Economic Update

Challenges to achieving an 8% GDP growth target

- Vietnam's PMI climbed to 50.5, ending three months below the 50-pt threshold.
- Vietnam's registered FDI increased 34.7% YoY in 1Q25, while implemented FDI rose 7.2% YoY. However, near-term caution has emerged due to US tariffs.

Recent results		
	1Q24	**1Q25**
GDP Growth YoY	6.0%	6.9%
Industry	6.9%	7.4%
Service	6.2%	7.7%
Agriculture	3.5%	3.7%
	Feb-25	**Mar-25**
Retail sales YoY	9.4%	10.8%
Foreign Arrivals (#)	1,893,933	2,054,309
Exports YoY	25.9%	14.3%
Imports YoY	40.0%	18.9%
Trade balance (USDmn)	(1,550)	1,630
PMI	49.2	50.5
IIP YoY	17.6%	8.6%
Implemented FDI YoY	9.1%	10.1%
Public Investment YoY	35.7%	17.4%
CPI YoY	2.9%	3.1%
USD/VND	25,557	25,577
Refinancing Rate	4.5%	4.5%
Discount Rate	3.0%	3.0%
Credit Growth YTD	~1%	3,93%
G-Bonds Yields (VBMA)		
5-Yr	2.42%	2.29%
10-Yr	3.09%	2.96%

Vietnam's GDP grew 6.9% YoY in 1Q25, led by the service sector

Vietnam's GDP grew 6.9% YoY in 1Q25, the highest first-quarter growth since 2020, according to the National Statistics Office (NSO). The service sector led the economy with robust 7.7% YoY growth, its strongest first quarter performance in 2020–2025. The industrial and construction sector showed resilience, growing 7.4% YoY, while the Industrial Production Index (IIP) rose 7.8% YoY, marking the sector's most vigorous first quarter growth in 2020-2025. Agriculture, forestry, and fishery expanded 3.7% YoY, rebounding from ~3% growth in 2H24 as Typhoon Yagi's impact diminished.

Strong pre-tariff export data driven by front-loading

Vietnam's trade performance in 1Q25 showed robust growth, with double-digit YoY increases in both exports and imports. Export turnover in March climbed 14.3% YoY to USD38.5bn, the highest YoY growth since August 2024. For 1Q25, exports totaled USD102.8bn, marking a 10.6% YoY increase. Imports also displayed a strong performance, rising 18.9% YoY in March to USD36.9bn. Over the first quarter of 2025, imports reached USD99.7bn, up 17.0% YoY, driven by heightened demand for intermediate goods, capital goods, and raw materials. Despite strong trade growth in 1Q25, the figures have yet to fully reflect the impact of US tariffs. The United States' 90-day temporary tariff deferral may support Vietnam's exports in the second quarter of 2025 as American retailers replenish their inventories. However, significant challenges are anticipated in the latter half of 2025, when the deferral expires and tariffs may substantially dampen US consumer demand.

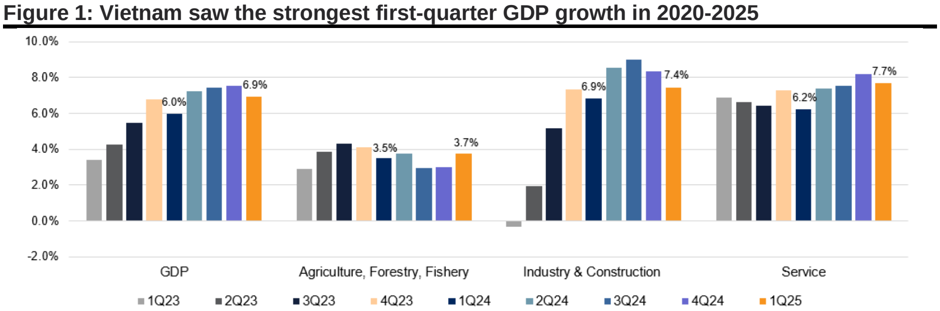
Ample liquidity facilitates lower rate environment

Following a month-long halt in T-bill issuance, the SBV injected substantial long-term liquidity into the system through its OMO channel. By March 14, the OMO balance rose to VND99.8tn (USD3.9bn) as new offers exceeded maturing papers. This ample liquidity kept overnight interbank rates stable near 4% by early April. Meanwhile, the average 12-month term deposit rate declined to 4.80%/year, down slightly both month-on-month and year-to-date, reflecting the Government's directive to ease deposit and lending rates. Amid falling deposit rates, credit growth surged to 3.93% by the end of March 2025, tripling the growth rate of 1Q24.

We foresee downside risks to Vietnam's 2025 GDP growth forecast

Trump's recent tariffs, including a 46% reciprocal tariffs on Vietnamese imports, present significant challenges to Vietnam's export-driven economy. While the temporary 90-day deferral of reciprocal tariffs may boost Vietnam's exports and GDP growth in the second quarter of 2025, the latter half of the year could face setbacks if trade negotiations fail and tariffs remain high. Despite these risks, the Vietnamese Government remains committed to its ambitious 8% GDP growth target for 2025, signaling the potential adoption of aggressive economic policies. For now, our 2025 GDP growth forecast remains unchanged at 7.3% YoY, as we await clearer trade negotiation outcomes while closely monitoring FDI responses and Government measures for a comprehensive evaluation.

Figure 1: Vietnam saw the strongest first-quarter GDP growth in 2020-2025



Source: NSO, VNDIRECT RESEARCH

Analyst(s):

Hinh Dinh Quang
hinh.dinh@vndirect.com.vn

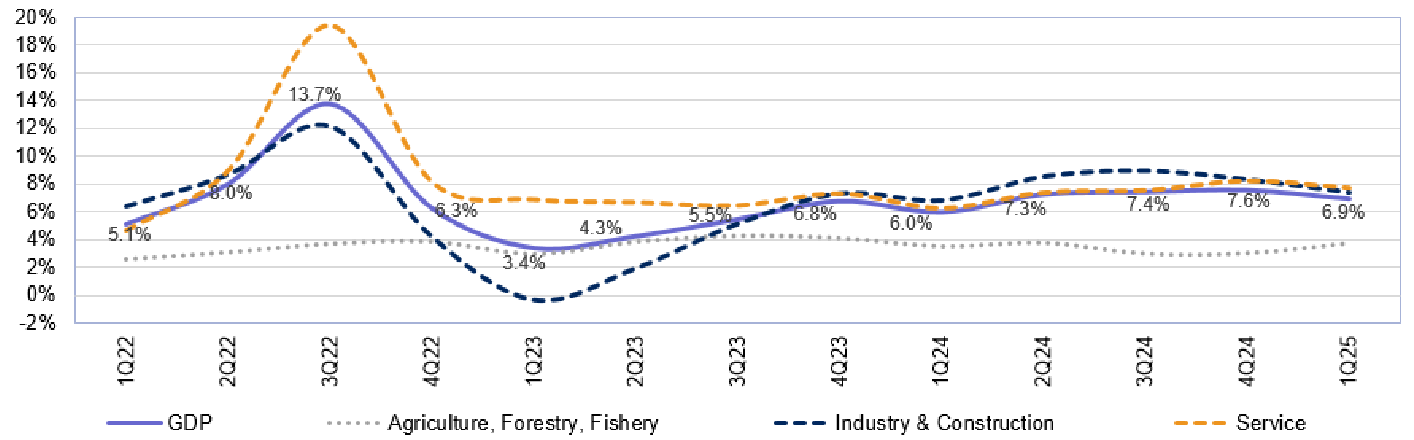
The economy witnessed positive growth in 1Q25

First-quarter GDP growth was strongest in 2020-2025

According to the NSO, Vietnam's GDP grew 6.9% YoY in the first quarter of this year, the highest 1Q growth rate since 2020, meeting market expectations. However, this figure falls short of the 7.7% growth projected under the high-growth scenario outlined in the Government's Resolution 01, which targets 8% GDP growth in 2025. Achieving this ambitious goal remains challenging amid global economic uncertainty, including the impact of Trump's tariffs.

Despite these difficulties, the Vietnamese Government remains resolute in pursuing the 8% growth target for 2025, emphasizing its commitment to implementing diverse solutions. In a symbolic move, the Ministry of Finance (MoF) has revised its quarterly GDP growth projections for the rest of the year, setting targets of 8.2% for 2Q25, 8.3% for 3Q25, and 8.4% for 4Q25—0.1–0.2% higher than previous estimates—to stay aligned with the ambitious 2025 goal.

Figure 2: Vietnam's GDP grew 6.9% YoY in 1Q25, led by the service sector



Source: NSO, VNDIRECT RESEARCH

The service sector emerged as a key driver of growth in 1Q25

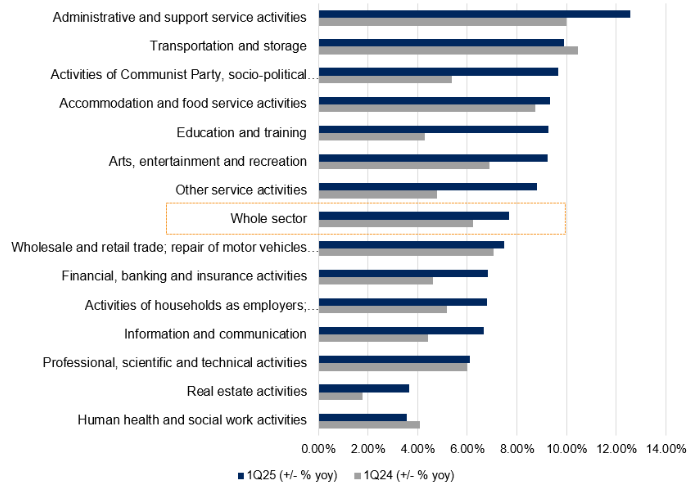
The service sector stands out as the brightest spot in Vietnam's economic growth picture, achieving remarkable 7.7% YoY growth in 1Q25, the highest first-quarter growth rate recorded between 2020 and 2025. Early 2025 witnessed a significant turnaround in several service sub-sectors, most notably Administrative and Support service activities, which grew by 12.6% YoY in 1Q25 (up from +10% YoY in 1Q24), driven by the Government's vigorous promotion of administrative reform and e-government initiatives.

Education and Training rebounded strongly, with an impressive growth rate of 9.3% YoY in 1Q25, outpacing the modest 4.3% YoY seen in 1Q24. Tourism also experienced an early-year boom, as international visitors surged nearly 30% YoY in 1Q25, while domestic tourists increased by 18%. This resulted in robust growth for tourism-related sub-sectors like Accommodation and Food service activities (+9.3% YoY in 1Q25 vs +8.7% YoY in 1Q24) and Arts, Entertainment, and Recreation (+9.2% YoY in 1Q25 vs +6.9% YoY in 1Q24).

Additionally, credit acceleration in 1Q25 proved noteworthy, with credit growth reaching 3.93% YTD by the end of 1Q25 (compared to +1.34% YTD by the end of 1Q24), driving higher growth rates in sectors such as Financial, Banking, and Insurance activities (+6.8% YoY in 1Q25 vs +4.6% YoY in 1Q24) and Real estate (+3.7% YoY in 1Q25 vs 1.8% YoY in 1Q24).

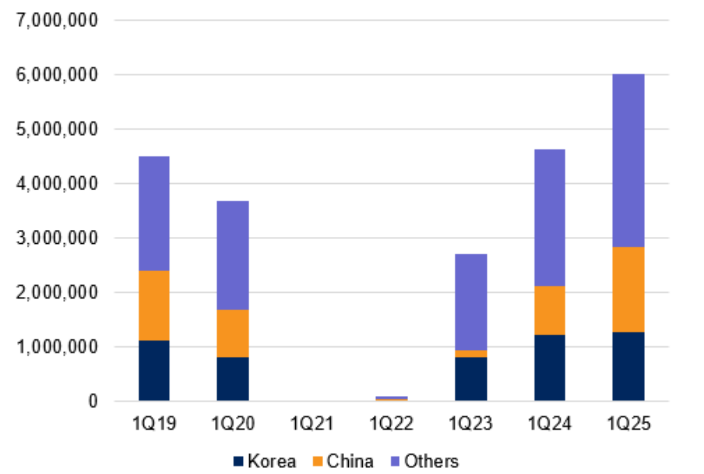
Last but not least, domestic consumption showed clear improvement with total retail sales of goods and consumer service revenue rising 9.9% YoY in 1Q25 (vs +8.6% YoY in 1Q24). In March 2025 alone, this figure surged by 10.8% YoY, marking the highest growth rate since mid-2023. Excluding inflation, total retail sales and service revenue grew by 7.5% YoY in 1Q25, far exceeding the 5.5% YoY growth recorded in 1Q24.

Figure 3: Most service sub-sectors recorded higher growth rates in 1Q25



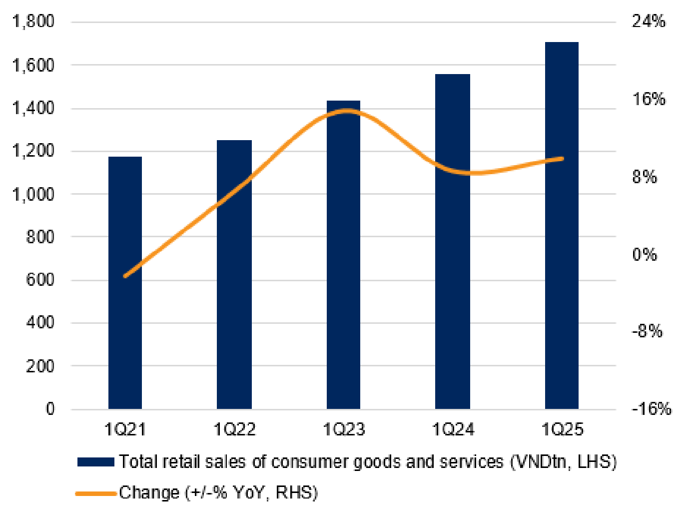
Source: NSO, VNDIRECT RESEARCH

Figure 4: International visitor arrivals to Vietnam experienced a remarkable surge of 29.6% YoY in 1Q25



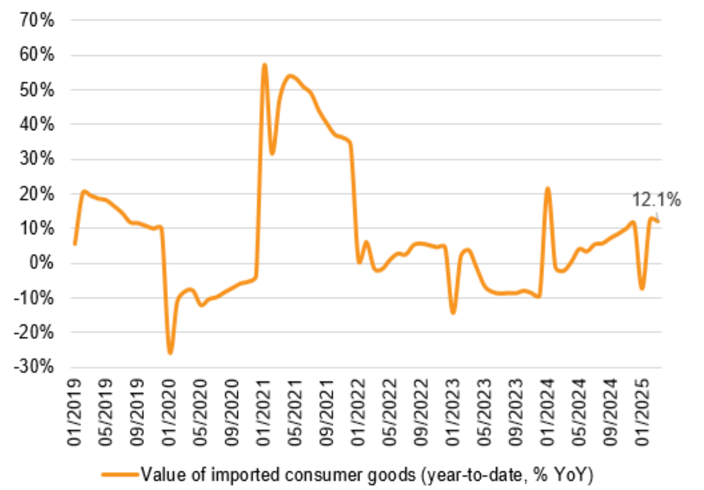
Source: NSO, VNDIRECT RESEARCH

Figure 5: Gross retail sales of consumer goods and services showed significant improvement in 1Q25



Source: NSO, VNDIRECT RESEARCH

Figure 6: Value of imported consumer goods continued to improve



Source: Vietnam Customs, VNDIRECT RESEARCH

We identify several key drivers that will reinforce the upward trajectory of the service sector, including:

- The Government is set to unveil a suite of fiscal stimulus measures aimed at spurring economic growth. Among the proposals is an extension of the 2% VAT reduction policy through the end of 2026, superseding the original cutoff of June 2025. On April 11, 2025, Decree 87/2025/NĐ-CP was issued, allowing a 30% reduction in land rent for 2024, which can be offset against payments due in 2025. Prior to this, Decree 82/2025/NĐ-CP extended deadlines for VAT, corporate and personal income taxes, and land rent payments for 2025. In an additional effort to ease financial burdens, from September 1, 2025, tuition fees for public schools will be fully waived for students from five-year-old kindergarten to grade nine in lower secondary education. Collectively, these measures are designed to alleviate costs for businesses and households, stimulate purchasing power, and strengthen domestic consumer demand.

- Inflation remained well-contained in 1Q25, with the average CPI standing at 3.1% YoY, notably lower than the 3.8% YoY recorded in 1Q24. With domestic pork prices cooling and global oil prices trending downward, we maintain our forecast for the 2025 average CPI at 3.2%, below the 3.6% figure of 2024 and significantly under the Government's ceiling target of 4.5%-5% for 2025. Effective inflation control will continue to strengthen consumer confidence.
- The State Bank of Vietnam (SBV) has signaled a strategic pivot toward policies that prioritize economic expansion, with a focus on boosting credit growth. This approach is poised to foster a revival in consumer lending and play a key role in consolidating the recovery of the real estate market.

On the flip side, risks and challenges to the recovery of domestic consumption in late 2025 warrant close monitoring, including the potential economic slowdown in major economies like the US and China, as well as the outcome of Vietnam-US tariff negotiations. In a negative scenario, failure to secure a deal with the US to significantly lower the proposed reciprocal tariff rate of 46% could weaken the competitiveness of Vietnamese exports to the US, leading to job losses and income declines in Vietnam's manufacturing sector, ultimately dampening domestic consumption demand.

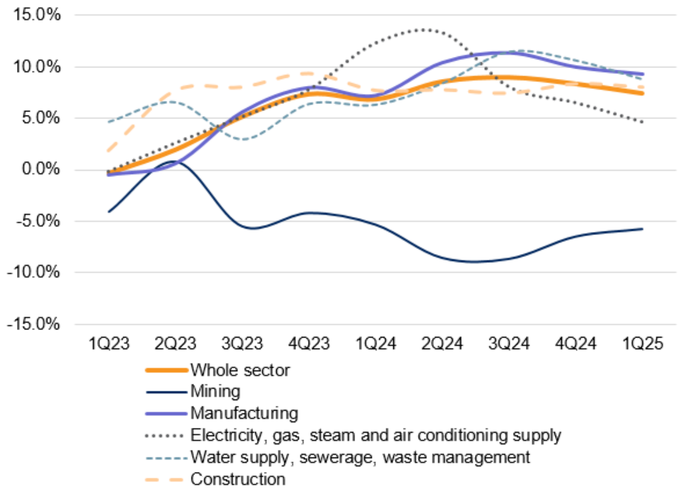
Manufacturing propels growth

Vietnam's industrial and construction sector has demonstrated resilience despite challenging international macroeconomic conditions. According to the NSO, the sector achieved 7.4% YoY growth in 1Q25. Moreover, Vietnam’s Industrial Production Index (IIP) rose by 7.8% YoY in 1Q25, compared to 5.9% in the same period of 2024. These figures represent the sector's most robust first-quarter growth during 2020–2025. Accelerated public investment, improved domestic consumption, fiscal easing policies, and credit incentives have played a pivotal role in mitigating the impact of US tariffs and driving the sector's growth in the first quarter of 2025.

Specifically, the manufacturing sub-sector, despite enduring five consecutive months of declining export orders fueled by heightened US trade protectionism, registered a growth rate of 9.3% in 1Q25. While this marks a slight dip from the 10.0% achieved in the preceding quarter, it represents a substantial improvement compared to the modest 7.2% growth during the same period in 2024. Additionally, the water supply, sewage, and waste management sub-sector maintained strong momentum, posting an 8.8% growth rate in the first quarter of 1Q25 (vs +6.3% YoY in 1Q24). Meanwhile, the construction sub-sector expanded 8.0% YoY in 1Q25, improving from 7.7% in 1Q24, bolstered by increased public investment.

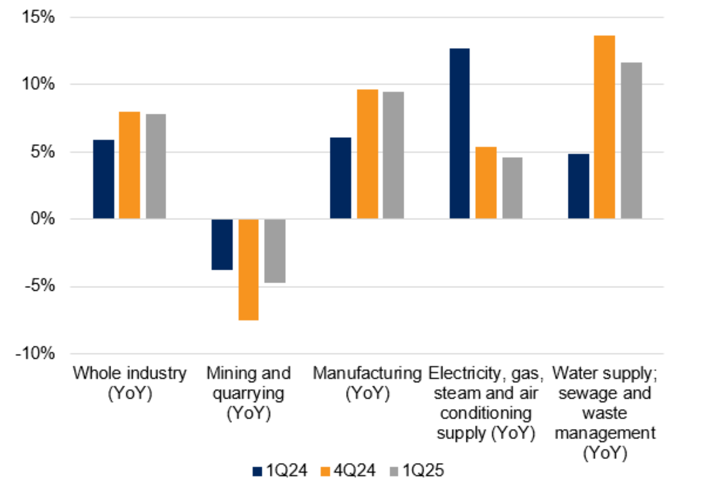
On the flip side, the growth rate of electricity, gas, steam, and air conditioning supply activities decelerated to 4.6% YoY in 1Q25, down from 12.3% in 1Q24, due to a high comparable base and the persistent impact of Typhoon Yagi. Lastly, the mining sub-sector fell 5.8% YoY in 1Q25 due to a further decline in oil and gas exploitation output.

Figure 7: Manufacturing activity propelled growth



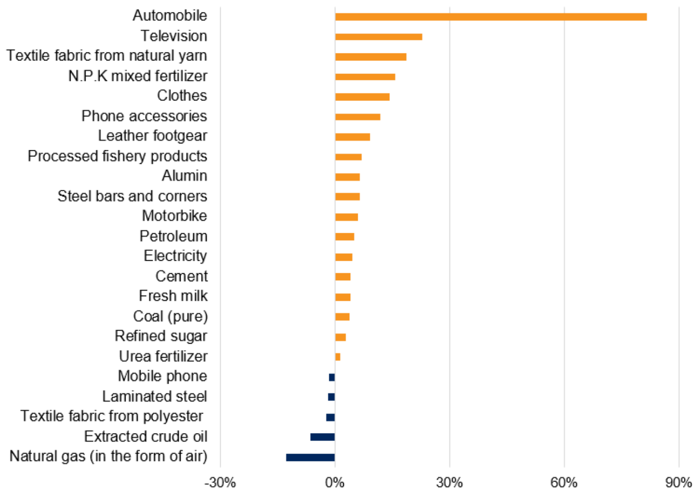
Source: NSO, VNDIRECT RESEARCH

Figure 8: Vietnam's quarterly Index of Industrial Production (IIP) by major sub-sector



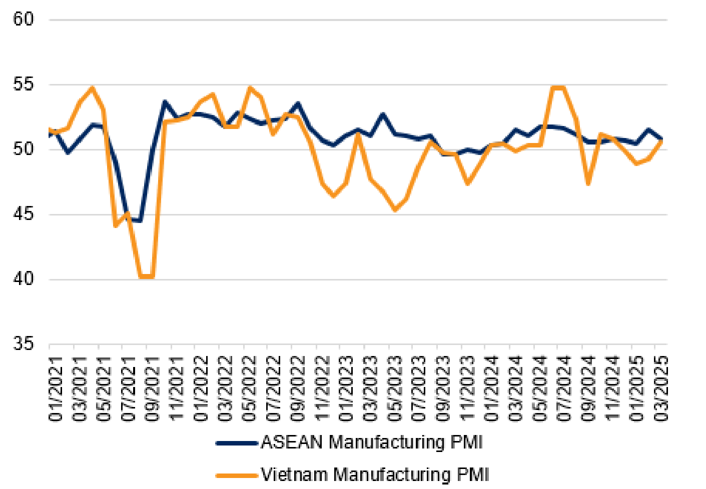
Source: NSO, VNDIRECT RESEARCH

Figure 9: Automobile, Television and Textiles were among the growth leaders in 1Q25



Source: NSO, VNDIRECT RESEARCH

Figure 10: Vietnam's PMI exceeded the 50-point threshold for the first time in four months



Source: NSO, VNDIRECT RESEARCH

The output of some key industrial products increased significantly in 1Q25, including automobiles (+81.5% YoY); television (+22.9% YoY); textile fabric from natural yarn (+18.6% YoY); N.P.K mixed fertiliser (+15.8% YoY), clothes (+14.3% YoY); and phone accessories (+12.0% YoY). On the other hand, the output of some key industrial products declined in 1Q25, mostly related to mining activity. These included natural gas (in gaseous form) (-12.9% YoY); extracted crude oil (-6.4% YoY); textile fabric from polyester (-2.4% YoY); laminated steel (-1.8% YoY); mobile phones (-1.7% YoY); and chemical paint (-0.9% YoY).

We maintain a cautiously optimistic outlook for the manufacturing sector in 2Q25, bolstered by Vietnam's PMI surpassing the 50-point neutral benchmark in March, ending a three-month contraction. Additionally, the US's temporary 90-day deferral of reciprocal tariffs is expected to boost production and exports, as American retailers ramp up inventory stockpiling. That said, challenges may resurface in the second half of 2025 when the deferral ends, and the full impact of tariffs is likely to dampen US consumer demand.

To navigate these challenges, Vietnam must expedite negotiations with the US for more favorable tariff rates—ideally below 20%. Simultaneously, businesses can leverage free trade agreements, such as EVFTA, CPTPP and RCEP, to diversify export markets by tapping into regions like the EU, ASEAN, the Middle

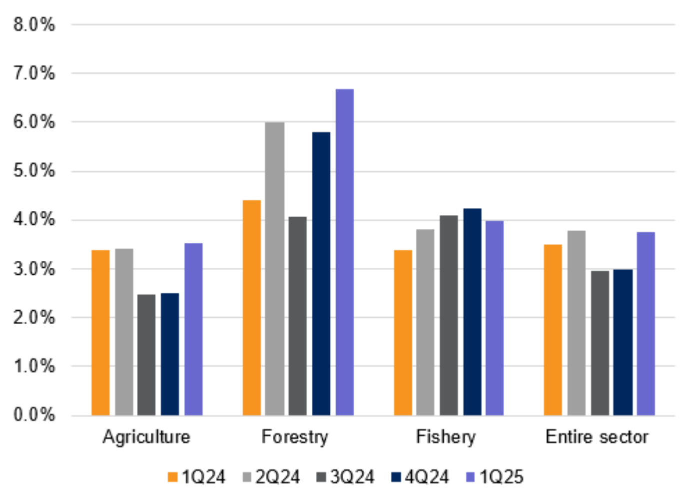
East, and South America. Moreover, the domestic market, with its population of over 100 million, remains an underutilized growth driver. The rapid expansion of Vietnam's middle class and recovering local purchasing power could become vital pillars for the economy and the manufacturing sector amid persistent global trade uncertainties.

Agriculture, forestry, and fishery sectors rebounded in 1Q25 after Typhoon Yagi's impact subsided

Agriculture, forestry, and fishery activities grew 3.7% YoY in 1Q25, up from a growth rate of ~3% seen in both 3Q24 and 4Q24, as Typhoon Yagi's impact subsided. Specifically, the agriculture sub-sector grew by 3.5% YoY in 1Q25, driven by robust growth in pig and poultry farming, supported by effective disease control and higher live hog prices. In addition, the fishery sub-sector recorded a growth rate of 4.0% YoY in 1Q25, attributed to increased aquaculture output. The forestry sub-sector saw its growth rate improve to 6.7% YoY in 1Q25, thanks to a significant increase in newly planted forest areas and higher timber harvest volumes.

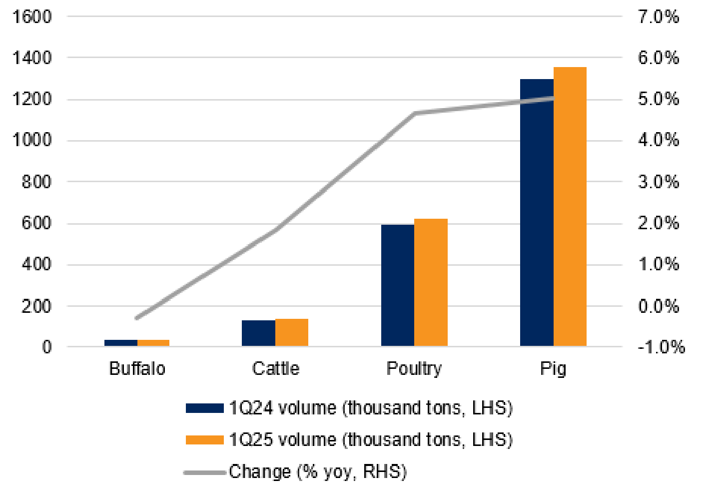
Pig herds expanded 5.0% YoY in 1Q25 due to the trend of shifting livestock farming from family to semi-industrial farms and the sharp rise in pork prices, while poultry herd size increased 4.7% YoY. On the flip side, the size of buffalo herds decreased.

Figure 11: The agriculture, forestry, and fishery sector experienced a strong recovery in 1Q25 after slowing in 2H24 due to Typhoon Yagi



Source: NSO, VNDIRECT RESEARCH

Figure 12: Main livestock products



Source: Vietnam Customs, VNDIRECT RESEARCH

Challenges to achieve an 8% GDP growth target

We foresee downside risks to Vietnam's 2025 GDP growth forecast stemming from US tariffs

Recent US tariffs, including a sweeping 46% duty on Vietnamese imports, are set to disrupt Vietnam's export-driven economy. While the US's temporary 90-day deferral of reciprocal tariffs may boost Vietnam's exports and GDP growth in 2Q25 through inventory stockpiling by American retailers, the latter half of the year could face significant setbacks if trade negotiations fail and the new tariffs are not substantially reduced from their current levels. Even with more favorable adjustments, lingering adverse effects are likely. American consumers may experience higher inflation and weaker income growth, which could reduce demand for imported goods. Consequently, we foresee downside risks to Vietnam's 2025 GDP growth forecast, as detailed in our latest report on Trump's reciprocal tariff.

However, the Vietnamese Government's steadfast commitment to its 8% GDP growth target for 2025 signals potential adoption of more aggressive economic policies if US trade talks falter or major risks, like supply chain disruptions or a global slowdown, arise. Revising Vietnam's GDP forecast now would be premature, given the possibility—albeit slim—of a dramatic turnaround in trade negotiations. Thus, we are pausing adjustments to the 2025 GDP growth forecast until trade outcomes and final tariff rates become clearer, while closely monitoring FDI responses and government measures for a comprehensive evaluation. As a result, we are maintaining our 2025 GDP growth forecast at 7.3% YoY.

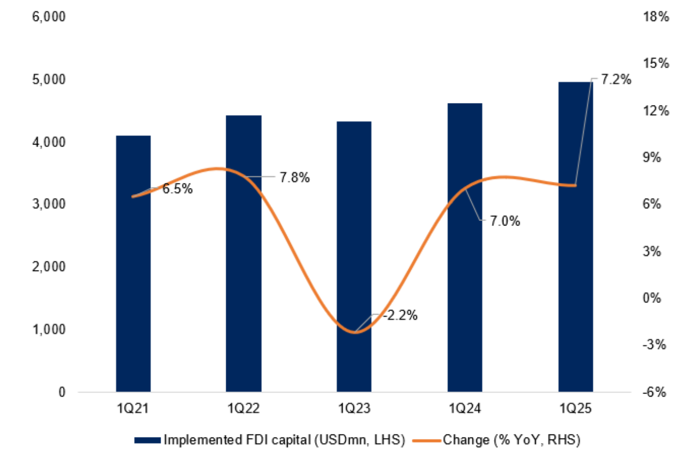
FDI: Relief in 1Q result contrasts with elevated near-term caution

According to the Ministry of Planning and Investment (MPI), total registered FDI increased 34.7% YoY to USD11.0bn, the second-highest level in five years, while implemented FDI rose 7.2% YoY to USD5.0bn in 1Q25. To be specific, newly licensed projects increased 11.5% YoY to 850 projects with newly registered capital of USD4.3bn (-31.5% YoY); 401 previously licensed projects were approved to receive more investment capital with incremental FDI totaling USD5.2bn, 5.0x YoY; and 810 capital contributions and share purchases of foreign investors were recorded, valued at USD1.5bn (+83.7% YoY). While implemented FDI continued to rise persistently, total registered FDI witnessed double-digit YoY growth, mainly fueled by incremental FDI. However, newly registered FDI saw a 31.5% YoY decline, reflecting investor caution surrounding the US's protectionist agenda.

By province, Bac Ninh boasted the highest registered capital with USD1.9bn, accounting for 17.3% of total registered capital in 1Q25, up 2.1x YoY. HCMC was the second player, attracting USD1.4bn, up 58.3% YoY, accounting for 13% of total 1Q25 registered capital.

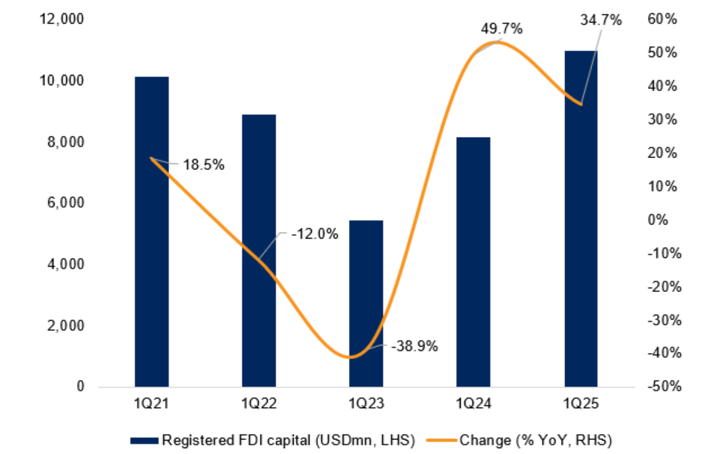
Singapore emerged as the country leading Vietnam's total registered FDI with USD3.0bn (+3.8% YoY), accounting for 27.6% of the total, followed by South Korea with USD2.0bn (2.7x YoY), accounting for 8.5%. China led in terms of newly signed projects, accounting for 32.5%, while South Korea dominated in FDI capital adjustments, capital contributions, and share purchases. 1Q25 FDI data per partner revealed two remarkable trends. While newly registered FDI from key investing partners contracted, FDI from Chinese and Taiwanese investors exhibited impressive surges of 156.3% YoY and 241.8% YoY, respectively, reinforcing our view that Vietnam is likely experiencing a strategic recalibration of Chinese FDI amid a growing US-China trade war. Concurrently, US newly registered FDI inflows demonstrated a staggering 20.6-fold YoY increase, reaching USD119.4 by March.

Figure 13: Implemented FDI continued to expand persistently



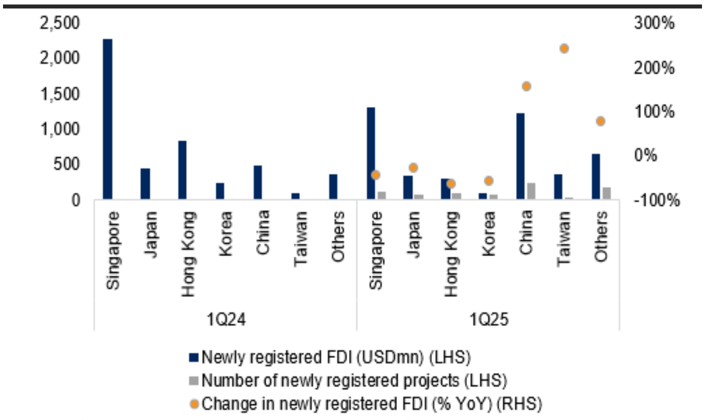
Source: MPI, VNDIRECT RESEARCH

Figure 14: Registered FDI rose 35% YoY in 1Q25, the second highest level in five years



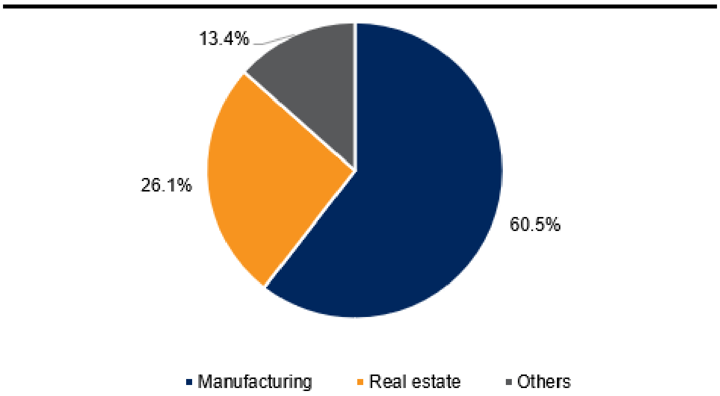
Source: MPI, VNDIRECT RESEARCH

Figure 15: Excluding incremental FDI, Singapore ranked first for newly registered FDI capital



Source: MPI, VNDIRECT RESEARCH

Figure 16: The manufacturing sector accounted for almost two-thirds of newly registered FDI in 2M25



Source: MPI, VNDIRECT RESEARCH

FDI prospects post US reciprocal tariff

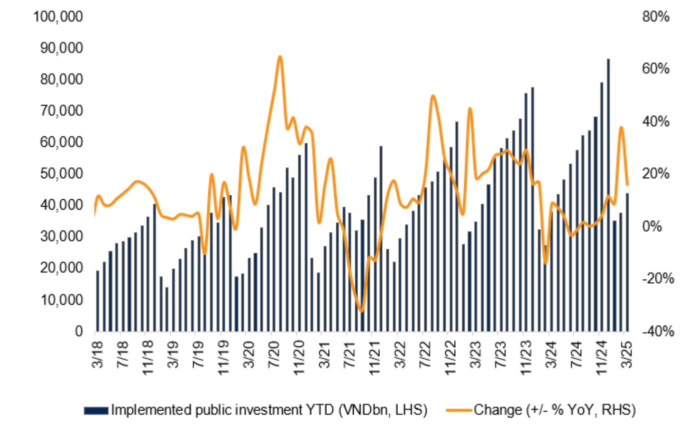
The recent announcement of a 46% reciprocal tariff on Vietnam by the US has triggered a sharp sell-off in Vietnamese industrial property stocks, with prices continually hitting floor levels, reflecting growing investor concerns regarding the near-term outlook for FDI. Despite the current 90-day pause of the 46% tariff, we anticipate newly registered FDI will be hit the hardest, potentially experiencing a freeze in the near term. While incremental and implemented FDI may face less severe effects, we foresee likely delays in disbursement and land fee payments pending further clarity on the final post-negotiation tariff lines.

While a worst-case scenario would involve a broad-based relocation of existing FDI, we view this as a low-probability event in the near term due to substantial tariffs on regional alternatives, significant relocation costs, US policy uncertainty within the current four-year Presidential timeframe, and Vietnam's inherent competitive advantages. In fact, Japanese electronics manufacturer Sourcenext Corp. is planning to establish a new manufacturing base in Vietnam as a proactive measure to mitigate the impact of the tit-for-tat tariff between the US and China, a move we believe is a tailwind, underscoring investors' beliefs in Vietnam's fundamentals amid the evolving trade landscape.

Public investment: Encouraging result, yet not impressive

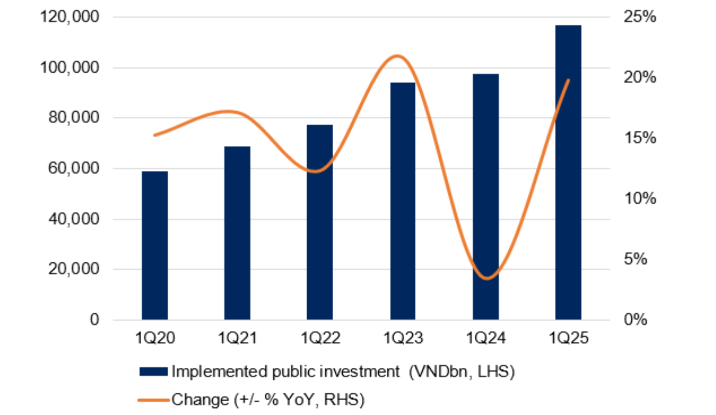
According to the NSO, March 2025 saw a 17.4% YoY increase in implemented state capital (public investment) to VND43.9tn (USD1.7bn). For 1Q25, implemented state capital increased 19.8% YoY to VND116.9tn (USD4.6bn), significantly higher than the 3.5% growth in 1Q24, in line with our forecast. With that, 1Q25 implemented state capital was equal to 13.5% of the year's plan (vs 13.1% in 1Q24). Meanwhile, according to the Ministry of Finance (MoF), public investment disbursement reached VND78.7tn (USD3.1bn), translating to 9.5% of the PM's plan (vs 12.3% in 1Q24), lagging expectations.

Figure 17: Public investment witnessed encouraging growth in March



Source: NSO, VNDIRECT RESEARCH

Figure 18: Implemented public investment growth grew in 1Q25 thanks to a low base



Source: NSO, VNDIRECT RESEARCH

Amid the current disruptive tariff landscape posing a temporary risk to Vietnam's external growth momentum, we believe a strategic recalibration of prevailing economic policies, which have historically prioritized FDI and export-led growth, is of importance. With such a comfortable fiscal buffer, evidenced by a public debt-to-GDP ratio of ~36% and a substantial Government budget surplus, the Government should aggressively pursue higher public investment disbursement, aiming for the highest possible rate. Fully deploying this fiscal capacity to achieve 100% of the PM's public investment targets could drive 2025 disbursement growth to ~30% YoY, and potentially contribute ~1.7% pts to GDP growth.

Figure 19: List of key public investment and public-private partnership projects

Projects	Total investment (USDbn)	Estimated construction progress									
		2022	2023	2024	2025	2026	2027	2028	2029	2030	2031-2035
I. Expressway & Ring Road											
Twelve sub-projects of North-South Expressway East	5.8										
HCMC Ring Road No.3	3.0										
Hanoi Ring Road No. 4	3.4										
Chau Doc - Can Tho -Soc Trang Expressway	1.8										
Khanh Hoa - Buon Ma Thuat Expressway	0.9										
Bien Hoa-Vung Tau Expressway	0.7										
Hoa Binh - Moc Chau Expressway	0.4										
North-South Expressway West, section Gia Nghia-Chon Thanh	1.0										
HCMC- Moc Bai Expressway	0.8										
HCMC Ring Road No. 4 (phase 1)	4.8										
II. Railway & Metro											
North-South High-Speed Railway	67.3										
Lao Cai - Hanoi - Hai Phong Railway (connect with China)	11.6										
Metro Ben Thanh - Tham Luong (HCMC)	1.9										
Metro Nam Thang Long - Tran Hung Dao (Hanoi)	1.4										
Hanoi Station - Hoang Mai (Hanoi)	1.6										
III. Port											
Can Gio International Transshipment Port (7 phases)*	4.5										
IV. International Airport											
Long Thanh International Airport (phase 1)	4.5										
Total	**115.2**										

Note: Under construction Plan

Source: VNDIRECT RESEARCH

State revenue reached 36.7% of the year's plan

According to the MoF, State budget revenue rose 29.3% YoY to VND721.3tn (USD28.1bn) in 1Q25, reaching 36.7% of the 2025 plan. Domestic revenue was estimated at VND646.3tn (USD25.2bn) in 1Q25, accounting for 38.7% of the year's plan, up 34.5% YoY. Revenue from crude oil was estimated at VND13.3tn (USD518.7mn, -15.3% YoY), equal to 25.0% of the year's plan. Revenue from imports and exports was estimated at VND61.6tn (USD2.4bn), accounting for 26.2% of the year's plan, up 0.4% YoY.

On the flip side, State budget expenditures increased 11.6% YoY to VND428.2tn (USD16.8bn) in 1Q25, equivalent to 16.8% of the year's plan. Current expenditures were estimated at VND316.5tn (USD12.3bn), up 16.8% YoY, accounting for 20.2% of the year's plan. Investment & Development spending inched down 2.5% YoY to VND78.7tn (USD3.1bn), reaching 10.0% of the year's plan. Debt & Interest repayments edged up 1.7% YoY to USD32.6tn (USD1.3mn), reaching 29.5% of the year's plan.

With that, the State budget recorded a surplus of VND293.1tn (USD11.3bn) in 1Q25. As of March 2025, VND110.4tn (USD4.3bn) of Government bonds have been issued with an average term of 10.2 years, and an average interest rate of 2.93%/year, equivalent to 99.5% of 1Q25's plan of VND111tn (USD4.3bn) and 22.1% of the year's plan of VND500tn (USD19.5bn).

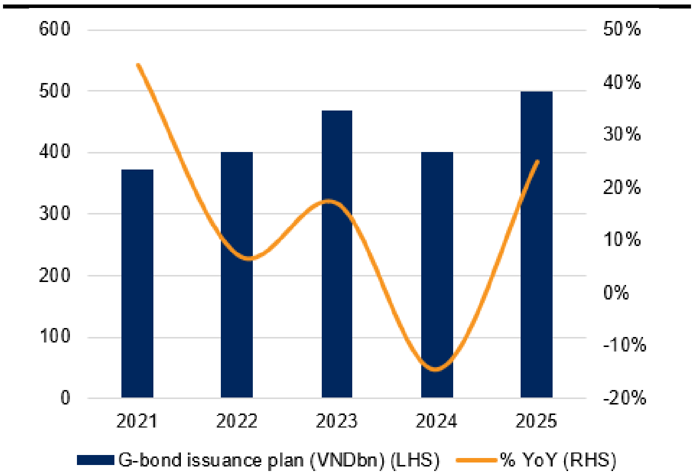
The increasing state budget not only reflects the upward trend in income growth among citizens, businesses, and the economy but also plays a vital role in reinforcing Vietnam's fiscal stability. This paves the way for the Government to introduce and expedite fiscal stimulus initiatives, such as prolonging the 2% VAT reduction until the end of 2026, granting a 30% land rent discount for 2024 (deductible from 2025 payments), deferring VAT, corporate and personal income taxes, and land rent obligations for 2025, waiving public school tuition fees for students from kindergarten (age five) to grade 9, and adjusting personal income tax deduction thresholds. If realized, these measures would invigorate economic growth, subsequently enhancing government revenue and perpetuating a cycle of sustainable development.

Figure 20: Breakdown of state budget (Current expenditures exclude salary reform expenditures)

Unit: VNDtn	1Q25	% of annual plan	% YoY
Budget revenue	**721.3**	**36.7%**	**29.3%**
Domestic revenue	646.3	38.7%	34.5%
Revenue from crude oil	13.3	25.0%	-15.3%
Revenue from export-import	61.6	26.2%	0.4%
Budget expenditures	**428.2**	**16.8%**	**11.6%**
Current expenditures	316.5	20.2%	16.8%
Investment & Development	78.7	10.0%	-2.5%
Debt & Interest repayments	32.6	29.5%	1.7%
Budget balance	**293.1**		

Source: MOF, VNDIRECT RESEARCH

Figure 21: 2025 G-bond issuance plan increased 25% YoY (unit: VNDtn)



Source: BLOOMBERG, VNDIRECT RESEARCH

Strong pre-tariff data driven by front-loading

Vietnam posts USD1.6bn trade surplus in March

3M25 witnessed robust export turnover

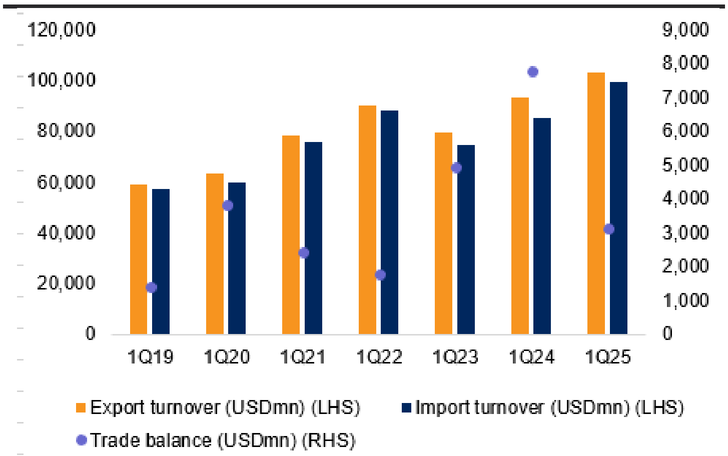
According to Vietnam Customs, Vietnam's export turnover increased 14.3% YoY to USD38.5bn in March 2025, the highest YoY growth since August 2024, excluding seasonal factors. On a monthly basis, export value in March soared 23.8% after declining 6.3% in February.

For 1Q25, Vietnam's exports rose 10.6% YoY to USD102.8bn (vs +16.9% YoY to USD92.9bn in 1Q24). While growth rate is lower compared to 1Q24, the double-digit growth rate is still considered an encouraging result.

Looking at major export groups, Electronic goods, computers (USD21.1bn; +32.4% MoM; +29.2% YoY); Telephones, mobile phones and parts (USD14.0bn; +10.0% MoM; -0.9% YoY); Machines, equipment, tools and instruments (USD12.4bn; +22.2% MoM; +13.6% YoY); Textiles and garments (USD8.7bn; +25.4% MoM; +11.1% YoY); and Footwear (USD5.4bn; +21.2% MoM; +12.1% YoY) were five product groups with the highest export turnover in 1Q25. Several groups witnessed significant YoY export growth in March 2025, including Coal (32.4x YoY); Toys and sports parts (+91.8% YoY); and Coffee (+57.9% YoY).

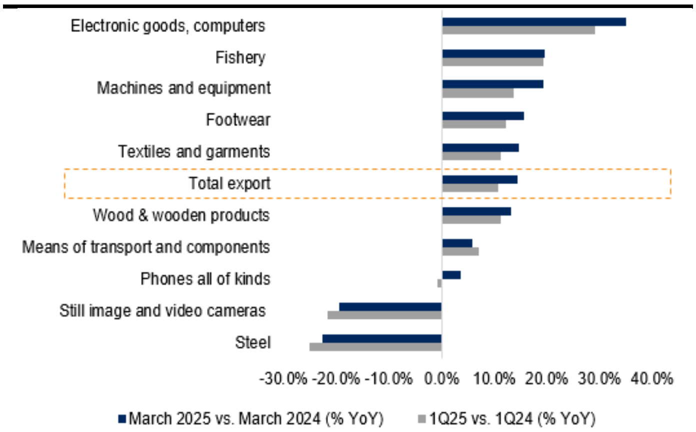
Regarding major trading partners, the US continued to be Vietnam's largest export market with a turnover of USD31.4bn (+21.9% YoY), accounting for 30.5% of Vietnam's 1Q25 export turnover, followed by China with USD13.2bn (+0.2% YoY), ASEAN with USD9.2bn (+1.0% YoY); Europe with USD8.9bn (+9.7% YoY), Korea with USD6.8bn (+6.4% YoY), and Japan with USD6.4bn (+12.5% YoY).

Figure 22: Vietnam's exports increased 14.3% YoY while imports rose 18.9% YoY in March 2025



Source: Vietnam Customs, VNDIRECT RESEARCH

Figure 23: Top export products in terms of value



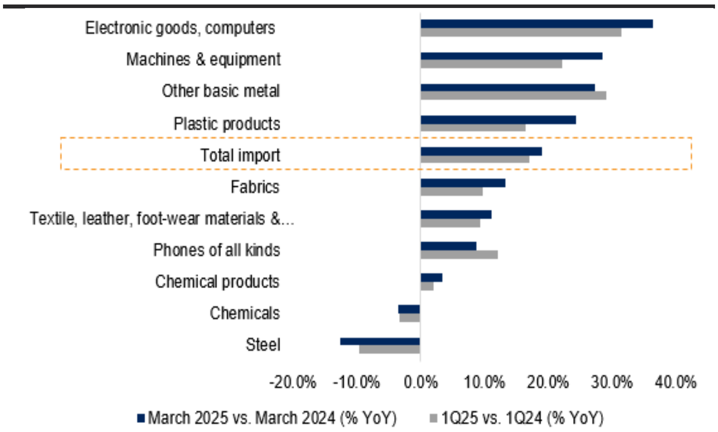
Source: Vietnam Customs, VNDIRECT RESEARCH

Import demand for intermediate and consumer goods continued to expand

Vietnam's imports in March grew 18.9% YoY to USD36.9bn (vs +9.5% YoY to USD31.0bn in March 2024). On a monthly basis, imports rose 12.9% (vs +8.6% in February 2025), witnessing the highest MoM growth since March 2023, excluding seasonal factors. In 1Q25, Vietnam's imports increased 17.0% YoY to USD99.7bn, mostly driven by the continuing recovery of import demand for intermediate products, capital goods, and raw materials. To be specific, intermediate goods (+19.4% YoY) accounted for 57.7% of total 1Q25 imports, followed by raw materials (+10.3% YoY) and capital goods (+20.5% YoY), which contributed 15.0% and 12.9% to 1Q25 imports, respectively. YTD consumer goods demand showed persistent momentum, climbing 12.1% YoY following a 12.4% rise in February 2025, which was thanks to a seasonal effect. This, coupled with the 10.8% YoY increase in total retail sales of goods and consumer services in March, underscores a continuing recovery in consumer demand.

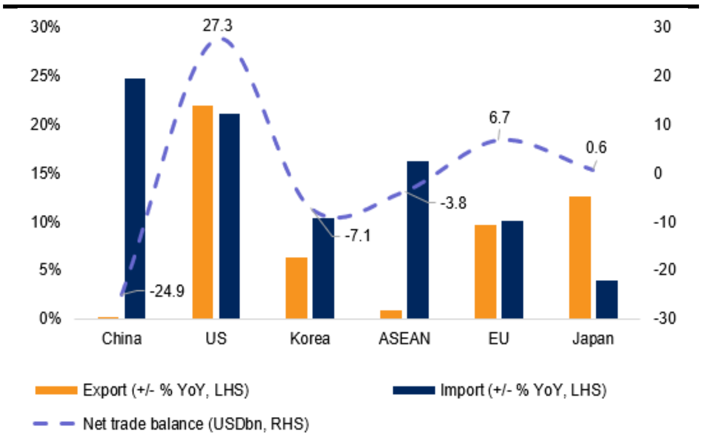
Computers, electrical products, spare parts, and components thereof (USD31.6bn; +10.4% MoM; +31.5% YoY); Machines, equipment, tools and instruments (USD12.6bn; +27.9% MoM; +22.1% YoY); Others (USD5.8bn; +11.2% MoM; +13.1% YoY); Fabrics (USD3.5bn; +30.2% MoM; +9.7% YoY); and Plastics (USD3.0bn; +3.0% MoM; +20.8% YoY) were five product groups with the highest import turnover in 1Q25. With that, Vietnam recorded a trade surplus of USD3.2bn (-59.6% YoY) in 1Q25.

Figure 24: Top imported products in terms of value



Source: Vietnam Customs, VNDIRECT RESEARCH

Figure 25: 1Q25 import and export activity by trading partner



Source: Vietnam Customs, VNDIRECT RESEARCH

Export outlook amid evolving US trade landscape

First, the 1Q25 trade results revealed a robust performance, characterized by the double-digit YoY expansion in both export and import turnover. This strong underlying momentum, however, was subsequently challenged by the US announcement on April 2 of a proposed 46% reciprocal tariff on Vietnam, necessitating a recalibration of near-term export projections as detailed in our latest report on Trump's reciprocal tariff.

Nevertheless, the global trade landscape shifted again within less than a week with Trump's subsequent announcement of a 90-day reprieve on these tit-for-tat tariffs. This temporary measure establishes a 10% tariff rate for 75 nations engaged in trade negotiations with the US, a stark contrast to the escalated 125% levy on Chinese imports. From Vietnam's perspective, this development is a significant, albeit potentially transient, tailwind. Our near-term optimism for export prospects is underpinned by: 1) logistical facilitation: the 90-day window provides crucial operational flexibility for domestic enterprises to manage existing shipments and ramp up for upcoming orders; 2) restored competitive edge: the temporary 10% rate positions Vietnam competitively with other regional economies, given our existing competitive advantages; 3) negotiation leverage: this is a critical time for Vietnam to engage in negotiations with the US to secure a more favorable rate. Recent high-level diplomatic interactions, including the meeting between Deputy Prime Minister Ho Duc Phoc and US Trade Representative Jamieson Greer, and the formal establishment of a Government negotiation delegation under Prime Minister Pham Minh Chinh's Decision No.753/QĐ-TTg, underscore the leaders' proactive stances; and 4) anticipated front-loading: we anticipate a surge in export orders over the next three months as US importers seek to secure inventory ahead of any potential reinstatements of tariffs post negotiation. This is likely to translate into strong export turnover and favorable performances for export-oriented companies in 2Q25.

Furthermore, the initial, albeit subsequently clarified as temporary, exemption of tariffs on electrical products offers a significant near-term benefit. Given that this sector's US exports accounted for ~28% of Vietnam's total US exports in 2024, the temporary exemption provides considerable relief. However, the clarification that this exemption is not permanent introduces an element of uncertainty for this key export segment moving forward, thus warrants close attention.

Heightened FX pressures despite controlled CPI

Inflation and commodities: Gasoline price decline moderates CPI

Vietnam's CPI inched down 0.03% MoM in March 2025 (vs +0.34% in February) thanks to declining gasoline prices and rice prices. On a YoY basis, CPI grew 3.13% YoY in March 2025 from 2.91% in February. Core inflation ticked up 0.25% in March (vs +0.3% in February) and +3.10% YoY (vs +2.87% in February 2025).

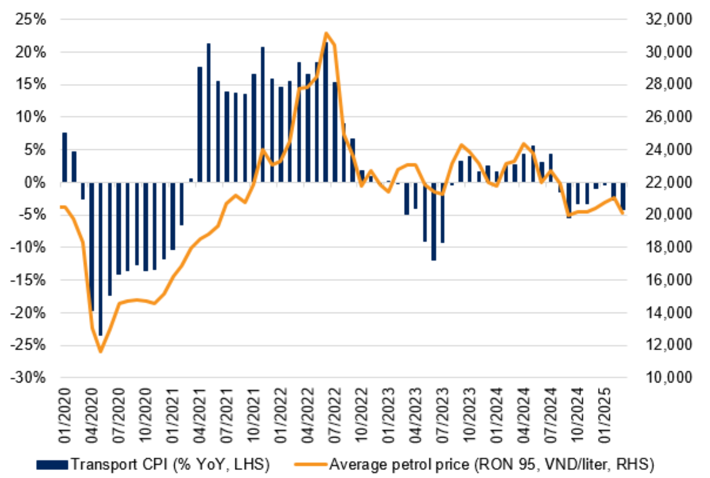
Regarding CPI sub-indexes, eight out of 11 sub-groups increased MoM. March inflationary pressures were largely concentrated within the Accommodation & construction sub-index, rising 0.5% and contributing 0.09% pts to the overall CPI with a 1.09% surge in rental costs. The Others sub-index rose 0.21%, influenced by a 3.73% MoM increase in accessory prices, mirroring soaring global gold prices. The Cultural and recreation items sub-index saw a 0.18% MoM increase, with travel package services rising 0.57%, illustrating buoyant travel demand. Conversely, two key sub-indexes, representing over 40% of the CPI basket, registered MoM declines that helped rein in March inflation. The Transport sub-index experienced the most pronounced contraction, falling 1.41% MoM due to a 3.61% decline in gasoline prices. The Food & Foodstuff sub-index edged down 0.05% MoM, in which a 0.83% decline in Food prices (driven by softening domestic rice prices), and a marginal 0.03% decrease in Eating outside prices outweighed a 0.08% increase in Foodstuff prices (as lean hog prices grew 3.58% in March).

Figure 26: Vietnam's CPI increased 3.13% YoY in March

	Weight (%)	MoM	YTD	YoY
Headline CPI	**100%**	**-0.03%**	**3.22%**	**3.13%**
Food & Foodstuff	33.56%	-0.05%	3.78%	3.83%
Food	3.67%	-0.83%	1.62%	0.68%
Foodstuff	21.28%	0.08%	4.19%	4.54%
Eating outside	8.61%	-0.03%	3.71%	3.45%
Beverage & Tobacco	2.73%	-0.04%	2.26%	2.05%
Garment. hats. footwear	5.70%	0.05%	1.17%	1.16%
Accommodation & construction materials	18.82%	0.50%	5.11%	5.30%
Household appliancies	6.74%	0.13%	1.57%	1.58%
Healthcare. pharmaceutical items	5.39%	0.13%	14.40%	14.59%
Transport	9.67%	-1.41%	-2.40%	-4.07%
Postal services and Telecommunication	3.14%	0.02%	-0.59%	-0.52%
Educational items	6.17%	0.02%	-0.61%	-0.25%
Cultural and Recreation items	4.55%	0.18%	2.16%	2.16%
Other goods & services	3.53%	0.21%	6.63%	6.53%
Core CPI	**100%**	**0.25%**		**3.10%**

Source: NSO, VNDIRECT RESEARCH

Figure 27: Falling domestic gasoline prices have provided some relief on inflationary pressure



Source: NSO, VNDIRECT RESEARCH

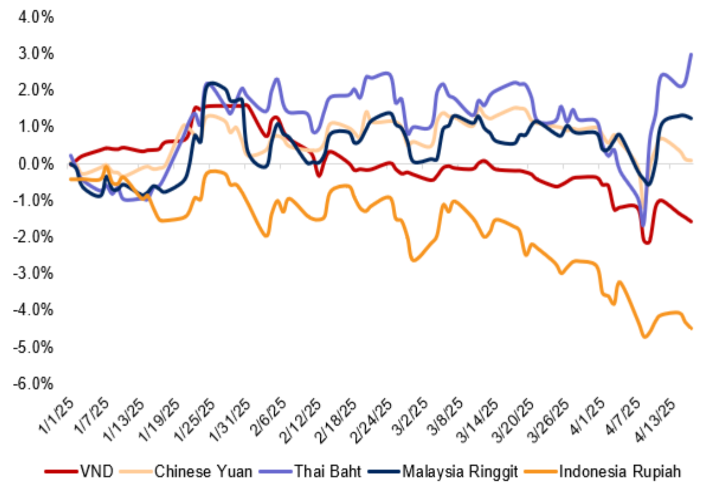
Overall, YTD inflation, averaging 3.22%, remains comfortably below the Government's 4.5-5.0% target, reinforcing our assessment that inflationary pressures are currently well-managed. Looking ahead, we anticipate ongoing downward pressure within the two key indexes, Transport and Food & Foodstuffs. The ongoing decline in Brent crude oil prices, currently trading at four-year lows amid growing US recession fears, will continue to exert downward pressure on domestic gasoline prices. Furthermore, concerns about elevated lean hog prices in 1Q appear to have been unfounded. Despite a remarkable 3.58% surge in lean hog prices in March, this has not translated into significant acceleration in Foodstuff CPI. With that, we project lean hog prices will moderate by late 2Q as supply expands.

FX: Weakening DXY failed to ease FX pressure

As of April 16, 2025, the USD/VND exchange rate registered at VND25,883/USD, reflecting a YTD depreciation of the VND of 1.6%. Foreign exchange pressure intensified in early April compared to the end of 1Q25, primarily driven by domestic factors rather than external headwinds. Specifically, the State Treasury's announced intention to acquire another USD130mn from commercial banks in the final week of March marked its sixth such intervention since mid-February, bringing cumulative USD purchases YTD to USD1.23bn, which will irrefutably pressure the VND.

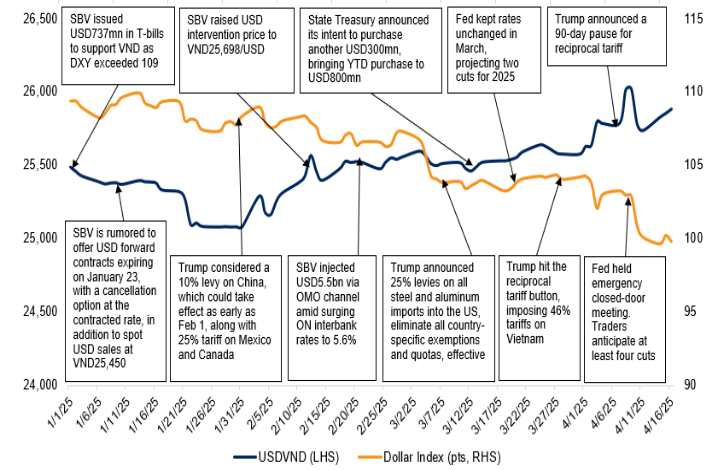
Intriguingly, the weakening VND occurred despite supportive macroeconomic indicators, including a robust 10.6% YoY growth in export turnover and a 7.2% YoY increase in implemented FDI in 1Q25. This is not to mention the fall of the DXY, which sat at 99.51 by April 16, reaching its lowest level since April 2022. This DXY weakness exhibited a negative correlation with soaring US Treasury yields and gold prices, suggesting potential concerns regarding capital outflows from the US amid heightened trade tensions. This environment has also fueled increased market expectations for more aggressive Fed rate cuts, with at least four rate reductions priced in for the year, and mounting recessionary risks prompting investors to reduce USD holdings as a traditional safe-haven asset in favor of gold.

Figure 28: DXY pullback supports some Southeast Asian currencies; VND, Rupiah as outliers (data as of April 16, 2025)



Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 29: USD/VND rose 1.6% YTD (data as of April 16, 2025)

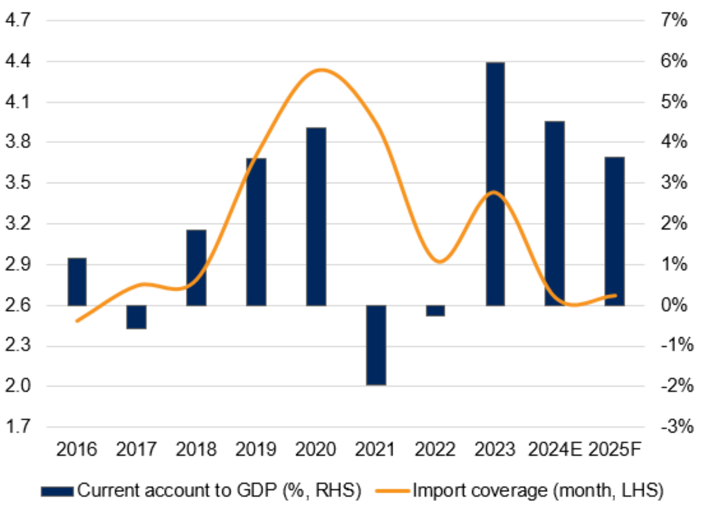


Source: BLOOMBERG, VNDIRECT RESEARCH

Consistent with our forecast in the March Econs Updates report, we anticipate increased volatility in the FX market following Trump's reciprocal tariff announcement. Moving forward, we foresee increasing upside risks for FX rates in the near term. Further depreciation of the DXY would likely result in a strengthening of other currencies, notably the Euro, as it is believed to be benefitting from the shifting global trade landscape. This dynamic is anticipated to create subsequent pressure on the VND. Moreover, a worst-case scenario involving a 46% reciprocal tariff could lead to a deceleration in both FDI and FII inflows. This is not to mention that Vietnam is actively engaging with the US for potential deals, and with the need to increase imports of US goods in the near future, FX pressure may elevate further.

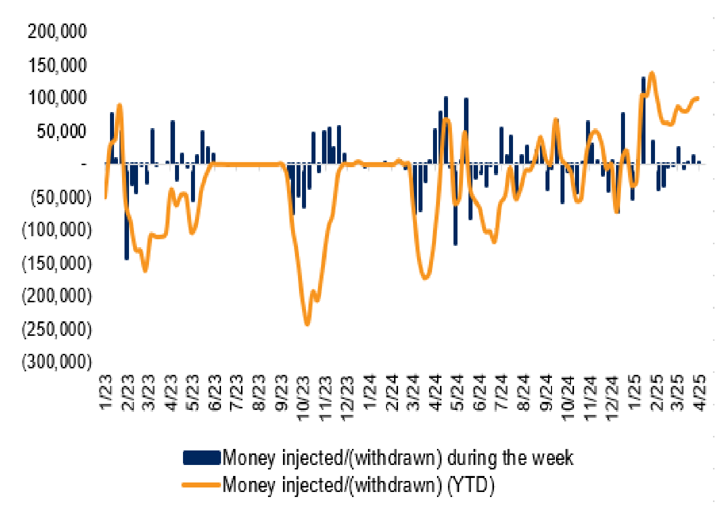
In light of these dynamics, we project that the SBV may adopt a more flexible FX regime to support export sectors strained by tariffs. This would effectively encompass accepting a higher rate of devaluation, particularly given that Vietnam's FX reserves currently fall below the IMF-recommended threshold.

Figure 30: Vietnam's current account balance and import coverage (2016-2025F)



Source: BLOOMBERG, SBV, Vietnam Customs, VNDIRECT RESEARCH

Figure 31: SBV continued to supply long-term liquidity via OMO channel (data as of April 11, 2025)



Source: BLOOMBERG, VNDIRECT RESEARCH

Monetary policy: Ample liquidity facilitates lower rate environment

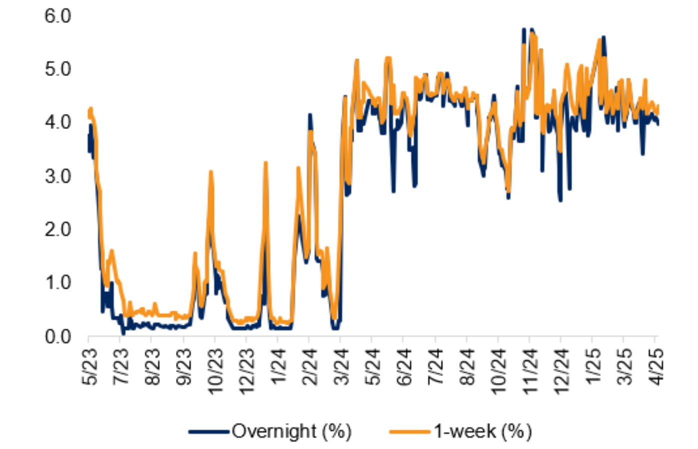
As of April 11, the average 12M term deposit interest rate of commercial banks declined to 4.80%/year, down 0.01% pts from the end of March, and -0.06% pts YTD. Waning deposit rates still persist following the Government's directive on easing deposit and lending rates. Amid declining deposit rates, credit growth accelerated, rising 3.93% by the end of March 2025, higher than the 1.34% seen in 1Q24.

Overall, we expect deposit rates to stabilize at this level, and therefore maintain our 12M average deposit rate forecast at 4.8-5.0% p.a., reflecting our continued view that the SBV's accommodative stance will buttress liquidity via a lower interbank rate environment.

Regarding liquidity management, following halting T-bill issuance for more than a month, the SBV continued its proactive measures by deploying the mortgage lending channel at a 4.0% p.a. interest rate to inject significant long-term liquidity into the system. This has led to an increase in the OMO balance to VND99.8tn (USD3.9bn) by March 14, as new offers outpaced maturing OMO papers. With this sufficient liquidity, overnight interbank rates remained stable within a narrow range around 4% by early April.

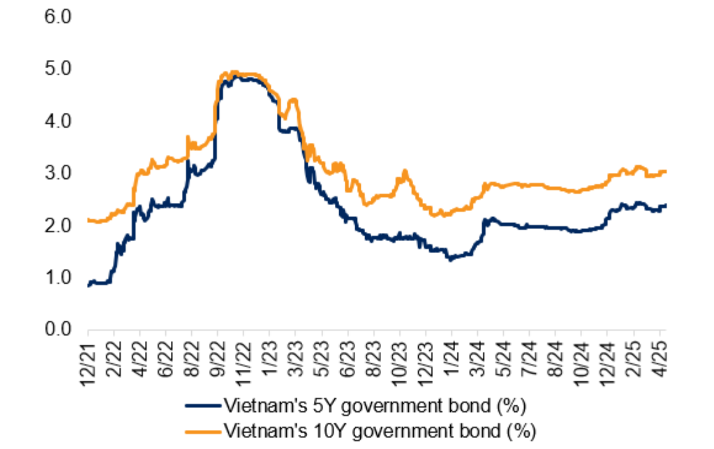
Looking ahead, should the Fed implement its projected rate cut cycle, we anticipate increased room for the SBV to further ease monetary policy. If the Fed cuts rates two to three times this year, the SBV could consider lowering its OMO rates from the current 4% p.a. level, and in a more pronounced easing stance, reduce key policy rates by 25bps in 3Q25 to stimulate credit growth and support the GDP growth target.

Figure 32: ON interbank rate moderated following SBV's initiatives (unit: %) (data as of April 16, 2025)



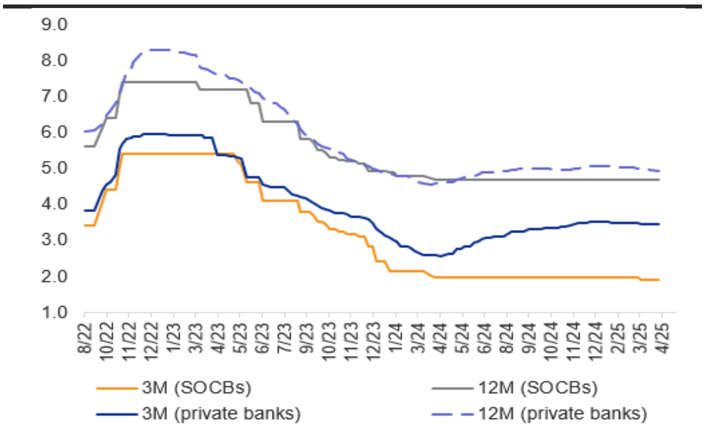
Source: Bloomberg, VNDIRECT RESEARCH

Figure 33: Vietnam's Government bond yield slightly rose in the new year (data as of April 16, 2025)



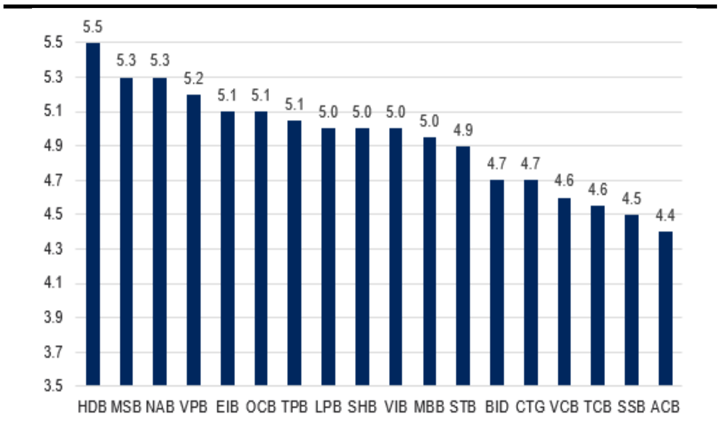
Source: Bloomberg, VNDIRECT RESEARCH

Figure 34: Deposit interest rates continued downward momentum by early April (unit: %) (data as of April 11, 2025)



Source: Commercial banks, VNDIRECT RESEARCH

Figure 35: Many banks reduced their 12-month term deposit rates to less than 5%/year (data as of April 11, 2025) (unit: %)



Source: Commercial banks, VNDIRECT RESEARCH

Appendix

Figure 36: Key macro forecasts in 2025

Indicator	Unit	2018	2019	2020	2021	2022	2023	2024	2025F
Nominal GDP	USDbn	310	337	347	367	414	434	475	515
Real GDP growth	% YoY	7.5	7.4	2.9	2.6	8.5	5.1	7.1	7.3
GDP per capita	USD	3,251	3,465	3,552	3,724	4,166	4,324	4,701	5,063
Export growth	% YoY	13.3	8.4	6.9	18.9	10.6	-4.6	14.3	11.3
Import growth	% YoY	11.8	6.9	3.7	26.7	8.0	-9.2	16.4	12.5
Trade balance	USDbn	6.9	10.9	18.9	3.3	12.3	28.4	25.7	24.1
FDI (implemented)	USDbn	19.1	20.4	20.0	19.7	22.4	23.2	25.4	27.5
Current account balance	USDbn	5.8	12.2	15.1	(7.2)	(1.1)	25.8	21.4	18.7
Current account to GDP	% of GDP	1.9	3.6	4.3	-2.0	-0.3	6.0	4.5	3.6
FX reserves	USDbn	55	78	95	109	88	93	84	95
FX to GDP	% of GDP	17.8	23.3	27.4	29.8	21.2	21.5	17.7	18.4
Import coverage	months	2.8	3.7	4.3	3.9	2.9	3.4	2.7	2.7
CPI (YoY; year-end)	% YoY	3.1	5.2	0.2	1.8	4.4	3.6	2.9	3.4
CPI (period average)	% YoY	3.5	2.8	3.2	1.8	3.2	3.3	3.6	3.2
Credit growth	% YoY	13.9	13.6	12.2	13.6	14.2	13.8	15.1	15-16
Credit to GDP	% of GDP	102.9	106.3	114.3	123.1	123.9	131.5	135.6	141.4
M2 growth	% YoY	12.4	14.8	14.7	10.7	6.2	12.5	12.3	13-14
Refinancing rate	%	6.25	6.00	4.00	4.00	6.00	4.50	4.50	4.25
12M deposite interest rate (year-end)	%	6.9	7.0	5.6	5.6	7.8	4.9	4.9	4.8-5.0
Government bond 10Y (year-end)	%	5.1	3.4	2.4	2.1	4.8	2.2	3.0	2.9
Exchange rate (interbank, year-end)	USD/VND	23,175	23,173	23,098	22,826	23,633	24,267	25,485	25,700
Fiscal balance	% of GDP	2.2	2.9	2.9	3.4	3.6	3.9	3.0	3.8
Public debt	% of GDP	46	43	44	43	37	36	36	37

Source: VNDIRECT RESEARCH, NSO, SBV, MOF

DISCLAIMER

RECOMMENDATION FRAMEWORK

Stock Ratings	Definition:
Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings	Definition:
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Hinh Dinh Quang – Head of Macro & Market strategy
Email: hinh.dinh@vndirect.com.vn

Hang Le (Hailee) – Analyst
Email: hang.lethu3@vndirect.com.vn

VNDIRECT Securities Corporation
1 Nguyen Thuong Hien Str – Hai Ba Trung Dist – Ha Noi
Tel: +84 2439724568
Email: research@vndirect.com.vn
Website: https://vndirect.com.vn