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Global Markets Research

Research Alert

Strongest GDP growth in three years for Vietnam

2Q GDP grew a sturdy 8.0%; exports, FDI and domestic demand remained robust
Neutral-to-slightly positive on trade deal; pending more clarity of tariff differentials
Official GDP growth target of 6.5-7.5% achievable; 8.0% aim a challenge

Summary

Defying expectations for slower growth, Vietnam's GDP grew at a stronger pace of 8.0% y/y in 2Q (1Q: 7.1% y/y), bringing 1H growth to 7.5% y/y, at the top end of official forecast range and marked its strongest quarter in three years.

All in all, 1H performance was positive and indicators suggest that the government will achieve its official GDP growth target of 6.5-7.5%. Achieving the Prime Minister Pham Minh Chinh's aim of 8.0% nonetheless remains a challenge given anticipation of slower economic growth ahead and tariff uncertainties, paybacks from the front-loading and higher base effects in 2H of 2024.

GDP breakdown

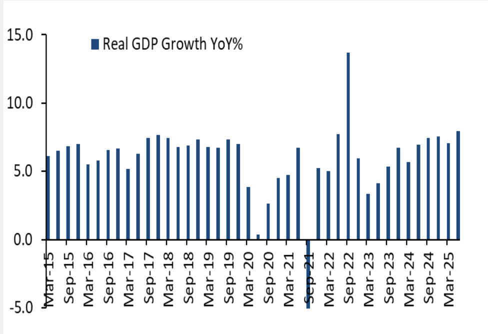
The industry and construction sectors continued to account for the largest share of GDP, growing by a robust 8.3% y/y in 1H, with the manufacturing sector alone growing by 10.1% (1Q: 9.3% y/y). Services expanded by 8.1% y/y YTD, driven by a surge in trade, transportation and tourism activities., while agriculture, forestry, and fisheries sectors increased by 3.8% in 1H of the year.

On the demand side, available data showed that retail sales grew at a still strong, albeit moderated pace of 8.3% y/y in June (May: +10.2% y/y), while exports grew by double-digit rate at 16.3 y/y (May: 17.0% y/y) after Trump's tariff pause. Despite the uptick to 3.6% y/y (May: +3.3% y/y), inflation remains mild and below the government's target of 4.0-4.5%.

Outlook

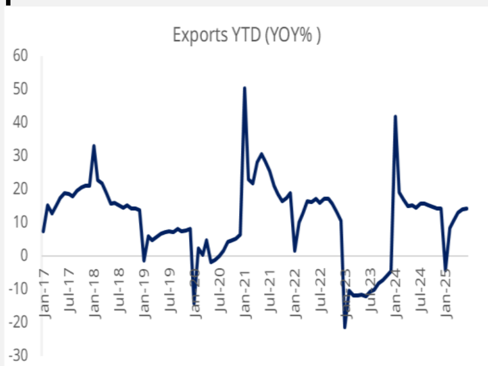
At the point of writing, President Trump had announced a new trade deal with Vietnam, its first amongst Asian countries. Under the new agreement, imports from Vietnam will face a 20% tariff, while transhipped goods will be subjected to a higher rate of 40%. While

Figure 1: Manufacturing sector continues to support the economy



Source: Bloomberg

Figure 2: Sustained double-digit growth for exports after tariff pause



Source: Bloomberg

the deal isn't as favourable as the current 10% tariff rate, it is still lower than the 46% initially slapped on Vietnam.

We have a neutral-to-slightly bullish view on this trade deal for now, but will be watching out for any favourable/unfavourable tariff differentials which might accelerate/slow down the supply chain shifts Vietnam has been benefiting from.

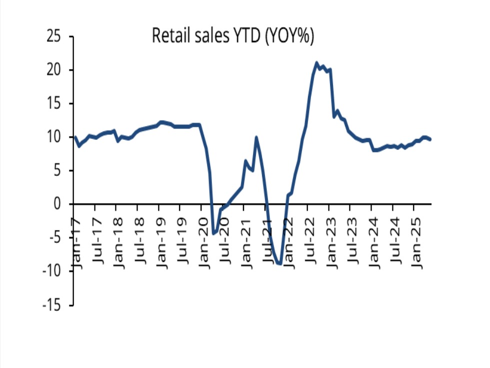
1) Vietnam is the second country after UK to strike a deal with the US, thus avoiding US “punitive reciprocal tariffs.”
2) We expect the positive momentum for FDI to persist, albeit at a moderated pace given Vietnam’s relative cost competitiveness and as a “China+1.” For the latter, China’s goods are facing a higher tariff, suggesting that Chinese factories will still be incentivised to relocate its production to Vietnam. In fact, data, showed that FDI in 2Q remained strong, averaging $1.7bn as compared to $1.4bn in 1Q. For the former, a comparison among 6 ASEAN countries in a JETRO survey showed that the average salary for manufacturing workers in Vietnam is at least 20% lower than Thailand, Indonesia, Malaysia and Singapore counterparts. The exception was the Philippines.

Undoubtedly, higher tariffs on exports could hurt GDP growth through the export volume channel, with a 10% drop in the country's shipments to the US due to the tariff, estimated to cut Vietnam’s GDP growth by 0.84ppts and textiles & apparels, footwear wood sectors hardest hit.

On the domestic front, we expect domestic demand to remain solid and cushion some impact from any trade slowdown, with upside risks from ramped up infrastructure investment and downside risks from the overhaul in the public services sector and its repercussion on consumption.

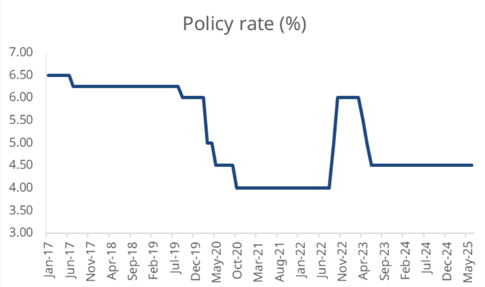
Monetary policy wise, we expect the central bank to maintain its policy rate unchanged at 4.50% given the strong growth, but there is room for the SBV to lower its policy rate if needed with inflation contained below the government’s 4.0-4.5% target.

Figure 3: Still solid domestic demand to cushion impact from the external uncertainties



Source: Bloomberg

Figure 4: SBV likely to maintain policy rate at 4.50%



Source: Bloomberg

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