Viet Nam

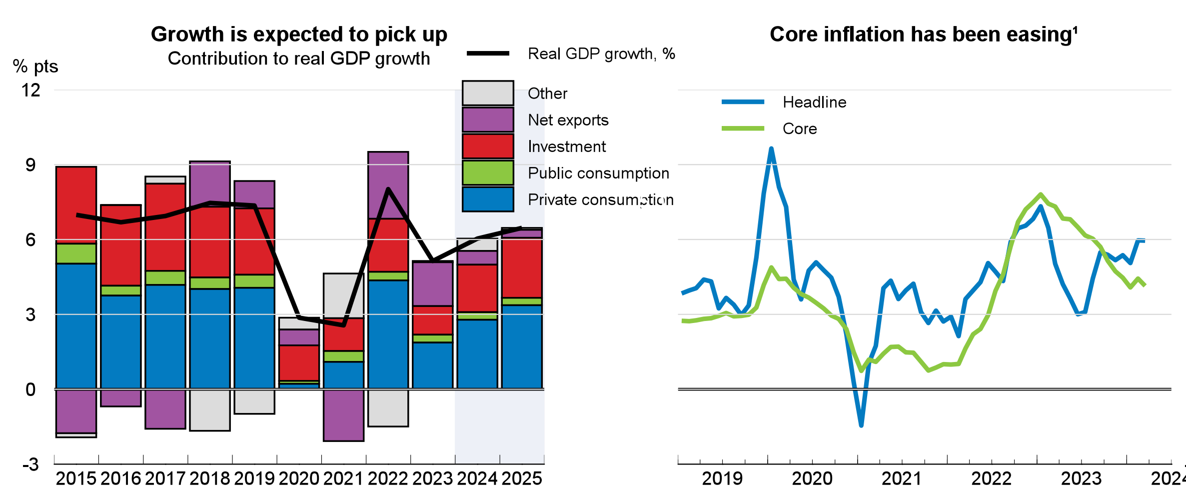
Real GDP growth is projected to strengthen to 6.0% in 2024 and 6.5% in 2025. Improving global demand and continued increases in tourist numbers will support export growth, although events in the Red Sea are raising logistics costs and may weigh on the recovery in exports. Substantial public investment plans and increasing real household incomes will support an increase in domestic demand. As activity accelerates, headline consumer price inflation will reach 3.9% in 2024 and 3.2% in 2025.

Expansionary monetary and fiscal policies will support domestic demand. The risk of potential delays in disbursements of public investment could be addressed by simplifying public investment procedures and regulations. Improvements in the macroeconomic policy framework, a more comprehensive social protection system and financial reforms could improve resilience to shocks and support the smooth implementation of reforms. An accelerated rollout of renewable energy sources in the power sector could make growth more sustainable.

Growth is picking up

GDP growth increased to 5.7% in the first quarter of 2024 compared to its level one year earlier. Investment is being supported by strong government investment and in the first quarter of 2024 increased by 4.7% compared to one year earlier. Short-term indicators, such as the manufacturing PMI, have been broadly stable in early 2024. Annual growth in manufacturing production reached 5.9% in the first quarter of 2024. Sentiment appears to have stabilised following signs of domestic financial distress, particularly in the real estate sector. Year-on-year headline inflation has increased since June 2023, reaching 4% in March, as food and transport inflation rose.

Viet Nam



1. Core inflation excludes food and foodstuff; energy and such items managed by the state as healthcare and education.
Source: CEIC; General Statistics Office of Vietnam; and OECD calculations.

StatLink https://stat.link/yen1p8

Viet Nam: Demand, output and prices

Viet Nam	2020	2021	2022	2023	2024	2025
	Current prices VND trillion	Percentage changes, volume (2010 prices)				
GDP at market prices	8 044.4	2.6	8.0	5.1	6.0	6.5
Private consumption	4 502.2	2.0	7.8	3.3	5.1	6.2
Government consumption	762.5	4.7	3.6	3.5	3.4	3.4
Gross fixed capital formation	2 435.7	3.7	6.0	3.3	5.6	7.1
Final domestic demand	7 700.4	2.8	6.8	3.3	5.1	6.2
Stockbuilding[1]	- 99.8	1.8	-1.5	0.1	0.5	0.1
Total domestic demand[2]	7 600.6	4.6	5.2	3.4	5.5	6.2
Exports of goods and services	6 788.0	14.0	4.0	-4.0	6.4	7.7
Imports of goods and services	6 344.1	15.6	1.8	-5.4	6.0	7.5
Net exports[1]	443.8	-2.1	2.7	1.8	0.5	0.3
Memorandum items						
GDP deflator	_	2.8	3.9	2.2	3.4	3.2
Consumer price index	_	1.7	3.2	3.3	3.9	3.2
Current account balance (% of GDP)	_	-1.2	-0.3	5.8	2.3	2.4

1. Contributions to changes in real GDP, actual amount in the first column.
2. Data for nominal value includes the statistical discrepancy.
3. Consumer price index excluding food, energy and items managed by the state, including healthcare and education.
Source: OECD Economic Outlook 115 database.

StatLink https://stat.link/cgjq5a

Increasing external demand supported a recovery in the trade balance over 2023. Goods exports increased in 2024 from their early-2023 lows, rising faster than imports. Continued increases in international visitors are supporting services exports, as visitor numbers approach their pre-pandemic levels.

Fiscal and monetary policy will support activity

The central bank has maintained an accommodative monetary policy stance since lowering the refinancing rate from 6% to 4.5% and the discount rate from 4.5% to 3% over 2023. Inflation, at 4% in March, is currently at the lower bound of the central bank's target range of 4%-4.5%. Maintaining the current stance seems appropriate as growth returns towards potential. Fiscal policy can continue to support the rebound in 2024 against the background of low public debt at 35.3% of GDP in 2022, which is mainly denominated in local currency. The government is providing support to households and firms through a temporary reduction in the VAT rate from 10% to 8% until mid-2024, and temporary tax cuts and deferrals, including cuts in environmental taxes and car registration fees. Capital expenditure will remain high as the disbursement of public investment funds, which increased over 2023, is set to accelerate.

Growth will strengthen

The economy is projected to gradually recover from domestic and external headwinds, growing by 6% in 2024 and 6.5% in 2025, helped by policy support and recovering external demand. As activity strengthens, inflation will reach 3.9% in 2024, but remain below the central bank target. Fiscal support, accommodative monetary policy and reduced financial distress will help consumption and private investment to strengthen. Nevertheless, high levels of private debt, at around 165% of GDP in 2022, will continue to weigh on growth and a renewed deterioration in financial conditions could limit improvements in sentiment and activity. Substantial government investment will support activity, and a faster-than-projected increase would further boost growth. Exports are projected to increase as global economic activity strengthens. However, rising logistics costs due to events in the Red Sea, continued weakness in external demand or a more persistent slowdown in trade due to geopolitical tensions could weigh on the export recovery. A renewed period of financial distress could affect financial institutions, some of which have significant exposure to the highly indebted real estate sector.

Well-designed macroeconomic and structural policies would help enhance economic resilience and growth

Public investment will support activity, although simplifying public investment procedures and regulations would accelerate the disbursement of funds. The government will face growing spending needs to facilitate the green and digital transitions and provide social protection to a rapidly ageing population. Developing a concrete medium-term fiscal consolidation plan to expand the tax base, improve spending efficiency and increase the transparency of debt management would improve fiscal sustainability against rising spending needs. Additional financial market reforms, including facilitating credit allocation by banks to more productive sectors and strengthening market-based solutions for non-performing loans, would enhance macroeconomic resilience. Further improvements in the business climate, including lower regulatory barriers on businesses, more investment in human capital, and stronger efforts to combat corruption would help to nurture high value-added sectors. Reducing administrative burdens would also encourage household businesses to formalise and expand. A clear and predictable long-term climate strategy would help guide all economic sectors to a low carbon path and attract more funding.

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