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## Vietnam Macroeconomic Commentary: February 2025

February's macroeconomic statistics support our forecasts that Vietnam's GDP will grow at a comparable pace in 2025 as it did in 2024, although the drivers will be different. This year, a pickup in consumption and public spending will be two of the key drivers, which should offset to some extent slowing export growth to the US which would in turn lead to slowing manufacturing activity.

Specifically, real retail sales (i.e., stripping out the impact of inflation) picked up from 5.9% in 2024 to 6.2% YoY in 2M25 and we expect further acceleration as 2025 progresses. Manufacturing output growth dipped from 9.6% in 2024 to 9.3% YoY in 2M25, but there were clear signs of a deeper impending slowdown in the sector.

First and foremost, the growth of Vietnam's exports to the US slowed from 23% in 2024 to 17% in 2M25 (China's exports to the US grew by just 2% in 2M25). That drop dragged the country's overall export growth from 14% in 2024 to just 8% in 2M25 and is a negative leading indicator for the manufacturing sector.

In addition, Vietnam's new export orders fell for the fourth month in-a-row; the "New Export Orders" sub-index of Vietnam's Manufacturing PMI, fell deeper into contraction to just 47.5 in February. More ominously, the "Backlogs of Work" sub-index of the PMI plunged from 50.4 at the end of December to just 45.1 in February, well below the '50' expansion-contraction threshold.

The net result of all of the above is that Vietnam's Manufacturing PMI remained in contractionary territory for the third month in-a-row at 49.2, which is in-line with our expectation for a slowdown in Vietnam's manufacturing output growth from 10% in 2024 to 7% in 2025.

While manufacturing faces likely headwinds, the Government is actively stimulating the economy and significantly increased its 2025 infrastructure spending target in February, aiming to achieve a near 40% increase in spending on the construction of roads, ports, and power infrastructure this year to USD 36bn or 7% of GDP. This is in-line with our expectation that Vietnam's GDP growth will be supported by public spending this year, which we discussed in this [report](#).

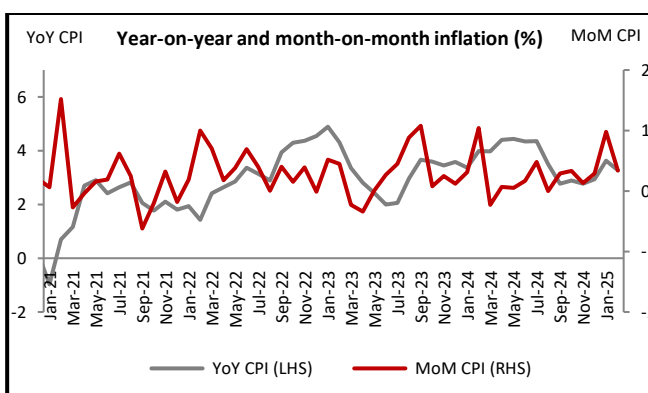
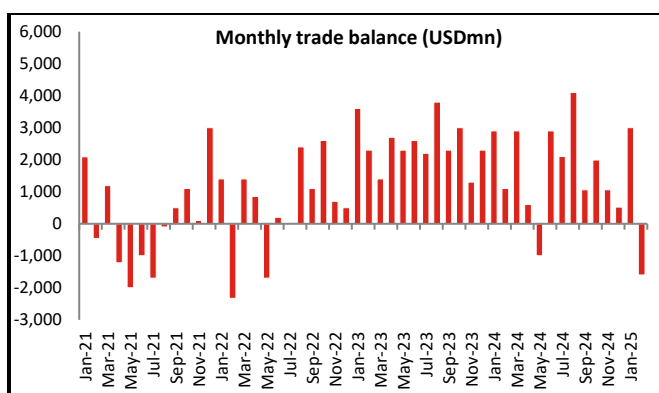
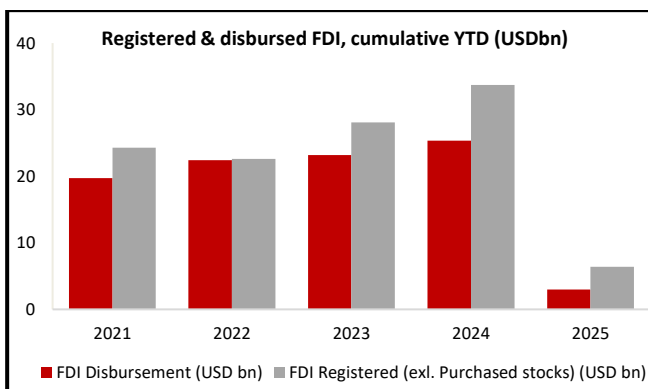
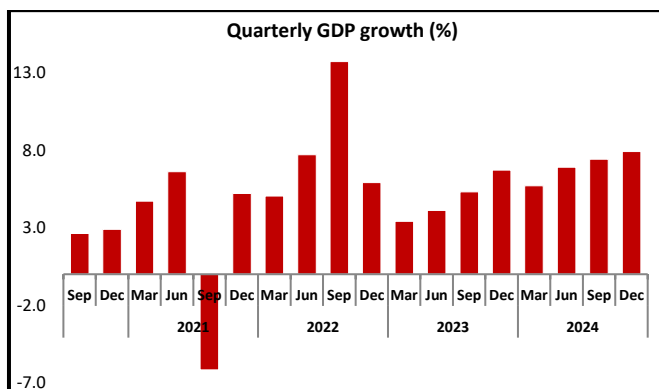
In addition, the Government is encouraging banks to lend more aggressively into the economy, which has raised some concerns about the possibility that inflation could tick up later in the year. However, CPI inflation in Vietnam actually fell from 3.6% YoY in January to 2.9% in February driven by a drop in food price inflation and slightly softer energy prices, and as such we are not currently concerned about inflation in Vietnam, especially given recent, weak global oil prices.

Another possibility is that the Government's aggressive growth targets (and the measures it encourages to achieve those targets) could add depreciation pressures on the VN Dong later in the year. The USD-VND exchange rate depreciated by just 0.3% YTD as of end-February, but Vietnam's exchange rate has been fairly volatile driven by wide swings in the US Dollar/DXY Index. One of the main factors driving the USD has of course been Trump's repeated threats -- followed by retractions -- of stiff tariffs on China/Mexico/Canada and possibly the EU.

Finally, on the topic of tariffs, we continue to believe there is no risk that Trump will impose big tariffs on Vietnam's exports to the US for a variety of reasons, including: 1) it would be against the US's own economic interest, 2) it is not in the US's own national security interest to target Vietnam, and 3) Vietnam was the first country (and arguably the most proactive) to engage with the Trump administration for guidance on what measures the country could/should do to avoid trade sanctions from the US. There are additional reasons we believe Vietnam will not be targeted, which we would be happy to discuss directly with investors.

Critically, the FX market appears to agree with our view, evidenced by the relative stability of the value of the VN Dong compared to the Canadian Dollar and the Mexican Peso in the time period starting from the lead-up to the US presidential election until present.

Macroeconomic Charts



Macroeconomic Indicators

	2024	Feb-25	YTD	YOY <sup>1</sup>
GDP growth (%)	7.1			
Inflation (%) <sup>2</sup>	3.6	2.9	3.3	
FDI commitments (USD bn)	33.7	2.4	6.4	57.7
FDI disbursements (USD bn)	25.4	1.4	3.0	5.4
Imports (USD bn)	380.8	32.7	62.8	15.9
Exports (USD bn)	405.5	31.1	64.3	8.4
Trade surplus/(deficit) (USD bn)	24.8	-1.6	1.5	
Exchange rate (USD/VND) <sup>3</sup>	25,485	25,557	25,557	

Sources: GSO, Vietnam Customs, MPI, Bloomberg

Note:

1. FDI and trade data is YTD y-o-y; GDP growth data is latest quarter y-o-y
2. Monthly y-o-y change; year-to-date is monthly average change in CPI per GSO
3. BBG-USD/VND Spot Exchange rate

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