VinaCapital

LOOKING AHEAD AT 2026

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Executive Summary

Vietnam's GDP grew by 8% in 2025 and the VN-Index surged 37% (in USD terms). The Government expects GDP growth to accelerate to 10% in 2026, and we also expect very strong growth this year, driven by:

- **Soaring infrastructure spending.** Up around 40% in 2025, infrastructure spending looks set to grow by another 20-30% in 2026.
- **Resilient exports.** Vietnam's "*New Export Orders*" index hit its highest level in over a year in late-2025, supported by AI-driven demand and the continued strength of US consumers.
- **Modest consumption recovery.** Households have made meaningful progress rebuilding their savings post-pandemic and are buoyed by increases in the real estate and stock markets.

Promoting the Private Sector. Vietnam's Doi Moi 2.0 structural reforms are promoting the private sector and should ultimately add 2%pts to the country's GDP growth. These reforms are translating into a range of investment opportunities for firms like VinaCapital, including data centers, transport-oriented development (TOD), power generation, and initiatives related to the establishment of an International Financial Center (IFC). We expect a combination of private sector initiatives, generational change, and AI-led developments to lead to a pickup in activity for VinaCapital's private equity team over the next few years following a fairly quiet 2025.

Reform Agenda Rocket Fuel for 2026-27. While the Government's reform agenda will boost *long-term* GDP growth, in 2025 policy makers took steps to *immediately* unfreeze the real estate market by addressing the approvals issues that are the primary bottleneck for an estimated 80% of the country's stalled projects. Several moribund building projects sprung back to life in 2025 as the issues impeding specific projects were addressed on a case-by-case basis; recently enacted legislation will address the issue nationwide and are expected to unleash a surge of real estate supply into the market, opening investment opportunities for VinaCapital's real estate team. Furthermore, in advance of Vietnam's Communist Party Congress (CPC), international media reported that it appears to be clear that the economic reform agenda will continue its momentum going forward and we also believe that the Government's pro-growth policies will remain firmly in place.

Stock Market Opportunities. The VN-Index (VNI) is trading at 13x forward P/E versus 18% expected earnings growth, or a 0.7x PEG ratio. We believe positive factors such as the anticipated FTSE upgrade this year will present opportunities in the public markets, particularly as more private companies come to market in IPOs. We also believe that investing in Vietnam is best served by "bottom-up" stock picking skills that require a deep understanding of individual companies as investors will face a "Mosaic of Idiosyncrasies" in 2026.

Closet Indexing Dilemma. In 2025, the VN-Index was driven by a handful of stocks, without which the VNI would have been up by just 9%. Vingroup (VIC) was up nearly 711% on the back of a very low free float and trading volumes. The surge in VIC's share price lifted its weighting in the VNI to 16% and the weighting of VIC group companies to nearly a quarter of the index, giving local fund managers a "closet indexing" dilemma comparable to American fund managers compelled to own "Mag 7" stocks to prevent outflows from their funds. We mentioned above that the VNI is trading at 13x P/E, but its valuation excluding VIC-related stocks is closer to 11x, and the stock prices of many good companies underperformed the VNI last year. VinaCapital's portfolio managers are fundamental investors with solid long-term performance records and are well positioned to take advantage of those bottom-up opportunities.

Risks. Tight liquidity in Vietnam's banking system is the biggest risk to the positive scenario for Vietnam's economy and stock market. Credit growth outpaced deposit growth by 4%pts in 2025 (19% vs 15%), leaving the country's commercial banks with an estimated USD 40b deposit shortfall, according to data from the State Bank of Vietnam. This mismatch helped drive 12-month bank deposit rates up by about 100 basis points (bps) in 2025 and recently prompted Government officials to call for more muted credit growth in 2026. We expect another 50-100 bps increase in 2026, to circa 7%, but we do not expect deposit rates to climb significantly above the 7-8% level at which investors tend to take their money out of the stock market. Critically, Vietnam's policymakers have powerful tools to address the issue, including central bank balance sheet expansion and depositing some of the Government's own cash reserves into the banks.

Other risks include a drop in exports to the US (which we think is unlikely) or a muted consumption recovery in Vietnam, which the Government also has powerful tools to address. Please refer to page 10 for a full discussion of risks.

THE ECONOMY: RE-BALANCING IN 2026

The Economy: Re-Balancing in 2026

2025 GDP was boosted by exports to the US and tourists from China.

Vietnam's 2025 GDP growth was significantly boosted by an 80% jump in exports of laptops and other high-tech items to the US and by a 42% increase in both Chinese and Indian tourist arrivals, which masked mediocre domestic consumer spending growth. This year, we expect a normalization of both consumption and export growth. These two dynamics will largely offset each other, while the lagged impact of an infrastructure spending surge in 2025[1] will support Vietnam's GDP growth in 2026.

	2025	2026F
GDP	8.0%	8.0%
Real Retail Sales	6.7%	8.0%
Export Growth	17.0%	8.0%
Average Inflation	3.3%	3.5%
USD-VND Depreciation	3.2%	~5%

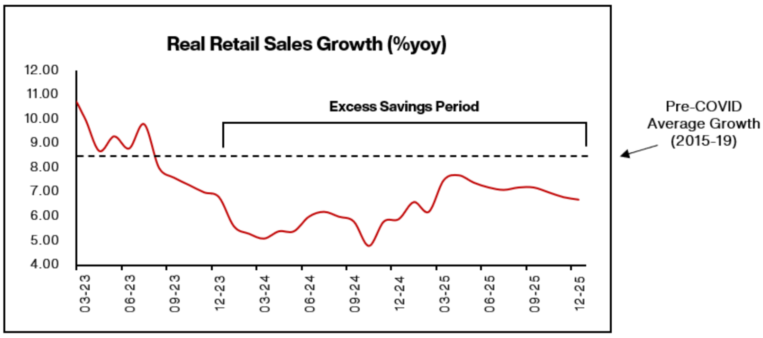
Source: Vietnam Statistics Office, VinaCapital

The three key dynamics that we expect to drive 2026 GDP growth are discussed below: a modest consumption recovery, the infrastructure-real estate growth nexus, and resilient exports to the US. We also acknowledge that 10% GDP growth represents an upside scenario, with the Government having a range of tools at its disposal that could support this outcome, particularly if additional stimulus measures are implemented.

Consumption Recovery

Muted domestic consumption, post-COVID.

Spending by domestic consumers has been weak for the last two years because Vietnamese households depleted their savings during COVID and have been saving at an extraordinarily high rate since then. Estimates vary as to how much higher Vietnam's household savings rate currently is, but most analysts who follow this issue agree that this excess savings dynamic helps explain the current weak pace of Vietnamese retail sales growth.



Source: Vietnam Statistics Office

Households are steadily rebuilding their savings.

We expect consumption to return to more normal levels of growth (although not to boom) by mid-2026, at which point the savings rate will have been elevated for nearly three years, giving households ample time to rebuild a considerable portion of their pre-COVID savings. Furthermore, household incomes in Vietnam have been growing at a circa 6-7% pace over the last two years and the stock market and real estate prices were both up more than 30% in 2025, all of which supports spending.

The caveat to this forecast is that unlike our expectation for resilient exports for 2026 – which is built on solid leading indicators – our consumption recovery forecast is built on more subjective econometric analysis. That said, the Government has a very ambitious GDP growth target for 2026 that can only be met with higher consumption growth. To date, the Government has taken some modest steps to support consumption, but it could easily do much more if needed.

[1] Construction activity in Vietnam was up less than 10% in 2025 despite a surge in infrastructure spending due to the latency between the time projects are approved and when construction activity commences.

Further to this last point, the Government recently extended and expanded a VAT cut, enacted a modest reduction in personal taxes, and partly eased new taxes on household businesses that are currently weighing on consumer sentiment. These measures will help support consumption to some degree but are likely to have less than a 0.5 percentage point direct impact on GDP growth. The key point here is that the Government has laid the groundwork to directly stimulate consumption and can do much more, if necessary, to boost growth.

The Infrastructure-Real Estate Growth Nexus

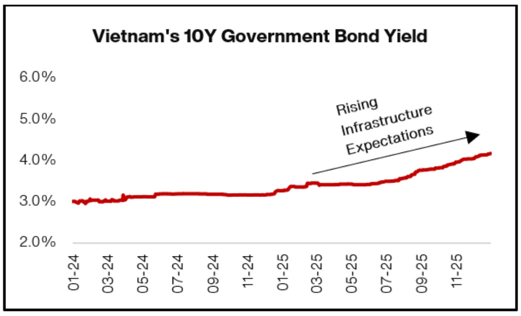
The Government's ambitious reform agenda is aimed at boosting long-term GDP growth, but there is also pressure to deliver strong short-term GDP growth. Achieving both is difficult because of the dynamic of "short-term pain to achieve long-term gain." For that reason, we expect the Government to rely heavily on the three major levers it can realistically use to boost GDP growth in 2026:

The Government has three levers to boost GDP growth in 2026.

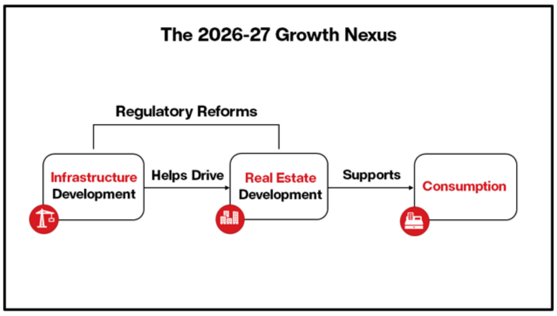
- ***Consumption***, which accounts for over 60% of Vietnam's GDP
- ***Infrastructure development***, which the Government aims to raise from around 6% of GDP to 10%/GDP
- ***Real estate development***, which contributes roughly 15% of GDP when factoring in indirect contributions[2], including increased household spending on household furnishings

Faster infrastructure spending growth going forward.

We see a nexus connecting infrastructure, feeding into real estate, and ultimately boosting consumption. Infrastructure spending has already increased significantly, up around 40% in 2025 and we expect another 20-30% increase in 2026. The consensus expects the trajectory of Vietnam's infrastructure spending growth to accelerate from circa 10% annually over the last decade to 20–30% per year going forward, and that expectation helped push 10Y Vietnam Government Bond (VGB) yields up by circa 100 basis points in 2025 to around 4%.



Source: Bloomberg



Source: VinaCapital

The Government has ample financial resources to fund infrastructure investment.

This infrastructure push can boost GDP in the short run, much like how China supported its economy with infrastructure investment after the global financial crisis. Critically, Vietnam has ample fiscal room to boost infrastructure spending, with Government debt well below 40% of GDP. In the past, bureaucratic hurdles such as land clearance delays and lengthy approval processes were the main impediments to faster infrastructure spending; those blocks are now melting away with the nascent "whatever it takes" attitude of civil servants.

Vietnam's Credit Rating

Vietnam's Government has sufficient financial resources in its own currency to fund expenses like land compensation and locally produced construction materials, but projects involving imported technologies—like high-speed rail or power generation—will require foreign currency.

Consequently, the necessity of securing an investment-grade credit rating will likely become a key focus this year, which we will address that issue in a forthcoming report. In short, while the Government aims for an investment-grade rating by 2030, we believe it can be achieved sooner since Vietnam already meets most quantitative criteria and only needs to address a limited set of qualitative issues.

[2] The direct contribution of real estate to Vietnam's GDP is around 9%, according to the Ministry of Construction and others.

Reforms to boost real estate supply.

Similarly, Government reforms look set to pave the way for a surge in real estate supply. Visitors to Vietnam will often comment on the many stalled real estate projects that dot the country's urban and suburban landscapes, but these empty lots and partially constructed buildings are not due to weak demand but are instead attributable to zoning and regulatory issues. Imminent regulatory changes related to land clearance and compensation for rezoning land for residential use could unlock as many as 80% of previously stalled projects, effectively making them "shovel ready" projects that could immediately boost GDP growth.

In short, the Government is essentially empowering a handful of developers and conglomerates to address land clearance and zoning issues by negotiating directly with them on land compensation costs. Those "primary developers" are expected to then parcel out the actual development activity to the developers and construction companies in the next layer of Vietnam's real estate development value chain. A similar mechanism is being put in place in the energy sector to boost the country's electricity generation capacity.

Transit Oriented Development (TOD) boosts real estate.

Finally, infrastructure investment in Vietnam drives real estate development and policy makers are increasingly promoting the well-known "Transit-Oriented Development (TOD)" strategy that Japan used to develop its suburbs in the 1960s-70s. We mentioned rising interest rates elsewhere in this report – which would ordinarily prompt some concern about the real estate market – but demand in Vietnam is increasingly driven by infrastructure connectivity rather than financing conditions alone.

Constrained Supply Pushed Real Estate Prices Higher

Real estate prices in Vietnam were up more than 30% in 2025 and up more than 50% since 2023, driven by a dearth of supply, which is attributable to the zoning and approvals issues mentioned above (the supply of new housing units has been less than half of demand for years). In a typical real estate boom, prices and supply rise in tandem, generating a "wealth effect" that fuels euphoric consumer spending. In Vietnam's current market dynamics, however, prices have already risen sharply following an extended period of supply scarcity, so we anticipate a surge in real estate ***supply*** rather than in prices over 2026–27.

Further to that point, we believe primary real estate prices may actually soften slightly this year after overshooting to the upside last year[3]. Our expectation for a price dip in 2026 is based on an increase in supply as new units come onto the market as well as a roughly 1%pt increase in interest rates last year. Mortgage rates increased to circa 11% on average by the end of last year, a level which is sufficiently high to discourage speculators, although they remain manageable for end-users purchasing homes to live in (many speculative buyers use a "back of the envelope" metric of a 1%/month interest rate - or 12-13% annual rate - above which they hesitate to purchase properties to "flip").

Vietnam in 2026 is not China in 2020

Vietnam's real estate market differs meaningfully from China's. Vacancy rates in Vietnam remain below 5%, compared with more than 25% in China, underscoring that Vietnam's recent price increases reflect supply shortages rather than the speculative overbuilding that characterized China's real estate bubble.

The modest uptick in interest rates has also contributed to a modest inventory overhang at some developers. In the middle of 2025, each new sales launch sold out almost immediately, often to speculators hoping to flip properties in a rapidly appreciating market. By the end of last year, however, with mortgage rates at 11%, speculative demand cooled and higher interest rates led to more discerning purchasing behavior by end-users, so sales absorption rates slowed.

Developers with overpriced units (e.g., Over USD 5,000/SQM) or with lower-quality projects, and/or with units for sale without clear ownership provenance began facing outright frozen purchase conditions and rising inventory, prompting some dumping of unsold new unit inventory on to the market late last year, especially for projects in second-tier cities. VinaCapital's real estate team estimates that roughly 30% of recently launched units remain unsold, an inventory overhang that is not excessive but should be sufficient to bring prices down to levels end-users are willing to pay (i.e., what economists would call "market-clearing prices").

[3] Price cutting by developers is likely to come in the form of better payment terms for buyers, together with an outright reduction in prices.

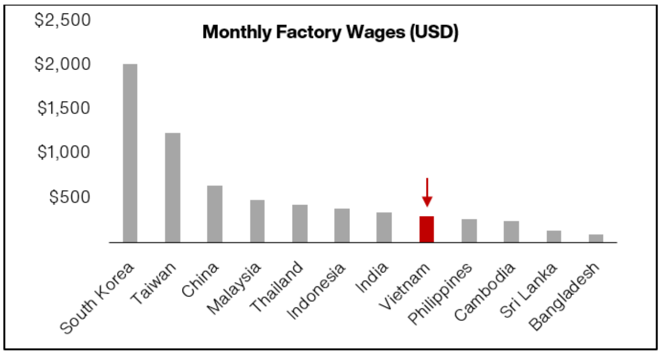
Finally, in recent days, the Government has issued guidance for more muted credit growth to the banks, particularly for real estate lending. We do not expect this restrictive stance to persist in the second half of the year, given what we mentioned above – that real estate development is one of the three levers at the Government's disposal to boost GDP growth this year (and given the link between the real estate "wealth effect" and consumer spending). Assuming stable macro conditions in the first half of the year, we anticipate banks will resume aggressive lending to developers and extending mortgages by year-end, enabling the real estate market to pick up again, albeit without another surge in prices.

High-tech exports to the US were up 80% in 2025, driven by AI-related demand.

Resilient Exports in 2026

Vietnam's exports to the US rose 28% in 2025, driving a 4%/GDP trade surplus. This was the tenth consecutive year that Vietnam achieved a trade surplus, and the third year in-a-row that the trade surplus exceeded USD 20b. The surplus with the US alone was 26% of Vietnam's GDP last year. The US buys nearly one-third of Vietnam's total exports, and we had expected export growth to the US to fall after Trump's 20% "reciprocal tariffs" were imposed in August. But exports remained resilient throughout 2025, driven by an 80% surge in exports of laptop computers and other high-tech products to the US thanks to AI-driven demand.[4]

In addition, the effective US tariff rate on Vietnam's exports was reduced by exemptions and carve-outs on various products including electronics, resulting in tariffs that are comparable to or below the tariff levels imposed on regional competitor countries. As long as the differential between tariffs on Vietnam's exports and those of its regional competitors does not significantly exceed 10%pts, exports to the US should remain competitive owing to Vietnam's lower labor costs and other advantages. Consequently, the country has not suffered any disruption in its FDI inflows, which were up 9% in 2025 to 5%/GDP.



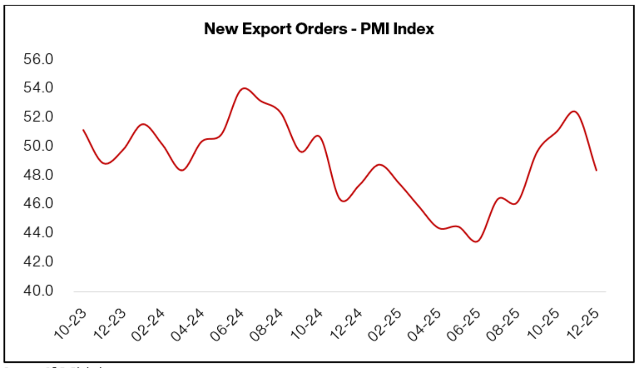
Source: 2024 JETRO Survey

The US "K-Shaped" economy and stimulus measures support Vietnam's exports.

Demand from the US should remain resilient in 2026, thanks in part to strong consumption by upper-middle class consumers (especially "Baby Boomers"), which many economists call the "K-Shaped Economy." Furthermore, powerful monetary and fiscal stimulus measures are poised to prime the US economy in 2026 in the lead-up to the mid-term elections; the US Government will run another enormous 6%/GDP budget deficit and the Fed is essentially re-starting quantitative easing unexpectedly quickly after having finished quantitative tightening, so we see no realistic risk of a US recession that would derail Vietnam's exports to the US this year.

Finally, the "New Exports Orders" sub-index of Vietnam's Purchasing Manager Index (PMI) hit a 15-month high in November after having bottomed out in June (after the Trump's "liberation day" tariff announcement). Furthermore, companies like Apple continue setting up new factories in Vietnam, and strong imports of production materials by FDI companies all of which are positive leading indicators for Vietnam's export resilience in 2026 (Vietnam's import growth outpaced export growth by 19% versus 17% in 2025).

[4] Vietnam's laptop computer exports are benefitting from consumers upgrading to new AI-capable or AI-enhanced models – although smartphone exports were actually flat in 2025 due to the absence of new phone models with compelling features.



Source: S&P Global

One caveat to this otherwise positive picture is that the New Export Orders sub-index of the S&P Global PMI for Vietnam dipped in December (as can be seen in the chart above), but this was driven by idiosyncratic issues that have already abated. Specifically, severe floods in November and December temporarily dampened factory output in Vietnam and led to some cancellations of orders by foreign customers in December, according to S&P Global. We expect the January figures to rebound now that this weather-related phenomenon has passed[5].

Transshipment Tariff Risk

Trump administration deliberately vague about "transshipments."

We are not overly concerned about the much-discussed possibility that the Trump administration will impose 40% transshipment tariffs on Vietnam's exports to the US. The administration has been deliberately vague about defining what "transshipments" are, which is discussed in a New York Times article titled "New Tariff on 'Transshipped' Goods Mystifies Importers." We believe this ambiguity is intentional as it appears that the administration is giving itself some strategic latitude on this topic and that its posturing is probably intended to prevent the most egregious cases of transshipment. Critically, we think it is unlikely more than a de minimis proportion of Vietnam's exports to the US would ever actually incur transshipment tariffs.

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THE STOCK MARKET: BOTTOM-UP

The Stock Market: Bottom-Up

The top-down arguments to buy the VN-Index (VNI) are straightforward. But investing in Vietnam's stock market requires astute, bottom-up stock selection and 2026 looks likely to be another year in which fundamental investors will need to navigate a "Mosaic of Idiosyncrasies," some of which are discussed below. Before delving into these, the compelling "beta-based" arguments to buy the market include:

There are compelling "top-down" reasons to buy the VN-Index (VNI).

- The benchmark VN-Index (VNI) is trading at a 13x FY26 P/E versus 18% expected earnings growth, or at a 0.7x PEG ratio.
- The earnings of most sectors in the stock market are expected to grow by around 10-20% in 2026 (with a few outperformers closer to 30% growth).
- Government reforms and other measures are set to unleash real estate development activity that will benefit property developers and banks, which account for over half of the VN-Index.

And clear catalysts for further increases in the VNI.

Further to the last point, international media have reported that Vietnam's Communist Party Congress should go smoothly, and the ambitious reform agenda launched in 2025 will continue this year. These reports have already acted as a catalyst for the stock market[6]. Other potential positive catalysts for the market include a growing IPO pipeline and a resumption of foreign inflows into the market.

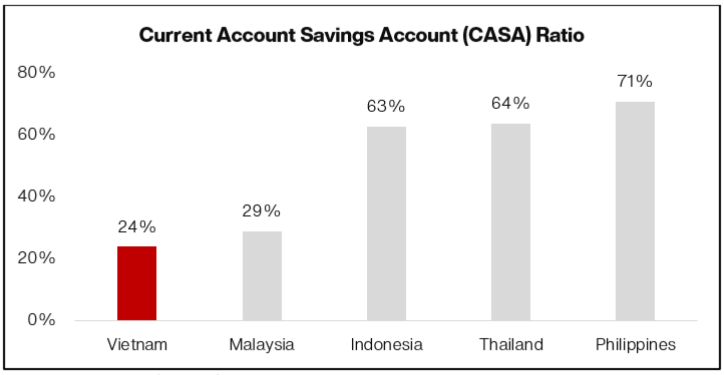
Foreign investors sold USD 9b worth of Vietnamese stocks over the last two years[7] but will likely deploy some money back into the market given the imminent FTSE upgrade to EM status. Domestic purchases more than offset the selling by foreign investors, demonstrating strong local interest in the market, which in-turn is supporting an ambitious pipeline of IPO deals, including the expected IPO of Vietnam's leading electronics chain, Dien May Xanh, in 2026. Additionally, up to 20 other listings over the next three years could add a combined market cap of circa USD 20b to Vietnam's stock market.

But stock selection is still the key to investment success in Vietnam.

Notwithstanding all of the "top-down" arguments to buy the VN-Index, stock-level dispersion is likely to be the defining feature of Vietnam's equity market in 2026. For example, we mentioned that the VNI's forward P/E ratio is currently 13x, but its valuation is closer to 11x when excluding the Vingroup family stocks. Below, we briefly discuss what we see as the most important idiosyncratic issues investors in Vietnam's stock market need to navigate this year.

Rising Rates and Banks (31% VNI weight)

Bank stocks, which account for 31% weighting of the VNI, are trading at around a 1.4x price-to-book valuation versus 17% return on equity, and we expect earnings growth in the high teens in 2026. Furthermore, interest rates in Vietnam increased by about 100 bps in 2025, and we expect another 50-100 bps increase in 2026 (for 12-month deposit rates). Rising rates are usually positive for banks' net interest margins and earnings, so all of the points above should make a sector-wide overweighting of bank shares compelling, albeit with the usual provisos regarding the asset quality of individual banks and other factors.



Source: VinaCapital compilation

[6] Vietnam's stock market rises on signs of smooth power transition, Reuters, December 24, 2025.

[7] Foreign selling was driven by profit taking, concerns about Trump's tariffs on Vietnam, and concerns about VN Dong depreciation, leaving the foreign ownership proportion at just ~15%, down from ~20%, pre-COVID.

Bank NIMs are under pressure.

However, Vietnamese banks' CASA ratios are quite low at circa 20-25% (depending on how the figures are calculated), which limits the Net Interest Margin (NIM) expansion that typically accompanies rising rates (the sector-wide earnings growth we expect is driven by an expectation for circa 18% credit growth in 2026). State-owned commercial banks account for about half of lending in Vietnam and they will likely limit rate increases on loans in order to help support GDP growth.

Furthermore, certain private sector banks that are closely tied to real estate groups may sacrifice some net interest margin to support their affiliated developers. In short, some banks with low funding costs are well-positioned to benefit from rising rates, but avoiding banks with very high loan-to-deposit ratios and focusing on asset quality will be key (ie. astute, bottom-up stock selection is key to successfully investing in Vietnamese banks).

Real Estate and Infrastructure (26% and 3% VNI weight)

Government reforms and infrastructure spending to benefit real estate developers.

Real estate presales in Vietnam doubled in 2025, which should boost developers' earnings in 2026. Furthermore, new real estate regulations should unleash a wave of development activity, and infrastructure investment will drive demand for new housing units, both of which should support developers' revenues and earnings. That said, recently enacted new real estate regulations will help certain developers more than others depending on the legal status of their existing landbanks. Also, the location of landbanks is key to benefitting from infrastructure investment. For example, developers with landbanks in the south will benefit from the fact that there has been less development there thus far.

As mentioned above, recent interest rate increases have cooled speculative real estate buying and made end users more discerning. In particular, projects that are overpriced or have subpar construction quality have seen sales freeze. While we do <u>not</u> expect a surge in prices or a frenzied market this year, we <u>do</u> expect steady absorption of units produced by developers who offer housing that is suitable for owner occupation. This nuance once again highlights the importance of a bottom-up approach to differentiating between various listed real estate developers.

Finally, the surge in the Government's infrastructure spending also presents investment opportunities for fund managers, although many beneficiaries of this surging spending are unlisted. That said, savvy stock pickers can uncover some well-situated companies that can benefit from both the overall increased level of Government infrastructure investment and from favorable idiosyncratic factors. Oil service companies, for example, can benefit from Vietnam's energy infrastructure build-out. Leading Vietnamese steel maker HPG also benefits from infrastructure development and is in the process of doubling its production capacity - which has been a consistent catalyst for the stock in the past.

Margin Lending

Margin lending helped drive the market higher in 2025.

Margin lending surged to over USD 10b in 2025 (or to more than 10x daily trading volume), which helped fuel the jump in the VN-Index last year. In recent weeks, the liquidity crunch mentioned above resulted in a pull back to some of that margin, especially via reduced lending by certain bank-backed brokers; there has been talk of a "crowding out" of credit access to brokers, SME firms, and others because of the disproportionate volume of lending to large conglomerates.

That tightness is alleviating somewhat, now that the calendar year-end has passed since banks are obligated to meet certain statutory liquidity ratios at year-end. Consequently, we expect the resumption of a certain amount of margin lending to push the market higher in the lead-up to the Lunar New Year holiday, bearing in mind that bank lending to brokers is attractive from a NIM perspective. That said, the promoters backing certain large, listed companies that borrowed against their shares will need to roll over those maturing loans at some point in 2026.

Some Other Idiosyncratic Opportunities in 2026

Consumer stocks underperformed the market in 2025 but should recover in 2026.

- <u>Consumer companies'</u> stock prices underperformed in 2025. The modest consumption recovery we expect this year (discussed above) should help push the prices of some of those stocks higher in a catch-up rally. We are especially enthusiastic about some companies that sacrificed some of their earnings in 2025 in order to "plant seeds" for business expansion in 2026 (for example by spending money to build out their direct distribution channels). Also, some stocks in the sector are trading at attractive valuations, with PEG ratios under 1x.

Numerous idiosyncratic investment opportunities in 2026.

- Technology stocks sold off in 2025 because the AI revolution is having a mixed impact on Vietnam's tech sector. On the one hand, much of the outsourcing work these companies do is ripe for disruption by coding agent tools like Claude Code CLI, but those same tools could boost the productivity of Vietnam's excellent software engineers. Furthermore, AI-driven demand could create opportunities for new digital transformation outsourcing work for local IT giants.

- Rubber plantations converting their land into industrial parks was a niche investment theme a few years ago that could see renewed interest this year, especially as it becomes increasingly clear that Trump's tariffs are not a threat to Vietnam.

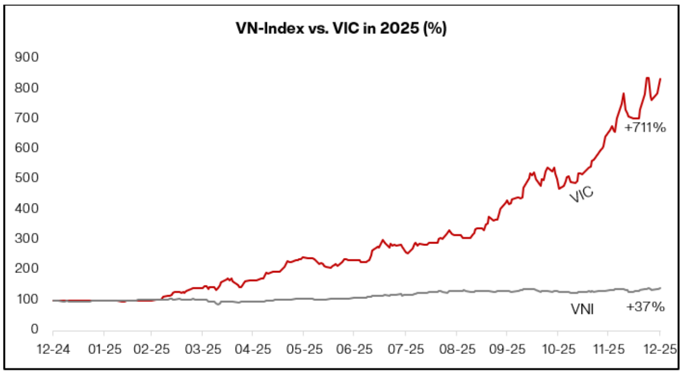
- Defensive stocks, including companies that generate cash, companies with high dividend yields, certain utilities and certain state-owned enterprises (SOEs) that are likely to get some form of Government-related bump to their revenues could all attract investor attention in 2026.

Further to that last point, the Government recently announced a new initiative, Resolution 79, that sets ambitious targets for the development of SOEs in much the same way Resolution 68 has for Vietnam's private sector (which we discussed in this report). Resolution 68 had a major impact on the share prices of several listed companies last year, and Resolution 79 could have an outsized impact on certain listed SOEs this year.

Understanding the VN-Index Surge in 2025

The VN-Index surge in 2025 was driven by Vingroup's outsized gains.

The stock price of Vietnam's largest conglomerate, Vingroup (VIC), surged 711% in 2025, pushing the company's market cap up to over USD 50b, equivalent to 16% of the VN-Index. The stock's daily trading volume is well below USD 50m, making it easy for its stock price to get squeezed higher on thin volume. VIC-family stocks (VIC, VHM, VRE, VPL) now account for nearly a quarter of the VN-Index, so those names benefit from passive inflows to Vietnam's stock market and from "closet indexing" purchases by fund managers.



Source: Bloomberg

In short, Vingroup is one of Vietnam's largest companies, with assets approaching 10% of GDP, so it is natural that Vingroup will be supported by the Government as part of the campaign to develop "national champions," and the company is likely to be the principal project developer of a significant share of major infrastructure projects in the coming years. Additionally, VIC (along with other select real estate developers and conglomerates) is set to sit atop a revamped real estate development industry. These chosen firms will negotiate directly with the Government on land clearance/zoning issues and then parcel out the actual project development to lower layers in Vietnam's real estate development value chain.

Vingroup is taking on significant debt to start infrastructure and energy generation businesses -- sectors in which it has little-to-no experience -- and it will need to quickly generate the cash flows required to service this debt; bear in mind that its foray into EV manufacturing has cost over USD 10b to-date.

RISKS: THE SBV'S BALANCING ACT

Risks: The SBV's Balancing Act

The biggest risks that could hurt Vietnam's economy and stock market in 2026 are:

1) A US recession
2) "Grey Swan" risks (e.g., geopolitical events, yen carry trade unwind, etc.)
3) A surge in VND interest rates

Regarding the first two points above, Vietnam is the most open economy in modern history (excluding city-states like Singapore, Hong Kong, etc.). Its imports plus exports are nearly 200% of GDP, with the US Vietnam's biggest export market, so what happens in the rest of the world, and in the US in particular, is very important to Vietnam.

Regarding "Grey Swan" risks, we are concerned about the yen carry trade unwind because Japanese investors hold about 100% worth of their GDP in assets abroad and will repatriate some of those in response to higher yen interest rates; Japanese rates were up circa 100 bps in 2025. We are less concerned about global geopolitical risks and see minimal risk of an escalation between China and the US beyond verbal sparring.

Vietnam's Central Bank is balancing "growth versus stability"

Regarding the third point above, the Vietnamese central bank is currently navigating a familiar balancing act that many emerging market central banks face: managing the trade-off between macroeconomic stability and growth. However, Vietnam's current challenge isn't the classic inflation-versus-growth dilemma, but policymakers are weighing the trade-off between the stability of the USD-VND exchange rate and economic growth, which is discussed below.

Finally, out of all the risks we outlined above, a recession in the US would do the most damage to Vietnam's GDP growth because Vietnam is the third-most economically intertwined country with the US after Canada and Mexico, and an increase in VND interest rates—particularly 12-month average bank deposit rates—to above 8% is the biggest risk to the country's stock market.

Domestic Risks

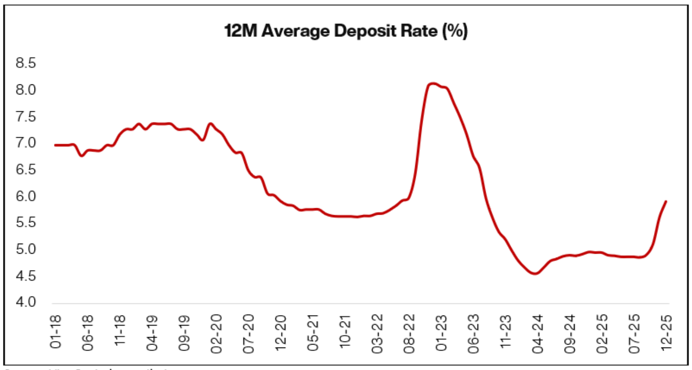
We are not concerned about domestic politics or inflation.

We are not worried about domestic political risks and believe that the pro-growth economic reforms launched in 2025 will continue following Vietnam's Communist Party Congress. We are also not concerned about inflation in Vietnam. China's weak economy ensures that food prices -- which account for nearly 40% of Vietnam's CPI basket -- are subdued. Food price inflation in Vietnam is still around 4% despite an upward blip after devastating floods in October and November, and the country's overall CPI inflation rate remains below 4%.

The VND: Interest and Exchange Rates

Deposit rates are rising as credit growth outpaces deposit growth.

Deposit rates increased by about 100 basis points in 2025 as can be seen in the chart below, and we expect 12-month rates to increase by another 50–100 basis points in 2026 to nearly 7%, driven by: 1) tight liquidity in Vietnam's banking system, and 2) VND depreciation pressures. Tight liquidity stems from the fact that policymakers pushed banks to lend, but deposit growth lagged far behind credit growth in 2025 (by nearly 4%pts).



Source: VinaCapital compilation

Regarding credit growth, Vietnam's "credit intensity" ratio is very high for an emerging market, which means the economy requires a disproportionately high volume of credit to grow (credit growth was 19% versus 8% GDP growth in 2025, or over 2x credit intensity ratio). This high credit intensity is linked to Vietnam's main Achilles' heel: low productivity growth. The IMF and others have repeatedly pointed out that Vietnam's Total Factor Productivity (TFP) growth is essentially 0%, and Government reforms aim to address this in the years ahead. Meanwhile, lagging deposit growth in 2025 was directly linked to surges in:

- Vietnam's stock market (up 37%)
- Gold prices (up over 70% in late-2025)
- Bitcoin prices (up 35% in late-2025)

All of which has resulted in savers putting money into those markets instead of in bank deposits.

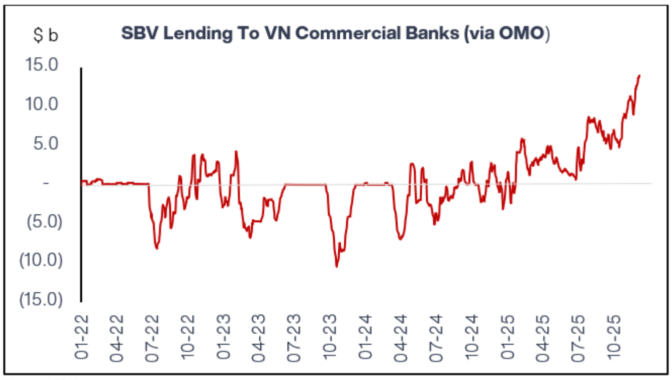
The resulting mismatch between Vietnam's credit growth (19%) and deposit growth (15%) lifted what some analysts call the "Simple Loan-to-Deposit Ratio (LDR)" or the "Pure LDR" by about five percentage points last year to 110% (Vietnamese policymakers use a different methodology to calculate banks' official LDRs).

The Balancing Act

The SBV aims to limit USD-VND depreciation to ~3% per year.

The State Bank of Vietnam (SBV) is reluctantly letting interest rates in Vietnam drift higher as it faces a delicate "growth versus stability" balancing act. Higher rates are required to prevent the USD-VND exchange rate from depreciating by much more than 3% (low FX reserves - currently below three months' worth of imports - and other factors explain why the official USD-VND exchange rate depreciated by a bit more than 3% in 2025) but lower rates boost GDP growth.

The SBV has been doing the bare minimum to meet the market's demand for VND in order to navigate the growth versus stability balancing act it faces. In late-2025, Vietnam's central bank trickled out liquidity to the country's commercial banks via the interbank market, as can be seen below and hiked the OMO rate (one of Vietnam's three key policy rates) by 50 basis points to 4.5%. It also used bespoke jawboning tools like "cancelable FX forwards" and "14-day swaps" to placate the market.



Source: SBV

In essence, Vietnam's central bank has been trying to solve the country's FX depreciation and tight liquidity problems with talk in lieu of further depleting its FX reserves (which would impede macro stability) and/or letting interest rates jump (which would impede growth). In the autumn of 2025, the SBV gradually poured liquidity into the interbank market because it was reluctant to let rates rise, prioritizing growth over stability. Recently, however, it guided interest rates higher and credit growth lower in order to support the VN Dong, pivoting back to prioritizing stability over growth to some extent.

Deposit rates are headed higher in 2026.

We expect central bank balance sheet expansion and regulatory forbearance in 2026.

Powerful policy tools to deal with tight liquidity.

What to Expect in 2026

The 50–100 basis point increase in VND deposit rates we expect in 2026 should accelerate deposit growth in Vietnam, but not by enough to lower Vietnamese banks' LDRs (we do not expect deposit growth to outpace credit growth this year). The question we have been repeatedly asked is where the money will come from to fund the aggressive 2026 credit growth that the Government has been calling for until recently[8].

We expect the SBV to use some combination of balance sheet expansion and regulatory forbearance (i.e., rule changes) to help support banks' liquidity. For example, the SBV could use regulatory tweaks to expand the range of instruments commercial banks are allowed to repo/borrow against at its discount window to include corporate bonds and/or the bonds of commercial banks.

We also expect the SBV to embark on an "informal QE" similar to what Indonesia's central bank did at times in recent years, which would be congruent with policymakers' current "do whatever it takes" posture to boost the country's GDP growth. The biggest risk in all this is VND depreciation, so we expect policymakers to act judiciously and to do the bare minimum needed to balance supplying liquidity to the market with mitigating depreciation pressures on the Dong.

Finally, the SBV benefitted from two exogenous developments in 2025. First, the Fed recently announced that it will restart quantitative easing (albeit under a different moniker), which will ease some depreciation pressure on the USD-VND exchange rate. Second, concerns that trade tensions between the US and China would depress the value of China's currency (and thereby pressure the VND) have not materialized; the Chinese Yuan currency actually *appreciated* 4% in 2025.

Tools to Solve Tight Liquidity

The Government has powerful tools to solve the liquidity crunch in the banking system, including:

- Shifting USD 30b of Vietnam State Treasury (VST) deposits currently held at the SBV into the commercial banks
- Expanding the SBV's balance sheet
- Accepting corporate bonds as repo collateral at the SBV's discount window and implementing other regulatory forbearance measures
- Issuing Central Bank Digital Currencies (CBDC) linked to USD and gold in order to help support Vietnam's FX reserves
- Rolling back new tax regulations that drained SME deposits from commercial banks

Most of these tools are administrative or balance-sheet in nature, meaning they can be deployed quickly. In particular, the Government has substantial flexibility to reallocate public sector funds already in its coffers, to expand the SBV's balance sheet, and/or to adjust regulatory parameters to ease funding constraints.

Note that Vietnam's Government raised enormous amounts of money earmarked for infrastructure investment that were never spent. The Vietnam State Treasury (VST) is widely believed to have deposited around USD 15b of these excess funds into the commercial banks, with another USD 30-40b being held at the SBV (this is similar to the so-called "TGA" account at the US Fed).

Also, Vietnam's balance sheet is around 25%/GDP (our estimate) versus circa 35% for Vietnam's regional EM peers, giving the SBV room to expand its balance sheet to meet commercial banks' liquidity needs. Finally, the Government has been widening the tax net recently to include more "cottage industry" businesses in Vietnam. However, those formalization measures have driven withdrawals by small business owners who are holding increasing volumes of cash outside the formal financial system.

[8] In late-2025, the consensus expected circa 20% credit growth in 2026, following 19% system-wide credit growth last year, but the SBV gave revised, restrictive credit growth guidance over the days preceding the publication of this report. Specifically, Vietnam's central bank told most of the country's commercial banks to restrict their credit growth to 15% this year but subsequently relaxed that restrictive guidance. We expect a further relaxation of that restrictive guidance in the months ahead because the aggressive GDP growth target remains in place and it is not possible for Vietnam to achieve very high GDP growth without high credit growth as discussed above. In short, we expect system-wide credit growth in the high-teens again this year.

Report Card on Our 2025 Predictions

The two key forecasts in our "Looking Ahead at 2025" report were that the "***Government is in the driver's seat***" to support and accelerate the country's GDP growth last year and that "***Vietnam's Trump risk is overstated.***" Our non-consensus prediction that there would be a surge in infrastructure spending and concrete measures to unfreeze the real estate market faced push-back, but Vietnam's infrastructure spending surged around 40% in 2025, a clear validation of that forecast, which is represented with the green icon below. We also predicted both VND depreciation and a strong VN-Index performance, noting that "it wouldn't take much of a catalyst for the VN-Index to keep climbing in 2025."

That said, our forecast that Trump would not target Vietnam and that tariffs would be capped at 10% initially seemed like a major misstep when the 46% "reciprocal" tariff on Vietnam was announced on April 2nd. Yet since that "Liberation Day" tariff announcement, the US administration has backtracked, with further de-escalation expected in 2026 according to Bank of America CEO Brian Moynihan[9]. Tariffs on Vietnam's exports to the US were initially lowered from 46% to 20%, but with exemptions for key export categories like electronics, the *effective* rate is trending down toward the 10% level we originally predicted, vindicating our original view; the resulting policy whipsaw is reflected in a yellow icon in the chart above.

Finally, our biggest miss was expecting Vietnam's exports to the US to slow from the "extraordinarily high" level of 23% in 2024 back down to single digit growth in 2025, owing in part to an expected economic "soft landing" slowdown in the US. Instead, Vietnam's exports to the US accelerated to nearly 30% growth last year.

[9] BofA's Moynihan Sees Trump's Tariffs Starting to De-Escalate, Bloomberg, December 28, 2025.

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