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Global Markets Research

Research Alert

Vietnam: Unexpected pick-up in 3Q GDP growth

3Q GDP growth staged a surprised pick-up to 8.2% y/y; fastest growth in three years

2025 GDP growth target upgraded to 8.3-8.5%; driven by manufacturing & services

SBV to maintain rates; prioritising economic growth & lending to priority sectors

Summary

Economic data released all beat forecast. Notably, 3Q GDP growth accelerated to 8.2% y/y in 3Q from 8.0% y/y in 2Q. This marked its strongest growth in three years, bringing YTD growth to 7.9%. With this, the Government is also stepping up efforts to achieve its ambitious GDP growth target of 8.3–8.5% for 2025.

Details

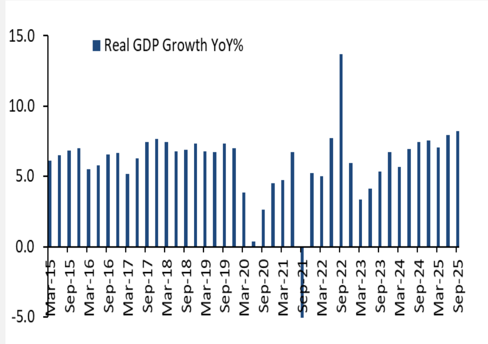
The services industry continued to account for the largest share of GDP and remained robust at 8.6% y/y during the quarter (2Q: 9.1% y/y), driven by a surge in transport & warehousing as well as wholesale, retail & auto services. Industry and construction sectors also accelerated (9.5% y/y vs 8.8% y/y), with the manufacturing sector alone growing by 10.0% (2Q: 10.3% y/y).

On the demand side, available data showed that retail sales and industrial production accelerated to 11.3% y/y and 13.6% y/y in September (Aug: 10.6% y/y and 8.9% y/y), while exports grew more than expected by a double-digit rate of 24.7% y/y (Aug: 14.5% y/y). Notably, exports to the US remained robust at 38.5% y/y. Meanwhile, inflation remains mild, below the government's target of 4.0-4.5% but matched consensus forecast at 3.4% y/y in September (Aug: 3.2% y/y) driven by higher prices for non-public education services, food prices and housing maintenance materials.

Outlook

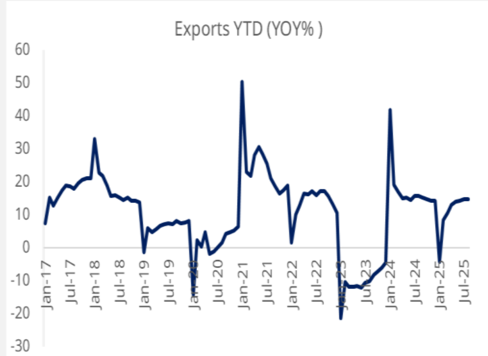
The 3Q GDP growth is commendable despite hits from severe weather disruptions which included 8 storms notably Typhoon Bualoi (estimated VND16.5 trillion in damage) and as such, we opine that 2025 GDP growth will likely come close or match government's upgraded GDP growth target of 8.3-8.5% (Bloomberg consensus: 6.9%; IMF: 5.2%).

Figure 1: Manufacturing and services sector remained robust to support growth



Source: Bloomberg

Figure 2: Sustained double-digit growth for exports despite the 20% tariff



Source: Bloomberg

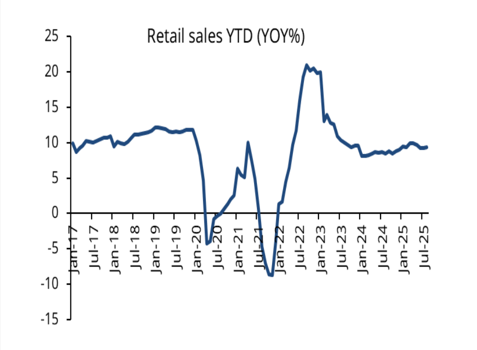
The outlook going forward is heavily dependent on the outcome of continuous trade negotiations with the US and is constrained by elevated global uncertainty on trade policies and economic environment.

A further escalation in global trade tensions or a tightening of global financial conditions could further weaken exports and investment, with a UNDP report estimating that US’ 20% tariff could risk slashing by up to one-fifth of Vietnam's exports to the US. That said, we opine that risks to this remains low at this juncture and that Prime Minister Pham Minh Chinh’s export target of 12% this year (YTD: 16.0%) remains achievable given the still sturdy demand from the US, likely cushioned by Vietnam’s relative cost competitiveness.

Domestically, escalating natural disasters may worsen in the final months of the year, while financial stress and asset bubble risks have been flagged after the strong credit (end Sept: 13.4% y/y; SVB projection: 19-20%) expansion recently. In this regard, while Deputy Governor Pham Thanh Ha has recently said that the State Bank of Vietnam (SBV) will prioritise economic growth and refocus lending on priority sectors such as agriculture and SMEs rather than lending to risky sectors to prevent non-performing loans from rising.

On the upside, expedited and synchronous implementation of many infrastructure projects and fiscal measure to boost consumption could boost growth not only in 4Q but also for the medium-term. Amid robust growth and still mild inflationary policy, we opine that the SBV will likely maintain policy rates unchanged at 4.50%.

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



Source: Bloomberg

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