Vietnam

7 March 2025

Economic resuscitation following Tet holidays

Lavanya Venkateswaran
Senior ASEAN Economist
+65 6530 6875
lavanyavenkateswaran@ocbc.com

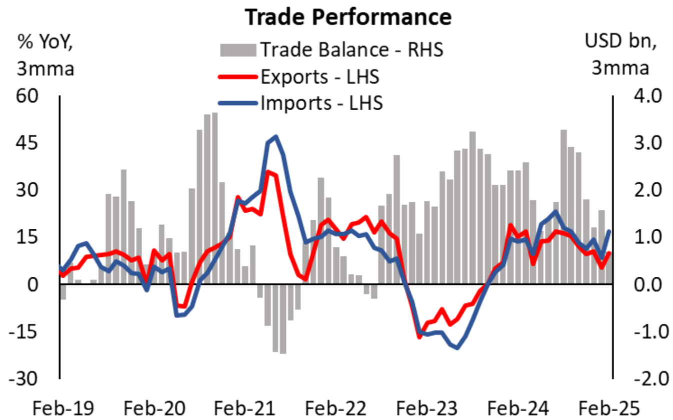
Ahmad A Enver
ASEAN Economist
+65 6530 6818
Ahmad.Enver@ocbc.com

- There was a seasonal rebound in February activity data compared to January, but momentum still seems to be slowing compared to 4Q24.
- We maintain our 2025 GDP growth forecast of 6.2% YoY versus 6.5% in 2024 with headline CPI at 4.0% versus 3.6% in 2024.
- The State Bank of Vietnam (SBV) is balancing external risks and attendant currency depreciation pressures with slower growth prospects and potential US tariffs. For the near-term, we expect SBV to remain on hold, but the risk is rising for rate cuts in 2H25.

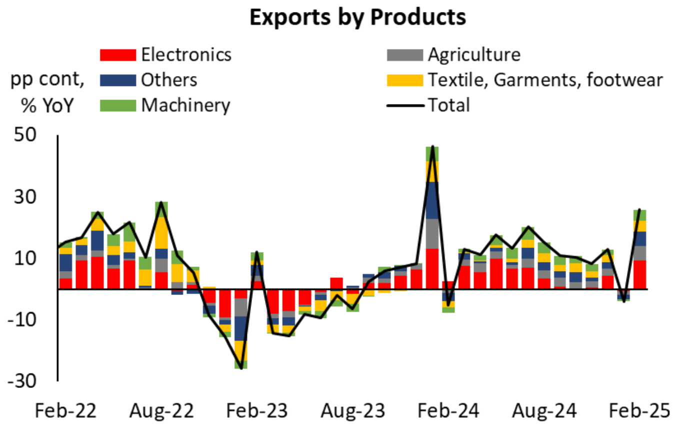
Economic activity was resuscitated following the Tet holidays. The improvements were broad-based across trade, industrial production, and retail sales, while price pressures eased.

On the trade data front, exports grew more than expected, by 25.7% YoY in February (consensus & OCBC: 12.4%), versus -4.0% in January. Similarly, imports grew by 40.0% YoY, compared to -2.6% in January, and also exceeded expectations (consensus: 18.0%; OCBC: 8.9%). Consequently, the trade balance recorded its first deficit in nine months, reaching USD1.6bn in February, down from USD3.2bn of surplus in January.

However, when considering the January and February prints together to account for seasonal disruptions - since the Tet holiday took place in January in 2025 but in February in 2024 - the trade performance was more mixed. Export growth slowed to an average 8.4% YoY in January-February 2025, versus 10.4% in 4Q24, while import growth stood at 15.8% YoY in January-February (4Q24: 14.2%). To that end, the trade balance recorded a cumulative trade surplus of USD1.6bn in the first two months of 2025, but narrowed compared to the USD5.1bn surplus in the same period of 2024. By destination, exports to US rose by 34.2% YoY in February from 4.6% in January, suggesting some front-loading remains ongoing.



Source: GSO, CEIC, OCBC



Source: GSO, CEIC, OCBC

Electrical and electronics (E&E) exports[1] improved notably to 9.3% YoY in January-February, versus 3.9% in 4Q24. The robust performance of E&E exports continues to highlight Vietnam's deepening role in the global E&E supply chain and is expected to continue growing.

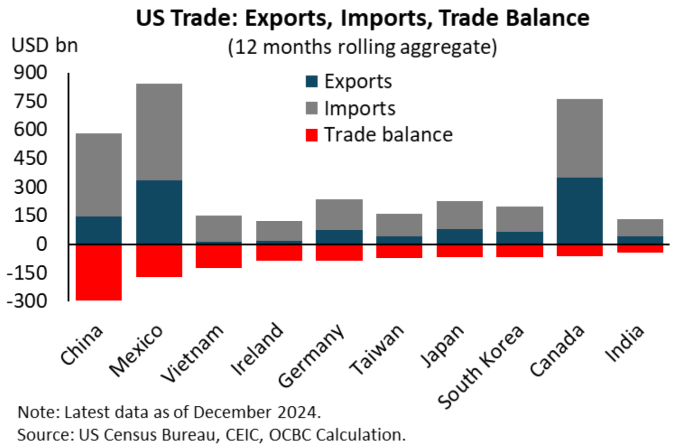
Prime Minister Pham Minh Chinh and 35 major South Korean businesses, including Samsung, LG, Hyundai, and Hyosung on 4 March, revealed plans by Korean firms to invest in artificial intelligence (AI) and semiconductors sector in the country. In the medium term, the semiconductor sector will not only be supported by rising foreign direct investment (FDI) and growing demand for chips, but also by strategic government policies, such as Decision No. 1018/QD-TTG on the semiconductor strategy until 2030, with a vision to 2050, which was issued in September 2024. In light of these plans, the government has approved investment plans of USD500mn to build a small-scale semiconductor chip manufacturing plant to serve research, design, production, packaging, and testing facilities.

But the near-term focus remains on mitigating tariff uncertainty from the US. As we have noted in our studies (See: ASEAN: Assessing the impact of potential tariffs [29 October 25], and ASEAN-5 & India: Potential implication of reciprocal tariffs & more [25 February 2025]), Vietnam is the most exposed to higher tariffs from the US. The authorities are aware and have begun to engage the US in talks[2]. Indeed, while the US tariffs thus far have mainly targeted China, Canada, and Mexico, Vietnam's rising trade surplus with US, third behind China and Mexico, suggests its turn in the spotlight is a matter of time.

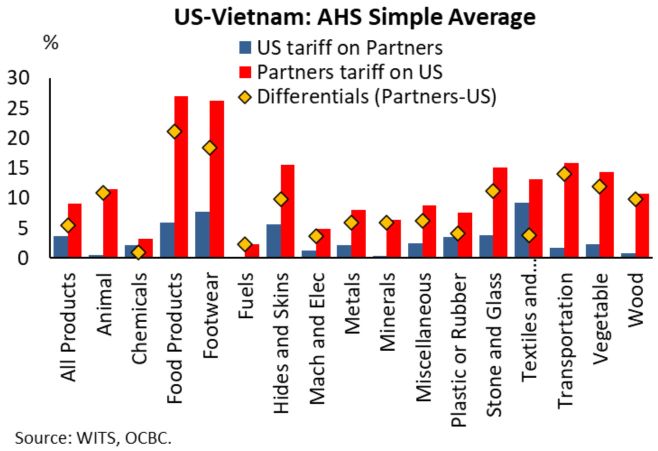
---

[1] We broadly categorize these to include telephones and parts, computer and electrical products, video cameras and parts, and insulated wires and cables

[2] A talk between Industry and Trade minister Nguyen Hong Dien and the US Trade Representative Jamieson Greener on 13 March 2025, as part of Vietnam's effort to strengthen its ties with the new Trump administration and avert tariff threat.



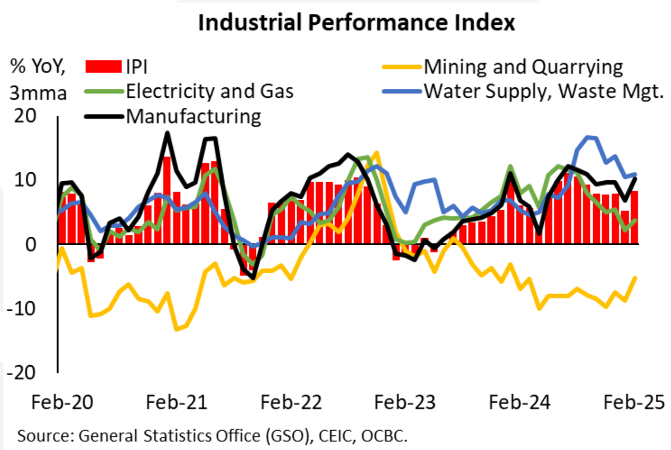
Note: Latest data as of December 2024.
Source: US Census Bureau, CEIC, OCBC Calculation.



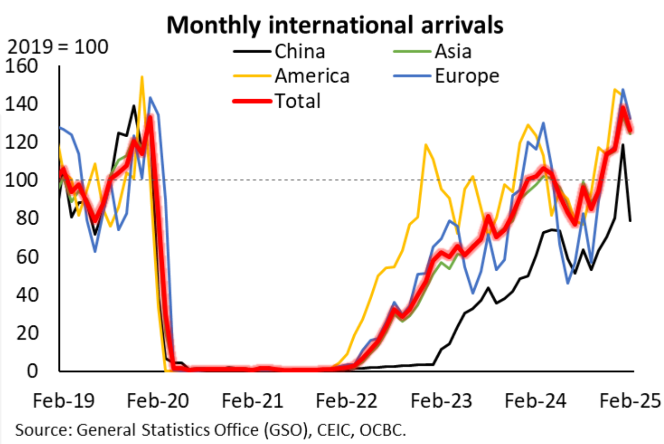
Source: WITS, OCBC.

Similarly, PM Chinh has reaffirmed on several occasions that the government is implementing various solutions to address trade imbalances with the US, including increased purchases of aircraft, defence trade, LNG, agricultural products, and pharmaceuticals. In addition, he has called on his government to expedite the licensing process for Starlink internet services to operate in the country.

Domestic activity data complemented improvements in trade data. Industrial production (IPI) increased by 17.2% YoY in February versus -1.0% in January. Manufacturing IPI growth rose to 20.0% in February versus 0.5% in January, marking the highest growth rate since April 2021. Together with the January figure, the average IPI growth remained robust at 8.1% for the Jan-Feb 2025 period, compared to 7.9% in 4Q24, mainly reflecting stronger manufacturing (10.2% compared to 9.6%) and a less negative mining and quarrying (-5.9% compared to -7.5%) IPI growth, which more than offset the weaker electricity and gas (2.9% compared to 5.5%) and water supply and waste management (8.1% compared to 13.7%) IPIs. More convincingly, average IPI growth in the motor vehicles and consumer electronics sectors was strong, at 103.7% and 22.1% in Jan-Feb 2025, compared to 50.3% and 4.7% in in 4Q24, respectively.



Source: General Statistics Office (GSO), CEIC, OCBC.



Source: General Statistics Office (GSO), CEIC, OCBC.

Retail sales eased marginally to 9.4% YoY in February, down from 9.5% in January. However, the average growth for January-February was 9.4%, up from 8.4% in 4Q24. This was led by the services and tourism sectors, while growth in goods sales (8.4% in Jan-Feb versus 8.2% in 4Q24) was more muted.

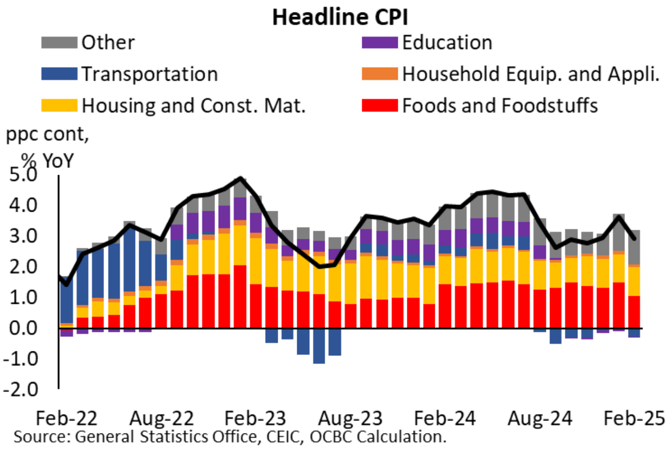
International tourist arrivals recorded at 1.9mn in February to bring a total of 4.0mn in the Jan-Feb period, a 30.2% YoY rise. The government aims to attract up to 22-23mn international arrivals in 2024, following a 17.6mn arrivals in 2024. Overall, the government aims for overall retail sales growth to reach 12% in 2025, partly supported by the 2% VAT reduction in 1H25.

Meanwhile, public investment capital rose by 35.1% YoY reaching VND37.9trn in February, up from 7.0% (VND35.2trn) in January 2025. This marks a positive start to the government's efforts to accelerate public investment this year. Infrastructure spending continues to be a key priority, as reflected by the additional ~VND84.3trn of funds allocated to public investment sourced from the 2024 budget savings and surpluses, which will be used to support the acceleration of the construction of expressways and coastal roads in the country. In addition, plans for urban rail development and railway project worth USD8.4bn linking Lao Cai – Hanoi – Hai Phong was approved. This would bring the total public investment fund budget to over VND870trn in 2025, a notable uptick compared to the ~VND683trn (rolling estimate) realization in 2024.

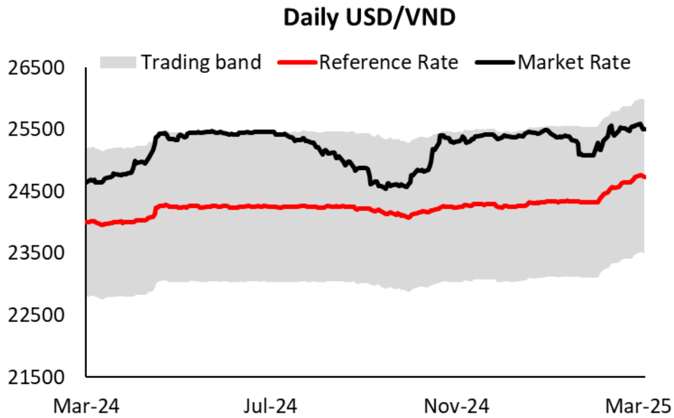
Although growth momentum saw a seasonal rebound in February compared to January, momentum has slowed compared to 4Q24. We maintain our 2025 GDP growth forecast of 6.2% versus 6.5% in 2024. The risks to growth are to the downside, particularly if tariffs are imposed on Vietnam's exports to the US.

Lower inflation in February

On the inflation front, headline CPI eased more than expected to 2.9% YoY in February, down from 3.6% in January (Consensus: 3.2%; OCBC: 3.6%). Notably, the food and foodstuff CPI decreased to 3.1% YoY from 4.4% in January, which reduced its contribution to the headline figure by 1.0 percentage point (pp), down from 1.5 pp in January. This more than offset the higher CPI in housing and construction materials (5.1%, up from 4.9%). Looking ahead, we maintain our forecast for the headline CPI to average 4.0% in 2025, up from 3.6% in 2024. Notably, this remains below the government's newly revised inflation target range of 4.5% to 5.0%, in line with the target of achieving economic growth of at least 8%.

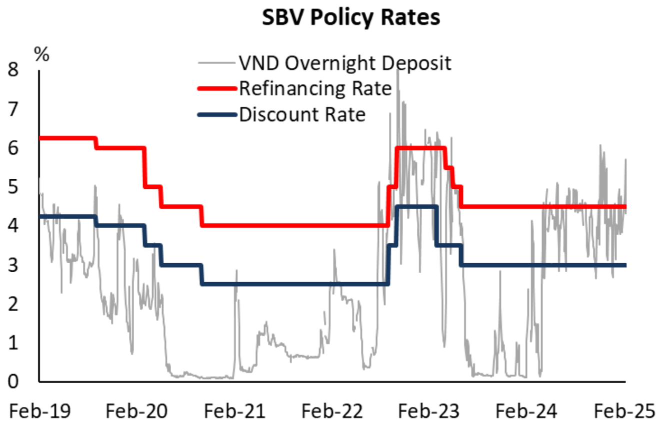


Source: General Statistics Office, CEIC, OCBC Calculation.

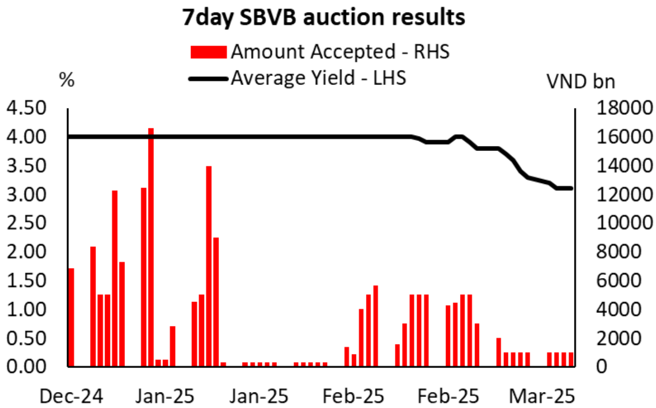


Source: State Bank of Vietnam, Bloomberg, OCBC.

From a monetary policy standpoint, the State Bank of Vietnam (SBV), like more regional peers, is balancing external uncertainties and attendant currency depreciation pressures with downside risks to growth. PM Chinh on several recent occasions has requested SBV to lower rates. However, the daily USD/VND reference rate at USD/VND 24,750 on 5 March, is under more pressure. Our forecast is for SBV to maintain its benchmark policy rates at current levels and remain agile with its policy tools to support growth. Rate cuts cannot be ruled out particularly if Vietnam comes into direct focus from the US. SBV reduced the 7-day T-bill rate by approximately 90bp to 3.1% between February and March, indicating a more accommodative stance toward local banks.



Source: State Bank of Vietnam, CEIC, OCBC.



Source: SBV, Bloomberg, OCBC.

Macro Research

Selena Ling
Head of Research & Strategy
lingssselena@ocbc.com

Tommy Xie Dongming
Head of Asia Macro Research
xied@ocbc.com

Keung Ching (Cindy)
Hong Kong & Macau Economist
cindyckeung@ocbc.com

Herbert Wong
Hong Kong & Taiwan Economist
herberthtwong@ocbc.com

Lavanya Venkateswaran
Senior ASEAN Economist
lavanyavenkateswaran@ocbc.com

Ahmad A Enver
ASEAN Economist
ahmad.enver@ocbc.com

Jonathan Ng
ASEAN Economist
jonathanng4@ocbc.com

Ong Shu Yi
ESG Analyst
shuyiong1@ocbc.com

FX/Rates Strategy

Frances Cheung, CFA
Head of FX & Rates Strategy
francescheung@ocbc.com

Christopher Wong
FX Strategist
christopherwong@ocbc.com

Credit Research

Andrew Wong
Head of Credit Research
wongvkam@ocbc.com

Ezien Hoo, CFA
Credit Research Analyst
ezienhoo@ocbc.com

Wong Hong Wei, CFA
Credit Research Analyst
wonghongwei@ocbc.com

Chin Meng Tee, CFA
Credit Research Analyst
mengteechin@ocbc.com