ECONOMIC SUCCESS THREATENED BY TRUMP 2.0?

The Vietnamese economy posted strong growth of 7.1% in 2024. The conditions for this success could continue on into 2025: the export sector is benefiting from buoyant global demand for electronic goods and is continuing to increase its production capacities thanks to FDI; the property sector is recovering from the 2022-2023 crisis; private consumption is likely to increase further; and the government has some room for manoeuvre for increasing its spending and investment. However, Vietnam's economic outlook is also exposed to high downside risks. Firstly, a strong dollar and unchanged interest rates in the US pose a risk of capital outflows, and pressures on the dong and external liquidity would then constrain monetary policy. Secondly, Vietnam is vulnerable to the risk of protectionism, due to its strong dependence on exports. Most significantly, its role as a "connector" country between Chinese producers and US importers and its large trade surplus with the US could lead the Trump administration to increase tariffs on Vietnamese products.

STRONG ECONOMIC GROWTH, DRIVEN BY THE EXPORT SECTOR

Real GDP growth stood at +7.1% in 2024, which was an impressive recovery following the 2020-2023 slowdown. In 2025, economic growth is expected to slow to 6.2%, which is still strong, supported notably by private consumption growth and by still accommodative economic policies. The prospects for exports and investment in the manufacturing sector are more uncertain.

Goods exports have rebounded rapidly from autumn 2023. They increased by +14% y/y in value terms in 2024 (vs. -4.6% in 2023), with this rebound coming hand in hand with a solid recovery in industrial production (+7.8% in 2024, after +1.7% in 2023) and investment (+7.2% in 2024, after +4.1% in 2023). The export manufacturing sector has benefited greatly from the increased global demand for tech goods, the continued expansion of its production capacities and global market share gains in a wide range of sectors, ranging from agricultural products to electronic goods and computers. Vietnam's share of total global exports increased to 1.7% in 2024, after stagnating at 1.5% in 2021-2023. In 2025, the country is still well positioned to continue benefiting from buoyant global demand for electronic goods, increase its production capacities thanks to foreign direct investment (FDI) inflows and gain market shares. At the same time, the threat of tariff barriers which could be imposed by the United States is a major downside risk to the export outlook.

The tourism sector has been recovering well since 2022, faster than in other South-East Asian countries. In 2024, the number of visitors almost returned to its pre-COVID level (17.6 million) while total tourism revenue exceeded it, standing at 7% of GDP. Total exports of services increased by +18% y/y in value terms over the first three quarters of 2024. Tourism activity will remain solid in 2025. The authorities aim to increase revenue from the sector by nearly 20%, notably driven by returning Chinese tourists (in 2024, total Chinese visitors were still 40% below their 2019 level).

In 2024, the contribution of net exports of goods and services fell slightly into negative territory (*chart 1*), with the rebound in the volume of imports stronger than the rebound in the volume of exports (which have a high import content). Nevertheless, the strong growth in the export and tourism sectors had positive effects on the rest of the economy. In addition, the accommodative fiscal policy and the easing of credit conditions from spring 2023 have also boosted domestic demand. Real estate and construction activity (9.5% of GDP) has gradually recovered and private consumption growth has accelerated (from +3.4% in 2023 to +6.7% in 2024). Yet households have remained rather prudent, particularly due to inflationary pressures and the property crisis. Their consumption could increase more strongly in 2025.

FORECASTS

	2022	2023	2024e	2025e	2026e
Real GDP growth (%)	8.5	5.1	7.1	6.2	6.3
Inflation (CPI, year average, %)	3.2	3.3	3.6	3.3	3.4
Budget balance / GDP (%)	0.7	-2.5	-2.6	-2.6	-2.4
General government debt / GDP (%)	34.7	34.4	33.8	33.6	33.3
Current account balance / GDP (%)	-0.3	6.5	5.0	4.3	3.8
External debt / GDP (%)	35.9	32.7	30.5	28.7	27.3
Forex reserves (USD bn)	86.5	92.2	86.7	87.8	97.3
Forex reserves, in months of imports	2.8	3.3	2.6	2.5	2.6

TABLE 1 e: ESTIMATES & FORECASTS SOURCE: BNP PARIBAS ECONOMIC RESEARCH

VIETNAM: CONTRIBUTIONS TO ECONOMIC GROWTH

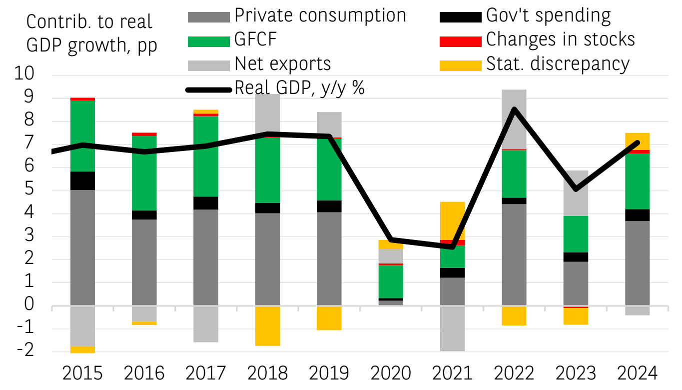

CHART 1 SOURCE: GENERAL STATISTICS OFFICE, CEIC, BNP PARIBAS

Consumer price index inflation accelerated from +2.4% y/y in Q2 2023 to +4.4% in Q2 2024, mainly driven by rising food prices (+4% on average in 2024). CPI inflation has eased since then, falling below 3% in Q4 2024. Core inflation remained close to +2.7% y/y over 2024, a moderately high level. In 2025, CPI inflation is expected to remain below the central bank's target range of 4% to 4.5%.

A GRADUAL IMPROVEMENT IN PUBLIC FINANCE MANAGEMENT

The Vietnamese government has room for manoeuvre for maintaining an expansionary fiscal policy. Fiscal deficits are below 3% of GDP and government debt is moderate, estimated at 34% of GDP in 2024 (based on IMF data).

In 2025, the fiscal deficit is expected to remain stable at 2.6% of GDP. Government spending is expected to continue to rise moderately, driven by current spending and investment. The share of investment in total fiscal expenditure is expected to increase, which is a sign of both improving public finance management and the need to upgrade infrastructure (especially water and energy networks). In addition, from 2022 to 2024, the delivery of public investment projects was significantly slowed down by an extensive anti-corruption campaign spearheaded by the leaders of the Vietnamese Communist Party, and the effects of this campaign are expected to fade this year.

On the revenue side, on the one hand, the tax base should continue to expand gradually, thanks to continued administrative reforms, buoyant economic activity and the introduction of the minimum tax rate of 15% on multinational companies (introduced in 2024, to comply with the OECD agreement reached in 2021). On the other hand, the government is expected to maintain fiscal measures to support domestic demand.

COMPLEXITY OF THE MONETARY AND FOREIGN EXCHANGE POLICY

Since Q2 2023, the central bank (State Bank of Vietnam, SBV) has maintained a monetary and credit policy aiming to support the recovery in the property sector and economic activity. However, its room for manoeuvre has been limited by inflation accelerating until mid-2024 and by downward pressures on the dong (VND). As a result, the SBV has left its policy rates unchanged since June 2023 (at 4.5% for the refinancing rate, after cutting it by 150 basis points in Q2 2023), while it has encouraged bank lending through the adjustment of macroprudential regulations. Growth in outstanding loans to the private sector has rebounded strongly, standing at +16% y/y at the end of 2024 compared to +9% in mid-2023. It is expected to accelerate slightly further in 2025, in line with the target set by the authorities.

On the one hand, the dong is supported by current account surpluses (estimated at 5% of GDP in 2024) and net FDI inflows (4.2% in 2024). On the other hand, Vietnam is still vulnerable to capital outflows: despite the country's macroeconomic stabilisation process of the past few years, residents' confidence in their currency and in their banks is still fragile. Therefore, since 2022, Vietnam has faced large net capital outflows, initially due to US monetary tightening against a backdrop of a confidence crisis in the Vietnamese property and financial sectors, and recently due to changing expectations on US Fed policy and the USD. In order to counteract the downward pressures on the dong, the SBV has stepped up its interventions on the foreign exchange market, consuming its reserves (Vietnam has a managed-float exchange rate regime, with the VND/USD spot rate allowed to trade within a band of ±5% around the reference rate set by the SBV).

In total, the VND/USD spot rate depreciated by 4.5% over 2024, and has depreciated by 10% since the end of 2021. VND depreciation has remained under control, but this has gone with a reduction in the foreign exchange reserves. They fell from USD 92 billion at the end of 2023 to USD 84 billion at the end of September; they now cover less than 3 months of goods and services imports, providing little protection against new external shocks. Of course, Vietnam is not very dependent on external financing and does not face a solvency risk; the country does not need to take on additional debt because it has a positive basic balance (current account surplus + net FDI). In addition, external debt is very moderate and has declined gradually (to around 30% of GDP in 2024 from 37% in 2019). However, in the short term, Vietnam is still exposed to the risk of capital outflows and exchange rate pressures, against a backdrop of a strong dollar and unchanged interest rates in the US.

VIETNAM: US BILATERAL TRADE DEFICITS WITH ASIAN COUNTRIES

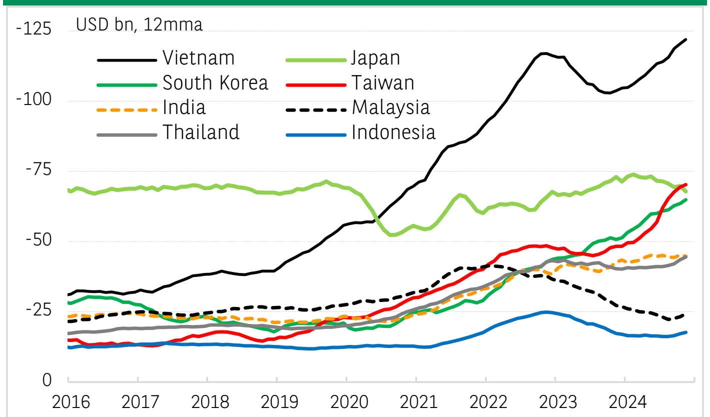

CHART 2 SOURCE: U.S. CENSUS BUREAU, CEIC, BNP PARIBAS

Very strong or prolonged pressures on the dong and on external liquidity could force the authorities to increase the VND/USD trading band and/or tighten capital controls.

TRUMP 2.0: DANGER?

Vietnam is also exposed to the risk of new protectionist barriers. Primarily, because its economy is highly dependent on exports of goods (84% of GDP in 2024) and is therefore vulnerable to a slowdown in global demand that is likely to result from rising protectionism. Moreover, a very large share of Vietnamese exports is also destined for the US market (29% in 2024, compared to 19% in 2017). Then, because Vietnam ticks a number of boxes for attracting the attention of the Trump administration. Firstly, the US trade deficit with Vietnam has increased very quickly and is now the largest, behind China, out of Asian economies. It stood at USD 120 billion in 2024, compared to USD 38 billion just before Trump's first term of office began in 2017 (*chart 2*). Secondly, Vietnam is on the US Treasury's Foreign Exchange Monitoring List. Thirdly, the share of Chinese value added integrated into Vietnam's exports to the United States is now high (estimated at 19% in 2024).

Since 2018, Chinese companies have reorganised their production chains, relocating some of their production factories to other countries to lower production costs and circumvent US tariffs. South-East Asian countries, particularly Vietnam, have benefited greatly. Their trade integration with China has increased, and they have strengthened their role as a production and export hub while also rising the value chain. As a result, they have gained much of the US market share that China has lost over the last six years. As a result, the US could increase tariffs on imports from Vietnam and other "connector" countries where Chinese companies finalise their products.

However, Vietnam still enjoys major comparative advantages (its comparatively high education levels and moderate labour costs, its geographical advantage, proactive policies to attract FDI and its neutral position in geopolitical tensions). As a result, if the United States does not impose tariffs on Vietnamese goods, the country should continue to benefit from changes to global production chains, attract FDI and expand its export base. Conversely, should the United States introduce tariffs, this would adversely affect both its exports and FDI.

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