Mizuho Flash: Vietnam

Economics & Strategy | Asia ex-Japan

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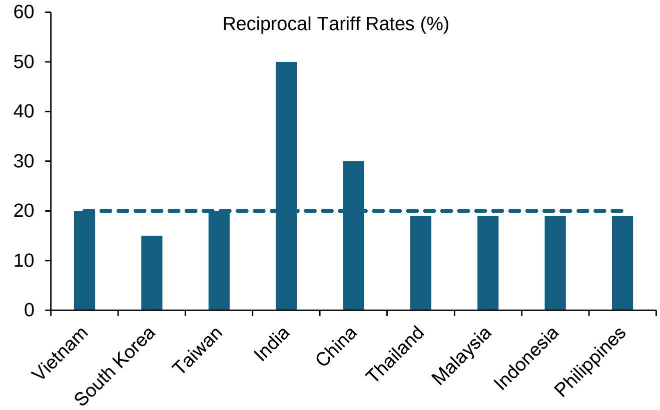
Vietnam: Of Tailwinds and Missing Sails

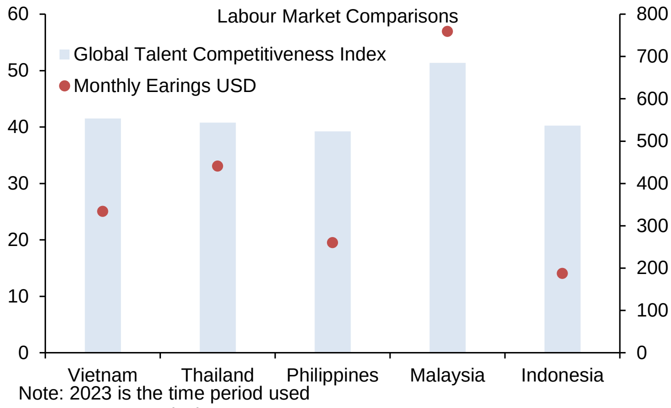
In a nutshell:

- Vietnam's tariff deal which secures a 20% tariff rate has **diminished earlier threats to their China+1 proposition** given the marginal difference with ASEAN peers and India's setback from 50% tariff rate.
- Foreign direct investment into Vietnam remains strong, particularly from China, which is unsurprising given that the extended US-China tariff truce merely affirms these pragmatic decisions to capitalise on the tariff differentials.
- Domesitcally, while headline GDP figures display buoyancy, the pace of growth across industrial sectors remains highly uneven.
- Despite macroeconomic tailwinds and a soft USD backdrop in 2025, VND has continued to underperform amid **still fragile financial sector**. **FX risks remain prevalent given low import coverage ratio.** Consequently, we expect the SBV to embark on a **prolonged rate hold** as base case. The **VND trajectory is expected to be an asymmetric one** with a depreciation bias considering FX reserves accumulation needs.
- Beyond improving economic competitiveness, it remains imperative to improve financial market governance, deepening and broadening the domestic capital market which would assist to retain FX proceeds within the country and also enhance attractiveness to foreign capital.

China + 1: Returns and Risks Retained?



Sources:CEIC, Mizuho

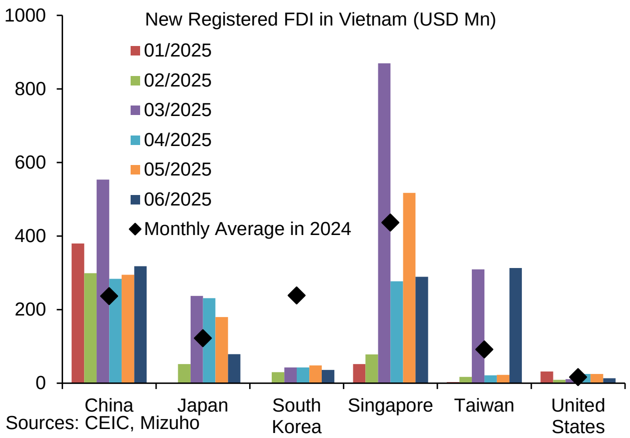


Note: 2023 is the time period used
Sources CEIC,: Mizuho

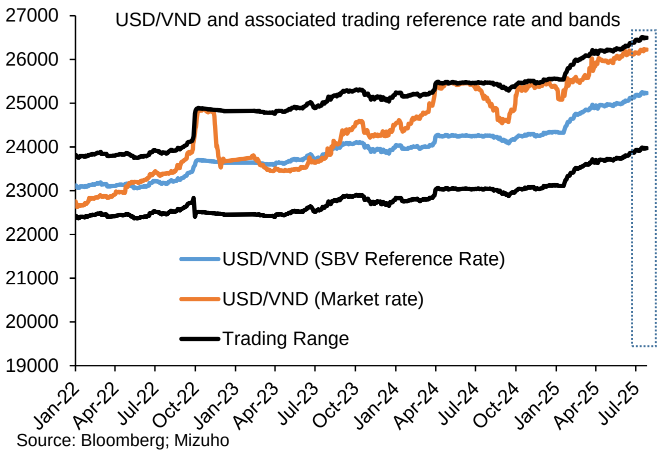
- Following the latest decision by US President Trump to extend the tariff truce with China by another 90 days, it cements China's relatively higher tariff rate relative to the rest of their Asian peers aside from India.
- Consequently, the **overall tariff situation has marked a sharp reversal of fortunes for Vietnam** from the earlier 46% tariff rate in April which threatened to overhaul the China+1 strategy which has been more than halved to the 20% tariff rate announced in early August.
- With most ASEAN countries such as Malaysia, Thailand, Indonesia and Philippines getting a marginally lower rate of 19%, the risks of shifting production chains out of Vietnam have diminished.
- Simply put, a **1% tariff rate is insufficient to offset geographical proximity** to supply chains in China and fixed costs of already entrenched operations in addition to relative wage cost and talent pool attractiveness.
- Furthermore, the public spat between US-India and the **punitive 50% tariff imposed by the US** on India also upends earlier suggestions and reduces the allure of India as a viable alternative a manufacturing hub to China.
- Nonetheless, Vietnam's large current account surplus with the US, juxtaposed with a persistent deficit with China, raises concerns over potential transshipment of Chinese goods. Should evidence of circumvention emerge, Vietnam risks facing retaliatory tariffs of up to 40%, which could materially impair its export outlook.

VND: Missing Out on the Macro Tailwinds

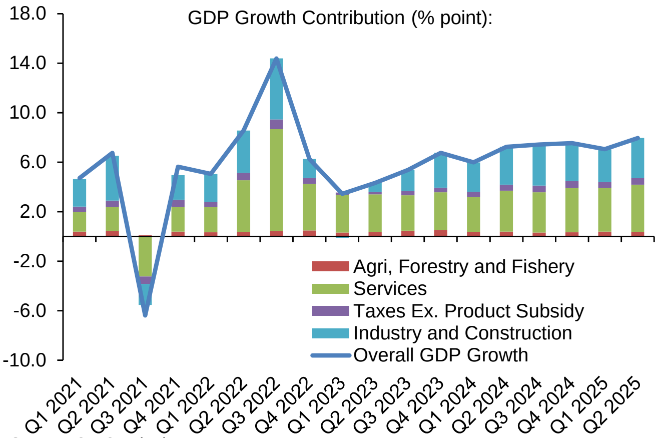
- **Growth Outperformance, But Industrial Momentum Mixed**: Strong manufacturing sector performance buoyed by exports front loading as well as likely supply chain shifts have aided the **growth outperformance in H1 2025 with GDP growing 7.5% YoY**
- Foreign direct investment (FDI) inflows remain a bright spot, with Chinese-origin FDI exceeding 2024 monthly averages throughout H1, reaffirming Vietnam's centrality in the China+1 strategy.



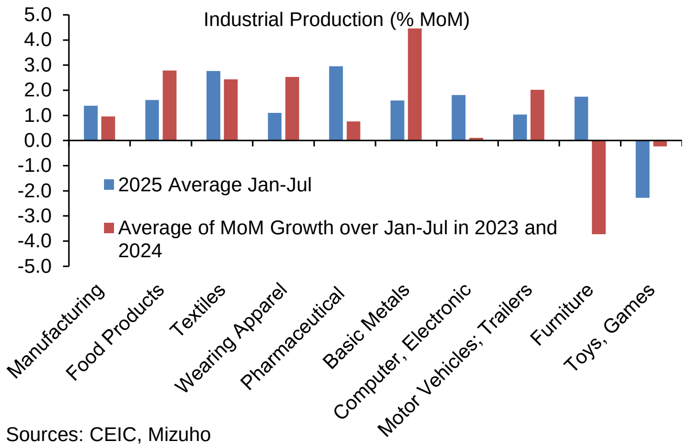
Sources: CEIC, Mizuho



Source: Bloomberg; Mizuho

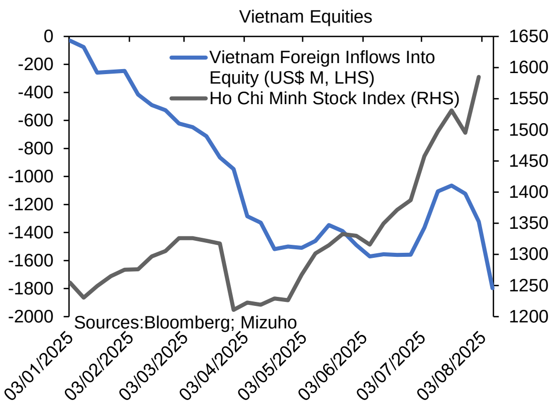


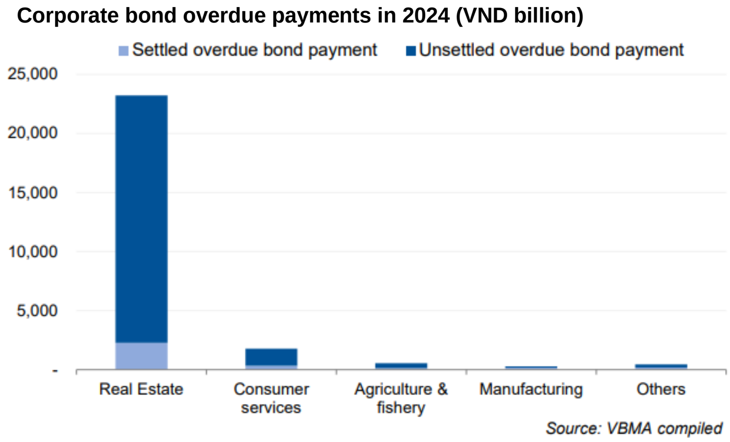
Source: CEIC: Mizuho



Sources: CEIC, Mizuho

- That said, despite buoyant GDP headlines, **underlying industrial production growth momentum reveals soft spots.** From January to July 2025, a **broad swathe of sectors ranging from apparel, metals to toys and games are in fact expanding at a slower pace** relative to the average pace over the past two years despite the supposed front loading which suggest that the front loading narrative may be somewhat overstated and uneven.
- **VND Underperformance - A Structural Story**: While the overall macroeconomic performance has been bright, the VND performance is yet again lacklustre as it underperformed regional peers even as GDP growth outpaced all ASEAN peers.
- **FX risks remain highly prevalent** given that **FX reserves continue to hover around the US$80bn which represents less than 2.5 months of import coverage**. This concern was also reflected by the State Bank of Vietnam's caution as the Governor stated last week that "they will **consider not further lowering lending interest rates** to avoid affecting **the dong's stability, which could in turn, lead to macroeconomic instability**".
- Consequently, we maintain our view that the **SBV will keep policy rate on hold till end-2026.**.
- **Financial Market Frictions - The Missing Sails**: Nonetheless, **there is still a continued need to reform financial markets in order to provide robust opportunities to invest proceeds domestically as well as attract foreign capital**.





- **Corporate bond markets remain tepid** with the size of the bond markets unchanged since end-2023 and issuances are dominated by the banking and real estate sector which held a combined 90% share of issuances in Q2 2025.Notably, for 2024, 66 issuers failed to make timely payments on VND 26.3 trillion (0.2% of GDP) in principal and interest in 2024. Furthermore, to avoid overdue payments, there was a total of VND51.6 trillion of bonds (0.4% of GDP) which had maturities extended, commonly by 1-2 years.
- These woes reflect the adverse impact from real estate market fraud scandals and its lingering impact.
- While domestic equities index (Ho Chi Minh stock Index) soared to record highs, foreign outflows from equities persisted underscoring fragile confidence.
- Similarly, Vietnam's domestic to international gold prices premium has continued to remain elevated at almost 70% (relative to 46% pre-Covid 2019 average) reflecting lack of haven/safer financial alternatives.
- All in, while macro tailwinds may assist in robust economic activity, we expect the **VND to follow an asymmetric path,** with a depreciation bias, particularly during episodes of USD strength. While periods of USD weakness represent FX reserves accumulation opportunities rather than for realized VND appreciation.
- The imperative to reform domestic capital markets—to both absorb domestic savings and attract stable foreign capital—remains a medium-term priority.

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