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Vietnam Macroeconomic Commentary: July 2025

We continue to expect Vietnam's GDP to grow by 7% in 2025. Two factors currently driving the country's economic growth are: a 28% surge in exports to the US and a 23% jump in tourist arrivals in 7M25. Meanwhile, two topics currently capturing the attention of investors in Vietnam are: the risk that Trump's tariffs could derail the economy, and the Government's sweeping reform program that many are calling "Doi Moi 2.0" and that helped push the VN-Index (VNI) to new record highs in July.

Exports to the US were driven by "pull forward" demand in advance of tariffs, but there are numerous indicators that source of demand is now waning. For example, the "New Export Orders" sub-index of the Purchasing Managers' Index (PMI), which peaked at 54 in the middle of last year, plunged to the abnormally low level of 43.6 in June. The sub-index rebounded to 46.5 in July because of optimism on the trade front.

The partial recovery of this important indicator helped the headline PMI level rebound from 48.9 in June (i.e., the manufacturing sector was contracting) to 52.4 in July (i.e., expansionary territory), even though the growth of Vietnam's manufacturing output was essentially unchanged in June and July. The rebound in the PMI can be explained as optimism on the trade front.

Further to that last point, on July 2, President Trump announced 20% tariffs on Vietnam and subsequently announced "trade deals" with Japan, Korea, and the EU, among others. However, a closer examination of the specific details of these "deals" delivers a clear impression that trade negotiations between the US and most of its major trade partners are actually still ongoing. In Vietnam's case, we expect various exemptions and carve-outs will be agreed that could ultimately lower the average tariff rate on exports to the US to around 15% (this article on Bloomberg discusses the general topic of tariff carve-outs and exemptions).

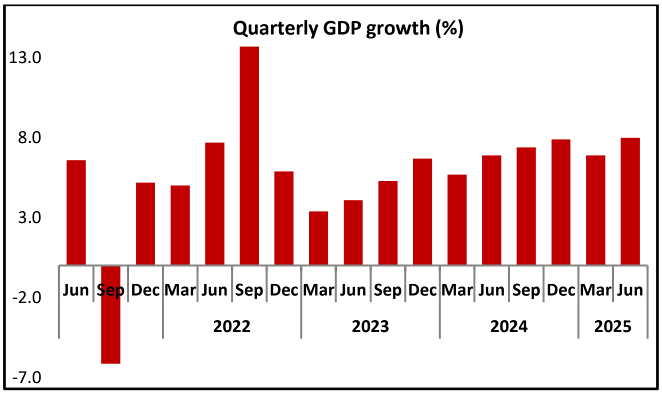
In addition to the above-mentioned bounce in the PMI, newly planned FDI projects are up 22% YoY in 7M25, which is a strong vote of confidence from multinational companies that Vietnam's exports will not be overly disadvantaged by tariffs vis-à-vis its regional competitors. That optimism also helped push the VN-Index to hit new record highs in July, although the ongoing bull market was largely driven by surges in the share prices of companies that are expected to be beneficiaries of the Government's aggressive reforms.

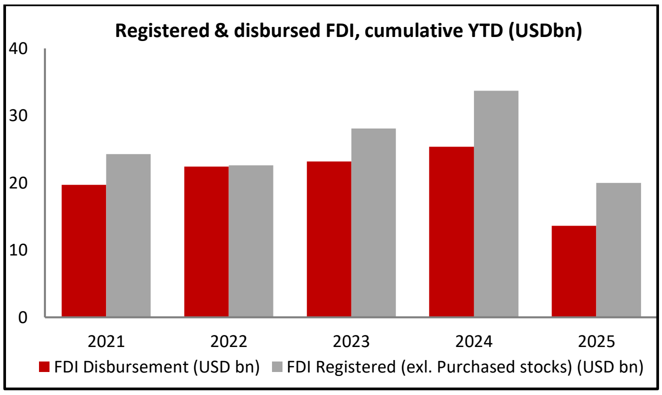
We published this report which discussed these reforms in more detail, including the massive consolidation of Vietnam's local government structure that came into effect on July 1 which reduced the number of provinces in the country from 63 to 34. The provincial mergers and other measures will help support the country's long-term economic growth in several ways, including expediting the approval of new real estate and infrastructure projects. This helps explain a 70% YoY spike in the Government's infrastructure spending in 7M25 (to USD 15 billion, according to the Ministry of Finance).

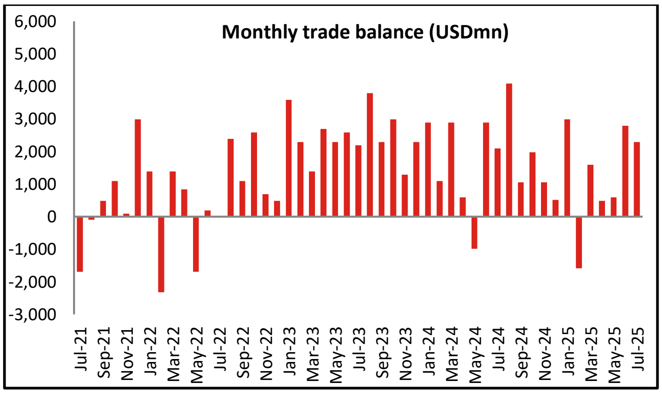
Next, CPI inflation in Vietnam eased from 3.6% YoY in June to 3.2% YoY in July, thanks to falling global oil prices, which drove a 4% month-on-month drop in retail petrol prices during the month. Finally, the USD-VND exchange rate depreciated by 0.3% MoM and by 2.8% YTD as of end-July. The Dong came under some depreciation pressure at the end of June because interbank interest rates (which can be very volatile in Vietnam) fell to unsustainably low levels.

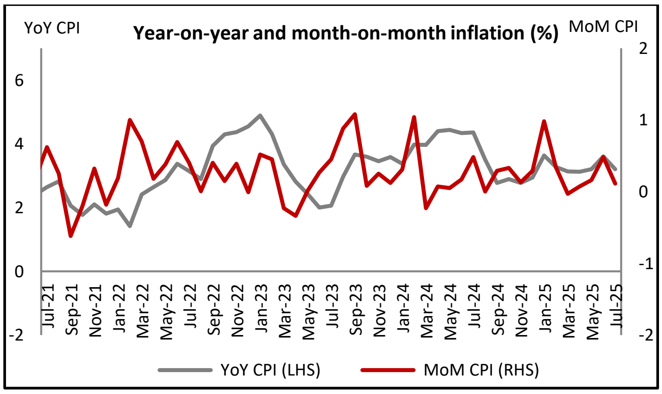
The State Bank of Vietnam (SBV) responded to those depreciation pressures by issuing T-Bills to commercial banks (i.e., tightening monetary policy) when the USD-VND depreciation approached 3% YTD; it continued its modest monetary tightening measures until mid-July. The key takeaway for investors is that the SBV has now essentially signaled that it would act to defend the Dong, were it to depreciate past the 3% YTD level again.

Macroeconomic Charts









Macroeconomic Indicators

	2024	Jul-25	YTD	YOY[1]
GDP growth (%)	7.1	8.0	7.5	
Inflation (%)[2]	3.6	3.2	3.3	
FDI commitments (USD bn)	33.7	1.8	20.0	22.1
FDI disbursements (USD bn)	25.4	1.9	13.6	8.4
Imports (USD bn)	380.8	40.0	252.3	17.9
Exports (USD bn)	405.5	42.3	262.5	14.8
Trade surplus/(deficit) (USD bn)	24.8	2.3	10.2	
Exchange rate (USD/VND)[3]	25,485	26,200	26,200	

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