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Viet Nam Economic Update

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May 2026

Sustaining Reforms, Navigating Uncertainty

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ACRONYMS

ASEAN	Association of Southeast Asian Nations
CPI	Consumer Price Index
EAP	East Asia and Pacific
EMDE	Emerging Market and Developing Economy
HOSE	Ho Chi Minh Stock Exchange
IEA	International Energy Agency
IMF	International Monetary Fund
MOF	Ministry of Finance
NSO	National Statistics Office
ODA	Official Development Assistance
PMI	Purchasing Managers Index
SBV	State Bank of Viet Nam
SOE	State-owned enterprise
VBMA	Viet Nam Bond Market Association
VND	Viet Nam Dong
yoy	Year-over-year
YTD	Year-to-date

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FOREWORD

The economic landscape facing Viet Nam has shifted markedly in recent years. A more uncertain global trade environment and heightened geopolitical tensions have tested the resilience of Viet Nam's export-oriented growth model. At the same time, climate risks, rapid technological change, demographic transition, and rising infrastructure needs are reshaping the foundations of long-term development. These developments require policy makers to continue to improve macroeconomic management in the short-term and accelerate structural reforms that can sustain high growth, strengthen resilience, and support Viet Nam's ambition to become a high-income economy.

To highlight the key opportunities and challenges facing the economy, and to stimulate discussion among policy makers, the private sector, development partners, and other stakeholders, the World Bank Group produces the **Viet Nam Economic Update**, a biannual report assessing recent economic developments, the outlook, and selected policy priorities. This edition reviews recent global and domestic macroeconomic trends, examines both the near-term and medium-term prospects for Viet Nam.

The Update describes an economy that has shown notable resilience, supported by strong external demand, continued foreign direct investment, and accelerated public investment. While manufacturing and exports continue to anchor growth, the economy's ability to retain more value domestically, deepen linkages between foreign-invested and domestic firms, and raise productivity will be critical for sustaining momentum over the medium term.

The outlook remains positive, but risks are elevated in the near term, mainly from external sources. Domestically, high credit intensity and real estate-related financial exposures require continued vigilance. Recent public administration, finance and investment management and capital market reforms provide an important opportunity to raise the economy's long term growth rate. Arguably, the most important policy challenge is to implement, finance and sustain the wide-ranging reform agenda now underway, manage and reduce risks—both external and domestic– and strengthen the domestic private sector.

MARIAM J. SHERMAN
Division Director for Viet Nam, Cambodia and Lao PDR, The World Bank

Executive Summary

Viet Nam entered 2026 in the strongest position of any economy in ASEAN. Despite global trade headwinds, gross domestic product (GDP) growth accelerated to 8 percent in 2025—the fastest in ASEAN—with momentum carrying through to 2026, buoyed by surging exports and investment, a resilient domestic economy and sweeping reform agenda amidst the largest administrative rationalization and reorganization since the *Đổi Mới* reforms. Since 2025, the authorities have enacted more than 86 laws and 300 decrees through to April 2026 to streamline bureaucracy and regulatory impediments to private sector-led growth, and to modernize tax, customs, judiciary, digital, and corporate insolvency systems. Having established itself as a global trade and manufacturing hub, Viet Nam is now actively opening its capital markets to domestic and foreign investors.

However, the Middle East conflict has exposed structural weaknesses in Viet Nam's growth model. In scale and scope, the oil shock linked to the Middle East conflict since March 2026 is the largest in decades. Separately, the global trade environment remains uncertain. Together, these pressures have brought renewed focus to longer-standing features of Viet Nam's growth model: the widening gap between foreign domestic investment (FDI) and domestic firms, a mismatch between strong trade and weak domestic retention of foreign exchange contributing to thin external buffers and persistent exchange rate pressure, and one of the highest corporate leverage ratios among major East Asian economies, alongside liquidity strains in the banking sector.

Although global headwinds will temper the pace of growth, the outlook for 2026 remains solid. Growth is expected to moderate in 2026 to a still high 6.8 percent, as the Middle East oil shock weighs on global demand and domestic activity. On the domestic side, an investment-led fiscal expansion is expected to support private sector activity and consumption. With public debt at only 34 percent of GDP (2025), there is meaningful fiscal space to increase spending and absorb shocks. With higher global energy prices expected to persist through the year, inflation is projected to average just over 4 percent in 2026. The medium-term outlook is anchored by a far-reaching capital market and structural reform agenda alongside a US$320 billion public infrastructure investment plan.

Near-term risks are tilted to the downside, but more balanced in the medium term. Near-term risks include high sensitivity to external demand, given very high trade openness. Acute shocks such as a prolonged or worsening global oil supply disruption could depress global demand for Viet Nam's exports and spillover into the domestic economy. In the medium term, stronger-than-expected reform implementation and infrastructure delivery, deeper capital markets, and continued supply-chain diversification could substantially boost productivity and support more resilient growth. On the other hand, poorly managed or unevenly executed reforms and unproductive investments could increase risks of a middle-income trap, stalling the growth of the middle-class even as the workforce ages.

The global oil shock sharpens the urgency of reforms. Viet Nam's reform agenda is steering in the right direction, but translating it into results—ensuring investments are productive, financing is adequate, and implementation keeps pace with ambition—will require sustained effort against an uncertain external backdrop. Done well, however, this moment opens a genuine opportunity to build a virtuous cycle of rising investor confidence, private investment, growth, and resilience. This demands a fundamental shift in the growth model—from factor accumulation and bank-led finance toward productivity-driven growth, deeper capital markets, and higher-quality FDI with stronger domestic spillovers. This shift is also Viet Nam's clearest path to more and better jobs, a stronger domestic private economy, and entry into the ranks of high-income countries.

A.Global Development

The global and regional backdrop

Global growth remained resilient in 2025…

Global economic conditions in 2025 proved more resilient than anticipated. Despite headwinds from higher U.S. tariffs, a front-loading of trade activity, AI-driven investment, supply chain reconfiguration, limited tariff pass-through, and easing financial conditions in the second half of the year provided a supportive backdrop, while inflation continued moderating, allowing for more accommodative monetary conditions across many economies. As a result, the post-pandemic rebound over 2021–25 marked the strongest recovery from a global recession in more than six decades.

…but activity is expected to moderate due to the Middle East conflict

However, geopolitical tensions and conflict in the Middle East have increased uncertainty. The Middle East oil shock had resulted in a loss of 13mbd by mid-April (Figure 1), with global energy prices up more than 50 percent yoy in end-April (Figure 2). East Asia is among the most exposed regions due to dependence on oil imports from the Gulf region. The shock is multi-layered, impacting nearly about a fifth of the world's Liquefied Natural Gas (LNG) supply, and the transit of significant volumes of fertilizers, aluminum, petrochemicals and critical industrial raw materials such as helium and sulfur, and raising tanker and shipping costs. Damage to energy infrastructure means that the disruption has moved beyond logistics to production, with uncertainty around when full production can be restored.

The global trade environment remains uncertain. Despite the February 2026 Supreme Court ruling on International Emergency Economic Powers Act (IEEPA) tariffs, U.S. export duties remain above 2024 levels, with former "reciprocal" measures replaced by a provisional 10 percent global tariff under Section 122 through July 2026 (Figure 3). Section 232 cases, meanwhile, sustain high tariffs on steel, aluminum, copper, and various manufactured goods. In March 2026, the U.S. Trade Representative (USTR) initiated two major Section 301 investigations focused on 60 economies and 16 trading partners, including Viet Nam.

FIGURE 1

Global oil supply declines in major oil crisis

Source: IEA reports and World Bank staff calculations.
Note: mb/d = million barrels per day

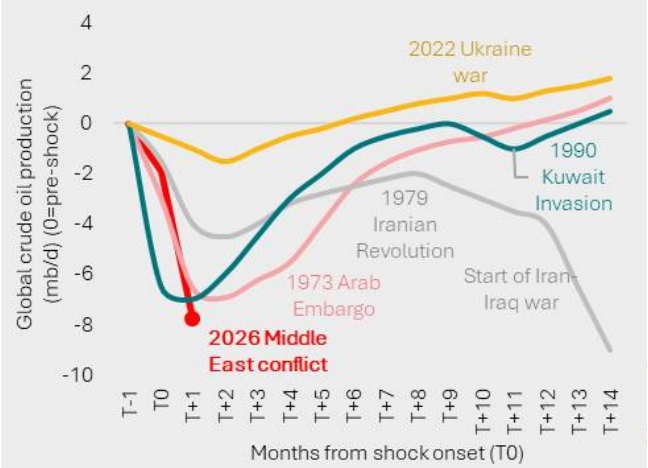
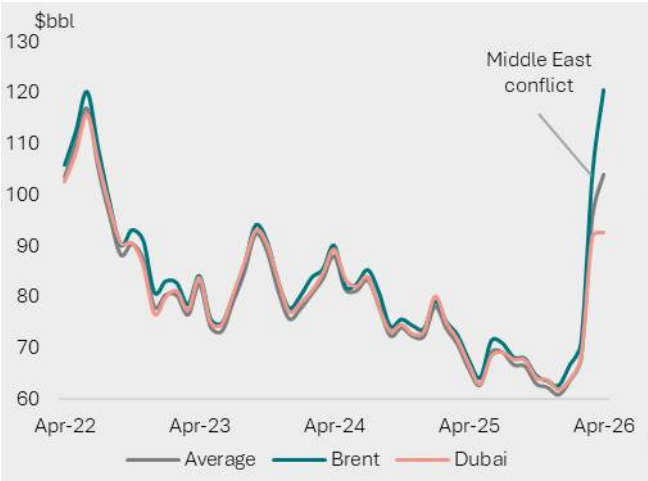


FIGURE 2

Global energy prices (Average, Brent, and Dubai crude oil prices)

Source: World Bank Group commodity prices.



Global activity and job creation are expected to soften in 2026. To date, high-frequency indicators point to continued resilience in global activity, supported by still easy monetary and fiscal policy in advanced and emerging market economies, and as AI-driven capex and adoption drive investment spending and productivity. Under the baseline assumption that the most acute disruptions end soon and shipping through the Strait of Hormuz gradually returns toward prewar levels by late 2026, Brent oil prices are forecast to average $86 per barrel in 2026, up sharply from $69 in 2025. Overall, commodity prices are projected to rise by 16 percent this year, while energy prices are expected to increase by 24 percent, reaching their highest level since 2022. The supply shocks brought about by the conflict are broad. Fertilizer prices are projected to soar, while prices of food commodities and many metals are also expected to increase. As a result global growth is expected to slow in 2026 before recovering in 2027-28. Risks to these projections are firmly tilted to the upside. If disruptions in the Middle East prove more extensive than assumed, Brent prices could average as high as $115 per barrel in 2026.

Growth in East Asia is set to slow in 2026...

Growth in developing East Asia and Pacific (EAP), although above the global average, is likely to slow from 5.0 percent in 2025 to 4.2 percent in 2026 and 4.4 percent in 2027 (Figure 4). This trend is largely driven by China's decelerating economy - growth is expected to decline to 4.2 percent in 2026 as domestic demand remains subdued (amid soft labor and housing markets). For the remainder of EAP, growth is likely to slow from 4.9 to 4.1 percent in 2026, with a subsequent rebound to 5.0 percent in 2027 as geopolitical tensions ease. Notwithstanding a surge in the region's exports (Figure 5), private investments' share of GDP remains below pre-pandemic baselines in ASEAN economies (Figure 6) partly because of elevated economic policy uncertainty, both domestically and globally.

FIGURE 3

Effective tariff rates and its increments

Source: EAP Update, April 2026.

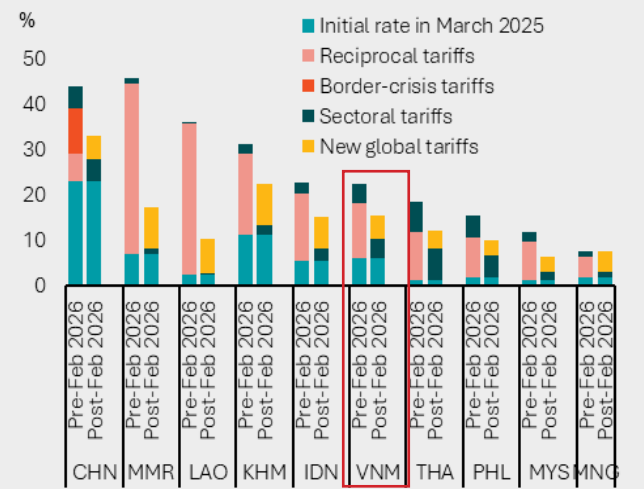


FIGURE 4

Growth in EAP vs rest of the world

Source: EAP Economic Update, April 2026.

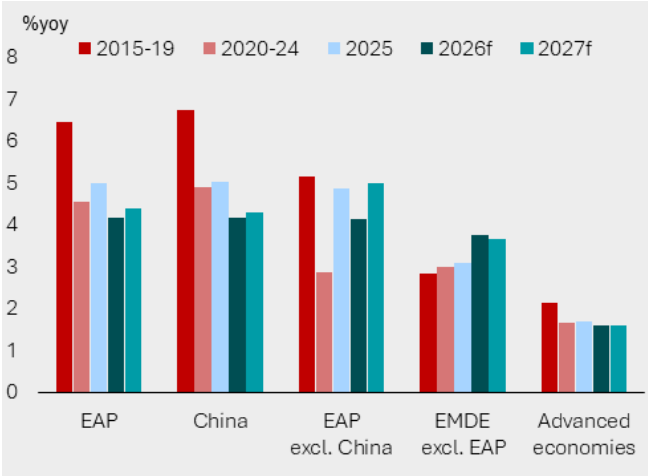


FIGURE 5

Growth of electronics exports and others

Source: EAP Economic Update, April 2026.

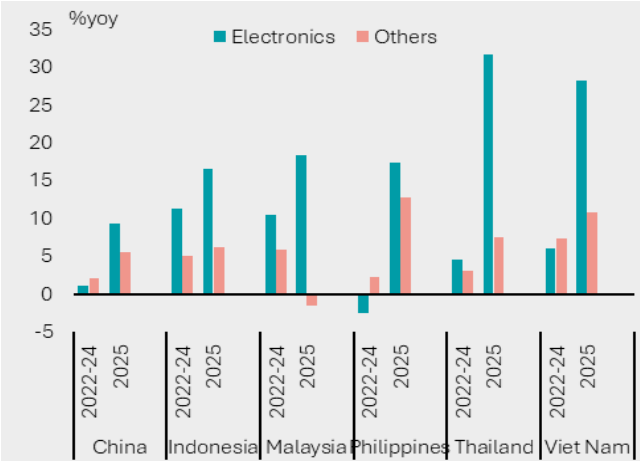
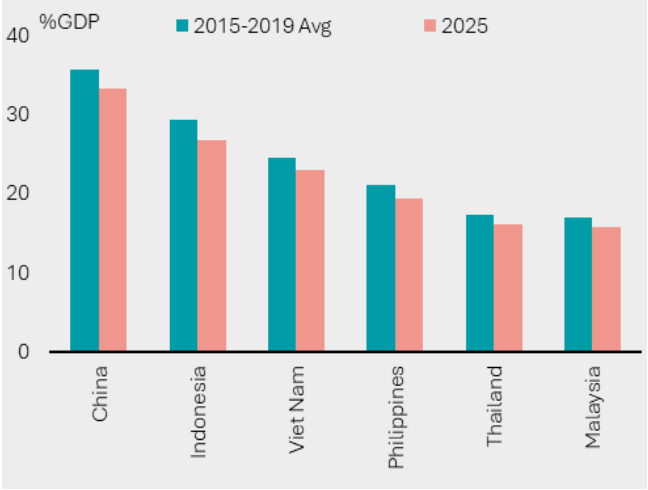


FIGURE 6

Private investment as share of GDP

Source: EAP Economic Update, April 2026.



The Middle East oil shock

Exposure, vulnerability, and policy space to respond varies across countries

The oil shock affects economies in EAP through several transmission channels (Figure 7). First, higher global oil prices would raise crude and fuel import bills and translate into an increase in domestic fuel price. Second, higher energy pump prices would feed directly into transport costs and indirectly into food prices, logistics, construction materials, and other goods and services, creating second-round inflation. Third, firms in transport, manufacturing, agriculture, and construction would face higher input costs, which could squeeze profit margins, delay investment, or be passed on to consumers. Fourth, a larger oil import bill would increase demand for foreign currency, adding pressure on the current account, the exchange rate, and foreign reserves. Fifth, higher inflation and exchange rate pressure would limit room for monetary easing and could keep liquidity conditions tighter, affecting credit and investment. Finally, higher fuel and food prices would reduce household purchasing power, while uncertainty over energy prices and shipping disruptions could weaken business sentiment. Overall, the oil shock would act as a negative supply shock, raising inflation and external pressures while dampening consumption, investment, and growth in the near term.

Capacity to respond is higher in net energy exporters, and those with larger buffers and low inflation (Table 1). Major importers like Mongolia, Lao PDR, and Thailand—where oil and gas imports represent 5 to 13 percent of GDP—face the greatest burden, as higher energy prices compress household purchasing power and raise industrial input costs, while net exporters such as Malaysia stand to benefit from improved terms of trade. Capacity to respond is constrained in countries with high government debt and limited fiscal space (Lao PDR, China (at the local level), and Thailand) versus those with lower debt (Viet Nam) or greater capacity to absorb the shock through strategic reserves, domestic refining capacity, or commodity export revenues that provide a natural hedge. Several of the larger developing EAP economies fall short of the IEA's 90-day strategic petroleum reserve benchmark. Cambodia, Indonesia, and Viet Nam hold only one to two months of coverage, whereas China and Thailand align more closely to the standard.

Policy makers are confronting the challenge of dealing with the twin threats of inflation and growth deceleration. This is most evident in the case of monetary policy. Central banks with well-anchored inflation expectations and low inflation can afford to accommodate energy supply shocks, if temporary—but a severe or sustained price increase or currency pressure may warrant tighter monetary policy that weighs on domestic real activity.

FIGURE 7

Impact channels of the Middle East conflict

Source: World Bank illustration.

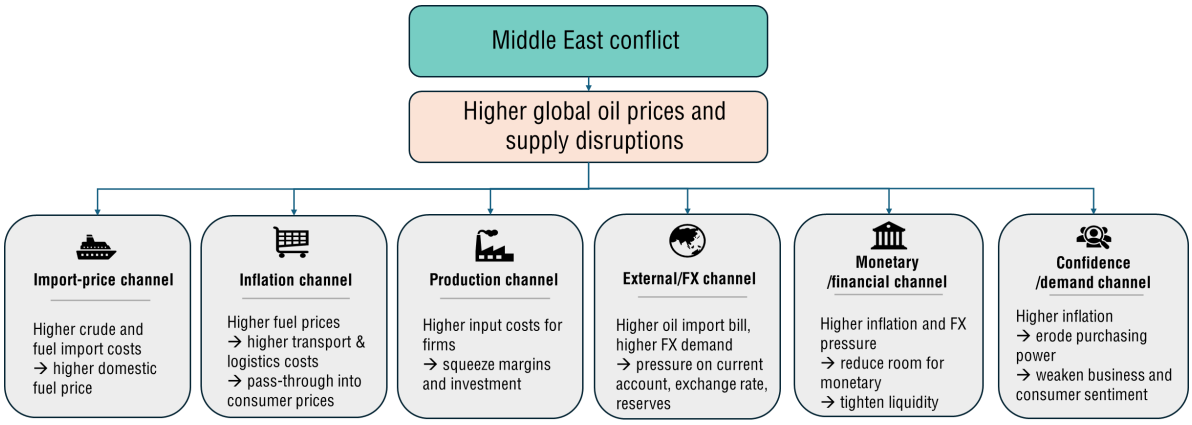


Table 1. Major EAP countries by exposure, vulnerability, and policy space

	Exposure		Vulnerability		Policy space	
	Oil & gas net imports (% of GDP, 2024)	External financing needs (% of GDP, 2025)	Inflation rate (Feb 2026 or latest)	Foreign reserves (months of imports, 2025)	General government gross debt (% of GDP, 2025)	Fiscal balance (% of GDP, 2025)
Lao PDR	8	19	6.2	3	81	1.9
Mongolia	8	38	6.4	4	41	1.5
Thailand	7	12	-0.9	9	66	-2.7
Cambodia	6	15	1.3	7	27	0.6
Philippines	3	11	2.4	7	63	-5.6
Myanmar	3	1	19.8	6	63	-4.9
China	2	4	1.4	13	71	-7.2
Viet Nam	2	9	5.5	2	34	-3.5
Indonesia	1	9	4.8	6	41	-2.9
Malaysia	-1	42	1.6	5	65	-3.8

Source: EAP Economic Update, April 2026

B. Recent Economic Developments

Viet Nam carried the strong growth and reform momentum from 2025 into 2026, supported by robust exports, resilient services, strong FDI, and a surge in public investment, alongside major administrative and institutional restructuring to improve public sector effectiveness and service delivery, and public investment programs to address logistics and trade bottlenecks and boost medium-term growth.

However, the external environment has become challenging in 2026 due to the Middle East oil shock. Fuel subsidies during March helped buffer more activity and limit the pass-through to energy prices. But business sentiment is weakening alongside export orders, and supply-side price pressures are building. FDI firms had weathered last years trade-shocks relatively well, and Viet Nam is also emerging as a major supplier of AI-related electronics and hardware. However, domestic firms exporting lower value-added manufacturing goods had been harder hit, with this weakness persisting into Q1-26. Corporate leverage is the highest among ASEAN, and credit is increasingly concentrated in the real estate sector. With savers searching for higher-yielding assets outside the banking sector, bank liquidity strains have emerged. Currency pressures have also increased as a result of a trade deficit in Q1-26, the strengthening of the US dollar, and higher oil import costs.

The monetary policy stance has become more restrictive, and the central bank has mandated the adoption of Basel III–aligned capital and risk governance standards by 2030. Fiscal policy has become more expansive, with plans to invest US$ 320 billion in infrastructure over the next five years, financed through increased borrowing, including from concessional resources and domestic revenue mobilization. Major structural reforms are also underway, which should boost private investment and participation in infrastructure investments.

Real sector, activity and sentiment

Strong initial conditions entering 2026…

Viet Nam's economy has continued to outperform regional peers, supported by robust external and domestic demand (Figure 8). Growth accelerated to 8 percent in 2025 from 7.1 percent in 2024 (Figure 9). Momentum was sustained into Q1-26, with 7.8 percent yoy expansion—the highest in 9 years—and was broad-based, underpinned by robust manufacturing exports and FDI, higher public investment and household consumption, and resilient services. On the domestic side, investment rose 8 percent in 2025, reflecting stepped-up efforts to disburse in the final year of the 2021-25 public investment plan, including through streamlined project approval and disbursement processes, as well as a surge in FDI as regional value chains diversified (Figure 10).

Net trade is a modest, but growing, drag on growth Exports rose by 16 percent in 2025 (Figure 11), reaching a record US$475 billion (93 percent of GDP), led by a 28 percent surge in high-tech and electronics shipments to the US (valued at US$153billion) that were front-loaded in anticipation of US tariffs, and helped by a structural up-swing in global AI infrastructure spending that has propelled AI-related trade across East Asia, including Viet Nam. Amid strong demand for intermediate inputs that feed export-oriented production and manufacturing, imports rose by 17 percent, so that net exports made a negative contribution to GDP growth (0.76 percentage points), for the second year in a row.

FIGURE 8

Real GDP growth rate

Source: Haver Analytics.

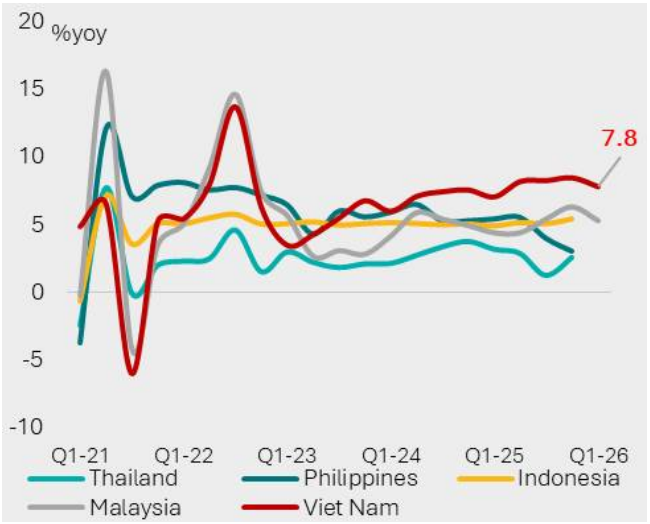


FIGURE 9

Contribution to growth, by expenditure

Source: NSO and World Bank calculations.

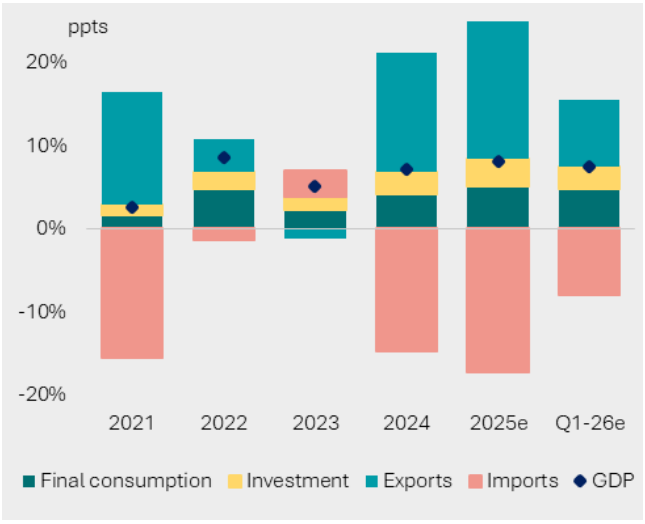


FIGURE 10

Real investment growth

Source: NSO and World Bank calculations.

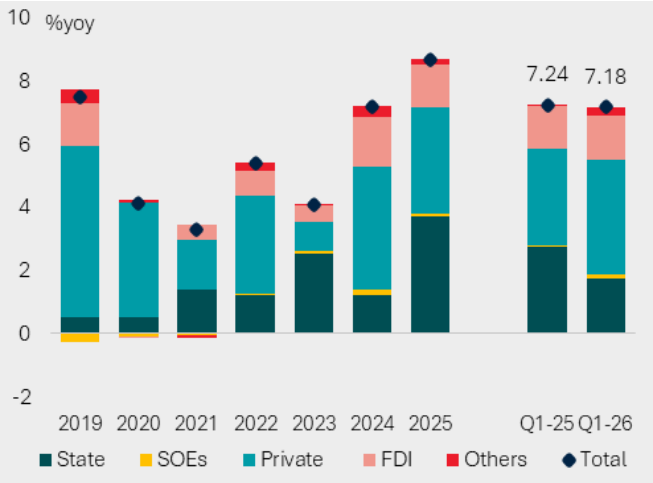
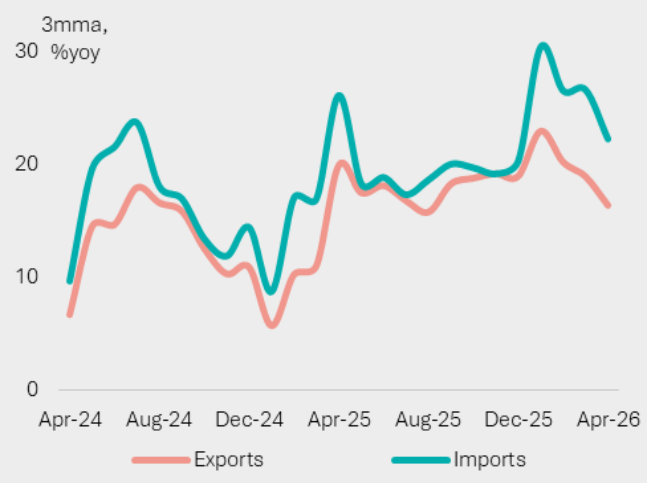


FIGURE 11

Trade growth

Source: NSO and World Bank calculations.
Note: 3mma = 3 months moving average



The global AI-related capex boom is reshaping technology supply chains and creating new export opportunities in East Asia. Intermediate goods—particularly semiconductors—are the backbone of AI-related trade across the region, alongside equipment exports such as data center hardware. Viet Nam's AI-related export shares have risen from around 20 percent of GDP in 2023 to approximately 32 percent by 2025—among the highest globally (Figure 12), boosting manufacturing growth to 9.6 percent in 2025 and 9.5 percent yoy in Q1-26, accounting for a third of overall GDP growth. Viet Nam's manufacturing share of GDP reached approximately 25 percent in 2025, in contrast to other East Asian countries where it has stabilized at much lower levels or is declining (Figure 13).

Trade-related services and tourism also expanded strongly. The transport and storage sector maintained strong growth at 11 percent, comparable to its pace in 2024 (Figure 14). Tourism levels have surpassed pre-pandemic levels with arrivals rising 20 percent to a record 21.2 million in 2025 and continuing to rise in Q1-26 (Figure 15). Alongside higher public investment, this has bolstered services and construction activity, in turn supporting employment and retail spending.

FIGURE 12

Exports of AI-related goods

Source: EAP Economic Update, April 2026.

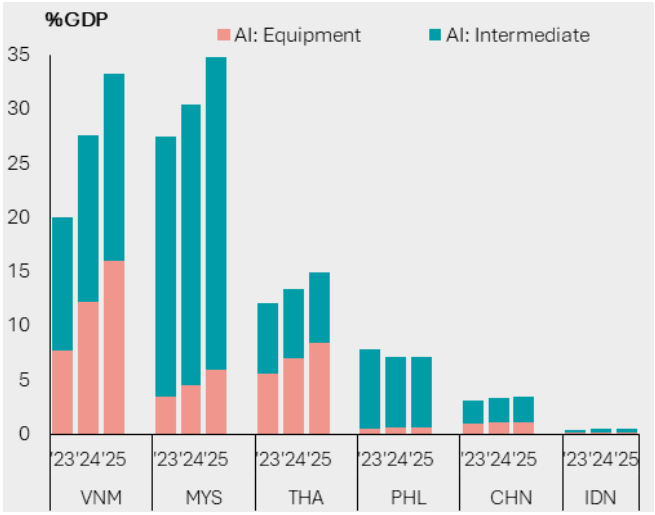


FIGURE 13

Manufacturing sector as share of GDP

Source: EAP Economic Update, April 2026.

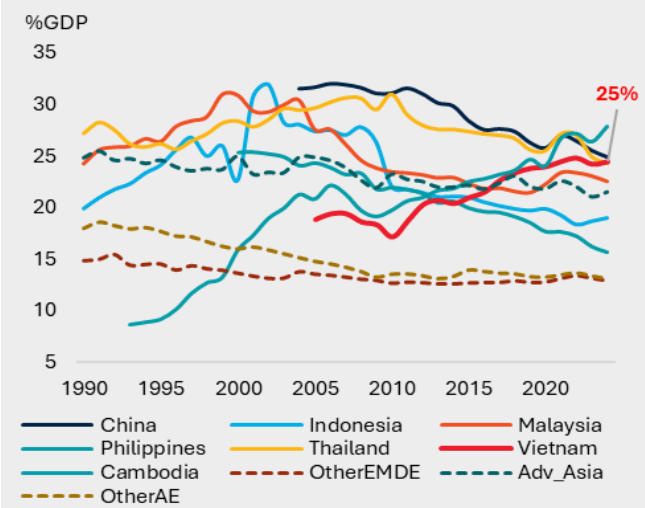


FIGURE 14

Growth rate by economic activity

Source: NSO and World Bank calculations.

Note: Colored dots represent sectors (blue=industry, dark=services, green=agriculture). Size of bubble represents the contribution of growth in 2025. Blue dotted lines represent average real GDP growth in 2024 and 2025.

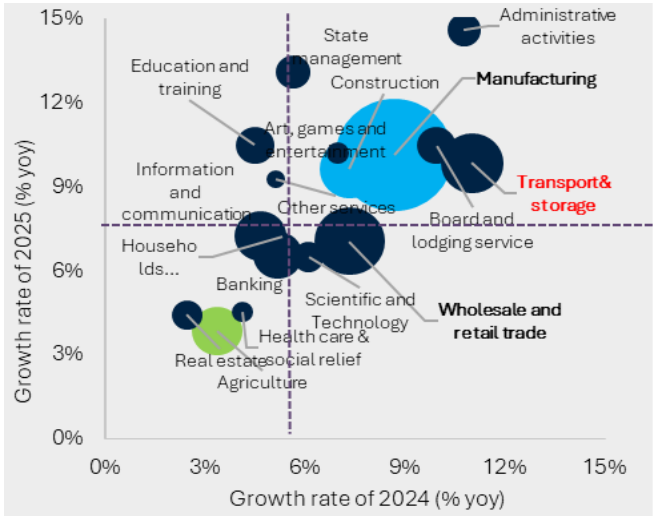
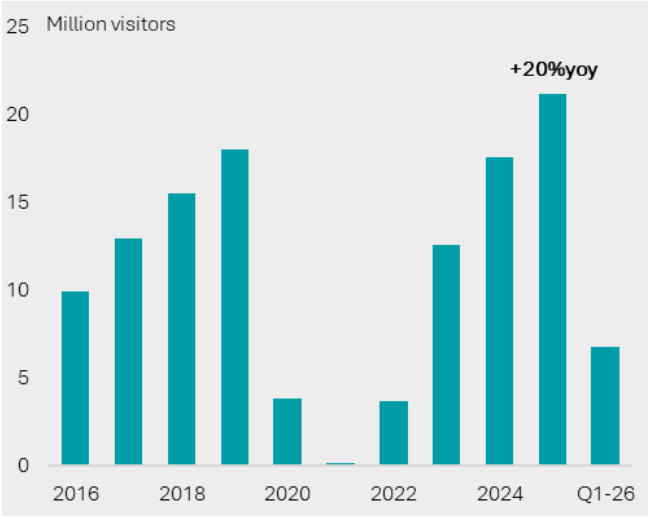


FIGURE 15

International visitors

Source: NSO and Haver Analytics.



But sentiment has softened amid spillovers from the Middle East conflict

However, April PMI surveys showed a second consecutive month of slower manufacturing activity as firms scaled back employment and purchasing activity in response to a steep drop in new export orders (Figure 16). Purchasing managers also reported broad-based input price pressures that are being passed on to the prices of final goods (Figure 17).

The recovery in household spending could be tested by higher oil prices

A recovery in private consumption has been underway since 2023, supported by strong income growth, and rising demand for manufacturing exports and skilled workers amid labor shortages. Real incomes have increased strongly since mid-2024 driven by higher government-mandated minimum wages and a 30 percent increase in basic state salaries, high demand for skilled labor, and rapid growth in the manufacturing sector. As a result, despite some disruption to livelihoods from severe storms and floods[1] in the second half of 2025, private consumption spending rose 8 percent in 2025, (Figure 18).

Spending remained resilient in the first months of 2026 (Figure 19). High frequency data show that retail spending growth of 7.4 percent yoy in Q1-26 in real terms vs 7.1 percent a year earlier, supported mainly by tourism rather than household spending on domestic goods or non-hospitality services (likely due to Lunar New Year "Tet" holidays and national elections). Spending growth remained steady as the higher cost of fuel was buffered by fuel subsidies. With the full withdrawal of gasoline subsidies in April, spending is likely to soften through its impacts on the poorest households—largely through indirect price increases, compounded by widespread motorbike dependence that amplifies affordability risks, and if employment and hiring slows as suggested by PMI surveys.

[1]There were 21 storms and tropical depressions in 2025, with multiple consecutive typhoons, widespread floods and landslides, and record economic losses that disrupted mobility, damaged property and livelihoods, and weighed on household spending.

FIGURE 16

Purchasing manager indices (PMIs), (Seasonally adjusted, +50 = expansion)

Source: Haver Analytics.

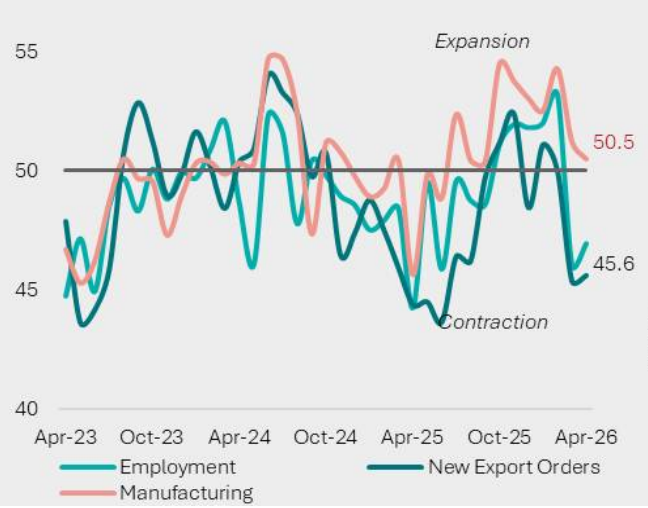


FIGURE 17

Manufacturing PMI input and output prices (Seasonally adjusted, >50 = inflation m/m)

Source: Haver Analytics.

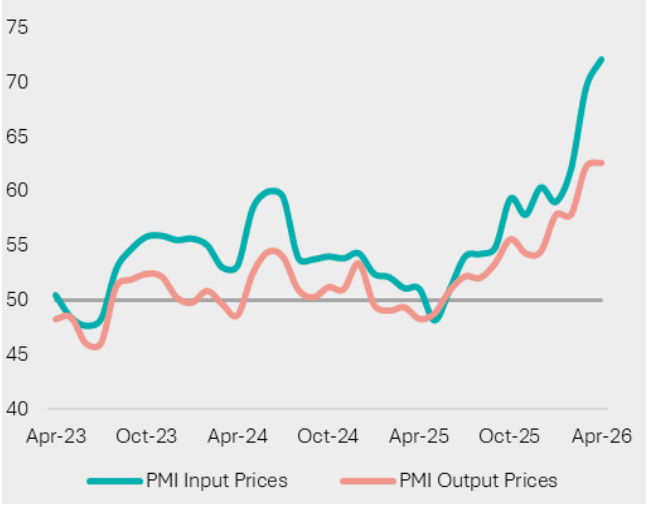


FIGURE 18

Private consumption

Source: NSO and World Bank calculations.

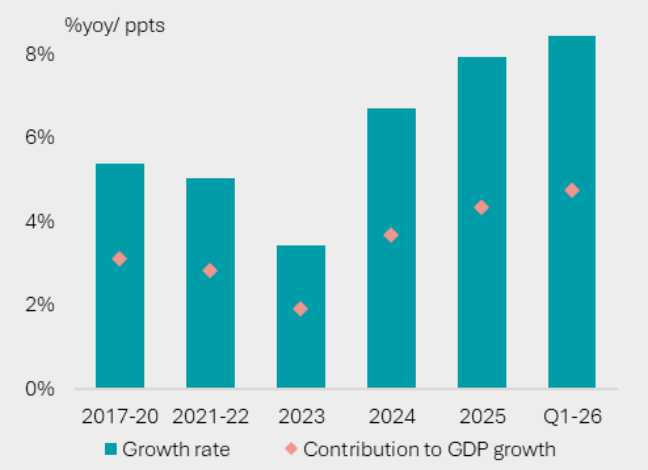


FIGURE 19

Real retail sales and real average monthly income

Source: NSO and World Bank calculations.

FDI remained strong amid a regional reconfiguration of value chains towards Viet Nam

Viet Nam has been a key beneficiary of regional restructuring of supply chains, helped by structural advantages that include low labor costs, an expanding domestic market, export-oriented logistics infrastructure and extensive free trade agreement (FTA) coverage. A relatively favorable IEEPA reciprocal tariff agreement reached with the US in mid-2025 reinforced Vietnam's relative tariff advantage compared to others in the East Asia region, further accelerating the shift of supply chains towards Viet Nam. The shift from a differentiated IEEPA reciprocal rates to a flat 10 percent surcharge following the US Supreme Court (SCOTUS) decision in February has broadly maintained this relatively advantage, and is expected to benefit labor-intensive, lower value-added sectors including apparel, footwear, toys, and basic manufacturing—categories disproportionately affected by IEEPA tariffs.

The supply chain realignment helped drive foreign FDI to a five-year high in 2025. Total registered capital reached US$38.4 billion (up 0.5 percent yoy) with a record US$27.6 billion in realized (disbursed) capital, a 9 percent increase, demonstrating strong foreign investors' confidence and ongoing manufacturing expansion (Figure 20). Registered FDI in Q1-26 rose 36 percent (yoy) to US$15.2 billion, with realized capital hitting a five-year high. Manufacturing remains the dominant sector (accounting for 61 percent of new capital), driven by investments in electronics and high-tech industries, with Republic of Korea and Singapore as the leading source countries (Figure 21). Major FDI projects in Q1-26, included electronics and LNG investments from Republic of Korea (Table 2), with disbursement expected to pick up later in the year.

FIGURE 20

FDI commitments by sector and disbursements

Source: NSO and World Bank calculations.

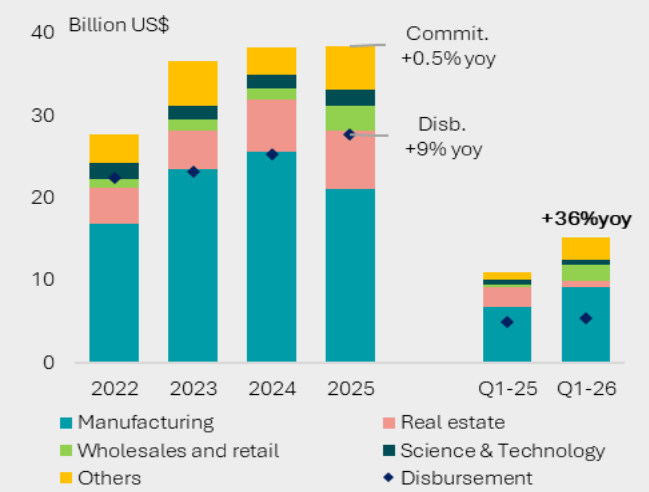


FIGURE 21

Newly registered FDI by country

Source: NSO and World Bank calculations.

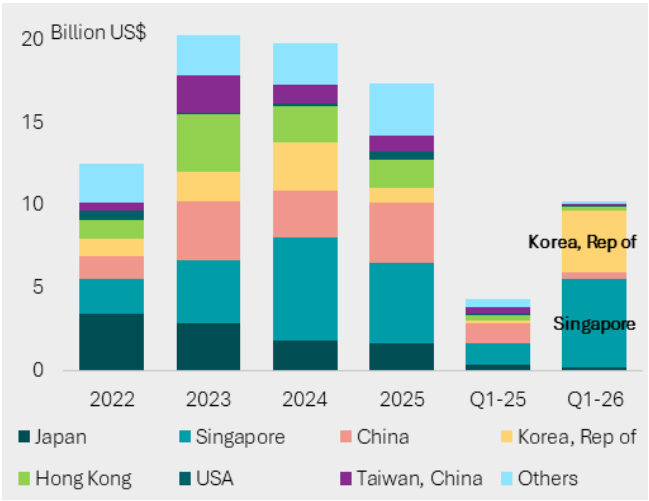


Table 2. Key FDI projects in Q1-26

Key projects	Country	Transaction Type	Estimated investment
Quynh Lap LNG Power Plant	Republic of Korea	Newly registered	US$ 2.2 billion
Samsung Electro-Mechanics Viet Nam No.2 Project (Circuit Boards)	Republic of Korea	Newly registered	US$ 1.2 billion
Seojin Viet Nam Plant (Electrical components)	Republic of Korea	Additional capital	US$ 453.8 million
Stainless steel manufacturing plant	Singapore	Newly registered	US$ 380.1 million
Future Textile manufacturing project	Singapore	Additional capital	US$ 350 million

Source: Fiingroup.

There remain deep structural imbalances between the foreign-invested and domestic sectors…

Since the reciprocal tariff announcement, FDI firm exports surged 38.5 percent while domestic firm exports fell 9.8 percent (Figure 22)—a divergence rooted in the asymmetric tariff burden: sectors dominated by domestic firms (textiles, footwear, wood) faced effective tariff rates of 15–38 percent, approximately four times higher than the 9 percent applied to electronics and machinery where FDI firms dominate (Figure 23). The shock was asymmetrical due to the structure of production in the Vietnamese economy (Box 1), and differing shock absorption capacities across FDI and domestic firms. FDI firms could draw on long-term buyer contracts that insulated them from immediate order cancellations, captive supply chains, and parent company financing to manage disruption, and pricing power derived from the complexity of their products. By contrast, domestic firms, mostly small and reliant on short-term bank credit had no such buffers. As such, the domestic private sector has borne a disproportionate share of the external shock with limited capacity to adapt.

… and 2025 was a year of active restructuring rather than broad-based strengthening of domestic business dynamism

Although business entry increased steadily and peaked in 2025, firm exits also rose sharply, limiting net gains (Figure 24). Meanwhile, new firms are entering the market at a smaller scale, with fewer workers and initial capital of new firms still below pre-pandemic levels (Figure 25). While entrepreneurship continues, it is increasingly in the form of small, low-employment firms with limited capacity for job creation, survival, and scale-up. This suggests a post-pandemic selection dynamic in which weaker domestic firms are exiting faster than new ones can replace them. If each new cohort of firms enters smaller and less connected than the last, the structural gap with FDI firms will continue to widen, increasing the domestic sector's vulnerability to future external shocks.

FIGURE 22

Export growth by ownership of firm

Source: NSO and World Bank calculations.

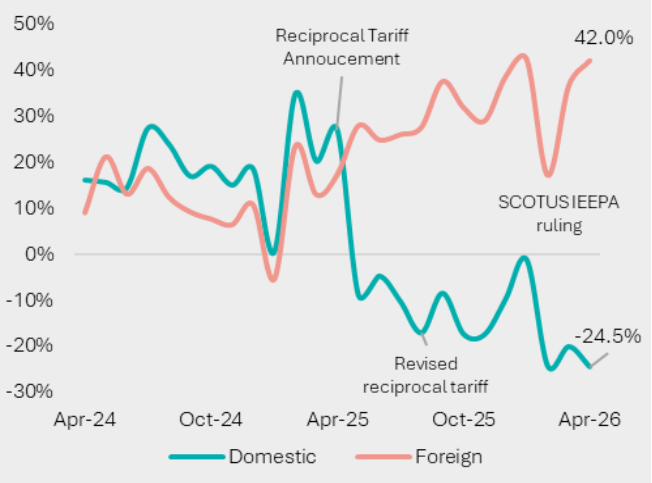


FIGURE 23

Average US tariff rate by product

Source: Ho Chi Minh City Securities Corporation (HSC) and World Bank calculations.

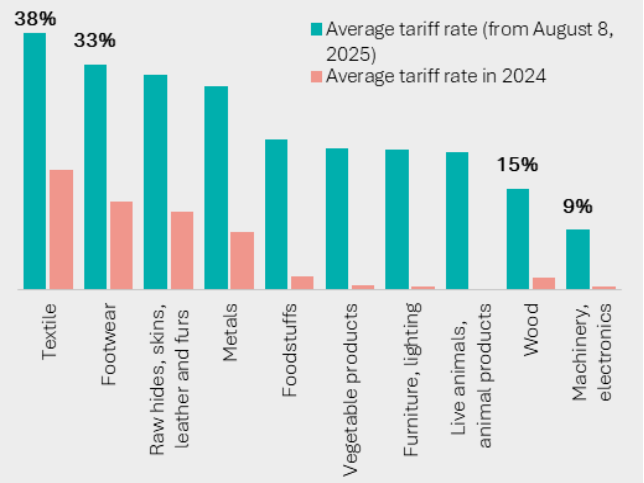


FIGURE 24

Firm entry and exit

Source: NSO and World Bank calculations.

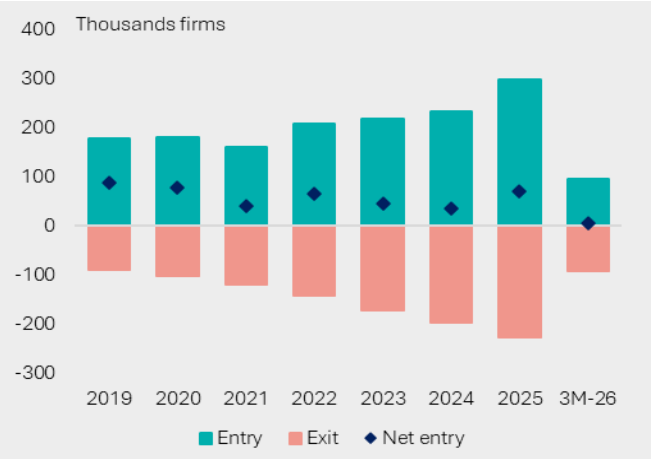
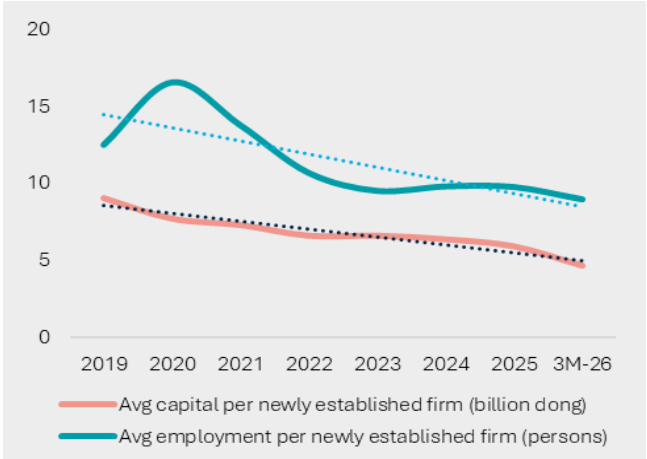


FIGURE 25

Capital and employment of new firms

Source: NSO and World Bank calculations.



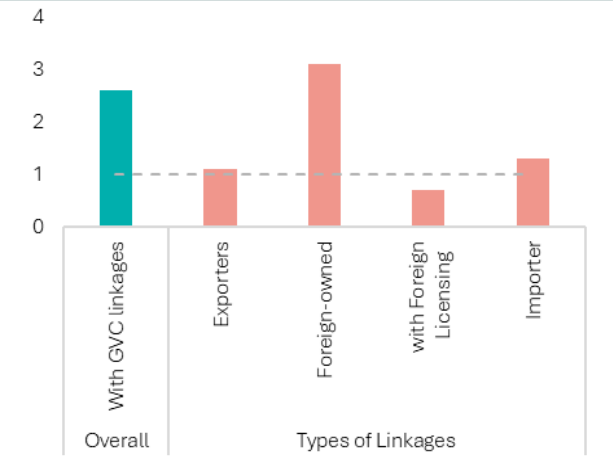
BOX 1

The Dual Economy — A structural imbalance

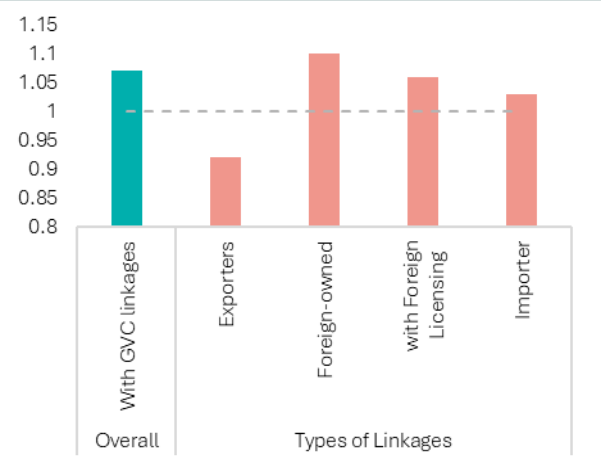
Viet Nam's dual economy reflects a highly successful but uneven growth model, where globally integrated firms drive output and exports but generate limited broad-based gains. Foreign-invested and GVC-linked firms—just 5 percent of firms—account for half of value added, employment and 73 percent of exports, reflecting their outsized productive role. Using revenue-based total factor productivity (TFPR), as an alternative measure for the technology gap, confirms the highest premium for foreign firms and importers. Notably, firms utilizing foreign technology licenses demonstrate a TFPR premium compared to those without such licenses. By contrast, the domestic sector remains fragmented with low-productivity (Figure B1.1), with 98 percent of firms being small or informal and only 17 percent participating in exports. This dual structure constrains productivity convergence, limits domestic value capture, and weakens the transmission of growth into higher-quality, more inclusive employment.

FIGURE B1.1: Productivity gap of firms with GVC linkages relative to firms without linkages in Viet Nam

Labor productivity gap



TFPR gap



Source: World Bank staff computations based on World Bank Enterprise Survey 2023.

Note: Figures show weighted average for each bin. A firm is considered to have GVC linkages if it has at least one of the following characteristics: more than 10 percent foreign equity, using foreign-licensed technology, involved in exports (10 percent or more of sales) and involved in imports. Imports are only defined for firms in the manufacturing sector. TFPR gap captures both productive efficiency, notably the utilization of foreign technology licenses, and markup.

Weak linkages between foreign and domestic firms are at the core of this duality, reflecting both structural and firm-level constraints. Foreign firms import more than 50 percent of their export inputs—far above regional peers—while domestic firms lack the ability to integrate into these supply chains. Even in flagship sectors, local supplier participation remains limited, constrained by skills gaps, weak management, and low technological adoption. The nature of FDI itself, often focused on low-value assembly, reduces incentives for local sourcing and technology transfer. On the other hand, low R&D spending, high-skills shortages, governance gaps, and regulatory frictions raise transaction costs and limit domestic firms' absorptive capacity, while uneven labor market enforcement further constrains knowledge diffusion and job upgrading.

Strengthening linkages between GVC firms and the domestic economy requires a shift from FDI-led growth to capability-driven integration, with policies targeting both firms and institutions. Key priorities include supplier development programs, multinational-local matchmaking platforms, regulatory simplification, and incentives for higher-quality FDI with deeper local sourcing. Supply chain finance mechanisms, greater investment in skills and innovation, and improved access to finance are equally essential to enable domestic firms to move up value chains and translate GVC participation into broader productivity gains and better employment outcomes.

Source: VN2045 – Trading up in a Changing World (2024).

External balances and buffers

Despite record current account surpluses, the external position remained under pressure

A record current account surplus was offset by a persistent financial account deficit and large capital leakages, leaving the overall external position under pressure (Figure 26). The current account reached a historical surplus of 6.5 percent of GDP in 2025, driven by a large merchandise trade surplus (US$42 billion) and sizable remittance net inflows (US$15.9 billion) (Figure 27). However, these gains were partly offset by large profit repatriation (from the FDI-export sector) in the income accounts, and a large financial account deficit, albeit lower than in 2024, due to interest rate differentials with the U.S., strong domestic demand for gold and dollar-denominated assets, as well as sizable capital leakages reflecting under-reported cross-border flows (Figure 28).

FIGURE 26

Balance of Payments

Source: SBV and World Bank calculations.

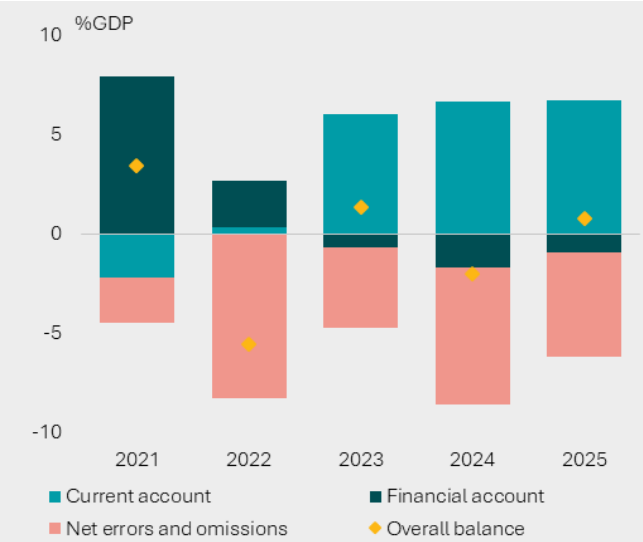


FIGURE 27

Current account

Source: SBV and World Bank calculations.

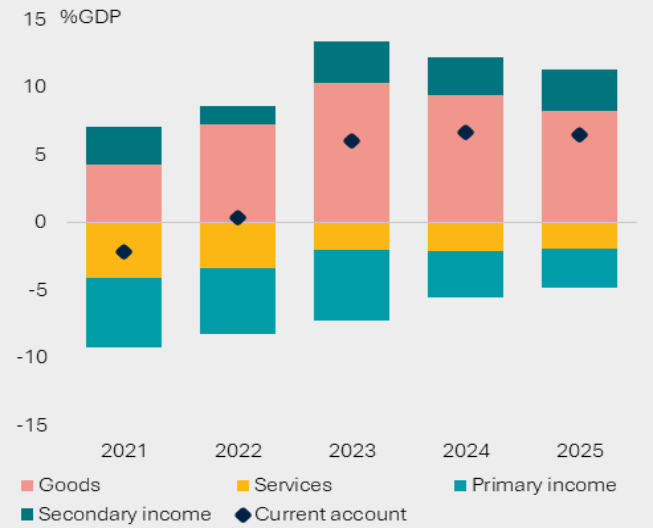
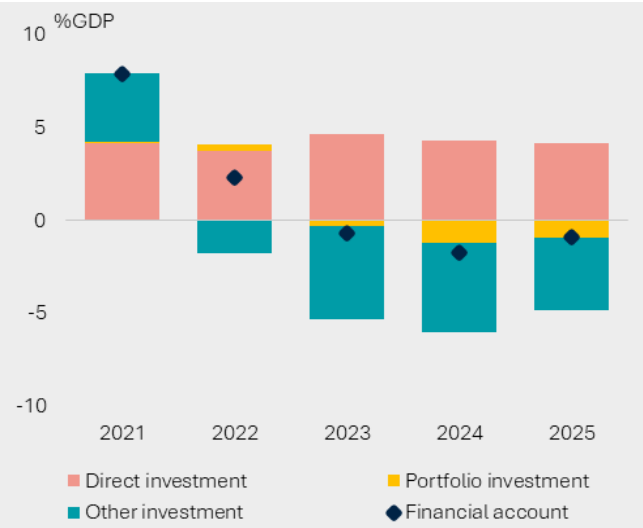


FIGURE 28

Financial account

Source: SBV and World Bank calculations.



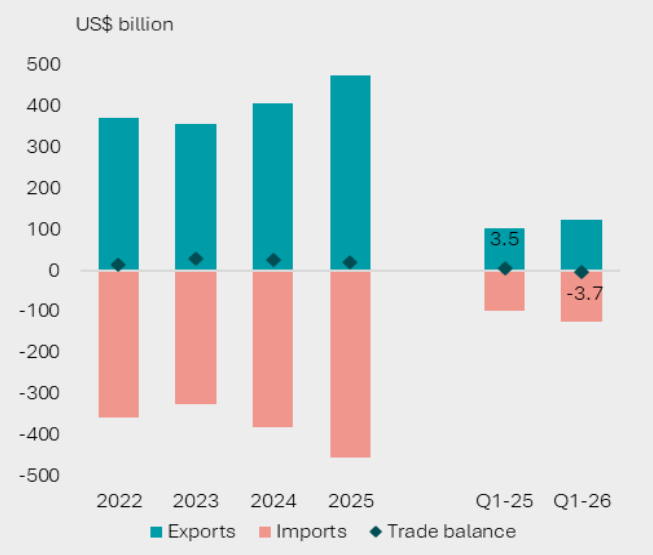
Viet Nam's first Q1 trade deficit in five years reflects the increasingly FDI-led nature of trade and a struggling domestic sector. The trade balance shifted to a deficit of US$3.7 billion in Q1-26 (Figure 29A) as import growth (27 percent) outpaced export earnings (up 19 percent), reflecting growing trade by the FDI firms, with imports and exports rising by 45 and 34 percent yoy, respectively (Figure 29B). The trade performance of the domestic sector, which had borne the brunt of IEEPA tariffs, continued to deteriorate, with the export contraction deepening in Q1-26 (-18 percent) following a 6 percent decline in 2025.

The local currency has weakened by just over 3 percent since the start of the year (Figure 30) in line with a strengthening U.S. dollar, the first quarter trade deficit and continued capital outflows. This has constrained the accumulation of foreign exchange reserves that are estimated at two months of import cover (Figure 31).

FIGURE 29

A. Trade balance

Source: Haver Analytics and World Bank calculations.



B. Trade growth by sector

Source: Haver Analytics and World Bank calculations.

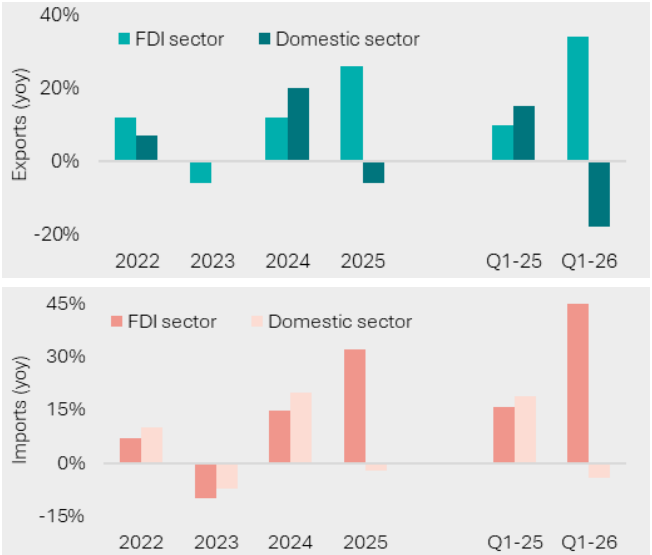


FIGURE 30

Exchange rate (VND/US$)

Source: Haver Analytics and World Bank calculations.

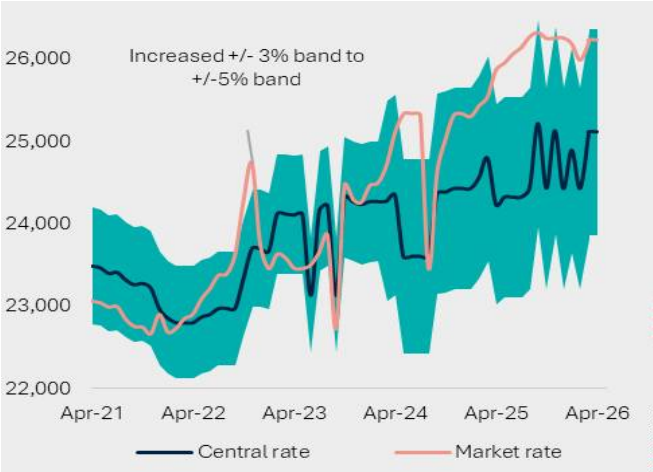
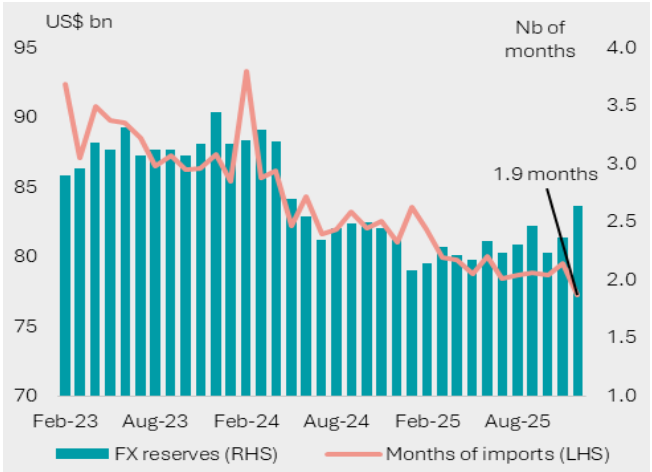


FIGURE 31

Foreign reserves

Source: Haver Analytics and World Bank calculations.



Prices

The Fuel Price Stabilization Fund (FPSF) initially helped cushion households …

Fuel subsidies have helped limit the pass through to domestic fuel prices, and to headline inflation. The government quickly activated diesel and gasoline subsidies in March 2026 (averaging 12 percent), paid for through drawdowns from the FPSF buffers (VND5.3 trillion or US$217 million) and a VND8 trillion budget advance. Higher transport costs, together with higher food costs, housing and construction costs, this helped push up headline inflation to 4.7 percent in March, from an average of 3.3 percent through 2025 and early 2026 (Figure 32).

… but as the buffer has been eroded, gasoline prices have had to be fully adjusted

Since the start of April 2026, the government has chosen to only subsidize diesel prices which are a critical input into freight, logistics, construction, and production (Figure 33), which has translated into a further jump in inflation to 5.5 percent, mainly driven by higher transport costs (Figure 34). But, this is best seen as emergency triage rather than a durable solution. It distorts price signals, can become fiscally costly, and does not directly protect vulnerable households. If the shock persists, additional measures could combine limited fuel-price smoothing with targeted support for the most affected households and sectors. Although direct petroleum dependence is strongest in transport, the effects could spread far beyond it, especially to agriculture, aquaculture and seafood, tourism and hospitality, as well as food processing through higher logistics, energy, fertilizer, and intermediate input costs.

FIGURE 32

Contribution to CPI

Source: NSO and World Bank calculations.

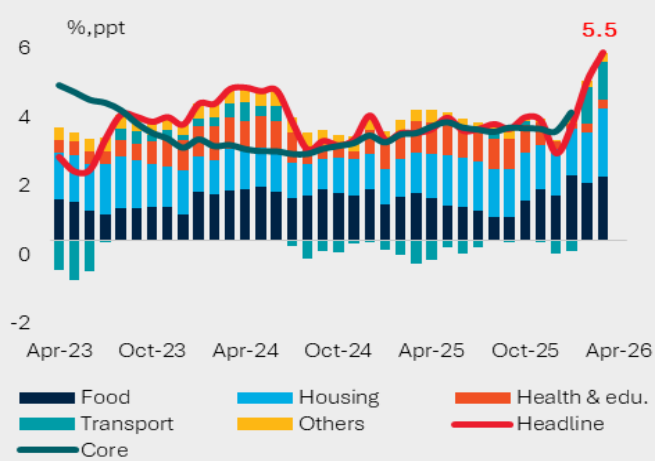


FIGURE 33

Domestic fuel prices (VND/liter)

Source: Ministry of Industry and Trade and World Bank calculations.

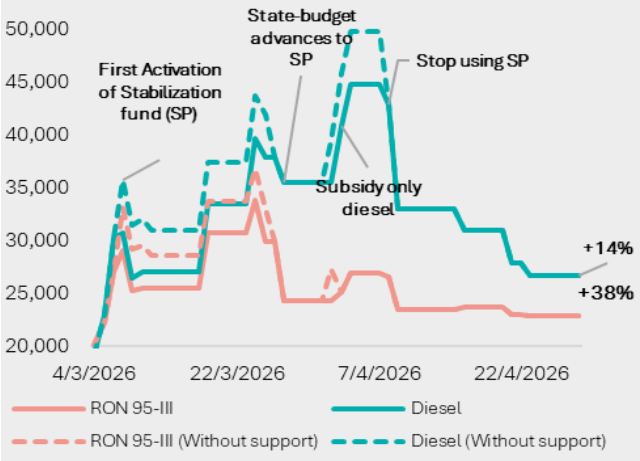


FIGURE 34

CPI breakdown for April 2026

Source: NSO and World Bank calculations.

Monetary policy and financial sector

Bank liquidity strains have increased

With credit growth outpacing deposit mobilization, bank funding has come under strain (Figure 35). The share of retail deposits in the banking system fell to 44 percent in 2025 from 48 percent in 2024 (Figure 36) as investors and households shifted capital away from savings towards real estate, U.S. dollars and gold in search of higher returns. This has pushed banks to increase their reliance on more costly bond issuances and interbank funding, with liquidity strains reflected in periodic spikes in interbank rates above the policy rate, signaling a de facto tightening of monetary policy (Figure 37). The strengthening of the U.S dollar following the Middle East conflict has further intensified funding pressures, forcing banks (especially smaller ones that rely more heavily on retail funding) to compete for six–12-month deposits, pushing deposit rates to 6-8 percent in March 2026.

FIGURE 35

Credit and deposit growth

Source: SBV and Haver Analytics

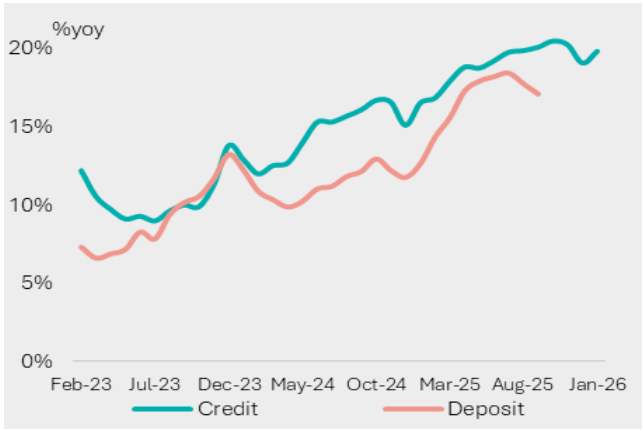
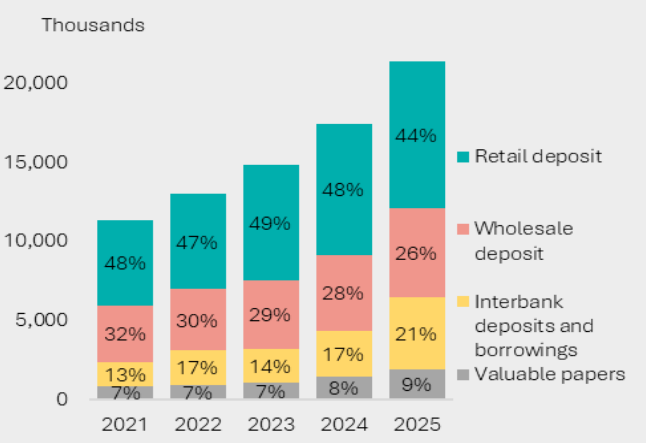


FIGURE 36

Funding structure

Source: Fiingroup and World Bank calculations.



Bank credit is concentrated in the real estate sector

High corporate leverage is concentrated in the real estate sector. Among other instruments[2], the State Bank of Viet Nam (SBV) has deployed credit growth targets for the banking sector—with individual quotas for banks—to support economy activity and achieve its 4 percent inflation target. But, several successive years of double-digit targets after the COVID crisis have pushed the credit-to-GDP ratio to 145 percent (Figure 38), the highest in ASEAN and among the highest in lower middle-income economies, with real estate accounting for a quarter of the stock of credit, a potential source of risk as half is extended to developers (Box 2). System-wide capital adequacy ratios amounted to 12.1 percent at end of H1-25, lower than ASEAN peers (Figure 39).

[2]Other instruments include policy interest rates, open market operations and administrative tools.

FIGURE 37

Interest rates

Source: SBV and Haver Analytics.

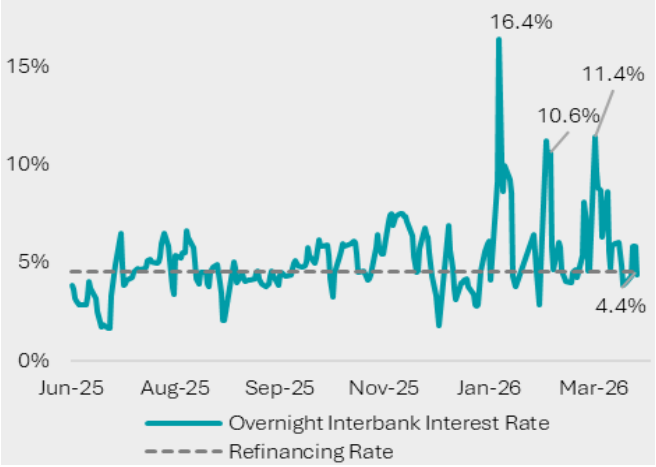
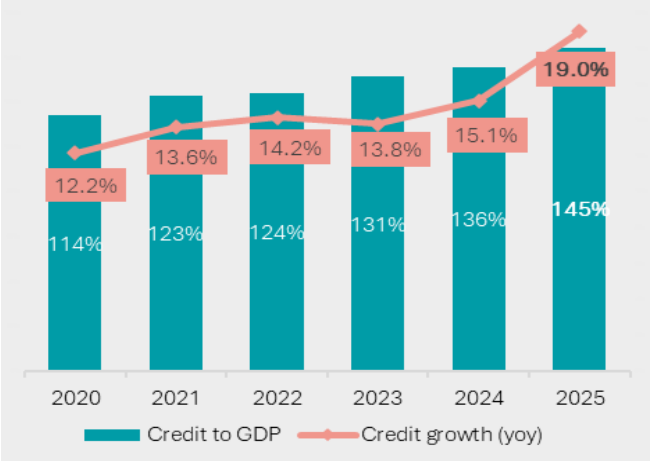


FIGURE 38

Credit-to-GDP

Source: SBV and World Bank calculations.



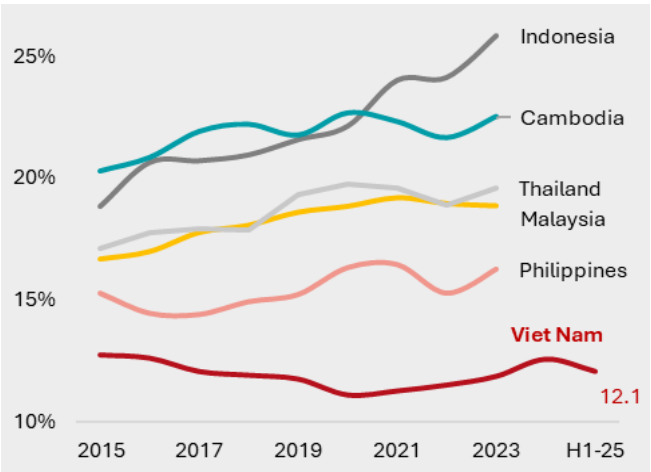
The monetary policy stance has become more restrictive and supervision frameworks are being strengthened

The SBV tightened policy in 2026, while injecting liquidity to reduce interbank rates. The SBV has announced lower credit ceilings of 15 percent (from 19 percent in 2025) and is preparing to pilot their removal in 2026 to advance a long-pending transition to a full inflation-targeting regime. It has injected US$700 million in liquidity through open market operations during March and April (Figure 40), that have helped to ease interbank rates to 4.4 percent in end-April (Figure 37). In response to bank governance, concentration, and credit risks, supervision has also been tightened, through stricter bank ownership limits, single-borrower exposure caps, and sought to steer credit growth away from the property sector. Higher bank capital quality requirements introduced in 2026 mark the first step in a planned four-year progress toward Basel III-aligned capital and risk governance standards by 2030 and should help reduce this gap with ASEAN peers.[3]

FIGURE 39

Capital adequacy ratio

Source: Financial Soundness Indicators and Fiingroup.

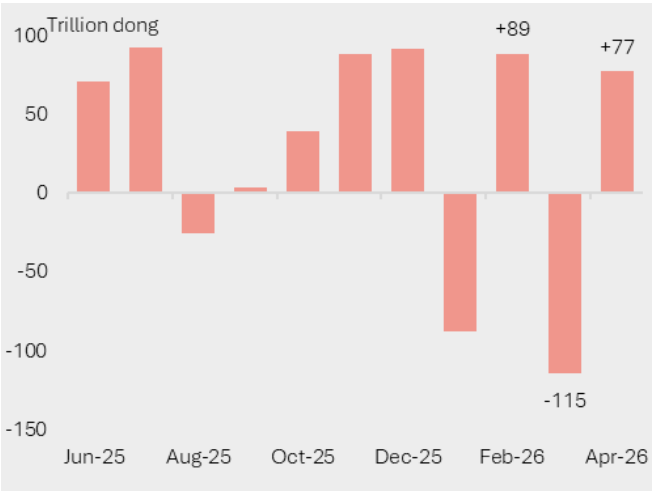


[3]Minimum capital requirements start at 8.6 percent in 2026, rising to 10.5 percent by year four. Banks may apply either set of rules until end-2029, with full adoption mandatory from January 2030. Several larger banks have already applied for early implementation to enhance credibility and gain a competitive advantage. Separately, recent regulatory reforms will also allow State-owned banks to retain proceeds from any divestment of their government stakes, which will play a key role in strengthening their capitalization.

FIGURE 40

Open market operations (Net pump reverse repo)

Source: Fiingroup and Haver Analytics.



Reported asset quality has improved slightly, but underlying risks persist alongside declining loan-loss coverage. A recovery in the real estate sector, coupled with strong credit growth, has contributed to a decline in the officially reported system-wide non-performing loan (NPL) ratio from 3.5 to 2.9 percent in 2025 for 28 major commercial banks (Figure 41). In addition, the expiration of Circular No.02/2023 in December 2024—this had allowed banks to reschedule loan payments while avoiding downgrading loan classification—is supporting a recognition of restructured loan risks. However, loan-loss reserve-to-NPL ratios have declined over the past three years (Figure 42), indicating a significant decline in the banking sector's loss-absorbing capacity.

FIGURE 41

Non-performing loan ratio

Source: Fiingroup.

Note: Data from financial statements of 28 commercial banks, of which customer loans account for approximately 87% of the systemwide figure as of 2025. No further updates on the system-wide data since March 2025. LG = Loan group.

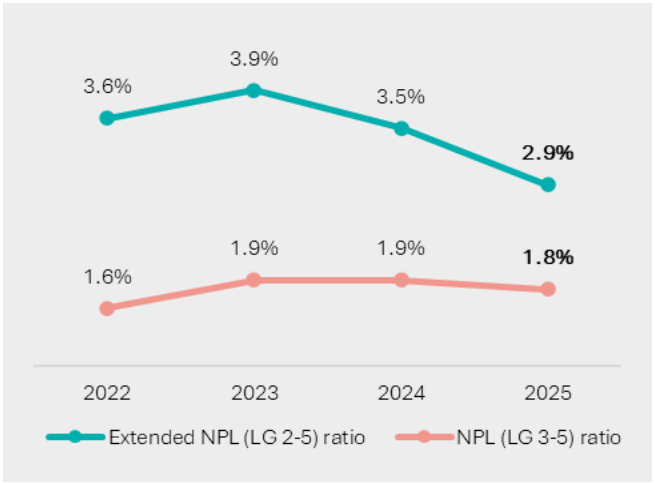
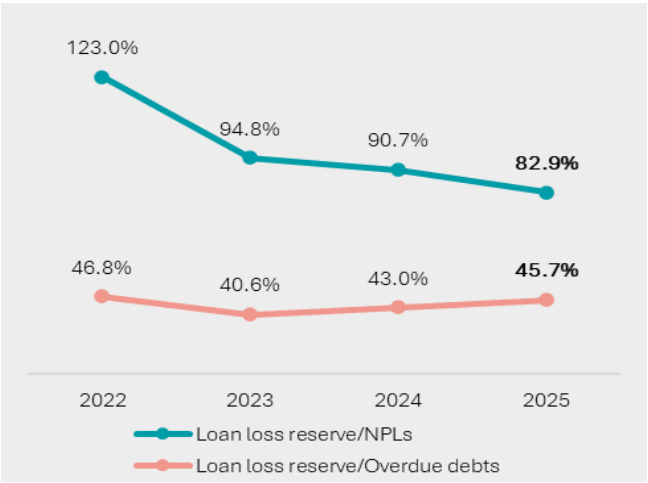


FIGURE 42

Loan-loss coverage

Source: Fiingroup.

Note: Data from financial statements of listed banks



BOX 2

Credit expansion, real estate and the housing paradox

A Credit has surged in VNM alongside persistently low money velocity, suggesting that credit is not fully converted into economic activity. Credit growth has accelerated sharply since 2024, supported by accommodative monetary conditions and abundant banking liquidity. Broad money (M2) has expanded faster than nominal GDP, pushing the velocity of money down to 0.6 in 2025—its lowest level in a decade. A declining velocity suggests that money circulates more slowly in the economy, reflecting weak consumption, cautious business sentiment, and a buildup of savings. As a result, liquidity remains concentrated in the financial system rather than driving demand and output.

One symptom is how credit has flowed into real estate, inflating asset prices rather than stimulating output. Real estate credit expanded by 42 percent in 2025, nearly twice the system-wide credit growth rate of 19 percent (Figure B2.1). The sector accounted for 25.5 percent of total outstanding loans in 2025. By contrast, industrial and agricultural lending grew by only 12.1 and 9.1 percent yoy, respectively, and SME lending remained modest. This divergence highlights a structural credit misallocation, where banks favor collateral-rich, but low-productivity segments over sectors that generate sustainable growth and employment.

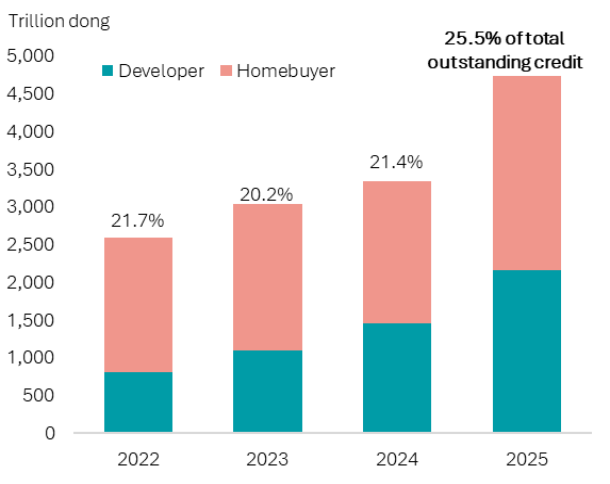
Rising property values have, in turn, worsened wealth inequality and eroded housing affordability. The land and housing price-to-income ratio in some areas now exceeds 30-fold the annual income for many households[4]—well above international benchmarks for affordability (typically three–eight times) – making it difficult for first-time homebuyers to get on the property ladder. Rising rents and mortgage burdens squeeze disposable income of lower- and middle-income households, reducing aggregate demand and widening inequality. Non-owners are pushed further away from home ownership, indicating that housing affordability has deteriorated sharply.

The concentration of credit in real estate poses significant macro-financial risks, including deteriorating asset quality and potential financial instability. A downturn in the property sector could rapidly translate into rising NPLs. Banks reliant on short-term deposits to fund long-term property loans face maturity mismatches—a sudden withdrawal of liquidity could stress balance sheets. The 2022–23 corporate bond turmoil and the SCB case highlighted how quickly stress in the property sector can spill into the broader

FIGURE B2.1

Breakdown of real estate loans

Source: Fiingroup.



To address these imbalances, the government has sought to reorient credit toward affordable housing - yet implementation has remained slow and fragmented. The government has implemented three key programs: (i) Interest Subsidy Program (2022–2023): a 2 percent interest-rate subsidy from the state budget for enterprises, cooperatives, and household businesses under the Post-COVID Economic Recovery Program (Decree 31/2022/ND-CP), (ii) Social housing credit package (2023 – 2030): loans at 1.5–2 percentage points below market rates for developers and homebuyers of social housing projects and (iii) "One Million Homes" Program (2021–2030): a national initiative to construct at least one million affordable units for low-income households and industrial park workers. These policies aim to lower entry costs for developers through land and tax exemptions, infrastructure support, and concessional credit, while also expanding access for homebuyers through preferential loan programs and longer repayment terms. While the policy framework and financing mechanisms are in place, execution is constrained by legal bottlenecks, slow land clearance, low developer profitability, and cumbersome eligibility verification.

[4] https://vietnamnet.vn/luong-ngan-hang-55-trieu-thang-van-kho-theo-kip-gia-chung-cu-ha-noi-2442995.html

While equity and bond markets have strengthened, capital market depth remains limited

Viet Nam's capital markets strengthened in 2025, with the rally extending into 2026. Equity markets outperformed regional peers (Figure 43), driven by surging domestic retail participation despite continued foreign net outflows (Figure 44). Market sentiment has also been supported by FTSE Rusell's announcement on the upgrade of Viet Nam from Frontier to Secondary Emerging Market (EM) status after several reforms allowing foreign institutional investors to place trades in domestic equity markets directly via global brokers and without pre-funding requirements. It is expected to attract US$3-5 billion in incremental inflows in the first three years following the upgrade.

The corporate bond market continued to normalize, following a collapse in issuance in 2022-23[5], dominated by banks raising Tier-2 capital and real estate, reinforcing the bond market's role as a key medium- and long-term funding channel for large firms, especially when bank credit conditions tighten. Banks have issued nearly VND332 trillion (US$13 billion) in bonds—around 30 percent more than in the same period in 2024—and accounting for about 70 percent of total corporate bond issuances (Figure 45).

However, the overall size of capital markets remains modest (Figure 46). The goal is to expand the equity market to 120 percent of GDP by 2028[6] from 78 percent in 2025[7] and to grow the corporate bond market to at least 25 percent of GDP[8], more than double the current total outstanding bond value of 10 percent of GDP. Beyond the EM upgrade, Viet Nam is also aiming for the MSCI Emerging Markets Index, which would attract more meaningful capital inflows.

[5]The bond market suffered a severe liquidity and confidence crisis in 2022, triggered by fraudulent bond issuances in the real estate sector.
[6]https://vnexpress.net/pho-thu-tuong-muc-tieu-von-hoa-thi-truong-chung-khoan-dat-120-gdp-vao-2028-5065140.html
[7]https://tapchinganhang.gov.vn/dau-an-thi-truong-chung-khoan-viet-nam-nam-2025-va-giai-phap-trong-tam-nam-2026-17059.html
[8]Decision No. 1726/QD -TTg dated December 29, 2023.

FIGURE 43

Equity price index

Source: Haver Analytics and World Bank calculations.

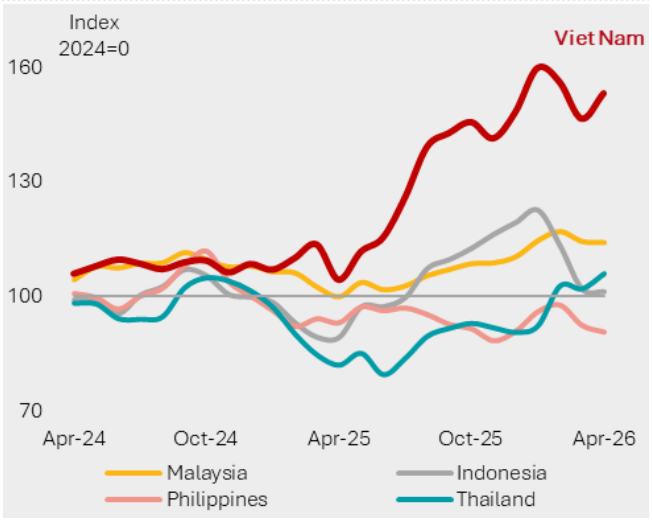


FIGURE 44

Net foreign buying (selling)

Source: Fiingroup.

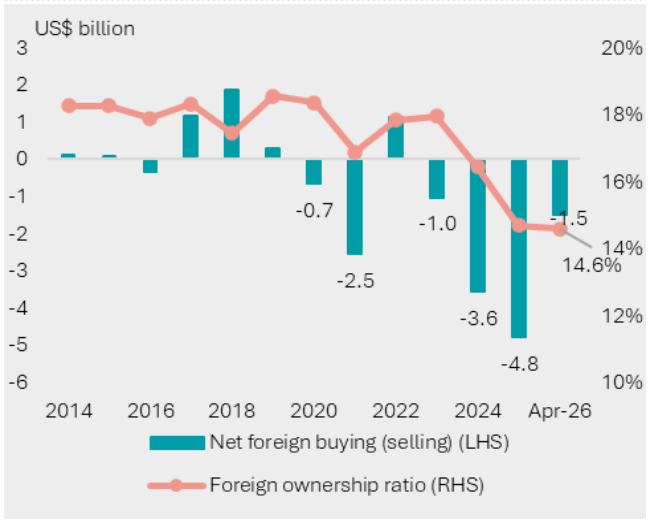


FIGURE 45

Bond issuances

Source: VBMA.

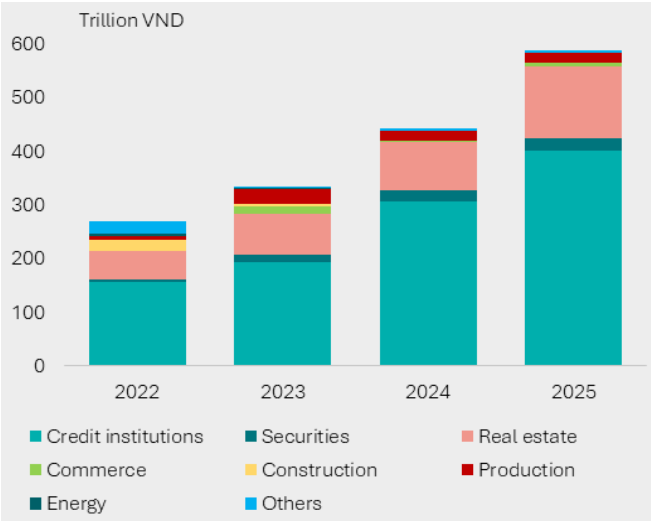
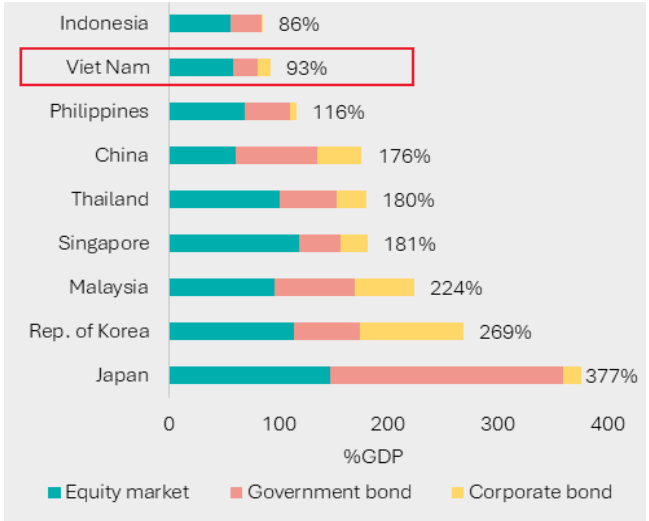


FIGURE 46

Capital market (2023)

Source: Haver Analytics, AsianBondsOnline and World Bank calculations.



Public finances

A surge in public investment pushed the fiscal deficit higher in 2025

The estimated fiscal deficit more than doubled to 3.6 percent (Figure 47), driven by a 45 percent surge in investment spending in the final year of the five-year 2021-25 investment plan (Figure 48)[9] and one-off severance and support payments linked to administrative consolidation reforms. The tax-to-GDP ratio fell 0.6 percentage points to 11.9 percent amid increased CIT-exemptions to firms under the 2025 CIT Law, and a longer term decline due to generous exemptions for the FDI sector and a large informal economy (Figure 49). Most revenue gains were due to increased capital revenue, including land use rights assignments, with capital revenue reaching 3.6 percent of GDP in 2025, nearly a two-fold increase compared to 2024.

Tax reforms underway comprehensively modernize the tax system to reduce equity and efficiency distortions, incentivize formalization of firms and innovation. Income tax reforms raise minimum thresholds for individual tax payers, while replacing the presumptive household business tax with a self-declaration regime. CIT incentives have been rebalanced towards green and high-tech activities and the Global Minimum Tax, requiring large multinationals to pay a top-up tax to reach the 15 percent minimum rate, is being implemented. VAT reforms, effective January 2026, accelerate refund processing to increase working capital for firms. The revised Tax Administration Law, effective in July 2026, supports a fundamental shift toward risk-based, digital and service-oriented tax management, mandating e-invoicing, strengthening taxpayer rights protections, and substantially expanding international tax cooperation.

[9] Public investment grew by 36.6 and 24.3 percent in the last years of the 2016-20 and 2011-15 medium-term investment plans, respectively.

FIGURE 47

Fiscal balance

Source: Source: MOF and World Bank calculations.
Note: 2024 and 2025 are estimated based on the second estimate of 2024 and first estimate 2025 published by MOF.

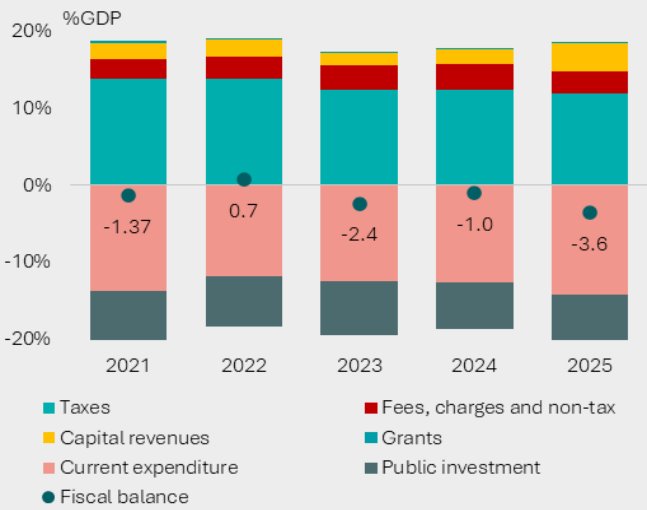


FIGURE 48

Public investment

Source: 13 months public investment disbursement reports of MOF.

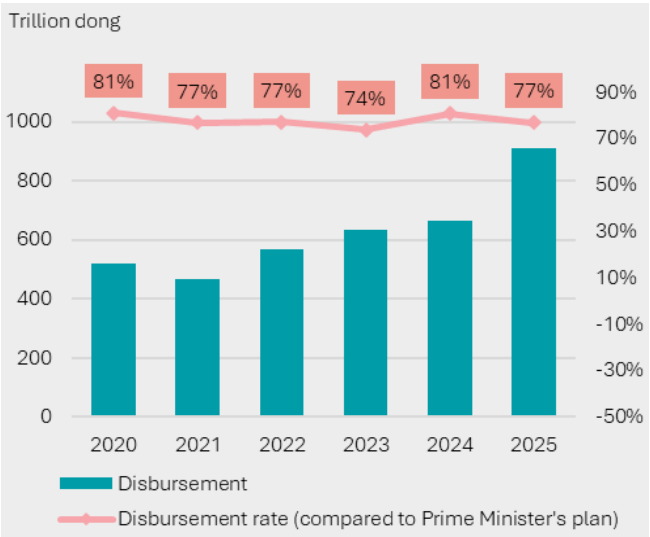
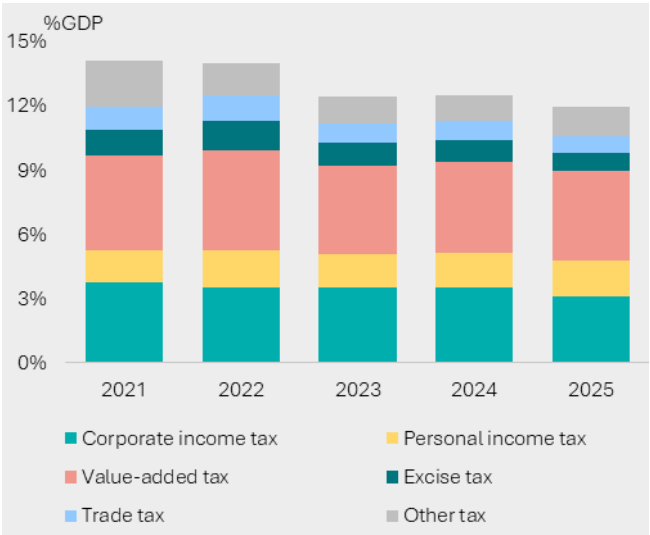


FIGURE 49

Tax revenue

Source: MOF and World Bank calculations.



As in past years, the government relied on domestic banks and the state pension fund (VSSF) to finance the deficit at low-cost (Figure 51). Banks (mainly State-owned banks) and the VSSF account for 38 and 60 percent of government bond holdings, respectively (Figure 50). A low public debt of 34 percent of GDP estimated at end-2025 reflects a decade of consolidation and positive primary balances during 2022–24, tight debt controls with no issuances of guarantees in the past five years including for SOEs, and constraints on sub-national borrowing[10]—providing space for scaling up public investment.

[10] The total stock of public guarantees, including to SOEs amounted to just 2.4 percent of GDP in 2025, while sub-national debt stood at 0.7 percent of GDP.

FIGURE 50

Government bonds – investor profile

Source: AsianBondsOnline.

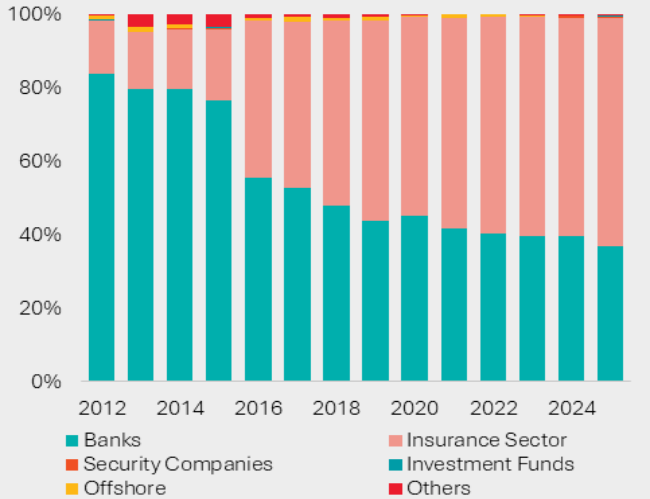


FIGURE 51

Government bond yield

Source: Haver Analytics.

Viet Nam has initiated a second-generation reform wave, described as "Doi Moi 2.0", complemented by massive infrastructure investment plans

A major reform push by the Government of Viet Nam aims to improve public sector effectiveness and unlock private sector-led growth. While the original *Đổi Mới* centered on first-round market opening in 1986, current reforms are more about upgrading the system—streamlining the state, empowering the private sector, improving institutions, and moving toward innovation-led growth to reach high-income status by 2045 - commitments that were reaffirmed at 14th Party Congress in early 2026. The Party Congress Resolution raised ambitions further, aiming for 10 percent annual GDP growth and per capita income of US$8,500 by 2030, supported by US$320 billion in infrastructure investments over this period— 65 percent of 2025's GDP – to overcome productivity and logistics bottlenecks, support national digital transformation, and shift to a knowledge-based, green, and innovation-driven economy.

The current reform agenda is comprehensive, fast-paced and potentially transformational. Beginning in late 2024, the government has implemented the largest administrative rationalization and reorganization since the *Đổi Mới* reforms, halving the number of provinces, eliminating the district-level government, reducing the public sector workforce by more than 100,000 workers, digitizing public services, merging ministries and agencies and initiating judicial reforms to align the court system with the needs of an increasingly complex and open economy. These are complemented by measures to modernize tax, customs, and corporate insolvency regimes, adopt the Global Minimum Tax; improve the utilization of Free Trade Agreements (FTAs), diversify markets to mitigate tariff risks and enhance compliance with rules of origin; and increase firms' access to private capital through capital market deepening reforms. During the National Assembly session in December 2025, more than 51 laws were tabled, and between January 2025 and April 2026, a total of 86 laws and more than 300 decrees were issued or revised.

The 2026–30 public investment plan envisages US$320 billion in spending mainly in energy, transport, and logistics to ease infrastructure bottlenecks. The government achieved the goal of expanding expressways to at least 3,000 km, with 3,188 km completed as December 2025. Several larger scale national projects have been accelerated including the Hanoi and Ho Chi Minh city ring roads, the Long Thanh airport and the Lao Cai-Haiphong railway. Other public infrastructure priorities include energy including efforts to accelerate the green-energy renewable transition and advance Ninh Thuan nuclear projects to meet rising power demand, and digital infrastructure. Overall, total investment is set to average around 40 percent of GDP—with public investment comprising 20–22 percent of that total. Realization of these targets will require significant mobilization of financing—from the private sector, and through blended mechanisms that help to de-risks private investment and enable the private sector to absorb risk—as well as strong appraisal, coordination and implementation to ensure that investments are productive and help to raise the supply potential of the economy.

C. Outlook, Risks and Policy Priorities

Growth in 2026 is projected to moderate, reflecting the short-term impact of the Middle East conflict and oil price volatility on trade and domestic activity. Although downside risks remain elevated in the near term, the medium-term outlook is more balanced, with upside risks if strong reform implementation, successful capital market reforms, infrastructure delivery, and continued supply-chain diversification lift productivity and growth more than expected.

Navigating a more uncertain external environment, while sustaining reform momentum, will require a stronger policy framework—one that preserves macroeconomic and financial stability through stronger risk management frameworks in the near term, while supporting deeper structural transformation over the medium term. Ensuring sufficient financing for public and private investment is imperative. Viet Nam's capital markets are shallow and bank centric, while higher tighter capital regulations will constrain bank credit growth in coming years as banks raise capital, making it imperative to deepen capital markets and de-risk private participation.

Outlook and risks

Prospects remain solid, despite a challenging external landscape

Softer global conditions due to the global oil shock are making Viet Nam's external environment more challenging. For Viet Nam, this points to a more difficult external environment, marked by potentially tighter or more volatile global financial conditions, and softer demand from major partners due to recent Middle East conflict (Box 3) even as supply chain diversification, trade rerouting, and technology-related demand may still create opportunities.

Although moderating in 2026, growth is expected to accelerate during 2027–28 as the oil shock dissipates and domestic growth drivers strengthen. GDP growth is expected to moderate to 6.8 percent in 2026, reflecting short-term adverse impacts on trade and domestic activity from the Middle East conflict and volatility in oil prices. Rising net imports, driven by higher infrastructure investment and intermediate value-chain imports, are expected to sustain a moderate drag on growth. On the domestic side, higher public investment, capital market and structural reforms, and tax measures reducing burdens on formalizing small businesses, are expected to support private activity and consumption. With higher global energy prices expected to persist through the year, inflation is projected to average 4.2 percent in 2026, assuming limited second-round inflation effects. Over the medium term, institutional reforms launched in 2025 should improve policy execution and the investment climate could further boost investor confidence and productivity.

The current account should remain in surplus over the medium term, supported by resilient FDI and increasing portfolio inflows as Viet Nam progresses towards an MSCI upgrade, and as Viet Nam's export base shifts towards higher-valued added goods and services trade.

Although widening, the fiscal deficit is expected to remain sustainably financed. Capital expenditures are expected to approximately triple relative to the previous five-year period, and the fiscal deficit is expected to widen as investment execution steps up. To finance it, income tax base-broadening measures and improved compliance are expected to lift tax revenues by 2 percentage points over the medium term. Concessional resources are expected to help close financing gaps[11] for priority projects and support investments in areas where private participation is still limited, while structural reforms in key sectors such as renewable energy are expected to enable increased private sector participation and financing. Public debt dynamics are expected to remain sustainable and below prudential debt limits. The share of public external debt is projected to remain around 25 percent of total public debt.

[11] The government plans to mobilize US$40 billion in ODA and concessional resources compared to around US$23 billion planned for the 2021-25 period. Also see Decision No. 441/QD-TTg on the Implementation Plan for Mobilizing, Managing, and Using ODA and Foreign Concessional Loans for the 2026–30 period.

Table 3. Selected economic indicators, Viet Nam 2024–28

(annual percent change, unless otherwise specified)

Indicator	2024	2025e	2026f	2027f	2028f
GDP growth (%)	**7.0**	**8.0**	**6.8**	**7.1**	**7.4**
Growth of expenditure components					
Private consumption	6.7	7.3	6.8	7.3	7.4
Government consumption	5.8	11.9	5.9	7.5	7.7
Fixed investment	7.1	8.0	8.6	9.5	9.0
Exports	15.5	16.3	9.5	11.4	12.2
Imports	16.1	17.1	10.0	12.3	12.7
Consumer Price Index (average, %)	3.6	3.3	4.2	3.8	3.5
Current account balance (% of GDP)	**6.4**	**6.5**	**4.9**	**3.0**	**1.6**
Fiscal balance (*) (% of GDP)	**-1.0**	**-3.6**	**-3.5**	**-3.6**	**-3.7**
Public debt (**) (% of GDP)	**33.9**	**33.7**	**32.2**	**33.4**	**35.0**

Source: NSO; MOF; SBV; IMF; and World Bank calculations.
Note: e = estimate; f = forecast, *: excluding unallocated expenditures and following Government Finance Statistics (GFS),**: calculated based on the approved fiscal plan for 2026 and for 2026-30.

Downside risks are elevated in the near - term, while medium-term risks are more balanced

Near-term downside risks are elevated. A prolonged Middle East conflict could sustain high oil prices and supply chain disruptions, depressing Viet Nam's exports and exacerbating banking sector and currency pressures amid high corporate leverage and limited FX reserve cover. Additionally, trade policy uncertainty poses risks for key export sectors.

The medium-term outlook faces balanced risks. Upside potential comes from stronger policy implementation, which could raise productivity and ease financing constraints. Viet Nam is also well-positioned to benefit from supply chain diversification, given its competitive manufacturing base and strong FDI pipeline. Successful infrastructure projects and structural reforms could further lift supply potential. Downside risks stem from external shocks, such as weaker global demand or tighter financial conditions, which could weigh on exports and complicate macroeconomic management. Domestically, the unprecedented scale of planned infrastructure requires both strong governance and sufficient financing to realize growth dividends and strengthen climate resilience. Financial vulnerabilities, particularly in real estate and banking, could amplify shocks, while climate change remains a persistent risk.

BOX 3

The Middle East oil shock: impacts and policy responses for Viet Nam

Viet Nam faces elevated vulnerability on multiple fronts. Having become a net crude oil importer in 2017, the country relies on Middle Eastern sources for approximately two-thirds of its oil supply—much of it feeding the Nghi Son refinery, which was purpose-built to process Gulf sour crude and supplies around 40 percent of domestic gasoline. There are no easy substitutes. Crude oil reserves cover only about 25 days of consumption (versus more than 120 days each in China and Republic of Korea), while foreign exchange reserves cover about two months of imports— thin buffers against a sustained shock. With a trade-to-GDP ratio of around 180 percent, the economy is also highly sensitive to any weakening of external demand.

Immediate impacts span fuel supply constraints, logistics disruptions, jet fuel shortages, and rising costs for energy-intensive businesses. Every US$10/ barrel increase in Brent crude oil is estimated to raise the CPI by approximately 0.4 percentage points. With transport comprising roughly 10 percent of the CPI basket, pass-through to the broader economy can be rapid. The exchange rate was already near the upper bound of its intervention band before the shock, leaving limited monetary policy space.

The government has responded by activating the Fuel Price Stabilization Fund, suspending petroleum import tariffs, reducing fuel taxes to zero, and advancing an additional VND8 trillion into the stabilization fund—collectively limiting domestic fuel price increases to around 20 percent (by end-April). These measures have cushioned households in the near term, but are not indefinitely sustainable and do not address supply-side constraints.

Policy responses should focus on three horizons. In the immediate term: allow prices to signal scarcity while deploying targeted, temporary support (cash transfers, fuel vouchers, tax deferrals) for vulnerable households and affected sectors, and strengthen foreign exchange and liquidity buffers. Over the coming months: link the shock response to ongoing reforms— expanding social protection coverage, improving exchange rate flexibility, and diversifying energy supply sources. Over the medium term: build a more comprehensive risk management framework, covering energy security, supply chain resilience, fiscal contingency planning, and shock-responsive social protection. This shock will not be the last; Viet Nam's degree of openness makes proactive risk governance essential to macroeconomic stability.

Policy challenges and priorities

Delivering on an ambitious reform agenda requires navigating uncertainty while building the foundations for a different kind of growth

The central challenge for Viet Nam's policy framework is that structural transformation and macroeconomic management must advance simultaneously, and neither can wait for the other. The economy is shifting away from an export and credit-driven model toward one anchored in productivity and private sector dynamism—but this shift is unfolding against heightened geopolitical risk, an unprecedented infrastructure build-out, and far-reaching administrative reforms. Managing near-term shocks, while laying the foundations for long-term resilience, is therefore not a trade-off but a dual imperative.

The starting point is macroeconomic stability. In the near term, continued monetary restraint, wider US$-VND trading bands, and bilateral swap lines will help to bolster resilience. The recent expansion of unemployment insurance to temporary workers also strengthens the social cushion against shocks. Over the medium term, a full transition to inflation targeting will anchor price expectations and allow the exchange rate to absorb external pressures more flexibly, while expanded macroprudential supervision—including robust bank resolution frameworks and a shift to risk-based Basel III standards—will reduce systemic vulnerabilities and improve the allocation of credit.

Alongside stability, Viet Nam must confront the implementation and financing challenge posed by its infrastructure ambitions. The planned investment pipeline of US$320 billion far exceeds what public budgets and traditional bank lending can provide. Realizing growth dividends from this pipeline requires rigorous project appraisal, coordination, and strong governance—but it also requires mobilizing private capital at scale. Credit enhancement and risk-sharing facilities offer a practical route to crowding-in private investment by absorbing select project risks on commercially viable terms, provided that fiscal oversight is sufficiently robust to manage contingent liabilities.

The financial system itself must change to support this agenda. Viet Nam's heavy reliance on bank financing—with capital markets concentrated in government bonds, banks, and real estate—limits the mobilization of long-term savings, amplifies systemic risk, and leaves infrastructure and private sector innovation chronically underfinanced. Viet Nam should pursue MSCI reclassification to build on the FTSE Russell upgrade, and deepen the corporate bond market through stronger disclosure and governance—shifting toward a more diversified, resilient financial architecture.

Finally, Viet Nam should use its position as a leading FDI destination more strategically. The priority is not more FDI, but better FDI—investment that generates real linkages to domestic firms through technology transfer, skills development, and demand for local inputs. This means actively connecting high-potential local suppliers with foreign investors, building firms' capabilities to meet multinational standards, and shifting domestic production toward higher value-added manufacturing and services. Promoting innovation and technology adoption will capitalize on the productivity differential between foreign and local firms, driving spillovers that lift the broader economy.

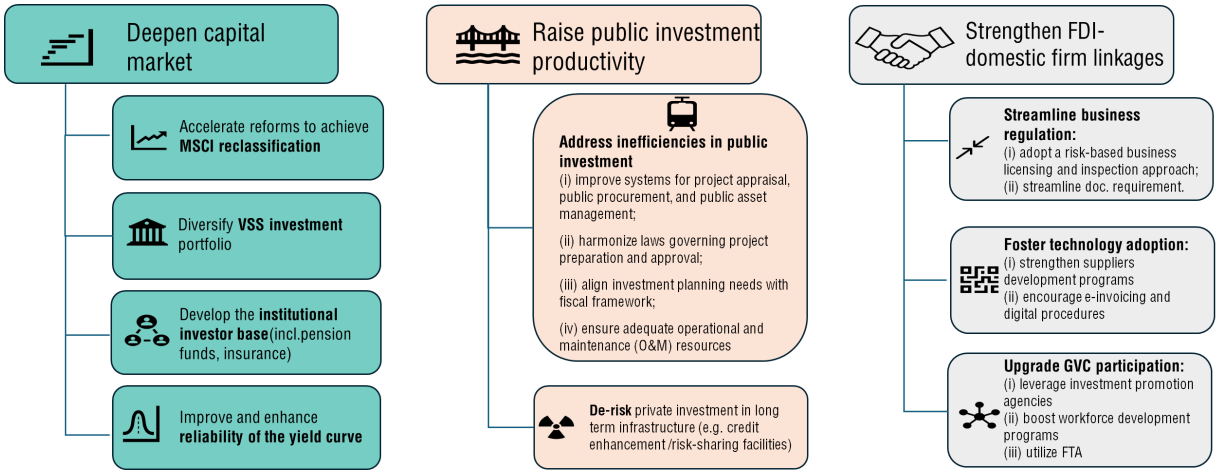
Viet Nam's ability to address these challenges will define whether ambition translates into results

The global oil shock is not only a headwind — it also sharpens the urgency of implementing well the reforms already underway. Viet Nam's policy direction is broadly right. The harder question is whether implementation can keep pace. The three interconnected challenges identified above will be decisive namely ensuring that the US$320 billion investment pipeline is rigorously appraised and productively deployed; completing the transition to deeper, more diversified sources of financing beyond the banking system; and leveraging FDI for quality over quantity, generating genuine domestic linkages and knowledge transfer. These are not just policy priorities—they are the conditions under which Viet Nam can build a virtuous cycle of investor confidence, private investment, growth, and resilience, and make credible progress toward high-income status.

FIGURE 52

Key policy recommendations

Source: World Bank illustration.



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