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Global Markets Research

Research Alert

Surprised pick-up in Vietnam's 2Q GDP growth to 8.4%

Stellar 8.2% growth in 1H driven by manufacturing; expect easier growth in 2H

Softer than expected inflation at 4.7% in June; remained above target

SBV to maintain policy rates to support economic growth and cap CPI at 4.5%

Summary

Defying expectations for a deceleration, 2Q GDP growth for Vietnam staged a surprised pick-up to 8.4% y/y, from 7.9% y/y in 1Q. This brings YTD growth to 8.2% y/y, and as such, there is no change in our view that official's GDP growth target of 10% for 2026 remains ambitious for now as this would suggest that the Vietnamese economy would have to grow an average of 11.9% y/y in in the second half of 2026, a feat not seen since 3Q of 2022.

Manufacturing – the key growth engine

Growth was broad-based, with manufacturing the driving force for growth amid sturdy exports and positive spillover from public investment.

Accordingly, the industry/construction saw a robust 9.8% y/y growth in 1H (1Q: 9.0% y/y), agriculture, forestry & fishery expanded by 3.9% y/y (1Q: 3.7% y/y) while the services sector grew by 8.1% y/y (1Q: 8.3% y/y). Drilling down to available data, industrial production grew steadily for the whole of 2Q and as much as 12.7% y/y in June alone, (May: 8.8% y/y), marking its best growth pace in nine months, underpinned by acceleration from mining & quarrying (8.8% vs 6.0% y/y), electricity (16.6% vs 8.5% y/y) as well as manufacturing (12.6% vs 9.0% y/y).

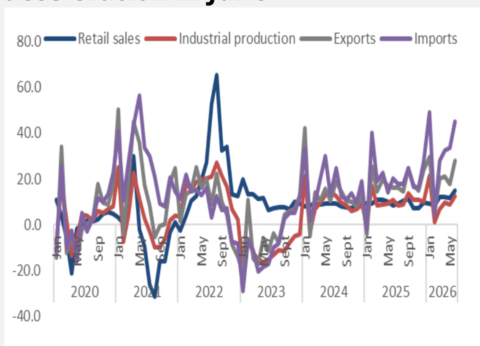
Further uptick in consumer spending offset negative net exports

On the demand side, consumer spending maintained its upward trajectory and grew at a faster pace of 14.8% y/y in June (May: 11.8% y/y) amid steady economic growth, recent hike in minimum wages and sustained boost in tourism activities (+14.9% y/y in 1H). While exports were more robust than expected at 28.1% y/y in June (prior: 18.0% y/y), these were offset by a stronger import growth at 45.2% y/y (prior: 33.8% y/y). As such, despite the sturdy external demand, net exports contribution to GDP was negative, with trade deficit averaging -$3.7bn in 2Q vs -$1.2bn in 1Q.

Figure 1: Stronger than expected growth of 8.4% in 2Q

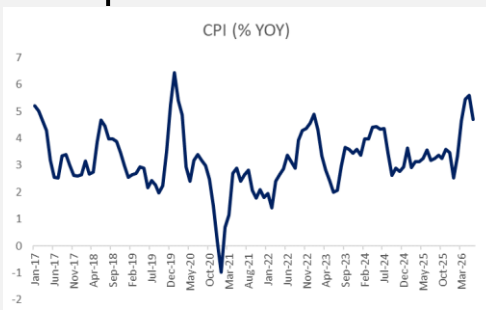
Source: Bloomberg

Figure 2: Broad-based growth acceleration in June



Source: Bloomberg

Figure 3: Inflation slowed more than expected



Source: Bloomberg

In terms of prices, inflation surprised on the downside at 4.7% y/y in June (May: 5.6% y/y), largely due to the decline in gasoline and oil prices in line with global energy price movements. SBV had previously said inflation could reach as much as 5.5% this year, but we opine full year average will likely hover around the official inflation target of 4.5% (house view: 4.4-4.9%).

Outlook

As mentioned, the Vietnamese economy would have to grow 11.9% y/y in 2H to meet its double-digit growth target of 10% this year, a challenging task in our opinion given the higher base effect in 2H of last year. Vietnam, being a trade-sensitive economy, is also highly susceptible to any steep slowdown in global growth stemming from elevated commodity prices and inflationary pressures, as well as reduced demand from geopolitical and tariff tensions. Instead, we are expecting a more realistic growth of 7.5-8.0% for the Vietnam economy in 2026 (2025: 8.0%).

With the central bank tasked to support the government's double-digit growth target, while maintaining currency stability, containing inflation and managing rapid credit growth without fuelling bad loans, we opine that this will likely keep pressure for the monetary policy makers to maintain rates at current level until the end of 2026. Instead, we expect the government to continue to rely on its ambitious spending on infrastructure to spur growth, as already reflected in the higher planned fiscal deficit @ 4.2% of GDP for 2026 (2025: -3.8% of GDP).

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