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Global Markets Research

Research Alert

Vietnam’s 1Q GDP growth slowed ahead of US tariff

1Q GDP growth below forecast; 46% US tariff will threaten future exports & FDI

US accounts for 30% of Vietnam’s exports; electronics, garment, footwear & wood hardest hit

Every 10% drop in exports to shave GDP by 0.8ppts; official 8% GDP target at risk

Summary

Vietnam's economy grew by 6.9% y/y in 1Q, a deceleration from 7.6% in 4Q and a shade below street estimate’s +7.1% y/y. With the country slapped with a hefty 46% tariff by the US recently, we opine that the official targeted GDP growth of 8.0% is at risk, and at the point of writing, consensus is pencilling in a more conservative growth projection of 6.7% for 2025.

GDP breakdowns

For 1Q, growth continued to be driven by the manufacturing sector (+9.3% y/y), while services and construction also grew at a robust pace of 7.7% y/y and 8.0% y/y respectively. The agriculture, forestry & fishing sector expanded at a tame pace of 3.7% y/y while mining contracted 5.8% y/y.

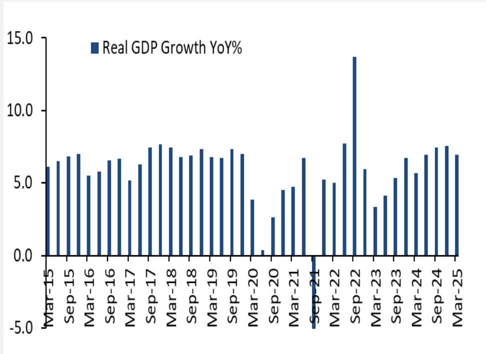
On the demand side, available data showed that retail sales and exports grew by double-digit rates at 10.8% y/y and 14.5% y/y in March (Feb: +9.4% y/y and +25.7% y/y). The double-digit growth in exports remained partially driven by front-loading ahead of the tariffs. Despite the uptick to 3.1% y/y (Feb: +2.9% y/y), inflation remains mild and below the government’s target of 4.0-4.5%.

Outlook

At the point of writing, ***Prime Minister Pham Minh Chinh has maintained the government's target of at least 8% growth this year***. With exports and foreign investment in manufacturing being the key drivers of the Vietnamese economy, we opine that this is a far-fetched target after the hefty 46% reciprocal tariff slapped by the US.

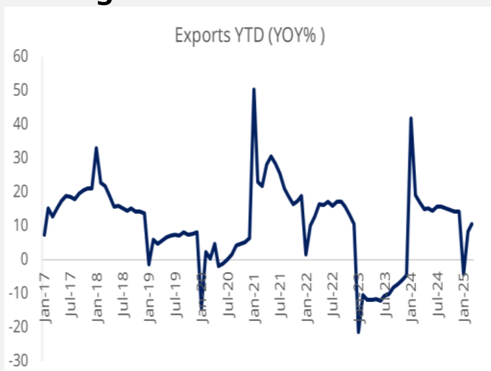
- ***To hit the 8% target, growth for the remaining quarters will need to accelerate to between 8.2-8.4%,*** an unlikely scenario given the uncertain global trade environment and higher base effects.

Figure 1: Growth continued to be manufacturing driven; poised to slow amid tariff headwinds



Source: Bloomberg

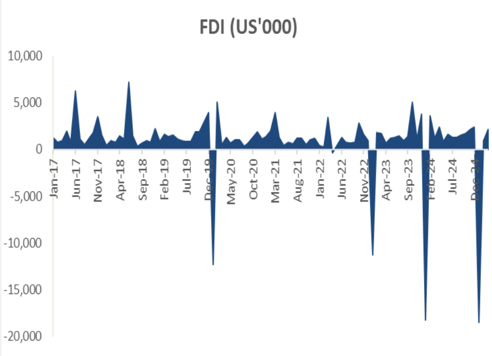
Figure 2: Sustained double-digit growth for exports due to front-loading



Source: Bloomberg

- US accounts for 30% of Vietnam's export and the statistics office has estimated that a ***10% drop in the country's shipments to the US due to the tariff, could cut Vietnam's GDP growth by 0.84ppts. Hardest hit would be the textiles and apparels, footwear, electronics and wood sectors.***
- The tariff may also lower foreign investments into Vietnam, especially as a "China+1", now that the 46% tariff is the second highest among ASEAN members (after Cambodia's 49%).
- Additional downside risks on consumption from the overhaul in the public services sector. Vietnam is planning to reduce the civil service workforce by at least 20% over the period of 5 years.
- On a positive note, the government has been ramping up infrastructure investment and this will help to cushion some impact from the trade disruption. This includes 50 transport projects in 2025, approved plan to develop urban metro lines in Hanoi & Ho Chi Minh and $8bn railway investment plan to connect the northern part of Haiphong to Lao Cai.
- Monetary policy wise, there is room for the central bank to lower its policy rate (currently at 4.50%) with inflation contained below the government's 4.0-4.5% target.

Figure 3: Still stable FDI into Vietnam up to 1Q. Less attractive investment destination ahead



Source: Bloomberg

Hong Leong Bank Berhad
Fixed Income & Economic Research, Global Markets
Level 8, Hong Leong Tower
6, Jalan Damanlela
Bukit Damansara
50490 Kuala Lumpur
Tel: 603-2081 1221
Fax: 603-2081 8936
Email: HLMarkets@hlbb.hongleong.com.my