction policy (2019 – 2024)

Source: VietnamPlus (2025b)

Values marked with an asterisk (*) in the figure represent estimated figures derived from qualitative synthesis rather than direct statistical data. Due to the lack of disaggregated official data for the year 2024 across income groups, these estimates were constructed based on observable trends, behavioral studies, and macroeconomic reports from prior years. While not exact, they are grounded in evidence from credible sources (*e.g.,* Hang & Nhung (2024), NIQ (2024), McKinsey & Company (2023), and Cimigo (2025)) and serve to illustrate plausible shifts in spending patterns following the VAT reduction policy. These figures should be interpreted as indicative rather than definitive, and are intended to support policy analysis rather than substitute for micro-level survey data.

4.4. Key influencing factors

4.4.1. Consumer awareness and salience of VAT cuts

Consumer awareness and perceived importance play a vital role in determining the effect of VAT cuts on consumers' behaviour. Although the VAT reduction was expected to have a broad impact, research by Hang and Nhung (2024) found that awareness levels were generally low and uneven across income groups and sectors. Interestingly, low-income workers in manufacturing and industry reported higher awareness compared to middle-income educators and high-income managers. Limited overall awareness may stem from weak communication efforts or the relatively modest 2% tax cut being overshadowed by broader concerns such as price fluctuations and inflation. However, at the point of purchase, many consumers did perceive price reductions, which influenced their spending decisions.

The same study also shows that the perception of reduced prices was one of the important factors driving changes in consumption patterns among those affected. The research indicated that VAT cuts encouraged higher spending on essentials, while reducing planned expenditures on non-essentials like entertainment, reflecting a cautious approach to consumption amid ongoing economic uncertainty and rising living costs.

4.4.2. Price transmission in formal and informal markets

Evidence indicates that the VAT cut was effectively passed through to consumer prices in the formal retail sector, where officially registered businesses such as supermarkets and convenience store chains comply with tax regulations and are required to issue VAT invoices. These invoices explicitly reflect the 8% rate for eligible goods, making the price reduction visible to consumers and encouraging retailers to pass on the benefit. The transparency of formal transactions likely contributed to better policy transmission.

In contrast, price transmission in the informal sector was weak. Unregistered household businesses, individual traders, and street vendors often operate outside the tax system and formal regulatory framework. Most sellers do not issue invoices, and neither the seller nor the buyer knows or cares about VAT in pricing. Buyers mainly care about the price fluctuations compared to those of previous transactions, which is often attributed to input costs or fuel prices, rather than tax policy.

This disparity has important implications. While the policy aimed to support broad-based consumption, tangible benefits were concentrated among consumers using formal retail channels. Since many low-income households depend on informal markets, the lack of price pass-through in these areas may have limited the policy's effectiveness for vulnerable groups, potentially counteracting the intended relief.

4.5. Achievements and limitations of the VAT reduction policy

4.5.1. Achievements

Vietnam's reduction of the VAT rate from 10% to 8% has delivered notable economic benefits. It helped stabilize businesses, protect jobs, and ease cost pressures, particularly in key sectors such as retail, automotive, and manufacturing. By lowering production costs, firms could offer better prices, thereby stimulating demand. For households, the tax cut reduced living expenses, allowing more room for saving and consumption. According to the Ministry of Finance, the policy may reduce state revenue by approximately VND25 trillion in the first half of 2024, reflecting the government's prioritization of economic recovery and public welfare. (VNA, 2024)

4.5.2. Limitations

Despite its benefits, the VAT cut also presents several challenges. Determining which goods and services qualify for the lower rate has proven complex, as businesses must interpret detailed tax lists and industry codes, leading to confusion and inconsistent application (LNT & Partner, 2024). This administrative burden raises operational costs due to necessary adjustments in accounting systems. Moreover, important sectors like telecommunications, IT, financial services, and real estate are excluded from the reduction, limiting the policy's overall reach. Varying interpretations by regional tax authorities further exacerbate uncertainty and complicate compliance for businesses (Lien, 2022)

5. Recommendations

5.1. Recommendations for policymakers

VAT cuts should be strategically calibrated to balance their stimulus effects with fiscal discipline. Evidence shows that while such cuts boost demand for necessities and durables, luxury or entertainment spending is less responsive (Hang & Nhung, 2024). The cut can be designed to maximize consumer relief by targeting strategic and high-impact sectors, such as fuel and consumer goods, where lower VAT rates directly influence broader production and consumption, ultimately enhancing consumer purchasing power most effectively (VietnamPlus, 2025b).

Moreover, the government must manage the significant revenue shortfall that accompanies a VAT cut. Given the projected revenue loss of VND120-125 trillion (approximately US$4.8-4.9 billion), it is crucial to strengthen tax enforcement. In particular, the Ministry has proposed accelerating digital tax administration and tightening audits to improve compliance and partially recoup lost revenue (Duc, 2025). These measures, together with prudent budget management, can help ensure that the tax relief does not compromise fiscal stability.

Finally, policymakers should embed the VAT cut within an evidence-based, adaptive policy framework that includes clear complementary measures. As impacts vary with factors like consumer confidence, supply-side pass-through, and efficient monitoring of price changes, future adjustments could therefore be temporary or selective, with periodic reviews using real-time sales and price data to fine-tune the tax base. This adaptive approach, supported by digital reporting and clear evaluation criteria, will help ensure VAT adjustments effectively, support living standards, and sustainable economic growth.

5.2. Recommendations for Businesses

Several enterprises actively adjusted prices in response to the 2% VAT cut. Emart Vietnam updated its pricing system and offered discounts of up to 80% on essential goods (Nhan, 2023). Prime Yen Binh JSC reinvested VAT savings into equipment upgrades, lowering production and consumer prices (Nga, 2024). Co.opmart also implemented price reductions ranging from 22% to 62% on groceries, apparel, and household items (VietnamPlus, 2023). However, some firms struggled to adjust prices effectively. Millennium Furniture Co., Ltd., for instance, lost over VND2.3 billion in VAT credits due to inconsistent tax guidance between provinces (Lien, 2024).

These cases illustrate the need for businesses to adjust to the uneven effects of the VAT cut and ensure that savings are passed on to consumers through lower prices. In practice, weak enforcement and market constraints have limited such adjustments. Accordingly, enterprises should update their invoicing processes, adopting electronic invoices and digital bookkeeping to clearly indicate the 8% VAT rate on eligible sales and avoid penalties from issuing invoices at the old rate for taxable goods (Hanh & Cyrill, 2024). Staying informed about regulatory changes, such as expanded VAT coverage in e-commerce, is also essential.

Additionally, businesses should respond to shifting demand by scaling production, managing inventory, especially for essentials and durables, and using marketing strategies that highlight lower effective prices and attract price-sensitive customers. Integrating advanced analytics and AI tools, such as AI-driven demand-tracking platforms, to monitor sales in real time can optimize both inventory and dynamic pricing. Online retailers can further tailor promotional campaigns by geographic location or peak shopping times to ensure offers align with moments of highest consumer responsiveness.

5.3. Lessons for future VAT policy

The success of VAT reductions depends heavily on timing and context. For example, one IMF study found that a large temporary VAT reduction for restaurants during the COVID-19 pandemic had no significant effect on spending, suggesting that external constraints can limit the policy's impact (Cevik, 2023). This emphasizes the need for complementary measures such as income support or inflation control to ensure consumer ability and willingness to spend the additional income, thus for the tax-driven stimulus to achieve its intended effect.

Long-term objectives, like social and environmental goals, should also shape VAT policy design. For example, maintaining lower VAT rates or exemptions on basic necessities protects vulnerable groups, while higher rates or reduction removal on luxury or harmful goods promote equity and sustainability. In fact, reducing VAT on green goods, like renewable energy equipment, can encourage more eco-friendly consumption. (ElAawar, 2024)

Finally, stability and transparency are critical to improve the foundation for sustainable, responsive, and effective tax policy in Vietnam. Frequent and unpredictable VAT changes can undermine business planning and consumer confidence. Therefore, any future rate adjustments should be clearly announced well in advance with built-in evaluation mechanisms. Continuing to modernize the tax administration will also improve compliance and data collection, which in turn supports better policy design.

6. Conclusion

This study has examined the effects of the temporary reduction in the VAT from 10% to 8% in Vietnam over the 2023–2025 period. The findings indicate that the policy has played a supportive role in promoting domestic consumption, particularly in essential goods and services, while also alleviating cost burdens for enterprises amid post-pandemic recovery. Nevertheless, the impacts of the policy have been uneven across sectors, and its long-term implications for government revenue generation and fiscal stability merit careful consideration.

Given these outcomes, it is important to reflect on how such a policy can evolve in the future. Although the VAT reduction has partially achieved its short-term counter-cyclical objectives, the continuation of such tax incentives over an extended period may pose challenges to fiscal sustainability. As such, the study recommends a phased adjustment of VAT policy, complemented by broader tax system reforms and enhanced tax administration. These measures would allow Vietnam to maintain economic recovery momentum while safeguarding the resilience of public finances in the long term.

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