

# VIETNAM

## THE WIND IS IN ITS SAILS

Vietnam went through a number of difficulties in 2022 and 2023, related to the deterioration of the international environment, the severe correction in the property sector, the crisis of confidence and liquidity tensions in the banking sector. Economic growth stalled in early 2023, but then quickly accelerated again. Most notably, activity in the manufacturing export sector has been recovering for a few months, buoyed by healthy foreign direct investment inflows. These trends are expected to continue in the short term, with Vietnam being one of the major beneficiaries of the ongoing adjustments to global value chains.

In the last months of 2022 and in early 2023, the Vietnamese economy went through a number of difficulties that resulted in a brief yet significant slowdown in growth. In 2022, real GDP growth rebounded strongly (+8%) after the country's health restrictions were lifted. But then real GDP growth abruptly slowed to +3.3% y/y in Q1 2023. The accumulation of external shocks (declining global demand and US monetary tightening) and internal shocks (the property sector crisis and the confidence shock in the financial sector) shone a light on macro-financial vulnerabilities in the country, most notably, the low level of its foreign exchange reserves, the excessively high levels of domestic debt in some sectors and the lingering weaknesses of the banking system.

Despite these vulnerabilities, Vietnam's economic growth prospects are still solid, buoyed in particular by the development of the export manufacturing sector and foreign direct investment (FDI) inflows. Real GDP growth in fact quickly accelerated again last year, hitting +6.7% in Q4 2023. It is expected to remain comfortably above 6% year-on-year in the coming quarters.

## EXPORTS ARE READY TO TAKE OFF RAPIDLY AGAIN

The export sector has been hit hard by the recent weakening global demand. Over the period from Q4 2022 to Q3 2023, goods exports (measured in current dollars) decreased by 7.4% year-on-year (Chart 1). However, exports hit a trough last summer and started to increase again in year-on-year terms in Q4 2023 (+6.9%). At the same time, industrial production growth rebounded from -2% y/y in Q1 2023 to +5.3% in Q4 2023. The export sector in particular benefited from the green shoots of recovery in the global electronic cycle (and from shipments of new products from Samsung, which manufactures more than half of its phones in Vietnam) and from the continued expansion of the country's manufacturing production capacities. Vietnam appears to be very well positioned to benefit from the improvement (even if limited) in global demand in 2024 (according to the most recent IMF forecasts, world trade volumes of goods and services should increase by +3.3% in 2024, up from +0.4% in 2023).

## FDI CONTINUES TO TRANSFORM THE ECONOMY

Vietnam has benefited from significant FDI inflows since it joined the World Trade Organisation in 2007, which has supported the continued and rapid expansion of its export manufacturing sector. Goods exports accounted for 91% of GDP in 2022, compared to 57% in 2011. Over the same period, Vietnam's global market share increased from 0.5% of total world exports of goods to 1.5%; the share of exports by the foreign-invested sector (with investors mainly from South Korea, Singapore, Japan and China/Hong Kong) increased from 48% to 73% of Vietnam's total exports; and the share of sales of telephones, computers and other electronic goods increased from 18% to 32% of total exports.

### FORECASTS

|                                      | 2021  | 2022 | 2023e | 2024e | 2025e |
|--------------------------------------|-------|------|-------|-------|-------|
| Real GDP growth (%)                  | 2.6   | 8.0  | 5.0   | 6.2   | 6.6   |
| Inflation (CPI, year average, %)     | 1.8   | 3.2  | 3.3   | 3.4   | 3.5   |
| Budget balance / GDP (%)             | -1.4  | 0.3  | -1.3  | -1.8  | -2.1  |
| General government debt / GDP (%)    | 39.1  | 35.3 | 34.1  | 32.9  | 32.0  |
| Current account balance / GDP (%)    | -2.2  | -0.3 | 5.3   | 4.7   | 4.4   |
| External debt / GDP (%)              | 37.8  | 36.1 | 36.0  | 34.9  | 32.7  |
| Forex reserves (USD bn)              | 109.4 | 86.5 | 91.0  | 100.2 | 115.3 |
| Forex reserves, in months of imports | 3.8   | 2.8  | 3.2   | 3.3   | 3.5   |

TABLE 1

e: ESTIMATES & FORECASTS  
SOURCE: BNP PARIBAS ECONOMIC RESEARCH

### VIETNAM: EXTERNAL TRADE

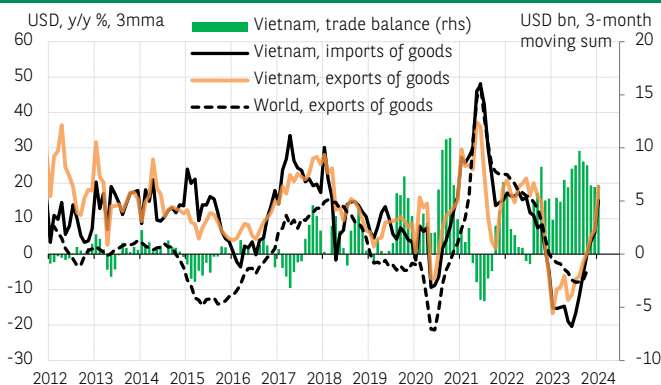


CHART 1

SOURCE: GENERAL STATISTICS OFFICE, IMF, BNP PARIBAS

Net FDI inflows into Vietnam fell slightly during the Covid pandemic in 2020-2022, standing at USD 15.3 billion per year on average, which is still a high level, equivalent to 4.1% of GDP (compared to 4.7% of GDP on average in 2015-2019). In 2023, FDI inflows started to rise again in Vietnam (Chart 2), while FDI inflows into ASEAN countries and Asia in general declined, constrained by deteriorating global economic growth prospects and higher financing costs. In Vietnam, the net FDI inflows recorded in the balance of payments stood at USD 13.7 billion over the first three quarters of 2023, up 40% on the same period in 2022.



In the short term, all ASEAN countries are expected to attract further investment in the manufacturing sector (announcements of new projects are on the rise), but Vietnam is expected to remain one of the main beneficiaries of adjustments to global value chains. These adjustments stem in particular from corporate de-risking strategies in response to geopolitical turmoil, trade tensions and the US-China tech war. Multinational companies are looking to secure their value chains, safeguard their supplies of raw materials and strategic goods, diversify their production locations and reduce their dependency on China. Against this backdrop, Vietnam is continuing to attract investors and stand out thanks to its strong comparative advantages, such as the good level of education and the relatively low cost of its labour force, its geographic location, and the proactive policies of its authorities to create a favourable regulatory environment for FDI and to sign free trade agreements (such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership and the trade deal with the European Union). In addition, Vietnam is keeping a cautious foreign policy aimed at avoiding tensions with its various economic and trade partners (the United States, China and the EU absorbed 29%, 16% and 13% of Vietnamese exports, respectively, in 2022).

### CURRENT ACCOUNT: RETURNING TO SURPLUSES

In 2023, Vietnam’s trade surpluses increased substantially as imports of goods fell more sharply than exports over the entire year (Chart 1). In addition, the deficits in the balances of services and income decreased, thanks to, on the one hand, the recovery in tourism revenues and, on the other hand, the increase in remittances. The current account balance went from a slight deficit in 2021 and 2022 to an estimated surplus of more than USD 22 billion in 2023, or more than 5% of GDP, which is a record level for Vietnam (Chart 2).

In 2024, the trade surplus is expected to adjust slightly downwards and the deficit in the balance of services is expected to continue to decline thanks to the recovery in the tourism sector. The current account surplus should fall slightly and the surplus in the basic balance (current account + net FDI) should remain at a very comfortable level (estimated to stand at 9.5% of GDP in 2023, compared to 3.5% in 2022).

Thanks to these surpluses, Vietnam appears to be able to strengthen its external solvency and liquidity position. Its external debt is already moderate, estimated to stand at 36% of GDP and 44% of goods export receipts in 2023. However, Vietnam’s foreign exchange reserves are not comfortable, covering just over three months of imports of goods and services at the end of 2023. They fell from USD 109.4 billion at the end of 2021 to USD 86.5 billion at the end of 2022, after gradually increasing for six years. Then, foreign exchange reserves barely recovered in 2023, despite the improvement in the current account balance and FDI inflows. As a matter of fact, Vietnam has faced significant capital outflows over the past two years, observed in the deposits and loans transactions of the “other investments” item of the balance of payments, and above all in “errors and omissions” (Chart 2).

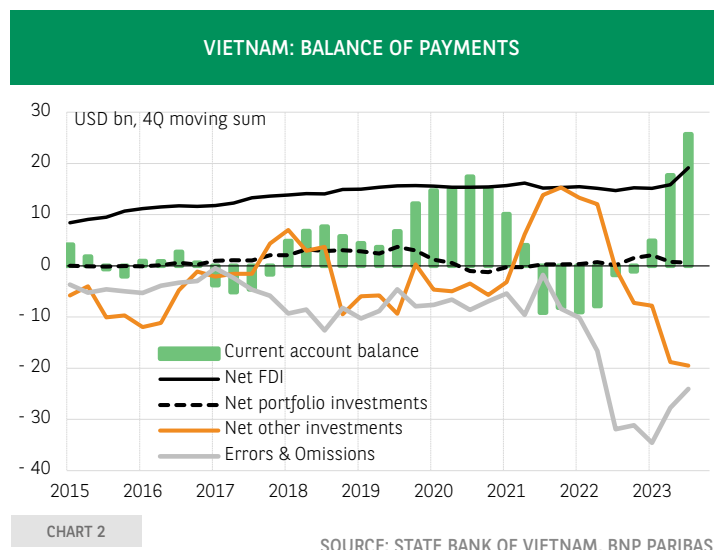


CHART 2 SOURCE: STATE BANK OF VIETNAM, BNP PARIBAS

### LINGERING WEAKNESSES

Capital flight has mainly come from residents, whose confidence in the dong (VND) and local banks was rattled in 2022 by the rise in inflation, by the dong’s depreciation against the USD after several years of relative exchange rate stability, and by the property sector crisis. In 2023, the various sources of pressure gradually faded away, thanks to the improvement in the current account, the slight decline in inflation up until the summer, monetary policy easing (the refinancing rate was cut from 6% to 4.5%), lower pressure on the dong, and improved domestic liquidity conditions (the overnight interbank rate fell from an average of 4.8% in Q1 2023 to 0.6% in Q4). However, the property sector crisis has lingered on and banks remain fragile as a result of weak capitalisation ratios and high credit risks – and this is continuing to weigh on residents’ confidence.

In 2024, the situation in the property sector is expected to improve slowly (thanks to government support measures, in particular) and pressures in the financial sector are likely to continue to ease. Solid growth in activity and export revenues should help to gradually reduce the vulnerabilities of the Vietnamese economy in the short and medium term, but this will need to go hand in hand with structural reforms aimed at strengthening the financial sector and improving corporate governance.

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