Macro Outlook 2025

The beginning of a new era

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KBSV gives some key forecasts for Vietnam's economy in 2025 as follows:

GDP growth forecast for 2025 is 7%, based on expectations of domestic drivers such as public investment, consumption, and the recovery of the real estate market, combined with the growth momentum of international factors such as exports and FDI capital flows.

Headline CPI should be at 4% for the whole year of 2025, which is under the limit of 4.5% set by the Government. The recovery in consumption will make CPI increase, but the CPI is expected to be well controlled with the prices of food, foodstuffs and other goods modestly lowering or remaining stable.

Exchange rate pressure may return at some times but tend to decrease towards the end of the year. The USD/VND exchange rate for the whole year should reach VND26,000/USD (+2% YTD).

The State Bank of Vietnam (SBV) will maintain a loose monetary policy, keeping interest rates low to bolster economic growth. Interest rates for the customer channels may post a slight gain of 30-100bps but remain low.

Contents

I. Executive summary

The macroeconomic picture in 2024 has many bright colors. GDP growth touched five-year highs, except for 2022 when the economy reopened after the pandemic. The industrial and construction sectors led the growth thanks to the recovery of production and export activities, while the agricultural, forestry, fishery and service sectors maintained stability.

In 2025, we expect Vietnam's economy to achieve 7% GDP growth with the recovery of domestic factors, positive export growth, and stable FDI inflows.

However, risks from other countries, especially Donald Trump's tariff policies, may dent Vietnam's growth potential in 2025.

Table 1. Vietnam – Key macroeconomic indicators

KBSV forecast

	Unit	2024	2025
GDP growth	% YoY	7.09	7.00
Average CPI	% YoY	3.63	4.00
Credit growth	% YTD	15.08	16.00
Average 12M deposit interest rate	%/year	4.88	5.38
USD/VND exchange rate	VND	25,485	26,000

Source: KB Securities Vietnam

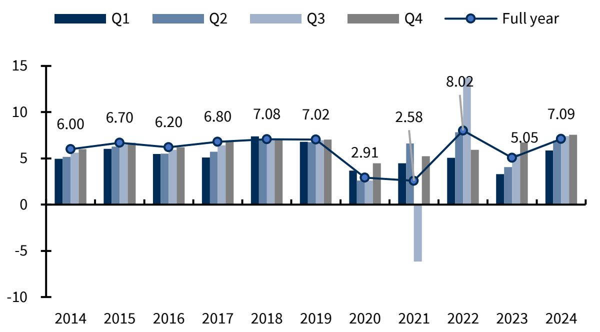
II. GDP growth

1. 2024 GDP

2024 GDP growth hit the target

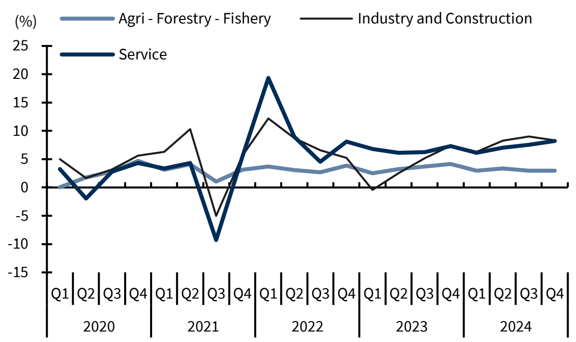
According to data from the General Statistics Office (GSO), GDP in 2024 is estimated to increase 7.09% YoY (specifically, +5.98% YoY in 1Q, +7.25% YoY in 2Q, +7.43% YoY in 3Q, and +7.55% YoY in 4Q), which is the highest increase in the period 2011 – 2024, second only to 2022 when the economy recovered from the Covid pandemic. The growth is mostly supported by the impressive rebound of export activities that helped boost industrial production.

Fig 1. Vietnam – GDP growth by quarter (%YoY)



Source: General Statistics Office, KB Securities Vietnam

Fig 2. Vietnam – GDP growth by sector (%YoY)



Source: General Statistics Office, KB Securities Vietnam

From the demand side, the fiscal and monetary policies started to be "absorbed" into the economy.

Consumer confidence showed signs of a slight recovery

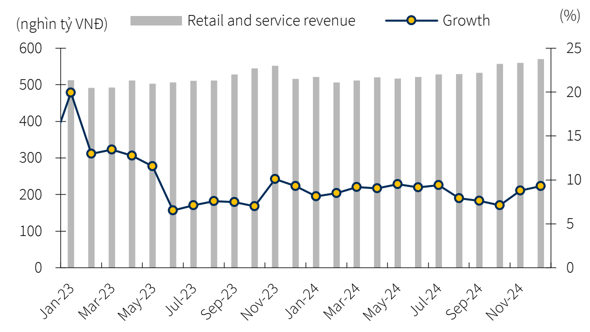
In 2024, total retail sales of goods and consumer services at current prices reached VND6,391 trillion, gaining 9% YoY (vs 9.4% increase in 2023). If excluding price factors, it rose 5.9% (vs +6.8% in 2023), lower than the pre-Covid growth of 8-9%.

The Consumer Confidence Index (CCI) improved to 54 in January 2025 (according to a survey by Infocus Mekong Research). Although total retail sales of goods have not yet fully recovered, consumer demand for discretionary items such as cars and motorbikes has improved significantly. Tourism and catering services are returning to pre-pandemic levels, which shows the expansionary policies have begun to have positive effects on the economy.

Total social investment increased, supporting the economy

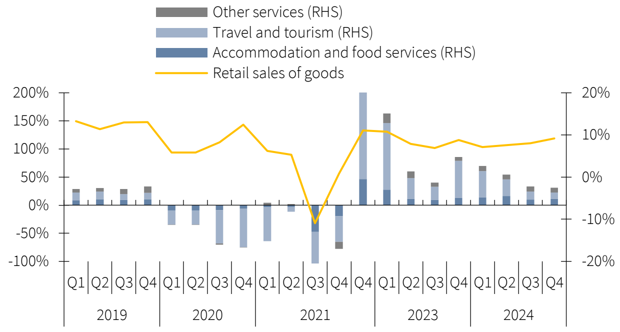
The total social investment capital in 2024 climbed 7.5% YoY to VND3,692 billion, underpinned by VND609 trillion in investment capital from FDI enterprises (+10.6% YoY). The state and private sector capital also recorded impressive increases, respectively reaching VND1,019 trillion (+5.3% YoY) and VND2,064 trillion (+7.7% YoY).

Fig 3. Vietnam – Retail sales of goods & services (VNDtn)



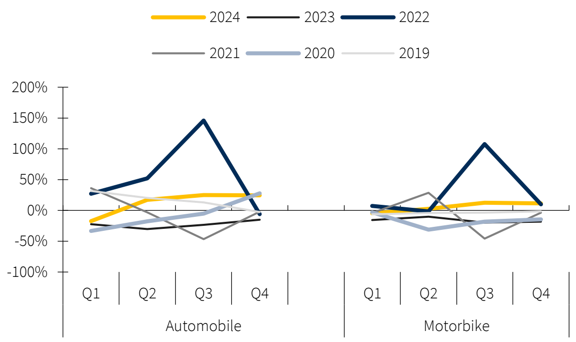
Source: General Statistics Office, KB Securities Vietnam

Fig 4. Vietnam – Retail sales of goods & services breakdown



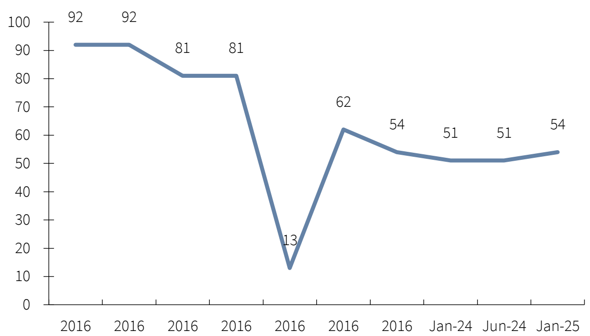
Source: General Statistics Office, KB Securities Vietnam

Fig 5. Vietnam – Sales volume growth of automobiles & motorbikes (% YoY)



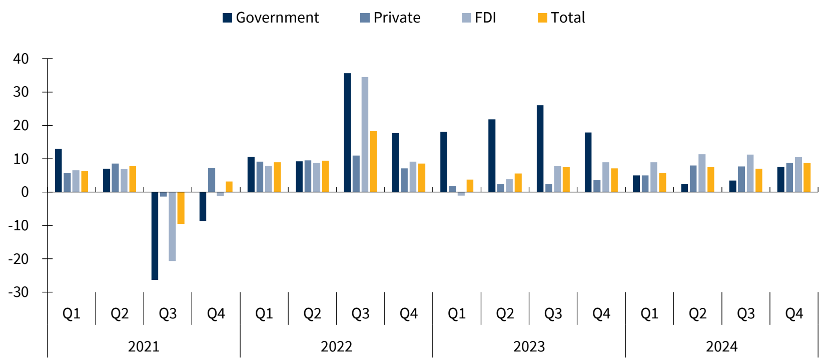
Source: Vietnam Association of Motorcycle Manufacturers, Vietnam Automobile Manufacturers' Association, KB Securities Vietnam

Fig 6. Vietnam – CCI



Source: Infocus Mekong Research

Fig 7. Vietnam – Total social investment growth (% YoY)



Source: General Statistics Office, KB Securities Vietnam

From the supply side, the industrial/construction and service sectors continued the growth.

The service sector maintained the growth

The service sector gained 7.4%YoY in 2024, contributing 49.5% to GDP growth and exceeding the growth in 2023 (+6.9%YoY) mainly thanks to the Government's continuous policies to stimulate the recovery of domestic consumption, increase tourism promotion and advertising.

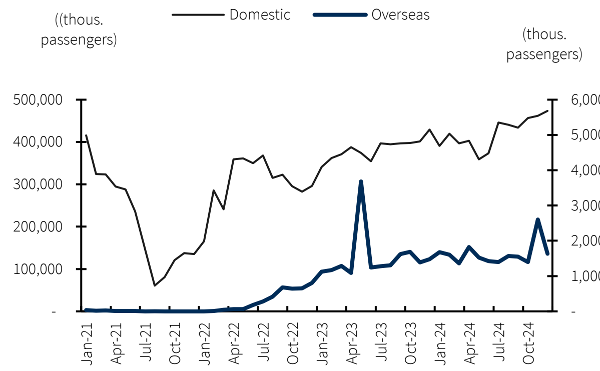
Industrial and construction sector posted a strong increase

The industrial and construction sector in 2024 recorded a growth of 8.3% YoY (+8.4% YoY in 4Q alone), contributing 45.2% to GDP growth. The main driving force is manufacturing industry (+9.83% YoY, adding 2.49ppts to the overall GDP growth).

Agriculture, forestry and fishery sector saw modest growth

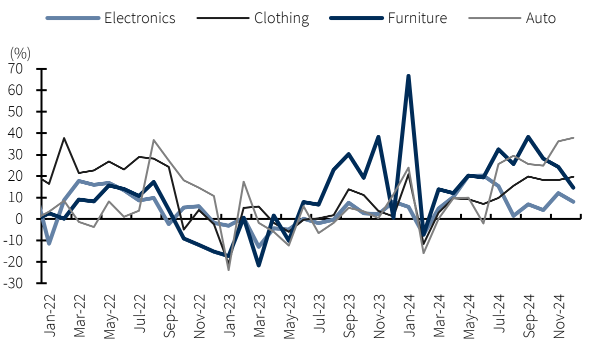
Due to the heavy damage of natural disasters in 2024, the agriculture, forestry and fishery sector recorded a modest growth rate of 3.3% YoY, contributing 5.4% to GDP growth.

Fig 8. Vietnam – Passenger transportation (thousand passengers)



Source: General Statistics Office, KB Securities Vietnam

Fig 9. Vietnam – Growth of key industries (%YoY)



Source: General Statistics Office, KB Securities Vietnam

2. 2025F GDP growth

GDP growth in 2025 is forecast to reach 7%, touching the upper limit of the target set by the National Assembly

We expect Vietnam's GDP growth to reach 7% in 2025, driven by both domestic and foreign factors.

2025 is the final year of the five-year GDP growth target implementation period 2020-2025. It is also the year to lay the foundation for the government's ambitious growth target in the next period "Strive for GDP growth of 10% or more by 2045, aiming to become a high-income country by 2045". We believe that the government will maintain easing fiscal and monetary policies to promote GDP growth. As a result, drivers from domestic market, which have slowed down in 2024 (including consumption, public investment, and real estate market), will recover and give a bigger contribution to the growth of the economy from 2025. In addition, exports and FDI inflows into Vietnam are expected to maintain growth momentum as in 2024.

However, Vietnam will also face some challenges this year, notably the US tariff policies. The US-China trade war will escalate again, and the context will change under the Trump 2.0 era as Vietnam is in the top three countries with the largest trade deficit with the US. However, we expect that with the advantages of political stability, strategic geographical location, and flexible foreign policy, Vietnam can limit the risk of being subject to comprehensive tariff increases by Trump.

Public investment is expected to be successful in 2025

2025 is the final year to implement the Medium-term Public Investment Plan for the period 2021 - 2025. Promoting public investment will be an important driving force to promote economic growth in 2025. We expect that the government's promotion of public investment in 2025 will be highly effective thanks to:

(i) The government expects the to disburse VND790,727 billion in public investment, rising 17% from VND680,000 billion in 2024, equivalent to 7% of GDP 2024.
(ii) The biggest barriers to the disbursement of public capital should be lifted thanks to the reform and amendment of legal regulations applied from 2025 (Table 2).
(iii) The SBV still has much room to adjust fiscal policies, increasing the ability to spend on public investment. Vietnam's public debt and guaranteed sector debt are at 37% of GDP, far lower than the public debt ceiling (60%) set by the government. This gives more room to increase the leverage ratio, supporting public investment spending.
(iv) Key public investment projects in the 2025-2030 period are being implemented (Table 3).

Table 2. Vietnam – Amended legal provisions in the 2024 Public Investment Law

	Obstacles	Legal solutions (2024 Public Investment Law)
Pre-feasibility study (project preparation/selection)	Investment projects often have settlement values that exceed the initial investment estimates, leading to investors lacking capital and prolonging construction: (1) The land acquisition plan may be delayed, causing costs to increase. (2) The technical cost norms are not close to reality. (3) Investors are reluctant to adjust the total investment in the early stages because they will have to return to the stage of preparing the pre-feasibility study.	- Increase the scale of public investment capital of national key projects from VND30,000 billion or more and the capital of group A, group B and group C projects with a scale twice that of current regulations - Regulations on maximum time for state budget capital, group A, group B and group C projects with a total investment of less than VND10,000 billion. The capital arrangement period shall be extended for no more than one year, group A from VND10,000 billion to VND30,000 billion shall not exceed two years - Expand the medium-term planning room and may expand 50% of the medium-term plan for the following year
Project implementation	- Complicated project approval procedures slow down project implementation and disbursement. - Site clearance and resettlement face many difficulties.	- Decentralize authority to the heads of ministries, central agencies, and People's Committees to decide on project investment policies - Allow the separation of compensation, support, resettlement, and site clearance into independent projects for all project groups - Allow the use of regular expenditure sources and other legal capital sources to prepare for project investment - Speed up the implementation of ODA-funded projects
Project post-assessment	- Data on public investment is often not publicly disclosed, not actively supporting the monitoring and evaluation of projects by related parties. - The State Budget Investment Management Information System (SBIMIS) has not yet been linked with the Treasury and Budget Management Information System (TABMIS), so they have not exchanged necessary information such as spending commitments, disbursements, and implementation progress as a basis for necessary corrective measures.	

Source: KB Securities Vietnam

Table 3. Vietnam – Key public projects

	Projects	Before 2024	2024	2025	2026	2027	2028	2029	2030	After 2030
Highways	North-South Expressway (Phase 1)									
	North-South Expressway (Phase 2)									
	Ho Chi Minh City Ring Road No.3									
	Hanoi Ring Road No.4									
	Hanoi Ring Road No.5									
	Ho Chi Minh City Ring Road No.4									
	Quy Nhon – Pleiku Expressway									
	Hoa Binh – Moc Chau Expressway									
	Bac Kan – Cao Bang Expressway									
Railways	North-South Railway									
	Lao Cai – Hanoi – Quang Ninh Railway (in cooperation with China)									
	Ben Thanh – Tham Luong Metro Line									
Ports	Can Gio International Port									
	Lien Chieu Port, Da Nang									
	Cai Mep Logistic Center									
Airports	Long Thanh International Airport (Phase 1)									

Source: General Statistics Office, KB Securities Vietnam

The real estate market should recover thanks to both supply and demand

We expect the improvements in both supply and demand will help the real estate market rebound in 2025. On the supply side, the openness of the legal corridor with three important laws, Law on Real Estate Business (amended), Law on Housing (amended), and Law on Land (amended), taking effect from August 1, 2024 will boost the supply of apartments in Hanoi and Ho Chi Minh City. According to CBRE, the supply of apartments in the Hanoi and Ho Chi Minh City markets is forecast to increase by 14%/4%, and the number of apartments sold should skyrocket 29%/12% in 2025F/2026F, respectively. In addition, the demand for home buying and investment will also recover amid low interest rate environment.

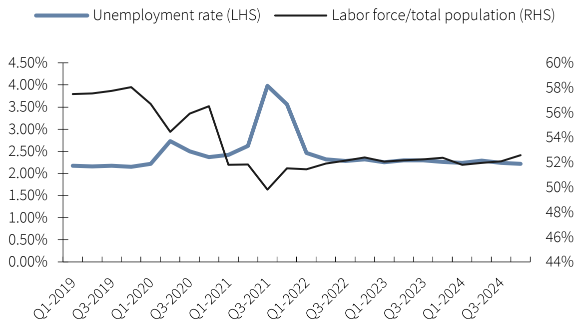
Consumption is an important support for economic growth in 2025

With a contribution of more than 60% to GDP growth, consumption plays a vital role in the Vietnam economy. We expect that the recovery of consumption will record more positive results and lead the economic growth in 2025, based on:

(i) Domestic consumer confidence should show clearer improvement when easing fiscal/monetary policies are maintained. Easing fiscal policies supporting consumption in 2025 include a 30% increase in basic wages for the public sector (from July 2024), extension of VAT reduction until the end of June 2025, and continued reduction of 50% of environmental protection tax on petroleum products until the end of 2025.

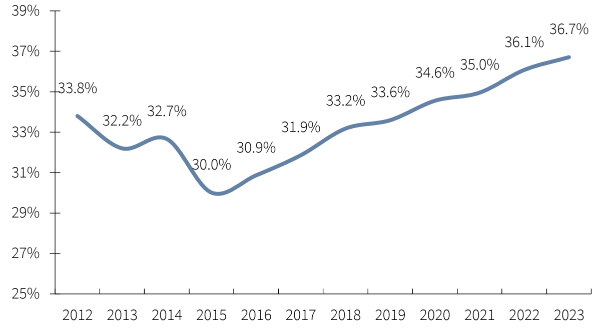
(ii) Factors encouraging people spending when the confidence recovers are:
- The unemployment rate continues to decline. The labor force participation rate fluctuates at 53%, stable in 2024. The rate continues to maintain a slight downward trend, reaching 2.2% in 4Q24.
- Savings are at a high level due to accumulation from the Covid19 pandemic.

Fig 10. Vietnam – Labor market



Source: General Statistics Office, KB Securities Vietnam

Fig 11. Vietnam – Savings/GDP (%)



Source: Worldbank, KB Securities Vietnam

Exports should grow further with supportive factors

The global trade outlook in 2025 is full of uncertainties related to the US President Donald Trump's tariff policy. However, with the government's flexibility in implementing policies to enhance diplomatic relations and reduce the trade deficit between Vietnam and the US such as plans to purchase LNG and US aircraft, we expect there will still be supportive factors to boost Vietnam's export growth. Vietnam exports should grow 10% YoY in 2025 thanks to:

For the US market:

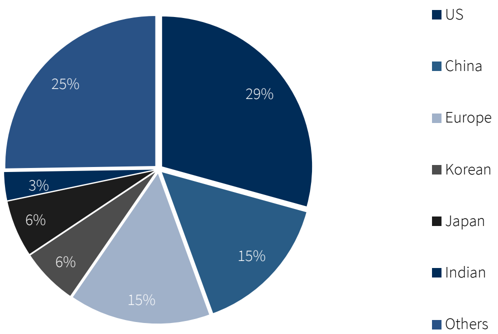
(i) Vietnam may continue to benefit from the relocation trend out of China as Donald Trump intends to impose higher tariffs on China than on other countries.

(ii) Vietnam should not be Donald Trump's target in imposing tariffs, unlike Canada and Mexico, which are targeted for illegal immigration and drug trafficking into the US. In addition, the export structure of Canada and Mexico is different from Vietnam (Figure 13), these two countries have a large proportion of machinery, means of transport and mineral fuels, gas, and especially automobile exports, an item that directly competes with the US. Vietnam mainly exports electrical and electronic equipment (in the assembly stage), and textiles, which the US prioritizes for import.

For other major markets:

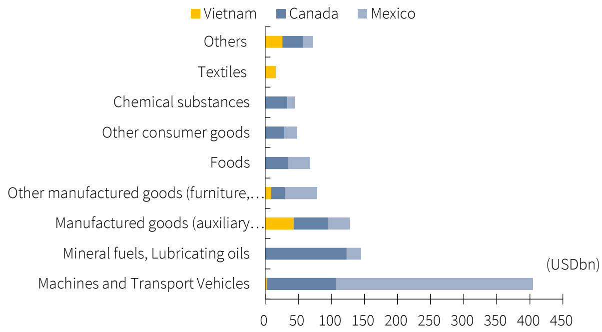
(iii) Exports to the EU market are forecast to bounce back on the expectation that the EU region will record positive economic growth in 2025/2026, reaching 1.3%/1.5% respectively, higher than the 0.8% recorded in 2024 (according to OECD).

Fig 12. Vietnam – Top export markets



Source: General Statistics Office, KB Securities Vietnam

Fig 13. Vietnam – Top exports to the US



Source: Worldbank, KB Securities Vietnam

FDI inflows to Vietnam should continue to benefit from the "China +1" strategy

The US-China trade war is escalating, which is pushing multinational enterprises to accelerate the relocation process with the "China +1" strategy to limit the risks of being taxed. We expect Vietnam to continue to benefit from this trend. The registered FDI in 2025 should increase 5% with (1) production costs (labor and electricity) significantly lower than in China; (2) geographical location close to China, convenient for businesses to move; (3) the Vietnamese government's "bamboo" diplomacy strategy that helps limit risks related to political issues; (4) promoting infrastructure investment; and (5) signing FTA agreements with a wide coverage of more than 60 countries worldwide. In addition, in the context of increasingly fierce competition to attract FDI capital among countries, we expect that prioritizing policies to attract FDI in high-tech industries will be a new step to help promote long-term FDI growth (Table 4).

Table 4. Vietnam – Government policies to develop high-tech industry

Policy	Contents
Train and increase human resource in the semiconductor industry	Research and propose amendments to the policy mechanism for tuition exemption and reduction for students studying majors related to the semiconductor industry
Support training, research, and development costs	Support costs for training and human resource development (up to 50%) for actual costs that enterprises have spent in the year on training and developing human resources for Vietnamese workers; Support costs for research and development (up to 30%) for actual costs that enterprises have spent in the year on R&D activities
Support fixed asset investment costs	Support up to 10% for investment costs to create fixed assets that enterprises have actually invested
Support production costs	Support up to 3% of the cost of manufacturing high-tech products, based on the added production value of the product
Support infrastructure system investment costs	Support up to 25% of the cost of investing in social infrastructure systems for all types of investment costs in social infrastructure systems

Source: KB Securities Vietnam

Inflation

1. 2024 inflation

2024 inflation is under the government's control

The headline consumer price index (CPI) in 2024 inched up 3.63% YoY, under the government's limit. In 4Q alone, it rose 2.87% QoQ, a slight increase from 2.78% in 3Q. Core CPI tends to be similar to headline CPI, the average core CPI increased by 2.71% YoY, lower than the headline CPI increase mainly due to the prices of food, foodstuffs, electricity, education and medical services, which are factors that raise the CPI but are excluded from the list of core inflation calculations.

In 2024, the main factors affecting the CPI include:

(1) The food and catering services group increased by 4.03% YoY, causing the headline CPI to increase by 1.35ppts. In which, the main increase came from: rice prices surged 15.93% according to the export rice prices. Food group increased by 2.7% mainly due to the sharp increase in pork prices when African swine fever broke out.

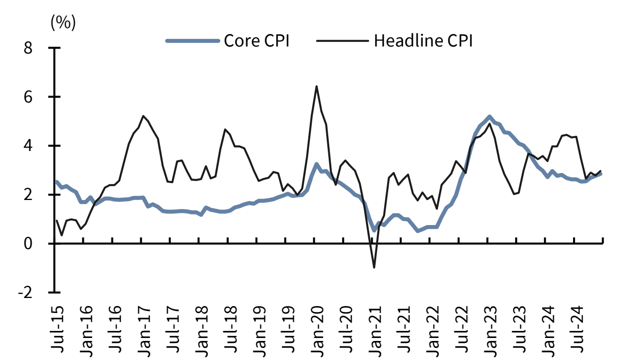
(2) Housing, electricity, water, fuel and construction materials group rose 5.2%, causing the headline CPI to increase by 0.98ppts.

(3) Medicines and medical services increased by 7.16%, causing the headline CPI to gain 0.39ppts.

(4) Education group gained 5.37% due to higher tuition, causing the headline CPI to increase by 0.33ppts.

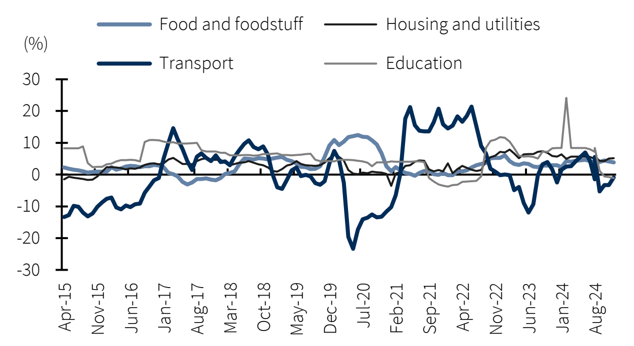
(5) Transport group price index increased by 0.76%, raising CPI by 0.07ppts.

Fig 16. Vietnam – Core & headline CPI (% YoY)



Source: General Statistics Office, KB Securities Vietnam

Fig 17. Vietnam – Price index of main industry groups (%)



Source: General Statistics Office, KB Securities Vietnam

2. 2025F inflation

Average inflation is projected to reach 4% by 2025-end

We forecast Vietnam's average inflation in 2025 to be 4% YoY, which remains well-controlled and below the Government's target of 4.5%.
Consumer spending is expected to recover in 2025; however, we anticipate the average CPI will remain stable due to several factors: (i) a continued decline in rice prices; (ii) a slight decrease and stabilization in hog prices driven by increased supply and controlled disease outbreaks; (iii) crude oil prices likely following a downward trend; and (iv) the price increases of Government-regulated items (such as electricity, education, and healthcare) not placing significant pressure on the CPI, as they are proactively managed.

KBSV leans towards the scenario of declining Brent crude oil prices

Oil prices are expected to experience significant volatility under Donald Trump's administration. However, we lean towards the scenario of declining oil prices, driven primarily by: (i) an increase in oil supply as a result of Trump's policies encouraging higher crude oil production; and (ii) subdued oil demand from China due to escalating US-China trade war tensions. We forecast the average Brent crude oil price for 2025 to decline from USD80 per barrel to USD75 per barrel in the base case scenario and to USD70 per barrel in the bear case scenario (2025 Oil & Gas Sector Outlook Report).
Additionally, under Resolution 60/2024/UBTVQH15, the environmental protection tax on gasoline, oil, and lubricants will remain reduced by 50% until the end of 2025. Consequently, we expect fluctuations in oil prices to have a minimal impact on the CPI increase in 2025.

Table 5. Global – 2024F-2025F crude oil supply surplus (+) and deficit (-) (million barrels/day)

	Dec 2024 forecast	
	2024F	2025F
OPEC	-0.3	-0.3
EIA	-0.3	0.3
IEA	-0.6	0.8
Mean	**-0.4**	**0.3**
	Sep 2024 forecast	
Organization	2024F	2025F
OPEC	-0.8	-0.6
EIA	-0.6	0.9
IEA	-0.2	1.2
Mean	**-0.5**	**0.5**

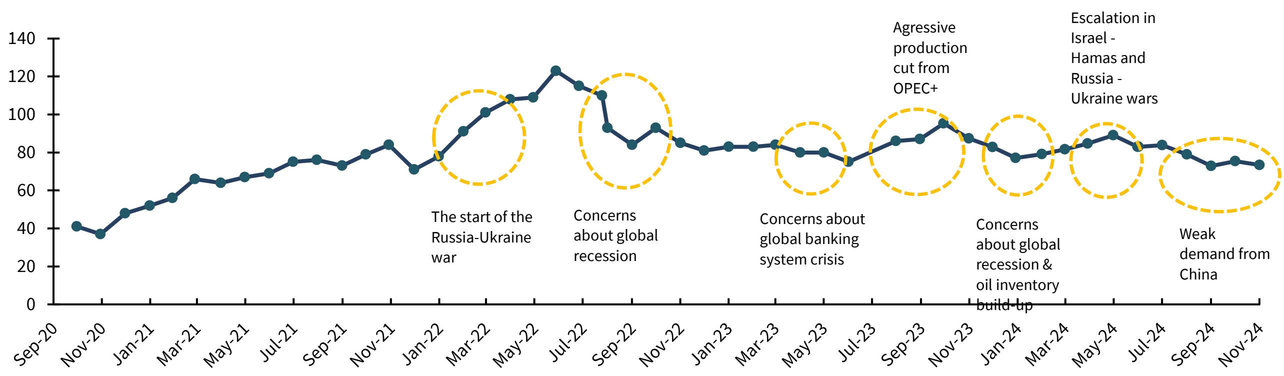
Source: OPEC, Energy Information Administration, International Energy Agency, KB Securities vietnam

Table 6. Global – 2024F-2025F Brent crude oil prices (USD/barrel)

Organization	Forecast date	2024F	2025F
BNP Paribas SA	09/12/2024	81.0	76.0
Citigroup Inc	06/12/2024	80.0	60.0
EIA	05/12/2024	81.0	74.0
Morgan Stanley	05/12/2024	80.3	70.0
Natixis SA	03/12/2024	77.0	73.3
Landesbank	03/12/2024	79.0	71.0
BoA Merrill Lynch	02/12/2024	80.0	65.0
Kshitij Consultancy	02/12/2024	79.4	72.3
JPMorgan Chase & Co	29/11/2024	80.0	73.0
Median		**80.0**	**72.3**
KBSV assumption		**80.0**	**75.0**

Source: Bloomberg, Energy Information Administration, KB Securities Vietnam

Fig 18. Global – Brent crude oil prices in 2020–2024 (USD/barrel)



Source: Bloomberg, KB Securities Vietnam

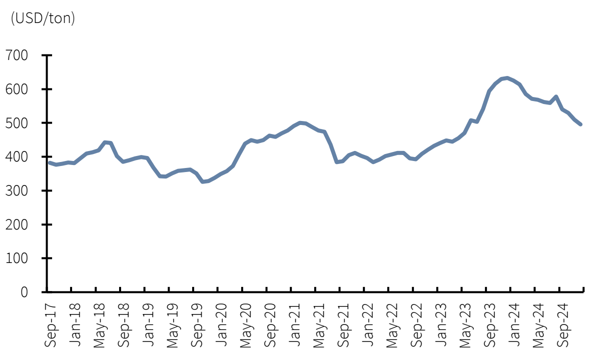
Rice prices maintained a downward trend

In 2025, rice prices are expected to continue declining, in line with the drop in export rice prices, driven primarily by abundant global supply. The US Department of Agriculture (USDA) projects global rice production for the 2024–2025 crop year to reach a record high of 530.4 million tons. This increase in supply is largely attributed to India, the world's largest rice exporter, lifting its ban on white rice exports. Meanwhile, rice exports from countries such as Brazil, Pakistan, Thailand, and Vietnam are anticipated to remain relatively stable.

Hog prices remained stable thanks to a balanced supply-demand

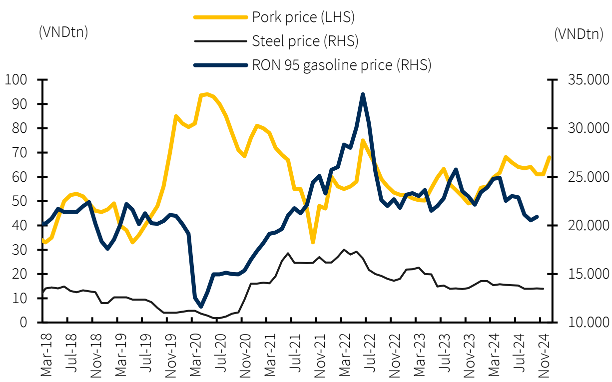
We anticipate that increased spending in 2025 will push pork prices higher; however, this upward pressure is likely to be mitigated by a projected 3% rise in Vietnam's pork production, reaching 3.8 million tons. This growth is expected to stem from the expansion of pig herds, supported by improved control of African Swine Fever (ASF). Pork prices are forecasted to range between VND60,000 and 70,000 per kilogram in 2025.

Fig 19. Vietnam – 5% broken rice export prices (USD/ton)



Source: Bloomberg, KB Securities Vietnam

Fig 20. Vietnam – Live pig, steel, oil & gas prices ('000 VND/kg, '000 VND/litter)



Source: Vietnam Livestock Association, FiinPro, KB Securities Vietnam

Table 7. Vietnam – 2025F CPI

	Groups	Weight (%)	+/- (% YoY)	Contribution to CPI (%)
1	Food and foodstuff			
	Food	3.67	3.0	0.1
	Foodstuff	21.28	5.0	1.1
	Eating out	8.61	5.0	0.4
2	Beverages and tobacco	2.73	3.0	0.1
3	Clothing and footwears	5.7	3.0	0.2
4	Housing, water, electricity, gas and other construction materials	18.82	5.0	0.9
5	Furniture, household equipment and maintenance	6.74	4.0	0.3
6	Medicine & healthcare services	5.39	3.0	0.2
7	Transportation	9.67	1.6	0.2
8	Communications	3.14	1.0	0.0
9	Education	6.17	5.0	0.3
10	Culture, entertainment & tourism	4.55	1.7	0.1
11	Others	3.53	5.0	0.2
Total				**4.0**

Source: KB Securities Vietnam

IV. USD/VND exchange rate

1. 2024 USD/VND exchange rate

The official exchange rates encountered challenges at times but remained managed within the defined limits

The official USD/VND exchange rates experienced significant fluctuations in 2024, particularly in the second quarter (as the Fed maintained high interest rates amid an overheating economy) and in the year-end period (reflecting expectations of a stronger USD following Donald Trump's election victory). Nevertheless, the exchange rate remained under control within the defined limits of +/-5% set by the SBV. To stabilize the market and curb the depreciation of the VND, the SBV implemented timely measures: **(i) selling foreign exchange reserves** (The SBV carried out substantial interventions in the second and fourth quarters, selling an estimated USD10.5 billion in 2024) and **(ii) regulating VND liquidity** (The SBV flexibly employed open market operations (OMO) and issued treasury bills (T-bills) to net withdraw VND liquidity during peak periods from May to June 2024 and October to December 2024, thereby alleviating pressure on the exchange rate. By year-end, the central exchange rate had increased by 1.9% YTD to 24,320 VND/USD, while the interbank exchange rate rose by 5% YTD.

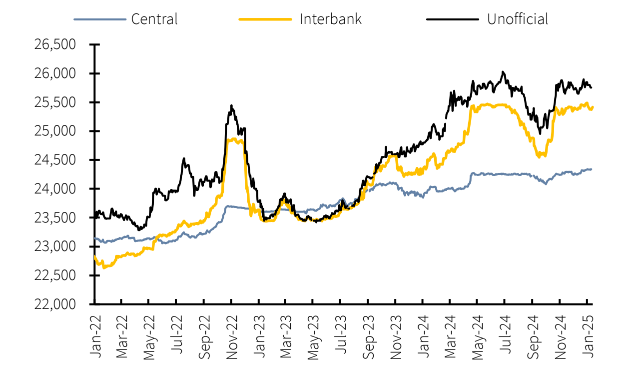
The unofficial exchange rates remained subject to fluctuations in gold prices

The unofficial USD/VND exchange rates remained subject to fluctuations in gold prices in 2024, particularly during periods when global gold prices saw sharp increases. The substantial gap between domestic and international gold prices, at times exceeding VND20 million per tael, spurred demand for gold smuggling, placing upward pressure on the exchange rate. To stabilize the market and enhance transparency, certain regulatory measures were introduced: **(i) adjusting the gold supply mechanism** (In addition to SJC, the SBV allowed four major state-owned banks (SoBs) to purchase gold from the SBV and sell it directly to the public, bridging the gap between domestic and international gold prices while curbing speculative activities) and **(ii) proposing amendments to Decree 24** (The proposed changes focused on improving the supply of gold bars and stabilizing the market). By the end of 2024, the unofficial exchange rate had increased by 4.3% YTD.

NEER and REER exhibited similar trends

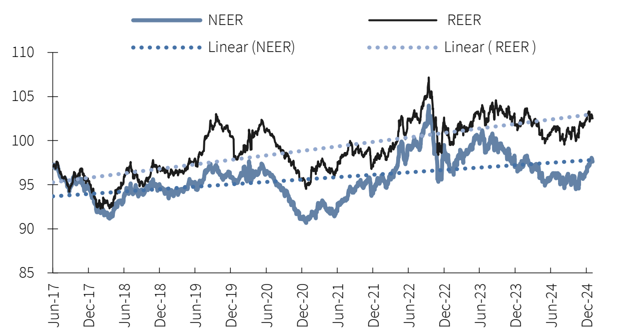
In our estimates, both the NEER (Nominal Effective Exchange Rate, which measures the value of the VND against a basket of 8 reference currencies based on the central exchange rate mechanism) and the REER (Real Effective Exchange Rate, which adjusts the NEER for inflation) followed similar trends. Both indices saw a slight decline in the first half of 2024 but rebounded in the latter half, with YTD increases of 1% and 0.9%, respectively, as of December 31, 2024. This was primarily due to the VND depreciating less than other currencies in the basket, particularly towards the end of the year. During this period, the depreciation of the VND was partially offset by a stable supply of USD, supported by consistent export performance, FDI inflows, and remittances.

Fig 21. Vietnam – USD/VND exchange rates



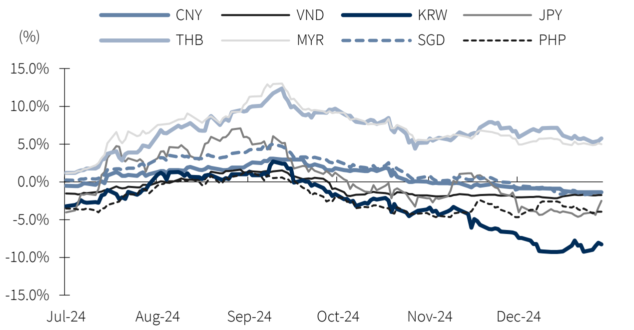
Source: Bloomberg, Fiingroup, KB Securities Vietnam

Fig 22. Vietnam – NEER & REER



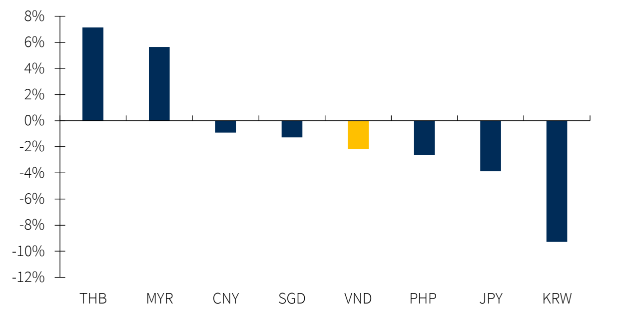
Source: Bloomberg, KB Securities Vietnam

Fig 23. Global – Currency movements relative to the USD



Source: Bloomberg, KB Securities Vietnam

Fig 24. Global – Currency movements relative to the USD as of January 16, 2025 (%YTD)



Source: Bloomberg, KB Securities Vietnam

2. 2025F USD/VND exchange rate

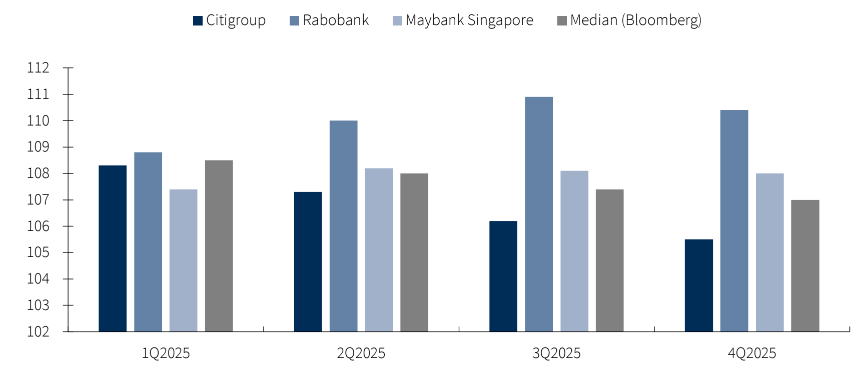
The exchange rate is forecasted to reach 26,000 VND/USD in 2025, with pressures likely at various points throughout the year

The exchange rate outlook in 2025 is expected to be a blend of opportunities and challenges. We anticipate limited volatility, with a projected increase of around 2% compared to 2024, bringing the rate to around 26,000 VND/USD by year-end. Our projection is based on the expectation that the US Dollar Index (DXY) will moderate after reflecting Trump's policies, coupled with a steady supply of USD from trade surpluses and FDI, which are forecasted to remain strong. However, the exchange rate may still face pressures, particularly when Trump's policies are officially implemented.

The DXY is expected to moderate in the second half of 2025

The USD is strengthening, driven by expectations that Donald Trump's expansionary fiscal policies and tariffs on goods from certain economies will spur stronger economic growth in the US, which, in turn, may push inflation higher. This could delay the Fed's anticipated interest rate cuts. In fact, the DXY, currently trading around 110 points (Figure 25), has already incorporated these factors. However, as noted in the 2025 Strategy Report, we expect the DXY to moderate towards the end of the year due to: (i) expectations that the Fed will cut rates twice in 2025; (ii) the US economy no longer outpacing the rest of the world as observed in 2024; and (iii) the DXY currently lingering at high levels.

Fig 25. Global – 2025F DXY by major financial institutions



Source: Bloomberg, KB Securities Vietnam

The SBV will intervene during periods of exchange rate tension

Exchange rate intervention measures, such as selling foreign exchange reserves and managing liquidity through OMO and T-bill issuance, are expected to remain in use during periods of tension, with a primary focus on maintaining stability in the foreign exchange market. However, the scale of these interventions is anticipated to be smaller than in 2024, as exchange rate pressures are expected to ease in 2025. The sale of foreign exchange reserves will be carefully evaluated to safeguard national reserves, while the injection or withdrawal of VND liquidity via OMO and T-bill issuance will be flexibly adjusted to balance exchange rate pressures with banking system liquidity:

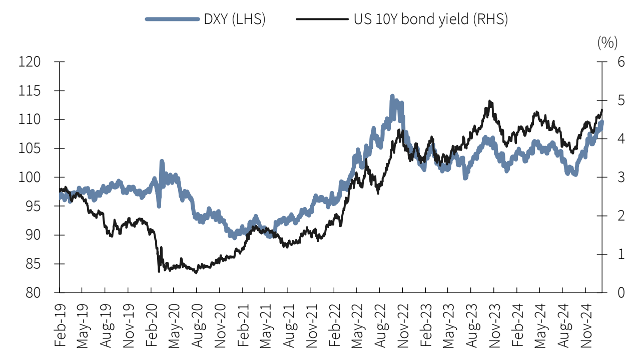
- **Foreign exchange reserves:** After the sale of over USD10 billion last year, Vietnam's foreign exchange reserves have become more constrained, currently estimated at ~USD80 billion, below the IMF-recommended level of three months' worth of imports. In a bullish scenario, where exchange rate pressures subside and external conditions are favorable, we anticipate the SBV will focus on rebuilding reserves to strengthen national resources.
- **Policy interest rates:** We anticipate that the SBV will refrain from raising policy interest rates in 2025 due to: (i) its objective of maintaining low interest rates to support economic growth and (ii) the narrowing interest rate gap between the USD and VND, following the Fed's rate cuts last year, which has alleviated some exchange rate pressures.

Trade surplus, FDI inflows, and remittances will further support the exchange rate in 2025

Beyond expectations of more stable DXY fluctuations in 2025, we identify several additional factors that could contribute to exchange rate stability:

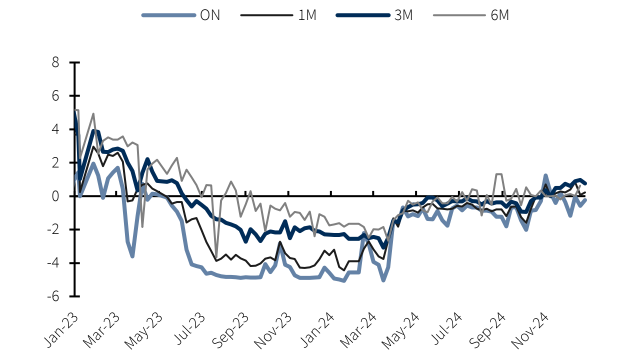
- **Trade surplus:** Vietnam is expected to sustain its trade surplus thanks to stronger export performance. We project a 10% YoY export growth, driven by: (i) rising demand from partner countries; (ii) Vietnam benefiting from the relocation of manufacturing activities away from China; and (iii) the low likelihood of Vietnam's export goods being subjected to Trump's tariffs.
- **FDI inflows:** We anticipate continued growth in FDI, particularly during Trump's new term, as Vietnam is viewed as one of the primary beneficiaries of the global investment shift. Along with this, stable growth in remittances will further bolster USD supply in the market in 2025.

Fig 26. US – 10Y bond yield & DXY



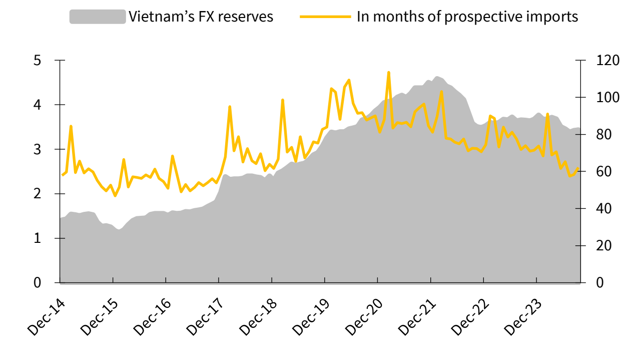
Source: Bloomberg, KB Securities Vietnam

Fig 27. US – Interbank USD-VND interest rate differential (%)



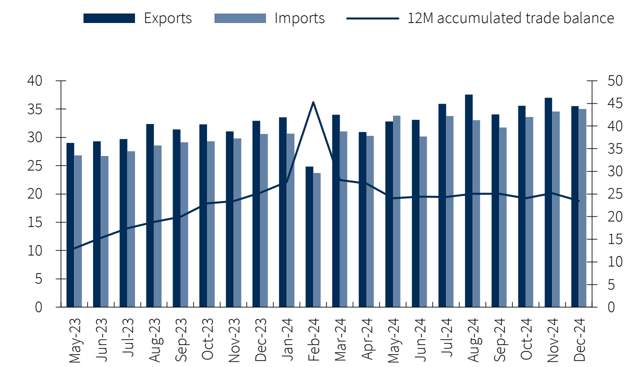
Source: Bloomberg, KB Securities Vietnam

Fig 28. Vietnam – Foreign exchange reserves (USDbn)



Source: Bloomberg, KB Securities Vietnam

Fig 29. Vietnam – Exports, imports, 12M trade balance (USDbn)



Source: CEIC, KB Securities Vietnam

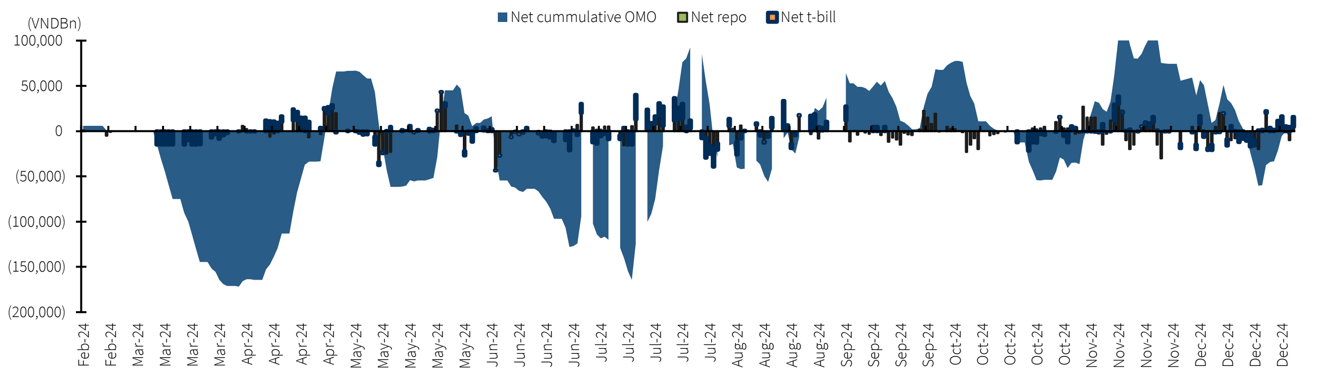
V. Interest rates

1. 2024 interest rates

Banking system liquidity remained stable in 2024

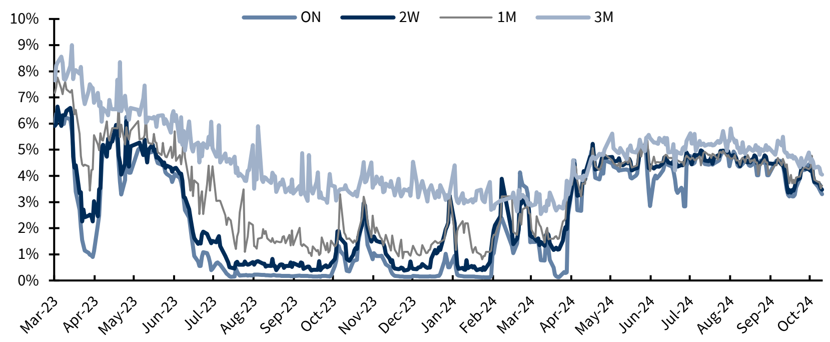
In 2024, a range of flexible measures were implemented in the interbank market (market 2) to stabilize the exchange rate and maintain banking system liquidity. Specifically, during periods of heightened exchange rate pressure, such as in May-June 2024 and at the year-end, the SBV focused on net tightening through the issuance of T-bills to reduce the supply of VND in circulation and control the depreciation of the currency. On the other hand, during more stable market conditions, especially in 3Q2024 when the Fed began cutting interest rates, the SBV proactively shifted towards injecting VND liquidity via OMO. The SBV's flexible approach in managing its tools not only supported banking system liquidity but also contributed to a stable interest rate environment. Interbank interest rates ranged from 3% to 6%, depending on the term, ensuring adequate liquidity while mitigating speculative exchange rate transactions through interest rate differentials (known as carry trade). As of now, overnight, 2-week, 1-month, and 3-month rates are currently at 3.94%, 4.45%, 4.86%, and 5.47%, respectively (+299bps, +226bps, +306bps, +107bps compared to the start of 2024).

Fig 30. Vietnam – Open market operations



Source: State Bank of Vietnam, KB Securities Vietnam

Fig 31. Vietnam – Interbank interest rates (%)



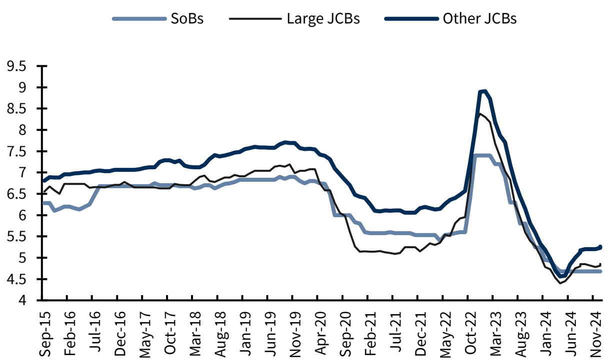
Source: State Bank of Vietnam, KB Securities Vietnam

Retail deposit interest rates have experienced an upward shift to new levels

In the first quarter of 2024, deposit interest rates continued their downward trend from 2023, reaching levels even lower than those observed during the COVID-19 period. However, from April onwards, interest rates began to rise at banks, particularly for shorter-term deposits, with notable increases. Overall, deposit rates remain 35bps lower compared to the end of 2023 but have increased by 95bps since the interest rate hike cycle resumed. Joint stock commercial banks (JCBs) saw the most significant increases, with 12-month rates rising by +46bps (ACB, MBB, TCB, VPB) and +70bps (other JCBs) from the March 2024 low, while SoBs did not experience substantial changes in their deposit interest rates throughout the year. The rise in deposit rates is driven by: (i) rising demand for funds to support credit growth (with a credit growth target of +15.08% for the full year of 2024, accelerating in the second half); (ii) relatively low interest rates in previous periods; and (iii) high interbank interest rates, which have exerted pressure on mobilizing funds in the retail deposit market (market 1).

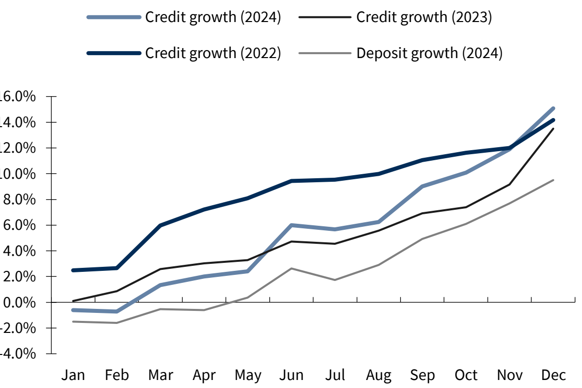
According to the SBV, the average lending rate dropped by 1.72% YoY in 2024 and has remained stable at the current level. This trend aligns with: (i) the government's policy to maintain low interest rates to stimulate economic growth; (ii) relatively weak credit demand in the early part of the year; and (iii) various interest rate support programs introduced by banks to assist customers recovering after natural disasters.

Fig 32. Vietnam – 12M deposit interest rates (%)



Source: Bloomberg, KB Securities Vietnam

Fig 33. Vietnam – Monthly banking sector credit growth (%)



Source: State Bank of Vietnam, KB Securities Vietnam

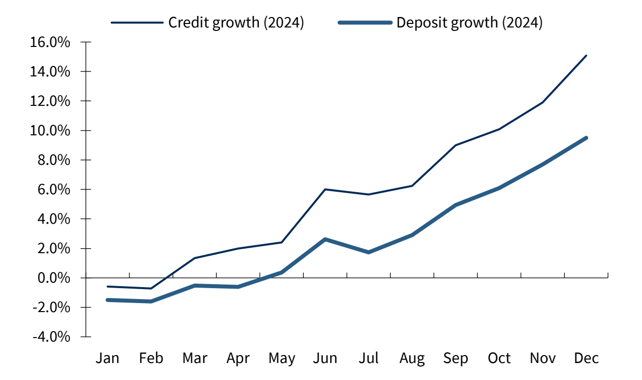
2. 2025F interest rates

Interest rates in 2025 are projected to see a minor increase while remaining low overall

As previously mentioned, we believe the SBV will continue its accommodative monetary policy, maintaining low interest rates to support economic growth (with the National Assembly's target set at 6.5-7%). As a result, retail deposit interest rates are expected to rise slightly but remain low, with an anticipated increase of 30-100bps (depending on the category of banks) as:

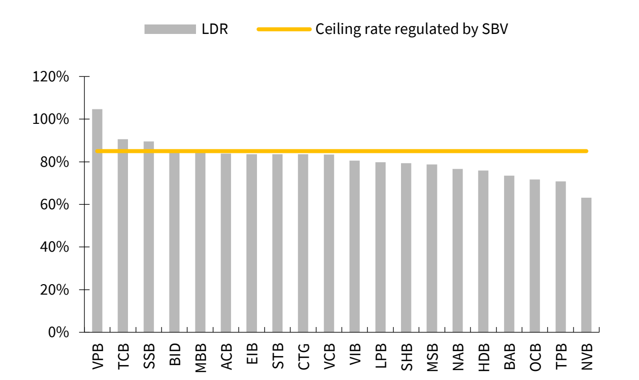
- The liquidity pressure remains significant. We believe that banks will need to increase their funding sources due to: (i) a relatively large credit-deposit growth gap in 2024, with deposit growth still slow despite the recent increase in deposit interest rates compared to previous periods; (ii) loan-to-deposit ratio (LDR) at many banks rising close to the SBV's regulatory cap of 85%, creating pressure to raise funds to avoid liquidity risks; and (iii) interbank interest rates likely to remain at their current high levels, at least through the first half of 2025, as exchange rate tensions may persist during the early part of the year, which may the retail deposit market. Meanwhile, the relatively high credit growth target for 2025 (16% compared to 2024) will require banks to mobilize sufficient capital to meet this target.
- Deposit interest rate increases will vary across banks: For SoBs, deposit rates are expected to rise by 30-50bps from the current level. This increase is still lower than that of JCBs due to their access to stable funding sources like state treasury deposits, which alleviate some of their liquidity concerns. In contrasts, small-scale JCBs with weaker CASA franchises may face more pressure to increase deposit rates to attract and retain customers, ranging from 50-100bps

Fig 34. Vietnam – Banking sector credit & deposit growth (%)



Source: State Bank of Vietnam, KB Securities Vietnam

Fig 35. Vietnam – LDR at some banks (%)

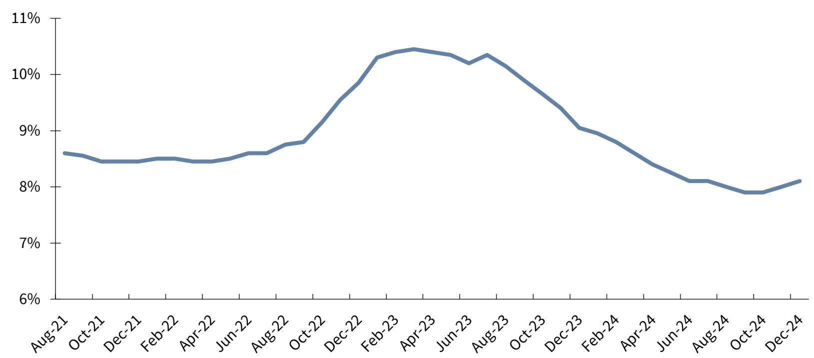


Source: FiinPro, KB Securities Vietnam

Lending interest rates are expected to remain stable in the first half of 2025 before rising in the latter part of the year

In 2024, maintaining low lending interest rates will be key to driving credit growth in the economy. However, we believe that sustainable credit growth will be driven by the recovery and increased demand for capital (as observed in the first half of 2024, when, despite significant rate cuts, credit growth remained relatively subdued). In 2025, we expect credit growth to be primarily fueled by genuine demand, driven by the economic recovery. We forecast lending rates to remain stable at current levels during the first half of 2025 before recovering in the second half of the year. This recovery will reflect (i) improved credit demand from businesses and individuals, bolstered by macroeconomic stability and a recovering real estate market; (ii) the lag with deposit rates (with a 6-12 month lag) and the transfer of input costs to customers by banks; and (iii) a reduction in customer support programs and preferential loan packages compared to the previous year.

Fig 36. Vietnam – Average lending interest rate for new and existing loans (%)



Source: State Bank of Vietnam, KB Securities Vietnam

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Investment ratings & definitions

Investment Ratings for Stocks
(based on expectations for absolute price gains over the next 6 months)

Buy:	Neutral:	Sell:
+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors
(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market