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Global Markets Research

# Research Alert

# Softer growth in 1Q for Vietnam

**Slowdown reflects seasonal and impact from higher energy costs & supply disruption**

**Higher fuel & construction costs pushed inflation above the government's target**

**SBV to maintain policy rates for now amid a still robust economy & elevated CPI**

**Softer 1Q GDP growth at 7.8% y/y poses challenge to the government's 10% growth target**

Although better than what consensus had anticipated, Vietnam's economic growth slowed to 7.8% y/y in 1Q26, a step down from the 8.5% y/y increase in 4Q25. According to officials, the slowdown reflects some impact from the spikes in energy costs, supply disruption and consequently, higher inflation in March.

With this, we maintain our view that ***it will be a challenge for the official to push for a 10% growth this year, especially as this suggests that the economy would have to grow by more than 10% in each of the three succeeding quarters***. There is no change in our expectations that the economy will growth by around 7% in 2026, pending more clarity on the intensity and duration of the Middle East war.

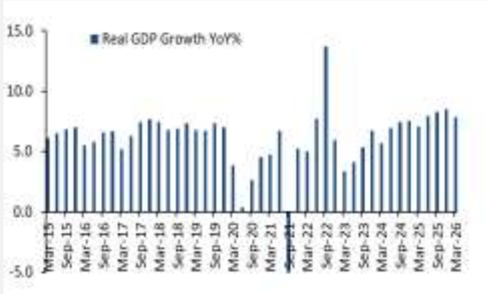
**Rising transportation and construction costs sent prices up above government's target**

In March, rising fuel, transportation and construction costs sent inflation up 1.2% from its previous month and on a yearly basis, by 4.7%. This was higher than expected, and a sharp step up from February's 3.4% y/y and its highest since 2023. Keeping inflation below the 4.5% ceiling targeted by official will be a challenge in our opinion with the ***rising domestic fuel likely to put upward pressure to CPI by 1 to 2ppts***. Already, government has been reportedly tapping its emergency fuel fund to stabilize prices and airlines have slashed flights due to jet fuel shortages, disrupting the tourism and broad services sector on the supply side, and consumption on the demand side.

**Broad pick-ups in economic activities in March**

Besides CPI, economic indicators were essentially stronger in March, likely reflect the rebound from February's Tet holiday. Exports grew a strong 20.1% y/y (prior: 5.7% y/y) and in tandem, IPI growth also

**Figure 1: Softest growth since 1Q 2025**




*Source: Bloomberg*

**Figure 2: Inflation above official target**


*Source: Bloomberg*

**Figure 3: Economic indicators have stayed resilient in March**


*Source: Bloomberg*

accelerated to 6.9% y/y (prior: 1.0% y//y). Both were above street forecast, while retail sales picked up to increase 12.1% y/y (prior: 8.5% y/y) due to trade and hotel/restaurant activities.

**No tightening in sight despite inflation above target**

Although inflation has surged above the government's comfortable level, and is expected to remain elevated, we expect the SBV to maintain its policy rate at 4.50% for now to support both credit and economic growth. Already, the economy is feeling the pinch from the Middle East war and a tightening does not bode well for the government banking on massive public investment to spur growth.

As it is, squeezed funding on top of supply risks and material cost pressure suggest possible delay in major infrastructure projects and repercussions on government's long-term plan to boost sustainable economic growth. For example, the Phan Thiet Airport is set for construction start in late April and is expected to strengthen the regional transport network and any delay, could postpone Vietnam's long-term plan to improve connectivity, attract investment and promote tourism and services.

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