Michael Kokalari CFA, Chief Economist
Thai Thi Viet Trinh, Senior Economist

An Update on the US-Iran War's Impact on Vietnam

We estimate the damage that the month-long US-Israel-Iran war has already done to Vietnam's economy are a 2%pts increase in inflation and a –1.5%pts hit to GDP growth, unless the Government takes decisive actions to support the economy and limit petrol price increases—including bigger petrol price subsidies than it has done in the past (petrol subsidies in Vietnam never exceeded 0.5%/GDP vs ~3%/GDP in Indonesia).

We believe there is an 80% chance the war will wind down within 2–3 weeks.

Those economic impact estimates assume that the conflict will wind down within the next 2–3 weeks (with a resumption of ships passing through the Strait of Hormuz), and then it taking another 4–5 months for global energy markets to normalize[1]. We will publish a follow up report on the impact of the war on Vietnam's stock market and real estate market, in addition to the damage done to the economy.

The reasons we expect a (perhaps partial) cessation of hostilities soon include:

- The world is 3–4 weeks away from cascading global supply chain collapses that would cause non-linear economic and financial market meltdowns.
- The flow of LNG from the Gulf is nearing an abrupt end[2] as tankers en route from the Middle East reach their destinations. So is one-third of the world's helium supply (essential for microchip production) and nearly one-third of the world's fertilizer supply (essential for the approaching planting season).

Multiple reasons to expect a cessation of hostilities.

- The 10-year U.S. Treasury Yield is approaching 4.5%, a level at which Trump has consistently retreated from his threats toward Iran over the last month as well as the level at which he also backed off his "Liberation Day" tariffs. Last week, Trump threatened to attack Iran within 48 hours and then extended the deadline to five days (and then to 10 days) as 10-year yields and U.S. mortgage rates climbed higher.
- The U.S. only has about a one-month inventory of missiles left[3] according to the UK's Royal United Services Institute for Defence and Security Studies (RUSI); replenishing that inventory requires rare earths like gallium and germanium which are controlled by China.
- The results of an early-2000s war game recently resurfaced. The conclusion of this simulation—which was the biggest-ever exercise conducted by the United States armed forces—clearly established that a U.S. attempt to put troops on the ground in Iran would end in immediate failure[4].

In the worst case that the war continues for longer than the next 3-4 weeks at a comparable level of intensity (i.e., with only a trickle of ships passing through the strait), the resulting global economic outcome could be worse than COVID, so many investors are hopeful about the possibility of a "TACO" resolution to the war—short for "Trump Always Chickens Out." Case in point: a week ago, Trump announced he would strike Iran within 48 hours if the Strait of Hormuz was not opened. He then extended the deadline—first to five days and then ten days—which coincided with the U.S. 10-year Treasury yield approaching the 4.5% level.

The TACO Paradox

The "TACO Paradox" may help explain an observation in this week's *Economist Magazine*[5] that stock markets and oil markets do not reflect the potential severity of the conflict. The oil market's forward curve is currently experiencing a record level of "backwardation," where front-month oil prices trade higher than longer-dated prices, and the VIX index—known as the S&P 500's "fear gauge"—has barely breached the 30% level over the last month, which is typically a threshold for distress.

The 'TACO Paradox': markets expect Trump to retreat, but he only retreats after sell-offs.

What we and others believe is happening is that markets expect Trump to back off, and this expectation has prevented a deeper sell-off. However, the "TACO paradox" is that Trump has shown he only backs off after markets crash. Thus, the paradox: markets are not selling off more because they expect Trump to retreat, but Trump's previous pattern indicates he only retreats after a market sell-off.

[1] Even the Best-Case Scenario for Energy Markets Is Disastrous, The Economist, March 22, 2026
[2] LNG Tankers en Route Signal End of Gulf Gas Supply, Financial Times
[3] Over 11,000 Munitions in 16 Days, RUSI
[4] That Time a Marine General Led a Fictional Iran Against the US Military—and Won
[5] Markets Are Gripped by an Alarming Cognitive Dissonance, The Economist, March 24, 2026

Understanding the War's Impact on Vietnam's Energy Supply

Vietnam consumes over 500,000 barrels per day (bpd) of crude oil (similar to Philippines, Nigeria and South Africa), nearly 200,000 of which the country produces itself.[6] Vietnam has two oil refineries that supply 60–70% of the refined products it consumes. One of those refineries was financed by Kuwait and Japan, so it processes heavy oil that is primarily imported from Kuwait, despite the fact that Vietnam produces light oil. Vietnam also produces natural gas and was self-sufficient until recently, when it started importing small quantities of LNG.

Vietnam has a sufficient oil supply until mid-May.

Vietnam's oil vulnerabilities stem from the facts that it does not have the financial resources to maintain a large strategic petroleum reserve (SPR) and that its economy is very energy intensive. Vietnam's Government reportedly has about 10 days' worth of strategic petroleum reserves (or circa one-tenth of Thailand's SPR) and the energy intensity of Vietnam's economy is more than twice that of the Philippines and nearly 3x Indonesia's. We estimate that Vietnam's oil consumption only dropped by about 15% during the country's strict COVID lockdowns (during which GDP growth was essentially zero).

Given all of the above, Vietnam probably has enough oil and refined products to continue day-to-day life with minimal disruptions until mid-May, after which it will face increasingly severe impacts. So far, there been few long lines at petrol stations in Vietnam, unlike the disruptions seen in the Philippines (which declared a national emergency), Thailand (where the government reportedly asked civil servants to use the stairs instead of elevators), or Taiwan (which generates 40% of its electricity with LNG but only has ~11 days of LNG supply).

That said, Vietnamese airlines will reduce flights by around 20%, and the Government effectively cut retail petrol prices by nearly 20% last week by suspending various taxes and dipping into its small petrol price stabilization fund. Those actions left retail petrol prices up more than 30% YTD (prices were up circa 80% at one point) while diesel prices[7] are still up more than 100% YTD.

Vietnam's PM secured more than 10 days of Russian oil in last week's visit.

Note that we have used a mosaic of information to assess the risk Vietnam could face an acute oil emergency, including information from local refineries and petrol distributors. There is also speculation that Prime Minister Chinh secured more than 10 days' worth of emergency oil supply when he visited Russia last week. Vietnam also asked Japan, Korea, and Angola for assistance, and Bloomberg reported on Tuesday that "***China exported diesel and other fuels to energy-starved countries across Southeast Asia over the weekend,***" including Vietnam[8].

Finally, Vietnam has been consistently identified as one of the countries most impacted by the US-Israel-Iran war and the *Economist Magazine* assessed Vietnam as the world's tenth most vulnerable country to the war, ahead of Thailand, Philippines and Indonesia, although Standard Chartered, Reuters and others have suggested that the vulnerabilities of those regional peers are actually worse than in Vietnam.

Assessing the Impact on Vietnam

Our assessments of the damage that the war has already done to Vietnam's economy—based on the assumption that the most intense hostilities will wind down within the next 2–3 weeks—include:

1) A –1.5%pts hit to the country's GDP growth, ceteris paribus, and
2) Average inflation in Vietnam to rise from around 3.5% in 2025 to about 5–5.5% in 2026.

Brent assumption: ~USD 87 average for 2026 (up from USD 70 in 2025).

Those assumptions do not include the impact of Government measures to dampen the effects of the war on Vietnam, and we assume the average Brent oil price increases by about 25% this year, from USD 70 in 2025, to circa USD 87 in 2026. Our Brent oil estimate aligns with projections from well-known oil analysts, but there is not enough clarity to call this a consensus oil price forecast. Recall that when hostilities initially broke out, the consensus probability of the war reaching the current level of intensity was only around 20%, which illustrates how difficult it is to form estimates or reach consensus in these war conditions amidst the "fog of war."

Our estimate that Vietnam's GDP growth would suffer a –1.5%pts hit absent of Government stimulus measures is grounded in research from the IMF on the impact of oil price spikes on emerging market GDP growth[9]. We have also factored in research from the University of Hanover, Germany[10] on consumption responses to price shocks in Vietnam and Thailand; that research requires us to estimate Vietnam's CPI.

[6] Production of the Bach Ho oil field, which was exploited by the VietSov Petrol JV with Russia has been declining at about a 10% pace, although recent new discoveries will augment Vietnam's supply.

[7] The large divergence between the YTD increase in petrol and diesel prices stems from a few idiosyncratic factors. These two fuels typically have a spread that fluctuates over time, partially reflecting the fact that refining crude oil yields more petrol than diesel, which forces Vietnam to import disproportionate amounts of both—often from different countries (all of which helps explain the current large YTD differential).

[8] Chinese Cargoes Hint at Fuels Relief for Neighbors Despite Curbs, Bloomberg, March 30, 2026

[9] Navigating the Tides of Commodity Prices, IMF, 2024

[10] University of Hanover Working Paper

There is a well-known benchmark in Vietnam: a 10% increase in oil prices roughly translates into a 0.5%pts increase in headline CPI. But in addition to that immediate impact (which corresponds well with the weighting of energy in Vietnam's CPI basket), indirect effects further boost inflation with a time lag. Furthermore, certain other factors are currently crucial: fertilizer prices have surged (fertilizer accounts for about 20% of food production costs) and Vietnam's food price inflation was dampened by China's weak economy over the last few years, but China may now be hoarding some commodities.

Government fiscal stimulus required, including petrol price suppression.

We expect all of these factors to yield a net increase of about 2%pts in Vietnam's headline CPI rate, in the absence of major petrol price subsidies by the Government. Similarly, the –1.5%pts hit to GDP growth we mentioned earlier is ceteris paribus, so it excludes additional potential factors, but it is highly likely that government fiscal stimulus will be used to support GDP growth, including steps to suppress retail petrol prices, which is a form of fiscal stimulus.

Finally, the assumption of an USD 87 per barrel average Brent oil price in 2026 considers that the average so far has been USD 76 this year, and we assume that it will take 4–5 months for global oil supply to recover, given physical limitations in restarting shut-in wells[11] and repairing infrastructure. Additionally, we consider well-known oil analyst Jeff Currie's observation that the market will likely face an additional 3m bpd demand in the aftermath of the current shock. The conclusion of all of the above is that if prices remain above USD 100 for the next 4–5 months before falling to around USD 80 for the remainder of the year, the price will average USD 87 for the full year.

Other Issues

Surging VND Interest Rates

Interest rates in Vietnam faced significant upward pressure due to tight liquidity in the banking system last year, when credit growth outpaced deposit growth by approximately 5%pts. Surging oil prices are now putting additional upward pressure on rates, so 12-month interest rates have now surpassed the 8% threshold at many local banks, a level at which investors typically shift funds from the stock market into bank deposits. Furthermore, the surge in oil prices will flip Vietnam's Balance of Payments (BoP) into a deficit, putting depreciation pressure on the Vietnamese Dong and further constraining the State Bank of Vietnam's ability to respond to economic weakening through monetary policy easing.

In addition, several other issues are emerging. Fertilizer prices have surged, importing thermal coal is becoming more difficult, and the tourism industry is visibly impacted, with a noticeable decline in tourists, particularly from India. Finally, infrastructure spending surged last year, but building material prices are now soaring, if materials are even available (70% of Vietnam's bitumen is imported from the Middle East), further constraining the Government's ability to stimulate the economy.

Conclusions: Vietnam's Outlook and Policy Priorities

Vietnam's 10-day strategic petroleum reserve and highly energy-intensive economy leave little margin for error. The Government's early moves (suspending fuel taxes and drawing on the price stabilization fund) were directionally correct, but past petrol subsidies in Vietnam never exceeded 0.5% of GDP; the current situation may require something closer to Indonesia's ~3% of GDP.

If hostilities do not subside within 2–3 weeks, Vietnam has a window—until approximately mid-May—before fuel scarcity starts to become acute, so the key risk for the country is a prolonged conflict, especially if the Houthis blockade the Red Sea, which would push Brent well above USD 100 for the foreseeable future. In that scenario, the impact on Vietnam could be comparable to the severity of COVID.

[11] In addition to 20m bpd of disrupted oil via the Strait of Hormuz closure, another circa 10m bpd of supply has been "shut in".

Strait of Hormuz blockade disrupting ~17% of global oil supply (20m bpd).

Workarounds could reduce impacted volume from 20m to 10m bpd.

Houthis entered the conflict; Red Sea blockade could take Saudi pipeline offline.

Only one-third of Iran's missiles confirmed destroyed.

Appendix: Observations About the War

The Iranian blockade of the Strait of Hormuz has impacted approximately 17% of the global oil supply, or 20 million barrels out of a total world consumption of 104 million bpd pre-war; Hormuz traffic is down 97%, or from ~140 ships/day pre-war to around 10 per day now. Additionally, circa 10m bpd of production has now been "shut in" and cannot be immediately restarted. This is a much bigger disruption to the global oil market than the two 1970s geopolitical shocks that disrupted less than 10% of global supply, but prices surged by much more during those shocks (Brent futures prices are up 70% YTD vs. 4x in 1973).

Some say this relatively muted impact stems from the fact that the developed world economies are less energy dependent (an explanation that we do not agree with), and others believe this more muted oil price reaction reflects what some are calling the "TACO Paradox" (short for "Trump Always Chickens Out"), which we discussed above. One factor helping limit the surge in oil prices is that although 20m bpd flow through the Strait of Hormuz, various workarounds could reduce the amount of oil impacted by this crisis to about 10 million barrels per day.

These workarounds include Trump lifting sanctions on Russian oil and, bizarrely, on Iranian oil as well. Additionally, Saudi Arabia has a pipeline that spans the width of the country, capable of transporting about 5m bpd to be shipped via the Red Sea. Collectively, these measures could reduce the impacted volume from 20m to 10m bpd.

Latest Escalation

The point above about Saudi Arabia shipping oil via the Red Sea leads into a recap of the latest escalations in the conflict over the past weekend:

- The Houthis have now entered the conflict and have the capability to blockade the Red Sea, in which case the 5m bpd via Saudi Arabia's pipeline to the Red Sea mentioned earlier would also be offline. A simultaneous blockade of both the Red Sea and the Strait of Hormuz would be a devastating blow to the global economy.
- Over 3,000 U.S. Marines arrived in the area on Friday, with another 10,000 reportedly on the way. According to an article in the *Washington Post*[12], the U.S. is showing readiness and willingness to put boots on the ground for an extended period, potentially starting with Kharg Island.

We observe that Iran has been following a consistent "tit-for-tat" escalation strategy. It appears that for each target hit by the U.S. or Israel in Iran, Iran responds with a similar target. For example, in recent days, a steel facility in Iran was struck, and Iran retaliated by targeting an aluminum processing facilities in Bahrain and the UAE. Similarly, after a university was targeted in Iran, Iran has now warned that American universities in the region may also be subject to retaliatory targeting.

Some analysts have observed a pattern where Trump escalates his rhetoric after the stock market closes on Friday, but fortuitously, there was no major kinetic escalation in the war this past weekend, although some missile strikes were exchanged. The Strait of Hormuz is still closed, but Iran is gradually increasing the number of ships it allows to pass through the strait, reportedly charging a USD 2 million per ship fee to transit.

Finally, there is also growing discussion in U.S. media about what a formidable opponent Iran would be if the U.S. attempted an occupation. Reuters published an article[13] noting that only one-third of Iran's missiles have been confirmed destroyed, and there is increasing discussion about how difficult it would be for the U.S. to occupy Iran, which has a land area nearly four times that of Iraq with a far more difficult terrain/geography.

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[12] Trump Iran Ground Troops Marines, Washington Post, March 28, 2026

[13] US Can Only Confirm About a Third of Iran's Missile Arsenal Destroyed, Reuters, March 27, 2026